STATE PROPERTY MANAGEMENT STRATEGY IN THE REPUBLIC OF BELARUS

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"Paper presented at the 8th European Real Estate Society Conference – ERES Alicante, 2001", in
Alicante, 27-29, June, 2001

There are about 5,500 enterprises, shares in 1,000 joint-stock companies (with state-owned block of
shares constituting more than 25% in 830 companies), sizable areas in non-residential fund on the
state property list. Until recently the objectives of management for a particular property unit were not
defined by the state. In August 2000, the Council of Ministers of the Republic of Belarus, by its
Decree, approved the Concept of State Property Management for the period 2001-2005.

The Concept has been elaborated with the purpose to increase efficiency of state property use on the
systematic approach basis. Measures stipulated by the Concept are not only to regulate exercising
powers of proprietor by the state. Their implementation will make it possible to improve state
property reforming system and create a favourable investment climate.

One of the major tasks is to optimize the number of state enterprises. Branch ministries together with
the Ministry of Economy should define the enterprises to be left state-owned and those to change their
status. In these case branch management schemes are to be worked out and the state will own only
those enterprises whose functions cannot be performed by enterprises of any other organizational
legal form.

It is important to define management strategy for joint-stock companies which have been formed as a
result of denationalization and privatization. The functions of state realized through participation in
the capital of economic units will be optimized, vertically-integrated structures (holding companies,
financial and industrial groups, etc.) will be formed, state-held shares will be sold in an effort to
determine an effective proprietor and replenish the budget revenue. It is suggested that all possible
forms of management should be widely used including transfer of shares to trust management by
heads of unions and specialized companies having appropriate experience and qualified staff. The
criterion of assessment of the state property management efficiency is the attainment of the goal of
management with maximum resource saving.

Privatization is considered to be a component part of the process of formation of effective system of
state property management. It is obvious that the state is not in a position to regulate enormous
amount of property it owns. The Concept formulates the following tasks connected with the
transformation of state property. During 2001-2002, no less than 75% of unitary enterprises with
workforce up to 200 will be denationalized and privatized. Till 2005 the reforming of state-owned
unitary enterprises employing up to 500 people is supposed to be finalized.

The preferential method of privatization of small enterprises is to sell them by auctions or on the basis
of tender. In case large-scale enterprises of the republican ownership, “point” privatization by means
of selling shares on the investment project basis predominates.

To improve legal base of privatization the Ministry for Management of State Property and
Privatization has elaborated a new version of the Law on Denationalization and Privatization of the
State Property in the Republic of Belarus that stipulates the diversification of methods of
privatization. But as of now various flexible approaches to transformation of state enterprises are
employed. Thus, while selling a state property unit by an auction its starting price may be not only increased but also decreased 5 times, subject to the relation of supply and demand. Enterprises with a starting price equal to one minimum wage can be sold by auctions and tenders. In this case a buyer is to discharge debts of the enterprise. Equity market is being progressively developed. State-owned shares of 50 joint-stock companies are placed at the Belarusian Stock Exchange. Auctions and tenders for selling shares for foreign currency and for “Property” vouchers are regularly held. Selling shares of state enterprises contributes to expansion of integration and attraction of investments both at the stage of reformation and in the process of future functioning of new economy entities. It should be noted that in accordance with the current legislation, foreign investors have equal rights with Belarusian legal entities and individuals.

There are four main ways to attract investments:

1. At the stage of denationalization and privatization of a particular enterprise, investors, including foreign ones, can participate in setting up of an open joint-stock company by cash or in-kind investment to the ownership capital. An investor is given an ownership stake equal to the sum contributed. The assets contributed are direct investments in society.

2. A foreign investor can buy state-owned shares through tenders. The main terms of a tender are investments in modernization of production, mastering of new types of products, and development of sale markets.

3. An investor can buy shares of additional issue of open joint-stock companies in which the state as a shareholder owns a considerable block of shares. Additional shares are issued against a specific investment project. Secondary and subsequent issue of shares is possible until all state-owned shares of the first issue are sold. The state deliberately reduces its block of shares in the ownership capital of joint-stock companies with the aim to create more favourable conditions for development of society.

4. Foreign legal entities and individuals may participate in the establishment of joint and foreign ventures on the territory of the Republic. They can be established on the basis of state property bought out by auction (or tender) or transferred to the ownership capital by the state.

Joint ventures with a share of the foreign investor in the ownership capital in excess of 30% are granted the following privileges:

- Non-licensed export of its own output
- Non-licensed import of products for use in its own economic activity
- Exemption from the tax on profits for the period of three years
- Exemption from50% tax on profits for an additional period of three years if the products manufactured by an enterprise are especially important for the Republic of Belarus (the list of products is defined).

Moreover, foreign investors are guaranteed free transfer abroad of sums due to them. In case the legislation becomes later on less favourable for investors, the legislation effective on the date of registration will be applied for the period of five years.

Thus, legal foundation for transformation of state enterprises and mutually beneficial investment has been laid down in the Republic.