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11 Missed Policy Opportunities during Mongolian Privatization: Should Aid Target Policy Research Institutions?

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One vital element of the institutional profile of developed economies is the set of organizations that provides policy-relevant information-gathering and research, contemporaneous with events. This chapter employs the term *policy* to denote the wide spectrum of government measures—the creation of laws, the building of new institutions, regulations, etc. When an important policy change is on the agenda, new information assails lawmakers, regulators, and government bureaucrats. The research departments of interest groups offer their analyses; scholars pursue historical and comparative parallels; think tanks publicize counterproposals. Democratic process and open debate compel the policy maker to use this information.

Almost the converse story could be told concerning Mongolia's privatization. Policy wandered along a path largely unmapped by society, even in retrospect. Production and analysis of basic information could have been immensely important to the privatization process, leading to new policy proposals. Instead, politicians and bureaucrats labored under misguided impressions, focusing on extraneous issues while problems accumulated for want of easy corrective measures. The missed opportunities were not a result of political pathologies, nor of conceptual problems in formulating corrective policies, nor of the cost of correction. Rather, problems arose because nobody systematically examined events and evaluated consequences. Informational feedback was weak enough that policy makers could safely ignore newly arising problems, the political opposition lacking sufficient knowledge about events to force the government to undertake new policies.[1] The absence of institutions providing informational feedback is a key characteristic of the society in which IRIS has provided technical assistance, taught, and conducted research over the last five years.

This observation is relevant in two ways to the foreign aid process. First, when domestic sources of information are scarce, it is difficult to identify productive targets of assistance. The foreign aid process is hampered

[1]Informational feedback refers not only to events occurring over time, but also between simultaneous but separate events. See section 3 for more details.

in the same way that domestic politicians are handicapped. (As argued in section 1, research by donors is a poor substitute for domestic research capacity.) Second, foreign assistance might aim to create a capacity for information gathering, research, and analysis. This capacity is a neglected institution with significance both for economic policy and for strengthening democratic processes. In the West, the public goods problem of information production has been attenuated by the growth of a self-perpetuating educational and research establishment, the development of competing interest groups that monitor policy, and the gradual accretion of independent government agencies. In countries emerging from the Soviet bloc, these elements of society are either missing or lack the independence to play the role of investigator, critic, and generator of alternative policy proposals.

A subtext of this chapter is a view of reform and development derived from the author's observations of transition processes. This view emphasizes informational problems, as does the New Institutional Economics. However, the New Institutional Economics stresses information asymmetries, the coordination and incentive problems that they present, and the institutional solution to these problems. Somewhat slighted is the problem of information generation, particularly in its public goods aspects. This is the emphasis of the present chapter, as discussed in section 1.

Section 2 introduces the reader to Mongolia and pertinent aspects of its privatization program. Section 3 describes the character of the Mongolian policy-making environment, emphasizing characteristics common to other transition countries. Sections 4–9 explore various facets of Mongolia's privatization program, each section pinpointing information that might have affected policy formulation and implementation, had it been brought to the fore.

Apart from providing empirical evidence for the main thesis of the chapter, sections 4–9 provide a characterization of the way in which privatization proceeds in a society with few complementary institutions. This characterization shows that privatization in a country such as Mongolia results in a structure that has little in common with a Western private sector. Nevertheless, it is surely the image of a modern private sector that allowed privatization per se to become a strong, early focus of aid policies in former socialist countries, in contrast to the realities of the changes that were actually occurring. This observation returns us to the main theme of the chapter, the need for reforming economies to have a capacity to develop accurate images of the changes generated by new policies.

Before proceeding with the argument, it is necessary to present a caveat on the interpretation of the following. Readers should bear in mind

that the following sections focus on flaws and failures in order to diagnose ills and their causes. The purpose is not to catalog the healthy parts of the body politic. Thus, this chapter is not an overall evaluation of the privatization process in Mongolia, which in fact might be viewed as successful relative to privatization programs in analogous countries.

1 The Embedding of Policy Analysis Institutions

The central vision underlying this chapter is of socioeconomic mechanisms as information-generating and information-processing devices. With informational processes central to economic success, then aid programs should consider supporting mechanisms that enhance and use knowledge. Indeed, such support is already present in aid policies. For the long-term, there are varied efforts in the educational field. For the short term, there are models of laws, strategies of reform, and analyses of specific policies, largely originating in Western countries. These, however, are necessarily incomplete, because information cannot be bestowed on a country in the same way that food and antibiotics are donated. The usefulness of information is contingent on its fit with the environment.

A country's socioeconomic framework develops in a gradual process of incremental change.[2] Each new institution interacts with a larger preexisting structure. Therefore, the effectiveness of each new institutional brick crucially depends on its fit with the existing institutional foundation. As a consequence, if it is to be effective, the generation of information on the effects of existing policies and on the formulation of new policies needs to reflect the deep characteristics of a society. To know how a policy will work, one must understand the concurrent processes occurring in the economy. A model imported from the West is useful only to the extent that it provides a disciplining pedagogical device, not a magic key that will fit any door. Thus, North (1990) emphasizes the path dependence and unpredictability of institutional development. The path dependencies arise because, in the short-run, culture defines the way people process and utilize information. In Mongolia, for example, measures for the deregulation of prices functioned less well than measures for the regulation of prices because of the surrounding cultural environment (Murrell, Korsun, and Dunn, 1992).

[2] This is a view of socioeconomic development that follows from Popper (1971). See Murrell (1992).

To be most productive, the organizations that analyze proposed policies and monitor their results must be embedded within a society, able to reflect the deeper features of that society. The embedding of such organizations facilitates the absorption into their work of the cultural and historical aspects of the functioning of existing institutions. Moreover, domestic organizations can frame the presentation of their analysis in terms that are likely to be appreciated within the existing cultural and political milieu. Of course, modern skills of analysis are necessary, but they must be combined with an indigenous capacity that is able to come to grips with the complexity of the local environment.

By creating an indigenous capacity for informational feedback on policy, an additional public good is generated. As the underlying factual and analytical content of policy discourse improves, there will be a consequent enhancement in the quality of argumentation used in open public debates.[3] Blatantly specious arguments will be squeezed from public discourse, weeding out the worst elements from the set of contemplated policies. Logic and facts are powerful weapons against ideology, symbolism, and political chicanery.

One can imagine a typical counterargument to the above. A critic of this chapter's thesis would object to its naiveté about politics, arguing that politics determines policy and that little change occurs simply by raising the quality of information. Such arguments have been all too prominent in Western analysis of the transition process. Nevertheless, as argued in sections 4–9, the experience of Mongolia does little to support those who place the greatest stress on rent seeking and coalitions that block change. While these elements of policy formulation have been present in Mongolia, the following argues that purely political pathologies have been far less important than the politics of rational ignorance, combined with the historical legacy of a system in which there was no interest in and no capacity for production of information on the effects of policy.

[3]The effects of a general improvement in the quality of debate are already clear in Mongolia. Debates on stabilization and liberalization are carried on in completely different terms in 1995 than they were in 1991, with consequent improvements in policy. As the society moves to more technical reforms, however, such as those on corporate governance, the same level of improvement will not arise simply from general experience of the market; higher levels of technical capacity will be needed.

2 Privatization in Mongolia

Mongolia's peer group is the set of smaller, less-developed, former Soviet republics. In 1921, Mongolia followed Russia's turn to communism, and in the years that followed the Soviet model was implanted so thoroughly that Mongolia became known as the de facto sixteenth republic. However, the very fact of de jure independence meant that Mongolia began its reforms early, with political ones beginning in 1990 and economic reforms in early 1991.

The initial economic conditions were not auspicious. In the first months of 1990, Mongolia was still under Soviet hegemony, receiving aid equal to 25 percent of gross domestic product and conducting 95 percent of its trade within the CMEA.[4] Previously, there had been only a small amount of decentralizing reform, the private commercial sector accounting for only 2 percent of national income. The Mongolian constitution still had state ownership as its fulcrum, and the notion of privatization was just entering the political vocabulary.

After the country's first free elections in mid-1990, the old Communist Party formed a coalition government with new reformist parties. The most influential of these parties was formed around a core of young economists, whose leader, Ganbold, became first deputy prime minister in charge of economics. A month after the new government's formation, this group persuaded Prime Minister Byambasuren to commit Mongolia to an ambitious privatization program. By April 1993, over 75 percent of large enterprises had completed all steps of the privatization process, these enterprises accounting for over 80 percent of assets in the large-enterprise sphere.

The progress on privatization stood in stark contrast to developments on other reforms. Liberalization, legal and institutional reform, and macroeconomic stabilization proceeded in fits and starts. Even now, liberalization is incomplete, with price and trade controls recently reintroduced for important goods.[5] Legal reform stopped at the passing of statutes, with implementation receiving little attention. While macroeconomic stabilization shows short-run successes, long-term prospects remain

[4]For the disastrous effect of these legacies on economic outcomes in the early post-Soviet years, see Boone (1994) and Denizer and Gelb (1994).

[5]The time of writing is November 1995.

uncertain, with the government engaging in an inflationary burst of domestic credit expansion during 1995.

Turning to the privatization program itself, in January 1991 the government established the Privatization Commission, whose staff had considerable power, and the Stock Exchange, which performed a key role in the smooth privatization of large enterprises. The basic components of the radical reformers' program made their way into law in May 1991. Privatization would be comprehensive and fast. "Small privatization" would encompass small enterprises, mostly in the trade and service sectors, livestock, and eventually housing. "Large privatization" would focus on all large enterprises. Agriculture was the last of the three distinct programs. This chapter focuses on the nonagricultural portion of large privatization, which was aimed at more than four hundred enterprises in industry, transportation, and distribution.[6]

On the supply side, large privatization was centralized. Enterprises had little discretion—every enterprise would be sold for vouchers on the Stock Exchange. Before sale, each enterprise was corporatized shortly after the approval of its privatization plan. At that time, control shifted into the hands of the general director, the workers, and the Privatization Commission, as putative representative of future shareholders.

On the demand side, the process was highly decentralized. Markets determined the allocation of shares among individuals, as each citizen used a set of seven nontradeable vouchers dedicated to large privatization. Enterprises were sold on the Stock Exchange for vouchers only, using a nationwide network of brokerage houses. The brokerages also run mutual funds, providing an alternative for citizens unwilling or unable to choose particular enterprises.

3 Two Pertinent Features of the Mongolian Policy-Making Environment

Comparing informational processes across economic systems, a curious paradox emerges. Market systems, built largely by spontaneous action, have a host of organizations that catalog and analyze economic processes. Centrally planned systems, purportedly built by design, relied on

[6]Kraay (1992) gives the early background to privatization from an adviser's perspective. For an overview of private sector development, see Hahm (1993).

ideology much more than economic analysis. In Mongolia, there was no tradition of reflective economic analysis, in either research institutes or universities. To be sure, practitioners—planners or price setters, for example—understood the mechanics of their small piece of the world. But their tools were description, cladistics, and ideology, rather than modern methodologies. The role of economics was thoroughly consistent with Ruttan's (1984) observation that social science knowledge is least in demand in societies dominated by ideology. Mongolia's stock of such knowledge was way below equilibrium levels in 1990.

On the advent of reforms, this analytical gap applied especially to knowledge of the market economy. Parodies of the market appeared, rather than analyses, from the supposed ubiquity of speculators and exploitation, on the one hand, to the mystical belief in the invisible hand, on the other. This lack of knowledge has been critical in framing the intellectual and informational atmosphere surrounding policy debates (Murrell, Dunn, and Korsun, forthcoming). Additionally, without a domestic capacity for analysis, there was no feedback on the effects of policy. There was virtually no systematic monitoring of outcomes, in order to understand whether midcourse corrections were needed.

The lack of temporal informational and analytical feedback was matched by a similar disconnect between simultaneous, but separate, activities. The "departmentalism" of the old system continued in the new. Thus, developments in corporate law refused to acknowledge the special nature of the privatization process. Other laws made unjustified assumptions about the state of the judicial system. Undoubtedly, the lack of an analytical approach to public policy and the absence of an independent policy research community to point out lapses were both instrumental in allowing departmentalism to continue.

The second conspicuous characteristic of the policy-making environment was that politics had a limited role in the formulation of the large privatization program, despite heated debates. Early in the reform process, privatization became the touchstone of progress and received a high level of commitment. The debate about privatization during 1991 was not about whether it would occur or about whether it would be fast, but about small details. Urban workers demonstrated to demand a larger role, but were easily mollified with token concessions. The general directors, although given only the same token concessions, proved to be a compliant group in readying enterprises for privatization. Even the massive fall in the standard of living, caused by the collapse of the USSR and the CMEA, produced only a hiccup in the progress of privatization. When conservatives in late 1991 tried to use the general discontent to question aspects of the privatization program, they had no effect on outcomes.

The significance of the unimportance of politics lies in the interpretation of the policy episodes reviewed below. These episodes are best understood as results of a flawed policy-making process, with the flaws most notably arising from shortcomings in information and analysis. Political economy models provide few insights.

4 The Development of Corporate Law

The first year of reform saw the development of a rudimentary corporate law, to be called the Economic Entities Law. The law was based upon textbook examples of European laws, aided by the knowledge of recent Hungarian experience but filtered through perceptions derived from socialist experience. The law's drafters remained aloof from the realities of the enterprise sector. There was no attempt to study the real needs of enterprise governance at the time.[7] As one drafter said to us: "Even when writing the law I could not understand what relations I was regulating."[8] Moreover, because of departmentalism, the drafting of the law was divorced from developments in privatization itself. This was doubly important because the law gave legal status to the new entities created by privatization and because the law was the only statute relevant to corporate governance when state entities became independent.

The status of bodies mediating between shareholders and permanent management provides an example of the consequence of such a confused legal environment. In the Economic Entities Law, there was no equivalent to a board of directors. The only outside influence on the general director and the workers (besides shareholders' meetings) was a "control council," a curious hybrid between the monitoring units of the old centralized administrative system and a German-type supervisory board. These control councils were to comprise outsiders, the law barring employees from membership. However, 51 percent of privatized enterprises surveyed in 1993 were in violation of this stipulation. Elementary research on the

[7]Interview with Suvdaa, lawyer for the Union of Production Cooperatives, October 1991.

[8]Interview with a member of the Working Group on the 1991 Economic Entities Law, May 27, 1995.

decisions of privatizing enterprises could have uncovered this phenomenon, but there was no attempt to gather data systematically. Hence, when amendments were made to the Economic Entities Law, in mid-1993, there was no redress of this problem, since there was no general awareness of it. Enterprises remained in a legal purgatory, leaving a tangled web for the future. Because illegalities come to light mainly in crises, a past illegality makes it all the more difficult for courts to resolve efficiently the disputes that come before them.[9]

The fact that there is no conjuncture between statute law and events on the ground is especially critical in a civil law country such as Mongolia, where judges seek guidance from above rather than interpreting the law. Disputes over corporate property are put on hold by the lower courts, pending clarification of the law from above.[10] Of course, a new law might address the problem and the early reformers did have a strategy of drafting simple, amendable laws.[11] Unfortunately, there is no informational feedback to force drafters of new laws to take events into account. In preparing a new company law, drafters did not systematically evaluate the workings of the old law.

The Mongolian Economic Entities Law and its successor Company Law are not a priori faulty. Rather, their problem is the lack of fit with the Mongolian environment. Corporate law does not work, a fact obvious to those who have to deal with the law, primarily companies and the judiciary. But law drafters do not take such views into account because there is no systematic fact-finding process that inserts itself into decisions on policy. Thus, top policy makers and law drafters erroneously believe that the new law will solve the problems of corporate governance.[12] A domestic research capability could make a large difference by uncovering pertinent information and inserting this information into the policy process.

[9]Korsun and Murrell (1994, 1995b) checked compliance with just two features of the Economic Entities Law, on the holding of shareholders' meetings and on whether control councils had employee members. Two-thirds of sample enterprises openly admitted violating one of these two features.

[10]Interview with a district court judge, September 1994.

[11]Interview with Zholjargal, head of Stock Exchange, July 23, 1993.

[12]A view expressed by a leading official at the IRIS Roundtable on corporate governance, Ulaanbaatar June 1, 1995.

5 The Development of the Privatization Law

The Privatization Law of May 1991 was a symbolic statement that privatization was definitely going to happen. Debate on the law was conducted in symbolic terms, driven hardly at all by an understanding of likely consequences. This was so even on small details for which repercussions were predictable. Systematic analysis of the logic of privatization procedures would have greatly helped lawmakers, but there was no organization with the skills, incentive, or mandate to do such analysis, apart from those few individuals with a stake in quick implementation of privatization. The lack of information and analysis allowed symbolism to dominate. An example of the consequences of the tenor of debate appears in the matter of whether employees should get preferential ownership rights. The relevant part of the law, passed over the opposition of the program designers, did give some preferential rights. The designers saw this as a defeat. But there is double paradox here, one not broadly understood in Mongolian society.

First, because of the mechanics of the share selling process, the preference turned out to be trivial. The workers gained little from the measures introduced by the parliament (Korsun and Murrell 1994). Second, employees did not need such measures. They have as much control now, and their ownership share is as large, as if they had been given real preferential rights.[13] Meanwhile, the public and many government officials believe the symbolism and do not focus on the real reasons that the institutions of corporate governance have been ineffective.[14]

The emphasis on symbolism—the voucher market, the speed of privatization—facilitated by the absence of an analytical capacity meant that there was no debate on the relation between the ultimate objectives of the privatization program and its structure. For example, attention to corporate governance issues might have meant that the privatization law was better integrated with corporate law. The Stock Exchange might have been allocated statutory powers to supervise enterprise compliance with measures to protect outside shareholders. Of course, many problems would have

[13]This was a result of employees' decisions in using their vouchers and of lacunae in governance procedures. Later sections clarify this matter, but full details appear in Korsun and Murrell (1994).

[14]This misplaced emphasis still appeared among contributors to the IRIS Roundtable on corporate governance, Ulaanbaatar, June 1995.

remained given that policy analysis works imperfectly everywhere. But in Mongolia, the absence of such analysis meant that ideology and symbolism had no natural enemy.

6 The Process of Privatization

Laws and resolutions contained nothing that mandated how companies should be governed before privatization. Departmentalism had produced a major gap at the intersection of privatization and the governance of enterprises awaiting privatization. This gap was crucial because of the length of the privatization process: the median enterprise waited over two years between the announcement of privatization and the final sale of its shares.

In this void, there was general reliance on the Economic Entities Law, inappropriately so since this law was not designed for the privatization process. A clause dictated that a "constituents' assembly" of shareholders should meet in new companies to adopt a corporate charter and to elect the company's administration. This assembly should take place within thirty days of the last sale date for shares. In 75 percent of enterprises, this last-sale date was interpreted as occurring when the Privatization Commission created the shares, holding them on behalf of future owners. This curious interpretation was probably technically inconsistent with the law and certainly inconsistent with its spirit.

The constituents' assemblies were attended by workers, management, and a staff member of the Privatization Commission, ostensibly representing future outside shareholders. The absence of a corporate governance framework specific to privatization facilitated bargaining between management and workers to establish control over the enterprise. For example, one general director was able to insert into his company's charter a provision limiting any single individual's ownership to 5 percent of the company's shares. Similarly, government officials were elected to the control councils of many enterprises in which government had no ownership stake. These results were surely not welcomed by new outside shareholders.

Corporatization and privatization stretched over a lengthy time period. The pertinent information could have been generated and made public in the first months of implementation of privatization. Then, there would have been the possibility of quick corrective action, affecting the large majority of state enterprises waiting to be privatized. But the absence of any independent informational input into public policy debate meant that elementary results of the privatization process were never monitored. The society lacked informational feedback from events to public policy, which might have put pressure on the few officials aware of how implementation was proceeding.

7 The Residual State Share

An important decision concerned whether the state would retain a stake in enterprises and, if so, of what size. The more conservative members of government wanted a significant share. The radicals, who were implementing privatization, wanted minimal state involvement. In practice, the implementers had a great deal of decision-making latitude and usually chose the size of the residual government share. Rather surprisingly, then, the state retained stakes, ranging from 15 percent to 80 percent in 41 percent of the enterprises that were privatized.

These results were an unintended consequence of a sequential privatization that was largely unmonitored. When government officials were alerted to the size of this share, they were often surprised. They would probably be startled to know that there was a systematic (but seemingly unconscious) pattern to the decisions. Korsun and Murrell (1994) show that the state tended to keep a share in enterprises most likely to be vulnerable in the future. Thus, the government was left with a crucial role in the privatized sector, one that the privatization program had not envisaged and one that decision makers did not want.

One reason for this outcome was the poverty of informational feedback during privatization. Undoubtedly, information on the state share was easily available and known by those making privatization decisions. But these actors had no interest in communicating the plain facts to the policy-relevant community.[15] Perhaps a different result would have occurred had there been policy analysts ready to insert the information into public debate, simultaneously articulating its significance to a broader audience.

[15]Here, the explanation for events is at least partially political, political motives surely being behind the nonrevelation of information. But the political problems might have been alleviated by increasing the capabilities for the production of information and analysis.

8 Employee Ownership

The radical reformers continuously stressed the egalitarian aspects of the privatization program—the fact that each citizen would acquire the same share of the country's assets. Thus, they fought against those advocating the entitlement of workers to their factories. Parliament did give a concession to employees, who were allowed to purchase shares at a price of a hundred voucher-currency units in a pre-public offering. Since the median share price turned out to be seventy-six, this amounted to a concession in only a minority of cases. Had all employees exercised their preferential right, this arrangement would have resulted in an employee ownership of 13.6 percent, well below the radicals' unofficial maximum of 20 percent. However, employees could forgo participation in the preferential scheme and play the market, using their vouchers on the Stock Exchange as did other citizens.

Few employees used their preferential rights, acquiring only 4.3 percent of enterprise shares in this manner. For a while, this figure became official data on the size of employee ownership. However, employees used their own and their families' vouchers on the Stock Exchange to buy shares in their own enterprises. Evidence of this phenomenon can be found only by doing basic research through enterprise surveys. The survey of Korsun and Murrell (1994) generates estimates of employee-plus-family ownership of 44.6 percent of enterprise shares on average. This is more than ten times greater than the estimate announced by government officials and more than twice the unofficial target for the ceiling on employee ownership.

Thus, the implementation of privatization and the development of corporate governance policy labored under a misconception for a lengthy time. The facts were there to find but were never collected. Had the facts been known, perhaps there could have been some strategic shifts in policy. But a prerequisite for such shifts would have been systematic investigation of ownership data, allowing policy makers to understand that ownership patterns had taken an unexpected turn. Policy makers had no interest in such an investigation and there were no independent institutions capable of generating the information and forcing policy makers to react to it.

9 Increasing the Power of Outsider Shareholders

A disappointing element of policy has been the delay in passing a securities law, which would legalize cash trading of those shares originally bought through vouchers. The Stock Exchange was ready to conduct this secondary trading in early 1993. Yet the passage of a law and its implementation took more than two years, until August 1995.

Few plausible reasons have been offered for the slow implementation of secondary trading, except for vague concerns over increasing inequality and Chinese ownership. These concerns fade in significance compared to the costs of the delay in improving the governance of enterprises. The lack of influence of outsider shareholders and the dominance by insiders is clearly evident from survey data (Korsun and Murrell 1994). However, the realization of this situation came to the attention of the policy community only slowly.

In the meantime, the mutual funds, created within brokerage houses by the Stock Exchange, might have served a role of concentrating ownership. However, these state-controlled funds were the poor cousins of the privatization process. They were given little publicity. Entry into the mutual fund market was blocked. Thus, only 2 percent of shares are currently held by mutual funds.

The solution to the problem of lackluster mutual funds would have required more than the mere uncovering of facts. Here, the generation of information on the creation of solutions would have been important. A research community aware of international events might have provided the relevant information. The Czech and Russian experience with mutual funds could have been highly instructive, for example. The importance of free entry into the mutual fund market was fundamental in these two countries. Knowledge of this fact and the logistics of implementation might have done much to change the outcome of the Mongolian privatization process. But there were no domestic organizations that could have inserted these facts into the public debate.

The present structure of corporate governance reflects many of the factors described above. Shareholders' meetings are stacked in favor of insiders, and general directors dominate the nomination of boards. Proxy procedures do not give outsiders a fair chance to affect decisions. Voting methods at meetings often rely on head counts, ignoring representation by numbers of shares. As a result, the emerging picture of corporate governance evidences little outsider influence. Insiders appear the real winners, with the general directors as powerful as they ever have been (Korsun and Murrell 1995b).

An obvious way to begin to address present problems of corporate governance is to create a workable system of shareholder proxy voting, but no law or regulation facilitates this procedure, and, in any case, the country's

communications and transportation are poor. It is difficult to argue that this situation is simply a result of power politics, since time and time again over the last years political events have shown that the urban workforce and the old corps of general directors are not a strong lobby. However, the lack of basic information on the workings of corporate governance might be a central cause of the present unsatisfactory situation. There was no study of the workings of shareholders' meetings before the drafting of the new Company Law began. Not surprisingly then, the new law ignores the lack of outsider representation in companies and, if anything, makes such representation less likely. Had there been domestic organizations that monitored the governance of companies and had enough influence to insert the information into the public policy arena, then this law would surely have been constructed very differently.

10 Conclusions

Mongolian privatization and related public policy measures developed on a trajectory that was largely unaffected by informational feedback from the new environment created by privatization. Policy did not react to events. A prime cause of the unresponsiveness of policy was the absence of institutions that could generate, and insert into the political arena, policy-relevant information and analysis. In the less-developed reforming socialist economies, there is nothing equivalent to the policy analysis apparatus that exists in the West. This very fact is a challenge for the future, an opportunity for foreign aid to help develop an analogous capacity in postsocialist countries, together with those reforms in the policy process that allow such a capacity to affect events.

This chapter has been one-sided, focusing on the benefits of policy analysis organizations. It provides evidence for such benefits by highlighting the problems arising from poor informational feedback during one critical policy episode. It has not addressed the cost of creating such organizations. Nevertheless, the relatively high level of general education in the postsocialist countries implies that one of the basic inputs into policy analysis is already present in comparative abundance.

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