

Investors Push For Aggressive Privatization

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The government should be more ambitious in pursuing its privatization policy and sell up to 100 percent of some state-owned companies, investors said Thursday.

Both foreign and domestic firms are demonstrating strong interest in investing locally, and the government should think of selling stakes larger than just 10 percent, said Michael Calvey, a founder of Baring Vostok Capital Partners, a private equity firm focused on Russia.

“Why not sell the entire state stake?” he said during a panel session at a forum organized by investment bank Troika Dialog.

President Dmitry Medvedev's economic aide, Arkady Dvorkovich, who participated in the session, supported the proposal and pushed for cutting the government's stakes in state banks to less than controlling.

He said privatization of state financial institutions could take place simultaneously with their acquiring private financial firms.

“I think that it’s necessary to privatize VTB in full or almost in full if it buys other banks, and it’s quite possible to think of reducing the state’s stake in Sberbank to less than 50 percent — not only to 50 percent plus one share,” Dvorkovich said. Sberbank is reportedly in a bid to buy Troika Dialog.

Finance Minister Alexei Kudrin said Wednesday that the government plans to sell as much as 20 percent of VTB this year instead of the 10 percent announced initially.

The government expects to raise a total of 1 trillion rubles (\$340 billion) from selling stakes in 10 state assets by 2013.

The domestic equity market will be the priority venue to sell assets, but if it fails to provide sufficient liquidity, shares of the state companies will be listed abroad, Dvorkovich said.

But despite the interest from investors there are a number of risks that discourage them from coming to Russia, the panel participants said.

A lack of competition in some segments is one of the main problems preventing the private sector from developing, Calvey said.

It’s necessary to ensure fair competition if two firms — a private and a state-owned — compete in one segment, he said, adding that state-owned companies can use their advantages to limit growth of their private rivals.

“It’s extremely difficult if you’re a private company of whatever size to compete against a state company in the same segment,” Calvey said.

Renaissance Insurance Group Chairman Boris Jordan said the judiciary system’s poor protection of investors’ rights is also a factor hindering private sector growth.

“It’s the biggest problem. ... If this issue is solved I think Russia has all chances to become a big financial center,” he said.

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