



MONGOLIAN NATIONAL CHAMBER OF  
COMMERCE AND INDUSTRY

● ●  
— COVID-19 — ●

# IMPACT SURVEY REPORT ON BUSINESSES

- ▶ IMPACT SURVEY REPORT ON BUSINESSES
- ▶ IMPACT SURVEY REPORT ON RENTAL BUSINESSES
- ▶ WORKPLACE IMPACT SURVEY REPORT
- ▶ IMPACT SURVEY REPORT ON DRUG SUPPLY SECTOR
- ▶ MONGOLIAN CASHMERE MARKET FORECAST 2020

2020

## FORWARD

The Mongolian National Chamber of Commerce and Industry (MNCCI) as main representative body of the private sector is responsible for constant monitoring of the changes occurring in the business environment and of its impact. To this end it conducts regular policy research and develops recommendations based on research findings for review by both politicians and other decision makers.

In line with these obligations, the MNCCI conducted a study on the impact on business of the measures taken by the Mongolian Government to prevent the spread of the corona virus infection in Mongolia. Based on the results of the survey MNCCI compiled a report “Economic Risk Management Package”, which was presented to the President of Mongolia, the Speaker of the Parliament, and the Prime Minister, the National Security Council and several Ministers of key ministries. Furthermore, studies were conducted on the impact on jobs, on operation of several sectors, the potential risks, on measures to be taken under these circumstances, and the results were reported in due time.

International organizations, economists and researchers are predicting a worldwide crisis, as the COVID-19 pandemic spreads rapidly across the globe and, diminishes economic growth even in large economies. The slows down is aggravated because the world has become totally globalized and as such the economies and supply chains are even more interdependent.

Hence, MNCCI is pleased to introduce to you the results of several surveys conducted in March 2020, on the changes to the economy and businesses caused by the spread of the corona virus and by the mitigative measures taken by the Mongolian Government. We hope this report will help you in carrying out your decisions regarding management of risks posed to the economy and businesses, and in considering to provide support especially to the small and medium-sized businesses in Mongolia, and in doing so help to save income and employment.

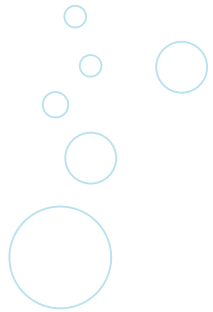
We would like to thank the EU-Trade Related Assistance for Mongolia (TRAM) project team for their kind support in translating these reports into English for benefit of our international partners.

THE MONGOLIAN NATIONAL CHAMBER OF COMMERCE AND INDUSTRY

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**COVID-19**

# IMPACT SURVEY REPORT ON BUSINESSES



## 1. **IMPACT SURVEY REPORT ON BUSINESSES**

- Overview
- Impact on businesses
- Support businesses expect from the government
- Information about the participants of the survey

## SUMMARY

A survey has been conducted by the MNCCI between 3 and 4 March, 2020, which covered 1,100 member and non-member enterprises, with an objective to determine the impact of Covid-19 virus prevention measures on businesses and the support needed by entrepreneurs. 67% of the respondents are incorporated in Ulaanbaatar, while the remainder 33% conduct their businesses in rural areas.

The majority of surveyed companies, i.e. 25% are engaged in trade, 22% in services, and 11% in the food industry. 89% of the surveyed enterprises had an annual revenue of less than 5 billion MNT, 92% employed up to 199 workers, 48% have already been in business for more than 10 years, and 24% are relatively well established businesses with 5-10 years in operation.

## OUTCOME

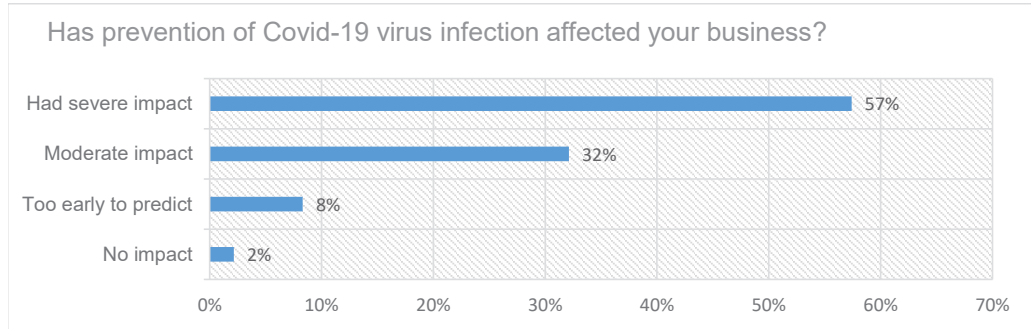
While 89.5% of the surveyed enterprises responded that Covid-19 virus prevention measures affected their activities mildly and grossly, only 2.2% agreed that the measures did not have any impact on their businesses. When asked about the impact it had on the businesses, 57.7% responded that it caused decline in demand for their goods and services, and 40.1% said that they failed to supply the goods and services in a timely manner due to transportation and logistics disruptions. When asked through an open questionnaire on the type of challenges the businesses faced, the most challenging of the issues were loan repayment, social insurance payments, and rent payments.

When asked about the ways the preventive measures would affect the company's revenue in the first half of 2020, 67.4% suggested that their revenue will decrease by more than 10 percent (46.4% have said that their revenue will decrease by 30 percent or more). To a question whether they intended to wave their 2020 business target goals, 32.9% replied that it was too early to judge, while 31.1% said that they planned to slightly reduce their targeted goals.

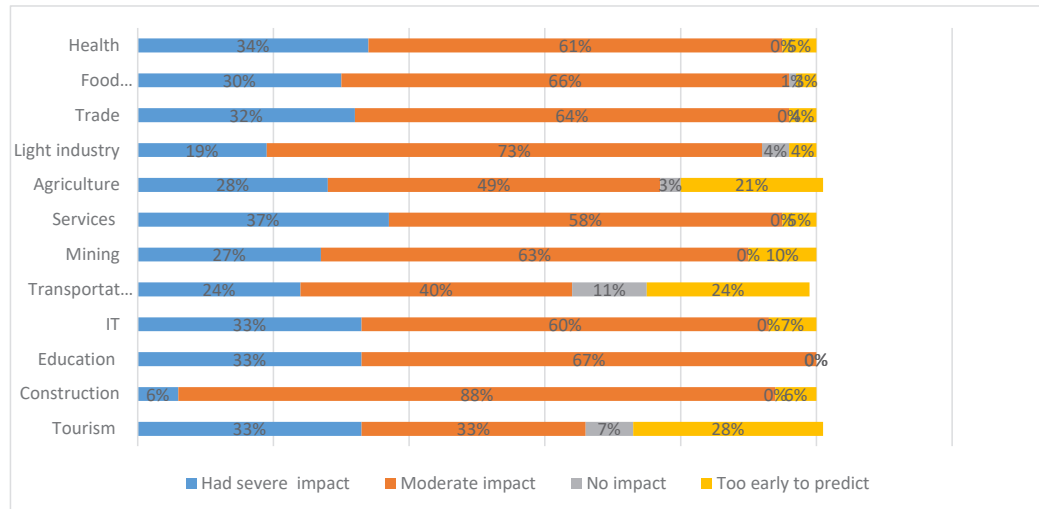
When asked about the support businesses expected the government to provide, 42.6% of respondents said that measures aimed at reducing operational costs, such as reducing the rental costs would be helpful, 36.3% suggested that postponing payment of corporate taxes and social insurance charges would contribute a lot, while 20.3% of businesses expected the government support and coordination among other in easing bureaucracy to enable quick recovery after lifting of the ban. In addition, respondents stressed the need for the government to regulate corporate loans by developing and implementing a designated policy, to provide support to SMEs' in applying for and obtaining public procurement projects, to help increase consumption and purchasing power of citizens by eliminating bureaucracy and expediting public services to stimulate the economy.

## I. Impact on Businesses

When asked if the measures taken to prevent COVID-19 virus infection have affected businesses, 57.4% of respondents said it had a significant impact, 32% said it had a moderate impact. While 8.3% said it was too early to tell, only 2% said it had no effect on their businesses.



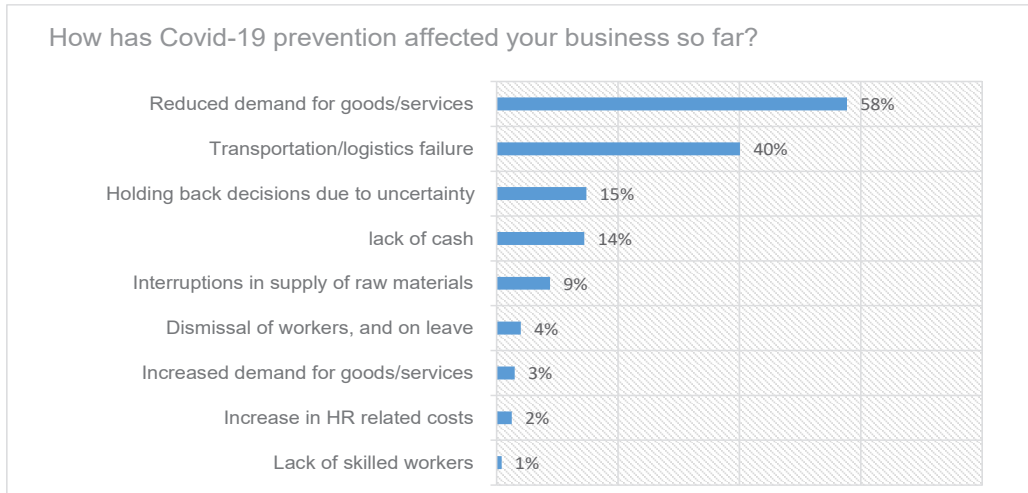
As to individual sectors, the prevention had greatest impact on businesses in education, food production, trade, health, services, and construction sectors, with an average of 96% respondents confirming that it had moderate to significant impact on their operations. It had affected moderately 69% of businesses in transportation, tourism, and agriculture sectors. However, the summary reveals that affected were more than 65% of businesses from all sectors combined.



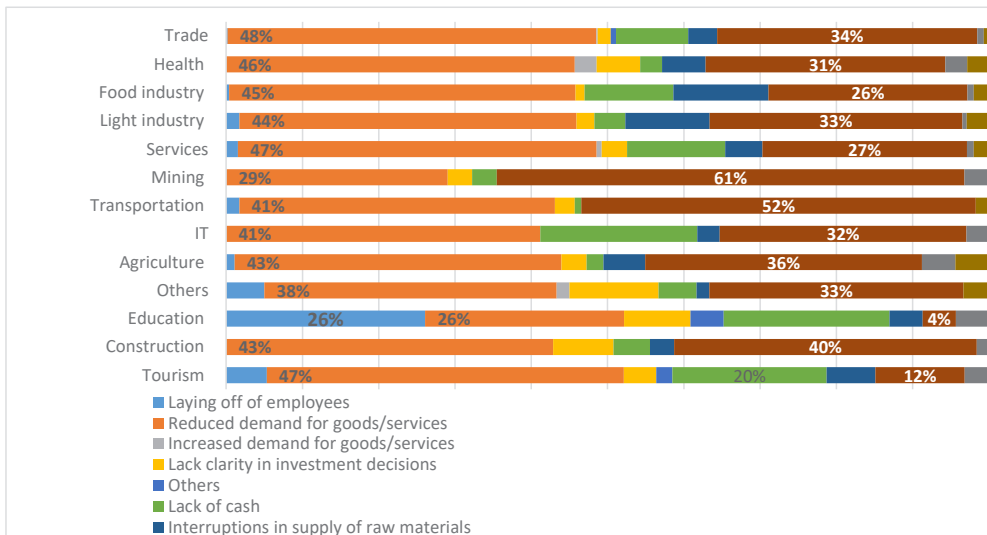


## Impact on Activities, per type

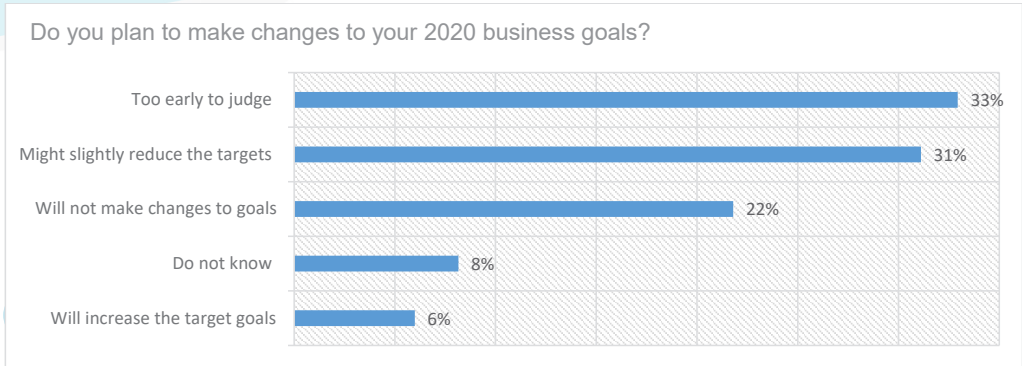
To the question on what exactly had impact on the businesses, 57.7% of the surveyed responded that tremendous impact had decline in demand for goods and services, 40% referred to failure to deliver goods and services on time due to constraints caused by transportation and logistics. Furthermore, as far as finances are concerned, if 14.8% of respondents had problems with delay of investments due to uncertainty, 14.5% lacked sufficient amount of cash required for carrying out their businesses.



Regardless of business sector, decline in demand for goods and services, and delay in delivering of goods and services due to transportation and logistics failure were listed to be the biggest constraints that had impact on outcome. If the transportation and logistics problems have had the biggest impact in mining, it were the temporary layoffs and/or dismissals that had tremendous impact in education sector.

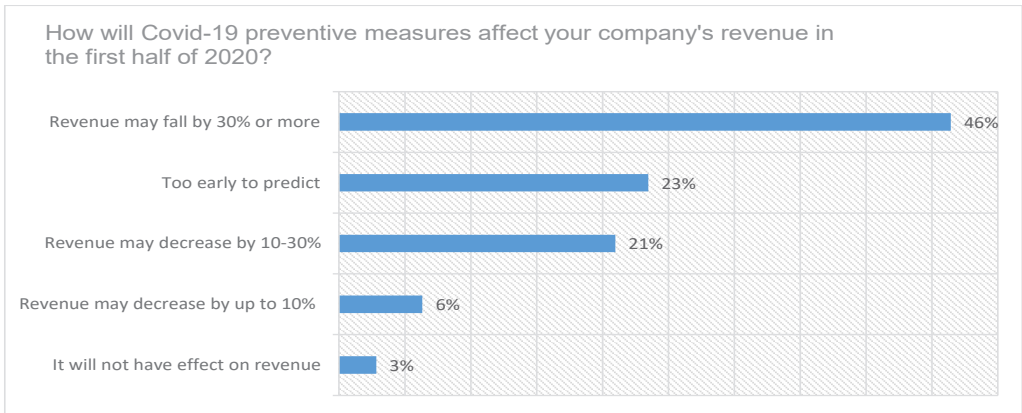


When asked whether they plan to make changes to their 2020 business goals, 32.9% said it was too early to say, 31.1% decided that they would reduce their targets slightly and 21.8% would stick to their goals.

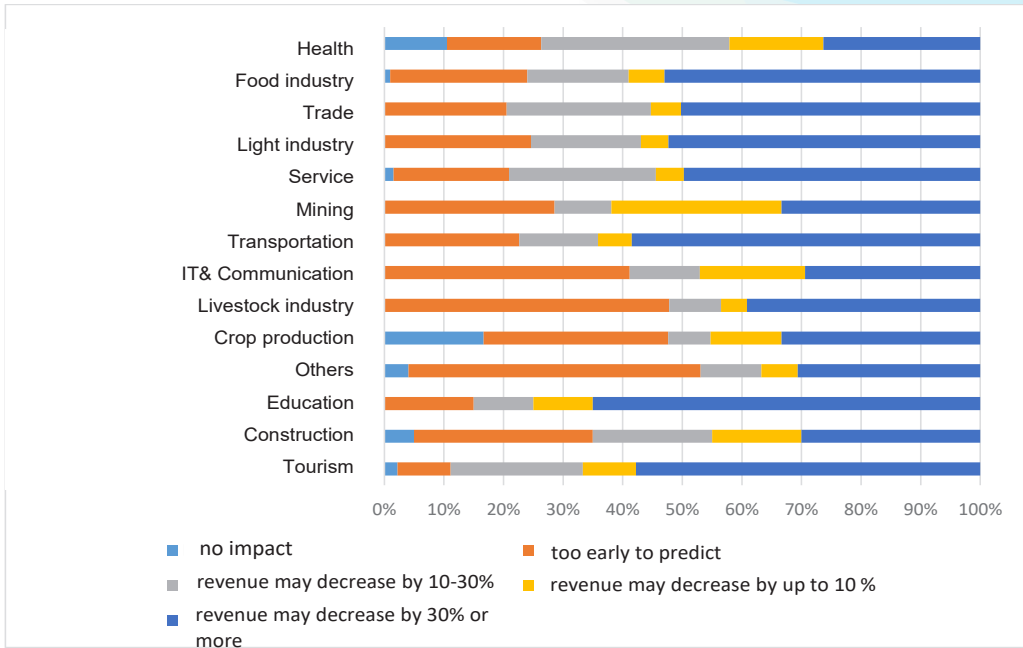


### Impact on Income Generation

When asked about the impact the precautionary measures would have on the company’s revenue in the first half of 2020, 46.4% predicted that “revenue will decrease by 30 or more”, 23.5% said that it was too early to say, 21% said that their revenue will decrease by 10-30%, 6.3% expected it to decline by as much as 10%, while only 3% trusted that it would not affect their income at all.

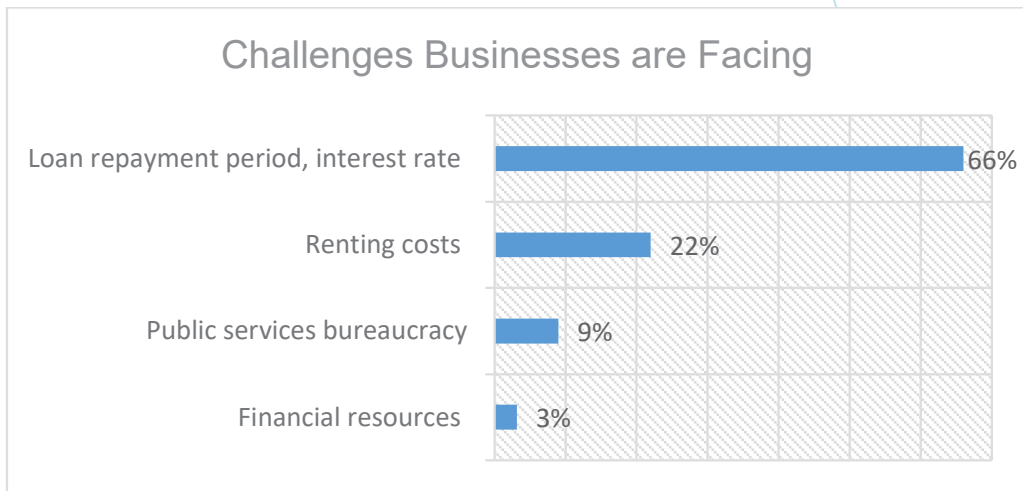


If we look at the impact on income by sector, the data reveal that 55% of businesses in tourism, education, transportation, services, light industry, trade, and food industries estimated that their incomes would fall by as much as 30% or more.



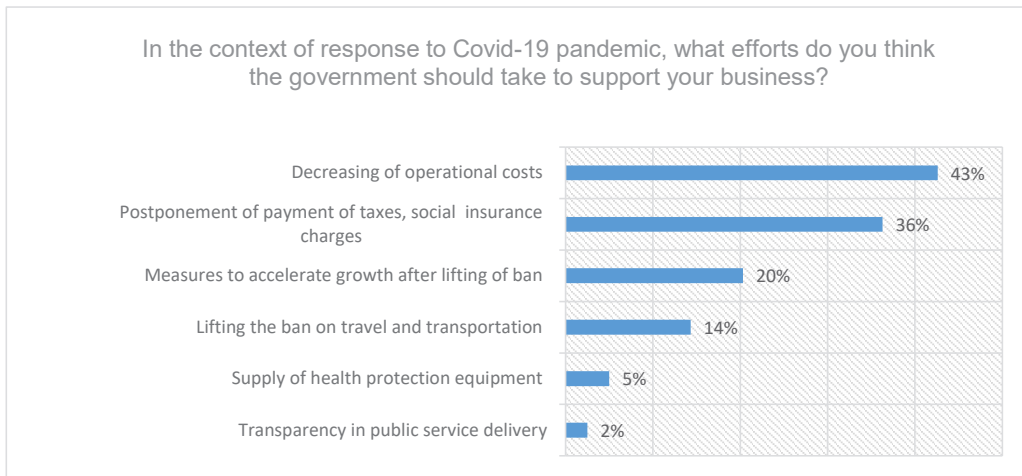
### Challenges Posed to Businesses

To the question on the challenges the current situation is posing to their businesses, 66% responded that the largest problem was the imposed period for loan repayment, terms and conditions, and the value of interest rates. Furthermore, 22% referred to rent costs, 9% said bureaucracy in public services (professional council meetings, foreign trade, permits), while 3% said that lack of investment funds was a problem.

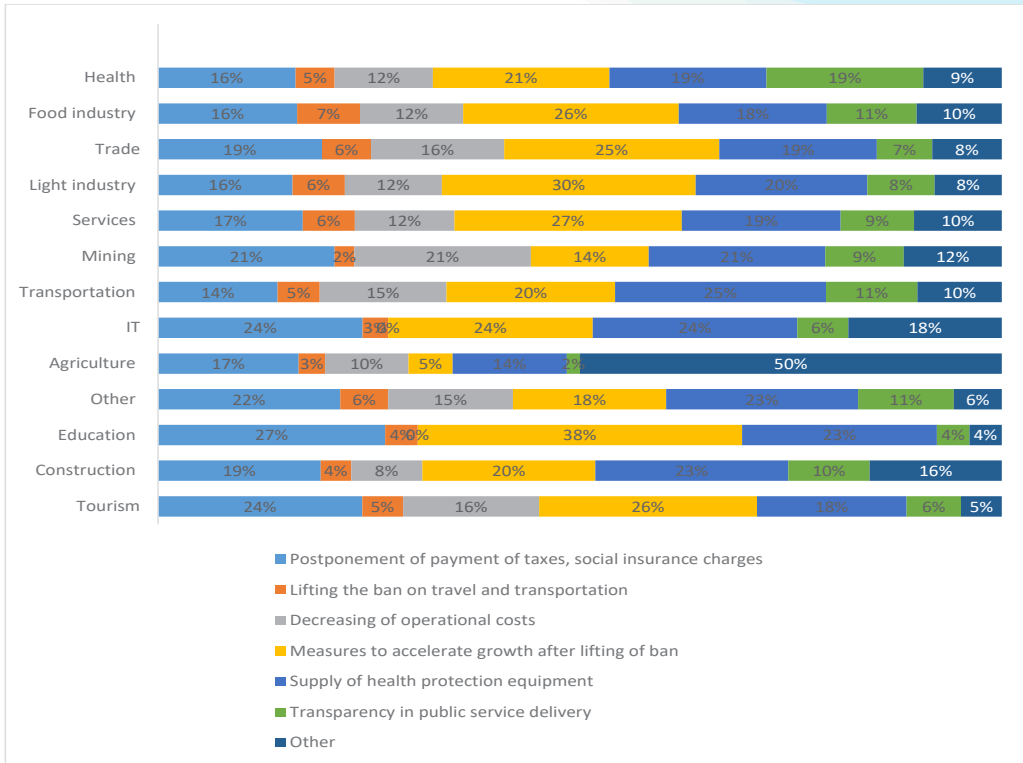


## II. Support Businesses Expect from the Government

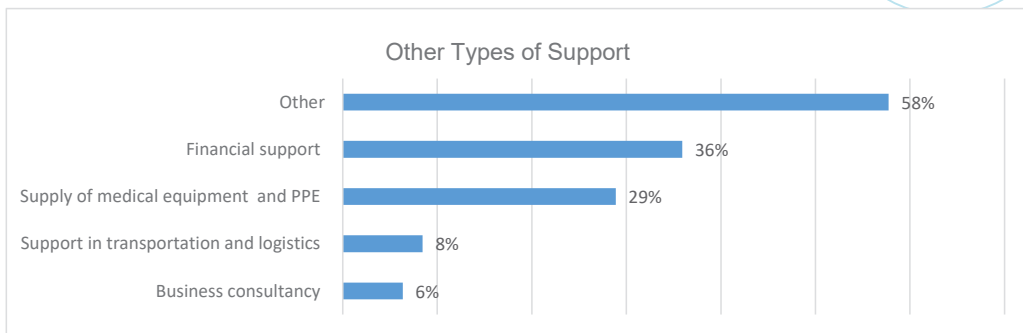
When asked about the type of support that was required for the government to provide amid current circumstances, 42.6% of respondents said that measures taken to reduce operational costs, such as reducing rent costs would be of much help, 36.3% suggested postponement of payment of corporate taxes and social insurance charges, and 20.3% expected the government to coordinate response to the pandemic in an integrated manner<sup>8</sup> take swift actions to ease regulations and as such help accelerate recovery upon lifting of the ban.



Should we break down the kind of support expected from the government by sectors, for health, food production, trade, light industry, services, education and tourism sectors, the most important government support would be an integrated coordination of businesses through easing state regulations and reducing bureaucracy in providing public services. As far as the mining, education, information technology and telecommunications sectors are concerned, they expect the government to undertake efforts to postpone payment of corporate taxes and social insurance charges. To summarize the issue we used an open questionnaire, the results revealed that a priori businesses expected the government to regulate the repayment of corporate loans and interest rates through an integrated policy, support the SMEs in applying for public procurement projects, provide public services without bureaucracy and in a speedy manner, and help increase consumption and purchasing power of the population to accelerate economic recovery.



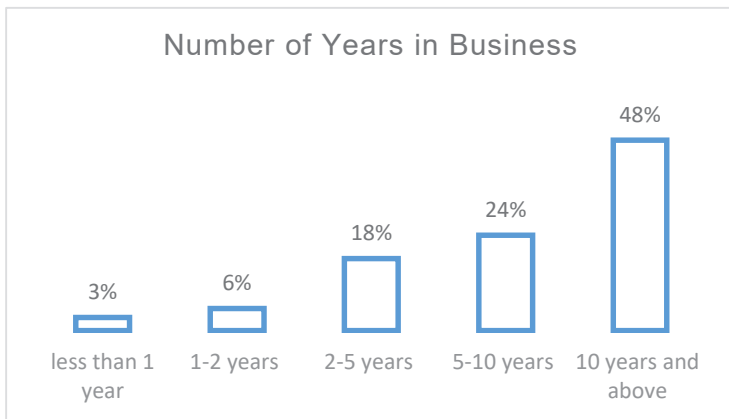
Out of surveyed businesses 24% admitted they provided support to the government in their effort in preventing the spread of the virus. To the query about the ways they supported the initiatives, 36% said they provided financial support, 29% provided medical equipment and personal protective equipment, 8% provided transportation and logistics support, and 6 percent provided business consultancy.



### III. Information about the Participants of the Survey

This survey was conducted on March 3, 2020, in total it covered 601 respondents, both members and non- members of the Mongolian National Chamber of Commerce and Industry (MNCCI), with an aim to determine the impact that the Covid-19 virus prevention measures have had on businesses and on the support they required from the government. 67% of the respondents were from Ulaanbaatar and 33% were from rural areas.

Of the surveyed companies, 25% are engaged in the trade sector, 22% in the service sector, and 11% in the food industry. Out of these respondents, 60% have annual income worth less than \$500 million, while 29% annually gain an income between \$1-5 billion. Of all the companies that took part in the survey, 61% have up to 19 employees, 31% have 20-199 employees. 48% of enterprises have already been in operation for over 10 years, 24% have been operating for 5-10 years, and 24% are relatively new companies with conducting business over the past 1-5 years. Of the above mentioned 60% of businesses which have an annual income of less than \$500 million, 36% earn less than 100 million MNT, and the 24% generate a early income worth between \$101-500 millions of MNT.





## **COVID-19**

# **IMPACT SURVEY REPORT ON RENTAL BUSINESSES**



## **2. IMPACT SURVEY REPORT ON RENTAL BUSINESSES**

- Overview
- Part I. Evaluation of the impact
- Part II. General



## OVERVIEW

The Mongolian National Chamber of Commerce and Industry (MNCCI) has analyzed the current situation caused by the spread of the new coronavirus from China and conducted an impact study involving around 1,100 enterprises in order to identify the challenges they've faced and support they needed from the government. Results of the survey revealed that under current circumstances, loan repayment deadline, interest rates and rent costs were the most challenging issues that businesses faced.

Therefore, in order to jointly identify the challenges and work out the solutions, a meeting of lessor companies was organized, during which 30 companies were surveyed on the pressing topics, results of which are presented in this report.

Out of all the businesses surveyed, 52% expected revenues to fall by 30 percent or more in the first half of 2020, while 24 percent predicted it to fall by 10 to 30%. When asked on the changes in revenue in February, 50% of the lessors acknowledged that income decreased by 10-30%, and 28% of respondents admitted it fell 30% or more.

38% of the participants of this survey are engaged in trade, 30% provide services, and 32% lease office spaces.

When asked to provide information on the type of requests they received from their tenants, 24% replied that tenants requested full exemption of the rental cost, and 52% requested a discount of over 30%. However, when asked about the kind of support the lessor could provide, 64% said that they would be willing to provide a certain discount on rental costs and 23% said that they could exempt the tenant from related to delayed payment fines and penalties. Should lessors provide this support to tenants, 39% of lessors would encounter problems in repayment of loans and interest rates, while 34% would have problems with payment of operational costs such as power and heating.

**Based on the results of this survey and the recommendations developed during the meeting, we have concluded that the government will be expected to take below actions should the lessors resolve to provide discounts to tenants:**

1. Deferring of the payment of income taxes by lessors to a certain later date;
2. Clarifications to the recent decisions made by the government on providing a one-time tax exemption to lessors who have reduced their rental costs;
3. Exempt businesses from payment of VAT during the lockdown period;
4. Defer payment of social insurance charges for a period of at least 3 consequent months;
5. Majority of businesses have not increased rental costs amid rising utility costs. Therefore, it is expected that costs for power and heating charged by state-owned utility companies must be reduced accordingly, by a certain percentage agreed upon;

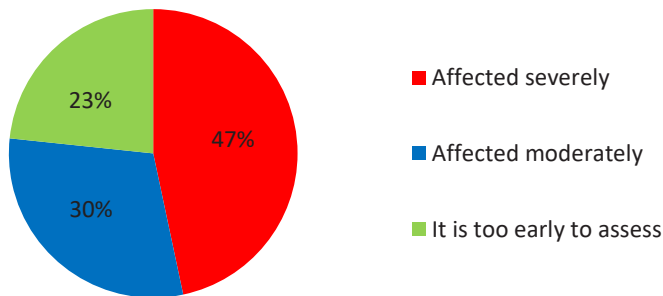
5. Reduction and/or exemption from land use fee and real estate taxes by a certain percentage. Land use fees have recently tripled, companies that were charged 97 million MNT, now are requested to pay 300 million MNT;
6. As with other businesses, the government should delay the repayment of principal loans, avoid imposition of penalties, defer the loan structure for up to six months, and restructure the loans.

## RESULTS OF THE STUDY ON IMPACT OF COVID-19 VIRUS PREVENTIVE MEASURES ON BUSINESSES

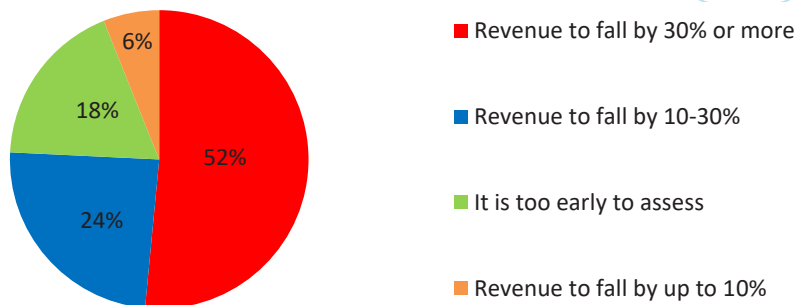
During a meeting was organized by the Mongolian National Chamber of Commerce and Industry (MNCCI) with the major lessors on March 6, 2020, a survey on the “impact of coronavirus preventive measures on businesses” engaging these 30 representatives was conducted, the results of which are presented in this report.

### PART I. EVALUATION OF THE IMPACT

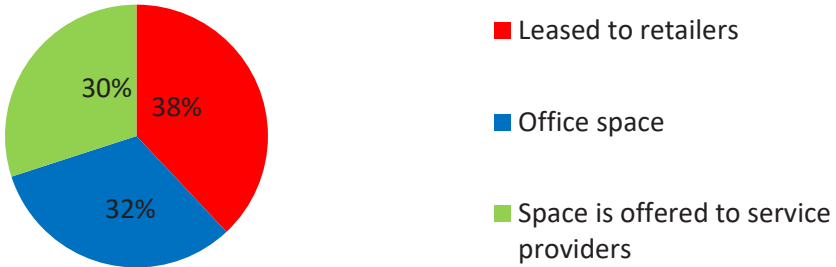
1.1 When the participants were asked whether the COVID-19 preventive measures affected their businesses? 47 percent said it had severe impact, 30 percent replied that it had a moderate impact, and 23 percent said it was too early to assess.



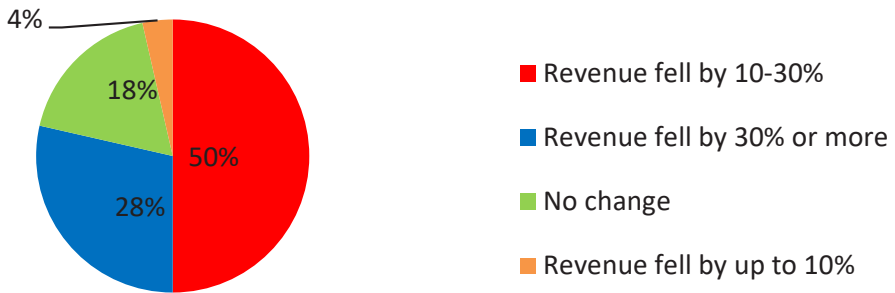
1.2 To the question about the ways it may affect said company's revenue in the first half of 2020, 52% of lessors expected the revenue to fall by 30 percent or more, 24% by 10 to 30 percent, 18 percent said it was too early to assess, and 6 percent said revenue would fall by up to 10 percent.



1.3 What purpose does the space you lease serve for? 38% is used for leasing to retailers, 32% provide office spaces, and 30% is leased to service providers.



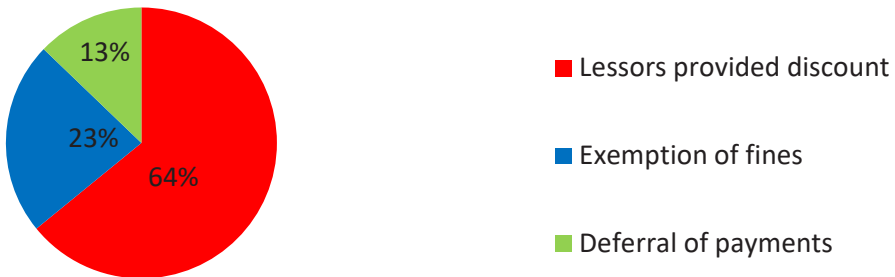
1.4 When asked whether there were any changes in their income in February, revenue fell by 10-30% said 50% of respondents, 28% said their revenue decreased by 30% and more, and 18% admitted it remained unchanged.



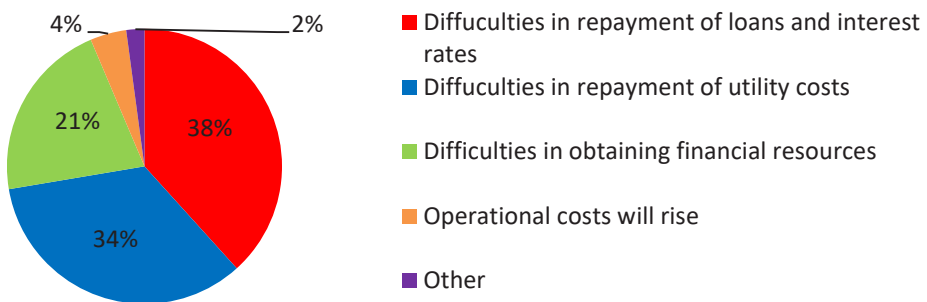
1.5 As far as requests from tenants are concerned, 34% of tenants requested a 30-50 percent discount on rental cost, 24% obtain full exemption, 19% expected discount of up to 30%, 18% get over 50% in discount, and 5 percent asked for deferral of payment.



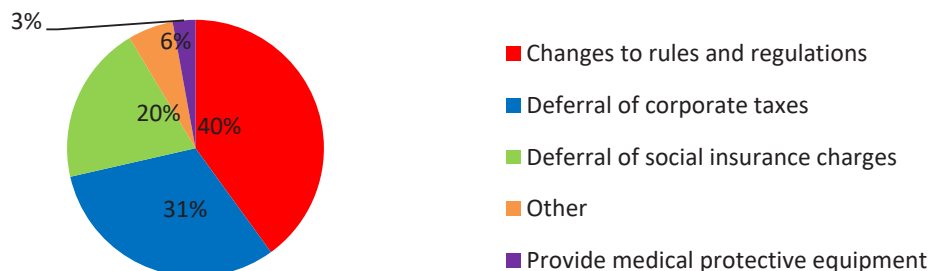
1.6 When asked about the kind of support lessors are providing, 64% of tenants admitted that lessors to certain extent provide discount; 23% said that they were exempt of fines and penalties; 13% of tenants were allowed to delay payments.



1.7 To the question on the ways support provided to tenants may affect their business, 39% of lessors replied that they will face difficulties in repayment of loans and related interest rates, 34% would have difficulty in covering operational costs, 21% said they would have difficulty in acquiring financial resources.



1.8 When asked: If support from the government was offered, what would those be? 40% of respondents expected changes to related regulations and permits, e.g. entity income tax exemption, deferral of loan repayment, 31% expected deferral of payment of corporate taxes and 20% deferral of payment of social insurance charges, and 6% - Other requests including payment of VAT, reduction of operational costs, exemption of social insurance charges, etc., and 3% expected the government to provide for medical protective equipment.

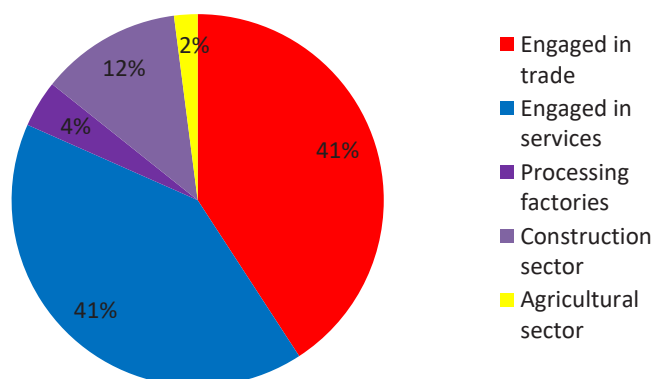
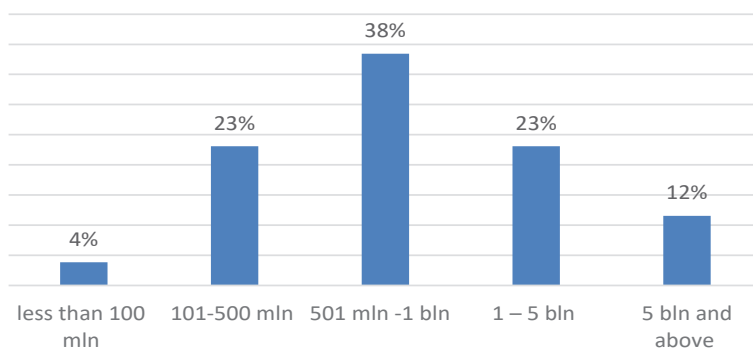


1.9 Below are other suggestions related to the current situation, put forward by respondents:

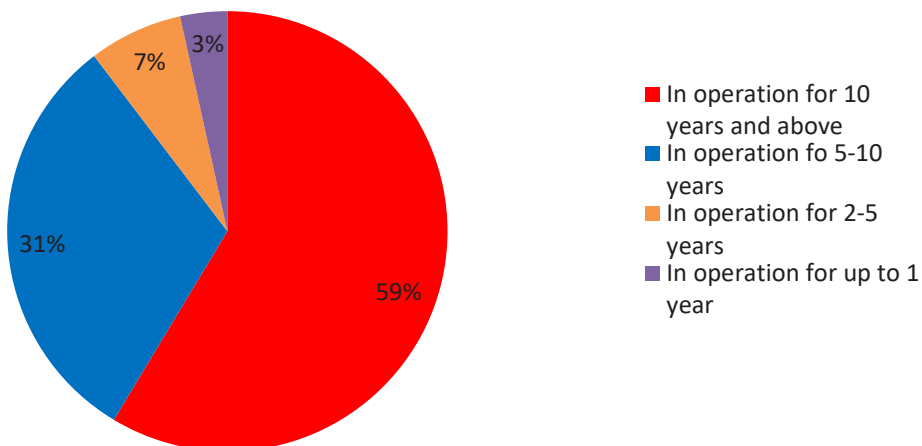
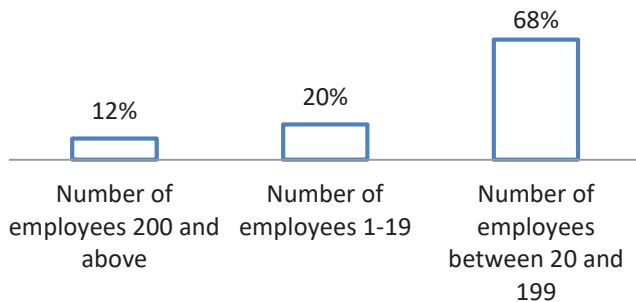
- Defer payment of corporate taxes, up to a certain period of time;
- Exemption of businesses from VAT during quarantine;
- Defer payment of social insurance charges for a period of at least 3 months;
- Reduce utility costs, such as power and heating, which is paid to state-owned enterprises, by a certain percentage;
- Reduction and exemption from land and real estate taxes, by a certain percentage;
- Defer loan repayment, avoid imposition of penalties and fines, delay loan repayment schedule, make changes to the loan structure.

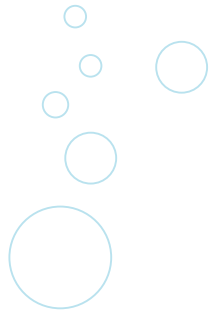
## PART II. GENERAL

Of all the participants, 41% of respondents are engaged in trade, 41% in services, 12% in construction sector, 4% in manufacturing, and 2% in agriculture. In terms of annual income, 38% of lessors earn 501 mil -1 bln, 23% have an income of 101-500 mln, 23% between 1 and 5 bln, 12% more than 5 bln, and 4% earn less than 100 mil. MNT.



Out of total number of surveyed companies, 68% of respondents have 20-199 employees, 20% had 1-19 employees, and 12% had more than 200 employees. Offices of all of these lessors surveyed are located in Ulaanbaatar city. Lessors which have been operating for over 10 years account for 59%, 31% of respondents are in business already 5-10 years, 7% for 2-5 years, and 3% are operating for less than 1 year.









# **COVID-19**

## **WORKPLACE IMPACT SURVEY REPORT**



### **3. WORKPLACE IMPACT SURVEY**

#### **I. SUMMARY**

#### **II. ASSESSMENT**

- Impact on Businesses
- Employee-oriented Measures
- Retaining of the Workplaces
- Support Required in Retaining Workplaces

#### **III. INFORMATION ON PARTICIPANTS OF THE SURVEY**

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## I. SUMMARY

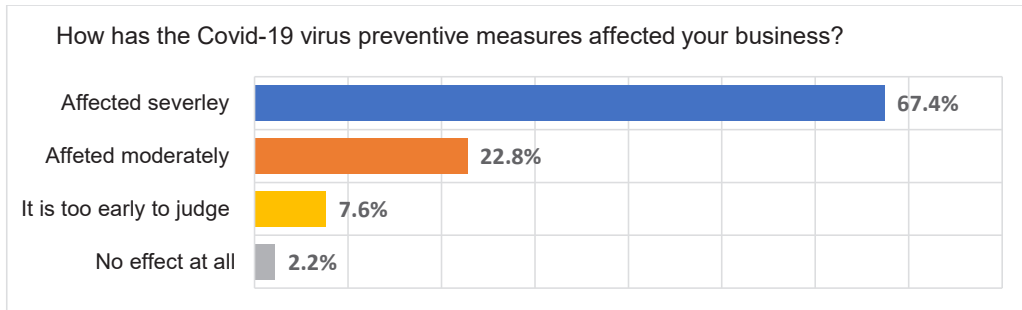
1. A survey, in which 1,504 members as well as non-members of the Mongolian National Chamber of Commerce and Industry (MNCCI) took part, was conducted on March 20-23, 2020, to determine the impact that Covid-19 virus infection and spread prevention measures have had on workplaces and on-the-job support required due to the actions taken by the government. Reviewed by sectors, 19% of the surveyed enterprises are involved in trade, 15% in services, 13% in tourism, 9% in food production, 6% in light industry, out of which 40% are micro businesses, 39% are SMEs, and 21% are corporate businesses, with 51% of the companies being in business for over 10 years.
2. Out of the surveyed enterprises 67.4% stated that they were highly affected by the Covid-19 virus prevention measures, 22.8% said they were affected moderately. Viewed by sectors, 90% of the tourism sector and 83% of the hotel and catering sector companies were affected, compared to 40% in the agricultural sector and 33% in the information technology and telecommunications sector.
3. Under the current circumstances, 56% of enterprises have adjusted their working hours, while 33% have temporarily laid off and/or even dismissed their employees. In terms of redundancies, the hotel and catering sector accounted for 52% and the tourism sector for 44%. If companies of the information technology and telecommunications sector were forced to fire 12% of their staff, the energy sector companies have retained the number of jobs.
4. Due to emergency preparedness requirement, 65% of surveyed businesses had adjusted the working hours, while 41% have done so amid reduced demand for their products and services. Of these companies, 46% reduced their working hours, 35% shifted to operating from home, and 16% did not make changes to their routine schedules. In terms of wages, 63% said no changes were made, while 36% admitted they've made reduce those, accordingly. said it had been reduced. In case of the wages, 63% of companies maintained the previous level, 36% have reduced wages of their workers.
5. As far as the challenges facing maintaining of number of workplaces are concerned, 65% referred to decline in revenue, 42% said they were forced to halt operations, and 30% said that they needed to reduce operational costs. Declining incomes in the trade, light and food industries, and services have made it difficult to maintain the jobs, while in the education, tourism, and hotel and catering sectors, the situation is even more challenging. As of today, 33% of surveyed companies have lost approximately 6,000 jobs, both on a temporary and permanent basis.

6. Should this situation continue in the second quarter of 2020, 30% of the companies surveyed plan to cut about 8,000 jobs, while only 12% said that they keep the jobs intact. However, 68% of businesses said that it was too early to predict. By sector, light industry, hotels, catering, services and tourism sectors are more likely to cut the number of jobs.
7. Regardless of the number of employees and the business sector, all of the surveyed stressed that the greatest impact on maintaining the number of jobs would be the government financial support for job retention. Per respondents, postponement of repayment of soft loans and social insurance charges, is also expected to help save jobs.

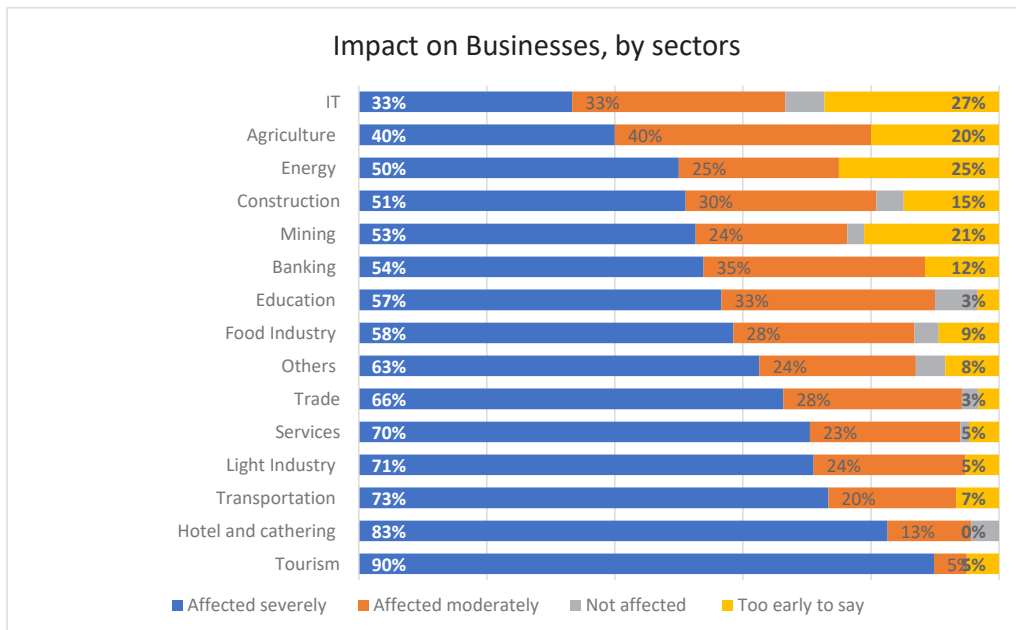
## II. EVALUATION

### Impact on Businesses

In regards to the impact the Covid-19 virus infection and spread control measures have had on the businesses, 67.4% of respondents said that the impact was severe, 22.8% said that it was moderate, 7.6% said it was too early to say, while 2.2% said that it has not affected at all.

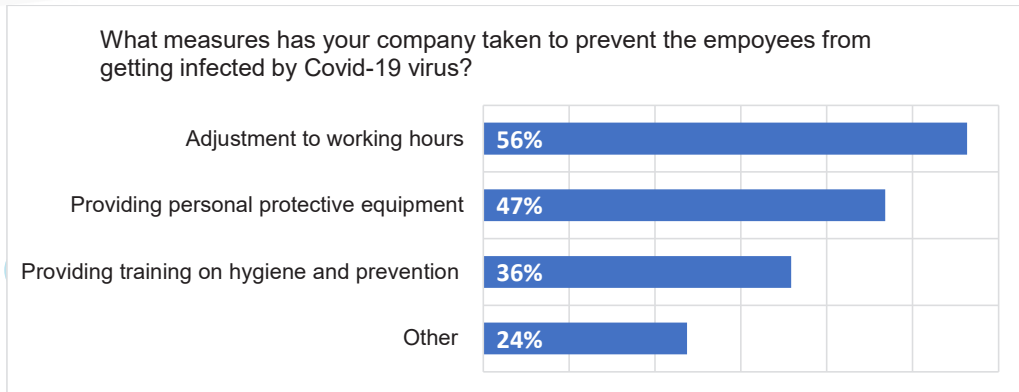


Impact on businesses viewed by sectors, 90% in tourism, 83% of the hotel and catering sector, 73% of transportation sector, 71% of the light industry sector, 70% in service sector and 66% in trade sector were affected severely.



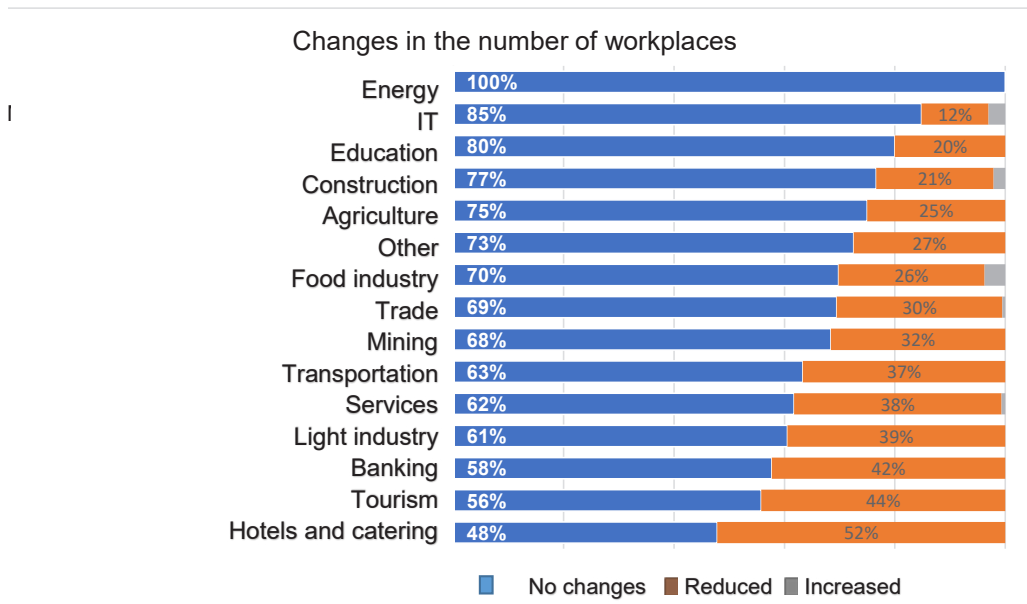
## Employee-focused Measures taken by Enterprises

56% of the respondents adjusted working hours, 47% provided personal protection equipment, and 36% of the surveyed provided trainings for staff on hygiene and infection control.



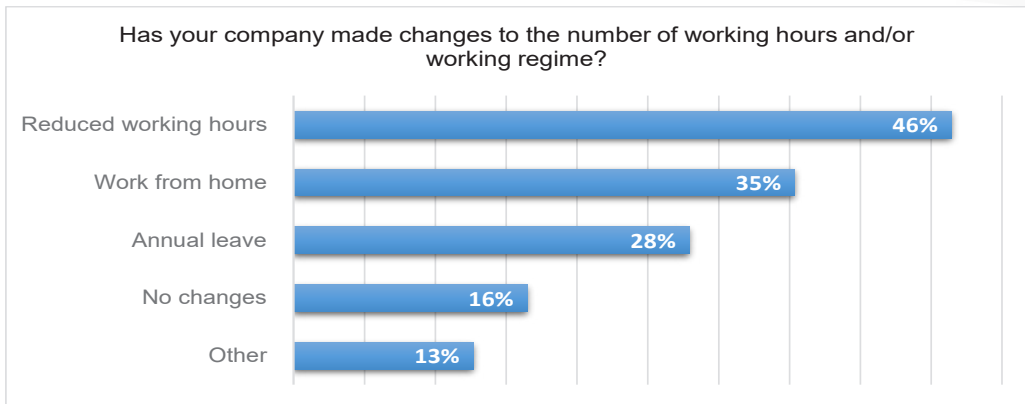
## Changes to the Number of Workplaces

The majority of surveyed companies, i.e. 66% did not make any changes to the number of their jobs, while 33% dismissed temporarily or permanently their employees. Changes/reduction in the number of jobs by sectors: Hotels and catering - 52%, Tourism 44%, Banking - 42%, Light industry - 39%. To date, a total of approx. **6000** workers have lost their jobs.



## Working Hours and Work Regime

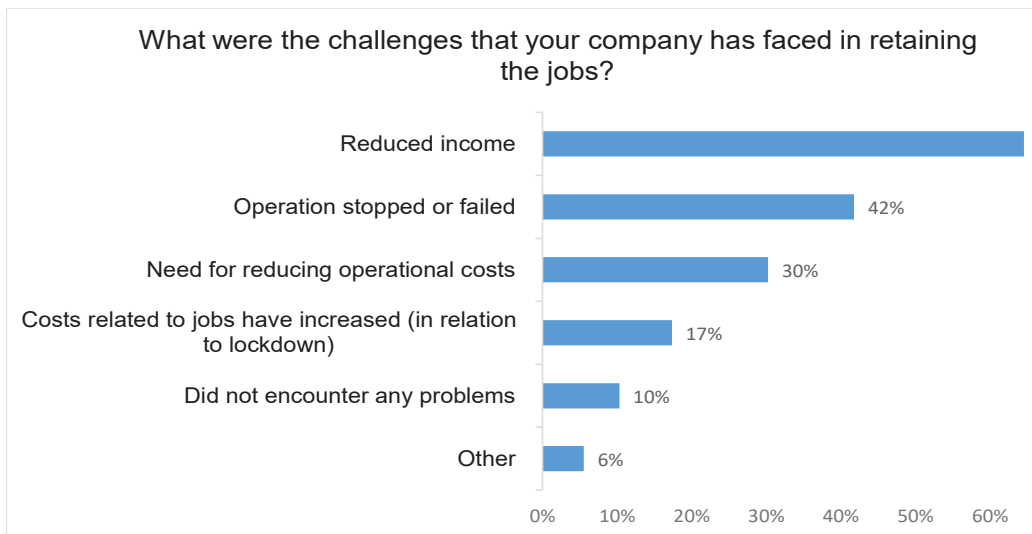
Around 46% of the surveyed enterprises have made changes to their working hours, 35% shifted to working from home, 28% provided annual leave, and 16% did not make any changes.



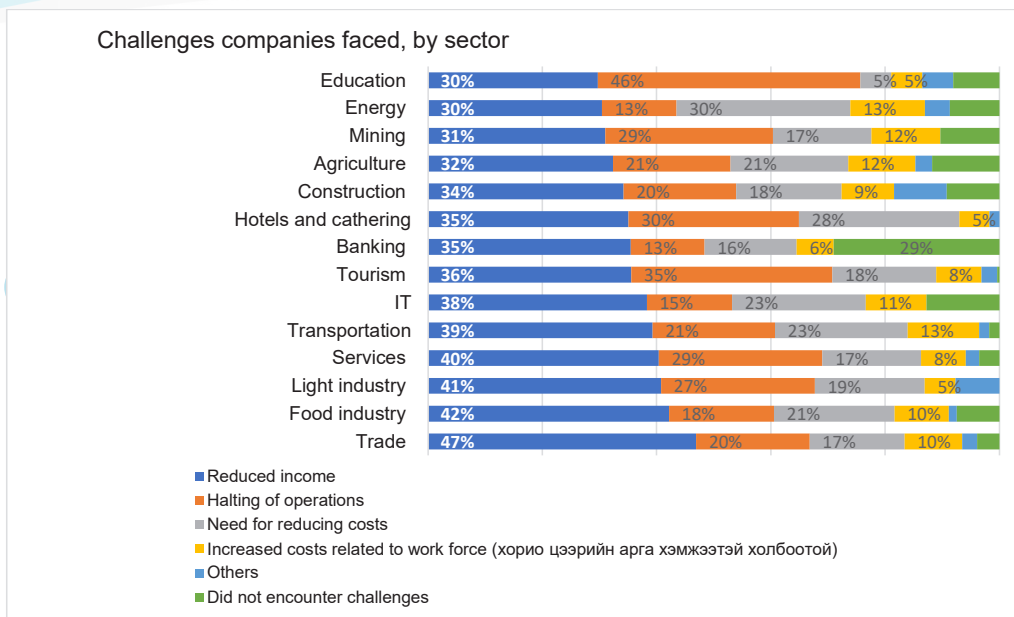
As for the reasons for making changes to working hours and the regime, 65% of respondents said due to emergency preparedness regulations, 41% due to decreased demand for products and services. 63% of enterprises did not change the wages, 36% reduced those and only 1% increased the wages of their workers.

## Retention of Jobs

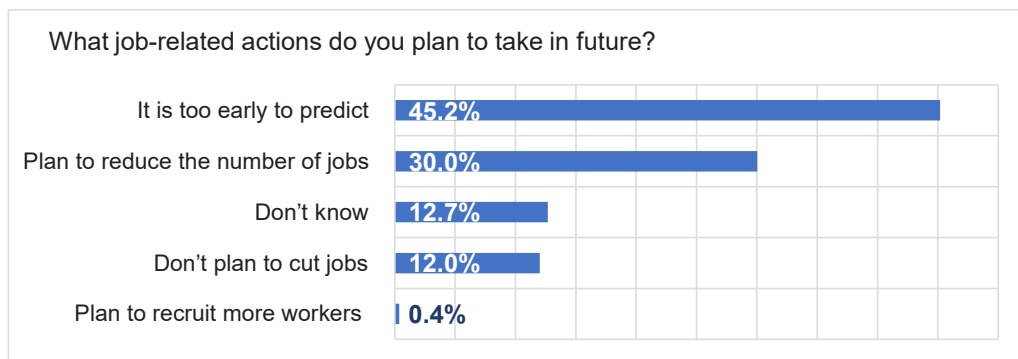
As for the challenges they faced in maintaining the number of workers, 65% of companies surveyed said that their income has declined, 42% said that they needed to halt operations or failed to continue their businesses, and 30% said that they had to reduce their operational costs.



Reviewed in detail by sectors, if 47% of companies in trade sector, 41% in light industry and 42% from food industry reported declining income made it difficult to maintain jobs, 46% of education, 30% of hotels, and 29% of services reported that they were forced to stop operations.

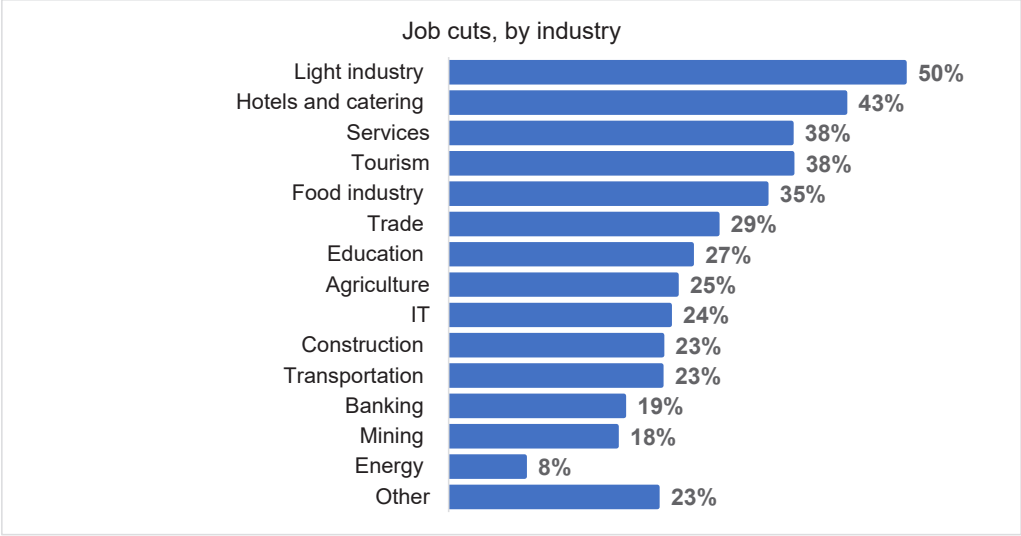


What will happen should the implications from the Covid-19 virus measures continue in the second quarter, 30% will be forced to continue dismissal of staff, 12% will not make any changes to their operation, 45.2% replied it was too early to predict, and 12.7% said they did not have what to say.

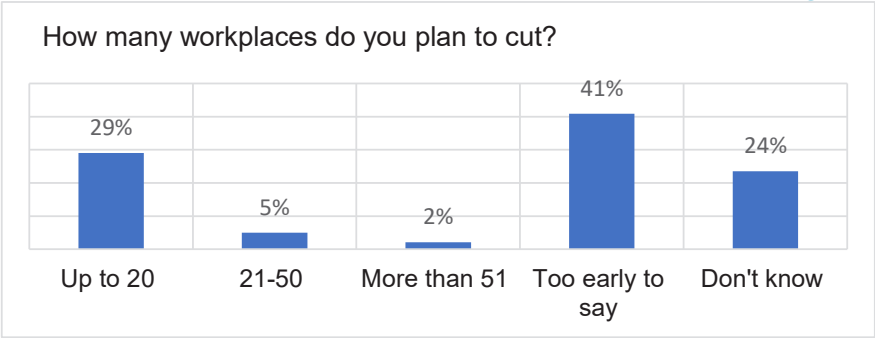




Percentage of companies that planned to reduce the number of jobs, compiled by sectors, 50% of light industry, 43% of hotels and catering, 38% of services and 38% of tourism companies surveyed.

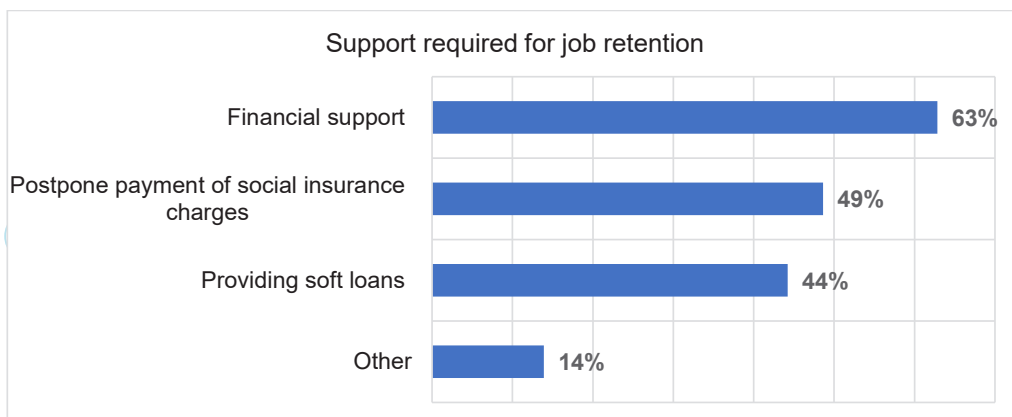


When asked about the planned number of job cuts, 29% said they would fire up to 20 workers, 5% between 21-50, and 2% would cut more than 51 workplaces, which would result in reducing of estimated 8,000 jobs.

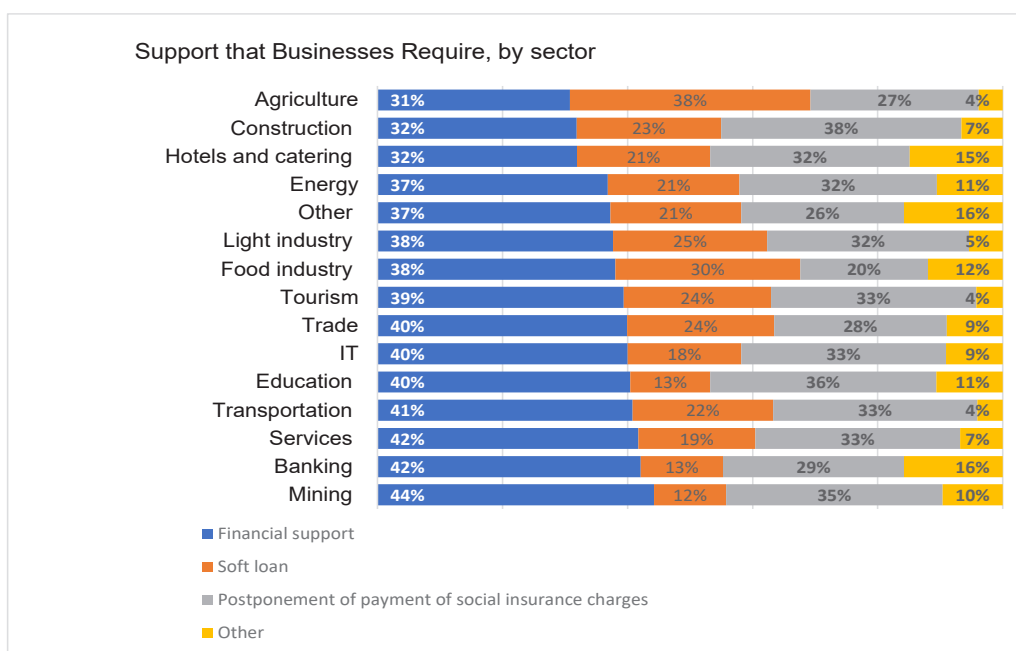


## Support Required for Retaining Jobs

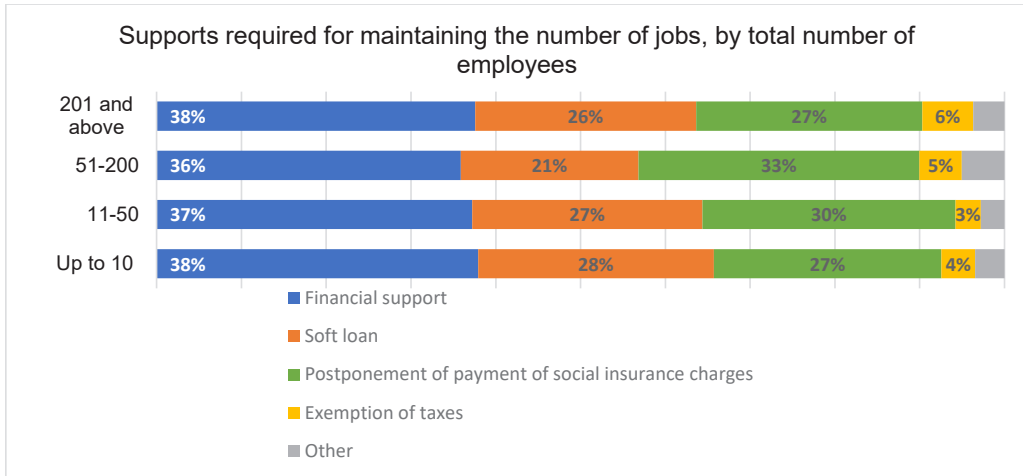
When asked about the type of support respondents would expect from the government in order to help retain the jobs, 63% of the companies expected financial support, 49% referred to postponement of payment of social insurance charges, while 44% said providing soft loans would be helpful.



Above mentioned types of support requested, by sector: 44% of mining sector, 42% of banking sector, 42% of service sector, and 41% of the transportation sector believed that financial support was needed to maintain jobs, while 38% of agricultural sector and 30% of the food sector preferred providing of soft loans. In addition, 32% of the light industry, 33% of services, transportation, information technology, telecommunications, tourism, 38% of construction, and 36% of the education sector respondents believed that delay of payment of social insurance charges would be of a real support.



Regardless of the number of workers employed by the businesses, respondents considered financial support as the most important support that could be provided by the government. In terms of other support, soft loans are more important for companies with up to 10 employees, while deferrals for social insurance payments is crucial to companies with 50-200 employees. Real estate, property tax and VAT exemptions (10%) are also considered to be of great importance.



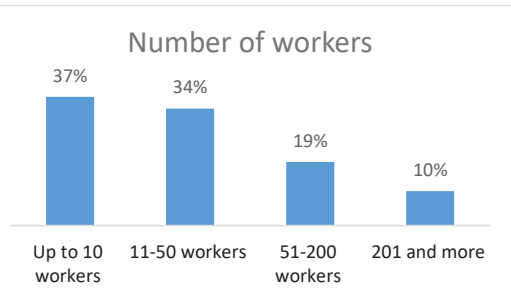
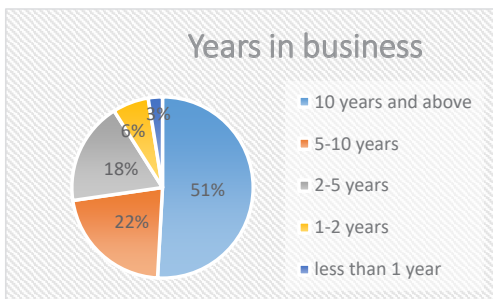
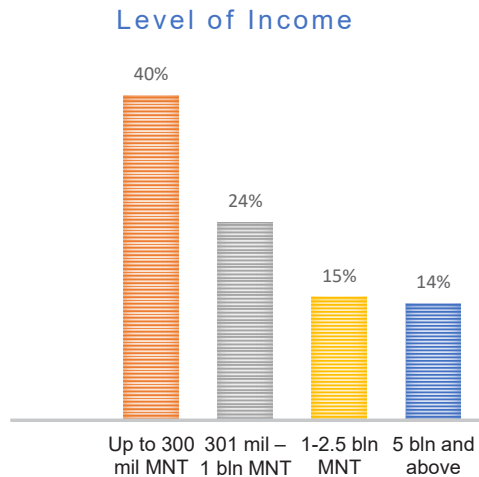
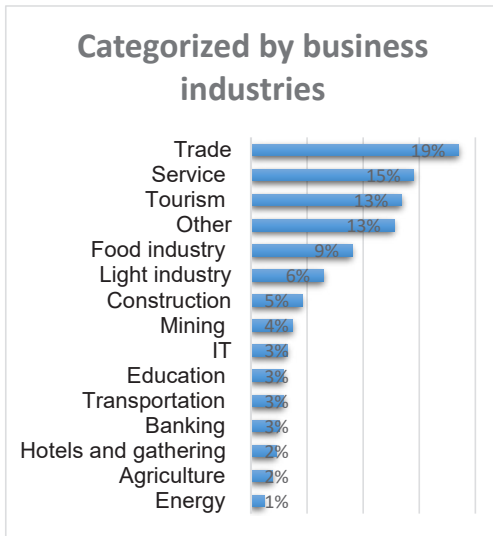
To the open question about other support needed from the government in order to retain the jobs, the surveyed companies proposed the following: the government jointly with the Bank of Mongolia to resolve the issue of loan repayment and implement the decision effectively; parties involved to come to an agreement on reducing renting costs and implement the decision; provide discounts on power and heating costs; during the quarantine, many businesses responded that waiving business regulations, licensing, public procurement requirements, and expediting public services to businesses, would have been of great support, as well.

Furthermore, the government is expected to improve its investment policy; make clear international transportation schedules for business entities engaged in foreign trade; provide visa exemptions for foreign tourists in 2020, issue of tourist visas at the airport in August-October after lifting of the quarantine; procurement by government organizations of import-substituting domestic products; provide financial support to businesses during harvesting of crop; a small group of participants felt that the quarantine regime needed to be relaxed to a certain extent.

### III. INFORMATION ON PARTICIPANTS OF THE SURVEY

We have accomplished and evaluated this online survey which was conducted among Ulaanbaatar and local businesses on March 20-23, 2020, with involvement of 1,504 members and non-members of the MNCCI.

If we categorize the companies which were surveyed by business sectors, we see that the majority, of those, i.e. 19% are involved in trade, 15% in services, 13% in tourism, 9% in food production and 6% in light industry. In terms of revenue, 40% of the enterprises are micro businesses with an annual income of up to 300 million MNT, 39% are small and medium enterprises with an income of 301 million to 2.5 billion MNT, 21% are large companies that earn 2.5 billion MNT and above, 51% are relatively established companies that are in business for over 10 years. In terms of the number of workers, 37% of companies have up to 10 workers, 53% employ 11-200 workers, and 10% have 201 and above number of staff.





## COVID-19

# IMPACT SURVEY REPORT ON DRUG SUPPLY SECTOR



## **4. IMPACT SURVEY REPORT ON DRUG SUPPLY SECTOR**

### **I. OVERVIEW**

### **II. EVALUATION**

- Impact
- Financial Resources
- Support Requirement

### **III. INFORMATION ON RESPONDENTS**

## OVERVIEW

1. In collaboration with the Mongolian National Chamber of Commerce and Industry (MNCCI) and the Mongolian Pharmaceutical Association (MHCS) a survey was conducted among pharmaceutical companies in order to determine impact of the measures taken to prevent and control spread of the virus on pharmaceutical companies and support they required from the government in supply of essential drugs and medical equipment. Of the more than 60 organizations licensed to produce and import pharmaceutical supplies, 34 out of 42 companies that are operational on a permanent basis, took part in the study.


2. Impact caused by spread of the virus was considered severe by 56% of respondents and moderate by 35%. Around 32-70% of participants faced challenges, such as increase in prices of drugs, components and medical equipment, reduced supply of essential drugs, equipment, disruption of production due to shortage of drug components, supplier requirement for 100% advance payment, excess receivables incurred in state procurement tenders, shortage of working capital. In terms of imported goods, 70% of participants referred to supplier requirement for deposition of 100% of payment prior to shipment, was a major challenges.

3. As far as stock of drugs is concerned, 53% replied that they have stockpiled drugs enough for 1-3 months, 29% have stocks for up to 1 month, and 15% have no stock, at all. Over 62% of participants believed that supply of disposable face masks, protective equipment and disinfectants has been halted, and that supply will continue to be disrupted in the coming three months.

4. To the question about the actions that were required to stabilize supply of drugs and medical equipment, 79% referred to providing soft loans, 59-71% suggested that exemption from VAT tax and customs duties would be of great support, 50% requested coordination of supply by the relevant government agency, 44-50% proposed to accelerate settlement of receivables incurred in public procurement.


5. Requirements for funding the working capital vary, with 48% requesting 51-500 million MNT, 21% in need of 500 mil to 1 bln MNT, 18% needing more than 1 bln MNT, while 12% of participants admitted that they could provide for 50% of required working capital, 36% could afford 20-50%, and 21% saying that they could provide only 20% of the financing by themselves.

6. One of the major problems pharmaceutical companies are facing is the fact that 76% are due receivables from tenders, of which 15% expect payment of 1 bln MNT, 12% between 500 mil and 1 bln MNT, and 50% are owed 250 mil.



Moreover, 68% of respondents suffer shortage in working capital due to funds deposited in performance guarantees, out of which 50% have transferred up to 250 mil MNT, 15 % have deposited 250-500 mil MNT, and 6% deposited over 500 mil MNT.

7. Summary of funds requested by the pharmaceutical companies: a total of 37.1 bln MNT is required, out of which MNT 11.3 bln for monthly stockpiling of drugs and components, MNT 16.7 bln for stockpiling of 50 drugs of 6 groups critical to infection control measures, MNT 9.1 bln for stockpiling of monthly use of medical and protective equipment.

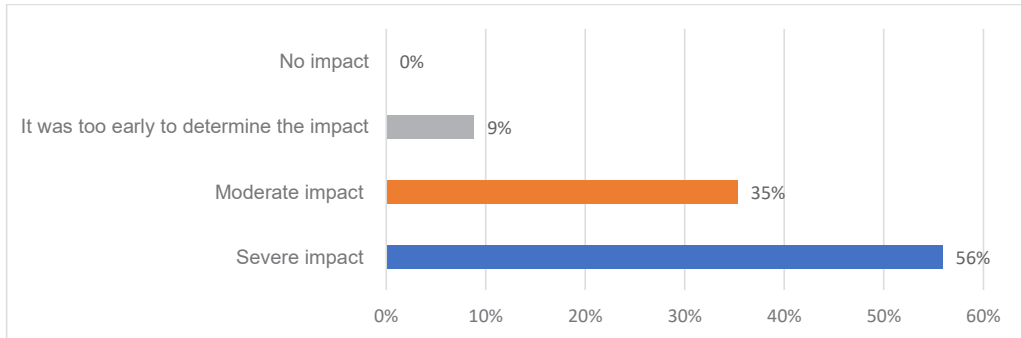




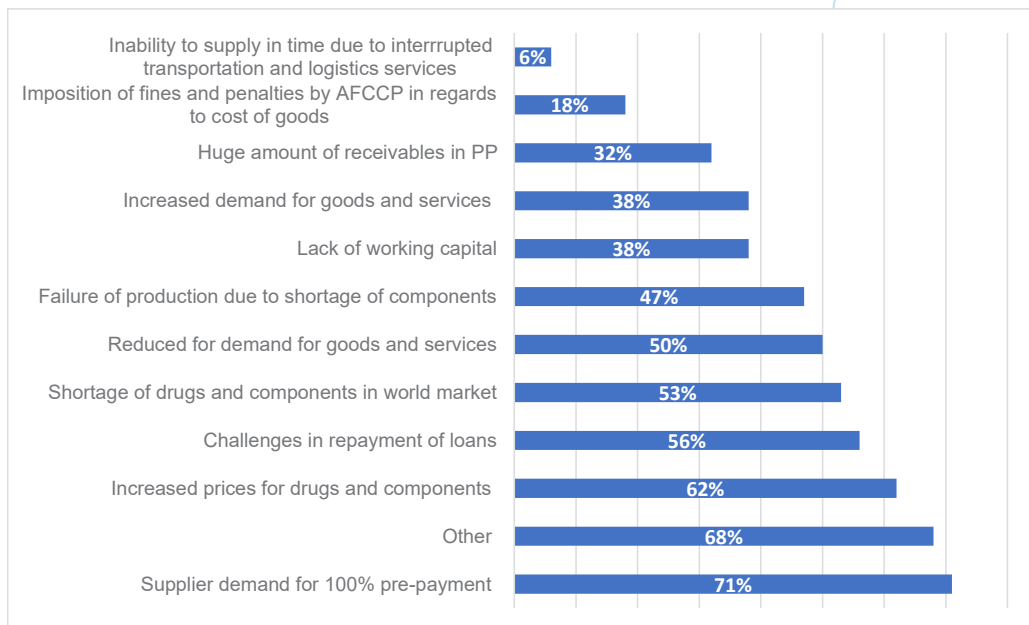
## I. EVALUATION

### Impact

Regarding the effects of Covid-19 virus infection preventive measures, 56% of the respondents were severely affected, 35% said that they were moderately affected, 9% said that it was too early to determine the effect, and 0%, i.e. all respondents were affected one way or another.



Around 32-70% of participants faced challenges, such as increase in prices of drugs, components and medical equipment, reduced supply of essential drugs, equipment, disruption of production due to shortage of drug components, supplier requirement for 100% advance payment, excess receivables incurred in state procurement tenders, shortage of working capital. In terms of imported goods, 70% of participants referred to supplier requirement for deposition of 100% of payment prior to shipment, was a major challenges.



## Stock of Medical Supplies

In terms of drug stocks, 53% are stocked for 1-3 months, 29% have stock for up to 1 month, and there are no stocks of 15% of essential drugs. Over 62% of respondents believe that there is disruption in supply of disposable facial masks, protective equipment and disinfectants, and that disruption will continue for at least the following 3 months.



## Amount of Essential Drugs, Medical Supplies and Protective Equipment that need to be Stockpiled

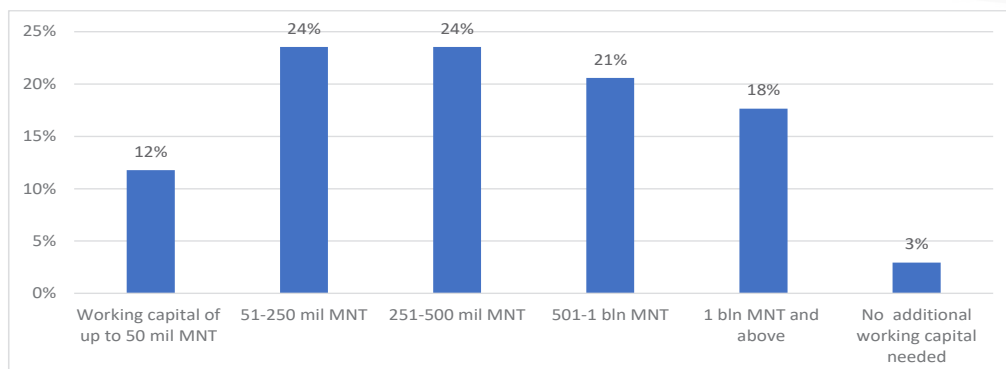
Participants were asked to provide their assumption of the need for drugs and medical supplies related to the emergency response to the spread of the virus, the current disruption in supply of essential drugs and standard medical supplies used by patients with underlying conditions under routine circumstances, and the availability of stocks for the next 3 months.

At the moment, supply of 21 drugs of 8 groups (Annex 1), 10 types of medical equipment, 8 types of protective clothing, and 3 types of disinfectants (Annex 2) typically used during spread of infectious diseases was disrupted and stocks drastically reduced. In terms of drugs stocked under normal circumstances, there is shortage in supply of 18 drugs of 4 groups (Annex 3) and 14 types of medical devices (Annex 4).

For the following 3 months it will be crucial for the sector to store enough supply of 57 drugs of 6 groups and 2 raw materials (Appendix 5), and special attention should be paid to supply of antibiotics, antiviral drugs and blood transfusions. There is an acute need in stockpiling 7 types of medical supplies in the next 3 months, and due consideration for delivering sufficient amount of thermometers, needles, and hemodialysis filters (Appendix 6).

## Financial Resources

The amount of required working capital vary, 48% of respondents require 51-500 mil MNT, 21% needing 500 mil to 1 billion MNT, with 18% requiring more than 1 bln MNT.

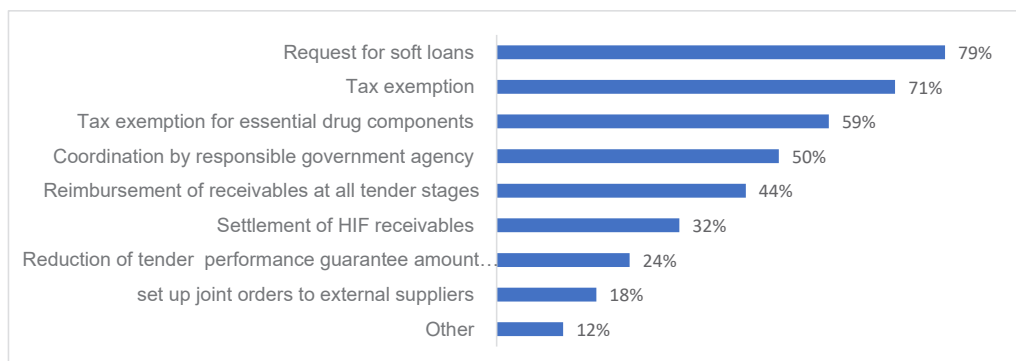


However, 12% of participants admitted that they could provide for 50% of required working capital, 36% could afford 20-50%, and 21% saying that they could provide only 20% of the financing by themselves.

One of the major problems pharmaceutical companies are facing is the fact that 76% are due receivables from tenders, of which 15% expect payment of 1 bln MNT, 12% between 500 mil and 1 bln MNT, and 50% are owed 250 mil. Moreover, 68% of respondents suffer shortage in working capital due to funds deposited in performance guarantees, out of which 50% have transferred up to 250 mil MNT, 15% have deposited 250-500 mil MNT, and 6% deposited over 500 mil MNT.

## Support Required from the Government

To the question about the actions that were required to stabilize supply of drugs and medical equipment, 79% referred to providing soft loans, 59-71% suggested that exemption from VAT tax and customs duties would be of great support, 50% requested coordination of supply by the relevant government agency, 44-50% proposed to accelerate settlement of receivables incurred in public procurement.



More than 50% of the pharmaceutical companies' participants supported the government efforts in combating and prevention of spread of the virus by providing drugs, biologically active products, medical protective devices, facial masks, and medical equipment.

### Financial Requirements

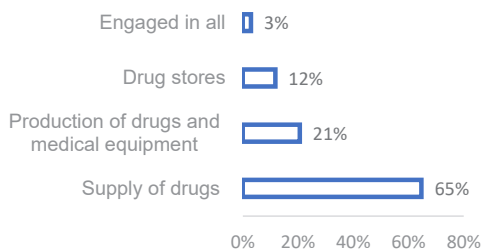
Summary of funds requested by the pharmaceutical companies: **a total of 37.1 bln MNT is required**, out of which MNT 11.3 bln for monthly stockpiling of drugs and components, MNT 16.7 bln for stockpiling of 50 drugs of 6 groups critical to infection control measures, MNT 9.1 bln for stockpiling of monthly use of medical and protective equipment.

## II. INFORMATION ON RESPONDENTS

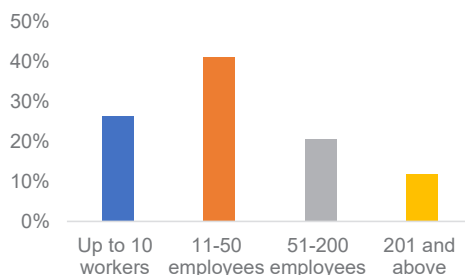
A total of 22 drug suppliers, 7 factories that produce pharmaceuticals and medical devices, 4 drug stores, and 1 business entity engaged in all three of above activities.

We consider these companies a good representation of the industry due to the years of operation: 29 companies have been operating for more than 10 years, 4 companies are operational for 2-5 years, and 1 company that has been in business for 5-10 years.

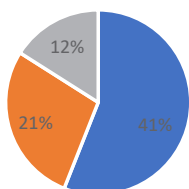
Per type of activities



Number of employees

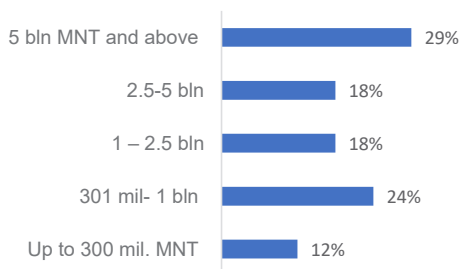


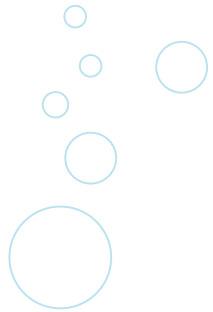
Number of employees



1-50 employees    51-200 employees    201 employees and more

Annual sales income







# MONGOLIAN CASHMERE MARKET FORECAST 2020



## **5. MONGOLIAN CASHMERE MARKET FORECAST 2020**

I. Overview

II. Overview of Cashmere Market

III. Cashmere Market Price Forecast

IV. Current Situation and the Needs of Cashmere Producers



## OVERVIEW

1. Growth of the global economy has been slowing down due to stagnation in many sectors of the economies, in particular tourism, air travel and trade, amid global pandemic spread out from China. International organizations, economists and researchers predict that the current economic crisis is expected to be greater than ever as the world economy becomes more globalized and the interdependence of economies and supply chains increases.
2. As of 2019, economic growth of China, which imports 100% of Mongolia's washed cashmere, and Italy, which accounts for 85% of Mongolia's combed cashmere exports, are expected to slow down. In particular, the economies of European countries, including Italy, the United Kingdom and Germany, which dominate the processed cashmere market, are expected to decline. In 2018, China has exported around 60% of its combed cashmere to Italy.
3. During the 2009 economic crisis and the economic setback of the 2015-2016, the price of raw cashmere fell by 24-25%, the average export price of combed cashmere fell by 30-31%.
4. According to the cashmere market indicator, the price index has been declining continuously since December 31, 2018. As of January 29, 2020, the global financial and economic crisis has decreased by 0.08-1.88 percent compared to data of the pre-crisis month. The indexes of China, Iran and Mongolia showed decline in 1999, 2009-2010 and 2016-2018. ([www.gschneider.com](http://www.gschneider.com))
5. Domestic sales of finished cashmere products is heavily dependent on purchase by foreign tourists. It is expected in 2020 that tourism sector will undergo stagnation and the number of tourists to fall drastically.
6. The Mongolian National Chamber of Commerce and Industry (MNCCI) conducted a survey called "Current situation and needs of cashmere companies" which involved 55 companies. The surveyed enterprises combined possess stocks of 276.6 tons of raw cashmere, 77 tons of washed cashmere, 396 tons of combed cashmere, 248.4 tons of yarn and 992 thousand pieces of finished products. According to preliminary estimates, **3.7 thousand tons** of raw cashmere will be needed in 2020, however some companies are reluctant to predict the exact amount due sharp decline in demand amid the pandemic. In terms of domestic price of raw cashmere, 13% of respondents expect it to be 50 thousand MNT, 41% - 50-70 thousand MNT, 28% - 70-90 thousand MNT, and 18% - more than 90 thousand MNT.
7. The domestic price of raw cashmere is expected to be around MNT 60,000 in 2020, provided the consequences of this economic crisis caused by the pandemic will be similar to those of the crisis's that hit the world economy since 2009.

## 1. Overview of Cashmere Market

The world cashmere market annual turnover is in average 24,000 tons, of which China alone supplies 12,000 tons which makes up 50% of the total amount, and Mongolia supplies 9.6 thousand tons or 40% of the total demand. Italy and the United Kingdom are the leaders in cashmere processing.

In 2019, Mongolia produced 9.6 thousand tons of cashmere. As of 2009, washed cashmere accounted for 65.2 percent of total cashmere exports, while combed cashmere accounted for 10.4 percent. In accordance with the Mongolian Customs General Administration's report, all 5.7 thousand tons of washed cashmere worth \$ 283.3 million were 100% exported to China. Out of the total amount of exported combed cashmere, i.e. 507 tons worth \$45.3 million, 85% was exported to Italy, 10% to the United Kingdom, 2% to the Republic of Korea, and the remaining 3% to other countries.

Within the framework of the Cashmere program implemented by the government of Mongolia, 188.2 bln MNT in 2018 and 107.3 bln MNT in 2019, were handed-out at an annual interest rate of 12-14%. In accordance with the report by MOFALI (Ministry of Food, Agriculture and Light Industry), in 2018, the capacity of the cashmere combing plants has risen 28.6%, the capacity of the knitting industry increased by 42.7%, in 2019, installed were equipment with the capacity of combing 700 tons cashmere and spinning 100 tons of cashmere.

## 2. Cashmere Market Price Forecast

International organizations and governments of major economies have repeatedly stated that the new coronavirus spread has reached endemic proportions, about how the global economy is slowing down and that the countries are facing yet another economic crisis.

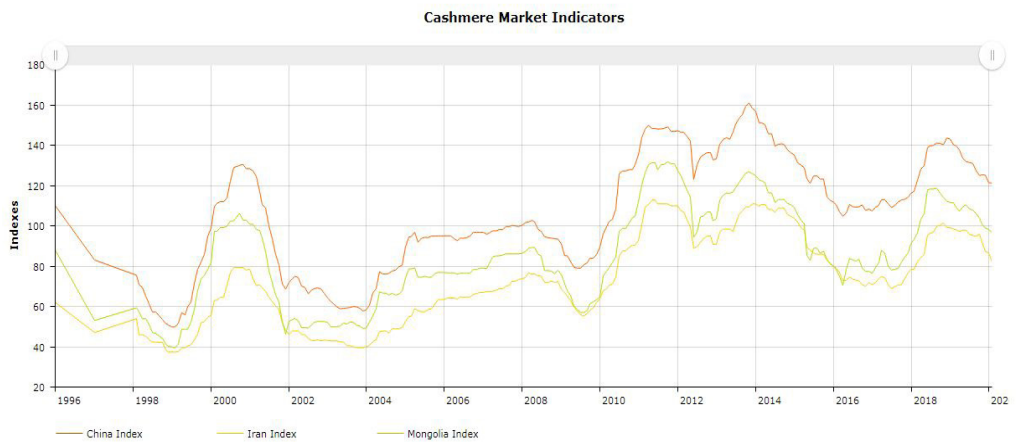
It has become clear now that the economic growth is expected to slow down in China, Italy, the United Kingdom and Germany, in countries which dominate the cashmere market.

According to the cashmere market indicator, the price index has been declining continuously since December 31, 2018. As of January 29, 2020, the global financial and economic crisis has decreased by 0.08-1.88 percent compared to data of the pre-crisis month.

Origin	Date	Index value	Var.%
China	29/01/2020	121.25	-0.08
Iran	29/01/2020	85.00	-1.88
Mongolia	29/01/2020	96.60	-1.66

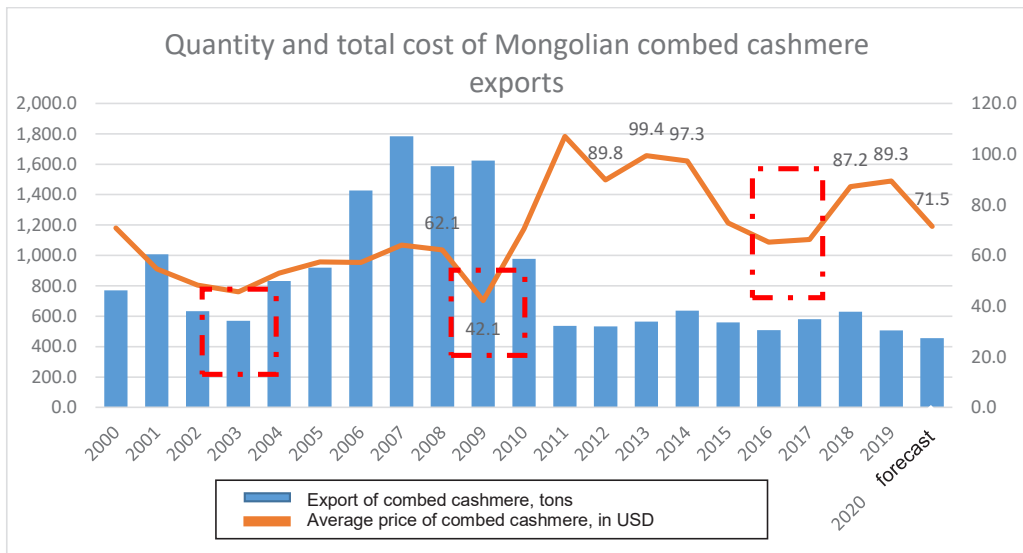
Source: <https://www.gschneider.com/cashmere-and-silk-market-indicators/>

The indexes of China, Iran and Mongolia showed decline in 1999, 2009-2010 and 2016-2018.



Source: <https://www.gschneider.com/cashmere-and-silk-market-indicators/>

In terms of the volume and value of Mongolian combed cashmere exported between 2000 and 2009, we can observe decline in 2003, 2009, and 2016-2017. During those years, prices fell sharply, compared to relatively slight reduction observed in previous years.

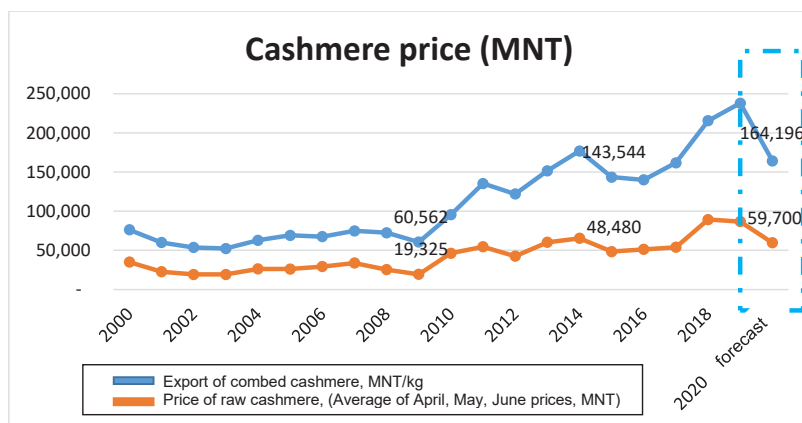


Source: Mongolian Custom's General Administration

Both the volume of exports and export price of combed cashmere decreased in 2003 amid SARS outbreak.

During the economic crisis of 2008-2009, the domestic price of raw cashmere decreased by 24%, the average export price of washed cashmere decreased by 36%, and the average export price of combed cashmere decreased by 32 percent, respectively.

Again the economic crisis of 2015-2016 caused fall of the domestic price of raw cashmere by 25%, decrease of the average export price of washed cashmere by 31%, and the average price of combed cashmere decreased by 29 percent, respectively.



Source: Customs General Administration, National Statistical Office

Mongolia's 2000-2019 price of raw and processed cashmere and the cashmere market price index reveal how both demand for cashmere, and the price of cashmere, in particular had fallen sharply due to the economic crisis.

The domestic price of raw cashmere is expected to be around MNT 60,000 in 2020, provided the consequences of this economic crisis caused by the pandemic will be similar to those of the crisis's that hit the world economy since 2009. This is considered an optimistic outlook compared to the current situation, hence at the moment, it is almost impossible to predict how low this price might fall in the nearest future.

### 3. Current Situation and the Needs of Cashmere Producers

The Mongolian National Chamber of Commerce and Industry (MNCCI) conducted a survey called "Current situation and needs of cashmere companies" which involved 55 companies. 70% of the surveyed companies are engaged in knitting, 10% in combing, 7% in spinning, 5% in washing, 8% in all stages of production, 28% are large and medium enterprises, 72% are small and micro businesses. An overview of the survey results:

#### Resources of Raw Material

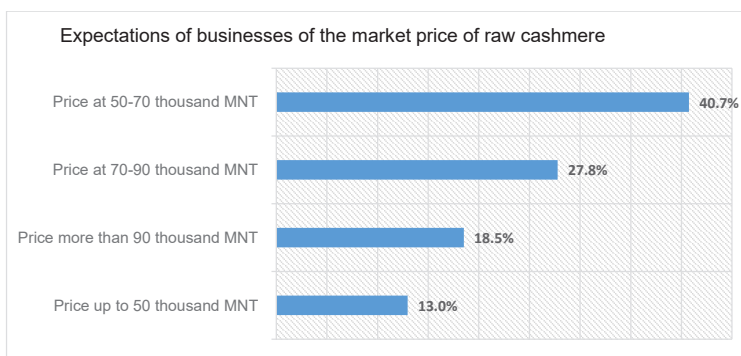
The 55 surveyed enterprises combined possess stocks of 276.6 tons of raw cashmere, 77 tons of washed cashmere, 396 tons of combed cashmere, 248.4 tons of yarn and 992 thousand pieces of finished products.



According to preliminary estimates, **3.7 thousand tons** of raw cashmere will be needed in 2020, however some companies are reluctant to predict the exact amount due sharp decline in demand amid the pandemic.

### Cashmere production price expectations

In 2020, 13% of the surveyed participants expect the domestic price of raw cashmere go up to 50 thousand MNT, 41% to be at 50-70 thousand MNT, and 46% to be over 70 thousand MNT.

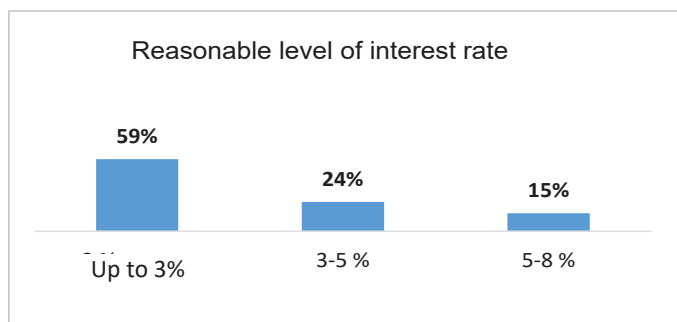


### Financial Capacity of Businesses and their Needs

Of all the surveyed entities, 83.3% have outstanding loans and the total amount of outstanding loans equals to MNT 259.3 billion. 31% of businesses with outstanding loans pay interest rates of 8-12%. while 52% of them pay interest rates of more than 12%.

The amount of funds required by the surveyed businesses total to MNT 360.3 billion, 91% of the surveyed stated that they required to be financed, 56% prefer to be financed through soft loans, and 33% are planning to credit from commercial banks. Respondents plan to spend 27% of the proceeds on working capital, 20% on machinery, 22% on marketing, research and development, and 16% on job creation and staff training.

59% of respondents consider a 3% interest rate reasonable, 24% an interest rate of 3-5% and 15% of participants prefer an interest rate of 5-8%.





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