PRIVATISATIONS: A YEAR AFTER THE NEW START WE ARE MOVING IN CIRCLES

No privatization culture and lack of leadership

By July 2011 the PASOK government was already 18 months in power and yet it had failed to start any consistent privatization process. This has been admitted by the then Minister of Finance Mr. Papakonstantinou as one of the main failures of his tenure. It was no accident. He lacked (a) management capabilities for such a complex exercise and (b) the political weight to persuade his colleagues and the prime minister for the necessity to privatize the old client base of the PASOK party. After all he had taken part, when in opposition, to raids in public corporations assisting union leaders in their efforts to undermine any opening up and liberalization of sectors. An amateurish approach has led him to announce a target for 50 billion euro of privatisations until 2015 without the proper preparation. He was probably certain that he will not be around when the program was scheduled to be implemented.

Hellenic Republic Asset Development Fund: a second best solution

Political failure has led Troika to insist on creating a new agency independent from the government which will undertake the management of the privatisation process. They thought that such an initiative will improve both the technocratic management of privatisations and also depoliticize the process. They were wrong.

First, in Greece new institutions building is a tedious process and requires time effort and above all the right persons in order to be effective. HRADF took time to get off the ground and lacked the resources to properly plan privatisations, initiate a strategic review of the process and decide on a market friendly approach. The appointed top management of HRADF has failed to listen to investment bankers and other market participants.

Second, the government was relieved to offload to another agency the responsibility and privatization stopped to be a top priority for the Ministry of Finance. The Minister of Finance was reluctant to resolve for several months the friction between the HRADF executives and the Privatisation secretariat regarding priorities and responsibilities. Legal impediments in important privatisations remained unaddressed for over a year as lack of coordination was evident in all departments. Progress in preparing assets for privatisation was slow and uneven.

Third, de-politicization of the process failed. The Minister of Finance appointed in the board of directors of HRADF representatives of the three parties supporting later the Papadimos government giving the wrong signal and directly connecting HRADF with the political parties and their tactical games. The chairman of the board of directors was a labour law professor with no prior experience of privatisations and he proved to be a reluctant reformer.

Continuous slippage in targets

The initial target for 50 billion euro of privatizations was feasible over a longer term horizon and with a more effective political and technocratic management of the process. The preliminary discussions on this huge program took place at the beginning of 2011 and the target of 50 billion revenues from privatisations was announced on the 11th of February 2011. However, the required preparation was minimal in the next two quarters and the establishment of HRADF was announced in late July 2011. Critical time has been lost, credibility has further declined and market sentiment deteriorated. The Greek government and Troika continuously revised downwards the targets and following two elections and the dysfunction of HRADF a new revision is expected during current discussions.

CUMULATIVE EXPECTED PRIVATISATION REVENUES[1]

	INITIAL PLAN JULY 2011	REVISED PLAN FEBRUARY 2012	DEVIATION FROM INITIAL PLAN
END 2011	5000	1700	-66%
END 2012	15000	4500	-70%
END 2013	22000	7500	-66%
END 2014	35000	12200	-65%
END 2015	50000	15000	-70%

The size of deviations in the space of nine months is indicative of both poor planning and inefficient implementation.

The main problems to address

The new government has to restart the process with more determination better planning and effective political and technocratic management.

The country risk remains the key obstacle which is exacerbated by the anti-privatization rhetoric of the opposition.

[1] The Data have been taken from IMF staff reviews (December 2011 and March 2012).

Financing of the deals is also hindering major privatisations. The delay in domestic banks recapitalization and the continuing worldwide deleveraging have limited access to finance for prospective investors.

Poor preparation of major privatisations has also affected the outcome as major issues remain unresolved. Public corporations and public goods markets where these corporations are active require a lot of restructuring which invariably involves, ownership protection, debt restructuring, licensing issues and regulatory framework[2].

The time for a professional review of the program has come. The Ministry of Finance should appoint a consortium of advisors comprising of an investment banker and a management consultant to assess existing assets, evaluate the process and taking into consideration the economic environment propose viable and acceptable solutions for each category of assets.

The work of HRADF should be complemented with the appointment of a special deputy minister at the Ministry of Finance which will undertake the coordination of all growth related reforms and especially privatization assisting HRADF with all legislative initiatives and political management. Under the deputy minister one secretariat should be formed through the merger of the existing special secreteriats of state property and public corporations. The government should also clarify the issue of which department will be responsible for the long term monitoring of contracts with investors as HRADF's life by law is limited to six years.

The new government has shown considerable determination to restart the privatization process but it has a difficult road ahead. It has to start with modest but consistent steps, clarify the framework resolve the outstanding legal issues and employ all the available instruments that will help by-pass some of the difficulties that the macroeconomic environment has created for privatisations. The appointment of a highly respected team at HRADF is the first step in the right direction[3].

S. Travlos 25/7/2012

[2] The outgoing chief executive of HRADF has notified the new government that there are 77 impediments delaying privatisations that require new legislation. At least 44 should have been enacted before June 2012 by the previous government. It remains an open question as to why he raised the alarm now.

[3] Mr Athanasopoulos a reform minded manager with a successful career in the private sector was appointed chairman of the board while Mr Emiris head of investment banking in Alpha Bank was selected as chief executive. Both are well placed to revive the privatization process.