



THEORETICAL ASPECTS OF VALUATION OF STATE-OWNED ENTERPRISES DURING PRIVATIZATION

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Abstract

This study is about governmental privatization and the valuation processes of privatized state-owned enterprises in Uzbekistan. It investigates the implementation of the privatization process and valuation methodology in a developing economy where the market system and its associated institutions are not fully developed. This study focuses on how privatization and valuation processes fare in the developing country of Uzbekistan. According to the results, development can be achieved after privatization. The State's objective in this role is to strengthen the mechanisms of state-owned enterprise governance and to alert them to potential risks.

Keywords: Valuation, State-owned enterprise, Privatization, Uzbekistan

INTRODUCTION

The term 'privatization' has both narrow and broad definitions. In a narrow sense, privatization primarily refers to the privatization of the public sector, which involves a shift of production facilities from public to private ownership and control. On the other hand, the broader meaning refers to a process by which the role of a government in a economy is restricted, while that of the private sector is deliberately expanded (Young, 1991) (Hemming et al, 1988) (Cook et al, 1996) (Bremeir, 1996). This study is focused on the narrow definition of privatization; that is, a change of ownership and control from the state sector to the private sector. The earliest and powerful theoretical basis guiding privatization of public enterprises could be traced back to a famous work 'wealth of nations' The paper is by Adam Smith (1937). He wrote that managers

of other people's business could not well be expected to strive to maximize profits with the same anxious vigilance with which partners in a private firm frequently strive to do. Without ownership, an employee manager receives a lower percentage of the profits generated through efficiency. Therefore negligence and profusion is most likely to prevail in the management of the affairs of other people's property. It is thus clear that privatization theory has its origin from the neo-classical economists, who desire less government intervention in the economy and believe in superior performance of the private sector (Tanyi, 1997; Welch, 1998; United Nations, 1993; Sonko, 1994). According to neo-classical economists, a free-market economy without state intervention will lead to economic prosperity that will 'trickle-down' to the poorest members of society. Government intervention in the economy is considered unnecessary and harmful to the economy because it acts as a braking mechanism on economic progress. Privatization was founded within the context of neo-classical economic theory that promotes the liberalization of the economy and the restriction of the state's role in the economy.

Privatisation is now a fact of life almost everywhere in the world. Since early 1980's more than 11,332 state enterprises have been privatised world-wide, out of which 78 percent were from Eastern Europe, 2 percent were from OECD1 countries, 12 percent were from Latin-America and Caribbean countries, 5 percent were from Sub-Saharan Africa, 2 percent were from Asia, and 1 percent were from Arab countries (Sonko, 1994) (Kumssa, 1996). Up to the end of 1996, just over 2,700 transactions were reported to have been completed, with a combined sales value of almost US dollars 2.8 billion for the entire Sub-Saharan Africa. Some scholars are of the view that privatisation is inevitable because of the poor performance of the state enterprises, which pursue political objectives versus efficiency maximization (Brada, 1996). Explanation for public sector failure in Africa include among other things: ambiguous and sometimes conflicting objectives, political interference, rotation of managers between organizations, use of unsuitable public service procedures for commercial operations, lack of competition, existence of weak private sector, international price decisions, overstaffing, under-capitalization, high debt/equity ratios, inadequate incentives, failure by governments to pay for services rendered etc (Blunt, 1992)

Privatization in Uzbekistan is a transformation of the entire economy of the country

In Uzbekistan, there is an acute issue of reducing the role of the state in the economy. The analysis showed that state-owned enterprises, using individual customs and tax incentives, create distortions in the market, harm competition, and at the same time, the companies themselves have practically no effective management. Today in Uzbekistan they are talking

about measures that will reduce the share of the state in the economy and free up the market for the real private sector.

The process of privatization and reduction of the state's share will proceed in stages. According to the developed draft strategy of ownership, management and reform of enterprises with state participation, it will take as long as five years. And I can say that this document is not just about privatization, it is, in general, about the entire transformation of the economy in the country. From the methods of making decisions to the realization of the interests of the state at the level of enterprises.

Of course, this program is not ideal, but with the help of it the state will be able to change the current situation in the economy. For example, now a large number of organizational and legal forms, under which the participation of the state is hidden, is striking.

In the same Singapore, state-owned enterprises are registered as LLCs. They pay taxes, disclose their financial statements and report to the main holder - the state.

The strategy foresees a significant abolition of state unitary enterprises (SUEs). The inventory of 1742 SUEs carried out by the State Asset Management Agency showed that most of them simply do not correspond to the realities of today. According to the plan, only 70 state unitary enterprises should remain, that is, only 4%. The rest will be abolished or converted into the form of JSC.

Many of these enterprises had the right to circumvent the rules of transparent public procurement, and often operated without a license. All this made it possible to inflate the quasi-public sector. Let me give you an example. The list of state-owned enterprises that will be abolished includes all the bazaars of the republic. Until now, they are on the balance sheet of local authorities (khokimiyats) and are managed by them. This is explained by concern for food safety and sanitary control. The same situation has developed with many flour mills, although there have long been private players that are competitive and do not need subsidies. Another example concerns urban improvement works that are carried out by state unitary enterprises at each khokimiyat. In various city halls of different countries, this function has long been transferred to the private sector on the principles of PPP / outsourcing, and in our country these issues are supervised by officials.

At this stage, the strategy assumes that 554 enterprises will be retained by the state. They will introduce the principles of corporate governance. And this is the demand of the time. Since September 2016, Uzbekistan has been actively talking about the need for economic reforms, which is impossible without a departure from statism or an administrative-command economy. Until now, laws on auditing, IFRS, and public procurement have already been

adopted. Also, the work of the expert council and the public collegium is launched, which will accompany the process of privatization of state-owned enterprises.

The privatization issue is closely related to antitrust policy and competition. And the planned transformation of the economy in the country affects almost the entire cycle - from the methods of making decisions to the realization of the interests of the state at the enterprise level. In the period of the raging coronavirus, when, as we can see, the state is strengthening its role in the economy in the context of the growing crisis through state support, talk about reducing the share of the public sector seems a little more utopian than usual. But this is the right vector. Which will remain, I would like to believe, despite the cataclysms.

Narrow versus broad evaluations

Many studies on privatization just focus on one or a few aspects. For example type of privatization strategy used in a certain country (Welch, 1998; Bulow, 1996; UN, 1993; Tanyi, 1997), the level of production or the efficiency of privatized enterprises (Konings, 1998; Moshi, 2001b). This case study reflects a narrow perspective of privatization. The study asks a number of questions and seeks to look at and examine a number of related issues. The reason for a broader evaluation approach being that when interrelated aspects are viewed at the same time, it becomes easier to clearly see and appreciate what transpired in the privatization process. We have to study both the process and the effect of privatization. The other aim is to draw from experience in other parts of the world such as the East Europe (Russia, Poland, East Germany, Slovenia & Hungary), Far East (Malaysia) and Latin America (Chile).

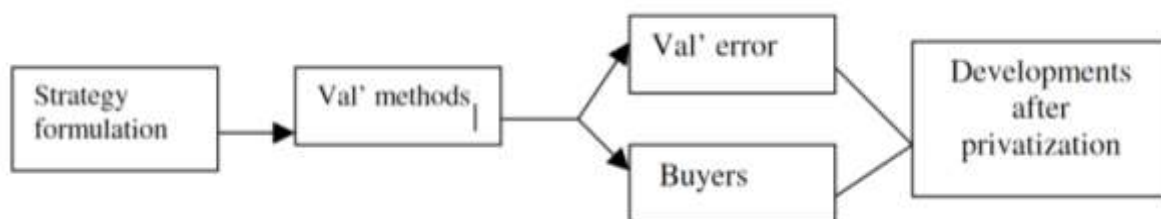


Figure 1. Aspects Investigated.

Source: Field study

Formulation of privatization strategy:

In this context, privatization is considered a working tool. When tasked with a job, the sorting out of tools is first priority. Where the right tools for any task are carefully sorted out then chances are that the job shall be properly done. In addition to choosing the right approach, we must make sure the goals of privatization are realized.

Valuation methods:

In the course of sales preparations, both buyers and sellers of state-owned enterprises must have a benchmark against which the acceptability of a given price is ultimately judged. The benchmark in this respect is the market value of the state owned enterprise to be sold. The market value is calculated through a process called valuation. In this regard Valuation is an important aspect in any sale preparation prior to any privatization.

Valuation error:

The issue of accuracy in value estimation is of central importance in setting the value estimate against which price negotiation is based. Any error in valuation is likely to result in an overvaluation or undervaluation of state-owned enterprises. Undervaluation is likely to lead to the sale of state-owned enterprises at low prices, which may raise more questions from the government and citizens. On the other hand, the overvaluation of state-owned enterprises leads to the setting of very high reserve prices that would scare away the potential buyers. It is important that the value estimation process operates within the margin of error that is acceptable to the valuation profession. A large margin of error is likely to result in a large disparity between the price to be realized and the expectations of the sellers, on the one hand, and the buyers, on the other.

Buyers of State-owned enterprises:

This aspect addresses the question of who were the buyers in the light of the stated objective of ensuring wider participation by the people in the ownership and management of business operation. In many privatizations, governments attempt to achieve a fair re-distribution of wealth among the citizens in a effort to reduce the income gap between the rich and the poor. Where buyers are dominated by foreign entities, in purchasing state owned. Strategic planning. All the errors and methods. Changes after privatization. Buyers, enterprises and governments become unpopular. Likewise, when the income gap is great, unemployment and crime tend to rise, which disrupts the economic stability.

Developments after privatization:

This aspect is concerned with examining whether or not, as was the case prior to privatization, the private enterprises continue to manufacture goods and services. There is fear that factories could be shut down and turned into warehouses of imported goods or that the delivery of basic goods and services to the citizens could be compromised in favor of more profitable ventures. Findings from this aspect shall be a feedback to policy makers.

CONCLUSION

As such, The State is a strategist for state owned enterprise, because it defines the strategic orientations and the development modalities of these companies. It is made by a contractualization between the State and the state owned enterprise and a strategic dialogue dedicated to show the optimal conditions of the companies work for a big performance. In this order of idea, the State is a controller who watches in over the rational allowance of the resources by state owned enterprise and assures the conformity the statutory laws. The State aims through this role to improve the mechanisms of the state owned enterprise governance and to warn them against the risks

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