At a Glance

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Vouchers in Mass Privatization Programs

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Vouchers are an integral part of many mass privatization programs. The voucher concept has offered a mechanism for widespread participation by the population. This note explains how vouchers work. Country examples are provided for illustrative purposes.

Q: What are vouchers? What form can they take?

A: Vouchers are certificates or scrip entitling the holders to shares of state-owned enterprises (SOEs). Usually the vouchers are converted to shares through some form of an auction, or into shares of financial intermediaries which will, in turn, own an interest in and manage a portfolio of SOEs.

Vouchers can be in paper or non-paper form. When vouchers are in paper form, the costs of the program are higher to cover distribution and special paper to prevent counterfeiting. Non-paper vouchers can be issued through special privatization bank accounts. One advantage with non-paper vouchers is the ease with which account holders can do multiple transactions. It is also easier and less expensive for the government to issue additional tranches. While vouchers can be tradeable in either form, it is more simple to trade a physical security than amounts from an account.

Q: Who is eligible to receive vouchers?

A: Eligibility criteria can include all citizens, only adult citizens, or other specific groups. For example:

Czech Republic and Slovakia
All citizens over 18 years old were eligible to purchase coupon books.

Moldova
All Moldovan citizens are eligible to receive a patrimonial bond (voucher), which includes a base value supplemented by an additional amount reflecting length of employment.

Mongolia
All citizens born prior to the 1991 Privatization Law were given vouchers.

Poland
All citizens over 18 years old on December 31, 1992 will be eligible to purchase share certificates. The Polish Parliament debated whether to include...
children and the motion was only narrowly defeated.

Q  How much do vouchers cost? What has been the level of participation?

A: Some governments have opted to provide them free. For example, vouchers (or their equivalent) were distributed or available for no fees in Lithuania, Mongolia and Romania. Approximately 92% of the eligible Romanian citizens took up their certificates of ownership. In Kazakhstan privatization investment coupons will be freely distributed to approximately 16 million eligible citizens. Many governments have chosen to cover costs such as printing, distribution and publicity by charging for vouchers. These include:

Czech Republic and Slovakia
The cost was 1036 crowns (US $35 equivalent), equal at the time to the average weekly wage. Despite an initially slow response, participation increased to about 8.5 million out of an eligible population of 10.5 million. This level of participation was mostly due to advertisements by many of the Investment Privatization Funds promising substantial returns.

Russia
Vouchers in Russia cost a minimal 25 rubles. An estimated 98% of the population had claimed their vouchers by January 1993.

Q  Are vouchers tradeable?

A: The Czech and Slovak, Lithuanian and Mongolian mass privatization programs have all opted for vouchers which are not legally tradeable. The Russian program allows trading and the Polish program foresees the share certificates traded off market. Box I shows the advantages and disadvantages of tradeable vouchers.

Q  Do vouchers affect inflation?

A: Vouchers amount to an increase in the wealth of citizens. They are likely to be a highly liquid form of wealth that can be easily sold for cash to finance consumption. However, given the underlying rate of inflation in many of the countries which have designed voucher programs, the contribution to inflation is small. If the vouchers are not tradeable, the inflationary effects are virtually eliminated.

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<th>Should Vouchers Be Tradeable?</th>
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<td><strong>Advantages</strong></td>
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<td>Free trade allows choice and is consistent with democratic principles, since not all citizens want to be shareholders.</td>
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<td>Trading will produce a liquid capital market in vouchers and therefore assist in the development of a capital market. For example, in Russia voucher trading occurs on the floor of the largest commodity exchange.</td>
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<td>The development of institutional investors through the accumulation of vouchers would cultivate a better model for corporate governance than diffuse ownership.</td>
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<th><strong>Disadvantages</strong></th>
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<td>Those with cash on hand could take advantage of the poor or unsophisticated by offering to buy their vouchers at an unfair price—especially if the legal and institutional framework for trading is weak.</td>
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<td>Participation levels may be negatively affected if voucher holders do not feel they can “cash out” at their convenience.</td>
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<td>Allowing wealthier citizens to acquire most of the vouchers does not achieve the goals of fairness or equality in many mass privatization programs.</td>
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Are vouchers denominated?

A: Some vouchers are denominated in currency, some are in “points”. Points represent an amount which each voucher holder may invest. Vouchers which are denominated in currency become, effectively, money. The main advantage here is that vouchers have a clear indication of value. However, a high inflation environment will quickly undermine the value of a voucher denominated in currency.

Czech Republic and Slovakia

In the Czech and Slovak program each coupon book was worth 1000 points. Points were used to avoid having the vouchers treated as securities or currency and therefore potentially having them trade at a discount to face value.

Lithuania

These vouchers were recorded in each citizen’s investment account at the Savings Bank. The value was scaled according to age. Those over 35 years old had accounts with a face value of 5,000 rubles, while those under 18 years old received 1,000 rubles. These vouchers have been revalued several times because of inflation.

Russia

The Russian Government issued bearer-form paper vouchers with a face value of 10,000 rubles in October 1992. This value was arbitrarily set, and the vouchers immediately traded at 20% to 50% below face value. The Government felt that defining exactly what it was giving away would help promote privatization. With the recent increase in the number of privatizations, vouchers now trade significantly above par.

What institution controls the distribution of vouchers?

A: Governments need an institution or agency which can reach the entire population in a relatively short period. Many countries have used the banking system because of its vast branch network. Others have used post offices, police stations and other institutions. An easy distribution process increases participation.

How are vouchers converted?

A: Countries which convert vouchers directly into SOE shares have used different auction procedures. Some countries have vouchers which convert into shares of investment funds, which in turn use their accumulated vouchers to purchase shares in enterprises. In some programs, citizens can hold shares both directly or through these intermediaries.

Kazakhstan

Privatization investment coupons will be convertible only into a specific number of privatization investment funds.

Mongolia

“Red coupons” were adopted for investment in small enterprises; “blue coupons” were used for investment in large enterprises or mutual funds. Small SOEs were privatized through auctions at the local level. Employees had the first right to buy their small enterprise using red vouchers at a price set by the Privatization Commission. Large SOEs developed their own privatization plans which had to be approved by the Privatization Commission. This Commission then valued the enterprise’s assets and issued shares, resulting in a conversion of the enterprise into a joint stock company. Employees were given 10% of the shares and the remainder were sold in successive blocks.

Brokerage firms operated mutual funds to enable citizens who did not understand the process, or who did not want to choose specific enterprises, to take part in large scale privatization by investing their blue vouchers in the mutual funds. These funds can own up to 20% of the shares of any one enterprise.

Poland

Participants will receive share certificates entitling them to a share in each National Investment Fund. Between 20 and 30 National Investment Funds will be set up, composed of western and domestic fund managers. One fund will own a lead shareholding (or 33% of the shares) in certain SOEs. All of the other funds will have a total interest of 27%.
Employees will be given 15%. In this way, 75% of each SOE will be privatized.

Russia
Vouchers can be used to purchase up to 80% of the shares in enterprises or in investment funds. Enterprises have the following three options for the initial distribution of shares:

**Option 1:** Workers in enterprises are given 25% of the shares, subject to a value cap: the value of the shares given to any individual may not exceed 20 minimum monthly salaries. These are non-voting shares. Managers can purchase 5% of the stock at face value, based on book value. Workers are given the opportunity to purchase 10% of shares—over and above the 25% distributed free—at a 30% discount from book value. If they do so they have to make a 20% downpayment and pay in installments over 3 years. The state initially holds 60% but can only vote on the basis of a 20% shareholding, or 1/3 of its initial holding.

An enterprise choosing Option 1 must submit to the Government a proposal for how the remaining shares will be divested. Enterprises may propose that all the remaining shares will be divested through sale to a single domestic or foreign investor or by competitive auctions, public offerings, commercial competitions, or “investment tenders”. The latter are transactions where the primary criteria for determining the winning bid is the amount of future investment promised. Additional options include direct sale of property being liquidated, or by exercise of an option to buy on a lease.

**Option 2:** Employees (workers and managers) may purchase up to 51% of shares, at a price set at 1.7 times book value as of January 1, 1992. In this option no free transfer or concessionary prices are offered, nor are any special credit arrangements offered—though vouchers may be used here. This option must be approved by a 2/3 majority of the workers collective. When exercised, this option will result in immediate privatization of the firm. This option has been the most popular route, adopted by more than 70% of enterprises.

**Option 3:** With the approval of the workers collective, a group of enterprise employees may offer to contract with the state to undertake a privatization plan over one year and to maintain the solvency of the enterprise during the workout period. The contract cannot be renewed or prolonged. In return for this commitment, the group obtains an option to purchase—at the expiration of the contract—20% of the shares, at book value. If the group fails to meet the contract terms, it forfeits the option and the shares can be disposed of through Options 1 or 2. At the end of the contract period, all employees of the enterprise (including members of the group) may purchase up to 20% of the shares at a 30% discount from book value, with 20% down and payment in installments over three years. This option has been rarely used.

**Conclusion**
Governments have many different policy options in designing voucher programs. Experience in eastern and central Europe and the former Soviet Union has shown that very different formulas can deliver successful voucher programs. Critical factors for success appear to involve the means of distribution, tradeability, and the manner in which vouchers are utilized and redeemed. At a broader level, both political commitment and an education campaign to keep the population informed are essential to success.