



Qendra per promovimin e zhvillimit



Center for Promotion of Development (CPD)

Draft Report

“The PTK development trends and the unsuccessful efforts for its privatization”¹

Evolution of the PTK PE

An enterprise with PTK features in Kosovo used to exist and function since 1959 with the following business activities: postal services and fixed telephony. During the period of illegal rule of Serbia, this enterprise was also placed under coercive measures and in general it suffered damages, both technology and business wise. The worst happened to Kosovo Albanian employees, who were dismissed from work arbitrarily. During the NATO air-strikes against the Serbian military targets in 1999, the assets of the Post of Kosovo were stolen and some were destroyed.

¹ This Report does not reflect the stands and opinions of FES.

After the war, the international administration within its efforts for the economic revitalization of the country placed this enterprise under its management with the inclusion of the local staff. During this period, the enterprise was consolidated in the aspect of the reaching of its emergency objectives, but without any vision about its development. However, in year 2000 a positive turn was marked with the introduction of the 'VALA' mobile telephony, as a result of cooperation with Telecom from Monaco. This mobile telephony in the beginning experienced an expansion and became the only provider of the mobile telephony services. This expansion was accompanied by rapid increase in number of the subscribers, increase of capacities and increase in the provision of a range of services. In the meantime, this mobile telephony became the only bidder for NATO military forces and the international administration. The increase of these services facilitated the development of businesses in the country and communication with other international partners.



The legal status of PTK very soon became an obstacle to the sustainable development. Therefore, in 2005, the international and local authorities, based on the Law on Public Enterprises transformed this company into a joint-stock-company, consisting of VALA unit and Telecom of Kosovo. The PTK realized its business operations

within this structure: Post of Kosovo, Telecom of Kosovo and VALA, which operates using the mobile telephony country code of Monaco.

This way, the Government of Kosovo becomes the owner of this public company. The following types of services result from this: fixed telephony services, mobile telephony services and postal services.

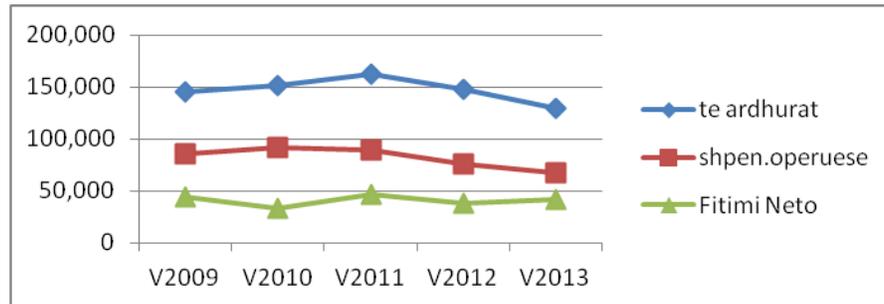
The financial performance of the company

From the financial indicators standpoint, one can notice a continuous increase in revenues which is 19.0% covering the time period from 2009 – 2011. In the very same period the expenditures have shown an increase of 3.8 %. These financial moves reflected positively in the introduction of net-profit, making PTK to have the best financial and sustainable business performance in the country. During this period the net-profit shows a growth of 4 %. In the period after 2008², changes occur in the telecommunications market in Kosovo. These changes, first of all, have to do with the introduction of the (IPKO) private mobile telephony operator, which led to changes for the PTK business position. From this period, the PTK from the position of a monopolistic operator becomes an operator facing with a different company and in a competitive market environment. This competition reflected a division in the market – of clients, quality of services and their prices.³ In 2012 within the PTK reform, the assets of the existing company are divided in two companies: Telecom of Kosovo and the Post of Kosovo. The new situation in the market created financial implications. This way, during the period from 2011 - 2013, revenues decreased for 33.2 million Euros, or 33.2 %. But, in the very same period the operation expenditures show a decrease of 24.7 million Euros, or 8.4 %.

² The alternative operator IPKO Telecommunications, is equipped with a license for offering of mobile telephony services, on 6 March 2007, and started offering commercial services by the end of 2007.

In 2009, a virtual mobile telephony operator ‘Z –Mobile’, becomes very attractive during a short time for a number of clients - subscribers: 125.440 (2010), 167.731 (2011), 188.451 (2012) and 194.660 (2013).⁴

PTK financial performance indicators



The PTK does contribute to the level of employment with the inclusion of a highly qualified structure of employees. The data from the company show an increase in employment until 2011, when as a result from the division of assets of the Post of Kosovo, a considerable number of employees (about 1.000) moves to this company and this in PTK marks a statistical decrease in number of its employees.

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- II. ⁴ The contract has been signed according to the model of “division of assets” with a time limit until 2019. According to this contract-agreement, 73 % of the revenues belong to Z-Mobile, whereas 27 % of revenues belong to VALA. The case of the contract signed between PTK and Z – Mobile becomes object to an investigation and trial with a pretext of causing damage to the interests of the PTK operator. According to this effective contract this operator utilizes the basic infrastructure of PTK.

Number of clients / users

	Number of mobile users	Number of public network users	Number of IP users
2009	879.267	79.406	30.306
2010	1.018.368	76.333	36.810
2011	1.001.915	79.401	37.949
2012	1.065.155	75.634	37.560
2013	897.475 ⁵	69.782	35.221

Since the very beginning of the activity of the mobile telephony operator, there is a continuous increase in number of mobile users. This way, until 2012 the number of users reaches over 1.2 million. But, from this year onwards there is a trend of decrease in number of users due to the introduction of Z-Mobile virtual mobile telephony in the market. This led to a decrease in number of public network and IP users.

The PTK, based on its business operations, has allocated considerable funds in dividends for the Kosovo Budget. This contribution from PTK in dividends allocated per share-holder showed a tendency of decrease from 2009 which is a consequence from the slow increase in revenues.⁶ Those that were against the privatization of majority of shares, emphasize the importance of the amount from the dividend allocated per share-holder. The decrease in allocation of dividends is shown in the chart.

⁵ This is about the quarter of the year.

⁶ According to years: 80.0 mil. (2010), 55.0 mil. (2011), 45.0 mil. (2012), 40.0 mil. (2013).

During this period, as a result of the expectations from the privatization of the company and the allocation of dividends per share-holder, there is a low level of capital investments. This investments situation translated negatively in the company's capability for competition and led to technological stagnation, compared to its main rival in the market (IPKO). This situation brought difficulties in relation to the realization of aims and of company's vision. Changes of the organizational structure in the Government have had a negative impact in the company's position in the market and its competitive performance. At one time, the company was under the umbrella of the Ministry of Economy and Finance and later the Ministry of Economic Development. This changing of ministries led to an ineffective influence from the shareholders into the development trends of the company.

Number of employees

Years	Employees	Index up / down
2009	3.205	100.0
2010	3.384	5.6
2011	3.349	-1.1
2012	2.392	-28.6
2013	2.370	-1.0

In the circles of the civil society the number of employed staff in PTK became an issue. A concern was raised in particular about employment of staff without any public vacancy announcements and based on directives from political

parties. This was also the case with the selection for the steering board which was done purely according to the criteria of the political parties. These types of actions were considered a source for the depreciation of the assets of the enterprise and with long-term consequences to the company's competition capabilities.

The qualification structure and number of staff, January 2014

Qualification	Number of employees	%
Primary education	105	4.0
High qualification	9	0.1
Secondary education	1,552	66.0
College education	54	2.0
Superior education	645	27.0
Total	2,365	100.0

Source: PTK reports

The qualification structure of PTK employees is predominantly of secondary level (66.0 %) and with superior qualification (27.0%). This structure of employees and in particular the high percentage of employees with secondary education can be assessed as inadequate when comparing the complexity of the business and the continuous liberalization of the telecommunications market.

Average salary

Year	Number of employees	Average salary in €	Increase index
2009	2.370	997	100.0
2010	2.392	1.202	121.1
2011	3.349	1.209	100.6
2012	3.384	1.164	96.2
2013	3.205	1.053	90.4

Source: PTK reports

The PTK continues to remain the most attractive company in Kosovo from the aspect of average salary raise. Compared to the average salary raise in Kosovo for the public sector (250 – 300 EUR) and the private

sector (more than 300 EUR), the PTK average salaries are several times higher. This average salary level in 2011 is impacted by the liberalization of the communications market (new sources) and therefore shows a tendency of salary decrease. The level of high salaries was extremely attractive for the high profile professionals. Based on the number of the high profile professionals, in recent years there is a noticeable number of staff leaving this company in order to work for the other competitive mobile telephony operator. The level of employment became a topic for discussion and concern within the civil society and by condemning the political interference during employment activities.

The liberalization of the telecommunications market in the context of the privatization of the public mobile telephony operator

The Telecommunications Regulatory Authority (TRA) in accordance with its obligations stipulated by the law and in the meeting of its deadlines, is on a right path towards the conclusion of the drafting of the secondary legislation, which shall provide for proper regulatory clarity and the addressing of the challenges that are inter-related to the key objectives of the law, for which there is a need for the so-called ‘regulatory prediction’, such as:

- Effective managing and utilization of limited resources;
- Technological impartiality;
- Proportionality and the minimum of required regulation;
- Offering of safety and of legal security and of a regulator in a dynamic market;
- Encouragement of the economic development through provision of effective competition; and
- Protection of consumers’ rights,

- Provision of continuous development for broadband networks for electronic communication in the entire country and promotion of the use of electronic communications services;
- Provision of quality services (*QoS*), of security and integrity of the networks and electronic communications services.

All these objectives and principles are in the function of promoting of free competition, development and most efficient utilization of the electronic communications infrastructure, as well as the organization of proper and relevant services for the end-users (consumers) in the entire territory of the Republic of Kosovo.

The Policy Document on the Electronic Communications Sector, known as '*The Digital Agenda for Kosovo 2013 – 2020*', as a basic medium-term or long-term framework, defines the direction and development priorities of our country. Its strategic objective is the overall improvement of the quality of life for the citizens of Kosovo, as well as for the business environment for the enterprises and entrepreneurs through utilization of opportunities provided by the information and telecommunications technology (ITT) and the increase in number of internet users until 2020 in Kosovo, to at least 85 %, whereby the key objectives shall be as follows:

- Development of ITT infrastructure;
- Development of contents and of electronic services and the promoting of their utilization;
- Enhancement of skills for citizens of Kosovo in using of ITT.

The operators and electronic communications service providers that are licensed according to applicable license/authorizations categories:

TYPES OF LICENSES/AUTHORIZATIONS PROVIDED BY ARKEP	No. OF LICENSES
License for provision of internet services	53
License for value added services	39
License for international telecommunications services	6
License for international nodes and telecommunications equipment	6
License for fixed telephony services	3
License for Mobile – GSM telecommunications services	2
License for MVNO (Mobile Virtual Network Operator)	2
License for telecommunications infrastructure services	1
TOTAL	107

The decrease in incomes in the area of mobile and fixed telephony is a consequence of the development of technology and the growing of use of smart phones and equipment, concretely of applications offered by contents and applications providers, from mobile telephony users which enable for the use of applications based on internet platform for communication purposes. This trend of decrease, in particular in the area of mobile and fixed telephony according to official data from DG

Connect, is recorded also in most of EU countries, but also in the countries of the region and the percentage (%) rates of decrease reach up to 14.2% for the fixed telephony services in the countries of the region.

Regulation as a continuous process is not directly inter-related with the property transformation (privatization) processes, because the ownership structure of the shareholders for the operators does not have a determining role for cases when applicable laws and the sectoral policy document is explicit and is a promoter for the development and competition in the sector of electronic communications. From the stand point of the regulatory authority (ARKEP), the private operators are capable and have competitive advantages, since they quite easily adapt to the dynamic developments influenced by the added technology convergence and the acquiring of the new technologies that are attractive for the consumers with the provision of access and innovative services which in the case of our country they could be even more innovative and energetic having in mind the structure and the high percentage of youth population in the country and in a more favorable situation from the aspect of the socio-economic potential of the families and of the individuals in the country.

Unsuccessful attempts for privatization of PTK

Following the introduction of the program for the privatization of the socially-owned enterprises, within the structural reforms, the privatization of PTK was in the Kosovo Government's top agenda. In the governmental circles the privatization of this company was placed in the context of lack of budgetary revenues for overcoming the governmental spending, and less as an effort for the empowerment of the

private sector and of the internal competition within this sector and the economy. In order to support the liberalization of the market for this sector, the government adopted policies and legislation packages for the privatization of the sector of the telecommunications.⁷ This effort later on was inter-related to funding of the “Ibrahim Rugova” Highway. The public comments of the government were that 300 million EUR were needed for the start with the project of the highway. This was at the same time a message about what should be the selling price for the 75 % of PTK assets.

In 2010 a first attempt was made but it did not pass in the Assembly of Kosovo. Following this failure, the government again started with the process by using the very same approach in relation to procedures, methods and the % of the shares to be sold. But, the entire process was accompanied with expenditures and was presented in the Parliament of Kosovo for approval in the end of 2013. Now, the government placed the PTK privatization in a special amendment within the draft-budget for 2014. This way of privatization created political tensions in the Parliament of Kosovo, between the government coalition and the opposition, because this was done outside the legal framework. During this process a refusal and dissatisfaction from the Independent PTK Trade Union was made public.⁸

Based on the attempts for the privatization of the PTK, one could say that the institutions did not draw their relevant lessons. The process so far has been accompanied with unnecessary politicizing of the matter. However, despite the failure for the privatization of the PTK, in Kosovo there is no refusal for the empowerment of the private sector and the liberalization of the internal market.

⁷ “Policies of the Sector of Electronic Communications – The Digital Agenda for Kosovo 2013-2020”, 2012

⁸ The Trade Union organized several protests in order to show dissatisfaction with the process of the privatization.

In order to restart with the process, the institutions should take into consideration the addressing of the following relevant matters:

1. Since this is about important assets, the entire process should be placed inside a process for the building of a consensus that would include the government as the share-holder of the assets, the Assembly of Kosovo, Independent Trade Union of PTK, civil society, media and the citizens, in general. This would create a friendly societal environment which would provide for the realization of this process. This also means that from the process of privatization all citizens of the country would benefit. This is achieved when with the funds from the selling of the company, inclusive projects for human development could be supported.
2. The process lasted too long, twice. This in general shows for lack of proper preparation of the process by the relevant institutions. There was no introduction of relevant feasibility analysis in order to clarify the process and serve its sustainability. This approach is outside the context of the analysis, and the way it was governed has compromised the process significantly.
3. The process in general was disputed by the civil society, independent trade unions and other interest groups and this was also due to the lack of transparency. This contributed the further politicizing and contention of the process. Transparency should be present during all phases of the process.
4. The percentage (%) from the selling of the PTK shares remains an issue which had raised concerns among important actors. This percentage is considered to be high in this current moment of transition in Kosovo. There are stands from the governmental institutions that only with this percentage PTK may become more attractive to strategic investors. But, the critics of this package think that Kosovo has to significantly lower the percentage of

shares that need to be sold. The selling of shares is a one-time process and with this percentage (%) the Government of Kosovo will lose its governing power in the privatized company. In the countries of the Western Balkans, the 'golden' shares were kept back.⁹

5. The greatest dissatisfaction during this process was expressed by the workers and their trade unions. Their concerns were connected to the social insecurity of the privatized company. Their reaction show the social sensitivity for the lack of collective contracts, whereby the PTK share-holder would be a guarantor, that is, the Government of Kosovo. Absence of communication debates and of the basic consensus is reflected even more in the tightening of the relations between the employees and the share-holder.
6. The PTK process in both cases is mainly based on the expertise offered by the transaction advisers and less in the utilization of the relevant expertise in the country. This led for the proposals from the transaction advisers to be included in the proposal for the tendering package.

⁹ Telecommunication companies sold shares according to countries: Bulgaria 51 %, Croatia, 35 %, Hungary 30 %, Macedonia 51 %, Serbia 49 %.

The discussions in panel reflected different stands about the privatization process and about the vision for the seeking of acceptable solutions from actors. Everybody agreed that Kosovo needs strengthening of the private sector and liberalization of the market, in general. However, the following closing remarks have been identified:

1. While tackling on this issue one has to draw some lessons from both failures of the privatization of PTK. The impression is that there are no debates in which the position of the Government, Assembly, Trade Union, and other actors would be explained. This would orientate the attention on the accusations of political nature, as to who is to be blamed for the failure of the process. It is the obligation of the MED to disclose the stands of the share-holder about the direction this process is going to take following its failure.
2. The Government, respectively the share-holder did not manage to clarify the objectives of the privatization and the benefits for all the citizens and the interest groups. This could be done with the servicing of the feasibility analysis which would then create a cost-benefit analysis between the benefits and the costs of the options involved (dividend – sale ratio). This created a vacuum in the understanding of the benefits, risks and the social responsibility. Lack of transparency and of communication in the beginning of the process led to the creation of distrust for the process between the other actors. Frictions in the Parliament of Kosovo show for lack of consensus, debate and trust.
3. The telecommunications market and regulatory policies entail the EU and the international standards, in general. This legislative friendly market should be used for the transformation of the PN PTK into an operator that can withstand competition from the other operators. From the so far experience, one can notice the need for the implementation of the regulatory policies from the operators and sectors.
4. Since we are witnesses of the failure of the privatization process, there is a need for an alternative approach for the creation of a platform which would reflect on the engagement of all actors aimed at the consolidation of the functioning of the PTK under new circumstances. The process was too lengthy and was definitely compromised and surely this will have a negative

impact for the future buyers. Having in mind that the privatization efforts had started in 2007, this was reflected negatively in the technological development taking into consideration the blocking of assets that would be used for the technological strengthening and the company's competitive ability.

5. In order to ensure for the parameters of transparency, accountability and trust and it would be of importance for the organization of the correct tendering procedures to have a facilitated and symmetric approach for all potential buyers to official information, especially to those that are related with tendering conditions. Some of the companies that have withdrawn from the process have raised even these concerns.
6. All future actions related to the functioning following the failure of privatization and of the medium-term vision, namely the aims of the privatization should be taken into the consideration, including the social responsibilities, as well as the involvement of employees and of their trade unions in the future development of the PTK.