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# Easier, Faster, Cheaper:

## Monetized Benefits: Results of Mongolia's First-Year BEE Reforms

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Main Author: Olin McGill  
Contract No. 438-C-11-00001  
Submitted by: BPI Project/Chemonics International Inc., Express Tower, 12<sup>th</sup> Floor,  
Chingeltei District, Ulaanbaatar, Mongolia  
Telephone and fax: (976-11) 32 13 75 Fax: (976-11) 32 78 25  
Contact: Efrain Laureano, Chief of Party  
E-mail address: [elaureano@bpi-chemonics.biz](mailto:elaureano@bpi-chemonics.biz)



## ABBREVIATIONS AND ACRONYMS

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BEE	Business enabling Environment
BPI	Business Plus Initiative Project
CGA	Customs General Administration
CIT	Corporate income tax
CO	Certificate of origin
CSC	Citizens Service Center
DB	Doing Business
ERC	Energy Regulatory Commission
EW	Employee withholding tax
GASI	General Authority for State Inspection
GASR	General Authority for State Registration
GDP	Gross domestic product
GDT	General Department of Taxation
GSVM	Government service vending machine
ITPTA	Information Technology, Post, & Telecommunication Authority
MASM	Mongolian Agency for Standardization and Metrology
MCUD	Ministry of Construction and Urban Development
MNCCI	Mongolian National Chamber of Commerce & Industry
MOF	Ministry of Finance
NARTAM	National Road Transport Association in Mongolia
OCRS	Online company registration system
OSC	One-stop shop
PCA	Post-clearance audit
QFS	Quarterly financial Statements
QR Code	Quick response code
SID	Social Insurance Department
TCC	Tax compliance certificate
UBEDN	Ulaanbaatar Electricity Distribution Network
USAID	United States Agency for International Development
VAT	Value-added tax



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## EXECUTIVE SUMMARY

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### Introduction

Actually implemented reforms in five different regulatory regimes are making it easier, faster, and cheaper for Mongolian enterprises to do business. The same reforms that reduce compliance burdens on business are also improving the capacity of regulators to detect avoidance and evasion, and better enforce obedience to legal requirements.

This report monetizes the benefits of Mongolia’s actually implemented reforms to estimate the efficiency savings achieved by business and government. As appears from Table 1, right, the total monetized benefits to date of the actually implemented reforms undertaken by the Mongolian Government, with support from the private sector and technical assistance by the USAID Business Plus Initiative Project, totals 9.4 billion MNT, more than \$5.6 million USD.

In the sections that follow, the report describes the specific reforms implemented and the savings to date generated by each reform in five different regulatory regimes, all of which are measured by the annual World Bank *Doing Business* survey:

- Starting a Business
- Dealing with Construction Permits
- Getting Electricity
- Paying Taxes
- Trading Across Borders

A final section – Miscellaneous Reforms – monetizes the benefits of one of an increasing number of new automated services available on “Government Service Vending Machines” that are being distributed throughout Mongolia in public areas such as post offices and train stations. This innovation, introduced by Mongolia’s Information Technology, Post, & Telecommunication Authority (ITPTA) is dramatically reducing the costs to businesses and citizens of obtaining basic services. Very likely, if all of the savings from each of the growing number of services offered were monetized, total savings would equal or exceed those described herein.

### Monetizing Benefits Methodology:

The estimates of efficiency savings cited in this report were calculated using the “quantifying costs/monetizing benefits” methodology developed on the USAID/Georgia Business Climate Reform Project. The methodology, described in Appendix 1, is used to estimate in monetary terms the costs of inefficiencies that are targets of future reforms or the savings to business and government that are produced when reforms are actually implemented. The methodology, like the Standard Cost Model, is an outgrowth of pioneering work on regulatory impact analysis from the Netherlands. However, it takes a more open approach that includes real costs of inefficiency that other approaches often overlook, including inefficiencies in

**Table 1. Total Monetized Benefits**

Doing Business Indicator Area	Cumulative Monetized Benefits (MNT)
Starting A Business	748,631,009
Dealing with Construction Permits	348,882,512
Getting Electricity	351,740,837
Paying Taxes	7,218,972,177
Trading Across Borders	748,257,461
Miscellaneous Reforms	899,070
<b>Total in MNT</b>	<b>9,417,383,066</b>
<b>Exchange Rate</b>	<b>1,670</b>
<b>Total in USD</b>	<b>\$5,639,152</b>

regulatory implementation and practice, costs to government of its own inefficiency, and the opportunity costs to business from unnecessary delays.

The opportunity cost savings generated by Mongolia's reforms, particularly in construction permitting, are likely to be very high. Unfortunately, the data needed to estimate the opportunity cost savings to date was unavailable. However, Section 2, Dealing with Construction Permits, illustrates the approach, and suggests that streamlined permitting is giving considerable extra value to investment in this sector.

Table 2 provides an example of the analysis used to quantify the costs of inefficiency or monetize the benefits of reform, in this case eliminating the procedure to register at the tax office when starting a business. As described in Section I, Starting a Business, two government agencies – the General Authority for State Registration (GASR) and the General Department of Taxation (GDT) agreed to share information directly between themselves, eliminating the need for entrepreneurs to shuttle information between them.

**Table 2. Transaction Costs for Tax Registration in Starting Business**

Cost Item	Description/Calculation	Value	Source
Average time to register at tax office	Roundtrip to tax office	3.5	ELC Law Firm
Average monthly salary of business employee handling tax registration (MNT)	Senior enough to engage with GDT official	900,000	ELC Law Firm
Hourly rate of employee handling tax registration (MNT)	Monthly Salary / (4.3 weeks X 40 hours)	5,233	Calculated
<b>Employee costs per registration (MNT)</b>	<b>Hourly rate X Average time to register</b>	<b>18,314</b>	<b>Calculated</b>
<b>Travel Costs (MNT)</b>	<b>6 KM roundtrip X 700/KM for taxi</b>	<b>4,200</b>	<b>GDT Estimate</b>
<b>Total Savings (MNT)</b>	<b>(Time X Hourly Salary) + Travel Costs</b>	<b>22,514</b>	<b>Calculated</b>

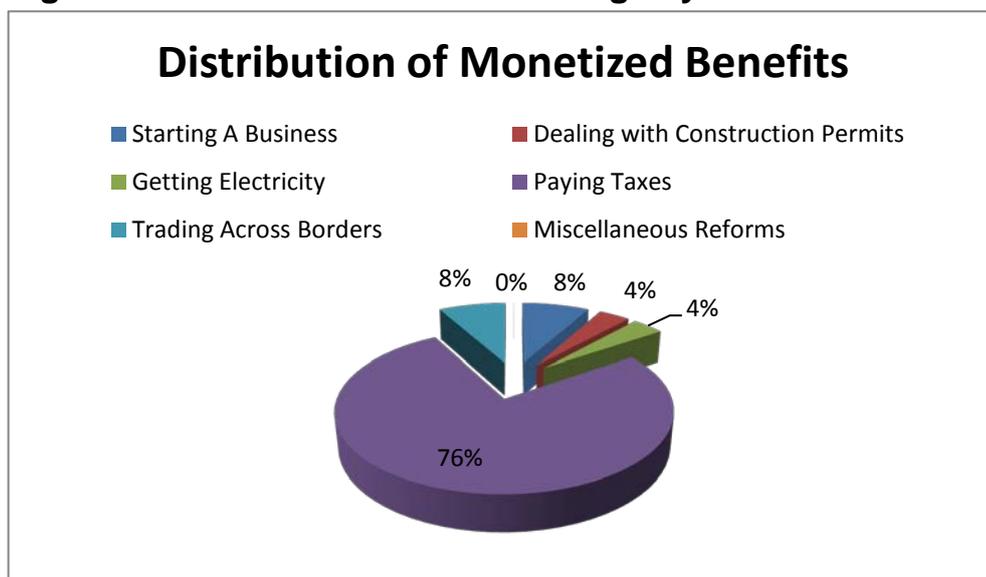
The analysis calculates the cost per transaction – a new business registration – saved by the reform. The table identifies the sources of savings, and the formulas and variables used to calculate the total savings per transaction. In the case of Table 2, the two major sources of savings are employee time to travel to and from the tax office, and the transportation costs of doing so. The efficiency savings depicted in Table 2 can be summarized as follows:

- On average, according to a Mongolian law firm with experience in new business registrations, it takes about 3.5 hours to travel to and from the tax office to deliver the necessary documents to GDT and receive the necessary documents from GDT.
- The average monthly salary of the type of employee who would be dispatched to GDT for tax registration, senior enough to interact with and answer questions from GDT officials, is about 900,000 MNT.
- The hourly rate of the employee can be calculated from the monthly salary. The formula is 900,000 MNT divided by (4.3 weeks in a month X 40 hour per week). The resulting calculation produces an hourly rate of about 5,233 MNT.
- Multiplying the average time to register – 3.5 hours – times the hourly rate of the employee who does the registration produces an average employee cost per registration of 18,316 MNT.
- On average, a roundtrip to the tax office is about 6 kilometers and costs 700 MNT per kilometer, for average travel costs of 4,200 MNT per transaction.

- Adding travel costs and employee costs produces an estimated savings of 22,516 MNT for every new registration where businesses don't have to register at the tax office

The final step in quantifying costs or monetizing benefits is to multiply the savings for each transaction by the total number of transactions affected. Figure 1 illustrates an obvious result – the larger the number of transactions the greater the savings from increased efficiency. As Figure 1 shows, a Paying Taxes reform – eliminating

**Figure 1. 8.8 Billion MNT Total Savings by Reform Area**



mandatory paper filing of tax reports – produced 76% of the total savings to date because of the huge volume of transactions affected. As noted in Section 5, Paying Taxes, since the option for taxpayers to file only electronically was first introduced in June 2012, more than 500,000 corporate income tax, employee withholding, and VAT returns have been filed in electronic form only.

### Cumulative v. Annual Monetized Benefits:

Georgia and other countries that use the monetized benefits generally use an annualized approach. Take the reform described in Table 2, above, eliminating tax registration as part of Starting a Business as an example. Using the annual monetized benefits approach, we would multiply the cost per transaction times the total number of transactions for the 12 months prior to the reform. Major advantages of this approach are that data collection is relatively simple, and it immediately produces a big number that has powerful persuasive effect.

**Table 3. Cumulative Approach to Monetizing Benefits of Starting a Business Reforms**

Savings	Savings per Registration	Cumulative Transactions Affected	Cumulative Monetized Benefits	Number of Cases Registered						
				Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Eliminating Tax Registration (All Legal Entities)	22,514	9,792.00	220,456,633	1,829	1,958	1569	1141	1121	1100	1074
Notary Savings for Charter, etc. (All Legal Entities)	43,500	9,792.00	425,952,000	1,829	1,958	1569	1141	1121	1100	1074
Savings on travel costs to visit notary (All entities except commercial entities with more than one shareholder)	14,665	3,267.00	47,910,935	623	723	535	411	347	325	303
GASR: Savings from reducing levels of review from three to two. (All legal entities)	5,547	9,792.00	54,311,442	1,829	1,958	1569	1141	1121	1100	1074
<b>Total Savings (MNT)</b>			<b>748,631,009</b>							

At the direction of USAID, BPI has used a cumulative approach to monetizing the benefits of reform, as illustrated in Table 3, above. Monetized benefits are tracked on a cumulative basis, going forward, based on actual numbers of affected transactions each month. In Table 3, the

monthly transactions affected by the reform are totaled in the Cumulative Transactions Affected column.<sup>1</sup> Multiplying the cumulative total transactions times the savings per transaction produces the cumulative monetized benefits.

The disadvantages of this approach are exactly the reverse of the advantages of the annualized approach: data collection has proven to be very difficult. As noted frequently throughout this report, better data would have produced much more impressive results. Even where data is available, the cumulative approach takes longer to produce big, impressive numbers.

The advantages of the cumulative approach, however, may outweigh the disadvantages. Advantages include the following:

- The cumulative approach highlights the inability and/or unwillingness of those responsible for burdensome requirements to track the burdens they impose. It's actually quite extraordinary, for example, that CGA can't tell identify what percent of customs declarations are accompanied by each type of documentation.
- Tracking affected transactions on a cumulative basis may be the best way to test that a reform is actually working in practice. Had CGA been able to report out on what percent of declarations required each different type of documentation, for example, then reformers would have been alerted early on that the Customs Law amendments slashing the number of mandatory documents wasn't working out in practice.
- The data required by the cumulative approach to monetizing benefits generates persuasive evidence to support recognition of reforms by the Doing Business team. The Government's report to the Doing Business team arguing for reductions in time on Dealing with Construction Permits, and Getting Electricity, for example, which were recognized by DB 2014, were based on data gathered to monetize the benefits of those reforms.
- Although the initial estimates of monetized benefits are lower under cumulative approach than under the annual approach, the cumulative approach will catch up after the first year, and continue to provide an ongoing measure of the efficiency savings generated in future years. The annual approach, by contrast, is generally a one-off estimate based on the prior year's unreformed transactions. Thus, the cumulative approach is likely to ultimately produce both larger and more accurate estimates, because it includes the increase in transaction volumes that inevitably accompany genuine reform.

## Recommendations:

Monetizing the benefits of reforms provides important feedback to policy-makers and the public about whether and how well reforms are working. The following measures can help assure that more accurate estimates of the results of reforms are collected on an ongoing basis:

- Monetized benefits should be an indicator for each reform.
- Reform plans for each indicator should include as an action item setting up the relevant information system to report on key variables of the reform.
- Reform action plans should include an explicit requirement for monthly reporting to the cabinet secretary of the number of transactions affected by reforms.
- BPI should support the cabinet secretary and relevant agency heads in regular reports to citizens of the cumulative monetized benefits of reforms.

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<sup>1</sup> BPI has created a Microsoft Excel-based tracker to track the cumulative monetized benefits of actually implemented reforms. Table 3 is a reproduction of the Starting a Business worksheet from that tracker.

## SECTION 1: STARTING A BUSINESS

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The General Administration for State Registry (GASR) introduced three significant reforms during the first year of focused BEE reforms. Each introduces measurable efficiency savings for business and government. Even more significant reforms are underway, and are likely to produce much greater efficiency savings during the Year 2 reform period.

### Actually Implemented Reforms:

The three reforms actually implemented during the Year 1 reform period are:

- **Tax registration eliminated:** By mutual agreement, the GASR and GDT eliminated, effective Feb. 27, 2013 the requirement for registration with the new business' local tax office. Under the new procedure, GASR prepares periodic updates of new registrations and provides them to GDT, which updates its own records without the need for involvement by the new business. The Doing Business team, which scored tax registration as requiring one procedure and one day on DB 2013, has advised the Government that it accepts the reform as implemented and will score Mongolia on DB 2014 accordingly.
- **Reduced notary requirements:** Effective Feb. 26, 2013, GASR Internal Procedure 227 eliminated the requirement that most company documents, including the charter, be notarized (Procedure 3), eliminating one procedure and one day. This reform has limited effect, however, because of a statutory requirement that shareholders agreements for legal entities with more than one shareholder or founder must be notarized. Thus, the efficiency savings of this reform apply only to legal entities with not more than one shareholder. The Doing Business team, which scored notarization as requiring one procedure and one day on DB 2013, has advised the Government that it accepts the reform as implemented and will score Mongolia on DB 2014 accordingly.
- **More efficient processing:** GASR also changed its own internal methods for registering a business, including eliminating one of three levels of approval authority, and tightening processes. GASR's own log of applications received and resolved shows that these changes have reduced the time it takes to register a new business from six days to three. The Doing Business team, however, advised the Government that private sector representatives they contacted have not confirmed that GASR's internal process improvements have led to faster registration. Accordingly, this reform will not be reflected on DB 2014, but the DB team will continue monitoring results for future years' reports.

## Monetized Benefits of Starting a Business Reforms:

Table 4, at right, summarizes the 749 million MNT in total cost savings that GASR's actually implemented reforms have produced from March 2013, when they were introduced, through September 2013.

The cost savings for each transaction were calculated as illustrated by Table 2, above.

Three of the four cost savings apply to all new companies registered from March through September – a total of 9,792, according to GASR. However, travel costs savings from no longer having to visit notaries apply only to the 3,267 legal entities with a single shareholder or founder. New legal entities with more than one shareholder must still travel to a notary to get their shareholders agreements notarized, although they do benefit from the savings in notary fees generated by the elimination of all other notary requirements.

## Reforms Underway:

Two major initiatives currently underway are likely to produce even greater monetized benefits than the reforms described above:

- **Online company registration:** GASR is now engaged in final testing of a new online company registration system (OCRS), developed with USAID support. The new OCRS, which will be fully operational by the end of 2014, will provide an online “one-stop-shop” process for business registration. The OCRS will permit business owners to register their businesses online, including payment of fees, and registration with tax authorities and the Social Insurance Department. The OCRS will also provide other efficiency savings, including simplified amendments to prior business registrations, and online search of the business registry.
- **Streamlined legal framework:** New legislation to reform the process for registering and incorporating a company in Mongolia is now being reviewed by the Ministry of Justice before submission to the Cabinet for approval and then to Parliament for passage. When adopted, the new regulatory framework will, in combination with the OCRS, greatly reduce the time and transaction costs to register a new legal entity. Name search, payment, and registration will be an online process. Notarization requirements will be eliminated, as will the requirement for a company seal.

**Table 4. Total Monetized Benefits of GASR Reforms**

Cost Savings of GASR Reforms (March-September 2013)	Savings per Registration	Total New Cases Affected	Cumulative Monetized Benefits
Tax registration eliminated (All new legal entities)	22,514	9,792	220,456,633
Reduced notary requirements (All new legal entities)	43,500	9,792	425,952,000
Savings on travel costs to visit notary (All entities except commercial entities with more than one shareholder)	14,665	3,267	47,910,935
Savings from reducing levels of review from three to two. (All legal entities)	5,547	9,792	54,311,442
<b>Total Monetized Benefits</b>			<b>748,631,010</b>

## **SECTION II: DEALING WITH CONSTRUCTION PERMITS**

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Mongolia launched a dramatic overhaul of its construction permitting procedures during Year 1 of its BEE reforms. Although the reforms were not as effective in reducing transaction costs as originally hoped, they laid a firm foundation for future savings for business and government.

### **Actually Implemented Reforms:**

Cabinet Resolution No. 151, issued December 1, 2012, provides a transitional framework for regulating construction permitting while a new Construction Code is developed by the Ministry of Construction and Urban Development (MCUD) and approved by Parliament. Both the Resolution and the draft law were influenced by the experience of Georgia. Key reforms introduced by the Cabinet's decree include:

- **Risk-based regulation:** Resolution 151 creates three risk-based categories for construction projects. MCUD will retain jurisdiction over permitting for major, complex construction projects such as bridges, airports, and buildings with more than 17 floors. Municipalities like UB now have jurisdiction over medium-risk projects like those envisioned by the Starting a Business hypothetical and small, low-risk projects. The Doing Business team has acknowledged this reform.

Risk-based regulatory regimes have multiple advantages. First, tailoring regulation to risk allows simpler, lower-cost procedures to be put in place for lower-risk projects. Second, regulatory resources diverted from lower-risk projects can be allocated to high-risk projects, allowing them to be processed both more quickly and more effectively. Finally, when regulators allocate their resources to high-risk projects, they are better able to detect and correct non-compliance.

- **State role curtailed:** The Cabinet Decree removed the General Authority for State Inspection (GASI) from any role in construction inspection. This change produces transaction cost savings for both business and government and for all three risk categories. These benefits have not been monetized. Doing so is not difficult technically, but requires statistical information from GASI. The Doing Business team has acknowledged this reform.
- **Duplicative state review eliminated:** Two important reforms that produce significant savings per transaction for medium- and low-risk projects are elimination of state technical review of drawings before a construction permit is issued, and elimination of a final state inspection before occupancy. Prior to the Cabinet Decree, medium- and low-risk projects were subject to technical review and final inspection by both local and state authorities. The reforms, thus, eliminate duplicative procedures. The Doing Business team has acknowledged this reform.
- **Mandatory deadlines:** The Cabinet Decree streamlined the construction permitting process, with mandatory deadlines for completion of each stage of the process. The Doing Business team has advised the Government that construction professionals consulted in preparation for the DB 2014 report have not detected reductions in time, but promised to continue monitoring results for future Doing Business reports. Logs maintained by the UB construction department show, as discussed below, that the deadlines are in fact being met.

- **Municipal one-stop shops:** The Cabinet Decree establishes procedures to process construction permits at municipal one-stop-shops. The Ulaanbaatar Municipality has begun to incorporate one-stop construction permitting services into its new “Citizen Service Center” (CSC), which opened its doors at the end of December 2012. However, as the Doing Business team advised the Government, the CSS is not fully operational. In a fully functional one-stop-shop, an applicant delivers its request for a construction permit and supporting documentation to a receptionist, who logs in the documents. Processing by the different agencies and departments whose review and approval is required takes place behind closed doors, with no interaction with the applicant. Upon resolution – approval or denial – the applicant picks up the permit or rejected application from the receptionist. In the case of the Ulaanbaatar CSC, applicants are registering their applications, and then walking their paperwork to the various agencies and departments to collect the necessary approvals. Thus, the CSC has, thus far, produced no transaction cost savings.

While the CSC may not be reducing the number of procedures or the time that builders spend interacting with regulators, it certainly seems to have reduced processing times:

- For example, DB 2013 reported that the process of obtaining permission to build on a particular plot of land and approval of preliminary drawings took 43 days. The new framework created by the Cabinet Decree requires resolution of these matters within 35 days. CSC records show that from early February, when the CSC began processing applications under the new framework, through mid-April, the last date for which statistics are available, a total of 453 applications were received. Of those, 282 were resolved, and 171 were pending. None of those pending had exceeded the deadline. The 282 resolved applications averaged less than 21 *calendar* days, with 75% clearing within 28 calendar days, savings of 15 days. None exceeded the 35 working day deadline.
- Similarly, DB 2013 reported that approval of final drawings by the municipality’s chief architect took seven days, and approval by the state technical expert took another 30 days. Thus, by eliminating state expertise for medium and low-risk projects, the new framework under Resolution 151 saves 30 days. The CSC reports that 59 projects that received preliminary approval under the old procedures were submitted for final approval of drawings under the new procedure through mid-April. All 59 received final approval of drawings within seven days.
- Time for issuing construction permits has been reduced from the 21 days reported on DB 2013 to the three days required by Resolution 151, saving 18 days. All 59 applications described above received permits within three work days after approval of final drawings.

## Monetized Benefits of Dealing with Construction Permit Reforms:

Reductions in delay are among the biggest sources of savings to business from reforms that make regulation more efficient. The construction reforms described above save at least 63 days – 30 days from elimination of state expertise, 15 days from faster approval of preliminary drawings, and 18 days from faster issuance of construction permits.

Unfortunately, we could find no data available to estimate the opportunity cost savings to builders from the reforms that enable them to be recovering their investment 63 days sooner. To estimate opportunity costs on a cumulative basis, we would need to know the value of the medium- and low-risk projects submitted for approval to the UB CSC each month.

However, Table 5, above, demonstrates that for each one billion invested in new medium-and low-risk construction projects in Ulaanbaatar, builders get an investment premium of about 31.4 million MNT. This is because once a decision is made to invest, the investor's capital is frozen, locked in until the project is completed and begins turning a profit. The more efficient the regulatory process, the sooner an investor begins seeing a return on its investment and the more attractive it becomes to invest. The calculation is fairly simple. Mongolia's annual prime rate of 18.2 percent represents a reasonable estimate of the cost of capital. Dividing the prime rate by 356 days gives us a daily opportunity cost rate of 0.50 percent. Multiplying this daily rate times 1 billion MNT produces the opportunity cost to builders from each day of delay per billion MNT. Multiplying this daily opportunity cost – 498,630 MNT – times the 63 days saved produces an estimate of the investment premium, per billion MNT invested, the Mongolia's construction reforms have produced for builders – 31,413,699 MNT.

Table 6, right, shows the monetized benefits to date – 348,882,511 – MNT from the two reforms for which enough data is available to calculate the efficiency savings. Eliminating state technical review of preliminary drawings has saved about 200,047 MNT each for 1,154 new permit applications, a total of about 231 million MNT.

**Table 5. Calculating Opportunity Cost Savings of Reduced Delay**

Prime Rate (annual) <sup>2</sup>	18.2%
Daily opportunity cost rate (Prime rate / 365 days)	0.050%
Savings per day per 1 billion MNT (1 billion X Daily opportunity cost rate)	498,630 MNT
Number of days saved	
Elimination of State Expertise	30
Faster Approval of preliminary drawings	15
Faster issuance of construction permits	18
Total Days Saved	63
<b>Total Opportunity Cost Savings per 1 billion MNT invested (Savings per day X Number of days)</b>	<b>31,413,699 MNT</b>

**Table 6. Monetized Benefits for Construction Reforms**

Construction Reforms Cost Savings (Feb-October, 11, 2013)	Savings per Application	Total New Cases Affected	Cumulative Monetized Benefits
Eliminating State Expertise, for low and Medium Risk Projects	200,047	1,154	230,853,674
Elimination of final inspection by State Commission	326,047	362	118,028,837
<b>Total Monetized Benefits</b>			<b>348,882,511</b>

<sup>2</sup> Prime interest rate for Mongolia in 2012 as reported at <http://mecometer.com/whats/mongolia/commercial-bank-prime-lending-rate/>.

Although the savings per transaction were higher for elimination of the redundant final inspection by a state commission – 326,047 MNT, fewer cases –362 – made it through the construction pipeline, so the total savings to date are less, about 118 million MNT.

Note that the savings per application for both reforms are an order of magnitude greater than those for Starting a Business reforms, Table 4, above. The reason is that the Starting a Business reforms made administration more efficient, saving hours or minutes. The construction reforms, by contrast, eliminated substantive duplication. Highly-paid construction engineers were required to prepare for and engage with State construction regulators, a process that takes about two days in each case.

### **Reforms Underway:**

Two primary areas of continuing reforms to construction regulation are:

- A new Construction Code that incorporates the best practice experience from Georgia and other reforming countries is being finalized by MCUD, and will replace the transitional framework provided by the Cabinet Decree, Resolution 151.
- Although UB's CSC is already handling construction permits and meeting the deadlines mandated by Resolution 151, internal business processes and supporting IT solutions are still under development. As the CSC consolidates and improves its operations, further reductions are likely in time and the number of procedures that builders have to carry out.

## SECTION III: GETTING ELECTRICITY

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### Actually Implemented Reforms:

Three reforms introduced for Getting Electricity present several interesting issues, both for reforms generally and for the process of monetizing benefits.

- **Instant answer website:** The Ulaanbaatar Electricity Distribution Network (UBEDN) has implemented measures to provide easier public access to information about where new electricity connections are possible, reducing the time and expense required. Electricity supply is currently a major constraint on new construction. In some areas, no supply is available, so new construction is not possible unless the builder provides its own electricity supply. In the past, those seeking a new electricity connection had to submit a formal application, meet a UBEDN engineer at the site, and then await disposition. This process burdened the applicant and UBEDN personnel with unnecessary paperwork when the project proposed was in an area where no electricity supply was available. UBEDN has updated its website with a feature that provides almost instant replies to queries on whether an electricity connection is available at the proposed site. The applicant enters the district and neighborhood where the proposed site is located, and the website immediately returns either “possible” or “impossible.” This information has also been made available to UBEDN call center personnel who can provide the same quick response to callers. As appears from Table 7, below, this reform has produced savings for both business and government. The reform saves government by allowing it to divert three full-time engineers from advising applicants on whether electricity is available to issuing technical conditions in applications where it is available. The Doing Business team has acknowledged that the time for getting technical conditions has been reduced.
- **Streamlining issuance of technical conditions:** This reform under an order by the Energy Regulatory Commission (ERC) illustrates that not everything that looks like an efficiency improvement on paper work appeals to its intended beneficiaries. The reform streamlines issuance of technical conditions by eliminating the requirement that the applicant meet with UBEDN’s engineer at the site. The theory was that applicants would just apply, and then wait for UBEDN to issue technical conditions. Construction company engineers consulted by BPI were adamant, however, that they do not want to forgo the opportunity of visiting the site with the UBEDN engineer so they can have input into the technical requirements and conditions before they are issued. Accordingly, this reform has produced no savings.
- **Merging final inspection, signing of contract, and sealing of meter:** Prior to this ERC reform of electrical connection procedures, a builder was required to undergo three separate procedures on different days – meet with UBEDN at the site for a final inspection of the electrical connection, travel to the UBEDN office to sign the power supply contract, and then meet again at the site where the meter was sealed and electricity began flowing. The ERC reform merges the three procedures, so that signing of the contract and sealing of the meter both take place at the time of final inspection. The ERC’s order also requires that UBEDN connect the electricity, seal the meter and conclude the power supply contract all within three days of the builder’s request. If successfully implemented, the reform will eliminate two procedures and four days. However, the Doing Business team was unable to find evidence that the streamlined procedure had been applied, and, at the time of this writing, BPI could find no such evidence.

## Monetized Benefits of Getting Electricity Reforms:

**Table 7. Cumulative Monetized Benefits of Getting Electricity Reforms – May-September 2013**

Savings	Description/Formula	Savings per Defined Unit	Cumulative Transactions	Cumulative Monetized Benefits
Savings to business from instant answer from website on whether technical conditions are available	Savings per transaction X number of applications received for Technical Conditions	130,419	2,582	336,740,837
Savings to UBEDN from instant answer on whether technical conditions are available	Monthly salary of three UBEDN inspectors (1 million MNT each X five months)	3,000,000	5	15,000,000
Savings to builder from ERC streamlining of technical conditions issuance that allows builder to skip onsite inspection after application	Meeting is too important to miss, so 0 MNT per transaction assigned	0	0	0
Savings to builder from ERC reform allowing supply contract to be signed and meter sealed at time of the final inspection	Savings per transaction X number of final inspections	130,419	0	0
<b>Total Cumulative Benefits</b>				<b>351,740,837</b>

UBEDN's instant answer website produced all of the monetized benefits for getting electricity from May, when it was implemented, through September. The calculations show savings of 130,419 MNT each for the 2,582 applications processed during that time, a total of almost 337 million MNT. Actual savings, however, are likely to be considerably greater, since persons interested in building were able to avoid the cost of applying for connections in locations where no electricity was available.

Creating the instant answer website feature also produced savings for UBEDN, allowing it to divert three fulltime engineers from informing builders whether electricity was available to producing technical conditions. The monthly payroll for the three engineers is 3 million MNT, 1 million MNT each. Over the course of the five months the website feature has been in operation, UBEDN has saved 15 million MNT. Two points deserve mention about these calculations:

- It could be argued that the UBEDN savings aren't real because the engineers were merely transferred. However, they were transferred to higher value work, which produces additional sources of benefit that haven't been monetized. For example, diversion of three engineers to processing applications allows UBEDN to begin receiving revenues sooner because connections are made sooner, and builders begin consuming power sooner.
- Total savings for business – 337 million MNT – are more than 22 times the 15 million MNT savings for UBEDN. This illustrates the point that improved regulatory efficiency invariably generates far greater savings for business than for the regulator. This is true because the regulated far outnumber the regulators.

**Reforms Underway:**

UBEDN is working with officials at the Ulaanbaatar municipality to incorporate processing of applications for electrical connections into the new Citizen Service Center to provide one-stop shop processing for all construction-related permitting of medium- and low-risk projects.

## SECTION IV: PAYING TAXES

### Actually Implemented Reforms:

GDT implemented an e-signature system in June 2012 that eliminated the requirement that taxpayers file paper copies of reports for corporate income tax (CIT), value-added tax (VAT), and employee withholding (EW). Online filing has been available for all three taxes as well as for filing of Quarterly Financial Statements (QFS) with the MOF and social insurance payments to the Social Insurance Department (SID) for several years.

GDT and other agencies have long encouraged online filing to facilitate timely and accurate processing of tax returns, which is only possible with digitized information. However, filing of paper returns was also mandatory, because it was believed that only a physically signed, duly sealed piece of paper could establish a taxpayer's legal liability for the contents. Thus, Mongolia has required taxpayers to engage in the duplicative, costly process of filing both paper and electronic returns. Implementation of the e-signature system provides the electronic equivalent of physical signing and sealing, allowing GDT to liberate taxpayers from the burden of mandatory paper returns in addition to online filing.

### Monetized Benefits of Paying Taxes Reforms:

**Table 8. Monetized Benefits of Paying Taxes Reforms – June 2012 – August 2013**

Tax	Accounting Costs		Paper Filing Time	Travel Costs	Cost per Report	Total Reports Filed	Total Savings to Date
	Monthly Rate	Hourly Rate					
CIT E-Filing Only (Quarterly)	600,000	3,488	4.5	4,200	19,898	171,394	3,410,342,009
Employee Withholding E-Filing Only (Quarterly)	500,000	2,907	2	4,200	8,560	143,353	1,227,170,438
VAT E-Filing Only (Monthly)	500,000	2,907	3	4,200	12,921	199,789	2,581,459,730
<b>Totals June 2012 – August 2013</b>						<b>514,536</b>	<b>7,218,972,177</b>

GDT's elimination of mandatory filing of paper returns for corporate income tax, employee withholding, and VAT reports accounts for 7.2 billion MNT, 76 percent, of the total 9.4 billion in monetized benefits from all reforms. Several reasons account for the huge impact of this reform, despite the fact that the costs per transaction are less than those in other areas like Dealing with Construction Permits and Getting Electricity:

- GDT's initiatives to modernize its tax information systems, including introducing e-signatures pre-dated the aggressive reforms introduced by the new Reform Government. E-signatures were introduced in June 2012.
- Although the cost per transaction is less than for other reforms, the volume of transactions at stake is far higher. As shown in Table 8, above, 514,536 reports have been filed online only since e-signatures were introduced.
- Taxpayers have acted very rapidly in taking advantage of the new efficiencies offered by GDT's e-signature solution. Between June 2012 and August 2013, when paper

filing was 100 percent for all three taxes affected, the percentage of taxpayers e-filing only has surged to 91 percent for corporate income tax and 100 percent for VAT. The percentage of taxpayers filing employee withholding returns electronically grew to 74 percent for the first quarter of 2013, but GDT has not provided a breakdown of total returns and e-only filings for subsequent quarters.

The primary information used to calculate the costs per transaction of filing paper returns was provided by a small survey of Mongolian accountants, carried out in cooperation with the Mongolian Federation of Employers. As appears from Table 8, more senior accountants prepare the corporate income tax reports than the employee withholding and VAT returns. The times to file paper include the accountant's time in personally delivering the report. The preparer was required to deliver the paper report in case the tax officer receiving the report had questions.

### **Reforms Underway:**

GDT is in the process of rolling out a very robust new platform for providing online taxpayer services that will provide even greater savings for taxpayers in the future. Among the new efficiency savings for taxpayers are:

- Under the old system, online filing consisted of filling out the electronic equivalent of a paper tax return online, field by field. Mongolian-produced accounting software is capable of generating paper returns using the accounting information it already contains, and providing the flexibility to adapt to tax accounting. The new taxpayer online services system will allow taxpayers to send their returns directly from their accounting software, without having to copy information into an online tax return.
- GDT, with BPI support, is developing an online payments module for the new system that will enable taxpayers to make payments directly from their bank accounts.
- Essential business services that aren't directly related to the Doing Business Paying Taxes indicator will be made faster, cheaper, simpler. One example is the automated issuance of tax compliance certificates, described in Section 6: Miscellaneous Reforms.

## SECTION V: TRADING ACROSS BORDERS

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### Actually Implemented Reforms:

Accounting accurately for the monetized benefits of truly significant reforms in the area of Trading Across Borders is complicated by several factors:

- Accurate, timely statistics have been very difficult to obtain from any of the relevant agencies.
- The true benefits of some reforms will only be derived when other ongoing reforms are fully in place.
- While border agencies are independently improving the efficiency of their individual operations, very little progress seems to have been made toward integrating their operations into a seamless whole-of-government process.

The primary reforms over the past year have been:

- **Mandatory documents reduced:** The Law on Customs was amended by Parliament, effective Jan. 11, 2013, to strictly limit the number of documents that can be *required* to export and import. For ordinary shipments, only three documents may be required – customs declaration, commercial invoice, and bill of lading. This represents a reduction in mandatory documents from 10 for export and 11 for import, as reported on DB 2013. In special cases, involving public health and safety or other important national interests, one of two additional approvals may also be required.

Both the Doing Business team and BPI's own inquiries with traders, however, have revealed that in most cases, traders continue to present voluntarily most of the documents that were previously mandatory. They do this, traders say, because presenting the additional information makes it easier to clear customs physical and documentary inspections, which account for well over 50 percent of shipments. Traders have advised both BPI and the Doing Business team that the documents are necessary to prove to customs inspectors that their goods are of the value and quality claimed on their customs declarations.

- **Faster Clearance:** Several measures have sped up clearance procedures at the borders:
  - A series of measures has reduced the time required for Customs clearance and technical control to one day each from the two days for exports and four days for imports reported on Doing Business 2013. This actual time was documented by a Time Release Study conducted by the Customs General Administration (CGA) and other border agencies with BPI support. The Doing Business team has recognized that exports now clear in one day, but say traders they contacted say that three days are required for imports.
  - The Customs General Administration (CGA) has upgraded its automated cargo selection module for risk management, with USAID support, and reduced physical inspections from 99 percent to about 67 percent. This has freed up some Customs resources for faster processing of those shipments that are physically inspected. However, the continuing high percentage of physical inspections plus the fact that most of the 33 percent of cargoes not undergoing physical inspection still require documentary review means that traders are unable to take advantage of the new law that makes only three documents mandatory. Rather, they must continue to buttress their declarations with as

much supporting documentation as possible to reduce the risk that they will get hung up in customs clearance.

- GASI, with IFC technical assistance, has improved the efficiency of its border inspections.
- More oversight by Ministers and the Cabinet has increased accountability and coordination among border agencies, and reduced inspections of goods that present little public risk.

### **Monetized Benefits of Trading Across Borders Reforms:**

Traders report that the customs law amendments reducing the number of mandatory documents to three have produced significant reductions in several costly document preparation processes, including:

- **Export certificates of origin (CO)** are required far less often. This has been the only savings that has been possible to estimate, though failure to obtain reliable statistics has made the calculations less clear cut than they should be, as described below.
- **Import certificates of origin** are also required less often. No data is available on what percentage of shipments benefit from this reform, because CGA says it is unable to extract from its records data on the numbers of certificates of origin from the exporting countries that were required before and after reforms.
- **Certificates of conformity:** Although traders interviewed by BPI say that certificates of conformity – certification that the goods meet applicable technical standards are down, statistics provided by the Mongolian Agency for Standards and Metrology (MASM) show no significant decline.
- **Export Certificates:** Traders also say requirements for GASI export certificates have declined. Statistics provided by GASI show that in 2012 only 6.5 percent of export declarations required export certificates. However, GASI did not provide statistics for 2013, necessary to calculate any savings.

Statistics provided by the Mongolian National Chamber of Commerce and Industry are hazy, permitting only a notional estimate of the monetized benefits of making COs voluntary rather than mandatory. BPI's estimate that this reform has saved exporters 748,257,461 MNT to date is based on the following calculations:

- CGA reports that a total of 67,428 export declarations were lodged in 2012.
- MNCCI reports that 40,000 COs were issued in 2012.
- Dividing 40,000 by 67,428 results, we find that 59.3 percent of export declarations in 2012 required a CO.
- MNCCI has advised that 70 percent fewer COs have been issued since the amendments to the Customs Law took effect in January.
- Since 70 percent fewer COs are being issued, we can multiply the original 59.3 percent times 30 percent, the amount still being issued, to get an estimate of 17.8 percent as the number of export declarations that now require COs.
- CGA reports that 42,087 export declarations have been lodged from January 13, when the Customs Law amendments took effect, through September.

- Multiplying the 42,087 declarations in 2013 times 59.3, the percentage of declarations with COs before the amendments, tells us that without the amendments 24,967 declarations would have required COs.
- Multiplying 42,087 times 17.8 percent gives us the number of declarations requiring after the amendments – 7,490.
- Subtracting 7,490, the number of declarations now requiring COs, from 24,967, the number that would have required COs before the amendments, tells us that 17,477 export declarations saved the cost of having to obtain a CO.
- Based on interviews with traders, BPI estimates the average cost per declaration of obtaining a CO at 42,814 MNT. This cost includes both the fee paid for the certificate and traders administrative costs in obtaining and delivering the CO. Multiplying this cost per declaration times the 17,477 declarations that avoided this cost produces an estimate of 748,257,461 MNT as the cumulative monetized benefits of measurable customs reforms to date.

### **Reforms Underway:**

A number of ongoing reforms should help to continue to reduce the compliance costs that traders now bear:

- CGA, with BPI support, is building a robust Post-Clearance Audit (PCA) team. As confidence and capacity grow, this will enable CGA to shift from over-reliance on physical and documentary inspections at the border to using PCA for valuation and other issues that require multiple documents to establish.
- CGA continues to experiment with its risk-management system, which uses automated selection of cargoes for physical or document inspection based on risk criteria.
- GASI, with IFC support, is developing a risk-based system for selection of cargoes for inspection.
- Parliament is considering a draft Law on Border Ports that would establish stronger administrative controls over all border agencies at each border crossing, with an express mandate to require the agencies to work collaboratively and meet customer service standards.

## SECTION VI: MISCELLANEOUS REFORMS

Mongolia's Information Technology, Post and Telecommunication Authority (ITPTA) is implementing a very innovative method of delivering public services easier, faster and cheaper. To date, ITPTA has installed 17 government service vending machines (GSVM) in high-traffic, public places like post offices and train stations. The GSVMs now offer immediate delivery of a variety of public documents and services, with many more to be added. Eventually, ITPTA plans to install 230 GSVMs around the nation.

Citizens use their biometric ID cards, which contain electronic identifiers, to access confidential government documents and private sector services. The documents printed out by the machine are fully legal and valid certificates, protected against fraud by a quick response (QR) code like that shown at right.<sup>3</sup> Services currently available include:

- Submission of citizen requests, comments, complaints
- Birth registration certificate
- Citizen ID card certificate
- Residence address certificate
- Divorce registration certificate
- Certificate that no marriage has been registered marriage
- Tax compliance certificates for corporate and personal income tax
- Electricity payments, subscriptions to many daily newspapers, and bill payment for mobile phone service, cable TV, etc.

**Figure 2. QR code sample**



The automated issuance of a tax compliance certificate (TCC) is an example of the huge efficiency savings that are in store for Mongolian businesses and citizens as government agencies upgrade their IT systems and begin to connect with each other and the new GSVMs. Table 9, right, prepared with assistance from GDT documents the cost savings from automation.<sup>4</sup>

About 70 TCCs are issued to businesses each year in Mongolia. They are required for numerous transactions, including getting a loan, bidding on government

**Table 9. Savings from Automating Tax Compliance Certificates**

#	Item	Value	Type
1	Prepare letter of request and deliver to GDT	20	Mins
	Average monthly salary of person who prepares and processes TCC	500,000	MNT
	Average rate per minute	48	MNT
	Average hours round-trip GDT to deliver letter, wait for certificate	3.0	Hours
	Average monthly salary of person who delivers letter	500,000	MNT
	Average hourly rate	2,907	MNT
	<b>Total business employee costs per certificate for paper process</b>	<b>9,690</b>	<b>MNT</b>
2	<b>Travel expense for roundtrip to GDT and back</b>	<b>4,200</b>	<b>MNT</b>
3	Average minutes for GDT official to process request and issue certificate	20	MNT
	Average monthly salary of GDT official who processes paper request	564,800	MNT
	Average rate per minute	55	MNT
	<b>Cost/transaction for GDT to process paper request for certificate</b>	<b>1,095</b>	<b>MNT</b>
<b>Total Savings per transaction</b>		<b>14,984</b>	<b>MNT</b>
<b>Total Savings to date (60 issued by GSVMs in Oct.)</b>		<b>899,070</b>	<b>MNT</b>
<b>Total Savings if fully automated (70,000 annually)</b>		<b>1 Bln.</b>	<b>MNT</b>

<sup>3</sup> The example QR code is from a Wikipedia article, available online at [http://en.wikipedia.org/wiki/QR\\_code](http://en.wikipedia.org/wiki/QR_code).

<sup>4</sup> BPI recommended automating issuance of tax compliance certificates in its White Paper, Why Businesses Cheat: Mongolia Reforms the Confiscatory Costs of Paying Taxes, p. 19, available online in English and Mongolian at <http://bpi.mn/index.php/publications/reports.html>.

procurements, even clearing customs. GDT plans to offer even more options to obtain the TCCs in the future. Beginning in January 2014, businesses will be able to print out the TCCs themselves using the new GDT online taxpayer services system that is now rolling out.

ITPTA is working with its government agency counterparts to add more public services. Of particular importance is the of state registration certificate that GASR issues to prove that legal entities are properly organized and authorized to transact business. Table 10, right, illustrates how important certificates of state registration in the context of a single business – a meat exporter was required to produce the certificate six times to five different agencies.<sup>5</sup> By contrast, the tax compliance certificate was only required once.

Automated issuance of agency certificates will not only reduce compliance costs for business, but will produce administrative savings for the agencies themselves. Costs for storing and processing paper will drop, customer demands at agency offices will be reduced, allowing personnel to be diverted to other tasks, etc. While automating issuance of government documents will certainly produce more efficient, less costly processes, the real savings will come when agencies began to communicate with each other, leaving the citizen and business out of the loop. Two models should be investigated:

- First, the employees of one agency could directly access another’s database, instead of requiring the citizen or business to do so. Using the example of the meat exporter, above, a customs agent could enter the exporter’s business registration number into the GASR database and verify the business is properly registered.
- The second model is far superior – automating the inquiry process. In this model, when a declaration is filed with CGA, the system automatically connects with the GASR database, and human intervention is required only if the exporter is not property registered.

**Table 10. Document Requirements for Meat Exporters**

Agency	Purpose	Required Documents
GDT	To certify meat exporter doesn't owe taxes	<ul style="list-style-type: none"> <li>• Copy of State Registration Certificate</li> </ul>
MNCCI	Certificate of Origin	<ul style="list-style-type: none"> <li>• Copy of State Registration Certificate</li> <li>• Copy of Sales Contract</li> <li>• Invoice</li> <li>• Packing list</li> </ul>
GASI and the Central Laboratory	test results	<ul style="list-style-type: none"> <li>• Copy of Certificate of Origin</li> <li>• Copy of State Registration Certificate</li> <li>• Copy of Sales Contract</li> <li>• Application form</li> </ul>
GASI	Conformity Certificate	<ul style="list-style-type: none"> <li>• Copy of State Registration Certificate</li> <li>• Certification of Origin</li> <li>• Test Results</li> <li>• Invoice</li> <li>• Application form</li> </ul>
NARTAM & Railway Admin.	International transport documentation	<ul style="list-style-type: none"> <li>• Copy of Sales Contract</li> <li>• Copy of State Registration Certificate</li> </ul>
CGA	customs clearance	<ul style="list-style-type: none"> <li>• Sale of Goods Contract</li> <li>• Copy of State Registration Certificate</li> <li>• Conformity Certificate</li> <li>• CMR</li> <li>• Certification of Origin</li> <li>• Tax Compliance Certificate</li> <li>• Export Certificate</li> </ul>

<sup>5</sup> The table was drawn from the Mongolia Single Window (MNSW) Implementation Master Plan, Draft Version 0.98, dated 5 Jan. 2011, prepared by MNCCI and CGA, page 92.

## APPENDIX I: USAID/Georgia BCR Monetizing Benefits Methodology

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**USAID**  
FROM THE AMERICAN PEOPLE

**BUSINESS CLIMATE  
REFORM**

**Date:** March 25, 2008  
**To:** Olin McGill, COP  
**From:** Erekle Natadze, Economist  
**CC:** Amy Denkenberger, Operations Manager  
**Re:** **Methodology for measurement of monetized benefits of regulatory reform**

The primary reason for monetizing the specific benefits to specific beneficiaries of business climate reforms implemented by the Government of Georgia with Project support is to demonstrate the direct impact on stakeholders of USAID funded activities. This memo describes the process which we follow in estimating the annual monetized benefits of Project supported reforms and the format for presentation of the calculations. Estimates of monetized benefits in each of the reform areas will follow the basic template outlined in this memorandum.

Some caveats and cautions on the limits of the methodology are contained at the end of this document, and will not be included in the standard reports calculating the benefits of specific reforms.

### **Summary**

This part describes the general idea of the reform and states result of performed calculations. Monetized benefits are expressed in USD. As reforms may have a variety of benefits to different stakeholders, the summary should indicate which benefits and stakeholders are included in the calculations of monetary benefits. The summary is prepared after completion of all other portions of the monetization template.

### **Description of reform**

This section describes reform activities and results, illustrating the links between them. It is important to show clearly what the situation was before the reform, describe the sources of inefficiency for those affected, and how the reforms resolve the problems. The Project's role in implementing the reform should also be stated explicitly.

Sources of information for this section include project documentation, legal documents, and consultations with team leaders and activity leaders, and external parties.

### **Stakeholders**

This section should identify all parties affected by the specific reform covered. It should include parties who are not the primary targets of the reforms, but are affected directly or

indirectly. It should also include stakeholders whose interests are affected but who are not included within the calculations.

Sources of information for this section include project documentation, legal documents, and consultations with team leaders and activity leaders, and external parties.

### **Identification of benefits (outputs and outcomes)**

Regulatory changes bring benefits to one or several stakeholders. It is important to determine benefits for each stakeholder here. Typically, in business regulation reforms these will be businesses and government agencies, as well as citizens generally.

It is very important to distinguish between **outputs** of the regulatory reforms and **outcomes**. **Outputs** relate to specific results for specific stakeholders that are directly achieved by means of reform and no other side input is required. **Outcomes** of the reform are related to change in a society at large, for example, an increase in GDP. The methodology described in this memorandum is focused on monetizing the benefits of **outputs** as a tool for measuring the impact of USAID's support for a particular reform. In most cases, the outputs monetized are reforms that produce changes to the business processes of involved parties that reduce the time and costs required. These changes should be clearly described and sources of benefits defined for each stakeholder.

At this stage, it is not important whether the result is re-allocation (transfer) of resources from one group of stakeholders or not, provided that the internal logic of the reform assumes that resources released from non-productive activities will be directed to productive activities by market forces. For example, elimination of mandatory notarization of business transactions (i.e. in registering property or starting a business) results in a transfer of money from notaries to those who were previously forced to use their services. Our methodology counts this as a benefit.

The benefits of some reforms are not instantly attained by stakeholders. It can take some time for the reformed processes to take root and produce a better business environment. For example, implementation of electronic filing of tax returns is not immediately followed by full utilization by business. In such cases, however, the potential benefits can be measured by conducting a sample survey of likely users to determine how many plan to take advantage of the reform, and then calculating the annual monetized benefits that they will receive when they do.

The Project's Performance Monitoring Plan contains a number of indicators that measure **outcomes**, results of business climate reforms generally, that reflect multiple inputs that cannot be disaggregated easily with the resources available to the project. For example, one such indicator of outcomes is tax revenues as a percentage of GDP. Georgia's steady rise on this indicator probably reflects both Project support for improved tax administration that increases the consequences of noncompliance as well as streamlined tax registration and reporting procedures that reduce the compliance burdens for the private sector. It is most likely that the path from regulatory change to economic growth runs through structural changes that improve the efficiency of resource allocation. However there are many intermediate factors between policy action and economic growth which are often impossible to trace using a quantitative

approach. Attempting to disaggregate which USAID-funded activity contributed how much to such outcomes is a larger undertaking than the Project can assume.

However, while outcomes are not measured quantitatively, this section should attempt to identify possible outcomes of the regulatory reforms discussed, drawing the logical chain from regulatory reform to outcomes. Measurement of such outcomes is beyond the aims of monetizing benefits. If sufficient evidence exists, we can estimate broader impact based on experience of other countries. An example of such an estimate is the effect of mobile phone penetration on GDP growth.

Sources of information for this section include project documentation, legal documents, consultations with team leaders and activity leaders, and external parties, and review of the economic literature.

### **Calculation method**

This section describes the logic and method for calculation of monetized benefits. Special attention should be given to the following elements of the calculation method:

#### **Measurement units**

Measurement units have to be established for each potential benefit to each stakeholder, where possible. Several alternative units can be defined, and then the choice of which to use can be made later, depending on data availability and data collection costs. However, preference should be given to the measurement unit which best describes the nature of the measured benefit.

#### **Identification of costs**

Regulations impose costs on businesses for compliance and on government for enforcement. Thus reduction of such costs are definitely benefits for businesses and for government, as well as for society as resources directed for compliance and enforcement are released and can be directed to more productive use, while the same public benefit is obtained at lower cost.

Although each reform is unique and calculation of corresponding benefits is a separate research project, it is useful to bear in mind the following aspects of costs typical for businesses and government:

#### **Identification of financial costs imposed by regulation**

Direct financial costs imposed by regulation are fees to government or other parties for providing services required by regulation. Examples are fees to notary if regulation requires notarization of documents or payment for unloading cargo for customs inspection purposes, if regulation imposes this cost on traders.

#### **Identification of costs of time delays caused by regulation**

Time delays impose a variety of costs on businesses. These are costs of idle production factors such as labor and capital. The main questions to answer are: Which part of production factors

would stay idle in case of no reform? Which part of previously idle production factors is put to use after reform?

Examples are cost of funds tied up in working capital, operational costs of idle equipment and machinery, waiting time of personnel, etc.

### **Identification of administrative costs**

Special attention should be given to business process related to regulatory compliance. Detailed mapping identifies cost improvements in business processes for involved parties - typically government and businesses. Streamlined business processes make administrative action more efficient, allowing government to spend less in resources on the same action.

The model for calculating costs of administrative business processes is similar to that described in the previous section, but is more suitable to measure costs of administrative action.

#### **Internal costs**

- Number of hours/minutes spent on administrative activity
- Hourly pay for various occupation groups that perform administrative activities
- Overhead

#### **External costs**

- Number of hours/minutes spent on administrative activity
- Hourly rate for various external service providers that perform administrative activities

#### **Acquisitions**

- Expenditure on necessary acquisitions to comply with specific obligations imposed by regulation

The costs for administrative action have to be measured before and after regulatory reform. The difference between the two measurements constitutes the net savings for stakeholders. It is very important to be consistent in measurements and use comparable input data. The general approach is to measure the difference between the situation after the reform and the situation if the reform did not take place.

For the purposes of the Project, costs have to be measured only for those administrative actions which have been changed by regulatory reform. For example, Project-supported reforms in 2006 and 2007 streamlined business registration procedures and institutional settings, but the requirement of preparing a charter (statute) of an organization were not changed. Accordingly, there was no need to measure costs related to the development of a charter (statute). Amendments to the Law on Entrepreneurs adopted in March 2008 eliminate the mandatory notarization of charters and simplify preparation of the document. Calculations of the monetary benefit of this reform will, accordingly, ignore the other parts of the business process involved in registering a business.

### **Population**

For meaningful measurement, the specific number of units affected by the reform must be defined. Units of population depend on both the availability of data and the nature of the

measurement. Ideally, units of population have to be linked with units of administrative activity. For example, business entities can be the population unit where costs are uniform for all businesses affected. In such a case the savings for each business multiplied by the number of businesses affected annually would be the monetized benefit. In the case of streamlined customs reforms, however, business entities would not be appropriate because the benefit doesn't affect all businesses equally. In this case, the appropriate unit of population would be a unit more closely related to the benefit, for example, import shipments.

The size of the population sometimes can be drawn from existing statistical data covering a prior period. For example, our prior estimates of the annual savings from streamlined business registration were based on the number of businesses registered in the year preceding the reforms. Note, however, that using prior data to estimate the population size in many cases actually understates the benefit, because, in our experience, the number of transactions increases, often dramatically, after the costs associated with it are reduced. For example, the number of physical persons registered as taxpayers increased 300% in the three months following implementation of streamlined registration procedures compared with the three months before the reform.

Where statistical data for prior periods is not available, reasonable assumptions should be made about the size of the population which benefits from reform. For example the number of businesses willing to use electronic signature can be defined by surveying a reasonable sample on their intentions.

### **Monetization**

In some cases, where costs are entirely measured in monetary units using actual monetary data, such as administrative cost savings and direct financial costs, monetization is straightforward and no additional calculations are needed. Costs calculated for one unit of population are multiplied by population size.

In some cases, calculations are based on initial data that are not expressed in monetary units, and no direct link can be established as actual costs are not available. In such cases, a certain value has to be assigned to unit cost based on appropriate proxies. For example, the exact cost of building usage cannot be defined unless it is purchased or rented, because book values are misleading. A good proxy would be the average price of rent per square meter of space in the neighborhood obtained from real estate agencies. If collecting data on actual salaries paid by businesses for staff involved in administrative action is complicated, average salary in the country, average salary in the specific sector, or average salary for specific professions can be used instead.

### **Calculations**

In this section our actual calculations are presented. The calculations include the actual numbers used, the sources for the input data, and the mathematical operations in sequence to make the whole process clear for the reader. In cases where input data are very detailed, summarized data are presented with corresponding explanations.

Along with nominal values, monetized benefits can be expressed as a percentage of GDP. This should never be taken as a representation that a specific benefit actually contributed a

specific amount to GDP growth. It is merely a good means of demonstrating the scale and importance of a benefit. This is particularly important for readers not familiar with Georgia and the size of its economy.

### **Broad economic impact of reforms**

If reform effects are particularly important, a section can be added describing the overall expected effect of the reform on the economy in qualitative terms. A causal chain has to be developed looking at the following possible aspects:

- Effect on trade and investment;
- Effect on employment;
- Effect on SMEs;
- Effect on labor productivity and efficiency;
- Effect on consumer prices.

A useful approach is to think about what can happen with released resources and finding empirical evidence to document that. Resources possibly go to finance other public goods which in turn bring benefits of their own. They can increase profits, contribute to salaries of other employees, can be used for other business activities, be invested or remain idle. All described scenarios, except for the latter are productive use of resources bringing benefits. Ideally we have to follow up on the use of released resources on a case by case basis for a small sample and draw up a flow chart with economic categories at the end. Otherwise, we can just check that resources do not remain idle. Deeper analysis can concentrate on the effects of reforms on economic decisions made by parties. These can have the most important impact on society.

### **Limits of the Methodology**

The methodology described above provides a very useful tool for disaggregating the impact of specific USAID-funded activities on specific beneficiaries. However, it has a number of very important limitations that should not be forgotten:

- The methodology only monetizes specific benefits to specific beneficiaries of specific reforms. It says nothing about the overall economic benefit provided by a specific reform in terms of GDP growth, increased employment, etc.
- The methodology is conservative in the sense that actual benefits are invariably understated. Among the reasons are that:
  - We estimate only the monetary benefits received by beneficiaries for one year, usually the year following implementation of the reform.
  - We ignore benefits that are not conveniently measured by the methodology. For example, Project consultants drafted a regulation that allows landowners with illegal construction on their property to legalize the buildings. We believe that this regulation has great benefit, because market prices (and collateral values for loans) discount illegally constructed buildings. We have not determined how to measure this benefit, which may well dwarf benefits of other reforms we have measured.

- Similarly, some benefits to particular stakeholders are too complex for us to estimate given the project resources available. For example, in calculating the benefits of implementation of a nationwide government IT network, we only calculated the cost savings to government from lower connection fees. We ignored the benefits accruing from improved efficiency. For example, Georgia's Ministry of Labor, Health, and Social Affairs estimates that the time it requires to enroll Georgian citizens for public benefits programs will be reduced from two months to a couple of weeks because all of its regional offices will be networked. We have not attempted to monetize the benefits of this and similar efficiencies that the network will deliver in improved government administration.
- Streamlined procedures for a transaction between business and government are generally followed by an increased number of such transactions. So estimates of annual benefits that use the prior year's data understate the actual benefit.
- Our methodology does not observe standard conventions prevailing among economists. For example:
  - We count as benefits transfers from one group to another in some cases. The case cited above was elimination of mandatory requirements that certain documents be notarized. The business community views this as a benefit. Some notaries do not. Other notaries, however, have actually increased their business by taking advantage of the new online property registration developed at the expense of their profession, and offering full, one-stop registration services to their clients.
  - We add apples and oranges. The monetized benefits indicator described by this memorandum maintains a running total of all annual monetized benefits to all beneficiaries of all reforms. Through December 31, 2007, the total was \$365 million. That total includes dissimilar benefits across a broad spectrum of activities for a wide variety of beneficiaries.
- We believe that the monetized benefits indicator is a useful tool for documenting Project impact. It has also sometimes been helpful in choosing us choose among alternative activities to support, and in marshaling government support for a particular activity. However, because of the shortcomings discussed above, we do not believe it to be a useful policy tool for USAID in programming decisions.