

Privatisation Funds - The Bulgarian Model, 1997

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The privatisation funds are specific investment companies. In this sense as the first representatives of this type of economic entity they will have their own importance for capital market development in Bulgaria. In their role as instruments for 'mass' investment their establishment is associated with the application of the programme for mass privatisation. In addition, the privatisation funds are a separate group of issuers which will supply the capital market with "goods" (their own shares - although at the initial stage they are a little immobile) of which the quality will be determined by the funds' successful performance. The Czech experience upon completion of the mass privatisation undoubtedly proves such a relation between privatisation funds' existence and the capital market development despite the problems with the banking system, the lack of transparency, etc.

The three main objectives to be achieved with the establishment of the privatisation funds in Central and Eastern European countries within the mass privatisation programmes framework are:

- to encourage the possession of shares by a large part of the population, in order to diversify the investment portfolio and reduce the risk for the small investors;
- to stimulate financial market development through more massive investment by the population in different types of securities and the emergence of investment intermediaries and institutional investors;
- to introduce more quickly and easily the system for corporate management by concentration of the property acquired by a number of physical and legal persons as a result of the mass privatisation scheme.

Although the objectives of the Central and Eastern European countries are by and large similar, their practices with regard to regulating the privatisation funds activities and the actual results of their establishment differ considerably. Bulgarian privatisation funds have their specific place in the whole picture. The mass privatisation in Bulgaria was put off for a long time and the initial results of what is to be considered as its preparatory stages still do not allow a serious analysis of its achievements and failures to be made. Nevertheless, the assessment by means of a comparison with the other countries will help identify the problems of the next stages and suggest alternative solutions, especially because changes in the regulations are necessary and forthcoming.

The privatisation funds in Bulgaria can be classified as funds set up on the initiative of private physical and legal persons (like in the Czech Republic, Russia, Ukraine), whereas in Poland and Romania the state has kept the leading role. The funds' main purpose is to act as intermediaries between the population and the enterprises included in the mass privatisation programme. In contrast with the Czech experience, the privatisation funds' activities in

Bulgaria have been comprehensively and strictly regulated with a law before they were set up.

According to the Bulgarian legislation the privatisation funds are specific investment companies which are similar to holding structures in some respects - mainly the character and structure of their investment portfolios. There were extensive discussions before passing the privatisation funds law and good intentions to create legal opportunities for the privatised companies to find their 'real owner'. However, in fact the legislators have made an eclectic mixture of two very different forms of organisation and management - investment companies and holdings. According to the existing regulations this dual nature will be overcome after the mass privatisation centralised auctions have been completed, i.e. when the privatisation funds will have re-established their activities as investment companies or holdings.

In 1996 - the year which can rightfully be called 'privatisation funds year' in Bulgaria - 81 privatisation funds out of 141 applicants got their licenses from the Securities and Stock Exchange Commission.

It is interesting that a large number of the funds have directed their investment strategy towards a specific enterprise or sector and about 30 of the funds are regional. This contradicts with the investment company's main objective - investment risk minimisation. The initiative for setting up such funds comes from the managers of the enterprises on the mass privatisation list or from the joint initiative of local government representatives and local business elite. Most probably these funds will merge with each other or with funds of national importance after the mass privatisation has been completed. This is expected because of envisaged difficulties in raising financial resources for investment and modernisation of enterprises in the post privatisation period.

Privatisation funds set up by the management bodies of stable and rich companies of strategic importance that are included in the mass privatisation list (e.g. "Petrol Fund", "Neftochim Invest") are a more specific case. In a way they are a substitute for the managers' privatisation. For some companies of this group the mass privatisation programme is the only possible form/way for their privatisation. The investment vouchers of the staff and their families and to a large extent of the local population in these regions are an alternative to the cash privatisation which is becoming more and more difficult to finance by credits from Bulgarian banks as was the most common practice until now.

There is international participation in 15 of the privatisation funds which in some cases can be as high as 99% of the initial capital. The management employee privatisation fund "Labour and Capital" is an interesting phenomenon and this fund has its special place among the rest. It can easily be classified as an untypical privatisation fund judging by its main aims and objectives i.e. "rehabilitation and stabilisation of privatised companies and increasing the number of employees in these companies as well as their wages".

The privatisation funds role in the future capital market in Bulgaria and their importance for its development will be determined mostly by the activities and the behaviour of a group of 10-15 largest funds in terms of capital attracted, as well as by the outcome of the auction sessions.

The results of the first auction session were announced at the end of 1996. From them one can make the general conclusion that the privatisation funds have been most interested in

small and easily liquid companies which do not need considerable restructuring. They are from the food-processing, light, pharmaceutical, tourist industry and in most cases are export oriented. After the first auction session the privatisation funds obtained 35.86% out of the 41.36% of the enterprises' shares sold.

The number one leader is "Doverie" fund with its highly diversified portfolio (acquired shares of 90 companies) and large number of shares acquired. A prerequisite for these impressive results is that they have attracted the largest amount of capital in privatisation vouchers. Moreover in over one third of the enterprises "Doverie" fund has acquired 34% of the shares which is the maximum legally allowed percentage of ownership of shares.

Next in the list follow the Bulgarian-Dutch Privatisation Fund, Privatisation funds "Labour and Capital", "Bulgaria", "Mel Invest", "Zlaten lev", "Petrol Fund", "AKB Fores - Social" etc. These funds managed to establish highly diversified investment portfolios including a number of enterprises in which their share is 34%.

Before the second auction session the privatisation funds have about 18 billion investment vouchers at their disposal, i.e. a little over 25% of their voucher capital. The second auction session will be the most significant within the first wave of the mass privatisation. It will be then that the privatisation funds' type of behaviour will become clear and their portfolios structure will be shaped. It will be interesting to follow and analyse their strategy for the second auction bearing in mind their investment capacity is to a certain extent exhausted, the trend of reducing the minimum prices after each session and the insignificant shares of some key enterprises acquired in severe competition. After the completion of the second session it will be easier to forecast the future of the main group of privatisation funds and they could be classified in several groups: those preferring to be transformed into investment companies; those preferring to be transformed into holdings and those funds with an undefined future.

The sooner more favourable conditions for transforming privatisation funds into investment companies or holdings are created, the sooner their positive influence on the capital market in Bulgaria will become evident. Because of the public interest this process will have to be encouraged by changes in the legislation and will have to be completed before the end of the privatisation process. The establishment in their pure form of specialised structures - investment companies and holdings - will facilitate the quicker development of a real market of corporate securities, stimulate the secondary restructuring of ownership thus the companies will be finally in the hands of their true owners. The privatisation funds themselves, especially those who consider professionally their future, also realise this necessity and become more oriented to restructure their portfolios in a way characteristic of one of the two types.

The experience of the countries from Central and Eastern Europe shows that the privatisation funds successfully fulfil the tasks of an intermediary of the formal transfer of ownership in private hands. There are also a number of good examples of their importance in attracting the interest of foreign investors in the country. In the short run their role in the development of the capital market is relatively limited and is concentrated mainly on increasing the supply of shares liquid companies. The long run positive impact will depend on the future of the privatisation funds as the most active player on the capital market.