

## **AN APPEAL TO THE EC TO HELP BULGARIAN MEBO's**

by

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Although what we are going to observe now is a phenomenon, which has affected all the post-communist countries' efforts in the field of introducing employee ownership as part of the privatisation picture, we dare say that Bulgaria is still a special case. We are speaking about the abuses made in the name of ESOP idea in practice – and I am not trying to claim that Bulgaria is a unique case of having invented the multiple ways in which ESOP privatisations were falsified. It is rather the scale of economic crimes committed in the name of ESOP – surprisingly and unexpectedly big and repulsive. Making use of the preferences in law for employee buy-outs, over 50% of all enterprises were privatised with outside capital meeting corporate or other private interests, having nothing to do with the employees themselves. This number includes some, quite absurd examples – unthinkable to imagine being at all within the capacities of any employee Association – huge plants producing weapons and military equipment like Arsenal – Kazanlak and Optico Electron. In addition, most of the managers of initially proper MEBO privatisations, immediately after the completion of the deal, started making any possible efforts to extract the business from employee financial participation, and concentrate it in their own hands. As a result, in the wide public and in the present government now, there exists a serious resistance against this type of ownership and it has taken away from Law the preferences for employee buy-outs: in this climate, the genuine privatisations with employee financial participation are indeed having hard time. My view is that a planned and concentrated effort should be made to support them so that their eventual success stories make up an ESOP island in the all too vast a swamp of failure, misuse and falsifications, so characteristic now of Bulgarian economic environment. Thus the idea of ESOP can be rescued for the future. In practice, it would mean that the genuine MEBOs are identified first, and than supported with technical assistance and investment opportunities. We think it realistic to happen only if these urgent measures are taken with the decisive and leading role of the European Union – it is true, a labour-some initiative to answer the so individual needs of my country.

The unrealistic quantity of the seeming MEBOs has indeed resulted into a sad and regretful shift in the quality of the ESOP idea in the eyes of the Bulgarian public. Even in private conversations it is better to avoid the word RMD /the popular name MEBO has taken in this country/ because it is met with despise, indignation or even mocked/. In the general and realistic picture of the very spe-

cial position MEBOs hold in the Western world, and especially their importance about the future development of labour relations towards team work, motivation and creativity, the devaluation of ESOP idea with the Bulgarian public should be a serious and urgent concern.

## 1. Condition of the enterprises privatised in Bulgaria:

The privatisation in Bulgaria started in 1991, with the adoption of the Law for Transformation and Privatisation of State and Municipal enterprises. For the past 12 years, the privatisation has been done after several different models:

- Selling to strategic investors – this was the most advertised and the least widespread privatisation model. The condition of the Bulgarian enterprises and infrastructure, along with the macroeconomic and financial environment did not encourage the strategic investors from abroad for major investments in Bulgaria. Still, some of the biggest and most profitable Bulgarian enterprises have been privatised in this way (Union Minier – MDK – Pirdop; Lucoil – Nephtochim – Bourgas and others).
- Mass privatisation – the specifics of this method for Bulgaria were defined by the dominating participation of the Privatisation funds, and later – the investment mediators in the centralized public auctions for sales of shares. Through this method, a relatively rapid and large scale redistribution of capital of a large number of State commercial associations resulted into the hands of some dozens of institutional investors without creating, in practice, of a significant social group of petty shareholders, capable of influencing the management of the enterprises or the capital market.
- MEBO – the shortage of investors, as well as of free money in Bulgaria placed the privatisation process, as early as 1994, in the sharp necessity of finding a method for privatisation – independent of outside investors or of immediate financing. Gradually, with some amendments in the Law, the preferences for the so called Management and employee associations were expanded, thus turning them into a main and favourite participant in the privatisation process. With this method, in the period of 1994 – 2001, more than half of the State and municipal enterprises have been privatised. The legal requirements for mass participation in the process of the employees from the firm, along with the obligation to keep this shareholding for at least five years after the completion of the privatisation deal, have restricted, to a certain extent, the misuse of the preferences, and let many of the Management and employee associations to engage their funds into improving the firm's performance, instead of the instant pay off of the price of the privatisation deal.

## 2. Basic problems for the Management and employee association /RMD/:

Despite its mass spread out, the privatisation model through RMD, as a rule came into conflict with a number of tough problems which, even now jeop-

ardise the survival of the so privatised enterprises. The most important ones are:

- Lack of free funds for investing – the technological state of most of Bulgarian firms needs urgent renewal. If that is not done, the companies gradually lose their compatibility, not only on the foreign markets but on the domestic one too. But the Bulgarian economy has not for years had at its disposal free funds to be invested in such renovation. This applies not only to the companies' own funds but also to the bank sector and the capital markets. The costly credit and the impossibility of summoning of considerable financial resources on the part of the capital market, block all the ways towards ensuring the funds for technological renovation.
- Lack of standards for labour organisation and of adequate organisational behaviour - in many of the Bulgarian companies, the situation around organisation of labour, motivation of personnel, including the managerial one; the organisational behaviour did not actually change much after the privatisation, it even deteriorated in some cases. The teams of these companies, from the General Manager to the blue-shirt employee were, practically, left totally alone – to discover for themselves the rules of the adequate and efficient management of a private enterprise in a capitalist environment of competition. They were, literally, required to wake up one morning as knowing and capable capitalists. In the recent years, many Bulgarian companies are showing heightened interest in training the personnel towards adequate organisational behaviour; which is being hindered by the lack of enough numbers of qualified consultants in this field.
- Lack of standards for quality of products – this problem had been realised the earliest and, from some years on, the companies are trying to introduce systems for overall tracking of quality after ISO standards. Still, the complete introduction of such systems in all Bulgarian enterprises is yet a matter of considerable effort.

### 3. Possibilities of RMD recovery:

The main possibilities for recovering of Bulgarian RMD go through tackling the problems identified in the preceding point. Moreover, a peculiarity of the situation in Bulgaria is that the problems should be resolved in a reverse order from the one they were presented – from introducing the quality standards and working out of an adequate organisational behaviour on all levels, to attracting funds for investment. This is pressing for the following reasons:

- The lack of a system for watching the quality does not allow for realistic assessment of the production capabilities of the company, and consequently to, realistically, evaluating the need for investment – it often happens that the mere adoption of a modern quality system, rises the

company's compatibility so much that, in the course of a certain period of time, it can alone accumulate a considerable part of the funds it needs.

- The lack of adequate management of the companies, along with lack of motivation and organisational culture among its employees increase the risk of undue or even wrongful management of the raised funds, even when they have been given result-oriented – for doing investment. Without constructing a system for efficient management and tough financial discipline, any investment, even one for technological renovation, would have been at risk.
- The conditions so named, a programme supported by EFES on this stage can be directed to consulting and technical assistance for the Bulgarian MEBO's towards building up of an adequate management system, as well as creating organisational culture and improvement of the employees' motivation.

Not until recognising the definite success of the company in improving its management system and introducing a system for quality control, can the elaboration of a realistic investment programme be started off. So, in our view, the effective utilising of investment can be done only after the production system has been set into a state – corresponding to the modern requirements for efficiency and financial discipline.

#### 4. Prerequisites for success of the stabilising programme:

The terms we would identify for a Bulgarian RMD to qualify to be included in the programme are:

- only those RMD are allowed to participating in a recovery programme which are strictly meeting their obligations in the privatisation contract, and the check outs of the post-privatisation control have not established there any significant violations.
- The Association should not have changed its capital structure, otherwise it would have stopped meet the requirements needed for a genuine MEBO;
- The Association should not have unpaid credits, overdue bank and other obligations;
- The Association should not be bankrupt or announced into insolvency;
- The Association should not have used any financial or consultant's assistance on other grounds, at which the objectives of the project had not been attained, or it has failed at the Associations fault;
- The company should meet a certain minimum of requirements for economic efficiency;
- The company should have started introducing a system for quality control under ISO;
- The stabilising programme for each company is developed individually, in correspondence with its specifics and concrete needs;

- The company should sign a contract with the Programme of Assistance which will oblige it to carry out punctually the recommended actions on each stage of the programme, making result-orientated use of the help it gets, and allowing control at any time;
- The prolonging of contract and effecting the assistance on each next stage of the programme will depend solely on the results the company has displayed to that moment;
- The drawing away of the activities prescribed by the recovery programme is a ground for terminating the contract and help.

## 5. Programme infrastructure:

The following infrastructure should be set up for the needs of the MEBO recovery programme in Bulgaria:

- An Agency for Planning and Control of the assistance rendered – it can be created on the basis of the Bulgarian EFES structure, attracting the necessary specialists. For its efficient activity, this Agency should keep in regular contact with Agency for Privatisation, the Agency for post-privatisation control, the Ministries in different fields and Government agencies in Bulgaria. The Agency should also set up consulting bodies and control on the companies' site, along with contract parties for rendering assistance;
- A Centre for approving the projects and allowing for assistance funds under the stabilising programmes – should be set up in the Central EFES office and to keep in contact with the corresponding pre-subscription funds in Brussels.

## 6. Stages of help rendered:

- study – includes the initial contact with the company, collecting the initial information about it – from the company itself and from the corresponding State bodies, along with an assessment of its meeting the preliminary conditions for working our of a project for rendering assistance. All activities on this stage are done by the Agency which, at its completion, submits its well grounded report to the Centre - of its estimation of the concrete company;
- working out of a project for rendering help – the project is elaborated by the Agency, in co-operation with the company and is subject to approval by the Centre. After the project is confirmed by the Centre, the Agency signs a contract with the company for rendering assistance;
- Consultant's assistance – on this stage of the project's realisation, the Agency will concentrate on rendering consultant's assistance in the development of an efficient and adequate management system, as well as in creating organisational culture and improving the employees' motivation. This is done mainly through consultant's help and training the per-

sonnel. In individual cases, a restructuring of the company may be necessary. The approval and realisation of the second stage will depend on the results of this first stage of the project's implementation, after a well grounded report to the Agency and the Centre's approval.

- Technical and/or financial assistance – the assistance on this stage is done through corresponding tranches, while the strict keeping of the obligations taken on by the company is a prerequisite for the allowance of the next one. The control of the object oriented use of the help is carried out by the Agency, and the Centre can do planned and sudden check outs – including ones on the spot. Each report will account for the efficiency of the help rendered, while the Centre can, at the Agency's recommendation, change the function of the tranches to follow, if necessary.
- Submitting accounts for the projects – after its completion, each project is subject to general reporting in which the object oriented use of the help is tracked, along with the usefulness of project and its results, and the conformity of these results with the planned ones. The Agency and the company itself are responsible for doing the reporting. So far as the Agency will have a definite capacity, and consequently, will be able to work on a definite number of projects /named by the Centre/ simultaneously, the reporting of one project completed is a condition for starting a new one.

Our participation in EFES structures at present would gain a real value if it leads to realising of a programme of the kind described above which will effect the stabilising and, in some cases, rescuing of Bulgarian MEBOs/RMDs.

This would create all the beneficial social and political effects and, last but not least, it will change the Bulgarian public opinion towards the companies privatised through MEBO. The main objective of the present report is to propose to our EFES partners a/ to express their attitude for the realisation of such a programme in Bulgaria, and b/ to suggest the possible steps of lobbying for it in the European Commission. The pre-joining funds of EC can, in this respect, be one good chance. We are relying on the understanding and partnership on the part of EFES in the realisation of this, really ambitious and noble aim.