

Bank of Mongolia Seminar

Industrialization & Policies to Support non-Mineral Exports

Improving the business environment for competitiveness & economic
recovery

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Outline

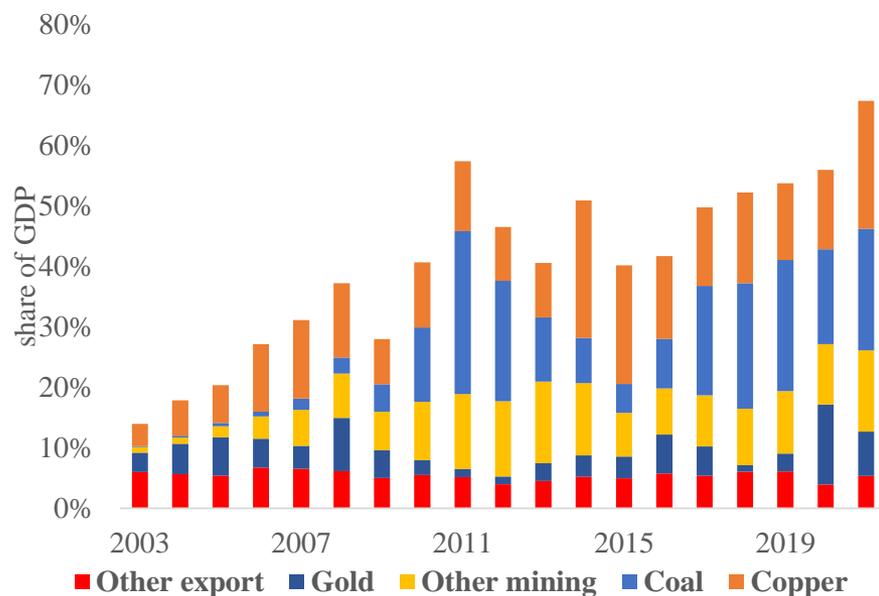
- 1. Economic Context**
- 2. Policy Framework & Regulatory Environment**
- 3. Key Building Blocks for Business Environment Reforms**



Economic context

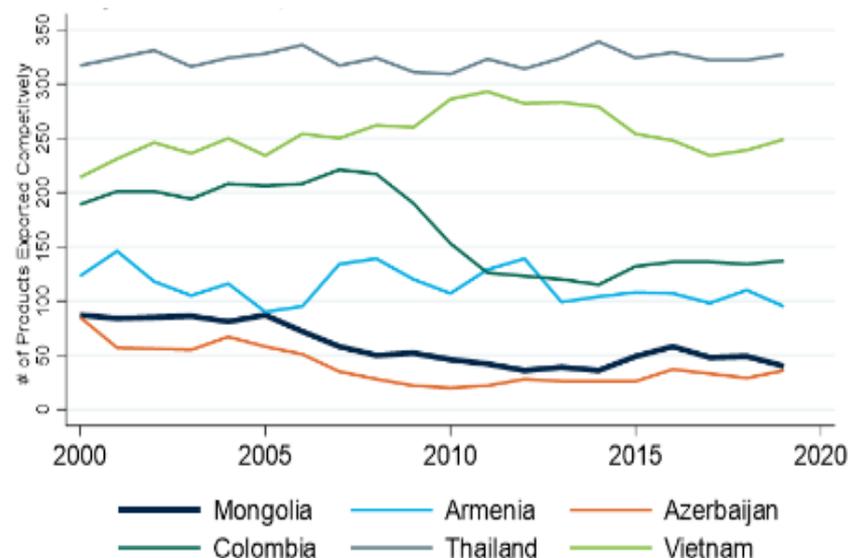
Mongolia has been losing export diversity

Export by items, as share of GDP



Source: Bank of Mongolia, World bank

Diversity of exported, 2000-2019



Source: Atlas of Economic Complexity

....“specialized” in natural resources—exposing it to economic outlook of those sectors

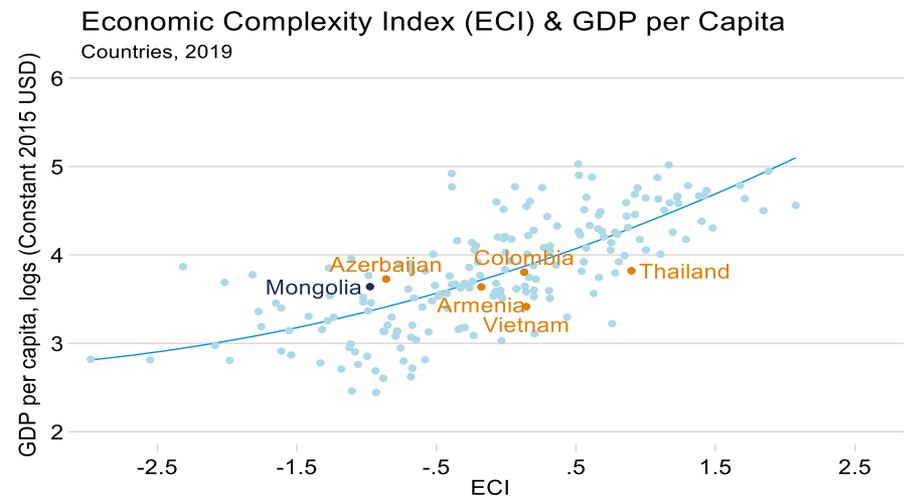
Exports mostly low complexity products

Export by country and sector, US\$ million

	Unit	2012	2017	2021
Total export	mill \$	4,385	6,201	9,247
Of which: China	mill \$	4,028	5,269	7,638
	%	92%	85%	83%
Mining export	mill \$	4,010	5,522	8,509
Of which: China	mill \$	3,692	4,688	7,163
	%	92%	85%	84%
Other export	mill \$	375	679	738
Of which: China	mill \$	336	581	475
	%	90%	86%	64%

Source: Bank of Mongolia, Mongolian Customs

Mongolia has the lowest ECI among its peers



Source: Atlas of Economic Complexity

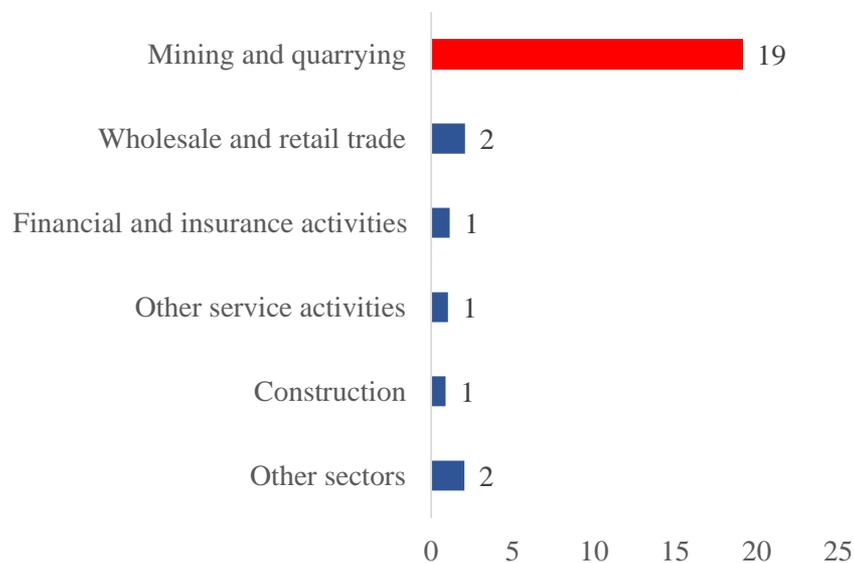
Low agglomeration of know-how imply longer jumps to new sectors & diversification

Capital & productivity is concentrated

FDI stock by sectors, billion USD, as of end of 2021

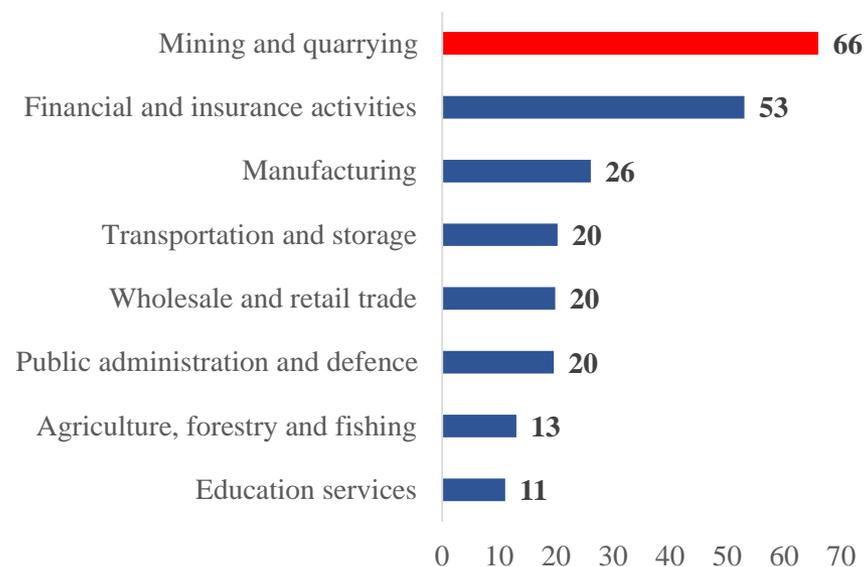
GDP per worker by sectors, million MNT, 2021 annual GDP

FDI stock, billion USD



Source: Bank of Mongolia

GDP per employee, mill MNT

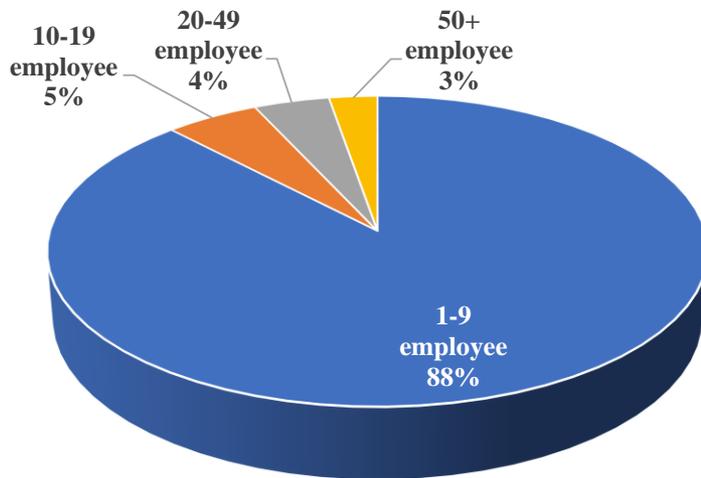


Source: NSO

...while Mongolia is open to FDI, it still registers low volumes outside mining

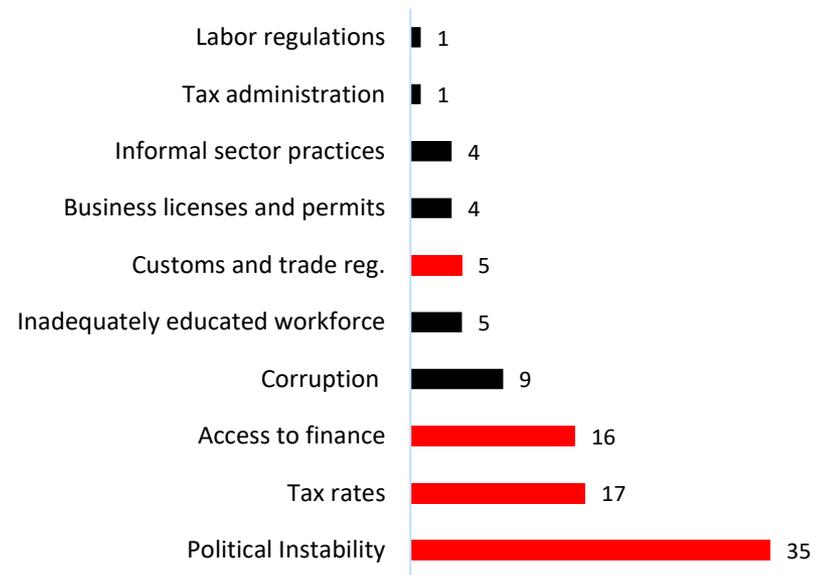
Dominant small businesses can be crucial agents of economic diversification.....

Active businesses by employee size, as of end of 2021



Source: NSO

Obstacles to business environment, percent of firms

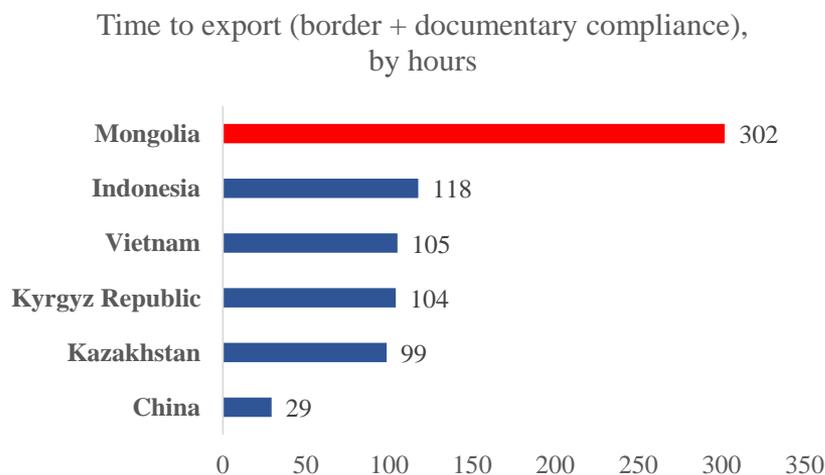


Source: World bank Enterprise survey 2019

.....but are constrained by obstacles to the business environment

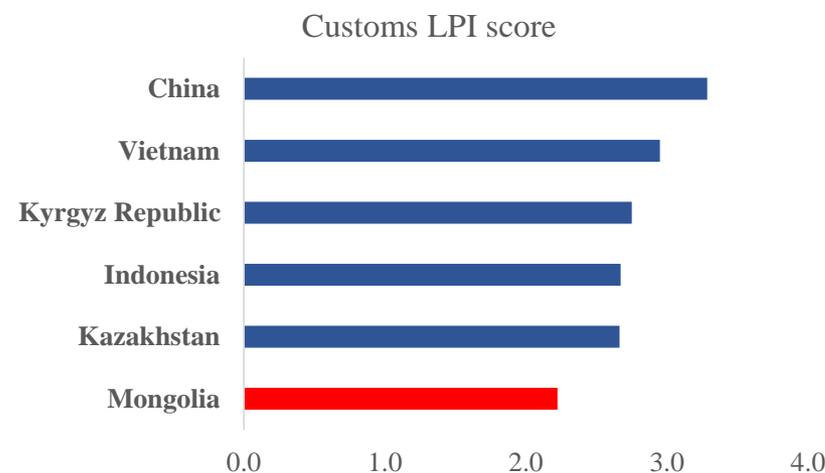
Logistics related obstacles hinder exports

Time to export (border + documentary compliance), by hours



Source: World bank, Doing business survey

Customs LPI score, as of 2019



Source: World bank, LPI

Despite reforms, Mongolia still lagging peers in trade facilitation & customs procedures



Policy Framework & Regulatory Environment

Business environment reforms are recognized

- **Several key institutional and regulatory reforms for business development have been implemented or planned e.g.:**
 - ✓ Establishment of the central authority for inspections (GASI).
 - ✓ 2017 reforms to boost SME financing through improved collateral and secured transactions law.
 - ✓ Approval of Long-Term Development Policy Vision 2050 in 2020, with an aim to transform the country into a leading regional power by 2050.
 - ✓ Adoption New Recovery Policy (NRP) in 2021 for implementation of Mongolian long-term Vision 2050 policy with a list of New/Revised Laws as priority for Parliamentary session in 2022.

Fostering diversification requires a step change

- **Despite real achievements, interviews with domestic and international businesses show that confidence in the business environment has been somewhat eroded :**
 - ✓ Process to create a business and obtain necessary permits is still bureaucratic (a new Permit and Licensing Law has been enacted).
 - ✓ Insufficient investor protection mechanisms.
 - ✓ Sudden policy reversals that challenge FDIs inflow.
 - ✓ Regulations that are frequently changing, often in favor of SOEs.
 - ✓ Although the country offers business services to support the formalization of firms, entrepreneurs are not always aware of them.

Reforming the Business Environment (1)

- Global experience -

- **A web of institutions, norms, rules: the complexity of the investment climate reform**

Administrative procedures	“One stop shop”, single window, inspections, licensing, standardized forms and corporate documents
Legal	Commercial code, company law, collateral law, bankruptcy, labor law, infrastructure laws, PPP
Judicial	Court procedure, case management, performance measurement of judges
Digital services (eGov)	Company/collateral registry, Credit bureau, Electronic signature, single ID for companies and citizens, Paying taxes, Legal portal
Tax and Subsidies	Corporate tax, VAT, social contribution, registration duties, selective interventions

Reforming the Business Environment (2)

- Global experience -

- **Complex linkages between various elements of the business environment**
 - ✓ eGov: legal change + regulatory change + institutional change + technological change
 - ✓ e.g. Simplifying business registration: tax, IT and legal change
- **Country institutions are seldom prepared for this complex challenge**
 - ✓ Lack of inter-ministerial coordination due to coalition governments
 - ✓ Weak capacity of public sector in project management
 - ✓ Private sector incentives are not clear

“The reform process is not the sideshow... it’s the main event” (Stiglitz, 2000)

Mongolia's Reforms can be enhanced for effectiveness (1)

- **Although a relatively sound regulatory governance framework is in place, private sector considers it is not impactful due to several factors:**
 - ✓ Weak trust the reform process because it is unclear how public comments influence policy development and rulemaking -- as the design of the reform agenda remains mainly managed by the public sector.
 - ✓ Lack of access to technical capacity to contribute and provide meaningful suggestions and comments on complex regulatory topics.
 - ✓ Complex and time-consuming governance structure with several technical working groups not aligned with the tight deadlines of the public reform calendar.

Mongolia's Reforms can be enhanced for effectiveness (2)

- **Public sector involvement in the reform process needs to be strengthened and better coordinated:**
 - ✓ Intensive inter-agency coordination: Justice, Economy, Finance, autonomous authorities (Central bank, investment authority, capital market authority, etc.).
 - ✓ Technical agency instability following elections and ensuing political transition.
 - ✓ Weak in-house legal capacity necessary to produce high quality commercial regulations.
 - ✓ Parliament has limited capacity and time to digest the increasingly technical aspects of modern legislation.
 - ✓ E-gov tools could simplify the business environment (from an informational to transactional role of e-Mongolia).



Key Building Blocks for Business Environment Reforms

Specific Focus Areas of Business Environment Reforms

Focus Area	Key Elements	Objectives
I. Economic & business Law	<ol style="list-style-type: none"> 1. Competition law 2. Insolvency and Bankruptcy 3. Enforcing contracts 	To ensure fairer relations between businesses & stakeholders
II. Administrative Systems, Procedures & Rules	<ol style="list-style-type: none"> 4. Business registration 5. Procedures relating to construction, electricity and property registration 6. Business licensing 7. Business inspections 8. Customs procedures 	To simplify & digitize procedures for starting and operating a Business
III. Attracting and Retaining Foreign Investors and Investment	<ol style="list-style-type: none"> 9. Investment policy statement & revise Investment Law 	To attract new forms of FDI and retaining foreign investors and investment to diversify the economy
IV. Facilitating Entrepreneurship and Economic Diversification	<ol style="list-style-type: none"> 11. Developing an Effective Framework for Industrial Parks (IP) 12. Incentives and role of the SME Agency 	To upgrade the institutional and legal framework supporting light industries

Thank you



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