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Privatization of the public services sector in Croatia and SEE: assessment of the major gains and pains

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Summary

- Main aim of the project and specific research objectives
- Key research questions, conceptual framework and methodology
- Empirical data
- Expected Research Output
- Progress made so far
Main aim of the research

- **Main aim** is to identify and assess the underlying economic and social impacts of privatisation of public utilities’ performance in energy and communication sectors in Croatia as compared to benchmark practices in the SEE and the new EU members.

- The **specific research objectives** are:
  - To contribute to the present policy debate on quality of performance of privatised public utilities linking it with improving competition in services delivery, but also not loosing sight of on consumer’s interests and potential adverse social effects.
  - To provide the comparative EU-8 and SEE regional perspective in identifying a sort of balance-sheet of privatisation costs and benefits;
  - To produce a policy relevant research pointing out to instructive experiences and best practices for improving service performance of companies in selected public utilities sectors in Croatia and for the region of SEE;
  - To extract a number of relevant policy recommendations that could assist managerial teams of selected enterprises in dealing with crucial questions which shape their further market transformation.
Key research questions

- To what extent the process of privatisation, market restructuring and regulation of state-owned enterprises in selected public sectors (telecommunications, energy sector) has contributed to improved delivery of services, corporate governance and cost efficiency of these enterprises?
- What have been the effects of the privatisation process in INA (Oil and Gas Industry) and Croatian Telecom (telecommunications) on the prices as well as the transparency and accountability of their business performance?
- To what extent it has resulted in improved management of these companies?
- How did they manage to balance enterprises’ (often monopolies) interests with consumer interests? Are the services delivered more efficiently and less costly after they were privatised? Does the privatisation benefit more industrial consumers than others (private or households)? How much it was driven by the accession process and Maastricht convergence criteria?
- What has been the impact on capital spending and investment of such companies?
- What role have the independent regulative agencies played to deal with a problem of imperfect competition in selected public utilities sectors (telecommunications, energy sector) in order to protect the consumer interests, protect competition and discourage market abuse?
- What was the political influence of the state administration on the management of public enterprises? How successful was the separation of policy function of the government; regulatory enforcement and functioning of these enterprises?
Conceptual framework

- Research would test some of the main theoretical concepts of NPM: public choice theory, agency theory and transaction costs economics:
- Privatisation; restructuring; improved market regulation and competition in the public utilities and services sectors have been widespread in both western and post-socialist reform packages;
- Controversy of keeping them in state hands or passing them to private ownership has not been entirely resolved after more than 20 years of experiences- the answers still inconclusive;
- The research results will be contextualised results within the growing body of empirical literature on both private and public options of ownership and management concepts and derive the instructive experiences relevant for the region of the SEE.
Methodology and Empirical Data

- Qualitative and quantitative assessment of the various privatisation impacts - a sort of balance sheet of costs and benefits;
- A summary of the main conclusions of the various studies using panel survey data and contrasting those supporting and questioning evidence on improved efficiency and services delivery;
- To add new empirical insights - two case studies of privatized public enterprises selected in Croatia to collect specific empirical data and explore in-depth the issues of economic and social costs and benefits;
- Croatian Telecom (telecommunications) and INA (oil and gas company) were selected to provide additional insights - the companies from SEE still rather rare in international studies.
- In-depth interviews with key managers in the Executive and Supervisory boards of T-Com and INA and regulatory agencies of these sectors as well as opinions and assessments of major stakeholders (academic and government experts, trade unions, employers and business associations etc.
Expected Research Output and Dissemination of Results

- Research report available on-line
- Focus group discussion on preliminary research results
- Journal article
Progress made so far…

- Desk research and collecting of quantitative statistical data (partially);
- Preparations for field research: preparation of questionnaire for in-depth interviews, selection of target sample; preliminary contacts and arrangement of interviews for the INA case study;
- Introductory chapter on the legislative and policy framework and empirical evidence for privatization process in Croatia.
- Part of statistical and field survey data for the case study on INA (oil and gas industry).
INA (Croatian oil and gas company) case study

- Law on Privatization of INA that was enacted by Croatian Government in 2002 (Official Gazette 32/02).
- Public enterprises staid outside the main privatization process—the special legislation has been passed for each public utilities & services companies.
- 25% plus one share assigned to be sold to a strategic partner; 15% of shares by a public auction at the stock exchange; 7% of the total stock was assigned for war veterans and members of their families; while additional 7% is to be sold to present and former employees on discounted prices;
- In the first instance, the 25% plus one share was sold to Hungarian MOL (Hungarian oil and gas company) for about 505 million USD.
After different privatization stages.

- In the second instance, in 2005 7% of the value all INA shares was transferred to the Croatian War Veterans and their family members without compensation.
- The third stage of privatization process started in 2006 and it was marked by public offer of 15% of ordinary INA shares to the Croatian citizens which had a priority right and on preferential terms.
- The further stage was implemented in 2007 and involved the privatisation of further 7% of INA shared to the present and former employees on a discount of 1% for each working year.
- The last stage of the privatization process came on 5th September 2008 when MOL gave a public offer to acquire additional shares of INA, which resulted with rise of its share in INA ownership to 47.16%. As a result of this the Croatian Government reduced its share to 44.84%.
Table 1. Privatization of national oil and gas companies in selected SEE and CEE countries

<table>
<thead>
<tr>
<th>Country</th>
<th>% of shares acquired</th>
<th>Foreign investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>47.16 of INA</td>
<td>MOL Hungary</td>
</tr>
<tr>
<td>Hungary</td>
<td>21.2% of MOL, 25.8% of MOL</td>
<td>Surgutneftegas Russia, Foreign institutional investors</td>
</tr>
<tr>
<td>Macedonia</td>
<td>100% of OKTA</td>
<td>Hellenic Petroleum Greece</td>
</tr>
<tr>
<td>Slovakia</td>
<td>98.4% of Slovnaft</td>
<td>MOL Hungary</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>58% of Neftochim Burgas</td>
<td>LUKOIL Russia</td>
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<tr>
<td>Serbia</td>
<td>51% of NIS</td>
<td>Gazprom Neft Russia</td>
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Privatisation stages of Croatian Telecom (HT)

- Pursuant to the Act on Privatization of Hrvatske telekomunikacije d.d. (Official Gazette 65/1999), on 6 October 1999 the Government of the Republic of Croatia sold 35% of shares to a strategic investor - Deutsche Telekom AG.

- Modifications of the Croatian Telecom Privatization Act adopted in 2001 allowing the majority stake for sale to the strategic foreign investor. This enabled for an additional 16% of the stake for sale, thus allowing Deutsche Telecom to gain majority stake (51%);

- In 2007 the Government decided to sell (at the London and Zagreb Stock Exchange) a 32.5% share package, 25% of which with priority reserved for Croatian citizens. The rest of 7.5% of shares was sold to institutional investors.

- Following the sale of shares to present and former employees of T-Hrvatski Telekom and Croatian Post in June 2008, the Government of the Republic of Croatia reduced its holding from 9.5% to 3.5%, while private and institutional investors hold 38.5%.
Croatian Telecom (HT) present ownership structure (April 2010)

- Deutsche Telekom (51.0%)
- Republic of Croatia (3.5%)
- Private and institutional investors (38.5%)
- War Veterans' Fund (7.0%)
Table 2. Privatization of Telecommunication companies in selected SEE and neighbouring CEE

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent of ownership acquired</th>
<th>Foreign Investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>51% of Hrvatski Telekom</td>
<td>Deutsche Telecom</td>
</tr>
<tr>
<td>Hungary</td>
<td>59.49% of Magyar Telekom</td>
<td>Deutsche Telecom</td>
</tr>
<tr>
<td>Macedonia</td>
<td>51% of Makedonski Telekom</td>
<td>Magyar Telecom, subsidiary of DT</td>
</tr>
<tr>
<td>Serbia</td>
<td>20% of Telekom Srbija</td>
<td>OTE Greece</td>
</tr>
<tr>
<td>Montenegro</td>
<td>76.53 of Crnogorski Telekom</td>
<td>Magyar Telecom, subsidiary of DT</td>
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Further research steps....

- Completion of the in-depth interviews for both case studies;
- Analyses of the empirical data;
- Analyses of the financial reports and statistical data to establish the progress in cost efficiency, corporate governance and management quality; quality in service delivery; investments: employment;
- Comparative benchmark analyses and best practice.
- Completion of research report (February 2011).
Thank you for your attention!

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