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STATE AND DENATIONALIZATION: RISKS AND LIMITATIONS OF A "NEW PRIVATIZATION POLICY" *

Denationalization in a period of pragmatism

It will be some time before we can fully appreciate the radical nature of the socio-economic effects produced by the global crisis of the end of the first decade of the twenty first century. However, it is already evident that the two leading market economic systems of the Western world – that of the USA, based on an ideology of free market competition, and the socially oriented system of Europe, were unable adequately to respond to the initial phase of the crisis. Moreover, the only measures that proved capable of preventing financial and economic collapse were those taken by states that possessed powerful levers for acting upon the economy as the crisis unfolded. Russia was one of these states, though circumstances in Russia were not typical.

Large scale intervention in an economy, while it can have a positive effect during a crisis, often has a negative effect in periods of stable, long-term economic growth; and despite the crisis the thesis that private property provides the best institutional framework for ensuring efficient, long-term investment and economic growth has not been disproven.

State sector versus private sector: the dynamics of de-statification

The reasons why the state assumed responsibility for the production of private goods (material products and services) and their delivery by more or less standard commercial methods have been studied in detail. The increase in competition in world markets after the second World War and the coming to power of socialist and left-reformist parties with programmes that gave priority to a significant extension of the role of the state in the economy led to the nationalization by the governments of many European countries of a number of companies and of key sectors of the economy, with a view to rapid modernization, a renewal of the technical base and a significant improvement in competitiveness. The nationalizations carried out by the Labour government in Great Britain immediately after the war increased the share of the state sector in the economy to over 20% and it remained at this fairly high level for three decades.[1]

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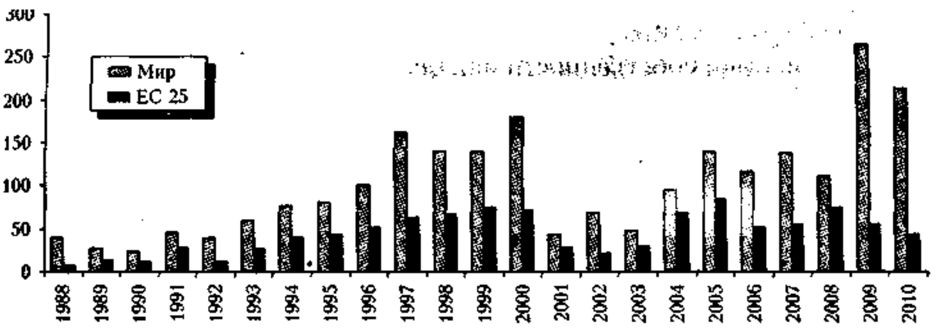
[1] *Megginson W.D.* The Financial Economics of Privatization. Oxford: Oxford University Press, 2005, p.12.

During the 1970s and 1980s there was a noticeable trend in favour of reducing the share of state property. At the beginning of the 1908s the proportion of the state sector in GDP in the industrially advanced countries reached 9% on average, but by 1997 it had fallen to below 5%. In 1997, amongst the poorest developing countries the proportions were 15% in 1980 and 7%. In the countries of Western Europe, the transition from nationalization of particular sectors of the economy to privatization was to a significant degree associated with the electoral success of the more conservative ("liberal") political parties. There were similar trends in many developing countries (see Figure 1). However, in a number of such countries (in the Near and Far East and in Africa) influential political parties remained committed to building up the state sector in key sectors of the economy.

During the first years of the twenty-first century, the extraction of natural resources, in the first instance oil and gas, began to be privatized,. Notably, a partial privatization was carried out of the Norwegian company "State-Oil"; projects were developed for the privatization of rail transport; and, in Japan, of the world's largest system of postal banks. The scope of these changes cannot be underestimated.

Figure 1

Aggregate revenues from privatization: world and European Community (25 countries) 1998-2010 (billion USD)



* The steep growth of revenues in 2009 to a significant degree reflects only the buying back by the largest banks of the USA and the United Kingdom of shares that had been acquired by their governments as part of their anti-crisis measures rather than a growth in revenues from privatization in the normal sense of the term. By contrast, in 2010 the proportion of conventional privatization deals increased markedly.

Source: Privatization Barometer 2010, p.6 (www.privatizationbarometer.net)

The effects of the privatization of 78 of the largest companies in 15 industrially advanced countries and in 10 developing countries have been analysed, comparing their performance in the three years preceding privatization with their performance during the three years following. In the opinion of the authors of this research, the transition to private enterprise made for a reduction in the proportion of expenditure on labour and capital. All the statistical evidence points to the effects having been significant and positive.[2]

[2] See *D'Souza J., Megginson W.* The Financial and Operating Performance of Newly Privatized Firms in the 1990s //

Over shorter time periods, specific features of the development of the business cycle had an impact on relations between the public and private sectors of the economy. For example during the world crisis of 2008-2009 the state in many countries provided a number of large companies with significant financial assistance, in return for fairly substantial shareholdings. Many countries implemented a variety of anti-crisis measures that assumed the form of nationalization. By the end of 2008, as part of their anti-crisis strategy, a number of countries had spent over 1.4 trillion dollars on the re-capitalization of companies and about 880 milliard dollars on the acquisition of new assets.

In 2010 and 2011 governments in many countries returned to policies of limiting the size of the public sector (see Figure 1). Today, the majority of companies that were formally "saved" from bankruptcy are actively engaged in changing their systems of management (and, accordingly, their senior management staff) and governments are developing projects for the eventual privatization of companies, with a view to increasing their efficiency.

State sector versus private sector: theory and practice

The transition to state ownership creates opportunities for relaxing budget restraints and comprehensively renewing the technology of enterprises (or of a branch of the economy). At the same time, as the experience of many countries demonstrates, most state companies, when judged by the criteria of market efficiency are responsible over the long term for a profligate waste of resources.

The public sector, as a rule, is dominated by industries that are considered strategic from the standpoint of national security. But this very fact means that non-market considerations (strategic, military-political) come to the fore in the management of these industries. This is most obvious in cases of bilateral monopoly (a quasi-non-market relationship) when companies belonging to the state are responsible for the production of goods ordered by government agencies.

The "privileged" position of large state enterprises, their immunity from the impact of competition, undermines not only their responsiveness to market signals - the discipline of the market - but also their incentive to reduce costs. It motivates senior managers to seek an expansion in the range of private goods provided by these state companies and fosters a *rentier* mentality. The constraints upon competition and the schematic nature of contractual relations produce a situation in which the managers of state companies (compared with those of private companies) find routine, non-creative, decision-making to be an easy option. They devote significantly less attention to innovation and to lowering the costs of production. The monopoly power of state enterprises and the size of the administrative apparatus can be contributory factors.[3]

Journal of Finance. 1999, Vol. 54. p. 1397-1438.

[3] See *Hoppe E., Schmitz P.* Public Versus Private Ownership: Quantity Contracts and the Allocation of Investment

Amongst the causes of the lesser efficiency of state management we should include the strong institutional links that tend to form between government and the less efficient corporations. The latter, as a rule, actively subsidise the electoral campaigns of influential politicians, who, for their part, acquire a vested interest in actively supporting their "adopted" companies. These relationships are especially common in the case of low-efficiency, "monster" corporations, who acquire the reputation of being "too big to fail".[4]

One feature of the functioning of state companies in strategic sectors is monopoly control over all, or nearly all, the information that relates to the real results of their activity. M. Friccio has studied the behaviour of companies where influential political leaders (Ministers, Deputies of legislative assemblies) participate in top-level management. He has described them as "politically connected firms". According to Friccio, in those states where the role of politically connected firms is especially significant, their economic operations are less transparent and there is a greater degree of corruption.[5] This means that not only the taxpayers (the voters) but often the coordinating government agencies lack an adequate understanding of the effectiveness of subsidising a state sector that has "risen above" the market.

In the very political-economic strategy of state companies it is often possible to discern the extent to which the rationale for their nationalization was ill-founded. The phenomenon of "time-inconsistency", both in the general trend of development of the public sector and in specific measures adopted by state companies in implementing their strategy, deserves particular attention. [6]

A change in the general conditions of economic development can attenuate the need for centralized regulation, but the bureaucratic apparatus continues to have a vested interest in expanding its functions. Also, the conviction persists within large ("system forming") credit institutions and non-financial corporations that they can, in times of difficulty, count upon receiving substantial support from the government. This makes for serious distortions in the process of price formation in the financial markets.

This financial "topping up" by the state of the major investment and commercial banks and of a number of other corporations, makes for a disparity between

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Tasks // Journal of Public Economics. 2010. Vol. 94. P. 258-268.

[4] The theoretical models used in the analysis of such interaction can be found in *Robinson J., Torvik R.* A Political Economy Theory of the Soft Budget Constraint // CEPR Discussion Paper. 2005. No 5274.

[5] In Russia, according to the calculations of M. Ficcio (for the early 2000s), firms with political connections accounted for 86.75% of the market capitalization of all Russian companies. See *Ficcio M.* Politically Connected Firms // American Economic Review. 2006. Vol. 96. p. 369-386.

[6] Inconsistency over time can occur also in cases where the general course of policy implemented over shorter time periods ("sub-periods") may be considered optimal.

individual and social costs that is attributable to the artificially lowered costs of risk. The wave of bankruptcies of individual borrowers of a kind that has not been seen since the Great Depression, and the significant devaluation of real and financial assets between 2007 and 2009 bears witness to the scale of under-evaluation of real risks. Other manifestations of the same tendency include the "bubble" in the funding of aggressive "raider" acquisitions and financial speculation of all sorts.

Finally, the relatively inefficient management of state companies is attributable to certain characteristics of state ownership, which is often understood as being collective or shared. The mechanisms for systematic monitoring of state enterprises, of course, cannot involve participation by every citizen; this function is usually exercised by government agencies. This immediately gives rise to the well-known problem of the relationship between "principal and agent". Even more questions arise when it comes to monitoring the effectiveness of the regulatory agencies: the need to "regulate the regulators" gives rise to an inefficient bureaucratic pyramid of administrative control and formal accountability. It is generally accepted that the state sector, as a rule, gives rise to inequality in the conditions of competition, to non-market relationships and to corruption.

The efficiency of state and private companies can be compared in cases where they produce broadly similar goods. Of course, comparative analysis of the efficiency of production is complicated by a number of factors, (such as differences in product mix, differences in the structure of market demand, and variations in the methodology of cost accounting). Even so, during the last few decades there have been empirical studies of a fairly broad range of sectors and the results of these lead to the conclusion that private enterprises are more efficient.

A.E. Boardman and A.R.Vining, in a review of the efficiency of private and state-owned companies, compared the results of over 50 different studies with their own calculations. Their general conclusion was as follows: "The results of our research show that taking into account a broad range of factors (that influence the efficiency of management operations) large industrial firms under mixed ownership and similar companies that are wholly owned by the state, display significantly less efficiency than analogous private companies." [7]

Other surveys of empirical research also testify to the greater efficiency of private enterprise. Whilst in some cases it is not possible to identify any obvious advantages of one form of ownership over the other, [8] D.Muller, who compared the results of 71 individual research studies, found that in only 5 cases was it

[77] *Boardman A. E., Vining A. R.* Ownership and Performance in Competitive Environments: a Comparison of the Performance of Private, Mixed, and State-owned Enterprises // Journal of Law and Economics. 1989. Vol. 32. p. 1-33.
[8] *Borcherding T., Pommerehne W., Schneider F.* Comparing the Efficiency of Private and Public Production: The Evidence from Five Countries // Zeitschrift für Nationaloekonomie. 1982. Bd. 89. S. 127-156.

demonstrated that state enterprises were more efficient than private enterprises.[99]

The many research studies that have compared the efficiency of companies in Russia that are dominated by the state with that of companies under private ownership for the period 1990-2000 (studies of the Institute for the Economy of the Transition Period, Bureau for Economic Analysis, Higher School of Economics and Russian Elite Bank differ in their evaluation of the importance of different forms of ownership. Even so, their conclusions with regard to companies with state shareholding are similar. Research studies for the 2000s that include the countries of Central and Eastern Europe and the SNG demonstrate that privatization can have a positive effect upon GDP and economic growth. [10]

It is not being argued, of course, that all state activity, by its very nature, results in a lowering of productivity and that, therefore, private enterprise should completely supplant the state in economic life. On the contrary, there are some social goods that only the state can provide and in some cases, drawing upon the advantages of centralized administration, the state can cater for social needs with comparatively lower expenditure of material and labour resources. There are many instances where the state fulfils the important role of innovator, being the first to create enterprises in areas that would be insufficiently attractive (that is, profitable) for private enterprise. Nor is it being suggested that private enterprises are always and in all circumstances more efficient than state enterprises.

Contemporary economic theory argues that *there is no "universally appropriate" form of ownership.* That is to say, there is no form of ownership that invariably, and irrespective of specific historical circumstances, can be considered superior to other forms, whatever the country, branch or sector of the economy. Moreover, unless an appropriate system of regulation and control is put in place, the privatization of enterprises delivering services in the social sphere, or of natural monopolies, can damage the interests of consumers even in circumstances where the efficiency of production of these companies is enhanced. Equally, we know of state-owned companies operating in specific environments that have demonstrated their viability. If, however, their efficiency begins to decline and they suffer significant losses, then this provides grounds for radical reorganization. In recent times this has taken the form of divestiture and privatization of certain sub-sectors of an economic activity that was previously the domain of a state-owned company.

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[9] Discussions of the comparatively lower efficiency of state entrepreneurship "in reality do not take social losses fully take into account … since they address only the greater expenditures incurred in production of a given volume of output but not the additional social losses incurred owing the fact that society is not consuming an optimal quantity of state goods". See Muller, D., *Obshchestvenny vybor* [*Social Choice*] (Moscow State University, Higher School of Economics, Economic School, 2007, pp. 497, 501-507).

[10] См.: *Estrin S., Hanousek J., Kocenda E., Svejnar].* Effects of Privatization and Ownership in Transition Economics // Journal of Economic Literature. 2009. Vol. 47. P. 699 — 728; *Bortolotti B., Siniscalo D.* The Challenges of Privatization: An International Analysis. Oxford: Oxford University Press, 2003; *Megginson W.D.* The Financial Economics of Privatization.

State-owned companies that have become “engines of development” can, for a given period of time, take advantage of their special status and government financial support to overcome the resistance of conservative economic structures and create relatively favourable conditions for development in high-tech branches of the economy. *It also goes without saying that private property rights (and privatization) produce a beneficial economic effect only when they exist in a competitive environment*. Economic effectiveness depends to a greater degree upon a market system and upon competition than upon the form of ownership rights and differences between the owners of assets. [11]

State-ownership versus private ownership: new challenges?

Clearly, in the contemporary world (and taking into account a reappraisal of the systemic importance of state regulation in the post-crisis period) the debate that began with the Physiocrats, and that continues in lively fashion in the twenty-first century, over the “deficiences of the state” and the “failures of the market”, has lost its relevance, at least when, in debate, the state is diametrically counter-posed to the market.

The orthodox, neo-classical (neo-liberal), understanding of the state as the principal source of economic instability has been discredited in Anglo-American and European research thinking. This does not mean, however, that Keynesian, *dirigiste*, and regulatory conceptions of the role of the state in the contemporary economy have returned to favour. Even in the aftermath of the financial crisis of 2008-2009 and in the course of discussions over the need for a new model of regulation on a global scale, there has been no proposal for a return to the model of the middle of the twentieth century (the regulation of production). At the same time, following criticism of the liberal model during the last 30 years, there has been advocacy of the need for a more active involvement of the state in the economy, so that the risks of unpredictable developments can be managed. In our opinion, the logic of these arguments is not self-evident, given the systemic risks inherent in the process of government regulation. [12]

Discussions now tend to *avoid counter-posing the state and the market, in favour of a more pragmatic approach* that takes into account a number of significant new factors: an acknowledgment of the objectively *cyclical* nature of the degree of state intervention (direct and indirect) in the economy; a reappraisal of the role of the state as a regulator, taking into account the process of *globalization* of the contemporary economy; [13] and the need to optimize the relationship between the

[11] *VickersJ., Yarrow G.* Privatization: An Economic Analysis. Cambridge, MA: MIT Press, 1988; *Bizaguet A.* Le secteur publique et les privatisations. P.: PUF, 1988. p.75.

[12] See *Mirovoi finansovy krizis: istoricheskie paralleli i puti vykhoda* [*The global financial crisis: historical parallels and possible solutions*], edited by E. Gaidar and V. Mau (Moscow, Alpina Publishers, 2009).

[13] This applies also to the negative aspects of the process of globalization that manifested themselves, in particular in

functions and potential benefits of state intervention, taking into account the real opportunities available to the state. [14]

At the same time, the debate over the demarcation line between state and market and state is not a search for an optimal functioning of the state in the economic sphere. Every such function, above all in the spheres of production and Research and Development, must be evaluated from the standpoint of its capacity for implementation by the private sector, with government limiting itself to providing the necessary incentives and providing subsidies to the private sector.

As the contemporary state developed, a conflict arose between, on the one hand, the need for the managers of society to have sufficient powers, and, on the other, the need for society to have guarantees that their representatives will be deterred from abusing these powers in the interests of a privileged minority. Clearly, this conflict, which has no universally valid remedy, will only be resolved to the degree that political institutions evolve.

Economic institutions capable of stimulating economic growth emerge, in the first instance, when political institutions bring to power groups who are committed to upholding a comprehensive system of enforcement of the rights of property; in the second instance, when political institutions impose effective constraints upon those who exercise power; and, in the third instance, when there are no opportunities for deriving significant income from tenure of office. [15]

In many economies the extent of inefficiency and waste is magnified by the operation of oligopolistic structures that have come into being in the political sphere, and by an absence of transparency or secrecy of decision-making within an all-embracing bureaucratic system. As Joseph Stiglitz has correctly pointed out, it is by extending the arena for competition between political forces and by introducing greater transparency into the activity of government institutions that one can significantly reduce the extent of government failure, reduce opportunities for corruption, and bring about more efficient methods of civil administration. [16]

For our part, we are in agreement with those "institutionalists" who argue that the most urgent problem of the day is to identify those interest groups to which the state is providing support, rather than debate the relative merits of state intervention and non-intervention.

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the world financial crises of 1998 and 2008 and in the "national" responses that have found expression, for example, in contemporary conceptions of economic patriotism.

[14] *The state in a changing world. Report on world development 1997* (World Bank, 1997).

[15] See: *Acemoglu D., Johnson S., Robinson J.* Institutions as the Fundamental Cause of Long-Run Growth // Handbook of Economic Growth / Ph. Aghion, St. Durlauf (eds.). Amsterdam: North Holland, 2004.

[16] See; *Stiglitz J.* Government Failure versus Market Failure: Principles of Regulation // IPD Working Paper. 2008.

Preparing the way for a "new privatization policy"

We know from over 20 years of experience of de-statification in Russia and other countries with transition economies just how complicated and long drawn-out this process can be. [17] In the dynamic of de-statification in Russia during the 2000s we observe two different tendencies.

On the one hand, with various degrees of intensity, the process of privatization is continuing. The Russian Federal Government has annually approved ambitious programmes for the privatization of Federal property including hundreds of Federal State Unitary Enterprises (FGUP) and of shareholdings in enterprises in various branches of the economy. Between 2007 and 2010 the total of Federal State Unitary Enterprises and companies with state shareholdings fell by approximately 40% (See Figure 2). However, this trend manifested itself only at the Federal level. At the regional and local levels there were variations in changes in the number of unitary enterprises. Even at the Federal level the reduction in the number of state enterprises was to a considerable extent associated with the formation of "integrated structures" and state corporations.

After 2005, the rate of privatization declined, as is abundantly clear from the figures for 2006-2008 (see Figure 3). It was 2010 before the positive trend resumed, as may be seen not only from the quantitative data for enterprises, but from budget revenues. According to data of the RF Ministry for Economic Development, revenues from the sale of privatized Federal property in 2010 amounted to 22.67 billion roubles,[18] a sum that exceeds by several times the revenues to the Federal budget from the privatization of state property in 2008 (7.19 billion roubles) and 2009 (1.93 billion roubles) and represented an over-fulfilment of the planned total, something that had not been achieved for several years.

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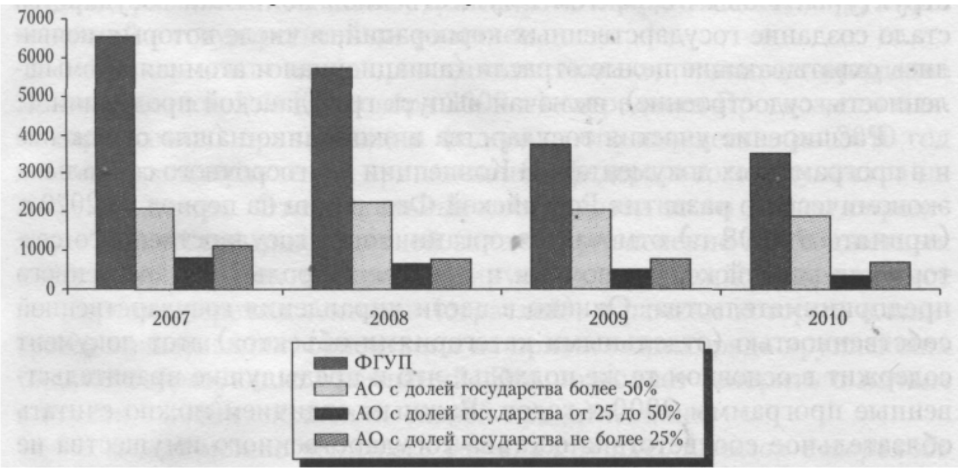
[17] On the first stages of privatization in Russia see, in particular, Alexander Radygin, *Reforma sobstvennosti v Rossii: na puti iz proshlogo v budushchee* [The reform of property in Russia: out of the past and into the future] (Moscow, Respublika, 1994)

[18] According to provisional data contained in the Report on Execution of the Federal Budget to 1 January 2011 (www.roskazna.ru) the aggregate volume of revenues that accrued to the Federal budget from privatization and the sale of property (including plots of land) was 18.68 billion roubles.

Figure 2

Total number of Federal State Unitary Enterprises (FGUP) and companies with RF shareholding, 2007-2010

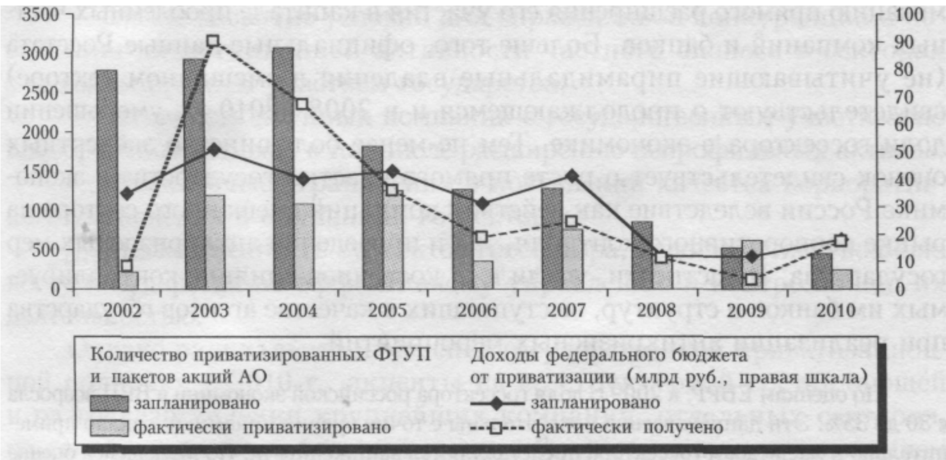


FGUP
Shareholding Companies (AO) with state holding above 50%
Shareholding Companies (AO) with state holding between 25% and 50%
Shareholding Companies (AO) with state holding under 25%

Source: RF Ministry for Economic Development

Figure 3

Dynamics of the privatization of Federal property 2002-2010



Number of privatized FGUP and AO shareholdings	Revenues to the Federal Budget from privatization (billion roubles, right axis)
Planned	Planned
Actually privatized	Actually received

Source: RF Ministry for Economic Development

On the other hand, by comparison with the 1990s, there was a growth in the influence of the state. Between 2000 and 2003 the efforts of the state were predominantly directed towards optimizing such direct state involvement in the economy as had survived implementation of the programmes of voucher privatization (1992-1994) and cash privatization (1995-1999).The following five years (2004-2008) were noteworthy for an increase in the scale of state involvement that can be attributed to an increase in the activity of companies where the state was a shareholder and which now sought to expand the scope and diversity of their businesses. During 2006 and 2007 this policy of incorporating a variety of assets that had remained in state ownership into integrated structures, continued. A new feature of policy for state property became the formation of state corporations, which came to include entire branches of industry (the aviation and atomic industries, shipbuilding) and the production of commodities for the civil population.

This increase in state participation in the economy was reflected in government programmes. The "Conception for the long-term socio-economic development of the Russian Federation for the period up to 2020" (adopted in 2008), pointed to the organic role of the state sector in the Russian economy and emphasized the importance of state entrepreneurship. However, with regard to the management of state property (and of different categories of enterprise) this document continued with the approaches that had been enshrined in government programmes of the 2000s. If there was any innovation this was in the forced alignment of state-owned companies not only with the competencies and functions of state bodies but also with structural changes that had taken place in a number of sectors of the economy.

The crisis of 2008-2009 in Russia did not formally result in any substantial expansion of the state sector, given that the priority of the government's anti-crisis policy was to minimize direct increase of state shareholding in the capital of troubled private companies and banks. Furthermore, figures produced by *Rosstat* (which do not take account of pyramidal holdings in the mixed sector) indicate that the share of the state sector in the economy during the years 2008-2010 continued to decline. Even so, the majority of expert assessments point to a growth of direct participation of the state in the Russian economy as a consequence both of the actions of companies of mixed ownership in the market of corporate control and of the anti-crisis measures implemented by the government. In particular, the indirect influence of banks and of structures controlled by the state increased, as they assumed the role of agents of the government in the implementation of anti-crisis measures.

According to calculations of the EBRD the share of the state sector in the Russian economy by 2009 had increased from 30% to 35%. These figures provide a helpful indication of the trend, but do not provide an adequate picture of the scale of the state sector. According to different calculations ("Troika Dialogue", 2008) Federal and regional authorities by the end of 2007 controlled approximately 40% of the market capitalization of the Russian stock exchange, compared with 24% in 2004. By the beginning of 2008 “the degree of concentration of property” in the hands of the state, according to the “Expert-400” data base, was approximately 40-45% and in 2009 this indicator, according to some experts, was approaching 50%.

The transition to an active policy of “structural” privatization dates from the end of 2009 when the Russian economy began to emerge from the acutest phase of the crisis. Between 2006 and 2009 the “key” objectives of privatization were: the generation of revenues for the Federal budget; the privatization of property not being utilized in the implementation of state functions; and the conversion of state unitary enterprises into shareholding enterprises. It was in September and October that members of the RF Government began to speak of embarking on a “structural” privatization, the object of which was to be a reduction in the scale of direct participation of the state in the economy, the fostering of competition in certain sectors, the attraction of long-term investments in companies, and an increase in the efficiency of large companies in which the state was a shareholder.

The beginning of this new phase of privatization dates from adoption by the RF Government on 30 November 2009 of its Indicative Plan (Programme) for the Privatization of Federal Property for 2010 and the Main Principles Determining the Privatization of Federal Property in 2011-2012. The distinguishing features of this plan were: adoption, as a priority objective, of the attraction of extra-budgetary investments for the development of privatized companies; an increase in the list of branches of the economy within which privatization was to be planned; and a move towards the privatization of a number of substantial (budget-forming) companies. These developments enable us to say that a policy of “renewed privatization” began in 2010.

In general, we can identify *two sets of circumstances that account for the transition to “renewed privatization”*. The first group includes problems that are not a consequence of the recent economic crisis, but are deep-seated:

- the variety and contradictory nature of the functions of the state (as legislator, regulator and direct shareholder in large companies);
- the underdevelopment of conditions for equitable competition and the growth of investment activity of private business in sectors where the state is a substantial shareholder;
- the acquisition of assets by large companies with state shareholding, which in some cases involved diversification beyond the core business;
- barriers to improving the quality of corporate governance in companies in the state sector;

- the large number of enterprises in the state sector and the limited ability of the state effectively to manage and regulate their activity.

However the radical change in state privatization policy as of 2010, the emphasis on structural aspects, the state disposal of some of the largest companies and withdrawal of the state from particular sectors was, in our opinion, to a greater degree influenced by an awareness of certain problems that had become particularly acute during the recent crisis. This was the second set of circumstances:

- a growth of the participation (influence) of the state in the economy during the period of crisis and the excessive extent of its direct ownership;

- a risk of a post-crisis increase in state shareholding in the economy, given uncertainties over what would happen to the tranche of shares handed over by companies as collateral for state aid during the crisis, in the event that these companies would not redeem their loans. In other words, the risk of state capitalism;

- the need to restructure and modernize a number of large companies in the state sector that displayed a low level of competitiveness;

- the need to attract a significant volume of private investment, notably for the purposes of infrastructural development;

- growing doubts over the likelihood of rapid economic growth following the crisis; an increase in budget expenditure on social services; and, as a result, the need to intensify control over the budget and seek supplementary budget revenues.

In general, what has come to the fore in the "agenda for the state sector" is the goal of achieving a structural and developmental effect from privatization. We have evidence of this not only in official statements, but in practical measures taken by the government during the last two years in the regulation of privatization, in a radical reduction in the list of companies and societies deemed to be of strategic importance, in moves to privatize large companies in the state sector, and in improvements in corporate governance in companies where the state is a shareholder.

To begin with, a whole range of substantive changes and amendments were introduced into legislation to do with privatization: [19]

[19] Federal Law of 31 May 2010, No.106-F3 "O vnesenii izmenenii v Federal'ny zakon 'O privatizatsii gosudarstvennofo i munitsipal'nogo imushchestva'" [On amendments to the Federal Law 'On the privatization of state and municipal property'.

- a transition to medium term planning of the privatization of Federal property, the creation of possibilities for adoption by the RF Government of a strategic plan (programme) for privatization covering a period of one to three years (previously, the strategic plan cover only one year) and inclusion in the strategic privatization plans of new enterprises;

- the granting to the RF Government of the right to take decisions for the privatization of state property "outside" of the standard procedures laid down in the legislation on privatization, with a view to creating conditions for attracting investment, stimulating the development of the stock market, promoting technological innovation and economic modernization.

- allowing the RF Government to hand over to legal bodies the function of vendor of Federal property that is subject to privatization;

- abolition of the requirement that the property being privatized be sold at a minimum price established according to norms established by the RF Government;

- a simplification of the procedures for the privatization of medium-sized entities of Federal property, facilitating access of potential buyers to the privatization process (enabling the sale of state property on-line; the introduction of bids by the public - "Dutch auctions"; a reduction in the size of the deposit required for participation in an auction or tender);

- more rigorous requirements governing the transparency of privatization procedures.

Secondly, as regards extension of the scope of privatization, we should note a radical reduction in the inventory of strategic enterprises and shareholding companies:[20] the number of operating organizations in the list in 2010 fell by more than 50%, to almost 200. Almost a quarter of the organizations removed from the list belonged, in one way or another, to transport or related infrastructures.

Thirdly, privatization plans have been drawn up for the period 2011-2015 for the sale of shares of 10 Russian companies and banks that are amongst the largest and that have a leading position in their branch of the economy (*Rosneft, RusHydro, the Federal company"Unified Energy System", Sovkomflot, the Russian Savings Bank (Sberbank Rossii), The Bank for Foreign Trade (VTB Bank), The United Grain Company, Rosagroleasing, Russian Railways (RZhD),the Russian Bank for*

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[20] RF Presidential Decree No.1009 of 4 August 2004 "On confirmation of the list of strategic enterprises and strategic shareholding companies". According to current legislation on privatization, strategic enterprises and the shares of strategic shareholding companies can be included in the predictive plan (programme) for the privatization of Federal property only if they are excluded from the list of strategic enterprises and shareholding companies.

Agricultur (Rosselkhozbank).[21] The sale of shares in these companies will be carried out on the basis of decisions of the RF President and of the RF Government, that is to say, by "special arrangements". It was made clear that the reduction in state shareholding would be achieved not only by the sale of a proportion of the shares belonging to the state, but also by supplementary share emissions aimed at attracting investment to these companies.

Fourthly, it is important to note that steps have begun to be taken to prepare for and implement the privatization of a broad range of lesser-sized companies and enterprises in the state sector (while plans are being drafted for the sale of tranches of shares in the biggest state companies and banks). For example, the scope of the Perspective Plan for the Privatization of Federal Property in 2010 has been significantly increased: around 500 organizations have been included in it, including over 200 Federal State Unitary Enterprises (FGUP).[22] Particularly noteworthy is the addition to the list of a number of very large AO in the sector of transport and transport infrastructure (maritime and river transport, ports, airports).

In 2011 the relatively rapid pace of privatization of state property has been maintained. There have been new political commitments (concerning an increase in the pace of privatization) and practical innovations in the areas of electronic trading, the development of strategies for FGUP, the removal of senior state officials from the boards of directors and the adoption of legislation enabling a variety of forms of transformation of unitary enterprises. It is clear, therefore, that in 2009-2010 the implementation of a "new privatization policy" was one of the Government's priorities. Even so, despite serious efforts, the privatization process has been impeded by constant manoeuvring and temporary compromise. In our opinion, the formation and implementation of state privatization policy involves a particular kind of political decision-making in which assumptions as to the goals of privatization have great importance. This is owing to the difficulty of assessing the socio-economic impact of privatization measures, the heterogeneity of the state sector and to particular characteristics of the various state assets involved. Given that all of the complementary measures that the state has to take cannot be an anticipated by the political decision-makers, we have witnessed an increase in the role of interest groups, each with its own assertive agenda for defining the practical steps that have to be taken if political decisions are to be implemented. The rivalry between these groups explains the "drift" of privatization policy.

[21] See, in particular, the "Perspective Plan (Programme) for the Privatization of Federal Property and the Key Objectives of Privatization of Federal Property for the Period 2011-2013" and also information published by the RF Ministry for Economic Development and Trade on the planned sales of shares in large companies occupying a leading position in branches of the Russian economy during the period 2011-2015.

[22] Originally unitary enterprises were not included in the Perspective Plan for Privatization, 2010.

Interest groups and basic risks

One may identify three distinct but not mutually exclusive approaches in the emergence of the ideology of "new privatization"; and each is associated with particular interest groups that have sought to influence the formation of a particular aspect of government policy.

The *first approach,* or "budget approach", sees privatization primarily as a means of generating additional budget revenues and, in the final analysis, of facilitating current and medium term macroeconomic stability. According to this view there should be a significant reduction in the use of revenues to the budget from such non-renewable sources as privatization on current expenditure. The reduction, as a consequence of privatization, of the size of the public sector, is regarded, *inter alia*, as a means of reducing the number of beneficiaries of state support.

The *second,* "structural", approach sees privatization primarily as an instrument for enhancing the competitiveness of companies and for restructuring particular branches and spheres of economic activity. It is held that the decision to privatize should be governed not by considerations of fiscal benefit but by the likelihood of attracting strategic private investors and securing a flow of investment funds into a company (for example by a supplementary share emission that reduces the proportion of shareholding capital held by the state), by an improvement in the quality of corporate governance, and by the development of competition and an improvement in the entrepreneurial environment.

The *third* approach, by "branch of the economy", focuses primarily on building social stability, on managing current developments and on producing a stimulus by means of direct state participation in the modernization of particular sectors of the economy. Of course, this entails sustaining (and in some cases intensifying) the direct impact of the state on the development of those branches and sectors of the economy that are "sensitive" as far as the population is concerned. Key instruments include: implementation of large-scale investment projects and programmes and the creation of integrated structures controlled by state companies.

Each approach has its merits and each is accompanied by particular problems and risks. It is for this reason that forecasts of revenues that are likely to ensue from privatization can differ substantially, according to the amount of publicity given to the project, to the revenue base selected, and to the status of the justificatory legal document. Such forecasts are, more often than not, merely estimates (see Table 1).

A separate and very complicated problem of the "budget" approach is how the sources of funding that might be available for bold privatization projects can realistically be identified. If we exclude those projects that involve the largest companies and banks in which the state is a stakeholder (for example, as a purchaser that, indirectly, has priority access to the state's own financial resources), then we are probably talking primarily of international financial market. But in 2010-2011 Russia faced very severe competition from other governments that were seeking to implement their own privatization projects. Furthermore, to quote the harsh commentary of Alexey Vedev: "as far as the prospects for the privatization of, say, state corporations, state banks and state property are concerned, we should clearly understand that we do not have the internal resources to fund this nationalization." According to one analysis of the structure of institutional financial flows in the Russian economy to 1 January 2011, enterprises have for the last 10 years been net debtors - the net indebtedness of corporations represented 15% of the gross assets of the banking system or approximately 10% of GDP. [23]

Table 1

Predicted revenues from privatization 2011-2014
(Estimates, billion roubles)

	2011	2012	2013	2014
Predictive Plan (Programme) for 2011-2013 (adopted by decision of the RF Government, 27 November 2010 *	6	5	5	-
Federal Law "On the Federal Budget for 2011 and the Planning Period 2011 and 2013" of 31 December 2010, No. 357-FZ (edition of 1 June 2011, No. 105 FZ)	-	-	-	-
Key objectives of budget policy for 2011 and the planning period 2012 and 2013; for 2012 and the planning period 2013 and 2014	298	276.1	309.4	300.0
Consolidated budget document for 2011, heading "Revenues from the sale of shares and other forms of capital in Federal ownership" [a]	297.54	-	-	-
RF Presidential Administration [b]	450	450	450	450
RF Government [c]	500 app.	-	-	-
RF Ministry of Economic Development [d]	1000	1000	1000	1000

* **"**The totals for predicted revenues from the sale of Federal property might be change in the event of decisions taken by the RF Government for the privatization of the shares of very large companies that are highly attractive to investors. Revenues from the sales of Federal property in 2011-2013 (allowing for market conditions) might therefore reach around 1 trillion roubles." (*Prime-TASS*, 6 December 2010). However, despite five revenue supplements in December 2010-July 2011, the predicted totals did not change.

This leads one to conclude that *any successful implementation of the "new privatization policy" will require a comprehensive and systematic reform of the institutional environment, of the investment climate and of the Russian financial system.* We have in mind, above all, a review of the restrictions placed upon foreign legal persons in the strategic sectors; guarantees of property rights and of law enforcement in general; and the need to stimulate internal sources of long-term

[23] Stenographic report of the meeting of the Expert Group "Management of State Property and Privatization", 6 July 2011 (http://2020strategy.ru/gl5/news/32746132.html).

investment, for example by modernizing the cumulative pension system, developing investment trusts and upgrading the technology of the stock exchange.

It should be added that the "budget approach" is not designed to attract resources for the development of privatized companies and *does not require the transfer of control over these companies from the state to private owners.* These are, rather, the strong points of the "structural approach", which, however, entails a risk of subsequent interference of the state in the activity of the companies that have been privatized, does not guarantee an efficient use of the resources that have been acquired, and is aimed primarily at the development of the more "high profile" economic entities.

The "economic branch" approach is appropriate if one is seeking a robust, relatively rapid reconstruction of particular sectors, or the formation of "national champions". However, this approach can lead to an uncontrolled spread of the state sector throughout the economy, to a deterioration in the competitive environment and to a reduction in opportunities for private enterprise (see Table 2).

Table 2

Advantages and risks of different approaches to “new privatization”

Approach	Advantages	Problems and Risks
“Budget”	▪ reduction (or complete elimination) of impediments to buyers; ▪ emphasis on privatization of the largest companies; ▪ overall reduction in the number of FGUP and OAO with state shareholdings.	▪ indifference to the magnitude of state shareholdings that are privatized and possibility that the state will remain in control of large companies; ▪ emphasis on the sale of “un-problematical” liquid assets; ▪ emphasis on the relatively immediate short-term.
“Structural”	▪ higher priority for the allocation of revenues from privatization to investment. ▪ emphasis on attracting strategic investors; ▪ real reduction in the share of the state sector in the economy.	▪ lack of clarity of mutual obligations over the long-term; ▪ problems over the choice of effective strategic investors; ▪ emphasis on the development, for the most part, of large and super-large companies; ▪ problems in the effective utilization of extra-budget resources attracted by companies.
“Economic Branch”	▪ development and accelerated modernization of the largest companies in the state sector; ▪ enhancing the attractiveness of large state companies to potential investors; ▪ safeguarding social stability	▪ low motivation for the development of sectoral regulation; ▪ retention (increase) of direct state participation in the economy; ▪ risk of uncontrolled “spread” of companies with state shareholding and deterioration of conditions for competition; ▪ risks of “non-transparent transactions” and of “deals with the administration”.

Competition for influence amongst separate "interest groups" has a number of consequences:

The *first* is a certain periodicity in the strengthening (or weakening) of the influence of "interest groups" on decisions taken with regard to privatization. The priority given to one approach or another depends upon achieving a degree of balance in the budget and upon the emergence of significant problems in particular "socially significant" markets. For example, it is during the period when the parameters of the draft budget are being discussed (May-June) that a pronounced preference can emerge for increasing the role of privatization as a source of supplementary revenues; and when difficulties arise in the regulation of particular markets, arguments are strengthened regarding the need to retain direct participation of the state in the relevant large companies, so as to compensate for the inadequacies of the market.

The *second consequence* is compromise over decisions taken, and inadequacy and inconsistency in measures adopted. Let us consider just a few examples for the period 2010-2011:

- a positive decision for increase in the representation of independent directors in companies with state shareholding was not accompanied by measures for an increase in the role and powers of the boards of directors or by changes in the procedure for the appointment of senior managers;

- the possibility of attracting investments for the development of enterprises in the course of privatization (or, rather, de-statification) exists for a small number of super-large companies on the basis of *ad hoc* decisions whereas for others the appropriate instruments (procedures for privatization) have not been developed;

- abandonment of the use of the organizational-legal form of state corporation was accompanied by assertion of the need to develop a new form of "legal person in public law". [24]

- for all there has been a general orientation towards limiting recourse to the "unitary enterprise", no efforts have been made to define instruments for the transparent funding of public projects (functions) subcontracted to companies, including companies in the private sector.

The *third consequence* is the overwhelmingly covert character of private interest lobbying during the privatization process, an increased likelihood of arbitrary decision-making, given the vagueness of the legal framework, and inadequate

[24] See the "Plan and Schedule of Measures for the Transformation and Liquidation of State Corporations and of the State Company, "Avtodor", No. 6793p-P13", approved by the Chairman of the RF Government on 29 December 2010.

official justification of decisions taken. We accept that a degree of "fuzziness" in the conditions of privatization, especially the privatization of large companies, can be regarded as a legitimate cost, incurred by the need to bring about reform within a reasonable time span and the need to overcome the resistance of administrative barriers while seeking to negotiate precise principles and rules for privatization with the various "interest groups". But this makes for greater "competition" between the various approaches to privatization and results in a reduction in the transparency of the conditions for privatization that apply at the level of each individual large company with a state shareholding.

When it comes to the prospects for privatization and the attainment of effective socio-economic development, then, bearing in mind a number of political objectives (achieving a structural impact, limiting direct representation of branch ministries in company management, defining circumstances for the relinquishing by the state of controlling shareholdings in a number of the very largest companies), we can identify a number of *significant risks:*

The first of these is an expansion of the state (or quasi-state) sector as the privatization process unfolds. In our opinion, the process of large scale de-statification could easily proceed alongside the consolidation of assets in particular large companies (including banks) *where the state is already a shareholder* and insertion of these companies into a competitive environment. This risk is all the more real in the short term.

The second risk is more significant in the medium and long term: *the absence of sufficient efforts to develop branch regulation of the privatization of large companies will result in an increase in informal state pressure upon them.* This is because, given the weakness of regulation in particular sectors (formerly "compensated for" by direct participation of the state in the management of certain large companies), the withdrawal of the state from management will produce a vacuum when it comes to regulating implementation of projects of social importance. The main problem here is the even greater lack of transparency in the new companies and indications that social interests are being replaced by narrow special interests (both institutional and private). There is less transparency than there was when during direct participation of the state in the capital of certain companies. Furthermore, the belated nature of "external" measures to improve the investment climate can limit the positive structural effect that it is hoped privatization will deliver.

The third risk has to do with the vagueness of conditions and criteria for the privatization of large companies and the attraction of investments and a possible disparity in the understanding of the state and of the owners of these companies of their respective obligations. This could lead to each side increasing pressure on the other in a variety of ways, and to growing opportunities for politicians to appeal to those members of the public who traditionally complain about "injustice" and "cut price" privatization.

The fourth risk is that the quality of the instruments of management of state property (in both unitary enterprises and enterprises with state share-holding) can probably no longer be improved. The risk that existing management practices will be carried over is very great and this could undermine and render ineffective any further measures for de-statification.

A "reappraisal" of de-statification"

In the near future, policy for the management of state property and of privatization must undergo a "reappraisal". Several important approaches will have to be considered:

The *gradualist* approach: The majority of enterprises that have remained in the state sector, by virtue of their scale and "quality" do not lend themselves to accelerated "mass" privatization. De-statification must be implemented applying the principle of "balanced judgement" and this will require a whole range of preparatory measures and implementation by stages. Too radical an approach would have as many costs as benefits.

A "Multi-sector approach": The multiplicity of types of enterprises in the state sector argues in favour of a variety of models of planning and management.

The "strategic core" model: There are no obvious reasons why, temporarily, a number of the largest companies should not remain as state property; but there are equally valid arguments in favour of a gradual reduction of the thresholds of regulation, the creation of equal conditions of competition, and transparency and modification of the quality of corporate governance.

Structural reform: It is unlikely that the privatization of an enterprise (the introduction of an effective owner) will have any economic impact without modernization of the sector to which it belongs and this, in turn, cannot be realized as long as the state continues to dominate in that sector (that is, without an expansion of the segment that is in private ownership); just as it is pointless to expand the private sector without changes in the quality of the institutional environment.

The need for pragmatism: this entails defining the strategic core of the economy (strategic, system-forming enterprises), prioritizing the "deep" privatization of large companies, disposing of anachronistic and palliative legal-organizational forms and non-viable assets, and insisting on modernization of the system of management of state property. In our opinion, long-term government policy for the management of state property and for privatization should conform to the following general principles:

- a “presumption in favour of the utility” of privatization, a principle according to which, with the exception of an identified small number of companies, all other companies with state shareholding, unitary enterprises, state corporations and state companies should be subject to privatization;

- a “presumption in favour of the utility” of the participation of foreign investors in the capital of privatized companies, including the largest companies;

- retention of existing social obligations and/or a direct reduction in the functions of the social sector;

- the development of alternatives to direct participation of the state in the capital of companies with a view to catering for social needs; a persistent coordination of the efforts of those involved in privatization; and advancement of the institutional-economic preconditions for privatization;

- any measures that directly or indirectly increase the “weight” of the state in the economy, including measures that reduce the size of the mixed sector of the economy, must be exceptional, adequately explained and clearly agreed by all concerned;

- companies controlled by the state, must not, on the one hand, impose, in a sphere where private enterprise is operating, restrictions upon competition or, on the other, create barriers to the entry of companies into their “own” markets;

- priority must be given to ensuring that privatization makes a structural impact upon economic development;

- the principles of “rational persistence”, logical coherence, “gradualism”, and risk management must be observed;

- transparency to be introduced to the processes of management of state property and in explaining why decisions have been taken; there must be a willingness to consider a variety of forms of oversight and assessment by the public;

- the formation of an coherent system for motivating all stakeholders; society and business groups to take part in a serious dialogue with the state over privatization policy and the management of state property;

If these key objectives for government policy in the management of state property and privatization are adopted, then two stages for implementation could be envisaged: 2012-2015 and 2016-2020. They would differ in respect of the tasks set, the level of anticipated risks and the need for implementation of a range of preparatory measures.

During the *First Stage* the priorities should be the implementation of current plans, keeping radical decisions to a minimum, “purging” commercially non-viable enterprises, preparing a “platform” for the second stage. The level of acceptable risks should be set at a minimum. Specifically, during this state one could envisage:

- the implementation of plans adopted for reducing state shareholding in the largest and large companies;
- restrictions upon the rights of companies with state shareholding (including their affiliated and dependent enterprises) to acquire privatized assets;
- an increase in the number of large companies with mixed ownership (privatization to the level of 75% + one share);
- a significant improvement in the quality of corporate governance in companies with state shareholding (enhancement of the status of independent directors; performance motivation of managers and their subordination to the board of directors);
- a reduction in the number of entities of state property through the closing down of a large number of Federal State Unitary Enterprises (FGUP);
- -the privatization of non-viable shareholdings (small, low-value tranches of assets);
- the implementation of a number of measures designed to broaden the potential basis for privatization in the second stage;
- the drawing up of criteria defining the aims and particularities of privatization at the regional and municipal level;
- attention to “small-scale measures” (the publicising of reports on privatization and assessment of the socio-economic role of the state sector; accounting and registration of all assets of unitary enterprises, state corporations, integrated structures with state shareholding);
- the formation of a single information platform for the sale of Federal, regional and municipal assets.

In the second stage a radical reduction of direct participation of the state in the economy should be envisaged. This would entail increased risks at many levels. The following key measures could be implemented:

- a "deepening" of privatization of the largest companies (or their total privatization, or privatization limited by a blocking packet of shares);
- a reduction of state shareholding in state developmental institutions and specialist banks, by means of a supplementary share emission;
- a reconstruction of the shares of large companies, the separation out and privatization of sub-holdings in the case of conglomerate, integrated structures;
- a reorganization of state corporations (some should cease trading; others, after conversion into OAO, should to some degree or other be privatized;
- transformation of unitary enterprises based on the right of economic management in a number of ways, according to the nature and scale of their basic activity, into OAO (the standard format), public enterprises, non-commercial organizations, or state institutions;
- privatization of the greater number of medium-sized and large companies where the state is a shareholder (when necessary to the level of a blocking shareholding);

These stages could be said, in the degree of their radicalism, to coincide with two distinct scenarios in government policy for the privatization and management of state property. With some reservations, the first, "inertia scenario", assumes an extrapolation into 2012-2020 of the tasks of the first stage. The second "radical scenario" assumes a comprehensive implementation during 2012-2020 of the key measures of the first and second stages.

This presupposes the development of existing mechanisms and the implementation of a broad range of measures that contribute to the six most significant functional objectives of government policy for the management of state property and privatization.

1. Management of the risks that the state sector will "spread" throughout the economy, increasing its "weight" in particular sectors and that there will be an increase in the number of entities in state ownership.

2. Ensuring that measures for the reduction of direct participation of the state in the economy are consciously planned and sustainable.

3. Obtaining a structural effect from privatization: the privatization “in depth” of large companies, modernization of particular sectors and the replacement of direct control by branch regulation, an improvement of the conditions for participation of foreign investors in privatization, the attraction of effective owners and development of the competitive environment.

4. Institutional optimization of the state sector: a reduction in the number of entities under state ownership, liquidation or amelioration of inefficient enterprises in the state sector.

5. Enhancement of the efficiency of the “core” of the state sector, a precise demarcation of the boundaries of the state sector and an optimization of the level of unavoidable direct state participation.

6. An improvement in the corporate governance of companies with state shareholding.

Associated with each of these objectives we can envisage a wide range of possible innovations and measures each of which can be applied with differing degrees of radicalism. Without going into detail, we provide a number of examples in Table 3.

Table 3

Proposals for innovations in policy for the management of state property and privatization

Objective	Present approach	Proposed approach
Drawing up a list of state properties for privatization	Privatization plans drawn up on the basis of proposals by the Federal organs of executive power (FOIV)	"Application principle" –plans for privatization drawn up also on the basis of proposals from the business community and potential investors. The FOIV to adopt the principle "privatize or provide a explanation"
Limits to privatization	System of legal restrictions	Replace some of the restrictions by obligations placed on the owner by legislation
Privatization on specified terms (specified in the law on privatization)	Investment tender; sale according to the results of trust management	Combination of investment tender and trust management
Attracting investors into companies during the privatization process	Implemented in the case of super-large companies that have been privatized under *ad hoc* arrangements	Definition of "investment mechanisms" in the law on privatization that should apply to all large companies (for example, with a net MROT tax and benefit liability of over 3 million roubles).
Unitary enterprises	Only one possible variant: transformation into a OAO with 100% state shareholding	Many variants: into an OAO with 100% state shareholding, into a OOO, into a state institution, into a commercial organization
Privatization of unitary enterprises	Two separate procedures: conversion into a shareholding company; sale of shares	Possibility of a single procedure (conversion into a shareholding with subsequent privatization of a proportion of the shares
Interests in the development of companies with state shareholding	Model of the maximization of state interests (in both the short and long term), costs of the majority model of corporate governance	Transition to a "positive conflict" model (long term state interests – short term commercial interests) with allocation to the board of directors of authority to the manage the relationships of "influence – independence – access to information"
Mechanisms for the representation of state interests	"Directives"	"Recommendations", accompanied by an increase in the responsibilities of members of boards of directors and an extension of the rights of independent directors
Status of independent directors	Federal organs of the executive (FOIV) cannot appoint to this position	Restrictions on "cross-representation" of directors on the boards of companies with state shareholding
Appointment of top-managers to companies with state shareholding	Political decisions, non-transparent selection, limited role for board of directors	Open competition, pubic proposals by the board of directors at a general meeting of shareholders
Assessment of the parameters of the state sector and of privatization	Managerial approach – estimate of the number of entities of state property and of privatized entities (according to organizational-legal criteria, the size of the state shareholding and by branch of the economy).	Economic approach – evaluation of the socio-economic role of the state and of the influence of privatization on development (contribution to Gross Domestic Product [VVP] and Gross Regional Product [VRP], exports, market concentration, attraction of investments).

Time will tell how far a “re-appraisal” of privatization policy has realistic prospects of success. The actions of government can result in a growth or a diminution of the risks we have outlined. However, we should bear in mind one of the principal lessons of 1990-2000: the benefits of privatization are achieved only in the long-term. How soon they will be realized will depend upon the quality and rapidity of implementation of the entire range of measures for socio-political and economic reform - in other words upon a restructuring of the “institutional environment”.