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FACULTY OF SOCIAL SCIENCES  
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## **Bachelor thesis**

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FACULTY OF SOCIAL SCIENCES  
CHARLES UNIVERSITY IN PRAGUE



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**Transition economy and Privatization in Mongolia**  
Case study: Analysis of voucher privatization in Mongolia

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21.07.2011, Prague

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## **ABSTRACT**

**Title:** Transition economy and Privatization in Mongolia  
**Subtitle:** Analysis of voucher privatization in Mongolia  
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### **Abstract:**

The voucher privatization was one of the biggest economic action during transition economy. However, the main consequences of such action were unexpected, very rapid and it was a political action rather than economical. Also Mongolian citizens' disapproval of the voucher privatization is still great after 20 years. But in year 2011, Mongolian government approved using very similar method for the privatization on mining sector, named a "Tavan Tolgoi" privatization.

This thesis focuses on a particular process of the Mongolian by comparing between Russian and Czech voucher privatization. Comparative study with both qualitative and quantitative research methods is carried based on the data of three countries; economic indices and questionnaire were collected by author.

In this study, the whole process is described and the main part of the thesis focuses on analysis of the free voucher allocating method and its advantages as well as disadvantages. The aim of the thesis is to reveal the true impacts of the voucher privatization and ultimately try to answer whether it is social confusion or it is a non-recommended method.

**Keywords:** voucher privatization, ownership structure, individual participant, investment fund, Mongolia, Czech Republic, Russian Federation

## **ABSTRAKT**

**Název:** Ekonomická transformace a Privatizace v Mongolsku  
**Podnázev:** Analýza kupónové privatizace v Mongolsku  
**Autor:** Khurelbaatar Baigali  
**Vedoucí:** Prof. Lubomír Mlčoch.CSc

### **Abstrakt:**

Kupónová privatizace byla jednou z největších ekonomických událostí transformující se ekonomiky. Nicméně hlavní důsledky této činnosti byly nečekané, přišly velmi rychle a tato událost byla spíše politická než ekonomická. Také nesouhlas mongolských občanů s kupónovou privatizací v 90. letech je stále velký i po 20 letech. V roce 2011 mongolská vláda schválila velmi podobnou metodu privatizace těžebního sektoru, pojmenované privatizace "Tavan Tolgoi".

Tato práce se zabývá konkrétními procesy kuponové privatizace v Mongolsku s porovnáním s Ruskem a Českou republikou. Srovnávací studie založená na kvalitativní i kvantitativní výzkumných metodách se provádí na základě dat ze tří zemí, ekonomických ukazatelů a dotazníků sbírané autorkou.

V této studii je popsán celý proces a hlavní část práce je zaměřena na analýzu metod přidělování bezplatných kuponů a jejich výhody i nevýhody. Cílem této práce je odhalit skutečné dopady kuponové privatizace a snaží se nalézt odpověď na otázku, zda vytváří zmatek ve společnosti a zda se jedná o nedoporučenou metodu alokaci bohatství.

**Klíčová slova:** kuponová privatizace, vlastnická struktura, jednotlivý účastník, investiční fond, Mongolsko, Česká republika, Ruská Federace

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## 1. Introduction

As a citizen of a developing country, I always wondered about the economic development of other countries. When I first came to the Czech Republic, I tried to find the reason to the country's successful development. Both countries started their revolutions at the same time and after 20 years, one became the country with advanced economics and one is hardly acknowledged as developing country. Nowadays, many Mongolian citizens are condemning the voucher privatization process for country's slow economic development. Interestingly, Czech citizens' disapproval of the voucher privatization was greater than Mongolian. Is the voucher privatization responsible for slow economic development? Was it a necessary process? Was it political action rather than economic? Also the "Mongolian privatization on mining sector in 2011" which is named "Tavan tolgoi" privatization gave me more incentives to analyze the voucher privatization. This study would give answers for those questions.

After the collapse of Communism, many of the economists agreed on the fact that without fundamental reform (such as institutional, economic structural and behavioral change) it was nonsense to continue with centrally planned economy which was economy without efficiency because of too many employees, products without sufficient demand, no investments for deteriorated facilities, profitless enterprises, state subsidized industries and political pressures on industries. At that moment, the very best choice was the adaptation of transition economy and World Bank confirms that 28 countries had the transition economy in 1990s and many of those countries followed the market institutions of Western Europe including Mongolia.

This study will only focus on the first phase of privatization process of Mongolia, a method of free allocation of vouchers launched by the newly established government. It was the very first step of applying transition economy. Voucher privatization has been used in the Central and Eastern Europe including Russia, Czech Republic, Poland, Slovenia and Bulgaria in early to mid 1990s and Mongolia was the only one Asian country that adapted voucher allocating method.

I am optimistic that this study could be of interest and importance due to several reasons. First of all it tries to point out the confusion of social point of view about voucher privatization. Secondly, so that many may understand that voucher privatization was purely a

political action, the study argues otherwise, origin of this process is economical action more than political that only obligation of government is creation of environment where everyone can benefit from free distribution of vouchers. Thirdly the thesis tries to evaluate the successfulness of Mongolian voucher privatization by comparison between Mongolia, Czech Republic and Russia which cannot be found in any other literatures. Plus readers can broaden their knowledge about Mongolian privatization that has received little attention while there are literatures on the other transition countries.

Unfortunately, I would not use any economic models but that does not mean this thesis is out of scientific perspective. Therefore some parts of this study may seem somehow descriptive but verbal thesis needs more description and giving sufficient details would lead to right conclusions. On the other hand, institutional economy would help in the evaluation of my study and make it more understandable and specific.

The thesis is structured as follows: In chapter 2, general information about the transition economy and privatization of Mongolia can be found and will give sufficient details about Mongolian voucher privatization. The chapter also contains a review of Mongolian special conditions for functioning market-based economy which would give helpful information for the comparison with other countries.

Chapter 3 contains institutional and legal framework those would be well used in analyzing the whole procedure of voucher privatization. This chapter continues with evaluating positive as well as negative consequences by analyzing law-in-practice from the institutional point of view. Also, small part of this chapter talks about social mentality of Mongolia. It has big impact on successfulness of privatization however this is not an economic issue.

Chapter 4 focuses on illustrating the voucher privatization procedure by simple way and will give small details about Russian and Czech voucher privatization based on this illustration. Also section of comparison between Mongolia, Czech and Russian voucher privatization can be found in this chapter and this section start with commenting on the statistical data of these three countries and then will show similar and different consequences with the help of data and institutional framework.

Chapter 5 includes several graphs showing the economic development of Mongolia from 1989 to 2009 and tries to analyze impacts of voucher privatization to functioning

market-based economy. Also you will find sub-capitals about social mentality after 20 years and “Tavan Tolgoi” privatization.

The main findings are concluded in chapter 6 and I have mentioned certain possible ways that could have made voucher privatization more successful.

In addition, at the end of this thesis, is an appendix containing questionnaire for citizens who had participated in voucher privatization.

## 2. General overview

### 2.1. Adaptation of transition economy and privatization

Undeniable fact is that Mongolia had gained so much development under the 70 years of socialist period. On the other hand, they had spent considerable strength, resources, raw material for the technical base and constructions.

But from the beginning, the most of constructions we had gained were ineffective because of the very high productivity cost and much lower efficiency. Let us see the cause of this problem from the following three basic production consequences:

1. **Land:** If use of land is for free no matter how much big it is, people do not really care about the environmental problem and its efficiency. So mentally, everybody was used to use land for free and freely.
2. **Capital:** State had been ordering direct allocation of certain amount of factory equipment and raw materials to the factories under the central planned economy. Because of this term, there was creation of bribery, corruption to get the more primary products. In other words, planned allocation was the worst mechanism of creating an inactive form.
3. **Labor:** Again the word “planned allocation”. State wanted workforce, not the certain people who were specialized for some jobs. State just ordered someone to be sent somewhere else to do some kind of work they do not even know about. And also did not care about individual’s wants and utility needs. Final the result was diminished productivity of workers and high hidden unemployment. For example: in Mongolia, the cost of producing 1k.vatt energy was 3-4 times higher than the average European productivity cost.

Furthermore, Mongolia had problems with technical and technological backwardness, infrastructure and social services. At that moment, around 40 ministries and special administrations were working for the industrial enterprises. It was a huge number for the only 2.5 million citizens. These problems make clear that in the year 1990, Mongolia was in deep economic as well as social crisis and transition from centrally-planned economy to market-based economy was the only way to eliminate those problems.

World Bank and International Monetary Fund were in favor of the “European approach” which puts the macroeconomic acts before microeconomics and speedy transition form centrally-planned economy to market-based economy and have so far recommended the

transition nations including Mongolia to adopt this approach. European approach includes number of measures that should be carried out together at one time and one of them was reform of property relations through speedy privatization process. So Mongolia adapted the European approach to apply it to its transition economy.

Benefits of privatization process can be explained by Pareto optimal redistribution. It describes about the property allocation among individuals and defines that social welfare would improve if new allocation of wealth makes one individual better off without making others worse off<sup>1</sup>. Neoclassical theory approaches to welfare economics<sup>2</sup>. There are three main assumptions:

1. The only one equilibrium exists in the market and it intersects with the Pareto optimal<sup>3</sup>.
2. Individual's preference is exogenously given and stable. No other external factors can affect to this.
3. Individual's decision making is always cardinal and smart.

Beside those assumptions, there are three concealed factors that defend neoclassical approach.

1. Private property is the key condition for the market economic function.
2. Perfect information about prices and quality of products must be known to all consumers and producers without any costs.
3. Limitation of trade efficiency is determined by the decline of marginal utility.

But in reality, those assumptions cannot be fulfilled for some cases and may lead to Pareto inefficiency. It includes: imperfect competition, natural monopoly, information asymmetry, market failures, externalities, unlimited individual's want, price discrimination, uncertainty, time limit, etc. So before promulgating a "privatization" law, government should consider origin of those market failures in order to defend the privatization process from its failure.

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<sup>1</sup> J.E. Stiglitz: Economics of the Public Sector, 3. edition, 2000

<sup>2</sup> Arrow K, Debreu G., Existence of an Equilibrium for a Competitive Economy, Econometrica, 1954, Vol.22

<sup>3</sup> Walras-Arrow-Debreu model

## 2.2. Privatization in Mongolia

Mongolian privatization was the “*Mass privatization*” which had involved all citizens, all territory and all state industrial enterprises. So Mongolia was one of the few countries which had the mass privatization. It had started first phase of privatization process since 1991 and state is still in process. One thing that should be mentioned is Mongolia did not have restitution.

- I. **1991-1996: mass privatization which used voucher allocating method**
- II. *1996-2000: more sophisticated privatization methods*
- III. *2000-2004: privatization of large enterprises with economic significances*
- IV. *From 2004 until now: privatization of mining sectors*

I. Mongolia adapted voucher privatization method from Czechoslovakia and this is originally envisaged by Vaclav Klaus’s Federal Ministry of Finance of Czechoslovakia. Main propose of this method is to pass state property into private hands as quickly as possible.<sup>4</sup>

For the government, privatizing state property among citizens in socially fair way was the most difficult obligation. Somehow, Mongolian governors’ lower skill, leadership ability and poor institution structures made it difficult to apply privatization process. Only fair way was to allocate state properties among the citizens equally and it could have been the same start for everyone in market economy. So Mongolia chose voucher privatization method and promulgated a law based on the vouchers.

There were number of motives why Mongolia chose this method.

1. The biggest priority was insufficient savings of domestic investors. At that moment, all bank savings of citizens were only enough to buy **3%** of the all state properties which decided to be privatized.
2. It was impossible to attract foreign investors by such enterprises which had an old fashioned, politicized, tiresome management style and inactive workers behavior. They were interested in entry into market by building completely new factories. Even after 20 years, this kind of interest appears in mining sectors privatization. So it is a sure thing that they did not want to take risk by investing into old industries.
3. The quickest way to privatize state properties into private hands in short period of time. If state first concentrated on the enterprises’ structural changes and decided to privatize

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<sup>4</sup> Mejstrik.M, The Privatization Process in East –Central Europe, Evolutionary Process of Czech Privatizations, 1997

one-by-one as developing countries did, it would have taken more than hundred years. Also this method is much simple to apply in nations with poor institutional structures.

4. What one should not forget is “justice” of society. All commoners had worked for government for over 70 years. At least they should receive a prize of 70 years working distributions and have equal opportunity to enter into market economy.

Ministry of Privatization decided to divide voucher privatization into 3 categories based on industries’ scales and created two kinds of vouchers that one was tradable and another was non-tradable.

1. ***Small-scale privatization*** – based on the “tender”

Service sector such as restaurants; grocery stores; barber’s shops; services of dry cleaning, photographing, shoe repairing; etc were included in this category and state decided to privatize 2670 such small enterprises by the tradable voucher and cash.

2. ***Large-scale privatization*** – based on distributing “stock certificate”

In this category, state included 1100 large enterprises to be privatized by non-tradable voucher and cash except sectors of railway, chemical, education, hospitals, research, road transport.

3. ***Agricultural privatization***

It was privatization of cattle and herdsmen participated in this process. State centralized on voucher allocation among herdsmen and left the privatization method in the hands of Herdsmen Cooperative. Also both vouchers were allowed in this process. In other word, individuals chose the privatization method.

### 2.3. Special conditions for functioning a market-based economy in Mongolia

Number of issues had significant role for the privatization process. Those are:

- Population's lifestyle

There wasn't any concept about capitalism in the history of Mongolia which means before the real socialism Mongolian people did not have their own tangible and intangible assets (property). Mongolia had been colony into the area ruled by Manchu Dynasty for 200 years and declared its independence just in year 1919 but had to struggle until 1921 to firmly establish *de-facto* independence from the Republic of China. Just after 3 years of independency, it experienced socialism and command economy of post former Soviet Union.

So the privatization process was the first event for the Mongolian people to have its own property other than the livestock husbandry. So privatization process was an immense lifestyle change for the Mongolian people.

- The lowest population density

The country's total area is around 1,565,600 square km and population of Mongolia is only 2.8 million (Mongolian Statistic office), giving it one of the lowest population densities of any country in the world. Approximately 900,000 people live in capital city and 40% of the populations live in countryside, primarily as nomadic livestock herders. In year 1991, Mongolia had only 2.2 million populations. This condition gives both advantages and disadvantages for the nation's quick development.

Domestic market smallness makes hard for establishing manufacturing industries and external trade policies must be well defined to develop new industrial sectors. Also economy with sparse population is hard to work efficiently because of the high transaction costs. On the other hand, it may be relatively easy to make economic reform and assistance plans because of its smallness comparing with other transition nations.

- Land-locked country bordered with two giant nations

Mongolia is a landlocked country located in North-East Asia between Russia and China. So it has an easy entrance to the huge international markets of two superpowers. Of interest, most of the millionaires of Mongolia built their capital during transition economy by trading between China and Russia. However, poor infrastructure became obstacle for this advantage from being realized. So high transaction cost will absolutely bring disadvantages for the nation.



- Effective Livestock Sector

Its share of the GNP of the country exceeds 30% and it is the only source of income for more than 34% of all households in Mongolia. However, the climatic condition is extremely difficult. Mongolia is about 1600 meters above sea level and the weather fluctuates between -30C to +30C. The livestock sector is the only one sector which can self-develop and is quite resilient against economic crisis. During transition period this sector rescued citizens from poverty.

- Efficient mining sector with poor facilities

Mongolia is relatively rich with copper, coal, gold, molybdenum, fluorspar, uranium, tin, and tungsten. Main exports were copper during command economy and CMEA<sup>5</sup> countries were importing copper products from Mongolia and price was as “friendship prices” which was higher than the international price. After the collapse of CMEA, exporting these resources internationally was crucial because of international competitiveness. Reduction of production and transaction costs was much needed and it became main problem in market – based economy. Also the biggest problem was the supply of inputs such as heating, electricity, gasoline, transport and exploitation etc when the ex-Soviet Union could no longer provide them.

- Aid-dependent nation

Mongolian economy was only related with livestock sectors before real socialism and new urban lifestyle highly needed assistance from Soviet Union until 1990. After the collapse, Soviet Union was no longer in position to provide financial aid and the nation had to find third partner countries which will assist Mongolia instead of the Soviet Union. At that moment, it seemed impossible finding assisting partner countries in Mongolian case. After the revolution, USA became a third neighbor country; China took out their border control; World Trade Organization and World Bank accepted Mongolia as member country and it was the new opening for the Mongolian development.

- Well educated and young population

Government statistics claimed that the population doubled between 1963 and 1988. Such a quick growth of population defined nation as a country with young population. The

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<sup>5</sup>Council of Mutual Economic Assistance - 1949–1991, was an economic organization comprising the countries of the Eastern Bloc along with a number of communist states elsewhere in the world.

World Bank estimated that by 2004, 72 % of Mongolia's population would be under the 35 years old. Socialist era gave such a precious chance for all Mongolian to participate in the education system and 95% of population defined as well educated. An enrolment rates in primary and secondary education reached almost 100% in the 1980s. This advantage made Mongolia to develop successfully under a market-based economic system.

- Special PPP of Mongolian people

According to the statistics, Mongolia was a least-developed country. GDP in 1991 was 216USD converted by free market rates of 100-150 tugriks<sup>6</sup> per dollar and that was below the definition of least-developed countries which is 300USD. Also purchasing power parity (PPP) was the one of the significant indicator which is calculated for a basket of goods and services that an average family purchases. However, these indicators contradict with reality of Mongolia. Tugriks exchange rate was at the fixed exchange rate which was used to define by government. Also the basket of a Mongolian citizen is so different from developed countries. During transition, Mongolia people were able to survive with their agricultural products, but western standards defines that Mongolia is a poor country and has hard life.

### **3. Institutional and legal frameworks of Voucher Privatization**

Before analyzing voucher privatization in Mongolia, we should find out why we need privatization process and what the main purpose is. Privatization is an economic and political action as well as social. So it is better to start with the institutional framework that can interact between politic, economic spheres and society as a whole. This chapter shows-up shortcomings of the general institutional frameworks which was created by the socialist economy before and after privatization.

#### **3.1. Institutional framework**

We can name countless number of shortcomings of centrally planned economy such as Principal-agent problem, Rent-and-wealth seeking behavior, Inactive state ownership structure, employees as well as employers “shrinking” problem, condolences of everything being public, free rider problem, bureaucracy, people’s inactive behavior, etc. Following four general institutional frameworks can explain every shortcoming sufficiently.

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<sup>6</sup> Mongolian currency

**1. Property rights:** The theory was first formulated by George Stigler which was based on the written article of Coase in 1960<sup>7</sup> and advocating privatization is often referred to this theory.

Theory: “If trade in an externality is possible, property right is well defined and transaction cost is null, bargaining will lead to an efficient outcome regardless of the initial allocation of property rights”<sup>8</sup>. And if those assumptions are fulfilled, social conflicts can be regulated by private contracts than the government intervention.

In other word, no matter who will be the present owner, in the near future, control over the property in market economy will fall into the hands of most effective owner who is capable of paying highest price for that property and government participation in this process would be unnecessary. So property right must be well defined before the allocation of property.

It is possible that Mongolian officials and economists took into consideration the Coase theory and had concentrated more on the property right and real owners in long run. But in reverse, questions about the executives of industries in short run and assumption of null transaction cost should have been answered before adapting privatization.

*Non-tradable* voucher was a very good decision which evaded from the large portion of property falls into the hand of a smaller percentage of the population and gave chances to those potential owners. But high transaction costs became obstacle for some potential owners. So naïve-Coase theorem wasn’t fulfilled in Mongolian case at all. Or could we say that the Coase theorem was fulfilled with the very high transaction costs for some industries?

**2. Principal-agent problems:** This was one of the biggest factor in centrally-planned economy as well as in transition economy and the theory was first formulated by Rees.R in 1985<sup>9</sup>. Main idea is that if enterprises lack corporate governance, inefficiency will appear whether the owner is state or private individual.

Theory: the arrangement exists when certain person (agent) acts on behalf of a principal of enterprise. If agents are expert at making decisions, arrangement will work well. But in

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<sup>7</sup> Coase, R.H. *The Problem of Social Costs*, Journal of Law and Economics, 1960.

<sup>8</sup> Stigler, G. *Memoirs of an Unregulated Economist*. University of Chicago Press, 2003.

<sup>9</sup> Rees.R 1985, The Theory of Principal and Agent, Bulletin of Economic Research, 37, 1 and 2, pp.3-25 and 75-94

reverse, contradiction between principal and agent will lead to an inefficient production. So in general, specified contract is used for principal-agent relationship.

In other words, principal hires agent to act on behalf of him and in return agent performs for him by increasing the enterprise's efficiency. But we cannot deny that both have their own interests and information asymmetry. Also principal doesn't have an opportunity to directly control the result of enterprise's activity or it comes at much too high a cost.

Information asymmetry makes agents more powerful than principals and they can decide whether to be shirking or be honest. They don't have much interest on reporting all enterprise's activities for protecting their positions. So the compensation mechanism (piece rates, share options, discretionary bonuses, promotions, profit sharing, efficiency wages, deferred compensation, and so on) may avoid from the shirking problem but cannot solve it completely. Also another important term is "trust" between principal and agent.

Workers treatment for their employment in socialist period and most of the economic criminality can be explained by this theory.

- In planned economy, state could not control all of the enterprises and there was not any compensation mechanism. So it was common for agents to be shrinking and it led to economic inefficiency.
- In first period of privatization, principal-agent relationship was so messy because of high dispersion of shareholders. Assuming that individual small shareholders were not able to use their voting power in unison, thus we could say that they had negligible relative importance for corporate governance<sup>10</sup>. So agents got the opportunity to control the enterprises, misuse the properties and appeared moral hazard.

**3. Rent-seeking behavior:** This concept not only appears in economics but also in political markets by manipulating the social/political environment in which economic activities occur. The rent-and-wealth-seeking behavior of members from the controlling groups in enterprises and from the old structures of the governance hierarchy - the exclusiveness of their positions was exceptional – provides an explanation as to who were the decisive forces advocating speed of change.<sup>11</sup>

H.Demsetz (1974) is considered the father of the so-called naïve theory of property rights: Property rights do develop toward the internalization of externalities only if the

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<sup>10</sup> Mejstrik.M, The Privatization Process in East –Central Europe, Evolutionary Process of Czech Privatizations, 1997

<sup>11</sup> Lubomir Mlcoch, Pavel Machonin, Milan Sojka, Economic and Social Changes in Czech Society after 1989: /an alternative view/, 2000.

expected profit from this change is higher than the expenses spent in this process. It means that potential owners will enforce the creation of exclusive property rights in such a case only if they expect a positive net profit resulting from this exclusivity.<sup>12</sup> But in the aggregate such behaviors may lead to a high portion of illegal activities such as corruption, bribery, lobby and result in substantial social losses.

In Mongolia, rent-seeking behavior is a common occurrence and it was during transition period. Interest groups were lobbying political regime to change structures of jurisprudence or to get special authority of licenses in order to increase their net future income. In transition period, it is impossible to suspect this kind of economic criminal because of nation's massive reform. Nowadays this kind of behavior can be suspected with very high costs but still leaves there big question mark.

Ganbold.D<sup>13</sup> has once mentioned in his interview, in year 2000: "About 50-60 big enterprises capture the 90% of Mongolian economic potential. Most of them are large enterprises with economic significance. And executives of those are nominated managers from political party which has dominant power over government". Also after the election, high ranked officials of big enterprises were fired from their position because of political pressure. It is clear that rent-seeking behavior is common in Mongolia.

4. **Transaction cost:** Williamson.O<sup>14</sup> first formulated the theory of "transaction cost" and he tried to investigate any problem that can be posed directly or indirectly as a contracting problem. He analyzed that free market will be in difficulty if following three limitation appears:

- a) Asset specificity: extend to which assets can be redeployed to alternative users and uses.
- b) Bounded rationality: behavior that is intendedly rational, but only limitedly so.
- c) Opportunistic behavior: self-interest seeking with guile.

In Mongolian case, those three limitations might have great influence. In such a small market, it is impossible for the existence of all economic sectors and these can lead to narrow conditions for property utilization. Information limitation is big to enter free market because of land-locked country with a large land, poor infrastructure development, big barriers to enter world market, etc. Also rent-seeking behavior appears because of social mentality for

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<sup>12</sup> Mejstrik.M, The Privatization Process in East –Central Europe, Evolutionary Process of Czech Privatizations, 1997

<sup>13</sup> Prime Minister of Mongolia and Directorate of Privatization Committee of Mongolian Government, in 1991

<sup>14</sup> Williamson.O.E, The Economic Institutions of Capitalism, New York, The free Press, 1985

acknowledging laws, contracts and following them such as fleeing from loans repayment, bank's unsecured loan, invalidating enterprises' contracts. Looking at those problems, in Mongolia, state might have bigger interference than development countries.

Summing up these four general institutional frameworks, it is clear that if state cannot regulate those shortcomings before applying privatization, whole reform may lead to the unfair distribution of properties, social irritations and result can be counterproductive.

### **3.2. Voucher privatization law and law in practice**

Legislation has to be politically acceptable and practically feasible that can involve all different interest groups such as commoners, working teams, headquarters, officials, etc. But in real world, sure thing is that one special law condition makes one group more powerful than others. In practice, voucher privatization law couldn't fully satisfy all citizens' wants and it resulted to inequality of society, ineffective owner, operational inefficiency, more importantly economic criminals were defended by gaps in legislation. Also for a nomadic nation, following law was strange phenomenon and it was common of breaking a law.

The main task of legislation was "equal opportunity" for all commoners, workers, managers and chiefs of industries. Socially, it sounds fair but it did create certain negative results. In general, Privatization Committee promulgated the law very simple in order to make easier for society to understand the laws and it resulted to more gaps in legislation. Let analyze this on important laws that promulgated by Privatization Committee.

- All legal citizens of Mongolia are allowed to privatize state property. Each citizen has the right to receive pink tradable vouchers with the value of 3000 tugriks which is for small-scale privatization and blue non-tradable vouchers with the value of 7000 tugriks which is for large-scale privatization. For agricultural privatization, both vouchers are allowed to participate.

*In practice:* This essential law created uncertain position over enterprises. Non-tradable voucher was a good decision that gave real chances for potential owners. For some nations, tradable voucher was the golden chance to manipulate economy by some individuals, funds or organization from shadow economy.

Privatization Committee must have been more specific for building voucher privatization laws and it should have included corporate governance problem as well. Chief,

manager are always in charge of company's effective operation and responsible for good corporate governance. But they had same position as employees and as a result, administrative workers had to find their own ways to gain more power on their enterprises' by joining in political parties, using family members' vouchers, buying shares by illegal way or manipulating officials.

- Fee to get both vouchers with the value of 10000 tugriks are 200 tugriks. Vulnerable group of society will be freed from this fee.

*In practice:* It was the political decision for state budget surplus and it contradicts with the main idea of free allocation of vouchers. 14% of citizens didn't get their vouchers and main reason of this can be the fee. Also 70% of vouchers are non-tradable so it gets less interest from individuals.

- If citizen wants to buy own working industry's shares, (s)he has permission to participate in the first round and the price will be the face value of the shares.

- If citizen wants to buy own industry's property, (s)he will have 10% discount from the current price.

*In practice:* These two laws are fair enough for workers.

- If citizen had the civil rent contract of certain enterprise before privatization start, (s)he has the permission to buy factory at the first place.

*In practice:* For a small-scale privatization, after discussing a law about "civil rent contract" advance, groups of people rented big properties for privatizing advance with the help of insiders in government. As a result, certain people kicked out from the competition to privatize interested property and citizens who had civil rent contract had advantages to build monopolistic enterprises. In capital city Ulaanbaatar, 7 enterprises out of 10 had the civil rent contract advance.

- In large-scale voucher privatization process, "Investment Fund" is allowed to participate with the permission from Privatization Committee. First of all, they have to make a contract with the voucher owners and behalf of them funds can freely trade owners' vouchers and make decision on the stock market. Investment fund's privatized stocks of one industry should not exceed more than 20% of that industry's stocks.

*In practice:* Investment funds had access to participate in process. However, poor knowledge about the use of funds and non-tradable voucher were the main barrier to entry voucher privatization process.

Summing up, there are number of weak points in legislation but we cannot conclude that legal basis was completely disastrous and origin of privatization failures. Even nowadays, there are weak laws and lot of gaps in legislation in everywhere and every nation. For nomadic nation, it is a very successful beginning to enter new market-based urban economy.

### **3.3. Consequences of voucher privatization**

In imaginary world, such a large-scale economic reform can be completely successful without any judgments. It is true that there are a lot of critiques about voucher privatization but what should not be forgotten is that Mongolia had built market economy with a lot of advantages. Lots of economist judged about the voucher privatization's righteous but nobody offered any other better way to privatize in certain situation. Let us analyze the consequences from the institutional point of view.

- **Small-scale privatization:** It was almost successful and state succeeded on creating free market competition among them. However, in the short run, there were economic efficiency drop but in long run, it came to its efficiency.

State only paid attention to privatize the enterprises and missed the duty to consider after privatization activities of the enterprises. New owners didn't recognize or manage their responsibility to look after corporate governance of the enterprises. As a result, drop of economic efficiency and inactive enterprises appeared. Against this problem, state had had to issue law about depriving of citizen's privatizing rights. But after such big economic change, it is comprehensive that enterprises just newly entered to market economy and they needed certain period of time to direct their enterprises to economic efficiency. Also they needed a little state supports to operate enterprises entirely successful, so no judgment on this fact.

The biggest argument was evaluation of properties. Stock market just established at that time and didn't have much experience with evaluation of the properties. On the other hand, it was impossible to estimate future profitability of the privatized properties. After 3 years of voucher privatization, the first 27 people got the property evaluating certificate. Process was



in period of monetary reform and high inflation. Thus uncertain environment without evaluation of properties makes successfulness of voucher privatization less.

- **Large-scale privatization:** This part is very problematic because of its' economic significance. Economists mostly criticize the large-scale privatization process. Lot of enterprises' productivity reduced, some of them stopped the operation even went to bankruptcy. Main failure of this process is state paid less attention for other macroeconomic stabilization such as price liberalization, institutional reform, financial sector's reform, policy of market competition.

First of all, the biggest problem was ownership structure. Before privatizing enterprises, Privatization Committee had to take into account ownership structure and should privatize controllable amount of shares to certain person or group of people from avoiding inactive ownership structure. This was the policy making mistake. It is true fact that government failed to choose other privatization method during VP such as management buy outs, direct asset sale by cash and long term loan, leasing out, etc.

Also citizens were allowed to sell their shares not vouchers. So establishment of Second Stock Market must have been carried out together with privatization process. 3 years late establishment of this market made economic inefficiency worse. This legislation made situation worse, share agglomeration slowed and for the executives, it was hard to control enterprises. In a harsh word, industries' operations were lack of active corporate governance for 3 years and it is long period of time for efficient productivity.

Secondly, the most criticized feature of the voucher privatization was the high dispersion of new owners of joint stock companies and thus led to inactive state ownership to hundreds of shareholders ownership<sup>15</sup>. As a result, enterprises became inactive without concrete owner.

For example: "A" company – shareholders are leading councils as well as workers and their family members. Nobody has priority. Manager also chief who had shares only worth 7000tugriks vouchers were unsatisfied with their position. So they do not value their company and do not consider increasing efficiency of production and labor, only try to increase their wages by reducing shareholders' dividends. On the other hand, shareholders (mostly workers)

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<sup>15</sup> Mejstrik.M, The Privatization Process in East –Central Europe, Evolutionary Process of Czech Privatizations, 1997.

are only interested in dividends. And final result was inactive ownership structure and inactive corporate governance of enterprises.

Final problem was inactive state ownership. 56% of all enterprises remained state's property. But state representative of those properties was not clear for a long period of time and in the end, agents which hired from the state got the opportunity to misuse properties and created shrinking problem. It can be easily explained by preparation before privatization process. Uncertain law suits made confusion between Ministry of Privatization, Ministry of Finance, Privatization Committee and Local Government that which one had the priority to control over the representative of certain enterprises.

- **For agricultural privatization:** State made policy making mistake about agricultural privatization. All agricultural properties were belonged to agricultural cooperatives. And government only distributed vouchers among herdsmen and ordered to privatize the sector. Agricultural cooperatives had to choose their own privatizing ways. In harsh word, government just left this sector out of control.

After the agricultural privatization, citizens raised the controversial questions. But as we can see now, the only cattle reached the true owners among all other state properties and the biggest achievement of entire privatization process was 100% successful agricultural privatization. In socialist period, every year state had planned to reach 25million cattle from 20 million and never achieved this goal. But just one year after agricultural privatization, it reached 30 million.

As we mentioned before, the livestock sector is the only one sector which can self-develop and agricultural privatization was the reform that didn't need any other macroeconomic stabilization.

### **3.4. Social mentality of Mongolia in 1990**

Transition from centrally planned economy to market based economy was not only political and economic reform. It was also transition from rural society to urban society in Mongolian case. Healthy economy cannot develop alone without healthy social and psychological issues. Of course, we cannot blame social mentality for all privatization failures but it did have massive impacts for successfulness of privatization process, especially in voucher privatization process.

As we mentioned before, Mongolian people's nomadic lifestyle cannot be changed simply by promulgating a law and changing ownership status. For better privatization result, state should have taken a wide ranged action for social development and it needs high transaction costs, also benefits from that action will come to light in the far away future. It is not a short run reform such as economic and politic reform.

It may seem a bit informal factor but it is highly correlated with the social welfare. Some may claim social happiness is purely personal issue but somehow state interference is important for building a healthy environment where everyone can pursue their own happiness. This is the important thing that government missed to include in voucher privatization. Main task of voucher privatization was "distributing state property among citizens by socially equal and fair way". Economically, allocating same amount of vouchers to each citizen sounds equal and fair. But socially, allocating vouchers with asymmetric information does not seem to be fair way and it cannot lead to increasing social welfare.

It is a difficult task to change social mentality. It needs attention from both government and citizens. Development of social mentality require certain period of time and high transaction cost. But these assumptions contradict with the speedy mass privatization.

First of all, state failed to pay attention for society's knowledge about market economy and voucher privatization. Before communism, Mongolian people's only private property was cattle and "ger"<sup>16</sup>. In socialist era, most of Mongolians made lifestyle change from rural to urban life but it was transfer from herdsmen class to working class. So individuals did not need much change in their knowledge.

But market based economy is in completely different stage. Individuals have their own tangible, intangible assets; they have right to make decisions on their property; they will worry for their own welfare; everything based on their own action. So state needed to allocate information for the citizens about market economy, privatization process, what benefits they will get and what they will loss, especially about vouchers content. Voucher privatization was the very first step for nation to entry to market economy. However, government only paid attention to improving government officials' knowledge in order to run voucher privatization successful and development of social knowledge was left behind.

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<sup>16</sup> Traditional house, tent

Secondly, state failed to comply with full information about privatizing enterprises. *No market economics knowledge plus information asymmetric???* With these two issues voucher privatization will be disastrous and will give absolute advantages for those officials, head quarters, managers and insiders. But thanks to Mongolian smallness, this big disaster did not take wide territory. For bigger countries such as Russia, Czech republic it was one of the biggest problems.

Third issue was inactive individual's participant. 1,9 million citizens had received their vouchers out of 2.1 million and 1.2 million citizens participated in large scale voucher privatization. This statistic shows that 57% population was shareholders. Also more than 50% of those shareholders left their shares behind<sup>17</sup>. It claims that only 28.5% population was active in voucher privatization. This statistic is very relevance with first two issues.

Also behaviors of individuals were hard to direct. From socialism, they had learnt working class behavior. For example: everyone receives same salary whether they work more or less, no financial incentives for over-fulfilling a plan, no interests in long term benefit, etc. If we remember the recent Soviet past, we would know that the main principle was "keep a low profile!". Self-promotion was strictly punished. Thus people just cannot leave their previous behavior over night. So it is giant reform of social and development of this issue was purely up to individuals.

This section's main ideology is: If government had taken action at first place, the rest of problems would have laid on the citizens' hands. Social irritation for privatization process may have been less and successfulness would have been better than the current result

#### **4. International comparison of voucher privatization**

Mongolia, Czech Republic and Russia Federation, all three nations had mass privatization and used the unusual method of free distribution of voucher. For both Mongolia and Russia, inspiration of adopting voucher privatization method came from the Czechoslovakia. So this comparison study will give general information about voucher privatization of Czech and Russia based on the structure of strategic game, analyze the recent results of each nation and will show the different results between those nations.

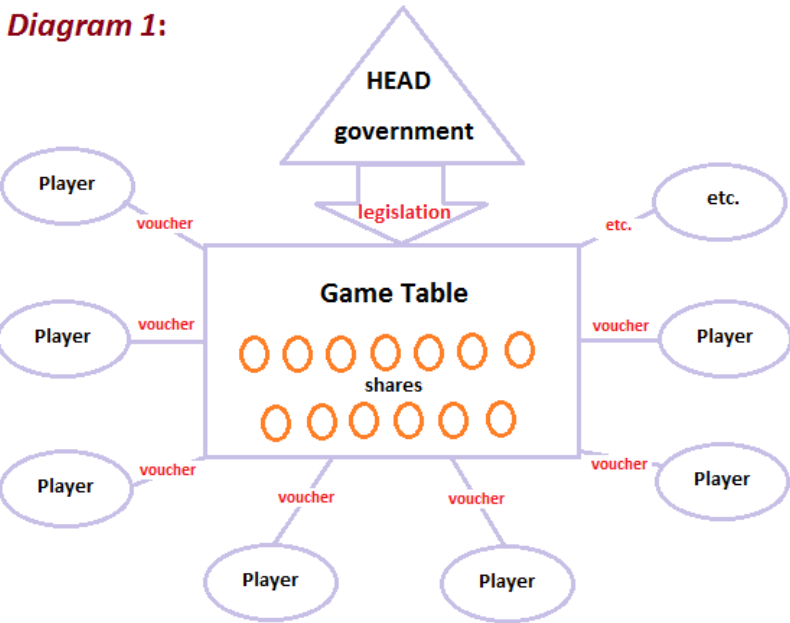
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<sup>17</sup> Based on non-official statistics published on newspaper "Today", Mongolia,2009

Large-scale privatization is highly correlated with the nation’s economic potential. Each country succeed on the process of small-scale privatization, however there were number of weak points. So for this chapter, we will pass over small-scale privatization and will only concentrate on the large-scale privatization.

**4.1. Strategic game based on uncertainty and risk taking level**

The voucher privatization process was a strategic game among participants. It is easy to suspect what really happened during voucher privatization. For simplicity, let analyze the whole procedure based on the below diagram.



- **The Government as a rule setter**

Government’s only obligation was provision of sufficient information about enterprises, good legislation of voucher privatization process in order to transfer state owned enterprises to those best educated, knowledgeable voucher holders who would know how to incorporate the enterprises and benefit from the operation.

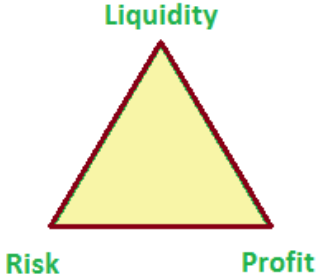
- **The Players**

Players’ obligation was to participate in game by following rules which were set by government and they had the opportunity to acquire ownership of the privatizing enterprises with their holding vouchers. There were two kinds of players. First one was individual players

and another one was investment funds (IFs) that were established by some organization or individuals.

- **Game strategy**

Game strategy was based on uncertainty and risk taking and it can be explained by below investment triangle.

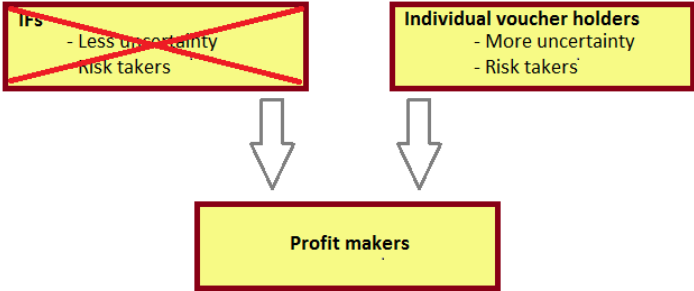


- Liquidity - all players invest their vouchers based on the enterprise’s liquidity. Also they need sufficient information about enterprise and decision of risk taking depends on *uncertainty* about enterprise.
- **Risk** - the probability of each possible outcome from the investments. On other hand, measurement of individuals how much risk they are willing to bear.
- Profit – in other word, it is dividend payment from invested enterprise.

**4.2. Mongolian experience based on the *Diagram 1***

If we analyze the whole procedure on *Diagram 1*, it is pretty simple to see what really happened during 5 years voucher privatization in Mongolia.

- **The players:** There is only one type of players which is normal voucher holding citizens. IFs did not participate however they already had permission to participate.
- **Game strategy:**



Individual participants were in position of making decision under high uncertainty and high risk level. Provided information from government was the only resource they could use. Government distributed vouchers to all citizens including children. So the only way to acquire more shares in one enterprise was family and relatives participation into one enterprise.

- **Result:** Mongolian government succeeded on bringing individual participations into the privatization process and 86% of all population received their vouchers. But 36% of them left their vouchers behind because of non-tradable vouchers. Government didn't struggle with IFs operations such as Czech and Russia but Mongolian economy struggled because of inactive corporate governance of all enterprises.

Insufficient information about enterprises, uncertain risk level and scarce economic knowledge of citizens made them not to be winners of the game. Mongolian enterprises were mostly built for the benefit of Post-communist Russia. After the collapse, those enterprises were in situation of without any demand and most of them were enterprises with high possibility of insolvency. Approximately, 80% of citizens invested their vouchers into their own working enterprises but unfortunately, 57% of all enterprises went to bankruptcy. It means all participants bought enterprises' shares with very high risk level and yet they had not realized it.

There were 1,2 million shareholders for less than 1200 enterprises and in Stock Exchange, there isn't any information except shareholders name list. High dispersion of shares gave absolute advantage for some executives, managers or individuals to manipulate enterprises without shareholders agreements. Almost everybody hasn't received any dividend for 20 years because of enterprises' bankruptcy or managers' in-ethic behavior. Also individuals had not tried to receive because of their very small almost worthless investments. In the end, only a few individuals who had potential to foresee the future benefit gained enterprises with null costs.

Another biggest problem was process during monetary reform and high inflation. Nominal value of voucher changed in short run and inflation made fair value totally worthless. Inflation rate had reached almost 300% and this situation made investment totally worthless.

In Mongolian case, most of the criticism lies on government and shareholders. Three years late establishment of Second Stock Exchange was the pure government's mistake. This

situation emerged the corporate governance of all enterprises and thus some individuals gained golden chance to collect shares or buy-out enterprises without paying anything.

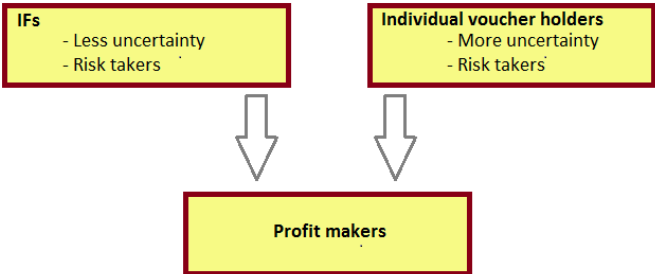
In general, Mongolian government only achieved the goal of speed of large-scale privatization and successfully distributed vouchers among citizens. At that time, Government did not realize the risks of non-tradable vouchers which could lead to high share dispersion. Nation could have the best voucher privatization among all other transition countries with the advantage of its smallness and intelligent non-tradable voucher scheme. But government missed this opportunity and created real big social resentment and handed out economic potential to small number of individuals.

**4.3. Czech experience based on the *Diagram 1***

The voucher privatization process began in the autumn of the 1990 and expanded into larger spaces in the beginning of 1991. For the large-scale privatization, in a situation of complete lack of domestic private capital, government chose voucher allocating method and it divided into two waves. First wave finished in summer of 1993 and next wave finished in spring of 1995. The most of the joint stock companies were partly privatized by the method of voucher privatization. Now, let analyze the whole procedure based on the *Diagram 1*.

- **The players:** Three primary players had participated in large-scale privatization. The biggest players were Investment Privatization Funds (IFs) established by Czech commercial banks including Komerčni Banka, Ceska Sporitelna, CSOB, Investicni a Postovni Banka and Czech Insurance Company. Second primary players were IFs established by individuals. And the last players were voucher holding individuals.

- **Game strategy:**





**a.** IFs established by banks

Unfortunately, all five financial institutions were the largest institutions in Czech and were still state owned. So these funds had the absolute advantage than normal citizens in terms of information based on credit ties with the enterprises. Less uncertainty could decrease risk level substantially.

**b.** IFs established by individuals

Individuals' IFs had also better information comparing to the normal voucher holders such as insider information about sectors which others could not use. But what must not be denied is that individuals IFs had played in games intellectually.

**c.** Individual voucher holders:

Individual participants were in position of making decision under high uncertainty and high risk level. Provided information from government was the only resource they could use.

- **Result:** One of the main goals of the Government was to bring individual participations into the privatization process as much as possible and expected participation approximately 30% of all eligible citizens. Instead, this estimation expanded to 75% of the citizens. But individual voucher holders kicked out from the game that was setup by the Government.

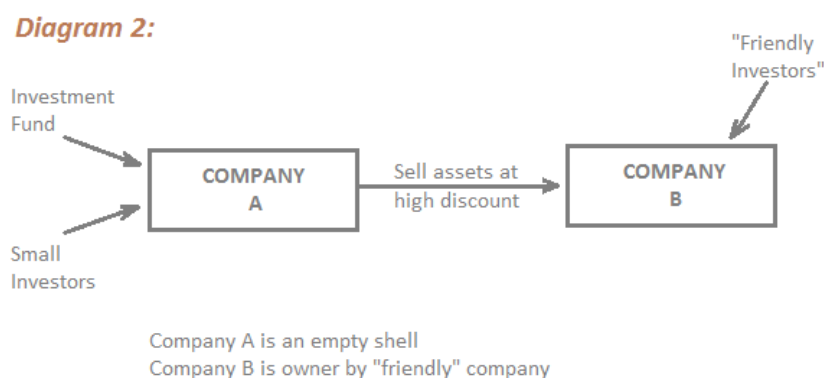
For the individual voucher holders, challenge from the IFs was not so acceptable. Massive advertisement of IFs combined with promises about high return of investments in short period of time (promise of 10000CSK for the 1400 points) made individual players not to be winners. 68% of all vouchers were collected by IFs which means 68% participants had turned their vouchers into IFs. Why couldn't they act individually in the market and why did they prefer IFs instead of own act? Main reasons were information asymmetry about companies and high risk level.

So voucher holders believed that IFs had better information and it was better to sell vouchers to them instead of taking risk themselves and expect future profit. Also quick profit from the vouchers made individuals more attractive to the IFs. From the social point of view, because of those reasons individuals missed their opportunity to participate in the game and they found themselves cheated by bigger and more informed IFs, which later re-registered as holdings.

Now, if we look at the impact of voucher privatization to Czech economy, there is a large disappointing result from the large-scale privatization. Government's legislation on IFs was very weak that resulted to transfer from state-ownership to state-ownership and to small portion of individuals.

The weakest legislation was permission of establishment of different IFs by one individual or organization and joint-venture between IFs. For example: The third biggest IF was The Harvard Funds in Czech Republic, established by Viktor Kouzeny. They acquired over 11% out of all vouchers available. And Viktor Kouzeny used this legislation gap by creating number of IPFs, acquiring between them and turned out to be owner of significant part of the Czech economy.

Below "tunneling" asset diagram illustrates this kind of problem more specific.



resource: B.Kogut and A.Spicer. *Industrial and Corporate Change*, Volume 11, Number 1, pp.1-37

*Explanation: IF insiders or managers of company A sell their assets to friendly investors at a high discount.*

Another problem is that during the auction process, lot of foreign investors participated by hiring Czech citizens as domestic buyers which was illegal. It was good opportunity for people from under-ground economy to use the situation as money laundering.

So in general, these situations emerge the entire success of the voucher scheme. So was the privatization process transferred from state-ownership to state-ownership in case of IFs which were established by banks? This is very questionable. Also in the end, small portion of individuals are now benefiting from their investments. So unfortunately, large-scale voucher privatization was the biggest disappointment but the economic reform has not hit the Czech Republic as hard as it has affected other reforming nations and voucher privatization achieved the main goal of fulfillment of privatization within short period of time.

#### 4.4. Russian experience based on *Diagram 1*

The voucher privatization process began in October of 1992 and finished in June of 1994 and it took three rounds. In the first round, government secured the positions of managers and employees. First option was all employees could acquire 25% of enterprise's all shares for free and could buy additional 10% with the 30% discount of the face value. Also they could acquire more 5% with the 23% discount. And the second option was acquirement of 51% of all enterprise's shares. But 2/3 of the employees had to approve buy-out price of 1.7 times the nominal value per share. No free distribution allowed. For this round, employees were in confidence.

In the second round, unsold shares from the first round went to organized auctions by local State Property Fund and price was at market value. In the third round, unsold shares from the auctions went to the direct sale to potential strategic investors. Now, let analyze the whole procedure based on the *Diagram 1*.

- **The players:** There were many primary players that participated in large-scale privatization. The biggest players were Voucher Investment Funds (IFs) with the authorized licenses from the government. Also investment companies were allowed to participate by buying and selling vouchers and securities on their own accounts and on the clients' account. IFs were created by domestic banks, private consulting firms and by some privatized enterprises. Last players were individual voucher holders.

- **Game strategy:** almost similar with Czech Republic

- **Result:** Russian population is 10 times bigger than Czech and 100 times bigger than Mongolia. So voucher privatization was the giant process comparing with these 2 nations. 72% of voucher holders left or sold their vouchers or in worst case lost their investments in investment funds. So we need to sum up all results case by case.

During voucher privatization, investment funds (IF) and investment companies were allowed to participate with the authorized licenses and main purpose was to attract vouchers and cash from the citizens to create a close-end mutual fund portfolio. But state failed to control over unlicensed financial companies and government estimated more than 2000 unlicensed financial companies were in operation during voucher privatization. Approximately, 80million people invested their vouchers into those companies.

First of all, financial agents appealed voucher holders by massive intelligent advertisements, announcement of false voucher values and false profit of future income. People believed in their massive advertisements such as Tibet, MMM companies. Tibet Company promised to investors that interest rate of 30% a month by commercial advertisement. Suddenly, 600 000 Russians invested their vouchers into this company but the president of Tibet company disappeared. Most of voucher holders had invested in the other 2000 such financial companies, lost their investments and it created social chaos.

Another tragedy was pyramid scheme of MMM. It wasn't a voucher investment fund and it wasn't illegal, but non-legal company. This company was in operation by using gaps in legislation. Massive advertisement on television commercial all over and announcement of price increase twice in every week appealed over 10million Russians. Also MMM's shares were traded in secondary market but its own network dealers were manipulating the share price and price increased 6000%. After a while share price of MMM fell from 62\$ to 50 cents. Again numerous voucher holders lost their investment.

The second biggest problem was that mass privatization was in process during monetary reform and high inflation same as Mongolia. During the process, voucher price had been increased from 8565 ruble to 22674 ruble<sup>18</sup>. Financial agents benefited from this uncertain environment and many banks grew dramatically during this period.

Most importantly, very poor regulation on IFs and financial companies operations made voucher privatization disastrous. In the most of the studies, economists clarify that allowing participation of IFs was the biggest mistake. This clarification is very reasonable and even it is possible to say that nowadays Russia's under-ground economy, political manipulation and terms of corruption, bribery are current result of legal and non-legal IFs operation. We can name numerous of those kinds of behaviors such as bribing representatives of officials to win a tender, illegal ways to bribe other participants to not attend on tender, etc.

In law suits, investment companies were forbidden to accept direct investment from the voucher holders but state allowed them to buy stock for individuals. But they simply managed how to avoid from this legislation. They made with investors secret contracts or oral promises that financial companies would act behalf of the investors and would gave extra percentage return in a defined period of time.

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<sup>18</sup> Russian currency

Another important term was investment strategy of the IFs that they were specialized for one sector and tried to build monopoly or oligopoly over the one sector. Again state failed to control this and thus legislation of voucher privatization created market failures. In the end, IFs owned large portion of large enterprises which had nation's economic potential and their only concern was on the ownership structure and didn't realize the importance of corporate governance of enterprises. New owners were mainly interested in quick return of enterprises and hadn't taken any of the responsibilities on the nation's economy.

From the view of society, individuals didn't take into their account the high risks involved in investing in IFs and importance of information asymmetry. That's why IFs played the main role and millions of Russians were deceived by them and they lost their investments. Simple example is that IFs paid dividends not in cash but by shares which had no value on their own.

In general, Russian government only achieved the goal of speed of large-scale privatization but not in distribution of vouchers. Privatization Fund planned 5000 enterprises to be privatized and it expanded to 9342 and possession of over 70% of ownership in enterprises were taken by managers and employees. Government aimed on high revenue from privatization into state budget and not on best investment program which led to disaster of process and society's chaos. So Russian government didn't only need good legislation on IFs such as Czech needed but it questions necessity of entire process of voucher privatization.

#### **4.5. Comparison by *Diagram 1***

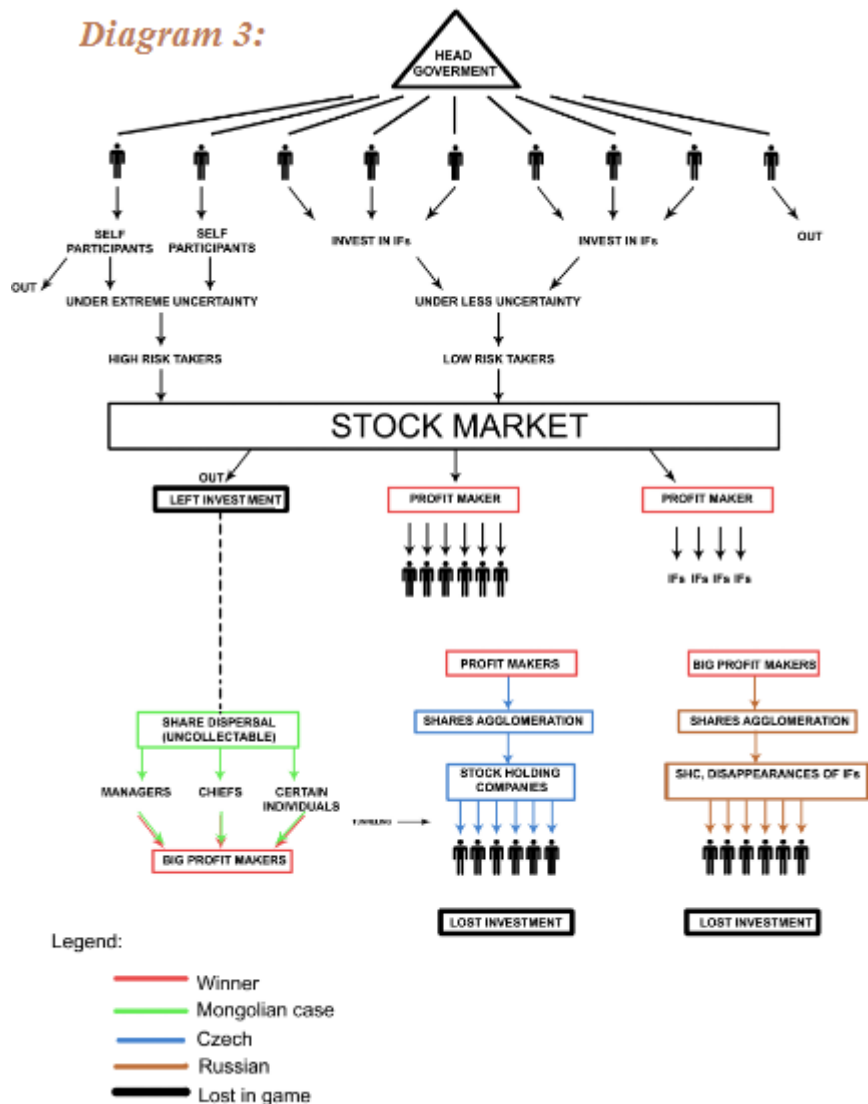
Looking at the results of voucher privatization in Mongolia, Czech and Russia, all three nations achieved the main goal of *rapid mass* privatization but on the other hand, governments didn't succeed in the natural selection of potential owners because of the rapidness and now very small portion of individuals are holding large portion of units of economic production and making giant benefit from this. Thus large-scale privatization process had handed over the economic control to the small number of shareholders instead of applying market economy.

For each nation's citizens, at that time, the scheme seemed like a dream come true, but today many of them feel cheated, say the process was grossly misused and government's main plan of socially fair way has failed. We had explained the main reasons of privatization failure for each nation separately based on *Diagram 1* and if we sum up them together, below *Diagram 3* will illustrate why people had big disappointment on voucher scheme. (*Diagram 3 is in next page*)

Mongolian government had allowed IFs to participate however they didn't participate because of non-tradable blue vouchers and scarce knowledge about IFs. And this situation prevented from such big struggle as Czech and Russia had. But uncollectable share dispersion gave golden chance to some individuals and administrative officials to gain enterprises with null costs.

By allowing IFs participation, in Czech, transfer of state ownership to private ownership resulted to transfer from state ownership to commercial banks that were state-owned. But Russian situation was even worse than Czech by involving under-ground economy and political as well as economic manipulations (rent-seeking).

Diagram 3:



All three nations failed to apply market economy accordingly because of government's desperation for revolution and weak preparatory issues for voucher privatization. Information asymmetry, principal-agent problems, legislation against building monopolistic competition led to privatization failure and final result was market failure.

In general, Mongolian and Czech governments needed to take into account the number of preparatory issues:

- Speed of privatization
- Rule enforcements
- Institutional framework
- Preparatory for establishing Second Stock Exchange Market (in Mongolian case)

- More legislation on the IFs operations (in Czech case)
- Regulation of bank sectors (in Czech case)

But Russian government not only needs those preparatory issues but it questions entire necessity of voucher privatization.

#### 4.6. Comparison by Data<sup>19</sup>

	Mongolia	Czech Republic	Russian Federation
<b>Period</b>	May.1991- Mid.1996	Oct.1991- Mar.1995	Oct.1992- Jun.1994
<b>Land size (sq.km)</b>	1,564,100	78,865	17,098,242
<b>Density (sq.km)</b>	1.7	133	8.3
<b>Market size</b>	small	medium	Large
<i>Russia has the biggest territory but voucher privatization took only less than 3 years. So too rapid privatization might have led to more failures.</i>			
<b>Capitalism in history</b>	No	Yes	Yes
<i>It answers for the social experiences on private property and the restitution. Many of Czechs and Russian had benefited as inheritors. For Mongolians who hadn't experienced capitalism in the past, it was hard to accept new terms of private property and law suits.</i>			
<b>Participants</b>	1.9 million	10.62 million	144 million
<b>Shareholders</b>	1.2 ml.	8.5 ml.	41 ml.
<i>In Mongolia, 36% of participants left their vouchers because of non-tradable vouchers. In Czech, 19% and in Russia, 72% of participants left or sold their vouchers or in worst case lost their investments in investment funds.</i>			
<b>Companies privatized by vouchers (industrial outputs)</b>	44%	60%	72%
<i>In Czech and Russia, significant part of state property included in voucher privatization which means needed more attention and legislation from government. Also economic efficiency drop will be explained by this.</i>			
<b>Population's savings before transition</b>	3%	2.5%	4%

<sup>19</sup> Data are based on the literatures which were used in this thesis.



<i>This will answer for the need of voucher privatization. Insufficient domestic savings needed free voucher allocation among citizens in order to privatize state owned enterprises.</i>			
<b>Voucher allocation</b>	all citizen	all citizens of the age of 18	all citizen
<i>By allowing participants of all citizens including children in Mongolia and in Russia, state gave more opportunity for economic as well as political manipulations and made more share dispersal.</i>			
<b>Voucher type</b>	1. red voucher - tradable 2. blue voucher – non-tradable	Tradable	Tradable
<b>Voucher value</b>	3000 tugriks- pink vouchers 7000 tugriks- blue vouchers	1 <sup>st</sup> wave – 1400 investing points 2 <sup>nd</sup> wave – 1000 investing points	10000 Rubles
<i>Czech program used a point system that differs from Russian and Mongolia. Tradable voucher was good solution for share agglomeration but entry of IFs made huge drama and failure in privatization process.</i>			
<b>IPFs</b>	Allowed but didn't participated	550	596
<b>Voucher collected by IPFs</b>	-	68%	23%
<i>Mongolian case can be explained by non-tradable vouchers and poor knowledge about investment funds. But comparing between market size of Czech and Russia, Czech IFs had played significant role in voucher privatization.</i>			
<b>Main problems during and after voucher privatization</b>	<ul style="list-style-type: none"> <li>• Share dispersal</li> <li>• Inactive ownership structure towards private and state</li> <li>• Corporate governance</li> <li>• Institutional reform</li> <li>• Social mentality</li> </ul>	<ul style="list-style-type: none"> <li>• Legislation on IPFs</li> <li>• Regulation on bank sector</li> <li>• Insider trading</li> <li>• Control on foreign investors</li> <li>• Corporate governance</li> <li>• Institutional reform</li> </ul>	<ul style="list-style-type: none"> <li>• Legislation on IPFs</li> <li>• Insider trading</li> <li>• Control on corruption, bribery and under-ground economy</li> <li>• Corporate governance</li> <li>• Institutional reform</li> <li>• Social mentality</li> </ul>

		• Social mentality	
<i>Those are explained separately and comparison is in the next section.</i>			
<b>GDP percent of private companies before privatization</b>	2,7%	3.3%	3%
<b>GDP percent of private companies after voucher privatization<sup>20</sup></b>	81%	66.8%	-
<i>It shows result of private sectors development. Mongolian index seems impressive but only 44% of SOEs were privatized through voucher privatization and current result of 81% is unreliable.</i>			
<b>GDP percent of private companies in year 2009<sup>21</sup></b>	70.8%	70.9%	64.6%
<i>Decline of Mongolian index can be explained by mining sector privatization. It needs more state involvement.</i>			

## 4.7. Mongolian consequences comparing with Czech and Russian

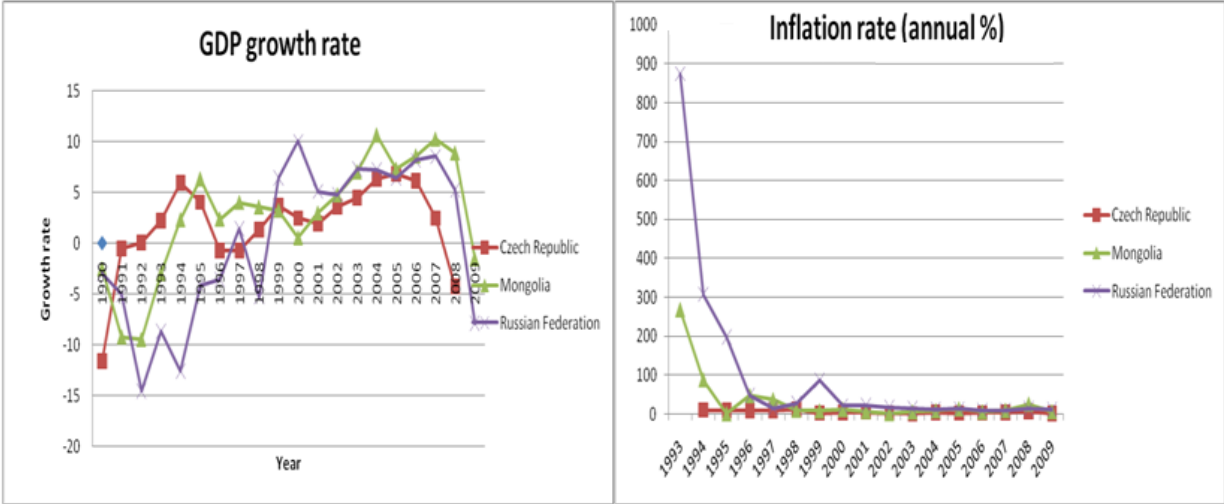
### A. Similar consequences

Mass privatization engendered massive incentives for the theft of property for all three nations and thus the biggest loss of nation was social trust for the government and financial markets. People held their savings hidden at home instead of trusting in bank savings, investing into companies. The absence of institutional reform, government opened the door for political and economic manipulations and that emerged markets which resulted in social distrust of market economy. Absence of a strong government, law legislation couldn't be realized in practice. Political as well as economic manipulation between political parties made voucher privatization more political action than economical. This is the main cause of the people's distrust in government and politics. Voucher privatization had played crucially with social psychology but *it was the biggest social mental achievement that individuals had learnt the meaning of market economy and the importance of private property.*

<sup>20</sup> <http://data.worldbank.org/indicator/GC.REV.XGRT.GD.ZS>

<sup>21</sup> <http://data.worldbank.org/indicator/GC.REV.XGRT.GD.ZS>

Corporate governance was the main problem for these three countries. Acquirement of control enterprises and ownership structure were more important than the corporate governance of enterprises. So this process was political and social issue rather than economic. Shareholders were only interested in dividend payout but not in employment, employees situations, wage payments, development of enterprises' productivity and quality, thus might have led to economic inefficiency.



Resource: [www.data.worldbank.org](http://www.data.worldbank.org)

Above graph illustrates that during the voucher privatization, there were growth in GDP but in Mongolia and Russia, just after applying voucher privatization, there were huge drops in GDP growth but what should be mentioned is that both nations processes were during monetary reform and high inflation. In general, voucher privatization might not have the direct impact on the nation's economy. So social blame of voucher privatization for economic growth cannot be entirely acceptable.

## B. Different consequences

First of all, main difference is resulted from the IFs participation. Dispersal of shares was one of the biggest fears of applying voucher privatization which would lead to inactive ownership structure and poor corporate governance. To resolve this problem, all three nations allowed IFs to participate. In Czech and Russia, this solution came with the large number of IFs participations and share agglomerated by those funds by legal, non-legal and illegal operations.

In Czech, across the two waves of privatization, IFs established by banks collected approximately 68% out of all vouchers and only nine funds owned over 48% of them and six of those funds were state-owned<sup>22</sup> and at that time, Czech had the excessive high debt/equity ratios of enterprises.

In Russia, over 2000 IFs were participating without any authorized licenses and more than 100ml. people lost their investments for those IFs. But thanks to the law suits of voucher privatization, managers and employees got the absolute advantages to takeover enterprises at the first place. Thus IFs had less important role than the Czech Republic but still IFs had big influence.

Also looking at the history, in both Czech and Russia, there were three main ways to use their vouchers: buy shares of privatized enterprises, exchange for shares in mutual funds or *sell it for cash*. It was common occurrence to sell their vouchers for piece of bread or vodka. This situation gave more chance to those IFs to benefit from vouchers. So idea of IFs participation is the biggest mistake of government.

But in Mongolia, share dispersal was the biggest problem after voucher privatization because of rigid non-tradable blue vouchers. Government established Second Stock Market after three years of process which was late establishment. In those three years, most of the enterprises which were privatized lost their effective corporate governance and even some of them had to close their door or went to bankruptcy. After establishment of Second Stock Market, it was still hard to bring share agglomeration. More than 70% of shareholders didn't care about their shares and also there wasn't any electronic system such as Czech which could

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<sup>22</sup> Stark and Brustz,1998:227

register all shareholders officially. So managers and chiefs used this chance to bring their own on Stock Market on their own.

Secondly, it was extremely difficult social task. On one hand, citizens didn't know how to use their vouchers, where to invest and why they should invest for enterprises. This problem is highly correlated with scarce knowledge of individuals. From the human point of view, it is understandable that some people might have viewed voucher privatization as a failure, especially Russians, because they haven't received much money or in the worse case they had simply lost their assets in IFs.

Most of the Mongolians participated in process but in the end, they just left their shares behind. So there is no difference between losing shares in IFs and leaving shares behind. Non-tradable vouchers might be failure from the citizens' point of view, but most importantly, it created less drama than those in Czech and Russia.

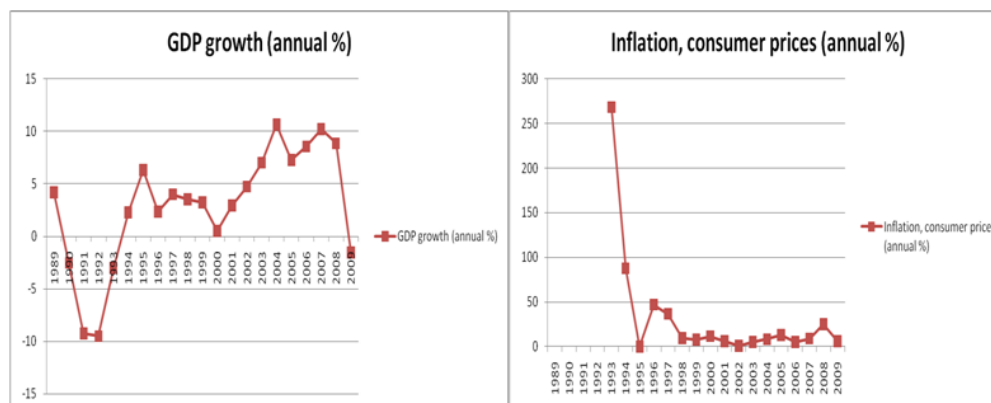
Third problem which made voucher privatization as a failure was demand of potential investors from foreign countries. In Czech, a lot of foreign investors participated by hiring Czech citizens as domestic buyers which was illegal and in the end, now numerous part of economic production are in the hand of foreigners. Also in Russia, there wasn't any limitation for foreign investors' entry. This resulted in foreign investors' takeover of the economically significant enterprises such as metallurgy, chemical industry, defense industry, engineering and research institutes.

This situation can be explained by nation's market ability such as location of Central Europe, land size and nation's economic significance to the world economy. Thanks to the market smallness, Mongolia couldn't attract foreign investors, however they tried to. After discovering rich natural resources, Mongolia began their fourth round of privatization on mining sector in year 2004. Currently, it seems to be attracted numerous foreign investors and government is struggling with choosing potential investors. It is possible that Mongolia may repeat the Czech and Russian history.

## 5. Voucher privatization impact on Mongolian economic development<sup>23</sup>

### 5.1. Economic development based on indicators

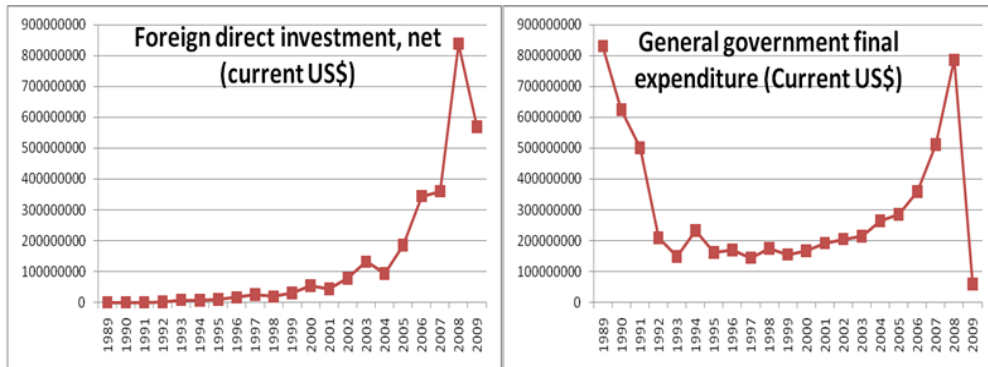
- Growth Rate of GDP and Inflation Rate (annual %)



Drop of GDP between 1989 and 1991 can be result of collapse of communism and nation's wide economic reform. High increase growth from 1993 to 1995 is highly correlated with the inflation rate. Also this is the period of after establishment of Second Stock Market, so share agglomeration might have brought the best corporate governance into enterprises, thus indirectly led to economic growth. Sudden drop in 2000 was resulted from the loss of 2.4 million livestock in natural disasters and 2009s drop was resulted from worldwide economic crises and sharp decline in metal prices which had no relation to the voucher privatization. So in general, Mongolia had successfully entered into the market economy.

<sup>23</sup> Data is based on World Bank's indicators

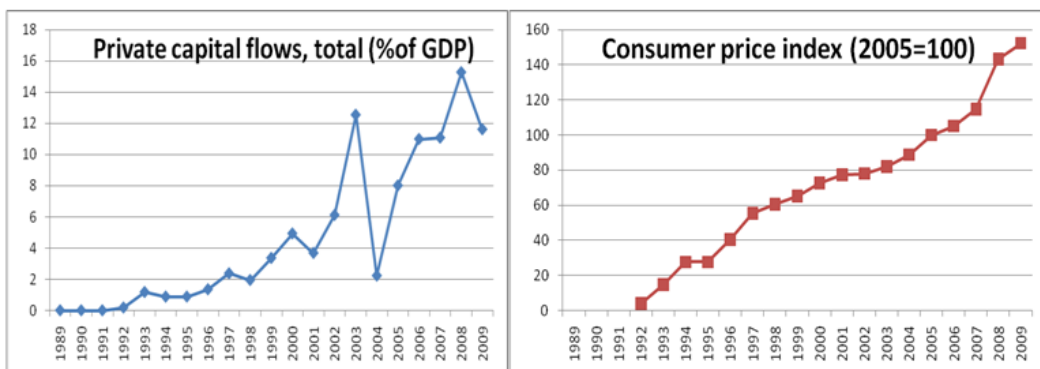
- Foreign Direct Investment and General Government Final Expenditures



First graph confirms that foreign investors didn't attract in newly privatizing companies during voucher privatization. Government had introduced more sophisticated form of privatization method in year 1996 and since then, foreign investors entered into Mongolian market. After introducing privatization on mining sector, it had grown substantially which emerges government intellection for choosing potential investors.

Second graph determines state involvement into market economy. During socialist period, state had too much expenditure because of centrally-planned economic structure. After voucher privatization, it had declined substantially which means state was no longer bearing all economic burdens. From year 2004, it raises dramatically because of privatization of mining sector. Mining sector is sector with economic significances and has high correlation with environmental problem and social welfare, so state involvement for this sector is highly demanded.

- Private Capital Flow and Consumer Price Index

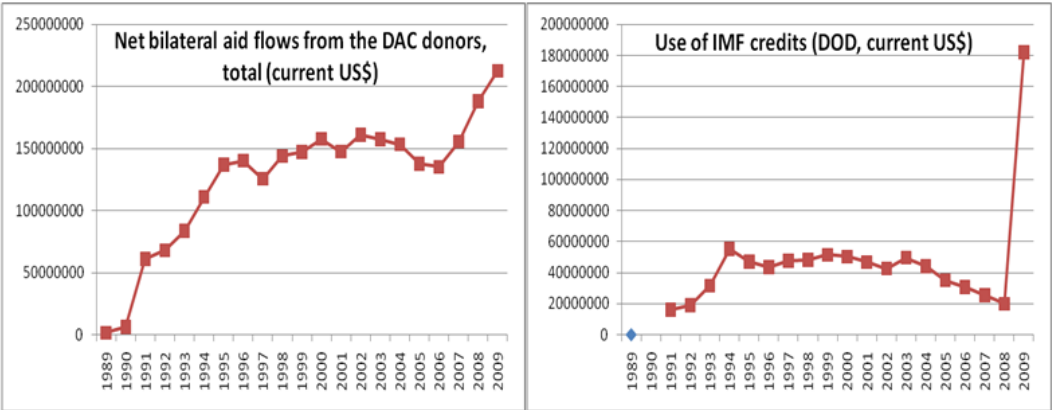


First graph illustrates that private capital flows was almost zero before privatization and first year of voucher privatization. But it is continuously increasing after 1992 and in 2003,

index is almost 12 times higher than 1991s, so it means privatization process gave its' efficiency for creating market economy based on private properties.

Second graph shows changes in the average consumer of acquirement of a basket of goods and services. It is spontaneously and smoothly increasing in time horizon which means social welfare and individuals' utilities are increased in market-based economy.

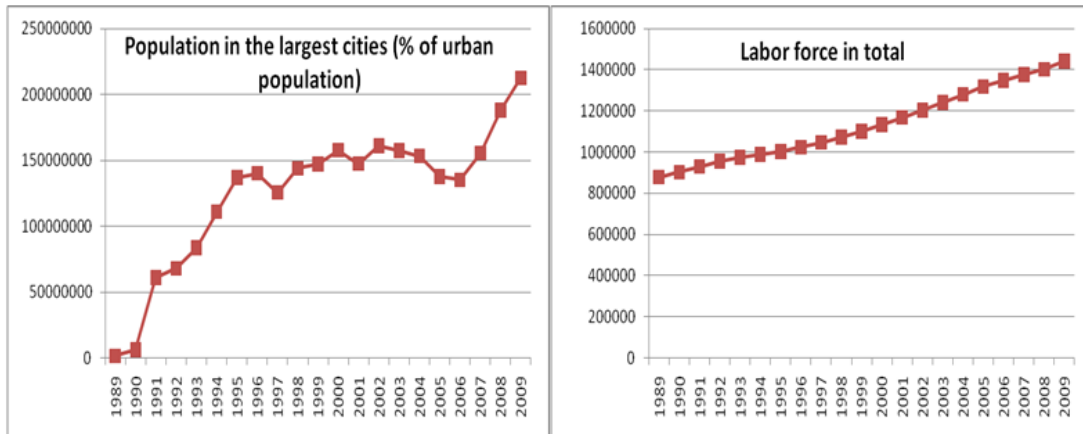
- Net Bilateral Aid Flows from the DAC donors and Use of IMF credit



As mentioned before, Mongolia was the aid-dependent country from post-former Russia. So collapse of communism made nation to find third partner country to assist. During transition, Mongolia became member country of World Bank and International Monetary Fund and this was the biggest opportunity to direct nation into the market economy successfully. In voucher privatization, aid from donor countries and from IMF substituted the post-former Russia's aid and pushed up the privatization process. In year 2009, worldwide economic crises had hit Mongolian economy substantially and with the help of aid from those operations government had eased their burden on economic situation of society.



- Labor Force and Population in the Capital Cities



In year 1969, Mongolian population was only 958873 and it had expanded to 2.171.336 in year 1990. In year 2009, population has increased by half a million citizens which Mongolian population almost tripled within 40 years. This makes the nation with young population and continuously increasing labor force can be explained by this.

Unemployment rate had increased during voucher privatization but it wasn't a failure of privatization entirely. At that time, thousands of children reached age of 18 and joined into labor force. Also enterprises were struggling with excessive employment rate from socialist period and couldn't hire thousands of people newly because of large-scale economic reform.

Society's transfer from rural to urban lifestyle dramatically grew within 20 years. After voucher privatization, population agglomeration expanded by more than 1 million citizens which is more than 76% of all population.

So result of privatization process seems impressive. Social mentality almost prepared for market economy and now, citizens got ability to manage their own properties in market economy and finally, realized that not the government behavior but only individual's own behavior is the key to benefit from market economy.

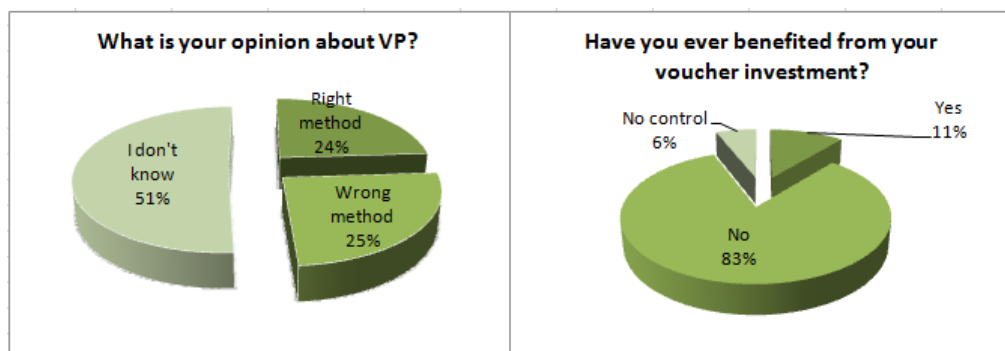
## 5.2. Social viewpoint about voucher privatization after 20 years

Mongolian people's nomadic lifestyle couldn't be changed simply by promulgating a law and changing ownership status but after 20 years, is social mentality still in nomadic mentality or did they already become familiar with economy with private property? At that time, people had criticized government but what about now? It is massive task to evaluate entire social viewpoint about 1990s voucher privatization after 20 years. I believe this sub-capital can be small representative of entire society.

- I have available 100 questionnaire results based on 17 sub questions and it is taken in Erdenet city, Mongolia.
- Voucher privatization had allowed all citizens to participate but at that time, citizens who were more than 18 years old were likely to make decision by themselves. So we took questionnaire from the people who are more than 38 years old.
- Questions about “Tavan tolgoi” privatization are related to the sub-capital “Privatization on mining sector in 2011”.
- Questionnaire and its summed up result can be found in Appendix
- 100 questionnaires may not be enough to evaluate entire social viewpoint about voucher privatization but on the other hand, it can be small representative of all citizens.

All results were unexpectedly bad in some instances and these effects might have high negative impacts on 2011's mining sector's privatization. Now, let us introduce all results one by one.

### 1. Voucher privatization participation and it's benefit:



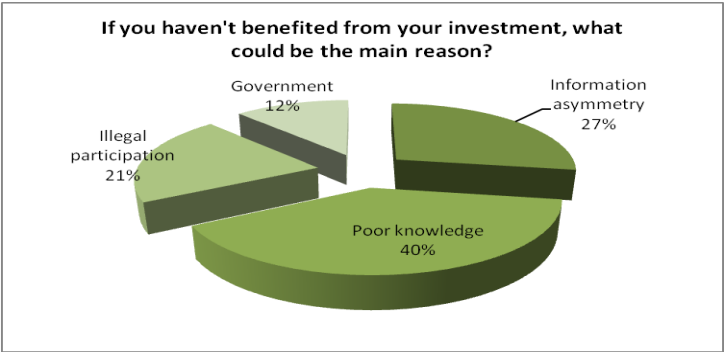
This is reliable result when 83 people of 100 haven't ever benefited from their investments. Now if we look at the main reasons why people consider voucher privatization

as a wrong method, it will defend that this study has successfully directed into right conclusion.

When 11 people consider blue or pink voucher legislation as a main reason of voucher privatization failure, more than 30 people named following reasons.

- poor intercourse between upper and lower organizations
- it was entirely unbeneficial process
- scarce knowledge of privatization and scarce information about enterprises
- state-owned enterprises should have been beneficial
- it was unbeneficial action for society
- didn't receive any benefit from this process
- gap between poor and rich grew dramatically
- only small portion of individuals have benefited from this process
- both government and social were inexperienced
- there weren't any stages and was very sudden action
- it wasn't socially fair and equal way
- a lot of enterprises went to bankruptcy and many people became unemployed
- poor preparatory for voucher privatization

Below graph illustrates the main reasons why individuals' hadn't benefited from investments.

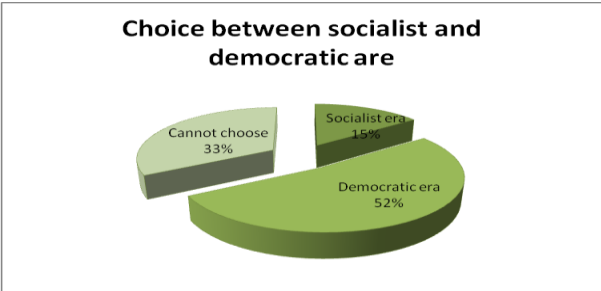


2. Individuals investing method and its impact on voucher privatization

First of all, see questions number 3 to 5, 9 and 9(a) in the Appendix. According to the questionnaire, 89 people participated in voucher privatization with very poor knowledge about privatization and 60 of them considered themselves responsible for their investments and 32 people blame government for their poor knowledge. This result defends our sub-capital **3.4 Social mentality**. So it is very possible to define both government and individuals' diligences would have brought more positive consequences to the voucher privatization.

Now if you look at questions 3 to 5, result is similar with our study. About Investment Fund, only 17 people knew about this organization however none of them had invested in it. So in order to make their investment successful without IFs help, 46% of them invested all family members' vouchers in only one enterprise to acquire more shares and 43% invested in enterprises with economic potential. Although they made the most beneficial decision, only 11 individuals of 100 benefited from the voucher privatization.

**3. Choice between socialist and democratic era.**



This is the most important question to evaluate the successfulness of voucher privatization. Above graph illustrates that only 52% of 100 citizens prefer market economy. 15% of them want to live in socialist era and 33% couldn't choose between those 2 eras. It is very pitiable result. Although all economists criticized centrally-planned economy but after 20 years, large number of citizens still prefer socialist era and 52% of them have high education and 26% have secondary education. So we cannot easily judge centrally-planned economy when there are certain educated citizens who still want socialist era back.

We analyzed the voucher privatization impacts on economic development on previous sub-capital and concluded there weren't considerable direct impacts but this sub-capital contradicts with it. If there is economic development, individuals' satisfaction will increase accordingly. Pitiously, how come 15% still prefer socialist era and 33% cannot choose between those two eras? It is comprehensive that previous economic indices might examine

impacts of voucher privatization but on the other hand, it cannot examine social welfare and individual's satisfaction after voucher privatization.

### **5.3. Mongolian “Tavan tolgoi” privatization in 2011**

The “Tavan tolgoi” is the second largest mining investment in Mongolia and is expected upon completion to account for more than 25% of the nation's gross domestic product. Mongolia government has the 100% of ownership structure and government decided to distribute 550 shares for each citizens for free of charge which has total worth 20% of ownership structure. But this isn't the final decision. Government is still discussing whether to distribute shares worth 20% of ownership structure or 100%. Allocation method will be more similar with voucher privatization method and equity price will be set at 1USD at least. There are certain basic legislations on trading shares and other small legislations are still in discussion.

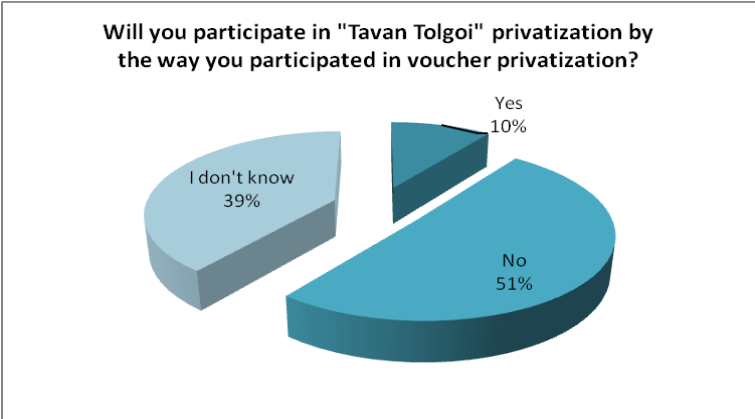
- First 2 years, shares are non-tradable and non-transferable.
- Domestic enterprises which were established before 2001 have right to buy shares at face value.
- Inheritance is allowed with the legal heritage paper.

Instead of the private sector bearing at least half of the risk in this project, the Mongolian government, and more specifically the citizens of Mongolia are now going to have to worry about market fluctuations, all the consequences related with risk of owning shares and running a large sized project.

The 20% of ownership structure means 5% of nation's GDP and it is huge amount. Government officials continuously announce that natural resource is Mongolian people's property and it is right and fair to distribute shares for each citizen. But distribution of shares by same way as 1990s voucher privatization doesn't seem the most effective option. First of all, it was the promise made by interest group to win a parliament election. So it seems more political action rather than economical.

Mongolia as well as other transition countries had enough struggle with voucher privatization and there are a large number of studies that named “*Lessons learnt*”. Unfortunately, this new government decision may repeat entire history of voucher privatization.

In the questionnaire, there are two questions related with “Tavan Tolgoi” privatization.



When 63 people consider this action as a right decision, other 13 say it is a wrong. But 24 people couldn't answer for this question. Additionally, if we look at the above graph, it is possible to say most of the citizens had learnt lesson from voucher privatization. But numerous parts of citizens are still confusing on the “Tavan Tolgoi” privatization.

Also citizens may have been tricked by interest group's political decision and this is an accurate action of how the corruption and short sightedness of Mongolian politicians hold back the enormous potential of Mongolia's economy and people.

## 6. Conclusion

There is a favorite quote of Albert Einstein: *“Everything is determined, the beginning as well as the end, by forces over which have no control”*. Voucher privatization was the very first step of transition economy and the beginning of market-based economy. It had its beginning as well as its end. But analyzing the real consequences of the voucher privatization will be great contribution to the economic history. I believe my study will be useful contribution to the economic studies about Mongolia.

In general, this bachelor thesis has institutionally examined the current and later consequences of the 1990s voucher privatization in Mongolia by comparing with Russian and Czech Republic’s voucher privatization.

This study yielded a number of key findings. Firstly, the study found that Mongolian voucher privatization was relatively successful rapid comprehensive privatization and in reverse, whole process sounded more political action than economical. Practically, past period shows that privatization process alone can’t establish the market economy. Institutional reforms, macroeconomic stabilization and liberalization process had slow progress. And it was the huge barrier for successful privatization. But most importantly enterprises won’t produce anything if there is no profitability. This was the new beginning of healthy market economy as well as healthy society. The main purpose of privatization process was the quick transfer from inactive state ownership to active private ownership and lessons had learnt.

International comparison shows that Mongolian voucher privatization went more smoothly than Russian’s and Czech’s by not involving Investment Funds operations. But results among those three countries were almost the same however there are number of different results. In the end, very small portion of individuals are benefiting from the voucher privatization now. Voucher privatization had played crucially with social psychology but *it was the biggest social mental achievement that individuals had learnt the meaning of market economy and the importance of private property.*

Looking at the economic indices of past 20 years, there isn’t 100% definite evidence that voucher privatization had negatively influenced to the economic performance however

some citizens criticized the privatization process because of poor economic performance. But if we approach this more realistically, there are another main factors that influenced the most such as collapse of aid-dependent and centrally-planned economy.

On the other hand, questionnaire about “1990s voucher privatization” gave controversial result. It is comprehensive that economic indices might examine impacts of voucher privatization but on the other hand, it could not examine social welfare and individual’s satisfaction after voucher privatization. Unfortunately, only half of the 100 people preferred democratic era which is operated by market economy. And 33 people couldn’t make choice between socialist and democratic era. This is very pitiable result. After 20 years of transition, 50% of citizens still preferred the communist lifestyle in harsh word communist slavery instead of living in society with the freedom.

After experiencing such a disappointed voucher privatization process, Mongolian new government still chose such method for privatizing “Tavan Tolgoi” cooperation. It is economically significant industry which has potential to produce 25% of Mongolian GDP. But interest group has manipulated whole nation, whole citizens and Mongolian economy for their interests.

It is possible to conclude that origin of voucher privatization meant to be economic action rather than politic. Although this process couldn’t achieve the main goal of economic transition and manipulated by the small portion of individuals. After 20 years, government is still in favor of voucher privatization and decided to use this method for mining sector’s privatization which holds Mongolian future economic potential.

As a Mongolian citizen who is specializing as an economist in Czech Republic, I would like to finish my thesis with patriotism: Mongolia likewise other nations in transition have had enough experience as a results of the 1990s voucher struggles which was due to the fact that in the 19th century it was the only choice available but in this modern times there are other better alternatives therefore it is my hope that politicians, economics as well as country planners will opt for the best choice on privatization of the mining sector to avoid the repeat of history in itself.



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### **Online resources:**

- <http://revistas.ucm.es/cps/16962206/articulos/UNIS0404330013A.PDF>
- <http://www.apcss.org/Publications/Edited%20Volumes/RegionalFinal%20chapters/Chapter19Sarlagtay.pdf>
- <http://www.drake.edu/cbpa/econ/studentresearch/armstrong02.pdf>
- <http://www.eldis.org/vfile/upload/1/document/0708/DOC8923.pdf>
- <http://www.iea.usp.br/iea/english/journal/otherarticles/mertlikzechprivatization.pdf>
- [http://www.research.kobe-u.ac.jp/gsics-publication/jics/matsunaga\\_1-1.pdf](http://www.research.kobe-u.ac.jp/gsics-publication/jics/matsunaga_1-1.pdf)
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- [www.spc.gov.mn](http://www.spc.gov.mn) ( website of State Property Committee of Mongolia)

**APPENDIX**

**" Voucher privatization" Questionnaire**

**Summed up results**

№		Bundle numbers										Sum	
		1	2	3	4	5	6	7	8	9	10		
1	Did you participate in 1990s voucher privatization?												
	a. yes	7	7	9	8	8	4	9	5	4	8	<b>69</b>	
	b. no	3	3	1	2	2	6	1	5	6	2	<b>31</b>	
2	What is your opinion about voucher privatization?												
	a. right method	4	1	4	3	3	1	2	3	2	1	<b>24</b>	
	b. wrong method	1	0	1	3	3	4	4	2	2	5	<b>25</b>	
	c. I don't know	5	9	5	4	4	5	4	5	6	4	<b>51</b>	
2.a	If it is wrong, what would be the reason? (for those who chose 2.B)												
	a. Unnecessary process	1	0	0	1	1	2	1	0	0	2	<b>8</b>	
	b. Blue non-tradable voucher	1	0	1	2	1	0	0	1	1	0	<b>7</b>	
	c. Pink tradable voucher	1	0	0	0	0	1	0	0	1	1	<b>4</b>	
	d. others	1	0	0	0	1	1	4	1	0	1	<b>9</b>	
	<b>OTHERS:</b>												
	1. poor intercourse between upper and lower organizations												
	2. it was entirely unbeneficial process												
	3. scarce knowledge of privatization and scarce information about enterprises												
	4. state-owned enterprises should have been more beneficial												
	5. it was unbeneficial action for society												
	6. didn't receive any benefit from this process												
	7. gap between poor and rich grew dramatically												
	8. only small portion of individuals have benefited from this process												
	9. both government and social were inexperienced												
	10. there weren't any stages and was very sudden action												
	11. it wasn't socially fair and equal way												
	12. a lot of enterprises went to bankruptcy and many people became unemployed												
	13. poor preparatory for voucher privatization												
3	Where did you invest your vouchers?												
	a. to the own working enterprises	1	5	0	0	2	0	3	2	2	2	<b>17</b>	
	b. in local enterprises	2	1	3	0	0	0	0	3	1	0	<b>10</b>	
	c. to the enterprises with economic potential	4	2	6	6	4	3	5	3	4	6	<b>43</b>	
	d. didn't follow any special principals	3	2	1	4	4	7	2	2	3	2	<b>30</b>	
4	Had you ever known about Investment Funds?												
	a. yes and invested	0	0	0	0	0	0	0	0	0	0	<b>0</b>	
	b. yes	2	1	2	1	1	2	2	1	3	2	<b>17</b>	
	c. no	9	9	8	8	9	8	9	8	8	7	<b>83</b>	
5	Did all your family members invest to only one enterprise?												
	a. yes	3	7	5	3	6	3	8	4	3	4	<b>46</b>	
	b. no	5	2	5	5	2	7	0	4	7	4	<b>41</b>	

	c. mixed	2	1	0	2	2	0	2	2	0	2	13
<b>6</b>	Have you ever benefited from your voucher investment?											
	a. yes	0	1	1	2	1	0	1	2	0	3	11
	b. no	9	9	9	7	8	10	7	8	9	7	83
	c. haven't controled my shares	1	0	0	1	1	0	2	0	1	0	6
<b>7</b>	If you haven't benefited from your investment, what could be the main reason?											
	a. scarce information of enterprise	2	1	3	2	0	5	5	2	3	2	25
	b. poor knowledge of voucher	3	4	5	4	3	4	2	4	5	2	36
	c. illegal participation of well informed people	3	3	2	1	3	0	2	1	2	2	19
	d. wrong government decision	3	1	2	1	1	1		1	0	1	11
<b>8</b>	If you had choice, which era would you choose?											
	a. Socialist era	0	1	2	2	1	3	1	2	1	2	15
	b. Democratic era	5	5	7	4	6	3	4	6	5	7	52
	c. can't choose	5	4	1	4	3	4	5	2	4	1	33
<b>9</b>	Do you think you have participated in voucher privatization with very poor knowledge?											
	a. yes	10	7	7	9	9	9	10	10	9	9	89
	b. no	0	3	3	1	1	1	0	0	1	1	11
<b>9.a</b>	What is main reason? (for those who chose 9.A)											
	a. myself	8	6	4	3	6	4	6	9	7	7	60
	b. government	2	1	3	6	3	6	5	1	2	3	32
<b>10</b>	What is your opinion about "Tavan tolgoi" privatization?											
	a. right	8	3	6	6	9	7	4	8	7	5	63
	b. wrong	1	4	1	1	1	0	1	0	2	2	13
<b>11</b>	Will you participate in "Tavan tolgoi" privatization by the way you participated in 1990s voucher privatization?											
	a. yes	2	0	2	1	1	1	0	3	0	0	10
	b. no	5	5	4	7	6	3	5	2	8	5	50
	c. I don't know	2	5	4	2	3	6	5	5	2	5	39
<b>12</b>	Employed in:											
	a. state organization	1	1	3	1	1	2	0	1	1	3	14
	b. state-owned enterprises	4	4	2	0	4	8	8	2	2	1	35
	c. private sector	5	4	4	7	4	0	1	6	6	4	41
	d. others	0	1	1	2	1	0	1	1	1	2	10
<b>13</b>	Gender:											
	a. male	5	5	5	5	4	4	6	6	6	4	50
	b. female	5	5	5	5	6	6	4	4	4	6	50
<b>14</b>	Age:											
	a. 38-48	6	4	4	5	5	7	3	5	6	4	49
	b. 48-58	4	5	3	3	4	3	7	3	3	3	38
	c. 58-68	0	1	3	2	1	0	0	2	1	0	10
	d. over 68	0	0	0	0	0	0	0	0	0	3	3
<b>15</b>	Your education:											

	a. higher education	4	3	4	5	7	5	9	3	5	7	<b>52</b>
	b. secondary education	5	4	3	3	0	2	1	4	3	1	<b>26</b>
	c. primary educaton	1	3	3	2	3	3	0	3	2	2	<b>22</b>



Akademický rok 2009/2010

## TEZE BAKALÁŘSKÉ PRÁCE

Student:	Khurelbaatar Baigali
Obor:	<u>Ekonomická teorie</u>
Konzultant:	<u>Prof. Ing. Lubomír Mlčoch CSc.</u>

Garant studijního programu Vám dle zákona č. 111/1998 Sb. o vysokých školách a Studijního a zkušebního řádu UK v Praze určuje následující bakalářskou práci

Předpokládaný název BP:

**Privatization and Transition economy in Mongolia**

Charakteristika tématu, současný stav poznání, případné zvláštní metody zpracování tématu:

Characteristics and current situation:

Number of countries' transition economy to the market economy was driven by political rejection of the communist system. One of them was Mongolia. After ten years of fall of communism, Mongolia was still in transition to the market economy and GDP per capita was less than the indicators of 1980. Even now, there are invisible influences of transition economy. My aim will be comparison of experiences of Mongolia and Czech and interpret current situation of Mongolia resulting from the transition economy.

Main methodology: theoretical description about transition, comparative study with privatization of Czech Republic and statistical analysis between year 1990 and 2009.

Struktura BP:

Contents:

1. Preface
2. Transition and development
3. Macroeconomic policy and performance
4. Privatization and private sector
5. Privatization in Czech Republic and comparison to Mongolia
6. Mongolia in 1990 and Mongolia in 2009
7. Summary

## 8. Bibliography

Seznam základních pramenů a odborné literatury:

books:

1. The Mongolian Economy in transition economy by Frederick Nixon, Bat Suvd, Puntsagdash Luvsandorj, Bernard Walters
2. Business and Investment guide by Mongolian National Chamber of Commerce and Industry
3. Poverty and Transition to a market economy in Mongolia by Griffin, Keith
4. The Privatization Process in East-Central Europe Evolutionary Proces sof Czech Privatizations by Michal Mejstřík
5. Economic and Social changes in Czech society after 1989 by Lubomír Mlcoch, Pavel Machonin and Milan Sojka
6. Ceska Republika a Ekonomicka transformace ve Stredni a Vychodni Evrope by Jan Svejnar a kolektiv autoru
7. The Generic Private Sector in an Economy in Transition: Developments and Impacts on the Czech Republic by Vladimir Benacek

Datum zadání:	January, 2010
Termín odevzdání:	September, 2010

Podpisy konzultanta a studenta:

V Praze dne