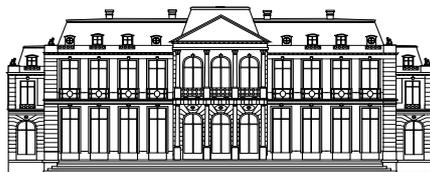


Organisation for Economic Co-operation and Development



Organisation de Coopération et de Développement Économiques

in co-operation with the Bulgarian Centre for Economic Development

**A REVIEW OF BULGARIAN
PRIVATISATION**

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***Presentation of the liquidation and insolvency declaring
programs***

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PRESENTATION OF THE LIQUIDATION AND INSOLVENCY DECLARING PROGRAMS

The complex factors and conditions affecting the financial performance of state owned companies, as well as the inability of the government at present to influence them directly by subsidies and investments, requires a prompt and efficient structural reform to be carried out by means of the following:

- cash and mass privatization
- foreign investments
- financial rehabilitation of companies of structural importance for the country.

Restructuring the economy will provide an opportunity to speed up the processes of establishing market relations and reducing the managerial functions of the government which are contradictory to market economy. In its essence the privatization process is a restructuring of the state ownership. Therefore, liquidation and insolvency declaring are forms of changing state ownership which probably are more appropriate than privatization in terms of the methods of acquiring property. In this presentation I would like to consider in greater detail the programs for liquidation and insolvency declaring of unprofitable and inefficient state owned companies.

The termination by means of liquidation of unprofitable industrial companies with predominant state participation is an important element of the currently implemented structural reform in Bulgaria, and is also a part of the obligations to international financial institutions undertaken by our country.

On the basis of the set up overall organization for undertaking obligatory procedural actions, including legal regulations and by-laws adoption, organization, coordination and control, at present about 113 business companies of the Ministry of Industry are undergoing restructuring by means of liquidation.

Given the constant negative performance, high indebtedness for credits and company's liabilities and the lack of prospects for market, product and technological development, as of the end-February 1997 liquidation procedures have been opened up for 51 business companies.

In view of ceasing the accrual of additional losses and liabilities in the public sector of economy and in order to speed up the structural reform, the period after that date was characterized by further increase in activeness, and only within the period March 1997 - November 1998 liquidation procedures have been opened up for another 63 business companies with complete or predominating state ownership.

In the period 1996 - 1997 and until their being declared for liquidation, the above mentioned 113 companies have incurred a total gross loss amounting to 23 billion Bulgarian Leva comprising a considerable part of the total loss of the whole system run by the Ministry of Industry.

Terminating the activities of the said in 1997 and 1998 limited the generating of additional losses and liabilities, creditors were completely satisfied and considerable amounts entered the state budget as income.

By November 1998 the business companies undergoing liquidation have sold assets amounting to a total of 9.3 billion Bulgarian Leva. This figure includes also the transformation of state ownership into private ownership of the whole assets of 44 business companies and as a result of the sales of assets all creditors have been completely satisfied.

With regard to that, the amount of asset sales of the following companies can be noted as more considerable is:

Sanel EOOD, Sandanski - 1 065 million BGL
Vinprom Gorna Djumaya EOOD - 889 million BGL
KK-Razgrad EOOD, Razgrad - 670 million BGL
Stercons EOOD, Dimitrovgrad - 466 million BGL
Silova Elektronika (Power Electronics) EOOD, Plovdiv - 455 million BGL
MEI EOOD, Smolyan - 450 million BGL
ITO EOOD, Plovdiv - 386 million BGL
Iva-91 EOOD, Svilengrad - 342 million BGL
ZMM-Razgrad EOOD, Razgrad, 325 million BGL
Pavlikeni-91 EOOD, Pavlikeni - 234 million BGL
Tvarditsa EL EOOD, Tvarditsa - 230 million BGL
Calibrovani Izdelia EOOD, Yambol - 205 million BGL
Prototype EOOD, Lovech - 101 million BGL
Progress-P EOOD, Petrich - 68 million BGL

By the present moment the liquidation procedure has been terminated for 17 business companies, out of which 14 have been deleted from the Commercial Register, and 3 have been terminated by mergers.

The final stage of liquidation has been reached for 24 companies all assets of which have been sold, creditors have been satisfied, financial audits are being carried out, taxation and other inspections are performed by competent state authorities and they will be soon deleted from the Commercial Register.

By the present moment there are 50 insolvent state owned companies of the Ministry of Industry system for which proceedings for declaring bankruptcy has been initiated, of which:

- proceedings for declaring bankruptcy were initiated before February 1997 for 26 companies (15 of them are on the list of the Council of Ministers Decision 480/1996)
- proceedings for declaring bankruptcy were initiated after February 1997 for 24 companies, out of which:
 - proceedings for declaring bankruptcy were initiated for 13 companies which are continuing their production activities
 - proceedings for declaring bankruptcy were initiated for 11 companies the production activities of which have been ceased.

For the period from February 1997 by now in the progress of bankruptcy declaring procedure rehabilitation plans for 24 companies have been suggested and approved of by the respective district courts and the bankruptcy declaring procedure for them has been terminated.

For 20 of the above ownership has been changed by transferring 50 % of the shares, and stakes respectively, (including 8 of the list of Council of Ministers Decision 480/1996). In the remaining 4 a rehabilitation plan will be implemented which stipulates sales of assets and satisfying creditors with the income from these sales.

During the same period the suggested rehabilitation plans were not approved for 6 companies and their assets were therefore cashed, 4 of these have been deleted from the Commercial Registers of the respective District Courts, and the other 2 have satisfied their creditors to 100 % and the bankruptcy declaring proceedings for them have been terminated.

The following companies can be given as an example:

Vidia-V EAD, Vidin (Council of Ministers Decision 480) - 100 % of the shares transferred to Carbitts USA
Vayateks EAD, Bourgas, (Council of Ministers Decision 480) - 80 % of the shares transferred to Ruen EAD, Sofia
Lessilehart EAD, Silistra, (Council of Ministers Decision 480) - 71 % of the shares transferred to Tsveta AD, Switzerland
Zora-91 EOOD, Veliki Preslav - 100 % of the shares transferred to ROUD OOD, Varna
Uzana AD, Gabrovo - 99.5 % of the shares transferred to Aivi OOD, Gabrovo and 0.5 % to Sevbrokers AD, Gabrovo
Pelovska Konserva EOOD, Pelovo - 67 % of the shares transferred to Olympic EOOD, Sofia
ZDML EOOD, Plovdiv - 100 % of the shares transferred to ZDML-64 AD, Plovdiv
Stomanoleene EAD, Rakovski (Council of Ministers Decision 480) - paid up by the trustee
ZENA EAD, Dobrich - (Council of Ministers Decision 480) - the proceedings terminated because all creditors have been satisfied.

Complete analysis of the product and financial-economic situation of business companies with more than 50 % state ownership for the 6 months of 1998. On the basis of the analysis a decision will be made for termination followed by liquidation and, respectively, opening up a bankruptcy declaring procedure for unprofitable and inefficient companies, including ones in isolation and which do not fulfill the financial rehabilitation programs approved for them.

In conclusion, I would like to emphasize that companies will not disappear as operating economic units during liquidation and bankruptcy declaring procedures. The change of ownership will result in opening up new jobs, no losses will be incurred and, therefore, the state budget will not be burdened.

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