



QUARTERLY REPORT

for the period

April – June 2003

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

September 2003

Ulaanbaatar, Mongolia

COMPONENT 1: MOST VALUED COMPANY (MVC) PRIVATIZATION**Task Manager: Dr. Zhivko Nenov, Chief of Party****NINETEENTH PROJECT QUARTER (APRIL – JUNE 2003):*****Overall Objectives (Note: MVC-specific information is listed with each MVC):******I. General******Objectives:***

- 1 Continue to work towards the successful closing of NIC's privatization.
- 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 Continued to provide 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 in order to keep them informed on the status of Mongolia's privatization process.
- 3 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.
- 4 Continued to work towards the successful closing of the privatization of NIC. For more details on NIC, please see the MVC-specific section below.
- 5 Launched the tenders for MDIC and Gobi in April and May 2003, respectively. For more details on the tenders for these two companies, please see the appropriate MVC-specific sections below.

Objectives for Next Quarter (July – September 2003):

- 1 Continue to work towards the successful closing of NIC's privatization, as well as continue efforts towards the ultimate completion of the tenders for MDIC and Gobi, which are scheduled for conclusion during the first quarter of 2004.
- 2 Continue to communicate with the World Bank, IMF and other multilateral donor agencies regarding Mongolia's privatization program.

II. Company-Specific Information

NIC

Objectives:

- 1 Assist the SPC to complete the Application/Expression of Interest and pre-qualification stage for NIC.
- 2 Distribute the Tender Documentation package to pre-qualified Applicants.
- 3 Work with the SPC and pre-qualified Tender Participants to facilitate due diligence reviews.
- 4 Assist the SPC in the finalization of the Share Sale and Purchase Agreement.
- 5 Provide assistance to the SPC in the evaluation of Tender Proposals and determination of a tender winner. Following this, assist the SPC with the signing of the Share Sale and Purchase Agreement and conclusion of the Tender.

Accomplishments and Concerns:

- 1 Upon the April 1, 2003 submission deadline for Applications, assisted the SPC in the review of submissions and in the preparation of clarification letters to applicants and requests for additional information.
- 2 SPC extended the deadline for submission of applications until April 22, 2003 based on a request from a potential Applicant. However, no additional applications were submitted during the extension period.
- 3 The Tender Documentation package consisting of the Information Memorandum, Rules of Tender and Share Sale and Purchase Agreement was finalized and distributed to pre-qualified Tender Participants.
- 4 Assisted the SPC in reviewing requests from pre-qualified Tender Participants and preparing responses.
- 5 Prepared a schedule of due diligence visits for the pre-qualified participants and helped to facilitate the due diligence process. This included assisting the SPC and NIC to prepare for due diligence visits as well as coordinating with Tender Participants.
- 6 On June 17, 2003, SPC received Tender Proposals from four Tender Participants, including the East Oil International Consortium, Magnai Trade, Altjin and Just. On the following day, the SPC opened each of the Technical Proposals in the presence of the Tender Commission and representatives of the press and mass media.

Following the opening of the technical proposals, security concerns were raised relating to one of the tender participants, and a subsequent determination was made to extend the

technical evaluation process, thereby allowing time for the Mongolian intelligence agency to conduct a detailed investigation. During this period, and as a result of these concerns, the SPC made several amendments to the tender timetable, not only amending the technical evaluation deadline, but also amending the date for the opening of the financial proposals, moving it into the month of July (investigations continued into July). Throughout this period, our team continued to provide continual assistance and support to the SPC.

- 7 Throughout the tender process, provided continual legal support in the revision and finalization of the Share Sale and Purchase Agreement (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)

Objectives for Next Quarter (July – September 2003):

- 1 Assist the SPC during the announcement of the technical proposal results and the subsequent opening of the financial proposals and signing of the Share Sale and Purchase Agreement.
- 2 Continue to provide support to the SPC in activities related to the closing of the NIC tender.

Gobi JSC

Objectives:

- 1 As allowed within the constraints of project funding, assist the Government with the re-launch of the tender for Gobi.
- 2 Assist the SPC in its communications with potential investors.

Accomplishments and Concerns:

- 1 The Cabinet approved the privatization of Gobi by Resolution No. 131 of May 28, 2003 and the Tender Announcement and the Rules of Tender were approved as Attachments 1 and 2 to Resolution No. 131, the latter amended by Government Resolution #135 of June 4, 2003. Our team provided continual support to the SPC in the preparation for the launch of the tender, including preparation of the Tender Announcement and Rules of Tender.
- 2 Undertook renewed public outreach, marketing and investor communication efforts in order to publicize the re-launch of the tender for Gobi (please see the Public and Investor Communications section of this report for detailed information.)
- 3 Provided considerable legal support in the periods both preceding and following the launch of Gobi's tender (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)
- 4 Worked to prepare the finalized Information Memorandum for Gobi in both Mongolian and English languages.

Objectives for Next Quarter (July – September 2003):

- 1 Continue marketing and investor outreach efforts, through to the deadline for Applications/Expressions of Interest on September 16, 2003.
- 2 Assist the SPC in the review and evaluation of Applications/Expressions of Interest and in subsequent communications with Applicants.
- 3 Finalize the Information Memorandum in both English and Mongolian.

Mongol Daatgal (“MDIC”)**Objectives:**

- 1 Obtain Cabinet approval for MDIC’s privatization.
- 2 Following approval, assist the SPC to launch the tender.
- 3 Publish the Tender Announcement and continue with other marketing and investor outreach efforts.
- 4 Work with the SPC and MDIC to ensure that reinsurance debts continue to be resolved and repaid, whenever possible.
- 5 Complete revision of financial projections.
- 6 Finalize the Information Memorandum in both English and Mongolian.

Accomplishments and Concerns:

- 1 The Tender Announcement and the Rules of Tender for MDIC were approved on April 23, 2003 by Government Resolution No. 101.
- 2 Began extensive public outreach, marketing and investor communication efforts in order to publicize the launch of the tender for MDIC (please see the Public and Investor Communications section of this report for detailed information.)
- 3 Participated in several meetings with SPC and auditors Ernst & Young to discuss various issues raised by the auditors. SPC agreed to resolve these issues.
- 4 Completed the revision of the financial projections.
- 5 Finalized both the English and Mongolian versions of the MDIC Information Memorandum.
- 6 Compiled documents for the MDIC data room, including the Tender Announcement, Rules of Tender, reinsurance debt paper, potential investor list, projections with the statutory reserve, Information Memorandum and a set of documents on accrual accounting and

financial matters.

Objectives for Next Quarter (July – September 2003):

- 1 Continue marketing and investor outreach efforts for MDIC, through to the deadline for Applications/Expressions of Interest on September 2, 2003.
- 2 Assist the SPC in the review and evaluation of Applications/Expressions of Interest and in subsequent communications with pre-qualified Applicants, including distribution of the tender documentation package.
- 3 Prepare for receipt of proposed amendments to the Draft Share Sale and Purchase Agreement, which are due by Sept. 30, 2003.

Other MVCs

Note: As the tenders for TDB and Ag Bank have been successfully concluded, there will be no further dedicated reporting on these MVCs, unless unanticipated further assistance proves to be warranted.

Objectives:

- 1 Continue to discuss with the SPC and USAID plans for additional work on other MVCs, including potential effort for Mongol Telecom.

Accomplishments and Concerns:

- 1 Agreed with USAID and the SPC on privatization goals for the project through first quarter 2004. This included reaching agreement that our team will continue to support the privatizations of NIC, MDIC and Gobi, and as well will utilize the services of a telecom industry expert to conduct a diagnostic evaluation of privatization options for Mongol Telecom.

Objectives for Next Quarter (July – September 2003):

- 1 Discuss with SPC the scope of work for the telecom industry expert for Mongol Telecom.
- 2 Continue to provide day-to-day advisory assistance to the SPC pertaining to future privatization plans for other MVCs.

COMPONENT 2: SEALED-BID AUCTIONS SUPPORT

Task Manager: Dr. Zhivko Nenov

NINETEENTH PROJECT QUARTER (APRIL – JUNE 2003):

- 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**NINETEENTH PROJECT QUARTER (APRIL – JUNE 2003):*****Objectives:***

- 1 Continue to assist the SPC in its communications with NIC Tender Participants, including responding to any questions prior to the submission of tender proposals.
- 2 Continue marketing and investor outreach efforts for the Mongol Daatgal tender, provided that the tender is launched during the quarter.
- 3 Assist the SPC with limited marketing efforts pertaining to Gobi and/or other MVCs, as possible under current contract funding.
- 4 Assist the SPC with its media relations pertaining to the MVC privatization program.

Accomplishments and Concerns:

- 1 Continued to assist the SPC in its correspondence with NIC tender participants. This included facilitating due diligence efforts, and providing continued assistance in responding to the inquiries from participants as they went through the tender process. Also assisted in the preparation of the data room for NIC tender participants.
- 2 Assisted the SPC in the preparation and distribution of press releases pertaining to the NIC tender, including announcing the list of pre-qualified potential investors.
- 3 The Tender Announcement for MDIC was published in four Mongolian daily newspapers and two English language weekly newspapers.
 - Mongolian language newspapers:
 - Unuudur (Today), May 13, 2003
 - Unen (Truth), May 14, 2003
 - Zuunii Medee (Century News), May 13, 2003
 - Udriin Sonin (Daily News), May 14, 2003
 - English language newspapers:
 - Mongol Messenger, May 21, 2003
 - UB Post, May 15, 2003
- 4 Assisted the SPC to publish a quarter page Tender Notice for MDIC in the May 17, 2003 issue of *The Economist* magazine.
- 5 Distributed the Mongol Daatgal Tender Announcement to potential investors worldwide. The Tender Announcement was also distributed to Embassies and international missions in Ulaanbaatar, as well as Mongolian banks and financial institutions and insurance companies. In addition, our team also distributed the Tender Announcement to honorary consuls

worldwide.

- 6 In conjunction with the SPC, responded to specific inquiries from potential investors regarding MDIC.
- 7 Prior to the launch of the Gobi tender, our team received inquiries regarding future privatization plans for Gobi. We responded to these inquiries, explaining the tender process, after discussion with the SPC.
- 8 The Tender Announcement for Gobi was published in five Mongolian daily newspapers and two Mongolian English language newspaper, as detailed below:
 - Mongolian language newspapers:
 - Mongoliin Medee, June 3, 2003
 - Unuudur (Today), June 4, 2003
 - Unen (Truth), June 4, 2003
 - Zuunii Medee (Century News), June 4, 2003
 - Udriin Sonin (Daily News), June 4, 2003
 - English language newspapers:
 - Mongol Messenger, June 4, 2003
 - UB Post, June 5, 2003
- 9 Assisted the SPC to publish a quarter page Tender Notice for Gobi in the June 21 – 27, 2003 issue of *The Economist* magazine.
- 10 Distributed the Gobi Tender Announcement, along with a covering letter, to all Embassies, Honorary Consuls, and international organizations in Ulaanbaatar, as well as to both foreign and domestic textile companies. Updated the previous potential investor list for Gobi and began international marketing efforts for the company.
- 11 Regularly briefed the SPC on the status of Mongol Daatgal and Gobi marketing efforts and continued to develop and maintain comprehensive potential investor master lists for each company.
- 12 Assisted the SPC in posting updated MDIC and Gobi tender information, including Tender Announcements, Confidentiality Agreements, and Application/Expression of Interest forms, on the SPC website.

Objectives for Next Quarter (July – September 2003):

- 1 Continue to assist the SPC in its communications with NIC tender participants, and in particular, with the winner of the tender, once announced.
- 2 Continue marketing and investor outreach efforts for the Mongol Daatgal tender, through to the deadline of Applications/Expressions of Interest on September 2, 2003. Assist in subsequent communications with Applicants.

- 3 Continue to assist with marketing/investor outreach efforts for Gobi, the Applications/Expressions of Interest for which are due on September 16, 2003. Assist in subsequent discussions with Applicants.

- 4 Assist the SPC with its media relations pertaining to the MVC privatization program.

COMPONENT 4: LEGAL, REGULATORY AND POLICY FRAMEWORK**NINETEENTH PROJECT QUARTER (APRIL – JUNE 2003):*****Objectives:***

- 1 Based on the review/comments and suggestions made by Tender Participants, propose amendments to the Draft Share Sale and Purchase Agreement (SSPA) for NIC.
- 2 Provide comments/discuss the proposed amendments with the SPC and Tender Participants.
- 3 Prepare and issue a revised Final Share Sale and Purchase Agreement for NIC.
- 4 Assist in the preparation of other associated legal documents for NIC, as provided for in the SSPA, including the Officer's Certificate, as well as the Purchase Price Escrow Agreement.
- 5 Assist the SPC in responding to legal inquiries from NIC Tender Participants during their due diligence review of the company as well as other investor communications that require legal advice.
- 6 Obtain comments on the draft Gobi SSPA from SPC and finalize it.
- 7 Provide legal advice to the SPC and Mongol Daatgal management with respect to the company's reinsurance debt issues.
- 8 Review and advise the SPC on the MDIC charter, Seller's representations and warranties, as well as other legal and regulatory issues and requirements pertaining to this transaction.
- 9 Advise on other legal issues pertaining to the privatization of NIC, Mongol Daatgal, Gobi or other MVCs, as they may arise.

Accomplishments and Concerns:

- 1 Assisted the SPC in responding to legal inquiries from East Oil Consortium and Magnai Trade LLC during their due diligence review of NIC as well as other investor communications requiring legal input.
- 2 Assisted in amending the Rules of Tender for NIC.
- 3 Received comments and proposals from 3 tender participants (Altjin LLC, Magnai Trade LLC and East Oil Consortium) on the first Draft of the NIC SSPA. Based on a comprehensive review of these suggestions, as well as discussions with the SPC, prepared the revised version of the NIC Draft SSPA.
- 4 Subsequently, comments and proposals were received from 4 tender participants (Altjin LLC, Magnai Trade LLC, Just LLC and Petrovis LLC) on the revised version of the NIC Draft SSPA. At their request, met with the Tender Participants to further discuss their

concerns relating to the SSPA.

- 5 Following further evaluation and discussions with the SPC, prepared and issued the Final SSPA for NIC. Also assisted the SPC and NIC JSC in the preparation of the Officer's Certificate and annexes to the SSPA, and provided translation.
- 6 Finalized the first draft of the SSPA for Gobi, based on comments and suggestions received from the SPC.
- 7 Prepared a memo on amendment to the Gobi Charter and submitted to the SPC for approval.
- 8 Assisted in registering the MDIC Charter with the State Registration Authority and in obtaining an Insurance Supervisory Authority letter.
- 9 Provided legal advice to the SPC with respect to MDIC's reinsurance debt.
- 10 Finalized the MDIC Tender Announcement and Rules of Tender.
- 11 Prepared and translated the first draft of the MDIC SSPA and submitted to the SPC for its review.

Objectives for Next Quarter (July – September 2003):

- 1 Assist the SPC in the evaluation of technical proposals for NIC.
- 2 Advise in the preparation of the Purchase Price Escrow Agreement for NIC, and also assist in the preparation of all closing documents for the transaction.
- 3 Assist the SPC in reviewing Applications/Expressions of Interest received for both MDIC and Gobi and in pre-qualifying Applicants.
- 4 Advise on other legal issues pertaining to the privatizations of NIC, Mongol Daatgal, Gobi or other MVCs, as they may arise.

COMPONENT 5: POST-PRIVATIZATION ASSISTANCE

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

NINETEENTH PROJECT QUARTER (APRIL – JUNE 2003):

- 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****NINETEENTH PROJECT QUARTER (APRIL – JUNE 2003):*****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 Mongolian Privatization Program during the second half of 2003/first quarter of 2004, as well as Barents' future participation and funding levels.
- 6 Continue to follow up with USAID regarding the pending 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 Attended a US-Japanese investors meeting at USAID.
- 6 Attended a USAID briefing on Ethics and the Inspector General.
- 7 On April 12, 2003, Gordon Dowsley, Mongol Daatgal Investment Banker, departed Ulaanbaatar.
- 8 Chris Thompson, project attorney, arrived in Ulaanbaatar on May 18, 2003 and departed on June 29, 2003.
- 9 Met with Mr. Jonathan Addleton, USAID Mission Director, and Ms. D. Sukhgerel, USAID CTO, to discuss current and future project status. On June 19, 2003 executed Modification No. 11 to the task order, thereby:

- Extending the task order completion date through January 31, 2004;
- Incorporating a new statement of work for the period;
- Re-aligning the level of effort;
- Obligating additional funds in the amount of \$300,000; and
- Approving the addition of a new telecom industry expert for Mongol Daatgal.

Objectives for Next Quarter (July – September June 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 monitor project funding levels and discuss with USAID any further obligation of funding that may be required prior to September 30, 2003.
- 6 Continue to follow up with USAID regarding the pending project audit.