THE ROLE OF INVESTMENT FUNDS IN THE CZECH REPUBLIC

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April, 1996

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1. INTRODUCTION

The current stage of the Czech economy (in 1996) is often characterized as "post-privatization". It is generally believed that the major package of privatization measures has been completed and now what matters most is the efficiency with which:

- the new owners control privatized companies, and
- new investments and investors enter the economy.

In this respect, the role of so-called investment privatization funds ("IPF") has been broadly analyzed.[1] Are the IPFs the vehicle of corporate governance proper? To what extent can IPFs be intermediaries for new capital in a country like the Czech Republic?

The role of IPFs in restructuring the economy is the focus of this paper.

This study begins with a summary of the initial intentions of the authors of the privatization project.

2. HISTORY AND LEGAL FRAME

2.1 Exclusivity

In 1990 two ideas regarding privatization emerged almost simultaneously in the Czech Republic[2]:

- to a large degree privatization will be implemented as a free distribution of property, and
- specifically designed IPFs will be an integral part of such a mass privatization.

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[1] See the extensive list of titles attached to this paper.

[2] We are using "Czech Republic“ for the period of time when the country still was "Czechoslovakia“, or the Czech and Slovak Federal Republic.

The two concepts were legislatively approved in February 1991 by the *Large-Scale Privatization Act*.

Many other approaches were proposed in 1990-1991. Within the realm of voucher-type schemes, one extreme did not include IPFs at all and the other had IPFs as its major vehicle.

It is the thesis of this paper that the Czech-style voucher privatization plan did not necessarily require IPFs as an ingredient. In 1990 the first of the above extremes was seriously considered as an option. The second extreme, however, was never viewed as acceptable in the Czech Republic and, consequently, IPFs were never conceived of as a essential condition of the voucher privatization plan.

The *Large-Scale Privatization Act* reflects this policy. It permits the participation of IPFs but does not specify in detail their function.

2.2 Universality

In principal, once admitted to the privatization process, IPFs could participate in any one of the privatization techniques (direct sales, public tenders, small-scale privatization, public flotation, etc.). However, the *Large-Scale Privatization Act* created a solution that prohibits the IPFs from techniques of privatization other than that of voucher privatization.

Only later, after the completion of the two privatization waves, did the *Investment Companies and Investment Funds Act* make it possible for IPFs to invest in other types of property.

2.3 The legal form

Some six months after the *Large-Scale Privatization Act* (September 1991), the federal government issued a decree that provided some details concerning voucher privatization and all of the relevant agents participating in it, including IPFs.

It may be worth mentioning that at that time the *Joint-Stock Company Act* was practically the only piece of legislation regulating business in the Czech Republic, and the joint-stock company was the only legal form of a commercial company. More precise and extended definitions of commercial companies were introduced into the legal framework only by the new *Commercial Code*, which was effective as of January 1992. The concepts of an investment company and unit funds (mutual funds and investment trusts) arose even later.

The IPF was, therefore, conceptualized as a "standard" joint-stock company, except that it needed to accumulate investment vouchers for its license and consequently bid for shares in the privatized companies.

With the completion of each wave, the IPF issued its own shares and distributed them proportionally among its voucher-holders, thus turning them into shareholders.

2.4 Necessity

The problem may be separated into the following two questions:

a) Is it necessary to establish at least one IPF in order to start the voucher privatization wave?, and

b) Is it possible to continue with voucher privatization if the IPFs are totally ignored by voucher-holders?

The answer to (a) is surprisingly complex. It is important for the interpretation of the present role of the IPFs that the *Large-Scale Privatization Act* gave voucher-holders the right to use the services of IPFs as intermediaries. Strictly speaking, then, the government should not have been allowed to open the privatization wave had no IPFs been established. Fortunately, this never became a problem because several hundred IPFs were established and took part in the process.

Question (b) is even more important for the interpretation of the functions of IPFs. The *Large-Scale Privatization Act* gave no regulations for terminating the process if no

IPFs were established. In this sense the IPFs did not constitute a necessary part of the scheme.

In summary, the scheme allowed for two theoretical extremes to emerge:

- only one IPF is established and in this IPF are concentrated all investment vouchers, and
- no voucher-holders take the opportunity to use the services of the IPFs that have been established.

In actuality, the IPFs played an exceptionally significant role in both waves. The degree of their significance, however, was not pre-determined by the law or the government but was generated by the free choice of voucher-holders.

3. LICENSING

3.1 Problems of liberalism

In the Czech Republic the actual emergence of IPFs has taken place under conditions that can be described as "liberal in the extreme.". It is no exaggeration to stress that in practice the entry of an IPF resembled registration rather than genuine licensing.

For the government it was very important that the IPFs were established spontaneously. In the Czech Republic, unlike in other post-Communist countries, it was not the government that initiated the creation of privatization intermediaries. It was generally agreed that the government should remain totally inactive, neither initiating private intermediaries nor establishing its own IPF.

The philosophy driving the process was that it is private initiative that deserves support because it is this initiative that requires rehabilitation. The risks generated by the approach are obvious because private initiative may not emerge at the right time or in the

right form but rather as a behavior generally perceived of as perverse, both economically and socially.

However, these fears proved to be unjustified.

The Czech experience indicates that, as a rule, government should not rely on its own capacity and organizational ability. Rather, its effort should be fully devoted to opening wide the possibility for all (sometimes unimaginable) types of privately based efforts. In this, government must be ready to take the above-described risks.

3.2 Requirements

The government may adopt two entirely different policies for issuing licenses to IPFs. It may:

- view IPFs as a standard "collective investment undertaking" and apply to them "classical" licensing procedures, or
- convert licensing into mere registration.

For post-Communist countries there is nothing in between. The Czech Republic opted for the latter approach. It is the thesis of this paper that this was an explicit interpretation of IPFs as *sui generis* vehicles of privatization, rather than standard, Western-style collective investment undertakings.

Many times later on this policy was forgotten and at least partly abandoned. In 1991, however, the policy was still alive. In its spirit the government never imposed any *numerus clausus* on the total number of IPFs and set such "soft" criteria for the licensing body (first the Ministry of Privatization and later the Ministry of Finance) that practically anybody could meet them.[3]

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[3] The specific, almost revolutionary circumstances of that time were expressed not only in the contents of the criteria but also their form, e.g., in 1991, the licensing rules were formulated as an internal instruction of the Ministry of Privatization and made public through newspapers and other media.

However non-standard this approach may appear, in practice it proved to be extremely efficient and legally correct.

3.3 Results of liberalism

Establishing an IPF was attractive to many not only because of the simplicity of the above-described requirements but also from the point of view of the ease of regulating its on-going behavior. As noted already, at the time when the IPFs were established almost no such regulation existed.

Therefore, the overall liberalism of the government economic policy of that time went hand in hand with its legal liberalism. Save for the above regulatory provisions, only a few minor additional regulations could be found elsewhere in the then-existing legal framework.

The positive effects of the overall liberalism proved to be an appropriate policy for that time, and its positive impact can now be seen in the consequent development of the IPFs.

After two years, none of the many concerns raised at that time against the liberalism of IPF regulation has been confirmed. The warnings that none or too many IPFs would be established were all unfounded. Altogether 429 IPFs were established and successfully participated in the first privatization wave. Of the total, 264 operated in the Czech Republic and 165 in the Slovak Republic.

4. POST-PRIVATIZATION DEVELOPMENT

4.1 Attacks on IPFs

In spring 1992, shortly after the IPFs were established and started advertising, Parliament launched a strong debate about their regulation. The heated discussion was reflected in legislation that emerged, which changed somewhat the general conception of the already-established IPFs.

The most visible outcomes were that:

- civil servants were no longer allowed to be active on boards and supervisory councils of IPFs, and
- the portfolio structure of IPFs became subject to regulation.

The latter restriction, at least, was economically unwise.[4]

4.2 Collective investment

The confusion initiated by this political intervention materialized in the newly adopted *Investment Companies and Investment Funds Act* (No. 248/1992) in May 1992 (immediately before the bidding process in privatization rounds started).

This law, in contradiction to the original policy, legalizes the changes both to the status of the IPFs and to their founder-managers. The official goal of these changes is to introduce "rules of the game" similar to those of countries with developed capital markets.

The voices stressing that the "game" of privatization is substantially distinct from that of a collective investment were far too weak. Thus, the major elements of the regulation were the following:

a) A distinction between an investment fund and an investment company was introduced. The existing IPFs was declared to be investment funds. Their founder-managers were declared to be investment companies.

b) In addition to investment funds, unit funds (open and closed) were introduced.

c) Both the IPFs and their founder-managers have been prohibited from engaging in activities other than those strictly reserved for investment companies and investment funds.

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[4] Its political motivation is still to be discovered and is beyond the scope of this paper.

d) The original vaguely defined licensing procedure for both the IPFs and investment companies was replaced by one that is more elaborate and stricter. The licensing authority was moved from the Ministry of Privatization to the Ministry of Finance. The new rules are based on the law itself, but the Ministry of Finance has been authorized to impose additional requirements according to need within the framework of the licensing proceedings.

e) A truly broad band of rules dealing with the protection of the investor was defined. In this context, rules dealing with limiting and spreading risk (rules also relevant to buying shares in voucher privatization) are important. Not insignificant are rules relating to the duty to inform, limiting the participation of some persons on boards and supervisory councils of IPFs and investment companies, etc.

f) In addition, IPFs and their founder-managers must have their own depository.

In spite of the legislative changes, the liberal approach of the government to IPFs was basically preserved throughout the two privatization waves and became even more liberal in some instances.

4.3 Participation

Apparently the advertising campaigns of the IPFs played a significant role in inducing a large portion of the population to participate. In 1991, the Federal Ministry of Finance registered some 8.54 million voucher-holders, 75 percent of the 11,319,138 adult citizens who were entitled to register.[5]

Of the 8.54 million voucher-holders, 6,310,433 handed over their points (all or part) to IPFs. In total the IPFs acquired 6,135,495,500 points, almost 72 percent of the total.[6]

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[5] 7,615,874 in the Czech Republic and 3,703,264 in the Slovak Republic

[6] Out of this, IPFs founded in the Czech Republic acquired 72.5 percent and IPFs in the Slovak Republic 27.5 percent.

4.4 Bidding

In order to understand the true nature of IPFs, the technique of privatization is important. The first wave of voucher privatization (May 1992-January 1993) consisted of five consecutive bidding rounds. Simultaneously almost 1,500 companies (shares) were offered. A pricing mechanism was created to adjust the values of auctioned shares to the revealed ratios of supply and demand.

After the final round, IPFs ended with 66 percent of the shares offered and of this, the ten largest IPFs controlled one-third.

This outcome is in line with the results of the so-called pre-round, where out of the total of 8.5 billion investment points (or 8.5 million participants) some 6 billion investment points were entrusted to IPFs.

Among the largest funds holding the largest amounts of investment points in the Czech Republic were:

- Five funds established by already-existing domestic financial institutions (*Ceská Sporitelna*, *Komercní Banka*, *Iinvesticní Banka*, *Zivnostenská Banka* and *Ceská Pojistovna*),
- One fund established by a subsidiary of a foreign financial institution (*Creditanstalt*),
- Three funds established by companies created by private agents for this special purpose (*HC&C, YSE and PPF*).

As already mentioned, the *Investment Companies and Investment Funds Act* redefined requirements for the limitation and diversification of risk. The legislation stipulated the following criteria:

1) An IPF cannot buy more than 20 percent of the shares of an individual company;
2) the shares of an individual company cannot constitute more than 10 percent of the total value assets of one IPF;

3) IPFs established by the same founder cannot buy more than 20 percent of the shares of a single company;

4) shares of an individual company cannot constitute more than 20 percent of the total assets of all funds established by the same person.

To obtain the optimal portfolio, individual IPFs selected different strategies. In general, however, the funds tried to obtain shares of enterprises in traditional sectors, sectors whose export potential was perceived to be the best. This applied primarily to companies in the processing industry and in the trade and service sectors. Harvard Investment Funds, which had the third-highest amount of investment points (third only to the funds of *Ceská sporitelna* and *Investicní banka)*, narrowly concentrated its portfolio on approximately 50 joint-stock companies, its goal being to gain a significant amount of influence as a shareholder in these companies. The majority of other large IPFs, however, invested their points in a wider spectrum of enterprises.

After the completion of five privatization rounds, it was discovered that the IPFs ordered predominantly higher-priced shares, in contrast with the majority of individual investors, which invested their points in cheaper shares.

4.5 Capital market emergence

The Securities Act was passed at the end of 1992. It focused on two major issues, establishing the concept of full decertification and introducing into the legal framework dealer-brokers and market organizers (The Prague Stock Exchange and RM-S Securities Exchange).

The exchanges officially opened in March 1993 and the shares were effectively transferred to individual voucher-holders and IPFs in May 1993.

The smooth and dynamic development of the Czech capital markets is closely connected with the transformation process of the Czech economy, namely, with completing large-scale privatization. In this respect, the success of privatization largely depended on the behavior and prosperity of IPFs.

Apart from them, banks (more than 50) and insurance companies (about 20) could become potential investors. Concurrently, there are some five million individual shareholders of both privatized joint-stock companies and IPFs.

Standard mechanisms working in developed market economies provide for perfect or near-perfect mutual dependence of the real economy--i.e., the production of goods and services--and the securities markets, especially markets for shares of joint-stock companies. Falling share prices create pressure on the management of a joint-stock company, and vice versa, the economic performance of the company is, sooner or later, reflected in the prices of its stock. The present situation in the Czech Republic is different. It still has to stress and encourage straight-forward activities of new the owners in their enterprises.

4.6 Two types of behavior

In this respect, two major approaches of large institutional investors can be observed.

First, some IPFs from the very start of the first wave have carefully developed a strategy of getting as much control as possible over a large part of the economy and insisted on active participation in the restructuring of "their" companies. Formally, this approach is in accordance with the needs of a successful privatization process.

Secondly, one group of IPFs prefers to pursue short-term goals, stressing the importance of quick gains. Each approach, especially in its extreme manifestation, contains negative prospects for the successful development of the securities market and privatization. In this respect there is a large area for the application of the rights and duties of state supervisory bodies, namely the Ministry of Finance.

The larger IFPs, especially, conform to strong control policies. Carefully worked out portfolios of interconnected investments comprise both visible and not-quite-so-visible ties among many joint-stock companies controlled from one center. On the one hand there are promises of higher efficiency under such control; on the other, efficiency is

limited by the fact that the old, overmonopolized structures of the centrally planned economy are preserved.

The phenomenon calls for very careful analysis, first by keeping in mind the positive elements in such a development and its natural character. It is not easy--and finally not even practical--to destroy the previous system in all its dimensions. In any case, for the future there is much work to be done in fine-tuning the legislation and methods of work at state supervisory institutions.

The second preference, stressing quick financial gains, endangers the dynamic movement of the securities market towards stabilization, and in this manner it diminishes the prospects for successful growth of many joint-stock companies. The behavior of many investment funds can be explained by the fact that they need money to fulfill their promises to shareholders that were made before the start of the first wave.

The consequences of the short-term approach could be fatal, especially for its proponents and initiators. Mass stock offers would result in enormous price decreases, totally destabilizing the securities market. In pursuit of quick gains, the investment funds would be compelled to sell their "best" stock and therefore to deprive themselves of a considerable part of the assets they purchased in the first wave. The winners would especially be large banks and perhaps foreign investors who would get an opportunity to substantially improve their portfolios. In this way the position of controlled networks could be strengthened.

We believe that this rather gloomy scenario will not prevail. Everything will depend on the professional approach of all participants, especially the state supervisory bodies--the Anti-Monopoly Ministry included. And we are still of the opinion that the optimal path to a prosperous economy is concurrently to give individuals maximum possible opportunities to use their initiative and master the act of proper regulation. With this dual commitment the second wave of voucher privatization is being prepared.

4.7 Corporate governance

After the end of the first wave of privatization many funds--mainly smaller ones--were forced to merge. More than forty investment funds have disappeared as a result.

Immediately after the end of the first wave, investment privatization funds began to exercise their shareholder rights. The large funds appointed their representatives to the boards of directors and supervisory boards of joint-stock companies.

These positions enabled the funds to actively influence the operation of the companies, to participate in investment decisions, etc.

In the case of enterprises that were only partially privatized through vouchers, and where the decision regarding the fate of the remaining shares had not yet been made, the government had to negotiate with the IPFs. It was immediately forced to deal with IPFs as the rightful owners of significant interests in companies.

These negotiations are sometimes complicated because the funds are very much aware of their position as owners of the given enterprise. In the event of a difference of opinion between them and the government, these funds accept compromise solutions only with the greatest reluctance.

5. THE PRESENT ROLE

5.1 The scope of the problem

The purpose of restructuring can be stated as the adaptation of companies to changes in the environment. It should be noted that without environmental changes no restructuring (adaptation) would be necessary because the companies (then the state-owned enterprises) behaved optimally, given the centrally planned environment.

It is the thesis of this paper that after privatization the direct role of IPFs in this restructuring (adaptation) is greatly overemphasized. The corresponding arguments below are classified under the following titles :

- categories of restructuring
- secondary restructuring of ownership
- spontaneous labor-shedding
- strength of green-field entrepreneurs

5.2 Categories of restructuring

5.2.1 Adaptation to a systemic change

In a post-Communist country like the Czech Republic, the scope and scale of restructuring is not comparable to the meaning of this term in Western countries. The spectrum of processes requiring adaptation reaches from the sudden disappearance of traditional (COMECON) markets on the one hand to politically motivated purges within management and government structures on the other.

Unlike Western countries, the nations in Central and Eastern Europe have quite often gone through substantial changes in the overall system of their social, political and economic life. Non-European readers, especially, should be reminded that even in a country as stable as the Czech Republic, the changes in its system in the twentieth century were dramatic:

- 1818	End of World War I and disintegration of the Austro-Hungarian Empire
1918 - 1918	New state established with a pro-Western democratic government
1938 - 1939	Disintegration of the 1918 state
1939 - 1945	"Coexistence" with Nazi Germany under its *Protektorat*
1945 - 1948	1918 state re-established with a pro-Soviet democratic-left government
1945-1960/62	Dictatorship of the Communist Party

1960/62-1969	Liberalized, reform-minded Communism
1969 - 1990	Invasion of the Warsaw Pact troops and the consequent "Normalization"
1990 - 1992	Communism defeated
1992 -	Disintegration of the state from 1918 (separation of Czech and Slovak Republics) and the consequent restoration of Western-style capitalism

It is understood in the Czech Republic that the systemic change launched in 1990 is, institutionally speaking, the most complex task in the history of the country. Our discussion about IPFs and restructuring should, therefore, take into account the historical dimension of the problem.

The systemic change in 1990 confronted every citizen and organization in the post-Communist country with tasks far exceeding whatever is usually discussed in most papers on the subject.

We should, therefore, keep in mind that whatever may be noted about IPFs (and other similar issues) is of only a marginal and perhaps even negligible significance.

5.2.2 Internally sponsored restructuring

Another line of argument is much less general and focuses on the already privatized companies. The thesis is that in the post-Communist countries for at least some years ahead, the major problem of restructuring will not be "What should be done?".

It is the assumption of this paper that after privatization everybody (every manager and employee) understands the irrationality of the inherited structures *vis a vis* the new circumstances and just as obvious are the measures that must be taken. ("We should immediately stop production of goods that nobody buys!".)

The actual problem is different: "Who will take the (well-known) measures?" and/or "What will the punishments be for not taking them?".

It is our view that thus defined, "obvious" restructuring may be achieved even without sophisticated corporate governance structures, i.e., without an elaborate division of power in the company and immensely strong external guidance by the new owners.

It has been believed in the Czech Republic that the major post-privatization role of the new owners rests in "preventing management from looting". If the infamous

"asset-stripping" is taken care of, managerial effort will focus on the obvious, i.e., restructuring of the company.

This type of external threat may be established efficiently by the mere existence of owners and their (expected) long-term interests. However fictional the threat may be, it has the capacity to provide both the stimulus and the excuse for managers to introduce elementary ("obvious") financial discipline into the company.

5.2.3 Externally sponsored restructuring

"Obvious" restructuring can be internally sponsored in the sense that it will be the managers themselves who will carry out the appropriate tasks.

The question is how long this type of restructuring will last before problems reach the level of sophistication for which elaborate schemes of corporate governance are needed. It is our thesis that in the Czech Republic the need for governance optimality is still premature and, therefore, artificial.[7]

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[7] This applies to the transformed companies and need not be the case for newly emerging ("green field") businesses, as mentioned in some more detail later in this paper.

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b) the owners emerging directly from privatization ("initial owners") need not (and most probably will not) be the final--not to mention "optimal"--rescuers of the ailing companies.

As to (a), it must be understood that:

- not all enterprises will be transformable,
- because it is not within the capacity of the government to make the appropriate "ranking" of companies, it has to be left to the new owners (initial or secondary) to differentiate "wheat from chaff", organizing investors for the "good" enterprises and hopefully close the "bad" ones.

As to (b), governments should create an environment in which secondary restructuring of the ownership may proceed smoothly and efficiently. The emphasis of a government should not be on initial shareholders; rather its true objective rests on optimizing the secondary search for optimal owners.

5.3.2 The secondary owner

The above policy of the Czech government materialized in the liberalism of 1991-92 and through the ease with which securities exchanges could be established, as well as other markets such as those with production factors and a labor force.

As a result, among the post-privatization processes major importance should be attached to what we refer to here as a secondary restructuring of ownership. Within this process the property "primarily issued" by privatization changes hands. Enormous changes can be observed in the ownership of various business units, blocks of shares, pieces of land, buildings, machinery, claims, obligations, inventories.

If incapable of resolving the restructuring problem, the initial owner (privatization participant) must be motivated to sell fast. In some cases, of course, the secondary sale has always been his/her objective.[8]

5.3.3 Conclusions

In evaluating the role of IPFs we should be aware that they may no longer be shareholders in many companies. If this is the case, some other players have taken over the task of restructuring, while the IPFs have fulfilled their role as intermediaries.

Therefore, the question of whether IPFs represent "competent restructurers" may be missing the point.

5.4 Spontaneous labor shedding

The success of transformation largely depends on the degree to which a government is convincing that:

- the hardship imposed by its macro-policy is unavoidable,
- it is everybody's task to help himself/herself, and opportunities are open to everybody.

If this policy is efficiently carried out, "rats may leave sinking ships". The policy is, in itself, a strong enough impulse pushing employees (of all categories, including managers) to seek alternative positions. The policy is more efficient the earlier the employees spontaneously leave (well before the company is actually broke).

The instinct of employees (based on their private knowledge) is the best criterion of a company's rank. The time and energy a respective government saves on initial owner optimization can be devoted to removing obstacles for the above-mobility of labor, namely the bureaucratic constraints for establishing and running new business units.

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[8] Some IPFs already before or during privatization rounds of voucher privatization signed option contracts with future buyers, domestic or foreign.

5.5 Green-field entrepreneurs

5.5.1 Market vacancies

If there is good news about post-Communism, it is that it created enormous vacancies in the market. Many goods and especially services have been (and often still are) in short supply. These can't always be filled by imports in the short run. This situation makes it somewhat easier to open new businesses and make them profitable. As a rule, if a need is answered, the profit margin is much higher than that of a stable Western-style economy.

It is little understood that the microeconomic objective[9] of privatization should rests in making room for all newly emerging entrepreneurs (domestic or foreign).

5.5.2 Two types of businesses

The post-privatization economy should be a battlefield for a competition between two types of agents, the transformed old structures (i.e., privatized companies) and the green-field undertakings (e.g., McDonald's and Sony Music).

Given the topic of this paper, and recalling that IPFs have been active mainly in the realm of the old structures, it may be of interest to give some comparisons of the old and new. The following table gives some examples:

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[9] The macroeconomic objective of Czech-style privatization policy has been already mentioned.

INDUSTRY	OLD	NEW
Broadcasting	Czech TV	NOVA
Dailies	MF Dnes	Metropolitan
Banking	Komercní Banka	Bohemia
Securities	Prague Stock Exchange	RM-System, RTP
Travel agencies	Cedok	Fisher Reisen
Entertainment	Supraphon, Panton	Bonton
Electronics	Tesla	Sony
Oil	Benzina	BP, Shell, OMW

5.5.3 Conclusion

Unfortunately, it is beyond the scope of this paper to draw any general conclusions from the above comparisons.

However, even if the role of IPFs were to be responsible owners and even if they were to fail at this, the impact upon the economy as a whole would not be disastrous as long as the newly emerging businesses were not limited (or even discriminated against) in their entries and operations.

5.6 IPFs as holdings

5.6.1 Attacks on IPFs (again)

In summer 1995 the IPFs in the Czech Republic had to repel one more attack against their role in the economy. It was again proposed that their role in the privatized companies should be limited, this time by prohibiting them from the boards of privatized companies.

Even though this attempt was unsuccessful, the vested interests behind it may be of interest. More detailed analysis, however, is beyond the scope of this paper.

In the context of the above amendment, the discussion about the true nature of IPFs has been resumed, this time under the label of distinguishing between "managerial" and "portfolio" IPFs. For some proponents, the former should be granted some authority over the company in its portfolio and the latter should be, in the spirit of the EU regulations, restricted in this matter.

5.6.2 Concentration of control

The IPFs fulfilled their role as initial (interim) owners to the utmost. Correspondingly, their portfolios narrowed. Their new portfolio structure was often on the very edge of legality (due to the limitations of the *Investment Companies and Investment Funds Act*) and often had to be hidden inside a network of "daughter" and "sister" companies.

Despite its own regulation, the Czech government never viewed this concentration of control as counterproductive and conceived of it as a process fully in line with the original intentions of the government's economic transformation strategy.

Unlike the government, two groups of agents often have not accepted the above approach to concentration. They are:

- managers of the companies under control of IPFs,
- lower-level government bureaucrats.

They have lobbied consistently against IPFs.

5.6.3 Transformation of IPFs

The uncertainty about the nature of IPFs has existed, let us recall, from the very beginning (September 1991).

As has already been mentioned, there are on-going attacks against IPFs.. These attempts aim at:

- regulating IFP portfolios,
- restricting IFPs from exercising control.

The natural outcome of the tension has been that major IPFs have accepted the role of investment funds and explicitly declared themselves as holdings. This transformation means that an IPF becomes a. standard joint-stock company and acts as a financial group. As such, it loses some tax advantages that it enjoyed as an investment fund but avoids government regulation.

At the same time, remaining under regulation is the respective management company (i.e., investment company, using the terminology of the *Investment Companies and Investment Funds Act*). If the company wishes to establish a new collective investment undertaking, it may do so in the future.

5.7 Institutional investor

The differentiation among IPFs is further delineated by establishing cash funds (closed or open), i.e., agents having no relationship to voucher privatization.[10]

It is highly probable that these funds, together with the IPFs that did not transform themselves into holdings, will constitute what will soon represent collective investment undertakings in the Czech Republic.

This will give rise to institutionalization of investment in the country.

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[10] *PIONEER* investment company is here an example.

6. SUMMARY AND CONCLUSIONS

6.1 Evaluation

The role of IPFs is largely assessed as very positive. Their participation in voucher privatization contributed substantially to the successful transfer of a significant part of state property (almost 400 billion CzK during the two waves) into the private sphere. The reasons are that IPFs:

- played an important part in the popularization of the voucher scheme of privatization because they contributed greatly to the overall acceptance and popular support of the scheme, and
- became an important factor in the emerging, post-privatization capital market as active buyers, sellers, and issuers.

6.2 Future role

Misunderstandings occurring throughout the short history of IPFs are now close to resolution. Some IPFs decided to abandon the camp of regulated (licensed) agents and transformed themselves into holding-type companies.

The remaining IPFs, together with newly established cash funds, will become representatives of the emerging collective investment industry. The function of the industry is distinct from that of a privatization intermediary.

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