Knowledge, evidence and learning for development

Privatisation and tax reform – Lessons from Georgia and Poland

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Question

What positive lessons can be learned from policy initiatives, in the areas of tax and privatisation, to modify oligarchic control/structures in Eastern Europe in order to deliver growth?

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1. Summary

A number of Eastern European countries have implemented tax and privatisation policies that have led to robust growth and improved economic governance[1]. *There is much less evidence of countries effectively dismantling or weakening existing, entrenched oligarchic structures as part of this process*. Oligarchy is understood here as a system of governance in which a small, informal, economically powerful group dominates political decision-making. Business-state relations in oligarchic societies are characterised by personalisation, secrecy, and frequent illegality.

The experiences of Georgia, Poland, and Estonia stand out as countries that have either instituted a relatively healthy business-state relationship (Poland and Estonia) or that have managed to curb corruption and foster a competitive capitalist economy (Georgia). This report draws mainly on the experience of Georgia and Poland[2]. It identifies privatisation and tax reforms that have produced economic outcomes that can reasonably be judged to enhance growth and (to a significantly lesser extent) weaken entrenched state-business networks. However, these reforms have almost always been part of a larger program of economic and political restructuring, making it difficult to establish whether specific policies led to the desired outcome or if they interacted with a range of other processes in doing so.

Very limited tax reform literature was found to be of relevance to the scope of this rapid review. Anti-money laundering and BEPS-related searches did not turn up many studies of the actual *impact* of incorporating these frameworks into law and there does not seem to be much evidence of countries successfully reducing the Corporate Income Tax (CIT) gap[3]. Taxation is therefore a secondary focus in this report.

Key findings are as follows:

- **New, legitimate, and united political leadership is key to the success of radical reforms and breaking established state-business nexuses.** Piecemeal reforms and continuity of state personnel are unlikely to yield positive results. For countries where a sharp break is not possible, the outcomes of incremental reform are likely to be eroded as entrenched interests shift and adapt to changing conditions.
  - Listing large private and public companies on the stock exchange – domestic and foreign – has improved corporate governance in Georgia.
  - Privatisation must be transparent and selling large state-owned enterprises (SOE's) in a murky business environment needs to involve established foreign intermediaries.

[1] The views presented in this report are gathered from the available literature and do not reflect the views of the author.

[2] The Estonian case was judged to be even more 'exceptional' than these two because of its Nordic connections and an even smaller population than Georgia. However, the structure of the oligarchy in Georgia (population about 3 million) is much less complex than in Ukraine. In the former, one very powerful man dominates politics whereas Ukraine could be said to manifest oligarchic pluralism, where competing clans and groups vie for dominance in a much larger economy. The Russian and Ukrainian political-economic landscapes are more similar, but Russia has yet to have much success in combating its oligarchy.

[3] An international taxation expert contacted for this report explained that the literature on impact is still sparse given the secrecy, complexity, and contested legality of the issues involved.

- Privatisation to foreign owners is linked to better performance.
- Mass privatisation – privatisation to a large number of shareholders as opposed to a negotiated sale to a single buyer – produced effective corporate governance structures in Poland.
- Labour councils – if strong enough and imbued with the right spirit as in Poland in the 1990's – can contribute to good corporate governance and asset preservation in large public enterprises.
- Where privatisation is not possible or desirable, imposing hard budget constraints on SOE's in Estonia and Georgia has been transformative.
- Digitising records, particularly using blockchain technology where appropriate, has reduced opportunities for corruption and secretive transactions.
- Separating land administration from land management and centralizing the administration of land into a single, unified central government institution, with no influence from local governments has reduced the scope for corruption and manipulation in Georgia's land market.
- Land ceilings and other restrictions on land ownership have contributed to a more dispersed structure of land ownership in Georgia.
- Reforming the tax administration, specifically making it less coercive and target-driven and more client-oriented, has been key to Poland's tax reform success. Reducing the scope for bureaucratic discretion has also been important (accomplished in part through digitisation).
- **No Eastern European country stands out as having made significant progress on corporate tax evasion.** However VAT collection in Poland has improved via the introduction of the split payment mechanism and OECD-defined Standard Audit File-Tax (SAF-T) reporting system. VAT collection has also improved in Georgia (although the rapid nature of this review did not permit inquiry into why and how).

2. Privatisation – An overview of methods

Literature on privatisation in Eastern Europe dates mostly from the 1990's and 2000's; much less has been published in recent years and privatisation appears to be of much less academic and policy interest over the last decade. We therefore draw mainly on retrospective analyses by scholars and practitioners with an eye to explaining why specific privatisation initiatives may have led to improved economic performance. As Estrin et.al.(2009: 724) observe in conclusion to a widely-cited paper on effects of privatisation and ownership in transition economies, 'privatisation per se does not guarantee improved performance, at least not in the short to medium run. Type of private ownership, corporate governance, access to know-how and markets, and the legal and institutional system matter for firm restructuring and performance'.

Estrin and Pelletier (2018:97) synthesize a broad range of literature on privatisation methods and their impacts. The main methods of privatisation, listed in order of likely favourable impact on economic growth, are as follows:

• Sale to high-quality foreign firms

• Sale on domestic capital market via Initial Public Offerings (IPO's)

• Sale to domestic businesses or business groups

• Sale to existing managers and/or workers

• Free distribution of shares to the population (mass privatisation)

All of these methods have been trialled in the former Soviet Union and Eastern European states, with widely varying success and obvious trade-offs. The literature on this region is in agreement on the fact that **the structure of ownership of privatised firms is a strong determinant of economic performance** – insider vs outsider, dispersed vs concentrated, and domestic vs foreign ownership significantly impact firm operation. In their study of transition economies, Estrin et. al. (2009) find that foreign ownership is strongly associated with increases in productive efficiency, whereas majority domestic is also overall positive but much weaker. They also find support for the hypothesis that concentrated ownership tends to increase productive efficiency more than dispersed ownership. That concentrated ownership – as produced by case-by-case sales and not mass distribution to a population – produces better economic management is a common observation in the literature (eg: Kopf and Desai 2008), but 'it may be that countries with good policy frameworks attract core investors while poor policy countries do not; and it is the policy environment as much as, if not more than, the degree of ownership concentration that accounts for the progress seen' (Nellis 2002:26).

Reviewing East European privatisation experiences from 1990 to 2008, Goldberg and Nellis (2008) – both formerly senior officials at the World Bank with direct experience in Eastern Europe – advance a set of recommendations for countries that have not yet transitioned fully and continue to hold large public assets (ibid: 367-8).

1. For large companies, use competitive tenders, not private trade sales. Use international financial advisers and select them competitively.
2. For SME's, use winner-take-all auctions which offer the majority of shares to concentrated investors having both the incentive and authority to establish good corporate governance.
3. For companies that do not initially sell in auctions or tenders, explore the following: more flexible pricing and repeated auctions or tenders, restructuring followed by repeated offering for sale, and finally, when all else fails, bankruptcy.
4. For large loss-making SOE's, restructuring needs to take place *before* privatisation as opposed to the 'business as usual' approach of Ukraine.
5. The critical importance of transparency remains the single most important lesson.
6. Building the capacity of the privatisation agency early on in the process is critical. Even the best financial advisers have not prevented scandals, particularly in low-income countries where the capacity of the privatisation agency is weak

The problem of how to ensure transparency and a competitive bidding process in the context of the bureaucratic-oligarchic nexus is unfortunately not considered by the authors.

3. Poland

Country Overview

Poland's economic ascent is remarkable. With a growth rate of about 4% a year since 1990, the country moved to middle income status just 15 years after the end of communism and is now considered high income (WB 2017). Growth has been relatively broad-based – unlike many other former transition economies, the Gini coefficient has not increased and Poland has no oligarchy. Never part of the Soviet Union, Poland was the first to embark upon the sweeping privatisations that transformed Eastern Europe. Although neither the Polish state nor business is immune from rent-seeking, privatisation here did not lead to politically connected elites amassing huge fortunes as happened in Russia and Ukraine. The literature reviewed for this report reveals the following factors contributing to successful privatisation:

Lessons from Poland's privatisation

Working with strong labour councils led to asset preservation and improved corporate governance. This is counterintuitive to the liberal orthodoxy, but in hindsight labour unions are thought to have contributed significantly to the success of Poland's privatisation program[4]. Advisors and Polish reformers were deeply frustrated by union power in the early 1990's, assuming it would impede and distort the privatisation process while unaccountable managers would strip assets and hollow out companies. However, in hindsight scholars and practitioners (including World Bank advisers closely involved in the Polish privatisation programme in the 1990's) observe that labour councils actually kept an eye on managers, checking if not totally preventing them from asset-stripping during the slow process of privatisation (Nellis 2002, Appel 2004, Baltowski and Mickiewicz 2000).

The World Bank had advised Polish authorities to consolidate control over enterprises and disempower the unions. However, the Poles rejected this suggestion, evincing a very deep mistrust of bureaucrats and accepting labour unions as the lesser evil. Legislation was passed in 1990 stipulating that enterprises could only be sold with the approval of insiders (managers and workers councils). While this slowed the process down significantly, the oversight provided by **worker organisations prevented the disastrous hollowing out of companies** witnessed in Ukraine, Russia, Georgia, and many other Eastern European countries where managers assumed control and stripped significant value from the enterprises (Appel 2004; Nellis 2002). Workers also carried and communicated important know-how of operations into new management structures. For countries still looking to divest public assets and democratise asset ownership, bolstering worker participation in the process may be worth considering.

Mass privatisation, but with concentrated ownership and control, could be a politically and economically beneficial strategy. Like in other post-communist states, Polish Mass Privatisation (MPP) was a politically palatable and economically viable measure. But while

[4] Poland's Solidarity union was one of the biggest labour unions in the world and a key actor in the country's political transformation.

elsewhere mass privatisation led to diffused ownership and control and resulted in poor corporate governance, in Poland it was directed towards concentrated ownership and control. Shares distributed to Polish citizens were converted to shares in one of 15 or so National Investment Funds (NIFs) that had part-ownership of a pool of privatised firms. Each NIF initially had 33% equity in 30 state enterprises, Polish workers had 15%, and the state retained 25%. Once MPP was complete, the NIF's were floated on the Warsaw Stock Exchange in 1997. The state's role in these funds declined rapidly while the role of large investors – particularly foreign – increased just as rapidly, and the average share of the 3 largest shareholders went from 7% in 1998 to 42% in 2000 (Kopf et al. 2008; Baltowski and Mickiewicz 2000). There was however political pressure on the funds, particularly with regard to maintaining certain enterprises and not decreasing employment, which detracted from the benefits that could potentially have been realised from concentrated ownership. The effects of rolling out MPP in this way deepened capital markets and involved Polish citizens while placing limits on their involvement.

Listing SOE's on the stock exchange improved corporate governance. The number of SOE's fell from 8,500 in 1989 to around 700 in 2018. 500 of these are now listed on the Warsaw stock exchange, with a domestic market capitalisation of about $150 billion (in 2015). Corporate governance has improved dramatically and SOE's contribute significantly to the Polish budget rather than requiring subsidies (WB 2017: 54). Loss-making SOE's were (are?) taxed heavily if they exceed spending targets (ibid:17) and bankruptcy is established practise as banks – privatised and state-owned - operate on a policy of 'no bailouts' that make banks accountable for bad debts (ibid: 19).

Rapid privatisation of small enterprises encouraged the development of new SME's. Small enterprises were the first ones to be sold in Poland; by the end of 1992, 82% (194,000) had been sold and were judged to be a great success (Nellis 2002:8). The process was uncontroversial, the quality and quantity of services improved greatly, and many new jobs were created[5]. More importantly however, the sale of small firms combined with the introduction of free entry for new businesses, tight fiscal, monetary and wage policies that served to stabilise the economy, and near-total price liberalisation contributed to creating an enabling environment for new businesses. The rapid privatisation of small enterprises served as an invitation to new capital, and these new firms have been the engine of growth in Poland, often outperforming their restructured counterparts (ibid:16).

The slow pace of the process may not have been a problem (late privatisers take heart!). Larger units – of which Poland had 8,500 or 3,177 depending on who was counting – were much more difficult to sell than smaller ones. Yet speed was considered essential. The IFI's, Western economists, and Polish ideologues and policymakers keen for capitalism were driven by a very strong *political* – not economic – motive in this regard, namely 'the fear that delaying the change of ownership would allow for the return of the communists' (ibid: 9). Despite this, by Eastern

[5] The privatisation of small enterprises has generally been easy and has yielded similar results across the transition economies.

European standards Poland turned out to be a very slow privatiser but this was obviously not a problem because Poland returned to growth more rapidly and with more vigour than most other transition economies.

Perhaps most importantly, Polish privatisation was embedded in a larger, effective program of economic reform: ‘evolutionary and cautious large-scale privatisation worked in Poland because it was enmeshed in a setting of sound and well-applied economic and financial policies, vibrant new entry, robust political competition, and the rudiments of corporate governance in remaining SOE’s provided (certainly) by the workers councils on the one hand and (perhaps) by the professional and private National Investment Fund managers on the other’ (Nellis 2002: 18).

Box 2: Privatising Ukrainian SOE’s away from the oligarchy

Given the extent of resource mismanagement by the Ukrainian state, many recommend privatising as many SOE’s as possible, including the largest firms in the energy and infrastructure sectors (Cohen 2015). Privatisation must be transparent, for which digital technologies and procurement platforms such as ProZorro (the Ukrainian word for transparency) are very useful. In 2017, ProZorro completed 870,060 online auctions with an estimated value of $11.4 billion. According to a survey from the same year, **perceptions of corruption by business owners had dropped by almost 50%** since the system began operating. There is however pressure to restrict foreign bidders on ProZorro and for the platform to adopt a ‘Ukraine first’ policy which will negate much of the positive effect that it has had to date (Manthrope, 2018).

The largest state enterprises are more complex, and a simple e-auction through ProZorro or similar platforms will not suffice. According to Cohen (2015) and in line with recommendations from numerous other sources, privatising these needs to involve two distinct steps. First, the government should select **international investment banks to function as lead managers** for each of these large enterprises. These banks need to prepare financial statements and bidding rules for each state enterprise, marketing it both domestically and internationally, and selecting the winning bidder. Second, a committee of experts from Ukraine’s leading civil society organizations, such as Transparency International Ukraine, must **certify that the sales process was free of corruption**. No final contract should be signed until this occurs.

A brief note from Estonia

In a relatively rare counter to the increasingly-common institutionalist view which holds that good institutions are necessary for good governance, Abrams and Fish (2015) argue that policies can produce positive outcomes without being embedded in good institutions.

Drawing on the example of Estonia – which has experienced rapid and steady growth and has no oligarchy – they argue that well-designed rules can lay the foundations for good institutions. They then go a step further and conclude that a *single* policy – that of **hard budget constraints** (HBC’s) on SOE’s – is key. Privatisation is unnecessary they argue; it is more viable to harden budgets, make the public sector fully competitive, and break the culture of 'political capitalism' in transition economies. The increased viability of HBC's for them stems from the fact that they can be imposed by a handful of committed reformers in control of a few key ministries. The authors acknowledge that this will be more difficult in countries where the links between state and business elites are well established but maintain that HBC's 'stand a better chance than do the institutionalist's dreams of transplanting Scandinavian-quality institutions into the likes of Russia and Ukraine' (2015: 20)[6].

Taxation in Poland

In matters of taxation, Poland compares favourably to most Eastern European countries. A number of scholars believe that the success of the taxation regime depends less on specific tax policies and more on the state-society relationship: 'The true test for countries taking a fresh-start approach towards altering state-society relations lies in whether the state institutions, agencies, and bureaucracies – the real heart and guts of the state apparatuses that sit below the elites and interact with citizens at street level – can be reformed and made less corrupt. This was critical for Poland in 1989 and it is vital for Ukraine today' (Berenson 2018: 2).

Berenson's (2018) comparative study of tax morale examines Poland, Ukraine, and Russia, and finds **Poland's tax regime to be 'compliance-oriented' while Russia and Ukraine are 'coercive'** (Ukraine being more weakly coercive than Russia). Russia and Ukraine's tax bureaucracies seek power as an end in itself or 'over' society but the Polish bureaucracy has built a state-society relationship characterised by significantly more trust and reciprocity. Unlike in the two former Soviet states, efforts to reform the tax administration in Poland have focused on institutional design and reducing the ability of bureaucrats to exercise undue discretion. Further, the taxation system is less target-driven and treats taxpayers like clients rather than revenue sources to be mined[7].

In recent years, Poland has been simplifying its tax regime and attempting to bring more of the economy into the tax net. According to the publicly funded Polish Economic Institute, some of these reforms have met with great success. **Value Added Tax (VAT) collection has improved significantly** in recent years and the gap between expected and collected Corporate Income Tax (CIT) has fallen. The VAT gap narrowed by 13% points between 2013-2017 (PEI 2020) and the CIT gap by more than 50%.

Closing the CIT gap

The 57% decrease in the CIT gap since 2015 – reported in Polish newspapers and of great interest to this review because of the potential policy lessons that could be derived – appears unfortunately to be mostly attributable to a recalculation based on a new methodology by the Polish Economic Institute. Poland lost between 11 billion and 21.4 billion zloty in 2017, i.e. an amount is equal to 0.55 - 1.08 percent of GDP in unpaid CIT. According to the Institute (PEI

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[6] For the authors' recommendations regarding weakening the oligarchy in Ukraine, see Abrams and Fish, 2017, 'Four Steps to Ukraine's Freedom, Or A Plan For Taming Ukraine's Oligarchs. https://voxukraine.org/en/four-steps-to-ukraine-s-freedom-en/

[7] In 2016, Ukrainian inspectors were still supposedly receiving bonuses based on the fines they collected, incentivizing coercive measures. Further, a target-based approach provides incentives to continue targeting known taxpayers rather than those not currently in the tax net (Berenson 2018)

2019), the Polish government introduced a long list of reforms aimed at enforcing CIT such as introducing a minimum tax on commercial real estate, changes to the rules of foreign-controlled companies and changes in the taxation of joint-stock limited partnerships. ‘The changes presented above have a major impact on the size of the CIT gap and are reducing it gradually’ says the report (2019:33). However, the bulk of the reduction appears to have come from the recalculation.

Closing the VAT gap

VAT collection however has been more successful. Poland has made substantial improvements on this front in recent years, narrowing the VAT gap from 24% in 2015 to 7-12% of potential revenue in 2018. Success has come from a coordinated effort to adopt new legislation, reform and digitise tax administration, and improve business-state relations (PEI 2020, 2019). VAT is the state’s biggest source of revenue and accounts for around 40% of the country’s budget. After the 2008 crisis, the gap between expected and collected VAT revenue started growing, prompting Poland to enact the following measures:

- One of the most effective ‘targeted’ measures was the introduction of a split payment system in 2018, where a buyer can choose to pay VAT directly to a supplier’s dedicated VAT bank account and the supplier only has limited access to the money in this account. The incentive of this scheme for the supplier is that VAT refunds are processed in just 25 days (rather than 60) while buyers avoid implication in the supplier’s tax debts.

- Poland adopted the OECD-defined Standard Audit File-Tax (SAF-T) reporting system in 2016. Every month, companies send a report to the tax register via a new IT system and a new central register of invoices is being established to consolidate data and help tax authorities follow up with taxpayers.

- The National Revenue Administration was established by consolidating the tax administration system, the Customs Service and the fiscal control system, previously operating separately. This has contributed to better detection of VAT fraud and less effort expended on checks.

- Cooperation between the consolidated tax authorities and the IT and banking sectors was improved and new automated analytical tools were developed that made it possible to spot fictitious turnover and suspicious bank transactions (PEI 2019)

Improving tax morale

Tax morale – or the willingness of taxpayers to pay tax – may also have increased in Poland. This can be inferred from the fact that the ‘shadow’ economy[8] decreased from 15.7% of GDP in 2015 to 13.7% in 2018 and total tax revenues increased with no increase in tax levels (PEI 2019).

[8] The PEI defines the shadow economy as unregistered and undeclared economic activity that is not based on the trade of drugs, arms, and trafficking.

Tax morale in Poland has been relatively high in comparison to other countries, attributable perhaps to starting off on the right foot. In the early 1990's the state adopted a truly unique policy of sending street-level bureaucrats out into the public 'to educate people on what these newly founded things called taxes actually were' (Berenson 2018: 267). Polish tax men went on TV, radio, in towns and villages, and opened special tax assistance booths in tax offices around the country in order to explain what the new tax system was all about. This was so effective that by the end of the 1990's, '**the Poles rated the tax administration – yes, the tax administration! – as *the* most favoured state agency** due to this type of outreach' (ibid: 267). One of the Ukraine Tax Administration's (STA) more successful civic activities has been drawing competitions for elementary schoolchildren and the STA has certainly become more communicative over time, yet Berenson thinks outreach can extend well beyond current measures.

A key lesson from Poland's experience in this area is that reforming the tax administration is essential. Increasing the number of employees, budgets, changing incentives for employees, and strengthening systemic risk assessment can yield good results (Berenson 2018, World Bank 2017, PEI 2019).

4. Georgia

Georgia Country Overview

Georgia's economic transformation has been incredibly rapid and is considered highly successful by IFI's and many liberal analysts. Reforms are correlated (if not always linked causally) with robust GDP growth and the economy has grown at an average annual rate of 4.5 percent over the last decade (WB 2020). FDI has averaged more than $1.3 billion every year between 2006 and 2018 (Geostat 2019), petty corruption has decreased markedly, and Georgia is currently 7th in the World Bank's 'Doing Business' rankings.

Although the Georgian economy is home to a number of oligarchs who have used – and continue to use – their connections with the state as a means of enrichment, it has simultaneously found a path to growth and improved economic governance[9]. The country made a slow start in the 1990's, but with the election of the Saakashvili government in 2003 Georgia's new, young, and ideologically committed leaders embarked on a radical program of transformation that included privatisation, almost full deregulation, cutting or abolishing 20 taxes, massive downsizing of the public sector, and trade liberalisation[10].

Privatisation began in the 1990's with people acquiring property rights of their homes and agricultural lands for nominal prices, while large-scale enterprise privatisation started in earnest in 2004. By 2010 the government had divested itself of 3,966 assets worth 1.4 billion USD

[9] See Kononczuk et. al. (2017) for a review of the role of oligarchs in Georgia, Ukraine and Moldova, including portfolio of assets, nature of their political influence, and effects on governance for each country.

[10] Estonia took a similar path and is also an Eastern European 'super reformer' along with Georgia. However, the time constraints on this report prevent us from considering the Estonian experience.

(Gugushvili 2017: 3) and the number of enterprises of interest to the private sector had dwindled significantly. In June 2019 the National Agency of State Property only had 97 SOE's remaining, down from 490 enterprises in 2012 when the agency was established (Georgia Today 2019).

There are many elements to this success story and of course, plenty of qualifiers. Income inequality is the highest of any transition economy and the oligarchisation of the economy continues (Kupatadze 2018). However, the literature identifies a few important measures that have helped create a more open and competitive business environment. This report reviews some of them briefly before reviewing the experience of privatisation (in particular, land privatisation) in Georgia. *This rapid review could not find any literature on privatisation or land reform in Georgia in the context of oligarchic control* – hence the information presented has been selected on what we think could be relevant to a reform program seeking to 'deoligarchify' the economy.

Improving economic performance in Georgia

A young, energized, and coherent group of new elites took power in 2004 and radically downsized the corrupt and inefficient public sector. This was a first major step taken by the Saakashvili government. The number of ministries was reduced from 28 to 12, 18 government departments were abolished or merged into others. 15,000 traffic police personnel were dismissed in a single day and replaced by 2300 newly trained patrol officers. The entire staff of the public registry, 2200 people, were also dismissed in a single day. In 2010, the number of public officials was 50% less than in 2003, while public sector salaries had been considerably increased to reduce the risk of bribery (Gugushvili 2017:3). The new staff of the national public registry for example were hired at 20 times the salary of their predecessors (Kupatadze 2018: 8).

Corruption remains however. While the literature is in agreement that petty corruption has decreased markedly and citizens evince much greater trust of public institutions, some note that **elite corruption has not decreased** (Kupatadze 2018, Papava 2013). In the aftermath of the Rose Revolution and Saakashvili's assumption of power, 'voluntary contributions' were exacted from business owners by the state. This mode of corruption did not have as developmentally deleterious effects as others because proceeds went to an impoverished state rather than private pockets and helped pay salaries and fund large infrastructure projects etc. (ibid: 10). More problematic was the state-business nexus which saw public contracts being awarded to major financial contributors of the ruling party and a new oligarchic elite emerged to replace the old (Kupatadze 2018). This practice – along with increasing nepotism and secretive procurement by state departments – continues under the Georgian Dream government, but state extortion is reported to have decreased substantially (arguably because the Georgian Dream leader Bidzina Ivanishvili is the richest man in Georgia).

Crucially, privatisation took place through open, transparent auctions. The first property sold under the privatisation plan may well have set the tone for subsequent sales. Intourist Hotel was located in the Black Sea resort town of Batumi, and was expected to sell for about USD 3 million at open auction. However, the first interested buyer was a politically well-connected businessman who approached through his contacts with an offer of about USD 80,000. When rejected, he increased this to USD 200,000 but the maverick figure of Kakha Bendukidze, at the time Minister for the Coordination of Economic Reforms, had decided that open auctions were to be the way. A presentation was prepared for international companies and commercial banks, the hotel building was decorated with a large red ribbon, and when Prime Minister Saakashvili asked Bendukidze to tea with his 'friend', Bendukidze reiterated his commitment to open auction. The hotel was put up with a reserve price of USD 3 million and sold for USD 3.02 million to a Siberian businessman – identified by Bendukidze's agent – with fond memories of the location from his youth (Burakova and Lawson 2014: 31-32).

Georgia listed large SOE's on the stock exchange. For strategic reasons, Georgia's government decided to retain ownership of the Georgian Railways (GR) and the Georgian Oil and Gas Corporation (GOGC). According to the former Georgian Prime Minister, rapid improvements in efficiency and economic performance were brought about by these companies issuing corporate Eurobonds on the London Stock Exchange and monitoring the difference between these and sovereign Eurobonds (issued by the Georgian government). Management bonuses were pegged to the difference: 'In effect, we had the world's financial markets assess the performance of the respective management teams for us' (Gilauri 2017:121). A further unintended beneficial effect was that managers started to act as 'salespersons of the country itself' (ibid) because they were incentivised to liase with foreign investors and provide assurances that investments were low-risk and worth making. Gilauri recounts that in 2015 he met the Ukrainian minister of economy in Kiev and offered him 'an out-of-box solution that may have changed the country and create[d] a stepping stone for the turnaround path of Ukrainian economy' (122). The solution was that **Ukrainian oligarchs be required by law to float IPOs on international financial markets**. Gilauri thought oligarchs would comply if they knew that all were required to do this and no one was being singled out. Public listing would force them to restructure, hire new managers, and quickly link their wealth to the health of the economy as had happened in Georgia.

Box 2: Lessons Learned from Georgia's Anti-Corruption Reforms (Kupatadze 2018)

- **Reforms can succeed only if time is used efficiently after a window of political opportunity** opens as happened in Georgia. Indeed, most crucial reforms were undertaken in the first two to three years after the revolution. Deep-reaching orthodox reforms to the public sector may be undertaken through unorthodox means.
- **The civil service can be reformed without commensurate reform of the political system**; the Georgian experience shows that a rational governance regime characterised by an impersonal set of rules can successfully be introduced in the public service while the political system continues to operate according to a non-transparent and patronage-based logic.
- Successful reform of public institutions in a country like Georgia shows that **there is no such thing as 'endemic' corruption**. Georgia was regarded as one of the most notoriously corrupt countries not only in the post-Soviet era, but also during Soviet times.
- The Georgian experience also shows that **if new functional institutions are created, then changes in government do not necessarily reverse them**. 'Islands

of integrity' may persist and expand, especially if they have been performing successfully for some time. This likely hinges on continued popular demand and support for equitable and efficient access to good quality public services.

- **Young politicians with a strong popular mandate and a coherent shared commitment** to reform in Georgia and Estonia have managed to implement efficient anti-corruption policies. Less coherent elite cohorts in which new entrants mix with the old guard (eg: Latvia, Armenia, Ukraine) have been less effective in reform endeavors. The success in both cases of Georgia and Estonia is determined mainly by domestic agency and not external factors. (Kupatadze 2018: 202)

Privatising land - lessons from Georgia[11]

Land reform and privatisation in Georgia is considered one of the most successful reform programmes in Eastern Europe (FAO). It took place in two phases – 1992-1998 and 2005-2011. Most recently, Georgia has pioneered the use of blockchain technology for property-related transactions and thereby further reduced opportunities for secretive transactions, data manipulation, and corruption. The literature shows a number of factors may have contributed to improved land governance and increasing trust in Georgian land markets.

Disband inherited communist-era corporate structures (contra Ukraine). Corporate farms in Georgia are *new* organizational entities with an average size of 100 hectares (down from 1300 hectares in 1990). Soviet farm enterprises were also disbanded in Armenia and Azerbaijan whereas in Ukraine, they have been passed down largely unchanged. Disbanding inherited corporate structures seems to have played a role in improving land governance and utilisation and 'despite the significant presence of corporate farms, Georgia has lost the sharply dual pattern of land distribution which still characterizes Ukraine (small individual farms versus huge corporate farms)' (Lerman 2004: 60).

Place clear restrictions on ownership. As is the case in Ukraine today, Georgia's farmers and rural populations were afraid that privatising land would lead to their dispossession. Georgian authorities accommodated these fears by deciding that certain farmland auctions would only be open to residents of neighbouring villages and local residents could themselves decide on the size of each lot (but these could not be less than 3 hectares). 35% of total farmland was privatised in this way (Burakova and Lawson 2014: 34-35).

Other accounts corroborate this general picture, noting that land privatisation in Georgia was designed to increase production by agricultural households, not bump up largescale, commercial, export-oriented farming (Lerman 2004, Spoor 2012). Policies were intended to strengthen traditional subsistence agriculture as well as enhance the supply of commercial farm products to urban markets during the difficult transition period (Lerman 2004: 59). In those countries where 'plot-based' redistributive land reform took place (Albania, Armenia, Azerbaijan, Georgia,

[11] We focus on land privatisation because Ukraine is soon to lift the moratorium on land sales and it may be that Georgia's experience could be relevant.

Kyrgyzstan and Moldova), land ownership seems to have had a positive correlation with rural income levels (Spoor 2012:190). Such land reform, at least in the short run, contributed positively to agricultural growth and reducing rural poverty.

However, it should be noted that agricultural fragmentation in Georgia is high – the average size of a privatised individual holding was 0.25 hectares during the mass privatisation that took place in 1992-1998 (WB 2013: 3.2.1). This has resulted in an active lease market, and the often low lease prices impact negatively on rural poverty while allowing large farmers to produce at lower prices (Spoor 2012). Property rights reform has clearly not been enough to secure the wellbeing of the rural population or meaningfully democratise land ownership and control.

Improve land governance systems. Since the mid-2000's, Georgian reforms have focused on separating land administration from land management; centralizing the administration of land into a single, unified central government institution, with no influence from local governments; delegating a number of functions to the private sector; and designing a self-financing public registry. These goals have largely been achieved: a 2013 World Bank investigation found the now-self-financing National Public Registry a much more efficient and user-friendly organisation; land administration had been broken up into discrete functions and delegated across government institutions in a way that minimised opportunities for corruption and political interference; and surveying services had been shifted to the private sector to ensure reliability and neutrality (WB 2013). Endorsement of the reforms can be seen in the fact that between 2016 and February 2019, 600,000 private owners (totalling 300,000 hectares) officially registered their land through the simplified system.

Incorporate digital technologies into land governance. Georgia has pioneered the use of blockchain technology in its reformed land registry (NAPR) and significantly increased public trust in the land market (Shang and Price 2019). Once NAPR had an accurate record of land titles in its database, blockchain technologies became feasible as a means by which to significantly increase security and transparency in the titling system. A pilot project was initiated in 2016, proved highly successful, and is now being actively furthered in the second, on-going phase. As of 2018, a total of 1.5 million land titles were published on the blockchain (ibid: 77). It should be noted that blockchain technologies are widespread in Georgia and it is the world's third largest miner of cryptocurrencies. According to the World Bank country report (2018), surveys reveal that up to 5% of households in the country are engaged in cryptocurrency mining or investments, electricity prices are low, and blockchain 'literacy' is much more widespread than in many East European countries.

Box 1: What can Georgia contribute to the debate on lifting Ukraine's land moratorium?

The Georgian experience may be instructive for Ukraine as it lifts the moratorium on land sales later this year. The expected impacts of lifting the moratorium are highly contested. About 70% of territory cannot be bought or sold at the moment. The World Bank is keen to 'free' the market, open it up to domestic and foreign investment and redirect the existing

$250 million worth of agricultural subsidies towards small and medium farmers producing high value added crops. Along with other outcomes, the Bank believes that an additional 1.9% of GDP growth could be achieved by doing this (World Bank 2017a).

Many others are less optimistic, citing the danger of strengthening the existing alignment of forces within Ukraine's agribusiness (Amosov 2019). Putting in place a much lower land ceiling than the 200,000 hectares proposed, restricting ownership to residents, and unbundling and disbanding large inherited corporate structures as Georgia has done could be a way to prevent powerful economic interests from rapidly buying up large parcels. Contrary to the World Bank's recommendations that urge a focus on high value-added business, Amosov (2019) and the Transnational Institute maintain that agricultural land use in Ukraine must prioritize food production as it initially did in Georgia and land regulations must be complemented by environmental laws. There is currently no evidence that the Ukrainian government is intent on following international best practices in land tenure such as Voluntary Guidelines on the Responsible Governance of tenure of Land Fisheries and Forests in the Context of National Food Security.

The Georgian experience – an East European 'best performer' according to the World Bank – indicates that a radical break with the past is necessary and piecemeal reforms and continuity of state personnel is unlikely to yield positive results (Kupatadze 2017, 2018). However radical change is not always a possibility. In Ukraine for example, political conditions do not allow for this, neither is decentralization expected to work because local government is deeply vulnerable to cooptation by powerful interests. The Georgian experience also indicates that advice from Western advisers is often contrary to what works in practice (the reforming government were advised to be less radical, as also happened in Estonia). Kupatadze believes that reforming countries should not rely overly on EU support and advice – in Ukraine, he believes that civil society may be the force that serves as the necessary vehicle for reform in the country, even though 'positive changes in Ukraine will be slow and piecemeal, which gives more chances to entrenched interest to undermine the outcomes of incremental reform' (Kupatadze, 2017).

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Key websites

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- Vox Ukraine: http://voxukraine.org
- Georgian Institute of Politics: http://gip.ge/

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