

1990s.

The results have been impressive: Sweden's 60-odd government-linked firms generated a dividend of 38.5 billion Swedish crowns (4.3 billion euros) for state coffers in the 2010 financial year, up 82 percent from the previous period and more than half of the country's budget surplus this year.

Compare that to Greece, which has slashed this year's 5 billion-euro privatisation target to a 1.7 billion euros as a result of imploding market values and political delays.

FISCAL NEUTRALITY

Last week, European Central Bank (ECB) executive board member Lorenzo BiniSmaghi urged euro area economies to look to emerging economies for lessons on how to put their national wealth to work. [[nL5E7LP1UG](#)]

Though asset sales can significantly ease the funding crunch faced by euro economies priced out of debt markets, they do not reduce their deficits because of the way privatisation proceeds are treated under euro zone accounting rules.

"The disposal of government assets has a neutral effect on the fiscal position," BiniSmaghi noted.

"An alternative way is to leverage the property rights of public assets in such a way that they can be securitised and used to provide protection for bondholders or to guarantee the backstop for the financial sector," the ECB member added.

But measures such as the securitisation of state-asset revenues to raise fresh debt take time to implement -- a luxury many European economies don't have. Cash-strapped governments from Athens to Dublin have privatisation targets to meet as part of conditions set out by international lenders.

Tough market conditions have seen the International Monetary Fund and its partners, including the ECB, ease their initial demand that Ireland raise 5 billion euros in asset sales this year. Dublin is now setting its sights on 2 billion euros instead.

But even for governments not on an IMF lifeline, attracting private sector interest is proving difficult.

Last month, Spain shelved the 5 billion-euro privatisation of its two largest airports and delayed the partial sale of its state lottery valued at 9 billion euros after bidders struggled for funding. [[nL5E7LD2H0](#)]

REFEREES, NOT PLAYERS

In focusing so much on selling their assets, governments may end up overlooking economic reform, argues Dag Detter, who headed the Swedish government's drive to transform its state-owned enterprise sector between 1998 and 2001.

"You need to change the system before you change the ownership," said Detter, who warned that privatisation without reform may even lead to economic and political instability.

Russia's sale of its assets in the 1990s, for instance, left a small coterie of oligarchs holding a swathe national wealth, with disastrous social impact. More recently, anger over Egypt's privatisation programme has been partly blamed for the popular revolt that overthrew the 30-year regime of President Hosni Mubarak.

"There are a lot of vested interests. The small elite running these firms is often reluctant to reveal profits and losses," said Detter.

To facilitate greater public scrutiny, Lithuania has introduced professional managers onto the boards of government-linked firms. The move is also a modest first step towards greater separation between ownership and management.

"In basketball terms, we want ministers to stop playing on the court and become coaches standing outside the perimeter," said Lithuanian Economy Minister Rimantas Zylius.

Zylius wants to increase dividends generated by state assets sixfold next year. Unlike proceeds from a state asset sale, the dividend can be counted towards Lithuania's 2012 deficit goal of 2.8 percent GDP.

A draft law awaiting parliamentary approval would make state enterprises such as petroleum terminal operator Klaipedos and port or state forest companies pay dividends for the first time in 2012.

For the moment, however, the ability of Europe's most embattled economies to absorb the Lithuanian lessons appears limited.

"Sometimes it's not about the money. It's about showing markets you are committed to reforms. The privatisations would be a signal to investors that the governments are serious," said Charlie Robertson, global economist at Renaissance Capital. (1 euro = 9.00 Swedish Crowns) (3.4527 litas = 1 euro)

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