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## **THE ROLE OF THE GOVERNMENT OF KOSOVO IN THE PROCESS OF TRANSFORMATION AND PRIVATIZATION OF SOCIALLY OWNED ENTERPRISES**

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### **ABSTRACT**

After the devastating war of 1999, Kosovo had to start over. Of course, the primary concern was rebuilding the country and setting up the security measures. Both these tasks were given to United Nations. The KFOR mission was in charge of ensuring security, whilst the civil life was entrusted to the so-called UNMIK. The mission of Kosovo was to join the European family. However, in order to do so, there were a lot of conditions that must be satisfied. Prior to the announcement of the independence, among other things, there was a need to transform the property and to move to a democratic political system. The political transition started before the transformation of property. In 2001 the first free elections were held, after which Kosovo formed its parliament and government. The transformation of property started in 2002 organized by the international community, under an organization called Kosovo Trust Agency (KTA). The local government and experts had no say in the methods employed in the privatization process. The international community decide what and when shall be privatized. This agency finished its mission in 2008 after the independence. However, the process of privatization had to continue, and now the Kosovo Privatization Agency took charge, which this time was ran by locals, though the international community still exerted a strong influence. The process of privatization of the social property is almost over, though the process of liquidation continues. The Kosovo government was continually subject to scandals revolving around the privatization process. At no point did this process serve to benefit the people of Kosovo.

**Keywords:** Privatization, Transformation, Transition, Kosovo.

### **METHODOLOGY OF THE RESEARCH**

Statistical method --- this method was used to compare the data from the privatization process in several European countries, former Yugoslavia and Kosovo.

Comparative method--- this method was used to compare the process of privatization in the aforementioned countries.

Analytic method --- this method was used in all its forms, mainly as PEST analysis.

### **INTRODUCTION**

The process of privatization is one of the most important events of the second-half of the last century, as well as this century, both economically, politically, socially, ethically etc. The process of privatization appears to be a simple one at first. It can be understood as a process which assigns someone's property to someone else. However, it turns out that it is quite a complicated process to be applied, which takes a lot of time and work. The privatization is a "general economical reform" (Musa Limani, 2006). This leads us to understand that we are dealing with the social and economic system of a country. Countries and their economic and

social systems are created and developed depending on their abilities. The process of privatization is an important part of this development, as it is necessary that the property is defined.

The transformation is property and the process of privatization, have an important effect in the democratization of the society, and the economic and political systems of the country. The process of the privatization of the Socially Owned Enterprises, from its beginning was something that needed a lot of discussions. Almost everyone has an opinion on this matter. A concurrent point for all opinions is that this process must occur. During its whole longevity this process was accompanied with a lot of mistakes, which continues even nowadays. Kosovo must work hard to make sure that, for the remaining part of the process of privatization, no such mistakes happen, especially during the liquidation process.

Kosovo is a sui generis case for many things, including the process of privatization. The unique part of this process is that it was lead entirely by the internationals, with the locals having no say in the process. Currently the process of privatization is run by the Kosovo Privatization Agency (KPA), which continues the work of the KTA. This agency works, and has worked, through its five regional offices: Prishtina, Gjilan, Prizren, Mitrovica, Peja.

The process of privatization, from its beginning, created many dilemmas. The main dilemma was whether this process must be governed by the locals or by the internationals. The latter happened. For five years the process ran by the internationals created irreversible damages. Another dilemma was whether the privatization process must occur before or after the announcement of independence by Kosovo. The former happened. The concept of the Socially Owned Enterprises existed only in Yugoslavia. For the rest of the world, the concept of social property was unknown. This caused a lot of confusion to the internationals, who did understand this concept very well.

## **LITERATURE REVIEW**

The end of the last century for Europe in general, and for the south-eastern Europe in particular, marked a major turn in the economic development. An important role in this was played by the process of privatization. The privatization in the south-eastern European countries was multidimensional. This process redefined the property rights and the property that had to be privatized. Privatization means a recreation of the institutions of a system, the financial market, the management of corporations, the capital et cetera (David Lipton-Jeffrey Sachs, 1990). This process of privatization requires special legislation and institutions which would implement the legislations. In order to create a legal environment for the privatization of the social property, there needs to be a change in the laws regarding finances, accounting et cetera. There are many ways of privatization, but the main ones are the following two. The first is the so-called the fast privatization, which means that many enterprises are privatized at once. The second is the so-called is the gradual or step-by-step privatization. The first form of privatization was dominant in the south-eastern Europe in order to bypass the socialist system and encourage employment (Joseph M. Dogget).

There is no general agreement among theoreticians which one, the first or the second method, is better. Some authors think that the benefits from privatization are so large such that it must be done as quickly as possible (Stanley Fischer, 1991). Small enterprises must be privatized at once together, perhaps even supported by the government. Large enterprises must turn into corporations. Through the process of privatization there is a change in the ownership of the

capital. The capital is no longer an administrative entity (V. Vukotic 1993). The privatization is a part of the economic transition through which there is a transition from a centralist economy, a characteristic of all socialist countries, to a market economy.

The formation of corporations is a first step of the process of privatization. Upon the formation of the corporations, there is a new way of managing them, such as in Poland. From the Polish experience we can learn a new way of managing the privatized enterprises. The privatization of small enterprises, which deal with trade or services, is through "liquidation" (selling all assets of the enterprise), where there are no new corporations being formed. However, depending on the country, the corporations have different role. For example, in Russia, in 1992, the president decreed that all enterprises that consisted of more than 1000 workers or more than 50 million rubles in assets would be corporations.

In Bulgaria (1992) the process of formation of corporations was a competence of government, which gave the competences to the respective ministries for enterprises which had assets less than 10 million lev. In Hungary, in order to transform enterprises into corporations, it was necessary for permission from the privatization agency, and moreover in those enterprises where there was a workers council it was necessary for the support of the 2/3 of the workers.

In Slovenia, unlike in the other countries of former Yugoslavia, was more organized in the privatization process. The director of the Office for Macroeconomic Matters of Slovenia, Janez Sustresic (2001) states that one of the best things about privatization is the education of the revisers to estimate the value of the social property. The process of privatization in Albania was rather different, trying to adjust to the specific needs of the country. The method of privatization used in Albania was based on mainly the workers and managers buying the enterprises (buying from inside); this resulted in a very distributed ownership (Fatmir Mema). Throughout this process there was a lack of help from the financial institutions.

## **DISCUSSION AND CONCLUSION**

An agreement among theoreticians of privatization is that it will bring a new way of planning, production, and generally a new way of economic development. However, only changing from a centralist administration did not suffice to overcome the problems that arose from the privatization, such as the large number of unemployed, low efficiency of investments and slow technological progress.

In order for the privatization to be successful, the government needs to apply appropriate laws and to create institutions that would protect individual property and the corporations. This raises the trust of the local and foreign investors. Throughout the process of privatization, the role of the government of difference countries differed. In some instances, the government used the privatization for its own personal needs. All this mainly depends on the level of democracy and the transparency of the process. In all post-socialist countries there are two mechanisms through which the government exerts its influence in the process of transformation and privatization of property.

1. The first mechanism relies on the institutional changes, where the government passes laws that are necessary for market economy. This can only be done by the government, to protect the private property, to define the way the monetary system, and to ensure free market.

2. The second mechanism deals with the government's actions in the macroeconomic politics. In this case, the government is a regulator of resources and neutralizer of internal and external factors, et cetera. In this way it controls the process of privatization.

These two mechanisms are related and affect one another. This happens because that the process of transformation and privatization of property in the post-socialist countries occurs in a non-stable macroeconomic environment. In many countries outside the eastern block, privatization brought a lot of progress, whereas in the eastern block the situation was different. Although, due to the economical situation, the eastern countries were not ready to implement the privatization process, they nevertheless did it. The main goal was to avoid inflation. In the majority of the post-socialist countries, through the process of privatization, there was the prevalent idea of passing from the centralist economy to the economy of the market, as soon as possible. Using the shock-therapy method has had effects on the demand for money. For this reason many countries had to deflate the value of their currency. The government exerted its influence in the following ways.

1. Creating a better communication between the enterprises, the citizens and the administration.
2. Having better regional and local cooperation within the country.
3. Holding the administrators accountable for their actions.
4. Creating specific institutions which would play a central role in the process of privatization, and decreasing the role of the government in this process.

Compared to the other countries, the process of privatization in Kosovo is very complex, both in terms of the general approach and the specific methods to apply this process. It was crucial that Kosovo was becoming a country and at the same time it was starting the process of privatization. Up to this point, Kosovo was deprived of the natural right to solve its own problems, because it was not yet a country. After 1999, the conductor of the macroeconomic politics in Kosovo was the United Nations mission called UNMIK (United Nations Interim Administration Mission in Kosovo). This international mission was responsible for everything, except for protecting the borders. This was the duty of another UN mission, KFOR (Kosovo Force). UNMIK created its own institutions in Kosovo for which it believed that would be needed in Kosovo. It did this through four pillars. The privatization and transformation of property was in the fourth pillar. Initially UNMIK's work was quite promising, however, the fourth pillar that dealt with economic development, lacked clear concepts and strategies. UNMIK used a short-seeing politics. Moreover it had no concept for the private sector. These, and many other similar elements, contributed that Kosovo to remain in economic crises ever after the war. Nevertheless, the process of privatization had to continue, while UNMIK played the role of the government. UNMIK governed with the process of privatization for five years, and, although it had complete power over everything, it cannot be said that its results are something to be proud of.

After the announcement of independence, the locals took charge for this process; however the influence of the international factors remained large. Even after seven years of the process being run by the locals, there is no measurable progress regarding this process. This can be observed in the increase in unemployment. The unemployment reached drastic figures, such that in 2015, about 100'000 young people migrated to western Europe. This happened as a result of loss of hope in a better economical future, as well as political frustration. The Kosovo government acted as if all this is normal, giving no signs that something better will

happen. In all this mess, there is no doubt that the process of privatization played an important role, while the government helped this through bad governing and capturing the state for individual needs. The privatization in Kosovo did not bring what was supposed to. It did not satisfy the economical, technological and employment expectations. This process only satisfied the needs of a few individuals.

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