CORPORATE GOVERNANCE PROBLEM AND ITS IMPLICATIONS FOR TRANSITION ECONOMIES

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Abstract

This paper examines the corporate governance problem in Central and Eastern European (CEE) countries and the major implications of highly concentrated ownership in these countries on their economic development. Our main message is that ownership and control in transition economies will remain highly concentrated in short-term aspect, and regulatory intervention should focus on protecting minority shareholder interests while maintaining the incentives for entrepreneurship and large shareholder monitoring. We also argue that the corporate governance system in transition economies will have to rely on active involvement and monitoring by large shareholders, even after the emergence of a class of professional managers. Moreover, our empirical results support Berglöf and Pajuste (2003) findings that controlling shareholders (strategic investors) are critical to the successful restructuring of privatized firms; minority protection is also important to attract outside capital, but it may reduce the disciplinary role of the market for corporate control

Keywords: corporate governance, transition economy, ownership, strategic investors, minority shareholders, regulations

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1. Introduction

Does corporate governance matter? Is it an important issue which policy makers and economists of transition economies have to deal with? Which is the model of corporate governance that will help transition economies to move towards a sustainable path of growth? Why does the economic performance of transition economies differ and could it be due to the different types of ownership chosen in their process of privatization and restructuring? This paper tries to provide an adequate explanation to these questions. During their transition Central and Eastern European (CEE) countries took different approaches concerning their privatisation programs and the resulting corporate ownership structure. The first ten years of transition show that transition economies follow different patterns of growth. There are a huge number of empirical research that tries to explain what determines the growth in transition economies. Fisher, Sahay and Vegh (1996) suggest that there are two types of factors determining the pace of growth in transition:

a) "specific" factors determining the transition transformation process (initial conditions, macroeconomic stabilization and structural reforms), and

b) "classical" determinants of growth (initial per capita income, population growth rate, secondary school enrolment rate, share of investment in GDP).

Falcetti, Raiser and Sanfey (2000) using EBRD data about the first ten years of transition show that initial conditions are a significant determinant of growth. The initial conditions have both a direct effect on growth and an indirect effect through their positive relation with structural reforms. Over time, however, the importance of initial conditions for economic growth gradually diminishes and, instead, the structural reforms gain more importance. Macroeconomic stability (lower inflation rates and smaller budget deficits) is also an important factor of growth during transition see (Fisher, Sahay and Vegh, 1996, and Lougani and Sheets, 1997). With transition advancing, the importance of "classical" determinants of growth becomes increasingly predominate. Corporate governance as a factor of growth can be regarded as a new classical determinant of economic growth, which is important for growth of both developed and emerging market economies. The existing literature on corporate governance gives many examples of how this could happen. For example, imperfections of managerial labour markets, weak insiders' control, inefficient monitoring, might be serious impediments on firm development. On the other hand, abuse of shareholders interests can be expected to be even more systematic in transition economies, due to underdeveloped market institutions.

The emerging ownership and control structures in transition economies have important implications for corporate governance. In owner-managed firms the fundamental tradeoff is between providing incentives to entrepreneurship and protecting minority investors. As controlling owners gradually distance

themselves from day-to-day management in favor of professional managers, the nature of corporate governance problem changes. Managers must be monitored and only controlling owners have sufficient incentives to perform this task. Even in these firms, the main corporate governance conflict that remains is the conflict between controlling owners and minority investors. As Berglöf and Pajuste (2003) argue the fundamental tradeoff is between providing controlling owners with incentives to monitor and protecting minority investors. The data and rich anectodal evidence from these countries suggest that strengthening minority protection is of paramount importance in combating fraud and bringing down financing costs.

The importance of monitoring by the large shareholder is reinforced by the weakness of other mechanisms for corporate governance. With strongly concentrated ownership and control, hostile takeovers and proxy fights are largely ineffective as disciplining devices. Similarly, boards of directors cannot be expected to play an independent role, and the role of executive compensation schemes is more limited in companies controlled by a large single shareholder. Moreover, litigation is unlikely to be a successful, or reliable, mechanism in environments of weak legal institutions, and large commercial banks have yet to become deeply involved in financing the corporate sector. The current weakness of these supplementary mechanisms for corporate control, however, does not imply that efforts should not be made to develop them. In the medium term there is a hope that increasing the involvement of commercial banks will provide some monitoring. Over time, improved financing opportunities can increase competition in the market for corporate control and help improve contestability. As the legal environment improves, in particular with respect to enforcement of laws and regulations, there is a strong believe that litigation could also become a mechanism contributing to better corporate governance.

The rest of the paper is organized as follows. In Section 2 we attempt to define the main features of corporate governance problem(s) facing the countries in Central and Eastern Europe, and the major implications of highly concentrated ownership in these counties on thie economic development. Section 3 documents the strong concentration of ownership and control in a sample of privatized firms, and identifies different mechanisms of corporate governance across these firms. Section 4 concludes the paper with some recommendations.

2. Corporate governance in Central and Eastern Europe

A huge variety of definitions, which greatly differ with respect to issues, problems, or objectives of corporate governance, can be found in current development debates. According to OECD "corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."[1] According to J. Wolfensohn, former president of the Word bank, "corporate governance is about promoting corporate fairness, transparency and accountability." Becht (2002) defines corporate governance system as a set of mechanisms designed to control the fundamental agency problem between management and shareholders. These mechanisms include large shareholder monitoring, markets for takeovers, proxy fights, board intervention, litigation, bank monitoring, and executive compensation schemes.

The need to govern agency relationships in firms arises from the separation of ownership and control. This separation is motivated by a discrepancy in the firm between promising investment projects and internally generated funds. If the problem of corporate governance is not solved satisfactorily, outside finance will remain limited. Various control structures and governance instruments at both firm level and policy level have been developed to deal with the agency problems between managers and outside capital suppliers (see Table 1). They can be grouped as follows:

- Instrument that may encourage the managers to align with the interest of outside shareholders (through compensation schemes for example) or discourage them from deviating from it.
- Direct disciplinary mechanisms (a supervisory board) and indirect ones (stock market pricing).
- According to the type of residual rights that are involved – cash flow or voting ones.

[Table 1 about here]

As Table 1 shows corporate governance system provides a set of mechanisms designed to control the fundamental agency problem between managers and shareholders. These mechanisms are supplemented by checks on managerial behavior provided by general norms, business ethics, and mass media. The relative importance of these mechanisms depends on the ownership and control structure in the individual firm (which in turn shapes the agency problem) and the broader environment in which the firm operates. The scope for hostile takeovers and proxy fights, for example, depends on the stake of the controlling owner and the general institutional environment,

[1] Organization for Economic Cooperation and Development (OECD), April, 1999. This definition coincides with the one proposed in the Cadbury report (see Cadbury, 1992).

influencing an outside investor's possibilities to exercise any rights.

The corporate governance problem in Central and Eastern European (CEE) countries is shaped by highly concentrated control structures, typically with the controlling owner actively involved in the management of the firm. Economic theory has generated a variety of hypotheses concerning both the costs and the benefits of high management ownership of shares in their own companies. The classical argument for the benefits of high management ownership revolve around incentives. When managers become shareholders, they bear the financial consequences of their decisions, and hence their interests are aligned more closely with those of other shareholders. The informal argument along these lines goes back to Berle and Means (1932), who complained that in a modern corporation the ownership is separated from control. As a result, managers (who have control rights) do not bear the consequences of their actions, whereas the shareholders (who have cash flow rights) do. Much of the regulatory response in the United States has been about trying to trade off the benefits of increased discretion for managerial incentives against the protection of shareholders. With too much protection, managers would have too little incentive and room to use their initiative to improve the performance of the firm; with too little protection, investors would not contribute sufficient funds or would demand very high interest (Burkart, Gromb and Panunzi, 1997). As Berglöf and Pajuste (2003) argue, this is unlikely to be the key tradeoff in CEE countries in the foreseeable future. Managers cannot be expected to play the same independent role in a company controlled by a large owner as they can play in the corporation with dispersed shareholders. To the extent that management has been separated from ownership, the main issue in transition economies is the excessive intervention in management by the controlling shareholder, but not by the minority investor. Thus, the main conflict is between the controlling owners and minority investors.

The regulatory response to the emerging ownership and control structures in CEE counties has largely been determined by the process of accession to the European Union. Regulators in transition economies have emulated the existing institutions in current member states and to some extent anticipated the existing regulation at the EU level. As a result, the CEE countries have adopted regulations that on paper provide stronger minority protection than that of most EU countries. However, in implementing existing regulations, efforts are made to maintain the incentives for active controlling shareholders. For example, the interpretation of mandatory bid rule (MBR) appears to be very lax in several countries, leaving more possibilities for a control premium and facilitating block trades.

In environment with weak institutions like most transition economies, regulation alone will not be sufficient to constrain management; thus there is an increasing need for stronger corporate governance. Regulatory measures could be designed to promote takeovers by shifting the takeover premium to the bidder. While such measures have desirable features in terms of promoting hostile takeovers, they may also undermine the incentives to hold controlling blocks, and thus weaken shareholders monitoring of management. Large shareholders intervention and the market for corporate control are the most appropriate mechanisms for disciplining managers in transition economies. Other devices include shareholder litigation, takeovers and proxy fights, but these are unlikely to be effective and reliable mechanisms in the transition environment characterized by weak legislation and highly concentrated ownership. Board of directors cannot also be expected to play an independent role in companies controlled by a single shareholder. Executive compensation schemes are yet another way to align the incentives of management with those of the firm (Morck, Shleifer, and Vishny, 1988, Jensen and Murphy, 1990). However, as the Enron experience suggests (see Hopt, 2002), this is a highly imperfect mechanism, particularly in transition economies where input numbers are highly volatile and even more subject to manipulation by managers than they are in developed economies.

Therefore, corporate governance system in transition economies will have to rely on active involvement and monitoring by large shareholders, even after the emergence of a class of professional managers. With the possible exception of what can be achieved through executive compensation schemes, little or none of the other mechanisms for corporate control are expected to provide significant leverage on management any time soon. In the medium term the expectations are that large commercial banks will start to play a more active role in financing and monitoring privatized companies. The combination of seats on the board, votes in the general shareholder's meetings, and security interests in valuable buildings or equipment should increase the likelihood of monitoring being effective. In the long term, the combined effects of these mechanisms can help improve robustness of control, critical in disciplining controlling shareholders and managers, and giving new owners and management teams an opportunity to bring about much-needed restructuring.

3. Increasingly concentrated ownership and control

The emergence of stock markets and the improvement of disclosure requirements for public companies facilitate the study of ownership and control structures of companies in transition economies. The information on identity and stake of owners above a certain threshold should, in principle, be publicly available. In this section we present the results of our study on corporate governance problem(s) in transition economies, using Bulgaria as an illustrative

example. The data covers a sample of 160 companies (public and non-public) and relate their corporate governance structures to the existing control structures and mechanisms in developed countries.[2]

3.1 Evidence on increased ownership and control in CEEC

Countries in Central and Eastern Europe followed very different policies towards stock market development in the early stages of transition (see Claessens, Djankov and Klingebiel, 2000). This variation can to a large extent be explained by differences in the privatization programs pursued in these countries.[3] Most of the listed companies are privatized firms, rather than new start-ups. Data from transition countries (see Table 2) show a tendency of decreasing the number of listed securities after the year of 2001. Most of illiquid shares were de-listed from the national stock exchanges. The development of market capitalization also reflects the chosen privatization method. In countries that followed more gradual privatization, equity market capitalization increased slowly (e.g., Poland, Hungary, the Baltic countries), while in countries with rapid mass privatization, market capitalization jumped to very high levels and then decreased due to de-listing of illiquid shares (e.g., the Czech Republic). The overall tendency in market capitalization in CEE countries follows two different patterns, which can be differentiated by the year of 2001.

[Table 2 about here]

The downward sloping tendency in market capitalization until the end of 2001 has several explanations. First, the overall stock market downturn in the world (especially after September 11, 2001) has affected most transition markets adversely. Second, stricter listing requirements (e.g., the minimum capital requirement, information disclosure and transparency) have forced many companies to de-list their stocks from the national stock exchange. The low number of initial public offerings (IPOs) and the many voluntary de-listings suggest that the costs of listing outweigh the benefits. Listed companies have to provide much more information on a regular basis than unlisted ones, and are subject to more stringent supervision and scrutiny by the state and the public. Third, ownership is becoming increasingly concentrated, and as most of the countries have introduced mandatory bid rules,[4] owners passing a certain threshold must offer to buy the entire firm. As a result they must leave the stock exchange, because one of the listing requirements is that a certain minimum of shares (e.g., 25 percent) must be in public circulation. The regulatory authorities have tried to mitigate the negative effects of the mandatory bid rule through enforcement of less stringent trade requirements.

By the end of 2003, equity market capitalization was the highest in Poland, followed by Czech Republic, Hungary and Slovenia (see Table 3). The rest of the stock markets in the region are negligible in terms of market capitalization, partly due to the small size of the country (Estonia, Latvia, Lithuania, and Slovakia) or underdeveloped regulatory framework (Bulgaria and Romania). The market capitalization figures for 2004 show that the positive tendency continues. Nonetheless, even the largest stock exchanges in transition economies are relatively small on a world scale (see the bottom lines of Table 3.) It is interesting to note that the market capitalization figures for the frontrunners in transition countries are similar to those of Portugal and Greece (the newest members of the EU) in the mid 1990s.

[Table 3 about here]

Previous research on CEE countries provides evidence that ownership is becoming increasingly concentrated, often exceeding continental European levels (Djankov and Murrell, 2002, Berglöf and Pajuste, 2003). What explains the observed increase in concentration of ownership and control in transition economies? In part, the increasing concentration could be fictitious, simply reflecting more stringent supervision of disclosure requirements forcing actual owners to disclose their shareholdings. Nowadays, the option of hiding behind private unlisted companies is limited. In most countries market regulators can access the information on ownership of unlisted companies and trace any indirect holdings of main shareholders. There are, however, evidences that ownership is indeed becoming increasingly concentrated. Poor minority shareholders protection, combined with easier access to bank financing, allow the largest shareholders to buy out minority shares to avoid any quarrels with regulators.

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[2] The principal empirical data in this report come from a research study made in the autumn of 2004. The sample included 160 enterprises with over 100 employees and value of assets of over BGL 0.20 million (by December 31, 2004), privatized before the year end of 1996.

[3] Among the countries in the region we can distinguish three approaches. In Bulgaria, the Czech Republic, Slovakia, Lithuania and Romania listing was mandatory after mass privatization. The other group of countries – Estonia, Hungary, Latvia, Poland, and Slovenia – chose to start with a small number of listed shares, which was increased as the markets develop. The shares listed were usually voluntary initial public offerings. The third group of countries – Russia and Ukraine – combined both of the previous methods, i.e., some voluntary offerings and some mandatory listing of minority packages of the privatized enterprises.

[4] A *bid rule* is an obligation to offer to buy back shares from minority shareholders once a certain threshold is passed. For example, in Hungary this threshold is 33 percent+1 share (calculated as percent of voting power), in Latvia, it is 50 percent. In Bulgaria, there are three thresholds – 50%, 67% и 90%.

Minority shareholders are in many cases forced to sell their shares, recognizing the fact that they have restricted participation in companies' policies (regarding such things as dividends, calling extraordinary shareholder meetings, or appointing outside auditors). Moreover, internal funds and bank loans are the most often used sources of companies' financing. The gradual sellout of state-owned shares is another factor that should have increased ownership concentration. Evidence suggests that current majority owners have exploited inside knowledge and contacts to acquire state-owned shares at substantial discounts. Although a relatively large fraction of ownership still remains under the state control, individuals or related groups control the largest stake of ownership in most of the countries.

3.2 Corporate governance problem in Bulgaria

Previous research on corporate governance in Bulgaria supports the general tendency of increasingly concentrated ownership in most of the transition economies, with the controlling owner actively involved in the management of the firm (see Tchipev, 2000, Prohaska, 2000, and Tchipev, 2001). This study provides additional evidence on highly concentrated ownership in Bulgaria through analyzing ownership structure and the existing mechanisms of corporate governance and control in a sample of privatized companies. We use public data for 160 privatized (former state-owned) enterprises to analyse and compare their financial performance and ownership structure over the period from 1998 to 2004. Companies that are de-capitalized, or for which enough official information on changes in ownership structure is missing, are dropped from the sample. Thus, their number is limited to 64 as of the end of 2004. We group these companies by industry sectors (branches), each represented by 4 to 6 companies (see Table 4). In each group the sample companies are listed in descending order by the size of their equity capital.[5] The sample includes two types of companies – public (listed on the Bulgarian Stock Exchange (BSE)-Sofia) and non-public (not traded on the BSE-Sofia). Companies that are de-listed from the BSE-Sofia in a certain year of the observation period (e.g., Solvey Sodi Ltd Devnia, LukOil Heftohim Ltd Burgas) appear in both columns of the table – as public and non-public companies after that year.

[Table 4 about here]

We analyse the ownership structure of sample companies based on the existing models of shareholders participation in the company's ownership, types and structures of managerial bodies, and the mechanisms of corporate control used in these companies (see Tables 5 and 6). The question is who controls and how they control privatized companies in a transition economy. The results show that there is a controlling investor that holds more that 50% + 1 share (as percent of equity) in *84* percent of the public companies, included in the sample, and in *94* percent of non-public companies. In *63* percent of all public companies this investor holds more than 2/3 of voting rights, that is, the majority block of shares, which guarantees a full control of the major shareholder over the company's decisions. In case of non-public companies this stake is event higher – around *78* percent. In *16* percent of all public companies, included in the sample, and respectively, in *6* percent of all non-public companies, the largest owner holds a block of shares in between 19 and 50 percent, a stake that doesn't guarantee an effective control of the company. Finally, only in *3* percent of all sample companies (public and non-public) the largest shareholder is not able to control management, because it holds less that 1/3 of the company's shares.

[Table 5 about here]
[Table 6 about here]

The analysis of ownership structure in the surveyed companies shows that the transformation of ownership as a result of privatization leads to four main models of shareholders participation in the company's ownership (see Figure 1):

1) The first and most widespread model is characterized by predominant participation of Bulgarian investors – local legal entities, including the former privatization funds (in case of public companies) or local individuals (in case of non-public companies). Companies with this type of ownership are presented in *59* percent of all public companies, and respectively, in *44* percent of all non-public companies, included in our sample.

2) In the second model we observe predominant participation of foreign investors (directly or through joint ventures). This type of ownership is presented in *38* percent of all non-public companies, and only in *22* percent of all public companies, included in the sample.

3) The third model is characterized by predominant participation of employees and managers in companies privatized through management and employee buy-outs (MEBOs). We observe a limited number of companies with this type of ownership in our sample – in only *9* percent of all public companies, and respectively, in *13* percent of all non-public, companies.

4) In the fourth model we observe predominant participation of the state (represented by the Ministry of Economy) in the sample companies. Here, we count a very limited number of companies with this type of ownership compared to the previous three models (in *9* percent of all public companies, and in only 6 percent of all non-public companies).

[5] The data is compiled from the Bulgarian Industrial Chamber database. For more detailed information see http://www.bic.bia-bg.com/profbg.

[Figure 1 about here]

Figure 1 illustrates the four models of shareholders participation and the percentage distribution of these models in our sample companies (public and non-public). The evidence indicates that the most significant categories of owners in privatized enterprises are those represented by local legal entities/individuals and foreign investors. They are followed by representatives of employees and managers of the former state-owned companies, and then by the state. The analysis also indicates that the models with predominant participation of foreign investors and employees and managers in companies' ownership are better distributed among non-public companies, while those with predominant participation of local legal entities and the state – among public companies. This can be explained by the fact that most of the companies, included in the sample, emerged as a result of the privatization efforts of Bulgarian government whether through mass privatization program (in case of public companies currently listed on BSE-Sofia) or direct sales to strategic investors (in case of non-public companies).

The analyzed companies can be also distinguished by the corporate governance structure. According to the existing legislation in Bulgaria corporate governance structure can be one-tier (board of directors) or two-tier (executive and supervisory board). Our analysis shows that in *59* percent of all public companies they have one-tier system of governance, while in the rest of the cases (*41* percent) they have two-tier system of governance. In case of non-public companies these percentages are respectively *66* and *34*. As a whole, the corporate governance structure of sample companies corresponds to the observed structure of ownership. The same finding applies to the structure of executive boards of the surveyed companies (see Figure 2). There is one important fact that should be mentioned - the state still holds large residual stakes in the privatized companies and its interests are well presented (and protected) in the board of directors of these companies. Our expectations are that the restructuring of ownership and its concentration will be completed in the coming years and the state will finally withdraw from its ownership role in privatized companies.

[Figure 2 about here]

The analysis of existing structures of ownership allows us to conclude that the prospects for implementing the principles of corporate governance and control in Bulgaria are promising. Significant difficulties in reconciling diverging interests and views on business development of the various groups of owners are not very likely. The more substantial problem is how to overcome the short-term strategic thinking of owners and managers through the mechanisms of corporate governance.

3.3 Control mechanisms in the surveyed companies

Next, we investigate whether the observed ownership structures allows for, or prevent the existence of specific mechanisms of corporate control in the privatized companies. The experience from other transition economies indicates that this issue is mostly related to the role of privatization investment funds that acquired significant blocks of shares in former state-owned companies as a result of mass privatization scheme.[6] The existing restriction that privatization funds participating in the first stage of mass privatization cannot acquire more than 34 percent of the shares in a privatized company was a serious impediment for restructuring of the state-owned companies and urged the privatization funds to look for alternative ways to surmount this restriction. One approach used by privatization funds was to participate together (in pairs) in privatization bids in order to be able to acquire a significant control block of shares in a target company. After the end of mass privatization program privatization funds legitimated these shareholdings through block transactions in the Bulgarian stock exchange.

The results of a previous study (Tchipev, 2000) on the role and participation of privatization investment funds in the Bulgarian mass privatization indicate that in case of only two privatization funds, when the first fund holds the maximum allowed block of shares (34 percent) and the second one – 17 percent, and there are no other institutional investors, the main purpose of their joint participation in the privatization bid is acquiring of ownership (and control) of the target company. In many cases such pairs of privatization funds with majority holdings are simultaneously present in several enterprises with almost equal distribution of ownership but the leading role of the two funds is swapped. Thus, all cases of ownership in which the sum of two investment funds' stakes in a company's equity exceeds 50% + 1 share (calculated as percept of equity) are regarded as majority control. This form of control is defined as *exclusive majority control* whenever the controlling shareholder (or group of two related owners) is not threatened by the existence or appearance of another shareholder with whom he (she) will have to negotiate

[6] As a result of the first stage of mass privatization in Bulgaria, approximately 3 million citizens held shares in 81 privatization funds, amounting to a total nominal value of around BGN 80 billion. The privatization funds held diversified portfolios in 1,050 companies. After the end of the first stage of privatization program most of the former privatization funds were transformed into holding companies and very few of them – into investment companies.

on the actual control of the company.[7] The analysis of the companies, included in our sample, shows that there are 15 cases of related shareholders (or *46.9* percent of all pubic companies) and respectively, 5 cases of shareholders (or *15.6* percent of all non-pubic companies), jointly possessing the majority block of shares. If we compare our results with those of Tchipev (2000) study we may conclude that significant changes in this form of corporate control are not observed in the post-privatization period.

Another specific characteristic of the mass privatization process in Bulgaria was the presence of large, non-privatized blocks of shares in many privatized enterprises. As a result, in some cases the majority owner was threatened by the existing opportunity of transferring a sizable part of the residual block of shares to an individual investor through either cash privatization or management and employee buy-outs (MEBOs). The change in ownership would negatively impact the controlling position of the major shareholder. But, often, the residual block of shares is acquired by the controlling owner through the stock exchange and, as a result, the owner obtains the full control over the company's decisions.[8] In case of two related shareholders (e.g., two privatization funds) similar transactions through the stock exchange would result in decreasing the share of second largest (by the size of acquired block of shares) shareholder in the pair, which in turn diminishes the average size of the controlling block of shares below 60 percent. This form of control is defined as *shared majority control*.[9] Another possible scenario is the case, in which the residual block of shares has been acquired by minority shareholders.

The analysis of existing ownership structures in the surveyed companies shows that most of the forms of corporate control discussed above are well presented in Bulgarian economic environment. If we apply the general rule that majority shareholder should hold more than 2/3 of company's shares to apply full control of a company then exclusive majority control is observed in *63* percent of all cases of public companies, and in *78* percent of all non-public companies. The next form of control – shared majority control – in which majority shareholder owns 50% + 1 share (as percent of company's equity) is observed respectively in *22* percent of all public companies, and in *16* percent of all non-public companies, included in the sample. The analysis shows that a limited number of surveyed companies have dispersed ownership structure, in which case we mainly observed exclusive minority control – respectively, in *16* percent of all public, and in *6* percent of all non-public, companies. Here, we may also add all cases of shared minority control as we do not observe any cases of sample companies in which the largest shareholder holds less than 10 percent of company's equity. The last form of control named "constellation of interests" is not observed in our sample.

The analysis of ownership structure of the surveyed companies in respect to the stake of the first largest (by the size of the acquired block of shares) owner provides additional evidences of highly concentrated ownership (and control) in Bulgaria. In most cases we observe a large difference in the size of the stake owned by first and second largest shareholders – in *63* percent of all cases in the sample the first (largest) shareholder holds more than 2/3 of company's equity and is able to exercise exclusive majority control, and in only *6* percent of privatized companies the second (largest) shareholder owns more than 1/3 of company's equity (in case of public companies). In case of non-public companies this difference is even larger (respectively, *78* percent and *13* percent). The analysis of ownership structure in respect to any related shareholders shows that there is a relationship between first and second, or between first and third (largest) shareholders. We observe this relationship in *38* percent of all cases of public companies, and in *16* percent of all non-public companies. Another evidence for increasingly concentrated ownership in the privatized companies is the fact that the sum of stakes of the second, third and forth (largest) shareholders exceeds 20 percent in less than half of the surveyed companies (*44* percent of all public companies), and in only one case this combined stake is larger than 50 percent of the respective company's shares. In case of non-public companies this threshold (of 20 percent) is exceeded in only *16* percent of surveyed companies. The rest of shareholders (after the forth largest owner) holds less than 1 percent of company's equity and, in practical terms, cannot interfere in company's management decisions.

In conclusion, the results of our analysis support the existing evidence of increasingly concentrated ownership in the privatized companies in Bulgaria (see Pertanov and Miller, 1999, Tchipev, 2001) and other CEE countries (see Pajuste, 2002). This tendency can be explained by the fact that the controlling shareholder is striving to obtain the full control of the company. If this owner is a strategic investor who matters to the success of the company he (she) will have sufficient incentive to monitor

[7] This is a classic form of control. A shareholder or a group of related shareholders owns a majority block of shares, which provides opportunity to take decisions on all principal problems of the management and development of a privatized company. The size of the controlling package has to ensure half plus one vote from the total voting power.

[8] Using inside knowledge and political connections, many managers have become major shareholders by employing smart schemes of leveraged buy-outs, buying up employee's shares at discounted prices, or using other (even purely fraudulent) schemes. As a result, one of the stylized facts in transition countries is strong insider ownership and control. Bulgaria provides a rich set of illustrative examples.

[9] This form of control represents the case in which the largest shareholder acquires the majority of votes, needed for the operational control of the companies, through "stable co-operation of small group of allies" (see Scott, 1986).

management, but in many cases the controlling owner will also be able to extract large private benefits, even at the expense of minority investors. This situation is observed in many privatized companies and is due to the fact that exercising minority shareholders rights and protection of their interests in Bulgaria is still weak.[10] The unclear process of selection and appointment of members of the executive boards of privatized companies, and the low degree of transparency and unsufficient disclosure of information on their status are the other two corporate governance problems that have not been yet resolved in Bulgaria.

4. Conclusions

The corporate governance problem in Central and Eastern European countries is shaped by highly concentrated control structures, typically with the controlling owner actively involved in the management of the firm. Managers must be monitored and only controlling owners have sufficient incentives to perform this task. Large shareholders intervention and the market for corporate control are the most appropriate mechanisms for disciplining managers in transition economies. Other devices include shareholder litigation, takeovers and proxy fights, but these are unlikely to be effective and reliable mechanisms in the transition environment characterized by weak legislation and highly concentrated ownership. Therefore, corporate governance system in transition economies will have to rely on active involvement and monitoring by large shareholders, even after the emergence of a class of professional managers. This group will include managers, who are familiar with and capable to use capital markets for attracting external funds, and who will promote the ideas and norms of publicity and transparency.

The adoption of good practices of corporate governance such as disclosure of information on management remuneration and executive directors payment, establishment of supplementary bodies such as remuneration appointment committees, as well as internal audit units will substantially improve corporate governance. There is also a need to expand the training programs for managers and improve the professional qualifications of members of managerial bodies and senior executives. In the medium term the expectations are that large commercial banks will start to play a more active role in financing and monitoring the privatized companies. The combination of seats on the board, votes in the general shareholder's meetings, and security interests in valuable buildings or equipment should increase the likelihood of monitoring being effective. In the long term, the combined effects of these mechanisms can help improve robustness of control, critical in disciplining controlling shareholders and managers, and giving owners and management teams an opportunity to complete company restructuring.

[10] Previous research shows that the weak performance of capital markets is related to the low degree of protection of ownership rights, including the minority shareholders rights (see e.g., La Porta *et al.*, 2002, Durnev e*t al*., 2003). The authors share this option as well.

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Appendices

Table 1. Corporate governance instruments at firm and policy levels

MARKET-BASED SYSTEM	BANK-CENTERED SYSTEM
Instruments chosen at the firm level	
1. Dispersed stock ownership, primary by households and institutional investors	Concentrated ownership or proxy control by banks
2. Little cross-shareholding between firms and little bank ownership of firms, active market for corporate control	Substantial cross-ownership between firms, direct and indirect bank ownership, no significant market for control
3. Little bank involvement in firms' operations	Substantial direct involvement of banks – monitoring, decision-making, restructuring
4. High-powered management incentives – pay-performance link	Low-powered management incentives
5. High ratio of bonds to loans in firms' liabilities	Low ratio of bonds to loans in liabilities
Instruments chosen at the policy level	
1. Far-reaching disclosure and accounting requirements in stock market, minority shareholder protection, barriers to large shareholder activities	Limited disclosure and accounting requirements, limited minority shareholder protection, few barriers to large shareholder activities
2. Rules favorable to or at least not actively hostile to corporate bond market	May have legal obstacles limiting the size of the corporate bond market
3. Bankruptcy legislation tends to emphasize protection from creditors	Bankruptcy legislation tends to emphasize protection of creditor claims

Table 2. Number of listed securities (equity markets) for the period 1994 – 2004 (at the end of year)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Bulgaria	-	-	-	-	998	861	524	402	356	338	332
Romania	-	9	17	76	126	127	114	65	65	62	60
Czech Republic	1028	1716	1670	320	304	195	151	102	79	65	55
Hungary	40	42	45	49	55	66	60	56	49	53	54
Poland	44	65	83	143	198	221	225	230	216	203	230
Slovakia	523	850	970	918	833	830	866	888	510	452	395
Slovenia	19	26	52	85	92	134	154	156	139	134	140
Estonia	-	-	19	31	25	23	20	17	14	14	13
Latvia	-	17	34	50	68	67	63	63	62	56	39
Lithuania	-	304	410	558	60	52	53	45	45	30	43

Source: Homepages of national stock exchanges; Emerging Markets Database; Authors calculations

Table 3. Equity market (including free markets) capitalization at the end of period, in million of USD

	1994	1995	1996	1997	1998	1999	2000	2001	2 002	2 003	2 004
Bulgaria	-	-	-	-	992.0	706.0	617.0	496.8	722.5	1 762.1	2 808.9
Romania	0.0	100.4	60.8	632.4	357.1	316.8	416.0	1 228.5	2 717.5	3 710.2	11 937.6
Czech Republic	12 588.8	17 992.4	19 729.3	14 311.1	13 940.8	13 331.4	11 712.7	9 383.9	15 860.1	25 122.1	43 629.5
Hungary	1 639.7	2 350.2	5 582.9	15 028.8	14 021.5	16 414.3	11 920.0	10 210.0	13 089.0	16 689.0	29 105.8
Poland	3 057.1	4 564.1	8 413.4	12 134.8	20 461.1	29 576.8	31 428.6	26 155.0	28 849.2	37 020.3	71 667.0
Slovakia	-	5 200.3	5 101.4	5 302.7	4 090.4	3 509.2	3 252.3	3 490.6	2 648.6	-	4 923.5
Slovenia	215.9	296.7	890.8	1 875.5	2 984.9	2 854.0	3 099.6	3 461.3	5 577.9	7 134.1	9 678.9
Estonia	-	-	-	-	519.4	1 789.3	1 812.8	1 482.6	2 061.7	3 795.3	6 175.6

Latvia	-	38 938,0	152.6	337.5	385.0	390.9	563.3	697.0	710.9	1 079.2	1 455.4
Lithuania	-	157.5	900.9	2 172.8	1 074.1	1 138.4	1 587.6	1 196.4	1 447.2	3 489.0	6 384.8
Greece	12 819.3	16 526.9	23 558.1	33 783.7	80 125.8	196 846.9	107 502.5	83 481.3	66 040.0	106 643.7	125 501.1
Germany	499 278.4	577 364.8	664 913.2	825 232.7	1 086 748.5	1 432 167.0	1 270 243.2	1 071 748.7	686 013.5	1 079 026.2	1 194 516.8
The UK	1 145 290.4	1 346 640.7	1 642 582.4	1 996 225.1	2 372 738.1	2 855 351.2	2 612 230.2	2 164 716.2	1 800 658.0	2 425 822.0	2 865 243.2
Euronext	-	-	-	-	-	-	2 271 727.5	1 889 455.1	1 538 654.2	2 076 410.2	2 441 261.4
Nasdaq	793 668.7	1 159 939.8	1 511 824.4	1 726 390.4	2 243 734.0	5 204 620.4	3 597 085.9	2 739 674.7	1 994 494.0	2 844 192.6	3 532 912.0
NYSE	4 147 936.7	5 654 815.4	6 841 987.6	8 879 630.6	10 277 899.8	11 437 597.3	11 534 612.9	11 026 586.5	9 015 270.5	11 328 953.1	12 707 578.3
Japan	3 592 193.9	3 545 306.5	3 011 161.4	2 160 584.8	2 439 548.8	4 463 297.8	3 157 221.8	2 264 527.9	2 069 299.1	2 953 098.3	3 557 674.4

Source: Homepages of national stock exchanges; Emerging Markets Database; Authors calculations

Table 4. List of companies grouped by industry sectors and equity capital

Branches	Public Companies		Non-Public Companies	
	Symbol	Capital	Name	Capital
Chemical industry	HIMKO	13 628 275	Overgas Ink Ltd Sofia	50 000 000
	NEFT	13 545 743	Solvey Sodi Ltd Devnia	6 346 773
	SODI	6 346 773	LukOil Bulgaria Ltd Sofia	1 817 070
	POLIM	5 324 513	Plasthim-T Ltd Sofia	1 540 500
	NEOH	2 654 358	PDNG Ltd Pleven	873 433
	PET	1 883 614	Kaltzit Ltd Asenovgrad	863 000
Tobacco industry	BTH	7 367 222	Niki-BT Ltd Shumen	280 000
	BLABT	2 702 626	Yambol-BT Ltd Yambol	256 856
	SOFBT	1 216 870	Topolovgrad-BT Ltd	253 872
	PLOBT	1 079 127	Vidin-BT Ltd Vidin	217 200
	GAGBT	1 003 904		
	PAZBT	202 548		
Pharmaceutical industry	BIOV	6 783 378	Balkanfarma Ltd Razgrad	9 530 990
	SFARM	6 000 000	Aroma Ltd Sofia	5 163 933
	ALMAK	4 840 842	Balkanfarma Ltd Dupnitza	3 317 655
	MDIKA	335 623	Refan Ltd Plovdiv	2 105 000
	LAVEN	200 000	Balkanfarma Ltd Troyan	1 552 490
			Unifarm Ltd Sofia	200 000
Electrical industry	ELKB	8 874 375	Hyundai-Heavy Ltd Sofia	5 032 000
	ENKAB	2 300 000	Elia Invest Ltd Plovdiv	2 028 000
	ELTOS	2 000 000	Monbat Ltd Montana	749 300
	ELHIM	836 947	Naiden Kirov Ltd Rousse	477 926
	ENER	355 271	ZAED Ltd Plovdiv	181 222
Tourism	RIVR	9 428 235	Old Plovdiv-Gergov Ltd	12 000 000
	ZLP	6 493 577	Hrankov-HB Ltd Sofia	2 519 400
	ALB	4 273 126	International Ltd Golden Sands	1 305 000
	SLB	1 957 808	Sofia Princess Hotel Ltd	761 551
	SHERA	478 536	Aidatur Ltd Haskovo	262 728
Metallurgy	MDK	20 790 519	KCM Ltd Plovdiv	27 000 000
	KREM	18 517 545	Dino Nitro Med Ltd Panagyurishte	7 505 550
	OTZK	8 413 360	Asarel-Medet Ltd Panagyurishte	4 022 038
	ALUM	4 488 482	Alukom Ltd Pleven	2 420 953
	STOM	3 566 650	Elatzite-Med Ltd Etropole	2 393 031
			Navan Ltd Chelopech	380 723

Sources: Bulgarian Chamber of Commerce database, Authors calculations

Tabel 5. Public companies grouped by the governance structure, main shareholders, and their stakes in the ownership structure (at the end of 2004)

Company	Governance structure	Main shareholders	Share*, %	Related shareholders
BTH	One-tier	Ministry of Economy	80.00	no
		SIBANK	2.50	
		Bulgaria Invest	2.50	

		Corporative Bank	1.50	
		Bulgarian Holding Company	1.14	
BLABT	One-tier	Bulgartabac Holding Ltd	85.24	no
		Warburg Dillian Reed (UK)	3.00	
		Akcioner Favorit Holding	2.96	
		Bulgarian Holding Company	2.49	
SOFBT	One-tier	Bulgartabac Holding Ltd	78.22	no
		Rothmans of Pall Mall Limited	8.62	
		Rozin Investments Limited (Cyprus)	6.09	
		Zlaten Lev Ltd	2.14	
		Bulgarian Holding Company	1.00	
PLOBT	One-tier	Bulgartabac Holding Ltd	78.18	no
		Rozin Investments Limited (Cyprus)	10.90	
		Orel Invest Holding	1.79	
		Bulgarian Holding Company	1.79	
GAGBT	One-tier	Bulgartabac Holding Ltd	80.57	no
		Rozin Investments Limited (Cyprus)	5.85	
		Zlaten Lev Ltd	4.98	
		Bulgarian Holding Company	3.00	
		Severcoop Gamza Ltd	2.00	
PAZBT	One-tier	Bulgartabac Holding Ltd	85.24	no
		RHL Ltd	3.00	
		Saedinenie Corporation (PF)	2.12	
MDK	One-tier	Umicore CA (Belgium)	95.51	no
		Others	4.49	
KREM	Two-tier	Finmetals Holding Ltd	71.00	no
		Individuals	29.00	
OTZK	Two-tier	Kardzhali Invest Holding	47.49	yes
		L.Z. Metal Trading Ltd	28.58	
		OTZK - 98 (MEBO)	9.87	
		Despred Ltd	4.99	
		Ministry of Economy	0.44	
ALUM	Two-tier	ALUMETAL Ltd	74.00	yes
		FAF Metal Istambul (Turkey)	16.91	
		Ministry of Economy	5.65	
STOM	Two-tier	Ministry of Economy	75.00	no
		Continental Holding	10.16	
		AKB Corporation Holding	9.01	
		TK-Holding (PF)	1.80	
HIMKO	Two-tier	AVST Trading Ltd (Cyprus)	36.00	yes
		Jagoil Ltd (Cyprus)	35.00	
		Zlaten Lev Ltd	3.00	
		Overgas Ink	2.43	
		Ministry of Economy	2.30	
NEFT	Two-tier	LukOil Petrol	58.00	yes
		Fortes Corporation	12.72	
		Power Trade Ltd (Virgin Islands)	12.70	
		Rienko Investment Ltd (Cyprus)	11.19	
		Zlaten Lev Ltd	1.13	
		Ministry of Economy	златна	
SODI	One-tier	Solvey Shishedjam Holding (Belgium)	97.00	no
		Individuals	3.00	
POLIM	Two-tier	AKB Corporation Holding	60.58	no
		Bulgarian Holding Company	27.63	
NEOH	One-tier	EURO FERT Ltd	49.00	yes
		Carimex Chemical International	14.81	
		TK-Holding (PF)	8.39	
		Trans Project Ltd	3.01	
		Albena Invest Ltd	1.37	
PET	Two-tier	Naftex Bulgaria Holding	92.92	no
		Ministry of Economy	5.15	
RIVR	One-tier	AEKC Ltd	97.00	no
		Ministry of Economy	0.95	
ZLP	One-tier	Golden Ltd (MEBO)	73.05	yes
		Ministry of Economy	11.24	
		Condor & Nekerman Touristic (Germany)	8.36	
		AGRIMA Ltd	3.80	
ALB	One-tier	Albena 2000 Ltd (MEBO)	45.48	yes
		Albena Invest Holding	22.78	
		Municipality of Balchik	7.30	

		Ministry of Economy Regent Pacific Nominis (Cypus)	2.76 2.40	
SLB	One-tier	Ministry of Economy Sunny Beach Holding Sunny Beach Turism Petrurgia Ltd Sever Holding	75.00 10.53 4.08 3.40 2.38	yes
SHERA	One-tier	International Lodging Bulgaria Ltd (Cyprus) European Hotel Enterprises Ltd (Cyprus) ACSES Bulgaria Ltd Albena Invest Holding George J. Drandakis Ministry of Economy	23.47 23.47 15.89 9.80 8.55 0.2	yes
ELKB	Two-tier	PFHC ESTABLISHMENT, Lihtenshtain MG Elit Holding Ministry of Economy	58.41 36.93 0.39	yes
ENKAB	One-tier	"Capital" Investment Company Rayhold Investment Ltd (Cyprus) Whistles Finance Ltd	51.00 23.80 19.68	yes
ELTOS	Two-tier	Sparky Bulgaria (with foreign shareholding) Zlaten Lev Ltd Holding "Sveta Sofia" Ltd Ministry of Economy	77.26 6.60 4.82 3.79	no
ELHIM	One-tier	Stara Planina Holding Hollowik Venchutes Ltd (UK) PIM Bank Ministry of Economy Orel Invest Holding	51.40 16.00 8.66 5.37 2.99	yes
ENER	One-tier	Energy 97 Ltd Energy Consult Ltd	63.60 25.10	yes
BIOV	Two-tier	Bulgarian Pharmaceutical Company Industrial Holding Ministry of Economy Zlaten Lev Ltd	83.07 4.64 3.89 2.06	no
SFARM	One-tier	Elfarma Ltd Others	86.66 13.34	no
ALMAK	One-tier	Efekten und Finanz (Swiss) Ministry of Economy	93.63 0.62	no
MDIKA	Two-tier	"Doverie Kapital" Investment Company Legal Banker Ltd Holding "Sveta Sofia" Ltd Akcioner Favorit Holding	81.88 5.08 4.13 2.98	yes
LAVEN	Two-tier	Finteksko Ltd Kalila Farma Industries Ltd (Cyprus) Rozin Imvestments Ltd (Cyprus)	52.20 23.17 10.05	yes

* The numbers do not sum up to 100 percent as the rest is hold by small shareholders with a stake in the company's equity less than 1 percent.

One-tier	19
Two-tier	13

Tabel 6. Non-public companies grouped by the governance structure, main shareholders, and their stakes in the ownership structure (at the end of 2004)

Company	Governance structure	Main shareholders	Share*, %	Related shareholders
Niki-BT Ltd Shumen	one-tier	N.Tonchev L.Vassilev	66.75 33.25	yes
Yambol-BT Ltd Yambol	one-tier	Ministry of Economy Bulgartabac Holding Ltd	69.49 29.78	no
Vidin-BT Ltd Vidin	one-tier	Bulgartabac Holding Ltd Others	98.88 1.12	no
Topolovgrad-BT Ltd	one-tier	Bulgartabac Holding Ltd Trakia-Tabak Ltd	85.87 12.42	no
KCM Ltd Plovdiv	two-tier	KCM-2000 (MEBO) Ministry of Economy	93.20 0.20	no

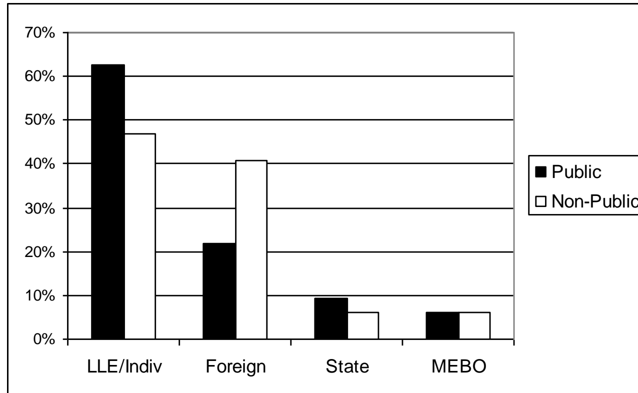
		Municipality of Rodopi	0.03	
Dino Nitro Med Ltd Panagyurishte	one-tier	Dino Explosive Group	60.00	no
		Asarel-Medet Ltd	40.00	
Asarel-Medet Ltd Panagyurishte	one-tier	Asarel Invest Ltd	77.53	no
		Ministry of Economy	22.47	
Alukom Ltd Pleven	two-tier	Aluengineering Limited (USA)	70.00	no
		Ministry of Economy	30.00	
Elatzite-Med Ltd Etropole	two-tier	Elacite Med (MEBO)	80.00	no
		Retel Ltd	17.98	
Navan Ltd Chelopech	one-tier	Navan Bulgarian Mining B.V. (NL)	75.00	no
		Ministry of Economy	25.00	
Overgas Ink Ltd Sofia	two-tier	Gazprom (Russia)	50.00	yes
		Overgas Holding	49.00	
Solvey Sodi Ltd Devnia	one-tier	Solvey Shishedjam Holding (BE)	97.00	no
		Individuals	3.00	
LukOil Bulgaria Ltd Sofia	one-tier	Lukoil Europe Holding (NL)	100.00	no
Plasthim-T Ltd Sofia	one-tier	Famtex Ltd	99.49	no
		Bulgarian Energetics Ltd	0.28	
PDNG Ltd Pleven	one-tier	Ministry of Economy	100.00	no
Kaltzit Ltd Asenovgrad	one-tier	Caltzit-95 Ltd	75.00	no
		Individuals	25.00	
Old Plovdiv-Gergov Ltd	one-tier	Gergov-Labor	93.27	yes
		G.Georgiev	6.52	
		Ministry of Economy	0.09	
Hrankov-HB Ltd Sofia	one-tier	ET "Hrankov" (Sole P)	41.00	yes
		P.Hrankov	30.00	
		E.Maslarski	1.50	
		Tz.Tzvetkov	1.50	
International Ltd Golden Sands	one-tier	Trapenkamp (DE)	51.00	no
		Golden Sands Ltd	36.00	
		Birs Stratievi	13.00	
Sofia Princess Hotel Ltd	two-tier	Sudi Ozkan	90.97	no
		Ministry of Economy	5.24	
Aidatur Ltd Haskovo	one-tier	Balkantourist-BG	57.15	no
		Fuat G. Gyuven	22.03	
		Ministry of Economy	12.19	
Hyundai-Heavy Ltd Sofia	one-tier	Hyundai Heavy Industries (Korea)	97.78	no
		Ministry of Economy	1.48	
		Industrial Capital Holding	0.64	
Elia Invest Ltd Plovdiv	one-tier	Bulgarian Financial Copmany	51.00	no
		Elia Nikopol Ltd	49.00	
Monbat Ltd Montana	two-tier	Prista Oil Ltd	90.00	no
		Ministry of Economy	3.78	
Naiden Kirov Ltd Rousse	one-tier	Kanzas Investment B.V. (NL)	97.00	no
		Ministry of Economy	1.87	
ZAED Ltd Plovdiv	one-tier	Pulding Holding (PF)	52.79	no
		Ministry of Economy	10.39	
		V.Hristov	9.11	
Balkanfarma Ltd Razgrad	two-tier	Balkanfarma Holding (with foreign investor)	93.75	no
		TK-Hold (PF)	2.18	
		Bulgarian Holding Company	1.00	
Balkanfarma Ltd Troyan	two-tier	Balkanfarma Holding	99.16	no
		Ministry of Economy	0.93	
		Bulgarian Holding Company	0.40	
Balkanfarma Ltd Dupnitza	two-tier	Balkanfarma Holding	97.16	no
		Ministry of Economy	1.25	
		Karol Financial Intermediary	0.17	
Aroma Ltd Sofia	two-tier	Sinel Ltd (with foreign investor)	98.58	no
		Ministry of Economy	0.54	
Refan Ltd Plovdiv	one-tier	S.Popov	99.40	yes
		A.Popov	0.20	
		Y.Popova	0.20	
		R.Popova	0.20	
Unifarm Ltd Sofia	two-tier	Unifarm-2000 Ltd (MEBO)	80.00	no
		Ministry of Economy	7.80	

* The numbers do not sum up to 100 percent as the rest is hold by small shareholders with a stake in the company's equity less than 1 percent.

One-tier	22
Two-tier	11

Figure 1. Models of ownership structure in listed companies

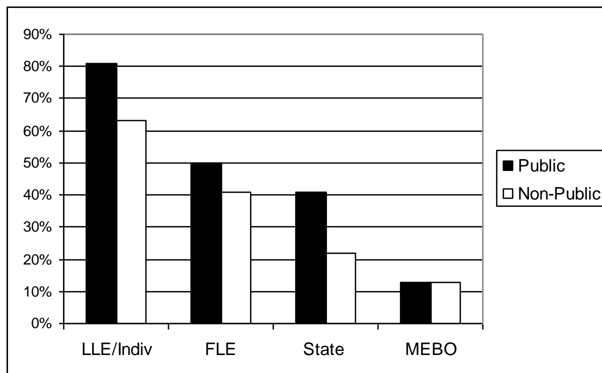
This figure shows different models of shareholders participation in ownership structure in the surveyed companies: public and non-public. These models include ownership with predominant participation of legal local entities/individuals, foreign strategic investors, the state, and managers and employees.



LLE = Local legal entities; Indiv = Individuals
MEBO – Management and employee buy-outs

Figure 2. Structure of managerial bodies in listed companies

This figure shows the structure of managerial bodies (executive and supervisory boards) of the surveyed companies: public and non-public. This structure includes representatives of legal local entities/individuals, foreign legal entities, the state (Ministry of Economy) and company's managers and employees.



LLE = Local legal entities; FLE = Foreign legal entities
MEBO – Management and employee buy-outs; Indiv = Individual