

Analysis of the Postprivatization Behavior of Enterprises in Bulgaria in the Period 1992-1994

Table of Contents

Part 1. Privatisation in Bulgaria	2
Part 2. Methodology of the Study	4
Part 3. Privatization Techniques and Character of the Privatization Transactions.....	6
Part 4. Legal Status of the Privatized Enterprises	10
Part 5. Management of the Privatized Enterprises.....	11
Part 6. Changes in the Organization of Labor	13
Part 7. Market Adjustment and Financial State of the Privatized Enterprises.....	15
Part 8. CONCLUSIONS AND RECOMMENDATIONS REGARDING THE PRIVATIZATION PROCEDURES AND THE POST-PRIVATIZATION DEVELOPMENT OF THE ENTERPRISES	17

Part 1. Privatisation in Bulgaria

Two years after the adoption of the Privatization Law(1992), even if slowly, privatization in Bulgaria has made considerable progress. It is the only transition country which implements only market (capital) privatisation. Bulgaria is a middle-income country, which poses a serious barrier to capital privatization. Of course, experience (Chile, for instance) has shown that a successful capital privatization is possible in such countries as well. The privatization method itself puts a number of limitations with respect to the speed and effect of privatization. Capital privatization is generally slower than the free-of-charge distribution of bonds because it involves time-consuming procedures for valuation, legal analysis, negotiations and lawsuits.

The choice of capital privatization under the conditions of emerging market economy and markets was a serious challenge insofar as the absence of such conditions and their creation, together with privatization itself, involve substantial risks, both as regards obtaining an adequate price for the privatization objects, and with respect to a sufficiently high privatization demand, to administrative and bureaucratic difficulties, and political support. However, not only has the experiment demonstrated that privatization is possible, but a number of quite successful transactions have actually been concluded, at rather advantageous conditions for both sides; there has been relatively high stability of the concluded transactions and they are acceptable from a social point of view.

Table 1

PRIVATIZATION TRANSACTIONS

(End of December 1994)

	State-owned Enterprises	Municipal Enterprises
Privatization Decisions	953	1124
Commissioned Valuations	620	627
Concluded Transactions	229	431
Total	1802	2182

Source: Privatization Agency

The data about initiated privatization procedures (see Table 1) indicate that despite its late start, Bulgarian privatization is gaining momentum. More than 25% of the Bulgarian state-owned enterprises and more than 7% of the municipal ones are in the process of privatization. About 230 state owned enterprises and 431 municipaly owned were sold by the end of 1994. Privatization procedures have been instituted for about 1 500 state enterprises and about 1 800 municipal.

One of the chief goals of privatisation, along with the withdrawal of the state from the management of the economy on a microeconomic level, is for the enterprises to be restructured and, once they have acquired real owners, for their activity to be based on the principles of competition and the market.

The different privatization methods provide different ways of achieving those objectives. The capital (market) privatization favored by Bulgarian legislation is still the dominating privatization method. One of the unquestionable advantages of the capital privatisation is the speedy restructuring and adjustment of the privatized yet enterprises owing to the presence of a real owner-entrepreneur and the ensuing more efficient management system. As it is seen from the table, (see Table 2) the state owned enterprises are privatised and transfered mostly to an individual owner.

Table 2.

PRIVATIZATION TRANSACTIONS* BY TYPE OF BUYER

Type of Buyer	Per cent from the Total Number of Transactions	Per cent from the Total Revenues
Foreign Companies	7.3	34.3
Bulgarian Private companies	60.5	53.5
Bulgarian Natural Persons	8.2	0.7
Personnel	19.2	5.8
Managers	0.8	0.1
Others (Investment Fund, Cooperatives)	5.6	
Total	100.0	100.0

Note: * refers only to state-owned enterprises

Source: Privatisation Agency

The effect of privatization is to be sought in the activity of the enterprises and their economic state following denationalization. Any general appraisal of the course of privatization would be incomplete without an analysis of the impact of privatization on the enterprise level - insofar as the transfer of property from the state to private persons brings about immediate changes in the market behavior of the privatized enterprise and enhances profitability, efficiency, and the financial stability.

Does privatization lead to the creation of more efficient enterprises?

Part 2. Methodology of the Study

This analysis is based on the 3 year experience of privatisation in Bulgaria and on the case studies of 5 privatized enterprises which were to examine the concrete effect of privatization on their general economic and financial state - the restructuring of their business activity, market positions (suppliers and clients), technological restructuring, change of management system, the workforce and the development of employment, the system of remuneration, crediting, and the final financial results. The aim of the present paper is, by covering all of the above problems, to summarize the principal problems and achievements of the privatized enterprises and make certain recommendations with respect to privatization policy.

The analysis of the post-privatization development and state of enterprises subject to transactions under the provisions of the Privatization Law is to be regarded as a first attempt to outline and assess emerging general tendencies. There are some methodological issues which have to be taken into account when the outcomes are discussed:

First, the relatively short period subject to analysis and evaluation. (The first privatisation transaction was concluded in 1993).

Second, the relatively small number of cases available for analysis, owing to the limited scope of the privatization process.

Third, the insufficient representativeness of the enterprises under consideration owing to the uneven progress of the privatization process by sectors and types of enterprises and activities. Notwithstanding these reservations, there do seem to be enough data about the post-privatization state and development of the enterprises to formulate certain general conclusions.

The enterprises under a review have been selected on a typological principle. The enterprises were privatized about a year ago and it is thus possible to assess their operation before and after privatization. The cases have been chosen to include the three basic types of towns - the capital - 1, large towns - 2, small towns - 2. Insofar as the Privatization Law provides opportunities for the use of various techniques, the study covers cases of implementation of different privatization techniques (open tenders, bargaining with a potential buyer, personnel buy-out) . The aim is to consider the extent to which the privatization technique predetermines the functioning of the already privatized enterprise. The cases under study include enterprises privatized by the three groups of authorities under Art. 3 of the Privatization Law - the Privatization Agency, the Ministry of Trade and the Ministry of Industry, and the municipalities of Gotse Delchev and Dimitrovgrad.

It is to be noted that two of the cases are from the sector of trade, which is accounted for by the fact that the largest number of privatization transactions have been concluded in this sector.

In addition to the five comprehensive case studies, the specific conclusions and assessments are also based on information about post-privatization state and development of all privatised enterprises, largely in the sphere of services and trade. Even if fragmentary, this information

reveals certain common characteristics of specific aspects of their activity. They confirm some of the tendencies indicated by the basic case studies.

Part 3. Privatization Techniques and Character of the Privatization Transactions

The Bulgarian Privatization Law allows the use of extremely wide-ranging privatization techniques. The data about the employed privatization techniques confirm the all too high level of decentralization of privatization. Each institution carrying out privatization has a specific policy of its own regarding the employed privatization techniques. This policy reduces the revenues from privatization, limits the competition in the process and respectively, reduces the selling price.

As a privatization technique the auction is most widely used in the case of smaller objects in the sphere of trade and services, as well as the sale of separate parts of enterprises. Its shortcoming is that it limits the possibilities to include non price-related conditions in the contracts. The data about conducted auctions at the Ministry of Trade indicate that in 71% of the cases the selling price was considerably higher than the initial one.

Table 3.

PRIVATIZATION TECHNIQUES EMPLOYED BY THE AUTHORITIES

	Privatization Agency	Ministry of Trade	Ministry of Industry	Ministry of Agriculture	Ministry of Construction	Others
Negotiations	47.8	15.3	70.8	29.4	15.8	75.0
Auction	-	22.2	-	23.5	10.5	-
Tender	30.3	62.5	29.2	47.1	73.7	25.0
Public Sale of Shares	0.3	-	-	-	-	-
Others	21.6	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Privatisation Agency.

Note: December, 1994.

Negotiations with potential buyers are the most frequently used technique in the sale of large-scale objects. The changes in the Privatisation Law in June, 1994 introduced additional privatization techniques with the aim of facilitating the process and providing new possibilities for the participation of the small business such as leasing for a term of 25 years with a buy-out clause, management with a buy-out or sale clause, sale by installments with subsequent transfer of ownership, sale with non-financial conditions of deferment or termination, and others.

One of the chief problems of the enterprises in the process of privatization is the lack of know-how and information about the procedures, techniques and legislative framework. It is important to launch an information campaign for the popularization and clarification of the content, advantages and disadvantages of the various privatization techniques. This would be of considerable help to the potential participants and would in many cases actually generate interest in privatization.

Another problem of the privatization transactions concluded up to now is that the financial conditions for participation in the privatization of similar or comparable objects tend to vary significantly. The case studies suggest that this is not so much due to the different market value as determined by the character and location of the particular objects, but rather, depends on the authority carrying out the privatization and the privatization technique implemented by the respective authority.

The different prices at which similar from a market point of view objects may be bought from the different authorities and under the different privatization techniques are a cause for segmentation and disturbances on the market. They deter certain buyers by encouraging expectations for "cheaper" deals.

However, this problem is difficult to overcome owing to the large number of privatizing authorities and possible techniques, as well as to the lack of established tendencies on the real estate, corporate and security markets.

The presence of non-financial conditions in privatization transactions has been common practice up to now. In the studied cases those include commitments to make additional investments, preserving and/or increasing the number of jobs, ecological activities and commitments, etc. (See Table 4.)

Table 4.

Case No	Initial Value (BLV million)	Investment Intentions (BLV million)	Jobs	Trade Unions	Debts	Payment
Case No1	18	7	20 new jobs	none	none	paid entirely
Case No2	19	9	preserved 113 jobs	2	rescheduled by bonds	paid entirely
Case No3	1.4	2.8	preserved 9 jobs; 25 new jobs	none	none	paid entirely, by bank loan
Case No4	10.789	11	preserved 150; new 150	none	4 mln	paid entirely
Case No5	71		500 made redundant out of 750	2	4 mln	paid entirely

Recently, one of the privatisation policy debates is that to what extent the inclusion of non-price conditions in the contracts is justified. One view is that the inclusion of commitments for additional investments, preservation or increase of the number of workplaces, retaining the principal activity, and others, complicates the privatization procedure and in this way impedes the speeding up of the process. Another argument used to back that view is the fact that additional conditions require subsequent monitoring involving considerable administrative expenses.

Without disputing these shortcomings of the inclusion of additional conditions in the privatization contracts, it should be stressed that their presence is related to the general strategy of privatization. It does not only seek to achieve a price effect, i.e. immediate revenues from sales, but also the restructuring of the enterprises and improvement of their market positions, which undoubtedly calls for investments. Certain social objectives are also pursued through privatization, i.e. it is necessary, where economically justified, to guarantee the employment of the workforce, to create conditions for normal ecological development, etc. The most important aspect of non-price conditions is, of course, that they are a factor drawing public support for the process and above all the support of the employees, for whom access to privatization under capital privatization is relatively more difficult. Last but not least, the commitments related to investments and jobs reassure the state authorities regarding the good faith of the buyer with respect to the motivation of the purchase and limits possibilities for purchase for the purpose of reducing production and limiting competition, especially in the case of foreign buyers.

All of these advantages of the non-price conditions make them an important element of privatization policy. It is true, however, that this practice should be regulated and brought under control. There also arise logical problems with the value of the negotiated investments. Those agreed in leva are obviously not equivalent to those in foreign currency due to the high inflation.

The study has shown that privatization is not completed with the conclusion of the transaction. There emerges a tendency towards prolonging privatization both on account of problems arising with already concluded transactions and owing to the transition to methods of payment requiring subsequent transfer of ownership. Experience has shown that a number of actual circumstances and problems are not regulated efficiently enough in the contracts for the privatization of enterprises, such as:

- subsequent finding of unknown prior to the conclusion of the transaction defects in the respective privatization objects - in facilities, equipment, infrastructure. This is largely due to imperfect preparation and conclusion of the privatization transaction;
- deterioration of the property and financial state of the enterprises subject to privatization. Experience has shown that this process is nearly always present and develops extremely rapidly, especially in the period from the conclusion of the contract until the new owner actually assumes possession;
- finding of undisclosed as a result of poor financial and legal discipline liabilities and legal obligations (mortgages, property put up as security, etc.);
- nonfulfillment on the part of the buyer of certain stipulations of the contract for financial and non-financial commitments of the new owner.

The privatisation of state owned enterprises turn out to be middle-term process. The procedure for all five cases was prolonged from 8 to 4 months. The employed privatisation technic auctions, tenders, negotiations with a potential buyer. (Table 5.)

Table 5.

Enterprise	Procedure Instituted	Procedure Completed	Bought by:	Final Privatization Technique	Other Privatization Techniques
Case 1	Jun 93	Oct 93	employees	tender	2 tenders
Case 2	16 Aug 93	Mar 94	employees	negotiations with potential buyers	-
Case 3	Jun 93	Dec 93	Sole Merchant	auction	conducted 3 times
Case 4	Oct 93	-	2 partners	tender	-
Case 5	n.d.	used preferences	sale of shares	-	

One extremely serious question generating tension in the seller-buyer relations is post-privatization control. The analyzed cases indicate that at this stage such a control is only exercised by the Privatization Agency. To a certain extent that is understandable in view of the short period of time since the conclusion of the transactions (approximately a year has passed since the conclusion of the first more substantial transactions). In most cases the stipulations of the contracts refer to a period of 3 or 5 years.

Furthermore, the attention of the privatizing authorities is focused on the problems related to the increasing number of privatization procedures. The scope and significance of post-privatization control will inevitably grow. With the increase in the number of privatization transactions under the conditions of deferred payment, payment by instalments where the ownership remains with the seller and is to be transferred subsequently, as well as leasing or management with a buy-out clause, etc., post-privatization control will also be exercised by extending the privatization procedure itself until the final transfer of ownership.

Due to the limited scope of privatization and the virtually non-existent post-privatization control there have occurred no instances of annulment of privatization transactions owing to nonfulfillment of sale contract stipulations. There have been cases of dissolution shortly after the conclusion of the sale contract largely due to nonpayment of the agreed price by the buyer within the specified term. However, such developments are certain to arise in the future, with the speeding up of privatization and the growing number of privatization transactions.

Part 4. Legal Status of the Privatized Enterprises

The majority of the privatization transactions concluded up to now involve the sale of separate parts or entire enterprises (according to Chapter VI of the Privatization Law). The number of enterprises privatized through sale of interests and shares is smaller. To a great extent this is determined by the legal status of the privatized enterprises. In most cases the privatized fixed assets, separate parts or entire enterprises under Chapter VI of the Privatization Law become part of the assets of the buyer company. As a result, the corporate body of the privatized state-owned enterprise is either subject to termination or has to indicate the changes in capital with the sale of the respective separate part or fixed asset.

Typically, when incorporated in the newly formed or already operating private company the state-owned enterprises privatized in this manner constitute the principal part of its assets. This is particularly true in cases when the buyers are smaller or newly formed companies, which seems to speak of the critical role that privatization is to play for the future development of this type of economic agents. In this sense it is closely related to the process of formation of new firms or to the development and expansion of the activity of already existing private enterprises.

When the buyers under the provisions of Chapter VI of the Privatization Law (privatization of entire enterprises or separate parts thereof) are larger private companies, there are cases when the acquired enterprise becomes a subsidiary company or branch.

Even if more limited in the practice to date, privatization through sale of interests and shares of commercialized state-owned enterprises will predominate in the future owing to the nature of the changes in the existing regulations and legislation. The post-privatization outline of the legal state of the enterprises in this type of transaction is the following:

- preservation of the corporate body of the enterprise with a registration of the changes in ownership;
- acquisition on preferential terms of part of the interest or share by the staff (there are nearly no instances of failure to use this preference);
- when the buyer of the majority share is not the staff or part of the staff, in a number of cases those who have acquired a share on preferential terms wish to sell it at the higher price to the major shareholder. Even if economically and socially justified, this possibility has been abolished with the changes in the Privatization Law.

Part 5. Management of the Privatized Enterprises

The predominant part of the privatized enterprises are managed directly by their new owners which is largely determined by the employed privatization techniques. I.e., the selected approach to privatization in this country leads to the creation of real owners immediately involved in the management of their enterprises. Their direct participation in the management is also conditioned by the character of the privatized enterprises. It also follows from their legal status - mainly limited liability companies, partnerships and sole merchants, where executive power is generally directly exercised by the owner. In the privatized joint-stock companies there predominates a one-tier system of management with the major shareholders once again exercising executive power.

In this sense the management of the privatized enterprises reproduces the predominant mechanism in the private sector for immediate management of the enterprise by the owner as opposed to the public or anonymous management by persons appointed by the owner in the state-owned enterprises.

One of the principal shortcomings of the adopted market privatization model in Bulgaria is the limited participation of management in denationalization. The preparation of privatization is reduced to the preparation of the legal analysis and asset valuation, without any promotion campaign within the enterprise itself aimed at involving the personnel and the managers in the process. Privatization is not preceded by financial recovery and actual commercialization. A formal transformation is carried out of the enterprises into companies as defined by the Commercial Law without this being related to specific measures for stabilization of the market positions and restructuring of the state-owned enterprises subject to privatization. This further limits their liquidity.

According to the Privatisation Law, the management of the enterprise is not treated differently from the personnel and there are no additional conditions attached to their participation. The ministries, which exercise the property rights on state participation in the respective sectors, tend to have a distrustful attitude to privatization through management buy-out. Managers are isolated from the preparation of privatization and the procedure for its implementation. In this way, privatization is deprived of technical and managerial experience, the managers assume a negative attitude to the process and therefore very frequently create problems regarding the provision of information and the access to the enterprises.

Of all privatization transactions concluded by the end of December only 4 enterprises were bought by managers. In the remaining cases managers are frequently "concealed" behind personnel buy-outs, which, as becomes evident from the case studies rise to postprivatization problems in the management of the enterprises. The equal treatment of managers in the course of personnel buy-outs makes both the rationalization of the organization and management structure of the enterprise and the investment policy difficult to implement. The personnel are typically inclined to reinvest a smaller part of the profit, leaving a larger part aside for incomes and social benefits. This gives rise to difficulties in the restructuring of the privatized enterprise.

When the personnel buys the enterprise it usually keeps the executives acting up to the privatization, regardless of the former conflicts between managers, workers and employees,

and their trade-union organizations. It is not by chance that opinion polls among managers of state-owned enterprises about their preferred privatization technique indicate a decided preference for personnel buy-out.

This tendency finds its explanation in the active role of the management of the enterprises subject to privatization. The studied cases indicate that it is the executive management of the enterprise who not only initiate, but actually direct the entire participation of the staff in the privatization. There are only isolated cases of open efforts by individual members of the management to buy out the enterprise independently without involving a larger part of the staff. This is accounted for by the management's fears of possible tension and opposition from the staff and the union organizations, both during and after privatization.

There is a general tendency in the privatized enterprises towards active efforts for the simplification of the management structure and functions, as well as towards discharge or reorientation of part of the administrative staff. In all five cases the financial and accounting departments were abolished, with only a chief accountant remaining in their place, often assuming the duties of a paymaster as well. That is a typical phenomenon in the presence of direct management by the owner. In the same direction, efforts are being made for certain typical administrative and managerial activities to be detached in economic and organizational terms or moved out of the enterprise altogether on a contractual basis.

On the whole, privatization leads to an imperative rationalization and simplification of management in the direction of greater pragmatism and economy.

Part 6. Changes in the Organization of Labor

Most privatized enterprises tend to preserve or increase the number of workplaces. This is related to the fact that up to now privatization has essentially involved the creation of new private enterprises or expansion of the activity of already operating ones. To some extent the increase in employment is also due to the fact that preserving or increasing the number of jobs is stipulated as a condition in the contracts in most privatization transactions. As indicated by the study, that condition was present in the contracts of 4 out of the 5 enterprises, with only one of them having made 500 workers redundant. (see Table 4).

The data about concluded large privatization transactions show that of the transactions concluded by the Privatization Agency (they all fall within the category of "big privatization transactions"), 7 included a condition of termination requiring the creation of new jobs, in 5 of the contracts the condition was to preserve existing jobs, and only 2 included no such clause, with no information being available about the rest.

The commitments concerning the number of jobs are related to agreed additional investments. Such commitments have been made in more than 45% of the concluded transactions.

The results of the survey refute the common assumption that privatization leads to job cuts. Only less than 10% of all privatized enterprises in the country reduced the number of workplaces, and the rest either increased or preserved existing jobs. The reason for this specific to Bulgarian privatization phenomenon lies in the fact that privatization in Bulgaria was delayed. During the pre-privatization stage, owing to the limitation of state subsidies (see Table 6), there were significant personnel cuts in the state-owned enterprises, and in some cases it even fell to a level below the minimum necessary for the normal operation of the enterprises. The phenomenon "unpaid leave" turned into a mechanism for mass discharge of labor force.

In this respect, however, Bulgaria is not unique. "The empirical analysis of the Chilean experience shows that the change in ownership related to privatization does not in itself affect employment but leads to greater efficiency without bringing about an increase in the general level of unemployment".⁽¹⁾

Table 6.

ENTERPRISE SUBSIDIES AS A SHARE OF THE STATE BUDGET EXPENDITURES:

1989	1990	1991	1992	1993	1994
26.4	25.7	9.0	3.65	3.9	4.6

Source: State Budget Bill for the respective year

The data from the survey indicating an increase in the number of workplaces in the privatized enterprises ought to dispel the fears of privatization of the employees and the trade unions.

The increase in employment also results from the general expansion of production and enhanced efficiency of the overall activity of the privatized enterprises.

Another characteristic tendency related to the organization of labor in the privatized enterprises is the change in working hours, with modifications in the organization of shift work. Furthermore, there appears to be greater interchangeability and rotation, especially in the enterprises bought by the staff.

⁽¹⁾ Dominique Hachette and Rolf Luders, *Privatisation in Chile: An Economic Appraisal*, ICEG, 1993, p. 10

In all of the studied enterprises the system of remuneration of labor was changed after privatization. The common tendency was to change the relative share of, or abolish payment by the hour and replace it with piecework or a payment-by-results system. In view of the size and characteristics of most of the privatized enterprises, the relative extension of the piece rate system of labor remuneration is often combined with internal economic differentiation of separate structural units and occasionally even specific workplaces.

The observed tendencies in employment and organization of labor, even if of a fragmentary and non-representative character, are an indicator of extensive increase in the employed labor force and the effectiveness of labor in most enterprises privatized to date.

Part 7. Market Adjustment and Financial State of the Privatized Enterprises

The activity of the privatized enterprises is characterized by retaining the principal field of activity, with substantial changes in the organization of labor and production. That is very often a non-financial condition stipulated in the privatization contracts, especially in the services sector.

The production of the privatised enterprises increases. This is a typical phenomenon, resulting from the active role of the new owner in making an optimal use of production reserves, improving production organization and the use of the labor force. In some isolated cases the output has been temporarily reduced for the purpose of repairs, expansion, and other investments.

The new owners introduce and develop additional activities in the enterprise. This process is particularly characteristic of enterprises in the sectors of trade and services. It stems from the new owners' wish to increase revenues as much as possible and secure a good return on investment, as well as from the need to meet the commitment to preserve or increase the number of workplaces in the privatized enterprises, as required in most privatization transactions.

A certain improvement and diversification of the inventory of services and goods produced by the enterprise, both within its main field of activity and in the newly added ones was observed. This seems to indicate that the privatized enterprises are adjusting their activity to the market conditions, i.e. they are flexible and easily adaptable to market conditions.

One of the chief problems of privatized enterprises lies in the instability and uncertain future prospects of state-owned enterprises which strongly mark the micro-environment of the operation of privatized ones. In this respect it is impossible to draw analogies with other countries, insofar as the privatized enterprises are operating in the absence of a stable market environment.

Another major problem is the instability of production connections. The suppliers, when these are state-owned enterprises, frequently change the contracts (there is poor contractual discipline), and their restructuring often changes the output structure, prices and sales volume. All of this tends to destabilize privatized enterprises and impedes their market adjustment. Some privatized enterprises adjust to the situation by building up dealer networks and work with several, rather than a single supplier as a means of countering the instability.

Apart from the outlined, generally positive tendencies in the activity of the privatized enterprises, there are other more unfavorable developments concerning their financial. The high interest rates are pointed out by the new owners as a most serious obstacle to the growth and even the normal functioning of the privatized enterprises, and above all those relying on their own capital, rather than attracting investments from the outside. While retaining their legal and financial independence, after privatization most enterprises find themselves under considerable financial strain related to the servicing of investment loans received at the time

of privatization. To most enterprises paying off the loans and the interests on them is the chief characteristic of their financial state. Nevertheless, and partly due to the limited number of privatized objects and the short period under consideration, almost none have been forced into insolvency.

In a number of cases, in relation to the need to secure credit resources, fixed assets of the enterprises are mortgaged or other assets are put up as security. There also appears a certain reduction of the assets with a view to optimizing production reserves and finished products in storage.

Measures are being taken to reduce certain production and other operating costs and to make them commensurate with the respective activity and the revenues it brings. In most privatized enterprises which have retained their independence there lack any substantial additional investments in liquid assets and expenditures on fixed assets. At the same time, however, the incomes from the activity and the additionally revealed resources prove sufficient not only to cover the generally increased operating costs, but likewise the investments required by the conditions of the privatization transactions.

The study proved that the enterprises having access to fresh capitals for the restructuring are in a favourable position. Those are typically the enterprises which are operating on sub-contracting bases, enterprises which are distributors or have been licensed by a foreign company, or are part of a joint venture. Thus, for instance, "Stil" Ltd (Case N 2) holds a licence from Hunter Douglas, the "Yurukov" company (Case N 5) is working for a German company supplying the materials. Those enterprises which have been bought by the personnel or management are experiencing more acute financial problems. As shown by the case studies, the persons who buy enterprises at auctions usually prove to have no connection with them and have never worked there, i.e., we are in the presence of green-field growth - the typical model of private sector expansion in Bulgaria.

Strangely enough, a major problem of privatized enterprises is inadequate labor force supply. Despite the high unemployment, the new owners of the privatized enterprises have difficulties in finding suitable workforce on the labor market. It is clearly necessary to link privatization policy with the labor market policy. The means for preliminary training of the staff of privatized enterprises could perhaps be secured from the Professional Qualification Fund. Information should be provided and negotiations conducted between the authorities under Art. 3 of the TPSMEL and the buyers about the possibilities provided by the active labor market policy - preferential term loans, cost-free hiring of young specialists and qualified workers, the temporary employment program and other schemes. Labor force demand on the part of privatized enterprises has to adjust to current labor force supply. It is possible to set up a department at the National Employment Agency which would be dealing with these problems.

Part 8. CONCLUSIONS AND RECOMMENDATIONS REGARDING THE PRIVATIZATION PROCEDURES AND THE POST-PRIVATIZATION DEVELOPMENT OF THE ENTERPRISES

Market privatization has brought about an economic revival of all privatized enterprises under the analyses. I.e., the study has demonstrated that the positive effect of privatization does not only consist in freeing the state from its property and securing additional revenues from that operation, but equally and chiefly, in the improvement of the economic state of the enterprises. They have all to some extent or other carried out what state management was unable to achieve:

- improved market positions - production restructuring has been carried out in nearly all of them;
- rationalization of management;
- additional investments;
- as shown by the case studies, there has been a wage increase in all privatized enterprises, with the system of payment being reorganized into more efficient forms based on a payment-by-result principle. Social dialogue is maintained and the trade unions remain only in the larger privatized enterprises.

In order to promote a better understanding of the various privatization techniques and greater trust in the privatization process as a whole among entrepreneurs and the general public, it is necessary:

- to launch an information campaign about the current legislative framework of privatization, the alternative possibilities and the types of preferences. It should be accompanied by measures to enhance professional know-how at state and municipal privatizing authorities, as well as banks, public organizations, etc.;
- to provide maximum publicity on the course of privatization, as well as the state and development of the privatized enterprises. The generally positive tendencies in their post-privatization behavior would considerably enhance public interest and trust in privatization as a whole;
- to improve preliminary promotion work concerning the enterprises, separate parts or assets which are subject to privatization;

Concerning the privatization procedures, the authorities in charge of privatization ought to seek:

- to reduce as far as possible the duration of the privatization process. Experience has shown a substantial deterioration in the state of the enterprises which are in the process of privatization. This does not only concern their finances, but the state of the property, the equipment and facilities, supplies and reserves, etc. From this point of view, and in order to concentrate in time the supply and demand for privatization objects, it would be most appropriate to bring the privatization process within a reasonably short term of time;
- to provide maximum publicity and openness of the privatization procedure both in view of attracting investors and of gaining public trust in the process;
- to improve the state of post-privatization control. The existing legislative framework of

privatization does not in fact regulate the question of the control, both over the process itself, and the fulfillment of the conditions stipulated in the contracts. A governmental regulation on privatization and post-privatization control is therefore called for.

Furthermore, it would be appropriate for the sale contracts themselves to stipulate the objects, as well as the forms and term of post-privatization control, concurrently with the respective forfeits and other conditions. The sale contract could even include provisions for the buyer himself to take on certain aspects and forms of control, for instance providing information to the seller on a regular basis about the fulfillment of the contract conditions: number of employed persons; realized investments; ecological improvements, etc.