

PRFDI NEWSLETTER

(PROJECT FOR CAPACITY DEVELOPMENT FOR PROMOTING FOREIGN DIRECT INVESTMENT)

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The 3rd Year and the final phase, of the project started in March, 2012. The project has been making major progresses towards completion. Since FIFTA was reorganized as one department of the Ministry of Economy and Development, many staff, including the project director, project manager and coordinator, were replaced. This issue covers this new structure and the introduction of the FDI in Mongolia as well as a message from the team leader. In addition, articles about the progress of the database development, the improvement of the OSS, and a survey and seminar by a short-term expert.

Reorganization of FIFTA

Due to the central government's reforms after the national election in June, FIFTA was merged into a new ministry, "Ministry of Economic Development (MED)" and reorganized as Department of Foreign Investment Regulation and Registration (DFIRR).

MED was established from National Development and Innovation Committee (NDIC), Department of Foreign Trade and Economic Cooperation, Ministry of Foreign Affairs and Trade, Development Financing and Cooperation Department, Ministry of Finance and FIFTA, consisting of six departments: (1) Department of Development Policy, Strategic Planning and Monitoring, (2) Department of Economic Cooperation, Loan and Assistance Policy (DECLA), (3) Department of Foreign Investment Regulation and Registration (former FIFTA), (4) Department of Innovation, Public Private Partnership (DIPPP), (5) Department of Public Administration and

Management, (6) Department of Monitoring, Evaluation and Internal Audit.

Consequently, governmental organizations among former JCC members of this project were united into one ministry, MED. As a result of discussions, DFIRR, PRFDI and JICA agreed that the new counterparts are DFIRR, DECLA and DIPPP of MED as well as BCM (Business Council of Mongolia) and MNCCI (Mongolian National Chamber of Commerce and Industry) from non-governmental organizations. JCC and a working group were reorganized with approval in the Minutes of Meeting dated on December 5, 2012. In the new administration, Project Director is **Mr. Sereeter Javkhlanbaatar**, Director of DFIRR, who worked for Ministry of Foreign Affairs and Trade until he was assigned as the Director of DFIRR in September 2012. JCC and working members are illustrated on page three.

Message the from new Project Director

Dear readers,

I warmly welcome you to this newsletter of Project of JICA and the Foreign Investment Regulations and Registration Department of the Ministry of Economic Development of Mongolia.

Foreign Direct Investment (FDI) plays a key role in the growth of the Mongolian economy. Approximately 10 thousand foreign entities have been established and about 10 billion USD net investment has been raised since Mongolia opened up its market to foreign investors. Let me briefly introduce the functions of the DFIRR and the current status of the FDI in Mongolia. (Continued on page three)



New Project Manager & Project Coordinator

Ms. Dashnyam Tsetsegmaa was newly appointed as a Project Manager. Although she is new to this project, she has been working at a former FIFTA for more than seven years and has a wealth of experiences in FDI.



Ms. Dashpurev Tanan is a new Coordinator, who has been working for a former FIFTA since March 2012. Both Ms. Dashnyam Tsetsegmaa and Ms. Dashpurev Tanan state, they are happy to join this project and work with the JICA project team for the capacity development of the DFIRR. They will make their best effort to make this project successful. We all excited to welcome the new project manager and the coordinator to this PRFDI project.



PRFDI/DFIRR, Ministry of Economic Development
Project Office
Room #809, Government Building 11
Sambu Street 11, Ulaanbaatar, 211238, Mongolia
Tel: +976 (11) 318-467, Fax: +976 (11) 324-076
Website: www.prfdi.mn



JICA Mongolia Office
Bodi tower 7th Floor, Sukhbaatar Square 3,
Ulaanbaatar 211213, Mongolia (c/o Central P.O. Box 682)
Tel: +976 (11) 313-393, +976 (11) 311-329
Fax: +976 (11) 310-845
Website: www.jica.go.jp

Database Application Development

One of the components of the PRFDI project is the improvement of DFIRR's (former FIFTA) databases. This is divided into two distinct phases: the improvement of the Registration Database for foreign investment and the development of a database of statistics and data from FIFTA and other governmental agencies.

Since December 2011, the PRFDI Project has engaged INI Co., Ltd. of Mongolia to develop the new Registration Database of foreign investment. Through the close cooperation of FIFTA and the JICA Project Team, INI software engineers have developed a robust web-based application for FIFTA's local intranet. This database development was finally completed in Sep-

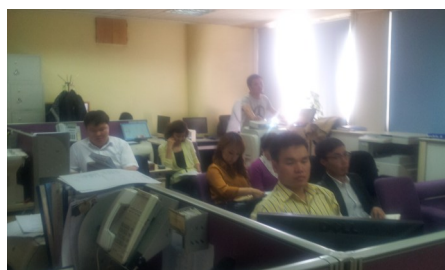


Photo 1: Training staff in charge of registration by INI Co., Ltd., .

tember 2012.

The second phase of the development began in March, 2012, with the start of two important components of the application: (1) connectivity and data sharing with other agencies in Mongolia and (2) statistics generation.

Contracts and agreements have already been established with several agencies for sharing data, with negotiations underway

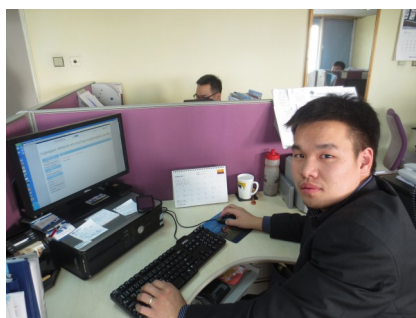


Photo 2: DFIRR registration staff using the new database .

with several more agencies. These agencies initially will include General Authority of Taxation, General Authority for Social Insurance, Customs General Administration, General Authority for State Registration, Labor and Welfare Agency, and Bank of Mongolia.

In addition to establishing agreements with other agencies, FIFTA has been actively investigating connecting to the State VPN (a secure private network) to establish direct connections to other agencies for sharing data. This will enable faster and more secure methods of data sharing.

Statistics are to be generated based on the registration data from FIFTA and the external data collected from other agencies as described above. The data and statistics are to be divided into four category-based purposes and usages as defined by FIFTA: 1) FIFTA Administrative and Monitoring; 2) Inter-Agency Cooperation; 3) FDI Statistics; and 4) Promotion.

The FDI Statistics are especially important for FIFTA since it is required to generate them for Mongolia. FDI Statistics will contain the following information: balance of

payments (BOP) and the direct investment position data; financial and operating data; establishment and acquisition data; and reference data on Mongolia. These categories were taken from the US Bureau of Economic Analysis (BEA) and modified by FIFTA and the JICA Project Team to meet the needs of Mongolia.

The development of the web applications and databases were completed in mid-September 2012, with training for FIFTA staff to follow.

Some of registration staff of DFIRR started to use the new databases in October 2012. All staff are expected to use the databases in 2013.

(by Mr. Hakan Yuksel, Information Management (1) Expert, PRFDI)



Photo 3: New data server in a DFIRR IT room .

Towards the completion of the project

A Happy New Year, 2013

The Project For Capacity Development For Promoting Foreign Direct Investment (PRFDI) started in November, 2010 and since then Working Group members from seven stakeholders, namely FIFTA, MOFA, NDIC, MOF, CCIC, MNCCI and BCM have been actively working. The following have been conducted: current situation analysis by the PFI analysis and Baseline Survey; FDI impact study by the Training in Japan and IPA study tour to the Czech Republic & Poland; series of seminars by the short term experts. In the second year, the FIFTA action plan for the improvement of investment services was produced as one

of the major outputs of the project, which was approved by the chairman of FIFTA in January, 2012. In the third year, new database and application for FDI registration have been implemented to FIFTA, by which more reliable and accurate FDI statistics can be expected. In August, 2012, following the general election, the new Ministry of Economic Development (MED) was formed, comprising of six departments. In this new ministry, four of seven PRFDI stakeholders have been merged and as a consequence, the new structure of the PRFDI project team was formed. One benefit of this restructure is that Department of Foreign Investment Regulation

and Registration (DFIRR) of MED now has the function of FDI policy formulation. This is because the link between the functions of FDI policy implementation and FDI policy formation is important. Although the dramatic change of the project members caused a short break in the project, with the powerful new members, PRFDI can now concentrate on the two last major outputs of the OSS Action Plan and the Road Map of FDI Promotion.

Hiroshi Matsuoka,
Chief Advisor, PRFDI

(Cont. from Page one: Message from the new Project Director)

The Foreign Investment Regulations and Registration Department (DFIRR) is responsible for the promotion and facilitation of foreign direct investment in Mongolia. The Foreign Investment Regulations and Registration Department, as the state administrative body in charge of foreign investment, have the following functions:

- To promote Mongolia as an investment attractive destination.
- To implement policies and legislation with respect to foreign direct investment.
- To obtain the statistical data from the state administrative body in charge of labor, taxation, customs, social insurance and foreign citizens.
- To register business entities with the foreign investment and representative office.
- To review foreign direct investment policies and regulations.
- To analyze the foreign direct investment situations and make forecasts.

Mongolia is considered one of the best countries for doing business based on several research results such as World Bank Report "Doing Business-2012." In this report, Mongolia ranks 86 out of 183 countries on the Business Friendly Environment indicator and it is estimated that the business environment will improve in 2013. This could result in Mongolia ranking 76 on the indicator. And Mongolia ranks 81 out of 184 countries in the 2012 Index of Economic Freedom, showing an improvement of 2 points from the previous year. Mongolia also ranks 12 out of 41 Asian Pacific countries for the same indicator.

As of the first half of the 2012, since 1990, a total of 12,118 foreign companies from 112 countries have been registered in Mongolia with a total investment of 11.5 billion USD. The total registered foreign companies are shown as follows by sector:

Geological prospecting, oil exploration and mining: 73.9 %

Trade and catering services: 16.3 %

Bank and financial services: 1.49 %

Light industry: 0.94%

Engineering construction and production of construction materials: 0.89 %

Total foreign investment by countries:

China: 3.65 billion USD (31.71 %)

Netherland: 2.66 billion USD (23.16 %)

Luxembourg: 1.03 billion USD (9.01 %)

UK Virgin Islands: 0.86 billion USD (7.48 %)

Singapore 0.62 billion USD (5.45 %)

Canada 0.48 billion USD (4.23 %)

Korea 0.33 billion USD (2.93 %)

USA 0.29 billion USD (2.54 %)

China (Hong Kong) 0.2 billion USD (1.8 %)

Japan 0.18 billion USD (1.6 %)

Mongolia attracts foreign investors with advantages such as giant deposits of natural resources, vast territory, agro and cattling resources, its strategic location and rapid economic growth. Also, the Mongolian Government pays utmost attention to the importance of improving the investment and business environment as well as stability and transparency.

The Foreign Investment Regulations and Registration Department of the Ministry of Economic Development is in charge of forming foreign investment policy, attracting FDI, promoting FDI, reviewing and registering the entities with foreign investment and its representative offices.

We wish you a good luck for your business and wish you all the best.

Yours sincerely,

Javkhlanbaatar Sereeter, Director of DFIRR , MED

New JCC and Working Group Members

JCC members (Mongolian side)

Chair person :

Mr. Javkhlanbaatar Sereeter, Director, DFIRR, MED

Members:

Director, Department of Economic Cooperation, Loan and Aid, Ministry of Economic Development

Director, Department of Innovation, PPP

Foreign Relations and Investment Promotion Division, Mongolian National Chamber of Commerce & Industry, MNCCI

Vice Director, Business Council of Mongolia, BCM

Working Group under the Project Director and Manager

Mr. Natsagdorj Dashdemberel, Officer, FIRRD, MED

Ms. Dashpurev Tanan, Officer, FIRRD, MED

Ms. Dukhumbayar Suvdaa, Officer, Department of Economic Cooperation, Loan and Aid Policy, MED

Ms. Dashdorj Anudari, Officer, Department of Innovation and PPP, MED

Provision of One Stop Service

DFIRR has prepared for the One-Stop Service (OSS) of procedures of permissions and regulations pertaining to foreign direct investment (FDI) in the near future.

DFIRR's investor support center, tentatively named "the One-Stop Service Center (OSSC)," aims to provide foreign investors with a wide variety of services: namely, assistance in carrying out FDI-related procedures of permission and regulations, and other relevant information (e.g. updates on related laws). In particular, DFIRR is planning to provide another service; once foreign investors make a request for assistance at OSSC, a staff member of OSSC, completes all the aforementioned procedures on the investors' behalf. They cur-

rently need to go to the related agencies one by one.

As a matter of fact, Mongolia's first attempt at FDI-related OSS began in 1999 within the former FIFTA. Nevertheless, the first OSS was terminated after its supervisory governmental agency, the former Ministry of Foreign Affairs (MOFA) was replaced in 2000 by the former Ministry of Trade and Industry (MOTI). In recent years, however, there have been growing demands for OSS among foreign investors. New foreign investment will be simplified to a great degree if the OSS resumes.

In the meantime, many foreign investors have sought alternative FDI destinations to China for the purpose of risk diversification

(what is called "China Plus One"). This is partly because China's investment and operating environments have lately become less favorable due to its rising labor costs, increasing labor strikes, etc. Therefore, Mongolia has the potential to become an increasingly attractive destination for FDI by improving its investment environment. DFIRR is especially expected to play a pivotal role in providing OSS for existing and potential foreign investors.

(by Mr. Hiromichi Hara, Organization Evaluation/Information Management(2) Expert, PRFDI)

Survey and Seminar by Short-term Expert

Following the success of last year's workshop on "Suggestions for Facilitation of Investment into Mongolia" for former FIFTA staff, a short-term expert, Professor Hiroshi Ueno was invited to hold a workshop in the middle of September. This was entitled "FDI Promotion Policies and PPP." This workshop focused on FDI promotion for development of local business, particularly small and medium enterprises, agriculture and stock-farming, and supporting industries of the mining sector.

Before the seminar, Professor Ueno conducted a survey in South Gobi, which has major mining sites such as Oyu Tolgoi and

current status of local business and identify how to develop the business in relation to FDI.



Photo 2: Coal mining site in Tavan Tolgoi

Based on the findings of the survey, Professor Ueno gave lectures during October 2-4, 2012. The lectures consisted of three sessions: (1) Basic Promotion Policies and Interview Results on SME and Livestock SME Sectors, (2) the Infrastructure and Public-and-Private Partnership, (3) Ingredients of a Promotion Document.

Through the workshop, Professor Ueno explained basic matters on FDI promotion policies, Public Private Partnership (PPP), roles of OSS agency and promotion documents, including practical examples and recommendations. The first session focused on the functions and basic principles of DFIRR (former FIFTA) as OSSA (one stop service agency). In addition, Professor Ueno

gave suggestions based on the interview results regarding how to use government funds from the mining sector to promote FDI, such as giving free sets of green house and drip irrigation hosepipes to farmers and herders. In the second session, he explained details about types of PPP schemes and contracts. In the third session, necessary information which DFIRR must provide to foreign investors to promote FDI were introduced. Particularly, Professor Ueno emphasized five important points: (1) profitability, (2) risks, (3) legal and regulatory requirements, (4) opportunities and (5) project specific incentives.



Photo 3: Seminar at a DFIRR meeting room

More than 10 participants from DFIRR attended this series of seminars. Most participants found all sessions useful.

(by Ms. Rie Tajima, Coordinator/Investment Promotion Service 2 Expert, PRFDI)



Photo 1: Interview with TT Erdenes

Tavan Tolgoi, for one week. This was in order to provide practical suggestions based on the real situation of those industries in Mongolia. He visited some mining companies and the local government to see the