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**Article**

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# ANALYSIS OF THE PRIVATIZATION PROCESS IN POLAND IN THE YEARS 2008-2011 – OUTCOMES AND PROSPECTS<sup>†</sup>

WIKTOR PATENA\*

## Abstract

The paper focuses on the analysis of the privatization process conducted in the years 2008-2011 with an attempt to show abroad picture of privatization in Poland, indicate resources that still exist although hidden and show government practices in making privatization more effective or, on the contrary, in carrying out quasi-privatization practices. Three main issues are discussed. First, the privatization process that took place in 2008-2011 seems to be to some extent only sham privatization - many of the companies were simply communalized, or transferred to other state-controlled companies and various government agencies. Thus, contrary to opinions expressed by the government officials, the privatization process is far from being terminated. A new approach used by the Ministry of Treasury is to create special purpose vehicles in order to sell the state-controlled assets more effectively. It turns out that 76% of privatized enterprises in the years 2008-2011 were sold via tender or auction mechanism - the rest can be considered sham privatization. Huge resources are still to be privatized - the companies have to be identified and should report to one government agency. The novelty is the government's approach to privatization which involves packing assets into one market attractive entity. The hypothesis verification is preceded with analysis of privatization in Poland in the years 1989-2007, its relations with politics and the economic situation.

**JEL Classification:** G38, H27, L33

**Keywords:** privatization revenues, company performance, state-owned enterprises

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## INTRODUCTION

The privatization has, without doubt, been one of the important factors that have contributed to the economic success of Poland in the past 25 years. What is more, due to the privatization model that was originally accepted, it was from the very beginning seen as a sine qua non condition of successful transition.

There are two extreme models (Czekaj, 2005) of transformational privatization: a market effective model and a social-enfranchisement model. The first (implemented in Poland) focuses on restructuring and improving performance of a company. Formally, the ownership changes are then made with the use of transparent, market-based procedures: mostly auctions and tenders. Another classification of

privatization methods is as follows: case by case privatization and mass privatization programs. Contrary to e.g. the Czech strategy (based on voucher privatization), the Polish government relied on sales and PIPOs (Ausseng, 2002). The choice of method significantly affected the outcomes and capital market development. However, despite the attempts to adhere to this privatization model, the process was dependent on current politics and many other factors that temporarily caused deviations from the main idea.

The program of industry reform, including privatization, was a political decision of the first Polish government after the fall of communism in 1989. The background of the decision was the conviction

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that state-owned enterprises (SOEs) are sustainably ineffective, they do not function well, it is impossible to make them function well, and finally it is virtually impossible to create a rational and effective system of government supervision over an SOE. Hence, it was taken for granted that privatization is to positively affect the economic performance of privatized companies and improve the entire economy. Apart from this, privatization and ownership changes were seen as an indispensable part of other reforms: liberalization and introduction of competition. Other premises behind the privatization process included:

- 1) expected post-privatization gains: increased tax revenues from more efficient companies and lower prices (Davies 2005),
- 2) ending of the state monopoly and fostering competition as an important driver of economic benefits leading to improved capacity, higher output and greater labor productivity,
- 3) increased privatization revenues,
- 4) efficient allocation of resources,
- 5) encouragement of foreign investment,
- 6) loss of government responsibility for capital intensive industries which allows the government to insulate itself from some unpopular decision (e.g. petrol or energy price hike),
- 7) the need to increase discipline in public finance,
- 8) a redefined notion of strategic industries - there was no need to keep a monopoly in e.g. telecommunication services,
- 9) an attempt to depoliticize the links between enterprise and the state.

However, privatization was to be implemented cautiously, since as Djankov noticed (Djankov, 2002) when conducted properly, it may bring extremely positive results, but it can also be disastrous for the economy (Brown, 2009). In Poland, it started during the period of „extraordinary politics” in the years 1989-92. Privatization of small companies was very rapid, and almost complete by 1992 with 82% of such companies being privatized. The political reason behind the quick process was to create a large group of people (private owners) with commitment to the free market economy, who would never let the reforms be reversed. Medium and large sized firms were still a problem. At that time, the economy went into recession, unemployment soared. The Polish government introduced a new privatization scheme called the Mass Privatization Program. The

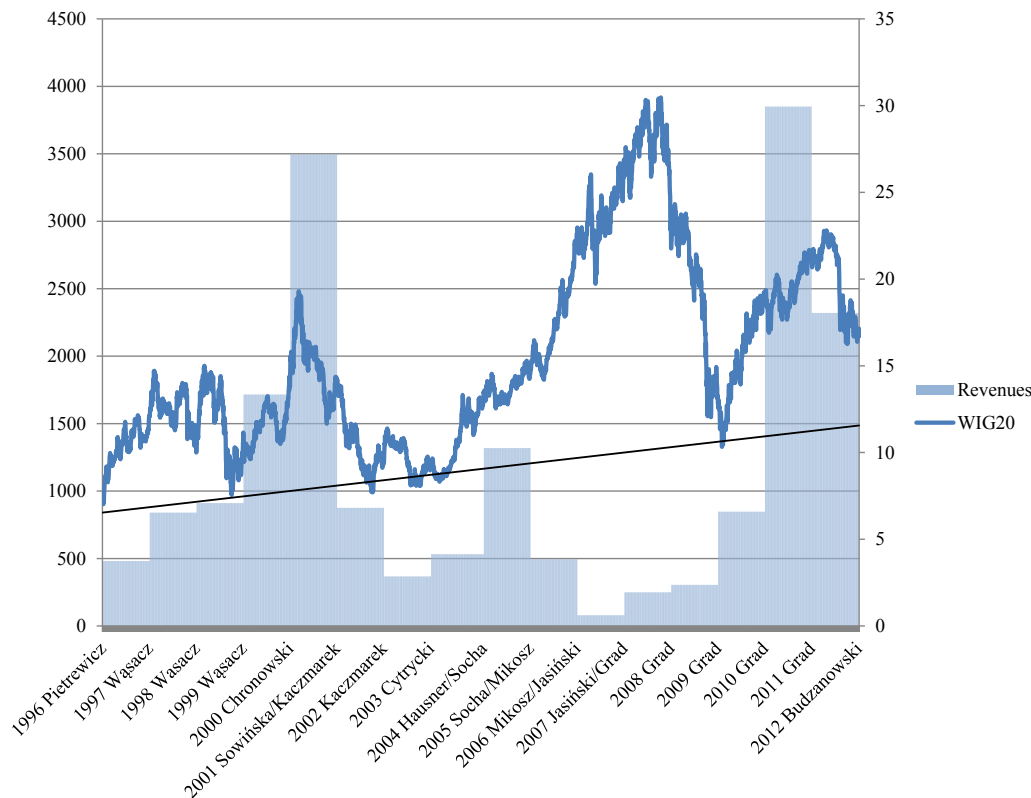
idea was that 512 firms were converted to joint stock companies and allocated to 15 National Investment Funds. Each citizen of Poland was offered a voucher giving its holder a share in an NIF. The program was a failure. Since then privatization has slowed down. It was not revived until the late 1990s and then early 2010s.

It is tempting to see how the revenues from the privatization process corresponds with politics. First, let us check how the privatization plan was executed. Up to the year 2000, the plan was successfully implemented (with a few exceptions in the early 1990s for which the early stage of privatization can be blamed) - revenues from privatization reached 150% of the plan on average. The situation changed radically in the years 2001-2003, when the leftish party (Democratic Left Alliance) was in power (W. Kaczmarek was the Minister of State Treasury). The plan was fully implemented again in 2004, when J. Hausner was the Minister (the government was still leftish but the Minister was known for his liberal views). The revenues from privatization were disastrously low in the years 2005-2007 (11.3% of the plan in 2006), after the Law and Justice Party won the parliamentary elections in 2005 (Ministers A. Mikosz and W. Jasiński). Then Ministers: A. Grad, K. Budzanowski, and W. Karpiński followed after the success of the Civic Platform party in 2007 and the revenues were back close to the plan. Revenues were constantly growing from the very beginning up to the year 2000, then started to grow again in 2007 (reaching the peak in 2010). One can see clearly that the revenues were highly dependent on the political parties that were in power at different points in time, and their views on privatization. One aspect of the analysis of revenues from privatization is especially important. Despite their political views on privatization (whether and to what extent it should be continued) some Ministers (representing their parties) fully used the economic opportunities (booming markets) for increasing revenues from privatizations, and others squandered the chance the market offered. For example, in the years 2003-2007 the stock markets were extremely bullish but there was no political will (2004 was an exception) to generate revenues from privatization. In the years 2007-2009 the markets were bearish (financial crises) which made it very difficult to achieve the privatization plan. Then the markets recovered and privatization was continued according to the plan.

As it has been pointed out many times, the overall conclusion is that privatization has proven its worth,

although in many cases it could have been better managed (Nellis, 2000).

Table 1: Revenues from privatization, politics and economic situation



Source: Based on the Ministry of Treasury annual reports

This paper focuses on the analysis of the privatization process conducted in the years 2008-2011; it undertakes an attempt to show a broad picture of privatization in Poland; indicate resources that still exist although hidden and show government practices of carrying out quasi-privatization practices. It is not meant to assess the effectiveness of the privatization process.

Three observations are posed:

- 1) contrary to opinions expressed by the government officials, the privatization process is not about to end. The State Treasury (or some Ministries and government agencies) still owns assets, including companies, worth over 100 billion PLN, most of which should be privatized.
- 2) the privatization process that took place in 2008-2011 was clearly a sham privatization. Few companies were sold via tender or auction mechanism, many were taken over by another SOE or state-controlled companies, communalized, or transferred to various government agencies.

- 3) the new privatization strategy used by the Ministry of Treasury is to create special purpose vehicles (SPV) in order to sell the state-controlled assets more effectively.

This paper, through the analysis of outcomes of privatization, attempts to reveal the plan behind privatization. The privatization process outlined in official government documents (Plan ... 2009) was to reach two main goals: restructuring of the Polish economy and improving competitiveness of companies. The main criterion when choosing companies for privatization was reducing the role of the State in the industries where exercising corporate governance by institutions of public administration is not necessary. Earlier, a level of 10-20% as an optimal share of the public sector in the economy (standard for EU countries) was meant to be achieved by 2006. Technically speaking, in the period 2008-2011 the Minister of the Treasury planned to dispose of 740 enterprises (out of 1234 companies, 350 of which are

in liquidation). The outcome of the implementation were 582 privatized companies. Now, one may get the impression that the privatization process progresses, especially when one looks at the official number of privatized companies and proceeds from privatization to the budget. However, due to the sham privatization (transfer of property rights between state agencies) and hiding of state-owned assets (excluding them from the Ministry of The Treasury authority) the picture concerning privatization the public receives is blurred. State-owned assets grow instead of being diminished, which contradicts the main idea of the program of industry reform, introduced by the first Polish government after the fall of communism in 1989.

This paper is organized into five sections. In the introduction the main concepts of privatization in Poland and the difficulties of reform process are discussed, then observations are posed. Then the literature on the topic is presented. The 2008-2011 privatization plan is confronted with its implementation in Chapter 3. In Chapter 4 the main observations are presented. Chapter 5 concludes with the findings of the paper.

## LITERATURE REVIEW

Privatization has been the subject of many studies and research papers. The amount of research intensified at the time of political changes taking place in Eastern Europe. In many papers analyzing privatization processes in transition countries, Poland was the first country the analyses were begun with (Nellis, 2000). The very first publication relied upon by many authors was a document presented by Belka (Belka et al., 1994) at The World Bank Forum. Polish authors investigating privatization process were (apart from the previously mentioned Belka), Błaszczuk (1995; 1999; 2003; 2007), Antczak (2007), Bałtowski (2007), Jarosz (2000), Kristof (2009; 2008) and Kozarzewski (2014). Moreover, the Ministry of Treasury successively publishes documents regarding privatization directions and commissions evaluations of the privatization process. This paper reviews the most recent papers - research published in the 21st century that are comprehensive evaluations of ownership transformations in Poland. A brief examination of their main findings is presented below. Błaszczuk (2007) presented an overview of ownership transformations in Poland - through 2006, 87.5% of initial privatization potential was

transformed (that is 5747 out of 8453 companies). Despite changes in ownership structures the role of the public sector in the economy was still significant. The pace of privatization was criticized as it was slower than initially assumed. Kristof (2009) devoted her publication to ownership transitions in Poland between 2003 and 2006. The analysis began with rating assets in 1775 companies with some Treasury shareholding. The author analyzed efficiency of the state-controlled (over 50% ownership) companies in the years 2004-2006 according to data gathered by the Census Office in Poland. Through the end of 2006, 354 of the enterprises were privatized; most of them showed higher profitability than in the previous year. Salejko (2012) analyzed obstacles to the privatization process. She described bureaucracy, lack of capital, regulatory issues, and psychological barriers. Kozarzewski (2014) presented a very comprehensive analysis of ownership changes in the Polish economy. The most interesting chapter dealt with effects and consequences of the ownership change. Kozarzewski divided the goals of ownership changes into 3 categories: main goals (macro and microeconomic), additional goals (fiscal, social, political) and hidden goals. He claimed that the systemic goal was not reached - the public sector still stipulates about 20% of GDP. When it comes to the microeconomic goal, he commented that the private sector boasted better financial results than the public sector. The comments, however, were supported only by aggregate ratios based on Census Office reports. In terms of reaching fiscal goals, he stated that revenues from privatization, with the exception of a few years, were small and negligible from a point of view of supporting the government's financial needs. On the other hand, the growth of the capital market, including the Warsaw stock exchange, was mostly due to privatizing state-owned companies. Finally, political goals were not achieved either - Polish society does not have the feeling that they have benefited from the privatization process. Privatization definitely did not become a factor in fostering citizens' support for market reforms. And last but not least, in Poland, contrary to other post-socialist countries, there have been no influential groups who have benefited from the privatization process itself. It is one of the significant successes of ownership changes in Poland. With the exception of Salejko (2012) and Kozarzewski (2014), there are almost no scientific publications regarding the 2008-2011 period except for in the media and the

Ministry of Treasury reports. The Ministry's reports present a comparison between the privatization plan and its implementation in particular years in relation to the number of privatized enterprises and revenues generated by the privatization process.

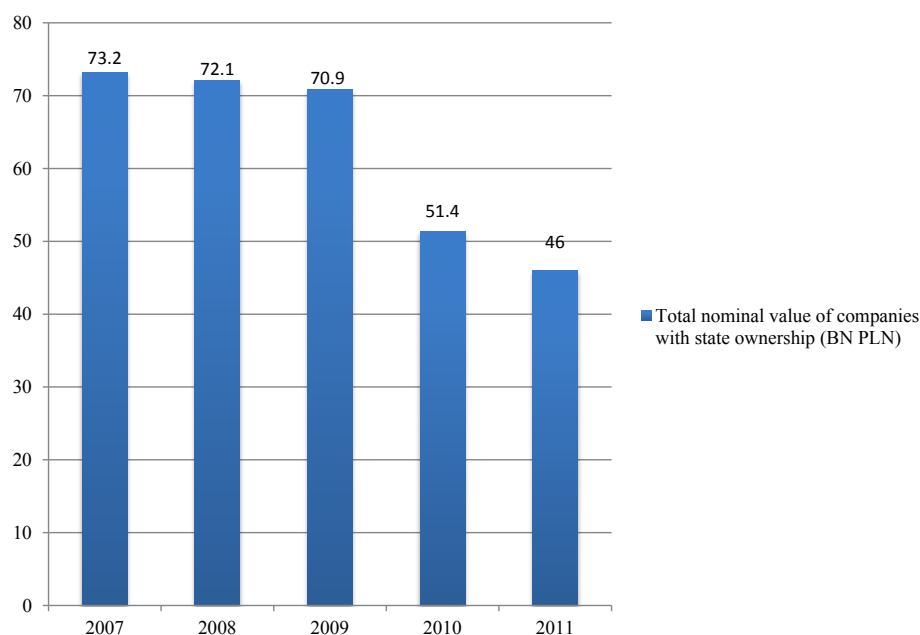
### PRIVATIZATION PLAN FOR 2008-2011 VERSUS IMPLEMENTATION

The privatization plan for 2008-2011 published on April 22, 2008 was mentioned in D. Tusk's (Polish Prime Minister) expose dated November 23, 2007. The Prime Minister expressed his support for ownership transformations in Poland thus: "There is no better protection against politicians interfering in the management of companies, than a real increase in the competitiveness of Polish companies and the Polish economy, this is achievable by wise, fast and dynamic privatization" (Tusk, 2007). The political aim was to facilitate the privatization process by increasing its transparency, simplification of procedures and

shortening the duration of the privatization process. What is more, the new privatization policy assumed extension of the possibility of free transfer of shares held by the Treasury to local governments, aligning the remuneration of the Management Boards of the Treasury to market realities and a plan to sell company shares by public auctions.

Referring to an evaluation of the privatization process of state-owned property in a 2007 report published by the Ministry of Treasury, on December 31, 2007 the book value of state assets was 73.2 billion PLN. In accordance with the privatization plan the amount of state assets was intended to decrease. Indeed, in the period between the years 2008 and 2011 the value of state-owned property declined. The greatest difference occurred in the year 2010 when almost 1/3 of planned ownership transitions took place. Apart from political declarations that the privatization process comes to its end, the summary of state assets in the year 2011 still reveals the book value of 46 billion PLN with potential to be privatized.

Table 2: State-owned property in the years 2007-2011



Source: Based on the Ministry of Treasury annual reports

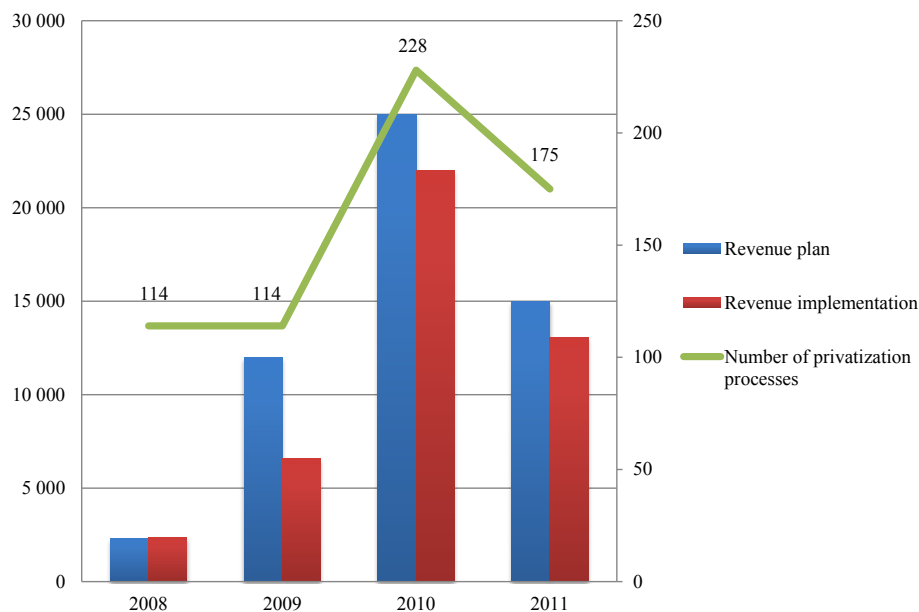
On March 31, 2008 the Minister of the Treasury could exercise the rights of shares in 1237 enterprises from various industries. This number included 350 companies in liquidation, close to bankruptcy or not active enterprises and 887 active firms. The

privatization plan mentioned 740 enterprises which were subject to privatization. The outcome of the plan implementation was 582 privatized companies, which is 78.64% of the plan. The privatization process embraced both small and medium-sized

enterprises. Nevertheless, some strategic companies were also (at least partially) privatized. An example of such companies were Telekomunikacja Polska, ENEA, PGE, Tauron, GPW and KGHM. The Polish government anticipated privatization revenue at the

level of 54 billion PLN. The global financial situation and some privatization problems dropped this to 44.02 billion PLN, which was 81% of the planned value. Specific data are discussed below.

Table 3: Revenues from privatization in 2008-2011

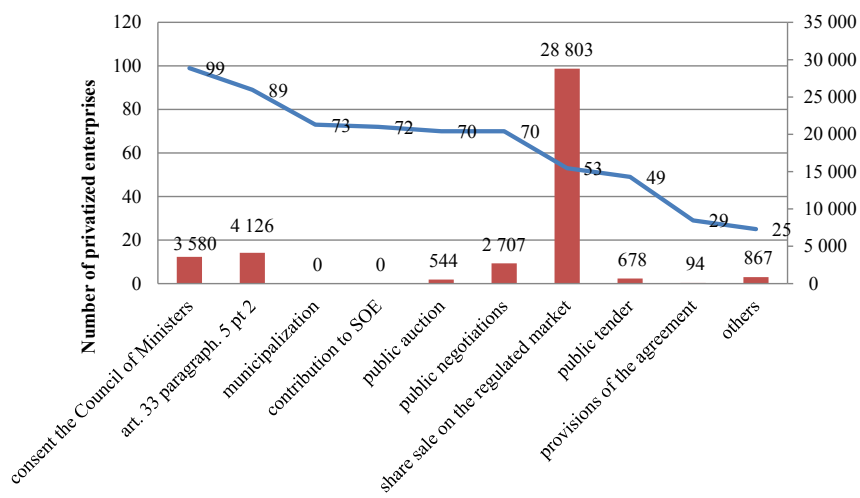


Source: Based on the Ministry of Treasury annual reports

In 2007 after political change in the governing party, the privatization process became one of the priorities. The acceleration of the privatization process was clearly visible. The number of privatized companies rose significantly - notably in 2010. With the increase in the number of privatized companies, revenues from privatization also rose. In 2008 the outcome from transitioned enterprises reached 103% of assumed revenue. Signs of the global financial crisis impacted privatization revenue in 2009. In that year only 55% of the expected outcome was executed. The following (2010) year brought the highest revenue in the analyzed period of time, which was 22 billion PLN and 88% of planned outcome. This result might have been determined by the number of transitioned companies, since nearly 1/3 of planned enterprises were privatized in that time. The result of the last year in the 2008-2011 plan was 87% completed. The privatization process in Poland in the years 2008-2011 was implemented by various privatization methods. The largest number of enterprises (99 which was 15.7% of all in the plan) were transformed on the

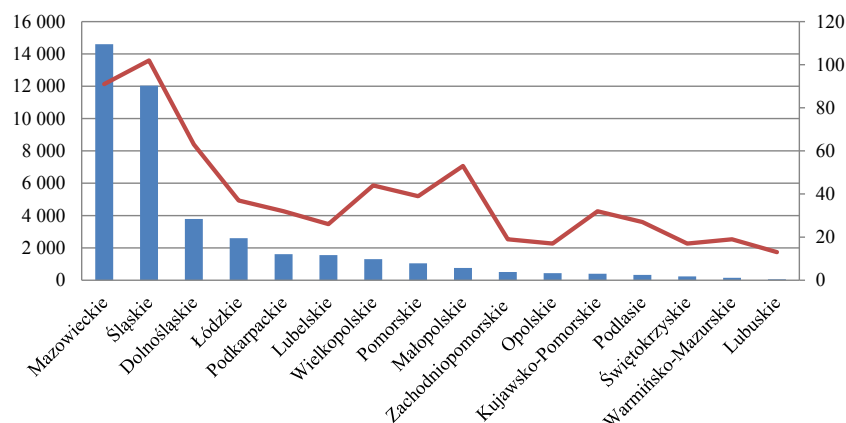
consent of the Council of Ministers. Revenue garnered by this transformation method were 3.58 billion PLN and 8.6% of the total sum. The method of privatization which provided the highest outcome (revenue-wise) was the sale of shares on the regulated market. By privatizing 53 companies the government gained 28.8 billion PLN which was 69.6% of total privatization revenue. The analysis of data reveals that the number of transformed enterprises did not impact revenues. The main determinant of the revenue was the method of privatization. What is more, the analysis disclosed that 152 enterprises, which was 1/4 of all in the plan, did not bring any revenue to the state budget as their privatization methods were mostly municipalization or contribution to another firm. Other privatization models engaged in ownership transformation in Poland were public auctions, negotiations, public tenders, privatization on the agreement and according to the Act on Commercialization and Privatization art. 33 par. 5 pt 2.

Table 4: Revenues (BN PLN) from various privatization methods versus number of companies (blue line)



Source: Based on the Ministry of Treasury data

Table 5: Privatization revenues (m PLN) by voivodeships and number of enterprises (red line)



Source: Based on the Ministry of Treasury data

The administrative division of Poland divides the country into 17 voivodeships. The biggest number of privatized firms 102 (16%) were located in Śląskie voivodeship and brought 12 billion PLN to the government budget. The highest privatization revenue was garnered from privatization of 91 companies located in Mazowieckie voivodeship.

It was an amount of 14.61 billion PLN which was 35.2% of the total revenue. Other provinces brought considerably lower privatization income. The lowest number of transformed enterprises was situated in Lubuskie voivodeship, also the lowest revenue was garnered from this location.

### RESEARCH ANALYSIS

Before any discussion concerning privatization is begun, one should realize what assets are in the possession of the state, which companies or assets

the State Treasury should and intends to control and which should be disposed of.



Table 6: The State Treasury possessions (31.12.2012)

No.	Components	Examples	Value (bn PLN)
1	National heritage	relics, museums, libraries, archives	
2	Natural resources	water, forest, minerals, national parks	
3	Land, real estate	34,9% of Poland's territory	363.00
4	Infrastructure facilities	roads	47.71
5	Assets supervised by separate entities	ANR, AMW, WAM, ARM, PGL-Lasy Państwowe	323.29
6	Public finance assets	ZUS, NFZ, PAN, NCBiR, NCN, ARiMR, PARP, universities, government and municipal agencies	
7	Stocks and shares	controlled by the Ministry of Treasury or other ministries	179.69
8	Others	ports, research institutes, BGK	

Source: Based on: *Sprawozdanie o stanie mienia SP 2012*

Table 7: Government entities that represent the State Treasury (31.12.2012)

No.	Entities that represent the state treasury	Number of companies
1	Ministry of Treasury	713
2	Ministry of Economy	19
3	Ministry of Administration	1
4	Ministry of Transport	4
5	Ministry of Finance	2
6	Ministry of Sport and Tourism	2
7	Ministry of Defense	14
8	ANR	45
9	PGL National Forest	22
10	WAM	4
11	AMW	6
12	Voivodes	2

Source: Based on: *Sprawozdanie o stanie mienia SP 2012*

Clearly, out of the list presented in table 6 (with very few exceptions) only stocks and shares can be a subject of further privatization process. The rights to represent the State Treasury in companies in which the State has shares belong to various government entities listed in table 7.

The State Treasury has shares in three types of enterprises: sole traders of the State Treasury, public companies listed on the stock exchange and non-public companies. Sole traders of the State Treasury are specific state-owned companies (whose number

diminishes) that have been commercialized but not yet privatized, and the State Treasury still owns 100% of the shares. Most of them are infrastructural companies (e.g. Gaz System S.A., PERN S.A. Poczta Polska S.A.), those implementing restructuring tables (ARP S.A.) and others with specific purposes (e.g. TVP S.A., Totalizator Sportowy, Kompania Węglowa S.A.). They are not listed on a stock exchange and the value given in Table 8 is a book value. Similarly, the value of shares in non-public companies is a book value.

Table 8: Estimated value of stocks and shares owned by the State Treasury 31.12.2012

No.	Components	Estimated value in bn PLN
1	Shares in sole traders of the State Treasury	51.84
2	Shares in companies listed on a stock exchange	108.37
3	Shares in non-public companies	19.48

Source: Based on: Sprawozdanie o stanie mienia SP 2012

The market value of the public companies on January 18, 2014 (as shown in Table 9) is 103 billion PLN, which means a slight drop as compared to the data from December 31, 2012 (103 billion versus 108 billion PLN). However, since some of the companies are said to belong to strategic sectors (which are to be controlled by the government), one can assume

an optimal ownership structure suggested in the very right column (after FOR Report -. Wojciechowski, 2010). It turns out then, that the State Treasury can keep control over strategic industries and still reach 61.82 billion PLN revenue from privatizing very liquid, stock exchange listed companies.

Table 9: Estimated value of stocks owned by the State Treasury (18.01.2014)

Name	the ST shares (%)	Number of shares	Market value (mln PLN)	Entity representing the state treasury	Optimal ST shares (%)	Optimal ST shares value
PHN	75.00%	32 538 003	882	ST	0%	882
PGNiG	72.40%	4 271 911 724	21 400	ST	20%	15 488
PGE	61.88%	1 157 124 546	19 200	ST	20%	12 994
JSW	55.16%	64 775 542	3 240	ST	0%	3 240
Lotos	53.18%	69 076 392	2 450	ST	20%	1 529
Enea	51.50%	227 385 698	3 010	ST	0%	3 010
PKP Cargo	51.70%	22 405 754	2 025	PKP SA	0%	2 025
Energa	51.52%	144 928 000	3 400	ST	0%	3 400
Ciech	38.72%	20 407 437	610	ST	0%	610
PZU	35.18%	30 385 253	13 000	ST	20%	5 609
GPW	34.99%	14 688 470	574	ST	0%	574
Grupa Azoty	33.00%	32 734 509	1 900	ST	20%	748
KGHM	31.79%	63 589 900	7 240	ST	20%	2 685
PKO BP	31.39%	392 406 277	15 800	ST	20%	5 733
Tauron	30.06%	526 883 897	2 220	ST	20%	743
PKN Orlen	27.52%	117 710 196	4 960	ST	20%	1 355
BOŚ	56.62%	12 951 960	577	NFOŚiGW	0%	577
RAFAMET	47.28%	2 042 214	31	ARP	0%	31
Polimex-Mostostal	22.48%	300 000 001	39	ARP	0%	39
Interferie	66.81%	9 731 625	46	KGHM SA	0%	46
AB SA	5.50%	891 802	28	PKO BP	0%	28
EC Będzin	14.88%	468 821	10	BGK i SP	0%	10
Bogdanka	9.76%	3 320 377	415	PZU	0%	415
Paged	8.37%	1 265 000	48	Lasy Państwowe	0%	48
<b>Total market value</b>			<b>103 106</b>			<b>61 821</b>
market value						

Source: Based on data from [www.stooq.pl](http://www.stooq.pl)

However, most of the companies (713), including the stock exchange listed companies, are under the supervision of the Ministry of Treasury. Other government entities (compare Table 8) control the rest, most of which could be sold, and thus contribute to higher revenues from privatization. The often considered examples of such companies are: defense sector companies, railroad companies, airports, companies and land controlled by AMW (6 companies) and ANR (45 companies) agencies. Their value is difficult to estimate - their book value (on December 31, 2012) is 34 billion PLN (Sprawozdanie 2012: p. 75). The market value must be much higher. Anyway, having assumed that the State Treasury:

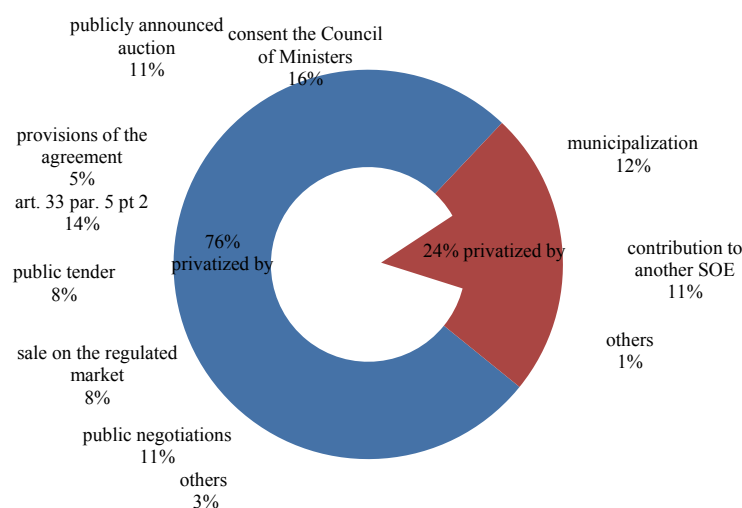
- 1) keeps control over strategic industries and sells 61.82 billion PLN worth of shares in stock exchange listed companies,
- 2) sells half of the companies supervised by other than the Minister of State Treasury entities (16.89 billion PLN of book value),
- 3) sells half of the non-public companies (9.74 billion PLN of book value).

Then, the expected revenues would amount to at least 88.45 billion PLN. Further, having assumed that the average revenue from privatization in the years 1993-2012 was 8.38 billion PLN, the 88.45 PLN

could enable the continuation of privatization at the previous pace for another 10 years. The presented numbers clearly show that the whole process is far from being terminated.

It is claimed here that the privatization process that took place in Poland in the years 2008-2011 was to some extent a sham privatization. The majority of companies were sold via tender or auction mechanism. Nevertheless, some were taken over by another SOE or state-controlled companies, communalized, or transferred to various government agencies. As the previous analysis disclosed, the privatization process involved privatization methods which did not generate any revenues to the government. Communalization, contribution to other SOE companies and transfer of assets or companies to various government agencies were examples of such methods. It is vital to emphasize that usage of the above mentioned transformation methods allows the State Treasury to continue to control these enterprises. Of 634 privatization projects, 76% were sold by consent of the Council of Ministers, publicly announced auction, public negotiations, sale of shares on the regulated market, public tender or provisions of the agreement. But the remaining 24% were sham privatized by municipalization, contribution to another SOE and other sham privatization methods.

Table 10: Sham privatization in 2008-2011 (based on number of projects)



Source: Based on the Ministry of Treasury data

The municipalization of the State Treasury may occur through the transfer of property of the State Treasury for the benefit of local government units. At the

request of the executive body of local government, the Ministry of Treasury may transfer a free package of shares in favor of the local government unit or

units of local self-government relationship. The condition is that economic activities performed by such a company are the task that has to be fulfilled by the unit of local government or compound of local government units (art. Paragraph 4b. 1 of the Act of 30 August 1996 on Commercialization and Privatization). Municipalization is related mainly to public use or utility companies such as public transport, water supply, wholesale centers, industrial parks, etc. In the analyzed period of privatization in Poland the majority (46) of communalized firms were public transport enterprises.

Contribution to another SOE is one of the procedures of direct privatization provided in the Act on Commercialization and Privatization. Contribution to a company leads to acquisition of the appropriate number of shares or stocks. This method of privatization is used in particular for small and medium-sized businesses that require significant expenditures and investments. It is directed towards providing the company with reliable strategic investors (domestic or foreign). During the privatization process in Poland the biggest part (60%) of contributed enterprises became a part of the ARP. Significant contributions were also made to Bumar, PHN and PSE Operator. Enterprises contributed to another SOE were mostly manufacturing facilities, power stations and research centers. This sham privatization significantly decreased acquired privatization revenue in Poland in the years 2008-2011.

The Ministry of Treasury supervises 86% of all companies that are in the possession of the State Treasury (see Table 8). Hence, it is justified to focus on their strategy in terms of privatization - it affects most companies and it is often followed by other government agencies. In the years 2008-2011 over 580 enterprises were privatized, the plan for 2012-2013 assumed privatizing another 300 companies from 25 industries to be sold. Thanks to this the share of private ownership (80% of GDP at the end of 2011) was to increase and the competitiveness and efficiency of the Polish economy was to be improved. However, the companies that were left to be privatized in both periods (2008-2011 and 2012-2013) were not appealing to investors. Hence, at different points of time, the Ministry of Treasury tested new strategies to sell the remaining companies successfully.

Since 2008 the Ministry of Treasury has been facing the obvious problem: the pool of enterprises to be

privatized has come from unattractive sectors or most of the companies in the pool struggled with serious operational or financial problems. 483 companies were in the initial privatization pool, 24.23% of which generated a loss in 2008. The average ROS and ROE for all these companies in 2008 were -0.96% and -8.9% respectively. The important question was then how to deal with the pool of companies, a quarter of which were close to bankruptcy. The answer was to pack them into coherent entities, put an attractive label on these packages, and create special purpose vehicles (SPV) that would attract investors and enable the sale of the state-controlled assets more effectively. One of the first attempts was PHN. The idea was to consolidate some SOEs (Intraco, Budexpo, Dalmor and many more) under an attractive real estate label and go public. The PHN portfolio eventually included 180 properties and 1.3 hectares of land. Its IPO was postponed from July 2012 to February 2013, but finally it was relatively successful.

The ARP is another attempt to deal with companies that are to be privatized. Apart from a portfolio of companies they supervise (net assets worth over 5 billion PLN), the agency fosters innovation and growth of innovative middle sized and large companies. The new strategy of ARP is to be actively involved in fostering an innovative Polish economy, including creation of new companies that will implement breakthrough inventions. Blue Gas (shale gas) and Nano Carbon (graphene production) companies are good examples of such companies.

Still another example of creating SPV is PGZ (Polish Defense Group) located in Radom. This group is an attempt to consolidate the Polish defense industry. It will include PHO (Polish Defense Holding, previously Bumar), 11 companies controlled by the Ministry of Defense, HSW and companies from the defense sector controlled by the Ministry of Treasury. Creation of the group will probably be followed by a decision to go public.

Finally, PIR (Polish Investments in Development) is a new company founded by the Ministry of Treasury with the aim of fostering Polish investments - mostly investments in infrastructure (production and distribution of energy and gas), building shale gas resources, transport infrastructure, waste utilization, and telecommunication. The company will get financing (up to 40 billion PLN) from privatization revenues (sale of PGE, PKO BP, PZU and Ciech packages).

Another strategy, although aimed at individual investors was Civic Shareholding (see: [www.akcjonariatobywatelski.pl](http://www.akcjonariatobywatelski.pl)). It was initiated in 2010 when the Ministry of Treasury decided to sell PZU, Tauron and the WSE. The assumption was that, instead of having to compete with large institutional investors for shares (which often involved taking loans to tackle expected huge reductions), a certain number of shares is allocated exclusively for individual shareholders. It was to facilitate share purchases by individual investors in Treasury companies, as well as encourage conscious participation of the general public in securities investments. The program was relatively successful: 230 thousand individual investors bought Tauron shares, 250 thousand - PZU shares, 323 thousand - WSE shares in 2010, and 168 thousand investors in 2011 bought JSW shares. The number of individual investment accounts grew from 1.13 million in 2009 to 1.53 million in 2012. However, the stock market flotations that followed (PAK - 14 thousand individual investors, Energa - 66 thousand individual investors) were not that successful and Civic Shareholding is now mostly an educational program.

It can be seen that some effort is made towards selling existing SOEs, in some cases with a use of sophisticated marketing tools and special purpose vehicles such as PHN. On the other hand, new SOEs are created, with the noble aim of fostering innovation, restructuring and infrastructure renewal. Still, the promise at the Ministry of Treasury website that PIR will invest only in highly profitable projects is disarming. Besides, revenues from privatization are often transferred to the newly created state-owned enterprises. In the years 2012-2013 the Ministry of Treasury planned to obtain revenues from privatization amounting to 15 billion PLN. At the same time, PIR is offered financing of 40 billion PLN that would come from privatization revenues. There is an obvious clash between the two strategies.

## CONCLUSIONS

Assessment of 2008-2011 privatization is relatively positive. In terms of the effects: the number of privatized companies and revenues from the process, the privatization plan was fulfilled. The vision expressed in D. Tusk's speech dated November 23, 2007 in which the Prime Minister emphasized his support for ownership transformations in Poland was

then carried out successfully by mostly the Ministry of Treasury which controls most State Treasury assets. On March 31, 2008 the Ministry of Treasury controlled 1237 enterprises from various industries. This number included 350 companies in liquidation, close to bankruptcy or not active enterprises and 887 active firms. The 2008-2011 privatization plan assumed that 740 enterprises would be privatized. The outcome of the plan implementation was 582 privatized companies, which is 78.64% of the plan. The Polish government assumed privatization revenue at the level of 54 billion PLN. The global financial situation and some privatization problems dropped this to 44.02 billion PLN, which was 81% of the planned value. In this paper it was shown which years brought the most revenues, which privatization methods were used, and which region generated the most revenues.

It was found that most of the companies (713) that belong to the State Treasury are controlled by the Ministry of Treasury. Other government entities supervise the rest, most of which could be sold and contribute to higher revenues from privatization. The often considered examples of such companies are: defense sector companies, railroad companies, airports, companies and land controlled by the AMW (6 companies) and ANR (45 companies) agencies. Anyway, it can be estimated that the expected revenues from selling all those possessions would amount to at least 88.45 billion PLN. Further, having assumed that the average revenue from privatization in the years 1993-2012 was 8.38 billion PLN, the 88.45 PLN could enable the continuation of privatization at the previous pace for another 10 years. The presented numbers clearly show that the whole process is far from being terminated.

We also claimed that the privatization process that took place in Poland in the years 2008-2011 was to some extent a sham privatization. The majority of companies were sold via tender or auction mechanism. Nevertheless, a significant part (24%) were taken over by other SOEs or state-controlled companies, communalized, or transferred to various government agencies. This is considered sham privatization, since presenting contributions to SOEs (Bumar, Tauron, Kompania Węglowa, Lotos, Ciech, PHN, Enea) or government agencies (ARP, ANR) as genuine privatization is obviously misleading. It simply contradicts the main goals behind privatization as outlined in official government documents

(restructuring the Polish economy and improving competitiveness of companies). There might be three possible reasons behind the sham privatization. First, communalization is always easier than genuine privatization. Second, the red tape authorities only pay lip service to the main ideas of privatization, whereas truly they try to keep the government's influence over many areas of the economy. Finally, certain state-owned assets are put aside (excluded from the direct control of the Ministry of Treasury) to be used as „political tools” during negotiations with political circles or parties.

483 companies were in the initial privatization pool in 2008. 24.23% of the companies generated a loss in 2008, which proved their unattractiveness. Anticipating this problem the Ministry of Treasury decided to pack some of them into coherent entities, put an attractive label upon these packages, and create special purpose vehicles (SPV) that would attract investors and enable the sale of the state-controlled assets more effectively. One of the first attempts was PHN (the real estate sector). PHN's IPO was relatively successful and proved the method was well thought out.

Other seemingly similar cases do not follow the same strategy. It is rather an attempt to supervise

more companies (ARP), create so-called national champions (PGZ - Polish Defense Group), or foster growth of specific industries (PIR), and basically it is contradictory to genuine privatization. To prove that, it is enough to quote plans of the Ministry of Treasury to obtain in 2013-14 revenues from privatization amounting to 15 billion PLN. At the same time, PIR is offered financing of 40 billion PLN most of which would come from privatization revenues. It is what A. Sieroń (from the Mises Institute) calls a „have your cake and eat it too” strategy.

The privatization process in Poland, despite having its ups and downs, is relatively successful. We have avoided the failures of mass privatization, the process is consistently implemented (at least after 2008). Privatization generates revenues for the government and contributes to a real increase in the competitiveness of Polish companies and the Polish economy. However, the process, although facilitated recently, is far from being terminated. What is more, some of the activities of the Ministry of the Treasury seem to go backwards: the assets controlled by the State Treasury grow instead of being diminished, some companies are privatized and at the same time others are created.

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