

Investment Climate: Stability

Session 3: Linkages and Economic Diversification

**International Conference
Ulaanbaatar, Mongolia
October 22, 2019**



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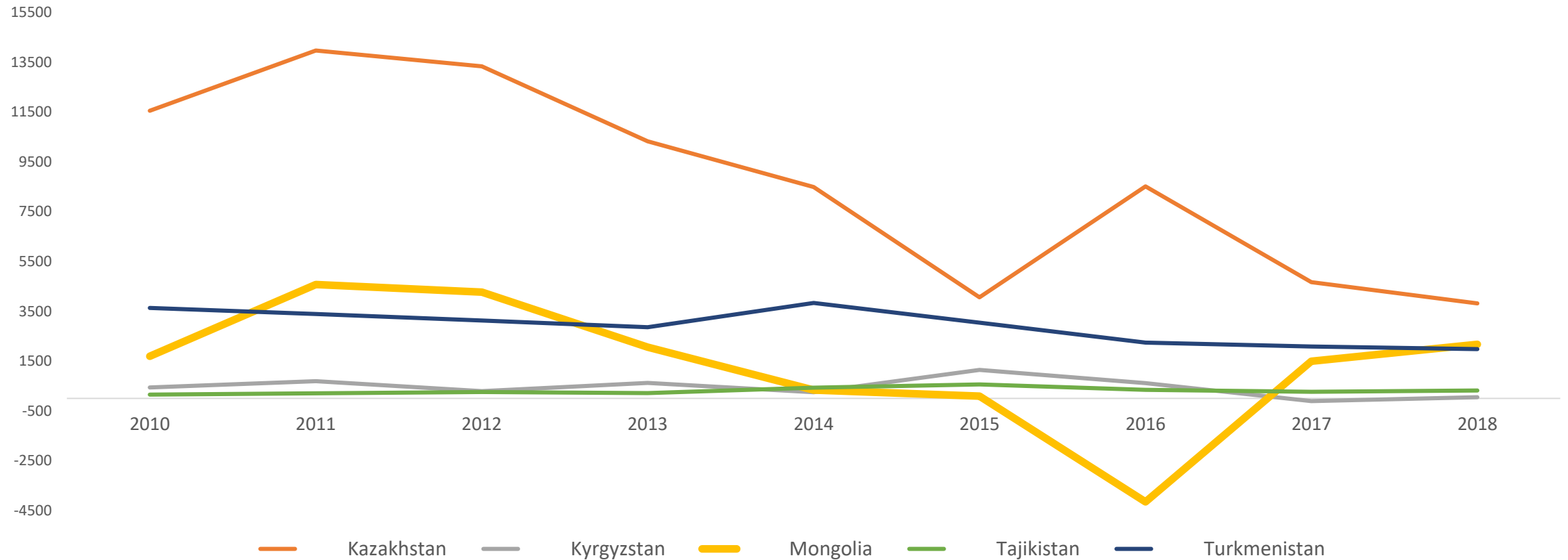
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FDI inflows in Mongolia hit a low in 2016, but have been recovering since

Foreign Direct Investment inflows (at current prices in million \$)



Why FDI matters for development

Sustainable FDI - *FDI that yield sufficient profits to maintain effective corporate engagement, without harming host country interests, while producing positive net benefits for the country's long-term development goals*

FDI Potential direct benefits

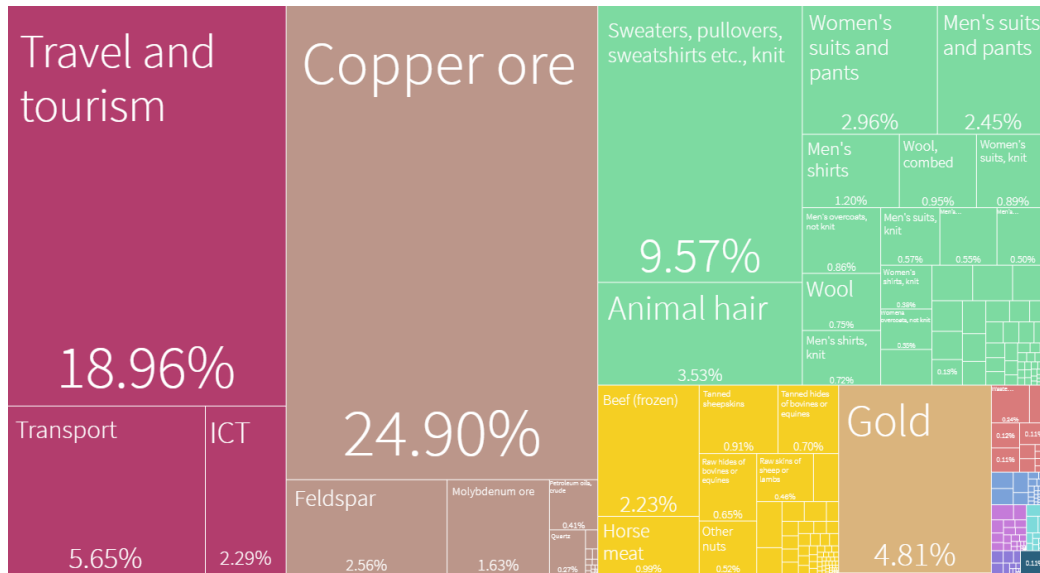
- Capital investment
- Employment
- Tax and export revenue
- Wage Premium
- Human capital development

FDI Contribution to development goals

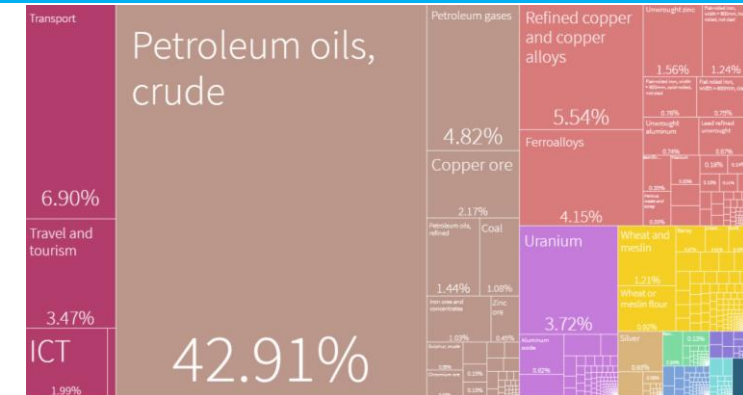
- **Economic value added**
- **Job creation**
- **Sustainable development**
 - Labor impact
 - Social impact
 - Environmental impact
 - Development impact

Why FDI matters for development of Mongolia

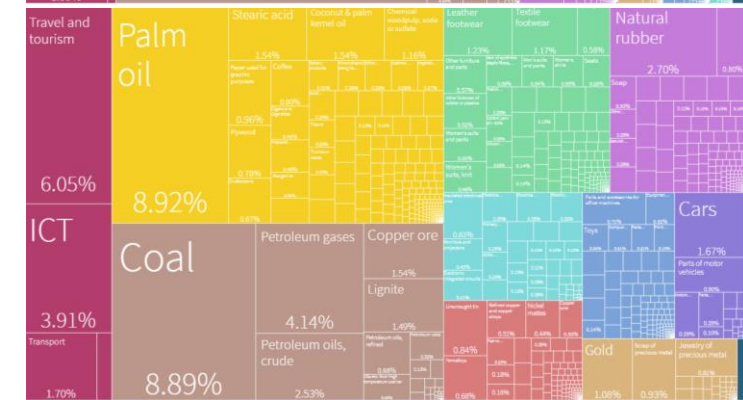
2002



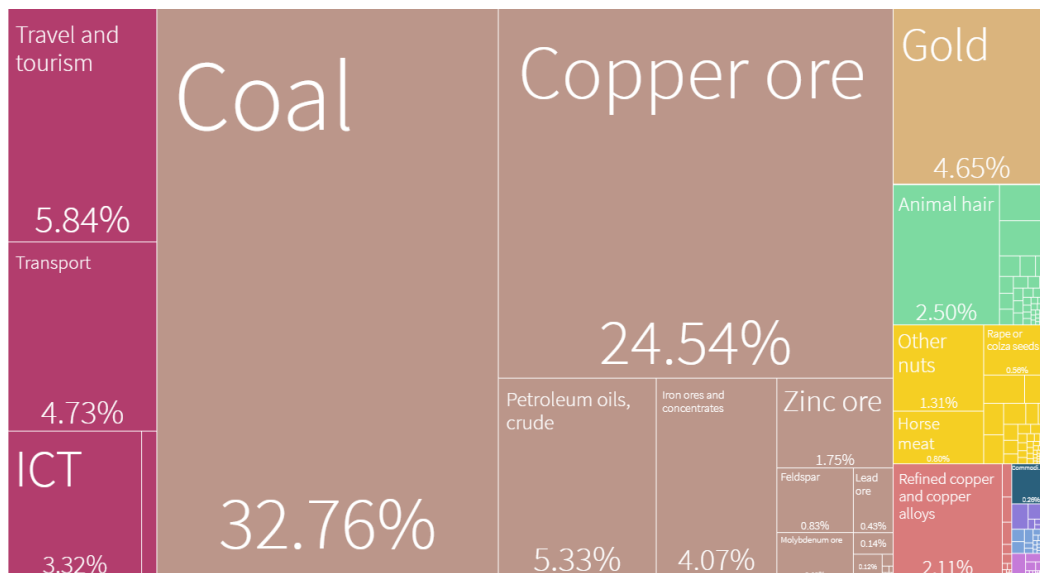
Kazakhstan 2017



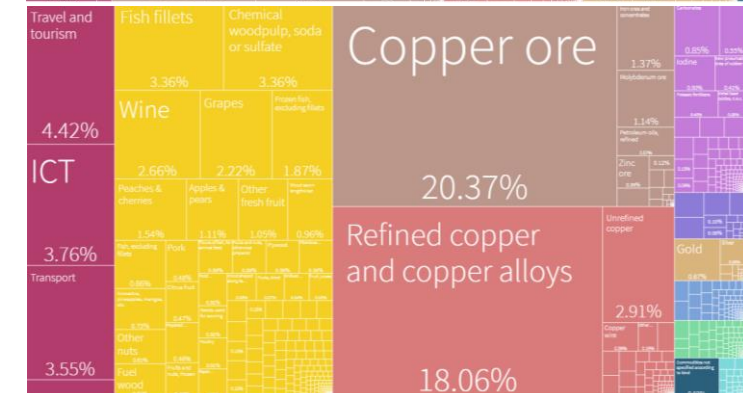
Indonesia 2017



2017



Chile 2017



How FDI can help with Economic Diversification

FDI-led economic diversification



Some recent news Headlines on FDI in Mongolia

- ✓ **“Moody's upgrade brings FDI optimism for Mongolia”** *(Financial Times - 22/02/2018)*
- ✓ **“Mongolia launches service center for foreign investors”** *(bne IntelliNews – 25/02/2019)*
- ✓ **“Issue of insufficient foreign investment persists”** *(Organization of Asia-Pacific News Agencies – 14/03/2019)*
- ✓ **“An investor prefers things to be more predictable, less uncertain”** *(The Mongolian Mining Journal – 30/06/2019)*
- ✓ **“Currently investment in mining is zero”** *(The Mongolian Mining Journal – 30/06/2019)*
- ✓ **“Mongolia sees sharp recovery in economy. Mongolia attracted foreign direct investments worth \$661.8 million in 4 months”** *(Central Asia News – 01/07/2019)*

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Some Key Principles in Investment Promotion



Investment promotion is not about choosing between foreign and domestic investment



Not all types of investment are the same



Foreign investment is not a transaction; it is a relationship



Proactive promotion of strategic sectors is key

* in Agribusiness AVP



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FDI motivation and the FDI Linkages Opportunities & Challenges



Market-seeking

*Extractives and Agribusiness
Foreign investors have a strong commercial interest to expand local sourcing needing a "social license to operate" or securing steady supply of raw materials.*

Key challenge with creating backward linkages is the technology gap between MNEs and local firms and the mostly non-tradable nature of inputs sourced locally.

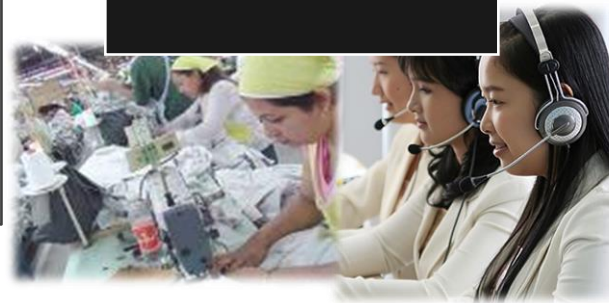


Typical sectors e.g. Food & Beverages, Business Services, Retail, etc. Tends to have higher localization rates, due to the commercial imperative and at times the lower standards required when competing in national markets.

Natural resource-seeking

*Export oriented investments (e.g. garments, automotive, electronics, ITES, etc.)
A net generator of jobs and foreign exchange
Strong opportunity for DVA ("Queen bee")
Challenge for local firms: internationally competitive suppliers a non-negotiable*

Efficiency-seeking



Strategic asset-seeking

*For example Tourism sector
Strong opportunity for local linkages in non-tradeable goods and services, but limited scalability. Commercial imperative to localize. Challenge is often consistent and reliable quality supply*

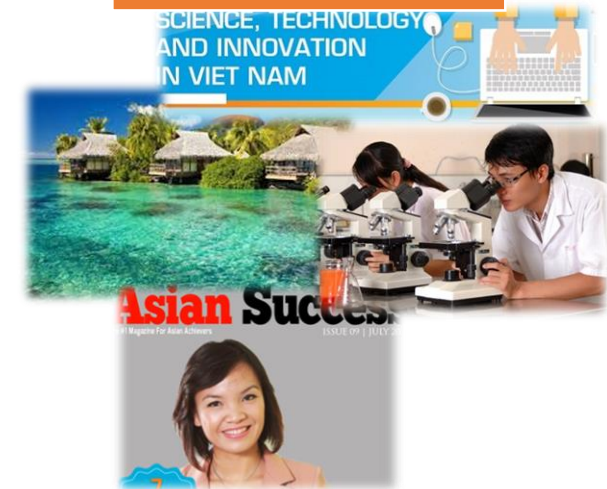
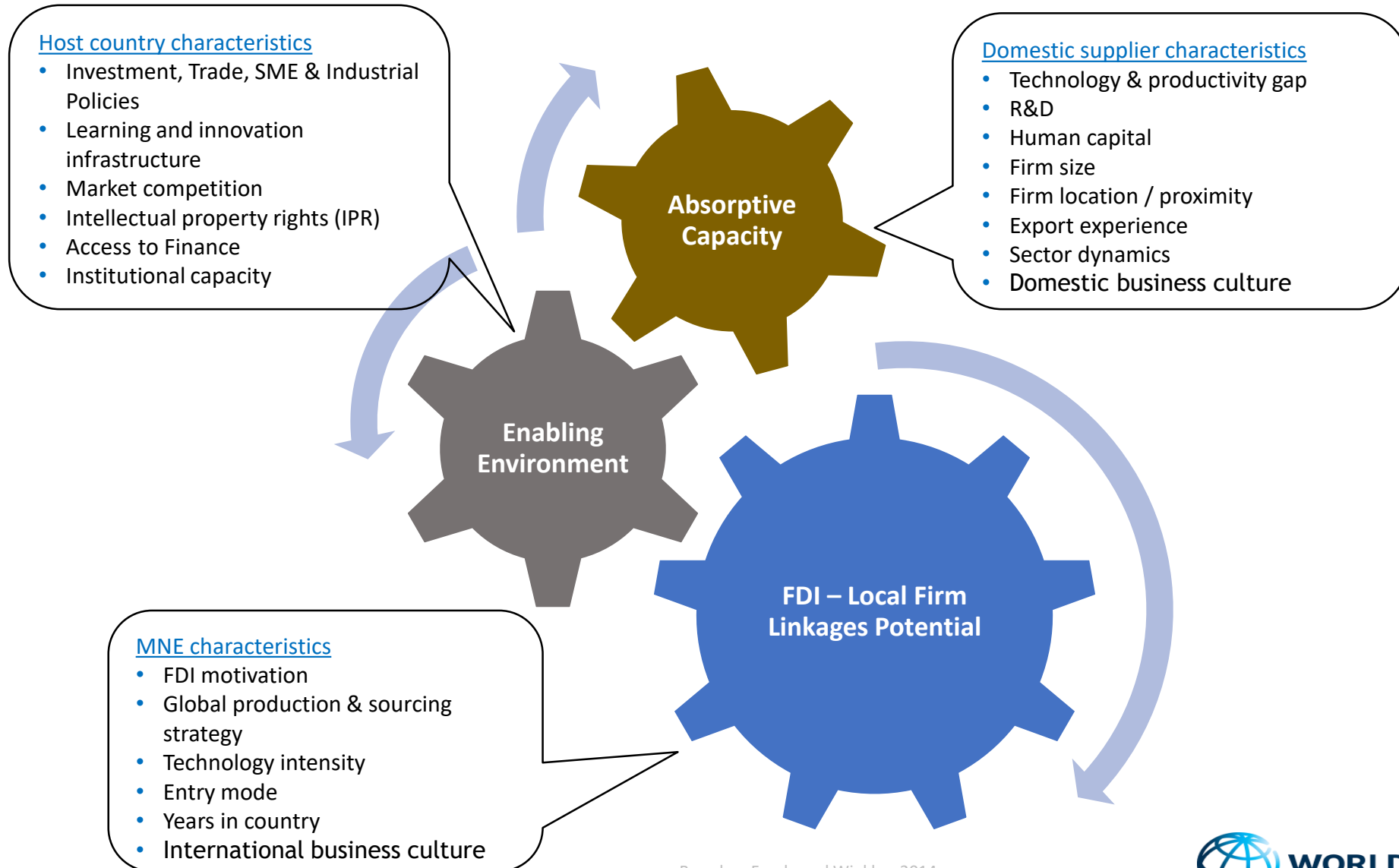


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FDI LINKAGES – Determinants and mediating factors

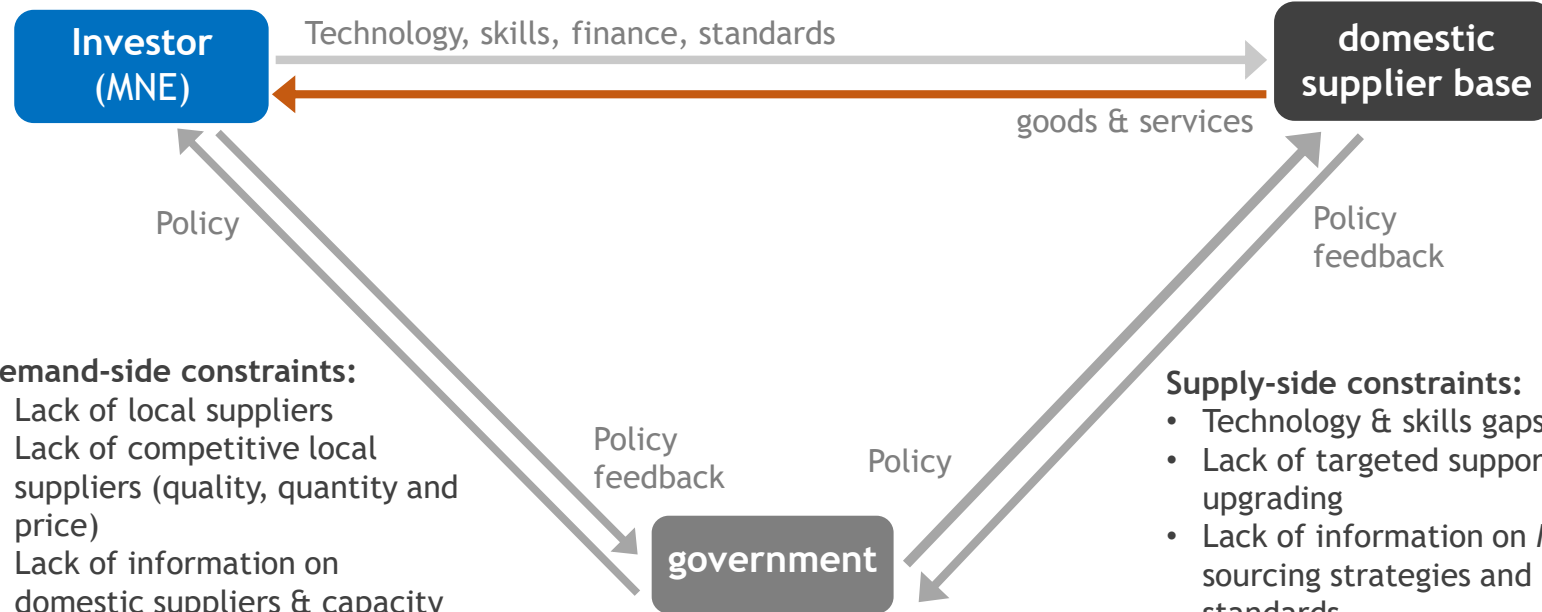


Based on Farole and Winkler, 2014

FDI LINKAGES – Typical market failures and constraints



Goal > Increase DVA, employment, local firm productivity & market access



Demand-side constraints:

- Lack of local suppliers
- Lack of competitive local suppliers (quality, quantity and price)
- Lack of information on domestic suppliers & capacity
- Distortive LCR policies or incentives

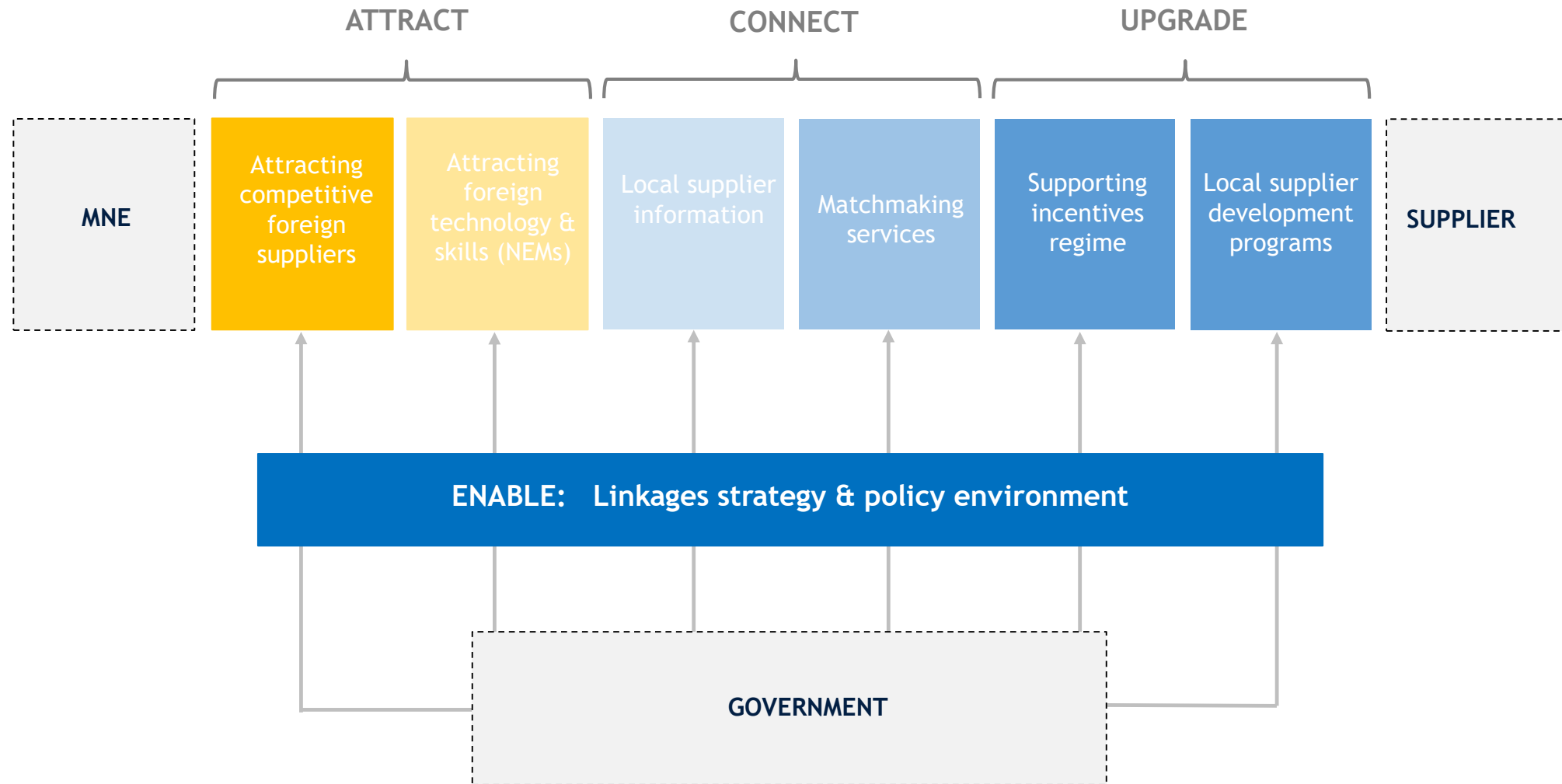
Supply-side constraints:

- Technology & skills gaps
- Lack of targeted support for upgrading
- Lack of information on MNE sourcing strategies and standards
- Gap in business culture

Public sector constraints:

- Insufficient policy alignment
- Coordination failures
- Lack of supporting services

WHAT COUNTRIES CAN DO - FDI LINKAGES SOLUTIONS PACKAGE



Example – Guinea mining FDI online market place

Definition

A platform designed to close the information gap between demand and local supply, and to improve the allocation of resources and local production capacities.

Functions

Connecting buyers and suppliers

- Detailed presentation of local suppliers
- Option to access bids and contact suppliers



Benchmarking and pre-qualification

- Validation process for suppliers
- Evaluation of suppliers based on capacities and buyer feedback



Access to information

- Buyer procurement plans
- Information on access to finance and other competitiveness enhancing facilities



Enhancing competitiveness of local firms, creating new linkages and business opportunities for buyers and suppliers

Results as of July 2019

583 Registered suppliers

3 Large mining operators registered as buyers

27 Capacity building activities delivered

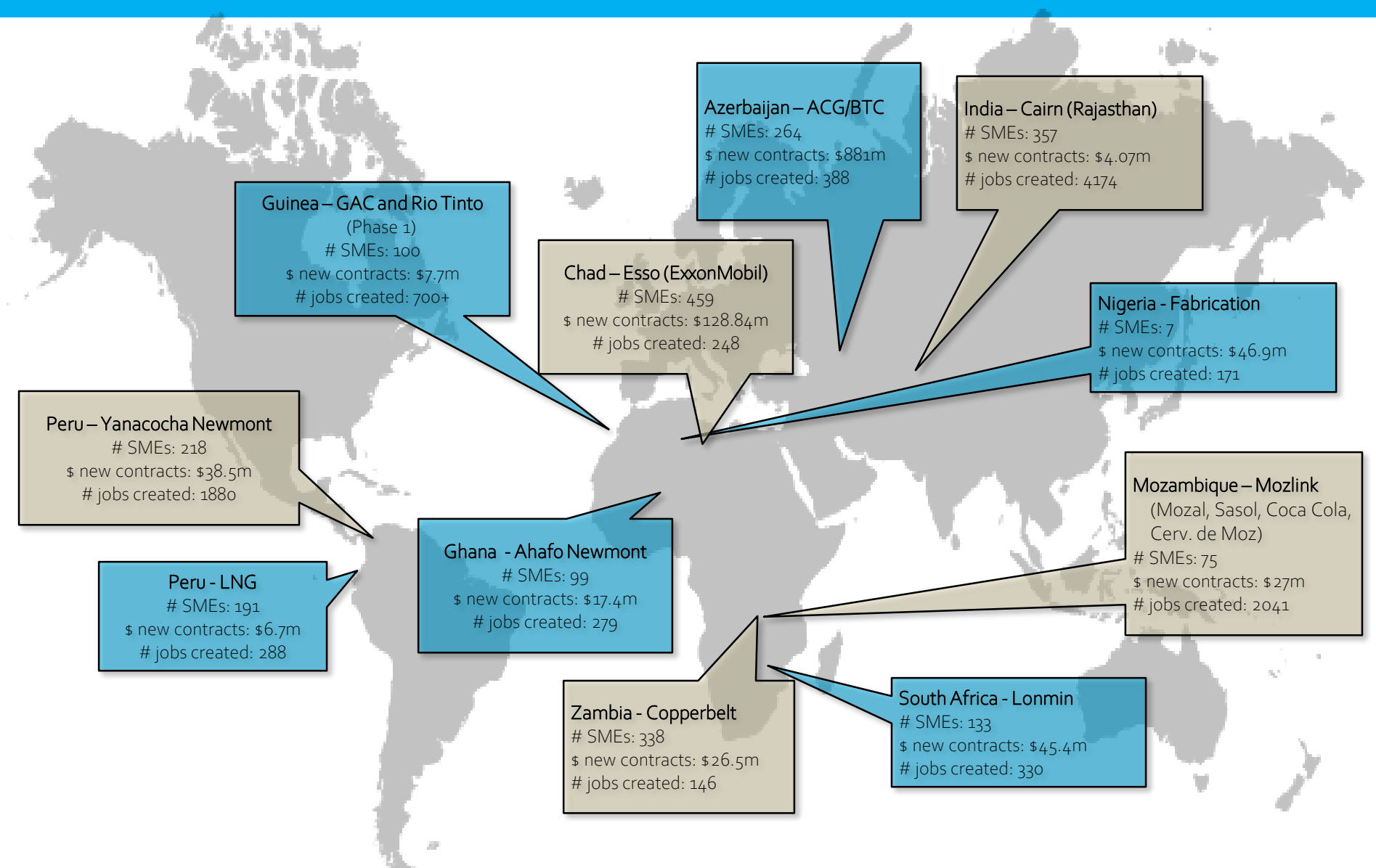
669 participants to capacity building activities



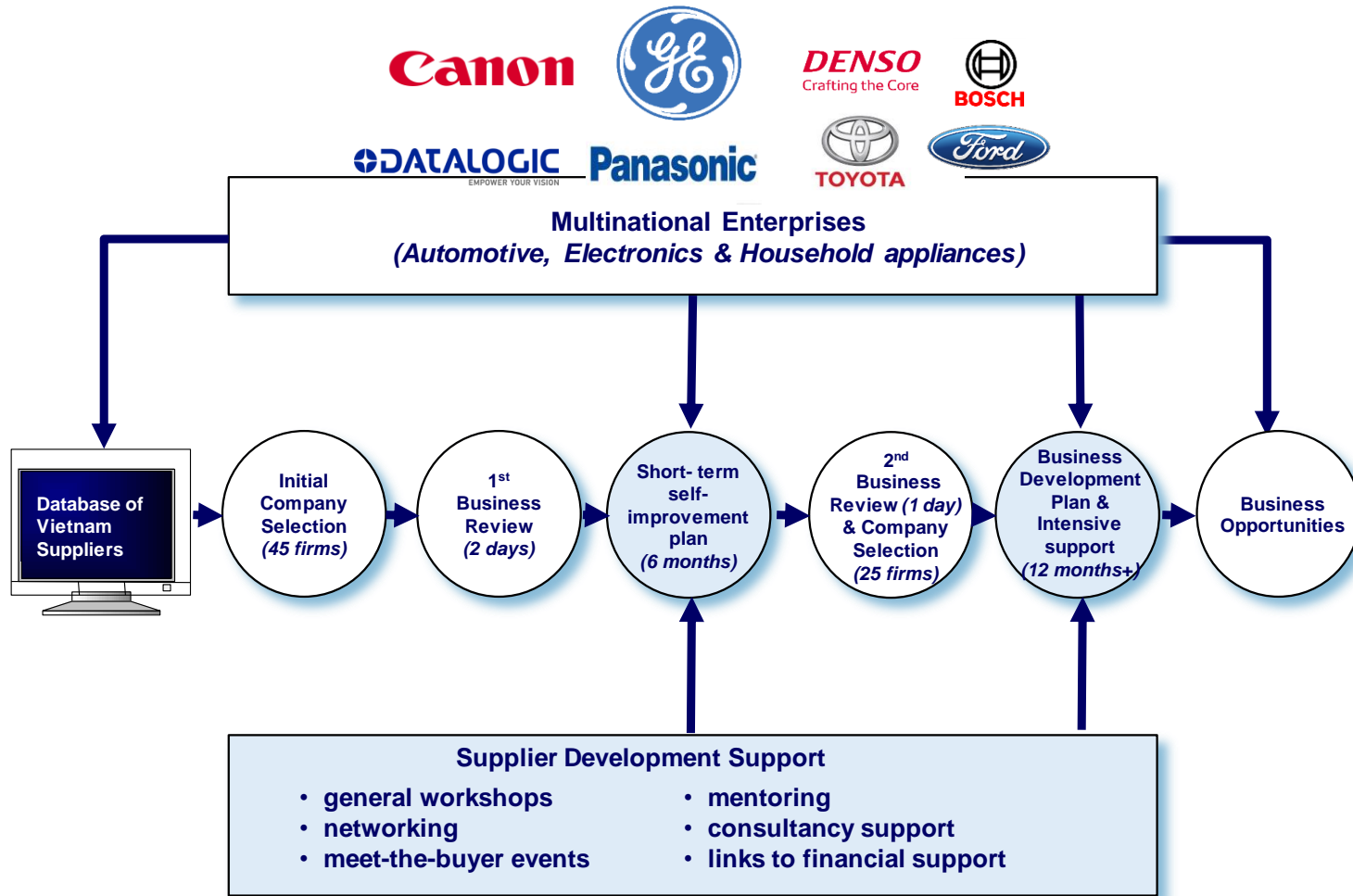
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Upgrading of local suppliers is necessary and works – IFC experience



Example - Vietnam Supplier Development Program



Outcome of Phase 1

- Out of 45 companies that started the program, **companies improved from BR1 to BR2 on average:**
 - ✓ +44% (highest percentile, top 25% of companies)
 - ✓ +24% (third percentile, 50-75%)
 - ✓ +15% (second percentile, 25-50%)
 - ✓ <10% (lowest percentile, 0-25%)
- Participants reported the following results:
 - ✓ 70% **increased capacity** and applied new standards and management tools
 - ✓ 50% witnessed increased **profit and turnover**
 - ✓ 42% established **new connections** with MNE buyers
 - ✓ 9% became **formal suppliers** of MNE buyers
- 3 companies dropped out during phase 1 –could not continue the time commitment