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**PRIVATIZATION EXPERIENCE OF SOME CEE AND CIS COUNTRIES
LESSONS FOR BELARUS**

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ABSTRACT

Privatization is intended to achieve many different, and to some extent contradictory, goals. Indeed, the goals chosen determine the methods, consequences and pace of privatization. While CEE countries have chosen to pursue mostly economic goals through direct sales privatization and FDI attraction, CIS countries tried to achieve political and social goals, implementing MEBOs and mass privatization. As a result, most CEE countries are members of the European Union, leading the region in economic and social development. At the same time, in CIS countries, privatization has neither improved the economic performance of the enterprises, nor increased the standard of living, causing growing appeals for the revision of privatization results and general disappointment in market reforms. Belarus has made even fewer market reforms than other CIS countries, as the elites of the country have never considered privatization as a necessary and helpful reform. However, the increasing decline in national competitiveness sooner or later will make the government revise its attitude toward privatization and its methods. Therefore, the experience and lessons learned by Belarus' neighbors are of great importance and interest.

Key words: privatization, transition economy, Belarus.

JEL Classification: D21, G30, L22, O53, P31, P51.

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1. INTRODUCTION

Privatization is one of the main reforms needed during the period of transformation to a market economy. However, the complexity and the size of the task – ‘the labors of Hercules’ – (Oleh Havrylyshyn and Donal McGettigan’s vivid expression) caused many difficulties, mistakes, failures and misunderstandings. Political conditions and the general institutional environment often limited the extent of privatization or even caused its misuse. Sometimes the lack of a clear, general understanding of the power, means and limitations of privatization per se led to unrealistic expectations, allowing the ruling elites to regard it as a panacea for all problems inherited from a socialist economy. On the contrary, the mistakes and debatable privatization methods and tactics chosen by some politicians and their economic advisers could not lead to anything but failure. As a result, in many countries, especially former Soviet countries, privatization is now believed to be closely connected with corruption, cheating, stealing, and the closing and ruining of the privatized plants. The disappointment with privatization, along with the political manipulation, has led in modern Ukraine and Russia to strong political support for reconsidering the results of privatization, and to the increasing attractiveness of different forms of ‘deprivatization’ and ‘reprivatization’.

For these reasons – especially in CIS countries where privatization is still not finished (like Belarus) – an analysis of the best and worst privatization practices is of great interest and importance. Apparently, the different results obtained in privatization by different countries to a large extent are explained by their choice of priorities among the different goals which privatization was supposed to achieve.

There are as many privatization results as there are countries that implemented privatization. Still, it should be useful to group the experiences of similar countries in order to analyze their differences. One example might be to group CEE vs. CIS countries. Or one might create smaller groups between these two wide groups. Indeed, since each country has its unique privatization experience as well as experiences similar to others in the group, it will be still be useful to identify and compare the experience of "sub-groups" such as Hungarian vs. Polish, Czech vs. Slovakian, Russian vs. Ukrainian, Kyrgyz vs. Kazakh.

The second section of this working paper provides the review of literature concerning privatization, the concrete privatization goals, results and cases are reviewed for four countries – the Czech Republic, Hungary, Poland and Slovakia. The third part describes the current status of privatization – its dynamics and directions – in Belarus. The final section contains conclusions about the results, limitations, and failures of privatization, based on the experience of CEE countries, plus policy recommendations for changing/accelerating privatization policy in Belarus.



2. LITERATURE REVIEW

With some exceptions, privatization is considered a success story in CEE² countries where it has brought to the privatized enterprises new capital and technologies, deep enterprise restructuring, better performance, and integration with the global market. On the contrary, in CIS countries privatization is described in such negative terms as national catastrophe³ and ‘prihvatization’³. Privatization in CIS countries led to much deeper differentiation in incomes, the emergence of oligarchs, the cheating of voucher holders, rather low and slow changes in corporate governance and restructuring, modest FDI inflows, and widespread disappointment in privatization and market reforms in general. But is the privatization to be blamed?

2.1. THE GOALS, KEY FACTORS, AND PRIVATIZATION PROGRESS IN CEE COUNTRIES

Privatization is considered as a means of achieving many goals such as political, economic, fiscal and social ones. As the main goal of this paper is to study and analyze the best practices and experiences of CEE countries, in this work we will concentrate mainly on the economic goals of privatization, as they were dominant in most of the CEE countries. In Hungary, fiscal considerations were extremely important, so they designed a more specific approach to privatization. Indeed, it is rather an exception than the rule, and in the end, the Hungarian privatization resulted in extremely large improvements in the performance of the enterprises. Privatization is a political process in which the transfers of immense assets are followed by shifts in political power (Marcincin and Beblavy, 2000). Therefore, for several reasons, in CIS countries the design of privatization programs was largely dictated by political and not economic factors (Boycko et al., 1994; Lewandowski, 1997; Kozarzewski and Rakova, 2004). The goals determined the privatization methods. In all CIS countries (only Turkmenistan is an exception), mass privatization was the primary method, as it involved most of the population, which was politically preferable (Havrylyshyn and McGettigan, 1999). Besides that, decision and policy makers declared to achieve via privatization more social justice and equality, which was supposed to make the reforms more attractive. In Russia, more attention was given to political considerations, due to the high threat of communistic revanche and the need to control politicians (Boycko, Shleifer and Vishny, 1995).

² In this paper, by CEE countries, we will understand only the best performers, i.e., the countries which joined the EU in 2004.

³ Richard Woodward, an expert of CASE (Poland), called this even ‘proprertization of the nomenklatura’, see Blaszczyk et al, 1996.



Economic goals in terms of privatization⁴ mean (i) increased efficiency of allocation (i.e., redistribution of resources), (ii) increased productive efficiency (i.e., restructuring of privatized enterprises) and (iii) the formation of the basis of a market economy (change in incentives, binding hard budget constraints, development of new private enterprises, etc.). In other words, the transfer of ownership rights shifts a firm's objectives and behavior where profit making becomes the dominant. Such changes result in better economic performance and considerably increased economic efficiency on both micro and macro levels.

Different researchers and scientists have found numerous positive effects in those CEE countries which introduced deep and consistent programs of privatization. For example, Djankov and Pohl, studying Slovak enterprises, found such improvements in enterprise performance as labor shedding, spinning off social assets, opening new markets, creation of new products, increased productivity and profitability performance with which they associated privatization (Djankov and Pohl, 1998). Frydman, et al., analyzing selected CEE countries, cite that privatization (except worker ownership), significantly improves corporate performance and increases employment (Frydman et al., 1997). Most of the researchers agreed that privatization corresponds with greater restructuring, in terms of labor and material use, export, and profitability (Pohl, Djankov and Anderson, 1996; Belka, Estrin, Schaffer and Singh, 1995).

However, all those who studied and compared the results of privatization in CEE and CIS countries discovered that privatization effects in CIS countries are not so clear and obvious. Moreover, most of the time, it is rather difficult to prove the correlation between privatization and post-privatization behavior (performance) in that group of countries. There are two common explanations of this fact. The first is that different forms of privatization bring different benefits (or their degrees are different). In practice, the primary methods of privatization differ in CIS and CEE countries (the comparison of different methods of privatization and their results will be examined later). The second explanation is that other factors matter.

Other factors or institutional aspects generally include macroeconomic factors, competition, political factors (securing political support for privatization and ensuring that the process is transparent), legal and regulatory frameworks that encourage competition and free entry into the market, well-developed financial sector and capital markets, a system of property rights, supremacy of law, independence of courts. Characteristics of institutional and macroeconomic factors work for privatization success or against it. Therefore, among technical issues, it is also a clue to the privatization process (Pennell and Robertshaw, 1999). Well-developed competition policies and regulatory frameworks, as well as a functioning system of property rights, are extremely important in the case of the privatization of natural

⁴ Note: we understand privatization as the sale of at least 51 percent of shares in a state-owned enterprise, with the controlling share in the hands of the private sector. In some CIS countries, privatization was displaced by corporatization, when even after the formal change of ownership, the state continued to keep a controlling bloc of shares. Such imitation of reforms distorts the analysis of privatization results. Besides, in this paper we analyze mainly large privatization, mainly in industry (not in the banking system, infrastructure, services, etc.).



monopolies in order to ensure that firms do not exploit their market power, potential environmental hazards are kept in check, and collusion is avoided (Galal et al, 1994).

By 1995, in Poland, the Czech Republic, and Hungary, 50% of all assets were in private hands; by 1998, it increased to 60-80%. However, by that time in most countries, except for Estonia, a very large percentage of the value of medium- and large-scale enterprises remained in state hands. Uncertainty in results and proper techniques, political considerations, and social tension after the first years of reforms made politicians slow privatization. Small privatization and de novo enterprises sector growth to a large extent determined the development of the whole private sector. The intention to join the EU and signing all necessary obligations played the determinant role for further continuation and depth of privatization.

2.2. PRIVATIZATION IN SELECTED CEE COUNTRIES: THE LESSONS LEARNED

The lessons and experiences of privatization in the CEE countries provide a huge space for analysis and learning best practices.

Below, we analyze some positive and negative consequences and results of privatization in four CEE countries: the Czech Republic, Hungary, Poland, and Slovakia. These countries now are among the leaders and best performers among the new EU members. Indeed, all of them were very different in implementing privatization.

The Czech experience – quick privatization but delay in restructuring

In the Czech Republic, several, mainly small and medium-sized, enterprises were privatized through two waves of voucher privatization, while a group of high-potential firms were sold to strategic investors. Despite the rather quick and mass privatization of state SMEs, by the end of 1998 privatization was not finished: the state held majority of controlling stakes in three of the four banks, part or all of the infrastructure firms, a number of large industrial concerns or strategic firms, and minority stakes of varying size in more than 325 non-strategic commercial and industrial concerns.

Voucher privatization allowed the relocation to private hands of about one-half of former state property. In general, the scheme was as follows: a privatized company dissolves without liquidation, and all its property is transferred to the NPFs (National Property Funds). Then NPFs carry out the privatization according to the particular privatization project approved by the Ministry for Privatization. As a result, these funds owned the majority of controlling stakes in many firms privatized by vouchers. However, the behavior of privatized companies' management in the pre-privatization and privatization period led mainly to their financial deterioration, because that helped management, who participated in the privatization process, to achieve a lower sale price for the firm (Buchtikova in Blaszczyk and Woodward, 1996).

In turn, the major domestic banks owned most of the large funds. But in these banks, the Czech state retained a controlling or even majority stake. As a result, investment funds were not interested in increasing pressure on poorly performing enterprises, as that would mean that banks (owners) should reduce their financing of those firms, while state-influenced, weakly-managed, and inexperienced

Privatization experience of some CEE and CIS countries. Lessons for Belarus



banks tended to extend credit and to roll over credits persistently, rather than push firms into bankruptcy (Andreff, 2005). Besides, fund managers often could have their own personal goals, such as maximizing their profit and leaving the firms with debts. The lack and drawbacks of prudential regulation, procedures of bankruptcy, and undeveloped capital markets also did not bring any benefits to the whole picture. All of these factors blocked efficient corporate governance and restructuring.

The results of the Czech model of privatization led many experts to conclude that there is no evidence of a positive effect of ownership shares by funds on the performance of operating companies (Weiss and Nikitin, 1998; Blaszczyk et al., 2003).

To a large extent, the Czech model shows how privatization should not be done. Despite leading at the beginning of the 1990s, the country fell behind for some years. Only later, at the end of the 1990s, when most of the state banks were privatized through takeovers and acquisitions by foreign banks, and the situation regarding the restructuring, the corporate governance, and the performance of enterprises started to improve.

The Hungarian experience – need for foreign capital

By the end of the 1980s, the basic premise of the Hungarian privatization was that state property should be sold for cash through a competitive bidding process (Ludanyi in Blaszczyk and Woodward, 1996). Moreover, due to an extremely high level of foreign debt (USD 20 bn), the existence of joint ventures, and the early start of co-operation with Western banks and multilateral institutions, the government was forced to steer privatization in a direction that explicitly favored TNCs. By the end of 1995, it was clear that the most valuable companies in the Hungarian economy had been already taken over by TNCs. By 1999-2000, very few companies remained in state ownership (Mihalyi, 1998).

So Hungary chose the direct sales of the most valuable enterprises to foreign (strategic) investors. It is important to mention that the sale of the property, its lease or transfer for the purpose of property management, was implemented via tender.

The second key to the success was the establishment of the system of “Existence credit” (E-credit, 1991). As soon as it became obvious that the Hungarian banking system could not facilitate the mass privatization of state assets by market mechanisms without state financial support, a preferential privatization credit facility for Hungarian citizens was set up. These credits were available at commercial banks, but refinanced by the National Bank. Among the main characteristics of this system were the availability for the purchase of state property; a significantly lower rate of interest; relatively low resource requirements for buyers; and a long duration and grace period. In 1993, the E-credit system was 21% of total sales (Arnold Ludanyi in Blaszczyk and Woodward, 1996).

The third achievement was that from March 1990 to date, SOEs have been owned, managed, and divested by a single institution headquartered in Budapest. The advantages of such extreme centralization are that it was a power itself to provide independent privatization policy, the transparency of the procedures, and the ease of monitoring developments.



The experience of Hungarian privatization shows that the position of the state can grow instead of diminishing. In another words, the task of driving the state out of property ownership and the establishment of market coordination mechanisms cannot be achieved without the active assistance of the state itself.

The better firms were sold first, and there were no limitations for foreign participation (apart from the prohibition on acquiring land). As a result, Hungarian privatization brought to the country considerable flows of FDI that helped to solve external sector instability and macroeconomic stability, created financial and capital markets, and increased exports. As some experts concluded, “Privatization has led to better asset management and corporate governance; to greater efficiency in production, restructuring and modernization of older enterprises; to the production of new and improved products; and to a greater export orientation” (Papp, Long, Kopanyi, and Mihalyi, 1998).

About 150 of the biggest 200 corporations in Hungary exhibit an influential foreign participation in their stockholding (and a majority blockholding in 50 of the biggest corporations). Today, foreigners own 46.7% of the stock of all corporations based in Hungary. Besides, foreign owners wholly own 61% of those firms showing a foreign participation in their stock (100% of the stock). Still, in Hungary, foreigners hold 72% of the overall stock exchange capitalization value, as against 34% in Poland (62% in Estonia) and even less in all other CEE countries (Andreff, 2005).

Hungary and Estonia are the two CEE countries where shareholders have the strongest supervision of managers (Vagliasindi, 2003), and where monitoring shareholders are mainly non-residents. The precondition for Hungarian success is the important magnitude of inward foreign direct investment compared with GDP or per capita; its emergence is facilitated when there is no regulation that prevents foreign firms from buying assets in local firms in the process of privatization. Therefore, the great bulk of Hungarian and Estonian firms are governed by mighty foreign outsiders, which are famous transnational corporations and banks, and not by institutional investors.

‘The Polish case’ – multiple tracks lead to multiple results

Polish policy-makers chose multi-track implementation of privatization, which could not bring anything but controversial and dual results. On the one hand, the use of vouchers and mass privatization, combined with numerous investment funds, led to widespread ownership and lack of restructuring. On the other hand, direct sales, privatization via initial public offering (IPO), and liquidation brought very positive results.

Besides the technical limitations (proper legislation, procedures, lack of domestic capital), political considerations (the fear of selling property to foreigners, of fast growing income differentiation, etc.) were the main factor, which determined different forms of privatization (Błaszczuk et al., 1996). As a result, such effective forms as direct and indirect methods were combined with a mass privatization program.

In general, the direct sales of the enterprises were used three times more often than privatization through initial public offerings. The average proceeds via IPO were bigger, but the amount of shares



sold was smaller (Jelic and Briston, 2003). In 17 cases, a mixed privatization scheme was used, which combined the advantages of both methods.

Another form of direct privatization was privatization through liquidation. To some extent, that method was the quickest, most-effective, and most popular way for property rights transfer in Poland (Blaszczyk et al., 1996). This could have been done via the direct sale of an enterprise's assets (39%), leasing (52% cases), or entering them as a contribution in kind into new companies (8%). In the majority of cases, the employees leased liquidated enterprises. As a result, the enterprises, privatized via capital privatization, have shown very good economic performance and deep restructuring.

The very positive moment of the Polish privatization process was an intention to develop the continental model of corporate governance structure⁵. In a transition country, the adoption of such model is very important, as external control is not sufficient and effective enough. Besides, the continental model assumes the significant role of a strategic investor, who is able to bring to the privatized enterprise financial and human capital needed for deep restructuring (Kozarzewski, 2003).

On the contrary, mass (voucher) privatization, which started in 1995, led to controversial results. 15 National Investment Funds held 60% of the shares of 512 enterprises, which were privatized through vouchers. But the managers of NIF were not interested in restructuring those enterprises nor were the enterprises themselves.

The positive lesson of the Polish privatization is that one can execute rather fast and consistent bank privatization (via capital methods) and create a sustainable and trustworthy Warsaw stock exchange due to international (very strict) requirements for listed companies.

The Slovak lesson – the harm of non-transparent sales to local managers

Privatization in Slovakia started at the same time as in the Czech Republic, with the same principles and approaches (in 1990 it was a single country), but then it significantly changed, mainly for political reasons. Nominally, during 1990-1999 there were many different practices, such as voucher privatization, MEBOs, and direct sales, which were influenced by frequent changes in the government and the ministries of privatization.

Slovak privatization differed from the Czech privatization in the de facto abolition of voucher privatization (or its considerable reduction) in favor of direct sales. But hidden and open preferences were given to domestic investors in order to set up the "Slovak business community". Therefore, the efficiency of that method was significantly reduced and distorted by its insider nature.

The main buyers were representatives of supervisory boards, management and other, sometimes 'strange people'. The prices for the enterprises often were also 'strange'. The rules were not transparent and equal; in some cases, the buyers were able to reduce or extend payment deadlines; the payment period was between ten and fifteen years. The first payments usually were for 20% of the agreed sales price. Up to 50% of the sales price could be waived, as compensation for the acquirer's investments,

⁵ The continental model assumes the principle of strict separation between the management function and the ownership control function, while in the Anglo-Saxon model, these functions are to a large extent combined.



and concurrently be subject to favorable taxation terms. In other words, Slovak privatization was corrupt to a large degree, while Mečiar⁶ manipulated the sale of enterprises, giving privatization a largely nomenklatura character (Antczak in Blaszczyk et al., 1996). Such privatization resulted in minimal privatization revenues for the government, delays in restructuring, and mingled political and economic power (Marcincin and Beblavy, 2000).

The state banks credited privatized by insiders enterprises regardless of their financial results that only increased instability and inefficiency at the macro level. The "Act on Strategic Companies" (1995), designed for a specific privatization scheme for infrastructure monopolies (gas, electricity, transportation, etc.) and the strategic enterprises (heavy engineering industries, pharmaceutical production, etc.), in fact postponed privatization of those enterprises.

As a result, by 1998 the majority of Slovak enterprises were privatized, but they were not restructured. Due to the poor payment discipline, the Ministry of Finance faced difficulties in their payments. A very complicated factor characterized the banking sector – namely, that state banks accumulated ‘bad’ debts of the privatized enterprises. In 2002, those debts comprised approximately 12% of GDP. Therefore, stabilization of the banking sector, the speeding up of privatization, and restructuring became very important.

In 1998, the new government stated that privatization failed to provide to enterprises sound and effective ownership, and therefore, there was a need for a new privatization policy. The new policy included the privatization of state banks, strategic enterprises, and infrastructure monopolies, a risk review of privatization decisions, accelerated privatization through open and transparent tenders, capital market development, guarantees that ownership rights of the state would be exercised, and attractive created conditions for foreign investors.

The government revised and improved bankruptcy and other legislation related to privatization and the development of market institutes. Successful privatization of banks created a trustworthy, profitable, and sustainable banking sector, where the share of foreign investors is up to 90%. All those measures, combined with tax, administrative, and other reforms, led to what is now called the ‘Slovak miracle’.

Therefore, Slovakia avoided some of the Czech problems, but created some of its own, along with some cases of privatization abuse and the prevalence of specific interests of insiders (like asset-stripping and tunneling). As a result, the privatized enterprises demonstrated weak restructuring and poor performance and increasing general inefficiency on micro and macro levels. Opaque sales to local managers led to the lack of needed investments and capital, know-how, and technologies. The lack of market prices for privatized assets led to low privatization revenues.

⁶ That time he was the privatization minister and chairman of the board of the NPF.



3. PRIVATIZATION IN BELARUS

3.1. METHODS, DIRECTION AND DYNAMICS OF STATE OWNERSHIP TRANSFORMATION IN BELARUS

The privatization process in Belarus can be divided into three stages:

- First – 1991-1992
- Second – 1993-1994
- Third —1995-present

First stage

On September 23, 1991, the Council of Ministers of the Belarusian SSR passed enactment #360 “About privatization of the economy and state property of the Republic of Belarus in 1991” and some other first normative documents concerning state ownership transformation. On the basis of those documents, the transfer of ownership of 19 state companies and 42 public utility companies took place. Only 3 companies were transformed into open stock companies; the rest (58 companies) were bought out in one way or another.

The program of privatization of the economy and state ownership in 1992 took place in the form of redemption of rented enterprises (relatively small and technically unsophisticated businesses). Setting up open stock companies was recommended as a way of privatizing large plants.

Thus, in spite of legislative imperfections, privatization started in Belarus in 1991. It was carried out with the initiative of a small staff that bought out state property and leaseholds, followed by their transformation into joint-stock companies.

A Committee for State Property Management was set up in 1992. It was renamed to the State Committee of the Republic of Belarus for State Property Management and Privatization in 1993, and in 1994 it was again renamed, this time becoming the Ministry of State Property and Privatization in the Republic of Belarus.

Second stage

An active process of reforming state ownership began in Belarus in 1993 after two laws – “On state ownership privatization in the Republic of Belarus” and “On registered vouchers” – were passed. These new laws defined the legal basis of the transformation of ownership in the state. Registered vouchers “Imuschestvo” (property) were added to the other means of purchasing state property. Belarus, like many other countries, gambled on mass voucher privatization: 50% of the state property was earmarked for sale to private actors by payment with privatization vouchers. In addition, members of labor collectives had some privileges for buying shares in their companies.

The “State program of denationalization and privatization” was set in the context of the “On denationalization and privatization” law in June 1993. This program set out a strategy for property

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transformation, including goals, tasks, priorities, limits, and the order of the denationalization and privatization of state property.

According to this program, the following were intended:

- During the first stage (July 1996 – June 1997), joint stock companies would be created by the initiative of the enterprises' staff. The denationalization of mainly small enterprises, primarily in the areas of construction and building materials branches, timber, trade, catering, consumer services, and agricultural enterprises would be completed.
- During the second stage (July 1997 – June 1998), the privatization of enterprises by the Ministry of State Property and Privatization Authorities by local councils' initiatives would be completed.
- During the third stage (July 1998 – June 1999), the privatization of state property through auctions and a contest basis, and by selling state-owned shares, would be finished.

In other words, the state program adopted in 1993 implied that 2/3 of the enterprises would be privatized by 1999, and privatization would be largely finished (only infrastructure sectors would be left as state property, characteristic of many CEE and CIS countries). However, this program later underwent significant changes.

The state program was implemented in the form of annual privatization programs established by the Council of Ministers up to and including 1997. After 1997, this prerogative came under the authority of the president⁷. The reform process slowed when annual programs were not passed on time in 1993 and 1994. In 1995 and 1997, annual programs and lists of companies subjected to privatization were not passed at all, and privatization was accomplished only at companies where preparation for privatization had already begun.

The first list of exceptions was passed in 1993, consisting of two parts. First, companies, organizations, and some kinds of property, which were not subject to privatization, were extended. Second, a list of enterprises that could be privatized only by a decision of the Council of Ministers was defined. This list was only extended during subsequent years.

Third stage

The third stage began in 1995. This period was marked by a reconsideration of the privatization strategy and tactics, and a slowing rate of privatization. The programs for the denationalization and privatization of state property of 1995-1996 were later canceled. New statutory acts greatly changed the attitude of company managers, labor collectives, and the population towards privatization, the procedures in force, and the 'ground rules' for transformation of ownership.

In 2000, the legislation concerning privatization continued to deteriorate. In particular, the laws concerning 'golden share', the legislation on bankruptcy, etc. were changed in a way which considerably hampered privatization. For example, all deals valued at more than USD 80000 needed to be approved by the president. In 2002, the Ministry of State Property ceased to exist; it was transformed into the Fund of State Property within the Ministry of Economy (however, 30% of all enterprises were still not privatized). That time could be considered the end of formal privatization in

⁷ In 1994 the first President of Belarus A. Lukashenko was elected.



Belarus. In 2001-2002, some Russian companies took part in auctions to sell some shares of Belarusian enterprises in oil refining, chemicals, and brewing, but in the end they refused, as the conditions set by the government were unacceptable to them (overestimated value of the shares, blocking package remained, saving the workplaces, increased social responsibilities and payments).

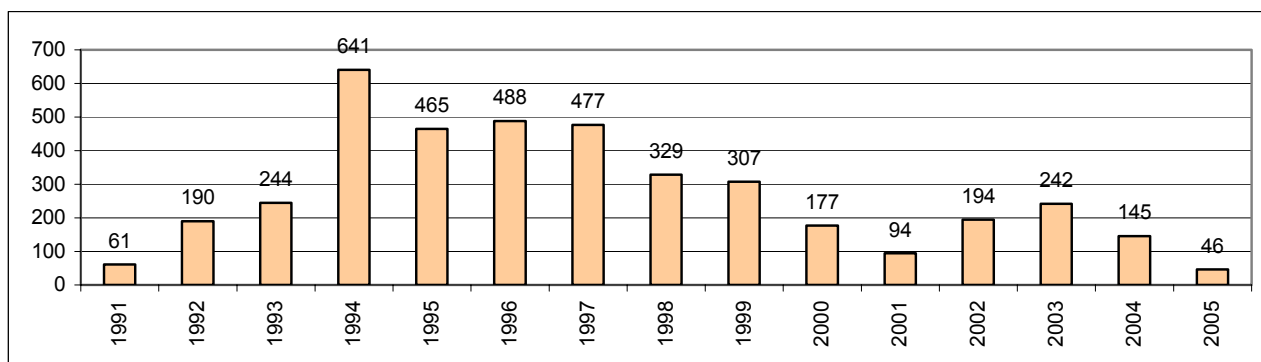
The government annually passes the programs of privatization, which means the government plan to ‘corporatize’ a certain number of enterprises. The years 2004 and 2005 were characterized by an increase in the process of nationalization (the government issues new shares which exchange the debts of an enterprise to the government, after which the share of government in the capital of the enterprise increases significantly, often to as much as 90-95% of all shares). More than 20 JSCs became practically 100% state property in 2004-2005.

Denationalization and privatization took place “from the bottom up” during the first and second stages. Staff, private and legal entities, foreign individuals, or privatization bodies could initiate denationalization and privatization of an enterprise by applying to the appropriate authorities. At the same time, staff had privileges to purchase state properties. After consideration and approval of an application, a specially appointed privatization commission prepared documents for privatization, including justification of the particular form of privatization. The main task of the commission consisted of estimating the financial state of an enterprise, its productive potential, and its competitive ability. On the basis of such analysis, the commission drew conclusions about the chances for successful privatization, the optimal method of privatization, the need for structural reorganization, and the use of public resources by the enterprises to be privatized.

The process of state property reformation after 1994 was characterized by the beginning of property transformation “from the top down.” The government passed the privatization program, which specified that medium and large industrial, building, and transport enterprises should be transformed into open stock companies. As a rule, municipal enterprises (trade, catering, and service industries) and incomplete ventures under construction were subjected to sale by auction or contest. Due to the changes in the government’s attitude towards privatization, and its intent to control all financial and material flows in the country, the progress of privatization and corporatization slowed after 1996 (see Figure 1). By 2006, small privatization in Belarus had still not been completed (approximately 80% of small enterprises were privatized), and only 30% of large enterprises changed ownership. A large number of industrial, trade, catering, and consumer service enterprises were mostly privatized. At the same time, privatization of transport, building, housing and communal services companies progressed slowly.



Figure 1.:Ownership transformation dynamic in Belarus, 1991-2005 (quantity of transformed small and large enterprises)



Source: The Ministry of Economy.

The most popular type of privatization in Belarus is corporatization or changing a state company into a stock holding company. During 1991-2006, 1978 cases of corporatization companies were registered (48% of all transformed ownership). However, this method was not the most popular, considering the whole period of privatization. At the very beginning of the privatization process (during 1991-1992), the most popular methods of privatization were the purchase of rental property by labor collectives and the purchase of state-owned property by legal entities formed by their own staff. That situation was possible as money incomes of enterprises and of the population were sufficient in 1991-1992, and privatization authorities sold state-owned property on a three-year installment plan (labor collectives had a right to initiate transformation paying only 30% of the property cost). As inflation increased, it became difficult and unprofitable to buy physically and morally depreciated property. As a result, enterprises' staff did not buy state property at all in 1996-1999. Corporatization has been the most popular form transformation of state ownership since 1993, as mentioned earlier.

The government was not the stockholder of any open stock company created in 1991-1992. However, the situation subsequently changed significantly. The percentage of government-held shares tended to go up year by year. According to the resolution⁸, the government takes part in the management and control of stock in companies with state-owned shares through its representatives. The share of the state in corporatized property also increases by its control of the state property transformation process; government retains the right and ability to control enterprise activity. The government sells its shares of open stock companies in stages and in small pieces, leading to constant changes in the proportion of government shares (see Figure 2). As Figure 2 shows, the number of stock companies with no state shareholding in percentage terms is only 30% of all enterprises. The share of enterprises with state shareholding from 0% to 25% is also small. Enterprises with state shareholding exceeding 75% made up the biggest group (39%). Therefore, the buying out of state property through sale on a competitive basis and by auction are competitive forms of privatization where outsiders become the main owners. Transformation of state-owned enterprises into open stock companies in Belarus (corporatization)

⁸ Resolution of the Council of Ministers #2031 of December 31, 1998 "On government representatives in managerial organs of stock companies and other juridical entities, whose shares are in possession of the Republic of Belarus".



means that the shares remain in state possession. As a result, government maintained direct access to management of the enterprise. Therefore, the characteristic of Belarusian privatization is not the purchase of profitable assets by nomenklatura or insiders, but saving property in state hands.

This way, government can directly interfere in the management of many stock companies. Government controls the main decisions at stockholders' meetings (changes of articles and authorized funds, changes of the board, etc.) that require more than 75% votes, or all decisions requiring a simple majority of votes. At least formally, government's participation in stock companies' management increased, which prevented the restructuring of enterprises to a certain extent.

Nevertheless, these measures did not seem to be sufficient, and the government created a special control right – the “golden share”. According to the Decree of the President #591 of November 14, 1997, a golden share may be introduced in companies in which half of shareholdings are state-owned, in order to guarantee state security, observance of economic state interests, moral protection, health of the population, and the observance of the constitutional rights of Belarusian citizens. The golden share is introduced for a term determined by the authorities that introduce it. The board of directors of companies with a golden share includes, in addition to voting members, some government representatives. The representatives have the power to veto decisions concerning:

- Stock company reorganization
- Liquidation of a company, appointment of a liquidation commission, establishment of intermediate and final balances
- Changes of authorized funds and use of net profit of a company
- Deals which are in the competence of board of directors and general stockholders' meetings
- Appointment and dismissal of the head of a company

In 2003, the rights of introducing a golden share were considerably widened. The government can introduce it at any privatized company if the financial state of the enterprises is bad or salaries for the staff have not been paid for more than 3 months. With a golden share, the government can change top management and take part in the discussion of the most important decisions. In 2005, the Gomel Regional Executive Committee (oblispolkom) introduced a golden share at the private company “MNPZ Plus,” which owns 12.25% of the shares in the Mozyr Oil Refinery⁹. As a result, the state, which already owned 42.76% of Mozyr Oil Refinery, became the majority shareholder with 55% of the shares. However, according to current legislation, a golden share can only be introduced at enterprises created on the basis of state property, which is not the case with MNPZ Plus. Although presently only 21 stock companies have golden shares, some international experts mention this power of the state as one of the main factors in the worsening investment climate and FDI attraction in the country.

In 2006, the Ministry of Economy plans to sell on a contest basis and tenders the shares of 30 JSCs. The list of these enterprises and the value of their shares are very modest – according to the legislation, all deals with selling state property, which exceed a 10000 "base amount" (around USD 14), i.e. USD 140000, are a prerogative of the president and his administration. In 2005, the ministry tried to sell on a

⁹ Mozyr Oil Refinery is one of the biggest oil refineries (and exporters) in Belarus.



contest basis the shares belonging to the state of 223 different JSCs. But only 4 deals were registered, with the total value of Br 59 million (USD 27000). Investors were not interested in participating in privatization due to the general unfavorable investment climate and specific conditions which foreign investors must meet (such as saving the profile of the enterprise, providing social guarantees, and agreeing that the state will be the dominant owner).

Privatization in Belarus has never been considered an important source of budget revenue. For all years, it was less than 1% of total incomes, and all state programs failed (usually the Ministry of Finance received only 2-3% of planned sums). Last year, the government stopped planing to receive sufficient income from privatization, and reduced the planned revenue from Br 100 to 2 billion. In 2006, the planned budget revenue from privatization is even smaller – Br 1.2 billion (USD 0.56 million). And the main source of this money is not the receipts from the sale of enterprises, but the dividends from those enterprises belonging to the government through its shares.

As a result, of all approaches and attitudes towards privatization, Belarus has one of the slowest paths of privatization among CIS countries. Along with the very specific investment climate, which does not attract foreign and domestic private investments and does not allow developing SME, Belarus has one of the smallest shares of private sector in GDP (around 20% according to EBRD estimates; EBRD, 2005; while the share of the SME sector is 10% of GDP).

3.2. MASS PRIVATIZATION

In 1993, the process of privatization was intensified, after adoption of the laws “On Privatization of State Property in Belarus” and “on Personal Privatization Checks (Vouchers)”. Belarus, similar to many other transition countries, chose the mass privatization model. Personal privatization checks (vouchers “Imushchestvo”) were promoted as an alternate method for acquisition of state property, two thirds of which was supposed to be privatized, and half thereof using vouchers. In addition, any employee of a state enterprise was supposed to have special rights to obtain shares in the enterprise. Thus, 7.8 million Belarusian citizens had the right to obtain personal vouchers, while only about 4.9 million virtually received 427.6 million vouchers. According to Article 13 of the Law “On Personal Privatization Checks (Vouchers)”, “... upon completion of the term of voucher privatization, owners of unused vouchers can return them to the National Bank or to the local authorities. The state guarantees each owner (citizen of the Republic of Belarus) compensation for all vouchers he owns at the voucher price that prevailed at the end of voucher privatization.”

As mentioned above, between 1998 and 2003, the dynamics of the privatization process in Belarus decreased considerably compared to 1994-1996. Only the least profitable and financially least attractive enterprises were privatized, most of which do not pay any dividends at present. As a result:

- The professional participants in the voucher market – specialized investment funds (SIFs) – are inactive
- Firms and enterprises are not allowed to sell vouchers, and SIFs are allowed to invest in vouchers in privatization objects only at voucher auctions on the stock exchange in accordance with a quota



- The SIF shares acquired for vouchers or for shares on preferential terms are not allowed to be sold¹⁰
- The state is the main owner of the issued shares
- A stock market has not yet been founded in Belarus.

On December 24, 2002, the Presidium of the Council of Ministers approved adjustments to the Law “on Personal Privatization Checks in Belarus.” The new draft law envisaged the abolition of monetary compensation for vouchers once the term of their circulation has expired. According to the draft law, the free-of-charge voucher privatization scheme terminated on December 31, 2003. The Council of Ministries’ proposal was rejected during parliamentary hearings on June 26, 2003 “On the Status of Privatization in the Country.” The executive was asked to propose other options for using the vouchers after December 31, 2003 or to find ways to provide monetary compensation.

One of the Council of Ministries’ main arguments was the point that since the very beginning of the voucher privatization scheme in Belarus, the process of exchanging vouchers for shares has been getting slower and slower (most of the vouchers had been exchanged by 1999). The government emphasizes that voucher privatization simply implies that people participate in the privatization process and that this opportunity has been provided for all years since 1994. By April 1, 2003, voucher owners had the opportunity to exchange vouchers for shares of 221 enterprises (corporations), which included privatized enterprises in the light industry, the food industry, and engineering. Monetary compensation requires money, which means an additional fiscal burden for enterprises and the population at large. And what is very important at present is that the enterprises badly need investment in technology and equipment. This presupposes a search for strategic investors and the sale of enterprises for money.

On the other hand, the members of Parliament insisted that during the period of voucher privatization in Belarus people had limited possibilities to use the vouchers due to the slow pace of privatization. The most attractive enterprises from the point of view of dividends (i.e., the oil processing companies) are being privatized for money in accordance with presidential decrees. According to the government regulations, only employees of somewhat attractive, privatized enterprises have the right to exchange their vouchers for shares. Moreover, their main argument is that the Law guarantees a monetary compensation for unused vouchers.

The main drawback of a termination of the voucher privatization process without monetary compensation was that it does not comply with the law. The voucher holders felt they were cheated. The state would reinforce again the people’s low level of trust in the law by not implementing an existing law because it is too costly. Some politicians could certainly make this point in their forthcoming political campaigns (2004 was the year of new parliamentary elections).

¹⁰ The authorities did not want people to sell their shares to outside investors (for fear that all property would be purchased by foreigners). To this end, the President passed a decree to ban trading of any shares acquired at preferential prices by employees of privatized enterprises, or acquired for vouchers at the Sberbank departments (Presidential Decree №3 and amendments to the Law “on Privatization ...” in 1999). 10% of the total number of shares is now disallowed from sale or from being acquired; most of the remaining shares belong to the state.



On the other hand, there was one big advantage. The termination of voucher privatization would remove the prohibition for trading shares, and would influence the development of the private sector. Money privatization, sales of shares, and the search for strategic investors by enterprises could create implications for increased efficiency and for the improvement in international competitiveness.

Despite all economic arguments and reasons, voucher privatization was extended from 2004 until the end of 2006.

3.3. PRIVATIZATION AND ENTERPRISES' FUNCTIONING: EMPIRICAL RESULTS

According to international experts' estimations, Belarus has made the least progress in enterprise restructuring. The characteristics of privatization in Belarus (i.e., formal corporatization), together with strong and broad state interference, does not allow implementing independent manufacturing or investment policy by the privatized enterprises. Lacking financial and human capital, restructuring becomes rather a luxury or unnecessary 'toy'. The Belarusian model means the possibility of functioning within soft budget constraints, the ability to receive the special status of 'budget-making enterprise' (important taxpayer), to lobby and protect interests of an enterprise and special interest groups behind it. Accordingly, the results of state and privatized enterprises' functioning do not significantly differ, depending rather on their abilities to receive state subsidies, exemptions, government orders, or the productive capacity they inherited from the Soviet times.

In 2002, within the "Promoting Private Enterprise Development in Belarus" project, and with the assistance of the US's Center for International Private Enterprise (CIPE), the Research Center of the Privatization and Management Institute conducted an opinion poll among top-level managers (enterprise directors and their deputies) of 324 industrial companies. The poll was taken all over Belarus in the industrial sector only. The top managers of 324 enterprises were interviewed. 30% of those interviewed represented privatized companies (public joint-stock companies), while the remaining 70 percent were the directors of the state-run enterprises. By and large, the sample reflected the sectoral and geographical structure of industries in Belarus¹¹. Areas such as services, construction, transport, and farming, were not represented in the poll. The questions were about restructuring and other fundamental changes in the work of the respective companies over the past years. The poll clarified and proved some theoretical conclusions and considerations concerning privatization. All further results and conclusions are based on the data received by the author¹².

In Belarus, the growth of gross output indicators is a high priority, despite the high price that an enterprise pays for it by reducing efficiency. The arbitrary distribution of resources pumps national income from efficient to inefficient enterprises, increasing the cost of the slow-paced reform and weakening the motivation to earn profits. As a result, privatization is not a means or cause for quantitative change in the results of enterprise functioning. For example, the directors interviewed

¹¹ The sample of enterprises: light industry – 9%, machinery – 37%, food processing – 16%, fuel industry – 5%, chemical and oil refining industry – 9%, iron and steel industry – 3%, building materials – 6%, power sector – 5%, forestry and woodworking – 5%.

¹² For more information about the differences between privatized and state enterprises, see E. Rakova (2003) *Institutional limitations and stimuli for enterprise restructuring*, Working Paper #3, 2003, <http://research.by/pdf/WP2004r01.pdf>



associated very few changes with the privatization of their companies. The highest number – 8 percent – shows the effects of privatization on the average compensation of employees, while the remaining indicators are within 3-5 percent, which is slightly more than statistical error (see Appendix, Table 1)¹³. The government's attempts to reduce inflation led to decreasing profitability and growing debts – to suppliers, banks, and the public budget, and appeared to be the main results of restructuring. Among the positive changes, one can point out the growth of exports and availability of a wider range of goods.

A study of the dynamics of changes in the quantitative indicators is a necessary but not sufficient condition for the analysis of changes in enterprises' adaptation directions to the existing environment. Moreover, under conditions of relatively high inflation, the increase in gross indicators seems to be logical and necessary. So, the analysis of how privatization influences changes in qualitative indicators presents a much bigger interest. The changes in the qualitative indicators of industrial companies were even more impressive (see Appendix, Table 2). Not to change anything seems to be a principal slogan of survival in an economy run by mainly administrative methods. Workers still have little influence on the operation of the companies. Nothing changed in the relations of companies with government authorities and inspecting or controlling agencies. A large number of the directors interviewed did not indicate any significant changes in getting loans, setting prices, and maintaining relationships with customers and suppliers. In other words, virtual privatization brought virtual results. Just as with the quantitative indicators, in the case of qualitative indicators, the influence of privatization was minimal. In general, this influence marked only 5 percent of respondents. Therefore, Belarusian enterprises could reduce or increase employment, arrears, profitability, amount of exports, or investments – but it would be not the result of privatization; rather, it would be the result of an enterprise's general adjustment to a changing economic environment. The formal change of ownership does not lead to significant changes in the enterprise's functioning.

Administrative orders are the main source of growth in Belarus, as they were in Soviet times. When asked whether the higher authorities handed down orders concerning a certain required level of production growth and, if yes, whether their targets were realistic, 73.6 percent of those interviewed answered in the affirmative and add that the administratively set production growth targets were realistic. Another 21 percent said the administrative targets were not realistic¹⁴. Finally, just 5.4 percent said that they had not been given any orders concerning production growth targets. Gross indicators became much more important for directors than sales and profits. In particular, when asked whether they experienced growing output and declining profitability at the same time, 41 percent of the directors interviewed said "yes." According to 22 percent, that happened sometimes. Moreover, 62 percent of companies increased output volume even if profitability went down). It must be pointed out that the degree of administrative interference with the production policies of privatized companies was

¹³ The directors were asked to point to changes in 18 key indicators over the past two years, and the directors of privatized enterprises had to state whether the changes had been caused by privatization.

¹⁴ Given the fact that many of those polled did not believe that interviewing is really anonymous, 21 percent is a rather high figure.



even higher than at state enterprises. The change of ownership does not mean more independence, which is a characteristic of privatization in Belarus.

The government interfered with enterprise functioning. In 2001, after almost 10 years of reforms, there was no liberalization or economic freedom. In setting prices, wages, the volume and structure of production, investment policy – the government influenced enterprise decisions always, often, or from time to time. By contrast, only a rather narrow range of decisions were made by company managers without the influence of government officials (Appendix, Table 3).

According to the research, almost every sixth enterprise used beneficial credits; every fifth, tax exemptions; every tenth, targeted funding from the state budget (see Appendix, Table 4). The survey has shown that all industries received exemptions; the industries differed by the kind of exemptions. At the same time, there was only a slight differentiation in the amount and direction of exemptions between the privatized and the state enterprises. That fact could be explained again not by privatization per se, but by the social and economic meaning of an enterprise, by knowing the ‘proper people’ or by the importance of the director (who fights for exemptions) among the officials (or nomenklatura).

Despite the high need of investments, and especially of FDI, finding investors under the existing conditions seems to be an unbeatable challenge for the national economy. Moreover, given the fact that the state has many chances to interfere with the operational and strategic management of any company, regardless of its ownership, nearly one half of the state company directors did not want their enterprises to be privatized. This is not surprising, because a privatized company could have fewer concessions and subsidies from the government. In particular, just 54 percent of the directors of state enterprises believed that their plant or factory should be privatized. Seventy percent of those who thought so reasoned that privatization would change the economic position of their company and help attract investors. So, most directors realized the need to find strategic investors to make radical improvements in the economic status of their companies. The main obstacles for finding investors were inefficiency of legislation, unattractiveness of the Belarusian market, and complex bureaucratic procedures.

Apart from extensive regulation, a potential investor would get another burden in the form of various social objects. Although a number of enterprises refuse to keep any kind of health center, kindergarten, or sports facility, this process was rather slow and painful; i.e., privatized companies had to finance and maintain various social objects. An interesting trend should be mentioned in this respect -- state companies are getting rid of burdensome social facilities no less quickly than privatized ones.

In 2005, the World Bank presented its Country Memorandum about the Belarusian economy (World Bank, 2005). The fourth chapter of the Memorandum is devoted to the enterprise restructuring strategies and its depth. In particular, the WB experts analyzed differences in the functioning of state, privatized, and de novo enterprises in Belarus. Despite the relatively new analysis, the main results concerning privatization and restructuring were not considerably different from the results and conclusions mentioned above.

The World Bank concluded that Belarusian firms have made only very limited progress in many of the key elements of enterprise restructuring. Labor productivity is associated with the increase in external

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demand, rather than with some market reforms. Belarusian enterprises are operated under the condition of soft budget constraints, and there is no significant difference between the results of the functioning of state-owned and of privatized enterprises (World Bank, 2005).

Both studies showed that the largest part of the quantitative indicators changed in a negative direction. This was also proved by official statistics concerning growing negative trends in the industrial sector, a key one for the Belarusian economy. The formal procedure of changing ownership in the economy that lacks systemic reform does not change anything in the work of companies.



4. CONCLUSIONS AND POLICY RECOMMENDATIONS

1. Privatization is a quick and effective solution to the problems of the efficiency increase of SOEs and the economy of a transition country in general. Privatization causes deep and comprehensive restructuring, and attracts more FDI, which bring new technologies, management, and capital to the enterprises. The selected CEE countries, which have implemented deep, consistent and comprehensive privatization, show obvious success in the increase of the efficiency of their economies, benefiting people by stable and sustainable real economic growth and growing standards of living. Privatization completely changes the principles and mechanisms of enterprise functioning. Therefore, the enterprise has to monitor and adjust to market changes, relying on its own technologies, management, staff, and general ability to produce, sell, and provide competitive commodities and services rather than on different measures of state support. Privatization, together with the policy of private sector development, facilitates structural reform and softens structural imbalances inherited from the socialist regime. Due to proper privatization, post-socialist countries, all of which are ‘misdeveloped’ (not underdeveloped, as they do have industry, infrastructure, etc.) transformed to average developed countries according to all international standards

2. However, numerous external and internal factors towards privatization influence the efficiency and the concrete results of privatization. Privatization *per se* could change very little at the micro and macro levels. Many different factors could facilitate privatization reform, helping to achieve its goals. Many other relevant factors could limit or hamper privatization results or even lead to the direct opposite of the intended goals and results.

Among ***internal factors, which influence privatization***, are the following:

- The dominative method of privatization – the most effective is a sale of an enterprise on a competitive, open, and transparent basis to outside strategic investors (preferably foreign; however, the main characteristic is their strategic interest in the enterprise). On the contrary, mass (especially voucher) privatization shows the worst results (that is the so-called ‘diffuse vs. concentrated ownership’ dilemma).
- The delegated powers and solidarity of the state bodies, which are responsible for privatization implementation. Privatization is the most successful in those countries where a single team of professionals with significant power is implemented.
- Openness, transparency, and consistency of privatization legislation, which bans holding any excluded, special from the common rules auctions, tenders, deals, agreements, implementing in favor of special interest groups, etc.
- Quick and consistent privatization policies and the existence of the consensus of national elites' opinion about the implemented pace, methods, and depth of privatization.

Privatization experience of some CEE and CIS countries. Lessons for Belarus



Here are the main *external factors that affect privatization*:

- Interconnection of privatization with such other macroeconomic reforms as macroeconomic stabilization, liberalization of foreign trade policy, support of *de novo* sector development and FDI attraction
- The quality of the institutional environment and the presence of ‘working’ legislation
- The rule of law, existence of a functioning court system
- The presence of democratic institutions in the society – real (not declared) independence of all public institutions, parliamentary elections based on a multi-party system under the conditions of free and fair elections.

In other words, privatization is not a reform isolated from other transformation changes. Privatization without other deep and comprehensive market reforms, equal conditions and open access to the market, a fair and well-functioning court system, and democracy leads only to further financial and structural distortions, to the demand of soft budget constraints and different preferences, and therefore, to the subsequent increase in the gap between poor and rich people, general disbelief and distrust in market reforms.

3. Privatization in CIS countries differs significantly from privatization in CEE countries in terms of goals, methods, pace, and depth. From the very beginning, privatization in most CEE countries pursues economic goals and the creation of the reliable and sustainable foundation of a market economy. Therefore, countries tried to choose appropriate privatization methods which could facilitate restructuring and attractive investments. CEE countries were more consistent in the pace and depth of privatization, which resulted in the privatization of the majority of industry, agriculture, partial or full privatization of the national banking, energy, and communication sectors.

4. Unlike CEE countries, privatization in CIS countries pursued all goals simultaneously. However, in many countries, in spite of the declared goal of improving social welfare, higher priority was given to the hidden goal of enrichment of the elite. Mass privatization and MEBOs (Management and Employee Buyouts) are among the most common privatization methods. These methods lead to widespread ownership with a lack of strategic interests and private investments, the inability to control and manage the enterprises, insider schemes and deals, low efficiency, and continuing need of state support. As a result, privatization in CIS countries has not led either to considerably increased efficiency or to an increase in average incomes, social judgment, or budget incomes due to the controversial goals and inefficient methods.

5. However, it is worth special mention that despite different disadvantages, from a long term perspective, even mass (voucher) privatization is better than the absence of all privatization. Sooner or later, initiated ownership transformation will cause less efficient owners (and managers) to become more efficient. I.e. in the long run, even mass privatization causes improved enterprise results.

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6. There are two diametrically opposed privatization concepts concerning the origin of the capital investment for privatization: privatization in favor of foreign capital or TNC (the Hungarian case) and privatization in favor of national capital (the Russian case). All other countries approaches lie between these two poles. Both concepts have advantages and disadvantages. Among the advantages of privatization in favor of foreign TNC are a quick modernization of assets and reeducation of the staff of an enterprise; development of new markets and integration into the global market; production of competitive products; relatively high budget revenues. However, despite the lack of capital in a country (and less budget revenues), privatization in favor of national capital allows property to be saved in that country. Indeed, such privatization encourages claims of unfair privatization and future attempts at reprivatization.

7. Privatization in Belarus could be characterized by such definitions as corporatization, nationalization, and low efficiency. The analysis of the differences in economic performance or restructuring strategies between state and privatized enterprises shows the very small difference (as the increase in quantitative and qualitative indicators are determined by such factors as soft budget constraints, the sphere of activity, the level of monopolization, and the ability to lobby and to limit foreign competitors, the level of depleting assets, etc.).

Currently, the Belarusian government invests money in state sector development and administrative methods. Investments are originated by the state, not by the domestic private sector or foreign investors. Privatization is not a priority. On the contrary, the active policy of nationalization is being implemented. Indeed, the main sources of growth in the economy are the cheap energy prices and administrative methods, which are close to their limits. The Belarusian economy is losing its competitiveness. Further increases in energy prices would create big shocks, and there is no adjustment mechanism (such as market mechanisms), which could soften those shocks. Privatization could help in adjusting the Belarusian economy to those shocks and facilitate restructuring.



5. APPENDIX

The pattern of selected answers to the questionnaire.¹⁵

Table 1. How did the following indicators of your company change in 2001 and 2002?

	Percent of those who answered the question			
	Decrease	No change	Growth	This is a result of privatization
1. Number of employees	64.6	21.4	14.0	3.4
2. Output volume	29.8	15.7	54.5	5.7
3. Production capacity	17.4	57.6	25.1	5.7
4. Range of products	7.8	30.7	61.5	2.3
5. Volume of sales	31.4	15.5	53.1	5.7
6. Export	28.5	22.7	48.8	2.3
7. Debts to suppliers	21.1	32.3	46.5	2.3
8. Debts of customers	15.9	31.5	52.6	3.4
9. Debts to government budget	17.8	39.3	42.9	3.4
10. Raw materials inventory	47.3	36.5	16.2	3.4
11. Finished goods inventory	24.8	35.9	39.3	-
12. Production costs	20.8	16.0	63.3	3.4
13. Average pay	7.9	18.3	73.8	8.0
14. Balance sheet profit	44.8	17.2	38.0	4.5
15. Production profitability	52.6	19.5	27.9	1.1
16. Productivity	18.7	21.6	59.7	4.5
17. Fixed asset investments	30.3	41.5	28.2	3.4
18. Bank debts	14.6	38.5	46.9	4.5

Source: IPM Research Center.

Note: The directors were asked to point to changes in 18 key indicators over the past two years, and the directors of privatized enterprises had to mention whether the changes had been caused by privatization.

¹⁵ For more information about the questions and answers, see the results of the survey on <http://ic.vitay.info/rus/surveys/e14e2d01a7160639.html> (in Russian).

**Table 2. How did the operation of your company change in the following areas in 2001 and 2002?**

	Percent of those who answered the question			
	Improved	No change	Worsened	This is a result of privatization
1. General operation of your company	33.0	36.9	30.1	11.4
2. Efficiency of management	38.5	50.5	11.0	5.7
3. Productivity	58.4	25.9	15.7	4.5
4. Quality of goods	52.6	43.9	3.5	4.5
5. Volume of sales	47.9	21.8	30.3	3.4
6. Pay conditions	35.7	46.3	18.0	8.0
7. Labor organization	38.7	57.4	3.8	4.5
8. Safety measures	29.5	67.0	3.5	3.4
9. Relations among employees	22.1	68.7	9.1	3.4
10. Influence of workers on management	13.2	84.4	2.3	2.3
11. Personnel policy	33.8	59.9	6.3	3.4
12. Relations with government authorities	13.8	80.6	5.6	1.1
13. Relations with inspecting agencies	9.6	79.2	11.2	2.3
14. Obtaining loans	27.0	53.7	19.3	4.5
15. Price policy	20.7	53.8	25.6	1.1
16. Relations with customers	25.7	54.4	19.9	5.7
17. Relations with suppliers	22.9	56.9	20.3	5.7

Source: IPM Research Center.

Table 3. How often does the government influence your decisions in the following areas?

Area of decision-making	% of those who answered the question				
	Always	Often	From time to time	Seldom	Never
1. Pricing	35.8	28.7	18.6	10.1	6.8
2. Sales and distribution	5.3	9.9	13.8	21.6	49.3
3. Wages and salaries	36.7	28.7	15.3	8.3	11.0
4. Hiring and dismissing personnel	1.1	3.3	13.5	23.0	59.1
5. Company reorganization	19.6	9.4	14.3	18.5	38.1
6. Volume and structure of production	23.9	12.9	15.0	19.6	28.6
7. Volume and direction of investments	13.7	11.8	14.5	22.5	37.0

Source: IPM Research Center.



Table 4. Did your enterprise use any exemptions and preferences provided by the state in 2001-2002?

	All companies, %	Privatized, %	State, %
1. Beneficial credits	14.8	15.9	14.4
2. Subsidies	0.0	-	-
3. Donations	1.5	-	2.1
4. Targeted financing from the state budget	10.8	6.8	12.3
5. Custom exemptions	10.8	15.9	8.9
6. Tax exemptions	19.8	18.2	20.3
7. Exemptions from obligated sale of currency revenues	2.8	1.1	3.4
8. Restructuring or writing off budget debts	7.7	3.4	9.3
9. Other exemptions and preferences	7.1	2.3	8.2

Source: IPM Research Center.

Note: A person could choose several answers.



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