MONGOLIA BUSINESS PLUS INITIATIVE

FINAL REPORT

September 30, 2015

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Cover: An employee of SRB, a woman-owned and operated producer of leather goods, displays a leather bag. The BPI-supported Quality Supplier Development Center helped SRB increase production and, through its technical assistance fund, secure a larger production facility. SRB expects to double its sales in the next year.

CONTENTS

ACRONYMS

AmCham	American Chamber of Commerce in Mongolia
BPI	Business Plus Initiative
CAIS	Customs Automated Information System
CGA	Customs General Authority
CGDC	Corporate Governance Development Center
CGRI	Corporate Governance Rating Index
CIB	Credit Information Bureau
EJC	Economic Journalism Club
EPRC	Economic Policy Reform and Competitiveness project
ERC	Energy Regulatory Commission
FRC	Financial Regulatory Commission
GASI	General Authority for State Inspections
GASR	General Authority for State Registration
GATT	General Agreement on Tariffs and Trade
GDT	General Department of Taxation
HACCP	hazard analysis and critical control points
ICC	International Chamber of Commerce
MCUD	Ministry of Construction and Urban Development
MINAC	Mongolian International and National Arbitration Center
MNCCI	Mongolian National Chamber of Commerce and Industry
NBFI	Non-bank Financial Institution
OHS	occupational health and safety
OSS	one-stop shop
QMP	Quality Management Program
QSDC	Quality Supplier Development Program
SDP	Supplier Development Program
SIAC	Singapore International Arbitration Center
SMEs	small and medium-sized enterprises
TAF	technical assistance fund
TPI	The Press Institute
UBEDN	Ulaanbaatar Electricity Distribution Network

UNCITRAL	United Nations Commission on International Trade Law
VAT	value-added tax

EXECUTIVE SUMMARY

BUSINESS PLUS DIALOGUE EQUALS SUCCESS

BPI's facilitation of public-private dialogue led to mutually beneficial alliances among government counterparts, the private sector, and local organizations.

Following the success of USAID's Economic Policy Reform and Competitiveness (EPRC) project, the government of Mongolia agreed to continue its ambitious reform agenda through support and partnership with USAID. In June 2011, Chemonics International began implementing the $14 million follow-on project, Business Plus Initiative (BPI). BPI was designed to improve Mongolia's business enabling environment, build capacity of government and private sector organizations, increase private sector competitiveness, and broaden dialogue to include the private sector and increase the general public's understanding to foster support for the reform agenda.

Country context. Although Mongolia has made tremendous progress in its transition from a centrally planned state to a market economy during the past 20 years, the time and cost of doing business has remained excessively high. Underdeveloped laws and regulations and weak institutional capacity have hampered the government's ability to carry out reforms. Mongolia's political instability, compounded by falling commodity prices, a new foreign direct investment law, and the revocation of hundreds of mining licenses, have also contributed to its steadily declining growth rate.

Approach and methodology. The BPI team emphasized creativity and flexibility in working with their partners in government and in the public sector. This approach, allowed them to remain responsive to changes in political will, while strategically planning activities leading to business reform. Understanding that meaningful, lasting reform would have to be led by the private sector, BPI organized and facilitated a series of public-private dialogues to ensure the government sought input from business owners through direct conversations. Because this methodology has proven to be successful, BPI empowered the American Chamber of Commerce in Mongolia to facilitate ongoing dialogue between the public and private sectors in the future. The project also earned the trust of the government and the private sector by bringing in respected technical experts to assist in designing and implementing business enabling reforms and applying international best practices.

Fostering business enabling reform. Through public-private dialogue, representatives from the government and private sector selected five priority areas for reform based on the World Bank's annual *Doing Business* survey: Starting a Business, Dealing with Construction Permits, Getting Electricity, Paying Taxes, and Trading across Borders. BPI helped reduce the number of steps to register a business, made it easier to get an electricity connection, and developed e-government solutions to reduce the amount of time and lower the costs associated with paying taxes and trading across borders, introduced international best practices in dealing with construction permits, and fostered ongoing communication between the public and private sectors for policy formulation and implementation. The project helped transform key government

operations of its close counterparts, making them more transparent and efficient, and energized private sector participation in the reform process.

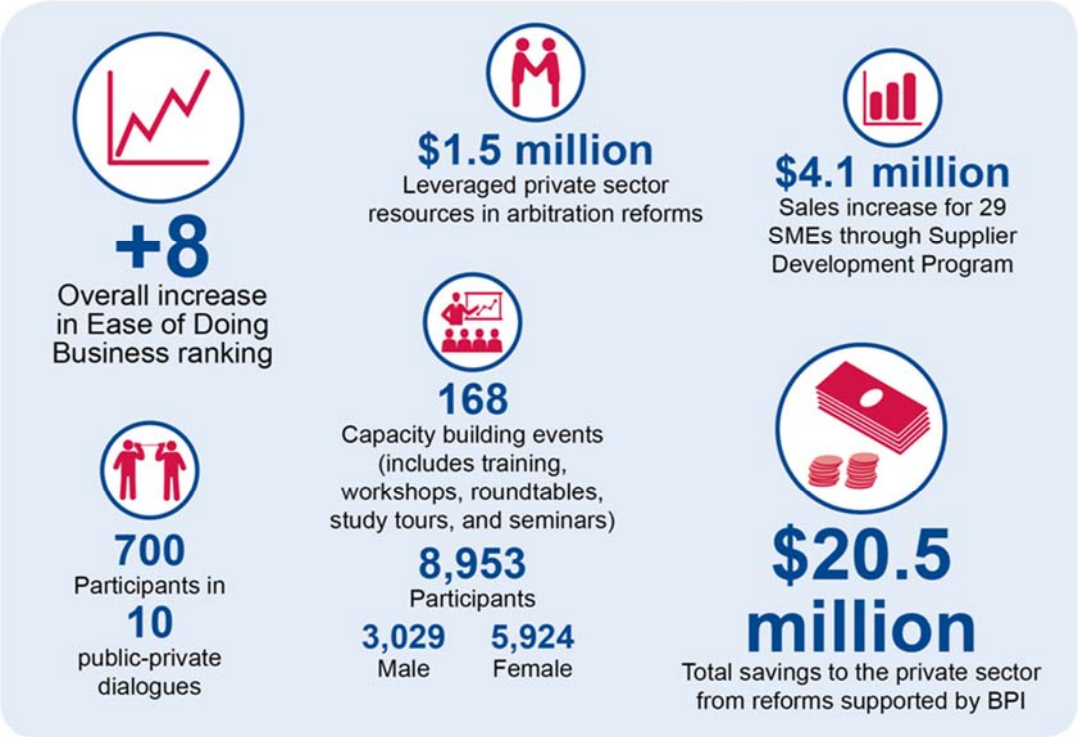
Fostering best practices in commercial arbitration. BPI worked with the Ministry of Justice to draft a new arbitration law that would align it with the United Nations Commission on International Trade Law's model law on international commercial arbitration, which would provide an alternative for resolving disputes through the sometimes unpredictable local court system. BPI brought in respected arbitration experts from international law firms to build the capacity of local arbitration practitioners through conferences, courses, and live simulations of arbitration procedures. Because of BPI's training-of-trainers program, the Mongolian Bar Association now has its own trainers who will continue to educate local stakeholders about arbitration.

Developing the non-bank financial sector. To create an enabling environment for financial markets and attract investment for private sector firms, BPI built the capacity of Mongolia's Financial Regulatory Commission to draft and enforce new laws and regulations. And to ensure higher quality sources of capital are available to Mongolian enterprises, BPI developed the capacity of non-bank financial institutions by launching training programs for loan officers and further developing the Credit Information Bureau established by EPRC. The project also supported the Corporate Governance Development Center in designing the Corporate Governance Rating Index and hosted annual forums to increase awareness of international best practices in corporate governance.

Increasing private sector capacity and competitiveness. BPI also supported Mongolia's private sector through the Quality Supplier Development Center (QSDC), an NGO established by private sector representatives brought together by the project. The QSDC supported small and medium-sized enterprises (SMEs) by providing quality management training to improve their products and services, and by helping individual firms cultivate high-value supplier relationships with larger firms to increase their sales and penetrate new markets. BPI also created business development tools and training that help Mongolian SME owners manage and grow their businesses.

Lessons learned for economic growth in Mongolia. Many of the lessons the BPI team learned through implementing the project reinforce our approach and methodology. By remaining flexible, the team was able to embrace unexpected opportunities to further reform efforts. Encouraging and facilitating public-private dialogue led to mutually beneficial alliances among government counterparts, the private sector, and local organizations. Other lessons learned are reminders of the fundamentals of effective technical assistance: ensure commitment from leadership; hire the best technical experts who can build trust by delivering what the counterpart needs; and educate the public to bring them into the dialogue and earn their support for reform. Through ongoing dialogue, effective, sustainable reform is built on understanding, ownership, and buy-in from government, the private sector, and the general public.

EXHIBIT 1. MONGOLIA BPI BY THE NUMBERS



SECTION 1

COUNTRY CONTEXT

During the past 20 years, Mongolia has made tremendous progress in its transition from a centrally planned state to a democratic, market economy. Mongolia is home to some of the world's largest untapped mineral reserves including coal, copper, and gold. During the past decade, the development of large mineral deposits — led by the development of the Oyu Tolgoi copper and gold deposit that attracted more than $6 billion in foreign direct investment for the first phase — has fueled unprecedented economic growth. Real GDP grew at an average 9 percent during the past decade, and per capita income more than quadrupled to more than $4,000.

By June 2011, when USAID's Business Plus Initiative (BPI) began, its predecessor, the Economic Policy Reform and Competitiveness (EPRC) project, had supported major improvements in tax policy and reform in the energy and financial sectors. But the time and cost to do business remained excessively high due to underdeveloped laws and business regulations and weak institutional capacity to carry out reform. USAID recognized that BPI needed to support the public and private sectors — not only during the development of new policies, regulations, and procedures but, more importantly, during their implementation to foster an environment that drives accelerated, inclusive, and diversified growth.

Mongolia's economic environment has been complicated by political instability, which persisted throughout the project. After a strong start in August 2012, the Reform Government undertook a series of measures that caused the investment climate to deteriorate rapidly. A new foreign direct investment law, the revocation of hundreds of mining licenses, and stalled negotiations with Oyu Tolgoi for the second phase of development, along with a sharp decline in commodity prices, quickly changed the outlook for Mongolia's economic future. Since the annual growth rate peaked at 17.3 percent in 2011, it has steadily declined, reaching 7.8 percent in 2014. The volatile economic situation translated into further political instability, culminating in a no-confidence vote against the Reform Government and the installation of a new government in December 2014.

Within these challenging conditions, the BPI team continued to work through three different governments during its four years of implementation, establishing strong relationships with new partners within the various counterpart ministries and agencies. The project enjoyed high-level support during its first two years when assisted the Cabinet Secretariat in implementing the Year 1 Reform Roadmap. However, frequent changes within implementing agencies resulted in uneven support for various reforms.

Through constant and robust policy dialogue that included the public and private sectors, BPI helped to formulate and implement reforms and protect important gains in ease of doing business in the World Bank's *Doing Business Report*.

SECTION 2

APPROACH AND METHODOLOGY

From the outset, the BPI team understood that they would need to work hand-in-hand with project counterparts in the Reform Government and the private sector as true partners, rather than merely provide assistance, to achieve meaningful and lasting reform in Mongolia's business environment. By building strong relationships and listening to partners, the project team developed a genuine understanding of the needs and goals of the private sector and government and worked throughout to encourage and facilitate dialogue and consensus.

APPROACH

BPI built on the achievements of EPRC and emphasized innovation and creativity to maximize sustainable benefits. Committed to the demand-driven nature of the project, the BPI team remained flexible and creative, identifying and seizing opportunities as they emerged. The team coordinated closely with public sector counterparts and private sector stakeholders, which allowed them to anticipate, plan for, and respond to shifting political will regarding strategic activities necessary for reform.

The team also approached implementation holistically. They understood that the project's components were integrally linked parts of a cohesive strategy to catalyze the private sector's role in economic growth and that the private sector must lead the reform agenda in dialogue with the public sector.

METHODOLOGY

Throughout implementation, BPI employed several methods to engage public and private sector stakeholders in meaningful, sustainable reform leading to economic growth: broadening the reform dialogue and improving understanding of economic reform by building consensus and ownership among public and private sector representatives and educating the press about economic reform; applying international best practices; and building trust among counterparts through expert technical assistance.

BROADENING THE REFORM DIALOGUE

One of BPI's most important objectives was to ensure that both private sector actors and public sector officials fully participated in business enabling reforms. To that end, BPI hosted and facilitated public-private dialogue events, provided training on business enabling reforms, and held public events in conjunction with BPI partner The Press Institute (TPI) and its Economic Journalism Club (EJC).

Public-Private Dialogue

Public-private dialogues were a hallmark of BPI's approach to fostering cooperation between the government and private sector on business enabling reform in Mongolia. Bringing together public sector officials — including high-level decision-makers and

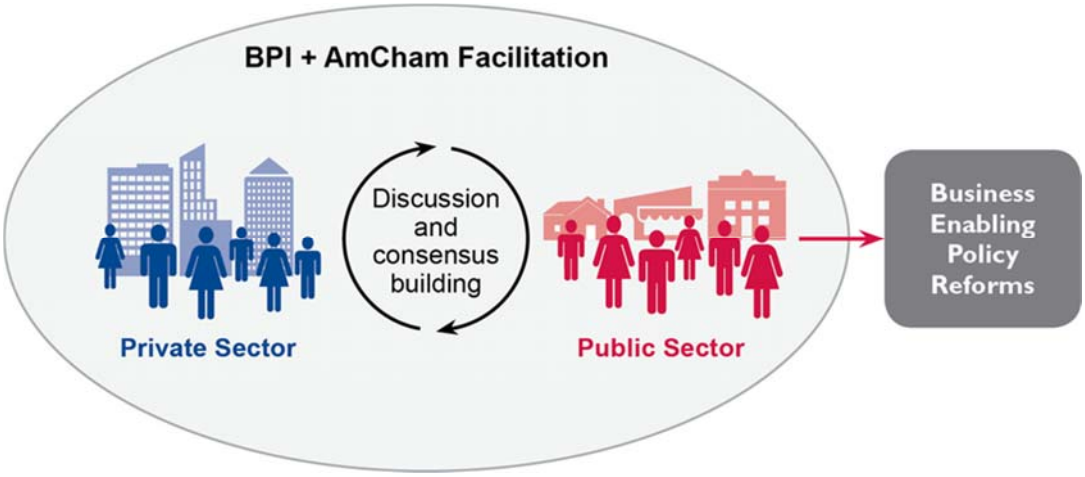
technical officers in charge of implementing policy — with private sector representatives in a structured dialogue proved a powerful method to foster change.

Although the new Reform Government was ready to implement legal and regulatory reforms, they faced considerable challenges, including a changing international investment landscape, lower commodity prices, and a cumbersome business enabling environment. Prioritizing reforms and establishing effective mechanisms to engage the public and private sectors had proven difficult. Donor meetings and ad hoc government forums were the only vehicles for public-private communication, which were far from the open, collaborative process required to develop a private sector, demand-driven trade and investment agenda.

INFORMATION IS POWER

Executive Director of AmCham Mongolia, Tricia Turbold, told BPI that providing a forum for inclusive, current, reliable, and relevant information is the most important service that the nascent association could offer its members. With greater membership and demonstrated value, the association has been able to offer additional services, support issue-based advocacy, and strengthen the voice of the private sector.

EXHIBIT 2. BPI PUBLIC-PRIVATE DIALOGUE METHODOLOGY



Beginning in summer 2012, BPI worked with the Reform Government to improve the process for national dialogue. The project routinely convened dialogues for leaders and industry policy experts to discuss specific issues and constraints the private sector believed the public sector could remedy. BPI catalyzed a robust and meaningful public-private dialogue that engaged the private sector, ensured that government sought their buy-in, and helped project activities maintain popular support.

Before the first public-private dialogue event, BPI surveyed the public and private sectors to determine their priorities. The project team looked for areas where priorities overlapped and selected five broad areas for reform, which they presented at the beginning of the first public-private dialogue event.

After the first dialogue, BPI invited some of the participants to a roundtable discussion to develop specific, time-bound action plans for each reform area. Representatives from the private sector presented the action plans to the prime

minister and the Cabinet Secretariat in a public-private reform workshop in September 2012. These plans were accepted and formed the basis of the government's Year 1 Reform Roadmap.

BPI continued to sponsor the annual Business Enabling Reform forum during which stakeholders reflected on progress and opportunities for improvement. These meetings generated roadmaps that enabled project staff to identify priorities in facilitating business registration, investment, and growth. Over the span of the project, government agencies increasingly accepted and welcomed public-private dialogues as a necessary condition for the effective design and implementation of business enabling environment reform strategies.

PUBLIC-PRIVATE DIALOGUE HIGHLIGHTS UNDER BPI

- **Raised public sector awareness of the importance of sound economic policies, laws, regulations, and the value of transparency in policy development process**
- **Promoted a change in the culture of both sectors, resulting in increased understanding and empathy about each other's constraints, objectives, and capacity**
- **Institutionalized the approach with a business association capable of collecting and synthesizing information across sector and company-size lines, and technically defined working groups as needed**
- **Improved each sector's ability to ask the right questions to arrive at solutions and policies that benefit both sectors and society at large**

BPI empowered the American Chamber of Commerce in Mongolia (AmCham), a private sector association, to select and formulate their key issues, collect and analyze the information to support their claims, and package the information to more effectively advocate on behalf of their members. BPI also facilitated AmCham Mongolia's strong relationships with prominent policy makers to encourage ongoing public-private dialogue sensitive to concerns, practices, and attitudes of the public sector to ensure that the business environment continues to evolve. The box at right highlights outcomes of the public-private dialogue mechanism BPI applied.

PHOTO: USAID/Mongolia BPI

Public and private sector representatives discuss the latest proposed revisions to the Labor Law during the AmCham public-private dialogue, supported by BPI, on June 12, 2015.

Improving Media Coverage of Business Enabling and Competitiveness Topics

To further broaden the policy dialogue to include the general public, the BPI team understood that they needed to engage the media. With the growing number of media outlets in Mongolia, there is fierce competition for readers and funding. Most outlets are privately owned, sometimes by politicians who use them to promote their interests. Journalists are sometimes paid to produce articles and programs with a

certain point of view rather than well-researched, independent pieces. In addition, competition has led to increasingly sensational news to draw an audience, rather than a focus on high-quality reporting. Despite the number of newspapers and television programs, unbiased reporting on economic issues has been lacking.

With Mongolia's rapid economic development, the need for accurate reporting on economic issues is essential to help the public understand the reform process. The Press Institute (TPI), Mongolia's leading NGO promoting independent, fact-based journalism had established the EJC with support from the EPRC project, World Bank, and Open Society Forum to improve the quality of economic and trade journalism across the country. BPI collaborated with TPI to improve the skills of journalists covering economic issues and increase their access to information to support well-researched, unbiased articles.

In partnership with the EJC, BPI organized more than 75 roundtable discussions, training events, and site visits. The events allowed journalists to access the accurate information, directly from technical experts and decision-makers they needed to produce stories on economics and business reform, and provided opportunities for government officials to engage with the media. Together, these efforts not only increased the amount of serious reporting on economic issues, but also improved the quality of that reporting.

PHOTO: USAID/Mongolia BPI

Altantsetseg Luvsan, a customs specialist, demonstrates the automated customs system to members of the EJC during a field trip to the customs office in Dornod province, Mongolia, in September 2013.

APPLYING INTERNATIONAL BEST PRACTICES

Because the BPI team worked closely with the project's stakeholders, developing a clear understanding of needs within both the public and private sectors, they were able to maximize their efforts by ensuring that international best practices introduced or expanded on were grounded in specific challenges facing Mongolia.

The project team introduced or reinforced international best practices in the five *Doing Business* reform areas identified by the private sector and agreed to by the government, including business registration, construction permitting, getting electricity, paying taxes, and customs. The team also introduced best practices in arbitration, corporate governance, and economic journalism.

PROVIDING PROFESSIONAL TECHNICAL ASSISTANCE

BPI earned the trust of the government and the private sector by bringing in the right technical assistance at the right time — whether expert facilitators to ensure all voices

were heard in public-private dialogues, customs and tax experts to support business enabling policy reforms, or international lawyers to draft laws or train Mongolian arbitration practitioners. The project team not only demonstrated their commitment to the government, but also empowered the private sector to make the most of the business enabling reforms they themselves advocated for in dialogue with government leaders. With business development support activities - and related training - to deliver better services and higher-quality goods to buyers, BPI's technical experts have contributed to an environment in which the private sector can thrive and contribute to Mongolia's economic growth.

SNAPSHOT

Journalists Spread the Word

Economic Journalism Club's seminars help Mongolians understand economic reform

PHOTO: USAID/Mongolia BPI

Munkhchimeg Davaa, a freelance journalist at the National Messenger daily newspaper, receives the first place award for best economic news article and television story of the year.

A desire to help the public understand the economic reforms unfolding after Mongolia's mining boom encouraged freelance journalist Munkhchimeg Davaa to apply for a spot in a series of seminars about the reforms launched by USAID's Business Plus Initiative and The Press Institute's Economic Journalism Club (EJC). "I used to hesitate to write or talk about reforms because I lacked the specific knowledge to report accurately, now I am motivated to report on economic developments as a way to focus the public's attention on current reforms," she says.

The seminars helped Mongolian journalists understand and report on economic issues, particularly business environment reforms, ranging from customs to arbitration. More information in the news media about these reforms would increase awareness in the general public, allowing citizens to take advantage of them — and provide feedback to the government. Panelists included local and international experts, key government officials, and prominent private sector representatives. The seminars also offered toolkits and methodologies to improve reporting.

Many journalists were unaware of the basis for reform efforts before the EJC seminars. Freelance journalist Indra Hurelbaatar has published more than 10 articles regarding ongoing tax and state registration reforms on the web portal www.och.mn. In Indra's words, "The seminars translate into stories that bring public attention to the issues that matter most in the country."

Ariuntuya Ayurzana, EJC Coordinator, explained the transformation in Mongolian media coverage: "Before USAID's support to the EJC, economic stories were either underreported or ignored in the mainstream news….[Now] you can open any newspaper, switch on the radio, or tune into the evening news to discover the impact of reforms on Mongolia's development."

SECTION 3

FOSTERING BUSINESS ENABLING REFORM

During the summer of 2012, BPI organized a series of business roundtables for representatives of the private sector, the government, and international organizations to identify major impediments to doing business in Mongolia that could be shared with the new Reform Government. Five out of 10 areas covered by the World Bank Doing Business survey —Starting a Business, Dealing with Construction Permits, Getting Electricity, Paying Taxes, and Trading across Borders — were identified as priorities, and BPI assisted in developing reform action plans for each area. Private sector representatives who had participated in the roundtable discussions presented these plans to the prime minister in September 2012 during a "Working Together for Reforms" forum. The prime minister accepted the private sector proposal and adopted them as part of the Year 1 Reform Roadmap. The Cabinet Secretariat coordinated reform efforts with the interagency Government Reform Working Group that included representatives from the private sector. BPI served as the technical secretary of the reform working group.

PARTNERS

Public:

- **Cabinet Secretariat**
- **Ministry of Justice**
- **Ministry of Construction and Urban Development**
- **Ministry of Energy**
- **Bank of Mongolia**
- **Customs General Authority**
- **General Department of Taxation**
- **General Authority for State Registration**
- **Ulaanbaatar Municipality**
- **Ulaanbaatar Electricity Distribution Network**

Private:

- **Mongolian National Chamber of Commerce and Industry**
- **American Chamber of Commerce of Mongolia**
- **Mongolian Bar Association**
- **Mongolian Law Society**
- **Business Council of Mongolia**
- **Sectoral business associations**

Through a series of public-private dialogues facilitated by BPI, the working group and representatives from the private sector expanded and refined the Roadmap, which focused on reforms that could be implemented within two years, did not require high levels of capital investment, and could achieve significant national impact.

By adopting international best practices in the five reform areas supported by BPI, Mongolia has improved its overall Ease of Doing Business ranking by eight positions, which translates into significant time and cost savings to the private sector. Mongolia improved its rankings in three areas: It is now easier to deal with construction permits, get electricity, and trade across borders (see Exhibit 3 on the following page).

Regarding the Paying Taxes reform area, Mongolia's ranking has fallen 11 positions since the 2013 *Doing Business Report* mainly due to the progress made by other countries in this area. But its rank has improved by 16 positions since the 2014 report, moving from 100 to 84. This improvement reflects the initial recognition of e-tax

reforms. A more significant improvement is expected for this area once e-tax reform is fully recognized by the *Doing Business* team.

Likewise, after a significant improvement in the Starting a Business reform area in 2012, the *Doing Business Report* has shown a modest fall in the rankings due to improvements achieved by other countries. With the passage of the BPI-supported Legal Entity Registration Law in January 2015, we anticipate significant improvements in this ranking in future editions of the report.

EXHIBIT 3. SUMMARY RESULTS FOR DOING BUSINESS REFORMS

REFORM AREA	DOING BUSINESS 2013*	DOING BUSINESS 2015	CHANGE IN RANKING
Starting a Business	36	42	-6
Dealing with Construction Permits	132	74	+58
Getting Electricity	171	142	+29
Paying Taxes	73	84	-11
Trading across Borders	180	173	+7
Overall Ease of Doing Business	80	72	+8

*Ranking adjusted in 2014 by World Bank based on new data.

With the Mongolian government and private sector, BPI has fostered reform in the business enabling environment through a range of activities, including:

- Providing expert technical and legal assistance to draft new laws and regulations
- Building capacity to increase the skills and knowledge of public and private representatives in understanding international best practices and expected impacts of proposed legal and regulatory changes
- Facilitating public-private dialogue events to discuss proposed legal and regulatory improvements
- Organizing and conducting study tours for Mongolian government officials to observe best practices
- Working with government counterparts during the development of a concept paper and draft law and its approval by the Cabinet
- Accompanying government counterparts through discussion of the proposed draft law with corresponding legal package (concept paper, introduction to the draft law, and amendments to related laws) for reform before the Parliament Standing Committee
- Leveraging international organizations and private sector resources in support of the reform agenda, especially in the area of commercial arbitration

Below we present key issues in the areas of Starting a Business, Dealing with Construction Permits, Getting Electricity, Paying Taxes, and Trading across Borders that the government and private sector faced, activities that BPI implemented to address them, and the results achieved.

STARTING A BUSINESS

With the adoption of a new Company Law in October 2011, Mongolia experienced a significant improvement in the Starting a Business reform area. According to the 2013 *Doing Business Report*, Mongolia moved up in the rankings from 95th to 36th out of 189 countries, mainly because it eliminated the paid-in minimum capital that entrepreneurs were required to deposit in a commercial bank before starting a business. Despite this improvement, business registration procedures still required numerous visits by applicants to the General Authority for State Registration (GASR), banks, notaries, and tax and social security offices.

KEY ISSUES

The main issues facing Mongolian entrepreneurs who wanted to start a business in 2012 were the following:

- *Multiple steps for registration*. The business registration process included opening bank accounts, duplicate registration at tax and social security offices, and making a seal. Each part of the process took at least one full day and added to costs.
- *Time-consuming internal process within the registration agency*. The internal review process at GASR required three individuals at different levels — such as registrar, senior registrar, and department head — to approve applications. By law, registrars had to keep duplicate electronic and hard copy records of registration data.
- *Cumbersome legal requirements*. The 2003 Legal Entity Registration Law required an application form with five supporting documents and five days to register legal entities. The law was ambiguous in some areas, which allowed individual registrars to interpret it differently and resulted in inconsistencies.
- *Absence of online registration system.* GASR had an intranet system to house registration records, but no external online system that would allow entrepreneurs to register their businesses remotely. Applicants could only register their businesses in person at different offices, requiring multiple trips and sometimes at great expense.

BPI assistance helped overhaul the legal and regulatory framework, which had been in place since 2003, to streamline registration procedures; reduce the time required for registration; and introduce an online registration system. Meeting these objectives meant that the cost of registering a business would fall and that GASR, by eliminating burdensome internal processes, could redirect their resources to provide better services to customers.

ACTIVITIES

BPI assisted the government working group on reforms related to starting a business, led by the Cabinet Secretariat and supported by GASR, from the beginning of the reform process. BPI provided ongoing assistance to the working group to facilitate discussions on streamlining the process to register a business, gave feedback on aligning the proposed changes with international best practices, and offered specialized legal advice to GASR and the Ministry of Justice on drafting the legal package, including a new law for legal entity registration, and internal procedures for GASR.

Streamlining registration procedures. With support from BPI, GASR introduced an interim measure establishing internal agreements with the General Department of Taxation (GDT) on data exchange that eliminated the requirement to register businesses at local tax offices. GASR streamlined procedures by eliminating the requirement for notarized copies of company statutes and charters. BPI and the reform working group also built consensus on guiding principles, such as not asking citizens for information the government already has, and learning from international best practices to work toward the new legal entity registration law. As a result, the time and cost of registering a business has been significantly reduced.

Drafting new law on legal entity registration. BPI provided legal and technical assistance to GASR, the Ministry of Justice, and the Parliament Standing Committee on Legal Affairs during the formulation, analysis, and approval of the new legal entity registration law. Enactment of the new law — a major milestone for BPI and Mongolian entrepreneurs — adds flexibility for legal entity registration; requires only one visit to registration and other offices by applicants when online registration is introduced; eliminates the prerequisite to open bank accounts; and allows for the option to obtain legally recognized electronic registration certificates.

After the law was approved, BPI with its partner AmCham Mongolia facilitated public-private dialogues to solicit the private sector's input on drafting new procedures, including eliminating multiple levels of approval and reducing the number of supporting documents required for registration. As a result, registration time at GASR will be reduced from five days to two days, as required by the 2003 law on legal entity registration.

Establishing an online registration system. BPI worked closely with GASR to develop an online business registration system. Unfortunately, with a change in GASR's IT management, the new authority decided to use a different platform for the proposed online registration system. Due to time and resource limitations, BPI was unable to implement this activity.

KEY RESULTS

Mongolia continued to demonstrate improvement in all three areas of Starting a Business over the past three years (see Exhibit 4 on the following page):

- The number of procedures has decreased from 7 to 5
- The number of days required to register a business has dropped from 12 to 11
- The cost of starting a business has fallen from 2.4 percent to 1.2 percent of per capita income

However, the country's overall ranking dropped by six places as other countries are reforming in this area more aggressively than Mongolia.

EXHIBIT 4. STARTING A BUSINESS INDICATORS

INDICATOR	DOING BUSINESS 2013	DOING BUSINESS 2015
Number of procedures	7	5
Time (days)	12	11
Cost (percentage of income per capita)	2.4	1.2
Paid-in minimum capital (percentage of income per capital)	0	0
Starting a Business ranking	36	42

DEALING WITH CONSTRUCTION PERMITS

In 2013, obtaining a construction permit in Mongolia was an onerous process. The overall process required 21 procedures over 216 days, according to the World Bank. BPI estimated that business owners had to make 18 separate visits to eight different agencies, including the Ministry of Construction and Urban Development or Ulaanbaatar Municipality offices for land and construction permitting, four different utility company offices, and other offices to get more than 100 signatures. These outdated, cumbersome construction permitting rules and procedures resulted in significant costs to the private sector. And rather than ensuring quality and safety in construction, the permitting process created multiple opportunities for corruption.

KEY ISSUES

Inefficient approval process. The approval process required applicants to acquire an unreasonable number of signatures throughout various stages as follows:

- Assigning states or municipal lands for construction purposes: 6 signatures
- Licensing design and construction activities: 100 signatures
- Preliminary approval of construction documents: 28 signatures
- Mandatory review by high-level construction specialist of project design and draft documents: 7 signatures
- Technical conditions from utilities (heat, water, electricity, telecommunications): 15 signatures
- State inspection and issuing occupancy permits: 14 signatures

Every interaction between an applicant and a government official created opportunities for inefficiency and corruption. International best practices call for a “one-stop shop” (OSS) for construction permitting. A single point of interaction streamlines the process, thereby decreasing the time and cost to obtain a permit; increases interagency coordination; and limits the interaction between the permit applicant and public officials, reducing opportunities for corruption and subjectivity.

No risk-based construction permitting process. In contradiction of international best practices, permitting requirements in Mongolia were the same for all types of construction activities regardless of the safety risk, structural complexity, and

development timeframes. Whether building a warehouse or a power plant, the permitting process was the same. Without risk-based categories for construction activities, Mongolia's construction sector is inefficient and poorly supervised.

Lack of clarity in the responsibilities of state and municipal agencies in construction permitting. Several government and municipal agencies and departments are involved in the construction and occupational permitting process in Mongolia. The main actors include the Ministry of Construction and Urban Development (MCUD), General Authority for State Inspections (GASI), various departments of the Ulaanbaatar Municipality, and utility companies. But because of the lack of clarity regarding their roles and responsibilities in the 2008 Construction Law, the permitting process is subject to multiple interpretations and duplication of requirements. As a result, applicants have to visit the same agencies and departments multiple times to obtain approvals.

BPI helped to establish a new legal and regulatory framework and implementation mechanisms to streamline procedures required to obtain construction permits, improve the overall coordination of participating agencies by creating an OSS for construction permits in the Ulaanbaatar Municipality, and introduce risk categories for construction projects that would be subject to different permitting requirements based on size, complexity, and timeframes.

ACTIVITIES

BPI assisted the Cabinet Secretariat and the government's Reform Working Group, which included representatives from the Ministry of Construction and Urban Development, Ulaanbaatar Municipality, Ulaanbaatar Electricity Distribution Network (UBEDN), and the private sector in dealing with construction permits. BPI provided specialized technical assistance, organized and facilitated study tours for government officials to learn from international best practices, supported legal drafting, and facilitated creation of an OSS for municipal services, including construction permits in Ulaanbaatar.

Improving the legal and regulatory framework. BPI supported a series of complementary activities, including taking members of the reform working group on study tours to the Republic of Georgia to learn about best practices in construction permitting. In addition, BPI facilitated video conferences between a large group of government representatives and Georgian counterparts to share information and ideas

PHOTO: USAID/Mongolia BPI

An Ulaanbaatar resident visits the municipality's Citizen Service Center on opening day In December 2012. She said, "I am almost 60, and I have never seen service like this before. Public service was bureaucratic and I did not know where to go." Now with the new center, citizens can access six different services, including land and construction permitting, quickly in one location.

to move forward from the Soviet-era construction permitting system to international best practices. BPI also hired international experts on construction permitting to work alongside MCUD's team of specialists and a local legal team in the drafting of the new construction permits law and regulations.

In December 2012, the Cabinet adopted Resolution #151 on construction permitting that established an OSS for construction permitting at the Ulaanbaatar Municipality and introduced a risk-based permitting process. The draft law and Cabinet Resolution #151 (see box below) integrated international best practices, including:

- A risk-based approach to dealing with construction permitting procedures
- Streamlined inspection procedures and elimination of mandatory review of project documents by high-level construction experts for medium- and low-risk construction projects
- Focusing on technical review of design and documents for high-risk construction projects while facilitating a simplified process for lower-risk projects
- OSS services for dealing with construction permits
- Adoption of international best practices on safety, professional certification, types of construction activities, and types of buildings

Supporting the development of a one-stop-shop. In addition to supporting MCUD, BPI supported the Ulaanbaatar Municipality in dealing with construction permits. Through BPI, two OSS specialists from the Republic of Georgia (a top Doing Business reformer and former Soviet state that had overcome challenges similar to those of Mongolia) provided hands-on support to Ulaanbaatar's newly formed Citizen Services Center for construction permitting and other municipal services. The BPI experts offered recommendations on the center's organization and operations, training on customer service, advice on software and IT solutions, and legal framework and interagency agreements required to ensure a streamlined and integrated construction permitting process. In addition, BPI facilitated a cost-shared study tour to the Republic of Georgia so the municipal OSS team could gain first-hand experience on best practices for OSS operations. Ulaanbaatar's OSS for construction permitting was established in January 2013.

RESOLUTION #151 IN BRIEF

Adoption and implementation of Cabinet Resolution #151 greatly improved the environment for obtaining construction permits over the past two years:

- **Number of required procedures decreased from 21 to 16**
- **Number of days required to obtain a construction permit decreased from 216 to 137 days**
- **Costs associated with obtaining construction permits fell from 33.4 percent of warehouse value to 0 percent**

KEY RESULTS

The 2015 *Doing Business Report* shows significant improvements for Mongolia in Dealing with Construction Permits as a direct result of the implementation of Cabinet Resolution #151. Reforms supported by BPI in this area reduced the number of procedures, saving 79 days and allowing significant cost savings for construction permit applicants. Overall, Mongolia's rank under Dealing with Construction Permits improved from 132 to 74 out of 189 countries — an improvement of 58 positions (see

Exhibit 5). Since the implementation of Cabinet Resolution #151 in December 2012, the government has issued 1,000 construction permits. The reduced time and costs associated with obtaining a construction permits in Mongolia has saved the private sector 2.3 billion MNT ($1.2 million).

EXHIBIT 5. DEALING WITH CONSTRUCTION PERMITS INDICATORS

INDICATOR	DOING BUSINESS 2013	DOING BUSINESS 2015
Number of procedures	21	16
Time (days)	216	137
Cost (percentage of warehouse value)	33.4	0
Dealing with Construction Permits ranking	132	74

GETTING ELECTRICITY

Obtaining an electricity connection is essential for new businesses to conduct their most basic operations. During the last decade, investment in electricity generation in Mongolia has not kept pace with electricity consumption, especially in Ulaanbaatar where most private sector development is located. With Ulaanbaatar's Electricity Distribution Network (UBEDN) operating at almost full capacity, new electricity connections are not guaranteed and depend on the location of new developments. The connection process in Mongolia was further complicated by a cumbersome regulatory framework, lack of interagency coordination, and high connection costs.

KEY ISSUES

Cumbersome connection procedures. The 2013 *Doing Business Report* stated that it took eight procedures and 126 days to obtain a new electricity connection. Private sector developers underwent a burdensome, lengthy process that lent itself to confusion, inefficiency, and corruption. Lack of coordination among various public organizations — including the traffic police and road maintenance agency — added unnecessary costs and time to the approval process.

Unpredictability due to inadequate communication with applicants. Those seeking new electricity connections submitted formal applications to the UBEDN without assurance the application would be approved. Even if there was no electricity supply in the location of the proposed project, the applicant still had to wait a significant amount of time before UBEDN officially rejected the application. Moreover, the lack of publicly available information on the locations with access to the grid resulted in situations where the developer would only find out that the proposed project would not have access to electricity after construction had begun, or in some cases concluded, adding significant cost and frustration.

BPI reduced the time and cost associated with obtaining approval for new electricity connections in Mongolia. The project activities aimed to reduce and streamline the number of procedures required; improve the coordination of participating agencies and establish a new connection procedure for UBEDN; and make available to the public information about where electricity connections are available.

PHOTO: USAID/Mongolia BPI

Urantogs Chimedorri holds a signed supply contract with Ulaanbaatar Electricity Distribution Network (UNEDN) for her company's new cement plant in Ulaanbaatar. Like many SMEs, her company has benefitted from reforms that improved business regulations and streamlined procedures to get electricity.

ACTIVITIES

Since late 2012, BPI worked with the Government Reform Working Group, led by the Cabinet Secretariat with representation from the Ministry of Energy and UBEDN, to improve the process for getting an electricity connection. In collaboration with the working group, BPI organized public-private dialogues to discuss current inefficiencies and ways to streamline the process. With the findings and recommendations from the dialogue, the project facilitated the adoption of a new connection procedure for UBEDN by the Energy Regulatory Commission (ERC) to reduce the time and cost required for firms to get new electricity connections in Mongolia.

KEY RESULTS

Key results achieved in this area include the following:

Fewer procedures. ERC approved new electricity connection procedures for the UBEDN on January 23, 2013. This ERC order streamlined and reduced the number of procedures required to obtain new electricity connections. For example, the order merged two steps; now businesses can apply for a new connection and schedule an inspection in one step. It also combined the requirements for final inspection, signing a power supply contract, and sealing the meter into a single procedure, resulting in a significant reduction in time and cost to private sector applicants. The *Doing Business* team has recognized the increased efficiency of the approval process but has yet to acknowledge the reduction in the number of procedures.

Reduced time and increased predictability. UBEDN has implemented measures to provide easier public access to information about where new electricity connections are possible, reducing the time required and eliminating uncertainty in the process. UBEDN has updated its website to provide prompt replies to queries on whether an electricity connection is available at a proposed site. The applicant enters the district and neighborhood, and the website immediately returns a message that says available or unavailable. This information is also available to UBEDN call center personnel so they can respond to questions from callers. The overall time to obtain new connections has been reduced from 126 days to 79 days.

Reduced cost. The new procedures adopted by the ERC and implemented by UBEDN have resulted in significant cost reductions for the private sector. The cost to get new

PHOTO: USAID/Mongolia/BPI

As a result of BPI's intervention to improve the electricity connection process, UBEDN built a website customers can check to determine where electricity is available before they apply for a building permit.

connections was reduced by MNT 2,149,000 (about $1,090). Savings come from reduction or elimination of fees for road-breaking permits, final inspections, public access to information, and the introduction of an online application system (www.ubedn.mn).

The 2015 *Doing Business Report* shows that Mongolia's Getting Electricity ranking has improved by 29 positions since 2013. Over the past three years, its position moved from 171 to 142 out of 189 countries. The report notes that Mongolia made getting electricity easier by increasing the efficiency of the utility's internal processes, enforcing time limits at different stages of the connection process and eliminating the fees for testing installations. A reduction of 47 days plus significant savings in associated costs to the private sector have already been realized under this reform area (see Exhibit 6). The monetized benefit to the private sector due to these reforms is estimated to be 5.8 billion MNT (about $2.9 million) following BPI's intervention.

EXHIBIT 6. GETTING ELECTRICITY INDICATORS

INDICATOR	DOING BUSINESS 2013	DOING BUSINESS 2015
Number of procedures	8	8
Time (days)	126	79
Cost (percentage of income per capita)	1,013	600
Getting Electricity ranking	171	142

PAYING TAXES

Despite competitive tax rates, paying taxes in Mongolia involved a costly, complicated, and nontransparent process. BPI estimated that it cost the Mongolian private sector about 93.8 billion MNT (approximately $47.6 million) annually to comply with tax rules and regulations. Paying taxes was not only costly, but also arbitrary and confusing. Through a series of public-private dialogues and business roundtable events held in September and October 2012, members of the Mongolian private sector identified key focus areas for reform. Their resulting recommendations

were included in the Year 1 Reform Roadmap, adopted by the Mongolian government in October 2012.

KEY ISSUES

Lack of e-government solutions for filing and paying taxes. The General Department of Taxation (GDT) initiated its electronic tax (e-tax) reform at the beginning of 2012 when the department began using electronic signature with taxpayers. GDT implemented a limited electronic filing program, but taxpayers who filed electronically still had to file paper tax returns. In addition, taxpayers had to file quarterly financial reports on paper and physically visit the tax office to provide proof of tax payments. According to the 2013 *Doing Business Report*, it took individual taxpayers 41 payments and 192 hours per year to comply with Mongolia's tax laws.

Scarce skills and capacity among tax officers to provide taxpayer services. Taxpayer services are critical to ensuring a smooth relationship between the tax office and its clients, and they play an important role in increasing the internal efficiency of the tax office. Having little internal capacity to provide taxpayer services training, the GDT relied on donor programs to fill this role. But even after they received training, tax officers were constantly being reassigned to different duties within the organization. Accordingly, the GDT needed to create in-house capacity to continue developing a progressive, sustainable taxpayer services function.

Inadequate tools and system to address fraudulent VAT returns and the shadow economy. Members of the private sector often complain that the VAT returns process is cumbersome and inefficient. Tax authorities respond by pointing out the high level of fraudulent VAT return claims they receive. The Mongolian government estimates that around $300 million is lost every year due to fraudulent VAT claims and VAT tax evasion.

The problem stems from the fact that returns are processed manually. No efficient process exists to determine whether a particular VAT invoice number is valid, whether it has been used before, and whether it belongs to the firm that has submitted a claim for reimbursement. Legitimate VAT claims were held for long periods of time due to the complexity of the system. The lack of an electronic system that provides unique, sequential VAT invoice numbers for each registered VAT payer — and allows the tax authority to easily search data — had a negative impact on the treasury.

BPI supported the GDT and private sector to make it easier, faster, and less expensive to pay taxes, while closing loopholes that made it possible to evade and avoid tax obligations. BPI achieved this objective by expanding the electronic signature program as a basis for tax e-filing; eliminating paper filing requirements; introducing tax e-payment; improving capacity in taxpayer services; streamlining and implementing e-filing of financial reports; and facilitating the VAT return process through an electronic invoicing system.

ACTIVITIES

Implementing tax e-filing. BPI provided expert IT assistance to assess the GDT's architecture and e-filing platform. BPI's experts made recommendations on how to develop a core set of web services, bulk data services, and notification services to enable event-driven architecture for e-filing; upgrades to the IT infrastructure to

handle the anticipated load under a new e-filing platform; and upgrades to IT security to allow for the safe use of e-signatures under the new system. BPI's recommendations were incorporated during development of GDT's e-filing system.

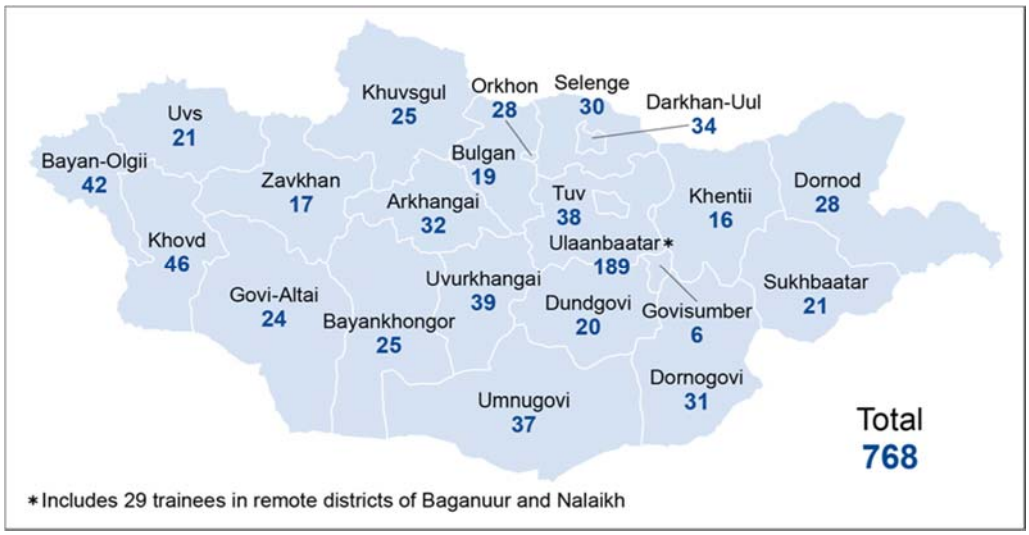
In addition, BPI supported GDT and the developer of the e-filing system to deliver hands-on training on the new e-filing system in Ulaanbaatar and 21 provinces. In total, more than 600 tax officers and approximately 4,000 taxpayers were trained in the use of the new tax e-filing system.

Improving taxpayers services at GDT. BPI provided substantive assistance to build GDT's in-house capacity to provide taxpayer services. Through an in-depth training-of-trainers program, BPI trained 10 GDT instructors (five tax officers from Ulaanbaatar and five provinces: Darkhan-Uul, Dornod, Dornogovi, Khovd, and Uvurkhangai). Local instructors gained the knowledge and ability to train new or junior taxpayer service employees, as well as other tax administration employees who have direct contact with taxpayers in a wide range of taxpayer services (see box). The 10 GDT trainers and a BPI international expert on tax administration and taxpayer services trained more than 750 tax inspectors throughout the country on taxpayer service techniques, significantly improving GDT's capacity to communicate effectively with taxpayers (see Exhibit 7).

TAXPAYER SERVICES TRAINING-OF-TRAINERS CURRICULUM

- **Basic taxpayer service technique**
- **Classroom instruction skills**
- **Dealing with the public: Communications for tax inspectors**
- **Dealing with the public: Communications for tax administration management**

EXHIBIT 7. TAX OFFICERS TRAINED IN TAXPAYER SERVICE TECHNIQUES



Implementing tax e-payment. BPI provided assistance through a local IT firm to develop the e-payment system and procurement of hardware to cover the growing need to expand the GDT's IT infrastructure and to securely exchange payment data with commercial banks. When fully operational, the e-payment system will allow taxpayers to select their preferred banks directly from the e-tax website and make Internet, mobile, and debit/credit card tax payments. The e-payment system links GDT with commercial banks through the Mongol Bank's interbank clearance system

and provides real time information on tax payments, eliminating the need for taxpayers to visit the tax office to provide proof of payment.

Implementing VAT e-invoicing. BPI has been assisting GDT in developing a new VAT e-invoicing system aimed at curbing tax fraud and addressing undeclared and/or under-reported VAT from goods and services, and facilitating the review and payment of legitimate VAT claims. The system, which is scheduled to launch in September 2015, allows VAT registered firms to obtain automatic VAT numbers online; allows buyers and sellers to submit legitimate VAT receipts to document transactions and accompanying VAT claims; provides multiple outlets for taxpayers to submit VAT-related receipts through web-based, Android, and iPhone applications; and provides an administrative module which allows GDT to monitor and identify suspicious VAT transactions, mine data, conduct analyses, and report on VAT related issues.

KEY RESULTS

BPI's support helped the GDT achieve the following:

- Since June 2012, the introduction of electronic signature for tax e-filing has eliminated the need for physical visits to tax offices. Currently 86,636 taxpayers (72 percent) use e-signatures.
- The tax e-filing system was officially introduced throughout the country on January 1, 2014, including electronic filing for 72 types of tax returns and associated forms.
- 73 percent of corporate taxpayers, 90 percent of VAT taxpayers, and 72 percent of personal income taxpayers now file their taxes electronically.
- E-filing has reduced the time for filing by more than 23 percent.
- The use of barcodes on tax returns has eliminated the need for printed versions for other purposes such as participating in government procurement bids.
- Tax "good standing" certificates can now be obtained from public service smart kiosks in more than 60 locations in Ulaanbaatar, reducing the need to visit tax offices.

Over the past three years Mongolia has achieved significant results in modernizing its tax administration systems, making it easier for the private sector to comply with tax requirements. Nevertheless, no change was included in the 2014 *Doing Business Report* published in October 2013 because the e-tax reform was not recognized. As a result, Mongolia's ranking slipped from 73 to 100 under Paying Taxes, which was more a reflection of progress made by other countries than deterioration of Mongolia's performance.

The 2015 *Doing Business Report*, however, shows Mongolia has made significant improvements in Paying Taxes. Its rank improved 16 positions from 100 to 84 during the past year. This improvement was mainly attributed to a reduction of 23 percent in the time required to comply with paying taxes — from 192 hours to 148 hours — due to the introduction of e-tax reforms (see Exhibit 8 on the following page). But the actual impact of the e-tax reform goes much further than the initial improvements included in the 2015 *Doing Business Report*. After this reform is fully recognized, the

recorded number of tax payments will decrease from 41 payments to 19 payments per year, further improving Mongolia's rank for the Paying Taxes reform area.

The introduction of e-tax solutions — including tax e-filing, e-payment, VAT e-invoicing, and e- filing of quarterly financial reports — has already resulted in a substantial reduction in time and cost to the private sector. BPI estimates that the monetized savings to Mongolian private sector as result of these reforms is 28,956,733,380 MNT ($14.7 million) per year.

EXHIBIT 8. PAYING TAXES INDICATORS

INDICATOR	DOING BUSINESS 2013	DOING BUSINESS 2015
Payments (number per year	41	41
Time (hours per year)	192	148
Paying Taxes ranking	73	84

TRADING ACROSS BORDERS

With the introduction of the Customs Automated Information System (CAIS) in 2011, Mongolia achieved a significant milestone in the modernization of its customs system. Nonetheless, importing to and exporting from Mongolia involved a complex, cumbersome, and nontransparent process. BPI estimated that inefficiencies in the customs clearance process cost the Mongolian trading community a staggering $19.67 million annually. Costly and confusing, the import-export process provided plenty of opportunities for rent-seeking and corruption. The country ranked 180th out of the 189 countries surveyed in the 2013 *Doing Business* Trading across Borders reform area, the worst area of performance for the 10 areas measured for Mongolia.

KEY ISSUES

Lack of risk management systems and procedures. In June 2011, the risk management module of the CAIS was not operational, which meant that customs officials had to physically inspect 100 percent of import and export cargo. With an effective risk management system, traders would experience faster and easier customs clearance, with customs officials examining only their paperwork if they meet certain criteria based on their profiles and trading data, which would be stored in the CAIS risk management module. On the other hand, officials would both review the paperwork and physically inspect the cargo of high-risk traders with histories of noncompliance. In addition to being inefficient and cumbersome, these inspections subjected the clearance process to uncertainty and potential corruption. Risk profiles and risk selectivity criteria were not developed, and many line customs officers were unprofessional and unqualified, disseminating grossly inaccurate information to traders and burdening them with non-compliant procedures.

Lack of capacity for conducting post-clearance audits. Post-clearance audits are critical to a successful risk management program. However, with no personnel specialized in post-clearance audits in Mongolia's Customs General Authority (CGA), there was little understanding of the General Agreement on Tariffs and Trade (GATT) valuation methodologies. This resulted in nontransparent valuation procedures and

complex disputes between CGA and traders, causing higher costs for traders, lower tax collection for CGA, and creating opportunities for rent-seeking and corruption.

Ambiguous legal framework for the clearance process. Policies and procedures governing the clearance process for imports and exports were extremely weak largely because of an ambiguous legal framework that conflicted with other legislation, resulting in arbitrary decisions and rent-seeking behavior on the part of customs officials. The vague legal framework meant that traders often submitted unnecessary paperwork to make sure their cargo was cleared. Documents required for import and export fell into three categories: those required by law; those not required by law, but required to transit through neighboring countries; and other documents that traders would include in case a customs officer asked for them.

IMPROVING COMPLIANCE AND EFFICIENCY THROUGH RISK SELECTIVITY

With improved risk management based on risk selectivity, the CGA would be able to allocate its scarce resources to high-risk cargo, while improving the clearance process for low-risk cargo.

Under the CAIS risk management module, traders are classified into three categories based on selectivity criteria, profiling, and risk scenarios based on their history:

- **Red channel: high risk**
- **Orange channel: medium risk**
- **Green channel: low risk**

The risk category determines the level of inspection their cargo receives. Red channel requires manual inspection of the cargo and paperwork; Orange requires a paperwork check-up; and Green allows fast customs clearance. With this system, only the most high-risk cargo is physically inspected, saving both CGA and traders time and money.

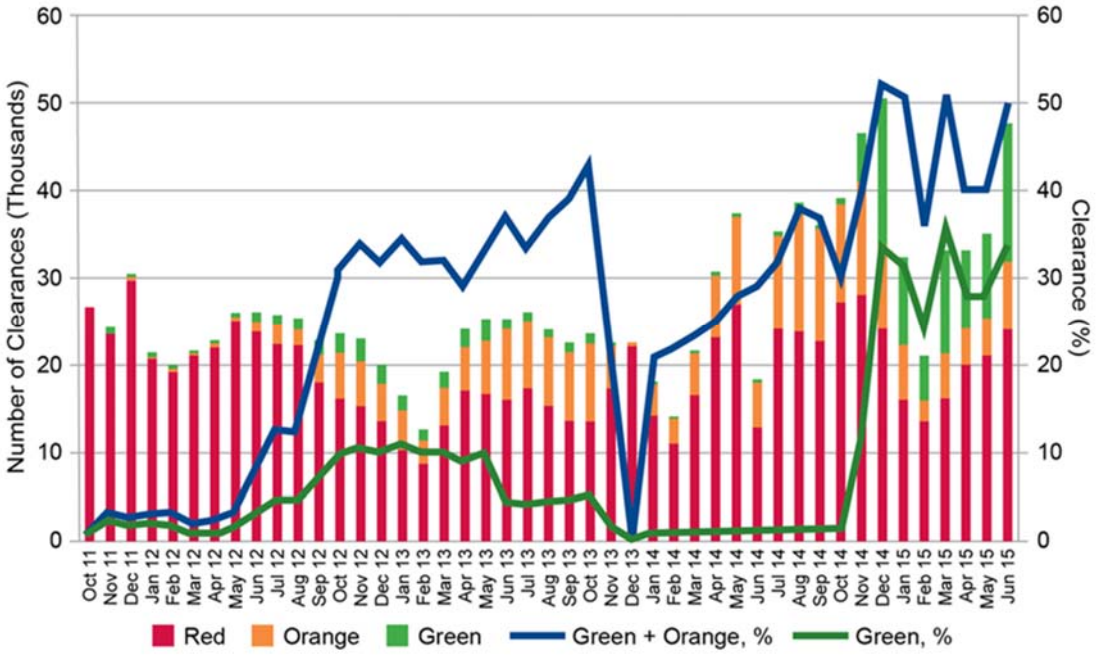
In support of the reform efforts headed by the Cabinet Secretariat, the Government Reform Working Group, and the CGA, BPI focused on implementing initiatives aimed at lowering the cost and time required to trade across borders. Recommendations included developing and implementing a customs risk management system, developing the post-clearance audit, developing a valuation module, reducing the number of documents required for import and export, and streamlining the cargo clearance procedure.

ACTIVITIES

Strengthening customs risk management. BPI's most important contribution to trade facilitation was strengthening the CGA's risk management system. The project provided expert assistance to develop and strengthen the risk management module of the CAIS. BPI's international customs IT experts developed the risk management methodology; upgraded selectivity criteria and risk scenarios; trained IT personnel to continue improving the system in the future; provided on-the-job training so the risk management staff would thoroughly understand and be able to manage the system on their own; and recommended that the CGA and the Generalized Agency for Specialized Inspection (GASI) collaborate with each other in applying risk-based clearance processes for imports and exports.

Because of these efforts, the proportion of cargo cleared through the Green and Orange channels for low- and medium-risk traders, respectively, grew from 8 percent in June 2012 to 50 percent in December 2014. Now, more traders processed through the Green channel are cleared without document and manual inspection (see Exhibit 9 on the following page). Those passing through the Orange channel require only document inspections. CGA plans to increase this percentage by 70 to 80 percent by

EXHIBIT 9. CUSTOMS RISK-BASED CLEARANCE PERFORMANCE



the end of 2015 with the implementation of an Economic Operator Program, under which customs operators, such as shipping companies authorized by the CGA, will assign Green and Orange channels to traders with high compliance rates.

Time release study. During the last quarter of 2012, BPI conducted a comprehensive time and release study in collaboration with CGA, GASI, and the Mongolian National Chamber of Commerce and Industry (MNCCI) to determine the average time it took to release imports and exports after arrival at customs. The study covered customs clearance and technical control in the context of the *Doing Business* Trading across Borders reform area, providing data on elapsed time, or average time spent to clear shipments, for 58 combinations of customs clearance locations and processes, including clearance processes at Ulaanbaatar terminals and the main ports of Zamyn Uud with China and Altanbulag with Russia.

BPI customized the methodology to the various processes of customs clearance, port handling, and special inspection control and to eight major border crossings and inland ports; trained customs and GASI officers in the time release study methods and data collection techniques; trained an analysis team at CGA; supervised the data collection process; and conducted high-level data analysis of the results. A CD-ROM with the database with detailed statistics on individual processes by clearance location was submitted to the study participants and the Cabinet Secretariat.

The study found that customs clearance and technical control — the period from registration of a truck at the border until it is released after completion of all procedures, including customs and special inspection control — took 20 hours and 47 minutes for half of all import cargo processed during the survey period at Zamyn Uud, Mongolia's busiest port. It took 27 hours and 35 minutes for 75 percent of import cargo to clear. The elapsed time for customs clearance and technical control

for imports at the three major locations was less than 24 hours (see Exhibit 10). This result is even more impressive considering that customs terminals are closed for 12 hours a day.

EXHIBIT 10. WEIGHTED AVERAGE OF ELAPSED TIME FOR CUSTOMS CLEARANCE AND TECHNICAL CONTROL

LOCATIONS	NUMBER OF SHIPMENTS	ELAPSED TIME (DAY, HOUR, MINUTE)		
		25TH PERCENTILE	50TH PERCENTILE	75TH PERCENTILE
Ulaanbaatar	983	00 -- 11:56	00 -- 23:42	01 -- 20:09
Zamyn Uud				
Altanbulag				

Elapsed time measure: From Step 06, Moment of Truck Registration, to Step 57, Moment of Declaration printed and stamped/Form 2 stamped

The study demonstrated, though, that about 75 percent of the elapsed time for technical control and customs clearance was waiting time; only 25 percent was spent on actual clearance tasks. This finding indicated that there are further opportunities for CGA, GASI, railways, and ports to reduce waiting time and improve performance of participating agencies. The time and release results were reflected in the 2014 *Doing Business Report*.

Another priority area not included in the time and release study is the time required for inland transportation and handling, which according to the 2013 *Doing Business Report* adds 14 days to the clearance process. The government of Mongolia later organized special containerized trains from the Zamyn Uud port to Ulaanbaatar that took only two days to deliver shipments. The Border Port Law, enacted by Parliament in December 2013, improved efficiency and coordination among various government agencies at borders and put CGA in charge of cargo inspection, as proposed by BPI.

Post-clearance audits. BPI has provided substantive capacity building assistance to the CGA in post-clearance audits. Through hands-on expert assistance, BPI trained the entire post-clearance audit department (PCA) at the CGA in intermediate and advanced customs valuation Methods 1 through 6 under GATT's Customs Valuation Agreement; customs audit, duty relief schemes, valuation, origin, and classification; fraud, transfer pricing, tax avoidance, and tax planning; and basic interview techniques for audits. The training allowed CGA to establish a strong post-clearance audit department with qualified staff. CGA is improving tax collection, and the private sector is improving its compliance through a voluntary disclosure mechanism that allows traders to resubmit their customs declarations without being subject to steep penalties. In total, BPI trained 141 post-clearance audit staff (see Exhibit 11 on the following page).

IMPACT OF IMPROVED CAPACITY FOR POST-CLEARANCE AUDITS

- **CGA: 4.5 billion MNT in increased revenues collected through PCA**
- **Traders: 1.3 billion MNT in savings from avoiding 30 percent penalty through voluntary re-declarations**
- **Total impact: 5.8 billion MNT (more than $3 million) in savings since the second half of 2013**

EXHIBIT 11. CAPACITY BUILDING ASSISTANCE FOR CGA: POST-CLEARANCE AUDIT

ACTIVITY	NUMBER OF STAFF TRAINED
Basic Accounting Training for Post-Clearance Audit	16
Customs Valuation I and Post- Clearance Audit	23
Customs Valuation II and III, Post- Clearance Audit	12
CGA Finance Audit and Accounting Software	45
Financial Audit for Mining Sector Cases	30
Customs Post Clearance Control: Audit and Compliance Techniques Course	15

Customs valuation module. During its last year of implementation, BPI provided support to CGA in developing a new customs valuation system for CGA and traders. The valuation system will help address a major source of disagreement between CGA and the trading community by making customs valuation transparent. PCA will use the internal system to improve its efficiency, while traders, customs brokers, and the general public will have access to an external system, which will help avoid customs valuation disputes at port and inland depots. Increased transparency will also deter the practice of undervaluation of goods by the trading community.

Customs e-payment system. BPI provided technical assistance to CGA through a local IT firm to develop a new customs e-payment system. It will eliminate errors and omissions in customs-related payments made through bank tellers; create multiple payment modalities, including using barcode and invoice numbers for bank teller transactions, Internet banking, and mobile payments; provide real-time payment information to traders and customs officials, making the clearance process faster and eliminating one required document. The system links CGA with eight commercial banks through the Mongol Bank interbank clearance system. As of July 31, 2015, it handled more than 52,000 transactions, representing 90 percent of the total number of customs payments, totaling $58 million.

PHOTO: USAID/Mongolia BPI

Customs Director General Tsengel Bold demonstrates Customs e-Pay to United States Ambassador Piper Anne Wind Campbell. With support from USAID's Business Plus Initiative, Mongolia's Ministry of Finance, General Department of Taxation, and Customs General Authority celebrated the formal launch of the VAT e-invoice and Customs e-payment systems on July 1, 2015. The e-solutions offer streamlined processes for businesses to meet their tax and customs obligations. On July 7 alone, CGA collected 9 billion MNT and processed more than 3,000 transactions.

Electronic data interchange. Through training and procurement of IBM WebSphere software licenses, BPI supported CGA's efforts to initiate electronic data interchange with neighboring countries. More than 30 percent of the time required to import and export in Mongolia is due to the time it takes to move Mongolian goods through China and Russia. The customs-to-customs interchange of electronic manifests will greatly facilitate trading across borders, resulting in significant gains for Mongolian traders.

KEY RESULTS

Legal framework for customs administration improved. The legal framework for customs administration has been significantly improved via streamlining, simplification, and the introduction of new procedures, including the opportunity for businesses to voluntarily disclose errors by resubmitting customs declarations without being subject to steep penalties. These improvements to the laws and internal regulations give customs officials a transparent basis for revenue administration and provide the private sector with clearer guidance about compliance requirements. Furthermore, CGA has embraced the public-private dialogue format as an effective mechanism for two-way communication with the private sector.

LEGAL AND REGULATORY IMPROVEMENTS

- **Amendment to Customs Law**
- **Customs procedure on risk management**
- **Customs procedures on post-clearance audits**
- **Customs regulation on e-payment**

Legal and regulatory framework for trading across borders improved. In addition to capacity building training to assist the CGA in its modernization process, BPI helped improve the legal and regulatory framework for trading across borders. Amendments to the customs law, informed by international best practice, reduced the number of required documents for import and export and improved the inspection and border control process. Also, new regulations on risk management and post-clearance audits have been put in place to further support trade facilitation. As a result, there has been a significant increase in compliance on the part of the trading community as well as increased tax revenue for the treasury.

Improved capacity and professionalism. Capacity building in risk management and post-clearance audit has allowed CGA to develop a robust risk management system, streamline the clearance process for high compliance traders, and establish a voluntary disclosure mechanism that provides positive incentives for private sector compliance with rules and regulations, significantly improving trade facilitation in Mongolia. Understanding the importance of roles of risk management and post-clearance audit through BPI's assistance, the Cabinet approved resources to create new units in risk management and post clearance audit under CGA.

IMPROVED CAPACITY SHOWS

The best indications of improved capacity and professionalism within the Mongolian customs system are that CGA now conducts the clearance of import and export of goods through a risk-based system; post-clearance audits are conducted using GATT's Valuation Methodology 1-6; and businesses comply voluntarily with customs and revenue laws.

BPI worked with CGA and the Customs Brokers Association to support a new Customs Broker Law. However, after several public-private dialogue events with the

stakeholders, they were unable to agree on the ideal roles and responsibilities for customs brokers and licensing of customs brokers. Given that the elimination of a large number of permits and licenses, including the customs broker's license, was a priority for the Cabinet and Parliament, BPI and CGA decided not to proceed with the proposed legislation.

PHOTO: USAID/Mongolia BPI

BPI developed communication materials to raise awareness of the Customs e-Payment System including a promotional video about how the new system works.

According to the 2015 *Doing Business Report*, it takes 11 documents and 44 days to export and 12 documents and 45 days to import. Overall, Mongolia's ranking increased by seven positions compared to 2013 (see Exhibit 12). Nonetheless, based on BPI's time and release study conducted at the end of 2012 and interviews conducted with Mongolian traders, after the implementation of customs reforms, we estimate that the time for Trading across Borders has decreased to 28 days for export and 27 days for import. Two factors influenced the reduction in the number of days required for trading activities: the improvement in the legal and regulatory framework for clearing goods and the increased efficiency achieved due to the increased capacity to conduct the risk management and post-clearance audit functions.

EXHIBIT 12. TRADING ACROSS BORDERS INDICATORS

INDICATOR	DOING BUSINESS 2013	DOING BUSINESS 2015
Export (number of documents)	11	11
Export (number of days)	49	44
Cost per container (USD)	2,555	2,745
Import (number of documents)	13	12
Import (number of days)	50	45
Cost per container (USD)	2,710	2,950
Trading across Borders Ranking	180	173

Notwithstanding these achievements, more needs to be done to implement the revised customs law. For example, the revised law decreased the number of documents required to import and export to a maximum of five. However, implementation of the

law has been inconsistent because customs officials often require additional documents claiming requirements from secondary legislation. Because of this uncertainty, the *Doing Business* team has yet to recognize this reform. If fully implemented, the law would result in a significant improvement in Mongolia's rank in the *Doing Business* Trading across Borders reform area.

LOWERING THE TIME AND COST OF DOING BUSINESS IN MONGOLIA: MONETIZATION OF BENEFITS

Streamlining procedures, eliminating fees, and introducing e-government solutions directly reduce the cost of doing business. We estimate that the business enabling reforms BPI helped achieve have resulted in savings of $20.5 million to the Mongolian private sector. These savings surpass BPI's entire budget and demonstrate the importance of an improved business enabling environment (See Exhibit 13).

EXHIBIT 13. MONETIZATION OF BENEFITS OF BUSINESS ENABLING REFORMS

REFORM AREA	NUMBER OF NEW CASES AFFECTED	SAVINGS PER CASE (% of income per capita per *Doing Business* estimates)	CUMULATIVE SAVINGS TO THE PRIVATE SECTOR (MNT)
A. Actual monetary savings due to the elimination or reduction of fees[1]			
Starting a Business	41,640	0.81	2,484,658,800
Dealing with Construction Permits	999	28	2,055,971,970
Getting Electricity	9,533	6.5	4,555,320,218
Subtotal			**9,095,950,988**
B. Additional savings due to time reduction (monetization)[2]			
Starting a Business	41,640	14,665	610,650,600
Dealing with Construction Permits	999	200,047	199,846,465
Getting Electricity	9,533	130,419	1,243,280,558
Subtotal			**2,053,777,623**
C. Other savings due to time reduction not included in the 2014 *Doing Business* report (monetization)[2]			
Paying Taxes			
VAT E-Filing Application	716,205	19,898	14,251,047,090
CIT E-Filing Applications	690,134	8,560	5,907,544,900
EW E-Filling Applications	680,918	12,921	8,798,141,390
Subtotal			**28,956,733,380**
Total (MNT) [A+B+C]			**40,106,461,991**
Total (USD)			**$20,567,416**

[1] Savings per case based on estimates in 2015 *Doing Business Report.*
[2] Savings per case based on estimates in 2014 *Doing Business Report*.

SNAPSHOT

Business Registration Made Easy

USAID supports Mongolia as it makes starting a business easier, faster, and cheaper

PHOTO: USAID/Mongolia BPI

Mongolia's General Authority for State Registration is located on Ulaanbaatar's busiest street, which is often congested with traffic. With the streamlined registration process, entrepreneurs save time by making fewer trips to the registration department — and spending less time in traffic.

The cost and time associated with a laborious business registration process was a major disincentive for new investment in Mongolia. It is also one of the reasons many businesses operate without registering, which creates a shadow economy. This has negative consequences on economic formalization and investment, employment creation, and tax generation.

Recognizing the importance of this issue to Mongolia's business climate and its international image, USAID's Business Plus Initiative (BPI) project worked closely with the government of Mongolia to streamline regulations to start a business. The Mongolian Parliament adopted the Revised Law on the State Registration of Legal Entities which came into force March 1, 2015.

The revised law streamlines the company registration process and clarifies formerly inconsistent regulations. For local businesses, it reduces the number of days to register legal entities to up to two days, and up to 10 days for foreign invested legal entities. The law also allows electronic submission of incorporation documents and enables electronic data transfer between government authorities, eliminating multiple physical visits to different authorities. A paper certificate, once mandatory, is now optional as the country is shifting to electronic registration certificates. A big win for businesses was eliminating the requirement to open a bank account as a pre-requisite for registration.

As they made life easier for entrepreneurs, the reforms also simplified processes inside the registration agency by reducing the multiple internal tiers of approval and streamlining record sharing, freeing registrars to provide better customer service.

According to Jolbars Sholtoi, head of the registration department in the General Authority for State Registration, "The streamlined procedures, in addition to the new law, make the process a hundred times better than what we had before. Reduced number of documents and steps will save the time and money for citizens and business owners. It makes life much easier for businesses and lessens the workload for registration authorities."

And with more than 17,000 new businesses registered in 2014, the entrepreneurial horizon is filled with hope.

SNAPSHOT

Making Borders Safer and Faster

Private sector savings and customs revenues are on the rise as a result of customs reforms

PHOTO: USAID/Mongolia BPI

Cargo trucks await inspection at the Zamyn-Uud border crossing with China. In 2015, CGA will expand the new risk-based customs clearance procedure to Zamyn-Uud.

For Mongolian traders, bringing goods into and out of the country was a challenging, cumbersome, and expensive ordeal. Import and export processes took significant amounts of time, slowing business and providing opportunities for corruption. According to the World Bank's *2015 Doing Business Report*, it takes 44 days to export and 45 days to import in Mongolia, with 30 percent of that time spent on inland transportation and handling. Mongolia's largest traders are responsible for more than half of the customs cargo, and regular inspections of these large — and often low-risk — traders contribute to congestion at the borders.

Through its Business Plus Initiative (BPI), USAID has provided hands-on training to 100 percent of the Customs General Authority (CGA) staff in the Risk Management and Post-Clearance Audit departments to incorporate international best practices. USAID assistance has allowed CGA to develop a robust risk management system, streamlined the clearance procedure for high compliance traders, and an enhanced the post-clearance system. Through March 2015, more than 50 percent of all cargo is being cleared through either the Green or Orange Channels, eliminating the need for physical inspections. Mongolian private sector savings and customs revenues are on the rise as a result of these customs reforms.

"Things are different now," Customs Inspector Enkhtsetseg S. says. "Over the last two years, the CGA has launched a series of customs reforms including post-clearance audit, replacing 100 percent physical inspections of all freight with an automated, risk-based system to identify suspect cargo, which allows us to focus our limited resources on cargo with the highest risk — expediting clearance procedures, increasing trader compliance, and tripling revenues at the same time." Mr. Odbayar, import manager from Bosa Impex, agrees that with the new reforms, "Businesses are saving a lot of time and money; it is no longer a guessing game."

SECTION 4

FOSTERING BEST PRACTICES IN COMMERCIAL ARBITRATION

Although Mongolia adopted a domestic and international arbitration law in 2003, arbitration is not widely used and effectively enforced as an alternative dispute resolution mechanism. Consequently, individuals and businesses take their commercial disputes to local courts where litigation takes time and results can be unpredictable. The Mongolian International and National Arbitration Center (MINAC), which is part of the Mongolian National Chamber of Commerce and Industry (MNCCI), averages fewer than 50 cases per year.

The Ministry of Justice recognized the need for a modern arbitration law and requested BPI's assistance in developing a concept paper and drafting the new law. BPI assembled a strong network of local and international partners to support Mongolia's efforts to foster best practices in alternative commercial dispute mechanisms.

KEY ISSUES

Lack of awareness about arbitration and/or lack of trust in the existing arbitration process and institution. In spring 2014, BPI conducted an online survey of local and international companies operating in Mongolia to better understand stakeholders' perceptions and identify key issues that needed to be addressed to foster commercial arbitration reform. Overall, only 20 percent of respondents stated they had experience with commercial arbitration. Of the respondents who had participated in arbitration proceedings in Mongolia, 60 percent reported a negative experience. In addition, a large portion of the respondents, 41 percent, stated they had never considered including an arbitration clause when writing a contract, and of these, 37 percent were not even aware that arbitration could be used instead of court proceedings to produce enforceable decisions.

Lack of capacity of arbitration practitioners. The survey results indicate that 81 percent of respondents believe that arbitration practitioners require more training and accreditation to ensure they understand arbitration proceedings and best practices in the field. The overall perception of the survey respondents is that the current roster of local arbitrators lack the knowledge and experience to conduct successful proceedings. The Ministry of Justice also recognized the need for lawyers, judges, arbitration practitioners, and public and private sector stakeholders to be exposed to international best practices in arbitration for further reform.

Mongolia is not recognized as a UNCITRAL Model Law country. Though Mongolia's 2003 arbitration law adopted most elements of the 1985 United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial

Arbitration, it differs significantly from the revised 2006 UNCITRAL Model Law in areas such as arbitrability, exclusion of arbitrability, arbitration agreement and substantive claim before court, competence of the arbitral tribunal to rule on its jurisdiction, interim measures, and preliminary orders. Because of these changes, Mongolia is not considered a Model Law country. Investors, especially foreign investors, would have more confidence in the country's business environment if Mongolia were to become a Model Law country that provided a predictable alternative to resolve commercial conflicts outside burdensome, lengthy, and costly court procedures.

BPI's efforts in commercial arbitration were geared toward fostering a vibrant, effective, and largely independent arbitration system in Mongolia based on international best practices. The project met this objective by proposing a new arbitration law in compliance with the UNCITRAL 2006 Model Law and implemented a capacity building program based on international best practices in conjunction with international arbitration organizations, international law firms, and a broad partnership with local organizations.

ACTIVITIES

BPI joined efforts with the Ministry of Justice and a range of local and international organizations to support commercial arbitration reform (see box). The project organized an international conference on arbitration to share best practices and foster public-private dialogue on the reform, and provided in-depth training on arbitration best practices. In addition, BPI promoted educational and awareness activities and supported the drafting process for a new arbitration law in compliance with the 2006 UNCITRAL Model Law with the accompanying legal package, which includes a concept paper, an introduction to the draft law, and proposed amendments to related laws, to support arbitration reform in Mongolia. Using public-private dialogue throughout the legislative process, BPI empowered private sector representatives to participate from the outset of the reform process to ensure that the private sector has confidence in, and uses, the regime resulting from the new arbitration law.

Increasing public awareness of commercial arbitration. The first step in the reform process was improving public awareness and understanding. In March 2014, BPI held an international conference to launch a public awareness campaign on the importance of arbitration and the need to improve the legal environment for business by applying

PHOTO: USAID/Mongolia BPI

BPI developed publications, including a glossary of arbitration-related technical terms to accompany the new arbitration law.

international best practices. More than 200 guests representing private firms, business associations, and government entities, including courts and court decision enforcement agencies, participated. The discussions about regional best practices, current bottlenecks, and potential solutions helped create consensus on the framework that should govern arbitration reform in Mongolia. Further, BPI partnered with private sector and civil society organizations to produce and publish educational materials, including a best practices circular in partnership with AmCham Mongolia and an arbitration glossary in partnership with the Mongolian Bar Association and international law firm Gibson Dunn & Crutcher.

Laying the foundation for a new arbitration law. Working with international partner Sidley Austin and local subcontractor MDS & KhanLex LLP, BPI assisted the Ministry of Justice's Arbitration Working Group, which included leaders from the private sector, courts, court decision enforcement agency, and academia, to draft the new arbitration law in compliance with the 2006 UNCITRAL Model Law. BPI's technical experts helped draft the new law, shared best practices with the working group, and facilitated public-private dialogues with representatives from the Ministry of Justice, private sector, courts, and arbitration practitioners. In July 2015, the Ministry of Justice accepted the draft arbitration law and officially requested ministries and stakeholders to provide comments before submission to the Cabinet. USAID continues to work with the ministry to facilitate the submission of the draft law for Parliament's approval before the end of its fall 2015 session.

Leveraging private sector resources. Working with private sector partners, BPI brought commercial arbitration reform activities in line with international best practices by applying the technical expertise of industry experts. To date, BPI has leveraged pro-bono technical assistance in drafting the arbitration law and developing and delivering training to support commercial arbitration reform from its international partners valued at $1.5 million.

COMMERCIAL ARBITRATION REFORM PARTNERS

Mongolian Partners

- **Ministry of Justice**
- **Mongolian Bar Association**
- **Mongolian International and National Arbitration Center**
- **American Chamber of Commerce in Mongolia**
- **Mongolian Law Society**
- **Mongolian Business Council**
- **MDS & KhanLex LLP**

International Partners

- **Gibson, Dunn & Crutcher LLP**
- **Sidley Austin LLP**
- **International Court of Arbitration of the International Chamber of Commerce**
- **Singapore International Arbitration Center**
- **Hong Kong International Arbitration Center**
- **15 international law firms**

Building capacity. Through partnerships with local and international organizations and law firms, BPI facilitated specialized training, arbitration simulation, and public events to build local capacity in arbitration. These capacity building activities included:

- *A for-credit course series in collaboration with the Mongolian Bar Association and international law firm Gibson, Dunn & Crutcher LLP*. The popular course, International Arbitration: An Introduction to Law and Practice, included a training-of-trainers workshop and six additional in-depth workshops for participants, including lawyers, private sector legal advisors, judges, arbitration practitioners, and academics.

- *An international conference on arbitration best practices and lessons learned.* In partnership with AmCham/Mongolia, BPI brought international arbitration experts to Mongolia from seven jurisdictions including the United Kingdom, the United States, France, Singapore, Hong Kong, Switzerland, and Georgia. The conference participants presented on a range of topics that included the basics of arbitration, rules for various international arbitration centers, and best practices and lessons learned in international arbitration for a local audience of private businesspeople, lawyers, judges, and arbitration practitioners.
- *A live simulation of an arbitration proceeding following the rules of the International Court of Arbitration under the International Chamber of Commerce (ICC).* Six international arbitration experts from the ICC and various international law firms created a live simulation of an arbitration, with the participation of local lawyers, to educate local participants about ICC-specific rules and features to solve commercial disputes through arbitration.
- *A video simulation of an arbitration proceeding under the rules of the Singapore International Arbitration Center (SIAC).* With a unique setting that combined a video simulation with discussions by international arbitration experts, the Mongolian audience was exposed to rules specific to the SIAC.

KEY RESULTS

The Ministry of Justice accepted the new arbitration draft law, which will be submitted to Parliament for approval in the fall 2015 session. When the new law is approved, we expect that more commercial disputes will be resolved through arbitration rather than through the more costly court system. More importantly, Mongolia will be listed as an UNCITRAL Model Law country, sending a positive message to international investors. In addition, through its capacity building efforts, BPI has trained more than 900 lawyers, judges, public servants, private sector representatives, and arbitration practitioners (see Exhibit 14 on the following page)

Due to the project's efforts, the Mongolian Bar Association now has its own training-of-trainers program with 14 trainers who will continue to educate local stakeholders about arbitration. Furthermore, an arbitration expert from BPI partner and international law firm Gibson, Dunn & Crutcher signed a memorandum of understanding with the Mongolian Bar Association and the Executive Excellence Business Center that will ensure the sustainability of the arbitration workshop series

PHOTO: USAID/Mongolia BPI

BPI, in partnership with Gibson Dunn and the Mongolian Bar Association, trained 176 lawyers, judges, academics, and other practitioners in international arbitration. The popular course, "International Arbitration: An Introduction to Law and Practice," included a training-of-trainers workshop and six additional workshops for participants.

beyond the life of the project. The three parties have developed an action plan to assign roles and responsibilities to continue the capacity building activities spearheaded by BPI. The project established a network of international arbitration centers and institutions, law firms, and practitioners that local organizations, including the new arbitration center set up in March, can rely on for arbitration information, capacity building, and other services.

EXHIBIT 14. TRAINING ACTIVITIES IN COMMERCIAL AND INVESTMENT ARBITRATION

ACTIVITY	NUMBER OF STAKEHOLDERS ATTENDING
International Conference on Commercial Arbitration (March 2014)	208
International Arbitration: An Introduction to Law and Practice (June 2014, November 2014, and May 2015)	176
International Commercial and Investment Treaty Arbitration under ICC Rules: A Demonstration (September 2014)	306
SIAC Arbitration Training Video Workshop: Practical Guide to International Arbitration (May 2015)	150
Public-Private Dialogue: New Arbitration Law (Oct 2014)	78
Training/discussions on draft law with Arbitration Working Group members	13
Total	931

SECTION 5

DEVELOPING THE NON-BANK FINANCIAL SECTOR

A strong, capable, and independent regulator coupled with an adequate legal and regulatory framework for non-bank financial products and services are necessary to ensure higher quality sources of capital for Mongolian enterprises and to improve the risk environment. BPI worked with Mongolia's Financial Regulatory Commission (FRC) and several public and private stakeholders (see box) to foster reforms in the non-bank financial sector to make Mongolian financial markets more attractive and accessible to institutions, capital markets, and international investors.

PARTNERS

Public sector:

- **Bank of Mongolia**
- **Financial Regulatory Commission**
- **Ministry of Justice**
- **Ministry of Finance**
- **Mongolia Stock Exchange**

Private sector:

- **Banking and Finance Academy**
- **Corporate Governance Development Center**
- **Mongolian Bankers Association**
- **London Stock Exchange**

KEY ISSUES

Mongolia's FRC, established in 2006, regulates non-bank financial institutions (NBFIs). As of 2012, the FRC had about 250 listed companies, 50 insurance companies, and 400 micro-lending institutions under its jurisdiction. One of its mandates is to ensure that all firms are governed according to global best practices in corporate leadership.

A major issue facing the FRC is the lack of transparency and weak corporate governance at the majority of listed firms. These challenges impede the price discovery mechanism and keep stock prices low, which in turn prevents listed stocks from performing to their full potential. Therefore, listed companies are unable to attract new financial capital to invest in their growth, and the country remains largely dependent on bank loans for their investments.

Outside the regulatory regime, private sector led institutions like the Corporate Governance Development Center (CGDC) and Banking and Finance Academy, established with support from USAID's EPRC project, are not yet mature and still required operational and technical assistance to respond to private sector needs and ensure their sustainability. To create an enabling environment for the financial markets to attract investment capital for private sector firms, BPI helped strengthen the FRC's capacity to draft and enforce new laws and regulations.

ACTIVITIES

To build the regulatory capacity for the non-bank financial sector and lay the foundation for its development, BPI provided expert technical assistance, organized knowledge sharing events, drafted laws and regulations, facilitated public-private dialogue events, and built capacity of local institutions to ensure sustainability beyond the life of the project.

Increasing the capacity of the FRC. BPI provided extensive specialized assistance to the FRC to develop NBFIs and non-bank financial products and services. Key activities included:

- Strengthening institutional capacity to draft, regulate, and enforce disclosure requirements for all entities under FRC jurisdiction and training regulatory staff in effective enforcement of NBFI regulations
- Assisting the FRC in developing a corporate governance framework that promotes transparent and efficient markets consistent with the rule of law and that clearly articulates the division of responsibilities among different supervisory, regulatory, and enforcement authorities
- Providing expert legal drafting assistance in the areas of bankruptcy, investment funds, security markets, and custodian laws
- Supporting the FRC in developing regulations and incorporating international best practices before the mandatory drivers' liability insurance law entered into effect on October 1, 2012. As the first type of insurance required by law, drivers' insurance is an important stepping stone in the development of Mongolia's nascent insurance industry.
- Designing and implementing a public education and awareness campaign to ensure the public understands its rights and responsibilities under the new drivers' liability insurance legal framework. To encourage reporters to present informed articles and stories that educate the public about the new mandatory insurance, BPI held a series of roundtable discussions for print, radio, television, and online journalists. The project also leased billboards and disseminated brochures explaining the benefits of liability insurance and offering details about insurance policy providers.

DRIVERS' LIABILITY INSURANCE

The Mongolian government introduced the first mandatory insurance when it adopted the Law on Drivers' Liability Insurance on October 6, 2011, which went into effect on October 1, 2012. BPI supported the FRC in drafting the associated by laws.

The government gave the regulatory authority, insurance industry, and public one year to prepare to implement the law. The public's perception of insurance, especially mandatory insurance, was very negative and many thought it was a type of tax.

As a result of BPI's public education program from October to December 2012, the number of insured drivers increased from 12 percent to 87 percent of the total drivers in the country. However, this result was limited because the vehicle inspection agency and the traffic police have not adequately enforced the law.

Strengthening private sector non-bank financial institutions. USAID's support under BPI and EPRC has been instrumental in setting up key private sector, non-bank financial organizations including the Bank and Finance Academy, the CGDC, and the Credit Information Bureau (CIB). Key assistance provided to strengthen these organizations includes:

- *Developing the Loan Officer Development Program, a flagship training program for the Banking and Finance Academy.* With BPI support, the academy trained 42 bank officers during the first year of the project. During the past two years, the

academy has continued to train bank officers with the 36-module LODP curriculum, benefiting 180 bank officers.

- *Developing the capacity of CGDC to design, develop, and deliver training.* BPI, through its corporate governance expert, developed and co-instructed new modules of the CGDC's corporate governance curriculum for foreign directors, senior executives, and board members of listed companies in Mongolia. This new curriculum allowed the CGDC to diversify its services and boost its revenue while increasing the corporate governance capability of local companies. In addition, BPI helped the CGDC to align its training curriculum to legislative changes, international trends, and best practices.
- *Assisting the Mongolian Bankers Association in the development of a new Credit Information Bureau.* EPRC, BPI's predecessor project, established the CIB in April 2009 with 15 commercial banks, two non-bank financial institutions, and the Mongolian Bankers Association. The project also advocated for the Law on Credit Information, which Parliament approved in October 2011. The CIB gives all commercial banks access to a credit database that houses borrowers' credit histories. The database can reduce the risks of bad loans by alerting lenders to borrowers with bad credit histories or multiple loans to one borrower. To make sure that this database meets the needs of commercial banks, BPI provided technical assistance through an international credit information bureau specialist to negotiate a software agreement for the CIB with an international firm.
- *Developing a Corporate Governance Toolkit.* In partnership with the CGDC, BPI developed a self-rating and diagnostic tool that allows business leaders to rate how compliant their companies are with the legal and regulatory framework on corporate governance, as well as international best practices. Based on existing local laws for companies and banking, the corporate governance code of Mongolia, and international best practices, the toolkit provides guidance on how to address deficiencies and improve corporate governance practices. It includes individual modules for family owned firms, listed companies, banks, and insurance organizations, each with 100 questions with background information on the relevant legislation and recommendations for improvement.

  Available online, the toolkit was also distributed as a desktop application for Mac and Windows platforms to more than 500 companies. CGDC incorporated the toolkit into their local program and continues to take an active role in promoting its use among Mongolian companies.

PHOTO: USAID/Mongolia BPI

With partners from the CGDC, BPI developed a diagnostic tool that business leaders can use to rate how well their companies comply with the legal and regulatory framework on corporate governance and international best practices.

Improving the legal and regulatory framework. BPI provided expert technical assistance to lay the legal and regulatory foundation for the development of new NBFIs and products. For example, due in part to BPI assistance, Mongolia adopted a modern investment funds law to provide financial resources to businesses through professionally managed investment funds, which are the best way for the middle class to invest in capital markets and participate in Mongolia's economic growth. Parliament has also approved a new securities law that regulates the registration of ownership of securities and clearing and settlement of securities trades at the Mongolian Stock Exchange. In addition, BPI provided expert assistance to the Ministry of Justice to review best practices in the areas of bankruptcy and insolvency.

Together, these laws will help Mongolian NBFIs boost the development of capital markets and create opportunities for businesses in need of financial resources and investors looking for low-risk investments with high returns.

BPI-SUPPORTED LEGAL AND REGULATORY IMPROVEMENTS

- **Investment Fund Law, included in Investment Funds Law approved in October 2013**
- **Custodian Law, included in the Securities Markets Law, approved in May 2013**
- **Bankruptcy Law, included in a broader Insolvency Law adopted in September 2014**
- **Regulations for Mandatory Drivers' Liability Law adopted in September 2014**

Building capacity of private sector organizations. To support capacity building within private sector organizations, BPI experts, in partnership with the FRC, conducted training-of-trainers workshops at the following organizations:

- *Banking and Finance Academy.* BPI trained around 30 local professionals from commercial banks and finance and economics faculties of local universities. In addition, the academy launched its own training series for bank loan officers, using internal resources, trained under the LODP. The series comprises 12 modules covering topics from corporate lending to legal aspects of banking to ethics and fraud in credit operations. The project provided guidance and hands-on assistance to the board of directors during the early stages of development.
- *CGDC*. Members of the economics faculty from National University of Mongolia were trained to train faculty members from other colleges on corporate governance. Through these consultant capacity building and training programs, more than 136 company directors received training along with FRC certificates. In cooperation with the CGDC, BPI designed, developed, and delivered a Corporate Governance Rating Index (CGRI) for the FRC. The CGRI is a 50-question survey based on OECD guidelines for corporate governance. The index serves as a report card for companies regulated by the FRC and is administered by the CGDC. This new service was designed to strengthen the CGDC's consulting capacity and complement its training. In addition, BPI worked with CGDC, other stakeholders, and international organizations to host annual Corporate Governance National Forums in Ulaanbaatar aimed at increasing awareness, discussing aspects of corporate governance relevant to the Mongolian context, and sharing best international practices by inviting local and international champions as speakers. More than 200 Mongolian professionals, business executives, corporate governance practitioners, and academics participated in these forums.

KEY RESULTS

Through the BPI project, USAID trained more than 700 public and private sector professionals in support of the development of the non-banking financial sector in Mongolia (see Exhibit 15 below).

BPI training was critical to increasing the knowledge base of Mongolian professionals in the non-banking financial sector. With BPI assistance, Mongolia has made strides in implementing a far reaching corporate governance program that includes all listed companies in the country. Through company scorecards, self-rating and diagnostic toolkits, and finance and non-finance director accreditation training, BPI supported public and private organizations to elevate the practice of corporate governance practice to a higher level in Mongolia.

EXHIBIT 15. NON-BANK FINANCIAL SECTOR TRAINING ACTIVITIES

ACTIVITY	NUMBER OF STAKEHOLDERS ATTENDING
Non-banking financial products (Investment Fund, bankruptcy, drivers' liability insurance)	130
Finance for non-finance directors	34
Corporate governance training sessions	102
Loan Officers Development Program – trained by BPI	42
Loan Officers Development Program – trained by BFA	180
Board of Director corporate governance certification training	33
Corporate Governance National Forums	207
Total	728

SECTION 6

INCREASING PRIVATE SECTOR CAPACITY AND COMPETITIVENESS

BPI's support to the Mongolian private sector aimed to improve institutional capacity, increase capacity to produce and sell products and services that meet buyers' requirements and market demand, and foster economic diversification and increased competitiveness of small and medium-sized enterprises (SMEs). The project achieved significant results, reaching thousands of SMEs.

PARTNERS

Public sector:

- **Cabinet Secretariat**
- **Mongolian National Center for Public Health**

Private sector:

- **Quality Supplier Development Center**
- **Wagner Asia Equipment**
- **SGS Mongolia**
- **London-based Chartered Institute for Environment and Health**
- **Development Solutions**
- **Xac Bank**
- **Mongolian National Chamber of Commerce and Industry**
- **Participating SMEs**

KEY ISSUES

Although real potential exists in Mongolia for small business growth in the meat, textile, hospitality, leather, information and communications technology, and horticulture industries, SMEs face challenges with quality, management and access to finance, which limit the realization of their production potential.

From the SMEs' perspective, these challenges include: lack of access to finance due to high interest rates and low collateral bases; weak business and managerial skills; inadequate production facilities with obsolete equipment and outdated technology; shortages of skilled labor; and limited ability to compete with export markets and regional imports. And from the buyers' perspective, SMEs produce low quality products and services; lack work environments in line with occupational health and safety (OHS) standards; have insufficient cash for operating capital; are unable to reliably transport goods; and lack capacity to meet orders on a timely basis.

The key short-term issues that BPI addressed are:

- *Lack of market focus*. For the most part Mongolian SMEs sell what they produce rather than responding to specific market demand and buyer requirements. This approach limits their potential to export their products, provide substitutes for imports, or become part of the supply chain for large corporations operating in Mongolia. Large companies do not trust that local SMEs can meet contractual commitments for large orders because SMEs prefer a larger number of smaller transactions, producing and selling low-value products and services

- *Low quality products and services*. Most Mongolian SMEs are unable to meet buyers' standards and requirements for quality. In addition to employing outdated, Soviet-era production technologies, many SMEs are unaware of quality management practices and have limited access to internationally certified quality training. These factors contribute to the low quality of SME products and services and hinder SMEs' growth and development.
- *Limited access to finance.* Emerging SMEs with high potential for increased sales and growth often experience difficulties in gaining access to finance because they have limited collateral and/or a weak credit history. Without access to finance, they cannot invest in their businesses and are, therefore, unable to improve productivity and growth.

BPI met these challenges by supporting the development of an SME sector that can competitively provide high quality products and services to meet local, regional, and/or international market requirements. BPI helped to establish the Quality Supplier Development Center (QSDC), a nongovernmental organization (NGO) with strong support from private sector representatives, which implements two successful programs, the Quality Management Program and the Supplier Development Program, and provides access to finance for SMEs through its technical assistance fund. BPI also developed innovative tools and trained SMEs in their use.

ACTIVITIES

Strengthening the capacity of Mongolian private sector firms to sell products and services meeting buyers' demands. The QSDC is an NGO founded by private sector representatives, who were brought together by BPI and is the primary mechanism through which BPI increased private sector capacity and competitiveness. QSDC offers supplier development and quality assurance training programs for Mongolian firms. Using a buyer-led, transaction-based approach, the organization helps Mongolian SMEs meet specific market requirements and better manage their own growth. Led by an independent board of directors and a small operations and technical team, QSDC has achieved significant organizational and technical milestones.

BPI seconded the initial management staff and provided two grants to support the organization's operational development, and its technical assistance fund provided financial assistance to SMEs. In addition to the fund, BPI supported two QSDC programs for quality management and supplier development, described below.

- *Quality Management Program (QMP).* Through its quality assurance training program, QSDC addresses the quality divide, considered one of the most significant factors limiting the growth of Mongolian SMEs. Its curriculum covers areas such as food safety, hazard analysis and critical control points (HACCP), OHS, Six Sigma, ISO quality management, and other firm-level training programs that can help SMEs improve their competitiveness and increase sales. In addition, through a partnership with Wagner Asia LLC, a local Caterpillar and Ford dealer and founding member of QSDC, the organization gained access, at no cost, to Six Sigma and OHS trainers, leveraging 40 million MNT of in-kind private sector resources.

  BPI piloted the quality management training in its first year and transferred it to QSDC in 2013. In total, more than 620 Mongolian professionals from 335 SMEs

have been trained through 34 quality assurance courses (see Exhibit 16). The quality management training program has generated a total of 62.9 million MNT in training fees, which represents 157 percent of the direct costs associated with carrying out the training.

EXHIBIT 16. QUALITY MANAGEMENT TRAINING PROGRAM BY THE NUMBERS

AREA	NUMBER OF TRAINING SESSIONS	NUMBER OF SMEs	NUMBER OF TRAINEES
Food safety	2	27	82
HACCP	7	77	128
Six Sigma	7	64	146
OHS	4	38	55
Marketing	3	32	45
ISO	11	97	165
Total	34	335	621

- *Supplier Development Program (SDP).* SDP's objective is to support Mongolian SMEs in achieving increased growth and improved competitiveness. The SDP channels technical and financial assistance to individual firms that have realistic opportunities to cultivate high-value supplier relationships and increase sales by improving the quality of their products and penetrating new markets. Technical assistance includes identifying a buyer's requirements and expectations in terms of product quality and quantity and delivery schedule, and then helping the SME meet them. Through the SDP, QSDC:

  — Provides matchmaking services to link Mongolian SMEs to buyers

  — Offers technical assistance in business development to help SMEs improve quality of products/services to meet buyers' requirements

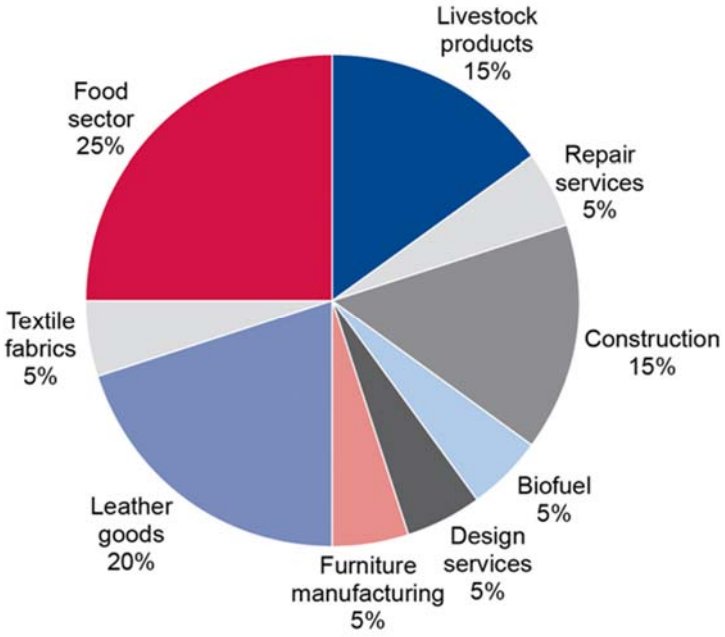
  — Helps with specific purchase orders in hand to improve their value proposition and with financial plans to increase access to finance through Mongolian financial institutions

  — Helps establish partnerships with Mongolian financial institutions to leverage existing resources to support SME growth

- *Technical assistance fund.* During its first two years, QSDC's main tool to support SMEs was its revolving technical assistance fund (TAF), which provided 985 million MNT (about $500,000) in financial assistance to 29 Mongolian SMEs. The SMEs increased their sales by about 7.8 billion MNT ($3.9 million), significantly higher than the original target. Rather than the expected five times more in incremental sales, the SMEs increased their sales nearly eight times with the QSDC assistance. QSDC's current portfolio of SME clients includes firms from the food, agriculture, mining, construction, metal fabrication, leather, recyclable fuel, and service industries in Ulaanbaatar and the interior regions of the country (see Exhibit 17 on the following page). In addition, QSDC has provided non-

financial matchmaking assistance to connect participating SMEs with large buyers.

EXHIBIT 17. TAF CLIENT PARTICIPATION BY SECTOR



Eighteen out of the 26 TAF clients are repaying QSDC assistance as scheduled. However, eight client firms are experiencing challenges in making repayments as scheduled due to:

- Repayment delays along the entire value chain in the construction and energy/fuel sectors due to the slowdown of the economy in 2014 and 2015
- Inadequate enforcement of contracts and unrealized contractual sales

Through a strategic partnership with GSB Capital, a Mongolian NBFI, QSDC has mitigated repayment risks and leveraged financial resources. The partnership mitigates risk in two ways. Firstly, each client SME must undergo the due diligence processes of both the QSDC (which focuses on incremental sales, contractual

PHOTO: USAID/Mongolia BPI

An employee of Ulemj Buyan LLC, a chicken farm and QSDC client, sorts eggs for packaging and transportation to buyers in her hometown — Baganuur district, a remote district of Ulaanbaatar 130 km from the capital — and in Khentii province.

obligations, and revenue generation) and GSB Capital (which focuses on collateral, company evaluation, and ability to repay loans). Secondly, the repayment risk is shared with GSB Capital at a 40/60 ratio. The partnership also allows QSDC to leverage additional financial resources in favor of QSDC clients because investment is shared with GSB Capital at a 60/40 ratio.

QSDC expects to recuperate close to 92 percent of the original TAF resources received through BPI by December 2015. These repayments will allow QSDC to continue to provide technical and financial assistance to Mongolian SMEs through its quality management and supplier development programs for another three years beyond the life of the project.

Equipping private sector organizations and firms for success. BPI created innovative tools to support the private sector in growing their businesses and expanding their networks, including an online business development portal and toolkits for association development and proposal development.

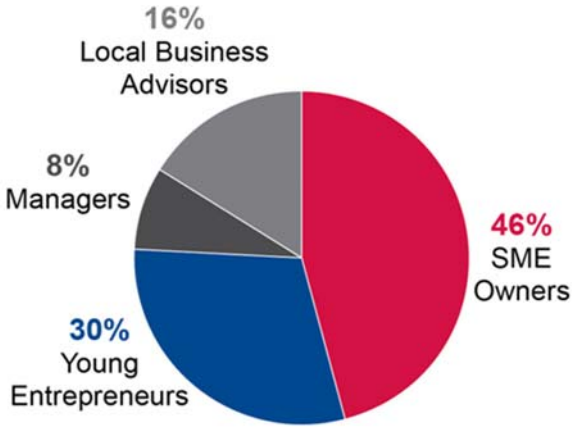
BIZGUIDE.MN RESOURCES MENU

The BizGuide portal provides a one-stop shop for business development resources. Topics include:

- **Starting your business**
- **Developing your business**
- **Obtaining financial resources**
- **Marketing and promotion**
- **Obtaining contracts and bids**
- **Office management and safety in the workplace**
- **Eco-friendly business practices**
- **Employee development**
- **Finance and accounting**
- **Business ethics**
- **Legal and financial forms**
- **Women in business**
- **Database of business advisors, trainers, and mentors**
- **Online tools, calculations, and Q&A**

- *BizGuide portal.* Through a grant to Development Solutions, a local NGO focused on increasing business activity in Mongolia through education, consultation, and networking, BPI supported the launch of www.Bizguide.mn, an online business facilitation portal with resources to assist both startup and existing SMEs to boost revenue, increase employment, promote ethical and legal practices, and increase business activity. Through the portal, Development Solutions makes available to Mongolian SMEs a wide array of business development resources (see box). With nearly 3 million page views by more than 14,000 registered users in Mongolia (see Exhibit 18), BizGuide is generating revenue for Development Solutions.

EXHIBIT 18. BIZGUIDE USERS BY TYPE



- *Association development toolkit.* The purpose of this toolkit is to improve the effectiveness of management consultants and nonprofit organizations... It includes a variety of institutional development tools and guidelines covering all aspects of association management and operations, such as governance, leadership, and administration; membership; marketing and communication; finance; services (operations and delivery); and advocacy. After developing the toolkit, BPI trained Mongolian consultants using its processes, guidelines, and tools to engage, support, and build capacity of local business associations.
- *Proposal development toolkit.* This toolkit aims to strengthen the capacity of local organizations to meet procurement needs of large Mongolian companies, the donor community, and the government. The tool uses examples and descriptions to explain how to write a technical proposal and how to prepare a cost proposal.
- *Training.* BPI has trained more than 110 Mongolian businesses and consultants on the use of the association development and proposal development toolkits. In addition, BPI and EBRD co-hosted training programs on the toolkits with the Mongolian Management Consultant's Institute.

KEY RESULTS

Several Mongolian SMEs have reaped the benefits of working with BPI through the QSDC, with sales expected to double or even triple for some firms. For example, SRB LLC, a woman-owned and operated leather bag producer with 10 staff, is expecting to double its sales within the next year. In addition to contracts to sell its bags in Taiwan, Korea, and Japan, the company receives orders via its website, which it often had to shut down because it could not meet demand. The QSDC is helping SRB to increase production and, through the TAF, helping them acquire a larger production facility.

Another small business benefitting from QSDC assistance is Garden City LLC, which employs 10 people and provides biological and technical remediation and landscaping services to the mining and construction industries and the public sector. The municipalities of Kentii and Orkhon aimags awarded Garden City with tenders for sidewalk renovation. The QSDC developed Garden City's capacity to produce pavement blocks so it would not have to depend on suppliers. Garden City is also expected to double its sales through its increased capacity.

Nogoon Gazar LLC also has benefitted from the QSDC's support. It manufactures polystyrene concrete blocks and panels sought after by the Mongolian construction sector because they are much lighter than concrete. Unable to meet the demand because of the costs of raw material, they turned to the QSDC, which helped them fulfill their purchase orders. Their sales are expected to increase two times over the next year.

PHOTO: USAID/Mongolia BPI

A quality manager at Nogoon Gazar inspects the molds for polystyrene bricks to fulfill the company's new contracts. With QSDC assistance, they expect to double their sales in the next year.

SNAPSHOT

One Buyer at a Time

As a result of the USAID-funded QSDC Supplier Development Program, a local supplier is becoming an integral link in the supply chains of large international buyers in Mongolia

PHOTO: USAID/Mongolia BPI

Geomach Director Urlee Erdenee successfully demonstrates a trial order to WAE quality control specialists. As part of the local partnership facilitated by QSDC, WAE provided in-kind technical assistance to Geomach to help the company meet strict Caterpillar standard requirements.

Large firms in Mongolia's mining and construction industry face significant pressure to use local suppliers. But low quality and production capacity result in limited local engagement. USAID helped local suppliers to address these challenges through the Quality Supplier Development Center (QSDC) Supplier Development Program.

Darkhan-Geomach Co. (Geomach) manufactures geological and agricultural equipment and provides maintenance and salvaging services. After consulting with buyers, QSDC discovered that the durability of the parts they produced was inconsistent, which affected buyer confidence. QSDC and Geomach collaborated to hire a consultant to design a new process to heat and cool metals, recommend new health and safety standards, and streamline production. As a result of these changes, subsequent tests showed a significant increase in the metal products' durability.

QSDC then introduced Geomach to Wagner Asia Equipment (WAE), a Caterpillar equipment distributor in Mongolia, which sought a new local supplier for mining equipment salvaging services. WAE General Director Stephen Potter explained, "In other countries Caterpillar salvages up to 85 percent of damaged pieces, but in Mongolia… [o]nly 15 percent is salvaged, so there is a tremendous need for local suppliers."

After successful trial orders and consultations, WAE announced a long-term partnership with Geomach. "This is a powerful new initiative launched by QSDC. [WAE's] facility does not have the space to set up a salvage assembly plant, so if we can help Geomach get to the next level to take care of all of our salvaging needs locally, we will also save millions of dollars wasted shipping parts to China for repair or throwing damaged parts out back in the junkyard," Mr. Potter said.

Since October 2013, Geomach has provided repair services to WAE, and meets its high precision and quality standards. As a trusted local business partner to WAE and other large mining firms, Geomach is well-positioned to access a large salvage service market, demonstrating local supplier potential to become an integral part of national and international business value chains.

SNAPSHOT

Quality Orientation Gives Mongolian Companies a Competitive Edge

USAID's Business Plus Initiative offers international lead auditor training to more than 30 Mongolian professionals

PHOTO: USAID/Mongolia BPI

Participants in the QSDC's lead auditor training series listen as their instructor introduces them to the principals of leading a quality assurance audit. These professionals will help Mongolian firms become more competitive by ensuring that they meet quality standards and apply international best practices.

USAID's Business Plus Initiative (BPI) made strides in its pursuit to improve competitiveness across Mongolia's private sector through activities to enhance quality assurance.

Having trained and certified more than 200 professionals in quality assurance by October 2012, the project offered an advanced lead auditor training series to 31 private sector participants in Ulaanbaatar. A South Korean training provider, registered with international training body RABQSA, delivered the five-day course, the purpose of which was to "build a cadre of quality assurance auditing and management professionals in Mongolia," according to BPI Private Sector Advisor Kyle Gunther.

Nomin-Erdene, a project manager at SBS LLC and participant at the lead auditor training series, explained its importance to her environmental auditing firm: "We need to train new environmental auditors because in Mongolia there are few professionals with such qualifications and certifications. With newly-passed environmental laws and regulations, the government of Mongolia has indicated any company or organization exploiting or using environmental resources will need to have audits completed every two years. Because SBS lacks the resources to meet these demands, these trainings should be done more."

As Mr. Gunther noted, "Mongolian businesses will be able to take advantage of proven and effective global best practices affiliated with quality management," and an orientation toward quality will give Mongolian business a competitive edge across the marketplace.

SECTION 7

LESSONS LEARNED FOR ECONOMIC DEVELOPMENT IN MONGOLIA

Many lessons learned under BPI are specific to Mongolia at a particular point in its political and economic development. However, the project gleaned several general lessons that can be applied to the challenge of implementing policy reform, especially in the context of improving the business enabling environment through reduced time and cost of doing business.

Facilitate and nurture long-term, mutually beneficial alliances among government counterparts, the private sector, and local organizations. Sharing resources, networks, and knowledge benefits all parties. For example, BPI's arbitration education and awareness campaign reached more than 900 beneficiaries in a one-year period and was of the highest quality because the project engaged local partners, such as the Mongolian Bar Association, Mongolian Law Society, and MINAC; international partners, including prominent legal firms, the ICC, and SIAC; and the government through the Ministry of Justice for every arbitration intervention. The QSDC multiplied their impact in transforming the Mongolian private sector by facilitating alliances with large private sector firms such as Wagner Asia and SGS International, leveraging facilities, technical expertise, and visibility for their programs. Identifying individual champions within each stakeholder group helped to facilitate cooperative efforts.

Empower local organizations as watchdogs and reform advocates by supporting capacity building and advocacy efforts. BPI activities with local organization not only helped those groups apply pressure on the government to continue with reform efforts, but also engaged the public and private sectors in national dialogue. Key to this were support of EJC members in building their reporting skills, increasing their understanding of economic issues, and engaging them in roundtable discussions with policymakers, and engaging AmCham in carrying out public-private dialogues and developing advocacy materials. Further, the project equipped these and other local organizations, including the Mongolian Bar Association, with tools they need to continue project initiatives beyond BPI.

Stimulate public demand for improved government services through educational and awareness campaigns. Like the example above, publicizing project successes and innovations (such as mandatory drivers' insurance, customs e-payment, and VAT e-invoicing systems) helps engage new supporters, promotes usage, and makes backsliding on reform efforts more difficult for the government.

Build trust and garner counterpart buy-in at all levels of government by requiring demonstrated commitment from key government agencies and counterparts. When the project met resistance from particular segments of lower tiers of the government or

when commitment from the executive branch of the Mongolian government was lacking, we were unsuccessful in implementing activities. For example, in the effort to reform online company registration, while commitment was expressed at the executive level, it was lacking at all levels within the registration agency, so the project was unable to implement the online system. The project also learned that supporting reforms for which the country faced additional pressure (such as the World Bank's *Doing Business* ranking) increased the chances of government commitment and ultimately success.

Ensure ownership of reform efforts through intensive capacity building and facilitation of activities with counterparts in the lead. The tax and customs agencies under the Ministry of Finance lack the basic human resources, organizational, and IT capacity to deliver effective, efficient tax and customs administration. Achieving voluntary compliance was exceedingly difficult, even for businesses that wanted to operate legally. On-the-job and other types of training tailored to various audiences have proven to be more effective. For example, BPI embedded a short-term international customs expert in CGA to help build capacity of customs officers, an effort lauded by the agency leadership and customs personnel.

Transform government crises into positive motivators to advance project goals. The shortfall in projected government revenue presented an opportunity to introduce customs e-payment and VAT e-invoicing systems online and streamline the customs clearance process through risk management and post-clearance audit. In addition, decreased financial lending to SMEs left a vacuum that was filled by QSDC's technical and financial support.

Be flexible and ready to embrace unexpected opportunities while keeping counterparts on task. BPI employed public-private dialogues to bring government and business representatives together to discuss policy reform when the new Cabinet decided to improve the business environment. The key to realizing results was turning those discussions into actionable plans, using the political will of the Cabinet to drive reforms, empowering the private sector, and following up with counterparts to ensure progress toward results. The initial business enabling environment reform areas were selected and based on the 2012 Roadmap for Reform that resulted from a public-private dialogue series.

Take a holistic approach to activity design and implementation. Mutually reinforcing activities produce sustainable results. BPI's activities in the development of e-platforms required legislative changes and improvements to support e-government solutions. The BPI team addressed this issue by reviewing existing laws, developing e-platforms around them, and proposing changes to agency-level decisions and/or regulations when necessary. An example is the CGA's decision of June 8, 2015, on a new regulation to accompany the customs e-payment system launched on July 1, 2015. The regulation creates the legal environment to introduce an electronic system for customs payments and duties and provides guidelines on processing electronic payments in customs clearance for users, including customs officers and traders. Agency level decisions can be achieved within a shorter period of time than laws, which are subject to the government's stability and political will.

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