

**AMERICAN UNIVERSITY OF ARMENIA**

**Anahit Aharonyan ID # 2678  
Tsovinar Sakanyan ID # 2661**

**RESEARCH PROJECT**

**THE PROCESS OF PRIVATIZATION  
IN ARMENIA**

338.9  
AHA  
2000

**Instructors: Dr. Stevens  
Dr. Newton**

## CONTENT

INTRODUCTION .....	2
THEORETICAL PROBLEMS OF PRIVATIZATION.....	3
PRIVATIZATION: ESSENCE AND GOALS.....	3
THE PRINCIPLES AND METHODS OF PRIVATIZATION.....	4
THE PROCESS OF PRIVATIZATION IN ARMENIA.....	5
SURVEY SAMPLE AND METHODOLOGY.....	9
ANALYSIS OF ECONOMIC INDICATORS OF SAMPLED ENTERPRISES.....	9
VOLUME OF PRODUCTION.....	9
FINANCIAL INDICATORS.....	10
SOCIAL DEVELOPMENT INDICATORS.....	10
SUMMARY.....	10
THE RESULTS OF SURVEY.....	11
SWOTANALYSIS.....	16
DIAGNOSTIC ANALYSIS OF MANUFACTURING SECTOR.....	17
INTERNAL ENVIRONMENT.....	18
1. Machinery.....	18
2. Chemical Industry .....	20
3. Light Industry.....	21
4. Food processing .....	21
5. Furniture Industry .....	22
EXTERNAL ENVIRONMENT .....	23
OPPORTUNITIES .....	23
THREATS .....	24
CONCLUSION.....	25
REFERENCES.....	28
APPENDIX 1 .....	30
APPENDIX 2 .....	34
APPENDIX 3 .....	35
APPENDIX 4 .....	37

## INTRODUCTION

One of the main goals during the process of transition to market oriented economy is increase in the efficiency of enterprises' performance. Emergence of private owners is also very important. The reforms in Armenia's economy started and are going on under deep crisis conditions. Low efficiency, lack of levers stimulating active entrepreneurial activities, structural disproportions and deficit of resources don't facilitate recovery and effective performance of economy. Negative results of price liberalization and sharp decrease in purchasing power at the first stage of market reforms have sharpened the solvency problem and brought up the problem of mass bankruptcy of enterprises. All these difficulties were intensified owing to Karabagh war and blockades in Armenia, which brought to energetic crisis in Armenia. Despite all these difficulties Armenia is moving to free market economy. Privatization as one of the important levers of transition period is yet in process. More than 1500 large and medium size enterprises are already privatized. However, many of them do not have experience to compete in market economy. So, one of the primary problems for these enterprises is the implementation of effective mechanisms of management used in market economies.

To find out obstacles for progress in the sector of industrial manufacturing, we have to look at the following environments:

- Macro (or external) environment
- Micro (or internal) environment.

The assessment and analysis of these environments for different industries are the preliminary conditions ensuring long-term economic growth. To estimate the real state of privatized enterprises we will use SWOT analysis, analyzing main industries in manufacturing sector (Chemicals and pharmaceutical; Electronics, electric and machinery; Light industry; Food processing; Furniture industry).

The study is based on two parallel investigations: 1. a detailed examination of the process followed by Armenia in privatizing the industrial manufacturing sector, covering years 1991-2000 and 2. a follow-up sample survey of 25 privatized enterprises in that sector.

## THEORETICAL PROBLEMS OF PRIVATIZATION

### Privatization: Essence and Goals.

Essence of the privatization is in the transfer of property, current and administrative control to private sector. The main motive for privatization, transferring the companies to private sector is the ability to increase efficiency and raise funds within this process. Many authors who had written about economy structure transformation come to the conclusion that from the economic point of view impact of property form on economic state of the enterprise is more important than the form of property. In the case of private property we have a clear and precisely defined goal – *profitability*, although private property itself doesn't guarantee maximal efficiency. More successful privatization programs were those, in which significant efforts were directed towards formation of competitive markets and interconnected, stable legislative framework in these sphere.

The main goals of privatization process are[2]:

1. Creation of efficient functioning system for production, labor, material and financial resources;
2. Development of competition;
3. Continuing development of market relations;
4. Increase in entrepreneurial activity;
5. Reduction of budget deficit;
6. Creation of proprietor's class;
7. Other goals.

We can extend and group these goals into following ones:

- Reduce direct government influence on the economy and minimize administrative interference in its activities.
- Reduce government costs on subsidies and capital investments.
- Boost competition and raise the enterprises' performance efficiency.

Besides above mentioned goals there can be additional ones, such as:

- Replacement of state companies with joint stock companies, their expansion and development.
- Creation and development of stock market.

- Reduction in state bureaucracy.
- Increase in government income due to operating productive capital.

The problem of low efficiency of state enterprises is typical not only for countries with centrally planned economy. In the late 70-s many West European countries had to make changes in the state sector, reducing state participation in economy. But before estimating the efficiency level of state enterprises, it is necessary to take into account, that these enterprises unlike private ones (oriented on maximum profit) are elements of macroeconomic regulation. Among the problems that can be solved by them, are:

- realization of price policy,
- keeping infrastructure industries to be smoothly supplied,
- protection of distinguished industries from the entry of foreign capital,
- support of unprofitable or low profitable businesses, liquidation of which is undesirable because of the threat of unemployment and other reasons.

The privatization of the state enterprises usually provides increase in efficiency of production. It enables also to finance budget deficits in many countries. Privatization can also liven up private economic activities (as in UK, where at the expense of income from privatization income tax was reduced and that liven up private economic activities.) Apart these reasons, privatization can bring to the expansion of tax base.

### **The Principles and Methods of Privatization**

The privatization can be carried out using three main principles: on the basis of payment, on a free basis and combined. In some countries of Eastern and Central Europe (East Germany, Poland, Romania, Hungary) the first principle was preferred.

Different methods are used during privatization [2,7]:

- Auctions
- Purchase of property by leaseholders
- Share subscription
- Voucher privatization
- Free distribution of shares to employees
- Tenders
- Other

When choosing the form of privatization for some enterprise, one has to take into account many factors, such as

- the role of enterprise in the industry, its size,
- competitiveness of the product in domestic and foreign markets,
- the character of horizontal connections with adjacent enterprises
- degree of readiness ( the initiative of the personnel, existence of potential investor, etc)

There are four kinds of measures which are necessary to make the process of privatization efficient:

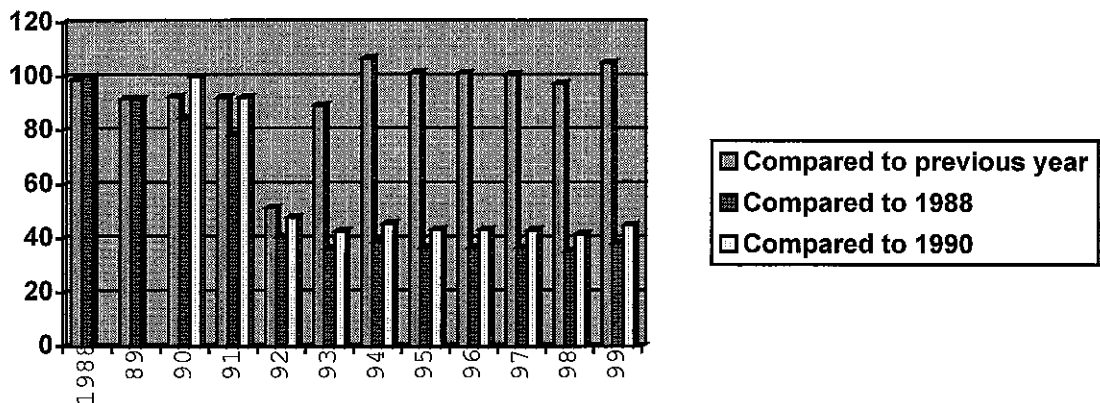
1. legislative
2. organizational
3. training of personnel
4. formation of public opinion

### The Process of Privatization in Armenia

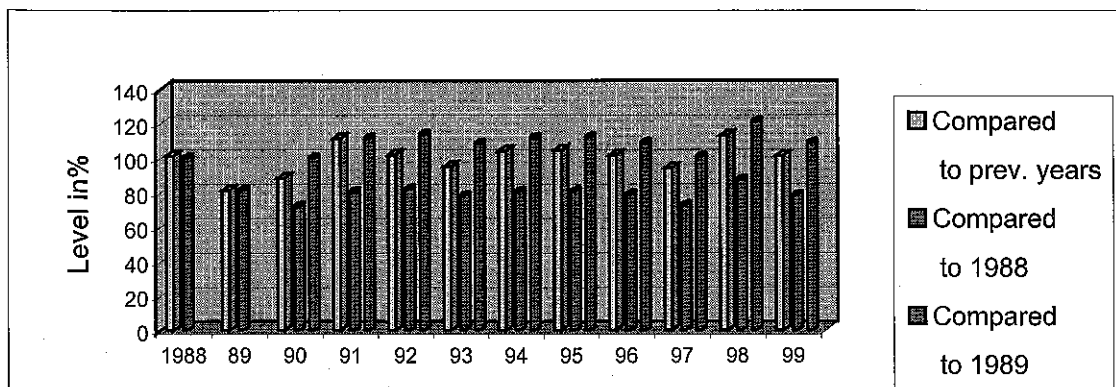
Economic situation in manufacturing and agricultural sector of Armenia before reforms and after them is represented in figure 1.

**Figure 1.** Level of manufacturing and agricultural production during 1988-1999 in %.

#### a. Manufacturing Products



#### b. Agricultural Products



From the very beginning of the economic reforms state policy was aimed at decreasing its role in the production of goods and promoting the private sector as a major source of economic development. This process was secured through mass privatization and the entry of new businesses to the market. Privatization was aimed at involving various layers of population on the transformation of the economy, creating a class of owners and introducing competition mechanisms.

Already in 1991 Armenian government adopted resolutions on privatization of small business in trade, public food, public utilities and services. 335 small businesses were privatized in 1991-1992.

As of October 1, 2000 more than 7000 small entities had been privatized, almost 86% of the total [3]. The mass privatization of state enterprises started in spring 1995, which proved to be the most complicated step. Mass privatization replicated the schemes used in other former centrally planned countries, particularly through the use of privatization certificates (vouchers). The program of voucher privatization was adopted in 1994. Every citizen received a voucher, which has a face value of 20000 drams. The main goals of privatization programs of 1994 and 1995 were the following [6]:

- increase the efficiency of enterprises' performance
- creation of social-oriented effective market economy and formation of the class of owners
- enhancement of social security of population and development of social infrastructure using income from privatization
- creation of favorable conditions and organizational structures for expanding the privatization process
- creation of favorable conditions for attracting foreign investments, developing competitive environment.

From the peculiarities of voucher privatization implemented in Armenia it is worth to mention annual programmed distribution of vouchers, the possibility of their usage during the whole process of privatization, investment with the nominal value, free selling and buying in the secondary market, absence of restrictions in the quantity used by an individual and the quantity used in the price of the privatizing unit, the existence of equal opportunities for the foreign residents and citizens of the country, etc. Due to these peculiarities, a variety of issues raised in the country. One of them is the inflow of insignificant amount of funds to the budget due to the privatization of state property. Some of the negative consequences of voucher privatization were:

- The free circulation of privatization vouchers in the secondary market and actually unrestricted usage time did not support to the real aim of vouchers- investment in the privatization process. These all eventually slow down the process of privatization, regardless of the fact that the main goal of vouchers was to speed up that process.
- As a result of free and unlimited sales, the privatization vouchers were accumulated in the hand of a few people, who dictate their own pace to the process, often upsetting privatization of some enterprises.
- Most of the population sells its vouchers, viewing them as means of temporary improvement of families' financial condition. In addition, they receive more than 5 times less than the nominal value of the vouchers. As a result, the distribution of privatization vouchers, based on providing equal conditions for all citizens, becomes its own opposite - a means of deepening social inequalities, because the vouchers which are created to obtain state property without payment are accumulated in the hands of few people, which brings to increase of societal polarization, use of the opportunity to move away from the poverty dramatically decreases.
- As a result of voucher centralization, the intention to create a mass class of owners, due to which the government expects to develop entrepreneurial activity in the country, to enhance production efficiency in all spheres, doesn't come true.
- Free and unlimited selling of privatization vouchers finally brings to the increase in amount of money in the circulation, which in turn, brings to some inflation, estimation of which requires serious scientific research.
- Creation of the same conditions (as for the country citizens) for the participation of the foreign residents in the process of privatization reduces foreign investments at least 4-5 times, as it is convenient for them to obtain the same object by the amount five times less than the actual price, by investing vouchers by their nominal value, that are obtained by the market price.

The list of the issues concerned with the voucher privatization in Armenia can be constantly continued. However, let's stop on this, at the same time mentioning that they do not foster the success of privatization process, the creation of highly efficient market economy in Armenia.

The majority of Armenia's population was forced to sell its vouchers to cover their daily expenses, often at 20-30% of face value. Thus this process actually ended up concentrating ownership in the hands of elites (directors of enterprises, political figures, etc.). One of the last surveys on voucher privatization indicates that 93 out of 100 citizens have sold their



vouchers for cash [9,p.85]. Another survey indicates that 60% of shares in 713 open joint stock companies is in the hands of 2.5% of owners [9,p86].

The goal was to achieve privatization as quickly as possible, which brought numerous negative consequences. Using the opportunity of voucher privatization to obtain large fixed assets, the new owners were not ready to take business risks, make investments, or cooperate with foreign partners.

Given these problems, a more effective privatization framework was sought starting in 1998. The Government stopped issuing new privatization certificates and a strategy of cash privatization and international tenders were pursued, in order to attract foreign investors. The privatization of state enterprises and incomplete construction was expected to be implemented in two stages [2]. In the first stage (1994-1996) the privatization of small businesses was finished and the privatization of medium and large size enterprises has begun. In the second stage (after 1997) the main part of medium and large-size enterprises will be privatized and not state production infrastructure will be developed. At the end of this stage it's supposed to bring the share of state property in manufacturing sector to 20-25%, in production infrastructure to 65-70%.

So former state owned enterprises will be turned into open and close joint stock companies through various selling schemes such as share subscription, auctions, bidding, selling of property to the leaseholders, and free distribution of shares to employees. As of October 1, 2000, 1546 state enterprises had been privatized (see Appendix 1).

Seventy four percent of privatized medium and large size enterprises are in the form of open joint stock companies, out of which 33% are in industrial manufacturing, 28% - in agriculture, 14% - in the city-construction and 25% are in other industries [3].

Several key new developments took place during the last years to ensure that the privatization process plays a dynamic role in the development of the Armenian economy. One of them is the emphasis on privatization through tender. Much effort is spent preparing companies for sale as well as informing the public and potential investors about opportunities. Privatization efforts now focus not only on the receipt of the best price for state owned shares, but also upon the ability of investors to develop enterprises into companies that can compete at home and abroad. The post-privatization development of enterprises is given serious consideration during the privatization process.

International tender was used when privatizing "Armentel", "Yerevan Brandy Company", "Armenia" Hotel Complex, "Ani" Hotel, etc.

Income from privatization (in mln. drams) is represented in table 1[3].

**Table 1. Income From Privatization (in thousand drams)**

	1994-1999			1999
	In Cash	In Vouchers	Total	Total (in cash)
Enterprises	61754131.5	39766020.0	1520151.5	490224.4
Incomplete Constructions	333024.0	176180.0	509204.0	12120.0
"Small" Objects	2643550.6	23846500.0	26490050.6	334792.0
Total	64730706.1	63788700.0	128519406.1	838136.4

## SURVEY SAMPLE AND METHODOLOGY

To evaluate the process of privatization using the attitudes of privatized enterprises' personnel and data describing economic activities of post-privatized enterprises, we have done a follow-up survey. In 1996 CEPRA has conducted survey of 25 post-privatized enterprises to assess the first results in privatization and reveal problems arising during their performance, as well as assess the personnel attitudes toward privatization process [5]. The primary focus was on medium and large-scale privatization. We repeat the survey with the same sample and same questions, which will give an opportunity for comparison.

The sample consists of 25 privatized enterprises in Machinery (10), Chemical (3), Food Processing (5), Light (2), Furniture (4), and Construction Materials (1) industries. 18 of these enterprises are OJSC-s, 4 are CJSC, and 3- companies bought by leaseholders (the list of enterprises is provided in Appendix 1).

We have collected financial information for quantitative assessment of these enterprises, as well as used questionnaires for qualitative analysis (questionnaire is provided in Appendix 1). We have collected data on production and sales volume, profit, budget payments, accounts payable, accounts receivable, number of employees and their average salary.

The questionnaires were responded by 10 persons from each enterprise (CEOs, other managers, employees). In fact, their opinions represent management strategy of new owners.

## ANALYSIS OF ECONOMIC INDICATORS OF SAMPLED ENTERPRISES

### Volume of Production and Sale.

One of the main indicators of enterprises' economic activities are the volume of production and sale. As the results of the research indicate, enterprises tend to fit to new conditions in market. They are searching ways to sustain and develop in the new economic system. Sales volume has increased more rapidly than the volume of production in many

enterprises. This can be explained by existence of inventories. More detailed data on dynamics of production and sale volume are provided in Appendix 3. The tendencies in sales volume indicate that privatized enterprises are trying to find new markets. But in some enterprises increase in inventories is greater than increase in sale (particularly in Machinery industry). Although enterprises are trying to enter new markets many of them have lack of services appropriate to modern requirements (marketing, advertisement, services for use provided after sale, etc.).

### **Financial Indicators.**

Some of the enterprises are performing with losses ("Yeraz", Retin Factory, Karin, Yerevan Furniture Factory #1, School Furniture Factory). Main causes of this are the difficulties in sale and increase in costs. Total profit of sampled enterprises has fallen by 18% compared to the first year of privatization (1995).

There was also decrease in budget payments. Accounts payable have risen. Detailed data are given in Appendix 3.

### **Social Development Indicators.**

The first conclusion is that the number of employees in all enterprises has decreased. In many enterprises there are employees who have compulsory holidays. We can also conclude that in some cases the number of engineers and technical workers is decreasing more rapidly, than the number of other employees. In all enterprises the nominal wages have risen, but they are still low (data provided in Appendix 3).

### **Summary.**

It's obvious that in most of enterprises we have a lack of strategic thinking and planning. In many cases the most part of new owners are previous directors of the enterprises, who have working experience of 20-30years, know the production process, but don't realize the concepts of market economy, shareholders' income is not very important for them. Almost in all enterprises profits have decreased and the behavior of privatized enterprises doesn't differ much from the behavior of state enterprises. We can conclude that privatization fell short of everybody's expectations. What were the reasons for that:

- Mass privatization was carried out under imperfect institutional and legal framework, which leads to inefficient control in privatized enterprises.
- Small potential of domestic savings, not favorable conditions for savings to become investments and small foreign investments.
- No solution for pre-privatization period debts of enterprises has been found.
- Underdeveloped secondary market of securities, which doesn't provide necessary financial inflows for the development of the enterprises.
- Underdeveloped investment funds, which could have had important role during mass voucher privatization.

The low level of production and sales can be explained by following:

- High costs, which can be explained by obsolete equipment and technologies, expensive raw materials, inefficient use of production areas (many enterprises are using only 10-40% of their capacities).
- Inefficient distribution channels. Many of the enterprises don't have their own distribution set and are dealing with trade intermediaries. Many of them are waiting for their accounts payable more than two years and imperfect law doesn't help to solve these problems.
- Low quality of many products and services, which do not meet world standards.
- Inefficient management team, who has small knowledge about market economy.

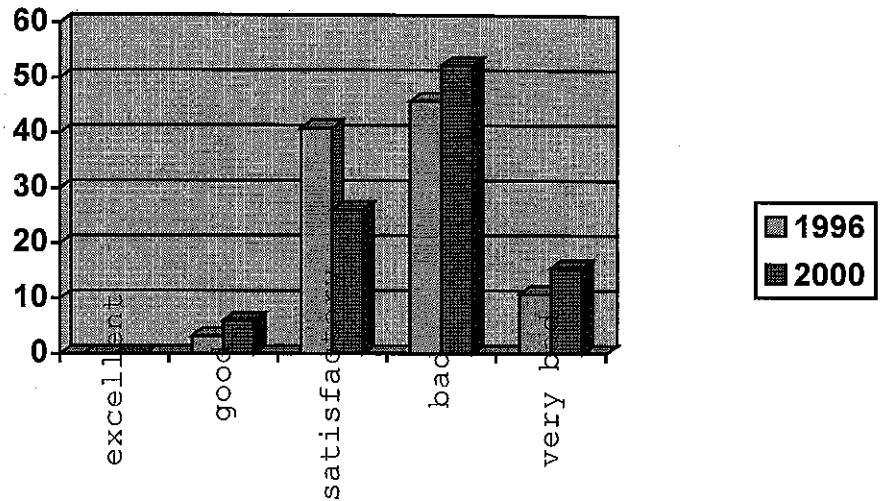
We can also conclude that the state of accounting and auditing in enterprises is very poor. Many of them have no normal accounting practice. We have met this problem when collecting data from financial statements of enterprises. Very often the accountants are thinking only about reports to tax inspectorate.

## **THE RESULTS OF SURVEY.**

About 10 persons from 25 privatized enterprises were surveyed, out of which about 30% were managers, 50% specialists, and 20% other employees. The total number of respondents was 231, out of which 69 were managers, 116 were specialists, and 46 other employees. Detailed results are given in Appendix 4. The results of the survey are the following:

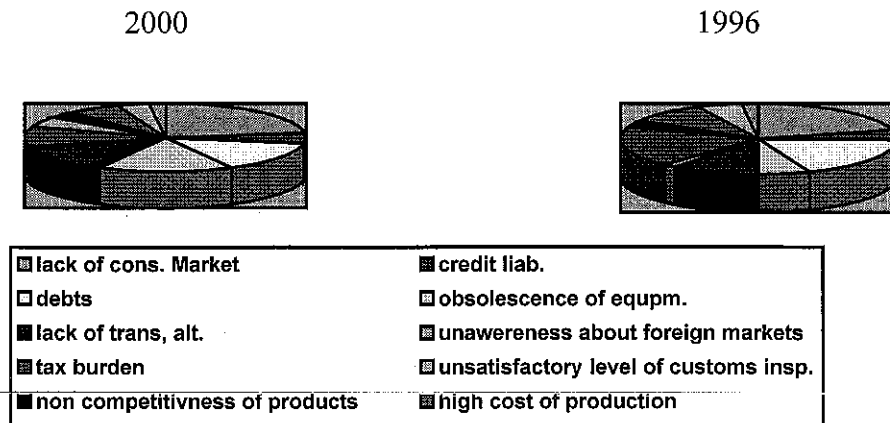
1. In general, about 68% has assessed the economic situation of their companies as bad or very bad, 26% -satisfactory, and only 6% - good. We can also mention that there was no "excellent" answer. The common picture is not changed compared to the CEPRA's survey, but it seems that people became more pessimistic, as "bad" answer has increased from 45.8% to 52.3% due to decrease in "satisfactory" answer.(from 40.9% to 26.1%, respectively).

Figure 2.



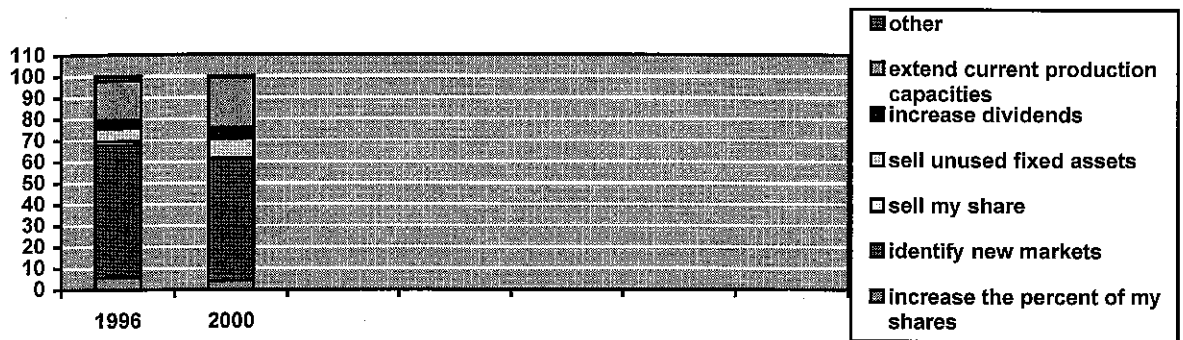
2. To the question about the obstacles to the economic development of the enterprises we have the "lack of consumption market" as the main obstacle (25%). Among the main obstacles it was also mentioned "debts to the government", "tax burden", "obsolescence of the equipment and technologies", "high costs of production". In general, the overall picture is almost the same. It is worth to mention that people are complaining less about tax burden (from 18.4% to 10.4%). It can be explained by some improvements in tax regulations.

Figure 3.



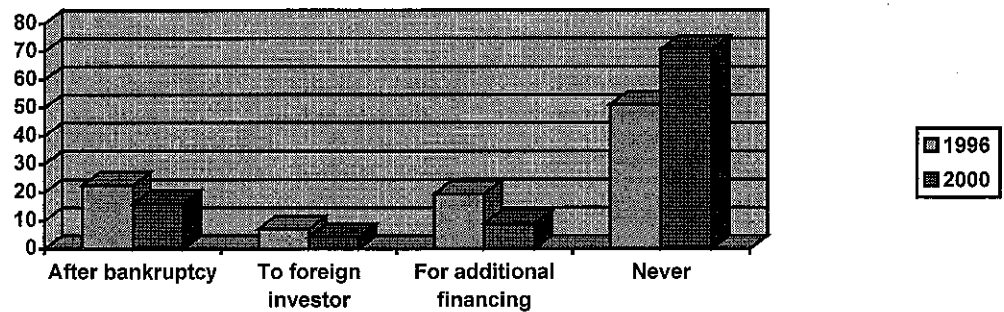
3. To the question "What is your strategy as a shareholder/executive director of the company?", 57% has mentioned about "identifying new markets", 24% - "extending current production capacities". The respondents have also mentioned *sell of unused fixed assets and increase of dividends*. Currently, managers are paying more attention to the concept of dividends, realizing its importance.

**Figure 4.**



4. To the question “When do you intend to sell your share of property” about 71% answered “never” compared to 51% in the past. This indicates that more owners view their private property as only fixed assets and they are not willing to lose them. It is also evident that many of them are not willing to sell their share of property even in the case of bankruptcy. We found out that nowadays the attitude towards foreign investors is negative, based on the low percentage (4%) of the respondents who are willing to sell their shares to foreigners.

**Figure 5.**

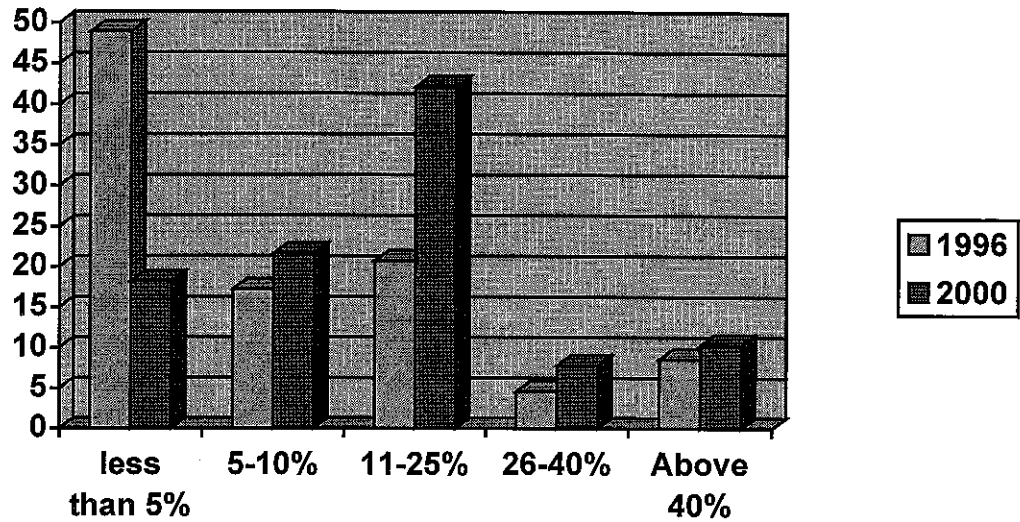


5. The picture of using financial inflows in the companies has not significantly changed during five years, and the biggest group of respondents are using them to cover debts of the company (31%). In some extend the size of group that wants to enlarge production volume has increased from 18.4% to 29.8%.

6. The biggest group of respondents (42%) owns 11-25% of equity in their enterprises. This shows that there is a greater centralization of shares in the hands of few people, as the

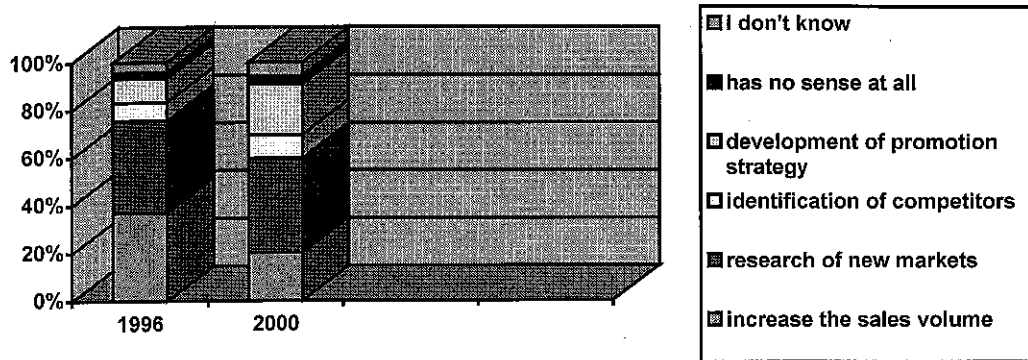
number of people in this group has increased due to decrease of the group of *less than 5%* (from 49% to 18%).

**Figure 6.**



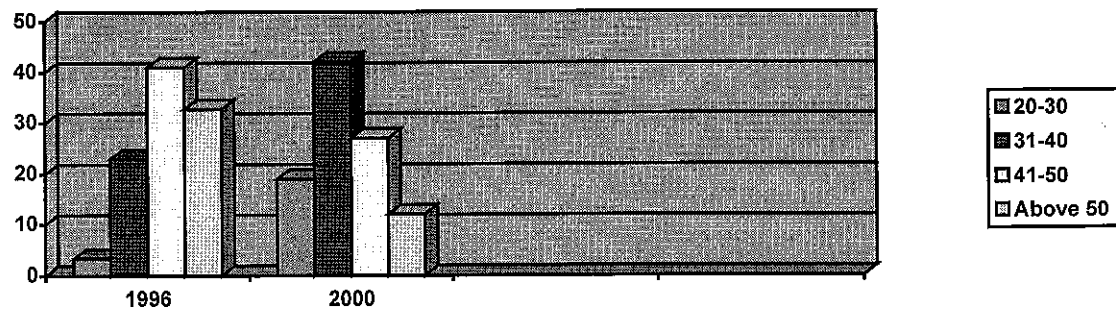
7. Almost all respondents are willing to extend their shares or haven't decided yet.(88%). The picture has not been changed compared to the past data.
8. The number of respondents who have answered "significantly" slightly increased due to decrease in number of respondents with answer "a little bit".
9. Our survey revealed that the managers of enterprises have low level of knowledge about market economy, but there is some interest to marketing, the evidence of which is continually increasing number of marketing departments. The number of enterprises that have marketing departments has increased by 9% (from 28% to 37%).
10. The attitude towards having a marketing department has not changed significantly.
11. To the question "What is the role of the marketing department" respondent see the "research of new markets" in the first place, and the "development of promotion strategy"- in the second place (24.7%). In the previous survey it was only in the third place with 10.1%.

**Figure 7**



12. Nowadays, the enterprises pay more attention to promotion and advertising. Although the enterprises allot very small part of their costs to the promotion and advertising. 52% of surveyed enterprises spends less than 5% on advertising. This number has increased compared to 37% in the past.
13. The huge part of survey participants ( 72%) agrees that there are no positive changes regarding the improvements in social conditions of employees.
14. Only 14 people have mentioned that salary has increased and working conditions have been improved.
15. The survey showed that the main owners of enterprises are the previous directors, and many of them are the Board directors and executive managers at the same time.
16. The classification of respondents by age shows that the main part fell in the group of 31-40. It is evident that there is a tendency to hire younger people. In the previous survey the respondents above 41 were 73%. Now they are only 39%.

**Figure 8.**





17. There were no any significant changes in gender classification. As always, males are dominating.
18. There is a slight decrease in the number of economists.

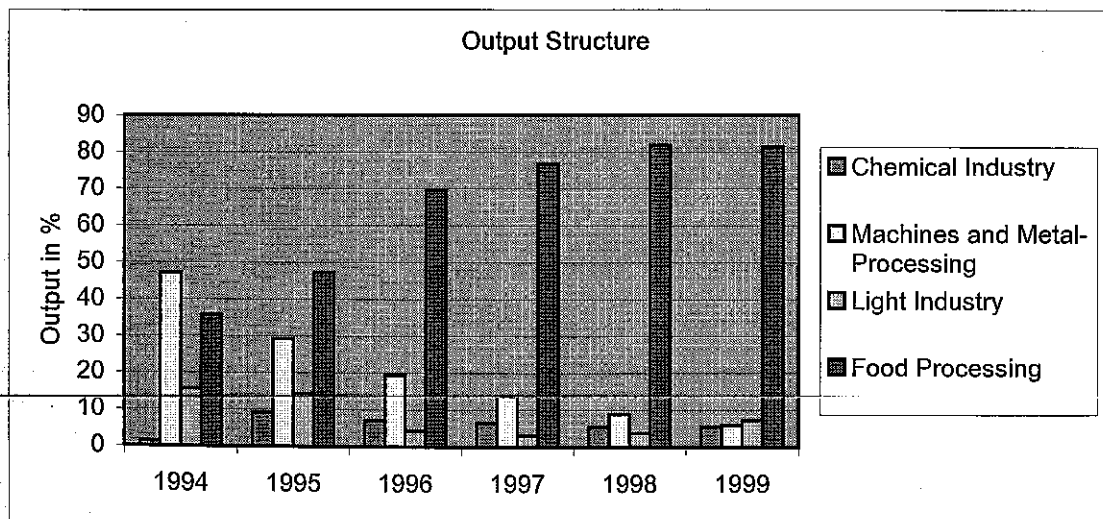
## SWOT ANALYSIS

By using collected statistical and financial data we have done SWOT analysis for those industries in Armenia, where 25 sampled enterprises are operating. We have analyzed Chemical industry, Machinery, Light industry, Food Processing, Furniture industry.

### Diagnostic Analysis of Manufacturing Sector

Armenia was one of the most industrialized republics of the former Soviet Union. It used to export 90-95% of its industrial output mostly to other republics of former Soviet Union. After the collapse of the Soviet Union and the dissolution of transitional economic links, enterprises have lost their markets; cheap energy, raw materials and transportation became no longer available. Most of the industrial enterprises have been operating at a very low level of their capacity or have ceased their operations. The slump of the manufacturing industry has changed the structure of the output. The structure of the output is represented in the figure 9.

**Figure 9. Output structure (in %).**



Recent years several surveys were conducted by many international organizations, bringing updated information about industrial manufacturing that can be used as a framework for diagnostic analysis, drawings or reducing some general policies [10,11,12].

Here are the main obstacles for the industrial manufacturing development, which have been identified based on these surveys.

▪ **Narrow Domestic Market**

At the Soviet Union times specialization between republics allowed creation of large-scale enterprises in Armenia. After the collapse of the Soviet Empire and the disintegration of traditional links, the size of the Armenian market on its own doesn't justify the large industries benefiting from the economies of scale. For almost all of the manufacturing firms Armenia is a very small market. The accessibility of other markets is an essential factor for the growth of manufacturing firms.

▪ **Lack of Market Heritage**

Armenia has almost no tradition of being exposed to competitive markets. Generally enterprises are not familiar with the market research and export marketing activities. Business people tend to go for activities such as trade and services, which have short-term horizons and fast returns.

▪ **Lack of Finance and Investment**

The lack of finance is well known as an obstacle to development not only in Armenia but also in the whole post-communist world. Access to finance constitutes as a major problem for enterprises, including difficulties to obtain bank credits, particularly for investment; the securities market is still in its infancy and not yet properly organized and regulated; no leasing mechanism; lack of organized venture capital; very limited foreign investment. Enterprises in the industrial sector are generally working at a fraction of their capacity, the profitability in industry is marginal and many of them in case of operation have just losses. They are not able to generate savings, which would allow them to invest. Only the tax debts as of January 1, 2000, were 48213.3 million drams.

▪ **Lack of enabling environment**

The great deal of Armenian infrastructure is in need of maintenance and upgrading. However nowadays inadequate infrastructure does not appear to be a primary impediment to business in Armenia. According to the survey [10] physical infrastructure is essentially a neutral factor regarding the attractiveness of Armenia for business and investment.

According to the same survey and other investigations the poor performance of the government institutions is a major obstacle to investments and overall business activity in Armenia. Success often depends on the discretion of the civil servants on location. Businessmen frequently have to pay government officials some irregular "additional payments" to get things done. According to foreign investors, compliance with their tax and

custom liabilities put them at disadvantage vis-à-vis local entrepreneurs, since the latter avoids taxation.

The business people also indicate considerable problems with and distrust of the court system (the impossibility of bankruptcy proceedings, contract enforcement, and the resolution of economic disputes through the institutions of legal system). As a rule, the laws and the rules for their implementation are unclear or are not uniformly applied.

▪ **Inadequacy and Lack of Transparency of Corporate Governance**

Generally speaking, the corporate governance in Armenia is lacking. There is no provision of adequate and timely financial information to shareholders. In most cases the former managers have bought the enterprise and quite often didn't have any idea about the future of their enterprises. Their mentality has not been changed since the centralized economy. The owners operate their enterprises to maximize their short-term gain, given the current environment.

▪ **The Blockade**

In normal times, Armenia's geographical position makes transportation of the traded goods expensive. At this moment, Armenia is facing a blockade on two of its borders, blockade which bars free circulation of goods through the most natural import/export routes. Even though there is still a flow of import and export from and to Turkey through indirect routes, the blockade entails supplementary costs for external trade. These supplementary costs penalize ponderous merchandises and it is said that it is not worth of contemplating on doing trade in products that have a cost under \$2000 per ton, as transportation costs would represent too high proportion of the total cost. The blockade distorts the flows of trade, as its impact is disproportionately heavy on lower value goods.

▪ **Drawbacks of Industrial Policy.**

Many of the industrial enterprises available in Armenia are production entities which lost completely or partially their markets, sources of raw materials, transportation means, guaranteed costs and their decision making process. Armenian industrial manufacturing is continuing to decline and most of the factories have stopped operations or operated partially. One of the reasons of such a decline in the industry is the weakness or lack of support program to private enterprises within the government policy.

The overview of the main sectors observed by our study is described below.

## **Internal Environment.**

### **1. MACHINERY**

Before the collapse of the former Soviet Union, Machinery was one of the most developed industries in Armenia. In 1980-s its share in GDP of Armenia was 65%, in GDP of Soviet Union – 5%. Armenia was providing a broad range of products to former Soviet market: steel clusters, electric loaders, water pumps, gas-cutting machines, precision lathes, forging press equipment, digital programming machine tools, boring machines. However, this industry was adversely affected by the collapse of the Soviet Union. Technology, production facilities and workers' skills became obsolete. All companies are working at a small fraction of their installed capacity or do not operate at all. It is not surprising that 62.6% of respondents have assessed the economic situation of their companies as bad or very bad. Nevertheless, there are some strengths in the industry that can enhance its recovery and development.

#### **Strengths**

- Availability of human resources can be utilized to produce new products. In the enterprises from the sample the huge part of the workers has as minimum 10 years of work experience. More than 60% of the workers are 4-7 grade workers.
- Relative satisfactory state in accounting compared to enterprises from other industries. Data are available on cost accounting.
- The management of enterprises from this industry are more strategic marketing oriented, as 45% of enterprises already have marketing departments, 90% agree that marketing department is necessary for the enterprise, and about half of them (51%) think that marketing department will help them to solve the problem of new markets.

#### **Weaknesses**

- High costs, the reason of which are:
    - obsolete equipment and technologies, outdated production and facilities, the average coefficient of depreciation in the enterprises of this industry was 0,45 and 17.6% of respondents have chosen the obsolescence of equipment and technologies as the main obstacle for their company development;
    - production capacities are used non-effectively, which entails increase in costs;
- High share of raw material cost in the cost of the product (in some enterprises more than 50%, even 70% in Factory of Steel Reinforcement), due to this 7.3% of respondents in this industry

have chosen high cost of production as the main obstacle to their development. Although some of the enterprises have low costs, as they are using some materials they have purchased several years ago with low prices, but this is only a short-term gain,

- high costs of transportation. Transportation with trucks is not efficient for this industry; the railway transportation is not available. That's why 13.5% of respondents in this industry have chosen lack of transportation alternatives as the main obstacle to their development.

## **2. CHEMICAL INDUSTRY**

The chemical industry was operating in high integration with other former Soviet Union republics by importing raw materials from them and exporting output there. Among the products of this sector are acetate fibers, synthetic rubbers, detergents, pharmaceuticals, vitamins, activated coal. There are 16 large and medium companies in this sector. Since 1994 among the industrial manufacturing sectors this sector had relatively less laid off employees, which means that there is high hidden unemployment rate in this sector (according to official statistics- about 50%).

In the last ten years the production facilities have not benefited from any renewal of equipment, 70% of which is more than 15 years old. The sector is strongly export oriented. However, production heavily depends on imported materials.

### **Strengths**

- Availability of qualified human resources (with more than 15 years of experience, due to this in the age structure of the employees 24.1% of them are in the group of above 50), and research facilities. Many directors are trying to give part-time jobs to their workers to minimize fluctuations in the supply of labor.
- Lower labor costs (average salary in the enterprises of this industry is one of the lowest ones, appendix 3).
- Possibilities of benefiting from geographic vicinity and/or special tariff reduction (CIS). Managers of many enterprises are informed about former Soviet Union markets very well. The significant part of their products is sold to Russia. Russian market is also an important center for the purchase of raw materials.

### **Weaknesses**

- Production heavily depends on imported materials.

- CIS market is depressed, and the export represented more than 90% of the total sales of this sector during the period from 1995 to 1999.
- Capital intensive.
- Obsolete equipment requires significant new investments (24.1% of respondents in this industry have chosen obsolescence of equipment and technologies as the main obstacle to their development).
- Environmental problems.

As most enterprises of chemical industry are located in Yerevan and Vanadzor cities, it will cause serious environmental problems, if these enterprises with obsolete equipment and technologies restart their production at a full capacity.

### **3. LIGHT INDUSTRY**

The Light industry was the relatively well developed sub sector before the disruption of economic links among the Soviet Union republics. It was representing 15% of total industrial manufacturing products with more than 25% of total employment. Sector's output was continuously declining since 1991, due to collapse of traditional markets, difficulties regarding energy, transportation costs and acquisition of raw materials. Taking into consideration that the length of useful life in this sector is estimated to be about 15 years, the existing capacities could be considered for the next years as well. In addition to this, the existence of qualified labor force is the sector's another comparative advantage.

#### **Strengths**

- Labor intensive.
- Availability of qualified and not expensive human resources (average salary in this sector is one of the lowest in the sample).
- Availability of production and technological resources. Many enterprises have modern German and Japan equipment, not depreciated, purchased in late 1980's.
- Close location to CIS market, potential preferential access.

#### **Weaknesses.**

- Production is mainly based on imported raw materials.
- Difficulties to access foreign markets, lack of familiarization with world market requirements. Unawareness about foreign markets as one of the main obstacles to their development is mentioned only by respondents of this industry and Machinery industry.
- Transportation problems (lack of transportation alternatives is mentioned as second obstacle with 16.7% by the respondents of this industry).

- Weak financial position of enterprises in the industry. Accounts payable have risen since 1995 by 6.7%.
- Relatively large share of inventories in current assets and low liquidity.

#### **4. FOOD PROCESSING**

Most of the companies in this industry have production lines designed for large scales of production and therefore, they cannot produce with cost efficiency in small quantities. But the domestic market is very small to consume the products of these companies. Russia is the most important foreign market for Armenian food processing industry. Export represented an average 12-15% of the total sales during 1995-1999's.

##### **Strengths**

- Local sources of raw materials, which lower transportation costs. The respondents of this industry have chosen lack of transportation alternatives and high costs as obstacles to their development most rarely.
- Existing domestic market for products.
- Potential for import substitution.

##### **Weaknesses**

- Technologies and facilities require upgrading to reach international standards, particularly packaging and labeling equipment.
- CIS market is depressed, products from the neighbor countries are competitive (Iran, Turkey). 24.4% of respondents have chosen lack of consumption market as main obstacle to development.

#### **5. FURNITURE INDUSTRY**

Furniture industry was also developed in the years of centrally planned economy. There were more than 18 furniture producing enterprises.

##### **Strengths**

- Availability of sources of raw materials. Producers have recovered their links with the Russian providers.
- Highly qualified labor force, existence of a group of master – craftsmen, who doesn't work in mass production. 50% Of respondents is in the age group of 41-50.

### Weaknesses

- Production is based on the imported raw materials from Russia. 19.4% of respondents have chosen lack of transportation alternatives and high cost as the main obstacle to development,
- High material intensive, about 60-70% of all costs is the cost of materials. 8.3% of respondents have chosen high cost of production as the main obstacle to development and it's the highest one compared to other industries,
- High level of inventories, which negatively affects liquidity.
- Absence of strategic thinking. Only 19% of enterprises in this industry have marketing department, although 66% have mentioned that they need it.

### External Environment

Today many opportunities that enterprises face are outside of the company. The proper and detailed analysis of external environment can identify the main advantages and drawbacks. The analysis of the environment enables the management to develop their strategic thinking and make strategic decisions by getting important information. The success companies follow very attentively the notions that are taking place in the external environment and constantly evaluate the changes in their companies. Since the notions of external environment are quite similar for all sectors, the analysis will refer to all of them.

### OPPORTUNITIES

1. The growing interest of foreign investors towards Armenian market.  
By stabilization of the economy in Armenia, the interest of foreign businessmen towards Armenian market has increased significantly. Some of the branches of famous American, British, French and German companies, as well as joint ventures already exist in Armenia. The huge Armenian Diaspora in USA, France, and in other developed countries can be viewed as a possible source of great financial support to privatized enterprises. Many of the representatives of Armenian Diaspora are very opportune businessmen in those countries and they can fundamentally cure Armenian economy with their investments.
2. However, investment is not an emotional process, and the investors would invest in such places where they would see the most optimal conditions of getting profit.
3. The continuous process of privatization fosters the creation of free market environment. Regardless of the delay in the terms of privatization, competition and market relations already exist in some spheres of economy.



4. Political stability is another factor to foster foreign investments. Today Armenia is one of the most politically stable and market oriented countries in Caucasus, with the most liberal trading laws among CIS countries.
5. The existence of appropriate legal environment for the development of entrepreneurship. In the previous years The National Assembly of Armenia has adopted several laws that are fostering the economic growth of industrial sectors. Some of them are " Law on property in RA", "Law on enterprises and enterprise activities", " Law on privatization of the State Property", " Law on foreign investments", "Law on bankruptcy of enterprises and private business owners" and "Law on Regulation of Securities' Market".
6. Financial grants and loan support from different foreign organizations, including International Monetary Fund, European Bank of Development and Reconstruction, World Bank, and TACIS.
7. More profound integration of Armenia with the system of international market economy.
8. The possibility of opening Armenian-Turkish boundaries. The continuous blockade of the roads by Turkey connected with the Karabagh issue discourages the extension of the export activities of the privatized enterprises, which are looking for the alternative ways to reduce their delivery costs. The opening of the boundaries will fundamentally reduce transportation costs and will enable privatized enterprises to penetrate into Western markets more efficiently. The new railway was opened in 1998, which enables to import or export goods through Poti and Batumi to Bulgaria and Romania.
9. Gradual stabilization of energy supply in the country. By reopening of the Metsamor power plant, many enterprises, by making payments, have got the opportunity to get whole-day supply of electricity. Unfortunately, the huge part of enterprises' liabilities which are growing very fast due to bad financial conditions, refers to electricity suppliers.

#### THREATS

The main external threat that creates difficulties for new owners are the State liabilities. The significant part of liabilities was incurred before privatization, and in many cases new owners, being unaware of the full amount of liabilities, must immediately cover it. It is supposed that through those liabilities and penalties, the government is trying to keep control on the privatized enterprises. In some cases the enterprises have to pay 75% of their profits to cover state liabilities. The rest amount is not sufficient to cover even interest on short-term loans (if these loans are obtained for production purposes). On one hand, the government

gives the opportunity to act freely, on the other hand, it doesn't want to take the control off the enterprises.

1. Soft taxation policy on Chinese and Persian goods makes local production uncompetitive. Today the issue of competition with the foreign companies is the most critical for the local enterprises. Considering Porters' five forces, the threat of new entrants' penetration in Armenian market is quite strong.
2. Thousands of qualified specialists from different sectors of industry leave the country because of economic difficulties. Many of them settle in Russia, others leave for developed countries, mainly for USA. The outflow of qualified specialists negatively influences the whole economy of the country and particularly, each industrial sector.
3. The shortage of raw material sources.  
70% of researched enterprises obtains raw materials from Russia. Machinery, Light and Chemical Industries completely depend on raw materials imported from Russia, and the exporting costs are high enough compared to the alternative raw material sources.
4. The big percent of error in statistical data is a big threat for all reforms in the transitional period. After the World War II, the Chinese economy was at the edge of a crisis, and Chinese government seized the importance of statistics in the process of integration of economy, and took measures to reduce the error. Nowadays, Armenia faces the same problem, when obtaining real statistical data from the enterprises is impossible. The only source to get information from is Tax Inspectorate. However, the percentage of error reaches approximately 50%. This 50% reflects what is called "Shadow Economy". In order to circumvent drastic tax burden, enterprises hide their real profits, by spreading fake statistics in the country. According to some non official data , about 50% of the economy has a "shadow" nature, which is suitable for both- consumers and suppliers.

## CONCLUSION.

Summarizing the results of privatization for the years 1995-1998, we can make the following conclusions:

1. The main goals set for the privatization projects are not fully achieved, the efficient management mechanisms are not implemented. The privatization didn't foster the growth of economic indicators and necessary investment programs were not implemented, which brought the big part of privatized enterprises to non operating state, and to the growth of unemployment rate. In addition, sale of fixed assets of privatized enterprises became a

The privatization vouchers did not serve the majority of population their destined role.

In other words, the distribution of privatization vouchers, initially aimed to insure equal conditions for all citizens, became the tool for extension of social inequality.

5. During the privatization process the middle is not formed which is considered to be the basis of well-formed society. It is connected with the strictly uneven polarization of privatized capital. It is enough to mention that more than 63% of shares in 713 OJSC are in the hand of 2.5% of shareholders [9].
6. Mass privatization was implemented without appropriate investment structures (banks, investment foundations, insurance companies) which significantly decreased the shareholder management efficiency.
7. Privatization was not followed by the state support for entrepreneurial activities. Enterprises stayed alone face to face with the current difficulties of transitional market economy. Currently the legislative and economic basis for the privatization is created, but there is no efficient mechanism for its implementation. Until now the security market is not formed which is the main blood vessel for the privatization process.

To fix the drawbacks of the process we need:

- To develop privatization program, which comes out of the priorities of national economy
- To apply tenders more frequently
- To implement the preliminary valuation of objects with the help of independent experts
- To ensure high level of transparency on deals, as well as provide sufficient information about them
- To support highly the formation of securities market
- Encourage the participation of workers in management activities
- To include goodwill during the valuation of objects.
- To keep the specialization of the companies and have it fixed in contracts
- ~~With the other requirements on privatization process provide jobs to some minimal high quality staff.~~
- To ensure the re-exploitation of enterprises' divisions in different regions of Armenia, by restricting the outflow of people, especially from mountainous and pre-mountainous regions.
- Due to funds received from privatization, to form a state investment fund for the purpose of strategic development of different sectors, and obtaining of new technologies.
- To exclude from the annual programs of privatization some enterprises that have strategic importance for the country, i.e. energetic, communications, health, water supply systems, aviation, railway, separate subdivisions of chemical industry, a part of natural mines.

For the main issue of economy – the re-exploitation of privatized enterprises we can suggest to research in detail all the deals , especially those that have evident violations in the implementation of privatization process.

In the case of finding violations, we would suggest

- To recognize the deal as a nullified
- To reevaluate object with new method , with the help of independent experts
- To take back to the state all the assets, equipment, technical and other documents of invalidated objects, to reimburse from the previous owner the full amount of inventories in market price, announce new tender for the privatization or lease of given object.

For the re-exploitation of the legally privatised enterprises that are not in use yet, we would like to suggest

- To give some priorities to working enterprises, in particular, to free enterprises from the taxes on assets and real estate in the first, and in some cases, in the second and third years.
- To define a time progressive tax on fixed assets of non working enterprises. It is expected that all the mentioned above will eventually make the owners of not working privatized enterprises to choose one of the following:
- To give the chance to re-explote the enterprise on their own, by freeing them from tax liabilities, that are accumulating from year to year, and by allowing them to benefit from the property tax privileges.
- To resell non working enterprise by its market value to another person or company, or return it to the State by the nominal price, paid during the privatization.
- To give the enterprise to the team of professionals who are willing to run it on the bases of lease contract.

## REFERENCES

[1] Frydman, Roman and Andrzej Rapaczynski (1993) " **Insiders and the State: Overview of Responses to Agency Problems in East European Privatization**". Economics of Transition, vol.1(1), pp. 39-60

[2] Սեփականաշնորհման և ապապետականացման գործընթացը. տեսության և պրակտիկայի հարցեր. ( The Process of Privatization and Denationalization Problems in Theory and Practice). Երևան, 1995, էջ 15 .

[3] Economic Trends, Armenia, October-December, 1999"- Tacis, pp. 124-125.

[4] Website: Privatization, [www.privatizationlink.com](http://www.privatizationlink.com)

[5] Մի բանի մեծ և միջին չափի ձեռնարկությունների տնտեսական գործունեության արդյունքների ուսումնասիրություն. (The Results of Study on Some Large And Medium Size Enterprises' Economic Performance). Երևան, 1996.

[6] Սեփականաշնորհումը Հայաստանում. Գործընթացը, արդյունքները և հիմնախնդիրները (Privatization in Armenia. The Process, Results and Problems) Երևան, 1996, 72 էջ.

[7] Европейский опыт приватизации.( European Experience of Privatization) Наука и жизнь # 2 1996.Москва

[8] Приватизация в Чехословакии.(Privatization in Czechoslovakia).Вопросы экономики #4. 1995

[9] ՀՀ տնտեսության և ձեռնարկատիրության զարգացման արդի խնդիրները:

( Current Development Issues of Armenian Economy and Entrepreneurship) Երևան, 1998.

[10] Investigation of Factors Inhibiting Foreign Direct Investment in Armenia.

Caucasus Center and The Investment and Export Policy Directorate of MIT(Ministry of Industry and Trade of Armenia, Yerevan, 1998.

[11] Industrial Policy Advice to The Government of Armenia. UNIDO (United Nations Industrial Development Organization), 1998.

[12] Republic of Armenia. Export Supply Survey. UNCTAD (United Nations Conference on Trade and Development) , ADA (Armenian Development Agency) MIT(Ministry of Industry and Trade), Yerevan, 1999.

APPENDIX 1

Reference on the process of privatization in Armenia on 01.10.00.

Form of Privatization	Are evaluated	Certified by government resolution	Total	Out of that			Out of that by ministries										
				In process of privatization	Privatization didn't take place	Has been privatized	Manufacturing and Trade	Agriculture	Construction	Culture	Energetics	Transportation	Communications	Health Care	Information and Publishing	Other	Liquidated in the result of bankruptcy
1. Free subscription of shares, total		1332	1316	2	203	1111	420	360	191	30	15	32	11	1	31	20	
a) Classic subscription		1267	1251	2	200	1049	394	333	185	30	15	31	11	1	29	20	
b) lot auction		65	65		3	62	26	27	6			1			2		
2. Direct Sale		149	149	1	12	136	54	37	9	6		14	1	6	4	5	
3. Sale to leaseholders		194	194	1	4	189											
4. Auction		31	30		12	18	7	10				1				2	
5. Tender		151	151		90	61	11	13	18				9	7	1	1	
6. International tender		17	17		8	9	6	1									1
7. Sales of shares		3	2		1	1							1				
8. Sales of state share		21	7			7	1	4					2				
Total	2044	1898	1866	4	330	1546	499	434	220	36	24	57	15	8	35	29	9
Out of this in 2000					28	33											

Are evaluated	Had been privatized during 1991-1992	Out of them by auction or tender	Should be privatized by auction, Total	Out of them in process	Haven't been sold by auction	Had been privatized in 1991-1992
6278	6831	284	189	7	1042	335

## QUESTIONNAIRE

1. **How could you assess the economic situation of your company?**

- a. excellent
- b. good
- c. satisfactory
- d. bad
- e. very bad

2. **If you responded "satisfactory" or below, please indicate reasons (indicate not more than 3 answers).**

- a. lack of consumption market
- b. credit liabilities
- c. debts to the government and other debts
- d. current situation of equipment and technologies
- e. lack of transportation alternatives and high cost
- f. unawareness about foreign market
- g. tax burden
- h. unsatisfactory level of customs inspection
- i. non competitiveness of our products
- j. high cost of production
- k. difficulties to obtain loans
- l. other

3. **What is your strategy as a shareholder/executive director of the company? (Indicate only one answer).**

- a. increase the percent of my shares
- b. identify new markets
- c. sell my share in the market in a most profitable way
- d. sell unused fixed assets
- e. increase an interest on dividends
- f. extend current production capacities
- g. other

4. **When do you intend to sell your share of property? (Indicate only one answer).**

- a. when the company will get bankrupt
- b. when foreign investor would like to become a shareholder
- c. when additional financing will be necessary for recapitalization of the company
- d. never

5. **How do you use financial inflow, generated by the profit or loans obtained by the company? (Indicate only one answer).**

- a. increase production volume
- b. obtain new equipment

- c. search for new markets
- d. pay dividends
- e. cover debts of the company
- f. improve socio-economic situation of workers
- g. other

6. **What is your percentage in the total amount of equity?**

- a. less than 5%
- b. 5-10%
- c. 11-25%
- d. 26-40%
- e. above 40%

7. **Do you want to extend your share?**

- a. yes
- b. no
- c. I don't know

8. **If "yes" how much?**

- a. a little bit
- b. significantly
- c. entirely
- d. haven't decided yet

9. **Do you have a marketing department in your company?**

- a. yes
- b. no
- c. I don't know

10. **Do you need a marketing department in your company?**

- a. yes
- b. no
- c. I don't know

11. **What is the role of the marketing department? (Indicate not more than 2 answers).**

- a. increase the sales volume
- b. research of new markets
- c. identification of competitors
- d. development of promotion strategy
- e. has no sense at all
- f. I don't know

12. **What is the percentage of expenses allocated on advertising compared to your company's overall expenditures?**

- a. less than 5%



- b. less than 10%
- c. less than 25%
- d. above 25%
- e. not available

**13. Has the social condition of your employees improved after the privatization?**

- a. yes
- b. no
- c. I don't know

**14. If you responded "yes", please mention what indicators do you mean?**

- a. number of employed has risen, number of employees working part time and being in compulsory holidays has decreased
- b. wages have been risen
- c. wages are paid regularly every month
- d. more effective system of payments is used
- e. working conditions are improved

**15. What is your status in your company?**

- a. president
- b. executive director
- c. both of above mentioned
- d. another member of a Board of Directors

**16. Your age.**

- a. 20-30
- b. 31-40
- c. 41-50
- d. above 50

**17. Your gender**

- a. male
- b. female

**18. Your specialty**

- a. economist
  - b. engineer
- c. lawyer
- d. sociologist
- e. other ( please, specify)

## APPENDIX 2

### List of Enterprises in the Sample

- 1 Hayelectraaparat
- 2 Yerevan Amranner Factory
- 3 Yerevan Factory of Compressors
- 4 Yerevan Pump Factory
- 5 Yerevan tech. Equipment Experimental Factory
- 6 "Van-1" Cooperative of "Lusin" Factory
- 7 Abovian "Eleprint"
- 8 "Eraz"
- 9 Armavir Machine-Tool Factory
- 10 "Erebuni" Research Institute
- 11 Firm "Karin"
- 12 Yerevan pharmaceutical Firm
- 13 "URARTU" Commercial-Production Factory
- 14 "Tosp"
- 15 Yerevan Oil-Fat Factory
- 16 Ashtarak Cheese Factory
- 17 Djrarat Poultry Factory
- 18 Masis Pahatsagorts Factory
- 19 Yerevan Retin Factory
- 20 Yerevan Furniture Factory ( Myasnikyan)
- 21 Yerevan Soft Furniture Factory
- 22 Yerevan Furniture Factory # 1
- 23 Yerevan School Furniture Factory
- 24 Abovian Construction Materials Factory
- 25 Yerevan Hrushakexen-Makaron Factory

### APPENDIX 3.

#### Some indicators of economic activities of sampled enterprises. ( by industries, in thousand of drams)

##### Machinery (10 enterprises).

Indicators	Before Privatization (in 1994)	After Privatization (in 1995)	After 6 Years of Privatization (in 2000)
Volume of Production	512,621	388,716	435,374
Sales	499,697	584,103	461,654
Profit	320,089	204,841	237,073
Budget Payments	99,254	344,054	211,423
Number of Employees	5,446	4,831	3,237
Average Salary	3,062	5,226	18,500
Accounts Payable	538,731	709,552	654,712
Accounts Receivable	154,207	198,710	276,523

##### Chemical Industry ( 3 Enterprises )

Indicators	Before Privatization (in 1994)	After Privatization (in 1995)	After 6 Years of Privatization (in 2000)
Volume of Production	530,261	573,443	232,153
Sales	235,236	593,153	244,633
Profit	116,643	603,868	109,065
Budget Payments	43,016	188,382	101,765
Number of Employees	1,731	1,409	933
Average Salary	1,617	6,560	11,210
Accounts Payable	2,111,132	310,749	417,074
Accounts Receivable	104,517	156,350	131,244

##### Light Industry (2 enterprises)

Indicators	Before Privatization (in 1994)	After Privatization (in 1995)	After 6 Years of Privatization (in 2000)
Volume of Production	266,072	341,730	103,900
Sales	60,142	198,551	122,769
Profit	48,019	126,165	48,018
Budget Payments	23,999	63,786	42,939
Number of Employees	1,819	1,772	1,471
Average Salary	1,911	4,469	10,500
Accounts Payable	254,680	331,658	354,460
Accounts Receivable	104,730	276,466	224,120

### Food Processing (5 enterprises)

Indicators	Before Privatization (in 1994)	After Privatization (in 1995)	After 6 Years of Privatization (in 2000)
Volume of Production	436,341	671,029	878,792
Sales	792,412	971,138	921,344
Profit	183,004	-188,444	294,950
Budget Payments	56,867	98,957	174,016
Number of Employees	1,668	1,643	1,247
Average Salary	1,758	1,644	15,600
Accounts Payable	274,017	555,176	486,621
Accounts Receivable	79,384	260,138	194,053

### Furniture Industry (4 enterprises)

Indicators	Before Privatization (in 1994)	After Privatization (in 1995)	After 6 Years of Privatization (in 2000)
Volume of Production	151,597	131,232	195,322
Sales	84,944	183,111	213,737
Profit	35,057	102,414	8,205
Budget Payments	14,193	41,320	14,435
Number of Employees	961	920	833
Average Salary	2,437	5,101	6,800
Accounts Payable	39,714	55,814	59,349
Accounts Receivable	18,119	23,883	25,739

### Production of Construction Materials

Indicators	Before Privatization (in 1994)	After Privatization (in 1995)	After 6 Years of Privatization (in 2000)
Volume of Production	72,316	63,734	24,570
Sales	13,119	23,758	20,400
Profit	1,996	3,554	3,130
Budget Payments	619	1,252	3,012
Number of Employees	161	151	136
Average Salary	2,634	6,509	14,000
Accounts Payable	11,025	18,908	52,422
Accounts Receivable	0	0	8,900

APPENDIX 4.

RESULTS OF THE SURVEY IN PERCENTAGE.

1. How could you assess the economic situation of your company?	Machinery	Chemical	Light	Food Processing	Furniture	Construction	Total
a) excellent	0	0	0	0	0	0	0
b) good	0	34.5	0	9.0	0	0	6.0
c) satisfactory	37.5	48.2	27.7	6.6	5.5	42.9	52.3
d) bad	43.8	17.2	72.2	84.4	55.5	42.9	52.3
e) very bad	18.8	0	0	0	38.9	42.9	15.6
2. If you responded "satisfactory" or below please indicate reasons.							
a) lack of consumption market	26.2	6.9	27.7	24.4	33.3	14.2	25.0
b) credit liabilities	5.2	6.9	5.5	2.2	0	14.2	25.0
c) debts to the government and other debts	15.6	20.6	11.1	15.6	2.8	28.6	16.0
d) obsolescence of equipment and technologies	17.6	24.1	5.5	13.3	16.7	28.6	16.9
e) lack of transportation alternatives and high cost	13.5	17.2	16.7	6.7	19.4	14.2	12.7
f) unawareness about foreign markets	2.1	0	0	4.4	0	0	1.7
g) tax burden	9.4	16.7	11.3	11.1	11.2	14.2	10.4

h) unsatisfactory level of customs inspection	3.1	6.9	5.5	4.4	5.6	0	5.3
i) non competitiveness of our products	5.2	3.4	5.6	2.2	2.8	0	3.5
j) high cost of production	7.3	4.4	5.5	4.4	8.3	14.0	6.5
k) difficulties to obtain loans	3.1	0	5.5	11.1	0	0	4.0
l) other	2.1	2.3	0	4.3	0	0	2.2
3. What is your strategy as a shareholder/executive director of the company							
a) increase a percent of my shares	2.1	0	11.1	8.9	2.8	14.2	4.2
b) identify new markets	70.8	37.9	33.3	60.0	50.0	28.6	57.1
c) sell my share in the market in a most profitable way	0	3.4	0	0	0	0	0.4
d) sell unused fixed assets	8.3	6.9	16.7	11.1	2.8	28.6	9.0
e) Increase dividends	5.2	0	0	13.3	2.8	0	5.3
f) extend current production capacities	13.5	51.7	33.3	6.7	41.7	28.6	23.5
g) other	0	0	5.5	0	0	0	0.5
4. When do you intend to sell your share of property?							
a) when the company will get bankrupt	10.4	31.0	16.7	20.0	13.9	14.2	16.2
b) when foreign investor would like to become a shareholder	2.1	6.9	5.6	2.2	5.6	14.3	4.1
c) when additional financing will be necessary for recapitalization of the company	7.3	20.7	5.6	8.9	8.3	0	8.9
d) never	80.2	41.4	72.2	68.9	72.2	71.4	70.8
5. Where do you use financial inflow generated by the profit or loans obtained by the company?							
a) increase production volume	30.2	27.6	33.3	33.3	25.0	28.6	29.8
b) obtain new equipment	5.2	13.8	22.2	31.1	22.2	14.3	15.7
c) search for new markets	8.3	31.0	11.1	4.4	19.4	0	12.3
d) pay dividends	4.2	2.1	0	11.1	8.3	14.3	6.7

e) cover debts of the company	34.4	17.2	27.8	15.6	22.2	28.6	31.0
f) improve social-economic situation of workers	14.6	3.4	5.6	4.4	2.8	14.3	3.4
g) other	3.1	0	0	0	0	0	1.1
6. What is your percentage in the total amount of equity?							
a) less than 5%	23.9	27.6	16.7	8.9	5.5	28.5	18.2
b) 5-10%	28.1	34.5	38.9	8.9	2.8	14.3	21.6
c) 11-25%	39.6	24.1	27.8	75.6	27.8	42.9	42.1
d) 26-40%	5.2	13.8	16.7	4.4	13.9	0	7.8
e) above 40%	3.1	0	0	2.2	5.5	14.3	10.3
7. Do you want to extend your share?							
a) yes	52.1	62.1	55.6	68.9	33.3	28.5	53.2
b) no	8.3	13.8	11.1	6.7	22.2	42.9	12.0
c) I don't know	39.6	24.1	33.3	24.4	44.4	28.5	34.8
8. If yes, how much?							
a) a little bit	22.9	20.7	16.7	15.6	16.7	0	19.2
b) significantly	28.1	41.4	55.6	62.2	86.1	14.3	43.4
c) entirely	4.2	6.9	11.1	4.4	5.6	0	5.1
d) haven't decided yet	44.8	31.0	16.7	17.8	16.7	85.7	32.3
9. Do you have a marketing department in your company?							
a) yes	45.0	17.2	33.3	53.3	19.4	0	36.6
b) no	53.1	79.3	55.6	42.2	66.7	100.0	56.3
c) I don't know	2.1	3.4	11.1	4.4	13.9	0	5.1
10. Do you need a marketing department in your company?							
a) yes	86.0	62.1	50.0	68.9	66.7	28.6	73.4
b) no	6.0	17.2	16.7	17.8	8.3	14.3	11.2
c) I don't know	4.2	20.7	33.3	13.3	25.0	57.1	15.4
11. What is the role of the marketing department?							
a) increase the sales volume	14.6	27.6	27.8	37.8	25.0	14.2	23.4

b) research of new markets	51.0	41.4	38.9	35.6	52.8	28.5	45.5
c) identification of competitors	5.2	6.9	16.7	24.4	11.1	14.3	11.3
d) development of promotion strategy	22.9	24.1	16.7	35.6	22.2	14.3	24.7
e) has no sense at all	3.1	10.3	0	4.4	2.8	0	3.9
f) I don't know	5.2	13.8	0	0	5.6	28.6	6.5
12. What is the percentage of expenses allocated on advertising compared to your company's overall expenditures?							
a) less than 5%	64.6	55.2	66.7	22.2	50.0	28.6	52.0
b) less than 10%	8.3	0	27.8	57.8	27.8	0	21.0
c) less than 25%	2.1	0	0	11.1	0	0	3
d) above 25%	0	0	0	0	0	0	0
e) not available	25.0	44.8	5.6	8.9	22.2	71.4	24.0
13. Have your employees social conditions improved after privatization?							
a) yes	9.4	0	0	11.1	0	0	6.0
b) no	62.5	75.9	66.7	80.0	80.6	100.0	72.0
c) I don't know	28.1	24.1	33.3	8.9	19.4	0	22.0
14. If you answered "yes", what indicators do you mean?							
a) the number of employees has increased, the number of part-time workers and persons in compulsory holidays has decreased	0	0	0	0	0	0	0
b) salary has increased	44.4	0	0	0	0	0	28.6
c) salaries are paid regularly, every month	0	0	0	0	0	0	0
d) more efficient system of payments is used	0	0	0	0	0	0	0
e) working conditions have improved	55.6	0	0	100.0	0	0	71.4
15. What is your status in company?							
a) president	2.1	6.9	0	4.4	5.6	0	3.5
b) executive director	2.1	6.9	0	4.4	5.6	0	3.5



c) both of above mentioned	8.4	3.4	11.1	6.7	5.6	14.3	7.4
d) another member of the Board of Directors	26.0	31.0	27.8	37.8	30.6	28.6	29.9
e) other	61.5	51.7	61.1	46.7	52.8	57.1	55.8
16. Your age							
a) 20-30	15.6	20.7	16.7	22.2	16.7	57.1	19.0
b) 31-40	40.6	41.4	49.9	60.0	22.2	28.6	42.0
c) 41-50	30.2	13.8	22.2	13.3	50.0	14.3	27.0
d) above 50	13.5	24.1	11.2	4.4	11.1	0	12.0
15. Your gender							
a) male	98.9	82.3	50.0	66.7	100.0	100.0	87.0
b) female	1.1	17.7	50.0	33.3	0	0	13.0
16. Your specialty							
a) economist	16.7	17.2	16.7	24.4	22.2	14.3	13.4
b) engineer	36.5	51.7	33.3	53.3	66.6	42.9	52.0
c) lawyer	2.1	0	5.5	2.2	2.8	0	2.0
d) sociologist	0	0	0	0	0	0	0
e) other	44.8	31.0	44.4	20.0	8.3	42.9	32.5