

The Privatisation Process in Central and East European Countries and Patterns of Policy Change

Peggy Terletzki

Abstract:

The aim of my paper is to analyse the policy process of enterprise privatisation in Central and East European Countries (CEE). The reform of property rights and the privatisation of enterprises was one of the big reforms demanded by transition. In nearly all countries privatisation has been finished so far, but has proceeded differently. A look back on the privatisation process shows several shifts in policy-making and a progression of country specific privatisation patterns. In my work I elaborate on how these patterns evolved. Therefore, I focus especially on the choice of political actor's strategies and decision-making, and on the trigger mechanisms and conditions for successful process-oriented adjustments in privatisation policy. Furthermore, this policy analysis also attracts the researcher's special attention because of the transitory nature of the policy field regarding the restriction by time and objective, and – resulting from that – the limited potential for imitation.

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Contact:

Peggy Terletzki

PhD Candidate, Europe-Fellows II Scholarship
Europe-University Viadrina, Frankfurt/ Oder
Germany

Email: peggy.terletzki@arcor.de
Phone: +49 - (0) 228 - 966 96 16
Im Tannenbusch 1, D-53119 Bonn

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1 Enterprise Privatisation in the Centre of Economic Reform

Since the beginning of the 1980s privatisation has been on the agendas of many West European countries. It was a widely used strategy for addressing problems in state-owned enterprises. International organisations have also promoted privatisation as a precondition for economic development. The idea behind this is that privatisation improves the efficiency and competitiveness of the economy as well as the corporate governance and performance of enterprises; limits state interference in the economy; raises fiscal revenues and reduces subsidies. Therefore, in Central and Eastern Europe (CEE) the reform of property rights and the privatisation of enterprises are attached by great importance to transitional strategies from a planned to a market economy (Brandt et al. 2001, Debande/ Friebe 1997).

This transition resulted in radical changes of the economic structure. Beside liberalisation and stabilisation, privatisation is not only one of the largest reform challenges, but also an indicator of the managed progress to a market economy. The reform of property rights and the creation of private disposal rights and its efficient use are essential conditions for the successful establishment of a market economy. In privatisation policy governments have to decide among unfamiliar alternatives which have arisen simultaneously and for which there is no or only little precedence for guidance. Program design and implementation affects not only political-administrative procedures (until an enterprise is transferred into private hands). Governments' political strategies have also to deal with the post-privatisation organisational restructuring of enterprises as well as with the development and recovery of the entire economy. That means policy makers have to handle both the establishment of an enabling macroeconomic environment and a stable system of well-defined property rights. Beside the privatisation of large state-owned enterprises the support for the advancement of the indigenous private sector (de novo firms) is also a high priority on their political agendas.

Privatisation has almost been completed in nearly all transition countries ¹. As is shown in Figure 1 there are countries that had finished the privatisation process by the mid the 1990s, esp. the Czech Republic, Estonia and Hungary. At the end of the 1990s these were followed by Slovakia and Bulgaria. During the first years of the 2000s Latvia, Lithuania and Romania have so far brought their privatisation projects to an end. Privatisation is still proceeding in Poland, Russia, Slovenia and Ukraine.

FIGURE 1: EBRD TRANSITION INDEX: PROGRESS IN PRIVATISATION OF LARGE ENTERPRISES

Land	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Bulgaria	2	2	3	3	3	4-	4-	4-	4-	4-
Czech Republic	4	4	4	4	4	4	4	4	4	4
Estonia	4	4	4	4	4	4	4	4	4	4
Hungary	4	4	4	4	4	4	4	4	4	4
Latvia	2	3	3	3	3	3	3	3+	4-	4-
Lithuania	3	3	3	3	3	3	3+	4-	4-	4-
Poland	3	3	3+	3+	3+	3+	3+	3+	3+	3+
Romania	2	3	3-	3-	3-	3	3+	3+	3+	4-
Russia	3	3	3+	3+	3+	3+	3+	3+	3+	3+
Slovakia	3	3	4	4	4	4	4	4	4	4
Slovenia	3	3	3+	3+	3+	3	3	3	3	3
Ukraine	2	2	2+	2+	2+	3-	3	3	3	3

Sources: EBRD, Transition Reports 1995: 11; 1996: 11; 1997 (German edition): 14; 1998: 26; 1999: 24; 2000: 14; 2001: 14; 2002: 20; 2004: 6. Valuation criteria reach from "1" to "4", at triple intervals (+/-), whereas "1" is less and "4" most progressed in reform.

Every transition country in CEE has shown, or still shows different patterns and results in the privatisation policy process. In my paper I want to ask in what way differences in privatisation progress are a systemic result of reform policy and secondly, which factors or patterns are responsible for successful policy adaptations and learning in CEE privatisation process? With a policy analysis of country specific policy patterns in privatisation one can expect to find an extended explanation for policy changes. I have taken potentially relevant factors into consideration that concern the design or formulation of privatisation policy, the policy process (implementation and evaluation of programs), veto structures of target groups (in order to assess the influences on policy by individual and collective actors), main policy actors resp. institutions and the organisation of privatisation (distribution of competences and power in the organisation of program implementation).

The paper is structured as follows: in the next section I give a general overview to central research questions and findings on privatisation in transition countries (Ch. 2). After that, I present my investigations so far concerning the policy analysis of the

¹ The sample of my analysis contains 12 transition countries in CEE and CIS which were not affected by war: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, Slovenia and Ukraine in the period from 1988/89 to 2004.

privatisation processes (Ch. 3). I conclude with the discussion of first insights and results of my work (Ch. 4).

2 Current Research Results and Empirical Findings on Privatisation in CEE

The research literature has paid much attention to differences in how state enterprises have been privatised because of the consequences for corporate governance, restructuring and performance. As shown in the subsequent section research focus mainly factors of implementation: the impact of privatisation methods, ownership structures, and hard budget constraints and on the ability of enterprises (or better: new owners or managers) to restructure. Privatisation as a policy analysis has been relatively disregarded by research.

An important field of research is the comparison of different privatisation methods concerning the economic success criteria 'resources allocation efficiency' and 'distributional justice'. Researchers discuss predominantly the instruments of mass privatisation and direct sales, esp. influenced by target groups of privatisation (inside and outside investors).² The advantage of mass privatisation is to finish the privatisation within a short period. Despite the lack of capital, citizens take part as stakeholders of the domestic economy. This method helps to irreversibly push through the process of transition (see Blanchard et al. 1991, Lipton/ Sachs 1990, Frydman/ Rapaczynski 1994, Roland 2000). Privatisation via direct sales will achieve higher economic efficiency and increases in earnings (see Kornai 1990, Pohl et al. 1997, Bolton/ Roland 1992, Katz/ Owen 1997).

Apart from this theoretical discussion, research is concentrated on the specific impact of privatisation methods on corporate governance³ and on the organisational restructuring of privatised enterprises (see Aghion/ Blanchard 1998, Aghion/ Carlin 1997, Anderson et al. 1997, Mallin 2000, Schüsselbauer 1999, Walsh/ Whelan 2001). Two fundamental empirical findings are: firstly, a positive influence on the increase of earnings and productivity in case of privatisation to outsider, particularly to foreign investors (Frydman et al. 1999); and secondly, an important distinction between strategic and defensive restructuring⁴: mainly outsider-privatised enterprises were restructured in a strategic

² Insiders are managers or employees of an enterprise. Whereas outsiders are those who do not belong to the enterprise which is disposed for privatisation, that means domestic and foreign investors.

³ The term corporate governance contains control in the sense of strategic leadership in an enterprise. This resulted from the internal relationship between owners and managers. Corporate governance describes the quality of internal leadership of an enterprise. Good corporate governance have enterprises which have an obvious financial discipline (hard budget constraints), economic success (survivalness, restructuring, competitiveness, rentability), transparency (of decisions, information) and responsibility (towards owners, investors).

⁴ Grosfeld and Roland 1995 give a widely accepted definition of restructuring. They distinguish between defensive and strategic restructuring. Defensive restructuring contains downsizing of loss making and concentration on core economic activities as well as labour shedding. But defensive restructuring is to ensure only the existence

way. This evidence is shown by a higher increase in earnings in contrast to state-owned and insider-privatised firms (Grosfeld/ Roland 1995).

Further findings show that privatisation itself results in extended restructuring and significant increases in corporate earnings of enterprises. In comparison, privatised enterprises reach a significantly higher labour productivity than those that are still state-owned. A limitation on wage increases below the productivity growth rate brings about higher cash flows and investments. Changes in ownership structure itself removes cost inefficiencies. But, this effect is less important because of significant cost restructuring in both privatised as well as in state-owned firms. The discussed correlation of privatisation and improved restructuring and performance of enterprises for the CIS countries is statistically insignificant (see Djankov/ Murrell 2002; Djankov/ Pohl 1997; Frydman et al. 1997, 1999; Grosfeld/ Nivet 1997; Jones/ Mygind 2001; Konings 1997; Megginson/ Netter 2001; Perevalov et al. 2000; Pohl et al. 1997; Earle/ Telegdy 2002).

According to Djankov/ Murrell 2002, the state as owner restructures less effectively than other types of ownership except for employee ownership. In contrast to complete insider or strongly diversified outsider ownership, a state minority share on ownership has a positive impact in privatised enterprises. Additionally, firms with highly concentrated ownership restructure more intensely than wide spread individual ones. Regional differences in restructuring capability arise between CEE and CIS countries: in CEE employees do better restructuring than with other forms of ownership, whereas in CIS it is the banks and concentrated individual property. But, hard budget constraints have an ameliorating effect on restructuring in both regions (Claessens et al. 1996, 1999; Djankov/ Murrell 2002; Estrin et al. 2000; Pivovarsky 2001; Pohl et al. 1997). Coricelli/ Djankov 2001 demonstrate that hard budget constraints set on enterprises support defensive restructuring. Strategic restructuring requires external financing.

3 Policy Analysis of the Privatisation Process

The policy context of privatisation was affected by a fading of government's legitimacy and by an increase of enterprise management autonomy for (strategic) decision-making. The role of self-governing bodies played by employees associations was also dramatically changed. So, the political bargaining framework was going on to be reassigned. At the same time spontaneous privatisation of enterprises appeared in some countries, e.g. Hungary.⁵ After first elections nearly all governments declared their privatisation policy

of an enterprise. Whereas strategic restructuring, meaning investment in new know-how, technology and organisational capital, is survival-oriented and contains the development of competitiveness of a firm in the long run. Nevertheless, the disposal of capital depends on capital market development, which is relatively weak in countries of transition.

⁵ The term 'spontaneous privatisation' is usually employed to denote a process at the beginning of transition when managements of state-owned enterprises discovered legal loopholes allowing the stripping of a firm's assets. In a strict sense this cannot be regarded as privatisation.

and enacted a first law or decree about the reform of property rights and privatisation of enterprises.

3.1 Design of Privatisation Policy

The term 'Policy Design' details the enactment and amendment of privatisation laws and decrees, political actors decisions for the imitation (or adaptation) of an external model, e.g. Poland chose the British Model and Estonia the German Treuhand Model, whereas at a later stage of reform several CEE countries decided on the Czech Model of Voucher Privatisation. Furthermore, the term specifies a governments' basic decision on the sequencing of privatisation and restructuring as well as for the involvement of banks in enterprise restructuring.

FIGURE 2: FACTORS OF POLICY FORMULATION IN THE PRIVATISATION PROCESS

Country	Important Laws or Programmes in Large Privatisation	Orientation to External Models	Sequencing of Privatisation (P.) and Restructuring (R.)	Bank Involvem. in Enterprise Restr.
Bulgaria	06/91, 04/92, 03/98, 03/02	Czech Model	R. prior to P.	No
Czech Republic	02, 09/91, 04/92	No	P. prior to R. until 1993	No
Estonia	06/91, 12/90, 06/93, 08/94	German Treuhand Model	P. prior to R. until 1993, after 1993 R. prior to P.	Yes
Hungary	III quarter/88, 89, 07/90, 06/92, 94, 05/95	Similar to the method of German Treuhand, but no direct reference	R. prior to P.	Yes
Latvia	03/91, 03 + 06/92, 02/94	German Treuhand Model	P. prior to R.	No
Lithuania	02/91, 11/97	No	R. prior to P.	No
Poland	09/81, 04 + 07/90, 04/93, 08/96	Capital privatisation is oriented to Great Britain, World Bank	R. prior to P.	Yes
Romania	08/91, 06/95, 05/99	EU, World Bank, IMF	R. prior to P. Plan: 10% p.a.	No
Russia	07/91, 06/92, 04 + 05 + 07/97	Balcerowicz Plan, voucher privatisation is oriented to the Czech Model	R. prior to P.	No
Slovakia	02 + 09/91, 04/92, 07/95, 09/95 09/99	No	P. prior to R. until 1993, after 1998 R. prior to P.	No
Slovenia	11/92, 06/93, 11/94, 04/98	No	R. prior to P.	Yes
Ukraine	10/91, 03 + 04 + 06 + 07/92, 07/93, 01/94	No	R. prior to P.	No

Sources: All details are taken from EBRD Transition Reports 1995-2002 and from different papers and books that are listed at the end of the paper (See list of references).

All countries enacted a *first law or decree* about the reform of property rights and privatisation of enterprises between 1990 and 1992 (Figure 2). Later on laws were several times amended and further special laws enacted, e.g. for restitution of

expropriated property after World War II. In Poland and Hungary economic reform of the enterprise sector already took place before 1989.

Some of the analysed countries have chosen to imitate an *external model* for privatisation. Not only west European institutions were held up as a model, but also some from Eastern Europe. Bulgaria and Russia decided for the Czech Voucher model in a later period of privatisation. Estonia and Latvia adopted the German Treuhand model. Poland was orientated to the British model and later on to the World Bank model whereas Romania adopted the latter at the very beginning of privatisation. The adaptation of external models worked differently (Figure 2).

A further important decision of governments is the *sequence of 'privatisation' and 'restructuring' of firms*. It is a matter of cost distribution and of specified criteria for investors (Megginson/ Netter 2001). In Bulgaria, Hungary, Lithuania, Poland, Romania, Russia, Slovenia and Ukraine the government made enterprise restructuring one's own business in order to e.g. increase privatisation proceeds. All in all it is a political question concerning the distribution of restructuring costs: the old or the new owner – the state or the market. Considering the cost of restructuring I suppose that in the long run a new owner and the market is more effective than the state (Figure 2).

The Czech Republic, Estonia, Latvia and Slovakia decided for privatisation prior to restructuring. The *involvement of banks in enterprise restructuring* is of great importance concerning hard budget constraints. Estonia, Hungary, Poland and Slovenia performed bank involvement successfully. Furthermore, in Poland the banking sector was privatised and restructured simultaneously to enterprises. On the condition that state subsidies to enterprises are abolished the involvement of the banking sector in enterprise restructuring is also advantageous. Not only hard budget constraints but also financial opportunities for necessary investments in new technology will be imposed (Figure 2).

3.2 Policy Process and the Implementation of Privatisation Programs

Duration: Although in all analysed countries a first privatisation law was enacted between 1990 and 1993 differences occur in its implementation. Whereas the Czech Republic, Estonia and Hungary executed a concrete privatisation programme immediately, Latvia, Lithuania, Poland, Slovakia and Ukraine delayed implementation of a privatisation program until 1994/95. In Russia, most of large enterprises except for monopolistic ones were also privatised in a short period. Romania (10% of all enterprises p.a.) and Slovenia represent special cases because of a chosen gradualist reform strategy. Privatisation proceeded slowly in both countries but with divergent consequences concerning the development of the whole economy. The process of implementation took more than ten years in nearly all countries with the exception of the Czech Republic, Estonia, Hungary and Slovakia (see Figure 4).

In principle four different *privatisation methods* are put to use (Figure 3). They can be differentiated between the way of disposal (direct sales vs. mass privatisation) and the target group of privatisation (insider vs. outsider). Voucher privatisation to insiders is the method of management-employee-buy-outs (MEBO), and to outsiders the so called voucher privatisation (VP) where citizens got enterprise shares by means of sale or free distribution of vouchers, in some countries arranged by intermediary privatisation funds or agencies. Direct sales to insiders are management-buy-outs (MBO). Domestic and foreign outsiders took part in auctions or public offerings (DS).

FIGURE 3: PRIVATISATION METHODS IN CENTRAL AND EASTERN EUROPE *

	Insider	Outsider
Mass Privatisation	Management-Employee-Buyouts through Voucher Privatisation	Voucher Privatisation, Privatisation through Funds and Agencies, Sales or Free Distribution of Shares to Citizens
Direct Sales	Management-Buyouts	Direct Sales, Auctions and Public Offerings to Domestic and Foreign investors

*Besides the discussed methods restitution and leasing of property are also used in the privatisation process, but they are not assignable to this figure.

The term "primary" or "secondary" privatisation method depends on how often a method was used in the entire privatisation process (defined by EBRD). Bulgaria, Estonia, Hungary, Latvia and Poland have chosen direct sales as primary method for enterprise privatisation. The Czech Republic, Lithuania, Russia and Slovakia have primarily decided for voucher privatisation and Romania, Slovenia and Ukraine for management-employee-buy-outs (Figure 4).

But vouchers were often used for management-employee-buy-outs. In some countries a fixed proportion, e.g. 30% of enterprise shares were reserved for employee's privatisation via vouchers. This constellation was seldom used for manager privatisation. On the other hand, managers got a lock-in by direct sales. Therefore, the method of voucher privatisation is more a modus of payment. Actually, enterprises were privatised to insiders (managers and employees) and to single domestic and foreign strategic investors. Citizens in transition countries represent more the stakeholder than the shareholder.

In every country the privatisation process can be subdivided into several phases by *technical (or process) oriented adaptations* or *politically motivated changes*. With technical adaptations, privatisation actors continuously evaluated settings of the privatisation process. Such a change in policy strategy aimed to advance and speed up the whole privatisation process. A switch has operated it over to an alternative (external) model, a different privatisation method or to an additional intensified phase of privatisation (time aspect). Whereas politically motivated changes potentially missed privatisation requirements caused by ideological motives.

FIGURE 4: METHODS, DURATION AND CHANGES OF THE POLICY PROCESS IN CENTRAL AND EASTERN EUROPEAN ENTERPRISE PRIVATISATION

Country	Primary Privatisation Methods	Secondary Privatisation Methods	Duration of Privatisation in Years	Adaptations and Changes
Bulgaria	1) DS 02/93-12/95 2) MEBO 10/94-09/96 3) DS 03-05/97	1) VP 10/96-07/97 IF 2) VP 98 3) VP MEBO 07/98- Capital markets	> 10	mainly politically motivated until 2000, then technically oriented
Czech Republic	1) VP 04/92-12/92 2) VP 10/93-10/94	DS -max.95/96	ca. 4-5	technically oriented
Estonia	Pilot Project 91-92 1) DS 11/92-96 2) DS 96-00	VP is irrelevant for enterprise privatisation	ca. 6	mainly technically oriented
Hungary	Spontaneous P 88-90 1) DS 03/90-12/90 2) DS 91-92 Selfpriv 3) DS 95-97	1) DS-EBO 92-94 2) VP+MEBO 93-94	ca. 8	politically motivated
Latvia	DS 06/92- DS Liquid. 96-98 DS Liquid. 98-	VP is irrelevant for enterprise privatisation	10	mainly politically motivated until 94/95
Lithuania	VP AUCTION 09/91-06/95	DS 08/96-97 05/98	> 10	technically oriented
Poland	DS Capital Priv.+ Liquidation 90-97	VP 07/95-the end of 97	>10	politically + technically oriented
Romania	1) MEBO Pilot Project 93 2) MEBO 94-	VP 09/91-94 VP 08/95- DS 91-	>10	Na
Russia	VP MEBO 10/92-06/94	1) DS 07/94-97 2) DS 97-00 3) DS 06/01-	> 10	na
Slovakia	DS/ MBO 09/93-09/95 DS Tender 10/98-	1) VP 04/92-12/92 2) VP 10/93-11/95	> 7	na
Slovenia	MEBO 93-98 DS 98-	VP 01/95-mid97	> 10	mainly politically motivated until 94
Ukraine	MEBO+Leasing 91-93 case- by-case VP 11/94-96	1) DS 03-07/94 2) DS 99-	> 10	na

Sources: Details about the primary and secondary methods are taken from EBRD Transition Reports 1995-2002. Primary or secondary means the frequency of usage. The details of the added duration of each privatisation period, the duration of privatisation in total as well as the strategic adaptation are taken from other sources (See list of references).

Mainly technical oriented in privatisation were countries like the Czech Republic, Estonia and Lithuania (and possibly further cases that I have not detected yet). Primarily politically oriented in privatisation strategies and changes were Bulgaria, Hungary, partly Latvia and Poland and Slovenia (Figure 4).

3.3 Policy Actors, Veto Structures and the Organisation of the Privatisation Process

Responsibility and competence for the execution of privatisation programmes are partly defined by law or other regulations. In Estonia, the Czech Republic, Hungary and Slovakia the coordination of privatisation activities were concentrated on one main institution – the Privatisation Agency or the Ministry for Privatisation – at the very beginning. A fragmentation of competences can be observed in Bulgaria, Romania and Ukraine. Latvia and Lithuania later on decided to change from a decentralised privatisation organisation to a centralised organisation. But in Russia, the privatisation agency – installed at an early stage – was of less relevance (Figure 5).

The *main policy actors* in privatisation policy were the government, the ministry for privatisation or the privatisation agency and external policy consultants. Further on, the option of investor-initiated privatisation in several countries allows insiders like the managers or (representatives of) employees, to promote privatisation decisions. But we have to distinguish an actors' effective influence at different stages of the privatisation process. A wide influence can be attributed to external policy actors like foreign consultants, the European Commission and International Organisations (EBRD, World Bank and IMF) at the conceptual stage of policy design that concerns fundamental decisions in the privatisation framework.

FIGURE 5: ORGANISATION AND COMPETENCIES IN PRIVATISATION PROCEDURES

Country	Responsible Actors + Institutions	Foundation of Privatisation Agency (PA) or Funds (PF) in Year	Distribution for Competence + Strategic Decision-making in the organisation of procedures
Bulgaria	Min of Ind, Trade + Service, Municipalities, BPA, 81 PF, Centre of MassP, Parliament, Council of Min, Security + Stock Exchange Commission	1. PA 02/91, 2. BPA 10/92-PF 96	decentralised
Czech Republic	PrivMin, FinMin, NPF, VP Center, IPF >400	NPF 91	centralised
Estonia	SPA, EPE, EPA, EconMin, since 93 FinMin	SPA 10/90 EPE 08/92 EPA 08/93 G, + 01/94-01	centralised
Hungary	HSHC, SPA, SPF, Enterprise Managements	SPA 03/90, HSHC 92 Fusion SPA + HSHC 95, SPF 05/95	decentralised
Latvia	PrivMin, LPA	LPA 04/94-	decentralised until 94, later on centralised
Lithuania	Property + PrivDepartm, EconMin, SPF, Priv. Commission	SPF 04/98-	decentralised until 98, later on centralised
Poland	Priv.Min., 15 NIFs in VP, Worker Councils	NIF 12/94	centralised in VP, otherwise more decentralised
Romania	Council for Coord., Strategy + Econ. Reform, NAP, SOF, 5 regional POFs	NAP 91, SOF + POFs 92 PA 01/01	decentralised
Russia	State Committee, Priv.Min, RPF, Enterprise Managements, VIFs	RPF 91 (without relevance)	decentralised
Slovakia	Priv.Min, FinMin., NPF, IPF >400	NPF 91	centralised
Slovenia	Regional Developm, National + Pension Funds, State Compensation Fund, PIFs, Worker Councils		decentralised
Ukraine	Priv.Commission, SPF, EconMin, Min. Cabinet, Local Council Min, Worker Councils, Enterprise Managements, USEC, UCSFM	SPF 07/92 USEC 95 UCSFM 98	decentralised

Sources: All details are taken from different papers and books that are listed at the end of the paper (See list of references). Abbreviations see Appendix.

At the implementation stage mainly managers or representatives of employees (workers councils or trade unions) have had an influence on policy makers and administrations' decisions (see Figure 6). In most countries, except for Czech Republic, Estonia and partly Hungary, it was the political intention of governments to favour insiders in the enterprise privatisation process. This development was intensified by institutionalised domination of

insiders. Workers and management councils, a heritage of socialism, have a strong position and right of say in strategic decisions. Therefore, these councils have a dominating influence to enterprise privatisation. In Hungary, Poland, Russia, Slovenia and Ukraine, workers and management councils had the right for initiatives and proposals concerning the privatisation method, social and investment plans as well as particular requirements to potential strategic investors at their disposal.

Otherwise, one important consideration of preferring external investors was that the financial, technological and managerial capabilities of foreign direct investments (FDI) would contribute to a fast economic recovery and growth (Villinger 1996: 182). Although in Hungary and Poland workers and management councils had a strong position, the government paid attention to include domestic and foreign outsiders in enterprise privatisation. In these countries, insiders' influence was partly restricted.

FIGURE 6: VETO STRUCTURE OF TARGET GROUPS

Country	Domination in Privatisation of Insiders vs. Outsiders (=Decision of Policy Actors)	Institutionalised Rights of Insiders to initiate Enterprise Privatisation, generally and on the part of Workers or Management Councils
Bulgaria	Insiders Outsider: 02/93-12/95, 03-05/97	No
Czech Republic	Outsiders	No
Estonia	Outsiders	
Hungary	Insiders: 92-94. Outsiders: 89-92, 95-97	Yes, Management
Latvia	Insiders	
Lithuania	VP = Insiders DS = Outsiders	
Poland	Insiders	Yes, Workers Councils
Romania	Insiders	
Russia	Insiders	Yes, Management
Slovakia	Insiders	
Slovenia	Insiders	Yes, Workers Councils
Ukraine	Insiders Outsiders since 1999	Yes, Workers and Management Councils

Sources: All details are taken from different papers and books that are listed at the end of the paper (See list of references).

Less considered in the research literature but influencing the decisions of privatisation actors for a particular strategy are the *objectives and preferences* of privatisation. The incentive of governments to privatise all enterprises goes well beyond the mark of the economic desirability of privatisation. Besides the (impartial) transition context political actors' motivation can also be influenced by lobbying through interest groups, outside pressure, re-election strategies, expected increase in privatisation earnings or (full-) employment issues etc. (Börner 2004). In CEE the privatisation objectives or the reasons for change in the policy strategy are the following:

- Process efficiency,
- Speed,

- Political and distributional justice,
- Social acceptance or
- Maximising privatisation proceeds.

But, it is difficult to collect data because of the problem to distinguish between deliberately formulated privatisation objectives by government (or concerned policy actors) and attributed motives by external observers.

4 Discussion

Due to the EBRD index of progress in large privatisation the observed countries can be divided in three country groups:

- Most successful: Czech Republic, Estonia and Hungary;
- Moderately progressive: Slovakia and Bulgaria; Latvia, Lithuania and Romania;
- Less advanced: Poland, Slovenia; Russia and Ukraine.

This arrangement can be reflected in country specific patterns of privatisation policy as I have described in Ch. 3 above. After a closer look: The most successful countries stand out of the crowd concerning the factors of duration, involvement of banks in enterprise restructuring, sequencing of privatisation and restructuring, centralised vs. decentralised organisation and (the missing) dominance of insiders. Obviously, the transformation of enterprises would benefit from the program execution in a really short period of time and with the sequencing of privatisation prior to restructuring.

Of course, the sequencing of privatisation and restructuring is a disputed point and I have to consider the duration of privatisation altogether. In countries with a short privatisation period in sum, privatisation prior to restructuring happened more 'naturally' than in countries with a long duration of privatisation process. But I also have to emphasise that in most countries the sequencing of privatisation and restructuring was a political or strategic decision that depends on the privatisation objectives or preferences of policy actors.

The successful countries (Czech Republic, Estonia and Hungary) decided for a centralised organisation of privatisation procedures. The advantage was not only to concentrate professional competence and power of decision-making and responsibility for implementation in one central institution like the Privatisation Agency or the Ministry of Privatisation but also to speed up the entire privatisation process. They attached elevated importance to the deliberately involvement of domestic and foreign outsiders as well as to involve banks in the organisational restructuring of enterprises. All these factors would advance the entire process of privatisation and economic recovery.

Concerning the frequency and motivation for adaptations and changes in privatisation strategy as well as the implementation and frequency of the replacement of privatisation models we can observe two different types in policy development (Figure 7).

FIGURE 7: COMBINATION OF CIRCUMSTANCES IN PRIVATISATION STRATEGY: KIND AND FREQUENCY OF POLICY ADAPTATIONS AND OF MODEL CHANGE

	Technically motivated Adaptations in Privatisation	Politically motivated Changes in Privatisation	No Data for Motivation for Changes in Privatisation Strategy
Implementation of One Single Privatisation Model	Czech Republic, Estonia, Lithuania,	Hungary, Latvia, Slovenia	Slovakia, Ukraine
Implementation of More Than One Privatisation Model	Bulgaria II, Poland II,	Bulgaria I, Poland I,	Romania, Russia,

We can draw the following conclusion from the figure above-mentioned: Obviously, the advancement in privatisation has benefited from the choice for one single model and primarily technically motivated adaptations in policy strategy (first of all the Czech Republic and Estonia). Those countries that had chosen for a switch in privatisation model were in need of more adjustment and privatisation time (Poland, Romania and Russia). A closer look at the reasons for this switch in model shows that e.g. Poland has adjusted technically at a later stage of the privatisation process. The same is held for Bulgaria that had adopted the Czech Voucher Model at a later stage of privatisation. Or, Romania was forced by external consultants (mainly IMF and World Bank) to change the privatisation model in use because of corruption and deadlocks in the privatisation and economic transition process. At last politically motivated changes in privatisation strategy have hampered progress in enterprise privatisation.

The evaluation of privatisation methods is not so clear. The successful and moderately successful countries have chosen especially direct sales, whereas the less successful countries decided more for MEBO. Regarding the effectiveness of privatisation methods for organisational restructuring of enterprises the use of voucher privatisation is of less relevance. Against all expectations in the beginning of privatisation ownership structures developed to more concentrated ownership. That means the chosen privatisation methods are of less importance for the advancement and success of the total privatisation process.

The role of *single* policy actors in privatisation policy change is rather difficult to point out. As shown in Ch. 3.3 privatisation has been designed, organised and implemented by institutions like the government, privatisation agency, privatisation funds and responsible ministries. Also, the target groups of privatisation, managers and employees of the concerned enterprises have articulated a special interest, and have influenced central privatisation decisions primarily at the implementation stage, e.g. social plans for

required labour shedding in the context of organisational enterprise restructuring. Additionally, external consultants from the EBRD, European Commission, IMF and the World Bank have taken the opportunity to advise countries in transitions concerning the social and economic reforms. Probably, an "indicator" for the outstanding role of a single policy actor is the so-called "Balcerowicz-Plan" for Russia, or Jeffrey Sachs' "My plan for Poland". They both offered a model for a best way at the very beginning of transition, not only for privatisation or policy adjustments over time.

Concerning the importance of privatisation for transitional success a last remark is that Poland and Slovenia represent special cases. Both countries were elected for the first round of accession to the European Union. That means, they have fulfilled all accession criteria very well. But that means further – regarding the privatisation process – that privatisation of large enterprises was and still is of less relevance for the entire transition process to a market economy and democracy.

In essence, privatisation policy has its special character because of the transitory nature of the field regarding the restriction by time and objective, and – resulting from that – the limited potential for imitation. I can summarise that privatisation policy is exceptional, e.g. the centralised organisation of (privatisation) procedures, and only in some points similar to other policy fields, e.g. the lobbying and influence by interest groups.

5 List of References

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6 Abbreviations

BPA	Bulgarian Privatisation Agency
CIS	Commonwealth of Independent States
DS	Direct Sales
EBO	Employee-Buy-Outs
EBRD	European Bank of Reconstruction and Development
EconMin	Ministry of Economy
EPA	Estonian Privatisation Agency
EPE	Estonian Privatisation Enterprise
FinMin	Ministry of Finance
HSHC	Hungarian State Holding Company
IPF	Investment Privatisation Funds
LPA	Latvian Privatisation Agency
MBO	Management-Buy-Outs
MEBO	Management-Employee-Buy-Outs
Min of Ind	Ministry of Industry
MP	Mass Privatisation
NAP	National Agency for Privatisation
NIF	National Investment Funds
NPF	National Property Fund
P	Privatisation
PF	Privatisation Funds
PIF	Privatisation Investment Funds
POF	Private Ownership Funds (?) in Romania
PrivMin	Ministry of Privatisation
R	Restructuring
RPF	Russian Property Fund
SOF	State Ownership Fund (?) in Romania
SPA	Strategic Privatisation Agency
SPF	State Property Fund
UCSFM	Ukrainian Commission of Security and Finance Markets
USEC	Ukrainian Security and Enterprise Commission
VIF	Voucher Investment Funds
VP	Voucher Privatisation