Experts Review

The definition of "Privatization" is, simply, the transfer of a company or organization from government to private ownership and control. But of course in practice it's rarely simple, and the complicated process often results in charges of incompetence or misjudgment, accusations of corrupt insider trading, and multiple other challenges.

Our Expert Review feature for this issue focuses on Privatization across CEE. In those jurisdictions where privatization is not a current concern our experts turn to the subject of PPP instead, as it involves many similar issues and opportunities.

The articles are presented in this issue in the order of the countries' military and paramilitary personnel per thousand people, as of 2009. Thus the article from Belarus, which had the highest number of military and paramilitary personnel per thousand people that year out of the countries included (49) comes first, with Greece (42.7) coming second, and Serbia (29.3) coming third. Macedonia's numbers for 2009 were not available, so its article comes last – just after that of the Czech Republic, which had the fewest people per thousand (2.8) in the military or paramilitary service of those listed and participating.

Belarus

Privatization in Belarus: A faint wind of change

Belarus is one of those countries where a good part of key industrial assets still belongs to the state. Changes in regulations on privatization introduced within past two years were aimed at making the procedures more flexible and investor-friendly. What are the outcomes?

Nowadays an interested investor may choose one of the following ways to acquire a stake in a state-owned enterprise.

First, the investor can become a shareholder in an enterprise in the process of being transformed into a joint-stock company. Transformation is required as the legal form of state-owned companies is a unitary enterprise (a rudimentary form from Soviet times) which has no shares to be traded. A prospective investor should wait for contests to be organized by the State Property Committee. From time to time the Committee publishes announcements about certain major enterprises on its official website (www.gki.gov.by).

Mass transformation of state enterprises has been under way for several years now in accordance with three-year plans approved by the Belarusian President. The current plan for 2014-2016 will most likely include around 40 unitary enterprises.

Second, an investor can participate in a privatization contest or auction at which state-owned shares are offered. The procedures for acquiring shares through contest and auction are very similar. The difference is that in an auction the only criteria for determining the winner is the acquisition price, while in a contest the conditions include certain additional investment commitments to be undertaken by the acquirer.

Third, investors can acquire additionally-issued shares of transformed enterprises, injecting capital in the company and diluting the state as a shareholder. Quite a few potential acquirers are interested in this option as it implies investment straight into the enterprise rather than transferring the purchase price to the Belarus state budget. One should bear in mind, however, that in this case local municipal authorities may have a pre-emptive right to buy additionally-issued shares.

In early 2012 President Lukashenko cancelled ineffective privatization plans and declared a new privatization strategy which may be summarized as follows: if we have an enterprise and an investor is interested, the deal must be negotiated and closed if the state finds it beneficial. The new concept caused some confusion among the authorities involved, as well as investors and advisors, so that for about a year and a half no deals took place.

Finally, the legal framework was adjusted, the State Property Committee started to publish lists of potential targets, and the new algorithm to be used by potential investors may now be briefly described as follows:

A prospective acquirer may either find a privatization target on the list published by the State Property Committee or pick a target of its own accord and send an expression of interest to the government, the template for which is available on the State Property Committee website. Additionally, the Committee itself sometimes announces a "study of interest" in a particular enterprise. In these cases, the Committee posts information on the privatization target and sets a deadline for sending expressions of interest.

Upon receiving an expression of interest a special commission within the Committee considers it and sends a draft decision on privatization to the President of Belarus. Upon approval by the President, a privatization contest or auction should be announced. Therefore, by expressing interest, the investor initiates the procedure for selecting the best buyer of the shares, and later finds itself bidding along with other prospective investors. Announcements on contests and auctions are also published in the printed media and on the State Property Committee website.

One should note that there is no specific timeframe for this procedure. Naturally, this causes considerable uncertainty since an investor cannot know for sure when exactly the target will be available for privatization. This in turn may lead to fading of previously expressed interest.

Unlike other economies in the region in their time, Belarus is not likely to commence mass privatization, at least in the near future. However, we may see some transactions completed even in 2014. The year has already marked its first transaction: the sale of 99.5% shares in BELGIPS to Russia's Volma Corporation. The largest transactions expected to be signed soon are the sale of Mozyr Oil Refinery shares to Russia's Rosneft and sale of a stake in Grodno-Azot, a large fertilizer producer, the contest for which was announced recently. In addition, in summer 2014 we expect several contests to take place within the framework of the "pilot privatization" program administered by the National Agency of Investment and Privatization under the auspices of the World Bank, covering eight companies from various sectors (e.g., food & drink, road construction, production of medical devices).

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Greece

Greek banks: From private ownership to public and back in less than … 14 months!

Greek banks have successfully attracted substantial private investment and diluted public ownership, only a few months after their recapitalization and ensuing de facto nationalization.

Although historically conservative and well-capitalized, the aftermath of the Lehman crisis and the ensuing Greek sovereign debt crisis took its toll on Greek banks: (a) depositors feared a potential exit from the Eurozone (Grexit) and the possibility of bank insolvency and about one third of deposits were withdrawn from Greece, thereby draining the Greek banking system's liquidity; (b) non-performing loans (NPLs) and related provisioning needs spiked; (c) deterioration of Greece's sovereign creditworthiness led to a deterioration of banks' creditworthiness and capital markets borrowing closed; (d) the Balkans and other countries where Greek