
**Quarterly Performance Report and Action Plan
Armenia Privatization and Bankruptcy Project
July 1, 2001 through September 30, 2001**

Submitted to:

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Task Order # OUT-PCE-I-804-97-00017-00

Submitted by:

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**QUARTERLY PERFORMANCE REPORT AND ACTION PLAN
ENTERPRISE PRIVATIZATION AND BANKRUPTCY PROJECT
USAID Contract No. PCE-I-00-97-00017-00
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I. Executive Summary

1. Task Order Number: OUT-PCE-I-804-97-00017-00
2. Performance Dates: July 1, 2001 through September 30, 2001
3. Start Date of TO: December 29, 2000
4. Completion Date of TO: January 4, 2002
5. Current Project Management: Alan Gogbashian
6. Project Description: "Securing investment and private sector growth via privatization"

Mission Statement

IBTCI provides the Government of Armenia (GOA) targeted assistance in the privatization of state-owned enterprises (SOEs). These services include policy and legal recommendations, transactional support and public education. The primary objective of IBTCI's Task Order activity is to develop a strategy for the privatization of Armenian Airlines. Additional activity objectives are the privatization of other strategic enterprises, the promotion of public awareness regarding privatization, and investor outreach initiatives. To achieve these objectives, IBTCI continues to work closely with the Ministry of State Property Management (MSPM) and, in the Armenian Airlines case, the Ministry of Justice.

Synopsis of Third Quarter (Q3)

The "no-cost extension" which was begun at the beginning of the quarter, proved to be a wise decision as work on all Task Order activity objectives moved forward prominently. Predictably, the quarter was not without its share of difficulties and hold-ups. However, these were unable to hamper the diligence of the IBTCI staff.

During Q3 considerable developments occurred in relation to the primary objective of IBTCI's Task Order activity, the privatization of Armenian Airlines and support for Civil Aviation Reform, as the potentially "hot" topic moved more overtly onto the political agenda. Both the Minister of Justice, David Harutyunyan, and the President of Armenia, Robert Kocharyan, expressed their commitment to the project. In addition, the Prime Minister, Andranik Margaryan, gave a very positive response to the role of IBTCI in the plans of the potentially tremendous restructuring of the aviation sector. Despite unforeseen delays with the finalizing of the Armenian Airlines privatization strategy paper that we had been requested to draft, the document was submitted to the mission and work is now set to advance in the last quarter.

As recorded in the July monthly report, employment of the Bankruptcy Group's local consultants at IBTCI was terminated at the beginning of the quarter, the work being transferred to Chemonics, USAID's Commercial Law contractor.

Public interest in the privatization of Mars and Ararat Cement, as well as the reform of the aviation sector, peaked at the end of Q3, producing a period of intense activity for the PR department that proved their strategic importance. The team devoted serious effort to ensuring that the controversial issues relating to the restructuring of the aviation sector were communicated appropriately and effectively. In addition, they played an essential role in assisting the MSPM to formulate publicity documents related to the privatization of Ararat Cement. Due to the increasingly high-profile nature of the work of IBTCI and intensifying interest from the local media, work was begun on a publicity brochure giving information about us, outlining our identity, goals and achievements.

II. Quarterly Progress versus Q2 Action Plan

Primary Objective: Armenian Airlines (AA)

Armenian Airlines Privatization Strategy Paper

Much of the month of July was spent chasing up the local and international airline consultants' contributions to the paper in order to have it ready for the August 1 submission deadline. However, disagreements between the two consultancy groups, and a delayed contribution from the local group thwarted a fully finalized edition of the paper. Under such constraints, the IBTCI team labored intensively to ensure that a near-to-final draft was submitted to USAID by the agreed deadline. Despite the report being ready for presentation, it was decided that due to Barry Primm being away on leave, there was little sense in it being submitted. Rather it was suggested that the month of August be taken to finalize the paper. After the required amendments and additions were made, the extensive final draft was submitted to the Mission during the first week of September. Once USAID had contributed a number of comments, the report was officially dated September 10, 2001. The comments were then promptly incorporated into the vast report, making it fit for final printing.

Department of Civil Aviation Restructuring Proposal Paper

Guidelines for Restructuring and Development of Aviation Infrastructure

It became evident during the drafting of the Armenian Airlines Privatization Strategy Paper that restructuring of the airline would only be realistically possible if reform of the Department of Civil Aviation and remaining organs of the aviation infrastructure (such as Zvartnots Airport and other ancillary entities) were carried out simultaneously.

Initial groundwork was made as Alan Gogbashian presented IBTCI's preliminary study of Armenian Airlines to a high-level meeting of ministers at the beginning of the quarter. The main thrust of the presentation was that the Airline could not be successfully privatized without a thorough reform of the aviation sector, especially the industry's regulatory framework.

Given the positive response of the PM to the restructuring process, IBTCI began to speak to a number of professional airline management teams of international renown. Contact was made with Speedwing, Lufthansa Consulting, SH&E and other smaller consultants in order to get a sense of what they could offer and inquire about the functioning of standard airline management contracts. By the end of the reporting period, some preliminary details had been gathered from a number of companies outlining how the restructuring procedure may be approached.

Due to it becoming clear that an integrated, holistic approach to aviation reform was necessary, no independent Papers were drafted on the restructuring of the Department of Civil Aviation or the Aviation Infrastructure. Instead, the recommendations were included in the Armenian Airlines Strategy Paper. As a result, the final report proved to be wider in scope than initially anticipated and included specific strategies for reform of the regulatory framework and infrastructure. The deadline for a presentation to the Mission of a streamlined action plan setting out steps for reform of all industry areas was set as November 30, 2001.

Seminars on Recommended Changes

As mentioned above, an unofficial, oral presentation of preliminary findings and consequent recommendations was given by Alan Gogbashian to the Prime Minister and other notable Ministers at the beginning of the quarter.

Mr. Gogbashian gave a detailed, official presentation later in the quarter to the US Ambassador, Michael Lemmon, and the USAID Mission Director, Keith Simmons, keeping them informed of the significant progress that has taken place on the project during Q3.

The conducting of PR-type seminars for press and the staff of Armenian Airlines were deemed appropriate to take place a little later, through the last quarter.

Monthly Television and Radio Programming regarding changes in Aviation Sector

A number of key interviews took place at the beginning of Q3, the intention being to start regular broadcasts on the pending reform of the aviation sector. However, the program was postponed due to fears that it was too risky a venture at such an early stage in a process prone to controversy. It was not until September, following the August public announcements of government officials relating to the intended privatization of Armenian Airlines, that the TV show was aired. The show was a success in terms of overall quality and content. More interviews and themes were being pursued at the close of the quarter with the intention of broadcasting several such programs throughout Q4.

Additional Objective: Strategic Privatization

a) On-Going Support to MSPM on Mars Transaction

Investor Outreach Efforts

High-tech industry parties interested in the sale of Mars, the upshot of Alan Gogbashian's visit to the JETRO South Caucasus Investor Conference in Japan in June, were sent additional information on the project. One of the newly interested parties was the electronics giant NEC.

For those showing serious interest, the organization of site visits was promised.

Support and assistance was also provided in correspondence between the Minister of SPM and the interested parties.

Respond to Investor Needs and Questions

Close communication was maintained with the Liechtenstein registered company, Computron Industries Establishment, who showed serious interest at the beginning of the quarter. IBTCI responded to their questionnaire about the financial status of Mars. A site visit was also organized for a representative of the company. He was introduced to the Chief Financial Officer of Mars to enable the company to advance with their due diligence.

Another site visit to Mars was organized for the British-run company Resolution Consulting and its IT industry expert. IBTCI fielded questions from the men, provided necessary documents and arranged a meeting with Minister Vardanyan (from MSPM).

Assist with draft of GOA Tender Announcement

IBTCI was present at the meeting of the Strategic Enterprise Privatization Commission, September 3, the deadline for formal expressions of interest in Mars, in readiness to help formulate any ensuing Tender Announcement. The meeting revealed that despite IBTCI's active efforts in raising interest in the company, only one formal expression of interest had been received, that of the Mars collective. However, Computron Industries, the most likely of potential investors to submit an expression of interest, sent a letter via IBTCI requesting that the deadline be extended in order to allow them to finish their due diligence inquiries. While waiting for news of whether the Commission would honor Computron's request, rumors were received that, as a result of Russian President Putin's visit to Armenia, Mars may be sold to a Russian company as part of an Armenian-Russian debt pay-off. Clearly, proceedings developed beyond our sphere of influence; assistance with any tender announcement, as well as the remaining sub-tasks planned for Q3, could not be carried out until further developments were officially announced.

b) On-Going Support to MSPM on Ararat Cement Transaction

Investor Outreach Efforts

Regular telephone and email contact was maintained with Holcim (Switzerland) and Seament (Lebanon), the two cement companies who had submitted preliminary bids at the end of Q2, as well as with another seriously interested party, Titan Cement (Greece).

Assist with draft of GOA Tender Announcement

Early on in the quarter the bulk of IBTCI activity was directed towards helping the GOA to a draft a Decree instigating the international tender as well as assisting the MSPM to draft a Tender Announcement. We were also in communication with the Strategic Enterprise Privatization Preparation Commission and met periodically with the Minister of SPM, giving advice regarding the tender procedure.

IBTCI put in significant work to ensure that the terms and conditions of the Tender Announcement would ensure a substantial minimum threshold of investment in the plant. We also put pressure on the GOA to approve a tender period of prudent length, which resulted in a satisfactory deadline being set for September 19, 2001.

Respond to Investor Needs and Questions

As soon as the GOA Decree had been announced, approving an international tender of the sale of Ararat Cement, the three interested parties mentioned above were directly informed. A more general mass mailing was also sent to all those on our records who had inquired at some point about the sale. Accordingly, an "instructions to bidders" information pack was designed and distributed to them. As the September deadline moved closer, various bidders were in contact with us. Of notable interest was a lengthy and detailed questionnaire received from Holcim. Having determined the necessary information from the relevant government counterparts, the questionnaire was responded to. IBTCI played an important role in helping Holcim overcome last-minute bureaucratic and administrative obstacles relating to the submission of the bid. Furthermore, a second visit to Armenia for Holcim was arranged – the crucial one enabling them to submit their bid.

Advise GOA on Merits of Bids Received

IBTCI representatives were present at the September 19 opening of bids received, assisting Minister Vardanyan with the proceedings. Of the two bids received, only Holcim's met the requirements of the Tender Announcement. IBTCI was told informally by Minister Vardanyan before the official September 26 announcement of the winner, that there was no reason why the company would not be given to Holcim.

Assist with Draft of GOA Decision on Sale

This could not be done as the official Sale and Purchase agreement was not yet signed by the end of the quarter.

Assist with Draft and Negotiation of Sale and Purchase Agreement

After the September 26 announcement, IBTCI immediately began working with the MSPM on a draft Sale and Purchase Agreement. However, it was decided that the final form of the agreement would be decided during Q4.

Provide Informational Support for Transaction

Assistance was also offered to KPMG and the law firm ILC, who had been appointed by Holcim to carry out further due diligence before the final signing of the Sale and Purchase Agreement. We helped by briefing them on the background to the sale and by supplying useful documents from the preliminary due diligence that we had undertaken.

On the announcement of the sale of Ararat Cement to Holcim, the IBTCI PR department helped to draft a press release on MSPM note-headed paper making the official announcement of the sale. This press release was sent to an extensive number of media sources and was used widely in reports of this momentous privatization.

III. Conclusion

The third quarter of the Task Order was most rewarding for IBTCI; the solid position and role of participating in the GOA's major privatization and restructuring initiatives gained by the team in Q2, was utilized and amplified as work on both the primary and additional objectives developed significantly. The last quarter looks set to consolidate and develop the advance made on all the Task Order activity objectives.

IV. Action Plan for Q4 (October 1 – December 31, 2001)

TASK 1: Armenian Airlines and Aviation Reform

ID	Sub-tasks	Estimated Date of Sub-task
1	Armenian Airlines Privatization Strategy Paper	
1.1	Distribute final report to relevant members of GOA	October 15
1.2	Meet with members of GOA to discuss findings of report	October 19
2	Assess Expressions of Interest by Airline Management Contractors	
2.1	Evaluate expressions of interest.	October 5
2.2	Present analysis to USAID and GOA counterparts	October 15
2.3	Meet with airline management contractors in Yerevan	October 15 – November 16
2.4	Assist GOA to evaluate best candidate and negotiate terms of retainer	November 30
3	Announce Winner of Management Contract	
3.1	Assist GOA with preparation of appropriate press releases	December 7
4	Draft Aviation Restructuring Work Plan	November 30 (<i>deliverable</i>)
5	Assist GOA with Drafting and Review of Concession Agreement (for operation of Zvartnots Airport)	October 20 – November 30
6	Education on Recommended Changes	
6.1	PR Seminars educating media and AA staff about imminent changes	Throughout Q4
6.2	Aviation-related TV shows (6 in total)	
6.3	Aviation-related radio broadcasts (12 in total)	

Notes:

- 2.3 The purpose of the meeting is to receive presentations from the airline management contractors on their proposed management strategies.
- 4 The Work Plan is a streamlined strategy detailing how the different sectors of the aviation industry will be dovetailed and coordinated.

TASK 2: Assistance to MSPM on other Strategic Privatization Projects

a) Mars

At the time of writing it was difficult to predict due to the circumstances outlined above. We were still waiting for news of the sale to Russian interests and were told by the MSPM that the project is being dealt with at a presidential level with no role for us to play at the current stage.

If the situation were to change, we would continue the Sub-tasks of the Q2 Action Plan.

b) Ararat Cement

ID	Sub-task	Estimated Date of Sub-task
1	Assist Holcim with pre-contact final due diligence	until October 31
2	Assist MSPM with drafting of GOA Decree announcing the sale	by November 16
3	Assist MSPM with drafting of terms of Sale and Purchase Agreement	September 26 – October 31
4	Assist with final PR announcements (signing of SPA and final payment by Holcim)	November 16