



FINAL REPORT

SEGIR MONGOLIAN PRIVATIZATION PROGRAM

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and

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EXECUTIVE SUMMARY

Background

Privatization efforts in Mongolia began in 1991, with the adoption of the country's privatization law, followed by a voucher-based mass privatization program, which ran from 1992 through 1995. To complete the transition to a functioning marketing economy, restructure critical sectors, reduce the burden of a malfunctioning public sector on Mongolia's state budget, and to expand access into world markets, a new privatization program was initiated in 1997 with the purpose of divesting remaining state holdings and consolidating private ownership.

With this background, the USAID Mongolia Privatization Program was designed with the objective to help achieve sustainable enterprise privatization and attract foreign investment into Mongolia, through the provision of direct technical assistance to the Government of Mongolia's State Property Committee (SPC), the Mongolian Agency responsible for managing and privatizing state-owned assets.

Beginning in September 1998, Barents Group of BearingPoint, Inc. (Barents Group), under funding through the USAID, was contracted as the advisor to the SPC in the implementation of the Program. Originally designed as a three-year program, at the request of the Mongolian Government, USAID agreed to continue to provide support for the implementation of the Mongolian Privatization Program through March 2004.

The Program included three major components: Most Valued Companies Privatization, Sealed-Bid Auction Support, and a Public Information and Investor Awareness Component. A fourth component focused on the area of post-privatization assistance. During the course of program implementation, particular and significant support was provided in regards to the legal, regulatory and policy framework surrounding privatization, thereby meriting its mention as a separate component within this report.

In total, with BearingPoint's assistance, the Mongolian Government was able to privatize 51 enterprises, for an aggregate revenue and investment inflow for Mongolia's economy in excess of US \$106 million. Equally important, these activities promoted the introduction of a significantly increased level of foreign investment into Mongolia, contributing to the recent and impressive economic growth of the country.

Main Accomplishments

While specific details on each component will be contained within the body of this report, several of the project's most significant accomplishments include:

- *Highly Successful Sealed-Bid Auction Program (1998-1999)*: Through Barents assistance, the Mongolian Government revised and implemented an internationally accepted sealed bid

auction process, increasing the speed, openness, clarity, and transparency of the auction process and greatly improving its revenue-raising efficacy. This revised process enabled the sale by auction of 47 enterprises, generating US \$15.4 million in revenue for the state budget.

- *Effective Public Information and Investor Outreach Campaigns:* Efforts in this regard were highly successful with broad outreach conducted through various avenues, including dissemination of information through print, media, TV, radio, as well as through press briefings. Within the area of Investor Outreach, over 600 potential investors were contacted worldwide, with other efforts including advertisements in worldwide finance and industry-specific publications.
- *Development and Passage of the “Privatization Guidelines for 2001 – 2004”.* The Guidelines, passed in 2001, served as an official statement of the Government’s privatization policies and defined enterprise- and sector-specific objectives and priorities. The passage of the Guidelines was a critical step in furthering the country’s efforts to encourage private sector participation, both domestic and foreign.
- *Most Valued Companies Privatization.* Through support of the Mongolia Privatization Program, the Government of Mongolia successfully privatized four MVCs, including Trade and Development Bank (TDB), Agricultural Bank (AG Bank), Mongol Daatgal LLC and NIC JSC, thereby raising over US \$91 million in revenue and committed investments for Mongolia.
- *Local Capacity Building:* Efforts in this regard, including the publication of a Privatization Tender Manual in March 2004, and conducting on-the-job training and in-house seminars on investor presentation techniques, business and asset valuation, etc., resulted in enhanced understanding and execution capabilities on the part of the Government’s State Property Committee.

Lessons Learned

Throughout the course of program implementation, one of the most important lessons learned centered on the need for Government flexibility in adopting a sensible, open and investor-friendly approach to privatization and willingness to:

- Accept lower valuations (given the small size of the Mongolian market, combined with other factors including that most entities being privatized faced significant operational, financial and liquidity problems)
- Limit or eliminate rigid post-sale investment and other requirements
- Remove cumbersome proposal submission requirements such as the requirement to submit all tender documents in the Mongolian language, and in numerous copies to be initialed on each page by the bidder’s Authorized Representative, etc.
- Encourage the formation of consortia with both industry and “synergistic investors”, as well

as financial investors and local investors who have a vested interest in the Mongolian market; allow the use of Technical Partners to make up for some investors insufficient expertise, and the like.

A second lesson learned centered on the need for continued and active public and investor outreach in order to address issues and respond to concerns in a timely and adequate manner. Such emphasis and focus proved essential in the process of striving to maintain a positive momentum in the privatization process.

Finally, and above all, the most important precondition for a successful privatization program is the Government's own commitment to the privatization process.

COMPONENT 1: MOST VALUED COMPANY (MVC) PRIVATIZATION

Background

The Government of Mongolia placed highest priority on the privatization of its Most Valued Companies. Under the contract Scope of Work, Barents Group was tasked to provide all necessary assistance to the SPC in the development as well as the implementation of an open, transparent and credible case-by-case international tender process aimed at attracting foreign direct investments into Mongolia. In engaging in such efforts, the provision of international investment banking, legal and industrial expertise was required.

Initial efforts of the Barents team centered on the provision of assistance in the development of a detailed strategy for privatization.

In the implementation of the MVC privatization process, the following steps were identified as necessary:

- a. Pre-privatization restructuring, as needed;
- b. Corporatization;
- c. Analysis of financial status and physical condition, and of contingent liabilities;
- d. Valuation of assets;
- e. Preparation of information memorandum, prospectus;
- f. Marketing through all appropriate channels;
- g. Preparation of sales documents.
- h. Advising and/or negotiation of sales agreement as requested by the SPC.

In addition, to ensure effective knowledge and technology transfer to the SPC, Barents was tasked to carry out on-the-job training of SPC staff and develop guidance documents covering all aspects of implementing a privatization through an international tender.

Main Accomplishments

1. Development of Privatization Strategy

Working closely with the SPC, Barents developed the conceptual framework for the privatization of Mongolia's Most Valued Companies (MVCs). The team led the work and drafted all documents relating to the development of the government's privatization master plan and policy guidelines for 2001-2004. The team also provided support to the SPC in the evaluation of international best practices in privatization.

On January 25, 2001, Mongolia's State Ih Hural (Parliament) approved the *Privatization Guidelines for 2001-2004* (please see Appendix A for electronic copy of the Guidelines). The Guidelines served as an official statement of the Government's privatization policies and defined enterprise- and sector-specific objectives and priorities. The passage of the Guidelines was seen as a critical step in furthering Mongolia's efforts to encourage private sector participation and investment, both

domestic and foreign.

The following companies were identified as near-term privatization candidates by the Guidelines:

- Banking - Trade and Development Bank LLC
- Oil and Gas Distribution – Neft Import Concern (NIC) JSC
- Cashmere Production and Manufacturing – Gobi JSC, Mongol Amicale LLC
- Insurance – Mongol Daatgal SOE
- Civil Aviation – MIAT SOE
- Cement – Hutul Cement and Chalk SOE
- Mining – Mongol-Bolgar Geo LLC
- Beverages – APU JSC

Following the approval of the Guidelines, the Government's *Privatization Program for 2001* was subsequently approved on February 20, 2001. Both documents were widely acclaimed by the World Bank, IMF, ADB and other multilateral and bilateral donors and the investor community as *the turning point in Mongolia's privatization*.

The team also provided assistance to the SPC in the development and publication of subsequent yearly Privatization Programs for 2002, 2003 and 2004.

Further detail on MVC privatization implementation is provided in the section below.

2. Implementation of MVC Privatizations

During the course of the Mongolia Privatization Program, the following five MVCs were put to international tender:

- **Trade and Development Bank** – the country's largest commercial bank
- **Agricultural Bank** - leading Mongolian provider of banking and financial services to the country's rural communities
- **Mongol Daatgal LLC** – the national insurance and re-insurance company with 75% market share
- **NIC JSC** - market leader of oil and gas products distribution
- **Gobi JSC** – largest producer of cashmere in Mongolia

For each of the above enterprises, significant preparatory efforts were undertaken. This included developing and obtaining Government's approval of the tender package for each enterprise as well as the official announcement and launching of each tender. Further, for each enterprise, full legal and technical sales documentation was developed, including: Information Memorandum, Rules of Tender, and Draft Share Sale and Purchase Agreement. Data rooms were also set up for each enterprise, in order to accommodate investor due diligence efforts. Full-scale marketing efforts were

undertaken, including both direct potential investor outreach and other methods of advertising the tenders. Finally, for each transaction that successfully reached the closing stage, assistance was provided in completing all final steps required for the closing. (More details on marketing/investor outreach, and legal and regulatory efforts are detailed under Components 3 and 4 of this report).

By the completion of the Mongolian Privatization Program in March 2004, the Government had successfully privatized TDB, Agricultural Bank, Mongol Daatgal and NIC.

- The **TDB** sale was closed in December 2002. The acquirer is a consortium between Commercial Bank Lugano (a Swiss bank) and Gerald Metals Inc. (a U.S.-based international merchant of metals), with the Dutch ING Bank as Technical Partner engaged under a Management Services and Technical Assistance Agreement to provide management and technical assistance support to TDB for a three-year period. The 76% state-owned interest of Mongolia's largest bank was sold for US\$12.23 million with an agreement for additional investments in the bank worth at least US\$28 million.
- In March 2003, **AG Bank** – the country's principal provider of financial services in the countryside – was privatized to H.S. Securities of Japan for US\$6.85 million – a payment of twice book value, and is now managed by an American/Mongolian management team, led by the Maryland-based firm Development Alternatives, Inc. (DAI). H.S. Securities committed additional investments into AG Bank of US\$13 million, for an aggregate investment into Mongolia of nearly US\$20 million during the next 2-3 years.
- On December 30, 2003, Mongolia's dominant insurer – **Mongol Daatgal**, was sold to a Russian-Mongolian consortium for \$5.8 million, five times the minimum asking price. The consortium, comprised of Angara Insurance Company of Russia and Mongolia's Chinggis Khaan Bank, plans to invest at least an additional US\$1 million into the company during the next 2-4 years, expand the types of insurance products offered in the Mongolian market, and enhance Mongol Daatgal's reputation and financial capacity to pay its claims.
- The tender for **NIC JSC** was concluded in February 2004. Petrovis LLC of Mongolia acquired the state-owned 80% equity interest in NIC for a purchase price of US \$8.5 million, plus an additional \$16 million in committed investments.

A tabular representation of these transactions is provided below in table 1. As shown in the table, these transactions resulted in revenues to the state budget of US\$33.38 million, as well as additional committed investments to the enterprises of US \$58 million.

Table 1. USAID Mongolia Privatization Program – MVC Privatization Through International Tenders

Company Name	Equity Interest offered for sale	Acquirer	Management provided by	Minimum asking price	Purchase price	Committed additional investments
Trade and Development Bank	76%	Consortium between Commercial Bank Lugano (a Swiss Bank) – Gerald Metals, Inc. (a US based international merchant of metals)	ING's Institutional and Government Advisory Group	\$12.226 million	\$12.23 million	\$28 million
Agricultural Bank	100%	H.S. Securities of Japan	Development Alternatives, Inc. (DAI)	\$3.28 million	\$6.85 million	\$13 million
Mongol Daatgal (Insurance) Company	100%	Angara Insurance Company of Russia / Chinggis Khaan Bank of Mongolia	Acquirer	\$1.2 million	\$5.8 million	\$1 million
NIC JSC	80%	Petrovis LLC of Mongolia	Acquirer	\$6.133	\$8.5 million	\$16 million
Total				\$22.839 million	\$33.38 million	\$58 million

Source: Barents Group of BearingPoint, Inc., March 2004

Particular aspects in the structure and conduct of the tenders for TDB, AG Bank, Mongol Daatgal and NIC JSC are highlighted below:

TDB: The Rules of Tender for the TDB transaction initially required the tender to be completed within an extremely tight timetable. In the course of implementation, however, the eventuality of a single qualified bidder became clear. The Government's State Property Committee, in light of this, took into consideration, and agreed to an amended tender timetable thereby allowing the tender to proceed with two bidders.

AG Bank: In the case of AG Bank the Government agreed to allow bidders to team up with non-equity Technical Partners as well as with financial investors. Such an approach ensured a highly competitive tender. As a result, the winning bidder – H.S. Securities of Japan – bought the bank for

twice its book value and immediately executed a three-year management contract with the DAI management team, which worked at the bank for the past two years under a USAID-funded management services contract.

Mongol Daatgal: Upon preparing Mongol Daatgal for tender, it became evident that the company was faced with huge reinsurance debt liabilities. To resolve this issue, the Government/SPC agreed to set the minimum asking price for Mongol Daatgal at only US\$1.2 million, to reflect the existing debt liabilities. The Barents' team completed a thorough review of all company's debts and recommended appropriate settlement/resolution as well as a reasonable enterprise valuation.

NIC JSC: Challenges were faced in packaging NIC in order to make the company attractive for potential acquirers. In order to do so, several initial 'conditions of sale' were removed, including the requirement to ensure supplies to uneconomic locations, the Golden Share clause, the requirement for the acquirer to make post-sale investments into the company, and as well, the requirement for the maintenance of the state strategic reserves. In addition, further steps were taken to make the tender an attractive investment opportunity. This included setting the minimum asking price at a very reasonable level, of US\$ 6,133,000, as well as resolving NIC's outstanding liabilities to the Government. In all, the successful closing of this transaction can be largely attributed to the willingness of the Government to consider and adopt a sensible structure for its sale, taking into account the company's distressed financial position and poor operational records.

Gobi JSC: In addition to the enterprises detailed above, the Barents team provided assistance in the international tendering of Gobi JSC, the tender for which was - for different reasons - twice launched and carried out unsuccessfully. During the initial tendering of the enterprise, carried out during the course of 2001/2002, lack of investor interest was attributed to factors including the recessive global economic environment, a minimum asking price of US\$18.5 million - determined by the market to be too high - as well as quite restrictive eligibility criteria for potential investors.

During the re-launching of the tender in May 2003, the minimum asking price was substantially lowered, to US\$11.6 million, based on a new valuation and the Government's support for appropriate price-setting strategies to attract investor interest. In addition, EOI submission requirements were revised to broaden the scope of acceptable potential investors, particularly agreeing that, in addition to suitably qualified textile/apparel industry investors, consortia comprising a textile/apparel industry investor, and/or financial investors which commit to the contractual employment of a textile/apparel industry technical partner and/or management team for a minimum of two years would also be eligible to participate in the tender. After renewed public outreach efforts, the SPC received by the September 16, 2003 deadline seven Expressions of Interest from potential investors to participate in the tender for the 70 percent equity interest in the company. Of the seven, which included potential investors from different locations worldwide, six were pre-qualified to move forward with the tender process and five submitted tender proposals. Of the five received, it was determined that only one was complete and thereby eligible to proceed to the opening of Financial Proposals. Due to the consortium submitting an incomplete financial proposal, they were disqualified. As a result, the tender for Gobi was terminated due to incomplete submission of documents.

Other MVC Efforts

- **MIAT:** Barents provided assistance to the SPC in evaluating strategic options for the privatization of MIAT. Efforts included completing a report on “MIAT Restructuring and Privatization”, subcontracting for the conduct of a diagnostic study of MIAT in preparation for a management contract to be funded by EBRD, as well as conducting an updated review of the privatization options for MIAT during the fourth quarter of 2003/first quarter of 2004. The final report was provided to both USAID and the SPC, and further distributed to other appropriate government stakeholders, including representatives from the Information and Communication Department of the Ministry of Infrastructure; the Post and Telecommunications Authority; and the Communications Regulatory Board.
- **Erdenet:** Barents’ coordinated a subcontract with Arthur Anderson for an international audit of Erdenet, completed in the second quarter of 2002.
- **Ulaanbaatar Electricity Distribution Network and Power Plant 2, Mongolian Telecommunications JSC, Hutul Cement and Lime JSC, and several other MVCs:** The team provided advice on the next steps required to move these entities towards privatization.

3. Capacity Building and Technology Transfer

Within the area of capacity building and technology transfer, Barents efforts included the following:

- Day-to-day technical advisory services to the SPC on general privatization issues
- Development of “*A Guide to Privatization Tenders: The Mongolian Privatization Experience*” (in English). The Guide was intended for use as both a training manual and a reference source for privatization practitioners, government officials and other interested parties as well as a practice tool designed exclusively for privatization practitioners.
- On-the-job training of SPC officers and other SPC professional staff responsible for implementing international tenders.
- Development and conduct of other training seminars/presentations, including:
 - Training seminar for the SPC Sealed-Bid Auction department, to introduce the new auction format and software;
 - Seminar for privatization officials on state property inventory taking, conducted jointly with the SPC.
 - Seminar/instruction meetings for MVCs (including NIC, TDB and Gobi) on the role of company management and SPC representatives in the privatization process. This was conducted jointly with the SPC and was targeted towards Executive Directors, Deputy Directors, CFOs, Marketing Directors, and other senior executives of each enterprise.
 - Seminar for valuation consultants on the internationally accepted methods of enterprise valuation.
 - Training for enterprise management to build their skills in presenting information to potential investors

By the close of the Mongolia Privatization Program, SPC staff showed an increased understanding of the tender process and had begun independent efforts to undertake tenders, receiving only limited assistance from the Barents team. For example, the tender for NIC's petroleum products testing laboratory was conducted by the SPC with only limited assistance from our local team members. In addition, with Barents' assistance, the SPC developed sufficient knowledge with regard to hiring outside advisors in areas requiring professional help such as financial audits, business valuation and legal due diligence. Further, they developed an understanding of template documents for the process and began efforts to undertake international tenders with limited assistance from Barents Group. They also funded audits and company valuations.

Lessons Learned

1. Need for Strategic Packaging of MVC Enterprises

Due to the MVCs strategic importance in the Mongolian economy, the Government's pre-qualification and selection conditions were aimed at attracting reputable international investors capable and willing to commit significant post-sale investments, etc. However, despite the Government's best intentions, difficult conditions in Mongolia made selling MVCs to foreign and/or strategic investors a more difficult challenge than first estimated. The most significant obstacles in the implementation of the privatization tenders included the challenges faced in trying to privatize entities distressed by significant operational, financial and liquidity problems. Other inhibiting factors included the small, remote nature of the Mongolian market, as well as recessive global economic conditions. Ultimately, the Government, during the course of implementation of multiple international tenders, had to gradually accept that investors might not "line up" to purchase the enterprises.

With such constraining factors, the Government, with the assistance of the Barents team, identified and acted upon the need to develop new approaches to tendering for potential acquirers. By the final year of the project, as a result of its accumulated experience and the continued efforts of the Barents' team, the Government was able to put into action its understanding of the need to take steps in the following directions in order to creatively package tenders in a way that will most effectively encourage the interest of potential acquirers:

- Accept lower valuations
- Limit or eliminate post-sale investment requirements
- Remove cumbersome proposal submission requirements such as the requirement to submit all tender documents in the Mongolian language, and in numerous copies (nine, reduced currently to five) to be initialed on each page by the bidder's Authorized Representative, etc.
- Encourage the formation of consortia with both industry and "synergistic investors", as well as financial investors and local investors who have a vested interest in the Mongolian market.

2. Importance of Active Public/Investor Outreach

As will be discussed further under Component 3, during both the design/strategy as well as implementation phases of MVC privatization, the need and importance of active public outreach and investor communications was paramount. Privatization is a highly political process and an active outreach effort, through press releases and other communications with the public, proved an effective tool for the Government in its efforts to maintain positive forward momentum in the privatization process.

COMPONENT 2: SEALED-BID AUCTIONS AND SPC TECHNICAL SUPPORT

Background

The overall objective of this component was provision of assistance to the SPC with the sale by sealed-bid auction of the large enterprises on the Government of Mongolia privatization list, excluding the MVCs. The assistance was to be carried out as a supplement to the capacity of SPC in carrying out all functions of its privatization program. The following skills were identified as important areas for the focus of efforts:

1. Program management (organization and conduct of auctions)
2. Preparation of company profiles (financial statement and physical analysis and description)
3. Public information (analysis and targeting of market, preparation and presentation)
4. Valuation techniques
5. Share issue and registration
6. Reporting of individual transactions and the overall program
7. Database technology and management
8. Communications (program advocacy through media)
9. Corporate governance requirements and practices

The Barents team was tasked to provide the SPC with assistance in privatization pipeline management and auction implementation, as needed, to accomplish smooth functioning of an accelerated schedule of sealed-bid auctions, specifically in the following areas of SPC operations:

- a. Organization – designing the organizational processes to carry out pre-privatization, transaction and immediate post-transaction implementation activities by the Privatization Department and other relevant units within SPC.
- b. Pipeline management – assistance to the SPC teams with preparation of financial and transaction documentation, organization of auctions and marketing efforts.
- c. Corporatization, Share Issue and Registration – assistance in the corporatization of the SOEs designated for privatization.

Main Accomplishments

1. Overall Implementation

The Sealed Bid Auction component of the Mongolia Privatization program was implemented from September 1998 through July 2000. During this time, the Barents team assisted the SPC to revise its auction process and introduce a new auction format, which increased the speed, openness, clarity, and transparency of the auction process and greatly improved revenue-raising efficacy. In total, Barents assisted the SPC in the sale of 47 enterprises through sealed bid auctions, raising \$15.4 million in revenues for the budget. Please see Appendix B for additional details on those enterprises privatized.

Prior to the commencement of this project, the SPC used an auction process to sell primarily small-

size enterprises to local buyers. However, the format, as designed and implemented, lacked some of the key advantages of a genuine sealed-bid sale such as clear and simple rules, speed, and, last but not least, revenue-raising efficacy. As a result, the prices achieved for the privatized state-owned assets were less than hoped for by the Government. The introduction by the Barents team of a new sealed bid auction format was intended to overcome the above deficiencies, by making the process easier to implement, and more fair and transparent to competing buyers, and as a consequence, to generate higher income for the Government. Furthermore, because the newly introduced auction format did not require complex hard- and software support, it became possible, for the first time since the commencement of the Mongolian sealed-bid privatization program, to hold a sealed-bid auction outside Ulaanbaatar, in the Khuvsgul aimag (one of Mongolia's Northern provinces).

Based upon the performance measures agreed, developed for the July 1999 USAID/Mongolia Performance Monitoring Plan, the planned targets for this component were exceeded, i.e. the indicator measured the change in the differential between the pre-set minimum price and the actual auction price achieved under the new system introduced by Barents and initiated on April 21, 1999. While the auction prices under the old system were only nominally higher than the pre-set minimum prices (the margin averaging 0.2%), the actual prices that resulted from the introduction of the new auction system were higher than the auction minimum prices by 24.8% (against a planned target of 20%). Hence, the target was exceeded by 20%.

In total, the Barents team assisted the SPC in the following areas:

- Developing the timetable for auctions
- Selecting near-term auction candidates
- Reviewing available and other financial information
- Reviewing proposals on the structure of sale, valuation and price-setting, as well as legal issues, restructuring needs, etc.
- Drafting short- and long-form company profiles
- Developing and implementing sales promotion campaigns
- Conducting orderly auctions

Specifically, as per the Statement of Work, the following areas of SPC operations were addressed:

- *Organization:* SPC staff were trained through formal instructions and on-the-job training on organizational processes to carry out pre-privatization, transaction and immediate post-transaction implementation activities.

Training was provided to SPC staff through both formal seminars on auction techniques and the use of a deposit and auction computer program and informal on-the-job training, which was implemented through formation of joint Barents/SPC teams to work closely together on specific assignments. This included the development of press releases and commercials for public broadcasting, as well as short-form company profiles, Q&A on the auction prospects and auction rules and procedures. Apart from the development of technical and investor

communication skills, training also focused on promoting the SPC's understanding and capacity in working as a devoted sales promotion department.

- *Pipeline management:* Different SPC teams (privatization, legal, financial oversight) were trained to prepare relevant financial and transaction documentation, organize auctions and market their target entities to specific audiences.
- *Corporatization, Share Issue and Registration:* Through work on MVC and other privatizations, SPC staff were trained in ensuring compliance with current laws, registration of corporatized enterprises and overseeing of share issues.

2. Transfer of Assets to Local Government

Due to a change, in mid-1999, in the Government's policy on privatization and transfer of assets to local government, Barents team advised and assisted with the privatization of 47 entities, as opposed to the originally planned 200-plus large and small enterprises across the country. The passage in 1999 by the Mongolian Parliament of a resolution to transfer state-owned assets worth MNT 218 billion to local governments, resulted in the SPC being charged with provision of guidance, training and assistance to local governments in privatizing these assets. The SPC requested USAID to provide, through Barents, technical assistance to local governments in developing and implementing their privatization programs, including training, to build local capability. The auction technique is often considered more advantageous to other methods of conducting small-scale Local Government privatizations because of its revenue-raising potential, transparency, and speed, and, therefore, auctions provided the core of the entire program.

In light of this request, within the scope of USAID approved scope of additional activities, the Barents team completed an instruction booklet for officials working on privatization at the provinces' local administration. The booklet included texts from corresponding legal provisions from the Constitution of Mongolia, State and Local Property Law, Anticorruption Law, and the Public Service Law. It also incorporated the 1997-2000 Mongolian Privatization Program, the SPC internal regulations on conducting sealed bid auctions and English "open outcry" auctions, a "How To" instruction manual on using the auctions computer programs, and all the sample forms used in auctions.

Additionally, the Barents team coordinated with the USAID-funded Gobi Regional Economic Development Initiative project regarding local privatization in four Gobi regions: Dundgobi, Umnugobi, Gobi-Altai and Uvurhangai. The team prepared a list of local properties in those aimags and advised the Gobi Initiative's project staff on privatization problems.

Lessons Learned

The provision of assistance in the design and conduct of sealed-bid auctions was a highly successful component of the Mongolian Privatization Program.

1. Training

It has been observed that the vital element of assistance with technical aspects of privatization transactions was training of middle and senior staff members of counterpart organization of the Government in details and processes of such operations.

2. Counterpart Ownership

The Barents Team worked in close cooperation with the SPC Sealed-Bid Auction Department and other senior executive offices, and their direct involvement in the process of analyzing the operational weaknesses of the old auction format and in the development of the components of the Barents-proposed new format helped obtain the required Government approvals in just four months after the commencement of the project work in September 1998.

COMPONENT 3: PUBLIC OUTREACH AND INVESTOR COMMUNICATIONS

The activities within this component are divided into two distinct elements: public relations campaign for privatization in general, and public relations/investor outreach for specific enterprises. Each of the elements will be described, in turn, below:

Public Outreach

Background

Barents was tasked under its Scope of Work to develop a highly informational, national public education campaign to help establish public and official acceptance of the country's privatization program. The objective was to engage in a public education/promotion program that was informative and designed to help the general public to appreciate the objectives and benefits of privatization. Further, in addition to building general public support, this effort was designed to target and inform potential local investors of opportunities for investment in and purchase of state assets. The effort was designed to fulfill the need for improvement of the quantity, quality and outreach of information about the Privatization Program to the public.

Main Accomplishments

Within the area of general public relations, the Barents team produced and broadcast a series of radio talk shows, television interviews and Q&A sessions addressing privatization issues in general and enterprise specific problems. Two books were commissioned and published in Mongolia: "*Privatization: Frequently Asked Questions and Factual Answers*" (in Mongolian), and "*How I Changed My Grandpa's Mind*" (published in Mongolian, in two volumes). Also, project consultants and staff gave numerous interviews in national newspapers explaining the objectives of privatization program and advantages of privatizing specific MVC enterprises. A detailed listing of all radio shows, TV appearances and newspaper interviews are provided in Appendix C.

The Barents' team commissioned three public opinion surveys, undertaken in 1998, 1999 and 2000. It was determined from the surveys that the public outreach program did achieve its objective of educating the general public of the benefits and goals of privatization, with public perception of privatization shifting during the course of the total survey period towards a highly positive outlook for the expected results of privatization. Through a comparison of final survey results with those of the previous two years, the following key points were noted:

- 94.4% of Mongolians thought privatization affects them and was therefore an important issue.
- 70% of Mongolians thought "privatization well-handled leads to a strong economy and opportunity for all based on their own skills and talents."

When asked about the specific programs on television, radio and printed media, respondents provided the following response:

- 76% of the respondents were aware of "*Your Opinion?*"(TV show) and of those,

- 96% rated the program as balanced,
- 86% as informative,
- 86% as credible, and
- 96% as useful.

Additionally, the public relations campaign was viewed as successful in addressing the concerns and doubts of public officials, although there were temporary setbacks due to disagreements among political parties and overhaul of Government structures after the country's year 2000 general elections.

Lessons Learned

Any privatization program or any other large-scale restructuring and reform undertakings do require wide public support and a well-targeted public relations campaign is crucial in securing such support. Television proved to be a surprisingly effective medium to reach the public due to the fact that nearly half of the country's population lives in the capital city Ulaanbaatar and radio is less popular in urban areas; additionally, newspapers are an expensive daily item, while TV broadcast is free.

Investor Communications

Background

Beginning in 2001, with Government momentum for MVC privatization moving forwards, and the launching of the first international tenders¹, Barents efforts within the area of public outreach shifted from its broad initial focus to a targeted campaign focusing on direct investor outreach for the portfolio of enterprises slated for privatization. Direct investor outreach campaigns were conducted for Trade and Development Bank, NIC, Gobi, Agricultural Bank, and Mongol Daatgal.

In total, over 600 investors worldwide were contacted by the Barents team on behalf of the SPC. Additional details on investor outreach activities are provided below.

Main Accomplishments

1. Direct Investor Outreach

Within the area of direct investor outreach, the Barents team engaged in targeted marketing of each transaction to carefully identified potential investors. For each MVC, a roster of potential investors was developed and reviewed on a regular basis with the SPC Chairman. Initially focused on targeting investors' within the same sector (i.e. banking for Trade and Development Bank,

¹ The first international MVC tenders launch were for Gobi and Trade and Development Bank, on July 8, 2001 and September 3, 2001, respectively.

Agricultural Bank), the team – together with the SPC – later adopted a more holistic approach in identifying investors, centered on not only sectoral investors, but also those who might otherwise have a strategic interest in the sale.

See Table 2, below, for a summation of direct investor outreach contacts:

Table 2. Potential Investor Outreach Efforts

Name of Most Valued Company	Potential Investor Outreach Efforts	Result
Trade and Development Bank	150 leading banks and financial institutions contacted.	Privatized in 2002.
Agricultural Bank	Approximately 120 entities contacted, including Mongolian banks and large corporations; international financial service providers; development finance institutions, and others.	Privatized in 2003.
NIC JSC	Contacted over 85 petroleum and petroleum products distribution companies located domestically and worldwide	Privatized in 2003.
Mongol Daatgal	113 potential investors were contacted, including insurance companies, insurance practitioners, and other financial institutions located both domestically and abroad.	Privatized in 2003.
Gobi JSC	Approximately 200 companies in the textile and related industries contacted.	During tendering in 2003/2004, 7 EOIs were received for participation in the tender.

2. Preparation of Investor Outreach Marketing Materials

In the process of engaging in direct investor outreach, the Barents team assisted the SPC in the preparation of numerous investor outreach marketing and advertising materials. Efforts including a range of activities, including the following:

- Development of the Information Memoranda for each MVC, containing details both on the macro investment environment within Mongolia, as well as on the specific investment opportunity.
- Preparation of Tender Notices and Tender Reminders for each transaction, as well as brief marketing flyers highlighted the investment opportunity.
- Announcement of each tender in local and international press, as well as advertisements in targeted industry publications. Locations included:
 - International:
 - *The Economist* magazine
 - *Far East Economic Review*
 - *The Banker* (Trade and Development Bank)

- *American Banker* (Trade and Development Bank)
- *Wool Record* (Gobi JSC)
- *Oil and Gas Journal* (NIC JSC)
- Domestic:
 - Unuudur (Today) - Mongolian language publication
 - Unen (Truth) - Mongolian language publication
 - Zuunii Medee (Century News) - Mongolian language publication
 - Udriin Sonin (Daily News) - Mongolian language publication
 - Mongol Messenger – English language publication
 - UB Post - English language publication
- Announcement of tenders on relevant websites, including:
 - State Property Committee (this website, www.spc.gov.mn, was developed by the Barents team.)
 - MVC specific websites, such as advertisement on the Agricultural Bank website
 - World Bank/MIGA Privatization Link Website
 - Acquisitions Monthly
- Contact with other potentially interested parties for each transaction, including:
 - Embassies and other diplomatic representatives in Mongolia
 - Honorary Consuls to Mongolia
 - Organizations such as North American Mongolia Business Council
 - U.S. Department of Commerce/International Trade Administration
 - Cashmere and Camel Hair Manufacturing Institute (Gobi JSC)

3. Additional Support to Potential Investors

In addition to the above activities, the Barents team also provided additional support to the SPC in its communications and outreach to potential investors, including the following activities:

- Assistance in the pre-qualification process, and in the finalization and distribution of tender documentation packages (containing Information Memorandum, Rules of Tender, and Share Sale and Purchase Agreement)
- Assistance in facilitating due diligence visits, including engaging in coordination efforts with enterprise management
- Responding to potential investor queries pertaining to each tender, and assisting in the negotiations process
- Assistance in discussions of possible participation in the tenders by such international institutions as the IFC and ADB.
- Coordinating and advising on other related activities, such as attendance at Financial Proposal opening events, etc.

Lessons Learned

As mentioned under Component 1, attracting potential investors to the Mongolian market was a challenge due to various factors, including external factors such as the small size of the market, a recessive global economic environment, as well internal/controllable factors such as too narrowly defining eligible participants in the tender, as well as setting criteria that proved too stringent or unacceptable for investors.

As previously discussed, through the process of experience, the Government of Mongolia learned and was able to put into action its understanding of the need to take steps in directions that would enable it to attract increased investor interest for the various MVCs.

With regard to Barents investor outreach work, it was soon realized that there is a need for providing full-scale investor communication assistance to the SPC on daily basis, particularly in their communications with foreign investors, to respond to inquiries, address concerns, and, generally, stay in touch and provide guidance and assistance on multiple, including logistical issues.

COMPONENT 4: LEGAL, REGULATORY AND POLICY FRAMEWORK

Introduction

Given the importance of technical advisory services being provided within the context of the legal, regulatory and policy framework, this element of technical assistance has been sub-divided as an individual component, though not initially defined as such within the original project Statement of Work.

Main Accomplishments

Barents provided extensive services in support of the development of Mongolia's legal, regulatory and policy framework for privatization. This included both overarching legal reviews as well as legal support provided on the enterprise-level. An overview of legal activities is provided below.

- Commissioned a comprehensive review of the legal environment in Mongolia in the second quarter of 1999, which was subsequently used to develop related documents for the Mongolia Privatization Program.
- Provided support in the development of strategic legal documentation and other overarching documentation for the country's privatization program. This included provided legal assistance in the development and/or review of laws relating to privatization, and the restructuring of commercial and social assets in Mongolia. Particular assistance was provided with the preparation of the following documents:
 - Law of Social Assets Privatization
 - Privatization Guidelines for 2001-2004
 - Yearly Privatization Programs for 2001 – 2004
 - Other legal documentation and legislation, on an as-needed basis
- Provided assistance to the SPC in the review and preparation of specific transaction-related legal documentation, including:
 - Pre-privatization due diligence reports and statements
 - Information Memoranda
 - Rules of Tender
 - Share Sale and Purchase Agreements
 - Officer's Certificates
 - Purchase Price Escrow Agreements
 - Share Escrow Agreements
 - Other agreements governing the relations between buyers and seller with regard to payment for transaction and escrow accounts.
 - Closing Memoranda

- Conducted legal due diligence for the privatizations of TDB, NIC, Gobi, Agricultural Bank and Mongol Daatgal LLC, including review and translation of all relevant Mongolian laws and regulations for inclusion in the data room for each enterprise.
- Provided legal support in communications and negotiations with potential investors, as well as provided other ad-hoc support to the SPC in its relations with acquirers post-privatization.
- Provided other legal opinions and counsel, on an as-needed basis. Examples include:
 - Developing a legal opinion on the restructuring of Mongol Daatgal Co, in order to address the company's reinsurance debt.
 - Advice on the resolution of the post-privatization dispute with the management of APU Co.

Lessons Learned

In transactions involving international partners, it is important to investigate the compatibility of host country laws and regulations with international norms and practices. It is advisable to take steps to clarify and/or amend as appropriate existing laws and/or regulations in a manner that would allow foreign investors to have confidence in the planned acquisition and the business environment post-sale.

COMPONENT 5: POST-PRIVATIZATION ASSISTANCE

Introduction

Given the importance of post-privatization support to newly privatized enterprises as it related to the development of the private sector in Mongolia, this component envisioned a needs assessment of such support to generate data and information to use as the basis for recommendations to the Government of Mongolia and USAID. The needs assessment was to consist of two parts: (a) a formal survey of corporate business practices and corporate governance procedures currently applied by large enterprises privatized through the sealed-bid mechanism, and (b) a survey of local, independent business support organizations, business and economics faculties and other organizations to assess existing local capacity for assisting with corporate restructuring and providing business support services.

Based on the results of the above assessment, recommendations covering the following areas were expected: (a) institutional structures including non-profit and for-profit organizations, (b) identification of categories of expertise required to build a "critical mass" of business support services, (c) current and estimated future need/demand for business support services, and (d) a strategy for institutionalization, including resource requirements.

Also expected was an assessment and recommendation on the means to develop a set of "self-help" manuals for use by owners, managers, directors and shareholders of privatized entities defining the roles, responsibilities, rights and obligations of stakeholders.

Main Accomplishments

The Barents team produced and delivered to USAID a report entitled, "Recommendations on the Need for and the Means to Develop a Set of "Self-Help" Manuals for Use by Owners, Directors, Managers and Shareholders of Privatized Enterprises". The report addressed USAID's issues and concerns within this area and provided a comprehensive set of recommendations.

Lessons Learned

Given the scope of the issues raised in the post-privatization assessment, it was concluded that it might prove more efficient to address support to stakeholders of privatized enterprises within a context of wider support to private sector across all areas of relevance, such as legal issues, management, accounting and so on.

OTHER ACTIVITIES

Social Assets Privatization and Divestiture

In addition to its primary activities, as detailed in the components above, Barents also provided advisory services to the SPC on the issues of social assets privatization, resulting in the compilation of a report entitled “Social Assets Privatization Report” in October 1999. As mentioned under Component 4, the team also assisted the SPC in drafting the “Law on Social Assets Privatization”.

In December 1998 and May 1999 a Barents’ project consultant, together with representatives of SPC, visited two state-owned enterprises in the Eastern provinces of Mongolia that were slated for privatization, in order to conduct an assessment of the then-current situation of the social assets. As a result of these trips, recommendations on social infrastructure restructuring, including transfer of assets and privatization, were produced and delivered to the SPC.

Social assets privatization is an important and sensitive issue in economic reforms as a majority of the population relies on services provided by the government. Availability of a comprehensive and clear social sector privatization plan prior to embarking on privatization of productive assets in the economy is crucial to success in both economic and political terms.

APPENDIX A:
PRIVATIZATION GUIDELINES 2001 – 2004

PREFACE

The *Privatization Guidelines for 2001-2004* were approved by Mongolia's State Ih Hural (Parliament) on January 25, 2001. The Guidelines serve as an official statement of the Government's privatization policies and define enterprise- and sector-specific objectives and priorities. The passage of the Guidelines is a critical step in furthering the country's efforts to encourage private sector participation and investment, both domestic and foreign.

The Government of Mongolia's overall policy goal is to accelerate the privatization process and increase private sector participation in the economy, thereby improving economic efficiency, generating economic growth, and enhancing the welfare of the people. Based on the Guidelines, the Government will adopt annual action plans specifying the enterprises and assets to be privatized by the State Property Committee during the year and the methods to be utilized. For each privatization, the Government will choose the most appropriate method and structure of sale to achieve its objectives. The Government will prepare annual progress reports on the implementation of the privatization policy for submission to and review by Parliament.

The Government's strategy for 2001-2004 focuses on the privatization of Mongolia's largest companies, often referred to as Most Valued Companies (MVCs). The Government intends to privatize the MVCs through transparent, credible, international tenders. The privatization of these companies is expected to provide an inflow of capital through direct foreign investment as a basis for long-term growth, improved economic efficiencies, reduced cost of providing services, and improved service quality, coverage, and reliability.

The Guidelines lay out the Government's sector-specific plans for restructuring and privatization, such as the energy sector reform program. The Government intends to restructure the Energy Authority into separate generation, transmission, and distribution companies with an independent regulatory authority and plans to pursue a phased privatization approach. The Guidelines also define actions planned for the telecommunications, roads, coal, railways, and other infrastructure sectors.

The Government's near-term privatization candidates include the following enterprises:

- Banking - Trade and Development Bank LLC
- Oil and Gas Distribution – Neft Import Concern (NIC) JSC
- Cashmere Production and Manufacturing – Gobi JSC, Mongol Amicale LLC
- Insurance – Mongol Daatgal SOE
- Civil Aviation – MIAT SOE
- Cement – Hutul Cement and Chalk SOE
- Mining – Mongol-Bolgar Geo LLC
- Beverages – APU JSC

The Guidelines are structured as follows:

- Chapter I describes the general principles of privatization as well as the Government's privatization objectives and methods;
- Chapter II discusses enterprise- and sector-specific privatization and restructuring issues, including the privatization of MVCs;
- Chapter III outlines requirements to increase the social and economic benefits of privatization and measures to attract foreign investment; and
- Chapter IV defines the Government's plans to develop national consulting services and support post-privatization restructuring efforts.

**State Property Committee
Government of Mongolia**

RESOLUTION OF THE STATE IH HURAL OF MONGOLIA

January 25, 2001

No. 10

Ulaanbaatar

Approving the Privatization Guidelines
for 2001-2004

Based on Article 8, Paragraph 1, Point 5 and Article 66, Paragraph 1 of the State and Local Property Law, the State Ih Hural DECREES:

1. Approves the Privatization Guidelines for 2001-2004 as attached herewith.
2. Assigns the Government (N. Enkhbayar) to undertake the following measures to enhance the performance of privatized entities and improve their efficiency:
 - a) ensure privatization laws and regulations are implemented and undertake appropriate measures;
 - b) assess the implementation of contracts signed with entities privatized on certain terms.

The Government shall report the results to the State Ih Hural in the first half of 2001.

3. Assigns the Government (N. Enkhbayar) to develop a draft social sector privatization law and submit it to the State Ih Hural for approval in March 2001.
4. Assigns the Economic Standing Committee (T. Ochirkhuu) to oversee the implementation of this Decree.

CHAIRMAN OF THE STATE IH HURAL

L. ENEBISH

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Attachment to the State Ih Hural

Resolution No. 10 of 2001

PRIVATIZATION GUIDELINES FOR 2001-2004**CHAPTER I. GENERAL PROVISIONS****1.1 Privatization Objective**

The purpose of the privatization policy for the period 2001-2004 is to accelerate the privatization process and increase private sector participation in the economy, thereby improving economic efficiency, generating economic growth, and enhancing the welfare of the people.

The Guidelines serve as a strategic document that defines the state privatization policy as well as the principles and methods of management and implementation of the privatization process. It shall be abided by the Government of Mongolia, state administrative authorities, agencies, and other relevant organizations, business enterprises, and individuals.

1.2 Privatization Principles

The following principles shall be adhered to during the privatization of state-owned assets:

- Increase production efficiency and competitiveness by increasing the role of the private sector in the economy, thereby ensuring sustainable post-privatization budget revenues;
- Dismantle monopolies in certain sectors and establish an environment for fair competition;
- Attract foreign investors and promote the economic aspects of Mongolia's multilateral foreign policy;
- Decrease the state's involvement in commercial activities and improve the state budget's structure and efficiency;
- Separate the state's regulatory functions from enterprise activities and ensure the independence of the regulatory bodies;
- Minimize the negative impacts related to social security and employment that may arise as a result of privatization;
- Provide environmental safety and protection;
- Verify the accuracy of stated liabilities and loans, divest liabilities as deemed necessary, and prepare a new timeline with guarantees for their repayment.

1.3 Institutional Structure and Organization to Implement the Guidelines

These Guidelines shall be implemented according to the following institutional structure and organization:

- As set forth in the Guidelines, the Economic Standing Committee of the State Ih Hural shall oversee the privatization process and its results. The State Ih Hural shall review the Government's report on the implementation of the Guidelines and provide guidance on an annual basis;
- Annually, the Government shall prepare and approve the list of enterprises and immovable assets to be privatized and the method of privatization. The Government shall implement the Guidelines;
- In compliance with the State and Local Property Law, the State Property Committee shall manage and conduct the privatization of objects included in the list of enterprises and immovable assets to be privatized. The State Property Committee shall report the results to the Government on a semi-annual basis;
- The State Property Committee, together with the relevant state central administrative authority, shall implement the Government's decision to operate enterprises and organizations through management, performance, and lease contracts as specified in this document. The State Property Committee shall monitor the process and report the results to the Government on a regular basis;
- The State Property Committee, together with the relevant state central administrative authority, shall determine the necessity of restructuring enterprises and organizations and shall report the results to the Government.

1.4 Privatization Methods

In addition to conventional privatization methods such as auction, competitive tender (selection of a project), sale of state-owned shares, restructuring state-owned legal entities into joint ventures, sale of assets after liquidation, issuance of preferred shares, and privatization based on management performance, all of which have been utilized in previous years, international tenders (competitive tenders), management contracts, performance contracts, and lease contracts will be used separately, or in combination, as deemed most appropriate for a particular entity or organization.

[The Government] shall also use other privatization methods such as the sale of state-owned shares packaged as appropriate, recapitalization, liquidation of a loss-making entity, and sale of assets as deemed most suitable for a particular entity.

1.5 Privatization Information

The privatization process will be conducted in an open and transparent manner ensuring the availability and equal dissemination of information to all. The State Property Committee shall conduct a public awareness campaign to provide necessary information to participants in the privatization process, shareholders, and other interested parties and to help facilitate informed decisions.

The State Property Committee shall organize various activities using mass media and modern information technology to disseminate information about privatization to the public.

The State Property Committee shall retain the services of advisors and intermediaries to provide assistance on various issues including promoting the privatization process, determining the market value of enterprises to be privatized, developing tender rules and documents, evaluating proposals and selecting investors, and negotiating with winners. Advisors will be selected on a competitive basis.

1.6 Legal Framework for Privatization

The following measures shall be taken to continue to improve the existing privatization legal statutes in compliance with the state privatization policy:

- Improve legal relations with respect to management, coordination, control, and privatization of local government property. To achieve this, [the Government shall] expand the powers of local self-governing organizations and improve national policy and regulation of property management, registration, control, and privatization issues;
- Separate state regulatory functions from commercial and service activities in the infrastructure and social sectors, and ensure the independence of regulatory bodies;
- Establish a diverse and flexible financial market;
- Improve the legal basis of commercial contracts to meet current requirements;
- Establish a system that encourages effective cooperation between entrepreneurs and state organizations.

CHAPTER II. ENTERPRISE AND SECTOR-SPECIFIC PRIVATIZATION AND RESTRUCTURING

2.1 Privatization and Restructuring of Most Valued Companies

The Most Valued Companies (MVCs) are defined as companies strategically positioned in their respective sectors of the economy with substantial market share and the potential to attract foreign investment. By increasing the participation of foreign strategic investors in the privatization of the MVCs, priority will be given to achieving the following:

- Modernize equipment and technology to bring them up to current international standards;
- Introduce management know-how to lead Mongolian companies into the international arena;
- Dismantle the monopolistic position of certain enterprises; and
- Promote the economic aspects of Mongolia's multilateral foreign policy and national security.

These principles will be reflected in the privatization terms and conditions and the privatization [share purchase] agreement. During the privatization of an MVC, [the Government shall] emphasize its requirement to maintain the company's current line of production, and its role in and significance to the country's economy.

2.1.1 Trade and Development Bank LLC

[The Government] shall privatize to a foreign and/or domestic strategic investor with an internationally-recognized reputation and transnational banking experience a package of state-owned shares that the investor would be interested in acquiring through a competitive tender. The following principles shall be adhered to during this privatization:

- Enhance the bank's performance, maintain its leading position in the Mongolian banking sector, and establish and ensure its regional competitiveness;
- Introduce modern banking corporate governance skills (know-how) and information technology that meet international best practices and standards;
- Expand the scope of financial intermediation and introduce advanced methods and forms of banking services as well as new methods of risk management.

2.1.2 Neft Import Concern (NIC) JSC

[The Government] shall privatize to an internationally-recognized foreign and/or domestic strategic investor operating in this sector a package of state-owned shares of NIC JSC that the

investor would be interested in acquiring through a competitive tender. The following principles shall be adhered to during this privatization:

- The Government shall issue a golden share, valid for five years, to ensure the new owner fulfills its commitments to maintain the supply of petroleum products to filling stations in Mongolia's remote aimags and soums;
- Diversify import sources of petroleum products, ensure the reliability and cost effectiveness of supplies, and enhance the availability of quality products and services;
- Make investments to upgrade operational facilities and fixed assets to bring them to international standards;
- Implement specific measures to improve environmental and occupational safety, and inspection for standards related to petroleum product technology, filling stations, and storage facilities;
- Ensure the maintenance of the state reserve of petroleum products, based on market principles;
- Considering increased private sector participation in the import of petroleum products, separate the product quality testing laboratory network and its related equipment from the company before privatizing the state-owned shares of NIC JSC and make these services available to the public.

2.1.3 Gobi JSC

[The Government] shall privatize to an internationally-recognized and financially sound foreign and/or domestic investor, capable of executing a long-term strategy to produce high value-added finished goods using Mongolian cashmere, a package of state-owned shares that the investor would be interested in acquiring through a competitive tender. The following principles shall be adhered to during this privatization:

- Invest in modernization and expansion of the company's processing facilities;
- Expand the market for high valued-added finished products by increasing the degree of processing and exports;
- Introduce modern management and technological know-how to improve the competitiveness of the Mongolian cashmere industry and ensure its sustainable growth.

2.1.4 State-owned insurance company

[The Government] shall privatize to an internationally-recognized and financially sound foreign

and/or domestic investor with a history of successful operation in the insurance industry a certain portion of the state-owned shares of the insurance company through a competitive tender. The following principles shall be adhered to during this privatization:

- Introduce services to utilize available insurance resources efficiently in the capital market and improve the legal framework for such services;
- Recapitalize the company and elevate its insurance activities to international norms;
- Introduce new, sophisticated corporate governance skills and operational methods;
- Expand the activities of insurance companies and create a favorable business environment by increasing the variety of insurance products.

2.1.5 MIAT SOE

The following measures shall be implemented to accelerate restructuring in the civil aviation transport sector:

- Separate ground maintenance facilities and services for communal use (i.e., in-flight meals and fuelling) and their equipment from MIAT to enable the provision of these services to all passenger and other airlines and aircraft conducting flights in Mongolia, and proceed with their phased privatization;
- Pursue a policy to privatize MIAT and all of its branches as one entity through a competitive tender to an internationally-recognized foreign airline with the condition that [the investor] makes investments and improves MIAT's operations and services;
- Improve and modernize technical and flight safety controls systems, taking into consideration increased private sector participation in the civil aviation transport sector.

2.1.6 Restructuring of Mongolian-Russian Joint Venture Companies Monrosvetmet LLC and Erdenet LLC

Mongolia will not privatize its shares in Monrosvetmet LLC and Erdenet LLC, Russian-Mongolian joint venture companies, in the near future due to their importance to the country's economy and current conditions of the international markets for their products.

The Government will remain open to cooperation with interested enterprises (especially foreign organizations) to introduce modern corporate governance skills and know-how, reduce costs, improve efficiency, and increase the degree of processing.

2.1.7 Hutul Cement and Chalk SOE

The Hutul Cement and Chalk SOE shall be corporatized as a joint stock company. A certain portion of the state-owned shares shall be privatized based on the following principles:

- Privatize [the company] through a competitive tender to a foreign investor who is capable of introducing modern cement production equipment and technology and diversifying the company's export products;
- Without presenting a direct impediment to privatization, include specific requirements in the tender rules regarding environmental and social issues in the town of Hutul.

2.1.8 Metallurgical Plant SOE

Considering the difficulties in procuring raw materials and the plant's financial position, the following restructuring measures shall be implemented:

- In order to stabilize operations, the plant shall be managed through a management contract. The management contract will not serve as a basis for transferring property and property rights under private ownership;
- The management contract shall be awarded through a competitive tender.

2.1.9 Mongol-Bolgar-Geo LLC

The following principles shall be adhered to during the privatization of the state-owned shares of Mongol-Bolgar-Geo LLC:

- Prior to the sale of the state-owned shares, reevaluate the Mongolian party's investment;
- Corporatize the company as a joint stock company;
- The Mongolian party will sell its shares as a package based on an agreement with the other party.

2.1.10 Mongol Amicale LLC

The following principles shall be adhered to during the privatization of the state-owned shares of Mongol Amicale LLC:

- Resolve the debt issues related to investments made by the Mongolian party;

- The Mongolian party will sell its shares as a package based on an agreement with the other party.

2.1.11 APU JSC

The following principles shall be adhered to during the privatization of the state-owned shares of APU JSC:

- Prior to privatizing the enterprise, resolve disputed liabilities and receivables issues such as repayment of the loan obtained from India as well as the subsidiary's establishment of a vegetable oil producing enterprise;
- Privatize a certain portion of the state-owned shares by selling a package through a sealed bid auction.

2.2 Infrastructure Restructuring and Privatization

In addition to their business activities, most state-owned enterprises in the infrastructure sector perform state regulatory functions. Therefore, while privatizing and restructuring the infrastructure sector, priority will be given to transforming the state regulatory system to suit market principles.

While privatizing the infrastructure sector, the key approach will be to increase private sector involvement, encourage competition, promote foreign investment, and balance these objectives with national security considerations.

2.2.1 Energy

Energy sector restructuring will be conducted in two phases. During the first phase, the energy sector's current management and production systems will be commercialized to conform to market principles. The following actions shall be implemented during the first phase:

- Separate the state regulatory functions from the current functions of the Energy Authority and transfer them to an independent regulatory body as specified in the Energy Law;
- Transform energy generation, transmission, and distribution entities into companies operating on a commercial basis;
- Separate capital repair and maintenance units from the power generation and transmission network and privatize them;
- Reorganize the Energy Authority into a unit for collection of receivables and debts incurred to date.

Actions to be implemented during the second phase include:

- Begin a phased privatization of state-owned power generation and distribution companies established during the first phase to a strategic investor through a competitive tender, provided that the preparation is fully completed;
- Energy transmission companies of the main network, responsible for dispatching power from generators to distributors, shall remain state-owned.

2.2.2 Roads

The following measures shall be implemented to continue the privatization and restructuring of the road sector of Mongolia:

- Reorganize AZZAN (Road Repair and Maintenance Corporation) JSC of Ulaanbaatar as a road maintenance and repair consortium operating in the central and western regions and reorganize Avto Zam JSC of Dornod aimag as a road maintenance and repair parent company for the eastern region. Both companies shall remain state-owned;
- In compliance with current laws, separate the road maintenance and repair units of Avtozam-Arhangai JSC, Altain Zam JSC, Erdenet-Avto Zam JSC, Huvsgul-Avto Zam LLC, and Ulbaa JSC and transfer them to road maintenance and repair parent companies to be established in the central, eastern, and western regions of the country;
- Privatize packages of the state-owned shares of the road construction and engineering companies through the Mongolian Stock Exchange;
- Corporatize Erdene Zam SOE and sell a package of the company's shares through a sealed bid auction;
- Transfer relevant functions of the Traffic Police Department to the General Department of Roads in order to provide road security and integration of modernization, maintenance, repair and other services related to roads;
- Provide state support to road construction activities funded by foreign and domestic investments and establish a proper legal environment.

2.2.3 Telecommunications

The following measures shall be implemented to restructure and privatize the telecommunications sector:

- Separate the state functions of the Post and Telecommunications Authority, such as issuing service licenses, monitoring tariffs and prices, determining terms of connection to the main network, and supervising service quality and compliance to standards; establish an independent regulatory body;
- Reevaluate and transfer to the Mongolian Telecommunications JSC assets of the central communications network, excluding international and long distance call transfer and international connection facilities, and increase the state-owned shares of Mongolian Telecommunications JSC;
- Reorganize the solar batteries enterprise into a state-owned company and pursue a policy to privatize it;
- With the increase in the number of state-owned shares of the Mongolian Telecommunications JSC, privatize a portion of the state-owned shares to a strategic investor through a competitive tender;
- Continue to operate postal services as a state-owned company;
- Establish a special fund from the revenues of communications services suppliers to improve communications in rural areas.

2.2.4 Coal Sector

The following policy shall be implemented for companies responsible for supplying the central energy system with fuel:

- State-owned shares of Baganuur JSC and Shivee Ovoo JSC will not be privatized until the technical renovation projects being implemented with soft loans granted by the World Bank and the Government of Japan are completed;
- Taking into consideration the size of proven coal reserves in the region, future development of the mine, and the town's social issues, study the possibility to privatize the state-owned shares of Sharyn Gol JSC;
- Privatize state-owned shares of Hotgor JSC through an auction;
- Due to the fact that most of the mining enterprises have been fully transferred to the private sector, the Government will take into special consideration the reparation of previous environmental damages and will aim to cooperate with the privatized enterprises to resolve this issue.

2.2.5 Railways

[The Government] shall take organizational measures to restructure Ulaanbaatar Railways JSC as an independent entity in accordance with the Company Law and other relevant laws.

In the near future, the Mongolian side will not pursue the privatization of the state-owned shares in the Mongolian-Russian joint stock company Ulaanbaatar Railways.

If it is deemed necessary, the Government will propose to the company's relevant authority the possibility of leasing some part of the cargo and passenger rail cars and locomotives to improve the technical readiness, flexibility, and promptness of railway services.

To promote competition, [the Government shall] provide opportunities for foreign and domestic enterprises to perform services on Mongolian railways using their own cargo and passenger rail cars and locomotives.

[The Government shall] regulate and resolve, within the framework of present legislation, the issue of ownership of the assets formed with assistance and soft loans from Japan and other donor countries as well as investments from the Mongolian side. In the future, the issue of ownership will be resolved simultaneously when making investments of that nature.

2.2.6 Geodesy and Cartography Sector

Considering the obsolescence of equipment and technology, [the Government] policy in this sector shall be as follows:

- Privatize Aerogeodesy SOE and Cartography SOE by making additional investments, provided that the operational profiles remain unchanged;
- Investors shall be selected through a competitive tender;
- The geodesy and cartography information database shall remain state-owned. [The Government will] provide the public with access to this database.

2.2.7 Other Infrastructure Sectors

The Government will render assistance and support to the infrastructure-related private enterprises in transportation, construction, tourism and hotel services in their efforts to improve operations and restructure.

Entities in the public utilities and services sector have been transferred to municipal property. Therefore, the Citizen's Hural of aimags and the capital city shall regulate, as deemed appropriate for each particular region, the issues of privatization and restructuring in this sector in accordance with the Government-approved program and guidelines.

2.3 Financial Sector Restructuring and Privatization

2.3.1 Privatization and Restructuring of Commercial Banks

The purpose of privatization in the banking sector is to attract and efficiently allocate available financial resources from both foreign and domestic sources, support the development of the real sector, enhance economic growth, establish a competitive banking system, diversify financial services, and introduce new banking technologies.

Basic Guidelines for Bank Privatization approved by the State Ih Hural in 1999 and the Bank Privatization Program approved by the Cabinet in 2000 shall serve as the foundation for banking sector privatization and restructuring.

[The Government will] take measures to continue and complete, in the near future, the restructuring of illiquid and insolvent banks currently under way.

[The Government will] consider separately the issue of privatizing the Agricultural Bank based on its recapitalization by the Government, appointment of a foreign management team hired under a management contract, and the bank's improved operations.

The Savings Bank shall remain state-owned until the financial market is stabilized and the savings insurance system is established.

Privatization of the other commercial banks shall be decided on a case-by-case basis once the state-owned shares of the banks are legitimately reconfirmed.

2.3.2 Securities Market

The following measures shall be implemented to promote the smooth, flexible, and competitive functioning of the securities market and the stock exchange:

- Separate the securities clearing and depository functions from the stock exchange and provide opportunities for banks and other professional organizations to take on these activities;
- In order to enhance and support the operations of the stock exchange, sell, on an annual basis, a certain portion of shares (not less than MNT 200 million) of companies subject to privatization through the stock exchange;
- Take measures to transform the stock exchange into a self-regulatory system to improve its operations and internal control;
- Increase the possibilities for trading other types of securities in addition to shares;

- Optimize service charges of the stock exchange to meet demand;
- Establish standards and requirements for companies whose shares are traded on the stock exchange, thereby contributing to the favorable reputation of the traded shares and promoting incentives to companies to trade their shares on the stock exchange. This will also assist in making the operations of companies transparent to the public, raising the requirement to improve their accounting procedures, helping foreign and domestic investors to make better investment decisions, and increasing the chances of new capital inflow. In this regard, the Government shall support the stock exchange to improve its operations;
- Revise the Securities Law to meet current requirements and international standards; change the state regulatory system to make it optimal, efficient, active, and fair;
- In addition to the stock exchange, create alternative markets for securities trading and a legal framework to regulate their activities;
- The state will support and render technical assistance to companies issuing new securities;
- Implement measures to gradually reorganize the health and social insurance funds into commercial institutions that would serve as investment tools and achieve profitable operations;
- Establish the legal environment for creating voluntary health and social insurance systems;
- Complete the exchange of blue and pink investment coupons for equity within the next four years by selling a portion of the shares of companies subject to privatization in exchange for blue coupons, and up to 10 percent of the value of companies or assets subject to auction in exchange for pink coupons.

2.4 Social Sector Restructuring and Privatization

The purpose of privatization and restructuring in the social sector is to support competition and to separate and clarify state regulation, thereby increasing private sector participation in the management and financing of the sector, improving the quality of services, and ensuring their accessibility to all on an equal basis.

2.4.1 Health

The following restructuring and privatization measures shall be implemented in the health sector:

- As deemed necessary by the Government, privatize some clinics and specialized hospitals in part, or in whole, by attracting foreign and domestic investment and establishing joint

- ventures. Investors shall be selected through a competitive tender with specific terms and conditions;
- As deemed necessary by the Government, the management functions of some rural and urban area hospitals will be executed under management contracts. Medical help and services, as well as non-medical auxiliary services, will be executed under performance contracts. Some hospital facilities, medical equipment, and laboratories will operate under lease contracts;
 - Contractors to perform the services will be selected through a competitive tender from among non-governmental professional organizations, domestic and foreign private legal entities, and individuals. These contracts will not serve as the basis for transferring the property and property rights to private ownership;
 - The principal terms of a management contract will be to use revenues in excess of expenditures to invest the hospital, and improve and remunerate the hospital's management. The terms and amount of revenue allocation will be clearly stated in the management contract;
 - The principal terms of a performance contract will be the contractor's obligation to provide quality services according to the required standard. The employer will bear the responsibility for the ultimate results of a particular service;
 - The principal terms of a lease contract for equipment, laboratories, and facilities for auxiliary medical services will be the use of the leased property according to the stated purpose and the lease terms, and the obligation to pay rent to the lessor;
 - Emiin Uildver, the pharmaceutical company, shall remain state-owned to support the national pharmaceutical industry and implement projects in this field;
 - Resorts and spas providing nationwide services, such as Hujirt and Shargaljuut, will be transformed into state-owned joint stock companies. A certain portion of shares will be privatized through a competitive tender to a foreign and domestic investor provided that the nature of services remains unchanged, the property is used according to its purpose, investments for improving efficiency are made, and requirements in terms of professional and technological aspects are met;
 - [The Government shall] reorganize Orgil spa as a national resort and spa center providing training and professional guidance and methodology for all resort and spa doctors and professionals, as well as monitoring activities of other spas and resorts;
 - Considering the Mongolian-Korean joint venture Monsam LLC's strategic importance as a supplier of disposable syringes and needles to the domestic market and considering it has begun to repay the loan obtained from Korea, the Mongolian party will not privatize its shares in the company;

- Fumigation services and pharmacies in Ulaanbaatar have been fully privatized. In order to improve the reliability and quality of their services, [the Government] will establish occupational standards and a professional control system to oversee the quality of their services;
- [The Government shall] contract non-governmental organizations to operate social protection service centers in rural areas.

2.4.2 Education

The following restructuring measures shall be implemented in the education sector:

- As a means of introducing world standard know-how in the education sector, establish branches of internationally recognized foreign schools in Mongolia, or support cooperation with them and encourage foreign and domestic investment to establish joint schools. The Government will support selected schools in the implementation of this initiative;
- State-owned universities and colleges offering higher education in pedagogy, culture, and arts shall remain state-owned;
- As deemed necessary by the Government, the management functions of technical and vocational education colleges and institutions will be performed based on management contracts. The principal terms for a management contract are to improve the efficiency and quality of a particular educational institution and to minimize government subsidies. The contract will not serve as the basis for transferring property and property rights under private ownership. Contractors will be selected through a competitive tender;
- Change the legal environment so that budget funding to state-owned educational institutions, except for secondary education schools, as well as assistance and loans to cover tuition fees for students attending universities and colleges, will be provided directly from the state central administrative authority in charge of educational issues;
- Determine the legal status of non-profit educational organizations' property;
- Non-profit, private, certified higher education institutions will receive government support through [support to] their students;
- Determine the size of land property of universities and institutes and provide conditions to expand or establish a campus.

2.4.3 Science

The following restructuring measures shall be implemented in the science sector:

- Considering the inevitable need to preserve the scientific and technological potential that exists in Mongolia and the fact that during the current transition period to a market economy, the financial ability of the private sector to support science and technology remains weak, and that world trends indicate that the role and influence of science and technology is growing, state-owned scientific and research organizations will not be privatized in the near future. However, the system under which the Academy of Science, universities, institutes, and research centers affiliated with state central administrative authority operate as state-owned budgetary organizations and science-technology-production corporations operate as state-owned companies shall be further advanced;
- In order to accelerate restructuring in the science sector and ensure integration of science, training, and production, [the Government shall] define the legal status of research institutes and centers and clarify the functions of the governing boards of the science-technology-production corporations;
- To improve the productivity of research and studies, [the Government shall] review, examine, and resolve the issue of establishing fully or partially state-owned science-education-production complexes;
- As deemed necessary, the Government shall privatize science-production corporations to a foreign and domestic investor with specific terms and conditions.

2.4.4 Culture and Arts

The following restructuring measures shall be implemented in the culture and arts sector:

- The National Ensemble of Folk Songs and Dances, the Academic Theater of Classical Art, the National Academic Theater of Drama, the Children's Theater, the State Philharmonic, the State Central Library, the Museum of National History, the Museum Temple of Choijin Lama, the Gallery of Fine Arts, the Museum of Theater, and the Cultural Heritage Center will continue to operate under state ownership as budgetary organizations in order to preserve the national traditional art of Mongolia, promote world classical art in our country, meet the intellectual demands of our youth, and provide an aesthetic education, as well as to protect, preserve, and promote the intellectual fund, history, and cultural heritage;
- As deemed necessary by the Government, the management functions of other cultural and arts organizations not included in the above list shall be executed by management contracts. Managers shall be selected through a competitive tender;
- The principal terms of a management contract are the use of revenue in excess of expenditures to improve and remunerate the management of the organization, renovate

equipment, and upgrade the skills of artists. The management contract will not serve as the basis for transferring property and property rights under private ownership;

- “Securities” Co. Ltd. will be privatized through an auction;
- According to the Government Action Program, professional art organizations in rural areas (aimag theaters and ensembles) will be transformed into regional theaters to provide cultural services to the rural population. This issue will be considered and resolved in coordination with local governments.

2.4.5 Physical Education and Sports

The following will be implemented in physical education and sports:

- The Central Palace of Physical Education and Sports will be operated through a management contract under the condition that it be used according to its initial purpose. Property rights will not be transferred under private ownership;
- Sports and physical education centers and facilities will be privatized through a competitive tender method to sports clubs on the condition that these facilities be used according to their initial purpose.

2.5 Privatization of Other Business Entities, Organizations and Immovable Assets

The following principles shall be adhered to during the privatization of state assets in sectors not specified above:

- The Government shall determine the types and number of assets and enterprises to be privatized as well as the methods of privatization based on business operations and significance to the country’s economy;
- During the selection of enterprises for privatization in a particular year, [the Government will] consider budget revenues and privatization preparation status;
- The issue of ownership of companies in which investments have been made from foreign loans and/or other forms of assistance to the Government shall be resolved before privatization. In the future, ownership and privatization issues shall be resolved at the time such investments are made;
- State-owned enterprises will be privatized after their reorganization into joint stock companies in compliance with the Company Law.

CHAPTER III. CONDITIONS AND REQUIREMENTS TO INCREASE SOCIAL AND ECONOMIC BENEFITS OF PRIVATIZATION

3.1 Development of Competition and Restriction of Unfair Competition

The fundamental condition for increasing the social and economic benefits of privatization is to provide a healthy, competitive market environment.

Privatization activities shall focus on protecting consumer rights, improving enterprise and service efficiency, and supporting fair competition.

While privatizing natural monopolies in the communications, energy, and railroad sectors, [the Government will] dismantle monopolies through restructuring, support competition with proper state policy, and take measures to establish a legal and institutional framework that strengthens anti-monopoly regulation.

[The Government will] set up a system to enforce the Law on Prohibiting Unfair Competition to cease and prevent illegal practices of unfair competition that are taking place due to the emergence of a large number of private enterprises that dominate their respective markets.

[The Government will] inform the public of unfair competition in the market place and establish and improve the legal environment to combat unfair competition practices.

3.2 Support for Foreign Investment

The following measures shall be implemented to attract foreign investment in the privatization process:

- Privatize a certain portion of state-owned shares of the Most Valued Companies to internationally-reputable, foreign strategic investors who are experienced in their respective lines of business and are financially sound;
- Disseminate information internationally about Mongolia's privatization policy and its implementation;
- Disseminate, on a broad scale, information about the companies to be privatized, prepare a list of potential foreign investors, and use a direct marketing approach.

3.3 Coordination with Social Security Objectives

The following measures shall be taken to minimize the potential negative impact on social security and employment during the process of privatization and restructuring within the context of these Guidelines:

- [The Government will] review the potential negative effects of privatization on social security and employment and determine methods to solve them on a case-by-case basis;
- Workers dismissed at the new employer's initiative within the first year after privatization and enterprise restructuring shall be notified at least two months prior to the termination of their employment. They will be paid a severance payment equal to not less than 1 month's average salary upon dismissal by the privatized company or guaranteed continued employment for at least one year. In addition, a severance payment equal to 6 months' average salary of a dismissed worker shall be transferred to the local labor office together with information regarding the dismissed worker;
- Measures to be implemented with regard to employees laid off as a result of enterprise restructuring and privatization, will include retraining and job creation programs;
- At the state policy level, [the Government will] support employee share ownership plans (ESOPs) provided by the management of privatized companies;
- [The Government will] provide employees of companies subject to privatization with accurate and reliable information about the privatization objectives, benefits, and timeline.

3.4 Environmental Protection and Security

In order to prevent ecological imbalance, reduce the negative impact of privatization on human health and the environment, and provide sustainable development objectives, [the Government] shall undertake the following measures:

- While privatizing an enterprise, if it is deemed necessary, perform an environmental impact assessment of the enterprise and determine negative effects on the surrounding environment; include measures to reduce and eliminate these negative effects in the enterprise restructuring plan;
- While privatizing an enterprise, business entity, organization or immovable property, confirm that land usage and possession rights are certified and make decisions based on an assessment of compliance with the Land Law of Mongolia;
- Take gradual steps to establish an environmental research and testing laboratory and employ environmental personnel in the companies that significantly impact the environment.

CHAPTER IV. PRIVATIZATION AND RESTRUCTURING SUPPORT

4.1 Create a Consulting Service System

Consulting and intermediary services are, in effect, intellectual investment. The following measures shall be taken to improve the operations of privatized enterprises:

- Create a national consulting network to provide consulting services in areas including finance and accounting, audit, legal framework, management, and marketing in order to facilitate privatization results and improve the efficiency of privatized enterprises;
- Support the establishment of aforementioned consulting centers at banks, financial organizations and universities. Allow these centers to directly implement or assist in the implementation of certain projects. Foreign aid, grants, soft loans, domestic resources, and assistance from international and local consultants shall be widely utilized to organize consulting services.

4.2 Support Post-Privatization Restructuring

Privatized companies now face challenges that never existed before. These challenges include: shortage of working capital, need to obtain financial management and modern marketing skills, promotion of new products and services, and elimination of obsolete products and services. Therefore, the Government shall provide all forms of support to the new owners of privatized companies to carry out post-privatization restructuring in the following manner:

- Upgrade technology and equipment, or in some cases, change the previous line of business by shifting resources to a new, more profitable line of business (restructuring plan);
- Restructure management systems from a risk-free system to a flexible and dynamic system of risk management (management renovation);
- Move towards a strategic policy (marketing) that is suitable in a competitive business environment;
- Restructure financial management from the previous uniform financial management system towards versatile financial management in an environment of risk (cash flow, debt and risk management). For this purpose, restructure accounting and information systems and introduce the following:
 - International Accounting Standards;
 - Management Information Systems;
 - Quality management systems;
 - A system of international standards;

- Restructure human resource management from the previous planned allocation of human resources towards the management of human resources under competitive labor market conditions;
- Learn about project development, credit applications, business plans, contracts, agreements, etc.;
- Effect corporate culture changes in view of social changes;
- Make internal structural and organizational changes;
- Restructure internal control systems.

4.3 Create a Retraining System

[The Government shall] develop and implement programs to retrain managers to successfully implement their post-privatization restructuring plans.

The Government will support the establishment of a retraining and adjustment system for redundant workers dismissed due to enterprise restructuring and privatization.

4.4 Decrease the Number of Special Licenses and Permits

[The Government shall] improve the licensing and special permit systems, decrease the number of permits, eliminate overlapping permits, and concentrate on issuing one-stop approvals to provide privatized enterprises the opportunity to freely conduct their activities in compliance with laws, regulations, and market practices.

APPENDIX B:
LIST OF SEALED BID AUCTIONS

Appendix B: List of Sealed-Bid Auctions

#	Name of company	Location (aimag, city)	Sector	Number of employees	Auction date (dd/mm/yy)	Actual revenue received from auctions (MNT)	Actual revenue in US\$
1	NABSAN JSC	Ulaanbaatar	Construction	103	11/9/98	27,305,100	31,936
2	DEVSHIL TRADE JSC	Ulaanbaatar	Food	86	15/9/98	74,051,930	86,610
3	MONNAB JSC	Ulaanbaatar	Construction	130	18/9/98	51,360,000	60,070
4	HASH-ORD JSC	Ulaanbaatar	Construction	198	21/9/98	34,974,810	40,906
5	BAYAN ALDAR JSC	Zavkhan	Trade	52	02/10/98	7,910,100	9,252
6	OV USJUULAGCH JSC	Uvurkhangai	Irrigation	98	09/10/98	10,152,500	11,874
7	GURIL JSC	Uvs	Food	173	13/10/98	101,671,000	118,913
8	ACHAA TEEBER JSC	Uvs	Transportation	54	15/10/98	6,292,000	7,359
9	ULAANBAATAR IMPEX SOE	Ulaanbaatar	Trade	124	16/10/98	610,330,979	713,837
10	ALTAIN AYANCHIN JSC	Khovd	Transportation	96	21/10/98	14,994,040	17,537
11	TEEVER ACHLAL JSC	Ulaanbaatar	Transportation	56	23/10/98	15,234,840	17,819
12	SHIM JSC	Selenge	Food	70	30/10/98	56,901,090	66,551
13	ULZII DUNDGOBI JSC	Dundgobi	Trade	29	06/11/98	4,648,395	5,437
14	BUUNII KHUDALDAA JSC	Ulaanbaatar	Trade	221	10/11/98	250,510,912	292,995
15	KHAR TARVAGATAI JSC	Uvs	Mining	60	12/11/98	151,344,430	177,011
16	MONG HULUG JSC	Darkhan	Transportation	94	17/11/98	40,126,074	46,931
17	DARKHAN GURIL TEJEEL JSC	Darkhan	Food	297	24/11/98	666,400,000	779,415
18	KHASH ORGOU JSC	Bayankhongor	Construction	120	03/12/98	10,022,950	11,723
19	TECHNIK IMPORT JSC	Ulaanbaatar	Trade	64	08/12/98	169,704,350	198,485
20	MANZUSHIR SOE	Ulaanbaatar	Tourism/Hotels	53	10/12/98	72,012,400	84,225
21	IKH BOGD SOE	Bayankhongor	Electricity & Water Supply	98	15/12/98	19,500,000	22,807
22	SPIRIT BAL BURAM JSC	Selenge	Spirit production	600	16/12/98	616,003,200	720,472
23	SHOROON ORD COMPANY	Darkhan Uul	Gold mining	60	22/12/98	857,355,000	1,002,754
24	CHATSARGANA JSC	Ubs	Food	130	07/01/99	25,687,200	27,039
25	NIISLEL URGUU JSC	Ulaanbaatar	Construction	210	12/01/99	197,624,700	208,026
26	MATERIAL IMPEX JSC	Ulaanbaatar	Trade	310	23/02/99	325,872,600	343,024
27	TEEVER ACHLAL JSC	Ulaanbaatar	Transportation	35	07/04/99	1,520,000	1,498
28	DARKHAN HOTEL JSC	Darkhan	Tourism/Hotels	56	13/04/99	200,840,370	197,872
29	BUYAN FOOD MARKET SOE	Darkhan	Retail Trade	60	21/04/99	73,900,000	72,808
30	COMPLEX IMPORT SOE	Ulaanbaatar	Trade	156	23/04/99	1,206,999,999	1,189,163
31	SAIKHAN-OVOO SOE	Bulgan	Coal Mining	57	27/04/99	46,103,000	45,422
32	ZORCHIGCH TEEVRIN BAAZ	Orkhon	Transportation	63	07/05/99	75,002,100	73,894
33	AGROTECH IMPEX JSC	Ulaanbaatar	Trade	100	08/07/99	401,100,000	395,172
34	RAZNO IMPEX JSC	Ulaanbaatar	Trade	700	26/07/99	796,850,000	785,074
35	MONGOL TEEKH	Ulaanbaatar	Fuel Transport	198	26/07/99	196,500,000	193,596
36	KHUVSGUL KHUNS	Khuvsgul	Food	105	29/07/99	75,099,999	73,990
37	MAKH IMPEX JSC	Ulaanbaatar	Meat Processing	1,382	11/08/99	1,954,500,000	1,925,616
38	ADUUNCHULUUN JSC	Dornod	Coal Mining	137	17/09/99	872,100,000	859,212
39	TALKH CHIKHER JSC	Ulaanbaatar	Food	900	12/10/99	669,600,000	659,704
40	SELENGE FLOUR MILL JSC	Selenge	Flour Production	330	10/12/99	860,000,000	847,291
41	CONSTRUCTION & MAINTENANCE CO	Ulaanbaatar	Construction	20	16/12/99	40,900,000	40,296
42	MOTOR PARK OF ENERGY AUTHORITY SOE	Ulaanbaatar	Transportation	50	02/05/00	54,267,000	52,960
43	KHAILAAS JSC	Tuv	Gold mining	400	17/05/00	1,383,446,159	1,350,125
44	ERDES SOE	Ulaanbaatar	Gold mining	120	19/05/00	13,850,000	13,516
45	ERCHIMIMPEX SOE	Ulaanbaatar	Energy	50	23/06/00	704,700,000	668,869
46	GOVT/SERVICE CONSTRUCTION AND OVERHAUL UNIT	Ulaanbaatar	Construction	50	04/07/00	85,000,000	79,341
47	ENERGY SECTOR REPAIR WORKSHOP SOE	Ulaanbaatar	Power Sector Repairs	272	22/11/00	853,500,000	778,031
	Total			8,827		14,983,769,227	15,406,458

APPENDIX C:
PUBLIC OUTREACH INFORMATION

APPENDIX C: PUBLIC OUTREACH OUTPUTS

ITEM 1:

“How I Convinced My Grandpa” Radio Drama October 1- December 31, 1999

Writer: T. Byambadorj

Producer: M. Bulgan

Grandpa: G. Ravdan, Actor

Granddaughter: D. Amarjargalan, Actress

Doctor Priv.: J. Byambatsogt, Actor

Broadcasting time: Wednesdays, 12.35, 22.30

Duration time: 20 minutes

Date transmitted Mm/dd/yy	Topics	Content
10/06/99	What criteria will be used in a tender?	Explanation of an international tender process
10/13/99	Pretty wrapper hides a killing candy	Consequences of delaying the privatization of MVCs
10/20/99	The SGH's decision to raise red flags on 18 companies	About the SGH's approval of the list of companies not to be privatized
10/27/99	An old woman who knows suffering is better than a doctor who doesn't know treatment	Economic benefits from privatization of MVCs.
11/03/99	If you expect a lot then you may have no food for 9 days	NIC's economic benefits have been declining
11/10/99	Camel herdsman knows behavior of a male camel	NIC doesn't pay attention to protection of environment and economizing its petroleum
11/17/99	Difference like between a goat and a camel	Difference between NIC and Caltex
11/24/99	Is "NIC" a car willing to go through a bad road?	A clear way to improve NIC's efficiency is privatization
12/01/99	What kind of stone misses in a river?	There is no company in free market, which doesn't consider its profit. It is like only "dry" stone misses in a river.
12/08/99	A horse has never run in a race	Importance of Mongolian MVCs to compete in the world market
12/15/99	Is it possible for one person to ride 2 horses at same time?	Possibility of getting benefits from strategic investors' investment through privatization of MVCs to them
12/22/99	Our people like to sing "...only in Mongolia"	Concepts of globalization and one market of the world
12/29/99	Let's save our banks	Necessity of privatization of TDB

ITEM 2:**“YOUR QUESTION?” RADIO CALL-IN SHOW
October – December, 1999**

Date mm/dd/yy	Topic	Guest speaker	Moderator
10/07/99	Privatization of “Selenge” Flour Company	J.Hurelsukh, Officer, State Representative Department, SPC	B.Bayarsaihan, Vice-director, Mongolian Radio
10/14/99	Is privatization illegal?	R.Haidav, Head, Inspection Department, SPC	B.Bayarsaihan, Vice-director, Mongolian Radio
10/21/99	Cabinet tells Parliament NIC and Gobi are ready? Why? What is next?	D.Nergui, Senior Advisor to PM	B.Bayarsaikhan, Vice-director, Mongolian Radio
10/28/99	NIC for sale Ready or not?	D.Ashidmaa, Mongolian Privatization Program	B.Bayarsaikhan, Vice-director, Mongolian Radio
11/04/99	It is time to renovate NIC’s aged storage tanks	D.Dorjsuren, Director, Ecotrade company	B.Bayarsaikhan, Vice-director, Mongolian Radio
11/11/99	Privatization of Children’s and Youth Theatre	I.Nyamgavaa, Director, Children’s and Youth Theatre	G.Chuluunbat, Moderator, Mongolian Radio
11/18/99	Is there any recipe for treatment of Reconstruction and ITI (Investment Technology and Innovation) Banks?	D.Batmonkh, Conservator of Reconstruction Bank, D.Ganbat, Conservator of ITI Bank	Kh.Chilaajav, Moderator, Mongolian Radio
11/25/99	Journalist’s view on economic and privatization issues	T.Byambadorj, Economic journalist, Mongolian Radio	B.Bayarsaikhan, Vice-director, Mongolian Radio
12/02/99	What is the status of restructuring the banking sector?	J.Unenbat, Governor, MongolBank	B.Bayarsaikhan, Vice-director, Mongolian Radio

12/09/99	Privatization and next year's State Budget	Ts.Davaasuren, Information Monitoring Valuation Dept., O.Erdembileg, B.Dorjsemed, D.Batmonkh, Officers of State Budget Policy Dept., L.Bayaraa, Restructuring Dept., Ministry of Finance	B.Bayarsaikhan, Vice-director, Mongolian Radio
12/16/99	Privatization of NIC	MP Luvsan-Ochir	Kh.Chilaajav, Moderator, Mongolian Radio
12/23/99	Privatization of MVCs and Donors' Position	MP Batbayar(Baabar)	Kh.Chilaajav, Moderator, Mongolian Radio
12/30/99	Is it necessary to privatize TDB?	Ts.Bayarsaikhan, Officer, Tender Privatization Dept., SPC	G.Chuluunbat, Moderator, Mongolian Radio

ITEM 3:
“YOUR OPINION?” TELEVISION SHOW
October – December, 1999

Date	Topic	Participants	Moderators/ Journalists	Producer
10/02/99	Why investors invest?	John Franz, Oil Industry Expert	B.Badral, UBS TV, S.Gantogoo, Political Reporter, Odriin Sonin, Densmaa, Mongoliin Medee	UBS
10/09/99	Pricetag of “delay”?	MP G. Ganhuyag, Member of the Economic SC	S.Lkhagvasuren, UBS TV, B.Batbilig, Odriin Sonin, Sh.Otgonchimeg, Ulaanbaatar Radio	UBS
10/16/99	Private sector is engine of economic growth	Ch.Hurelbaatar, Senior Economist, Economic Policy Support Project , USAID	S.Lkhagvasuren, UBS TV, Sh.Otgonchimeg, Ulaanbaatar radio, Yu.Gereltuya, Humuus newspaper	UBS
10/23/99	My doubts on privatization of MVCs	Ts.Tumurtoogoo, MP, Member of the SC on Economy, SGH	S.Lkhagvasuren, UBS TV, B.Tuvshinjargal, MM News Agency, M.Naranbileg, Business Times, Kh.Chilaajav, Mongolian Radio	UBS
10/30/99	Foreign Investors: Do they threaten national security or mean national survival?	D.Jargalsaikhan, Chairman, Foreign Investment and Foreign Trade Agency	S.Lkhagvasuren, UBS TV, B.Bold, Zuunii Medee, Kh.Ariunbold, Business Times, Enkhjargal, Onoodor	UBS
11/06/99	Will privatization treat ailing hospitals?	B.Dash-Yandag, Director, “Bayanzurkh” hospital, Sh.Andargiv, Economist, “Bayanzurkh” hospital	S.Lkhagvasuren, UBS TV, Sh. Vanchaarai, “the Doctor” newspaper	UBS
11/13/99	Privatization of gold mining company “Hailaast”	A.Alimaa, Tender privatization department, SPC	S.Lkhagvasuren, UBS TV, T.Byambadorj, Mongolian Radio, J.Altangerel, MM News Agency	UBS
11/20/99	NIC for sale.	D.Ashidmaa,	S.Lkhagvasuren, UBS TV,	UBS

	Ready or not?	Mongolian Privatization Program	G.Enkhtuya, Odriin sonin, G.Jamiyan, Mongoliin Medee	
11/27/99	Budget, monetary policy and general directive for the year 2000	P.Jasrai, MP	S.Lkhagvasuren, UBS TV, T.Byambadorj, Mongolian Radio, G.Jamiyan, Mongoliin Medee	UBS
12/04/99	Mongolian banks: How sick? How soon recovery?	J.Unenbat, Governor, Mongolbank	S.Lkhagvasuren, UBS TV, Sh.Dolgor, MONTSAME, B.Bayarsaikhan, Mongolian Radio, B.Bold, Zuunii Medee	UBS
12/11/99	Can the Government's budget survive Parliament's delay?	R.Badamdandin, MP, Chairman, Standing Committee on Budget	S.Lkhagvasuren, UBS TV, B.Indra, Mongol Messenger, B.Oyun-Erdene, Zuunii Medee, D.Chuluunbaatar, Odriin Sonin	UBS
12/18/99	Privatization: Students ask is it too fast or too slow, ...how do we know?	MP Da.Ganbold	S.Lkhagvasuren, UBS TV, P.Badamragchaa, B.Gunbileg, Z.Solongo, Students of Law School of Mongolian National University	UBS
12/25/99	How is the SGH going to decide privatization of NIC?	MP Luvsan-Ochir, Member, Working Group on NIC's privatization	S.Lkhagvasuren, UBS TV, D.Bayarmaa, Mongolian Medee, N.Dulamsuren, Tusgal Studio, Mongolian National TV, S.Otgontsetseg, MONTSAME	UBS

ITEM 4:**LISTS OF COLUMNS PRINTED IN NEWSPAPERS
October 1- December 31, 1999****A. DOCTOR PRIV. COLUMNS PUBLISHED IN THE DAILY NEWS**

Date <i>Mm/dd/yy</i>	Title
10/07/99	To save NIC sell NIC
11/19/99	NIC for sale ready or not?

B. Excerpts from “Your Opinion” TV shows

Date <i>mm/dd/yy</i> Name of Newspaper	Title	Guest speaker’s name, title
10/01/99 <i>Daily News</i>	Why privatize Gobi and NIC now?	Ts.Nanzaddorj, Head of Tender and Privatization Dept., SPC
10/14/99 <i>Daily News</i>	Pricetag of “delay”?	MP G. Ganhuyag, Member of the SC on Economy
10/20/99 <i>Century News</i>	Private sector is the engine of economic growth	Ch.Hurelbaatar, Senior Economist, Economic Policy Support Project , USAID
10/27/99 <i>Century News</i>	My doubts on privatization of MVCs	Ts.Tumurtoogoo, MP, Member of the SC on Economy, SGH
11/03/99 <i>Century News</i>	Foreign Investors: Do they threaten national security or mean national survival?	D.Jargalsaikhan, Chairman, Foreign Investment and Foreign Trade Agency
11/10/99 <i>Century News</i>	Will privatization treat ailing hospitals?	B.Dash-Yandag, Director, “Bayanzurkh” hospital, Sh.Andargiv, Economist, “Bayanzurkh” hospital
11/17/99 <i>Century News</i>	Privatization of gold mining company “Hailaast”	A.Alimaa, Tender privatization department, SPC
11/24/99 <i>Century News</i>	NIC for sale. Ready or not?	D.Ashidmaa, Mongolian Privatization Program
11/31/99 <i>Century News</i>	Budget, monetary policy and general directive of the year 2000	P.JASRAI, MP

12/07/99 Century News	Mongolian banks: How sick? How soon to recovery?	J.Unenbat, Governor, Mongolbank
12/14/99 Century News	Can the Government's budget survive Parliament's delay?	R.Badamdandin, MP, Chairman, Standing Committee on Budget
12/17/99 Daily News	Our main aim is to have a healthy banking sector	J.Unenbat, Governor, Mongolbank
12/21/99 Century News	Privatization: Students ask is it too fast or too slow and how do we know?	MP Da.Ganbold
12/28/99 Century News	How is the SGH going to decide on the privatization of NIC?	MP Luvsan-Ochir, Member, Working Group on NIC's privatization

C. Other columns published in the newspaper "Daily News"

Date mm/dd/yy	Title	Author or guest speaker	Notes
10/21/99	The SGH's decision to raise red flags on 18 companies	T.Byambadorj	Critical drama for the SGH's decision on the list of companies not to be privatized
10/28/99	Pretty wrapping hides a killing candy	T.Byambadorj	Excerpts from the drama No.31, which considers "let's postpone privatization in order to serve our country's and people's interests."
11/11/99	We wish our voice reaches decision makers	Inforum Agency in cooperation with the Open Debate Union	Special column on the debate on privatization of MVCs among the students of universities and institutes.
11/25/99	I hate politically vested interests, which lays on the economic facts	MP Da.Ganbold	Excerpts from the "Plus & Minus" TV Show on Mongolian National TV
12/02/99	How I convinced my Grandpa?	T.Bymbadorj	Excerpts from the dramas No. 38, 40, which consider the benefits of MVC privatization to strategic investors.

Columns by D.Gantug:

Now or never

Outlet: Century News (Mongolian), 10/13/99**D. Excerpts of “Your Question” Radio call-in shows in the newspaper “Truth”**

Date mm/dd/yy	Title	Guest speaker’s name, title
10/25/99	Cabinet tells Parliament NIC and Gobi are ready? Why? What is next?	D.Nergui, Senior Advisor to PM
11/02/99	NIC for sale. Ready or not?	D.Ashidmaa, Mongolian Privatization Program
11/09/99	It is time to renovate NIC’s aged storage tanks	D.Dorjsuren, Director, Ecotrade company
11/16/99	Privatization of Children’s and Youth Theatre	I.Nyamgavaa, Director, Children’s and Youth Theatre
11/23/99	Is there any recipe for treatment of Reconstruction and ITI (Investment Technology and Innovation) Banks?	D.Batmonkh, Conservator of Reconstruction Bank, D.Ganbat, Conservator of ITI Bank
11/30/99	Journalist’s view on economic and privatization issues	T.Byambadorj, Economic journalist, Mongolian Radio
12/07/99	What is the status of restructuring the banking sector?	J.Unenbat, Governor, MongolBank
12/14/99	Privatization and next year’s State Budget	Ts.Davaasuren, Information Monitoring Valuation Dept., O.Erdembileg, B.Dorjsemed, D.Batmonkh, Officers of State Budget Policy Dept., L.Bayaraa, Restructuring Dept., Ministry of Finance
12/21/99	Privatization of NIC	MP Luvsan-Ochir
12/28/99	Privatization of MVCs and Donors’ Position	MP Batbayar(Baabar)

ITEM 5:**List of Commentaries on Mongolian National Radio
August 12-December 31, 1999***Commentator: T. Byambadorj**Broadcasting time: Thursdays, 10.40-10.50, Repetition: Fridays 9.40-9.50**Duration time: 10 minutes*

Date transmitted Mm/dd/yy	Topics	Content	Interviewed people
08/12/99	Will TDB be privatized?	Importance of privatization of banking sector	M.Bold, Deputy Governor, Mongolbank
08/19/99	How does NIC operate?	NIC's operation today	S.Enerelt, Executive Director, NIC
08/26/99	Does Gobi need foreign investors?	Necessity of new technology and new market for Gobi	Workers of Gobi
09/02/99	Is it right to ban raw cashmere export?	Study by Dr. Vernon Ronnigen	
09/09/99	Marketing war	Competition for customers among companies	
09/16/99	Does MPRP reject privatization of MVCs?	Parliamentarian parties' positions on privatization of MVCs	D.Zorigt, Chairman, SPC
09/23/99	Draft tender rules for Gobi's privatization	Explanation of an international tender	D.Zorigt, Chairman, SPC
09/30/99	Privatization of MVCs and Economy in transition period	Round table discussion-meeting by "Zorig" Foundation	Excerpts from statements made by MP Batj.Batbayar, MP Tomortogoo, MP Ochirhuu, MP Sultan and MP Byambadorj
10/07/99	How did parliament consider privatization of MVCs in the beginning of its Autumn session?	Coverage from the beginning of Autumn session of the SGH	Excerpts from statements made by MP Nyamdorj, Elbegdorj and PM Amarjargal
10/14/99	Is petroleum supply sufficient?	Current business of NIC	S.Enerelt, Executive Director, NIC
10/21/99	The SGH approved the list of companies not to be privatized	Approval of the list-unfortunate decision of SGH	

10/28/99	How to make a business plan	Business plan of “Altan Taria” company	Coverage from the Economic Dept., of “Altan Taria” company
11/04/99	Will Mongolian National Radio and TV be privatized?	Draft law on Mongolian National Radio and TV	M.Tsagaan, Director, “Voice of Nomads”- Radio Studio
11/11/99	The 75 th Anniversary of Mongolian banking sector	State owned banks have no prosperity so it is necessary to privatize them	
11/18/99	Will NIC be privatized?	Opinion of a member of SGH’s Working Group on NIC’s privatization	MP Luvsan-Ochir
11/25/99	Is it possible to answer “yes” and “no” at the same time?	Opinion of a member of the Minority Group on privatization of MVCs	MP Jasrai
12/02/99	Is it possible for parliamentarian parties to come to agreement on the privatization of MVCs?	Opinion of a member of the Standing Committee on Economics	MP Erhembayar
12/09/99	How does Working Group on Gobi’s privatization work?	Activity of the WG on Gobi’s privatization	MP Tuvshintogs, Head of the WG on Gobi’s privatization
12/16/99	How to support foreign investment?	Activity of the SGH’s Temporary Committee for support of foreign investment	MP Lu.Bold, Chairman of the Temporary Committee for support of foreign investment, SGH
12/23/99	Is it necessary to privatize the energy sector?	Trade Union’s Statement against privatization of energy sector	
12/30/99	Donors about privatization, loans and assistance	Interview with Mr. La Porta, the US Ambassador in Mongolia	Mr. La Porta, US Ambassador in Mongolia