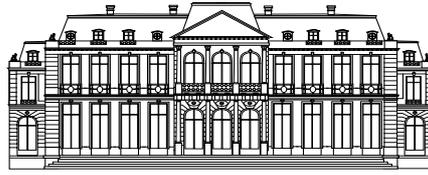


Organisation for Economic Co-operation and Development



Organisation de Coopération et de Développement Économiques

in co-operation with the Bulgarian Centre for Economic Development

**A REVIEW OF BULGARIAN
PRIVATISATION**

**Mr. Gueorgui Prohaski
Director
Centre for Economic Development
(Bulgaria)**

Privatisation through investment vouchers in Bulgaria

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PRIVATISATION THROUGH INVESTMENT VOUCHERS IN BULGARIA

BASIC GOALS

The principle goals of voucher privatisation in Bulgaria are:

- acceleration of privatisation through attraction of local participants who have limited financial sources and couldn't afford taking part in cash privatisation;
- broadening the investment culture of many Bulgarian citizens who have the opportunity to take an investment decision defining the particular size of their profit and thus to run the risk to operate further with shares acquired by selling them through the Stock Exchange at a fair market price or to keep them for a longer period and receive dividends;
- development of the local capital market as the place where such shares could be sold or bought quickly and fairly, resulting in increase of investment activity of ordinary people on the one hand and consolidation of property by major buyers who wish to acquire the majority stake of any company, to manage it properly and thus to make profits on the other;
- attraction of foreign investors who wish to operate at the Stock Exchange and realise portfolio investments in Bulgaria;
- providing compensation to Bulgarian citizens for their contribution to generation and increase of public wealth throughout the years;
- providing compensation to Bulgarian citizens for their rights on property which has been nationalized by the state;
- providing additional financial support through the profits gained to orphans, children in guardianship or children with unknown parents entrusted in special social houses.

THE FIRST ROUND OF VOUCHER PRIVATISATION

In 1993, Bulgaria announced a voucher privatisation programme, which had certain similarities with the Czech model and was coordinated by the Centre for Mass Privatisation. The legal framework was completed in 1995 with the adoption of the Privatisation Funds Act and the appointment of members of Bulgarian Securities and Stock Exchanges Commission (SSEC) to oversee the activities of privatisation funds and approve their prospectuses, in accordance with relatively strict licensing requirements. As a result, 81 privatisation funds started operating.

The privatisation programme provided for three successive centralised auctions during the first round. All Bulgarian citizens over the age of 18 were eligible to participate in voucher privatisation for BGL 500 /about USD 7/ (reduced for pensioners, students and soldiers to BGL 100 /about USD 1.5/ registration fee thus receiving vouchers at a face value of 25, 000 Investment Vouchers. The first round of voucher privatisation began in 1996 based on a list of 1, 040 companies from all sectors of the economy and finished in 1997. A maximum 25% stake could be offered for sale in large enterprises and up to 90% of medium and small companies. Employees, managers and former employees of companies to be privatised could acquire up to 10% of the stake offered for sale free of charge.

Voucher holders could either exchange vouchers for shares in privatisation funds or bid directly for enterprise shares at the centralised auctions. Vouchers could be transferred to relatives, but could not be traded. More than 50% (3 million persons) of the eligible population took part in the first round of voucher privatisation. The majority (80%) transferred their vouchers to privatisation funds. Voucher holders and

privatisation funds collectively acquired majority stakes in 821 of the 1, 040 companies. The total shares acquired represented around 8% of all state assets.

One year later we could make the common conclusions, as follow:

- + the first round of voucher privatisation succeeded in acceleration of the privatisation process in Bulgaria resulting in transferring around 8% of all state assets into private hands;
- + the level of participation of eligible citizens was comparatively high (over 50%);
- + the first round of voucher privatisation influenced positively on the stock market development;
- most participants felt disappointed due to their higher expectations for gaining profits either through dividends or through sale of the shares acquired, furthermore their interests as minority share owners proved not to be efficiently protected;
- a lot of problems arose in companies which majority stakes were privatised through vouchers due to internal fights amongst share holders thus resulting in poor management and leaking out funds;
- most companies which majority stakes were privatised through vouchers failed to find their proper majority owner as a result of concentration of ownership thus not being able to find funding for technological modernisation, production range increase, applying new know-how, solving ecological problems, even covering operational costs.

THE SECOND ROUND OF VOUCHER PRIVATISATION

The present Government of Bulgaria made a critical analysis of the first round of voucher privatisation and taking into account the principle positive features of such privatisation scheme adopted a new model of privatisation through investment vouchers by amendments to the Privatisation Act in 1998. The new strategy objectives is to further accelerate privatisation by the continuous implementation of centralised public auctions (CPA) by the Centre for Mass Privatisation (CMP). The new scheme has the following features:

- *Wider range of participants* - provides the opportunity for active participation of foreign companies or physical persons with cash in the CPA;
- *Fewer administrative deadlines* - no time limits for the process of registration and transfer of investment vouchers within the term of carrying out the second round (i.e. the end of 2001), many CPA will be held on a regular basis;
- *Combination of different means of payment* - investment vouchers and real money;
- Investment vouchers may be used as means of payment *in all forms of privatisation deals* (except for the public offerings at the Stock Exchange) where state-owned shares are offered, i.e. outside CPAs;
- *new opportunities for using the investment vouchers* - they may be transferred to Voluntary Pension Funds and to Management Buy-Out companies; individuals may authorise licensed investment intermediaries to participate on their behalf in the CPAs.

1. Registration Procedure

Individuals entitled to register for acquiring vouchers at a face value of 250, 000 Investment Vouchers are:

- all Bulgarian citizens over the age of 18;
- orphans under the age of 18;
- children in guardianship or children with unknown parents entrusted in special social houses;

Additional investment vouchers may be registered by:

- individuals with unused investment vouchers from the first round of voucher privatisation (no later than September 30, 1998);
- workers and employees in state companies as a compensation for unpaid salaries;
- individuals who have received compensatory bonds or compensatory notes for indemnity of nationalised estate owners;
- persons whose securities of Bulgarian State Loan - 1923 of the Mollov-Kafandaris Agreement and the undischarged interest coupons attached to them have been half-paid by the state in 1996 for the rest half (no later than December 31, 1998).

Individuals sentenced for intentional crimes are not entitled to receive investment vouchers.

In order to participate in the CPAs any eligible person has to register and receive a personal registration card with 250, 000 investment vouchers, which are dematerialised, i.e. there are no tangible certificates and all transactions take place between computerised accounts. The principle registration fee is 5000 BGL /about USD 3/. A preferential treatment is provided for pensioners, students and soldiers (registration fee of 1000 BGL /about USD 0.6/), as well as orphans and children in guardianship or children with unknown parents entrusted in special social houses /no registration fee is required/.

2. Use of Investment Vouchers

The Centre for Mass Privatisation is entitled to issue and control the usage of investment vouchers. The registration and transfer period will continue during the whole second round. That gives a certain opportunity for the citizens to receive their vouchers at a moment they have a real interest to any particular deal.

Citizens who have received their vouchers may either participate directly in the auctions, or transfer their vouchers to their close relatives or to investment intermediaries who can participate on their behalf in the CPAs. The investment intermediaries are not allowed to acquire ownership of the vouchers transferred and they act as brokers. General clauses of the contract concluded between investment intermediaries and their clients should be approved by the Securities and Stock Exchanges Commission.

The citizens may use their investment vouchers by:

- transferring to close relatives, including inheritance;
- transferring to MBO companies;
- authorising investment intermediaries for participation in CPAs on behalf of their holder;
- transferring to Voluntary Pension Funds (after their legal regulation);
- paying the price of privatisation deals (except for the public offerings at the Stock Exchange).

Foreign investors (physical or legal persons) may participate in CPAs with money in cash. They are not entitled to receive investment vouchers, except for the case when a foreign legal person founds a Voluntary Pension Fund.

3. Organisation and Realisation of CPAs

There will be a defined list of enterprises offered for privatisation with the number of shares for sale for each CPA, as well as a common list of all enterprises which will be included in the voucher scheme during the whole second round. One investment voucher is equal to 1 BGL.

Participants will submit their bids to the regional offices. CMP will rank the bids and calculate the auction prices based on the bids. Each CPA is completed with the official publication of the results.

4. Criteria for Selection of Enterprises Offered in the CPAs

The enterprises offered for privatisation via CPAs will be selected by a Joint Coordination Committee to the Privatisation Agency. The selection of enterprises will meet the following criteria:

- clear legal property status;
- enterprises not included in the strategic or economic priority industry list;
- monopoly firms are accepted only in accordance with the Law for Protection of Competition;
- weak investors' interest for cash privatisation;
- minority stakes of some of the biggest and most attractive enterprises where the majority stake will be bought by a strategic investor through cash sale;
- major stakes of small and medium-size enterprises;
- residual shares of enterprises which majority stakes have been privatised during the first round of voucher privatisation.

The selection of enterprises and the number of shares for sale should satisfy the expected demand, so that an equal opportunity for participation will be guaranteed. It is expected that shares of high-quality companies will be included, thus giving the chance for all participants and the Voluntary Pension Funds in particular to gain good profits from their participation. The Privatisation Agency will provide the CMP with financial, legal and economic data about each company which will be included in each forthcoming CPA, as well as the number of shares for sale there. The basic information source for the buyers will be the information prospectuses, which will be prepared in the enterprises and signed by the respective authorities. The privatising bodies (Art. 3 of the Privatisation Act) are expected to update the data in these information prospectuses every six months, while the enterprise management is responsible for the reliability of the financial and economic information included in them.

5. The Role of the Pension Funds in the New Investment Vouchers Privatisation Scheme

The recent amendments to the Privatisation Act defined a new participant to take part in the new round of voucher privatisation - the Voluntary Pension Funds (VPF). Each citizen who owns investment vouchers may transfer them to a VPF, so the fund may use these vouchers as means of payment in privatisation deals involving the state-owned shares, whereby 1 investment voucher will be equal to 1 BGL. It is assumed that this preferential treatment will attract many citizens to the VPFs.

In order to implement the opportunities provided by the Privatisation Act as well as to guarantee the investors interests, the respective legal framework must be established. It is expected that the draft of the Supplementary Voluntary Pension Insurance Act will be finally approved by the Parliament in the months to follow. More detailed comments could be made afterwards.

It is anticipated that VPFs will act effectively as intermediaries in the privatisation process, as to secure adequate income to their contributors through their active participation at the CPAs and as a result of that - at the Stock Exchange. Thus they will help in further developing of the capital market.

6. Mechanism for Valuation of the Bids and Ranking

It has been decided that no initially announced bidding price ranges will be defined for the shares that will be offered at the CPAs. Bids will be ranked in a descending order according to the proposed price and will be accepted up to the quantity of shares offered. No partial acceptance of a bid is allowed (i. e. in case one bid during the ranking is just at the lowest limit defined by the quantity of shares offered and it exceeds the number of shares available, it will be rejected). The price of the acquisition of each share will be determined on a weighted average basis. Persons may bid in the auctions with their investment vouchers and money in cash at the same time.

The ranking mechanism is based on the following principles:

- competitive bids, i. e. bids for specified numbers of shares at specified prices;
- no pre-set price limits;
- price fixing with weighted average price, excluding the top and bottom 10% of the bids (so called “adjusted average price”);
- all successful bidders have to pay the weighted average price of the shares they have applied for;
- any shares left over after the CPA will be offered at the subsequent auctions.

7. Foreign Investors Opportunities

Foreign investors have already taken part in the first round of voucher privatisation in Bulgaria through privatisation funds. A total of 15 funds have had foreigners amongst their founders. In addition to participation in privatisation funds, foreign investors have concluded deals on a number of companies that have been offered simultaneously in both the voucher and the cash privatisation programmes. The majority stakes of some companies have been bought by foreign investors either through the Stock Exchange or through the Stock Exchange plus cash privatisation of residual shares, as a result of their former inclusion in the first round of voucher privatisation.

According to the new amendments in the Privatisation Act, foreign investors have better opportunities to participate in the second round of voucher privatisation in Bulgaria.

The following principle options for foreign investors are available:

- to bid directly in CPAs with cash;
- to appoint a licensed investment intermediary to invest in CPAs or buy shares at the Stock Exchange for them;
- to purchase shares from a Investment Company or an Open Structured Investment Company (according to the Privatisation Act and the Commercial Code all Privatisation Funds have been transformed into Holding Companies or Investment Companies), through cash payment. Indirectly they could acquire shares of companies bought by the above stated companies with cash or to participate in the Voluntary Pension Funds founded by these companies;
- to purchase stakes directly from the different Ministries and the privatisation Agency through cash deals;
- to set up a Voluntary Pension Fund (expected to be legislatively regulated soon). The VPFs may use the collected vouchers as means of payment in all types of privatisation deals (except for the public offerings at the Stock Exchange);
- to participate in Management-Buy-Outs (MBO) by buying shares from or in MBO companies.

In order to take part, foreign companies must fulfil respectively the legal requirements of the Privatisation Act and the relevant bylaws, the Securities, Stock Exchanges and Investment Companies Act, the Commercial Code, as well as the future regulations of the Supplementary Voluntary Pension Insurance Act.

Foreign Investors are Encouraged to:

- be familiar with the privatisation procedures and mechanisms;
- follow closely the privatisation process;
- collect information about the legislation;
- double check the company information, which may also be updated several times during the process;
- maintain good relations with the different institutions concerning the process, as well as with the company managers;
- be familiar with the specific rules for doing business in Bulgaria.