

QUARTERLY REPORT

for the period

April – June 2002

SEGIR MONGOLIAN PRIVATIZATION PROGRAM

USAID Contract No PCE-I-00097-00037-00, Delivery Order 800

Submitted to:

USAID Mission to Mongolia

and

The State Property Committee, Government of Mongolia

September 2002

Ulaanbaatar, Mongolia

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

- 1 Continue to work towards the successful privatization of the Trade and Development Bank.
- 2 Continue to communicate with the World Bank, IMF and other multilateral donor agencies (ADB, IFC, etc.) regarding the privatization program.
- 3 Work with Arthur Andersen to resolve any final issues surrounding the Erdenet audit.
- 4 Prepare a draft amendment to the State and Local Property Law that will allow for the introduction of direct negotiations as a legitimate privatization method and discuss this with the SPC.

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

- 1 The project team provided daily support to the SPC in various issues as they arose for each MVC.
- 2 The biggest achievement during the quarter was the successful conclusion of the tender for the Trade and Development Bank on May 21, 2002. For more details on TDB, please see the MVC-specific section below.
- 3 Developed a draft amendment to the State and Local Property Law that will enable the introduction of direct negotiations as a legitimate privatization method and discussed this with the SPC.
- 4 The team continued to communicate with the World Bank, IMF, and other multilateral donor agencies (ADB, IFC) in order to keep them informed on the status of Mongolia's privatization process.
- 5 Received feedback from Arthur Andersen that Erdenet still was unable to resolve the internal issues that prevented them from signing the audit report. In the interim, the unsigned version of the report was submitted to USAID.
- 6 In developing the tender documents for Ag Bank during this quarter, further refinement was undertaken of the "template" rules of procedure, bid submission requirements and documentation used in the Gobi and TDB tenders. Part of this refinement sought to

incorporate valuable lessons learned during the first two international tenders, such as areas that could be simplified. Now that this has been successfully completed, development of a Privatization Tender Manual will take place during the second half of 2002. This task has been included in Modification #9, effective July 1, 2002.

Objectives for Next Quarter (July – September 2002):

- 1 Continue to work towards the successful closing of the privatization of the Trade and Development Bank.
- 2 Continue to communicate with the World Bank, IMF and other multilateral donor agencies (ADB, IFC, etc.) regarding the privatization program.
- 3 Work with Arthur Andersen to obtain the final signed version of the Erdenet audit report.
- 4 Work on the development of a privatization tender manual, as well as undertake efforts to ensure that SPC staff are trained in the tender process.

II. Company-Specific Information

NIC

Objectives:

- 1 Finalize the audit issues and the valuation of NIC.
- 2 In accordance with the revised action plan for NIC, continue to assist the SPC with its efforts to prepare the company for privatization in 2002-2003.

Accomplishments and Concerns:

- 1 On May 17, 2002, Ernst & Young submitted their final audit report of NIC. According to the auditors, the company's deficits in its operating cash flows raise concerns as to its ability to generate sufficient cash flow to meet its current obligations.
- 2 The Barents team updated the marketing documents for NIC to reflect information obtained from the audit. This also included updating the Information Memorandum with current operational and financial data as provided by NIC's management.
- 3 Updated the Rules of Tender for NIC and discussed this with the SPC.
- 4 In June, discussed updating NIC's valuation in a joint meeting with the SPC and the appraisers. The valuation of NIC will be conducted during the next quarter.
- 5 At the end of June, the SPC developed the Tender Announcement and Tender Rules for the sale of NIC's Petroleum Products Laboratory. At the request of the SPC, the Barents team reviewed and translated the tender documents.

Objectives for Next Quarter (July – September 2002):

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

Gobi Corporation

Objectives:

- 1 Assist the SPC in conducting the tender for a company to provide services to re-value Gobi.

Accomplishments and Concerns:

- 1 Assisted the SPC in conducting the tender for a company to provide services to re-value Gobi. This included providing information to potential applicants, responding to questions and assisting the SPC in the evaluation of proposals and selection of a winner. Also provided assistance in preparation of acceptance and rejection letters for those companies that submitted proposals.
- 2 Visited Gobi with Mr. Art Warman, USAID Senior Privatization Advisor, to introduce him to the factory and talk with Gobi management regarding privatization.
- 3 Discussed future possibilities for the sale of Gobi with Mr. Rodney Lamb, CEO of Mongol Amicale.

Objectives for Next Quarter (July – September 2002):

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

Trade and Development Bank

Objectives:

- 1 Continue to work with Tender Participants and facilitate submission of their tender proposals by the deadline of May 6, 2002.
- 2 Finalize the Purchase Price Escrow Agreement and Share Escrow Agreement as well as determine the escrow agent(s).
- 3 Advise the SPC and the Tender Committee in the evaluation of the Technical and Financial Proposals as submitted by Tender Participants.
- 4 During the post-signing phase, continue to provide advice to the SPC and coordinate with

the Winner on matters such as obtaining Mongolbank approval for change in ownership.

Accomplishments and Concerns:

Of most importance, on May 21, 2002 the SPC publicly opened and evaluated the TDB Financial Proposal of the Banca Commerciale Lugano (BCL)/Gerald Metals Consortium (the one bid that passed the minimum scoring requirements for the Technical Proposals.) The Tender Commission, appointed in accordance with the Tender Rules and the State and Local Property Law, subsequently announced the evaluation results and the BCL/Gerald Metals Consortium was officially announced as the winner of the tender. On the same day, the SPC and BCL/Gerald Metals Consortium signed the Share Sale and Purchase Agreement.

Other accomplishments and/or items of concern during the quarter included the following:

- 1 On April 9, 2002, the SPC passed Resolution No. 214 amending the TDB tender timetable so that the new deadline for submission of bids was May 6, 2002. SPC Resolution No. 287 of May 3, 2002 extended the deadline for submission of Tender Proposals to May 14, 2002 and shifted the signing date to May 21, 2002. A subsequent SPC Resolution of May 14, 2002 extended the Tender Proposal submission date to 12:00 hours on May 15, 2002, at which time the SPC received 2 Tender Proposals. The Tender Commission, appointed by SPC Resolution No. 298 of May 15, 2002, evaluated the Technical Proposals and notified Tender Participants of the results on May 17, 2002 as scheduled in the Tender Timetable.
- 2 On May 23, 2002 the SPC organized a Press Conference to discuss the privatization of TDB. Jean Baudois, Finance Director-Lugano/Gerald Metals participated in the conference on behalf of the BCL/Gerald Metals Consortium. Mr. Baudois provided detailed information on BCL, Gerald Metals and ING Bank and responded to questions from the media and news reporters.
- 3 Coordinated the due diligence visit of one the Tender Participants (please see the Public and Investor Communications section of this report for detailed information.)
- 4 Finalized the legal documents for the sale of TDB, including the Share Sale and Purchase Agreement, Officer's Certificate, and Purchase Price and Share Escrow Agreements. These were delivered to all Tender Participants (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)
- 5 Prepared Tender Proposal Evaluation Guidelines and templates for the "Technical Proposal Evaluation Report" and "Tender Protocol", as provided for in the Rules of Tender.
- 6 Delivered the Purchase Price Escrow Agreement to the Banca Commerciale Lugano/Gerald Metals Consortium for comments (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)
- 7 Discussed, prepared and translated a response letter to the Minister of Finance and Economics on dividend payout for state-owned shares of TDB.

Objectives for Next Quarter (July – September 2002):

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

Ag Bank**Objectives:**

- 1 Continue to assist the SPC in its efforts to amend the *Privatization Program for 2002* and have AG Bank added to the list of companies to be privatized during 2002.
- 2 In accordance with the newly developed action plan and timetable and subject to USAID project Mod approval, begin the preparation of AG Bank for privatization.

Accomplishments and Concerns:

- 1 The Cabinet passed Government Resolution No. 76 of May 1, 2002, adding AG Bank to the list of companies included in Annex 1 of the *Privatization Program for 2002*. According to the Resolution, Ag Bank will be privatized through competitive tender during the second half of 2002.
- 2 On May 31, 2002, received official notice from USAID authorizing work to begin in preparing Ag Bank for privatization prior to the official execution of a contract modification.
- 3 Together with the management of Ag Bank and the SPC, developed a revised privatization action plan and tender timetable for the bank.
- 4 Worked with Ag Bank management and staff to undertake privatization preparatory measures.
- 5 Began developing the Information Memorandum for Ag Bank. Also worked on developing the Ag Bank company profile for use in tender marketing documents.
- 6 Developed the Ag Bank draft tender announcement and Rules of Tender.
- 7 Completed the valuation of Ag Bank, and translated the valuation report into Mongolian. Submitted the report in both languages to both the SPC and Ag Bank for their examination and review.
- 8 Together with Ag Bank management, undertook preliminary marketing efforts for the bank (please see the Public and Investor Communications section of this report for detailed information.)

Objectives for Next Quarter (July – September 2002):

- 1 Complete any remaining preparatory steps in order to prepare Ag Bank for privatization.

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

Mongol Daatgal and other MVCs

Objectives:

- 1 Continue to assist Mongol Daatgal in its effort to obtain an international auditor.
- 2 Continue to offer advice to the SPC on an as-needed basis in looking at the next steps required to move several MVCs, including MIAT, Mongolian Telecommunications JSC, Ulaanbaatar Electricity Distribution Network and Power Plant 2, towards privatization.

Accomplishments and Concerns:

- 1 During the beginning of the quarter, our team discussed with Mongol Daatgal's Financial Director the status of the company's obtaining an international auditor. Ernst & Young was ultimately selected to conduct the audit, which began in May and is expected to be completed in July.
- 2 Met with Mr. John Bruns, Sales Director, Asia Pacific Commercial Airlines, Boeing to discuss MIAT/diagnostic study.

Objectives for Next Quarter (July – September 2002):

- 1 Assist the SPC in its review of the Mongol Daatgal audit report to be received from Ernst & Young.
- 2 Together with the SPC, develop a revised action plan and timetable for the privatization of Mongol Daatgal.

- 3 Discuss with the SPC and USAID possible plans for future work on MVCs, including potential effort for NIC and/or Mongol Daatgal.
- 4 Provide support for a possible upcoming diagnostic study of MIAT.

COMPONENT 2: SEALED-BID AUCTIONS SUPPORT

Task Manager: Dr. Zhivko Nenov

FIFTEENTH PROJECT QUARTER (APRIL – JUNE 2002):

- 1 The Sealed Bid Auction component of the program was successfully completed in July 2000.
- 2 Since September of 1998, Barents has assisted the SPC in the sale of 47 enterprises through sealed bid auctions, raising \$15.4 million in revenues for the budget (see Appendix A for details.)
- 3 The scope of work for this component is complete. There will be no further reporting on this component.

COMPONENT 3: PUBLIC AND INVESTOR COMMUNICATIONS**FIFTEENTH PROJECT QUARTER (APRIL – JUNE 2002):*****Objectives:***

- 1 Continue to assist the SPC with potential investor communications efforts for TDB, including coordinating any remaining due diligence efforts.
- 2 Subject to USAID approval of a project Mod, begin preliminary marketing efforts for AG Bank, including developing a marketing brochure and other investor presentation/roadshow materials, as appropriate, as well as developing an investor master list.
- 3 Assist the SPC with its media relations pertaining to the MVC privatization program, in particular relating to the sale of TDB. In particular, assist with media efforts to publicize the conclusion of the transaction.

Accomplishments and Concerns:

- 1 Communicated with all TDB Tender Participants concerning the shift in timelines for the submission of Tender Proposals and continued to work with them to facilitate their application process.
- 2 Updated TDB tender participants with the Bank's 1st Quarter 2002 financial data.
- 3 Coordinated with IFC and ADB regarding their possible participation in the sale of TDB. This included arranging meetings for remaining due diligence teams with representatives from both organizations.
- 4 Continually updated the SPC website with the most current information regarding the TDB tender, including notices of changes in the timetable.
- 5 Continued to facilitate the due diligence process for TDB bidders, including a site visit by one of the bidders. We provided support in all areas to facilitate and coordinate their discussions, providing both technical assistance as well as logistical support and translation. As well, we provided bidders with additional due diligence documents as requested.
- 6 On May 21, 2002 distributed a press release announcing the selection of the Banco Commerciale Lugano/Gerald Metals consortium as the winner of the TDB tender to major media, websites and privatization publications. Among the recipients included the following:
 - USAID
 - Embassies in Mongolia
 - Honorary Consuls in Mongolia and Worldwide
 - Mongolian Embassy in the U.S.
 - N. American/Mongolian Business Group
 - World Bank's Privatization Link Website
 - U.S. Int'l. Trade Administration

- *Acquisitions Monthly*
- *Development Ex website*
- *The Banker*
- *American Banker*
- *Euromoney*
- *The Economist*
- *Financial Times*
- *Wall St. Journal*
- *Far East Economic Review*

- 7 Together with Ag Bank management, developed and began implementing the marketing strategy for Ag Bank. This included development and distribution of a brief marketing flyer, as well as initial compilation of a Potential Investor Master List for the bank.

Objectives for Next Quarter (July – September 2002):

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

COMPONENT 4: LEGAL, REGULATORY AND POLICY FRAMEWORK**FIFTEENTH PROJECT QUARTER (APRIL – JUNE 2002):*****Objectives:***

- 1 Prepare the Final Draft SSPA for the sale of TDB in both English and Mongolian to deliver to all Tender Participants by the deadline of April 8, 2002, as scheduled in the Tender Timetable. This is to include the signed Officer's Certificate, a key attachment to the SSPA.
- 2 Assist the TDB Tender Commission by providing legal assistance as needed in the evaluation of technical and financial proposals.
- 3 Upon receipt of comments from the SPC and TDB Tender Participants, finalize the Purchase Price Escrow Agreement and Share Escrow Agreement.
- 4 Provide legal assistance as needed to assist the SPC to close the transaction for the sale of TDB shares.

Accomplishments and Concerns:

- 1 Finalized all legal documentation for the privatization of TDB, including the Share Sale and Purchase Agreement and Officer's Certificate. This included incorporating proposed amendments and suggestions provided by Tender Participants (of whom two submitted proposed changes) as well as the SPC. The Final Draft SSPA, including the signed Officer's Certificate, was distributed to bidders on April 8, 2002.
- 2 Upon receipt of comments from the SPC and TDB Tender Participants, finalized drafts of the Purchase Price and Share Escrow Agreements. All documents were prepared in both the English and Mongolian languages.
- 3 Prepared SPC Resolution on transfer of the shares according to the Purchase Price Escrow Agreement and prepared opinion on steps to be taken in order to transfer TDB's shares into the name of the purchaser.
- 4 Assisted the TDB Tender Commission by providing legal assistance in the evaluation of the technical and financial proposals for the privatization of TDB, and in the signing of the Share Sale and Purchase Agreement on May 21, 2002.
- 5 Delivered the final draft of the Purchase Price and Share Escrow Agreements to the Banca Commerciale Lugano/Gerald Metals Consortium for comments. Subsequently, after discussions with the BCL/Gerald Metals consortium and the SPC, the deadline for execution of the Purchase Price Escrow Agreement was extended until June 14, 2002.
- 6 In June Mongolbank granted its permission to the Banca Commerciale Lugano/Gerald Metals consortium to own 1,520,000 common shares (or state-owned 76% equity interest) in TDB and to make amendments to the structure of the bank's paid-in capital as well as

shareholders' composition.

- 7 Due to ongoing negotiations, the closing of the TDB transaction was unable to be completed by the end of this quarter. Efforts will be taken to accomplish this during the next project quarter.
- 8 Began legal due diligence efforts for Ag Bank, including translation of legal due diligence documents.
- 9 Began preparing the draft Share Sale and Purchase Agreement for Ag Bank.

Objectives for Next Quarter (July – September 2002):

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

COMPONENT 5: POST-PRIVATIZATION ASSISTANCE

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

FIFTEENTH PROJECT QUARTER (APRIL - JUNE 2002):

- 1 The scope of work for this component is complete. There will be no further reporting on this component.

OVERALL PROGRAM ADMINISTRATION

Task Manager: Dr. Zhivko Nenov

FIFTEENTH PROJECT QUARTER (APRIL – JUNE 2002):

Objectives:

- 1 Continue to ensure work oversight/supervision and timely reporting.
- 2 Continue to provide administrative support to the Project Team.
- 3 Continue to ensure project staffing requirements are fulfilled and staff levels are regularly reviewed.
- 4 Continue to liaise with USAID Mission Director and other USAID counterparts.
- 5 Discuss with USAID the SPC's year 2002 plans for the Mongolian Privatization Program, and Barents' future participation and funding levels.
- 6 Continue to follow up with DCAA and USAID in order to resolve issues surrounding the project audit.

Accomplishments and Concerns:

- 1 Continued to brief the USAID Mission on a regular basis about the project's progress, as well as year 2002 plans for the MVC program.
- 2 Briefed U.S. Embassy on the status of the project.
- 3 Attended the USAID Contractors' meetings to report progress.
- 4 Submitted an official request to USAID to modify the subject Delivery Order to thereby extend the completion date of the project to December 31, 2002; add additional funding; and amend the scope of work to include Ag Bank privatization. Received an official notice to proceed from the Contracting Officer on May 31, 2002 which authorized Barents to begin implementation of the new scope of work and to incur costs of up to \$200,000 prior to the official execution of a contract modification.
- 5 In June, the Barents' office met with the project CTO and Mr. Art Warman, Senior Privatization Expert, USAID, to discuss the project. During his visit to Ulaanbaatar, Mr. Warman also met with the Chairman of the SPC as well as with the management of Gobi JSC.
- 6 Ms. Teresa Slazas, Deputy Chief of Party, departed Ulaanbaatar on April 26, 2002.
- 7 Mr. Chris Thompson, Attorney, arrived in Ulaanbaatar on June 12, 2002 to work on the draft

of the Share Sale and Purchase Agreement (SSPA) for Ag Bank. He will depart on or about July 10, 2002.

- 8 Ms. Efremelia Sopadjieva, Corporate Financial Advisor, arrived in Ulaanbaatar on June 13, 2002 to perform a valuation of Ag Bank. She will depart on or about July 4, 2002.
- 9 Submitted official memorandum to USAID providing Barents' authorization for the completion of Arthur Andersen's audit of Erdenet.
- 10 On June 20, 2002 Barents' headquarters submitted an official response to the DCAA auditor regarding the project audit.

Objectives for Next Quarter (July – September 2002):

- 1 Continue to ensure work oversight/supervision and timely reporting.
- 2 Continue to provide administrative support to the Project Team.
- 3 Continue to ensure project staffing requirements are fulfilled and staff levels are regularly reviewed.
- 4 Continue to liaise with USAID Mission Director and other USAID counterparts.
- 5 Discuss with USAID the SPC's plans for the second half of 2002/first half of 2003 for the Mongolian Privatization Program, and Barents' future participation and funding levels.
- 6 Continue to follow up with DCAA and USAID in order to resolve issues surrounding the project audit.