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## Privatization in Disintegrating East European States: The Case of Former Yugoslavia

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## PRIVATIZATION IN DISINTEGRATING EAST EUROPEAN STATES:

### THE CASE OF FORMER YUGOSLAVIA<sup>1</sup>

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#### 1. Introduction

As other Central and East European countries, Yugoslavia had in 1988-89 declared its intention to implement far-reaching economic reforms, with the aim of moving towards a mixed market economy based on private property. From mid-1990, however, increasing political conflicts between the governments of the single republics led to the gradual disintegration of the political and economic system, and in January 1992, when Slovenia and Croatia were officially recognized as independent states, the Socialist Federal Republic of Yugoslavia ceased to

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exist.<sup>2</sup> After the break-up of the country, there has been a marked differentiation in general economic policies, but in the field of privatization the results obtained have not been dissimilar.

The aim of this paper is to evaluate the present state of privatization in the successor states of former Yugoslavia. After a brief analysis of the crucial problems initially posed by privatization in Yugoslavia and the solutions chosen by the federal government in its 1989-90 legislation (part 2), the paper discusses the separate privatization laws adopted by the states created on the territory of former Yugoslavia (part 3). Available empirical evidence on the changes in the property structure is then presented - both initially in Yugoslavia, and thereafter in its successor states (part 4). Finally, some of the main consequences of Yugoslav disintegration for the implementation of privatization are briefly discussed (part 5).

## **2. The federal legislation on privatization**

The specific questions posed during the privatization debate in Yugoslavia were determined directly by the main characteristics of its economic system, based on social property and workers' self-management. Under the system of

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<sup>2</sup>The following states were created on the territory of former Yugoslavia: Croatia, Slovenia, the Federal Republic of Yugoslavia (Serbia with its two regions Kosovo and Voivodina, and Montenegro), Macedonia (recognized under the name "The Former Yugoslav Republic of Macedonia"), and Bosnia Herzegovina which, according to the latest proposals, should be divided into three ethnic parts (Serbian, Muslim and Croat).

"social" property, no one in particular had property rights over enterprise assets, which officially belonged to the whole society. When social property was first introduced in the early 1950s, enterprises were given only the right to use socially-owned assets and to appropriate their product, which were initially subject to a capital tax, which was eliminated in 1971. Self-management gave workers the right to decide on enterprise policies, including those regarding the distribution of enterprise income between wages and accumulation (although subject to certain limits), as well as the right to a supplementary income from capital (so-called rewards for "past labour").

The ambiguous property regime in combination with self-management therefore implied that there was no clear distinction between labour and capital remuneration. This led to the frequently emphasized thesis that in Yugoslavia, group property had effectively replaced state property, and that workers had become the real owners of enterprise assets.<sup>3</sup> This interpretation is, however, incorrect; given that enterprise property had never been officially transferred to any other legal entity, it must have remained effectively (if not officially) in state property. Workers were never granted full property rights, as they could not sell the enterprise and appropriate the proceeds, and the political authorities had remained responsible for a number of other fundamental issues (see Uvalic, 1992a).

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<sup>3</sup>See e.g. Bajt (1968). Many workers in Yugoslavia felt they were "owners" of their firms, at least for the part of income invested in enterprise assets during the course of years.

Against such an institutional background, the privatization debate in Yugoslavia brought up a number of specific questions. In the absence of a concrete holder of property rights, who was to be responsible for the sale of social sector firms, and who was to appropriate the proceeds? Who was to take the initiative to privatize enterprises, which officially were no longer in state ownership, but neither the property of the individual firm nor of its workers? Were primarily workers employed to be offered privileged conditions in acquiring enterprise assets, given that capital growth over time had been ensured through workers' investment decisions? But considering that the state and all other citizens had also contributed to enterprise assets - the state, through the initial transfer of state capital to enterprises, and later through subsidies and other transfers, while citizens, through their savings deposits in bank accounts, which represented an important part of enterprise investment finance - shouldn't they also have been given a fair share in the privatization of social property? The federal government tried to resolve some of these controversial issues in the legislation adopted in 1988-1990.

As a first step in changing the property regime in Yugoslavia, the Enterprise law was adopted at the end of 1988,<sup>4</sup> which had important implications for both self-management and privatization. The general orientation of the

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<sup>4</sup>See "Enterprise law", Official Gazette of the Socialist Federal Republic of Yugoslavia (SFRY) no. 77, 31 December 1988, and amendments to the law in Official Gazette of SFRY no. 40, 7 July 1989.

law was to limit and eventually abolish self-management, by replacing the collective responsibility of workers by the individual responsibility of managers/directors and capital owners. Moreover, the Enterprise law had diversified both ownership types and enterprise legal forms, thus permitting the commercialization of enterprises,<sup>5</sup> and had also enabled forms of "self"-privatization.<sup>6</sup>

As a second step, at the end of 1989 the federal government adopted a privatization law,<sup>7</sup> which introduced the possibility for firms to sell social capital to domestic and foreign buyers (both firms and individuals) through auctions. However, owing primarily to the lack of enthusiasm on the part of workers, no sales under the law had taken place (Milanovic, 1990), so the law was amended in August 1990.<sup>8</sup> According to the new 1990 Federal privatization law,

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<sup>5</sup>Besides the already existing types of property - social, private and cooperative - mixed property, based on a combination of private and socially-owned capital, was introduced. The "organization of associated labour", i.e. the old concept of an enterprise, was replaced by legal forms existing in market economies (joint-stock and limited liability companies, limited partnerships, companies with unlimited joint liability of their members, public enterprises). In 1989, similar changes were introduced in the banking sector, and the legislation on joint ventures was revised in order to ensure a major inflow of foreign capital.

<sup>6</sup>Socially-owned firms could enter into contracts with private firms owned by workers and managers on terms highly favourable to the private firms (although restrictions on such contracts were introduced soon after). Social sector firms could also transfer social capital from one legal entity to another, in which case shell companies could be owned by an unprivatized core company.

<sup>7</sup>See "Law on the circulation and disposal of social capital", Official Gazette of SFRY no. 84, 22 December 1989.

<sup>8</sup>See "Law on the changes and amendments to the Law on the circulation and disposal of social capital", Official Gazette of SFRY no. 46, 10 August 1990. On this occasion the name of the law was officially changed into "Law on social capital".

enterprises could offer shares for sale at a discount of 30% with respect to their price in other sales related to the book value of assets, to enterprise workers, citizens and pension funds, but a further discount of 1% was given to workers for each year of employment up to a maximum of 70% of the nominal value of shares (see Uvalic 1991b, 1992a). Shares sold at a discount could be paid by instalment during a period of 10 years, but could not be traded on the stock exchange until fully paid. Because of these specific features, these shares were termed "internal" (in order to distinguish them from normal shares, fully paid at the moment of subscription and immediately tradable on the stock exchange). Internal shares could be issued for the purpose of selling social capital, or raising new capital, but several limits were imposed on the value of internal share issues.<sup>9</sup> The part of social capital not subscribed through internal shares was to be offered on sale to domestic and foreign enterprises or individuals through public auctions.

Privatization through the distribution of internal shares to workers had also been promoted by the mid-1990 Law on personal incomes.<sup>10</sup> The law had introduced the possibility for enterprises to distribute internal shares or other securities to their workers as part of regular earnings, thus substituting for a part of wages.

Specific functions of privatization were assigned to

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<sup>9</sup>On the total value of issues (up to six times an enterprise's annual wage bill), on the amount sold to each of the above categories (up to three times the annual wage bill) and to an individual worker (up to three times his annual wage).

<sup>10</sup>See Official Gazette of the SFRY no. 37, 30 June 1990.

different institutions. Whereas the management board of the enterprise was to take most of the initial decisions, two government institutions, functioning as public enterprises and set up in each of the six republics, were in charge of further issues: the Development Fund, the main institution receiving proceeds from sales,<sup>11</sup> and the Privatization Agency, in charge of all expert and consultative functions. The Development Fund could reinvest (up to a limit) the proceeds in the privatized enterprises or, if workers had not subscribed shares at a discount, distribute the proceeds to enterprise workers in the form of securities of the firm or of the Fund.

The Federal privatization law was to enable a wide dispersion of property rights, taking into account the interests of the various social groups (state, workers, citizens). But since employed workers were offered the most privileged conditions for subscribing shares, the model should have facilitated, within the limits imposed by the law, the diffusion of employee share-ownership, thus reinforcing incentives precisely where they were most needed - within firms. Payment by instalment is also a good alternative to free vouchers in countries with limited financial capital in the hands of the public.

Nevertheless, the law also had a number of shortcomings (see Madzar, 1991; Uvalic, 1991b and 1992a). The book value

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<sup>11</sup>However, several exceptions were envisaged: proceeds from sales of shares could also go to the enterprise seller, if it was a so-called "complex enterprise" (i.e. an association of enterprises), if the part of the enterprise sold was to become a new legal entity, or if the firm was raising new capital.

of social capital was most frequently in no way related to the real market value; workers in more profitable enterprises were advantaged with respect to workers in less successful firms; the incentives for external buyers were inadequate; and finally, given the limits on the part of capital that could be subscribed by workers, in the absence of other potential purchasers, the law in no way assured the elimination of the ambiguous concept of social property.

### 3. Differentiation of privatization laws

In 1990-1991, increasing political conflicts in Yugoslavia led to the general orientation of all republics to replace the Federal privatization law with their own legislation. In October 1990, Slovenia decided to suspend the federal provisions on the issuing of internal shares to workers at a discount;<sup>12</sup> a few weeks later, Croatia adopted similar provisions;<sup>13</sup> and in the course of 1991, all the other Yugoslav republics had effectively suspended the Federal privatization law.

New privatization laws have in the mean time been adopted in all the former Yugoslav republics, except Bosnia Herzegovina where, after the suspension of the Federal privatization law in December 1991, the project has been postponed due to the war.<sup>14</sup> Croatia was the first to adopt its own privatization law (in April 1991), followed by

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<sup>12</sup>See Official Gazette of Slovenia no. 37, 11 October 1990.

<sup>13</sup>See Official Gazette of Croatia no. 43, 24 October 1990.

<sup>14</sup>The intention to elaborate a separate law was, however, announced already in April 1991; see Andrijić (1992), p. 698.

Serbia (August 1991), Montenegro (January 1992), Slovenia (November 1992 and the amendments of June 1993), and Macedonia (June 1993).<sup>15</sup> The new privatization laws have a number of similarities, although differing with respect to various specific issues.

The main common feature of the new privatization laws is the introduction of major government control over the privatization process through more centralized procedures, the explicit re-nationalization of parts of the economy, and more restrictive conditions for workers' acquisitions. The two government institutions in charge of privatization - the Development Fund, as the main institution receiving the proceeds from privatization, and the Privatization Agency, in charge of all consultative and technical issues - have been retained,<sup>16</sup> but their role has in general been reinforced. Thus a part of enterprise assets is to be transferred, immediately or after a determined time limit, into property of the government funds; and in most cases, although the initiative to privatize is left to the enterprise, the Privatization Agency must approve individual privatization programmes. Moreover, certain sectors and types of firms are to be excluded from privatization (public

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<sup>15</sup>This suggests a negative correlation between speed in adopting privatization laws and effective political democracy, given that the politically more authoritarian countries - Croatia and Serbia - were the first to adopt privatization laws.

<sup>16</sup>In the Macedonian privatization law, the functions of the two institutions are united in one (the Privatization Agency), while in Croatia, the November 1992 amendments have merged the Development Fund and the Agency for Restructuring and Development into the Fund for Privatization. These government institutions are sometimes termed differently, and in most cases, in addition to the Development Fund, other government funds are also envisaged.

utilities and firms considered of "general" interest).<sup>17</sup> All cases of firms privatized on the basis of federal legislation are to be re-examined and, if evaluated to have been based on irregular procedures, are to be considered null. Finally, employee share-ownership has remained one of the main privatization options, since special incentives are offered to workers/managers to subscribe their enterprise's shares, but the terms are in general more restrictive than those in the Federal privatization law.

At the same time, the new privatization laws differ with respect to a number of issues: the specific methods of privatization, the number and types of government funds to be set up and their concrete functions, the deadlines for submitting privatization programmes, specific sectors not subject to privatization, the conditions for employee share-ownership, etc. Without the possibility of an extensive presentation - also because some of these laws are rather long (e.g. the Macedonian law contains 116 articles) - the main differences in the new laws will be briefly examined.

### **3.1. Croatia**

In Croatia, following a very heated but relatively short privatization debate, the privatization law was adopted in April 1991.<sup>18</sup> Shares of the 3,619 social sector

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<sup>17</sup>Usually firms in infrastructure, energy, post and telecommunications, and railways, which have been or are being transformed into public firms.

<sup>18</sup>See "Law on the transformation of social enterprises", Official Gazette of Croatia no. 19, 23 April 1991.

firms to be privatized, representing around 60% of the value of social property,<sup>19</sup> have been offered on sale to presently employed or retired workers of enterprises to be privatized, to workers of firms not subject to privatization, and to other individuals or legal entities, Croatian or foreign; while a part of the shares will also be given to former owners, or transferred without compensation to three government funds (the Development Fund and two Pension Funds, for industrial workers and farmers). The privatization methods include the sale of social capital, new share issues, debt-for-equity swaps, and transfer of shares without compensation. Although workers in firms to be privatized have priority in subscription, both categories of workers (in firms to be privatized and those not subject to privatization) have been offered privileged conditions (a 20% discount and another 1% for each year of employment, and the possibility of deferred payment within a period of 5 years); however the maximum value that can be subscribed by a single worker is set to the equivalent of DM 20.000 and only 50% of a firm's equity can be bought at privileged conditions.

A precise deadline was imposed for the submission of enterprise privatization programmes (30 June 1992, subsequently prolonged until the end of the year because of war conditions). After the deadline, the three government funds were to automatically become the official owners of

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<sup>19</sup>The remaining 40% of social property covers sectors in state property, not subject to privatization (railways, post, utilities, etc); see Brekalo and Pavelic (1992), p. 129.

all non-subscribed shares;<sup>20</sup> and in addition, if the instalments were not paid according to the set schedule (in cases of deferred payment), of the unpaid portion of shares. For enterprises which had not submitted their privatization programmes within the deadline, the method of privatization is to be chosen directly by the Agency. The Agency also has a discretionary right to appoint the Management Board of any socially-owned enterprises in the process of transformation, replacing the Workers' Council and effectively taking control of the enterprise (Kalodjera, 1992, p. 142).

The November 1992 amendments to the Croatian privatization law have given even more authority to the two government institutions (the Fund and the Agency), which have now been merged into the Croatian Privatization Fund. In cases of deferred payment for subscribed shares, the new shareholders have decision-making rights over profits and receive dividends only for the part of shares already paid for (which in the first year usually did not exceed 5-10% of the nominal value of shares), while the dividends on the unpaid part go to the Development Fund (Cuckovic, 1993b). The amendments have also introduced progressive discounts for earlier payments (in order to encourage a quicker payment of the full value of shares), and have provided for the denomination of shares in German marks (Kalodjera, 1992). Shares owned by the Development Fund were to be later sold on the stock exchange. After a period of five years, it

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<sup>20</sup>The unsold portion of shares is transferred to the three government funds: 70% to the Development Fund, 15% to the Industrial Workers' Pension Fund, and 15% to the Farmers' Pension Fund.

is likely that all unsold shares will be freely distributed to Croatian citizens (see Cuckovic, 1993a and 1993b).

### **3.2. Federal Republic of Yugoslavia**

Within the Federal Republic of Yugoslavia, separate privatization laws have been adopted by its two constituent parts Serbia and Montenegro, in August 1991 and in January 1992, respectively.

In Serbia, although no official regulations had prevented the application of the Federal privatization law, other informal means have been used to slow down its implementation.<sup>21</sup> During the privatization debate, there was resistance to the abolition of social property, although other parties in opposition to the ruling Socialist (ex-Communist) Party were generally in favour of more radical privatization.<sup>22</sup> The privatization law, adopted in August 1991,<sup>23</sup> mainly reflects the position of the dominant Socialist Party.

The Serbian law bears similarities to the Federal privatization law in several respects, but is in general more restrictive (see Madzar, 1992). Social property has been explicitly maintained as one of the possible property

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<sup>21</sup>For example, various bureaucratic obstacles on occasion of enterprise registration in court registers.

<sup>22</sup>The Democratic Party has taken inspiration from privatization in Czechoslovakia, proposing the distribution to all citizens of vouchers which would be convertible into enterprise shares.

<sup>23</sup>See "Law on the conditions and procedure for transforming social into other forms of property", Official Gazette of Serbia no. 48, 5 August 1991, and amendments to the law, Official Gazette of Serbia no. 75, 17 December 1991.

forms. All privatization methods are based on the sale of assets (similar to those of the Federal law), but the conditions governing the sale of shares to employed workers and managers are less generous: the discount is 20% (plus 1% for each year of employment, up to a maximum of 60%), the repayment period is 5 years, and the maximum that can be bought by a single worker is set to the equivalent of DM 20.000. However, in order to have the right to a discount, further conditions must be fulfilled: workers have to subscribe at least 10%, but up to a maximum of two-thirds, of the value of social capital, while managers must subscribe a value of social capital corresponding to their net salaries in the last two years, up to a maximum equivalent to DM 30.000. The Development Fund would normally be the main institution receiving the proceeds from sales, but as in the Federal law, in some cases proceeds can be retained by the enterprise seller.

In Montenegro, the new privatization law, adopted in January 1992,<sup>24</sup> envisages a long list of privatization methods. In addition to those already contained in the Federal law on privatization, based on the sale of assets to workers, citizens, and funds, and methods such as the transfer of capital to government funds, debt-for-equity swaps, and explicit nationalization, the law also envisages the free distribution of vouchers, of a value corresponding to ECU 5.000, to workers who have remained unemployed

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<sup>24</sup>See "Law on the transformation of property and of management", Official Gazette of Montenegro no. 2, 20 January 1992.

because of privatization.<sup>25</sup> Privileged conditions in buying shares are envisaged for both workers and citizens, but under more restrictive terms than those in the Federal law. Within a single firm, workers can buy up to 30% of the value of social capital, while the maximum per worker is set to the equivalent of ECU 10.000; the general discount is 30%, but workers have the right to an additional 1% discount for each year of employment and deferred payment for 5 years, while citizens, to another 10% discount if shares are paid in cash.

### **3.3. Macedonia**

In Macedonia, after a one-year application of the Federal privatization law, in mid-August 1991 the law was suspended and the government started working on its own legislation. However, pressed with more urgent problems (concerning political independence, international recognition, economic stabilization), it took the Macedonian government almost two years to prepare the definite legislation, adopted in June 1993.<sup>26</sup>

Privatization methods in Macedonia essentially depend on enterprise size. In general, social capital can be sold at privileged conditions to workers (presently or previously employed), at a 30% discount and an additional 1% for each

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<sup>25</sup>These vouchers assure a 4-7% interest rate, and can be converted into shares of the Development Fund, used to obtain preferential credits or, under certain conditions, cashed in two years after their emission.

<sup>26</sup>See "Law on the transformation of enterprises with social capital", Official Gazette of Macedonia no. 38, 21 June 1993.

year of employment, but within a single firm the maximum total discount cannot surpass the equivalent of DM 25.000, and only 30% of shares can be sold at privileged conditions. Small enterprises can be sold to workers, but only if they decide to purchase at least 51% of the value of social capital (the remaining part is transferred to the Privatization Agency); or through public auctions, to Macedonian or foreign firms and individuals. In medium-sized enterprises, privatization is based on the sale of social capital, new share issues, leasing of assets, debt for equity swaps, and sales to individuals-future managers of the firm, on the condition that they buy at least 20% of the firm's equity. For large firms the privatization methods are the same, but in this case the Agency has a more important role in channeling the whole process. Whereas in small and medium firms, it is the management that takes the decision to privatize, on the suggestion of the workers' council, in large firms the decision is taken jointly by representatives of the enterprise and of the Agency. The Agency is not only in charge of supervising the whole process, but is also the institution receiving the proceeds from sales on behalf of the government.

### **3.4. Slovenia**

In comparison with the other former Yugoslav republics, in Slovenia the debate on privatization has been the most intense, while the alternative proposals the most numerous. Beginning with an initial proposal which was not very different from the Federal privatization law (see Mencinger,

1990), through the March 1991 draft law (the so-called Mencinger law) proposing a decentralized model of privatization based on the sale of assets, in which particular emphasis was placed on leveraged management/employee buy-outs, and Jeffrey Sachs' proposal on mass and speedy privatization through the free distribution of property certificates to all citizens via investment funds (see Mencinger, 1992), the final version of the law was adopted only in November 1992 (although again revised in June 1993).<sup>27</sup> Thus although some of the important by-laws regarding privatization had been adopted already at the end of 1990,<sup>28</sup> the core of the programme - the privatization law - has been finalized only after a three-year debate.

The law is effectively a compromise between the two main models proposed in the past. Although it is the individual enterprise that proposes its specific privatization programme, according to the "standard" model,<sup>29</sup> shares of social sector enterprises are to be allocated in three main parts: 40% will be temporarily transferred to three government funds,<sup>30</sup> of which 20% will later be freely distributed, in the form of ownership

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<sup>27</sup>See "Law on the property transformation of enterprises", Official Gazette of Slovenia no. 55, 20 November 1992, and amendments in Official Gazette of Slovenia no. 31, 11 June 1993.

<sup>28</sup>The laws on the Privatization Agency, on the Development Fund, and on Denationalization, adopted in December 1990.

<sup>29</sup>The standard method can be modified, but subject to approval by the Agency. All social sector firms must submit their privatization programmes to the Agency for approval within a year.

<sup>30</sup>10% will be transferred to the Pension Fund, 10% to the Restitution Fund, and 20% to the Development Fund.

certificates, to all Slovenian citizens via investment funds; 20% will be distributed to workers employed, in exchange of ownership certificates which they would have received via investment funds; and the remaining 40% will be offered on sale using various methods (internal buy-outs, public auctions and offers, public tender). In commercial sales, workers and managers will have priority in subscription (up to 40% of the value of equity), and will have a number of other privileges: the right to a 25% discount (increased to 50% by the June 1993 amendments), deferred payment for a period of four years, during which shares can be seller financed at a 2% interest rate, while a part of the firm's future profits can also be used to purchase shares from the Fund. Thus paradoxically, after almost three years of discussion, one of the main privatization methods in Slovenia is employee share-ownership, as envisaged by the Federal law and by earlier versions of the Slovenian law, and as forcefully promoted at the very beginning of the privatization debate (Petrin, 1990).<sup>31</sup>

#### **4. Empirical evidence on privatization**

As in other East European countries, both before and after the disintegration of Yugoslavia, privatization has taken two main forms: the privatization (usually partial) of

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<sup>31</sup>In fact, 60% of enterprise shares can effectively become property of its managers/workers - 40% through sales at privileged conditions and another 20% through free distribution of ownership certificates which can then be converted into enterprise shares. According to some recent surveys, 80% of Slovenian workers has the intention of buying their enterprise's shares.

existing social sector enterprises, through the sale of social capital or new share issues; and the creation of new enterprises in the private sector.

#### **4.1.Privatization of the social sector**

Concerning the first channel of privatization, a number of social sector firms throughout Yugoslavia have from mid-1990 onwards offered internal shares to their workers, as envisaged by the Federal privatization law (see more in Uvalic, 1993d). The federal government had estimated that by the end of 1990, some 600 enterprises had offered shares to their workers at a discount, and that during these four months of application of the Federal law, around 2 to 5% of social capital had been privatized (Uvalic, 1991b). By March 1991, the number of firms applying the federal law had increased to some 700-1,000,<sup>32</sup> and by the end of May, to 1,200 firms, employing 350,000 workers; among these, however, there were only 12 enterprises that had been completely privatized (Coopers... 1991, p. 101, and 1992, p. 11). The latest estimate for the whole of Yugoslavia, from the end of June 1991, indicates that 2,200 social sector enterprises (around 16% of firms in social property, accounting for about 10% of social sector employment and for 14% of social capital) had been either transformed into mixed enterprises or completely privatized (see Madzar, 1992, p. 114).

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<sup>32</sup>According to different statements of two members of the federal government; see *Poslovni svijet*, 21 March 1991 and *Ekonomska politika* no. 2034, 25 March 1991.

At a more disaggregated level, the process of privatizing social sector firms has been much more heterogeneous. In Slovenia and Croatia, the early suspension of the Federal privatization law (in October 1991) has implied very few cases of firms initiating privatization through internal share issues: 17 in Slovenia and 9 in Croatia (Korze, 1992, pp. 147-9; Brekalo and Pavelic, 1992, p. 129). In Slovenia another 450 firms had during 1991 undertaken some form of self-privatization by transferring social capital from one legal entity to another (Korze, 1992, pp. 147-9), although these cases of wild privatization are being reexamined. A more important role in the partial privatization of the social sector has been played by the entry of foreign capital (much more than in other parts of former Yugoslavia), as during 1988-91 there has been a seven-fold increase in foreign direct investment.<sup>33</sup>

During the more recent period, privatization of the social sector in these two countries has also proceeded slowly, but for very different reasons. In Slovenia, since the privatization law was finalized only in mid-1993, the largest part of the social sector will be privatized only now;<sup>34</sup> nevertheless, in the second half of 1992, there were around 1,000 requests of property transformation, but most

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<sup>33</sup>Whereas in 1988, direct foreign investment amounted to DM 145 million, at the end of 1991 it already reached DM 1 billion. However, in the majority of cases, the individual contracts envisage modest investment: in more than 53% of contracts, investment is inferior to DM 5.000, and only in 4% of contracts is it superior to DM 5 million (Rojec and Svetlicic, 1993, p. 141).

<sup>34</sup>It is planned that in 1993, some 400 enterprises will be privatized, while the remaining until May 1994.

concerned the reorganization of enterprises or only partial privatizations (Korze and Simoneti, 1993, p. 214).

In Croatia where, on the contrary, a privatization law has been applied for over two years (since its adoption in April 1991), the process has been blocked for other reasons. Initially, a limited number of firms had submitted their privatization programmes and there were substantial delays on the part of the Agency in approving privatization programmes. Thereafter, although by the end of 1992, 2,819 firms (or 78% of social sector firms to be privatized) had submitted their privatization programmes, of which 57% had also received approvals from the Agency (Cuckovic, 1993b, p. 7),<sup>35</sup> the "privatization" programme has effectively resulted in massive nationalization. Since the law envisaged the transfer of all non-subscribed shares to the property of the government funds, the three funds (and primarily the Development Fund) have effectively become the owners of more than 50% of equity of social sector firms whose programmes have been approved (Kalodjera, 1993).<sup>36</sup> Although shares of some 99 firms, owned by the Development Fund, have been offered on sale on the Zagreb stock exchange, until mid-1993 shares of only 18 enterprises have been sold, and the

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<sup>35</sup>Based on data of the Croatian Fund for Privatization published in March 1993. It is interesting to note that the largest part of shares has been subscribed by workers and managers employed: 70%, on average, in small and medium-sized firms, while around 30% in large enterprises.

<sup>36</sup>According to the estimates of the Croatian Privatization Agency, once the privatization process has been completed (since for the moment not all privatization programmes have been approved), around 40-50% of small and medium firms' capital, and 80-90% of large firms' capital, will become property of the various government funds (see Kalodjera, 1993, p. 79).

proceeds from privatization have been rather modest.<sup>37</sup>

In the other parts of former Yugoslavia, where the Federal privatization law had been applied longer than in Slovenia and Croatia, a larger number of social sector firms have initiated privatization. In Serbia, from August 1990 until 1 November 1992, 1,607 enterprises (or around 45% of all social sector firms in Serbia in 1991) have undertaken partial privatizations, mainly by issuing shares to workers and managers through new share issues and their transformation into mixed property firms, but in the majority of cases the inflow of fresh private capital has been extremely modest (see Mijatovic, 1993). The privatization process has slowed down following the adoption of the Serbian law - 1,200 enterprises had initiated privatization according to the federal, and only 407 according to the Serbian privatization law (Mijatovic, 1993) - suggesting that the new legislation is indeed more restrictive.<sup>38</sup> In fact, the number of firms initiating privatization in the first year, while the Federal law was being applied (Aug. 1990 - Aug. 1991), was three times higher than in the second year, during the application of the Serbian law (Sept. 1991 - November 1992). In 1993, with

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<sup>37</sup>While the estimated value of enterprises to be privatized is around DM 12.5 billion, subscriptions until mid-1993 amounted to DM 5.5 billion; but given that a very small amount of subscribed capital has so far been paid in cash, the total proceeds from sales have been only DM 97 million (see "Slobodna Dalmacija", 19 July 1993, pp. 6-7). From sales on the stock exchange, the Croatian Privatization Fund has so far cashed in only DM 21.8 million (see "Vjesnik", 2 June 1993, p. 12).

<sup>38</sup>The restrictions introduced by the Serbian law are, of course, not the only reason why interest in privatization in Serbia has declined, given that the economic situation has progressively deteriorated.

rapidly accelerating hyperinflation, subscriptions have become somewhat more frequent, not because of an increased interest in the social sector, but primarily because of a major shortcoming in existing legislation, i.e. the revaluation of the nominal value of subscribed shares only once a year.

Cases of internal share issues according to federal provisions have also been quite diffused in Macedonia. Until mid-August 1991, 400 enterprises (or 35% of all social sector firms at that time) had initiated privatization, which can also be considered the definite figure until mid-1993.<sup>39</sup> Additional statistics are available for the 198 firms which had started privatization by 30 June 1991: they represented around a quarter of total employment, gross profits, equity, and accumulation of the Macedonian economy, and as much as 36% of total revenue (see Table A7, Appendix). In 95% of cases, the main method of privatization has been capital increases through new share issues to workers employed, who had subscribed almost 99% of all internal shares issued. However, since a substantial amount of shares has been distributed to workers as part of regular earnings, as envisaged by the Law on personal incomes, while those offered on sale have been subscribed using the possibility of deferred payment, the inflow of fresh private capital has been very limited. Consequently, in mid-1991, 69% of capital in these 198 firms was still social capital.

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<sup>39</sup>In mid-August 1991, the Macedonian government suspended the Federal privatization law, while the Macedonian law has been adopted only in June 1993.

It is reported that in Bosnia Herzegovina also, from mid-1990 until the end of 1991, a number of enterprises in the social sector - primarily small and medium-scale firms, operating in a large variety of sectors - have undertaken privatization by issuing internal shares to their workers, but there are no accurate statistics (see Dujmovic 1992, p. 123). As in other parts of former Yugoslavia, there were few cases of subscriptions of social capital, and the method most frequently used was new share issues, accompanied by the transformation of enterprises into mixed property forms. However, a number of sectors, which together represent around 50% of the value of social capital in Bosnia Herzegovina, have not been subject to privatization (Dujmovic 1992, p. 123). In the future, it is probable that there will be increased state control over the privatization process, although after the destruction of a large number of factories, little will remain to be privatized.

The trends in the privatization of the social sector in successor states of former Yugoslavia can also be evaluated by considering the relative importance of the mixed sector, consisting of enterprises which have been partially privatized through the sale of assets or shares to either domestic or foreign private owners, in a comparative

Available statistics on the mixed sector in 1992 suggest that its role is most important in Macedonia, somewhat less so in the FR of Yugoslavia, and much more limited in Croatia and Slovenia (see Table 1). In terms of one of the most important indicators - contribution to revenue - the mixed sector's share was 48% in Macedonia and 30% in the FR of Yugoslavia, in comparison with the shares in Slovenia and in Croatia of only 16% and 7% respectively.

**Table 1. THE ROLE OF THE MIXED PROPERTY SECTOR IN SUCCESSOR STATES OF FORMER YUGOSLAVIA**  
(in % of the total in the single economies)

	GMP (1990)	Firms (1992)	Employment (1992)	Revenue (1992)	Accumulat. (1992)
Croatia	0.3	1.7 a)	n.a.	7.2	11.7
FR Yugoslavia	-	4.2	28.3	29.5	29.6
Macedonia	10.2	5.0	45.2	48.0	41.0
Slovenia	4.2	5.4	11.5	16.3	29.9

a) September 1992.

Source: Compiled on the basis of Tables in the Appendix.

Other available indicators confirm that Macedonia has gone furthest in partial privatizations of the social sector, as in 1992 its mixed sector contributed over 45% of non-agricultural employment and 41% of accumulation. In the

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<sup>40</sup>There are various problems involved in comparing the statistics of individual countries, and hence the data should be interpreted cautiously. The statistics are often not fully comparable since after independence, the national accounts methodologies in some countries have changed (e.g. Slovenia has introduced the standard concept of GNP); no accurate figures are available on the underground economy, which today is extremely important in most parts of former Yugoslavia (frequently over 40%); and the statistics for Croatia and Serbia can be only indicative, since they refer to territories which effectively have not yet been fully defined.

other countries, comparable figures are generally lower. The mixed sector contributed in the FR of Yugoslavia 28%, and in Slovenia 11%, of non-agricultural employment, whereas its contribution to accumulation was similar in the FR of Yugoslavia and Slovenia (almost 30%), and substantially lower in Croatia (12%).

These trends can be explained in part by the fact that Macedonia had the best starting position: already in 1990, it had a far stronger mixed sector than other parts of former Yugoslavia (its contribution to GMP was over 10%), mainly because the Federal law on personal incomes, envisaging the distribution of internal shares to workers as part of regular earnings, was applied to a larger extent in Macedonia than in the other former Yugoslav republics. In addition, the Federal privatization law was applied longer in Macedonia and in the FR of Yugoslavia than in the other countries, thus permitting a larger number of social sector firms to initiate privatization and transform themselves into mixed property firms.

#### **4.2. Entry of new private firms**

As to the other channel of privatization, the process of creation of new private firms has been rather dynamic both initially in Yugoslavia, following the adoption of the 1988 Enterprise law, and thereafter in the now independent states. By December 1990, there were already 60,500 private enterprises in Yugoslavia (or 78% of all registered firms). However, many of the new private enterprises were either very small, employing on average 2-3 workers, or had not yet

started operating. Out of all private firms registered by September 1990, only 41% had actually started operating, while their share in total revenue was only 2.4%.<sup>41</sup> Consequently, until the end of 1990, the contribution of the private sector to Gross Material Product (GMP or Social Product in Yugoslav terminology)<sup>42</sup> has in general remained low, at the average level for the whole of Yugoslavia of 15.8%, and for the single republics and regions ranging from 12-18%; the only exception was Kosovo where the private sector contributed as much as 37% of GMP, but primarily due to the still important role of agriculture, mainly in the hands of private farmers.

In the more recent period, the process has been characterized by a further growth of private firms in the four countries for which recent data are available (excluding Bosnia and Herzegovina).<sup>43</sup> In terms of the number of enterprises, in 1992 the private sector represented the absolute majority (81-86% of all firms) in all four countries (see Table 2). These figures are, however, again an overestimation because many of the registered private firms are not operative; for example, in Macedonia in June 1991, out of a total of 9,448 registered private firms, only

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<sup>41</sup>Data of the Federal Accounting Office (SDK), reported in *Ekonomiska politika* no. 2030, 25 February 1991.

<sup>42</sup>Social Product is similar to the concept of Net Material Product applied in other socialist countries for its exclusion of the so-called "non-productive" sectors (health, education, social welfare, government), but is gross of depreciation.

<sup>43</sup>There are again a number of problems in comparing the reported statistics. In addition to the ones already mentioned in reference to the mixed sector, data on private enterprises and employment do not always include unincorporated enterprises and the self-employed.

5,124 had submitted their balance sheets to the Social Accounting Office and therefore were effectively operative.

**Table 2. THE ROLE OF THE PRIVATE PROPERTY SECTOR IN  
SUCCESSOR STATES OF FORMER YUGOSLAVIA  
(in % of the total in the single economies)**

	GMP (1991)	Firms (1992)	Employment (1992)	Revenue (1992)	Accumulat. (1992)
Croatia	18.6	86.5 a)	7.6	17.0	46.5
FR Yugoslavia	19.2	82.6	4.3	18.9	44.5
Macedonia	14.7 b)	86.9	7.2	22.0	39.2
Slovenia	15.4 c)	80.8	5.4	11.4	39.0

a) September 1992.

b) 1990.

c) 1992. The figure does not refer to the contribution of the private property sector to GMP, as in the case of the other three countries, but to the contribution of private firms registered as partnerships and unincorporated individual enterprises, to GNP.

Source: Compiled on the basis of Tables in the Appendix.

Figures reported in Table 2 indicate that the private sector is the most profitable sector with major prospects for further expansion, contributing around, or more than, 40% of total accumulation in all countries, but in terms of other important indicators, its role is still marginal. Thus in 1991-92, the private sector contributed no more than 8% of non-agricultural employment,<sup>44</sup> whereas its contribution to both GMP (in Slovenia to GNP) and to total revenue has also remained rather low; the highest share in revenue was registered in Macedonia (22%), followed by the FR of Yugoslavia (19%), Croatia (17%), and Slovenia (11%).

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<sup>44</sup>In Slovenia, however, the contribution of private enterprises (firms registered as partnerships and individual unincorporated firms, and not of the private property sector, as there is a methodological difference between the two concepts), to employment was 19.2% in 1992.

Comparing the indicators on the mixed and private sectors reported in Tables 1 and 2, we can observe that although the private sector is by far more important than the partially privatized mixed sector in terms of the number of enterprises and the relative share in accumulation, it contributes less both to employment and, with the exception of Croatia, to revenue.

Given the limited results achieved so far in privatizing the economies of former Yugoslavia - both through the privatization of the social sector and the entry of new private firms - it is not surprising that the social (public) sector has remained dominant in terms of some of the most important indicators (see Table 3).

**Table 3. THE ROLE OF THE SOCIAL PROPERTY SECTOR IN SUCCESSOR STATES OF FORMER YUGOSLAVIA**  
(in % of the total in the single economies)

	GMP (1991)	Firms (1992)	Employment (1992)	Revenue (1992)	Accumulat. (1992)
Croatia	79.7	9.3 a)	92.4	74.8	41.2
FR Yugoslavia	80.8	8.5	65.4	48.8	23.5
Macedonia	74.8 b)	6.0	45.7	28.2	18.9
Slovenia	79.0 c)	13.0	82.3	70.7	30.8

a) September 1992.

b) 1990.

c) The figure is only indicative, as it is an estimate.<sup>45</sup>

Source: Compiled on the basis of Tables in the Appendix.

The notable exception is Macedonia, where the social

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<sup>45</sup>The figure has been calculated as a residual, by subtracting from the total the contribution to GNP of private enterprises (14.3% in 1991), and an approximative contribution of the mixed sector, under the assumption that since 1990, when it contributed 4.2% to GNP, its share has probably increased by no more than 2.5% (considering that its share in total revenue has decreased, from 16.5% in 1990 to 16.3% in 1991; see Jevsevar, 1993, p. 51).

sector has a somewhat less important role than in the other countries; this is primarily due to the more rapid expansion of the mixed sector (as seen above), which led to the contraction of the social sector. By the end of 1992, the social and the mixed sector represented similar proportions of firms and employment (5-6% and 45-46% respectively), but in terms of revenue and accumulation, the mixed sector clearly outweighed the social sector - the contribution of the social sector to revenue and accumulation was roughly equal to half of that of the mixed sector.

In the other successor states of former Yugoslavia, the social sector still plays a very important role, although the situation is quite differentiated across countries. Whereas in Croatia and Slovenia, the social (public) sector at the end of 1992 still contributed 82-92% of non-agricultural employment and over 70% of revenue, the corresponding shares in the FR of Yugoslavia were substantially lower (65% of employment and 50% of revenue).

That the social sector today plays a smaller role in Macedonia and in the FR of Yugoslavia than in Slovenia and Croatia may seem, apparently, a surprising result,<sup>46</sup> but it is fully consistent with our earlier analysis - if we consider that in Macedonia and in the FR of Yugoslavia the mixed sector has expanded more rapidly than in the northern states (thus contributing to the contraction of the social

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<sup>46</sup>Although this does not imply that a larger portion of social capital has been effectively privatized in Yugoslavia than elsewhere; as already noted, in Yugoslavia in most cases social sector enterprises have been transformed into mixed property firms with very limited amounts of private capital.

sector), that Slovenia did not have an operative privatization law until mid-1993, and that in Croatia a small part of the social sector has effectively been privatized.

In conclusion, the property structure has not radically changed in any of the successor states of former Yugoslavia. Although Macedonia, and somewhat less the FR of Yugoslavia, have gone further in partial privatizations of social sector enterprises and consequently today have a stronger mixed sector than the other two countries, without more detailed statistics on the capital composition of these mixed property firms, this fact by itself does not imply effective privatizations - especially considering that in both countries, private capital most frequently represents a small proportion of total capital of these firms. In any case, in all countries the social sector and the only partially privatized mixed sector still contribute over 90% of non-agricultural employment and close to, or over, 80% of revenue.

While for the moment the situation is not dissimilar in the individual countries of former Yugoslavia, in the future privatization will probably proceed at a quickest pace in Slovenia. It is the only former Yugoslav republic where some of the most important macroeconomic problems have been (at least partly) resolved, and where the standard of living of the population has not drastically deteriorated in the past three years, which should facilitate sales of social sector firms to domestic buyers. Moreover, as the most developed, and politically most stable, among the former Yugoslav

republics, Slovenia has the advantage of being most attractive for foreign investment. Privatization should also be facilitated in Slovenia since the government has been very active in restructuring enterprises and in preparing privatization, primarily through various activities of the Privatization Agency and the Development Fund (see Rop, 1993).

### **5. Some consequences of disintegration for privatization**

In theory, one of the main benefits of political independence following the disintegration of Yugoslavia is the possibility offered to the new states to pursue autonomous economic policies, including those regarding structural reforms, which can now be defined according to own priorities and objectives and possibly also applied at a faster pace than before (see Uvalic, 1993c). Not only are problems deriving from the complex system of self-management no longer present,<sup>47</sup> but solidarity considerations regarding the less developed parts of the former state are no longer relevant.<sup>48</sup>

The disintegration of Yugoslavia has led to a marked differentiation in economic policies of the single governments, both regarding macroeconomic stabilization and

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<sup>47</sup>It is well known that the system of decision-making in Yugoslavia was fairly complex. At the federal level, it was based on the principle of consensus, obtained through a long (and frequently uneasy) process of negotiations among the republican governments, which effectively delayed a number of important decisions.

<sup>48</sup>In this particular area, initial resistance towards privatization derived in part from concern for loss-making enterprises difficult to privatize, which were more numerous in the less developed regions.

structural reforms.<sup>49</sup> Nevertheless, the results obtained so far in the field of privatization have been rather modest in all successor states of former Yugoslavia. Contrary to expectations, the autonomy in policy making that these countries have gained after the break-up of the country has not resulted in the speeding-up of privatization.

Three main consequences of the break-up of Yugoslavia for the privatization process will be singled out which, in combination, are at the basis of the slowing-down of the privatization process: 1) the decision of all republican governments to replace federal legislation with new privatization laws; 2) the worsening of the economic crisis; and 3) privatization options in conformity with the new political objectives which have emerged after independence.

### ***5.1. Elaboration of new legislation***

The tendency to replace federal legislation by specific privatization laws was present well before the break-up of Yugoslavia, and even more so after independence. In most cases, however, the new laws have taken very long to finalize. The delays are due not so much to technical problems - the time necessary for elaborating specific laws - but primarily to the long and intense privatization debate which took place in the complex new political circumstances created by the introduction of multi-party democracies and

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<sup>49</sup> There is a net contrast between the very restrictive monetary policies applied in Slovenia (and to some extent, also in Macedonia), and those applied in Croatia and Yugoslavia, characterized by rapid money emission necessary for financing the war. As to longer-term reforms, Slovenia is probably the former Yugoslav republic which has made most progress towards the construction of a market economy.

later, by the break-up of the country. Slovenia probably offers the best example, as the privatization debate has postponed the adoption of concrete legislation on privatization for almost three years.<sup>50</sup> The delays in adopting privatization laws have not only postponed the implementation of privatization, but have had negative consequences for the social sector, discouraging new investment and entrepreneurship.<sup>51</sup>

### **5.2. Implications of the economic crisis**

The disintegration of Yugoslavia has had a number of serious economic consequences for all the newly created states (see Uvalic 1993b and 1993c) - on top of general problems linked to the stabilization policies pursued during the transition, the enormous costs of the war (in which so far only Macedonia has not been involved), and the effects of the UN sanctions (not only for Serbia and Montenegro, but also for Macedonia). Since for the moment there are limited signs of economic recovery in most states, in all countries where the main method of privatization is the sale of assets (and therefore all except Slovenia), privatization will undoubtedly encounter enormous difficulties in being

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<sup>50</sup>As noted recently, "Slovenia is the best example of how not to handle privatization politically" (Korze and Simoneti, 1993, p. 234).

<sup>51</sup>The following passage is rather illustrative: "Many managers and workers are sitting on their hands waiting for privatization. They quite naturally ask themselves why they should now undertake new initiatives to increase the value of the company when it only means they will have to pay that much more for the company in the future (Ellerman, 1992, p. 32). Although the citation refers to Slovenia, it is equally relevant for all other former Yugoslav republics where the new privatization laws have been adopted with substantial delays.

implemented. In Macedonia, the most valid enterprises have already been privatized according to federal legislation, and the privatization of less profitable firms remains an open problem. In the present Yugoslavia, and somewhat less in Croatia, hyperinflation and the very rapid fall in real incomes have reduced the standard of living to such an extent that it is difficult to imagine that the population has any savings whatsoever to invest in the acquisition of enterprise shares. As to foreign capital, with the exception of Slovenia, interest has so far been either non-existent, or extremely limited, and is unlikely to increase in the near-term future.<sup>52</sup>

Because of the gravity of the economic situation, further revisions of the privatization legislations are very probable indeed. In Croatia, proposals have already been put forward to block privatization until the final resolution of the conflict, and similar suggestions have been heard in Serbia. In these two countries, give-away schemes may remain the only possible option, a solution supported from the very beginning in both countries by the parties in opposition. In Macedonia, trade unions have vigorously attacked the recently adopted privatization law because the conditions envisaged for workers' buy-outs are considered as being not

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<sup>52</sup>In Bosnia Herzegovina, the FR Yugoslavia and Croatia, this is obviously due to the political risk deriving from the war, and in the FR of Yugoslavia, in addition, to the UN sanctions. In Macedonia, although its official recognition as an independent state has finally opened the door to foreign capital and funds from international institutions, interest of foreign investors remains limited due to its present isolation (because of the UN sanctions against Yugoslavia), its undiversified economic structure and its traditional high dependence on trade primarily with Serbia.

sufficiently generous. Obviously, eventual additional changes of the legislation on privatization in these countries will postpone its implementation even further.

### **5.3. *New privatization solutions***

The disintegration of Yugoslavia has also led the individual governments to search for new solutions for privatizing their respective economies, more in conformity with the political objectives which have emerged after independence. However, there are several elements which suggest that the new privatization laws, in spite of being much more sophisticated,<sup>53</sup> are not necessarily a step forward in comparison with the Federal privatization law.

The new privatization laws have introduced major government control over the privatization process, through more centralized procedures and more restrictive general provisions. Major restrictions have been introduced, in particular, on workers' acquisitions: although all the new laws, like the Federal law, offer workers privileged terms for subscribing their enterprise's shares, the incentives in the Federal legislation were far more powerful.

Moreover, all the new privatization laws explicitly envisage the re-nationalization of at least a part of the

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<sup>53</sup>The new laws have dealt with a number of specific issues in detail, which in the Federal law were either not treated, or had remained ambiguous.

economy (although sometimes only temporary),<sup>54</sup> parallel with the exclusion of a number of sectors from privatization, which have already been transformed into public firms in state property.<sup>55</sup> Contrary to the initial belief that the tradition of more than thirty years of "market socialism" and self-management in Yugoslavia rendered re-nationalization of what was once social property politically unfeasible (Korze, 1992, p. 147), in practice this has effectively been taking place. In some countries, the official justification for nationalization is that it enables the complete elimination of the nebulous concept of "social property", thus facilitating a radical departure from the previous system of self-management.<sup>56</sup> Whereas the re-nationalization of enterprises representing natural

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<sup>54</sup>In Serbia and in Croatia, a substantial part of social property has already been transferred to state property and/or government funds; in Slovenia, as much as 40% of social property will probably in most cases be transferred to various government institutions; the Macedonian law envisages the transfer of all unsold shares to the government-controlled Privatization Agency; and in Montenegro, the solutions are not dissimilar.

<sup>55</sup>In Croatia, some 110 enterprises, employing 15% of the work force, including several highly profitable firms, and representing around 40% of social capital, have been transformed into state-owned firms run by government appointed managers (see Bicanic, 1992, p. 47; Brekalo and Pavelic, 1992, p. 129); similarly in Serbia, around 40% of the economy has already become state property.

<sup>56</sup>However, what is very frequently not taken into account, or is simply ignored, is that the major shortcomings of the pre-1989 Yugoslav system derived not from self-management per se (since there are many reasons for sustaining that self-management in Yugoslavia was never really fully implemented), but primarily from the socialist characteristics of the Yugoslav economy; in this way, all the blame for what has happened to the Yugoslav economy is put on self-management, which is a rather simplistic interpretation (see more in Uvalic, 1992a). Slovenia has been the most pragmatic (and probably cleverest) in this respect, as it has officially introduced, in the summer of 1993, a system of co-determination (similar to the one in Germany); in addition, it is reported that many firms are considering the introduction of a system of profit-sharing.

monopolies may be understandable,<sup>57</sup> further nationalizations of many social sector enterprises has been interpreted as a return to the times of state property in Yugoslavia of the early 1950s. In this way, some of the specific advantages of the Yugoslav economy with respect to other ex-socialist countries, have not been sufficiently utilized.<sup>58</sup>

The general orientation of the new laws towards the imposition of restrictions on the sale of enterprise assets to workers, towards more centralized procedures and towards re-nationalization, also suggests a more gradualist privatization strategy. However, rather than being an explicit policy option, gradualism seems to be the reflection of the tendency of the current governments (especially the more nationalistic ones, which as such need a strong state sector), to preserve their implicit property rights which they have effectively retained during the whole period of self-managed socialism.

The Federal privatization law, despite all its shortcomings, was at least clearly in favour of workers' acquisitions, and therefore could have enabled a wide diffusion of employee ownership, in conformity with the long tradition of self-management. The empirical evidence from Western countries suggests that forms of financial

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<sup>57</sup> Although this is also questionable, if we consider the recent tendency in many Western countries to extend privatizations to these sectors also.

<sup>58</sup> Many scholars have emphasized that firms in former Yugoslavia, having operated for over thirty years in a decentralized economy based on social property, self-management, and major reliance on the market mechanism, have a number of advantages in the present privatization process with respect to other socialist countries (see Mencinger, 1993; Kalodjera, 1992).

participation such as employee share-ownership, especially if combined with other forms of workers' participation, have in general had positive effects on workers' incentives (see Blinder 1991, Uvalic, 1991a).<sup>59</sup> Moreover, had the macroeconomic situation in the mean time not progressively deteriorated, the Federal privatization law would probably have enabled a more rapid start in privatization. In fact, if we exclude Slovenia and Croatia where the Federal law was applied for only a few months, in the other former Yugoslav republics during the application of the Federal law a much larger number of enterprises had initiated privatization than in the more recent period.

At the same time, the Federal law would not have ensured the quick completion of privatization, nor would it have respected, as frequently stressed today, the criteria of social equity. But as rightly stressed by Weitzman (1991), in evaluating the different privatization methods there are no perfect and fully "fair" solutions. The possible manipulations in the acquisition of enterprises - one of the main motives why all the new states have suspended the Federal law - could have been reduced through more rigorous valuation procedures. Thus today, instead of the feared "manipulations by workers", we are witnessing increasing manipulations by a limited number of individuals with privileged positions in the present regimes.

The disintegration of Yugoslavia has therefore rendered the privatization process even more complex than before,

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<sup>59</sup>For theoretical arguments in favour of employee ownership in transitional economies, see Bogetic and Conte (1992).

adding additional problems to a project which is difficult to implement even in the absence of disintegrating tendencies. Consequently, countries which have succeeded former Yugoslavia are all for the moment lagging behind some other East European states, where privatization has already led to the emergence of a private sector whose role is fully comparable with that of the state sector (e.g. Poland). Considering Yugoslavia's institutional background, this is another major economic cost being paid for the break-up of the country.

**Table A1. CONTRIBUTION OF DIFFERENT PROPERTY SECTORS TO GMP IN YUGOSLAVIA (in % of Republican/Yugoslav GMP), 1989-90**

	Social		Private		Cooperative		Mixed	
	1989	1990	1989	1990	1989	1990	1989	1990
Bosnia & Herzegovina	89.1	82.7	10.8	15.9	-	0.5	0.1	0.9
Croatia	91.5	85.7	8.4	13.8	-	0.2	0.0	0.3
Macedonia	90.5	74.8	9.5	14.7	-	0.3	-	10.2
Montenegro	92.9	86.6	7.1	12.9	-	0.4	-	0.1
Serbia total	87.0	79.2	13.0	19.0	-	0.7	0.0	1.1
-Central Serbia	87.7	80.6	12.2	18.1	-	0.7	0.0	0.6
-Kosovo	78.6	62.5	21.4	37.2	-	0.1	-	0.2
-Voivodina	87.0	79.0	13.0	17.6	-	0.8	-	2.6
Slovenia	93.5	83.0	6.2	12.6	-	0.2	0.3	4.2
YUGOSLAVIA	89.9	81.8	10.0	15.8	-	0.4	0.1	2.0

Sources: Calculated from data of the Federal Office of Statistics (Savezni zavod za statistiku, 1991, Table 205-3, and Savezni Zavod za Statistiku, 1992).

**Table A2. CROATIA: SOME INDICATORS ON THE DIFFERENT PROPERTY SECTORS (in % of total) 1992**

	Social/ public	Private	Cooperat.	Mixed
1. Firms (Sept. 1992)	9.3	86.5	2.4	1.7
2. Contribution to GMP (1991)	79.7	18.6	1.1	0.6
3. Employed (1992)	92.4	7.6	n.d.	n.d.
(Jan.-Apr. 1993)	90.5	9.5	n.d.	n.d.
4. Revenue (1992)	74.8	17.0	1.0	7.2
5. Profits (1992)	51.1	37.2	0.8	10.9
6. Accumul. (1992)	41.2	46.5	0.6	11.7

Sources: 1 & 2: calculated from data in Republika Hrvatska, Drzavni zavod za statistiku, 1993, pp. 52, 146; 3: calculated from data in Republika Hrvatska, Drzavni zavod za makroekonomske analize i prognoze, p. 71; 4, 5 & 6: data of the Croatian Office of Social Accounting, as reported in Cuckovic and Kalodjera (1993), p. 7.

**Table A3. FR OF YUGOSLAVIA: SOME INDICATORS ON THE DIFFERENT PROPERTY SECTORS (in % of the total), 1991-1992**

	Social		Private		Cooperat.		Mixed	
	1991	1992	1991	1992	1991	1992	1991	1992
Firms	15.0	8.5	73.4	82.6	6.1	4.7	5.5	4.2
Employed	75.7	65.4	2.8	4.3	1.9	2.0	19.6	28.3
Revenue	62.0	48.8	10.8	18.9	2.8	2.8	24.4	29.5
Income	71.1	52.0	4.1	14.5	1.4	2.2	23.4	31.3
Accumul.	40.4	23.5	27.9	44.5	1.6	2.4	30.1	29.6
Losses	79.4	59.7	2.3	3.6	1.6	0.5	16.7	36.2

Source: Savezna Republika Jugoslaviija, Savezni zavod za statistiku (1993a).

**Table A4.FR OF YUGOSLAVIA: CONTRIBUTION OF DIFFERENT PROPERTY SECTORS TO GROSS MATERIAL PRODUCT (in % of Republican/Yugoslav GMP), 1990-91**

	S o c i a l		P r i v a t e	
	1990	1991	1990	1991
Fed. Repub. of Yugoslavia	84.5	80.8	15.5	19.2
Montenegro	86.6	83.3	13.4	16.7
Serbia total	84.4	80.6	15.6	19.4
-Central Serbia	85.5	81.8	14.5	18.2
-Voivodina	83.9	80.8	16.1	19.2
-Kosovo	72.1	63.8	27.9	36.2

Note: The data in this Table are not fully comparable with data presented in Table 1, as they are calculated on the basis of constant prices (while in Table 1, on the basis of current prices).

Source: Calculated from Savezna Republika Jugoslaviija, Savezni zavod za statistiku (1993b), Table 1-3.

**Table A5. MACEDONIA: SOME INDICATORS ON THE DIFFERENT  
PROPERTY SECTORS (in % of the total), 1992**

Sector	Firms	Employment	Revenue	Accumulation	Losses
Social	6.0	45.7	28.2	18.9	69.6
Private	86.9	7.2	22.0	39.2	9.1
Cooperat.	2.1	1.9	1.8	0.9	0.5
Mixed	5.0	45.2	48.0	41.0	20.8

Source: SOK na Makedonija, provided in January 1994 by the Ministry of Development.

**Table A6. MACEDONIA: SOME INDICATORS ON THE 198 SOCIAL  
SECTOR FIRMS IN COURSE OF PRIVATIZATION (in %)  
30 June 1991**

	In % of the total of the Macedonian economy	In % of the total of the 198 firms	
Firms	16.1	New share issues as method of privatization, total	94.9
Employed	24.1	of which: -internal shares	87.8
Equity	25.0	-other sales	12.2
Revenue	35.8	Internal shares subscribed:	
Gross profits	26.7	-by present workers	98.8
Accumulation	26.8	-by others	1.1
Losses	19.2	Internal share issues	
Personal incomes	28.3	-sales for cash	6.5
		-sales with deferred payment	13.9
		-distributed as part of regular wages	79.5
		Structure of property	
		-social capital	69.0
		-social capital effectively privatized	14.0
		-private capital obtained through new share issues	17.0

Source: Data of the Office of Social Accounting of Macedonia (SOK na Makedonija, 1991a and 1991b).

**Table A7. SLOVENIA: SOME INDICATORS ON THE DIFFERENT  
PROPERTY SECTORS (in % of the total) 1992**

Sector	Firms	Employment	Revenue	Accumulation	Losses
Social	13.0	82.3	70.7	30.8	88.5
Private	80.8	5.4	11.4	39.0	2.8
Cooperat.	0.8	0.8	1.6	0.2	0.3
Mixed	5.4	11.5	16.3	29.9	8.4

Source: Statistical Office of Slovenia, as reported in Jevsevar (1993), p. 49.

**Table A8. SLOVENIA: THE CONTRIBUTION OF PRIVATE FIRMS TO GNP  
AND EMPLOYMENT (in % of total) 1987-1992**

Type of firm	1987	1988	1989	1990	1991	1992
<i>1. Private</i>						
-GNP	0.0	0.0	0.1	1.1	3.1	3.9
-employment	0.0	0.0	0.1	0.7	2.2	3.8
<i>2. Individual</i>						
-GNP	7.3	7.4	8.2	9.7	11.2	11.5
-employment	12.2	12.7	12.2	13.0	14.4	15.4
<i>Total (1+2)</i>						
-GNP	7.3	7.4	8.3	10.8	14.3	15.4
-employment	12.2	12.7	12.3	13.7	16.6	19.2

Note: "Private enterprises" are firms registered in the form of partnerships. "Individual enterprises" are small unincorporated firms. GNP has been calculated according to the NACE Rev. 1 methodology.

Source: Zavod Republike Slovenije za statistiko (1993).

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