

Attracting Investment Facilitated by Corporate Governance In Mongolia

Attracting investment in Mongolia—at least in non-extractive sectors—has been challenging, especially since the country’s economic downturn in 2011. But Mongolian corporations that put good corporate governance practices in place have attracted attention from investors, sometimes resulting in fruitful, long-term partnerships.

Khan Bank, a leading lender to smaller businesses and an IFC client since 2004, attributes over \$120 million of additional investment between 2011 and 2014 to improved corporate governance. Such investments have helped the bank improve its services: it now has more than 500 branches and provides banking services to an estimated 70 percent of the Mongolian population; its total number of customers grew 15 percent to 2.3 million and its asset and loan portfolios increased by 24 percent and 7 percent, respectively, from a year ago. The corporate governance improvements also enabled Khan Bank to sustain a far better performance than its major competitors during challenging times in recent years.

Tenger Financial Group (TFG), another IFC client, reports a similar experience. TFG and its main subsidiary XacBank acknowledge that better corporate governance “played a significant role” in obtaining around \$400 million in new investments between 2011 and 2014. The additional funds enabled XacBank to successfully turn itself from a microfinance institution into a large-scale commercial lender. XacBank’s sound performance and growing reputation helped it obtain funding from eight international finance institutions including IFC and FMO; in turn, XacBank funds the growth of thousands of micro, small and medium enterprises.

Both XacBank and Khan Bank employ thousands of Mongolians, providing steady jobs and sustaining the local economy. In Mongolia, better corporate governance helped a total of five IFC client firms improve performance; three of them managed to access financing of over \$400 million, of which \$177 million was from IFC.

IMPROVING CORPORATE GOVERNANCE IN MONGOLIA

Mongolian firms were eager to become more attractive to foreign investors, who more often eyed opportunities in neighboring countries. Better corporate governance—which brings more discipline and transparency to corporate management and decision making—was one way to do that. Few of the top corporations in the country practiced good corporate governance when IFC launched its Mongolia corporate governance project, and none met the standards of international best practices. A big part of the problem was a lack of awareness of corporate governance and limited opportunities to learn about it.



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IFC partnered with local institutions to prepare materials in Mongolian on corporate governance and conducted a series of training events led by international experts in the field. The project developed seven publications, including a corporate governance guide for family businesses, a board secretary manual, and a corporate governance handbook with model templates. OECD Principles on Corporate Governance were translated and widely distributed in the country.

Five IFC clients received in-depth training and subsequently incorporated more than 25 documents, including a corporate governance code, into their business models to improve their board operational and committee procedures. All clients reported improvement in the board and management's overall commitment to corporate governance, shareholder meetings and board activities, transparency, risk governance, and internal controls.

Broader outreach was achieved by training trainers in local institutions who reached a total of 331 firms and trained more than 2,600 people. IFC helped eight partner institutions build up their capacity to independently provide corporate governance services in the future.

In addition to the training, IFC completed several additional activities: (i) working with the Mongolian Financial Regulatory Commission to develop the nation's corporate governance code; (ii) developing a corporate governance scorecard to help companies track and improve their performance; and (iii) improving legislation and increasing public awareness of corporate governance.

REALIZING REAL BENEFITS

The benefits of better corporate governance in Mongolia extend beyond IFC's client base. Mongolia's ranking under the minority investor protection category in the World Bank Group's Doing Business report improved from 24th in 2009 to 8th in 2016. Doing Business attributes this to strengthened investor protections by increasing the disclosure requirements for related-party transactions. This reflects the corporate governance project's work on disclosure regulation and the new corporate governance code.

Mongolian companies today are much better positioned to improve their corporate governance, raise their productivity, and attract credible business and investment partners. Legislation is more supportive, institutions now have the capacity to provide the necessary training, and world-class materials on corporate governance are available in Mongolian. Corporate governance can give Mongolia an edge as it develops its significant mineral resources and positions itself in international markets.

To learn more about IFC's work in corporate governance, visit www.ifc.org/corporategovernance.



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