

CORRUPTION IN PRIVATIZATION PROCESS AND CONSEQUENCES

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Abstract:

In order to understand what the risks of corruption in countries consist of and where they come from, one should first take a look at how communist economies and entire societies were functioning. Privatization in post-communist countries is unprecedented not only because this is a process of changing ownership on a scale and at a rate unheard of before but also because the process is evolving in a social space that is substantially distorted, both economically and spiritually, morally and ethically. It investigates the implementation of the privatization process and valuation methodology in a developing economy where the market system and its associated institutions are not fully developed..

In post-comunist economies after privatization under the assumption that theft is possible, that those who have stolen assets cannot be fully protected under a change in the legal regime towards rule of law. In many instances, privatization has been accompanied by widespread corruption. Jozeph Stiglitz, ex-chief Economist at the World Bank, admits that "it has proved difficult to prevent corruption and other problems In privatizing monopolies" The "horrors" come about partly because of the in exible and hasty deadlines set by the IMF and World Bank. Public services are privatised without enough time being allowed to set up workable frameworks for regulation. As the recent External Evaluation of the Enhanced Structural Adjustment Facility (ESAF) noted with some puzzlement: In most. . . ESAF countries undertaking programs of public sector reform, the privatization process has always begun before an appropriate legal framework in the form of a divestiture implementation or state enterprise law is passed. The results are many-fold:

- Governments are often unable to arrange transparent and open bidding processes or promulgate needed regulatory laws;
- Managers and employees, fearful for their future and condent of their ability to escape punishment, commonly strip the assets of the entities undergoing privatisation;
- Many interested parties are able to engage in insider dealing and political manipulation of the process for their own profit;
- Many state enterprises do not have the time to become economically viable before being sold off, leading to frequent sales of industries at below market value despite heavy government spending on recapitalisation.

For multinationals, bribery enables companies to gain contracts (particularly for public works and military equipment) or concessions which they would not otherwise have won, or to do so on more favourable terms. Every year, Western businesses pay huge amounts of money in bribes to win friends, influence and contracts. These bribes are conservatively estimated to run to US\$80 billion a year roughly the amount that the UN believes is needed to eradicate global poverty.

Keywords:

Privatization process, corruption, economy, assets, government, valuation error.

Description:

The methodological framework of this paper we briefly review the problem and the subject of research, and evaluation of actual results.

Methods that will be used are:

The method of description;

Method of analyzing documents- This method was used by studying the different types of literature concerning this topic in theoretical terms and Comparative Analysis.

The Globalisation of Corruption:

Every year, Western businesses pay huge amounts of money in bribes to win friends, influence and contracts.

Corruption takes many different forms, from the routine cases of bribery or Petty abuse of power that are said to "grease the wheels" to the amassing of spectacular personal wealth through embezzlement or other dishonest means.

Spurred by structural adjustment programmes, privatisation of state enterprises increased dramatically in the late 1980s and early 1990s { four-fold in Latin America and three-fold in Asia.

Uganda is considered a model implementer of IMF reforms. In 1992, it set about privatising some 142 public enterprises.

Privatization in post-Communist economies often presents multiple problems: State enterprises may be handed over to individuals or groups favored by the prior dictatorial authorities, as has allegedly occurred in Slovakia, previously a part of Czechoslovakia. Government-owned companies may also be privatized, turned profitable, and then re-nationalized by authoritarian rulers. In Russia, the Yukos oil company was branded an example of "oligarchic privatization" and taken over by the government of Vladimir Putin, only to be bankrupted between 2003-2007.

Pre-privatisation and post-privatisation corruption

Spontaneous privatisation is a term to describe the pilfering of assets in the period between the start of economic transition or economic liberalisation and completion of the privatisation of a given enterprise. Primarily, this refers to the spontaneous privatisation pursued by the management of state-owned enterprises and people close to them. It should be emphasised that, to a certain degree, spontaneous privatisation is observed in all economies in transition. lack of political consensus concerning the methods and concepts of privatisation is another frequent reason for procrastination.

Corruption-related issues that pertain to assets transfers to municipalities and to the liquidation of state-owned enterprises deserve particular attention. The term "spontaneous privatisation" also applies when an enterprise, its sap being drained away, is never privatised and remains a long-term state holding.

The transactions implied here result in illegal and unfair transfers of state-owned assets (mostly financial assets of an enterprise) to private hands.

It is more than evident that almost all forms of spontaneous privatisation are facilitated by the clash between two types of entities with two types of incentives and, in particular, two types of controls. These are private entities with the clear incentive of maximising performance and profit and state-owned entities without genuine owners, their representatives or at least managers supervised by genuine owners.

Corruptive behaviour may be encountered in cases of defaulting on contracts concluded by buyers. Most commonly, this concerns failure to pay the purchase price of privatised property. The highest incidence of such behaviour is observed in instalment schemes. Instalment plans are always associated with the risks of post-privatisation corruption. The biggest risks are that this form of post-privatization corruption will continue to flourish from politic authorities and government.

Political and interest groups background of privatisation

Privatisation is an area where group and personal interest come to a head.

As it is the executive and legislative branches of government that decide on the ways, pace and scope of privatisation, it is only natural that privatisation-related interests are largely mediated by political parties.

Corruption issues in privatisation in the broad sense of the word, political parties can be ranked using two important criteria:

- their stated and, primarily, practical policies emphasising equal opportunities in privatisation;
- their stated and actual acceptance of the need for private ownership and by how they promote the quantitative changes in the ratio between public and private property.

Interestingly, although not surprisingly, the two criteria are rather homogeneous in that the political parties that advocate and apply equal opportunities in privatisation at the same time attempt to achieve a higher share of private ownership and minimise public ownership.

Privatization in Kosovo and crime/corruption

Properties were being offered for sale as if they were the holdings of politicians, rather than the resources of all Kosovo residents.

Kosovo has sold some 70 percent of fully state-owned companies for 630 million Euros (\$810. 31 million).

But most of the proceeds are frozen pending creditor claims arising from hazy ownership structures stemming from the 1990s collapse of socialist Yugoslavia and Kosovo's split from Serbia.

Corruption, political interference and instability have stifled Kosovo's efforts to attract foreign investors and expand its small economy.

In June 2012, KEDS was sold by the Kosovo government to a Turkish consortium, Limak Yatirim Enerji and Calik Enerji Sanayi. Limak also purchased KEDS for 26 million euros, although its capitalization totaled 180 million euros. Economic analysts criticized a lack of transparency in the transfer to Turkish control. Kosovo still suffers frequent electrical power outages.

Unemployment in Kosovo is estimated officially at around 50%, although local reporting suggests it is closer to 60%.

Corrupt affairs:

Experts and economic think-thank groups admit that years of mismanagement of the telecom company has damaged the company. Financial reports of the company reveal that only in 2011, bonuses to employees reached 2. 21 million Euros. Members of the board have received salaries of up to six thousand euros a month, when the average salary in Kosovo is below 300 euros. The fast-growing number of employees at this public company will come to an end together with the new owner.

The circumstances that are in favour of corruption

Some of the polling surveys of the public opinion have performed research of the cause (source), respectively the circumstances that are in favour of corruption in the Kosovo society.

According to the 2004 UNDP research, 14 the surveyed respondents have identified as primary cause of corruption low salaries of the officials in the public sector and that this causes corruption (around 63%). Other factors as options are offered and identified as almost inconsiderable: the desire of the officials to become rich very quickly (10%), the morale crises (7%), the legal system non efficiency (6%) and incomplete legislation (5%).

Besides the potential opposition to the rule of law from those who strip assets, another source of opposition is from those who have access to power that enables them to appropriate great wealth from the state. One way to allow for that in our model is to introduce a set of agents who always have a preference for the non-rule-of-law state.

Challenges of corruption

Kosovo has accelerated the privatization process and more powers have been transferred to the PISG from UNMIK. With this we have also witnessed an increase of accusations of corrupt government officials in awarding contracts and licenses, and trafficking cigarettes.

From the data provided above, which is analysed from surveys, we can notice that there are a lot of issues to combat in the sphere of corruption. Success in combating corruption largely depends upon political will and institutional mechanisms built for this purpose.

Anti-Corruption Legislative Measures

As part of Anti-Corruption Strategy, the Assembly of Kosovo adopted the Anti-Corruption Law in April 2005, which was promulgated by the SRSB in May 2005. The Law foresees measures against corruption in the field of administrative investigations of public corruption, publicizing most serious violations of the law, nepotism in recruitment, conflict of interest, standards on giving/acceptance of gifts in public administration, etc. The Law also foresees the establishment of the Kosovo Anti-Corruption Agency.

The economic consequences of a corrupt privatization

Privatization without institutions to enforce good corporate governance may vitiate property rights and give those with control rights an interest in the persistence of a weak, corrupt state that would not interfere with their theft.

The main macro-economic risk associated with the privatisation of viable SOEs and the liquidation of non-viable SOEs is that the level of unemployment will rise.

The privatisation process is unlikely to result in significant increase in unemployment since it is only the most economically viable SOEs that are likely to be privatised.

The liquidation process will inevitably result in a loss of labour from the SOEs, since the inactive workforce who continue to draw salaries will lose their positions. The potential consequence of these inactive workers losing their positions is not significant. Although Kosovo has a very high unemployment rate, the number of inactive SOE employees is relatively small.

Conclusion

In this paper was treated privatization and corruption in general terms, issues and economic consequences in Kosovo and beyond.

Although Kosovo contains a large number of SOEs, the vast majority of these enterprises operate at a fraction of their potential output, with a large number of them surviving by renting their idle assets to the private sector. The majority of Kosovo's SOEs is beyond the scope of the privatisation process, since they cannot be sold as economically viable enterprises. Therefore, liquidation and not privatisation is the solution for the majority of Kosovo's SOEs.

The KTAs initial policy of privatisation through the issuing of 10-year leases to private investors has only been successful in a very limited number of cases.

The main reasons for the lack of progress with this type of privatisation were lack of investor interest and resistance of SOE management. However, these obstacles to privatisation have largely been

addressed by the formation of the KTA, with its extended legal powers and the introduction of 'permanent' 99-year leases. Former SOEs privatised under the 99-year lease system possess all the attributes of a private sector company and none of the weaknesses, which afflicted SOEs run according to the traditional Yugoslav model. In this sense, we can conclude that the privatisation of SOEs in Kosovo is possible. However, questions on the legitimacy of the privatisation process in Kosovo remain.

A slowdown in privatisation logically brings about corruption, not only due to blossoming spontaneous privatisation, but also because of the growing political and economic influence of the groups that try to ensure their preferential treatment in privatisation. As the political influence grows of post-communist and non-standard parties, the room expands for privatisation corruption.

A homogeneous government or a government in which a single party has a dominant position runs a higher corruption risk.

Recommendations to minimise corruption in privatization

Start privatisation as soon as possible after the collapse of communism and proceed as fast as possible, relying extensively on non-standard methods.

With regard to standard methods, large and important enterprises, if not privatised in the voucher scheme, should be sold by public tender whose organisation should from the very beginning be referred to eminent international firms.

In large-scale privatisation, more emphasis should be put on auctions, especially for small and medium enterprises and in instances where the price is the only criterion.

Direct sales should be organised as simplified tenders (sealed bids) with clear criteria and rules and the possibility of ex post compliance verification; rules and criteria should be binding and publicly known; compliance verification should be enabled to all the interested parties, primarily to competing bidders, mass media, political parties interest and etc. groups.

A constitutional law should be passed ensuring privatisation control and, primarily, control over the National Property Fund by all parliamentary parties; all political parties present in parliament should be able to delegate their nominees to the NPF Presidium and Supervisory Board.

The NPF should be prevented from growing into a new super-ministry and from being misused in attempts to unjustifiably preserve government influence in enterprises and advance the interests of political parties.

Fighting corruption is increasingly engaging the energies of civil society groups to be effective, they must:

- Mobilise ordinary people. Civil society groups will need to be prepared to take on governments in innovative and sometimes confrontational ways.
- They will also need to be committed to being transparent and accountable themselves.
- Push for freedom of information and enable ordinary people to use that information. Only if they have the relevant knowledge can citizens hold their governments accountable and ensure that resources that belong to them are used in the right way.

Help increase citizen participation in decision-making. In Uganda, a popular phrase is *abantu babisi*, meaning "people do not know what is going on". It is used to show mistrust of government decisions taken far away. Greater participation by groups that represent the poor is a must in decision-making at every level, local, regional and national. Greater citizen participation is also required in monitoring and auditing public expenditure. Civil society groups need to play a "critical auditing function. . . if they are to hold the state accountable to their poorer citizens. "

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