



European Commission, DG Enlargement, TAIEX, Workshop on the Reform of State-Owned Enterprises organised in co-operation with the Economy Research Institute of the Ministry of Economy, Republic of BELARUS, Minsk, 20 April 2017

Privatization of State-Owned Enterprises

The case of GREECE and possible future paths for BELARUS

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Salutation

Ladies and Gentlemen

The European Union is indeed the biggest and most promising peace project ever attempted. Above all, Europe is a cultural space and the EU Single Market is only one ingredient that we utilize to bring about prosperity for all.

The historical path of Belarus is a visible constituent of our common European history. The Republic of Belarus is a European state. Belarusians are Europeans. You are now at the forefront of European integration. And your role in the region is crucial for stability and development.

People should know that Belarus is already giving a lot to the other European states. Brain drain and labor mobility due to economic reasons are indeed a foreign direct investment that Belarusians are exporting in favor of other European states. It is time that this investment returns to Belarus.

I consider this series of meetings historical. It is you that are leading Belarus to its European and international future. Everybody acknowledges that these are delicate processes and that accession into single markets, currency unions and international trade schemes entails a fusion of challenges and rewards: with the costs born beforehand and the rewards ensured for the next generations. This is already evident by your national experience with the Eurasian Economic Union and the resumption of World Trade Organization membership negotiations.

I am very proud to be with you today and would like to express my respect for the horizons you and all Belarusian citizens are opening up for the generations to come.



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Introduction

An attractive economy is what Belarus deserves to strive for. Here, I will share with you some thoughts about striking the optimal equilibrium between market efficiency and public interest when it comes to deploy a mass-scale privatization exercise involving state-owned enterprises and facilities.

Belarus will have to directly confront a difficult equation. I could indicate three strategic premises:

1. That there exist investment ready state-owned enterprises and facilities in Belarus and that they form a visible and strategically positioned part of the economy.
2. That there exists latent investment capital, not only internationally but hopefully also in Belarus, including organized schemes of citizens' participation composed in such way as to be competitive to Russian investment capital.
3. That there exist investors who are eager to actually operate the enterprises and facilities or reform them constructively, meaning that they will not engage in any devaluation of the capital, the equipment or the employees or resell them based on a double-agenda or exit plan.
4. That privatizations are intended to add value to the national economy acting as investments for the benefit of all Belarusians, meaning that the price paid by investors will only be a part of the overall benefit and that the privatization exercise is not restricted to a short-sighted cash-inflow tactic.

Belarus is not the only one to face such mind-puzzling issues. I will try to present some insights taken from the case of Greece which is currently deploying an all-inclusive privatization exercise while being under similarly stressful conditions.

The concluding part of my presentation will set off to highlight a series of potentially promising strategies, tactics, practices, institutional paths and policies which could ensure that:

1. Any negative externalities for employment by reforms and privatizations will not be solely born by employees (remaining or redundant), but will be also faced by the state and the private investors along.
2. Highly-qualified employees will stay in Belarus and that brain-drain will be reverted.
3. The potential spatial distribution of reforms and privatization will not conclude in creating black-holes in the map of Belarus and that all regions are geographically represented in a thriving reformed economy.



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GREECE Going Private

The Hellenic Corporation of Assets and Participations was established in May 2016. The Corporation operates in the public interest, and is set up for serving a specific public purpose. In particular, the Corporation is responsible for the asset management and full exploitation of assets in order to contribute to:

- a) the economic development of the country through investment and
- b) the country's financial obligations impairment.

Its main purpose is to group Greek State assets (participations in public undertakings and real estate assets) and make the best possible use.

The Corporation further promotes reforms in public undertakings, including through restructuring, optimal corporate governance and transparency, as well as accountable administration, social responsibility, sustainability, innovation and best corporate practice.

The Hellenic Corporation of Assets and Participations has four subsidiaries:

1. The HELLENIC FINANCIAL STABILITY FUND. The objective of the HFSF is to contribute to the maintenance of the stability of the Greek banking system, for the sake of public interest. It Provides capital support to credit institutions; Monitors and assesses how credit institutions, to which capital support is provided by the Fund, comply with their restructuring plans, safeguarding at the same time the business autonomy of the credit institution; Exercises its shareholding rights deriving from its participation in the credit institutions to which capital support is provided by the Fund; Disposes in whole or partially, of financial instruments issued by the credit institutions in which it participates; Facilitates the management of the non-performing loans of the credit institutions.
2. The PUBLIC PROPERTIES COMPANY. It is a societe anonyme, responsible for the management, development, exploitation and full use of the private property of the Greek State. Its portfolio includes 210 pieces of tourist real estate in Greece, such as hotels, marinas, camping sites, golf courses, ski resorts, museums, caves, tourist kiosks, mineral springs and also land of significant size and perspectives for tourism development, 8 Olympic venues, and approximately 70.000 property titles of the private Greek State property, as well as 1.052 properties that have been transferred to the Hellenic Republic Asset Development Fund.
3. The HELLENIC REPUBLIC ASSET DEVELOPMENT FUND. It leverages the private property of the State, which has been assigned to it. HRADF promotes the implementation of privatizations in the country, having full responsibility for the application of the respective policy.



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The privatization program is already in progress and its sole mission is the maximization of development, by attracting direct investments in infrastructures, energy, real estate and other fields, while achieving other important benefits, such as job creation, infrastructure modernization and promotion of the necessary reforms.

The assets which were included in the Medium-Term Programs have already been transferred to the Fund and they can be summarized in three categories:

- Land Development
- Infrastructure
- Corporate

4. The PUBLIC PARTICIPATIONS COMPANY, which is in the set-up process.

The basic rationale behind this scheme is to contribute to the pay-off of the sovereign Greek debt by cash inflows achieved by the development and privatization of state assets. Concerns about not achieving maximum market prices are partially answered by this provision, since it is in the interest of Greece's lenders (IMF, European Central Bank, European Stability Mechanism, and European Commission) to achieve the best out of the privatization exercise. Nevertheless, strict milestones set are in favor of speculation games, double agendas and devaluation attempts by investors.



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BELARUS Going Private

A recent study claims that privatizing half of the fully state-owned enterprises and facilities in Belarus would lead to a dramatic increase in the welfare of Belarus of a 35.4 percent of consumption per year. In comparison, the impact of WTO accession is estimated four times lower. The privatization scenario would lead to an increase of 17.4 percent of the GDP. Wages of skilled labor, unskilled labor and returns to capital increase by 7.5 percent, 7.3 percent and 18.0 percent, respectively¹.

Political restrictions mirroring common sense would not easily allow sweeping the total expanse of the public economy through privatization. If we were to exclude four services sectors from the privatization scenario, i.e. (i) education; (ii) health care and social services; (iii) public services; and (iv) community, social and personal services, totaling a 12 percent of GDP, the estimated welfare increase falls to 14.2 percent of consumption or 7.0 percent of GDP.

But let's not stick to the numbers too much. The bottom line is that both WTO accession and privatization are directly putting Belarus into the international capital and labor division. And this would surely bring to the surface two critical issues:

FIRST, we should take into account that the state industry sector, especially the refinery sector, receives oil by Russia at less than market prices. This could be regarded as an implicit subsidy. Any valuation would show that the state companies in the industry sector would have lower value-added and labor productivity. In general, the privatization exercise would equal to striking a proper balance between national, international and Russian investment capital.

SECOND, the very promising projections following the 50% privatization scenario reveal that there is a critical lag in productivity with the productive factors in need of modernization, the population aging and the highly skilled employees leaving the country, a suboptimal positioning of Belarus into the international economy especially when it comes to internationally marketable goods and services, finally meaning that family income in Belarus is fuelled by sovereign debt and not market earnings to a visible extent: Belarus is going indebted to maintain a proper way of living for its people.

¹ Edward J. Balistreri, Zoryana Olekseyuk and David G. Tarr: Privatization and the unusual case of Belarusian accession to the WTO , BOFIT Discussion Papers 2/2017



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An Empowerment Plan

Consecutive attempts are being made so as to ensure that privatization of state-owned enterprises and facilities in Belarus will take off. But how could it pay off?

My intended contribution here will focus on ameliorating the potentially negative effects of privatization for employment and social cohesion. Reforms should be reasonable. Going private should be for the benefit of households and the most vulnerable social groups in Belarus. This is the core meaning of “national economy”. I believe that a national master-plan on privatizations should be backed by an Empowerment Plan based on investments in the social economy.

1. Direct Foreign Investments and Social Bonds

Direct foreign investments in Belarus are suboptimal. A substantial part of the existing direct foreign investments is not delivering sustainable jobs, for highly skilled employees and brain drain is persistent. Additionally, much of the existing investment produces value added that is credited to the mother companies abroad. There is need for quality investment that stays and delivers here.

We should urgently consider opening-up credit lines for social investments, i.e. investments in which the social benefit is measurable and sustainable. Available capital exists in the international market and in emerging financial sectors, like in the impact investment industry, which focuses on delivering ethical, social or environmental benefits. This also includes the EU-based actors. By issuing social bonds, Belarusian institutions could access this capital pool and social investors from abroad could be facilitated in entering the domestic market, bound by social conditionalities.

2. The Public Investments Programme and the Social Clause

The public investments’ programme has for a long time been not adequately financed. The current fiscal mix is subordinated to the restrictions imposed by currency devaluations and high inflation. The meager public investment flows are heavily oriented towards infrastructures, and human capital development is not equally pronounced.

Given the scarcity of public capital, we need elevated social turnover of the existing investments financed by the national budget. This could be achieved by presenting a context of social reinvestment hand-in-hand with a set of conditionalities based on the social clause. A promising starting point would be the EU Directive 2014/24 which introduces new social conditionalities for innovative public procurement in favor of social enterprises, employment-friendly, environmentally and socially sensitive corporations. All in all, we need an all-inclusive regulatory context that introduces social conditionalities for all contractors and investees bidding for public contracts and state procurements.



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3. Business Empowerment and Micro Credit

Some 140.000 people are leaving Belarus annually, nearly 3% of the population, mainly directed to Russia. If this trend is to be maintained, then it's the number one systemic risk. Raising wages has not contained the brain-drain and it has created negative side-effects: the production cost has increased and the competitiveness has decreased. Along, raises were consumed into imported goods and the currency exchange rate deteriorated².

Raising wages has a limit and side-effects; part of the public money should be dedicated to capacity building and services provision at the local level. The state should be more ambitiously contributing to shape a favorable environment for the youth in order to materialize personal creative and vocational trajectories in Belarus and maintain the psycho-social ties with their homeland.

The social policy deficit, as expressed by low early-stage investments, inadequate support through the whole life-cycle of individuals, support to the construction of collective capabilities and the absence of a serious minimum-income security net, is expected to reproduce the vicious effects of the crisis long after fiscal stability has been achieved. Active local employment development strategies are needed.

We should focus on building a microcredit strategy with innovative banking that provide for business empowerment. Such products could be allocated both by systemic and other banks, along with the cooperative ones. Also, of critical importance is to conclude to a variety of business empowerment bank accounts, where capital is allocated to individuals that have proven capable of saving money earned by business activity, mobilization and experimentation.

Linking academic activity to the market should be an agenda already there in the university curricula. An idea is to promote the establishment of students' cooperatives and business incubators offering seed capital, integrated support and twinning with the market sector both in Belarus and abroad. Business experimentation is a social investment. Insurance coverage by the state and a context of financial intermediation by domestic and international banks and funds could contribute to their start-up phase. The ecosystem of youth creativity and business should be supported more ambitiously³.

² EESC. (2013). BELL Belarus Info Letter. Issue 10, 2013, Eastern Europe Studies Center

³ Nasioulas I. (2015). Social Economy: A viable alternative. Crisis Observatory. Policy Paper n26. Hellenic Foundation for European and Foreign Policy (ELIAMEP)



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4. Integrated support for SMEs

Experience and studies have shown that SMEs in Belarus are absorbing redundant employees leaving state-owned enterprises⁴. They act as the primary shock-absorber ensuring cohesion: data are promising when it comes to employment in SMEs and the progress done regarding the ease of doing business in the country⁵. Yet, this trend should be maintained and boosted. The much anticipated Development Strategy for Small and Medium-sized Business until 2030 should include the breakthroughs and best practices now found all around the European Union.

5. Boosting social innovation

We need privatization both ways: turning SOEs into conventional corporations and social economy enterprises along. This is considered the most viable mix and is closer to the narrations and idioms of Belarus. The process would be to revert some public or privatized companies who finally came to be bankrupt into social cooperative enterprises or social economy schemes in general. Such enterprises do not usually distribute profits and are cooperative in their set-up, meaning that each member has one vote and actively participates in the management.

This was found to be ideally working in the very sensitive cases of:

- (i) education;
- (ii) health care and social services;
- (iii) public services; and
- (iv) community, social and personal services,

where aggressive privatizations could lead to a visible deterioration of quality and market supply.

⁴ IPM. (2016). Business in Belarus 2016: Status, Trends, Perspectives. (2016). IPM Research Center

⁵ World Bank. (2016). Doing Business 2016: Measuring Regulatory Quality and Efficiency. Washington. World Bank.



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EPILOGUE

Social investments, active labor market policies, social entrepreneurship, public procurement innovation and social banking are the keywords of a modern welfare mix promising of ameliorating the negative externalities of mass-scale privatizations in countries with stressed public budgets and demographic outflows, such as Belarus. It is never soon enough to engage in a well-articulated Empowerment Plan aiming at ensuring decent employment for all, supporting innovative blue, green and social business and defending social cohesion in times of intense duress. The European Union and its member-states could be considered the leading living laboratory of such strategic orientations and applied practices which envisage a meaningful development trajectory that leaves nobody behind.

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3. IPM. (2016). Business in Belarus 2016: Status, Trends, Perspectives. (2016). IPM Research Center
4. World Bank. (2016). Doing Business 2016: Measuring Regulatory Quality and Efficiency. Washington. World Bank.
5. Nasioulas I. (2015). Social Economy: A viable alternative. Crisis Observatory. Policy Paper n26. Hellenic Foundation for European and Foreign Policy (ELIAMEP)

EUROPEAN UNION POLICIES

- The Social Business Initiative: http://ec.europa.eu/internal_market/social_business/index_en.htm
- The Social Investment Package: <http://ec.europa.eu/social/main.jsp?langId=en&catId=1044&newsId=1807&furtherNews=yes>
- EU Directive 2014/24 on Public Procurement <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32014L0024>

The HELLENIC CORPORATION OF ASSETS AND PARTICIPATIONS

- www.hcap.gr