



QUARTERLY REPORT

for the period

October – December 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

March 2003

Ulaanbaatar, Mongolia

COMPONENT 1: MOST VALUED COMPANY (MVC) PRIVATIZATION

Task Manager: Dr. Zhivko Nenov, Chief of Party

SEVENTEENTH PROJECT QUARTER (OCTOBER – DECEMBER 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 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.

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

- 1 The project team provided daily support to the SPC on 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 Accomplished the successful closing of the tender for the Trade and Development Bank. For more details on TDB, please see the MVC-specific section below.
- 4 Attended a US-Japanese Donors meeting at the Japanese Embassy.
- 5 Continued efforts towards 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 (January – March 2003):

- 1 Continue to work towards the successful closing of the privatization of Ag 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 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).

Accomplishments and Concerns:

- 1 Revised the Rules of Tender and draft Tender Announcement for NIC (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)
- 2 In December, Mongolia's State Ih Hural (Parliament) passed a resolution to remove the Golden Share clause from the privatization requirements for NIC.

Objectives for Next Quarter (January – March 2003):

- 1 Continue to provide limited advice to the SPC on the potential launch of the NIC tender, including possible marketing assistance.

Gobi Corporation

Objectives:

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

Accomplishments and Concerns:

- 1 Translated Financial Statements for the first half year and sales updates.
- 2 Performed an analysis of Gobi's sales performance for the first 9 months of 2002.
- 3 At the request of the SPC, began contacting potential investors for Gobi in order to gauge the possible extent of interest in a new tender should the minimum asking price be significantly lowered (perhaps by as much as 25%).

Objectives for Next Quarter (January – March 2003):

- 1 Should the Government decide to move forward with steps to re-launch Gobi's tender, provide limited assistance in communication with potential investors, updating the tender documents, etc.

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. This includes continuing to facilitate discussions with the IFC and ADB.

Accomplishments and Concerns:

- 1 During the quarter, most of the activities for TDB were of a legal nature, focused on the closing of the transaction. For more details on these activities, please see the Legal, Regulatory and Policy Framework section of this report.
- 2 Assisted in meetings between Mr. Keith Chiddy (ING) and Mr. Monhbat (TDB) as they discussed the BCL/GM consortium's final due diligence review (legal, financial and operational).
- 3 On November 26, 2002, TDB's Representative Governing Board announced its decision to convene the bank's Extraordinary Shareholders Meeting on December 11, 2002 in daily newspapers. Our team prepared the required legal documents for this meeting (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)
- 4 The closing ceremony for the sale of the 76% state-owned interest in TDB was held on December 11, 2002. On the same day, our legal counsel attended TDB's Extraordinary Shareholders meeting.

Objectives for Next Quarter (January – March 2003):

- 1 Continue to provide support to the SPC in the event that there any remaining issues related to the privatization of TDB. Any such assistance will be primarily of a legal nature.

Ag Bank**Objectives:**

- 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.

Accomplishments and Concerns:

- 1 The SPC received an additional Expression of Interest (EOI) for Ag Bank prior to the October 15, 2002 deadline for submissions. With the assistance of Barents, the SPC determined that the EOI did not qualify and notified the Applicant.
- 2 During the quarter, coordinated and facilitated the due diligence sessions of the pre-qualified Tender Participants, which took place in November and December.
- 3 Provided consideration legal support for the Ag Bank tender.

Objectives for Next Quarter (January – March 2003):

- 1 Continue to assist the SPC in its communications with Ag Bank Tender Participants, including responding to questions, evaluating proposals, and finalizing Ag Bank's Signing and Closing (it is possible that closing may not occur until 2nd Quarter 2003).
- 2 Continue to provide legal support to the SPC in the preparation of materials for the Signing and Closing of Ag Bank.

Mongol Daatgal and other MVCs

Objectives:

- 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.

Accomplishments and Concerns:

- 1 Obtained and began analyzing the following data regarding Mongol Daatgal: Mongol Daatgal risk portfolio, activity, premium income and claims statistics; the company's structure and systems; and its financial performance.

- 2 Held discussions with other private domestic insurance companies, as well as the State Insurance Supervisory Board, in order to obtain additional insight into the Mongolian insurance industry.
- 3 Prepared a first draft of the valuation report for Mongol Daatgal.
- 4 Prepared Mongol Daatgal's financial projections on accrual accounting basis.
- 5 Prepared the first draft of the Information Memorandum, which was submitted to the SPC for review prior to year-end. This included developing valuation models and financial projections for inclusion in the draft Information Memorandum and valuation reports, respectively.
- 6 At the request of the SPC, provided guidance to the valuers of Mongol Daatgal.
- 7 During the quarter, preliminary marketing and investor communication efforts were undertaken for Mongol Daatgal (please see the Public and Investor Communications section of this report for detailed information.)
- 8 During the quarter, continued discussions regarding the tender rules, pre-qualification criteria and other tender materials.

Objectives for Next Quarter (January – March 2003):

- 1 Continue to provide technical assistance for Mongol Daatgal, including finalizing the tender documents and assisting the SPC for launch of the tender.
- 2 Continue to discuss with the SPC and USAID plans for additional work on other MVCs, including potential effort for NIC.

COMPONENT 2: SEALED-BID AUCTIONS SUPPORT

Task Manager: Dr. Zhivko Nenov

SEVENTEENTH PROJECT QUARTER (OCTOBER – DECEMBER 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

SEVENTEENTH PROJECT QUARTER (OCTOBER – DECEMBER 2002):

Objectives:

- 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.

Accomplishments and Concerns:

- 1 Assisted the BCL/Gerald Consortium as they concluded their final due diligence review of TDB in November.
- 2 Prior to the extended deadline for Ag Bank Expressions of Interest (EOIs) on October 15, 2002, assisted the SPC in discussions with potential Applicants. This included contacting several potential investors who had requested the timetable extension.
- 3 Assisted the SPC to pre-qualify Tender Participants for Ag Bank and distributed the Tender Documentation Package to pre-qualified participants.
- 4 In October, the SPC was advised by the one of the pre-qualified Tender Participants that they were withdrawing from the tender process.
- 5 Worked with Ag Bank Tender Participants as they conducted their due diligence sessions during the course of November and December. This included engaging in regular communications, as well as responding to questions and follow up requests for information both pre- and post- due diligence sessions.
- 6 We assisted the SPC to develop and distribute press release information on the Ag Bank tender, including distributing to the press information on the due diligence schedules agreed with the Tender Participants.
- 7 Began developing a preliminary investor master list for Mongol Daatgal.
- 8 Held discussions with potential investors for Mongol Daatgal, including IFC and ADB. As well, met with representatives from other parties interested in this transaction, including World Bank and USAID.

- 9 Prepared preliminary marketing information for the Mongol Daatgal tender.
- 10 At the request of the Bloomberg News Office in Beijing, in October we provided information on the status of NIC.

Objectives for Next Quarter (January – March 2003):

- 1 Continue to assist the SPC in its communications with Ag Bank Tender Participants, including remaining questions prior to the submission of tender proposals.
- 2 Assist the SPC in evaluation of proposals for Ag Bank and in communications both with the Winner of the Tender, as well as with other Tender Participants.
- 3 Continue to coordinate with IFC and ADB regarding their possible participation in the sales of TDB and Ag Bank.
- 4 Continue to develop marketing strategies for Mongol Daatgal, including further development of the potential investor master list and creation of additional marketing materials.
- 5 Should the SPC opt to move forward with a tender launch for NIC, assist the SPC in potential investor outreach and marketing, to the extent possible under current contract funding.
- 6 Assist the SPC with its media relations pertaining to the MVC privatization program.

COMPONENT 4: LEGAL, REGULATORY AND POLICY FRAMEWORK

SEVENTEENTH PROJECT QUARTER (OCTOBER – DECEMBER 2002):

Objectives:

- 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.

Accomplishments and Concerns:

- 1 Provided the following legal assistance to the SPC in closing the transaction for the sale of Trade and Development Bank shares:
 - Finalization of the Share Escrow and Purchase Price Escrow agreement with HSBC and Gerald Metals/Bank Commerciale Lugano Consortium;
 - Draft of the Amendment to the Share Sale and Purchase Agreement (Mongolian translation);
 - Preparation of materials for Extraordinary Shareholders Meeting (translations of the draft announcements, notices, decisions, review of the translation of the Draft Charter submitted by the Consortium, organization of meetings with the officials of the Ministry of Justice, SPC and TDB lawyers and TDB RGB Secretary)
 - Preparation work on transfer of TDB shares to Special Purpose Vehicle, established by the Consortium (draft of amendment to the Share Escrow Agreement, draft of SPC Board meeting resolution, TDB RGB resolution, Certificate of the TDB RGB Secretary, Shareholder's Certificate and translation of documents)
 - Draft of the Closing Memorandum, Joint escrow amount disbursement instruction and Courier Agreement.
 - Work on preparation of the Updated Officer's Certificate – reviewed and provided comments and translation.

- 2 Provided advice during the due diligence sessions of the Ag Bank tender participants, such as providing legal documents as requested by participants, responding to queries and organizing meetings with legal due diligence teams.
- 3 Completed 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 and preparing the Final Draft Sale and Purchase Agreement. Also translated all comments proposed by participants, their Revised SPAs, and the Final SPA and organized meetings with the tender participants to discuss their comments on Revised and Final SPA.
- 4 Provided assistance to the SPC in preparing response letters to the clarification requests submitted by Ag Bank Tender Participants.
- 5 At the request of the SPC, revised the Rules of Tender for NIC as well as the draft Tender Announcement in order to remove the Golden Share Clause.

Objectives for Next Quarter (January – March 2003):

- 1 Provide legal assistance in the evaluation of the tender proposals submitted by Ag Bank Tender Participants.
- 2 Provide legal assistance to the SPC in closing the transaction for the sale of Ag Bank equity:
 - Work on amendment to the Charter of Ag Bank;
 - Work on preparation for shareholders meeting to adopt the amendments to the Charter of the Bank
 - Work on transfer of shares to the Purchaser.
 - Work on Purchase Price Escrow Agreement.
- 3 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**

SEVENTEENTH PROJECT QUARTER (OCTOBER – DECEMBER 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

SEVENTEENTH PROJECT QUARTER (OCTOBER - DECEMBER 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 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.

Accomplishments and Concerns:

- 1 Continued to brief the USAID Mission on a regular basis about the project's progress.
- 2 Briefed U.S. Embassy on the status of the project.
- 3 Attended USAID Contractors' meetings to report progress.
- 4 Attended the monthly meetings of the American Mongolian Business Council.
- 5 In October, Zhivko met with the USAID Strategy Team from Washington DC and Mr. Jonathan Addleton, Mission Director, USAID.
- 6 In November, received and signed Modification 10 to the subject delivery order, thereby increasing the amount of obligated funding by \$500,000 and officially extending the project completion date to June 30, 2003.
- 7 On November 16, 2002, Mr. Jonathan Stark, Mongol Daatgal Industry Expert, arrived in Ulaanbaatar.
- 8 On November 22, 2002, Mr. Gordon Dowsley, Mongol Daatgal Investment Banker, arrived in Ulaanbaatar.
- 9 In December, our team, together with Mr. Jonathan Addleton, USAID Mission Director, met

with Mr. Munkh-Orgil, Deputy Minister, Ministry of Justice.

10 On December 2, 2002, Mr. Christopher Thompson, Attorney, arrived in Ulaanbaatar.

11 Mr. James Dwyer, Investment Banker, departed Ulaanbaatar on December 20, 2002.

12 Mr. Zhivko Nenov, Chief of Party; Mr. Jonathan Stark, Industry Expert, and Mr. Gordon Dowsley, departed Ulaanbaatar on December 21, 2002.

Objectives for Next Quarter (January – March 2003):

- 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 Continue to follow up with DCAA and USAID regarding the pending project audit.