

Part 4

Debt-Equity Swaps in the Bulgarian Approach to Privatization

4.1. Brady Bonds as a Payment Instrument in Privatization

Most of the measures for reducing Bulgaria's foreign debt and servicing the same by concluding Brady Bond transactions with the London Club creditors were completed by the end of 1994. Meanwhile, the bad loans of the pre-transition period, accumulated by state enterprises in state banks, were transformed into official domestic debt. As a result, by the end of 1994 Bulgaria faced a substantial domestic debt of BGN 273.7 million (USD 5.05 billion) and foreign debt amounting USD 10.3 billion. The domestic debt consisted largely – 57.2% or BGN 156.6 million (USD 2.89 billion) of government bonds issued to transform the debts of state-owned companies into official debt. At the same time, the largest share of foreign debt was in Brady Bonds – 50.1% or USD 5.1 billion.

During the same year, steps were taken towards alleviating the country's debt burden and simultaneously stimulating the privatization process. These measures involved introducing regulations to govern debt conversion. They were part of the government's general market adjustment strategy aimed at sustainable growth through private sector development and investment stimulation.

The main feature of all the regulations introduced to deal with the legal, institutional and procedural aspects of the debt-equity swap mechanism was debt annulment by converting government debt in state assets. Naturally, concluding such transactions, swapping debt against property, largely depends on the attractiveness, liquidity and quality of assets to be invested in. Another concern is the careful selection of debt instruments, based on the country's strate-

gic goals for government debt reduction and mid-term fiscal stabilization.

At first, two major types of government bonds for converting debt to property were introduced:

- government domestic debt bonds, issued under the provisions of the Law on the Settlement of Non-Performing Credits Negotiated Before 31 December 1990 [42] (These bonds are called ZUNKs, a Bulgarian abbreviation of the Law),

- Brady Bonds, issued under an Agreement with the London Club since March 1994.

The Privatization Act stipulates that government debt creditors may participate in the privatization process with their claims by following the procedures set by the Council of Ministers and which determine the CM's legal activity in this area. It also regulates all activities related to conversion of debt to property for each specific debt instrument.

The conditions and procedures for participating in privatization through foreign debt government bonds have been regulated by two successive ordinances of the CM [43]. These ordinances defined two categories of government debt bonds that may be used in privatization transactions, both in accordance with the clauses of the London Club Agreement. The first of these are Discount Bonds (DISCs), the second being Front-Loaded Interest Reduction Bonds (FLIRBs) (Bond requisites are explained in Appendix). There are no restrictions concerning the entities permitted to use such instruments in privatization transactions, i.e. they may be applied by both individuals and companies, after presenting all necessary papers in accordance with the country's currency regulations.

Several important amendments were introduced by the ordinance of 1997. Firstly, the newly adopted ordinance stipulated the procedure for acquiring and using foreign

[42] Officially published in the State Gazette No. 110 in 1994.

[43] Ordinances on the terms and conditions of participation in privatization with Bulgarian foreign debt bonds, adopted respectively with Decree of the Council of Ministers # 278 of 25 November 1994, and Decree of the Council of Ministers # 502 of 30 December 1997.

debt bonds as a payment instrument in privatization transactions, since these are considered useful both by the investors and other institutions involved in this process.

Secondly, it introduces a differentiated approach to swap quotas for various types of bonds, i.e. when concluding a privatization contract, no more than 50% of the acquired stock, shares or property value may be covered by DISCs and no more than 75% in the case of FLIRBs.

Thirdly, the practice of determining the BGN denomination on the basis of the BNB average fixed exchange rate is no longer acceptable. This is due to the accelerated dynamics of the BGN/USD exchange rate in the recent past, which in practice brought about distortions in BGN prices. For this reason, BGN values are calculated by multiplying the USD value by the BGN/USD exchange rate on the same day bonds are transferred to the account of the Ministry of Finance.

Finally, the first of these ordinances, that of 1994, specified that payment with Brady Bonds is only permitted where *the buyer undertakes not to transfer abroad the securities shares or enterprises acquired in a privatization transaction for at least 4 years, and likewise not to transfer abroad the liquidation share or price received following the sale of the securities, shares or enterprises acquired in the transaction for at least 10 years.* However, the later ordinance, that of 1997, abrogated this condition.

The accepted value of Brady Bonds was determined as follows:

- the value of DISCs is calculated in USD equal to their face value, whereas FLIRBs – are calculated with a 50% reduction in their face value,

- the BGN value of Bonds is calculated as an amount equal to the USD value using an exchange rate calculated for each specific privatization transaction, namely the average fixed exchange rate of the Bulgarian National Bank for the past six months (the period starts from the day the respective privatization transaction is signed).

According to the ordinances, Brady Bonds may not be used for:

- settling investment obligations or forfeiture under privatization contracts,
- state taxes and fees,
- other state and municipal claims,
- privatization through open sales of shares,
- participation in municipal privatization.

Experience has unearthed a whole set of problems in using foreign debt bonds and other payment instruments in privatization transactions and these have still not been

settled by the above-mentioned regulation. This has resulted in the need to amend and supplement the existing regulations. In early 1995, an amendment [44] to the ordinance governing swaps with Brady Bonds resulted in:

- The introduction of limitations for capital repatriation and exportation of profits (such a restriction is present in all debt conversion programs). In reality, profit obtained through acquired stocks, shares or enterprises cannot be transferred earlier than four years following the conclusion of the transaction. Capital transfers (the liquidation quota or price of the enterprise sold) are restricted for a 10-year period. In general, these limitations are intended to improve the country's short-term balance of payment.

- The introduction of ceilings for swap volumes - foreign debt bonds cannot be used for payment of more than 50% of stocks, shares or property acquired through privatization transactions.

- The recognition of buyers' claims from calculated but unpaid interest on interest coupons as of the day bonds are obtained. These receivables are to balance that portion of the price of shares, stocks or property acquired through a privatization transaction which is not covered by foreign debt bonds.

4.2. Domestic Debt Bonds as a Payment Instrument in Privatization Transactions

Five types of domestic debt bonds have been recognized as legal tender in privatization transactions. Firstly, ZUNKs were legally introduced as a privatization payment instrument in early 1994 by an ordinance of the CM [45]. Between its introduction and abrogation, slightly less than two years, this ordinance was amended and supplemented several times, in order to introduce operational improvements in the conversion process and of course, to develop the secondary bonds market. In late 1995, it was followed by another ordinance of the CM [46], which introduced three other types of long-term domestic debt bonds as legal tender in privatization transactions.

The following are most important new aspects of the above-mentioned and currently active ordinance:

- The types of long-term government bonds that may be converted to property were increased. At a later stage, this

[44] Decree of the Council of Ministers # 41 of 20 February 1995.

[45] Ordinance on the terms and conditions of participation in privatization with ZUNKs, adopted with Decree of the Council of Ministers # 36 of 16 February 1994.

[46] Ordinance on the terms and conditions of participation in privatization with ZUNKs, bonds as per CMD # 244/1991, CMD # 186/1993, and CMD # 3/1994, adopted with Decree of the Council of Ministers # 221 of 22 November 1995.

will actually unify the statute concerning stocks originating from converting company debt to government debt according to the structural reform carried out during the period 1991–1994 (the requisites for the different bonds are quoted in Appendix).

– The ordinance abolished restrictions on using long-term government bonds whether acquired from the BNB or commercial banks and transforming bad loans into bonds, as a payment instrument in privatization transactions. This is a very important step towards establishing a real market price and free secondary trading, as well as creating incentives for investors.

– The ordinance also introduced comprehensive procedural and institutional regulations for using domestic debt bonds as a payment instrument in privatization transactions.

Of all the domestic debt securities, ZUNKs were those most often used in privatization payments. Both BGN- and USD-denominated ZUNKs may be used for purchase of stocks, shares, enterprises and/or separate units of state property, by:

a) commercial banks which transformed bad loans into bonds and

b) private individuals and companies that have purchased such bonds from the central bank or else commercial bank bonds from (a).

The value of ZUNKs in BGN, denominated in USD, is calculated at the BNB exchange rate on the day bonds are transferred to the Ministry of Finance [47].

The above-described participants in ZUNK transactions must adhere to the provisions of Chapters 5 and 6 of the LTSPME. The imposed restriction was intended to provide commercial banks that have transformed bad loans to long-term government bonds the opportunity to achieve rapid and effectively low-income assets, i.e. ZUNKs. This restriction is no longer in force.

Following the initial regulation of ZUNKs, these bonds were used at their face value as a payment instrument in privatization transactions. However, according to the BNB's ordinance of April 1994 [48], the market price of ZUNKs is to be calculated by commercial banks, but may not be lower than the minimum price calculated by the BNB (which is based on their discounted value plus a specific premium for using them in the privatization process). For instance, over the 1994–1996 period the minimum price for BGN-denominated bonds with a face value of 1,000 varied between BGN 665.60 and 700.00, while for

the USD-denominated bonds varied between USD 90.00 and 91.77 per USD 100 face value. Bearing in mind the need to stimulate investor interest, the CM adopted decrees, according to which the above-mentioned premiums (the incentive for using bonds in the privatization process) were set at:

– 40% till 31 December 1995 [49],

– 40% till 30 June 1996 [50],

– 30% till 31 December 1996 [51].

In regulating swaps with domestic debt bonds, the ordinance also envisages long-term bonds being accepted at their face value premium, as defined by the Council of Ministers, when they are used in privatization transactions. Actually, after 1996 this premium was "zero", i.e. there was no such premium, due to the low minimum prices of the BNB (a 350 BGN premium for a ZUNK with a face value of 1000 BGN and a USD 45 premium for a ZUNK with a face value of USD 100). These provisions do not limit free secondary trading of stocks. This means that investors may apply a reasonable reduction, formed as a spread between the face value and the present value of the securities. This Ordinance # 14 of the BNB for defining the minimum prices of ZUNKs, was later abrogated.

According to the currently active regulations on using domestic debt bonds in privatization payments, there are no limitations on capital repatriation or exportation of profits, nor with regard to the volume of domestic debt swaps. On the other hand, calculated but unpaid interest on interest coupons (as of the date bonds are acquired), is not balanced against the price of the acquired shares or privatized property. It is assumed that this interest is negligible.

4.3. Volume of Government Bonds Used as Legal Tender in Privatization

The total volume of debt instruments used as payment instruments in privatization transactions, including both Brady Bonds and domestic debt bonds, was USD 412.7 million (see Table 4-1). This means that equity-debt swaps account for almost 30% of the total fiscal effect (cash proceeds plus debt reduction due to swaps).

[47] According to the Ordinance on the terms and conditions of acquiring, servicing, and repaying ZUNKs, adopted with Decree of the Council of Ministers # 33 of 14 February 1994.

[48] Ordinance on the sanctioning of the commercial banks for losses from transaction with long-term government bonds under their market price, adopted with Decision of the BNB Governing Board # 125 of 12 April 1994; abolished on 12 August 1997.

[49] According to Decree of the Council of Ministers # 89 of 19 April 1995.

[50] According to Decree of the Council of Ministers # 263 of 29 December 1996.

[51] According to Decree of the Council of Ministers # 263 of 29 December 1996.

Table 4-1. Cash vs. debt instruments in privatization payments

Year	Cash proceeds (million USD)	Debt instruments used (million USD)
1993	11.3	-
1994	21.2	25.6
1995	58.7	147.3
1996	85.0	46.0
1997	325.3	52.1
1998	201.3	121.1
1999	282.6	20.7
<i>Total</i>	<i>985.4</i>	<i>412.7</i>

Source: MF, BNB, IME's, own calculations

Table 4-2. Volume of government securities used as legal tender in privatization transactions (million USD)

Year	Domestic Debt Bonds		Brady Bonds	Total
	BGN-denominated	USD-denominated		
1994	25.58	-	-	25.58
1995	27.33	7.50	112.44	147.28
1996	10.26	14.37	21.35	45.98
1997	5.81	39.64	6.62	52.06
1998	2.41	118.72	-	121.13
1999	-	20.70	-	20.70
<i>Total</i>	<i>71.39</i>	<i>200.93</i>	<i>140.41</i>	<i>412.73</i>

Note: BGN-denominated government bonds are: 1) ZUNK bonds denominated in leva; 2) bonds issued under CM Decree No. 186/1993; and 3) bonds issued under CM Decree No. 3/1994. The USD-denominated domestic debt bonds are ZUNKs denominated in USD. The figures for 1999 do not include December

Source: MF, BNB, IME's, own calculations

Almost 2/3 of the total volume of government bonds used in privatization payments has been domestic debt bonds (in the Table 4-2, both domestic and foreign debt bonds are estimated in USD for better comparison). The largest share of domestic debt bonds were USD-denominated ZUNKs – USD 201 million or 3/4 of the total volume of domestic debt bonds used.

Investors clearly preferred FLIRBs in their payments with Bulgarian Brady Bonds, since they used such bonds with a total face value of approximately USD 118 million (see Table below). Within the range of opportunities for domestic debt to property swaps, four types of government bonds were used (out of the five legally permitted). The largest share were USD-denominated ZUNKs, whereas the largest debt

Table 4-3. Volume of different bonds used and debt reduction in the period 1994–1999

Type of government bonds	Total volume used	Total debt reduction
DISCs	USD 22.8 million	1.24%
FLIRBs	USD 117.6 million	7.09%
USD-denominated ZUNKs	USD 200.9 million	10.77%
BGN-denominated ZUNKs	BGN 16.8 million	63.62%
Bonds as per CMD # 186/1993 [52]	BGN 2.3 million	36.38%
Bonds as per CMD # 3/1994 [53]	BGN 0.8 million	38.40%

Note: Total Brady Bonds debt reduction is estimated on the basis of the volume of bond issues; for domestic debt bonds, the basis is the respective outstanding debt at the time of the legal introduction of the swap mechanism

Source: Ministry of Finance, IME's, own calculations

[52] Bonds issued according to Decree of the Council of Ministers # 186 of 24 September 1993.

[53] Bonds issued according to Decree of the Council of Ministers # 3 of 18 January 1994.

reduction was by BGN-denominated ZUNKs (about 64% of the volume of debt outstanding as of late 1995).

The overall reduction of official debt through equity-debt swaps was about 2.7%, estimated on the basis of the debt at the end of 1994 (the BGN-denominated debt was converted into dollars for the purposes of the calculation).

Over the period 1995–1997, the practice whereby investors used foreign debt bonds as a payment instrument in privatization transactions was due to the income guaranteed with bonds payment, as well as the opportunity to convert debt to property. For the purpose of the present report, the value of Brady Bonds in BGN is calculated using

the average weighted BGN/USD exchange rate for the respective year, bearing in mind the fact that privatization revenues are received in BGN.

We may conclude that the mechanism for converting debt to property is not a panacea for solving the country's problems, debts and development difficulties. This mechanism should be recognized as a useful but limited tool for decreasing the nation's debts and attracting new investment. Due to its weaknesses, this mechanism should not be regarded as a universal instrument. The goals achieved should be assessed within the context of the entire macro-economic strategy for the country's development.

Part 5

Costs of Privatization

5.1. The Case of Bulgaria

Probably the best way to analyze the costs of Bulgaria's privatization is to examine the revenue side of the non-budgetary fund called the *Fund to cover the expenses arising from the privatization of state-owned companies*. In the period 1993–1998, this covered the expenses of all central privatization bodies, but was administered by only one of them, namely the Privatization Agency. After 1998, it was split into several funds, each of them covering the expenses of separate bodies. The tables below are based on the allocation of

privatization revenues to those funds. This allocation serves as the upper limit for the expenses of these privatization bodies. It does not allow for separation of the costs of procedures, from one side or the costs of maintaining privatization bodies, from the other.

On average, the costs of privatization were 3.7% of the total cash revenues from privatization. The percentage of spending on an annual basis is difficult to calculate, as the Table provides only the allocation of revenues, i.e. the portion of revenues that could be spent in the following years.

Although the figures in the Table above do not represent the actual spending in the years indicated, it is easy

Figure 5-1.

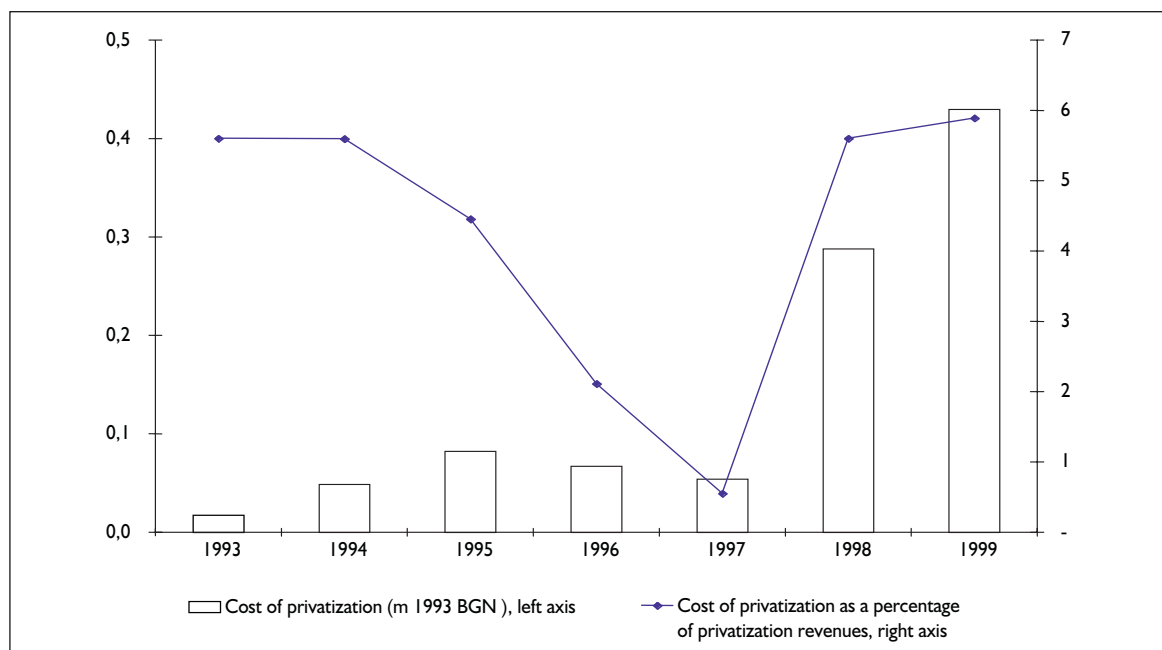


Table 5-1. Costs of privatization in Bulgaria

	1993	1994	1995	1996	1997	1998	1999	Total
Million USD	0.6	1.2	2.6	1.8	1.8	11.3	16.7	36.0
% of revenues	5.6	5.6	4.5	2.1	0.6	5.6	5.9	3.7

Source: Ministry of Finance, IME's, own calculations

Table 5-2. Costs, revenues and number of transactions

	1993	1994	1995	1996	1997	1998	1999	Total
Revenues (Million USD)	11.3	21.2	58.7	85.0	325.3	201.3	282.6	985.4
Costs (Million USD)	0.6	1.2	2.6	1.8	1.8	11.3	16.7	36.0
Transactions	62	165	309	515	590	1 110	1 224	3 975
Cost per transaction (Thousand USD)	10.2	7.2	8.5	3.5	3.1	10.2	13.6	9.1

Source: Privatization Agency, Ministry of Finance, IME's, own calculations

to follow the trend of privatization expenditure. Estimated in real terms (1993 BGN), the costs changed only slightly over the period 1993–1997, but increased dramatically in the years 1998 and 1999, with costs in 1999 being 9 times higher than in 1997.

In examining the trends for numbers of transactions and costs by years, practically no correlation may be established between the costs of privatization and the number of transactions. The same holds true for the relationship between the volume of privatization revenues and costs. However, a kind of economy-of-scale level was reached in 1997, when both total volume of costs and costs per transaction were at their lowest for the whole period.

Opportunity cost of preferential sales to insiders

The direct expenditures in the privatization process seem to be insignificant, considering their 3.7% of cash payments. They become even more negligible if we view them as a share not only of the cash proceeds but also of total payments (including debt instruments) or total payments contracted. However, the opportunity cost of the chosen privatization model, in terms of missed cash proceeds, should be considered in order to fully appreciate privatization costs. In section 8, we stressed the opportunity cost of the prevailing use of closed procedures and the inclusion of non-price commitments in privatization contracts. Here we examine the cost of preferential sales to insiders.

Three types of preferences to insiders have been legally permitted since the very beginning of the process.

The Privatization Act of 1992 formulated these preferences in the following manner:

- Up to 20% of the shares in a company subject to privatization may be sold to insiders [54] at preferential terms; the price is 50% of their value, which is determined administratively.

- Any management-employee company, in which at least 20% of the current staff are shareholders, may buy out the company subject to privatization, without any opening tender or auction procedure; thus, the price of such a management-employee buy-out (MEBO) is the value of the company, which is assessed administratively.

- A management-employee company may use a deferred payment scheme (up to ten years) when selected as the new owner.

It has been the tradition of the privatization bodies that in most cases, a residual stake (of up to 20%) has been offered to insiders. In almost all cases, these preferential shares were sold.

The technique of sales without tender or auction, although rarely used for the privatization of whole companies (only 8.1% of all the transactions by the central privatizing agents), was prevalent in the privatization of the separate units of companies (49.1%). The price at which such buy-outs took place was based on an evaluation of the unit. Since insiders had the chance to influence these evaluations (for they submitted most of the information required by the evaluating agent), most of these companies and their separate units may safely be considered undervalued.

The privatization law (especially its amendments in 1994–1996) introduced a special regime for MEBOs. In

[54] The employees that have worked at least for two years; the employees who have been dismissed from the company no more than 14 years ago; the pensioners who retired no more than 10 years ago; managers, working not under labor contract, who have managed the company at least for one year.

Table 5-3. Number and share of MEBOs without tender or auction in the privatization of whole companies and separate units (all central privatizing bodies) | Jan 1993 – 30 Nov 1999

	Number	Share (%)
Whole companies	154	8.1
Separate units	931	49.1

Source: Privatization Agency

Table 5-4. Consumer Price Index (1993 = 100)

Year	1993	1994	1995	1996	1997	1998	1999	2000
CPI	100	132	214	477	5 641	6 899	7 058	7 468

Source: Statistical Yearbook 1999, own calculations

particular, a preferential payment system allows management-employee buyer companies to make a down payment amounting to 10% of the price offered, whilst scheduling the remaining 90% through installments over a period of ten years. It was not until 1999, that privatization bodies were required to discount the price offered by insider companies by the ranking of offers. In practice, this gave the management-employee companies the opportunity to outbid any competition with only a slightly higher price, but also one which was due in 10 years. A classic example of such an advantage is provided in the box below. Following the early 1999 amendment to the Privatization Act, privatizing bodies were required to apply a discount, but only a 10% discount was applicable for the whole 10-year period. The situation was amended at the beginning of 2000, since when a 10% discount is due each year of the deferred payment.

This preference was the main reason for the huge share of MEBOs – 44.3% in the period 1993–1998. However, the isolated figures for 1998 alone indicate a considerably higher percentage of 73.4% [55]. In 1999, management-employee companies won a third of all privatization contracts.

A striking illustration of the hidden cost of the deferred payment preference may be seen in a comparison between contractual payments in such MEBOs and the actual proceeds in real terms. All such transactions contracted before early 1997 (a period of hyperinflation) required new owners to pay only a ludicrous fraction (in real terms) of the sum for

which they had contracted. For instance, one such MEBO from late 1996 required the new owner to pay the first installment of the deferred payment in late 1997 (with inflation at 579%), when it was almost 7 times lower (in real terms) than the sum contracted.

The up to 20% stakes reserved for employees have probably had a insignificant hidden cost in terms of missed revenues, compared to the other two preferences - deferred payments and sales without auction or tender. Nevertheless, in the Table below, we hypothetically represent the missed revenues of the stakes reserved for insiders in some of the largest privatization transactions. In this hypothetical example, we assume that the reserved shares, if offered for competitive sale, would have had the same price as the majority stake shares.

Finally, although it is difficult to calculate, we believe that insider preferences have involved a high opportunity cost in terms of missed higher prices due to two particular effects of the preference arrangement (especially the deferred payment schemes and the sales without tender or auction), namely:

- limited demand for the companies (or their separate units);
- the incentives for insiders to influence the valuation of the companies (or their separate units).

This eventually meant the formal undervaluing of companies and more importantly, only one (price competitive) buyer, namely the management-employee company.

Table 5-5. Opportunity Cost of Reserved Stakes

Company	Majority Stake Sold (%)	Price of Majority Stake (Million USD)	Reserved Stake (%)	Opportunity cost of Reserved stake's (Million USD)
MDK*	56	80.0	14	20
Sheraton	67	22.3	18	6
Aroma	67	8.41	20	2.51
Eltos*	55	7.65	20	2.78
Burgasko Pivo	67	5.02	20	1.50

Note: * In the case of these companies the reserved stake includes the reservation for restitution claims.

[55] Privatization Agency, Privatization Strategy and Programme, no date (1999), p. 1. (actually, 1998 Annual Report of the Privatization Agency).

The Case of Rodopa

Rodopa - Shumen is one of three slaughterhouses in Bulgaria with an export license to the member countries of the EU (the other two are Mecom - Silistra and the slaughterhouse in Svishtov). In late 1998, the company had liabilities amounting to over \$7 million, due the state budget, the United Bulgarian Bank and Bank Biochim. At that time there were two main players in the privatization bid for Rodopa Shumen - Vanboug and the management-employee company Rodopa - 97. Vanboug's bid was for \$406,000 to be paid immediately in cash and Rodopa-97's bid was for \$700,000 to be paid in cash over a ten-year period. However, when discounted with 10% for each year of the deferred payment period, the price offered by the management-employee company amounted to just under \$300,000. Therefore the opportunity cost of the MEBO (the offer of \$406,000) would have been too high.

However, this bid was submitted before the legal introduction of the discount procedure, which would have formally meant that the MEBO offer was more competitive. Thus the Executive Director of the Privatization Agency signed the contract for the sale of 67% of Rodopa - Shumen with Rodopa - 97. It is believed the signing of the contract took place only an hour after the members of the Supervisory Council decided to review the case at their next meeting, due to uncertainty concerning the origin of the management-employee company's funds. The above concerns were aired by a company closely related to the rejected bidder - Vanboug.

An examination of the origin of the management-employee company's funds must obviously have been necessary, because the District Attorney in the town of Shumen asked the local police chief to investigate the case. According to a letter from the Attorney General to the Privatization Agency, an investigation is necessary "because of the potential for criminal acts and unauthorized spending of Rodopa funds, when the company made a deposit to take part in the bid for 67% of Rodopa. It is believed the deposit amounting to \$39,000 was taken from the cash account of the privatized slaughterhouse.

Trade-off between Price and Non-price Future Commitments

The concept of privatization prevalent among the staff of the privatizing bodies is of a process that aims at developing the company, i.e. their task is not only to transfer property, but also to find "good" new owners committed to "developing" the companies. This leads to the persistent use of "closed" procedures, i.e. tenders and negotiations (see Table 5-6). These techniques in turn allow for the inclusion of a variety of non-price future commitments in the privatization contracts, such as the average number of staff to be employed, investment plans, preservation of the company's previous activities, etc [56].

We believe that "closed" procedures reduce the potential amount of privatization revenues, at least for the following reasons:

- 1) the trade-off between the price and the non-price commitments,
- 2) the unclear rules of procedure reduce the number of interested investors, which means lower demand and thus a lower price for the company,
- 3) discretionary power, resulting from the unclear rules for buyer selection may, in certain cases, mean that the highest price offered is not the one selected.

Although it is difficult to estimate, there is a certain trade-off between the price offered and the promises made by the new owner. The reason is that the assessment of offers is made on the basis of both price offered and business plan submitted. This means that a buyer should have the best possible comprehensive offer rather than highest offer price. A good example is the weightings recently applied by the Ministry of Economy in the ranking of offers – 0.3 is given to the future employment program and 0.7 to the price.

However, these weightings are not always common and are almost never announced to the candidates (actually, the recent practice employed by the Ministry of Economy should be considered an exception). In practice, this makes the rules of procedure totally confusing, which in turn reduces investor interest. This reduces the demand for and the eventual price of the privatized company.

Table 5-6. Share of "closed" and "open" procedures in the privatization of whole companies (all central privatizing bodies) 1 Jan 1993 – 30 Nov 1999

Procedure*	Share (%)
Open	7
Closed	93

* "Open" procedures are auctions and public offers; "closed" procedures are tenders and negotiations
Source: Privatization Agency

[56] For detailed review of privatization procedures and non-price future commitments see "Evaluation of the Post-Privatization Monitoring System in Bulgaria", CASE and IME, March 2000.

No clear rules for buyer selection are outlined in the Ordinance on tenders [57], where Art. 11 states that "the buyer selected should be the one whose offer best satisfies the tender conditions". Neither may such rules be found in the case of direct negotiations and indeed no specific regulation whatsoever governs this latter procedure. This makes it the least regulated and thus the most highly discretionary privatization technique. Therefore, the risk of losing the highest price (and even the "best" offer, where such a complex evaluation is possible) remains high.

For these reasons, we consider the prevailing use of tenders and negotiation, as well as the persistent application of non-price future commitments, to equal high opportunity costs in terms of missed inflows of cash to the budget. As it is impossible to measure the total opportunity cost of this selected privatization model, we illustrate this issue with the following two cases.

The Case of Chimko

Privatization of the fertilizer producer Chimko commenced in 1997 when the South Korean Daewoo and the American Stellar Global companies showed interest in the company which at that time was a profitable concern. Stellar Global offered a higher price - \$100.2 million. According to the Privatization Agency, the negotiations with Stellar Global were halted due to the fact that the company was facing financial problems, which led to a delay in the privatization process. However the procedural delay itself led to a deterioration of the plant's financial position, which resulted in a drastic fall in the selling price.

In the period 1997-1999, Chimko's liabilities increased due to higher gas prices. In 1998, new negotiations were opened, when the minimum price was \$38 million, but no buyers appeared. A year later, a new negotiation was opened. IBE - Trans of New York and BTC partners registered in the British Virgin Islands submitted their offers. The Privatization Agency chose IBE - Trans and in July last year, a privatization contract was signed. According to the contract, a price of DM 1 million had to be paid in and \$50 million had to be invested over a period of 3 years. The old liabilities of the company (mainly due to the state-owned gas supplier Bulgargas) amounted to DM 70 million. The company's debt decreased to about DM 54 million after the state waived the forfeits.

Thus for a period of two years, the effective price (revenue plus liabilities) of Chimko fell from \$100.2 million to DM 55 million. At the same time the actual proceeds to the budget were only DM 1 million (down from \$100.2 million).

The Case of Vinex

Vinex - Preslav, one of the largest white wine producers, was privatized in late 1999 after three unsuccessful privatization procedures in a row. In the fourth procedure, two candidates appeared - a former privatization fund St. Sofia and a Bulgarian company named Perinea. The selected candidate was St. Sofia.

However, according to the rejected bidder, Perinea's offer was a higher price. According to Borislav Banchev, owner of Perinea, the company offered a price for the majority of the shares amounting to USD1.71 million and proposed a commitment to invest USD5.5 million. According to Mr. Banchev, at the beginning of the bid procedure, his company offered USD1.1 million while the price offered by St. Sofia was even lower. In the first phase of the negotiations, both companies offered higher prices but the negotiations were terminated.

The fourth privatization procedure for Vinex attracted more bidders than those previously held, probably due to the considerable reduction in the minimum price. During the first two privatization procedures, there was no investor interest and in the third bid, only one offer was submitted by a management-employee company. Two years ago, the starting price for the majority of the shares was approximately USD10 million, whereas the last procedure involved no such fixed price. Last summer, the condition imposed on the bidders was for them to pay a minimum \$1.9million and at that time, only a management-employee company submitted an offer, which later proved to be incomplete and thus the whole procedure failed.

The current buyer had good a chance from the very beginning. Since October 1998, the Executive Director of St. Sofia, Borislav Manachilov has been a member of the Vinex Board of Directors. He also figured in the management of the management-employee company that had participated in the previous procedure. Therefore, it is no surprise that St. Sofia won the bid so easily.

As in most of the cases, the delay in privatization led to deterioration in the financial performance of Vinex. After all, the plant is not such a large debtor - it owes the state budget 1.5 million BGN and if we add the dividends, corporate income tax etc. due the state, the total liabilities add up to some USD 2 million. Although Vinex has current liabilities due Reiffeisen Bank and United Bulgarian Bank, it is repaying these regularly. In the period 1997-1998, the company was in good financial standing and had a BGN 1.26 million and BGN 0.4 million profit respectively. Since the end of 1999, the financial condition of the company has deteriorated and it is now believed to have shown a loss of BGN 0.2 million.

[57] Adopted with a Decree of the Council of Ministers No. 155 of 14 August 1992.

Liabilities connected with restitution claims

The restitution of urban property and land was the first form of privatization undertaken in Bulgaria. Eight restitution laws (adopted in 1991–1992) governed restitution of arable land and real estate where (and if) such existed in kind.

The restitution of agricultural land has been the most complicated and controversial. This was due both to the symbolic value attached to land restitution, which triggered considerable political controversy over the implementation of the policy and due to legal issues arising from the definition of ownership of restituted land. In spite of the relatively early adoption of the Ownership and Use of Agricultural Land Act [58], namely by the third quarter of 1996, only 18% of the arable land subject to restitution had actually been returned, with defined boundaries, to its owners. At the same time, actual legal titles had been issued for just 6% of the land. This, notwithstanding the fact that 54% of the claims had been processed and ruled on. A significant acceleration of the land restitution process was observed after 1997. To a great extent this progress was due to the amendments in the Land Law, which aimed at strengthening ownership rights and introducing new provisions for claiming individual property rights. As a result, by the end of 1998, 79.6% of the land subject to restitution had been returned to its owners/heirs [59]. By the end of December 1999, restitution of 96% of the land was reported completed.

In the case of the restitution of urban property, the process had a relatively faster pace. Between 1992 and 1995, over 22,000 small and medium-sized entities had been privatized under the Restoration of the Ownership of Nationalized Real Estate Act [60], thereby resolving the larger part of the claims submitted by previous owners and their heirs. Altogether however, the total value of restituted property between 1992 and 1996 amounts to some 2.5% of the country's GDP for 1996. Moreover, disputes over property arising in connection with the later disposal of state-owned assets have led observers to point out that restitution ultimately slowed down the overall privatization process in Bulgaria.

The Privatization Act reserves 10% of privatized enterprises for restitution claims (in addition to the 20% reserved for insiders).

The Compensation of Owners of Nationalized Property Act [61] adopted in 1997 was aimed at broadening the scope of restitution of formerly confiscated urban real

estate and assets. The compensation mechanisms introduced by the law were as follows:

- In the case of restitution claims against an already privatized enterprise, the claimants are compensated in the form of shares from the state-owned stake in the enterprise or in the form of compensatory bonds.

- In the case of restitution claims against an enterprise prohibited for privatization, the compensation granted is in form of compensatory bonds.

- If the enterprise has not yet been privatized, the claimants receive shares in the company. If the value of these shares is insufficient to cover all the claims, compensatory bonds are to be given for the remaining part.

If the enterprise has been privatized in full and there is no state-owned share in its capital, the compensation granted is only in the form of compensatory bonds.

The idea of this law is simple – to create a means of payment which the government grants to those eligible for restitution of their former properties, allowing those means to be used in privatization transactions, e.g. to be converted into shares. The compensation process is equal to the possible use of so-called compensatory bonds in privatization. The latter is a generic term for all three compensation means, i.e. orders as such, temporary notices (which notify possession of formerly nationalized properties) and compensatory bonds for nationalized living accommodation (houses, flats, etc.), i.e. "housing compensation orders".

District governors are entitled to register claims and claimants. Estimation of the assets subject to compensation is the obligation of the state bodies (principal) that own the remaining government share after privatization. In practice, it is difficult to estimate the exact amount of properties and owners that will be involved in the process: properties were transformed, estates were changed or vanished as physical assets and the heirs of former owners have dispersed.

5.2. The Case of Poland

Table 5-7. shows that direct costs of privatization constitute a decreasing fraction of total privatization revenues. The greatest costs have obviously been connected with the implementation of the process. For example, the cost of the capital privatization of the first 5 companies privatized in this way amounted to 21% [62] of privatization revenues and 13% of the value of all companies, following which, as may be observed in Table 5-7 and Figure 5-2, the cost began to

[58] Adopted 1 March 1991.

[59] Although legal titles had been issued only for 24 % of the land.

[60] Adopted 21 February 1992.

[61] Adopted 18 November 1997.

[62] Bałtowski, 1998.

Table 5-7. Direct costs of privatization in the years 1991–1998 (millions of PLN)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Costs as a percentage of privatization revenues	13.8%	7.6%	5.4%	9.7%	8.2%	3.4%	1.1%	2.0%	1.0%

Source: Reports on the achievement of the state budget in the years 1991–1998 and own calculations

fall. This reduction, as noted by Bałtowski (1998) may be linked to two factors. Firstly, since 1992 the very expensive foreign consulting companies hired to prepare and implement the privatization procedures have been systematically replaced by much cheaper domestic firms. The second reason is that in 1995, a new law on public ordering was introduced and this put much pressure and obligation on privatization agencies to economize in their selection of privatization consultants.

Likewise it is possible that the centralization of the privatization process since 1997 may also reduce the direct costs of privatization. This means that some fixed costs or quasi-fixed costs such as promotion and staff salaries may now be incurred only in one ministry as opposed to several.

However, neither the above Table nor the graph take into account the costs of the NIF program. According to the report of the Supreme Auditing Chamber (Najwyższa Izba Kontroli - NIK) the total cost of the NIF program at the end of 1995 was equal to 150.7 million PLZ. However 48.7 million PLZ of this figure was mainly covered by PHARE and USAID funds.

The other cost item in this program is the annual payment for the management of NIF assets. This payment is paid by the State Treasury to the private companies hired by the NIF boards. Between July 1995 and December 1996,

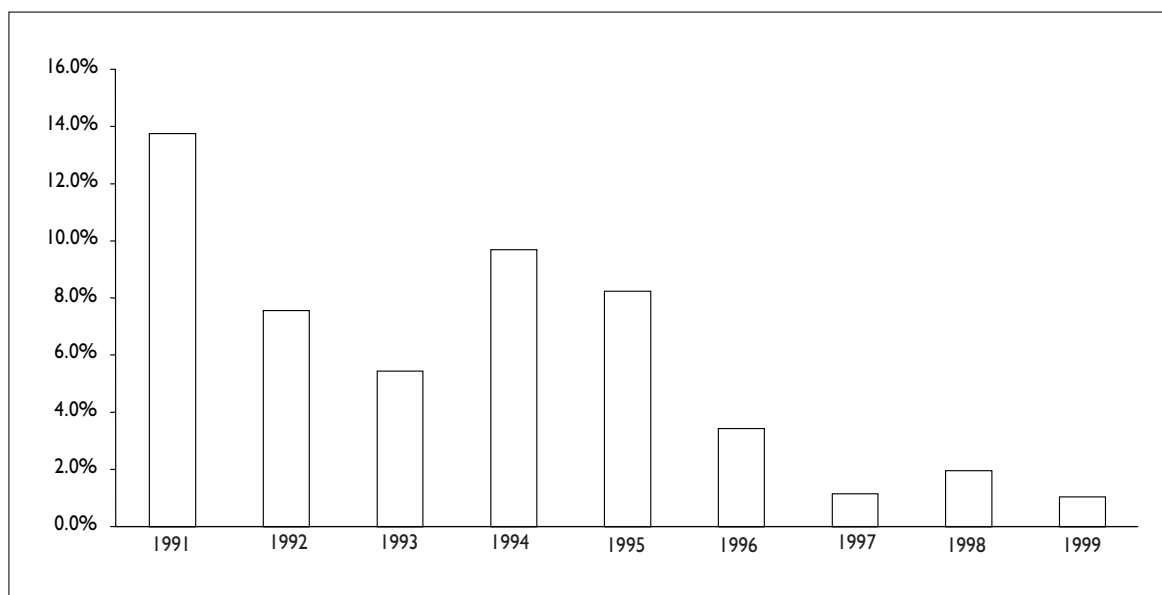
these payment amounted to more than 46 million USD, approximately 115 million zlotys. However these costs must be counted separately and for more than one reason should not be treated as direct costs of privatization: costs related to the NIF program are usually counted separately in all statistics, since this was not a program of privatization as such, but rather a non-equivalent transfer of property rights. Moreover, it was a once only action and is therefore hardly comparable to "the rest of privatization" which is spread out over a long period.

Costs of maintaining privatization bodies

Until 1997, it is almost impossible to assess the costs of maintaining privatization bodies in Poland, since the privatization process, as already mentioned, has been performed by several ministries and all the country's voivodships. The former Ministry of Ownership Transformation was not only responsible for controlling some aspects of privatization, but also carried out other objectives such as: monitoring and subsidizing dependent enterprises.

Following the reform of 1997, the situation changed but this does not mean that any exact assessment of these kinds of costs is possible. The newly created MST is now fully

Figure 5-2. Direct costs of privatization as a percentage of privatization revenues in years 1991–1998



responsible for the entire privatization process, but privatization continues to be not the only task of this ministry.

Costs of non-equivalent privatization

"The Privatization Program up to 2001" limited the analysis and projections of the cost of the non-equivalent privatization program only to the distribution of free shares to the employees of the privatized companies. It estimated the cost of this part of the program for the period from 1998 to 2005 at 8 billion PLN (see Table 6-7).

Initially, the Privatization Law passed by parliament on 13th July 1990 regulated the process of transferring free shares to employees. According to this Act, employees of commercialized State-owned Enterprises were given the right to purchase up to 20% of the shares in the privatized companies on preferential terms. The shares offered to the employees were 50% cheaper than the shares offered to Polish citizens in the form of a public offer. Under the political pressure of the left-wing parties, a new Privatization Act (the Law on Commercialization and Privatization of State Enterprises) was passed by parliament in the summer of 1996. This guaranteed even greater preferences for the employees of the privatized companies.

The new Law stipulated that employees of privatized companies could obtain free of charge up to 15% of the shares in their enterprises, but the value of such shares could not exceed the value of the 18th or 24th average monthly salaries in the productive sector. Another 15% of the shares were reserved and could be provided free to the farmers or fisherman who had acted in the past as suppliers to the privatized companies. A special stipulation also regulated the free transfer of up to 15%, of shares to the employees of the enterprises included in the National Investment Fund program. The law on NIF was passed on

30th April 1993. However, the Act concerned only 512 of the companies included in the program. It should be emphasized that these three regulations were aimed at convincing and persuading insiders to agree on commencing the ownership transformation processes in their enterprises.

According to the report of the Supreme Auditing Chamber (NIK) published in 1999 [63], under the Law on Commercialization and Privatization of State Enterprises, as of 30th of September 1998, free or preferential shares had been transferred in the case of 236 companies. The total nominal value of these stocks and shares amounted to 5.3 billion PLN (free and preferential shares were transferred to 412,000 employees of privatized companies and 33,500 farmers and fisherman. The value of these shares amounted to 5,277 and 0,23 billion PLN respectively). In order to estimate the cost of the transfer of free shares to the employees of the privatized companies, we must also take into consideration the Wholly-owned Treasury Companies included in the Mass Privatization Program (MPP). As of the end of 1996, the total book value of shares transferred to employees and farmers and fisherman under the Law on the National Investment Funds Program may be estimated at 1 billion PLN [64]. This estimate was based on the book value of 512 companies included in the program at the time when the fourth (and in fact the last) group of the companies was included in the program. As of 30th of September 1998, the total cost of free and preferential shares could be estimated at 6.3 billion PLN [65]. Additionally, according to the "Privatization Program to 2001" the value of free shares to be transferred to employees and the suppliers of the privatized companies to 2001, will amount to 8 billion PLN (see Table 6-7). However, the representatives of the Ministry of Finance estimate that this cost will also increase and will amount to 11 billion PLN [65]. If we summarize these figures, the total cost of the program will by then amount to 17.3 billion PLN (see Table 5-8) [66].

Table 5-8. Assessment of the total cost of a non-equivalent privatization in the form of a distribution of free or preferential shares to the employees of the privatized companies

The cost of free or preferential shares transferred to the employees and suppliers of the privatized companies in billion PLN according to:	1990-1998	1999-	1990-
- the Law on Commercialization and Privatization of State Enterprises, enacted in 1990 and 1996	5.3	11	16.3
- the Law on National Investment Funds	1	0	1
TOTAL	6.3	11	17.3

[63] "Informacja o wynikach kontroli procesu nieodpłatnego nabywania akcji przez pracowników i innych uprawnionych w procesie prywatyzacji przedsiębiorstw", NIK, Warszawa, 1999.

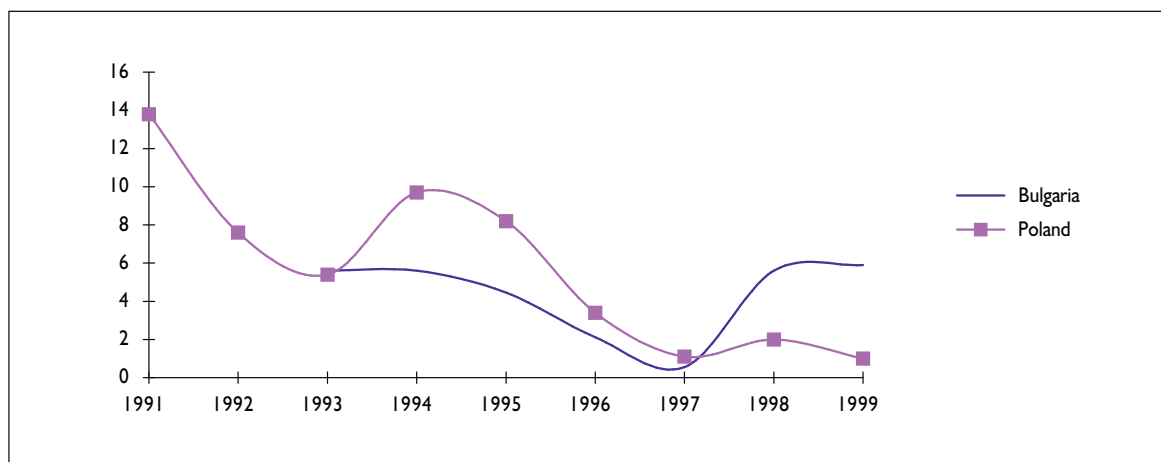
[64] Own estimate on a base of unpublished data from the Ministry of State Treasury.

[65] Not taking into consideration the fiscal impact and the cost of the lost opportunities of the companies privatized on the preferential terms under the MEBO scheme, but such a research has not been done yet.

[66] M. Psikorski, "Posłowie podzieliili pieniądze", Rzeczpospolita, 1999.10.09, Warszawa.

[67] These are only the rough estimates made by the author, as there are no systematic database available on this issue.

Figure 5-3. Direct Costs of Privatization as % of Revenues in Bulgaria and Poland



Source: Tables in the text

However, this non-equivalent privatization scheme will not be limited only to the transfer of free shares to the employees and suppliers of the privatized companies. It results from a political decision finally agreed upon by the coalition parties (under the pressure of the senior coalition party) [68] in March 2000. It may have enormous impact on the overall cost of the non-equivalent privatization program. The additional costs resulting from extending this program were not taken into account in the "Privatization Program to 2001" report. This program will cater for those citizens who have not obtained any free or preferential shares. The indirect non-equivalent privatization program will be financed by the resources obtained from the privatization process.

Initially, the AWS party proposed that 25% of the shares of privatizing enterprises should finance the extended non-equivalent privatization scheme. Later AWS agreed on a figure of 9%. On the other hand, the Union of Freedom party did not agree to the extension of the non-equivalent privatization program, arguing that financing pension reform, the compensation program and the restitution program from privatization sources is a kind of non-equivalent privatization. Additionally, Union of Freedom underlined that privatization stocks are limited and it will in time become a serious problem to fully finance already existing social and compensation programs through the incomes obtained from privatization. However, after long negotiations the coalition parties agreed that up to 7% [69] of the

shares of privatizing enterprises (excluding those companies where the privatization process has already started) will finance the extended non-equivalent privatization scheme. The Minister of State Treasury, Emil Wąsacz announced that according to preliminary estimates, extending the indirect non-equivalent privatization program will cost at least 3.5 billion PLN [70]. There is no data concerning the cost of the direct non-equivalent privatization program (e.g. the free transfer of municipal flats to their present users), as no comprehensive and systemic decision has been taken.

Dynamics of share of direct costs of privatization in privatization proceeds for Bulgaria and Poland presented in Figure 5-3 reveals significant similarities. In both countries the costs systematically have been declining from the relatively high level in early stage of privatization to the level not exceeding 2% of revenues for Poland and about 5% for Bulgaria.

In the case of Bulgaria, the estimate of the costs of privatization is based on the revenue side of the Fund covering the expenses of the privatization bodies. As the share of this fund in the allocation of revenues is determined by the Privatization Act, the share of the costs in revenues has been on average approximately 5%. The sharp fall in 1996–1997 followed by another increase in 1998 was probably the result of the time lag between the moment cash proceeds were received and the moment funds were distributed to the various funds and accounts.

[68] The main explanation raised by the MP from the AWS was that all citizens should benefit from the privatization process, not only the employees of the productive sector.

[69] The Law stipulates that limit of 7 percent can be decreased if the assumed incomes from the privatization are not achieved in the previous calendar year.

[70] "7 procent akcji na uwłaszczenie", Rzeczpospolita, 08.03.2000; Figure 5-3.

Part 6

Allocation of Revenues from Privatization

6.1. The Case of Bulgaria

The original Privatization Act [71] of 1992 outlined the eventual practical use of the proceeds from privatization, listing 5 non-budgetary accounts as destinations for these revenues.

In 1994, an amendment to the Act changed the structure of allocation and determined the shares of revenue for each of the funds. Another amendment in 1995 rescheduled the allocation shares to the various funds. The share of dif-

ferent funds in the allocation procedure set by the Privatization Act for the two periods – before and after the amendment of 1995 – is given in the Table below.

In 1997, the allocation procedure for privatization revenues was amended again, when the Mutual Fund was cancelled. The same amendment introduced two more funds to the allocation procedure – the Social Security Fund and the Artists' Fund of the Ministry of Culture – as well as changing the funds' shares in the allocation of privatization revenues.

The titles of the respective funds provide a clear picture of the actual purpose of the revenues [73] allocated.

Table 6-1. Types of non-budgetary funds according to the original Privatization Act of 1992

Funds	Share (%)
Fund covering the expenses of the central privatizing bodies	Not fixed*
Mutual Fund	20
Social Security Fund	30
State Fund for Reconstruction and Development	Not fixed*
Support of the Agricultural Development Fund	10

Note: The 1993 Privatization Program fixed the allocation share of these two funds at 30% and 10% respectively.

Table 6-2. Types and (%) shares of non-budgetary funds in the allocation of privatization cash revenues according to the 1994 and 1995 amendments of the Privatization Act

Funds	1994 – 1995	1995 – 1996
Mutual Fund	20.0	20.0
Fund covering the expenses of the central privatizing bodies	5.6	5.6
National Environmental Protection Fund	4.0	4.0
Support of the Agricultural Development Fund [72]	12.0	24.0
State Fund for Reconstruction and Development	58.4	46.4

[71] The formal name is Transformation and Privatization of State-owned and Municipal Enterprises, adopted on 8 May 1992.

[72] In 1995 Support of the Agricultural Development Fund split into two separate funds: Agriculture Fund and Tobacco Fund; after 1995 they receive respectively 26% and 4% of the revenues.

[73] The greatest share held the State Fund for Reconstruction and Development (SFRD). It was created in 1991 having as main aim the support of the structural reform and the payments on the foreign debt. SFRD extended short- and medium-term credits through selected commercial banks after the necessary money for the foreign debt payments had been allocated. Besides the privatization revenues other sources of funding for the SFRD were credits, subsidies and transfers. In 1998 the Fund was closed following the arrangements in the Memorandum with IMF.

The Mutual Funds' money used to be transferred to the Social Security Funds by the end of the fiscal year.

Table 6-3. Types and (%) shares of non-budgetary funds in the allocation of privatization cash revenues according to the 1997 amendment of the Privatization Act

Funds	1997 – 1999
Fund covering the expenses of the central privatizing bodies	10
National Environmental Protection Fund	5
Agriculture Fund	26
Tobacco Fund	4
State Fund for Reconstruction and Development	33
Social Security Fund	20
Artists' Fund of the Ministry of Culture	2

Besides, the Budget Act of 1996 proclaimed that cash revenues from the privatization of 6 companies would go directly as subsidies to medical schools, hospitals and a special fund of the Ministry of Health (the largest of these companies was sold for USD 4.05 million).

This precise regulation of privatization proceeds (except those from "cash privatization" as described below) allocation lasted until 1999 [74], since when the revenues have been divided between the central budget (90%) and the Fund covering the expenses of the central privatizing bodies (10%). As a result, the Budget Act of 2000 contains the following truism: "Revenues from privatization of state-owned companies shall be used for budget deficit financing and official debt restructuring" [75]. Thus the clear division between the spending purposes ceased to exist in the case of privatization proceeds.

Since 1997 [76] an annual list of attractive companies that are to be privatized only against cash payments has been approved by the Council of Ministers. 96% of the proceeds from this so-called "cash privatization" goes directly to the central budget and is used for official debt reduction. The seven largest transactions for the sale of "cash privatization" companies are listed in the Table below. Altogether these have provided USD 478 million in cash revenues, which is 21% of all payments contracted and 34% of all cash proceeds from privatization to the year 2000.

Allocation of Privatization Revenues

The cash proceeds from privatization have been allocated strictly according to the procedure provided by the Privatization Act and the annual Privatization Programs (thoroughly described in section 4). According to these regulations, privatization revenues are generally directed in two directions:

- The central budget;
- Non-budgetary funds specified in the Privatization Act.

The allocation procedure has been constantly amended throughout the whole privatization process. In practice, it has passed through 6 important amendments to the Privatization Act. Meanwhile, other regulations that affected the allocation procedure (such as the Budget Acts and the Privatization Programs), were also amended.

The Table 6-5 presents the actual share allocated to the different destinations for privatization cash proceeds. Several facts are worth noting:

- The cash proceeds gathered in the first two years of the privatization process (1993 and 1994) were allocated to non-budgetary funds at the end of 1994 in strict accordance with the already amended procedure. Thus the procedure from the original Privatization Act of 1992, supplemented by the 1993 Privatization Program, was never actually applied.

Table 6-4. The seven largest transactions from the "cash privatization" lists

Company	Sector	Shares sold (%)	Price (Million USD)
Sodi – Devnya	Chemical industry	60	160
Neftochim – Burgas	Chemical industry	58	101
MDK – Pirdop	Copper production	56	80
Petrol – Sofia	Chemical industry	51	52
Devnya Cement	Cement production	70	45
Interpred WTC – Sofia	Trade	70	20
Druzhiba - Plovdiv	Glass production	51	20
Total			478

Source: Privatization Agency

[74] The Privatization Act was amended in the here discussed part on 12 February 1999.

[75] The 2000 Budget Act, § 5 of the Transitory and Concluding Provisions.

[76] Amendment of the Privatization Act was made in late-1996.

Table 6-5. Actual Allocation of Privatization Revenues (Percentage share of cash proceeds)

Destination	1993-94	1995	1996	1997	1998	1999
Central Budget	-	-	-	84.2	54.0	65.7
Fund covering the expenses of the central privatization bodies	5.6	4.5	2.1	0.6	5.6	5.9
Support of the Agricultural Development Fund	-	9.2	-	-	-	-
Mutual Fund	20.0	12.2	19.5	0.4	-	-
National Environmental Protection Fund	4.0	3.2	1.5	0.4	2.8	-
Agriculture Fund	12.0	0.6	7.9	2.1	14.7	-
Tobacco Fund	-	0.1	1.2	0.3	2.3	-
State Fund for Reconstruction and Development	58.4	46.1	17.5	4.6	18.1	-
Artists' Fund of the Ministry of Culture	-	-	5.9	-	1.1	-
Social Security Fund	-	-	-	2.5	10.7	-
Universities, ministries and hospitals	-	-	-	1.7	1.2	-
Fund-raising budgetary account	-	24.1	44.4	3.2	(10.5)	28.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance

– After 1995, the practice of maintaining residual funds (remaining in the fund-raising account) emerged, i.e. the money distributed to the funds was less than the actual cash proceeds. The only exception to this is the year 1998 (the negative figure for the fund-raising account is given in brackets), when just the opposite happened – the money exceeded the privatization revenues received.

– The allocation shares after 1995 do not follow the allocation procedure as described in section 4. Three major reasons for this exist:

- 1) the allocation of the cash proceed from the 4th quarter of the year takes place at the beginning of the next year (which is also the reason for the residual funds described above);
- 2) the amendments to the allocation procedure are often introduced in the middle of the year and applied directly, i.e. the percentage share resembles neither the amended or the newly applied procedure;
- 3) after 1997, "cash privatization" appeared. Meanwhile, the allocation procedure remained active for the non-cash privatization proceeds. However, in the Table above, the percentage shared is calculated on the basis of the total privatization revenues for the respective year.

Although the titles of funds provide a reasonably clear idea of the use of the cash proceeds from privatization, in the following paragraph we examine more closely the eventual allocation of the privatization money, as well as some of the important features of the allocation procedure.

The non-budgetary *Fund covering the expenses of the central privatization bodies* was administered by the Privatization Agency. It existed until 1998 when it split into separate funds for the separate bodies.

The Privatization Act established the Mutual Fund in 1992, the main idea being to use the collected funds for the Social Security Fund and the Fund for compensation of former owners. From the end of 1995, the money collected in the Mutual Fund was allocated to the Social Security Fund for pensions [77]. The Fund was canceled in 1997 [78] and the money collected so far was to be redistributed to the Social Security Fund.

Besides the Social Security Fund, another mandatory insurance fund was eligible for privatization proceeds allocation, namely the Professional Qualification and Unemployment Fund. However, no explicit data is available on distinction between their shares (thus in the Table above, they are listed as Social Security Funds). Since mid 1998, no less than 50% of the money for the social security funds was due to go to the National Health Insurance Fund.

The 1996 Budget Act [79] postulated that the revenues from the privatization of 6 specific companies should be allocated in the following special way:

– To the Ministry of Health Care Fund, to cover the cost of life-sustaining medicines already used in 1996 – up to BGN 4.5 million.

– To medical schools and university hospitals, to cover heating and electricity costs, as well as the costs of medicines – up to BGN 1.3 million.

[77] According to § 35 of the Transitory and Concluding Provisions of the Amendment of the Privatization Act of 15 December 1995.

[78] Amendment of the Privatization Act of 7 October 1997.

[79] Actually § 6 of the Transitory and Concluding Provisions of the Amendment of the Budget Act of 20 December 1996.

– To orphanages, to cover food costs – up to 0.3 million.

In 1996, the revenue from the above mentioned 6 companies barely reached BGN 0.5 million and this was in its entirety allocated to the Ministry of Health Care.

By August 1997, all the above mentioned six companies had been sold. At that time the allocation of the cash proceeds from their privatization was roughly:

- Ministry of Health Care – USD 1.5 million;
- Medical schools and university hospitals – USD 2 million;
- Orphanages – USD 0.2 million.

The funds remaining at the end of 1998 were allocated to the medical schools and the university hospitals.

In 1997 [80] a brand new article was introduced to the Privatization Act to regulate the allocation of cash proceeds from privatization-related activities, as well as the allocation of money from forfeits for breach of privatization contracts. The allocation procedure was as follows:

– To the Fund covering the expenses of the central privatization bodies – revenue from events associated with the privatization process (sale of memoranda, auction documentation, advertising, publishing and other activities) as well as any auction/tender/negotiation deposits appropriated.

– To the State Fund for Reconstruction and Development – forfeits for breach of the clauses regarding investments in privatization contracts.

– To the Social Security Fund and compensation for former owners – forfeits for breach of the clauses regarding jobs in privatization contracts.

– To the Central Budget – forfeits [81] for breach of the clauses regarding other commitments in privatization contracts.

This procedure has since been amended twice. Presently, cash proceeds from privatization-related activities go in two directions – to the Fund covering the expenses of the central privatization bodies and the Central Budget (all the forfeits for breach of privatization contracts).

Funds from the privatization of separate units and buildings under construction, undistributed since 30 June 1994, may remain at the disposal of a company after a deduction of 20% to the Mutual Fund, where approved is granted by the respective central privatizing body. On the one hand, this new regulation has limited the revenue from privatization that is allocated to supporting the agriculture industry, ecological purposes, reconstruction and development, but on the other hand, has had a positive effect by aiding these companies' rehabilitation and making them more attractive to investors. Moreover, since late 1997 the revenues from the sale of separate units have remained in the hands of the respective company [82].

6.2. The Case of Poland

Since the "Privatization Program up to 2001" was prepared in 1998, before the introduction of the social and compensation programs, the Ministry of Finance has had to update its estimates and prognoses of the costs of these programs. According to the new projections, the cost of the social programs to be covered by the privatization revenues will be much higher than was assumed in the "Privatization program to 2001".

First of all, the cost of the restitution program is still not known, as the agreement concerning to what extent it is to be financed has not yet been reached by the Government, the unions and the associations of former owners. If we consider the most optimistic scenario [83] (meeting a partial – 50% fulfillment of the restitution claims) and the only one considered by the Ministry of Finance, this would result in the cost of the restitution program being much higher than was planned in the "Privatization Program to 2001". The cost of the program will be at least 25–35 billion PLN more and amount to 95 billion PLN [84].

Table 6-6. The cost of pension reform in particular years

Year	1999	2000	2001	2002	2003
Cost in Billion PLN	4	11	13	16.9	18.5

Source: Ministry of Finance, 2000

[80] Amendment of the Privatization Act of 7 October 1997.

[81] For full description of forfeits procedure and practice see "Evaluation of the Post-Privatization Monitoring System in Bulgaria", CASE and IME, March 2000.

[82] Amendment of the Privatization Act of 19 December 1997.

[83] Optimistic form the public finance point of view.

[84] "Kierunki Prywatyzacji Skarbu Państwa w 2000 r.", The Ministry of State Treasury, Warsaw, 1999.

Table 6-7. Comparison of the assumed cost of social programs financed by privatization revenues as of 1st May 2000 and that presented in the "Privatization Program up to 2001"

No.	Program	Privatization Program to 2001 - in billion PLN	Expected cost - in billion PLN [85] ¹	Difference
1.	Financial support for pension reform - to 2005 - to 2001	54.0	63 [86]	9
		20.3	28	7.7
2.	Compensation program for non-productive State sector employees and pensioners	20.0	13	- 7
3.	Restitution (re-privatization) program - total cost - fund for meeting indirect claims	60-70	95	25-35
		17.0	20.1	
4.	Non-equivalent privatization program - the cost of transferring free and preferential shares - extension of the non-equivalent privatization program	8.0	11	3.0
		0	3.5	

Source: "Privatization Program to 2001", Ministry of the Treasury, 1998

Secondly, the cost of pension reform will be much higher than was initially planned (Table 6-6). This is a result of the very poor implementation of the program by the ruling parties (it being initially implemented by politicians and not economists) and the financial condition of ZUS (the State Agency of Social Insurance) being even more catastrophic than had been expected. According to the Ministry of Finance, the cost of pension reform to 2001 will amount to 28 billion PLN and will be 8 billion PLN higher during this period than was planned in 1998. At present, the Ministry of Finance estimates that the cost of pension reform will exceed 63 billion PLN by 2003 (the Privatization Program to 2001 assumed that the cost of pension reform would amount to 54 billion PLN by 2005).

Thirdly, the ruling political forces, under pressure from the senior coalition party (AWS), have reached an agreement on a more comprehensive non-equivalent privatization scheme than was expected in 1998.

Fourthly, incomes from privatization still support the current budgetary expenditures. For example, the Ministry of Finance earmarked 5.58 billion PLN to cover the budgetary deficit in 2000.

If we compare the costs of the programs included in the "Privatization Program to 2001" with the present estimates or the real cost already incurred, only the cost of the compensation program is going to be lower than was initially expected. The Ministry of Finance has explained that the most pessimistic scenario was taken into consideration. The real cost of the program will be 7 billion PLN lower than

was originally expected and will amount to 13 billion PLN.

To summarize, expectations regarding the value of State property are still enormously high, despite the fact that the transformation process began over 10 years ago. On the other hand, the cost of the programs financed by privatization revenues is going to be very high.

The value of State property was optimistically estimated in the "Privatization Program to 2001" at almost 233 billion PLN. Moreover, the State Treasury in 1998 obtained 13 billion PLN and in 1999 over 20 billion PLN from privatization. We might therefore theoretically assume that the State will obtain approximately 200 billion from privatization. In fact, as mentioned earlier, these estimates are too optimistic and there is a real threat that the potential privatization revenues will be much lower.

At present, the total cost of the major social programs alone should be estimated at 185.5 billion PLN [87]. However, these are still very rough estimates, as the organization of the restitution program has yet to be determined. The adoption of any particular plan for the restitution program may dramatically change all predictions and estimates. Moreover, we should not forget about the privatization revenues consumed by the budget. For example, this year the central budget will consume over 5 billion PLN.

More threatening is the fact that the costs of social programs are growing systematically (Table 6-7 presents a comparison of the assumed cost of social programs financed by privatization revenues as of 1st May 2000 and the cost presented in the "Privatization Program up to 2001"). Although it

[85] Estimates as of 1 May 2000. In order to make these data comparable the cost of the particular programs occurred already in 1998 and 1999 were included.

[86] The cost of the pension system reform only up to 2003.

[87] Considering the cost of the pension reform only up to 2005.

is very difficult to fully compare the cost of the programs to be financed from incomes obtained from privatization, since for some programs the time horizon of some estimates cannot be compared, the cost projections presented in the Privatization Program are much lower (more optimistic) than the present estimates of the Ministry of Finance. It is clear that the cost of pension reform will be higher. The same applies to the non-equivalent privatization program. Only the cost of the compensation program will probably be lower.

In fact, according to the estimates presented above the real threat exists that there is already insufficient money to cover the cost of all existing social programs that were supposed to be covered by the sources obtained from privatization. As a result, there is no possibility of fully meeting the restitution claims, as the privatization revenues are already very limited and the budget will never manage to bear such a painful burden.

Conclusions

Comparison of fiscal dimension of privatization process in Bulgaria and in Poland reveals both similarities and differences. On the contrary to Poland, where privatization proceeds have been one of the highest priorities of the privatization strategy, fiscal objectives have rarely been referred to as a priority in the modeling and execution of Bulgaria's privatization policy.

In practice, privatization revenues in Bulgaria and in Poland constitute a continuously increasing part of total budget revenues and therefore, their fiscal effects are significant in the planning of the budget and economic policy in both countries.

Indirect privatization in Poland and cash case-by-case privatization in Bulgaria are the main source of revenues. In the last three years, the share of the largest privatization contracts in total privatization revenues in Poland, to lesser extend in Bulgaria, has increased sharply. However, since the number of large and strong companies is limited, one should not treat privatization as a source of substantial budget revenues over the long term.

The privatization revenues structure in both countries is characterized by relatively high level of concentration, measured by the number of major providers of revenues. In case of Poland, especially since mid-90ties, major providers, as a rule, became the privatized banks. This is not the case of Bulgaria, where major providers have been exclusively industrial enterprises.

Governments of both countries tend to underestimate future privatization revenues. This would seem to be the result of two factors: unexpected changes on financial markets and excessive caution on the part of the government in planning revenues, which does not need to be intentional. For both the countries under discussion, this is the best way to create government reserves that could be used to cover gaps in current expenditures.

There were significant differences between Bulgaria and Poland policy with regard to the allocation of the revenues from privatization. Actually, both countries uses principally different approaches, changing over the entire period from the very beginning of the privatization

process. Formally, according to regulations, privatization revenues in Bulgaria suppose to be directed to the central budget and to strictly specified non-budgetary funds. In practice, the allocation procedure has been constantly amended throughout the whole privatization process. While the privatization revenues in Bulgaria were and still are used to cover the gap in current governmental expenditure and to reduce official debt, in Poland for the last two-three years privatization proceeds are to be used for covering costs of the implementation of large social programs.

Foreign investment constituted an important part of privatization revenues and seems to be mainly driven by occasional large privatization contracts. However, in the contrary to Bulgaria, where foreign investments amounted to 42% of the total FDI volume for the period 1993–1999, in Poland privatization proceeds from foreign investors are not a large part of total FDI, due to the relatively high total volume of foreign investments in the Polish economy.

A variety of payment instruments were used in Bulgaria in the privatization deals, including foreign and domestic debt bonds. This broadens the gap between the total financial effect reported and the actual budget revenues from privatization. However, recently there are signs of improved revenue strategy in Bulgaria, resulted in the higher cash share in the 1999 payments. A factor which supports this development is also the lower share of MEBO's in the total deals concluded. Contrary to the situation in Bulgaria, cash is the main payment instrument in the Polish privatization process.

Direct costs of privatization in both countries are relatively small and constitute a decreasing fraction of privatization revenues. The costs of privatization in Bulgaria were on average 3.7% of the total cash revenues from privatization. The greatest costs have been connected with the implementation of the process, when the cost of the capital privatization in Poland amounted to 21% of privatization revenues, following which the cost began to fall to the level of about 2% in 1998 and 1% in 1999.

Annex No. I

Table. Major Polish revenue providers and their share in total privatization revenues in the years 1993–1999 (millions of PLN)

Year	1993			1994			1995		
	Name of company	Branch of industry	Price	Name of company	Branch of industry	Price	Name of company	Branch of industry	Price
	GÓRAŹDŹE	Cement	73.74	BSK S.A.	Banking	425.00	STOMIL OL.	Tyres	344.00
	TELETRA	Electronics	35.23	STALEXPORT	International Trade	168.30	TYTOŃ AUG.	Tobacco	220.50
	KABLE-BYD.	Cables	32.39	STOMIL-DĘB	Tyres	91.40	WINIARY KAL.	Food	178.10
	CEMENT STRZ. OP.	Cement	31.60	SAN	Food	68.40	TYTOŃ RAD.	Tobacco	153.30
	TELEKOM WA.	Electronics	30.18	JELFA	Pharmaceuticals	57.80	CEMENT. OŹ.	Cement	140.60
The largest:									
1 as a percentage of total privatization revenues	9.4%			26.6%			13.0%		
3 as a percentage of total privatization revenues	18.1%			42.9%			28.1%		
5 as a percentage of total privatization revenues	26.0%			50.8%			39.2%		
Year	1996			1997			1998		
	Name of company	Branch of industry	Price	Name of company	Branch of industry	Price	Name of company	Branch of industry	Price
	ZPT Kraków	Tobacco	579.75	HANDLOWY	Banking	1667.10	TP S.A.	Telecommunications	3146.60
	WPT Poznań	Tobacco	305.70	KGHM	Copper Mining	1348.40	Pekao S.A.	Bank	916.10
	Browary Tyskie	Brewing	211.05	PBK	Bank	1006.60	Polfa Poznań	Pharmaceuticals	770.33
	-		-	ŚWIECIE	Pulp/paper	693.30	Fabryka Łożysk "Iskra"	Metallurgy Industry/Sheaves	158.80
	-		-	POLFA KR.	Pharmaceuticals	389.00	DT Centrum	Retail trade	106,1
The largest:									
1 as a percentage of total privatization revenues	15.5%			25.5%			37.8%		
3 as a percentage of total privatization revenues	29.2%			61.5%			58.0%		
5 as a percentage of total privatization revenues	-			78.1%			60.0%		

Table. Major Polish revenue providers and their share in total privatization revenues in the years 1993–1999 (millions of PLN)

(All estimated/unofficial figures)	1999	Name of company	Branch of industry	Price
		Pekao S.A.	Banking	4240.00
		PZU	Insurance	3000.00
		Bank Zachodni	Banking	2300.00
		PKN	Oil and Petroleum	2082.73
The largest:				
1 as a percentage of total privatization revenues	32.6%			
3 as a percentage of total privatization revenues	73.4%			
4 as a percentage of total privatization revenues	89.4%			

Source: Report on achievement of the state budget 1991–1998, MSP – 1999, own calculations

Annex No. 2

Table. Major Bulgarian revenue providers and their share in total privatization revenues in the years 1993–1999 (millions of USD)

1993		m USD		Total contractual payments	44 m USD	%
Name of the company	Branch	Price		The biggest:		
Tzarevichni Producti - Razgrad	food industry	20,00	1	as the percent of total privatization revenues		45,0
Svoboda - Kristal - Kamenovo	food industry	4,39	3	as the percent of total privatization revenues		60,0
Republika - Svoge	food industry	2,00	5	as the percent of total privatization revenues		66,0
Nektar - Silistra	food industry	1,38				
Odiana - Sofia		1,29				
1994				Total contractual payments	144m USD	
Name of the company	Branch	Price		The biggest:		
Hotel Vitosha-Sofia	tourism	41,80	1	as the percent of total privatization revenues		29,0
Zagorka - Stara Zagora	brewery	21,70	3	as the percent of total privatization revenues		50,6
Grand Hotel Varna	tourism	9,36	5	as the percent of total privatization revenues		61,2
SOMAT- Sofia	transport	8,22				
Chimimport	trade	7,05				
1995				Total contractual payments	114m USD	
Name of the company	Branch	Price		The biggest:		
Burgasko Pivo - Burgas	brewery	5,02	1	as the percent of total privatization revenues		4,4
Astika	brewery	5,00	3	as the percent of total privatization revenues		13,1
Kamenitza Plovdiv	brewery	4,88	5	as the percent of total privatization revenues		18,7
Prima Lakta-Lovech	food industry	3,48				
Kabel Komers Burgas	el.engineering	2,99				
1996				Total contractual payments	185 m USD	
Name of the company	Branch	Price		The biggest:		
Sheraton - Sofia	tourism	22,30	1	as the percent of total privatization revenues		12,1
Aroma	cosmetics	8,41	3	as the percent of total privatization revenues		20,7
Eltos - Lovech	el.engineering	7,65	5	as the percent of total privatization revenues		27,6
Energokabel	el.engineering	7,23				
Vidima Sevlievo	sanitary fittings	5,40				
1997				Total contractual payments	572 m USD	
Name of the company	Branch	Price		The biggest:		
Sody Devnya	chemical ind.	160,00	1	as the percent of total privatization revenues		28,0
MDK - Pirdop	copper prod.	80,00	3	as the percent of total privatization revenues		49,7
Devnya Cement-Devnya	cement prod.	44,55	5	as the percent of total privatization revenues		55,0
Interpret WTC - Sofia	trade	20,00				
Albena resort - Balchik	tourism	10,11				

Table. Major Bulgarian revenue providers and their share in total privatization revenues in the years 1993–1999 (millions of USD)

1998			Total contractual payments	585 m USD
Name of the company	Branch	Price	The biggest:	
Druzhiba JSCo.-Plovdiv	glass	20,00	1 as the percent of total privatization revenues	3,4
Somat -Sofia	transport	13,70	3 as the percent of total privatization revenues	8,0
Polimeri - Devnia	chemical ind.	12,95	5 as the percent of total privatization revenues	11,9
Novotel Evropa-Sofia Riviera - Varna	tourism tourism	12,05 11,00		
1999			Total contractual payments	646 m USD
Name of the company	Branch	Price	The biggest:	
Neftochim JSCo. Bourgas	chemical ind.	101,00	1 as the percent of total privatization revenues	15,6
Petrol JSCo.-sofia	Chemical ind.	52,00	3 as the percent of total privatization revenues	25,4
Pharmacia - Dupnica	pharmaceutical	11,00	5 as the percent of total privatization revenues	27,6
Troyapharm JSCo- Troyan	pharmaceutical	7,35		
Svilozha - Svistov	chemical ind.	7,00		

Annex No 3**Table. Brady Bonds, to be used in privatization deals in Bulgaria, issued under an Agreement with the London Club since March 1994**

Front Loaded Interest Reduction Bonds (FLIRB)	
Issuing date	28 July 1994
Maturity date	28 July 2012
Volume of emission	USD 1 658 million
Interest coupon:	Floating
- tranche ?	1 - 2-year: 2%; 3 - 4-year: 2.25%; 5-year: 2.5%; 6-year: 2.75%; 7-year: 3%; from 8-year to date of payment: 6-month LIBOR (USD) + 13/16
- tranche ?	The same scheme as tranche A + additional 0.5% for each separate payment
Basis	30 / 360 for fixed interest payments and actual days number / 360 for payments with floating interest rate
Interest payment dates	28 January and 28 July
Principal payment	8-year grace period, followed by payment scheme with 21 equal 6-month installments, starting since 29 July 2002
Interest payment collateral	Allowed are investments in securities, which are denominated in USD and cover the value of interest payments from 1 to 7-year altogether. Volume of collateral is 2.6% of initial principal value and the incomes are on behalf of creditors for covering one-year interests, which are based on 3% of principal.
Collateral institution	Federal Reserve Bank of New York
Face value of one bond	USD 250 000
Type	Global. Transferable on installments not less than USD 1 000 or divisible to USD 1 000.
In form of	Payable to bearer or book entry
Place of registration	Luxembourg Stock Exchange
Settlement	Euroclear, Cedel or presenting sovereign bonds; Citibank for collateral securities

Discount Bonds (DISC)	
Issuing date	28 July 1994
Maturity date	28 July 2024
Volume of emission	USD 1 850 million
Total volume of tranche ?	USD 1 685 million
Total volume of tranche ?	USD 165 million
Interest coupon:	Floating
- tranche ?	6-month LIBOR (USD) + 13/16
- tranche ?	6-month LIBOR (USD) + 13/16 + 0.5%
Basis	Actual days number for the period / 360
Interest payment date	28 January and 28 July
Principal payment	Single at the date of payment
Collateral:	
- on principal	U.S. Treasury Bonds with zero coupon and 30-year maturity.
- on interest	Annually reinvested U.S. Treasury Bills with 1-year maturity, which cover the-yearly interest payments based on 7 % of residual principal.
Collateral institution	Federal Reserve Bank of New York
Face value of one bond	USD 250 000
Type	Global. Transferable on installments not less than USD 1 000 or divisible to USD 1 000.
In form of:	Book entry
Place of registration	Luxembourg Stock Exchange
Settlement	Euroclear, Cedel or presenting sovereign bonds; Citibank for collateral securities.

Annex No 4

Table. Domestic bonds, to be used in privatization deals in Bulgaria

Regulation	CMDecree N 244/91	CMDecree N 186/93	Article 4 ZUNK/93	Article 5 ZUNK/93	CMDecree N 3/94
Emission number	BG 2000192224	BG 2009993226	BG 2009893228	BG 2009794228	BG 2009693222
Date of issuing	01.1.1992	01.7.1993	01.10.1993	01.1.1994	01.12.1993
Date of payment	01.1.2011	01.7.2017	01.10.2018	01.1.2019	01.12.2018
Maturity in years	19	24	25	25	25
Grace period in years	4	4	5	5	5
Period of payment in years	15	20	20	20	20
Installments	15 equal annual installments	20 equal annual installments	20 equal annual installments	20 equal annual installments	20 equal annual installments
Principal value in thousands	BGL 3 302.08	BGL 2 301.90	BGL 8 346.69	USD 494.91	BGL 884.77
Interest payment	6-month	6-month	6-month	6-month	12-month
Interest rate in 1999	Basic Interest Rate + 1	2/3 Basic Interest Rate	2/3 Basic Interest Rate	LIBOR	2/3 Basic Interest Rate

* Principal value is according to actual data of 31 December 1999

References

References for Bulgaria

The Transformation and Privatization of State-owned and Municipal Enterprises Act (adopted 8 May 1992).

The 2000 Budget Act (adopted 4 January 2000).

The Commercial Law (18 June 1991).

The Mass Privatization Program (adopted on the 19 December 1995 decision of Parliament).

The Ownership and Use of Agricultural Land Act (adopted 1 March 1991).

The Restoration of Ownership of Nationalized Real Estate Act (adopted 21 February 1992).

The Compensation of Owners of Nationalized Property Act (adopted 18 November 1997).

The Law on the Settlement of Non-Performing Credits Negotiated Before 31 December 1990 (adopted 30 December 1993).

The ordinance on terms and conditions for participation in privatization with Bulgarian foreign debt bonds (adopted by Decree # 278 of the Council of Ministers of 25 November 1994).

The ordinances on terms and conditions for participation in privatization with Bulgarian foreign debt bonds (adopted by Decree # 502 of the Council of Ministers of 30 December 1997).

Decree # 41 of the Council of Ministers of 20 February 1995, amending the ordinance on terms and conditions for participation in privatization with Bulgarian foreign debt bonds (adopted by Decree # 278 of the Council of Ministers of 25 November 1994).

The ordinance on terms and conditions for participation in privatization with ZUNKs (adopted by Decree # 36 of the Council of Ministers of 16 February 1994).

The ordinance on terms and conditions for participation in privatization with ZUNK bonds as per CMD # 244/1991, CMD # 186/1993 and CMD # 3/1994 (adopted by Decree # 221 of the Council of Ministers of 22 November 1995).

Decree # 186 of the Council of Ministers of 24 September 1993, on terms and conditions for transforming the non-performing until 31 December 1990 debt of state-owned firms to banks into official debt.

Decree # 3 of the Council of Ministers of 18 January 1994, on issuing official debt bonds against the non-performing until 31 December 1992 debt of organizations as per § 12 of the Transitional and Concluding Provisions of the Ownership and Use of Agricultural Land Act.

Decree # 244 of the Council of Ministers of 29 December 1991, on terms and conditions for transforming into official debt

the non-performing until 31 December 1990 debt of state-owned firms to banks.

The Ordinance on terms and conditions for the acquisition, performance and repayment of long-term governmental bonds issued according to the Law on the Settlement of Non-Performing Credits Negotiated Before 31 December 1990 (adopted by Decree # 33 of the Council of Ministers of 14 February 1994).

The Ordinance on the sanctioning of commercial banks for losses resulting from transactions with long-term government bonds below their market price (adopted by Decision # 125 of the BNB Governing Board of 12 April 1994).

Decree # 89 of the Council of Ministers of 19 April 1995, on measures for the financial stabilization of Stopanska Banka and Mineralbank banks.

Decree # 263 of the Council of Ministers of 29 December 1995, on establishing a premium over the face value of long-term government bonds accepted as legal tender in privatization transactions.

The Ordinance on Tenders (adopted by Decree # 155 of the Council of Ministers of 14 August 1992).

The 1996 Budget Act (adopted 23 February 1996).

References for Poland

Bałtowski M. (1998) *Prywatyzacja przedsiębiorstw państwowych - przebieg i ocena*, Warszawa: PWN.

Błaszczyk B., R. Woodward R. (eds) (1996). *Privatization in post-communist countries*. Warszawa, CASE.

Błaszczyk B. (1997). *Prywatyzacja w Polsce po sześciu latach- osiągnięcia, opóźnienia i pożądane kierunki*. Raport CASE nr 9, Warszawa, CASE.

Błaszczyk, B. R. Woodward (1997). *Privatization and Company Restructuring in Poland*. CASE Reports No 18, Warsaw.

Bornstein, M. (1992). *Privatization in Eastern Europe. Communist Economies and Economic Transformation*, Vol. 4, No. 3, 1992.

Borowiec, M. (1996). *Changes in the Ownership Structure of the Banking Sector and the participation of Banks in the Privatization of Enterprises in Poland, 1990-1995*. [in:] B. Błaszczyk, R. Woodward (eds) *Privatization in Post-Communist Countries*. Vol. II, Warsaw, CASE, pp. 151-180.

Directions of Privatization of State Property in 199., Council of Ministers, Warsaw, 1996.

Informacja o wynikach kontroli procesu nieodpłatnego nabywania akcji przez pracowników i innych uprawnionych w procesie prywatyzacji przedsiębiorstw. NIK, Warszawa, 1999.

Jarosz M. (ed.) (1998). *Prywatyzacja bezpośrednia*. Warszawa, ISP-PAN.

Kierunki Prywatyzacji Skarbu państwa w 2000 r. The Ministry of State Treasury, Warsaw, 1999.

Lewandowski J. (1994). *Privatization in Poland - 1993*. [in:] A. Bohm and M. Simoneti (eds). *Privatization in Central and Eastern Europe 1993*. Ljubljana: C.E.E.P.N, pp. 190-207.

Pater K. (1995), Privatization in Poland - 1994, in A. Bohm (ed.) Privatization in Central and Eastern Europe 1994, Ljubljana: C.E.E.PN

Piętka K., R. Petru (1997). Reform of the Social Security System in Poland. Warsaw, CASE.

Piskorski M. "Posłowie podzielili pieniądze". Rzeczpospolita, 1999.10.09.

Privatization Program to 2001. Ministry of the Treasury, 1998.

Prywatyzacja przedsiębiorstw państwowych (Privatization of State-owned Enterprises) for the years 1991-1999. GUS.

Raport o przekształceniach własnościowych 1998 (Report on Ownership Transformation). MSP, Warszawa, 1999.

Sprawozdanie z wykonania budżetu państwa (Report on the achievement of the State Budget) for the years 1991-1998 and 1999 (unofficial version). Government of Poland.

The results of the NIK (Supreme Auditing Chamber) control of the implementation of the Law on National Investment Funds - various reports. NIK, Warsaw, 1995-1997.

"7 procent akcji na uwłaszczenie". Rzeczpospolita. 08.03.2000.
