

CASH PRIVATISATION OF STATE-OWNED ASSETS (as of 31.12.2004.)

INTRODUCTION

The process of privatisation is directly related to the rehabilitation of private entrepreneurship as a natural environment for creating a market economy. Privatisation started after the adoption of the **Transformation and Privatisation of State and Municipal Enterprises Act (TPSMEA)** in 1992. It was assumed as a matter of principle that privatisation would benefit the whole nation and therefore the government had to take all measures to ensure the successful development of the process. Privatisation itself took the following forms: cash privatisation of state-owned enterprises, cash privatisation of municipal property and mass privatisation.

The analysis of privatisation done by the NSI covers all three forms and is based on information from the Privatisation Agency (PA) and the National Statistical Institute (NSI) – as far as the cash privatisation of state-owned and municipal enterprises is concerned – as well as data from the former Centre for Mass Privatisation (CMP) and the Central Depository (CD) – in case of the outcome of centralized public auctions in the course of mass privatisation.

Due to **restrictions in the size of materials published on the Internet, the publication presents mainly results of the analysis of cash privatisation of state-owned enterprises.**

Privatisation deals are classified according to the Classification of Branches of National Economy (CBNE), which was used for most of the analysed period.

Value indicators for concluded deals during the whole analysed period (i.e. from the adoption of the **Transformation and Privatisation of State and Municipal Enterprises Act** to 31st December 2004) are given in denominated Levs (BGN).

1. CASH PRIVATISATION OF STATE-OWNED ASSETS DURING THE PERIOD BETWEEN 01.01.1993 – 31.12.2004

1.1. General characteristics of the privatisation process

Opened procedures for the acquisition of majority packages/shares and autonomous parts of companies

During the 1993-2004 period 5280 privatisation procedures were opened. Of these 3043 concerned majority share packages/shares and 2246 - autonomous parts of enterprises¹. The greatest number of procedures (1608) was opened in 1998, of which 877 involved majority packages. In 1999 the number of opened privatisation procedures fell to 860, yet their number was higher than that of 1997 (559) by 392 majority share packages. Later on during the analysed period the number of opened procedures fell by more than 4 times from 285 in 2000 to 65 in 2004..

Out of all institutions entrusted with privatisation, during this period most (2119) procedures were opened by the Privatisation Agency (PA), the number of majority share packages/shares being almost equal to that of autonomous parts of enterprises. The Ministry of Economy (ME) comes second in terms of the number of opened procedures - 1683, of which 936 involved the acquisition of a majority share package. The Ministry of Agriculture and Forestry (MAF) opened 622 privatisation procedures, followed by the Ministry of Regional Development and Public Works with 362 procedures, the Ministry of Transport and Communications (MTC) -331 procedures and the Ministry of Energy and Energy Resources (MEER) - 101 privatisation procedures. The remaining institutions dealing with privatisation (the Ministry of Culture, the Ministry of Health and the Ministry of Education and Science) opened a total of 62 privatisation procedures, 51 of which concerned the acquisition of a majority package and 11 - of autonomous parts of enterprises.

¹ Autonomous parts include smaller units - mainly factory workshops, pigfarms, shops, trade and services centres, restaurants, pavilions, patisseries, bakeries, mills, warehouses, greenhouses, petrol stations, cinemas, bookshops etc. which are easier to sell than whole enterprises.

Financial parameters of concluded privatisation deals

According to summarized data from the Privatisation Agency (PA) over the period between 01.01.1993 – 31.12.2004 a total of 5186 deals were concluded by the bodies specified in Art. 3 of the Transformation and Privatisation of State and Municipal Enterprises Act (TPSMEA). Of these 2 882 involved whole enterprises and 2 304 autonomous parts thereof. After 1993 minority packages of already privatised enterprises were also sold. Agreed payments, obligations and agreed investments amount to a total of more than 14 720 990 thousand BGN, or 9 767 028 USD at an exchange rate of 1.51 BGN for 1 USD. The greatest number of deals (23.3% of all deals concluded during the reference period) was concluded in 1999 - namely 1211 deals to the tune of 4 675 999 thousand BGN or 2 526 017 thousand USD (at an exchange rate of 1.85 for 1 USD). Though only 208 deals were concluded in 2004, agreed payments, obligations, paid liabilities and agreed investments during the same year amount to a total of 2 971 860 thousand BGN. The **direct effect** of privatisation is 2 186 778 thousand BGN, representing a sum of agreed payments, obligations and paid liabilities. If agreed investments are added to the direct effect we would have the **overall effect**. During the whole analysed period the absolute low in terms of privatisation deals was the number of deals concluded in 1993 - only 63 deals with proceeds of 3 626 thousand BGN.

The greatest relative share in the cumulative effect of privatisation is that of agreed payments in BGN (49.5%), and the smallest one – that of paid liabilities - 10 198 thousand BGN (0.7%). Obligations represent 9.7% of the total sum of concluded deals in BGN and 11% of the total sum of deals concluded in USD. The financial result of privatisation deals in Bulgaria is given in table 1 and fig. 1

TABLE 1
 DIRECT AND OVERALL FINANCIAL EFFECT OF PRIVATISATION DEALS BY YEARS FOR THE 1993-2004 PERIOD

		(million BGN)												
Indicators	Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
Agreed payments		1.22	7.82	7.64	51.11	951.20	991.31	1206.07	829.20	384.17	347.06	459.04	2049.87	7286.72
Obligations		0.35	1.79	3.87	46.82	56.88	78.19	928.80	99.73	6.43	68.89	2.29	136.91	1430.95
Paid liabilities		0.42	3.02	0.72	3.91	1.17	0	0.96	0	0	0	0	0	10.20
Direct financial effect		1.99	12.63	12.22	101.84	1009.25	1070.5	2135.84	928.93	390.6	415.95	461.33	2186.78	8727.87
Agreed investments		1.63	10.94	10.20	34.58	1449.52	649.77	2540.16	317.2	76.86	93.39	23.76	785.08	5993.11
Overall financial effect		3.62	23.57	22.42	136.42	2458.77	1720.27	4676.00	1246.13	467.46	509.34	485.09	2971.86	14721

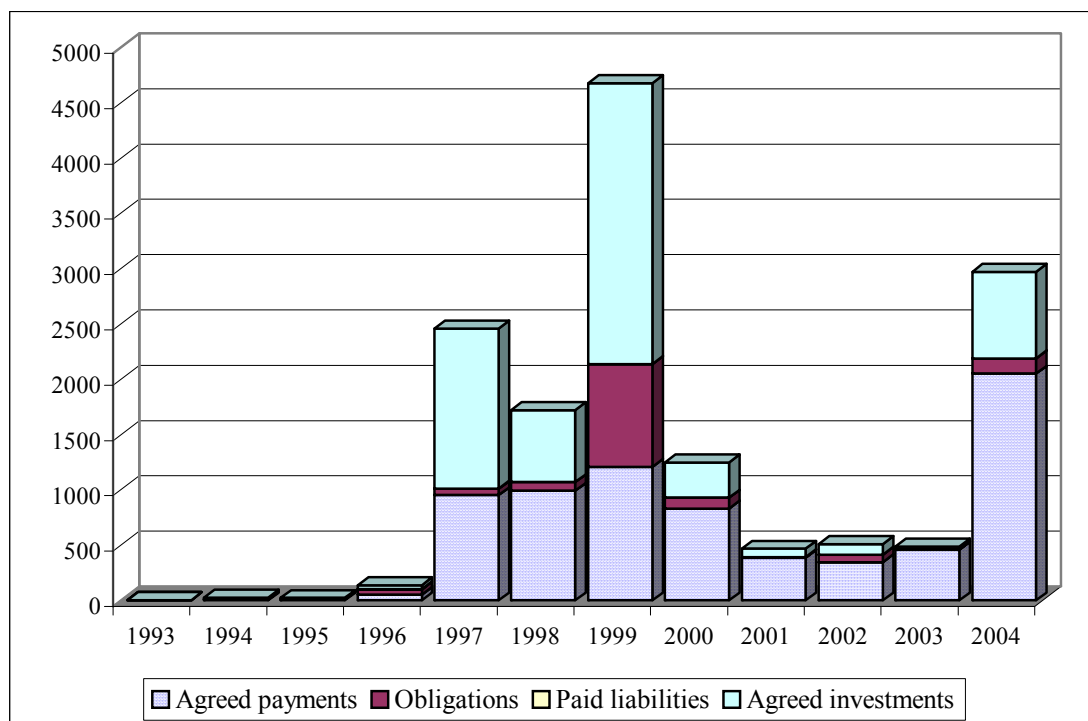


Fig. 1. Structure of the financial parameters of concluded privatisation deals for state-owned enterprises in the period between 01.01.1993 – 31.12.2004

Agreed payments to a total value of 7 286 719 thousand BGN are rather unevenly distributed over the analysed period. Between 1993 and 1999 the volume of these payments increased annually reaching a maximum of 1 206 075 thousand BGN in 1999. From 2000 onwards their volume fell, only to increase again in 2004. In 2004 the volume of agreed payments was 4.5 times higher than in 2003. In terms of the structure of agreed payments by kind of payment instruments over the whole 12-year period, 69.5% are payments in cash. Payments in bonds come second with a relative share of 14.0%, while 3.5% of payments were done in compensation vouchers, 2.5% in compensation notes and 2.0% in investment vouchers (table 2).

Out of all privatisation bodies, the greatest relative share of agreed payments falls to

the Privatisation Agency (PA) – over the studied period these payments amount to 5 103 336 thousand BGN or 70.0% of their total volume. The Ministry of Economy comes next with 1 313 873 thousand BGN, or 18.0% of the total volume, followed by the Ministry of Regional Development and Public Works with 373 225 thousand BGN, or 5.1% and the Ministry of Agriculture and Forestry with 251 854 thousand BGN or 3.5% of the total value. The remaining 5-privatisation bodies account for less than 3.6% of the total volume of agreed payments.

Table 2

STRUCTURE OF AGREED PAYMENTS ACCORDING TO KIND OF PAYMENT INSTRUMENTS
FOR THE PERIOD BETWEEN 01.01.1993 - 31.12.2004.

(Per cent)

Indicators	Years												
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
Contract payments in concluded deals - total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
- payments in cash	97.1	95.9	41.0	52.1	80.1	52.3	68.7	48.9	38.6	69.7	30.8	96.4	69.5
- non-monetary payments not specified in signed contracts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	44.3	39.5	26.2	3.1	1.8	9.1
- bonds (total)	2.9	4.1	59.0	47.9	19.9	44.7	29.4	0.5	0.0	0.0	0.0	0.0	14.0
of which bonds under the Servicing of Bad Debts Act	2.9	3.7	35.4	42.4	19.9	44.7	29.4	0.2	0.0	0.0	0.0	0.0	13.9
Sovereign bonds	0.0	0.3	23.6	5.5	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.1
- investment vouchers	0.0	0.0	0.0	0.0	0.0	0.9	0.9	4.0	9.9	2.8	4.2	1.1	2.0
- in compensation vouchers	0.0	0.0	0.0	0.0	0.0	2.0	1.0	2.1	6.1	0.9	22.5	0.2	2.5
- in compensation notes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	5.8	0.4	39.3	0.6	3.0

Forms (manner) of carrying out privatisation

Out of the 2 882 privatisation deals for the acquisition of **whole enterprises** concluded until 31.12.2004, the dominant share is that of deals concluded after tenders - 1 093 or 37.9%, followed by deals concluded after direct negotiations – 1 075 (37.3%) and those concluded through privatisation auctions (22.5%). All other forms of privatisation account for less than 2.2% of the total. Out of all privatisation deals for whole enterprises concluded after a tender, 329 (ca. 30.1%) were realized by the Ministry of Agriculture and Forestry (MAF), followed by the Ministry of Economy – 315 deals (28.8%) and the Ministry of Regional Development and Public Works – 198 deals (18.1%). The number of deals for whole enterprises concluded through the Stock Exchange is relatively low – 64 deals (2.2%).

Out of the 2 304 privatisation deals for **autonomous parts of enterprises**, 1 541 (66.9%) were realized by means of negotiations with persons under Article 35, TPSMEA. Deals concluded after a tender (453 deals or 19.7%) come second, followed by deals for the acquisition of autonomous parts concluded after an auction with the participation of bidders – 310 deals (13.4%).

Out of a total of 1 541 autonomous parts of enterprises sold after direct negotiations, including those under Art. 35 of TPSMEA, the greatest share was that of deals concluded by the Ministry of Economy (60.5%), followed by the Privatisation Agency – 321 deals (20.8%). The other bodies dealing with privatisation account for 18.7% of deals concluded after direct negotiations, including those under Art. 35.

Buyers in deals concluded by the respective privatisation bodies

Excluding the general category of ‘others’, most deals were concluded by the so-called employee buy-out schemes (1436 deals or 27.8% of the total number of buyers). These are followed by buyers under Art. 35, Para.1, item 2 of TPSMEA – 614 deals or 11.9% or and buyers under Art. 35, Para.1, item 1 of TPSMEA – 530 or 10.2% of the total number of buyers. Privatisation through employee buy-out schemes is most widespread in

the case of the Ministry of Economy and the Ministry of Agriculture and Forestry (MAF). Over the 1993-2004 period 546 employees' collectives purchased former state enterprises from the Ministry of Economy, and 298 employees' collectives - from MAF. Employee buy-out schemes are least frequent in the Ministry of Culture (1) and the Ministry of Education and Science (2). The number of foreign buyers (99) is highest in the case of the Privatisation Agency and smallest (1) with the Ministry of Transport and Communications (table 3).

Table 3

KIND OF BUYER ACCORDING TO DEALS CONCLUDED BY PRIVATISATION
BODIES OVER THE PERIOD 01.01.1993 – 31.12.2004

Office	Total	Buyers in privatisation deals				
		Foreign	employee buy-out	Art.35, Para.1, it.1 TPSMEA (OTM.)	Чл.35, Para.1, it..2 TPSMEA (OTM.)	Others
1	2	3	4	5	6	7
Total	5174*	162	1436	530	614	2432
Privatisation Agency	1314*	99	226	63	197	729
Ministry of Economy	2389	48	546	280	326	1189
Industry	1044	36	373	52	43	540
Trade	984	6	137	191	251	399
Tourism	361	6	36	37	32	250
Ministry of Transport and Communications	355	1	135	46	19	154
Ministry of Regional Development and Public Works	395	8	195	62	20	110
Ministry of Agriculture and Forestry	550	2	298	42	15	193
Ministry of Culture	50	0	1	27	13	9
Ministry of Health	46	4	20	1	0	21
Ministry of Education and Science	3	0	2	0	0	1
Ministry of Energy and Energy Resources	72	0	13	9	24	26

* The sale of packages of shares/shares of enterprises with a state interest of under 50% is not included in the number of deals concluded by AP in 2003 and 2004.

Concluded Privatisation deals by economic activity groupings

The 5 186 privatisation deals concluded during the period 01.01.1993 – 31.01.2004 are distributed by economic activity groupings as follows: Industry – 1 625; trade – 1170; agriculture and forestry – 618; tourism – 522; construction – 520; transport – 384; energy – 182; culture – 55; healthcare – 52; defence – 47 and others – 11 (fig. 2).

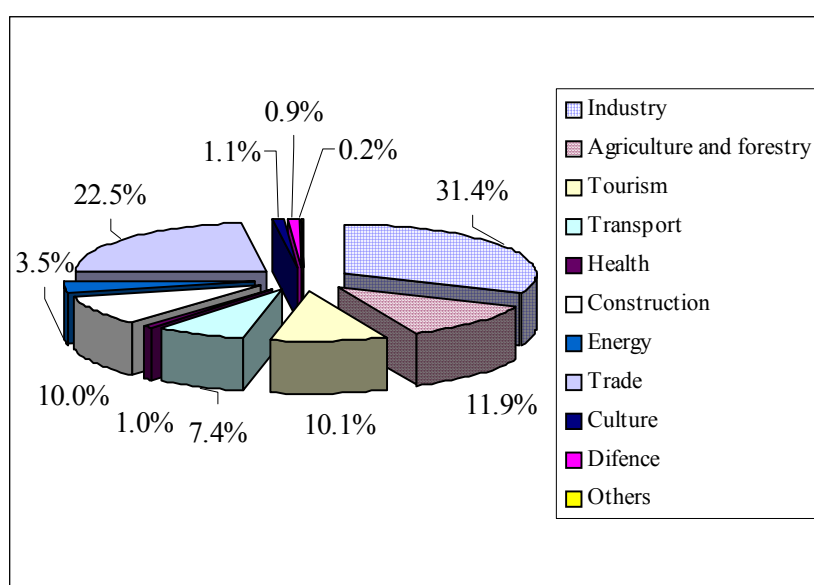


Fig. 2 Distribution of deals concluded by bodies under Art. 3 of TPSMEA by economic activity groupings for the period - 01.01.1993 – 31.12.2004

Revenues from privatisation

Revenues from privatisation during the whole reference period amount to a total of 4 969 928 thousand BGN, of which 1 797 884 thousand BGN (36.2%) in cash. The remaining 3 172 044 thousand BGN (63.8%) are in the form of other payment instruments (state bonds, compensation notes, investment vouchers, compensation vouchers). Ca. 65.0% of revenues from privatisation deals were realized by the Privatisation Agency (PA). The Ministry of Economy raised 20.3% of revenues from privatised enterprises, the

Ministry of Regional Development and Public Works – 5.8%, the Ministry of Agriculture and Forestry – 4.8%, with the remaining privatisation bodies accounting for 4.1% of the total revenue volume from privatised enterprises. Most revenues were realized in 1999 and 2000 – respectively 818 929 thousand BGN and 822 538 thousand BGN.

The Privatisation Agency (PA) is the only body, where cash revenues (64.7%) predominate over revenues received in the form of other means of payment. In the case of all other privatisation bodies non-monetary payments make up a greater relative share, representing 77.2% of payments at the Ministry of Transport and Communications (MTC), 66.1% at the Ministry of Regional Development and Public Works, 62.9% of payments at the Ministry of Health, 58.4% at the Ministry of Energy and Energy Resources, 56.8% at the Ministry of Agriculture and Forestry and 53.5% of payments at the Ministry of Economy.

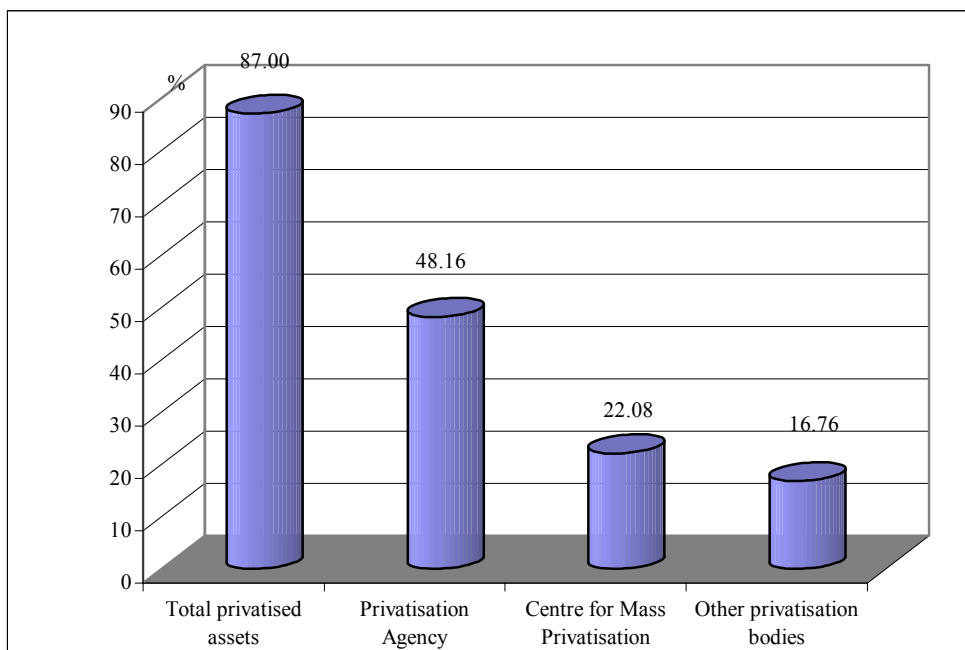
Expenditure related to privatisation activities

Expenditure related to privatisation activities of bodies under Art. 3 of TPSMEA over the reference period amount to 63 116.3 thousand BGN and represent 1.3% of realized revenues. As a rule, the bodies realizing a greater revenue volume also have greater expenditure in absolute terms. The relative share of expenditure versus received revenues in the case of bodies under Art. 3 of TPSMEA varies between 0.35% for the Ministry of Economy (ME) and 2.9% for the Ministry of Culture (MC). At the Privatisation Agency the relative share of expenditure versus revenue is 1.55%. A higher relative share can be observed at the Ministry of Education and Science (2.4%) and the Ministry of Energy and Energy Resources (2.1%), while this share is lower at MAF (1.3%), the Ministry of Health (1.1%), the Ministry of Regional Development and Public Works (0.9%) or the Ministry of Transport and Communications (0.4%).

The highest privatisation expenditure was incurred in 1999 and 2000 – 6 914 thousand BGN and 6 788 thousand BGN respectively, these years also being the period when the greatest real revenues from privatisation also were realized.

Privatised tangible fixed assets

Over the period between 01.01.1993 – 31.12.2004 the bodies under Art. 3 of TPSMEA privatised tangible fixed assets to the total value of 333 228.6 thousand BGN, representing 57.5% of the assets of state enterprises to the tune of 580 million BGN or 87% of the value of state assets **subject to privatisation** (calculated according to the World Bank method – by balance value of intangible fixed assets as of 31.12.1995 (fig.3). In 1997 alone, some 32% of tangible fixed assets during the reference period were privatised to the tune of 106 479.2 thousand BGN. Privatisation of tangible fixed assets was also especially active in 1996, 1998 and in 2000 when tangible assets valued respectively at 23 710.9 thousand BGN, 25 945.0 thousand BGN and 98 387.6 thousand BGN were privatised. The process of privatisation was slowest in 1993 when only 0.6% of the total volume of all tangible fixed assets for the period were privatised. In terms of the structure of privatised tangible fixed assets, those with a state interest of more than 67.0% predominate.



*Fig .3. Privatised assets over the period between 01.01.1993 – 31.12.2004 (333.2 million BGN), calculated as a percentage of tangible fixed assets of state enterprises **subject to privatisation** according to the balance value as of 31.12.1995*

2. MAIN CONCLUSIONS AND SUMMARY

1. The analysis of privatisation between 1993 and 2004 shows that the number of concluded deals by individual years is rather uneven – 63 in 1993, increasing to 1211 in 1999, and **followed by a decrease (there were only 208 deals concluded in 2004)**. The overall sum of revenues for 1999 was 4 675 999 thousand BGN, representing an increase of more than 1200 times in comparison with the sum received from privatisation in 1993. In 2004 privatisation included large enterprises, and though the number of concluded deals has fallen 5.8 times in comparison with 1999, sums received from privatisation are only 1.6 times less than the sums received in 1999.

2. The structure of concluded deals is dominated by deals for the acquisition of whole enterprises. They exceed deals for autonomous parts of enterprises by more than 1.25 times.

3. The value of sold state assets is greater than that of privatised municipal assets. Privatised tangible fixed assets amount to 248 671 thousand BGN. In terms of value sold state enterprises represent a greater number than that of municipal enterprises.

4. Over the whole reference period **agreed payments (49.5%) make up the greatest relative share in the overall effect of privatisation** (i.e. the sum of agreed payments, obligations, paid liabilities and agreed investments, with paid liabilities accounting for the smallest share - 10 198 thousand BGN (0.7%). Within the total volume of agreed payments out of all privatisation bodies the greatest share is that of the Privatisation Agency (70% of the total volume).

5. Comparative data on the volume of agreed payments in deals concluded by AP show that the greatest volume of payments over the whole reference period was registered in 2004, exceeding the total sum of agreed payments in concluded deals for the 1999-2003 period (incl. data on 2003).

6. In terms of the structure of agreed payments by kind of payment instrument changes can be observed in individual years. Thus in 1993, 1994, 1997 and 2004 the share of cash payments was over 80%, while in 1999, 2002 and 1996 this share was respectively

68.7%, 69.7% and 52.3 %. Non-monetary payments (mainly bonds under the Servicing of Bad Debts Act over the 1993-1999 period, followed later by payments in investment vouchers, compensation notes and compensation vouchers) predominate (a share of over 50%) in 2003 - 69.2%, in 2001 - 61.4% and in 1995 - 59%.

7. The preferred methods for the sale of **state property** are as follows: following a tender - 1 093 deals (37.9% out of a total of 2 882 deals for whole enterprises during the 1993-2004 period), following direct negotiations – 1 075 (37.3%) and by privatisation auction (22.5%). The share of other forms of privatisation is negligible (2.2 %).

8. Main buyers of privatised enterprises are Bulgarian and foreign natural and legal persons – 2 432 buyers with a relative share of 47%, employee buy-out schemes -1436 deals or 27.8% of the total number of buyers, followed by buyers under Art. 35, Para.1, item 2 of TPSMEA - 11.9%, buyers under Art. 35, Para.1, item 1 of TPSMEA – 10.2% and foreign buyers – 3.8%.

Privatisation under employee buy-out schemes was carried out mainly by the Ministry of Economy

The number of foreign buyers was highest at AP (99) and smallest (1) at the Ministry of Transport and Communications.

9. During the analysed period (1993-2004) privatisation of state property was carried out mainly in the following economic activity groupings: industry – 31.4%, trade – 22.5%, agriculture and forestry - 11.9%, tourism – 10.1%, construction – 10.0% and transport – 7.4%. All other economic activity groupings account for less than 7% of privatised enterprises.

10. Revenues from privatisation of state property over the whole reference period amount to 4 969 928 thousand BGN, of which 1 797 884 thousand BGN (36.2%) were in cash, i.e. **non-monetary payments (63.8%)** predominate. These revenues came from deals realized by the Privatisation Agency (65%), (with payments mostly in cash - 64.7%), while with other privatisation bodies non-monetary payments are most widespread (compensation instruments).

11. Expenditure on privatisation during the 1993-2004 period amounts to 1.3% of realized revenues (i.e. 78 times less than realized revenues), the greatest expenditure being

incurred in 1999 and 2000 – a total of 13 702 thousand BGN. 1999 and 2000 were also the period when the highest revenues from privatisation were realized - 1 641 467 thousand BGN.

12. Over a 12-year period (1993-2004) 57.4% of tangible fixed assets destined for privatisation were privatised, the process of privatisation being most active in 1997, when 32% (ca. 1/3) of all tangible assets over the analysed period were privatised. State-owned tangible fixed assets (over 67%) represent a dominant share of privatised tangible fixed assets.

13. Over the analysed period the greatest relative share in terms of numbers was that of deals concluded by the **Ministry of Economy** (46.1% of all deals). The Privatisation Agency comes second (25.57%), followed by the Ministry of Agriculture and Forestry – 10.60%, the Ministry of Regional Development and Public Works – 7.60%, the Ministry of Transport and Communications – 6.84%, and a total of 10% of deals in the case of all other privatisation bodies. However, if we include in the total the relative share of sums received by the individual privatisation bodies in concluded deals, the Privatisation Agency would come first with 75.18%, while the other remaining bodies account for a cumulative relative share of less than 25%.

14. With the aim of securing the implementation of obligations undertaken by buyers in privatisation contracts, the Post-Privatisation Control Agency needs to strengthen its activity concerning the control over the realization of agreed investments and the creation of new jobs.

15. In a number of cases the lack of clarity in terms of the structure of share capital and claims of individuals, cooperatives or municipalities laid on the assets of specific economic units have had a negative influence on the process of privatisation. Among other factors related to the privatisation process, existing corruption has also alienated investors.

16. Serious amendments to the Privatisation Act adopted during the previous government's term of office, which were also aimed at restricting the control of the Courts over the privatisation process, did not help in guaranteeing the fulfillment of the promise that privatisation would be fully completed by the end of 2002. A large company such as Bulgartabac Ltd. was sold twice, yet is still state-owned and in an increasingly worsening

financial situation, while BTC Ltd. was only sold after a series of scandals and accusations. Promised quick investment and the creation of a competitive environment are still merely wishful thinking. The privatisation strategies for the Bulgarian Merchant Marine (BMM), the Vazov Machine building Works in Sopot, Kintex etc. were not adopted. More than 100 companies were included in the privatisation restrictions list according to unclear criteria. The privatisation of electricity production and supply facilities, gas and water supply as well as railway transport has also been lagging behind.