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Mongolia International Capital Corporation signs agreement with Aureos Advisors Ltd to establish first private equity fund in Mongolia

On 18 January, *Mongolia International Capital Corporation* (MICC) and *Aureos Advisors Ltd* signed a cooperation agreement, which paves the way toward establishment of the first private equity fund in Mongolia. The target total capitalization of the fund is expected to be US\$25 million with a focus on making equity and quasi-equity investments in small and medium-sized enterprises that demonstrate potential for profitable growth and expansion in Mongolia.



With the backing of EPRC and The Asian Development Bank (ADB), this signing ceremony took place after many months of negotiations between the two parties. The agreement was signed by the Chairman of Aureos Asia Ltd, Mr. Robert Binyon and Chairman of MICC, Mr. Howard Balloch. In announcing the agreement, Mr. Balloch said, "by signing this agreement, we are taking important and vital steps toward further development of the financial markets of Mongolia by providing alternative sources of funding for local business enterprises on a sustainable basis." Mr. Binyon told attendees to the signing ceremony that he was very pleased to be able to take part in this historic event.

MICC's interest in raising and managing a private equity fund was raised by the two feasibility analyses that EPRC conducted in 2004 and 2005 in cooperation with *The Open Society Forum* (OSF). EPRC advised MICC in their negotiations with Aureos and provided funding for legal counsel to MICC through its Business Development Fund.

Private equity funds provide long-term, committed share capital in potentially high-growth private companies. The goal of the

proposed private equity fund to be set up by MICC in the second half of this year is to help local companies grow and succeed by bringing in the necessary capital and management know-how. Private equity is different from bank loans in that lenders have a legal right to interest on a loan and repayment of the capital, irrespective of borrowers' success or failure. Private equity is invested in exchange for a stake in a company and not secured by any assets. As shareholders, the private equity investors' returns are dependent on the growth and profitability of the business and face the risk of failure just like the business owners and other shareholders.

Mongolia International Capital Corporation

MICC is the first, full-fledged investment banking firm in Mongolia providing a full range of financial services, including securities underwriting, corporate finance, brokerage and research. Since its inception in 2005, MICC has raised over US\$7 million in debt and equity financing for its clients.

Aureos Advisors Ltd

Aureos Advisors Ltd (Aureos), a wholly owned subsidiary of *Aureos Capital Limited* (Aureos Capital), is supplying fund management advisory services to MICC. *Aureos Capital* is a London-based leading private equity fund manager focused on providing expansion and buy-out capital to medium-sized enterprises in the emerging markets. It has raised and/or managed over 22 private equity funds through its network of twenty offices in China, South-East Asia, South Asia, the Pacific Islands, Sub-Saharan Africa and Central America. Aureos' global footprint and investment track record combined with MICC's local infrastructure and local market knowledge will provide investors with an experienced management vehicle through which to access investment opportunities in Mongolia.

First meeting held of Working Group to establish a single electronic window for trade facilitation

The first formal meeting of the Working Group to establish a single window for foreign trade facilitation (SWTF) took place on 18 December 2006. Mr. Bayartsaikhan, Minister of Finance, acted as a chair of the first meeting.

The meeting was in response to Government Resolution 251 issued on 18 October through Ministry of Finance (MoF) to establish a working group (WG) to implement the concept of a single window for trade facilitation. Decree 370 of 2006 of the Minister of Finance appointed the following members of the WG:

- Mr. Ch. Saikhanbileg, Director of the Information and Communications Technology Agency (ICTA) as Chair
- Mr. B. Battumur, Director of Customs General Administration of Mongolia (CGAM)

- Mr. B. Enkhmandakh, Vice Minister of the Ministry of Environment (MoE)
- Mr. S. Demberel, Chairman of the Mongolian National Chamber of Commerce and Industry (MNCCI)
- Mr. Ya. Sodbaatar, Vice Minister of the Ministry of Industry and Trade (MoIT)
- Mr. L. Zorigt, Director, General Department of National Taxation
- Mr. Enkhbayar J., Vice Director, State Specialized Inspection Agency (SSIA)
- Mr G. Gantumur, Director of the Mongolian Agency for Standards and Metrology (MASM)
- Mr. S. Altangerel, Director, IT Department, CGAM, as Secretary of the WG.

1. An inter-agency Memorandum of Understanding (MoU) to establish and implement the single window
2. A National Program for establishing and implementing the single window
3. A more detailed action plan.

A single window for trade facilitation: the concept

A single window for trade facilitation would bring together all trade-related government agencies and private sector organizations and would help Mongolia speed up, simplify, and centralize all administrative trade-related processes, increasing transparency and efficiency in trade; it would boost the competitiveness of local firms by facilitating their connection to regional and international markets. Exhibit 1 shows how government agencies and the private sector are linked through the single window for trade.

Exhibit 1: The single window: An organized network for the trading community



Adapted from Chawewan Kongcharoenkitkul 2006 Presentation on the ASEAN Single Window.

Facilitating the information exchange among the various government agencies and between the government and the private sector a single window for trade can bring tangible benefits to all parties involved in cross border trade by:

- Cutting transaction costs through reducing delays
- Faster clearance and release
- Predictable application and explanation of rules
- Improved trader compliance
- Enable the use of sophisticated “risk management” techniques for control and enforcement purposes
- Correct and increase customs revenue yields
- More effective and efficient deployment of resources.

According to the UN Center for Trade Facilitation and Electronic Business (UN/CEFACT), a Single Window facility should allow:

- Parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit related regulatory requirements, allowing information to be submitted only once
- Sharing of all information concerning international trade transactions, supported by a legal framework that provides privacy and security in the exchange of information
- The addition of facilities to provide trade-related government information and receive payment of duties and other charges
- A single entry point to disseminate, or provide access to, the relevant information to participating governmental authorities or authorized agencies



The agenda for the meeting included three main topics:

1. Presentation of international best practices and lessons learned in other countries on the implementation of an electronic single window for trade facilitation, a document that the project prepared at the request of the working group
2. Brief discussion of present status of the Mongolian trade environment and problems faced by government agencies involved
3. Presentation and discussion of a draft Action Plan that agencies developed with assistance from EPRC.

At MoF request, EPRC has been providing technical assistance to the WG. Efrain Laureano, an international expert on trade and investment, led project efforts in providing such assistance. The presentation made at the formal meeting of the working group summarizing the concept of a single electronic window, international experiences and lessons learned from Singapore, Mauritius, Malaysia, Ghana, Korea, and Guatemala and their application to Mongolia is available in Mongolian and in English at the following websites:

- EPRC Website: <http://www.eprc-chemonics.biz>
- Customs General Administration of Mongolia (CGAM): <http://www.ecustoms.mn>
- Mongolian National Chamber of Commerce and Industry (MNCCI): <http://www.mongolchamber.mn>
- Information and Communications Technology Agency (ICTA): Visit <http://www.icta.gov.mn>

Minister Bayartsaikhan urged agencies involved to continue their efforts and coordinate their work through ICTA in the preparation of three documents:

- Coordination of controls and inspections of the various governmental authorities
- Promotion of trade capacity building through targeted training programs to businesses and traders.

A single window for trade facilitation: the need for Mongolia

Improving the business environment is a never ending effort for countries that want to create better economic opportunities for its population by successfully competing in the global markets. While rules and regulations are necessary to ensure that markets function in an orderly manner, excessive and outdated regulations could actually stifle enterprises.

Even star performers such as Singapore—number one in rankings of the World Bank report on Doing Business for 2007—continue to make a concerted effort to cut red tape. Through public-private partnerships such as the Economic Review Committee, Singapore ensures that its rules and processes are continuously reviewed and updated to guarantee a business environment that is conducive to the creation and maintenance of a successful and competitive enterprise sector.

Similarly, other developing countries such as Georgia have shown that significant advances can be achieved in improving the business environment within a short period of time. With a concerted and decisive effort, Mongolia has the potential to join these global reformers and other top performers in the East Asian and Pacific region.

Mongolia has achieved remarkable progress in setting the foundations for a democratic, open-market economy. With the most difficult tasks of a democratic transition largely completed, Mongolia now needs to focus on developing competitive participation in the world economy. Comparisons of international rankings suggest that Mongolia needs to improve its administrative and regulatory environment for businesses, especially in the trade area, to grow and provide much needed employment.

Exhibit 2 shows Mongolia's rank, out of 117 countries, in the 2006 Global Competitiveness Index (GCI) of the World Economic Forum (WEF).

Exhibit 2: Mongolia's rankings on selected indicators of the World Economic Forum's Growth Competitiveness Index

Indicator	Mongolia's rank
<i>Overall Global Competitiveness Index</i>	96
Efficiency of legal framework	111
Overall infrastructure quality	110
Irregular payments in imports and exports	107
Extent and effect of taxation	107
Ease of access to loans	105
Tax burden	97
Burden of government regulations	86
Gross tertiary enrollment	47
Flexibility of wage determination	14

On the positive side, Mongolia scores relatively well on "flexibility of wage determination" and "gross tertiary enrollment", where Mongolia holds the 14th and 47th position in the world, respectively. Nonetheless, Mongolia scores are disappointingly low on other indicators: 111th on "efficiency of the legal framework," 110th on "overall infrastructure quality," and 107th on "irregular payments in imports and exports."

As shown in Exhibit 3, a similar picture emerges when comparing Mongolia's performance in the World Bank Doing Business Report for 2007, a survey that included 175 economies.

Exhibit 3: Mongolia's rankings on selected indicators of the World Bank's Doing Business 2007 report

Indicator	Mongolia's rank
<i>Overall Ease of Doing Business</i>	45
Starting a business	55
Dealing with licenses	34
Hiring and firing	61
Registering property	17
Getting credit	65
Protecting investors	19
Paying taxes	56
Trading across borders	162
Enforcing contracts	41
Closing a business	115

Although Mongolia performs relatively well on most indicators, the "trading across borders" indicator ranks Mongolia at the bottom; in the 162nd place.

Having successfully addressed the issues of "extent and effect of taxation" and the "tax burden" through the on-going process of tax reform, the government and the private sector need to collaborate again to achieve concrete improvements in the cross-border trade environment. While little can be done to change its geography as a land-locked country, much can be done to facilitate Mongolia's competitive participation in the world economy. A single window to facilitate trade is such an instrument.

Requirements for successful implementation

Much can be learned from the experiences of other countries in the implementation of single windows to facilitate trade. A recent assessment of the United Nations Center for Trade Facilitation and Electronic Business (UN/CEFACT) identified the following success factors:

Political will. The existence of strong political will on the part of both government and business to implement a single window is the most critical success factor. Thus, there is need for proper dissemination of clear and impartial information to all parties on the objectives, implications, benefits, and possible obstacles in the establishment of the single window.

A strong lead agency. Whether public or private, there is a requirement of a strong, resourceful and empowered lead organization both to launch the project and see it through its various development stages; this organization must have the appropriate political support, legal authority, human and financial resources, and links with the business community.

Partnership between government and private sector. A single window is a practical means of cooperation among government agencies and between government and private agents participating in trade. It presents a good opportunity for a public-private partnership in the establishment and operation of the system. Consequently, representatives from all relevant public and private sector agencies should be invited to participate in the development of the system from the outset.

User friendliness and accessibility. These are key success factors for a single window project. Comprehensive operating instructions and guidelines should be created for users. A "Help Desk" and user support services, including training, should be established. The Help Desk can be a useful means for collecting feedback information from users. The need for and value of practical training courses for users cannot be over-emphasized, especially given how long it takes exporters and importers to prepare trade-related documentation in Mongolia.

Enabling legal environment. Establishing the necessary legal environment is a pre-requisite for successful single window implementation. Related laws and legal restrictions must be identified and analyzed. For example, changes in legislation may be required to facilitate electronic data submission/exchange and/or electronic signatures. Further, regulations concerning the sharing of information among authorities and agencies, as well as organizational arrangements for the operation of a single window, including delegations of power and authority, need to be clearly set.

Business model. A decision on the business model to implement the single window should be reached as early as possible in the project. This could range from a system totally financed by government (e.g. the Netherlands) to an entirely self-sustainable private sector-led model (e.g. Mauritius, Guatemala). Also, possibilities for public-private partnerships should be explored if this is deemed a preferred approach.

Communications strategy. Establishing a proper mechanism for keeping all stakeholders informed on project goals, objectives, targets, progress (and difficulties) creates trust and avoids misunderstandings that can lead to the undoing of an otherwise good project.

Implementing a single window for trade in Mongolia: Next steps

With EPRC's assistance, a draft inter-agency MoU has been prepared, comments from the agencies incorporated, and is ready for formal review by the WG. The document to establish the National Program has been drafted and will be circulated for comments. Under ICTA's coordination, these documents are to be presented to the WG for review and approval prior to submission to the Government in the first quarter of 2007.

A more detailed action plan will be elaborated with inputs from representatives of the *Société Générale de Surveillance, SA* (SGS), a leading international operator and investor in successful electronic single windows for trade facilitation. Their visit to Mongolia, facilitated through EPRC, is currently scheduled to take place in mid February.

General Department of National Taxation releases new tax return forms and instructions for the new laws

At the request of GDNT, the project assisted with the preparation of brochures detailing the new reporting requirements for the personal income tax (PIT), corporate income tax (CIT) and value added tax (VAT) laws.

Each of the three brochures presents one of the new laws and contains:

- A detailed matrix comparing the provisions of the old and the new laws on PIT, CIT and VAT
- Revised tax reporting forms for 2007
- Instructions for taxpayers for the preparation and submission of tax return



forms.

The forms are revised from prior years, particularly the PIT tax return form. The new form is more comprehensive than the prior, and permits individuals to report all income on a consolidated basis. This new approach will make tax reporting easier for all individuals and reduce processing time at GDNT. The new instructions for the forms are on a line-by-line basis, clearly guiding the taxpayer through the process of preparing the statement.

The comparison matrices categorize and summarize the clauses in each of the laws, grouping them to allow a quick review of changes made. The matrices and the instructions for filling out the forms should enable taxpayers to understand the new tax requirements and remove much of the burden previously associated with preparing tax statements.

A key feature of the booklets is that, for the first time in Mongolia, there are tax return forms and instructions that are "taxpayer-oriented" rather than "regulations-oriented" as in the past. GDNT is using the brochures in country-wide training of their tax inspectors and as part of their public education campaign on the new tax laws.

In addition to the brochures, tax inspectors are receiving a CD containing the brochures in electronic form as well as the text of the new tax laws. Initial reaction of tax inspectors has been very favorable given the clear and concise reference the booklets provide on the new tax laws. The brochures will be also available in the GDNT and EPRC websites with links from other leading Mongolian websites being negotiated.



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