Published by the International Center for Public Enterprises in Developing Countries (ICPE),
Titova 104, 61109 Ljubljana, P. O. Box 92, Yugoslavia
Tel: (38-61) 182-331; Tlx: 31400 YU ICPE; Fax: (38-61) 346-389
Printed by Tiskarna Tone Tomšič, Ljubljana, Yugoslavia

Print run: 2,000

ISSN 0351-3564

INTERNATIONAL CENTER FOR PUBLIC ENTERPRISES IN DEVELOPING COUNTRIES

PUBLIC ENTERPRISE, Vol. 11, Nos. 2-3, pp. 97–220, Ljubljana, June-September 1991

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Thematic issue on

PRIVATIZATION IN REFORMING SOCIALIST ECONOMIES

Guest Editor Andreja Böhm

LA PRIVATISATION EN CROATIE

par Branko Vukmir

La Croatie a été la première des républiques yougoslaves à adopter sa propre loi sur la privatisation, annullant ainsi la législation fédérale, jugée trop libérale, et à introduire un contrôle plus strict sur la privatisation à l'aide d'une agence de privatisation. Bien que le gouvernement ait décidé pour une privatisation "decentralisée contrôlée" visant à une transformation rapide et complète de la propriété, la première phase consistait – paradoxalement – à nationaliser les grandes et importantes entreprises. L'article présente la loi croate sur la privatisation, discute sur les groupes éligibles et conditions de droit de propriété, types de privatisation: les ventes, les investissements supplémentaires, la conversion des capitaux déjà investis en participations, la distribution des actions aux fonds d'investissement, ainsi que les lignes directrices qui prescrivent en détail les procédures à suivre dans la privatisation d'entreprises du paquet croate législatif. En outre, l'article indique les dilemmes relatives à la mise en oeuvre de la privatisation en conformité avec cette loi.

LA PRIVATIZACION EN CROACIA

por Branko Vukmir

Croacia fue la primera república yugoslava que estableció su propia ley sobre privatización, prohibiendo la privatización bajo legislación federal – que es considerada demasiado liberal – e introduciendo un control estricto de la privatización a través de una agencia de privatización. Paradójicamente, y pese a que el Gobierno optó por una privatización "descentralizada controlada" con miras a un traspaso rápido y completo de la propiedad a propietarios identificados, la primera fase incluyó la nacionalización de empresas grandes e importantes. El artículo elabora la ley de privatización croata, examinando los grupos elegibles al igual que las condiciones bajo las cuales los mismos pueden asumir la propiedad, los tipos de privatización – venta, inversión adicional, conversión de activo ya invertido y reclamación de participación de capitales, distribución de acciones a los fondos – y las directrices con el procedimiento detallado para la privatización a nivel de empresa, que forma parte del paquete legislativo de Croacia. Se hace referencia a los dilemas en torno a la aplicación de la privatización prevista en dicha ley.

DECENTRALIZED PRIVATIZATION: THE SLOVENE ESOP PROGRAM

by David P. Ellerman, Uroš Korže and Marko Simoneti

As a response to the task of rapid and massive privatization, the governments in Central/Eastern Europe propose to distribute major or minor parts of property in state ownership to broad sections of the population. Such schemes imply centralized procedures, they are likely to postpone the implementation of privatization and do not solve the problem of corporate governance. In contrast, the LBO/ESOP is an example of decentralized and controlled privatization whereby shares are sold to active owners. The article first reviews the course of the privatization debate in Central/Eastern Europe, contrasting the mass privatization plans and decentralized privatization plans with special reference to the experience of LBOs and ESOPs in the West. The second section is more specific, outlining the proposed Slovene "internal privatization" model, which is based on LBO/ESOP principles but introduces different financing techniques.

1. INTRODUCTION

Our purpose is to motivate and outline the "internal privatization program" of the Republic of Slovenia, Yugoslavia. This is one of the first decentralized privatization programs in Eastern Europe that focuses on leveraged buyouts of social decentralized privatization programs in Eastern or state-owned enterprises by the workers and managers of the enterprises. The Slovene program adapts to the problem of privatization some of the features of the Employee Stock Ownership Plan or ESOP that has been widely used in the United States to promote employee ownership.

To motivate the decentralized approach to privatization, it may be useful to briefly sketch the course of the privatization debate in Eastern Europe up to the present.

2. TRAJECTORY OF THE PRIVATIZATION DEBATE

The First Stage: Naive Privatization

In the Fall of 1989, Eastern Europe was full of hope for a fairly rapid transition to a private property market economy. As 1989 gave way to 1990, new non-communist governments in country after country declared their commitment to privatization. Enterprises would be "put back into private hands". Firms would be sold to private buyers, foreign and domestic, and, in some cases, firms might be returned, like stolen goods, to their previous owners.

This rosy scenario has not come to pass. Foreign buyers have not materialized in any large numbers, and those who have appeared are often more interested in stripping assets at rock-bottom prices than in refinancing and restarting the enterprises. Much unexpected political opposition to foreign ownership has also surfaced. On the other hand, domestic buyers do not have the cash to buy the enterprises.

The idea of "reprivatizing" to previous owners (or their descendants) also bore little fruit. Many of the firms had been created within the last forty years. Older firms had often been thoroughly transformed by forty years of social or state investment and subsidies. The previous owners and their descendants seemed unwilling or unable to pay for the investment added to their previous property.

Second Stage: Mass Privatization Schemes

The response to the difficulties in the first stage of "naive" privatization ideas were various "mass

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privatization" schemes. The mass privatization schemes were based on giving away asset vouchers (which could be used to buy shares) or shares to all adult citizens. People did not have the cash to buy the assets, so the assets, or securities indirectly representing ownership of the assets, would be given to the population. The vouchers or shares would be given only to domestic citizens (often with temporary restrictions on resale) so as to avoid or forestall political problems with foreign ownership. Since everyone would "get something for free" (since it was said "they owned it anyway"), the mass privatization schemes had some political appeal.

The Majority Voucher Plan

The first idea was to give away shares or vouchers representing a majority, or 100%, of the ownership of the state enterprises to the populace. Two large problems arose; one practical and one more theoretical. The practical problem was that the voucher plan was a logistical nightmare. The more theoretical problem was that it spread out the ownership so thinly across the population that, in effect, it created another form of "ownership by everyone and thus by no one". The plan would indeed privatize the ownership of pieces of paper (the corporate shares) so opponents called it a "paper privatization". The problem was that the plan would not privatize the enterprises since there would be no coherent group who could make decisions about the company on the basis of ownership.

In the West, companies with publicly traded shares often have a "separation of ownership and control". Ownership is dissipated across the stockpiling public while effective control is exercised by the top managers by virtue of their position in the firm, not their ownership. Such corporations are called "public corporations". The majority voucher scheme would create an Eastern European version of the "public corporation" and thus it would fail in the original intent to privatize the enterprises.

Most of the participants in the privatization debate now understand this problem of the majority voucher scheme. This understanding that the privatization of securities is not the same as the privatization of companies is called "the corporate governance problem". The water from a swimming pool is not much good for swimming if it is spread out evenly over several square kilometers. In a similar manner, voting equity shares need to be concentrated together for the votes to be useful.

The Minority Voucher Plan

In response to the "corporate governance problem," some governments have proposed to distribute vouchers and then shares representing only a minority (say, 30% to 40%) of the ownership in the state-owned companies. Later on, quite aside from the voucher scheme, the majority, or at least a controlling block (say, 20%) of the shares, would be sold to a "core investor group".

The minority voucher plan has two problems: one practical and one more theoretical. From the practical viewpoint, the nightmare aspects of the voucher distribution to the whole populace and the subsequent share auction are the same regardless of whether a majority or a minority of the shares of each company are auctioned. Concentration on the logistical aspects of the voucher scheme has been called a "side show" that distracts scarce government time and resources from the main tasks of privatization.

From the more theoretical viewpoint, the minority voucher plan simply is not a privatization plan. The firms remain majority state-owned after the implementation of the minority voucher plan. The actual privatization only comes with the proposed later sale of a control block to a "core investor group". But that is the original problem of privatization: finding a new coherent private ownership group willing and able to buy the company. The minority voucher plan privatizes some securities but does not solve that original problem.

At best, the minority voucher plan would reduce the price of the controlling block of shares while giving a political boost to the sitting government. At worst, the minority voucher plan would confuse the ownership picture and thus make the firm less attractive to potential investor groups. The far-flung public shareholders would not contribute the fresh capital needed to rebuild the company but they would be in a position to reap the capital gains and dividends from the future profits generated by the investment of the core ownership group. In addition, the publicly traded shares might be reconcentrated into a block equal to or larger than the "control block". The core investor group would have no control over that threat unless it spent the fresh capital needed to rebuild the firm on "green mail" payments to buy back the public shares. Given the other vagaries of investment in Eastern Europe, how many "core investor groups" will want to invest their capital in such a confused ownership picture? If a core investor group can indeed be found, then direct private placement of all or an absolute majority of the equity to that group would leave a much clearer ownership picture.

The Holding Company Scheme

An alternative "mass privatization plan" is to collect the ownership of the state-owned companies into one or more holding companies, mutual funds, or trusts. "Professional managers" would somehow be found to run the holding companies. Each of the original state-owned firms would then have a concentrated new owner, a holding company. But the holding companies are not seen as permanent institutions; they will restructure the companies and eventually sell them off to private owners.

It is odd that the holding company plan is called a "privatization" scheme since the holding companies are essentially corporatizations of the industrial ministries. One existing holding company is the (East) German *Treuhandanstalt*. But no one pretends that collecting the 8,000 East German enterprises into one trust was itself a "privatization". Some proposals by Western professors make a thin appeal for "privatization" by proposing that shares in the holding companies be given away to all the adult citizens. Not only is this another "paper privatization" idea, but under this plan the government would concentrate much of the industry of a country into a few "trusts" and then dissipate the ownership, with the result that the trusts would be effectively controlled by trust managers. That would probably not be politically feasible; the trusts would have to remain fully accountable to the government. Here again, the actual privatization would come only later when the holding companies, mutual funds or trusts sold off the individual companies to coherent private groups. And finding those groups is still the original problem. The holding companies only put the firms in a "holding pattern" until they find a proper place to land.

The upshot of the "mass privatization plans" is the discovery that none of them solve the original privatization problem of finding a coherent group of private owners for the enterprises. In brief and over-simplified terms, the reaction to the failure of the naive privatization plans was a spate of mass pseudo-privatization plans that would postpone the privatization problem while seeming to give a political shot-in-the-arm to the sitting governments by giving away "something for free" to the voters.

Decentralized Privatization Plans

Centralized *versus* Decentralized Plans

One common feature of the naive and the mass privatization schemes is that when an enterprise is finally sold off, it is the government's privatization agency (or a government-controlled trust) that arranges the whole transaction. This is a centralized procedure that sells off the company "over the heads" of the managers and workers in the company itself.

One practical problem with the centralized process is that privatization would take several decades to complete.

A more subtle problem with the centralized sell-offs is that they do not invest the managers and workers in the privatization process. To understand this problem we must return to one of the primary goals, unlocking the efficiency of private enterprise by putting companies in private hands. A company is not like a physical asset such as an electric motor that would run the same regardless of whether it is state-owned, socially-owned or privately-owned. The efficiency gains unlocked by ownership changes must come from the changes in how people respond to the new incentives and freedoms brought by private enterprise. And the relevant people who must change are not the consumers, pensioners or others outside of business. The relevant individuals are those involved in business (now or in the future), such as managers, workers and independent business-people.

Privatization programs, therefore, should be designed to maximize the development of entrepreneurial initiatives and economic incentives of the people involved in business. That is the basic idea of the decentralized privatization programs.

"Wild" Decentralized Privatizations

The first decentralized privatizations took place in an unregulated spontaneous manner that served to discredit the whole idea. For instance, managers might set up a new private shell company (owned by themselves, relatives or associates), lease or sell the operating assets to the company at rock-bottom prices, and then transfer the business to their new private company. In other examples, the assets were sold for very little to a foreign business in an arrangement under which the managers would be hired by the foreign concern.

The first reaction of governments was to forbid decentralized privatizations of any sort, instead of trying to establish a legitimate and regulated channel for the managers and workers of an enterprise to take the initiative and arrange their own privatization. But that reaction narrowed the governments' privatization programs to the slow-paced centralized approach best suited only to the huge firms in the commanding heights of the socialist economies. A broad decentralized approach needed to be developed that would avoid the pitfalls of the wild privatizations.

LBOs and the Taking-Private Movement in the West

It is often stated that the West does not provide a privatization model for the massive task now facing Eastern Europe. But that claim is based on a narrow interpretation of "privatization" as Thatcher-type sell-offs of state-owned firms. There has in fact been a massive privatization movement in the United States, namely the last decade's Taking-Private Movement which turned many public corporations into closely-held private firms through leveraged buyouts.

For instance, in 1988 alone about 5 % of the entire U.S. stock market disappeared in taking-private transactions amounting to 130 billion dollars (after subtracting the new share issues). Such a volume of privatization transactions results from the "parallel processing" of hundreds of transactions being organized simultaneously by the participants; it could not be executed by a centralized privatization agency. That volume of transaction is quite comparable to the task facing Eastern European countries. For instance, the centralized privatization agency for East Germany, the *Treuhandanstalt*, has the task of privatizing 8,000 companies with an estimated value of 200 billion Deutschmarks – which is about 130 billion dollars. Thus the LBO-based decentralized model for taking-private public corporations does provide a time-tested model for massive privatization on the scale needed in Eastern/Central Europe.

Just what is an LBO? A leveraged buyout is, firstly, a **buyout**, not a giveaway. The buyout group – often managers and workers in the original enterprise – buy the shares or assets of the firm largely using borrowed funds. Secondly, the transaction is "leveraged" in the sense that the primary collateral for the loan is the borrowing power of the assets being purchased. Thus the LBO model allows privatization to go forward without assuming that the managers and workers already have the funds to buy the assets.

Employee Stock Ownership Plans or ESOPs

The Employee Stock Ownership Plan or ESOP in the United States is a special type of benefit plan authorized by the Employee Retirement Income Security Act (ERISA) of 1974. As in any employee benefit plan, the employer contributions to an ESOP trust are deductible from taxable corporate income. But, unlike an ordinary pension trust, an ESOP invests most or all of its assets in the employer's stock. This makes an ESOP into a new vehicle for worker ownership.

The ESOP arrangement uses the borrowing power of the company itself to borrow funds on the employees' behalf. Thus it is an employee-oriented leveraged buyout. The funds are used to purchase new shares from the company or to purchase old shares from existing owners (private or public).

The company commits itself to pay back the loan. But the loan payments leave the company as an ESOP contribution treated as a labor expense (like a pay bonus or pension contribution). In that manner, both the interest and principal portions of the loan payments are deductible from taxable corporate income (ordinarily only interest payments are a deductible expense). When the loan has been paid off, the employees own the shares while the company has the tax savings and the increased productivity and commitment that tends to follow employee shareholding.

The ESOP arrangement in the United States can be divided into the structure of the transaction and the structure of the company (as a partly employee-owned company). Either or both structures could be adapted and used in a decentralized privatization program. The Slovene ESOP program is a transaction structure, not a company structure.

The essential feature of the ESOP as a company structure is that the worker shares are held in a trust so that worker share ownership is correlated with employment in the company. Workers may not individually sell the shares. Otherwise it would be in the interests of each individual worker to cut his or her risk by selling the shares while hoping that the other workers would hold their shares and make the company more stable and productive. But each worker faces the same individual decision so non-trust forms of individualized worker share ownership tend to be very short-lived. The choice of the ESOP form represents joint recognition of the fact that the benefits of employee ownership for everyone would soon be sacrificed if workers were allowed to individually sell their shares.

The typical ESOP provides a mechanism by which the firm pays out the ownership value to the workers as they grow older and does not permit shares to be sold to non-employees. The ESOP also provides a way in which new workers can earn their way into ownership. In this fashion, the correlation between share ownership and work in the firm is maintained, so that those who can by their effort and commitment improve the company will have an incentive to do so.

The essentials of the ESOP as a company structure can be drafted into the by-laws or constitution of a company in any country with joint-stock or limited liability company law (even if the country has no separate trust law on the Anglo-American model). This creates an "**internal ESOP**" in contrast to the ESOP as an external trust separate from the company. Such an internal ESOP structure could be used in conjunction with the ESOP-like transaction embodied in the Slovene internal privatization program.

3. THE SLOVENE INTERNAL PRIVATIZATION MODEL

One of the flagships of the new democratic Slovene Government is a privatization program for socially owned enterprises. In its inauguration program, the Government declared that privatization should take place:

– in the form of sale of shares or assets (as opposed to free distribution of shares to the population or employees);

– in a decentralized manner (as opposed to the centralized approaches of some Eastern European countries), in which the employees and management of the companies initiate and carry out the privatization plan;

– as a controlled process, with the supervision of the newly established governmental agencies (as opposed to "wild" or "spontaneous" privatizations).

The principal objective of the privatization process is to improve the efficiency and competitiveness of the companies. Therefore, the Government wanted to put companies in the hands of a core investors group whose efforts would be relevant to the company's success. Since there is only a limited amount of domestic and foreign cash available for buying shares in Slovene companies, it was obvious that British-style privatization would be very slow, with all the negative effects of keeping the *status quo* in the majority of enterprises. The major constraint on speedy privatization at a reasonable price is the low purchasing power of citizens. With rapid privatization, only modest prices can be realized. Foreign investors are an important source of capital but it is all too evident that they will be interested only in a limited number of companies.

One of the possible solutions, instead of giving away the property for free, is to require only partial down payment to buy a company. The Government should be willing to wait to be paid in full. This would mean that domestic purchasing power would not be limited to current savings but would actually be increased by the amount of the volume of future savings. The objective is thus to start privatization of many companies immediately by introducing private control on the basis of partial ownership in many companies and later gradually complete the ownership transformation.

Consider the example of an economy consisting of ten equally valued state companies where there is enough money to buy only two of them immediately. It is much better to sell 20% of each company to private investors and introduce a motivated and active although partial owner who will immediately take care of corporate governance in each of them. It is therefore very clear that some form of leveraging is necessary in order to move forward quickly.

Another important issue, which came out during the privatization debate, was the issue of who are or can be eligible buyers of socially owned enterprises. The prevailing opinion was that particularly in small and medium scale enterprises, preference should be given to the "internal buyers" – workers and managers – who had in many cases created quite successful and profitable companies. The belief was that the ownership incentive would make these companies perform better and avoid the general problem of self-managed entities, such as the tendency to pay out profits in the form of salaries and bonuses rather than to consider the long-term needs of the company.

It was for these reasons that, alongside conventional privatization techniques, the Slovene Draft Law on Privatization introduced a specific scheme for employee – leveraged buyout – "internal privatization". The model was inspired by the ESOP leveraged buyout techniques used in the West for more than a decade.

4. THE SLOVENE INTERNAL ESOP

If the employees want to exercise the model they have to fulfill several initial conditions:

(a) Employees have to organize themselves to create an ESOP-like "program", a structure created by specific changes in the bylaws, inside the company. The Law does not give specific directions as to how an ESOP should be internally structured. Model bylaws, provided as an Appendix to the Law, will give managers and workers some latitude in structuring their ESOPs.

(b) Employees have to come up with an initial 10% of the purchase price, the "risk" capital, in order to ensure a change in corporate governance. The purchase price is established through an enterprise valuation done by an independent, government-licensed business appraiser. Moreover, each employee is entitled to a 30% discount on the share price, with the whole discount limited to approximately USD 3,000 per employee.

(c) Access to the program is voluntary for the individual employee but at least one-third of the work force of the company must vote for the program before the right to participate in the credit scheme is granted. Former and retired employees of the company are also eligible for membership in the program.

(d) Employees generally contribute their money to the program in proportion to their monthly salaries, in exchange for common shares. Alternative proportions of participation are also allowed where employees take such decisions by a majority vote.

(e) The cash portion of the purchase price is paid to the Slovene Development Fund. This Fund is a parastatal institution which acts as a trustee on behalf of the Republic of Slovenia as the end beneficiary of the privatization of socially owned enterprises.

(f) In the course of the program the employees are given new shares out of the company's pretax earnings free of charge, in proportion to their salaries or, alternatively, in proportion to their initial capital investment.

(g) If the issued common shares are nontransferable, then the company must engage to repurchase the shares from the employees, in accordance with a repurchase scheme, and at latest at the time of an employee's retirement.

In the West leveraged buyouts in general, and employee buyouts in particular, are financed with a blend of senior and mezzanine debt provided by banks and other financial institutions.

The dilemma in the Slovene privatization debate is whether to permit domestic banks to be active and decisive participants in the privatization of enterprises by debt conversion, underwriting of share issues and financing of leveraged buyouts, or to restrict their involvement to a minor role.

There is a strong argument in favor of involvement of the banks in the process of privatization of enterprises. Although the bank officials' expertise in monitoring of company performance is not up to Western standards, it could be relatively easily upgraded. German and Japanese experience shows that the role of the bank can be important in contributing to a company's stability and the long-term growth orientation of its managers. From the financial point of view, bank-financed LBOs will have to pass very strict scrutiny and their probability of success is likely to be much higher.

But equity-debt swaps and LBO financing would, in the case of large-scale use, certainly contribute to a further deterioration of the liquidity of Slovene banks and threaten the solvency of a banking system already burdened with a large portfolio of non-performing loans. In addition, it would lead to undesired interlocking ownership between banks and companies. Yugoslav commercial banks are legally owned by the "socially owned enterprises". The biggest shareholders in a bank are often at the same time the bank's largest debtors.

For these reasons, many people oppose the active participation of the banks in the privatization process, at least until the banks themselves are privatized and restructured. The Slovene Draft Law on Privatization therefore proposes a different financing technique.

5. SELLER'S TAKEBACK FINANCING TECHNIQUE, USED IN THE "INTERNAL PRIVATIZATION" MODEL

One of possible solutions to overcome the lack of available capital for privatization could be to offer special financing arrangements that would allow for deferred payments of the purchase price.

In the absence of a developed capital market, lack of available bank financing due to a credit-squeeze, and presumably high country risk, which make foreign investors very cautious, the credit for the execution of the sale could be supplied by the seller. The seller might take some "paper", instead of demanding payment in full in cash. Such "paper" could be issued by the buyer as a term note or, alternatively, as a block of bonds.

However, this is only feasible when the buyer is financially strong and creditworthy, which is usually true for a foreign multinational, but is usually not true when the employees are the potential buyers. It is for this very reason that "internal privatization" offers a financial arrangement by which the seller extends credit not to the buyer but to the target company. The buyer promises that the credited part of the purchase price will be repaid over time from the cash flow of his (newly acquired) company.

In "internal privatization" the seller's (takeback) financing is provided in the form of a special debt-equity hybrid, redeemable preferred shares (RPS) issued by the target company.

RPS have the following features:

(a) They are issued by the company to the Fund.

(b) They are denominated in foreign currency (to hedge against inflation), give the owner 2% fixed cumulative annual dividend, and are nontransferable.

(c) They give the owner no voting rights on such matters as the appointment of the board of directors or the executives, or in decisions on the ordinary course of business, but they do have voting rights equal to those of the common shares on major issues such as merger, liquidation, issue of a new class of preferred shares, redemption of common shares, etc.

(d) They have a liquidation value which equals face value plus all unpaid dividends.

(e) The company has the right to repurchase the RPS at any time within ten years from the date of issue at face value.

(f) At the end of each year, the Fund has the right to sell and the company has the obligation to repurchase 10% of the issued RPS at face value, using its available cash for the transaction. In that way, the repurchase scheme is completed in ten years.

(g) If the company is not willing or is not able to repurchase the due portion of RPS, the Fund can force the company to convert these RPS into common shares with full voting and residual rights. The conversion ratio is determined by comparing the face values of both types of shares.

(h) After they have been repurchased, the RPS are immediately retired (canceled).

The beneficiaries of the credit scheme are intended to be the employees or, more precisely, the members of the program (which may, but need not necessarily also include former and retired employees). If the members choose to terminate the program within the ten-year period or prior to its completion, the Fund, as the holder of the RPS, has the right to require the immediate repurchase of all outstanding RPS. This trigger should prevent the employees from cashing out prematurely, leaving the Fund in a position of financing, on preferential terms, foreign and domestic corporate investors.

Normally, the cash for the repurchase of the RPS should be generated from the company's pretax profits. The company could also get the cash by selling off some of its assets, issuing new common shares or raising new debt capital. Companies could also generate some cash for the repurchase of RPS by entering into joint ventures with foreign companies or by issuing new shares to interested investors. But substantial recapitalization, combined with amending the bylaws, would probably trigger the Fund's immediate put option.

The RPS are a substitute for straight seller's (Fund) credit to the company. They are "more friendly" than normal credit, being collateralized by the company's assets. Why is such a soft approach necessary? Many companies that start the program will not be able to complete the buyout scheme. Some will be caught in the cyclical downturns, some will be unable to repurchase the RPS and at the same time raise money for necessary capital investment, still others will just have been wrong to choose employee buyout as the appropriate way of privatization. With a loan, the employees' investments are at risk not only because of the risky nature of business, but also because their company has an inadequate initial financial structure. Default on a loan would produce an almost certain crisis and possible bankruptcy, whereas "default" on the repurchasing of RPS would not influence the company at all; it would only change the voting and ownership structure. The employees would not lose their shares, but they might have to be satisfied with a minority position when the Fund exercises the conversion and later resells the common shares to new private owners.

While the Slovene privatization legislation leaves companies free to select from amongst various privatization techniques, there is a high probability that "internal privatization" will be misused. It is primarily a viable privatization technique for small and medium scale, service-oriented enterprises which are essentially healthy and do not need comprehensive restructuring, and where employees' identification with the company is traditionally high. "Internal privatization" is not designed for large conglomerates, holding companies and capital intensive firms, and it is seldom a solution for near-bankruptcy cases. Nevertheless, the "internal privatization" model does not exclude such companies. Any company can start the buyout program, as long as the employees meet the initial down payment criteria.

Ellerman, et al.: Decentralized privatization: the Slovene ESOP program

This threshold is, of course, very high for such companies, but if they are profitable they may succeed. Only companies in agriculture, utilities, and financial and insurance business are legally barred from "internal privatization".

Due to the concept of decentralized privatization, it is rather difficult at this stage to determine what would be the scope of "internal privatization", as compared to other techniques and methods. However, in Slovenia employees' commitment to their companies is traditionally very strong and worker-management buyouts could be an avenue for massive but not chaotic privatization resulting in widespread active ownership.

ملخص / Résumé / Resumen

العوده غير المركزيه للقطاع الخاص في يوغسلافيا : برنامج مشاركة الموظفين لملكية شركاتهم في سلوفينيا .

بقلم : دافيد باليرمان ، اوروش كورزى ،ماركو سيمونيتي .

يراجع المقال قبل كل شيئ مناقشة خط العوده للقطاع الخاص في وسط وشرق اوروبا مبينا الخطه الشامله لعوده للقطاع الخاص والخطط غير المركزيه لعوده للملكيه الخاصه وباشاره خاصه لتجارب مشاركة الموظفين في ملكية الشركات التي يعملون بها وكيفية شرائهم لها بمساعدة القروض المصرفيه . ويعطي الفصل الثاني للمقال الخطوط العريضه للطراز الداخلي المحلي المقترح للعوده للملكيه الخاصه في سلوفينيا والذى يقوم على اساس مبادى مشاركة العمال والموظفين لملكية شركاتهم وكيفية شرائهم لها بمساعدة المصارف ، كما يقدم تقنيات ماليه متعدده .

PRIVATISATION DECENTRALISEE: LE PROGRAMME ESOP SLOVENE

par David P. Ellerman, Uroš Korže et Marko Simoneti

Faisant face aux demandes de privatisation rapide et massive, les gouvernements en Europe centrale et orientale proposent de distribuer des parts majoritaires ou minoritaires de la propriété d'Etat parmi les couches differentes de la population. De tels projets impliquent des procédures centralisées et risquent de prolonguer la vraie privatisation, n'apportant pas de solution au problème de la gestion d'entreprise. Par contre, la prise de contrôle par recours à l'emprunt (LBO) et le plan de détention d'actions par les employés (ESOP) est un exemple de privatisation décentralisée et contrôlée permettant la vente des actions aux propriétaires actifs. Tout d'abord, l'article passe en revue les différents débats sur la privatisation en Europe centrale et orientale, tout en opposant les plans de privatisation massive aux plans de privatisation décentralisée et décrivant les expériences particulières du LBO et de l'ESOP à l'Occident. La deuxième section est plus spécifique, décrivant le modèle proposé slovène de "privatisation interne" qui est issu des principes du LBO et de l'ESOP, mais qui introduit des techniques de financement différentes.