

# INVESTMENT REFORM MAP FOR MONGOLIA

## The Current State and Perspective of the Mongolian Economy-2019 Forum

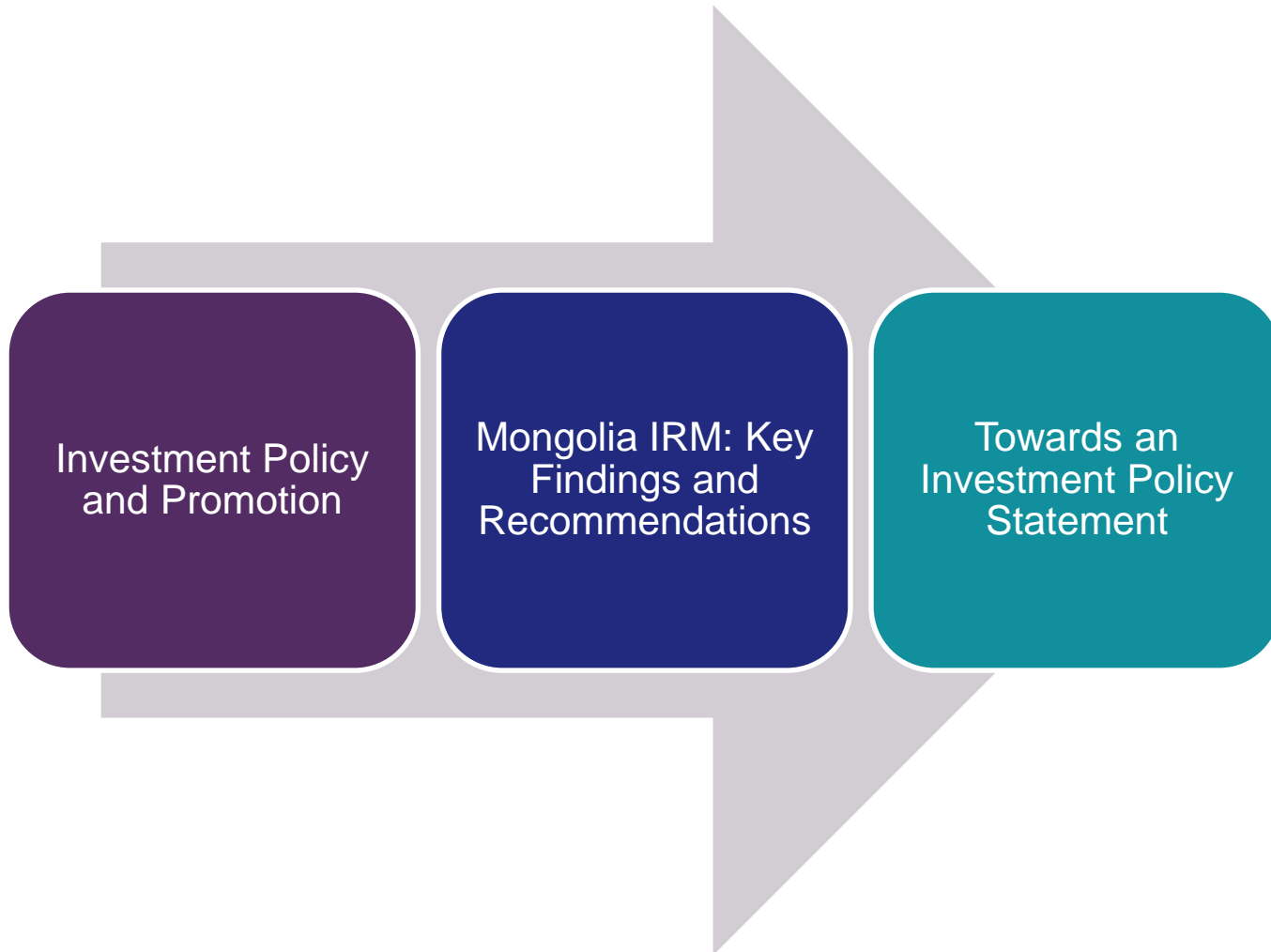


**Xavier Forneris**

Ulaanbaatar, March 2019



# PRESENTATION OUTLINE



# **INVESTMENT POLICY AND PROMOTION**

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# THREE KEY PROPOSITIONS



**Investment policy is not about choosing between foreign and domestic investment**

It is about connecting them through global value chains. Trade and investment are two sides of the same coin. Both domestic and foreign investment must be regulated.



**Not all types of investment are the same**

Different types of investment have different effects on socio-economic development and thus require different policies. Countries should align the type of investment with different policies. Different competitive drivers in different sectors.

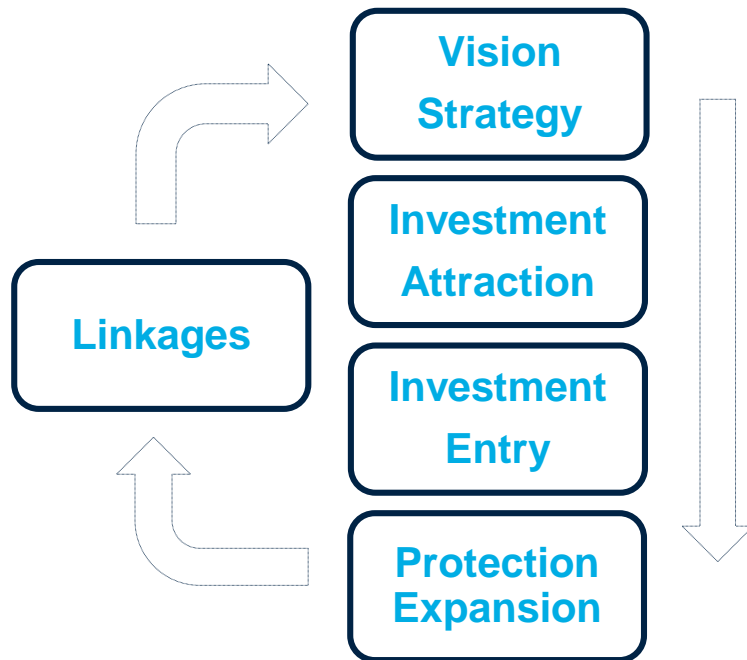


**Foreign investment is not a transaction; it is a relationship**

An investment policy strategy should not only pursue attraction, but also retention and linkages with the domestic productive sector, thereby maximizing benefits from investment.

# INVESTMENT LIFECYCLE AND INVESTMENT TYPOLOGY

## Investment Lifecycle



Investment is not a transaction but a relationship

## FDI Typology



**Natural resource-seeking**  
Exploit locally available natural resources



**Market-seeking**  
Gain access to the domestic markets



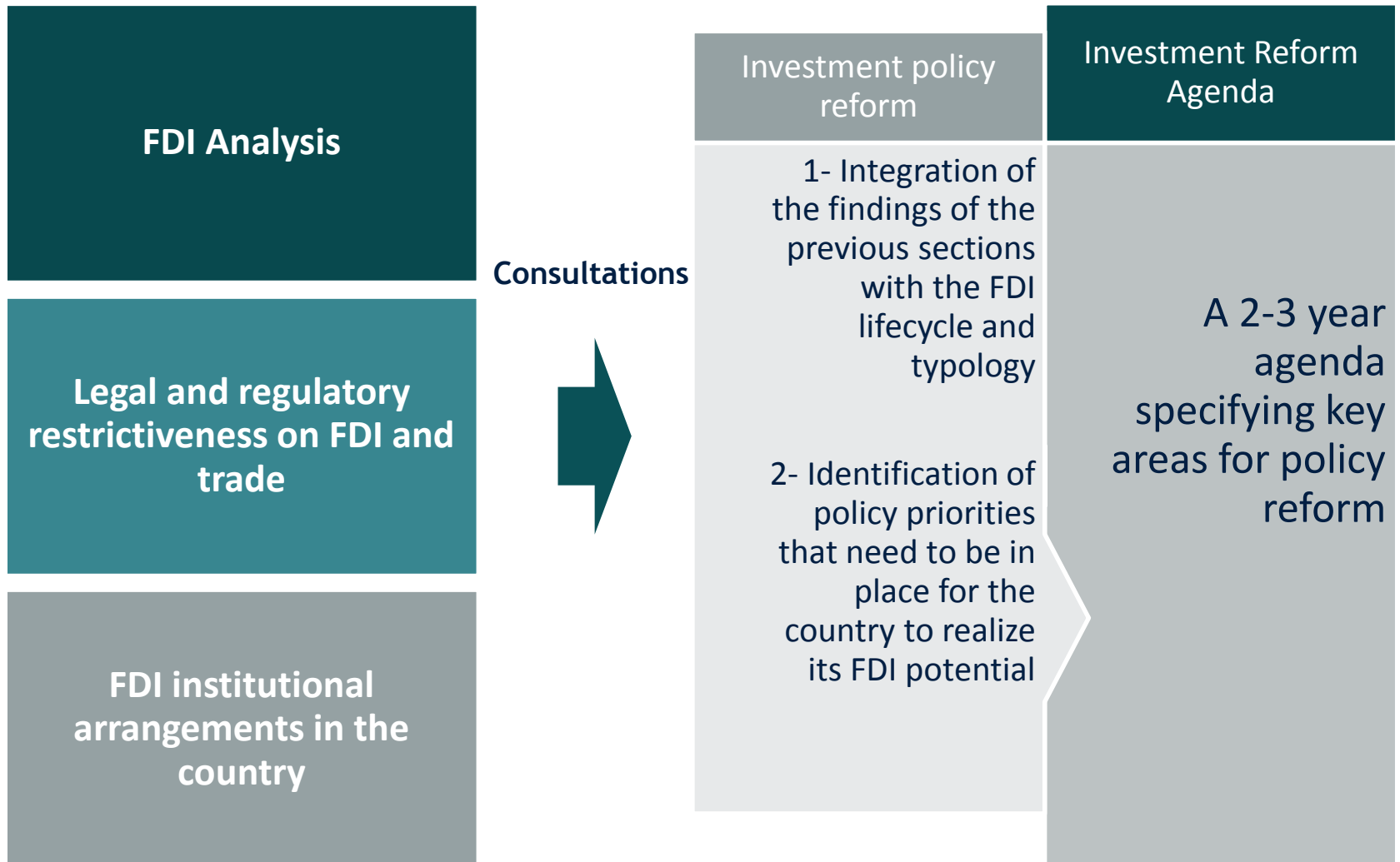
**Strategic asset-seeking**  
Enhance the capabilities by acquiring firms with competitive advantages



**Efficiency-seeking**  
Save costs in international production networks

Different type have different impacts and require different policies

# INVESTMENT REFORM MAP (IRM): PROCESS





## Investment Reform Map for Mongolia

A Foundation for a new Investment  
Policy & Promotion Strategy

Mongolia Investment Policy and Agriculture  
Investment Promotion (IPAIP) Project

Final Report  
June 2018

IN PARTNERSHIP WITH



WORLD BANK GROUP  
IFC International  
Finance Corporation

# MONGOLIA IRM: KEY FINDINGS AND RECOMMENDATIONS

# KEY MESSAGES

1

- Create a new vision and strategy to maximize the benefits of FDI

2

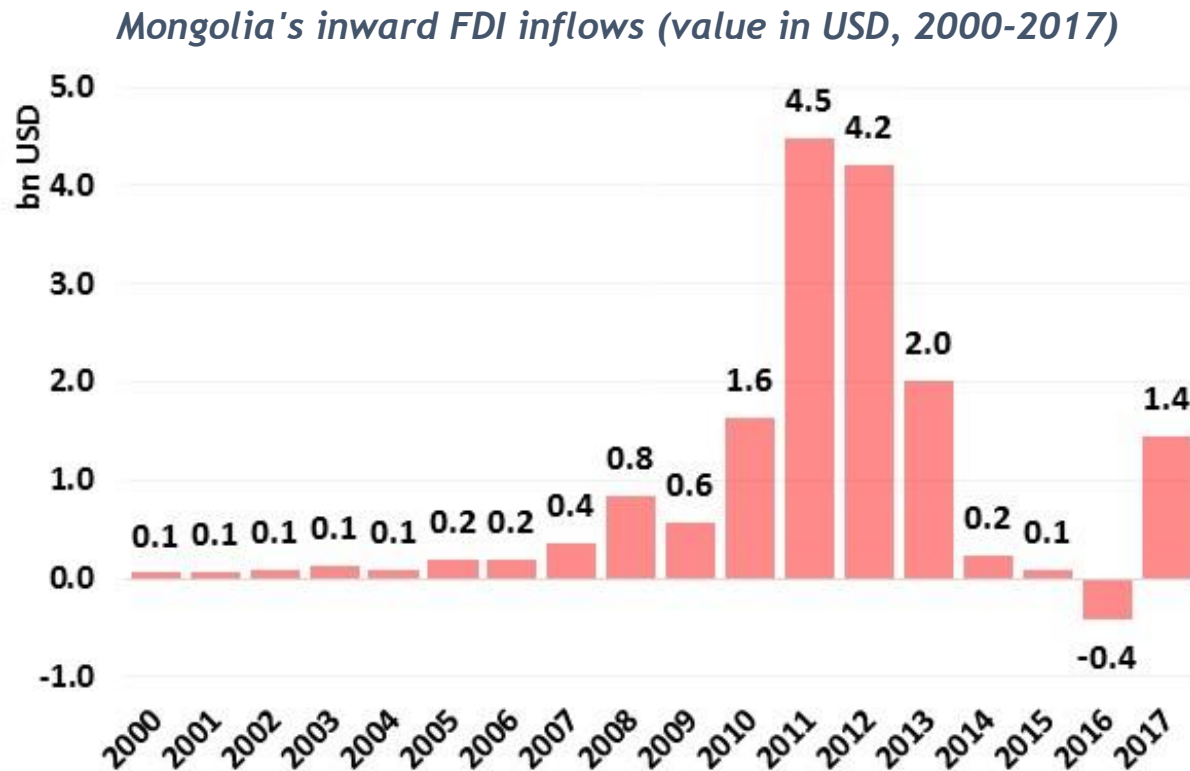
- Improve the investment climate and strengthen investment protection

3

- Re-establish investment promotion capacity



# FDI FLOWS TO MONGOLIA SHOWED HIGH VOLATILITY DURING THE LAST DECADE

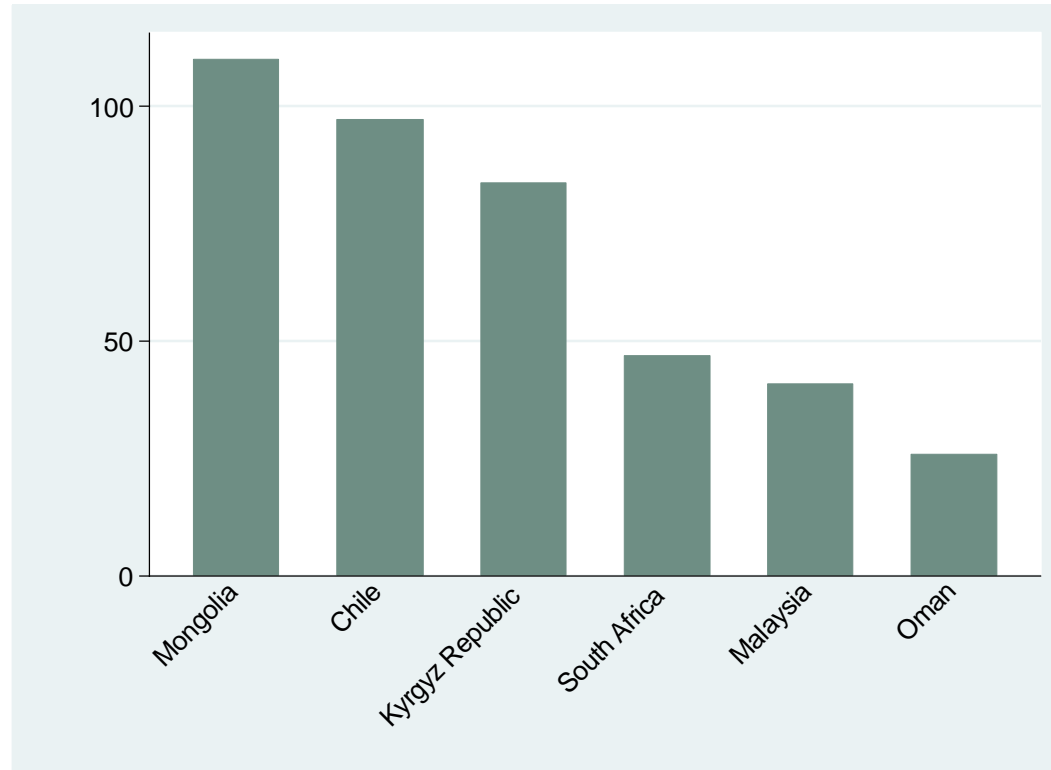


Source: [The Central Bank of Mongolia, BoP statistics](#)

- From 2000-2011, Mongolia registered an intense and sustained increase in FDI inflows on the back of the dramatic expansion of the mining sector
- After 2012, weaker commodity prices added to deteriorating investors' sentiment in Mongolia, ultimately leading to a dramatic decline in FDI inflows

# ..WHICH NEVERTHELESS HELPED TO INCREASE THE STOCK OF FDI TO GDP

Stock of FDI (% of GDP; 2016).



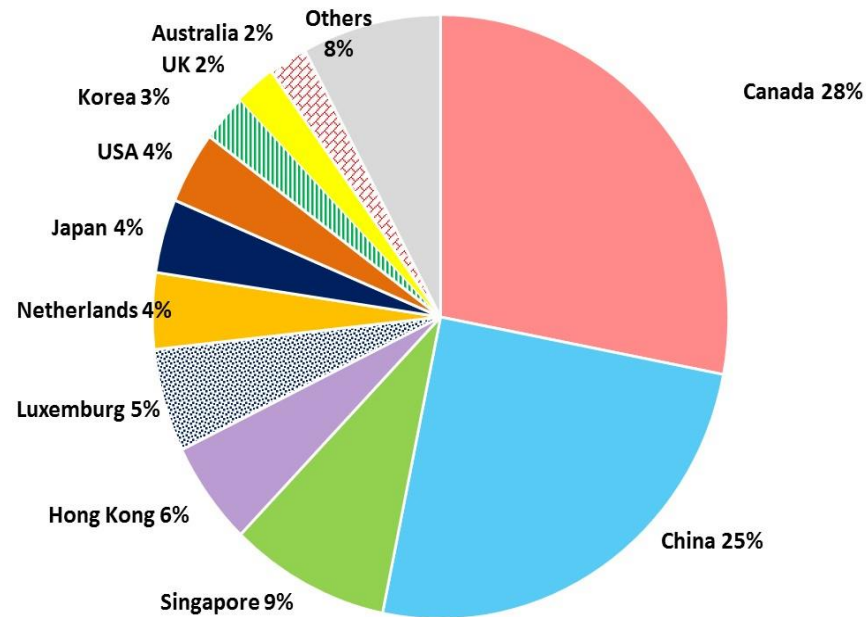
Source: UNCTAD: The Central Bank of Mongolia

- The stock of FDI-to GDP ratio registered a sustained increase after 2008.
- It currently stands at an all-time high of **110%**, far above benchmark countries.

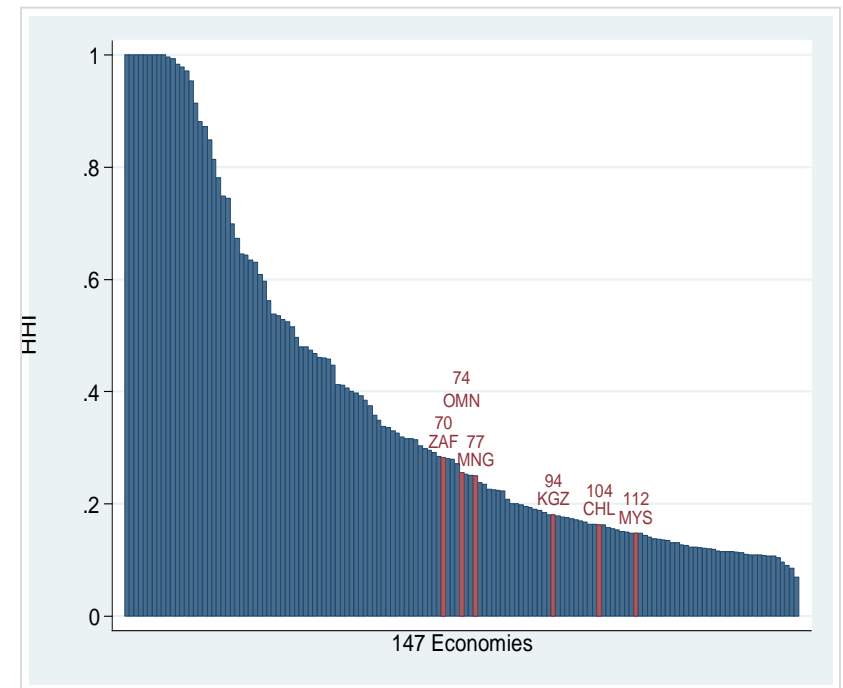
# FDI CONCENTRATION ACROSS HOME ECONOMIES

The top 2 investors in the country account for over 50% of total FDI stock

Mongolia: Stock of FDI (by source countries; 2017).

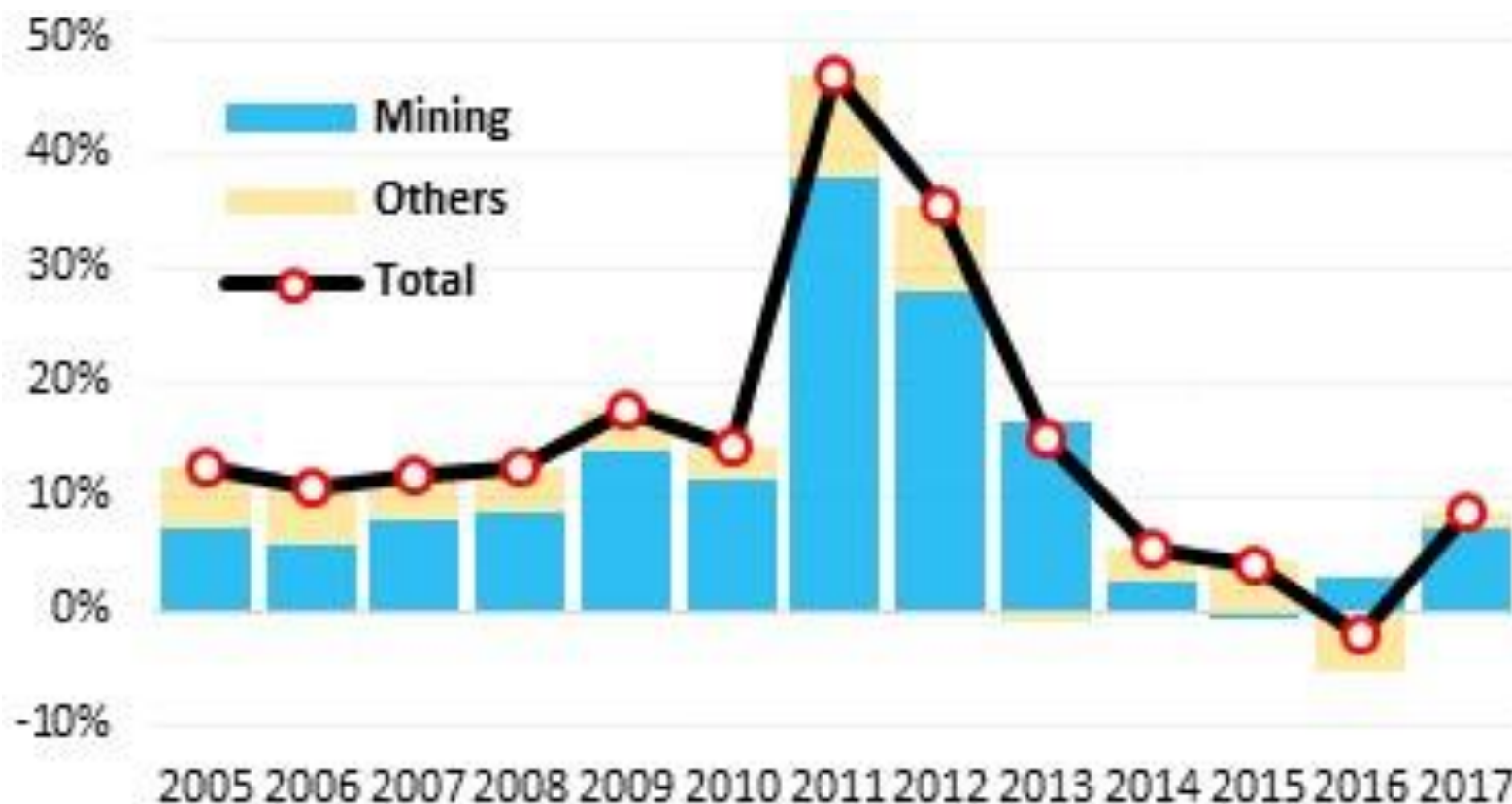


FDI concentration: Herfindahl index (by FDI country of origin, 2012).



# FDI INFLOWS ARE MOSTLY IN THE MINING SECTOR

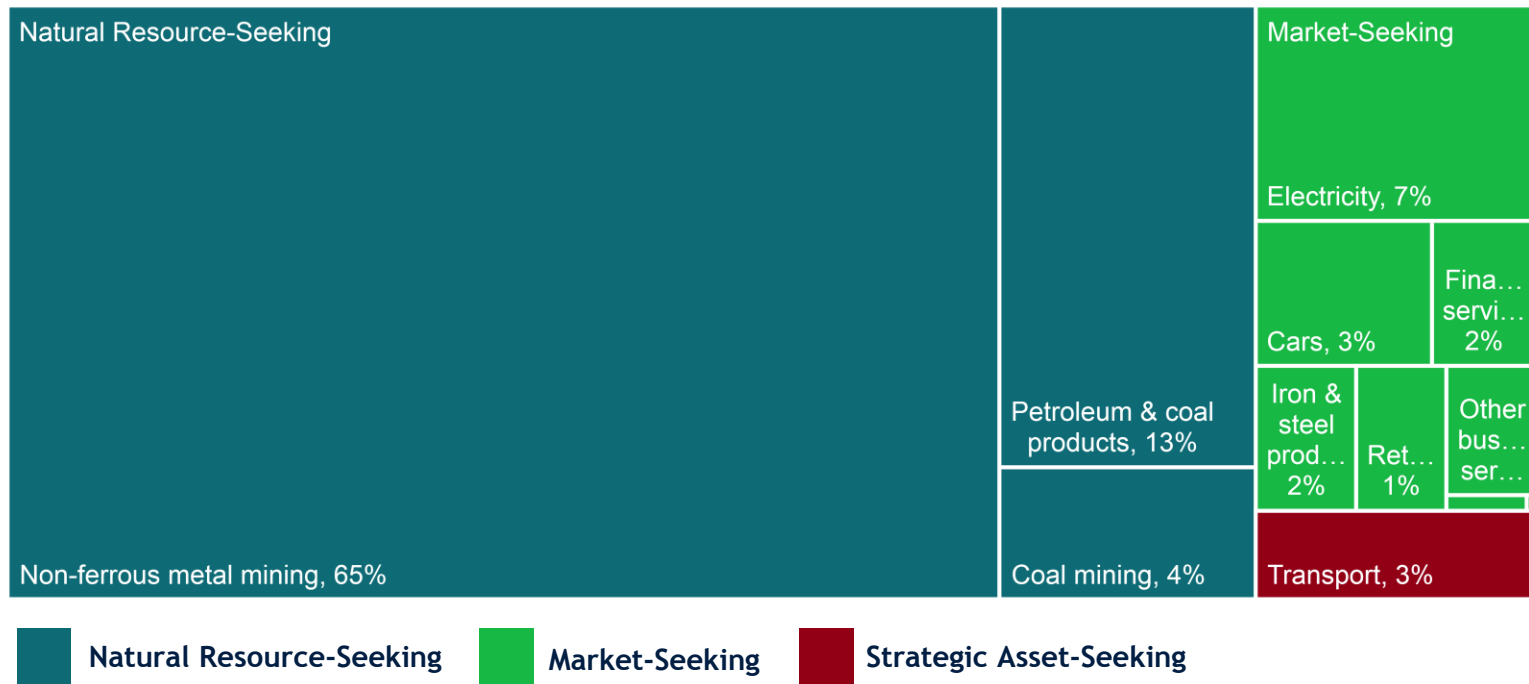
*Mongolia's FDI inflows (% of GDP, 2005-2017)*



Source: [Investment Agency data](#), [The Central Bank of Mongolia](#), [BoP statistics](#)

# NATURAL RESOURCE-SEEKING FDI IS THE MAIN TYPE OF FDI IN MONGOLIA

*FDI types in Mongolia (percentage; 2012-2016)*



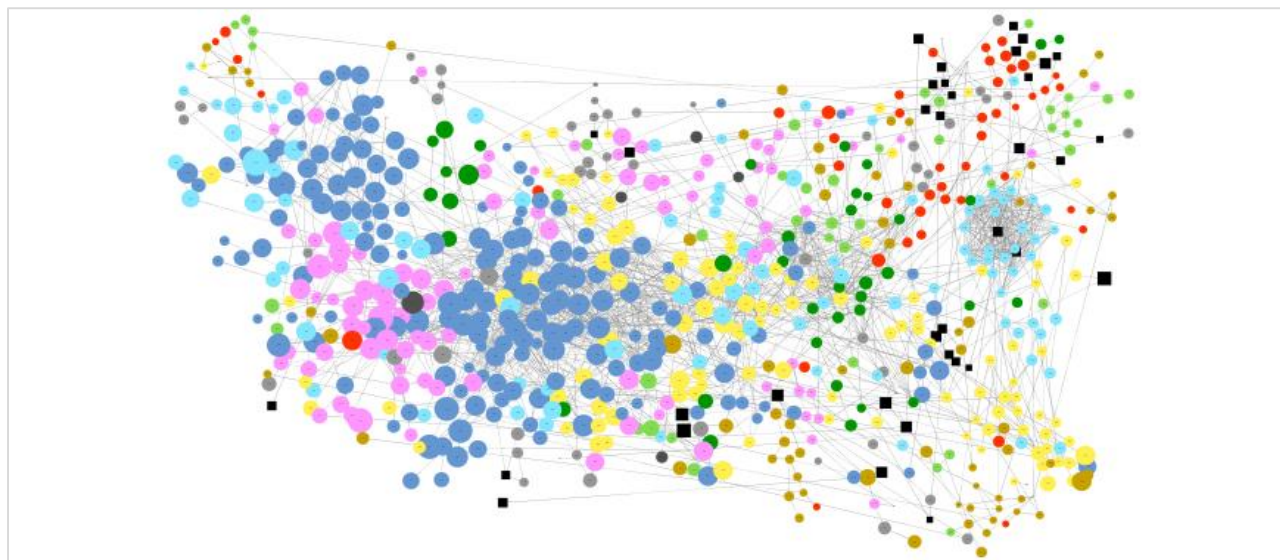
To upgrade its economy, Mongolia needs to attract efficiency-seeking FDI

# MONGOLIA SUFFERS FROM LOW LEVELS OF ECONOMIC DIVERSIFICATION AND COMPLEXITY OF ITS EXPORTS

Mongolia's export specialization is concentrated in natural resources, and specifically in the raw materials category.

Revealed Comparative Advantages (RCA) take place in low complex categories. And within these, in the least complex products.

Mongolia's Product Space

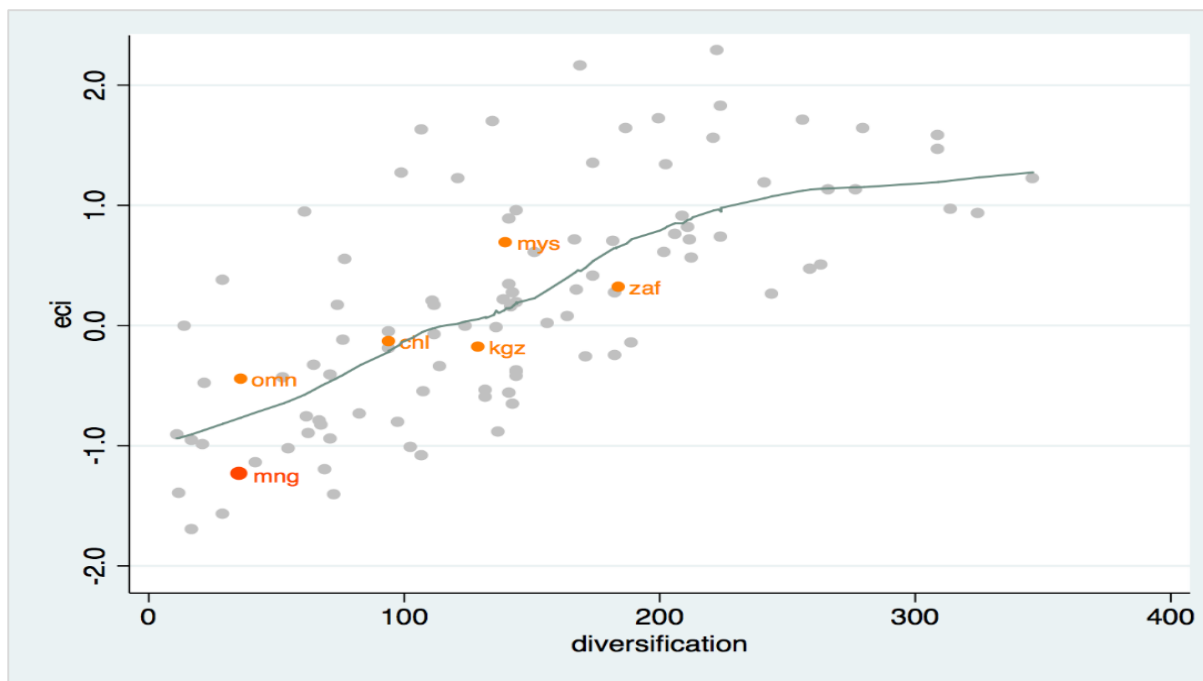


	<i>product space</i>		<i>sectors with rca &gt; 1</i>	
	sectors	mean pci	sectors	mean pci
● petroleum	6	-0.24	1	-2.55
● raw materials	62	-0.79	11	-1.48
● forest products	39	-0.08		
● tropical agriculture	46	-0.98		
● animal agriculture	52	-0.68	8	-1
● cereals	80	-0.92	6	-1.05
● labour-intensive industries	98	0.04	2	-1.17
● capital-intensive industries	118	0.02	6	-0.73
● machinery	179	0.85	2	-0.82
● chemicals	94	0.46		

Source: WBG calculation based on Feenstra et al. (2005) and Comtrade

# MONGOLIA SUFFERS FROM LOW LEVELS OF ECONOMIC DIVERSIFICATION AND COMPLEXITY OF ITS EXPORTS

Diversification vs. ECI Mongolia and selected economies



Source: [WBG calculation based on Comtrade and Atlas of Economic Complexity](#)

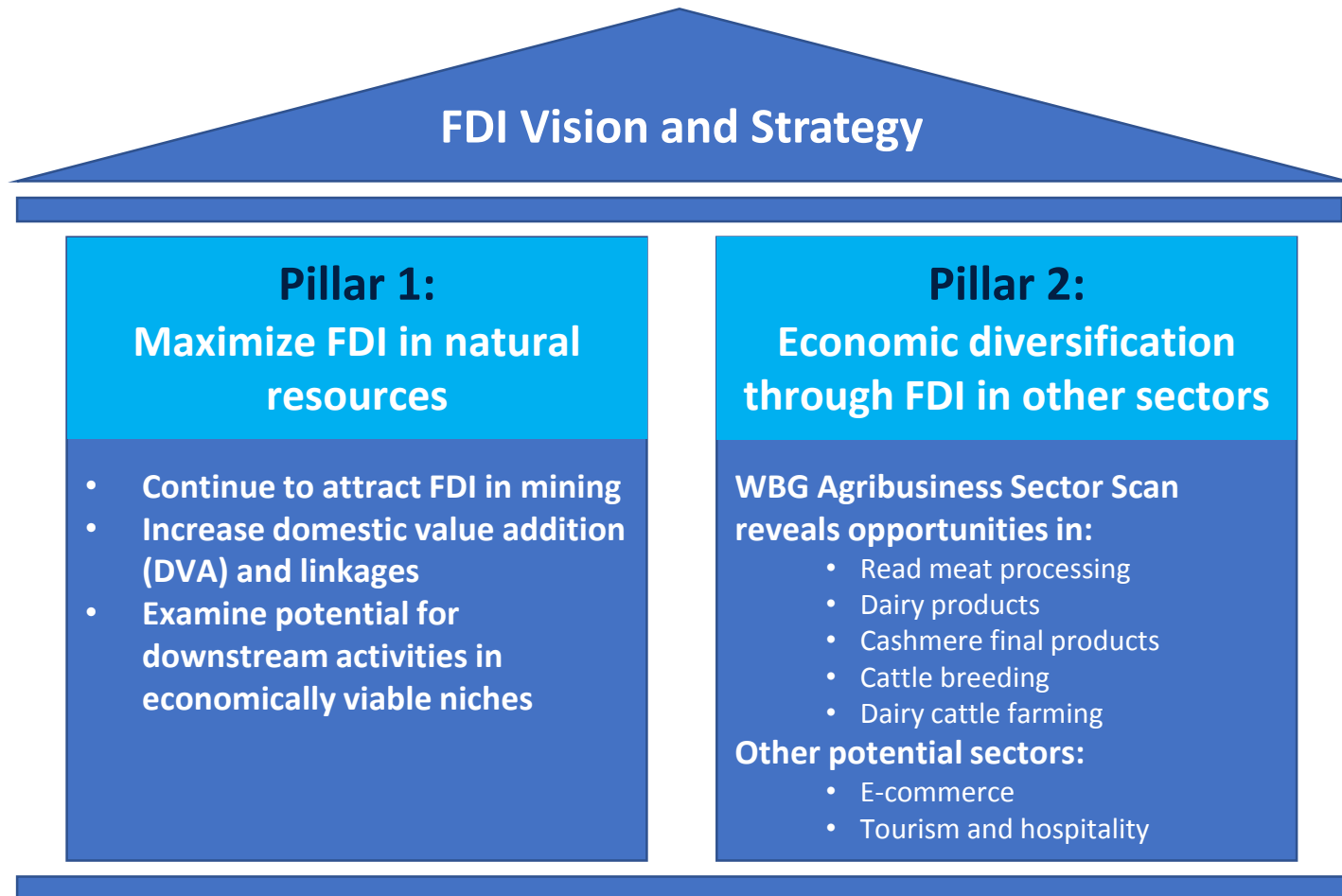
- Mongolia's diversification and complexity levels are the lowest among its benchmark countries
- The specialization is comprised of a small number of industries; and, it is biased towards low-complexity products related to natural resources, with few participation in advanced manufacturing
- Any improvement would probably translate into greater connectivity in the product space, and therefore greater ability to tap into more complex industries

# VISION AND STRATEGY

Reform Action	Timeline
1. Develop a new investment strategy/policy to maximize the benefits of FDI in extractives and identify and realize opportunities for more FDI in other sectors including in services.	Short-term decision, long-term effort
2. Formulate and implement a strategy to increase linkages related to the extractives sector.	Short-term decision, long-term effort
3. Study the potential conclusion of FTAs with relevant countries to enhance Mongolia's participation in the global economy.	Short-term decisions, medium-term effort
4. Focus on attracting FDI in sectors which have higher economic complexity than the current basket.	Short-term decision, long-term effort
5. Designate one department or unit which will collect FDI data on a regular basis.	Short-term decision, continued implementation



# FDI VISION: MONGOLIA MAY WISH TO CONSIDER A 2-PILLAR APPROACH



# ATTRACTING FDI: KEY SECTORS

- Initial findings from interviews with the private sector and the Government indicate that the following sectors and sub-sectors have some potential for attracting FDI:

## Mining

- Only 25% of resources currently in production
- But: diversification crucial; Focus should be on downstream and processing activities

## Agribusiness

- Subsectors:
  - Cashmere final products
  - Red meat processing
  - Intensive cattle breeding
  - Dairy products
  - Dairy cattle farming

## Tourism and Hospitality

- Considerations:
  - Incentives design and implementation
  - Competition issues with airline industry
  - Legal issues
  - Institutional issues: lack of promotion and low budget

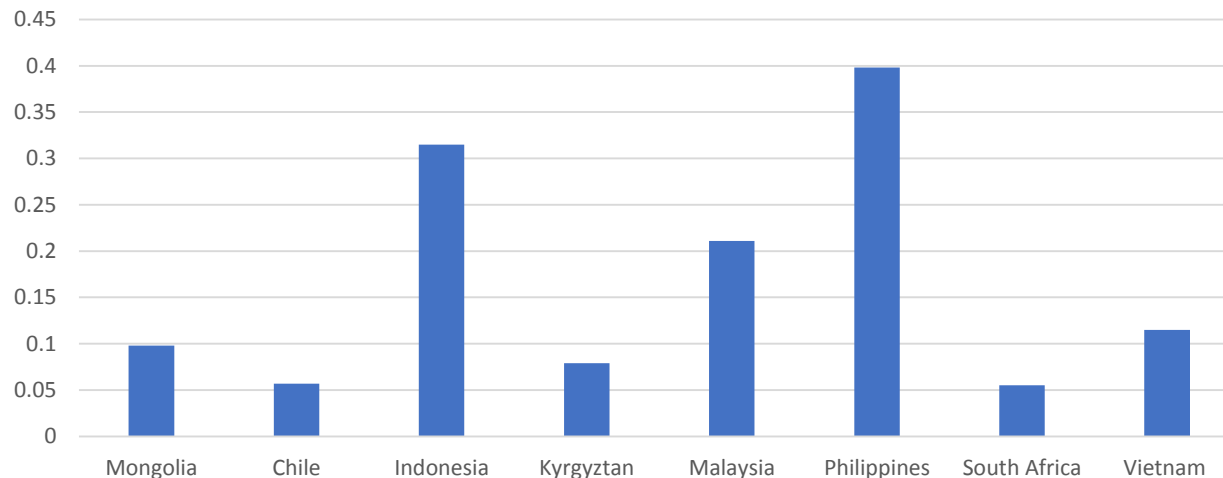
## E-Commerce

- Considerations:
  - Online payment system
  - Global E-commerce Talent (GET)
  - Transportation and shipping (time, cost and reliability)

# INVESTMENT ENTRY: MONGOLIA'S OPEN ECONOMY

## OECD FDI Regulatory Restrictiveness Index, 2016

Restrictions are evaluated on a 0 (open) to 1 (closed) scale



Source: OECD.Stat 2016

- Mongolia is among the most open economies for foreign investment in the EAP region
- Most economic sectors in Mongolia are fully open to foreign equity ownership; only a few sectors have significant restrictions to FDI, including air, transport, and mining and quarrying.

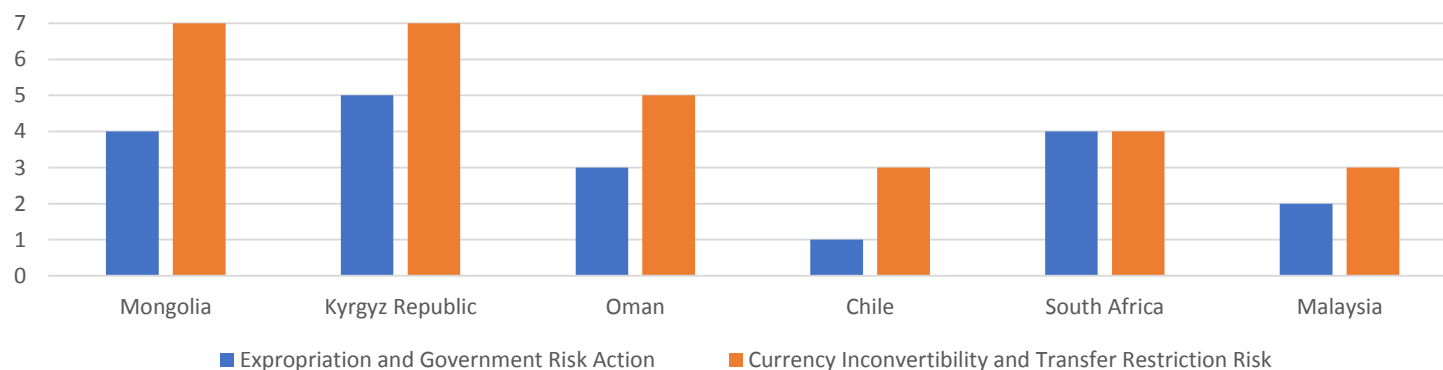
# ENTRY AND INVESTMENT CLIMATE

	Reform Action	Timeline
1.	Consolidate in one legal instrument any and all de jure restrictions to private investment.	Short-term
2.	Review each existing measure restricting foreign participation and determine if it can be removed.	Short-term
3.	Standardize land lease contracts as to establish clear conditions on primary contracts and requirements for extension.	Medium-term
4.	Review visas regime for investors to ensure that foreign investors, managers and personnel are protected in their rights to stay, exit, and re-enter the country as per the visa stipulation.	Medium-term
5.	Review local content requirements on an economy-wide basis and specifically those applied in the mining sector.	Medium-term
6.	Launch a comprehensive program to improve the IC and good governance.	Short-term decision and sustained long-term implementation

# INVESTMENT PROTECTION IN MONGOLIA

## Country risk ranking for expropriation and currency inconvertibility and transfer restrictions

(Rank 1 to 7. 1 corresponds to lowest risk and 7 corresponds to highest risk)



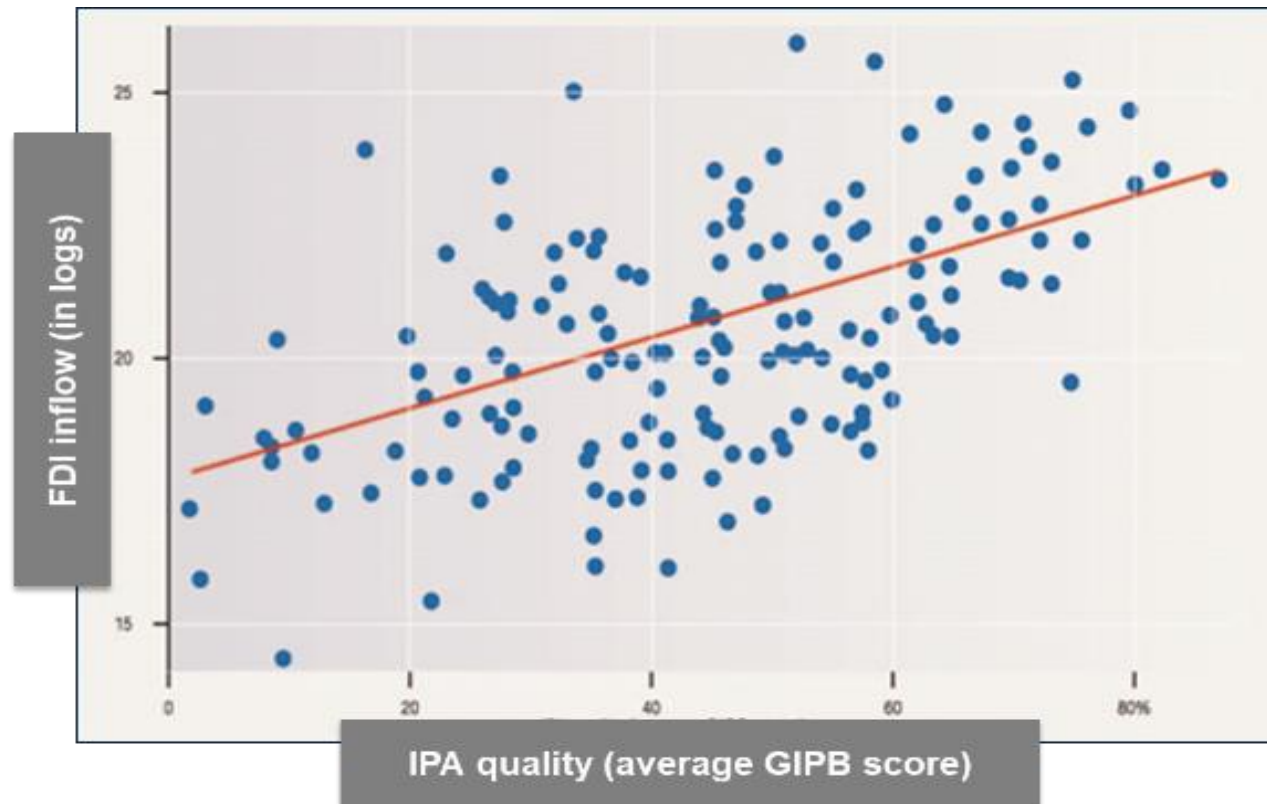
Source: [Credendo \(2017\)](#)

# PROTECTION AND RETENTION

	Reform Action	Timeline
1.	Operationalize <b>investor grievance mechanism</b> .	Short-term
2.	Develop ICT tool to track cases and collect data.	Short-term
3.	Incorporate NT, MFN, and FET provisions into domestic laws, and provide specific protection against “indirect” expropriation.	Medium-term
4.	Strengthen FTA/IIA implementation function in the relevant ministries to operationalize joint committees.	Medium-term
5.	Review core investment protection guarantees in current IIAs to guide future negotiations.	Medium-term
6.	Train government officials on how to treat investment.	Short-term
7.	Review inconsistencies and discrepancies among legal instruments continuously and guarantee investor protection stipulated in domestic and international law.	Short/medium/long-term

# THE IMPORTANCE OF INVESTMENT PROMOTION

- Investment Promotion positively impacts FDI...**if** it is done well
- Research shows positive correlations between good quality investment promotion activities and FDI inflows



Source: T. Harding and B. Javorcik, "Investment Promotion and FDI Inflows: Quality Matters," *CESifo Economic Studies*, 2012.

# INSTITUTIONAL FRAMEWORK

Reform Action		Timeline
1.	Re-establish and strengthen the investment promotion unit within the NDA.	Short-term
2.	Identify sectors with the greatest potential to attract FDI.	Short-term
3.	Develop and implement an FDI attraction action plan focusing on the identified target sectors.	Short-term
4.	Ensure the working relationship between the investment promotion unit and other units within the NDA and across the Government under coordination mechanisms.	Short-term
5.	Design a framework for FDI linkages to increase overall in-country value addition.	Medium term
6.	Consider the re-establishment of a separate, dedicated IPA as a long-term ambition	Medium to long term



# **TOWARDS AN INVESTMENT POLICY STATEMENT (IPS)**

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# WHAT IS AN INVESTMENT POLICY STATEMENT?

The **Investment Policy Statement (IPS)** is an official proclamation that sets out and describes a Government's policy on private investment in a clear and consolidated manner.

- It is primarily aimed at private investors, and typically addresses direct investment (not portfolio or indirect investment).
- It defines or states, in a high-level fashion, the main policies relevant to investment such as investment entry, investor treatment, employment, taxation and incentives, linkages.
- The main purpose of the IPS is to clarify and enhance understanding on the part of government officials and private investors – foreign and domestic – of Government's policies on investment.

# HOW HELPFUL OR IMPORTANT IS AN IPS?

## An IPS may bring the following benefits:

- ✓ Signal that the country is open for business, welcoming of investors and committed to certain principles
- ✓ Serves as guidance (“Marching orders”) to line ministries, governmental agencies, at national and subnational level
- ✓ Promotes confidence among investors and informs them about sectors that the government wants to prioritize
- ✓ Forge consensus among key stakeholders around the FDI vision and certain policy, legal or institutional reforms;

Moreover, a specific component of the IPS, the **Reform Action Plan**, may bring additional benefits:

- ✓ Follow-up and make sure reforms are being implemented;
- ✓ Hold entities assigned with a specific task accountable.

# PROCESS FOR COMPLETING AN IPS

Task	Sub-task
1. Establish a government committee to oversee to IPS preparation	Develop a list of agencies that should be included. Think about coordination mechanism to ensure appropriate and effective implementation.
2. Convene an initial meeting of the committee	Explain the purpose of the IPS, the format it will take and how it will be prepared.
3. Gather information from government departments	Identify a list of government officials responsible for each of the areas to be included in the IPS. Set up meetings to gather the information.
4. Confirm accuracy of policy statements	Forward draft statements about investment issues to responsible government departments requesting confirmation of their accuracy and completeness.
5. Consider and explain the different operational levels of the IPS	Agencies should be clearly aware of their possible international investment related commitments, and should understand that their IPS and their international commitments will need to be aligned as well as that IIAs will also likely be enforced at an international level.
6. Secure government approval of draft IPS	Circulate draft IPS to committee members. Convene meetings for discussion. Agree on revisions. Revise IPS and submit to Cabinet for review and approval.

# DISCUSSION



# ANNEX



# IRM PROCESS



# **IRM: PROCESS AND ANALYTICAL BASIS**

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# COMPONENT #1: FDI ANALYSIS

**How much FDI does/should the country receive?**

- Analysis of FDI trends using UNCTAD, fDi Markets/Thomson (flows, stocks, bilateral FDI data, sectors).
- Indicators: FDI openness, FDI concentration, FDI potential.

**What is the type of FDI that the country receive?**

- FDI typology: mapping of FDI sector across FDI types.

**Implications over productive structure**

- Economic complexity analysis: indicators on Diversification, Economic Complexity, FDI Complexity.

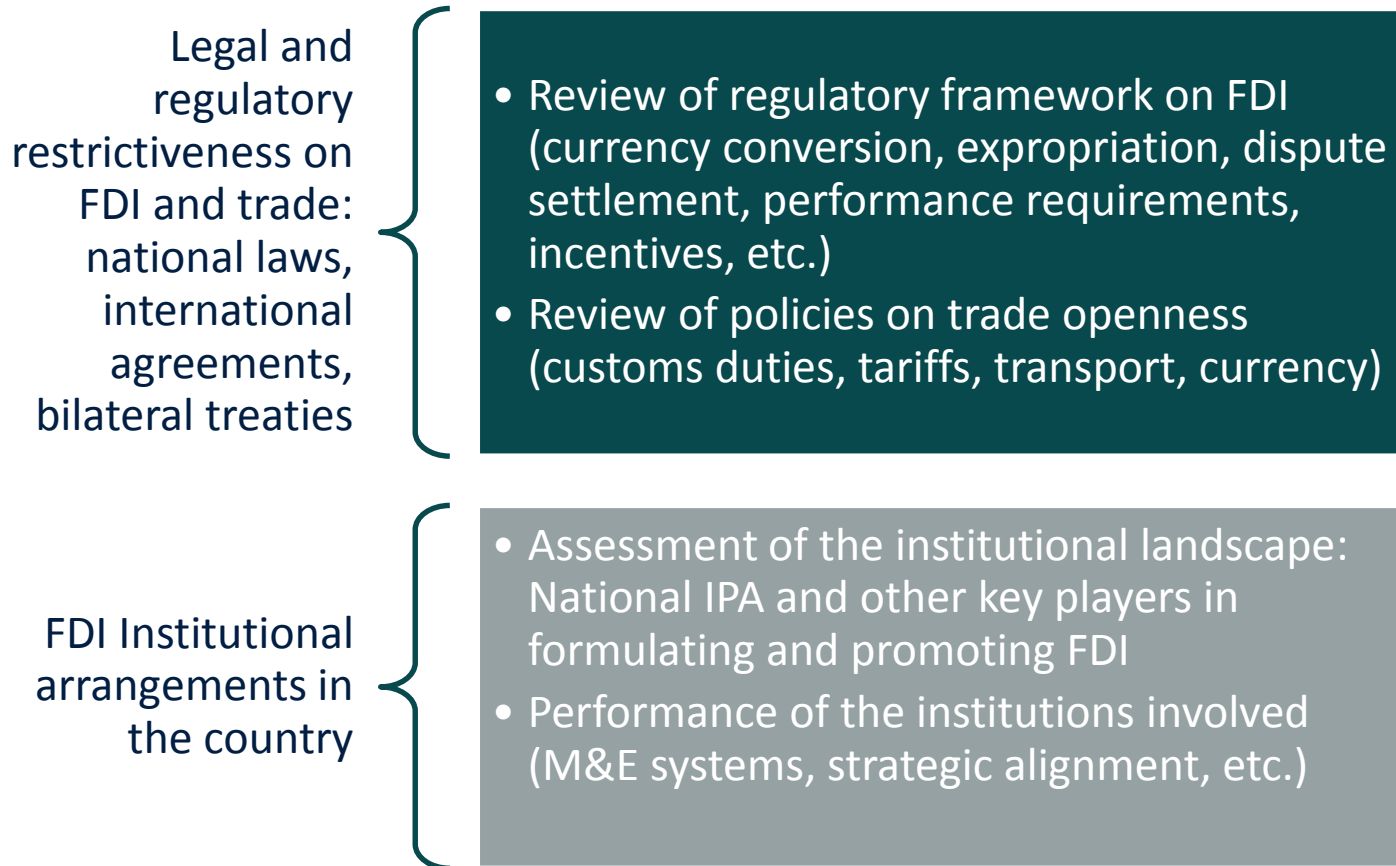
**Options for diversification**

- Spark analysis: Trade data to reveal pockets of export activity in complex industries
- Services: identification of catalysts for diversification in services (Export Value Added Database/EVAD).

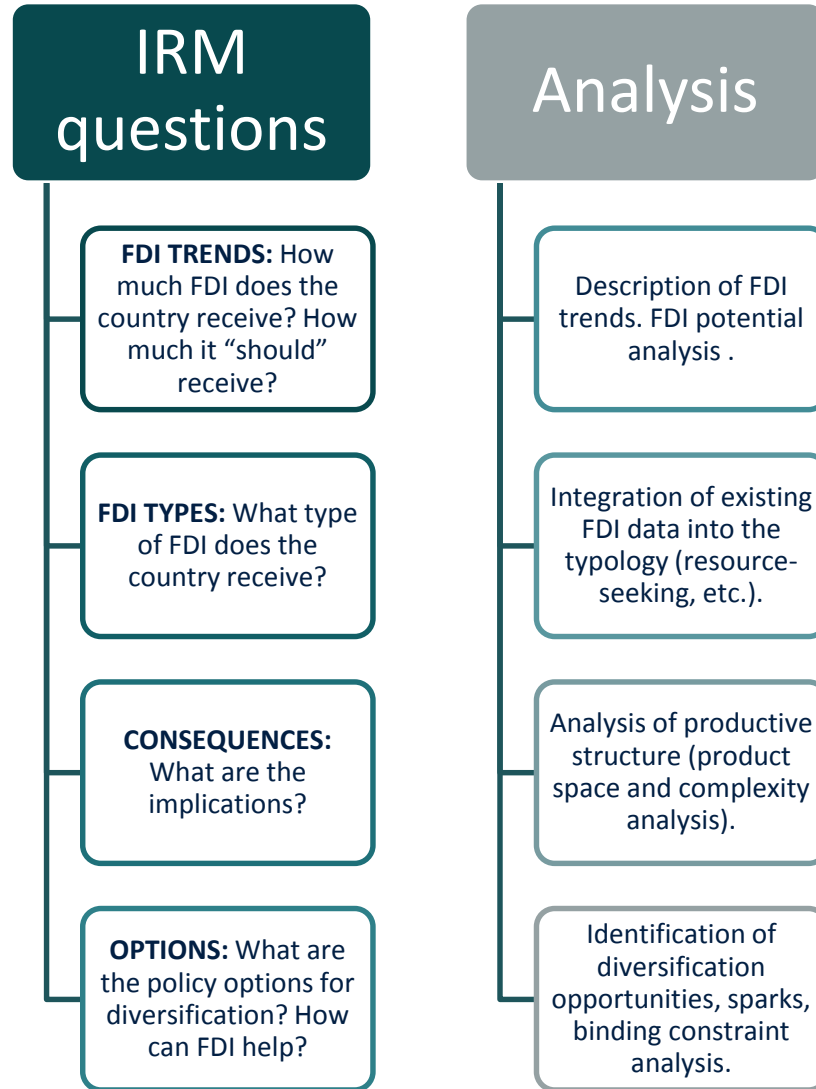
**What are broad areas for IPP reform in these sectors?**

- Investment Competitiveness Benchmarking: identification of binding constraints for FDI attraction in sectors and activities along the value chain.

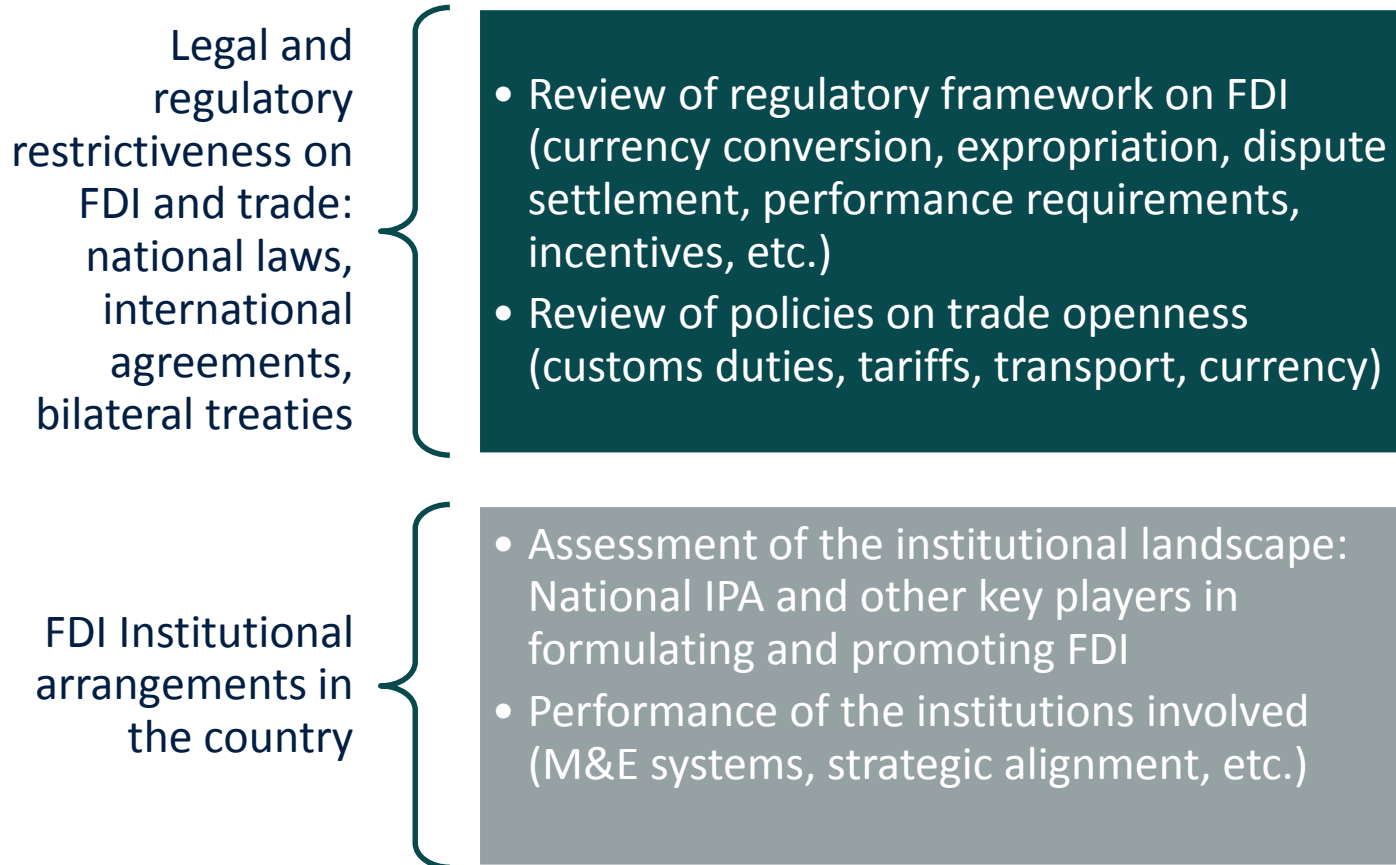
## COMPONENT #2: LEGAL & INSTITUTIONAL ANALYSIS



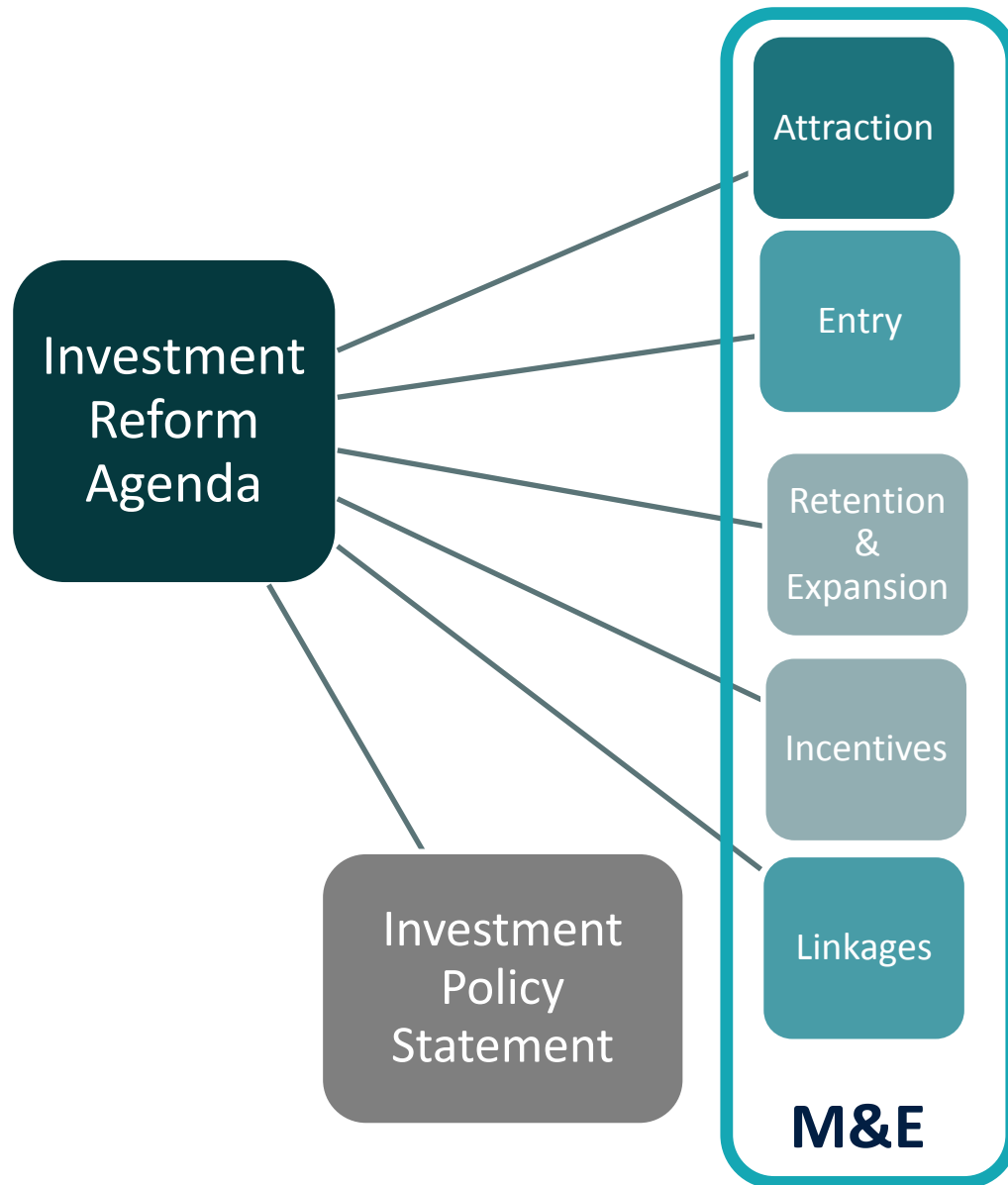
# IRM Analysis 1: FDI Analysis



# IRM Analysis 2: Legal & Institutional Analysis



# The IRA is formalized in an Investment Policy Statement (IPS)



- The policy areas identified in the investment reform agenda are linked to the various IPP workstreams, each of them with its own M&E framework and reform criteria.
- The **Investment Policy Statement** is an announcement by the government detailing the contents of the Investment Reform Agenda.

# Investment Policy Statement: What Does It Look Like?

## Investment Policy Statement of the Government of Moldova And Declaration of Immediate Actions [Revised Draft]

### I. Preamble

The Government of Moldova is committed to create an investment climate conducive to domestic and foreign investment that generates positive effects for the domestic economy aimed at producing a vibrant, industrialized and knowledge-based Moldova, that is prosperous and within which every citizen can expect to lead a fulfilling life.

To do so, the Government wishes to further encourage private sector investment in Moldova to help meet its development goals, by accelerating private sector investment and creating jobs, as declared in the National Development Strategy "Moldova 2020"<sup>1</sup> and support investment goals, as outlined in the National Strategy for Investment Attraction and Export Promotion (2016-2020)<sup>2</sup>.

Accordingly, the Government of Moldova will continue to design and implement a reform agenda to promote its competitiveness for domestic and foreign investment and maximize benefits for the citizens of Moldova. On the basis of important efforts and achievements made in line with the National Strategy for Investment Attraction and Export Promotion (2016-2020)<sup>3</sup> and other strategies, this Investment Policy Statement outlines the investment policy principles, to which the Government adheres in its reform processes, and prioritizes immediate reforms to be implemented to support achievement of Moldova's national investment objectives.

The Government of Moldova recognizes that both domestic and foreign private sectors have important roles to play in contributing to the country's development goals. In particular, it recognizes that foreign direct investment, as well as non-equity modes of investment, can bring multiple benefits to the economy. These benefits include the flow of additional capital, the creation of employment, including high-skilled jobs, the transfer of technical and managerial know-how, and improved access to international value chains and distribution networks of multinational enterprises.

The Government of Moldova's vision is for investment to support private sector-led economic growth, employment generation and export growth. In order to implement its vision, the Government will continue its efforts to create a favorable investment climate and undertake a series of reforms to increase the attractiveness of the country for all types of investment, but in particular for investments aligned with this agenda.

The Government of Moldova intends to:

- Provide an efficient, effective and transparent system for attracting and carrying out investment;
- Enhance and modernize the legal framework for investment; and
- Promote the development and application of good international standards and practices regarding investment.

<sup>1</sup> <http://lex.justice.md/index.php?action=view&view=doc&id=345635>  
<sup>2</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=364547>  
<sup>3</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=364547>

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grievances as well as investment at risk and costs accrued to investors. To implement this reform, the Government of Moldova will devise a tracking tool for grievances that investors face during the conduct of their business in the country. Based on this information, it will consider options to effectively address such grievances with the ultimate objective to boost investor confidence, encourage existing investors to expand operations, and prevent investor-state disputes, while addressing systemic issues in public sector agencies.

Reform/action needed to implement reform	Timeframe	Responsible state body/ies	Source of funding	Key results
Implement investor grievance tracking tool:				
1) Assess strategic fit of an investor grievance tracking mechanism;	1) July 2017	Ministry of Economy, P&I Office	ODA	Establishment of an investor grievance tracking tool that will systematically take stock of and analyze the nature, source and cost of grievances.
2) Designate agency or platform to pilot grievance tracking mechanism;	2) October 2017			
3) Define reform options to effectively address and resolve main grievances.	3) July 2018			

### 2. Align visas and work permits for foreign labor with investors' needs

Consistent with Moldova's objective to attract FDI, high-skilled labor and knowledge transfer, as well as its investment policy principle to facilitate entry and sojourn of personnel, the Government of Moldova will adopt a foreign labor policy that is based on the labor needs of the private sector. Skills and professions that are not available in Moldova will benefit from a simplified process that does not apply an individual labor test and results in a longer validity of the permit. Furthermore, the existing residence and work permit procedure will be analyzed with a view to further streamline the process. To implement the reform, the Government will make changes to existing laws and regulations, including issuing lists of professions that are not available but needed in the country that can be adjusted to changes in the evolving labor market.

Reform/action needed to implement reform	Timeframe	Responsible state body/ies	Source of funding	Key results
Adopt and implement a foreign labor policy and process in line with the country's priorities:				
1) Conduct policy dialogue on a modernized foreign labor policy that reflects Moldova's priorities in terms of skills needed but not available;	1) January 2017 2) January 2017	Ministry of Labor; Ministry of Economy	ODA	Law/regulation establishing a new and more targeted visa, work and permit process.
2) Analyze the residence and work permit process to remove any existing administrative barriers to obtain the necessary	3) July 2017			
	4) October 2017			

## II. Good investment policy principles

Consistent with good practices embedded in international investment agreements, to which Moldova is a Contracting Party, the Government will endeavor to implement, in a consistent manner, the core guarantees fundamental to investors' decisions to invest or reinvest.

The efforts of the Government of Moldova are led by the following key principles in the implementation of its investment policy:

- Ensure non-discrimination between domestic and foreign investors: accord to all foreign investors and investments in relation to the expansion, operation, and protection of their investments treatment no less favorable than that accorded in like situations to domestic investors, with some exceptions regarding investment establishment as provided for in domestic laws, regulations and policies.
- Safeguard non-discrimination among foreign investors: Treat establishment, expansion and operation of investors and investments from one country no less favorably than that accorded to investors from any other economy in like situations, without prejudice to relevant international obligations and principles.
- Ensure property protection: Safeguard all investments from expropriation, or from measures that will have a similar effect, except when such expropriation is for a public purpose, on a non-discriminatory basis and as a last resort, in accordance with national laws and principles of international law, and with the prompt payment of adequate and effective compensation.
- Pursue good regulatory practices: Ensure that all laws, regulations, administrative guidelines and policies pertaining to investment are enacted following proper notice and consultation and are available publicly in a prompt, transparent, and readily accessible manner. Ensure private sector feedback and in a manner that is systematic, results-driven and inclusive.
- Promote investment retention and expansion: Implement effective mechanisms to manage investors' grievances in order to foster confidence, ensure that investment is retained, and increase regulatory and administrative transparency.
- Use "smart" incentives when needed and promote full transparency in awarding incentives: Use of incentives only when needed aimed at attracting domestic and foreign investment, as well as fostering investor behaviors in response to key public policy objectives; produce a consolidated inventory of investment incentives; ensure cost-effectiveness and adherence to the principles of accountability, non-discrimination, clarity and transparency in their award.
- Facilitate entry and sojourn of personnel: Facilitate the entry and sojourn of foreign technical and managerial personnel and their families for the purpose of engaging in activities connected with foreign investment.
- Ensure that distortive performance requirements are not adopted. Performance requirements that distort or limit the expansion of trade and investment are not introduced or adopted.
- Maintain environmental and social standards: Strive to ensure that all labor, health, safety, and environment regulations are adhered to by domestic and foreign investors.
- Pursue high standards of governance: Endeavour to combat corruption at all levels and strive to ensure that all public agencies maintain high standards of governance.

## III. Declaration of Immediate Actions to Retain and Grow

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clearances for foreign investors and foreign labor.	
3) Draft changes to the Law on Foreign Labor that includes a list of those skills that are needed in the country but not available and a simplified procedure for foreigners with listed skills;	
4) Implement the changes by installing a new fast track procedure for listed skills.	

### II. Improving strategic alignment, transparency and effectiveness of incentives

Consistent with Moldova's objective to attract and maximize benefits of investment, and its investment policy principle related to pursuing good regulatory practices and using smart incentives, the Government of Moldova will publish and periodically update an inventory of all incentives offered to investors. Investment incentives will only be offered in alignment with Moldova's broader public policy objectives and after considerations of other policy instruments to achieve these objectives. The Government will also ensure that incentives are effective, awarded in accordance with principles of transparency and compliant with international obligations, including the WTO agreements, particularly for incentives targeted to boost exports.

Reform/action needed to implement reform	Timeframe	Responsible state body/ies	Source of funding	Key results
Implement good practices in Moldova's incentive policy:	1) December 2016	Ministry of Economy, Ministry of Finance, P&I Office	ODA	Updated and published inventory of incentives.
1) Conduct policy dialogue to align incentives with investment policy objectives;	2) July 2017			
2) Update and publish inventory of investment incentives;	3) March 2017			
3) Assess the cost-effectiveness of existing incentives regime;	4) December 2017			
4) Re-adjust the incentive structure according to the results of cost-effectiveness assessment and Moldova's investment policy;	5) December 2017			
5) Redraft the legal and regulatory framework for incentives;	6) July 2018			

<sup>1</sup> [Lexis nr. 180 din 10.07.2008 cu privire la migrarea de persoane](http://lex.justice.md/index.php?action=view&view=doc&id=345635) <http://lex.justice.md/index.php?action=view&view=doc&id=345635>

## Investment

Taking into account the good investment policy principles outlined above, the Government of Moldova is committed to maximize the effectiveness of investment at different stages of the investment lifecycle.

Most importantly, reform efforts will be focused on alleviating key policy obstacles to the retention and growth of existing investment in Moldova, which is an essential aspect of national investment competitiveness, and a determinant of new investment. Ensuring effective retention and growth framework is particularly important for efficiency-seeking investment, which is the most mobile form of investment, and which Moldova aims to grow with priority.

In line with existing long-term initiatives pursued by the Government of Moldova, most notably the National Strategy for Investment Attraction and Export Promotion (2016-2020)<sup>4</sup> and MIEPO Strategic Development Programme 2016-2020<sup>5</sup>, the Government of Moldova will implement a set of reforms for investment retention and growth during 2017-2018. These reforms were prioritized and elaborated in detail following an assessment of the legal and administrative framework of Moldova's investment policy and promotion during June-October 2016, a task undertaken as part of the National Strategy for Investment Attraction and Export Promotion (2016-2020)<sup>6</sup>.

Consultations between the private sector and the Government are and will continue to be at the core of defining specific reform actions necessary for implementing Moldova's investment vision. The Government will ensure regular monitoring of reform progress and will conduct regular consultations with the private sector for the same purpose. Reforms will be supported by technical assistance in investment policy reform provided by the World Bank Group in the context of the Moldova Investment Climate Reform advisory project but also by other initiatives as needed.

Reforms will be geared towards addressing, with priority, four key areas of Moldova's investment competitiveness:

- Improving the framework governing investment retention and expansion, and entry of foreign labor;
- Improving strategic alignment, transparency and cost-effectiveness of incentives;
- Developing a modern investment promotion and retention delivery framework; and
- Strengthening regulatory governance and transparency.

Specifically, the Government of Moldova will implement the following reforms in 2017-2018:

### I. Improving the regulatory framework and its implementation with respect to investment retention and expansion, as well as entry of foreign labor.

#### 1. Systematically track and assess investor grievances

Consistent with Moldova's objective to attract and retain FDI, and its investment policy principles related to enforcement of core investor protection guarantees and promotion of investment retention and expansion, the Government of Moldova will systematically identify investor grievances, assess the sources of such

<sup>4</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=364547>  
<sup>5</sup> <http://miepo.md/sites/default/files/MIEPO%20PDS%202016-2020.PDF>  
<sup>6</sup> <http://lex.justice.md/index.php?action=view&view=doc&lang=1&id=364547>

3

6) Establish a transparent incentive award and administration				
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### III. Developing a modern investment promotion and retention delivery framework

The Government of Moldova will enhance the delivery of its investment promotion and retention strategy by upgrading the institutional framework and capacity needed to implement the strategy. In particular, the Government will take actions to enhance and upgrade the investment promotion functions of MIEPO to engage in proactive investment promotion through following good practices, such as sector targeting and investor aftercare. It will put in place appropriate inter-agency coordination mechanisms and implementation plans with clear key performance indicators for ensuring adequate results and impacts. A robust monitoring and evaluation system will be implemented to give the Government the tools to track progress against the set goals.

Government's initiatives will follow MIEPO Strategic Development Programme 2016 – 2020<sup>7</sup>, which comprises the strategic planning system, reflects the prioritization of various objectives in many policy documents, and identifies gaps in MIEPO's capacity and tools/methods that MIEPO will use to achieve its objectives over the next five years.

Reform/action needed to implement reform	Timeframe	Responsible state body/ies	Source of funding	Key results
Develop a modern investment promotion and retention framework	1) December 2016	Ministry of Economy, MIEPO	ODA	New Board established, MIEPO governance strengthened
1) Establish new board and governance practices and procedures for MIEPO;	2) March 2017			
2) Develop a roadmap for enhancing the strategic planning and M&E function of MIEPO;	3) December 2018			
3) Strengthen existing core investment promotion functions (investor outreach) and develop new functions (aftercare) and coordination mechanisms to fully implement MIEPO Strategic Development Programme 2016 – 2020. Ensure stakeholder consultations (internal and external) as part of the process.				Capacity at MIEPO enhanced and the agency engaged as a key proactive investment promoter for the country.

### IV. Strengthening regulatory governance and transparency

<sup>7</sup> <http://miepo.md/sites/default/files/MIEPO%20PDS%202016-2020.PDF>

# Investment Policy Statement: What Does It Look Like?

## Structure:

### Preamble

1. Objectives and Goals
2. Good Investment Policy Principles
3. Investment Reform Agenda Action Plan



Reform / actions needed to implement reform	Timeframe	Responsible state body/ies	Source of funding	Key result/s

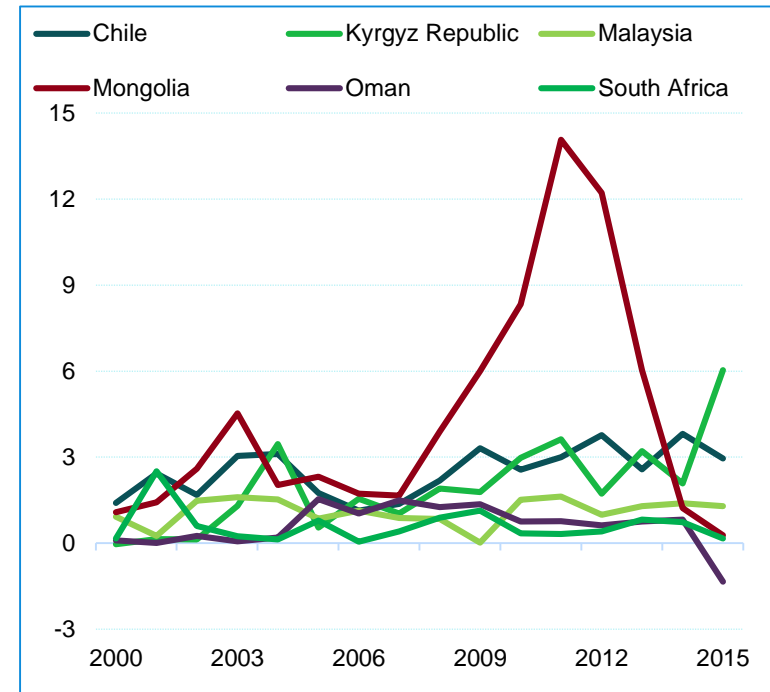
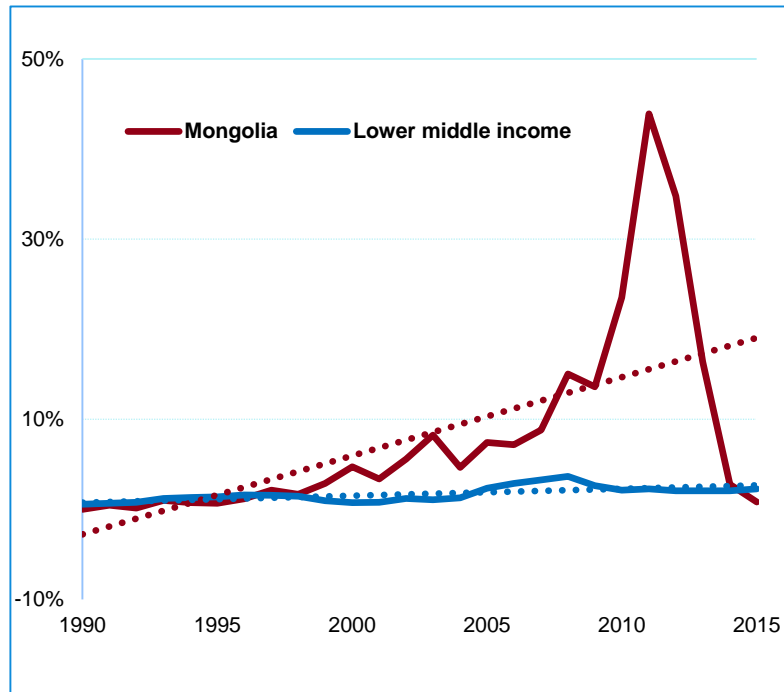
# IRM IN MONGOLIA: FDI ANALYSIS





# DURING THE BOOM CIRCLE, MONGOLIA LARGELY OUTPERFORMED COMPARATIVE COUNTRIES IN ATTRACTING FDI

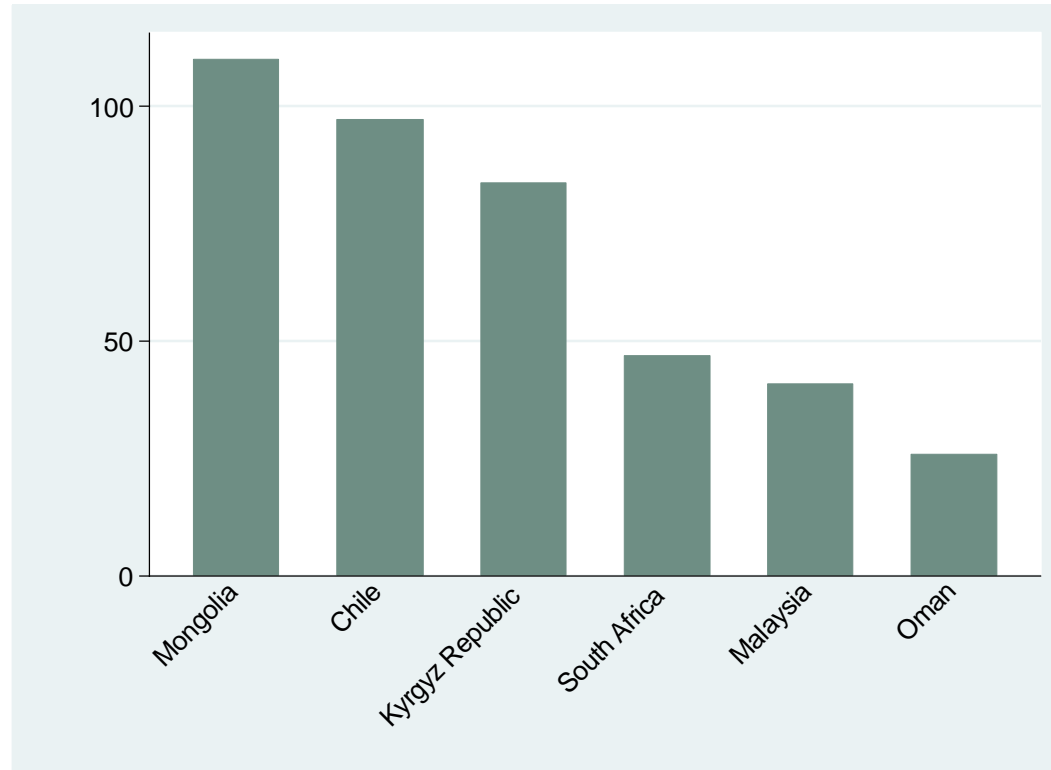
FDI flows to GDP ratio (%): Mongolia vs. lower middle-income countries (1990-2015) and FDI performance index (Mongolia vs benchmarks, 2001-2015)



Source: [UNCTAD/WIR](#) and WBG team calculations using WBG data

# ..WHICH NEVERTHELESS HELPED TO INCREASE THE STOCK OF FDI TO GDP

Stock of FDI (% of GDP; 2016).



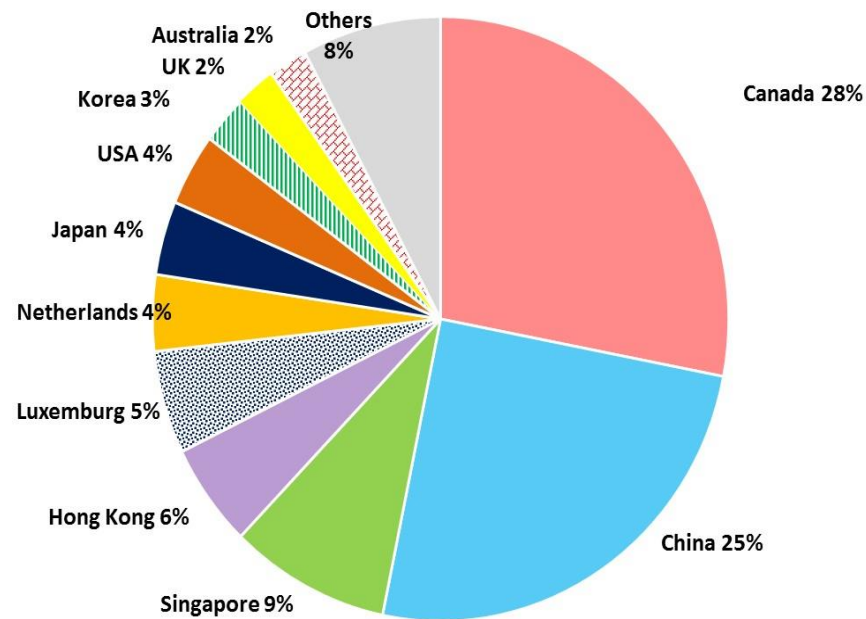
Source: UNCTAD: The Central Bank of Mongolia

- The stock of FDI-to GDP ratio registered a sustained increase after 2008.
- It currently stands at an all-time high of **110%**, far above benchmark countries.

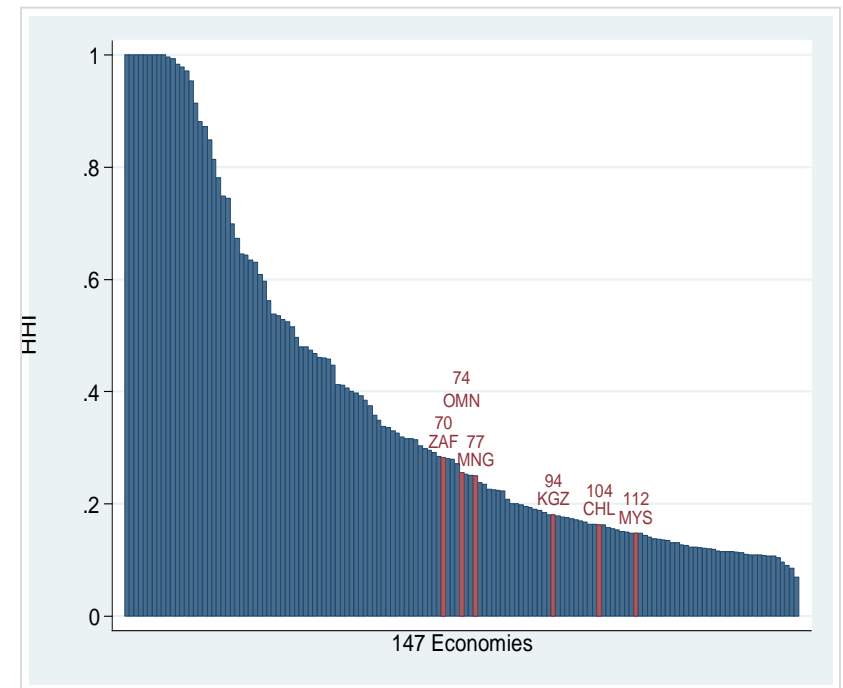
# MODERATE FDI CONCENTRATION ACROSS HOME ECONOMIES

- The top 2 investors in the country account for over 50% of total FDI stock.
- Standard indexes of concentration find Mongolia in the middle of the distribution.

Mongolia: Stock of FDI (by source countries; 2017).

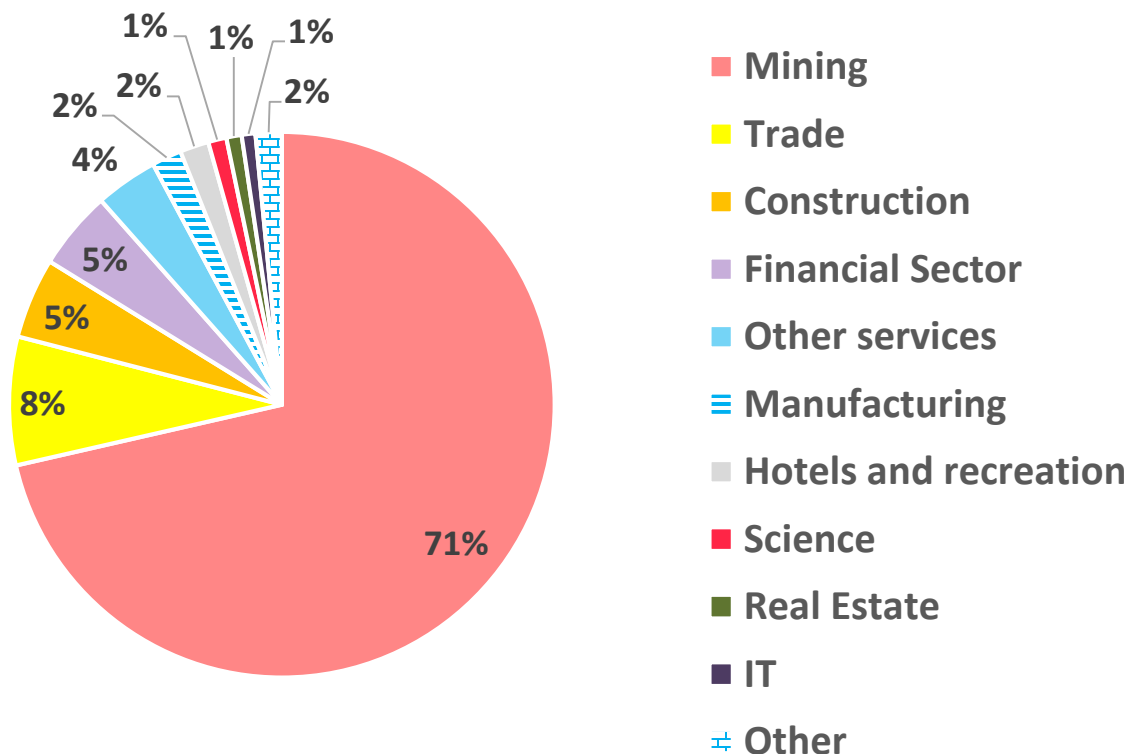


FDI concentration: Herfindahl index (by FDI country of origin, 2012).



# SECTOR FDI FOCUS: EXTRACTIVES, NON-TRADABLES.

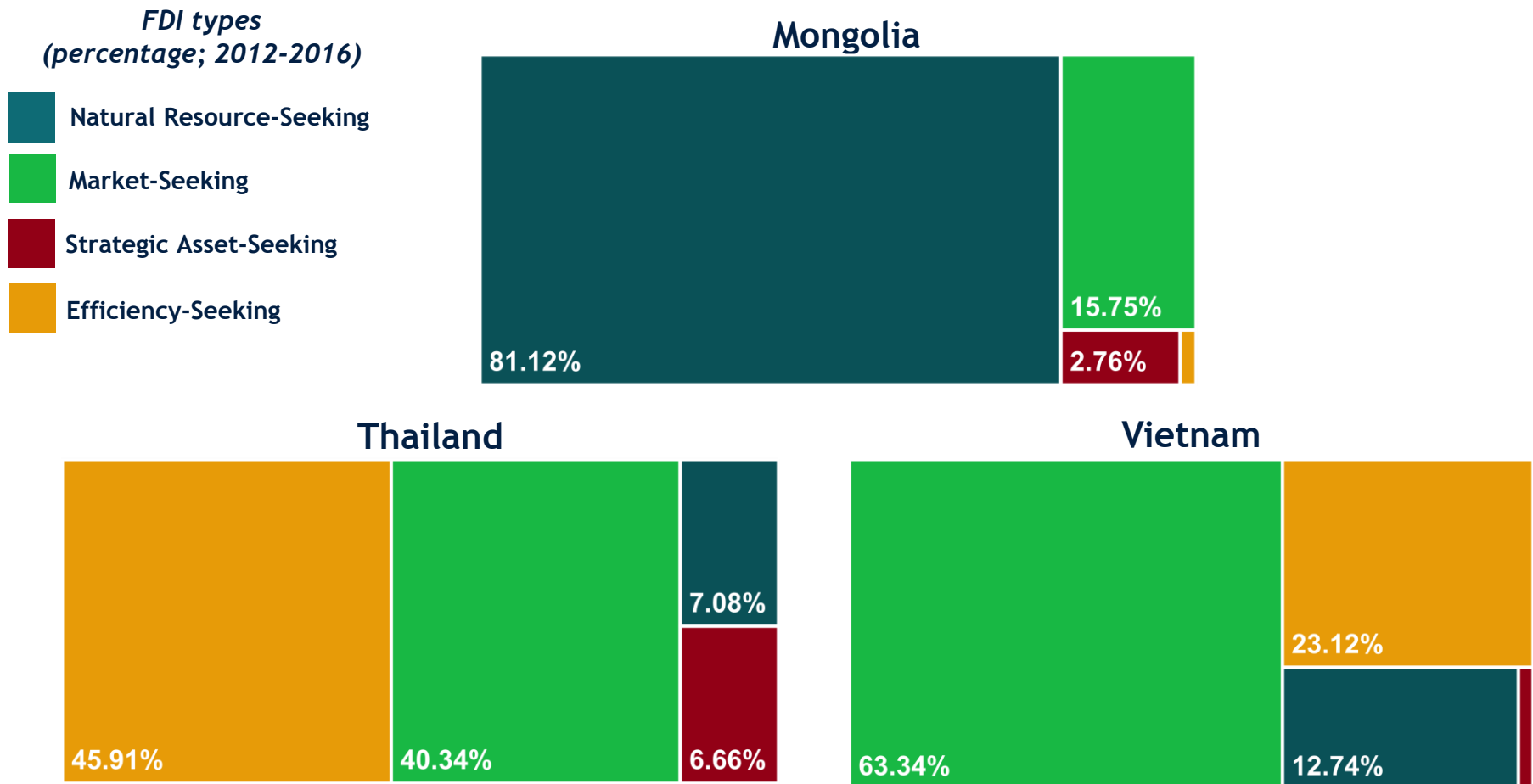
Mongolia FDI by sector (percentage; 2017)



Sector FDI shows a very significant presence of the mining sector, followed by largely non-tradable services (trade, construction, finance).

Sources: The Central Bank of Mongolia

# RESOURCE-SEEKING FDI IS THE MAIN TYPE OF FDI IN MONGOLIA



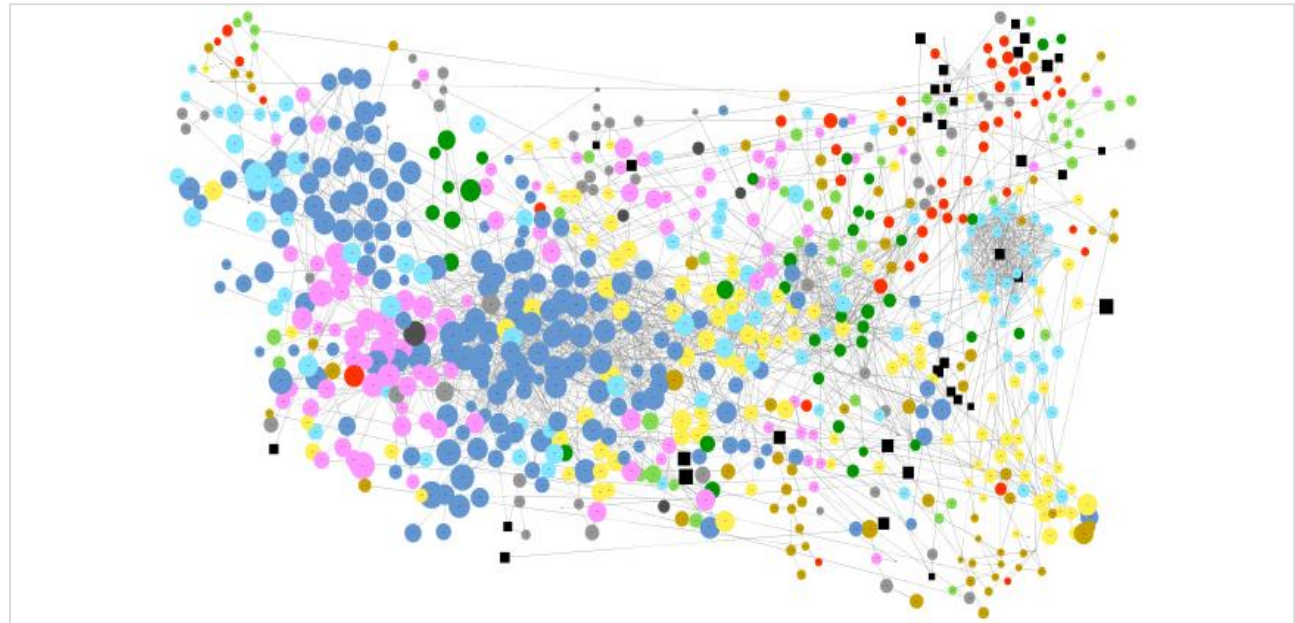
To upgrade its economy, Mongolia needs attract efficiency-seeking FDI

# MONGOLIA SUFFERS FROM LOW LEVELS OF DIVERSIFICATION AND COMPLEXITY OF ITS EXPORTS

Mongolia's export specialization is concentrated in natural resources, and specifically in the raw materials category.

Revealed Comparative Advantages (RCA) take place in low complex categories. And within these, in the least complex products.

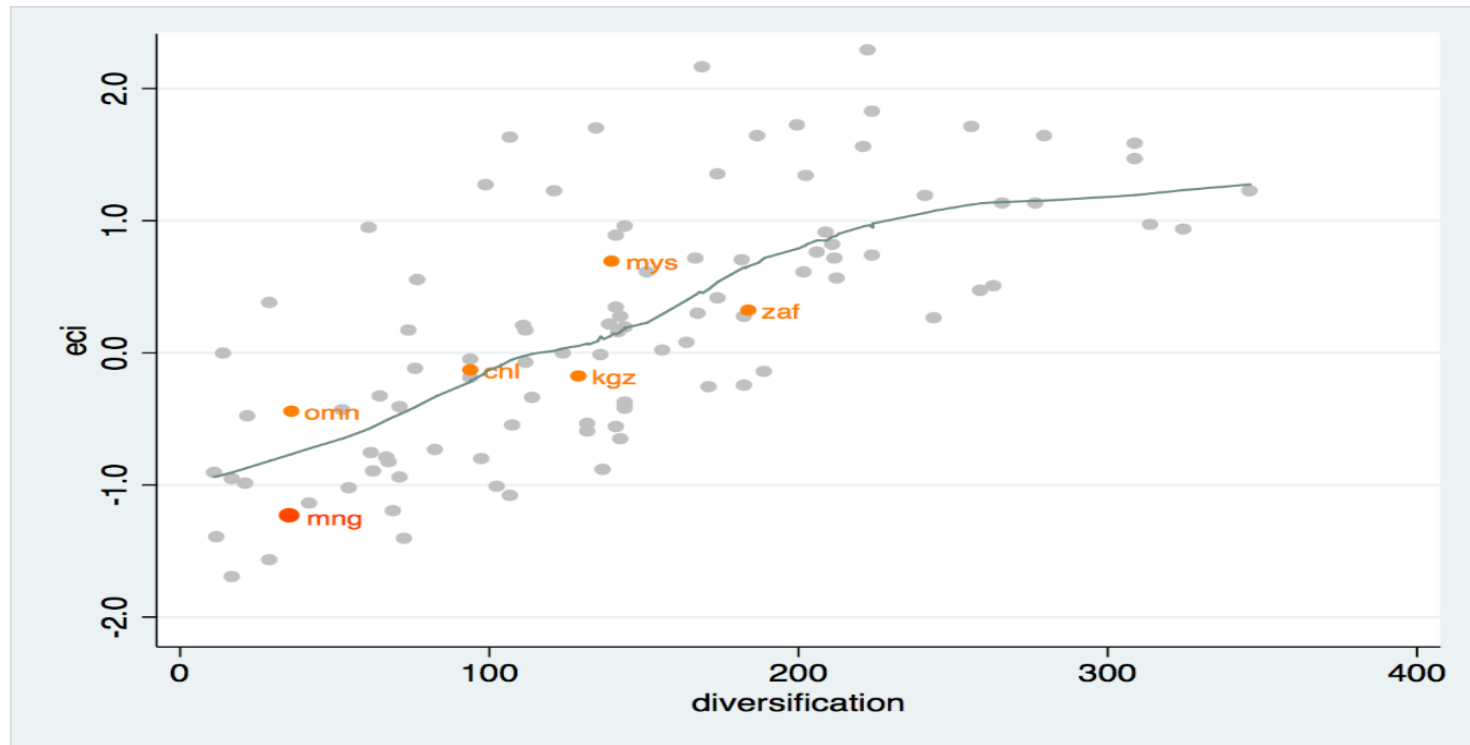
Mongolia's Product Space



	<i>product space</i>		<i>sectors with rca &gt; 1</i>	
	sectors	mean pci	sectors	mean pci
● petroleum	6	-0.24	1	-2.55
● raw materials	62	-0.79	11	-1.48
● forest products	39	-0.08		
● tropical agriculture	46	-0.98		
● animal agriculture	52	-0.68	8	-1
● cereals	80	-0.92	6	-1.05
● labour-intensive industries	98	0.04	2	-1.17
● capital-intensive industries	118	0.02	6	-0.73
● machinery	179	0.85	2	-0.82
● chemicals	94	0.46		

# DIVERSIFICATION AND ECONOMIC COMPLEXITY

Diversification vs. ECI Mongolia and selected economies

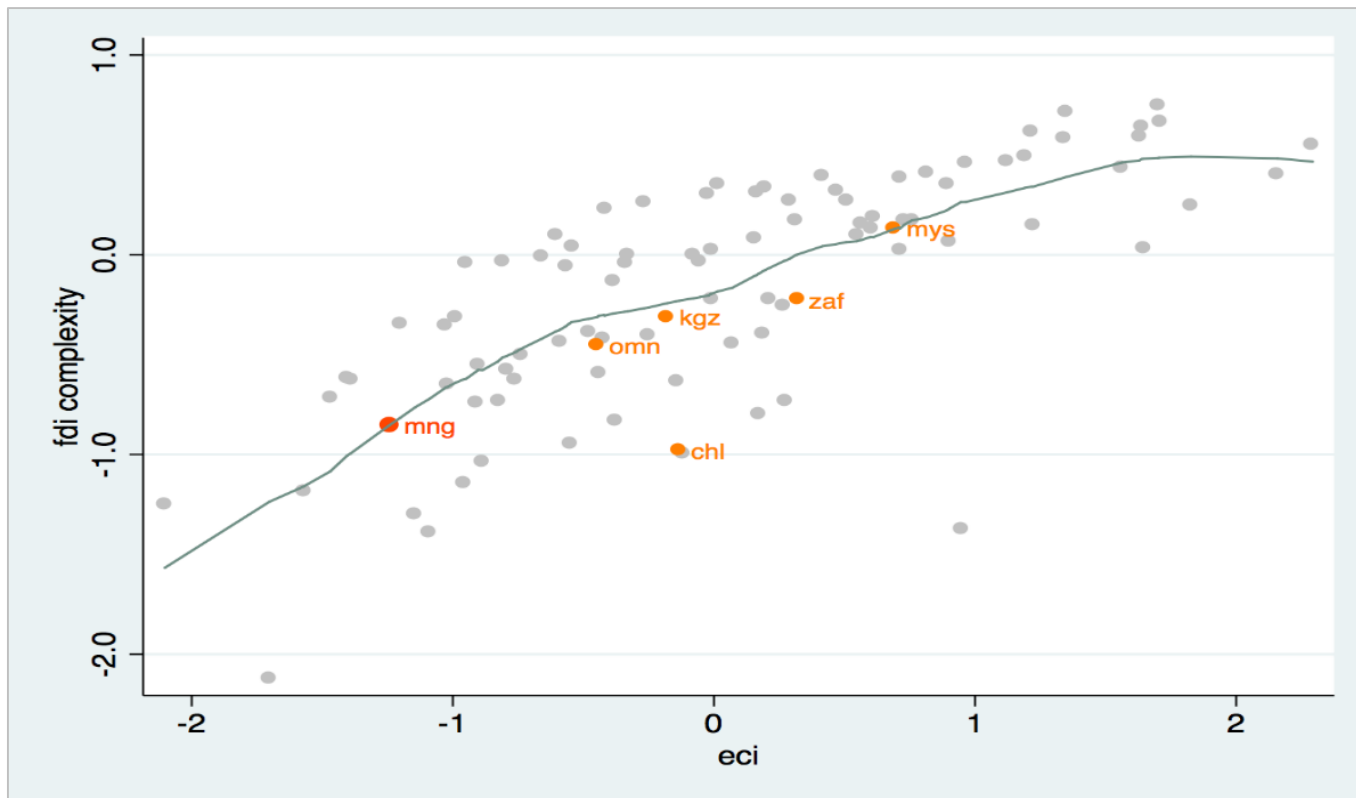


Source: [WBG calculation based on Comtrade and Atlas of Economic Complexity](#)

- Mongolia's diversification and complexity levels are the lowest among its benchmark countries

# FDI ACCRUALS TO MONGOLIA DO NOT MODIFY MUCH THE OVERALL COMPLEXITY OF MONGOLIA'S ECONOMY

ECI vs FDI Complexity, Mongolia and selected economies

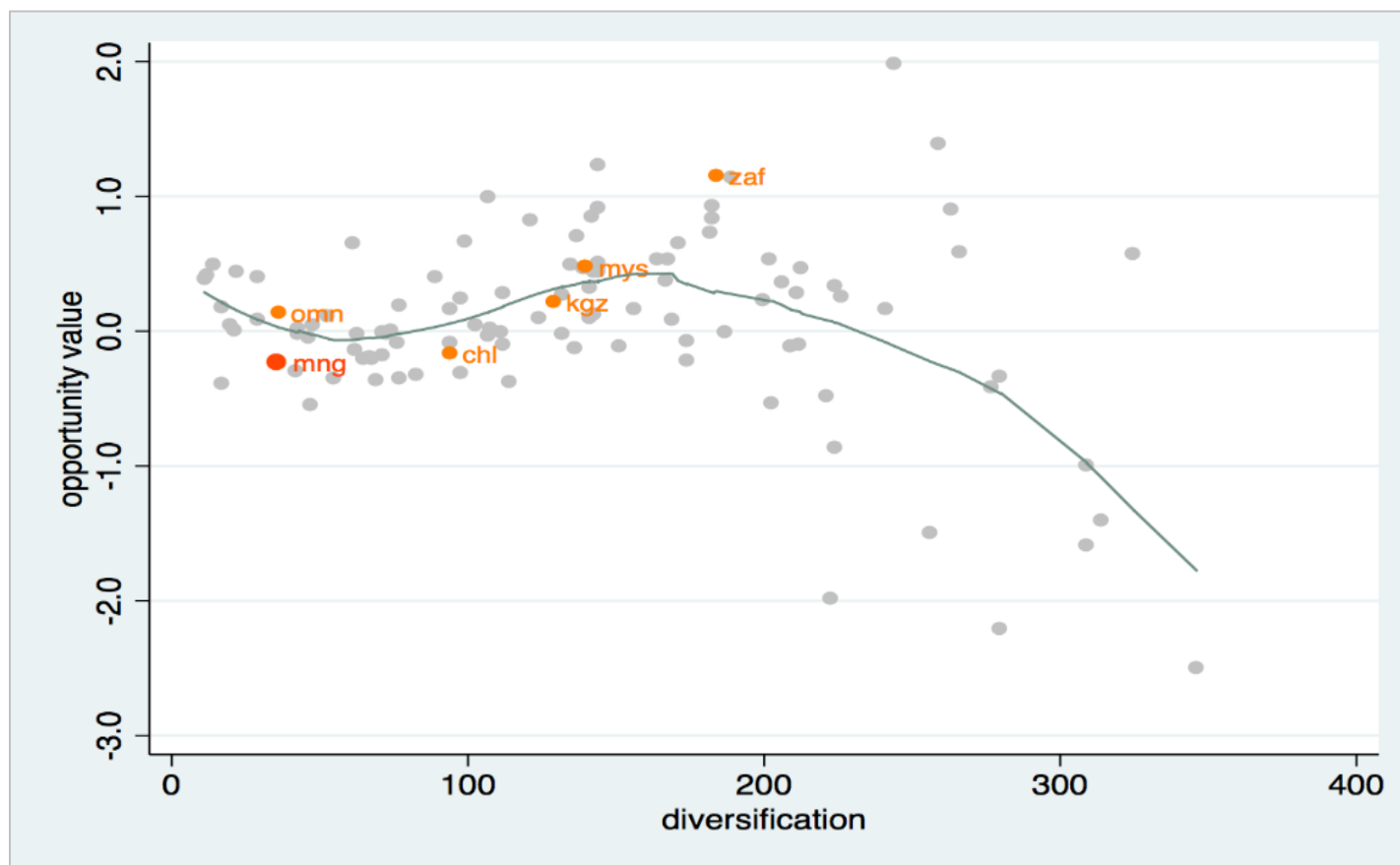


Source: [WBG calculation based on Comtrade and Atlas of Economic Complexity](#)



# A GREATER DIVERSIFICATION IN MONGOLIA WOULD LIKELY BE TRANSLATED INTO IMPROVED CONNECTIVITY IN THE PRODUCT SPACE

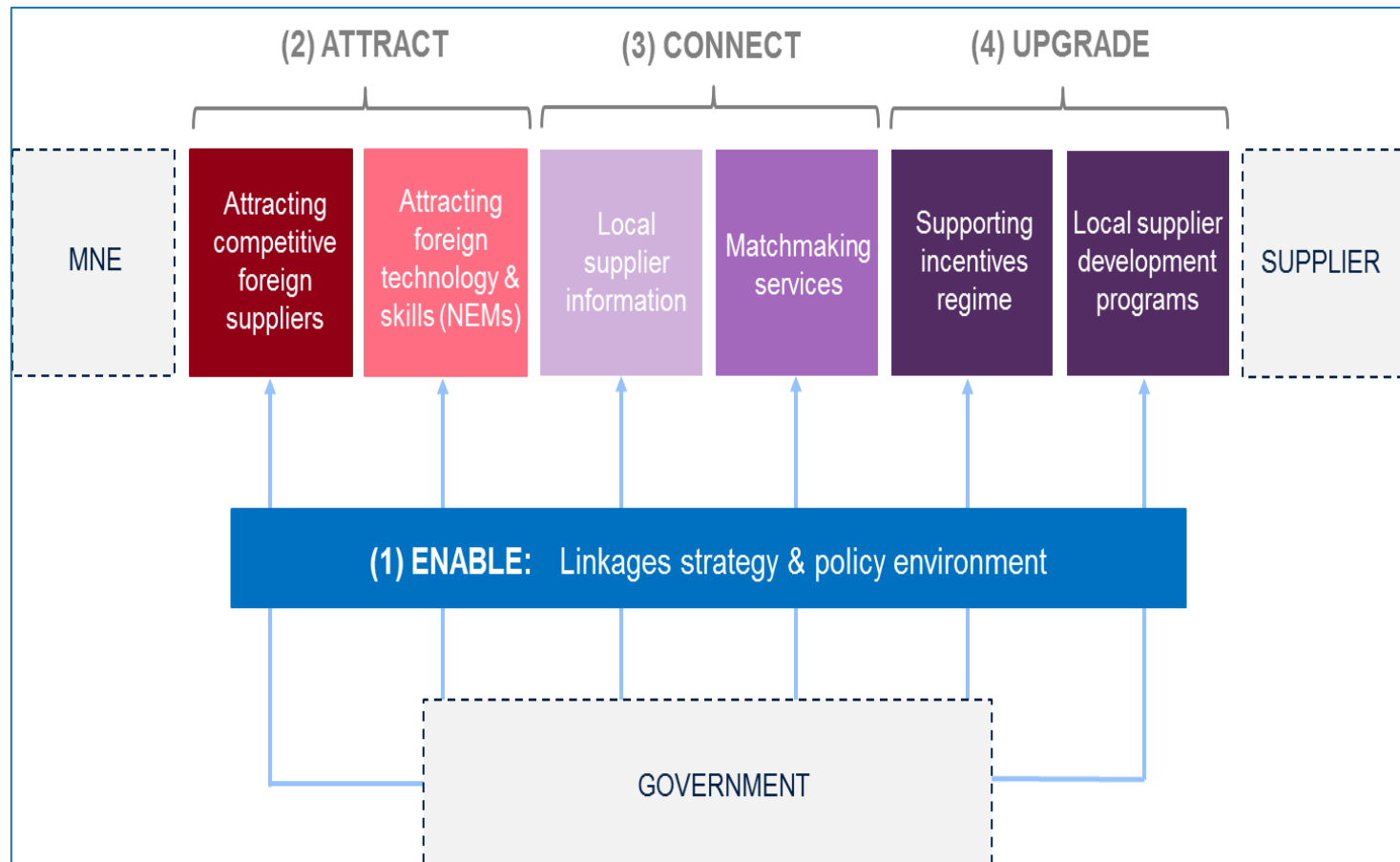
Diversification vs. opportunity value, Mongolia and selected economies



Source: WBG calculation based on Comtrade and Atlas of Economic Complexity

# CREATING LINKAGES

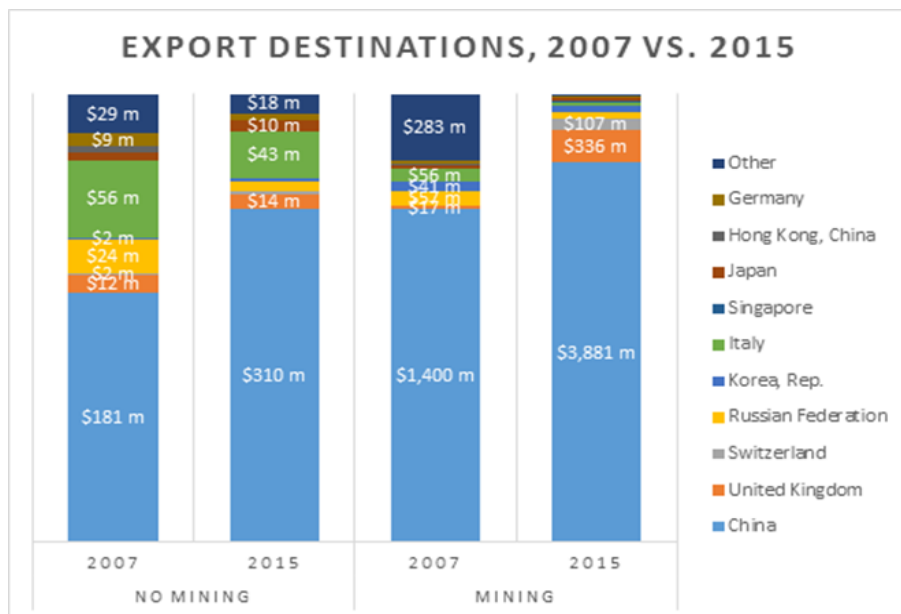
## Pillars of a comprehensive linkages program



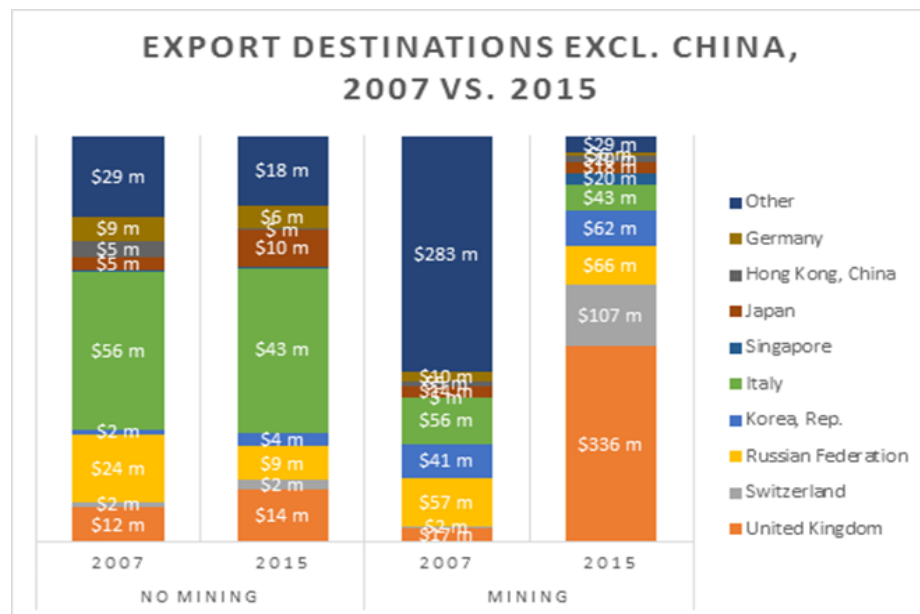
Source: WBG, Investment Policy and Promotion Unit

# TO FOSTER DIVERSIFICATION AND EFFICIENCY-SEEKING INVESTMENT, MONGOLIA NEEDS TO EXPAND ITS EXPORT BASKET

Mongolia's export destinations (including China)



Mongolia's export destination (excluding China)

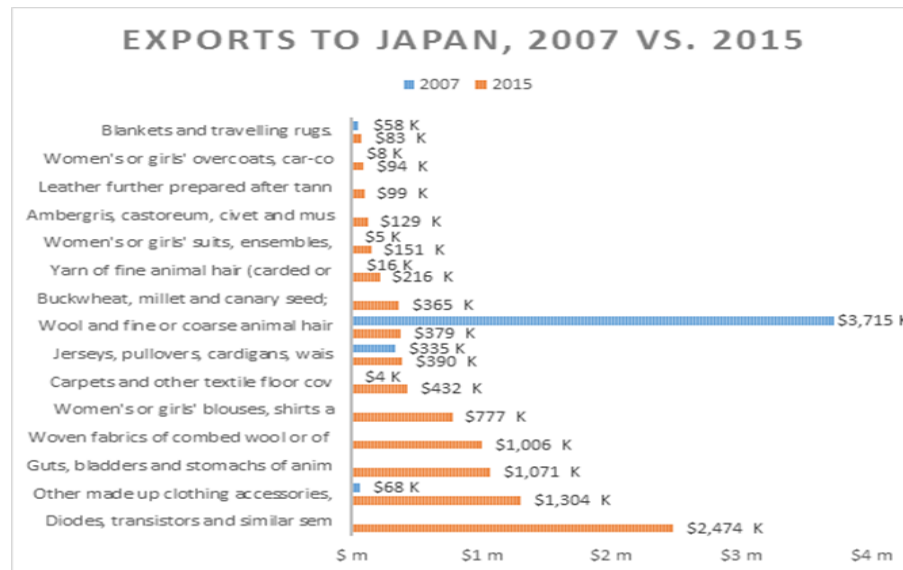


Source: [WBG, Hausmann et al, Atlas of Economic Complexity \(2017\)](#)

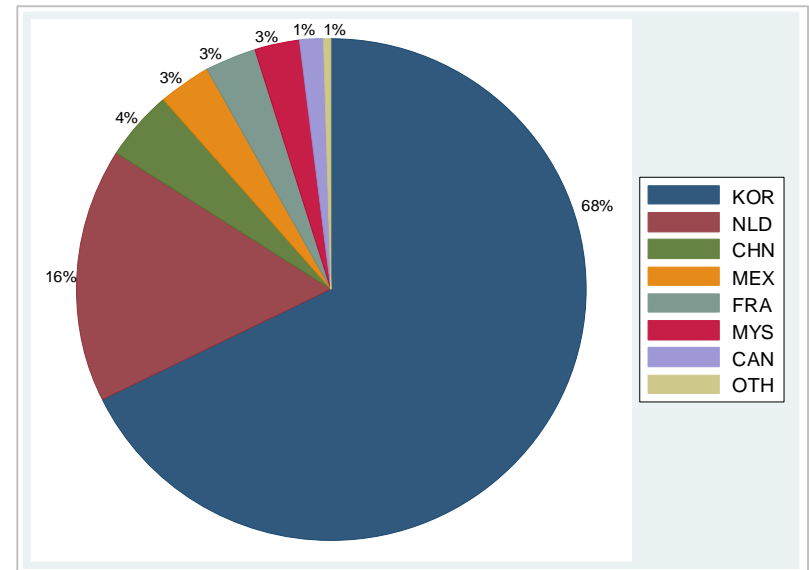
- In terms of products, Mongolia may wish to focus on those that entail greater processing steps, and which deliver a final consumer good whose product complexity index (PCI) is greater than average
- In terms export destinations, Mongolia may want to differentiate between goods largely exported to neighboring countries vs. those having the potential to be exported to a more diverse set of destinations
- Mongolia may further study the potential conclusion of FTAs with relevant countries, especially RCEP

# DIVERSIFYING EXPORTS – SPECIFIC EXPORTS

Exports to Japan, 2007-2015



Mongolia exports of Electronic Microcircuits, 2010-2014



Source: [WBG, Hausmann et al, Atlas of Economic Complexity \(2017\)](#)

# POTENTIAL EXPORT SECTORS

## Mongolia, PCI, export values, and destination

Product Name	Export Value	RCA	SITC2	PCI	Main destination
Reciprocating Pumps	1,340,000	0.19	Electronics	1.67	Singapore
Misc. Power Machinery	136,000	0.006	Electronics	1.54	Germany
Electronic Microcircuits	4,760,000	n/a	Electronics	1.41	UK
Diodes Transistors and Photocells	3,170,000	0.1	Electronics	1.22	Japan
Misc. Electrical Machinery	172,000	0.005	Electronics	1.19	UK
Raw Sheep Skin with Wool	63,800	0.25	Leather	- 0.512	China
Confectionary Sugar	498,000	0.13	Food Processing	- 0.681	China
Bovine and Equine Entrails	239,000	0.091	Meat & Eggs	- 0.777	China

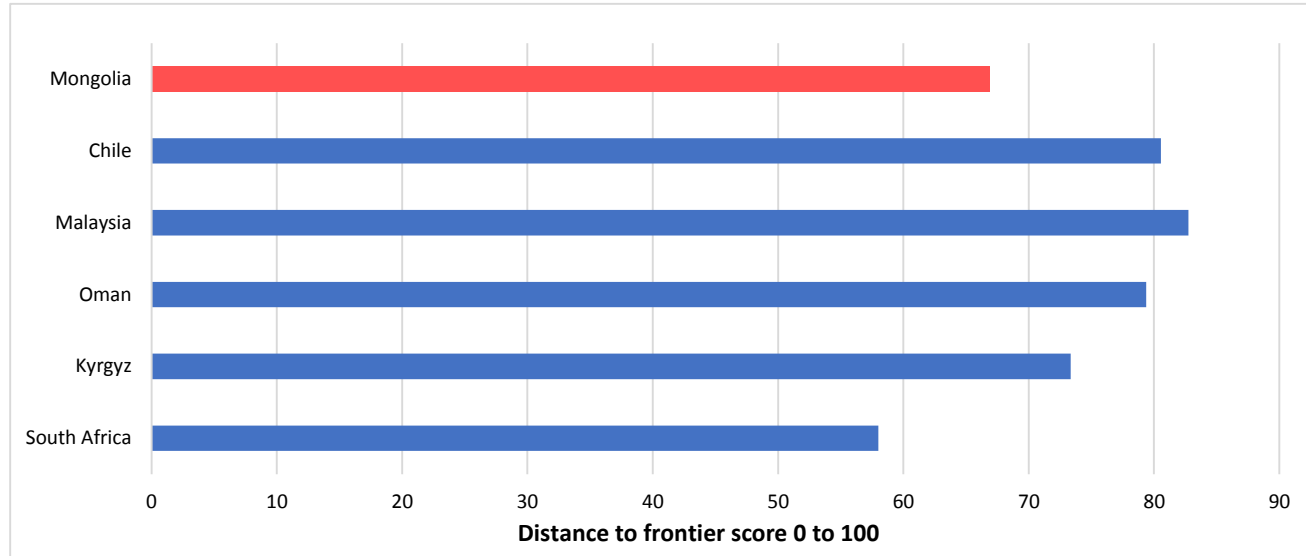
Source: [WBG](#), Hausmann et al, Atlas of Economic Complexity (2017)

# LEGAL AND REGULATORY ANALYSIS



## 2. DE FACTO BARRIERS TO FDI: MONGOLIA'S INVESTMENT CLIMATE (2)

*Ease of Trading Across Borders, 2018*  
(Scale: Score 0 center, Score 100 outer edge)



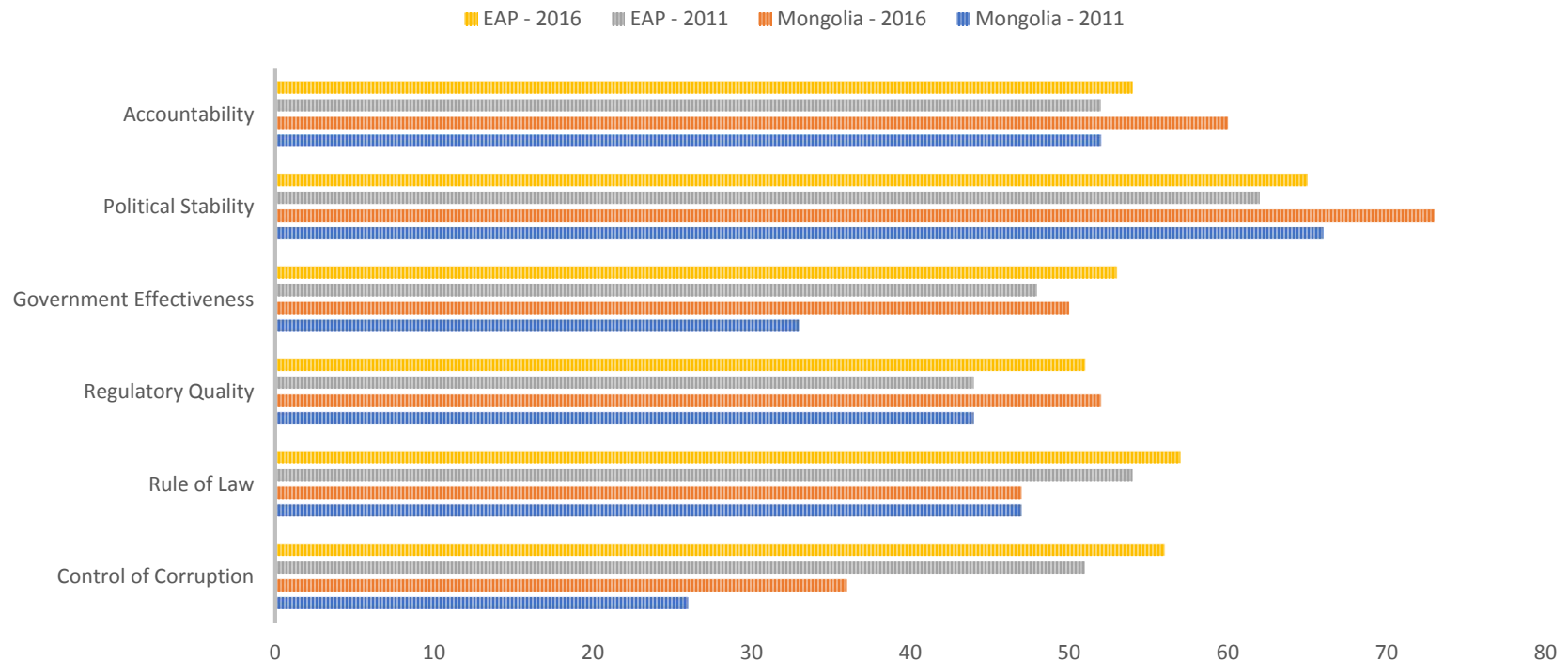
Source: World Bank Group Doing Business (2018)

- Weak performance in single indicators lowers competitiveness
- To attract efficiency-seeking investment, the ease of trading across borders is crucial

## 2. DE FACTO BARRIERS TO FDI: MONGOLIA'S INVESTMENT CLIMATE (3)

### World Governance Indicators for Mongolia and EAP countries, 2011 & 2016

(Percentile Rank 0-100, indicates rank of country among all countries in the world. 0 corresponds to lowest rank and 100 corresponds to highest rank)



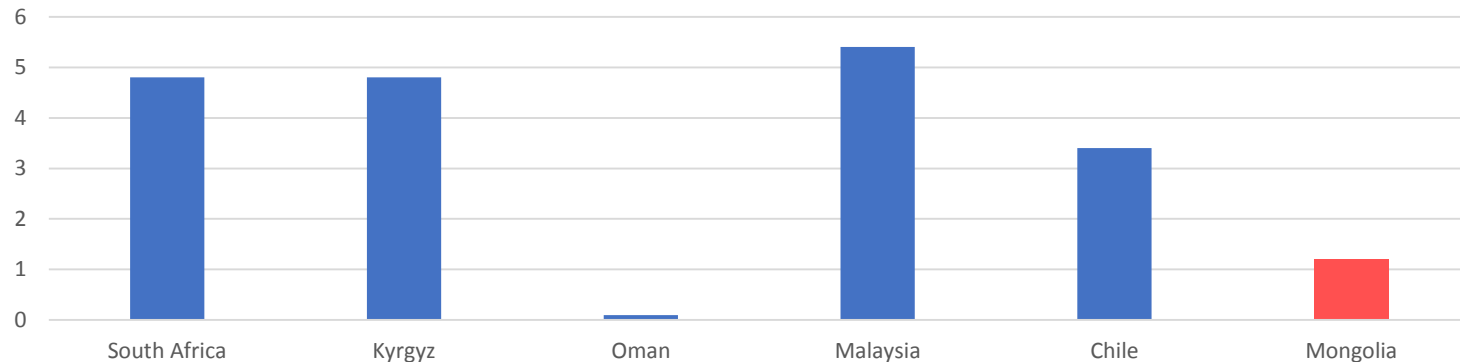
Source: World Bank Group Worldwide Governance Indicators (2016)



# MONGOLIA'S RANKING ON GLOBAL INDICATORS ON REGULATORY GOVERNANCE

## *Global indicators on Regulatory Governance Index, 2016*

(Rank 0 to 6 in three core areas: publication of proposed regulations, consultations around their content, and the use of regulatory impact assessment. 0 corresponds to lowest rank and 6 corresponds to highest rank)

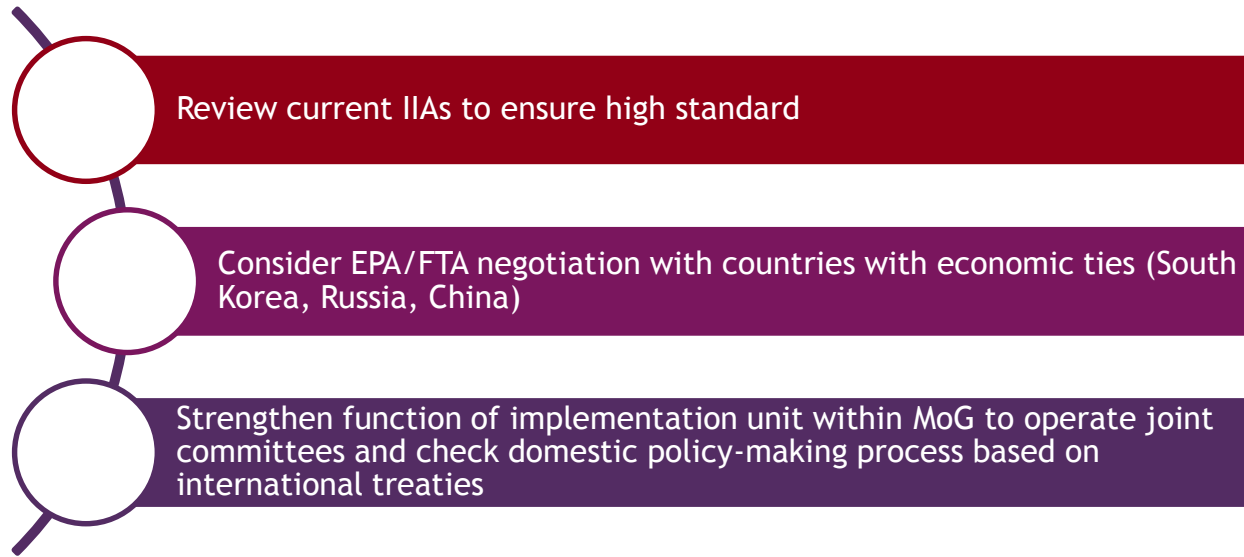


Source: *World Bank Group Global Indicators of Regulatory Governance (2016)*

- **The WBG Global Indicators of Regulatory Governance covers**
  - **Transparency of rulemaking**
  - **Public consultation in rulemaking**
  - **Impact assessment**
  - **Accessing laws and regulations hindering private sector development**

# MONGOLIA: INVESTMENT PROTECTION IN IIAS

- Although there are no gaps in protections offered, improvements can be made:



## Good practice: **Canada-Mongolia FIPA**

NT and MFN obligations apply to full cycle of investment

Clear definition of 'indirect expropriation'

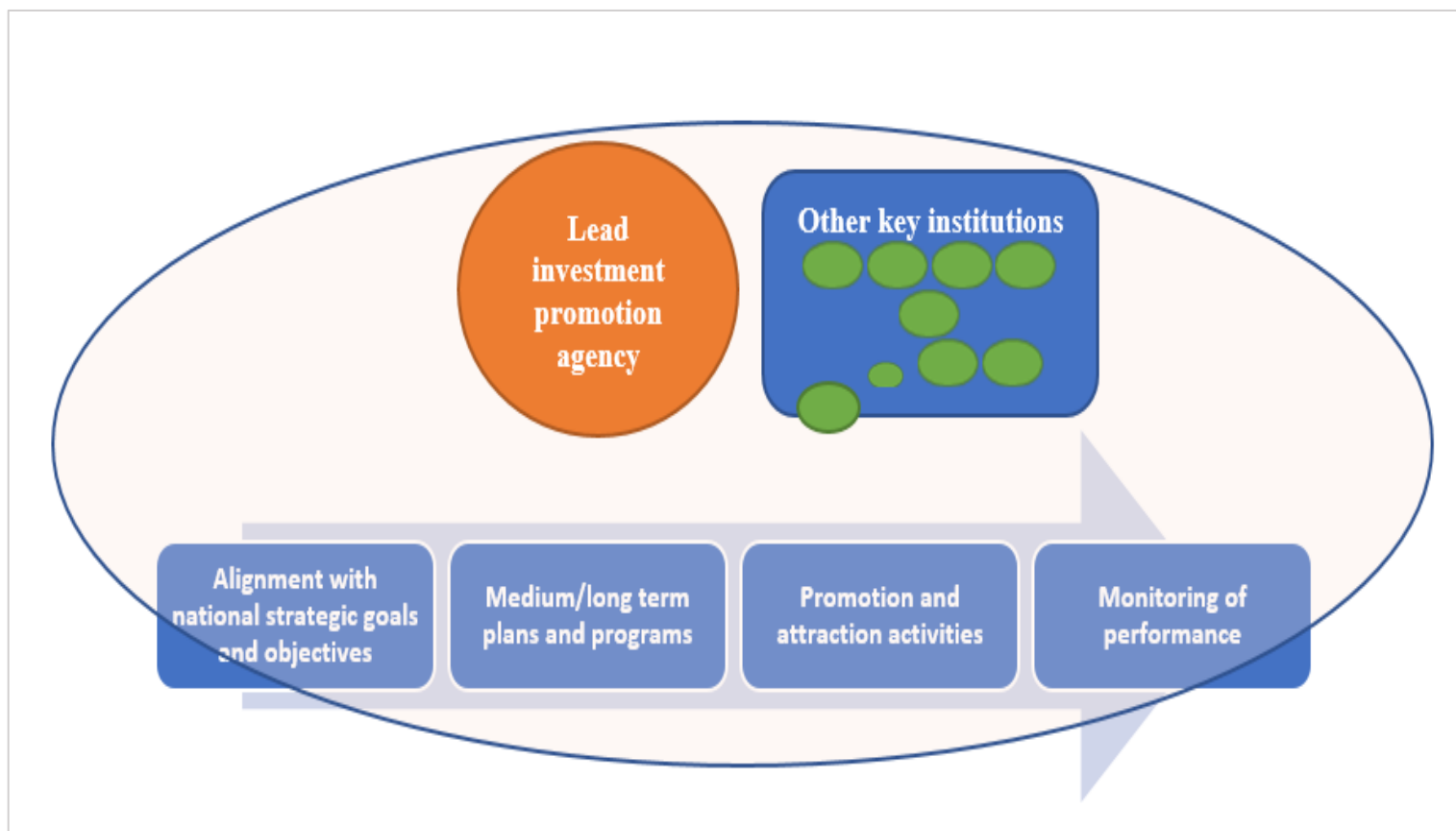
Fair and Equitable Treatment (FET) in accordance with customary international law

# INSTITUTIONAL FRAMEWORK FOR INVESTMENT PROMOTION



# GOOD PRACTICES IN NATIONAL FDI PROMOTION FRAMEWORKS

## A Model National Investment Attraction Framework



Source: World Bank Group, 2017

# DISTINGUISHING BETWEEN WHAT IPAS CAN DO AND WHAT IPAS SHOULD DO

		Must do (Core mandates)	May do as additional functions, but require independent set up and resources	Incompatible with Investment Promotion
Investment promotion	Marketing			
	Information provision			
	Facilitation of meetings, site visits, and government procedures			
	Advocacy			
Promotion of:	Exports			
	Outward investment			
	SME linkages to FDI			
	SME development			
Administration/regulation	Administration of government procedures (e.g., One Stop Shop, licenses, incentives)			
	Manage state land or assets			
	Administer/negotiate government concessions (e.g., infrastructure, extractive industries)			
	Administer public-private partnerships			

Source: World Bank Group, 2017.

# INVESTMENT PROMOTION IN MONGOLIA: INSTITUTIONAL INSTABILITY

## *Investment Promotion Functions and Resources 1993 - Date*

	Foreign Investment and Foreign trade Agency (FIFTA) 1993 - September 2012	Invest Mongolia Agency 2013 - June 2016	National Development Agency 2016 to date
Promotion functions	<ul style="list-style-type: none"> <li>• Advisory service: Pre to post-registration</li> <li>• Business Forums, exhibitions, B2B</li> </ul>	<ul style="list-style-type: none"> <li>• Advisory service Pre registration and after care</li> <li>• Business Forums</li> <li>• Delegation visits</li> </ul>	<ul style="list-style-type: none"> <li>• Advisory service Pre registration and after care</li> </ul>
Other functions:	<ul style="list-style-type: none"> <li>• Registration of foreign investment</li> <li>• After care service</li> <li>• Project supporting team</li> <li>• Statistics</li> </ul>	<ul style="list-style-type: none"> <li>• Issuing tax incentives and stabilization certificate</li> <li>• Investment agreements</li> </ul>	<ul style="list-style-type: none"> <li>• National development policy and planning</li> <li>• Sector policy</li> <li>• Investment Research and Policy</li> <li>• Investment registration</li> </ul>
Staff (promotion functions only)	12 [+8 in project support]	8	Negligible [2-3 staff carry promotion titles but not active]

Source: Adapted presentation from NDA/interviews with gov. officials

- Frequent institutional changes have led to
  - (1) Loss of almost all investment promotion capacity
  - (2) Unclarity for investors about different institutional mandates
  - (3) Difficulty in building a strong capacity cadre of experts

# INSTITUTIONAL FRAMEWORK FOR PROMOTION: SUGGESTED REFORM ACTIONS

Issue	Reform Action
Lack of promotion capacity in Mongolia due to institutional instability	Re-establish and strengthen the IP unit within NDA
Unclear focus of promotion activities that are currently pursued	Develop and implement an FDI attraction plan focused on target sectors
Cooperation in promotion matters between agencies and ministers not defined	Establish a coordination mechanism between relevant Government Ministries and Agencies
MoFA's outreach function not defined in the scope of investment promotion	Define a role for MoFA's overseas missions
Undefined policy advocacy role by the NDA in promotion matters	Develop a policy advocacy role of the new IP unit

# MAXIMIZING THE BENEFITS FOR THE HOST COUNTRY: CREATING LINKAGES



Christine Zhenwei Qiang  
Ulaanbaatar, May 2017



# THE FDI LINKAGES CONCEPT - INTRODUCTION

## MAIN SCOPE:

*FDI linkages are economic relationships between foreign investors and domestic firms in the host economy along or between value chains.*

- Primarily backward and forward linkages from FDI as well as linkages with institutes of higher education/TVET
- Includes both tradeable and non-tradeable inputs
- Involves raw materials, intermediate goods, final goods as well as services
- Involves both foreign and locally owned suppliers



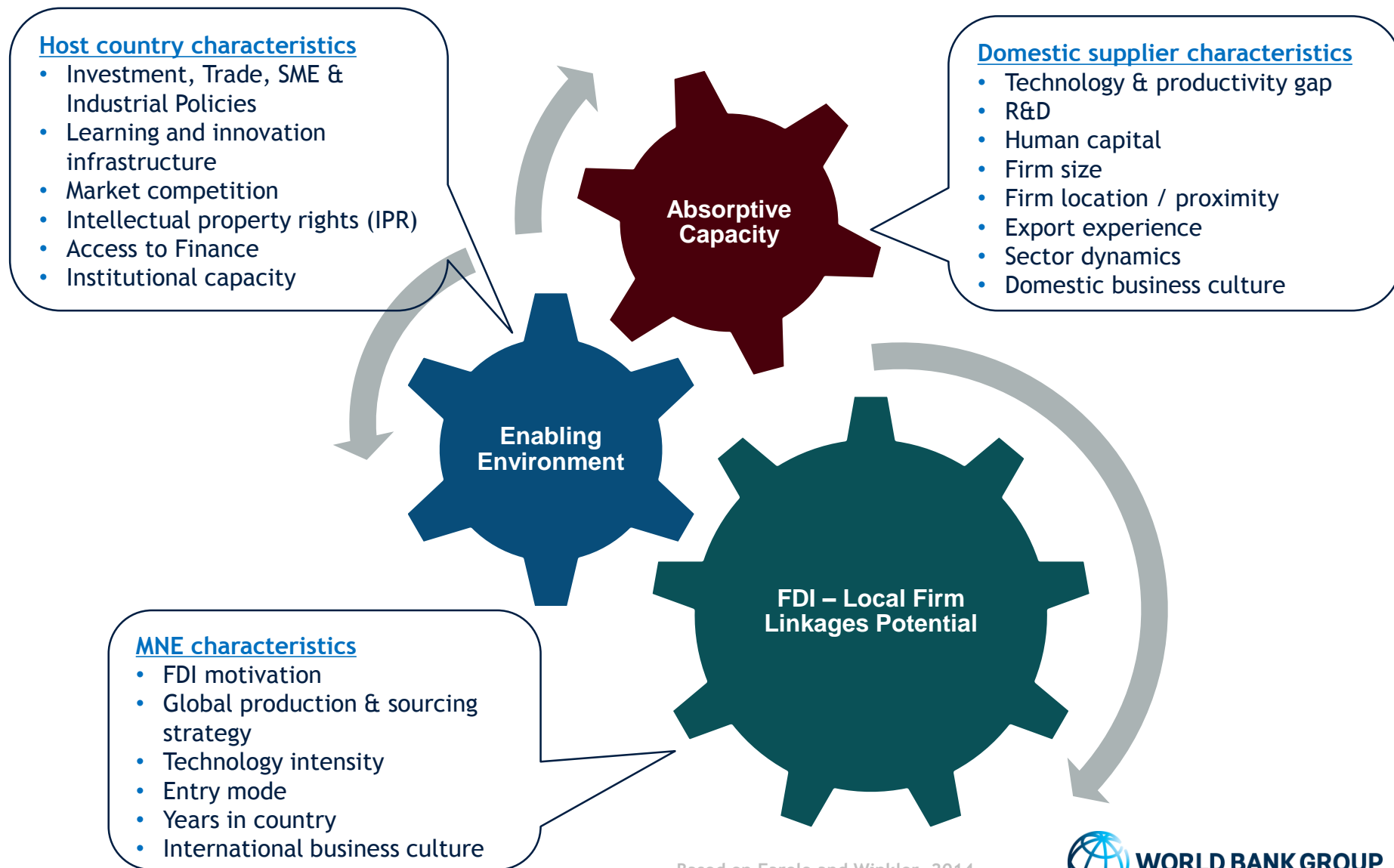
## BENEFIT:

- Vertical linkages are important channels for new technology & skills transfer
- Supports economic diversification agenda (vertical diversification)
- Market opportunity drives local firm productivity and standards improvements
- Strong supplier base helps attract and anchor FDI
- Increases Domestic Value Addition (DVA)



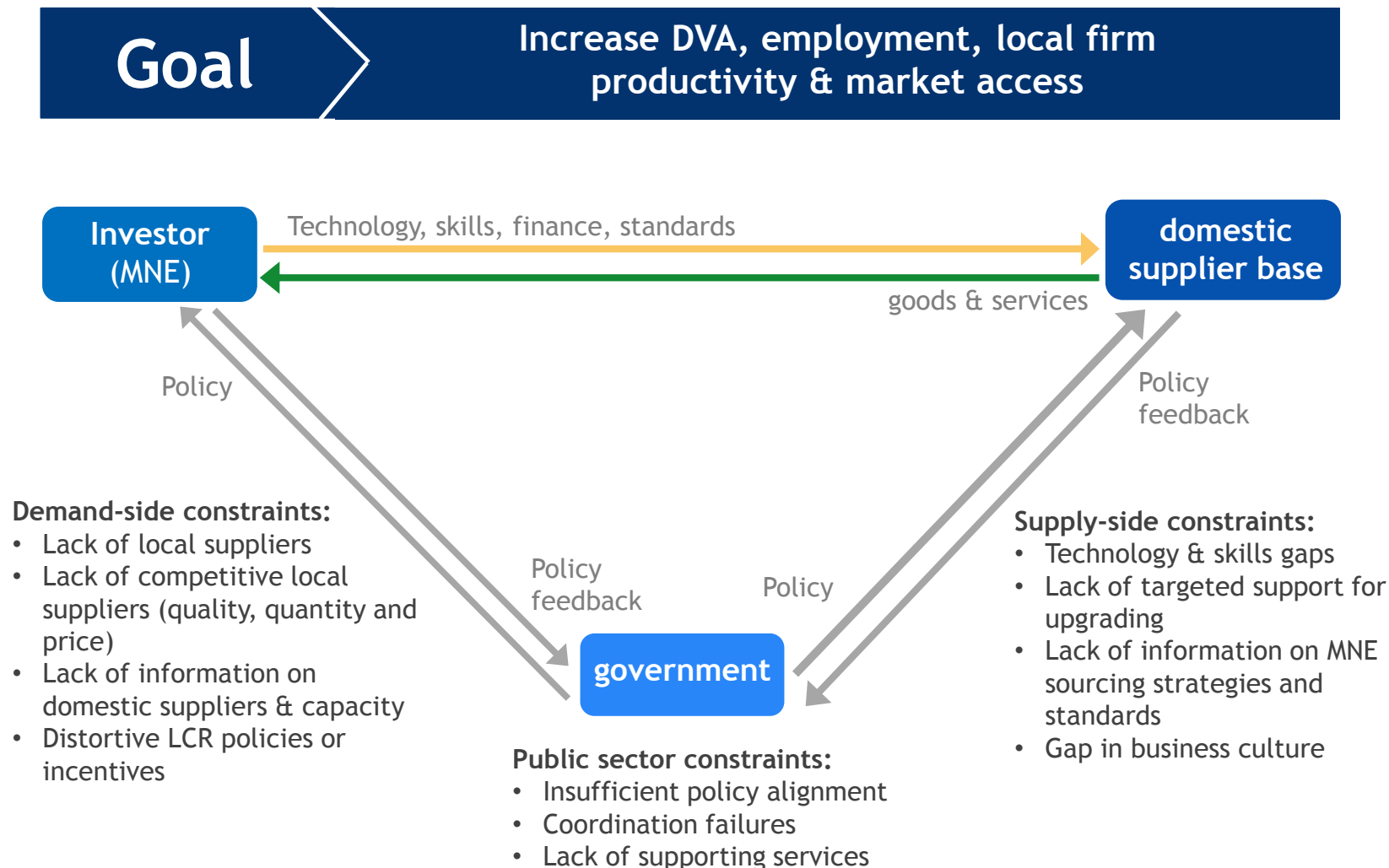
- FDI linkages do not happen automatically
- Strong demand driven / FDI centric approach is key to a successful linkages program
- FDI linkages requires upgrading of local firms - cannot to be mandated or forced
- Different types of FDI, FDI strategies, and country contexts, provide varying suitability for domestic linkages

# LINKAGES DETERMINANTS AND MEDIATING FACTORS BASED ON LITERATURE



Based on Farole and Winkler, 2014

# THE TYPICAL MARKET FAILURES AND CONSTRAINTS



# THE FDI LINKAGES SOLUTIONS PACKAGE

