



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)

19391

UNITED NATIONS INDUSTRIAL  
DEVELOPMENT ORGANIZATION

RESTRICTED  
7 January 1992  
Original:ENGLISH

---

**PRIVATIZATION STRATEGY, PLANNING, AND  
REQUIREMENTS FOR TECHNICAL ASSISTANCE**

**ALBANIA**

**Technical Report: Consultant Mission**

**Prepared for the Government of Albania  
By the United Nations Industrial Development Organization**

**Based on the Work of Andrew McWilliams  
Consultant**

**Backstopping Officer: Richard Kennedy**

**United Nations Industrial Development Organization  
Vienna**

---

## SUMMARY

The Albanian government began its formal privatization program in 1991 with the passage of a privatization law, establishment of a National Agency for Privatization (NAP), and the start of a program of small-scale privatizations, which focuses initially on the retail trade, services, and handicrafts sectors. Institutional, financial, and legal bottlenecks have caused small-scale privatizations to lag behind schedule, however, and it is reasonable to expect delays in subsequent phases of the privatization program, which include wholesale trade, construction, food and other light industry, and particularly heavy industry. Simultaneously, about 40 joint ventures (most of them in trade and light manufacturing) have been formed between Albanian state enterprises and foreign partners.

The relatively slow start of the privatization program gives the government and the NAP in particular the opportunity to correct some structural weaknesses which pose more serious obstacles to the Albanian privatization process in the mid- to long term. Major gaps in the legal and regulatory framework for privatization and private enterprise in general still exist; there is an acute shortage of capital; Albania's infrastructure is inadequate for the needs of modern business; and the entrepreneurial and managerial skills of Albanian investors need improving. The National Agency for Privatization lacks the resources, technical skills, and information to enable it to fulfill its mandate to manage and coordinate the privatization process.

Therefore, the government and the NAP are urged to avoid haste, and emphasize planning and preparation for privatization at this stage. Particular importance is attached to providing the right mix of training and technical assistance to the NAP. Day-to-day responsibility for the small privatizations should be further decentralized to the implementing agencies, to allow the NAP time to build its capabilities and plan for the coming phases of medium and large scale privatization.

The planning process should be expanded to include development of a flexible, "multi-track" approach, in addition to the two "tracks" specified in the government's privatization strategy (i. e., direct sales of smaller enterprises and "mass privatization" of the remaining enterprises through a system of mutual funds in which all adult Albanians would be owners). There is a related need to expand the range of valuation methods and mechanisms available to the government.

In the long term, the Albanian government also faces the likelihood that many state enterprises (60 percent or more, according to some estimates) will not find private buyers and may have to be liquidated. The Ministry of Economy is preparing a list of enterprises which face imminent closure, but the magnitude of the problem is such that a formula will have to be found for the orderly shutting down of much of the public sector, if

widespread economic and social dislocation is to be avoided. While there is considerable room for improvement in the social safety-net to cushion the impact of these closures, encouraging new private investments is the only practical way to soak up this potential unemployment.

ANNEX  
CLASS

Miss

of Al

Ken

print

## 1.0 INTRODUCTION

This report describes the activities and results of a 21-day consultancy (14 November - 5 December 1991) undertaken to assist the Government of Albania in developing and implementing a privatization strategy. The specific terms of reference for the consultancy are included in Annex A.

### **Background**

The consultancy followed an earlier UNDP/UNIDO mission (18 - 25 July 1991) which visited Albania to gather information on the government's policies on privatization and small and medium-scale enterprise (SME) development, assess the institutional and technical capabilities required to support privatization and SME development, and identify Albania's requirements for external support in these fields.

There have been a number of important developments since the last mission, notably the passage of a law on private property and privatization (Law No. 7512 of 10 August 1991), and the decision of the Council of Ministers to establish a "National Agency for Privatization" (NAP) to manage and coordinate the process of privatization, as well as a "Preparatory Commission for the Process of Privatization" (PCPP) to perform valuations of the enterprises to be privatized and other related functions. This structure is superimposed upon, and is supposed to replace in part, the previous system which was described in the report of the July mission.

The previous system was comparatively decentralized, with privatization directorates in the various ministries and officials of district governments responsible for undertaking privatization activities with respect to the enterprises under their control. These activities were supposed to be coordinated by the Privatization Directorate of the Ministry of Economy (formerly the State Planning Commission) although, as noted in the earlier mission's report, the actual degree of centralized control or coordination exercised was relatively slight. The limited number of privatizations which occurred under this system (estimates of the number of enterprises privatized vary considerably) had a relatively "spontaneous" character.

Briefly, the new system is supposed to work as follows. Each of the ministries and other agencies which control state enterprises prepares a plan for privatizing the enterprises under their control, in consultation with the NAP which is supposed to direct and coordinate the whole privatization process. The NAP actually initiates the privatization of a particular enterprise by convening an "enterprise commission" which is responsible for preparing a preliminary valuation of the enterprise as well as other required documentation.

The enterprise commission, whose members include representatives of the enterprise as well as outside officials, is the lowest-level unit of the Preparatory Commission for the Process of Privatization. The Preparatory Commission as a whole is chiefly responsible for determining the value of the business or assets to be privatized, and recommending the method of their disposition. It is administratively separate from the NAP, ostensibly to promote the integrity of the privatization process by maintaining a "wall" between the sellers and the buyers of the assets. The preliminary valuation is reviewed and approved by the responsible district and ministry branches as well as the national office of the PCPP. After approval, the NAP initiates the actual sale of the assets.

In addition to the NAP, PCPP, ministries, and district governments, several other agencies are involved in various aspects of privatization. The Ministry of Economy, in particular, bears the responsibility for performing a "triage" of state-owned enterprises early in 1992. According to the results of this triage, non-viable enterprises are to be closed down "immediately" (i. e., within 3 - 6 months); those which are potentially viable will be restructured prior to privatization; and those which are actually viable will be privatized immediately. The triage is to be based primarily on data prepared by the State Bank indicating the "profitability" of each enterprise.

Joint ventures between Albanian state enterprises and foreign partners are initiated by the agency which owns the enterprise, with the approval of the Ministry of Economy and the Ministry of Foreign Economic Relations. The NAP is not consulted directly, and some conflicts reportedly have arisen in cases where the NAP proposed to privatize certain assets (e. g., shops) which were covered by a prior joint venture agreement.

### **Activities**

During the mission, discussions were held with the Vice-Prime Minister and Minister of Economy, Dr. Gramoz Pashko, the Director and staff of the National Agency for Privatization, the Preparatory Commission for the Process of Privatization, other ministries, the State Bank, and local government officials involved in privatization. A list of organizations and individuals contacted is included in Annex B. Considerable time also was devoted to a series of informal seminars with the NAP staff, in which the planning and implementation of privatization strategies was discussed, along with relevant analytical techniques such as valuation. A more complete description of the topics covered in these seminars is found in Annex C.

The remainder of this report is devoted to a detailed discussion of the mission's findings, conclusions, and recommendations concerning the process of privatization in Albania.

## 2.0 FINDINGS

The mission's major findings regarding the privatization process may be summarized as follows:

- The government's privatization strategy combines individual privatization of small enterprises with mass privatization of larger enterprises.
- Certain "strategic" sectors are excluded from privatization at present.
- The initial emphasis in the government's privatization program is on speed.
- Political expectations regarding privatization are very high.
- The pace of the privatization process is lagging behind expectations.
- A large percentage of Albanian state enterprises are apparently non-viable.
- Key elements of the enabling environment for private enterprise are still missing in Albania.
- The National Agency for Privatization is limited in its ability to manage the privatization process.
- The privatization process in Albania is relatively decentralized.
- The NAP is not directly involved in some important privatization-related matters.
- There is a shortage of information that could be used to plan and monitor the progress of the privatization program
- The only valuation technique which is used in Albania is asset-based.
- There have been expressions of interest, but so far relatively few concrete proposals for foreign technical assistance to Albania's privatization program.

Each of these findings is discussed in detail below.

***The government's privatization strategy combines individual privatization of small enterprises with mass privatization of larger***

**enterprises.** The first step in the government's privatization strategy is the sale of some 25,000 shops and 12,000 service businesses (e.g., tailors, shoe-repair shops), plus most of the transport vehicles now under the control of government agencies such as the district governments. This stage of the privatization process already has begun, with the privatization of retail "activity"--as distinct from the shops themselves--as of 1 November 1991.

Essentially, this means that the shopkeepers no longer receive a salary from the government, although they continue to buy the bulk of their supplies from state-owned trading enterprises, and lease their shops from the government pending the actual sale of the assets. The shopkeeper's margin on goods sold is set by the market, with the exception of basic foodstuffs such as bread, sugar, oil, etc., which remain price-controlled. Theoretically, the government sets the "wholesale" price of these price-controlled commodities low enough to allow the shopkeepers who sell them to make a fair return, although there naturally have been complaints from shopkeepers that the margins on these products are insufficient.

Those shops which sell non-price controlled goods (an estimated 60 - 70 percent of the total) are to be sold as expeditiously as possible to private buyers. In nearly all cases, this means a direct sale to the shopkeeper. Originally, the strategy was to auction off the shops to the highest bidder, but political pressure on behalf of the shopkeepers has resulted in the virtual abandonment of the auction system for the time being. The remaining 30 - 40 percent of shops which sell price-controlled goods will continue to be leased to the shopkeepers on a month-to-month basis until the abatement of the current economic crisis permits the lifting of the remaining price controls, after which these shops are to be sold.

The next priority sector for privatization is wholesale distribution of goods. At present, the distribution function is performed by about 200 state trading enterprises, which also controlled the retail shops until retail trade was privatized. Since the amount of capital required to purchase the trading companies' remaining assets (e.g., warehouses, trucks) is greater than the retail shops, and in order to enable as many as possible of the trading enterprises' remaining employees to share in their ownership, consideration is being given to promoting the formation of private cooperatives to own and manage these wholesale activities.

Next in line for privatization are small enterprises in the food processing and other light industries. These are chiefly small, artisanal-type operations such as village bakeries and cheese-makers, and apparently privatization will take the same forms as those described above, i. e., mainly direct sales to their operators and establishment of private cooperatives.

The remaining enterprises, chiefly large industrial enterprises, will be privatized not one-by-one but through a program of "mass privatization" evidently based on the model discussed for Poland. After converting these



enterprises to shareholding companies, the government intends to transfer at least part of the shares to five "mutual funds" established for this purpose. The mutual funds will be responsible for the administrative and financial management of the enterprises in their respective portfolios. Every Albanian citizen over 18 years old will receive a number of free vouchers, which they will be able to redeem for shares in the mutual fund(s) of their choice.

***Certain "strategic" sectors are excluded from privatization at present.*** According to the privatization law of 10 August 1991, energy and mining, oil and gas, mail, telecommunications, forestry, water resources, roads, railways, ports, and airports are excluded from privatization except as specifically provided for by law. However, state enterprises and operating units in these sectors can establish joint ventures with foreign partners.

***The initial emphasis in the government's privatization program is on speed.*** The six principal objectives of Albania's privatization program are described in the "Program for the Transition to a Free Market of the Albanian Economy", a presentation to the People's Assembly on 22 October 1991. (A complete text of the presentation is included in Annex D.) The six objectives are:

- Macroeconomic stability (e.g., reducing the drain on state revenues caused by subsidies to state-owned enterprises);
- Quick progress towards a market economy;
- "Destruction of the centralized economy", i. e., shrinking the size of the public sector and reducing central control of the whole economy;
- Increasing the efficiency and output of state-owned enterprises;
- "Democratic privatization", that is spreading ownership of the privatized state enterprises throughout a wide segment of the population; and
- Increasing employment.

The Program holds that the need for rapid progress in privatization is paramount: "The sooner it [destruction of the centralized economy] starts the better. The first step will be the privatization of...some 25,000 shops and 12,000 service businesses and the bulk of transportation vehicles.... [Privatization of heavy industry] will start in January."

In general, however, it is left to the executive agencies of the government, especially the National Agency for Privatization, to work out

the details of the privatization strategy, such as the relative priorities to be accorded to the different long-term objectives and the specific modalities of achieving them. According to the program, these modalities include auctions, especially of small-scale enterprises, and "mutual funds" which would directly hold the shares of state enterprises, and in which all adult Albanian citizens would be shareholders.

***Political expectations regarding privatization are very high.*** There is a general expectation among the Albanian population that privatization will take place, and be completed, within a relatively short period of time. There are also expectations that workers will receive ownership of the enterprises or production units they operate, on the one hand, and that ownership of the former state enterprises will be spread widely throughout the population, on the other hand.

***The pace of the privatization program is lagging behind expectations.*** Originally, the goal was to complete the privatization of the 15 - 20,000 shops not subject to price controls by the end of November 1991. In a sense, this has been accomplished through the privatization of retail "activity" (see above), but the actual sale of state assets to shopkeepers is lagging far behind.

Comprehensive statistics on the pace of privatization are not yet available, but in Tirana by the last week in November 1991, only 153 out of 1,494 retail shops and 7 out of 704 services and artisanal establishments had been sold to private investors. An additional 245 shops and 39 services and artisanal establishments were classified as "ready for privatization", meaning that the valuation of the assets was completed and all of the documentation necessary for the sale had been completed.

Reasons for the slow progress of privatization include the following:

- Some district-level officials claim that they do not understand the laws and procedures governing privatization, particularly those pertaining to valuation.
- There are problems finding financially qualified buyers.
- Legal claims from previous owners whose assets were nationalized complicate the privatization process, especially in rural areas, pending passage of a new law defining the rights of previous owners.
- Complex bureaucratic procedures and paperwork requirements slow the process down.

***Key elements of the enabling environment for private enterprise still are missing in Albania.*** The "enabling environment" includes all of the

policy, legal, institutional, financial, infrastructural, and other prerequisites of a functioning market economy, e. g.:

- **Policy environment:** liberalization of domestic and foreign trade, relaxation of price controls, balancing the government's finances in order to reduce the public sector's demands for available financial resources;
- **Legal environment:** furnishing the legal framework necessary to reassure private investors and guarantee the orderly functioning of the market economy, such as laws on private property, enterprise law, contract law, law on taxation;
- **Regulatory environment:** providing the degree of oversight necessary to prevent misuse or abuse of the system (e.g., antimonopoly, banking, securities and exchange commissions), consistent with government's reduced role in the economy;
- **Financial environment:** affording investors and businessmen access to sufficient capital to finance new investments, the expansion of existing facilities, and working capital requirements, through the banking system or financial markets;
- **Infrastructure:** developing the energy, water, telecommunications, and transport facilities required for businesses to obtain needed goods and materials, communicate with suppliers and customers, and bring the final product to market quickly and efficiently;
- **Training and technical assistance:** nurturing and developing the entrepreneurial and business management skills which have atrophied during more than four decades of socialist government and centralized planning; and
- **A social "safety net":** cushioning the impact of the transition to a market economy on the weaker segments of the economy.

All of these prerequisites apply equally to privatized state enterprises as well as new private investments.

Albania has made progress recently in building an enabling environment for private enterprise. Trade has been liberalized somewhat, and price controls relaxed on most "non-essential" items (i.e., other than basic foodstuffs). Certain key laws, such as the law on private property and the enterprise law, have either been implemented or will be implemented shortly. The banking system has undergone certain reforms aimed at establishing a "two-tier" banking system.

However, much still remains to be done. For instance, the need for further price liberalization conflicts with the need to maintain minimum standards of consumption in the face of strong inflationary pressures. Major gaps in the legal framework persist, such as laws on contracts, taxes and tariffs, and changes in the labor code. The institutions, laws, regulations, and skills necessary to exercise regulatory oversight over the market economy (e.g., antimonopoly or fair trading practices commission, securities commission, worker safety and health and environmental protection agencies) are generally non-existent.

The availability of domestic capital for new investments, even allowing for a certain monetary overhang outside the banking system, is small by comparison with the amounts needed to rebuild Albania's economy. The four second-tier banks created in the process of reforming the State Bank (i.e., the Commercial, Agricultural, Savings, and Foreign Trade Banks) reportedly have cumulative assets of only 1 billion leks, or the equivalent of about US\$ 20 million at the current free-market rate of exchange. Officials of the State Bank maintain that it will be several years before private domestic banks are allowed to operate, in large part due to the lack of appropriate regulatory mechanisms.

There appears to be some interest among foreign-owned banks in operating in Albania. One foreign banking joint venture (the Illyria-Swiss Bank) has been established, but has not yet opened its doors. In general, most foreign banks appear to be interested in coming to Albania in order to meet their foreign customers' regular commercial banking needs, such as letters of credit and guarantee, rather than to lend money for local investments.

The Albanian economy is seriously burdened by infrastructural and other bottlenecks. No coherent program has been proposed, much less implemented, to develop the entrepreneurial and managerial skills of Albanian businessmen. At present, there is not even a central point of focus for efforts in this direction, such as an Agency for Enterprise Development.

Lastly, the details of the social safety net that needs to be in place in order to mitigate the socio-economic impacts of the transition to a free market economy, such as the closure of inefficient state enterprises, have not been finalized yet. More importantly, it is unclear where the funding for the safety net is going to come from. The World Bank mission which recently visited Albania reportedly expressed some interest in participating in such a program, but any action from that quarter is still months away.

*A large percentage of Albanian state enterprises are apparently non-viable.* A source at the State Bank who has been compiling data on state enterprises' operational and financial performance expressed his opinion

that as much as 60 percent of all state enterprises are "dead", i. e., suitable only for liquidation. Our preliminary impression is that the percentage may be higher, especially in industry and among large enterprises.

The plant and equipment of most Albanian state enterprises are old, embody outmoded technology, and are poorly maintained. Managers generally have no experience operating in a free market environment, worker discipline and training are at a low ebb, product quality is poor, and markets with few exceptions are limited to Albania. All else being equal, investors (especially foreign investors) probably will prefer to start anew by building and equipping a plant, providing or buying new technology, and hiring and training new workers.

***The National Agency for Privatization is limited in its ability to manage the privatization process.*** As defined by the privatization law of 10 August 1991, the responsibilities of the National Agency for Privatization include the "management, organization, and coordination of the...process of privatization". As noted earlier, the NAP superseded the Privatization Directorate of the Ministry of Economy in this role.

The previous UNDP/UNIDO mission to Albania found that the Privatization Directorate actually exercised rather limited direction over the privatization process. The mission attributed this lack of direction in large part to the lack of a systematic privatization program or a coherent strategy for privatization. Other reasons suggested for the lack of direction included:

- A paucity of written instructions to the individual ministries detailing what is expected of them;
- Uncertainty over the exact relationship existing between the Privatization Directorate and the individual ministries (e.g., a supervisory relationship or merely a consultative and advisory one); and
- Lack of relevant experience, training, and advisory support on the part of the officials who are supposed to be overseeing the privatization process.

Most of these observations are equally applicable to the relationship between the present NAP and the ministries and other agencies concerned with privatization. In fairness, the NAP is only three months old, and its small staff (in addition to the Director, three industry or sector specialists, an attorney, and a translator/interpreter) already is stretched thin in reacting to emergencies both major and minor: e.g., a problem with the banks in establishing accounts for the proprietors of newly-privatized shops, or a court challenge by a disappointed would-be buyer.

However, in addition to greater staff resources, all members of the NAP staff would benefit from additional exposure to planning and analytical techniques relevant to privatization, as well as the full range of privatization tools and their potential applications. During this mission, a series of seminars was conducted for the NAP staff, in which the various steps in the privatization process were discussed, along with pertinent analytical concepts and methodologies. (See Annex C.)

***As a result, the privatization process in Albania remains relatively decentralized.*** The limited personnel resources and technical expertise available to the NAP have created a situation in which the individual ministries which directly control state enterprises must play a significant role in privatizing the enterprises under their jurisdiction. Such a decentralized approach to privatization to some extent may also be a reaction against the excesses of central planning under the old economic system. The potential disadvantages of a decentralized approach, of course, are not difficult to see, particularly the risk of inconsistencies in privatization strategies and methodologies, and in some cases lower levels of skills and commitment to privatization at the ministerial level.

Several ministries, such as the Ministry of Trade and the Ministry of Food Industry, have prepared privatization plans for at least a portion of the enterprises under their control. These plans typically contain a list of the enterprises to be privatized, together with a timetable for privatizing each enterprise (e.g., fourth quarter of 1992), but relatively sparse documentation concerning the criteria or methodologies that were used in developing the program and timetable.

Such programs are forwarded to the National Agency for Privatization, which establishes the priorities for implementation of the different sector programs, based on the government's overall priorities and/or the NAP's own analyses. The NAP may request that a ministry make revisions in its program, but the limited data and supporting analyses make substantive review and meaningful revisions of the sector programs difficult in practice.

***The NAP is not involved directly in some important privatization-related matters.*** In addition to the NAP, two ministries have important responsibilities relating to privatization. Although joint ventures between state companies and foreign private investors are a form of privatization, they are approved by the Ministry of Foreign Economic Relations, without any formal consultation with the NAP. Recently, the NAP announced the breakup of a state trading enterprise preparatory to the individual sale of its retail shops, not knowing that the trading company was party to a recently-formed foreign joint venture. The foreign partner in the joint venture objected strenuously and successfully to the proposed breakup. A mechanism for informal, indirect consultation between the NAP and the Ministry of Foreign Economic Relations subsequently has been approved, but its effectiveness remains untested to our knowledge.

The Ministry of Economy is entrusted with determining in early 1992 which state enterprises are to be privatized immediately, restructured prior to privatization, or liquidated at once (i. e., within 3 - 6 months). As far as is known, these determinations are to be made on the basis of past profitability, which as noted above is an imperfect guide to future performance in the radically transformed Albanian economy. No mechanisms have been created for the NAP to participate in this process.

*There is a shortage of information which could be used to plan and monitor the progress of the privatization program.* Albania's estimated 1,400 public enterprises differ widely by size and sector, and have widely divergent performance capabilities, ranging from the relatively efficient, to those with no hope of ever becoming efficient. Consequently, they need to be treated in different ways in planning and implementing the privatization program.

At present, the National Agency for Privatization has few data on individual state enterprises or their operating units which could be used in tailoring the privatization program to the needs of different enterprises. In November 1991, the NAP requested each ministry to submit basic data on the enterprises under its control, such as number of employees by enterprise, annual sales, output, and net profits. Meanwhile, the State Bank has been compiling data on the profitability of individual state enterprises, which are to be submitted to the Ministry of Economy in early 1992 for use in determining which enterprises are to be sold, restructured prior to sale, or closed down.

The definition of NAP's data requirements will have to be expanded, particularly if it adopts a broad privatization strategy which implies the need to screen enterprises according to their suitability for different privatization approaches. The first difficulty concerns the availability of data, the second their quality. Many company records may be unreliable. More importantly, they depict the performance of these enterprises in closed centrally planned economies where demand and prices were dictated by the government, so that past performance may not be indicative of an enterprise's true economic potential.

Finally, we observed discrepancies in the statistics on the number of enterprises and/or economic units which have been prepared for privatization or have actually been privatized. It appears that even the individual ministries concerned do not have consistent data on the progress of the privatization program. It was noted that the NAP is trying to remedy this data gap by requiring formal, weekly reports on the number of enterprises privatized from the implementing agencies.

*The only valuation technique which is used in Albania is asset-based.* At present, the only valuation technique which is legally sanctioned in Albania is asset-based. Buildings, equipment, and inventories are to be

valued at their initial (i.e., purchase or construction) cost, less depreciation and any additional deductions for items in poor condition. The land occupied by the enterprise may be valued separately, or it may be leased to the buyer of the plant and equipment.

The value of the immovable property is to be increased by 5, 10, or 15 percent depending on whether it is located outside an urban area, in an outer urban district, or in the central district of a city respectively. (In the case of communal service enterprises such as shoe repair shops, tailors, etc., the adjustment to be added for location is 15, 20, or 25 percent respectively.) These adjustments could be regarded as an implicit effort to account for the value of the enterprise's intangible assets such as location or customer relationships.

In addition to the legal restrictions on non-asset-based valuation techniques, the officials responsible for performing valuations appear unfamiliar with alternative approaches, especially discounted cash-flow methods. In discussions with these officials, we endeavored to increase their awareness of some of these alternative approaches, and their respective advantages and drawbacks in the Albanian context.

*There have been expressions of interest, but so far relatively few concrete proposals for foreign technical assistance to Albania's privatization program.* To our knowledge, the only proposal for technical assistance in privatization which is close to implementation is the EC's proposal to provide short-term focused consulting assistance in small-scale privatization under the PHARE program. The duration of the proposed consultancy is two months initially, with the possibility of intermittent visits by the consultant thereafter for a total of 3 - 4 months.



### **3.0 CONCLUSIONS**

**Based on these findings, we can draw the following conclusions regarding the privatization process in Albania:**

- **Albania needs a coherent, detailed long-term strategy for privatization.**
- **The specifics of the mass privatization program still need to be worked out.**
- **There has been insufficient discussion of an alternative, "individual approach" to the privatization of larger state enterprises.**
- **Excessive haste in privatizing Albania's state enterprises carries the risk of failure.**
- **The new enterprise law fulfills many, but not all of the conditions for commercialization of Albania's state enterprises.**
- **A relatively decentralized approach to privatization is a logical response to conditions in Albania.**
- **A more formal, standardized approach to planning privatization is needed.**
- **A wider range of valuation techniques is needed in Albania.**
- **Closer coordination is needed between the NAP and other ministries with privatization-related responsibilities.**
- **It is likely that no buyers may be found for many, if not most, Albanian state enterprises.**
- **Privatization and private-sector development are closely linked issues.**
- **An orderly framework needs to be found for shutting down non-viable state enterprises.**
- **A new system is needed for regulating state enterprises which will not, or cannot be privatized.**

**The following paragraphs substantiate each of these conclusions.**

***Albania needs a coherent, detailed long-term strategy for privatization.*** The "Program for the Transition to a Free Market of the Albanian Economy" (see above) contains only the skeleton of a privatization strategy, i.e., general objectives, a hypothetical time-frame for their realization, and a few ideas as to the appropriate modalities. More work is needed to fill out this framework with a detailed statement of priorities.

In the early stages, the authors of the program view speed as essential; in the longer term, however, privatization is not a rapid process. Technical requirements, particularly where larger enterprises are concerned, require thorough preparation and careful deliberation.

Some of the other goals of the government's program are somewhat contradictory. For example, a continued emphasis on speed implies a concentration on small privatizations, but two of the program's other objectives (macroeconomic stability and contraction of the state sector) would seem to indicate that a re-orientation towards large-scale privatizations is appropriate.

"Democratic" privatization (i.e., spreading ownership of the newly privatized enterprises as widely as possible) may be politically and even morally desirable, but it is not necessarily consistent with the other objective of increasing enterprise efficiency. Where the greatest need is for the inputs, technology, management know-how, or access to markets that a foreign private investor can provide, a private sale may be preferable to mass privatization.

The sequence in which different sectors and types of enterprises are privatized should be determined based on a hierarchy of objectives. This hierarchy in turn can be used to define selection criteria for sectors and enterprises, as well as the types of data which need to be collected to support the selection. The objectives and the type of sector or enterprise being privatized help to determine the choice of privatization mechanism: private placement, sale to workers (e.g., ESOP), public sale of shares, etc.

The timetable for privatization and the types of instruments to be used also have implications in terms of the personnel and other resources required by the privatization agency, as well as needed improvements in the enabling environment. If these requirements cannot be met realistically, then the strategy should be modified accordingly.

***The specifics of the mass privatization program still need to be worked out.*** Since the government announced its intention to transfer at least part of the assets of large state enterprises to five mutual funds, in which all adult Albanians are to be given the right to own shares free of charge, it appears that little has been done to work out the specific modalities of the proposal, such as:

- How will the enterprises whose shares are to be assigned to the mutual funds be selected?
- What percentage of the enterprises' shares will the mutual funds get? How will the remainder of the shares be disposed of initially?
- Will the mutual funds be active or passive investors? (It appears, based on the "Plan for the Transition of the Albanian Economy", that they will be active investors, directing the restructuring of the enterprises they control.)
- Who will direct the funds? If the funds are to preside over the restructuring of state enterprises, who will advise them on technical matters pertaining to the restructuring?
- How will enterprises' shares be valued?
- Through what channels will vouchers be distributed?

The answers to these questions are related to the government's objectives for the mutual funds. Based on the government's program, these objectives include:

- Governing state enterprises during the "transition period", i. e., the period while they are being restructured and prepared for sale of the remaining equity to a private investor(s);
- Democratizing ownership, by making every adult Albanian an owner despite the widespread lack of capital which otherwise would give an unfair advantage in the ownership of shares to the former *nomenklatura* (i.e., those most likely to have savings); and
- Facilitating the development of a stock market.

Regarding the first question, i.e., the choice of enterprises to be distributed to the mutual funds, there is generally no reason why enterprises which do not require substantial restructuring should be assigned to a mutual fund, since these enterprises are essentially ready for privatization. It would be preferable to proceed with the privatization of such enterprises as quickly as possible, without waiting for the more time-consuming mass-privatization system to operate.

Possible reasons for including some enterprises which are viable without restructuring in the mutual funds include:

- The inadequacy of other mechanisms for privatizing such enterprises individually to handle all of the enterprises which are candidates for this approach;
- The need to increase the pool of assets of the mutual funds to the point where every participant's share would be a meaningful amount; and
- The need to increase the viability and profitability of the mutual funds.

Taking each of these points in order, it would first of all be preferable to develop the range and the capabilities of individual privatization mechanisms to handle as many as possible of the enterprises which are candidates for this approach. Second, as an alternative to using the presently viable state enterprises to expand the asset pool available to mutual fund investors, consideration could be given to allowing investors to exchange their vouchers for shares in the individual companies. Third, holding back otherwise readily privatizable firms to assure the viability of the mutual funds delays the benefits that will accrue from true private ownership of these enterprises (see below), as well as the incremental revenues to the government that will accrue from the sale of these enterprises. Distribution of shares in the mutual funds, of course, generates no direct revenues to the government.

The percentage of the enterprises' shares to be allocated to the mutual funds and the initial disposition of the remaining shares is especially relevant if the mutual funds are intended to function as active investors, responsible for the management and financial restructuring of enterprises under their control. If shares initially are distributed in a dispersed fashion among workers, pension funds, banks, and mutual funds (as has been proposed in Poland, which appears to be the inspiration for the Albanian "mass privatization" system), then the mutual funds' ability to effect this transformation may be sharply limited. Given the shortage of commercially-oriented managerial talent in Albania, it is also difficult to see how the mutual funds can be expected to play a leading role in restructuring state enterprises without significant outside technical assistance.

According to the government's program, the mutual funds represent a transitional stage in the privatization process, one of whose main objectives is the restructuring of state enterprises. By implication, full privatization of an enterprise will have occurred only when a controlling interest has been sold to an investor or group of investors with the interest and ability to ensure effective management of the enterprise. However, the mutual fund approach may limit the government's flexibility to sell to such final ("strategic") investors, since a large proportion of the shares already will have been divested to the mutual funds and possibly other investors

(e.g., workers, banks, pension funds). The investors may wish to buy a larger share of individual enterprises than the residual.

The question of strategic investors is also relevant to the way in which the enterprises whose shares are to be transferred to the mutual funds are to be valued. One of the attractions of the mutual fund approach, presumably, is that it avoids the immediate need for a painstaking individual evaluation of the market value of each enterprise, i.e., the type of valuation which would be required by strategic investors. Although it has not been spelled out, presumably the assets to be transferred to the mutual funds would be valued at their book value, as defined by Albanian law. (See earlier discussion.)

The valuation question is also relevant to the government's goal of contributing to the development of capital markets in Albania. Given the lack of information about the market value of individual firms or the mutual funds' portfolios, any trading of shares that emerges will be purely speculative and detrimental to long-term capital market development.

A final point concerns the logistics of distributing and redeeming shares in the mutual funds. Obviously, the arrangements should be kept as simple as possible. One possibility would be to use the existing banking system (e.g., the Savings Bank network). However, one should be careful about over-burdening the banking sector as it tries to adapt to the new roles envisaged by the recent banking reforms.

*There has been insufficient discussion of an alternative, 'individual approach' to the privatization of larger state enterprises.* Until now, most of the talk about privatizing large state enterprises, especially in industry, has focused on the mass privatization approach (i.e., mutual funds). There has been little discussion of the potential for privatizing some large enterprises through the more traditional, individual approach. The individual approach until now has been reserved for small enterprises such as shops.

At present, however, the individual approach is the only one which is even close to being operative in Albania. Many of the specific modalities of the mass approach still remain to be worked about (see above), so that Albania has no real alternative to the individual approach if it wishes to begin large-scale privatizations during the coming year. Furthermore, given the uncertainties of the mutual fund system, developing the individual approach would provide some insurance against even longer delays in making the mutual funds operational. Beginning the large-scale privatization program with individual privatizations would also give Albania some hands-on experience in privatizing large enterprises, which could help to make the individual approach more efficient and rapid.

*Excessive haste in privatizing Albania's state enterprises carries the risk of failure.* Earlier it was pointed out that many of the legal,

regulatory, institutional, financial, and other components of the "enabling environment" for private enterprise have not been established yet in Albania. Infrastructural and other bottlenecks further threaten the viability of privatized and new private enterprises alike. Widespread failures would strain the social safety-net and risk a potential political backlash against privatization.

***The new enterprise law fulfills many, but not all of the conditions for commercialization of Albania's state enterprises.*** The implementation of Albania's new enterprise law on 1 January 1992 will mark a significant step forward in the completion of the enabling environment. It establishes many of the preconditions for operating state-owned enterprises as independent commercial entities (e.g., empowering them to decide on their own strategy and production plan, negotiate prices of inputs, set wages, hire and fire workers, obtain the best price they can for outputs). State enterprises are allowed to take the initiative in forming joint ventures with foreign partners. In general, state companies under the new law are expected to be self-supporting, although the law specifically allows the payment of subsidies to unprofitable state enterprises.

The state continues to own 100 percent of the assets of public-sector companies, but the authority for managing those assets is to be vested in workers' councils which will have the authority to appoint and fire the general director of the enterprise and other top management. Under the circumstances, it is uncertain how the mutual funds will exercise their authority for the management and financial restructuring of the enterprises under their control. This arrangement also raises the possibility that the workers' council could use its influence over management to obstruct any privatization action which it felt could jeopardize workers' interests (e.g., through layoffs), or to siphon off capital through higher wage payments.

***A relatively decentralized approach to privatization is a logical response to conditions in Albania.*** The National Agency for Privatization's very limited personnel resources virtually require it to delegate most of the responsibility for detailed planning and implementation of the privatization program to the individual ministries and other concerned agencies of the government. The shortcomings of such a decentralized approach include, of course, the risk of inconsistencies among the different bodies in terms of objectives, planning assumptions, and methodologies. Ministry-level personnel charged with planning the privatization process in some cases may have limited qualifications and experience in privatization, conflicting responsibilities, and possibly less commitment to privatization.

***A more structured, standardized approach to planning privatization is needed.*** If the decentralized approach to privatization is to work, however, implementing agencies require clear, consistent, and specific guidelines from the National Agency for Privatization. These guidelines should include the objectives of the privatization program together with an

indication of priorities; criteria for selecting and prioritizing enterprises for privatization; and procedures for applying these criteria.

In addition to promoting consistency of approach, such a structured, explicit set of guidelines will help to speed up the privatization process when the volume of enterprises ready to be privatized increases, as it is bound to shortly. A standardized approach will increase the "transparency" of the privatization process, by making it clear that vague or arbitrary criteria are not being applied in choosing the enterprises to be privatized or the instruments to be used.

***A wider range of valuation techniques is needed in Albania.*** In market economies a wide range of valuation techniques is used. These techniques fall into two broad categories: assets-based techniques and income-based techniques. The technique currently used in Albania (see above) is basically an assets-based approach, in that it tries to estimate the liquidation value of the assets. Another example of an assets-based approach is the replacement cost approach, i.e., estimating what it would cost an investor to replace the facilities and/or equipment in question.

An assets-based valuation is the most appropriate approach in the case of assets which are to be privatized singly (e.g., trucks) or a business which is to be privatized through liquidation (like the small retail shops which have been the focus of Albania's privatization efforts to date). However, the major shortcoming of the assets-based approach is that it fails to account sufficiently for the value of the firm's "intangible" assets (management experience, know-how, product reputation, customer relationships, etc.) which are an important source of competitive advantage and hence of value to a prospective buyer. The Albanian law on valuation provides a mechanism which effectively places a value on two forms of intangible asset, i.e., location and customer relationships. This mechanism is the premiums which the law permits the valuer to add to the asset value for centrally-located establishments and establishments which engage in household repairs and similar communal services.

While this essentially assets-based approach has been adequate for Albania's needs in the early stages of its privatization program, which has focused on the liquidation of small shops and the sale of a few other state assets such as trucks, its inadequacies will become more apparent as Albanian moves on to the privatization of going concerns, such as industrial enterprises. It is generally accepted that income-based valuation techniques provide the best means of capturing the value of the enterprise's intangible assets in terms of incremental future income.

The two most commonly used income-based valuation techniques respectively aim at establishing the economic value based on the net present value of future earnings (the discounted cash flow or DCF method), or estimating the market value from other information available on capital markets. From a theoretical point of view, the DCF method is to be

preferred. However, even in the developed market economies, the practical difficulties involved in projecting sales, financial flows, and choosing the appropriate discount rate result in other income-based techniques being used widely, such as price/earnings (P/E) ratios.

The analyst seeking to apply income-based valuation techniques in an economy which is in a state of fundamental disequilibrium, such as Albania, faces even greater problems. For instance, application of the DCF method is greatly complicated in such economies by the problem of projecting the impact on the enterprise's financial performance of the transition to a market-based economy. Historical data are of little indicative value under these circumstances. Another major difficulty results from the need to choose an appropriate discount rate, which should reflect the specific degree of risk inherent in the enterprise. Under such economic conditions, this involves a highly subjective judgement on the part of the analyst, which risks undermining the validity of the resulting valuation.

***There is insufficient coordination between the NAP and other ministries with privatization-related responsibilities.*** The example was cited earlier of the NAP and the Ministry of Foreign Economic Relations pursuing contradictory policies with respect to the privatization of a trading company. The Ministry of Economy shortly will identify those state enterprises which are to be privatized, restructured, or liquidated. These decisions will have profound impacts for the future of the privatization process, yet no arrangements have been made for consultation between the Ministry of Economy and the NAP on this question.

***It is likely that no buyers may be found for many, if not most, Albanian state enterprises.*** In view of the generally poor condition of most state enterprises, many investors (particularly foreign investors) will prefer to invest in new facilities, rather than attempting to restructure and renovate existing facilities. One alternative to closing down and liquidating these enterprises might be to hand them over free of charge to their workers and/or management.

Such a course of action poses a dilemma for the government, however: either continue to subsidize many of the loss-making firms, or else watch them fail, straining the social safety net and creating a potential political backlash against privatization. A policy of giving away state assets, even if they are objectively worthless, might generate resentment among other owners (e.g., shopkeepers) who were required to pay for state assets in cash.

***Privatization and private-sector development are closely linked issues.*** Privatization is linked to the overall issues of private sector development, and not only by their shared requirement for an adequate enabling environment. In the long term, the liquidation of many state enterprises will create massive unemployment, which can only be absorbed by new private investment.



***An orderly framework needs to be found for shutting down non-viable state enterprises.*** The government has undertaken an analysis of the financial performance of all state enterprises, with the objective of identifying those which are commercially viable and could be privatized immediately; those which could be made viable through restructuring; and those which are fundamentally non-viable and should be closed down. Unfortunately, this may be a somewhat moot exercise if, as estimated by some informed sources, more than 60 percent of all Albanian state enterprises are non-viable.

Closing all of these enterprises down in the near term would risk creating economic, social, and political chaos. Moreover, it neglects the fact that for some enterprises at least, the net financial impact of closing them down (e.g., inclusive of redundancy payments and social benefits for laid-off workers) may exceed the cost of continuing to operate them, even at a loss.

It should also be recognized that it will be extremely difficult to evaluate the potential competitiveness of some enterprises based on their historical financial performance, given the nature and the magnitude of the changes now taking place in the Albanian economy. Merely substituting world prices for historical, controlled prices in recalculating enterprises' costs and revenues, as has been suggested, will not provide a satisfactory answer because of the fundamental supply-demand equilibrium which is a legacy from the former controlled economy. Under the circumstances, at least in cases where it would cost more to close down an enterprise than to continue operating it for an interim period, time should be allowed to see if the enterprise's performance improves as market forces increasingly assert themselves.

***A new system is needed for regulating state enterprises which will not, or cannot be privatized.*** These enterprises include enterprises in the so-called "strategic" sectors which are excluded from privatization for the time being, as well as enterprises which are being kept open in the short term because of the economic and social costs involved in closing them down. Various approaches, such as the French "contract-plan", are available and their relevance to Albania's requirements would need to be assessed on a case-by-case basis.

The contract plan, for instance, defines the reciprocal commitments of government and enterprise, for several years in advance. It spells out the goals of the enterprise, and establishes specific performance criteria against which operating results can be measured. The contract-plan also defines the government's responsibilities and commitments *vis-a-vis* the enterprise, such as prices or tariff schedules; allowable or target number of employees; and physical, human and financial resources to be accorded to the enterprise during the contract-plan period, including capital increases, loans, and loan guarantees.

## **4.0 RECOMMENDATIONS**

To increase the effectiveness and efficiency of the privatization program, the following steps are recommended:

- **Emphasize planning and preparation for privatization at this stage.**
- **Establish a more flexible, "multi-track" approach to privatization.**
- **Develop and implement an information strategy to support a multi-track approach.**
- **Continue to decentralize responsibility for small-scale privatization.**
- **Establish a separate "track" for individual privatization of selected medium and large state enterprises.**
- **Evaluate the feasibility of mass privatization in the Albanian context and begin detailed planning.**
- **Focus on building the capabilities of the National Agency for Privatization to manage and coordinate the privatization process.**
- **Work to expand the range of valuation methodologies and mechanisms.**
- **Establish a formal mechanism for consultation between the NAP, Ministry of Economy, and Ministry of Foreign Economic Relations on privatization-related matters.**
- **Establish structures for enterprises which will not or cannot be privatized.**
- **Undertake a public relations campaign to explain objectives and mechanisms of the privatization program to the population.**

### ***Emphasize planning and preparation for privatization at this stage.***

In spite of the political pressures to move quickly on privatization, the problems with the enabling environment as well as the long lead-time necessary to bring key elements of the privatization program (such as the mutual funds) on-line argue in favor of a deliberate approach, emphasizing planning and preparation. To rush into privatization before the ground is

ready risks profound adverse economic and political consequences. Seen in this light, the delays that have been encountered to date in implementing the privatization program are not a particularly serious problem.

***Continue to decentralize responsibility for small-scale privatization.***

The bulk of of the small-scale privatizations undertaken to date (most of them retail shops and communal services) have been implemented by district authorities, under the direct supervision of the Ministry of Home Trade and the general supervision of the National Agency for Privatization. Such decentralization of responsibility is logical, in that these units are modest in their impact on the local and national economies, and they are difficult and time-consuming for the NAP to monitor closely. Especially in view of the NAP's limited resources, it makes more sense for the NAP to focus as much of its attention as possible on larger enterprises another types of enterprises with more specialized privatization needs.

The NAP should come to a similar understanding with other ministries and agencies regarding the privatization of enterprises under their control, and particularly regarding standardized procedures to be followed for enterprises under a certain size (e.g., 20 employees). A brief examination of the procedures used in the case of the Ministry of Home Trade reveals the potential for further decentralization of the process. For example, after a privatization has been initiated, the initial valuation is prepared by an enterprise-level commission, then reviewed by the district, ministry, and national branches of the Preparatory Commission. The documentation is then reviewed and approved by the NAP, which directs its branch office in the appropriate district to execute the sale. District-level NAP officials are closely involved in most aspects of the sale, even accompanying the purchaser of the assets to the bank to open an account.

Possible ways in which this process could be decentralized further include enabling prospective purchasers or district officials to initiate the privatization process for enterprises up to a certain size limit by filling out a standardized form containing the justification for the sale and other pertinent information. Transactions below a certain amount could possibly be approved by the district branches of the Preparatory Commission and the NAP, without recourse to the central authorities, without undermining the system of safeguards against corruption that motivates the central reviews.

The procedures for actually transferring the privatized assets to their new owners, which demand so much of the time of the district NAP officials, could almost certainly be simplified. However, it should be stressed that any attempt to decentralize or simplify these functions will have to be accompanied by intensified efforts to train local officials in the relevant laws and procedures and their implementation.

***Establish a more flexible, "multi-track" approach to privatization.***

At present, Albania proposes to take essentially a "two-track" approach to privatization, consisting of: 1) small scale privatizations through auction or direct sales; and 2) "mass privatization" of the remaining enterprises through mutual funds. However, the wide variety of enterprises in the Albanian economy, as well as the broad range of available privatization techniques (including public share sales, joint ventures, employee stock ownership plans, management buy-outs, leases, and management contracts, indicates that a more flexible approach, in which the privatization technique is tailored to the character and needs of the enterprise, would be beneficial.

***Develop and implement information strategy to support multi-track approach.*** At present, one of the greatest obstacles to such a multi-track privatization program is the lack of data on enterprises which would enable planners to segment and prioritize enterprises which are candidates for privatization, and tailor privatization strategies to enterprises' unique needs where appropriate. Most of the data apparently have been collected, at least until recently, by the ministries concerned and the central statistical agency, but the NAP is only beginning to tap these information resources.

Therefore, a top priority of the NAP should be to develop a comprehensive definition of its data requirements, based on its detailed privatization strategy and sector and enterprise screening criteria. The NAP should communicate its information requirements and a timetable for fulfilling them officially to the concerned agencies. The NAP should proceed to hire the most qualified available candidate for the now-vacant post of information specialist. The task of the information specialist, assisted by a foreign technical advisor as appropriate, will be to design a data base management and retrieval system to facilitate access to the information by NAP sector and industry specialists.

***Establish a separate "track" for individual privatization of selected medium and large state enterprises.*** As discussed earlier, there is no compelling reason why state enterprises which are profitable without restructuring should be assigned to the track of mass privatization through mutual funds. In addition, establishing a separate track of one-by-one privatizations for such enterprises affords a degree of insurance against longer-than-anticipated delays in the implementation of the mutual funds. It also makes it possible to "tailor" a privatization strategy which meets the individual characteristics and needs of each enterprise in this group.

Enterprises which are candidates for the individual track can be identified in one of two ways: either the companies apply for privatization on their own initiative, or they are identified through analysis of the stock of available enterprises by the NAP staff and/or its advisors. Examples of criteria which could be used to identify candidate enterprises through analysis include:

- Not included in one of the so-called "strategic" sectors, at least until further clarification of these sectors' status with respect to privatization;
- Otherwise, a representative sectoral and geographical distribution (assuming other criteria can be met);
- Relatively large size (e.g., more than 500 employees)
- Potential economic impact (e.g., through removal of a bottleneck or creation of linkages);
- Profitable in 1989-90 (assumed to indicate no need for major restructuring);
- Expanding or at least stable markets (e.g., enterprises in declining markets, such as protected industries which are threatened by trade liberalization should be avoided);
- Relatively low degree of vertical integration;
- Relatively low degree of concentration in their markets (i.e., no monopolies or oligopolies);
- Support from workers, management, and the ministry or agency which controls the enterprise;
- Potential investor interest; and
- Clear legal status (i.e., no claims from previous owners of nationalized properties).

In actual practice, these criteria could be weighted numerically (reflecting the overall objectives of the privatization program as well as tactical objectives, in order to get a rank ordering of candidates for the individual privatization track. Preparations for privatization of the top 20 enterprises, for example, could begin as soon as the initial rank-ordering is complete, with additional enterprises entering the "pipeline" as enterprises in the first group are successively privatized.

The process of preparing an enterprise for privatization in most cases would include an analysis of the enterprise (e.g., markets, operations, management structure, staffing, and financial structure), valuation, and development of a divestiture strategy. The exact technique used to privatize the enterprise, as well as the structure of the transaction, would depend on the characteristics and needs of the individual enterprise. Given the special conditions of many of these transactions, it may be

advisable to contract with outside advisors to assist NAP in developing suitable solutions.

***Evaluate the feasibility of mass privatization in the Albanian context and begin detailed planning.*** Evidently inspired by the Polish example, the Albanian government has proposed a program of "mass privatization" through the creation of five mutual funds. These mutual funds would hold a portion of the shares of former state enterprises (mainly large-scale enterprises), and all eligible Albanians would be issued vouchers which they could redeem for shares in the mutual fund(s) of their choice. The government's objectives are apparently twofold, i. e., to satisfy political expectations concerning widespread ownership of former state enterprises, and to provide a vehicle for restructuring enterprises prior to full privatization.

The complexities of the mutual fund or other approaches to mass privatization are such that the government or the NAP should consider engaging outside advisors with relevant experience (e.g., in setting up the Polish system) to assist Albania in developing a workable system which meets its requirements. However, assuming that the program which emerges is patterned at least generally after the Polish model, a few general recommendations can be made, i.e.:

- Perform (with outside assistance as appropriate) a mass privatization feasibility study to assess the economic consequences of mass privatization, and define the government's position on policy issues such as the method of allocating shares to the mutual funds, voucher-holders' options, etc.
- Give each fund a controlling share of the enterprises in its portfolio, so that it has the power to conduct an effective restructuring.
- Provide each mutual fund with the management and technical expertise it needs to carry out its functions responsibly.
- Provide for subsequent withdrawal of an enterprise's shares from the mutual fund's portfolio if it becomes necessary to facilitate final privatization of the enterprise.
- Begin the work of valuing individual enterprises in the mutual funds' portfolios as soon as possible.
- Do not wait for the mutual fund system to be fully implemented before starting to search for final, "core" investors; ideally, the search for final investors should begin as soon as a valuation has been performed.

- Only allow recipients of vouchers to redeem them for mutual fund shares and trade the shares after the mutual funds' first annual reports are available.

Specific preparations which need to be made for implementing the mass privatization program include:

- Screening the largest enterprises to identify those most suitable for mass privatization;
- Conversion of these companies into joint-stock companies (subject to passage of the relevant legislation on shareholding companies);
- Drafting and passage of enabling legislation for the mutual funds;
- Developing model by-laws of the funds, charters, and bank deposit contracts;
- Establishing fund management boards with an Albanian chairman and board members from appropriate Albanian institutions, as well as international businessmen and management experts;
- Obtaining expressions of interest from international banks and fund management firms interested in carrying out the day-to-day management of the mutual funds under management contract, and negotiating a contract;
- Developing business plans for the funds, which spell out the details of fund management, capital requirements, and operating expenditures, as well as the funds' requirements for telecommunications, data processing, and other supporting services;
- Acquiring the capital necessary for the operation of the funds, possibly from Western investors such as specialist mutual fund institutions; and
- Informing the public about the system and popularizing the voucher distribution scheme.

***Work to expand the range of valuation methodologies and mechanisms.*** As discussed earlier, adoption of a "mass privatization" program does not obviate the need for valuing state enterprises. Moreover, the asset-based valuation techniques now in use in Albania provide a less useful estimate of the value of enterprises, particularly those which are

going to be privatized as going concerns, than the income-based valuation techniques used in many other countries.

At present, there are two potential drawbacks to the use of income-based valuation techniques: 1) they are not recognized by Albanian law, and 2) it is difficult to estimate future income streams of Albanian enterprises based on their historical performance, given the radical transformation now taking place in the Albanian economy. Even analytical short-cuts to an income-based valuation, such as the use of price/earnings ratios, are problematical in Albania, given the lack of a functioning local capital market. Financial ratios from other markets are not acceptable proxies for market valuation of companies based in Albania, since there is no country with a relatively well-developed capital market which displays structural and systemic features similar to Albania.

If there is an analogy to this type of valuation problem in the developed market economies, it might be the problem of valuing a book or invention whose market prospects are uncertain. Typically, this problem is overcome by paying the author or inventor an advance or down payment, plus a royalty or percentage on each unit sold. These royalties could be considered an *ex post facto* valuation of the object based on its actual market and financial performance.

In the case of a company being sold which has such uncertain prospects that the buyers and seller cannot agree on a price, the deal might be structured as an "earn-out", where the buyers make a down payment up front, then additional payments over an agreed number of years based on the profitability of the company. In the special case of worker-owned companies, which could reduce profitability (and hence earn-out payments) by increasing wages, the payments could be based on some measure of value-added which does not net out worker compensation.

The institution of a regular income tax on businesses in Albania should simplify the bookkeeping problems involved in using earn-outs as an approach to valuing and selling state enterprises. Purchasers could be required to submit a notarized copy of their income tax return to substantiate the amount of royalty payable for that year.

***Focus on building the capabilities of the National Agency for Privatization to manage and coordinate the privatization process.*** The NAP would benefit greatly from a program of long- and short-term technical assistance. In particular, it is recommended that a long-term (i.e., 1 - 2 years) advisor be assigned to work side-by-side with the NAP Director and staff in developing and implementing program planning, budgeting, and other administrative systems which would facilitate the NAP's transformation into a mature agency capable of managing the privatization process effectively.



The long-term advisor should also be able to provide NAP staff needed additional exposure to planning and analytical techniques relevant to privatization, as well as the full range of privatization tools (private sales, employee stock-ownership plans, general sale of shares, etc.) and their uses. The ideal candidate for the position of long-term advisor would be a management consultant or other individual with 10 - 15 years experience in 1) institution-building and 2) privatization, at least part of it in Eastern Europe. The candidate's interpersonal skills and his ability to work with his Albanian counterparts in developing and implementing management structures, systems, and procedures are as important as his specialized knowledge of privatization.

Additional familiarization and practical training are required to enable the NAP staff to make optimal use of the specialized technical expertise offered by short-term experts such as the proposed EC-PHARE advisor in small-scale privatization. During this mission, a series of informal seminars was conducted for the NAP staff, in which the various steps in the privatization process were discussed, along with pertinent analytical concepts and methodologies. (An outline of the topics covered is found in Annex C.) At best, however, these seminars could only serve to increase participants' awareness of the issues.

One type of short-term assistance which would be useful at a relatively early date concerns the NAP's data collection and analysis capabilities. The Agency has a staff opening for an information specialist. When this position has been filled, a two-month consultancy by an expatriate specialist on information systems and data base management probably would be beneficial. This consultancy should be coordinated with the development of specific information and data requirements related to a detailed strategic plan for privatization. In this same connection, the NAP may need assistance in obtaining the computer hardware and software required to implement its information strategy.

The timing and terms of reference for additional short-term technical specialists should be developed by the long-term advisor. However, the required assistance is likely to include the following:

- **Sector/industry specialists.** The development of privatization strategies for individual medium to large-scale enterprises is likely to require specialized expertise in disciplines such marketing, business strategy, industrial technology and operations, and finance which the NAP does not have yet. NAP has the option of contracting with either individual advisors, or else an international consulting firm which would assemble the appropriate team of specialists for a particular transaction. In the initial privatizations, at least, the latter approach is probably the most logical course for NAP to follow given its lack of relevant experience
- **Valuation specialists.** It is recognized that valuation is the responsibility of the Preparatory Commission for the Process of

Privatization rather than the NAP. One near-term technical assistance need in the area of valuation is for a short-term advisor with valuation expertise to help the PCPP in drafting an alternative to the current law on valuation which acknowledges alternatives to the asset-based valuation models now used exclusively in Albania. The advisor could also conduct technical training in valuation techniques for officials of the Preparatory Commission.

In the middle to long term, outside valuation specialists probably will be needed to assist in valuing medium and large-scale enterprises, particularly those which are going to be privatized via the "individual" track (see above). In the case of enterprises which are to be privatized as part of the mass privatizations program, it may be more cost-effective to "bundle" the enterprises by sector or industry group and have a single outside specialist or firm perform the valuations for each group of enterprises.

- **Investment bank.** Most of the advisory services described above may be provided by an investment bank, working alone or in association with a consulting firm. In addition the investment bank (or the mergers and acquisitions division of the consulting firm) can provide specialized technical assistance in structuring the transaction, locating potential investors, evaluating bids, and negotiating an agreement.

- **Mass privatization.** While the mutual funds to be established under the proposed mass privatization program will be administratively separate from the NAP, it is assumed that the latter should be instrumental in planning for the mutual funds. A consultant with experience in developing the Polish mutual fund strategy would be useful to the NAP to perform a feasibility study and adapt this concept to Albanian conditions.

***Establish a formal mechanism for consultation between the NAP, Ministry of Economy, and Ministry of Foreign Economic Relations on privatization-related matters.*** To improve communications among the three organizations with executive responsibilities in privatization-related matters, it is recommended that an *ad hoc* committee on privatization be established, including the Ministers of Economy and Foreign Economic Relations, and the Director of the NAP. Working groups could be established under the committee's auspices, such as a working group on joint venture policy.

***Establish structures for enterprises which will not or cannot be privatized.*** As discussed earlier, state enterprises in the following branches of the economy are excluded from privatization: energy and mining, oil and gas, mail, telecommunications, forestry, water resources, road, railways, seaports, airports, and air and railway transportation. However, some of the benefits which would result from privatization can be secured by other means short of actual divestiture.

First, state enterprises in the above sectors are permitted to contract or form joint ventures with foreign partners. In the case of mineral and other resource-based enterprises, such relationships can take the form of the foreign partner providing needed equipment, technology, and know-how, and take their share of the revenues in kind (oil, timber, chromium, etc.). This is the pattern that has been followed in the oil industry, where exploration contracts have been signed with five Western oil companies. The government is also discussing a chromium joint venture with a South African company.

Second, in sectors such as telecommunications which have monopolistic characteristics but are not totally monopolistic industries, competition could be encouraged from new private providers of services such as cellular telecommunications, repair services, and telephone equipment. Alternatively, the state monopolies could be encouraged to subcontract out certain functions (e.g., repairs) to private providers.

***Plan and conduct a public relations campaign to explain the objectives and mechanisms of the privatization program to the population.*** Some segments of the Albanian population may hold unrealistic expectations, particularly about the length of time that the privatization process will take and the distribution of shares in the privatized firms to their employees as well as the general public. The controversy generated by the ultimately unsuccessful proposal to auction off retail shops to the highest bidder illustrates the potential impact of such these contradictory expectations.

The alternative to resisting, or capitulating to public opinion in such cases is to try to educate the public about the real intent of the government's policy and the pros and cons *vis-a-vis* alternative policies. The most effective approach is not to try to reach the masses directly, but to try to educate the leaders of public opinion, such as journalists and labor leaders.

**ANNEX A**  
**TERMS OF REFERENCE**



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

JOB DESCRIPTION

**Title of post**            **Consultant in Privatization**

**Duration**            **1.0 months**

**Date**                **11 November - 11 December 1991**

**Duty Station** **Tirana**

**Purpose of project**    This mission is designed to provide direct support in the form of advice to Albanian officials on various issues related to privatization.

**Duties**              The consultant will be a high-level advisor who can provide advice and guidance to governments that are in the very early stages of their Economic Reform programme. Specifically, the consultant will:

- 1) hold discussions with Government and with relevant institutions and organizations to determine the objectives of Government and the situation in the country related to privatization.
- 2) Assist government in planning the overall strategy for privatization, including the legislative and institutional framework required for privatization to succeed.
- 3) Provide advice to Government on specific issues within consultant's areas of competence, as requested by government.
- 4) Identify the need for external support and, if requested, prepare Project Documents or other documents to facilitate the provision of this assistance.
- 5) If requested, organize and conduct seminars and workshops on privatization issues for those officials responsible for the privatization activities of the government.
- 6) Participate in a workshop on privatization in Prague, to present experiences in Albania and elsewhere.

.... / ...

---

Applications and communications regarding this Job Description should be sent to:

Project Personnel Recruitment Branch, Department of Industrial Operations  
UNIDO, Vienna International Centre, P.O. Box 300, A-1400, Vienna, Austria

7) Provide materials on Privatization (in general and on the privatization experience elsewhere in Eastern Europe, in particular) that would be of interest to government officials who are completely inexperienced in privatization.

8) Prepare a detailed final report that covers the activities, findings, and recommendations of the mission.

#### **Qualifications**

The consultant should have extensive experience in privatization, and have experience advising governments on policy-level aspects of undertaking privatization. An advanced degree in Economics, Finance, or Business Administration is desirable.

**Language**      English. An additional knowledge of Albanian is desirable.

**ANNEX B**  
**ORGANIZATIONS AND INDIVIDUALS CONTACTED**

<b>Council of Ministers</b>	<b>Dr. Gramoz Pashko</b> <b>Vice Premier and</b> <b>Minister of Economy</b>
<b>National Agency for Privatization</b>	<b>Mr. Veli Mullaraj</b> <b>General Director</b>
	<b>Mr. Frederik Xhori</b> <b>Lawyer</b>
	<b>Mr. Shpetim Zaimi</b> <b>Economist</b>
	<b>Mr. Gjerji Butka</b> <b>Economist</b>
	<b>Mr. Dhimitraq Kllapi</b> <b>Economist</b>
	<b>Mr. Feti</b> <b>Director, NAP Tirana</b>
	<b>Director, NAP Berati</b>
<b>Preparatory Commission for the Process of Privatization</b>	<b>Mr. Agim Shehu</b> <b>Chairman</b>
<b>State Bank of Albania</b>	<b>Mr. Robert Lukaj</b> <b>Director of Planning</b>
<b>Savings Bank</b>	<b>Mr. Edwin Lubohova</b> <b>General Director</b>
<b>Ministry of Finance</b>	<b>Minister</b>
<b>Ministry of Home Trade</b>	<b>Minister</b>
	<b>Mr. Saimir</b> <b>Privatization Director</b>
	<b>Mr. Valentin Prifti</b> <b>Advisor to the Minister</b>
	<b>Mr. Besnik Vathi</b> <b>Director, Foreign Relations</b> <b>Dept.</b>
<b>Ministry of Food Industry</b>	<b>Minister</b>



**Privatization Director**

**Mr. Teodor Kristuli  
Economist**

**ANNEX C**  
**SEMINAR TOPICS**

## **Seminar Discussion Topics**

1. **The privatization process--overview and first steps**
2. **The macro context of privatization**
3. **Setting objectives for privatization**
4. **Developing sector/enterprise screening criteria**
5. **Data requirements**
6. **Targetting sectors/enterprises for privatization**
7. **Sector/enterprise strategy**
8. **Techniques of privatization**
9. **Institutional responsibilities, resource requirements,  
and potential sources of assistance**
10. **Summary**

**ANNEX D**  
**PROGRAM FOR THE TRANSITION TO A FREE MARKET**  
**OF THE ALBANIAN ECONOMY**

PROGRAM FOR THE TRANSITION TO A FREE MARKET OF THE  
ALBANIAN ECONOMY

Current Economic Crisis

Our country is now in the grip of a grave economic crisis. For almost four years in succession, national output has declined continuously by approximately 1.6% per annum on average. The crisis has become desperate during the last year. The Albanian economy is out of control. Industrial and agricultural production is only half that of the last year.

Many policies driven by politics, unjustifiable from the economic point of view, created chaos and worked contrary to the reform process. Among these was the establishment of a mandatory payment of 80% wage to workers temporarily displaced by the shortage of raw materials. This created a great incentive for absenteeism.(1) Another was the government-owned enterprises were given greater freedom of operation but without a system of strict budgetary control. They became no-ones property and nobody was in control. Budget subsidies to enterprises merely became subsidies from the State Bank.(2) Later on with the uncontrolled increase in bank credits to pay wages, enterprises increased the money in circulation without producing anything, thus contributing directly inflation, the monetary overhang, and the prospects for explosive inflation in the future. All this resulted in a chaotic functioning of the centralized system. The overhang continued to build up at a time when no plan was fulfilled by the enterprises.

The deficit in budget became a real gangrene. The state budget is a disaster. Lacking fiscal constraints, a budget deficit of 3.2 billion leks was realized in 1990. This deficit was carried forward into 1991. To those was added another 1.2 billion leks in the first eight months of 1991, and it is envisaged that the total of budget deficit will be 2.5 billion leks for the whole of 1991. The deficit is calculated to be 47% of the whole budget income for 1991. This means that the whole consume is based on the humanitarian aid.

During this period, the state reserves were completely consumed. The new government found the treasury entirely empty. This financial collapse was completed by the exhaustion of our country's foreign reserves had a dramatic increase in our foreign indebtedness. Moreover, massive losses realized in foreign exchange trading destroyed the financial credibility of our country in the eyes of the foreign bankers, and we are now facing a total embargo of foreign credits.(3)

Spontaneous privatization has hampered economic reform by generating social tensions. Furthermore, the ambiguous legal and administrative situation has discouraged the entry of foreign firms. The fact is that few foreign companies have started operations so far. The same goes for the agriculture where spontaneity created artificial obstacles which hamper the reorganization.

It is obvious that the essence of the crisis is failed economic systems. Central planning has left us with a terribly inefficient economy, unable to compete, unable to produce goods of quality or in desirable quantities, unable to export, and unable to induce our people to work for better wages or for a better life. This situation is not created from fresh but it is the result of the old system. The past belong to all albanians as well as the future we are seeking to build.

#### Necessity of Reform and Urgent Macroeconomic Measures

Our economic crisis positions us at a crossroads. We could try to reactivate existing industry, which has already been half destroyed by the crisis and is characterized by a lack of profitability, inefficiency, import-dependency, low productivity, and extremely poor quality outputs in a nutshell the poverty maker, or we could start anew, with new structures needed to develop a competitive and productive economy that would promote work and well-being for all. The first path, without doubt, would be suicidal.

The second path at our choice is the setting up of new structures of a new and competitive economy. The kind of economy we should pursue depends on the guaranteed freedom of individuals and firms to produce and sell at a price they determine in the market. Entrepreneurs must be free to introduce new technologies and to produce goods profitably for export. Our economy demands people who are willing to risk, to experiment, and to win. First and foremost, a new economic system requires stabilization. Achieving such an aim means to bravely fight the hyperinflation and setting up a new

economic and legal structure to establish the market economy.

The need to fight hyper-inflation. Inflation has been artificially restrained by price freezes and food rationing. Meanwhile, the money in circulation is too high and growing. Actually the liquidity overhang to be absorbed with the old system means that our economy, with a 5% growth should need 5 years to re-establish the equilibrium between the national output and the money supply, in other terms this means that the price increase would go on for another 5 years. If we do not act quickly to stop the inflation the liquidity overhang will become a disease for the economy. The effect of the increase in the money supply will be highly inflationary because it stimulates demand for goods at a time when goods are not available. Inflation is a severe disincentive to investment, which is critical for the development of a market economy. If we do not act to stem the inflator, the resulting devaluation of our currency will foreclose the possibilities to build our economy. And the social costs of inflation are as serious as the economic ones. Measures to control inflation must be focused on the following:

Eliminating enterprise subsidies and unlimited credits. We must stop the increase of money in circulation that comes from financing loss-making enterprises. This requires a very strict monetary policy, efficiency increase and production of those goods required but the market(4) First and foremost, rigorous standards must be established in the extension of credit. The banks should not release credits on administrative orders. The law (which is part of the



package I am presenting to the parliament) is not to allow crediting of enterprises whose economic data and credibility are doubtful. Banks must not be allowed to issue credits when there is little or no prospect of repayment. The law in the reform package being presented to you would place limits on the size of the loans, which should be no more than is needed for working capital, and which would be extended as short-term credits. If an enterprise defaults on this credit, it should be declared insolvent and either sold at auction or closed down altogether. The establishment of independent banks will promote competition both in attracting deposits and extending sound loans. The Central Bank must be detached from the commercial banking operations so that it can safeguard the maintenance of a sound monetary policy. The Central Bank must play the role of anti-inflation agent.

Balancing the budget. The Government of Stability inherited from the last year a deficit of 3.2 billion lekz, and was compelled to add 1.7 billion on top of that through the wage increase, social assurances and the subsidizing of the agricultural prices for the first 9 months of 1991. Meanwhile the production drop has contributed in an increase of the deficit. The budget revenues are implemented up to 35% of the foreseen. The budget is enormous because of exploding subsidies and the collapse in revenues, both attributable of the desperate situation in the enterprise sector. As a result, the state is not capable of undertaking new investments or financing other important activities such as defence, public order, housing, health, and, in particular social assistance for displaced and unemployed workers. A state with only

deficit as a result of the economic activity is bankruptcy, that is why the hemorrhage must be stopped in order to make healthier the economy and to start its activation.

To ensure adequate revenue to finance expenditures, the state must tax enterprises. But under present circumstances, high taxes on enterprises would cause widespread closures. Therefore, as interim measures, the Government has sought to close the budget deficit by:

1. Imposing fuel and electricity taxes;
2. Devoting all cash receipts from food aid to the budget;
3. Reducing administrative expenses and investment expenditures;
4. Attempting to generate revenues through privatization(5);
5. make use of foreign bilateral credits.

Establishment of a state loan, lotteries and issuing of other value papers, which is for the moment technically not feasible and we are to consider how to use it in the near future.

Stimulating supply. Measures have to be taken to incite production increase along with the monetary stabilization. Measures have been taken to increase production in keeping with monetary stability. Enterprises have been freed from the administrative framework of the plan. In the transition period, enterprises have been freed from government-mandated contracts and territorial restrictions. Laws that need to be passed in this package - " State Company Law", " Wage Law", " Law on Contracts and Obligations" - are essential to put the enterprises into action.

Improvements are also needed in the export and import activities of enterprises. Exports are stimulated by the devaluation of the currency which was done of late. But to put the enterprise into a proper market context, we need other measures, such as price liberalization, a system of taxation that supports growth, liberalization of foreign trade, and right for enterprises to determine their own structures. Enterprises should have the right to determine their own production, to enter into contracts, and to sell at prices determined by forces of supply and demand. Set up the structure of production on the basis of their own calculations and marketing operations and deciding on their own on the number of workers. They must have complete freedom on their own investments. Management policy of enterprises must be determined by boards of directors. In such a way they will bear complete responsibility towards the public for the actions undertaken as well as bankruptcy. Taking these measures we face the first step towards the reform and market creation. But this is a preliminary solution, a preparatory phase for the privatization which will be the definitive solution.

External financing. The present situation calls for new financing sources from abroad to be combined with the abovementioned steps. In the first eight month of this year, exports have brought forth only 94\$ million, and thus covered only, 35% of our import needs, 50% of which are equal to the foreign loans interest to be paid. All staple product exports such as chrome, copper, tobaccos and vegetables are below the expectations. Being that the export contracts are already signed the import possibilities are very

limited. Thus we face two important problems: to provide our people with necessary foodstuffs, and to secure raw materials for our industries. We will need 270 million dollars through the end of this year, 150 million for food alone. Food will be provided mainly through food aid, and raw materials through the foreign credit. \$50-70 million would be enough to reactivate those industries that could be operated profitably under market conditions to the end of the year. Under the present conditions we are compelled to use the credit to stimulate the export producing goods enterprises. The lack of a guaranteed market to export the goods produced with the raw materials imported makes it more difficult to predict the results of the exports in order to mitigate the inflation pressure. We expect that the IMF and G-24 will cover our balance of payments deficit during the period of implementation of our economic reform. (6)

Social Safety Net. Social assistance is not a charity. It allows us to close down non-viable enterprises, which means that it is a precondition of economic reform. Social assistance will come into force in the first of January, 1992, and will be coupled with the restructuring of the state enterprises. The closing down of the enterprises will be done gradually, without big pain, as the only means to create the suitable ground for the reform. It will serve as a compensation reservoir between the sectors to be enlarged and the ones to be curtailed. This time will also serve as a training period for the workers. The preparation for this step will be January the first 1992. This date will coincide with the complete transformation of the role of state sector. According to a study of

the Ministry of Economy, 45% of the enterprises were loss-makers in 1989. Under the new economic conditions, 25% are expected to be loss-makers. After a period of three months, we must close down those enterprises that have no hope of survival(7). The others will be given a period of six months to adjust to the new market conditions. In the meantime, we will have prepared the necessary legislation and administrative structure to privatize those enterprises that survive. A crucial moment will be the raw material problem. The enterprises will have to face this problem so far done by the state. The Government has for at least 18 coming months a solution to this, in order to start up the reform, as concerns the second half of the coming year, we hope that the IMF, after adopting our reform program, which in principle is done already, will finance part of our imports, the G-24 is supposed to cover the rest.

The unemployment problem can only be addressed by the creation of new employment opportunities. These will be generated by new investments that are anticipated through Italian credits of \$180 million, German credits of \$30 million, and others. Another possibility is the immigration to Germany and Italy of 1500 workers next year. This number can be doubled or tripled following the establishment of centers for professional skills and training. As for the heavy industry, we intend that up to 70% of our mineral extraction industry will become joint ventures. A high priority will be accorded to tourism which quickly yields revenues. We expect technical assistance from the European Community and the EBRD through the PHARE program. We expect to have a master plan in

order that all foreign investment be subject to this plan.

Investments in infrastructure will also be done on the basis of joint capital. For reconstruction of roads for example we are of the opinion to set a tax on the roads or a tax amounting to 0.5 leks on the gas consumed to finance the existing road reconstruction and opening of new car roads. Legislation for joint ventures is included in the package we are proposing to the Parliament. The Government has prepared the draft law on land rent and building rent. In the meantime work is underway to prepare an economic strategy for the development of mineral and material resources.

Currency convertibility. We intend to begin limited convertibility of our currency in January 1992 as concerns the import and export operations of the enterprises. With starting of credits from IMF and G-24 in order to back the payment balance the complete convertibility will be considered with a unique market for the enterprises as well as for individuals. A new law on hard currency which will serve as institutional basis for convertibility will be forwarded to the Parliament presently.

An active foreign policy must be in the pipeline in order to re-schedule the debt as a precondition to support the balance of payments and start the foreign investments. So far we may say that with the Italians this is done and hopefully through the IMF mediation the same will be done with other countries.

Key elements of privatization. World experience has demonstrated

that the privatization reform cannot be partial, that the public must be prepared for its effects, and depoliticization is necessary because it interferes with sound management(8).The reform aims at macroeconomic stability and quick operations towards market economy. Institutionalization and application of privatization and destruction of the centralized economy. Without this the vicious circle cannot be destructed. This cannot be done within a quick time but the sooner it starts the better. The first step will be privatization of small-scale enterprises, such as shops and services. There are some 25.000 shops and 12.000 service businesses and the bulk of transportation vehicles. The best way to privatize is auction, which is being practiced.We have created the National Privatization Agency and a preparatory commission for the privatization that are responsible for the transformation of the state-owned enterprises to private ownership. Their activity will increase very much with the introduction of massive privatization.In order to carry out as a democratic privatization as possible we have decided that the manager of the enterprises will not be eligible as well as the administrative managers at the Ministerial level. An amendment of the draft prepared for the private ownership, forwarded to the Parliament would serve to better regulate this legal process.

The privatization of retail trade, of land and services will be combined with the privatization of land and houses.The distribution of land must be carried out within the territory which is supposed to support the retail trade and that must be combined with the

setting up of the Agricultural Bank, a law which is to be forwarded within this package. At the same time the privatization within one year of nearly 300.000 state owned houses will be accompanied by a stronger medium privatization, especially of services.(9)

We are in the process of preparing massive privatization. All this process cannot be done without reorganizing the banking system in supporting the small businesses(10). In all this process the liberalization of prices must be more effective. A quick privatization would create new jobs. A quick calculation by adding one person in every private business would create jobs for more than 35.000 persons.

Liberalization of foreign trade will help very much, but a big help in this direction will be an antimonopoly law. The privatization must be extended in both directions: a) restructuring of the state enterprises in the climate of a market economy, and b) privatization of enterprises or a part of albanian capital in joint ventures. We are of the opinion that this must be done in two phases. As concerns the reorganized state enterprises the law must accept their auctioning or trading in non-discriminatory conditions. They must undergo the same as the private enterprises. Meanwhile we are working to draft the law on shareholder enterprises as well as the legislation to regulate the transferring of the state property into private property through shareholding system.

Privatization must be considered a political action with economical consequences. It calls for transparency and equal choices for all. Before being institutionalized it must be started with those



enterprises that create less harm, without regard to anything. The sale must be carried out in a way that to be impossible for the state to safeguard interests and in order that the interest of the private firms be secured. This process, difficult at the beginning will prove very efficient and will become a powerful source of income and jobs.

Privatization in heavy industry. The most important phase of privatization will start in January. In the meantime we must prepare its legal framework. This preparation is needed to prepare the necessary legislation for the switch over from state property to private property. In second place the creation of the status of the shareholder companies and third drafting of a law for transferring of mutual funds which will govern the transition period the shareholder companies, which will partially own state capital. According to our calculations is needed the creation of five such mutual funds through which the enterprises to be privatized will be supported.

Creation of mutual funds will establish a new structure for administrative and financial management of enterprises and will make them independent from the ministries they depend from. Shareholders will be all individuals over the age of 18, which will receive coupons to their choice free of charge, and they may be able to swap them for shares. Priority will have the ex-political prisoners and a special law will facilitate their access to the shares.