



## LAW OF MONGOLIA

June 6, 2019

Government House, Ulaanbaatar

### ON SUPPORT OF SMALL AND MEDIUM ENTERPRISES AND SERVICES

/ Revised version /

#### CHAPTER ONE GENERAL PROVISIONS

##### **Article 1. Purpose and objectives of the law**

1.1. The purpose of this law is to diversify small and medium enterprises and services, improve their competitiveness, increase employment and increase their share in the economy.

1.2. The purpose of this law is to regulate relations related to establishing the scope, form, management and legal basis of state support for small and medium enterprises and services.

##### **Article 2. Legislation to support small and medium enterprises and services**

Legislation to support small and medium enterprises and services is the Constitution of Mongolia, the Civil Code, the Company Law, the Law on Cooperatives, the Law on Partnerships, the Law on Government Special Funds, the Law on Credit Guarantee Fund, this law and these other legislative acts issued in accordance with the law.

2.2. If an international treaty to which Mongolia is a party provides otherwise than this law, the provisions of the international treaty shall prevail.

##### **Article 3. Scope of the law**

3.1. This law shall apply to business entities engaged in domestic small and medium enterprises and services with the purpose of making a profit registered in the state registry permanently located and operating in the territory of Mongolia.

3.2. Non-governmental organizations, state and locally owned companies with its participation, state-funded enterprises, state and locally owned business entities, and foreign legal entities shall not be subject to the regulation of this law.

##### **Article 4. Definitions of legal terms**

The following terms used in this law shall have the following meanings:

4.1.1. "Small and medium enterprise and service provider" means a business entity with up to 200 employees, annual sales revenue of up to 2.5 billion MNT and operating in the manufacturing, trade and service sector;

4.1.2. "Sales revenue" means sales revenue defined in the financial statements of a business entity;

4.1.3. "Employee" is defined in Article 3.1.2 of the Labor Law;

4.1.4. "Cluster" means a business entity cooperating in a coordinated manner in terms of purpose, type, direction and geographical location of production and services.

## CHAPTER TWO

### SMALL AND MEDIUM ENTERPRISES AND SERVICES

#### Article 5. Small and medium enterprises and service providers

5.1. Business entities that meet the following conditions shall be classified as small and medium enterprises and service providers:

5.1.1. "Micro-industry and service provider" means a business entity with up to 10 employees, operating in the production, trade and service sector, with annual sales income of up to 300.0 million MNT;

5.1.2. "Small enterprise and service provider" means a business entity with 10-50 employees, operating in the production, trade and service sector, with annual sales revenue of 300.0 million to 1.0 billion MNT;

5.1.3. "Medium enterprise and service provider" means a business entity with up to 50-200 employees, operating in the production, trade and service sector, with annual sales revenue of 1.0-2.5 billion MNT.

5.2. In determining the amount of sales revenue of small and medium enterprises and service providers, the amount of sales revenue of related parties shall be calculated.

5.3. If a small and medium enterprise or service provider fails to meet the classification conditions specified in Articles 5.1.1, 5.1.2 and 5.1.3 of this Law at the same time, the number of employees shall be included in the relevant category as the main indicator.

5.4. If a business entity is engaged in two or more activities and one of them is related to the activities specified in Article 7 of this Law, it shall not apply to small and medium enterprises and service providers specified in this Law.

5.5. Small and medium enterprises and service providers shall operate in the form of companies, cooperatives and partnerships.

5.6. "Related person" specified in 5.2 of this Law shall mean the one specified in Article 27 of the General Tax Law.

#### Article 6. Registration of small and medium enterprises and service providers

A business entity that meets the conditions specified in this law shall submit its request for registration as a small and medium enterprise or service provider to the state administrative body in charge of small and medium enterprise or to the local authority in charge of the issue in writing or electronically.

The following documents shall be attached to the request specified in 6.1 of this Law:

6.2.1. A copy of the state registration certificate;

6.2.2. Reference from the social insurance organization confirming that the employee is covered by social insurance;

6.2.3. Opening balance sheet or financial statements of the previous year.

6.3. If the applicant deems that he / she meets the conditions specified in 5.1 of this Law, he / she shall be registered as a small and medium enterprise and service provider of appropriate category within 5 working days after receiving the application and a certificate shall be issued.

6.4. If the applicant does not meet the conditions specified in 5.1 of this Law or the documents are incomplete, he / she shall notify in writing within 5 working days of the reasoned refusal to register.

6.5. The state administrative body in charge of small and medium enterprise shall inform the public about the registration of small and medium enterprises and service providers and its amendments through the official website from time to time.

6.6. The state administrative body in charge of small and medium enterprises shall deregister small and medium enterprises and service providers on the following grounds:

6.6.1. The number of employees and the amount of sales revenue exceeds the limit specified in 4.1.1 of this law;

6.6.2. Small and medium enterprises and service providers have applied for deregistration;

6.6.3. It has been established that false documents were submitted during registration;

6.6.4. The business entity has been liquidated;

6.6.5. It has been determined that small and medium enterprises and service providers have used technologies and materials harmful to the environment and human health and caused ecological damage.

6.7. It is prohibited to charge service fees and charges in connection with the registration of small and medium enterprises and service providers.

#### **Article 7. Persons not belonging to small and medium enterprises and service providers**

7.1. A business entity engaged in the following activities shall not apply to small and medium enterprises and service providers specified in this law:

7.1.1. Articles 15.2, 15.3, 15.4, 15.5, 15.6, 15.7, 15.8, 15.9, 15.10.4, 15.10.5, 15.10.6, 15.10.7, 15.10.8 and 15.10 of the Law on Licensing of Business Activities. 9, 15.10.10, 15.10.11, 15.10.12, 15.10.13, 15.10.14, 15.10.16, 15.10.17, 15.10.18, 15.10.19, 15.10.20, 15.10.21, 15.10.22, 15.11.1, 15.11.2, 15.11.6, 15.12.4, 15.12.5, 15.12.6, 15.12.7, 15.12.8, 15.12.9, 15.12.10, 15.12.11, 15.13.1, 15.14. 3, 15.14.7, 15.15.1, 15.15.2, 15.15.3, 15.15.4, 15.15.5, 15.15.6, 15.15.7, 15.15.8, 15.15.9, 15.15.10, 15.15.11, Activities specified in 15.16, 15.18.1, 15.18.2, 15.18.3, 15.18.4, 15.18.5, 15.18.6, 15.18.7, 15.18.8, 15.19, 15.20;

7.1.2. Mortgage lending services;

7.1.3. Brokerage services;

7.1.4 legal advice services;

7.1.5. Trade and service network;

7.1.6. Activities specified in Articles 13.4 and 13.5 of the Law on Savings and Credit Cooperatives;

7.1.7. Exploration for minerals, extraction and mining of minerals from the surface, its subsoil, ore stockpiles, waste and natural water, increase, enrichment and processing of its mineral content.

### **CHAPTER THREE**

#### **GOVERNMENT POLICY TO SUPPORT SMALL AND MEDIUM ENTERPRISES AND SERVICES**

#### **Article 8. Policy direction of the state on support of small and medium enterprises and services**

8.1. Considering the scope of small and medium enterprises and services, development stage, impact on regional development, access to foreign markets, technical and technological status, the state shall provide the following support: 8.1.

8.1.1. Develop a system to increase, train and retrain human resource capacity of small, medium enterprises and services based on the demand and needs of the market of small and medium enterprises and services;

8.1.2. To provide the following financial support:

8.1.2.a. to issue soft loans;

8.1.2.b. to reduce the loan interest rate taking into account the number of newly created jobs and the amount of sales revenue;

8.1.2.c. To issue a double loan guarantee;

8.1.2.d. To provide loan interest subsidy;

8.1.2. To provide financial leasing services for equipment and support for lease interest.

8.1.3. To provide tax credits and exemptions;

8.1.4. To increase exports and support the production of competitive products and services to replace imports;

8.1.5. To support the sale of products, works and services through public procurement;

To provide business consulting services;

8.1.7 support research to develop new products and increase productivity;

8.1.8. To support the transmission and introduction of technical and technological advances and the introduction of scientific and technological research results into production;

8.1.9 support small and medium enterprises and service providers operating in the form of clusters, depending on local raw material and labor resources and other features;

8.1.10. To support access to foreign and domestic markets.

#### **Article 9. Support for small and medium enterprises and service clusters**

The state shall provide the following support for cluster development of small and medium enterprises and services:

9.1.1. To provide comprehensive tax and financial support to business entities engaged in interconnected activities of procurement, supply, production, transportation and sale of raw materials;

9.1.2. To improve infrastructure supply;

9.1.3 create conditions for cooperation, diversification and cooperation through its activities.

9.2. If small and medium enterprises and service providers operate in the form of clusters, the number of their employees and the amount of sales revenue may be aggregated and assigned to the appropriate category.

9.3. The member of the Government in charge of small and medium enterprises shall review the grounds for aggregating the number of employees and the amount of sales revenue specified in Article 9.2 of this Law and approve the procedure for classifying them as appropriate.

9.4. If the project of a business entity operating in the form of a cluster in the local area falls within the direction specified in 15.1.2 of this law, the state shall support it in the first place.

#### **Article 10. Program for development of small and medium enterprises and services**

10.1. Have a medium-term program aimed at defining priorities for small and medium enterprises, improving competitiveness, increasing employment and financial access, and diversifying by cluster development.

10.2. Have a medium-term program aimed at introducing advanced technology in the household services sector, providing standardized services to citizens, reducing informal employment and increasing employment.

10.3 Ensure the participation of research and non-governmental organizations and the public in the development, implementation and evaluation of small and medium enterprise and service development programs.

#### **Article 11. Small and medium enterprise development fund**

11.1. There shall be a Small and Medium Enterprise Development Fund (hereinafter referred to as "Fund") for the purpose of financing the funds required for activities to support small and medium enterprises and services.

The state administrative body in charge of small and medium enterprises shall perform the functions specified in the Fund Law.

11.3. Relations related to the formation, disbursement, reporting and monitoring of the Fund's assets shall be regulated by the Law on Government Special Funds.

11.4. Funds shall be allocated to the fund from the state budget annually in accordance with Article 16.3 of the Law on Government Special Funds.

*[/ This part was amended according to the law dated November 13, 2019 /](#)*

11.5. The Government shall approve the procedure for granting soft loans and project selection from the Fund in accordance with Article 16.7 of the Law on Government Special Funds.

*[/ This part was amended according to the law dated November 13, 2019 /](#)*

11.6. The amount of one-time loan to be issued by the Fund to small and medium enterprises and service providers shall be determined as follows:

11.6.1. Up to MNT 300.0 million for micro-enterprises and service providers depending on annual sales revenue;

11.6.2. Up to 1.0 billion MNT for small enterprises and service providers depending on annual sales revenue;

11.6.3. Up to 2.5 billion MNT depending on the annual sales revenue of medium enterprises and service providers.

11.7. Loans to micro-enterprises and service providers shall be provided directly from the Fund to small and medium enterprises and service providers through banks. The bank will be selected through a tender. The Government shall approve the procedure for placing the Fund's resources and issuing loans to the Bank.

11.8. If a medium-sized enterprise or service provider exports its products, the Fund may provide up to 5.0 percent of the annual interest rate on the loan obtained from the bank.

11.9. The following restrictions shall be observed when granting loans and interest rate subsidies from the Fund:

11.9.1. To allocate at least 80 percent of the fund's state budget funding for the purpose of supporting production;

11.9.2. The total amount of funds to be provided for the purpose of loan interest subsidy shall not exceed 20 percent of the Fund's state budget funding for the given year.

11.10. The procedure for granting loan interest subsidy from the Fund in accordance with Article 11.8 of this Law shall be jointly approved by the Government member in charge of small and medium enterprises and finance and budget.

11.11. Concessional loans shall not be issued to the following small and medium enterprises and service providers:

11.11.1. With outstanding loan from the fund;

11.11.2. Has a bad credit history in the credit database;

11.11.3. It has been determined that the loan received from the fund has been misused;

11.11.4. Has a debt to be paid to others by a court decision;

11.11.5. Debts to social insurance and tax authorities as of the last day of receiving the project.

11.12. It is prohibited for any person to interfere in making proposals, conclusions, conducting tenders and making decisions on projects to be implemented with loan sources.

11.13. If it is considered that an official has interfered with the performance of his / her official duties, the official shall be obliged to notify the competent authority or official in accordance with the Law on Regulation of Public and Private Interests and Prevention of Conflict of Interests.

11.14. In granting soft loans from the Fund and selecting projects, small and medium enterprises and service providers shall be considered whether they have implemented the provisions of Articles 111.1 and 111.2 of the Labor Law.

11.15. The decision to select the project shall be announced to the public within 5 working days after the decision is made on the official website of the Foundation and in the daily press.

11.16. The Fund shall monitor the implementation of loan and sub-lending agreements.

## CHAPTER FOUR

### PARTICIPANTS IN SMALL AND MEDIUM ENTERPRISES AND SERVICES

#### **Article 12. Services to be provided to small and medium enterprises and service providers**

A privately owned legal entity may provide the following services to small and medium enterprises and service providers:

12.1.1. To provide advice and information;

12.1.2. Business consulting services;

To organize training;

12.1.4. Sales promotion activities;

12.1.5. To lease workplaces and equipment on preferential terms for production and service purposes;

12.1.6. Business incubation services.

#### **Article 13. Rights and obligations of small and medium enterprises and service providers**

13.1. Small and medium enterprises and service providers shall have the following rights:

13.1.1. Participate in programs, projects and activities implemented by the state to support small and medium enterprises and services, and receive financial support;

13.1.2. To refuse to comply with any illegal decision or requirement of a state organization or official and to file a complaint in accordance with relevant procedures;

13.1.3. To participate in trainings, information and consultations organized by the persons and other organizations specified in Article 12.1 of this Law for small and medium enterprises and service providers;

13.1.4. To vote on draft policies and decisions implemented by the state on small and medium enterprises and services and monitor their implementation;

13.1.5 other rights provided by law.

13.2. Small and medium enterprises and service providers shall have the following responsibilities:

13.2.1. To comply with the legislation, legal decisions and requirements of the authorized organization and official;

13.2.2. To engage in production, trade and services that meet the relevant standards, hygiene and sanitation requirements;

13.2.3. If the activity is related to the direction specified in 7.1 of this Law, to notify and deregister small and medium enterprises and service providers;

13.2.4. To improve the quality of its products and services, increase its competitiveness and introduce new products and services;

13.2.5. To improve employees' knowledge, experience, professional skills and improve management methods;

13.2.6. To ensure social security of employees and to pay not less than the amount established by law;

13.2.7. To notify the state administrative body in charge of small and medium enterprises or the local authority in charge of the issue if the number of employees and the amount of sales revenue exceeds the limit specified in 4.1.1 of this law;

13.2.8. To spend the funds provided by the fund in accordance with its purpose and fulfill its loan agreement obligations;

13.2.9. Submit a report on the progress and status of loan disbursement to the Fund every 6 months;

13.2.10. Other obligations imposed by law.

## CHAPTER FIVE

### AUTHORITIES OF STATE AND LOCAL SELF-GOVERNING ORGANIZATIONS ON SMALL, MEDIUM ENTERPRISES AND SERVICES

#### **Article 14. Powers of the State Great Hural**

The State Great Hural shall exercise the following powers with respect to small and medium enterprises and services:

14.1.1. Define the state policy aimed at improving the legal environment for small and medium enterprises and services and creating favorable conditions for finance, taxation, loans and investment;

14.1.2. To approve the source of funds required for programs, projects and activities to support small and medium enterprises and services;

14.1.3. To discuss reports on the implementation of projects and programs implemented by the state budget, foreign loans and grants, and measures taken by the Government in the sector of small and medium enterprises and services;

14.1.4. Other powers provided by law.

#### **Article 15. Powers of the Government**

The Government shall exercise the following powers with respect to small and medium enterprises and services:

15.1.1. Approve the program specified in Articles 10.1 and 10.2 of this Law for a period of 5 years and ensure its implementation;

15.1.2. Approve the direction of regional development by cluster taking into account local raw material resources, demand and needs and proposals specified in 18.3 of this law;

15.1.3. Reflect the sources of funds required for programs, projects and activities for the development of small and medium enterprises and services in the annual guidelines for foreign loans, aid, economic and social development, the Fiscal Framework Statement and the state budget;

15.1.4. Increase the participation of small and medium enterprises and service providers in the establishment of industrial parks and the development of free economic zones;

15.1.5. To issue government securities with the permission of the State Great Hural for the purpose of supporting small and medium enterprises and services;

15.1.6. Other powers provided by law.

#### **Article 16. Powers of the state central administrative body in charge of small and medium enterprises**

The State Central Administrative Body Responsible for Small and Medium Enterprises shall exercise the following powers:

16.1.1. To develop legislation to support small and medium enterprises and services, draft programs and documents specified in Articles 10.1, 10.2 and 15.1.2 of this Law, and monitor their implementation;

16.1.2. To provide the Fund with unified policy and management for projects and activities implemented by the state budget, foreign loans and grants in the field of small and medium enterprises and services;

16.1.3. To exercise state representation in the management of the loan guarantee fund;

16.1.4. To develop and resolve proposals on open and prompt delivery of public services to small and medium enterprises and service providers, to reduce the number of steps, and to improve the inspection, registration and licensing system;

16.1.5. Based on the research report specified in 17.1.7 of this law, reflect the human resources issues required for the sector in the plans, guidelines, programs and professional areas for the development of vocational and technical education;

16.1.6. Other powers provided by law.

16.2. Some state functions specified in this law on small and medium enterprises and services may be transferred to non-governmental organizations in accordance with relevant legislation.

#### **Article 17. Powers of the state administrative body in charge of small and medium enterprises**

The state administrative body in charge of small and medium enterprises shall be responsible for implementing the state policy on small and medium enterprises and shall exercise the following powers:

17.1.1. To implement legislation on small and medium enterprises and services, state policies and directions, and report on their implementation;

17.1.2. To take organizational measures to introduce the results of scientific research into production;

17.1.3. To communicate with participants in small, medium enterprise and service sector relations, exchange information, and introduce one-stop shop service;

17.1.4. To provide advice and information to the person specified in 12.1 of this Law;

17.1.5. To organize trainings on human resource training, capacity building, product development, access to international markets and other areas;

17.1.6. To create and maintain an electronic database to support small and medium enterprises and services;

17.1.7. To conduct annual human resource surveys required for small and medium enterprises and services and report the results to the state central administrative body in charge of small and medium enterprises;

17.1.8. To conduct regular surveys on small and medium enterprises and services, and develop and resolve proposals related to their development and support;

17.1.9. To organize national and international exhibitions, trade and forums for small and medium enterprises and service providers;

17.1.10. To cooperate and exchange information with governmental and non-governmental organizations on issues of protection of rights and legitimate interests of small and medium enterprises and service providers;

17.1.11. To obtain necessary information, research and other relevant documents from the business entity or organization in charge of the issue;

17.1.12. To support the introduction and organization of e-commerce;

17.1.13. Other functions specified in the legislation.

#### **Article 18. Powers of local self-governing bodies and governors**

Aimag, capital city, soum and district Citizens' Representatives Khurals shall exercise the following powers with respect to small and medium enterprises and services:

18.1.1. To approve and approve funds for the development of small and medium enterprises and services in the annual budget of the respective level;



18.1.2. To approve local sub-programs to support small and medium enterprises and services in the given territory in accordance with the policy documents specified in Articles 10.1, 10.2 and 15.1.2 of this Law and to monitor their implementation.

Governors of aimags, the capital city, soums and districts shall be responsible for implementing legislation to support small and medium enterprises and services and organizing support measures at the local level.

18.3. The Governor of the respective level shall develop a proposal on cluster development of small and medium enterprises and services and submit it to the higher level official.

#### **Article 19. Monitoring and evaluation of the implementation of small and medium enterprise and service policies**

19.1. The state central administrative body in charge of small and medium enterprises shall monitor and evaluate the implementation of the legislation on small and medium enterprises and services.

Monitoring and evaluation shall be carried out in accordance with the procedures set forth in Articles 50 and 51 of the Law on Legislation and Article 20.2 of the Law on Development Policy and Planning, and the report shall be submitted to the Government.

19.3. The state administrative body in charge of small and medium enterprises shall collect information necessary for monitoring and evaluation specified in 19.1 of this Law, conduct research and analysis, organize discussions among participants of small and medium enterprises and service sector, and obtain recommendations.

19.4 Monitoring and evaluation of the implementation report may be performed by an independent organization and the required expenses shall be financed from the state and local budgets.

#### **Article 20. Electronic database of small and medium enterprises and services**

20.1. Electronic database of small and medium enterprises and services (hereinafter referred to as "Database") shall consist of the following information:

20.1.1. Legislation on small and medium enterprises and services, relevant legal acts issued by government organizations and officials;

20.1.2. Technical and technological development and market information;

20.1.3. Good experience of foreign and domestic small and medium enterprises and services;

20.1.4. Reports and works of research organizations and researchers;

20.1.5. An order to purchase goods, works and services with state and local funds;

20.1.6. Information on projects and programs implemented through foreign and domestic grants and loans to finance small and medium enterprises and services;

20.1.7. Information on exhibitions and trade to be organized abroad and domestically for small and medium enterprises and service providers;

20.1.8. Other information not considered confidential by law.

20.2. The database shall have an electronic browser to connect the demand, supply, needs and requirements of small and medium enterprises and service providers.

20.3. The procedure for compiling, maintaining, collecting information and providing services shall be approved by the Government member in charge of small and medium enterprises.

## **CHAPTER SIX**

### **MISCELLANEOUS**

#### **Article 21. Liability for violators**

21.1. A person or legal entity that violates this Law shall be subject to liability specified in the Law on Violations.

21.2. If the actions of an official violating this Law are not of a criminal nature, he / she shall be subject to liability specified in the Civil Service Law.

21.3. An official found guilty of violating Articles 6.3, 6.4, 6.7, 11.6, 11.7, 11.8, 11.9 and 11.12 of this Law shall be subject to disciplinary sanctions specified in the Civil Service Law.



21.4. If an official fails to fulfill his / her duties specified in Article 11.13 of this Law, if he / she violates Article 29.2.2 of the Law on Regulation of Public and Private Interests in Public Service and Prevention of Conflict of Interests, Article 29.2.4 of this Law. shall be liable in accordance with

**CHAIRMAN OF THE PARLIAMENT OF MONGOLIA G.ZANDANSHATAR**

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