

Economic Program

In 1997, CSD continued to monitor the economic policy process and to provide expert assessments. CSD was in the position to build a coalition of NGOs and was the institution that brought together policy makers, government officials and analysts to reach consensus and draft the necessary amendments in the regulatory framework of the economy.

The Economic Program activities for 1997 assisted the government in its efforts to speed up privatization and promote the development of small and medium size enterprises. Activities involved drafting legislation, preparing alternative analyses and policy recommendations based on research results, monitoring of public attitudes and behavior, public education, and widely reaching dissemination activities. One of the important issues in this respect was the active involvement of CSD in the preparation of the Credit Rating Presentation of Bulgaria in September 1997.

I. Privatization and Economic Restructuring

In September 1996 CSD started work on the project: "Privatization and Economic Restructuring in Bulgaria", supported by the Center for International Private Enterprise (USA). The main objective of this project was to contribute to the acceleration and

success of privatization and economic restructuring in Bulgaria. Through research, advocacy, and dissemination activities, the project resulted in :

- Providing expertise aimed at making the mass privatization program more effective, transparent and successful;
- Providing continued assistance to government institutions responsible for privatization by developing a consistent medium-term privatization strategy;
- Facilitating privatization at the municipal level by transferring best practice models;
- Increasing expert and public understanding of post-privatization and corporate governance issues through education and information activities.

The research and advocacy were structured in the following main groups of activities:

- Introducing the Corporate Governance Concept and Practices to Bulgarian Experts

Corporate Governance Agenda for Bulgaria

CSD started the implementation of a long-term information and training Program on the problems of corporate governance targeted at the general public and selected professional groups. The Program sets the corporate

governance agenda for Bulgaria and is supported by all concerned institutions. The agenda envisions the following activities:

- Research and analysis of the specific problems of corporate governance in privatized enterprises and privatization funds;
- Joint activities with the privatization funds' associations;
- Study of foreign experience in the field of protection of shareholders' rights;
- Introducing corporate governance concepts to the Bulgarian public.

Facilitating the Implementation of Corporate Governance Principles: Shareholders' Register Design

On July 3, 1997 the Council of Ministers made a decision recommending that branch ministries introduce a Shareholders' Register with unified format and maintenance rules for the enterprises with a majority state ownership.

The design of the Shareholders' Register was developed by CSD experts and presented to the Center for Mass Privatization. The following sections of the Shareholders' Register have been elaborated in detail:

- graphic format of the original register;
- format of the duplicate (electronic) copy of the register;
- officials responsible for registration of the shareholders and updating the information;

- regularity of entries and information updating;
- conditions for keeping and restoring the original register and the duplicate copy.

With the preparation of this document in coordination with the relevant state institutions, CSD facilitated the procedure of entering new shareholder rights, and the implementation of the corporate governance principles and practices.

Introducing of Small Investors to Their Rights as Shareholders

On May 15, 1997 a Town Hall Meeting on corporate governance and capital markets issues was held in Veliko Tarnovo. The meeting was organized by CSD and conducted in cooperation with the Veliko Tarnovo municipality, Sever privatization fund, and the consulting firm Fynsis. The objective of the meeting was to bring the topics of corporate governance and shareholders' rights into public view. At the Town Hall Meeting, short presentations were made by a number of speakers including representatives of the following institutions: Center for Mass Privatization, Securities and Stock Exchanges Commission, Central Depository, Stock Exchange, managers of to-be-privatized enterprises, managers of privatized enterprises, and Privatization Funds.

The result of the Town Hall Meeting was an introduction of small investors to their rights as shareholders and to the

mechanisms of the capital market. For the first time in Bulgaria, the broad public learned about the possibilities for their participation in the management of the privatized enterprises.

Founding a Shareholders' Union (April 10, 1997)

CSD was instrumental in the establishment of a Shareholders' Union in Bulgaria. The Union was founded as a non-governmental organization in April 1997 and CSD is one of the founding associate members. The Shareholders' Union sets as its primary goal the facilitation of achieving a broader, more effective, and less risky investment environment in Bulgaria.

As a founding member, CSD will work for the achievement of the following objectives:

- Facilitating the activity of state and public bodies and lobbying at the stages of preparation and adoption of regulatory documents related to investment and protection of investors' rights;
- Developing information and educational programs and publishing activities aimed at elevating the investment culture of the Union members and the public at large;
- Analysis of real and potential conflicts between different groups of investors and suggesting of measures for their more effective overcoming.

Corporate Governance and Protection of Shareholders' Rights Workshop (November 14, 1997)

The main objective of the event was identifying the major problems in Bulgarian practice after the first wave of mass privatization and the start of capital market. Based on the broad discussion on the workshop, some important decisions were outlined based on the experience of USA, Germany, Great Britain, and other countries:

- Corporate governance (Accountability, Board Composition and Separation of Functions between the General Director and the Chairman of the Board, Qualifications of Nominees to the Board, Conflict of Interest);
- Shareholders' rights (Agenda for the Annual General Meeting, Majority vs. Minority Shareholders, Voting Rights Restrictions and Restricted Shares, Conversion of Open JSC into Closed Type).

The workshop was attended by 25 Bulgarian experts recruited in cooperation with the Union of Investors in Bulgaria. Mr. Geoffrey Mazullo- US consultant, Multinational Strategies, New York also participated in the workshop providing valuable advise and expertise. Mr. Mazullo has extensive experience in implementing corporate governance projects in

Poland, Russia, Moldova and other countries in the region.

2. Policy workshop: Enhancing the Development of the Institutional and Policy Framework of Capital Markets in Bulgaria (July 25, 1997)

Over the past years, CSD has become the focal point for economic policy efforts, pooling the expertise and skills of the key decision-makers, government officials, economic experts, academics, and NGOs'.

Mr. Dimitar Bachvarov
Head of Structural Reform
Department, Council of Ministers

The main objective of the workshop was to provide a consensus Policy Document including the legislative agenda for the institutional development of capital markets in Bulgaria. In this respect the Policy Document identified the following three major problem areas:

- Development of a System to Support Market Infrastructure;
- Supply and Demand of Securities, Primary Market Development;
- Preparing the Legal Infrastructure for a Self Regulatory Environment.

In terms of content the Policy Document outlines the most important action lines associated with each problem area. The important features of the Policy documents are that it is:

- Based on the consensus of the major actors in the field of capital markets

on the most important problems that have to be resolved;

- Presents a comprehensive overview of the status of the legal and institutional framework of capital markets;
- Serves as an effective management and outreach tool that sets the policy priorities and enables the effective tracking of progress.

Among the important features of the Policy Workshop on capital markets is not only the result (the Policy Document) but also the multistage "production process". At the initial stage CSD formed an expert group including representatives of business associations, senior government officials, financial experts, representatives of the private sector and other concerned institutions.

At the second stage the draft document, which was not only a result of expert work but also included consultations between the relevant actors and institutions, was discussed at an expert level workshop. The most important result of the policy workshop was the endorsement of the recommendations proposed which provided a complete working document supported by the major stakeholders in the area of capital markets development.

At the third stage, after a new round of consultations (conducted by CSD task force members and including members of Parliament, senior officials at the Council of Ministers, representatives of self-regulating organizations, financial

experts from the private sector and other relevant institutions), the Policy Document was revised and published as a policy recommendations paper: [*Institutional and Policy Framework for the Development of Capital Markets in Bulgaria.*](#)

The publication was widely distributed in Bulgaria and abroad and also provided a useful reference for the Financial Times Seminar on the Development of Capital Market in Bulgaria (October 23, 1997; Sofia).

3. Municipal Privatization

Survey Assessment of Municipal Privatization

The survey conducted by CSD and the Privatization Agency experts contains analyses of the following issues:

- Progress of municipal privatization in 1995 and 1996;
- Differences in privatization among regions and municipalities;
- Necessity for, and forms of technical assistance in some municipalities.

The analysis showed that municipal privatization is still much more dynamic than privatization of state-owned enterprises. Municipal privatization transactions are three times more than that of state-owned enterprises. A marked positive development is observed in terms of time limits, purchasing prices, and in the level professionalism of the municipal privatization officials.

Municipal Privatization and Local Economic Development Workshop: Currency Board and Municipal Privatization (April 22, 1997)

In 1997, the Municipal Privatization and Local Economic Development Workshop focused on the prospects of municipal privatization from the viewpoint of local economic development in the context of the forthcoming implementation of a currency board in Bulgaria. Representatives of about 20 Bulgarian municipalities (at the level of Mayor, Deputy-Mayor, and Head of Privatization Department) took part in the workshop. Among the participants were also senior officers from the Council of Ministers, the Privatization Agency, consulting firms, and journalists.

The discussion was based on the report of Mr. Petar Antov, Chief Expert, Privatization Agency, entitled *Tendencies in the Municipal Privatization in 1996*. Mr. Dimitar Batchvarov, Head of the Structural Reform Department with the Council of Ministers, made an overview of the intentions of the Government in the area of structural reforms and the expected role of local authorities' in this process. According to Mr. Batchvarov, the potential of municipal privatization for a fast introduction of market relations on the regional level is still insufficiently utilized. Mr. Batchvarov also shared ideas regarding the use of the resources of municipal privatization

funds, among which the preferential development and support for small and medium businesses.

4. Providing Policy Recommendations for Speeding Up Privatization

As a result of the joint initiative of CSD and Bulgarian Association of Management Consulting Organizations (BAMCO), a set of recommendations (Policy Document) was submitted to the Structural Reform Council with the Council of Ministers. In October 1997, the Policy Document (Strategy for Accelerating the Privatization Process 1997-1998) was adopted by the Council of Ministers.

The document recommends the implementation of a coherent privatization strategy for Bulgaria including a more market-oriented approach for overcoming the pitfalls of the first wave of mass privatization. The main conclusions and recommendations are as follows:

1. The delay in privatization is primarily due to the social and political climate in Bulgaria which hampered the use of existing legislature's potential and the practical implementation of all mechanisms envisioned by law. Acceleration of privatization on this basis is possible and necessary even before the passing of amendments to the Privatization Law and the connection with secondary legislation.
2. A change in the principles of legislation is needed in the direction of:

- Creating new statute and functions for the institutions involved in the management of property and privatization;
- Diversifying the approaches and methods of privatization;
- Introduction of incentives and sanctions for speeding up privatization.

3. Wider implementation of the internationally proved practice to use consultants and mediators (both Bulgarian and foreign) in the preparation procedures, marketing, and sale of state-owned enterprises.

5. Facilitating Public Policy Debate

Discussion of Economic Reform Alternatives:

In 1997, two discussions were organized by CSD, the Open Society Foundation and the New Bulgarian University. They both covered the problem of economic reform alternatives for Bulgaria and received wide coverage in broadcasts on the National Television and private TV and radio stations:

Joint Meeting of Prof. Jeffrey Sachs and Top Bulgarian Economic Experts (March 8, 1997)

Discussion was focused on basic problems of the current stage of economic reforms in Bulgaria:

- conditions and principles of the currency board implementation;

- restructuring of the Bulgarian economy and conditions for long-term economic growth;
- reform in the budget sphere.

Participants in the meeting were: Prof. Jeffrey Sachs, Director, Harvard Institute for International Development, Mr. Alexander Bozhkov, Deputy Prime-Minister and Minister of Industry, Petar Andonov and Krassimir Angarski, Advisers to the President, senior officials from the Council of Ministers, ministers, prominent Bulgarian economists, and representatives of private businesses. The intense exchange of opinions and information was particularly useful in relation to the necessity for revising the logic of reforms in Bulgaria and their decisive acceleration.

Joint Meeting of Prof. Leszek Balcerowicz and Top Bulgarian Economic Experts (April 3, 1997)

The focal point of the discussion with Prof. Leszek Balcerowicz (Chair, Center for Social and Economic Research, Warsaw) was the comparative analysis of reforms in Central and Eastern Europe. The exchange of opinions and information was particularly useful with respect to the comparisons between reform practices in Poland and Bulgaria.

The meeting was attended by: Mr. Alexander Bozhkov, Deputy Prime-Minister and Minister of Industry, Petar Andonov and Krassimir Angarski, Advisers to the President, senior

officials from the Council of Ministers, prominent Bulgarian economists, and representatives of private business.

The Problems of Privatization in Bulgaria (International Conference, Dresden, January 27-28, 1997)

The conference was of great importance for disseminating of detailed positive information about the prospects of economic reforms and privatization in Bulgaria. The Bulgarian experts and representatives of state institutions exchanged ideas and received valuable recommendations from their foreign colleagues who are professionally involved with the problems of the countries in transition. A collection of the conference materials, including all participants' reports in English, was published and distributed in Germany, Bulgaria, and other European countries.

The conference was co-organized by the Society for South-East Europe (Munich) and CSD. It was attended by Bulgarian experts and scientists from Germany, Italy, and the United Kingdom. An international conference focused on Bulgaria like this, had not been organized for the last 4-5 years.

How to Trade Shares from Mass Privatization

A brochure How to Trade with Shares from Mass Privatization by Doncho Barbalov, CSD Research Fellow was published in 5,000 issues in October 1997. This is the fourth successive publication from the CSD series of

brochures on privatization. The brochure was disseminated at the Bulgarian Investment Forum (Sofia, October 22-24, 1997) and throughout the country by the information offices of the Center for Mass Privatization. Due to the large interest, a second release is planned for 1998.

6. International Business Club Meeting

The International Business Club organized three meetings with the following guests:

- Mr. Alexander Bozhkov, Deputy Prime Minister, "Priority Areas for the Caretaker Government" (March 18, 1997)
- Mr. Stephan Sofianski, Prime Minister, "Preparing Accelerated Economic Reforms in Bulgaria: The Three Months of the Caretaker Government" (May 8, 1997)
- Mr. Valentin Vassilev, Minister of Trade and Tourism, "Privatization in Trade and Tourism" (June 17, 1997).

The IBC meeting participants included the foreign trade envoys and the representatives of international businesses in Bulgaria.

7. Sociological Surveys

Monitoring the Results of the First Wave of Mass Privatization in Bulgaria

In 1997, CSD conducted two qualitative and one quantitative survey which were part of a long-term strategy aimed at monitoring economic reform

developments and performing a watchdog function. Data and results from the 1997 surveys have been incorporated in the Policy Recommendations Paper on mass privatization. All survey results have been provided on a regular basis to:

- The Chairman of the Economic Committee of the National Assembly;
- The Legal Department and Structural Reform Department of the Council of Ministers;
- The Center for Mass Privatization, from where a letter of acknowledgment was received.

The 1997 surveys disclosed a complex and controversial picture of the implementation of the first wave of mass privatization (MP) in Bulgaria:

1. In principle, the mass privatization is perceived as a positive, although belated and not altogether perfect process.
2. Shortcomings related to how the first wave of MP was conducted include: the controversial and inconsistent behavior of the state, the changes in the originally announced program of the government, the changes in the privatized enterprises' capital between the separate auction sessions and the poor protection of the minor shareholders' rights.
3. The information collected shows that the preferred way for participation in mass privatization is through privatization funds.

Unfortunately, privatization funds do not enjoy a high level of trust after the first wave of MP.

4. The respondents do not have sufficient information about the enterprises they have acquired shares from.
5. The general awareness about the second round of mass privatization is relatively low. Compared to earlier surveys, there is declining awareness and interest towards the privatization process. The level of information regarding the model of implementing the second wave of MP is even lower.

II. Business Associations Executives Training

The event was co-organized by CSD and the Center for International Private Enterprise at the International Management Center in Bistritza (May 4-10, 1997). Representatives of sixteen

associations and seven chambers of commerce from all parts of the country took part in the seminar.

Among the topics covered were strategic planning, finance & budgeting, project design, and proposal writing. The program gave the participants a unique opportunity to acquire new knowledge and skills as well as to develop valuable contacts and share experience with colleagues from the sector.

The results of the event exceeded the expectations of both organizers and participants. At the final test, the majority of trainees received a certificate for successful completion of the Business Associations training. There is good reason to believe that participants will implement the acquired theoretical competence into practice.