

**PRIVATIZATION
IN BULGARIA**

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INTRODUCTORY NOTES

Along with its monthly macroeconomic business surveys, AECD intends to launch the publication of semi-annual surveys on the pace of structural reforms and privatization in Bulgaria. The surveys are aimed at: (i) evaluating the host of institutional and managerial measures, laying the groundwork of privatization in the state sector. Since statistical report on the above measures is unavailable, AECD intends to handle privatization information drawing upon the data offered by executive authorities and ministries. AECD surveys will also account of the practical implications of the host of institutional and legislative measures undertaken; (ii) keeping track of the overall pace of restructuring and privatization from the point of view of the set of macroeconomic conditions as projected in the government's framework. Assessments will rely on AECD own research and insights into the process of privatization. The present paper thus appears to be the first in a series of Working Papers on the structural reform and privatization in Bulgaria.

The Bulgarian blueprint of the economic reform rests on a special clear-cut disposition of its parts. It has been two years now since the stabilization programme has been put into effect and is still lacking in an inbuilt structural reform and privatization steps. The difficulties all former socialist countries enjoying the painful transition to a market economy encounter are enormous. But the delay in implementing privatization measures in Bulgaria is taking threatening dimensions. Once again the fragile attainments and gains of the stabilization programme have been put to a hard test. Their further sustainability is exacerbated by run-down stabilization potentials. Reminiscences of the abortive reform efforts under the former command economy are still rampant. Furthermore, any endeavour to implement structural and privatization measures draws forth a loud social, political and psychological response. Resisting it means either sustaining the privatization effort or suspending it. All this results in the growing instability of the reform.

Structural measures have reached a critical point. The mix of physical restitution (i.e. the restitution of real property in its real proportions) plus the lack of any semblance of a capital market and small-scale privatization has been entirely undermined. Although privatization measures are medium-term, it is now clear that sources to consolidate structural reforms and quicken

their pace are hard to ensure. Privatization is at present facing the real danger of its own erosion.

Political assessments as to the pace of the reform may likewise result in mounting tensions. Devoid of initial general consensus of opinion, the reform is now being accompanied by sharply contrasting interests, whose clash is hardly pliable to predictions. Public negation and discontent are in an equal degree generated by both concrete privatization measures and their postponement. The fuzzy and unstable social structure as well as inconsistent reform ideologies further intensify the above process. The danger of overpolitization of the economic reform is already in the air.

RESTRUCTURING AND FINANCIAL GROUNDWORK OF STATE SECTOR PRIVATIZATION

Transformation and Demonopolization of State Enterprises

Transformation and demonopolization laid down the organizational principles of privatization of state enterprises. They were necessitated by the previous deficient legal organization of state enterprises in their capacity of public institutions. By the summer of 1991 there had not been even the slightest trace of any legal commercial system discernible in the country. The Law on Commerce, adopted in July 1991, made the cleaning up of property claims in state enterprises possible, allowing for their transformation into commercial companies. Within a few all-pervasive rounds of transformations about 1500 limited-liability companies and joint-stock companies (with 100% state participation) came into being. 1100 of them were limited-liability companies and 400 joint-stock companies, including 280 commercial companies in transportation and 140 in agriculture. The above process has died away on the account that a substantial part of state enterprises have already been transformed. Now a tendency towards a further hiving-off of already converted companies is coming to the fore.

The procedures on state enterprise transformation are carried out by the Council of Ministers at the explicit proposal of the respective ministries. The set of transformation guidelines encompasses the re-evaluation of enterprise assets, (Decree 179, 1991). They, however, fail to counteract the tendency towards reductions in authorized capital when companies apply for registration. A major reason for this is attributed to the large volume of

outstanding debts of state enterprises as well as the lack of any concern with reduction sanctions on the part of the financial authorities. This in turn will undermine the very tax base in taxing enterprises' profits. Hitherto, there has not been a single instance when a state enterprise transformation has been turned down, which further underpins the above tendency.

State enterprise transformations have been coupled with demonopolization steps. Mid-1992 saw the formal end of all monopolies of the "commodity" variety (production and trade of consumer goods and services). Both the wholesale purchase of agricultural products and bureaucratic "caps" have also been formally brought to a close. Due to considerations of competitiveness, the Balkancar Economic Corporation has not been demonopolized and conglomerates such as Incoms-Telephone (merging some 20 commercial companies), Metalchim (30) and Metalsnab (12) were transformed into holding companies encompassing dozens of independent companies.

Formally, transformation and demonopolization amounted to the introduction of an overall merchant regime and the free access to formerly inaccessible industrial sectors. The effect of the above measures has been institutionally consolidated by the adoption of the Law on Competition Protection. But real efforts to strengthen the antimonopolistic environment have not been made. The portfolio of products is left out of control due to the absence of regulative schemes which are otherwise indispensable and absolutely mandatory in filling the vacuum, created by the collapse of the previously operative mechanism of relations. The monopolistic power of the state has now been reduced to its commodity and regional varieties. As for agriculture, antimonopolistic measures are implemented at the cost of numerous compromises. Government control over procurement prices in agriculture has superseded state monopoly in the sector. Despite the fact that control is exercised over a very limited number of agricultural products, it has a repressive effect on the sector. As for foreign economic exchange, the effect of commercialization has favoured mostly former foreign trade organizations which found themselves in a more advantageous position as to their participation in new joint ventures and joint-stock companies.

Anticipations that state enterprise transformation and demonopolization will bring new economic formations to life proved over-rated. As in the initial stages when a further hiving-off was well underway, companies with 100% state participation are still persisting. Practically speaking, joint ventures with national private and state capital are non-

existent. Although Decree 56 first and later the Law on Foreign Investment had made provisions as to the creation of joint ventures, the latter barely amounted to 189 by the end of 1991. Another 20 joint ventures (with exclusively foreign participation - American, Singaporean and Hong Kong) have been registered since early 1992.

We are thus justified in concluding that there is some collusion between the Bulgarian part and foreign firms as to transformations into joint-stock companies to render services and activities against some stake in profit, i.e. joining "without capital". There is no record of the number of joint ventures outside the country. Joint ventures have taken the form of capital outflow thus allowing partners to make considerably greater gains than those out of promoting capital inflow.

MANAGEMENT CONTRACTS

The idea of management contracts has been borrowed as a cheap and efficient avenue to gap-management, i.e. to profit maximization with a view to the resources available. Management contracts are also heavily relied upon as a pre-step to managements buy-outs. The lack of any traditions in self-management practices and the stubborn resistance of firm managers against the economic reform accounted for the policy choice.

State enterprise transformation has been used to replace previous management teams. Transformations were initially intended to be carried through contracts between the Council of Ministers and candidate managers of limited-liability companies (joint-stock companies elect their own management bodies) but were soon abandoned because of the flaws of the Management Contract Regulation. Thus, only thirty-six contracts have so far been signed. Instead, the nomination of managers has been put forward. About 300 firm managers have been appointed hitherto.

Consequently, the system of management contracts has been undermined due to:

First, **the lack of managerial law** responsible for the imitation of the previously existing organization of management and manager's remuneration (the manager's remuneration in a limited-liability company with 100% state participation should not exceed 150% of the average wage in the same firm). Management contracts are devoid of clearly stated criteria and parameters which are to be strictly kept to. In cases of violation of the law managers, therefore, come under the provisions of the common law, which in itself is a

highly insufficient punitive measure. The disadvantages of the system of management contracts are further heightened by the little incentives they provide for foreign candidates. Only two applicants have met manager's requirements but they have not been approved of by the Council of Ministers. A certain "disruption" in the manager's remuneration in joint-stock companies is discernible. It has been attributed to the high profitability of firms rather than the operation of some efficient regulation. The abandonment of the initial Privatization Bill, which included a special chapter on management, made an overall normative management organization all the more exigent. Thus, Decree 32 of the Council of Ministers, under which management contracts have been executed, has been temporarily relinquished on the account of the flaws of the now existing normative organization. Military industries in which a limited number of contracts have been signed are the only exception.

Second, the exercise of a strong political and trade-union impact. The replacement of nomenklatura managers sparked off a series of protests and public discontent and triggered off attempts at their restoring to their posts. Economic criteria were entirely given up in order to appease workers and resolve trade union and labour conflicts. A notable difference in the appointment of managers now involves the additional requirement that the latter should be approved of by local governments too. **Economic principles have been fully abandoned bringing discredit upon and questioning management reforms in the newly-formed companies.**

Winding-up and Liquidation of "Bad" Enterprises

No precautionary measures as to the liquidation of "bad" enterprises have been implemented. The situation thus becomes contingent on the lack of interest in establishing proper and adequate bankruptcy procedures. It follows that firms are placed under the pressure of soft constraints reducing considerably the stimulative effects of macroeconomic stabilization.* A brief account of the characteristic features of the situation runs as follows:

- enterprises are involved in enormous interfirm crediting. The close interdependency among them makes their distinction into "good" and "bad" firms hazy. Their counterparts in the monetary area are "bad" banks with equally indistinct financial status. The practical implication is that before their portfolios are cleaned up and restructured, letting the process out of control,

* Avramov R., ed. Economic Stabilization in Bulgaria in 1992. AECD, July 1992.

no matter which side by - enterprises or banks - means inducing and building up unpredictable avalanche-like bankruptcies;

- restrictions on credit lending standards have not proved fully operative. This was evidenced by the markedly negative real interest rate throughout the initial stages of the reform. In the first quarter of 1992 the share of overdue credits within overall credit oscillated between 5 and 25% in the different branches. Debt burdens have been lightened by distributing them over new and old debts thus consolidating the role of economic agents. The conclusion that follows naturally is that such a situation cannot induce bankruptcies;

- soft financial restraints act in a peculiar way upon firms. On the one hand, enterprises continue to be put to severe taxes with an incomplete reevaluation of their fixed assets. Fifty percent payments on due taxes are considered a positive budget result. On the other, the transformation of the 4.3 billion leva firm debt into a government debt and the possibilities following from the issue of government bonds, pledged as a collateral in commercial bank refinancing through Lombard credits enlarged the scope of bank credit expansion.

All this resulted in the formation of a mutual interest in both financial institutions and enterprises to "crush and quell" bankruptcies. Therefore arguments in favour of the lack of an overall normative organization of liquidation procedures (flaws in Decree 56 and the Law on Commerce) are groundless and unsubstantiated.

If, nevertheless, privatization is launched, it will turn into:

- a process failing to generate capital transactions but involving capital market players into a vicious circle. Inflation and the low real interest rate make the owners of capital indifferent to disposing of it granting it to other economic agents. Purchasers, on the other hand, are unlikely to break through into the market for the "anti-incentives" of sales do not provide enough room for action. Arguments that such a room can be gained from abroad take no count of the effects of inflation, which in turn make foreign participants keep their options open in privatization. In this respect the barely perceptible presence of foreign investment is highly indicative of the above processes;

- ignoring bankruptcies means meeting additional requirements in settling debts contracted after the start of privatization. Auctions and capital transfers are likely to suffer most;

- latent inflationary pressures render any internal positive microeconomic effect produced meaningless. Hanging on to recent gains

without improving on them by additional protective measures (opening up possibilities for greater stakes in profit, impossibility of share transfers, etc.) will slow the pace in setting up the infrastructural background of the market economy.

The above developments set out the characteristic features of a possible privatization in its internal variety, carried out by economic agents in a self-sufficient and self-protected, area outlined by the very macroeconomic environment. Thus the attempts at interest rate lowering have virtually grown into a strife to get a firmer hold of internal privatization.

Restructuring Measures

The stringent restrictions imposed on state financing and subsidies (the latter having plummeted to 3.5% of GDP in 1991 against 15% in 1990) replaced active policy-making in this area. The above result was brought about by price liberalization, incomplete revenue part of the budget and unchanged budget structure. The degree of practical freedom in implementing structural measures is highly limited.

For fear of imprecise policy decisions, distrust of the proper exploitation of fund resources as well as the lack of clearly stated structural reform strategies, a restructuring variant to accumulate resources without exhausting them in the initial stages of the reform has been put forward.

The accumulation of resources was greatest in the newly-formed State Fund for Reconstruction and Development (SFRD). The 260 million USD first credit tranches by the EC and the World Bank supplemented the fund resources. Only one-fourth of them had been employed for the purposes of oil import crediting in 1991. Together with the second tranches, SFRD resources have been included in a programme making provisions for resource allocation on free competitive grounds (on 25% preferential terms). The channels and mechanisms of resource allocation, however, remain the weakest part and stumbling block of the programme.

Off-budget and special funds have also undergone further re-organization and consolidation. As a result additional financial reserves to the amount of 3.8 bn leva were accumulated. Reserve resources have not been rechannelled yet.

For the time being restructuring is being looked upon as a way to clean up residuals on fund accounts. In order the debt burdens of the metallurgy and energy sectors to be lightened, previously granted credits by

the extra-budgetary State Crediting Fund were written off in 1992. Structural and Technological Policy funds to the respective ministries have also been reduced to minimum. The paltry amounts of credit granted by the Structural and Technological Policy and Small and Medium Enterprises Funds (400-600 thousand leva) make the restructuring of enterprises wide out of the mark. The private sector has made the most of resource allocation on competitive grounds thus effecting a breach in the programme.

Although in a very narrow framework the budget has returned to the traditional priority industries in the national economy providing direct subsidies for agriculture and the energy sector amounting to 1.3 bn leva and 600 mn leva respectively. Exempt from income taxes, agriculture is granted hidden subsidies amounting to 1.5 bn leva. This part of the programme is to be carried on attended by the extremely eroded revenue part of the budget, boring hackneyed structural priorities as well as by delayed solutions to the pressing branch problems of metallurgy and the other principal branches of heavy industry.

More favourable conditions of financing given, postponing restructuring means less chances in yielding salutary effects. In the context of overall restructuring the prospects of firm development amount to rationalization carried by firms themselves. But with the rather indefinite programme priorities - to privatization or restructuring. Privatization processes have thus once again come to a dead end.

The postponement of structural measures is symptomatic of the distrust of the executive authorities of the programme results. It was prompted up by the overconcentration of resources which in turn made structural measures highly dependent on the budget. The absence of other channels of accumulating financial resources (privatization or new financial institutions) make "white elephants" programmes impossible. Nor can it ensure attractive privatization units.

FIRST PRIVATIZATION RESULTS

Small-scale Privatization

The initial privatization blueprint relied on small-scale privatization to blaze a trail in privatization processes as a whole. Leaving small shops and enterprises to the private sector, it was meant to directly facilitate the market valuation of fixed assets. Complying with the amendment to Decree 56 and

Auction Regulations, adopted by the Council of Ministers rather than any special law, small-scale privatization was launched as early as the summer of 1991. The programme made provisions for the sale of 1500 privatization units in industry, trade, transportation and agriculture, the latter two encompassing chiefly motor vehicle stocks.

Because of the inconsistency of auctioning procedures Parliament put a ban on auctions.

Auctions were launched without pre-institution of ownership being carried out. Hazy ownership claims on building sites, ambiguity of municipal property rights and the absence of prior property restitution resulted in hot and harsh debates over privatization outcomes as early as the first sales. Municipal property turned out to be illegitimate. In most of the cases municipal ownership rested exclusively on the decisions of local governments while building sites were picked up with no property rights on the land. If no measures are taken to fix up the discrepancies between the two levels of state ownership, which are separately perceived, ambiguity of ownership will continue to be the programme's blemish.

The whole spectrum of preferences and restrictions proved to be extremely wide. It both encourages workers and lessees to take active part in privatization by making concessions to them and impedes the participation of foreign investors. But before even being put into effect both preferences and restrictions fell under the lash of criticism.

The lack of any restrictions (not included in the auctioning procedure) on certifying **the origins of capital** impaired small-scale privatization leaving on it the stamp of "money laundering".

The receipts raised at the initial stage of small-scale privatization pointed unequivocally to its failure within the existing legal framework. Due to the absence of any accounts, be they budget or extra-budget, we have no information of the total volume of receipts. The Ministry of Trade and Industry, for example, has raised 17 860 mln leva receipts from auctions, (sales of 4 petrol stations and 55 privatization units in the trade and service sector), which can hardly be considered a satisfactory result. Due to the lack of any mechanisms of receipt rechanneling, receipts are merely added to the accounts of firms and taxed, which in turn wipes out the desired effect of their use.

The adoption of the Privatization Law (23 April 1992) accounted for the new characteristic features of the auctioning system:

1. The notion "**small-scale**" privatization has retained its meaning referring to the ceiling of 10 mln leva book value of assets alone. It also refers

to ministries as the authorized executants of this type of privatization. "Inclusion of untransformed enterprises alone" has dropped out of the old definition. Transformed and liquidated/wound-up enterprises proper are the sole subject of trading provided their assets do not exceed the above ceiling. If, however, the latter changes over time with changes in the rates of inflation, the system of auctioning procedures is threatened to start reproducing the features of small-scale privatization.

2. The preferential price regime has been removed but the possibility workers to avail themselves of a 30% discount of auction prices has not been altogether ruled out. Non-price preferences amount to purchases by instalments or leasing with a subsequent purchase stipulated.

3. The shorter terms envisaged (a year after the enactment of the law) for laying restitutorial claims will further speed up the process. The same is true of former owners' indemnification by taking part in privatization when privatization units are non-existent or impartible (a year and 2 months after their privatization has been made publicly known). The different principles of privatization (physical or indemnificatory) will, however, be applied at the cost of numerous clashes.

Restitution

The adoption of the country's Constitution and the package of restitutorial laws based on the physical principle of property restitution strengthened the political consensus on private property rights reinstatement. The physical principle of restitution also accounted for the specificities of the Bulgarian privatization variant, which as far as land and urban property are concerned has already been underway while industrial units are to be restituted in the course of large-scale privatization.

Land Restitution. Parliamentary legislation bolstered up land restitution as the natural outset of privatization for the simple reason that former owners never lost their formal titles to land, nor has the land ever been nationalized. It followed that the Law on Agricultural Land, passed in 1991, had solely to restore former owners to their property rights. The powerful agrarian opposition in the Grand National Assembly secured property restitution in its real physical proportions but had to concede on the following restrictions: a/ privatized land cannot be sold for a period of 3 years; b/ agricultural land is subject to a ceiling of 20 ha (low lands) and 30 ha (mountainous regions); c/ privatized land is to be cultivated for the purposes of agriculture promotion.

The amendment to the Law, dated 27 February 1992, left the above restrictions out of consideration. But there remained the natural restriction on property right reinstatement in real proportions in accordance with the reductions in arable land. In all these cases the law makes provision for former owners to acquire land plots of the same quality but in other regions.

4.6 million ha arable land belonging to about 1 million former owners will be subject to land restitution. Under the centrally planned socialist economy arable land has become a patchwork of plots on the account that former owners have not laid any claims on it for fifty years. This in turn may further trigger off a series of fragmentations, reparcellations, recompensations and even sales, which for the time being are suspended, for land restitution has covered only 12% of former owners.

The process was further decelerated by the National Land Council, authorized to execute the initial variant of the Privatization Law. Instead, it diverted restitution processes off their course starting procedures on temporary land settlement. Conflicts between former and formal owners mounted up. In addition, with the indefinite status of co-operative farms, the inexpedient formation of agrarian co-operations only intensified contradictions. The actual execution of the second variant of the Privatization Law started as late as a series of liquidations of the existing and newly-formed co-operative farms was launched.

Liquidation procedures amount to a specific blending of both physical distribution of co-operative farms' property, taking into consideration the share participation of former owners, and auction sales. From a purely economic point of view the effect produced is rather indefinite, for liquidation procedures outstripped solutions to the debt burdens of agricultural enterprises.

The Ministry of Agriculture, a direct successor to the National Land Council has been charged to exercise control over restitution processes and avoid plundering of capital stock and outflow of resources while liquidation commissions have been granted the political support of local governments. Commissions have to go through the liquidation of the previous economic structure of the sector retaining its infrastructure, so far controlled by village nomenklatura leaders.

Urban Property Restitution. The adoption of the two restitution laws made urban property restitution possible restoring the status quo ante of 1947 and 1974 when shops and buildings were further subject to expropriation.

Restitution was largely accelerated by the application of the physical principle and the enterprise of former owners. Within a few months only they managed to restore themselves to their property rights and involve restituted units into trade turnover. Although this form of restitution encompassed only

2-3% of the building stock, the effect it produced spurred investment in and the development of these units as well as the appearance of a vast range of services influencing substantially the price and rent of privatized shops.

The conflicts stemming out of this type of privatization are mainly consequent upon the cancellation of legal transactions with privatization units. Providing evidence that formal owners do not act in good faith is a hard and sometimes intractable legal problem to solve assuming political connotations. Municipalities are encumbered with solving the economic problems evolving from this form of reprivatization. They are also assigned the task of raising funds for the settlement of formal owners and consolidate the infrastructure of the public sector.

Restitution of Industrial Units. This type of restitution is hindered by delays in launching large-scale privatization as well as by the difficulties encountered in overcoming and transcending the physical principle of reinstatement of property rights. At the same time industrial enterprise restitution proves to be the stumbling block in overcoming these principles. The Privatization Law has shaped the mechanisms and techniques of restitution:

- former owners' claims on modified industrial units are resolved by a voucher system of participation in privatization in terms and ways determined by experts (a year after the privatization of a unit has been made publicly known). The same holds true of former owners of land, utilized for building sites.

- indemnitees are stripped of any right to lay ownership claims on expropriated or nationalized privatization units.

This type of restitution reproduces the physical principle and criterion in seeking a preliminary ("expert") solution as to the degree and share of former owners' participation in large-scale privatization.

The chief economic impediment to such solutions amounts to the lack of infrastructural background of approximation to the market valuations of assets, incompatibility of the weights of the parts with distinctly modified industrial privatization units (a guideline in the Privatization Law) as well as the complexity of diachronic comparison of effects.

Such assessments are likely to heighten the contradictory nature and controversy of solutions. Problems may also arise over the exclusion of indemnitees from privatization processes. It is a well-known fact that in the past the law has been systematically violated and former owners have been offered paltry and scarce amounts in return for their nationalized or expropriated property.

The privatization variant proposed is a continuation of the initial course of reprivatization spreading over industry. Together with the other types of restitution it further underpins the manifestation of "internal" privatization.

Transformation into Joint-stock Companies

The scope and range of this type of privatization are not fully clear yet. The joint-stock companies involved in it represent a bare 0.6% of all firms. Although transformations followed the steady principle of converting only profit-making firms, the environment created did not trigger off breaches in the mechanism.

Transformations into joint-stock companies are further stifled by the low degree of efficiency of capital, as embodied in low dividends in joint-stock companies. Additional dividend reductions are brought about by the companies' unlimited liability, the greater risk they have to shoulder requiring hefty sums of investment as well as by their financial burden forcing them to further reduce dividends. All this lends transformations the characteristic features of profit sharing clause.

The existing downright "disruption" in the levels of dividends and interest rates on deposits (by 3 to 4 times) offers no substantial incentives for the transformation of household savings into investments. Even though investment injections may have some stimulative effect on the effective interest rate, they run up against the changes in ownership effected.

The high degree of riskiness associated with the still unaccomplished restructuring and the hazy distribution of gains make investors extremely cautious. This in turn puts the brakes on the demand for shares. The possibilities of pushing the process forward to a secondary market under the impact of a rising effective interest rate are reduced to minimum.

It follows that the judicious choice of a successful transformation regime may remove the above restrictions. As compared to the other Eastern European countries, the Privatization Law is aimed at providing neater solutions to the problem. The underlying assumption here is that in their cases privatization is believed to be somewhat hamstrung by excessively high preferences: 25% discount in Poland and free voucher distribution in Czechoslovakia. The adoption of a preferential regime making provisions for a 20% discount on shares at half-prices and imposing a ceiling on the discount (not surpassing the amount of workers' wages in the preceding year) asserts the principles of the market.

Within the context of a nascent privatization such an assessment may prove precipitous. Preferences, be they high or low, presuppose reduced prices at a low effective interest rate, which can be thought of as a good approximation to current conditions. Some effect may be drawn forth provided the regime, referring to the 20% nominal non-voting shares sold at half prices, is spread over the process as a whole. Against the background of current conditions privatization through transformation into joint-stock companies and sales of shares entails a degree of freedom which is highly arbitrary. Although the law points to no efficient mechanisms of consolidation, the latter become all the more exigent (ESOP, collective purchase of shares, sales to a definite investor, etc.). Their initial character can in no way be said to be a market one. Going out on to the genuine capital market is a hard task.

The non-market effects of the above regime can be neutralized by the proper mix of direct sales which increase prices and thus counteract the erosion of the process. As long as the two types of privatization are carried on under the conditions of inflation, direct sales are expected to hold a considerable advantage over corporatization thus absorbing liquidity and further eroding corporatization. The co-occurrence of the two types requires a careful and judicious selection of privatization units, which produce adverse effects: share acquisition and auctions. Only then such a mixed effect may be said to have acquired market characteristics.

As compared to the entirely non-market forms of restitution promoted to date, transformations into joint-stock companies and direct sale remain the only profitable vehicles and devices of privatization. An internal equilibrium between the two, however is not an easily feasible task.

INSTITUTIONAL FRAMEWORK

The Privatization Agency (PA) is an institution responsible for the execution of the Privatization Law. Drawn-out hot debates and vague privatization schemes gave rise to the legal hiatus as to the status of the agency. Delegated the rights of the State in privatization, the agency has in the long run emerged as a government body to the Council of Ministers. The alternative - subordination to Parliament - was a product of largely populist sentiments seeking reconciliation of interests rather than providing an in-depth solution to clashing motives.

The strife to grant the agency a parliamentary status was projected onto its very supervisory body. Six members of its Board of Supervisors

(consisting of 11 altogether) are MP's and five - executive officials of the Council of Ministers. Once again, the Board of Supervisors was elected at the cost of specific political concessions. From the point of view of the initial stages of the economic reform, at which executive authorities failed to display their firmness in implementing restructuring measures, the above variant is quite plausible.

Such a status is conducive to the exercise of control and yet is stripped of executive force, which due to the lack of traditions the Privatization Agency has to wrest out of the Council of Ministers. As in all previous command economies, the Council of Ministers is the focal point of economic agents' interests. Their automatization will be both the greatest ordeal and highest achievement of the economic reform in this area.

A very difficult area of privatization encompasses units whose valuation of assets ranges between 10 and 200 mln leva. They have to undergo a double procedure: privatization proposal by the Council of Ministers with a privatization scheme worked out by PA inclusive, and a subsequent approval by Parliament. Only then PA has the right to make the final decision as to their privatization.

Another problem may arise over the bringing of the privatization programme and its targets into line with the willingness of the Council of Ministers to offer units for privatization .

Conflicts with financial institutions are inherent in the prerogatives granted to PA to make decisions (after the explicit approval of the Ministry of Finance) as to transformations into joint-stock companies via instalments or debt-equity. Such a conflict is also inherent in the public sale of shares at the explicit consent of PA.

The Privatization Law makes no provisions as to the institutional framework of the state's property rights in enterprises nor as to the state's shareholding rights in enterprises subject to privatization. Since the law is already existent, the problem will not be solved in a way similar to that in other countries, where independent institutions like the State Property Agency or Eastern European the State Holding have been founded. The Privatization Agency is in the embarrassed position of uncertainty till 30 October 1992 when the Council of Ministers is to submit its decision on the problem.

The financial institutions of privatization presuppose the establishment of several funds:

A special off-budget account encompasses receipts raised by privatization. The allocation of resources is to be carried out on condition that any possibilities for the reproduction of previous structures of ownership are

ruled out. Thus, 30% of the fund resources has been allotted for social insurance purposes. Yet there are cases when the principle of allocation has been backed away from: 1/ by granting 10% to agriculture; 2/ by granting resources to the State Fund for Reconstruction and Development, whose amounts have not been fixed and 3/ by the possibilities offered to municipalities to invest part of the resources.

The law makes provisions for the formation of **a mutual fund (MF)** which is assigned the function of a key financial intermediary in privatization.

On the one hand, MF raises resources from the special off-budget account, i.e. it supplements the receipts from already accomplished privatizations. On the other, MF is granted 20% free of the shares of the privatized state and municipal enterprises. Thus, the fund consolidates its own privatization groundwork and becomes self-privatized. Its intermediary function is considered fulfilled once social insurance funds, to which MF should rechannel its resources, have been formed. The Council of Ministers, a founder and trustee of the fund, warrants the achievement of the above objective. The law also allows for an ancillary intermediary agent. While social insurance funds are still in the making, BNB is assigned to exercise control and supervision over the resources accumulated in the mutual fund after a confidential principle.

All privatization institutions in the Eastern European countries share a common element - **a maintenance/operating expenditure fund**, drawing its resources on the government budget. This, however, is considered a digression from the Privatization Agency's neat functions on transfers. What is more, financial expenditures on pre-privatizations are not made by PA.

The set of funds, projected by the law as well as the underlying principles will function along distributive lines rather than facilitating the consolidation of the privatization groundwork. This is due mainly to the dispersion of resources, which with the relatively low profitability of the process will put off the implementation of privatization on its own solid financial groundwork.

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