

*Ivo Druzic**, *Tomislav Gel**

SWOT ANALYSIS & PRIVATISATION IN CROATIA

ABSTRACT: *Legal framework for privatization in Croatia was based on two key laws: the Transformation Act of 1991, and the Privatisation Act of 1993, amended in 1996. Early start of privatization process in 1990s in Croatia was marked by the transformation of socially-owned companies into stock holding companies or limited liability companies. The first step (1991-1993) of this process of almost 2700 companies which entered privatization was their evaluation and transformation into private ownership entities. The second step (1994-1997) consisted of privatization of CPF portfolio. The portfolios change constantly, not only as a result of privatization but also because companies themselves change, as does their position in the market. The third step (1998) in the privatization process was voucher privatization. Privatisation of large infrastructure and utility companies designated as public enterprises began in 1999 (CroatianTelecom) and INA in 2002 (public enterprises are privatised on the basis of separate laws).*

Attempts to discuss privatization in Croatia in terms of SWOT analysis have been motivated by the stark difference among Croatian professional economists in an appraisal of Croatia's performance during the transition process in general and of the privatization process in particular. Therefore we considered the elements of SWOT analysis to be an acceptable way to

delve into the confusing world of bickering arguments on the state and perspective of the Croatia's privatization process. In this paper we have tried to provide an impartial approach by employing two criteria i.e. strength and weaknesses in judging the events and results of the privatization process in Croatia.

Strength of the overall privatization process can be mostly ascribed to the institutional swiftness on micro as well as on macro level. On the micro level 80% of the companies were formally privatized in the first two years despite unfavorable external conditions comprising the economic consequences of war. On the macro level it took approximately three years to restructure and downsize CPF majority ownership in 2700 companies to majority ownership in just 70 companies.

Overall weakness of the restructuring process is concentrated in a painfully slow emergence of sound business activity in market environment.

The economic inefficiency of this model is reflected in the substitution of modern entrepreneurial capitalism, which was hoped for, with retrograde rent seeking capitalism, typical of early capitalism in its transition from a feudal to an industrial environment two centuries ago. Instead of efficiency and development, it is characterized by the drain of liquid capital through inflated debts, false reserves and falsified

* University of Zagreb, GRADUATE SCHOOL OF ECONOMICS AND BUSINESS

claims, and the tunneling of constant capital through “soft” loans into tax havens outside the country. Therefore, the solution is not to deal with the consequences, which are evident in vari-

ous affairs that are treated as individual deviations of the more or less good model of privatization. The problem lies in the model itself.

1. INTRODUCTION

The starting point of the process of restructuring naturally lies in (re)privatization. The belief that privatization was the key to the success of the process of transition resulted, on the one hand, in the failure of numerous reforms in the 1960s, 1970s and 1980s in former socialist countries. The cause of this failure lay in the lack of the key ingredient of market restructuring – transparent ownership relationships. On the other hand, international financial institutions made resolute privatization the condition for allowing the inflow of foreign investment into transitional economies. Since foreign investments were considered significant in stimulating the economic activities of planned economies exhausted by stagnation, these were an additional motive for faster privatization (Druzic, 1998, 116).

2. PRIVATISATION – THREE STEPS

Early start of privatization process in 1990 in Croatia was marked by transformation of socially-owned companies into stock holding companies or limited liability companies.

2.1 FIRST STEP

The first step (1991-1993) of this process of almost 2700 companies which entered privatization was their evaluation. The aim was to establish the value of companies' capital. Part of the capital was debt which creditors tended to convert into equity, and this portion of capital was not included in further sales. The same applied for government bonds allocated to certain companies through banks. The value of these bonds was transferred into ownership claims by the CPF. The remaining capital was subject to privatization. There were several possible models of transformation with distinction between privileged and non-privileged buyers.

Privileged buyers were the employees, former employees and the government itself:

Table 1: Total number of companies privatized through the CPF

1. Capital after evaluation		14.407.457.867,50
2. Dept converted into equity		889.883.048,17
3. Bonds		148.619.986,17
4. Social capital		13.368.954.833,17
5. Recapitalization		125.079.239,50
6. Set-asides pending final settlement		598.432.761,83
7. Capital subject of privatization		12.645.442.831,83
8. Contracted sale of shares 1st round	45,49%	5.752.728.611,67
small shareholders		5.557.722.650,83
public tenders		195.005.960,83
9. Repaid		1.489.428.903,50
10. Realized discounts	40% discount	2.301.091.444,67
11. Due dor repayment in installments		1.962.208.263,50
12. Transferred to pension fund		1.999.761.774,83
13. Share remaining CPF portfolio		4.892.952.445,33

Source: CPF

Employees and former employees buy-out included substantial privilege shares discount for the first half of the estimated value of the company, and privilege buy-out of the second half of the company value at auctionary price.

Government privileged position was residual to the extent. After the debts were accounted, and after a part of capital was set aside for former owners whose property was nationalized, the rest belonged to general government. Shares not bought by employees and former (retired) employees, and shares not put aside for former owners, entered CPF (Croatian Privatization Fund) and Pension funds portfolio in 70 : 30 proportion.

Non-privileged buyers, were Croatian citizens, Croatian and foreign legal entities who could purchase shares or stakes of companies sold on the market (individual contracts, tenders, auctions, stock exchange) in several modes; purchase of the company or its shares from CPF, or from its employees, purchase of company shares from CPF at discount under installment plan, capital investment, purchase of company shares from pension funds (Barbic, 1994: 10).

Results of first privatization step are entitled to micro (institutional) and macro (financial) estimate.

Strengths of the first privatization step are mostly ascribed to micro level. Institutional transformation was swift. In first two years, 80% of the companies were formally privatized in spite of unfavorable external conditions comprising

economic consequences of war. Of the estimated EUR 15bln of social capital after valuation, some 30% or EUR 5bln remained in CPF portfolio for the second phase of privatization. Small shareholders purchased approx. 40% or EUR 6bln (see Table 1.).

The weaknesses of the first privatization step are imputed to macro level. Financial-macro effects of the first step were rather modest. Actually paid shares did not exceed 2% of capital in privatization i.e. EUR 300mln (Druzic, 1998:125). This gave rise to various criticisms of privatization process. On the doctrinaire level the adopted model was disputed as ineffective and unjust. According to some assertions instead of directly transferring social ownership to private, employed model led to unnecessary costs due to mediating role of the government (Teodorovic/Vlasic, 1996: 637). By Government's decisive role in the privatization process entrepreneurship incentives were swapped for political affiliation criteria resulting in rent-seeking activity. According to this assertion ineffective privatization model with the excessive role of government was the main cause of economic depression, pauperization and unjustified increasing inequality in income distribution (Vojnic, 1999: 209).

2.2. SECOND STEP

The second step (1994-1997) consists of privatization of CPF portfolio. The portfolios change constantly, not only as a result of privatization but also because companies themselves change, as does their position on the market. *First part* of this second step could be named "real" privatization consisting of contracted sales from portfolio amounted to EUR 400 mln or roughly 8% of CPF portfolio available for privatization. Contracted sales should be distinct from actual money inflows to CPF. *The second part* consists of shares transfer. Transfers encompasses shares granted to disabled war veterans and families of deceased soldiers (EUR 250 mln), shares transferred to companies undergoing rehabilitation according to government decision or pursuant the Law on rehabilitation (EUR 1 bln), shares used to off-set health insurance (EUR 10 mln) and pension funds (EUR 500mln) debts, and shares used for financing after-war reconstruction (EUR 300mln). Total value of all shares transferred was approx. EUR 2,1bln or 40% of CPF portfolio. (see Table 2).

Table 2: Privatization of the CPF portfolio

1. The value of the CPF portfolio	4.892.952.445,33
2. Increase of the portfolio as a result of breach of annulment of contracts	630.717.518,17
3. Total value of the CPF portfolio available for privatization	5.523.669.963,50
4. Sold from the portfolio	417.762.936,83
5. Shares transferred from CPF portfolio to the Croatia Patriotic Fund	2.096.081.060,00
to the Pension fund for private entrepreneurs	5.940.000,00
to the Pension fund for workers	303.538.666,67
for financing rehabilitation of companies	165.572.312,33
for financing reconstruction pursuant to Government decision	1.068.761.930,00
grants to disabled war veterans and families of deceased soldiers	347.363.944,67
transfers to health insurance fund to cover liabilities	193.697.789,67
6. Part of portfolio consisting of companies in bankruptcy procedure	11.206.416,67
7. Estimated decrease of portfolio after necessary adjustment in compliance with the company law	245.462.007,67
	566.037.512,00

Source: CPF

Results of the second step are subjected to acrimonious discussion even to the larger extent than the first phase.

Strength of the second step can be appraised by changes in CPF portfolio. At the end of second step CPF had majority ownership just in 70 out of almost 2700 companies that passed through its portfolio. In 1281 companies CPF had minority portfolio and in over 1000 companies CPF had no shares at all. With the transfer of all shares required by voucher privatization in 1998. CPF portfolio comprehend only 4,4% of total capital in transformation (CPF 1999: 15). That was an immediate cause for government officials to proclaim successful ending of privatization process. The remaining public enterprises which were not part of CPF portfolio will be privatized pursuant to government decisions.

Weaknesses of the second step are both in the course and in the results of changes in the CPF portfolio structure. "Insignificant" number of 70 companies in CPA's majority ownership "hides" the fact that these 70 companies accounted for 35% of total capital in transformation. Financial effects of the second step are very modest. First of all the data on nominal value of the portfolio sold in both

phases could be confusing when compared financial inflows to the CPF. During the 7 year period of privatization (1992-1998) total CPF proceeds from all modes of (re)payment (frozen foreign currency deposits, cash, government bonds) hardly reach EUR 2bln or 15% of the EUR 13bln worth of capital subjected to privatization. Cash proceeds were approx. EUR 800bln or roughly 6% of total capital subjected to privatization. Other modes of repayment (bonds, frozen foreign currency deposits) accounted for another EUR 1,2bln or roughly 9%. Since the swiftness of cash collection needed for investments in modernization and development was the justification for hastily implemented privatization model, the developments in actual proceeds could seriously controvert promulgated privatization success. Far more meaningful were objections not only to the course but to the essence of the model itself. It is asserted that actual privatization was not result of standard business activity but of political and financial monopolies which enables favoritism, soft loans and so called tycoonization of the Croatian economy. That could even lead towards nepotism and organized crime activity (Veselica, 1998: 26). Therefore it comes as no surprise when the voices requesting revision and/or annulment of executed privatization and proposing new more efficient and impartial one are getting louder and louder.

2.3. THIRD STEP

Third step (1998) in privatization process was voucher privatization. Nominal value of portfolio subjected to this model of privatization was approx. EUR 2bln. that was put aside in CPF portfolio during the previous privatization step.

Voucher privatization was non-linear i.e. it was aimed at those categories of population that suffered the worst consequences of the Patriotic war (families of deceased, imprisoned or missing Croatian soldiers, military and civil war invalids, displaced persons etc.).

Approximately 230 thousand people participated in privatization when vouchers were given to war veterans, refugees and others. The majority of vouchers used for purchase of 471 companies which composition is shown in the next table.

Table 3: Structure of voucher privatisation companies

Activity	No. of companies	Total Equity	Voucher Capital	% of equity
Industry and mining	198	2.562.626.967	949.277.424	37,0
Hotels, restaurants and tourism	79	1.445.366.724	435.690.466	30,1
Trade	78	552.788.626	142.339.317	25,7
Agriculture and fisheries	38	211.057.220	69.983.252	33,2
Financial and other services	20	428.480.783	88.726.222	20,7
Transport and communications	19	769.584.663	124.103.690	16,1
Construction	19	150.261.895	16.678.278	11,1
Crafts and personal services	13	20.462.460	5.956.011	29,1
Publishing, science and culture	5	9.469.826	1.126.400	11,9
Housing and communal activities	2	2.302.500	339.250	14,7
Total:	471	6.152.401.662	1.834.220.309	29,8

Source: Revision Report, Privatization of CPF portfolio, The State Audit Office, 2004

Mediators between CPF and persons entitled to vouchers were 7 PIFs (Privatization Investment Funds), established mostly by commercial banks, as a special version of Investment Funds. PIFs are closed funds as they are allowed to invest vouchers just in the part of CPF portfolio earmarked for mass privatization. They are also functioning as “restructuring holdings” meaning that they are entitled to voting and managing rights in the companies whose shares were bought in exchange for vouchers. This step was effected in three bidding rounds between the “Snow-white” (the CPF) and “7 dwarfs” (PIFs) and pronounced a huge success as 99% of shares offered by the CPF were bid for by PIFs.

The only peculiarity being that average actual - purchase price of offered shares was around 40% of nominal value (see Table 4).

Table 4: Comparative overview of pifs bidding activity

	mln EUR						
	1	2	3	4	5	6	7
Total Value of "Investment Points"	113	256	89	73	52	52	166
"Investment Points" Spent in Bidding Process	113	256	89	73	52	52	166
Number of Companies Acquired	197	341	142	259	301	234	61
Nominal Value of CPF Portfolio	215	517	197	212	117	157	298
Nominal Value of CPF "Control Package"	17	109	0	15	11	15	11
Average "bidding price" as % of nominal price	53	49	46	34	45	33	56

Source: "Trends" pp. 20, CPF 1999.

1 – Središnji nacionalni fond d.d. Zagreb

2 – Dom fond obiteljskog i poslovnog ulaganja d.d. Zagreb

3 – Privatizacijski investicijski fond „Velebit“ d.d. Zagreb

4 – Slavonski privatizacijski investicijski fond d.d. Osijek

5 – Privatizacijski investicijski fond Pleter d.d. Varaždin

6 – Privatizacijski investicijski fond Sunce d.o.o. Zagreb

7 – Expandia fond - privatizacijski investicijski fond. d.d. Zagreb

Strength of the third step is well organized and prompt distribution of vouchers to approximately 230 thousand people participated in privatization (families of deceased, imprisoned or missing Croatian soldiers, military and civil war invalids, displaced persons etc.). It is also the first stage in establishing financial market in Croatia. Voucher privatization process went very well. According to Low about privatization investment funds it was founded 7 investment funds, with a qualitative organization. 471 companies participated in voucher privatization and value of auctioned shares were EUR 1,7 billion.

Weaknesses of the third step are:

About 105 companies bankrupted from 1992 to 2001. Before bankruptcy their equity was about EUR 950 million and after EUR 860 million, less about EUR 80 million.

PIFs were buying shares at the markets from families of deceased, imprisoned or missing Croatian soldiers, military and civil war invalids, displaced persons for about 5 to 10 per cent of nominal equity value.

One should bear in mind that war has provided several reasons why many small shareholders considered these heavily discounted share sales as an opportunity and not as a plunder of their assets. There was uncertainty about real mar-

ket value of assets. Next was uncertainty about number of companies earmarked for bankruptcy. Finally there was lack of proper financial market institutions and capital shortage in situation of economic downturn.

Trade on financial market almost exclusively consisted of share swaps.

Discrepancy between intended and actual flows in voucher privatization could be partly observed in following estimates (Table 5.)

Table 5: Voucher privatisation and exchange of shares

	Million EUR
Nominal value of portfolio subjected to voucher privatization	1,700
Value of shares of bankrupted companies in vouchers privatisations	860
Estimation of proportion of families of deceased, imprisoned or missing Croatian soldiers, military and civil war invalids, displaced persons (2004)	50%
Estimation of proportion of other shareholders (PIFs management and others) (2004)	50%
Market value of PIFs portfolio as a part of nominal value after voucher privatization on financial market (Varazdin Stock Exchange) (1999-2002)	5-10%
Market value of shares on financial market bought by PIFs management for 5 to 10 per cent of nominal value	42-85
Nominal and market value - difference	765-808
Exchanged shares between PIFs (bankrupted companies) and CPF (profitable companies). Nominal values of CPFs shares were much higher than PIFs shares.	375

Because of bankruptcy of 105 companies, 7 Privatization Investment Funds returned their shares to the Croatian Privatization Fund in exchange for (profitable) shares from CPF portfolio. Every of 7 PIFs made a contract with CPF in the period from 1998 to 2000 for shares compensation in voucher privatization process. Proportions between shares were 1:1.

All 7 PIFs return about EUR 375 million more valuable shares according CPF data but 377 million according PIFs data. But the main problem is in the compensated shares. According to CPF data they gave to 7 PIFs about EUR 227 million but according to PIFs data they got only about 170 million worth shares. Difference is about EUR 23 million. All 7 PIFs were not rightfully participated in that process. Some of PIFs got a more valuable share then others.

PIFs management, according to some estimates, became owner of about 50 percent of PIFs shares paying EUR 45 to 85 million for the nominal value. PIFs

management and connected privileged clients supposedly earned between EUR 700 to 800 million on transactions concerning shares swaps.

3. SLOWNESS OF PRIVATIZATION PROCESS AFTER 2000

It is necessary to accelerate privatization process. As can be seen the Croatian Privatization Funds portfolio is comprised of shares and stakes in a total of 1,112 companies. The equity base of these companies is EUR 24 billion, while the equity of the Governments portfolio amounts to EUR 3 billion. The table below depicts the structure of the CPF portfolio (Table 6)

Table 6: Enterprise portfolio of CHP

ACTIVITY	No. of companies	Equity	State Portfolio
		(EUR)	(EUR)
Agriculture, hunting and forestry	83	561.384.885	339.574.880
Fishing	5	5.668.459	1.253.546
Mining and extraction	4	7.115.625	762.192
Processing industry	374	3.868.377.245	1.293.310.192
Electricity, gas and water supply	1	62.000	149
Construction	101	239.823.794	26.516.006
Trade	179	549.689.850	44.469.328
Tourism	153	1.913.009.805	523.898.341
Transport, warehousing and communications	65	851.781.467	377.413.761
Financial mediation	15	15.552.162.108	155.572.221
Real estate, rental and business services	86	412.805.081	175.519.841
Education	3	607.703	29.287
Health protection and social welfare	9	2.039.090	63.284
Other public, social and individual service activities	32	32.320.844	4.832.058
Total:	1112	24.000.344.051	2.946.374.694

Source: CPF, 1st November, 2005.

Table shows that the Government has most shareholder interests - in terms of both company numbers and equity - in the processing industry, but the Government also has significant holdings in the trade, tourism, agriculture and transport and communications sectors.

Legislation on Foreign Direct Investment aimed at revising the flawed privatization process was passed in 2000. Many see this law as weak and ineffective, but there have been some notable privatization successes. The largest foreign investment in 2001 again occurred in the Telecommunications sector – privatization of national telecom company (Croatian Telecom). The majority owner of Croatian Telecom Inc. is Deutsche Telekom, which owns 51% of shares. 42% of HT shares are owned by the Republic of Croatia, while Croatian War Veterans' Fund has 7% of HT shares.

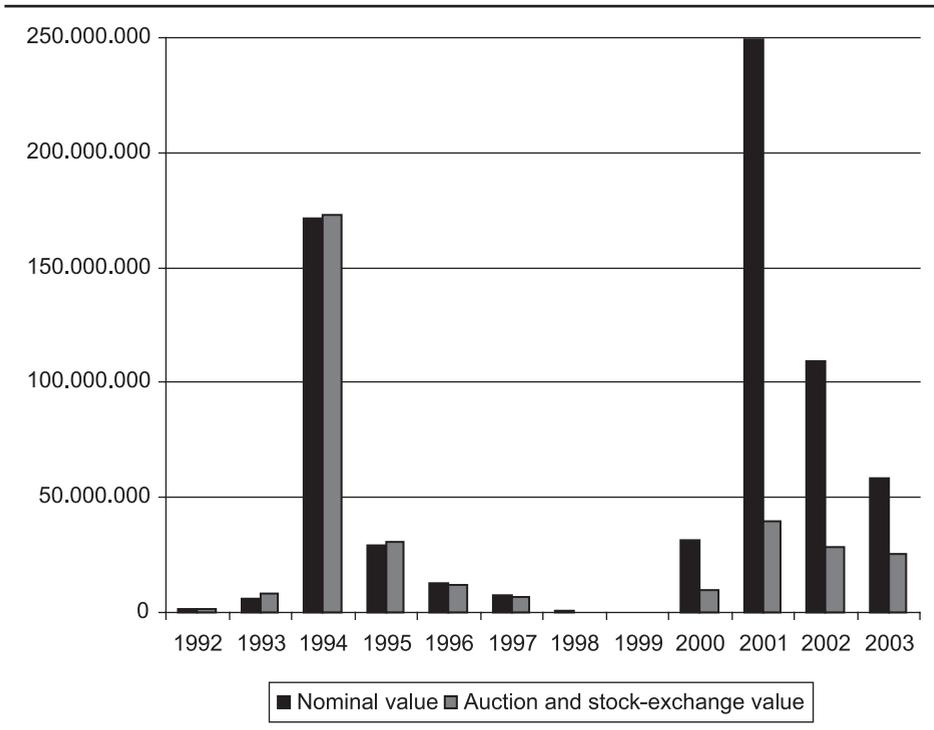
The privatization process is continuing and 25% of INA (Oil and Gas exploration, distribution and retailer) was sold in 2003 to Hungarian MOL. Following this, another 7% will be transferred without payment to veterans of the Homeland War and up to a further 7% to INA employees, on preferential terms to be determined. A sufficient number of shares will be retained to compensate former owners. Subsequently, it is intended that at least 15% of the shares will be sold through an Initial Public Offering or private placement. The ultimate shareholder structure of the company has yet to be decided, but the Government will retain at least 25% plus one share until Croatia's accession to the EU. In all events the Government will retain a Golden Share.

4. MACROECONOMIC IMPACT OF THE PRIVATIZATION PROCESS

Macroeconomic impact could be partly measured through financial flows of privatizations process, because majority of sales have ended as state budget revenue.

Overall result of Croatian Privatization Fond activity through public tenders and public auction for the period from 1992 to 2003 are displayed on the next figure (all values are in EUR).

Figure 1: Total result of privatization process of the CPF



Source: Revision Report, Voucher privatization process in Croatia, The State Audit Office, 2004

As it is shown the best result of CPF privatization process were in the period from 1993 to 1995 and the most unsuccessfully period was from 1998 to 2000.

According to CPF data at the end of 2003, transformation of 2911 companies have finished. Estimated capital value of transformed companies was EUR 14 billion. Share of CPF portfolio was about EUR 5,5 billion and it is about 40 per cent of estimated values. CPF portfolio now is about EUR 3 billion.

Nominal share's value, public tender's value, percentage of nominal values and number of contracts per years is displayed in the Revision Report on the voucher privatization process in Croatia (Table 7).

Table 7: CPF public tenders per years

(EUR)

Year	Nominal value	Public tenders value	% of nom. value	Number of contracts
1993.	63.393.017	64.257.527	101	104
1994.	127.433.567	135.652.703	106	159
1995.	78.650.478	58.345.597	74	39
1996.	23.654.511	20.976.063	89	27
1997.	62.243.560	40.381.815	65	33
1998.	21.404.476	3.437.651	16	20
1999.	20.201.370	1.231.958	6	10
2000.	15.352.646	6.097.683	40	5
2001.	109.612.970	58.175.454	53	19
2002.	22.297.053	2.930.755	13	7
2003.	44.477.859	16.981.459	38	8
Total:	588.721.502	408.468.662	69	431

Source: Revision Report, Voucher privatization process in Croatia, The State Audit Office, 2004

Strength of the overall privatization process from the macroeconomic standpoint lies primarily in forming of financial markets and institutions.

The Croatian Privatization Fund utilizes two methods of privatization: Public Tenders (in which it holds a significant ownership stake or those involved in strategic industries through) and Public Auctions (in which it holds minority stakes through public auction on the Zagreb Stock Exchange and Varazdin Stock Exchange).

These methods of privatization were employed after the process of initial mass privatization from 1991 to the end 1992 was finished.

From 1993 to 2003 the Croatian Privatization Fund sold shares of 421 companies through public tenders. Total nominal value of sold shares for analyzed period was EUR 588 million but public tenders value was only EUR 408 million, about 70 per cent of nominal value. CPF sold maximum shares 1994 and the minimum 2002.

Total nominal value of sold shares through CPF public tenders from 1993 to 2003 was EUR 445 million distributed in 365 contracts. At the same time 99 contracts were annulled because of non payment. The nominal value of annulled contracts was EUR 145 million i.e. 25 per cent of total nominal values.

In companies with government minority ownership (less than 25 per cent), shares were sold through public auction on the Zagreb Stock Exchange from 1992 to 2003 and Varazdin Stock Exchange for the period from 2000 to 2003.

Nominal share's value, public auction's value, percentage of nominal value and number of companies from 1992 to 2003 are shown in the following table (Table 8).

Table 8: Public auction on the Zagreb and Varazdin stock exchange per years
EUR

Year	Nominal value	Public auction value	% of nominal value	Number of company
1992.	1.505.158	1.505.158	100	4
1993.	6.332.777	8.172.287	129	23
1994.	171.348.573	173.223.623	101	94
1995.	29.284.930	30.739.090	105	61
1996.	12.929.095	11.609.608	90	54
1997.	7.115.366	7.035.481	99	20
1998.	453.892	297.753	66	47
1999.	200.777	208.996	104	20
2000.	31.539.042	10.021.444	32	101
2001.	249.471.237	39.643.163	16	551
2002.	109.493.370	28.434.797	26	357
2003.	58.580.143	25.709.630	44	357
Total:	678.254.357	336.601.026	50	1689

Source: Revision Report, Voucher privatization process in Croatia, The State Audit Office, 2004

Through public auction on the Zagreb Stock Exchange (from 1992 to 2003) and Varazdin Stock Exchange (from 2000 to 2003) the Croatian Privatization Fund had sold shares of 1689 companies. Total nominal value of shares sold for analyzed period was EUR 678 million but public auction value was only EUR 336 million about 50 per cent of nominal value. Maximum value of sold shares has been achieved 1994 and the minimum value of sold shares has been attained in 1998 and 1999.

Shares of 788 companies were sold on the Zagreb Stock Exchange in the period from 1992 to 2003. Nominal value of sold shares for analyzed period was EUR 341 million but public auction value was EUR 240 million, about 70 per cent of nominal value.

Shares of 901 companies were sold on the Varazdin Stock Exchange in the period from 2000 to 2003. Nominal value was EUR 340 million but public auction value was EUR 96 million, about 29 per cent of nominal value.

Weakness of the overall privatization process is precisely summarized in the State Audit office findings. The most important findings are:

- equity of revised companies before privatization process was about EUR 12,25 billion but after privatization it was about EUR 10,5 billion, 16 per cent less.

- number of employees in revised companies before privatization was about 635 thousands and after privatization process it was about 248 thousands, 60 per cent less.

- only 15 percent of 1556 companies realized development goals, 20 per cent realized some of defined goals and 64 per cent companies did not realized their development goals.

- 1936 anomalies have been documented in the privatization process of 1556 companies but most of them (1215) are not under sanction by a penalty according to Privatization Law.

- no criminal charges were filled against individuals and / or institutions.

5. SUMMARY OF PRIVATISATION PROCESS

The applied Croatian economy privatization model was a combination of different variants. In the first stage, this meant selling social/state property to privileged buyers (former and actual employees) at discounted prices and to unprivileged buyers at full market prices. In the second stage, so-called voucher privatization was introduced. It consisted of the free of charge distribution of shares to particular social groups such as war veterans, disabled and displaced persons and refugees. The actual privatization process outcome has allowed the notion that the appropriated privatization model has been perceived as socially unacceptable and economically inefficient.

It is well enough known that social acceptability of any measure or law lies in its willful adoption by a majority of a certain social group or society as a whole. The Croatian privatization model, which has been almost exclusively reduced to the redistribution of existing common social property and its concentration in the hands of clientelistic elite, has never been accepted either by the working population or by the general public. Dissatisfaction has been projected far beyond the usual aberrations and any particular unlawful privatization case. Indeed, discontent has embraced the privatization model itself. The public has considered the imposition of the privatization model as deeply iniquitous. It has enabled capital (ownership) which was, in fact, the past (invested) labor of present and former generations, to be passed into the hands of self-elected elite by the no economic criteria of political affiliation.

The economic inefficiency of the model was reflected in the substitution of desired modern venture capitalism by obsolete rent-seeking capitalism, which was characteristic of early capitalism in its transition from feudal to an industrial environment two centuries ago. The main feature of the model was not efficiency and development. It strictly focused on squeezing liquid capital from enterprises by blown up debts, falsified stocks and forged credits. Especially popular was assets tunneling into tax oases outside the country by “soft” loans using already indebted or non-existent property as collateral.

Therefore, the solution is not to deal with the consequences, which are evident in various affairs that are treated as individual deviations of the more or less good model of privatization. The problem lies in the model itself. It is necessary to convert rent seeking capitalism into managerial capitalism which, in modern societies, relies on widespread small-scale ownership of shares.

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