

PUBLIC POLICIES IN THE FIELD OF PRIVATIZATION: APPROACHES AND PERSPECTIVES

Privatization is the process of transferring public property of the state to private property. Although private ownership may be associated with the business and the non-profit sectors, the term privatization usually has economic connotations. Thus, privatization is perhaps one of the best known, by the country's population, major economic policy actions, implemented in the country since the declaration of independence in 1991.

The legal framework of privatization in Moldova consists of Law no. 121 of 04.05.2007 on management and privatization of public property, Law no. 1308 of 25.07.1997 on normative price and the sale and purchase of land, Law no. 1324 of 10.03.1993 on privatization of housing fund and other adjacent legislation. A somewhat obvious observation can be made if we look at the date of approval of the basic laws on privatization, being in force presently, which shows the stage of the privatization process of the Republic of Moldova on its route from a planned economy to a society based on market economy principles. After completing steps of the mass privatization on the basis of property vouchers, privatization of housing and land, now the domain inciting the public authorities' intervention is the privatization of public property in the real sector of economy.

Privatization is generally accepted as an activity for improved management of organizations or privatized assets, and theoretical justification of this fact can be found, for example, in the works of the Nobel Prize laureate Ronald Coase, who states that ownership, should be granted in such a way that its owner is motivated to take economically efficient actions.

According to the opinion expressed by Valeriu Lazar, Deputy Prime Minister, Minister of Economy, in one of the Government meetings during year 2011 in the context of approving the Action Plan regarding the efficiency of the process of administration and privatization of state-owned assets, the current state's share in the real sector of economy is 24 percent, given that in many

European countries this indicator amounts to 10-15 percent. As shown by presented data, on January 1st, 2011 the net asset value in the real economy in Moldova was of 107 billion lei, the state share accounting for over 24 billion lei. The total value of public assets is over 66 billion lei. The data set shows a share of about 36% of state assets in the real sector of economy out of the total of public assets. And, if we accept the figures announced by the Minister of Economy as reference for Moldova, then the promoted privatization target, for the current executive, is halving the state presence in the real sector of economy; i.e. privatization of assets worth about 12 billion lei. Moldova would need 30 years to reach that goal, if we are guided by average annual earnings in recent 5-6 years of privatization of public assets.

In order to create an opinion whether privatization is necessary or not, it is sufficient to analyze the data reflecting economic performance of state-owned enterprises in the real sector of economy.

During the years 2006-2010, according to statistical data, the analysis of traders' activity, by type of property, does not indicate the existence of any substantial shape changes. Thus, although the number of publicly owned enterprises increased from 825 in 2006 to 876 in 2010, their overall share in all forms of property remained the same, of about 2%. The same can be stated with reference to the share of employees engaged in publicly owned enterprises in the total of all forms of property, which although down from 135,800 units in 2006 to 121,500 units in 2010, on the background of a general reduction in the number of employees in the economy in this period,

remained almost at the same level of about 23%. There are no observed changes in relation to the revenues from sales of publicly owned businesses, which maintained 12% of the total share, recorded for the entire period of the years 2006-2010. The average number of employees of a publicly owned company fell from 165 units in 2006 to 139 units in 2011, but this trend was characteristic of private enterprises as well, where this indicator decreased from 11 to 8 units.

If quantitative indicators of the economic activity of state-owned enterprise did not undergo essential changes, we can not say the same with reference to quality indicators. Overall financial result before taxes has declined for state-owned companies that have registered during the period 2006-2010 a decrease of this indicator expressed as relative share of the total from 17% to only 5%, while this indicator for the private sector increased from 48% to 63% in 2010. Thus, the financial result before taxes for state-owned enterprises in 2010 was 5,000 lei on average per employee, private enterprises have registered a value of 26,000 lei, and the foreign ownership enterprise - 67 000 lei.

The average employee in the public owned companies had a turnover of 169 thousand lei on average in 2010, compared to 318,000 lei in private enterprises. The highest level of this indicator is seen in companies with foreign capital or with the participation of foreign capital that reached 788 000 lei and respectively 729 000 lei per employee.

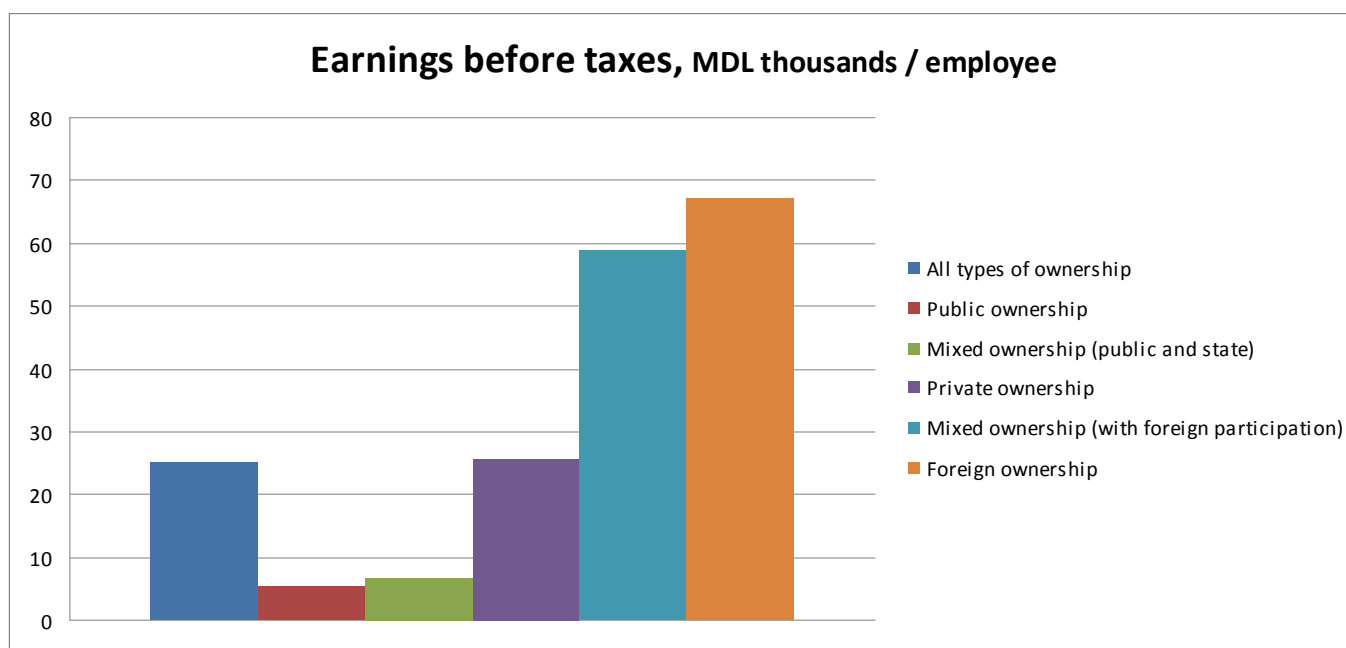
Approximately 46% of state owned businesses reported losses in 2010, but this proportion is similar to the figure of pri-

vate enterprises. A more detailed analysis shows that losses in 2010 of publicly owned businesses are about 3000 lei per employee, while profit is 9000 lei per employee. For the private sector these data are 7 and respectively 33 thousand lei. The highest labor productivity was recorded in enterprises with foreign capital with, in 2010, a profit amounting to 84-90 thousand lei per employee.

Thus, in terms of efficiency indicators, the activity of publicly owned enterprises is inferior to that of the private property companies that ensure efficiency and provide a basis for higher taxation. Given the low efficiency of state enterprises, their rapid privatization is advisable. But is this conclusion correct? Why is it necessary to have state enterprises? Although state enterprises are present in the real sector of economy, are they meant only to generate income and pay taxes?

If we look at the experience of countries that during the last decades were able to achieve and maintain a consistently high rate of growth and I mean here the coun-

tries of South East Asian region, one can see that the role assigned to state enterprises was that associated with the basic functions of a state, one of which is to contribute to economic and social development of its citizens. Thus, although state enterprises often do not generate income, the role of these companies lies more in promoting the private sector economic development. The state enterprises within such societies have their place in economic sectors where returns on investment can be achieved in a long time. Thus, given the economic and political instability characteristic of developing economies, the private sector that is itself under-developed, is reluctant to invest in developing areas such as raw material extraction and production, infrastructure, education or health. But, a society can only develop as a whole. It is true that those sectors, in economically developed societies, are occupied in a large degree by private traders, but it is no less true that this is due to the development level of these states and implicitly of the economy. For states in transition these areas need to be advanced by the public sector, due to circumstances characteristic of their stage of development.



Is this approach valid for Moldova? The indicator that interests us is the turnover expressed per employee. However, the reality is different; state enterprises register, in terms of this indicator, the lowest value in the national economy. This thing shows that the economic activity of public property companies is of low relevance for the public sector. Thus, these companies do not find their role in national economic development.

After a turbulent period of privatizations during the 90's, the text of Moldova's development strategies implemented in the next period assigned a secondary role to privatization as an instrument of economic policy, which has long featured among the proposed actions to be applied in the industrial sector and enhance national competitiveness. Similar was the emphasis set on this instrument within government programs during the years 2005-2009 that regarded this domain in terms of public-private partnerships. The issue of privatization of public property has only recently reappeared on the government agenda, with the appointment of Government Filat II. The management and privatization of public property occupies a separate subchapter within the economic and financial policies of the Government for the period 2011-2014. The objectives of government are set up as follows:

- Continue privatization of state assets in liberalized areas in open, publicized and transparent auctions.
- Implementation of progressive methods of public property privatization and management.
- Development and efficient use of public-private partnership mechanism as a means of privatization.

There are two ways to follow, in terms of economic policies, for the developing states. The first way is total liberalization and limiting the role the state plays in the economy. The economic sectors that will develop, following this policy and the economic growth rate, will be determined by market forces and by political and economic situation shaped from the exterior. The second way is the government to play an active role in the economy. Thus, by altering relative prices the government will attempt to determine a high rate of development of some strategic sectors and then of the economy as a whole, but it will have to take, in the same time, the risks of wrong interventions.

Without bringing arguments in favor of any of the ways described, we can see that none of them is implemented efficiently in Moldova. Although economic liberalization is the key principle of the economic policies that have been applied in Moldova for a very long period of time, the government still maintains a high share of publicly owned companies in the real sector of economy. On the other hand, there is neither a state's interventionist policy applied in the economy by means of companies it owns. Of the existing possibilities, the Moldovan authorities have chosen the worst way - that of doing nothing. In the conditions of a continuous worsening of the indicators describing the economic activity of the publicly owned enterprises, what is required is undertaking determined actions to produce an impact in a short period of time. It is welcome the fact that the privatization issue reappeared on the Government's agenda but it is on the determination, with which the government will manage to implement this process in a transparent and

open manner that depends the ultimate success of privatization. It is important that the outcome of privatization is not wasted public property and liquidation of those businesses that operate with reduced efficiency but do provide jobs. To facilitate this process, it is necessary to identify support tools for traders in the private sector (in the form of grant funds, like the example of other countries) that will strengthen their capacities to develop and expand their own business by taking over the assets being currently in public ownership. A beginning in this direction was launching the program PARE 1+1, designed to attract remittances in the national economy. This program could be expanded by enlarging the target group to include everyone who wants to invest in the country's economy, but also by increasing the funds allocated for this purpose, for example from the revenues due to privatization.

With reference to other privatization method specified in the government program for 2011-2014 years, implicitly of revaluation of the public-private partnership mechanism as a means of privatization, it is worthwhile mentioning that the available statistical data for 2006-2010 years show that the activity of enterprises with mixed, public and private ownership is not much better than that of publicly owned enterprises (in terms of indicators: financial result before taxes, turnover per employee, or profitability). Although during the specified period policy priorities in the area of privatization aimed namely at the creation of such partnerships, the number of joint ownership enterprises was steadily decreasing. These data do not recommend pursuing this path of privatization of public assets.

The state is not the most efficient trader, so there is no rationale for maintaining high economic potential assets into state ownership. However, in respect of the publicly owned companies in the real sector of economy that, for certain reasons, can not be privatized, it is imperative to identify indicators describing the efficiency of their work. These indicators have to be developed in a manner that best describes the economic and social impact of business enterprises under public ownership. The social impact relates to the specific activity of these companies, therefore it can not be described in this study, but, to quantify the economic impact, the activity indicators might refer to the turnover per employee. State enterprises should not be directed exclusively towards generating revenue, as the main source of budget revenues are taxes and not dividends. A high turnover, even in conditions of low profitability, speaks of a greater involvement in the economy and private businesses - this may be a justification for maintaining their activity.



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10/1 Iacob Hincu str., Chisinau

MD-2005 Republic of Moldova

373 / 22 221844 tel

373 / 22 245714 fax

office@viitorul.org

www.viitorul.org



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Tel.: +373 22 885830

E-mail: fes@fes.md

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