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We are happy to announce that ***Martin Zaimov***, one of IME Board Members, was elected Head of the BNB Issue Department, which will function as a Currency Board.

Congratulations!

In this issue:

Bulgaria in Financial Disarray:
Will the Currency Board Put the Country Back on a Sustainable Track?

Prof., Dr. Raimund Dietz
WIIW

Causes of the economic crisis

The Bulgarian economy is afflicted by a serious destabilization of its financial system. Six main causes may be identified:

- the high foreign debt Bulgaria has inherited from the communist past; the debt stems to a large extent from huge terms of trade losses in trade with the Soviet Union which the Shivkov regime seeked to compensate by credits from the West;
- the domestic debt, a large part of which is effectively denominated in hard currency, the burden of which cannot be eliminated by inflation. Real devaluation of the domestic currency increases the relative debt burden. The growth of domestic debt is to be seen in connection with the deep transformational recession, slow or delayed structural changes, and the lack of financial discipline in the country. Recent inflation has accelerated the process;
- the restrictive, sometimes erratic, monetary policy (in conjunction with lax control of banks and credits). For most of the transitional period interest rates were generally high and subject to frequent and wide fluctuations, hampering investment and growth and (by contributing to enterprise losses) undermining the viability of the financial system. The Bulgarian National Bank (BNB) used interest rates as an instrument to attract foreign exchange and bring down inflation. As nominally high interest rates contributed to the growth of the domestic debt and financial destabilization, the subsequent reduction to 'reasonable' interest rate levels was immediately followed by a swift dollarization of the currency (in Spring 1994, and since the end of 1995);
- in parallel, the management of the exchange rate has also been problematic. In Bulgaria, the way the exchange rate anchor was used allowed the exchange rate to appreciate too fast in real terms (given the low competitiveness of the Bulgarian economy and its debt servicing obligations). In consequence the lev corrected strongly downward during the two lev-crises (Spring 1994, and since May 1996), fuelling inflation and undermining the confidence in the economy and in the country's authorities;
- the 'stabilization' policies were unfortunately combined with lax control of credit and banking; lack of prudent regulations for the banking system, etc.;
- the primary obstacles to stabilization and sustained growth, however, have been structural in nature. The delay in the structural reform of the 'real sector' has limited the scope and credibility of macroeconomic policies and has added to the burden inherited from the past. State-owned enterprises (as well as private enterprises, since 1991) contributed to the accumulation of bad debts undermining the stability of the banking system. Although a significant proportion of these debts were substituted by long-term government securities, the banking crisis deepened to an extent that deteriorated the overall macroeconomic environment. This resulted in additional problems for the real sector. Thus a vicious circle was created, the way out from which has yet to be found.

The budget

The (consolidated) state budget is reflecting the economic development. State finance in Bulgaria has been increasingly squeezed on both the revenue and expenditure sides. The share of state revenue in GDP has declined steadily from 58% in

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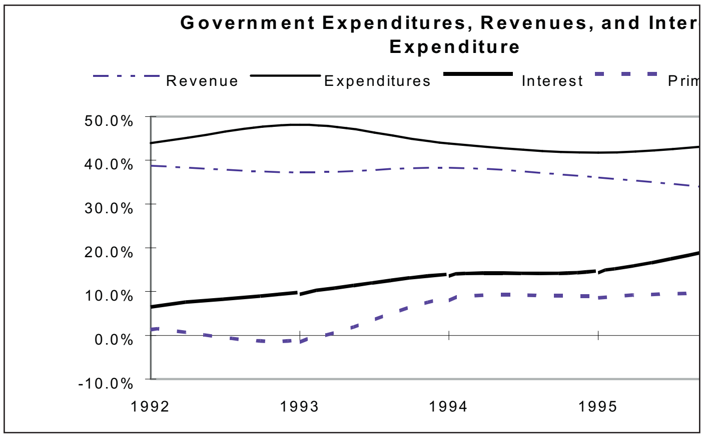
1989 to 36% in 1995. In 1996 it was only 31%. Further strong drops have been reported for the first quarter of 1997. Government revenue as a share of GDP is quite low relative to most other economies in transition. On the expenditure side the resumption of foreign debt service in 1994 and, especially, the servicing of the rapidly growing domestic debt, have absorbed an increasing share of state resources. In 1996 interest payments on foreign and domestic debt absorbed 3% and 18% of GDP respectively. These two trends have made the fulfilment of even minimal social policy objectives impossible. Consolidated budget deficits (1994: 5.5%, 1995: 5.7%, 1996: 11.7%) were obtained only through the generation of primary surpluses (1994: 7.4%, 1995: 8.6%, 1996: 9.2% of GDP). Public finance therefore has stepped into a debt trap.

As tax rates and contributions to social security are high and have been increasing over the years, the fall in revenues reflects the erosion of the tax base. This is due to the development of the shadow economy as well as to high inflation. The care-taker government intends to improve the tax collec-



tion enforcing the collection rules at somewhat reduces rates. However, the low level of economic activity in the country will continue to suppress the absolute level of revenues.

Foreign trade and balance of payments

While the foreign trade of other CEECs (the Czech Republic, Poland and Hungary) has grown vigorously in recent years, Bulgarian trade staggered at low levels and did barely recover from the slump in the wake of the CMEA disintegration. (Before 1990 Bulgaria conducted up to 80 % of its trade with this region). The announcement of the unilateral debt moratorium in 1990, volatile exchange rates, a weak banking system, the low level of foreign investment, and the UN-embargo on Yugoslavia have contributed to the comparatively poor performance in foreign trade. In 1996 both imports and exports dropped, reflecting declining domestic demand and disarray on the supply side. Although the depreciating exchange rate was favorable to exporters the supply side was not capable of responding in full due to the credit crunch and the disruption in business contacts resulting from the crisis.

To service the high foreign debt a highly positive current account would be required. The trade surplus and the inflow of capital, however, were never high enough to compensate for interest due and to allow for building up a strong reserve position. In the wake of the 1996 financial crisis BNB reserves fell from about USD 1500 mn (October 1995) to a low of approximately USD 400 mn in early 1997.

Though the reorientation of trade is not yet completed, the share of OECD countries in Bulgarian trade rose from 9% in 1990 to 51% in 1995.

Foreign trade partners	Exports - %		Imports - %	
	1990	1995	1990	1995
OECD countries	9.0	51.2	14.9	46.9
CEE countries	80.2	33.1	14.9	42.6
Other countries	10.8	15.7	9.2	10.5
Total	100.0	100.0	100.0	100.0

Source: WIIW Database.

Some typical features of the Bulgarian foreign trade are:

- Bulgarian companies, whenever possible, retain their export revenues abroad, fearing the instability in the country.
- A tendency towards increasing cash payments to foreign partners is being observed in the practice of small and medium-size companies.
- Bulgarian companies are inclined to conclude deals on a barter basis, rather than against payment. This is a common practice with partners from countries with non-convertible currency.
- Companies tend to declare a lower value of imported goods, thus decreasing the taxable sum and avoiding or decreasing duties, import taxes, excise taxes and VAT. All imported goods are additionally subject to a 5% import tax, which will be gradually eliminated by the year 2001.

A new government programme is aimed at liberalizing and simplifying trade practices. Price ceilings for food products have been removed, and an export guarantee scheme is to support exports of manufactures and machinery.

In 1995 the Association Agreement between the European Union and Bulgaria became effective. Bulgaria also strives for joining the Central European Free Trade Agreement in order to regain some of the position it held on its traditional markets.

Banking sector

The banking sector, being the intermediary of financial flows, was over the years accumulating uncollectible loans which derived from permanent losses in the real sector. Part of these bad debts were redeemed by the government and transformed into so-called Zunks which make up half of total government debt (end of 1996). The other part, remaining with the banking system, has led to its progressive decapitalization, that with attendant (and recurrent) attacks on the nation-

Balance sheet profits and losses of commercial banks
(BGL million)

	1991	1993	1995
Profits	7201	1896	4646
Losses	1845	4172	29181
Net Profits	5356	-2276	-24535
Loss making banks (numbers)	2	11	23
including private			
and with foreign stake	0	5	7

Source: Bulgarian National Bank, Monthly Bulletin 12/1996, p. 29.

al currency depleted the country's foreign exchange reserves and generated the financial crisis.

The failure resulted not only from financing the huge and protracted losses of the SOEs, but also from the credits that were extended to the economy's private sector, consisting mostly of new start-up firms with little fixed capital. These private firms have experienced the same type of financial distress as the state owned-firms. While most companies had virtually no access to commercial credits, the allocation of credit in Bulgaria, particularly to private firms, is concentrated around a few big debtors.

In 1996 the situation in the banking sector worsened considerably. The National bank bought two private banks and placed 15 banks under supervision. Several bankruptcy procedures are under way. Only a few banks, in particular those whose assets consist mainly of state papers, are considered as financially stable.[1]

Much of the present-day banking legislation is in accordance with the European directives on credit institutions.

Internal government debt

One of the most striking features of the Bulgarian government debt is that it does not derive from lax fiscal policies but from the programmes for assuming commercial banks' liabilities. These so-called rehabilitation programmes developed into the existing debt trap: a rapidly growing share of budget revenues is being used for interest payments to the banking sector, while the banks in turn continue to suffer from bad loans to the enterprise sector. As the debt trap is the main cause of inflation, any attempts to stem inflation by orthodox monetary policies, e.g., by high interest rates (indexing them to inflation) are bound to fail; they would only contribute to a deepening of the crisis.

Outstanding domestic debt

	1995		1996	
	BGL bn	USD mn	BGL bn	USD mn
Direct loans (mostly from BNB)	27.8		139.3	
Ordinary securities	154.8		301.1	
Special long-term issues				
(rehabilitation programmes)	162.8		612.4	
BGL-denominated	94.1		110.8	
USD-denominated	68.7	971.1	501.6	1029.2
Household target issues	4.7		4.6	
Total	350.1		1057.4	
Held by				
Banks	323.5		1002.8	
Non-banks	26.5		54.6	

Source: BNB

One important feature of Bulgarian domestic debt is that a large part of it is denominated in USD and cannot be eliminated by inflation.

At the end of February 1997 domestic government debt amounted to BGL 2,778 bn, or USD 1.4 bn at the then exchange rate. Due to the extremely high interest burden the central government expenditures of February 1997 amounted to the 2.5 fold of government revenues. Inflation in February was much higher than the monthly interest rate on state papers (18%), hence the real value of debt was considerably reduced. As non-interest expenditures cannot be decreased and tax collection not be improved in the short run, the growth of domestic debt (in real terms) will much depend on the level of real interest rates. The lower the domestic debt at which Bulgaria will implement the Currency Board Arrangement, the more credible this institution.

External debt

However, Bulgaria's main burden is its foreign debt. It amounts to more than USD 9 bn, and has the following structure:

Foreign debt, 1996
(USD million)

Paris Club	915
International Loans	1677
Other official bilateral	328
Other bonds	147
Former CMEA creditors (short term)	981
Other short term	34
Brady Bonds	5005
Total	**9089**

After declaring a moratorium on foreign debt service in 1990, Bulgaria was isolated from international financial markets. The London debt agreement signed in 1994 allowed for a modest reduction of total debt and renewed the access to international financial markets. Debt service, however, has risen to roughly USD 1 bn per year since then. In the past years the country borrowed mainly from international institutions.

Though the stock of foreign debt exceeds the domestic debt by at least the five-fold, the present interest burden on domestic debt is much higher. This paradoxical situation derives from extremely high interest (presently 18% per month and more) that has to be paid on that part of domestic debt which is denominated in BGL.

Will the Currency Board help the country out of its plight?

With Bulgaria's economy being largely decapitalized, domestic capital continuing to leak abroad, foreign investors reluctant to put their money into the country, and foreign exchange reserves too low to withstand even small speculative attacks, the country is in urgent need of stability. Only in a more stable environment production and exports would resume growth, and workers earn decent wages that in the wake of the financial crisis have shrunk below subsistence levels.

A currency board arrangement (CBA) strongly recommended by the IMF is to be introduced by mid-1997. It is to bring stability by applying the following rules:

First, the exchange rate of the BGL will be fixed to the reserve currency, DEM or USD.

Second, a CBA guarantees coverage of domestic money by foreign reserves.

Third, the National Bank under a CBA cannot function as

[1] The commercial banks presently considered to be the most reliable in Bulgaria are: Bulbank, United Bulgarian Bank and Post bank, as well as foreign banks operating in Bulgaria: ING Bank, Raiffeisenbank, BNP-Dresdner Bank. Some other commercial banks may also be sound, but lack well-developed correspondent relations.

a 'lender of last resort' either to the state treasury or to commercial banks. Hence the board cannot finance (i.e. monetize) the government's budgetary deficits.

The currency board is an instrument to stabilize and not to develop an economy. Ideally stabilization could turn into growth if a country working under a CBA at an undervalued exchange rate could push exports and generate a virtuous income-investment spiral, whereby the (real) income growth would have to go parallel with an increase in the money supply that accrues from growth in reserves based on a sustained current account surplus.

This 'ideal' mechanism rests on 'ideal' conditions that are not or only partly provided at present in Bulgaria. We will analyze some of them and discuss which measures could be taken to improve them, in ten points:

(1) The CB will both ease and constrain financing of public expenditures. There will be more room for expenditures other than interest as the latter will come down, close to the level on international markets. Accomplishing smooth financing, however, will be harder as budget deficits can neither be financed by commercial banks (as their ability to refinance themselves through the BNB will be abolished within a CB regime) nor will the budget be able to receive direct finance from the BNB (as is the case now). Since confidence in the economy and the banking system will not return immediately, domestic interest rates (actually the risk premium over the going interest rate of the reserve currency) will probably react very sensitively to issuing state papers on domestic markets.

(2) The initial financial requirements associated with a successful implementation of the currency board will be substantial, and should not be underestimated. Hence excess reserves – a coverage ratio of substantially more than 100% of the money base – will be required and will most probably also be provided, in order to have a cushion, e.g., for budget finance in the transitional period. In the transitional period, following the establishment of the CB, liquidity will be quite short. Hence financing of budget deficits, if at all, will have to rely on foreign sources (credits, grants, etc.).

(3) Bulgaria continues suffering from structural strains. As mentioned above, restructuring programs (the 'closing-down' and 'isolation' programs) are being implemented. The cost of these programs is tremendous. Only a part of these cost will be financed (by credits) by the World Bank. (The isolation program alone will require at least USD 500 mn.) According to some estimates, up to 120,000 employees will lose their working place after the two programmes have been implemented. This will add to the already high unemployment (currently registered rate: about 13%, total rate: about 20%), and will be a further burden on the budget.

(4) Due to the large share of non-performing credits to firms and the massive withdrawal of deposits by the population since the end of 1995, the banking system is in complete disarray. Troubles may worsen as the central bank will withdraw as the lender of last resort. The collapse of several banks expected in the second half of the year may harm the credibility of the currency board. The cost of the bank rehabilitation programme is estimated to amount to USD 200-300 mn. It is not yet clear where these resources will come from. Since confidence in the domestic banking system is low, and the presence of foreign banks modest, measures must yet be taken in order to improve the institutional framework of commercial banking. The establishment of foreign banks should have high priority.

(5) It may be expected that the intended establishment of a currency board will contribute to the reduction of the interest burden on domestic debt. However, even after the establishment of the CB, the burden of servicing total debt (foreign and domestic) will be considerable and may restrain economic development. There will therefore remain a need to consider some means of relaxing the constraint imposed by the burden of debt, for example by stretching out the servicing profile if there is no scope for further debt forgiveness. A second option, so far only little used, is the instrument of debt-equity swaps. By selling Brady and Zunk bonds, which are available at a high discount, assets of state-owned enterprises can be purchased. This instrument will have to go hand in hand with privatization, and can, in conjunction with it, actually speed up the privatization process. A third way to reduce the burden on domestic debt would be to buy back high interest bearing (short-term) state papers. Confidence in the Currency Board Arrangement will very much depend on the relative debt burden, foreign and domestic. If the public remains skeptical about the sustainability of the financial system, i.e. concerning the long-term serviceability of obligations, interest rates (risk premium) will stay high and economic activity will be hampered. The strengthening of confidence in the CB may have a high pay-off in terms of the interest burden on the domestic debt and improving the investment climate.

(6) Due to lack of bank services the elasticity of credit supply will be low. As price stability cannot be achieved only on the demand side (through restrictive measures), loans to (potentially) profitable firms should not be hindered on macroeconomic grounds only.

(7) The exchange rate must neither be overvalued nor too strongly undervalued. A reasonable compromise on the reserve requirements, the competitiveness of the country, the relative debt burden (rising with depreciation) and the impact on inflation must be taken into account.[2] At presently (end of March 1997) the exchange rate seems to be overvalued again. (In mid-February it was grossly undervalued.) With continuing inflation, the currency would have to

[2] The situation on the forex market is more than unclear. Presently (end of March) the government attempts to stabilize the lev at a high (and probably already overvalued) level in a somewhat artificial way by inducing the main players (the biggest companies) to execute forex transactions only through a limited number of state-owned 'reliable' banks. (The lev appreciated from its low of 3000/USD in mid-February to only 1600/USD at the end of March.) – At the same time inflation is continuing at a high though decelerating pace. (The inflation in January 1997 was 44%, and in February 242%! The liberalization of prices (energy and fuel, ...) in early March led to another inflationary push. As prices will probably continue to rise, the current account will worsen and the lev – already overvalued – may again suffer a dramatic devaluation.

be devalued drastically before the CB is introduced. This would trigger a strong inflationary push. For Bulgaria, being an energy and raw material import-dependent country, there are limits to undervaluation. Too high an undervaluation implies, inter alia, families' incomes falling below the energy bill. Hence Bulgaria has to rely on quality rather than only on price competitiveness.

(8) An appropriate reserve currency must be chosen. As there is no single 'natural candidate', any choice will be problematic. With respect to trade in manufactures, the German mark would be the preferable candidate for the reserve currency; considering that most of the foreign and some part of domestic debt is denominated in USD, the USD would appear to be the better choice.

(9) Experience with other CB- and transition countries shows that also Bulgaria's inflation differential will be most probably larger than its productivity (and quality) catch-up. Bulgaria is surrounded by countries with high inflation propensity. Sooner or later the current account will turn into deficit. The capital account may turn negative, too, reserves and hence the money supply would shrink. For Bulgaria and the IMF it will be important to define when the time has come to change the exchange rate or to switch from the Currency Board Arrangement to a more flexible and appropriate regime (e.g. to a crawling peg). As experience with other countries proves, timely exits may be mastered without major problems. But this will depend very much on whether Bulgaria will leave the CBA in a position of (relative) strength or finding itself in a new crisis.

(10) Stabilization is never a free lunch. However, as there are virtually no tangible resources the country could tap into – wages having fallen below subsistence levels, and investments virtually non-existent – resources to stabilize the economy will have to come mainly from abroad. On these grounds it is to be hoped that stability will allow the country to develop its so far unutilized qualities and strengths.

Vienna, April 1997

Legal Schemes to Finance Small Enterprises

Stefan Kyutchukov
Dimitar Totev

Bank credits are the first source of funds one thinks of when there is a need for financing business activity. However, banks are not interested in extending credits below a particular minimum amount, because the interest from them cannot cover the expense of their servicing. This is due to the strict requirements banks have to comply with, such as minimum registered capital, asset structure, capital adequacy, etc. In fact, the practice of micro-lending has been established as an alternative to the formal banking sector, in order to facilitate the smallest entrepreneurs who need funds in an amount less than the minimum of the bank credits.

Cooperatives are a legal form of credit institution, which give the best opportunities for realizing the first above-mentioned main principles. Bulgarian legislation does not allow a cooperative to realize credit or deposited activity, although there is a provision in the Cooperative Act which stipulates that: "the cooperative may conduct credit and deposit activity pursuant to a decision of the General Assembly" (Article 38). This provision is further developed in Article 1, Paragraph 1 of the Banks and Credit Activity Act, which was in force until the end of May 1997. According to this Act, "a bank is any legal entity, established in the form of a joint-stock company or a cooperative, which has been licensed under the terms and conditions of this Act to conduct on a regular basis deposit, credit and other bank transactions."

The conclusion is that a cooperative may conduct deposit and credit activity if it complies with the requirements provided for the bank, and if it is licensed by BNB.

Another article of the Cooperative Act (Art. 39) seems to give a separate legal grounds for a body of the cooperative to conduct deposit activity. According to it, "a mutual crediting fund may be formed for the members of the cooperative; the mutual crediting fund becomes a legal entity from the moment of opening an account in the bank." But there is a restriction in the Banks and Credit Activity Act's Article 44, which stipulates that: "establishment of crediting funds within a company by accepting money deposits from workers and employees under the liability of the company is prohibited. The employers may accept deposits from their workers and employees only if these monies are immediately deposited in a bank on behalf of and in the account of the workers and employees."

At the end of May 1997, a new Banks Act was passed at its first hearing. In it is the following definition of "bank:" "a legal entity in the form of a joint-stock company, which on a regular basis collects deposits from third parties and uses the accumulated funds to extend credits or to conduct other deposits at its own risk and account." A bank activity may include: accepting money as deposits from third parties; extending loans; purchase of debentures and debt instruments; transactions in foreign currency and precious metals; accepting valuables in trust; purchase and sale of securities; accepting of pledges, promissory notes and other security documents; payments from and clearance of checking accounts of other persons; undertaking and mediation of transactions of capital management and investment funds and management or acquisition of shares of domestic or international investment funds; acquisition of rights under the rendering of goods and services accounts and assuming the risk of failure to pay; or other similar activities, determined by the Head of bank supervision.

We may say that the new Banks Act defines more strictly the specific characteristics of banks and banking activity.

Members in a Company Limited by Shares may extend a loan to the company pursuant to a decision of the General Assembly. This possibility is provided for in Article 134 of the Trade Act. The amount extended by the member is called an "additional cash contribution." It shall be paid back by the company within a definite period of time with the interest accrued on it, if such interest is stipulated. On these grounds, an institution which is specialized in extending microcredits may finance a company limited by shares by means of acquisition of a share of the capital and pursuant to a decision of the General Assembly for a credit transaction.

The practical application of this scheme is also restricted, because of the fact that only a company limited by shares may be credited, and potential clients will be reluctant to pay for the expense of establishing of a trade company, with the subsequent obligation to keep double entry accounting, to act in compliance with the financial rules, etc.

Holding gives another opportunity for lawful conducting of credit activity outside the banking system. A holding is a consolidation of trade companies which are bound on the grounds that one of the companies holds or controls directly or indirectly at least 25% of the shares in all the other companies or may determine directly or indirectly more than half of the composition of the Board of Directors of these companies. The company which holds the aforementioned rights with respect to the capital or with respect to the Board of Directors of the other companies is called a "holding company" or "principal company".

Pursuant to the law, a holding company may extend loans to companies in which it directly participates or that it controls (Art.280, para.1 Trade Act). The only restriction is that the total of the extended amounts may not exceed the 10 times the total capital of the holding company (Art.280, para.2 Trade Act).

The companies in which the holding company directly participates or which it controls, and which the Trade Act calls "subsidiary companies," may make deposits in the principal company. The amount of the deposits may not exceed three times the amount of registered capital.

Financing of small entrepreneurs by a holding is as inconvenient as the financing through participation in company limited by shares (see 1.3) — the borrower may only be a commercial company.

Complicated schemes of financing

Leasing is a credit transaction which may be concluded between trading companies without the necessity of prior authorization by a state authority be necessary. In the Bank and Credit Activity Act, leasing is not provided for as a transaction for which a license from BNB is required.

The purpose of the investment credit is actually achieved by the leasing transaction, though money or cash account receivables are not extended to the borrower, but rather the right to use fixed assets against the payment of installments. The leasing agreement has much in common with the lease agreement but they differ de jure in the fact that the user under the leasing agreement is entitled to buy the fixed assets or require the renewal of the agreement. These terms and conditions are typical for the financial leasing which will be discussed below. The agreement for operative leasing, which formally may be easily mistaken with the common lease agreement, is not subject to this research.

This leasing looks very much like the purchase with delayed payment pursuant to Art.205 of the Contracts and Obligation Act. Under both agreements, the person who grants the use of the property remains its owner until the final date of the agreement, but the user assumes the risk of the accidental loss or damage. The difference between the agreements is in the conditions under which the current user becomes owner: under the purchase with delayed payment the condition is to pay the last installment, while under the leasing agreement the condition is the user to give clear notice to the owner that he or she is purchasing the property.

The Trade Act gives the following definition of the financial leasing agreement: "by virtue of a financial leasing agreement, the lessor shall oblige himself to acquire a chattel from a third person under the terms stipulated by the lessee, as well as to grant the chattel to him for compensation".

This definition shows that there are three parties in the lease transaction: a lessor, who grants the chattels under leasing; a third party- consignor, who sells the chattels to the lessor but delivers it directly to the lessee; and a lessee, who gets the right to use the chattels against payment of installments.

The lessor purchases the chattels according to the choice and the specification of the lessee. Leasing of assets subject to the accounting standards decreases the managing expenses for the transaction, which is one of the main issues of microlending. This results from the fact that in case of failure of the lessee to fulfill its obligations, the lessor who is the owner of the chattel may terminate the agreement and take the chattel back. In case the asset is subject to an accounting standard, it may be easier for the lessor to sell it and cover the loss.

The ownership which the lessor holds is a kind of collateral in case of failure to fulfill any of the obligations under the agreement on the part of the lessee. This is one of the flaws of the leasing agreement, because the lessor has’nt got a non-judicial executive title (which a creditor would have had, having registered pledge under the Registered Pledges Act). In fact the lessor would have to sue the lessee first in order to receive its chattel back.

As mentioned above, the leasing agreement replaces the investment credit. However, a scheme under which the lessee may receive fresh current assets in result of the leasing transaction also exists. This results from the sale of a property of the lessee to the lessor after which the latter leases it back to the lessee (the so called sell and lease back). The lessee receives the sale amount and pays it back in the form of leasing installments. Usually in practice an initial grace period during which the lessee does not make installments is stipulated.

National Accounting Standard N11 provides the rules for accounting of leasing transactions. When the lessor purchases the property subject to the leasing agreement, it must be written down in the balance. After it is granted under the leasing agreement notwithstanding the fact that the lessor remains its owner, the lessor has to write it off the balance as an asset and write it down in the account receivables at a value equal to that entered in the expenses on the acquisition account. The lessee on its part writes the assets down in its balance and starts levying deprecations.

When the payment of installments begins, the lessor deducts the interest of each installment and the balance is used to decrease the accounting value of the assets, written down in account receivables. In this way the amount of the account receivables decreases with each installment.

The above-mentioned issues may be solved by introducing an intermediate level in the relations between the parties — a "mediator" institution. The mediator may be a non-financial institution (cooperative). The mediator may relieve the banks of the inconvenience of taking care of the management of a large portfolio of small credits, each of them not exceeding the BGL equivalent of USD 500. Under this scheme the bank delegates to the institutional mediator the obligation to manage the microlending portfolio. From the point of view of the cooperative, whose priorities and direct objects differ from those of a bank, the management of such a credit portfolio and the small scale are not cause for worry.

Management of bank credits by Cooperatives

One of the basic reasons for banks to be reluctant to engage themselves with microcredits is the low interest in proportion to the huge amount of work necessary for serving the transactions. In order the costs for the management of the banking portfolio to be reduced, the bank may transfer this activity to a non-financial institution. It has already been mentioned that microcredits are managed comparatively efficiently by a cooperative, but the Law does not allow it to grant credits and obtain deposits.

Under the mentioned scheme the bank, not the cooperative, will grant the credits and that is how the requirements provided for by the Law on Banking and Credit Activity will be met. From the other side only members of the cooperative will be able to apply for microcredits before the bank. It will be a consumer's cooperative which would enable its members to apply for credits under preferable conditions.

The cooperative shall determine in each separate case the maximum possible amount of the credit for which the member of the cooperative may apply, before the bank considers the ratio of the credit amount towards the sum accrued by the member in the cooperative. The mentioned sum is in fact a deposit in the form of a membership contribution and a share or a loan under Article 33 Par. 5 of the Cooperative Act.

The sum accrued by contributions and loans of the members may form a Guarantee fund for the bank, which grants the credits and which usually carries the risk of failure of fulfillment of credit contracts. Through the Guarantee fund such a risk will be distributed among the bank and the cooperative. In a case where the cooperative has accepted the ratio of 1:3 between deposits and credits, the Guarantee fund will at any time be able to recover a failure up to the amount of 1/3 of the credit portfolio of the bank.

The cooperative will control the repayment of the credit and will be entitled to the security rights. In this way it will relieve the bank of the costs of serving the credit portfolio.

Among all of the schemes mentioned, the authors find this one to be the most appropriate.

Structure of Credits

While accepting a scheme for direct crediting, it should be taken into consideration that the income from the microcredits expected from the financial institution are usually nominal, when compared with the potential expenses for collection of the accounts receivable--especially in case of failure of the debtor to fulfill his obligations. Although it concerns small sums, the complex character of the acts for filing suits and the costs thereto are the same as in case of crediting in large amounts. Although the fact that the debtor will be ordered to pay the costs to the creditor if the case is won, there is only a small possibility that the debtor will have the necessary sums available. It may turn out that as a result of the won case a non-collectable sum finally becomes a sum larger in amount.

Because of the above-mentioned reasons, the financial institutions granting credits make efforts to form the transactions in such a way as to reduce as much as possible the eventual costs for collection of the sum. Typically, those efforts are made in the following forms:

Creation of a possibility for effective normal impact on the Debtor.

The creditor should in all possible ways avoid court settlement of disputes. Such settlements are usually expensive, slow and do not guarantee the satisfaction of the creditor's interests. The creditor should look for other means to make the debtor motivated to fulfill his obligations. Such means can be for example, the acceptance of a warrantee granted by persons related to the debtor. If the debtor fails to fulfill his obligations the pressure on the warrantors usually results in motivation of the debtor to fulfillment, for he feels guilty that his relatives suffer because of his negligence. Authorization for the exercise of the rights of the cooperative of which the debtor is a member may have the same result. It is much easier for the cooperative to motivate the debtor to fulfill his obligations, than the bank-creditor.

Arbitration provision

The credit agreement shall have an arbitration provision, empowering an arbitration court (for example Bulgarian Chamber of Commerce) to settle the dispute. The proceedings are quick and the dispute shall be settled in one instance. In this way time and resources will be saved.

Creation of non-judicial executive titles

The creditor should ensure the possibility of avoiding the settlement of the dispute by a court or arbitration through the creation of the so-called "non-judicial executive titles". Such titles are the promissory note, signed by the debtor for a sum and interest equal to the amount of the credit granted; pledge and mortgage for the amount of the credit. In case of a failure the creditor may obtain forthwith a writ of execution, issued on the basis of such a document without a need for filing the claim with a court or an arbitration (in this way the procedure will be reduced by approximately 2-4 years and considerable costs will be saved).

Avoiding court execution

All of the above-mentioned formal methods for collections of accounts receivable result in execution, realized by a bailiff. On the grounds of a writ of execution issued by a court, each creditor is entitled to request an execution to be initiated by the bailiff, and in the course of this execution the property of the debtor is to be sold and the owed amounts to be paid to the creditor. A notorious fact is that execution initiated by the State is slow (it can take even some years), and its successful end is not always possible. That's why the creditor should use methods as enable him to get satisfaction out of court, from the debtor's property. Such a method can be the purchase of the debtor's property in favor of the creditor, with a redemption clause after the repayment of the credit. Before the occurrence of the redemption right, the creditor shall be an owner of the property and shall be entitled to dispose of it in order to be satisfied by the sum received.

Another possible technique is to have the property pledged as provided for by the recently enacted Law on Registered Pledges (State Gazette 100/ 1996). Such a pledge makes it possible for the property pledged to remain in the possession of the debtor who can use it without being disturbed. As a result, the subject of such a pledge is usually the property bought by the credit granted. The creditor of such a pledge may initiate the purchase of the property pledged without filing a suit against the debtor (i.e. it is a non-judicial executive title). The creditor also may, without the interference of a bailiff or other State body, sell the pledged property while observing the legal requirements. In this way the efficiency of the executive means is guaranteed. The costs and the loss of time and resources by the creditor become compatible with the profits expected from the crediting. As a result of the fact that a pledge of a specific pledge can only be a tradesman, craftsman or self-employed person, the bank serving the credit may buy (with a redemption clause for the debtor) the debtor's property for the purpose of establishing a pledge in favor of the crediting bank. Such pledge is always possible because the cooperative is always a trade entity according to the legal definition.

The formation of credits following the above-mentioned methods reduces the amount of the expected costs for covering the collection of the account receivable. It is not always possible, and indeed it is not necessary for all of these measures to be undertaken at the same time.

THE 1997 BUDGET

The Government approved 1997 budget and it is expected to pass through the Parliament soon. The overall deficit was set at 5,8% of GDP which is much higher than preliminary 3.8% deficit. The budget is estimated at fixed exchange rate BGL 1000 per DM and BGL 1700 per USD.

Table 1
Central Government Budget for 1997
/BGL bln./

Revenues	2688
Expenditures	3625
Primary surplus	865,3
Overall surplus	-937
- % of GDP	-5,8
Financing	937
Domestic	559,1
External	377,9

The revenues are expected to arise 7.7 times with respect to 1996. The figures suggests much more efficient tax administration. If tax administration failed to increase tax revenues the Government should increase primary surplus. A higher primary surplus would be a very unpopular measure.

The lower than expected inflation rate in April and May reduced the original estimation of GDP from BGL 20 000 bln. to BGL 16 150 bln. The lower inflation rate was a main reason for increasing budget deficit as a percentage of GDP .

Low inflation rate calmed down high inflation expectations. The combination of fixed exchange rate (BGL 1000 per DM) and low inflation expectations motivated the households to invest in assets, denominated in BGL, rather than in foreign exchange under the mattress. The money outside banks/deposits ratio tends to decrease after April. However, a better part of savings are still outside banks and are not readily available for investments.

Table 2
Exchange rate (BGL per USD)

Exchange rate	1994	1995	1996
- eop	66	70,7	487,4
- average	54,2	67,2	175,8

The privatization revenues are expected to finance nearly fifty percents of the budget deficit. It is very important to speed up privatization in order to have Currency Board credible. The Government relied heavily on inflation tax in 1996. Now the inflation tax revenues should be replaced by real growth and privatization revenues. Given negative real growth in 1997 the efficient privatization is very crucial for the success of reforms.

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The Biggest 500 State Owned Enterprises

Selected Profiles!

Neohim SPJSCo.

Dimitrovgrad
Tel: (+399 2) 0391 238 490
Fax: 27541

(USD thousands*)

	1994	1995	1996
Sales	47294,1	86078,4	92821,0
% Growth	-	82,0%	7,8%
Total assets	66495,3	66300,3	n.a.
Current ratio	0,9	0,9	1,1
Working capital	-2990,9	-1333,3	6844,6
Equity	40312,2	37620,5	5446,0
Interest payments	19,7	323,5	266,6
EBITDA	-2771,7	5789,9	3254,7
% of sales	-5,9%	6,7%	3,5%
EBITDA/Interest	-140,9	17,9	12,2
EBIT	-4248,1	4235,2	2031,4
Short term debt	20656,0	25061,7	8082,7
Long term debt	1946,5	1817,5	241,7
Debt/EBITDA	-8,2	4,6	2,6

· **The stock items are turned into USD with exchange rate at the end of period. The flow items are turned into USD with the average exchange rate. The difference between the eop and average exchange rate is huge (Table 2) and improved a lot stock/inflow ratios.*

Production line: non-organic chemicals
Number of employees: 3148
Neohim registered higher sales in 1996 with respect to 1995. The sales are higher in the USD terms, which suggests that the increasing sales abroad underlined better financial position of the company.

The company has the biggest line for ammonia in Bulgaria. It gives the company a monopoly power on ammonia market.

KCM SPJSCo.

Plovdiv
tel: (+359 2) 032 23 496

(USD thousands)

	1995	1996
Sales	82307,6	96948,4
% Growth	-	17,8%
Total assets	40104,8	n.a.
Current ratio	3,5	1,2
Working capital	16349,2	1153,7
Equity	9932,5	n.a.
Interest payments	701,7	268,2
EBITDA	10217,8	18191,43
% of sales	12,4%	18,8%
EBITDA/Interest	14,56187	67,8229
EBIT	8730	17370,38
Short term debt	6484,809	5743,422
Long term debt	102,9279	752,6693
Debt/EBITDA	0,64	0,36

Product line: zinc, lead, tin, silver, alloys

BUREAUCRATS IN BUSINESS:

AN ATTEMPT TO MEASURE STATE ENTERPRISE DECISION MAKING AND MANAGERS' ATTITUDES

Institute for Market Economics

Introduction

We measured the bureaucracy in business by means of a standardized questionnaire, filled by face-to-face interviews with managers or executive directors of 117 state owned enterprises (SOEs), public (joint stock companies) and private companies of the questionnaire. The companies in the sample are all state and formerly state companies which during the survey were found as follows: SOEs - 34.4%, in process of privatization (47.9%) or recently privatized (17.7%).

The research was conducted on a representative cluster in 17 regional towns and Sofia. Companies were selected by random procedures from the BULSTAT register. The survey took place in May 1997. The questionnaire was designed by IME and the Agency for Socio-economic Analysis, owned by Docho Michailov and was consulted by law attorneys, and experts in econometrics, management and statistics. It consists of 45 pre-coded and open questions, comprising 201 variables.

Measurement of bureaucracy

The distribution of time of the managers' is the principle measure (indicator) of bureaucracy applied in this research. The managers' time consists of time for consultations with superiors, time for work with institutions, operational management time, deal-digestion time. Besides time, level of managers independence and factors of decision making were also taken into account. All bureaucracy measures were structured in the contexts of Corporate governance and Operational management. Corporate governance management focuses on manager's relationship with superior institutions and other integral activities of the company. Operational management treats managers' relationship with inferiors and current management activities. Nevertheless this division is conventional and was made only as attempt to structure results. This paper summarizes first attempt in Bulgaria to measure costs of decision making and managers attitude in SOEs, enterprises being privatized and recently enterprises. The results are representative and valid for all SOEs. Consistency analyses revealed that results do not change with further increase of sample size. However, broader conclusions would require a sequence of surveys. Data on private (recently privatized) companies (17.9%) has a control and comparative value only. It may not be interpreted for any conclusions about bureaucracy or time management in the private sector.

Background

Bulgaria is one of the transitional countries which will repeat macroeconomic stabilization reform again. The introduction of the currency board set up a new rules for both real and financial sectors. SOEs and private enterprises should operate under hard budget constraint.

It is generally accepted that bureaucratic approach has been one of the major institutional barriers to the market reforms in Bulgaria. Most analysts admit that here, as elsewhere, bureaucrats allocate resources according to unclear criteria and in an inefficient way; that both management and privatization of the SOE is a duty of government officials who maximize their utility, i.e. impede structural reforms; that huge state owned sector is the main source of bureaucracy's economic power, and so on. At the same time nobody in Bulgaria bothered to initiate a survey into this conventional wisdom, and measure structural reform blocking procedures.

Legal framework of SOEs

Most SOEs have been transformed into commercial companies, under the legal form of one-person owned joint stock companies (where the sole shareholder is the government/line ministries) and one-person owned limited liability companies (established by SOEs or the government/line ministries). This procedure is regulated by the Law on SOEs Transformation into Commercial Partnerships (1991). This gave them an opportunity to act as real commercial entities, due the fact they were placed in the same legal regime (re: capital provisions, management structure, etc.) as private companies, in conformity with the Commercial Act of 1991. The difference stemmed from the execution of the property rights in SOEs. A number of Council of Ministers decrees (N265/1992, amended in 1993, and N7/1994, on the enforcement of the property rights on SOEs, amended three times in 1995 and 1996) attempted to put some order in the government's role as the principal. The latter decree stipulates that in both types of SOEs, the Council of Ministers or the line ministries exercise owner's rights (Article 9), appointing the majority of the Board Members. From a legal point of view, there is no difference between private companies and SOEs; in SOEs the government plays the role of the shareholders' general meeting. However, government representatives on the boards found a way to maximize their utility through transferring liabilities from the enterprises to the budget.

Financial incentives are limited to a salary level of five times the monthly minimum wage for Board of Directors members, and 350 percent of the average salary for the managers. Any other type of financial encouragement for economic results to be achieved in a company's favor is also not allowed. Taking into consideration all these relevant facts it can be concluded that the relationship between the members of the executive bodies of state owned joint-stock and limited liability companies on the one hand, and the State as a sole shareholder on the other, are administrative rather than contractual, as there is almost no room for consent between the parties.

Management contracts with executive directors and Board and Supervisory Board members are negotiated between each member of the Board on one side, and the appointed Minister, as owner's representative, on the other. They are concluded on the basis of a special order issued by the Minister for the appointment of those persons as members of the Board. Such appointment substitutes for the election of the members by a General Meeting of Shareholders. The contracts are concluded in accordance with the general principles of Bulgarian Civil Code. They cannot be employment contracts. The parties' rights and obligations, including the remuneration due to the members of the executive bodies and the limits imposed on the granting of powers in connection with their functions, are in fact not subject to prior negotiation. They should be in conformity with the legal rules in force and the unilateral will manifested by the representative of the State in the contract - the Minister appointed by the Government. As stated above, the powers of the Executive bodies of state owned companies are quite limited. Although such issues as the adoption of the inner structure of a company and its market policy are within the competence of its executive bodies, as a whole they have less power in the decision-making process under such management contracts than those granted to the same bodies of companies in the private sector. In the case of the two-tier system, the management contract is actually negotiated between the Chairman of the Supervisory Board as its representative, and the members of the Board of Managers.

There is a second type of management contract in SOEs: those concluded with the Executive Directors of Boards of Directors and the executive members of the Board of Managers. The contracts are negotiated between the Board of Directors (the Board of Managers), represented by its Chairman, on one side and the appointed Executive Director (executive member) on the other. They should also be in conformity with the general principles of Bulgarian Civil Code, and cannot have the form of employment contracts - though they contain some provisions concerning working conditions, salaries, etc. - and though the appointed executive is "in-house," and a sort of employee of the company. In this position, he or she deals as a manager of the company and the head of its inside administrative staff. Nevertheless, there are the same contractual restrictions as those applied to the management contract concluded with the appointed Minister acting as an "ordinary" member of the Board. There cannot be real negotiation on the terms and conditions of the contract concerning parties' rights and obligations, claims for damages, dissolution of the contract, etc. if there is an offer which differs from that proposed by the State. Nevertheless a good manager is quite free to carry out a reasonable and successful economic policy in conformity with the company's interests.

The third type of Management contracts is of those concluded with all other members of the "in-house" administrative personnel of the company, including the Industrial Director, the Marketing Director, etc. These contracts are always employment contracts, as these persons are employees of the companies. These contracts are concluded between the individual Executive Directors, or the executive members of the Board of Directors (Board of Managers) of SOEs on the one hand, and each member of the administration, on the other. In such cases, the Executive Director and the other party are free to negotiate the terms and conditions of the contract in accordance with the provisions of current Bulgarian legislation.

However, the main problem is that the members of the executive bodies are not motivated to deal like real managers, due to of the existence of numerous restrictions to their activity, including an absolute lack of financial encouragement.

On the other hand, almost all of the members of those bodies are members of public administration as well. They have in fact been elected as members of the executive bodies as a result of their occupation as governmental employees, not because of management experience. That fact proves that to some extent the business activity of the state owned companies is determined by political rather than economic reasons, and is directly connected with the will of the ruling party and its government to reform the existing economic system in Bulgaria.

Corporate Governance Issues

We used consultation time (with superiors) on different economic issues to outline SOEs' decision making costs.

Companies managed by a board of directors need more time for consultations than the others. Working with a Board of directors requires weekly consultations, while working with managers under other superior structures require them once or twice per month. Companies where owners are represented by the Manager need less time for consultations with superiors (twice a month). Alternatively, recently privatized companies or companies under privatization, where owner representatives are physical persons or private companies, report higher time spent on consultations (once a week). Respondents who state that Ministry departments are responsible for the final risk of the companies show higher consultation time.

Q12. How often do you consult representatives of the company owners? (Single answer)

Valid percent	State
Daily	16.3
Several times per week	8.1
Once a week	11.6
Twice a week	11.6
Once a month	27.9
Less than once a month	24.4
N/A	(10.4)

[Valid percent: Frequency of relationships with superiors]

SOEs with a government share of more than 50% also need 4.67 times more consultations than the average. In companies owned by local governments this estimate is 2.47 times the average value.

Most of the consultations are devoted to financial management (57.3%), and investments (45.8%). Fewer consultations are necessary for personnel selection and salaries. Sales and new clients are more "disputable" than the suppliers.

Q13. What kind of decisions do you have to consult with the owners of the company about? (Multiple answer)

Yes Percent	State
About suppliers	13.5
About management of production	15.6
About clients and sales	18.8
About new markets	18.8
About company personnel	11.5
About marketing and advertising	12.5
About financial management, loans and profit allocation	57.3
About wages and remuneration	13.5
About investments and long-term assets	45.8
About other operational decisions	30.2
About other strategic decisions	44.8

[Yes Percent: Subject of consultations]

Organizational structure is an important transaction costs factor. Thus, the state owned enterprises are much more bureaucratic than private ones, and transaction costs are higher. Physical persons and private companies representing the government-owner or privatization funds-owner manifest the same feature.

Remuneration of managers

The results suggest that company profits do not correlate with additional remuneration. The research results suggest that managers' remuneration in most companies is not bound to profits. The state-owned companies did not use a system of stimulus on the base of market principles.

Only 5.2% of managers do not receive remuneration related to any index of company efficiency. The most frequent incentive is to link remuneration to a percentage of the company's average salary (63.7%). Another commonly used formula is the connection of remuneration to the company's profits (14.3%). Most infrequently remuneration is attached to company sales and turnover.

Q14. Is your personal remuneration related to the efficiency of the company? (Multiple answer)

Valid percent	State	Private
Related to a multiplication of minimum wage	8.8	18.8
Related to a % of the average company salary	63.7	6.3
Related to a % of the company profit	14.3	37.5
Related to a % of the company turnover	3.3	6.3
Related to a % of the company sales	4.4	6.3
In another way	5.5	25.0
Not related : Missing values	(5.2)	(9)

[Valid percent: Managers' incentives]

A comparison between managers' and employees' incentives:

Related to:	Managers	Employees
number of min. wages	8.8	7.1
% of the average comp. salary	63.7	17.6
% of the company profit	14.3	25.9
% of the company turnover	3.3	7.1
% of the company sales	4.4	21.2
In another way	5.5	21.2
Not related	20	11.5

[Valid percent: Employees' incentives / Managers' incentives]

The results show that employees' incentives are different. While only 5.2% of managers lack additional remuneration, more than 11% of their employees do not have such motivation. Employees receive additional remuneration more often on the basis of company profits and company sales, while managers are stimulated on the basis of the average company salary.

Rules of the Game

21.6% of SOE managers and 25% of those in private companies shared the opinion that the state clearly defines the rules of the game (Q30). This sharply contrasts with the small percentage of managers who respond affirmatively to question 31 "Are there clear rules of the game" in Bulgaria (only 8,5% of the SOE managers and 10% of those in private companies).

The answers suggest that the real problem is not a lack of regulations, but a lack of both effective enforcement and an economic incentives mechanism. The inability of the bureaucrats to work within the rules established by themselves pre-determines low respect for the law. Inefficient law enforcement induces higher transaction costs (Q32).

Q30. How the state defines the administrative rules for the companies? (Single answers)

Valid percent	State	Private
Completely unclear	8.0	18.8
Unclear	15.9	25.0
To some extent clear	46.6	31.3
Clear	21.6	25.0
Completely clear	8.0	0

Q31 Are there clear "rules of the game" in Bulgaria? (Single answers)

Valid percent	State	Private
There are no such rules	21.3	20
Completely unclear	6.4	5
Unclear	21.3	30
Clear to some extent	39.4	35
Clear	8.5	10
Completely clear	3.2	0

Q32. How much observing legal rules of the game increase the cost of the deals? (Single answers)

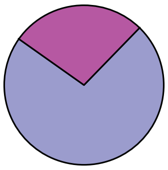
Valid percent	State	Private
Does not increase the costs	47	30
Increase the costs with 15%	20.5	20
Increase the costs with 30%	12	15
Increase the costs with 50%	13.3	35
Increase the costs with 70%	3.6	0
Increase the costs with 100%	3.6	0
Increase the costs with 200%	0	0
Increase the costs with 200%	0	0

Illegal Practices

A majority of the managers declared that they would try to win an auction by raising money or by drafting a good business plan. (Q37 If you wanted to win a public sale, but you did not have money, what would you do?). Only 7,4% declared that they would try to win the auction by avoiding the rules of the game.

Q37. If you wanted to win a public sale but you did not have enough money, what would you do?

I would participate anyway



I would win it through...
(Valid percent)

Credit	55.6
Merging with others	20.4
Good business paln	16.7
Corruption	7.4

Managers who believe that illegal practices are commonly used for decreasing transactions costs (Q33) spend more time on institutions. This is particularly valid for illegal practices such as political support, commission in cash, and avoiding taxes .

Managers who claim that they would (attempt to) win an auction, even if they had no money (Q37), again incur high institutional time. So illegal practices increase time costs not only for consultations with superiors, but for contacts with other institutions as well.

Operational Time and "Efficiency"

As stated in the introduction, we measure bureaucracy through the time allocation. However, there is no standard pattern of efficiently allocated time. For this reason we used a pure empirical division into "low", "middle" and "high" amount of time spent. The cross tabulation shows that 75 % of managers consulting owner's representatives on a daily basis are spending a comparatively high amount of time on operational management. Results prove that operational time is more dependent on bureaucratic influence

Q33. How often, according to you, are the following methods used for decreasing deal costs? (single answers)

Single answers	State/Private	Means /State	Never /State	Means /Private	Never /Private
Use the scale:	Undeclared deals	1.36	27.3	1.55	22.2
0 - never	Political support	1.19	28.8	1.11	22.2
1- very seldom	Commission in cash	1.45	31.3	1.33	22.2
2- seldom	Decreasing custom taxes	1.56	27.3	1.82	17.6
3- sometimes	Disloyal competition	1.97	29.9	2.33	16.7
4 - often	Avoiding taxes and social insurance	1.46	30.2	1.22	22.2
5- very often	Other	0.77	66.7	0	0

[Valid percent - Never]

than corporate governance management time is.

It is interesting to note which institutions consume managers time. The three groups that attract most of the managers' time are as follows:

- Privatization funds are engaged most often in changes of personnel and remuneration. Compared with other institutions, they take as much time for this work as tax administrations and other "external"[1] shareholders.
- "External" shareholders also take up a significant share of the management time. They are interested most often in new partners and in personnel remuneration.
- Physical persons and private companies are among the most time consuming institutions; they take on average 5 days as potential clients and expend more time on current management than any other institution;

Politicians do not take much of the managers' time. If they are mentioned, it is in the context of financial management and new partners. Similarly, trade unions are not among the institutions using up much of the management time.

Central and local government are comparatively low-time consuming institutions. Tax administration takes up time for checking personnel remuneration.[2] Boards of Directors are also low-time consuming. If engaged with the management, they spend time working on new clients and sales. Work with other company managers is related to current management, new partners and sales.

Q35. How can the following factors , according to you, motivate the majority of the people working in state companies?

Single answers	Means	State
Use the scale:	Guaranteed payment	4.16
	Security in time	4.09
1-Strongly disagree	Connections for additional incomes and remuneration	3.05
2-Disagree	Prestige	3.04
3-Neutral	Clear responsibilities	3.83
4-Agree	It is clear who takes the decisions	3.96
5 -Strongly agree	Small personal responsibility for the things which are beyond one’s control	3.89
	Clear career perspectives	3.43
	Fixed office time	3.89

[Valid percent: Strongly agree]

Means	Strongly agree
Guaranteed payment	39.8
Security in time	32.6
Connections for additional incomes and remuneration	12.8
Prestige	9.1
Clear responsibilities	24.4
It is clear who takes the decisions	26.7
Small personal responsibility for the things which are beyond one’s control	31.8
Clear career perspectives	13.8
Fixed working time	29.2

What influence operational management has on time

Other managerial values that affect institutional time are prestige and clear responsibilities for decisions. Managers selecting these values for job motivating factors (Q35) spend much time with institutions. These relationships show that time spent could also be dependent on completely psychological factors. Obviously, working with institutions may bring not only time costs, but also prestige or certainty in decision making for the managers.

Managers who believe that illegal practices are commonly used for decreasing transaction costs (Q33), are again using more management time. Such practices include undeclared deals, political support, cash commissions and avoiding taxes. Similarly to consultation time, such attitudes increase bureaucra-

[1] External shareholders are those "outsiders" who oppose "the insiders"; according to the Privatization Act, the latter have the right to acquire up to 20% of shares at face value under the conventional privatization scheme, and 10% if an enterprise is privatized through a voucher scheme.

[2] The issue is that SOEs are restricted in their wage policies; they pay taxes on wage bill increases.

cy time in operational management. The question If you wanted to win a public sale but you did not have enough money, what would you do? (Q37), again provides interesting predictions of time management: Managers who would try to acquire credits and would work on business program spent more operational time than those who would merge with advantageous partners or would simply corrupt the auction. The question was asked in order to identify possible pro-corruption intentions of managers. Answers given show a relatively low number who would attempt to avoid the rules of the game in an auction. Only 7.4% of managers would employ corruption to win the auction. 73.3% of the managers would try to win the auction in a legal way: credit or a good business plan.

Some general conclusions

The survey needs additional assessment of the results and comparison with the financial reports of the individual enterprises interviewed. For the time being, it is possible to identify the following general findings.

The established owner-representation pattern in the Bulgarian public sector (that is, the execution of the government's rights as an owner) fails, not only on the general regulatory level by not creating proper incentive, but also by initiating management practices that require time-consuming decision making on the micro- level of the enterprise operation.

Recently privatized enterprises or those in the process of privatization, where the owner is represented by a physical person, or private companies, or physical persons representing privatization funds, manifest signs of SOE-like behavior.

We have found that among SOE managers, the initial (or original) pro-corruption attitude is relatively low. At the same time, almost half of them think that rigid observation of the enacted regulations increases transaction costs, with at least 15%. Also, they claim that the most frequent way of increasing transaction costs is providing "commissions in hand." It seems that the system creates incentives to avoid strict observation of the rules, whereas personal attitudes would rather reject corruption as such.

Bulgarian Foreign Trade in Figures

Balance of payments (mln. USD)

	1995	1996
Current account	**-25,6**	**-22,3**
Goods, services and income, net	-157,6	-126,7
Goods, net	121	144,3
Services, net	153,4	123,8
Income, net	-432	-394,9
Current transfers, net	132	-124,9
Capital and financial account	**307**	**-20,1**
Capital account	0	65,9
Financial account	-113,8	-86
Direct investments	98,4	134,4
Portfolio investments	-65,8	-167
Other investments	87,3	-804,6
BNB Reserves (increase -)	-233,7	751,2
Errors and omissions	**139,4**	**42,4**

Geographic Composition of Bulgarian Foreign Trade in 1996

	Total exports	Share of exports	Total imports	Share of imports	Balance	Correlation
All countries	4542,6	100	4313,3	100	229,4	1,1
OECD	**2391,8**	**52,7**	**2022,1**	**46,9**	**369,7**	**1,2**
EC	1809,7	39,8	1678,1	38,9	131,6	1,1
EFTA	47,1	1	79	1,8	-31,8	0,6
Other OECD	534,9	11,8	265	6,1	269,9	2
Central and Eastern Europe	**1499,6**	**33**	**1864**	**43,2**	**-364,4**	**0,8**
CIS	891,6	19,6	1551	36	-659,5	0,6
CEFTA	86	1,9	144,2	3,3	-58,2	0,6
Others	522	11,5	168,8	3,9	353,2	3,1
Geographic Regions	**605,3**	**13,3**	**415,8**	**9,6**	**189,5**	**1,5**
Arabian	271,2	6	46,5	1,1	224,8	5,8
Asia	224,6	4,9	212,6	4,9	11,9	1,1
Africa	43,6	1	16,8	0,4	26,8	2,6
Latin America	65,9	1,5	139,9	3,2	-74	0,5
Others	46	1	11,4	0,3	34,5	4

The main partners in Bulgarian Foreign Trade

	USD mln.	Share of total exp.		USD mln.	Share of total imp.
TOTAL	**3587,9**	**79**	**TOTAL**	**3701,1**	**85,8**
Italy	471,4	10,4	Russian Federation	1401,3	32,5
Russian Federation	462,6	10,2	Germany	536,2	12,4
Germany	419,8	9,2	Italy	299	6,9
Turkey	368,1	8,1	Greece	188,3	4,4
Greece	321	7,1	France	154	3,6
Yugoslavia	226,3	5	Austria	117,5	2,7
Ukraine	160,1	3,5	Ukraine	110,9	2,6
Makedonia	143,1	3,2	United States	107,6	2,5
United Kingdom	134,5	3	United Kingdom	99,7	2,3
France	120,6	2,7	Turkey	90,7	2,1
United States	105,7	2,3	Netherlands	86,4	2
Spain	105,1	2,3	Iran	75,8	1,8
Moldova	87,7	1,9	Switzerland	72,5	1,7
Netherlands	75,9	1,7	Romania	66	1,5
Georgia	75,8	1,7	Czechoslovakia	62,5	1,4
Romania	72,4	1,6	Belgium	56,5	1,3
Syrian Arab Republic	71,4	1,6	Yugoslavia	53,2	1,2
Belgium	66,2	1,5	Cuba	47	1,1
Egypt	52,5	1,2	Finland	38,9	0,9

Bulgarian Foreign Trade by Commodity Section of HS in 1996

	Total exp.	Share of total exp.	Total imp.	Share of total imp.	Balance
TOTAL	**4542,6**	**100**	**4313,3**	**100**	**229,3**
1. Live animals, animal products	130,7	2,9	30,7	0,7	100
2. Vegetable products	110,8	2,4	92,9	2,2	17,9
3. Animal or vegetable fats and oils	17,8	0,4	20	0,5	-2,2
4. Foodstuffs, beverages, tobacco	618,1	13,6	210,4	4,9	407,7
5. Mineral products, fuels	408,9	9	1482,7	34,4	-1073,8
6. Chemical products	755,8	16,6	438	10,2	317,8
7. Plastics, rubber, articles thereof	173,8	3,8	162,2	3,8	11,6
8. Hides, skins, leather, articles thereof	36,5	0,8	58,4	1,4	-21,9
9. Wood, articles of wood	76,2	1,7	19,9	0,5	56,3
10. Pulp, paper, paperboard	63,5	1,4	143,1	3,3	-79,6
11. Textiles, textile articles	464,2	10,2	409,4	9,5	54,8
12. Footwear, headgear etc.	107,7	2,4	49,3	1,1	58,4
13. Articles of cement, plaster, ceramics, glass	76	1,7	52,5	1,2	23,5
14. Precious stones, metals, jewelry	17,7	0,4	4	0,1	13,7
15. Base metals, articles thereof	815,6	18	257,2	6	558,4
16. Machinery, appliances, electrical equipment	460,1	10,1	582,2	13,5	-122,1
17. Transport equipment	126,1	2,8	164,4	3,8	-38,3
18. Precise apparatus and instruments, optical goods	19,3	0,4	85,8	2	-66,5
19. Arms and amunitions	0,3		2,1		-1,8
20. Miscellaneous manufactured					