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The Effect of Privatization of State-Owned Joint-Stock Companies in Case of Uzbekistan

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Abstract

In the modern world, an important role is played by the world economy, which determines the distribution of benefits between the participants in economic relations, a huge influence on this distribution is exerted by joint-stock companies, which have become a solution to many problems of the world economy and allowed the largest enterprises to receive qualitative development, as well as providing shareholders of these enterprises with the opportunity to increase their own well-being, which leads to multiple changes in the world economy itself. Virtually all state-owned enterprises have a direct impact on people's lives through the services and infrastructure they provide.

Poor governance, incompetent leadership, waste of public funds, corrupt mechanisms and lack of financial sustainability in some state-owned enterprises are often in the public eye, as taxpayer money is used to support these inefficient state-owned enterprises. In this regard, it is important to consider the factors under which privatization can be effective.

Keywords*: joint-stock company, world economy, shareholders, enterprise, modern world, joint-stock ownership.*

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1. INTRODUCTION

For a long time, a paradoxical situation persisted in the sphere of economic reforms, when its content was practically replaced by privatization programs and a change of owners even in Uzbekistan. At the same time, as a rule, only the right of ownership changed, the mechanism for exercising the rights of the owner and economic conditions for enterprises of various organizational and legal forms did not undergo significant adjustments and, moreover, was the same for all enterprises. Regardless of the form of ownership. [1]

The experience of privatization of state-owned enterprises has convincingly shown that the change of ownership is completely insufficient to change their economic behavior. This is especially true for large state-owned enterprises. If in the sphere of small privatization each employee has the opportunity to see the results of work in direct connection with the results of the enterprise, then in a large enterprise the processes of motivation are so indirect that no category of workers can suddenly feel like a master in themselves and, moreover, be guided by them in their decisions. [2]

2. THEORETICAL ASPECT OF RESEARCH

The responsibility and rights of participants of a joint-stock company are determined only by the number and type of their shares, there are so-called ordinary shares that allow the owner to participate in the management of the joint-stock company, at the same time there are preferred shares that do not give the right to participate in the management of the company, but allow their owner to receive his dividends in a firmly established amount, regardless of the economic condition of the enterprise, also, in case of ruin of the company, preferred shares give the right to preferential receipt of part of the property of the joint-stock company remaining after its liquidation. When the production owned by a certain owner expands to a large scale, it becomes a reasonable option for him to sell some part of the shares of this company, while leaving for himself a large part, the so-called "controlling stake." While the shareholders of this company also benefit from the acquisition of shares, since by depositing a certain amount they receive certain dividends from the company's income, and even if the company is ruined, they lose only the amount paid for the purchase of the share. [3]

In comparison with other forms of organization of the enterprise, joint-stock companies have a lot of their advantages, for example, due to its legal status, a joint-stock company has an increased ability to attract new material resources. Moreover, the legal capacity of a joint-stock company is not limited by any kind of legislation, such a company can conduct any type of activity not prohibited by the legislation of the country in which the enterprise operates. Moreover, a joint-stock company is more stable from an economic point of view than an individual form of ownership of an enterprise, since the former can attract new capital in difficult periods for the company, which strengthens its economic "survivability" even with frequent changes in the composition of its participants.

The basis for privatization is the presence of information asymmetries, which lead to serious incentive problems and, consequently, to significant losses in efficiency from state ownership. This link between incentive and efficiency, or the "principal-agent problem" in the context of privatization, has two directions:

1. managerial - concerns the inability of the state to control the heads of enterprises. This inability stems from the lack of market mechanisms and the discipline of managers;

2. political - associated with the temptation of political intervention to maximize profits or the direction of cash flow for other purposes. [4]

Moreover, this intervention may also lead to the perception among enterprise managers of a "soft" budget constraint, in which they expect government subsidies to cover losses from production inefficiencies or unconditional investments.

Agion and Tyrol (1993) and Katz and Owen (1993) argue that the benefits of hasty privatization must be weighed against the social costs. According to these economists, instant privatization leads to huge unemployment, and slowing down the privatization process a little is the best solution. On the other hand, many studies show that delayed privatization can undermine the efficiency of state-owned enterprises, as managers' incentives are focused on personal enrichment rather than productivity improvements. [5]

The question is brewing: if the transition to free markets and privatization will not be instantaneous, then when should this process begin?

Hayek (1945) suggests that the failures of public enterprises stem from the inability of central planners to acquire and use information, and that one of the main advantages of decentralized private ownership is the ability to learn and process new information. Such information may include consumer preferences or new technologies. In fact, the benefits of privatization are related to the ability of private enterprises to respond to new information. This ability allows businesses to change their production volumes as demand changes. [6]

One of the major advantages that joint-stock companies bring is the presence of a securities market where you can freely buy or sell shares of a company, which allows the world economy to develop as a whole, the possibility of circulating shares on the market has determined the wide spread of joint-stock companies in all types of industry, trade, banking and insurance, as well as in other sectors of the economy. In many leading countries, joint-stock companies bring in most of the country's gross domestic product.

Erlich, Isaac and others (1994) found a significant relationship between ownership and unit productivity growth rates. Using a sample of 23 comparable international airlines with various ownership categories over the period 1973-83, they found that private ownership leads to higher productivity growth and lower costs in the long run. Their estimates show that the short-term effects of changes from public to private ownership on productivity and costs are mixed. However, the transition from full state to private ownership only in the long term and the partial privatization of enterprises will not lead to improved productivity and efficiency. [7]

3. METHODOLOGICAL ASPECTS OF RESEARCH.

This article examines the views of various scientists and provides a comparative analysis of their views on the impact of the privatization of state joint-stock companies. The factors influencing the privatization of state joint-stock companies are considered and analyzed. The analysis of statistical data of the Republic of Uzbekistan was carried out. The effects on the development of the country's economy and the development of joint-stock companies from privatization are considered.

4. ANALYZE OF RESEARCH

It is obvious that joint-stock companies play a huge role both in the economy within the country and in the world economy in principle. The small number of these companies is largely

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compensated by the size of the contribution made by joint-stock companies to the economy, for example, in the United States only two percent of companies are joint-stock companies, but these companies produce about fifty percent of all products within the country. It is for this reason that joint-stock companies are called "diamonds in the crown" of countries with advanced economies. Moreover, joint-stock companies play a crucial role in the development of countries that perform the transition to another model of society or economy, so, in the process of transition from a command - administrative to a market economy, joint-stock companies acquire a special role, because the privatization of former state-owned enterprises often occurs through the sale of shares of this enterprise to ordinary citizens, such a sale can positively affect both the production itself, which will receive new funds in a difficult period for themselves, and on the situation of citizens - owners of shares, as this will bring them additional income during the difficult economic situation in the country associated with major changes in it. [8]

Joint-stock companies in many ways play a role in the formation of a developed capitalist society around the world, as many individual owners get a good chance to develop their own enterprise, attract capital and new people who are useful to the company. In turn, the development of joint-stock companies in this way has a positive impact on the country's economy and its external position, since the large economic ties of the state with the outside world provide it with political stability and well-being within the country. With the advent of joint-stock companies, it is possible to concentrate significant capital within their framework, allowing to solve the most complex economic problems.

In developing countries, these mechanisms are not always perfect. The economic foundations and theories of privatization rely on property rights and the principal-agent relationship, where the principal controls the behavior of the agent (manager) more effectively than government officials or politicians.

In developed countries, the main goal of privatization is to increase economic efficiency. The emphasis is on increasing productivity and reducing production costs at the enterprise level. However, in developing countries, getting the most out of limited resources must go hand in hand with two other priorities: poverty reduction and sustainable economic development.

Prices for final products and services often rise as a result of reforms (privatization), and this can have an adverse effect on the low-income population, either in absolute or relative terms. But at the same time, after privatization, most enterprises expand their services and networks, and low-income groups often benefit.

Against the background of the commercialization of the economy, of course, we must not forget about the elements of social protection. Large-scale changes in the economy, as well as the privatization of unprofitable enterprises, lead to a significant redistribution of labor resources from these enterprises, some of which go to the private sector, while others are on the verge of unemployment. In developed countries, the side effects of privatization (unemployment) are regulated to some extent: workers have enough skills to find other jobs; the system of social insurance is developed; sufficient unemployment benefits. However, in developing countries, especially in low-income countries, these mechanisms are not established. [10]

In recent years, Uzbekistan has been implementing large-scale reforms to develop the national system of corporate governance (JSC), which are aimed mainly at introducing modern methods of corporate governance, radically improving the efficiency of joint-stock companies; wide attraction of foreign investments to joint-stock companies; ensuring their openness and

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investment attractiveness; a radical change in the principles and approaches to the corporate governance system and giving it the real character inherent in the modern market economy.

In january-December 2020, 842 enterprises and facilities were privatized (including program and extraprogram facilities).

Table.1. Main indicators of privatization of enterprises by regions in 2020 [12]

	Number of privatized enterprises and facilities		Receipt of funds from the sale of state assets	
	Units.	total, in %	mln. UZS	total, in %
Republic of Uzbekistan	842	100	399540,9	83,2
Republic of Karakalpakstan	63	8	3378,3	0,7
Andijan	111	13,2	5640,7	1,2
Bukhara	47	5,6	25229,9	5,3
Jizzakh	37	4,4	5248,1	1,1
Kashka Daria	64	7,6	3498,3	0,7
Navoi	29	3,4	10591,6	2,2
Namangan	77	9,1	32370,7	6,7
Samarkand	34	4	8645,3	1,8
Surkhandarya	60	7,1	6463,9	1,4
Syr Darya	26	3,1	1451,4	0,3
Fergana	112	13,3	19342,1	4
Khorezm	31	3,7	3781,1	0,8
Tashkent region	117	13,9	11267,3	2,3
Tashkent	30	3,6	262632,2	54,7

In the structure of privatized state property, the largest share falls on the objects of local authorities - 574 objects (68.2% of the total number of objects privatized in the republic), the Ministry of Housing and Communal Services - 80 objects (9.5%), the Ministry of Health - 59 objects (7%), the Agency for State Assets Management - 35 objects (4.2%), the Ministry of Public Education - 19 objects (2.3%), the Ministry of Finance - 16 objects (1.9 %). The uniqueness of corporate governance operations can be characterized by the role of the various stakeholders involved in the process.

Table.2 Responsibilities and benefits of corporate governance participants [11]

Groups of corporate governance participants	Duties	Benefits
Shareholders	Considered as investors of the company	Advantages if you need to sell or buy dividends
Hired managers	Performs all necessary management functions	Benefits of the high status granted within the framework of their duties
Personnel	Responsible for production	Benefits of the high status granted within the framework of their duties
Controls	Establishes the legal basis for corporate governance	Benefits of the company's stability and its ability to create employment

	activities	opportunities
Lenders	Participates in production on financing	Benefits of stability and after-tax profit

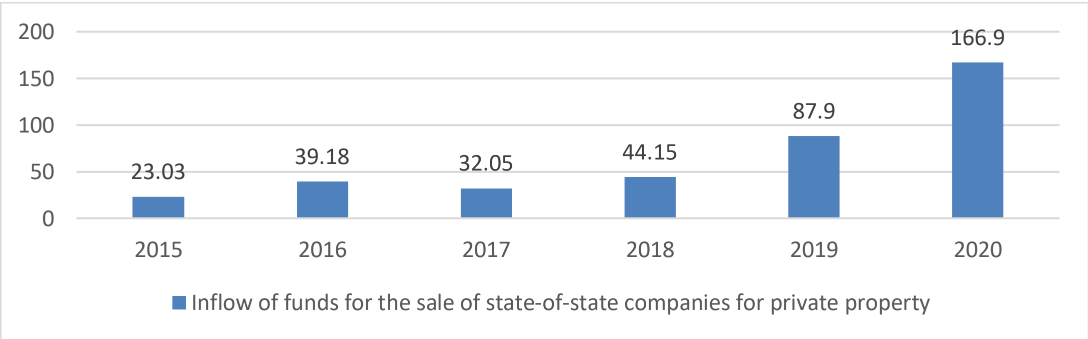
Based on the table, it can be concluded that the participants of corporate governance are separate from each other and differ in their duties and benefits. Most of the measures taken to improve corporate governance will be useless if the necessary investment opportunities are not created. In order to improve the efficiency of corporate governance in Uzbekistan, the government is paying attention to the democratization of rules regarding the transfer of public shares to the private sector.

SOEs in transition countries face an stimulus challenge caused by fiscal easing, with inefficient and unprofitable SOEs often accessing investment funds, "winning" tenders more often than more efficient non-state enterprises.

In the conditions of Uzbekistan, this is confirmed by the fact that only in the third quarter of 2018, spending of funds in violation of financial discipline in the amount of 16.6 billion soums was revealed in budgetary organizations, including shortages and misappropriations in the amount of 4.5 billion soums and illegal expenditures in the amount of 12 .1 billion soums.

The "soft budget constraints" of state-owned enterprises play a large role in inefficiencies. Managers and employees of state-owned enterprises are aware that revenue shortfalls can be eliminated through government subsidies. This influences the behavior of employees in search of greater compensation and lighter workloads. Consequently, managers realize that efforts to cut costs and generate surpluses in the current period can be rewarded with no more than a corresponding reduction in government support in future periods. That is, managers have practically no incentives to reduce production costs.

Thus, in the presence of externalities, privatized enterprises quickly adapt, change managers and development strategy. This suggests that privatization can only be effective when control passes from the state to private owners, who can thereby change managers.



Graph.1 Inflow of money received from the sale of state-owned companies (in thousands of USD) [10]

Inflow of funds for the sale of state companie for privite property for Republic of Uzbekistan from 2015 to 2020. Where it is clear that in 2020 sale from state-owned companies are in dominants level with nearly 162 thousads of USD.

Conclusion

Thus, we can confidently conclude that the emergence and increase in the number of joint-stock companies is the result of the development of the world economy and world society as a whole. The impact of joint-stock companies on the world economy is difficult to underestimate, developing new enterprises, they open up new opportunities both for these enterprises themselves and for the shareholders of this company, as well as we are talking about the development of the state's economy, which receives an increase in gross domestic product, new economic and political ties, the development of society and technologies, and ultimately we are talking about the development of the world economy, increase in trade turnover and economic relations in it.

For state-owned companies, restructuring is most easily and effectively achieved through foreign ownership. While some companies may develop good corporate governance, an underdeveloped legal system allows local managers in many privatized enterprises to maximize their own benefits at the expense of company performance, which therefore has negative consequences for unequal income distribution at the country level.

Privatization to foreign investors leads to a significant improvement in the performance of the enterprise in almost all countries with economies in transition and is characterized as a fairly rapid change in productivity. The effectiveness of privatization to domestic investors was on average less effective and varied across regions. The effect was smaller, often delayed, or even negative in Russia and other CIS countries.

The most important policy implication is that privatization alone does not guarantee productivity gains, at least not in the short or medium term.

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