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**KPMG Consulting**  
**Barents Group**

**QUARTERLY REPORT**

for the period

**January – March 2002**

**SEGIR MONGOLIAN PRIVATIZATION PROGRAM**

USAID Contract No PCE-I-00097-00037-00, Delivery Order 800

Submitted to:

**USAID Mission to Mongolia**

**and**

**The State Property Committee, Government of Mongolia**

May 2002

Ulaanbaatar, Mongolia

**COMPONENT 1: MOST VALUED COMPANY (MVC) PRIVATIZATION****Task Manager: Dr. Zhivko Nenov, Chief of Party****FOURTEENTH PROJECT QUARTER (JANUARY – MARCH 2002):*****Overall Objectives (Note: MVC-specific information is listed with each MVC):******I. General******Objectives:***

- 1 Continue to work towards the successful privatization of the Trade and Development Bank.
- 2 Conclude the tender for Gobi.
- 3 Continue to communicate with the World Bank and IMF regarding the privatization program.
- 4 Continue to work with Arthur Andersen to ensure the finalization of the Erdenet audit report.
- 5 Advise the SPC on possible amendments to the Mongolian Civil Code and the State and Local Property Law to improve and enhance the effectiveness of the privatization process.

***Accomplishments and Concerns (Note: MVC-specific information is listed with each MVC):***

- 1 The project team provided daily support to the SPC in various issues as they arose for each MVC.
- 2 Several Applicants for the TDB tender were pre-qualified, and significant progress was made on the preparation of all the required legal documentation. These legal documents will be used as templates in the upcoming AG Bank privatization.
- 3 The tender for Gobi was concluded, with a determination made by the Prime Minister that the company should be re-valued. We assisted the SPC in developing the required documentation in order to launch the tender for a valuation services company.
- 4 Received Arthur Andersen's unsigned Erdenet audit report, with an explanation that an internal dispute among Erdenet management and its joint-venture partners is preventing the report from being signed.
- 5 Received preliminary feedback that the Government might be willing to consider a draft amendment to the State and Local Property Law to enable using direct negotiations as a legitimate privatization method.
- 6 The team continued to communicate with the World Bank, IMF, and other multilateral donor agencies (ADB, IFC) and keep them informed on the status of Mongolia's privatization

process.

- 7 Provided advice to the SPC in resolving a controversy surrounding APU, the alcoholic beverage company.

***Objectives for Next Quarter (April – June 2002):***

- 1 Continue to work towards the successful privatization of the Trade and Development Bank.
- 2 Continue to communicate with the World Bank, IMF and other multilateral donor agencies (ADB, IFC, etc.) regarding the privatization program.
- 3 Work with Arthur Andersen to resolve any final issues surrounding the Erdenet audit.
- 4 Prepare a draft amendment to the State and Local Property Law that will allow for the introduction of direct negotiations as a legitimate privatization method and discuss this with the SPC.
- 5 To further the transfer of privatization skills and know-how, begin developing a Privatization Tender Instruction Manual, as well as begin planning training seminars that will take place during the second quarter of 2002.

***II. Company-Specific Information***

**NIC**

***Objectives:***

- 1 Complete all outstanding pre-privatization issues at NIC, including sales and transfer of assets.
- 2 Commence the international audit.
- 3 Review the implementation of the action plan to prepare NIC for privatization during 2002.

***Accomplishments and Concerns:***

- 1 In accordance with the revised action plan for NIC (developed by Barents), we assisted NIC in its efforts to retain an international auditor. NIC contacted a number of international companies and received a proposal from Ernst & Young to conduct an audit of NIC's financial statements for the year ending December 31, 2001. The audit commenced on March 26, 2001 and will be completed in early May.
- 2 Per Barents' recommendations, NIC will perform an appraisal of the company's assets as of December 31, 2001. In this regard, during its meeting on January 16, 2002, NIC's Board of Directors decided to establish a permanent Tender Committee (as required by the

Government's Procedures for Procurement of Goods and Services) to conduct a tender for selection of an independent valuation company to perform valuations of the company's assets. The first tender will be for the selection of appraisers to determine the market value of assets and inventory that will be transferred to the State Reserves Agency.

- 3 The information memorandum was reviewed and updated with inputs from NIC.
- 4 Discussed NIC's sales structure and current status with Mr. Batkhuyag from NIC's Foreign Relations Department.
- 5 NIC's management met with representatives of Chinese oil companies to discuss possible imports of petroleum products in 2002.
- 6 Prepared a revised action plan and timetable for the privatization of NIC.

***Objectives for Next Quarter (April – June 2002):***

- 1 Finalize the audit issues and the valuation of NIC.
- 2 In accordance with the revised action plan for NIC, continue efforts to prepare the company for privatization in 2002-2003.

**Gobi Corporation**

***Objectives:***

- 1 Assist the SPC in its planned continuation of discussions with the remaining potential bidder in January.
- 2 Translate the financial statements for Gobi as of December 31, 2001.
- 3 Conclude the tender, if possible settling all issues currently under discussion with the potential bidder and completing the privatization of Gobi.
- 4 Should privatization during the current tender not be achieved, work with the SPC to develop a new plan for the privatization of Gobi, taking into account the level of interest that may be evidenced by other potential investors.

***Accomplishments and Concerns:***

- 1 Translated the financial statements for Gobi JSC as of December 31, 2001.
- 2 Prepared a summary sheet on the company's loan agreement with the International Investment Bank for submission to bidders.
- 3 Continued to provide support to the SPC in its correspondence with the remaining potential bidder, including during several meetings in January. However, the SPC ultimately received

feedback that the only way it would make sense for the company to proceed would be if the SPC might accept a management contract proposal. SPC then reviewed its options and determined to conclude the current privatization tender.

- 4 Prior to the conclusion of the tender, we had discussed with the U.S. Ambassador and USAID Mission Director the status of the privatization and explained that the SPC is taking all the measures necessary to conclude the sale of Gobi under the current tender.
- 5 At the request of the SPC and Prime Minister we performed an analysis of the Mongolian Procurement Law to determine what steps would be required in order to procure services of a valuation consultant to re-value Gobi. Prepared the tender documents that would be required to conduct the tender (the valuation is to be funded by the Government directly.) In addition, sent an initial request to the American Society of Appraisers explaining that the Government would be seeking the services of a valuation company for Gobi.

***Objectives for Next Quarter (April – June 2002):***

- 1 Assist the SPC in conducting the tender for a company to provide services to re-value Gobi.

**Trade and Development Bank**

***Objectives:***

- 1 Evaluate any additional Applicants for TDB together with the SPC, and work with potential bidders as appropriate to assist them in the pre-qualification process.
- 2 Coordinate the due diligence sessions of pre-qualified bidders with SPC and TDB. Also, coordinate with each of pre-qualified bidders to assist them with their due diligence review, in particular providing assistance with any questions they may have.
- 3 Together with SPC and the legal counsel of the pre-qualified bidders, make needed modifications/amendments to the SSPA. Also work to develop/finalize the Officer's Certificate, Purchase Price Escrow Agreement and Share Escrow Agreement, as provided for in the SSPA.

***Accomplishments and Concerns:***

- 1 As of the January 14, 2002 deadline, 4 additional Applications were received by the SPC. Of these, one Applicant was pre-qualified, while the others were urged to improve their applications. In order to provide sufficient time for new applicants to complete their pre-qualification and perform due diligence reviews of the Bank, on January 17, 2002, the SPC issued Resolution No. 30 to amend the TDB tender timetable, with a revised deadline for Applications/Expression of Interest of February 15, 2002 and a new deadline for submission of bids of April 15, 2002.
- 2 By the February 15, the deadline, the SPC received 7 Applications/Expressions of Interest. Of these, 5 Applicants were determined to meet the pre-qualification criteria. All pre-

qualified Applicants received the Tender Documentation Package and were requested to provide dates for their due diligence visits.

- 3 Continued to assist TDB in the preparation of due diligence documents and in the facilitation and coordination of on-site due diligence sessions, 3 of which took place during the period from January through March (please see the Public and Investor Communications section of this report for detailed information.)
- 4 Developed a Data Room, according to Tender Participant's due diligence requests, as well as prepared Data Room rules, which were reviewed and approved by the SPC.
- 5 Worked on the draft Share Sale and Purchase Agreement for TDB, as well as the Officer's Certificate, Purchase Price Escrow Agreement and Share Escrow Agreement. The Final Draft SSPA is scheduled to be delivered to all Tender Participants in April 2002 (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)
- 6 During the quarter, we continued to maintain regular correspondence with potential applicants, as well as those pre-qualified Tender Participants (please see the Public and Investor Communications section of this report for detailed information.)
- 7 Continued to remain in contact with representatives of the ADB and IFC (please see the Public and Investor Communications section of this report for detailed information.)

***Objectives for Next Quarter (April – June 2002):***

- 1 Continue to work with Tender Participants and facilitate submission of their tender proposals by the deadline of May 6, 2002.
- 2 Finalize the Purchase Price Escrow Agreement and Share Escrow Agreement as well as determine the escrow agent(s).
- 3 Advise the SPC and the Tender Committee in the evaluation of the Technical and Financial Proposals as submitted by Tender Participants.
- 4 During the post-signing phase, continue to provide advice to the SPC and coordinate with the Winner on matters such as obtaining Mongolbank approval for change in ownership.

**AG Bank and other MVCs**

***Objectives:***

- 1 Assist the SPC to prepare detailed action plans and timetables for the privatizations of both AG Bank and Mongol Daatgal during 2002.
- 2 Assist the SPC to prepare 2 other MVCs for privatization during 2002/2003, including MIAT and Mongolian Telecommunications.

- 3 Continue to discuss with SPC, USAID and the DAI Energy team regarding the upcoming privatization of UBEDN/Power Plant #2.

***Accomplishments and Concerns:***

- 1 Advised the SPC on the finalization of the Government's plans for privatization in 2002, which is to include privatization of Gobi, NIC, MIAT, Mongol Daatgal (insurance) and Tushig Daatgal (insurance), as well as restructuring and privatization preparation for Power Plant #2, Ulaanbaatar Power Distribution Network, Mongolian Telecommunications Company and Agricultural Bank. The Government published its *Privatization Program for 2002* in January.
- 2 Held discussions with Pete Morrow, CEO AG Bank, and SPC management, and developed an action plan and timetable for the privatization of AG Bank. Assisted the SPC in developing their proposal to amend the *Privatization Program for 2002* in order to include AG Bank in the current year privatization program.
- 3 A Draft Cabinet Resolution regarding the addition of AG Bank to the current year's privatization program, together with a detailed cover letter from the SPC's Chairman, was circulated to all Cabinet ministers, as required by the Council of Ministers' internal procedures.
- 4 Drafted an action plan and timetable for the privatization of Mongol Daatgal for discussion with the SPC.
- 5 Mongol Daatgal was directed by the SPC to retain internationally reputable auditors to audit their 2001 financial statements. As such, we began assisting company management in their solicitation of and communication with auditors.
- 6 Met several times with the COP for DAI's Economic Policy Support Project to discuss the upcoming privatization of UBEDN/Power Plant #2.
- 7 Held discussions with Mr. Khongor, Head of the Joint Venture Division of the SPC, to discuss the Mongolian Telecommunications Company.
- 8 Discussed with the SPC MIAT's financial projections for 2002 as well as its lease of a B737.

***Objectives for Next Quarter (April – June 2002):***

- 1 Continue to assist the SPC in its efforts to amend the *Privatization Program for 2002* and have AG Bank added to the list of companies to be privatized during 2002.
- 2 In accordance with the newly developed action plan and timetable and subject to USAID project Mod approval, begin the preparation of AG Bank for privatization.
- 3 Continue to assist Mongol Daatgal in its effort to obtain an international auditor.

- 4 Continue to offer advice to the SPC on an as-needed basis in looking at the next steps required to move several MVCs, including MIAT, Mongolian Telecommunications JSC, Ulaanbaatar Electricity Distribution Network and Power Plant 2, towards privatization.

**COMPONENT 2: SEALED-BID AUCTIONS SUPPORT**

**Task Manager: Dr. Zhivko Nenov**

**FOURTEENTH PROJECT QUARTER (JANUARY – MARCH 2002):**

1. The Sealed Bid Auction component of the program was successfully completed in July 2000.
2. Since September of 1998, Barents has assisted the SPC in the sale of 47 enterprises through sealed bid auctions, raising \$15.4 million in revenues for the budget.
3. The scope of work for this component is complete. There will be no further reporting on this component.

**COMPONENT 3: PUBLIC AND INVESTOR COMMUNICATIONS****FOURTEENTH PROJECT QUARTER (JANUARY – MARCH 2002):*****Objectives:***

- 1 Continue to assist the SPC with marketing efforts for Gobi and TDB and assist with potential investor communications.
- 2 In the case of Gobi, should the current tender not result in the company's privatization, communicate with other potential investors in order to gauge the level of interest in the company.
- 3 Assist the SPC with its media relations pertaining to the MVC privatization program, in particular relating to the sales of Gobi and TDB.

***Accomplishments and Concerns:***

- 1 We assisted the three teams that visited Ulaanbaatar during the quarter to conduct their due diligence sessions for TDB. Our team provided support in all areas to facilitate and coordinate the discussions, providing both technical assistance as well as logistical support and translation. Our team was at all times working in close coordination with the SPC and TDB management to make sure that all required steps were taken to prepare for the teams' visits, as well as maintaining regular correspondence with all Tender Participants.
- 2 Coordinated the delivery of required documents, as well as provision of additional information as requested by the due diligence teams following their visits to UB.
- 3 Continued discussions with the remaining two Tender Participants for TDB that had not yet conducted due diligence sessions by the end of March.
- 4 Coordinated with IFC and ADB regarding their possible participation in the sale of TDB. This included arranging meetings for each of the due diligence teams with representatives from both organizations.
- 5 Continued to provide support to the SPC with investor communications for Gobi, including soliciting feedback in January from potential investors regarding the possible launch of a new tender. Also advised the SPC in its meetings with one of the bidders for Gobi.
- 6 Continued to update the SPC's website with the most current information pertaining to the MVC privatization program.

***Objectives for Next Quarter (April – June 2002):***

- 1 Continue to assist the SPC with potential investor communications efforts for TDB, including coordinating any remaining due diligence efforts.

- 2 Subject to USAID approval of a project Mod, begin preliminary marketing efforts for AG Bank, including developing a marketing brochure and other investor presentation/roadshow materials, as appropriate, as well as developing an investor master list.
  
- 3 Assist the SPC with its media relations pertaining to the MVC privatization program, in particular relating to the sale of TDB. In particular, assist with media efforts to publicize the conclusion of the transaction.

**4 COMPONENT 4: LEGAL, REGULATORY AND POLICY FRAMEWORK****FOURTEENTH PROJECT QUARTER (JANUARY – MARCH 2002):*****Objectives:***

- 1 Work on the amendments proposed to the SSPA by TDB Tender Participants, including translation.
- 2 Work on solving legal issues raised by TDB Tender Participants during their due diligence.
- 3 Work with TDB management to develop the Officer's Certificate for TDB.
- 4 Begin process of finalizing the other legal documents for TDB, including the Purchase Price Escrow Agreement and the Share Escrow Agreement.

***Accomplishments and Concerns:***

- 1 In March, evaluated comments received from Tender Participants on the Draft SSPA, and prepared and distributed the Revised Draft SSPA to each of the bidders.
- 2 Two bidders provided comments and proposed amendments to the drafts of the TDB SSPA. All comments will be evaluated for possible inclusion in the Final Draft SSPA, which is to be produced at the beginning of April.
- 3 No substantial legal issues were raised by TDB tender participants during their due diligence. However, participants did request copies of Mongolian laws and regulations and these were provided to them.
- 4 Provided guidance to TDB management in the preparation of the Officer's Certificate by issuing them a template form to be used in preparation of the document. A final version is to be completed by April 8, 2002 in order to be delivered as an Attachment to the Final Draft SSPA.
- 5 During the month of March, we began preparing the drafts of the Purchase Price Escrow Agreement and Share Escrow Agreements, as provided for in the SSPA.
- 6 Barents' legal advisor met with the Central Bank in order to discuss what post-signing approvals will be required to close the TDB transaction.
- 7 In January, updated the SSPA for Gobi.
- 8 Reviewed the Mongolian Procurement Law to determine what steps would be required in order to procure services of a valuation consultant to re-value Gobi.

***Objectives for Next Quarter (April – June 2002):***

- 1 Prepare the Final Draft SSPA for the sale of TDB in both English and Mongolian to deliver to all Tender Participants by the deadline of April 8, 2002, as scheduled in the Tender Timetable. This is to include the signed Officer's Certificate, a key attachment to the SSPA.
- 2 Assist the TDB Tender Commission by providing legal assistance as needed in the evaluation of technical and financial proposals.
- 3 Upon receipt of comments from the SPC and TDB Tender Participants, finalize the Purchase Price Escrow Agreement and Share Escrow Agreement.
- 4 Provide legal assistance as needed to assist the SPC to close the transaction for the sale of TDB shares.

**COMPONENT 5: POST-PRIVATIZATION ASSISTANCE**

**Task Manager: Mr. William Cain, Communications / Post-Privatization Specialist;  
Mr. Charles Krakoff, Investment Banker**

**FOURTEENTH PROJECT QUARTER (JANUARY – MARCH 2002):**

- 1 The scope of work for this component is complete. There will be no further reporting on this component.

## **OVERALL PROGRAM ADMINISTRATION**

**Task Manager:** Dr. Zhivko Nenov

### **FOURTEENTH PROJECT QUARTER (JANUARY – MARCH 2002):**

#### ***Objectives:***

- 1 Continue to ensure work oversight/supervision and timely reporting.
- 2 Continue to provide administrative support to Project Team.
- 3 Continue to ensure project staffing requirements are fulfilled and staff levels are regularly reviewed.
- 4 Continue to liaise with the USAID Mission Director and other USAID counterparts.
- 5 Complete the modification of the Arthur Andersen subcontract.
- 6 Continue discussions with USAID regarding year 2002 plans for the Mongolian Privatization Program.

#### ***Accomplishments and Concerns:***

- 1 Continued to brief the USAID Mission on a regular basis about the project's progress, as well as year 2002 plans for the MVC program.
- 2 Briefed U.S. Embassy on the status of the project.
- 3 Attended the USAID Contractors' meetings to report progress.
- 4 Staff changes included the return of Ms. Teresa Slazas, Deputy Chief of Party, and Mr. Jim Dwyer, TDB Investment Banker, on January 7, 2002.
- 5 Chris Thompson, Attorney, was in Ulaanbaatar from March 4 through March 16, 2002 to work on the TDB Share Sale and Purchase Agreement (SSPA) and associated legal documents.
- 6 Modified the Arthur Andersen subcontract.
- 7 Provided information and cooperated with a DCAA auditor who was in Mongolia for the first phase of a project audit.

#### ***Objectives for Next Quarter (April – June 2002):***

- 1 Continue to ensure work oversight/supervision and timely reporting.

- 2 Continue to provide administrative support to the Project Team.
- 3 Continue to ensure project staffing requirements are fulfilled and staff levels are regularly reviewed.
- 4 Continue to liaise with USAID Mission Director and other USAID counterparts.
- 5 Discuss with USAID the SPC's year 2002 plans for the Mongolian Privatization Program, and Barents' future participation and funding levels.
- 6 Continue to follow up with DCAA and USAID in order to resolve issues surrounding the project audit.