



Entrepreneurship Development Foundation (EDF)
Center for International Private Enterprise (CIPE)

PRIVATIZATION: AS A MEANS OF INCREASING EFFICIENCY IN THE USE OF PUBLIC ASSETS

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Baku – June, 2017

This Policy Paper was developed with support from the Center for International Private Enterprise (CIPE). The views expressed in this document may not necessarily reflect the views of CIPE.

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ANNOTATION

The main objectives of the analytical research on “Privatization: as a means of increasing efficiency in the utilization of public assets” include, an evaluation of the current state of the use of public assets, assessing the effects of de-nationalization of property, the modern state of privatization, the economic management experience on efficiency of public assets to ensure an increase in efficiency and designing relevant recommendation in this respect. As main sources of the research on the topic, academic-analytical assessments of experiences in the use of public assets in the developed and the CIS countries; methodological recommendations by the IMF and WB on efficiency in utilization of public assets; legislative and statistical data (official and expert data) on the management, utilization and privatization of public assets in Azerbaijan; works of researchers and experts on this topic have been used.

The findings of our research show that, the main targets of economic development policies, development strategy, and the respective public policy at the initial stage, implemented during independence period, including, to establish an economic system characterised with integrity and completeness; to transform the economy from directive governance (formed as a provincial “sub-system” of a large country) into market economy; to find resources base to ensure national economic development in a new set of conditions, have generally been achieved. Following the successful development of national economic system, the Government of Azerbaijan adopted a Concept called “Azerbaijan-2020: Look into the Future” in 2012. The main strategic goal of the Concept defined as achieving a stage characterised with sustainable economic growth and high social welfare, effective state management and supremacy of law, the full ensuring of all human rights and freedoms, and the active status of the civil society in the country’s public life, taking into account the current opportunities and resources. However, a failure to adhere an appro-

priate approach to a mobilization of internal development potential, a restoration of “self-development” capacity, and an inclusive development, and the changes in outlook of national system led to an immense rise of volatility and a sharp decline in the sustainability of development potential. In the context of the changes in the world oil market outlook since 2014 and “gaps” in economic policy, two-phase sharp devaluation of manat occurred in 2015, which created resource and market problems for economic activities.

Our assessments show that, the modern state of Azerbaijan’s economy has structural and institutional problems, stemming from the public assets management. The main reasons include, an incomplete transformation of the economic mechanisms in economic governance system and incomplete denationalisation of property. As an manifestation of the ongoing crisis in the modern economy of Azerbaijan and of transitiveness of “crisis potential”, it is very important to overcome these two undesirable issues through privatization and new approach to public assets management.

The evidence proves that, main structural problems of Azerbaijani economy stem from two sources and are deemed an impediment for self-sustainability and endogenous development of economic system. The first source is linked with the Soviet legacy of “provincial” character of Azerbaijani economy. The other reason as to why these problems have remained unsolved for so many years is their high cost and capital requirements. This is also one of the reasons why resolution of structural “disharmony” problem of economy, which is present in most countries in transition, is not currently a policy priority. The presence of problems of institutional nature in countries in transition is mainly stipulated by excessive bureaucracy which leads to repetition of managerial functions and tasks.

Based on the evaluations of experts, the reason for the recent financial crises in Azerbaijan during the last two years, is not directly re-

lated to disbalance in financial flows, but is a result of the effect of a sudden loss of investor confidence on the price of financial assets or of decreasing assets in the context of increasing amount of foreign denominated debts, which led to a decline in a net value of assets creating currency crises. Thus, it can be concluded that, the real and actual influence of the state in economic activity significantly depends on the management approach adopted. The decisive role of government does not depend on its possession of huge resources, rather on the national economic environment and implemented economic policy, as well as, the use of state assets to promote (and support, if necessary) economic development. The latter also ensures a rise in investment in the national economy and develops its development potential. Considering the international experience on the development of national economic system, and the features of desirable inclusiveness in economic theories, the following conclusions have been made concerning the potential outcomes of using state assets.

The factors stipulating privatization strategy and the targets of privatization of state property in Azerbaijan can include-creating entrepreneurship group; ensuring equitable distribution of public property; and establishing a new channel of revenue for the state budget. Due to incompatibility of these targets (though, separately could be considered normal), the current outcomes of privatization cannot be considered acceptable. Thus, considering the international experience in the process of de-nationalization of property, it is important to pay special attention to qualities that may have a positive impact on prospects of privatization process in Azerbaijan within existing economic circumstances.

We should distinguish such influential factors as flawed design of hierarchy in targets pyramid of economic policy-making, major role of subjectivity involving personal interests in decision-making process of managers when evaluating the case of Azerbaijan. As a

result of analytical research, the influential factors leading to inefficiencies in operation of public assets have been identified. They include: principle of adequacy of economy is not preserved due to concessive privileges granted to enterprises; public entities operate in a more favourable business environment (in many cases reaching the level of monopoly) due to their “unlawful managerial functions” obtained through their “special status” and tradition; unsatisfactory performance of banks and non-bank financial institutions, as well as the Central Bank that manage large volume of public assets; downward trend in dividend payments to budget by state-owned enterprises that accrue debt for state and in proceeds from management of central treasury account, all in the context of rising cost of servicing public debt and liabilities; the receipts from privatization are traditionally executed with large deficits and privatized companies do not function at their full capacity etc.

Thus, based on the findings of the analysis of economic development path of the independence period of Azerbaijani economy and the efficiency of governance, the implementation of the following policy measures has been recommended. The key mission of privatization should be “denationalization” of the economy. Based on a new approach, the realization of privatization should include, a direct, rational and rapid withdrawal of the state from economic activity, potentially extending the sphere of to be privatized state-owned enterprises, completing the privatization of related entities and lands, ensuring the flow of receipts from privatization into the state budget, as well as, ensuring a normal functioning of a stock market, a constant market for the shares of corporative enterprises.

In the state-guaranteed debt strategy, the provision of state financial control in debt regulation, a regular evaluation of exchange rate risks, project loans, and ensuring the effectiveness and efficiency in the utilization of resources, through individual approach to existing credit lines of state-owned joint stock and state-owned companies

should be implemented. Besides, ensuring the required financing at the lowest cost, considering the financial characteristics of public debt, the exchange rate priorities of debt burden should be identified in order to diminish the impact of foreign macroeconomic shocks on budget and long-term expenditures.

In order to increase efficiency in the utilization of public assets, a range of modifications should be made in the economic governance model. The main changes should include the formation of the principles of perfect competition and a single management of public assets. This approach first of all, requires the adoption of Budget and Competition Codes, enhancing a coordination between monetary and fiscal policies, ensuring budget accumulation of government revenues and expenditures, prohibiting “charitable” activities conducted by state-owned enterprises at the expense of public funds, decreasing expenditures via consolidation of administrative bodies and organizations which perform repetitive functions, ensuring adequacy of administrative and financing models and so on.

1. INTRODUCTION

Factors behind the selection of this topic: one of the important novelties resulting from industrial revolutions, which commenced since the middle of the 19th century, can be considered the formation of market economy relations (based on the neoclassical principle of marginal utility) as an economic model. At the same time, this economic model based on market relations has contributed to the organization of society by coordinating economic interests. That is to say, market economy that was based on marginal utility principles in terms of transaction partners turned into a system which contributed to an increasing efficacy of resources from the perspective of aggregate demand and supply relationship. Besides giving rise to conflict of interests despite the increase in the number of partici-

pants, market economy mechanism also formed conditions for obtaining a general compromise in the context of scientific and technological progress, as well as the development of civilizations and internal relations of societies. In the current stage of development of the society, the conditions of this compromise should enable a system of economic relations, that ensures potential maximum utility of resources. With a rapid economic development in the beginning of the 20th century, large corporations have taken the status of “transnational”, which on one hand, limits the scope of action for national governments, on the other hand enhances the influence of state participation in economic activity. Thus, the phenomenon of “state capitalism” has been formed. To increase overall profitability of the economy, rather than “to get more as a participant”, is the rationale behind an open engagement of the state in economic activity.

The recent international experience can be used as evidence to prove our point. Firstly, the number of people, viewing the state participation in economy as an attribute for either “leftist” or “rightist” economic agenda, is rapidly decreasing. Secondly, a synthetic parameter called “international competitiveness of countries”, that lacks any economic foundation and is based on mathematical “gymnastics” has become an important economic factor as a result of measures taken by international stock exchanges and transnational corporations. Finally, high concentration of nationalization of property has been formed, because of deepening corporativeness (efficiency of governance, risk management, efficient method of resource accumulation etc.). Aforementioned factors de facto ensured decisive and necessary role of state in economic activity.

Therefore, the role of a state in economic activity, an analysis of its responsibilities and related expectations have once again become a pressing issue in economics and regained its topicality for researchers.

2. EFFICIENCY OF NATIONAL ECONOMIC GOVERNANCE MODEL: FROM EMERGENCE TO PERFECTION

2.1. Emergence of economic independence

At the end of the 20th century, after the restoration of state independence, the Republic of Azerbaijan, similar to its previous political allies, faced the following challenges: to form a complete national economic system with a characteristics of an independent state; to transform the economy from the planned governance mechanism of Azerbaijan, which is structured as a province sub-system of a large country, into a system of economic relations based on market principles and liberal economic model; to ensure necessary investment to prevent severe socio-economic crisis arising in the beginning of independence, mainly due to foreign military intervention and internal political instabilities, and to restore development resources; to adapt national economy to global development trends and challenges, and to ensure its rational openness; to achieve competitiveness of national economy in international markets through restructuring of economic governance system, and owing to increasing efficiency in the use of natural and man-made economic resources.

It is obvious that, the settlement of aforementioned problems is first of all, related to economic development model, economic reform strategy and the nature of current economic policy. Therefore, an evaluation of modern development level of the country is necessary for assessing the state of settlement of these problems.

In over 25 years of independence, important improvements have been achieved in economic development, in the formation of national economic system based on market principles: the formation of legislative base for market economy, private property and unrestricted entrepreneurship, share of private sector in domestic production has reached 85%, privatization of state property and land,

a strong integration of national economy into international economic system and other developments. These improvements, on one hand, indicate the completion of founding of relatively integral national economic system, and, on the other hand, encompass irreversible nature of the application of market economy mechanism.

It is more appropriate to call this phase as the initial “economic formation” of the new era of national statehood. Over this period, the main targets of national economy formation have been mostly achieved. These included the tasks related to the formation of system, which is capable to ensure political independence of the state, is characterised by a liberal economy model, and can preserve national identity in a larger and rapidly changing global economic relations system. Over this period, a solid substructure was established for future economic development, besides the resolution of the institutional-structural problems in the formation of national economic system. An investment of nearly 200 billion USD was made to the economy of Azerbaijan, while the foreign investment for the development of national oil industry, for an extraction of hydrocarbon resources in the Caspian shelf and for an establishment of a diversified system of transportation to international market equalled to 100 billion USD. The United Kingdom, Turkey, France, USA, Russia and other influential countries and their transnational companies have important share in the foreign investment in Azerbaijan. According to the evaluations by international rating agencies, Azerbaijan ranks better than the countries represented in the same group on global competitiveness, human development index, business environment. Of course, it is clear that, the main factors behind such high ranks have been the rich oil-gas resources and the policy of their active involvement in economy. Successful oil contracts and favourable outlook of world oil market during the first 10-14 years of a new century have created significant financial base to resolve the problems associated with foreign military intervention and destructive economic legacy of the transition period.

Successful development of national economic system pushed the Government of Azerbaijan to design concept called “Azerbaijan-2020: Look into the Future” in 2012, which is an ambitious development strategy targeting the transition into a new stage of economic development. Having an extensive reach, the main strategic goal of the Concept is to achieve a stage characterised with sustainable economic growth and high social welfare, effective state management and rule of law, the full supremacy of all human rights and freedoms, and the active participation of the civil society in the country’s public life, taking into account the current opportunities and resources. This goal was considered logical and realizable in the context of advancements in national state building and economic development over the last two decades. As a result of a realisation of the Concept, Azerbaijan in 2020 is predicted to achieve high competitiveness and to reach the level of “high human development” on the UN’s Human Development index. Based on the implementation of the measures mentioned in the Concept, per capita GDP is predicted to increase by twofold at the end of the period reaching 13000 USD, while per capita non-oil export will rise to 1000 USD.

An effective state regulation, transformation to a high value and energy-efficient export-oriented economy and a comprehensive approach to the development of socio-economic sectors will be key principles, according to the Concept. It is intended to transform into efficient economy by increasing overall productivity of factors of production under the strategy and a transition to a stage characterised with a high level of innovation. Increasing competitiveness of the economy encompasses directions such as maintaining macro-economic stability, strengthening the coordination of monetary and fiscal policies, improving business environment and supporting private initiatives, development of financial services market, improving foreign trade and investment policy. During this period, inflation will be kept at an acceptable level and gradual transition to a more

flexible exchange rate regime is to be realised. At the same time, measures to improve the structure of economy will be implemented resolutely. Modernization of oil-gas sector and petrochemical industry, diversification and development of oil-gas sector, expanding the use of alternative and renewable energy sources, development of agricultural sector and ensuring food security, expanding and developing trade and service activities, improving foreign trade and the structure of investments are among the priorities. Average annual real growth rate of non-oil sector GDP is intended to be higher than 7% during the period covered in the Concept. The Development Concept is based on the export-oriented economic model, and it is intended that, increasing competitiveness of the economy and improving its structure will lead to higher non-oil exports. Promoting and expanding innovative activities, along with the development of non-oil industry, will create favourable conditions for the formation of knowledge-based economy in the country. Additionally, according to the Concept, economic growth will ensure high level of social welfare and prioritised development of human capital, as well as, higher quality in education and healthcare.

Accordingly, key directions of efforts stipulating the completion of the formation of competitive economy in Azerbaijan as an important global target in the field of economic development and the transition of national economy to a new development stage include: formation of economic model based on effective government regulation and mature market relations; improvement of the structure of the economy, development of non-oil sector; support to scientific potential and innovation.

2.2. Economic diversification or sustainable development.

Despite the substantial discord concerning the assessment of realisation potential of ambitious targets of national economic development, the Concept has been executed successfully during the first

years of implementation. However, there were problems in realisation of the Concept over last two years, due to insufficiency of efforts toward economic diversification. It should be underlined that, the main factor undermining the diversification of economy is that, “approach to diversification” was not chosen correctly. The founders of national economic policy preferred to ensure diversification through formal-institutional and even non-economic factors, thereby chose the path of increasing transport routes of oil and gas resources, maintaining high “stable” exchange rate of national currency by all means, prioritizing infrastructure projects in regional development, and evaluating development via “focused” methodologies of international rating systems. The history of economic thought and international experience demonstrates that, this approach is associated with overlooking such elements such as utilization of internal development potential that can be more productive and sustainable, restoration of “self-development” capacity, and ensuring development and inclusiveness in general. The likely, but undesirable potential outcome of this approach is an immense rise in volatility due to changes in outlook of national system and a sharp decline in the sustainability of development potential. Unfortunately, the economy of Azerbaijan could not avoid this outcome. That is to say, the changes in the world oil market outlook since 2014 made the two-phase sharp devaluation of manat (which was a strong and stable currency in the context of national economic policy since 2005) inescapable. The “unexpected” sharp devaluation of national currency, certainly, created resource and market problems (change in the formed harmony of prices and in the market rate of return) for the activities of other sectors. In our opinion, the main underlying reason for this situation is the poor sustainability potential established in the economy of Azerbaijan, owing to decreasing foreign exchange reserves in the context of a slump in oil price, the lack of non-oil sector development achieved during the period of favourable outlook, unproductive spending of oil revenues

etc. “gaps” in economic policy. Yet, the abovementioned reasons are not fully accountable for the further rapid deepening of the economic crisis that commenced in 2014. The impact of fiscal and monetary policies implemented during the last two years have been considerable as well.

Overall, our assessment of the current situation in the economy reveals that, the present crisis has a structural and institutional nature, stemming from the management of state assets. We believe that, these two directions have not been paid sufficient attention, their influential potential has not been taken into account over the past 25 years. Therefore, the main causes of the anticipated and predicted so-called “unexpected” crisis should not be searched in external conditions, but in the gaps of economic policy. These gaps include, firstly, incomplete transformation of the economic mechanisms and incomplete denationalisation of property in system of economic governance. As a manifestation of the ongoing crisis in the modern economy of Azerbaijan and of transitivity of “crisis potential”, these two undesirable issues can be overcome through privatization and new approach to the management of state assets.

3. SPECIFICS OF PUBLIC ASSET MANAGEMENT: EFFECTIVENESS OF UTILIZATION OF GROWTH POTENTIAL AND TARGETS FOR INCREASE IN PRODUCTIVITY

3.1. Public assets as an essential growth factor.

Public assets have huge importance in economy of every country. Such assets, being indivisible part of a state, constitute the backbone of the system of economic relations. Public assets possess unique features and ensures unhindered realization of public needs and operation of economy, according to national interests. Public assets secure successful solution of complicated macroeconomic problems,

execution of large investment projects, conditions necessary for extensive reproduction of national capital.

“Public assets” is a novel legal expression. This expression encompasses intellectual or real property and rights that have certain value and have been registered as a state property via agreements and transactions. Public assets are a system of complicated hierarchic relations that possess several specific characteristics. Therefore, management of such a system is a complex and difficult process. There is a multitude of instruments and methodological approaches used in public asset management in global experience. It can be classified according to asset management approaches: existence of a multitude of large and small enterprises or management of a small number of large enterprises; classified according to productivity criteria: aiming for increase of liquidity of enterprises or aiming for productive use of capital, increase of profitability; classified according to characteristics of property rights: ownership of large/small enterprises or ownership via merger of various enterprises into several public authorities or holdings; classified according to responsibilities and empowerments of public property management: the task of planning the strategy, also management power and responsibilities are bestowed upon board of directors or managerial powers and responsibilities are bestowed upon the manager.

The choice of the most efficient approaches for each country depends on the development phase of national economy and dominant economic policy paradigm. However, it is possible to formulate certain general principles of public asset management. Establishment of such principles is equally important for all countries. Firstly, in our opinion, public asset management should conform to the role of state as a rational regulator. Further, utilization of public assets should aim for maximum productivity of resources; formulation of favourable economic conditions and mechanisms should be a flexible component of asset management; establishment of advanced

competitive environment should promote inclusiveness and sustainability of development etc.

Switch of rapid growth period of the past 15-20 years to sagging growth of the last 2 has revealed both limitations of economic strategy and flaws of public asset management. As was mentioned in previous section, main reasons behind critical situation are institutional and structural in nature and are exemplified by such flaws.

Main structural problems of Azerbaijani economy stem from two sources and are deemed an impediment for self-sustainability and endogenous development of economic system. The first source is directly linked with the “provincial” character of Azerbaijani economy dominant for a long period, which was established under “single national economic complex” of USSR. Key drawback of this “provincial economic” system, which can be characterized by cheap resource availability and loose ecological, sanitary and other norms at best, is impossibility of its normal operation when established system of interrelations is disrupted. The economic difficulties faced by other post-Soviet economies completely support the aforementioned statements. Yet other reason as to why these problems have remained unsolved for so many years is their high cost and capital requirements. This is also one of the reasons why resolution of structural “disharmony” problem of economy, which is present in most countries in transition, is not currently a policy priority.

The presence of problems of institutional nature is mainly an outcome of certain characteristics of system of government in newly independent countries. Distinguishing feature of system of government and also the economic policy-making in such countries is excessive bureaucracy, which is originally aimed at “increases in productivity” and which leads to repetition of managerial functions and tasks. In our opinion, problems such as permanent attempts by managers to increase their powers, phobia of law, precedence of local

interests over higher general interests and deterioration of professionalism of managers stem from these reasons. The aforementioned characteristics of the system of government in countries in transition are increasing costs and thus decreasing productivity of management process, while also harming the efficiency of operation of economic system. In other words, the effects of underdevelopment of government system stems not only from its high costs, but, perhaps to even greater extent, from inefficiency of utilization of available resources.

3.2. Targets regarding development of productivity of growth potential

Income generated from publicly owned assets should constitute a major part of revenue side of budget of Azerbaijan. However, “traditionally” these revenue sources are considered symbolic in nature. The fact that the total of “Dividends received from the entities with state shares on their stock”, “Proceeds from the rent of lands under the state property, privatized entities and facilities” and “Proceeds from the rent of lands under the state property” accounts of budget is 5.9 million manats and equals 0.15% of budget revenues confirms our statement. Overall, inefficiencies observed in Azerbaijani experience can be classified in different groups. Here we should distinguish such influential factors as low level of utilization of tangible and intangible assets of the state, flawed design of hierarchy in targets pyramid of economic policy-making (due to faults in target or mean choices), major role of subjectivity involving personal (material or career) interests in decision-making process of managers.

Our research demonstrates that, we can classify influential factors that evidence inefficiencies in operation of public assets in Azerbaijan and that stipulate characteristics formed under system of government as follows:

- In our opinion, the major such attribute is attitude toward public asset management. A number of concessive privileges granted to enterprises to increase their freedom of operation during the later period of planned economy, in 1985, transformed into a new “economic phenomena” in an era of free market economy. And the reason is that, principle of adequacy of economy through accountability and public responsibility of state enterprises has disappeared. Enterprises that are based completely or mostly on public assets are no different from private (domestic or foreign) enterprises in terms of monetary considerations. Large, capital expenditures of such enterprises are met by network of public financing sources, including state budget, non-budgetary state funds and organizations and they receive foreign loans with state guarantee. Sometimes such enterprises even “transfer” their foreign liabilities onto public authorities. Law adopted on budget system in 2003 states that large taxpayers that received loans with state guarantee should sign “restoration of loan contracts” agreements with Ministry of Finance and that payments for these loans should be included in budget expenditures. It was projected that these enterprises will pay the Ministry back per these contracts after they normalize their operations. Although small, there were payments with this purpose in 2003-2008 period, but recently the repayment process has almost ceased. Naturally, “credit liability” does not “exist” for these enterprises as a powerful regulator of activities and an instrument to eliminate unnecessary costs. Thus, the share of foreign debt service in state budget is continuously increasing. Debt service expenditures for 2017 is calculated as 1642 million manats, while foreign debt service expenditures is 1582 million manats. In other words, these expenditures constitute more than 10% of budget expenditures.
- A major difference of public entities and their associations formed and grouped according to specialty from ordinary enter-

prises is that they operate in a more favourable business environment due to their “unlawful managerial functions” obtained through their “special status” and tradition. In some cases, this reaches the level of monopoly. For example, SOCAR, AZAL, Azerbaijan Railroads, Caspian Shipping Company, enterprises operating within Ministry of Telecommunications and High Technologies and Ministry of Agriculture, Committee for Melioration, Azerenerji, Azersu, Azeristilik and other vital governing, production and utility entities are de facto monopolies. These entities have a wide sphere of influence beside their own field of operation. Furthermore, it should be taken into consideration that some of them are price-makers and, hypothetically, should have high profitability. Additionally, most of their capital expenditures are met through state budget. Nevertheless, they are “chronically in debt”. Obviously, the situation is stipulated by a range of different factors (corruption, lack of transparency, unprofessional behaviour, repetition of bureaucratic functions, excessive bureaucracy etc.) and can be identified as “inefficient economy” at best. It should be considered that, current “mode of operation” of such entities does not only harm economy in terms of their discussed financial costs, but also by preventing the establishment of the competitive environment. In our opinion, it is exactly the stance of such “heavyweight” entities that prevents the adoption of special law regulating competition, or, to be more precise, legal code of competition.

- The activities of banking sector are yet another important factor defining the efficiency of public asset utilization in Azerbaijan. Productive capacity of banking sector in free market economy is unparalleled and there have always been a special attention and state backing for the sector. We can mention direct and indirect concessions, tax holidays, and especially the application of liberal banking legislation in the first ten years of independence as examples of such support. We believe that, the above-mentioned

factors and the inherent significance of banking sector for economy have caused excessively and baselessly high profitability of the banks. However, despite the provision of extremely advantageous conditions it is not possible to consider the performance of banks and non-bank financial institutions that manage large volume of public assets satisfactory. On one hand, they have failed to neutralize negative effects on business environment of private credit institutions that focus on “cheap” high profitability. Quite the opposite, they exacerbated the situation by concentrating on their narrow operational targets. These banks that constitute the backbone of national financial sector have greatly contributed to artificial appreciation of manat throughout the years by supporting the development extremely high interest rates (relative to de facto profitability of the real sector and discount rate of the Central Bank), while borrowing with low rates from international money markets. In our opinion, there were serious flaws in the operations of Central Bank, which accumulated significant foreign exchange reserves during resource windfall period. First, it should be mentioned that, for a long period, inflation targeting was a major element of monetary policy of the Central Bank. In our opinion, this strategy is one of the main drivers of high interest rates in the market and appreciation of manat. The Central Bank have accumulated 15 billion dollars’ worth of foreign exchange reserves (nearly 30% of state reserves) and haven’t made any transfers to state budget in the past 10 years, stating the need for reserves for “bank sector restoration”. The condition of commercial banks is not adequate either. For example, International Bank of Azerbaijan (54.96% shares of which are owned by the state) has declared that it will not be paying dividends in 2017. While at the same time, “Agrarkredit”, a state-owned financial institution, which operates under favourable economic environment have begun to manage

27.26% of shares of IBA at the expense of shares it repurchased in the second quarter of 2016. Despite these facts, transfers from such institutions to state budget have almost disappeared.

- In our opinion, evaluations of the state of utilization of public assets should include dynamics of transfers and payments to state budget of such entities that manage these assets as an important indicator of productivity. Overall, by 01.10.2016 there were 173 entities that were created during privatization process and that are partially or fully owned by the state. Total capital of these institutions is 196.4 million manats, 141.9 of which is owned by state. Unfortunately, these entities have paid only 40 thousand manats of dividend in 2015 and 31.2 thousand of dividend in the first 9 months of 2016 as a part of privatization proceeds. According to state budget for 2017, budget revenue from the rent of lands under the state property, privatized entities and facilities is just 8 million manats, proceeds from rent of real property under state-financed entities is 113 thousand manats, proceeds from rent of state property of entities operating by commercial principles is 2.6 million manats, rent of lands under the privatized entities is 5.3 million manats.
- By the end of 2016, there were 8815 non-residential buildings and building parts owned by State Committee on Property Issues with total area of 3353.2 thousand m², of which only 2033 (with area of 317 thousand m²) have been rented out. The enquiry has revealed that, incurred debt from rent of land under state property, privatized entities and facilities was 2.6 million in 2015 and 2.9 million in 2016. Thus, even though the rent is not the most efficient way of asset utilization, the existence of huge untapped potential of the budget revenues from the rent of lands under state property, privatized entities and facilities is in itself a testimony to serious problems in asset management. The realization of said potential depends not only upon administrative-

organizational measures, but also on simplification of rent procedures of non-residential areas, adaptation of rent terms to real demand, further research of current situation in utilization of lands under public entities and facilities to advance efficiency-enhancing measures.

- In the state budget of Azerbaijan for 2017, proceeds from credits provided from state budget are calculated as 5.9 mln manats (Azerbaijan State Caspian Shipping Company), while “interest income received on restoration of loan agreements” for “The Guarantee Fund of loans received with state guarantee” as 2.2 mln manats (mainly Central Bank, Kapital Bank, State Agency for Agricultural Loans etc.).
- We would observe more disastrous situation when analyzing central treasury account balance, which is considered a highly liquid asset, and dynamics of proceeds from its management: balance for the beginning of 2015 was 1728.6 mln manats and the income from its management was 4.5 mln (or just 0.26%), balance for 2016 was 1433.9 mln manats and income was 3.9 mln (or 0.27%), balance for 2017 was 425 mln manats and income from its management was 3.1 mln manat or 0.7%.
- Foreign public debt (that amounted to 7638.7 mln USD for 1 July, 2016) consisted mainly of securities owned by foreign investors and loans from international financial institutions. Main executors of foreign debt are Ministry of Finance of Azerbaijan Republic, several committees, agencies and joint-stock companies.

Costs related with payment of state domestic and foreign debt for 2017 state budget are forecasted to constitute 10.3% of budget revenues and 9.9% of budget expenditures. Interest component of foreign debt servicing equals to 23.4%, while the principal is 76.6%. The reason of high share of principal in foreign debt servicing in 2017 is that servicing debt that are originally in foreign currencies demand a bigger amount when converted

into manat and also that loans that were received by joint-stock companies with state guarantee have reached maturity.

- Proceeds from privatization of state property is confirmed as one of the sources of financing of budget deficit and is forecasted to equal 200 mln manats. It is important to note that, there have always been serious shortfalls in budget revenue from privatization of state property in Azerbaijan relative to forecasts in previous episodes of privatization. For example, in the budget of 2016, the year with serious budget difficulties for obvious reasons, revenue from privatization was projected to be 100 mln manats, while turned out to be 4.7 mln or just 4.7% of original forecast. While it is important to consider that, by 01.10.2016 assets of 739 state entities that have been registered at State Committee on Property Issues for privatization but haven't been privatized yet equalled to 34.7 mln manats, while the state's share in stocks of 157 joint-stock companies that haven't been fully privatized (and have no restrictions on privatization) equals 72.5 mln manats. Whereas, the share of state in joint companies established with participation of public entities and that were scheduled to be privatized equals 2.1 mln manats. Furthermore, there were 685 land pieces intended for rent with total area of 11329.9 thousand m² in the registry of the Committee.

Thus, our research demonstrates that, a major direction of efforts to increase productivity of realization of Azerbaijan's growth potential is improvement of productivity and efficacy of utilization of state assets. Defining features of this direction are development of accumulation of state proprietary income; ensuring free turnover of economic resources in developed competitive market by enhancing the utilization of budget resources or resources attracted with state guarantee as a proprietor, also by privatization of state assets with low profitability and productivity.

4. MODERN MISSION OF PRIVATIZATION: AS A MECHANISM OF STRUCTURAL AND INSTITUTIONAL TRANSFORMATION OF THE ECONOMY

4.1. State assets as a driver of structural change

According to the evaluation by the experts from the International Monetary Fund, which is supported by many specialists and by ourselves, economic crises of the 90s demonstrated that, mutual dependence or vulnerabilities of economic factors should not be based only on variable flows (revenues, expenditures, import, export, debt). In other words, “financial competence” principle is more complex than Keynesian approach of evaluating the relations between revenues and expenditures through macroeconomic flows, which includes the evaluation of the impacts of budget policy on economic growth, inflation and unemployment. An analysis of assets and liabilities (public, private, foreign) accumulated during the period of boom, and existing disbalances between countries are becoming another strong argument in explaining economic problems, especially in transition countries. It should be emphasized that, evaluations conducted for the economy in general can be used for a public sector as well. Some potential weaknesses may not be revealed in the budget, but in the balance of public sector, which covers all the assets and liabilities of the state. The need for policy improvement can be identified through an analysis of the net value of and the changes in public assets. Based on the international experience, the experts of the IMF consider that, despite increasing revenues in the context of declining oil reserves (assets), the overall country balance shows a decrease in the net value of assets. Secondly, under the liabilities, the future requirements regarding the execution of social assistance programs may create financial difficulties even in the developed countries. The fact is that, the perspective of a change in the level of reserves increases the probability of bankruptcy in the country. Based on the evaluations of experts, the reason for the re-

cent financial crises in Korea, Thailand, Indonesia, Argentina etc., as well as, in our opinion, in Azerbaijan during the last two years, is not directly related to disbalance in financial flows, but is a result of the effect of a sudden loss of investor confidence on the price of financial assets or of decreasing assets in the context of increasing amount of foreign denominated debts, which led to a decline in a net value of assets creating currency crises.

Public and private sector as a whole, can relatively easily compensate the effects of a few years of budget deficits. But, this is not true for assets and reserves. For this reason, the IMF recently has assessed the absolute change in reserves, within the framework of “balance-based control” approach, while conducting the monitoring of individual countries. According to this approach, internal and mutual relations between the balances of public and private sectors, as well as, external position of the economy enable to reveal the vulnerabilities in various sectors, to identify how the changes in the assessments of value leads to a sharp deepening of disbalances.

Thus, it can be concluded that, the real and actual influence of the state on economic activity significantly depends on the adopted management approach. Such elements of “classic approach” philosophy like the task of the state to create “affordable government” and, similarly, principle of complete rejection of public borrowing argued by Adam Smith, are effectively implying the rejection of regulatory function of state budget and overall fiscal system. It is clear that, the modern society and the philosophy of economic relations make the application of such an approach impossible.

But, we should not forget an important point: the decisive role of government is not conditional upon its possession of huge resources (this is confirmed by methodologies of all international rating systems). The influence capacity of the state is conditional upon the national economic environment and implemented economic policy,

as well as, the use of state assets to promote (and support, if necessary) economic development. The latter also ensures a rise in investment in the national economy and develops its growth potential. Considering the character of evolution of factors of development, international experience on the development of national economic system, and the features of desirable inclusiveness in economic theories, the following conclusions have been made concerning the potential outcomes of using state assets:

- The full evaluation of state participation in economic activity is possible through assessment of efficient use of all public assets;
- The impact capacity of public assets (tangible or intangible) is formed through prioritization of intangible assets, which have a wider sphere of influence;
- Asset management should be considered a means of structural change, along with being a locomotive of the economic development strategy of the government;
- The efficiency of state assets is determined by the “synergy” and cumulativeness of harmony, flexibility and comprehensiveness in utilization of assets;
- Denationalisation of property, privatization and corporatization, along with fiscal and monetary policy, are considered effective policy tools in rationalization of sectoral and regional structure of economy – an important task within asset management.

4.2. Privatization as a transformation mechanism of economy

Privatization broadly refers to reliance on the private entities, rather than the state to meet the basic needs of population. In modern age, the forces affecting privatization are divided into several directions: pragmatic, economic, philosophical, commercial and populist. The view of pragmatics is to achieve the state development with the low-

est cost. According to the supporters of economic effect, dependence from the state can be reduced and methods of privatization can be fully comprehended only as a result of increased economic wealth. According to supporters of philosophical and ideological approach, private entities prefer the size of the state they are directly dealing to be small. This is called Jefferson approach, which is based on the logic that “that government is best which governs least”. Those who have commercial interest intend expenditures of government to be directed to their business activities. Populists state that, in order to attain a better society, opportunities should be created and extended for people to meet their own needs through limiting the power of large public and private bureaucracy. Pragmatics state that, since “bigger state” is associated with increasing taxes, it is subject to higher resistance by the population. In order to prevent a sharper disbalance between the expenditures and revenues of the state, various measures should be implemented. Decreasing services and increasing productivity can be considered appropriate among the other possible range of activities (manipulations in accounting of public expenditures, as well as, de-centralization of expenditures, off-budget spending, borrowing etc.). Certainly, decreasing services can result in a resistance of public and of people employed in the services sector. That is why, increasing productivity is a better option. Privatization is considered the best way of increasing productivity based on worldwide experience. According to the experts, private property rights, together with market forces and competition, lead to more efficient use of funds. As E.A. Savash stated, “govern”-government and the Greek word “kuybern”(to rule) have the same root. It can be concluded that, the main responsibility and function of a state is to govern, rather than to deliver services (“rowing”). As a whole, all the factors that make privatization necessary and topical, along with promoting it, are stemming from the threats of a constant growth of a state.

The size of government is evaluated by three parameters: government expenditures, the number of employees in public sector and the number of public authorities. The factors affecting constant growth of government can be classified into 3 groups:

Increasing demand for public services by current and potential consumers. The reasons for increasing demand include, demographic changes, rise in personal income (before and after redistribution), social assistance, as well as, provision of social infrastructure, tendency to avoid risks, desire to benefit from social-cultural expenditure, desire for abundance of financial resources and for continuation of existing programs etc. Obviously, the number and composition of these factors varies across countries.

Increasing supply of public services by producers of services. This basically refers to an increased production by producers, which has “expansionary” effect on services and includes the efforts directed to win the favour of consumers, whose vote is essential for the government authorities. The other group of these factors are contained in “budget expansion”. Experiences show that, the reason behind the expansion of budget is the desire of government authorities to increase the efficiency of their activities by growing. Intellectuals who offer original and essential measures to prevent social calamities arising in the process of the development of society, are also among the drivers of public service growth. These intellectuals often prefer to be employed in the public sector and promote the view that the state is the sole executor of the task of revitalisation in society. The subsequent factor is that, government authorities gradually achieve a monopolistic position in services as a result of unhindered development. Obviously, such a monopolism is highly resistant to decreasing costs. The other important direction stipulating the growth of public services is “determined inertia”. “Politicians prefer indecision over decision, automatic growth of income over controlled growth, stable development over reformist development and gen-

erally all other aspects of inert behaviour. This means revenue system is usually managed automatically and on autopilot mode. The government spends the revenue brought by economic growth and inflation, only in some cases, when the system faces serious threats, compensatory measures are considered”.

Increasing inefficiency stemming from increasing staff and costs in providing same kind of services. The third main factor responsible for the state growth is an increase in cost inefficiency. If the fall of efficiency is not curbed, decreasing productivity and efficiency will lead to a bigger state. Three factors affecting the state growth- consumer demand, producer pressures and inefficiency- are interrelated and create expenditure coalitions. These coalitions are formed to create, improve and promote program, and comprised of 4 groups: beneficiaries, service providers (producers), government authorities and political activists. The members of such coalitions are interconnected and the number of their supporters is constantly increasing. Consequently, there develops a fertile ground for rising inefficiency.

Privatization is like disposal of explosives, it must be carried out in a deliberate and careful manner. It should be considered that, wrong decisions may have terrible outcomes: there are difficulties to overcome, evidences to deny, supporters to mobilise, competitors to resist. Privatisation is not a tool for management, but is the main strategy of public management. Privatization is a means, not an end, and an end is a better state and a better society.

In most cases, methodological approach to privatization in the Western economic literature is related to the Concepts of property relations during transition period and government regulation. First of all, property rights theories (A. Alchian, O. Williamson, H. Demsetz, R. Coase, D. North, A. Honore, S. Peyović, R. Posner, C. Wallace and others) associated with the school of “new institutional economics” or “transaction economics” should be noted. The main

objective of this direction of economic theory is the analysis of a mutual relationship between economic and legal systems and individual behaviours of economic agents. That is to say, economic agents should be rewarded (based on the outcomes of their activities) in such a way that, the restructuring of property can affect the economic stimulus system. Reactions to the actions economic stimulus system results in a change of economic agents' behaviour. In microeconomic level, the distribution of property rights stipulates the modification of firm structure and alteration in the manager's behaviour.

Privatization strategy significantly differs across countries, and depends on the objectives of the government and requirements of the development stage of the country. For instance, the first privatization in Britain commenced during the Liberal government and was not carried out on a large-scale level, but rather on individual basis. During the same period, the 5% shares of the "British Petroleum" (one of the prominent and leading oil companies, and is also engaged in oil extraction in Azerbaijani part of the Caspian basin as a part of the consortium) were sold for 276-million-pound sterling, equivalent to nearly 450 million USD. Just in the 80s, 16 out of 51 large state-owned companies were privatized, and, thus, the number of employees in public sector fell by 1,3 million, which was 2,8% of all employed people. Moreover, revenues obtained from privatization exceeded 33-billion-pound sterling for the beginning of the 90s. While Britain has privatized public property valued at 20-billion-pound sterling (40% of the total) by the end of 1988, and similarly, while France, carried out one-third of the total planned privatization in just 14 months, earning 71 billion francs, Italian government, conducted a privatization of on average 4-5 state-owned enterprises annually (equivalent to 100 thousand workplaces) during the period 1980-1987, and the total revenue amounted to 7 trillion Italian liras. In GFR, the shares of over 50 state-owned enterprises (valued at 5

billion marks) were wholly or partly sold during 1984-87 period. In Spain, over 245 companies were restructured and privatized over the period of 10 years since the start of privatization. In the Netherlands, 36 medium-sized state-owned companies, valued at 60 million dollars, and the 23% share of government (valued at 307 million dollars) in KLM (one of the leading airlines in Europe) were privatized.

The role of the state in a mixed economy and its evaluation methods still remains a research topic for many scientific studies. The centre for social research and forecasts in France has conducted several studies in this field, and identified 4 groups of sectors traditionally subject to government intervention: energy, transport, communications, manufacturing industries. The other research conducted by this centre, assesses the impact index of the state on the economy in many countries around the world, based on ratio of rate of employment and the weighted average of total sales in economy. This indicator varied across developed countries as following, from the beginning of the 80s until the implementation of privatization policy: Great Britain-84, Italy-83, France-80, Sweden-72, the Netherlands-66, Switzerland-65, Spain-60, GFR-59, Belgium-50, Australia-52, Japan-30, USA-15. These indicators enable to evaluate the role of the state in economy for a time period. For example, while government expenditures accounted to 42% of GDP in 1980 in developed countries, it rose to 47,3% in 1996. The tendency for growing public expenditures in these countries can be explained by an increasingly social orientation of economic development. However, the share of government spending in GDP declined in the Netherlands, Great Britain, and Ireland. Based on the expert evaluations, the role of privatization in this decrease was crucial.

Based on the experience of industrialised countries in the process of de-nationalization of property, which has attained a universal nature, and covers wide geographical area, it is important to pay special

attention to qualities that may have a positive impact on prospects of privatization process in Azerbaijan within existing economic circumstances. Although there is a sufficient amount of experience accumulated by European countries during the privatization process, direct implementation of their experience in Azerbaijan is not considered appropriate. Firstly, in Azerbaijan, there are no stock markets determining the real exchange rate of shares and no independent capital markets shaping demand. Secondly, investment environment and saving level which can play exceptional role in the process of privatization, require a mobilization of large amount of financial resources, and the balance between its volume and the efficiency of outcome is of particular importance. The privatization experience of the Western countries has proved that, effectiveness of enterprises depends more on competitiveness than property rights. Because, privatization cannot suddenly or automatically create a mechanism that reduces costs of production. In this case, it is doubtful that, any more citizens can gain from this process in a short period of time. The rapid achievement of this objective depends on redistribution of property rights in the aftermath of privatization, favourable investment environment, and other numerous relevant factors of similar nature.

5. KEY CONCLUSIONS AND RECOMMENDATIONS

Main points of the research and its findings can be concluded as following:

- The main targets of economic development policies implemented during independence period, development strategy, and relevant public policy at the initial stage have been to establish an economic system characterised with integrity and completeness; to transform the economy from directive governance (formed as a provincial “sub-system” of a large country) into market economy; to find resources base to ensure national economic development in a new

set of conditions. Based on the outcomes of economic development, the past 25 years of independence can be called “economic formation” stage in a new century of national statehood. Over this time period, the main target of national economy-the tasks related to the formation of a system, which is capable to ensure political independence of the state, is characterised with a liberal economy model, and is able to preserve its identity in a larger and rapidly changing worldwide economic relations system-has generally been achieved. Successful oil contracts and favourable outlook of world oil market during the first 10-14 years of a new century have created significant financial base to resolve the problems associated with a severe economic legacy of the transition period and foreign military intervention.

- Following the successful development of national economic system, the Government of Azerbaijan adopted a Concept called “Azerbaijan-2020: Look into the Future” in 2012. The main strategic goal of the Concept defined as achieving a stage characterised with sustainable economic growth and high social welfare, effective state management and supremacy of law, the full ensuring of all human rights and freedoms, and the active status of the civil society in the country’s public life, taking into account the current opportunities and resources. However, there were problems in realisation of this Concept over the last two years, due to insufficient economic diversification. That is to say, issues such as a mobilization of internal development potential that is considered to be more productive and sustainable, a restoration of “self-development” capacity, and an inclusive development were overlooked. This approach led to an immense rise of volatility due to changes in outlook of national system and a sharp decline in the sustainability of development potential.
- The changes in the world oil market outlook since 2014 made the two-phase sharp devaluation of manat in 2015, inescapable. The sharp devaluation of national currency created resource and mar-

ket problems for the activities of other sectors. In our opinion, the main underlying reason for this situation is the poor sustainability potential established in the economy of Azerbaijan, owing to decreasing foreign exchange reserves in the context of a slump in oil price, the lack of non-oil sector development achieved during the period of favourable outlook, unproductive spending of oil revenues etc. “gaps” in economic policy.

- The modern state of Azerbaijan’s economy has structural and institutional problems, stemming from the public assets management. The main reasons include, an incomplete transformation of the economic mechanisms in economic governance system and incomplete denationalisation of property. As a manifestation of the ongoing crisis in the modern economy of Azerbaijan and of transitivity of “crisis potential”, it is very important to overcome these two undesirable issues through privatization and new approach to public assets management.
- The choice of the most efficient approaches for each country depends on the development phase of national economy and dominant economic policy paradigm. However, it is possible to formulate certain general principles of public asset management: public asset management should conform to the role of state as a rational regulator; utilization of public assets should aim for maximum productivity of resources; formulation of favourable economic conditions and mechanisms should be a flexible component of asset management; establishment of advanced competitive environment should promote inclusiveness and sustainability of development etc.
- Main structural problems of Azerbaijani economy stem from two sources and are deemed an impediment for self-sustainability and endogenous development of economic system. The first source is directly linked with the “provincial” character of Azerbaijani economy dominant for a long period. The other reason as to why these problems have remained unsolved for so many years is their high

cost and capital requirements. This is also one of the reasons why resolution of structural “disharmony” problem of economy, which is present in most countries in transition, is not currently a policy priority.

- The presence of problems of institutional nature in countries in transition is mainly stipulated by excessive bureaucracy which leads to repetition of managerial functions and tasks. These characteristics of the system of government are increasing costs and thus decreasing productivity of management process, while also harming the efficiency of operation of economic system.
- We should distinguish such influential factors as flawed design of hierarchy in targets pyramid of economic policy-making (due to faults in target or mean choices), major role of subjectivity involving personal (material or career) interests in decision-making process of managers when evaluating the case of Azerbaijan. We can classify influential factors that evidence inefficiencies in operation of public assets as follows:
 - ✓ Principle of adequacy of economy is not preserved due to concessive privileges granted to enterprises to increase their freedom of operation during the later period of planned economy. That’s why, enterprises that are based completely or mostly on public assets are no different from private (domestic or foreign) enterprises in terms of monetary considerations. Such enterprises even “transfer” their foreign liabilities onto public authorities “restoration of loan contracts” agreements.
 - ✓ A major difference of public entities and their associations formed and grouped according to specialty from ordinary enterprises is that they operate in a more favourable business environment due to their “unlawful managerial functions” obtained through their “special status” and tradition. These entities have a wide sphere of influence beside their own field of operation. Furthermore, it should be taken into consideration that some of them are price-makers and, hypothetically, should

have high profitability. It should be considered that, current “mode of operation” of such entities does not only harm economy in terms of their discussed financial costs, but also by preventing the establishment of the competitive environment. In our opinion, it is exactly the stance of such “heavyweight” entities that prevents the adoption of special law regulating competition, or, to be more precise, legal code of competition.

- ✓ The activities of banking sector are yet another important factor defining the efficiency of public asset utilization in Azerbaijan. However, despite the provision of extremely advantageous conditions it is not possible to consider the performance of banks and non-bank financial institutions that manage large volume of public assets satisfactory. On one hand, they have failed to neutralize negative effects on business environment of private credit institutions that focus on “cheap” high profitability. Quite the opposite, they exacerbated the situation by concentrating on their narrow operational targets. These banks that constitute the backbone of national financial sector have greatly contributed to artificial appreciation of manat throughout the years by supporting the development extremely high interest rates (relative to de facto profitability of the real sector and discount rate of the Central Bank), while borrowing with low rates from international money markets.
- ✓ In our opinion, there were serious flaws in the operations of Central Bank, which accumulated significant foreign exchange reserves during resource windfall period. First, it should be mentioned that, for a long period, inflation targeting was a major element of monetary policy of the Central Bank. In our opinion, this strategy is one of the main drivers of high interest rates in the market and appreciation of manat. The Central Bank have accumulated 15 billion dollars’ worth of foreign exchange reserves (nearly 30% of state reserves) and haven’t made any transfers to state budget in the past 10 years, stating

the need for reserves for “bank sector restoration”.

- ✓ In our opinion, dynamics of transfers and payments to state budget of such entities that manage these assets are an important indicator of productivity. Overall, by 01.10.2016 there were 173 entities that were created during privatization process and that are partially or fully owned by the state and these entities have paid only 40 thousand manats of dividend in 2015 and 31.2 thousand of dividend in the first 9 months of 2016 as a part of privatization proceeds.
- ✓ Central treasury account balance, which is considered a highly liquid asset, and dynamics of proceeds from its management are not satisfactory either. Rate of return of treasury account balance for 2015 was 0.26%, for 2016 was 0.27%), for 2017 is projected as 0.7%.
- ✓ Costs related with payment of state domestic and foreign debt for 2017 state budget are forecasted to constitute 10.3% of budget revenues and 9.9% of budget expenditures. Based on the experience of several developed countries, the regulation on the terms of debt repayment, regular assessments of exchange rate risks, making timely and appropriate interventions, and the harmonisation of other analytical outcomes with the development level of the country are essential in debt strategy of state-owned Joint Stock Companies and state-owned companies. It should be noted that, an individual approach to each credit line and a consideration of revenues and expenses turnovers should be ensured. Besides, ensuring the required financing at the lowest cost, considering the financial characteristics of public debt, the exchange rate priorities of debt burden should be identified in order to diminish the impact of foreign macroeconomic shocks on budget and long-term expenditures. It is important to note that, there have always been serious shortfalls in budget revenue from privatization of state property in Azerbaijan relative to forecasts in previous episodes of pri-

vatization. For example, in the budget of 2016 revenue from privatization was projected to be 100 mln manats, while turned out to be 4.7 mln or just 4.7% of original forecast. While it is important to consider that, by 01.10.2016 assets of 739 state entities that have been registered at State Committee on Property Issues for privatization but haven't been privatized yet equalled to 34.7 mln manats, while the state's share in stocks of 157 joint-stock companies that haven't been fully privatized (and have no restrictions on privatization) equals 72.5 mln manats. We consider that, a decrease in expenditures that are not related to the main profile of the state-owned company may lead to an increasing efficiency in their activities. Therefore, to complete the tasks related to the receipts obtained from privatization of state property, first of all, the privatization process of enterprises, shares, lands that are registered at SCPI should be completed. Moreover, in order to ensure acquirement and utilization of potential reserves, the remainder of the debt on proceeds from privatization should be directed into the state budget.

- ✓ According to the evaluation by experts, economic crises of the 90s demonstrated that, mutual dependence or vulnerabilities of economic factors should not be based only on variable flows. An analysis of assets and liabilities accumulated during the period of boom, and existing disbalances between countries are becoming another strong argument in explaining economic problems, especially in transition countries. The research shows that, the reason for the recent financial crises in Azerbaijan during the last two years, is not directly related to disbalances in financial flows, but is a result of the effect of a sudden loss of investor confidence on the price of financial assets or of decreasing assets in the context of increasing amount of foreign denominated debts, which led to a decline in a net value of assets creating currency crises. Thus, it can be con-

cluded that, the real and actual influence of the state on economic activity significantly depends on the adopted management approach. Modern society and the philosophy of economic relations makes the rejection of regulatory function of a state under “classic approach” impossible. However, we should not forget an important point here: The decisive role of government does not depend on its possession of huge resources, rather on the national economic environment and implemented economic policy, as well as, the use of state assets to promote (and support, if necessary) economic development.

- ✓ Considering the international experience on the development of national economic system, and the features of desirable inclusiveness in economic theories, the following conclusions have been made concerning the potential outcomes of using state assets:
 - The full evaluation of state participation in economic activity is possible through assessment of efficient use of all public assets;
 - The impact capacity of public assets (tangible or intangible) is formed through prioritization of intangible assets, which have a wider sphere of influence;
 - Asset management should be considered a means of structural change, along with being a locomotive of the economic development strategy of the government;
 - The efficiency of state assets is determined by the “synergy” and cumulativeness of harmony, flexibility and comprehensiveness in utilization of assets;
 - Denationalisation of property, privatization and corporatization, along with fiscal and monetary policy, are considered effective policy tools in rationalization of sectoral and regional structure of economy – an important task within asset management.
- ✓ In modern age, the forces affecting privatization are divided

into several directions: pragmatic, economic, philosophical, commercial and populist. Pragmatics want to achieve state development with the lowest cost. According to the supporters of philosophical or ideological (also called Jefferson approach) view, “that government is best which governs least”. Those who have commercial interest want the government expenditures to be directed to business activities. Populists state that, in order to attain a better society, opportunities should be created and extended for people to meet their own needs through limiting the power of large public and private bureaucracy. As a whole, all the factors that make privatization necessary and topical, along with promoting it, are stemming from the threats of a constant growth of a state. The size of government is evaluated by three parameters: government expenditures, the number of employees in public sector and the number of public authorities. The factors affecting constant growth of government can be classified into 3 groups: *Increasing demand for public services by current and potential consumers; Increasing supply of public services by producers of services; Increasing inefficiency stemming from increasing staff and costs in providing same kind of services.*

- ✓ Privatization strategy significantly differs across countries, and it is attributed to the requirements and objectives of the development level. For instance, in Azerbaijan, the factors stipulating privatization strategy and the targets of privatization of state property include-creating entrepreneurship group; ensuring equitable distribution of public property; and establishing a new channel of revenue for the state budget. Due to incompatibility of these targets (though, separately could be considered normal), the current outcomes of privatization cannot be considered acceptable.
- ✓ Based on the international experience on the de-nationalization of property, it is important to pay special attention to qual-

ities that may have a positive impact on prospects of privatization process in Azerbaijan within existing economic circumstances. Although there is a sufficient amount of experience accumulated by European countries during the privatization process, direct implementation of their experience in Azerbaijan is not considered appropriate. Firstly, in Azerbaijan, there are no stock markets determining the real exchange rate of shares and no independent capital markets shaping demand. Secondly, investment environment and saving level which can play exceptional role in the process of privatization, require a mobilization of large amount of financial resources, and the balance between its volume and the efficiency of outcome is of particular importance. The privatization experience of the Western countries has proved that, effectiveness of enterprises depends more on competitiveness than property rights. Because, privatization cannot suddenly or automatically create a mechanism that reduces costs of production. In this case, it is doubtful that, any more citizens can gain from this process in a short period of time. The rapid achievement of this objective depends on redistribution of property rights in the aftermath of privatization, favourable investment environment, and other numerous relevant factors of similar nature.

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**PRIVATIZATION: AS A MEANS OF INCREASING EFFI-
CIENCY IN THE USE OF PUBLIC ASSETS**

Prof. Rasim Hasanov

Format 60x84, 1/16, 3 print page.

Printing 50 number.

This book has been printed in
“AZSEA” LLC.