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QUARTERLY REPORT

for the period

July – September 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

November 2002

Ulaanbaatar, Mongolia

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

- 1 Continue to work towards the successful closing of the 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 obtain the final signed version of the Erdenet audit report.
- 4 Work on the development of a privatization tender manual, as well as undertake efforts to ensure that SPC staff are trained in the tender 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 The team continued to communicate with the World Bank, IMF, and other multilateral donor agencies (ADB, IFC) in order to keep them informed on the status of Mongolia's privatization process.
- 3 Continued to work towards the successful closing of the Trade and Development Bank privatization transaction. For more details on TDB, please see the MVC-specific section below.
- 4 Participated in a USAID-sponsored meeting with representatives from the Japan International Cooperation Agency (JICA).
- 5 Per SPC's request, reviewed and submitted documents to SPC pertaining to Mongolia's privatization program for the September Investors' Conference. This included completing and submitting translations of company profiles.
- 6 Submitted Arthur Andersen's final audit report to USAID covering the audited financial statements of the Erdenet Joint Venture for 2000 (Arthur Andersen finally obtained the required management representations.)

- 7 Began compiling information for the development of a Privatization Tender Manual, as well as continued to work with SPC staff to increase their understanding of the privatization tender process.

Objectives for Next Quarter (October – December 2002):

- 1 Continue to work towards the successful closing of the 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 Continue to work on the development of a privatization tender manual, as well as continue to work with SPC staff to increase their understanding of the privatization tender process.

II. Company-Specific Information

NIC

Objectives:

- 1 Review NIC's valuation report and provide comments to the SPC.
- 2 Advise the SPC on the potential launch of the NIC tender.

Accomplishments and Concerns:

- 1 Received a copy of NIC's valuation report prepared by Asset and Project Valuation Consortium, a local auditing company, and provided comments to the SPC. Based on these comments, the SPC obtained a revised valuation report which we also reviewed and provided comments on to the SPC.
- 2 Together with the SPC, prepared drafts of the Tender Announcement and Rules of Tender for NIC, as well as a revised draft Tender Announcement (in both English and Mongolian).
- 3 Continued to advise the SPC on various options for handling the debt issues faced by NIC, including recommending the development of a cash projection and financial plan that the SPC can utilize in negotiations with the Ministry of Finance and Economy.
- 4 At the request of SPC, Barents provided advisory support to the SPC officers in developing the tender documents for the sale of the Petroleum Products Quality Control Certified Laboratory of NIC. During the week of September 13, 2002, the SPC received Expressions of Interest from three companies to participate in the tender for the lab.

Objectives for Next Quarter (October – December 2002):

- 1 Continue to provide limited advice to the SPC on the potential launch of the NIC tender.
- 2 Update the tender documents (conditional on a positive decision from the Cabinet and Parliament to remove the Golden Share Clause).

Gobi Corporation**Objectives:**

- 1 Due to the lack of interest on behalf of potential investors in purchasing Gobi, and the worsening financial condition of the company, Barents will not be providing specific company-related assistance for Gobi during this quarter, aside from some limited help to review the valuation report on the company.

Accomplishments and Concerns:

- 1 Provided assistance to the SPC in reviewing and providing comments on the draft valuation report received from American Appraisal. Based on our comments, the SPC received a revised valuation report that substantially lowered the company's valuation.

Objectives for Next Quarter (October – December 2002):

- 1 As the Government is considering re-launching the tender for Gobi, provide a minimal amount of support to help gauge potential investor interest.

Trade and Development Bank**Objectives:**

- 1 Continue to assist the SPC in negotiations with the BCL/Gerald Metals Consortium in order to reach a successful closing of the sale of TDB.

Accomplishments and Concerns:

- 1 Throughout the quarter, continued discussions/negotiations with the BCL/Gerald Metals Consortium regarding TDB's closing.
- 2 At the request of the Consortium, the SPC issued Resolution No. 534 of August 22, 2002 to amend the TDB Share Sale and Purchase Agreement, thereby extending the closing date until November 15, 2002.

Objectives for Next Quarter (October – December 2002):

- 1 Continue to assist the SPC in negotiations with the BCL/Gerald Metals Consortium in order to reach a successful closing of the sale of TDB. This includes continuing to facilitate discussions with the IFC and ADB.

Ag Bank

Objectives:

- 1 Complete any remaining preparatory steps in order to prepare Ag Bank for privatization.
- 2 Obtain Government approval for, and launch, the Ag Bank tender. Also finalize and obtain approval for the Ag Bank tender documents.
- 3 Finalize the Information Memorandum, in both English and Mongolian, and obtain SPC approval.
- 4 Complete legal due diligence efforts.
- 5 Continue marketing efforts for Ag Bank, including communicating with potential investors in order to encourage their application and, later, facilitate due diligence requests.
- 6 The deadline for the receipt of Applications/Expressions of Interest for Ag Bank is September 13, 2002. Assist the SPC in reviewing those Applications submitted and pre-qualifying Tender Participants. Subsequently, assist the SPC in the distribution of the Tender Documentation Package to those Applicants who have pre-qualified to become Tender Participants.

Accomplishments and Concerns:

- 1 Finalized and obtained Government approval for the full package of Ag Bank Tender Documents (Information Memorandum, Rules of Tender, and Draft Sale and Purchase Agreement), in both English and Mongolian (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)
- 2 The Government of Mongolia approved the sale of 100% equity interest in Ag Bank through an open competitive tender by Resolution No. 412 of July 8, 2002. The tender was formally announced by the SPC on July 9, 2002.
- 3 During the quarter, extensive marketing and investor communication efforts were undertaken for Ag Bank (please see the Public and Investor Communications section of this report for detailed information.)
- 4 As of the original deadline for Ag Bank Applications/Expressions of Interest on September 13, 2002, the SPC had received 8 Applications, as well as 3 requests for extension of the deadline. We assisted the SPC in reviewing the submissions and pre-qualifying Tender Participants, as well as in distributing the Tender Documentation Package to those who pre-

qualified (please see the Public and Investor Communications section of this report for detailed information.)

- 5 At the request of several potential investors, the SPC issued Resolution No. 586 on September 26, 2002, thereby extending the tender timetable for Ag Bank so that the new deadline for Applications/Expressions of Interest is October 15, 2002 and the new deadline for Tender Proposals is January 14, 2003.
- 6 Continued to work on the legal due diligence for Ag Bank (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)

Objectives for Next Quarter (October – December 2002):

- 1 Continue to assist the SPC in its communications with potential investors, including obtaining additional information from those whose applications were unclear/incomplete.
- 2 Assist the SPC to coordinate and oversee due diligence efforts with pre-qualified Tender Participants.
- 3 Coordinate meetings between pre-qualified Tender Participants and ADB/IFC, both of whom have expressed preliminary interest in a potential co-investment with the Winner after closing.
- 4 Work with pre-qualified Tender Participants and the SPC on proposed amendments to the Draft Sale and Purchase Agreement.

Mongol Daatgal and other MVCs

Objectives:

- 1 Assist the SPC in its review of the Mongol Daatgal audit report to be received from Ernst & Young.
- 2 Together with the SPC, develop a revised action plan and timetable for the privatization of Mongol Daatgal.
- 3 Discuss with the SPC and USAID possible plans for future work on MVCs, including potential effort for NIC and/or Mongol Daatgal.
- 4 Provide support for a possible upcoming diagnostic study of MIAT.

Accomplishments and Concerns:

- 1 Received and reviewed the audit report for Mongol Daatgal.
- 2 Developed a revised action plan and timetable for the privatization of Mongol Daatgal and discussed this with the SPC and USAID. Also discussed with both organizations the Government of Mongolia's plans for the privatization of NIC.

- 3 Reached agreement with Boeing, MIAT and the Civil Aviation Authority (CAA) on the payment terms for financing a diagnostic study of MIAT. CAA issued payment for the services of Mr. Brian Davies, a consultant from Ashurst Aviation, on July 19, 2002. Mr. Davies presented his preliminary report on MIAT at a roundtable presentation on September 2, 2002, which Barents attended.

Objectives for Next Quarter (October - December 2002):

- 1 Discuss with USAID an expansion of the Task Order Scope of Work to include technical assistance for Mongol Daatgal.
- 2 Provided that the necessary approvals are received, commence technical assistance efforts for Mongol Daatgal.
- 3 Discuss with the SPC and USAID possible plans for future work on other MVCs, including potential effort for NIC.

COMPONENT 2: SEALED-BID AUCTIONS SUPPORT

Task Manager: Dr. Zhivko Nenov

SIXTEENTH PROJECT QUARTER (JULY – SEPTEMBER 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 (see Appendix A for details.)
- 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**SIXTEENTH PROJECT QUARTER (JULY – SEPTEMBER 2002):*****Objectives:***

- 1 Continue to assist the SPC in its communications with the winning consortium for TDB, including on any matters pertaining to the closing of the transaction.
- 2 Continue marketing efforts for Ag Bank, including further development of the potential investor master list, creation of additional marketing materials, and continued assistance to the SPC in its potential investor outreach.
- 3 Assist the SPC in their investor communications activities during the Ag Bank tender pre-qualification phase.
- 4 Assist the SPC with its media relations pertaining to the MVC privatization program, in particular relating to the sales of TDB and Ag Bank.

Accomplishments and Concerns:

- 1 Continued to assist the SPC in its communications with the BCL/Gerald Metals, particularly relating to the closing of the TDB transaction.
- 2 Continued with marketing efforts for Ag Bank, including direct contact with over 120 entities, including:
 - Mongolian banks and large corporations
 - International banks and financial service providers
 - Other organizations with expressed interest in Mongolia
 - Other entities with interest in micro-finance, “ethical banking”, etc.
 - Development finance institutions
- 3 In early July, developed an updated media/public outreach contact list in preparation for the upcoming distribution of the Ag Bank Tender Notice and Tender Announcement. This was in conjunction with the CEO of Ag Bank, Mr. Peter Morrow, with whom we kept in close contact with throughout the quarter in order to coordinate marketing efforts for the bank.
- 4 Finalized and obtained Government approval for the Ag Bank Tender Notice and Tender Announcement.
- 5 Published the Ag Bank Tender Announcement in the following local publications:
 - *Unuudor* – July 9th issue
 - *Zuuny Medee* – July 9th issue
 - *Udriin Sonin* – July 10th issue
 - *Mongol Messenger* – July 10th issue

- 5 Published a short version of the Ag Bank Tender Announcement in the July 13th issue of *The Economist*.
- 6 Updated the SPC's website to include the Tender Notice and Application forms for Ag Bank on www.spc.gov.mn. Also advised Ag Bank on including privatization information directly on its own website, www.agbank.mn.
- 7 Distributed the Ag Bank Tender Announcement to other relevant media, publications and websites, including publications such as *Acquisitions Monthly*, *Financial Times*, *Wall Street Journal*, *Reuters*, *Far East Economic Review*, etc., as well as banking-relating publications such as *American Banker* and *The Banker*. We also notified other specific websites of the opportunity, including World Bank/MIGA's "Privatization Link" and the U.S. Department of Commerce/International Trade Administration.
- 8 Advised other potentially interested parties of the Ag Bank privatization. Most notably, this included contacting the Honorary Consuls to Mongolia (located worldwide), organizations such as the North American Mongolia Business Council (NAMBC), as well as Embassies and other diplomatic representatives in Mongolia.
- 9 Prior to the deadline for Ag Bank Applications/Expressions of Interest, prepared and distributed a Tender Reminder to all remaining potential investors on the investor master list.
- 10 Continued to communicate with potential investors regarding the deadline for Ag Bank Expressions of Interest and to respond to their particular questions.
- 11 Assisted the SPC in preparing press information pertaining to the pre-qualified Tender Participants for Ag Bank.
- 12 Following the receipt of Expressions of Interest on September 13, 2002, assisted the SPC in reviewing and pre-qualifying Tender Participants. This included sending pre-qualification letters to those Applicants who were pre-qualified, as well as letters to those Applicants from whom additional information was required to complete their EOI submission. Distributed the full Tender Packages to the Authorized Representatives of pre-qualified Tender Participants.
- 13 Notified remaining potential investors of the extension of the Tender Timetable for Ag Bank, including the new deadline for Expressions of Interest of October 15, 2002 and the new Tender Proposal submission deadline of January 14, 2003. Also updated the SPC website with this information.
- 14 Upon the recommendation of the U.S. Ambassador, contacted a potentially interested investor for Gobi and provided him with information on the company.

Objectives for Next Quarter (October – December 2002):

- 1 Continue to assist the SPC in its communications with the BCL/Gerald Metals Consortium on matters pertaining to the closing of the TDB privatization transaction.

- 2 Continue to assist the SPC in its communications with Ag Bank Tender Participants, including facilitating the due diligence process for participants.
- 3 Continue to coordinate with IFC and ADB regarding their possible participation in the sales of TDB and Ag Bank.
- 4 Assist the SPC with its media relations pertaining to the MVC privatization program, in particular relating to the sales of TDB and Ag Bank.

COMPONENT 4: LEGAL, REGULATORY AND POLICY FRAMEWORK**SIXTEENTH PROJECT QUARTER (JULY – SEPTEMBER 2002):*****Objectives:***

- 1 Provide legal assistance as needed to assist the SPC in closing the transaction for the sale of TDB shares.
- 2 Complete preparation of the Draft Sale and Purchase Agreement (SPA) for Ag Bank.
- 3 Continue legal due diligence efforts for Ag Bank.
- 4 Provide legal support on issues relating to other MVCs as may arise.

Accomplishments and Concerns:

- 1 Prepared an Amendment to the Share Sale and Purchase Agreement for the Trade and Development Bank, extending the deadline for closing until November 15, 2002. This was signed by both the SPC and the BCL/Gerald Metals Consortium.
- 2 Sent the TDB Draft Share Escrow agreement and Purchase Price Escrow agreement to the BCL/Gerald Metals Consortium for review.
- 3 Prepared and translated the Draft SPA for Ag Bank.
- 4 Developed and continued efforts to finalize the Ag Bank legal due diligence report.
- 5 Assisted the SPC in drafting a proposal to the Cabinet to remove the Golden Share clause from the Government conditions of sale.
- 6 Provided legal opinions to the SPC on various issues of their concern, such as external queries relating to the privatizations of TDB and Ag Bank.

Objectives for Next Quarter (October – December 2002):

- 1 Provide legal assistance as needed to assist the SPC in closing the transaction for the sale of TDB shares. In particular, this will include, but not be limited to, working with the SPC to finalize the Share Escrow agreement and Purchase Price Escrow agreement.
- 2 Provide legal assistance during the pre-qualification of any additional Tender Participants for Ag Bank, as well as during Tender Participants' due diligence sessions.
- 3 Work on the revisions to the Ag Bank Sale and Purchase Agreement, including advising the SPC on proposed amendments and other comments received from Tender Participants.
- 4 Complete updating the legal due diligence report for NIC.

- 5 Provide legal support on issues relating to other MVCs as may arise.

COMPONENT 5: POST-PRIVATIZATION ASSISTANCE

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

SIXTEENTH PROJECT QUARTER (JULY – SEPTEMBER 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

SIXTEENTH PROJECT QUARTER (JULY – SEPTEMBER 2002):

Objectives:

- 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 the USAID Mission Director and other USAID counterparts.
- 5 Discuss with USAID the SPC's plans for the second half of 2002/first half of 2003 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.

Accomplishments and Concerns:

- 1 Continued to brief the USAID Mission on a regular basis about the project's progress, as well as 2002/2003 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 In July, received and signed Modification 9 to the subject delivery order, thereby increasing the project ceiling by \$400,000 and officially extending the project completion date to December 31, 2002.
- 5 In August, the Barents' office met with Ms. Calista Downey, Acting Mission Director, USAID, and Ms. Ann Wright, Deputy Chief of Mission, US Embassy, to discuss the project.
- 6 Ms. Efremilia Sopadjieva, Corporate Financial Advisor, departed Ulaanbaatar on July 4, 2002 after completing the valuation of Ag Bank.
- 7 Mr. Chris Thompson, Attorney, departed Ulaanbaatar on July 9, 2002 after working on the Draft Sale and Purchase Agreement for Ag Bank.
- 8 Mr. Zhivko Nenov, Chief of Party, departed Ulaanbaatar on July 24, 2002 for his annual leave and returned on August 15, 2002.

- 9 Ms. Teresa Slazas, Marketing Specialist/DCOP, arrived in Ulaanbaatar on July 21, 2002 and departed on September 20, 2002.
- 10 Mr. Jim Dwyer, Investment Banker, departed Ulaanbaatar on July 10, 2002, after working on the Information Memorandum for Ag Bank, as well as on the privatization of TDB. He returned to Ulaanbaatar on September 16, 2002 to continue his work on both Ag Bank and TDB and is expected to depart on or about December 20, 2002.
- 11 On September 24, 2002, Barents' headquarters received a revised report from the DCAA auditor regarding the project audit and began preparing their response.

Objectives for Next Quarter (October – December 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 the USAID Mission Director and other USAID counterparts.
- 5 Discuss with USAID the SPC's plans for the first half of 2003 for the Mongolian Privatization Program, as well as Barents' future participation and funding levels.
- 6 Continue to follow up with DCAA and USAID in order to resolve issues surrounding the project audit.