



# EPRC MONTHLY NEWSLETTER

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## Commercial banks sign MOU to create a private credit information bureau

At a formal ceremony held in the offices of the Mongolian Bankers Association (MBA) on 10 April, thirteen commercial banks and three non-bank financial institutions signed a Memorandum of Understanding (MOU) to establish a private sector-controlled company to provide credit information services. The institutions



signing the MOU represent 95% of the total Mongolian commercial and consumer loan business.

The MOU provides that a new Working Group will be formed to:

- Prepare a business plan
- Recommend a strategic solution to the issue of privatization of the existing Credit Information Bureau (CIB) that the Bank of Mongolia (BoM) currently operates versus starting up a new private credit bureau
- Oversee the implementation of a revised legal framework to facilitate the operation of a private credit information bureau
- Recommend who will be allowed to use and/or become shareholders of the CIB
- Recommend a corporate structure
- Liaise and negotiate with potential strategic partners on technical assistance and financial participation.

The MOU was the product of an initial Working Group set up through an agreement signed at the Mongolian Bankers Association office on 28 February with EPRC support. This initial Working Group had five members representing the BoM, Xac Bank, Trade and Development Bank, Capitrion Bank and the MBA. The MOU signed on 10 April went through several drafts as comments were received from stakeholders. The final MOU document incorporated many of their suggestions.

Following the signing of the MOU, members of the Working Group and EPRC met with a team from the International Finance Corporation (IFC) Global Credit Bureau. This IFC mission came to

Mongolia to examine the feasibility of participating in the development of a private credit bureau.

Following several high-level meetings with the Working Group, major banks, the BoM and a presentation to the stakeholders, the IFC team, the Working Group, and EPRC reached an agreement in principle to collaborate on the development of a private credit bureau.

Subject to the negotiation of an advisory agreement, IFC will provide technical assistance to the Working Group, on a cost sharing basis, on operational matters related to the credit bureau including assistance to select a vendor of appropriate technology and an operating partner.

The project will continue to advise the Working Group and provide technical assistance on the development of a legal framework conducive to the operations of private credit information services. Work on the legal framework began on 30 April with the arrival of an international expert that EPRC brought to assist the Working Group.

## National Legal Center releases new CD with updated business laws

A second release of the *Essential Business Laws of Mongolia* CD was announced at a press conference held on 3 April at the National Legal Center (NLC). Dr. Amarsanaa, Director of the NLC, made the announcement and Mr. Bayanbileg, Director of Public Communications conducted a presentation of the contents of the CD to invited guests and members of the media.

The CD is the product of a joint effort between NLC and EPRC to provide investors and the public with current information on main business laws.

The first release of the CD in September 2004 contained 20 updated business laws in Mongolian and English and a listing of international investment and tax treaties to which Mongolia is a party.

This second release contains an additional 47 business-related laws, for a total of 67, plus the full text of all international investment and tax treaties currently in effect.



The CD includes information that operating businesses require on a day-to-day basis, e.g. the new personal income, corporate income, value-added and excise tax laws, as well as information that potential investors may need to assess the Mongolian business environment. Examples of the latter include the constitution, company law, and the law on foreign investment.



To the extent possible, the laws are current as of the last day of Parliament's Fall 2006 session. Several of the laws on the original CD had been either repealed or amended, plus many of the new laws had also already been amended. As Mongolia's legal environment is constantly evolving, future releases are planned to incorporate new laws and amendments to current laws.

The CD is priced at 20,000 MNT and is available through the National Legal Center (Sukhbaatar street 7, Chingeltei District, Ulaanbaatar 46. Telephone: 31 91 44). The text of the laws and treaties is also available for download at the NLC website ([www.legalcenter.mn](http://www.legalcenter.mn)). Demand for the CD has been brisk, with NLC reporting sales of over 150 copies during the first month after release.

## Private and public sector agree on national tourism strategy during a weekend retreat

Representatives of Mongolia's tourist industry moved one step closer to forming a national tourism organization (NTO) following a three-day workshop/retreat held at the "Secret History Tourism Camp" during 6 – 8 April. With EPRC support, the retreat brought together leading tourism decision-makers from the Ministry of Roads, Transport and Tourism (MRTT), local administrations, private sector associations, and donor organizations to discuss the possible legal structure of an NTO, its membership, its role, and to consider various funding mechanisms.

An NTO is seen as fundamental to the tourism strategy that MRTT has recently proposed and received broad support from the industry. The retreat was the culmination of a number of preparatory consultative working group meetings that the project has been facilitating over the last few months.

Participants in the retreat established three working groups to study the issues surrounding the formation of an NTO. One group concentrated on the legal form that such an entity may take under current Mongolian laws, the second group worked on the definition of the role and activities of the NTO, and the third considered mechanisms of funding. After internal discussions, each group presented its findings to the plenary group.

Based on international experience, group discussions were based on the premise that the promotion of tourism within a country is most effectively delivered through a decision-making organization representative of all sectors of the industry, typically through a public-private partnership. Though there may be country variations in form or structure, NTOs normally take supervisory responsibility for destination marketing, vocational training, voluntary classification and in-country information provision. Importantly they also decide priorities and how available funds are disbursed. NTOs liaise with government on issues such as health and safety, environment, and employment protection, and lobby central and local governments on issues impeding the development of tourism.



In conclusion the workshop reached consensus as to the structure and role of the NTO and asked EPRC to continue its role as facilitator and to encourage industry wide support for the initiative. EPRC has agreed to provide technical and legal assistance to expedite the formation of the proposed NTO.

## National workshop on new tax regulations and tax forms held for tax inspectors across Mongolia

Seventy-eight tax inspectors and collectors from across Mongolia attended a three-day workshop held in Ulaanbaatar on 18–19 April in preparation for the administration of revised regulations and tax return forms to support the recently enacted new tax laws. The General Department of National Taxation (GDNT), with project support, designed the workshop, presentation and reference materials and case studies.

The first day of the workshop was devoted to International Financial Reporting Standards (IFRS), as the new tax laws will require a sound understanding of international accounting practices to examine the adequacy of reported financial information and thus determine actual taxable income. EPRC Accounting Advisor D. Munkhsaikhan led the initial day's session and presented updated information and explanatory materials on the standards, with additional in-depth review of individual standards that related to revenue recognition and appropriate expense requirements.

The second day covered the personal income tax (PIT) and corporate income tax (CIT) laws. These are the laws that are substantially different from those previously in effect, and required detailed explanations of new provisions in both the laws and regulations.



GDNT inspector Mr. Bayaraa presented the CIT law in its entirety, targeting the new provisions in detail, which included income classification, transfer pricing, loss carry-forward, investment tax credit, and deductible expenses. As the question and answer session concluded, the class saw a need for improved regulations as the implementation of the law progresses. Following the CIT presentation, EPRC Tax and Accounting Advisor Larry Jensen, addressed the group on international practices reflected in the new law.

GDNT inspector Ms. Tuul presented the PIT law during the latter half of the day. Ms. Tuul, an experienced in-house specialist, highlighted the major changes in the new law and provided detailed examples on each. The new law incorporates treatment for many problem areas that existed in the past. These include treatment of fringe benefits, related party transactions, self-employed income, and artistic performance, among others. Ms. Tuul's main message to the collectors was to strengthen their efforts to implement the "good" law passed by parliament.

Both presenters demonstrated the new income tax statements, showing how to fill out the new electronic forms that GDNT has developed. The training session provided opportunities for collectors to give feedback on forms as the tax authority moves forward to develop consolidated and easy-to-understand tax return statements.

The third day covered the Value-added tax law (VAT), Excise tax law and tax accounting topics. GDNT specialist Mr. Buyanbadrakh presented the VAT law, regulations, and forms. Highlights of the presentation were the reduced tax rate, fewer tax exemptions, and clarification of provisions of the new law. Questions from the collectors were in the context of the law's administration, a challenging task for the tax authority for years. Mr. Buyanbadrakh addressed problems and issues with filling out the new VAT form. Value-added taxpayers have already started filing the statement on a monthly basis.

Mr. Oktyabri-Erdene led the excise tax presentation and highlighted its new provisions such as taxing of gambling activities, imported vehicles on different bases, and taxing alcohol products in a clear and consistent manner.

When presentations on the four new tax laws was completed, GDNT specialist Ms. Uranchimeg and project advisor Munkhsaikhan addressed the class to follow up on accounting issues raised during the discussions of the new laws. Ms. Uranchimeg provided specific examples on accounting journal entries for tax accounting while Mr. Munkhsaikhan discussed in

detail the international accounting standard governing fixed assets. Inspectors needed to receive up-to-date information on fixed asset accounting because depreciation is a fully deductible expense under the CIT law.

#### *Assessment and way forward*

The workshop for GDNT tax inspectors and collectors from across Mongolia was part of the overall program of project support to GDNT in improving tax administration of the new tax laws. There was general consensus among workshop participants that the new laws, draft regulations and tax forms were a vast improvement over the past but further work was needed on the latter two.

Presentations of the new draft regulations and tax forms generated numerous questions and, on occasion, arguments on definitions, the intent of various provisions, and the need for more extensive explanatory regulations. The group reached consensus that much work remains in the development and clarification of the regulations as well as revisions of the proposed new forms. The project will continue to support GDNT in its efforts to revise the regulations and forms, as required.

Upon return to their tax offices, workshop participants will conduct training for those tax inspectors and collectors in their district that were not able to attend the Ulaanbaatar workshop. Similarly, they will participate in taxpayer education workshops currently being organized between GDNT the Mongolian National Chamber of Commerce and Industry (MNCCI) and EPRC.

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