

# Bank of Mongolia Seminar

## Industrialization & Policies to Support non-Mineral Exports

Improving the business environment for competitiveness & economic  
recovery

**Thilasoni Benjamin Musuku**

*Senior Specialist - Finance, Competitiveness, and  
Innovation*

*Equitable Growth, Finance, and Institutions*

*East Asia & Pacific*



**THE WORLD BANK**

IBRD • IDA | WORLD BANK GROUP

# Outline

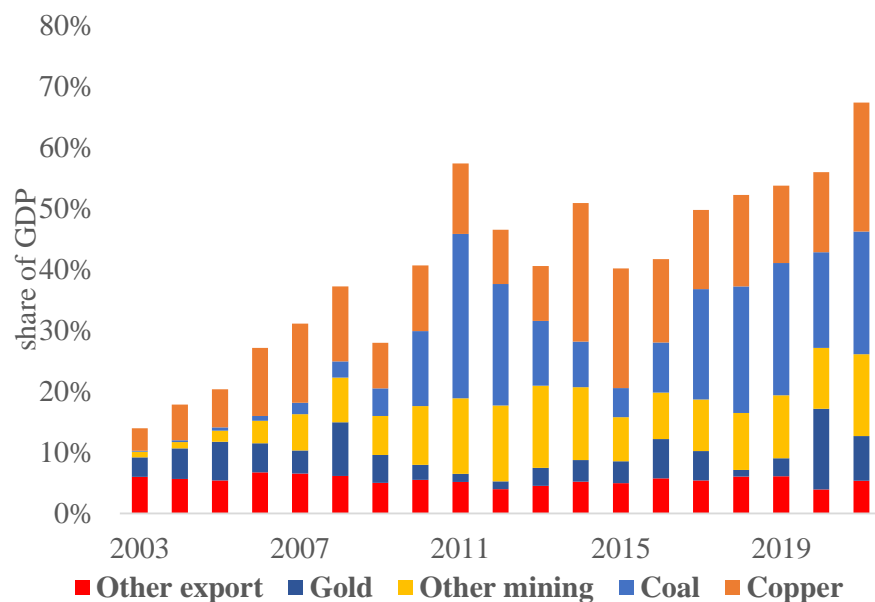
- 1. Economic Context**
- 2. Policy Framework & Regulatory Environment**
- 3. Key Building Blocks for Business Environment Reforms**



# Economic context

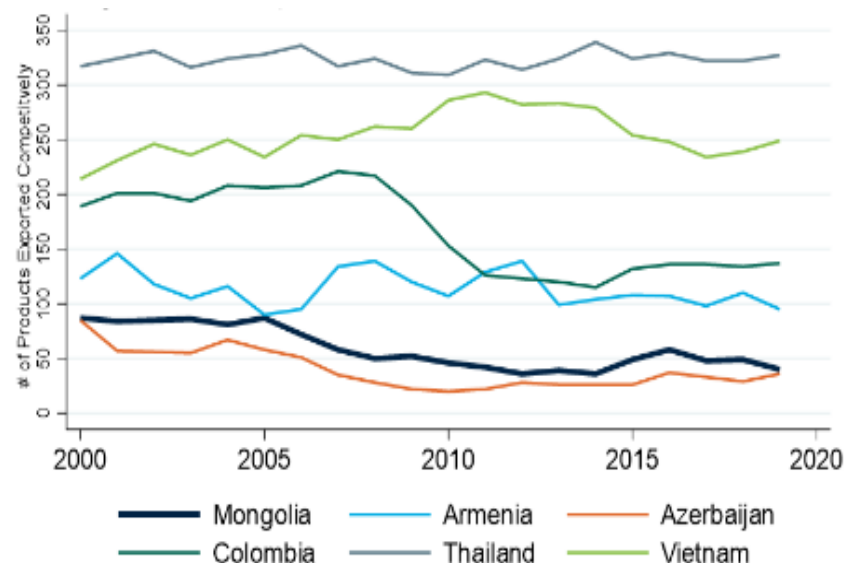
# Mongolia has been losing export diversity

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

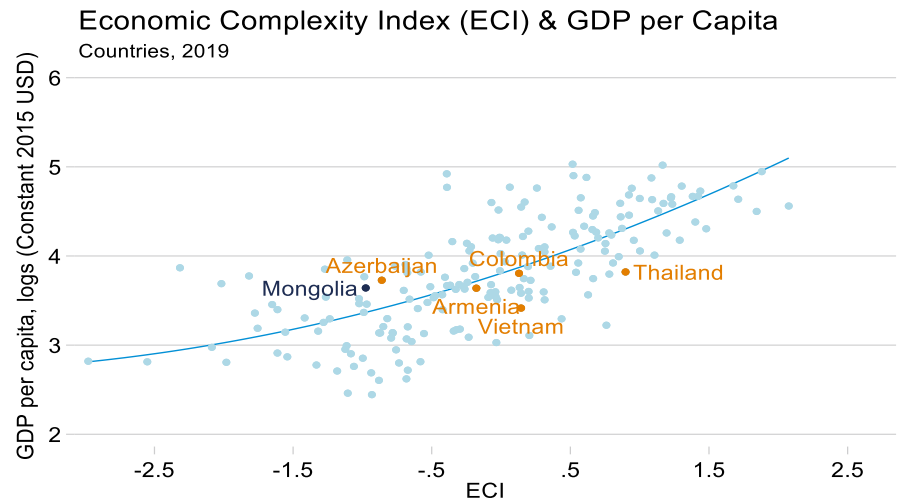
# Exports mostly low complexity products

Export by country and sector, US\$ million

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

Source: Bank of Mongolia, Mongolian Customs

Mongolia has the lowest ECI among its peers



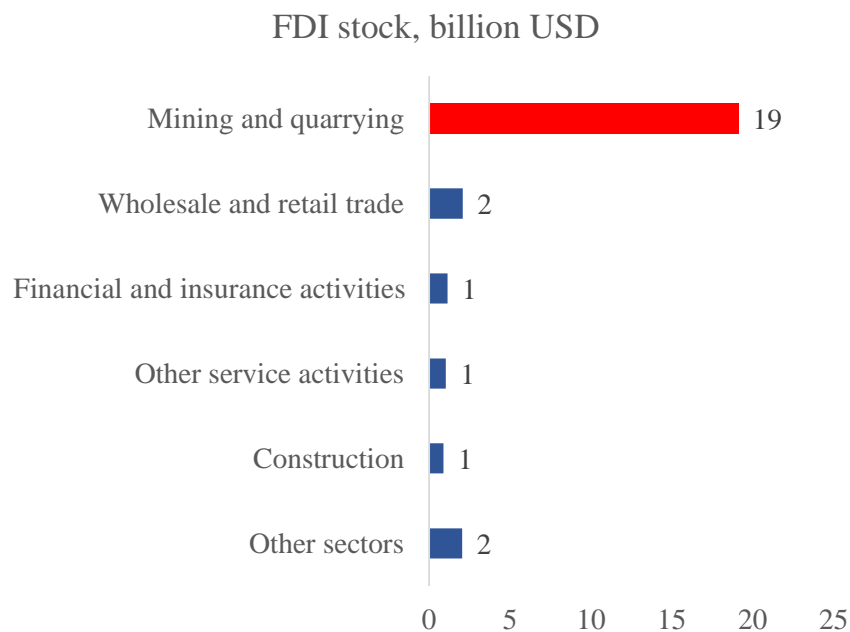
Source: Atlas of Economic Complexity

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

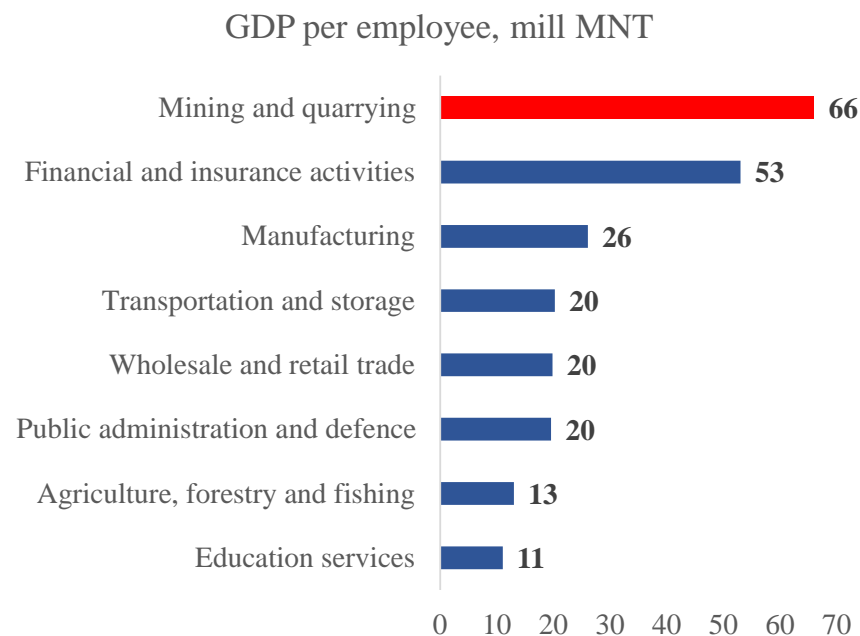
# Capital & productivity is concentrated

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

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



Source: Bank of Mongolia

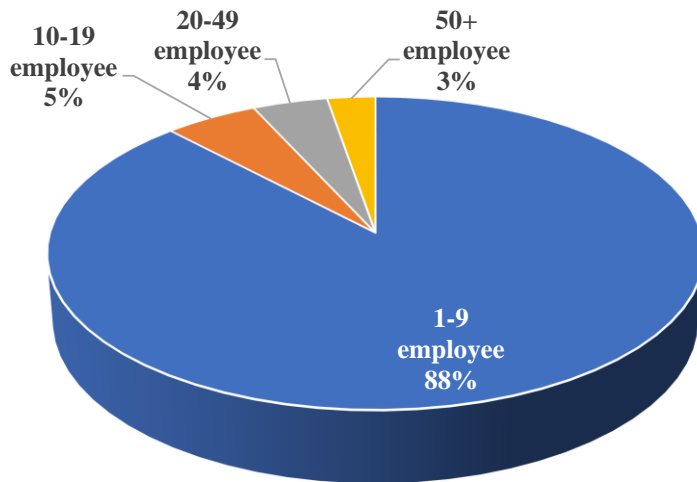


Source: NSO

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

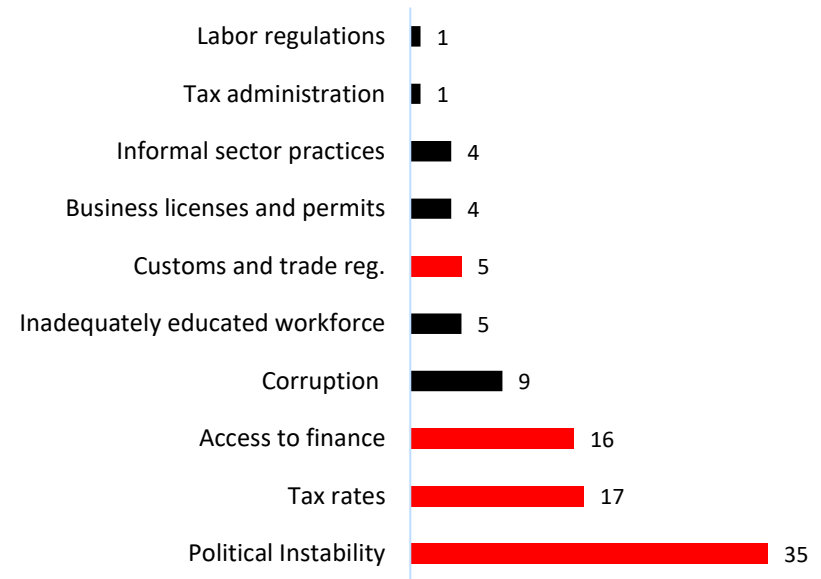
# Dominant small businesses can be crucial agents of economic diversification.....

Active businesses by employee size, as of end of 2021



Source: NSO

Obstacles to business environment, percent of firms

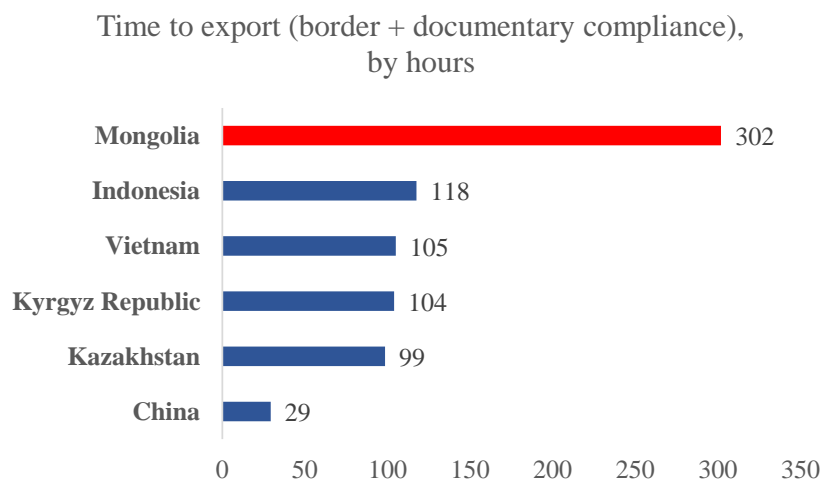


Source: World bank Enterprise survey 2019

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

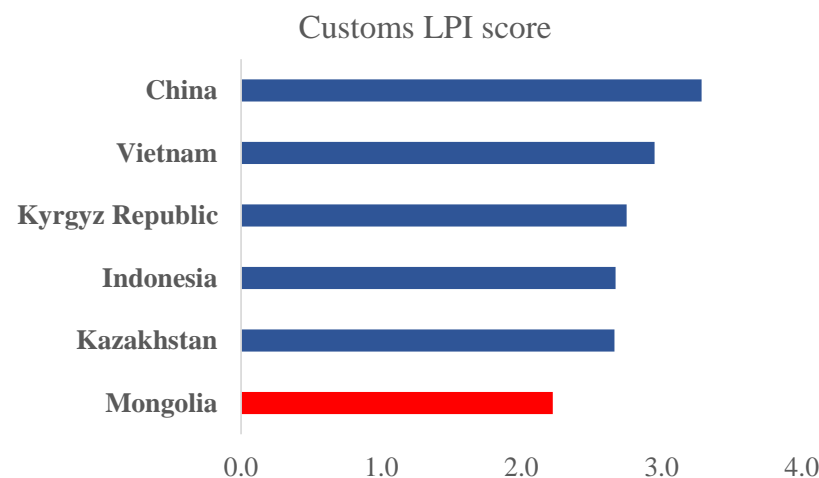
# Logistics related obstacles hinder exports

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**

<b>Administrative procedures</b>	“One stop shop”, single window, inspections, licensing, standardized forms and corporate documents
<b>Legal</b>	Commercial code, company law, collateral law, bankruptcy, labor law, infrastructure laws, PPP
<b>Judicial</b>	Court procedure, case management, performance measurement of judges
<b>Digital services (eGov)</b>	Company/collateral registry, Credit bureau, Electronic signature, single ID for companies and citizens, Paying taxes, Legal portal
<b>Tax and Subsidies</b>	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
<b>I. Economic &amp; business Law</b>	<ol style="list-style-type: none"> <li>1. Competition law</li> <li>2. Insolvency and Bankruptcy</li> <li>3. Enforcing contracts</li> </ol>	To ensure fairer relations between businesses & stakeholders
<b>II. Administrative Systems, Procedures &amp; Rules</b>	<ol style="list-style-type: none"> <li>4. Business registration</li> <li>5. Procedures relating to construction, electricity and property registration</li> <li>6. Business licensing</li> <li>7. Business inspections</li> <li>8. Customs procedures</li> </ol>	To simplify & digitize procedures for starting and operating a Business
<b>III. Attracting and Retaining Foreign Investors and Investment</b>	<ol style="list-style-type: none"> <li>9. Investment policy statement &amp; revise Investment Law</li> </ol>	To attract new forms of FDI and retaining foreign investors and investment to diversify the economy
<b>IV. Facilitating Entrepreneurship and Economic Diversification</b>	<ol style="list-style-type: none"> <li>11. Developing an Effective Framework for Industrial Parks (IP)</li> <li>12. Incentives and role of the SME Agency</li> </ol>	To upgrade the institutional and legal framework supporting light industries

Thank you



**THE WORLD BANK**

IBRD • IDA | WORLD BANK GROUP