

An Analysis of the Number of Joint Stock Companies in Mongolia
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According to the OECD, the privatization of formerly state-owned assets has been one of the most important aspects of the Mongolian Government's economic policy during the transition period.¹ From 1991 to 1994, citizens of Mongolia were issued vouchers that could be exchanged for shares of some 4,500 state-owned enterprises and state-owned farms and livestock. Each citizen of Mongolia was given a set of pink and blue vouchers (with a total value of 10,000 Tugrik or USD 10) that could be used to buy shares in small and large enterprises that were selected for privatization by the Mongolian Government. By the end of 1992, almost all state-owned agricultural assets were transferred to private ownership.

The Mongolian Stock Exchange was established in January 1991 to facilitate the first round of voucher privatization in Mongolia. It was used to distribute and collect vouchers and to sell state assets. Secondary trading of shares did not begin until August 1995, following the adoption of the Securities Law and the establishment of the Securities and Exchange Commission in 1994.

The shares of companies that were privatized under the voucher program were intended to be widely disbursed among workers and managers of the privatized enterprises. This program continued till the end of 1995. Although the privatization program stalled, the Mongolian Government made an inventory of state-owned assets in 1996. In the beginning of November 1996, the State Property Committee responsible for the privatization program began privatization through the auction of the remaining state-owned assets. Since then, sealed bid auctions are used to privatize enterprise with more than 50 employees and the "most valued companies" are being privatized through competitive international tenders.

As of 2001, the Government approved the sale of controlling packages of the Trade and Development Bank (70% of total shares), Gobi Cashmere JSC (70% of the total shares) and Neft Import Concern JSC² (NIC), a distributor of gasoline and other oil products (80% of the total shares). These companies have not yet been privatized successfully as of December 21, 2001.

THE CONSOLIDATION OF JOINT STOCK COMPANIES

The initial privatization of state-owned enterprises has been followed by a reduction in the number of joint stock companies in Mongolia. In 1995, a total of 474 joint stock companies were registered with the Mongolian Stock Exchange. As of December 2001, the total number of joint stock companies was 402 (of which 66 are partially or fully owned by the Government). This process of consolidation is expected to continue if the Securities and Exchange Commission and the Mongolian Stock Exchange succeed in de-listing idle joint stock companies. Many of the listed companies are inactive and clearly uninteresting to investors.³ In addition, the World Bank concludes that distinctive changes occurred in the ownership structure after the privatization of companies, with managers generally strengthening their ownership structures by acquiring equity both from outsiders and from

¹ OECD, Investment Guide for Mongolia, 2000:60.

² Government of Mongolia, State Property Committee, Privatization Program for 2001.

³ Mongolia Country Economic Memorandum, Policies for Faster Growth, World Bank, 1997:24. .

workers.⁴ The study also found that the move away from insider ownership had been greatest where insider control seemed to have been a relative failure. The most troubling finding was the poor quality of governance mechanisms in outsider plurality enterprises, suggesting that the exit of small shareholders was necessary before governance through internal mechanisms such as boards of directors could take hold in these enterprises.⁵

No new joint stock companies have been registered in Mongolia since the completion of the voucher privatization program in 1995. Furthermore, the market capitalization of the Mongolian Stock Exchange remains insignificant with no liquidity in the market due to investors' perception that the market is risky. These views appear to be due to widespread noncompliance with disclosure requirements, and due to the Government's decision not to release state-held shares to the public through the exchange.⁶

According to the IFC, the total market capitalization of the 430 "listed companies" on the Mongolian Stock Exchange was an estimated USD 40 million in 1998.⁷ The latest market prices of listed companies on the website of the exchange in December 2001 were from March 2001 revealing hardly any trade volumes and price discovery with quotes that are ten months old or that are based on a limited number of traded shares.⁸ Although the Securities and Exchange Committee and the Mongolian Stock Exchange have increased minimum charter requirements of listed companies for its A-list, it has had limited impact so far. The Mongolian Exchange lacks the power to de-list a company, and the Securities and Exchange Commission is struggling with developing its strategy on how minority shareholders' rights should be protected if the more than 300 inactive companies are to be de-listed.

Currently, only after approval of the general meeting of shareholders, can a company be de-listed. Although the SEC has the formal power to do so, it does not have the political will. It is estimated that a total of 100 – 120 viable and active joint stock companies will remain listed on the exchange as a result of the consolidation process. A total of some 20 companies are able to comply with the exchange's new listing requirements for the minimum A-list.⁹ This group of companies presumably does have an incentive to improve its corporate governance practices in order to attract financing (this includes debt, equity and off-sheet financing such as leasing). Even in the absence of additional listing requirements, it would be better for the majority of listed joint stock companies to reregister into closed or limited liability companies and/or other legal entities, since many companies are incorporated as joint stock companies solely as a result of privatization.

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⁴ According to the Securities and Exchange Commission, out of a total of 284,000 shareholders that are registered with the central depository of the Mongolian Stock Exchange, some 1,300 individuals own approximately 65.6 million shares or some 70% of all registered shares.

⁵ Transition Economies, Public Sector Management and Private Sector Development, The Consequences of Large-Scale Privatization in Mongolia, World Bank, 1998.

⁶ See also Mongolia Country Economic Memorandum, Policies for Faster Growth, World Bank, 1997:24.

⁷ Emerging Stock Markets, Factbook 1999, IFC 1999:358.

⁸ <http://www.mse.com.mn/itrade.html>

⁹ These include a minimum charter capital of 10 million Tugrik, return on assets needs to be more than zero percent, the company needs to be at least three years old and the company has at least 50 shareholders.