



# EPRC MONTHLY NEWSLETTER

SEPTEMBER 2005

## Mongolia ranked for the first time in the World Economic Forum's *Growth Competitiveness Index*

Culminating work that the project began almost a year ago as a National Partner for WEF, Mongolia appeared for the first time in the rankings of the *Growth Competitiveness Index*. On 29 September, the Geneva-based World Economic Forum (WEF) publicly released the results of the 2005-2006 *Growth Competitiveness Index* survey. Mongolia was ranked 96<sup>th</sup> out of 117 countries included in the index.

The project subcontracted with Human Fortis Co. Ltd, a local consulting firm, to conduct a national survey of 105 business executives during January-March of this year. WEF used data from this survey and results from 116 countries in order to produce a comprehensive study of business conditions and economic performance worldwide. WEF defines competitiveness as the "collection of factors, policies and institutions, which determine the level of productivity of a country and therefore determine the level of

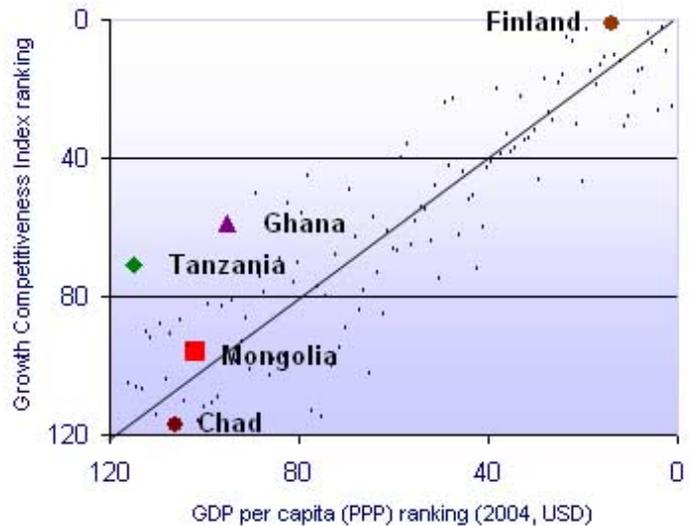
prosperity that can be attained by an economy". Productivity is viewed as the key driver of the rates of return on investment which in turn determine aggregate growth rates in the economy; a more competitive economy is one that is likely to grow faster over the medium and long term.

Mongolia is ranked 96th in the 2005 Growth Competitiveness Index ranking and 102nd in GDP per capita ranking—expressed in terms of the purchasing-power-parity dollars, \$1,918 in 2004.

As Exhibit 1 shows, Mongolia is roughly at the competitiveness level one would expect relative to its GDP per capita.

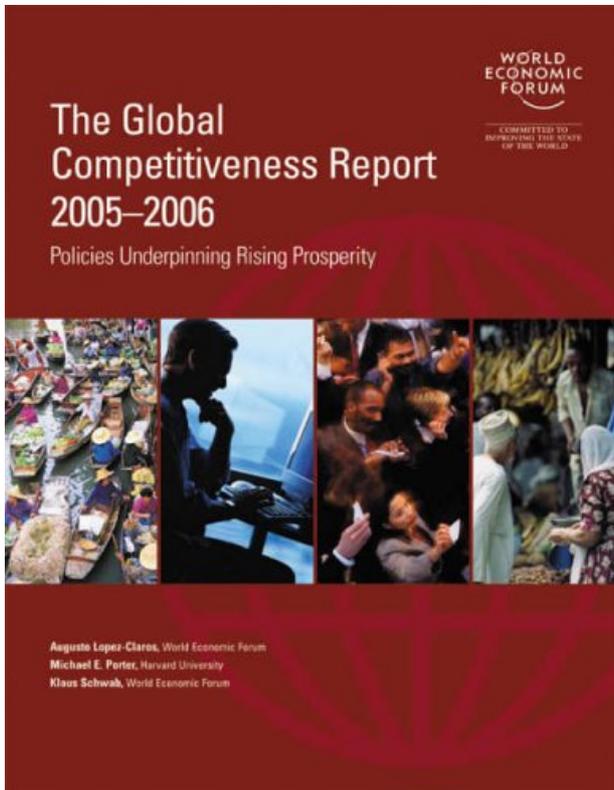
Exhibit 2 shows the major impediments for doing business

**Exhibit 1: Relationship between ranks in GCI and GDP per capita (lower ranks are better)**



in Mongolia according to the survey of Mongolian business executives. In their view, inefficient government bureaucracy, inadequate supply of infrastructure, tax rates, corruption, and tax regulations are among the top five most problematic factors.

Exhibit 3 displays a summary of selected competitive advantages or strengths as well as competitive disadvantages or weaknesses for Mongolia, including rankings in these factors. Lower rankings denote better performance; higher ranks imply worse relative performance.

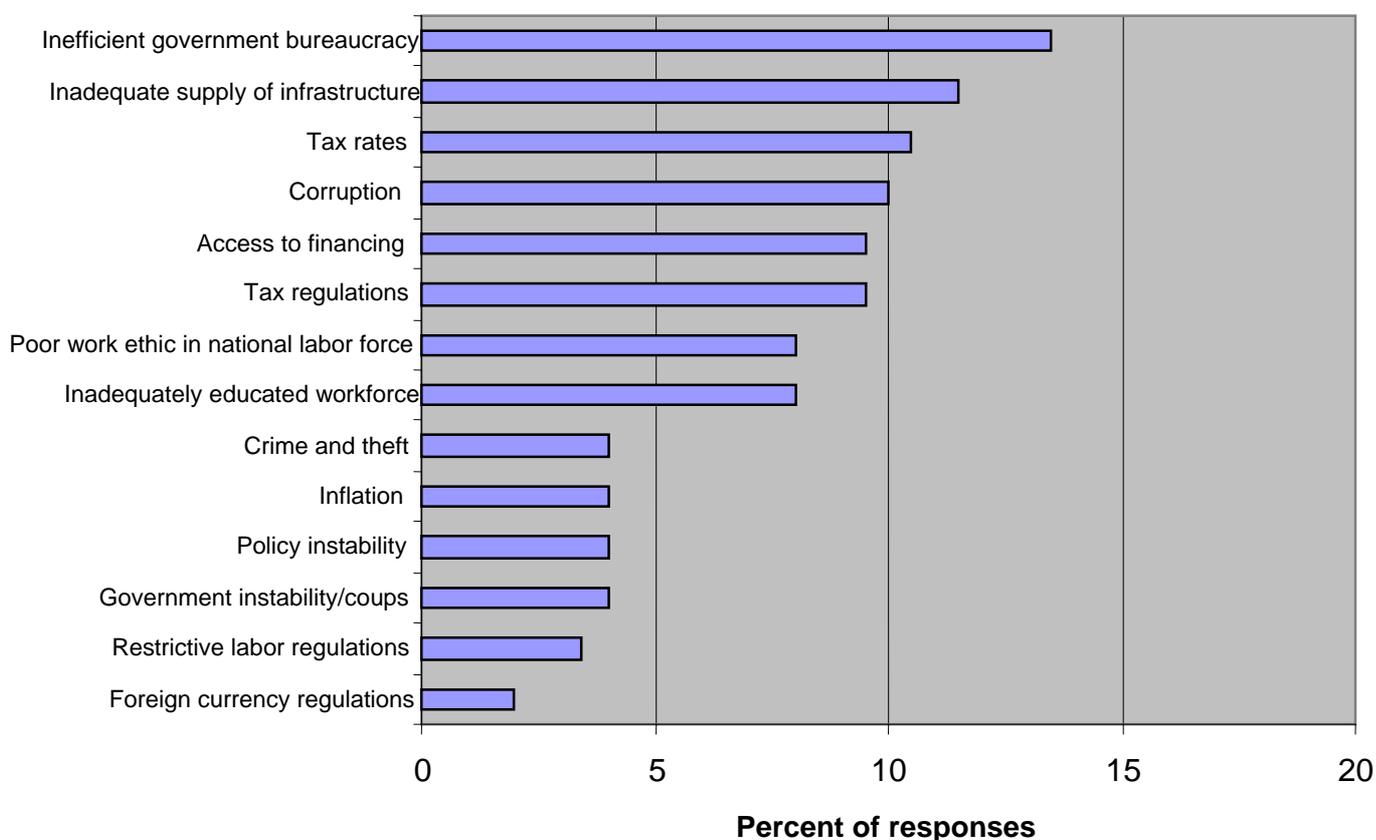


Mongolia's country profile and the Growth Competitiveness Index rankings for the 137 countries included in the survey appear as annexes to this newsletter.<sup>1</sup>

Formal presentation of Mongolia's findings is scheduled for Thursday, 13 October, at an event the project will co-sponsor with the Open Society Forum (OSF). Geneva-based WEF staffers, Ms Emma Loades, Competitiveness Programme Manager and Kerry Jaggi, Coordinator, will be available for discussion of the methodology and results of the 2005 survey.

Having managed the conduct of the first business executive survey in Mongolia as WEF's National Partner for 2005, EPRC will pass on this role to The Open Society Forum for 2006 and onwards. OSF and EPRC will continue to work closely together in promoting a dialogue between business and government policy makers focused on actionable priorities to increase Mongolia's competitiveness standings.

## Exhibit 2: The most problematic factors for doing business in Mongolia



<sup>1</sup> World Economic Forum. *The Global Competitiveness Report 2005-2006*. Pages 378-9 and 7.

**Exhibit 3: Selected rankings in competitiveness factors**

Variable	Rank
<b>STRENGTHS OR COMPETITIVE ADVANTAGES</b>	
<b>Labor market</b>	
<i>Flexibility of wage determination:</i> Wages are set by the market rather than by the government	14
<i>Pay and productivity:</i> Wages are related to labor productivity	27
<b>Education</b>	
<i>Gross tertiary enrollment:</i> Enrollment in universities and higher education	47
<i>Quality of math and science education:</i> high levels in the teaching of math and sciences	62
<b>Technology</b>	
<i>Government prioritization of ICT:</i> Government policies in the ICT sector	22
<i>Capacity for innovation:</i> Capacity of the country to generate and absorb innovations	66
<b>Business conditions</b>	
<i>Business costs of terrorism:</i> Safety in doing business	15
<i>Access to credit:</i> Expansion of and access to credit	35
<b>WEAKNESSES OR COMPETITIVE DISADVANTAGES</b>	
<b>Foreign trade/competitiveness</b>	
<i>Local supplier quantity:</i> Local suppliers in the country are largely nonexistent	110
<i>Value chain presence:</i> Exporting companies are primarily involved in resource extraction	109
<i>Breadth of international markets:</i> Exporting companies sell primarily in a small number of foreign markets	107
<b>Corporate governance/standards</b>	
<i>Protection of minority shareholders interests:</i> Interests of shareholders are not protected by the law	111
<i>Ethical behavior of firms:</i> Interactions among business executives and public officials, politicians, and executives of other enterprises	109
<i>Degree of customer orientation:</i> Firms are not highly responsive to their customers and make insufficient efforts to retain customers	106
<b>Government/bureaucracy/law</b>	
<i>Efficiency of legal framework:</i> The legal framework for private businesses to settle disputes and challenge the legality of government actions and/or regulations is inefficient and subject to manipulation	111
<i>Wastefulness of government spending:</i> The composition of public spending is wasteful and fails to provide necessary goods and services not provided by the market; it does not follow transparent and neutral processes	109
<i>Favoritism in decisions of government officials:</i> When deciding upon policies and contracts, government officials usually favor well-connected firms and individuals	107
<i>Irregular payments in exports and imports:</i> Many firms make undocumented "irregular" payments or bribes connected with exports and imports	107
<b>Environmental management</b>	
<i>Effects of compliance on business:</i> Environmental protection and management are singled out as major failures of Mongolian authorities. Complying with current environmental standards significantly reduces competitiveness rather than supporting long-term growth by introducing improvements into products and processes; Mongolia has the lowest ranking among all countries in the survey	117
<i>Protection of ecosystems by business:</i> The companies that harvest or process natural resources rarely concern themselves with the degradation of ecosystems	116
<i>Government mandated environmental reporting:</i> Government mandated disclosures of environmental performance and pollutant releases are nonexistent or non-effective	115
<i>Prevalence of corporate environmental reporting:</i> Corporate environmental reporting is non-existent	114
<i>Stringency of environmental regulations:</i> Environmental regulation is lax compared to most countries	110

## Practical guide to exports and trade shows sales seminars held

Twenty-eight executives from twenty different companies participated in two seminars offered at the USAID Resource Center on 28 and 30 September. Mr James Krigbaum, an international trade specialist engaged by EPRC led the seminars. Mr Krigbaum, a former entrepreneur with extensive export experience in the Asia region, now advises major international firms on penetrating export markets.

The seminars, "A practical guide to exporting" and "Getting the most out of trade shows" were aimed at senior managers in exporting companies and companies with plans to move into international trade in the near future. Participants represented a number of industries, including cashmere, food processing, and tourism.



The seminar on "Exporting: A practical guide" concentrated on the "do's and don'ts" of exporting, drawing on Mr Krigbaum's own experiences. The first part of the seminar focused on: finding buyers and presenting a company and its products. It stressed the importance of communications, reacting quickly to the needs of the customers and being sensitive to other countries' cultures. The second session dealt with the "nuts and bolts" of exporting: arrangements with agents, exclusivity agreements, methods of payment and export documentation. According to Mr Krigbaum, attention to detail is paramount and he gave examples of consignments been held up at the port of entry due to simple mistakes in documentation. He also warned of the some of the problems encountered in receiving payment.

The seminar on trade shows emphasized preparations that must be made before the show and follow-up procedures afterwards. Too often trade show participants think only of the actual event and not the preparation and the follow up. He asked companies to be selective in their choice of trade shows and research the type and nature of attendees. Mr Krigbaum also gave the participants a check-list of actions to be taken before the show, suggesting that existing and potential customers should be informed about the

company's participation and invited well in advance. He gave tips about the booth, position, decoration, and staff conduct, and how and when to follow up the enquiries taken at the show.

Copies of the seminar presentations, in English and Mongolian can be obtained from the Business Development team at EPRC.

While in Mongolia, Mr Krigbaum also advised companies with potential export products and assisted with developing contacts with potential buyers. On his way back to the U.S., Mr Krigbaum will take sample pet food, health food, cosmetics, preserves and specialty cashmere products to distributors in Japan and Korea.

## Private remittances up to \$200 million last year as Mongolia's Social Accounts Matrix (SAM) is updated with revised 2004 data

In August the National Statistics Office (NSO) made significant revisions to the national accounts data of 2004 published in the yearly statistics book. During September, the project updated figures used in the Social Accounts Matrix (SAM) developed for the Mongolian economy. Figures used previously in the SAM needed to be made consistent with the NSO revisions and reconciled with data received from other sources—in particular from the Ministry of Finance and Mongol Bank.

In 2004 the GDP increased to 1.9 billion Tg (\$1.6 billion, \$640 per capita). Household consumption per capita slightly declined and domestic private sector investment remained at a very low level—about 4 percent of GDP. Foreign direct investment declined but private remittances increased to reach about \$200 million. Both budget deficit and foreign trade deficit decreased significantly.

The newly updated SAM will be publicly released in November, in cooperation with the NSO, when technical training on its use will also be conducted.

## Continued support for public information and dialogue on Government's tax proposals

**Publication of weekly tax briefings in national newspapers:** EPRC continued its support of the tax communications strategy of the Ministry of Finance (MoF) and the General Department of National Taxation (GDNT). The project prepared four additional tax briefings for publications in national newspapers, bringing the cumulative number of these to thirteen. Topics of the briefings appearing during the month were:

- *The proposed Personal Income Tax Law; Part II: More about the law*—published on 5 September

- *The proposed Corporate Income Tax*—published on 12 September
- *Deduction of expenses under the proposed Legal Entity Income Tax Law*—published on 19 September
- *Taxes and assets: Depreciation*—published on 26 September.

Four national newspapers published the weekly briefings: Daily News (*Udriin Sonin*), Today (*Unuudur*), Century News (*Zuunii Medee*), and Public Right (*Ardiin Erh*). In addition to the newspapers, the following local websites also posted the tax briefings: Open Government ([www.open-government.mn](http://www.open-government.mn)), Ministry of Finance ([www.mof.pmis.gov.mn](http://www.mof.pmis.gov.mn)), General Department of National Taxation ([www.mta.mn](http://www.mta.mn)), EPRC ([www.eprc-chemonics.biz](http://www.eprc-chemonics.biz)) and Open Society Forum ([www.forum.mn](http://www.forum.mn)).

The project worked closely with the public information officers of the MoF and the GDNT in the preparation and publication of these weekly tax briefs. These are part of the public communications strategy on tax reform developed by the project at the request of the government earlier this year. The public communications campaign aims to educate Mongolians about taxes and inform about the different tax reform measures introduced by the government.

#### Dissemination of Ministry of Finance tax proposals:

At the request of members of the Parliamentary Tax Working Group, the project produced and bound copies of the 14-July MoF tax proposals in Mongolian and in English and their electronic versions in a mini CD and distributed these to all members.



In addition to postings of the tax reform proposals and weekly tax briefings in English and Mongolian on the *Open Government* website at: <http://open-government.mn>, the websites of the Ministry of Finance, [http://www.mof.pmis.gov.mn/tax\\_briefing.html](http://www.mof.pmis.gov.mn/tax_briefing.html), and of the General Department for National Taxation: <http://www.mta.mn> provide access to the proposed new tax laws and amendments.

**Publicizing the first Open Talks on Taxes national chat series:** During the week of 26 September and in preparation for the national dialogue on taxes scheduled for 4 October and hosting Minister of Finance Mr Altankhuyag and General Department of National Taxation (GDNT) Director, Mr. Zorig, two national newspapers *Udriin sonin* (September 28) and *Unuudur* (29 September) printed full

texts of the proposed Legal Entity Income Tax Law (LEIT) and the Personal Income Tax (PIT) law:

The project also provided support to the *Open Government* website in crafting and placing ads in national newspapers advertising the 4 October *Open Talk on Taxes* chat featuring the Minister of Finance and the GDNT Director. Website staff worked closely with the public affairs officers of the Ministry of Finance and GDNT in the preparation of copy for the ads.



The program will be broadcast live on national television and radio as well as the Internet. Citizens will be able to ask questions through live telephone lines, the Internet chat server, and SMS messages on cellular phones.

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

Table 1: Growth Competitiveness Index rankings and 2004 comparisons

Country	GCI 2005 Rank	GCI 2005 Score	GCI 2004 Rank	Country	GCI 2005 Rank	GCI 2005 Score	GCI 2004 Rank
Finland	1	5.94	1	Namibia	63	3.72	52
United States	2	5.81	2	Costa Rica	64	3.72	50
Sweden	3	5.65	3	Brazil	65	3.69	57
Denmark	4	5.65	5	Turkey	66	3.68	66
Taiwan	5	5.58	4	Romania	67	3.67	63
Singapore	6	5.48	7	Peru	68	3.66	67
Iceland	7	5.48	10	Azerbaijan	69	3.64	—
Switzerland	8	5.46	8	Jamaica	70	3.64	65
Norway	9	5.40	6	Tanzania	71	3.57	82
Australia	10	5.21	14	Argentina	72	3.56	74
Netherlands	11	5.21	12	Panama	73	3.55	58
Japan	12	5.18	9	Indonesia	74	3.53	69
United Kingdom	13	5.11	11	Russian Federation	75	3.53	70
Canada	14	5.10	15	Morocco	76	3.49	56
Germany	15	5.10	13	Philippines	77	3.47	76
New Zealand	16	5.09	18	Algeria	78	3.46	71
Korea, Rep.	17	5.07	29	Armenia	79	3.44	—
United Arab Emirates	18	4.99	16	Serbia and Montenegro	80	3.38	89
Qatar	19	4.97	—	Vietnam	81	3.37	77
Estonia	20	4.95	20	Moldova	82	3.37	—
Austria	21	4.95	17	Pakistan	83	3.33	91
Portugal	22	4.91	24	Ukraine	84	3.30	86
Chile	23	4.91	22	Macedonia, FYR	85	3.26	84
Malaysia	24	4.90	31	Georgia	86	3.25	94
Luxembourg	25	4.90	26	Uganda	87	3.24	79
Ireland	26	4.86	30	Nigeria	88	3.23	93
Israel	27	4.84	19	Venezuela	89	3.22	85
Hong Kong SAR	28	4.83	21	Mali	90	3.22	88
Spain	29	4.80	23	Mozambique	91	3.19	92
France	30	4.78	27	Kenya	92	3.19	78
Belgium	31	4.63	25	Honduras	93	3.18	97
Slovenia	32	4.59	33	Gambia	94	3.18	75
Kuwait	33	4.58	—	Bosnia and Herzegovina	95	3.17	81
Cyprus	34	4.54	38	Mongolia	96	3.16	—
Malta	35	4.54	32	Guatemala	97	3.12	80
Thailand	36	4.50	34	Sri Lanka	98	3.10	73
Bahrain	37	4.48	28	Nicaragua	99	3.08	95
Czech Republic	38	4.42	40	Albania	100	3.07	—
Hungary	39	4.38	39	Bolivia	101	3.06	98
Tunisia	40	4.32	42	Dominican Republic	102	3.05	72
Slovak Republic	41	4.31	43	Ecuador	103	3.01	90
South Africa	42	4.31	41	Tajikistan	104	3.01	—
Lithuania	43	4.30	36	Malawi	105	3.00	87
Latvia	44	4.29	44	Ethiopia	106	3.00	101
Jordan	45	4.28	35	Madagascar	107	2.95	96
Greece	46	4.26	37	East Timor	108	2.93	—
Italy	47	4.21	47	Zimbabwe	109	2.89	99
Botswana	48	4.21	45	Bangladesh	110	2.86	102
China	49	4.07	46	Cameroon	111	2.84	—
India	50	4.04	55	Cambodia	112	2.82	—
Poland	51	4.00	60	Paraguay	113	2.80	100
Mauritius	52	4.00	49	Benin	114	2.74	—
Egypt	53	3.96	62	Guyana	115	2.73	—
Uruguay	54	3.93	54	Kyrgyz Republic	116	2.62	—
Mexico	55	3.92	48	Chad	117	2.37	104
El Salvador	56	3.86	53				
Colombia	57	3.84	64				
Bulgaria	58	3.83	59				
Ghana	59	3.82	68				
Trinidad and Tobago	60	3.81	51				
Kazakhstan	61	3.77	—				
Croatia	62	3.74	61				

(cont'd.)

## Competitiveness Rankings

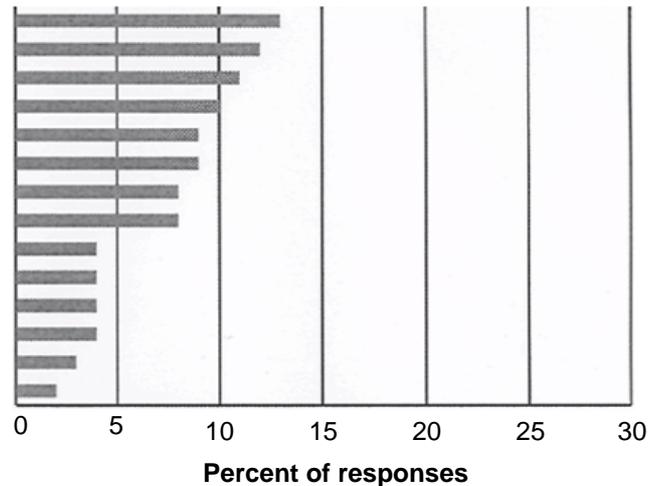
Growth Competitiveness Index Rank	96
<b>Macro economic Environment Index Rank.....</b>	<b>105</b>
Macroeconomic Stability Subindex Rank.....	94
Government Waste Rank.....	109
Country Credit Rating Rank.....	97
<b>Public Institutions Index Rank.....</b>	<b>93</b>
Contracts and Law Subindex Rank.....	81
Corruption Subindex Rank.....	96
<b>Technology Index Rank.....</b>	<b>81</b>
Innovation Subindex Rank.....	53
ICT Subindex Rank.....	81
Technology Transfer Subindex Rank (out of 92 non-core innovators).....	55

Business Competitiveness Index Rank	100
<b>Sophistication of Company Operations and Strategy Rank.....</b>	<b>96</b>
<b>Quality of the National Business Environment Rank.....</b>	<b>98</b>

## The Most Problematic Factors for Doing Business

### FACTOR

- Inefficient government bureaucracy.....
- Inadequate supply of infrastructure.....
- Tax rates.....
- Corruption.....
- Tax regulations.....
- Access to financing.....
- Inadequately educated workforce.....
- Poor work ethic in national labor force.....
- Government instability/coups.....
- Policy instability.....
- Inflation.....
- Crime and theft.....
- Restrictive labor regulations.....
- Foreign currency regulations.....



Note: From a list of 14 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Source: World Economic Forum, Executive Opinion Survey (2005)

## National competitiveness balance sheet

### NOTABLE COMPETITIVE ADVANTAGES

Growth Competitiveness Index	Rank/117
<b>Macroeconomic Environment</b>	
2.15 Real effective exchange rate, 2004.....	31
2.07 Access to credit.....	35
<b>Technology</b>	
3.13 Government prioritization of ICT.....	22
4.17 Gross tertiary enrollment.....	47

### Business Competitiveness Index Rank/110

<b>Sophistication of Company Operations and Strategy</b>	
8.03 Capacity for innovation.....	66
8.01 Nature of competitive advantage.....	78
<b>Quality of the National Business Environment</b>	
6.13 Centralization of economic policymaking.....	48
5.02 Railroad infrastructure development.....	55
4.03 Quality of math and science education.....	62

### Other Indicators Rank/117

8.18 Flexibility of wage determination.....	14
2.02 Business costs of terrorism.....	15
8.17 Hiring and firing practices.....	22
8.20 Pay and productivity.....	27
4.09 Private sector employment of women.....	39

### NOTABLE COMPETITIVE DISADVANTAGES

Growth Competitiveness Index	Rank/117
<b>Macroeconomic Environment</b>	
6.06 Wastefulness of government spending.....	109
2.13 Government surplus/deficit, 2004.....	100
2.20 Government debt, 2004.....	98
2.21 Country credit rating, 2004.....	97
2.17 Interest rate spread, 2004.....	92
2.16 Inflation, 2004.....	71
2.01 Recession expectations.....	67
2.14 National savings rate, 2004.....	65
<b>Public Institutions</b>	
6.08 Favoritism in decisions of government officials.....	107
6.19 Irregular payments in exports and imports.....	107
6.01 Judicial independence.....	99
6.21 Irregular payments in tax collection.....	90
6.20 Irregular payments in public utilities.....	84
6.03 Property rights.....	83
6.16 Organized crime.....	52
<b>Technology</b>	
3.20 Internet hosts, 2003.....	110
3.15 Laws relating to ICT.....	107
3.12 Quality of competition in the ISP sector.....	103
3.01 Technological readiness.....	98
5.08 Telephone lines, 2003.....	88
3.02 Firm-level technology absorption.....	87
3.11 Internet access in schools.....	87
3.04 FDI and technology transfer.....	86
3.18 Cellular telephones, 2003.....	82
3.17 Utility patents, 2004.....	81
3.06 Company spending on research and development.....	80
3.19 Internet users, 2003.....	73
3.03 Prevalence of foreign technology licensing.....	72
3.07 University/industry research collaboration.....	67
3.14 Government success in ICT promotion.....	64
3.21 Personal computers, 2003.....	56

### Business Competitiveness Index Rank/110

<b>Sophistication of Company Operations and Strategy</b>	
8.02 Value chain presence.....	109
8.10 Breadth of international markets.....	107
8.07 Degree of customer orientation.....	106
<b>Quality of the National Business Environment</b>	
7.05 Local supplier quantity.....	110
5.04 Air transport infrastructure quality.....	108
5.03 Port infrastructure quality.....	105

### Other Indicators Rank/117

9.04 Effects of compliance on business.....	117
9.08 Protection of ecosystems by business.....	116
9.03 Extent of government mandated environmental reporting.....	115
9.9 Prevalence of corporate environmental reporting.....	114
9.10 Grass-roots involvement in development projects.....	113
9.05 Effects of privatization on competition and the environment.....	112
8.21 Protection of minority shareholders' interests.....	111
6.02 Efficiency of legal framework.....	111
3.10 Availability of mobile or cellular telephones.....	111
9.01 Stringency of environmental regulations.....	110
8.04 Ethical behavior of firms.....	109

Note: The Business Competitiveness Index applies different criteria for selecting a country's competitive advantages and disadvantages. Please refer to the section "How Country Profiles Work" for further details.