

Out of the wilderness

WHILE MANY OF ITS FORMER SOVIET PEERS WERE EMBRACING PRIVATISATION PROGRAMMES, BELARUS SHIED AWAY FROM SUCH ACTIVITY. HOWEVER, THE GOVERNMENT HAS RECENTLY ANNOUNCED THAT IT WILL BE CONDUCTING TENDERS FOR MANY OF ITS STATE-OWNED COMPANIES, AND WHILE FOREIGN COMPANIES FACE A FEW OBSTACLES SHOULD THEY WANT TO GET INVOLVED, FIRST-MOVER ADVANTAGES MIGHT BE WORTH CONSIDERING. MICHAL KACZMARSKI REPORTS

Belarus has been shy when it comes to privatising its companies. The business structure it inherited from Soviet times can still clearly be seen in a country with 80% of all companies belonging to the state.

However, this situation is about to change. The Belarusian Council of Ministers announced in March 2011 a list of 244 state-owned enterprises to be privatised before the end of 2013, while an additional 134 are to be transformed into joint stock companies by 2013. The whole privatisation process is overseen by State Property Committee (SPC), though the National Agency of Investment and Privatisation (NAIP), which is an agency of the Belarusian Ministry of Economy, will oversee eight of the

tenders. The companies open for tender or auction span a variety of business activities, ranging from manufacturing and construction to transportation.

Such an extensive and ambitious programme of privatisation is borne out of a combination of necessity and learning from its neighbours. One of the key motivations behind the programme is the need to kick-start the recovery of Belarusian foreign exchange reserves, which were heavily distressed by the crisis. Loosening the state grip on a number of enterprises is also one of the conditions of the external loans recently granted to Belarus from the Eurasian Economic Community, which stated directly that the loan from its anti-crisis fund was granted

under the premise that Belarus must privatise \$7.5bn-worth of assets.

Advantage Belarus

“Competition in Belarus is still limited and therefore margins on investments [in the country] can be attractive. Many opportunities can arise simply from improving organisational efficiency or increasing marketing efforts,” says Viktorija Trimbel, managing partner at advisory boutique Quantum Capital. Ms Trimbel, who for the past six years has been advising businesses looking to invest in Belarus for the first time, says that for local authorities, privatisation has become something more than just a necessary evil used to raise revenues. “Advantages as perceived by locals are: bringing busi-

PRIVATISATION OF BELARUSIAN COMPANIES OVERSEEN BY NAIP

COMPANY NAME	ACTIVITY	VALUE OF NET ASSETS IN 2010	SALES REVENUES IN 2010	EMPLOYEE FIGURES
Construction				
Belsantekhmontazh-2	Construction, installation and repair work of sanitary, gas and ventilating systems	\$2.5m	\$9.7m	1902
Avtomagistral	Maintenance and construction of roads, airfields and sport venues	\$8.1m	\$8.2m	929
Construction and Mounting Trust No 8	Building services for gas supply devices	\$5.8m	\$9.4m	625
Belgazstroy	Construction and setting	\$0.28m	\$7.8m	807
Food industry				
Konfa	Production of confectionery	\$0.35m	\$2.8m	384
Minsk Margarine Plant	Margarine and mayonnaise production	\$5.1m	\$9.7m	459
Plastics				
Medplast	Production of plastic medical instruments	\$5.6m	\$2.7m	271

Source: www.economy.gov.by



Government House: the Belarusian government is to privatise a large amount of state-owned enterprises; the tenders are to be overseen by the State Property Committee and National Agency of Investment and Privatisation

ness know-how, providing access to export markets and the replacement of imports with locally produced goods, which is expected to have a positive effect on the current account deficit," she says.

A reason for this attitude, and something that investors should be aware of, is that most of the companies up for privatisation in Belarus have been making a loss. "Many local companies offered for privatisation might have non-core businesses or carry post-privatisation commitments, such as an obligation to retain jobs, that make [their] business case less attractive," warns Ms Trimbel.

Short notice

Apart from the structural issues, investors should also be aware that any information about privatisation tenders tends to be published at a very short notice, and often information about the company in question is scarce. "Public notification about the tender comes five to six weeks before and bids are to be submitted about two weeks before the tender. That gives too little time to get in touch with the target, conduct due diligence and make informed decision about the purchase," says Maksim Salahub, an office

managing partner at law practice Sorainen Belarus. Mr Salahub, who has been involved with many public procurement and privatisation tenders, says that some of them were unsuccessful because of the insufficient information regarding the target and short timeline.

However, Mr Salahub stresses that entering the Belarusian market is not as complicated as it is commonly perceived. "It takes one week to register a company with foreign capital, accounts are opened freely and the number of licences is permanently decreasing," he says.

Signs of change

Though the privatisation situation in Belarus still lags behind that of many of its former Soviet-bloc counterparts, things are improving. As KPMG's recent 'Investment in Belarus' report notes, the new revision of the country's law on privatisation, which came into being at the beginning of 2011, allows foreigners to be directly involved in the privatisation process, while the rules for setting the initial process of privatisation have been relaxed.

In addition to this, NAIP, while conducting its pilot privatisation process, is co-operating with the World Bank over its plans to hire

international financial advisers. Agency officials are also keen to stress that the winning bids will not simply be the highest ones, but the those that will make a sustainable contribution to the local economy. Significantly, NAIP will publish information about the tender long before it is conducted.

However, it is SPC that carries out the vast majority of the tenders, and it is here that a lack of transparency can be an obstacle for the foreign investors. Mr Salahub offers a solution to this. "We recommend that our clients seek attractive targets on the list of yearly privatisation plans, and approach the target even before it is officially put up for sale, thus winning time," he says, adding that such a "pre-emptive strike" can be used in order to obtain more detailed information about a company's financial performance and technical capability.

Conducting due diligence of Belarusian companies may at times resemble something of a scavenger hunt, but local authorities are no longer as shy as they once were when it comes to privatisation. It just remains to be seen whether in times of such sluggish economic growth, will they find enough investors to justify this new-found passion for private companies. ■