



# Privatisation and role the state

Improving Business Environment in Ukraine:  
Lessons from Central European Reforms

INEKO – ICPS Seminar

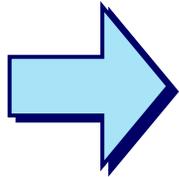
May 16, 2005 Kyiv

**dr Maciej Grabowski**

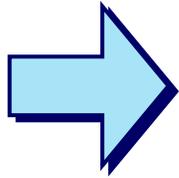
**The Gdańsk Institute for Market Economics**

Maciej  
Grabowski

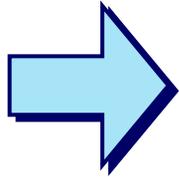
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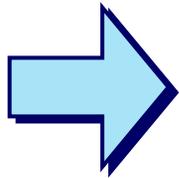
Where we are, and from where we are coming from?



What do we know, or some certainties on privatisation process?



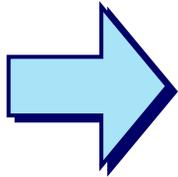
What are we not sure about, or some uncertainties?



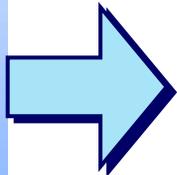
What may we expect, or challenges, and prospects?



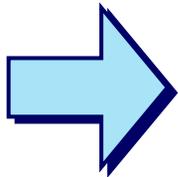
## Political decisions with great economic impact: development of state-owned companies



Ideological, but in market economy also...



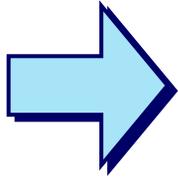
To provide social goods



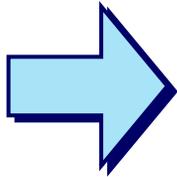
Economic reasons: high sunk costs, market failure, monopoly



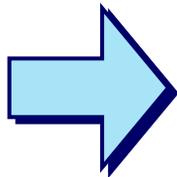
## Some certainties on the privatisation: process



If there is not market, there is not possible to proceed with privatisation



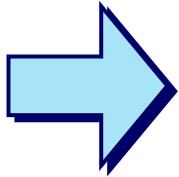
Privatisation is a political process with strong economic effects



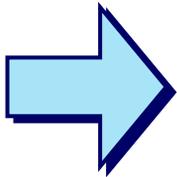
Not all forms of privatisation have brought expected results



## Some certainties on the privatisation: role of markets



Privatisation is a change of control of firm management, but principal-agent problem remains

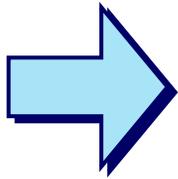


There are 3 main markets for firm control:

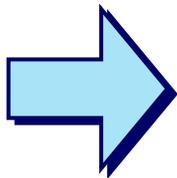
- commodity market (contract enforcement)
- market of mergers and acquisitions (effective and transparent capital market)
- market of managers (supply of managers)



## Some conditions of privatisation process



Both property rights institutions (norms for avoiding expropriation of private property by government) and contractual institutions (enforcing private contracts) are crucial for privatisation



To balance the political power of losers: social packages, shares distribution to workers, voucher schemes



## Some uncertainties

Concentration of capital:

- A.** Positive outcome if there is strong antymonopoly watchdog and reforms are completed, and firms are effectively managed
- B.** Negative outcome if institutions are weak, and oligarch may have interest to slow down reforms (e.g. Kadannikov and Deripaska in car market in Russia and WTO accession)

What forms of privatisation have brought better results? No single form of privatisation is perfect



## Some uncertainties

### Props and cons for different forms of privatisation:

- Development of small companies (quick, but sufficient only for some sectors, like retail trade)
- Foreign direct new investment (slow and difficult to attract)
- Sale through capital market (good price, high social packages, risk of very diluted shares)
- Sale to managers and employees– f.i. MBO, EBO by leasing assets (low price, contradiction of employee and shareholder interest, no social barrier, bad perspective)
- Sale to strategic investor by negotiation (good price, high social packages, good prospects)



# Statistics

## Forms of privatisation in Poland (since 1990 till 2005):

Form of privatisation	number of cases	structure
comercialisation	C 1570 512 - 497	28%
liquidation (sales of assets) mass privatisation	1859 -	33%
sales of enterprise transfer of shares	2220	39%
total	5649	100%

Still in state hands: 1214 state enterprises, 452 companies with exclusive shares of state, 1063 companies with some shares of state, *plus state land and military property to be privatised*



*Life can be understood by looking backward, but  
it must be lived by looking foreword*

Soren Kierkegaard

Complete economic transformation which means: -  
regulatory institutions, - law enforcement, - effective  
public administration, *and private property*

Institutional effectiveness as condition for  
competitiveness and privatisation, but you can't wait  
until the institutional framework is perfect to proceed  
with privatisation

Distribution of wealth (privatisation) and wealth creation