

Economic Program

The Economic Program launched its first privatization project in 1991. In the next five years, the scope of research and advocacy activities was gradually extended to include all major aspects of

the economic reforms taking place in Bulgaria. Today, CSD enjoys the reputation of an independent institution which provides reliable professional analyses of economic reform issues.

1991–1995 PROGRAM HIGHLIGHTS

- **Held two international conferences on the problems of privatization and private sector development with the participation of prominent foreign experts from the US, UK, Germany, France, the Czech Republic, Poland and senior Bulgarian government officials;**
- **Published the Privatization and Foreign Investment Monitor - a bi-weekly digest of the Bulgarian media reviewing the privatization and economic reform processes;**
- **Published four policy recommendation papers containing analyses, evaluations and suggestions for amendments to existing legislation in the fields of privatization, foreign investment and debt conversion;**
- **Held 22 policy-oriented seminars and discussions on municipal privatization, investment funds, mass privatization, foreign investment, debt management and the efficiency of consulting firms;**
- **Published three brochures on privatization in Bulgaria and other Central and East European countries;**
- **Published 23 Reform Round Table papers exploring some of the most pressing issues of the economic reform in Bulgaria: tax reform, inflation and pricing policy, agrarian reform, social security and the labor market.**
- **Developed a fully-fledged Debt Conversion Program to assist Bulgarian authorities in drafting the arrangements for Debt-Equity Swaps by combining the existing legal framework for privatization with the new regulatory framework, institutional setup and swap mechanisms.**

The Economic Program activities in 1996 were facilitated by the cumulative effects of the work carried out in the prior five years — the acquired experience, the network of established contacts and CSD's position as an institution committed to promoting economic reforms and privatization. This allowed CSD to continue placing a strong emphasis on result oriented initiatives. Work was concen-

trated on the following key issues:

- **Mass and Market Based Privatization in Bulgaria;**
- **Privatization and Economic Restructuring;**
- **Direct consulting assistance to private Bulgarian companies.**

I. Privatization on a Dual Track: Mass and Market Based Privatization in Bulgaria

Independent research, analysis and public discussion are essential to ensuring that mass privatization is conducted effectively, transparently and competitively. At the same time, it is important that independent policy institutions like CSD continue their research and advocacy work for market-based privatization — a form of privatization which should intensify at the same time as the mass privatization program is implemented.

The main objective of this project was to assist the government agencies in striking the right balance between the two forms of privatization currently underway in Bulgaria. In 1996, CSD's efforts were aimed at:

- extending the municipal privatization know-how acquired in the Bansko pilot project (1994-1995) to other municipalities;
- monitoring the process of mass privatization and providing critical feedback;
- educating the public about the mechanisms of mass privatization and increasing public support for the process.

1. Enhancing the Progress of Municipal Privatization

Establishment of the Municipal Privatization Fund of the city of Rousse

In February, using the model of CSD's Pilot Project on municipal privatization in the Bansko region and with consultations from CSD experts, a Municipal Privatization Fund was established in the city of Rousse. The fund started operating in March. Its legal organization replicates the principles adopted in Bansko. Several other municipalities had considered using this program as a model for

developing their own privatization funds. In response to this interest, CSD prepared information packages on the establishment and management of municipal privatization funds which were circulated to ten municipalities. Six of them — the municipalities of Gabrovo, Svishtov, Stara Zagora, Pleven, Vidin, and Vratsa showed interest in receiving further expert assistance from CSD in the establishment of regional investment/privatization funds.

Assistance and Sample Documentation to the Municipality of Svishtov

In February, the State Property and Privatization Department of the Svishtov municipality requested assistance, detailed guidelines and sample documentation on specific procedures related to the process of municipal privatization — tenders and negotiations with potential buyers as privatization instruments.

The documentation, know-how and consultations provided by CSD experts facilitated the actual initiation of municipal privatization procedures in the municipality.

Workshop on Municipal Privatization: Institutional, Financial and Legal Aspects, March 21

The event was attended by deputy-mayors and heads of privatization departments in twenty municipalities, experts from the Privatization Agency, along with representatives of the Legal and Local Administration Departments at the Council of Ministers.

The purpose of the workshop was to evaluate the progress of municipal privatization — the most dynamic component of the privatization process in Bulgaria. It provided a forum for municipalities to exchange views and share good practices. Participants analyzed

the practical results of Their day-to-day activities and discussed suggestions for amendments to the legal framework of municipal privatization.

They were briefed on the results of the joint municipal privatization initiative of CSD and the municipality of Bansko. This project has a three-year history and its main practical output was the adoption of the Rules for the Organization and Activities of the Municipal Privatization Fund by the Municipal Council of Bansko.

Drafting Amendments to the Legal Framework of Municipal Privatization

CSD experts drafted a set of proposals for amendments to the Privatization Law. The proposals envision that municipalities should be empowered to decide which enterprises to be included in the privatization program. Draft amendments were forwarded to

the Privatization Agency. They were prepared as a follow-up action to the workshop on municipal privatization held on March 21 and incorporated discussion results.

2. Providing Policy Recommendations and Consulting Services

Development of a Final Policy Recommendations Paper

The project resulted in a series of policy analyses of the current legal framework for mass and market-based privatization, conducted in consultation with independent experts and policy-makers. Based on these analyses and the results of four sociological surveys, CSD developed a Final Policy Recommendations Paper to help the government prepare an overall privatization strategy. The Policy Paper provides a comprehensive analysis of major pieces of legis-



Dr. Maria Prohaska, Coordinator of the CSD Economic Program

lation related to privatization. It traces the development of legislation since 1989 and analyzes the results of its implementation to date. Specific proposals for amendments to existing regulations are also outlined. The following are a few excerpts from the paper:

"The legal framework of privatization is very fragmented. The Law on Restructuring and Privatization of State and Municipally Owned Enterprises is conceived as a "framework" law which envisages the passage of a large body of secondary legislation...

Mass privatization is regulated on an "ad hoc" basis in the absence of a clear concept or strategy. The approach adopted by the government is based on the assumption that changes can easily be introduced to the body of secondary legislation and the Law, itself, as the need for them arises. Such an approach can be very risky...

The powers and responsibilities for preparing and implementing privatization are spread over a large number of government institutions and agencies. Some government bodies act in different capacities on different occasions. For instance, the Council of Ministers is entrusted with implementation tasks and regulatory powers but it is also authorized to make operational decisions on specific transactions...

Apart from faults in the legal framework of privatization, there are also important subjective factors which affect the implementation, or poor implementation, of privatization procedures..."

The document was circulated to the National Assembly Economic Committee, government officials, business representatives and mass media.

Roundtable Discussion "Land Reform and Development of Agriculture in Bulgaria", March 5

The roundtable discussion was attended by Members of Parliament, representatives of the Ministry of Agriculture and Food Industry and other government

institutions, the Council of Agricultural Cooperatives in Bulgaria, independent experts and representatives of the academic community.

CSD's experts reiterated the importance and priority of agriculture for the Bulgarian economy, and the need for a long-term government policy. Participants rallied around the idea that Bulgaria should move from the stage of declarative intentions to pragmatic decisions without unnecessary politicization of the question of land ownership and the future agriculture structure.

Thirty copies of the general overview of discussions and recommendations were sent out to all members of the National Assembly Economic and Agriculture Committees and the Ministry of Agriculture and Food Industry.

Workshop "The Role of Bulgarian and Foreign Consultants in the Privatization and Restructuring Process", July 9

As an acknowledgment to its contribution to the privatization process in Bulgaria, CSD was invited by the Bulgarian Association for Management Consulting to co-organize this workshop, which addressed the problems of consultants' participation in the privatization process and restructuring of Bulgarian economy. CSD presented the results of its four-year work on mass privatization. Discussions focused on breaches in the legal framework and recommendations for amendments to existing regulations.

3. Building Public Support for Mass Privatization

"The Wealth of the Nation"

CSD experts helped design the model of a game called "The Wealth of the Nation". It simulates the stages of mass privatization and helps both to educate the participants and to monitor potential mass privatization behavior.

Approximately 10,000 students from Sofia participated in the game. A general report on the game with conclusions and recommendations was submitted to the Center for Mass Privatization, privatization funds and consulting firms.

Brochure "Mass Privatization — Investment Alternatives"

The brochure was published with the goal of educating the public in investment decision-making. It addresses both specialists and the broader public, and assists the readers in making right investment choices. The brochure was disseminated among Members of Parliament, mass media, investment funds, relevant ministries, government agencies and municipal authorities.

Seminar "Contemporary Corporate Governance: Particular Applications to Bulgarian Privatization Funds and Enterprises in Process of Privatization", June 11

This seminar, organized jointly with the Citizens Democracy Corps and the *Finsys* consulting firm was attended by 50 participants — managers and representatives of more than ten privatization funds, government officials, journalists and academics.

Mr. Geoffrey Mazullo, CDC Volunteer and expert in corporate governance and post-privatization management with extensive experience in CEE and Russia, addressed the three major contemporary models of corporate governance (the Anglo-US, Japanese and German) and some specific corporate governance issues in transitional economies.

At a separate session Dr. Maria Prohaska, CSD Economic Program Coordinator and Dr. Nikola Hristovich, President of *Finsys* chaired a discussion on the legal framework of mass privatization in Bulgaria and its implications for

corporate governance over the next two to three years.

4. Monitor of Privatization and Foreign Investment

CSD continued to publish its monthly *Monitor of Privatization and Foreign Investment* (in Bulgarian) and prepared two special issues in English. One of them was published to coincide with the annual meeting of the EBRD in Sofia in April.

In 1996 new sections including analytical materials and statistical data on privatization and foreign investment in Bulgaria were added to the Monitor. It was distributed in a circulation of 150 copies to politicians, Members of Parliament, ministers, government officials, trade union leaders, bankers and major media.

In a survey conducted among readers of the Monitor, CSD's project was assessed as an important oversight mechanism which keeps the public informed on recent developments in privatization and promotes transparency and clarity of the "rules of the game".

Since October, the Monitor is also available, once in two months, on the World Wide Web. The online edition contains English translations of press articles which summarize the main trends and results of privatization.

Public Opinion Polls

As part of its "watchdog" function, CSD conducted two national public opinion polls and two qualitative surveys to provide relevant background information on current developments in public attitudes towards, and behavior concerning privatization.

Results from the surveys provided grounds for comparative assessment of the public involvement in mass privatization and served as a basis for defining practical actions.

Survey information generated considerable interest among representatives of privatization funds as it helped in establishing the parameters of their activities in attracting privatization vouchers.

5. Dissemination and Media Impact

Economic Reforms Around the World

This is a collection of articles selected from issues of the *Economic Reform Today* journal — a publication of the Center for International Private Enterprise in Washington, D.C. which monitors the major trends and outcomes of economic reforms world-wide.

Different articles discuss the relationship between democratic changes and the success of economic reforms, the importance and role of business associations in contemporary market economies and the outcomes of privatization in Central and Eastern Europe. An article "Bulgaria: Summing up of Privatization" by Dr. Maria Prohaska, Coordinator of the CSD Economic Program is also included.

Published in a circulation of 1,000 copies, the collection was disseminated among Members of Parliament, professionals, government officials, academics and journalists.

Media Coverage

In 1996 project activities were brought closer to the public through different media channels — TV, radio, daily and weekly newspapers and magazines. The media coverage was designed to reach two major target groups — policy-makers, experts and the business community, on the one hand, and the general public, on the other. With the purpose of reaching the first group, CSD published 35 articles on the legal framework and procedures of privatization, corporate governance, privatization funds man-

agement and other professional topics in selected newspapers and magazines — "Standart", "Pari", "Capital" and "Cash". Another set of articles of a more general nature was published in newspapers with wide circulation ensuring coverage of about 50-70% of the country's population aged 18 and over — "24 Hours", "Kontinent" and "Trud". In addition, the project activities were covered in 11 broadcasts on radio and television.

Extensive coverage of the progress of privatization by the media has given CSD excellent exposure and increased public awareness of its activities.

II. Privatization and Economic Restructuring in Bulgaria

In September, CSD launched a new project "Privatization and Economic Restructuring in Bulgaria", sponsored by the Center for International Private Enterprise (CIPE). The project is to be implemented until September 1997. Its main objective is to contribute to the acceleration and success of privatization and economic restructuring in Bulgaria. Through research, advocacy and dissemination activities, the project:

- assists in refining and implementing the mass privatization program to make it more effective, transparent and successful;
- provides continued assistance to government institutions responsible for privatization in developing a consistent privatization strategy with medium-term targets and structural priorities;
- facilitates privatization at the municipal level by transferring best practice models to other regions;
- increases expert and public understanding in post-privatization and corporate governance issues through education and information activities.

The research and advocacy activities in 1996 were based on the understanding



Professor Sol Estrin from the London Business School (right) and Professor Ioanis Katzulakus from the Athens Institute of Economic Research (middle) presiding one of the workshops at the conference.

that the future of Bulgarian economic reform would depend largely on the success of privatization. The following couple of years will be crucial in this respect. Failure now would mean starting economic reform all over again. Unfortunately, privatization in Bulgaria is often seen as an end in itself. There is little understanding of its significant role as the core of economic structural reform. CSD's activities during 1996 focused on supporting the government institutions in their efforts to implement an effective, transparent and successful privatization program. Specific actions included:

International Conference: "Restructuring Transitional Economies in the 90 s: Enterprise Behavior and Financial Intermediaries", October 11-13

Access to advanced international expertise and know-how is crucial to the suc-

cessful restructuring of the Bulgarian economy. This conference was conceived with the objective of introducing Bulgarian officials to the results of economic restructuring in Central and Eastern Europe (CEE) and its relationship to privatization, the role of financial intermediaries and the development of capital markets. The conference

- identified restructuring outcomes at different stages of reforms;
- outlined the advantages of the different types of restructuring in some CEE countries and related them to specific background factors and respective policies;
- explored the relationships between enterprise restructuring and banking sector liquidity and defined alternative solutions.

It was a joint initiative of CSD and the East-West Economic and Financial Center. Participants included academics, policy makers, bankers, enterprise man-

agers and investment funds managers who discussed the challenges of the transitional period and the consequences of privatization and restructuring in CEE economies. Also present were prominent experts and analysts of the economies in transition from Austria, Great Britain, France, Italy, Greece, Canada, the US, Albania, Macedonia, the Czech Republic, and Bulgaria. Among them were Mr. Sol Estrin (London Business School), Mr. Jean-Louis Brille (National Institute for Economic Studies and Statistics), Mr. Ioanis Katsulakus (Athens Institute of Economic Research), and Mr. Robert Kennedy (Harvard Business School).

The fact that some CEE countries have performed better than Bulgaria in terms of number of privatized entities has drawn the attention of many Western analysts. One of their objectives is to study the post-privatization behavior of the formerly state-owned enterprises from the point of view of the volume of production, market share (in-country and export), competitiveness, management changes, employment and several other indicators. While some general conclusions have already been made, a complete and accurate picture is still to be developed.

The conference drew an important conclusion with respect to the adaptability of enterprises in CEE countries to the market environment. The highest degree of adaptability is demonstrated by the newly established private companies, followed by enterprises owned by outside investors (particularly foreign investors) and workers/managers owned enterprises. This should be taken into serious consideration in shaping the privatization strategy. Bulgaria should also devote greater attention to studying the role of financial intermediaries in enterprise restructuring.

The foreign participants were briefed on the results of privatization, the mass privatization program and the trends in

capital markets development in Bulgaria. The prevailing opinion was that the conference had been very timely in light of the structural changes in the country.

Implementation of Training and Public-Awareness Actions on Issues of Corporate Governance

Corporate governance is a term used to define the mechanisms of governance of joint-stock companies. As a concept, it is relatively new to Bulgaria but it will gain significant importance upon completion of the mass privatization process. It is also important from the viewpoint of structural reforms and their successful implementation.

In this context, CSD is among the first organizations in Bulgaria to prepare and implement a program for dissemination of information and training of selected professional groups and the general public on the issues of corporate governance. Specific actions in the program include:

- study visits to the Czech Republic, Poland, Russia and Moldova to explore the problems of post-privatization management of enterprises, the role of privatization funds and the implementation of Western models of corporate governance in transitional economies;
- workshops to formulate the major problems and trends in the future model of corporate governance in Bulgaria;
- town hall meetings to spread information on practical topics such as shareholders rights, proxy voting and models of corporate governance; and
- broad media coverage.

Public Opinion Surveys

A series of sociological surveys on public attitudes towards privatization are projected within the framework of this project. They are carried out in coopera-

tion with CSD's Sociological Program/Vitosha Research.

In the current economic situation in the country, few organizations have the resources and expertise to perform a privatization watchdog function in a consistent and reliable way. CSD has persistently monitored the progress of privatization over the past six years and considers this to be an important vehicle in implementing its public service objectives. Its strong reputation for independence and objectivity have made its survey research findings a reliable and respected source of information.

The first of the series national sample opinion surveys was conducted in October to monitor public attitudes towards different forms of privatization and its results. On the basis of the collected empirical data, CSD was able to draw analyses on the progress of privatization and on emerging attitudes of different social groups. The survey results were summarized in separate analytic papers which were provided to the relevant government agencies and published through a variety of media.

III. Migration — Europe's Integration and the Labor Force Brain Drain

At the beginning of 1996 CSD finished this two-year international research project which examined the brain drain from Bulgaria with a view of identifying the scientific and economic consequences from the migration of scientists and experts. The project, supported by the Commission of the European Communities, involved 14 research teams from ten Central and East European countries including Poland, Hungary, Lithuania, Latvia, Estonia, the Czech Republic, Slovakia, Romania, Slovenia and Bulgaria, coordinated by CSD.

The transition to a market economy and the democratic changes taking place in Bulgaria since 1989 have had a particularly adverse effect on science. The fall

in production and the continuing economic crisis have limited dramatically the use and exploitation of research results. The state budget allocates very little funding to science and R&D. The stage of development, nature and size of the SME sector is such that it is still unable to support R&D. The lack of a clear government strategy or program for promoting the development of science has resulted in a large-scale emigration of researchers which aggravates the intellectual potential of the country. This project produced the first comprehensive study of the brain drain process from Bulgaria. The survey findings became the object of broad public discussions on the problems of science and researchers, the government strategy and specific actions which need to be taken to safeguard the intellectual potential of the country and mobilize this resource in overcoming the current economic situation.

It was also the first attempt at providing a comparative analysis of developments in Bulgaria and other CEE countries, which helped outline some typical migration problems that are particularly acute in this country.

The final survey report was provided to the Bulgarian Academy of Science, the Ministry of Education and others. It generated high interest among Bulgarian print and electronic media. Radio Free Europe broadcast a three-hour interview with the authors on the problems of Bulgarian scientists and experts' migration. The Commission of the European Communities assessed highly the Bulgarian report and decided to publish it in full form.

IV. MBA Enterprise Corps

MBA Enterprise Corps is a program designed to provide long-term assistance to private enterprises in former socialist countries by directly placing Corps members into companies or small busi-

ness development consulting groups. It also gives graduate MBAs from leading US universities the opportunity for an early and significant international experience in order to enhance their chances of long-term global effectiveness. Corps members spend one to two years with the host companies, helping them streamline their operations, develop business plans, establish marketing programs, launch new products, negotiate joint ventures and train employees.

The four Corps members who started work with their host companies in October 1995 completed their assignments at the end of September 1996. All of them provided valuable assistance to the companies. Three Corps members are currently working with Chimimport, the Marketing, Advertising, Research and Communications Company MARC and the Vitosha Agency.

In 1996, the main highlight of the MBA EC program in Bulgaria was its participation as a founding member in the Firm Level Assistance Group (FLAG) Consortium and the structuring of its operations. FLAG unites seven US non-

profit organizations that have pooled their resources to provide high impact technical assistance to private business and business associations in Bulgaria. It comprises the Citizens Democracy Corps, International Executive Service Corps, Volunteers in Overseas Cooperative Assistance/Agricultural Cooperative Development International (VOCA/ACDI), Land O'Lakes, University of Delaware, Partners in International Education and Training/Entrepreneurial Management and Executive Development International (PIET/EMED) and MBA Enterprise Corps. FLAG was formed in response to the US Agency for International Development's re-engineering program based on the premise that a more integrated approach to private sector intervention could be obtained by focusing the experience and resource of the group on targeted clients. MBA Enterprise Corps is represented in all FLAG bodies and successfully adapted its internal procedures to FLAG mechanisms. This will allow it to at least double the number of assignments for the year 1997.