RAPORTY CASE
CASE REPORTS

Centrum Analiz Społeczno-Ekonomicznych
CASE
Center for Social and Economic Research

Michał Górzyński, Krassen Stanchev,
Georgi Stoev, Julian Pańków,
Mateusz Walewski, Assenka Yonkova

Fiscal Effects from Privatization:
Case of Bulgaria and Poland

Edited by Julian Pańków

Warsaw - Sofia, 2000 No. 37

The views and opinions expressed in this publication reflect Authors' point of view and not necessarily those of CASE.

This publication was prepared for an advisory project "Support for Economic Reforms in Bulgaria", financed by the Open Society Institute in Budapest (grant no. 9146).

DTP: CeDeWu – Centrum Doradztwa i Wydawnictw
"Multi-Press" Sp. z o.o.

Graphic Design – Agnieszka Natalia Bury

ISSN 1506-1647 ISBN 83-7178-227-6

Publisher:
CASE – Center for Social and Economic Research
ul. Sienkiewicza 12, 00-944 Warsaw, Poland
tel.: (48 22) 622 66 27, 828 61 33
fax (48 22) 828 60 69
e-mail: case@case.com.pl

Contents

Julian Pańków

Dr Julian Pańków has graduated from the Faculty of Economic Sciences of Warsaw University. Since 1983 he works as a researcher in the Polish Academy of Sciences, previously in the Department of Management Sciences, since 1990 in the Institute of Political Studies. In 1991–1996 he was a member of Council on the Ownership Transformation, advisory body to the Polish Prime Minister. Since 1992 he has taken part in the consultancy projects provided by CASE Foundation and other organizations to the transition countries, including Russian Federation (1992–1994), Kazakhstan (1994–1996), Kyrgyzstan (periodically since 1993), Tajikistan (1996–1997), Ukraine (1998). Since 1997 Dr. Pańków co-ordinates the CASE's project Support for Economic Reforms in Bulgaria, under the grant of Open Society Institute in Budapest.

Introduction

This study constitutes part of the "Support for Economic Reforms in Bulgaria" project conducted by the Center for Economic and Social Research (CASE Research Foundation), Warsaw and financed by the Open Society Institute, Budapest. The aim of the project is to assist co-operation with Bulgarian counterparts in implementing structural reforms in the Bulgarian economy. At the request of the Bulgarian authorities, this assistance involves developing and carrying out reform programs, as well as evaluating their results in priority areas of structural and institutional reform, with particular reference to the process of ownership transformation. This includes providing an overall strategy for privatization and reporting its effects, monitoring the process of enterprise privatization, post-privatization contract enforcement and the restructuring of newly privatized companies.

The purpose of this study is to:

– describe and evaluate the fiscal dimension of the privatization process in Bulgaria and Poland,

– conduct a cross-country comparison of the fiscal effects of privatization in Bulgaria and Poland, examining their respective approaches to the same,

– identify the crucial factors in the privatization strategy and policies of both countries that affect their privatization revenues,

– provide background information for the possible transfer of know-how concerning the best approach to maximizing the fiscal effects of privatization, by examining those positive and negative aspects of Poland's experience that could prove relevant to Bulgaria's economic environment.

This study includes an evaluation of the fiscal effects of privatization in both countries in the period since the very beginning of the process, i.e. in the case of Poland since 1990 and in the case of Bulgaria since 1993. The cross-country comparison of the fiscal dimension of privatization has been contingent on the privatization models, priorities and methods applied in both countries.

The research on the fiscal effects of privatization was undertaken by the CASE Research Foundation and the Institute for Market Economy, Sofia, at the request of the Economic Policy Committee of the Bulgarian Parliament. The independent assessment of the fiscal results of privatization the Committee expects to receive will form part of an overall evaluation of the ownership transformation process in the Bulgarian economy and the effectiveness of that process.

This study is to be a follow-up to the previous CASE and IME research and consultancy activities in the area of privatization, both with regard to the Bulgarian and Polish cases and comparative studies.

The general analytical framework for these comparative studies is provided by the report from the international research project entitled "*Privatization in post-Communist countries*", that was carried out under the auspices of the CASE Research Foundation [1].

The changing priorities of the Bulgarian government's privatization strategies, reflected in the varying pace of the country's privatization process to 1998 was analyzed in the report *The Role of the Core Executive in the Privatization Process* [2]. The current study is to verify and update conjunctions between declared priorities, applied strategies and the fiscal effect of privatization.

The description of the various fiscal aspects of privatization will attempt to provide answers to the following questions:

1. To what extent have budgetary revenues been a priority of the privatization programs and strategies in Bulgaria and Poland?

2. What were dynamics of the revenues obtained from privatization in the two countries?

[1] Blaszczyk, Barbara, Richard Woodward, (1996), Privatization in Post-Communist Countries: Experience, Problems, and Conclusions, in: Barbara Blaszczyk, Richard Woodward (Eds.) Privatization in Post-Communist Countries, Warsaw, CASE, Volume I.

[2] Stanchev, Krassen, Luisa Perrotti (1999), The Role of the Core Executive in the Privatization Process, Country Report: Bulgaria, OECD/SIGMA - World Bank Project (Draft), Sofia.

3. What role did specific privatization methods and techniques play in providing revenues?

4. What was the level of concentration of these revenues in the two countries i.e. the share of the proceeds generated by privatization of major providers in total revenues from privatization?

5. What was the role of foreign investments in providing revenues from privatization?

6. What was the share of revenues from privatization in total budgetary income and GDP in the two countries?

7. What form do allocation procedures take?

The evaluation of the fiscal effects of privatization in Bulgaria and Poland has been undertaken in order to:

1. Outline basic privatization procedures and identify links with other fiscal issues,

2. Identify similarities and differences in approaches to the privatization issue,

3. Identify comparable privatization methods and strategies,

4. Assess the "effectiveness" of these comparable methods in providing revenues from privatization,

5. Identify the most commercial privatization schemes and to assess the share of such schemes in generating revenues,

6. Analyze limitations and the chances for increasing revenues from privatization, depending upon methods applied.

There are two factors to justify the work undertaken for this report: the final stage of the privatization process in Bulgaria and in Poland, which provides the ground for generall evaluation, and diverse experience of both countries, in terms of applied approaches to privatization and their fiscal dimensions, which gives the basis for comparison and transfer of know how. We hope that the findings and conslusions will contribute in both countries to the public debate on the progress and results of privatization process as a part of structural transformation.

Summary

Comparison of fiscal dimension of privatization process in Bulgaria and in Poland reveals both similarities and differences.

On the contrary to Poland, where privatization proceeds have been one of the highest priorities of the privatization strategy, fiscal objectives have rarely been referred to as a priority in the modeling and execution of Bulgaria's privatization policy. During the transition period privatization served in Bulgaria two important functions that directly affected fiscal affairs: a) cash inflow into the central budget and various non-budgetary accounts and b) reduction of the national debt through the use of government bonds as legal tender in privatization transactions. Since the very beginning of Bulgaria's privatization process, both these functions have been subject to strict regulation.

The major fiscal objective of Bulgarian privatization has gradually changed from support of different off-budget funds, i.e. different types of public spending, to official debt reduction. The Bulgarian government's intention to use privatization to relieve the national debt burden is strengthened by the possibility of using a variety of government bonds as payment instruments in privatization transactions. The main aim of privatization is currently the reduction of foreign debt. This should apply to the entire cash flow into the central budget, since no Brady bonds have been used as payment instruments in privatization since 1997. Since an early-1999 amendment to the Privatization Act, 90% of the cash revenues from privatization has flowed directly into the central budget (and not to 7 non-budgetary accounts).

The Polish government has adopted a "multi-track" approach to privatization, using various methods which it has been hoped will support the achievement of different objectives. Capital (or indirect) privatization is aimed at providing the greatest revenues to the budget. In analyzing the fiscal dimensions of Poland's privatization strategy for the 1990s, one cannot overestimate the importance of the privatization of the banking sector. This program of privatizing state-owned banks was adopted at the beginning of 1991.

Together with the evolution of a general privatization approaches, the allocation procedures for the revenues obtained in both countries has been subject to subsequent changes.

Under the Polish Privatization Law of July 13, 1990, parliament passes an annual resolution setting out a privatization agenda (referred as "Directions of Privatization") for the Government to follow. Due to increasing importance of revenues from privatization for the state budget, beginning in 1993 these "Directions" were included as an appendix to the Budget Law. From 1990 to 1997, the revenues from privatization were included in the central budget and covered current budgetary needs. Since 1997 incomes from privatization began to be separated from the central budget. This was the result of the consensus that revenues from privatization should not be consumed by current budgetary needs, but should be earmarked to cover the cost of social programs and State Treasury obligations towards Polish citizens.

The Polish "Privatization Program up to 2001", adopted by the Government in 1998, for the first time ever stipulated in a detailed manner the assignment of financial revenues obtained from the privatization process. Of the social programs that are to be financed by revenues obtained from privatization, the pension system reform is the most expensive one. The second program intended to be financed through privatization incomes was the compensation program for 2.95 million employees working in the non-productive State sector at the beginning of the 1990s and 1.3 million pensioners. The restitution program is also to be covered by privatization revenues.

According to the 1999 and 2000 Budget Acts in Bulgaria, allocation of excess revenues is at the discretion of the Council of Ministers. The latter will decide on revenues allocation 'taking into account the execution of privatization programs and the financial restructuring of the real and banking sectors according to the conditions of the three-year agreement with the IMF'.

In early 1993, at the beginning of the privatization process in Bulgaria, the total volume of state-owned long-term assets was estimated to be BGN 580 million (USD 345 million). The total volume of state-owned assets subject to privatization is BGN 383 million (USD 228 million) or 66%

of the total assets under state ownership/control. Prior to 2000, enterprises in infrastructure sectors (energy, transportation, water supply and sewerage systems) were excluded from the scope of privatization. It is estimated that about 30% of long-term tangible assets are held by infrastructure companies that for the time being are not subject to privatization or would prove difficult to privatize. According to the Program for the Privatization of State-owned Companies in 2000, some of these infrastructure enterprises are scheduled for privatization.

The Polish Ministry of Ownership Transformation conducted the first official assessment of the value of State property in 1995. As of 31st December 1994, the book value of the stocks and shares of State Owned Enterprises, State financial institutions, commercialized State Enterprises and companies with partial State Treasury participation was estimated at 75 billion PLN or 30.8 billion USD. The estimated value of the State's productive sector as of 31st December 1997 was twice as much and amounted 150 billion PLN or 42.9 billion USD.

The privatization process in Bulgaria and in Poland has been uneven in terms of both contracted payments and cash revenues.

For the period 1993–1999, the total volume of cash proceeds from privatization in Bulgaria amounts to approximately USD 1 billion. Privatization revenues have registered a continual increase since 1993 along with an increase in the number of transactions and volume of assets privatized. Privatization proceeds were only 0.1% of GDP in the first year of the process, but reached 3.21% in 1997. Privatization's contribution to consolidated budget revenues became relatively significant after 1995, when it reached 1.2% of budget revenues. The contribution was highest in 1997 – 9.9%.

Privatization revenues for the period 1991–1999 in Poland amounted to 11.878 million USD. The most important from the budgetary point of view are revenues from indirect privatization and this share is increasing almost every year. In 1999, the total share of indirect privatization, enterprises plus banks, in total revenues reached 97%. Revenues from indirect privatization are also characterized by the most regular real annual growth rate. Both, the share of privatization revenues in total budget revenues and their share in GDP rises each year. The highest ratio of privatization revenues in Poland was in 1999 and amounted 9.58%.

The payments contracted by the central privatization bodies in Bulgaria have significantly exceeded cash proceeds. On average, cash proceeds were 41% of contractual payments. Since 1998, the annual programs of the privatization have included projected contractual payments. The actual payments contracted significantly exceeded the plan.

Also in Poland for the last 6 years, the government has regularly underestimated privatization revenues in any given fiscal year. The regular underestimation of revenues may suggest that privatization was being treated as a hidden source of budget reserves.

The total share of obligations in privatization revenues in Poland is decreasing. This may be most easily observed in the case of indirect privatization, which drives the total revenues. In the case of direct privatization a prevailing number of the privatized companies have been leased to insiders, what results in deferred payments, similarly to the Bulgarian MEBO buy-outs.

Concentration on revenues by source has been in both countries significant, since almost 44% of the cash proceeds from privatization in Bulgaria have so far come from the top five transactions. Very high is also the level of concentration of privatization revenues in terms of the major revenue providers in Poland. The share of the largest privatization contracts in total privatization revenues tends to increase, especially over the last three years, i.e. 1997–1999.

The greatest number of large privatization transactions in Poland has been performed in the banking sector (6), followed by the tobacco industry (4) and the cement and pharmaceutical industries (3).

The contractual revenues from transactions with foreign investors amounted in Bulgaria to approximately USD 825 million, i.e. 36% of the payments contracted by all central privatization bodies. The volume of foreign direct investments through privatization (including direct payments and liabilities of privatized companies undertaken) was USD 1.14 billion for the period 1993–1999, i.e. 42% of the total FDI volume for the period.

The share of foreign investors in total privatization revenues in Poland has been declining: from 78.7% in 1991 up to 23.3% and 12.5% in 1997 and 1998 respectively. The ratio of revenues from transactions concluded with foreign investors to total foreign direct investments for the last three years did not exceeded 10%, and in 1998 declined even below 5% of FDI volume.

The privatizing agents in Bulgaria contracted the payments using several types of payment instruments, including cash, government securities, vouchers and compensatory bonds (issued against restitution claims). The main feature of all the regulations introduced to deal with the legal, institutional and procedural aspects of the debt-equity swap mechanism in Bulgaria was debt annulment by converting government debt in state assets. The total volume of government bonds actually used as legal tender in privatization amounts to approximately USD 413 million, i.e. about 29% of actual payments (including cash and debt instruments). Almost 2/3 of the total volume of government bonds used in privatization payments has been domestic debt bonds.

The role of payment instruments other then cash would not seem to be an important factor in privatization revenues in Poland. Only at the very beginning of the privatization process, some direct privatization payments were carried out by Polish state treasury bonds.

Direct costs of privatization in both countries are relatively small and constitute a decreasing fraction of privatization revenues. The costs of privatization in Bulgaria were on average 3.7% of the total cash revenues from privatization. The greatest costs have been connected with the implementation of the process, when the cost of the capital privatization in Poland amounted to 21% of privatization revenues, following which the cost began to fall to the level of about 2% in 1998 and 1% in 1999.

Part I
Strategies and Fiscal Objectives of Privatization in Poland and Bulgaria

Privatization considered as a transfer of ownership of state owned assets to the private actors may have various economic, social and political objectives [Bornstein, 1992]. As a rule, the goal of privatization is to maximize some combination of these objectives. The combinations resulting in privatization strategy mix vary among the separate countries and could be subject to changes in each of them.

1.1. The Case of Bulgaria

An analysis of the fiscal aspects of Bulgaria's privatization process is somewhat hampered by the changes that have occurred in the country's priorities and revenue allocation schemes over the last few years. In this period, the government amended its rhetoric and policy-vision vis a vis privatization. However, the overall organization of the institutions governing the process has never been seriously challenged, though it has undergone substantial reform and rationalization in accordance with amendments to the privatization model. The creation of new institutions and the work of existing ones have supported these new approaches.

The first major characteristic of the Bulgarian privatization process concerned its so-called *voucher privatization*. Naturally, this model had very limited fiscal effect. However, its purpose was not mass privatization. This necessitated maintaining conventional privatization as a source of budget revenue. At some point, however, this approach began to contradict the idea of auctioning vouchers for enterprises in relatively good condition. This concept had been put forward since 1990, but it wasn't until 1994 that it took shape under the cabinet of Mr. Berov. Subsequent cabinets have substantially remodeled this originally very liberal project, which first and foremost aimed at reducing government responsibility for the process. It was applied on two occasions: the first time in 1995–1996, under a socialist government and the second time, although in an entirely revised form, under the current government, that took office in April 1997. However, the impact of voucher privatization on the disposal of State-owned assets has been relatively limited.

Preparation of the first scheme began in 1995 but was only conducted between the end of 1996 and the beginning of 1997: notably, when the socialist government then in power, already facing a crisis, was also under considerable pressure from international financial institutions. The process resulted in 85 million shares being offered to the public, over 80% of which were sold.

The second wave of mass privatization began in February 1999. To reflect the government's policy shift, the decision to resort to this method of privatization was based more on the need to accelerate the overall process than, as in the previous case, an attempt to pursue objectives of 'social fairness'.

As mentioned earlier, the second wave of mass privatization was conceived in a radically amended form. Firstly, privatization funds were excluded from the process [3] – although there are several different ways of investing the vouchers (for instance, in pension funds). Secondly, the price at which shares are acquired is not fixed but weighted against the average of all bids. A broad range of payment instruments (including cash) is allowed, vouchers may not be traded and entirely new negotiable instruments ('compensatory bonds') may be issued against claims on formerly nationalized properties, to complement the 'restitution' side of the privatization program. Furthermore, unlike the situation in 1996, there is currently no fixed list of State-owned enterprises to be privatized by this method. Instead, the

[3] In order to participate in this wave of mass privatization, in fact, the earlier funds are required to register as investment intermediaries with the Securities and Exchange Commission.

policy provides for minority stakes (up to 5–10%) of all state-owned enterprises to be offered to the general public at centralized bidding sessions.

It is not clear how such a limited percentage of shares could actually accelerate the privatization process and thus improve overall economic and fiscal performance. Moreover, only 'unattractive' companies are likely to be included in the scheme. It is certainly too early to evaluate the effects of this second wave of mass privatization. Indeed, the government's changing vision has not facilitated the process but, compared to the first wave of mass privatization, has seriously affected economic performance.

Management-employee buy-outs (MEBO) have been the second major component of Bulgaria's privatization approach. The country's privatization law has introduced a special regime for management-employee buy-outs (MEBO) and cash privatization transactions. In general, MEBOs are not a typical phenomenon of any given set of governments, in particular, socialist-led governments. Under the current reform-minded government, recourse to this preferential system has been justified by the need to accelerate the disposal of State's assets [4]. However, the institutional impact has been that such transactions have in fact distributed the rights to re-sell formerly government-owned assets to managers that were appointed by the government itself [5].

It is generally considered that MEBOs fail to maximize fiscal revenues, tend to result in poor corporate management and embody politically acceptable methods of liquidating public enterprises. Indeed, MEBOs are often the solution applied when the firms involved have already accumulated losses that decrease the value of their net assets and therefore, lower the sale price and the revenues that can be expected. Furthermore, the increasing number of MEBOs tends to magnify some of the most powerful constraints on the Bulgarian privatization process: for instance the built-in collateral legislation concerning procedures for hiring and firing the management staff of State-owned enterprises, as well as that concerning the appointment of Board members. Such legislation ultimately enables the management of State-owned enterprises in various ways to obstruct or privatization or make it conditional on other issues. In June 2000, Bulgaria's Prime Minister publicly admitted for the first time that obvious conflicts of interest exist in such privatization methods. The fall in the number of MEBO transactions in 1999 to 43.5% of all privatization transactions is evidence of an awareness that these companies are likely to perform badly in terms of efficiency and competitiveness. Eventually, a market-driven economic system will take shape albeit gradually, once resale through MEBO mediation is discontinued.

The third major feature, a relatively recent innovation, has been the policy of involving so-called 'privatization intermediaries'. This selection of 'privatization intermediaries' from among internationally reputed consulting firms, to perform as 'agents' of the government in the preparation of large-scale privatization transactions constitutes an important and controversial development of the current government's policy. The government decided that the presence of such intermediaries would increase the level of foreign investment, improve privatization results and increase the transparency of sales. Between 1997 and 1999, 170 enterprises were handled by such intermediaries. The 1999 Annual Report on Privatization [6] claims that 'by the end of the year, the privatization process had gained considerable momentum thanks to the privatization transactions handled by consultants and intermediaries that began to predominate by the end of the first six months, due to the approaching contract deadlines imposed under the regulations for the financial sanitation of state-owned enterprises" [7]. However, the report provides little evidence or information that could substantiate an independent judgement.

Doubts have been cast on the procedure for selecting such intermediaries. Furthermore, the contracts binding privatization intermediaries raise doubts about the real intentions behind this policy. Particularly relevant is the fact that, with few notable exceptions, privatization intermediaries do not operate on the basis of a 'success fee'. Rather, their remuneration is in most cases fixed or mixed (partly fixed and partly success fees).

Thus, although intermediaries are constrained by deadlines for the submission of bids for the privatization transactions they are handling, they have no interest in speeding up the process if this results in any reduction of

[4] Privatization Agency, Privatization Strategy and Program, no date (1999), p. 1.

[5] According to the Bulgarian Law (Council of Ministers Decree 7/1994) line ministers are principle of state-owned enterprises; they appoint managers under no competition between management teams, there are no performance guidelines and no venture capital elements of the management itself. The tradition has been that every new cabinet appoint new managers thus benefiting its party affiliates, paying back for loyalty and past political services.

[6] This report (the full title: A report on the Result of the Program to privatize State-owned Enterprises in 1999), was compiled by the Privatization Agency and accepted by the Council of Ministers on March 28, 2000 (Decision 150/2000) is not yet publicly available, and, by the time of compilation of this draft, is still pending hearings in the Parliament.

[7] Report on the Result of the Program to Privatize State-owned Enterprises in 1999, p. 17.

their own returns [8]. On the other hand, the intermediaries that we consulted expressed concern that they were being treated as 'scapegoats' by the relevant decision-making authorities. In fact, intermediaries are charged with preparing the sale of enterprises grouped into industrial 'pools' listed by sector (i.e. metallurgy, tourism, chemicals, etc.). However, they have no authority to 'sign' agreements. These must be submitted for approval to the privatization agency and in the case of the country's 'blue chips', to the Council of Ministers.

None of the above mentioned three components constituted the major source of revenues from privatization. The major source were the negotiations and tenders and to a lesser extent the auctions and the public offers on the Stock Exchange.

The Privatization Act of May 8th 1992 outlines the possible ways of privatizing state-owned and municipal companies. There are six possible procedures for selling majority stakes in whole companies:

– Auction.

– Competitive tender.

– Direct negotiations with potential buyers.

– Public offer of stocks on the Stock Exchange.

– Centralized voucher auctions.

– Sale to insiders without tender or auction (in accordance with Article 35 of the Privatization Act).

This Act gives preference to participation by insiders, as this allows for deferred payment (up to 10 years) when the selected buyer is a management-employee company. Moreover, this allows managers and employees to buy up at preferential terms up to 20% of the shares of the company in which they are employed.

In the years under consideration, the total number of transactions increased progressively, a development that reflects the increasing commitment of the government to privatization. It is however important to point out that in spite of the above mentioned features, the privatization process has been uneven in terms of both contracted payments and cash revenues. The slowdown in the mid-1990s for example, requires a twofold explanation: on the one hand, this corresponds to a change in the administration, following the general elections of December 1994. On the other hand, whilst few cash-based privatization transactions were concluded in that year, 1995 marked the preparation of the first mass privatization program, which constituted an important turning point in policy, as described earlier.

Together with the evolution of a general privatization approach, the allocation procedure for the revenues obtained has been subject to subsequent changes. According to the 1999 and 2000 Budget Acts, allocation of excess revenues is at the discretion of the Council of Ministers. The latter will decide on revenues allocation 'taking into account the execution of privatization programs and the financial restructuring of the real and banking sectors according to the conditions of the three-year agreement with the IMF' [9].

Finally, it is important to point out that until the end of 1996, virtually all the larger state-owned enterprises were considered 'strategic' and therefore not subject to privatization. At present, the long-postponed privatization of such firms is a high priority on the government's agenda. However, it is difficult to foresee the overall outcome of these privatization transactions. This is because some of the largest enterprises in this group (in terms of capital and manpower) are on the brink of bankruptcy and likely to be privatized at 'nominal prices', whilst others are more profitable and expected to provide the budget considerable revenue.

Fiscal objectives have rarely been referred to as a priority in the modeling and execution of Bulgaria's privatization policy. Privatization was and still is perceived as a process of politically determined property transfer that should entail the lowest possible social costs. Although this is not explicitly emphasized in the government's programs, the ultimate aim of privatization is a restructuring of former state-owned companies rather than record-breaking fiscal surpluses or a reduction of the national debt.

However, during the transition period privatization served two important functions that directly affected fiscal affairs: a) cash inflow into the central budget and various non-budgetary accounts and b) reduction of the national debt through the use of government bonds as legal tender in privatization transactions. Since the very beginning of Bulgaria's privatization process, both these functions have been subject to strict regulation and thus fiscal objectives have been an attributing, though not determining factor of Bulgarian privatization.

Although the allocation procedure lost some of its clarity following the 1999 amendment, public officials from the Ministry of Finance emphasize that (from the fiscal point of view) the main aim of privatization is currently the reduction of foreign debt. This should apply to the entire cash flow into the central budget, since no Brady bonds have been used as payment instruments in privatization since 1997. Interestingly, in planning the fiscal year Ministry of Finance the uses two methods for planning revenues from privatization:

[8] For instance, the Privatization Agency expected to see finalized by 1999 'most part' of the first 30 companies offered for sale through privatization intermediaries in 1997 and 1998, whilst only six transactions had been concluded between 1998 and early 1999 (Privatization strategy and Program, p. 3), while the recent report (March 2000) does not disclose any specific information on this matter.

[9] However, none of the institutions we asked to share their vision (including the head of the IMF mission to Sofia) on allocation of provisional 2000 exceeding revenues could provide reliable information.

– According to the first approach, the Ministry of Finance arrives at its own estimate of how much is needed for the current covering of foreign debt and this is duly sent to the Privatization Agency.

– The second approach begins with the Privatization Agency, which presents a program (for which it has three methods of preparation) before Parliament. Since 1996, these programs include the volume of expected contractual payments and the expected cash inflow from privatization into the consolidated budget. Following its approval, the program is submitted to the Ministry of Finance.

However, it is not clear whether the Privatization Agency considers the estimate sent by the Ministry of Finance before presenting its own program to the Parliament.

The government's intention to use privatization to relieve the national debt burden is strengthened by the possibility of using a variety of government bonds as payment instruments in privatization transactions. These include two types of Brady bonds, as well as 5 types of long-term domestic debt bonds (all of which are described in detail below). The ratio of cash payments to debt instruments, to which privatization agents must adhere when negotiating payments, is announced annually in the privatization programs [10]. This ratio was 50:50 in 1996, since when it has been 30:70.

Thus, the major fiscal objective of privatization has gradually changed from support of different off-budget funds, i.e. different types of public spending, to official debt reduction. The most important events influencing this change were the following:

– In 1997, the *ratio of debt instruments to cash payments*, to which privatization agents must adhere when negotiating payments, was raised from 50:50 to 70:30.

– Since 1997, every year a certain group of companies must be privatized only against cash payments; 96% of these proceeds is used for official debt reduction.

– Since an early-1999 amendment to the Privatization Act, 90% of the cash revenues from privatization has flowed directly into the central budget (and not to 7 non-budgetary accounts).

1.2. The Case of Poland

The principal goal underlying Poland's privatization strategy, as declared at the very beginning of the process, was to improve resource allocation [Lewandowski, 1994]. Other objectives of privatization were to:

– distribute property rights among the Polish population,

– develop a Stock Exchange and capital markets through initial public offers,

– improve the performance of enterprises by means of restructuring, leading to a more efficient use of equity, labor and management skills,

– reduce the size of the public sector and the burden on the public budget and administration,

– generate revenues for the state and municipal budgets [Lewandowski, 1994; Pater, 1995].

The Polish government has adopted a "multi-track" approach to privatization, using various methods which it has been hoped will support the achievement of different objectives. The Act of July 13th, 1990 on the Privatization of State Enterprises constituted a compromise between a number of different concepts [Błaszczyk and Woodward, 1997].

The first method, called capital (or indirect) privatization, which is aimed at providing the greatest revenues to the budget, is used for the privatization of larger state-owned enterprises. Capital privatization consists of two stages. In the first of these, the enterprise is 'commercialized' or incorporated (that is, transformed into a joint-stock or limited liability company). For the time being, all the company's shares remain the property of the State Treasury. In the second step, shares in the newly established companies are made available to private investors through public offers, tenders or negotiations following a public invitation.

The second method, referred to as liquidation (or direct) privatization, is applied to small and medium-sized companies in relatively good financial standing. Privatization by liquidation involves transfer of the enterprise's assets to private investors. According to the law, there are three main options for privatization of the whole or part of the company under this method: (1) sale of assets; (2) in-kind contribution of the assets to the newly created company; and (3) leasing of assets to either the company created by the management and employees of the liquidated SOE or to a third party (private individuals only).

According to the Privatization Law of July 13th, 1990, in those cases where commercial methods were used (referred to in Poland as capital, or indirect, privatization) employees had the right to acquire up to 20% of their company's shares at a preferential price (50% of the issue price). In cases of liquidation, or direct privatization in which the leasing method was used, employees had priority over all other bidders.

In August 1996, a new privatization law was adopted [Blaszczyk and Woodward, 1997]. The new law grants employees a more privileged position with respect to the acquisition of shares in companies undergoing privatization

[10] Adopted with Decisions of the National Assembly.

through an indirect method. Employees may acquire up to 15% of the shares in their companies free of charge. A further 15% is available free of charge to any farmers or fishermen that supply a given company on a permanent basis. Former employees on retirement or disability pensions also have the right to obtain shares from this pool. The shares acquired free of charge may not be sold for two years following acquisition and for three years in the case of managerial employees. The law also gives the government the right to extend these periods.

As for so-called direct privatization, the new law allows 'outsiders' to put forward privatization initiatives without the need to seek the approval of 'insiders'; however, it also reduces the number of enterprises eligible for this type of privatization by introducing very low ceilings on the size of enterprises considered eligible [11]. Additionally, while the employees of the enterprises privatized according to this method do not receive a complimentary 15% of the shares, as in the case of capital privatization, under the new law they may receive the equivalent thereof paid to their accounts in the company's social fund.

Over the entire course of privatization in Poland, the procedure for liquidation under the State Enterprise Law of 25 September, 1981 has also been used. This procedure is aimed at meeting the claims of creditors of liquidated SOEs with poor financial standing and thus its fiscal effect is only marginal.

Other privatization schemes have subsequently been added and two of these are important, although not with regard to their direct fiscal effects: (1) the Polish model of mass privatization referred to as the National Investment Funds (NIF) Program and (2) various types of debtor-creditor arrangements under the Act of 3 February, 1993 on Financial Restructuring of Enterprises and Banks, allowing for conversion of debt into equity.

The Mass Privatization Program (MPP) was developed by the Ministry of Ownership Transformation in mid-1991. The Act on National Investment Funds (NIF), which is a modified MPP, was finally adopted in April 1993. This law provides the legal basis for the Polish Government to establish National Investment Funds, to contribute to those funds the shares of the former SOEs transformed into joint stock companies, to appoint professional management for the funds and to distribute to the Polish public share certificates, allowing them to acquire a portion of national assets represented by their NIF shares for a price of 20 PLN (in late-1995, slightly over 7USD). It was intended that the NIF program would accelerate the pace of privatization. Commenced in early 1995, the NIF Program has finally reached its implementation stage. 512 enterprises were selected for the program, in which 15 NIFs were to participate. The distribution of share certificates began in November 1995 and was completed in November 1996. According to official data, these were distributed to 25.889 million persons, constituting the vast majority of those entitled to receive the share certificates. Of all the share certificates distributed, as many as 98.68% have been cashed or exchanged for NIF shares. By the end of the distribution period, the original registration fee was seven to eight times lower than the market value of the share certificate [12].

In analyzing the fiscal dimensions of Poland's privatization strategy for the 1990s, one cannot overestimate the importance of the privatization of the banking sector. This program of privatizing state-owned banks, separated in 1989 from the National Bank of Poland (NBP), was adopted at the beginning of 1991 [Borowiec, 1996]. According to the program, two to three commercial banks were to be privatized each year starting in 1993, through the following share distributions:

– 30% – to domestic investors,

– up to 20% – to the employees of the banks under privatization, under preferential terms,

– 20 to 30% – to foreign investors,

– 30% will remain in the hands of the State Treasury, including 5% for restitution claims.

The legal framework for the program's implementation was introduced in April 1992 as an amendment to the Banking Law.

Under the Polish Privatization Law of July 13, 1990, Parliament passes an annual resolution setting out a privatization agenda (referred as "Directions of Privatization") for the Government to follow. Due to increasing importance of revenues from privatization for the state budget, beginning in 1993 these "Directions" were included as an appendix to the Budget Law.

From 1990 to 1997, the revenues from privatization were included in the central budget and covered current budgetary needs [13]. Since that time, funds obtained from privatization began to be informally partly separated from the central budget. This was the result of an "unwritten" agreement reached by the Poland's main political forces in the mid 1990s. The largest political parties agreed the to the consensus that revenues from privatization [14] should not be consumed by current budgetary needs, but should be

[11] Under the new law only enterprises employing up to 500 persons the annual sales of up to ECU 6 million and own funds of up to ECU 2 million may be privatized using the direct privatization methods.

[12] Informacja o Programie Narodowych Funduszy Inwestycyjnych (Information on National Investmens Program), Ministerstwo Skarbu Państwa, Październik 1999.

[13] See section on revenues in Poland.

[14] Especially from the big privatization programs such as privatization of the telecommunication or oil and energy and banking sectors.

earmarked to cover the cost of social programs and State Treasury obligations towards Polish citizens. Politicians realized that without that source of financing, the central budget would not be able to cover the long-term cost of the social programs agreed upon by the political parties (pension reform and restitution and compensation programs). On the other hand, there was no agreement between the parties on how the programs should be designed and to what extent funds obtained from privatization should support particular programs. For example, left-wing parties focused more on compensation programs, almost entirely rejecting the restitution program. This was just the opposite of the right wing parties' political preferences.

In effect, the consensus became the basis for and clearly determined the strategic goals of Poland's privatization for the years to follow.

Before that time, the strategic goals for the privatization process have yet to be clearly formulated. This was due to the fact that expectations connected with privatization were enormous. At the beginning of the transformation of Poland's economy, it was presumed that the privatization process would increase the effectiveness and competitiveness of privatized companies, assist in the formation of a capital market, cover the budgetary deficit, help in repayment of the foreign debt and lastly, meet social expectations through distribution of the shares of the privatized companies among Polish citizens and the employees of the privatized companies. This meant the lack of any coherent privatization strategy, since some of these goals were plainly contradictory and this had an adverse effect on the speed, quality and scope of the privatization process in Poland [15].

At present, one may assume that the main political forces in Poland are agreed that the main goal of privatization in Poland is the maximization of revenues. In fact, the newly formulated privatization strategy in Poland has allowed privatization of sectors that, since the beginning of transformation, were practically excluded from the process by the politicians (e.g. the coal mining, energy, oil, chemical and transportation sectors).

The "Privatization Program up to 2001", drawn up by the Ministry of the Treasury, for the first time ever stipulated in such a detailed manner the assignment of financial sources obtained form the privatization process. According to this program, the financial resources needed to cover the cost of the social and compensation programs to 2001 were estimated at 75 billion PLN. It was planned for all these funds to be obtained from the privatization process. Table 1-1 presents the assessment of the costs of the particular social and compensation programs included in "Privatization Program up to 2001".

Of the social programs that were to be financed by funds obtained form privatization, presented in the "Privatization Program to 2001" and that are now in the process of completion, the pension reform was at that time the most expensive [17]. The main goals of Poland's pension reform were a rationalization of the current pay-as-you go system and a partial replacement with funded elements. The crisis in the Polish social security system became obvious to all in the 1990's. The difficulty that arose in assuring the financial sustainability of the system was due to the simultaneous occurrence of:

– a sudden increase in the number of new pensioners in the beginning of the 1990's,

– a decrease in the number of contributors as a result of declining employment,

– a marked growth in the real value of pensions compared to real compensations, due to an indexation mechanism favoring pensioners and a broadening of the privileges for special groups of workers.

As the result, the whole system became dependent on state budget subsidies, which rose to over 6% of GDP in 1992–1994. The prognosis for the public costs of retire-

Table 1-1. Assessment of the costs of the social and compensation programs to be financed by privatization revenues

No.	Program	Cost in PLN billions	Cost in USD[16] billions
1.	Financial support for pension reform to 2005 - to 2001	54.0 20.3	15.35 5.77
2.	Compensation program for non-productive State sector employees and pensioners	20.0	5.69
3.	Restitution (re-privatization) program	17.0	4.83
4.	Non-equivalent privatization	8.0	2.27
5.	Incomes aimed at budgetary needs in 1998	6.8	1.93
6.	Other programs (e.g.- restitution of trade union property confiscated by the communist regime in 1981)	3.1	0.88

Source: "Privatization Program to 2001", Ministry of the Treasury, 1998

[15] B. Błaszczyk "Prywatyzacja w Polsce po sześciu latach – osiągnięcia, opóźnienia i pożądane kierunki", Raport CASE nr 9, CASE, 1997.

[16] The average exchange rate of the National Bank of Poland as of 31st December 1997 – 3,5180 PLN/USD.

[17] On the other hand, among the social programs, the pension reform seems to be the most needed and the most challenging one.

ment and disability benefits clearly showed that within the framework of the "old" pension system, these expenses would increase to 22% of GDP by the year 2035 [18]. As a result, the introduction of a funded system was the only solution for overburdened public finances, an aging society and the need for lifelong incomes.

The reform was implemented on January 1, 1999. According to the program, the cost of pension reform to 2001 was estimated at 20,3 billion PLN and to 2005 at 54 billion PLN.

The second program intended to be financed through privatization incomes was the **compensation program** for 2.95 million employees working in the non-productive State sector at the beginning of the 1990s and 1.3 million pensioners. This was a result of the verdict handed down by the Constitutional Court. In accordance with the agreement between the Government and the trade unions [19], in 1991 and 1992 the salaries of state-owned non-productive sector employees, the financial privileges for special working groups (e.g. soldiers) and pensions were not indexed. This was due to the economic situation (especially fiscal position) in Poland being catastrophic at the time. Finally, the trade unions put and their case to the Constitutional Court and won. In June 1998, the Ministry of the Treasury estimated the cost of the program at 19 billion PLN. The program was begun in March 2000 and will be completed by 2004. Initially, it was intended for payments to be made in the form of compensation certificates but in the end, the Government decided that payments would be made in cash [20].

The "Privatization Program up to 2001" also reserved funds for the **restitution program**. This program is also to be covered by privatization revenues. The government decided to reserve17 billion PLN to the year 2001 in order to meet restitution claims in the form of re-privatization certificates exchangeable for State shares or stocks in privatized companies or commercialized companies. The Government decided that the total sum of the fund set aside to meet indirect restitution claims would reach 40 billion PLN [21]. Parliament has still not decided the scope and form of the restitution program.

As a result of the above, the overall cost of the program is still unknown. However, it can safely be said that it could prove the most expensive program among all those financed by privatization revenues. The most serious disputes concern the scope of the program. There have been more than 170 thousand restitution claims. The total value of claims presented by former owners has been estimated at 198.4 billion PLN. According to the Ministry of the Treasury, the real value of all restitution claims amounted to 110–130 billion PLN. The Administration is forcing the scenario of a partial (50 percent) fulfillment of restitution claims submitted by former owners, which means that the cost of the restitution program would amount to 60–70 billion PLN. However, the unions and the associations of former owners do not wish to agree to this compromise solution. The position of the former owners is supported by European Law.

It is crucial that this issue be solved before entering the EU, in order to avoid a scenario where the central and the local budgets would be forced by European Law to meet the restitution claims in full (such a scenario would have an unimaginably catastrophic impact on public finances).

[18] Piętka K., Petru R., "Reform of the Social Security System in Poland", Warsaw, July 1997, CASE.

[19] And what is more important voted by the Parliament.

[20] The program is serviced by the largest, State saving bank PKO BP.

[21] It concerns only the restitution claims, which wouldn't be able to meet through the return of the property taken away by the communist's regime.

Part 2
Evaluation of State-owned Assets

2.1. The Case of Bulgaria

In early 1993, at the beginning of the privatization process in Bulgaria, the total volume of state-owned long-term assets was estimated to be BGN 580 million (USD 345 million) [22]. The total volume of state-owned assets subject to privatization is BGN 383 million (USD 228 million) or 66% of the total assets under state ownership/control.

Prior to 2000, enterprises in infrastructure sectors (energy, transportation, water supply and sewerage systems) were excluded from the scope of privatization. It is estimated that about 30% of long-term tangible assets are held by infrastructure companies that for the time being are not subject to privatization or would prove difficult to privatize, such as the National Electric Company, Bulgarian State Railways, forests, ports, etc. According to the Program for the Privatization of State-owned Companies in 2000, some of these infrastructure enterprises are scheduled for privatization [23].

There are basically two approaches to measuring privatization of state-owned assets in Bulgaria. The first one is the methodology applied by the Word Bank, according to which a company or the assets of a given enterprise are considered privatized when 67% of its shares are transferred from public to private ownership [24]. The methodology of the Privatization Agency considers the company and its assets privatized when 51% of shares are in private hands.

Between 1992 and June 30, 1995, just 2.6% of total state-owned assets were transferred to private hands. By mid-1995, the total volume of state ownership in 3,510 enterprises, in terms of fixed assets, amounted to BGN 564 million. This accounts for up to 64% of the 1995 [25] GDP.

A significant acceleration in almost all forms of privatization can be observed in late-1996 and 1997. In 1996, the voucher privatization scheme was launched. Preparation for the first wave began in 1995, but was only completed between the end of 1996 and the beginning of 1997. According to the Government Program for Mass Privatization, stakes varying between 10 and 90% of shares in 1,050 state-owned enterprises were included in a list of companies to be privatized through the voucher system. 10% of every stake offered was to be transferred free to the company's workers and managers; the remaining 90% was to be offered to the public through centralized public auctions [26]. As a result of this process, some 85 million shares were offered to the public, of which over 80% were sold. However, the relative impact of mass privatization on the disposal of state-owned assets is considered to be limited. With regard to the relative effect of the first wave of mass privatization on the total value of long-term assets owned by the state, available sources provide somewhat contrasting figures: some indicate a relative impact of 7–9%, while others report a slightly higher percentage of 11–13%. In all cases, the official figures [27] on the total impact of

[22] The book value of the state-owned assets is as of 31 December 1995. Due to the galloping inflation in 1996–1997 and the brief hyperinflation period in early-1997, the figures were re-estimated in late-1997.

[23] For example, such infrastructure companies scheduled for privatization are: companies for production and distribution of electric power (hydro-electric power stations, thermo-electric power stations, regional companies for electric power distribution,etc.), coal-mining enterprises, detached manufacturing units of Bulgarian State Railways, etc.

[24] Following Bulgarian Trade Law, which proclaims that 67% are needed for full control over a company.

[25] At current prices.

[26] Three separate bidding sessions took place in late-1996 and early-1997.

[27] A report on the Result of the Program to privatize State-owned Enterprises in 1999.

Table 2-1. The Privatization Agency's Figures for State-owned Long-term Assets at the beginning of 1999 (book value as of December 31, 1998) [28]

	Majority stakes	Long-term assets (million BGN) as of 31.12.1995	% of the total volume of state-owned assets (BGN 580 million)
1. Cash privatization	163	55.218	9.54
2. Via intermediaries	126	103.886	17.9
2.1. Pools	73	15.167	2.6
2.2. SARA Pool	26	1.699	0.3
2.3. Consultants	27	87.020	15
3. For liquidation	19	3.263	0.6
Total	*308*	*162.367*	*28*

Source: Privatization Agency

Table 2-2. The (%) share of state-owned assets privatized by years

	1993	1994	1995	1996	1997	1998	1999	Total
Assets subject to privatization	0.56	2.47	1.62	6.19	27.81	6.80	25.79	71.24
Total state-owned assets	0.37	1.63	1.07	4.09	18.36	4.49	17.03	47.04

Source: Privatization Agency

mass privatization, including minority stakes, indicate 14.6% of the total volume of state's assets.

Indeed, 1999 saw the most significant progress in privatization since the beginning of the process. 1,225 transactions were completed, a record compared to previous years. The volume of de-nationalized assets in 1998 was about BGN 79.14 million, which is 13.63% of the total assets subject to privatization. 11.46% of them were sold by the Privatization Agency, 0.96% by Ministry of Trade and Tourism, 0.37% by the Ministry of Industry and 0.33% by the Ministry of Regional Development and Public Works.

The overall result of both cash and mass privatization in terms of long-term assets sold from the beginning of the process until the end of 1999 differs according to the two methods of measuring privatization of state-owned assets.

According to the estimates using World Bank methodology, the total volume of long-term tangible assets privatized over the period is BGN 184 million, i.e. 31.7% of the total volume of state-owned assets and 48% of the assets subject to privatization (BGN 383 m). These results are quite different from those of the Privatization Agency.

According to the Privatization Agency, the assets privatized to the end of 1999 amount to BGN 268 million, which is significantly higher than the World Bank estimate. If we accept these figures, the relative value of privatization against the total value of the long-term assets is 47%. Respectively, the share of already privatized assets in the total assets subject to privatization is 71%.

2.2. The Case of Poland

The Ministry of Ownership Transformation conducted the first official assessment of the value of State property in 1995 (and at the same estimated the potential revenues to be obtained from privatization). As of 31st December 1994, the book value of the stocks and shares of State Owned Enterprises, State financial institutions, commercialized State Enterprises and companies with partial State Treasury [29] participation was estimated at 75 billion PLN or 30.8 billion USD (see Table 2-2). However, this estimate was not comprehensive as it covered only the productive sector [30]. It also did not take into consideration potential income from the sale of municipal property (this aspect is especially important when analyzing restitution claims).

Following the parliamentary election won by the Action for Solidarity Election (Akcja Wyborcza Solidarność) and the Union of Freedom (Unia Wolności) parties in September 1997, a much more comprehensive and detailed estimate of state-owned property was carried out by the Ministry of State Treasury. This study included not only the value of the

[28] Excluding 39 enterprises, which are difficult for privatization. Their long-term assets amount up to BGN 205 million, or to 35.43% of the total state-owned assets.

[29] In that case only the value of the stocks and shares in the hands of the State Treasury was taken into consideration.

[30] Productive sector includes also the financial sector.

Table 2-3. The book value of property owned by the State as of 31st December 1994

	Value in billion PLN	Value in billion USD [31]
State Owned Enterprises		
- equity	34.9	14.3
- 2/3 of profits	1.6	0.7
Commercialized State Enterprises		
- equity	21.3	8.7
- 2/3 of profits	2.3	0.9
Financial Institutions (11 banks and 3 insurance companies)		
- equity	9.6	3.9
- 2/3 of profit	0.7	0.3
Market value of stocks owned by the State Treasury and listed on the Warsaw Stock Exchange	1.8	0.7
Companies with partial State Treasury participation	1.3	0.5
25% of the value of the companies included in the MPP program	1.5	0.6
TOTAL	75	30.8

Source: "Directions for Privatization of State Property in 1995", Council of Ministers, Warsaw, 1996

State's productive sector but also assessed the value of the State sector's non-productive property (e.g. lands and forests, buildings and facilities of State administration and State organizational units and the property of higher education institutions). These estimates were included in the "Privatization Program up to 2001" prepared by the new Government. The Council of Ministers adopted the program on 14th July 1998. It should be emphasized that the program presented not only a schedule for the privatization activities of the new government and an assessment of the value of State property, but also allocated the revenues obtained from privatization. In fact, it was the first official government document to balance potential revenues from privatization of State property with the potential cost of the social and compensation programs to be financed from the same.

According to the program, as of 31st December 1997, the value of State property (not including the value of natural resources and national cultural property) amounted to 604.3 billion PLN (almost 172 billion USD [32] – see Table 2-4). Comparing the value of the State's productive sector estimated by the Ministry of Ownership Transformation in 1995 with the figure estimated by the State Treasury in the Program, we may observe an enormous difference. The estimated value of the State's productive sector as of 31st December 1997 was twice as high as the estimate made in 1995 (respectively 150 [33] and 75 billion PLN). Analyzing the values of State proper-

Table 2-4. Value of State property as of 31st of December 1997

	Type of property	Value in billion PLN	Value in billion USD [34]
1	Lands and forests	117.8	33.5
2	River routes, canals and dams	287.2	81.6
3	Buildings and facilities of state administration and state organizational units	41.4	11.8
4	Stocks and shares of the State Treasury	81.7	23.2
5	Property of state agencies	19.3	5.5
6	Property of state-owned enterprises [35]	50.1	14.2
7	Property of higher education institutions	3.7	1.1
8	Other	3.1	0.9
9	TOTAL (1-8)	604.3	171.8

[31] The average exchange rate of the National Bank of Poland as of 31st December 1994 – 2,3173 PLN/USD.

[32] The average exchange rate of the National Bank of Poland as of 31st December 1997 – 3,5180 PLN/USD.

[33] Into a productive sector I included shares and stocks belonged to the State Treasury, the property of State Agencies, the property of State Owned Enterprises.

[34] The average exchange rate of the National Bank of Poland as of 31st December 1997 –3,5180 PLN/USD.

[35] The value of the State Owned Enterprises (SOE) was estimated on the base of the net assets value of the SOE (assets minus liabilities).

ty as estimated in 1995 and 1998, the clear conclusion must be drawn that any comprehensive estimate of State property values should be treated with caution and a wide margin should be left for errors and omissions.

In its "Privatization Program up to 2001", the Ministry of the Treasury "reserved" the following components of State property to cover the cost of the compensation and restitution and social programs to be financed by privatization revenues:

– stocks and shares of the State Treasury – 81.7 billion PLN,

– property of state-owned enterprises – 50.0 billion PLN,

– property of the State Treasury that can be transferred-within the restitution scheme – 31.2 billion PLN,

– municipal property that can be transferred within the restitution scheme– 69.7 billion PLN.

The total value of State property earmarked to cover the cost of the compensation and restitution and social programs was estimated by the Ministry of the Treasury in the "Privatization Program to 2001" at 232,6 billion PLN.

Many economists express the opinion that the forecasted value of State property presented in the "Privatization Program to 2001" was extremely optimistic. There are several arguments backing this view. Among these the most important are the following:

– According to the Central Statistics Office, many of the companies that are to be used as "collateral" for the restitution claims are permanent loss-making enterprises that will have to be sold at a price below their book value (some of these enterprises will even have a negative market value - e.g. companies that will be liquidated or enter bankruptcy procedures).

– In view of past and present experience in the field of ownership transformation as well as the quality of the State portfolio (the financial and competitive position of the companies to be privatized), one cannot be certain that these enterprises will be privatized even within the next ten years.

– Some enterprises considered by the "Privatization Program to 2001" as a source of potential privatization revenues have already been excluded from the privatization process ("Lasy państwowe" can be used as an example, the value of the enterprise being estimated at 12 billion PLN).

– Municipal authorities will block any attempts to use their property as a means of meeting restitution claims, especially where the property is already used as collateral for credit or bonds.

To summarize, it would seem that the potential incomes to be obtained from privatization of State property as presented in the "Privatization Program up to 2001" were overvalued. The State Treasury will probably never obtain such large revenues from any form of privatization process (or through the return of assets to former owners).

Part 3
Dynamics of Fiscal Effects of Privatization

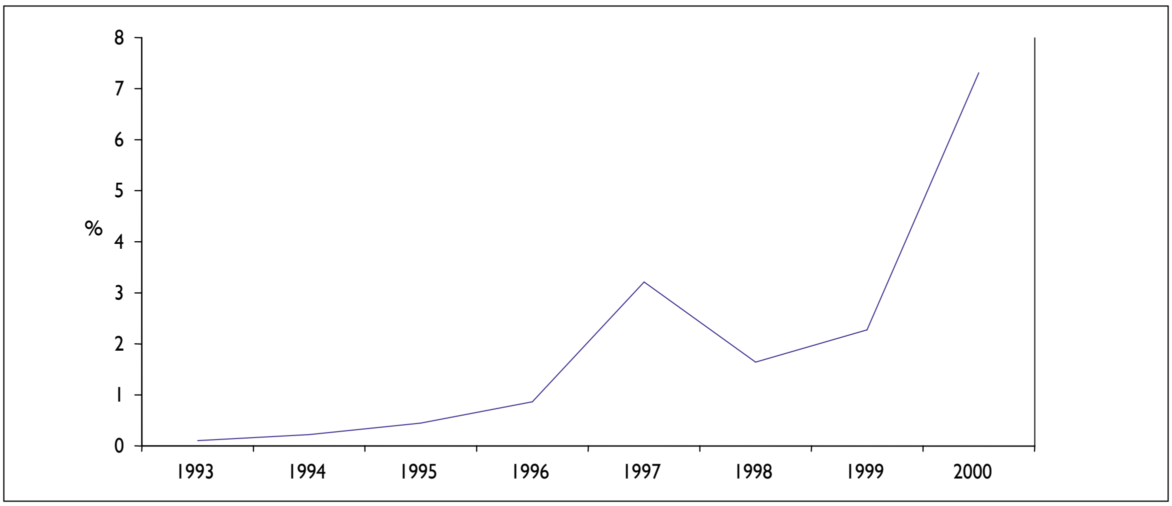
3.1. The Case of Bulgaria

In analyzing the fiscal dimensions of privatization, we may distinguish three important categories of the financial effects of privatization. The first is the volume of payments contracted by the central privatization bodies, including cash and other means of payment. The second is the volume of actual payments in privatization transactions. Finally, we have cash proceeds from privatization, which represent only the flow of money into the central budget and various non-budgetary accounts. In this section, emphasis falls on cash proceeds from privatization.

For the period 1993–1999, the total volume of cash proceeds from privatization amounts to approximately USD 1 billion [36]. Privatization revenues have registered a continual increase since 1993 (with the exception of 1997, when only three transactions brought revenue of more than USD 280 million) along with an increase in the number of transactions and volume of assets privatized.

Privatization proceeds were only 0.1% of GDP in the first year of the process, but reached 3.21% in 1997. In the graph below, the expected privatization of the Bulgarian Telecommunications Company is included in the forecast for 2000 [37]. If this indeed takes place, the cash proceeds from privatization for that year will be over 7.3% of GDP.

Figure 3-1. Cash Proceeds from Privatization as a percentage of GDP



Source: Ministry of Finance, National Statistics Institute

[36] Estimated through the yearly average BGN/USD exchange rates.

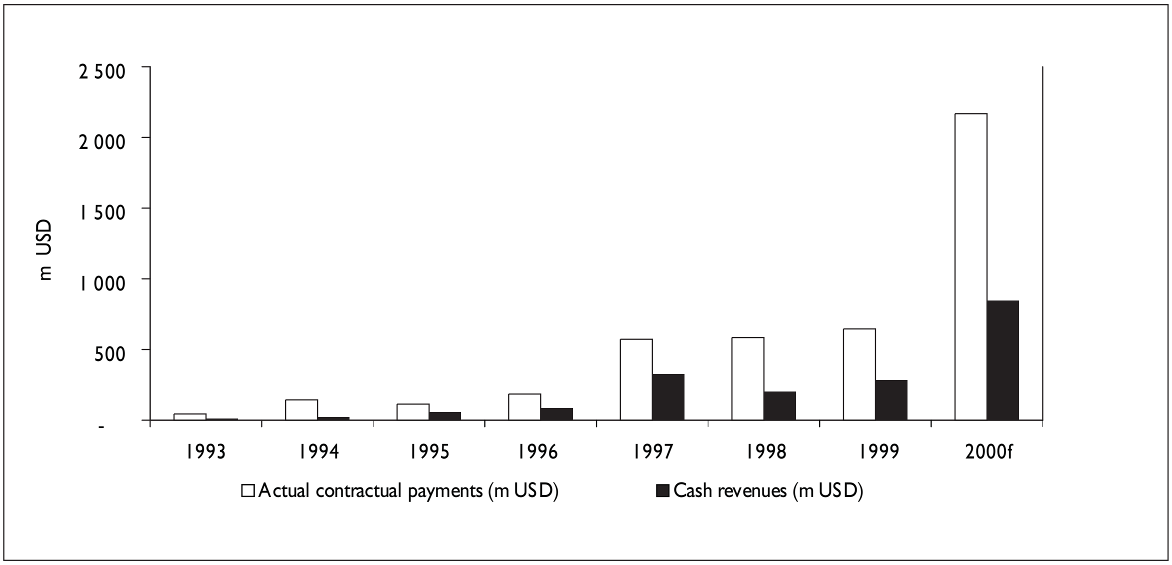
[37] It is most likely that BTC will be privatized in 2000 for the government has undertaken such commitment before the International Monetary Fund. The one and only offer so far was submitted by the Greek-Dutch consortium OTE/KPN, which proposed a price of USD 700 million. The price is to be paid entirely cash.

Table 3-1. Contractual Payments vs. Cash Proceeds in Bulgarian Privatization (million USD)

Year	1993	1994	1995	1996	1997	1998	1999	2000
Payments contracted	44	144	114	185	572	585	646	2.168
Cash proceeds	11	21	59	85	325	201	283	847

Source: Privatization Agency, Ministry of Finance

Figure 3-2. Contractual Payments and Cash Proceeds from Privatization



Source: Privatization Agency, Ministry of Finance

Privatization's contribution to consolidated budget revenues became relatively significant after 1995, when it reached 1.2% of budget revenues. The contribution was highest in 1997 – 9.9% – and is expected to be approximately 18% in the year 2000.

The payments contracted by the central privatization bodies have significantly exceeded cash proceeds. In the graph below, both are represented in USD in order to eliminate the effects of domestic currency depreciation. On average, cash proceeds were 41% of contractual payments. The main reasons for this were:

– extensive use of debt instruments as legal tender in privatization,

– the deferred payment schemes (up to 10 years) used in MEBOs,

– the rapid depreciation of the domestic currency, in which most of the contracts before 1998 (i.e. years of galloping and hyperinflation) were signed.

Since 1998, the annual programs of the Privatization Agency have included projected contractual payments. In both years, the actual payments contracted significantly exceeded the plan. Even in the program for the year 2000, only 663 contractual payments are envisaged although USD 700 million is being offered for BTC alone. A possible explanation for this mismatch is the government's fear of huge budget deficits due to planned but unrealized privatization proceeds. However, it is the cash proceeds that directly affect the budget rather than the contractual payments, which remain in the programs.

Table 3-2. Planned and Actual Contractual payments

	Payments contracted (million USD)	
Year	Planned	Actual
1998	373	585
1999	548	646
2000	663	2 168

Source: Privatization Agency

Table 3-3. Contribution by Various Privatization Bodies to payments contracted (1993 - 1999)

Body	**Share (%)***
Privatization Agency	53.8
Ministry of Economy**	27.6
Ministry of Regional Development and Welfare	8.4
Ministry of Agriculture and Forests	6.1
Ministry of Transport and Communications	3.9
Ministry of Health	0.6
Ministry of Culture	0.1
Ministry of Education and Science	0.02
Energy and Energy Resources State Agency	0.1
Total	*100.0*

Note: * Share of revenues in current year in BGN
** Before late-1999 the Ministry of Economy was two bodies: the Ministry of Industry and the Ministry of Trade and Tourism
Source: Privatization Agency

In the majority of contractual payments, the largest share was held by the Privatization Agency, as it was responsible for the sale of the largest (in terms of long-term tangible assets) enterprises. The remaining central privatization agents altogether contracted 46% of the revenues.

The privatizing agents contracted these payments using several types of payment instruments, including cash, government securities, vouchers and compensatory bonds (issued against restitution claims). The Table 3-4 represents the share of different payment instruments in the total contractual payments for state-owned companies. The Table shows that 30.6% of the payments were negotiated in government bonds. Meanwhile, the total volume of government bonds actually used as legal tender in privatization amounts to approximately USD 413 million, i.e. about 29% of actual payments (including cash and debt instruments). Equity-debt swaps are described separately.

Concentration on revenues by source has been significant, since almost 44% of the cash proceeds from privatization have so far come from the top five transactions (Table 3-5). Over the years, the major providers of privatization revenues have been the chemical, food, brewery and tourism industries.

All the companies listed in the Table 3-5 were purchased by foreign investors. Altogether, the Privatization Agency contracted 88 transactions with foreign

Table 3-4. Share of Means of Payment in Payments Contracted (1993–1999)

Means of payment	**Share (%)***
Cash	66.3
Government bonds	30.6
Investment bonds	0.8
Compensatory bonds	1.0
Other means of payment	1.3
Total	*100.0*

* Share of revenues in the current year in BGN
Source: Privatization Agency

Table 3-5. The Five Largest Privatization Deals

Company	**Sector**	**Price (million USD)**	**Purchased by**
Sodi – Devnya	Chemical industry	160	Solvay
Neftochim - Burgas	Chemical industry	101	Lucoil Petrol
MDK – Pirdop	Copper production	80	Union Miniere Group
Petrol – Sofia	Chemical industry	52	Yucos Petroleum, Petrol Holding and OMV
Devnya Cement	Cement production	45	Marvex
Total		*438*	

Source: Privatization Agency

investors. The contractual revenues from these amounted to approximately USD 825 million, i.e. 36% of the payments contracted by all central privatization bodies [38]. Meanwhile, the volume of foreign direct investments through privatization (including direct payments and liabilities of privatized companies undertaken) was USD 1.14 billion for the period 1993–1999, i.e. 42% of the total FDI volume for the period.

3.2. The Case of Poland

Revenues according to privatization method

In the Table 3-6, privatization revenues have been divided into four methods (paths) as in the "Reports on achievement of the State Budget" prepared by the Ministry of Finance. Thus we may see that capital privatization has been divided into two parts: one for enterprises and one for banks. However, it must be remembered that privatization of banks should in practice be treated as part of indirect privatization. On the other hand, in the Table 3-6 "direct privatization" means both: ordinary direct privatization of small enterprises in good economic condition, but also the liquidation of bankrupt firms.

Table 3-6 shows the very high annual growth rate of real privatization revenues each year. The biggest increase was recorded at the beginning of the process and this may be interpreted as a sign that the fiscal side of privatization has been extremely successful since the very beginning of the process. One may also claim that this is a poor statistical effect, i.e. the result of a very low base. The last sharp increase, in 1999, is the result of implementing privatization in the largest state banks and such companies as Pekao S.A., Poland's second largest bank, and TP S.A. – the national telecommunications operator.

As the table indicates, revenues from indirect privatization are the most important from the budgetary point of view and this share is increasing almost every year. In 1999, the total share of indirect privatization, enterprises plus banks, in total revenues reached 97%.

Revenues from indirect privatization are also characterized by the most regular real annual growth rate. The sharp increase in indirect privatization revenues in 1996 can be explained by the amendment of the privatization law enacted in the middle of that year. One may presume that numerous previously begun privatization processes were accelerated in order for them to be completed before the new law came into force. It may also be true that other ministries (other then MST) tried to privatize as much as possible before all state enterprises were "transferred" to voivodship authorities and the Privatization

Table 3-6. State budget revenues from various privatization methods according to State Budget Realization Reports (in millions of

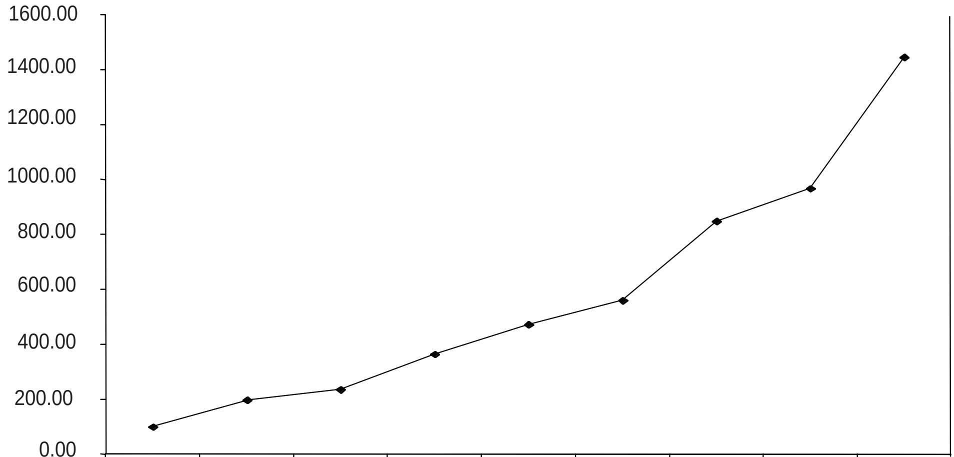
Year	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Total privatization revenues	170.94	484.44	780.36	1594.86	2641.58	3749.80	6537.70	8325.95	13347.5
Revenues in millions of USD	161,26	356,21	431,14	702.58	1091.56	1393.98	1993.2	2385.66	3364.21
dynamics, previous year = 100 (in real terms)		198.2	119.1	154.6	129.6	118.4	151.7	113.9	149,4
Indirect (Capital) Privatization	-	309.40	439.38	846.80	1714.20	1945.30	3254.10	6620.00	*12949.7*
Share of Indirect in total	-	63.9%	56.3%	53.1%	64.9%	51.9%	49.8%	79.5%	*97.0%*
previous year = 100 (in real terms)			105.0	145.8	158.4	94.6	145.6	182.0	*182.3*
Direct Privatization	-	-	287.03	322.90	406.10	973.40	359.10	429.40	388.7
Share of Direct in total	-	-	36.8%	20.2%	15.4%	26.0%	5.5%	5.2%	2,9%
previous year = 100 (in real terms)				85.1	98.4	199.9	32.1	107.0	84,4
Privatization of Banks (capital only)	-	-	53.96	425.20	521.30	831.10	2924.50	1276.55	N/A
Share of Banks in Total	-	-	6.9%	26.7%	19.7%	22.2%	44.7%	15.3%	N/A
previous year = 100 (in real terms)				596.1	95.9	133.0	306.3	39.0	N/A

Note: the data for indirect privatization in 1999 also covers the privatization of banks

Source: Report on achievement of the State Budget for the years 1991–1998, Ministry of State Treasury (data for 1999), Central Statistics Office (inflation), IFS-IMF, Own Calculations

[38] In this percentage only the PA's transactions with foreign investors are included due to the limited availability of data of the other privatizing bodies' activity.

Figure 3-3. Growth in Privatization revenues in years 1991–1999 in real terms. 1991=100



	1991	1992	1993	1994	1995	1996	1997	1998	1999
dynamics, 1991=100, real terms	100.00	198.2	235.9	364.8	472.7	559.7	849.3	967.4	1445.4

Source: As in Table 3-6

Agency, which in fact is constitutes a department of the MST. This transfer took place in the beginning of 1997, due to a reform of the central government administration. This observation is additionally confirmed by the data on indirect privatization originating in MST, showing that no sharp increase occurred in that particular year.

Figure 3-1 also shows the real increase of annual privatization revenues from the beginning of the process. In 1999, official privatization revenues were in real terms more than 10-fold greater than at the beginning of the process (1991).

In discussing revenues from privatization, one must not forget the mass privatization program (NIF – National Investment Funds program) conducted in the years 1995–1997. Obviously, fiscal revenue was not the main objective of this privatization path and it will be considered in more detail when we come to discuss the costs of this process. However, as will be explained later, we do not consider this process privatization as such and therefore do not include either the revenues or costs related to this program as a direct fiscal effect of privatization.

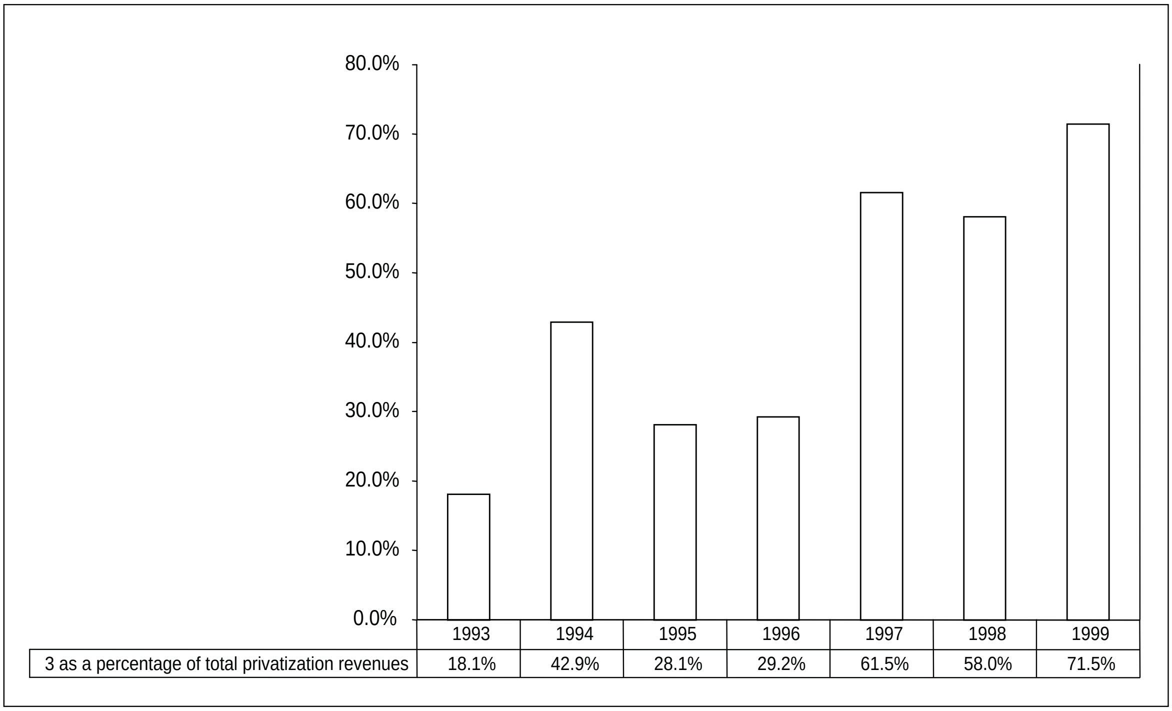
The selling of NIF "share certificates" began in November 1995 and was practically completed by November 1996. The total number of certificates sold reached 25,889,334. Since every certificate was sold for 20 PLZ, this provided revenue equal to 517.79 million PLZ during one year, of which approximately 350 million has been transferred to the budget. Therefore this revenue is comparable to the revenues from privatization of banks in 1995, or to one of the largest privatization contracts carried out in 1996 (ZPT Kraków).

Major revenue providers

Table in Annex No 1. presents the level of concentration of privatization revenues in terms of the major revenue providers. As may be seen, the share of the largest privatization contracts in total privatization revenues tends to increase, especially over the last three years, i.e. 1997–1999. Figure 3-4 provides a very clear illustration of this process. This increase is closely linked to the growing importance of indirect privatization in total revenues, since all larger privatization contracts are performed using this path, either by a public offer on the stock market or by selling to strategic (mainly foreign) investors. The mixed path is also applied, as in the case of the Pekao SA bank or TP S.A. If we consider the enormous privatization plans for the year 2000, we may also expect the role played by large individual privatization contracts to increase in the future.

The greatest number of large privatization transactions has been performed in the banking sector (6), followed by the tobacco industry (4) and the cement and pharmaceutical industries (3). Obviously, this branch structure does not reflect the structure of the entire privatization process. The greatest number of privatized companies belongs to the food, machinery and construction sectors and this seems to mirror the structure of industry as a whole as it was inherited from the socialist economy (as far as the number of companies is concerned and excluding coal mines, steel mills and other branches that have been excluded from privatization due to their "strategic" nature).

Figure 3-4. The three largest privatization contracts as a percentage of total privatization revenues in the years 1993–1999



The growing concentration of privatization revenues presented in Table in the Annex No. 1 leads us to look more cautiously at the figures presenting a sharp increase in privatization revenues. It means that last year's privatization revenues were almost totally determined by enormous individual transactions. Obviously, the number of large state-owned companies, such as the largest banks, the national telecommunications operator or the national airline is strictly limited. Therefore one cannot expect this sharp increase in privatization revenues to last forever; eventually these revenues will begin to fall as sharply as they have been increasing. The above observation may seem trivial, but it is particularly important from the macroeconomic policy point of view.

Cash revenues and other financial obligations according to various privatization methods [39]

The total share of obligations in privatization revenues is decreasing. This may be most easily observed in the case of indirect privatization, which in an obvious way drives the total number of revenues.

The situation looks a little different in the case of direct privatization, where a large number of the privatized companies have been leased to insiders. About 80% of budget incomes from direct privatization for the years 1994–1997 came from this method. According to the Central Statistics Office, the share of obligations in leasing contracts increased in 1997 from about 17–25% (for the

Table 3-7. The share of other financial obligations in the total privatization revenues contracted in the years 1991–1997

	1991	1992	1993	1994	1995	1996	1997
Indirect privatization	20.2%	14.9%	14.8%	11.0%	5.1%	1.3%	0.4%
Direct privatization	since '90	30.6%	33.3%	24.1%	19.1%	19.2%	69.4%
Total	since '90	20.7%	23.8%	14.2%	7.6%	4.7%	6.2%

No data is presently available for the years 1998–1999
Source: MST and CSO

[39] The data for this part come from the CSO and as already mentioned earlier can not be treated as complete and therefore one should take them as estimates only.

three previous years) to more the 77% of all contracted revenues. This increase explains the sharp growth of obligations in total direct privatization revenues in that year.

Ratio of effective revenues to those planned in government programs

Table 3-8. shows that for the last 6 years, the government has regularly underestimated privatization revenues in any given fiscal year. The graph clearly illustrates both the direction and the size of this error. This time, budget plans were nearly half the effective revenues, which sets a new record. The regular underestimation of revenues may suggest that privatization was being treated as a hidden source of budget reserves.

This could be especially true for the years before 1997. Since then, privatization has not been a part of budget revenues but is counted as an additional source of government income which, according to the "Report on achievement of the state budget for 1998" was used to finance the budget deficit and therefore can no longer be a tool for decreasing the official budget deficit. This would seem to be a reasonable policy. Treating privatization as part of budget revenues could be very dangerous, since it might lead to some form of hidden budget deficit that could explode when this kind of revenue eventually ceases [40].

Taking into account both its importance for total privatization revenues and also the size of any "mistake", it seems that bank privatization is the main cause for concern, when it comes to underestimating revenues. This seems especially strange, since privatization of any bank is normally planned a long way ahead of time and therefore revenues should also be relatively easy to plan. However, one must also remember that the final price obtained for a privatized bank (or other company) at the moment of privatization is very much dependent on the current situation of the financial markets and therefore to some extent, any poor prediction may be justified.

The serious error concerning indirect privatization in 1996 seems to have been mainly caused by the appearance of really large individual privatization contracts, for example STALEXPORT, which was sold for more than 190 million PLN. The significant error concerning direct privatization in 1996 was probably caused by the amendments to the privatization law referred to earlier in this text.

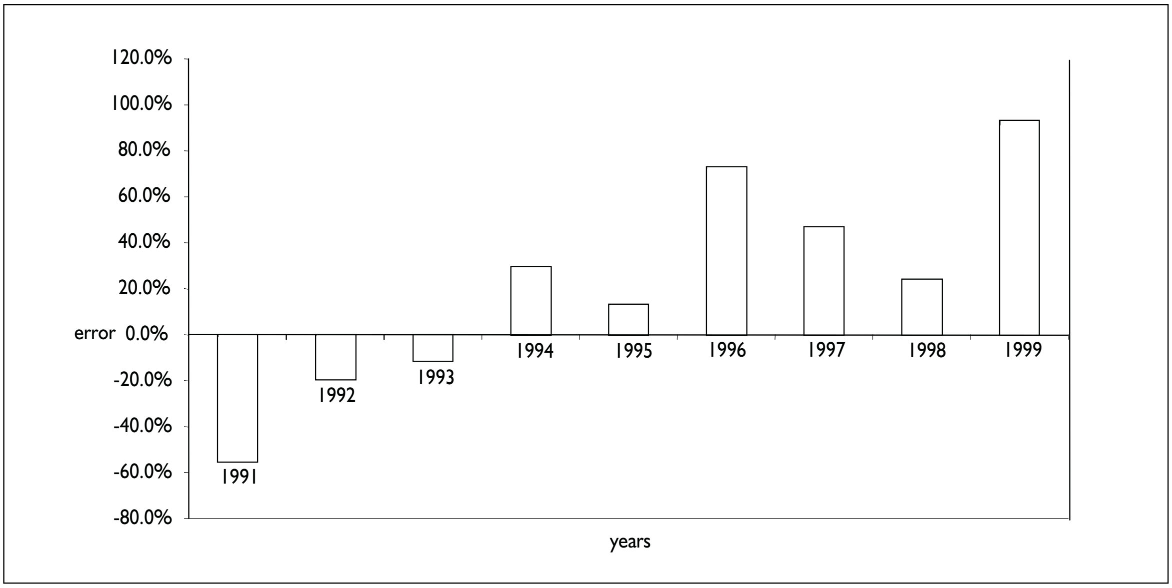
Table 3-8. Government privatization revenues programs and revenues obtained according to privatization method in the years 1991–1999 (millions of PLN)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total planned priv. revenues	380	600	880	1230	2330	2165	4450	6700	6900
Obtained	170	484	780	1595	2642	3750	6538	8326	13347
Revenues obtained as a percentage of those planned	45.0%	80.7%	88.7%	129.7%	113.4%	173.2%	146.9%	124.3%	193.4%
Planned indirect priv. revenues	-	400.00	450.00	450.00	1516.00	1800.00	2510.00	6251.18	NA
Obtained	-	309.40	439.38	846.80	1714.20	1945.30	3254.10	6620.00	NA
Revenues obtained as a percentage of those planned	-	77.4%	97.6%	188.2%	113.1%	108.1%	129.6%	105.9%	NA
Planned direct priv. revenues	-	-	380.00	350.00	370.00	365.00	490.00	451.52	NA
Obtained	-	-	287.03	322.90	406.10	973.40	359.10	429.40	NA
Revenues obtained as a percentage of those planned	-	-	75.5%	92.3%	109.8%	266.7%	73.3%	95.1%	NA
Planned bank privatization revenues	-	-	-	430.00	450.00	400.00	1450.00	987.80	NA
Obtained	-	-	53.96	425.20	521.30	831.10	2924.50	1276.55	NA
Revenues obtained as a percentage of those planned	-	-	-	98.9%	115.8%	207.8%	201.7%	129.2%	NA

Source: Reports on achievement of the state budget for the years 1991–1998, own calculations

[40] The issue of the use of privatization revenues is treated in more detail in chapter 6.2 of this report.

Figure 3-5. The government's error as a percentage of planned privatization revenues



Source: As in Table 3-7

Privatization revenues as a share of GDP and as a share of the central budget

As may be expected, both the share of privatization revenues in total budget revenues and their share in GDP rises each year. Figure 3-6 illustrates this very clearly. A similar graph for the share in GDP would be almost identical, since the share of budget revenues in GDP has remained more or less at the same level – 25–30% for the last 9 years. In 1998, privatization revenues per capita were 61.70 USD and per person gainfully employed 146.66 USD. The meaning of these figures may be better understood if we consider that GDP per capita and per person gainfully employed in this particular year amounted to 4119.08 USD and 9791.62 USD respectively.

Comparing the figures in Table 3-9, one must remember that till 1996, privatization revenues were counted as an ordinary budget income, i.e. the officially reported budget deficits in those years were deficits after privatization had been included. Since 1997 they have been calculated separately. Therefore, in order to ensure comparability, in the Table 3–8 the last row (net budget result/GDP) shows the actual budget deficit/surplus after privatization revenues have been included in central bud-

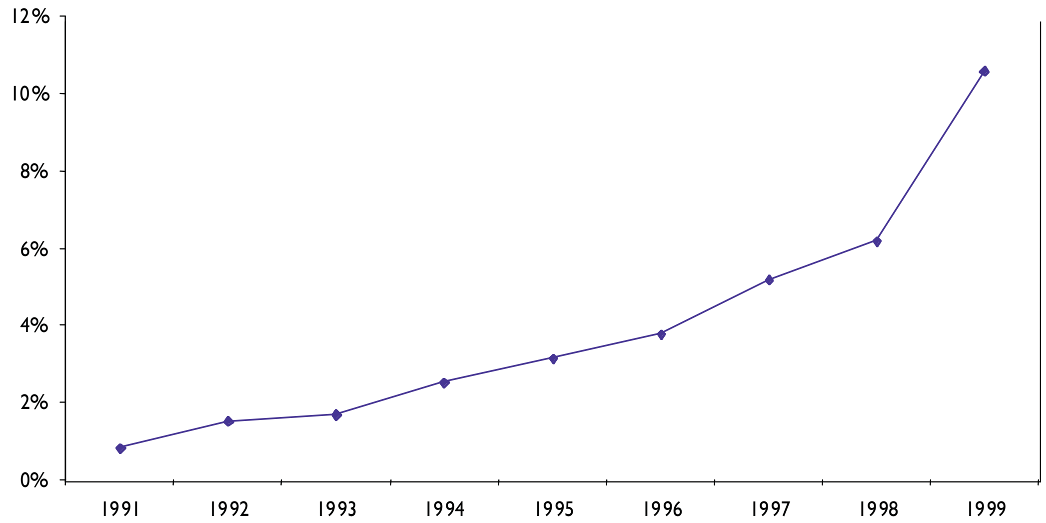
Table 3-9. Privatization revenues as a share of the central budget and as a share of GDP (millions of PLN)

Millions of PLN	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total privatization revenues	170.94	484.44	780.36	1594.86	2641.58	3749.80	6537.70	8325.95	13347.50
Total central budget revenues (including privatization)	21088	31277	45900	63125	83721	99674	126309	134885	125911.5
Privatization as a percentage of budget revenues	0.81	1.55	1.70	2.53	3.16	3.76	5.18	6.17	10.60
Privatization as a percentage of budget revenues (for the period 1997-1999 increased by privatization revenues)	0.81	1.55	1.70	2.53	3.16	3.76	4.92	5.81	9.58
Central budget deficit / GDP (%)	3.8	6.0	2.8	2.7	2.4	2.4	1.3	2.4	2.05
Privatization as a percentage of GDP (%)	0.21	0.42	0.50	0.76	0.86	0.97	1.39	1.51	2.18
Net budget result */ GDP (%)	- 3.8	- 6.0	- 2.8	- 2.7	- 2.4	- 2.4	0.1	- 0.9	- 0.1

* Central budget deficit plus privatization revenues

Source: Reports on Achievement of the State Budget for the years 1991-1999, Central Statistics Office-for GDP and own calculations

Figure 3-6. Privatization as % of Budget Revenues



Source: As Table 3-10

get revenues. In this way, the net budget result for the period 1991-1996 is equal to the central budget deficit. However, in the years 1997–1999, the net budget result is a lesser negative figure (in 1997, even a positive one) than the budget deficit.

Revenues from foreign investors

The share of foreign investors in total privatization revenues seems to be declining.

Due to a lack of domestic capital and also underdevelopment of the Stock Exchange, at the beginning of the privatization process sales to foreign strategic investors was the best and indeed the only possible way of privatizing larger enterprises.

The situation eventually changed in 1994, when Bank Śląski was partially privatized through a public offer on the Stock Exchange. In 1998, the two largest privatization transactions were performed through the Stock Exchange and this sharply reduced the importance of foreign investors in that year. Obviously, this does not mean no part of the shares of those companies were purchased by foreigners on the Stock Exchange. Nevertheless, it is not to be treated as the sale of a privatized company to a foreign strategic investor.

However, it seems that in 1999 the situation had changed. Shares of both the banks privatized in that year were sold to foreign direct investors. Hence the first impression one draws from Table 3-10 may be a little misleading. The largest privatization contracts planned for 2000, for example T.P. SA and Bank Handlowy SA are also to be concluded by selling part of their shares to foreign investors. Thus it seems that the sharp fall observed in 1998 was only a one year anomaly.

The data concerning the percentage share of privatization transactions in total FDI also fails to indicate any well-defined pattern. In fact, it is quite closely correlated with the percentage share of foreign investment in total privatization revenues. It seems that this share is quite

Table 3-10. Revenues from foreign strategic investors (FSI) as a share of total privatization revenues, indirect privatization and in total FDI in the years 1991–1998 (millions of PLN)

	1991	1992	1993	1994	1995	1996	1997	1998
FSI	134.6	290.9	319.4	236.20	1163.1	1139.2	1522.1	1042.4
FSI/total revenues	78.7%	60.0%	40.9%	14.8%	44.0%	30.4%	23.3%	12.5%
FSI/indirect privatization		94.0%	72.7%	27.9%	67.9%	58.6%	46.8%	15.7%
FSI/FDI				5.5%	13.1%	9.4%	9.5%	4.7%

Source: Report on the change of ownership structure in 1998. MST-1999, National Bank of Poland and own calculations randomly determined by the occasional large privatization contracts with foreign investors in the given year. For example, in 1995 (the year with the highest share) most of the five largest privatization contracts were concluded with the participation of a foreign investor (about 70% of the value of shares sold), whereas in 1998 (the minimum share) only 19% of the shares of the five largest contracts were sold to foreign investors. It is expected that in 2000, the share of privatization transactions in total FDI will again rise, for the same reasons as referred to in the previous paragraph.

Various payment instruments

The role of payment instruments other then cash would not seem to be an important factor in privatization revenues in Poland. At the beginning of the privatization process, some direct privatization payments were carried out by treasury obligations. The share of these kind of payments decreased very rapidly. In 1991 it was 19%, in 1992 – 2,7% and finally in 1993 – 1,5%, after which the Central Statistics Office ceased to report any transactions of this kind.

In the case of direct privatization, part of the assets of privatized companies are either contributed in kind to the company or, especially in cases of liquidation, may serve to pay off the creditors of a bankrupt company. According to the Central Statistics Office, the total share of assets contributed in kind in the years 1990 – (first half of) 1999 equaled 8.4% of the assets distributed by the direct privatization method and payments to creditors constituted 50.1% of the assets of companies liquidated during the period.

One must however take into account that these kind of transactions are not registered as privatization revenues and therefore do not affect our earlier statistics.

The other issue to be examined in this section is ownership transformation under the "Law on Financial Restructuring..." that was enacted in February 1993. Although some may consider the ownership transformations that have been conducted to be a form of privatization, this is not strictly correct. This law was developed and introduced mainly for state-owned banks and enterprises, to enable them to resolve mutual arrears problems. Therefore, even if under this law some assets of state enterprises were seized by banks or other companies, this should not be treated as privatization, since at least during the first few years, most of those banks and companies were likewise state-owned.

Obviously, this situation has gradually changed. Nevertheless, any change in ownership structure has always been a by-product of transactions conducted according to this law.

3.3. Comparison

Comparing the dynamics of privatization proceeds in Bulgaria and Poland one have to take into consideration various starting points for privatization process in both countries. Privatization in Bulgaria begun in practice three years later than in Poland. From this point of view comparison of the dynamics reveals interesting coincidence: in both countries privatization revenues achieved share close to 1% of GDP in this same year namely in 1996, which was third year of the initiation of the process in Bulgaria, and sixth in case of Poland. In both countries the revenues tends to rise systematically year by year. Comparison does not prove the hypothesis relating trade-of between budgetary incomes from privatization and speed of privatization [41].

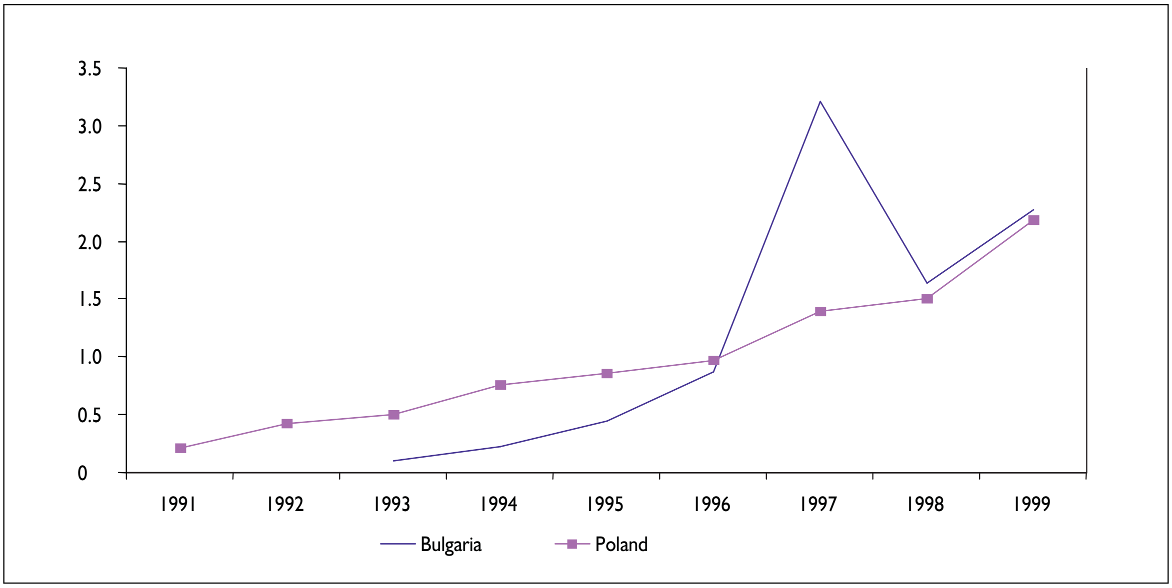
Especially relatively significant became privatization's contribution to the countries' budgets revenues in late nineties: it reached 9.9% of budget revenues for Bulgaria (in 1997) and for Poland 9.58% (in 1999).

Comparison of revenues from privatization in Bulgaria and Poland in absolute terms reflects rather the relative size of both economics, therefore can give only very general picture of the proportion of the privatization proceeds for each country.

Comparison of the level of concentration of the privatization revenues for Bulgaria and Poland in terms of biggest providers shows more differences than similarities. Relatively high concentration for Bulgaria in the first two years of the process could be explained by very low absolute size of the privatization proceeds and small number of privatization deals for this period. Growing and very high concentration in Poland for the last three years is caused by privatization of large companies and banks. Privatization revenues were almost totally determined by very few enormous individual transactions.

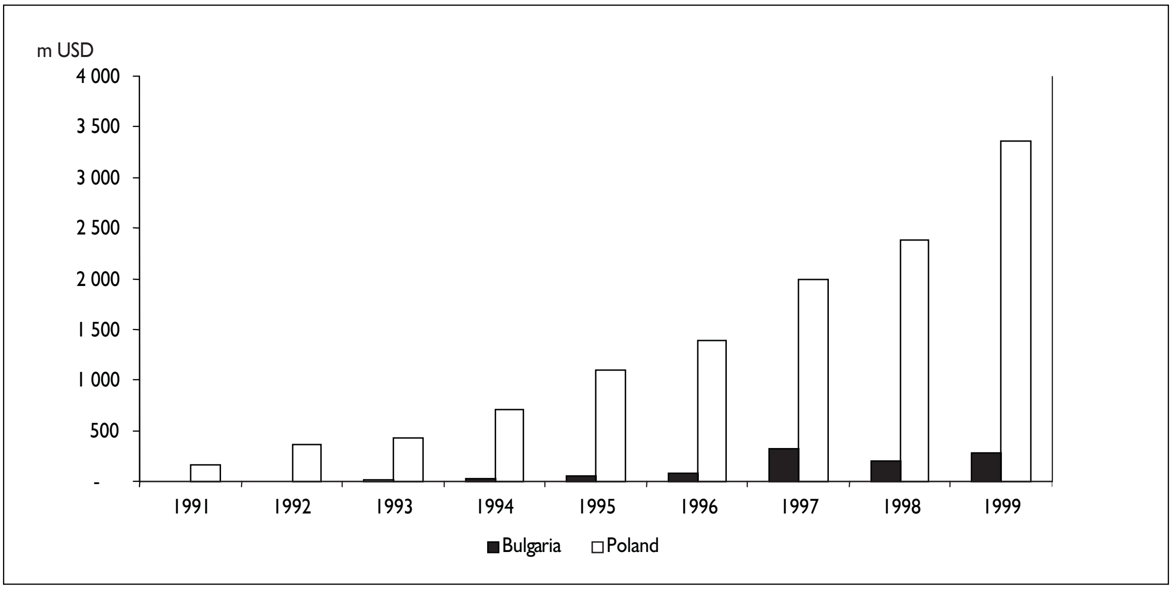
[41] This interdependency has been formulated by B. Blaszczyk and R. Woodward and was probably valid for the first stage of privatization [Blaszczyk and Woodward, 1996, p. 17].

Figure 3-7. Privatization Revenues as % of GDP in Bulgaria and Poland



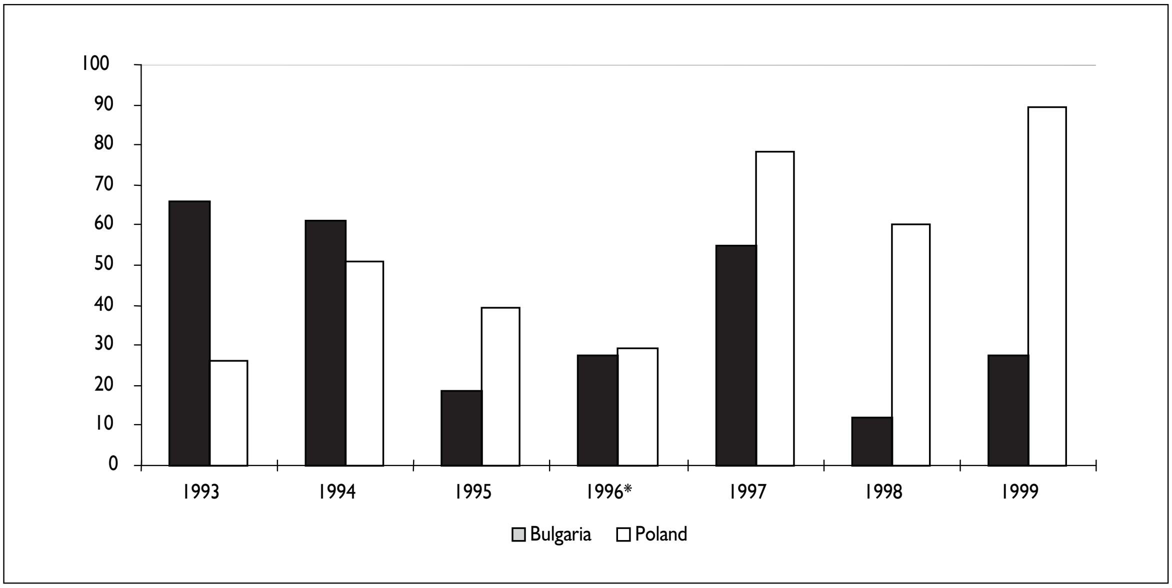
Source: As in the Figure 3-1 and the Table 3-9

Figure 3-8. Privatization Revenues in Bulgaria and Poland



Note: * For Poland only the largest three in 1996
Source: Privatization Agency (Bulgaria).

Figure 3-9. Biggest Five Providers' Share (%) in the Privatization in Bulgaria and Poland



Source: As in Table 3-7