

EPRC MONTHLY NEWSLETTER

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Experts from the *Société Générale de Surveillance* visit Mongolia to assess progress in establishing a single electronic window for trade facilitation

Arranged by the project, three experts from the *Société Générale de Surveillance* (SGS) visited Mongolia to obtain first-hand information about current efforts to establish a single electronic window for trade facilitation.

Philippe Isler, David Walker, and Chris Holden were in country from 20 February to 1 March. Based in Geneva, Mr. Isler is Project Manager for TradeNet, an SGS product for single electronic windows to facilitate trade. Mr. Walker is an SGS customs expert based in Dubai, and Mr. Holden is the Operations Manager of GCNet, the company that operates the Ghana single electronic window for trade.



Founded in 1878, SGS (www.sgs.com) is a leading inspection, verification, testing, and certification company, with more than 43,000 employees in 140 countries and over 1,000 offices and laboratories around the world. Services of the company include:

- *Inspections* to verify the quantity, weight and quality of traded goods
- *Testing* of product quality and performance against various health, safety and regulatory standards
- *Certification* of products, systems or services to meet requirements of standards set by governments (e.g. GOST R), standardization bodies (e.g. ISO 9000) or by SGS customers
- *Verification* to ensure that products and services comply with global standards and local regulations.

The TradeNet product. Through its TradeNet product SGS has become a premier provider of electronic platforms for the exchange of trade-related data. SGS has financed, deployed, and operated various forms of TradeNet in Singapore, Mauritius, Ghana, Panama, and Saudi Arabia, with single electronic windows for trade currently under deployment in Côte d'Ivoire and Madagascar.

The TradeNet concept was initially developed in the early 90's in Singapore and, with an exclusive partnership with CrimsonLogic, has evolved over the years to become a reference in terms of Single Window applications. The software is available in "off-the-shelf" modules that are customized for each country environment.

SGS role in single electronic windows for trade. SGS typically deploys its TradeNet product through:

- The creation of an independent joint venture company formed by the public and private sectors—a private-public partnership (PPP)—to design, implement and operate the system
- A *Build, Operate, Transfer* (BOT) model where SGS builds and operates the single electronic window as a concession using TradeNet and then transfers it after pre-defined number of years
- The provision of initial capital investment if required
- Operation of the system and company on a commercial basis, with well-defined revenue streams to ensure sustainability and to finance continuous developments
- A gradual transfer of skills and know-how to government and local counterparts to build capacity and ensure sustainability
- Maximum possible use of existing infrastructure (such as existing networks or software applications) in order to avoid duplication and reduce costs.

Typical benefits of single electronic windows for trade

Typical benefits accruing to government through the TradeNet implementation of single electronic windows for trade include:

- Increased transparency and accountability encouraging trade compliance
- Substantial increase in government revenues
- Enhance port security through better tracking of containers and removal of paper documents
- Substantial capacity building of government departments involved
- Real-time accurate trade data and statistics
- Better use of government resources
- Foundations towards an efficient E-Government system.

Benefits for the trade community include:

- Accelerated cargo clearance
- Reduced duplication and errors
- Reduced cost of document handling
- One-stop 24-hour window for information exchange with government agencies
- Access to accurate statistics

- Development of knowledge and skills in information systems.

According to the experience of SGS in implementing successful single electronic windows the key factors for success are:

- Strong support from government
- Private sector involvement for project management
- A balanced selection of complementary partners with unique strengths
- Absolute conviction of key players that project can work
- A financing model that is self-sustainable
- Proven technology adapted to the country environment.

The SGS visit to Mongolia

The visit of the SGS experts involved an intensive schedule of meetings with members of the Working Group, technical staff of agencies involved in trade, and private sector stakeholders. The SGS team and EPRC met with members of the Working Group who were in country at the time of their visit and included meetings with:



- Mr. Ch. Saikhanbileg, Chair of the Working Group and Director of the Information and Communications Technology Agency (ICTA)
- Mr G. Gantumur, Director, Mongolian Agency for Standards and Metrology (MASM)
- Mr. S. Altangerel, Secretary of the Working Group and Director, IT Department, Mongolian Customs General Administration (MCGA)
- Mr. B. Enkhmandakh, Vice Minister, Ministry of Environment (MoE)
- Mr. D. Batbaatar, Director, and Mr. J. Enkhbayar, Vice Director, State Specialized Inspection Agency (SSIA)
- Mr. D. Daria, Director, Ulaanbaatar Customs Administration
- Mr. B. Lkhagvadorj, Unit Director, Customs Control Division
- Mr. P. Batkhuyag, General Director, International Freight Forwarding Company
- Exchange of information and ideas with technical staff of the MCGA, ICTA, SSIA, Ministry of Industry and Trade, MASM, and the Mongolian National Chamber of Commerce and Industry
- Freight forwarders and clearing agents.

Through sponsorship from the *Open Society Forum* and the project, the team also gave a public presentation on 27 February on the implementation of single electronic windows for trade, TradeNet, and the role of SGS in these deployments. English and Mongolian versions of the presentation are available for downloading at the EPRC website: www.eprc-chemonics.biz. Summing up their impressions after an intensive week of discussions with stakeholders, Philippe Isler, TradeNet Project Manager said that the SGS team was "very impressed with the

significant progress Mongolia has achieved in the last six months towards the implementation of a single electronic window to facilitate trade."

As the Working Group and stakeholders make further progress, and pending more detailed analyses, he also expressed SGS willingness and commitment to continue to explore mutually beneficial ways of collaboration in establishing a private-public company to implement a single electronic window for trade in Mongolia. Mr. Isler pointed out that, were this to happen, Mongolia would be the first country in Central Asia to implement such a system.

Next steps

In accordance with the resolutions of the Working Group meeting of 18 December, 2006, EPRC has assisted with the preparation of a draft document on a National Program to Establish a Single Electronic Window for Trade.

Under ICTA's coordination, the document is being circulated for comments and will be submitted at the next meeting of the WG for review and approval prior to submission to the Government in the first quarter of 2007. Besides laying out the principles of implementation, the document proposes the creation of private-public company to implement the single window.

Consistent with the action plan to establish the single window, and at the request of SGS, the project will also be working closely with customs to summarize trade transactions data for the last three years.

Mongolian wild blueberry jam on its way to Japanese markets

Almost a year after the initial inquiry, the first consignment of wild blueberry jam was shipped to Japan on 21 February. This first shipment culminated efforts of the project to link Mongolian producer "Beneduct" and Japanese health food importer and distributor "Pacific Trading".

EPRC identified a potential market for wild blueberries in Japan in late 2005. Blueberries, high in anti-oxidants, are well known for their medicinal properties and in demand from health conscious Japanese.



The project identified Beneduct Ltd, a well known domestic producer of jams and juices, as a potential supplier to the Japanese market. In May 2006, at the invitation of EPRC, representatives of the Japanese importer came to Mongolia to visit blueberry growing areas in the north and production facilities in Ulaanbaatar. At the end of the trip Pacific Trading signed a

purchase order for 60,000 jars, with the first deliveries due toward the end of 2006.

Blueberry picking began in August and in September food technologists from Japan arrived to check progress and provide technical advice on processing and quality procedures. The visit identified a number of challenges to be overcome for the trial order to meet Japanese standards. De-stemming proved the biggest hurdle; berries with stems still in place had always been acceptable on the domestic market but consumer tests in Japan showed that stems needed to be completely removed. New staff was recruited to accelerate the de-stemming process, but the production schedules slipped. EPRC assisted through the process to ensure that Japanese processing and quality standards were followed and new investment in equipment brought the project back on line. Following a final inspection in January 2007, the first consignment was cleared to go.

Ms. D. Jigjidmaa, EPRC Business Development Advisor who led project efforts in this transaction declared: "This may not be the biggest of orders, but the Japanese are known for their loyalty to suppliers and for building lasting business relationships. Hopefully, this order will be the first of many. It is also a good case study, showing exactly how much effort needs to be put into a successful export drive."

News of the export of Mongolian wild blueberry jam reached the President of Mongolia, Mr. N. Enkhbayar who was scheduled to meet the head of Pacific Trading, Mr. Norio Ide. Ms. D. Tungalag, Benedict CEO, a member of the Mongolia Trade Mission to Japan that the President heads, will make the introductions.

Mongolian Bankers Association to lead efforts to privatize credit information bureau

On 28 February, the Mongolian Bankers Association (MBA) convened a meeting of senior bank executives to examine options to improve the services of the existing Credit Information Bureau (CIB).



Nine commercial banks, two non-bank financial institutions, MBA executives and EPRC were represented at the meeting. Upon a project summary of current status, possible courses of action, and discussion, the participants agreed to form a Working Group to develop a Memorandum of Understanding (MOU) on the organization of a private sector-controlled company to provide credit information services. Members in attendance agreed that the Working Group should consist of five members representing

Bank of Mongolia (BoM), Xas Bank, Trade and Development Bank, Capitron Bank and the MBA.

It is anticipated that the MOU will be open to all current users of the CIB and that there will be a continuing Working Group until such time as the company is organized and a Board of Directors is elected. The continuing Working Group is mandated to:

- Prepare a business plan
- Negotiate the participation of BoM as a shareholder of the new company
- Recommend a strategic solution to the issue of privatization of CIB vs. startup of a new private credit bureau
- Recommend who will be allowed to use and/or become shareholders of the credit bureau
- Recommend a corporate structure
- Liaise and negotiate with potential strategic partners on technical assistance and financial participation
- Report progress to the signatories on a monthly basis.

Summary of current status of the Credit Information Bureau

In November 2005, the project sponsored a focus group meeting involving over 80 representatives of banks, non-bank financial institutions, public utilities, the Mongolian Bankers Association (MBA) and Bank of Mongolia (BoM). The purpose of the meeting was to hear a presentation of BoM on the Credit Information Bureau (CIB) and plans for its development, followed by an open discussion on the future of the bureau. The consensus was that the information being collected and shared was not appropriate, the business model was incorrect and that BoM should not be the operator. However, there was no clear consensus on who the operator should be, whether membership and disclosure should be mandatory or what the business model should be. At the meeting the BoM publicly declared its willingness to transfer the CIB to the private sector. At the request of the interested parties, BoM and private sector, EPRC undertook to provide assistance to conduct a feasibility analysis and provide options for consideration.

In early June 2006, Roger Nye, an internationally recognized expert on the development of CIBs in emerging markets arrived in Mongolia to:

1. Review the existing credit bureau, the requirements of the financial institutions and other credit granters, the legal and regulatory environment and recommend an appropriate business model and regulatory improvements required to meet credit information sharing requirements
2. Support the private sector and BoM by recommending ways and next steps to transition the existing credit information bureau to the private sector or establish a new bureau.

Over the course of near forty interviews, Mr. Nye found that the banking community unambiguously valued the information obtained from the CIB but that the CIB needed improvements, particularly in its technical capacity and depth of its data base. A large majority of stakeholders, including BoM and creditors, favored eventual privatization of the CIB. However, there was no consensus on the timing for privatization and no one bank or group of banks was willing to step forward and lead the process. Banks thought they should own the CIB but none were enthusiastic about committing share capital at this point. The MBA also declined to take charge.

Amongst other recommendations, Mr. Nye urged convening a working group of stakeholders to discuss and decide on the critical issues facing a private credit information bureau, such as:

- Identifying shareholders and the composition of membership
- Drawing up a business plan

- Determining when to privatize the CIB
- Assuring the security, timeliness, privacy and accessibility of data
- Engaging foreign technical assistance to assist with initial operations.

The rapid expansion of credit has now given new credence to these recommendations for action to mitigate banks' lending risk and a consensus appears to be emerging to improve credit information services. Through the MBA and the establishment of a working group, banks have now decided to take action and the project will seek to assist them in this endeavor.

General Department of National Taxation releases new tax return forms and instructions in English

With project assistance, General Department of National Taxation (GDNT) completed English versions of tax brochures for the personal income tax, corporate income tax and value-added tax laws.

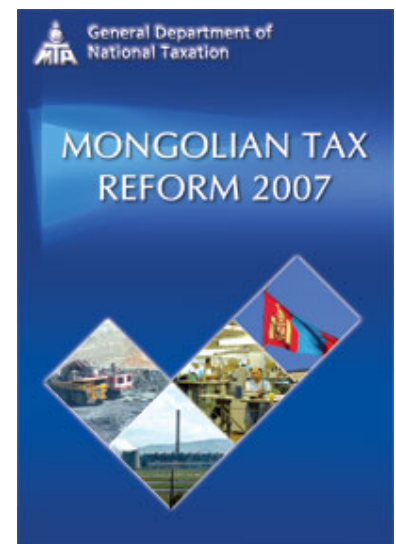
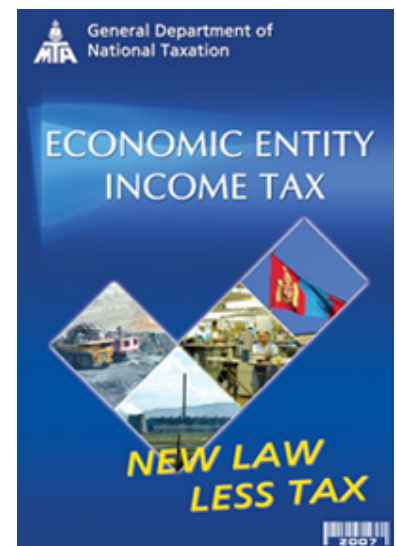
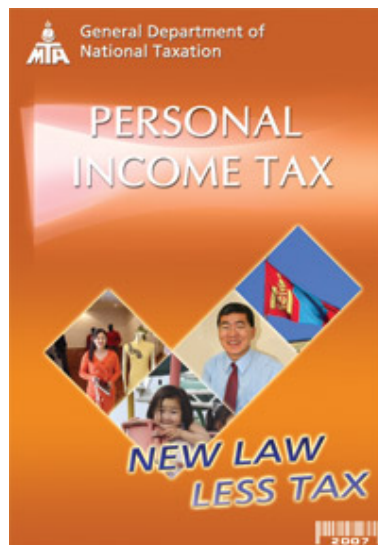
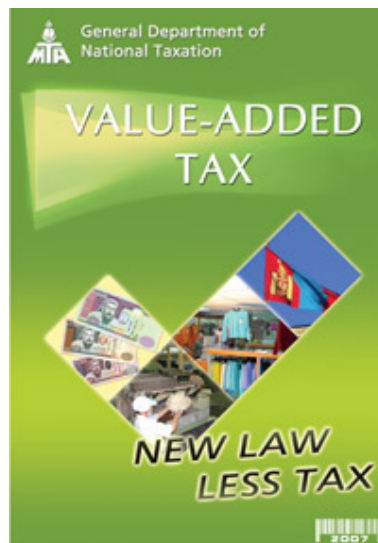
GDNT released the brochures in Mongolian in January and distributed 23,000 copies to taxpayers through its field offices. The brochures were the first informative documents prepared for taxpayers as part of the public education campaign for the new tax laws in effect from 1 January, 2007.

Key features of the brochures are the detailed matrices comparing the provisions of the old and the new laws and the revised tax reporting forms and instructions.

The brochures in English are critical for reaching out to investors and foreign taxpayers and informing them about recent changes in tax laws.

Electronic versions of the brochures in both Mongolian and English are now available online at the websites of GDNT (www.mta.mn) and the project (www.eprc-chemonics.biz).

With project assistance, GDNT has also made available a summary brochure on the new tax laws for English-speaking users. The brochure is available for downloading at the same websites.



This Newsletter is a monthly electronic publication of EPRC project activities. Comments, suggestions, and requests for inclusion or deletion from our mailing list can be forwarded to: Editor, EPRC Newsletter, by e-mail fbertoli@eprc-chemonics.biz or fax: (976-11) 32 78 25.