

FINANCIAL PARTICIPATION
IN
ROMANIA

DIANA COSTACHE

GENERAL OVERVIEW

A significant aspect of Romania's transformation to a market economy is the privatization of the existing state-owned enterprises.

Romania has opted for a privatization approach which recognizes both the rights of its citizens to a share of the economic assets of the nation and the need for the state to derive revenue from the privatization process.

Specifically, Romania's legislation has provided for:

- *distribution to individual Romanians of a 30% interest in Romania's 6 300 commercial companies. This process was completed by distribution of ownership certificates in five private ownership funds which had previously received 30% of the equity of commercial companies.*
- *eventual sale of the State Ownership Fund's 70% interest in commercial companies. This goal can be accomplished by asset sales and/or share sales; both employees and investors (romanian and non-romanian) are eligible for these sales.*

While this first year of this privatization has been slower than expected, progress in disposing of the State Ownership Fund's holdings is expected to increase as procedures are improved and staff skills are developed.

Legal and Institutional Framework

The overall process of privatizing Romania's state-owned companies has been divided into three major phases:

- 1. conversion of state-owned enterprises into commercial companies;*
- 2. allocation to eligible romanian citizens of a 30% interest in the capital of commercial companies;*

3. *sale of the unallocated 70% interest to Romania and/or non-romanian investors.*

The first step, conversion of state enterprises into commercial companies with share capital and autonomous administration (regie autonomes), was undertaken by the Law on the Restructuring of State-Owned Enterprises (Law No. 15/1990). The commercial companies are estimated to be 53% of the total value of the enterprises; autonomous administrations represent 47% of the total value of the enterprises. In total, about 6 300 commercial companies and 390 regie autonomous administrations were established.

The autonomous administrations comprise strategic sectors of the national economy, including defense production, rail and urban transportation, energy and natural gas and mining. While these sectors are currently designated to remain as state property, the enterprises included in this category are subject to review.

The second step, transferring to eligible romanians a 30% ownership was also addressed in Law No. 15/1990. This legislation provided for all eligible romanian citizens to receive, free of charge, bearer ownership certificates in five Private Ownership Funds (POFs) representing the unallocated 30% holding of the share capital of commercial companies. The law also created the National Agency for Privatization (NAP); the entity responsible for preparing, organizing and coordinating the overall privatization process and the ownership certificate programme.

The third step, sale of the 70% interest in commercial companies not distributed to romanians individual, is the responsibility of the State Ownership Fund. This step is comprised in Law No. 58/1991.

In order to achieve the combined programme of privatization by voucher and privatization by sale, the chronology of major events has been:

- *five Private Ownership Funds were created to hold and manage the commercial company shares distributed to individual romanians;*
- *a sixth fund, the State Ownership Fund, was created to hold the state share of the commercial enterprises and coordinate the restructuring of larger enterprises;*
- *the allocation to the five POFs and SOF of the commercial company shares;*
- *the distribution to individual eligible romanians on a no-charge basis, of ownership certificates comprising the 30% holding in the commercial companies by the POFs;*
- *the establishment of general guidelines and procedures for privatization of the SOF holding by sales of shares or assets.*

Privatization Programmes

Romania's privatization programme has been divided into early privatization and mass privatization.

Early privatization programmes

The Privatization Law has contained various provisions intended to start the early privatization process with the minimum delay.

Accordingly, two main programmes have been included in the early privatization phase: sale of assets and the sale of shares.

Sales of assets

Assets, as defined by the Privatization Law of Commercial Companies, are non-core activities which are organized and able to operate independently. Privatization by asset sales had been undertaken by commercial companies, and the process is being supervised by the National Agency for Privatization.

A total of 6 822 assets from more than 500 commercial companies have been identified for sale. By August 1993 more than 2 300 assets employing over 11 000 persons were sold.

Pilot privatization by sale of shares

Concurrently with the sale of assets, a pilot programme for privatization by sale of shares was undertaken. A total of 22 companies were sold to both romanian and non-romanian groups under this programme.

Mass Privatization Programme

The main aspect of Romania's privatization programme is the transfer of ownership in commercial companies from the state to individual citizens. The transfer is being undertaken by means of voucher programme transferring an undivided 30% interest in Romania's commercial companies to the five Private Ownership Funds.

Each eligible romanian has received certificates for his or her share of these funds.

Many of Romania's commercial companies are profitable and are distributing dividends. However, for the first three years of operation the POFs retained dividends received; subsequently, the individual POFs developed a policy for dividend distribution to certificate of ownership holders.

Operation of the Private Ownership Funds

A total of 16,5 milion certificates of ownership in the Private Ownership Funds have been distributed free of charge to eligible romanian citizens. Each certificate includes a coupon for each of the five funds; POF 30% share of Romania's 6 300 commercial companies has been allocated among the POFs. Each certificate has been allocated a nominal value of 5 000 units. The total value of the POF ownership in Romania's commercial companies will be known in time; in the interim the POFs set a

value on the certificates for (i.e. 1 000 000 in February, 2003) use in Management Employee Buy Outs (MEBO). The certificates, which are in bearer form, can be sold at a discounted value on a secondary market.

Currently, the POF portofolio includes three main categories of holdings:

- *small comercial companies slated for fast privatization. A total 2 500 companies with fewer than 500 employees are to be privatized quickly, using standardized procedures. The proceeds from this sale are shared by POFs and SOF.*
- *medium sized commercial companies. For these companies, with fewer than 3 000 employees, the 30% POF share has been assigned to an individual POF; the allocation is based on either geographic location of the company or the industry sector in which a POF has specialized its portofolio.*
- *large commercial companies. For more than 1 000 larger enterprises, especially those requiring restructuring before privatization, the SOF holds both its own share and, in trust, the POF share. This arrangement reflects the need for more time and financial resources to privatize these companies.*

Opportunities for Foreign Investors

Romania recognizes the need for international capital, technology, equipment etc in developing a market economy in Romania.

Joining of romanian resources and skills together with international capital, know-how and ideas is welcomed.

For investors, it is possible to acquire either shares or assets in romanian commercial companies from either the State Ownership Fund or the Private Ownership Funds.