

PRIVATIZATION IN BULGARIA: a revolution that never happened, an evolution that is sweeping everything around

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I. SUMMARY

II. HOW THE LAW WAS SHAPED

- A. The creation of privatization Law
- B. The privatization Law - its spirit
- C. The letter of the Law

III. THE BEGINNING OF PRIVATIZATION IN BULGARIA

- A. The "baby" phase
- B. The early "teens"
- C. Developing new approaches to privatization

IV. ASSESSMENT OF RESULTS TO-DATE

- A. Privatized enterprises
- B. Problems and solutions
- C. New goals and new ways

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THE PRIVATIZATION OF "GAS CONCRETE" LTD. - SOFIA, BULGARIA

On February 11, 1994 was signed the sale contract for "GAS CONCRETE" Ltd. - Sofia between the PRIVATIZATION AGENCY, represented by Mrs. Reneta Indjova, Executive Director and the European group for construction materials "YTONG" Ltd., represented by Mr. Diter Goeres, Technical Director.

"YTONG"-Holding Ltd., headquarters in Munich, Germany is the main company of 26 associated companies and has in possession 20 plants in 15 European countries. The production capacity in 1993 was over 3,732 million cubic meters YTONG-products for housing and industrial construction, with an annual output of DM 887million. At the present time YTONG owns affiliates and plants not only in Western Europe - from Germany to Portugal, but it also does in Croatia, Czechia and Hungary. The set up of YTONG company, Bulgaria, becomes reality after the buying of "GAS CONCRETE" Ltd. The deal is continuation of the consistent policy of "YTONG"-Holding Ltd. in doing expansion of its activities out of Western Europe, specifically after the last political changes in Eastern Europe.

The enterprise "GAS CONCRETE" Ltd. is located in the Northern part of Sofia plain by the Plant for Steel-Concrete Constructions in Kremikovtzi. The construction works started in 1986, and in 1992 partly began its exploitation. The registration of "GAS CONCRETE" like Sole Proprietorship Trade Company dated back from June 4, 1993. The product manufactured is gas-concrete blocks used like building elements, and the enterprise's capacity is 60 000 cubic meters per year. From this quantity 93% are designated for the local market and 7% for export. The realized turnover for 1992 is Leva 21,4 million. The technological equipment includes complex technological line "HEBEL", manufactured in Germany and Hungary in 1986. The total number of working places is 127. The enterprise is situated on the total area of 59 100 sq. m, the built-up area is 27 804 sq. m, and the gross area is 29 294 sq.m. It disposes with its own water sources for industrial goals and purifying station for doing treatment of drinking and wastewater. The manufacture technology is free of waste and is not a source of ecological pollution.

Subject of the present deal is 80% of the equities of "GAS CONCRETE" Ltd. at the

price of DM 4 million. The buyer takes all the debts of the company. Upon the contract, additional investment is provided to be made to the amount of DM 5,6 million and this on the scheme for a period of 5 years as follows: first year - DM 1,38 million; second year - DM 1,88 million; third year - DM 1,68 million; fourth year - DM 0,38 million; fifth year - DM 0,28 million. At least 100 working places will be preserved during the first two years and minimum 75 during the next three years. The payment will be executed right after the notarial certification of the contract.

THE PRIVATIZATION OF "SVINEKOMPLEX KARAPELIT" STATE COMPANY - KARAPELIT VILLAGE

On February 9, 1994 was signed the sale contract for "KARAPELIT" SC - Karapelit village, Varna region, between the PRIVATIZATION AGENCY, represented by Mrs. Reneta Indjova, Executive Director, "ELTEKS MEAT COMPANY" Ltd., represented by Mr. Aleksi Kostov, Manager, and "EVROSVIN" Ltd., represented by Mr. Anton Donchev, Manager.

"ELTEKS MEAT COMPANY" Ltd. was registered on October 12, 1993 in Sofia. The company is legal successor of "ELTEKS" Ltd. Its scope of activities is: home and foreign trade, meat production, meat processing and meat trade, meat products and live-stock. The company has developed its own national strategy for the agriculture and livestock breeding, provided for a closed cycle: grain production and fodder production, stock-breeding, meat production and meat processing, forwarding, home and abroad realization, high operative agrochemical and veterinarian-medical service. "EVROSVIN" Ltd. was registered on October 22, 1993 in the town of Dobrich. Scope of activities: agricultural production, treatment and realization of the production. "SVINEKOMPLEX KARAPELIT" SC, Karapelit village, Varna region, has subject of activity manufacture of fattened swine, meat and meat products. The pig breeding complex was put in exploitation in 1974. It is situated 5 km. in the North of Karapelit village, Dobrich municipality, on total area of 329 000 sq. m. All the land is state property. The built-up area is 112 000 sq. m. The production capacity of the pig breeding complex is 70 000 swine per year. The equipment for the production and processing of meat has capacity up to 95 swine daily. Some of the advantages are fodder base vicinity and the presence of waste water purifying station. The realized turnover for 1992 is about Leva 83 million. At the present time, 195 persons with the necessary qualification and professional experience are occupied in the pig breeding complex.

Subject of the present deal is 100% of the company's property on the price of Leva 7,1 million. The payment will be executed within 7 days. The buyer undertakes all the company's debts on total value of Leva 153 million. Upon the contract, the subject of activity will be preserved for a period of 5 years at least. Not less than 195 working places will be preserved for 3 years term. The minimum additional investment which has to be done for 3 years is Leva 5 million. The scheme is as follows: until the end of 1994 - 3 million for building a station for utilization of slaughterhouse waste and reconstruction buildings for suckling sows; till the end of 1995 - 1 million for modernizing a waste water purifying station; till the end of 1996 - 1 million for modernizing of waste water purifying station.

THE PRIVATIZATION OF "KAMENITZA" LTD., PLOVDIV

On November 25, 1993 was signed the sale contract for "Kamenitza" Ltd., Plovdiv, between the PRIVATIZATION AGENCY, represented by Mrs. Reneta Indjova, Executive Director and BRAU UND BRUNNEN Ltd., represented by Mr. Michael Brenscheidt, Executive Director.

"Brau und Brunnen", headquarters in Dortmund, Germany, is a holding company of several firms. The group manufactures beer, mineral water, soft drinks. The company was organized in 1972 from the merger of "Dortmunder Union-Brauerei" Co (founded in 1873) and "Schultheiss-Brauerei" Co (founded in 1842). The company acquired its present name in 1988. It has been German national manufacturer not so long ago. In the last few years it has become multinational company.

"Kamenitza" Ltd., Plovdiv, has been one of the first breweries in the country. Established in 1897 from the general partnership "Frik & Sultzer" by that time it manufactured beer using manually. Later on the technological process has been developed effecting the progressive output increase. In December, 1947 the enterprise was nationalized and attached to State Monopoly of Alcohol. From 1952 "Kamenitza" was placed at the disposal of State Economic Union "Bulgarian beer". In 1991 the enterprise was registered as "Kamenitza" Ltd.

The enterprise activity range is manufacture of malt, beer, carbon dioxide, heat-supply, agricultural production, bottling line, barter and business transactions within and out of the country.

"Kamenitza" Ltd. has in disposal the following main and differentiated production units:

- Production ground, Plovdiv;
- Beer bottling plant, Smolian;
- Grain elevators (silos), Debar district, Parvomai;
- Warehouse, Filipovo district, Plovdiv.

The available machinery, equipment and installations are designated for a complete technological cycle of production. The technological equipment is composed by: boiling installation, Czechoslovakia (1982); 4 bottling lines, Bulgaria (1983); fermentation containers, Bulgaria (1988), Belgium (1987), Germany (1983); malzerei, Bulgaria, Czechoslovakia (1968); air coolers, Bulgaria (1983); KEG beer filling apparatus (1986). The industrial estate has in total area of 83 970 sqm., and built-up area of 51 270 sqm.

The nomenclature of manufactured products is like follows: lager beer 10% - ordinary, light beer 10.5% - special, "Rombus" beer 11.5% - special, brand beer - de luxe. The enterprise project capacity is 40 million litres per year. The output for 1992 was 32,7 million litres of beer on value in BGL about 95 million. 99% from this share meets the needs of the local market and the other 1 % is for export.

The enterprise staff has the required qualification and professional experience, and in total is 415 people, taken to June 30, 1993.

Subject of the present deal is 67% of the shares of "Kamenitza" Ltd., after the exclusion of Smolian plant, on value DM 4,112 million where the deferred payment will be concluded till December 30, 1993, Upon the contract the buyer engages himself to make additional investment to the amount of at least DM 3,888 million. This scheme is to be concluded in terms of 2 years. The present economic activity will

be kept leastwise for 3 years. Beer under the trade name of "Kamenitza" will be produced in terms of at least 3 years where the output has to be not less than 50% from the whole manufacture of the enterprise. The working places' number will be maintained at 300 at least for 3 years. The last clause says that in leastwise 3 years the enterprise will keep doing supply to the factory in Smolian with orders made under normal business condition.

THE PRIVATIZATION OF "HIDROPROBIVNA TECHNICA" Ltd. - RUSSE

On February 10, 1994 was signed the sale contract for "HIDROPROBIVNA TECHNICA" Ltd, Russe, between the PRIVATIZATION AGENCY, represented by Mrs. Reneta Indjova, Executive Director and "Breakers A/S" Co, represented by Mr. Haim Zabludovich, Chairman and Mr. Gunar Peterson, Director. "Lifton International A/S" is a part of economic group which on its turn owns plants in Denmark, England, USA and agencies in more than 28 countries all over the world. The plants manufacture machines and equipments mainly for the construction sector. "Lifton International A/S" bought out in 1993 the British manufacturer of micro-excavators "Powerfab". "Breakers A/S" Co, headquarters in Aalborg, Denmark is property of "Lifton International A/S". "Breakers A/S" is a world leader in the manufacture and sale of hand-held breakers and hydraulic powerpacks. Its plant in Denmark manufactures hand-held breakers from 15kg to 30kg. The buy out of "Hidroproбивna Technica" SPLtd. will widen up strategically the whole manufacture programme of "Lifton International A/S" through increasing the nomenclature of manufacture.

The enterprise "Hidroproбивna Technica", Russe was created in 1987 with subject of activities: scientific-applied and manufacture activity in the field of hydraulic drilling technics and perforating technics. On August 5, 1991 it was restructured in sole proprietor limited liability company. The manufactured output consists in different kinds of hydraulic breakers with weight from 80 to 1500 kg and hit energy from 80 to 5000 J. The production capacity is 9 hydraulic breakers monthly. The turnover for 1992 is about Leva 4,56 million where 15% of the output is destined for the local market and 85% for export. The technological equipment includes metalworking machines manufactured in CIS, Swtzerland and Bulgaria. The working places are 47. The built up area is 2 039 sq. m, the gross area is 2 213 sq. m, and the total area is 12 863 sq. m.

Subject of the present deal are 429 shares which represent 97% of the company's capital at the price of 350 000 US\$. The payment will be done up to 7 days after the contract is being signed. It is stipulated in the contract that the buyer will cover all the company's obligations to the amount of Leva 4,28 million. 44 working places will be retained for a term of 3 years. It is provided additional investment of 350 000 US\$ to be made on a scheme during the next 3 years.

THE PRIVATIZATION OF NEKTAR LTD. - SILISTRA

On December 2, 1993 in the town of Silistra the Sale Contract of NEKTAR Ltd. was signed between the Privatization Agency, represented by Mrs. Reneta Indjova, Executive Director and DRUSTUR COMMERCE HOLDING Ltd., represented by Mrs. Dimitrichka Borisova, Owner and Manager of the company.

DRUSTUR COMMERCE HOLDING Ltd., with headquarters in the town of Silistra, carries out commercial and production activities. The company has lasting commercial interest in NEKTAR Ltd. production as it has provided fuel and commercial representation in the country and abroad under contract so far. It is the owner of other enterprises situated in the same region, which principal operation is related to that of NEKTAR. Furthermore the company is a shareholder in local trade companies, in which foreigners participate and has won firm raw materials position in the greater part of the country. Therefore its activities and business contacts open up a chance for considerable extension of NEKTAR business.

NEKTAR Ltd. is the successor of the Vacuum drying factory, established in 1959. It was the first producer of tomato paste in Bulgaria. In 1965 it merged with NEKTAR state cannery and BULGARPLOD NEKTAR was formed.

At present the company is situated on an area of 105 decares and its production range includes some 50 types of cans: tomato paste, bottled fruits, nectars, tinned vegetables, fruit desserts, fruit pulps, cooked food, tinned mixture of meat and vegetables and concentrate for soft drinks. A number of technological improvements were carried out in the course of the years. In 1970 the first aseptic farm in the country was created there. In 1985 one of the most up-to date lines for production of thick juices and nectars was put into operation, the bottling equipment of which was produced in Germany. In 1984 Italian lines for tomato paste and peeled tomatoes production were introduced as well as some technological lines for production of tinned vegetables, bottled fruits and nectars and for washing of jars and bottles. In 1992 a line for soft drinks concentrate production and two lines for twisting of twist-off jars were put into operation. The enterprise has its own heating plant, a pump that provides industrial water and a station for wastewater purification.

The- employees are highly skilled and have professional experience of many years. At the end of 1992 their number was 280.

The maximum capacity of the company is 10 300 tones per annum 6 000 tones of which are thick juices, 1 500 tones - bottled fruits, 1 800 tones - tomato paste, 1 000 tones - marmalade and jam. The turnover for 1992 is 40 million BG leva, while the turnover expected for 1993 is 120 million BG leva. 33% of the production meets the domestic market requirements and the rest of it is exported to Turkey, Italy, Germany, the member countries of the former Soviet Union and the Arabian countries.

Subject of the present transaction is 60 % of NEKTAR LTD. shares valued at 43.8 million BG leva. According to the Contract, the Buyer will have the right to buy the remaining shares in addition, i.e. after the rate of employees' preferential participation and the rate of claim set up by a Co-operative farm in liquidation and the persons having rights under art. 18 of the Law on Transformation and Privatization of State and Municipal Companies are determined. He undertakes to bear the company debts to contractors, to Silistra Regional Co-operative Union and to the employees. The term, within which the price should be paid is 30 days after signing of the Contract. The supplementary obligations are: preservation of 260 places of work within a period of at least 5 years; preservation of the principal operation within the same period of time;

additional investment for machinery, equipment and raw materials to the amount of the equal BG leva value of 3 million US\$ under a scheme for a five years term, too.

THE PRIVATIZATION OF "REPUBLIKA" LTD. - SVOGE, BULGARIA

On November 15, 1993 was signed the sale contract for "REPUBLIKA" Ltd - Svoge between the PRIVATIZATION AGENCY, represented by Mrs. Reneta Indjova, Executive Director and KRAFT JACOBS SUCHARD, represented by Mr. Bernhard Huber, Vice President for Central and Eastern Europe.

The American Philip Morris Organization has three main centers of activity, Food, Tobacco and Beer. The food sector is split into KGF North America and KGF International. Within KGF International KRAFT JACOBS SUCHARD, based in Zurich, plays a prominent role.

KRAFT JACOBS SUCHARD has three core categories. The first one (14% of the total production) is cheese with leading market positions in Italy, Spain and the United Kingdom and strong positions in Germany and Belgium as well.

The second category (32% of the production), which is popular in Bulgaria, is coffee. KRAFT JACOBS SUCHARD is leading European producer of Roast and Ground Coffee with No1 positions in Germany, France, Sweden, Austria and Denmark and strong soluble coffee positions in most European countries.

The third category (31% of the production) has connection with the above-mentioned transaction and is popular in Bulgaria, too. That is confectionery - the famous Toblerone, Milka, Lacta, etc. with leading chocolate positions in Austria, Belgium, Denmark, France, Norway and Sweden and solid No2 positions in Germany and Greece.

It is important to note, that food is becoming increasingly important category for Philip Morris. In 1992, KRAFT JACOBS SUCHARD represented one sixth of total Philip Morris revenue and a seventh of total Philip Morris employees. KRAFT JACOBS SUCHARD has revenues of approximately \$ 9,0 billion.

The confectionery plant "Republika" Ltd is the oldest manufacturer of confectionery in Bulgaria. The plant was launched in 1905 in Sofia by brothers Peev and subsequently in 1924 was moved in the town of Svoge.

At present "Republika" Ltd is located on two grounds. The first one is situated in the town of Svoge and covers area of 61,7 decares. Here is the manufacturing of chocolate in blocks, candies, wafers, other deserts and sweets. The location of the second one is in the railway station Tompson. This ground is spread on 5,85 decares. It is specialized in the manufacturing of biscuits and jam rolls.

The annual output of the company for 1992 is 9492 tons chocolate and sugar goods. For the first eight months of 1993 the output is 4768 tons and according to the expectation until the end of the year it will be 8500 tons. This production satisfies from 32 to 35 % of the wafer and biscuit market in our country now.

The technological equipment includes C & M machinery (Italy), Loesh machinery (Germany), Dutch line for biscuits and packing machinery "Aucouturier" from France. The total number of the production lines is 22.

"Republika" Ltd has stable, educated and experienced labour force: 810 workers in total and 714 of them are directly involved in the manufacture.

Subject of the present deal is the enterprise in Svoge only (without the workshop in Tompson). In 1992 the ownership of brothers Peev was reinstated. Now their property is no longer part of the company's estate. "Republika" Ltd - Svoge keeps using the lands of brothers Peev on the basis of leasing contract. The investor acquires shares

which represent 80 % of the state participation for 2 000 000 US\$. Upon the contract the buyer engages himself to make additional investment to the amount of at least 10 000 000 US\$ (thereof 6 000 000 for investment and 4 000 000 for circulating capital). This scheme is to be concluded in terms of 5 years. The working places' number will be kept for at least 2 years. Highly qualified assistance in the engineering and technological activity, management, marketing and improving the staff qualification by training in other factories of KGF in Western Europe will be provided, too. Likewise a transfer of technologies, social and infrastructural improvements, renewal of the existing utility buildings and equipment will be made.

THE PRIVATIZATION OF SVOBODA - KRISTAL LTD. - KAMENO, BOURGAS DISTRICT

On December 6, 1993 was signed the Sale Contract for SVOBODA - KRISTAL Ltd. -KAMENO, between the Privatization Agency, represented by Mrs. RENETA INDJOVA -Executive Director, and BARTEX Ltd. - represented by Mr. VASSIL TACHEV -Manager.

BARTEX Ltd. was established in 1990 with headquarters initially in Dragoman, and since 1992 in Sofia, with main activities: foodstuff wholesale, food production, catering, retail trade. BARTEX Ltd. represents a constituent part of the financial group " Multigroup".

The major scope of activities of SVOBODA KRISTAL Ltd. covers: purchase and processing of sugar beet, sugar and molasses production, business activity in Bulgaria and abroad. The headquarters of the company are in the town of Kameno - 10 km to the West of Bourgas.

The sugar plant in Kameno was established in 1912 and it was put into operation in 1914 under the name " Anonymous Sugar and Refining Joint-Stock Company in Bulgaria". The company was founded with French capital and headquarters in Paris. In 1933 it went bankrupt, and its proprietors became "Tracia Cooperative Sugar" and the Union of Bulgarian Agricultural Cooperatives. In 1945, a Production Cooperative Association "Cooperative Sugar", based in Kameno, was established, which affiliated the sugar plant, too. In 1948, after some mutual transferrings of state and cooperative property, the sugar plant became totally state-owned one.

The first serious enlargement and reconstruction of the plant was made in 1959-1960, where the capacity grew up from 800 to 2,000 t. sugar beet/24 hrs. The second enlargement was made in 1975-78, where the capacity grew up to 5,000 t/24 hrs. The machinery and equipment are from Germany, Poland and Bulgaria. In 1992 the processed sugar beet was 44,000 t., produced molasses - 4,525 t., cossettes - 20,000 t., pulp - 8901. The project capacity is up to 80,000 t white crystal sugar. The total area of the real estate is 835,000 sq.m., and built up area - 294,000 sq.m.

The staff has a good qualification and professional experience, and numbers 355 persons taken to 30.06.93.

Subject of the present transaction is 80% of the capital of SVOBODA-KRISTAL at the price of 140,436,000 Iv. According to the contract, the Buyer shall be entitled to buy out the rest of shares, after specifying the workers' preferential participation, and the represented restitution claims. The Buyer undertakes to preserve the company's line of business for a minimum of 7 years. The number of the existing at the moment work places should be preserved, where in 1994 it should be enhanced to 360 prs. at

least, in 1995 - to 390 prs., in 1996 - to 400 prs.

I. SUMMARY

The purpose of this document is to present the changes in the privatization process in Bulgaria and to show how they have been brought about by the pressure of the economic reality.

The privatization framework in Bulgaria was formed on the basis of theoretical approach, wish for political differentiation and narrow economic interests. This unfortunate combination did not reflect the specificity of the situation and could not long resist the economic needs of a country in restructuring. What followed was a long, slow and painful process of trial and error that could have been avoided if economic logic had more place in the first stage.

The paper shortly reminds the characteristics of the law and the conditions that shaped it.

It describes the 2 years of privatization practice in Bulgaria and the emergence of legal, political, social, and economic factors, preventing fast and easy "market" privatization. Especially when no (mature) "market" exists!

Government efforts to bring life to privatization by introducing small step-by-step changes in response to the pressure of economic reality and increasing socio-political tensions are demonstrated.

This finally entailed a general change of the whole law, including the introduction of mass (voucher) privatization concept and new privatization strategy. Privatization goals were clarified, their priorities determined and privatization place in the general economic reform was reconsidered. This in turn led to further changes and so the process reengineered itself in a new viable form, as a component of a deliberate policy to support and direct the structural adjustment.

Because of the limited volume of the paper, it is necessary to say what is not discussed. It is taken for granted that the private nature of an enterprise is synonymous with its more efficient functioning. The option of restructuring before privatization is skipped too. The focus is mainly on big privatization as managed by the Privatization Agency.

A chronological approach is used in order to show how the problems appearing with almost each deal were addressed and entailed necessary changes. "Learning-by-doing" is useful but not when done by a government organization on taxpayer's money. Most of the difficulties were predicted and could have been escaped if economic reasoning was not to be replaced by the tirade of political rhetoric, naive pseudotheoretical debate, and incompetent decision-makers. This led to a reflective management, often slow and hesitant in its reactions.

Another clarification relates to the sources of information. The Agency's "Information Bulletins" and "press-releases" are used. The few other quoted materials are widely-recognized articles, marking changes in the direction and form of privatization in Bulgaria.

II. HOW THE LAE WAS SHAPED

Transformation of state property into a private one started before the adoption of Privatization Law. In 1990 the Parliament passed a law on commercialization (corporization) of Bulgarian state-owned enterprises into joint-stock or limited liability companies. The New Trade Act, the Law on Banks and Credit, the Law on Foreign Investment, the Law on Competition Protection, etc. supported the process. Appearance of private ownership was, for instance, recorded in banking - usually through formal procedure for increase of the capital base. These deals were stopped because were undertaken in no transparent way.

Another mechanism was the sell of property of the former cooperatives under the Ownership and Use of Farmland Act, adopted in 1991 and revisioned in 1992. It included buildings, machinery, small factories. By the end of 1993 cooperative property sold reached 3 bin Bulgarian leva and 35% of the available farmland was restored to the former owners.

But most significantly, it was the restitution that firstly reshape Bulgaria. Restitution laws guaranteed the return of property to their owners before the nationalization in 1947. Restitution created the first broader group of private owners in Bulgaria.

A. The creation of privatization law

In 1991, the Council of Ministers issued Decree No 16 for the establishment of Privatization Agency. However it was not able to do much work. Some drafts of regulations were prepared. 58 privatization objects, of which the largest were 4 petrol stations, were sold through public auctions in 1991.

Elections in the end of same year, installed into power the government of UDF and MRF. Economic ministers favored a monetary policy, restitution and "market" privatization. Because of the higher priorities of the first two, privatization was not among the laws to be passed immediately by the new Parliament.

Under increasing international pressure, and with the help of the WB, finally in April 1992 a Law on Transformation and Privatization of State and Municipal Enterprises was approved.

It was claimed this delay allowed the law to be thoroughly prepared, the shortcomings and successes of other countries to be analyzed and taken into account [7].

Why market privatization?

Because if you make market reforms and are on the road to a market economy - goes this basic thesis - then privatization should also be a "market" one. Whatever that means! Such reasoning could be found in hundreds of articles and papers in that time [for instance IB 1'93]. It "distinguished" Bulgaria from the other advanced East European partners, which accepted some kind of "mass" privatization.

The second reason was the Socialist party and other parties on the left - which have lost the election - defended voucher privatization (as well as more socially oriented market reforms). Thus it became a matter of political distinctiveness where right meant market privatization and the opposite. Unnecessary political differentiation with immense consequences.

Only recently, after long persuasion by experts and witnessing the successful drive of the present Government towards implementation of a mass model, did the UDF start to accept the idea and even to offer its modifications.

Last, but not least, was the interest of some small groups to slow privatization so to have more time to accumulate capital and become significant players later [IB 1'93, p.3].

B. The privatization Law - its spirit

So, "capital" privatization, "i.e. sale, but not free-of-charge distribution of state property, was accepted because of the understanding that the ownership of the enterprises has to be transferred in the hands of persons with possibilities to provide for their effective operation through fresh investment and contemporary management" [7]. (Job that many believe could be done by investment funds in mass privatization too.)

Another characteristics with serious implications, was the decentralization of the process.

Enterprises, whose balance sheet assets value was less than 10 million leva, were to be privatized by the relevant branch ministries.

The Privatization Agency was to privatize state enterprises with balance sheet value of long-term assets above 10 million leva.

Municipal enterprises, regardless of their size, were to be privatized by municipal councils under similar procedures.

(Remarkably, banks were to be privatized differently, through a Bank Consolidation Committee, a process that is yet to start. But by mid-1993, private capital in state banks reached 17%.)

The law was complemented by a set of by-laws passed by the Council of Ministers in the autumn of 1992. The more important ordinances determined conditions for arranging tenders and auctions, valuation of firms, and preferences to employees.

C. The letter of the law

1. Privatization included the following methods:

- direct negotiations with potential buyers;
- publicly invited tender;
- public auction;
- public sale of shares;
- up to 25 year lease, with a clause for consecutive buy-out;
- management contract with a clause for consecutive buy-out;
- sale on leasing with retaining the ownership.

Debt-equity swaps and liquidation were envisaged too. Only Bulgarian citizens may use deferred payment.

2. The only preference that the Law on Transformation and Privatization of State and Municipal Enterprises included explicitly was for the staff of the privatized firm. It was entitled to buy up to 20 % of the shares or stock of their enterprise at 50 % of the price the (outside) buyer paid to the state.

This preference however, was usually not utilized to its full extent due to a restriction in the Law: the (50 %) discount per employee couldn't exceed his annual income. The bigger the firm, the lower the possible discount.

Employees' shares (or stock) didn't bear voting rights during the first 3 years.

Employees could also buy the whole enterprise. For this purpose, they had to participate in a tender or auction. If they won, they got a decrease of 30 % of the final

price.

Foreign investors were a second targeted group, but in a more implicit way.

3. The Law actually institutionalized new, "second" Privatization Agency. It was responsible for

- organization and monitoring of the process;
- development of national annual Privatization Program;
- privatization of state enterprises with fixed assets above BGL 10 million;
- licensing the valuers.

A firm in which the state held at least 50 %, could sell or rent out long-term assets for maximum of 5 % of its balance sheet value. Otherwise it had to go to the Agency. The Agency also gave consent when joint ventures were proposed by state companies. After a formal decision for privatization, the Agency could prohibit any acts with the property of the enterprise.

The Agency's managing bodies were the Supervisory Board (SB) and the Executive Director. Six members of the SB were selected by the Parliament directly. The Government appointed the remaining 5 members. The endeavor to make the Agency more independent from the Government entailed also some paragraphs in the law, which later prevented the new Government to change "its" 5 people easily. Anyway, the Agency was accountable to the Council of Ministers.

The SB appointed the Executive Director and approved his deputies and the head of departments.

The structure of the Agency comprised 2 divisions headed by the 2 Deputy Directors: "Operative organization of privatization", embodying "Privatization transactions" Dept. and "Financial" Dept.; and "Privatization programs & methods" division, including "Licensing" Dept., "Privatization methods" Dept., "Programs & analyzes" Dept. and "Information Services".

The "Legal" Dept. and "Public relations & Marketing" Dept. together with the Secretariat and Administration were supervised by the Director.

The Agency set up regional offices in 11 big cities to implement its policy, assist the preparation of privatization program, and interact with the management of local enterprises, banks, authorities.

Meanwhile, Municipal Councils gradually started to establish specialized offices. In Sofia, a Municipal Privatization Agency was set up (Sofia was the second biggest owner in the country after the state).

4. Privatization was to be carry out on the basis of an annual program. It was elaborated by the Agency, then considered at the Council of Ministers. The latter had to present it to the Parliament for final approval, simultaneously with the budget. This program identified the minimum privatization objectives for the respective year, the minimum number of state enterprises as well as the priority sectors. It also provided for the expected amount of incomes from privatization; contained a list of sectors whose privatization was not allowed for the period of validity of the program, and finally set down general guidelines for the municipal privatization.

A firm could be considered for privatization after a proposal from either the:

- a/ Privatization Agency
- b/ Branch ministries
- c/ Management of the firm
- d/ Majority of employees.

5. A typical procedure pattern was soon established by the Agency:

- a/ Initiative for privatization;
- b/ A privatization project prepared, either by the Agency, other state or municipal body, the management of an enterprise, or an investor;
- c/ Formal decision for privatization, taken by the Agency, or the corresponding branch ministry; usually containing the specific privatization technique to be used: often completed with the most time-consuming part: the legal analysis of the object;
- d/ The decision announced publicly;
- e/ Official valuation of the firm, done by independent valuers, licensed by the PA, and selected on a competitive basis;
- f/ Negotiations with potential buyers; registration of persons with right to participate under preferential terms;
- g/ Execution and approval of the deal.

6. Valuation of firms was to define the initial selling price of shares, the initial price at tenders or the offer price at public bidding or negotiations. It was done by Bulgarian or foreign natural or legal persons, licenced by the Agency. They were selected after a formal competition following the decision for privatization and its legal analysis. (The latter had to clarify the property status of enterprise's assets, to guarantee the rights of buyers and prevent eventual subsequent claims by third persons.)

III. THE BEGINNING OF PRIVATIZATION IN BULGARIA

A. The "baby" phase

In July 1992, the members of the SB were elected. A month later they appointed the Executive Director.

Soon the "Program Declaration" was published. It outlined the "goals, intentions and obligation of the Agency before the nation". Remarkably, the only numerical target was set surprisingly low: the "purpose was to privatize 25 % of the enterprises in the sphere of Agency's competence in the next 3.5 years".

According to the Agency's estimation, only 30 % of the 3000 state enterprises in that time had assets above 10 mln. levs. That meant the Agency intended to privatize only about 250 firms until the end of 1995. Bearing also in mind that many state firms would probably go bankrupt, then obviously this goal was very modest! (Today however, SB's prediction looks differently...)

The Agency was gradually establishing itself, positions were filled (after most people from the "first" Agency were dismissed). Presently, the Agency employs around 170 persons, including its regional staff.

The actual work started in October 1992. Courses for appraisers were organized, first licenses were given: training for the staff in basic market principles, finance, and privatization were held: business trips abroad were undertaken by the management to learn from the experience of other countries.

A limited program for the last months of 1992 was prepared and privatization procedures were open for 6 big firms [IB 1'93, p.2] The branch ministries were also setting up their specialized departments and developing links between themselves. World consultants and accountants came. They used funds from USAid, Phare, British Know-how Fund, for sector analyses and restructuring projects in sectors like cement, building materials, tourism, pharmaceuticals, cosmetics, electronics, tobacco. The German TREUHAND even set up a representative office in Sofia.

The first annual privatization program, covering 300 enterprises was designed. Most firms were included on the base of "spontaneous proposals without preliminary analysis" [IB 1'93, p.5].

B. The early "teens"

At the end of 1992, political situation in Bulgaria changed and new Government came to power. It proclaimed itself as government of privatization. Soon, the Agency was considered moving slowly and indecisively - it was almost a year after the law was passed and no deal was completed. First changes became inevitable.

1. In March 1993, the Government issued Decree No 64 [IB 3'93], amending Agency's organizational structure.

A specialized department was established to handle marketing and attract foreign investment, in recognition of the lack of adequate market.

A "Projects" Dept. spinned-off from the "Transactions" Dept. "Post-Privatization Control" Dept. was created to monitor the execution of concluded deals.

Heads of the "Transactions", "Projects", "Public Relations" and "Methods" departments were replaced by their deputies. An "introvert" corporate culture started to develop with management posts given to insiders rather than bringing new drive and expertise from outside.

This structure better reflected the environment and changes of emphasis, but some duplications and internal tensions were induced, too.

2. Frustrated by the lack of deals, the new Government changed also people from its 5-men quota in the SB of the Agency. The law however, allowed members of the SB to be replaced (before end of terms) only in case of great misconduct.

The fired members appealed to the High Court and won, so later they returned. Then the Government dismissed them immediately, winning few months till the next court procedures last. The court returned the 5 men again, and the whole cycle was repeated 3-4 times.

In March 1994, the Government accepted the "return". However, it prepared a lot of amendments to the law, one of them concerning its right to replace people in the SB.

3. Finally, on May 12, 1993, the first privatization deal was signed. The Belgian company "Amylum", bought 80 % in "Maize Products" Ltd, Razgrad. "Bankers Trust" consulted the deal. "Ernst & Young" did the appraisal. "Amylum" paid US\$ 20

mln. and engaged to invest another US\$ 20 mln. in the next 5 years. Workers could only purchase 1% under preferential terms. United Bulgarian Bank took the remaining 19 % shares in exchange for debt.

Immediately, a fierce debate on the valuation started. Even if not quite justified then, having in mind the pressure to do deal at any price, this question was becoming more and more important with each next deal, contradicting the Government "thirst" for cash, public expectations, Agency thirst for more deals (but not necessarily at high price), and valuations done by foreign valuers, often leading to lower estimations particularly when the Discounted Cash Flow method was used [5].

4. On June 8, 1993, the American company "Design Review International" agreed to buy the electronic company "Magnetic Heads" in Razlog. It had to pay US\$ 1.6 mln for 80 % of the company, leaving 20 % to workers. Additional clauses obliged DRI to make further investments, to retain and increase the number of employees.

It was not all rosy, however. The Nevada company failed to meet the deadline for transferring the money and the deal was over...

C. Developing new approaches to privatization

There were no deals in the next months. It became obvious that the pace of Bulgarian privatization would differ from that in other countries. Government was often asked how many deals has it done. It was difficult to hail 10 deals when others had done hundreds. Through different methods!

Some inconsistent policies were tried, mainly to broad management and employees participation. It was neither the right time, nor the right decision [5].

Then the Government came up with

- mass privatization and
- new privatization strategy.

The second to attract more foreign investment, the first to make it quickly, on a massive scale.

The Prime Minister presented a project of mass privatization roughly similar to the Czech "voucher" model. Then a second team, led by the Chairman of the SB of the Agency (later its director) called for the Polish model, through the establishment of 10 state-owned holdings, each responsible for privatization of 30 assigned by the Government state enterprises.

The two projects spurred another wave of debate on the pro's and cons of mass privatization and so the real implementation was slowed again.

The Director of the Agency, and some of his deputies opposed mass privatization. In August 1993, the Director was replaced.

The chairman of the SB was appointed instead as the new Executive Director. The hope was that she would be able to accelerate the market privatization and would not oppose the mass one...

IV. ASSESSMENT OF RESULTS TO-DATE

A. Privatized enterprises

What followed was not very different from the previous picture. In the 9 months between October 1993 and June 1994 only 9 big deals were concluded.

The first one on 15 November 1993, when KRAFT JACOBS SUCHARD acquired 80% shares in the confectionary factory REPUBLIKA Ltd Svoje for US\$ 2 mln. The deal marked the new policy of the Agency for less use of foreign consultants.

On 25 November 1993 the German BRAU UND BRUNNEN Ltd. agreed to pay DM 4.1 mln. for 67 % in the brewery "Kamenitza" Ltd., Plovdiv. In its hurry to conclude the deal, the Agency was not perfect with the legal analysis and debt details so this became the second cancelled deal.

On 2 December 1993, for the first time a Bulgarian company - DRUSTUR COMMERCE HOLDING Ltd - took part in privatization of 60 % of the fruit and vegetable can producer NEKTAR Ltd Silistra. In June 1994 the privatized factory was on the verge of bankruptcy because the debt problem was not clearly negotiated.

Two deals in February 1994 with foreign investors could not be legally confirmed because the privatization program was still not approved by the Parliament. The German YTONG Ltd acquired GAS CONCRETE Ltd Sofia, manufacturer of gas-concrete blocks. The Agency had to agree to a cutting of the working places.

On 28 March 1994, the staff of the textile factory "Style" Ltd bought the company for 18 mln. leva and took over debts of 11 mln.

In March 1994, the Agency tried to use for the first time also public sale of shares of Grand Hotel Varna. A promising method was doomed to a bad start because of poor management decisions:

The Agency decided the valuation of the hotel by Price Waterhouse was too low and ordered a second one, by a Bulgarian small company. Not surprisingly, they came up with twice as high price by adding "intangible" assets to a level equal with the fixed ones. The price of the hotel became US\$ 30 mln.. This gimmick was to be kept secret from the Bulgarian public.

It was also decided most of the hotel stock would be up for sale through block bidding to one group. 5 % of the shares however, were to be sold initially to the public in hope the latter would oversubscribe and pay more than the face value. Thus the main buyer would have to raise the price too.

A third mistake was the Agency circumvented the law and appointed without competition a new small Bulgarian private company to manage the emission. The contract was not perfect either, so the Agency never received the service anticipated. All this, plus stopped in the middle marketing campaign, led to poor buying by the public. There had been people, fooled to pay much higher prices, but the subscription was not sold, and the price remained at its nominal 100 leva.

Only then the Agency went ahead with its usual procedure of direct negotiations and accepted the offer of Bulgarian "Multigroup" for 49 % of the shares, at 111 leva per share.

In May 1994, the Agency surprisingly renewed the contract for the "Magnetic Heads" factory in Razlog with the same buyer. This time for only US\$ 1. Explanations that DRI would take also over the debt were relying more on short memories since the first "version" included similar clause.

In June 1994 "Nestle" bought the chocolate factory in Sofia after a procedure continuing for year and a half.

At the end of the same month, a Bulgarian company took over the building & construction company "Sikonko" (only few months earlier its place in the program was questioned).

By mid 1994, 130 deals have been concluded by different authorities. Depending on

whether one counts only the direct price or also the debt covered and the additional investment, between US\$ 40 mln. and 80 mln. were involved.

B. Problems and solutions

Despite expectations for rapid privatization, the process has not managed to make up for the delay. Is the Agency moving slow?

Looking from outside, one can immediately answer "yes". Two years after the Law was passed only 11 big deals were finished by the Agency.

Knowing the situation from inside would make a difference. Not to justify the undeniable failure, but to clarify the reasons for this regretful (lack of) result.

1. It is revealing to compare the national Privatization Agency with the Sofia Municipal Privatization Agency. The latter was set up in January 1993 and similarly it took 9 months until the first deal was signed. Then followed a real burst of sales. Some experts even indicated the program might soon hit a plateau. But it is still picking up steam.

Ministry of Trade also made more than 50 deals for 366 mln. of leva plus additional investment and debt covered up to 1 bin.

2 conclusions:

a/ There is a need for an "incubation" period: management to be appointed, staff, premises, initial program, procedures, marketing, advertising, etc.

b/ "Market" privatization needs market. In the case of small and municipal privatization, there were plenty of entrepreneurs, prepared to engage relatively less money to acquire small shops, restaurants, supermarkets. There was no such market for the big industrial enterprises.

The potential buyers in privatization are:

- Foreign investors;
- Domestic private companies;
- Management/employees;
- Citizens.

Only the first group, and to a limited extend the second one, were in position to afford serious participation in a "capital" privatization.

On the other hand, all these groups were encountering a bunch of unattractive "products".

Privatization law and strategy had to recognize such a mismatch and do something about both the supply and demand side. This happened but only gradually, through a painful, slow, loss-making process.

2. The "supply side" was shaped by the changed macroeconomic framework. An economy, working for the former East bloc, encountered immense difficulties to redirect itself. State-owned enterprises were affected by the crisis and the sharply increased interest rate, which caused a quick growth of their indebtedness. Reduction of export markets as well as the continuing need for loans placed those enterprises in a vicious circle. Particularly affected were sectors like heavy machinery, electronics, where modern capacities were developed at the cost of numerous loans.

The Agency was trying to be more flexible in shaping and "packaging" the "product". This reflected previous problems in establishing the share of privatized enterprises in other companies, the accumulation of unfinished products, existence of non-durable assets and separate nonproducing parts of enterprises, which were not of interest to buyers.

Particularly important was the annual privatization program. The first programs used to be mere compilation of enterprises' names selected on an accidental basis. They were never approved. The "Programs & Analyses" Dept. could not cope, lacking competence. On the other hand, this allowed the Agency to amend the programs often, in a "demand-driven" approach. It recognized the investor as a major initiator of privatization and started to accommodate investors' interests. An investor can:

- Submit a proposal directly to the responsible institutions, or
- Go indirectly through the management of enterprises where he has interest.

By the end of 1993, privatization procedures for 357 enterprises and separate units had started. Municipalities added another 100 enterprises. The 1994 program included 315 firms and 175 parts thereof.

It also outlined "priority" sectors. They were determined on the base of declared interest of potential buyers in: food and beverages; textile; tourism; transport. There are no attached specific preferential terms to "priority" sectors however. Which is not quite the case with sectors forbidden for privatization, such as: military industries; oil and electricity companies; railways.

On the other hand, picking up obviously attractive sectors was never going to be enough for a successful privatization because of the many vested interests. The Agency entered troubled waters when decided to focus on tourism. Tourism is considered a strategic sector for the Bulgarian economy so it was natural to expect little support for Agency's effort there. Instead of playing "political" games however, the Agency directors preferred to declare an open war by including the most exclusive hotels in the program. Such tactic did not pay off and a lot of efforts, time and money were wasted.

3. The Government played its role in improving the "product" and after a long debate, a mechanism was developed at the end of 1993, to excuse the bad debts that enterprises had accumulated prior to 31 December 1990. 9 state-owned banks, holders of the debts, received low interest bearing bonds. This operation not only improved the balance sheets of many state firms but also affected the "demand side" by allowing the bonds to be used as "quasi-money" in privatization. Bonds denominated in Bulgarian leva, totaling US\$ 500 mln., can be bought from the 9 banks for a price lower than bond's nominal of 1000 leva and be used in privatization at their face value. Dollar denominated bonds, totaling US\$ 1.8 bn, participate with their market price. Banks could participate directly in privatization too.

4. Further step towards improvement of the "demand side" was the agreement with the London Club of private creditors for restructuring of Bulgaria's foreign debt, signed at the end of 1993. Another agreement allowed rescheduling of Bulgarian debt to the Paris Club. Part of the deals included option for debt-for-equity swaps.

One of the paradoxes of Bulgarian privatization is that foreign investors, anticipated to be major players, never appeared to the extent expected. Explaining why is issue for another paper. In order to suit them however, a lot of changes were introduced.

At the end of 1993, after lobbying by the Agency, the land on which an enterprise was placed was also included in its balance sheet. So foreign investors could get ownership over land. Thus overwhelming legal and restitutional problems were eased. They also received the right to preferential buy-out of the shares not purchased by the employees.

In March 1994, the Government issued a Decree No.44 [IB 4'94], for establishment of a special "revolving" privatization fund to ease the participation of Bulgarian citizens in privatization. The finance would come from international funds. Its advantages are the lower interest rate and the use of the bought shares as collateral.

5. Bulgarian law on privatization entailed an institutional war between the Agency and the ministries.

It was initiated by the imposed limits on branch ministries to privatize bigger companies. Inflation quickly made the 10 mln. leva threshold impractical, leaving the ministries with only a few small firms to privatize. The Agency recognized the problem and proposed a change in the law, which was accepted in June 1994. The threshold was increased from BGL 10 mln. to BGL 70 mln., thus leaving the Agency with 700 biggest enterprises.

The tension however continued over the dilemma which state institution represented state ownership rights in a state-owned enterprise during privatization. The Agency generally lost this battle.

But most negative problems stemmed from an artificial division between privatization:

responsibility of the Privatization Agency, and joint ventures which were left as responsibility of the branch ministries. Naturally, the Agency was insisting on privatization and the ministries were trying to set up JV with the same best enterprises. The economic reality placed the ministries in better position. In case of a JV, the investor puts, say, US\$ 1 mln. in 51 % of the new venture in which the Bulgarian partner usually apportions its fixed assets. Thus the US\$ 1 mln. stays in the JV. In case of privatization, however, the same US\$ 1 mln. actually goes to the state and the privatized enterprise can't use that money. To cope, the Agency had to apply a new strategy, leading in the same direction: it admitted the buyer to engage in future investments in the enterprise rather than to pay higher price (that goes to the state). Such an approach resembles the logic behind a JV, and actually legitimated the already observed trend of relatively diminishing price. (When extrapolated, its natural end is a "mass" privatization model.)

6. Privatization procedure is heavy and slow. Depending on the enterprise privatized: its type and size, the technique chosen, etc., the whole privatization cycle may last months, with wilder deviations possible. More of the deals became possible because were started year and more ago.

Initially the Agency used to make the steps and tackled the problems one by one. Later it was pressed to change from a "sequential" to a "parallel processing". Still, it is at least 4-5 months for a transaction to be concluded.

In most transactions the Agency stuck to negotiations with potential buyers. This is easy to explain, but reflected badly on the time a deal took, the price Government got, the image of the Agency and privatization in general.

Transparency was proclaimed a pillar of privatization policy in Bulgaria [IB 1'93, p. 15]. But it was quietly forgotten.

In his article: "Improving the work of the Privatization Agency - a guarantee for

success of privatization in Bulgaria" [IB 5'93, p.2] the then Chairman of the SB Mr Georgiev called again for more transparency, openness, information to the public. Instead, the directors tried to persuade the public that it was better (for whom?) if deals remained secret. The Agency became object of heavy critiques from the press, which used every suitable case to expose Agency's people mismanagement and incompetence.

Different views on privatization ways and management led many experienced people to leave the Agency, incl. few heads of departments and chief experts with PhD degrees. Following the introvert culture and confirming a new trend, they were superseded by female colleagues. Presently women fill the Executive Director slot, the Deputy Director position and 8 Heads of Departments. Together with 5 men heads of departments.

C. New goals and new ways

In order to meet the growing public anxiety, depressed demand of privatized assets, number of practical implementation problems, and lack of clarity in policies, a broad reassessment of privatization place in the general economic reform, privatization strategy, program and methods was done. Privatization goals were clarified and their priorities restated [7]:

- a/ Creation of a large group of private owners;
- b/ Integration of the economy into the world economic structures;
- c/ Creation of competitive enterprises which, in a long run will contribute more revenue and welfare than the direct cash flow to the budget from selling the assets;
- d/ Attempts to maximize the revenue to the budget subject to the limitations mentioned above.

A complex process, privatization involves a lot of people and groups, with contradictory interests. Their harmonization becomes crucial, hence, the need to recognize and have in mind the interplay of those interests. The Agency, struggling to promote privatization and foreign investments, responds to these objective factors. It accepts [6]:

- Trade-off of future investment for cash;
- Trade off of jobs for cash;
- Direct negotiations with the buyer (thus giving him strong bargaining power).

By working on the country image, improving enterprises' situation, and giving more opportunities to individuals, domestic companies and foreign investors, privatization could speed up a bit. But as it gets deeper into the program, the portfolio gets more difficult since the easier assets are unload and the market may not be deep enough to absorb large portfolios prepared for divestment.

Therefore it would be the mass privatization, approved together with other changes in the Privatization Law in June 1994, to make for the lost 2 years. It will accelerate the process and mainly, will allow Bulgarian citizens to participate in the acquisition of enterprises, created with their own labour, on an equal and honest basis.

The program includes around 500 enterprises. 2 limiting constraints like market and

marshaling enough technical expertise to be able to bring complex assets to market (in vendable form) would be overcome. It is anticipated the combination of market and mass model will help privatization of over 65 % of the state enterprises within 3 years.

Privatization was initially expected to turnaround the economy in a couple of years. Because of many reasons: unclear concept, lack of human resource, institutional war, bad debts problem, modest role of foreign investors, etc., it never became the revolution some hoped for. It sparked however a lot of evolutionary changes that swept the economy around and gradually put it in the way towards a new effective structure.

Further investments are provided for the period 1994-2000 under a scheme, amounting totally 357,398,000 Iv., for production development, packing machinery, confectionary production, reconstruction, modernizing, assembling and training.