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Formalizing enterprises in Mongolia: Challenges and policy directions

2015

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Preface

This report is predicated on a research project conducted in 2014 by the International Labour Organization (ILO), the Mongolian Employers' Federation (MONEF), and the Economic Policy and Competitiveness Research Center (EPCRC). Survey, ancillary research, and report were commissioned to facilitate the national policy discourse on informal economy issues and strategies to address them, referring to detailed information collected from business owners, government officials, and financial and non-financial business service providers in Ulaanbaatar.

In recent years the Government of Mongolia has initiated a number of economic policy actions, among these a programme to support development of the private sector (2011); the new Government Action Programme (2012–2016); and Owner-100, the new “100 days to intensify the economy” programme (2014). These are welcome initiatives, but the research results clearly indicate more needs to be done to address informal-sector issues.

Complementary means to national economic, social, and political development include (a) establishing conditions conducive to formal enterprise development, (b) fostering entrepreneurship, and (c) policies to encourage investment. Entrepreneurial activity breeds innovation, infuses the economy with competitive pressures, and develops income-generating opportunities, in various ways providing the foundation for broader economic development.

Good economic governance in areas such as taxation, regulations, and business licensing provides a fundamental pillar in establishing a favourable business environment. Increased efforts are therefore needed to make regulatory frameworks more transparent, less bureaucratic, and more predictable, particularly with respect to property rights. In general, reducing excessive administrative burdens and costs is an essential means of fostering and sustaining business creation and expansion.

The ILO approach to SME development and formalization strategies focuses on strengthening firm-level productivity and competitiveness, at the same time aiming to improve working conditions and productivity.

While the ILO continues its engagement with its Mongolian constituents in this area, MONEF, together with all the relevant ministries, state agencies, and other key stakeholders, will accelerate its efforts to implement the policy recommendations contained in this report, aiming to create an environment conducive to formalization of all informal enterprises.

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Executive summary

Over the past few years, Mongolia has consistently ranked as one of the fastest-growing economies in the world. Given its wealth of natural resources and close economic ties with countries such as China, the Russian Federation, and the USA, the transition since 1992 from a centrally planned economy to an economically liberalized democracy has proceeded at a significant pace and with substantial gains in wealth for the country.

Despite these improvements, however, modernizing and empowering Mongolia's workforce remains a challenge. Prominent industries remain based in traditional agrarian pursuits such as animal husbandry and agriculture, or in the extraction and production of Mongolia's natural resources. Newer industries, manufacturing and services for the most part, still struggle in the face of weak infrastructure development, outdated technology, scarcity of raw materials, and strong competition from established sectors in neighbouring countries.

This lack of diversification presents a major impediment, in many of Mongolia's industries, to the creation of new jobs, greater business development, and other economic advancements. And what this means, in this rapidly urbanizing country with a young population, is that the prevailing economic reality may be described as a large informal economy.

The term "informal economy" refers to all economic activities undertaken by workers and economic units that are — in law or in practice — not covered or insufficiently covered by formal arrangements. Their activities are not captured by relevant legislation — they are operating outside the formal reach of the law, or they are not covered in practice — meaning that although they are operating within the formal reach of the law, the law is not applied or enforced appropriately, or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs.

International Labour Conference, 90th session (2002)

Some studies suggest that the informal economy may account for as much as 35 per cent of Mongolia's total official GDP.¹ Increases in such unofficial business activities make it difficult to realistically estimate Mongolia's economic capacity. In addition, it keeps firms and businesses from accessing state support, and impedes the emergence of a more reliable and enabling business environment. It is mandatory that firms and entrepreneurs operating within Mongolia abide by existing laws, regulations, and norms. Yet significant factors appear to prevent many from doing so. This study aims to identify these and discuss them.

1 Booklet-8:, *Shadow economy* (Mongolbank, 2013), p. 22.

The Economic Policy and Competitiveness Research Center (EPCRC) and the Mongolian Employers' Federation (MONEF), in cooperation with the International Labor Organization (ILO), conducted a survey on business formalization and competitiveness, the primary research for this report, between November of 2013 and October of 2014. The main objective of the report is to identify the challenges faced by “informal”, or unregistered, enterprises, the obstacles to the official or legal conduct of their businesses and the probable impacts of formalization on business performance.

Primary data were generated through surveys with enterprises (100), business environment actors (BEA, 17) and business service support providers (BSSP, 11) applying questionnaires in face-to-face interviews.

Major findings of this research are presented below, as well as immediate policy recommendations that can be introduced to improve this situation.

Major findings

- **The capital city continues to outperform rural areas.**

Mongolia in general, and Ulaanbaatar in particular, has experienced strong GDP growth over the past few years. In 2013, 63.4 per cent (MNT 11.1 trillion) of total GDP was produced in Ulaanbaatar. Average annual GDP growth in Ulaanbaatar City significantly outperformed that in rural areas over the past three years, ranging between 25 per cent and 37 per cent, compared to between 22 and 25 per cent in rural areas.

- **Economic growth has led to the creation of new jobs and significantly reduced unemployment.**

In 2008, the unemployment rate in Ulaanbaatar was 10.9 per cent; by 2013, it had fallen to 4.6 per cent. Meanwhile, the employment rate had increased from 89.1 per cent in 2008 to 95.4 per cent in 2013.

- **Informal employment is growing, and remains the primary means of economic livelihood for a vast majority of Mongolia's workers.**

Informal employment in non-agricultural activities grew from 22 per cent in 2010 to 34 per cent in 2013. This increase took place, over the same period, against the backdrop of a falling share of non-agricultural employment. And this figure is an underestimate of informal employment in Mongolia, since the agriculture sector, which constitutes 30 per cent of total employment, is excluded.

Of the 199,900 Mongolians working in the informal economy in 2013, 97 per cent considered it their primary form of employment. Compared to the previous year, the number of individuals in informal employment had increased by 14.6 per cent.

- **The Mongolian economy is dominated by micro and small enterprises.**

Most Mongolian businesses employ fewer than 9 workers. In 2013, of the total number of enterprises registered 90,270 (90.6 per cent) had 1–9 employees; 4,300 (4.3 per cent) had 10–19 employees; 3,192 (3.2 per cent) had 20–49 employees; and 1,841 (1.8 per cent) had more than 50 employees.

- **The Mongolian financial sector continues to grow and mature.**

As of 2013, 13 commercial banks, 2,263 non-banking financial institutions, 141 savings and credit cooperatives, 17 insurance companies, and one stock exchange were operating in Mongolia. The banking sector alone accounted for 97 per cent of the total financial sector.

- **Only 68 per cent of enterprises included in the survey were officially registered.**

When applying for the registration certificate, 72 per cent directly approached the registration authority; 5 per cent had used electronic registration systems; 5 per cent had sub-contracted a broker; and 3 per cent applied during the Open Door Day held by the registration authority.²

- **Most businesses rated the services of the registration authority as satisfactory, at the same time acknowledging performance problems.**

The average number of days required to issue a business registration was 6.5 days (instead of the officially specified 3 days), yet enterprises viewed the quality of registration services as sufficient, with 60 per cent of participating enterprises rated the performance of the registration authority as good. The satisfaction rate with services of the registration authority was 2.65 (on a scale of 1 to 4) for enterprises, 1.3 for BSSPs, and 1.65 for BEAs.

- **Both enterprises and BEAs believed there was a lack of sufficient information on regulations regarding registration.**

Main registration challenges reported by enterprises included lack of personal assistance and significant uncertainty regarding the period needed to issue registration certificates. BEAs also reported issues with ambiguity in rules, regulations, and requirements and a lack of coordination and coherence between state agencies.

- **The reported benefits of being official registered included the following.**

The only clear benefit of official registration was easier access to bank loans (confirmed by all respondents), as well as easier access to markets and consumers (confirmed by enterprises).

² The Open Door Day is a government initiative during which the State Registration Office, as well as other government departments, administer services such as citizen registration, registration of legal entities, and property registration. The various agencies coordinate activities at a specific, single location to assist in the prompt and efficient delivery of related services for citizens who require them.

- **Applying for special permits remained a considerable hindrance for businesses.**

About 65 per cent of BEAs and 78 per cent of enterprises said enterprises faced some sort of difficulty when applying for a special permit, while 6 per cent of BEAs and 22 per cent of enterprises denied such difficulties.

- **Ulaanbaatar's business environment was improving or at least remained unchanged compared to two years previously.**

When asked to compare the business environment in Ulaanbaatar to what it was two years before, 46 per cent of respondents said that it had improved, while 33 per cent reported that it remained the same.

- **Businesses in Ulaanbaatar reported the following main challenges.**

In descending order of importance as assessed by enterprises, these were:

- access to finance (reported by 44 per cent of respondents);
- taxes (40.7 per cent);
- business competition (37.4 per cent);
- access to qualified human resource (37.4 per cent);
- corruption (31.9 per cent); and
- land access (30.8 per cent).

- **Major impediments to enterprise growth and expansion were reported.**

Of the enterprise respondents, 55 per cent identified tax laws and regulations as the greatest challenge, while 35 per cent pointed to rules governing special permits in given sectors. Meanwhile, 47 per cent of BEAs agreed that rules regarding sector-specific permits and investment laws were major impediments.

- **Informal payments remained a common practice.**

Informal payments to public servants seem to be common practice, according to 45 per cent of enterprises. Only 18 per cent of BEAs agreed to this observation, however.

- **The overall impact of government support on growth and competitiveness of businesses remains uncertain.**

An overwhelming 82 per cent of BEAs did not know whether public support had affected the business environment, while a mere 18 per cent believed it had at least some positive impact. Of the enterprise respondents who responded more positively, 8 per cent had the impression that it had a great effect, 42 per cent believed it had some positive impact, and about 33 per cent were unsure.

- **Respondents believed that services were crucial to the registration process.**

According to respondents, the most important business services for registering/formalizing an enterprise were these (in descending order of importance):

- accounting;
- legal consulting;
- business-plan development and market research;
- training of technical staff; and
- information technology training.

- **Enterprises reported challenges with respect to their employees.**

The following were identified as the most common challenges:

- skills, capability of employees;
- availability of workforce; and
- staffing issues such as frequent sickness, frequent absence, work ethos, and lack of discipline.

- **Businesses experienced significant difficulties in finding capable staff.**

Fifty-seven per cent of enterprise respondents, 59 per cent of BEAs, and 60 per cent of BSSPs agreed that it was extremely difficult to find capable staff for enterprises.

- **Commercial finance for businesses was generously available.**

Of the total enterprises (registered or otherwise), 54 per cent said they had applied for loans at banks, and of these 76 per cent had been successful. An overwhelming 88 per cent of these loans were issued by commercial banks.

- **Commercial bank loan applications failed for a variety of reasons.**

The following were the main reasons reported:

- insufficient collateral (32 in total, 27 registered and 5 unregistered);
- bureaucracy and poor quality of service at commercial banks (14 in total, 11 registered and 3 unregistered);
- lack of acquaintances at the bank (9 in total, 6 registered and 3 unregistered);
- unregistered business (8 in total, 3 registered and 5 unregistered); and
- poorly developed business plan (4 in total 2 registered and 2 unregistered).

- **Enterprises reported various reasons for not submitting loan applications.**

Significant factors included the following:

- high interest rates and lack of collateral;
- insufficient support services;
- lack of enterprise registration;
- limited knowledge and information;
- little knowledge regarding financial organizations; and
- looking for other sources of assistance.

The key hypothesis underlying the research project:

The nature of the business environment strongly influences enterprise decisions whether or not to formalize business activities. Enterprise decisions in this regard in turn significantly affect the competitiveness of enterprises and any concomitant generation of employment and wealth.

The essential research results presented above only partially verify this hypothesis.

For those businesses (a) that require special permits to qualify to apply for government-funded large-scale projects and programmes, and (b) that wish to attract additional financial resources from international markets — that are trying to get involved in foreign trade relations, that are ambitious in terms of expanding political connections, and that are keen on increasing their business reputation — registering and fully formalizing their business seems to be a reasonable step. About 26 per cent of enterprise respondents reported such positive impacts after registration, with some or all of the above measures significantly boosting their competitiveness. On the other hand, as the research has shown, for many other, less ambitious enterprises, business registration does not clearly have an immediate positive impact.

Main report recommendations

- Facilitate an enabling regulatory environment for small and medium enterprises (SMEs) and micro businesses, including a simplified tax system.
- Increase finance options targeting SMEs.
- Enable smaller firms to bid for public tenders.
- Provide SMEs with a wide range of low-cost peer-to-peer learning and training options.
- Make it easier for firms to understand and comply with all labour laws.
- Help to scale up the ability of small firms to access export markets
- Improve coordination and coherence among state agencies.
- Increase the transparency and efficiency of public service providers.

Acronyms and abbreviations

BEA	business environment actor
BSSP	business service support provider
CIT	corporate income tax
EESE	enabling environment for sustainable enterprise
EPCRC	Economic Policy and Competitiveness Research Center
EPF	Employment Promotion Fund
GDP	gross domestic product
GNP	gross national product
GoM	Government of Mongolia
ICT	information and communications technology
ILC	International Labour Conference
ILO	International Labour Organization
LFS	labour force survey
MONEF	Mongolian Employers' Federation
MNT	Mongolian tugrik (alternatively <i>tugrug</i>) ³
NGO	non-governmental organization
NPL	non-performing loan
NSO	National Statistical Office
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise
TVET	technical vocational education training
VAT	valued-added tax
VTI	vocational training institute

³ US\$1 = 1,876 MNT as of February 2015 (based on the UN operational rate of exchange).

Chapter 1: Research approach and methodology

Chapter 1: Research approach and methodology

1.1 Research purpose and hypotheses

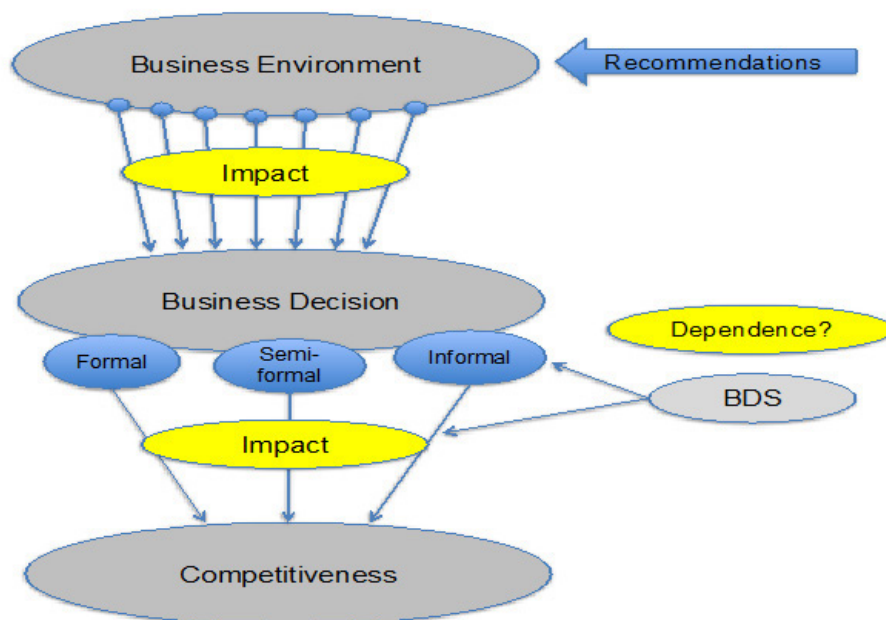
Enterprises registered in Ulaanbaatar account for about 70 per cent of total businesses in Mongolia. Given that information, and the difficulty of accurately estimating the number of unregistered businesses and self-employed entrepreneurs nationwide, the scope of this survey is limited to Ulaanbaatar City. The aim is to identify the challenges that inhibit formalization of operations among the city's entrepreneurs, and to explore the ways in which the business environment shapes this decision process.

In this context, the primary research questions are the following:

- What factors in the business environment most influence entrepreneur decisions to formalize their business or parts of their business?
- How does the informality of enterprises directly and indirectly impact their business performance and competitiveness?
- How do availability and quality of business services assist enterprises in formalization?

The following research scheme was designed to determine what factors in the business environment and the business support structure influence decisions to formalize, and to determine how formalization impacts enterprise competitiveness.

Figure 1. Research scheme



Based on this approach, the research team jointly developed the following general hypotheses:

- The Mongolian informal economy is growing at a faster rate than the formal economy.
- It is easier to start a new business informally than formally.
- Some businesses in Mongolia are unregistered, operating without license or special permissions, paying no taxes and relying only on verbal employment agreements.
- Some formally registered companies are considered semi-informal, since they do not register their full income for taxation.
- Features of the business environment influence enterprise decisions to formalize their business activities. This in turn affects the competitiveness of enterprises.

Possible factors in the business environment influencing enterprise decisions to formalize business activities:

- the enterprise registration process, with its attendant expenses, time, and informal payments;
- tax regulations and potential tax burdens;
- availability, ease of access, of amount of government financial support and assistance;
- social insurance of employees (costs and regulations);
- extent of cooperation between ministries and agencies;

- legal structure;
- inspections (frequency and cost);
- availability, access to, and types of government promotion; and
- public-private dialogue (availability and access).

Possible variables related to formalization affecting enterprise competitiveness.

Formalizing a business may have the following effects:

- higher-quality services and products increase prices;
- greater access to markets (access to value chains, higher market penetration);
- export and import opportunities;
- opportunities for receiving government support or participating in public tenders;
- improved access to international investment;
- qualification for insurance;
- ability to apply for land with preferred specifications;
- recruitment and retention of a more skilled and qualified workforce;
- access to government assistance and subsidies;
- enhanced reputation; and
- opportunities for future growth.

Possible effects of available business services on decision to formalize businesses.

Various business services facilitate the process of transforming an informal business into a formal one:

- accounting (training, services);
- legal consultation;
- business plan development (strategy, choosing appropriate business model, feasibility study, etc.);
- market research;
- incubators, training and coaching;
- business management training;
- providing advice and information on general business dealings;
- IT training, computer literacy;
- training for technical staff; and
- identifying and sourcing necessary technology.

1.2 Research methodology

To better describe the informal economy, researchers applied a number of formal definitions. Significant variation of terminology appears throughout international research on informal economic activity, but this report uses definitions provided by the International Labor Office (ILO).

Definitions

Business environment

The 2007 International Labour Conference (ILC) endorsed the concept of “sustainable enterprises” as a principal source of growth, wealth creation, employment, and decent work. The ILC states that promoting sustainable enterprises calls for the strengthening of institutions and governance systems that nurture enterprises.⁴

Such an environment comprises a range of interconnected and mutually reinforcing conditions categorized according to economic, social, political, and environmental elements. A total of 17 conditions were identified:

Economic elements

- sound and stable macro-economic policy and good management of the economy;
- trade and sustainable economic integration;
- enabling legal and regulatory environment;
- rule of law and secure property rights;
- fair competition;
- information and communications technology;
- access to financial services; and
- physical infrastructure.

Social elements

- entrepreneurial culture;
- education, training, and lifelong learning;
- social justice and social inclusion; and
- adequate social protection.

⁴ ILO: *Conclusions concerning the promotion of sustainable enterprises*, International Labour Conference, 96th Session, Geneva, 2007. See the ILO programme on Enabling Environment for Sustainable Enterprise (ESEE).

Political elements

- peace and political stability;
- good governance;
- social dialogue; and
- respect for universal human rights and international labour standards.

Environmental elements

- responsible stewardship of the environment.

Business informality

ILO distinguishes between informal sector and informal employment. The former points to informality from the perspective of production units (i.e. informal firms), while the latter refers to informality from the perspective of jobs (i.e. informal work, whether in formal or informal firms).

For purposes of statistical measurement, the ILO International Conference of Labour Statisticians has endorsed statistical definitions corresponding to such distinctions.⁵

The “informal sector” was defined by the 15th ILC in 1993 as comprising private unincorporated enterprises that are unregistered or small (in terms of the number of employed persons, as nationally defined).

An enterprise is unincorporated if it is not constituted as a separate legal entity independently of its owner(s), and does not maintain a complete set of accounts. Units engaged in the production of goods or services exclusively for own final use by the household are excluded, as are enterprises engaged in agriculture, hunting, forestry, and fishing.

“Informal employment” was defined by the 17th ILC in 2003 as encompassing own-account workers and employers in their own informal enterprises; it also includes employees and contributing family workers in formal or informal enterprises. In addition, paid domestic workers employed by households and own-account workers producing for their own final use are included.

Informality is understood in relation to the legal and institutional framework of a country.⁶

⁵ ILO: *Measuring informality: A new statistical manual on the informal sector and informal employment* (Geneva, International Labour Office, 2013).

⁶ ILO: *Decent work and the informal economy*. Report of the Director General, International Labour Conference, 90th Session, Geneva, 2002.

Three types of legislation and regulations are thus pertinent to the issue of informality: (a) commercial and business laws, including business registration; (b) labour legislation governing employment relationships and the rights and social protection of workers; and (c) property rights (e.g. land, financial capital) affecting the ability to transform assets into productive capital.

This report focuses on informality from the perspective of business enterprises, and examines how conditions in the business environment either facilitate or discourage formalization. Hence, in terms of the legal frameworks listed above, this research provides a glimpse into commercial and business laws (including those pertaining to business registration) and labour protection legislation as part of the business environment under consideration.

Enterprise competitiveness

Finally, as mentioned, this research project inquiries into the relationship between business formalization and competitiveness. Competitiveness can be defined at different levels: national, territory, industry, or individual enterprise. Here, competitiveness is considered at an enterprise level. Enterprise competitiveness relates to the ability of a firm to sell and supply goods and services in a given market, in relation to the ability and performance of other firms in the same market.

Indicators of increasing competitiveness at the enterprise level include knowledge and technology acquisition, productivity, market expansion, increasing product diversification and innovation, increased profitability, investment in expansion of capacity, and improved enterprise image.

The 2007 Report to the International Labour Conference on Sustainable Enterprises states that competitiveness depends on conditions external and internal to enterprises. External conditions were outlined above, while internal conditions include the following:

- good management and entrepreneurship;
- good enterprise-level labour-management relations and social dialogue;
- good technologies and equipment; and
- access to such resources as healthy and skilled workers, finance (credit and investment), and physical and natural resources such as energy, land, and information and communications technology (ICT).

The report conclusions emphasize that competitiveness should be built on values. Respect for human rights and core labour standards, development of relevant skills and competencies and their effective use, and decent working conditions, are qualities of sustainable enterprises that strengthen the competitiveness of enterprises.⁷

Decent work⁸

“Decent work” sums up the aspirations of people in their working lives. The concept refers to opportunities for work that are productive and deliver a fair income; to security in the workplace and social protection for families; to better prospects for personal development and social integration; to freedom for people to express their concerns, organize, and participate in the decisions that affect their lives; and to equality of opportunity and treatment for all women and men.

Rural areas/ provinces

For the purposes of this report, rural areas/provinces represent all areas of Mongolia excluding Ulaanbaatar City.

Data collection, analysis and reporting

This report is based largely on primary data generated through surveys of business owners, government officials, and financial and non-financial business service providers. Government officials and business service providers replied to separate questionnaires, where some questions were the same as those asked of firms. The survey sought information about formalization processes as well as respondents’ perceptions of enterprise experiences.

Surveys of enterprises, business environment actors (BEAs), and business service support providers (BSSP) were arranged by appointment, and conducted through face-to-face interviews using questionnaires (see Appendix B). The following tables include more details of the sample groups included in the survey and workshops.

a) Top-level management from 100 firms and businesses (enterprises)

Firm size	Construction			Furniture production		Textile production			Construction material production		Trade and sale			Transport		Tailoring, sewing			Total
	registered	unregistered	Did not answer	registered	unregistered	registered	unregistered	Did not answer	registered	unregistered	registered	unregistered	Did not answer	registered	unregistered	registered	unregistered	Did not answer	
1-4 employees	7	2	2	2	1	2	2		2	1	11	4		1	1	1	3	2	44
5-9 employees	3	1					1		2	1	6	4	1	2	1		1		23
10-19 employees	1							1			3	1		1					7
20+ employees	6	1		1		1			3		8			4		1	1		26
Total	17	4	2	3	1	3	3	1	7	2	28	9	1	8	2	2	5	2	100

Conference. (International Labour Office, Geneva, 2007).

⁸ Ibid.: *Local economic development and decent work research kit*, Manila, ILO, 2006 (Geneva, ILO, 2007).

Among the 100 enterprises included in the survey, 68 were officially registered and 26 completely unregistered. The remaining 6 enterprises did not provide an answer about their status of registration.

- b) **Business environment actors (BEAs):** Authorities from 17 state organizations that provide public services to private businesses and/or influence public policy that directly or indirectly influences the business environment

Ministries, policy-makers, and their agencies	
1	Agency for Fair Competition and Consumer Protection of Mongolia
2	Economic Development Department of Ulaanbaatar City
3	Informal Economy Association
4	Labor Department of Ulaanbaatar City
5	Labor Study Institute
6	Ministry of Construction and Urban Development
7	Ministry of Economic Development
8	Ministry of Finance
9	Ministry of Labor
10	Ministry of Population and Social Development
11	Ministry of Industry and Agriculture
12	Ministry of Roads and Transportation
13	Social Insurance Department of Songino Khaikhan District of Ulaanbaatar City
14	Specialized Inspection Agency of Ulaanbaatar City
15	State Registration Office
16	State Specialized Inspection Agency of Mongolia
17	Tax Department of Songino Khaikhan District of Ulaanbaatar City

- c) **Business service support providers (BSSPs):** Representatives from 10 financial and non-financial institutions that provide business support services

Business development service providers	
1	Auditing company
2	Accounting/bookkeeping association
3	Business development support centre
4	Business incubation centre (private)
5	Business incubation centre (public)
6	Entrepreneurship training centre
7	State bank
8	'Khas' bank
9	Eco-capital bank
10	'Credit mongol' non-banking organization
11	'Mongol daatgal' insurance company

Each group of survey respondents replied to about 80 questions⁹ per type of questionnaire structured into eight separate topical categories (see Appendix B). About 70 per cent of the questions across the three questionnaires were similar or identical, which helped researchers to explore the different perspectives of the three groups on the same issues. Of particular interest, for example, were the respective assessments of the quality of public services by enterprises and BEAs.

The findings presented in this report are based on official national statistical data and survey responses. The research team comprised personnel from the Economic Policy and Competitiveness Research Center (EPCRC) and the Mongolian Employers' Federation (MONEF). The regional ILO office in Bangkok provided technical support. ILO colleagues and an international consultant supported the research team on three different occasions during the research process.

Four sets of consultations with stakeholders

During the preparation and design phase in October 2013, together with an international consultant, the team oriented stakeholders regarding purposes, means, and stages, and facilitated methodology design and formulation of research hypotheses. A few weeks later, the proposed research methodology and hypotheses were presented to key stakeholders at a seminar on 29 October 2013 in Ulaanbaatar, soliciting their feedback.

During the results-analysis phase in February 2014, a workshop was held in Ulaanbaatar to present and validate some of the initial findings. Workshop participants all came from small enterprises, a mixture of formal and informal entities from the following sectors: construction, textiles, and construction material manufacturing. The largest firm had 20 employees, while the average employed 5 staff. The Association of Informal Economy was also represented.

Finally, in September 2014, survey findings were presented at a workshop in Ulaanbaatar held with senior officials from a range of ministries; representatives of firms; senior ILO officials; business associations; informal economy associations (from across different sectors); senior EPCRC staff members; and senior MONEF staff. The meeting also had direct contributions and participation from J. Batkhuyag, Vice-Minister of Labor; Mr Gaanbaatar, MONEF Director-General; and Mr Yoshiteru Uramoto, ILO Regional Director.

9 The enterprise questionnaire (73 questions), the BEA questionnaire (83 questions), and the BSSP questionnaire (80 questions).

Chapter 2: General economic analysis of Ulaanbaatar City and Mongolia

Chapter 2: General economic analysis of Ulaanbaatar City and Mongolia

2.1 GDP for Ulaanbaatar and Mongolia

Mongolia's economy grew by 11.7 per cent in 2013. For GDP in constant prices (based on the reference year 2005) this amounts to MNT 6.1 trillion, an increase of MNT 3.79 trillion. In nominal terms, GDP increased by MNT 0.64 trillion to MNT 18.4 trillion.¹⁰ Industrial production increased by 20 per cent, driven by construction (which grew by 66 per cent), and mining (by 20 per cent). Services grew by 10 percent, while agriculture, benefiting from good weather, grew by 13.5 per cent.

In 2013, Ulaanbaatar produced 63.4 per cent of total GDP, or MNT 11.1 trillion based on yearly prices. Over the past three years, average annual GDP growth in Ulaanbaatar City has ranged from 24.72 per cent to 36.54 per cent, while in rural areas it has run between 22.48 per cent and 25.49 per cent, reflecting a higher rate of economic growth in Ulaanbaatar compared to rural areas.

Table 2.1 Growth and structure of GDP

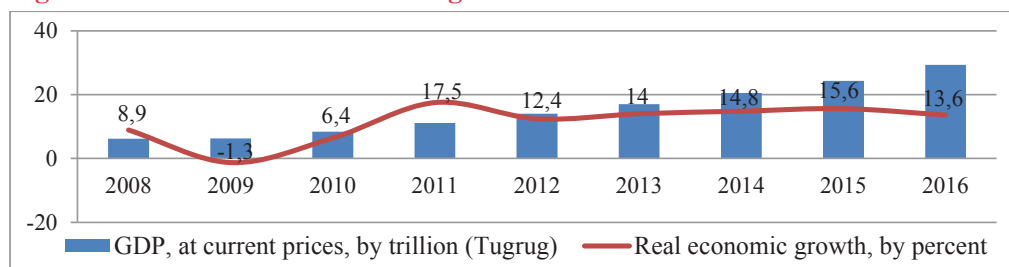
Year	GDP growth in percentage		Structure of GDP, by location (in percentages)	
	Ulaanbaatar City	Rural provinces	Ulaanbaatar City	Rural provinces
2009	11.43	(10.34)	60.0	40.0
2010	33.33	19.23	62.7	37.3
2011	36.54	22.58	65.1	34.9
2012	25.35	34.21	63.6	36.4
2013	24.72	25.49	63.4	36.6

Source: *Statistical yearbook 2013*, NSO.

In 2013, the largest contributors to GDP were the services sector (51.6 per cent), the construction and industrial sector (33.9 per cent), and the agricultural sector (14.5 per cent). The largest contributors in Ulaanbaatar were the services sector (at 63.3 per cent) and the industrial and construction sector (36.2 per cent). This situation has not changed significantly during the last five years in either Ulaanbaatar or the rural provinces.

The Government of Mongolia has predicted an average annual GDP growth of 14.6 per cent over the next three years.

10 NSO: *Monthly Statistical Bulletin* (January 2014), p. 13.

Figure 2.1 GDP and economic growth¹¹

Source: Parliament of Mongolia, www.parliament.mn/files/download/45734.

2.2 Demographics and workforce

According to preliminary statistics at the end of 2013, the population of Mongolia was 2.93 million, an increase of 62,600 or 2.2 per cent over the previous year. Of the total population, 46.8 per cent, or 1.37 million, reside in Ulaanbaatar.

Table 2.1 Annual population growth rates for Mongolia and Ulaanbaatar

Year	Total population growth of Mongolia (in %)	Total population growth of Ulaanbaatar (in %)	Ulaanbaatar as a proportion of Mongolia's total population (in %)
2008	2.2	4.1	39.9
2009	2.0	2.4	40.7
2010	1.8	3.4	45.1
2011	1.7	11.9	45.8
2012	2.0	3.8	46.0
2013	2.2	4.1	46.8

Source: *Statistical yearbook 2013*, NSO.

The following factors have greatly influenced population growth rates over this period:

- average life expectancies rose between 2009 and 2013 from 64 to 65.42 years for males and from 72 to 75.01 years for females; and
- birthrates rose from 23.1 per 1,000 in 2010 to 27.5 in 2013 (16,510 births in 2010 compared to 79,780 in 2013).

As of the first quarter of 2014, about 40 per cent of the total population of Mongolia (1.16 million people), were economically active. Of this 90.6 per cent (1.05 million) were employed or self-employed, while 9.4 per cent (108,700) were unemployed.

According to the official NSO definition, “unemployment” includes “Working age citizens with work capabilities who have been unemployed during the reference period, available for work and actively looking for a job.”¹² The Mongolian workforce is also

11 Parliament of Mongolia: *Report on Mongolia's macro economic state in 2013 and forecast for 2014*. Available at: www.parliament.mn/files/download/45734 (in Mongolian only).

12 LFS, NSO.

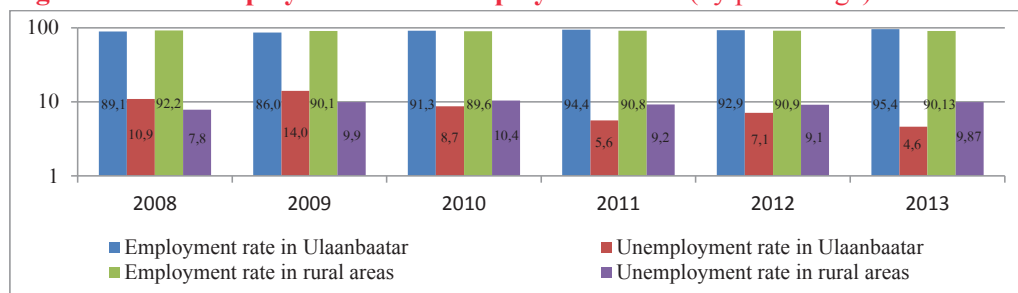
subject to significant seasonality due to the extreme cold of Mongolia's winters, and the concomitant inability of certain industries to continue operations during that period.

Nationwide, 269,100 people (25.6 per cent of the employed workforce) worked in animal husbandry; of the other remainder 285,400 (27.1 per cent) worked in private enterprises; 235,400 (22.4 per cent) were self-employed; 194,500 (18.5 per cent) were employed in budget organizations;¹³ 43,000 (4.1 per cent) were employed in state-owned enterprises; 17,400 (1.6 per cent) worked in NGOs; and 6,800 (0.6 per cent) worked in local government enterprises.

By location, of the total employed 426,600 (40.6 per cent) resided in Ulaanbaatar; 230,800 (21.9 per cent) in the Khangai Region; 169,100 (16.3 per cent) in the Central Region; 147,100 (14.0 per cent) in the Gobi Region; and 77,900 (7.4 per cent) in the Eastern Region.

In the near future, economic growth in Mongolia is likely to continue driving new job creation and boost employment rates. Between 2008 and 2013, the unemployment rate in Ulaanbaatar fell from 10.9 per cent to 4.6 per cent. Over that same period, the employment rate increased from 89.1 per cent to 95.4 per cent.

Figure 2.2 Employment and unemployment rates (by percentage)



Source: *Statistical yearbook 2013*, NSO.

Given the gap in urban and rural economic growth, the number of new jobs created in rural areas remains comparatively low. Unemployment rates in rural areas increased by over 2 percentage points between 2008 and 2012 (from 7.8 per cent to 9.87 per cent). Meanwhile, for the same period the employment rate fell by 1.3 percentage points, from 92.2 per cent to 90.9 per cent.

The gender ratio of the workforce also shifted further toward women between 2008 and 2013, with female representation rising from 51.5 to 52 percent and males falling from 48.5 to 48 percent respectively.

Finally, recent employment data shows a significant increase in the growth of informal employment in Mongolia. In 2012–2013, while those officially employed increased by 4.4 per cent, employment in the informal sector increased by 14.6 per cent¹⁴.

¹³ A “budget organization” is a registered, non-profit entity owned by the state administration and local government.

¹⁴ NSO, *Labor force survey*.

2.3 Business registration

In 2013, Mongolia had 99,603 registered enterprises.¹⁵ Of these 82,904 were companies; 308 were state-owned enterprises; 3,227 were cooperatives; 2,537 were partnerships; 3,938 were budget organizations; 6,468 were NGOs; and 221 were classified as other (private schools, kindergartens, etc.). In that year 9,076 enterprises were newly registered.

Between 2009 and 2013, the number of registered enterprises increased by 48 per cent, while other types of enterprises (private schools, kindergartens, etc.) increased by 183.3 per cent. In the same period, however, the number of entities registered as NGOs, state-owned enterprises, budget organizations, and partnerships dropped by 6.5 per cent, 44.7 per cent, 10.7 per cent, and 23.2 per cent, respectively.

Table 2.3 Location of registered enterprises (in percentages)

Year	Registered entities in Ulaanbaatar as a percentage of Mongolia's total registered entities	Active entities as a percentage of total registered entities in Ulaanbaatar	Total registered entities as a percentage of Mongolia's total registered entities in rural areas	Active entities as a percentage of total registered entities in rural areas
2009	70.2	50.8	29.8	72.1
2010	72.7	50.1	27.3	69.8
2011	70.0	65.4	30.0	85.2
2012	72.6	50.5	27.4	75.6
2013	71.9	48.5	28.1	72.1

Source: *Statistical yearbook 2013*, NSO.

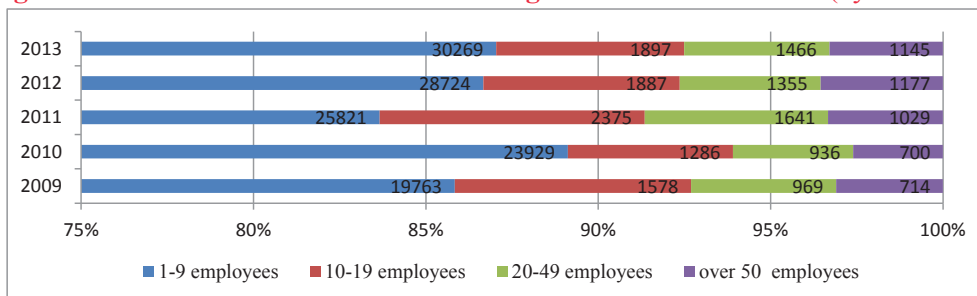
Of 99,603 enterprises registered in 2013, 71.9 per cent were located in Ulaanbaatar and 28.1 per cent were from rural areas. Moreover, among total enterprises registered in Ulaanbaatar, only 34,777 (48.5 per cent) were in active operation, while 20,152 (72.1 per cent) of enterprises registered in rural areas were in active operation.¹⁶

Among the actively operating enterprises in Ulaanbaatar in that year, 30,269 had 1–9 employees; 1,897 had 10–19 employees; 1,466 had 20–49 employees; and 1,145 had more than 50 employees.

The number of enterprises employing more than 10 people had been steadily increasing since 2011, both in absolute terms and as a proportion of total active entities.

¹⁵ In this situation, registered refers to official registration with the State Registration Office as a business/enterprise, with obligations to pay state taxes.

¹⁶ Based on the National Statistics Office definition, a company is considered inactive if it fails to submit a quarterly corporate income tax (CIT) report to the general taxation authority for any given consecutive 18-month period.

Figure 2.3 Number of active entities registered in Ulaanbaatar (by firm size)

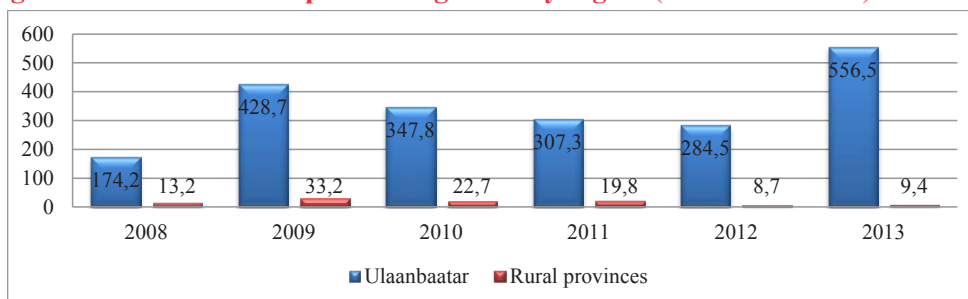
Source: *Statistical yearbook 2013*, NSO.

Almost 90 per cent of all enterprises registered in Mongolia are micro or small businesses employing 1 to 9 employees, evidence that small businesses create a substantial number of jobs and provide many families with regular incomes. Support for micro and small businesses could thus provide an approach to reducing poverty.

2.4 Finance

In 2013, 13 commercial banks; 2,263 non-banking financial institutions; 141 savings and credit cooperatives; 17 insurance companies; and one stock exchange were operating in Mongolia. The banking sector alone accounted for 97 per cent of total activities in this sector, which increased by MNT 6.4 trillion from the previous year to reach MNT 16.4 trillion (a rise of 64.2 per cent). Moreover, assets in the banking sector totalled MNT 14.9 trillion, 80 per cent of total GDP and a gain of MNT 6.2 trillion, or 70 per cent, over the previous year.¹⁷

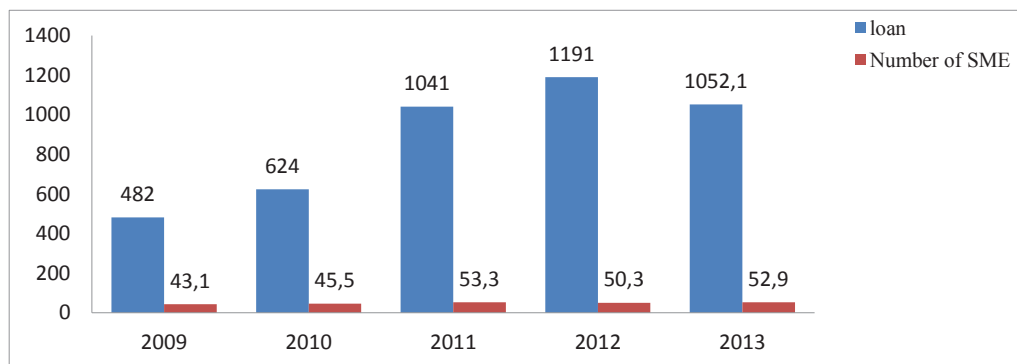
In 2013, MNT 10,769.3 billion in total credit was issued nationwide. Of this amount, 78.6 per cent was provided in Ulaanbaatar and 21.4 per cent in rural areas. The volume of total credit increased from the previous year by MNT 3,778.8 billion, or 54.1 per cent. However, the non-performing loan (NPL) rate almost doubled, compared to the previous year, to reach MNT 565.9 billion, or 5.3 per cent of total loans outstanding. Ulaanbaatar accounted for MNT 556.5 billion (98.3 per cent) of NPLs, while rural areas accounted for MNT 9.4 billion (Figure 2.4).

Figure 2.4 Total non-performing loans by region (billions of MNT)

Source: NSO.

Commercial banks issued MNT 1.05 trillion worth of credit to 52,900 SMEs in 2013, an increase of MNT 570.1 billion (118.3 per cent) from 2009 (see Figure 2.5).

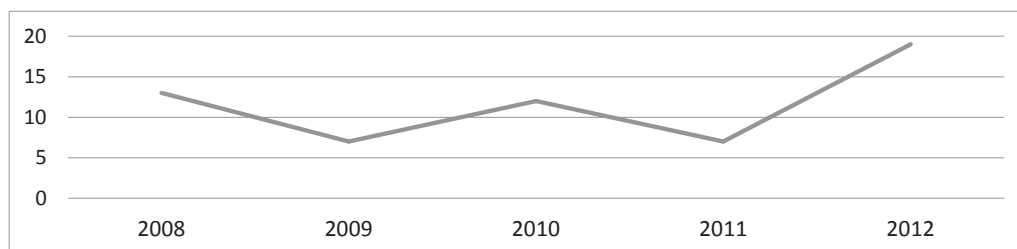
Figure 2.5 Total value of SME loans issued by commercial banks



Source: Bank of Mongolia.

In 2012, the Employment Promotion Fund (EPF) issued about MNT 19 billion in micro loans to increase jobs, an increase of MNT 12 billion from 2011 (Figure 2.6).

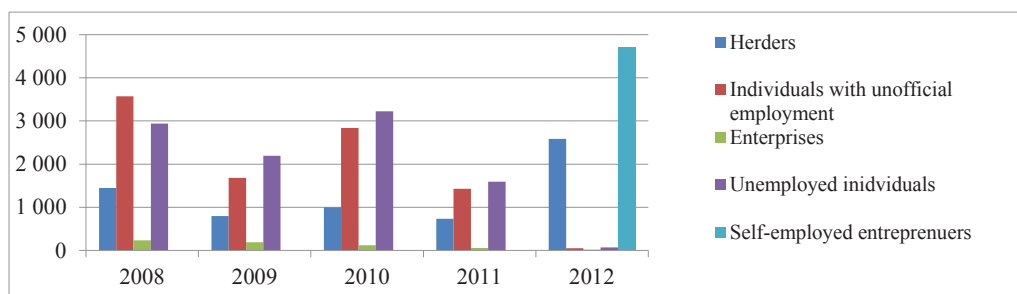
Figure 2.6 Total value of microfinance loans issued by EPF (billions of MNT)



Source: EPF.

The EPF issued these funds via banks and non-banking financial institutions to 4,701 self-employed individuals; 2,584 herders; 198 cooperatives/partnerships; 53 individuals with informal employment; 71 unemployed individuals; and 23 enterprises (Figure 2.7).

Figure 2.7 Allocation of EPF funding (by number of recipient and type)

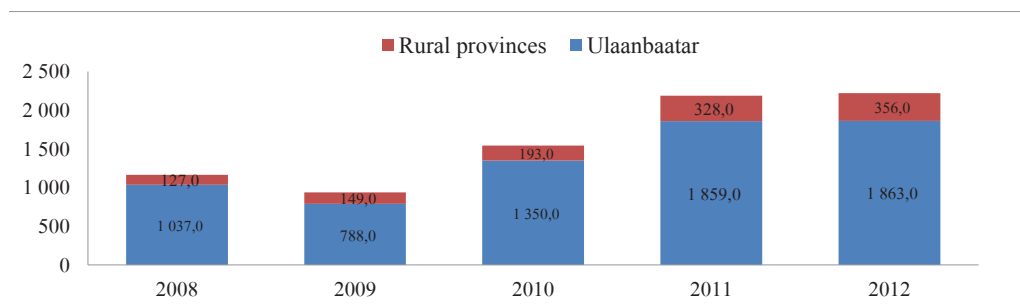


Source: EPF.

*Funding opportunities for self-employed entrepreneurs were introduced only in 2012.

In 2012, a total of MNT 1,863 trillion was collected from businesses registered in Ulaanbaatar, while MNT 356 billion in taxes was collected from provincial businesses. In Ulaanbaatar, the amount of tax revenue collected in 2012 from businesses increased by 137 percent compared to 2009 (Figure 2.8).

Figure 2.8 Total tax revenue paid by entities (billions of MNT)

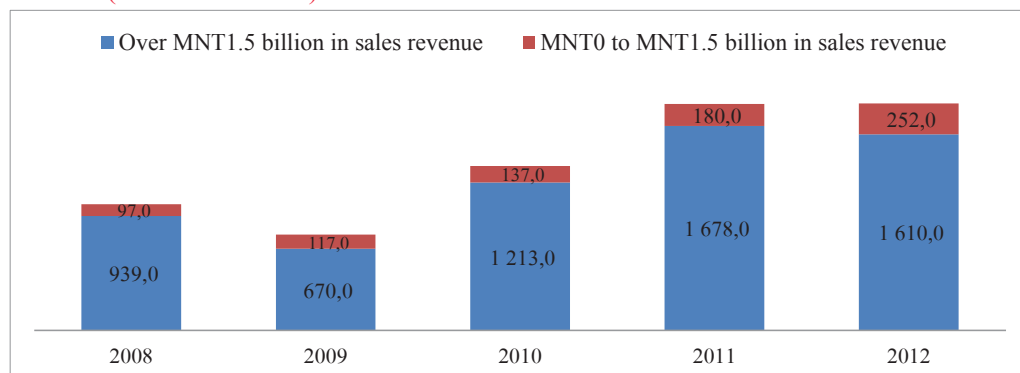


Source: General Department of Taxation.

In 2012, businesses in Ulaanbaatar paid a total of MNT 1.863 trillion in total taxes. Of this, MNT 252 billion (13.6 per cent) was paid by entities with an annual income of between MNT 0 and MNT 1.5 billion, while MNT 1,610 billion (86.4 per cent) was paid by businesses with annual incomes that exceeded MNT 1.5 billion.¹⁸

The amount of corporate income taxes paid by enterprises with annual incomes of less than MNT 1.5 billion equals 15 per cent of total taxes paid by enterprises (see Figure 2.9).

Figure 2.9 Total corporate income tax paid by business enterprises in Ulaanbaatar (billions of MNT)



Source: General Department of Taxation.

¹⁸ Mongolia applies a two-tier tax system, where firms must pay 10 per cent of their annual income (less allowable deductions) up to a maximum of MNT 3 billion. Greater annual incomes pay a higher rate of 25 per cent. For the purposes of this study, however, a MNT 1.5 billion threshold has been assumed, based on the historical tendency of Mongolian enterprises.

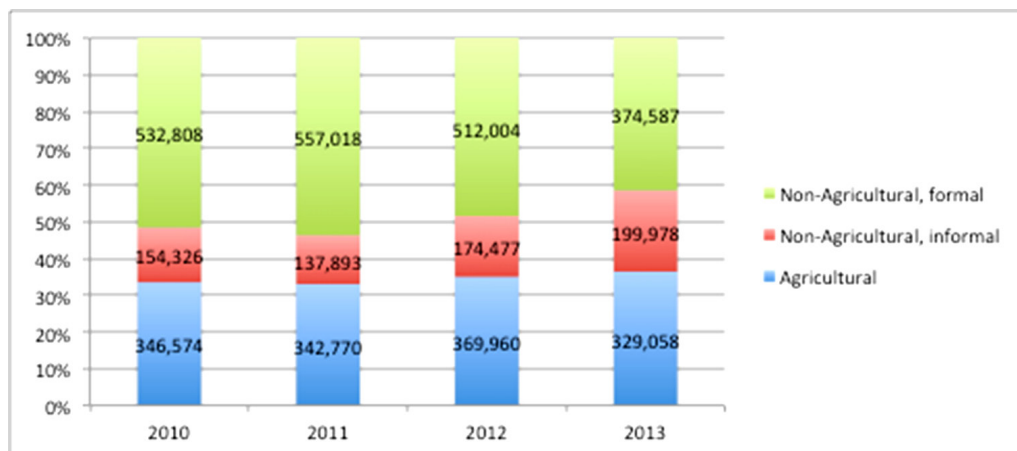
As Figure 2.9 shows, a vast majority of corporate tax revenue comes from firms earning more than MNT 1.5 billion per year in sales.

2.5 Informal economy employment

Employment in the informal economy provides many households with incomes. The Government of Mongolia (GoM) defines informal employment as that covering “all citizens engaged in economic activity that lacks official registration, full coverage of social benefits, and/or organizational structure, which is in a legally permitted, non-agricultural sector”.¹⁹ This has particularly important implications in Mongolia, since the agricultural sector employs around 30 per cent of Mongolia’s total workforce.

The ILO definition, on the other hand — given the large scope of the agricultural sector in developing countries, plus the difficulty of separating market production and production for own final use in agriculture — excludes agriculture from informal employment.²⁰ This is particularly important for research into Mongolia’s informal economy, since the agricultural sector employs 370,000 individuals, or 35 percent of Mongolia’s total workforce.

Figure 2.10 Total informal employment in non-agricultural activities, 2010-12



Source: *Labor force survey*, NSO.

¹⁹ State policy on informal employment, 1.3. <http://www.legalinfo.mn/annex/details/3226?lawid=6542>.

²⁰ Countries that exclude agricultural activities from the scope of their informal sector statistics are enjoined to develop suitable definitions of informal jobs in agriculture. For some examples, see ILO, *Measuring informality: A statistical manual on the informal sector and informal employment* (Geneva, International Labour Office, 2013).

Informal employment in non-agricultural activities has been growing, from 22 per cent in 2010 to 25 percent in 2012 and further to 34 per cent in 2013. This increase occurred against the backdrop of a falling share of non-agricultural employment over the same period.

In 2013, of the 199,900 individuals in the informal economy, 97.0 per cent cited this as their primary means of employment.²¹ The Policy of the Government of Mongolia on Informal Employment, passed by the Ministry of Labor and Social Welfare in 2006, aimed to reduce informal employment, and was to be implemented in three phases between 2006 and 2015. Action plans addressing issues, among others, of taxation, land registration, business regulation, work safety, and labour inspection, were implemented, especially in the first phase.

From 2009 to 2013, the number of youths aged 15–34 with primary employment in the informal sector increased by 22.6 per cent, from 49,500 to 60,700. Over the same period, meanwhile, secondary employment in the informal sector dropped from 3,373 to 1,451.²²

Wholesale and retail together with car and motorcycle repair services accounted for 42.2 per cent of total informal employment in Mongolia, with the number of individuals working in these sectors steadily growing (see Appendix A, Table 3).

21 NSO: *Labor force survey* (2013). This survey calculated employment and workforce statistical indicators on the basis of the following definitions.

“Informal employment” is understood as that lacking official registration, social benefits, and organizational structure within a legally permitted, non-agricultural sector.

An “individual with no or partial social protection coverage” is understood to refer to persons not protected under the law of Mongolia regulating social insurance for pensions and benefits or for insurance regarding health, unemployment, industrial accident, and work-related disease.

“Unregistered individuals” refers to those not included in employment statistics, administrative registration, and information regarding income taxes from informal employment.

“Business activities with no operational and organizational structure” refers to household, industrial, or service units not categorized as a cooperative, partnership, or company in accordance with related laws, which are under the ownership of one or more household members or one or more households, and which sell or barter some portion of their output on the market.

“Non-agricultural work and service” refers to work and services other than crop farming, forestry, animal husbandry, apiculture, primary processing of agricultural products, storage, production, and maintenance.

22 LFS (2013). See www.nso.mn.

Chapter 3: Outcomes of the survey on business formalization and competitiveness

Chapter 3: Outcomes of the survey on business formalization and competitiveness

3.1 Business registration and formalization

Most industries in Mongolia do not require special permission to run a business. The registration process simply requires application to the Legal Entity Registration Department (General Authorization of State Registration). The application fee is MNT 22,000.

For industries that do require special permission, the number and type of permits varies greatly. A given construction operation, for example, might require more than 80 separate permits to comply with all relevant laws and regulations.

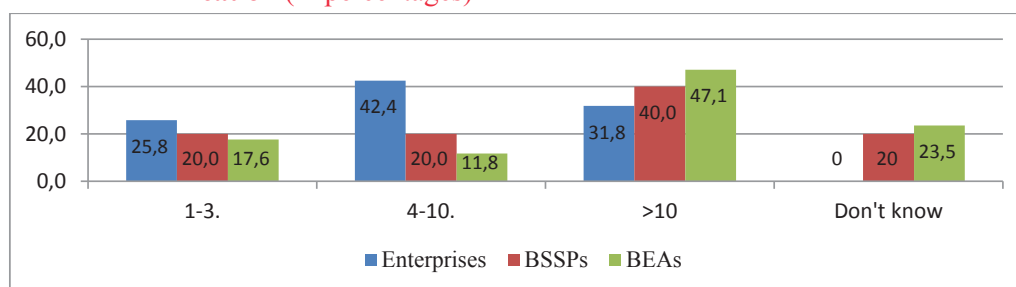
All businesses in Mongolia are required to complete quarterly financial reports, which must be submitted online no later than the 20th of the month following the end of the quarter. A hard-copy version must also be submitted, signed by both the company director and the accountant. The penalty for late submission is a flat MNT 960,000.

Enterprises must contribute monthly payments for social insurance, health insurance, corporate income tax, and other taxes. Officially, at least, payment must be made by the 26th of each month. The submission date for online and hard-copy quarterly financial reports (once again signed by both the director and chief accountant) is the 5th of the following month.

Among the enterprises included in the survey, 68 were registered, while 26 were unregistered, and 6 did not respond. When asked about how they applied for the registration certificate, 72 per cent said they had directly approached the registration authority; 9 per cent had used the electronic registration system or procured the services of an intermediary; 3 per cent applied during the Open Door Day held by the registration authority; and the remaining 16 per cent said they were unsure.

Until 2012, the legally specified waiting time for the registration certificate of business entities issued by the Legal Entity Registration Department of General Authority for State Registration was as much as five business days. From 2013, however, the official waiting time was reduced to three days.

Figure 3.1 How many working days before receiving the registration certification (in percentages)



As shown in Figure 3.1, however, only 26 per cent of participating enterprises, 18 per cent of BEAs, and 20 per cent of BSSPs reported that registration certificates were indeed issued within the official 3-business-day period. According to the survey, an average of 6.5 days were spent in registering a business.

Despite this, about 60 per cent of participating enterprises rated registration authority operations as “good” or “very good”. On a scale of 1–4, the average reported enterprise satisfaction rate for the registration authority services was 2.65; among BSSPs providers it was 1.3; and among BEAs it was 1.65. Enterprises clearly viewed the quality of registration authority services as adequate despite a longer registration process than expected.

Table 3.1 Primary problems faced in the business registration process*

Problems	Enterprises			BEAs			Business support service providers			Total		
	1	2	3	1	2	3	1	2	3	1	2	3
Insufficient information about procedures	27	9	-	5	5	-	18	4	1	50	18	1
Procedures and requirements are complicated	1	13	18	5	5	-	6	8	1	12	26	19
Problems opening a bank account	1	1	29	2	9	-	3	-	-	6	10	29
Minimum amount of equity too high	1	6	23	-	-	-	3	-	1	4	6	24
High official fees	1	3	26	-	-	-	-	-	-	1	3	26
High informal incentives	1	7	24	-	-	-	3	0	1	4	7	25
No personal relation at registration office	9	21	2	1	9	-	0	2	1	10	32	3
Uncertainty about duration of registration procedure	9	21	3	3	7	-	3	4	1	15	32	4
Lack of cooperation between government agencies	18	13	1	8	2	-	6	4	4	32	19	5
Others, please specify:	-	-	-	-	-	-	-	-	-	-	-	-
Don't know	-	-	-	-	-	-	6	2	-	6	2	10
Total	68	94	126	24	37	-	48	24	10	140	155	146

* Three responses were permitted, with “1” representing the most severe and “3” the least severe problem.

Table 3.1 presents the main problems respondents experienced during the registration process.

Business enterprises reported the following:

- insufficient information on procedures regarding registration (most severe);
- issues with opening a bank account (least severe);
- a lack of available personal assistance in the registration authority (moderately severe); and
- uncertain waiting period for registration (moderately severe).

BEAs, on the other hand, perceived the main issues as being these:

- insufficient cooperation between government departments (most severe);
- problems with enterprises opening a bank account (moderately severe); and
- lack of available personal assistance in the registration authority (moderately severe).

BSSPs saw the following as the main issues:

- insufficient information on procedures regarding registration (most severe); and
- the procedures and requirements were too complicated (moderately severe).

Despite variations in the specific issues cited by the three groups of respondents, all of them pertained to registration procedures. Furthermore, enterprises and BSSPs concurred more than did enterprises and BEAs, reflecting insufficient awareness of enterprise issues among the latter respondents.

Table 3.2 Possible impacts on businesses after registration

<u>Nº</u>	<u>Impact</u>	<u>Enterprises</u>		<u>BSSPs</u>		<u>Total</u>	
		<u>yes</u>	<u>no</u>	<u>yes</u>	<u>no</u>	<u>yes</u>	<u>no</u>
1	I feel more secure in my business	42	22	5	5	47	27
2	Reduced payments of informal incentives to government officials	12	51		10	12	61
3	More visits from government officials for inspection and other reasons	17	46	1	9	18	55
4	Need to pay (higher) taxes	30	33	3	7	33	40
5	More requests for contributions (social activities, others)	12	52	2	8	14	60
6	Obligated to pay social insurance for my staff	27	36	5	5	32	41
7	More trusted by clients or institutions	1				1	0
<u>Total</u>		<u>88</u>	<u>240</u>	<u>16</u>	<u>44</u>	<u>104</u>	<u>284</u>

The most common experience after registering a business — reported by almost half of all respondent enterprises — was a feeling of security. But the next two most common affirmative responses (need to pay more taxes and obligation to pay social insurance for staff) both express perceived negative effects of formalization, and might partly explain why so many informal businesses hesitate to undergo the formalization process.

The results are not as clear as they seem, however, since slightly more enterprises replied negatively regarding formalization's likely impact on tax and social insurance payments. Different enterprises might have different perceptions of the possible consequences and of the likely effect of loopholes in circumventing the system.

Interestingly, almost two-thirds of respondents also indicated that formalizing their business would not reduce the need to make unofficial payments to government officials.

While their responses were not included in this table, BEA representatives' opinions in this matter were similar to those of the business enterprises, with "Obligated to pay social insurance for my staff", "Need to pay (higher) taxes", and greater security in the business among the more common choices.

Following on from this, respondents were asked to identify resources and opportunities that did in fact favour registered over unregistered businesses. Respondents were presented with nine typical impacts after enterprises formalized their business, and asked whether their own experiences were similar (see Table 3.3).

Table 3.3 Improved access to resources and opportunities by registered enterprises

№	Impacts	Enter-prises		Business support service providers		Business environ-ment actors		Total	
		yes	no	yes	no	yes	no	yes	no
1	Access to government support programmes	27	39	4	8	6	11	37	58
2	Access to bank credit	49	18	5	5	13	4	67	27
3	Access to insurance for enterprises	20	46		10	8	9	28	65
4	Recruitment of qualified staff	20	46		10	1	16	21	72
5	Access to land according to your specifications	12	54	4	6	1	16	17	76
6	Access to markets/customers	37	30	3	7	4	13	44	50
7	Opportunities for importing and exporting goods	16	51	2	8	3	14	21	73
8	Opportunities to participate in fair competition					2	15	2	15
9	Representation of your interest in policy dialogue	11	55	1	9	3	14	15	78
	<u>Total</u>	<u>192</u>	<u>339</u>	<u>19</u>	<u>63</u>	<u>41</u>	<u>112</u>	<u>252</u>	<u>514</u>

All three response groups nominated “Access to bank credit” and, to a certain extent, “Access to market or customers” as improvements after formalizing a business. All other categories received more negative responses than affirmative ones, with almost total consistency across all three respondent groups.

When asked whether it was easy (in terms of time and costs) to apply for special permits in Ulaanbaatar, 63 per cent of BEAs responded “hard to assess”. The split between affirmative and negative for this question was roughly equal (18 per cent each). When asked whether it was becoming easier to apply for special permits, 59 per cent chose “do not know”, 35 per cent chose “becoming harder”, and only 6 per cent said the process was “becoming easier”.

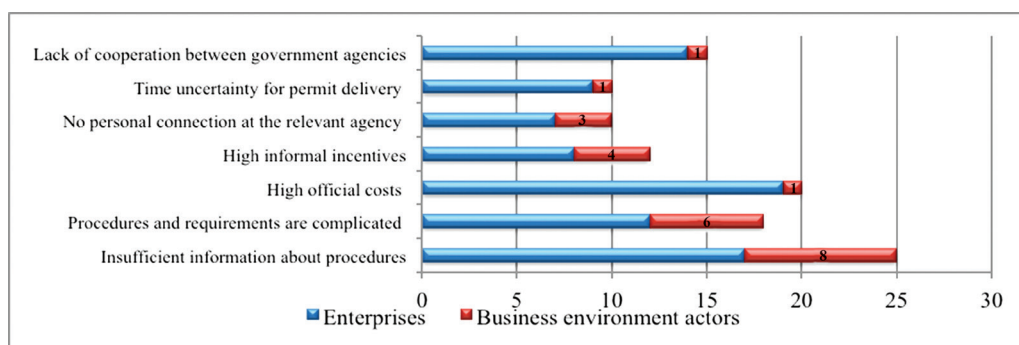
The respondents who viewed the process as becoming harder stressed that obtaining the documents and other materials required to apply was too complicated, that it took too long, that it demanded too many documents and materials, and that there was too much bureaucracy involved.

Respondents who said the process was becoming easier said the main reason was the introduction, in some sectors, of electronic transactions.

About 65 per cent of BEAs and 78 per cent of enterprises believe enterprises face some form of difficulty in applying for a permit, while 6 per cent of BEAs and 22 per cent of enterprises said “enterprises face no difficulties in applying for a special permit”.

In response to the question “What kind of challenges do enterprises face when applying for a special permit?”²³ 19 enterprise respondents chose “high registration cost”, 17 chose “lack of information regarding application procedures”, and 14 respondents chose “lack of coordination and cooperation between state agencies”. As for BEAs, eight respondents chose “lack of information regarding application procedures”, six chose “ambiguity in rules, regulations, and requirements”, and four said “high informal payments”.

Figure 3.2 Typical problems enterprises face when applying for special permits (total number of respondents)



In general, the primary impediments to getting a business officially recognized were accessibility and quality of state services, and a lack of awareness and knowledge of relevant laws and regulations.

3.2 Business environment

According to the World Bank’s *Doing business 2015* report, Mongolia currently ranks 72nd out of 189 countries in terms of ease of doing business, 4 places lower than its rank in 2014 and 20 places below its peak position of 52nd in the 2008 World Bank report. This trend indicates a deteriorating and unstable business climate in Mongolia.²⁴

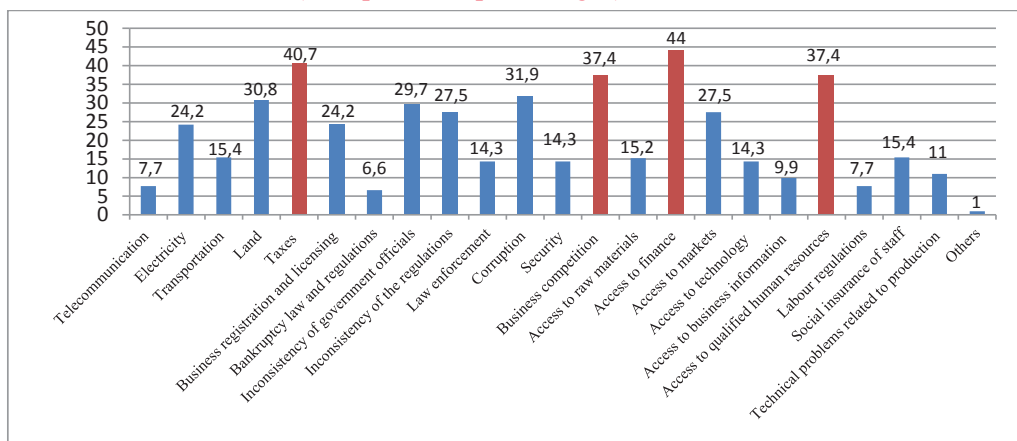
However, when asked to compare the business environment in Ulaanbaatar to that of two years earlier, the most frequent response among all survey groups was that it had improved (43.6 per cent), while 23 per cent of respondents suggested that it remained unchanged. Only 24 per cent believed that it had deteriorated to some extent during this period, and 9.4 per cent could not give an answer.

²⁴ Certain fields of business activity are covered under specific legislation and have to receive special permits or licenses from the respective authorities that govern or supervise their operations. Examples are building construction, banking and finance, environment, education, fuel and energy, food and agriculture, and health and medical services. In such cases, the business activity must be registered first and then update its registration information after obtaining licenses from the respective authorities. See <http://www.doingbusiness.org/data/exploreeconomies/mongolia/starting-a-business> and http://www.wipo.int/wipolex/en/text.jsp?file_id=183518.

In terms of respective trends in the survey groups, 59 per cent of BEAs, 41 per cent of enterprise representatives, and 40 per cent of BSSPs said that the business environment had improved, while 24 per cent of enterprise representatives and 12 per cent of BEAs believed the business environment had deteriorated.

Respondents were then asked to identify the major challenges they face in the business environment in Ulaanbaatar.

Figure 3.3 Main problems faced by enterprises in Ulaanbaatar
(enterprises, in percentages)



Respondents most frequently identified the following business environment challenges:

- access to finance (44 per cent of respondents);
- taxes (40.7 per cent);
- business competition (37.4 per cent);
- access to qualified human resources (37.4 per cent);
- corruption (31.9 per cent); and
- availability (30.8 per cent).

Infrastructure issues related to communication, energy supply, and transport, however, appeared to create fewer significant difficulties for business entities than expected.

Besides the issue of collateral for loans, according to the survey, laws and regulations on bankruptcy appear to have had little or no influence on business operations or the bankruptcy law has not been properly communicated and remains generally unknown. In each of the three survey groups, 70 to 80 per cent of total respondents responded “Do not know” to questions such as these:

- Do you view the law on bankruptcy as being useful for SMEs?
- Is the law on bankruptcy effective in practice?
- In general, do you think the law on bankruptcy is complicated and overly bureaucratic?

Asked about possible price discrimination against new or expanding SMEs in acquiring physical resources such as communications equipment, transportation, services, and land, 11 per cent of respondents answered “Yes”, 30 per cent said “No”, and 59 per cent didn’t know.

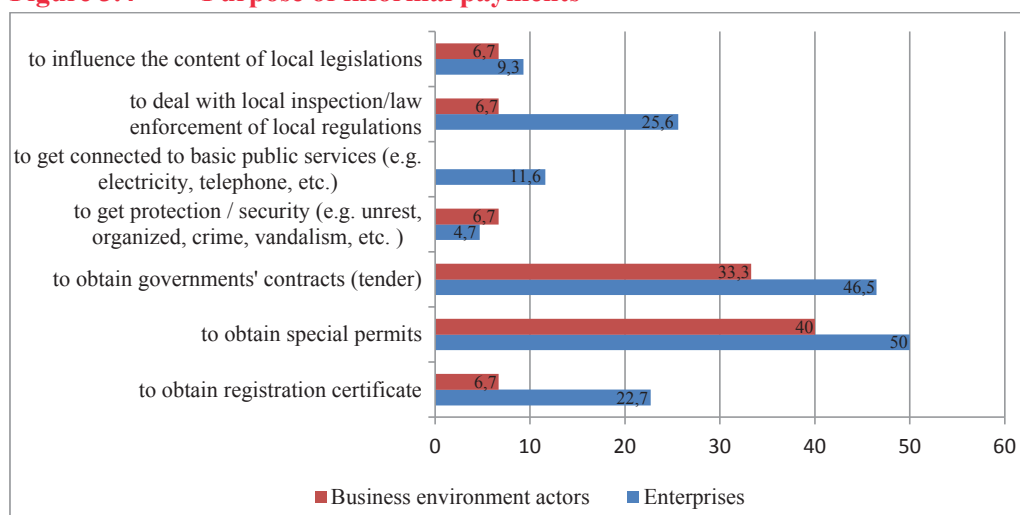
All the survey groups, shown a list of issues, selected the following as the main laws and regulations impeding expansion and growth of enterprises: tax and fee regulations (49 per cent); rules concerning special permits (41 per cent); and the labour laws (25 per cent).

Table 3.4 Regulations/laws hampering enterprise operation and growth
(% of total respondents)

Regulations	Enterprises	BEAs	Business service providers
Regulations related to business registration	25.9	11.8	20
Regulations on special permits in specific sectors	35.0	47.1	40
Labour regulations, including wages and social insurance	27.5	5.9	40
Regulations on taxes and fees	55.0	41.2	50
Regulations on domestic trade	16.2	5.9	-
Regulations on cross-border trade (import/export)	27.5	23.5	10
Regulations on environmental protection	8.8	11.8	-
Regulations on investment (e.g. industrial zones, foreign investment, etc.)	13.8	47.1	10
Regulations on anti-competitive behaviour	8.8	5.9	10
Others	1	-	-

Fifty-five per cent of enterprises proposed regulations on taxes and fees as the chief impediment, while 35 per cent instead proposed rules concerning special permits in a specific sector. Among BEAs, 41 per cent of respondents identified regulations regarding taxes and fees as a major roadblock to growth of enterprises, while 41 per cent instead proposed regulations on investment.

On the issue of whether informal payments to public servants was a common practice, 45 per cent believed they were. This belief was far less prevalent among BEAs, with only 18 per cent answering “Yes”. BEAs and enterprise respondents who viewed informal payments as common practice suggested the main reasons for this practice were “acquiring a special permit” and “winning a contract/bid/tender with state agencies”. Enterprises suggested that dealing with inspections or enforcing local regulations were other common situations where informal payments could offer easy solutions.

Figure 3.4 Purpose of informal payments*

* Multiple answers allowed/ per cent.

In terms of frequency of informal payment to public servants, enterprises reported a wide variety of experience: 9 enterprise respondents said “once a year”; 11 respondents said “twice a year”; 11 respondents said “3–4 times a year”; and 7 respondents said “more than 5 times a year”.

With regard to the value of these payments, 66 per cent of enterprise respondents who considered informal payments a common habit said they did not know (perhaps being reluctant to answer this question); 17 per cent reported “1 per cent to 5 per cent of monthly sales revenue”; 9.8 per cent said “1 per cent or less of monthly sales revenue”; and 7.3 per cent said “5 per cent to 10 per cent of monthly sales revenue”.

Two respondents from the BEA group worked in agencies mandated to allocate funds from government programmes or subsidies, and six respondents from the BSSP group were from organizations that had provided advice on government support and subsidies.

Table 3.5 Involvement in government support schemes and subsidies

<u>Government support scheme and subsidies</u>	<u>Enterprises</u>	<u>BEAs</u>	<u>BSSPs</u>
SME fund	6	1	6
Employment promotion fund	1	2	6
Parliament member support	1	1	-
Innovation fund	-	1	-
Fresh air fund	-	1	1
Technical Vocational Education Training support fund	1	1	1
Investment and development fund	-	1	1
Science and technology fund	-	1	-
Environment protection fund	-	1	-
Government reserves fund	-	1	-

Among the total number of enterprise respondents, six had been included in support programmes by the government and/or the Small and Medium Enterprise Promotion Fund, and one enterprise each had received aid from the Employment Promotion Fund, Member of the State Great Hural (Parliament), and the Technical Vocational Education Training (TVET) support fund.

Regarding the effect of government support on growth and competitiveness among businesses, 82 per cent of BEAs stated they did not know, while a mere 18 per cent believed it had at least some positive impact.

In response to the same question, nearly half of all enterprise respondents believed government support usually resulted in clearly positive outcomes, whereas 42 per cent assumed it had only some effect.

In terms of possible legislative barriers limiting the potential for entrepreneurs to develop and expand their businesses, particularly among women or young entrepreneurs, the BEA and BSSP groups were undecided. At the same time, 6 per cent of BEAs answered "Yes", while 41 per cent of this group said "No", and 53 per cent did not know. On the other hand, 20 per cent of BSSPs said "Yes", while 40 per cent each said "Do not know" and "No". Here as well, the share of respondents in both groups avoiding a positive or negative answer was too great to provide a clear result.

Regarding the difficulty, frequency, and degree of bureaucratic red tape involved in tax/financial reporting requirements for enterprises, a mere one-third of total respondents said these requirements were not complicated. Clearly, the reporting process involves a degree of unnecessary bureaucracy.

In terms of whether taxes are "profit insensitive" — i.e. whether they pay taxes regardless of whether the firm is making a profit — 53 per cent of BEAs (38 per cent of male respondents and 70 per cent of female respondents) said "No", while 47 per cent (63 per cent of male respondents and 25 per cent of female) did not know. Among the BSSPs, 11 per cent considered taxes to be profit insensitive, while 56 per cent regarded them as profit sensitive, and 33 per cent did not know. Enterprises were not asked this question.

Aside from the taxes themselves, enterprises appeared to incur other costs when trying to comply with tax laws. This conclusion is confirmed by 50 per cent of BSSPs and 19 per cent of BEAs. Interestingly, 38 per cent of BEA respondents did not recognize those additional costs related to tax payments reported by enterprises.

3.3 Accessibility and quality of business services

Despite the fact that 53 per cent of BEAs recognize the presence of an adequate support system for enterprises seeking to formalize, 72 per cent of enterprise respondents in the study were unaware of such a service system. This highlights a significant imbalance in knowledge among respondent groups regarding relevant public agencies and private service providers supporting the formalization process.

With respect to services provided by professional associations to their members, enter-

prises rated consulting services as “good”; accounting, legal consulting, and advocacy services were rated as “very poor”; while several others were rated as “poor”. This appears to indicate that professional associations, while offering numerous programmes, are failing to offer those services most sought by their members or services of a sufficiently high quality. It is worth noting that BSSPs also offer many of these services.

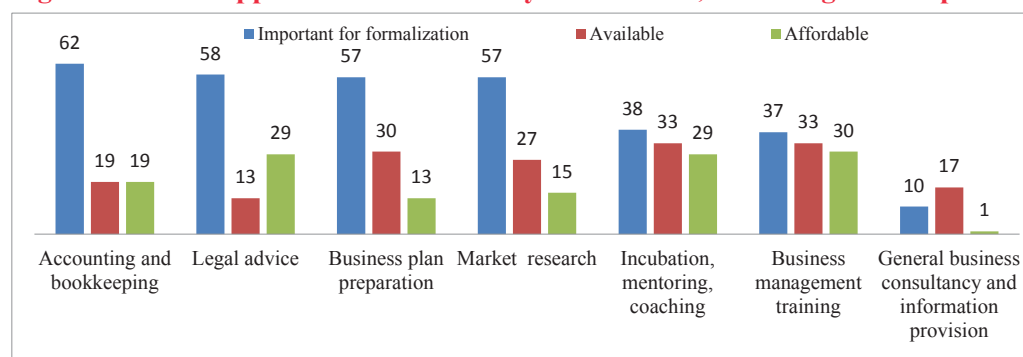
Table 3.6 Service categories offered by BSSPs in Ulaanbaatar
(number of enterprises that accessed service)

Category	Accounting and bookkeeping	Legal advice	Business-plan preparation	Market research	Incubation, mentoring, coaching	Business management training	General business	Consultancy and information provision	IT training, computer literacy	Technical staff training	Human resource advice	Identifying/sourcing technology	Loan advice	Commercial loans	Micro financial loans	Business insurance
Number of organizations	5	3	7	5	6	3	4	2	4	4	4	3	3	5	5	5

Business support agencies identified specifically for Ulaanbaatar include the business innovation centre, business incubators, the capital city department for economic development, capital city department for *ger*²⁵ district development, and the capital city department of SMEs.

The most critical support services for enterprises in terms of potential impact on the decision to formalize, according to more than 50 per cent of respondents, included accounting and bookkeeping, legal advice, preparation of a business plan, and market research. At the same time, however, these services were neither sufficiently available nor affordable. Services that were available and affordable, on the other hand, for example management training, mentorship, and general advice, were less in demand; in fact businesses reported them as being far more prevalent than they considered desirable.

Figure 3.5 Support services necessary to formalize, according to enterprises



²⁵ A *ger* is a traditional Mongolian dwelling. These are still used today by families, especially in the countryside. The Ger District, just outside of Mongolia’s capital of Ulaanbaatar, is a sprawling residential area that has grown from a transient settlement for rural migrants to a legal residential zone with housing and basic services issues.

For their part, BEAs considered business support agencies at the national, regional, and municipal levels rather ineffective. In spite of this, the most frequent BEA response to the following two questions was clearly positive:

- Is there widespread presence of commercial, accounting, and other legal services and institutions that allow or promote the emergence of new, small, or growing businesses?
- Are there “one-stop shops”,²⁶ in terms of information (regarding laws, regulations) and guidance?

Here again, however, the answers reflect a deeper knowledge among BEA actors than among enterprises of one-stop service delivery and legal services relevant for businesses.

3.4 Labor issues and training

Enterprises, BEAs, and BSSPs were asked a variety of questions to explore the different functions and experiences of each group with respect to labour issues and training.

Table 3.7 Employees with written employment contracts (in total numbers)

	Do your employees have written contracts?				Total
	Yes, all of them	Yes, some of them	No, none of them	Don't know	
Registered business	30	16	17	2	65
Unregistered business	2	3	18	1	24
Total	32	19	35	3	89

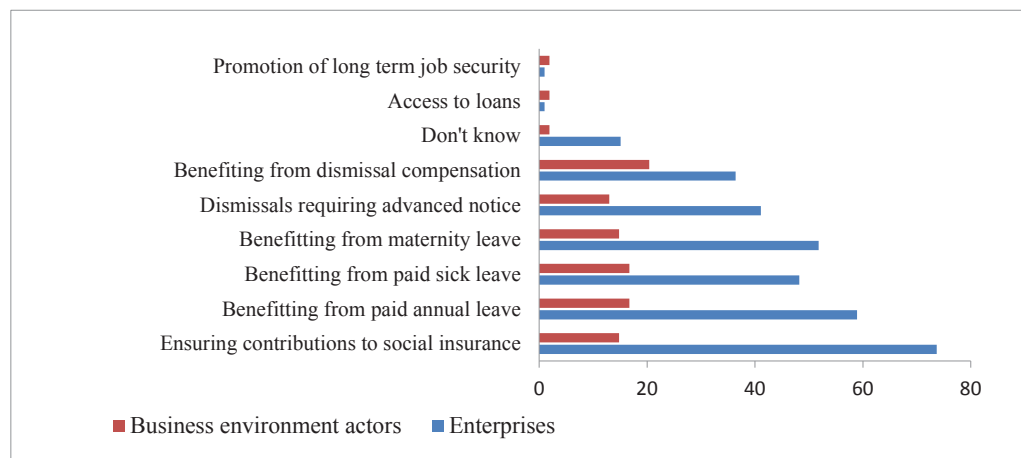
Almost half of the registered businesses confirmed that all their employees had signed official employment contracts. Another quarter of respondents from this group reported that at least some of them did. However, only 2 respondents from the 24 unregistered businesses could confirm written contract arrangements with all of their employees, while another 3 confirmed contracts with some of their workers. At the same time, unregistered businesses were more likely to respond that none of their employees were holding employment contracts (80 per cent). Thus a clear relationship is apparent between business registration and formal employment.

BEAs provided a significantly different response to that of enterprises, with 47 per cent believing that all officially registered enterprises sign written employment contracts with all employees. Only 6 per cent answered that it was complicated for any organization to sign employment contracts with employees. Responses suggest that the most commonly perceived advantages of written employment contracts for employees were

²⁶ “One-Stop Shops” were an initiative set up by the Mongolian Government in 2007 to allow citizens to access a range of social and labour services, administered at a local-government level in one locality. Further information is available at (<http://www.legalinfo.mn/annex/details/5858?lawid=9168>, i) [n Mongolian only].]

the associated opportunities for social insurance contributions, paid annual leave, paid sick leave, and maternity leave (see Figure 3.6).

Figure 3.6 Benefits for employees of holding written employment contracts



Many enterprises do experience difficulties concerning employees, as confirmed by 48 per cent of the enterprise respondents, 71 per cent of BEAs, and 80 per cent of BSSPs. The most frequent challenges faced by enterprises in relation to employees included these:

- quality of labour;
- availability of the required workforce; and
- staff conditions, e.g. frequent sickness, frequent absences, work ethos, lack of discipline.

Table 3.8 Staff problems with which enterprises typically struggle

Problems	Enter-prises	Business service providers	Business envi-ronment actors	Average
1 Labour regulations	12.8	10	23.5	15.4
2 Availability of labour	58.7	30	41.2	43.3
3 Quality of labour	67.4	70	29.4	55.6
4 Labour disputes	19.6	0	23.5	21.6
5 Strikes	21.7	20	11.8	18.0
5 Minimum wage	30.4	40	23.5	20.7
6 Cost of social insurance	15.2	40	35.3	26.2
7 Staff conditions	39.1	0	17.6	38.1
8 Other	13.0	0	5.9	7.0

One of most common challenges for enterprises in Mongolia is the availability and quality of labour — 59 per cent of enterprise respondents, 30 per cent of BEAs, and 41 per cent of BSSPs emphasized that it was difficult to find and hire suitable staff.

While 40 per cent of registered enterprises participating in the study offered formal, beyond “on the job” training to employees, a mere 9 per cent of unregistered businesses offered such training. In conclusion, registered enterprises appear tend to invest in improving the quality of their employees.

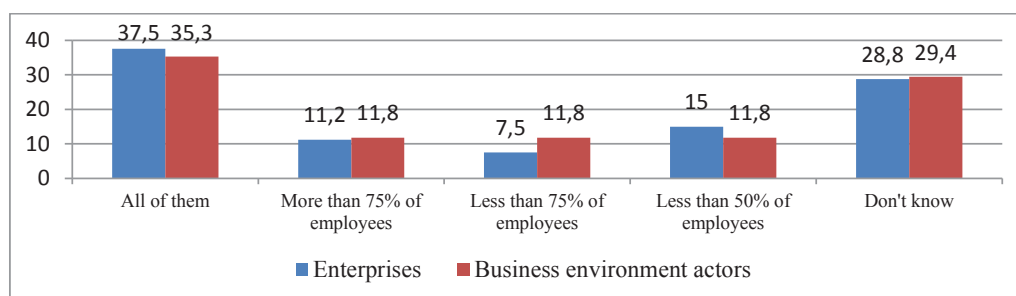
Table 3.9 Formal (beyond “on the job”) training offered to employees (percentages)

Workplace type	1. Do you offer formal (beyond “on the job”) training to your employees?			Total %
	yes %	no %	don't know %	
Registered business	40	57	3	100
Unregistered business	9	81	10	100
Total	32	63	5	100

BEA responses to the question regarding additional training benefits to staff were roughly similar to those of enterprises: 18 per cent of BEA actors expected most registered enterprises to conduct formal staff training, 35 per cent expected at least some registered enterprises to do so, while 47 per cent either did not know or avoided an answer.

Fifty-one per cent of enterprise respondents, 47 per cent of BEAs, and 40 per cent of BSSPs were unsure whether vocational training institutes (VTIs) in Ulaanbaatar could produce a capable workforce.

Figure 3.7 - Employee registration in social insurance and health insurance funds



With respect to work-related illness and injury, about a quarter of surveyed enterprises recall only a single event of this kind in their workplace, while almost 10 per cent experienced 2–5 such events, and another 40 per cent do not remember. Benefits were paid by social insurance in such instances, according to 16 enterprises, while another 16 enterprises recalled that benefits were not paid. About 30 per cent of enterprises handled cases of maternity leave at least once during the previous three years, 11 per cent did so 2–5 times during that period, and 2 enterprises did so more than 5 times.

When asked whether employees laid off over the past 3 years were able to receive unemployment benefits from the Social Insurance Fund, only 4 enterprises said yes, 49 said no, and 23 did not know. That few employees received unemployment benefits from the Social Insurance Fund might be in part linked to limited awareness that they could apply for such benefits; even if they were aware, they may have had little knowledge of how to go about doing so.

Additional assistance was requested by about 40 per cent of enterprises in registering employees and collecting necessary documentation for social benefits. Enterprises failed to provide social insurance coverage for all or some of their employees for the following main reasons: (a) a cumbersome, time-consuming registration process; (b) companies were still in the start-up stage; and (c) low returns in terms of benefits in relation to the costly contributions and procedures. These answers either suggest a serious lack of knowledge on the part of employers and business owners, or they point to shortcomings in the social insurance system that need remedying.

The most important legislation for employees is the law on labour. But 51 per cent of enterprise respondents considered it ambiguous and complicated when it came to worker entitlements. By contrast, 71 per cent of BEAs believed that the law was clear.

In general, BEAs (50 per cent) were unaware of exemptions to certain legal requirements based on firm size, whereas 25 per cent assumed that there are no exemptions, and another 25 per cent assumed that there were.

3.5 Finance

Typically, the greatest difficulty for both registered and unregistered businesses is access to finance, and most projects and programmes aimed at supporting SMEs concentrate on financial assistance — e.g. reducing the VAT and custom taxes for equipment and machinery for SMEs, providing coverage through the Loan Guarantee Fund, and providing discounted loans to SMEs are all aimed at supporting micro businesses on the credit or cost side.

In response to the following questions — again showing a clear discrepancy in knowledge and access to information on the part of different groups of actor in the support structure of enterprises — most BEAs answered in the negative, while most BSSPs answered in the affirmative:

- Are there effective means of providing information to emerging entrepreneurs regarding financial services?
- Are there financial resources, equity, and debt for new and growing firms, including grants and subsidies available to start-ups and young firms?
- Are there sufficient policy and regulatory incentives to encourage financial institutions to lend to all enterprises, especially SMEs?

Participants also stressed that support mechanisms exist for preparing bank loan proposals that target SMEs, and that micro loan organizations play a useful mediating role.

Most BEAs do not know about (a) the existence of collateral share risk schemes²⁷ for SMEs; (b) effective access to trade finance and credit insurance; or (c) whether exporting SMEs have access to credit guarantees. As for BSSPs, 50 per cent said there was a risk-sharing mechanism for SME collaterals in banks, 40 per cent said there was sufficient variety of financial and insurance products are being offered, and SMEs receive loan guarantees during export.

Of all surveyed enterprises, 54 per cent had applied for loans at banks; 76 per cent of these received loans in accordance with their applications. The successful applicants received 88 per cent of their loans from commercial banks, 25 per cent instead received them from non-banking financial institutions, and 15 per cent from micro financial organizations, foreign sources, family and friends, the SME Support Fund, and others.

The perceived primary reasons behind rejected loan applications included insufficient collateral (65 per cent of all responses); bureaucracy and poor quality of service at commercial banks (28 per cent); lack of acquaintances at the bank (18 per cent); non-registration of the business (16 per cent); poorly developed business plans (8 per cent); and reluctance to issue loans to NGOs (8 per cent); while 12 per cent did not know the reason and/or the bank had not explained the rejection.

On the other hand, 80 per cent of employees of financial service providers participating in the study identified lack of collateral as the main reason behind loan application failure, while 50 per cent reported incomplete application materials and 10 per cent said it was due to bureaucratic inefficiency and poor service quality.

Among those enterprises who never applied for a loan, 56 per cent said it was because interest rates were too high or because they lacked the necessary collateral; 27 per cent missed support services to enable them to effectively access financial services; 18 per cent were not registered and lacked the necessary information; 15 per cent lacked knowledge of financial organizations; and 12 per cent clearly preferred other financial sources.

According to financial institutions, on the other hand, the main reasons enterprises did not apply for loans are the following: lack of collateral; lack of information regarding the loan service; high interest rates; and insufficient support services.

In any case, 49 per cent of enterprises and 22 per cent of BEAs regarded applying for loans as difficult; 35 per cent of enterprises and 67 per cent of BEAs believed that the degree of difficulty depended on the institution; and only 13 per cent of enterprises and 11 per cent of BEAs reported that applying for credit was an easy process. Meanwhile, 3 per cent of enterprises were unable to provide an answer regarding level of difficulty in applying for credit.

27 The Loan Guarantee Fund (LGF) remains the primary risk-sharing scheme available to businesses.

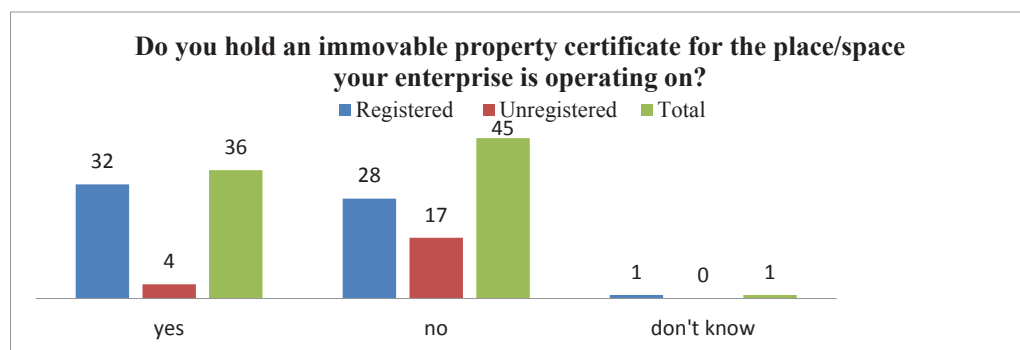
With respect to enterprises currently in need of additional financial support, 83 per cent required such. Of these, when asked what sources they might access (multiple response permitted) 65 per cent were planning to approach commercial banks; 26 per cent were instead to borrow from business partners; 24 per cent to use leasing services; 11 per cent to approach family, friends, and other informal sources/private lenders; and 4 per cent were to use their own resources.

Additional finance for enterprises was needed for business expansion (79 per cent), securing cash flow (15 per cent), or officially registering the business (4 per cent). According to BSSPs, enterprises typically invest about 90 per cent of additional capital acquired from financial institutions into business expansion.

3.6 Real estate and land use

About 44 per cent of all enterprise respondents held land certificates (of which about 89 per cent were also registered). Among those, 84 per cent recognized that possessing land certificates made it easier to apply for loans, that it positively influenced investment into production expansion (40 per cent), and was helpful in securing long-term procurement contracts (20 per cent). BEAs were more cautious with respect to positive impacts of land certificates with only 63 per cent of them confirming the ease of loan applications.

Figure 3.8 Possession of property certification by registration status



Among enterprises who applied for land certificates, 67 per cent had not received them. Reported reasons for the failed applications included too high a price for the preferred immovable property (70 per cent), insufficient size of land (22 per cent), lack of business registration, and reluctance to pay informal charges.

Meanwhile, BEAs overwhelmingly nominated high land prices as the main reason behind the inability of enterprises to secure land of their preference.

3.7 Trade relations

Of the surveyed enterprises, 67.1 per cent supplied their output to Ulaanbaatar and 23.7 per cent to provinces (*aimags*) and rural areas; 4.2 per cent was directly exported,

and 5 per cent exported via agents. Out of 8 enterprises selling their products abroad, 6 exported to China, 5 to the Russian Federation, 3 to the Republic of Korea, 1 to Japan, and 1 to the United Kingdom. On average, only 10–30 per cent of their output was put up for export.

The following are the main challenges for enterprises making purchases via direct import:

- price fluctuations and payment procedures (53.7 per cent);
- quality of purchases (48.8 per cent);
- continuity of supply (39 per cent); and
- difficulties with import procedures (37 per cent).

Seeking deeper insights into foreign trade conditions, the researchers presented BEAs and BSSPs, given their expertise in such matters, with a few additional questions (see Table 3.10).

Table 3.10 Trade relations

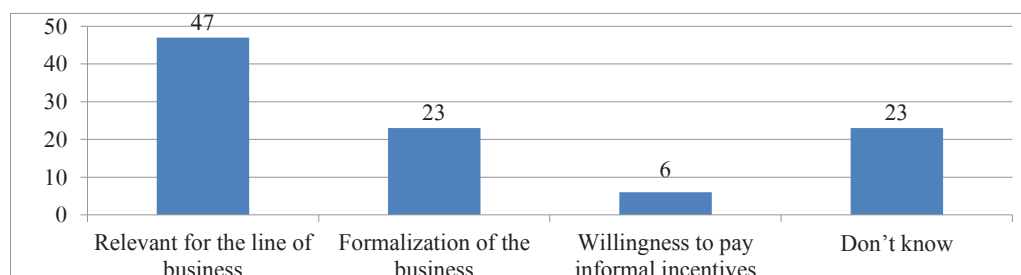
Questions	BEAs			BSSPs		
	Yes	No	Do not know	Yes	No	Do not know
Is there sufficient information for exporters on trading procedures, tariffs and duties, and taxes?	11.8	29.4	58.8	10	30	60.0
Are customs officials fully aware of all trade agreements and their implications?	5.9	29.4	64.7	-	30	70.0
Are there efficient and transparent customs procedures to facilitate the <i>importing</i> activities of enterprises?	11.8	35.3	52.9	-	20	80.0
Are there efficient and transparent customs procedures to facilitate the <i>exporting</i> activities of enterprises?	-	35.3	64.7	-	-	-
Is getting the necessary certificates of origin and other essential documentation a straightforward, cost-effective process?	35.3	17.6	47.1	33.3	-	66.7
Is the time needed to clear goods (exports and imports) through Customs excessive?	52.9	5.9	41.2	50	-	50.0
Are product standards and certifications used as protectionist measures with respect to key export <u>markets or potential export markets</u> ?	<u>35.3</u>	<u>17.6</u>	<u>47.1</u>	<u>10</u>	<u>10</u>	<u>80.0</u>

The fact that most respondents answered “Do not know” to all of the above questions could be because other respondents within the respective organizations would have served as more expert, more appropriate interviewees) or it could be due to a general lack of detailed knowledge on the trading environment.

BEA respondents assumed that enterprises which exported or imported products and services were registered enterprises (41 per cent), all types of enterprises (18 per cent), or a mix of the two (12 per cent). Import and export would be extremely difficult for unregistered enterprises, however — although 60 per cent of BSSPs lacked knowledge regarding this matter, and the remaining 40 per cent could only guess that both types of enterprises were engaged in foreign trade, but that it was more difficult for unregistered ones.

Unregistered enterprises in Mongolia usually do not have access to government procurement and construction contracts, as confirmed by 65 per cent of BEAs and 60 per cent of enterprises. According to BEAs, the main requirement for enterprises, in bidding for government contracts and tenders, was that the contract was relevant to their line of business.

Figure 3.9 Requirements to gain access to government contracts (in %)



Apparently, government tenders do not explicitly target young enterprises, as confirmed by 65 per cent of respondents. In addition, BEAs and BSSPs believe that newly registered businesses do not enjoy easy access to markets (71 per cent and 30 per cent, respectively).

Enterprise respondents were more optimistic, reporting benefits from market access after registration.

3.8 Business dynamics

Both registered and unregistered enterprises, the former more than the latter (70 per cent and 35 per cent, respectively), used net profit primarily for reinvestment. Registered enterprises were more likely to introduce new and innovative products and services (confirmed by 77 per cent of respondents), while a mere 12 per cent believed that registered and unregistered businesses were equally innovative.

Figure 3.10 Primary allocation of net profits (for the previous two years)



Over the previous two years, 64 per cent of enterprise respondents used their net profit

for reinvestment, 57 per cent used it for consumption, and 4 per cent put it into savings accounts. Meanwhile, 6 per cent of all respondents reinvested 100 per cent of their net profit of the previous year, 63 per cent reinvested over 50 per cent, and 31 per cent between 1 per cent and 50 per cent.

Regarding new products introduced in the previous three years, 52 per cent enterprises had introduced more than 3; 23 per cent of enterprises introduced a total of 3; and 25 per cent of enterprises introduced 2 new products and services in the market. In terms of product innovation, Mongolian enterprises, independently of their registration status, seem to be quite innovative.

According to BEAs and BSSPs, encouraging more enterprises to formalize requires three categories of improvement to the business environment (see the following table).

Table 3.11 Suggested improvements in the business environment encouraging enterprise formalization (by order of importance, BSSP and BEA only)

First priority	Second priority	Third priority
▪ Simplifying registration procedures. ▪ Introducing one-window services. ▪ Improving quality of state agency service. ▪ Facilitating broader opportunities for new enterprises to bid for government tenders and contracts. ▪ State support policy.	▪ Improving quality of and access to information about registration. ▪ Eliminating unnecessary bureaucratic red tape. ▪ Creating flexible tax policies and incentives. ▪ Introducing electronic procedures.	▪ Reducing number of materials and documents required for registration. ▪ Introducing tax discounts for new enterprises that satisfy the necessary criteria. ▪ Improving coordination between state agencies. ▪ Simplifying tax and social insurance operations. ▪ Assistance in creating a formalization plan. ▪ Introducing simple electronic procedures.

Chapter 4: Validation of hypotheses

Chapter 4: Validation of hypotheses

This chapter re-examines those hypotheses initially proposed by the research team regarding factors that might influence decisions about whether to adopt formal or informal business activities. Analysis of the research data now shows whether the survey results validate the initial hypotheses, or whether these stand in need of further research.

4.1 General hypotheses

The Mongolian informal economy is growing more quickly than the formal economy.

The transition to a market economy and privatization of state property enabled citizens to routinely conduct business activities before any proper legal and regulatory framework was in place. This in turn laid the basis for the informal sector.

The fact that, in 2012–2013, the number of totally employed increased by 4.4 per cent while employment in the informal sector increased by 14.6 per cent indicates that this phenomenon continues even today.²⁸

It is easier to start a new business informally than formally.

Aside from the costs in time and money for business registration itself, starting a formal business typically involves many burdensome requirements, among them inspections, regulatory controls, taxes, social insurance, and financial reporting.

The main problems cited by enterprises were (a) insufficient information regarding registration procedures, (b) no personal relationships with staff at the registration office, and (c) uncertainty about how long registration takes. (Lack of cooperation among public agencies was cited by respondents from government.)

Some unregistered businesses in Mongolia operate without licenses or special permissions, while paying no taxes and relying only on verbal employment agreements.

Of the total enterprise survey sample, 26 per cent were unregistered. About 80 per cent of these unregistered enterprises reported not giving written employment contracts to their employees.

That business registration results in higher tax payments is not confirmed; only

²⁸ NSO, *Labor force survey*. (These data are presented in Appendix A, Supplementary Table 3, below.)

30 per cent of those who formalized their businesses claimed they subsequently paid higher taxes. This suggests that either some unregistered enterprises do also pay taxes of some type (many reported that informal payments to government have not diminished), or some registered enterprises manage to evade tax payments (many reported that social contributions were no higher after registration).

In conclusion, the initial hypothesis can be partially verified. More research on the behaviour of unregistered enterprises appears necessary.

Even many officially registered enterprises conduct activities that are not included in enterprise reports, financial statements, and tax records.

This hypothesis remains an assumption; the research results cannot confirm the above statement.

Features of the business environment influence the decision of enterprises to formalize their business activities, which in turn affects the relative competitiveness of enterprises together with related gains in decent employment and income generation.

This, the key hypothesis of the research, is partially verified by the results. There are two parts to the proposition.

The business environment influences decisions to formalize. The registration process is one factor in the business environment that influences the decision to formalize, and this process has been shown to produce mixed results. Notably, 60 percent of respondents expressed satisfaction with the registration process. Yet difficulties were cited in starting a new business, with certain regulations said to hamper business operation and growth (those most cited included special permits, cross-border trade, and labour regulations — business registration itself ranked at the bottom of this list).

Formalizing a business affects competitiveness and decent work opportunities. Another aspect of the business environment is whether incentives are in place to encourage formal businesses to operate within the purview of the law. When asked about the benefits or other impacts on the business after registration, 42 per cent said that they felt more secure about their business. About 26 percent of enterprise respondents, far from a significant number, reported positive impacts on their business. Other reported advantages included that fact that their legal status allowed enterprises to bid for government contracts and helped them to access institutional credit. More registered companies than unregistered also reported land ownership and propensity to reinvest profits. Although the correlations were not strong, these variables did evidently contribute to the competitiveness of a growth-oriented enterprise.

4.2 Hypotheses regarding the correlation of business environment factors and business formalization

Enterprise registration process (challenges concerning costs in time).

The parameters of the enterprise registration process clearly correlate positively with decisions to formalize a business. Although the average number of days needed to issue a business registration is 6.5 days, instead of the officially designated 3 days, enterprises view the quality of registration services as adequate. On the other hand, they would appreciate more information on procedures regarding registration, better personal assistance in the registration authority, and more certainty about the time needed for the registration process.

The main recommendation respondents proposed for improving the business environment was “simplifying registration procedures”.

Tax regulations and potential tax and social insurance burdens. These keep only some businesses from registering officially. About the same number of enterprises (30 versus 33) confirmed that they paid higher taxes after registration as those that did not. More enterprises (36 versus 27) denied an obligation to pay social insurance for their staff after registration than those that did pay.

In accordance with the law on social insurance, most individuals in informal employment are under voluntary coverage, paying contributions measured against the legal minimum wage. Closer to retirement, for about the last five years, however, they are paying contributions calculated on the basis of a considerably higher income to secure higher pension benefits.

In conclusion, tax and social insurance regulations and their enforcement certainly influence the decision to formalize, but not very significantly at this time.

Government assistance, subsidies and promotion. Only a few respondents said that registering a business would enhance a business’s eligibility to apply for government subsidies and assistance; the others believed that, even with a registered business, it would remain difficult to apply successfully for such programmes.

Cooperation among state agencies. Lack of such cooperation was that problem most cited by the BEAs.

Inspections (frequency). Some respondents reported this as a sometimes burdensome factor, but it appears to have had little impact on the choice of whether or not to formalize.

Policy dialogue (opportunities, access). Again, the research suggests this factor had rather little real impact on the choice to formalize. One revealing trend throughout the survey findings were the discrepancies between the responses

of enterprises and those of government agencies regarding priority business issues; how onerous additional taxes might prove; availability of certain types of business support services; and clarity of the labour law for firms. Tellingly, furthermore, when asked about the effect of government support on the competitiveness of businesses, 82 per cent said they did not know.

4.3 Hypotheses regarding the correlation of enterprise competitiveness and formalization

Quality and price of products and services. Because of the concomitant requirements of compliance with technical and social standards, branding, labelling, packaging, insurance coverage etc., the competitiveness of a product or service could often increase due to formal registration. The price would obviously be determined by market forces, but formalized enterprises are often able to offer better quality at higher prices.

The survey findings supported this hypothesis to some extent, revealing a slight pattern of formal enterprises reporting on indicators of competitiveness more than did informal enterprises.

Access to markets. As a business expands following formalization, there is more need to sign written formal contracts and make financial transactions via official bank accounts. Slightly more enterprises agreed than disagreed that registering their enterprises improved their access to markets and customers. This observation, however, was contradicted by a significant majority of BEAs and BSSPs, where most replied that there was no impact on market access.

Export and import opportunities. Almost 77 per cent of all respondents disagreed that business registration creates better opportunities for importing and exporting goods. Although unregistered enterprises might find it more difficult to import or export, it still appeared to be possible.

Eligibility to bid on government tenders. Because only registered entities can participate in government tenders, 60 per cent or more of both BEAs and enterprises claimed that this had a direct impact on decisions to formalize a business. The situation has recently improved, however, with small enterprises eligible to bid for government tenders since 2013, and, the National Procurement Agency announcing all government tenders electronically.

Improved access to international investment. International investors, it may be assumed, prefer to put capital into officially registered enterprises that comply with all legal and social standards. The research results cannot directly confirm this, however.

Insurance coverage. Roughly two-thirds of survey respondents felt that enhanced opportunity for insurance coverage did not significantly affect the decision to register a business.

Ability to apply for land with preferred specifications. More than 80 per cent of all respondents doubted that registered businesses found it easier to access land. This may be because of an independent factor, i.e. the high property values in Ulaanbaatar. The survey did find, however, that 89 per cent of those businesses holding land certificates were registered. Most respondents also claimed that possessing land certificates made it easier to apply for loans; that it positively influenced investment into production expansion; and that it was helpful in securing long-term procurement contracts.

Recruiting qualified workers. Most survey respondents felt that the ability to recruit qualified staff did not clearly correlate positively with registering the business. Furthermore, lack of capable staff appeared to be an issue for the entire business sector, with 57 per cent of enterprise respondents, 59 per cent of BEAs, and 60 per cent of BSSPs reporting that “it was difficult to find and hire capable staff” whether a company was registered or not.

However, employee opportunities to participate in capacity-building measures might be more dependent on the formal status of a business. Whereas 40 per cent of registered enterprises offered formal, beyond “on the job” training to employees, a mere 9 per cent of unregistered businesses did so.

Access to government assistance and subsidies. Only about 39 per cent of respondents confirmed that business registration would ease access to government support programmes. The remaining 61 per cent were negative about this assumed impact. Perhaps this perception was due to the fact that, as some observed, receiving government support was very difficult in any case.

Enhanced reputation. Supposing that many of the factors described in this section did indeed increase competitiveness in formalized businesses, this would, under normal circumstances, undoubtedly also boost the reputation of a company.

Future growth potential. In principle, registration provides access to institutional resources and markets that aid business expansion and growth. Official seals are crucial for winning consumer and partner trust — for one thing, a legal personality provides some formal guarantee for contracts. So much has been partially demonstrated, as earlier mentioned. In terms of growth prospects, the evidence suggests that registered enterprises show a greater propensity to reinvest their profits (with 70 per cent reporting reinvestment, compared to only 35 per cent among unregistered enterprises), and registered firms are more likely to diversify than are unregistered firms. These latter findings, however, could

be instead related to firm size, although this possibility has not been properly examined.

4.4 Hypotheses regarding the relevance of business services for business formalization

Various business services could help to transform informal into formal businesses.

Respondents suggested that the most important business services for facilitating the registration and formalization of an enterprise were the following, in order of importance: accounting, legal consulting, business plan development and market research, training of technical staff, and information technology training. Most of the currently available business support services are in mentoring, incubation, business plan preparation, and market research. Very few offer accounting and bookkeeping services and, where they do, surveyed firms judged them as very poor.

Chapter 5: Policy recommendations

Chapter 5: Policy recommendations

Recommendation 1: Facilitate an enabling regulatory environment for SMEs and micro businesses, including a simplified taxation system.

- Find ways to reduce the waiting period for business registration, bringing it closer to the legally specified 3 days. (The average reported in this survey is 6.5 days.) This should be considered a key business environment reform, given that the most cited issues regarding business registration (including acquisition of special permits) have to do with regulatory ambiguities and unnecessarily complicated procedures. About 45 per cent of respondents cited informal payments as a common practice; a number also reported problems in opening bank accounts.
- Assess the underlying perceptions and constraints concerning current tax regulations, labour laws, and special permits, as well as the monitoring of non-compliance. Respondents rated these factors as the primary impediments to business growth and development.
- With 55 per cent of respondents citing taxation and fees among the regulations that hamper enterprise operation and growth, this issue bears further assessment and reform. Taxation systems may be simplified so as to entail minimal bureaucratic hurdles and compliance loopholes. Simplified systems may also involve visible indicators such as floor space and electricity consumption for benchmarking turnover in calculations of tax rates. Other reforms to help small enterprises might include reductions in the statutory corporate income tax rate; accelerated depreciation allowances for capital expenditures; enhanced depreciation allowances for capital expenditures; general or targeted investment tax credits; and financing incentives.
- Raising the current value-added tax (VAT) threshold might also be considered. The VAT rate in Mongolia is 10 percent of the value of taxable goods and services, including imports. In law, any business or individual engaged in producing or providing these products is considered a taxpayer. Taxpayers are required to register for VAT when their taxable sales revenue exceeds MNT 10 million. The option of voluntary VAT payment is available to companies earning below this threshold. Parliament was debating a proposal, at the time of this writing, to increase the VAT threshold to MNT 200 million. This would greatly reduce the bureaucratic burden for SMEs and start-up businesses in registering for VAT, and contribute to greater activity in the formal business sector.
- Some respondents remarked that taxes are “profit-insensitive”, i.e. taxes are

paid regardless of whether or not the SME is making a profit. Reform in this regard could increase SME capacity to finance working capital internally.

Recommendation 2: Increase finance options targeting SMEs.

- Promote the Loan Guarantee Fund, expanding and improving its operations. Businesses typically have insufficient information about how to apply to the Fund.
- Work with the finance sector to increase the availability and suitability of financial products specifically aimed at micro businesses.
- Ensure that information about financial services is effectively disseminated to SMEs.
- Promote innovative ways in which SMEs can use a positive credit history as “collateral” to access loans at better rates and seek more competitive terms from different lending institutions.
- Increase low-cost training support for SME managerial competencies, especially in the field of finance.

Recommendation 3: Enable smaller firms to bid for public tenders.

- Linking costs of formalization (i.e. tax obligations) with benefits can demonstrate the advantages of formalization. Such benefits might include eligibility for government procurement contracts.
- Only registered entities can participate in government tenders, and this has a direct and positive impact on decisions to formalize a business. Increased assistance from the National Procurement Agency to help smaller enterprises prepare bids would further incentivize formalization.
- Facilitate SME participation in public procurement. Packaging public procurement as a number of smaller bids would encourage smaller businesses to participate in the tendering process.

Recommendation 4: Provide SMEs with a wide range of low-cost peer-to-peer learning and training options.

- Scale up efforts to increase human resource development in SMEs, notably by providing sustainable low-cost training options that can drive growth. Currently, business service providers offer options that are inadequate in terms of both type and quality. In particular, accounting and bookkeeping services were cited by respondents as important ways to facilitate formalization, yet such services are not typically available. And where they are, reportedly, they are of poor

quality. Appropriate and affordable training options that can facilitate formalization and growth are critical needs.

- As another incentive to formalize, the government can provide training in product standards or product design for export markets.

Recommendation 5: Make it easier for firms to understand and comply with all labour laws.

- Scale up efforts to ensure that all workers are provided with employment contracts, among other things conducting awareness-raising activities among firms, focusing on the importance of providing such contracts to all workers.
- With the reform of labour legislation, an opportunity currently exists to address issues related to the complexity of labour laws. Policy-makers need to ensure the effective impact assessment of all current and potential legislation.
- The law on social insurance concerned with the calculation of retirement benefits should be amended to take into account the whole period of employment, not merely the final five years. Most individuals in informal employment are under voluntary coverage, paying contributions based on the minimum legal wage. Closer to retirement, however, for about the last five years, they pay commissions that are a considerably higher in order to secure higher pensions.

Recommendation 6: Help scale up the ability of small firms to access export markets.

- Support the development of electronic identities for businesses to enable e-invoicing and e-government transactions.
- Install electronic data-interchange systems for submitting and processing documents so as to reduce delays in the trading process.
- Ensure that vital information flows pertaining to export and import markets are readily accessible by the business community. Customs officials need to be fully aware of all trade agreements and their implications.
- Provide low-cost training options, e.g. focusing on export procedures and processes, to facilitate SME ability to access export markets.

Recommendation 7: Improve coordination and coherence among state agencies.

- Reduce duplication of paperwork requested from businesses during the application process. Currently, multiple ministries and agencies require the submission of overlapping information. This not only imposes an unnecessary additional

burden on enterprises, it increases the time and other resources officials devote to processing the information. One priority should be to improve the exchange of information among government agencies, for example with greater use of electronic processes. Opportunities may also be sought to transfer some less critical state responsibilities to professional associations.

Recommendation 8: Increase transparency and efficiency in public service.

- Encourage new standards, norms, and behaviour among public service providers, and introduce a performance-based management system that incorporates a salary system based on capability, productivity, and efficiency. Public employees need greater incentives to realize productivity gains for their organizations.
- Introduce systematic, professional training mechanisms for public servants. Provide incentives for steady employment among primary level public servants through greater training and career promotion opportunities.
- Establish forums for dialogue and exchange of information to build trust and understanding between entrepreneurs and government officials. The mismatch of perceptions and responses between the two groups of respondent reveals significant scope for improving common understanding and engagement.

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APPENDIX A: SUPPLEMENTARY TABLES

Supplementary table 1 - Enterprises by status of registration in whole country

Type of registration status	2008	2009	2010	2011	2012
Companies	43 130	46 890	55 996	53 142	74 335
State owned enterprises	651	660	557	260	315
Co-operatives	2 595	2 681	2 563	1 755	2 821
Partnerships	3 174	3 304	3 303	2 051	2 460
Budget organizations	4 044	4 047	4 410	3 959	3 982
Non-Governmental organizations	6 858	6 908	6 915	5 879	6 307
Other (private kindergartens and schools etc.)	83	81	78	363	320
Total	60 535	64 574	73 822	67 409	90 540

Source: NSO

Supplementary table 2 - Registered enterprises by type of registration in whole country

	2008	2009	2010	2011	2012
Total	60 535	64 574	73 822	67 409	90 540
Agriculture, forestry and fishery, hunting	2 638	2 947	3 170	3 514	4 766
Mining and quarrying	695	722	808	513	691
Manufacturing	4 141	4 510	4 912	5 853	7 425
Electricity, gas and water supply	276	280	267	239	280
Construction	2 372	2 611	3 057	4 226	5 431
Wholesale and retail trade, repair of motor vehicles and household goods	27 113	28 685	36 297	26 504	40 331
Hotels and restaurants	2 040	2 155	2 228	2 344	2 967
Transport, storage and communications	2 003	2 157	2 344	3 182	4 039
Financial services	1 129	1 859	1 208	2 167	2 545
Real estate, renting and other business activities	4 253	4 481	5 000	6 543	8 083
Public administration and defense, compulsory social security	1 572	1 594	1 662	1 428	2 258
Education	2 341	2 396	2 528	3,016	3 186
Health and social work	2 548	2 636	2 678	2,770	2 993
Other community, social and personal services	7 408	7 535	7 654	5,093	5 526
Other	6	6	9	17	19

Source: NSO

Supplementary table 3 - Number of people employed in informal sector. By type of economic activity

Type of Economic Activity	2011		2012		2013		Annual % change	
	Employees	% of total	Employees	% of total	Employees	% of total	2012	2013
Mining and extractives	6 762	5.0	6 133	3.5	4 688	2.3	-9.3	-23.6
Manufacturing	21 925	16.2	27 436	15.7	29 853	14.9	25.1	8.8
Supply of electricity, natural gas, and ventilation:	0	0.0	76	0.0	0	0.0	100.0	-100.0
Water provision, waste management	1 268	0.9	691	0.4	1 169	0.6	-45.5	69.2
Construction	10 069	7.5	10 090	5.8	13 148	6.6	0.2	30.3
Wholesale and retail trade, repair of motor vehicles and motorcycles	52 671	39.0	77 399	44.4	84 433	42.2	46.9	9.1
Wholesale and retail	28 250	20.9	29 987	17.2	38 823	19.4	6.1	29.5
Accommodation and food service activities	2 876	2.1	5 261	3.0	6 140	3.1	82.9	16.7
Communication	787	0.6	1 627	0.9	2 195	1.1	106.7	34.9
Finance, insurance service	220	0.2	212	0.1	703	0.4	-3.5	231.5
Real estate activities	173	0.1	159	0.1	43	0.0	-8.2	-72.9
Professional, scientific and technical activities	905	0.7	1 081	0.6	1 808	0.9	19.5	67.2
Administrative and support activities	710	0.5	1 298	0.7	832	0.4	82.9	-35.9
Public administrative and defense; compulsory social insurance	385	0.3	323	0.2	109	0.1	-15.9	-66.3

Education	577	0.4	711	0.4	827	0.4	23.3	16.4
Human health and social work activities	146	0.1	907	0.5	841	0.4	519.4	-7.2
Arts, entertainment and recreation	843	0.6	944	0.5	1 771	0.9	11.9	87.7
Other services	5 595	4.1	9 496	5.4	12 172	6.1	69.7	28.2
Activities of household as employees	761	0.6	645	0.4	422	0.2	-15.3	-34.6
Activities of extraterritorial organizations and bodies	47	0.0	0	0.0	0	0.0	-100.0	
<u>Total</u>	<u>134 972</u>	<u>100.0</u>	<u>174 476</u>	<u>100.0</u>	<u>199 978</u>	<u>100.0</u>	<u>29.3</u>	<u>14.6</u>

Source: Labor force survey, 2013

APPENDIX B: SURVEY QUESTIONNAIRES

Appendix B.1 Enterprise survey questionnaire

A. Enterprise and respondent profile

Respondent's name		
Position in enterprise	☐ Owner ☐ Manager	☐ Other staff, please specify.....
Gender	☐ Female	☐ Male
Direct contact details	Mobile:	E-mail:
Since when is he/ she working with the enterprise?	☐ < 1 year ☐ ≥ 1 – 3 years	☐ 3 – 5 years ☐ > 5 years

Enterprise name		
Address	Street:	
	Sub-district	
District		
Contact details	Phone no.:	E-mail:

Since when is the en- terprise operating?	☐ < 1 year ☐ ≥ 1 – 3 years	☐ 3 – 5 years ☐ > 5 years
Legal status of enter- prise	☐ Unregistered ☐ Registered as Limited Liabil- ity Company ☐ Registered as Joint Stock Company	☐ Registered as Cooperative ☐ Registered as Partnership ☐ Registered as state-owned enterprise (SOEs)
Registered since...	☐ < 1 year ☐ 1-3 years ☐ > 3 years	
Total No. of employ- ees/workers	☐ 1-4 ☐ 5-9	☐ 10-19 ☐ ≥20
Gender balance of Employees	% Female	% Male
Annual Turnover	☐ ≤ 10 mio. MNT ☐ 10.1 -100 mio. MNT	☐ 100-250 mio. MNT ☐ 250 mio. - 1000 mio. MNT ☐ >1000.1 mio. MNT
Belonging to Sub-sec- tor...	☐ Construction ☐ Furniture Production ☐ Textile Production ☐ Construction material production	☐ Trade & Sales ☐ Transportation (goods, people) ☐ Tailoring, Sewing ☐ Other, please specify.....

Where are your economic activities conducted?	☐ home (with own work space) ☐ home (w/o separate work space) ☐ fixed company premises	☐ market area ☐ itinerant ☐ Others
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B. Business registration & formalization

1. Have you ever registered your enterprise?		
☐ yes ☐ no (if no, proceed to Q9)		
2. If yes, how did you apply for registration certificate?	☐ at the registration office directly ☐ online registration ☐ through broker / intermediary agencies ☐ during official "open days" ☐ don't recall ☐ others, please specify:	
3. If yes, how long did it take to receive the registration certificate?	☐ < 1 working day ☐ 1-3 working days ☐ 4-10 working days ☐ > 10 working days	
4. If yes, how would you assess the quality of the performance of the registration office?	☐ very good ☐ good ☐ poor	☐ very poor ☐ don't know
5. If yes, did you have problems in applying for the registration?		
☐ yes ☐ no (if no, please go to Q7)		
6. If yes, what were the three main problems in applying for the registration acc. to your experiences (Three answers allowed / Please rank from 1 -3, with 1 being the most severe problem and 3 the least severe)	☐ ___ Insufficient information about procedures ☐ ___ Procedures and requirements are complicated ☐ ___ Problem to open a bank account ☐ ___ Minimum amount of equity too high ☐ ___ High official fees ☐ ___ High informal incentives ☐ ___ No personal connection at registration office ☐ ___ Time uncertainty for certificate delivery ☐ ___ Lack of cooperation between government agencies ☐ ___ Others, please specify:	

7. Impact of business certificate: Do you feel that one or more of the observations mentioned match your situation after having registered your enterprise? <i>(Multiple answers allowed)</i>	☐ I feel more secure in my business ☐ Reduced payments of informal incentives to Government officials ☐ More visits from Government officials for inspection and other reasons ☐ Need to pay (higher) taxes ☐ More requests for contributions (social activities, others) ☐ Obligated to pay social insurance for my staff ☐ others:
8. To which resources and opportunities do you feel that you have better access after having registered your enterprise? <i>(Multiple answers allowed)</i>	☐ Access to government support programs ☐ Access to bank credits ☐ Access to insurances for enterprises ☐ Recruitment of qualified staff ☐ Access to land acc. to your specifications ☐ Access to markets/customers ☐ Opportunities for importing/exporting goods ☐ Representation of your interest in policy dialogue ☐ Others:
9. Which is the type of tax payment by your enterprise? <i>(Multiple answers allowed)</i>	☐ Corporate Tax ☐ Value Added Tax ☐ Lump Sum Tax ☐ Others, please specify: ☐ No tax payment
10. Do you need any special permits for operating a formal enterprise, other than a registration certificate? ☐ yes ☐ no <i>(if no, proceed to Q14)</i>	
11. If yes, what special permits do you need?	☐ Related to financial and economic activities ☐ Related to environment protection ☐ Related to Infrastructure ☐ Related to trade and production ☐ Related to foodstuff production ☐ Related to health protection ☐ Related to science and education ☐ don't know ☐ others, please specify:
12. If yes, did you experience or expect problems in applying for the special permits? ☐ yes ☐ no <i>(if no, please go to Q14)</i>	

13. If yes, what are the main problems in applying for special permits? <i>(Multiple answers allowed)</i>	☐ Insufficient information about procedures ☐ Procedures and requirements are complicated ☐ High official costs ☐ High informal incentives ☐ No personal connection at the relevant agency ☐ Time uncertainty for permit delivery ☐ Lack of cooperation between government agencies ☐ Others, please specify:
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C. Perception of business environment

14. How would you assess the general business environment today compared to two years ago? <i>(only one answer)</i>	☐ a lot better ☐ better ☐ worse ☐ a lot worse	☐ same ☐ don't know
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15. From the list below, please tell us which of the following issues are the **main problems** for you in operating your enterprise? *(Please show the respondent the list and ask him to tick ONLY those issues he/she considers severe problems for his/her business operation / multiple answers allowed)*

Typical business issues	Severe problem ☒
1. Telecommunication	☐
2. Electricity	☐
3. Transportation	☐
4. Land	☐
5. Taxes	☐
6. Business registration and licensing	☐
7. Bankruptcy law and regulations	☐
8. Inconsistency of government officials	☐
9. Inconsistency of the regulations	☐
10. Law enforcement	☐
11. Corruption	☐
12. Security	☐
13. Business competition	☐
14. Access to raw materials	☐
15. Access to finance	☐
16. Access to markets	☐
17. Access to technology	☐
18. Access to business information	☐
19. Access to qualified human resources	☐
20. Labour regulations	☐
21. Social insurance of staff	☐
22. Technical problems related to production	☐
23. Others, pls. specify:	☐

16. Which regulations/laws are **most significantly hampering** the operation and growth of your enterprise? *(multiple answers allowed)*
- ☐ Regulations related to the business registration
 - ☐ Regulations on special permits in specific sub-sectors
 - ☐ Labour regulations, incl. wages and social insurance
 - ☐ Regulations on taxes and fees
 - ☐ Regulations on domestic trade
 - ☐ Regulations on cross-border trade (import/export)
 - ☐ Regulations on environmental protection
 - ☐ Regulations on investment (e.g. industrial zone, foreign investment etc.)
 - ☐ Regulations on anti-competitive behaviour
 - ☐ Others, please specify:
17. Do think it is usual for enterprises like yours to provide informal incentives to the officials to “get things done”?
- ☐ Yes
 - ☐ No *(if no, directly go to Q21)*
 - ☐ Don't know
18. If yes, what is the informal payment needed for? *(multiple answer allowed)*
- ☐ to obtain registration certificate
 - ☐ to obtain special permits
 - ☐ to obtain governments' contracts (tender)
 - ☐ to get protection / security (e.g. unrest, organized crime, vandalism, etc.)
 - ☐ to get connected to basic public services (e.g. electricity, telephone, etc.)
 - ☐ to deal with local inspection/law enforcement of local regulations
 - ☐ to influence the content of local legislations
 - ☐ others, pls. specify:.....
19. If yes, how often is your enterprise paying such informal payments per year? *(only one answer allowed)*
- ☐ 1 time
 - ☐ 2 times
 - ☐ 3-4 times
 - ☐ ≥ 5 times
 - ☐ Every month
20. According to your estimation, how much do such payments cost per month? *(only one answer allowed)*
- ☐ don't know
 - ☐ < 1% of total monthly sales
 - ☐ between 1 – 5% of total monthly sales
 - ☐ between 5.1 -10%
 - ☐ > 10% of total monthly sales
-

21. Did you ever benefit from government support schemes or subsidies?	☐ Yes ☐ No ☐ Don't know
22. If yes, what government support scheme or subsidy did you benefit from? <i>(Multiple answers allowed)</i>	☐ SME fund ☐ Employment promotion fund ☐ Parliament member support ☐ Innovation fund ☐ Fresh air fund ☐ TVET support fund ☐ Investment and development fund ☐ Science and technology fund ☐ Environment protection fund ☐ Government Reserves fund ☐ Other, pls. specify..... ☐ Other, pls. specify.....
23. If yes, how would you assess the relevance of the benefits of support schemes for the growth and competitiveness of your enterprise? <i>(only one answer)</i>	☐ Highly relevant ☐ Relevant ☐ Irrelevant ☐ Highly irrelevant ☐ Don't know

D. Business services

24. Is there an adequate support system (e.g. information on registering etc) for enterprises seeking to formalize?

- ☐ Yes
☐ No
☐ Don't know

25. For each of the following business services were they / would they be important for becoming a formal enterprise? According to your knowledge, are they available and affordable? Please insert a tick for a yes.

	<i>Business Service</i>	<i>Important for formalization</i>	<i>Available</i>	<i>Affordable</i>
A.	Accounting and Bookkeeping	☐	☐	☐
B.	Legal advice	☐	☐	☐
C.	Business plan preparation	☐	☐	☐
D.	Market research	☐	☐	☐
E.	Incubation, mentoring, coaching	☐	☐	☐
F.	Business management training	☐	☐	☐
G.	General business consultancy and information provision	☐	☐	☐
H.	IT training, computer literacy	☐	☐	☐

I.	Technical staff training	☐	☐	☐
J.	Identifying/sourcing technology	☐	☐	☐
K.	Other, please specify.....	☐	☐	☐

26. If available and affordable, please evaluate the quality of the services on a 0–4 scale.

0 = don't know 1 = excellent 2 = good 3 = poor 4 = very poor

Business Service		Quality?				
		0	1	2	3	4
A.	Accounting and Bookkeeping	☐	☐	☐	☐	☐
B.	Legal advice	☐	☐	☐	☐	☐
C.	Business plan preparation	☐	☐	☐	☐	☐
D.	Market research	☐	☐	☐	☐	☐
E.	Incubation, mentoring, coaching	☐	☐	☐	☐	☐
F.	Business management training	☐	☐	☐	☐	☐
G.	General business consultancy and information provision	☐	☐	☐	☐	☐
H.	IT training, computer literacy	☐	☐	☐	☐	☐
I.	Technical staff training	☐	☐	☐	☐	☐
J.	Identifying/sourcing technology	☐	☐	☐	☐	☐
K.	Other, pls. specify.....	☐	☐	☐	☐	☐

27. Is your enterprise member of any Business Membership Organization (BMO) like a chamber or association?

- ☐ yes
☐ no (if no, please go to Q30)

28. If yes, please specify the organization(s):

29. If yes, what types of services are provided by the BMO? How would rate the quality of services? (please tick the services that are provided, then rate the quality of services based on the following criteria)

0 = don't know 1 = excellent 2 = good 3 = poor 4 = very poor

Type of service	Provided	0	1	2	3	4
Advocacy (lobby work)	☐	☐	☐	☐	☐	☐
Accounting and Bookkeeping	☐	☐	☐	☐	☐	☐
Legal advice	☐	☐	☐	☐	☐	☐
Business plan preparation	☐	☐	☐	☐	☐	☐
Market research	☐	☐	☐	☐	☐	☐
Incubation, mentoring, coaching	☐	☐	☐	☐	☐	☐
Business management training	☐	☐	☐	☐	☐	☐
General business consultancy and information provision	☐	☐	☐	☐	☐	☐
IT training, computer literacy	☐	☐	☐	☐	☐	☐
Technical staff training	☐	☐	☐	☐	☐	☐
Identifying/sourcing technology	☐	☐	☐	☐	☐	☐

E. Labour issues and training

30. Do your employees have written contracts?
- ☐ Yes, all of them
☐ Yes, some of them
☐ No, none of them
☐ Don't know
-
31. If yes, what is the benefit of having written contracts for the employees?
(Multiple answers allowed)
- ☐ Paying contributions to social insurance
☐ Benefitting from paid annual leave
☐ Benefitting from paid sick leave
☐ Benefitting from maternity leave
☐ Dismissing only with advance notice
☐ Benefitting from compensation as specified in the labour legislation (in case of dismissal)
☐ Don't know
☐ Others, pls. specify:.....
-
32. Do you have any staff problems?
- ☐ yes
☐ no *(if no, please go to Q34)*
-
33. If yes, which of the following staff problems do you struggle with?
(Multiple answers allowed)
- ☐ Labour Regulations
☐ Availability of Labour
☐ Quality of Labour
☐ Labour disputes
☐ Strikes
☐ Minimum wage
☐ Cost of social insurance
☐ Staff condition (frequent sickness, frequent absence, work ethos, lack of discipline)
☐ Others:.....
-
34. Is it relatively easy for your enterprise to recruit staff that can offer the required qualifications?
- ☐ yes
☐ no
☐ don't know
-
35. Do you offer formal (beyond "on the job") training to your employees?
- ☐ yes
☐ no
☐ don't know
-
36. If yes, how many days have your employees been formally trained in 2012?
- ☐ < 5 days
☐ 5-10 days
☐ > 10 days
-

37. Are there any vocational training institutions in Ulaanbaatar that can raise the quality of your labor?	☐ There is one or more with good quality ☐ There is one or more with poor quality ☐ There is none ☐ Don't know
38. Have you registered your employees under the Social Insurance and Health Insurance Fund?	☐ All of them ☐ More than 75% of employees ☐ Less than 75% of employees ☐ Less than 50% of employees
39. Has your enterprise faced any cases of working injury and/or occupational diseases in the past 3 years?	☐ 1 case of less ☐ 2 to 5 cases ☐ More than 5 cases ☐ Don't know
40. Was this case/were these cases declared and covered by the social insurance?	☐ Yes ☐ No ☐ Don't know
41. How would you assess the support services provided by the Social Insurance to assist employers in registering their employees and compiling supporting documents for claiming benefits?	☐ Very responsive and helpful ☐ Somehow responsive and helpful ☐ Not responsive and not helpful at all ☐ Don't know
42. Has your enterprise faced any cases of maternity leave covered by the social insurance in the past 3 years?	☐ 1 case of less ☐ 2 to 5 cases ☐ More than 5 cases ☐ Don't know
43. In the past 3 years, have any of your laid-off employees received unemployment insurance benefits from the Social Insurance Fund?	☐ Yes ☐ No ☐ Don't know
44. If you didn't register your employees or parts of your employees under the Social Insurance Fund, what is the reason?	☐ Company still in the start-up period ☐ Lack of clear information on who should be registered ☐ Lack of clarity in the procedures and administrative documents to provide ☐ Cumbersome and time consuming process for registration and weak on-line services available ☐ Too costly for the enterprise and the employees for the low level of benefits in return ☐ Don't know
45. Is the labor law clear and easy to understand on worker entitlements?	☐ yes ☐ no ☐ don't know

F. Finance

46. At the present situation, do you feel the need for an additional financing?	
☐ yes ☐ no (if no, please go to Q48)	
47. If yes, where do you intend to get additional financing from?	☐ Own capital/Inheritance/Retained profits ☐ Loan from relatives, family, friends ☐ Commercial Bank Loan ☐ Leasing/Profit sharing ☐ Informal Source (e.g. money lender) ☐ Equity from business partner ☐ Others, specify:
48. If yes, what do you need an additional financing for? (only one answer)	☐ To formalize my business ☐ To invest in business expansion ☐ To improve my cash flow ☐ Don't know
49. Have you ever applied for a loan from a finance institution in the past three years?	
☐ yes ☐ no (if no, please go to Q48)	
50. If yes, at which types of institutions have you applied? (multiple answers)	☐ Commercial bank ☐ Non-bank financial institution ☐ Micro-finance institution ☐ Equity finance institution ☐ others, specify:
51. What is your experience in applying for a loan? (only one answer)	☐ in general, rather easy ☐ in general, rather difficult ☐ depending on the institution, sometimes easy, sometimes difficult ☐ don't know
52. Did you ever receive a loan based on your application?	
☐ Yes (if yes, go to Q53) ☐ No	
53. If never received a loan, what are the main reasons? (multiple answers)	☐ unregistered enterprise ☐ collateral situation ☐ incomplete application documents ☐ lack of business plan ☐ banking bureaucracy & service quality ☐ no relation to bank officers ☐ don't know, never been informed by institutions about the reasons ☐ others, specify:

54. If never applied for a loan, what are the reasons? (multiple answers possible)	☐ difficult since my enterprise is not registered ☐ information on loans is unavailable ☐ no support services available ☐ interest rates are too high ☐ still looking for alternative financing ☐ don't have collaterals ☐ don't know the financial institutions ☐ others, specify:.....
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G. Access to immovable property

55. Do you hold an immovable property certificate for the place/space your enterprise is operating on?	☐ yes ☐ no ☐ don't know
56. Did you ever acquire for a immovable property certificate?	☐ yes ☐ no
57. Did you receive the space with your preferred specifications?	☐ Yes (if yes, please go to Q58) ☐ No
58. If no, what was the reason that you did not receive the preferred space?	☐ Missing enterprise registration ☐ Preferred price for the immovable property too high ☐ Lack of the preferred space ☐ No relations to relevant officials ☐ Not ready to pay informal incentives ☐ Don't know the acquisition process ☐ Don't know
59. Does having (or not having) immovable property certificates have impact on the listed features of business operation? (multiple answers allowed)	☐ Access to credits ☐ Making fixed investments ☐ Expanding production capacity ☐ Making long term supplier commitments ☐ Frequency of government inspections ☐ Tax payments ☐ Other, specify:..... ☐ Don't know

H. Trade relations

60. What percentage of your company's sales is.....? <i>Note: The total sum of percentages must add up to 100%. If respondents cannot give clear percentages ask for the main market and insert 100% according to the answer.</i>	☐ sold locally in Ulaanbaatar _____% ☐ sold domestically (not Ulaanbaatar) _____% specify where..... ☐ exported directly _____% ☐ exported indirectly _____% (through an intermediary) Total 100%
61. If you export, which countries or groups of countries are the biggest destinations for your export? <i>(maximum 3 answers allowed)</i>	☐ China ☐ Russia ☐ South Korea ☐ Japan ☐ ASEAN countries ☐ Others, please specify:.....
62. Are your domestic customers typically formal, registered enterprises?	☐ Yes, certainly ☐ Yes, most of them ☐ Maybe, some of them ☐ Don't know
63. Your input material is purchased from <i>Note: The total sum of percentages must add up to 100%. If respondents cannot give clear percentages ask for the main market and insert 100% according to the answer.</i>	☐% imported directly ☐% directly from producers/importers in Mongolia ☐% traders within Ulaanbaatar ☐% traders in other parts of Mongolia, specify where:.....
64. If you import directly, main problems are? <i>(multiple answers allowed)</i>	☐ Obtaining information about products ☐ Continuity of supply (sometimes available, sometime not) ☐ Quality of the products ☐ Price (fluctuation, payment procedures) ☐ Difficulties of import procedures (time, costs, license, unclear information) ☐ Others:
65. Are your domestic suppliers typically formal, registered enterprises?	☐ Yes, certainly ☐ Yes, most of them ☐ Maybe, some of them ☐ Don't know

66. Do you have access to procurement contracts by government in Mongolia?	☐ Yes, regularly ☐ Yes, occasionally ☐ No, not yet
67. If no, what is the reason for you not participating in government contracts?	☐ It is not relevant for my line of business ☐ I first need to formalize my business ☐ I don't know the procedures ☐ No personal relations to government officials ☐ Not willing to pay informal incentives ☐ Other reason:.....

I. Business dynamics (innovation, investment)

68. In the last 2 years, how did you primarily use your net profits: reinvestment in your enterprise, saving at financial institutions or private consumption?	☐ Reinvestment ☐ Saving ☐ Consumption
69. Approximately what share of net profits were re-invested in your company last year?	_____ %
70. What is the total investment volume you plan for the next 12 months?	_____ MNT
71. How many new products or services has your company introduced in the last three years?	No. of new products/services: ☐ 1 ☐ 3 ☐ 2 ☐ > 3

J. Business confidence & outlook

72. How is your current business condition in comparison to two years ago? (<i>only one answer</i>)	☐ a lot better ☐ better ☐ worse ☐ a lot worse	☐ same ☐ don't know
73. How do you estimate your business condition to be in the next two years? (<i>only one answer</i>)	☐ a lot better ☐ better ☐ worse ☐ a lot worse	☐ same ☐ don't know

Appendix B.2 Survey questionnaire for Business environment actors (BEA)

A. Organization and respondent profile

Respondent's name		
Position in organization	☐ Overall Head ☐ Head of Department	☐ Other staff, please specify.....
Gender	☐ Female	☐ Male
Direct contact details	Mobile:	E-mail:
Since when is he/she working with the organization?	☐ <1 year ☐ ≥ 1 – 3 years	☐ 3 – 5 years ☐ >5 years

Organization Name		
Address	Street:	
	Sub-district	
District		
Contact details	Phone no.:	E-mail:

B. Business registration & formalization

1. In general, is it relatively easy to register a business (time and costs) in Ulaanbaatar?	☐ yes ☐ no ☐ hard to assess	
2. Do you think it is getting easier or harder to register a business in Ulaanbaatar?	☐ Easier (why? Please explain in:.....) ☐ Harder (why? Please explain in:.....) ☐ Don't know	
3. What do you think is the most common way for enterprises to apply for a registration certificate?	☐ at the registration office directly ☐ through broker / intermediary agencies ☐ during official "open days" ☐ online registration ☐ don't know ☐ others, please specify:.....	
4. How long do you think it takes in reality to receive the registration certificate?	☐ < 1 working day ☐ 1-3 working days ☐ 4-10 working days ☐ > 10 working days	
5. What do you think is the typical legal form enterprises choose that are formalizing their business?	☐ Limited Liability Company ☐ Joint Stock Company ☐ Cooperative	☐ Partnership ☐ State-owned enterprise (SOEs) ☐ Don't know

6. For the legal form of Limited Liability Company, is a minimum capital required to start the business?	☐ Required ☐ Not required ☐ Don't know	
7. If yes, is this minimum capital for all or most start-ups affordable according to your assessment?	☐ Affordable ☐ Unaffordable ☐ Hard to assess ☐ Don't know	
8. In general, how would you assess the quality of the performance of the registration office?	☐ very good ☐ good ☐ poor	☐ very poor ☐ don't know
9. What are the three main problems that business people face when applying for the registration acc. to your experiences? <i>Three answers allowed / Please rank from 1 -3, with 1 being the most severe problem and 3 the least severe)</i>	☐ ___ Insufficient information about procedures ☐ ___ Procedures and requirements are complicated ☐ ___ Problem to open a bank account ☐ ___ Minimum amount of equity too high ☐ ___ High official fees ☐ ___ High informal incentives ☐ ___ No personal relation at registration office ☐ ___ Time uncertainty for certificate delivery ☐ ___ Lack of cooperation between government agencies ☐ ___ Others, please specify: ☐ Don't know	
10. What do you think is the impact of operating a business without having obtained a registration certificate? <i>(Multiple answers allowed)</i>	☐ Less security in business ☐ Need to pay informal incentives to Government officials ☐ No visits from Government officials for inspection and other reasons ☐ No need to pay taxes ☐ No requests for contributions (social activities, others) ☐ No payment for social insurance of staff ☐ Others, please specify..... ☐ Don't know	

11. To which resources and opportunities do you think registered enterprises have better access? <i>(Multiple answers allowed)</i>	☐ Access to government support programs ☐ Access to bank credits ☐ Access to insurances for enterprises ☐ Recruitment of qualified staff ☐ Access to land acc. to your specifications ☐ Access to markets/customers ☐ Opportunities for importing goods ☐ Opportunities for exporting goods ☐ Opportunities to participate in fair competition ☐ Representation of your interest in policy dialogue ☐ Others, please specify..... ☐ Don't know
12. What types of taxes do formal registered enterprises in Ulaanbaatar typically pay? <i>(Multiple answers allowed)</i>	☐ Corporate Tax ☐ Value Added Tax ☐ Lump Sum Tax ☐ Others, please specify..... ☐ No tax payment ☐ Don't know
13. Does your institution provide any special permits required for operating certain types of enterprises? ☐ yes ☐ no <i>(if no, proceed to Q153)</i>	
14. If yes, what special permits do you provide?	☐ Related to financial and economic activities ☐ Related to environment protection ☐ Related to Infrastructure ☐ Related to trade and production ☐ Related to foodstuff production ☐ Related to health protection ☐ Related to science and education ☐ Don't know ☐ Others, please specify:
15. In general, is it relatively easy to obtain special permits (time and costs) in Ulaanbaatar? ☐ Yes ☐ No ☐ Hard to assess	

16. Do you think it is getting easier or harder to obtain special permits?	
☐ Easier (why? Please explain:.....)	
☐ Harder (why? Please explain:.....)	
☐ Don't know	
17. Do enterprises typically face problems when applying for special permits?	1. Yes, some problems 2. No, no problems (f no, go to Q19) 3. Don't know
18. If yes, what are the typical problems enterprises face when applying for special permits? <i>(Multiple answers allowed)</i>	☐ Insufficient information about procedures ☐ Procedures and requirements are complicated ☐ High official costs ☐ High informal incentives ☐ No personal connection at the relevant agency ☐ Time uncertainty for permit delivery ☐ Lack of cooperation between government agencies ☐ Others, please specify: ☐ Don't know

C. Perception of business environment

19. How would you assess the general business environment today compared to two years ago? <i>(only one answer)</i>	☐ a lot better ☐ better ☐ worse ☐ a lot worse	☐ same ☐ don't know
20. From the list below, please tell us which of the following issues are the main problems for the operation of enterprises in Ulaanbaatar? <i>(Please show the respondent the list and ask him/her to tick ONLY those issues he/she considers severe problems for business operation / multiple answers allowed)</i>		

Typical Business Issues	Severe Problem ☒
24. Telecommunication	☐
25. Electricity	☐
26. Transportation	☐
27. Land	☐
28. Taxes	☐
29. Business registration and licensing	☐
30. Bankruptcy law and regulations	☐
31. Inconsistency of government officials	☐
32. Inconsistency of the regulations	☐
33. Law enforcement	☐
34. Corruption	☐
35. Security	☐
36. Business competition	☐
37. Access to raw materials	☐
38. Access to finance	☐
39. Access to markets	☐
40. Access to technology	☐
41. Access to business information	☐
42. Access to qualified human resources	☐
43. Labour regulations	☐
44. Social insurance of staff	☐
45. Technical problems related to production	☐
46. Others, please specify:	☐

21. Are bankruptcy laws clear to even the smallest businesses in your view?

- ☐ Yes
☐ No
☐ Don't know

22. Are bankruptcy laws applied effectively in practice?

- ☐ Yes
☐ No
☐ Don't know

23. Is the process to file for bankruptcy overly complex and bureaucratic in your view?

- ☐ Yes
☐ No, not at all
☐ Don't know

-
24. Is there ease of access to available physical resources— communication, utilities, transportation, land or space—at a price that does not discriminate against new, small or growing firms?
- ☐ Yes
- ☐ No
- ☐ Don't know
-
25. Which regulations/laws are **most significantly hampering** the operation and growth of enterprises? *(multiple answers allowed)*
- ☐ Regulations related to the business registration
- ☐ Regulations on special permits in specific sub-sectors
- ☐ Labour regulations, incl. wages and social insurance
- ☐ Regulations on taxes and fees
- ☐ Regulations on domestic trade
- ☐ Regulations on cross-border trade (import/export)
- ☐ Regulations on environmental protection
- ☐ Regulations on investment (e.g. industrial zone, foreign investment etc.)
- ☐ Regulations on anti-competitive behavior
- ☐ Others, please specify:.....
-
-
26. Do think it is usual for enterprises to provide informal incentives to the officials to “get things done”?
- ☐ Yes
- ☐ No *(if no, directly go to Q28)*
- ☐ Don't know
-
27. If yes, what do you think is the informal payment needed for? *(multiple answer allowed)*
- ☐ to obtain registration certificate
- ☐ to obtain special permits
- ☐ to obtain governments' contracts (tender)
- ☐ to get protection / security (e.g. unrest, organized crime, vandalism, etc.)
- ☐ to get connected to basic public services (e.g. electricity, telephone, etc.)
- ☐ to deal with local inspection/law enforcement of local regulations
- ☐ to influence the content of local legislations
- ☐ other purpose, please specify:.....
-
- ☐ Don't know
-
28. Are there legislative barriers that limit the potential of entrepreneurs to develop and expand their businesses (e.g. women and young people in particular can face barriers)?
- ☐ Yes
- ☐ No
- ☐ Don't know
-

29. Are the reporting requirements for enterprise taxation generally too complex, too frequent and/or highly bureaucratic? <i>(multiple answers allowed)</i>	☐ Too complex ☐ Too frequent ☐ Highly bureaucratic	☐ Not too complex ☐ Not too frequent ☐ Not bureaucratic
30. Are taxes “profit-insensitive”, i.e. taxes that are paid regardless of whether the enterprise is making a profit?	☐ Yes, ☐ No ☐ Don’t know	
31. Besides the taxes paid, are there costs of complying with tax laws?	☐ Yes, ☐ No ☐ Don’t know	
32. Is your organization involved in the provision of government support schemes or subsidies?	☐ Yes ☐ No (if no, proceed to Q35) ☐ Don’t know	
33. If yes, what government support scheme or subsidy does your organization provide or manage? <i>(Multiple answers allowed)</i>	☐ SME fund ☐ Employment promotion fund ☐ Parliament member support ☐ Innovation fund ☐ Fresh air fund. ☐ TVET support fund. ☐ Investment and development fund. ☐ Science and technology fund ☐ Environment protection fund ☐ Government Reserves fund. ☐ Other, pls. specify: ☐ Other, pls. specify: ☐ Other, pls. specify: ☐ Other, pls. specify: ☐ Don’t know	
34. If yes, how would you assess the relevance of the benefits of the above ticked support scheme(s) for the growth and competitiveness of enterprises? <i>(only one answer)</i>	☐ highly relevant ☐ relevant ☐ irrelevant ☐ highly irrelevant ☐ don’t know	

D. Support services

35. Is there widespread presence of commercial, accounting, and other legal services and institutions that allow or promote the emergence of new, small, or growing businesses?

- ☐ Yes
☐ No
☐ Don't know

36. Is there an adequate support system (e.g. information on registering etc) for enterprises seeking to formalize?

- ☐ Yes
☐ No
☐ Don't know

37. Is assistance to start up enterprises (such as basic information on legislation; access to credit, business development services) easily available?

- ☐ Yes
☐ No
☐ Don't know

38. Are there explicit municipal strategies in Ulaanbaatar to promote entrepreneurial activity to enter markets competitively?

- ☐ Yes
☐ No
☐ Don't know

39. Are there effective business support agencies at national, regional, municipal levels?

- ☐ Yes
☐ No
☐ Don't know

40. If yes, pls. list what agencies are available in Ulaanbaatar:

- ☐
☐
☐
☐
☐
☐

41. Are there 'one stop shops', in terms of information (on laws, regulation) and guidance?

- ☐ Yes
☐ No (if no, pls. proceed to Q43)

☐ Don't know

42. If yes, is such information disseminated in an easy to understand format (e.g. in local languages and distributed regionally)?

☐ Yes

☐ No

☐ Don't know

E. Labour issues and training

43. Do enterprise employees typically have written labour contracts with the enterprises they work for?

☐ Yes, in most formal enterprises

☐ Yes, in some formal enterprises

☐ Yes, in some formal and informal enterprises

☐ No, hardly in any enterprise

☐ Don't know

44. If yes, what do you think is the benefit for the employees of having written contracts?

(Multiple answers allowed)

☐ Paying contributions to social insurance

☐ Benefitting from paid annual leave

☐ Benefitting from paid sick leave

☐ Benefitting from maternity leave

☐ Dismissing only with advance notice

☐ Benefitting from compensation as specified in the labour legislation (in case of dismissal)

☐ Others, pls. specify.....

☐ Don't know

45. Do enterprises typically have staff problems?

☐ yes

☐ no *(if no, please go to Q47)*

☐ Don't know

46. If yes, which of the following staff problems do enterprises typically struggle with? <i>(Multiple answers allowed)</i>	☐ Labour Regulations ☐ Availability of Labour ☐ Quality of Labour ☐ Labour disputes ☐ Strikes ☐ Minimum wage ☐ Cost of social insurance ☐ Staff condition (frequent sickness, frequent absence, work ethos, lack of discipline) ☐ Others:..... ☐ Don't know
47. Do you think it is relatively easy for enterprises in Ulaanbaatar to recruit staff that can offer the required qualifications? ☐ Yes ☐ No ☐ Don't know	
48. Do enterprises usually offer formal (beyond “on the job”) training to their employees? ☐ Yes, most formal enterprises do ☐ Yes, but only a few formal enterprises do ☐ Yes, formal and informal enterprises do ☐ No, hardly any enterprise does ☐ Don't know	
49. Are there any vocational training institutions in Ulaanbaatar that can raise the quality of the labor force?	☐ There is one or more with good quality ☐ There is one or more with poor quality ☐ There is none ☐ Don't know
50. As per your perception, in general, are employees registered under the Social Insurance and Health Insurance Fund??	☐ All of them ☐ More than 75% of employees ☐ Less than 75% of employees ☐ Less than 50% of employees ☐ Don't know

51. In your opinion, if enterprises do not register their employees or parts of their employees at the Social Insurance, what is the reason?
- ☐ Enterprise in the start-up period
 - ☐ Lack of clear information on who should be registered
 - ☐ Lack of clarity in the procedures and administrative documents to provide
 - ☐ Cumbersome and time consuming process for registration and weak on-line services available
 - ☐ Too costly for the enterprise and the employees for the low level of benefits in return
 - ☐ Other reason, pls. specify.....
 - ☐ Don't know

52. Is the labor law clear and easy to understand on employer and worker entitlements?

- ☐ yes
- ☐ no
- ☐ don't know

53. Are there any exemptions to certain legal requirements based on firm size? If so does this work effectively, (i.e., does not create 'growth traps' whereby the firm does not want to cross a certain threshold?)

- ☐ yes
- ☐ no
- ☐ don't know

F. Finance

54. Are there effective means to get information on financial services to emerging entrepreneurs?

- ☐ yes
- ☐ no
- ☐ don't know

55. Are there support mechanisms particularly targeted to SMEs, such as advisory services and programmes to assist enterprises in preparing bank loan proposals?

- ☐ yes
- ☐ no
- ☐ don't know

56. Are there financial resources, equity, and debt, for new and growing firms including grants and subsidies available to start ups and young firms?

- ☐ yes
- ☐ no
- ☐ don't know

57. Are there sufficient policy and regulatory incentives to encourage financial institutions to lend to all enterprises especially SMEs?

- ☐ yes
- ☐ no
- ☐ don't know

58. Are Micro-finance institutions (MFIs) playing a useful intermediary role?

- ☐ yes
- ☐ no
- ☐ don't know

59. Are there collateral share risk schemes for SMEs?

- ☐ yes
- ☐ no
- ☐ don't know

60. Is there effective access to trade finance and credit insurance? Do exporting SMEs have access to credit guarantees?

- ☐ yes
 - ☐ no
 - ☐ don't know
-

G. Access to immovable property / land

61. Do enterprises typically hold an immovable property certificate for the space they operation?

- ☐ Yes, most of them (registered and unregistered)
- ☐ Yes, but only registered enterprises
- ☐ No, most registered and unregistered enterprises do not
- ☐ Don't know

62. When seeking immovable property, do enterprises usually receive the space with their preferred specifications?

- ☐ Yes, registered and unregistered enterprises
 - ☐ Yes but only registered enterprises
 - ☐ No, hardly any enterprise
 - ☐ Don't know
-

63. If no, what do you think is the reason that enterprises do not receive the preferred space?	☐ Missing enterprise registration ☐ Too expensive immovable property price ☐ No relations to relevant officials ☐ Not ready to pay informal incentives ☐ Don't know the acquisition process ☐ Other reason:..... ☐ Don't know
64. Does having (or not having) immovable property certificates have impact on the following features of business operation? (multiple answers allowed)	☐ Access to credits ☐ Making fixed investments ☐ Expanding production capacity ☐ Making long term supplier commitments ☐ Frequency of government inspections ☐ Tax payments ☐ Other, specify..... ☐ Don't know

H. Trade relations

65. Is there sufficient information for exporters on trading procedures, tariffs and duties and taxes?	☐ Yes ☐ No ☐ Don't know
66. Are customs officials fully aware of all trade agreements and their implications?	☐ Yes ☐ No ☐ Don't know
67. Are there efficient and transparent customs procedures to facilitate the <i>importing</i> activities of enterprises?	☐ Yes ☐ No ☐ Don't know
68. Are there efficient and transparent customs procedures to facilitate the <i>exporting</i> activities of enterprises?	☐ Yes ☐ No ☐ Don't know
69. Is getting the necessary certificates of origin and other essential documentation a straightforward and cost effective process?	☐ Yes ☐ No ☐ Don't know
70. Is the time to clear goods (exports and imports) through customs excessive?	☐ Yes ☐ No ☐ Don't know

71. Are product standards and certifications utilized as protectionist measures on key export markets or potential export markets?	☐ Yes ☐ No ☐ Don't know
72. What types of enterprises export and import goods and services?	☐ Only registered enterprises ☐ Registered and unregistered enterprises easily ☐ All types of enterprises, but unregistered enterprises with great difficulties ☐ Don't know
73. Domestic customers of informal, unregistered enterprises typically are....	☐ Formal, registered enterprises. ☐ „informal, unregistered enterprises. ☐ ..any type of enterprise. ☐ Don't know
74. Domestic suppliers of informal, unregistered enterprises typically are....	☐ ..formal, registered enterprises. ☐ „informal, unregistered enterprises. ☐ ..any type of enterprise. ☐ Don't know
75. Do unregistered enterprises have access to procurement and construction contracts of government in Mongolia?	☐ Yes, regularly ☐ Yes, occasionally ☐ No, usually not. ☐ Don't know
76. For any kind of enterprise, what is the requirement to get access to government contracts?	☐ Relevant for the line of business ☐ Formalize of business ☐ Knowing the procedures ☐ Personal relations to government officials ☐ Willingness to pay informal incentives ☐ Other reason:..... ☐ Don't know
77. Do government procurement procedures explicitly target young enterprises?	
☐ yes ☐ no ☐ don't know	
78. Are new firms free to enter existing markets?	
☐ yes ☐ no ☐ don't know	

79. If yes, what is the evidence of this?

- ☐
- ☐
- ☐
- ☐
- ☐
- ☐

I. Business dynamics (innovation, investment)

80. How do <u>formal enterprises</u> primarily use their net profits: reinvestment in enterprise, saving at financial institutions or private consumption?	☐ Reinvestment ☐ Saving ☐ Consumption ☐ Don't know
81. How do <u>informal enterprises</u> primarily use their net profits: reinvestment in enterprise, saving at financial institutions or private consumption?	☐ Reinvestment ☐ Saving ☐ Consumption ☐ Don't know
82. What types of enterprise are usually introducing more new products or services?	☐ Formal enterprise ☐ Informal enterprise ☐ Formal and informal enterprises equally ☐ Don't know

83. According to your opinion, what are the three most needed improvements in the business environment that would encourage more enterprises to formalize?

1.
2.
3.

Appendix B.3 BSSPs Survey questionnaire

a. Organization and respondent profile

Respondent's name		
Position in organization	☐ Manager/Director ☐ Head of Department	☐ Other staff, please specify.....
Gender	☐ Female	☐ Male
Direct contact details	Mobile:	E-mail:

Since when is he/she working with the organization?	☐ < 1 year	☐ 3 – 5 years
	☐ ≥ 1 – 3 years	☐ > 5 years

Organization Name		
Type of Organization	☐ Non-financial service provider ☐ Financial institution	
Address	Street:	
	Sub-district	
District		
Contact details	Phone no.:	E-mail:

B. Business registration & formalization

1. Does your organization provide any business services related to obtaining business registrations or special permits for business operation?

☐ yes

☐ no (*if no, proceed to Q33*)

2. If yes, what services related to business registration/licensing do you provide?

(Multiple answers allowed)

☐ brokering / intermediary services ☐ legal advice ☐ strategy advice ☐ advice on special permits ☐ business plan preparation ☐ others, pls. specify.....

3. In general, is it relatively easy to register a business (time and costs) in Ulaanbaatar?

☐ yes

☐ no

☐ hard to assess

4. Do you think it is getting easier or harder to register a business or obtain special permits in Ulaanbaatar?

☐ Easier (why? Please explain in:.....)

☐ Harder (why? Please explain in:.....)

☐ don't know

5. What do you think is the most common way for enterprises to apply for a registration certificate?	☐ at the registration office directly ☐ through broker / intermediary agencies ☐ during official “open days” ☐ online registration ☐ don’t know ☐ others, please specify:	
6. How long do you think it takes in reality to receive the registration certificate?	☐ < 1 working day ☐ 1-3 working days ☐ 4-10 working days ☐ > 10 working days	
7. What do you think is the typical legal form enterprises choose that are formalizing their business?	☐ Limited Liability Company ☐ Joint Stock Company ☐ Cooperative	☐ Partnership ☐ State-owned enterprise (SOEs) ☐ Don’t know
8. For the legal form of Limited Liability Company, is a minimum capital required to start the business?	☐ Required ☐ Not required ☐ Don’t know	
9. If yes, is this minimum capital for all or most start-ups affordable according to your assessment?	☐ Affordable ☐ Unaffordable ☐ Hard to assess ☐ Don’t know	
10. In general, how would you assess the quality of the performance of the registration office?	☐ very good ☐ good ☐ poor	☐ very poor ☐ don’t know

11. What are the three main problems that business people face when applying for the registration acc. to your experiences? <i>Three answers allowed / Please rank from 1 -3, with 1 being the most severe problem and 3 the least severe)</i>	☐ ___ Insufficient information about procedures ☐ ___ Procedures and requirements are complicated ☐ ___ Problem to open a bank account ☐ ___ Minimum amount of equity too high ☐ ___ High official fees ☐ ___ High informal incentives ☐ ___ No personal relation at registration office ☐ ___ Time uncertainty for certificate delivery ☐ ___ Lack of cooperation between government agencies ☐ ___ Others, please specify: ☐ Don't know
12. What do you think is the impact of operating a business without having obtained a registration certificate? <i>(Multiple answers allowed)</i>	☐ Less security in business ☐ Need to pay informal incentives to Government officials ☐ No visits from Government officials for inspection and other reasons ☐ No need to pay taxes ☐ No requests for contributions (social activities, others) ☐ No payment for social insurance of staff ☐ Others, please specify..... ☐ Don't know
13. To which resources and opportunities do you think registered enterprises have better access (than unregistered enterprises)? <i>(Multiple answers allowed)</i>	☐ Access to government support programs ☐ Access to bank credits ☐ Access to insurances for enterprises ☐ Recruitment of qualified staff ☐ Access to land acc. to your specifications ☐ Access to markets/customers ☐ Opportunities for importing/exporting goods ☐ Opportunities to participate in fair competition ☐ Representation of your interest in policy dialogue ☐ Others, please specify.....

14. What types of taxes do formal, registered enterprises in Ulaanbaatar typically pay? (Multiple answers allowed)	☐ Corporate Tax ☐ Value Added Tax ☐ Lump Sum Tax ☐ Others, please specify..... ☐ No tax payment ☐ Don't know
---	---

2. Perception of business environment

15. How would you assess the general business environment today compared to two years ago? (only one answer)	☐ a lot better ☐ better ☐ worse ☐ a lot worse	☐ same ☐ don't know
--	--	--

16. From the list below, please tell us which of the following issues are the **main problems** for the operation of an enterprise in Ulaanbaatar? (Please show the respondent the list and ask him/her to tick **ONLY** those issues he/she considers severe problems for business operation / multiple answers allowed)

Typical business issues	Severe problem ☒
47. Telecommunication	☐
48. Electricity	☐
49. Transportation	☐
50. Land	☐
51. Taxes	☐
52. Business registration and licensing	☐
53. Bankruptcy law and regulations	☐
54. Inconsistency of government officials	☐
55. Inconsistency of the regulations	☐
56. Law enforcement	☐
57. Corruption	☐
58. Security	☐
59. Business competition	☐
60. Access to raw materials	☐
61. Access to finance	☐
62. Access to markets	☐
63. Access to technology	☐
64. Access to business information	☐
65. Access to qualified human resources	☐
66. Labour regulations	☐
67. Social insurance of staff	☐
68. Technical problems related to production	☐
69. Others, please specify:	☐

17. Are bankruptcy laws clear to even micro and small enterprises in your view?

- ☐ Yes
- ☐ No
- ☐ Don't know
-

18. Are bankruptcy laws applied effectively in practice?

- ☐ Yes
- ☐ No
- ☐ Don't know
-

19. Is the process to file for bankruptcy overly complex and bureaucratic in your view?

- ☐ Yes
- ☐ No, not at all
- ☐ Don't know
-

20. Is there ease of access to available physical resources— communication, utilities, transportation, land or space—at a price that does not discriminate against new, small or growing firms?

- ☐ Yes
- ☐ No
- ☐ Don't know
-

21. Which regulations/laws are **most significantly hampering** the operation and growth of enterprises? (*multiple answers allowed*)

- ☐ regulations related to the business registration
- ☐ regulations on special permits in specific sub-sectors
- ☐ labour regulations, incl. wages and social insurance
- ☐ regulations on taxes and fees
- ☐ regulations on domestic trade
- ☐ regulations on cross-border trade (import/export)
- ☐ regulations on environmental protection
- ☐ regulations on investment (e.g. industrial zone, foreign investment etc.)
- ☐ regulations on anti-competitive behavior
- ☐ others, please specify:
-
-
-
-

22. Are there legislative barriers that limit the potential of entrepreneurs to develop and expand their businesses (e.g. women and young people in particular can face barriers)?		
☐ Yes ☐ No ☐ Don't know		
23. Are the reporting requirements for enterprise taxation generally too complex, too frequent and/or highly bureaucratic? <i>(multiple answers allowed)</i>	☐ Too complex ☐ Too frequent ☐ Highly bureaucratic	☐ Not too complex ☐ Not too frequent ☐ Not bureaucratic
24. Are taxes "profit-insensitive", i.e. taxes that are paid regardless of whether the enterprise is making a profit?	☐ Yes, ☐ No ☐ Don't know	
25. Besides the taxes paid, are there costs of complying with tax laws?	☐ Yes, ☐ No ☐ Don't know	
26. Is your organization giving advice on the provision of government support schemes or subsidies?	☐ Yes ☐ No (<i>if no go to Q29</i>)	
27. If yes, what government support scheme or subsidy are you giving advice on?	☐ SME fund ☐ Employment promotion fund ☐ Parliament member support ☐ Innovation fund ☐ Fresh air fund. ☐ TVET support fund. ☐ Investment and development fund. ☐ Science and technology fund ☐ Environment protection fund ☐ Government Reserves fund. ☐ Other, pls. specify: ☐ Other, pls. specify: ☐ Other, pls. specify: ☐ Other, pls. specify:	
28. If yes, how would you assess the relevance of the benefits of the above ticked support scheme(s) for the growth and competitiveness of enterprises? <i>(only one answer)</i>	☐ highly relevant ☐ relevant ☐ irrelevant ☐ highly irrelevant ☐ don't know	

3. Support services

29. Which of the following business services is your organization offering? Please also assess whether these services are important for the formalization of enterprises and whether there is a general lack of service providers for these services. Pls. insert a tick for a 'yes'.

	<i>Business Service</i>	<i>Offered by Your organization</i>	<i>Important for formalization</i>	<i>Lack of service providers</i>
A.	Accounting and bookkeeping	☐	☐	☐
B.	Legal advice	☐	☐	☐
C.	Business plan preparation	☐	☐	☐
D.	Market research	☐	☐	☐
E.	Incubation, mentoring, coaching	☐	☐	☐
F.	Business management training	☐	☐	☐
G.	General business consultancy and information provision	☐	☐	☐
H.	IT training, computer literacy	☐	☐	☐
I.	Technical staff training	☐	☐	☐
J.	Human resource consulting	☐	☐	☐
K.	Identifying/sourcing technology	☐	☐	☐
L.	Access to credits (e.g. preparing bank loan proposals)	☐	☐	☐
M.	Commercial loans	☐	☐	☐
N.	Micro-finance	☐	☐	☐
O.	Business insurances	☐	☐	☐
P.	Other, please specify.....	☐	☐	☐

30. Are there explicit municipal strategies in Ulaanbaatar to promote entrepreneurial activity to enter markets competitively?

- ☐ Yes
- ☐ No
- ☐ Don't know

31. Are there effective public business support agencies at the municipal level?

- ☐ Yes
- ☐ No
- ☐ Don't know

32. If yes, pls. list what agencies are available in Ulaanbaatar:

- ☐
- ☐

- ☐
- ☐
- ☐
- ☐

33. Are there 'one stop shops', in terms of information (on laws, regulation) and guidance?

- ☐ Yes
- ☐ No (*if no, proceed to Q35*)
- ☐ Don't know

34. If yes, is such information disseminated in an easy to understand format (e.g. in local language and distributed widely)?

- ☐ Yes
- ☐ No
- ☐ Don't know

4. Labour issues and training

35. Do enterprise employees typically have written labor contracts with the enterprises they work for?	☐ Yes, in most formal enterprises ☐ Yes, in some formal enterprises ☐ Yes, in some formal and informal enterprises ☐ No, hardly in any enterprise ☐ Don't know
36. If yes, what do you think is the benefit for the employees of having written contracts? <i>(Multiple answers allowed)</i>	☐ Paying contributions to social insurance ☐ Benefitting from paid annual leave ☐ Benefitting from paid sick leave ☐ Benefitting from maternity leave ☐ Dismissing only with advance notice ☐ Benefitting from compensation as specified in the labour legislation (in case of dismissal) ☐ Others, pls. specify:..... ☐ Don't know
37. Do enterprises typically have staff problems? ☐ yes ☐ no (<i>if no, please go to Q39</i>) ☐ don't know	

38. If yes, which of the following staff problems do enterprises typically struggle with?	☐ Labour Regulations ☐ Availability of Labour ☐ Quality of Labour ☐ Labour Disputes ☐ Strikes ☐ Minimum wage ☐ Cost of social insurance ☐ Staff condition (frequent sickness, frequent absence, work ethos, lack of discipline) ☐ Others:.....
39. Do you think it is relatively easy for enterprises in Ulaanbaatar to recruit staff that can offer the required qualifications? ☐ Yes ☐ No ☐ Don't know	
40. Do enterprises usually offer formal (beyond "on the job") training to their employees? ☐ Yes, most formal enterprises do ☐ Yes, but only a few formal enterprises do ☐ Yes, formal and informal enterprises do ☐ No, hardly any enterprise does ☐ Don't know	
41. Are there any vocational training institutions in Ulaanbaatar that can raise the quality of the labor force?	☐ There is one or more with good quality ☐ There is one or more with poor quality ☐ There is none ☐ Don't know
42. Do enterprises typically register their employees at the Social Insurance?	☐ Yes, all of them in formal enterprises ☐ Yes, some of them in formal enterprises ☐ Yes, some of them in formal and informal enterprises ☐ No, hardly any employee ☐ Don't know

43. If enterprises do not register their employees or parts of their employees at the Social Insurance, what is the reason?	☐ Enterprise in the start-up period ☐ Lack of clear information ☐ Too expensive ☐ Too complicated procedures ☐ Too cumbersome process ☐ Don't know
44. Is the labour law clear and easy to understand on worker entitlements? ☐ yes ☐ no ☐ don't know	
45. Are there any exemptions to certain legal requirements based on firm size? If so does this work effectively, (i.e., does not create 'growth traps' whereby the firm does not want to cross a certain threshold?) ☐ yes ☐ no ☐ don't know	

5. Finance

46. Is your organisation a Finance Institutions?

- ☐ Yes
- ☐ No (if no, go to Q48)

47. If yes, what of the mentioned finance institutions describes your organisation best?	☐ Commercial bank ☐ Non-bank financial institution ☐ Micro-finance institution ☐ Equity finance institution ☐ others, specify:
48. What do enterprises typically need an additional financing for? (only one answer)	☐ To formalize their business ☐ To invest in business expansion ☐ To improve the cash flow ☐ Don't know
49. How would you assess the process of loan application in Ulaanbaatar? (only one answer)	☐ in general, rather easy ☐ in general, rather difficult ☐ depending on the institution, sometimes easy, sometime difficult
50. What are the main reasons why enterprises typically do not receive loans they applied for? (multiple answers)	☐ Lack of registration ☐ collateral situation ☐ incomplete application documents ☐ lack of business plan ☐ banking bureaucracy & service quality ☐ no relation to bank officers ☐ don't know ☐ others, specify:.....
51. What are the main reasons why some enterprises have never applied for a loan? (multiple answers)	☐ Lack of registration ☐ information on loans is unavailable ☐ no support services available ☐ interest rates are too high ☐ still looking for alternative financing ☐ lack of collaterals ☐ doesn't know the financial institutions ☐ others, specify:..... ☐ don't know

52. Are there effective means to get information on financial services to emerging entrepreneurs?

- ☐ yes
- ☐ no
- ☐ don't know

53. Are there financial resources, equity, and debt, for new and growing firms including grants and subsidies available to start ups and young firms?

- ☐ yes
- ☐ no
- ☐ don't know

54. Is there are sufficient policy and regulatory incentives to encourage financial institutions to lend to all enterprises especially SMEs?

- ☐ yes
- ☐ no
- ☐ don't know

55. Are Micro-finance institutions (MFIs) playing a useful intermediary role?

- ☐ yes
- ☐ no
- ☐ don't know

56. Are there collateral share risk schemes for SMEs?

- ☐ yes
- ☐ no
- ☐ don't know

57. Is there effective access to trade finance and credit insurance? Do exporting SMEs have access to credit guarantees?

- ☐ yes
- ☐ no
- ☐ don't know

6. Access to immovable property/land

58. Do enterprises typically hold an immovable property certificate for the space they operate on?

- ☐ Yes, most of them (registered and unregistered)
 - ☐ Yes, but only registered enterprises
 - ☐ No, most registered and unregistered enterprises do not
 - ☐ Don't know
-

59. When seeking immovable property, do enterprises usually receive the space with their preferred specifications?

- ☐ Yes, registered and unregistered enterprises
☐ Yes but only registered enterprises
☐ No, hardly any enterprise
☐ Don't know

60. If no, what is the reason that enterprises do not receive the preferred space?

- ☐ Missing enterprise registration
☐ Too expensive **immovable property** price
☐ No relations to relevant officials
☐ Not ready to pay informal incentives
☐ Don't know the acquisition process
☐ Other reason:.....
☐ Don't know

61. Does having (or not having) immovable property certificates have impact on the listed features of business operation?

(multiple answers allowed)

- ☐ Access to credits
☐ Making fixed investments
☐ Expanding production capacity
☐ Making long term supplier commitments
☐ Frequency of government inspections
☐ Tax payments
☐ Other, specify.....
☐ Don't know

7. Trade relations

62. Is there sufficient information for exporters on trading procedures, tariffs and duties and taxes?

- ☐ Yes
☐ No
☐ Don't know

63. Are customs officials fully aware of all trade agreements and their implications?

- ☐ Yes
☐ No
☐ Don't know

64. Are there efficient and transparent customs procedures to facilitate exporting enterprises?

- ☐ Yes
☐ No
☐ Don't know

65. Are there efficient and transparent customs procedures to facilitate the importing activities of enterprises?

- ☐ Yes
☐ No
☐ Don't know

66. Is getting the necessary certificates of origin and other essential documentation a straightforward and cost effective process?	☐ Yes ☐ No ☐ Don't know
67. Is the time to clear goods (exports and imports) through customs excessive?	☐ Yes ☐ No ☐ Don't know
68. Are product standards and certifications utilized as protectionist measures on key export markets or potential export markets?	☐ Yes ☐ No ☐ Don't know
69. What types of enterprises export and import goods and services?	☐ Only registered enterprises ☐ Registered and unregistered enterprises easily ☐ All types of enterprises, but unregistered enterprises with great difficulties ☐ Don't know
70. Domestic customers of informal, unregistered enterprises typically are....	☐ ..formal, registered enterprises. ☐ ,,informal, unregistered enterprises. ☐ ..any type of enterprise. ☐ Don't know
71. Domestic suppliers of informal, unregistered enterprises typically are....	☐ ..formal, registered enterprises. ☐ ,,informal, unregistered enterprises. ☐ ..any type of enterprise. ☐ Don't know
72. Do unregistered enterprises have access to procurement and construction contracts of government in Mongolia?	☐ Yes, regularly ☐ Yes, occasionally ☐ No, usually not. ☐ Don't know
73. For any kind of enterprise, what is the requirement to get access to government contracts?	☐ Relevant for the line of business ☐ Formalize of business ☐ Knowing the procedures ☐ Personal relations to government officials ☐ Willingness to pay informal incentives ☐ Other reason:..... ☐ Don't know

74. Do government procurement procedures explicitly target young enterprises?

- ☐ yes
☐ no
☐ don't know

75. Are new firms free to enter existing markets?

- ☐ yes
☐ no
☐ don't know

76. If yes, what is the evidence of this?

- ☐
☐
☐

8. Business dynamics (innovation, investment)

77. How do formal enterprises primarily use their net profits: reinvestment in enterprise, saving at financial institutions or private consumption?

- ☐ Reinvestment
☐ Saving
☐ Consumption
☐ Don't know

78. How do informal enterprises primarily use their net profits: reinvestment in enterprise, saving at financial institutions or private consumption?

- ☐ Reinvestment
☐ Saving
☐ Consumption
☐ Don't know

79. What types of enterprise are usually introducing more new products or services?

- ☐ Formal enterprise
☐ Informal enterprise
☐ Formal and informal enterprises equally
☐ Don't know

80. According to your opinion, what are the three most needed improvements or new offerings of business services that would facilitate the formalization process of enterprises?

- a.
b.
c.

Техник редактор:
Хэвлэлийн эхийг:
Хэвлэлтийг:

С.Ууганзаяа
Х.Ганхөлөг
“Ган зам пресс” төв