

MONGOLIA'S TRADE AND INVESTMENT ROADMAP 2019-2023



MINISTRY OF FOREIGN AFFAIRS
OF MONGOLIA



MONGOLIA'S TRADE AND INVESTMENT ROADMAP 2019-2023



MINISTRY OF FOREIGN AFFAIRS
OF MONGOLIA



International
Trade
Centre

Acknowledgements

The Mongolia's Trade and Investment Roadmap (TIR) was developed under the aegis of the Government of Mongolia, the leadership of the Ministry of Foreign Affairs (MFA), and the Mongolian National Chamber of Commerce and Industry (MNCCI). The document benefited particularly from inputs and guidance provided by the members of the public and private sector community that steered the formulation of the TIR. A Core Team was set up to lead the TIR design process. Core Team institutions are listed below.

Organization
Ministry of Foreign Affairs
Mongolian National Chamber of Commerce and Industry
National Development Agency
Ministry of Food, Agriculture and Light Industry
Ministry of Finance
Ministry of Mining and Heavy Industry
Ministry of Environment and Tourism
Ministry of Education, Culture, Science, and Sports
Ministry of Justice and Home Affairs
Ministry of Road and Transport Development
Ministry of Construction and Urban Development
Ministry of Labour and Social Protection
Mongolian Customs General Administration
Communication and Information Technology Authority
Intellectual Property Office of Mongolia
National Statistical Office of Mongolia
Mongolian Agency for Standard and Metrology
General Agency for Specialized Investigation
Energy Regulatory Commission
Mongolian Exporters' Association
Mongolian Customs Brokers Professional Association
National Security Council of Mongolia
Veterinary and Animal Breeding Agency
Agricultural Commodity Exchange of Mongolia
National Association of Mongolian Agricultural Cooperatives
Mongolian Wool and Cashmere Association
Mongolian Association of Leather Industry
Mongolian Meat Association
Mongolian National Association of Fruits and Berries

Organization
Development Bank of Mongolia
Mongolian Bankers Association
National University of Mongolia
Mongolian University of Science and Technology
Mongolian Co-operative Training and Information Centre
Centre for Policy Research
Economic Policy and Competitiveness Research Centre
Snow Fields Co.,Ltd
Mongolian Artisan Cheesemakers Union LLC
Monos Group
InfoSystems Co.,Ltd
TESO Corporation
MogolNoos Co.,Ltd
Mongol Shevro JSC

In addition, valuable suggestions and other contributions were received at various stages of the project from development partners, such as UNDP, WB, IFC, ADB, SDC, AVSF, GIZ, FAO, and JICA, among others. Prominent support was provided by the EU-TRAM project.

Technical facilitation, guidance and support for the process were provided by the project team of the International Trade Centre (ITC).

Name	Function	Organization
Ms. Marion Jansen	Chief, Office of the Chief Economist and Export Strategy	ITC
Mr. Anton Said	Head, Trade Strategy Development Programme	ITC
Mr. Eric Buchot	Project leader	ITC
Ms. Karla Solis	Project technical adviser	ITC
Mr. Carlos Griffin	International consultant	ITC
Mr. Paul Baker	International consultant	ITC
Mr. Derek Carnegie	International consultant	ITC
Ms. Hiba Batool	International consultant	ITC
Ms. Sengelmaa Dashnyam	Lead national consultant	ITC
Ms. Sarangua Batdorj	National consultant	ITC
Mr. Damba Galsandorj	National consultant	ITC
Mr. Jesús Alés	Graphic designer	ITC
Assisted by Ms. Candice White and Mr. Sriyansh Maheshwari		



Photo: © MFA

Foreword by Mr. Tsogtbaatar Damdin, Member of Parliament, Minister for Foreign Affairs of Mongolia

I am pleased to launch the “Trade and Investment Roadmap” which provides a comprehensive blueprint for Mongolia for the next 5 years to leverage our potential for economic growth. I want to express my appreciation to the International Trade Center for their valuable expertise and assistance.

This initiative comes at an opportune time as Mongolia is experiencing an all-time high foreign trade turnover thanks to the significant increase in commodities export. Mining has been at the forefront of Mongolia’s economic growth and the largest contributor to investment inflow and export volume. However, in order to advance more sustainable and inclusive economic growth, it is necessary for us to diversify our export products, export destinations and the economy as a whole.

The Government has adopted the “Mongol Export Program” in September 2018 with the aim to promote production and exports of non-mining sectors. The “Trade and Investment Roadmap” will perfectly supplement the objectives set out in the “Mongol Export Program” in supporting our domestic producers to export to the international markets around the globe.

The TIR outlines eight priority sectors which all have true potential to attract public and private investments and promote export in the non-mining sector. Sector-specific strategic guidance and practical recommendations for increasing value addition of the traditional sectors such as wool, cashmere, meat and dairy as well as developing the emerging sectors of renewable energy and ICT are included in the Plan of Actions of the TIR to increase their competitiveness on the international market.

The roadmap is based on findings from interdisciplinary assessments, surveys, numerous rounds of discussions and extensive consultations among all related stakeholders –government, private sector, NGOs, development partners and research institutions. Therefore, I extend my appreciation to all who contributed to the formulation of the roadmap and thank the International Trade Center for their expertise and assistance. I am certain that the same spirit of collaboration in developing the Roadmap will continue through the implementation period.

I am looking forward to working together toward our shared goal.

Foreword by Ms. Arancha González, Executive Director, ITC



Photo: © ITC

Mongolia is a country with great potential to scale up and deepen its trade and investment portfolio. Rich in heritage and culture and with a young and motivated population, Mongolia has the right ingredients to grow through trade and greater small and medium-sized enterprise (SME) competitiveness. With about two-thirds of its population under 35 years of age, investing in youth and creating opportunities for sustainable employment must be a priority.

However, despite its rich mineral resources, agricultural assets, and well-educated population, Mongolia's full trade potential remains untapped. With a narrow range of exports and destination markets, there is a need to diversify what the country produces and expand its range of trading partners. This limited export basket is particularly sensitive to price fluctuations, as can be seen in the case of minerals.

The key to this is to invest in SMEs and help to address the structural challenges in the business ecosystem that keep them from expanding through trade. This entails attention to access to finance where an underdeveloped financial system and difficulties in meeting lending requirements place a cap on the finance that these small businesses can utilise. Weak certification systems for international standards and a mismatch between the education system of today and the skills required for the jobs of tomorrow are also critical issues that need to be prioritised.

This Trade and Investment Roadmap charts a new path to overcome those challenges. It focuses on eight sectors: cashmere, yak and camel wool, meat and dairy products, leather, information and communications technology, tourism, renewable energy, and processed minerals.

These sectors have been strategically selected after discussion with all partners and deep analysis of where the greatest potential is to attract investment and meet global consumer demand. They represent a blend of what is uniquely Mongolian, with an important dose of environmental sensitivity.

But businesses in these sectors will only thrive with a reinvigorated business environment. Reforms to trade and investment policy, improved trade facilitation, more strategic trade and investment promotion, better access to finance, investment in quality management and reformed skills development programmes are all going to be the areas where attention must be given.

This is why, in addition to improving policies, the roadmap emphasises building strong trade and investment support institutions that help firms to meet market requirements and sustain trade relationships. Through supportive business ecosystems, companies can improve their capacities for trade, successfully innovate, and venture increasingly into knowledge-based sectors.

Mongolia is poised for success. ITC is invested in helping the country to realise the potential of its emerging export sectors and its emerging entrepreneurs: the youth and women.

The Mongolia Trade and Investment Roadmap is a partnership with the public, private and civil society leaders of Mongolia. This collaboration is essential for success and ITC stands ready to work with Mongolia towards a fully-fledged National Export Strategy.

Table of Contents

Acknowledgements	ii
Foreword by Mr. Tsogtbaatar Damdin, Member of Parliament, Minister for Foreign Affairs of Mongolia	iv
Foreword by Ms. Arancha González, Executive Director, ITC	v
Acronyms	vii
EXECUTIVE SUMMARY	1
GROWTH AND DEVELOPMENT THROUGH TRADE AND INVESTMENT	1
VISION AND STRATEGIC OBJECTIVES	3
PRIORITY SECTORS AND TRADE AND INVESTMENT SUPPORT FUNCTIONS	4
WHERE ARE WE NOW?	7
MACROECONOMIC ENVIRONMENT	7
TRADE PERFORMANCE	9
INVESTMENT PERFORMANCE	12
WHERE DO WE WANT TO GO?	15
DEVELOPMENT PLANNING	15
TRADE AND INVESTMENT SUPPORT NETWORK	16
WHAT PREVENTS US FROM GETTING THERE?	21
HOW DO WE GET THERE? THE WAY FORWARD	23
PRIORITY SECTORS	25
TRADE AND INVESTMENT SUPPORT FUNCTIONS	45
IMPLEMENTATION MANAGEMENT FRAMEWORK	58
PLAN OF ACTION	61
ANNEX: MONGOLIA'S COMPETITIVENESS CONSTRAINTS (3C FRAMEWORK)	81
COMPETE	81
CONNECT	82
CHANGE	83
REFERENCES	85

Acronyms

B2B	Business to business	MNCCI	Mongolian National Chamber of Commerce and Industry
CITA	CAREC Integrated Trade Agenda	MOET	Ministry of Environment and Tourism
EPA	Economic Partnership Agreement	MOFALI	Ministry of Food, Agriculture and Light Industry
EU	European Union	MoJHA	Ministry of Justice and Home Affairs
FDI	Foreign Direct Investment	MoRT	Ministry of Road and Transport
FTA	Free Trade Agreement	MULS	Mongolian University of Life Sciences
GASI	General Agency for Specialised Inspection	MUST	Mongolian University of Science and Technology
GDP	Gross Domestic Product	NDA	National Development Agency
GSP	Generalized System of Preferences	NUM	National University of Mongolia
GVCs	Global value chains	OT	Oyu Tolgoi
HDI	Human Development Index	R&D	Research and Development
ICT	Information and Communications Technology	SEZ	Special Economic Zone
IMF	International Monetary Fund	SMEs	Small and Medium Enterprises
IT	Information technology	TFA	Trade Facilitation Agreement
ITC	International Trade Centre	TIR	Trade and Investment Roadmap
MCCBA	Mongolian Customs Consultants and Brokers Association	TISI	Trade and Investment Support Institutions
MCGA	Mongolian Customs General Administration	TISN	Trade and Investment Support Network
MCGF	Mongolian Credit Guarantee Fund	TVET	Technical and Vocational Education and Training
MECSS	Ministry of Education, Culture and Science	WTO	World Trade Organization
MFA	Ministry of Foreign Affairs		

List of Figures

Figure 1. TIR strategic framework	2
Figure 2. Annual real GDP growth rate, 2000-17	7
Figure 3. Real and nominal effective exchange rates, 2000-18 (December 2000 = 100)	8
Figure 4. Sector contribution to growth, 2011-17	8
Figure 5. MNG GDP, exports and imports (A) and real GDP growth 2011 to 2018Q2 (B)	9
Figure 7. Mongolia's exports, by region	10
Figure 8. Mongolia's exports, by sector	11
Figure 9. Exports of parts and components, 2002-2016	11
Figure 10. Probability of export survival, 2002-2016	12
Figure 11. FDI inflows, 2000-17	13
Figure 12. FDI stocks by sector and country of origin, 2017	13
Figure 13. Snapshot of Mongolia's national policy framework	15
Figure 14. Types of TISIs in Mongolia	16
Figure 15. Coordination between TISIs	19
Figure 16. Markets with potential for Mongolia's exports of cashmere garments	27
Figure 17. Knitting and weaving capacity and utilisation of yak and camel producers (pcs) in 2014	29
Figure 18. Meat production by processing type, 2006-2015	31
Figure 19. Challenges faced by herders and farmers in running a dairy business	34
Figure 20. Top potential markets for Mongolian leather	35
Figure 21. ICT environment in Mongolia, 2017	38
Figure 22. Visitor exports and international tourist arrivals in Mongolia	40
Figure 23. Markets with potential for Mongolia's exports	46
Figure 24. Trade Facilitation Indicators, 2017	48
Figure 25. Percent of Mongolian firms exporting at least 10% of sales, by size, 2013	49
Figure 26. Borrowing by firm size, 2013	52
Figure 27. Percent of firms with internationally-recognised quality certifications by size, 2013	53
Figure 28. Gross enrolment rates by education level	55

List of Tables

Table 1. Examples of services offered by major TISIs	17
Table 2. Examples of TISIs' self-identified strengths, weaknesses, opportunities, and threats	18
Table 3. Capacity self-assessment	20
Table 4. Summary of key challenges	21
Table 5. Mongolia's bilateral investment treaties	45
Table 6. Trade and investment policy: Key challenges and TIR actions	47
Table 7. Trade facilitation: Key challenges and TIR actions	49
Table 8. Trade and investment promotion: Key challenges and TIR actions	50
Table 9. Access to finance: Key challenges and TIR actions	52
Table 10. Quality management: Key challenges and TIR actions	54
Table 11. Skills development: Key challenges and TIR actions	56

List of Boxes

Box 1. Oyu Tolgoi mining project	12
Box 2. Key messages	14
Box 3. Activities on TISI programmes and services	18
Box 4. Activities on TISI capacity building	19
Box 5. Mongolia National Chamber of Commerce and Industry	20
Box 6. Activities on institutional development activities	20
Box 7. Investment in the cashmere sector	27
Box 8. Investment in the yak and camel wool sector	30
Box 9. Investment in the meat and processed meat subsector	32
Box 10. Investment in the dairy products subsector	35
Box 11. Investment in the leather sector	37
Box 12. Investment in the ICT sector	39
Box 13. Investment in the tourism sector	41
Box 14. Investment in the renewable energy sector	42
Box 15. Investment in the processed minerals sector	44
Box 16. Towards a green economy	44
Box 17. Taking action to unleash the full potential of mongolian women exporters	57



EXECUTIVE SUMMARY

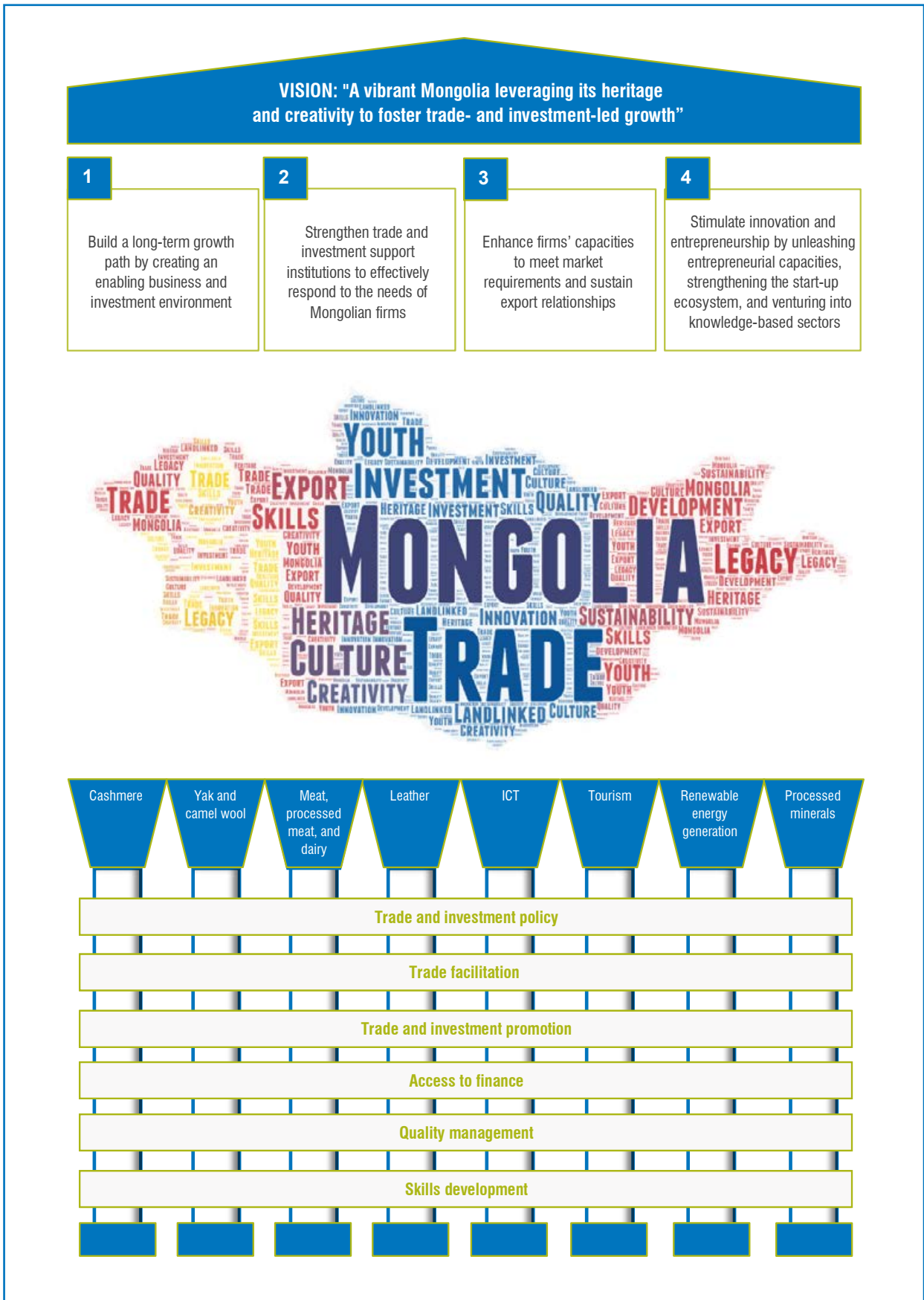
GROWTH AND DEVELOPMENT THROUGH TRADE AND INVESTMENT

While GDP growth rates have reached double digits in recent years, Mongolia's exports have grown faster, fuelled by investment in mining projects. This has yielded a number of socio-economic dividends for the country, though growth has been variable as a result of price fluctuations and overdependence on mineral exports. International openness and its benefits are spread unevenly, and the full potential of trade and investment has yet to be realised.

As a land-locked country with a small population, spatially dispersed centres of production, and a heavy dependence on finite mineral wealth, Mongolia's clearest path to achieving its national development goals is in boosting the scale and value of exports, particularly among SMEs. Attracting investment will be equally critical, to increase value-added in mineral, light manufacturing, and agricultural sectors, and to also enable the development of services and other sectors serving diversified export markets. Mongolia's young and well-educated workforce offers a competitive starting point to push for innovation-led growth. Mongolia must embrace trade and investment to reshape long-term growth.

Mongolia's government intends to work with the private sector to firmly integrate trade and investment as a central pillar in its development agenda as a means of fostering overall growth. The overarching and cohesive strategy of the national Trade and Investment Roadmap (TIR) reinforces policy convergence, institutional alignment, and private sector support. Figure 1 outlines the TIR's strategic framework.

Figure 1. TIR strategic framework



VISION AND STRATEGIC OBJECTIVES

The overall vision of the TIR, **“A vibrant Mongolia leveraging its heritage and creativity to foster trade- and investment-led growth”** is supported by four strategic objectives, concerned with building an enabling business and investment environment, meeting the needs of firms through the strengthening of trade and investment support institutions, enhancing firm capacities more generally, and stimulating innovation and entrepreneurship.

<p>STRATEGIC OBJECTIVE 1: BUILD A LONG-TERM GROWTH PATH BY CREATING AN ENABLING BUSINESS AND INVESTMENT ENVIRONMENT</p>	<p>This strategic objective works towards building credibility and confidence in the development and implementation of trade and investment policies that are aligned with development goals and support long-term growth in Mongolia. Actions are to be taken under the TIR to reform and expand policies, institutions, services, and staff capacities within the government and among private sector partners. Openness and transparency in policy design and implementation are fostered through the TIR by formalising consultation and coordination with the private sector.</p>
<p>STRATEGIC OBJECTIVE 2: STRENGTHEN TRADE AND INVESTMENT SUPPORT INSTITUTIONS TO EFFECTIVELY RESPOND TO THE NEEDS OF MONGOLIAN FIRMS</p>	<p>This strategic objective aims at strengthening the capacities of trade and investment support institutions (TISIs) to better support the internationalisation of Mongolian firms, the attraction of foreign firms, and the linking of the two within Mongolia. Actions to be taken under the TIR ensure greater coherence among institutions and greater value in the services provided within their areas of responsibility, including trade promotion, investment promotion, and new efforts in trade facilitation. The TIR also fosters improvements to quality management systems.</p>
<p>STRATEGIC OBJECTIVE 3: ENHANCE FIRMS' CAPACITIES TO MEET MARKET REQUIREMENTS AND SUSTAIN EXPORT RELATIONSHIPS</p>	<p>To better prepare firms to benefit from international trade and investment opportunities, the TIR fosters greater private sector organisation and coordination in Mongolia. The TIR also includes actions to be taken to better align education systems with the needs of the private sector in order to address the skill gaps that prevent SMEs from realising their potential participation in global value chains. Firms' awareness on market access issues, international marketing, and other internationalisation options are raised through improved access to information and enterprise-level support.</p>
<p>STRATEGIC OBJECTIVE 4: STIMULATE INNOVATION AND ENTREPRENEURSHIP BY UNLEASHING ENTREPRENEURIAL CAPACITIES, STRENGTHENING THE START-UP ECOSYSTEM, AND VENTURING INTO KNOWLEDGE-BASED SECTORS</p>	<p>The TIR seeks to stimulate and nurture innovation and promote the diversification of the economy through trade and investment. Business start-ups are supported through the alleviation of regulatory hurdles and the provision of targeted support services through incubators and accelerators. The roadmap actively promotes an entrepreneurial mindset in the country by mainstreaming entrepreneurship awareness and entrepreneurial behaviours in Mongolia's educational system. It enables mechanisms for supporting knowledge transfer linkages to benefit SMEs and facilitate their moving up the technological ladder and their integration into international value chains. The TIR identifies the actions needed to attract FDI in knowledge-based and technologically intensive sectors, and to stimulate growth in these sectors.</p>

PRIORITY SECTORS AND TRADE AND INVESTMENT SUPPORT FUNCTIONS

The TIR priority sector selection exercise demanded focus on a number of quantitative and qualitative analytical parameters. In the medium term, opportunities for export expansion and investment growth come primarily from animal products (cashmere; yak and camel wool; meat, processed meat, and dairy; and leather), services sectors (information and communication technology [ICT] and tourism), and sectors building on Mongolia's natural resources (renewable energy and processed minerals).

- **Cashmere:** Cashmere is a luxury good with a high value-to-volume ratio, making it an attractive export product. Mongolia possesses natural competitive advantages in cashmere production, as its climate and terrain are well-suited for raising cashmere goats. The sector holds a significant place within the Mongolian economy, especially in terms of employment creation, production, and international trade. With a growing global market, government and development partners' support, and the domestic industry's rapid expansion, conditions are favourable for Mongolia to increase its exports of value-added cashmere products.
- **Yak and camel wool:** With similar properties to cashmere, yak and camel wool outperform many other fibres in terms of quality and warmth, and can be produced with less negative environmental impacts than cashmere. As the global demand for traceable and sustainably produced goods rises, the development of the yak and camel wool sector could contribute to economic growth, while preserving the country's natural and cultural heritage. Moreover, there are considerable opportunities in this sector for domestic value addition.
- **Meat, processed meat, and dairy:** A long tradition of animal husbandry practices and one of the highest per capita livestock ratios in the world are among the main competitive advantages of Mongolia in the meat and processed meat subsector. While livestock plays an important role in the economy and production exceeds domestic demand, concerted efforts are needed to address quality and food safety issues in order to improve export prospects. The dairy subsector is another important driver of the Mongolian economy. In particular, cheese produced using traditional techniques has the potential to become a sizeable high-end export category. Increased and modernised cheese production can also foster growth in ancillary sectors and activities, including whey processing, local winter fodder production, and the selective breeding of more productive dairy animals.
- **Leather:** Growing international demand and Mongolia's abundant livestock population make leather a promising export sector. The leather industry is socio-economically significant, employing relatively high numbers of youth and women, particularly in processing activities. Moreover, the sector provides opportunities for domestic value addition through the processing of raw materials and production of leather goods.
- **ICT:** Since its liberalisation in the early 1990s, Mongolia ICT sector has grown rapidly. With relatively well-developed ICT infrastructure and a young and well-educated population, the sector has substantial potential to attract investment. The further development of the sector can produce new service export opportunities for Mongolian firms, while the continued integration of ICT in other areas of the economy can improve productivity and competitiveness.
- **Tourism:** Mongolia's unique natural landscapes, culture, and prevalent nomadic lifestyle are strong assets for its tourism sector, making it an attractive destination for outdoor and adventure sports including trekking, horse and camel riding, hunting, and fishing. The sector is increasing in importance domestically and can be an engine for inclusive economic growth and poverty reduction in the country, if developed in accordance with sustainable development principles and guided by national policy objectives.
- **Renewable energy:** With vast and inexhaustible wind and solar power resources, Mongolia is attracting investment in renewable energy generation. Its growth is also being promoted by the government to supply clean electricity, improve energy security, and contribute to climate change mitigation. Mongolia's tremendous renewable energy potential positions the country to play a major role in the creation of an Asian Super Grid, by exporting green energy to other countries in the region, including China, the Russian Federation, Japan, and the Republic of Korea.
- **Processed minerals:** Mongolia's abundant mineral resources and location close to the world's largest consumer of mining products have made the mining sector a central part of the economy and a major source of exports. However, activity in the sector is mostly limited to the extraction of raw materials and primary processing, with low levels of transformative activities within the country. Leveraging Mongolia's vast resource endowment, greater value addition can be fostered in the processed mineral sector, especially in copper concentrates processing and the refining of copper and gold, among other areas.



Photo: ©Ministry of Foreign Affairs

In addition to the priority sectors, six trade and investment support functions were identified as being particularly important to enable export development and attract investment across all sectors in Mongolia. Three of these support functions are directly related to addressing challenges in connecting with international markets and opportunities (trade and investment policy, trade facilitation, and trade and investment promotion), while three address challenges affecting firm capacities relevant to trade and investment (access to finance, quality management, and skills development).

- **Trade and investment policy:** Mongolia has become a more outward-oriented economy as a result of international agreements and domestic reforms. However, further efforts are needed to strengthen trade and investment policy to improve predictability, increase the effectiveness and adequate implementation of international agreements, and empower institutions to formulate and deliver national policy ambitions.
- **Trade facilitation:** The TIR supports the implementation of Mongolia's commitments, the simplification of the regulatory framework so exporters benefit from modern and efficient procedures in cross-border systems, and the implementation of a well-coordinated national single window.
- **Trade and investment promotion:** The capacities and coordination of trade and investment support institutions (TISIs) are to be bolstered under the TIR with the aim of fostering product and market diversification, greater participation of Mongolian firms in global value chains, and more in-country value-addition.
- **Access to finance:** Improved access to financial services would enable Mongolia's SMEs to begin or expand exporting, increase investment, enhance productivity, respond to new trends and market requirements, and adhere to new and advanced product standards.
- **Quality management:** Strengthening quality and compliance with international standards are essential for export growth and boosting the competitiveness of Mongolian firms, as well as for attracting new investment. By addressing these issues, the TIR will enable exporters to further diversify into new markets and products and to build on business relationships in existing markets.
- **Skills development:** While Mongolia has a relatively highly-educated population, greater efforts are needed to enhance the alignment of education and training programmes with private sector needs and to support entrepreneurship education.

The achievement of the TIR's vision depends on the implementation of its Plan of Action. High-level endorsement of the TIR is required to mobilise domestic and international support and a coordination structure for implementation activities, under the leadership of a high-level council, is needed. The use of monitoring tools, the sensitisation of implementing institutions, private sector participation, resource mobilisation, and communication planning are critical to the management and implementation of the TIR.



Photo: CC-Public Domain



Photo: Mongolian cashmere, ©Gobi Yaama brand

WHERE ARE WE NOW?

The following trends have been observed regarding Mongolia's macroeconomic environment and trade and investment performance. While significant improvements have been made, the actions taken under the TIR

address important remaining challenges in order to drive inclusive and sustainable growth through increased and diversified exporting and attraction of investment.

MACROECONOMIC ENVIRONMENT

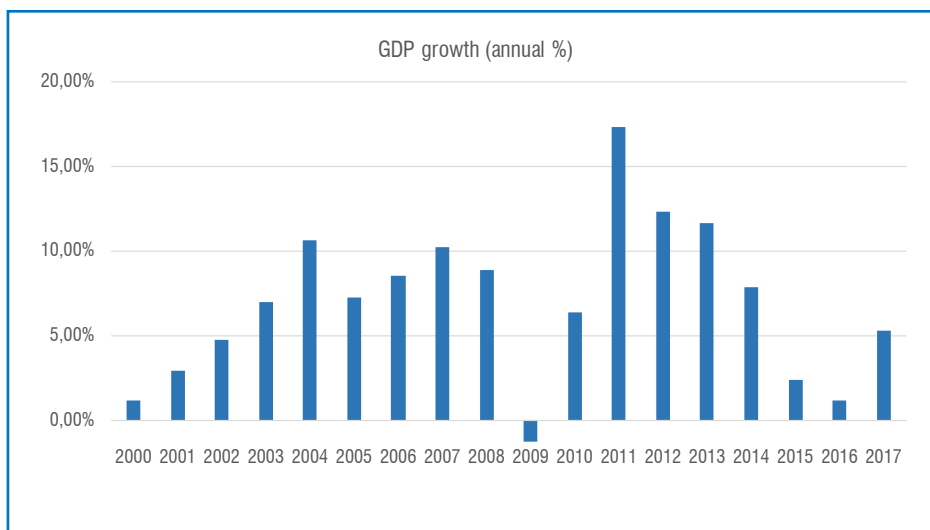
Mongolia's economic growth has been prone to repeated boom-busts cycles. While GDP growth has been strong, it has also been volatile, partly as a result of the economy's high degree of reliance on the mining sector. A high rate of growth in 2011 accompanied a mining boom in the country, but was followed by slower growth with the decline in commodity prices, an investor-state

dispute settlement conflict, and a decline in FDI.¹ Recovering from this, GDP growth of 5.3% in 2017 was buoyed by coal exports, increased FDI driven by the mining sector, and improved business confidence.²

1.– KPMG (2016). Investment in Mongolia. (p.10)

2.– World Bank (2019). The World Bank in Mongolia. Available from : <http://www.worldbank.org/en/country/mongolia/overview>

Figure 2. Annual real GDP growth rate, 2000-17



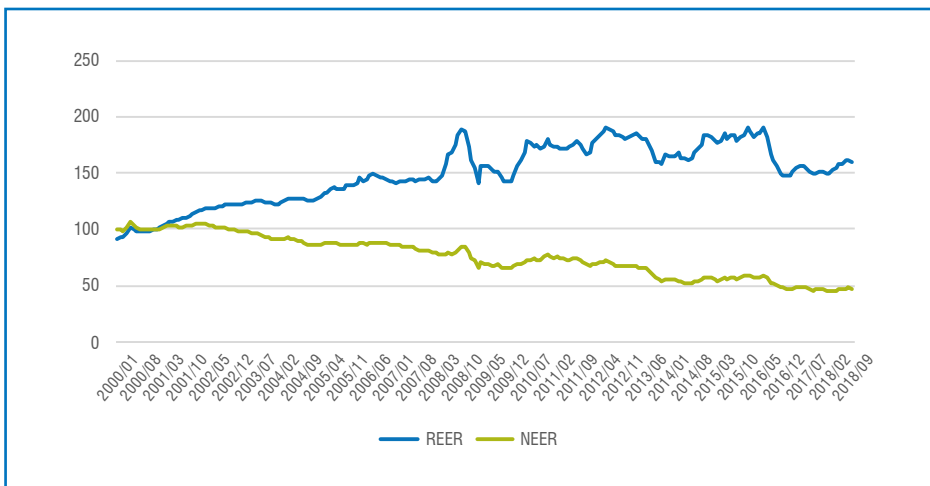
Source: World Bank.

Mongolia's real effective exchange rate has been relatively volatile. Appreciating beginning in 2008, due to mineral exports, the Mongolian tugrik has declined more recently as disinvestment pushed down its value against the US dollar. The tugrik hit historical lows in 2016, becoming the weakest performing currency in the world. While inflation remains subdued compared with the double-digit rates seen in 2014, monthly year-over-year change in the consumer price index levels have recently risen from low and negative levels in 2016 to exceed 5% since August 2018.

Structural changes in the economy are favouring industry and services. The services sector is the largest in Mongolia, accounting for 46.5% of gross value added in 2017. The services sector has also gained importance in terms of employment, and accounted for 50.5% of employment in 2017.³ While mining and quarrying has made the largest contribution to growth in gross value added in three of the past seven years. Agriculture, forestry, and fishing has declined as a share of GDP since the mid-1990s.

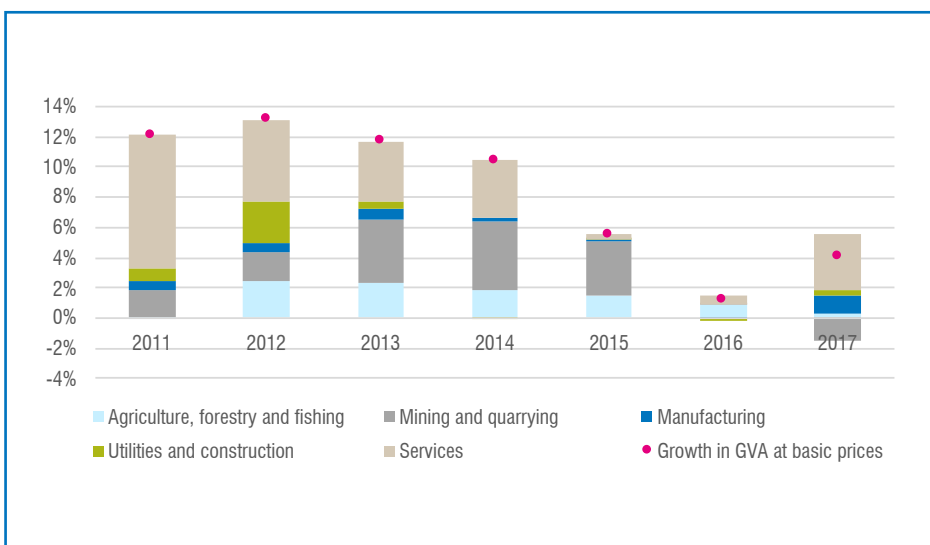
3.- World Bank (2019). World Bank Data. <http://data.worldbank.org>

Figure 3. Real and nominal effective exchange rates, 2000-18 (December 2000 = 100)



Source: Bank of Mongolia.

Figure 4. Sector contribution to growth, 2011-17



Source: Mongolian Statistical Information Service.

Improvements in social development have been made, but economic growth has not benefitted all. Improvements in living conditions – particularly in education and per capita income – have been reflected in Mongolia’s improved Human Development Index (HDI) ranking in recent years, which stood at 92nd out of 151 countries in 2018. Despite these improvements, Mongolia has one of the highest unemployment rates in Asia in 2017, at 7.3%. Poverty declined with economic growth over 2010-14, but has since increased. Poverty rates are highest in rural areas, especially in the eastern region of Mongolia, where the poverty rates exceed those of Mongolia as a whole.



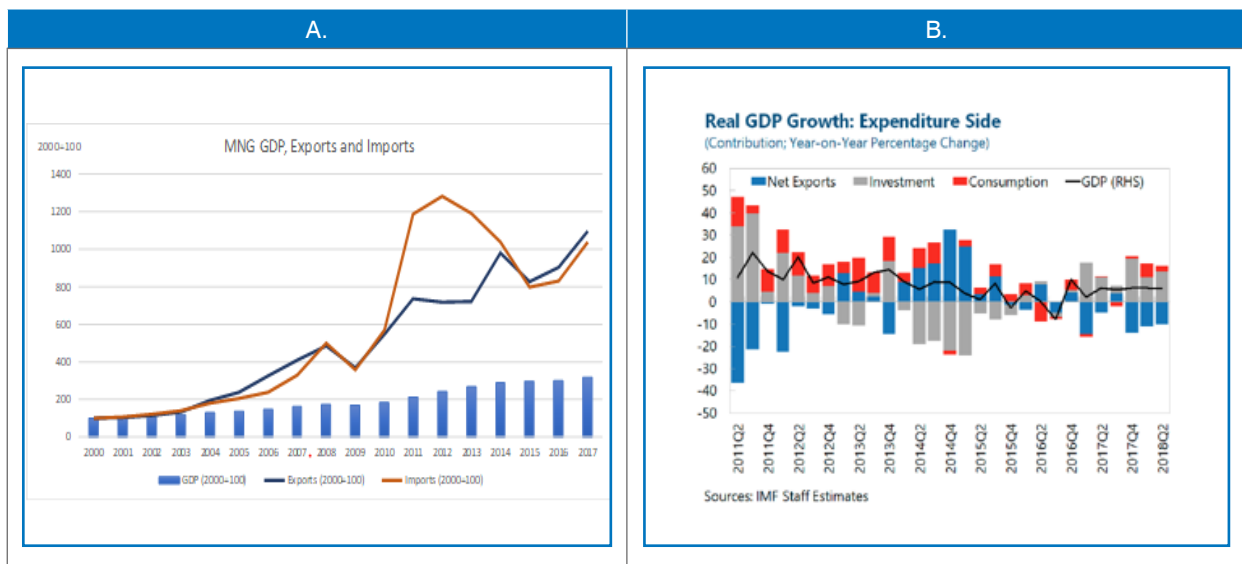
Photo: (cc) wikimedia commons

TRADE PERFORMANCE

Trade remains an engine for growth, although significantly pushed by the mining sector. While Mongolia’s GDP has grown up in double digits, trade has grown significantly faster, evident from the trade-to-GDP ratio of 116.6% recorded in 2017. The trade growth can largely be attributed to the development of the Oyu Tolgoi mining project, which boosted the exports of mineral products to China. Although the outward orientation makes

the economy vulnerable to changes in commodity prices, and produces major fluctuations in GDP, trade-induced growth will yield more sustainable results over the long term. The extractives sector, as in many developing countries, has yet to generate deeper linkages with local firms and the local financial sector. Instead, an enclave economy of foreign firms continues to develop.

Figure 5. MNG GDP, exports and imports (A) and real GDP growth 2011 to 2018Q2 (B)

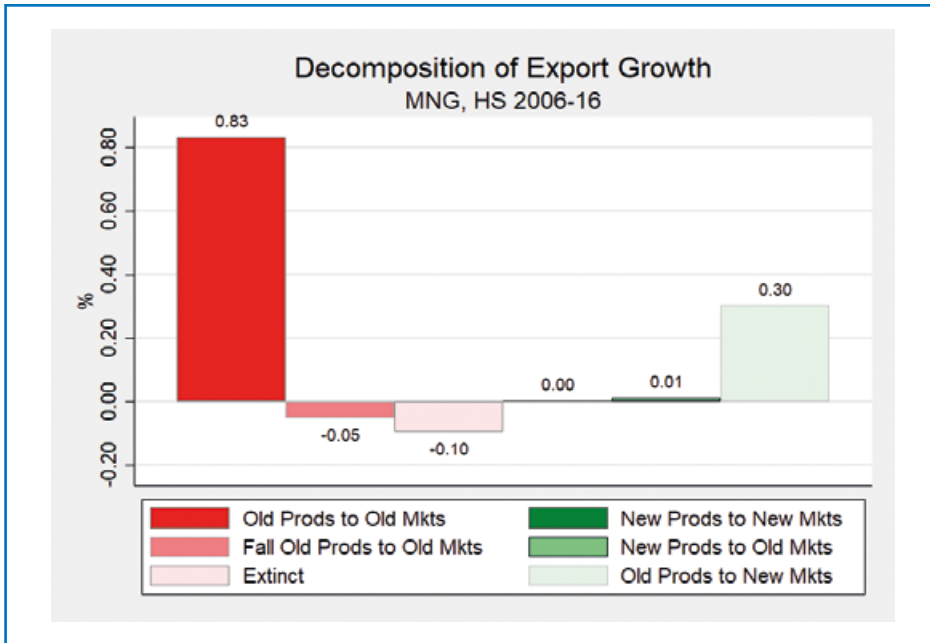


Source: IMF World Economic Outlook Database, accessed August 2018; World Bank World Development Indicators, Accessed August 2018; ITC calculations; IMF (2018) Country Report.

Mongolia has witnessed growth in traditional products rather than innovating and diversifying its products and markets. Most of the export growth comes from exporting old products to old markets – mostly mineral exports

to China (and somewhat Russian Federation). There is zero percent of new products to new markets and only 0.01% of new products to old markets (Figure 6).

Figure 6. Decomposition of export growth



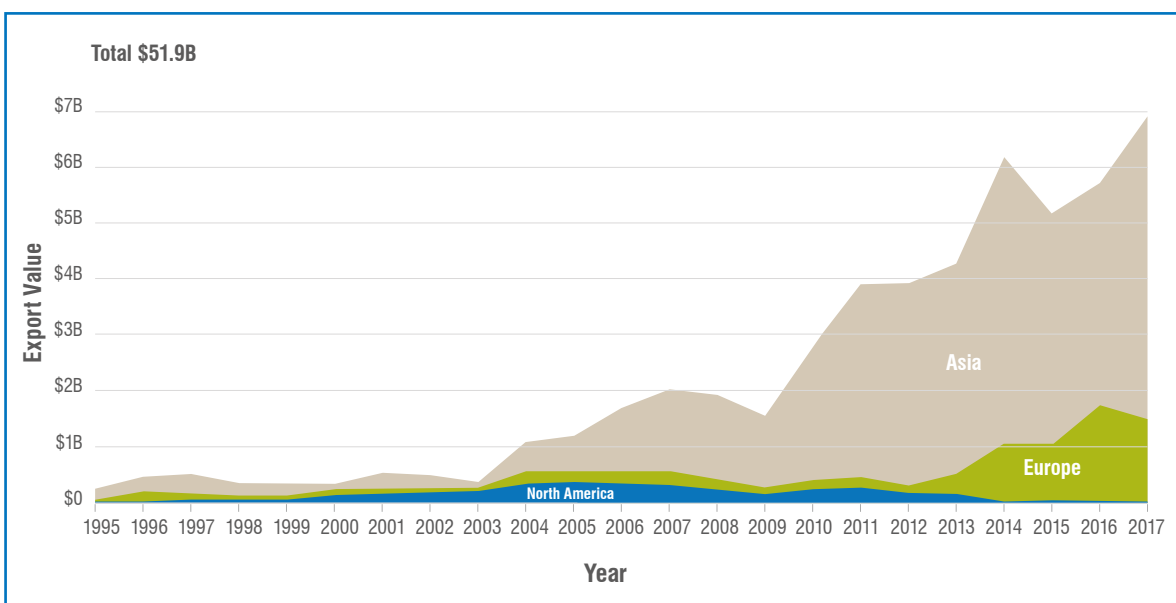
Source: ITC Calculations.

Mongolia's trade with a handful markets frustrates the returns of trade and increases its risks. China dominates Mongolia's export basket and imported USD 5.2 billion (84.2%)⁴ worth of Mongolian products in 2017. Switzerland became Mongolia's second-largest export

destination in 2011 following the increase in gold production. The Economic Partnership Agreement (EPA) with Japan represents an opportunity for export market diversification, especially in SME-intensive sectors, such as cashmere and other animal hair fibres. The EU market remains under-exploited despite the Generalized System of Preferences plus (GSP+) scheme.

4.- Mirror data.

Figure 7. Mongolia's exports, by region



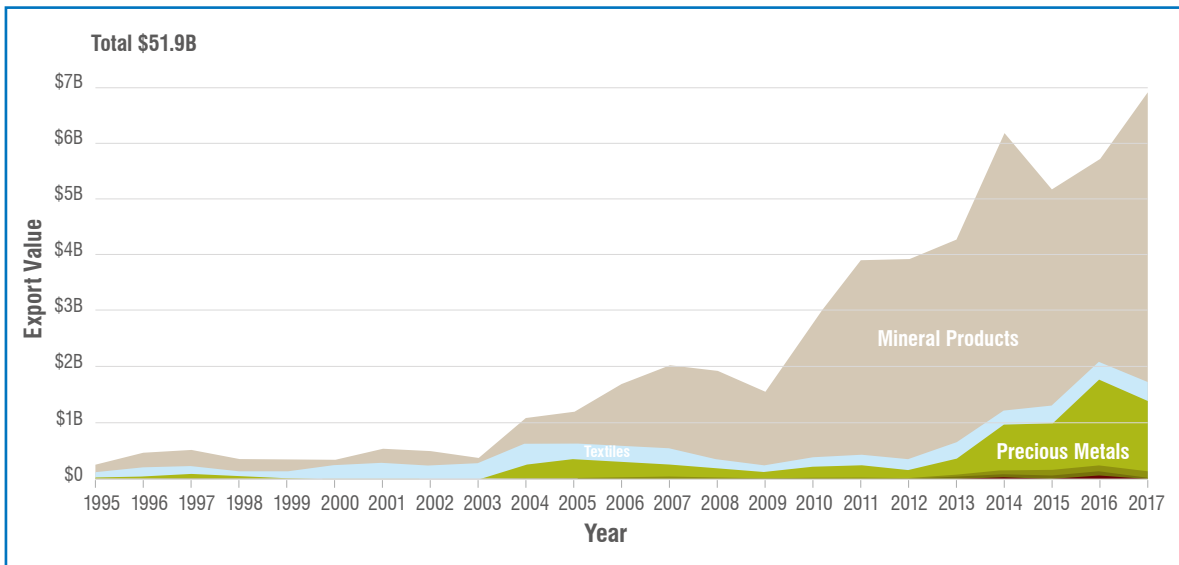
Source: Massachusetts Institute of Technology (MIT) Media Lab.

Large and increasing concentration of trade in mineral products render the Mongolian economy vulnerable to fluctuations in commodity prices. Minerals products account for about 90% of the value of Mongolian exports, with 90% of these being exported to China.⁵ The lack of diversification has contributed to a volatile exchange rate and cycles of boom and bust as discussed under the macroeconomic analysis.

Mongolia has low level of participation in global value chains (GVCs). Mongolia's exports are focused on primary products, though it does export intermediate processed products on much smaller scales (Figure 9). With the exception of precious stones, which in Mongolia's case consists of exports of gold, few products with a 1% share of its exports are classified as intermediates.

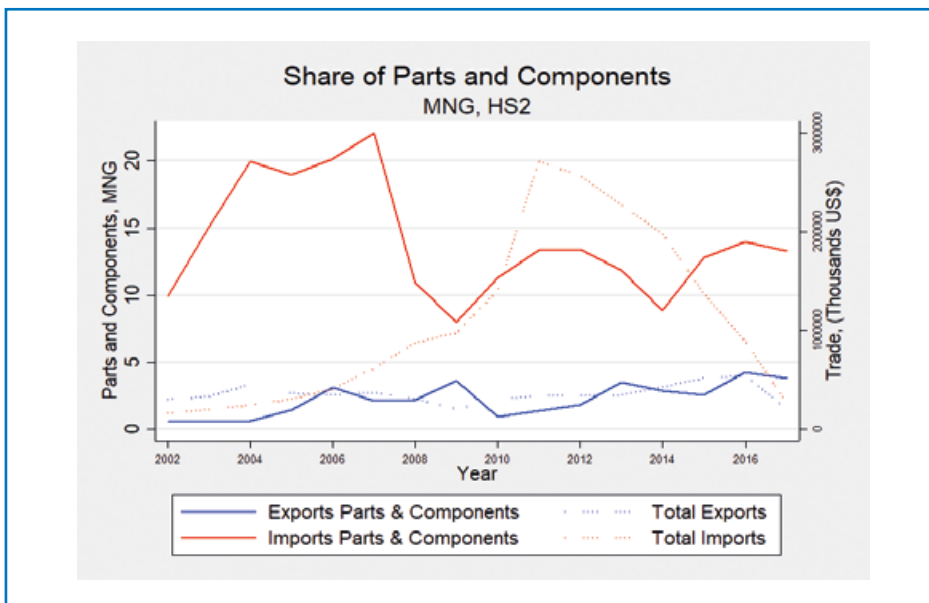
5.- IMF (2015). From Natural Resource Boom to Sustainable Economic Growth: Lessons for Mongolia. (p.4)

Figure 8. Mongolia's exports, by sector



Source: MIT Media Lab.

Figure 9. Exports of parts and components, 2002-2016



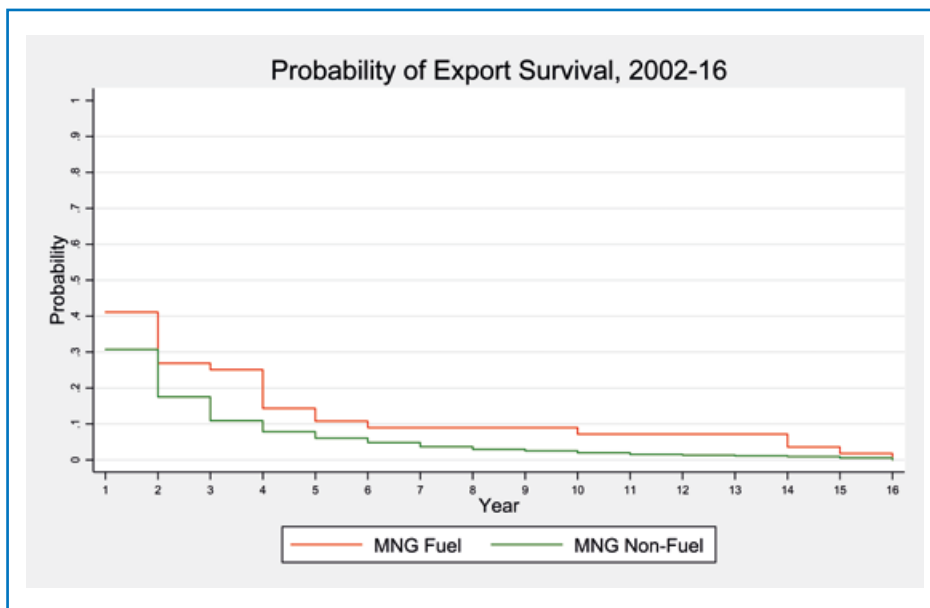
Source: ITC calculations.

Mongolia's export survival rate is extremely low. This signals underlying issues in country's business environment, problems with access to finance, poor infrastructure, and low quality and reliability of products. Due to these problems, firms have difficulty in reaching new markets, introducing new products, and generally keeping export relationships alive.

Mongolia has the opportunity and the capacity to diversify its export basket, moving away from the dependency on mineral products and few markets. Non-traditional

products with high potential include fine animal hair, cashmere, meat, nuts, and wheat. However, to fully reach such potential, improvements in the compliance on international sanitary and phytosanitary (SPS) measures and the overall national quality infrastructure should be made. In terms of export markets, Vietnam, Chinese Taipei, and Indonesia represent interesting markets for Mongolia to target its trade promotion efforts. In addition, the large potential in EU markets indicates that the GSP+ scheme, through which Mongolia benefits from preferential treatment, is under-exploited.

Figure 10. Probability of export survival, 2002-2016



Source: ITC calculations.

INVESTMENT PERFORMANCE

In the last decade, FDI inflows have been large but volatile. FDI inflows increased in the late 2000s as the government opened the mining sector to foreign investment. One such massive undertaking, the Oyu Tolgoi (OT)

mining project, is one of the world's largest extractive industrial projects and contributed significantly to inflows, raising Mongolia's profile as an investment destination.

Box 1. Oyu Tolgoi mining project

The multi-billion dollar Oyu Tolgoi copper and gold mining project being jointly implemented by the government and several foreign investors led by Rio Tinto is one of the world's largest extractive industrial projects. It plays a major role in Mongolia's economy. OT has 1,146 suppliers in total, which creates 55,000 direct and indirect employment positions. According to its draft investment plan, as proposed by initial

investor Ivanhoe Mines, it was supposed to be in full operation after making USD 2.5 billion, but since merging with Rio Tinto, the overall investment amount is estimated to be more than USD 10 billion. Uncertainties remain on the future returns of these investments and the timeframe for realising their benefits for Mongolia.

Relative to both GDP and to gross fixed capital formation, FDI inflows reached a recent peak in 2011 and then declined with the introduction of the 2012 Strategic Entities Foreign Investment Law, which established restrictive requirements on FDI entry and operation by private and state-owned enterprises in a number of sectors, including mining, banking, finance, media and communication (Figure 11).⁶ While the law was invalidated after endorsement of the “Investment Law” in October 2013, inflows became negative in 2016 in the face of negative intracompany loans by foreign multinational enterprises, which were a result of various factors, including policy and legal uncertainty, low commodity prices, and profit-taking from mature projects.⁷

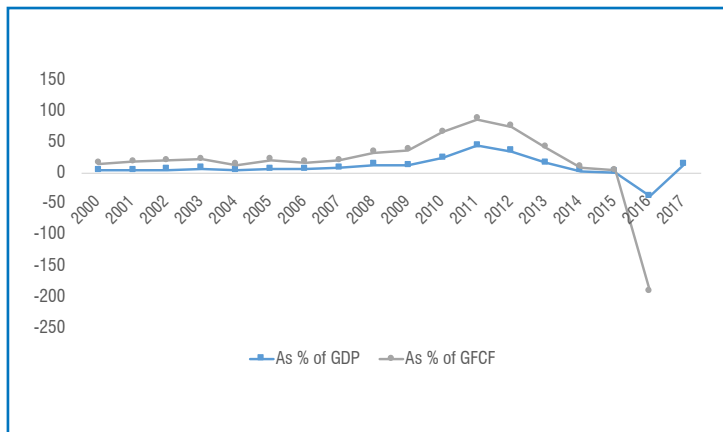
Mongolia shows concentration in terms of sectors attracting FDI and source countries. Although the government recognises that FDI can play a key role in promoting economic diversification, so far, Mongolia has attracted investment mostly in the mining sector and to a much lower extent in construction, tourism, and other services. Non-mining FDI is geographically concentrated in the county, with most destined for Ulaanbaatar.⁸ FDI is also skewed by country of origin, with most recent inflows originating in China and Canada.

6.– IFC (2018) Investment Reform Map for Mongolia. A Foundation for a new Investment Policy & Promotion Strategy.

7.– UNCTAD (2017) World Investment Report 2017. (p.87)

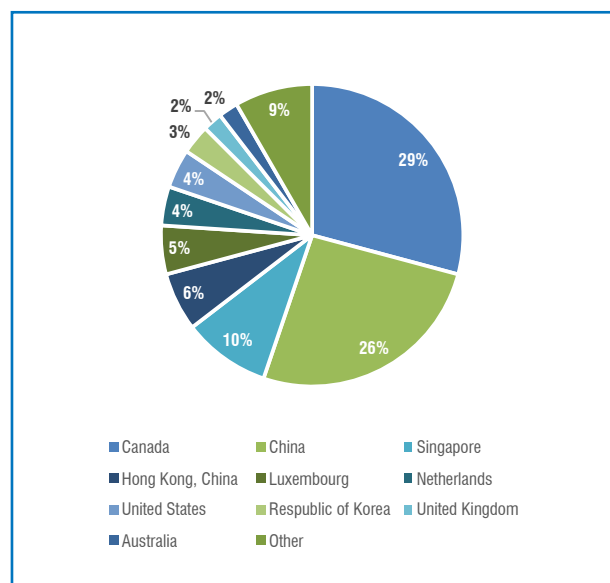
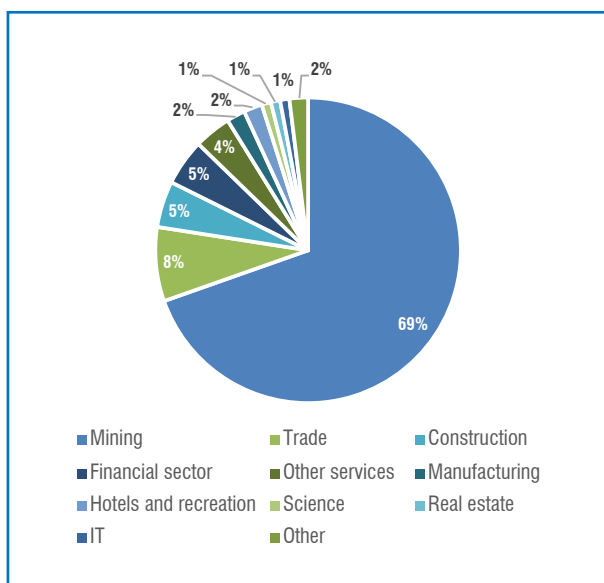
8.– UNCTAD (2013) Investment Policy Review – Mongolia 2013. (p.1)

Figure 11. FDI inflows, 2000-17



Source: UNCTADstat.

Figure 12. FDI stocks by sector and country of origin, 2017



Source: Central Bank of Mongolia.

The government has made strides to increase investor confidence. Improvements in FDI inflows in 2017 accompanied the International Monetary Fund (IMF) bailout loan of USD 434 million and several reforms, including the new Law on Movable and Intangible Property Pledges to improve regulation of assignment of receivables, financial leases, and retention-of-title sales, requiring their registration with the collateral registry. The agreement with the United States on Transparency in Matters Related to International Trade and Investment also came into effect in 2017, though major changes to land and mineral rights and taxation made since did not follow the public consultations and cost-benefit analyses

required. Other policy issues remaining to be addressed include the requirement that foreign investors invest a minimum of USD 100,000, in contradiction of supposed national treatment, and insufficient investment promotion and support services.

A business entity with foreign investment” is an enterprise established in accordance to Mongolian laws and legislations, of which 25% or higher shares of this legal entity’s total issued stocks is owned by foreign investors and each of its foreign investor’s investment amount is entitled to be \$USD 100,000 and/or higher or an equivalent amount expressed in Mongolian currency.

Box 2. Key messages

Diversification and innovation are needed to foster sustained and inclusive growth. Export growth in the last decade has been exclusively driven by an intensification of trade in traditional products, mainly to copper, coal and gold. Strong linkages with the local economy are not always developed. There is an urgent need for Mongolia to diversify its products with a view to gradually transforming Mongolia into a more innovative, knowledge-based economy to regenerate growth and to gain competitiveness. Expanding exports to new markets and fast-growing markets will also be important. Investment diversification – in terms of sector and country of origin – would help to drive this change.

Crosscutting issues, such as trade policy and quality management will be crucial to enhance export competitiveness and access new markets. A change is needed in the way trade policy instruments, particularly import tariffs, are applied, by adopting a targeted approach to imports, ensuring an easier access to capital goods required to scale up production and improve the quality of domestically produced goods.

More could be done under current trade and investment agreements, and new agreements may be beneficial. The success of the FTA with Japan, for Mongolia’s benefit, will in particular depend on whether the country manages to tap into those sectors where the FTA grants new market access, despite the fact that Mongolia does not appear to be particularly competitive in those sectors where Japan has opened up. New agreements should also be pursued to promote exports; China would be the logical partner with which to have a FTA, as is being studied. This could also boost non-mining sectors, such as textile and leather, and integrate into the region’s value chain. Other possible partners – already being considered by the government include South Korea and Eurasian Economic Union.

Institutional constraints limit the effectiveness of trade and investment promotion. Recent liberalizing reforms, particularly those affecting international investment inflows, have helped to internationalize the Mongolian economy. Despite these reforms, investment policy often remains unclear and discretionary, and support services insufficient to attract increased and diversified investment. Trade and investment support institutions also face unclear responsibilities and lack of sufficient resources to provide effective services.

WHERE DO WE WANT TO GO?

DEVELOPMENT PLANNING

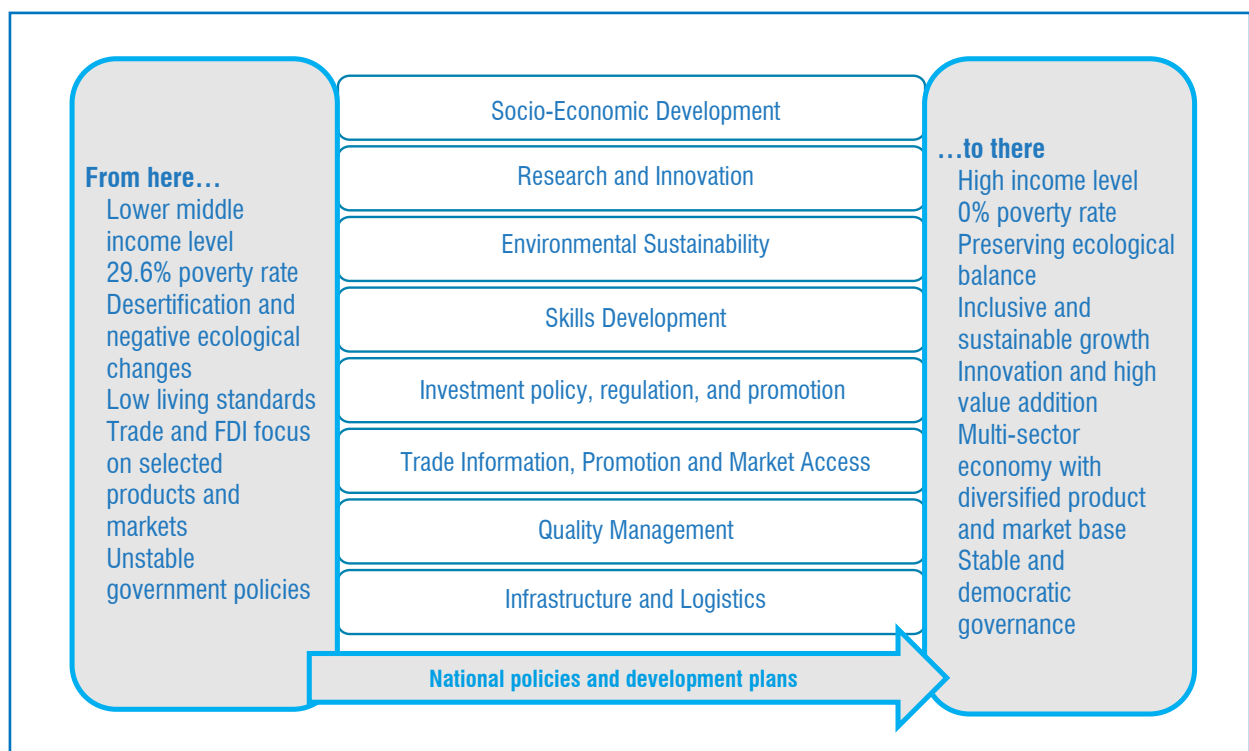
Mongolia’s government intends to pursue a private sector-led growth strategy and national development plan, based on global integration through trade and investment. Trade and investment, therefore, link with sector-level strategies and plans, which are being implemented and/or elaborated in other policy areas.

Mongolia’s Sustainable Development Vision 2030 and MDG-based Comprehensive National Development Strategy guide the nation’s major action plans. The main objectives shared by both strategies are shown in Figure 13 below. These include diversifying the product and

market base of the economy, driving higher value addition and promote innovation and inclusive and sustainable growth, among others. The figure also outlines eight cross-cutting themes identified across national programmes, which would lead Mongolia to fulfil the national vision and objectives. These themes include trade and investment, as well as skills development, quality management, research and innovation, among others. National policies and programmes integrate the eight themes, albeit not always to the same extent or to an adequate depth.

Figure 13. Snapshot of Mongolia’s national policy framework

Key national objectives and cross-cutting themes



TRADE AND INVESTMENT SUPPORT NETWORK

Trade and investment support institutions (TISIs) play important roles in supporting the realisation of international trade and investment potential. Mongolia's TISIs have many strengths and provide a range of valuable services to clients in the private and public sectors.

Furthermore, TISIs are to play a central role in implementing the TIR. Priorities for these institutions include the strengthening of capacities, particularly in providing support in international markets for exporters and in offering a full range of services to investors. A stronger and more clearly-defined trade and investment support network would also improve cooperation and the division of responsibilities among TISIs.

A range of organisations are involved in trade and investment support activities. Close to three quarters of Mongolia's 39 TISIs are either public, private or non-governmental organizations / non-profits (Figure 14). They are most likely to work in policy support (36%), though significant numbers also work in trade and investment services (24%), business services (22%), and civil society (18%). Many of the largest institutions with trade and investment support responsibilities focus exclusively on providing policy support, including the Ministry of Foreign Affairs (MFA), Development Bank of Mongolia, General Agency for Specialised Inspection (GASI), and National Development Agency (NDA).

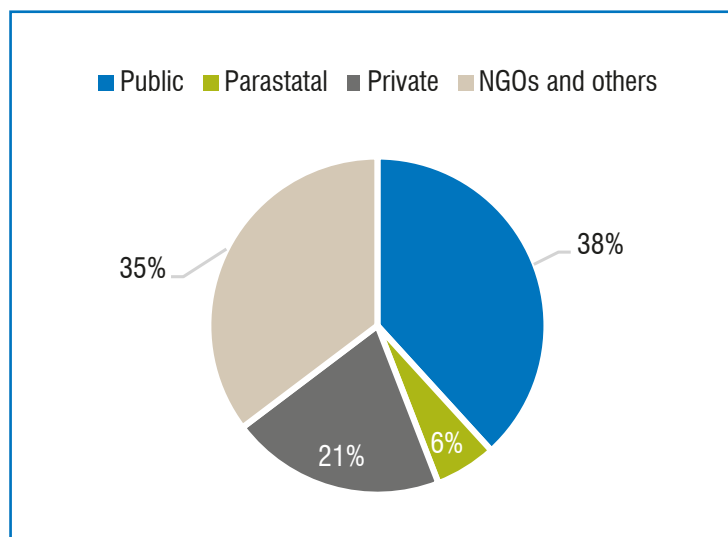
Several TISIs are dedicated to working in TIR priority sectors. Sector-focused institutions include ministries (e.g. Ministry of Environment and Tourism, Ministry of Energy, and Ministry of Food, Agriculture and Light Industry

[MOFALI]), government agencies (e.g. the General Authority for Veterinary Services), industry associations (e.g. Mongolian Wool and Cashmere Association, Mongolian Wool and Cashmere Association, and Mongolian Leather Industry Association), and international donors (e.g. Swiss Agency for Development and Cooperation's Green Gold Project).

Mongolia's TISIs focus on providing services to build the supply capacities of firms. The most common services provided by TISIs are related to training and advisory services to improve production and/or production efficiency; research and development on production; and services to increase awareness, including training in business/export management. Several TISIs also provide services related to development, social, and environmental issues, particularly on employment generation and on environmental sustainability and climate change. TISIs are relatively least involved in providing export credit and insurance services; institutions involved in these areas include the Development Bank of Mongolia and the Ministry of Finance (Table 1).

Local enterprises are the focus of TISI activities. Of the 25 types of services that institutions were asked about their activities in, respondents are most likely to provide these services to local firms, though they were equally likely to provide services on trade policy and market access to local firms and government. TISIs tend to have a national focus; 78% of respondents said that their reach covers the entire country, and only 29% reported an international presence or activities.

Figure 14. Types of TISIs in Mongolia



Source: ITC calculations.

Many institutions work with investors in Mongolia, but a full range of investment support services are not provided. In total, 82% of TISIs provide services or offer information to investors in Mongolia. Public-private dialogue; networking/matchmaking events, and informational events are the most common services provided and TISIs providing information to investors are most likely to offer information on import/export procedures

and markets. However, no institutions reported providing ombudsman's office services.

By offering expanded and improved services on benefiting from international trade and investment opportunities, TISIs can further support firms in achieving the goals of the TIR (Box 3).

Table 1. Examples of services offered by major TISIs

TISI	Service type and target
National Development Agency	<ul style="list-style-type: none"> NDA implements the following major activities, besides its key mandates of defining investment policy as well as promoting and attracting investments: Investor Protection Council established and operationalized within scope of certain goals and objectives of restoring trust of foreign investors (Government of Mongolia Action Plan 2016-2020). As of November 2018, NDA serves as the Secretariat. Public Private Consultative Council (PPCC) established to ensure equal participation of representatives of public institutions, private sector, and investors during the formulation and endorsement of laws, regulations, and policy documents relevant to investment and business environment, facilitating transparency in terms of outreach of voice of private sector and non-government organizations, and reflecting their concerns. NDA acts as the chairman of PPCC. NDA assigned as Vice-Chairman of MNCCI "One-stop service centre" for foreign investors (2019) aims to reduce time required for resolving certain services, to decrease bureaucratic challenges facing investors, and to facilitate more favourable environment. This centre is providing various public services of relevant public agencies, such as General Authority of State Registration, Mongolian Tax Administration, Mongolia Immigration Agency, Social Insurance General Office that deal with activities relevant to enterprises with foreign investments.
Development Bank of Mongolia	<ul style="list-style-type: none"> Financial services to facilitate capital investment (foreign enterprises, government) Export credit (foreign enterprises) Insurance services (Local enterprises) Market research (Local and foreign trade support institutions) Buyer identification, business facilitation and "in-market" assistance (Local enterprises, Local trade support institutions)
General Agency for Specialized Inspection	<ul style="list-style-type: none"> Certification services (foreign trade support institutions) Customs clearance related administrative and trade facilitation services (foreign trade support institutions) Regulatory reform advocacy Informational events, Public-private dialogue, Strategic collaboration Information to investors on Import/export procedures
Ministry of Finance	<ul style="list-style-type: none"> Financial services to facilitate capital investment (government) Export credit (government) Insurance services (government) Regulatory reform advocacy (government) Buyer identification, business facilitation and "in-market" assistance (government) Services on permits or licenses, Financial support (investment guarantee, loans, grants, export finance), Public-private partnerships in investment projects, Special investment status and negotiated packages (for example, for projects over a certain size), Dispute resolution, Public-private dialogue, Strategic collaboration (development of skills, suppliers, sectoral ecosystems, etc.)
Ministry of Food, Agriculture, and Light Industry	<ul style="list-style-type: none"> Designing, monitoring and evaluating and implementing laws, policies and decisions in regard to develop agricultural sub sectors to diversify or support national income with export oriented domestic product Provide professional and methodological recommendations and implement technical and organizational services to support and assist national producers and SME's at competitive level
Ministry of Foreign Affairs	<ul style="list-style-type: none"> Policy Support Trade policy and market access (trade agreements) Regulatory reform advocacy Trade information services (local and foreign enterprises, local and foreign trade support institutions, government) Market promotion services (government) Communications services (foreign enterprises, foreign trade support institutions) Branding and promotion (government)

TISI	Service type and target
Ministry of Nature, Environment, and Tourism	<ul style="list-style-type: none"> Responsible for organizing, implementing laws and policies on environment and tourism. Coordinate the sectoral and budgetary oversight of the strategic policy, planning and implementation of their implementation, and ensure coherence between sector and sectoral issues on sustainable development. To study the trends of the environment and the evolution, to introduce scientific and technological advancement in environmental protection, and to use ecological, economic and regulatory leverage mechanisms. To ensure the harmony of social and economic development with environmental balance, the development of environmentally friendly tourism, the sustainable use of natural resources, and the rehabilitation of natural resources
Mongolia Customs General Administration	<ul style="list-style-type: none"> Customs clearance and related administrative and trade facilitation services (foreign trade support institutions) Services to increase awareness, including training in business/export management Research and development (production) (Foreign trade support institutions, Government) Training on various customs issues, including export/ import procedure and customs valuation for both customs officials and stakeholders Information to investors on import/export procedures, foreign trade statistic, tariff and duty information, Customs tax and other taxes calculation
Mongolian National Chamber of Commerce and Industry	<ul style="list-style-type: none"> Facilitation for the favorable business environment Training and research works on foreign trade, domestic trade and entrepreneurship Trade facilitation measures in cooperation with public and private actors Market research (foreign trade support institutions) Buyer identification, business facilitation and "in-market" assistance (foreign enterprises, government, foreign trade support institutions) Market promotion services (foreign trade support institutions)

Box 3. Activities on TISI programmes and services

- Design training programmes for firms on benefitting from international investment and working with foreign firms (Activity 3.3.4).
- Establish a programme for matching domestic and foreign firms (Activity 4.4.6).
- Conduct FDI awareness-raising campaigns (Activity 4.4.7).

Most TISIs have clear mandates, but face capacity constraints. Roughly 86% of TISIs have mandates formalised through statutes, and 66% describe their mandates as being clear with either no or well-managed gaps and overlap. Most (74%) also indicate to hold the appropriate degree of autonomy to execute their mandate. While institutions rate highly their autonomy, involvement in trade and industry group councils, and the clarity

of their mandates and organisational processes, they rated lowest their systems for identifying and disseminating business opportunities, the brand management, and overseas support and services provided to clients. Limited capacities are recognised by TISIs as being among the key internal challenges faced by TISIs, according to their reviews of their strengths, weaknesses, opportunities, and threats (SWOT) (Table 2).

Table 2. Examples of TISIs' self-identified strengths, weaknesses, opportunities, and threats

<p>Strengths</p> <ul style="list-style-type: none"> Domestic and international networks Identity and image Financial assets Human resources and technical capabilities Political / government support Range of services offered Clarity of mandate and responsibilities 	<p>Weaknesses</p> <ul style="list-style-type: none"> Limited human resources or expertise Financial and other resource constraints Low levels of awareness among clients Insufficient innovation
<p>Opportunities</p> <ul style="list-style-type: none"> Mainstreaming of trade in national development Growing demand for services among firms Growth of new sectors Diversification of export markets 	<p>Threats</p> <ul style="list-style-type: none"> Policy changes and regulatory constraints Political interference Economic vulnerabilities Replacement by new technologies

Source: ITC.

Further work is needed in providing assistance on exporting. Not all institutions provide assistance in international markets; 34% of TISIs offer clients either no or limited overseas assistance to clients, and 24% provide

no or limited information on foreign markets. Capacity-building initiatives for TISIs are needed, for contributing to policy development and to improve the quality of services offered to their clients (Box 4).

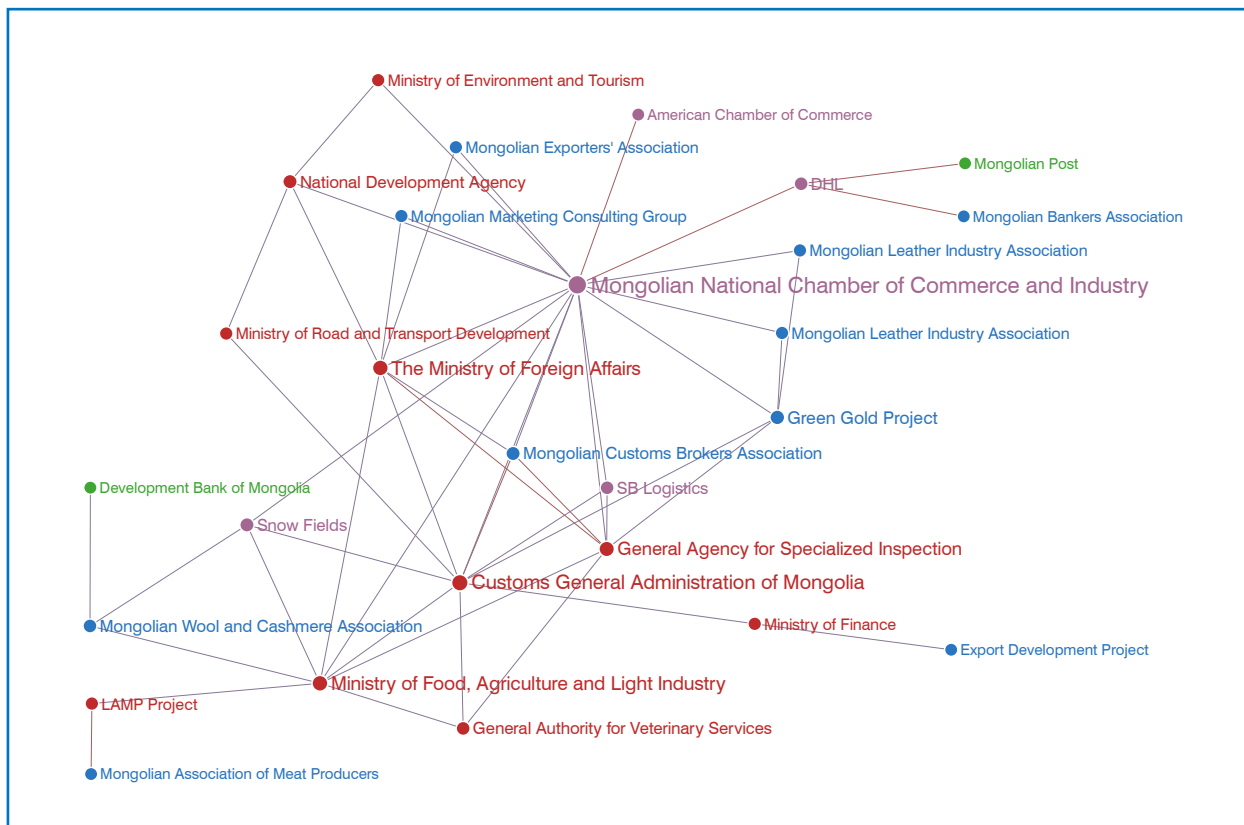
Box 4. Activities on TISI capacity building

- Build the capacities of TISIs to contribute to analysis and policy development (Activity 1.1.1).
- Develop capacity-building programmes for TISIs focused on their identified responsibilities (Activity 2.1.2).
- Capacity building and institutional strengthening of MNCCI (Activity 2.2.1) and MFA or the institution responsible for trade promotion (Activity 2.2.2).
- Expand and institutionalise training on collecting and analysing trade information (Activity 2.2.3).
- Train TISIs in developing in-depth market feasibility studies (Activity 2.2.4).

Many of Mongolia's TISIs cooperate with other institutions, though room remains to strengthen the TSN. In total, 26 of Mongolia's TISIs are connected to each other through 52 bilateral relationships (Figure 15). The MNCCI is the best-connected TISI in the country, sharing 17 formalised and ad hoc relationships with other Mongolian institutions (Box 5). The Mongolia Customs General Administration; the Ministry of Foreign Affairs; and the

Ministry of Food, Agriculture, and Light Industry are also well-connected. The nature of the relationships between institutions includes shared work on policy development, information sharing, joint projects and activities, and resource sharing, among other forms of coordination and collaboration. Formalised interactions are most common, accounting for 85% of the total, though reporting relationships only exist in 43% of all interactions.

Figure 15. Coordination between TISIs



Source: ITC.

Box 5. Mongolia National Chamber of Commerce and Industry

The Mongolia National Chamber of Commerce and Industry plays a leading role in promoting trade and investment. MNCCI is among the most active TISIs in the country in terms of the range of activities in which it is engaged. MNCCI provides a wide range of services to local and foreign enterprises; works with government on communications, finance, and other issues; and advisory services to other local TISI and to foreign TISIs. MNCCI has a central role to play in the implementation of the TIR, with a role to play in the implementation of 47 activities, including in supporting exporters, trade facilitation, promoting entrepreneurship, and matching investors with local start-ups.

According to ITC's benchmarking of MNCCI's performance in 2016 and 2018 as part of the Performance Improvement Roadmap, a phased programme to address identified weaknesses in institutions' managerial and operational performance,

significant improvements have been made. Structural reorganisation has been supported by a mapping and review of staff competencies, a customer-centric culture and new client management practices have been developed, a result-oriented approach was adopted, new approaches to risk management are being used, and strategy formulation has been adopted as a key driver for the Chamber's activities.

In a self-assessment, MNCCI now rates its capacities highest in terms of having the autonomy to execute its mandate, the transparency of appointing board members, and its guidelines for content management (Table 3). It rates its capacities lowest in its strategic focus, understanding stakeholder views and needs, management of strategic partnerships, process review, identifying business opportunities, information on products and services, and the use of marketing and promotional plans.

Table 3. Capacity self-assessment

Highest-rated aspects	Lowest-rated aspects
<ul style="list-style-type: none"> • Appropriate autonomy and allowed to operate unimpeded in carrying out mandate • Fully transparent process for appointing board members, following clear guidelines based on professional qualifications and need to represent key business sectors, with appointments open to challenge • Comprehensive guidelines applied consistently for creating, managing, and maintaining content 	<ul style="list-style-type: none"> • Low board strategic focus and frequent involvement in operational matters • Irregular activity on understanding stakeholder needs and views • Strategic partnerships managed on an ad hoc basis • Reviews and revisions of processes have been sporadic or incomplete • The identification and dissemination of business opportunities is done on an ad hoc basis • Limited information on products and services is available to clients • Plans guiding promotion and marketing activity lack details on targeting and costing

Institutional reforms are also needed to improve the efficiency of TISIs in Mongolia. Additional and clear connections are needed among institutions. The formalisation of the Trade and Investment Support Network through a binding document that clearly delineates roles and responsibilities among organisations would foster greater and more effective coordination that allows for specialisation by institutions. In addition, putting in place a co-operation framework between TISIs and other actors

would help to promote the exchange and dissemination of trade information.

A dedicated investment promotion agency offering dedicated support for investment activities, spanning targeting, promotion, and aftercare is needed. Focusing and clarifying the activities of the National Development Agency on investment support, including through the establishment of an investment aftercare unit, would strengthen these activities (Box 6).

Box 6. Activities on institutional development activities

- Establish a dedicated trade promotion agency (Activity 1.5.3).
- Establish an investment promotion agency (Activity 1.5.4).
- Strengthen investment support capacities to facilitate increased and diversified inflows of foreign investment (Activity 2.1.3).
- Prioritise key value chain elements in investment promotion, transportation planning, and Special Economic Zone (SEZ) planning (Activity 2.1.4).
- Establish a formal network among key TISIs to better co-ordinate their activities (Activity 2.1.1).
- Establish a cooperation framework among government, TISIs, media, academia, research organisations and the private sector (Activity 2.2.6).

WHAT PREVENTS US FROM GETTING THERE?

The following section analyses key constraints inhibiting export development and investment attraction at three levels – firm capabilities, institutional trade and investment support, and national environment, policy and regulations. Key competitiveness constraints are

presented within a 3Cs framework, which identifies the issues needing to be addressed in order for the economy to compete, connect, and change. These challenges are elaborated upon in the Annex and are summarised in Table 4.

Table 4. Summary of key challenges

	Firm Capabilities	Institutional and trade support	National environment, policy, and regulations
COMPETE: Issues limiting the country's capacity to compete in national and foreign markets	<ul style="list-style-type: none"> • Access to inputs is often unpredictable and of insufficient quantity • Production losses due to inadequate handling equipment and poor knowledge of good practices • Poor understanding of technical requirements for overseas markets 	<ul style="list-style-type: none"> • Weak cold chain infrastructure • Limited access to internationally accredited laboratories • Slow border procedures, including delays in issuing export certificates • Weak institutional capacity limits ability to develop and implement standards that could match foreign standards • Lack of consolidation of warehouses in rural areas 	<ul style="list-style-type: none"> • Challenging infrastructure and geography (landlocked, poor road infrastructure, climate conditions, and poor electricity) causes significant production losses and increases costs of doing business. • Weak quality and phytosanitary controls restrict competitiveness and market diversification of exports • Lack of conformity agreements with other countries • Poor promotion of entrepreneurship and lack of a cohesive national vision to promote economic diversification • Weak contract enforcement • Complex and slow procedures for starting a business
CONNECT: Issues restraining connectivity to suppliers, markets and clients	<ul style="list-style-type: none"> • Exporters do not have sufficient knowledge to exploit the preferential market access granted to Mongolia • Firms do not have resources to access trade fairs regularly • Firms do not have the capacity to make mutually beneficial contracts • Limited knowledge of international market access requirements 	<ul style="list-style-type: none"> • Burdensome border clearance requirements • Lack of promotional activities limits the visibility of Mongolian products abroad • Limited connectivity between the public institutions and private sector • Limited market intelligence and B2B support • No systematic programs for linking domestic firms to foreign ones as suppliers, service providers or joint venture partners 	<ul style="list-style-type: none"> • Poor transport infrastructure • Lack of Economic Partnership Agreements and Free Trade Agreements (EPAs/FTAs) • Low importance attached to the trade portfolio within the government
CHANGE: Issues limiting the sector capacity to change innovate and tap into emerging trends	<ul style="list-style-type: none"> • Limited access to finance • Businesses have low levels of innovation and there is limited investment in R&D • Weak linkages of innovation and low level of knowledge transfer and knowledge absorption • Low skill levels and high skill mismatch • Lack of ICT-enabled linkages between e-commerce platforms and inventory systems or warehouse logistics 	<ul style="list-style-type: none"> • Low quality of scientific institutions • Limited collaboration between industry and academic in R&D • Low sector-specific knowledge among investment promoters • Curriculum of training centres not aligned to industry needs 	<ul style="list-style-type: none"> • Specific plan to achieve export diversification goals is formulated but not yet approved and implemented • No clear vision for the role of FDI in private sector development • Unpredictable investment policies • No dedicated investment promotion organisation • Burdensome taxation policy • Poor IP protection policies • State-owned enterprises inhibit private sector development • Increased degradation of natural resources • Under-utilisation of the youth as exemplified by high youth unemployment level • Challenges inhibiting women's entrepreneurship potential



HOW DO WE GET THERE? THE WAY FORWARD

Based on the analysis above, Mongolia requires a cohesive and overarching national Trade and Investment Roadmap to bring policy convergence, institutional alignment and private sector support. The Mongolian public

and private sectors are united by the following vision, which serves as a beacon and a rallying call as the nation proceeds on the road to trade- and investment-led sustainable growth:

VISION: A VIBRANT AND PROSPEROUS MONGOLIA LEVERAGING ITS HERITAGE AND CREATIVITY TO FOSTER TRADE AND INVESTMENT-LED GROWTH

This vision is supported by four strategic objectives, which are guiding pillars for the TIR over its five-year timeframe.

STRATEGIC OBJECTIVE 1: BUILD A LONG-TERM GROWTH PATH BY CREATING AN ENABLING BUSINESS AND INVESTMENT ENVIRONMENT

This strategic objective contributes to fostering the development of an enabling business environment, which is conducive to trade and investment growth. Effective policies and international agreements require enhanced capacities in the Ministry of Foreign Affairs and other ministries and agencies. Improved analytical capabilities and a pro-active trade policy and trade negotiations agenda are required. To further support this, this strategic objective also works towards strengthening the broader ecosystem of policy education, research, and analysis.

Moreover, this strategic objective seeks to review, develop and implement trade and investment policies that are in line with national development goals, with additional efforts made towards coherence across other relevant policy areas. The TIR supports steps taken toward the realisation of goals through current and future trade and investment policies and agreements.

The TIR fosters smart liberalisation and promote a more transparent and pro-active approach to trade and investment policies, which will help to improve the business

climate and strengthen confidence in the policy formulation and delivery process. Actions are taken under the TIR to foster formalised consultation with the private sector to better identify challenges and opportunities in Mongolia, and an export and investment council established as a stakeholder representative on trade and investment policy development. The Council will build on existing bodies and structures, such as the Public Private Consultative Council (PPCC), Export Council, Investment Protection Council, among others. Capacity building for effective regulation and the implementation of recent investment reforms is prioritised to encourage a more predictable business environment.

STRATEGIC OBJECTIVE 2: STRENGTHEN TRADE AND INVESTMENT SUPPORT INSTITUTIONS TO EFFECTIVELY RESPOND TO THE NEEDS OF MONGOLIAN FIRMS

Through this strategic objective, the TIR aims to improve the capacities and services offered by trade and investment support institutions in order to better facilitate the internationalisation of Mongolian firms. Though advocacy, networking, direct services and market development, the services provided by TISIs are particularly important to SMEs, who typically lack the resources, scale, experience, and connections to pursue the benefits of trading and investment relationships overseas without an effective ecosystem to support them.

Actions taken under the TIR help to address some of the more pressing institutional challenges facing Mongolian

TISIs through clarifications of areas of focus, reorganisation of responsibilities, capacity-building initiatives, and cooperative efforts between TISIs. TISIs are to be assisted in providing trade promotion services, as well as investor-targeting, promotion, and aftercare services, with the goal of increasing and diversifying investment that benefits broad-based growth in the Mongolian economy. In recognition of the administrative challenges faced by many firms engaged in international trade, the TIR also continues the on-going work to implement trade facilitation measures under the Trade Facilitation Agreement (TFA), and speed up and streamline trade processes. Improvements to the stability and professionalism of the civil service generally are intended to improve governance and the business environment.

The TIR includes measures that, alongside the work of other development partners, further develop Mongolia's quality management system. Improving this system will help in better positioning Mongolian products in higher value, more stable export markets as well as encourage new investment into sector requiring high standards. The measures proposed include improvements to certification processes and additional awareness-raising and dissemination of market access information to stakeholders.

STRATEGIC OBJECTIVE 3: ENHANCE FIRMS' CAPACITIES TO MEET MARKET REQUIREMENTS AND SUSTAIN EXPORT RELATIONSHIPS

This strategic objective aims at strengthening firms' capabilities in order to enable them to access and sustain export relationships. Since a strong relationship exists between foreign direct investment and improved productive capacity, which drive direct and indirect exporting, the TIR aims to take action to assist firms in benefitting from both trade and investment opportunities.

Actions taken under the TIR will assist firms through the encouragement of private sector organisation and coordination. Coordination between private sector stakeholders will achieve higher levels of efficiency across value chains. Moreover, sector associations will be strengthened to better advocate for the needs of their constituents as well as to improve existing and to develop new value added services.

To address skill gaps that impede the upgrading of exports and adoption of new technologies, the TIR also outlines actions to be taken to better align education systems with the needs of the private sector. These will include identifying skills gaps through consultation and reforming school and technical and vocational education and training (TVET) curricula, as well as increased involvement of the private sector. The TIR will also raise

firms' awareness on market access issues, international marketing, and other internationalisation strategies for SMEs through actions including training, market intelligence tools, and in-market programmes to connect to buyers and investors.

STRATEGIC OBJECTIVE 4: STIMULATE INNOVATION AND ENTREPRENEURSHIP BY UNLEASHING ENTREPRENEURIAL CAPACITIES, STRENGTHENING THE START-UP ECOSYSTEM, AND VENTURING INTO KNOWLEDGE-BASED SECTORS

This strategic objective seeks to stimulate and nurture innovation and promote the diversification of the economy through trade and investment development. To achieve this, the roadmap actively promotes an entrepreneurial mind-set in the country. Business start-ups are also supported through the alleviation of regulatory hurdles for start-ups and the provision of targeted support services through incubators co-working spaces, investor forums, and accelerators. Specific activities focused on driving and supporting youth entrepreneurship are addressed through the TIR.

The TIR seeks to mainstream entrepreneurship awareness and entrepreneurial behaviours through the educational system in Mongolia. At secondary school level, it is important that students are informed about self-employment as part of career development and mentored about their choices. Entrepreneurship is also to be promoted through electives, extracurricular activities, career awareness seminars and visits to businesses. Similarly, select vocational training and apprenticeship programmes are supported to introduce entrepreneurship teaching, enabling young people to learn how to develop small businesses in fields of their specialisation. This strategic objective supports the development and strengthening of incubators and entrepreneurship centres. It seeks to strengthen the reach and quality of services for start-ups through incubators. Moreover, knowledge-transfer will be fostered through the enhancement of collaboration between the private sector and academia.

Entrepreneurship, and technology and innovation are mutually supportive. Technology provides entrepreneurs with new tools to improve efficiency and productivity. In turn, entrepreneurs fuel technological innovation by developing new or improving existing products, and ensuring commercialisation. This strategic objective actively pursues Mongolia's international leadership in Information technology (IT), technology and innovation, and other knowledge-based services by attracting targeted FDI, stimulating sector's growth and strengthening the enforcement intellectual property regulation in the country.

PRIORITY SECTORS

To achieve these four strategic objectives, which provide the orientation of the Mongolia's Trade and Investment Roadmap, the TIR defines eight priority sectors. These have been selected using a number of quantitative and qualitative analytical parameters. In the medium term, opportunities for export expansion and investment growth come primarily from animal products (cashmere; yak and camel wool; meat, processed meat, and dairy; and leather), services sectors (information and communication technology and tourism), and sectors building on Mongolia's natural resources (renewable energy and processed minerals).

CASHMERE

Built upon over two thousand years of nomadic herding heritage, the cashmere sub-sector holds a significant place within the Mongolian economy, especially in terms of employment creation, production, innovation, value addition, and international trade. According to national statistics, the export value of Mongolian wool, cashmere, and textile sub-sector grew by 20.97% in the 2014-2018 period, and accounted for USD 409.8 million in 2018.⁹ The factory workforce of wool and cashmere sector accounts for 12% of overall labour in processing industries, and is relatively large employer of women and youth, who account for 85% and 65% of the subsector's workforce, respectively.¹⁰ Mongolian cashmere accounts for 40% of the total world output, making the country the world's second largest producer of cashmere,¹¹ after China, which accounts for 48-52% of the total world output.¹² Regarding its role in Mongolia's international trade, cashmere is Mongolia's largest non-mining and third largest overall export. Being a luxury good with a high value-to-volume ratio, cashmere commands a prized value on international markets, which makes it relatively easy and profitable for exports. Mongolian cashmere's distinct attractiveness has been acknowledged at numerous trade fairs and fashion shows around the globe, including Germany, Hong Kong SAR, United States, Canada, Japan, and France.

9.– Mongolian Statistical Information Service. Available at <http://www.1212.mn/>

10.– Data by Mongolian Wool and Cashmere Association

11.– Ministry of Food, Agriculture and Light Industry (2019). "Manufacture of wool and cashmere products". Available at <http://mofa.gov.mn/exp/blog/11/175>

12.– Ibid

The cashmere sub-sector suffers from a number of competitiveness issues

The sector faces competitiveness challenges largely stemming from limited processing capabilities. Out of 298 processing facilities in the country, 250 are small household knitting workshops, six small and medium knitting factories, 1 spinning and knitting factory, two combing/dehairing and knitting factories, eight vertically integrated deep processing factories fully furnished with automated knitting, weaving, and sewing machines, 6 combing/dehairing factories, and 25 washing/scouring factories with primary processors.¹³ Although the spinning factories have the installed capacity of producing large amount of yarn, they only use 60-70% of it.¹⁴ With respect to the 10 major cashmere deep processing factories that have a domestic market share of 93%, the installed spinning capacity was recorded to be 1,600 tons per annum.¹⁵

"SMEs in the cashmere industry suffer a lot in terms of the shortage of skilled human resource"

MR. TS. GAN-ULZII, CEO, SNOW FIELDS

The installed industrial processing capacity is estimated as follows: 12,980 tons of cashmere washing and scouring, 4,606 tons of cashmere combing and dehairing, 1,280 tons of yarn spinning, 2.8 million pieces of knitted garments, 1,868 meters of woven textiles. However, only washing and scouring installed processing capacity is fully utilized, and the remaining deep processing stages have a low usage rate: combing and dehairing is for 20%, weaving for 25%, and knitting for 70%.

Much of the processing of raw cashmere takes place outside of the country.¹⁶ Out of the total 9,400 tons of raw cashmere provided by Mongolian herders, only about a quarter is transformed into semi-processed and finished products domestically, while the rest is exported as unprocessed cashmere hair or goat wool, at lower prices, causing Mongolia to miss out on opportunities for value addition. The poor condition of cashmere deep processing is further reflected in the export value shares of knitted, woven, and sewn cashmere products, which stand

13.– Ibid

14.– Uniterria, WUSC, Canada (2016) "Value Chain and Market System Analysis Report of Fibre Sub-sector of Mongolia"

15.– EBRD (2018). "Supporting Sustainable Cashmere Production"

16.– Ministry of Food, Agriculture and Light Industry (2019)

at 5.19%, 0.53%, and 0.08% respectively. In contrast, unprocessed cashmere hair or wool of goats containing 12-22% of fine cashmere as well as the washed cashmere commodities accounts for 77.26% and combed/de-haired cashmere accounts for 14.01% of the exports respectively.¹⁷

The sector suffers from weak linkages with international markets and domestic institutions. There is a lack of coordination between the livestock sector, textile industry, and the education sector, resulting in a shortage of skilled textile engineers, technicians, and fashion designers. The mining sector remains attractive to the graduates as it pays a higher salary compared to the textile sector. This shortage of skilled workers causes the deep processing factories to employ unskilled labour and incur into considerable costs in training them. As the trainers themselves are not experts, the trainings are insufficiently comprehensive, and only certain functions are taught to workers. There is also inadequate access to training material.

Mongolia's main market for cashmere remains almost exclusively China, despite the fact that Mongolian cashmere enjoys preferential tariffs through the GSP+ Agreement with the European Union, and the EPA with Japan. Additionally, the sector faces issues related to meeting international standards, burdensome customs procedures, and international branding and marketing. Furthermore, national industries lack resources to buy the raw cashmere from herders, due to their limited access to loans for working capital. This allows foreign companies to buy raw cashmere directly from the herders at low prices, leaving domestic processors with low input volume to create value added cashmere products. For example, in 2018, Mongolia exported USD 251.9 million of unprocessed or washed cashmere, almost exclusively to China, while it exported a considerably lower amount of final processed products such as knitted and crocheted cashmere textiles for USD 24 million to the United States, Italy, Republic of Korea, Japan, United Kingdom, China, Russian Federation, Canada, Germany, France, and Hong Kong SAR.¹⁸

Since processing activities go unrewarded due to liberalized domestic market policies, there are greater incentives for increasing the production of raw cashmere, leading to a rapid rise in the number of goats, which increased from 6.1 million to 27.1 million between 1993 and 2018.¹⁹ In the context of global climate change, which has led to wide-scale desertification, this uncontrolled growth has led to environmental concern, as it exacerbates overgrazing and threatens the long-term sustainability of the Mongolian animal husbandry sector.

Overcoming these challenges would require some short term and long term changes

In the short to medium term, the focus should be on fully using the processing capacity of the existing domestic processors to develop value-added products such as jerseys, pull-overs, and other knitted, woven, or sewn products for China, their biggest market at present. This would require the government, the financial institutions, and the processors to coordinate and develop tailored financial products and services that could help the processors access finance easily to purchase raw cashmere. Incentives for processors such as tax relaxation for exporters of value-added exporters, and improved access to raw cashmere should be considered. Additionally, immediate trainings should be provided to the herders to enlighten them about sorting and raw material preparation to improve input quality and increase herders' income. Specialists from developed countries should be brought in to train the workers on textile techniques and technology. Sending technical workers such as engineers abroad to attend exhibitions and to learn about the textile factories operations in foreign countries can also boost labour productivity. The Mongolian University of Science and Technology (MUST) has designated laboratories for spinning, weaving, knitting, and sewing that can be built upon to improve worker training in short term. Creativity must also be fostered through fashion design courses and other related fields to boost innovation and thus, competitiveness.

In the long term, focus should be given to implementing the "Cashmere – National Program", which includes changes at the input, processing, and policy levels. These include facilitation of favourable and sustainable legal, investment, and tax environment, improvement in goat breeding and cashmere quality, increasing deep processing up to 60%,²⁰ introducing environmentally friendly and advanced techniques and technologies, and increasing productivity through ways of preparation and specialisation of human resources aligned with the sector.

As a result of prospective implementation of "Cashmere – National Program", it is expected that about 5,500 current employment positions in the cashmere sub-sector would be preserved, about 3,600 new employment positions would be created, and consequently the production of final end fibre products would be increased and export would be increased by 5.7 times. Additionally, the yarn spinning lines' industrial capacity needs to be increased at least three times, in order to meet MOFALI's objective of increasing skilled human resources, as inscribed in Mongolian "Cashmere – National Program".

17.– Mongolian Customs (2019). Available at <http://www.ecustoms.mn/>

18.– Mongolian Customs (2019). Available at <http://www.ecustoms.mn/>

19.– Mongolian Statistical Information Service. Available at <http://www.1212.mn/>

20.– "Cashmere – National Program 2018-2021", Phase I 2018-2019, Phase II 2020-2021

Box 7. Investment in the cashmere sector

A main root cause behind low levels of processing in the sector is lack of sufficient financing, knowledge, and technology use. Increasing the funds available to the sector can help to provide herders with an incentive to improve the quality of raw cashmere, allow domestic processors to buy the raw cashmere from local herders, establish processing facilities, enable access of Mongolian producers to the latest technologies in textile and apparel manufacturing, and set up training centres aligned with the sector’s need for skilled workers. The government has targeted the establishment of 100 processing factories in all 21 provinces of the country, based on technical feasibility studies in “The Government Policy on Industrialization” and “Industrialization 21:100 National Program”.

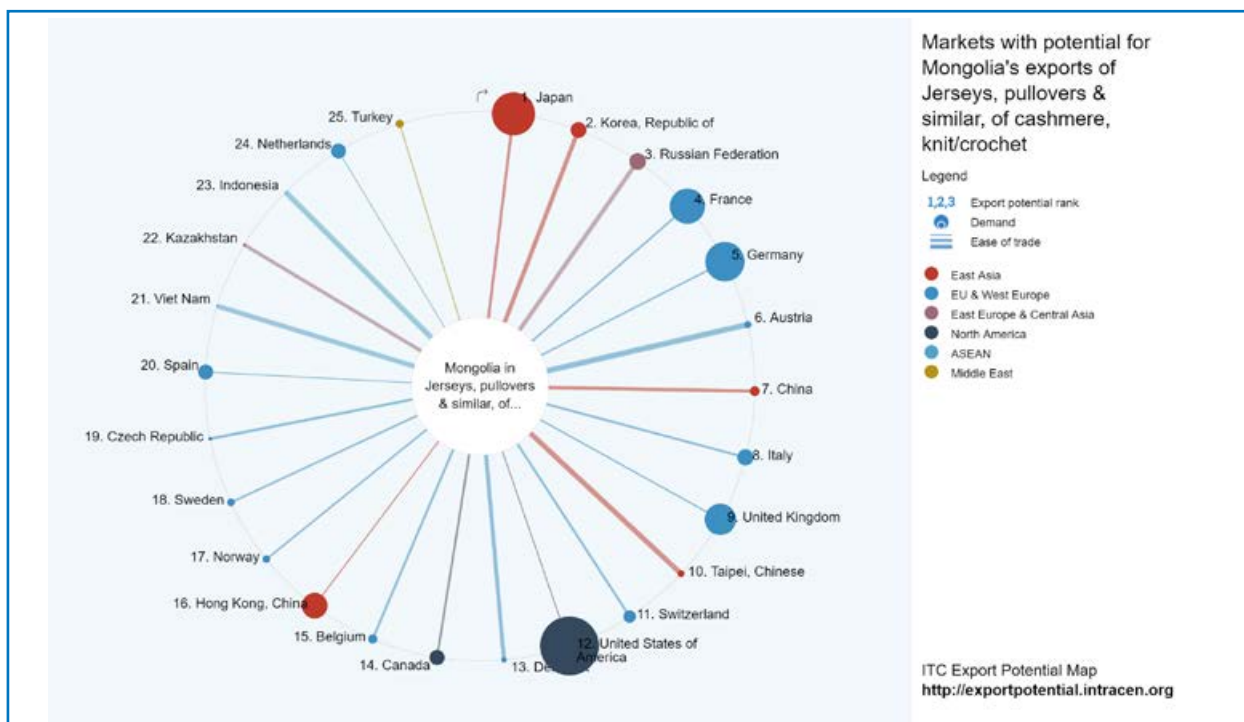
Investment can also create opportunities for developing human capital in the sector. Directly, it may finance training for herders to improve quality of raw materials; the training of processors on how to optimise the use of the existing installed capacity; and skill development among skilled workers including engineers, technicians, and fashion designers. Investment in state-of-the-art technology, including the adoption of appropriate laboratory techniques and equipment, tends to require upgrading of complementary skills. Foreign investment improves international connections and knowledge flows, including through the participation of Mongolian specialists in international expos, trade fairs, and seminars, and exposure to international research and production. At the same time, investors may also bring in new management practices and technical skills that can benefit the domestic industry.

With respect to training workers, the MUST laboratories should be upgraded with modern textile machines and equipment, and more laboratories must be set up with state-of-the-art advanced techniques and equipment.

In terms of improved enterprise support services, cashmere and other Mongolian products should be promoted

effectively abroad, and support must be obtained from foreign embassies and trade representatives in Mongolia and Mongolian Embassies, Consulates and Trade Representatives abroad to help identify overseas business partners, buyers and customers.

Figure 16. Markets with potential for Mongolia’s exports of cashmere garments



Source: ITC Export Potential Map.

In addition to the Cashmere Program, focus should also be shifted to niche markets for cashmere value-added products. The markets with the greatest potential for Mongolia's cashmere garments are Japan, Republic of Korea, and Russian Federation, while the United States has the highest demand potential²¹. Traceability systems should also be introduced, and trade facilitation mechanisms must be improved such as reducing the customs documentation burden, and expediting border inspections. At the policy level, the national subsidy for cashmere should also be revised, and trade measures, including setting tariff and non-tariff limits to decrease washed cashmere exports and imports of cheap synthetic yarns, are measures to be analysed and potentially adopted.



Photo: ©Ministry of Foreign Affairs

YAK AND CAMEL WOOL

The fine fibre from yak and camel wool can be another competitive animal fibre comparing to the goat cashmere in terms of quality and warmth, while causing less environmental damage, as yaks and camels place less pressure on rangelands than large numbers of heads of goats. As the global demand for traceable and sustainably produced goods increases, development in the yak and camel wool sector could provide an opportunity to Mongolian herders and producers to increase their income, while preserving the country's ecological diversity and heritage. Additionally, the rising price of raw cashmere due to limited resources versus increasing global demand and the effects of inflation are likely to push up the demand and price of yak wool. Although the production of camel wool is greater than that of yak wool, in terms of processing, yak wool takes the lead.²² Recent estimates indicate that while 40% of yak wool is processed each year, only 25% of camel wool is used by domestic processors.²³ This could be attributed to the fact that companies hesitate to process camel wool in large amounts, as it is costly to clean due to high presence of sand, dust, and vegetable matter in the fibre, which damage machinery parts and pollute the environment where the wool is processed. In terms of international trade, the Russian Federation is the main export market for yak and camel wool products, while Germany is the main market for yak wool products.²⁴ The Mongolian government has provided loans to the fibre sub-sectors for its development, which have had a positive effect on the sub-sector. For example, Eco Wool LLC used ₮6.4 billion loan to create wool insulation, while Erdenet Carpet LLC was able to get the international quality standard label "Woolmark" for their wool carpets – a first for a Mongolian company.

21.– ITC's Export Potential Map

22.– The Green Gold Project (2014). Demand Study on domestic and foreign markets

23.– The Green Gold Project (2014)

24.–MongolianCustoms(2019).Availableat<http://www.ecustoms.mn/>

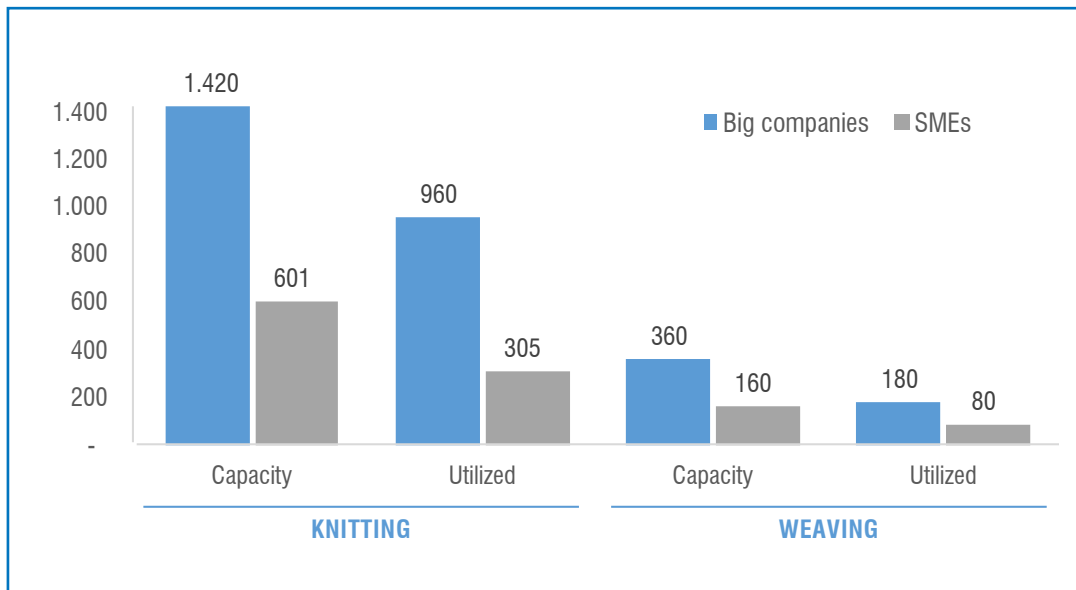
Despite improvements, the wool sector continues to face many challenges

The sector suffers from the poor quality and small scales in wool production and processing, all of which lower its capacity to compete. Many herders opt for shearing instead of combing, which results in a low quality and low volume wool. This can be attributed to the lack of awareness of herders on combing techniques, and the fact that combing is a time-consuming activity that requires intense manual labour. Given the low returns, there is no incentive to engage in such an activity. The low volume of raw material available to processing companies increases the processing costs, which together with poor input quality, translate into high-priced low quality products that are difficult to sell. Furthermore, processing companies are currently operating at less than their installed capacity. The Green Gold Project survey reveals that out of the 26 respondent companies, big companies have knitting and weaving capacity utilisation rates of 67% and 50% respectively, while SMEs are operating at the knitting and weaving capacity utilisation rate of 58% and 50% respectively (Figure 17). The low processing level is further reflected in the exports of the sector. Roughly, 6.28%, 0.65%, and 0.02% of the camel wool exports are in washed camel wool, combed camel wool, and camel wool blankets, respectively.²⁵

"In order to be competitive in the world textile market, our domestic industries need highly skilled human resources with not just textile technical engineering and technological expertise, but also knowledge about the diversified market demands and their varied custom designed preferences on body fit, fashion, colour, texture, and sizes"

**MR. ERDENEBAT, GENERAL DIRECTOR,
MOGOLNOOS CO**

25.–MongolianCustoms(2019).Availableat<http://www.ecustoms.mn/>

Figure 17. Knitting and weaving capacity and utilisation of yak and camel producers (pcs) in 2014

Source: SDC Green Gold Project.

Moreover, poor linkages between herders, processors, and financial institutions exacerbate the sector's challenges. Herders often feel that they do not have sufficient linkages with companies, which makes them hostage to large factories that self-determine the prices and quality. On the processing side, majority of the companies lack direct access to herders' cooperatives, which reduces the volume of raw materials they are able to procure, and thus increases the processing charges. The sector also faces obstacles, such as weak access to finance and skilled workers, and bad marketing, which hinder its ability to grow and progress. Several factories have expressed their inability to access finance to purchase the amount of raw material they would require.

The sector is also unable to compete on price with cheap synthetic yarn from China. On the marketing side, there have been incidents where synthetic yarn is marketed as "Made in Mongolia", causing the real Mongolian brand of organic and natural fibres to lose its value. Furthermore, the image of yak wool is mostly based on environmental sustainability and social considerations, rather than on fashion. While this approach is important in telling the "yak story", it poses a challenge to increase the presence of yak on the export markets. Consequently, yak products are almost non-existent on low to mid-end market segments, such as shopping malls and rarely feature in boutiques or fashion houses. The shortage of workers who are skilled in fashion and textiles translates into badly designed products, which further aggravate the problem. Other constraints faced by the sector include ineffective government procurement policy and limited access to international markets.



Photo: ©Ministry of Foreign Affairs

Addressing these challenges is key to help this sector reach its full potential

In the short to medium term, it is important that the herders be provided with access to wool combing tools and skills, current processing facilities be optimally utilised, and concentrated efforts be made to increase exports of value-added wool products to already penetrated major markets, including the Russian Federation and Germany. Additionally, companies should be assisted in procuring greater volumes of raw material for processing, for example through establishing direct herder-processor linkages, as this would reduce the processing charges through economies of scale. Herders should be trained on value addition activities such as cleaning camel wool to boost its sales for processing, helping them to increase their income.

Box 8. Investment in the yak and camel wool sector

Investment in the wool sector could help in improving the quality of raw materials through introducing advanced combing techniques and tools that make the activity less labour intensive. Additionally, it could finance domestic processors to buy the raw materials, and set up textile manufacturing facilities that have automated and efficient wool cleaning and processing

machines, to increase the amount of camel wool processed. The external financing could also help in building the Made in Mongolia branding for textiles and garments, and link the sector to high-end export markets. Investment can also help in improving transportation and storage infrastructure, and to in building a dedicated wool industrial zone.

Over the long term, new automated combing facilities should be established and new methods for the sorting, packaging, and labelling of natural fibres should be introduced for improved value, quality, and traceability. Furthermore, processors should be assisted to gain better access to target markets, such as assisting them with international marketing through trade fairs, and helping them gain international certificates. Exporters should aim to expand their presence in current markets for yak and camel wool products from Mongolia, such as Kazakhstan, Ukraine, Japan, Republic of Korea, France, Italy, Turkey, and Nepal. Exporters should be assisted in securing partnerships with already established brands, and to produce garments based on the design and technical specifications of the foreign buyers. Skills required by the textile market such as fashion designing, along with textile engineering, should also be promoted. On the policy side, an effective government procurement policy should be introduced and implemented, access to finance should be facilitated for the wool processing SMEs, and incentives to encourage the export of processed wool rather than raw wool should be set in place.

MEAT, PROCESSED MEAT, AND DAIRY PRODUCTS

Meat and processed meat

With animal husbandry practices that are thousands of years old, Mongolia's livestock are among its most valued assets, relied upon heavily by Mongolians for nutrients and income. It also presents an attractive export diversification opportunity. Mongolia's livestock population has grown significantly over the years, and currently the country has one of the highest per capita livestock ratios in the world, with 19 heads per person.²⁶ Subsequently, the domestic meat production has surpassed domestic demand, with the former being recorded as 448,000 tons and the latter as 269,000 in 2015.²⁷

26.–Mongolia International Capital Corporation (2017), "Animal Health, Mongolian Wealth: Unlocking Mongolia's Other Treasure Chest".

27.– Mongolia International Capital Corporation (2017).

Animal husbandry employs over a third of the country's total labour force and Mongolia has 48 meat processing factories,²⁸ which are either graded AA or AAA.²⁹ It also has 120 thermal processing factories and 15 sorting and deboning factories.

Because of its geographical location between two large markets, China and the Russian Federation, Mongolia is well-positioned to meet the region's meat demand at competitively prices.³⁰ China's interest to import 150,000 tons of meat from Mongolia further highlights the sector's export potential. Additionally, the Mongolian meat sector has been granted preferential access conditions under the EPA with Japan and EU's GSP+ status. Mongolia has a competitive advantage in producing and supplying organic meat due to its traditional pastoral animal husbandry practices.

Despite the opportunities, the sector remains constrained by several challenges

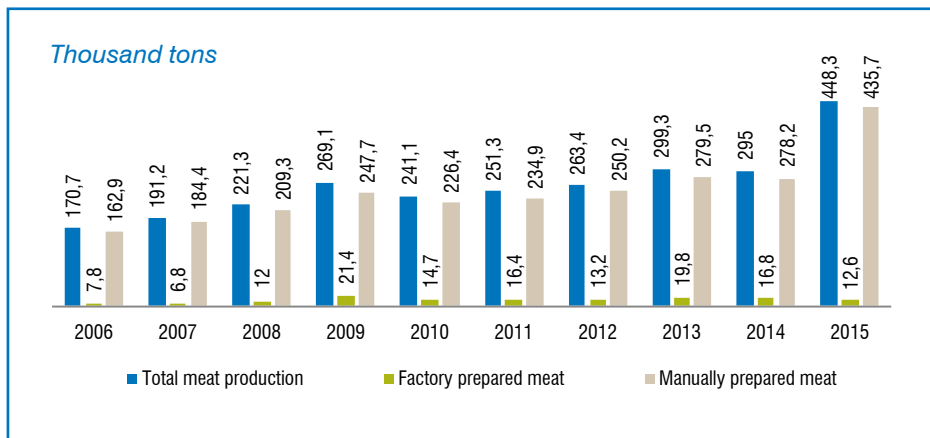
Several issues constrain the sector's capacity to compete. Manual processing of meat is still widespread, and takes lead over meat preparation using factory technology (Figure 18). In 2015, 448,300 tons of meat were prepared, out of which only 3% was processed in factories. Capacity utilization rates are nevertheless low in many of them: one processing company operates at 80%, five at 50%, four at 30%, and 27 at 20%, and the rest are inactive. With respect to thermal processing factories, out of 120, only 60 are currently operational. Despite being awarded AA and AAA ratings, processors have pointed at lack of up proper facilities, non-designated premises, and modern technology as key constraints.³¹

28.– Mongolian Meat Association (2016) "Mongolia Meat Value Chain Situation Analyses".

29.– A joint Working Group with representatives of the General Agency for Specialized Inspection, Ministry of Food, Agriculture and Light Industry and Mongolian Meat Association rates facilities against over 120 criteria to determine rating/certification. If a facility meets all requirements at an 80-100% rate, it is graded AAA; if at 60-80%, it is assigned an AA grade.

30.– Mongolia International Capital Corporation (2017)

31.– Mongolian Meat Association (2016). "Mongolia Meat Value Chain Situation Analyses."

Figure 18. Meat production by processing type, 2006-2015

Source: Mongolian Meat Association, "Mongolia Meat Value Chain Situation Analyses," 2016.

"Mongolian domestic food products are certified by MNS standards, which are not acknowledged overseas." MS. TS. GANCHIMEG, CEO, TESO CORPORATION

The low use of technology to process meat leads to further problems since the manual preparation of meat is not compliant with modern requirements of hygiene, sanitation, and food safety. In manual preparation, there is no veterinary inspection, clear origin and traceability, compliance with modern requirements for animal slaughtering, and washing and cleaning. Furthermore, there is insufficient cold storage chain, and compliance with transport rules remains weak. The lack of veterinary services leads to uncontained outbreak of infectious livestock diseases, causing other countries to restrict Mongolian meat export and transit. Low quality meat without international accreditation poses hurdles in selling, and meat exports from Mongolia are sold at very low unit prices and with high risk.³² Additionally, the significant number of livestock deaths from the 2009-2011 *dzud* increased domestic meat prices, which meant that processing companies had to pay a higher price for raw material. At the same time, the export prices failed to increase, rendering exporting unviable. Indeed, there has been a drastic decline of meat exports, from 26,071 tons in 2010 to 4,576 tons in 2016.³³

Remaining challenges in trade facilitation lower the meat sector's capacity to connect. Exporting meat from Mongolia requires exporters to apply for transit permissions from not only the importing country, but also from China and the Russian Federation, when transported

through these countries. This process involves multiple checks and inspections as well as other bureaucratic procedures, costing the exporter significant time and money, hindering Mongolian exports of meat. Out of 48 processing facilities, 31 have been certified to export, while out of 120 thermal processing factories, only four are certified to export. All of the problems combined have caused the meat exports to cease to a trickle, and since the manual slaughtering fulfils the domestic demand, factories are left with low revenue and operating capital, rendering processing unprofitable. Furthermore, the quota assigned for meat exports to companies is often perceived as discretionary, and not market-led.

Improving the global position of the meat sector requires overcoming these issues

In the short to medium term, working towards the eradication of livestock diseases should be priority since it is the main reason for restrictions on meat exports. Veterinary services are in need of reform to ensure that constraints regarding the workforce and access to medicines are addressed. Existing programmes should be expanded in terms of scope and geographical coverage to allow easy access for herders in remote areas.

Areas for animal quarantine should be established to prevent the spread of diseases. At an international level, there is a need to achieve recognition of low risk areas of foot-and-mouth disease in the Western and Central regions, in order to spread awareness about the disease-free meat from these regions. The national programmes, laws, and international projects that have already been devised such as the National Program and Law on Organic Food Products, should be reflected into a tangible course of action. For example, ear tagging and registration ceased due to lack of finances, and could be resumed if funds from various projects are directed towards this activity, helping in controlling diseases.

32.– World Bank (2017). "Mongolia's Red Meat Value Chain".

33.– Mongolian Meat Association (2016).

On the processing side, focus should be on the capacity utilisation of existing processing facilities at an optimum level to facilitate the gradual shift from manual processing to factory processing. Since thermal processing has already proven to comply with food safety and there are already 120 thermal processors present in Mongolia,³⁴ its use should be increased. This would allow for safe food production, reduced transport costs, and increased job creation, saving time and labour. Introducing certifications for factory-processed meat could serve as an incentive, as it will allow processors to capture larger and safety-conscious domestic and foreign markets.

34.– Ibid

Furthermore, immediate focus should be on increasing exports to China, since it provides a geographically favourable and massive market that expected to see growing demand.³⁵ This would require, in addition to disease-free meat, the revision of the agreement signed between China and Mongolia on export of frozen small cattle meat, and reopening of negotiations on transit permission. Additionally, meat from disease-free zones, after inspection, should immediately be granted border pass for export.

35.– Mongolia International Capital Corporation (2016)

Box 9. Investment in the meat and processed meat subsector

Investment in the meat sector is necessary to improve the whole value chain, from herders to processors to logistics to consumers. Investment in improved veterinary services, feed quality, and other factors at the level of production can reduce mortality rates. Investment can help in the establishment of disease-free areas, improving access to drugs and pharmaceuticals, resuming animal ear-tagging and registration, and ensuring that the animals are well-fed and cared for during harsh winters. Investment in research and development can also improve breeding and other aspects of production.

Additional investment in processing can enhance the current facilities available by redesigning them according to international standards. Currently, most of the existing factories are converted from old industrial buildings, and thus are not designed to meat processing needs. It can also aid in upgrading technology and equipment for meat processing and in providing

training to factory workers, for example by bringing in foreign experts on new technology installed. External financing can also cover the lack of funds to build new factories meeting all standards. Particularly, it can help set up comprehensive meat processing factories that involve the whole value chain (i.e. by allocating land to raising animals and capacities to processing by-products). This would help in overcoming the seasonality of livestock purchase, slaughter, and preparation. An example of such a factory is Gachuurt LLC.

Finally, investment is also needed to improve logistics capacities, which are necessary for transporting meat. This includes cold storage facilities, and better linked transport network such as roads to access remote rural areas. Greater use of refrigerated trucks could greatly increase distances travelled, connecting a greater number of suppliers and markets.

In the long term, laws such as the Law on Livestock Health and Law on Livestock Genetics should be strengthened to improve the structure and management of the veterinary services. Implementation of these laws should be ensured to make strides in prevention and treatment of livestock infection, thus increasing commercial viability. In terms of processing, domestic meat preparation units should be capacitated to comply with food safety, traceability, and quality assurance. For this matter, the implementation of the Meat Export Action Plan will be key. Domestic private sector accreditation organisations should be facilitated to develop and implement standards at par with those recognised internationally. Additionally, critical legislation such as the recently adopted legislation on animal health should be implemented, and the country's national quality infrastructure must be upgraded. Introducing international HACCP and ISO standards at the meat exporting factories would greatly improve Mongolia's meat image.

With respect to trade facilitation, a single window service should be established to formulate export related documentation and simplify export procedures. New markets such as Vietnam and Japan must also be explored. Vietnam has already granted eight Mongolian companies to export raw and processed goat and sheep meat, while Mongolia is actively discussing export of unprocessed meat to Japan, and sheep meat to some interested countries in the Middle-East. International expansion will undoubtedly require extensive marketing efforts, and Mongolian meat has strong brand potential, if properly developed. After getting its meat internationally certified, Mongolia can capitalise on its image as a country of nomadic heritage, and thus as a country where the livestock are raised traditionally, on non-genetically modified organisms (GMO). Meat obtained from such livestock is expected to fetch a high premium.³⁶

36.– Mongolia International Capital Corporation.

Dairy products

Given the challenges of crop farming in Mongolia's extreme climate, the country's population relies on its livestock for sustenance and earnings. Both dairy and meat the main livestock sectors, contributing 61% of livestock output.³⁷ Milk, in particular, is one of the primary sources of income for most of the herder families besides raw cashmere and meat. For a herd up to a size of 300 sheep units (SU), or for semi-incentive farming houses located around the urban settlement areas, milk would provide 51% of household income, while meat would provide 20% and cashmere only 5%³⁸. Only when the herd size is 800 SU or more does the meat provide 50% of household income³⁹. With respect to production, 458 million litres of milk is produced annually, of which 65% is cow's milk⁴⁰. Given the estimated annual demand of 403 million litres, the sector presents opportunities to export raw milk as well as develop value-added milk products for export. In terms of production sites, milk is produced from traditional extensive herds spread over the country as well as from semi-intensive dairies concentrated in urban centres. In 2015, there were 61,981 heads of dairy cattle in 1,156 intensive and semi-intensive dairy farms.⁴¹

“Cheese: 100 litres of rural milk that is hard to transport becomes 10 kg of high-value and storable cheese that is easier to transport and sell year round”
Mongolian Artisan Cheese Makers Union

One of the most important milk products for Mongolia's export development is cheese. Specifically, cheese products such as *byaslag* and *aarul* hold special significance. High-end artisan cheese-making, although a relatively new industry, has the potential to become Mongolia's signature product, that also contributes to solving environmental problems, increasing herders' income, and preserving Mongolia's unique nomad pastoral economy. The industry also has the potential to foster wide range of ancillary activities, such as whey processing and fodder production. The traditional knowledge and techniques used to produce Mongolian cheese provides opportunities for branding and differentiating the cheese products as high-end artisan goods. In terms of exports, Mongolian cheese is currently sold to Japan in minor quantities.

37.– World Bank (2015), “Agricultural Productivity and Marketing Report,”

38.– Ibid

39.– Ibid

40.– Ibid

41.– SECiM (2016). “National Dairy Development Board Situation Analysis”

The government has approved national program on promoting the development of intensive animal husbandry.⁴² It plans to spend ₮166.3 billion on the program implementation for 2019-2023 to render support to build capacity of managers and professional association of intensive animal husbandry, transfer it into a cluster system, import high productive livestock, ensure food safety and introduce new technologies. Upon implementation, the program is expected to increase the utilisation of milk producing enterprises by 35%, the number of cattle to be bred by two-fold, output of milk and meat from one cattle by 20%, and the volume of milk and meat to be processed industrially by 30%. Moreover, the program aims to eliminate the import of liquid milk, decrease the import of dried milk by 30%, improve fodder provision of intensive animal husbandry by 40%, and enhance modernisation of techniques and technology by 30%.

The sector's development remains stunted by multiple challenges

Some challenges faced by farmers are presented in figure 19. Mongolian dairies still rely on local breeds, which lowers production capacity. Pure and crossbred dairy cattle represent less than 3% of the total cattle number and milk yield potential remains low at 2,000-3,000 litres per year⁴³ due to insufficient feeding and milking of cows.⁴⁴ Compared to other countries, Mongolia's productivity is low. The average milk production of a Mongol cow and purebred cow per day is only 2.57 litres and 4.4 litres, respectively.⁴⁵ By comparison, annual milk yields per cow recorded for China (3,700 litres), New Zealand (3,838 litres), and the USA (8,400 litres) are considerably higher.⁴⁶ Furthermore, animal feed tends to be low in quality and unbalanced in rations. There are few mechanised dairy farms, and milking is done by hand or by small milking machines, which are inefficient and increase the chances of milk contamination with bacteria and foreign substances. There is also low research and development in the field of animal genetics, and breeding practices such as artificial insemination that could improve milk yield. Post-harvest losses in milk handling and storage are high, and are estimated to be 39 litres per capita. Furthermore, milk is still expensive in Mongolia, and was reported to be greater than in the Russian Federation.⁴⁷ This is due to low cow quality, high cost of feed and transport from feed to farm, and the lack of economies of scale.

42.– Montsame (2018). “Cabinet approves National Program on promotion of intensive animal husbandry”. Retrieved from <https://montsame.mn/en/read/175462>

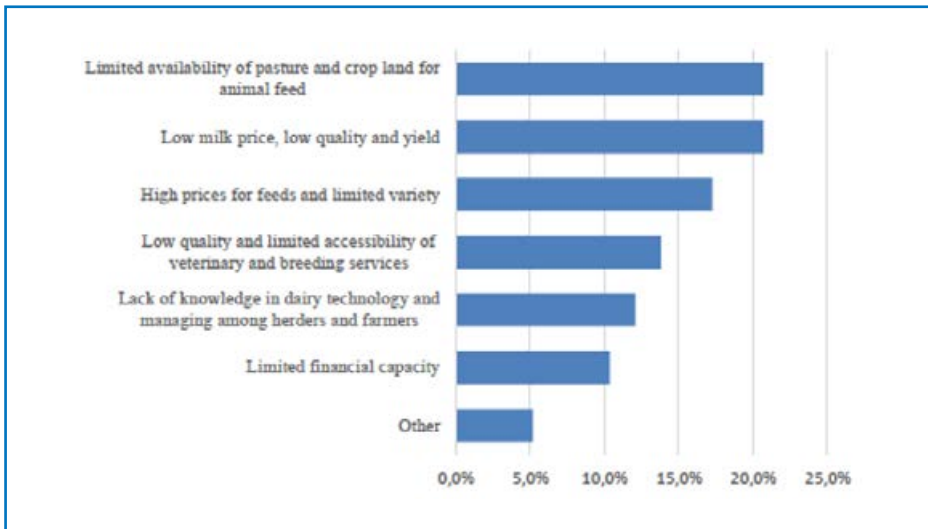
43.– Asia and Pacific Commission on Agricultural Statistics (2016). Livestock Statistics in Mongolia

44.– World Bank (2015)

45.– Agriculture Census of 2011

46.– World Bank (2015)

47.– IFC, “Investment Road Map for Mongolia”, 2018

Figure 19. Challenges faced by herders and farmers in running a dairy business

Source: SECiM, "National Dairy Development Board Situation Analysis" 2016.

With respect to the cheese industry, the sector is constrained by weak access to finance, limited supply-capacities, and lack of agreements with export partners on quality and safety, which lower its capacity to compete, connect, and change. Banks often perceive agriculture as a risky sector. Although significant offshore capital exists for innovative projects, Mongolia's foreign investment laws limit foreign investment to a minimum USD 100,000 per foreign investor, which is prohibitively costly for SMEs and start-ups. Furthermore, the absence of phytosanitary protocol between Mongolia and target markets such as the Russian Federation, hinders the exports of Mongolian cheese. Limited market access, in turn, discourages investors and producers to invest in cheese plants, which then limits the capacity to produce high-end artisan cheese. The expensive price of milk in Mongolia also decreases the volume of raw material available for the cheese industry. Import of high quality cows is needed but is obstructed by prohibitive transport costs.

Issues need to be resolved simultaneously to help the sector reach its potential

In the short to medium term, replication of commercial practices such as crossbreeding programmes or increasing the number of purebred cows, that are already being practiced by some Mongolian dairies to improve genetics and feed quality should be encouraged. Research trials such as this would provide farmers with production and economic information to use in decision-making. Government can also consider exempting the dairy equipment needed to raise productivity from import tariffs. Training programmes to advise farmers on cow breeds that can survive in Mongolia's harsh climate should also be launched. Government could consider

ways of assisting dairy farmers who need to import high pedigreed cattle.

For cheese, greater export performance can also be realised by improved packaging and branding of cheese products. Targeted institutional support to cheese producers and exporters to promote their products abroad will be essential. Concrete examples include encouraging the use of Mongolian cheese at government events and presenting domestic cheese products to foreign ambassadors and embassies. For both meat and dairy, regular trainings on pre-export stages such as quality improvement and market requirements fulfilment should be provided to herders and processors.

In the long term, after importing high-pedigreed cattle, the quality of animal feed should be improved to maintain high productivity. Private sector dairy service companies should be encouraged to help farmers with nutrition and technology use, such as the introduction of milk machines. Additionally, the concept of artificial insemination should be promoted to improve breed, and thus milk yield. In terms of human resources, scholarships should be provided for young professionals in dairy science. There is also a need to rezone the land, and allocate water for sustainable growth of the sector. With respect to cheese products, it is crucial that the government develops agreements with export partners on quality and safety. Export markets for cheese can also be expanded to Republic of Korea, China, Japan, and Russian Federation, which altogether present a market potential of 50,000 tons. To increase investor confidence, the government also needs to be sensitive to investor concerns about FDI minimum requirement, investor protection, and policy instability. Furthermore, access to finance for the sector needs to be strengthened, and agriculture SME financing should be prioritised.

Box 10. Investment in the dairy products subsector

Investment can help the sector in improving quality, enhancing international connectivity, and increasing the capacity of existing processors, while building new ones. In terms of quality, investment can help in improving the breeding stock, as well as paying for veterinary services, and thereby prevent diseases, helping the sector produce high quality products that are in line with international standards. Investing in establishing quarantine zone can help prevent the spread of infectious diseases, thus increasing the quality of Mongolian dairy products.

Access to improved market intelligence accompanying investment can help improve international connectivity, and managerial, marketing, and branding skills. Investing in dairy science can improve innovation and skills to improve the sector’s output sustainably, equipping workers skills aligned with sector’s needs.

Additionally, investment can aid in the import and use of sophisticated equipment needed to raise productivity. This includes setting up cooling collection points to aggregate farmers’ disparate outputs. Modern storage equipment can allow the transport of milk and milk products over long distances. Furthermore, advance-feeding units can remove the unbalanced rations available to the animals currently. Investment can help in improving cattle breeding through animal identification systems, artificial insemination equipment, and genetic cattle breeding technology. It can also contribute to research and development to increase better cattle breeds, for example through setting up a genetic material bank. In terms of increasing processing capacity, external financing can enable the establishment of new cheese plants, and remove the hindrance caused by lack of access to finance.

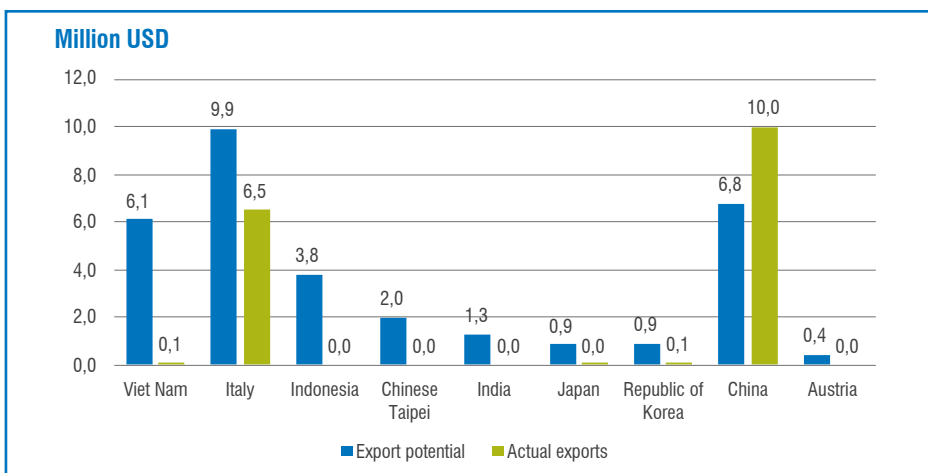
LEATHER

Mongolia has a comparative advantage in the leather sector due to its large and growing livestock population, along with it, the number of hides and skin supplied by the herders to domestic market has progressively increased. The export potential of the industry is significant. There is a large and dynamic international demand for leather products that Mongolia could potentially meet. The ten countries in figure 20 represent the markets with the largest export potential for Mongolian skin and leather articles. Combined, these markets hold an untapped export potential of USD 32.8 million.⁴⁸

“Having the raw materials originated from animal husbandry sector deep processed, value added, and thus highly valued by the end users is indeed the mission of our deep processing industries. The leather processing industrial sector is one of the leading sectors, which can facilitate an effort of reducing unemployment and poverty.” MR. BAYARSAIKHAN. T, EXECUTIVE DIRECTOR OF “MONGOLIAN ASSOCIATION OF LEATHER INDUSTRY”

48.– ITC Export Potential map

Figure 20. Top potential markets for Mongolian leather



Source: ITC Export Potential Map.

Of the few manufacturers operating the sector, most of them are SMEs. The final product of these manufacturers is mostly semi-processed leather, which is exported mainly to China, Italy, and Spain. Only a small portion of the leather is deeply processed and supplied to domestic manufacturers producing final leather products such as footwear, bags, and coats. Additionally, the sector plays a significant role in providing employment opportunities, especially to women and young people.

Leather processing has increased three times during the period of 2011 – 2018. In 2016, Mongolia produced 580 pieces of pair of shoes through industrial deep process, 900 thousand to 1 million pieces of pair of shoes through SMEs deep process, 37 thousand pieces of children's footwear, 57.7 thousand leather outfits, 191.5 thousand bags and accessories, 250 thousand pieces of gloves, and 41 thousand sheep skin coats.⁴⁹

However, the growth of leather industry is hindered by a number of challenges

The sector suffers from limited capacity to compete. Semi-processed products such as pickle, white blue, and wet blue characterise most of the sector's production, and are exported for low prices. On top of this, only a few large manufacturers hold semi-processing capacity, which keeps the quantity of semi-processed leather supplied low. An even lower number of manufacturers have deep processing capacities. This problem is further exacerbated by their lack of technology, which makes them less competitive. Most of the manufacturers are SMEs with manual operations, and a handful of employees.

The sector also suffers from lack of knowledge about international standards. UNIDO's capacity assessment revealed that out of all the leather processors, only three were aware of the international voluntary standards such as environmental certificate of International Leather Council.⁵⁰ Additionally, the sector has operational problems that hinder expansion and tapping into new opportunities, including weak access to finance, outdated leather processing equipment and technology, shortage of skilled labour, and poor quality of skins and hides, with 30% of hides and skins having mechanical damage, and 15 – 30% suffering from parasite damage. The parasite damage can be attributed to the practice of slaughtering livestock at the age of 4-5 years, causing the skins and hides to have a considerable number of holes. Additionally, insufficient level of raw material maintenance, preservation, and warehousing further lowers the product quality. The poor quality of raw material has prompted the import of semi-processed leather by certain

Mongolian leather companies in order to produce higher quality products. Furthermore, the industry is faced with trade facilitation challenges as it takes 5-6 documents and seven days of solicitation for just one shipment.

In recent years, the government has started providing support on manufacturing final products, with a positive impact on SMEs manufacturing of shoes, bags, overcoats etc. Specifically, manufacturers, such as Darkhan Nekhii, Darkhan Minj, Mon-Ireedui, Ekh Ergelt, and Mongol Shevro have upgraded their technologies, invest in human resources, and have increased value addition by deep processing 32% of their overall products. Additionally, in 2018, the government, in partnership with EU, UNIDO, and FAO, developed and launched a "Footwear Pattern Engineering" programme with the aim of supporting employment creation in the country. It is available on an E-Learning platform, and currently includes five modules on foot anatomy, shoe materials, shoe upper, shoe last copy, design of men's derby and self-tests. It will be expanded by 10 more modules on various shoe designs, such as sandals, sport shoes and high heels.

More steps need to be taken to outweigh the challenges for a more competitive leather sector

In the short to medium term, input quality should be improved through treating hides and skins with parasite repellents, and introducing techniques and standards to avoid mechanical damages such as knife cuts during slaughtering, fleshing, and skinning. Furthermore, slaughtering age should be decreased to the international age of slaughter (i.e. 6-8 months for sheep and goats, and 18 months for cattle, to reduce parasite damage). Quality standards and thus, value addition at raw material level can be ensured by segregating the hides and skins according to size, grades, numbers, age, and sex.

Additionally, existing institutions should focus on making trade facilitation effective through improving inter-institutional coordination of respective government institutions, transforming their operations into single-window service, reducing overlapped mandates, including monitoring, inspections, number of documentations, and diminishing bureaucracy. In terms of standards, there are 150 current Mongolian National Standards (MNS) in relation to the leather sector, and about 10% of these are ISO standards. Compliance with the existing standards should be strictly monitored and ensured.

In the long term, preserving practices should be improved through proper pickling, drying and freezing. This includes pickling through silicate, oxazolidine, and EWT Granifin F-90. Nano silicates are already in the process of being developed and adopted by some companies. Widespread dissemination of such processes is crucial.

49.– UNIDO "Support to Employment Creation In Mongolia"

50.– UNIDO. "Footwear Pattern Engineering"

Transportation infrastructure must be improved to solve the warehousing issues. Additionally, manual operations must be reduced through introducing modern technologies with high productivity, such as laser cutter for mass and custom tailoring, and fully automated sewing machines. In tandem, currently available workers must be re-trained to specialise in operating these machines and in deep processing in general, while highly specialised foreign expertise with advanced theoretical and pragmatic knowledge should be brought in Mongolia. Coordination must be encouraged between domestic and foreign universities for mutual recognition of their respective academic credits, in order to create a

more dynamic and innovative modern educational system, which prepares a workforce aligned to the sector's needs. With respect to standards, prospective conformity and application of international voluntary standards such as environmental certificate of International Leather Council could be fostered besides the existing ones. Lastly, new markets should be recognised. Focus should be on niche markets in order to reduce competition from China. New EU markets can be explored by utilising the granted free access, while the US market can be further penetrated given the low tariffs. This also requires ensuring that the quality of Mongolian leather products meets the standards of the potential markets.

Box 11. Investment in the leather sector

In order to develop the leather sector, easier access to finance is crucial. Investment can provide herders with a substantial amount of working capital during raw material preparation period. Currently, the fleshing process damages the skins and hides, which reduces the value of the raw material and in turn, reduces the herders' income. Research and development in automated fleshing process, such as by using NaOH and H₂O₂, can allow the herders to perform fleshing without damaging the skin. Investment can also help in preparing a skilled workforce to produce value-added leather products.

Additionally, investment can help in introducing modern and green technologies, leading to high productivity. "Eco leather" and "Nano leather", produced using clean technologies, comply with the concept of Green Development, and can help

in branding Mongolian leather as "Organic Leather" or "Bio Leather", thereby helping it compete in a world market that is increasingly becoming conscious of sustainable development.

Furthermore, there have been discussions about establishing leather industrial and technological parks, and a "light industrial and technological park" based in Emeelt was established in 2014. However, no construction of the park's infrastructure has yet taken place, and consequently, no tanneries and leather manufacturers have been relocated from the cities to this park. Since the originally plan envisaged that the relocation will take place, no new tanneries or manufacturers were built in the cities. Investment is needed for the establishment of deep processing plants to enhance value addition.

INFORMATION AND COMMUNICATION TECHNOLOGY

Since its liberalisation in early 1990s, the ICT sector has grown rapidly, and today 85% of the population uses smart phones.⁵¹ ICT infrastructure is well-developed, with 1,546 secure internet servers per million people, which is above the 323.8 average for lower-middle income economies. Furthermore, Mongolia's young and well-educated population is conducive for the flourishing of knowledge-based sectors, such as ICT. Based on these factors, the ICT sector has attracted the interest of foreign investors, for example to host server farms in Mongolia. Both the government and Mongolian youth also see the sector as desirable, with the youth looking for career opportunities such as establishing tech start-ups in the sector. This highlights the potential of the ICT sector to attract investment, generate service exports, and improve efficiencies in other sectors of the economy.

Currently, four major mobile operators dominate Mongolia's mobile market, with the largest operator accounting for 44% of the total subscribers. Operators have continued to introduce and invest into new technology such as expanding 3G and 4G LTE services, which are regarded as the most promising means of boosting the average revenue per user in coming years. Smart phones and data services have become increasingly popular in Mongolia in the past few years. At the end of 2013, there were 1.1 million 3G subscribers in Mongolia, which was more than a 100% increase from 500,000 at the end of 2012.⁵² However, the growth in subscribers is mainly focused in urban areas, with 54% of the mobile subscribers residing in Ulaanbaatar at the end of 2013. With more Mongolians expected to move into the middle-class in coming years, and given the falling prices of mobile tariffs and the smartphone handsets, the number of subscribers is expected to grow in the country. With respect to fixed telephone lines, the number of subscriptions has remained nearly constant.

51.– IFC (2018)

52.– Oxford Business Group (2015). "The Report of Mongolia - 2015"

Development of ICT sector is constrained by a number of factors

Despite the well-developed infrastructure, and significant levels of use of some technologies, only 23.7% of the population used the internet in 2017 (Figure 21) and only 25% consumers shop online.⁵³ Limited Mongolian internet content is cited as the main reason of the low number of people using internet. A large number of internet users in Mongolia spent their time online on foreign websites, such as Facebook, Google, YouTube, and Yahoo. Foreign websites and foreign content are largely inaccessible to majority of Mongolians who do not speak English. Additionally, while the overall education level is high in the country, sector specific knowledge and foreign language skills are not good enough to offer ICT services to customers outside the country. There is also a lack of comprehensive development strategy for the ICT sector, along with a lack of national level laws and regulations that meet the common requirements of e-commerce. Additionally, there is insufficient support for entrepreneurs and start-ups, which has translated into a dearth of incubators that could otherwise transform the

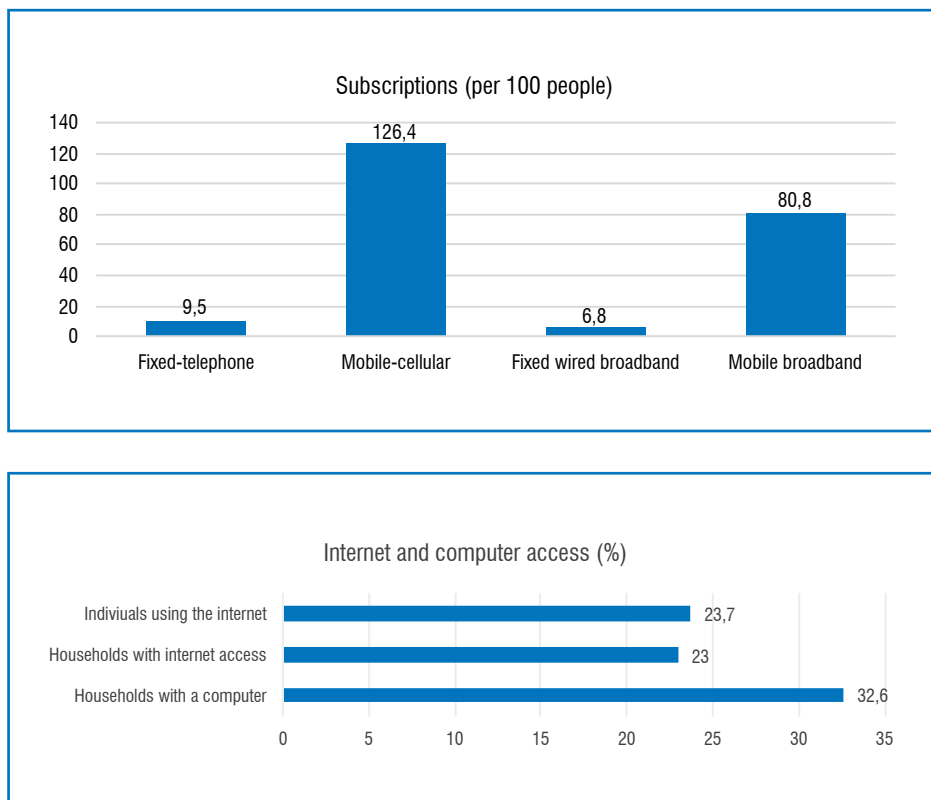
exuberance of Mongolian youth into ICT powerhouses. ICT is also not well recognised among public and private sector leaders as well as banking and financial institutions as either a commodity, a service, or intellectual property. Furthermore, the weak enforcement of laws in intellectual property rights discourages innovation and investment in the sector.

“There is huge opportunity in Mongolian ICT sector if we could effectively enforce respective laws and regulations on intellectual property rights but unfortunately, such culture, mindset and expected overall behavior is not well set up yet in Mongolia”. MR. ZAGDRAGCHAA. L, GENERAL DIRECTOR, INFOSYSTEMS CO.,LTD,

The government has taken steps to support the growth of the ICT sector, including the adoption of the e-Mongolia programme and ICT Vision 2021. Additionally, the legislative framework has been developed including the Digital Signature Act. Policy and regulatory guidelines have been put in place on mobile communications, addressing the expansion and upgrading of services. Furthermore, the government coordinated with Google to include the Mongolian language to Google Translate, the popular online translation service.

53.– IFC (2018)

Figure 21. ICT environment in Mongolia, 2017



Source: ITU.

Addressing the legal, infrastructure, and skill barriers is necessary to fulfil the sector's potential

In the short to medium term, focus should be on building upon the already taken steps, starting from implementation of laws on e-government, information security, data protection, and intellectual property. The application of digital signatures and improvement in e-payment systems should also be accelerated in order to recognise e-commerce actors and alleviate the challenges faced by them. This would increase the number of Mongolians who shop online, thereby facilitating the trade environment, and helping Mongolia to accede to international agreements.



Photo: ©Ministry of Foreign Affairs

Box 12. Investment in the ICT sector

Investment in the sector can expand the ICT services, particularly beyond urban areas, and enhances connectivity in remote areas. This can cause positive spillovers for other priority sectors and the economy generally. External financing can also help in fostering the entrepreneurship environment through for example, establishing incubators, and supporting ICT education

programmes. Additionally, new technologies can be introduced to make the online payment system secure to develop the e-commerce culture in the country. Investment in related areas, such as logistics, will help to reduce transportation time and costs, improving the prospects of e-commerce.

In the long term, a uniform strategy that coordinates actions across all government institutions should be articulated. Gaps in ICT infrastructure should be addressed as demand for their use increases, such as through the expansion of 3G and 4G LTE services. Efforts to foster entrepreneurship will help to develop new areas of activity; the establishment of more public and private business incubators and other support programmes could help to encourage start-ups and assist in their growth. Increased emphasis on digital and foreign language skills at all levels of education will help in retraining current workers and preparing future workers for the sector. As such, ICT should be embedded in entrepreneurial education, including through the training of teachers.

TOURISM

Mongolia, with its natural landscape, unique culture, and prevalent nomadic lifestyle, is an attractive tourist destination. A 2015 study found that the prime motivation among Europeans and North Americans for visiting Mongolia was “to discover the Mongolian culture, the nomadic way of life, and the nature.”⁵⁴ This interna-

tional trend presents a huge opportunity for Mongolia, which can exploit its position as a natural tourist attraction to fulfil the demand. It is expected that the tourism industry in Mongolia will grow to directly contribute USD 527.6 million to the GDP, while the total contribution (direct and indirect) will amount to USD 2,096.8 million.⁵⁵ Thus, offering high-valued tourism services along with responsible development and strengthening domestic suppliers, could boost sustainable and inclusive growth.

In 2017, the tourism sector directly contributed USD 330.5 million and indirectly contributed USD 1,233.1 million to GDP (3.1% and 11.4% of GDP respectively), while the value of tourism visitor exports was reported to be USD 459.3 million (6.7% of the total exports).⁵⁶ The same year, Mongolia received 543,000 visitors, who spent USD 462 million during their stays. Additionally, 54,000 business and professional travellers visited the country, spending USD 36 million. In 2017, the tourism industry directly accounted for 2.9% of total employment, or 34,000 jobs. Indirectly, the industry accounted for 10.4% of total employment, or 121,500 jobs.⁵⁷ China is overwhelm-

54.– Acorn Tourism Consulting Ltd for CBI Ministry of Foreign Affairs (2015). *CBI Tailored Study: Cultural Tourism to Mongolia*. The Hague, Netherlands.

55.– World Travel and Tourism Council (2018). *Travel & Tourism: Economic Impact 2018: Mongolia*. Available at: <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/mongolia2018.pdf>

56.– World Travel and Tourism Council (2018).

57.– Ibid

ingly the top market for foreign visitors, with other major markets being the Russian Federation and Republic of Korea, and to a lesser extent Japan, the United States and the European Union countries.

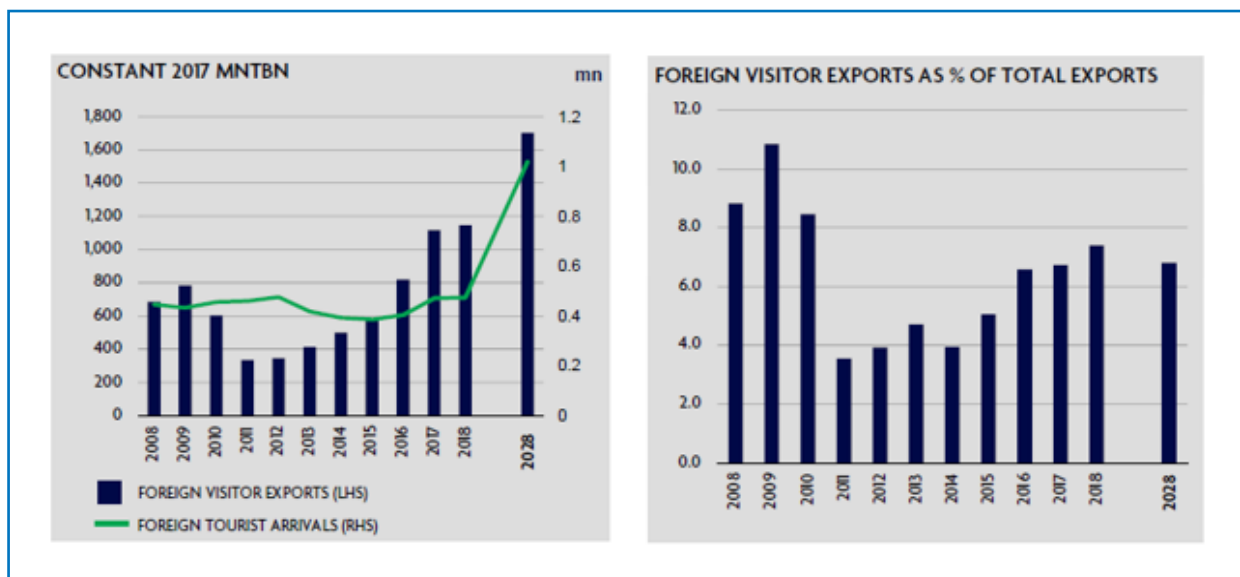
While the main element of attracting tourist remains offering outdoor activities such as trekking, horse and camel riding, and camping, the authenticity of such experience varies from region to region. For example, in Central Mongolia, the national parks are the main attraction. Since these parks are closer to the capital, they receive a higher number of visitors than the landscapes in other regions. The parks offer an organised form of tourism, with resorts and permanent ger camps adapted to accommodate western comfort. In contrast, the remote regions of the North, South, West, and East Mongolia offer outdoor activities organised more closely with local guides and nomadic communities, and are

considered more authentic and less disturbed by influence of tourists.

The number of challenges faced by the sector has halted its growth

In recent years, the number of tourists has either decreased or stagnated due to the sector's low capacity to connect (Figure 22). Mongolia's tourism sector has been heavily constrained by insufficient air, road, and rail transport infrastructure. The deteriorating road conditions make it difficult to access remote locations, while limited number of airports and flights restrict international connectivity, preventing the further development of tourism. The sector also suffered a setback when the coverage of visa-on-arrival facility was reduced from more than 40 countries to just 20 countries in 2016.

Figure 22. Visitor exports and international tourist arrivals in Mongolia



Source: World Travel and Tourism Council, Travel & Tourism: Economic Impact 2018: Mongolia.

Additionally, the sector suffers from a lack of unified marketing strategy, which translates into less connectivity with international markets and less visibility. For example, there are 450 inbound tour operators in Mongolia, out of which only 13% are proactive in the international market.⁵⁸ Linkages between foreign and domestic firms are weak. The international chains present in Mongolia almost entirely procure inputs from foreign sources such as China rather than local sources. The limited number of hotels lowers the sector's capacity to compete. For example, Ulaanbaatar, which is a centre

of Mongolian tourism, only has two five-star hotels. The lack of enforcement of sustainability laws has started to threaten the environmental ecosystem. Furthermore, the sector's capacity to change is constrained by the dearth of skilled workforce. Since tourism is a highly seasonal sector, and therefore it is less attractive as a career option, resulting in a cycle of low expertise, low tourist inflow, and low employability in the sector.

There have been some steps taken by Mongolia to overcome these obstacles, such as the "Nomadic by Nature" campaign by the Mongolian Tourism Association and the government's Action Program to increase the competitiveness of the sector.

58.- CBI, MFA of the Netherlands by Acorn Tourism Consulting Ltd (2014). "Cultural Tourism to Mongolia" Final Report, April 2014,

Tipping the scale in favour of the tourism sector would require further efforts

In the short to medium term, the implementation of the government's Action Program will be key. Relaxing visa requirements has proven to increase tourists in the past, and thus should be considered. Introducing e-visa and visa-on-arrival facility can also help in increasing the number of arrivals. The enforcement of environmental protection laws will be important in encouraging the sustainable development of tourism and protection of Mongolia's natural heritage. The current workforce must be trained in hospitality management to increase service quality.

In the long term, efforts should be made to develop and improve air, road, and rail infrastructure. The number of flights should also be gradually increased with the development of the new Ulaanbaatar airport. On an institutional level, coordination between government bodies, including MOET, NDA, and MFA, should be strengthened to improve efficiency and effectiveness of their interventions, and to develop a coherent national tourism strategy. Additionally, new markets should be explored. Specifically, the government should review visa requirements and processes for the EU, Australia and other target markets, as well as compare its current policies to UNWTO recommendations and best practices. Additionally, the service quality must be improved through development of international services standards for tourism facilities, and investment in skill development for hospitality management. To reduce the high seasonality effect of the sector, a strategy must be adopted to attract tourists in off-season, such as reduced fares, focusing on business travellers, and increasing the scope of tourist activities.

high anticipated growth in Asia. This is reflected in the International Renewable Energy Agency's estimate that Mongolia's solar and wind potential could be up to 2.6 terawatts (equivalent to 2,600,000 MW)⁵⁹ and represent about USD 6 billion in investment. Based on the estimated potential, Mongolia is looking to connect with the Asia Super Grid, which would create linkages with growing regional demand from China, Russian Federation, Republic of Korea, and Japan.

In 2017, Mongolia's electricity production reached 6,089.1 GWh (80%) and import reached 1,522.5 GWh (20%), which is in total 7,611.6 GWh. In terms of composition of the total electricity generation, 95.7 % (5,826.9 GWh) is generated by Combined Heat and Power Plant (CHPP), 4.2% (262.2 GWh) is generated by wind power, solar photovoltaic, and hydro power plant, and 0.06% is generated by diesel generators.⁶⁰



Photo: © Government of Mongolia

Box 13. Investment in the tourism sector

Investment can help tackle two main challenges faced by the sector, namely underdeveloped facilities and human capital. Investment is needed in expanding and improving facilities in the sector, including accommodation infrastructure such as hotels, guesthouses, camping sites, and resorts that are up to international standards. In terms of the workforce, investment can help in building capacity of the sector to enable it to deliver services that meet international customer expectations, through

investing in tourism education programmes, and increasing the capacities of the private sector to contribute to building and implementing such programmes. Standards development will be important in achieving this, and the implementation of environmental standards in particular can boost eco-tourism. Investment can also provide assistance to initiatives aimed at increasing local supply sourcing, as well as improve access to finance for SMEs in tourism.

RENEWABLE ENERGY GENERATION

Mongolia's significant technical potential and low population density makes it an ideal location for solar and wind farms that could power the coming century of

59.– Green Climate Fund (2017) Renewable Energy Program #1 – Solar – Funding proposal. Available at: https://www.greenclimate.fund/documents/20182/574760/Funding_Proposal_-_FP046_-_XacBank_LLC_-_Mongolia.pdf/dd828555-bd41-44be-b7e8-67794f57bf76

60.– Energy Regulatory Commission of Mongolia, 2017 Statistics on energy performance.

However, currently Mongolia's renewable energy sector is unable to export

Currently, the country's renewable energy sector has limited capacity to compete. Mongolia holds insufficient levels of installed capacity of renewable energy plants to meet the elevated demand of the Super Grid. Mongolia's domestic energy sector's installed capacity of the Central region integrated power grid (CRIPG) is 1,174.8 MW, of which about 20% is imported from the Russian Federation. This confirms Mongolia's restricted capacity to export significant amounts of renewable energy in the near term. Technical, financial, and political challenges involved in developing connections through Gobi Desert may pose challenges for the development of new renewable capacities for export.

Average electricity tariffs in Mongolia are competitive compared to those of neighbouring countries, however in terms of quality of electricity supply, Mongolia is at a competitive disadvantage. Additionally, it is argued that the wind generators already built are not using designed capacities due to considerable operating costs and prohibiting electricity prices, and thus, require government subsidies, increasing public debt without yielding income. Furthermore, the energy sector is extremely regulated, and under the Law on Renewable Energy, the Energy Regulatory Committee is ordered to fix the price and tariff of renewable energy. Under such regulated environment, it is almost impossible for investors to make profit. Absorbing large amounts of power from renewable sources also remains a challenge. The installed coal fired power plants and their respective electricity grids restrain the automatic integration of power generated from renewable sources into the grid. Although the performance of Mongolia's power infrastructure is similar to that of other countries at its income level, as of 2016, 81.7% of the Mongolian population had access to electricity, and transmission and distribution losses equalled 14.8% of output in 2014.⁶¹

61.– World Bank (2016). "Access to electricity". Available at <https://data.worldbank.org/indicator/EG.ELC.ACGS.ZS?locations=mn>

Even though the investment priorities in this sector are yet to be aligned with trade priorities in the short-term, Mongolia's electricity generation holds significant export potential in the long-term. For example, the 55MW Ferrostaal's wind farm project in Saishand is expected to bring in a total of USD 100 million in FDI alone, which would make the renewable energy sector a leading non-mining and non-trading attractor of FDI. Furthermore, according to the Action Plan of Mongolia's Green Development Policy, the country is set to reduce greenhouse gas emission in the energy sector through ensuring that the share of renewable energy in total energy production is 20% by 2020, and 30% by 2030. Hence, development of this sector should be a priority in order to achieve national objectives.

Some efforts are being made to support the development of the sector, for example, through use of feed-in-tariffs for renewable energy generation. Additionally, an agreement has been reached between the ADB and the government of Mongolia for the establishment of a 41MW project, with the help of Japan. This initiative, together with the Ferrostaal's wind farm, is worth more than USD 200 million.

Unleashing the sector's export potential will require some strategic steps

In the short to medium term, the existing facilities and available resources must be capitalised upon. For example, to achieve the goals set out in the Green Development Policy, the current energy production system and other industrial technology need to be revamped, excessive consumption and losses need to be reduced, and pricing policies need to be optimised. Other steps that could be taken include prioritising smaller projects to test and develop expertise, and improving coordination and knowledge transfer between foreign and domestic firms.

Box 14. Investment in the renewable energy sector

Mongolia possesses the potential to export renewable energy; however, it needs substantial investment in order to develop the generating capacity needed to exploit that potential. Additionally, investment can help in building infrastructure needed for exporting the energy, such as grids to manage the extra power generated, and transmission lines that transport

the power to the Asia Super Grid to fulfil the region's electricity demand. Furthermore, investment can revamp the existing power infrastructure to reduce the losses and gradually shift towards technology and systems that are more efficient, helping Mongolia achieve the goals set out in its Green Development Policy.

In the long term, the development of this sector could be accelerated by replacing public debt incurred through the projects with private equity. Investment should be encouraged in the sector by providing investors with a purchasing guarantee, and gradually liberalising the sector and regulating it based on market driven principle. Additionally, grids, especially designed for energy generated through renewable sources, should be set up to absorb extra power produced, and domestic and international transmission infrastructure should be improved.

PROCESSED MINERALS

In 2018, Mongolia celebrated the 96th anniversary of the development of its mining sector, which has been a significant contributor to the country's economic development since the beginning. Over the years, the sector has moved from being concentrated in coal and gold to include copper, iron and steel, and oil. The country has abundant mineral wealth with 173 billion tons of coal reserves, 1 billion tons of iron ore reserves, 93.3 million tons of copper reserves, 2000 tons of gold reserves, and 332.6 million tons of oil reserves.

The minerals industry is a crucial part of the Mongolian economy, accounting for 68% of the country's total industrial production,⁶² 21% of the GDP, and 30% of the national budget revenue.⁶³ It also provides employment to 40,000 people.⁶⁴ Additionally, the sector accounts for 85% of exports, and 70% of the total FDI.⁶⁵

However, little transformation activity takes place in the sector

Mongolia's heavy industry production has a low capacity to compete, being predominantly focused on mining raw materials and primary processing. About 97% of products from mining processing consist of semi-processed products with low technological capacity, while the total export revenue consists mainly of coal (48%), copper concentrates (35%), gold (10%), and iron concentrates (6%).⁶⁶ Additionally, the production facilities for processing minerals operate below their capacity. For example, coal washing and processing facilities, and steel production facilities utilise less than or equal to half of their full capacities. With respect to refined copper production and copper products, the Mongolian companies are not very competitive, and are unable

to compete with the low priced copper wires from the Russian Federation and Republic of Korea. The import duty imposed by the Russian Federation and China on Mongolian copper wires further hinders its export. In terms of oil, Mongolia lacks its own refinery to meet the domestic needs of the country, and relies entirely on imported sources. Similarly, lacking a gold refinery, Mongolia refines its gold abroad in countries, such as United Kingdom, Japan, and Switzerland, which involves expensive shipping costs.

During the last several years, Mongolia has enacted and implemented several policies and programmes for the support and development of industrial production. For example, the Sustainable Development Vision, which includes increasing composition of the processing industry in the total exports from 17% in 2014 to 50% in 2030, fully meeting the petroleum needs through domestic production, upgrading processing levels in minerals processing, support value-added production through legal and taxation policies, while preserving the environment. Additionally, programmes such as the Government of Mongolia Action Plan for 2016-2020, Programme for Economic Revitalization and Gold-2 include plans for the establishment of mega projects for copper, oil, and gold refineries, and the development of production facilities for iron and steel, petroleum, coal, and chemicals.

Further steps are needed to fully exploit the potential of the processed minerals industry

In the short to medium term, Mongolia should focus on building a roadmap that enables it to implement the envisioned plans to achieve the outlined goals. It should encourage the optimal utilisation of existing processing facilities for copper and iron concentrates, crude oil, and coal. Mongolia is already well-known by mineral investors and thus, securing FDI would not pose to be a big problem for this sector. The current incoming FDI should be directed towards processing activities rather than on further exploration and extraction of raw material.

In the long term, focus should be on developing the coal chemical industry, copper and gold refineries, and steel project, while at the same time introducing a favourable tax, financial and legal environment. There should also be a systematic development of industrial complexes that will attract FDI as well as local private investment. This would also require improving predictability of the policies and rule of law by supporting their enforcement. Investment strategy should be developed with the vision of increasing transformation activities in the sector, and hence, focus should be on downstream-activities that contribute to economic and export diversification and upgrading.

62.– Country Snapshot: Mining in Mongolia 2017. Available at <https://www.ausimmbulletin.com/feature/country-snapshot-mongolia/>

63.– Export.gov (2017). "Mongolia – Mining". Available at <https://www.export.gov/article?id=Mongolia-Mining>

64.– Country Snapshot: Mining in Mongolia 2017.

65.– Export.gov (2017). "Mongolia – Mining"

66.– Mongolian Customs (2019). Available at <http://www.ecustoms.mn/>

Box 15. Investment in the processed minerals sector

Overall, investment can help Mongolia implement its plans and programmes, and achieve the goals set out in them. Investment in enhancing technological capabilities of the sector can increase its processing capacity. Additionally, this would increase the productivity of the sector, enabling it to

compete with foreign counterparts. Investment can also aid in establishing new processing facilities such as gold, copper, and oil refineries, thereby decreasing the high costs of processing the minerals abroad.

Box 16. Towards a green economy

Mongolia's pursuit to economic prosperity primarily based on mining has led to uncontrolled exploitation of the country's natural resources. This trend, along with climate change, has had significant negative impact on the country's environment. For example, the average annual air temperature increased by 2.2 degrees Celsius, and the number of hot days increased by 8 – 10 days, resulting in increased precipitation and decreased soil moisture, and consequently reduced pastureland and cropland yields.

Mining operations remain the most environmentally harmful sector. A recent government inspection found that out of 22,752 hectares of mined land, 4,256 hectares has been damaged by mining activities and abandoned with no rehabilitation. Only 9,100 hectares had any remediation work undertaken to restore the land to its previous land use. The weak environmental standards and the capacity to enforce environmental laws and regulations, paired with uncontrolled use of chemicals, such as mercury and cyanide for mineral processing, are likely to exacerbate the ecological damage.

Additionally, the exponential growth of goats for raw cashmere and the decreased practice of traditional nomadic herding based on seasonal rotation of pastureland has led to exacerbation of degradation of the Mongolian steppe and pasturelands. This has mainly been caused by abovementioned extreme climate change impacts and natural disasters such as dzud (extreme blizzards) and drought. As a result, 77.8% of the total territory has become subject to degradation and desertification.

Other environmental concerns include illegal wildlife trade, illegal logging, and deforestation, disappearing of already limited water resources, and increased air, water, and land pollution due

to expansion of cities and settlements, caused by uncontrolled rural-urban migration, which is mainly caused by extreme climate change impact and ineffective cross border trade facilitation of goods and products generated from domestic animal husbandry sector.

Mongolia's environmental sector has revised its legal and regulatory framework in accordance with international standards. At present, Mongolia has adopted 27 laws and 18 national programmes with respect to environmental protection. It has also signed 12 international conventions and five protocols, and has bilateral cooperation agreements with over 30 countries around the world. Additionally, a legal environment for strategic environmental assessment and auditing has been established and 2,087 environmental impact assessment reports have been received and approved. MoET with help of MFA has managed to incorporate the certain green trade related key provisions to the existing Mongolian Law on Public Procurement in order to ensure sustainable trade or green trade related legislation. The ministry has managed to improve certain legislative initiatives to enhance the legal environment of the manufactures and producers to develop their value chain more sustainable.

However, the main problem lies with the implementation of the laws set out for environmental protection. For example, out of 61.6 billion tugriks retained in the local budget for the environmental sector, only 29% of the total amount was spent on environmental conservation and restoration in 2016. Strategic environmental assessment and environmental auditing need to be carried out as legally stated and the respective Ministries, project and programme implementers, and economic entities should be given guidance and information on these assessment and audits in order to intensify the actions undertaken.

Source: Ministry of Environment and Tourism of Mongolia (2017). State of the Environment of Mongolia 2015-2016; Jeffery Reeves (2011). Mongolia's Environmental Security and Ministry of Environment and Tourism of Mongolia (2014). Mongolia's Transition to a Green Economy

TRADE AND INVESTMENT SUPPORT FUNCTIONS

In addition to the priority sectors, six trade and investment support functions were identified as being particularly important to enable export development and attract investment across all sectors in Mongolia. Three of these support functions are directly related to addressing challenges in connecting with international markets and opportunities (trade and investment policy, trade facilitation, and trade and investment promotion), while three address challenges affecting firm capacities relevant to trade and investment (access to finance, quality management, and skills development).



Photo: ©MFA. Mongolia's TIR Second stakeholder consultation, January 2019.

TRADE AND INVESTMENT POLICY

The transformative potential of trade and investment for Mongolia's economy and society mean that the development and implementation of policies should be aligned with national development plans. While liberalisation and openness in Mongolia are progressing, key challenges remaining to be addressed include the unrealised potential of current and possible trade and investment agreements, the lack of transparency and formalised co-operation with the private sector, and weak institutional capacities in the public sector.

Liberalisation and increased openness have created new opportunities in Mongolia

Efforts in liberalisation, policy reform, and the negotiation of international economic agreements by the Ministry of Foreign Affairs and other institutions responsible for trade policy formulation and implementation have borne fruit. Mongolia has become an increasingly outward-oriented economy, which has driven growth and economic development. Mongolia currently has 37 bilateral investment treaties in force and six signed treaties (Table 5).

Table 5. Mongolia's bilateral investment treaties

In force		
• Austria	• India	• Poland
• Belarus	• Indonesia	• Romania
• BLEU (Belgium-Luxembourg Economic Union)	• Israel	• Russian Federation
• Canada	• Italy	• Singapore
• China	• Kazakhstan	• Sweden
• Cuba	• Korea, Republic of	• Switzerland
• Czech Republic	• Kuwait	• Tajikistan
• Denmark	• Lao People's Democratic Republic	• Turkey
• Egypt	• Lithuania	• Ukraine
• Finland	• Malaysia	• United Kingdom
• France	• Netherlands	• United States of America
• Germany	• Philippines	• Viet Nam
• Hungary		
Signed		
• Bulgaria	• Croatia	• Korea, Dem. People's Rep. of
• Kyrgyzstan	• Qatar	• United Arab Emirates
Terminated		
• Japan		

Source: UNCTAD (2019), International Investment Agreements Navigator.

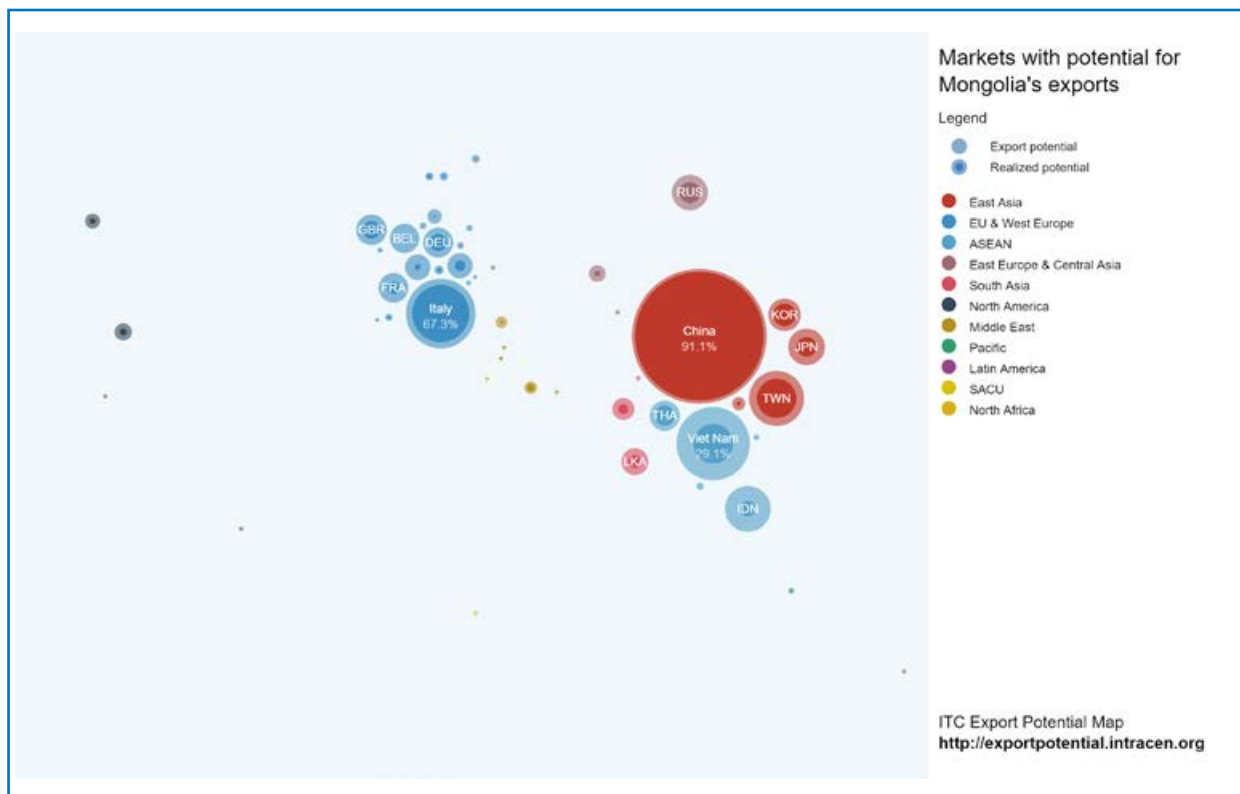
Capacity improvements are needed in policy development and implementation

Further efforts are needed to strengthen trade and investment policy. For example, although Mongolia is among the most open economies for foreign investment in the region, fluctuations in government policy on openness to investment create an unpredictable environment that deters investment, particularly FDI. The lack of a clear government vision on the role of FDI in private sector development and frequent policy changes also make it difficult to develop and reap the benefits of a long-term investment strategy. Other barriers, such as those on land ownership, minimum foreign equity requirement of USD 100,000, and registration issues, as well investor complaints on ministries' refusal to honour

incentives and rights stipulated by the investment law also negatively affect investment.

A significant amount of potential trade is left unrealised as well. According to ITC's Export Potential Map, Mongolia has untapped export potential of USD 253.2 million. In terms of absolute value, the greatest untapped potential for increasing exports is with Vietnam (USD 51.8 million), Indonesia (USD 24.4 million), China (USD 22.6 million), and Italy (USD 21.4 million) (Figure 24). By product, the greatest potential to increase the value of exports is in equine meat (USD 56.3 million); nuts nes (USD 50.0 million); copper cathodes (USD 40.1 million); and fine animal hair, not carded/combed, nes (USD 13.3).

Figure 23. Markets with potential for Mongolia's exports



Source: ITC (2019), Export Potential Map.

While Mongolia's Trade and Investment Support Institutions provide a range of services to firms, there is a lack of coordination among them in their activities, which along with capacity constraints hinder the effectiveness and reach of many of the services offered. In particular, smaller firms often lack reliable and timely information on important issues including market access conditions.

Weak governance and lack of transparency hinder effective policymaking and implementation on trade and investment. According to the World Bank's Worldwide Governance Indicators, Mongolia ranked in 2017 in the bottom 50% of the world in government effectiveness (42.8th percentile), rule of law (41.8th percentile), and control of corruption (41.8th percentile). Strengthening institutional capacities in and the professionalization of the public services would help to reduce the sometime politicisation of regulatory decisions on FDI inflows.

At the same time, the significant role of state-owned enterprises in the economy inhibits private sector development and limits potential opportunities for foreign investment. The lack of dedicated institutional focus on the administration of public–private partnerships and concessions has led to greater reliance on the use of state-owned enterprises (SOEs) instead, such as in mineral refining. This in turn has given rise to monopolies. For instance, the state-owned MIAT Mongolian Airlines has a monopoly in the freight forwarder market, thus raising the costs of airfreight and subsequently of exporting.

Trade and investment policy in the TIR

The TIR addresses the key challenges related to trade and investment policy (Table 7). These include actions to address the unrealised potential of trade and investment through the development of capacities in government and in the broader policy development ecosystem, as well as reviews of existing and potential international agreements. In response to the lack of transparency in the development and implementation of policy, new mechanisms for information sharing are to be established, and actions taken to improve implementation capacities and professionalism in the public sector.

Table 6. Trade and investment policy: Key challenges and TIR actions

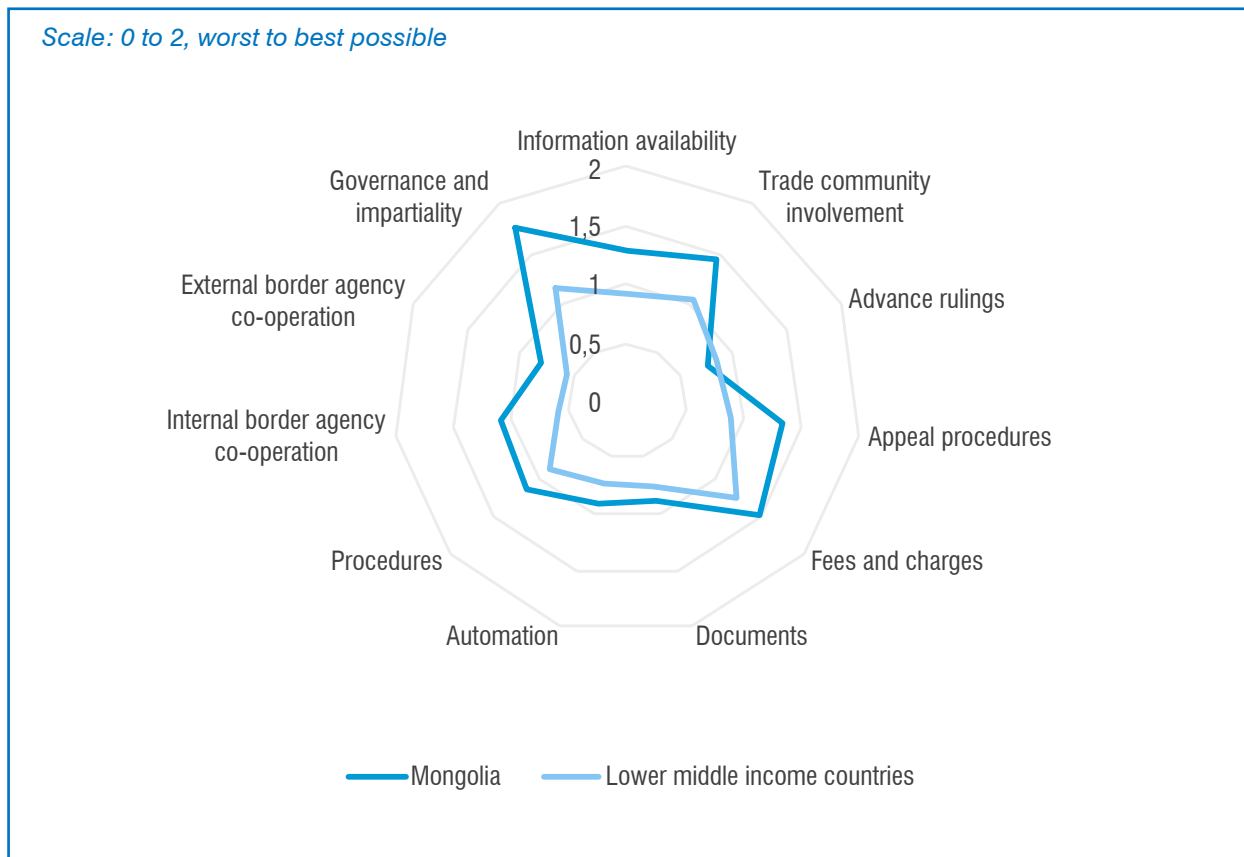
Key challenges	Proximate issues	Actions to be taken
<ul style="list-style-type: none"> Trade and investment policy and agreements could further support the economy’s potential 	<ul style="list-style-type: none"> Capacities are limited to develop effective trade and investment policies Uncertainties in investment policy discourage FDI Private sector perspectives not consistently involved in policy development 	<p>Build TISI capacities to support policy analysis and development (1.1.1)</p> <ul style="list-style-type: none"> Develop trade and investment policies aligned with national development planning (1.1.2) Develop a full-fledge national export strategy (1.1.3) Support the facilitation on implementing the Mongolia Investment Law and other legislation (1.1.4) Establish a Mongolian Export and Investment Council (1.5.1) and establish sector committees within the Council to represent the interests of TIR priority sectors (1.5.2) Foster coordination in the private sector to develop connections for consultation and information dissemination (3.1.1), to develop connections between business groups (3.1.2), and to improve voicing of the private sector’s concerns (3.1.3).
	<ul style="list-style-type: none"> Potential of current and possible international agreements is not fully realised 	<p>International agreements</p> <ul style="list-style-type: none"> Strengthen the value of existing trade and investment agreements by reviewing performance (1.3.1) Strengthen the value of future trade and investment agreements by scanning potential partners and preparing analyses (1.3.2)
<ul style="list-style-type: none"> Lack of transparency in policy development and implementation 	<ul style="list-style-type: none"> Lack of transparency in policy development including limited communication and collaboration in policy development Information on trade opportunities is not effectively disseminated to firms 	<ul style="list-style-type: none"> Build a trade policy public portal (1.4.1) Formalise private sector technical committees to contribute to negotiations (1.4.3)
	<ul style="list-style-type: none"> Discretionary application of rules Incomplete implementing regulations 	<ul style="list-style-type: none"> Improve predictability of the policies and rule of law by supporting their enforcement (1.2.1, 1.2.2, and 1.2.3) Establish a professional civil service by implementing the new Civil Service Law (2.6.1) and investing in capacity building for public administration (2.6.2)

TRADE FACILITATION

Improving trade facilitation in Mongolia would significantly reduce costs and time-taken to trade significantly. While Mongolia performs relatively well in international comparisons and has identified the importance of making further improvements, actions are needed to implement international commitments, improve cross-border systems, and implement a national single window.

Continued efforts to improve trade facilitation are planned

According to the OECD’s *Trade Facilitation Indicators*, Mongolia performs relatively well for its income group, particularly in terms of the involvement of the trade community, fees and charges, internal border agency co-operation, and governance and impartiality (Figure 25). The greatest room for improvement remains in the areas of advance rulings, external border agency co-operation, documents, and automation.

Figure 24. Trade Facilitation Indicators, 2017

Source: OECD (2018), Trade Facilitation Indicators.

The Mongolia Sustainable Development Vision 2030 targets improved trade and services through actions including the development of infrastructure and logistics networks and a reduction in the time and cost of exporting. In recent years, Mongolia has taken steps towards trade facilitation. It ratified the World Trade Organization (WTO) Trade Facilitation Agreement in 2016, and currently has an implementation commitment rate of 23.5%. Additionally, Mongolia has established a Trade Facilitation Committee for the TFA implementation, under which, a National Roadmap of Trade Facilitation has been developed. Furthermore, to expedite the export processes, a One Stop Shop is to be set up at the GASI premises.

Remaining border inefficiencies raise the cost of trade

Despite these actions, room remains for improving the efficiency of border procedures. International commitments made in the WTO Trade Facilitation Agreement have not been fully implemented, and trade policies remain to be aligned with the National Roadmap on Trade Facilitation. The National Trade Facilitation Roadmap 2018-2022 defines 39 objectives and plans 98 actions,

which can be grouped into four categories: the improvement of domestic laws and regulations through the incorporation of main TFA principles, strengthening cooperation with international stakeholders, developing IT structures, and capacity building.

Insufficient infrastructure and border capabilities increase the costs of trade. Congestion, inspections and inefficiencies in sampling, unbalanced staffing between checkpoints, and administrative delays all contribute to complications in border trade. The administrative burdens associated with trade are significant. Procedures (on issues such as the means of payment of taxes and duties) and capabilities also differ between border checkpoints.

Trade facilitation in the TIR

Actions to be taken under the TIR to improve trade facilitation include support for the implementation of the WTO Trade Facilitation Agreement and National Roadmap of Trade Facilitation, the improvement of cross-border systems and infrastructure, and the implementation of a national single window (Table 7).

Table 7. Trade facilitation: Key challenges and TIR actions

Key challenges	Proximate issues	Actions to be taken
<ul style="list-style-type: none"> Firms face significant barriers and additional costs when exporting 	<ul style="list-style-type: none"> Commitments made on trade facilitation have not been implemented 	<ul style="list-style-type: none"> Administer and manage measures on ensuring the implementation of the WTO Trade Facilitation Agreement (1.1.5) Align trade policies to implement the TFA transparency notifications in alignment with the “National Roadmap of Trade Facilitation” (1.4.2)
	<ul style="list-style-type: none"> Lack of mutual recognition and harmonisation of cross-border systems Lack of sufficient border infrastructure, inspection equipment, and trained staff 	<ul style="list-style-type: none"> Improve cross-border systems by reviewing mutual recognition and harmonisation, and by improving border infrastructure (2.3.1), improve the efficiency of border inspections (2.3.2), implementing an authorised exporter programme (2.3.3), and surveying customer satisfaction with the one stop shop (2.3.4).
	<ul style="list-style-type: none"> High administrative burdens impose additional costs on exporters 	<ul style="list-style-type: none"> Define objectives for projects for a single window for trade facilitation (3.3.1) and contribute to training firms in the use of the single window (3.2.1).

TRADE AND INVESTMENT PROMOTION

Like trade promotion activities, effective investment promotion can help to increase investment and to enhance its contributions to growth and development. Fostering greater and more diversified FDI inflows would help in upgrading, participation in global value chains, and the expansion of new export sectors. Action is needed to improve the capacities and coordination of Mongolia’s TISs, focus investment promotion activities, improve private sector coordination, improve access to information, and link SMEs with international firms.

A number of TISs are active in Mongolia...

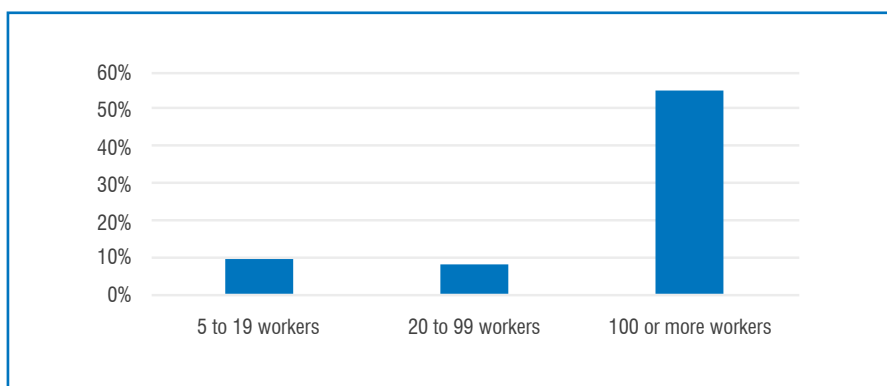
Mongolia has a range of institutions involved in trade and investment support functions, including from the public, private, and international sectors. They provide policy support, trade and investment services, business and other services to firms and government. MNCCI plays a particularly important role, offering a number of services to its clients that are not provided by other large institutions. Based on self-assessments, most TISs agree that

they have strong and clear mandates, along with sufficient autonomy to carry these out.

... though they face constraints in their capacities and coordination

Mongolian exporters enjoy preferential access to major foreign markets. However, the integration of Mongolian firms into global trade remains limited. TISs have important roles to play in informing firms – particularly smaller firms – about exporting opportunities; helping them to export and to meet market requirements and expectations; and promoting their exports in target markets. SMEs are less likely to be exporters than larger firms are. Among the smallest category of firms, with 5 to 19 workers, 9.1% exported at least 10% of sales directly or indirectly in 2013. Only 7.7% of firms with 20 to 99 workers exported, but more than half – 54.6% – of firms with 100 or more workers were exporters (Figure 26). Similarly, TISs can further elaborate on their work in developing linkages between domestic and foreign-owned firms, to better leverage the opportunities arising from FDI.

Figure 25. Percent of Mongolian firms exporting at least 10% of sales, by size, 2013



Source: World Bank (2019), Enterprise Survey - Mongolia, 2013.

While Mongolian TISIs provide a range of services to firms and the government, they face constraints in terms of internal organisation and limited capacities for carrying out their responsibilities, including in private sector coordination and consultation. The informal ties between institutions are also less effective than a formal TISI network would be in coordinating these activities. Investment promotion activities are deserving of additional attention in Mongolia. The transition from Invest Mongolia to the National Development Authority has reduced focus on investment promotion, with limited resources also used in its regulator and administrator roles.

TISIs also have roles to play in raising awareness of the benefits of FDI. The public and private sectors alike tend to see FDI as a form of financing for domestic firms or as a vague source of technology, skills, and market connectivity desired by Mongolian firms and delivered

through joint ventures with foreign partners. Greenfield projects and public concessions have raised concerns about foreign control in key areas of infrastructure and the mining sector.

Trade and investment promotion in the TIR

Institutional and other challenges constrain the effectiveness of trade and investment promotion efforts in Mongolia and can be improved upon. To address the key challenges of TISIs, actions are to be taken to improve capacities and coordination among institutions, increase attention on investment promotion and related activities, foster greater coordination in the private sector, improve information flows, and provide more opportunities for SMEs to develop linkages with international firms (Table 8).

Table 8. Trade and investment promotion: Key challenges and TIR actions

Key challenges	Proximate issues	Actions to be taken
TISIs lack capacities and coordination to effectively deliver services to firms	Lack of institutional capacities among TISIs to carry out responsibilities	Enhance the efficiency and coordination of TISIs through the establishment of a formal TISI network (2.1.1), capacity building (2.1.2), enhanced investment support capacities (2.1.3), and a range of investment promotion activities by NDA (2.1.4).
	Lack of focus and coordination among TISIs, particularly those working on investment	Establish a dedicated trade promotion agency (1.5.3) Strengthen the network of institutions providing trade information and promotion support by strengthening the institutional capacities of private sector associations (2.2.1), building capacities for trade promotion (2.2.2), enhancing training on providing advisor services (2.2.3), providing training on conducting market feasibility studies (2.2.4), building the capacities of trade representatives and diplomats to support exporting (2.2.5), putting in place a cooperation framework on trade information (2.2.6), and strengthening branding and marketing (2.2.7).
	Additional focus is needed in fostering investment	Establish an investment promotion agency (1.5.4), and a coordination mechanism for government work on investment (1.5.5) Build the capacity of NDA's Division on Public-Private Partnership (1.5.6) Provide the Investor Protection Council with the authority and resources to function effectively as an investment ombudsman (1.5.7)
Firms lack sufficient information on trade and investment opportunities	Firms are unable to make mutually beneficial contracts with overseas customers, agents, and distributors	Strengthen the ability of sector associations to coordinate and deliver services for members (3.1.1), to develop connections between business groups (3.1.2), and to improve voicing of the private sector's concerns (3.1.3).
	Firms do not have the knowledge of the trade agreements and the opportunities they present Firms do not understand customer and market requirements such as customer preferences and technical and safety standards	Develop regularly-updated online and other information materials with clear and sector-specific information on trade conditions, tariff and non-tariff measures (3.3.3) Train firms on ways of benefitting from international investment (3.3.4), on making mutually-beneficial contracts (3.3.5) Provide specific advisory services to sector associations and SME clusters in priority sectors (3.3.6) Expand in-market promotion activities (3.3.7) Establish a database of consultants and enterprises providing services to exporters (3.3.8)
	Firms, particularly SMEs, have trouble connecting with international partners	Organise networking events (4.3.6), and events to connect start-ups with established firms (4.3.7). Promote international knowledge sharing and co-operation on technology through workshops and exchange programmes (4.4.5), establish an NDA programme to match domestic and foreign firms (4.4.6), and conduct an FDI awareness-raising campaign (4.4.7).

ACCESS TO FINANCE

Insufficient access to finance for Mongolia's SMEs can impede their day-to-day operations, prevent their beginning or expanding exporting, and slow their investment and growth. While a number of institutional and other reforms have been implemented to address these challenges, borrowing remains challenging and costly, tax and other incentives are not properly suited to SMEs' needs, and the extent of financial literacy among small firms and start-ups remains limited.

Institutional reforms are supporting improvements in financial access...

Efforts are being made to improve access to finance among SMEs, including through the establishment of new organisations and institutional reform addressing issues in the financial system. The SME Development Fund (SMEDF) was established to support financing for small firms by providing long-term concessional loans, offering financial leasing for production equipment, promoting the activities of firms, providing training, and offering double guarantees on credit. The government and Asian Development Bank established the Mongolian Credit Guarantee Fund (MCGF) in 2013 to provide guarantees to SMEs. Credit guarantee schemes such as lowering the risks facing lenders, facilitating loans to small firms not meeting collateral requirements and at below market rates. Exporting in particular is also being targeted; a 2017 law on the Development Bank of Mongolia requires that not less than 60% of its loans be to export-oriented firms.

While immovable assets were long the only collateral accepted by lenders, a web-based pledge-notice registry launched in February 2017 by the International Finance Corporation, the Mongolian Ministry of Justice and Home Affairs, and other domestic stakeholders facilitates lending against moveable assets as collateral. The registry, which is part of the Secured Transactions Reform Project, operates under the Law on Tangible and Intangible Movable Property Pledge, which came into effect in March 2017.

New instruments are also being introduced to support financial development for the agricultural sector in particular. The Agricultural Commodity Exchange, which began operations in 2013, was licensed by the Financial Regulatory Committee, and has organised forward agreements since December 2017. The Export Insurance Department established under Agricultural Reinsurance JSC is prepared to begin offering trade credit insurance and working capital insurance in 2019.

Goals for financial development have been incorporated in Mongolia's national development planning. The second objective of the Mongolia Sustainable Development Vision 2030, which was released in 2016, is the establishment of a "sound development finance and financial market system", to be achieved through improved regulation, and the third goal is the establishment of a development finance system.

There are signs of improvement in the accessibility and efficiency of the Mongolian financial sector. Lending and borrowing have become significantly more common; between 2004 and 2016, the number of borrowers from commercial banks per 1,000 adults increased from 138.5 to 382.6. Transaction costs are also declining somewhat; between 2009 and 2017, the lending and deposit interest rate spread declined from 8.4 to 7.1 percentage points.

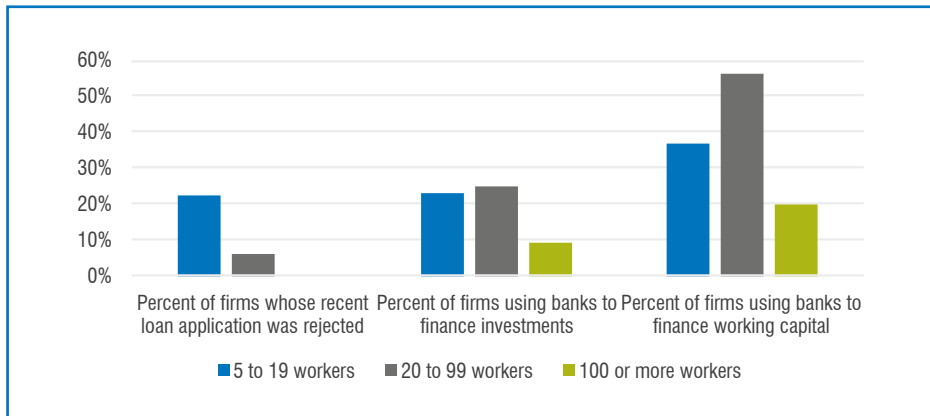
...but more remains to be done to provide effective support to SMEs

While small and medium-sized firms are more likely than larger firms to rely on bank lending for financing investment and working capital, they are also more likely to have had their recent loan applications rejected (Figure 27). Not surprisingly, SMEs are also more likely to identify access to finance as a major constraint to their operations: while only 3.1% of firms with 100 or more workers saw access to finance as a major constraint in 2013, 25.6% of firms with five to 19 workers and 42.1% of firms with 20 to 99 workers did.

Institutions supporting improved access to finance are often limited in their effectiveness. While the SME Development Fund (SMEDF) is helping to facilitate access to finance among small firms, institutional reorganisation – including multiple changes in the ministry under which it operates – have created some instability in its operations. While it provided 1,864 small firms with ₮276.1 billion in loans between 2013 and 2016, its range of financial products offered remains somewhat small, limiting its usefulness to some of the firms it aims to serve. The Mongolian Credit Guarantee Fund (MCGF) has similarly faced limited resources and operational challenges have limited the effectiveness of its credit guarantee scheme in supporting SMEs.

Limited information on small firms and their financing practices and needs impedes the development and implementation of responsive policies and practices in the financial sector. Small firms often report that loans offered by banks and other financial institutions come with interest rates too high and durations too short to meet their needs. Collateral requirements for loans are also particularly high in Mongolia.⁶⁷

67.– OECD (2016), *Peer Review Note: Enhancing access to finance for micro, small and medium-sized enterprises in Mongolia*.

Figure 26. Borrowing by firm size, 2013

Source: World Bank (2019), Enterprise Survey, Mongolia - 2013

The number of procedures required in loan applications, which is partly a result of a lack of coordination in the sector, also raises the costs of borrowing by small firms. Low levels of financial literacy among small firms are an additional challenge. While a National Strategy for Financial Literacy was approved in 2016, it did not include sections targeted for SMEs in particular.

Access to finance in the TIR

TIR actions address the key challenges in access to finance that limit SMEs from benefitting from trade and investment opportunities (Table 9). These actions include working with SMEs and financial institutions to bridge gaps and reduce costs and administrative barriers, reviewing and reforming tax and incentive schemes that do not effectively support small firms and start-ups, and improving financial literacy among SMEs.

Table 9. Access to finance: Key challenges and TIR actions

Key challenges	Proximate issues	Actions to be taken
<ul style="list-style-type: none"> SMES face challenges in borrowing from banks and limited alternative options 	<ul style="list-style-type: none"> Burdensome loan application procedures, large collateral requirements, and high cost of borrowing Lack of information on SMEs' financial needs and practices Lack of access to bank branches for rural SMEs Timing of concessional loans offered by the Development Bank of Mongolia not properly matched to client needs 	<ul style="list-style-type: none"> Bridge the gap between financial institutions and SMEs, by consulting with the private sector on tax policy (2.5.1), assessing the impact of new collateral laws on access to credit (2.5.2), establishing a one-stop shop for firms applying for SME Development Fund loans (2.5.3), and increasing the responsiveness of financial institutions to the needs of SMEs (2.5.4).
<ul style="list-style-type: none"> Tax schemes may work against SMEs and start-ups 	<ul style="list-style-type: none"> Tax and incentive programmes do not necessarily meet firm needs VAT reforms have increased burdens on small firms 	<ul style="list-style-type: none"> Introduce tax incentives targeting start-ups and export-oriented new firms (4.1.5) Assess tax schemes targeting start-ups (4.3.5) Identify opportunities to develop financial mechanisms to facilitate SMEs' purchase of R&D from research institutions (4.4.3)
<ul style="list-style-type: none"> Low levels of financial literacy among SMEs 	<ul style="list-style-type: none"> Firms lack sufficient information on financing issues, including their options in accessing finance 	<ul style="list-style-type: none"> Introduce courses on access to finance targeting start-ups through business incubators (4.3.4)

QUALITY MANAGEMENT

Improvements in quality and compliance with international standards are essential to growing exporting and improving competitiveness in Mongolia, including for

attracting new investment. A number of steps have been taken to improve quality and certifications in Mongolia. However, quality management systems need to be better aligned with international requirements to support improved exporting.

Improvements have been made recently

Actions have been taken to improve quality management and access to certification for SMEs, including through SPS legislation and standards, a framework for risk-based SPS import controls, the establishment of a network of internationally-accredited laboratories, and the development of a National Quality Policy Programme. Other limited and sector-specific initiatives have also been established, such as Mongolian Noble Fibre, which is a quality certificate of carded fibre rather than a comprehensive set of quality standards.

The human resource aspect of quality management is being addressed through initiatives by the Agency for Standards and Metrology (MASM). MASM's National Quality Management programme includes components focused on skill development. The agency cooperates with the Ministry of Education, Culture, and Science (MECSS) and also cooperates since 2014 with the European Union in the joint implementation of the Support to the Modernisation of Mongolia's Standardisation System programme.

Quality management and certification systems are often not aligned with international requirements

Further strengthening quality management systems regarding technical regulations, SPS measures, and conformity assessment procedures will be needed in diversifying export products and markets. Improvements to access and understanding will be particularly important

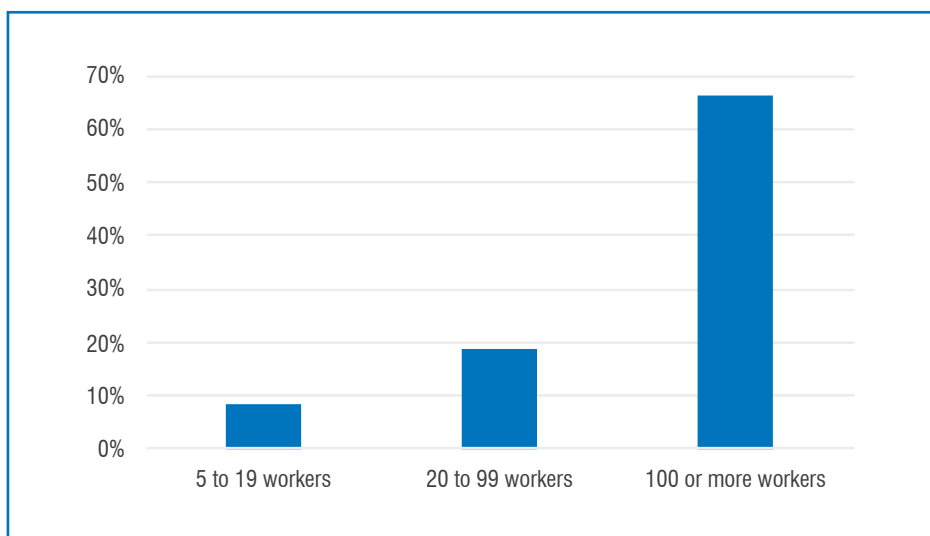
for smaller firms in the country. High fixed costs and lack of information prevent many SMEs from gaining quality certifications; in Mongolia in 2013, only 8.6% of firms with 5-19 employees and 19.0% of firms with 20-99 employees had an internationally-recognised quality certification, while 66.2% of firms with 100 or more employees did (Figure 28). Private sector associations and other TISIs can play a role in informing small firms in particular on quality management and certification processes.

International cooperation is needed as well. The lack of mutual recognition of phytosanitary standards between Mongolia and its major export markets limits potential trade in food and agricultural products and raise costs for exporters who face excessive procedures as a result.

The meat sector, which faces unique challenges due to its dispersed and nomadic nature, is constrained by foot-and-mouth and other recurring diseases in the animal population. The poor veterinary system complicates the implementation of solutions to these challenges, though the lack of tracking systems means that incentives for improving animal health are distorted. Similarly, hides sold at local markets complicates sorting and pricing by quality and associated incentives for producers.

Additional testing capabilities meeting international standards are needed to facilitate trade. Because of the lack of sufficient quality certification infrastructure, exporters tend to work directly with buyers to ensure that international standards are met. This risks raising transaction costs, reducing competition among buyers, and limiting opportunities for new and potential exporters.

Figure 27. Percent of firms with internationally-recognised quality certifications by size, 2013



Source: World Bank (2019), Enterprise Survey, (Mongolia- 2013).

Quality management in the TIR

Opportunities for expanding market access and increasing value added domestically should be taken into consideration in prioritising actions for improving quality management. Actions to address quality management

issues under the TIR include the strengthening of quality certification infrastructure and systems; improving international recognition of national standardisation, quality and accreditation infrastructure; and strengthening firms' access to information and support on quality improvement (Table 10).

Table 10. Quality management: Key challenges and TIR actions

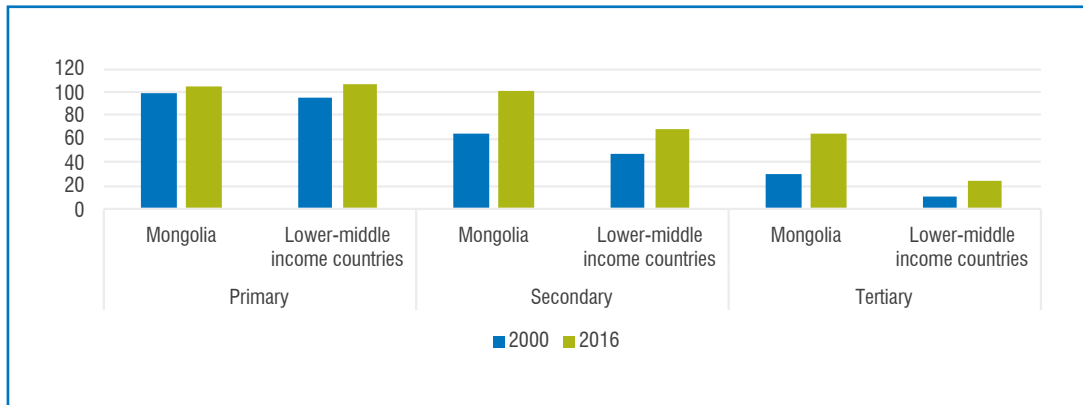
Key challenges	Proximate issues	Actions to be taken
Firms face high costs or limited opportunities due to lack of appropriate certifications	Technical regulations, SPS measures, and conformity assessment pose challenges for SMEs Insufficient testing capacities for certification and quality management Insufficient tracking and monitoring	Strengthen quality certification infrastructure, to be recognised by international partners, through revisions to relevant legislative framework (2.4.1), improved institutional coordination (2.4.2), building regulatory capacities (2.4.3), the establishment of a traceability system (2.4.4), and the implementation of the organic food law (2.4.5).
	International requirements and expectations on certification not met	Increase the effectiveness of trade and investment agreements and bilateral SPS/TBT protocols for Mongolian exporters (Activity 1.3.1, 1.3.2) Strengthen the national standardisation, quality and accreditation infrastructure to be recognised by international trade partners (Activities 2.4.1 to 2.4.4)
Firms lack information on improving quality	Lack of producer knowledge of standards and requirements Little support for SMEs in addressing quality issues	Strengthen the network of institutions providing trade information and promotion support (Activities 2.2.1, 2.2.2, 2.2.3, 2.2.6) Develop transparent links with the private sector, enhance sector associations, and foster coordination in the private sector (Activity 3.1.1)

SKILLS DEVELOPMENT

Skill improvements are critical in supporting enhanced competitiveness. The diversification and upgrading of exports, as well as realising the potential of technology transfer and the other benefits of investment inflows, depends on the upgrading of skills and improved matching of education and training with the needs of the private sector. While Mongolia has a relatively highly-educated population, more should be done to align skills with private sector needs and to support entrepreneurship.

Mongolia has a relatively highly-educated population

Mongolia has a relatively well-educated population, with 96.1% enrolment in secondary education (UNDP, 2016). Access to education is improving in Mongolia, particularly at higher levels of education, where gross enrolment rates exceed the average among countries at its income level (Figure 29). There is also a significant TVET system in the country; there are 83 TVET schools and 1,200 training service providers for short-term trainings. In total, there were 37,000 full time students in 2018, majoring in vocational education, plus 20,000 short-term trainees.

Figure 28. Gross enrolment rates by education level

Source: World Bank (2018), World Development Indicators.

The importance of education and skill development is well recognised. The Mongolia Sustainable Development Vision 2030 targets the development of skilled and knowledge-based society, which would include universal access to pre-school, improvements to education quality, improvements to TVET programmes, reforms to the tertiary education system, and the coordination and coherence of science and industry.

Efforts are being made to increase the relevance of education and training programmes in the country. Improvements to the quality of tertiary education and accreditation are targets of the Higher Education Reform Project. Amendments to the Labour Law clarified issues related to training, including internship and apprenticeship periods for workers. Moreover, academia and private sector collaboration is being actively supported by development partners through the strengthening of the National Council for VET, which was established by the Ministry of Labour and Social Protection (MLSP) in 2018.

Competency-based training has been introduced since 2008, and MLSP established an assessment centre for vocational training, which is responsible for assessing competencies of trainees and of formal graduates of TVET schools. The MLSP is in the process of developing a database of all graduates from TVET schools, which is due to be completed by the end of 2019. The curriculum is revised on two levels. For short-term service providers, the assessment centre is responsible for reviewing the curriculum.

Skill mismatches and insufficient entrepreneurship training remain key challenges

Remaining constraints regarding skills limit the potential of Mongolian firms. According to the Mongolian Business Environment Survey (2017) and the EU-TRAM

survey, a significant number of firms struggle to find staff with the required mix of skills and language competencies to support processing and exporting processes. Enhanced skill development and training focused on science and technology in particular is needed to support the development of the ICT sector and broader digitalisation in Mongolia. Both generalist and specialist skills are needed.

In addition to insufficient coordination with the private sector on curricula, private sector partners are not significantly involved in the TVET sector, despite the potential for them to do so. This is mainly due to low levels of awareness, the dominant role of the public sector, and gaps in policy implementation that do not provide enough opportunities for private sector involvement.

Mongolian firms have also reported challenges related to poor knowledge of and skills in entrepreneurship and exporting. Insufficient coverage of business and entrepreneurship in the national curriculum slow the development of new firms. The education system can help to address limitations in foreign language skills and lack of experience in and connections with foreign countries, which can impede exporting and the formation of linkages with foreign-owned firms.

Skills development in the TIR

Realising Mongolia's potential requires addressing challenges related to skills not matching employers' needs and insufficient access to training and information for entrepreneurs. TIR actions addressing key challenges in skills development include reforms to the education system, including TVET, to improve the alignment of curricula with employers' needs; strengthening skills in science and technology; and enhancing entrepreneurship education and the development of support services and networks for entrepreneurs (Table 11).

Table 11. Skills development: Key challenges and TIR actions

Key challenges	Proximate issues	Actions to be taken
<ul style="list-style-type: none"> Employers have difficulty in finding needed skills 	<ul style="list-style-type: none"> Low availability of labour force with skills demanded by private sector, including language skills Limited collaboration between industries and programmes 	<ul style="list-style-type: none"> Align the offering of the education system to the needs of enterprises, in particular SMEs, through improved skill matching (3.2.1), develop a programme for specialised training in English and Chinese languages (3.2.2), improved business and international relations studies programmes (3.2.3), expanded exchange programmes (3.2.4), and increased private sector involvement in the TVET sector (3.2.6).
	<ul style="list-style-type: none"> Low levels of needed skills in science and technology-based sectors 	<ul style="list-style-type: none"> Attract top regional technology and engineering universities to establish branch locations in Ulaanbaatar (4.5.3), increase emphasis on IT education at the primary and secondary levels (4.5.4), develop concrete proposals to support Intellectual Property (IP) regulation enforcement (4.5.5), and develop courses on IP rights for research centres (4.5.6).
<ul style="list-style-type: none"> Start-ups face challenges in growing and exporting 	<ul style="list-style-type: none"> Absence of business and entrepreneurship in national curriculum 	<ul style="list-style-type: none"> Enhance entrepreneurship education at all levels of education (4.2.1), including in the lower and upper secondary levels (4.2.2) and through TVET programmes (4.2.3).
	<ul style="list-style-type: none"> Lack of support networks for entrepreneurs 	<ul style="list-style-type: none"> Create and entrepreneurship educators' network (4.2.4), organise entrepreneurship events (4.2.5), identifying and organising successful entrepreneurs (4.2.6), strengthening student entrepreneur clubs (4.2.7), and leveraging alumni networks (4.2.8).
	<ul style="list-style-type: none"> Poor knowledge of/skills in entrepreneurship and how to export 	<ul style="list-style-type: none"> Strengthen the capacities of incubators to reach and provide adequate services to start-ups by mapping the start-up ecosystem and building capacities (4.3.1), assessing the creation or expansion of incubators (4.3.2), launching a mentoring and coaching initiative (4.3.3), introducing courses on access to finance (4.3.4), assessing tax schemes targeting start-ups (4.3.5), organising networking events (4.3.6), and connecting start-ups with established firms.



Photo: ©Ministry of Foreign Affairs

Box 17. Taking action to unleash the full potential of mongolian women exporters

Mongolian has made significant strides to reduce gender disparities in its society, attaining a relatively higher gender equality vis-à-vis other countries in the region. Mongolian women's life expectancy is higher than men's. Moreover, women have a higher educational attainment than men, as they show higher levels of enrolment in both secondary (86.1% female, 77% male) and tertiary education (76.4% female, 53.5% male)*. Despite higher enrolments in education, Mongolian women are still less likely to be employed than men, and their earnings are on average lower than their male counterparts.

On the other hand, there is a strong participation of Mongolian women in business. Women entrepreneurs are represented in associations and chambers, such as the Women Entrepreneurs Council at MNCCI and are beneficiaries of several focused development partners' projects. Approximately, 61% of firms have a female owner or co-owner, while 55% of firms have female top managers. In Mongolia, women-owned businesses tend to be more engaged in trade and production than men-owned businesses and they are more likely to employ other women.² Unleashing the potential their full potential can provide an additional boost to export-led economic growth, while improving the prospects for female employment. Nevertheless, gender disparities remain in the business sector. Mongolian women still face constraints that hinder their business potential, particularly in acquiring business skills, accessing networks and securing financing. These challenges are even more acute in rural areas.

In recognition of the above, specific activities aimed at facilitating the integration and positioning of women into trade-related activities are outlined below:

1. Support the trade promotion activities of women-focused business associations.
 - » Identify and analyse the role, activities and reach of Mongolian associations and their responsible gender units designed to enhance the role of women in business such as the Women Entrepreneurs Council at MNCCI.
2. Improve gender-disaggregated data to better inform policy and better target strategies.
 - » Accordingly, develop a series of activities aimed at improving their visibility and capacity to fulfil their formalisation and mandate. Components are to include:
 - » Training at various staff grades
 - » Resource mobilisation
 - » Identify a series of indicators informing the relevant institutions of the participation of women and other relevant cohorts of the society in export activities.
 - » Update those indicators on a regular basis, and take corrective action to ensure a proactive and inclusive TIR.
3. Nurture and support women entrepreneurs' initiatives.
 - » Develop a plan for public procurement policies that facilitate the sourcing of more goods and services from women entrepreneurs. Include activities to increase women's access to information, understanding of procedures and ability to meet requirements.
4. Enable women to tap into market opportunities.
 - » Develop specific export-ready capacity-building activities in those sectors and areas where women predominate (e.g. cashmere, tourism, cosmetics industry). Include components of peer-to-peer learning and mentorship.
 - » Through matchmaking events and platforms, support women-owned SMEs to establish business linkages with potential buyers in regional and international markets (e.g. ITC's SheTrades initiative).

A multidimensional and articulated approach is required during the design and implementation of these activities. Coordinated efforts of relevant stakeholders, including the Ministry of Foreign Affairs, the National Committee on Gender Equality and the private sector, among others, will be crucial.

* *World Economic Forum (2018), Global Gender Gap Report 2018.*

IMPLEMENTATION MANAGEMENT FRAMEWORK

Finalisation of the TIR will not suffice to create sustainable export development and an enabling business environment. There is a need to elaborate and coordinate actions required to achieve the strategic orientations and targets of the TIR. To ensure the success of the TIR, it is necessary to create the adequate environment and framework to enable its implementation.

Below, key success conditions considered primordial for the strategy to be effectively implemented and achieve self-sustainability and long lasting benefits for Mongolia are presented:

High-level endorsement of the TIR

High-level endorsement is the most important step towards implementation of the TIR. In the absence of such official endorsement, the TIR will not be able to mobilize the national and international support required to effectively structure and enable export and investment development.

Coordination structure for implementation

A key success criterion for success of a TIR is the country's ability to coordinate activities, monitor progress and mobilize resources for its implementation. Coordination and implementation stewardship will be essential as well. It is recommended that an Export and Investment Council comprised by key public and private sector institutions be formed or supported (if a similar entity already exists, such as the existing Export Council). This will function as a platform with balanced representation of all major stakeholders.

The main functions of the TIR high-level Council are the following (inter alia):

1. Coordinate and monitor the implementation of the Trade and Investment Roadmap
2. Identify and recommend allocation of resources necessary for the implementation of the Trade and Investment Roadmap
3. Assess the effectiveness and impact of the Trade and Investment Roadmap

The TIR high-level Council should be supported by an Executive Secretariat to complete the daily operational work related to the implementation management of the TIR. The core responsibilities of the Executive Secretariat should be to:

- Formulate project proposals including budgets for implementation of activities of the TIR;
- Prepare communication plans and materials to promote the TIR;
- Develop annual and bi-annual work plan for approval by the TIR high-level Council;
- Collect information from project implementation and prepare regular monitoring reports to be submitted to the TIR high-level Council;
- Planning the high-level Council and sector committees sub-Councils monitoring and evaluation meetings;
- Execute the secretariat work of the high-level Council;
- Collect, centralize and preserve all archives and documentation of the high-level Council and the TIR;
- Advocate in favour of the TIR to public and private partners;
- Execute any other tasks given required by the high-level Council

SUCCESSFUL IMPLEMENTATION MANAGEMENT: SUCCESS FACTORS AND PITFALLS TO AVOID

The following pillars should be seen as key operative conditions to undertake efficient management of the implementation of the TIR:

Monitoring implementation for effective resource allocation

A key role of the high-level Council and its Executive Secretariat is to monitor the implementation of the TIR. Effective exploitation of reports and data will ensure that progress is evaluated in line with the expected results and allocated resources. Monitoring will permit effective allocations and reallocation based on expected and achieved results. This critical work will facilitate effective implementation of the activities and enable the TIR to achieve its strategic objectives, contributing to its overall success.

Sensitization of implementing institutions to build ownership

The key implementing institutions detailed in the Plan of Action need to be informed of the content of the TIR and the implications for their future programming. This sensitization is essential to build further ownership, and it provides institutions with the opportunity to review the PoA in order to confirm the activities they can implement

immediately, in the medium and long term. Such a programming approach will permit better resources allocation within the responsible agencies. This allocation can be formalized by integrating the activity of the TIR in the programme planning of the institution. While the financial dimension is often required, the human resource element is no less important.

Private sector support and participation

The private sector should normally benefit from the TIR implementation through improved productive capacities, reduced costs of doing business, facilitated administrative procedures, enhanced access to finance, etc. The private sector clearly expressed, during the strategy design process, its willingness to contribute, directly or in partnership with public institutions, to the implementation of the TIR. Their implementation efforts can range from providing business intelligence to institutions, contributing to development projects, establishing processing and transformation units, advocacy, etc. In brief, the private sector practical knowledge of business operations is essential to ensure that the activities of the TIR are effectively implemented and targeted.

Financial resource mobilization for implementation

While resource mobilization is only part of the solution, it plays a crucial and indispensable role in supporting the strategy implementation. An integrated resource mobilization plan should be elaborated as soon as the TIR is adopted. Resources mobilization involves planning the sequencing of communications with donors, project design, project proposals/application and resources collection and management. This should facilitate, leverage and strengthen the impact of diverse sources of finance to support sustainable and inclusive implementation, including national resources, development aid and private investment.

- National resources through direct budget support: Government will need to validate a defined minimum budget support toward the implementation of the TIR. The direct project support for activities of the TIR will demonstrate the Government's commitment to the initiatives.
- Alignment of donors' support and interventions with the TIR: Efforts should be made to capitalize on the significant momentum gained as part of the TIR design process and leveraging it for a smooth and efficient implementation.



Photo: © Ministry of Foreign Affairs

The TIR plan of action should serve the high-level Council as well as the national institutions to improve communication and facilitate the negotiation, planning, coordination and evaluation of commitments made in the context of development aid, in particular through the development of programmes and project proposals aligned with the priorities of the strategy.

- National and foreign investment: Investment flow could serve as a valuable drive for export development. However, it requires to be targeted at specific prospects in order to benefit to the priority sectors' development. Export-related opportunities (based on the competitiveness and potential growth of key sector value-chain segments) should be the subject of investment targeting and promotion initiatives.

Communication plan

- Targeted communication is required to inform and mobilize partners from the public and private sectors. Hence, the current communication plan needs to be extended in order to continue promoting the TIR and preserve the momentum and support for its implementation. Informing the national public and implementing agencies serves to build confidence and thrust in support of the TIR.



PLAN OF ACTION

STRATEGIC OBJECTIVE 1 : BUILD A LONG-TERM GROWTH PATH BY CREATING AN ENABLING BUSINESS AND INVESTMENT ENVIRONMENT									
Operational objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022			
1.1. Ensure adequate development and implementation of trade and investment policies to promote sustainable growth	Build the capacity of trade and investment support institutions on trade analysis for policy development: <ul style="list-style-type: none"> Provide trainings to trade officials and bodies (e.g. Ministry of Foreign Affairs, National Committee of Trade Facilitation), academia and key export organizations (e.g. MNCCI) in data analysis and trade impact modelling Build a modern SAM for Mongolia, create a country CGE linked to GTAP V10, and provide training in its usage to officials. Build a user interface with the purpose of making the CGE public Provide workshop and user guide to the general public on the tools available publicly in Mongolia at the end of these interventions To make research on trade policy impact of tariff and non-tariff policy for supporting domestic industries 	2					<ul style="list-style-type: none"> Annual training in data analysis conducted through a short intensive course CGE developed and publicly available Impact Assessments carried out for future FTAs Two workshops provided to the general training 	<ul style="list-style-type: none"> EU-TRAM CAREC Integrated Trade Agenda (CITA), Asian Development Bank 	<ul style="list-style-type: none"> MFA, NFA National Committee on Trade Facilitation, MNCCI, Development Bank of Mongolia (DBM), MCGA Tariff Council, MOET
	1.1.2. Develop a smart, targeted and coherent trade and investment policy(ies) aligned with national development planning to unleash Mongolia's export potential. <ul style="list-style-type: none"> Integrate trade and investment policy and priorities in long-term national development and urban/regional planning (particularly in supporting sustainable growth around Ulaanbaatar and inclusive growth around regional economic poles). 	1					<ul style="list-style-type: none"> Foreign trade policy as well as investment policy are formulated in close coordination and approved by the Cabinet Coordination mechanism on horizontal planning established 	<ul style="list-style-type: none"> IFC (World Bank Group) 	<ul style="list-style-type: none"> MFA, NDA MNCCI, MOFALI, MOET, DBM and other relevant organizations
	1.1.3. Develop a full-fledge national export strategy (NES). The NES builds on the findings and strategic orientations of the TIR. The NES will provide Mongolia with a homegrown blueprint for export competitiveness and business development. NES to be composed of the following outputs: <ul style="list-style-type: none"> National-level strategy document and plan of action Sector strategies and individual plans of action Trade support function strategies and individual plans of action 	1					<ul style="list-style-type: none"> National Export Strategy elaborated 		<ul style="list-style-type: none"> MFA, MNCCI MOFALI, MOET, and other relevant ministries
1.1. Ensure adequate development and implementation of trade and investment policies to promote sustainable growth	1.1.4. Support the implementation of the Mongolia Investment Law and other investment agreements, and current legislation by increasing awareness of respective public officials within the government and government bodies on obligations in the treatment of investors.	1					<ul style="list-style-type: none"> Two annual awareness workshops conducted on Mongolian Investment Law Mongolian investment law fully implemented 	<ul style="list-style-type: none"> Regional Improvement of Border Services Project (Asian Development Bank) CAREC Integrated Trade Agenda (CITA) by the Asian Development Bank IFC 	<ul style="list-style-type: none"> NDA Investment Protection Council MNCCI, MFA
	1.1.5. Administer and manage measures on ensuring implementation of "National Trade Facilitation Roadmap" and strategic actions of "National Committee on Trade Facilitation" and provide support on implementation of the Agreement.	1					<ul style="list-style-type: none"> Measures taken towards the implementation of commitments within the scope of Mongolia's Trade Facilitation Agreement at WTO National Roadmap of Trade Facilitation fully implemented 		<ul style="list-style-type: none"> National Committee of Trade Facilitation, MNCCI MFA, MCGA, GASI

STRATEGIC OBJECTIVE 1 : BUILD A LONG-TERM GROWTH PATH BY CREATING AN ENABLING BUSINESS AND INVESTMENT ENVIRONMENT								
Operational objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022		
1.2. Improvement of predictability through ensuring sustainability of legislative policy	1.2.1. Design and unwaveringly implement a transparent, predictable, and consultative process for the regulation of the priority sectors.	1					<ul style="list-style-type: none"> Mechanism of consultative process designed and implemented 	Ministry of Mining and Heavy Industry, Ministry of Justice and Home Affairs (MoJHA) MOET, priority sectors' associations
	1.2.2. Provide sector regulators with the necessary training and resources needed to perform their jobs according to the best international practices, including SOE management and the administration of extractive concessions and PPPs	2					<ul style="list-style-type: none"> Programme to train sector regulators in place 	Ministry of Mining and Heavy Industry, NDA MoJHA, MOET, priority sectors' associations
	1.2.3. Reverse the recent trend toward SOEs for resource management in extractive sectors, in favor of PPPs and concessions, to maximize levels of technology, commercialization, and management expertise	2					<ul style="list-style-type: none"> Put mechanisms in place to favour PPPs and concessions in extractive sectors 	Ministry of Mining and Heavy Industry, NDA Government Agency for Policy Coordination on State Property MOJHA, MNCCI, priority sectors' associations
1.3. Increase the effectiveness of trade and investment agreements for Mongolian exporting enterprises	1.3.1. Strengthen the value of existing trade and investment agreements by reviewing performance, including reviewing development cooperation obtained through the agreement. <ul style="list-style-type: none"> Examine trade performance under international trade agreements (EPA and FTAs etc.), import surges, market access conditions against commitments (and expectations) and hold consultations for the perspective from exporters. Identify agreement areas that could be renegotiated under sunset clauses and identify sections of agreements not fully implemented. Design and implement regular reviews of performance under current trade and investment agreements 	1				<ul style="list-style-type: none"> Annual reviews designed and implemented 	MFA, NDA MOFALI, MOET, Ministry of Finance, MECSS MNCCI, MCGA, private sector associations, Mongolian Customs Consultants and Brokers Association (MCCBA)	
	1.3.2. Strengthen the value of future trade and investment agreements by scanning potential partners and preparing analyses including on market access conditions and potential investment relationships. <ul style="list-style-type: none"> Undertake a scanning of markets, trade complementarity and competitiveness analysis. Prioritize interest according to economic criteria. Examine market access conditions in goods (including technical barriers to trade), services and behind the border measures that may be limiting access for Mongolia's products Review opportunities and potential challenges from entering into new trade and investment agreements Provide negotiation training on trade in services negotiations, bilateral agreement of promotion and conservation of investment, and trade-related areas, covered by modern agreements. Provide technical support and expertise for complex areas where capacity is missing. 	1				<ul style="list-style-type: none"> 5 Reports on potential trade and investment relationships per year Monitoring and evaluation frameworks for new agreements, aligned with trade policy objectives established 	MFA, NDA MOFALI, MOET, Ministry of Finance, MNCCI, MCCBA, private sector associations International development partners	

STRATEGIC OBJECTIVE 1: BUILD A LONG-TERM GROWTH PATH BY CREATING AN ENABLING BUSINESS AND INVESTMENT ENVIRONMENT										
Operational objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
1.4. Increase openness and transparency in trade and investment national frameworks and processes	1.4.1. Build a modern and regularly updated public portal for monitoring, evaluation and information on trade and investment policy development. Assess the feasibility of building on existing NDA online portals. Ensure alignment and linkages among existing and planned related initiatives. Develop an online portal to consolidate information related to bilateral and multilateral trade and investment agreements, including updates on negotiations, summaries of negotiations per table, identified business opportunities, among others.	3						<ul style="list-style-type: none"> Public portal in place and regularly updated 	IFC (World Bank Group)	MFA, NDA MNCCI, private sector associations, MCCBA
	1.4.2. Align trade policies to implement the Trade Facilitation Agreement's Articles, in alignment with the "National Roadmap of Trade Facilitation"	1						<ul style="list-style-type: none"> TFA Articles are implemented under categories A and B, and C if support is provided 	CITA (Asian Development Bank)	National Committee on Trade Facilitation MFA, all respective organizations involved in foreign trade
	1.4.3. Formalize technical committees from the private sector to be consulted during the negotiations of bilateral and multilateral trade and investment agreements	1						<ul style="list-style-type: none"> Technical committees established 		MFA, NDA, MNCCI private sector associations
	1.5.1. Establish a Mongolian Export and Investment Council (MEIC) as a key representative body of the private and public sector stakeholders working on trade and investment activities. The Council will build on existing public and private dialogue platforms, bodies and structures, such as the Public Private Consultative Council (PPCC), Export Council, and the Investment Protection Council, among others. <ul style="list-style-type: none"> The Council will be responsible for, inter alia, coordinating, monitoring, evaluating and mobilizing resources for the implementation of the TIR. An Executive Secretariat shall support the Council. The MEIC's Secretariat is to be funded by public and private funding. Members of the Council are supported to build the necessary advocacy to support required policy or regulation changes. 	1						<ul style="list-style-type: none"> Mongolian Export and Investment Council established 	Prime Minister's Office MFA NDA, MOFALI, MNCCI, private sector associations Investment Protection Council NTFC, PPCC	
1.5. Establish and empower a full suite of institutions for formulating and delivering trade and investment policy ambitions	1.5.2. Establish sector committees within the Council to represent the interests of TIR priority sectors. Enable committees with operational support, e.g. a Secretariat, and ensure transparency in appointment. Committees to build on existing public and private sector bodies, such as the Sectoral Councils at MNCCI and sector associations at national and regional levels, to avoid duplication. Sector committees to be consulted on key TIR topics, such as investment targeting, regulatory reforms, access to finance, etc.	1					<ul style="list-style-type: none"> Sector Committees established within the Council 		MFA, MNCCI NDA, MOFALI, private sector associations	
	1.5.3. Establish an agency entirely dedicated to trade promotion and other market support related activities, including: <ul style="list-style-type: none"> product and market identification and development, trade information services, specialized support services promotional activities abroad 	1					<ul style="list-style-type: none"> Trade promotion agency established 		MFA MOFALI, MNCCI, private sector associations	
	1.5.4. Establish an investment promotion agency, which is results-orientated, free of regulatory and policy-making responsibilities, whose performance is evaluated for its ability to generate investment impacts through investor targeting and the facilitation of FDI-SME linkages.	1						<ul style="list-style-type: none"> Investment promotion agency established 		NDA, MNCCI

STRATEGIC OBJECTIVE 1 : BUILD A LONG-TERM GROWTH PATH BY CREATING AN ENABLING BUSINESS AND INVESTMENT ENVIRONMENT										
Operational objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
1.5. Establish and empower a full suite of institutions for formulating and delivering trade and investment policy ambitions	1.5.5. Establish a coordination mechanism to facilitate dialogue and close cooperation between NDA and the various sector-focused Ministries (e.g. roads and railways at MoRT, power at MOET, water hospitals at MoH, etc.). Areas of cooperation include: <ul style="list-style-type: none"> The design, negotiation, administration, and enforcement of public-private partnerships at the sector level Design and implementing investor outreach campaigns for priority sectors. This activity will be under the responsibility implemented of the Investment Promotion Agency to be established (activity 1.5.4) 	2						<ul style="list-style-type: none"> Responsibilities of NDA revised to include coordination with line Ministries. Coordination mechanism formalized Responsibilities of relevant ministries revised to include coordination with NDA, accordingly 	NDA MNCCI, Ministry of Finance, MFA, MoH, MOFALI, MOET, MoRT	
	1.5.6. Build the capacity of NDA's Division on Public-Private Partnership for the monitoring of implementation of the concession agreements.	2						<ul style="list-style-type: none"> Capacity-building program in place 	NDA, MNCCI Line Ministries	
	1.5.7. Provide the Investor Protection Council with the authority and resources to function effectively as an investment ombudsman, where investors can seek resolution of disputes with government bodies. Main functions of the Investment Ombudsman can include (see as example, Korean Foreign Investment Ombudsman): <ul style="list-style-type: none"> To collect and analyse information concerning the problems foreign firms experience, To request cooperation from and recommend implementation thereof to relevant administrative agencies To propose new policies to improve the foreign investment promotion system To carry out other necessary tasks to assist foreign-invested companies in resolving their grievances.	2						<ul style="list-style-type: none"> Revised mandate and role of Investor Protection Council 	NDA (Investor Protection Council), MNCCI	

STRATEGIC OBJECTIVE 2: STRENGTHEN TRADE AND INVESTMENT SUPPORT INSTITUTIONS TO EFFICIENTLY RESPOND TO THE NEEDS OF MONGOLIAN FIRMS									
Operational Objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022			
2.1. Enhance interrelated coordination and the efficiency of TISIs	2.1.1 Based on the results of the TISI survey, establish a formal network of key trade support institutions to better coordinate the provision of trade and investment support activities, including but not limited to investment and trade information and export promotion, access to trade information and intelligence, among others. <ul style="list-style-type: none"> The Network should be formalized by a binding document, clearly delineating the roles and responsibilities of each institution – public and private – in order to foster greater coordination among supporting trade and export development service providers. This will serve to clarify the scope and mandates of TISIs in order to fill services' gaps and avoid duplications. 	1					<ul style="list-style-type: none"> Network of TISIs formalized, delineating roles and responsibilities of each institution Strategic visions and missions for trade and investment support institutions identified 	MFA MOFALI, MOET, GASI, MCGA, MASM, Ministry of Finance MNCCI, private sector associations	
	2.1.2. Develop specialized capacity-building programme(s) for trade and investment support institutions, such as the Ministry of Foreign Affairs, GASI, NDA and MNCCI – based on identified responsibilities and assessed capacities (TISN analysis) – to effectively deliver their services. Align capacity-building programmes to the implementation responsibilities assigned by the TIR.	1					<ul style="list-style-type: none"> TISI capacity-building programme developed and implemented, aligned to implementation responsibilities under TIR 	Regional Improvement of Border Services Project (Asian Development Bank CITA (Asian Development Bank)	MFA, NDA MNCCI, MOFALI, MOET, Ministry of Finance, GASI, MCGA, MASM, private sector associations
	2.1.3. Strengthen investment support capacities to facilitate increased and diversified inflows of foreign investment. <ul style="list-style-type: none"> Develop a strategic vision for the investment targeting and promotion activities of the National Development Agency and commit sufficient resources to its realization. 	1					<ul style="list-style-type: none"> New investment promotion agency established 	NDA	
2.2. Strengthen the network of institutions providing trade information and promotion support	2.1.4. In NDA's investment promotion, transportation planning, and SEZ planning, prioritize cold chain logistics, plants for meatpacking and processed meats, vertically integrated manufacturers of cashmere goods, leather goods manufacturing, and construction materials.	1					<ul style="list-style-type: none"> Investment promotion plan, focusing on mentioned priorities 	NDA	
	2.2.1. Continue to institutional strengthening of TISIs, including private sector associations, such as MNCCI, while implementing the Performance Improvement Roadmap (PIRM), a phased program to address identified weaknesses in institution's managerial and operational performance	1					<ul style="list-style-type: none"> MNCCI PIRM fully implemented Based on the same methodology applied by MNCCI on formulating its PIRM, other respective organizations' PIRMs are developed and their level of executions increased. 	NDA National Committee on Trade Facilitation MNCCI and sector/export associations	
	2.2.2. Deploy a comprehensive capacity-building and performance enhancement plan for MFA and/or trade promotion agency to provide trade information and promotion services. Expand and support current programs provided by other public and private sector institutions. <ul style="list-style-type: none"> Specific advisory and training can include: Operating a trade information service Selecting relevant trade information sources Selling business information and related services Performance measurement for trade information services 	1					<ul style="list-style-type: none"> Capacity-building programme on provision of trade and information promotion services rolled out 	MFA, MNCCI private sector associations	

STRATEGIC OBJECTIVE 2: STRENGTHEN TRADE AND INVESTMENT SUPPORT INSTITUTIONS TO EFFICIENTLY RESPOND TO THE NEEDS OF MONGOLIAN FIRMS

Operational Objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
2.2. Strengthen the network of institutions providing trade information and promotion support	<p>2.2.3. Scale up and institutionalize current training programmes to strengthen the capacities of TISIs to collect, analyze and produce market research/report and to provide high quality advisory services to exporters. Key areas include:</p> <ul style="list-style-type: none"> • Trade information • Market analysis (including preferential trade agreements) • Business environment • Export value-chain optimization • Export promotion 	2					<ul style="list-style-type: none"> • Review and consolidate existing trade and investment support projects and programmes • Training programmes scaled up, focus on expansion to regions 		MFA, MNCCI MOFALI, MOET, Ministry of Finance, MCCBA, private sector associations	
	<p>2.2.4. Train TISIs in developing in-depth market studies (often referred to as "Market Profile" or MNCCI's "Export Roadmap") that examine the steps exporters of a selected product must take in order to effectively enter target markets. Vital components covered include:</p> <ul style="list-style-type: none"> • Product specific requirements and Rules of Origin: how an exporter can prosper in a value chain world by using preferential trade agreements (e.g. Japan FTA, EU GSP +), and the review of non-tariff measures and Rules of Origin provisions in target markets and their implications for exporters. • Buyer and product segmentation: what an exporter needs to consider when crafting their final product in order to ensure good take up rate in target market. • Labelling and packaging: absorb the crucial elements that affect customs procedures, transporting and even branding. • Voluntary standards: understand if this is necessary for your product, the cost and the process. • Product placement or distribution channel: capture and explain the market structure in the target country. • Promotion: how to foster and maintain commercial relationships with buyers, sales teams and distributor. Discuss how to attend trade fairs and conferences to realize sales 	1					<ul style="list-style-type: none"> • Annual training provided to TISIs in developing in-depth market studies 		MFA, MNCCI MOFALI, MOET, Ministry of Finance, DBM, private sector associations	
	<p>2.2.5. Design and roll-out a capacity-building programme aimed at trade representatives, and diplomats, at overseas Embassies and trade offices overseas to enable them to provide better advice to Mongolian producers of value added goods, products, and services operating in the non-mining sectors and report on opportunities and feasibility of exporting a selected product to a target market</p>	2					<ul style="list-style-type: none"> • Capacity-building programme to trade representatives, diplomats carried out on annual basis and monitor its implementation 		MFA MOFALI, MOET, Ministry of Finance, MNCCI, private sector associations	
	<p>2.2.6. Put in place a cooperation framework to promote the exchange and dissemination of trade information among government agencies, TISIs, media, academia, research organizations and the private sector.</p>	1					<ul style="list-style-type: none"> • Cooperation framework in place 		MFA MOFALI, MOET, Ministry of Finance, MNCCI, private sector associations	
	<p>2.2.7. Through workshops and overseas courses, strengthen the already established "Council on Mongolian National Brands" to develop national branding and marketing plans, as well as sector sub-brands, to be developed in continuous dialogue and cooperation with sector committees (Act. 1.5.2)</p>	2					<ul style="list-style-type: none"> • Capacity-building program to the Council on Mongolian National Brands rolled out 		Council on Mongolian National Brands MOFALI MFA, MNCCI	

STRATEGIC OBJECTIVE 2: STRENGTHEN TRADE AND INVESTMENT SUPPORT INSTITUTIONS TO EFFICIENTLY RESPOND TO THE NEEDS OF MONGOLIAN FIRMS									
Operational Objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022			
2.3. Boost the speed of export processes by enhancing cross-border inspection and capacities at the border	2.3.1. Seek the possibilities of developing border port infrastructures and improving cross-border inspection and capacities at the border, in coordination with movement of cross-border entrance of passengers, goods, and transportation vehicles: <ul style="list-style-type: none"> Study the recognition/harmonization of systems with neighboring countries Set up additional product testing and inspection facilities at the border, with appropriate equipment. Conduct a study to assess number of facilities and resources needed. Based on the study, take the appropriate measures to improve upon border infrastructure at additional sites to broaden choice of border crossing points for exporters. Design and implement a training program to increase the capacity of border inspectors to operate new/existing equipment 	1					<ul style="list-style-type: none"> Study on developing the border port infrastructure is conducted Joint control of the border inspectors is undertaken, and training on increasing skill & capacity of operating monitoring techniques and equipment. 	Mongolia Upgrades of Sanitary and Phytosanitary Measures for Trade & CITA by Asian Development Bank	GASI, MCGA General Authority of Border Protection, Immigration Agency
	2.3.2. Carry out a program to design and implement a national integrated management framework for border control, with mechanisms of mutual recognition of monitoring and control of export goods among line Ministries and agencies to reduce time and costs to export. Develop and implement a capacity-building program for staff at border control agencies to inform them and train them on new arrangements.	2					<ul style="list-style-type: none"> Analysis of current border monitoring and control practices undertaken Framework of mutual recognition of monitoring and control is formulated and laws and regulations are amended, as necessary Capacity building training for staff organized 		MCGA Line Ministries, GASI, MASM, MNCCI, and sector associations
	2.3.3. Design and implement an "Authorized exporter program", to facilitate possibility of mutual recognition of this program with exporting countries' customs authorities, and to reduce the time and cost expended for customs declaration. Conduct an awareness campaign targeting exporters	2					<ul style="list-style-type: none"> Authorized exporters' program is introduced and the benefit of this program is advocated to exporters 	Regional Improvement of Border Services Project (Asian Development Bank)	National Trade Facilitation Committee MNCCI, MCGA
2.4. Strengthen the national quality certification infrastructure to be recognized by international trade partners	2.3.4. For the purpose of monitoring the quality of border services, undertake a regular customer satisfaction survey, with an emphasis on the performance of the One Stop Shop. Strengthen custom services based on the survey results	2				<ul style="list-style-type: none"> Customer satisfaction survey is undertaken regularly and effectively Necessary measures are implemented based on such survey outcome, and their impact is introduced to traders and merchants on timely basis. 		National Trade Facilitation Committee MCGA, GASI, MASM, MNCCI, and sectoral professional associations	
	2.4.1. Support the revision of the national legislative framework on food safety and quality conformity certification under the "Support to the modernization of Mongolia's standardization system". <ul style="list-style-type: none"> Identify duplication, incongruences and overlaps under the legislative framework. Analyze legal amendments to adopt CODEX Develop guidelines for modern risk-based food safety management systems, especially those that would benefit SMEs, and traceability system Conduct a series of sensitization workshops and other activities to widely disseminate the policy revision. 	1				<ul style="list-style-type: none"> Review of legislation related to quality certification Four workshops with at least 200 stakeholders conducted Broad public awareness campaign on quality certification 	Asian Development Bank	MASM	

STRATEGIC OBJECTIVE 2: STRENGTHEN TRADE AND INVESTMENT SUPPORT INSTITUTIONS TO EFFICIENTLY RESPOND TO THE NEEDS OF MONGOLIAN FIRMS

Operational Objectives	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
2.4. Strengthen the national quality certification infrastructure to be recognized by international trade partners	2.4.2. Establish a mechanism to improve coordination among inspection and quality assurance agencies, relevant ministries, and sector associations (i.e. MOFALI, GASI, MCGA, MASM, and accredited quality assurance institutions (including laboratories, technical monitoring, and validating organizations) or international agencies. Mechanism to build on any existing bodies and structures, such as the national SPS working group. Identify gaps overlaps of mandates and services and implement corrective measures	2						<ul style="list-style-type: none"> Coordination mechanism designed and in place Review possibilities for gaining international recognition for national institutions undertaking inspection, conformity assurance and issuance of certification 	Regional Improvement of Border Services Project; Mongolia Upgrades of Sanitary and Phytosanitary Measures for Trade, and CITA by the Asian Development Bank	MASM MOFALI, GASI, MCGA, accredited quality conformity assurance laboratories and institutions, relevant international agencies
	2.4.3. Develop the procedures / mechanisms and build the capacity of regulatory bodies in establishing equivalence of technical regulations and Mutual Recognition Agreements / Arrangements on conformity assessment procedures in order to facilitate trade Develop and introduce national quality standards on priority products based on international best practices and established international standards Develop a roadmap to strengthen the capacity of GASI to provide needed certifications to support food and agricultural sectors' exports.	2						<ul style="list-style-type: none"> At least two Mutual Recognition Agreements achieved 	CITA (Asian Development Bank)	National Trade Facilitation Committee MASM MOFALI, GASI, MCGA, accredited quality conformity assurance laboratories and institutions, respective international development agencies
	2.4.4. Establish and operationalize a traceability system (i.e. bar codes), including training on traceability in pilot sectors. Conduct research on the most appropriate, locally applicable technology for ease of use. Prepare for the establishment of a quarantine zone free of animal infectious diseases.	2						<ul style="list-style-type: none"> At least 30% of traceability of select pilot sectors Review of establishment of quarantine zone 	Sustainable Fiber Alliance FAO SDC Green Gold and Animal Health Project, EU and AVSF: Switch Asia programme's STeP EcoLab project	MOFALI MASM GASI, MCGA, accredited quality assurance laboratories, relevant international agencies.
2.5. Increase access to finance by bridging the gap between financial institutions and SMEs and larger exporters	2.4.5. Complete the implementation of the Law on Organic Food and advocate the development of internationally-recognized organic products	2					<ul style="list-style-type: none"> Prepare and disseminate guidelines for compliance with law 		MOFALI MASM	
	2.5.1. Conduct a study and hold consultations with private sector to analyze favorable taxation policies for export-oriented firms.	2					<ul style="list-style-type: none"> Assessment of the lending activities of the SMEDF conducted 		Ministry of Finance, MNCCI Development Bank of Mongolia, MFA	
	2.5.2. Conduct a complete assessment to determine the impact of the new collateral laws exporters access to credit. Develop new risk assessment tools to reduce and increase the flexibility of the Credit Guarantee Fund's collateral requirements.	1					<ul style="list-style-type: none"> Assessment completed and measures taken accordingly. New risk assessment tools developed 	Supporting the Credit Guarantee System for Economic Diversification and Employment Project (Asian Development Bank)	Bank of Mongolia Ministry of Finance, Development Bank of Mongolia, MFA	

STRATEGIC OBJECTIVE 2: STRENGTHEN TRADE AND INVESTMENT SUPPORT INSTITUTIONS TO EFFICIENTLY RESPOND TO THE NEEDS OF MONGOLIAN FIRMS									
Operational Objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022			
2.5. Increase access to finance by bridging the gap between financial institutions and SMEs and larger exporters	2.5.3. Conduct a feasibility study to determine the viability of the establishment of a one-stop shop for firms applying for loans through the SME Development Fund. Execute the recommended actions emanating from the feasibility study	2					<ul style="list-style-type: none"> Feasibility study conducted Actions taken based on study results 		Ministry of Finance Development Bank of Mongolia, MFA
	2.5.4. Increase the responsiveness of financial institutions to the needs of SMEs through training, incentives and development of new financial products. Hold consultation held with private sector and SME representatives on improving access to finance	2					<ul style="list-style-type: none"> One annual consultation held with private sector and SME representatives on improving access to finance 	Agriculture and Rural Development Project and Supporting the Credit Guarantee System for Economic Diversification and Employment Project by the Asian Development Bank	Ministry of Finance, Development Bank of Mongolia, Bank of Mongolia MFA
2.6. Establish a stable, professional civil service, which meets the highest international standards of public administration	2.6.1. Promptly promulgate rules and regulations, in accordance with international best practice, for the new Civil Service Law coming into effect on 1 January 2019	1					<ul style="list-style-type: none"> Rules and regulations promulgated for the Civil Service Law 		Cabinet Secretariat of Mongolia
	2.6.2. Invest in capacity-building for public administration, prioritizing economic policy-making, financial management, investment promotion, land-use planning, and urban planning (including SEZ and industrial park design and management), and public procurement (including PPP and public concession administration)	2					<ul style="list-style-type: none"> National program designed and rolled out 	CITA (Asian Development Bank)	Cabinet Secretariat of Mongolia

STRATEGIC OBJECTIVE 3: ENHANCE FIRMS' CAPACITIES TO MEET MARKET REQUIREMENTS AND SUSTAIN EXPORT RELATIONSHIPS										
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
3.1. Enhance sector associations and foster coordination in the private sector	3.1.1. Strengthen the ability of sector associations (i) to coordinate among themselves for advocacy and (ii) to deliver services to their members, including dissemination of information on government policies, guidance on market access, and peer-to-peer learning initiatives.	1						<ul style="list-style-type: none"> Industry groups classified and inclusive private sector organizations established, accordingly 	MFA, MNCCI, MOFALI, Ministry of Finance, private sector associations	
	3.1.2. Promote inter-connection and coordination among the different existing business and sectoral associations through the organization of joint initiatives and periodic events	2						<ul style="list-style-type: none"> Programme aimed at enhancement of association endorsed At least two initiatives/event conducted, per year 	MFA, MNCCI, Ministry of Finance, MOFALI, MNCCI, private sector associations	
	3.1.3. Develop a programme aimed at enhancement of industrial associations as a voice of business. Carry out an institutional benchmarking programme for sector associations to improve their performance by measuring the effectiveness and efficiency of their business practices. The programme should survey all activity areas, including strategy and governance, resources and processes, products and services, and results measurement. Support sectoral associations to coordinate with their counterparts in targeted priority markets.	2						<ul style="list-style-type: none"> Institutional benchmarking carried out in at least 10 associations 	MFA, MNCCI, Ministry of Finance, MOFALI, MNCCI, private sector associations	
3.2. Align the offering of the education system to the needs of enterprises, in particular SMEs	3.2.1. Ensure better skills matching in the economy through the following steps in particular for TIR priority sectors: <ul style="list-style-type: none"> Support the National Council for VET and their work at sector-level Councils to formalize the dialogue between industry and academia Organize regular roundtables gathering private sector and academia representatives to consolidate industry - academia linkages, Conduct a skills gap analysis in priority sectors, in particular specialized engineers and technologists, and conduct respective trainings Translate solicited industry needs into academic offerings and develop dedicated curriculums comprising initial training and continuing vocational education and training, Revise vocational training school curriculums and programmes to ensure alignment with industry needs Promotion of TVET among youth and parents through national campaigns and workshops at secondary schools including through field trips to factories 	1					<ul style="list-style-type: none"> Skills analysis conducted in priority sector, supply and demand side analyzed Education and training curricula revised based on skills mapping Trainings on the product development are organized 	Ministry of Education, Culture and Science (MECSS), MLSP, MFA, MOFALI, MNCCI, private sector associations		
	3.2.2. Formulate and implement a plan to provide compulsory foreign language education (student choice of English or Mandarin) from elementary school through high school	3						<ul style="list-style-type: none"> Plan formulated and implemented English and Mandarin curricula updated and provided at all grades 	MECSS, MLSP, TVETs, sectoral professional associations	
	3.2.3. Offer vocational training in manufacturing industries from high school, including machine operation and maintenance in textiles and agroprocessing, with an emphasis on hands-on training, internships, and apprenticeships	3						<ul style="list-style-type: none"> Programme developed to offer training in manufacturing industries 	MECSS, MLSP	

STRATEGIC OBJECTIVE 3: ENHANCE FIRMS' CAPACITIES TO MEET MARKET REQUIREMENTS AND SUSTAIN EXPORT RELATIONSHIPS										
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
3.2. Align the offering of the education system to the needs of enterprises, in particular SMEs	3.2.4. Strengthen and expand business and international relations programs, such as those at the National University of Mongolia, and make them more accessible through application-oriented certification programs, specific to Mongolia's patterns of trade and investment demand (e.g., trading across borders in agro-processed goods)	2						<ul style="list-style-type: none"> At least 3 MoUs signed with international programs 	MECSSLSP	MECSSLSP
	3.2.5. Expand international exchange programs, between Mongolia and its leading trade and investment partners, to include more students, government officials, and industrial workers	2						<ul style="list-style-type: none"> At least 3 MoUs signed increasing the number of planned participants and including industrial workers 	MECSS, MLSP MFA and relevant trade and investment support institutions	MECSS, MLSP MFA and relevant trade and investment support institutions
	3.2.6. Increase private sector involvement in the TVET sector and in the pursuit of skill development goals (including those under Strategic objective 4) by clarifying policy, addressing barriers, and increasing awareness of opportunities and ensure 60% of trainees to gain practical experience. Implement corrective measures, accordingly.	2						<ul style="list-style-type: none"> Potential areas of and barriers to private sector involvement in the TVET sector identified Corrective measures implemented 	Swiss Agency for Development and Cooperation	MECSSMNCCI, private sector associations
3.3. Improve the ability of firms to market their goods internationally	3.2.7. Assess options for supporting the development of continued professional training education programs in priority sectors through a pilot approach <ul style="list-style-type: none"> Select a priority sector (e.g. meat) to develop continued education program focused on technical skills. Develop a curricula and training material for identified courses Consider integrating: <ul style="list-style-type: none"> » Adult peer-to-peer learning elements. » Field studies of cooperative leaders and carry information exchanges. Train facilitators as required 	2					<ul style="list-style-type: none"> Pilot design and implemented 	Mongolia Cooperative Training and Education Centre	MECSS, private sector associations	
	3.3.1. Implement a well-resourced, comprehensive single window for trade facilitation, by consolidating the several, disparate, partial facilitation "windows" currently hosted by various public and private institutions. Develop a program, in close collaboration with supporting implementing institutions, where joint objectives and timeframes are defined to develop the single window in a phased manner	1						<ul style="list-style-type: none"> Foreign trade single window policy implemented 	Regional Improvement of Border Services Project (Asian Development Bank)	MFA, MNCCI, MCGA
	3.3.2. Build firm capacities by training them in the use of the "Foreign Trade Single Window" through workshops (including in the regions), in collaboration with private sector associations.	2						<ul style="list-style-type: none"> 10 workshops conducted in Ulaanbaatar and regions 	Regional Improvement of Border Services Project (Asian Development Bank)	MFA, MNCCI, MCGA

STRATEGIC OBJECTIVE 3: ENHANCE FIRMS' CAPACITIES TO MEET MARKET REQUIREMENTS AND SUSTAIN EXPORT RELATIONSHIPS									
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022			
3.3. Improve the ability of firms to market their goods internationally	<p>3.3.3. Develop regularly-updated online and other information materials with clear and sector-specific information on trade conditions, tariff and non-tariff barriers to trade (including international and domestic SPS and TBT notifications) in export markets.</p> <ul style="list-style-type: none"> In collaboration with industry groups, provide regular workshops on trade compliance for firms. Ensure the respective certification institution to undertake domestic audit on trade compliance and certification and develop and disseminate checklists Improve communication systems for notifying firms about changes to domestic and international SPS and other regulations in export markets Work with farmers and herders by organizing training to improve knowledge and skills on exporting requirements and quality improvement <p>Train presenters to communicate with industry groups on trade policy, market access and investment.</p>	1					<ul style="list-style-type: none"> Online tool on trade information and firm compliance developed and available 5 presenters trained per industry group Quarterly workshops Checklist developed and publicly available 	<p>Mongolia Cooperative Training and Education Centre</p> <p>Regional Improvement of Border Services Project (Asian Development Bank)</p> <p>Mongolia Upgrades of Sanitary and Phytosanitary Measures for Trade (Asian Development Bank)</p>	<p>MFA, MOFALI</p> <p>MNCCI</p>
	<p>3.3.4. Design training programs targeting firms on ways of benefitting from international investment and working with foreign firms, including through investment, joint ventures, and customer-supplier relationships.</p> <p>Study and identify possibility of cooperating with respective foreign companies in course of implementing abovementioned training program during the implementation process of an objective of establishing the "Economic Corridor"</p>	1					<ul style="list-style-type: none"> Programme designed and facilitators trained 	<p>NDA, MNCCI</p> <p>MFA</p>	
	<p>3.3.5. Develop short courses targeting SMEs and exporters to provide them legal guidance on how to make mutually beneficial contracts.</p>	2					<ul style="list-style-type: none"> Improve quality of context and types and extend accessibility by increasing number of the short courses developed and carried out by MOFALI on a quarterly basis 	<p>MFA, MNCCI</p> <p>MOFALI</p>	
	<p>3.3.6. Provide specific advisory services to sector associations and selected small and medium enterprise clusters in TIR priority sectors, including:</p> <ul style="list-style-type: none"> Market surveys and analysis Assessment of the value propositions and branding efforts of firms Testing the demand for products with real customers and professional buyers Advice on packaging design as it corresponds to market requirements and product strengths Brand Awareness: Learn best practice on brand strategy, design and implementation, adapted to the sector and market. Brand plan: Structure a plan that is used to develop designs, communications and product development. Brand kit: Design and produce the marketing collateral associated with the brand design 	2				<ul style="list-style-type: none"> Short courses designed Firm-specific services made available 	<p>Empowered people – Improved livelihoods, European Union and Czech Republic Development Agency</p> <p>Mongolia Cooperative Training and Education Centre</p>	<p>Council on Mongolian National Brands, MNCCI</p> <p>MFA, MOFALI, Private sector organizations</p>	

STRATEGIC OBJECTIVE 3: ENHANCE FIRMS' CAPACITIES TO MEET MARKET REQUIREMENTS AND SUSTAIN EXPORT RELATIONSHIPS										
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
3.3. Improve the ability of firms to market their goods internationally	3.3.7. Expand in-market trade promotion activities, highlighting the most significant priority sectors to target markets. <ul style="list-style-type: none"> Implement B2B and matchmaking services to facilitate foreign firms and potential investors for finding partners in Mongolia. Ensure greater participation in international trade fairs to enable exporters to meet international buyers and strengthen the visibility of Mongolian companies Organize trade meets that will be leveraged to promote Mongolian exports. Promote local products through international trade fairs. Organize bilateral trade facilitation forums to develop market linkages 	1						<ul style="list-style-type: none"> Number of B2B and matchmaking services increased Increased participation of Mongolian firms in trade fairs Increased number of bilateral trade facilitation forums 	World Bank's Export Development Project	MFA, MNCCI MOFALI, Private sector organizations
	3.3.8. Develop and implement a MOFALI database of independent consultants and enterprises, which can provide tailored market research to exporters.	2						<ul style="list-style-type: none"> Databased developed and publicly available 		MFA, MOFALI, MNCCI Private sector organizations

STRATEGIC OBJECTIVE 4: STIMULATE INNOVATION AND ENTREPRENEURSHIP BY UNLEASHING ENTREPRENEURIAL CAPACITIES, STRENGTHENING THE START-UP ECOSYSTEM, AND VENTURING INTO KNOWLEDGE-BASED SECTORS									
Operational objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022			
4.1. Streamline and increase transparency of regulations for start-ups	4.1.1. Identify and eliminate all unnecessary overly burdensome business start-up requirements. Take the necessary corrective measures on those rules, procedures, licenses.	1					<ul style="list-style-type: none"> Corrective measures identified and implemented 	Swiss Agency for Development and Cooperation	Cabinet Secretariat, General Authority for State Registration MCGA, GASI, MFA, MOFALI, MNCCI, private sector associations, incubators
	4.1.2. Make publicly available all business registration requirements and procedures to increase transparency and predictability	1					<ul style="list-style-type: none"> Business registration requirements available in relevant websites 		Cabinet Secretariat, General Authority for State Registration MFA, MOFALI, MNCCI, private sector associations
	4.1.3. Undertake a regular awareness-raising programme and prepare short guides, which provides entrepreneurs with succinct information about which steps they must complete to fulfil formalities to start a business. Conduct regular sessions with business associations and start-up communities to educate them on current and forthcoming regulations	2					<ul style="list-style-type: none"> Short guide prepared Quarterly sessions on regulations 		Cabinet Secretariat, General Authority for State Registration, MNCCI
	4.1.4. In alignment with the Revised Law on State Registration of Legal Entities (2015), develop and launch an online business registration.	1					<ul style="list-style-type: none"> Online business registration available 		General Authority for State Registration Ministry of Finance
	4.1.5. Introduce incentives targeting start-ups, especially for those that are export-oriented, such as tax breaks and duty on raw materials and capital goods.	2					<ul style="list-style-type: none"> Incentives identified and implemented 		MNCCI, Mongolia Start-up, private sector associations
4.2. Enhance entrepreneurship education, improve the supply levels of quality and quantity of specialized engineers and technologists and develop effective curricula by restoring strong linkages between educational institutions and processing industries	4.2.1. Develop a programme to introduce entrepreneurship in all levels of education with the two objectives of: <ul style="list-style-type: none"> Developing entrepreneurial attitudes in students, and equipping the students with relevant knowledge and skills for starting and running their own businesses. Encourage private sector associations and other key stakeholders, including herders and farmers to co-operate in this task, including with curriculum design, training and mentoring. 	1				<ul style="list-style-type: none"> Programme defined (including responsibilities of implementing ministries, agencies, and partners) and implemented 		MECSSMNCCI MLSP, private sector associations	
	4.2.2. Pilot an initiative to introduce entrepreneurial education in lower and upper secondary levels to create awareness of entrepreneurship, manufacturing, and product research and development as a career option and to provide early practical opportunities in entrepreneurship. <ul style="list-style-type: none"> Select secondary institutions to serve as pilots, based on quality of education, level of enrolment, infrastructure, etc. Develop an entrepreneurship module based on best practices, along with educational materials. The module can include activities, such as: <ul style="list-style-type: none"> » Learning by doing: provide experience of establishing and running a business in teams » Role models: champions invited to interact and talk to students » Visits to enterprises Train educators from select secondary institutions to impart these modules 	2				<ul style="list-style-type: none"> Pilot defined and launched in 25 secondary level schools 		MECSS, MNCCI private sector associations	

STRATEGIC OBJECTIVE 4: STIMULATE INNOVATION AND ENTREPRENEURSHIP BY UNLEASHING ENTREPRENEURIAL CAPACITIES, STRENGTHENING THE START-UP ECOSYSTEM, AND VENTURING INTO KNOWLEDGE-BASED SECTORS									
Operational objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022			
4.2. Enhance entrepreneurship education, improve the supply levels of quality and quantity of specialized engineers and technologists and develop effective curricula by restoring strong linkages between educational institutions and processing industries	4.2.3. Formalize the introduction of entrepreneurship in TVEs through a pilot approach. Collect lessons learned from existing national and regional initiatives: <ul style="list-style-type: none"> Develop tailored entrepreneurship education curricula for TVET education levels, which promotes learning by doing. Include topics in three core areas: <ul style="list-style-type: none"> » Soft skills (e.g. teamwork, critical thinking, problem-solving) » Core skills (e.g. numerical, ICT, communications) » Business skills (e.g. subcontracting, how to open small businesses in fields of their specialization, market analysis) Prepare basic entrepreneurial skills education material, tailored to local contexts, case studies and role models. ICT to be embedded into learning. Develop tailor-made training for teachers who would be select to teach entrepreneurship courses. ICT to be embedded into teaching Implement monitoring systems to follow up on graduates of the course. Adapt and replicate the curricula in other TVEs	1					<ul style="list-style-type: none"> Pilot defined and launched in 20 TVEs 	MECSS and MLSP MNCCI, Association of TVET educators	
	4.2.4. Promote an entrepreneurship educators' network to allow for sharing of experiences, outcome-based research and lessons learned at the national and international levels. The network would also serve to create a database of successful entrepreneurs to serve as mentors for future entrepreneurs. In respect to same context, establish network among students majoring in the business administration, marketing, and interdisciplinary majors in universities such as Mongolian University of Science and Technology (MUST), Mongolian University of Life Sciences (MULS), and National University of Mongolia (NUM).	3					<ul style="list-style-type: none"> Network established Database on best practices created and available 	MECSS and MFA MLSP, MNCCI, incubators, Association of TVET educators, NUM, MUST, MULS	
	4.2.5. In TIR sectors, organize information and career fairs, occupational skill competitions and business opportunities in forums.	2					<ul style="list-style-type: none"> One career fair per year, per TIR sectors One skill competition per year per TIR sector One business opportunity forum per year per TIR sector 	MECSS and MFA MLSP, MNCCI, MOFALI incubators	
	4.2.6. Identify successful examples of Mongolian SMEs and start-ups and organize conferences from "leading and successful" entrepreneurs in higher educational institutions.	2					<ul style="list-style-type: none"> 5 Champions per sector identified and engaged One annual conference held 	MECSS, MFA, MOFALI, MLSP, MNCCI, incubators	
	4.2.7. Reinforce Student Entrepreneurs Club at universities through the organization of seminars, pitching sessions and business plan competitions, which foster in-depth interdisciplinary collaboration	3					<ul style="list-style-type: none"> One annual seminar, pitching session and business plan held through Students Entrepreneurs Club 	MECSS, MFA MLSP, MNCCI, incubators	
	4.2.8. Establish alumni networks for entrepreneurship to, organize regular seminars, mentor programs and entrepreneurship trainings, etc.	2					<ul style="list-style-type: none"> Alumni networks created 	MECSSMFA, MLSP, MNCCI, incubators	

STRATEGIC OBJECTIVE 4: STIMULATE INNOVATION AND ENTREPRENEURSHIP BY UNLEASHING ENTREPRENEURIAL CAPACITIES, STRENGTHENING THE START-UP ECOSYSTEM, AND VENTURING INTO KNOWLEDGE-BASED SECTORS									
Operational objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period				Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022			
4.3. Strengthen the capacity of incubators to reach and provide adequate services to start-ups	4.3.1. Carry out a study to map the start-up ecosystem and assess existing business incubators (e.g. National Information and Technology Park, MNCCI Incubator Centre, Start-up Mongolia) against international benchmarks. Build capacities where the need is identified.	1					<ul style="list-style-type: none"> Benchmark study carried out and capacity-building provided accordingly 		MFA, MOFALI Communications and Information Technology Authority, NDA, MNCCI, Mongolia Start-up, private sector associations
	4.3.2. Based on Mongolia's Economic Development Policy (and its use of spatial planning) and on benchmark study, assess the feasibility of supporting new incubator creation and the expansion of existing ones. Develop a pilot initiative with services, such as evaluation of business ideas, networking facilitation and mentoring after the start-up phase. Short courses would include: <ul style="list-style-type: none"> How to elaborate business plans Introduction to Labour Law Also, integrate services for start-ups that want to export. Develop mechanisms to do a proper follow-up and monitoring of progress of graduated start-ups.	1					<ul style="list-style-type: none"> Pilot initiative developed and established 		MFA, MOFALI NDA, MNCCI, Mongolia Start-up, private sector associations, incubators
	4.3.3. Launch an initiative to provide mentoring and coaching services at universities, TVEs and in incubator centres in TIR priority sectors, such as ICT and cashmere: <ul style="list-style-type: none"> Identify professionals that could serve as mentors or consultants from private sector organizations and successful entrepreneurs. Train mentors to provide one-to-one coaching services. Communicate impact and success stories through the websites and social media of relevant associations, public institutions, and TVEs. 	1					<ul style="list-style-type: none"> Initiative launched 		MECSS and MLSP Association of TVET educators, MNCCI
	4.3.4. Introduce courses on access to finance targeting start-up businesses through business incubators. Topics to include: <ul style="list-style-type: none"> How to apply for a loan and financial products and services available to start-ups How to pitch to investors and how to search for funding 	2					<ul style="list-style-type: none"> Course developed and implemented through incubators 		MFA, MOFALI Commercial banks
4.4. Strengthen knowledge transfer linkages	4.3.5. Analyse and assess possible design features of tax incentives schemes to foster investment in start-up companies.	2					<ul style="list-style-type: none"> Feasibility study developed Financial incentive in place 		Ministry of Finance, MNCCI Mongolia Start-up, private sector associations
	4.3.6. Organize measures including networking events to connect private investors with start-ups as well as dialogue platforms to exchange ideas and share experiences among entrepreneurs and investors	3					<ul style="list-style-type: none"> One networking event and one dialogue platform 		MFA, MNCCI NDA, Mongolia Start-up, private sector associations
	4.3.7. Organize targeted business networking events for start-up companies to connect with potential clients and display their offerings to established companies in specific sectors	1					<ul style="list-style-type: none"> One networking event per year 		MFA, MNCCI NDA, MNCCI, Mongolia Start-up, private sector associations
	4.4.1. Develop interdisciplinary committees «Innovation and growth » in priority sectors, formed by public, and private sector and academia. Committees to identify and agree on industry Know How and Knowledge Priorities such as research requirements	1					<ul style="list-style-type: none"> Committee established at the sector level, roles and responsibilities defined by ToRs 		MECSS, MFA MNCCI, incubation centres, universities

STRATEGIC OBJECTIVE 4: STIMULATE INNOVATION AND ENTREPRENEURSHIP BY UNLEASHING ENTREPRENEURIAL CAPACITIES, STRENGTHENING THE START-UP ECOSYSTEM, AND VENTURING INTO KNOWLEDGE-BASED SECTORS										
Operational objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
4.4. Strengthen knowledge transfer linkages	4.4.2. Create a scheme – including the technological upgrading of MUST's laboratories – for joint R&D projects between the national innovation ecosystem (incl. MUST researchers) and the country's priority industries (incl. dairy) to address specific challenges. Priority research areas to be in line with TIR priority sectors. Disseminate results through networks, universities and private sector workshops. Implement identified solutions through flagship initiatives.	2						<ul style="list-style-type: none"> Scheme developed MUST laboratories upgraded 8 research studies per year in the TIR priority sectors 2 pilot projects for applied research per year 		MECSS MFA MNCCI, incubation centres, universities
	4.4.3. Establish mechanisms to support SMEs in purchasing R&D from research institutions (see Innovation vouchers in Poland, Austria, and other countries)	2						<ul style="list-style-type: none"> Financial mechanism in place 		Ministry of Finance, MECSS MFA, MNCCI, incubation centres, universities
	4.4.4. Establish a network for technology and innovation support including the country's incubators, research institutions, start-up finance providers, entrepreneurship initiatives, the Intellectual Property Office of Mongolia (IPOM), etc. to improve delivery of entrepreneurial support, dissemination of research, trainings on IPRs, networking, with companies interested in hiring, subcontracting, or forming joint ventures for technology solutions.	3						<ul style="list-style-type: none"> Network established Quarterly meetings held 		MECSS and IPOM MFA, MNCCI, incubation centres, universities
	4.4.5. Formulate intellectual property ownership policies for the country's research universities, so as to maximize encouragement for individuals to innovate and to commercialize those innovations	3						<ul style="list-style-type: none"> New policy adopted at MUST and other research institutions 		MECSSMUST, IPOM
	4.4.6. Promote knowledge sharing, technology transfer and cooperation for innovation development with foreign partners, through targeted workshops and exchange programs.	2						<ul style="list-style-type: none"> 2 MoUs signed with international research centres, detailing the knowledge and technologies to be shared 		MECSSMFA, MNCCI, incubation centres, universities
	4.4.7. Establish a program at NDA to identify and match domestic firms to foreign ones as suppliers service providers (e.g., domestic food suppliers for foreign hotel chains, IT service providers for large foreign enterprises) and potential joint venture partners	1						<ul style="list-style-type: none"> Database of domestic suppliers, service providers, and potential joint venture partners created Database content made available by NDA to foreign investors through an online portal 		NDA MFA
	4.4.8. Conduct a multi-year campaign to raise awareness about the need for FDI to accelerate Mongolia's economic development, through news and print media, social media, and academic forums, to promote the government's long-term vision, share the cases of other economies, and publicize Mongolia's own success stories	2						<ul style="list-style-type: none"> Multiyear FDI awareness campaign carried out 		NDA MFA

STRATEGIC OBJECTIVE 4: STIMULATE INNOVATION AND ENTREPRENEURSHIP BY UNLEASHING ENTREPRENEURIAL CAPACITIES, STRENGTHENING THE START-UP ECOSYSTEM, AND VENTURING INTO KNOWLEDGE-BASED SECTORS										
Operational objectives	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets	Existing programs or potential support	Leading and supporting implementers
			2019	2020	2021	2022	2023			
4.5. Actively pursue international leadership in IT, tech innovation, e-commerce, and other knowledge-based services	4.5.1. Urgently move the government toward e-government and expanded public services (e.g., free public Wi-Fi hotspots), creating a large market for IT goods and services through government procurement	2						<ul style="list-style-type: none"> National plan designed and rolled out to move towards e-government 		Communications and Information Technology Authority
	4.5.2. Stimulate the sector's growth through the establishment of a special economic zone, which clusters specialized training institutions, specialized infrastructure, subsidized innovation space, and additional incentives for the sector in a single, synergistic site. Build on the lessons learned from the National Information and Technology Park	3						<ul style="list-style-type: none"> Special economic zone established 	CITA (Asian Development Bank)	Communications and Information Technology Authority
	4.5.3. Court the region's top tech and engineering universities to establish a branch location in Mongolia, offering all reasonable assistance to support the institution's operations and marketing.	2						<ul style="list-style-type: none"> 2 MoUs signed with international tech and engineering universities 		Communications and Information Technology Authority, MECSS
	4.5.4. Elevate the priority and extent of IT education in primary and secondary education and TVEs providing all necessary curricula (incl. computer and data sciences), equipment (e.g., computers/tablets available to all students), and infrastructure (incl. high-speed internet in all classrooms) to the country's classrooms, in alignment with activity, in order to prepare the Mongolian workforce to participate in the sectors of the future	2						<ul style="list-style-type: none"> Curricula revised and implemented Classroom equipment allocated High-speed internet in every classroom 		Communications and Information Technology Authority, MECSS
	4.5.5. Develop concrete proposal to support the enforcement of IP regulation. Include measures to elevate the capacity of State Inspectors and to compensate damages caused by IP infringement.	3						<ul style="list-style-type: none"> Proposal developed and relevant measures implemented 		IPOM MFA, MNCCI, NDA
	4.5.6. Support MUST's plans to establish an independent, advanced school of engineering	2						<ul style="list-style-type: none"> Action plan with areas where support is needed, in terms of recruitment, curricula, administration, finance, etc. 		MECSSMUST
	4.5.7. Develop courses on IP rights targeting research centres, incubation and innovation support centres. Identify capacity-building gaps of teachers of MUST and their respective courses. Develop a program to address these gaps	3						<ul style="list-style-type: none"> Courses developed and rollout on an annual basis Capacity building measures for teachers and HR are organized 		IPOM MFA, MNCCI, incubation centres, universities



Photo: ©Ministry of Foreign Affairs

ANNEX: MONGOLIA'S COMPETITIVENESS CONSTRAINTS (3C FRAMEWORK)

The competitiveness capacity of exporting sectors in Mongolia is undermined by several factors related to the firms' capabilities, institutional support and national business environment. The key competitiveness constraints that are impeding export development and investment promotion, within Mongolia are presented within a 3C's framework. Three dimensions of constraints are assessed, as indicated below:

- **Compete:** Issues limiting national capacity to compete in domestic and foreign markets. This includes challenges related to access to inputs, productivity, business skills and national infrastructure support, among others.
- **Connect:** Issues restraining connectivity to suppliers, markets and clients. This dimension includes challenges related to market information, marketing and trade promotion, branding and trade agreements, among others.
- **Change:** Issues limiting the export sector's capacity to change, innovate and tap into emerging trends. This dimension relates to challenges accessing trained/skilled labour, intellectual property protection, institutional support to innovate, investment promotion and protection, corporate social responsibility, and youth and women's employment, among others.

COMPETE

Firms' access to inputs is often unpredictable and of insufficient quantity. A significant number of Mongolian firms in non-mining sectors (39%) have reported difficulties in accessing raw (quality) materials uninterruptedly (EU-TRAM Survey). In Mongolia, the livestock sector, which dominates the country's non-mining exports, is yet to reach an industry-wide approach and is extremely vulnerable to climatic conditions, such as *dzuds*. Productivity is not particularly high due to a combination of factors including inefficiencies at the input level (i.e. land and pasture conditions, feed, water, limited applied research and extension services to enable technology transfers, weak market infrastructure and logistics, and limited credit access).

Significant quantities of production losses due to poor maintenance and shortage of physical infrastructure and inadequate handling of products. This also hinders the potential of volumes exported of agro-based products.

Specific constraints include poor handling equipment, weak cold chain infrastructure, climate conditions, and poor knowledge of good practices.

Quality and phytosanitary issues restrict competitiveness and market diversification of exports. Key Mongolian products are unable to reach their potential in international markets because of phytosanitary and quality issues. The domestic food industry, in particular, fails to meet international safety standards, which has led to a significant reliance on imported food products. Root causes include the uncontrolled livestock movement between provinces, weak monitoring of vaccine quality and use, lack of knowledge and interest from herders on food safety issues, low use of technology, among others. Root causes from the enterprise perspective also include a poor understanding of technical requirements for products, which is caused by insufficient market information and support to exporters.

Complying with technical regulations and standards generates significant exporting costs. Limited access to internationally accredited laboratories and lack of conformity agreements with other countries mean that certificates issued in Mongolia are not recognised abroad. Hence, for many sectors, exporters are not able to comply with international standards and subsequently, expand their markets. Exporters have criticised the General Agency for Specialised Inspections (GASI) for slow processes, including delays in issuing exporting certificates. Mongolian Agency for Standardisation and Metrology (MSAM) has developed a National Quality Policy Programme. However, weak institutional capacity and resource constraints remain critical challenges, limiting MSAM's ability to develop and implement standards that could match foreign standards. As such, firms continue to employ foreign standards on ad hoc basis.

Poor promotion of entrepreneurship and lack of a cohesive national vision to promote economic diversification. From a policy perspective, the government has taken steps to incentivise innovation and entrepreneurship through creating funding opportunities for SMEs, but has no laws to explicitly promote entrepreneurship. There is also poor coordination and insufficient mainstreaming of

trade-related issues into public programmes and policies, rendering a fragmented environment to support export development and diversification. This is caused by the constant shift of the export promotion function to different ministerial portfolios and the low inclusion of other non-governmental institutions or private players. There is also no export promotion agency to guide and provide leadership to efforts related to export diversification.

On Doing Business indicators, Mongolia ranks low among the economies of peer countries and its performance is uneven. While the country ranks favourable in some areas, it lags most countries on several others such as getting electricity, trading across borders, resolving insolvency, and enforcing contracts. Although Mongolia's performance improved from 2017, the low rankings reflect many of the challenges related to the underdeveloped private sector in the country. The ease of getting electricity and trading across borders, coupled with low numbers on starting a business and ease of paying back taxes leads to competitiveness challenges in Mongolia. Weak contract enforcement will also discourage entrepreneurship and investors' confidence in the country's business climate.

CONNECT

Poor transport infrastructure is an impediment to economic growth. Mongolia's outdated transport infrastructure exacerbates the problems of connectivity faced by the landlocked developing country. Although its overall Logistics Performance Index (LPI) ranking improved from 135th in 2014 to 108th in 2016, Mongolia saw a fall in its ranking of infrastructure, international shipments, and logistics quality and competence.

The railway that connects Mongolia to China and the Russian Federation was built during the period of 1949–1955, and is dire need of technical and institutional modernisation, but low investment in the railway sector does not allow for any upgrade. This further undermines the potential of Mongolia as a transit corridor between China and the Russian Federation. Lack of coordination plagues Mongolia's transport development sector.

Over burdensome border clearance requirements exacerbate Mongolia's connectivity. Mongolia faces several challenges and barriers to foreign trade, including bureaucracy at the border, and the cost and time taken to export, especially with export documentation and procedures at the border. The sluggish performance can be attributed to manual issuing of certificates, lack of proper inspection equipment, and lack of trained staff. Exporting firms face significant communication problems with customs, mostly in understanding the documentation, procedures, and compliance requirements.

Lack of EPAs/FTAs prevents the internationalisation of Mongolian SMEs. So far, Mongolia only has an Economic Partnership Agreement (EPA) with Japan. Trade related legal environment is lacking Mongolia. According to the government, Mongolia became a WTO member under unfavourable conditions, which have affected Mongolia's future negotiations. As such, agreements have not always been mutually beneficial, and it is reported that the EPA with Japan has not yielded the expected results. This could also be due to lack of knowledge amongst exporters, which could be attributed to lack of coordination between Mongolian agencies and Japanese agencies.

Exporters do not use the preferential market access granted to Mongolia, are unable to access trade fairs regularly, and to make mutually beneficial contracts. Mongolian firms do not have the knowledge of the trade agreements and the potential opportunities they present. For example, the EU TRAM survey reports that 40% of the respondents did not know about the benefits of an EPA/FTA. Another barrier to access markets effectively is the Mongolian firms' inability to make mutually beneficial contracts with overseas customers, agents, and distributors. Some Mongolian enterprises sense that they have been taken advantage of or that the contract was too advantageous for the other side.

Limited knowledge of international market access requirements hinders export development. Understanding the customer requirements is an area of real concern and a barrier to exporting. Lack of resources do not allow small businesses to undertake market research, such as conducting customer surveys in foreign markets. The EU TRAM Survey reports that one in five respondents was rarely undertaking or never undertaking overseas market research. Additionally, majority of Mongolian firms do not understand the technical requirements, for example ISO22000 Health and Safety Requirements, for their products overseas.⁶⁸ As such, exporters are unable to implement these standards and find their products refused entry to certain markets on the grounds of safety.

Lack of promotional activities limits the visibility of Mongolian products abroad. Mongolia's export potential is constrained by the lack of an overall marketing strategy, lack of participation in foreign trade fairs and conferences, and a lack of 'national brands' that are recognised in external markets. Without a strategy, budget and dedicated action plan to market Mongolian

68. – EU-TRAM (2018). Survey of Opportunities and Barriers to Exporting within SMEs to Identify Key Issues and Export Development Support Needs (Final draft)

industries, the government will have difficulty increasing exports. Furthermore, there is poor collaboration and investment in national marketing and branding that focuses on Mongolia's uniqueness, such as production of cashmere on world's largest grasslands. Firms suggest that it would be beneficial to have an organisation that could focus on marketing and branding of Mongolian products, and leave the firms to undertake the producing.

Reach and service quality of business services needs to be improved. Centralisation of business services by private sector associations limits support of firms outside Ulaanbaatar. This centralisation of services is not limited to the MNCCI, but appears in all other Mongolian business associations such as the Business Council of Mongolia, CEO Club, and various sectoral associations. With respect to quality of services, the government ministries and agencies have performed slightly below satisfactorily.⁶⁹ There is limited connectivity between the government and the private sector, which can be attributed to the lack of resources in both public and private sectors and weaknesses of the trade portfolio within the government.

69. – EU TRAM SURVEY (2018)

CHANGE

Mongolia's investment policy has been mostly fluctuating, giving rise to an unpredictable business environment. Mongolia has a periods of pro-investment policies abruptly turning into anti-foreign investment stands, making the business environment unpredictable. This could be attributed to frequent government changes, leading to significant shifts in government policy. Political and policy instability does not only drive away investors, but also prevents the government from reaping the benefits of a long-term investment policy strategy and building sufficient capacity to implement such strategy. Weak governance and a lack of transparency are also pressing challenges. Lack of investor protection in terms of lack of transparency and arbitrary government action is a critical issue for investors in the country. The World Bank investor survey reports that nearly 80% of respondents felt their investment was at the risk of leaving the country because of lack of investor protection.

The low levels of efficiency seeking investment in Mongolia suggest a significant investment competitiveness challenge in Mongolia. Mongolia receives most of its FDI from a handful of countries, and in a handful of sectors, making it vulnerable to the economic outlook of these economies and sectors. The lack of diversification is symptomatic of Mongolia's competitiveness drawbacks, and creates an unstable FDI environment,

which preclude inflows of efficiency-seeking FDI in the country that requires a business environment in which companies can efficiently enter the markets, expand operations, and develop more and better linkages with local, regional, and global economies.

Mongolia does not have a proper investment promotion organisation. The transition from Invest Mongolia to the National Development Authority has significantly "de-prioritised" investment promotion. The NDA acts more as a regulator and administrator, than a promoter. NDA has limited staff capacity active in its investment promotion team, and they mostly do public relations and marketing for NDA, rather than investor-targeted promotion. Although, in accordance to NDA's restructured institutional framework made in Nov 2018, an *Investment Promotion Division* is established with mandate of attracting investment and promotion and its Director is being appointed. Additionally, there is no head for the promotion division, and individual staff have to be recruited through civil services, which means that they are not always recruited based on skills and experience. Similarly, the investor aftercare activities of NDA are currently limited to reactively providing information to existing investors. As a result, line ministries see NDA as less influential.

State-owned enterprises inhibit private sector development. The government maintains SOEs in the banking and finance, energy production, mining, and transport sectors. These SOEs oftentimes operate under more favourable conditions than both foreign and domestic private investors, therefore potentially crowding out private investment. The NDA, which is in charge of investment promotion, lacks adequate capacity to market, negotiate, and administer PPPs and Concessions. Due to these capacity constraints, there has been a new trend towards using SOEs instead of private sector concessions, for example in mineral refining. This in turn has given rise to monopolies.

SMEs have difficulties securing working capital or loans needed to sustain their business and invest for growth. Currently 16% of SMEs have loans but the need for access to credit is high, with 95% of SMEs reporting that they want to obtain a loan in the future to purchase equipment or cover working capital needs.⁷⁰ The EU TRAM Survey reveals that majority of respondents experience difficulty in accessing export-related finance. SMEs are perceived as high risk lending segment, especially female-owned SMEs.⁷¹ Additionally, Mongolia made paying taxes more burdensome by not allowing VAT incurred on business capital expenditure to be deducted as input credit. This change has made it more difficult to do business.⁷²

Limited innovation and poor IP protection to move into new and more complex products. Businesses are not sufficiently innovative and venture in a limited manner into new and more complex products,⁷³ which leads to low product development. Some of the reasons behind the low level of innovation among Mongolian businesses are limited investment in R&D, weak linkages of innovation and knowledge transfer and knowledge absorption, among others. Low quality of scientific institutions and limited collaboration between industry and academia in R&D are also barriers to innovation in Mongolia.

70.– IFC (2018)

71.– IFC (2018)

72.– World Bank (2019). Business Reforms in Mongolia. Available from: <http://www.doingbusiness.org/en/reforms/overview/economy/mongolia>

73.– Government of Mongolia and the Millennium Challenge Corporation of the USA (2016). *Mongolia constraints analysis: a diagnostic study of the most binding constraints to economic growth in Mongolia*.

Increased degradation of natural resources puts in risk Mongolia's sustainable economic growth. Mongolia has to address issues related to access to water, land degradation and climate change. Water scarcity and water quality issues are major worrying concerns for production and processing of Mongolian key products. Land degradation is another increasingly concerning issue. Grassland covers most of Mongolia's territory, roughly 80%, out of which, approximately 70% is impacted by desertification, resulting from overgrazing, deforestation and conversion of land to agriculture.⁷⁴ Overgrazing is mainly driven by poor land management, while logging and fires are the main causes for deforestation.

There is a low availability of labour force with skills demanded by the private sector. SMEs have reported unskilled staff as a constraints. According to the Mongolian Business Environment Survey (2017),⁷⁵ a significant number of firms struggle to find staff with the required mix of skills and language competencies to support processing and exporting processes. These findings are consistent with the EU-TRAM Survey. According to the latter, 81% of firms reported difficulties with finding staff with adequate skills.

Youth employment rates have not significantly risen despite an educated population. High youth unemployment plagues the Mongolian economy, with the youth accounting for 17.4% of the total unemployed Mongolian population. Additionally, while seemingly productive, 25% of the youth population is not in education, employment, or training (NEET). Entrepreneurship development could play a significant role in addressing these issues, as it is one of the most important drivers of job creation and economic growth. Yet, entrepreneurial culture remains underdeveloped in Mongolia, partly owing to the country's history of being a centrally planned economy until two decades ago.

74.– ADB (2016). Sector assessment (summary): agriculture, natural resources and rural development. Interim country partnership strategy : Mongolia 2014-2016. Available from : <https://www.adb.org/sites/default/files/linked-documents/icps-mon-2014-2016-ssa-01.pdf>, page 2

75.– MNCCI (2017) *Mongolian Business Environment Survey*

REFERENCES

- Acorn Tourism Consulting Ltd for CBI Ministry of Foreign Affairs (2015). CBI Tailored Study: Cultural Tourism to Mongolia. The Hague, Netherlands.
- ADB (2016). Sector assessment (summary): agriculture, natural resources and rural development. Interim country partnership strategy: Mongolia 2014-2016. Available from: <https://www.adb.org/sites/default/files/linked-documents/icps-mon-2014-2016-ssa-01.pdf>
- Communications and Information Technology Authority (2017) – ICT Yearbook'17
- EBRD (2018). “Supporting Sustainable Cashmere Production”
- Economic Research Institute (2018). FDI inflow in Mongolia – Report
- EU (2016). Mongolia GSP+ Assessment - The EU Special Incentive Arrangement for Sustainable Development and Good Governance ('GSP+') assessment of Mongolia covering the period 2016 - 2017
- EU-Trade-Related assistance Assistance for Mongolia (2018) Survey of Opportunities and Barriers to Ministry of Environment and Tourism of Mongolia (2017). State of the Environment of Mongolia 2015-2016
- FAO (2016). Report of improvement of animal breeding service workshop and advice. Integrated livestock-based livelihoods support programme. FAO/MON/009/MON
- FAO (2017). FAO/WFP crop and livestock assessment mission to Mongolia – Special report
- Galsandorj, D. (2018). Mongolian export development programme (2018-2022)
- Galsandorj, D. (2014). Mongolian mineral products and issues of international trade
- Government of Mongolia and the Millennium Challenge Corporation of the USA (2016). Mongolia constraints analysis: a diagnostic study of the most binding constraints to economic growth in Mongolia.
- IFC (2014), SMEs and Women-owned SMEs in Mongolia – Market Research Study. Available from: <https://www.ifc.org/wps/wcm/connect/d85f65804697b853a598bd9916182e35/Women+SME-Mongolia-Final.pdf?MOD=AJPERES>
- IFC (2018) Investment Reform Map for Mongolia. A Foundation for a new Investment Policy & Promotion Strategy. Available from: <https://www.ifc.org/wps/wcm/connect/f2a8f76b-16cf-4a63-a1ee-ffcd35f31d78/Mongolia+Investment+Reform+Map+2018.pdf?MOD=AJPERES>
- ILO (2017). Jobs and skills for youth: review of policies for youth employment in Mongolia

IMF (2015). From Natural Resource Boom to Sustainable Economic Growth: Lessons for Mongolia

IMF (2018) Country Report. Fifth review under the extended fund facility arrangement and request for modification and waiver of applicability of performance criteria—press release; Country Report No. 18/303. Available from: <https://www.imf.org/~media/Files/Publications/CR/2018/cr18303.ashx>

IMF (2018) World Economic Outlook Database, accessed August 2018

ITC (2018): Trademap. <http://www.trademap.org/Index.aspx>.

ITPTA (2016). ICT development of Mongolia – White paper

Jeffery Reeves (2011). Mongolia's Environmental Security

JICA (2017). Data collection survey for agriculture and livestock sector in Mongolia

Korea International Cooperation Agency, National Information Society Agency (2017). National Informatization Assessment and Identification of Priority e-Government/ICT Projects for Mongolia

KPMG (2016). Investment in Mongolia

Massachusetts Institute of Technology - Media Lab.

MFA (2017). Mongolia- Russia Economic Corridor: building a network of science and technology parks.

MFA (2018). Mongolian Export Program

MICC (2017). Animal Health, Mongolian Wealth: Unlocking Mongolia's Other Treasure Chest

Ministry of Environment and Tourism of Mongolia (2014). Mongolia's Transition to a Green Economy g within SMEs to Identify Key Issues and Export Development Support Needs (Final draft)

MNCCI (2017) Mongolian Business Environment Survey

Mongolia International Capital Corporation (2017), "Animal Health, Mongolian Wealth: Unlocking Mongolia's Other Treasure Chest".

Mongolian Meat Association (2016). Mongolia Meat Value Chain Situation Analyses

Mongolian Statistical Information Service

MULS (2018). Action Plan of Mongolian Agenda for Sustainable Livestock (MASL)

National Statistical Office of Mongolia. Agriculture Census of 2011

OECD (2016). Peer Review Note: Enhancing access to finance for micro, small and medium-sized enterprises in Mongolia. Available from: <http://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Eurasia-Peer-Review-Note-Mongolia-ENG.pdf>

PWC (2015). Doing Business Guide in Mongolia

SDC (2014). Demand Study on domestic and foreign markets. The Green Gold Project

- SECiM (2016). National Dairy Development Board Situation Analysis
- Secretariat of the State Great Khural Mongolia (2016). Action program of the government of Mongolia for 2016-2020
- Secretariat of the State Great Khural Mongolia (2016). Mongolia sustainable development vision 2030
- Sustainable Fibre Alliance (2018). Multistakeholder meeting report. Creating a sustainable and resilient cashmere supply chain through collaboration
- United States Department of State (2017). Mongolia Investment Climate Statement
- UNCTAD (2013) Investment Policy Review – Mongolia. Available from: https://unctad.org/en/PublicationsLibrary/diaepcb2013d3_en.pdf
- UNCTAD (2017). World Investment Report 2017. Available from: https://unctad.org/en/PublicationsLibrary/wir2017_en.pdf
- UNCTAD (2019). International Investment Agreements Navigator
- Uniterra, WUSC, Canada (2016) “Value Chain and Market System Analysis Report of Fibre Sub-sector of Mongolia
- World Bank (2015). Agricultural Productivity and Marketing Report
- World Bank (2015). Agricultural Transformation in Mongolia: The Path Forward. Mongolia – Agriculture Sector Review Synopsis
- World Bank (2015). Mongolia - Agricultural sector risk assessment
- World Bank (2015). World Bank Mongolia Agriculture Productivity and Marketing Study
- World Bank (2017). Mongolia's Red Meat Value Chain
- World Bank (2019), Enterprise Survey, Mongolia – 2013. Available from: <http://www.enterprisesurveys.org/data/exploreeconomies/2013/mongolia>
- World Bank (2019). Business Reforms in Mongolia. Available from: <http://www.doingbusiness.org/en/reforms/overview/economy/mongolia>
- World Bank (2019). The World Bank in Mongolia. Available from: <http://www.worldbank.org/en/country/mongolia/overview>
- World Bank (2019). World Bank Data. <http://data.worldbank.org/>
- World Economic Forum (2018), Global Gender Gap Report 2018. Available from: <https://www.weforum.org/reports/the-global-gender-gap-report-2018>
- World Economic Forum (2018). The Global Competitiveness Report 2017–2018 – Insight report
- World Travel and Tourism Council (2018). Travel & Tourism: Economic Impact 2018: Mongolia. Available at: <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/mongolia2018.pdf>
- WTO (2014). Trade Policy Review – Mongolia. WT/TPR/S/297



International
Trade
Centre

Street address: 54-56, rue de Montbrillant
1202 Geneva, Switzerland

Postal address: Palais des Nations
1211 Geneva 10, Switzerland

Telephone: +41-22 730 0111

Fax: +41-22 733 4439

E-mail: itcreg@intracen.org

Internet: www.intracen.org