

## AN ASSESSMENT OF THE BULGARIAN PRIVATIZATION

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### ABSTRACT:

Despite being one of the most fundamental issues in political economy, the question of the appropriate boundary between public and private enterprise received relatively little attention in mainstream economic analysis until quite recently. The article explains the process of privatization – the advantages and the disadvantages of the manner and the structure of the process in the Bulgarian republic.

*Key words: Privatization process, business environment, advantages*

### INTRODUCTION

The privatization is a process of relocate governmental resources to the private sector. In more clear view, the privatization presents the transferring of any governmental functions to the business area. This process can include even procedures like revenue collections and law enforcement.

Privatization's process is closely connected with the recovering of the private undertaking activity; this procedure is like a nature environment for the construction of the Bulgarian market economy. Denationalization of the country started after the accepting the law for the transformation and the privatization of the state and the municipal enterprises at 1992. In advance, the government accepts that the privatization would bring a lot of benefits to the whole nation. For this reason, the country has to take all measures for the successful organization of the process, which includes some important features like: cash privatization of large part of the municipal property and cash privatization of the state enterprises (NSI, 2004).

The main beliefs connected with the privatization are that the private market can more efficiently operate the functions of most of the state-owned enterprises. In general, the privatized enterprises will benefit in several directions like: lower prices, higher quality of their products, bigger assortment of goods and services, less corruption and quicker satisfy of the customer's needs. The state-owned enterprises do not care about the profits and the losses. This detail decreases the efficiency of the enterprises and increases its costs. The production process does not change, because it is not improve during the years. All these are premises for the failures of the state-owned companies. For this reason, the privatization is the best answer for the recovering the losses of a country (Miller and Petranov, 2001).

Other benefits for the economy are the privatization of state-owned companies with big losses. When these kind of companies join the private sector, their new owners will be more interested for the future of their investment. They will make certain business strategies, which will rouse the production and increase the company capital. The most important thing for the government is that the privatization of this kind of company will remove the need of providing recourses for covering the losses of the companies. The privatization of an enterprise that loses huge amounts of money can be only a benefit for the prosperity of the economy of a country (Miller, 2001).

The privatization programs occurred in most of the transition countries, like Bulgaria, Czech Republic and Russia of course. The main reason for this is that the ex soviet countries have big state sector, which was the main aim of the privatization. However the bigger part from the population of these countries does not have the financial opportunity to buy state-owned companies. For this reason the mass privatization is the perfect tool for transferring the state-owned resources to the population as a whole (Miller, 2001).

The mass privatization programs endured a lot of criticism in countries like Czech Republic and Russia. However this one in Bulgaria has several advantages. The first one is the possibility of carefully observing the privatization process in the other countries. In this way Bulgaria can see their mistakes and avoid them. The creation of the mutual funds was an invention of the Czech Republic, which Bulgaria improves and uses during our privatization process. According to Mr. Stefan Petranov associate professor of international economy, these mutual funds were created to participate in the voucher actions (2000). The Bulgarian government approves the usage of these funds and creates a commission, which purpose is to license and monitor these assets before the start of the mass privatization program. The Bulgarian government also establishes a Security Commission, which purpose is to regulate the new stock market. Having in consideration all these advantages for Bulgarian mass privatization company, we can conclude that the privatization is successful for the country's economy. In fact there are a lot of examples of privatized companies, which performance is very well during the years. Example for that are the beer production companies. They are privatized in the beginning of 1998 and have a significant increase of the quality and the amount of their production. Nowadays our beer production companies produce a great variety from the world trade marks and export for the foreign countries.

The first wave of the mass privatization programs occurred in Bulgaria during the summer of 1997. In that time, around one-fourth of Bulgaria's state-owned companies were partially privatized. The number of these enterprises was approximately one thousand and forty state-owned companies. This amount is quite significant for the country with the size of Bulgaria (Privatization agency, 2002).

### **Results and discussion**

As we mentioned, the privatization programs aim is to remove the state owned assets and to transfer them into the private sector. The other goal of these programs is to reinforce the new structure of the economy. The key concept of the structure reform is privatization of the main state-owned enterprises in almost every economic branch – construction, agriculture, trade and services, transportation. The main aims of the privatization programs are

1. Fast privatization of the enterprises of the main economic branches.
2. Restructure and starting the privatization of the state-owned monopolies
3. Attracting big strategic investors and make them part of the denationalization of the large companies.
4. Creating of favorable conditions for participation of different categories of foreign investors into the privatization process.
5. Improving of the privatization procedures for acceleration the process and guarantee for it visibility (Jotev, 1998).

There are number of ways, which help the achieving of the privatization process. The most important of them are:

1. Selling the shares of main state-owned companies to Bulgarian and foreign buyers. Here the foreign investors play a huge role for the construction and the improving of the Bulgarian economy.

2. Selling the shares of state-owned companies to worker's and manager's teams in relief conditions. This will help the ordinary people be connected to the process of the privatization. Thanks to these relief conditions, the manager's and worker's team will have the opportunity to participate directly in the improving of the Bulgarian economy.

3. Selling of particular objects and small enterprises through actions and competitions. These procedures will help the government receive the best contracts for the privatized companies.

4. Selling the shares of state-owned companies through the stock market. The stock market will become an important part for the Bulgarian economy.

5. Selling the main packages of shares of the big companies to strategic investors with the help of leading foreign consultants and negotiators. Bulgarian government should want support from some foreign professionals for the accomplishing of the privatization deals.

6. Proposing of shares from companies in exchange to privatization bonds during the second wave of the mass privatization.

7. Partial or full privatization of big production monopolies. This procedure will increase the quality of services of the big companies

The agencies, which are responsible for the accomplishment of the privatization bargains, are the Ministry of the economy, the Ministry of the regional development, the Ministry of the agriculture and the Privatization Agency. The exact numbers of bargains and which institution accomplishes them could be seen in Table 1

**Table 1.** Number of bargains by institutions.

<b>Institution</b>	<b>Total</b>	<b>Foreign Investors</b>	<b>Manager teams</b>	<b>Others</b>
<b>Total</b>	<b>5174</b>	<b>162</b>	<b>1436</b>	<b>3576</b>
Privatization agency	1314	99	226	989
Ministry of the economy:	2389	48	546	<b>1795</b>
- <i>Industry</i>	<i>1044</i>	<i>36</i>	<i>373</i>	<i>635</i>
- <i>Trade</i>	<i>984</i>	<i>6</i>	<i>137</i>	<i>841</i>
- <i>Tourism</i>	<i>361</i>	<i>6</i>	<i>36</i>	<i>319</i>
Ministry of the transportation	355	1	135	219
Ministry of the regional development	395	8	195	192
Ministry of the agriculture	550	2	298	250
Ministry of the culture	50	0	1	49
Ministry of the health care	46	4	20	22
Ministry of the education	3	0	2	1
Ministry of the energetic resources	72	0	13	59

One of the minuses for the Bulgarian privatization program is that the bargains with foreign investors are only 104 (162 - 3.13%). This is not very favorable for the privatization process, because the number is very small. Our business sector needs more foreign investors, which can develop our economy and teach us to some new and useful techniques.

The status of the number of companies subject to denationalization at the beginning of 1997 presents 7.2% from the assets of the state-owned companies. In the first wave of the mass privatization in 1996-1997 are offered 1050 small and medium enterprises, which presented 14.6% from the assets of the state-owned companies. The rest companies, which are not liable to the mass privatization, are enterprises in weak financial conditions, slack competition skills, shrink market position and old technological equipment (NSI, 2004).

The results achieved from the activities of the privatization agency for the period from 01.06.1997 to 31.10.2000 are:

- The number of all accepted decisions for the privatization programs is 3307.
- The Privatization Agency contracts 3062 bargains, which represent 71% from general number of the concluded deals.
- Privatization Agencies sold shares from 1741 enterprises and 1321 particular parts of state-owned companies.

The general financial effect from the activity of the privatization agencies from 01.06.1997 to 31.11.2000 amounts to 8,939,991 BGN. The amounts of money, which has direct and general effect on the Bulgarian economy for the period from 1993 to 2004 are presented in Table 2.

**Table 2.** Amount of money from the privatization agencies for 1993-2004, millions of BGN.

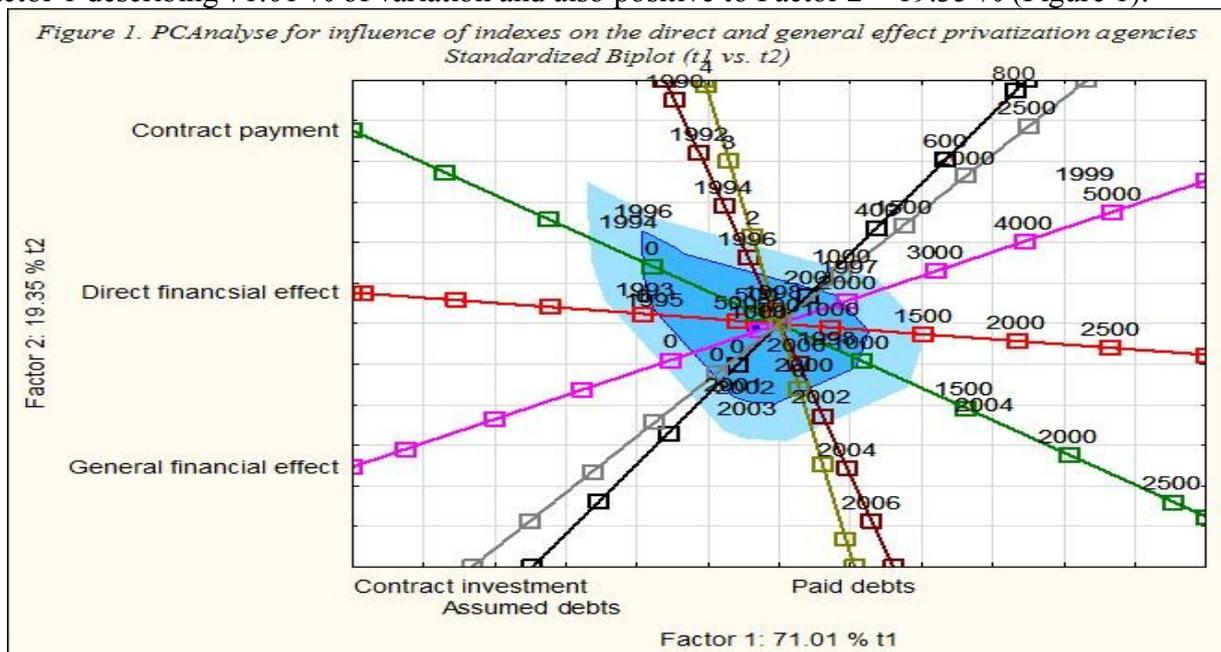
Years/ Index	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
Contract payments	1.22	7.82	7.64	51.11	951.20	991.31	1 206.07	829.20	384.17	347.06	459.04	2 049.87	7 286.72
Assumed debts	0.35	1.79	3.87	46.82	56.88	78.19	928.80	99.73	6.43	68.89	2.29	136.91	1 430.95
Paid debts	0.42	3.02	0.72	3.91	1.17	0	0.96	0	0	0	0	0	10.20
Direct financial effect	1.99	12.63	12.22	101.84	1 009.25	1 070.50	2 135.84	928.93	390.60	415.95	461.33	2 186.78	8 727.87
Contract investments	1.63	10.94	10.20	34.58	1 449.52	649.77	2 540.16	317.20	76.86	93.39	23.76	785.08	5 993.11
General financial effect	3.62	23.57	22.42	136.42	2 458.77	1 720.27	4 676.00	1 246.13	467.46	509.34	485.09	2 971.86	14 721.00

As a whole the effect of the denationalization during the period from 1993 to 2004 has a positive effect. Statistical trend calculated on the base of exponential smoothing and forecasting demonstrates that the most of economical parameters observed from the privatization agencies are positive (Table 3). The negative trend is obtained only for paid debts.

**Table 3.** Statistical trend for the main indexes of the activity of privatization agencies for 1993-2004.

Indexes	Equation	Trend
Contract payments	$S_0 = -91.9 + 186.2 T$	<b>186.2</b>
Assumed debts	$S_0 = -5.86 + 12.41 T$	<b>12.41</b>
Paid debts	$S_0 = 0.4391 - 0.038 T$	<b>-0.38</b>
Direct financial effect	$S_0 = -97.3 + 198.6 T$	<b>198.6</b>
Contract investments	$S_0 = -34.0 + 71.22 T$	<b>71.22</b>
General financial effect	$S_0 = -131.0 + 269.8 T$	<b>269.8</b>

Principle component analyses for the influence of indexes on the effect of privatization demonstrates that contract investments, general financial effect and assumed debts are positive as Factor 1 describing 71.01 % of variation and also positive to Factor 2 – 19.35 % (Figure 1).



Correlations are very high for Component 1 (Table 4).

Table 4. Loading influence of indexes on the privatization agencies  
Number of components is 2

	Variable number	Component 1	Component 2
Contract payment	2	0.862866	-0.339043
Assumed debts	3	<b>0.813202</b>	<b>0.407995</b>
Paid debts	4	-0.300265	0.875616
Direct financial effect	5	0.968961	-0.13588
Contract investment	6	<b>0.916182</b>	<b>0.295399</b>
General financial effect	7	<b>0.993202</b>	<b>0.085286</b>

General financial effect is in positive direction with contract investment and assumed debts. Direct financial effect is positive for factor 1 but negative factor 2. It is in positive direction with contract payment. During the investigated period 1999 and 2004 are positive and with higher effect in privatization process.

Analysis to the denationalization during the period from 1993 to 2004 indicates that the number of deals performed by years has quite irregular progress. The amounts increase from sixty tree bargains in 1993 to one thousand two hundred and twelve bargains in 1999. After that period the deals begin to decrease and for 2004, they are only two hundred and eight. Nowadays the privatization process in Bulgaria is nearly finished. Almost all of the privatized enterprises have very big improvement and today some of them are leading companies in the Bulgarian economy.

### Conclusion

Privatization is an inevitable process, which every country must endure. There are a lot of people, who think that the Bulgarian mass privatization program is one big failure, which injures the country's economy with a lot of money. However, this process is one of the most important things, which every transition country should make for the prosperity of its economy. The main points from the article:

- The improvement of the efficiency of the privatized companies, because of that the private companies have a profit incentive to cut costs and to be more efficient
- The increased competition of the sector is one of the advantages from the privatization that can also reflect on improvement in the efficiency of a company.
- The effect of the privatization can reflect in a positive way on the quality of the produced items.

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