PRIVATIZATION IN SLOVENIA

Jože Mencinger

EIPF and University of Ljubljana, Slovenia

Summary

Mass privatization in the early nineties was to a great extent influenced by the legacy of social property and self-management which had singled out Yugoslav economic system. A rather predictable outcome of the privatization process was an unstable ownership structure made up of insiders, private and state owned financial institutions, and relatively few foreign owners. A sizeable portion of the economy remained in direct state ownership. Formal privatization was followed by a slow gradual consolidation of ownership structure which however also enabled political interference. While discretely used by previous governments, potential interference blew into full meddling with the new government (elected in 2004) despite its neo-liberal rhetoric of the "withdrawal of the state from the economy". Beside "basic transitional privatization" specific privatizations have shaped the existent ownership structure, as well. Such have been the restitution in kind which created administrative nightmare, the sale of social housing ending in a rather unique ownership structure, and the "privatizations" of banking and insurance industry, which ended in factual nationalization. A new wave of privatization has been a constituent part of economy wide reform which should take place in the period of the next three years. This wave of privatization should be dispersed and open to international participation. It should consist of the transformation of the state owned funds (KAD and SOD) from active into portfolio investors and of various complete or partial privatizations of some large companies which remained in state ownership during previous privatizations.

Key words: Slovenia, transition, privatization,

1. INTRODUCTION

Privatization has been considered the cornerstone of transition; it has also proved to be its major stumbling block. In a broader sense privatization includes provisions which protect private property, provisions which enable its creation, and an orderly and legally sanctioned transfer of the property from "the people" - the state or other public bodies, to private entities - persons, partnerships, and corporations.

The introduction of rules which protect private property was thus the first step in the formation of a "normal" capitalist market system in former socialist countries; it was achieved by constitutional changes in the early phase of transition. Equally important was creation of a legal framework for activities which enable accumulation of wealth in the hands of those who are able and willing to save. Such a framework facilitates "the invisible hand" to function properly and includes the rules to guide economic behavior of independent economic units, to regulate business transactions, to enforce the rules, and to resolve the disputes which might arise between private parties and between private parties and government. Formally, private property protection and market institutions similar to those which exist in developed market economies could be established quickly and, indeed, CEE countries were relatively quick in creating appropriate legal framework. This was eased by the existing legal tradition which could be revised and supplemented, and by their willingness to copy the missing framework and market institutions from the West[1]. It was however unlikely that these institutions would immediately operate as they do in the developed market economies; their performances namely to a great extent depend on norms and patterns of social behavior, rather little can be governed by formal rules and contracts. Indeed, a transfer of property from "the people" – the state or other public bodies to private persons even in the CEE countries, and much more so in the countries of former Soviet Union, resulted in the "robbery of the century" and resembled the Marxian "primary accumulation of capital".

Once private property rights are protected and the rules that enable creation of private property are defined, the privatization can begin. In fact, how to restructure the existing ownership design into a

[1] Czechoslovakia, Hungary, Rumania and Bulgaria passed new company laws. Slovenia inherited Yugoslavia's Enterprise Law enacted in 1989 and adopted a new law in 1993, Poland revised the old prewar company law.

design that matches the mechanism of a capitalist market economy and attains three goals: economic efficiency, social justice, and political democracy; has remained one of the most intriguing issues of transition.

The economic efficiency assumption is taken for granted; though private property is only a necessary and not a sufficient condition for creating an institutional environment that assures economic efficiency. It emerges from "the incentive superiority of private property rights in guiding efficient economic behavior" (Urban, 1990, 36). However, warnings over some likely adverse effects of privatization in the process of transition were mainly disregarded. Instead of relying on the step-by-step construction of the institutions of a market economy on the legacies of the past, capitalism in former socialist countries was "created" by fiat as communism used to be. Ironically enough, the "prophets" from the West were very eager to apply the old communist principle of running the economy by fiat and by using the planners' tools; they disregarded the characteristics and differences among the countries. Their privatization schemes therefore exhibited one common characteristics; they were grandiose administrative operations often outclassing the dreams of central planers. Furthermore, most ideological confrontations over privatizations were inspired by the Marxian beliefs that the ownership of the means of production determines all relations in a society.

The validity of the second assumption, i.e. that privatization is to bring fairness into distribution of wealth and welfare is, at least, dubious. Fairness in distribution is an extremely ambiguous concept as illustrated, for example, by enormous variations of social protection and tax redistribution of incomes even among developed welfare states.

It is also true that the dominance of private property rights appears a proper base for a stable political democracy. However, the new political elites "have given a new political meaning to privatization; it should increase their political legitimacy and compensate them for hardships under communist domination" (Privatization in Eastern Europe, 1992, 7).

With increased efficiency remote and fairness ambiguous, the aim of privatization in former socialist countries was often reduced to a very transparent political goal - to replace the old political and economic elites with a new elite. Enthusiasm for speedy privatization could thus only in part be attributed to the faith of the new elite in the supremacy of the capitalist market system; it was also

intended to eliminate political and economic competition. The speed of the operation, therefore, understandably, became the criteria to evaluate the success of ownership "restructuring". This is confirmed by observing how technical approaches to privatization in the ECE countries resembled or differed[2]. The differences and, even more so, the similarities indicate that genuine variations among the countries: political and social environment, existing institutional framework, degree of monetization of the economy, industrial structure, incorporation into the world market, and macroeconomic performances were of minor importance in choosing the privatization pattern. The approaches to privatization and its patterns instead reflected specific distribution of political power in a country and they were also directly or indirectly influenced by the ideas of randomly chosen western "privatizers".

Slovenia was not immune of privatization dilemmas. Indeed, one could even argue that the advantages which the country had had if compared to other ECE countries turned to disadvantages. This is true only in the first glance. Namely, the outcome was to a great extent in accordance with the legacies of dispersed decision-making and represented an evolutionary rather than a revolutionary pattern of development.

[2] Voucher schemes in Czechoslovakia and Russia should, for example, enable to give away a large proportion of the equity to all adult citizens directly and in combination with mutual funds. Hungary followed the example of privatization in Western countries and emphasized the sale option. Poland stressed creation of institutional owners. Croatia, characterized by the concentration of political power, "privatized" by giving the control of the economy to a new political elite, Slovenia, with dispersion of political power, introduced a combination of approaches.

2. THE FIRST WAVE - MASS PRIVATIZATION

Preparations for privatization began before the first “free elected” Slovenian government was shaped. They could be traced to the Yugoslav federal **Amendments to the Constitution** adopted in November 1988, and the codes regulating economic and labor relations in 1988 and 1989. The most important among them **The Enterprise Act** formally abrogated "self-management and social property relations" and replaced them by the "capitalist property relations". The **Law on the Circulation and Disposal of Social Capital** gave the power to the workers' councils to sell companies to private owners. Finally, the **Law on Social Property** adopted in August 1990 enabled gradual transformation of socially owned firms into mixed companies, whereas "internal shares" enabling the employee buy-outs through the purchase of shares at a discount were to be the main instrument of privatization.

In 1990, privatization was in fact shifted to republics which started to prepare the drafts of their own privatization laws. Two major concepts known as the Korze-Mencinger-Simoneti (KMS) code and the Sachs-Peterle-Umek (SPU) code competed in Slovenia. The former proposed a **gradual, decentralized, and commercial privatization**, the latter insisted on **a mass, centralized, and distributive privatization**. The controversy soon proved to be a political rather than an economic issue, the roots being the resulting control of the economy. The decentralized privatization would presumably enable the control to remain in the hands of managers and thus in the hands of the old economic and political elite. The centralized privatization, on the other hand, would transfer the control to the government and thus to the newly emerging economic and political elite.

The concept of gradual, decentralized, and commercial privatization submitted to the legislature in June 1900 tried to observe economic and social legacies of the previous system and seemed suited for the transition of a relatively efficient Slovenian economy. It was believed that "to avoid the adverse effects of privatization in the process of transition, the existing property rights, particularly those of managers, ought to be strengthened rather than weakened and destroyed" (Bajt, 1992, 19),

and that insiders might be the best transitional owners. The notion **"decentralized"** therefore implied that the existing self-managed enterprises initiate the process of transforming themselves into private companies using various privatization techniques. The government's role was, consequently, limited to determine the rules and to monitor the process by a special governmental agency. **"Gradual"** marked the possibility that initial privatization (by sale of the existing equity or by acquiring additional equity) might be full or partial while **"commercial"** implied that there would be no free distribution of shares. Instead, the citizens of Slovenia would be entitled to discounts on the purchase of shares up to a certain value, and the employees would enjoy additional discounts. The proposal should have captured the advantages of the decentralized nature of the Slovenian economy, but it failed to provide a good solution for large unprofitable enterprises, and it was politically unattractive because it did not provide for a general free distribution of shares to citizens.

This concept was in April 1991 replaced by the concept of mass, centralized, and distributive privatization. According to it, political, social, and economic legacies of the past should be destroyed. The notion **"centralized"** related to the role of the government in carrying the privatization procedures. By **"mass"** privatization, it was meant that enterprises were to be immediately converted into joint stock companies through **"free distribution"** of shares to citizens. Indirect, two stage approach of free distribution was chosen. In the first stage, shares of the companies were to be transferred to financial intermediaries, while in the second stage, shares of these institutional owners were to be distributed free of charge to all citizens of Slovenia. It was believed that institutional owners would monitor and restructure the companies, and assure that they are efficient and profitable.

The controversy between the two approaches resulted in a stalemate lasting for a year and a half[3]. During this period, a relatively efficient Slovenian economy suffered a number of severe blows; the loss of traditional markets in former CMEA countries and in the Middle East, and, what was far more important, the complete break of the Yugoslav market[4]. As a result, about 800 enterprises found themselves insolvent and on the verge of bankruptcy while banks accumulated a large volume

---

[3] The stalemate in legal provisions did not stop actual privatization. Uros Korze (1992) reports of different ways which enabled privatization to continue despite absence of the privatization bill.

[4] The trade with the rest of Yugoslavia exceeded total foreign trade; if exports to other republics were considered exports, Slovenia lost 58 percent of total exports.

of bad loans. The government therefore launched a program which would be a temporary alternative to economy-wide bankruptcy of badly affected enterprises. In fact, the enterprises could be divided into three groups; (1) large unprofitable enterprises most affected by the political events and transition, (2) enterprises which were less affected and which were to be privatized under the provisions of the new ownership restructuring act, and (3) enterprises such as public utilities and steel mills which were to remain state owned..

The newly established **Development Fund** should take over the enterprises in the first group, i.e. in large unprofitable enterprises most affected by the political events and transition. The Fund should establish corporate governance, negotiate over old debts with creditors while providing access to necessary liquidity, and then divest and privatize them. 217 enterprises applied and 98, accounting for 10 percent of workforce and 40 percent of losses of the Slovenian economy, were included into the program. The included enterprises transferred shares to the Fund with a promise that 20 percent of the shares should be reserved for sale or free distribution to employees. The goal of the program was to liquidate or sell companies over a period of two years. Initially, the program defined as an alternative to economy wide bankruptcy was successful and the results in the first year were considered impressive (Simoneti, Rojec, Gregorič, 2003)[5]. Gradually, the program altered and the Development Fund (later transformed to **Development Corporation**) evolved into a permanent institution for providing various forms of non transparent and often politically motivated state assistance to troubled companies. The Development Corporation was finally liquidated in 2002, with most of the remaining companies in its portfolio transferred to privatization investment funds in exchange for unused privatization vouchers.

On November 11, 1992, **The Law on the Transformation of Social Ownership**[6] as a compromise between the two concepts of privatization was finally passed. It encompassed features of both approaches: decentralization and gradualism from the KMS code, and predominantly distributive

---

[5] Settlement with creditors were reached for 50 percent of the companies, annual losses were reduced to a quarter, employment was reduced by 20 percent and 30 companies were privatized.

[6] Three laws added considerably to the scope of privatization; the **Housing Act** enabled privatization of approximately 100.000 apartments; the **Denationalization Act** introduced the restitution of nationalized property, the **Law on Cooperatives** assigned 40 percent of shares in some food processing enterprises to the farmers cooperatives.

privatization by vouchers to all citizens from the SPU code. The law provided for several methods by which social ownership could be transformed into private ownership depending on the decisions of the managing body of the existing enterprises. According to it, transformation of social ownership is to be attained by restitution to former owners; debt-equity swaps; transfer of shares to the **Restitution Fund**, the **Pension Fund**, and the **Development Fund**; distribution of shares to employees; managers and workers buy-outs; sales of shares or of the company; and by raising additional equity capital. The privatization could be presented by the following "distributional" equation:

$$[\,10\% + 10\% + 20\% + (1-x) * 40\%] + [x * 20\% + 40\%] = 100\%$$

Loosely, the equation delimits institutional owners in the first square bracket from the likely individual owners in the second square bracket. According to it:

- ten per cent of the social capital left after restitution in kind to the former owners and debt-equity swaps is transferred to the Pension Fund, ten per cent to the Restitution Fund (the first two items in the left bracket);

- twenty per cent of the capital is transferred to the Development Fund which is to "sell" these shares to newly established private investment funds (PIFs), which then "sell" their shares to citizens in exchange for their ownership certificates (the third item in the left bracket);.

- up to twenty per cent of the capital of a company (the first item in the second bracket) is to be allocated to employees in exchange for their ownership certificates;

- the remaining 40 per cent of the equity capital is sold through management and employees buy-outs, public tenders, public auctions, and public offerings of shares, or transferred to the Development Fund as preferential or common shares, depending on the decision by the company. If bought by "internal-buy outs" the employees receive a 50% discount on the purchase price.

The value of "**x**" determined whether individual or institutional owners would prevail. It depended

on the value of ownership certificates of the employees and their readiness to "buy" shares in their company. If these certificates exceeded 20% of the company's book value, the employees could use them to acquire shares out of the remaining 40%. If their value were less than 20%, the remaining shares were transferred to the Development Fund.

If the company decided to apply the managers-workers buy-out, workers and managers had to subscribe the shares in five years. They were also entitled to use their ownership certificates for this purpose if their value exceeded 20 per cent of the present book value of the company. A part or the entire company could be sold to a domestic or foreign buyer. In such cases, adequate proportions of revenues generated by sale were transferred to Funds.

Ownership certificates were to facilitate free distribution of shares among employees and citizens at large. The certificates with the nominal value ranging between 100.000 and 400.000 Tolars (€700 to €2800) depending on age were distributed in the last quarter of 1993. The employees could use their certificates (and the certificates of the members of their families) to acquire shares in their "own" company, or, together with other citizens, to acquire shares of other companies in public auctions or in the investment funds.

The legal acts for the property transformation which were required by the law were passed by June 1, 1993. The companies which were free to design a privatization plan were required to submit it to the Privatization Agency for approval before the end of 1994: privatization in companies which failed to submit proposals by that date would be transferred to the Agency for Privatization and they would become ownership of the Development Fund[7]. The Development Fund, which was organized as a joint stock company owned by government played the role of the owner, collecting the proceeds of the sales and assuming responsibility for any portion of the "social" capital not transferred to new owners. If there were accusations that the value of social capital was not properly

[7]The privatization procedure began when the managing body of an enterprise passed the Transformation Program and sent it to the Privatization Agency. The program consisted of the program itself, the opening balance sheet under new accounting standards, revisions of all equity transactions over the last two years by the SDK (Social Accounting Service), and other required documents related to potential restitution claims, debt equity swaps, existing capital links, mixed ownership etc. The Program had to be approved by the Agency. When the program was approved the enterprise started to administer it. When all the shares issued by the transformed company were subscribed by the owners, the enterprise presented the documentation to the Agency, which gave the final agreement. This was required for the registration of the transformed company in the court Registry of Companies which ended the procedures.

determined or that there were manipulations aimed to diminish the value of the company in order to facilitate a buy-out a special audit by the state Auditing Agency was requested and its findings constituted a basis for the correction of the opening balance, legal procedures against the offenders, and temporary suspension of privatization.

Actual start of formal privatization was rather sluggish. In 1993, only 135 enterprises presented their programs to the Agency and 31 were approved. Slightly more than 50 percent of enterprises met the requirement during 1994; the deadline was tacitly postponed by allowing any kind of the program to be presented by the deadline. By the end of 1995, 1446 companies submitted the programs, Agency approved 1005, and 441 were under consideration. Only 350 privatizations were completed. The opening balances, the revisions, the restitution claims, and the lack of licensed appraisers were the major obstacles for faster progress. The process lasted more than six years during which 1381 enterprises obtained approval for privatization and inscription in the **Court Register**[8] while the remaining 55 companies were either transferred to the Development Fund or liquidated. The capital subject to transformation represented 68 percent of the existing social capital and most of the remaining social capital remained state property.

Activity on the demand side was marked by emergence of 24 private management companies with 81 privatization investment funds (PIFs); they were competing for the certificates of those who could not bring them to "their" companies or could not spend them in public auctions. Investment funds of four biggest management companies managed to collect 54 percent of certificates.

3. THE CONSOLIDATION OF OWNERSHIP STRUCTURE

Although, the enterprises could choose among different methods, the **internal buy-outs** of shares which included the obligatory transfers of 40 percent of shares to the institutional owners (three funds) and internal division of the remaining shares were the most popular method of privatization in profitable small and medium-sized and labor intensive firms. This was in accordance with the expectations and legacies of self-management; it was strengthened by the 50 percent discount and the possibility of deferred payments up to five years. Workers and managers obtained majority in 802 companies (61.3 percent), but these accounted for only 22.9 percent of total capital, while in 150 companies (11.5 percent) accounting for 45 percent of total capital insiders acquired less than 20 percent of shares. The second chosen method was **a combination of public auction with internal distribution of shares**, which was the method preferred by profitable large firms, in which the majority could not be assured by the internal buy-outs and which tried to provide for dispersed external ownership over institutional owners. 138 approved programs included public auctions as a method. The large loss making firms with no demand for shares by insiders or general public remained in the hands of the Development Fund.

The first wave or mass privatization created rather unstable ownership structure. Namely, many new "voucher capitalists" sold their shares soon after two-years embargo period preferring cash to equity. The privatization therefore affected newly emerging capital market by creating predominance of the secondary over primary market, and by converting savings into consumption rather than investments. Large stakes in privatized companies ended in the hands of two quasi governmental

---

[8] The Agency gave its first approval on July 29, 1993, and its last approval on October 30, 1998

funds and private investment funds. These artificially created, privately and state-managed funds, in fact, became the new majority owners of the economy. By exchanging shares the two state funds gradually decreased the number of companies in their portfolio from 1200 to 347 in the case of KAD and to 311 in the case of SOD concentrating in large "blue chips" companies. This has provided ample opportunities for political interference. On the other hand, the new institutional owners, investment funds, were more concerned in trade with shares than in the long term development of the companies. Furthermore, it took eight years for investment funds to exchange their collected vouchers for privatized shares which was due to the so called privatization gap – the negative difference between assets available for privatization and amount of collected vouchers. Additional time was needed to formally transform investment funds into normal institutional investors or holding companies. In between, their management companies charging relatively high fees for managing the funds gradually became the main owners of the funds at a very low price.

Private property rights should provide incentives to save, to invest, to look for new products, to innovate production, to use existing resources in an optimal manner, and to bear risks of the decisions only if one can find real owners: "those responsible for the proper use and maintenance of capital assets" (Jackson, M, 1992). The ownership by insiders could in this respect have clear advantages over the transfer of ownership rights to formally private institutions established by a decree, or/and the give away of the shares of these institutions to citizens at large. The results of the empirical studies dealing with the question whether the first round of privatization added efficiency to the economy differ. Some authors claim that the behavior of enterprises in the post-privatization period was heavily influenced by the method of privatization and by corresponding outcome, and that privatized firms were not expanding and were improving their productivity very slowly by defensive restructuring - reduction of costs (Simoneti at al, 2004), while others report that there were no differences in economic efficiency between externally and internally privatized companies and that the form of ownership structure had no significant impact on investment activities or labor adjustments (Prašnikar et al. 2002).

The first wave of privatization which consisted of the privatization of troubled enterprises by the Development Fund and of the privatization by The Law on Restructuring of Social Property therefore led to the predominance of temporary owners over "final" owners and also to a large share of state ownership. The governments headed by Liberal Democratic Party (LDP) remained rather passive also with regard to the privatization of the companies which remained state owned after the

end of formal ownership restructuring in 1998. Though the last LDP government proclaimed privatization of Telecom and other state owned companies, nothing happened. Public outcry, for example, prevented total privatization of the biggest Slovenian bank NLB by selling it to a Belgian bank KBC[9], as well. Slovenia became considered hostile towards FDI. Indeed, a relatively modest share of FDI in GDP was a predictable outcome of the starting position, formal privatization which favored insiders, and actual macroeconomic development characterized by current account equilibrium or surplus. The FDI/GDP ratio in 2003 was 20.7 percent, and Slovenia has remained the only former socialist country with majority of the banking sector in domestic ownership.

Table 1

FDI in CEE

Country	FDI/GDP in % 1995	FDI/GDP in % 2003	Share of foreign banks in assets 2001
Czech Republic	14.1	48.0	90.0
Estonia	19.3	77.6	98.9
Latvia	13.9	35.1	65.2
Lithuania	5.7	27.2	78.2
Hungary	25.3	51.8	88.8
Poland	5.8	24.9	68.7
Slovakia	4.2	31.5	85.5
Slovenia	**9.5**	**20.7**	**20.6**

Source: UNCTAD 2004, World Investment Report 2004, UN New York:

Table 2

Average number of shareholders in a privatized company

	At privatization	end of 1999	end of 2000	End of 2001
Non-listed companies	481	360	308	265
- internal owners majority	470	333	276	241
- external owners majority	492	387	340	288
Listed companies	7497	4576	4085	3653
All companies	2820	1765	1567	1349

Source: Simoneti, M., Gregorčič, A. (2004)

Concentration of ownership which followed the first wave of formal privatization was a rather spontaneous process which one could expect. Thus, the average number of shareholders in a

[9] Only 34 percent of NLB was sold to KBC with a promise according to which KBC could increase the share in 2006 which has not happened. KBC therefore decided to withdraw from active ownership and to sell its share.

company halved in three years after its formal privatization (Table 2). A rather specific privatization process in Slovenia determined the ownership structure (Table 3) as well.

Namely, the ownership structure of the Slovenian listed companies differ from the "normal"[10] ownership structure of listed companies in the EU countries particularly by high share of households and low share of foreign owners.

Table 3

The ownership structure of listed companies in Slovenia and some EU countries in 2003

Country	public	non-financial	financial companies	households	Foreign Owners
EU average	**4**	**19**	**32**	**16**	**29**
Slovenia	**18**	**25**	**23**	**29**	**8**
Poland	30	2	9	20	39
Hungary	9	7	7	4	73
Lithuania	0	31	4	12	53
Norway	25	17	16	8	34
Italy	10	30	19	27	14
Sweden	9	10	28	13	40
Finland	8	9	2	7	74
Denmark	7	19	26	16	26
UK	0	2	51	15	32
Greece	0	25	19	34	22
Germany	6	45	17	14	18

Source: The Framework of Economic and Social Reforms for Increasing the Welfare in Slovenia, Slovenian government , 2005

Voucher privatization has particularly influenced the division between primary and secondary capital market. Namely a large volume of privatization shares flooded a relatively undeveloped capital market and the prevalence of the secondary market limited the opportunities for issuing new shares. Hence, the capital market could not emerge as an alternative source of investment financing. Furthermore, the transparency of trading was very low, while market prices and quantities traded were very unstable. These features created numerous opportunities for manipulations, insider

[10] The spread in the structure indicates that there is no such thing as "normal" European ownership structure, the claims that something is not normal because it does not resemble structural characteristics of another country is often used in Slovenia and, most likely, in other former socialist countries.

trading in particular, aimed in ownership consolidation.

4. SPECIFIC "PRIVATIZATIONS"

When one considers privatization in Slovenia and its effects on the economy, one can not limit the scope of it to the privatization which was enacted by **The Law on the Transformation of Social Ownership;** one could say that other institutional changes have even more than formal privatization affected the ownership structure and the distribution of wealth and power in the society. At least, the restitution of property to former owners, the privatization of housing, and the "privatizations" of banking and insurance industry belong to such specific forms of privatization.

4.1. RESTITUTION

The **Denationalization Act**, passed at the end of 1991 has been a legal base for the restitution of the property nationalized after the 2 WW by different forms of nationalizations in 1945, 1948, 1953 and 1958. After rather fierce debates, dealing with the issues of what is just, what and how to denationalize and who is entitled for receiving the nationalized property, the most complicated **restitution in kind** version was chosen as the major pattern. It was supplemented by indemnities in the form of restitution bonds issued by SOD, if restitution in kind was impossible.

Table 4

The Restitution Claims and their Solutions until September 30, 2006

	Number of claims (1)	Number of solved cases (2)	(2)/(1)
Administrative units	38407	36021	93.8%
Ministry of culture	989	823	83.0%
Ministry of environment	112	95	85.0%
Ministry of finance	88	88	100%
Total	39596	37027	93.5%

Source: the reports of the Ministry of justice

The denationalization claims were to be on the first instance settled by the state administration units on the local levels, while the complaints were to be settled by corresponding ministries. In specific cases the ministries were responsible for the restitution claims on the first instance. Thus, the **Ministry of finance** (MF) was to settle restitution claims for the property in banks, insurance companies, and other financial institutions, the **Ministry of culture** (MC) was to settle claims on property which was a part of cultural inheritance, while the **Ministry of environment and spatial planning** (MESP) was to settle the claims for property which was protected as natural heritage. The courts were directly involved in the cases in which property had been confiscated by the decisions of the courts.

Altogether, 39.596 restitution claims were filled; 38.407 to the local administrative units, 989 to the Ministry for culture, 112 to the Ministry of the environment and spatial planning, and 88 to the Ministry of finance. The claims amounted to 4.6 billions German marks.

Table 5
Realization of Restitution Claims
Millions of DEM

Type of property	requested	approved	percentage
Farm land	1234	608	49.23
Forests	559	368	65.87
Apartments and houses	534	449	84.10
Office space	461	356	77.25
Non farm land	1275	620	48.62
Firms	521	347	66.66
Other	35	21	60.47
Total	4619	2796	59.96

Source: the reports of the Ministry of justice

Administratively, restitution turned to a nightmare, which could be expected because five decades

passed between nationalization and denationalization. Nevertheless, the restitution process has been handled in a way which, having in mind its extremely complicated nature, can be considered an administrative success story though after fifteen years three ministries still have to solve 240 cases, Ministry for agriculture, forestry and food 197, Ministry for environment 33, and Ministry for the economy 10.

From the economic angle, the restitution have had most likely more negative than positive effects. Those, who claimed that restitution would contribute to economic development because it would provide resources to the most entrepreneurial individuals, have proved to be wrong. Most of those from whom property was taken after WW2 and who might be considered entrepreneurial were dead or very old, and there was no guarantee that those who inherited their property would also inherit their abilities. Indeed, the restitution boiled down to a rather random redistribution of wealth even among those who were entitled.

Table 6

The Type of Property and the Mode of the Restitution

(in %)

	farm land	**forests**	**flats or houses**	**office space**	**non-farm land**	**firms**	**other**
Bonds or shares	15.3	0.7	36.2	22.1	20.4	37.5	85.4
Restitution in kind	55.2	84.5	20.2	35.2	20.9	13.1	0.8
Reestablished ownership	7.0	2.0	32.8	30.1	12.4	31.0	0
Co-ownership	8.8	4.5	2.2	5.5	1.1	10.5	6.7
Total approved	**86.5**	**91.8**	**91.7**	**94.6**	**56.2**	**94.1**	**93.4**
Claims refused	13.5	8.2	8.3	5.4	43.6	5.9	5.2
Total	100	100	100	100	100	100	100

Source: the reports of the Ministry of justice

4.3. HOUSING[11]

The legal framework for the privatization of housing was set by the **Housing Act**, passed in October 1991. The act encompassed provisions for the sale of the social housing stock hitherto in state, municipal or firm ownership. This stock of housing, which was to be privatized, amounted to one third of total housing stock, the rest of which was privately owned also in the socialist era.

Before transition, housing system was highly socialized; rents were symbolic and loans to future home-owners were granted under extremely favorable conditions. The investment in housing were being financed through levies (which amounted to 3 percent of BDP) on employees income, profits of the firms, private savings, and bank loans. Part of the levies on incomes went to municipalities for housing solidarity needs, while part was retained by the firms to solve housing problems of their employees. The firms could also put part of their profits into their own housing fund, which could be used to buy new housing or for loans provided to employees, either for a purchase of an apartment or for building a house. Private savings (mainly in foreign exchange) were the next source of financing; if a saver had a saving deposit and a purchase or building contract he could be granted a bank loan some three times higher than the value of the deposit with the repayment period of 15 years and nominal interest rate of 5 percent, with the deposit tied for the same period but with zero interest rate. Initial payments could be quite a burden for the purchaser, but because there was no adjustment for inflation, which was extremely high (ranging between 30 percent yearly in 1980 and 132 percent yearly in 1987) the annuities quickly decreased. Inflationary gains of those who obtained credits were immense, so were also the looses of the banking system. Finally, in 1987 the banking loans became tied to inflation, while this was not the case for the loans granted directly by the firms to their employees, which however required some rationing by administrative social criteria.

On the other hand, the rental sector was composed of 220 thousands rental units; 30 percent owned by municipalities, 2 percent by government and 68 percent by firms, while the private rental sector was practically inexistent. Due to symbolic rents which were controlled, demand for housing far exceeded its supply, the tenancy was life long and the entitlement could be passed on the relatives who were living in the apartment.

The end of the self-managed system in 1990 changed this arrangements abruptly; housing levies were abolished and so were contributions from profits of the firms and their loans with highly negative interest rates. The most important part of the **Housing Act** dealt with the sale of social housing. According to the act, four provisions were crucial for the privatization.

Firstly, the title holders of the social housing stock (government, municipalities, firms) were obliged to offer their housing stocks for sale to sitting tenants, with an exception of dwellings in

[11] The presentation in this sector rellies havily upon the article by T. Stanovnik (1994)

the houses which were nationalized in 1956 and for which the restitution claims were filled, representing some 10 percent of total socially owned housing stock. Secondly, the basic sale price for apartments was set at 70 percent of the book value, with enormous additional discounts for outright payments. Thirdly, municipalities and firms had to earmark 20 percent of the proceeds to a newly formed National Housing Fund. Fourthly, the opening date for sale was 19. October 1991 and the closing date October 19, 1993.

The full discount price in fact amounted to only 15 percent of the market value, partly due to high inflation between the passing of the act and its application. Furthermore, the book value was determined by the rules used ten years earlier which had no connection to the privatization (which was good) and by which the locality of the dwellings was overlooked. This brought the tenants in some cities, most notably in Ljubljana, extremely high gains. For example, one could obtain 100 square meters apartment for 20.000 DEM while its market price would be 200.000 DEM.

Most buyers preferred outright payment with a discount of 60 percent instead of other variants, for example, a repayment period of 20 years with 20 percent discount because they wanted to be certain and they did not trust the government. The buyers were further encouraged to use their foreign exchange savings in commercial banks which were otherwise frozen. However, most of payments came from foreign currency kept under mat traces or in Austrian and Italian banks which brought 10-15 percent premium over the official exchange rate[12].

According to the provisions of the Housing Act approximately 100.000 dwellings were »transformed« from tenant occupied to owner-occupied. The results of the housing policy before transition and the privatization of housing in 1991 are well observed in the ownership structure of housing.

Table 7
The Ownersip Structure of Housing

	Owner-occupied	**Non-profit tenant**	**Profit tenant occupied**

[12] Enormous inflow of foreign exchange due to the privatization of housing significantly influenced monetary and exchange rate policy of the central bank. Namely, suddenly, Slovenia was confronted with a rather unexpected excess supply of foreign exchange rather than its shortage which affected the major policy goal of the central bank - preventing real appreciation of the new currency (Mencinger 1992).

	dwellings	occupied dwellings	dwellings
Slovenia 1991	68	31	1
Slovenia 1998	93	5	2
Finland	72	14	11
Germany	38	26	36
Belgium	62	7	30
Sweden	38	22	16
Danmark	50	18	24
France	54	17	21
Netherland	47	36	17

Source: Bole, V.and Rebec, P. (2000)

4.2. THE BANKING SECTOR[13]

The banks in Yugoslavia and Slovenia were abolished as independent commercial banks in the early communist period between 1945 and 1960. They reemerged as profit-oriented institutions after economic reforms in 1965 when two tier banking system was reestablished. However, particularly in the eighties, the banks became captive financial service providers to self-managed enterprises, and only after 1990 they regained the role of proper financial institutions interested in their own profits.

Numerous small private banks began to emerge during transition, while the »old« banks became formally owned by their previous “shareholders”: self-managed firms. Thus, there was no formal need to privatize the banks; they were privatized automatically when their owners - self-managed firms were privatized. However, due to the changes in the early 1990 (transition and separation from Yugoslavia) the »old » banks lost the assets in other parts of Yugoslavia, most loans to domestic companies became nonperforming due to the collapses of the companies, and there was no money to repay foreign exchange deposits of the population both in Slovenia and in the branches of the two banks (**Ljubljanska banka** in particular) in other Yugoslav

republics[14]. A rehabilitation of the banking system became inevitable. In 1993 and 1994, the central bank (Bank of Slovenia) therefore placed three largest »old« banks which accounted for more than 50 percent of assets in a formal rehabilitation status. The pillar of the banks rehabilitation was the swap of their bad assets for governmental bonds. By the swap, the newly established **Bank Rehabilitation Agency** (**BRA**) became the owner of the banks, because the value of their capital was negative. The public debt which was created by the rehabilitation amounted to 1.9 billions DEM (approximately 1 billion €). It was only marginally recovered by BRA, which also had a major role in the supervision and restructuring of the banks. The rehabilitation ended in 1997; the BRA was resolved which included the transfer of its ownership to the state. Thus, the result of the rehabilitation was actual state ownership of a big portion of the banking system; two largest banks: Nova Ljubljanska banka (NLB) and Nova Kreditna banka Maribor (NKBM) (the third was merged with NKBM) became state owned.

In 2002, the government announced the privatization of the two banks through a tender which was only partly successful. Namely, due to public outcry against selling the banks to foreigners, the Belgian bank KBC was allowed to acquire only 34 percent of shares in NLB[15]. Other owners were EBRD with 5 percent, other private owners 17, and state 44 percent of shares. The share of the state in NKBM exceeded 90 percent.

Table 8

The Ownership Structure of the Slovenian Banking Sector

Shares in the capital

	2000	**2001**	**2002**	**2003**	**2004**
Foreign	12.0	16.0	32.5	32.4	32.4
- majority			15.7	16.6	16.5

[13] The description in this part relies to a great extent on the analysis by F.Štiblar and M.Voljč (2004)

[14] To avoid the responsibility of the two Slovenian banks to the depositors from other former Yugoslav republics, Slovenia created two new banks; NLB and NKBM with a constitutional act; by it, the assets of the two banks were transferred to the “new” banks while the liabilities were retained by the “old” banks. The author considers this a major mistake, the action legally questionable, morally wrong, and economically very harmful.

[15] According to the agreement with KBC, there would be no changes in the ownership structure until the end of 2005; it appears that the government tacitly promised to allow KBC becoming majority shareholder. The negotiations between KBC and the new government established in 2004 however failed. KBC proclaimed that it will turn from a position of the strategic investor to the position of the portfolio investor.

State	36.8	37.0	20.3	19.4	19.1
Domestic private	51.2	47.0	47.2	48.2	48.6

Due to the rehabilitation of the banking system combined with cautiousness over FDI the ownership structure of the Slovenian banking system differs from the ownership structure in other new EU member countries in which banks are predominantly or totally foreign owned. Whether privatization of the two banks will continue in the near future remains uncertain, though NKBM belongs to the companies which are to be sold in 2007 and 2008.

4.2. INSURANCE INDUSTRY[16]

The »privatization« of the insurance industry to some extent resembles the »privatization« of the banking sector; it could be performed indirectly through the transformation of mutual insurance company into joint stock company.

The Slovenian insurance market is supposed to be underdeveloped in terms of depth and concentration. Thus, in 2005, the generated gross premiums amounted to 5.1 percent of GDP[17], while the market share of the largest insurance company amounted to 43 percent[18]. The contemporary legal framework was determined by the **Insurance Companies Ac**t in 1994. Before 1990, the insurance industry was dominated by a single company Triglav with 95 percent of market share and one reinsurance company. In 1990, Triglav was broken to five companies, all of which were to be changed from mutual insurance companies to joint-stock companies with mixed private and social (state) ownership. The dispute over proper division of private versus state ownership between the management and the government lasted until 2002 when **Insurance Companies Ownership Transformation Act** finally ended it in favor of the

[16] The description in this section is to a great extend based on the study by D.Mramor and B. Jašovič (2004).

[17] In EU15, the generated gross premiums amounted to 8.5 percent of GDP. The share in Slovenia is however higher than in other new EU member countries and in some "old" EU countries, as well (for example the gross premiums in Greece amount to 2.1 percent of GDP only).

[18] In relatively well developed non-life insurance thr share of the largest company was 40 percent, in less developed life insurance the largest company reached 50 percent share, while the largest company in the voluntary health insurance has a share of more than 80 percent.

state. The shares owned by the state, which exceeded 50 percent of total capital in two companies and minority in other four cases, were then transferred in a trusteeship to SOD and KAD, which are supposed to sell the shares to individuals or other entities, who are entitled to buy the shares in proportion to past paid-in insurance premiums. In between, new privately owned insurance companies, also foreign, have emerged[19].

The development of the life insurance is closely related to the development of the so called second pillar of the pension system i.e. to the introduction of the funded pillar and its full integration into the existing financial system. While the idea of a mandatory funded pillar was abandoned after lengthy debates on the pension reform, T**he Pension and Disability Act,** passed in 1999, entrusted the management of the voluntary funded pension system to the existing insurance companies or newly established pension funds and pension companies (in fact, specialized life insurance companies). It was envisaged that this pillar would partly substitute the existing old-age savings and insurance schemes provided by insurance companies and complement the reformed pay-as-you go system. When the law was passed, financial institutions began activities to set up pension funds or specialized pension companies. At the end of 2002 there were 12 providers of voluntary funded pension schemes, and more than 200.000 people enrolled either individually or collectively through occupational arrangements

[19] At the end of 2005, there were 14 insurance companies, 8 of them offering life and non-life insurance (two also health insurance), 3 only non-life insurance, 1 only life insurance, and 2 only health insurance,

5. THE "WITHDRAWAL" OF THE STATE IN 2006

An overwhelming reform of economic system was announced as the major project of the right wing coalition government elected in 2004 and led by Slovenian Democratic Party (SDP). The proposed reform was introduced to carry out the **Strategy for Development**, a national counterpart of the renewed **Lisbon Strategy**. The reform should put an end to gradualism, which had dominated the transition and development of Slovenia since its independence, and replace it with a "new paradigm of development" rooted in neo-liberalism and supply side economics. The most often used argument for the reform, which has been accepted also by those who objected to most of its substance, has been the very "urgency" of the reform. While admitting that Slovenia was very successful with relatively high and most stable GDP growth accompanied by internal and external balance, low unemployment rate, and decreasing inflation, reformers have nevertheless asserted that such development is not sustainable due to the slow restructuring process and bad development policy[20].

[20] The data on actual economic development and structural indicators certainly weaken the claims that restructuring in Slovenia has been slow. Furthermore, they indicate that the existing economic and social structure of Slovenia more closely resembles the corresponding structures in the Scandinavian countries with an above average employment rate and an above average social cohesion rather than the economic

The reform package was presented at the end of 2005 by the document **The Framework of Economic and Social Reforms for Increasing the Welfare in Slovenia.** The package consisting of 70 "measures" should ensure higher economic growth and welfare through:

- greater economic freedom;
- simpler and more transparent operation of the State;
- an entrepreneurship-friendly State;
- elimination of various bureaucratic and administrative obstacles;
- a more effective ownership structure, better adapted to the market situation;
- lower tax burdens and simplified tax regulations;
- a more transparent system of social transfers that enhances the activity of individuals;
- a more effective system of incentives for the transfer of knowledge between the economic sector and universities;
- greater economic liberalisation of markets;
- possibilities for investment and easier access to financial resources;
- a set of major national projects, supported by resources from EU funds;
- a streamlined healthcare system;
- a more sustainable and activity-promoting pension system.

One can hardly oppose most of the proposed goals. What is questionable are specific measures and assumed links between them and promised welfare[21]**,** and even more so the gaps between

---

and social structures found in other new and most old EU member countries. One might therefore doubt whether the replacement of gradualism with the new paradigm of development has been really as urgent as claimed. Indeed, the reform might not only end the era of gradualism but also endanger favorable economic situation and existing social cohesion of the country; the latter being one of the preconditions for economic development.

[21]A triple equal flat rate – for VAT, personal income tax, and profit tax – was the most notorious and controversial feature of the tax reform. It was claimed that a flat tax rate would increase economic growth as it would lighten the burden for the economy and establish conditions for its greater competitiveness on world markets. Fierce opposition to radical changes, particularly to flat tax rate and to the abolition of the lower VAT tax rate appear to have brought the tax reform to acceptable and reasonable framework and welcome simplifications.

The reform of the labor market should increase its flexibility. This, together with the abolition of progressive income taxation should increase relative wages of skilled and educated labor and their work incentives. However, most empirical studies show that the wage elasticity of the labor supply is extremely low because it is a result of three conflicting effects: substitution effect, income effect, and

the slogans and actual actions of the government[22]. The document is thus a mixture of empty talks, assumptions based on the beliefs of the supply side economics[23], and some radical changes by which the existing "improper" capitalism (a kind of a social market model) would turn into a "proper" capitalism which would considerably worsen the existing social structure. However, it is most likely that majority of the original very radical proposals of the reform will soften and that the document "The Framework of Economic and Social Reforms for Increasing the Welfare in Slovenia" will turn into a worthless and harmless political document.

The so called "**transparent withdrawal of the state from the economy**" was a name given to the new wave of privatization which is an important part of the reform. It was presented in "Measures 19-22" of the document. According to them, the companies in which government (directly or indirectly) retained ownership in the first wave of mass privatization are to be privatized by dispersed commercial privatization. It is claimed that the new wave of privatization would end the period of non-transparent predominantly domestic consolidation of ownership at low prices, which followed the first wave of privatization, and that the second wave would be transparent and open to international participation. It should be achieved first by transforming KAD (Capital Corporation) and SOD (Slovenian Compensation Corporation)[24]

---

wealth effect which may cancel each other out. Furthermore, the structure of the demand for labor can only be changed by the adjustments to the production structure which can be altered only by changes in the demand for products. In the existing circumstances, increased flexibility of the labor market therefore implies lower wages and easy firing.

[22] The reform of the pension system should reward those who remain in active employment longer, make it possible that specific rights could be ensured and acquired on the basis of short-term employment, and encourage savings in the voluntary systems. In reality, while the pension reform of 1999 already assured the stabilization in the share of pensions in GDP it became endangered by politically induced changes in 2004 which attracted the Pensioners Party into the ruling coalition.

A reduction in general government spending by two percentage points by 2008 (and an additional two percentage points by 2012) and the restructuring of public expenditures was proposed. In reality, the share of public expenditures has not decreased despite very favorable economic circumstances.

[23] In this respect the Slovenian strategy resembles the new Lisbon strategy "Partnership for Growth and Jobs", with the goals which are not questionable. However, the Lisbon strategy of 2005 does not appear to be less utopian and more trustworthy than the old Lisbon strategy of 2000. The new Lisbon strategy also surprises with the abundance of words, empty talks, newly invented phraseology and concepts, action plans and programs, priorities, mobilizations, new institutions, and similar claptraps

[24] The assets of the two funds form a kind of national financial reserve for covering obligations which would otherwise burden the taxpayers: KAD should cover the deficits in the public pension system, SOD should cover obligations to restitution beneficiaries.

into portfolio investors and, second, by a coordinated privatization of the country's largest predominantly state-owned companies such as two large banks, the largest insurance company, Telecom Slovenia, and the electrical energy sector. Special advisory groups which had been created for establishing the best privatization procedures prepared the proposals. Most of them appear reasonable; they could, in principle or, as claimed by the government, decrease the possibilities of political interference in the economy.

The distribution of ownership in the listed companies (see Table 3) or the changes in the ownership structure of the companies which were privatized by the Law on Ownership Restructuring (Table 4) do not fully reveal the supremacy of the government and its potential political interference. Namely, due to systematic exchange of shares, the two state owned funds concentrated their control in the best Slovenian companies and the state ownership exceeds 25 percent in 10 among 28 most important companies listed in Ljubljana Stock Exchange. The dominance of the state in the economy is further enhanced by the weakness of dispersed small shareholders and by the state controlled shareholders (state owned banks and other state owned companies). Thus, for example, the state, the shareholders owned by the state, and the state controlled shareholders own 47.6 percent of Luka Koper (the only port), 44.9 percent of Aerodrom Ljubljana (airport), 44.6 percent of Pivovarna Laško (monopolistic brewery), 39.7 percent of Delo (the leading newspaper), 35.8 percent of Gorenje (households appliances), 35.1 percent of Mercator[25] (the leading foodstuff retailer), 33.0 percent of Petrol (the leading oil company), 31.8 percent of Kolinska (the biggest food processing company), 31.5 percent of Merkur[26] (the leading retailer and wholesaler of technical products), 27.4 percent of Krka (pharmaceutical company) etc.

Table 9

The changes in the ownership structure after formal privatization enacted by the Law on Social Ownership Restructuring

		At privatization	decrease or increase	end of 1999
1	State	7.75	-4.69	3.06
2	KAD and SOD	21.60	-9.02	12.58

[25] The shares of the two funds were sold in 2006 to two government friendly domestic companies in a very non-transparent way and at a price lower than the stock market price.
[26] The shares of the two funds were sold to a domestic retailer at the end of 2006 with the bidding procedures being considered extremely fair and transparent. The sale price exceeded the stock market price by 40 percent.

1+2	**State controlled**	**29.35**	**-13.71**	**15.64**
3	PIDs	19.38	-2.13	17.25
2+3	**Funds**	**40.98**	**-11.15**	**29.83**
4	Managers	3.86	5.17	9.03
5	Employees	29.23	-2.19	27.04
6	Former employees	11.05	0.35	11.40
4+5+6	**Insiders**	**44.14**	**3.33**	**47.47**
7	Financial investors	4.83	3.88	8.71
8	Strategic investors	2.30	8.62	10.92
	All	100.00		100.00

Source: Simoneti, M., Gregorčič, A. (2004)

In July 2006, more precise patterns of the "withdrawal" were announced. The companies in the portfolio of KAD and SOD were divided into three groups.

The first group consists of non-public share companies and limited liability companies. The major criteria for selling the companies in this group is sale price maximization. KAD and SOD should therefore act together constantly estimating the profitability of the companies and look for as many potential buyers as possible; the deadline for this privatization was set to be a period of 30 months.

Listed companies compose the second group. KAD and SOD should, while taking into account the shallow Slovenian capital market, try to independently maximize share holder values of their portfolios in compliance with the stock market rules. The deadline to become portfolio investors (their combined ownership in a company should be reduced to 10 percent) rather than active investors is set to 24 months; after that KAD and SOD should manage their portfolios within the principles of portfolio investors.

In the third group, there are companies for which there are no deadlines set for their privatization because of the size of these companies and their importance for the national economy. Their sales should be in concurrence with the liabilities of the two funds (denationalization claims in the case of SOD and participation to the pension system in the case of KAD), the market situation, and the sales of other state owned companies.

For the privatization of a group of directly state owned companies which have a large market share on the domestic market and which are considered important for the functioning of the economy (Telecom, the largest insurance company, two large banks) the so called **26XY model of partial privatization** was proposed. According to the model, the government should also in the long run retain 26 percent of ownership while strategic investors could acquire **X** percent (0<X<74) and financial investors **Y** (0<Y<74) percent of shares. X and Y would differ from case to case depending on the need for the restructuring of a company; the more urgent, the higher the value of X and the lower the value of Y. It is however obvious that the stability of the ownership structure and thus the control of the government could in the long run be retained only by a contract between strategic investor and the state. The model of partial privatization is a kind of compromise which considers the macro-economic importance of the companies or the so called "national interests", their monopolistic position, and public opinion which objects the sale of the "family silver".

In 2007 and 2008, the government should also sell the companies which are predominantly and directly owned by the state with the proceeds of the sale belonging to the budget. The most important among them are SIJ (the steel mills holding with book value of 174 millions €, and the government share 80.4 percent), NKBM bank (185 millions €, 90.4 percent share), Telekom (612 millions €, 62.5 percent), Nafta Lendava (oil refinery, 22 millions, 100 percent), Peko (shoe producing company, 16 millions €, 82.1 percent share), Termoelektrarna Trbovlje (electricity generation by coal , 26 millions €, 80.3 percent share), Termoelektrarna in toplarna Ljubljana (electricity generation, heating, 38 millions, 65 percent). Furthermore, some companies which are owned by state owned companies, are to be sold as well; the proceeds of these sales would not be the revenues of the budget. The largest in this group is aluminum producing company with the book value of 92 millions € which is 80 owned by ELES (state owned electricity holding).

Indeed, the proposed third wave of privatization can be described as cautious, gradualist in nature, and reasonable. The reality of the "withdrawal" of the state from the economy however differs considerably from the slogans. Indeed, KAD and SOD have in some companies even increased their shares by acquiring additional equity and by preventing entrance of genuine private companies. The two state owned funds have also widely served as a major instrument for political meddling. They have been thus used for replacing the members of the supervisory

boards with the members who belong to the ruling SDP and, to a lower extent, the ruling coalition partners. Supervisory boards have been then used to replace even the best existing managing boards or general managers with "their" people.

REFERENCES:

- Bajt, A (1992) : Ekonomski vidiki privatizacije stanovanj (Economic Aspects of Housing Privatization), **Gospodarka gibanja** 224, 25-42;

- Bajt, A.(1992): **A Property Rights Analysis of the Transition Problems in the EAST**, EIPF, Ljubljana, 26;

- Bole, V., Rebec, P. (2000): Ocena subjektivnih subvencij stanovanjskih najemnin v letu 2001 (The Estimated Persona Subsidies for Rents in Housing in 2001) **Gospodarska gibanja**, 322, 27-39;

- Jackson, M.(1992): Large Scale Privatization in Central Europe: Practical and Conceptual Issues; **Discussion Papers on the Economic Transformation in Central and Eastern Europe**, Louven 1992/1

- Korze, U.(1992): Decentralized Privatization Strategy: Pitfalls and Benefits - Slovenia, in Simoneti, M and Bohm, A. eds.: **Privatization in Central and Eastern Europe 1991**, Central and

Eastern European Privatization Network, Ljubljana, 140-153;

- Mencinger, J.(1989): The Quagmire of Socialism, **Communist Economies**, Vol1, 385-393;

- Mencinger, J.(1991): Ekonomika privatizacije stanovanj (The Economics of Housing Privatisation), **Gospodarska Gibanja**, 222, 23-32;

- Mencinger, J. (2001) Why is Transition in Slovenia Often Considered a Success Story? , **Journal des Economistes et des Etudes Humaines**, Vol XI, No.1, 159-172;

- Mramor, D., Jašovič, B. (2004) Capital Market Development, in Mrak, M. Rojec, M. and Silva-Jauregui eds. **Slovenia, From Yugoslavia to the European Union**, The World Bank, Washington, Chapter 17, 276-291;

- Prašnikar, J. , Svejnar, J. and Domadenik, P. (2000): Enterprise in Post-Privatisation Period: Firm-Level Evidence for Slovenia, **East European Economics** 38(5), 60-92;

- Privatization in Eastern Europe (1992), **Proceedings of the Conference "Privatization: How to Use This Instrument for Economic Reform in Eastern Europe"**, Vienna, November 17-18, 1990, Friedrich Ebert Stiftung and Renner Institute;

- Simoneti, M., Rojec, M., Gregorič, A.(2004): Privatization, Restructuring, and Corporate Governence of the Enterprise Sector, in Mrak, M. Rojec, M. and Silva-Jauregui eds. **Slovenia, From Yugoslavia to the European Union**, The World Bank, Washington, Chapter 14, 224-243;

- Simoneti, M., Gregorčič, A. (2004); Menedžersko lastništvo in uspešnost poslovanja privatiziranih podjetij v Sloveniji, **IB revija** 3/2004, 87-104;

- Simoneti, M., Damijan, J.P, Rojec, M. and Majcen, B. (2005) Case-by-Case Versus Mass Privatization in Transition Economies: Initial Owner and Final Seller Effects on Firms in Slovenia, **World Development**, Vol 33, 1603-1625;

- Stanovnik, T. (1994) The Sale of Social Housing Stock in Slovenia: What Happened and Why?,

Urban Studies, Vol. 31, No 9, 1559-1570;

- Štiblar, F. and Voljč, M.: The Banking System in in Mrak, M. Rojec, M. and Silva-Jauregui eds. (2004) **Slovenia, From Yugoslavia to the European Union**, The World Bank, Washington, Chapter 16, 263-275;

- Urban, L.(1990): Objectives, Methods and Problems of Privatization, in Privatization in Eastern Europe, **Proceedings of the Conference "Privatization: How to Use This Instrument for Economic Reform in Eastern Europe"**, Vienna, November 17-18, 1990;

- **The Framework of Economic and Social Reforms for Increasing the Welfare in Slovenia** (2005) Governement of Slovenia, http\\www.gov**.si**