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PRIVATISATION IN BULGARIA

February, 1994

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Working Paper No. 98

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by

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August 1993
(Revision of June 1993)

This paper is being prepared for inclusion in Saul Estrin (ed.) Privatization in Central and Eastern Europe, to be published by Longmans in 1994.

Abstract

The policies, processes and some of the economic effects of privatization in Bulgaria are examined. The paper is organized around the main phases of Bulgarian privatization, though we focus on the fourth and still on-going period that began in the Spring of 1992. Finally we offer a critical evaluation of policies designed to foster privatization in Bulgaria

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We have benefitted from conversations and correspondence with Mario Nuti, Svilen Parvulov, Ognian Pishev Mieke Meurs, Tom Weisskopf, Roumen Avramov and Zeljko Bogetic. Jones acknowledges help from IRIS and Rock benefitted from a grant from IREX during 1991-92.

Introduction

In this paper, the policies, processes and some of the economic effects of privatization in Bulgaria are examined. Our definition of privatization is very broad. As well as fully-fledged forms of private ownership, we include hybrid¹ forms of economic organization in which, compared to state-owned and controlled firms, there is a large measure of operational control by non-state parties. In addition enterprises which have emerged through the transformation of existing state-owned firms and firms which have been newly created are examined.²

The paper is organized around the main phases of Bulgarian privatization. We focus on the fourth and still on-going period of privatization that began with the passage of the Transformation and Privatization law in the Spring of 1992. Since privatization is inherently a political process intimately bound up with other economic policies, these episodes are discussed *inter alia* with the broad political and economic situation. Finally we offer a critical evaluation of the policies designed to foster privatization in Bulgaria.

I The Economic Context and Privatization Initiatives Before Spring 1992

A. The Economic Context

Before discussing the earlier phases of privatization, we briefly note two important features of the Bulgarian economy since the late 1980's, i.e. since discussion of the need for "restructuring" (and in some cases, for "privatization") first seems to have begun. Unlike Poland and even the former GDR and Hungary, there was no private sector in Bulgaria during the communist era. The starting point on the road to privatization was one where almost all of the economy was state owned. Also the cooperative sector (which was part of the socialized sector) was quite small compared to countries such as Poland; this was especially the case in the industrial sector. In turn this predominant type of industrial organization led to fantastic economic concentration; giantism without small firms was the order of the day (Jones and Meurs 1991; Jones and Parvulov 1992).

Second, the beginnings of the transitional process in general (and privatization in particular) were marked by an economic context that was extraordinarily unfavorable, even when compared to many other Eastern and Central European economies. This is the case on matters such as: the level of external debt; the enormous dependence on CMEA markets; and severity of the disruption to trade and loss of markets because of the recent conflicts in the Balkan and Middle east region.

B. Privatization under Zhivkov

The key political change in recent Bulgarian history was the replacement of the dictator, Zhivkov, after a bloodless coup in November 1989. Until then, often articulated elements of industrial policy under the old regime were a series of fairly modest innovations concerning what we are calling privatization. In this pre-history of privatization under the communists, several initiatives (mainly Decree 12 and 33) were introduced and supportive institutions were established (notably the Bulgarian Industrial Association) to foster the development of new firms within the state-owned sector. While these reforms led to the establishment of up to 700 new production units (Jones and Meurs, 1991:320-323), in practice only a minority of these firms were autonomous. However, the entry of some new non-state firms did represent a turning point in the postwar history of economic organization in Bulgaria, although in the aggregate these changes accounted for less than 1% of total employment and thus barely affected the existing size distribution of firms.

Potentially a more important change was the introduction of Decree 56 in January 1989. This new commercial code re-established the right of new private firms to exist, to hire up to ten permanent employees and to sell enterprise assets. Consequently by the end of February 1990 more than 14,000 (of a total of 15,500) registered firms were private firms. However, many new firms existed only on paper and those that did actually operate were typically quite tiny.

Also during this period a special agreement (signed by the Komsomol, Central Cooperative Union) of 1987-1988 re-established the right to operate what were essentially autonomous cooperatives. While most such firms acted to service collective farms, unfortunately the available data are extremely limited.

C. November 1989-End 1990: The Era Of Wild Privatization

The political events of November 1989 were followed by the rapid emergence of political pluralism, much of which coalesced into the Union of Democratic Forces (UDF). However, it was the Bulgarian Socialist Party (the BSP, formerly the communists) that received a mandate in the free elections in June 1990. After unsuccessful attempts to form a coalition government, in September, the BSP was forced to establish a one-party government. During this time their popular support significantly eroded and in December 1990 the Socialist government fell. During this period (as in others) the privatization process in Bulgaria was in no way a well-thought-out and rationally unfolding process. Rather it reflected the shifting political sands during a period of persistent political struggle.

In fact the privatization process for much of this period was one of uncoordinated, ad hoc privatizations. This "wild", "quiet" or "spontaneous privatization" involved the sale of

portions of state owned assets at their listed book value.³ Due to accounting practices under the previous system, in many cases these values had little relationship to any probable market valuation. This period of privatization has been condemned by some as one of self-serving and scandalous grand theft on the part of managers and communist party members. However the scale of these privatizations is not clear since no data appear to exist. Moreover, even in well known cases, with Decree 56 and other enabling decrees making the legal regime murky, proving wilful fraud seems unlikely.⁴

D. End 1990 - Oct. 1991: Small Privatization, Restitution, and the New Cooperative Law

After the fall of the Socialist government subsequently a coalition caretaker government headed by the UDF under Dimiter Popov emerged. As a result this period was also characterized by political deadlock and not much legislative activity took place.⁵ In particular, a comprehensive privatization law was not enacted. At the same time, both the importance attached to privatization, as well as the ostensible objectives of the process, clearly changed during this period. The Popov government announced its commitment to rapid privatization with a specific timetable for early 1991. In addition under the Popov administration (but even moreso under the subsequent UDF government) privatization was conceived as having dual aims: that of securing economic efficiency but at the same time ensuring that the previous elite has fewer chances of re-emerging.

In terms of actual privatization, the hallmark of this period was the so-called small privatization of mostly service and retail units. This began at the very end of 1990 after the new more liberal ministers took office in December. Several small auctions (both open bid and solicited tenders) occurred on an irregular schedule. However, after the passage of a new commercial code, (both replacing and accompanying portions of Decree 56), and in anticipation of the reasonably rapid passage of a comprehensive privatization law, these auctions were suspended in the last half of 1991. In any event many of necessary steps preceding actual auctions had got bogged down and/or politicized in fights between municipalities and the federal government over ultimate ownership of assets that were to be sold. The small privatization program in fact led to very little transfer of ownership and little raising of revenue, with property sales including a few gas stations.⁶

Also begun during this period was the process of restitution of land to former owners under the terms of the Law on Ownership and Use of Farmlands.⁷ As such, restitution is one of the forms of privatization that has assumed great importance in Bulgaria. Unfortunately progress under the provisions of the restitution laws has proceeded slowly in this and in subsequent times. In

turn, this has slowed down other forms of privatization. For example, as the claims of former owners are sorted out this naturally puts a brake on the selling of assets; it makes the situation murky as to what can and cannot be sold.

Another development was the passage of a New Cooperatives Law (July 1991). By repealing the 1983 law this measure abolished the control function that had been exercised by the old cooperative unions and, by providing for new governance structures, led to the reorganization of many "old" cooperatives under the new statutes. Hence there was a modest growth of independent cooperatives during this period. (Meurs and Rock, 1993).

E. Changes in Ownership Forms: 1990-1991

The absence of any reliable system of gathering information on the consequences of these particular changes means that it is impossible to obtain accurate data on even basic indicators of the economic importance of these non-state forms of economic organization. Some things are known, however. Further growth of the small firm sector has continued during this period. The data show continuing large increases in the number of new firm registrations: by the end of 1990 there were 69,00 firms and this had grown (according to differing estimates) to between 130,000 and 180,000 by the end of 1991. It is also clear that most of these new ventures were in services and trade. But the absence of information on even the average number of permanent employees and average sales means that the overall economic significance of this economic activity is impossible to determine.⁸

It is also difficult to get reliable data on the pace of change in legal forms of ownership for firms that originated in the state-owned sector. However, survey data (see Jones, 1993a) for a panel of manufacturing firms that began as SOEs, and which was representative of employment in such enterprises in the principal urban areas from 1988-1992, show that in 1988, 92.1% of manufacturing firms were state owned. By 1990 this had fallen slightly to 89.7% with further declines in 1991 to 80% and in 1992 to 76%. These data also show that during the same period the percentage of joint stock companies in which the state had a significant (often a 100%) ownership position increased steadily from 0.7% in 1988 to 12.7% in 1992. Finally, the survey shows that those cooperatives that regarded themselves as independent accounted for 5.7% of the sample in 1988 and increased to 8.5% of the sample by 1992. But fully-fledged private firms were always a rarity in those manufacturing firms that were once state-owned; even by 1992 they represented only 1.8% of the sample.

Within manufacturing, property forms have evolved at different rates and in different directions across industrial sectors. Thus in 1988 in engineering 98.5% of all sample firms were state owned; only one (of 132) firms was state-joint stock

and one firm was an independent cooperative. By 1991 only 81.8% were still fully-fledged state firms, while 10.3% were state-joint stock, 1.5% were independent cooperative and 0.4% were private. A year later the corresponding figures were 79.5, 16.7, 2.3 and 1.5. But in the food industry, in 1992 still 88% of all enterprises remained fully state owned and controlled. This contrasts with chemicals where by 1992 almost half of the sampled firms had moved away from a pure SOE form.

In principle, another way to gauge the extent of the impact of privatization is to examine data on joint ventures. Again, in practice, absent centrally co-ordinated reporting requirements, the available data are very incomplete. However, the clear impression is that such activity is not very extensive.⁹ Data derived from the same sample of manufacturing firms confirm the conclusion-- during the period 1988-1992 only eleven firms (about 2%) had ever been involved in a joint venture. Interestingly, of these eleven only one joint venture was with a private firm. For the remainder all joint ventures were with firms that continued to be state owned (and not transformed into a joint stock form) throughout the period.

II Privatization since November 1991: The Focus Moves to Large Scale Privatization

Following new elections, in November 1991 for the first time a non-socialist party (the UDF) alone formed the government. At the same time, reflecting a continuing polarization of politics, the socialists gained almost as many seats as the UDF. Except for the ethnic-Turkish party (The Movement for Rights and Freedoms) not one of the more than 40 smaller parties secured any Parliamentary representation. Furthermore, in Presidential elections in January 1992, the UDF candidate Zhelu Zhelev was victorious, though the opposing candidate, supported by the BSP, received 46% of votes cast. Thus for most of 1992 the situation was one in which the UDF, led by Prime Minister Phillip Dimitrov, was in the driving seat. However since the balance of power was held by the Movement for Rights and Freedoms, the position was often tenuous, and it proved difficult to introduce new legislation and even more difficult to effectively implement new laws. Unsurprisingly the situation proved to be unstable and in November 1992 the UDF government fell. This political stalemate was resolved with the emergence of a new coalition government (in January 1993) under the leadership of Lyuben Berov, who was nominated by the Party that represents the ethnic Turks, the Movement for Rights and freedoms.

Against this backdrop the UDF government first reiterated its dedication to a comprehensive program of rapid privatization. The key privatization measure to date was adopted on May 8 1992 -- the Transformation and Privatization Law. While this law was written and passed under significant pressure from international

financial organizations in order to secure continued credits for the transition period, the law also reflected a continuing controversy over the appropriate type of privatization program. Other enabling rulings were required to make the law workable and these only came into being in late 1992.¹⁰

The political process of creating the privatization law led to a compromise which now involves several groups and agencies in the actual process of privatization. The State Privatization Agency (SPA) was established to create annual plans and to carry out privatization of the larger (more than 10 million leva in long term assets) SOEs. This body has the role of overall monitor, reporting directly to the Council of Ministers. However, many other actors are involved in the administration and management of the process. For example, consideration of a SOE for privatization may be initiated by different interested parties: the Council of Ministers and a special sub-committee, of the National Assembly; certain ministries (most importantly Agriculture and Industry); specialized government agencies (e.g. the Committee on Telecommunications); municipal governments; special privatization bodies created by municipalities; managers and workers; potential buyers; and creditors. Also, the municipal councils handle privatization of municipal assets themselves.

The main method of privatization under the law is the sale of shares, with share prices to be determined by competitive bidding. Apparently it was believed that the sale of assets (rather than, for example, giving them away) would likely lead to a better matching of assets and new systems of corporate control. At the same time the law has always appeared to be quite flexible. For example, it provides that the prices at which SOEs must be sold are subject to negotiation, thereby acknowledging that in practice simple auctions may themselves have problems.¹¹ In that process, the ultimate decision-maker (the SPA, the Parliament and cabinet, or municipal governments depending on which SOE is being transferred) may weigh heavily factors such as job creation or training, future investments and the impact on exports. Indeed such considerations may outweigh the bid price and in some cases the SPA anticipates divesting of some enterprises for only a nominal (one lev) payment. Leasing, renting, and management contracts with options to purchase may all be used instead of immediate sale.

The Fall 1992 Letter of Intent of the SPA stated that the main goals of privatization are: (i) attracting foreign investors; (ii) raising money for social security and for reducing the government budget deficit; and (iii) assisting in the creation of efficient capital markets and financial institutions. The SPA hoped to complete the task of privatizing 25% of the large enterprises under its direct jurisdiction by the end of 1995 (even though the law permits a 5 year period for transfer). But the start of the process was delayed by the lack

of enabling decrees and by continuing instability of the government at the end of 1992 and in early 1993.

The 1992 Privatization law grants two basic types of privilege or price reduction on assets purchase by employees. Each type depends on the type of SOE. In all cases the maximum total price reduction per employee is constant and in no case is the preference greater than one year's salary. One type permits employees in corporatized SOEs¹² to buy a portion of their own firm at a 50% reduction on the assessed valuation price. The preference sale to employees may only be for a maximum of 20% of the enterprise's total shares (in joint stock SOEs) or total capital (limited liability SOE). The total preference reduction for any single employee is also restricted. It can be worth no more than the employee's cumulative salary for between eight months to one year, depending on tenure. A significant additional restriction on the value of these preference purchases is that the acquired shares or portion of capital have no voting power in determining the controlling supervisory board of the enterprise (for a period of three years after purchase).

Different rules apply to SOEs which have remained as Directly owned SOEs (i.e. neither joint stock nor limited liability corporations.)¹³ In these cases, if at least 30% of the employees wish to submit a bid to buy the company outright, they may do so. If their bid price for the SOE wins, their actual payment is reduced by 30%. The same restriction on total preference reduction holds as with corporatized SOEs-- a maximum value for the reduction of one years' salary. Hence, this type of worker buyout requires more cooperation among employees--at least 30% must agree to submit a bid --and it also apparently allows employees to gain full control over the enterprise.

The privatization law and associated regulations also provide that 20% of the shares (or stakes in a limited liability company) will be allocated to a Mutual Fund. An equivalent amount of cash may be given to the fund in lieu of shares. The law provides for this fund helping "Bulgarians freely taking a part in privatization..." as well as contributing to the Social Insurance program and for compensating former owners whose specific property cannot be restituted. (Article 8).

Finally some brief words on the structure and functioning of the administrative side of the operation. Fundamentally, the law provides that the SPA is to be governed by a Board of eleven members, each of whom has a four-year term. Six of the members are appointed by the National Assembly; the balance is appointed by the Council of Ministers. Beyond this, at the time of writing, the operational realities of the SPA are still in flux.¹⁴ Thus was the case, for example, concerning both the establishment of particular divisions within the SPA, the size of the total staff and the number, location and functions of regional offices.

IV Overall Evaluation

In evaluating the Bulgarian experience to date, the first thing that the previous account should demonstrate is that, as in most emerging market economies (and unlike the introduction of privatization in western economies), privatization has not been introduced in Bulgaria as part of a carefully planned and well thought-out scheme. While since 1989 nearly all administrations have at least paid lip-service to the goal of "privatization", a series of political struggles and economic crises have meant that other matters have typically claimed prior attention. Often the facilitating legislation that in fact was introduced was a response to a particular set of circumstances, sometimes reflecting what was practically possible and policy makers' assessment of the populations' tolerance of transition costs. The Bulgarian experience also shows that the results of privatization laws are not easily predictable.

In attempting to gauge how the process of privatization in fact is faring in Bulgaria, the first difficulty is the absence of a single co-ordinating agency that collects information on all types of privatization. While this is particularly troublesome for small scale privatization, the multiplicity of partners involved in large scale privatization also sometimes leads to comparable difficulties in assembling reliable data. In addition despite its having been outlawed, there is much anecdotal evidence that "wild" privatization continues (though the sophistication of the parties in camouflaging such schemes conceivably has improved.) Moreover, as former SOEs drift towards privatization, a complex system of institutional cross-ownership seems to be emerging. Often through several layers of holding companies it appears that banks hold large stakes in firms and that companies have also secured stakes in each other. Penetrating these mazes of ownership patterns makes accurate assessments of changes in ownership regimes difficult. In turn, absent general measures to facilitate conversion of these ownership claims into debt, the pace of the emergence of fully-fledged large private firms may be slowed.

For functioning economic enterprises, overall it seems that relatively little has been achieved thus far in Bulgaria. In the sense of transferring ownership claims, privatization, certainly for large and probably for small firms, has been proceeding much more slowly than most had expected. Indeed, while there is disappointment with the pace and consequences of privatization elsewhere in the region, in Bulgaria this is perhaps especially acute. At the same time an important part of the privatization process, and a feature that is unusually prominent in Bulgaria (compared to many other countries), is the restitution legislations. While in terms of the transformation of SOEs into fully fledged private enterprises as yet little has happened in Bulgaria, there are lots of indications that firms of a more

hybrid nature have begun to assume much greater significance in Bulgaria. Moreover there is preliminary evidence that the behavior of state joint-stock companies differs in important respects from pure SOEs. (See Standing et al. 1993 for evidence on labor market outcomes.)

Turning to specific areas of activity and considering first large scale privatization, when the results are evaluated against the three objectives set by the SPA itself -- attracting foreign investors, gaining revenues and developing capital markets-- it is fair to conclude that, to date, this form of privatization has not been a success. Fundamentally this is because there have been so few sales. At the time of writing (July 1993) no companies on the various select lists had actually been privatized. While a food processing plant was sold to a Belgian company (reported in the Bulgarian Economic Review May 21-June 3 1993), the legal process had still not been completed. Consequently, to date the law has produced very little in the way of attracting foreign investors or in garnering new revenue for the state. As of March 1993 it seems that the total revenue of the SPA was 600,000 lev (for the sale of a single warehouse), (about \$24,000) much less than the administrative costs of the exercise to date!

For various reasons there have been few sales. These include diverse political-cum- administrative problems in establishing the lists of firms to be privatized and the slowness in setting up the implementation bodies. Thus while earlier lists identified 292 firms as targeted for privatization by the end of 1993, at the time of writing the revised privatization program identified a total between 318 and 322. (As such, given that 3356 SOEs remained at the end of 1991 this probably represents less than 10% of the stock of SOEs today.) Of this total, 83 (large) SOEs are scheduled for privatization by the SPA with the balance of firms (of all sizes) to be handled by the branch ministries. (As such these lists represent a scaling back on earlier lists of firms that were to be privatized and the time table for the targeted firms is not so pressing as under earlier schemes.)¹⁵ However, the record to date would suggest that even these totals are much too ambitious. As of March 1992 it seems that only about ten large firms were in the process of being privatized and that not a single firm had actually been privatized.¹⁶ Based on this track record, without major new initiatives, it is unlikely that the different bodies will be fortunate to succeed in privatizing even half of the listed firms by the end of 1993.

There have also been problems caused by the absence of a single authority. The fact that several parties may initiate a change in practice seems often to have led to no-one taking any decisive action. The law leaves many issues unresolved and provides great latitude for interpretation, and consequent inevitable delays. Indeed, often it seems as if the law is more of an enabling piece of legislation than anything else.

Reflecting the continuing uncertainties of the larger political context, the process continues to be politicized. Finally, clearly capital markets are still quite embryonic in Bulgaria. For example, the volume of trading on stock exchanges is still quite modest, certainly compared to volumes in Poland and Czechoslovakia.

Also there has been only a fraction of the amount of foreign investment that was anticipated by some.¹⁷ This lack of foreign interest (and even domestic buying) reflects several factors. These include the general climate of political uncertainty, which has been greatly compounded by the problems arising from the handling of restitution claims and clearly identifying exactly what it is that the state has title to, so that it is able to sell! Even when these matters are resolved there is still the problem of the inability of foreigners to secure title to land. These difficulties are especially acute for particular enterprises--e.g. the uncertainties concerning the legal status of companies believed to have been privatized "wild". In addition, prospective buyers complain about the perceived inexperience of domestic partners in preparing business plans for consideration by foreign partners, problems of valuing assets and aggravation suffered because of the slowness of the whole administrative process. Another important hindrance to the speed of privatization is that, as of June 1993, there still was not a clear set of bankruptcy regulations in place.

Turning to other forms of privatization, in terms of fostering the entry of new private firms and, more generally, in terms of the fostering of economic pluralism the scorecard is probably not that great. On the one hand it is difficult to estimate how large is the activity of the private sector. Growth of registrations of new small private firms continued though the pace seems to have slowed markedly. By February 1992 there were about new 200,000 firms registered, and by mid 1992 about another 10,000 had been added. However, the absence of any reliable system of gathering information means that it is impossible to obtain accurate data on even basic indicators such as mean sales. But it seems clear that, at least in terms of employment, most new private firms remained small. Thus in the middle of 1992 there were only 130 private sector manufacturing firms with 10 or more permanent employees (Jones, 1993b). In terms of industrial distribution, data obtained from the Union of Private Economic Enterprises (reported in Bartlett, 1993) indicate that a surprising 25% are in manufacturing, 24% in services, 17% in construction and 15% in trade. Hence estimates of the size of the overall private sector range widely. While the official estimates vary from 5-7% of GDP, unofficial claims have been made that the private sector accounts for up to 37% of overall economic activity, with more than 50% in some sectors such as retailing. Whatever the true figure, it is also clear that, in part because energies recently have been focussed on the problem of trying to

rapidly privatize large SOEs, the conditions conducive to the entry of new small firms have remained less than ideal. While much has been done to foster a private sector --e.g. the spate of new legislation-- there does not seem to be sufficient appreciation of the staggering complex set of rules that must be created before a private sector will flourish. As many argue (e.g. Clague and Ransser (eds.), 1992) it is clear that much more work is needed to determine precisely what are the impediments to the expansion of the private sector.

While the legal basis for restitution is now firmly in place, the process of implementation has proceeded slowly. Thus by the end of 1992 the National statistical Institute estimated that only 46% of more than 51,000 applications for restitution had resulted in property being returned to original owners. The total value of restituted property was almost 4 billion leva, averaging about 165,000 leva and representing about 3.5% of 1991 GDP. In terms of land restitution, based on a survey by the National Public Opinion Center, it appears that, as of May 1993, at most only about one third of those who have already taken possession of their land have received title to their land.

Clearly the enormous uncertainty generated by this confused and chaotic situation has severely hampered restructuring, especially in agriculture. More generally, the new (former) owners of restituted property arguably are often not necessarily the best equipped to manage the assets. While restitution may be "fair" it is not obvious that it is efficient and a focus on restitution clearly hampered the ability of government to address other privatization issues. In addition property returned to former owners means that the state foregoes potential revenues and incurs various extra administrative costs. Hence Bulgaria already may have paid (and may continue to pay) a large price for a policy of insisting on physical restitution.

Finally we briefly consider some possible changes in the Bulgarian approach to privatization: While to date actual ownership changes in SOEs have been quite rare, without a dramatic change in policy, in the future this slow pace in the transfer of title is likely to continue. The need to speed up the process and to introduce some new initiatives has been recognized and, at the time of writing, two proposals for mass privatization were being seriously discussed-- proposals associated with the Prime Minister Berov and his deputy Karabashev.

While details of the schemes are sometimes unclear, the Berov scheme seems closer to a Czech style plan and the Karabashev proposal more nearly resembles the Polish model. Under the Berov scheme, after payment of a 1250 leva down-payment, all Bulgarian citizens would be eligible to obtain deferred-payment, privatization bonds worth 25,000 leva--a "balloon-mortgage" type of scheme. This contrasts with the Karabashev scheme which is

restricted to citizens and residents over 18 who permanently reside in Bulgaria, and uses a system of privatization points and convertible bonds. Under the Berov plan, foreign capital could participate freely in auctions of privatizable enterprises, whereas the other scheme prohibits this. Also the Berov scheme is grander, aiming to auction 600 large companies (rather than 200), worth about 185 million leva (rather than 65 million) and to do so in seven (rather than nine) months.

At the time of writing, a scheme which draws on both plans is being prepared by a team of experts for consideration by the Council of Ministers. Whatever the precise shape of the final plan, it remains to be seen whether, in the face of the erosion of Parliamentary support, the government will be able to adopt new legislation. Even if this is done, questions must remain concerning machinery for implementation of new legislation.

In considering the nature of the next initiative on privatization, to us it seems that outsider control is unlikely to appear on a significant scale in the near future. At the same time, the law aims to provide for a measure of employee ownership. And there is some evidence (Rock, 1993) that employees are to some degree at least interested in buying their firms--i.e. in taking steps towards achieving a measure of insider control. However the design of the current legislation and the implementation plans means that without large changes, they are unlikely to in fact buy much stock. Under the present arrangements for corporatized SOEs employees have no control rights during the three years when the discounted shares are non-voting. Clearly this places large risks on would-be employee-investors shoulders. Moreover, even if they wish to, employees are seldom in a position to finance the acquisition of shares that they are eligible to buy. (Since 1989 average real earnings have fallen by more than a third. Also the rate of unemployment is approaching 20% so that in a country with traditionally high male and female participation rates average family income has fallen markedly.) Yet there are no special credit programs to enable employees to buy shares.

Given this, what is needed are mechanisms that, initially at least, provide for easier insider control. Hence a broader range of specific privatization techniques including ESOPs, mass privatization through citizen shares and management buyouts, need to be considered.¹⁸ For all of these, issues of providing credit for liquidity constrained insiders assume great significance.

There is an issue of fairness since only workers in "privatizable" SOEs are granted shares on preferential terms. Government actions to promote employee ownership more vigorously might be more politically feasible if these were accompanied by some form of preferences for "citizen ownership" as well. That is, moving in the direction of facilitating more insider control

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