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Will Greece's asset fund turn into an investing piggy bank or another lost opportunity? Piggie bank via www.shutterstock.com

By George Serafeim | July 14, 2015

Yesterday's agreement between the Greek government and its creditors includes a condition that requires Greece to sell €50 billion worth of public assets and establish a fund to oversee the proceeds.

Half will be used to recapitalize banks, while €12.5 billion will be used to repay part of Greece's debt and €12.5 billion will be invested internally to generate growth.

While the privatization of inefficiently managed government assets could well serve the interests of the Greek people, it could well go very wrong.

Here's how and what Greece could do to prevent that from happening.

Setting the right incentives

The fund is already off to a bad start by setting a target sales number (the €50 billion). Doing so from the outset can distort incentives.

By that I mean the easiest way to hit that target is to sell assets at whatever price you can get, thus well below their true worth, resulting in a lot of bad deals. Greece could easily end up selling €60 billion to €80 billion of quality assets just to hit the €50 billion target.

I wrote a Harvard case a while ago of a hotel company that had a target of selling €300 million of hotels per year. But they never specified how many hotels they would sell. Not surprisingly, they ended up selling way too many hotels for way too low a price. They reached their sales target, but at the cost of selling far more of their assets than they needed to.

My point is the following: Greece should carefully design a performance measurement system that makes sure that assets are sold at the maximum price that could be obtained in the marketplace. That should help get around the pitfalls of setting a target up front.

Timing of sales and use of proceeds

The Greek economy is in ruins and the government has a liquidity problem – that is, it's short on ready cash. These are exactly the wrong conditions in which to sell assets. Fire sales result in deep discounts.

Moreover, they lead to the sale of the easiest-to-sell assets. The easiest assets to sell are the ones that have the most potential buyers. The reason that there are many buyers is that their economics are attractive; these are high-quality assets.

It is very important that the proceeds from disposing of these high-quality assets are invested in the economy rather being used to repay loans that were made to recapitalize banks or previous loans. These loans have below-market interest rates and very long maturities (perhaps even 60 years), so their repayment can wait. Indeed the present value of Greece's debt is just a small fraction of its nominal value.

Investing the proceeds in the economy could create the conditions for economic growth, raising the prices of the rest of the government assets that are still in the portfolio.

Lesson: no need to rush the asset sales, and just make sure to use proceeds for something productive. That means there should be an effort to renegotiate so that more of the fund goes toward investment.

Governance and transparency

The privatization fund should follow world-class standards in terms of governance and transparency in the bidding process.

The members of the fund's board of directors should be carefully chosen to protect the interests of the Greek people. Directors should be chosen on the basis of merit and be experts in matters of accounting, finance and valuation so they can effectively oversee the sales of assets.

Greece can follow best-practice governance processes such as those adopted by the Norwegian pension fund that manages the wealth of the Norwegian people from the extraction of oil.

Choosing the right partners

Buyers have reputations – good or bad – and the directors should take them into account, along with bid price, when choosing to whom they will sell an asset.

Companies, investment funds or sovereign investment partners who have developed a reputation for responsible business practices and the creation of value for all stakeholders can create more value for the Greek people. Businesses that promote the development of skills, safe working conditions, protection of the natural environment, and product safety and quality will create competitive advantages for the country over time.

The right framework

The Greek government uses cash accounting, and therefore does not prepare a balance sheet and does not take inventory of its assets and liabilities.

"You manage what you measure," and it is obvious in the case of Greece that not measuring assets and liabilities using internationally accepted accounting standards leads to mismanagement of both assets and liabilities.

We need a fresh start and the right framework under which to start creating value for the Greek people. This framework is to *measure*, *analyze*, *create* and *communicate* value.

Measure the value of the assets and liabilities and the net worth so the measures can be analyzed. Analyze performance over time and relative to other countries in the eurozone so the analysis can be used as an input on what needs to change to create value. Create value by adopting policies that will increase the value of the the assets. Communicate the value creation story to build trust and confidence in the economy and attract investments.

Following some of these guidelines will help ensure that the Greek people get the most out of this fund, and that in turn could bring their economy and livelihoods back to life more quickly.

https://theconversation.com/greece-bailout-includes-a-50-billion-asset-fund-heres-how-to-avoid-wasting-it-44640
