



START
venture builder



Baseline Survey of the

Mongolian Startup Ecosystem



2023

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at Techstars

I see that the Mongolian startup ecosystem is currently in a fascinating stage of development. First of all, this ecosystem is undergoing the crucial phase of self-identification and definition, with investment structures and key players in the ecosystem emerging rapidly. An integral aspect that evolves together with this, is startup valuation, which offers numerous benefits such as market recognition, benchmarking, investor and founder agreeing on valuations, and development of valuation methodologies.

The primary characteristic of Mongolian startups is their inclination to operate in one or more markets right from the outset. While this inclination is influenced by the limited size of the domestic market and the competitive landscape, the eagerness to venture into international operations is more pronounced compared to founders in other countries. It is commendable that in recent years, several startups have successfully expanded beyond domestic borders and are operating in other markets, which exhibit true inspiration, experience and knowledge to others.

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1. The basic information of the Mongolian startup ecosystem

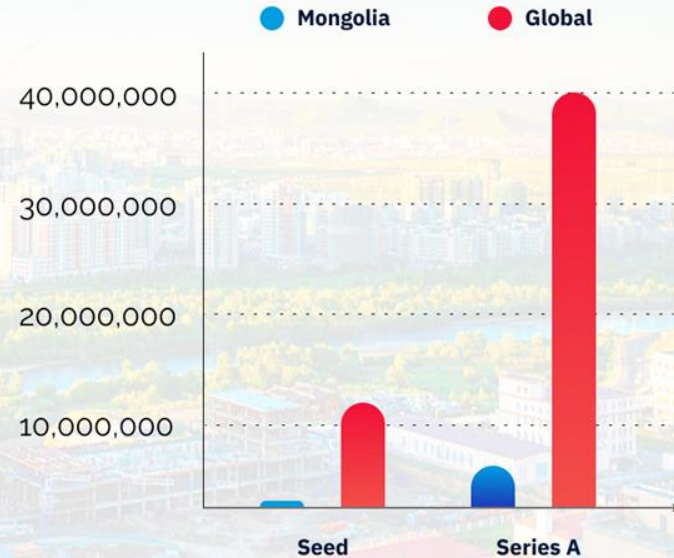
1.1 EXECUTIVE SUMMARY

The baseline survey was conducted based on the questionnaires completed by the founders of 91 startups and the key stakeholders operating actively in the Mongolian startup ecosystem. The sample stakeholders include non-governmental organizations, coworking spaces, accelerators, development banks, corporations, and professional associations.

The surveyed startups have raised MNT 127 billion through an average of four rounds of fundraising, and the market valuation of those companies has totaled MNT 443 billion. On average, the valuation of the pre-seed, seed, post-seed and series A stage startup have been MNT 609 million, MNT 1.1 billion, MNT 3.1 billion, MNT 16.6 billion, respectively. The surveyed startups have created a total of 1,021 jobs, and have operated with 12 employees each, on average. 36 percent of the startups surveyed have started their operations in 2020 and 2021, while the 80 percent of them started their businesses to solve the challenges that arose from the COVID-pandemic and to meet the needs of their users.

The survey results reveal that three types of challenges have been encountered by startups: the lack of skilled human resources, small market size, and high taxes and social security payments.

SEED AND SERIES A VALUATION GLOBAL & MONGOLIA



CHALLENGES AND PROBLEMS IN DEVELOPING STARTUP ECOSYSTEM



Skilled human resources,
lack of founders

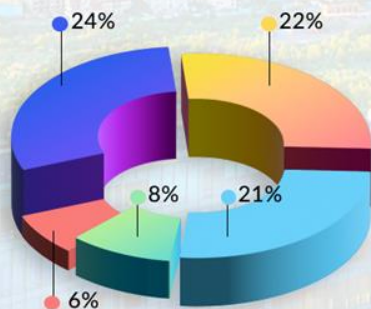


Unfavorable and under developed
investment environment



Lack of coherence in
legal environment

CHALLENGES ENCOUNTERED BY STARTUPS



- 24% Market environment, sales and marketing issues
- 22% Skilled HR and finance related issues
- 21% Finance, tax and relevant legal framework issues
- 8% Investment issues
- 6% Lack of team building and own expertise

Moreover, 80 startups that participated in the "Mongolia Startup Ecosystem Baseline Survey" conducted in March 2022 have created the total of 1,318 jobs, and for them the most pressing issue identified at the startup level was human capital formation (63%).

As of the Mongolian startup ecosystem stakeholders, there are 8 organizations actively investing, 3 venture studios, 5 accelerator programs, 3 co-working spaces and 8 professional associations. During 2011-2015, international and local hackathons, competitions were predominant, while during 2015-2019, Pre-Accelerator programs, IT conference, business events and shows and government projects were also actively organized. During 2020-2023, startup accelerator programs, venture studio models, investment funds and co-working spaces became more active.

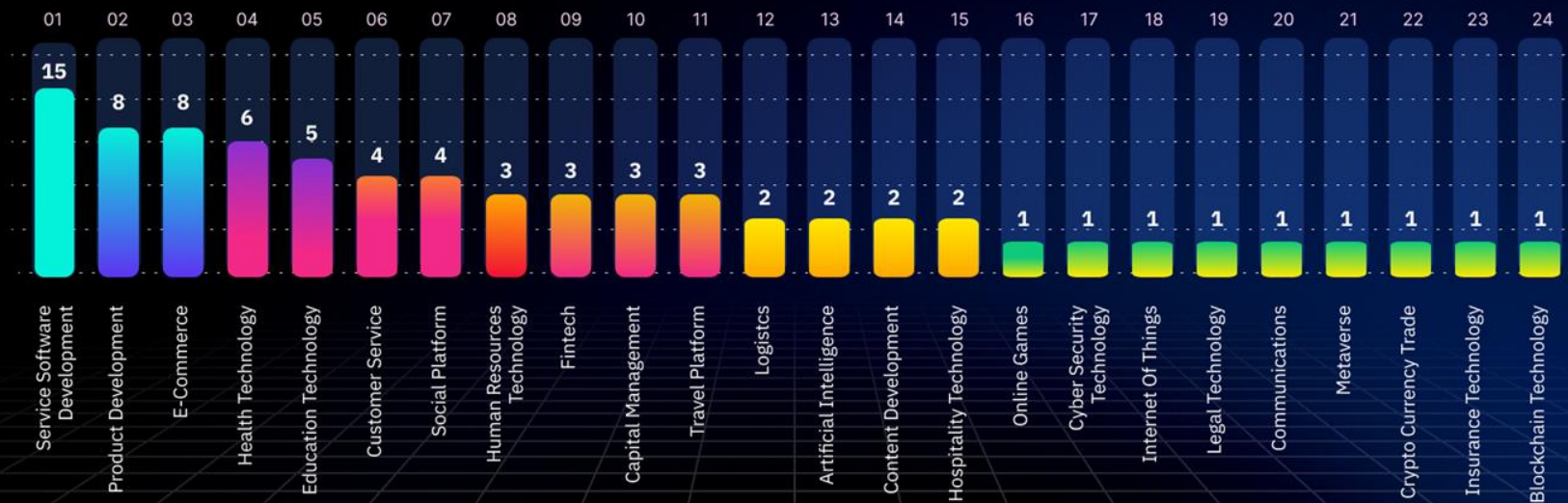
Moreover, 80 startups that participated in the "Mongolia Startup Ecosystem Baseline Survey" conducted in March 2022 have created the total of 1,318 jobs, and for them the most pressing issue identified at the startup level was human capital formation (63%).

1.2 COMPANIES FIELD OF OPERATION

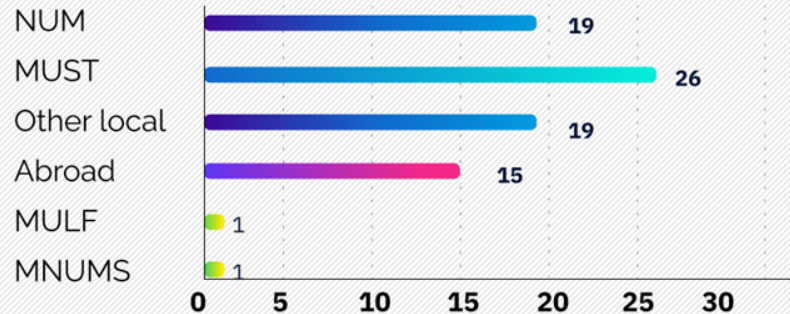
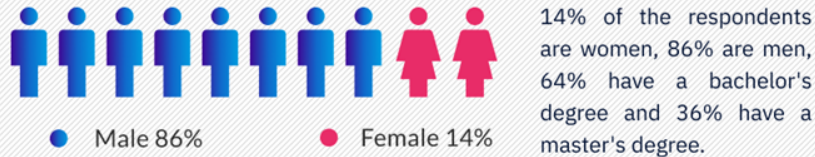


91 startup companies participated in the survey, while analysis was made based on the data of 81 startups that provided complete answers. the majority of these companies are it companies, such as service software development, e-commerce, health and education, while companies engaged in physical product development alone compose 10 percent.

Companies' Areas Of Operation



1.3 Startup company founders, by gender and level of education



Regarding the training institutions they have attained their degrees, 19 graduated from National University of Mongolia; 26 from Mongolian University of Science and Technology; 1 from Mongolian National University of Medical Sciences; and 1 from Mongolian University of Life Sciences and 15 people received their education abroad.

1.4 Training institutions the startup company founders attended



In terms of occupation areas, there are 18 gained occupation in Business Management, 14 in Software, 9 in Information Technology, 10 in Engineering, 4 in Banking and Financial Management, and 3 in Law respectively.

Regarding the salary level, 36 people earn an average up to 3 million MNT, 25 people earn between 3-5 million MNT, and 5 people have an average salary of over 5 million MNT.



Compared to the previous year's survey, the percentage of women among the startup founders changed from (35%) to (14%). Please note that some institutions surveyed in 2022 are different from those in 2024.

1.5 NUMBER OF STARTUPS OPERATING IN MONGOLIA

Number of startups operating in Mongolia

Number of startups actively operating in Mongolia was estimated by counting publicly known and active organizations that operate as startups in different sectors.

158 STARTUPS



Compared to the previous year startup survey results, there were no significant structural changes in the areas of startups activities.

1.6 THE MOST ATTENDED STARTUP AND IT EVENTS



1.7 ACCELERATOR AND INVESTMENT PROGRAMS SUPPORTING STARTUPS AND ENTREPRENEURS



1.8 STARTUP CO-WORKING SPACES OPERATING IN MONGOLIA



1.9 INVESTMENT FUNDS AND FUNDING INSTITUTIONS



1.10 EDUCATION AND TRAINING PROGRAMS FOR STUDENTS



MUST STARTUP



NUM STARTUP



SPARKDAY/2023
SINGLE SPARK CAN LIGHT A FIRE



1.11 RESEARCH INSTITUTION



Insightful
Innovative
Strategic



1.12 STARTUP ECOSYSTEM INFLUENCERS



**ENKHBAT
DANGAASUREN**

Founder of Datacom,
Business.mn



**BAT-OKTYABRI
DAVAASUREN**

Director, Ecosystem
Development at Techstars



**ZOLBAYAR
ODONSUREN**

CEO of Mezorn, UBCab
Holding, UBCab llc



**GANJIGUUR
NATSAGDORJ**

Co-founder at
Fibo Cloud



**ZOLZAYA
JARGALSAIKHAN**

Director at IT Park



**MUNKHTSOG
ALTANKHUU**

CEO of Socratus
Startup Studio



**ERDENEBAYAR
SAINJARGAL**

CEO of TESO
Investment



**BAT-IREEDUI
JARGALSAIKHAN**

CEO of Gund Investment
Holding



**SAINBILEG
MANDAKH**

President of CIO
Club



**BATTAMIR
ADILBISH**

President of
MOSA NGO



**BAYARSAIKHAN
VOLODYA**

Founder at
TOMYO



**MENDBAYAR
TSEVEEN**

Co-founder and CEO of
Shoppy Intelmind LLC



**DAVAAJAMTS
CHOINDON**

CEO of Mstars
HUB



**TAMIR
BAYARSAIKHAN**

Director of MOSA
NGO

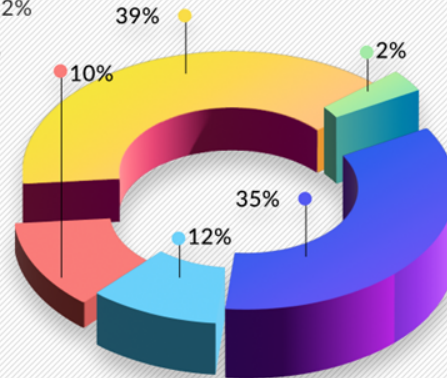
2. Analyzing the current situation, challenge and potential in Mongolian startup ecosystem

2.1 COMPANY GOVERNANCE

98 percent of the companies that participated in the survey have been registered as Limited Liability Company in Mongolia.

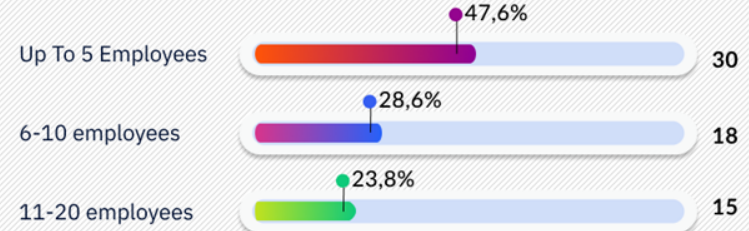
2.2. SHAREHOLDING STRUCTURE OF STARTUP COMPANIES

- Jointly owned with a foreign company 12%
- Jointly owned with other companies 2%
- Supported by a parent company 10%
- Founder 35%
- Jointly owned by co-founders 39%



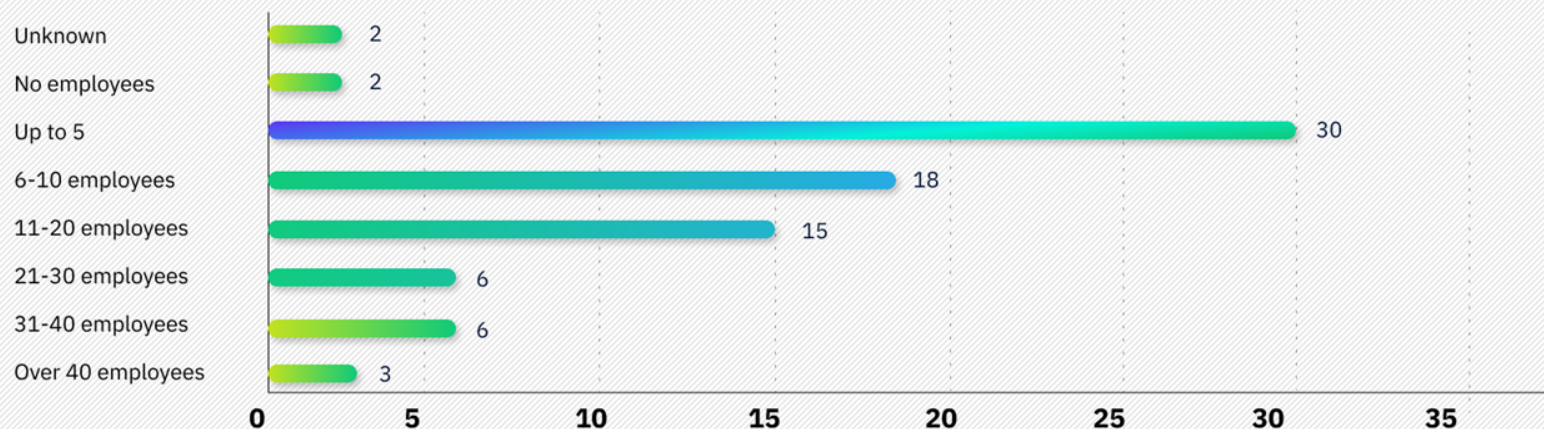
Based on the data provided by the survey participants, the companies employ the total of 1,021 people. Companies are divided into following groups by their number of employees:

- 30 companies with up to 5 employees
- 18 companies with 6-10 employees,
- 15 companies with 11-20 employees.



In addition, companies with more than 10 employees mainly focus on service software development (Saas), fintech, and communications, while companies with up to 10 employees are evenly distributed in the areas of product development, health education technology, law, human resources, capital management and customer services.

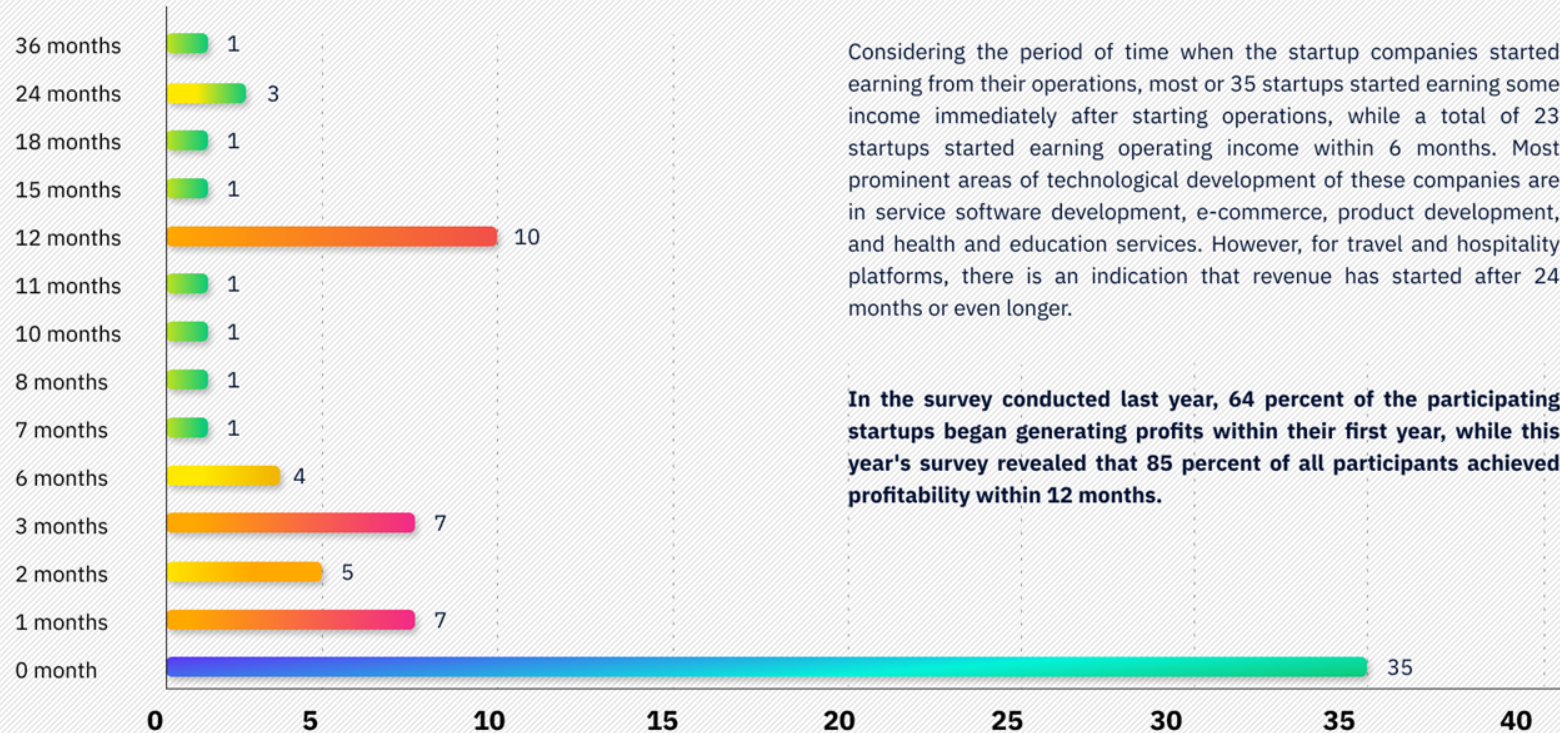
2.3 Number of employee, per startup



According to the "Law on Support of Small and Medium Enterprises and Services" approved on June 6, 2019, "Micro-enterprises and service providers" are defined as "micro-enterprises and service providers" with up to 10 employees, operating in the fields of production, trade, and services, with up to MNT 300.0 million of sales income per year. More than half of the organizations involved in our survey belong to this "Micro-enterprise and service provider" category.

As for the composition of startup company founders, the company founded by a single person or jointly by 2-5 individuals compose the majority or 74% of survey participants, while there is an increased trend of startup companies jointly owned by individuals and companies, jointly owned by number of companies, and those supported by a parent company.

2.4 Period of time starting to earn incomes from company operations



Considering the period of time when the startup companies started earning from their operations, most or 35 startups started earning some income immediately after starting operations, while a total of 23 startups started earning operating income within 6 months. Most prominent areas of technological development of these companies are in service software development, e-commerce, product development, and health and education services. However, for travel and hospitality platforms, there is an indication that revenue has started after 24 months or even longer.

In the survey conducted last year, 64 percent of the participating startups began generating profits within their first year, while this year's survey revealed that 85 percent of all participants achieved profitability within 12 months.

2.5 CUSTOMER AND MARKET INFORMATION

In terms of customer attainment, 13 of the total respondents operate as B2C type, 26 as B2B, and 43 operate as a combination of B2B and B2B types.

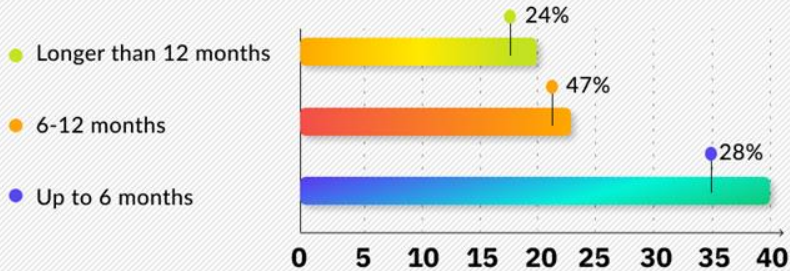
Moreover, regarding the survey question on whether or not a similar business exists in local or international market, the participants responded in the following way:

- 54 companies or 66% of all participants answered yes.
- Only companies developing capital management and travel platforms answered no, meaning that the business models they offer are unique in the market.

According to last year's survey findings, the primary market segment identified by startups was B2C (75.3%), followed by B2B (65.4%), and B2G (18.5%). The total number may have duplicate counting as startups cater to multiple customer types. Essentially, a significant portion of startups serve a hybrid customer base comprising both B2B and B2C clients.

When the participants were asked about the time they spent on market research with regards to starting a business, 24% of the participants launched their products and services on the market based on market research for up to 6 months, 47% for 6-12 months, and 28% for more than 12 months. The average length of time that all participants have performed market research is 13 months.

2.6 Market research time periods



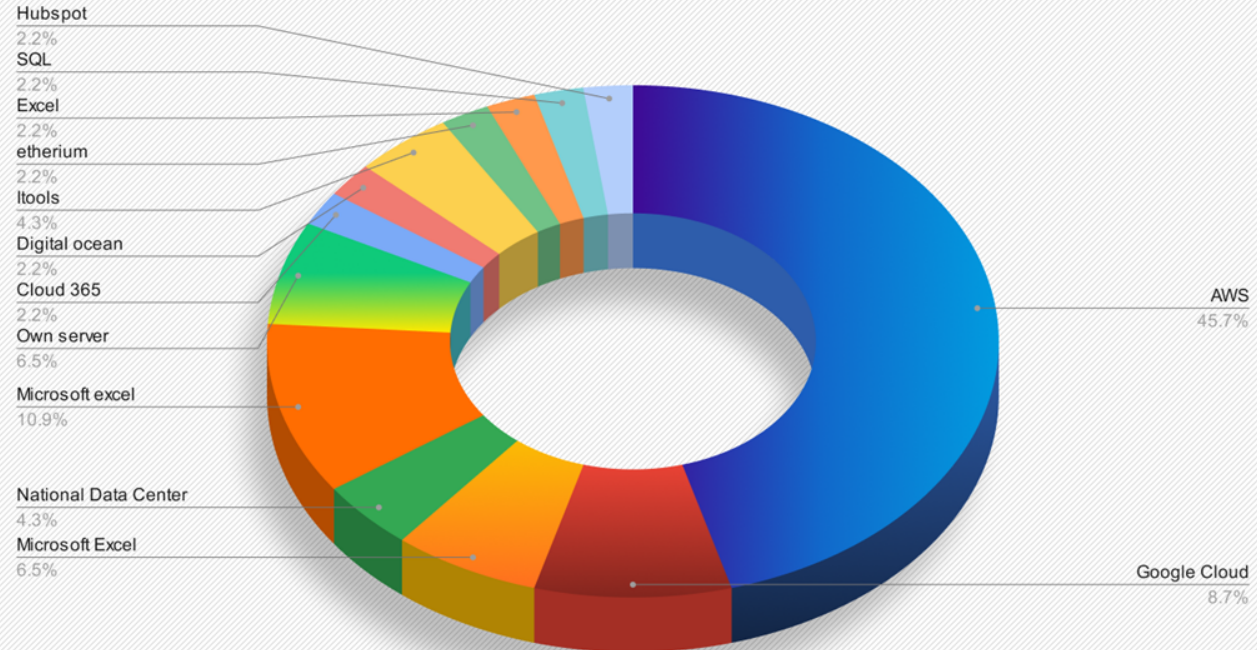
Regarding the possibility of expanding their current business internationally, 78 companies believe that it is possible, while 2 companies have already started selling their products to consumers in the United States and China.

As for a startup companies that develop social platforms, they have initially planned for an internationally open market, while for startups dealing with civil registration and customer finance and credit database systems, they have initially planned for domestic market only, so their products and services are not accessible internationally.

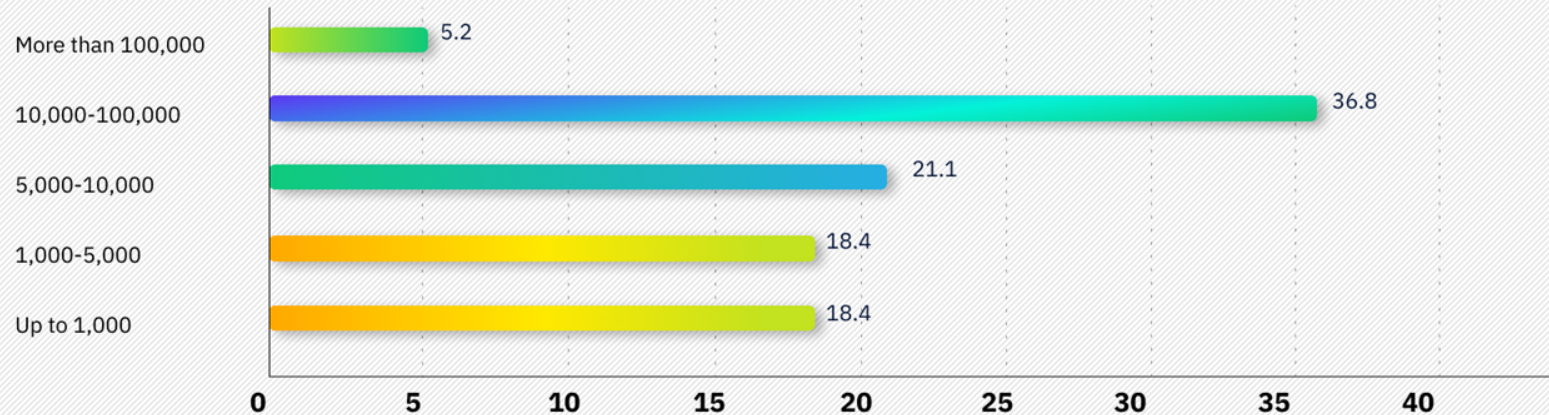
2.7 How client data is stored

When asked how clients' data is stored, the most common form used by survey participants is to store it in files in their own databases and in AWS. As for the 2 companies that provide services by connecting to the civil registry and the bank account information systems, the client data is stored in the National Data Center.

In response to the question if they pay any software licenses fee, 42 companies answered that they pay regular license fees.



2.8 Number of active users, by percentage

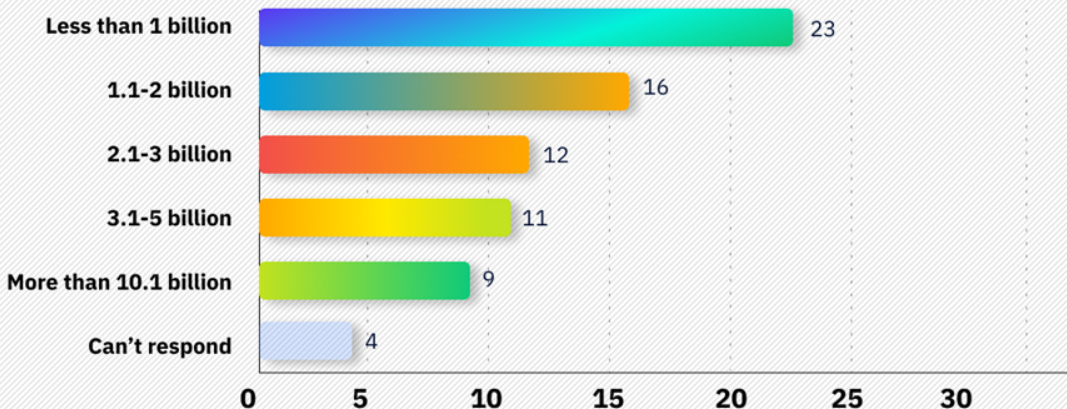


Based on survey results, more than half of companies have up to 10,000 active users, while e-commerce, education and healthcare technology development companies have the most number or over 10,000 active clients.

2.9 COMPANY VALUATION

Regarding the valuation of participating startups, 23 companies or 28.7% have a valuation of up to 1 billion MNT, 47% have a valuation of 1-5 billion MNT, and 10 percent have a valuation of more than 10 billion MNT respectively.

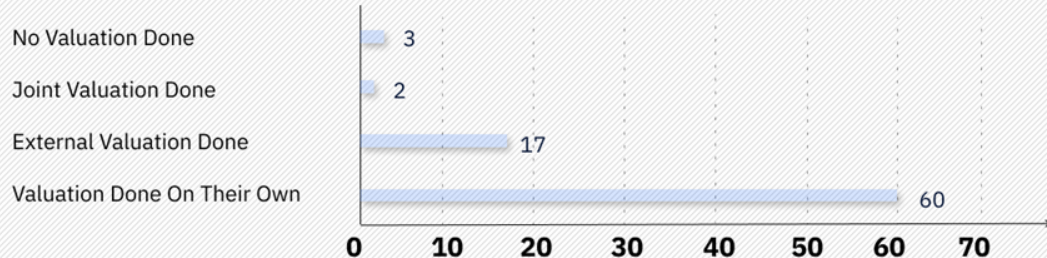
2.10 Valuation amounts, by MNT



When providing the valuation data, 73% of all participants reported that they did the valuation themselves, and 20% had an external organization conduct the valuation.

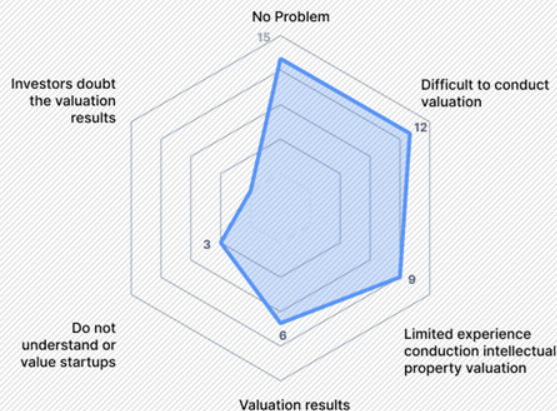
In the previous year's survey, 46.3% of participating startups conducted internal evaluations of their company on their own, while 10% sought evaluation from professional organizations. Notably, 44% of startups hadn't undergone any evaluation process.

2.11 Company valuation status



According to the results, companies with the largest number of regular customers on the market and operating for more than 3 years have a value of more than 10.1 billion MNT. This includes companies dealing with banking, finance, insurance, and civil registration information that had their valuation done by an external professional institution.

2.12 Valuation related problems



65 companies or almost 80% of the respondents expressed their willingness to have the company valued realistically by a professional institution.

As of the valuation related problems, most companies claimed that it is difficult to value, local institutions lack experience valuing intangible assets such as intellectual property, brand, and technology, valuation results are inconsistent depending on the methodology used, and there is little understanding of how to evaluate startups. In some cases, that institutions would refuse to value startups. Moreover, respondents disclosed such challenges as in some cases investors are not convinced by the valuation results, the startup companies are undervalued, and it is hard to value startups that have not yet started generating incomes.

42 companies answered that they own intellectual property, of which 14 answered that they have registered or applied for trademarks and copyrights. As for companies that do not own intellectual property, the main difficulties mentioned were related to extended time required to processing and approving intellectual property applications, and lack of knowledge and experience in filing for intellectual property.

2.13 INVESTMENT

Within the survey work, sources of initial investment for starting a startup company were examined to conclude that 76% started with their own funds, 11% received investment support from the parent company, and 13% received support from other external professional organizations or accelerator programs that invest in startups.

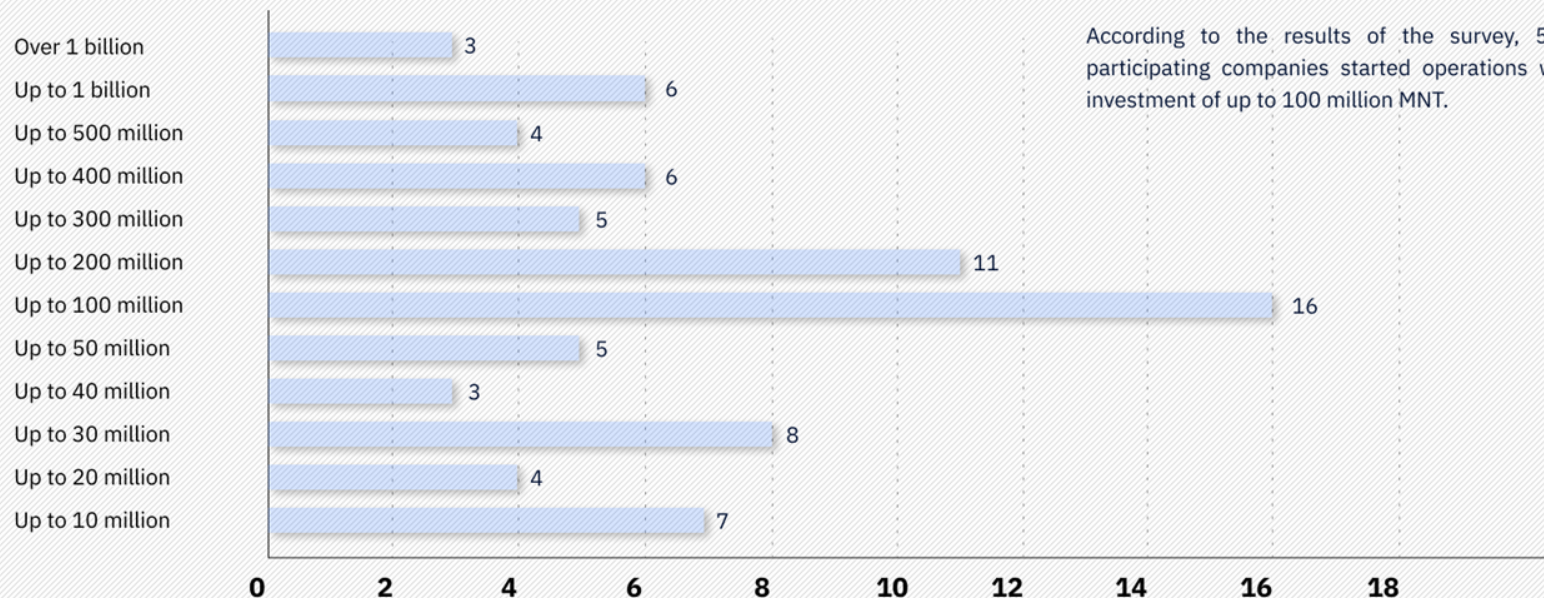
2.14 Source of funding



Business areas such as Artificial Intelligence, Energy Saving Technology, Internet of Things (IOT), E-Commerce, Crypto Currency Trading, Travel Platform, Service Software Development, Education Technology, Asset and Financial Management, and Insurance Services received support from professional investors and accelerator programs.

On the other hand, startups operating in the fields of transport logistics, e-commerce, health technology and service platform development have received financial support from the parent company.

2.15 Seed funding amount, by MNT



According to the results of the survey, 52% of participating companies started operations with an investment of up to 100 million MNT.

In the previous year's survey, the total initial funding amount for all the startups involved was 13.4 billion MNT, with an average initial funding of 183 million MNT. This year, those figures rose to 26.1 billion MNT and 343.5 million MNT, respectively.

Seed funding amount, by MNT

In last year's survey, the primary challenges encountered by startups in securing funding were company valuation (31%), negotiating contract terms (16%), and establishing working relationships (15%). However, in this year's survey, when examining the hurdles faced by startups in attracting funding, we conducted a more detailed analysis by categorizing them based on the investment amount they attracted.

- 35 companies out of those with an investment of up to 100 million MNT started their operations with the founder's own capital, 7 with the investment of third-party organizations, and 1 company with the support of the parent company. This includes:

1

1. The company, that attracted investment with the support of the parent company, received an additional investment of 30 million MNT once more. The most challenging thing the company considered was having the investors understand its activities and complicated decision-making process of investors. The company is interested to expand its activities in the future; however, it has not yet started making profit. If the situation continues, the company will be able to remain for up to a year.

2

2. Three out of 7 companies supported by professional investors and accelerator programs received 2 or more additional funding. Main challenges related to attracting investment were considered as difficulty in having the company valued, or extremely under valued, problems obtaining documents required for valuation, difficulty in finding a suitable investors, and unfavorable legal environment. All of them are interested to expand their operations in the next 2 years, however only 2 companies have started making profits, while others are expected to do so after 6 months to a year.

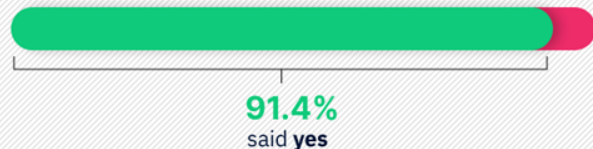
3

3. Most of 35 companies with founders as private investors, have attracted additional investment more than twice. Main challenges related to attracting investment were considered as limited information about professional investors, lack of communication, lack of collateral, limited knowledge about company valuation and shares, difficulty in preparing financial and other documents required for company valuation. In terms of the total amount of additional investment attracted since the start of operations, 7 companies managed to attract additional investment of up to 100 million MNT and 6 companies attracted additionally up to 1-6 billion MNT in total. Out of these companies, 22 or 62% are operating with profit and 16 want to expand their business in the next 2 years.

- There are 26 companies with an investment of 100 million to 500 million MNT, 18 of which are private, 6 have received initial investment with the support of the parent company, and 2 with the support of the incubator program.
- 12 or 46% of the companies is working with profit, and 20 companies are interested to expand their business in the future.
- Moreover, 11 of these companies have attracted additional investments of 90 million to 1 billion MNT once or multiple times, corresponding to a total of 4.13 billion MNT. Challenges in attracting investment include lack of understanding with investors, inaccurate valuations, limited information about investors, and absence of collateral.
 - 4 out of 6 companies with an investment of 500 million to 1 billion MNT started with the founder's own capital, and no additional investment has been attracted since the initial funding. 3 of these companies are currently operating with profit and want to expand their business in the future. As for the 3 companies that are operating at a loss, they will not expand their business, and it is assumed that they can continue their operations for the next 2 years.
 - 3 companies that invested more than 1 billion MNT, are those providing only financial services, 2 of which financed their operations with their own funds. No additional investment has been attracted. Their operation is stable and profitable and they consider that there is no need to expand in the next 2 years.

2.16 COOPERATION

- In the survey item about cooperation with large international and domestic companies, corporations, and group companies, 91.4% of participants stated their cooperation with other companies. Partners operate in variety of areas such as real estate, trade, banking, production and services, information, communication, law and investment counselling.



Moreover, 19.5% of all survey participants answered that the cooperation is still ongoing, however only 9 companies or less than 10% responded that this cooperation triggers sufficient income and supports future growth of startups.

Survey participants consider that important aspects of such cooperation are provision of regular quality services, stability at policy level, experience, trust, reliability, and quality standards.

- When survey participants were asked about their cooperation with academic and research institutions, the following responses were received:

Yes- 23 companies

No- 53 companies

No response- 6 companies



Partnering institutions named were National University of Mongolia, Institute of Finance and Economics as well as psychologists and family counsellors.

Areas of cooperation with academic and research institutions mentioned were request for research works, product development and R&D, education and human resource capacity building, and laboratory analysis. 19.5% of survey participants have been cooperating with above institutions sustainably or more than a year.

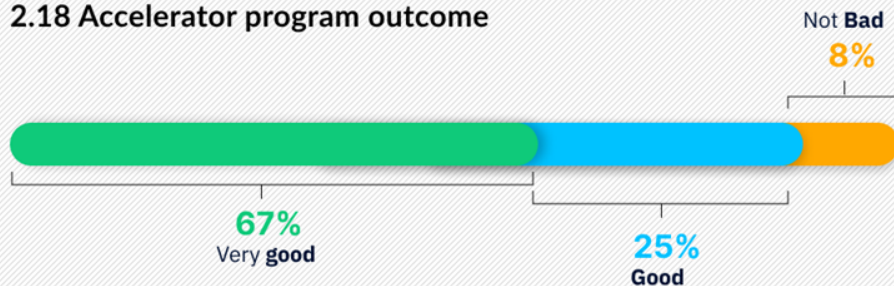
2.17 SPECIALIZED TRAINING

When survey participants asked whether they participated in an accelerator or mentorship program on starting a company and developing a business model, and if so, what program they participated in, 78% of participants said that they have never participated in an accelerator or mentorship program.

19.5% or 16 companies participated in the startup accelerator and mentorship program, including Startup Mongolia Pre-accelerator, Women in Tech, Startup Weekend, Socratus Startup Studio, ITPark incubator, Founder institute Mongolia M Stars, MonJa, HUB Incubator, EBRD and Municipality Department of Labour and Welfare services startup support programs. As of program outcome and importance, majority or 92% of participants assessed as very good and good.

In a survey from the previous year, 66% of startups reported engaging in some form of collaboration with accelerators, with 55% of startups pitching their ideas to them. However, no data was provided regarding participation in accelerator programs.

2.18 Accelerator program outcome



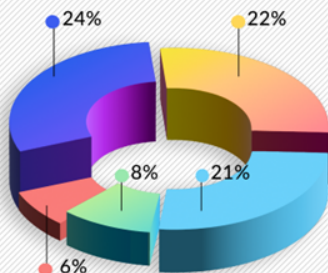
To the question of whether they have participated in technical skills training, which is the key factor for the startup success, only 4 companies answered yes, mentioning training programs as Startup Mongolia Pre-accelerator, Women in Tech, Startup Weekend, Dev summit Accelerator program, and Founder Institute Mongolia program.

2.19 BUSINESS CHALLENGES

Mongolian Startup Ecosystem Report 2023



When survey participants were asked about their biggest challenges when starting a business, the following responses were provided, including:



24% Market environment, sales and marketing issues

- (technology development of products, services, educational and health services)

22% Skilled HR and finance related issues (customer service, social platforms, fintech and travel)

- 21% Finance, tax and relevant legal framework issues (educational services, fintech, e-commerce)

- 8% Investment issues, (Energy saving technology, Logistics, Service software development, Blockchain technology)

- 6% Lack of team building and own expertise (Artificial Intelligence, Content Creation, Insurance Technology)

According to the survey from last year, the primary challenges that startups face include recruiting (63%), fundraising (55%), sales and customer acquisition (49%), team development (38%), and internal organization (35%).

Investment

Government policy regulation, instability and pressure

Legal environment

Taxes and Social security

Tax

Financial issues

Finance and Legal environment

Finance and Human resource

Human resource and Others

Skilled human resource

Team building

Knowledge and Experience

Competition

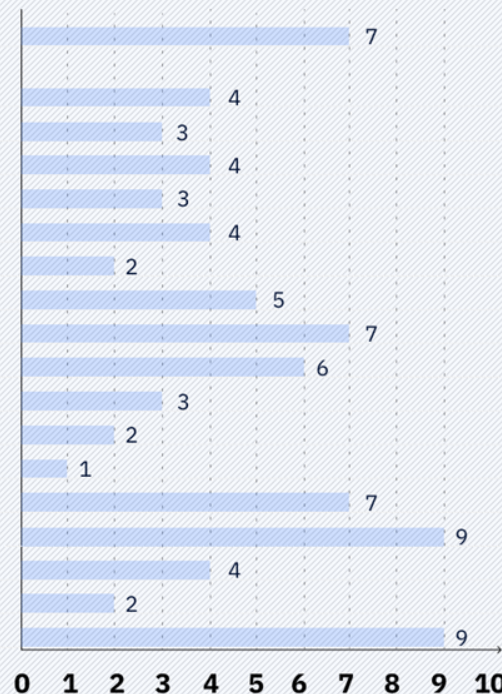
Market environment

Consumer awareness and market environment

Sales and Marketing

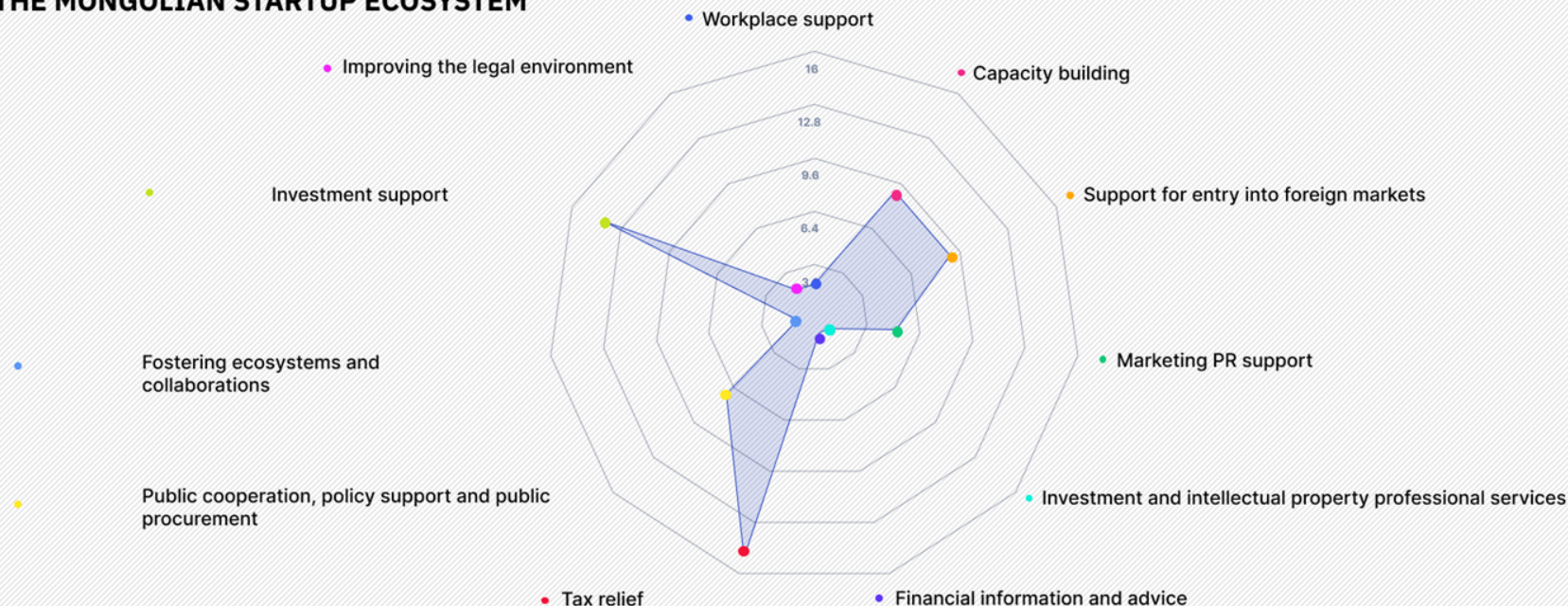
Payment system

Others



To overcome above mentioned challenges companies applied the following techniques, including participation in accelerator and mentor programs, building a team, improving product quality, receiving support from the parent company, working consistently, changing partners, and finding investors.

3. PROPOSING FUTURE IDEAS FOR THE MONGOLIAN STARTUP ECOSYSTEM



3.1 Required support

The majority of survey participants believe that the most important support that can be provided by the external environment is capacity building of human resources, networking to access international markets, tax subsidies, government cooperation, policy support, assistance and incentives through public procurements and investments.

3.2 ESSENTIAL TYPES OF ASSISTANCE FOR STARTUPS

2023 Survey

- ✓ Capacity building of human resources,
- ✓ Building contacts and networks to access international markets,
- ✓ Tax incentives,
- ✓ Government collaboration, policy support and public procurement,
- ✓ Investment support and promotion

2022 Survey

- ✓ Investment fund
- ✓ Enhancing tax regulations
- ✓ Subsidies/grants
- ✓ Regulations to protect intellectual property
- ✓ Loan

3.3 CONCLUSION

The company's most valuable asset is its skilled human capital. Research indicates that the shortage of skilled personnel is escalating annually, posing a challenge for all industries, including both large corporations and startups. Within the startup ecosystem, companies seek adept individuals to fill roles such as IT engineers, communications engineers, graphic designers, business developers, international relations managers, and marketing managers. Hence, there is a recognized need to devise and execute reforms and solutions aimed at cultivating a skilled workforce in the information technology sector within the education sector. A prime example of this is Computer Science Management School (CSMS), a subsidiary of Mongolian University of Science and Technology (MUST), from which the founders of several thriving startups graduated. Therefore, it is believed that by re-establishing or revitalizing such professional schools and by implementing specific programs supporting information technology, business, and entrepreneurship education in other universities, it is possible to cultivate future skilled human resources and entrepreneurs.

During discussions with the founders, it was highlighted that taxes and social security pose challenges for the company's growth. However, this doesn't imply an intent to evade taxes. Instead, it is believed that provisions supporting startups, similar to international experience, should be established to address these concerns.



- Majority of startup founders participating in the survey have salary income equivalent to mid-level management salary level as identified by a comprehensive salary survey conducted by Zangia Portal LLC in December 2022.



- Startups should have their companies registered as a small and medium enterprise in line with the "Law on Support of Small and Medium Enterprises and Services", and seek opportunities to receive potential government support as well as have access to credits offered from the SME development fund.



- Founders of startup companies are interested to cooperate with other companies in order to expand their business and market.
- Survey participants spent in average 13 months for conducting market research, which demonstrates that they see the importance of it and have built certain understanding of consumers and market research.



- Survey results regarding license payments for software usage show that there are insufficient strategies or measures for the security of user data, and only few companies have certain contracts and regulations in place to ensure the security of users' data. In the future, these companies are not only obligated to ensure the security of information in accordance with the "Law on Personal Data Protection" approved in 2021, but also take specific measures regarding data security of customers, build awareness and pay more attention to prevent themselves and their customers from potential risks.



- Startups have little knowledge and experience about fund raising, company valuation, financial, tax and legal regulations. Their participation in relevant training and mentoring programs is also weak. Therefore, in the future, it is important to increase the number of targeted training and consulting services that meet actual needs of startups, and make relevant information more accessible to the public.



- Survey results show contradictory predictions about growth and business stability of startups. For instance, 42% of startups have attracted initial investments of up to 100 million MNT, and 51.2% of them have managed to attract additional investments once or multiple times. The total amount of initial investment was 26,102,500,000.00 MNT, and the total amount of additional investment was 37,552,000,000.00. Moreover, 52% of the respondents have started making profit, and 67% intend to expand their businesses in the coming 2 years.
- In 2023, Mongolia ranked 68th among 132 countries listed in the "Global Innovation Index" released by the World Intellectual Property Organization. Overview of Mongolia's rankings of GII show that the country ranks relatively high in Creative outputs, Human capital and research, however ranking in startup investment, private sector credit capacity, and domestic industry diversification still remain low. The survey results reveal that such unfavorable ecosystem factors have negative impact on the development of startups, hence it is important to create more opportunities for startups to develop networks to access international markets, provide tax incentives, encourage government cooperation, provide policy support and investment.

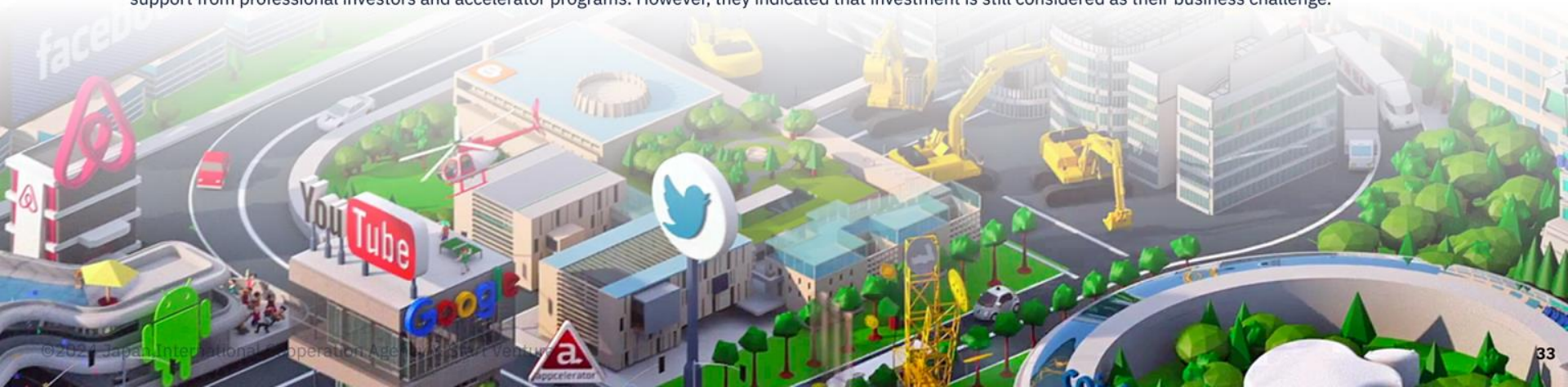
3.4 SILICON VALLEY

There are currently over 40,000 different startups located in Silicon Valley. During last few years, the pandemic has pushed many to move out of the valley due to high costs and the high competition but there is still a significant amount of venture capital firms and tech companies that reside in Silicon Valley. The largest number of venture capital funds are concentrated in this region, which provides many opportunities for startups to obtain funding.

What draws them is the startup ecosystem that Silicon Valley has built up over the years and its infrastructure that facilitates numerous similar businesses based there. Silicon Valley's established culture fosters risk-taking and innovation.

For startups in Silicon Valley, the software development as a service (SaaS) industry has been booming over the past decade due to the rise of online technology. Also, there are more opportunities for such startups here than ever before, and the best part is that investors are starting to take notice.

Our survey results show that most software as a service (SaaS) startups start generating revenue within six months after launching. And most of them received support from professional investors and accelerator programs. However, they indicated that investment is still considered as their business challenge.



3.5 JAPAN STARTUP ECOSYSTEM

Over the past decade, Japan has emerged as a vibrant hub for startup innovation, witnessing exponential growth in investments and fostering a conducive environment for entrepreneurial ventures. This report delves into the dynamic landscape of Japan's startup ecosystem, highlighting key trends, initiatives, and milestones driving its evolution.

1. Investment Landscape

Investments in Japanese startups have surged exponentially, marking a tenfold increase over the last decade, with a remarkable 30% Compound Annual Growth Rate (CAGR) since 2013. In 2022 alone, Japanese startups amassed a staggering JPY 945 billion (approx. USD 6.9 billion) in funding, surpassing counterparts in South Korea and rivaling powerhouse economies like Germany.

3. Rise of Unicorns

Japan is witnessing the emergence of homegrown unicorns—privately held companies with valuations exceeding JPY 100 billion (approx. USD 720 million). The watershed moment arrived with the public listing of Mercari, a peer-to-peer marketplace app, in 2018, boasting an initial valuation of JPY 686 billion (approx. USD 5 billion) a mere five years post-foundation. Mercari's success paved the way for subsequent unicorns, with Japan boasting eight such entities as of 2023, signaling a paradigm shift in entrepreneurial aspirations. Formerly, Japanese startups gravitated towards early public listings with modest valuations ranging from JPY 10-30 billion (approx. USD 72 - 220 million). However, inspired by the achievements of Mercari and its contemporaries, founders and investors are increasingly pursuing larger market opportunities and outcomes, propelling the unicorn trend.

Mongolia's startup ecosystem is characterized by its nascent stage of development, marked by a burgeoning entrepreneurial spirit, increasing government support, and a focus on sectors such as agriculture, tourism, and technology. However, challenges such as limited access to funding, underdeveloped infrastructure, and a small domestic market size pose significant hurdles to growth. In contrast, Japan boasts a mature startup ecosystem that has experienced exponential growth in recent years, fueled by substantial investments, government initiatives, and a thriving culture of innovation. With a focus on creating unicorns and fostering global connections, Japan aims to maintain its position as a leading player in the global startup landscape. While Mongolia's ecosystem is in the early stages of development, Japan's ecosystem has reached a level of maturity characterized by established unicorns, large funding rounds, and sophisticated support mechanisms. However, both nations share common goals of driving economic growth, fostering innovation, and creating opportunities for their respective populations. By leveraging their unique strengths, addressing inherent challenges, and fostering collaboration among stakeholders, both Mongolia and Japan have the potential to further accelerate the growth of their startup ecosystems and contribute to regional and global innovation and entrepreneurship.

2. Government Initiatives

To catalyze this momentum further, the Japanese government has unveiled a comprehensive "Five-Year Plan" aimed at supercharging startup activities. This ambitious strategy targets a tenfold acceleration in startup investment and the creation of 100 unicorns by 2028. Key pillars of the plan include provisions for risk capital infusion, revitalization of Small Business Innovation Research (SBIR), global ecosystem integration, tax incentives for mergers and acquisitions (M&A), and regulatory enhancements for stock options.

4. Funding Dynamics

Japanese venture capital firms are scaling up their investment capacity to capitalize on burgeoning market opportunities. Notably, Globis Capital Partners raised its seventh fund in 2022, amassing JPY 72.7 billion (approx. USD 526 million), nearly doubling its predecessor's size. It's noteworthy that the majority of major funds in Japan are domestic players, attributable in part to language barriers and variances in business customs.

In summary, while both Mongolia and Japan demonstrate growing momentum in their respective startup ecosystems, they operate within distinct contexts and face unique challenges and opportunities.

Source: Japan Startup Ecosystem Report 2023 H1 INITIAL

3.6 ESTONIA'S EMERGENCE AS A GLOBAL STARTUP POWERHOUSE

Estonia, a nation celebrated for its digital innovation and supportive regulatory environment, has surged onto the global stage as a prominent player in the startup ecosystem. The latest report by Startup Genome underscores Estonia's meteoric rise, catapulting it to the impressive #10 position among emerging ecosystems. This report delves into the key factors driving Estonia's success, from its robust funding landscape to its innovative policy frameworks.

Unicorn Phenomenon:

Estonia has earned distinction as a unicorn breeding ground, boasting an impressive tally of 10 unicorns. These high-growth startups, including industry titans like Skype and Wise, underscore Estonia's prowess in fostering disruptive innovation and attracting substantial investment. Notably, the partial buyout of Pipedrive at a valuation of \$1.5 billion highlights the potential for Estonian startups to achieve significant valuations on the global stage.

Digital Governance and Innovation:

Estonia's pioneering efforts in digital governance have set it apart on the global stage. Initiatives such as the e-Residency program, which has contributed €130 million to the state budget, exemplify Estonia's commitment to digital empowerment and innovation. Coupled with a world-leading tax system and a highly skilled workforce, Estonia offers an attractive ecosystem for startups looking to establish and scale their businesses in a digital-first environment.

Venture Capital Surge:

Estonia's ascent is underpinned by a substantial surge in early-stage funding, indicative of growing investor confidence in the country's startup ecosystem. Venture capital and angel investment have flowed generously into Estonia, propelling its startup valuation to a remarkable \$18 billion. This influx of capital underscores Estonia's burgeoning reputation as a hotbed for entrepreneurial ventures and technological innovation.

Government Support and Policies:

The Estonian government has played a pivotal role in nurturing a conducive environment for startup growth. Through strategic policy interventions and supportive initiatives, such as tax incentives and innovation grants, Estonia has cultivated an ecosystem ripe for entrepreneurial endeavors. The government's proactive stance has attracted significant funding, with early-stage investments totaling approximately \$849 million between 2020 and 2022.

Exits and Acquisitions:

The maturation of Estonia's startup ecosystem is evidenced by a surge in successful exits, including acquisitions and IPOs. These strategic transactions not only deliver substantial returns for investors but also validate the maturity and viability of Estonia's startup landscape. With a culture that prizes innovation and a penchant for technological advancement, Estonia continues to solidify its position as a preferred destination for startups seeking growth and expansion.



3.7 POLICY DOCUMENTS RELATED TO STARTUP, ENTREPRENEURSHIP, AND IT FIELDS

ACTIVITIES TO BE IMPLEMENTED DURING 2021-2030 WITHIN "VISION-2050" LONG TERM DEVELOPMENT POLICY OF MONGOLIA

2.4.4. Establish multi-sourced financing and investment structure for science and innovation, forge a public-private partnership, foster a culture of promoting advanced foreign technologies in the country.

2.4.5. Revise the legal environment of the science, technology and innovation sector, establish special-purpose funds to support innovations and investments in innovation.

2.4.17. Educate economic entities and the public on innovation and start-up business, support activities to disseminate the culture of innovation and to create all types of scientific and technological knowledge content.

2.4.7. Provide soft loans, aid and grants to transform the new knowledge into products and services and introduce them for consumption.

2.4.9. Establish scientific parks and tax-free innovation areas necessary to develop a national innovation system based on coworking spaces.

2.4.16. Evolve research institutions and universities into centers of training, research and development and innovation.

3.3.14. Take comprehensive measures on providing the young people engaged in start-up business with the necessary knowledge and skills to expand and step up their business and promote the related infrastructure.

3.3.15. Introduce modern forms of financing designed for start-ups and establish an effective financial system.

3.3.4. Create start-up capital funds and train professional investors for the financing a start-up businesses.

3.3.13. Work out and implement the "Youth Entrepreneurship" national program.



POLICY DOCUMENTS RELATED TO STARTUP, ENTREPRENEURSHIP, AND IT FIELDS

ACTIVITIES TO BE IMPLEMENTED DURING 2021-2030 WITHIN "VISION-2050" LONG TERM DEVELOPMENT POLICY OF MONGOLIA

- 4.5.1.** Establish business incubator centers and render support for their activities on the capacity-building of human resources.
- 4.5.2.** Improve the legal regulation of activities within the public-private partnership on the introduction of innovation and technology and sharing knowledge.
- 4.5.8.** Acquire information on technological innovations required for small and medium producers through diplomatic missions in foreign countries and expand investment partnerships by organizing international exhibitions, fairs and business meetings.
- 4.5.15.** Increase through technological progress and skilled human resources the production of innovation-based goods capable to compete in the world.
- 7.4.26.** Establish a special investment fund to support innovation in the sector and invest in start-up businesses, and create a legal environment for its functioning.
- 7.5.11.** Conduct research on new space technology-based start-ups, open bases for space tourism simulation, and take measures to launch satellite in cooperation with foreign countries and to attract investment to build a ground station.
- 7.5.3.** Expand information technology research, develop new products and services of knowledge-based innovation, soft and hard infrastructure.

Source: <https://legalinfo.mn/mn/detail/15406>



POLICY DOCUMENTS RELATED TO STARTUP, ENTREPRENEURSHIP, AND IT FIELDS

ACTIVITIES TO BE IMPLEMENTED DURING 2021-2030 WITHIN "VISION-2050" LONG TERM DEVELOPMENT POLICY OF MONGOLIA

Target programs

The medium-term 10-year development policy document consists of the following Development Target Programs, which are measured by quantitative and qualitative indicators, with goals, objectives and activities supported by financial resources aimed at implementing the long-term development policy document of Mongolia:

1. target program of human development;
2. target program of social development;
3. target program of economic and infrastructure development;
4. target program of environment;
5. target program of governance;
6. target program of regional development;
7. target program to increase national competitiveness.

/these target programs are in drafting stage and have not approved yet/

Source: <https://legalinfo.mn/mn/detail/15403>

MONGOLIA'S FIVE-YEAR DEVELOPMENT GUIDELINES FOR 2021-2025

Objective 3.3. Intensify the entrepreneurship activities and boost employment, creativity, approach and skills:

3.3.1. Create an enabling environment for providing necessary support and assistance for young people to pursue their entrepreneurial aspirations.

3.3.2. Enhance an environment supporting micro, small and medium businesses.

Objective 2.4. Develop science and technology as one of the key factors of the country's sustainable development, and establish an effective national innovation system:

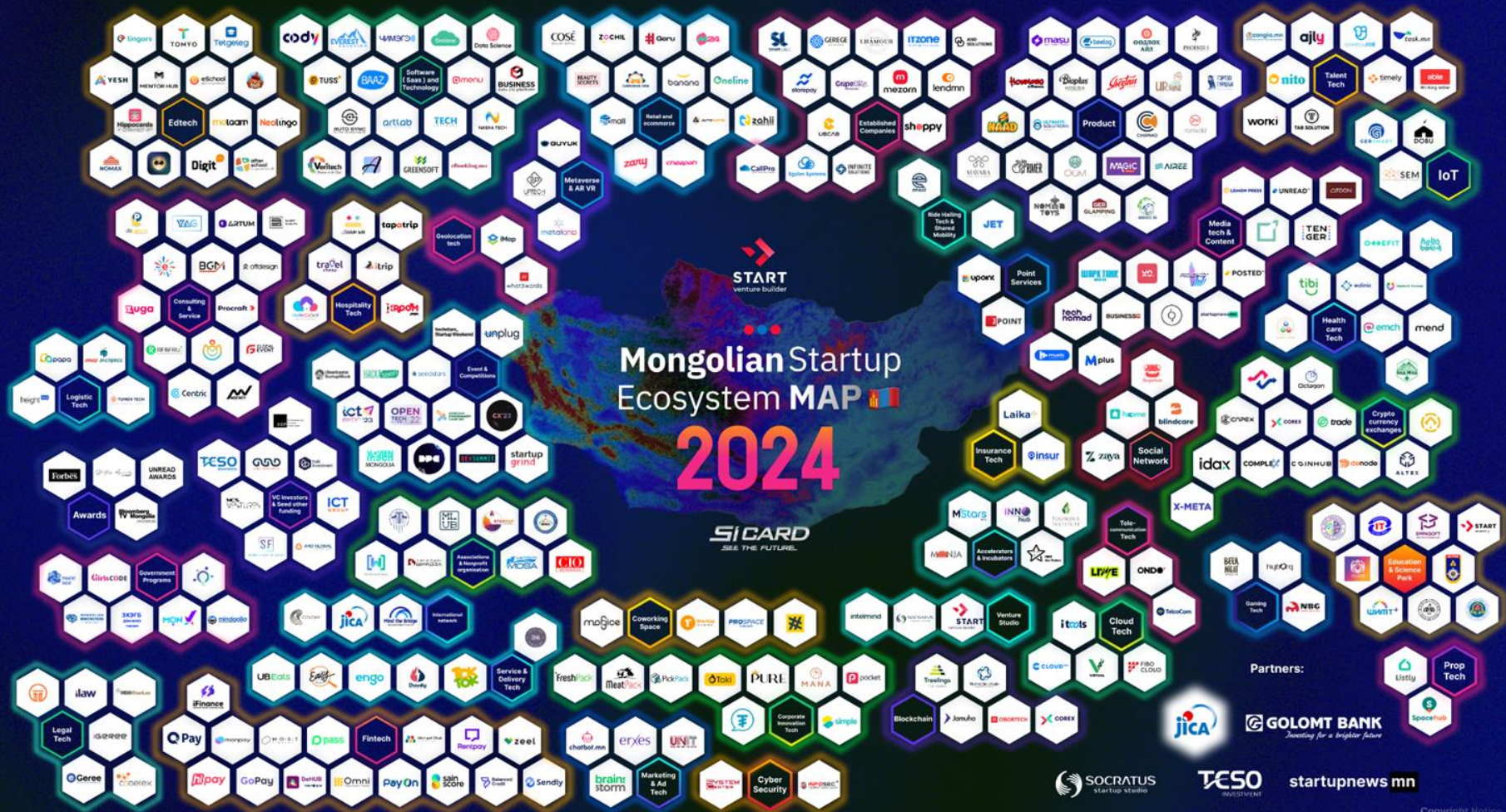
2.4.2. Implement an integrated policy for the step-by-step training and capacity-building of science, technology and innovation human resources, and increase the number of scientists.

2.4.4. Apply new know-how and patents into industrial practice, and put into economic turnover carry out a legal reform that supports cooperation between research institutes and the private sector with tax policy and economic incentives.

2.4.5. Create an infrastructure for science, technology and innovation, establish open specialized laboratories and commission the buildings of science parks, as well as traditional medicine and technology institutes.

2.4.9. Set up a mechanism that enables the use of scientific works and research results in the academic learning at universities and higher-educational institutions, and establish training, research and innovation centers at universities and higher-education institutions.

Source: <https://legalinfo.mn/mn/detail?lawId=211213&showType=1>





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THANK YOU

● ● ● Baseline Survey of the

Mongolian Startup
Ecosystem 

2023

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