

Privatization Policy in Bulgaria: An Initial Assessment

by

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The privatization process in the transition economies may appear to be the most serious economic event in the last 10-12 years. All transition countries experimented with different privatization models. Although the privatization processes have not ended yet, the development of a methodology for assessment of the privatization policy is necessary to not only specify the privatization outputs and to compare the effectiveness of the implemented policies, but also to support the policy design process. The goal of this paper is to present an elaborated method for assessing the privatization policy and opportunities for its implementation following the Bulgarian case.

Method for quantitative assessment of the privatization policy

Several theoretical approaches¹ have been developed and used to assess the economic policy. The approaches for assessing particular projects of the economic and public policy are the best elaborated in theoretical and practical aspect. The methodology for analyzing such economic policy processes like the privatization and restructuring are less covered in economic literature.

The developed methodology for assessment of the privatization policy combines elements from different assessment and analysis approaches. The outlining principle of the methodology is based on the understanding that the privatization policy consists of 10 dichotomous elements forming five privatization dilemmas (see Figure 1). The created and applied privatization policy should inevitably answer these dilemmas. The answer is incorporated in the privatization legislation, government programs, memorandums, and their practical implementation by the state agencies.

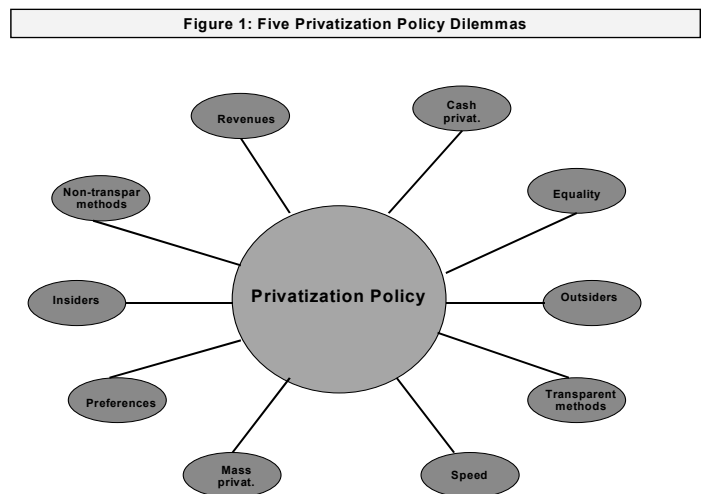
The adopted approach for assessment and analysis of the privatization policy uses data mainly from these data sources in order to derive information about the quantitative measurement of the privatization dilemmas. This approach allows annual comparison and assessment of the elements characterizing the privatization policy dilemmas. After assessing all privatization policy elements within a year, its picture

¹ See Greffe X., *Politique économique. Programmes, instruments, perspectives*, Economika, 1987, 570 p.; Boissieu Chr. de, *Principes de politique économique*, Economika, 1980, 651 p.; *Outils, pratiques, institutions pour évaluer les politiques publiques*, Commissariat General du Plan, 1991, 294 p.; Guess G., P. Farnham, *Cases in Public Policy Analysis*, Washington D.C., 1999, 358 p.

for the same year can be composed. The comparison of the annual privatization policies discloses the dynamics of the process and specifies its stages. The developed approach and methodology are oriented towards the practical needs of the privatization process management and allow quick and easy implementation, precise diagnostics of the policy, and selection and initiation of corrective measures for current policy changes.

The selected method for reducing the different privatization policy indicators to unified units of measurements is the method of rating assessment. It allows quantitative measurement and comparison of different privatization policy elements that are quantitatively expressed by defined indicators. The selection of indicators for defining the privatization policy elements is made on the basis of the following two criteria:

- Maximum conformity of the indicator to the selected element;
- Availability of reliable statistical data about the indicator during the entire period under analysis.



The link among the privatization dilemmas, the elements they are composed of and the selected indicators, quantitatively measuring them is presented in Table 1.

The developed methodology allows the use of different indicators in compliance with the political decisions and specificity in the counties, so that the selected indicators should not be regarded as the only possible ones. The methodology for assessment of the privatization policy is applied through the following algorithm. The maximum grade for each element of the privatization policy is 10, and the minimum is 0, with only one exception.

The logic applied in this case is that the analyzed privatization policy elements are dichotomous in character. For example, the privatization policy either assumes a lot of preferences or is built on the equality principle. The privatization policy promotes either insiders or outsiders, either transparent or non-transparent privatization

techniques. All these privatization policy elements are built on the exclusion principle and are presented below as its dilemmas. The mathematical expression means that the total of the grades of the dichotomous elements equals 10. The exception from this principle refers to the dilemma: speed – privatization revenues, as it is accepted that speed and privatization revenues can be combined and are not mutually excluded.

The values of the dichotomous indicators of the privatization policy elements are converted into grades through the following formula:

$$B_x = \frac{I_x \cdot 10}{I_x + I_y}$$

where:

B_x is the grade of the indicator x in the respective year,

I_x is the value of the indicator x in the respective year,

I_y is the value of the indicator y , dichotomous to x in the respective year.

TABLE 1: SELECTED INDICATORS CHARACTERIZING THE ELEMENTS OF THE PRIVATIZATION POLICY DILEMMAS

Dilemmas of the privatization policy	Element	Indicator
Proceeds–speed	Proceeds Speed	<ul style="list-style-type: none"> ▪ In total the negotiated price of the privatization transactions ▪ Number of privatized entities
Cash– mass privatization	Cash privatization Mass privatization	<ul style="list-style-type: none"> ▪ Number of entirely privatized enterprises through cash privatization ▪ Number of entirely privatized enterprises through mass privatization
Preferences– equality in privatization	Preferences Equality	<ul style="list-style-type: none"> ▪ Number of preferences in Bulgarian legislation ▪ The reciprocal value of the number of preferences in Bulgarian legislation
Outsiders – insiders	Outsiders Insiders	<ul style="list-style-type: none"> ▪ Share of the paid price by foreign buyers ▪ Share of the negotiated price for payment with insiders
Transparent – non-transparent privatization methods	Transparent methods Non-transparent methods	<ul style="list-style-type: none"> ▪ Number of privatized sites through transparent methods ▪ Number of privatized sites through non-transparent methods

As the total of grades of the dichotomous indicators equals 10, the grade of the indicator y may be calculated by subtracting Bx from 10. Another possibility is the following formula:

$$B_y = \frac{I_y 10}{I_x + I_y}$$

where:

B_y is the grade of the indicators y in the respective year.

The exception from this formula, made according to logical considerations about the dilemma speed – privatization revenues, imposes the application of another formula. It results from the individual comparison between the speed values on previous year basis and the privatization revenue values, and their conversion into grades. Thus, the maximum grades amounts of both elements may reach 20 and the minimum – 0. The highest value of the indicator in the period under analysis 1993-1999 is given grade 10, and the other grades are calculated according to the formula:

$$B_x = \frac{I_x 10}{I_{max}}$$

where:

B_x is the grade of the indicator x in the respective year,

I_x is the value of the indicator x in the respective year,

I_{max} is the maximum value of the indicator x in the analyzed period.

The indicator y value during the analyzed period is calculated by parity of reasoning. The above formula is used also for calculating the grades for the dilemma preferences – equality of privatization. The difference with the dilemma speed – privatization revenues is that here the total of grades of the two dilemma elements equals 10. It is so because the preferences and the equality are measured by one and the same indicator, taking reciprocal values.

After converting the values of the different indicators into grades, their respective annual values can be presented and the different elements of the privatization policy can be compared on year basis. On the basis of averaging the grades in the analyzed period, an integral assessment of the privatization policy implemented in the period under analysis can be made.

Assessment of the Privatization Policy

The section of the privatization policy by years allows to establish its accents for each year and to outline the problems and stages in the development of privatization and privatization policy. The following chapter will review these questions.

Assessment of the privatization policy in 1993

The privatization policy during the first privatization year in Bulgaria was characterized by the following special features (see Figure 2):

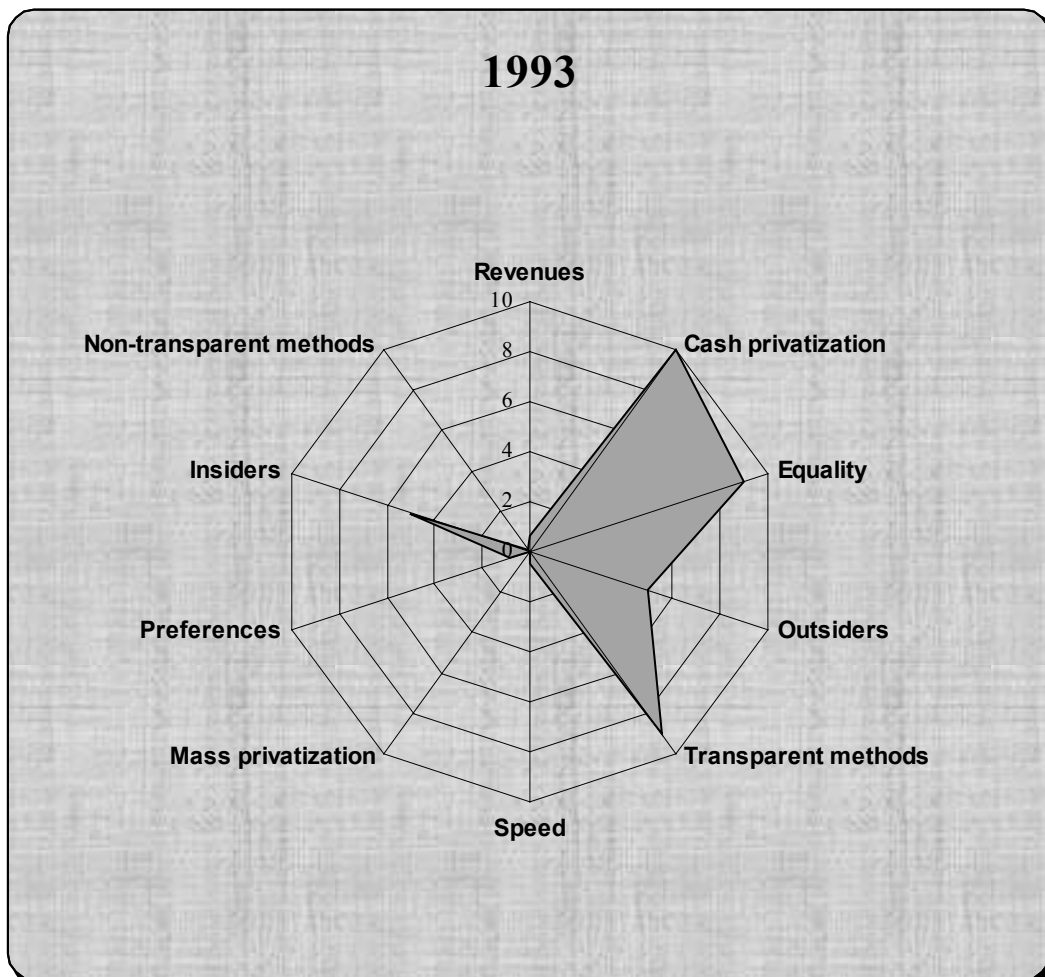
- the proceeds and the pace of the only possible privatization form – cash – were the lowest;

- the used privatization methods were the most transparent, as well as the equality among various participants in privatization was the highest for the entire period under analysis;
- the transactions during the year were almost equally concluded with insiders and outsiders, though the preferences for insiders are minimum in comparison with the opportunities in the coming years.

The surface in Figure 2 is placed in the right half of the decagon in 1993. The problems during that year were the small number of transactions showing low pace and lead to low privatization proceeds.

The highest values for the entire privatization period were achieved for the element equality and transparency. The lowest values during the analyzed period marked in 1993 were for proceeds, pace, preferences and non-transparent privatization method. The mass and cash privatization elements are excluded from the compared multitude.

FIGURE 2: ASSESSMENT OF THE PRIVATIZATION POLICY IN 1993

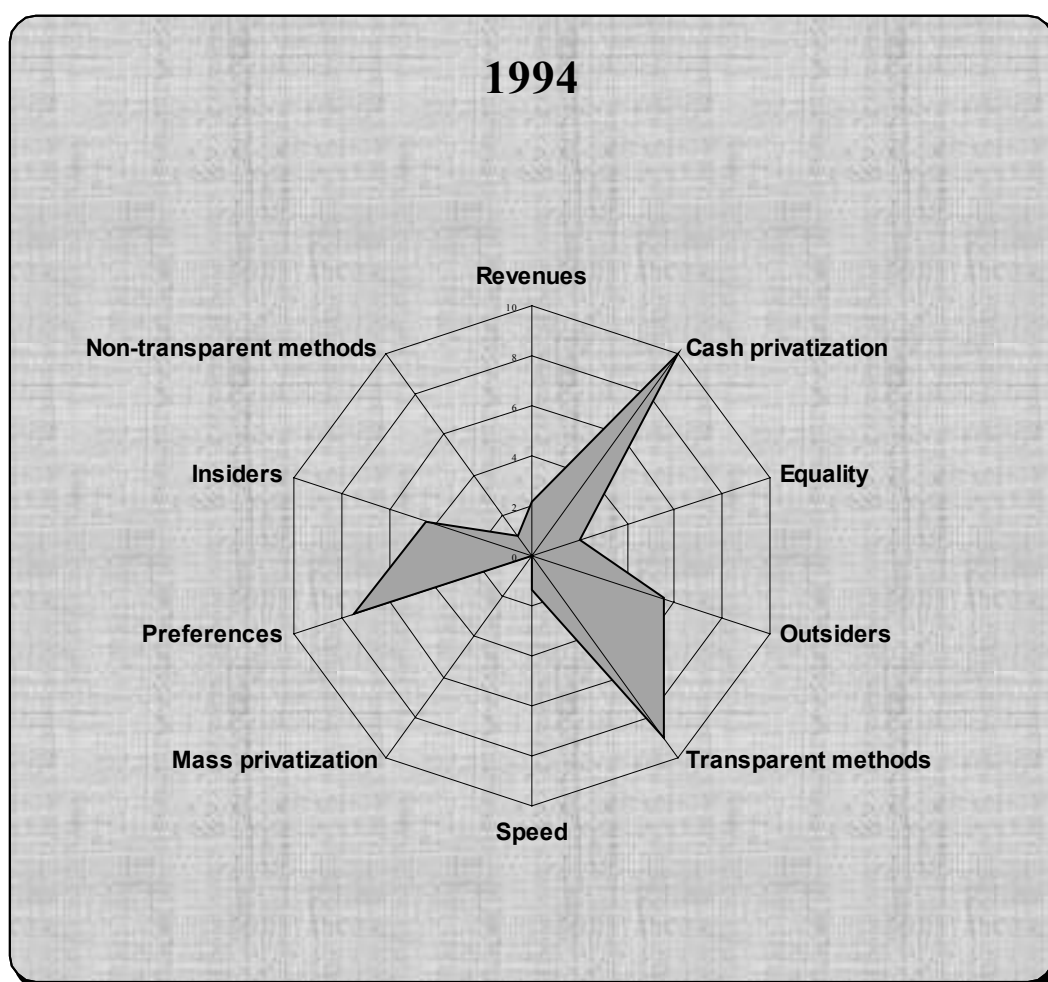


Assessment of the privatization policy in 1994

The privatization policy comprised several main characteristic features in 1994 (see Figure 3):

- The ratio of the sales methods was changed as the transparent and non-transparent methods were equalized. Although, the equilibrium between outsiders and insiders was preserved;
- The preferences for insiders sharply increased at the expense of equality among candidate buyers;
- In this year, slight acceleration of sales pace was observed being the main reason for growth of the privatization proceeds;
- Despite the increase in privatization proceeds, they together with privatization pace remained on a very low level.

FIGURE 3: ASSESSMENT OF THE PRIVATIZATION POLICY IN 1994



In 1994, the privatization process was characterized by a higher, but still insufficient pace. The privatization proceeds increased also mainly due to the balance between outsiders and insiders and between transparent and non-transparent sales methods. The increased number of preferences legally enforced in the year still were not practically implemented. However, they were a breakthrough in the privatization policy and together with the non-transparent sales methods were the main reasons for

changing the decagon figure position towards the left half. In this year, the achieved culmination in the privatization policy was only in relation to the lowest pace, preserving its 1993 level.

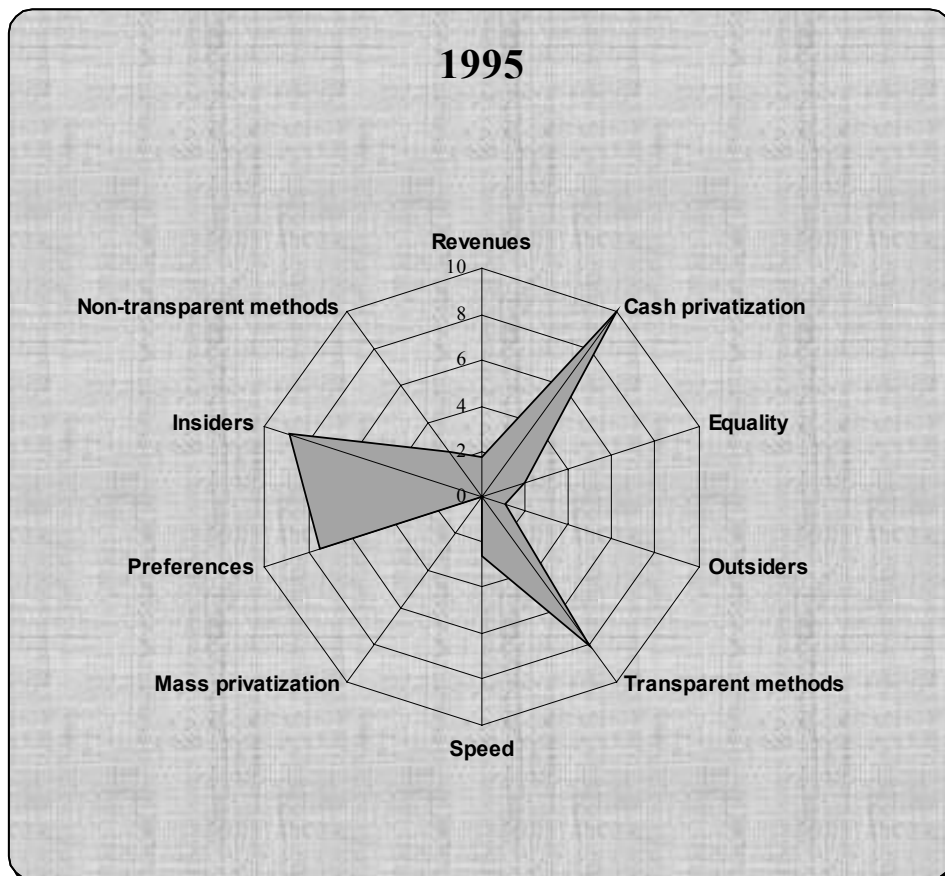
Assessment of the privatization policy in 1995

The 1995 privatization policy is characterized by the following peculiarities (see Figure 4):

- The balance among buyers was sharply disrupted and a period of extreme domination of insiders at the expense of outsiders began. The outsiders practically did not participate in the privatization process in the country during that year;
- The privatization proceeds were at the lowest level for the entire period if the 1993 results were not taken into account;
- The privatization pace was also at a very low level, although it was a little higher than the pace reached the previous year.

The privatization policy and practice moved backwards in 1995. Instead of using the accumulated momentum during the previous two years, there was decrease in the sales proceeds and very low pace of the process. The effect of the introduced preferences for insiders rendered an account that year. The peak values for the year were the highest rating assessment of insiders and respectively the lowest rating assessment of outsiders achieved in the entire analyzed period.

FIGURE 4: ASSESSMENT OF THE PRIVATIZATION POLICY IN 1995



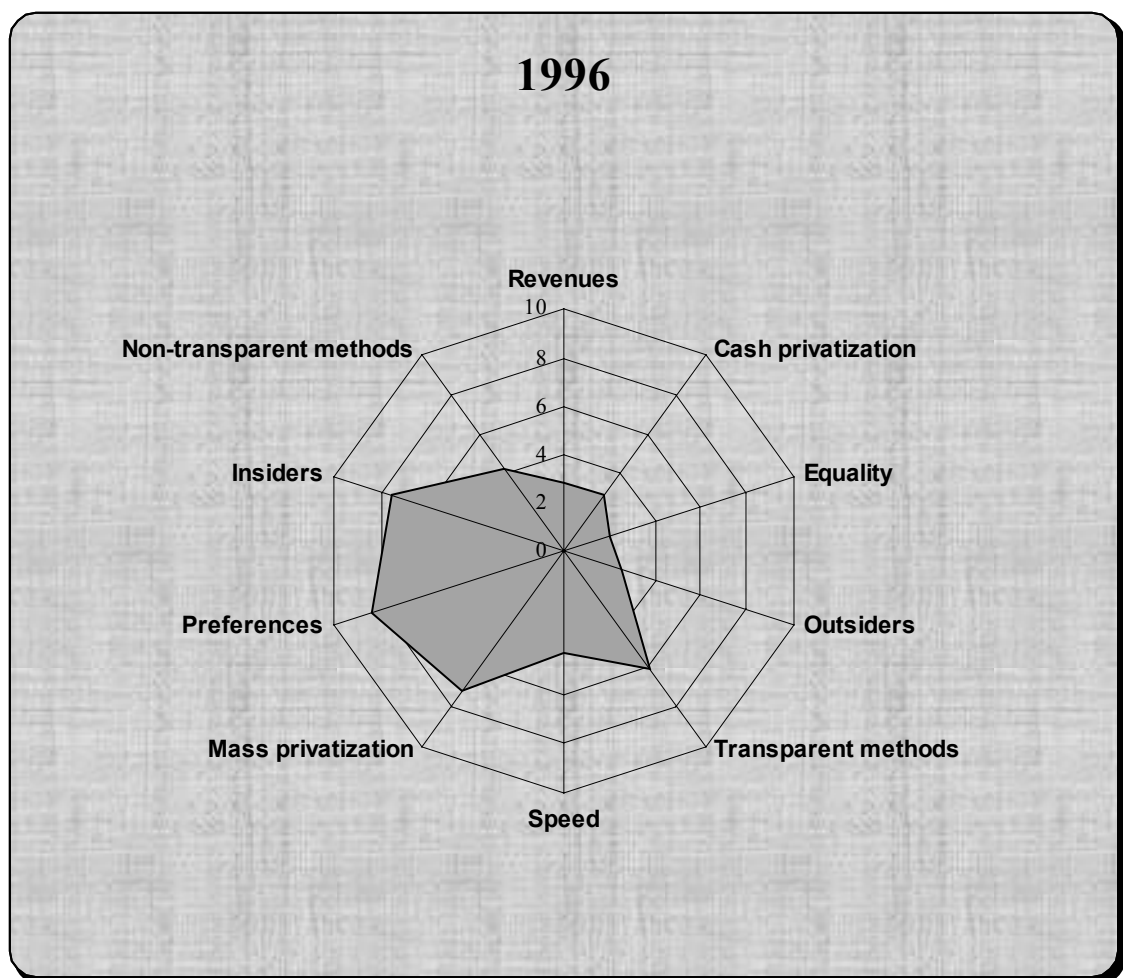
Assessment of the privatization policy in 1996

The specific features of the 1996 privatization policy were as follows (see Figure 5):

- The mass privatization process started in the country for the first time;
- Despite the slight growth in comparison with 1995, the privatization proceeds still were at a very low level;
- The increase in the sales pace was mainly due to sale of autonomous parts and still was at a low level;
- The tendency towards reducing the sales transparency continued and they reached the lowest level;
- The privatization preferences remained at a high level.

The change in privatization policy figure is mainly due to the mass privatization component. The other observed positive changes are the slightly higher share of outsiders and higher privatization pace and proceeds. Simultaneously the implementation of non-transparent methods reached peak assessments.

FIGURE 5: ASSESSMENT OF THE PRIVATIZATION POLICY IN 1996

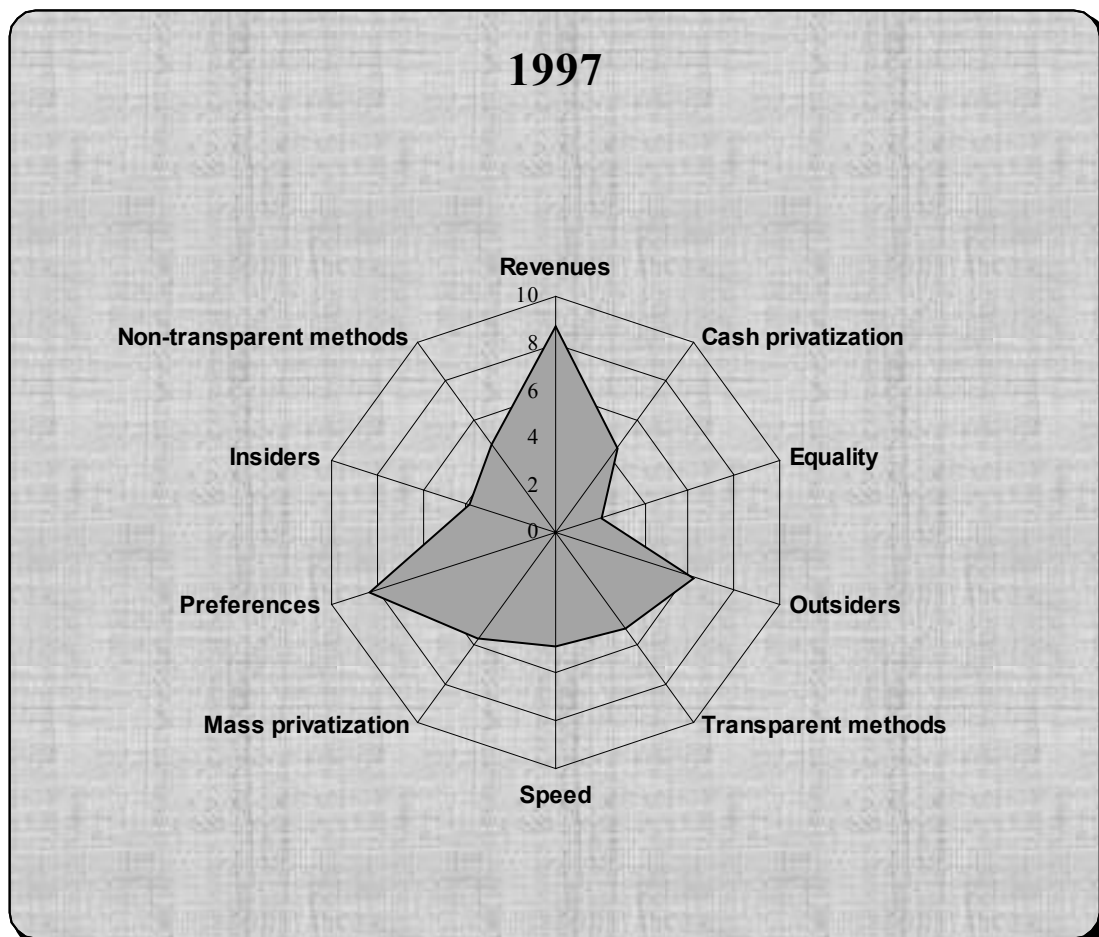


Assessment of the privatization policy in 1997

The following characteristic features were revealed as a result of the analysis of the privatization policy in 1997 (see Figure 6):

- It was the second and practically the last year of the first wave of mass privatization;
- In comparison with the previous years the sales proceeds reached a peak being accompanied by not so strong dynamics of sales pace. It indicated that privatization effectiveness was essentially increased and mainly big and profitable enterprises were sold;
- The outsiders predominate over the insiders for the first time leading to higher proceeds and higher sales quality.

FIGURE 6: ASSESSMENT OF THE PRIVATIZATION POLICY IN 1997



The figure, graphically representing the privatization policy is predominantly positioned in the left half of the decagon. It is due to the high preferences and usage of non-transparent privatization methods. Although the preferences were not reduced in the year and non-transparent methods distinctly prevailed, the privatization achieved

much better results. It leads to the conclusion that the way of implementation of privatization is more important than the legislative framework of the process and several privatization policies can be performed within one legislative frame.

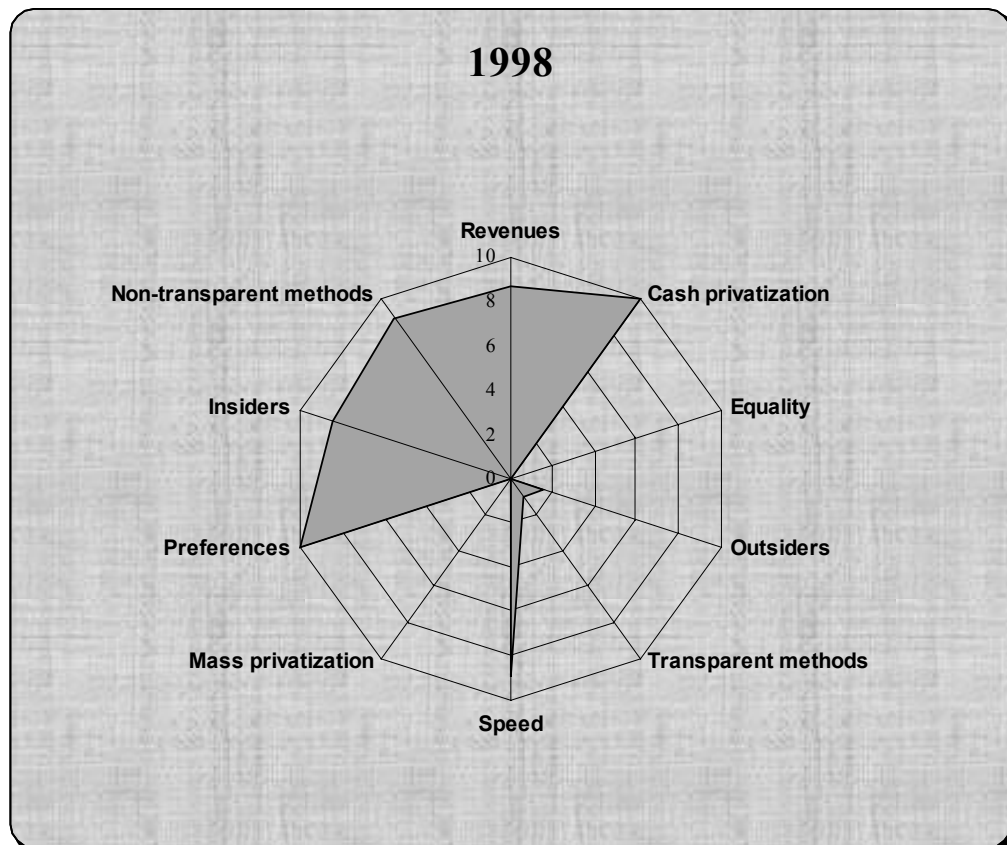
Assessment of the privatization policy in 1998

The privatization policy conducted in 1998 had several specific features (see Figure 7):

- Slight increase in using non-transparent privatization methods was noticed again as its values reached their peak once more during the entire analyzed period;
- Simultaneously the preferences, reaching their peak values during the entire analyzed period, were increased and practically there was no equality among buyers;
- The share of outsiders sharply grew in comparison with the previous year and was a grade lower than the culmination point from 1995;
- The proceeds and pace reached equal rating grades indicating deterioration of privatization quality in comparison with 1997.

There was "a retreat" in the 1998 privatization in comparison with the previous year. Compared to the entire period under analysis the biggest area of the figure fell in the most unfavorable sector between non-transparent privatization methods and preferences. The only improvement than the previous years is in relation to privatization pace achieved through low price sales.

FIGURE 7: ASSESSMENT OF THE PRIVATIZATION POLICY IN 1998



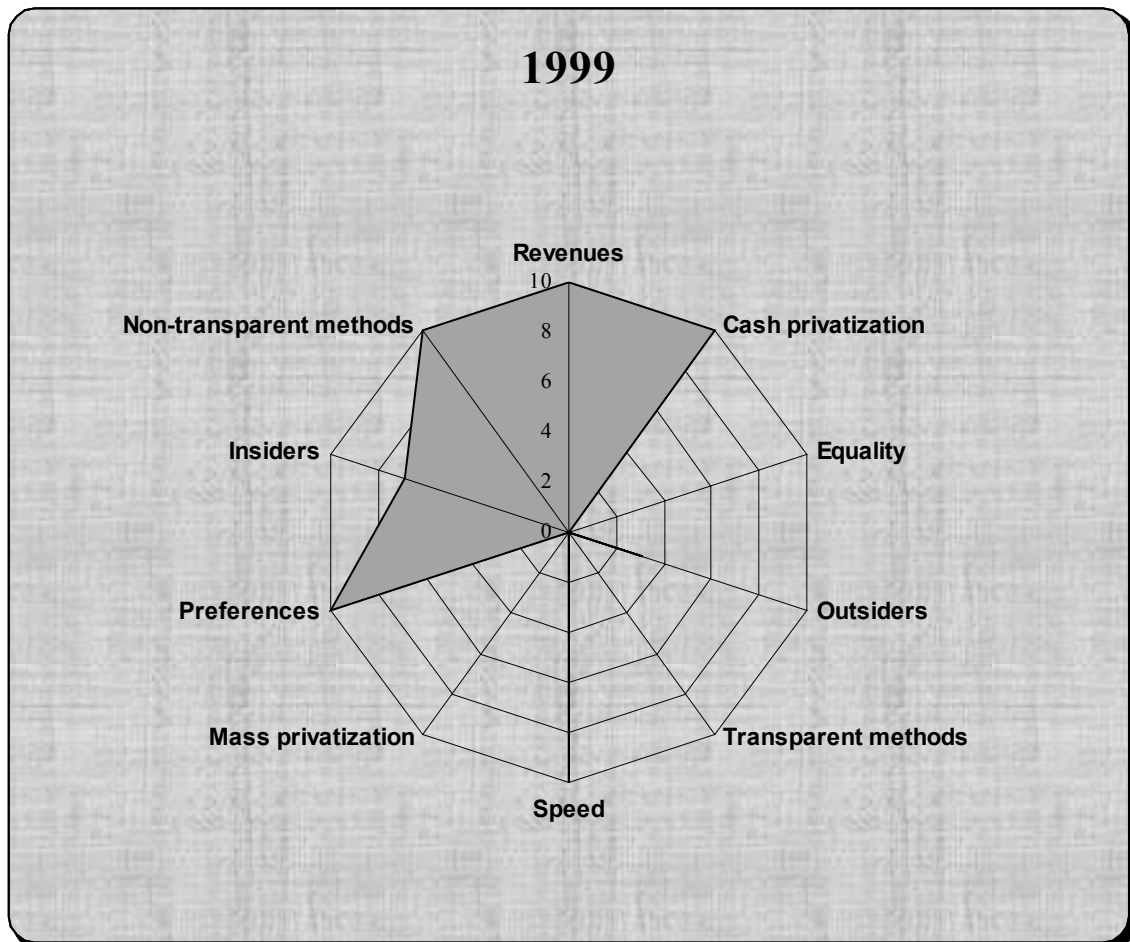
Assessment of the privatization policy in 1999

The privatization policy in 1999 had the following characteristics (see Figure 8):

- Due to the cash, though non-transparent methods, the privatization proceeds were the highest in comparison with the other analyzed years;
- Despite the fact that the extremely numerous preferences for insiders were preserved during that year there were a little more outsiders in comparison with the previous year;
- The privatization proceeds and pace were the highest during that year from the entire analyzed period.

The privatization policy in 1999 is very close the one conducted in 1998. It is proved by the position of the figure in Figure 8. The only difference between them is that in 1999 more transactions with outsiders were concluded though the privatization conditions were not changed in comparison with the previous year.

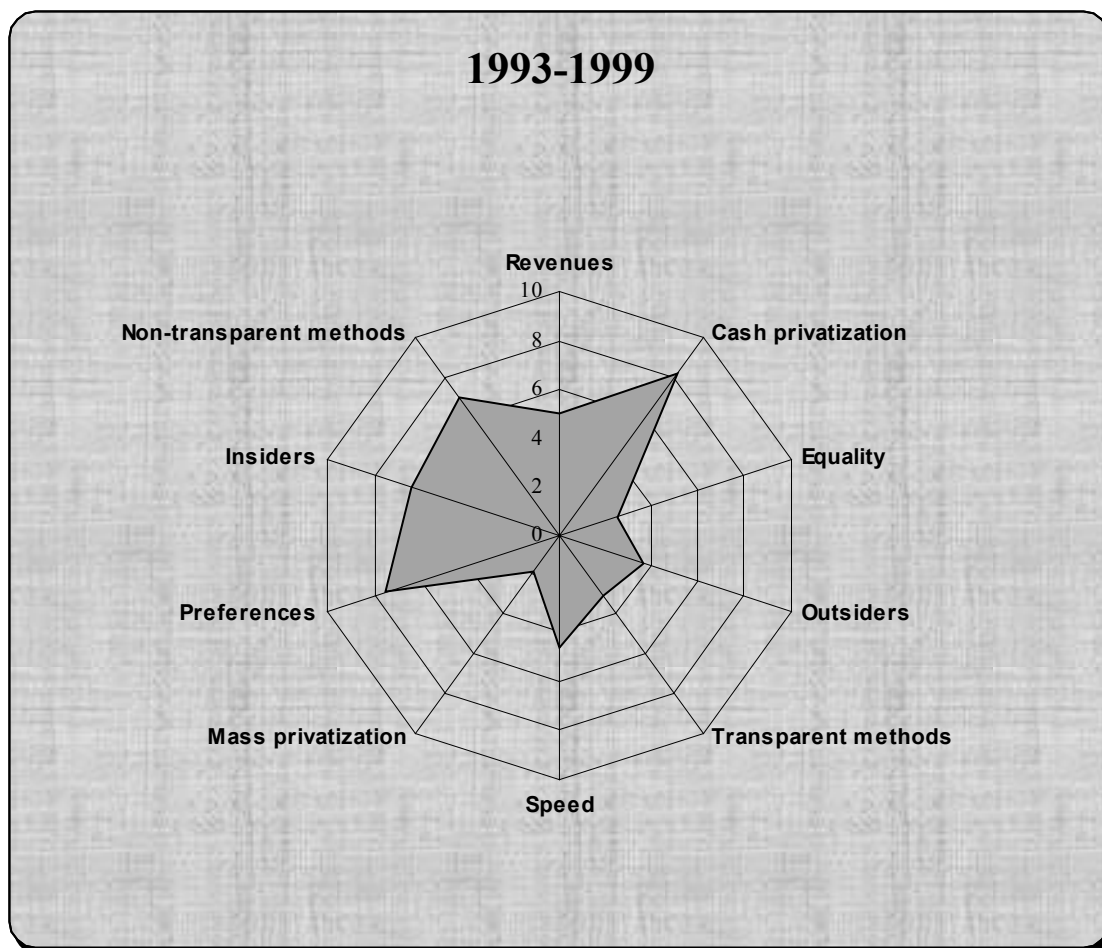
FIGURE 8: ASSESSMENT OF THE PRIVATIZATION POLICY IN 1999



Assessment of the privatization policy during 1993-1999 period

The rating assessments can be calculated and privatization policy in the analyzed 1993-1999 period can be presented on the basis arithmetically averaged grades of privatization policy dilemmas (see Figure 9).

FIGURE 9: ASSESSMENT OF THE PRIVATIZATION POLICY DURING 1993-1999 PERIOD



Considering the above analysis by years, as well as the averaged assessments for the observed period, the following characteristic features of the privatization policy conducted in Bulgaria can be formulated:

- The cash privatization is the predominant form of privatizing in Bulgaria, while the mass privatization has narrower scope and smaller significance;
- The cash privatization is conducted mainly through non-transparent privatization methods with great preferences for insiders prevailing against outsiders;
- A big part of the figure, graphically representing the privatization policy is positioned in the most unfavorable parts of the decagon – in the left half, between the non-transparent privatization methods and preferences;

- The elements of the privatization policy allow the formulation of its main stages: state of initial entering – from 1993 to 1996, characterized by the lowest revenue and privatization pace; mass privatization cycle – in 1996 and 1997; stage of accelerated privatization due to outsiders – in 1997; stage of accelerated privatization due to outsiders – in 1998 and 1999. These stages are not harmoniously connected, they are rather isolated, what shows the discontinuity, fragmentariness and frequent change in the privatization policy.