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Senior Thesis  
5/13/02

# Voucher Privatization in the Czech Republic

The Czech Republic began an experiment in 1991. The country planned to privatize a significant percentage of the economy in a relatively short amount of time. The results initially seemed impressive. The state divested itself of large holding in hundreds of companies and numerous other enterprises. A stock market was created, and wages remained high. Within a few years problems began to surface. What had initially seemed a success had in fact only delayed much needed changes. In the end the voucher privatization plan hurt the country by allowing systemic problems to continue. With hindsight it is easy to see that some of the pitfalls of voucher privatization should have been anticipated and could have been avoided. The failure of Investment Privatization Funds (IPF's) was one of the worst mistakes to come out of voucher privatization. There were however some positive results from the voucher system. This mass privatization scheme utilizing vouchers has been largely successful in achieving its goal of putting state controlled enterprises into private hands. However, the lack of a legal and institutional framework to support this transfer of ownership has led to new problems that outweigh the gains made.

The Velvet Revolution in 1989 ended Communist control in the Czech Republic. The sentiment of the public was to privatize immediately, and this would allow the country to realize the growth it badly needed. In 1985 state owned companies and cooperatives accounted for 97% of national product (13,49). This number was even higher than ever achieved in the Soviet Union. Market capitalism looked like a very distant goal. The first Minister of Finance Vaclav Klaus and a small group of advisers proposed to privatize state assets in three primary ways. The first method was extensive restitution of property that had been seized from its original owners during the Communist takeover. Real estate made up the largest segment of assets to be restituted. Farmers, businesses, and religious orders were the main recipients. The second major

method was small-scale privatization. This was carried out through auction. Small shops, businesses, and services were auctioned to the public. Current owners or managers were not given special status in these actions. The result was a class of citizen devoted to market reform and the new government (9, 236). New owners then had large personal stakes in the small enterprises they purchased and this made them highly successful. The third method of privatization was large-scale privatization, and this included the voucher plan.

After the end of communism most citizens wanted to participate in the transition to a market economy. They wanted to have a piece of the assets that would now be in private hands. In order to allow for mass participation in the privatization process the voucher scheme was created. The voucher system allowed every citizen in the country to participate. Although the government may have been able to design a program for privatization that would have been economically more efficient, any other plan would not have been politically popular. The political reality of the time demanded that the government make some effort to include all citizens in the transition process (5, 252). The only plan that allowed for this mass participation was the voucher plan. The end results show that the voucher privatization plan was not the best economic alternative for the country. However, the government at the time of transition probably could not have done anything else (5, 255). The voucher plan was the most viable alternative that allowed people to play an active role in the transition process.

The government had several goals for voucher privatization. The most obvious was to take enterprises out of government hands and sell them to those who would be able to make them most productive. A second goal was to keep the *nomenklatura* from remaining in control of companies (9, 217). The *nomenklatura* were the existing communist leaders and company officials. It was also important for the government to prevent foreign capital from dominating

the process of privatization. They did not want the country's most valuable companies to end up owned solely by foreigners. The voucher scheme was also designed to introduce citizens to investing. It was thought that this would lead to more household savings being transformed into domestic investment. Through the voucher plan an equity market would be created. Many of the enterprises offered through the voucher plan needed significant restructuring. It was hoped that new owners would force the existing management to make necessary changes that would allow productivity and profitability to increase. However, the most important goal was to privatize as quickly as possible (14, 47). The government was initially lax on regulation in the hopes that market forces would quickly transform the economy. This delay in regulation came back to hurt the country in the years to come. Privatization became a political as well as economic goal of the new government, and it had mass appeal.

In July of 1991 the Ministry of Privatization released a list of firms to be privatized. The value of the listed firms was estimated at 1,200 billion CZK (7, 89). The firms were divided into two groups or waves. Managers of these firms were required to submit privatization plans to the Ministry of Privatization. They were encouraged to submit plans that called for significant amounts of equity to be privatized by vouchers. Most plans that included only sale to present owners were rejected (3,90). Present owners were viewed by many to have profited from the communist regime. To prevent present owners from profiting again by selling the companies to themselves, the government invited privatization plans from outside interests. In many cases, especially for firms viewed as less financially viable, the only plan submitted was the required one from firm managers. However, when manager's plans competed with those of outside interests the plans from outside interests were accepted at a higher rate (7,91). The Ministry of Privatization received 23,607 privatization plans for the 4,338 firms to be privatized in the two

waves. Most companies were to be transformed into joint stock companies. An average of 61% of the shares were made available through vouchers (9, 221).

Every citizen in the country over the age of 18 was eligible to participate in the voucher privatization plan. To participate they purchased a book of vouchers for 1000CZK, about \$35 or an average of one week's wages. Over 75% of the eligible population purchased vouchers for the first wave of large-scale privatization (7,91). Wave one took place between May and December of 1992. In this round 988 enterprises had shares available. Wave two was scheduled to be completed by mid 1993. The split between Slovakia and the Czech Republic in January of 1993 delayed Wave two by approximately six months. The Ministry of Privatization transferred some companies to Slovakia, and only Czech citizens were eligible to participate in wave two. The second wave ended in January of 1994 with 676 firms available.

One of the main fears of voucher privatization was that it would create too wide a distribution of shares in the newly privatized companies. This would lead to a control vacuum and prevent the necessary changes being made in management and in the structure of many companies. To avoid this, the government allowed Investment Privatization Funds (IPFs) to participate (16,1). People would transfer their voucher points to these IPF's which would then pool the points and create a large portfolio of firms. The IPF's were restricted to only 20% of the shares of one company. Also shares of one company could comprise no more than 10% of their portfolio (13,53). There were 423 IPF's participating in the first round and most of these got only a small number of voucher points. The largest seven ended up in control of 44.5% of all voucher points (7,91). Of the total voucher points, 71.5% were allocated to an IPF. The government had not anticipated the dominant role that IPF's would come to play in the voucher privatization process. Several of the IPF's launched massive advertising campaigns prior to

wave one in order to encourage people to buy the voucher books and to allocate their points to them. One fund in particular began a very successful campaign. The Harvard Investment Fund promised people that if they allocated their voucher points to them that after one year they would buy their book back for 10,000CZK (9, 246). Immediately several other IPF's matched Harvard's promise.

The government allowed IPF's to participate in the voucher scheme because it was perceived that the funds would be beneficial to the process in several ways. Management of the IPF's would have the experience and knowledge to collect financial data on the enterprises they might invest in. This would allow them to make more informed decisions about firm value than the average citizen. IPF's were also thought to help solidify property rights and establish a functioning capital market (16,1). They would be a link for the small investor to these new capital markets. It was hoped that return from the original investment would be put into the market and firms would then have additional domestic capital (16,3). IPF's would also develop expertise about new investment alternatives. The government's main objective in allowing IPFs was to avoid a wide distribution of shares that would allow current company management to avoid restructuring; which many companies desperately needed. The government's decision to allow largely unregulated IPF's to participate in voucher privatization was one of the worst decisions made during the transition process.

While IPF's did fulfill some of these goals, many were never realized and several unexpected problems arose. Ownership of IPF's became very important in determining why many of them had not met expectations. In order to set up an IPF for the first wave of privatization little capital was needed. Only personnel, office space, and an advertising campaign to attract citizens to allocate their voucher points to the fund were needed. Over 400

IPF's participated in this first round. The government required licenses of these funds, but the requirements were minimal (15,27). In the years to come it would become apparent that many of the smaller funds did not have the resources or the expertise to manage their investment points. They were understaffed and not able to keep track of the progress of the companies they owned stock in. The larger IPF's suffered from a completely different problem. Domestic banks owned all the largest funds. The banks had started the funds and were influential in selecting the management teams for them. The state had retained control over the banks during the privatization process because they were considered strategic. This meant that the state through the banks was still influencing firms that were supposed to be responding only to market forces. The requirements for setting up an IPF should have been stricter at the beginning in order to prevent ill-equipped IPF's from participating.

Bank involvement in IPFs had several consequences. The banks now had conflicting interests in the firm as both owners and creditors. IPFs tied to banks failed to take aggressive action to treat firms that were performing poorly (12,11). This would have meant declaring bankruptcy and discharging debts to the banks. The banks were already saddled with large amounts of bad debt were hesitant to allow this. They continued to supply credit to shaky firms rather than write off the bad loans (12,11). Inadequate bankruptcy law also played a part in this. The laws concerning bankruptcy in the early 1990's were not at all up to date with the economic realities. Creditors often recovered little from companies in bankruptcy because the process was slow and filled with uncertainty. During the time gap between declaration and settlement of bankruptcy the company had often been stripped of the most valuable assets, leaving creditors with nothing. Banks were hesitant to force companies into bankruptcy and this allowed many to continue operations in economically inefficient ways (16,61). The cross-ownership between

funds and banks did not help shareholders to increase the value of their shares because in many cases firms and IPFs were able to hedge against market forces that would force them to be more competitive. Bank involvement with IPFs should have been more thoroughly considered. Fund managers were acting for the banks instead of for the shareholders.

The state influence on IPFs also left its mark. Although not as direct, the state influence can still be clearly seen. Several firms were producing products that there was little demand for, but they employed large numbers of people in key areas of the country. The government wanted to avoid putting these people out of work even though this is what economic efficiency demanded (1, 27). Instead of cutting production or entire product lines, these firms were allowed to continue to operate as they had in the past. The state's involvement in IPF introduced a political component to economic decision making. The result was to slow the changes needed for the country to regain competitiveness abroad.

One of the main problems IPF's faced may have been the expectations put upon them. They were designed as a hybrid of western-style institutions and could not function in the way they were intended (6,2). In many ways they were patterned after mutual funds. In the West mutual funds own many different companies and take no active management role. They vote with their feet and sell their shares when they are unhappy the management of a company in their portfolio (6,3). The regulation limiting IPF's to 20% of any company they own shares of seems designed to keep them as mutual funds. However, expectations far beyond those of mutual funds were put onto the IPFs. They were expected to be the driving force behind restructuring many of the companies in which they acquired shares.

There are several reasons why this didn't happen. One is the incentive IPF's have in spending the time and resources to restructure a company (6,4). The IPF only owns a maximum

of 20% of the shares, so any benefits received from the restructuring will go largely to other shareholders. Also management teams face an incentive problem. The fees of management companies are a fixed percentage of the net asset value of the funds they manage. Management fees are not tied to manager's performance as measured by increasing share value of the portfolio. Even if they increase the value of the portfolio, only a small percentage of this will go to the fund managers because the fee is fixed percentage (6,3). Fund management can make money in other ways without undertaking the lengthy process of restructuring. Sitting on the boards of several companies provides them director's fees. Also special contracts and non-transparent side deals take value away from the companies and give it directly to fund managers (6,4). Restructuring would cut-off these money-making schemes so the way in which funds are structured may actually provide a disincentive to reorganize the firms they managed.

In many cases funds also lack leverage to force changes. In order to gain control of company several IPF will have to act in coordination (6,2). This requires significant effort by all the funds. However, even when this can be achieved they often lack the embedded power within the company to see restructuring through (6,5). It takes a strong commitment from the inside of company for real changes to take place and IPF's are often not in a position to create this. IPF's often lack the experience necessary for restructuring. Funds are distant from everyday transactions at the firm level and own shares in dozens of firms. Direct involvement in each firm is extremely difficult, even when managers do have knowledge of the industries they are managing. IPFs may have been doomed to failure from the beginning. The expectation that IPF would force restructuring was unrealistic given the restrictions placed upon them.

Instead of contributing to the economic progress of the Czech Republic, in many ways IPF's have hindered it. They were largely discredited early in the process of privatization. The

major reason for this was fund managers dishonest practices, which hurt fund investors as well as other minority shareholders. The most common practice was “tunneling”. The process of tunneling begins with a sudden general meeting of shareholders is called. The shareholder who convened the meeting will then have a voting majority, even if they do not actually have a majority stake in the company. This meeting then approves the purchase or sale of assets that will be beneficial to this shareholder, and the Board of Directors carries out this action. The Board of Directors cannot be held responsible because the action was approved by a shareholders meeting (16,64). Other western countries have “due care” clauses for the Board of Directors which prevent these types of actions. This type of practice along with many other creative schemes allowed IPF managers to profit while the companies they owned continued to operate inefficiently or even deteriorated.

The result of these practices by the IPF’s was an almost complete failure of confidence, and this was reflected in the share prices of the IPFs. Of the 450 original IPFs only 45 were still active in August of 2000 (1,27). IPFs were initially all close-ended funds. The funds did not accept any new investment, and in order to buy a share of the fund a potential investor had to buy out a current investor. As confidence in the IPFs dropped fewer people were willing to buy into them. This meant that investors who wanted to get out of their IPFs had to trade their shares for a deep discount of the net asset value of the fund (1,27). One of the worst examples of this was the Harvard Investment Fund managed by Victor Kozeny. At its lowest it was trading at a 90% discount. These scandals meant that Czechs left their money in saving rather than investing it in other open-ended funds (13,56). This hurt the overall economy as companies were left with little capital to modernize firms. Open-ended funds may have fared better with investors in the long run.

The government was at first hesitant to put heavy restrictions on the IPFs because this would discourage IPFs from entering the market. The government wanted IPFs to succeed so that shares of privatized companies would be concentrated and reform would take place. Thus the government deliberately kept regulations light during the first years of the transition. Once it became apparent that the country was being hurt by the activities of the funds the government began to take measures to protect small investors. The most important was the creation of the Securities Commission armed with new laws and penalties in 1998 (1,27). One of the SEC's first decisions was to force all remaining close-ended funds to become open by 2002. They also began to re-license funds and put others under forced administration when the discount to asset value became too great. Funds that are becoming open-ended are forced to become more liquid so that they can pay people who want to get out (3,1). The Securities Commission's administrative rules as well as new laws are beginning to have an effect. The discount to net assets has fallen in recent years. In January of 1998 it averaged 32.8% and by June of 2000 that had improved to 11.5% (1,27). Investment in the open-ended funds has also begun to increase reflecting new confidence in the market as a whole but also in fund management.

The two main goals for the IPF were that they would help to restructure firms and create an active capital market. Evaluating them on these points, we see that they have not been the catalyst for change that the government desired. Funds bought the limit of 20% in several of the companies in their portfolio, but owned much smaller percentages of many more companies. IPFs would join together to gain board seats with the companies they had large stakes in. However, they failed to be active shareholders and instead often went along with company management in decision-making (1,27). Their presence actually had very little impact on whether or not the company restructured. The market even today isn't very active. Funds swap

shares between themselves but there is little participation by individual investors (16,4). These people were likely to have bought shares in wave one and either sold them or held on to them, but have not been engaged in active trading. Funds themselves can't raise additional capital because of the lack of investor confidence, and there isn't a secondary market for many of the companies in their portfolio (16,4). So people who own shares in the IPFs are stuck with their current holdings.

Although IPF's have not fulfilled any of the expectations, they may have helped in one area and that is establishing property rights. The voucher plan quickly privatized large amounts of the state holdings. The speed of this process prevented the asset stripping that was common for companies that were waiting to be sold to new owners (1, 27). However, it can be argued that any form of transfer would have fulfilled this goal. Had companies been given to any new owner with the speed of the voucher plan the same result would have occurred. The definition of property rights was a result of the speed of the process not the type of privatization that occurred. IPFs did have an important role in defining property rights, but this does not outweigh the harm they caused to the overall process of privatization.

The effects of voucher privatization in the short term were very positive. In 1996 Vaclav Klaus, then prime minister went so far as to say that the Czech Republic was no longer in transition and should be viewed as a normal European country with normal economic and political problems (12,10). At the time, the evidence seemed to support his claim. After the initial shocks of transition the country was experiencing relatively low inflation, just under 10% for 1993 and 1994 (compared with 75% for 1990) (15,6). The unemployment rate was very low compared to other post-communist countries at 5% for 1992. GDP growth was also on the rise from 2.2% in 1993 to 4.7% in 1994. The private sector percentage of GDP was also growing

steadily. There was also growth in exports to countries in the EU. The country was also relatively politically stable and had experienced its first change in regime through democratic elections (15,7). New shareholders in IPF's had initially tried to sell many of their shares in the first few months after trading began, and this caused the prices to drop by an average of 50%. However, they began to rise steadily after this point leading many to believe that the initial growing pains were over. These positive economic indicators allowed the government to claim that voucher privatization had been a success.

The main benefits of the voucher program as seen before 1996 would have been the divestiture of state control and the protection from insiders gaining control. The state had divested itself of large portions of its previous holdings. While the state still maintained control over several dozen strategic enterprises, they were working towards disposing of the last of these companies. Also, *nomenklatura* had not been able to dominate the process as had been feared. Outsiders had gained control of many companies and were producing more efficiently than before 1989. This positive outlook began to crumble in 1997.

In the spring of 1997 the country experienced a currency crisis. This forced the government to look at what had actually been happening after companies were privatized using the voucher system. Several economic indicators were showing cracks in the system. Productivity growth had been expected to rise rapidly after companies were turned over to new owners. This failed to happen. In fact productivity for the economy as a whole lagged behind that of other post-communist countries including Hungary (which had undergone a severe stabilization programme) and Poland (13,55). Real-labor costs had also remained steady or fallen in these countries while in the Czech Republic they were rising. Exports stopped growing in the spring of 1996 and stagnated until the currency crisis (13,55). Imports continued to grow,

although the pace of growth slowed. The Czech Republic also lost manufacturing market share while both Poland and Hungary gained.

In the following years, holes began to emerge in the governments glowing analysis of voucher privatization. A study done in 2000 reveals some of these problems. The study looked at 178 companies privatized under the voucher system in wave one (15,1). Most of these firms had more than 50% of their shares privatized using the voucher system. Immediately following privatization through the voucher program, efficiency and profitability actually decreased. Part of this can be blamed on the economy as a whole. These companies were privatized within the transformation of the economy as a whole. Without strong corporate governance, changes to firm structure were often not made, or when changes were made they were not carried through. Lacking human capital and managerial experience came to be a larger problem for restructuring than had been anticipated.

Firms in the manufacturing sector performed worse than their non-manufacturing counterparts (15,7). The reason for this may be in the nature of manufacturing firms, which take longer to restructure, and have higher fixed costs and operating leverage. The study also found several positive signs in the economy. Employment had begun to fall as old practices of over employment were phased out under the newly privatized companies. Another surprising finding was the ownership concentration did not have a significant impact on the performance of the company (15,7). This would tend to show that IPF have not been actively involved in forcing restructuring. Companies with a wide distribution of shares performed as well as those whose shares were concentrated under a few IPFs. This study indicates that IPF did not have the positive impact on restructuring that many believed.

The causes for the Czech Republics currency crisis as well as many of its other economic problems can be directly attributed to the voucher privatization scheme. Many of the problems were due to insufficient restructuring of firms. Lack of productivity growth was not the result of lack of investment, but instead additional capital translated into little additional output. Large firm's productivity actually decreased. Banking practices also contributed to the problem. Banks continued to lend money to badly performing firms rather than force them into bankruptcy. Bankruptcy laws that allowed only liquidation of assets added to banks unwillingness to foreclose. Companies could not work out of bankruptcy and banks were hesitant to force them into the lengthy court processes. Managers of Czech firms were not acting to maximize shareholder value. This is due mainly to inefficient corporate governance produced by the voucher system. The capital markets are still fairly unregulated and in order for shares to accurately reflect value, regulation must be increased.

There are two issues that should now be addressed. The first is what should have been done to prevent the prolonged period of economic suffering caused by the voucher system. The voucher system could have been a successful way for the state to relinquish control of some of its holdings. Using the Investment Privatization Funds could still have been a component of this process. In order for this to have worked there needed to have been much more institutional support and legal regulation before the process of privatization began. Bankruptcy laws needed to be strengthened. It should have been obvious that when the true financial conditions of firms became apparent many would be bankrupt. Laws for securities fraud also needed to be in place before wave one. If early misconduct had been punished the slide towards a complete loss of confidence in the IPFs could have been avoided. These and other legal changes should have been made before assets were put into private hands.

The small scale privatization using auction and restitution has largely been a success. The reason for this is simple. The people whose efforts bring about increased production receive the profits of this. The economic incentives were not there under the voucher scheme. Although the IPFs were expected to bring about restructuring they would not be the ones to receive most of the benefits from this. This means that they sought other ways to make a profit. Poor regulation allowed illegal or unethical transactions to occur for too long and investors both domestic and foreign lost confidence in the IPF's ability to increase the value of their portfolios. The lax regulation also provided an economic disincentive for them to restructure the companies they had a stake in because it would have cut off these other sources of income. Having regulations in place before the first wave of voucher privatization took place could easily have prevented much of this.

The concept of IPFs and the role they would play was very good. However, this was not what resulted from IPF involvement in the voucher scheme. In order for the IPFs to have been beneficial to the privatization process several things should have been done. The government should have imposed much higher requirements in order for an IPF to register. They should have proven that they had the knowledge, technology, and staffing to manage their investments. This would have reduced the number of IPFs that failed because they were too small to manage their portfolios. The government also needed to consider its expectations of IPFs. If the government intended for them to be a driving force in restructuring then they should have allowed them to purchase more than 20% of the shares of a company. This would have given IPFs greater incentive to take an active role in managing the firms in which they bought shares. Funds should also have been open-ended from the beginning allowing investors to get out of IPFs that were performing badly.

The main problem to come out of IPFs was the lack of transparency in their actions. Fund managers were allowed to engage in dishonest, and illegal, actions because the state did not have regulations in place or could not enforce them. The government needed to take a much more active role in monitoring IPF management. Had this taken place the credibility of IPFs and investor confidence would have remained high. The state holds much of the responsibility for the failure of IPFs because of their deliberate decision to keep regulations on IPFs light. Requiring more disclosure and strictly enforcing penalties could have prevented many of the problems IPFs experienced. Overall, IPFs were a hindrance to the process of privatization but this did not have to be the case. With better planning and tighter regulation IPFs could have been the positive force for change that many had hoped.

Many around the world have praised the speed at which the privatization occurred. While it is certainly worthy of praise that the state privatized companies so quickly, this may not have been in the best interests of these companies or the country as a whole. In the race to put enterprises in private hands through the voucher system the concern was that power would be too widely distributed. As the case of IPF management shows, the real problem was not too wide a distribution of power, but power put into the wrong hands. A slower approach may have allowed the state to more closely examine what the effects of the move they were planning would have been, and also what precautionary steps should have been taken. By allowing more time for planning up front the voucher system may have had a more positive impact.

Most of the companies that were privatized under the voucher scheme had large percentages of their stock available with the vouchers. The average was 61% of stock. This number was much too high. The effect of this was that no one took responsibility for the restructuring that many companies desperately needed in order to become profitable and

economically efficient. By selling a higher percentage of the stock to strategic investors the state would have given one person or entity the power to make real change. This also would have prevented much of the illegal activities fund managers were able to engage in. Although this may have meant more foreign involvement in the transition process this would have been better for the Czech people.

The number of companies privatized using vouchers was also much too high. There was no secondary market for the shares in many of the companies privatized. This meant that a high percentage of the portfolios of many IPFs were completely illiquid. In order to have created open-ended funds, this percentage would have needed to be drastically reduced. The corporate ownership structure was too complicated for many of the firms turned into joint stock companies. Allowing one large investor to purchase companies would have been economically more efficient. Although this may have been politically unpopular, it would have made the IPFs more successful. In the long run the country would have benefited from fewer companies being listed in the two waves of privatization.

The banking system also needed to be reformed before the privatization process began. The state's holding of banks as strategic was a mistake. State involvement in the voucher process through banks managing of IPF turned out to hurt the country. Banks needed bankruptcy legislation that would have allowed them to collect some of their outstanding debt by liquidating company assets. Companies also needed to be cut off from credit. Continuing to provide credit to enterprises only delayed the end result of restructuring and put them further into debt. Separating fund management decisions from banks was absolutely necessary.

The second question that should be addressed is what should be done now. The government went a long way towards solving its problems by creating the Securities

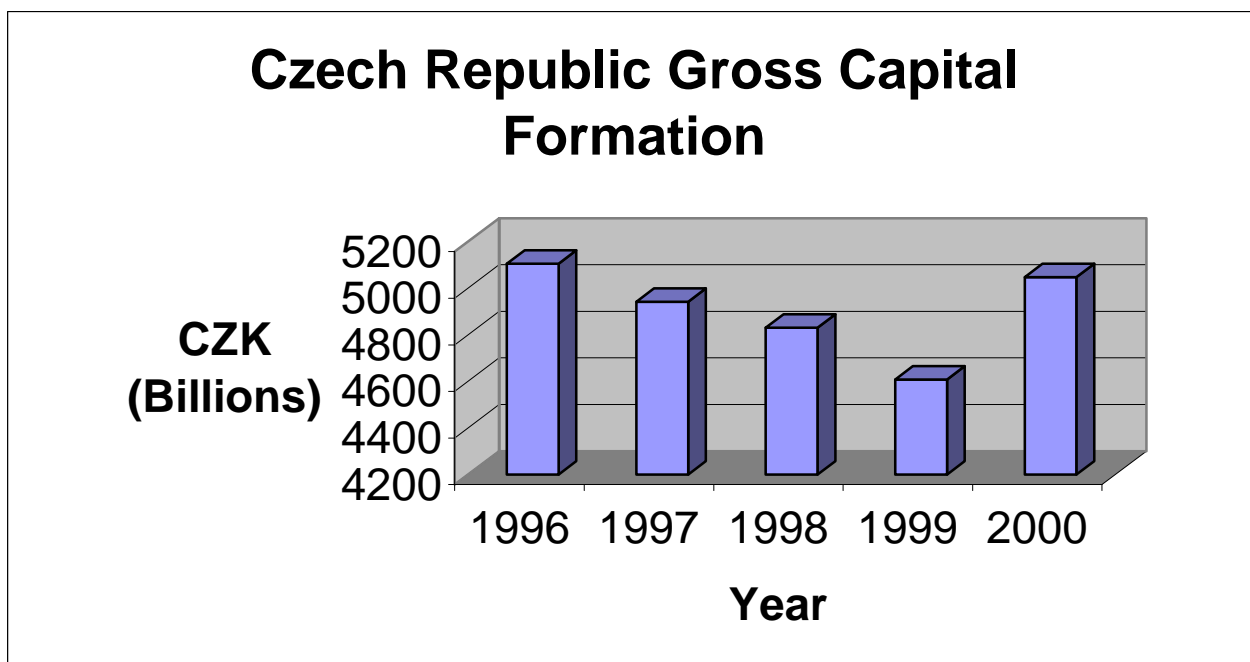
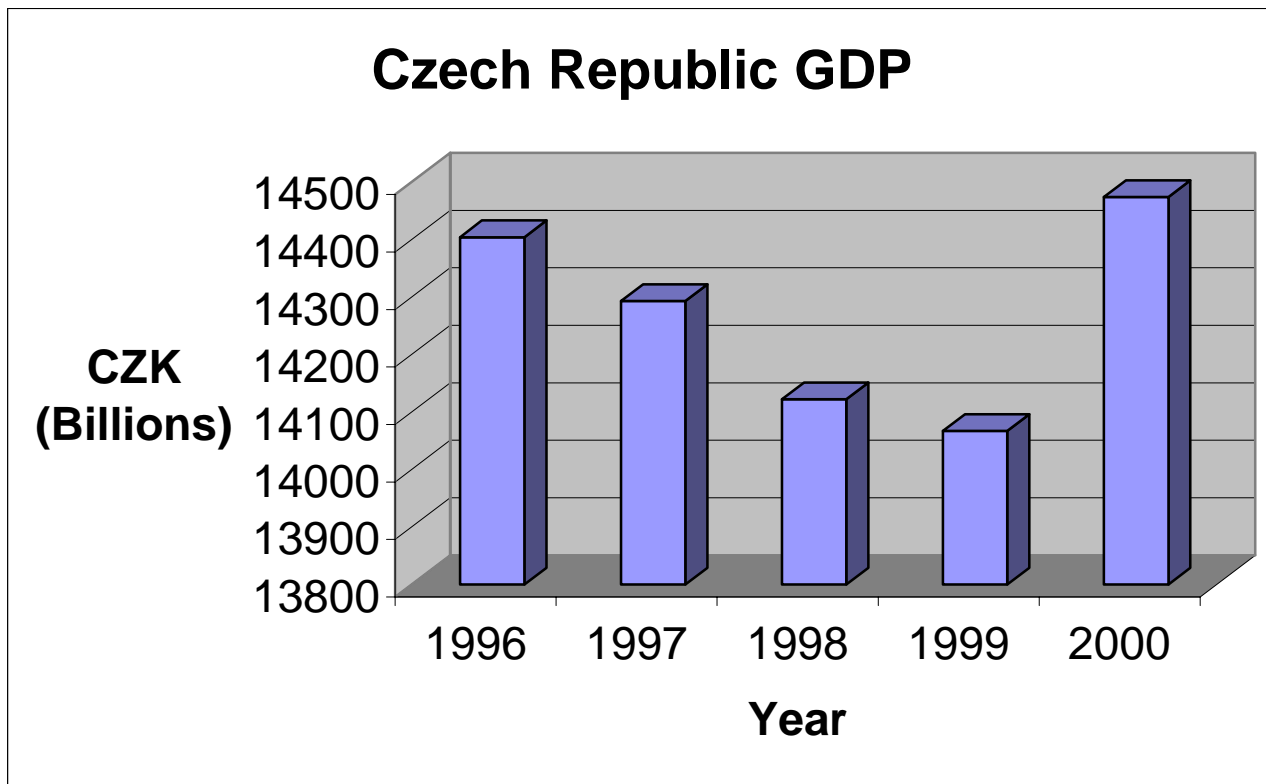
Commission and arming it with penalties to force IPFs to change their practices. This move came much too late to prevent the worst damage but has put them on the right track. Investors must have confidence in the market or it will always be starved for capital. The state must also continue to sell its stakes in the major domestic banks. Although they have begun to do this, the process is not yet complete despite years of promises to do so. Creation of the SEC was a necessary first step, and continued support will help the country to create a viable equity market.

One of the major problems the Czech Republic experienced was in trying to adapt Western institutions without the infrastructure and legal framework to support them. Although the institutions were quick to look like those in the West it will still be some time before they act like them. The voucher system is largely considered a failure today, but it did have its benefits. The quick transfer of assets, although maybe too quick, did establish property rights. There were cases of new owners carrying out extensive restructuring that has led to increased profitability and productivity. If this had happened in a larger number of firms the voucher plan would have been a great success. Many firms have yet to reach this point, but there is a growing knowledge base that will help them in the future. The voucher system was a unique approach but many of the problems it created should have been anticipated and avoided.

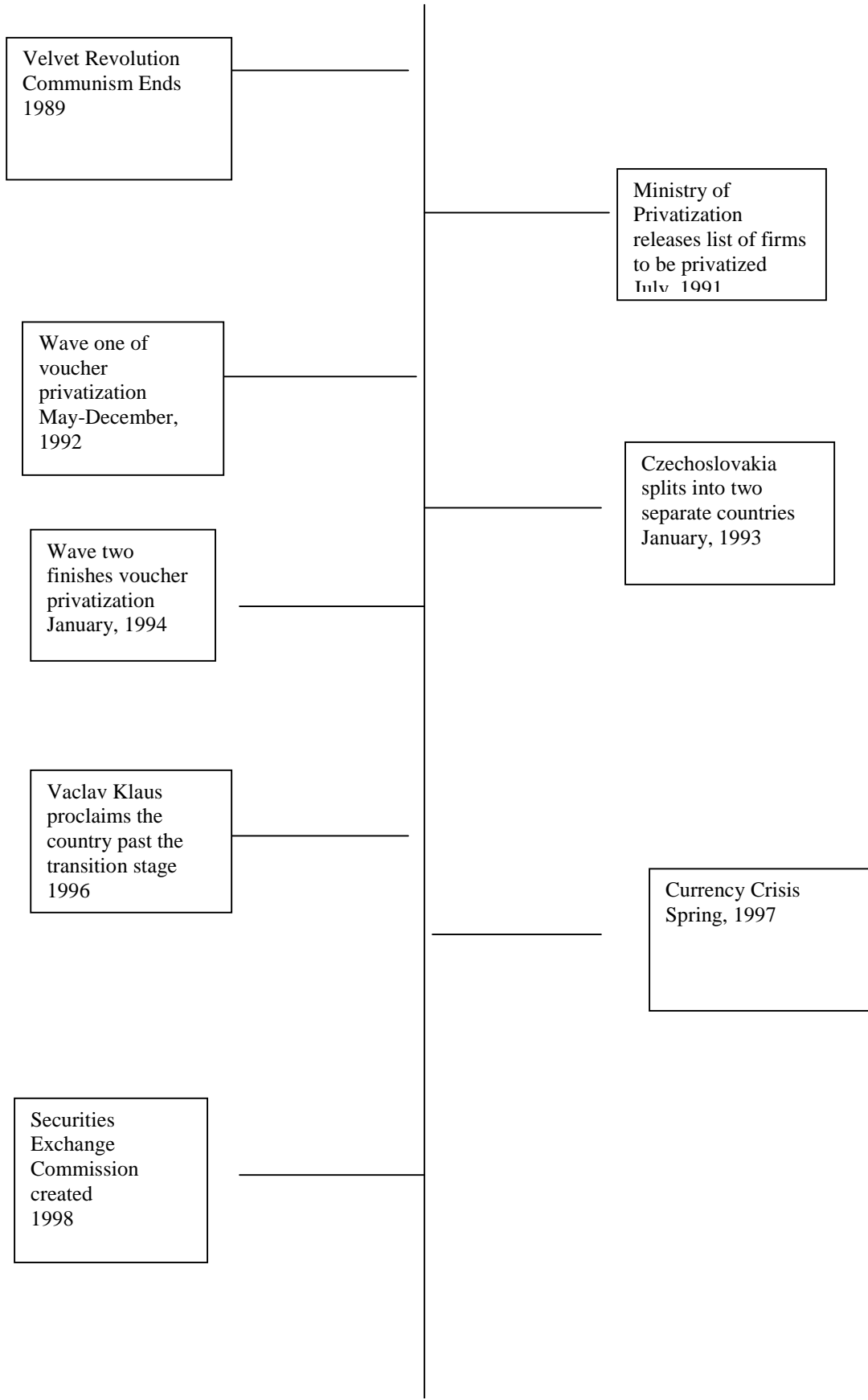
The government is largely responsible for the failure of IPFs. Many of the problems that arose could have been prevented by changing the structure of IPFs. Also, the government needed to increase the regulations at the beginning of the privatization process would. Although the government is responsible for many of the problems relating to IPFs the use of the voucher system as a whole was largely inevitable. The political realities of the time forced mass participation in the transition process. Voucher privatization was the only system that would have satisfied this demand. The structure of the voucher scheme could however have been

adjusted. The Czech Republic is an excellent example of economic and political forces put into conflict. In this situation the political forces won, and the entire country suffered for this.

Voucher privatization could have been good for the country, but because the legal and institutional framework was not in place the voucher scheme turned out to hurt many ordinary citizens.



# Transition Timeline



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