The Asia Foundation

STUDY OF PRIVATE SECTOR PERCEPTIONS OF CORRUPTION 2018

This survey is made possible by the generous support of Global Affairs Canada. The Asia Foundation and the Sant Maral Foundation have implemented the survey, which does not necessarily reflect the views of the Canadian Government and Global Affairs Canada.

STUDY OF PRIVATE SECTOR PERCEPTIONS OF CORRUPTION

2018

CONTENTS

ABBREVIATIONS

DK	Don’t Know
GC	Grand Corruption
NA	No Answer
PM	Prime Minister
SMF	Sant Maral Foundation
SPEAK	Survey of Perception and Knowledge of Corruption
STOPP	Study of Private Sector Perceptions
TAF	The Asia Foundation
UB	Ulaanbaatar
MNT	Mongolian Tugrug
WB	World Bank
IAAC	Independent Authority Against Corruption

LIST OF TABLES AND FIGURES

INTRODUCTION

In October 2018, The Asia Foundation, in collaboration with the Sant Maral Foundation (SMF), conducted its ninth installment of the Study of Private Sector Perceptions of Corruption (STOPP) Survey in Mongolia, a survey of businesses based in the capital city, Ulaanbaatar.

The survey is an integral part of the Strengthening Democratic Participation and Transparency in the Public Sector in Mongolia (STEPS) project, funded by Global Affairs Canada and implemented by The Asia Foundation. STOPP attempts to show, based on the perceptions of the business community, how the business community is being affected by corruption. It captures information on the business environment and opportunities for reforms both within the private and public sectors, as well as between them when they conduct business together.

The longitudinal design of the survey helps track long-term changes and trends in perceptions and attitudes. The survey aims to provide a unique and robust tool to raise awareness, and further encourage the business community, policymakers, and especially government service providers to continue to improve good-governance practices, change attitudes, and prevent corruption. Additionally, the STOPP Survey is complemented by The Asia Foundation's Survey on Perceptions and Knowledge of Corruption (SPEAK), a nationwide survey of citizens to measure public perceptions and understandings of corruption. Together, the two surveys provide a broad picture of the level of corruption in Mongolia. The STOPP Survey will be conducted annually over the period of STEPS project.

KEY FINDINGS

- Despite certain signs of economic recovery, the business community is less satisfied with the business environment than in 2017. Negative assessment in 2018 is 84.8 percent, which is 3.9 percent higher than in the previous year. The positive shift in the assessment that was observed from 2016 to 2017 was reversed in 2018.
- There was considerable growth in taxes and professionalism as problems facing businesses from 2017 levels. "High taxes" and "renewal of licenses and permits" remain the biggest obstacles identified by businesses, but "Low professionalism" of labor is a growing factor hindering the Mongolian economy.
- Despite a more negative assessment of the general business environment, the business community is more optimistic about the investment climate in the past six months and prospects for investment in the next six months compared with 2017. In 2018, 24.2 percent of respondents said that investment conditions "improved" in the last six months, compared to 17.3 percent in 2017 and 10 percent in 2016. In 2018, 41.2 percent of respondents were expecting improvement in the next six months, compared to 44.8 percent in 2017 and only 26.4 percent in 2016.
- Public expectations of investment improvements are happening without counting on any government support, as an overwhelming majority of respondents do not believe there will be effective government economic policy driving that improvement.
- Respondents rank the Tax Office, Specialized Inspection Agency, and Customs highest among government agencies creating obstacles for business. They also mention that the three agencies are the most affected by corruption.
- Since 2014, there has been a trend of respondents reporting less wasted time for non-productive activity by management. Yet the loss of resources is perceived as being on the same level or worse. In 2018, 9.4 percent of respondents were wasting more than 25 percent of their resources compared to 7 percent in 2017.
- Since 2016, there is a slight improvement in perceptions of public sector corruption. However, it is still seen as being worse than levels of corruption in the private sector. The frequency and scope of corruption by public sector actors was perceived to be less in 2018 that in 2017, continuing a trend of slight but steady improvement since 2012. "Government services" are considered as the area most vulnerable to corruption.
- Approximately half of the respondents from 2015 to 2018 mention that high-level corruption is affecting their business "a lot" or to "some" extent.

- The business community is skeptical of the ability of government efforts and the legal system to contain the spread of corruption. This skeptical attitude is increasing over time.
- Evaluation of IAAC performance has been mostly negative over time, with 41.5 percent of respondents in 2018 reporting that it is heading the "wrong way."
- Using honest business practices remains the best option for companies to eliminate corruption. In 2018, there was a 20 percent increase in the percentage of companies developing written policies on how to deal with corruption, compared to 2017.

SURVEY METHODOLOGY

1. This is the ninth installment of the STOPP Survey to measure the business community's attitudes towards corruption. The STOPP Survey is conducted by the Sant Maral Foundation (SMF) and The Asia Foundation with sponsorship from the British Embassy, the United States Agency for International Development (USAID), Australian Department of Foreign Affairs and Trade (DFAT), and currently Global Affairs Canada. Altogether, 2970 interviews have been conducted since 2012.
2. The collection of data for the 2018 survey, conducted by the SMF, started on September 24 and ended on October 16, 2018.
3. The target of the survey is Ulaanbaatar's business community. Based on the information collected during the previous installments, a regularly updated list of companies located in the capital city was created. Three-hundred-and-thirty companies were selected from 1860 companies to participate in the 2018 STOPP Survey. Due to their limited number, large businesses might overlap in different samples, while small- and medium-sized companies were included on a randomized basis. Only 100 percent Mongolian-owned companies were interviewed.
4. With the sample size of 330 respondents, the sampling error margin is calculated at ±3.2 percentage points for 90/10 percent, ±5.4 percentage points for 50/50 percent, and ±5.3 percentage points for 60/40 percent, with significance level of 95 percent.
5. Self-administered or face-to-face methods were used for data collection.
6. Interviews were restricted to companies' CEOs or senior staff.

SAMPLE DESCRIPTION

I. SAMPLE DESCRIPTION

The sample distribution of respondents between six UB districts remained the same during the 2012 to 2018 surveys (Figure 1.1). However, there is more evidence of structural changes in the Mongolian economy by 2018, which is reflected in the main company profile of the survey (Figure 1.2). In the past seven years, there is strong growth in the number of service providers. On the other hand, there is a decline in the trade area (Figure 1.3). Manufacturing remained at the same level. These changes may be led by a few factors, but most likely they are a result of the country's economic revival that is observed since 2016 and changes in banking loan structure.

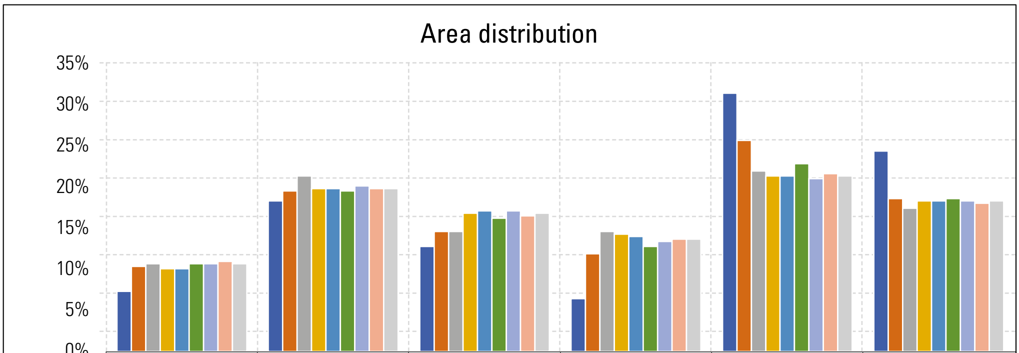
In the 2018 sample, the proportion of business sizes remained on the same level as in 2017 (Figure 1.4). The criteria for company size were developed by SMF in 2012 through an Asian Development Bank-funded project, but it requires fine-tuning in the future.

Three time periods were selected for companies' establishment dates. In 2018, while the proportion of companies established before 2000 is stable, the percentage of companies registered since 2007 has declined compared to 2017 (Figure 1.5). Most likely due to the recent economic downturn, Mongolians are still cautious about opening new businesses.

Other changes appeared with the gender balance at top companies' management levels. Although in 2017 the sample gender proportion on the management level was close to the national average, with 54.3 percent female and 45.7 percent male, in 2018 the sample is skewed towards women--65.8 percent female and 34.8 percent male (Figure 1.6). With only two samples available for analysis, it is difficult to come to any conclusions about the difference. The high proportion of females compared to the national gender average is also observed in small and large businesses (Figure 1.7). Respondents from medium-sized businesses are relatively gender-balanced.

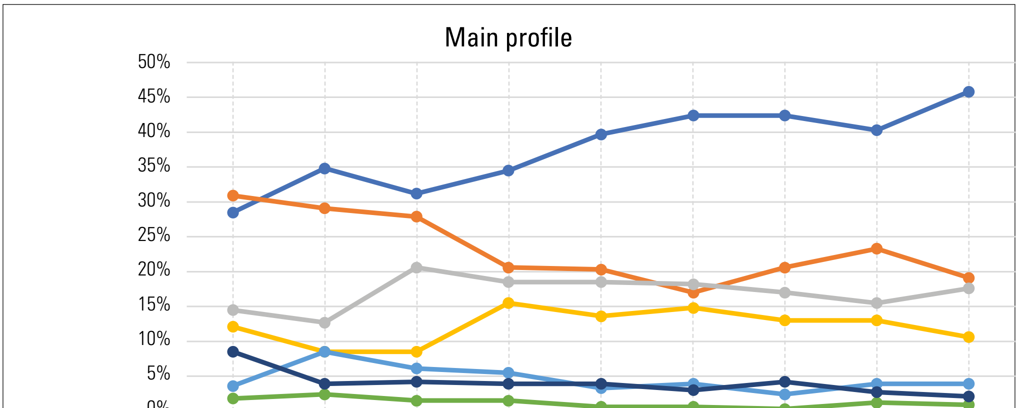
In the distribution of company positions, the CEO position is male-dominated--41.1 percent female and 58.9 percent male (Figure 1.9). Other top management positions such as finance director and office manager are filled with more women--72.8 percent female and 27.8 percent male.

Figure 1.1. Area distribution of respondent companies



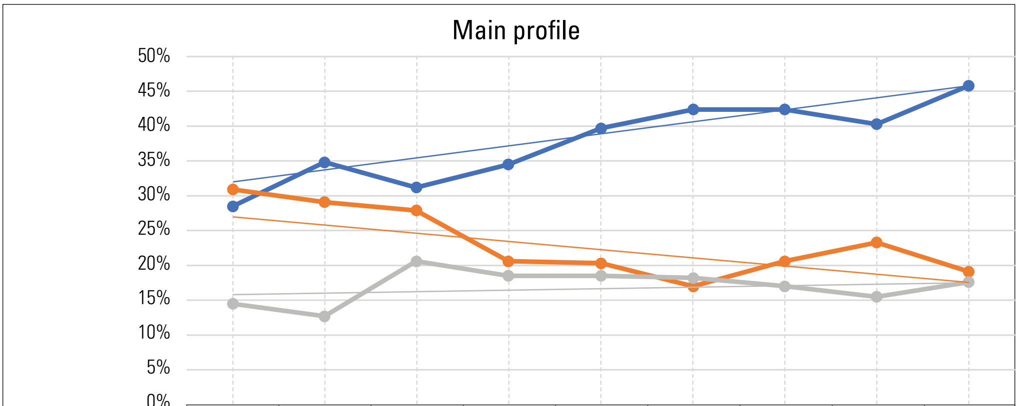
	Khan-Uul	Bayanzurkh	Sukhbaatar	Chingeltei	Bayangol	Songinokhairkhan
Dec-12	7.3%	18.2%	12.7%	6.4%	31.2%	24.2%
May-13	10.3%	19.4%	14.5%	11.8%	25.5%	18.5%
Oct-13	10.6%	21.2%	14.5%	14.5%	21.8%	17.3%
Apr-14	10.0%	19.7%	16.7%	14.2%	21.2%	18.2%
Sep-14	10.0%	19.7%	17.0%	13.9%	21.2%	18.2%
Sep-15	10.6%	19.4%	16.1%	12.7%	22.7%	18.5%
Sep-16	10.6%	20.0%	17.0%	13.3%	20.9%	18.2%
Sep-17	10.9%	19.7%	16.4%	13.6%	21.5%	17.9%
Sep-18	10.6%	19.7%	16.7%	13.6%	21.2%	18.2%

Figure 1.2. Main profile of respondent companies



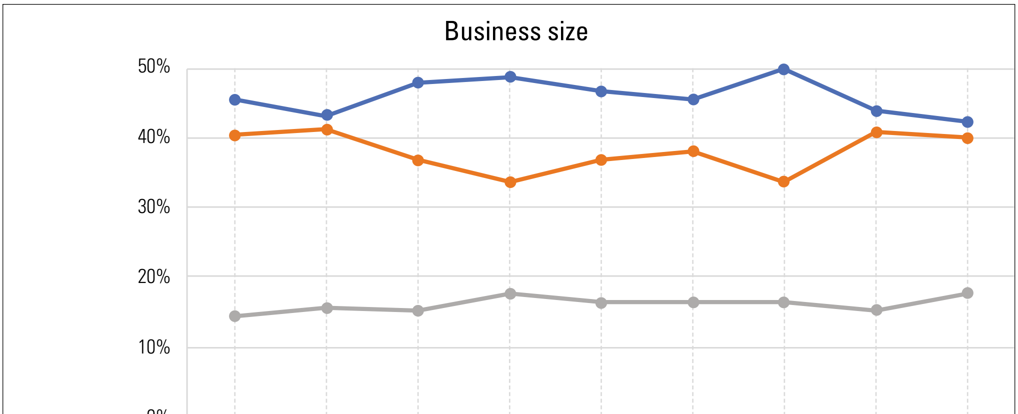
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Services	28.5%	34.8%	31.2%	34.5%	39.7%	42.4%	42.4%	40.3%	45.8%
Trade	30.9%	29.1%	27.9%	20.6%	20.3%	17.0%	20.6%	23.3%	19.1%
Manufacturing	14.5%	12.7%	20.6%	18.5%	18.5%	18.2%	17.0%	15.5%	17.6%
Construction	12.1%	8.5%	8.5%	15.5%	13.6%	14.8%	13.0%	13.0%	10.6%
Mining	3.6%	8.5%	6.1%	5.5%	3.3%	3.9%	2.4%	3.9%	3.9%
Agriculture	1.8%	2.4%	1.5%	1.5%	0.6%	0.6%	0.3%	1.2%	0.9%
Other	8.5%	3.9%	4.2%	3.9%	3.9%	3.0%	4.2%	2.7%	2.1%

Figure 1.3. Main profile of respondent companies



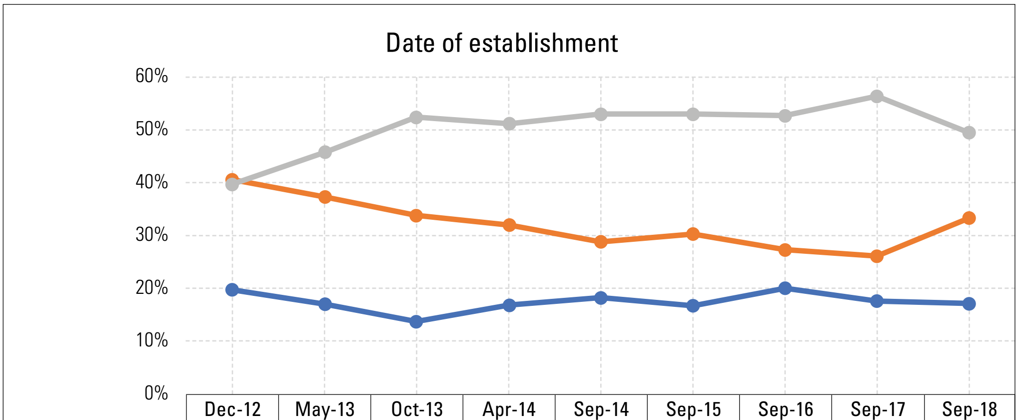
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Services	28.5%	34.8%	31.2%	34.5%	39.7%	42.4%	42.4%	40.3%	45.8%
Trade	30.9%	29.1%	27.9%	20.6%	20.3%	17.0%	20.6%	23.3%	19.1%
Manufacturing	14.5%	12.7%	20.6%	18.5%	18.5%	18.2%	17.0%	15.5%	17.6%

Figure 1.4. Business size



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Small (under MNT 150 million)	45.5%	43.3%	47.9%	48.8%	46.7%	45.5%	50.0%	43.9%	42.4%
Medium (MNT 150 million to under 2 billion)	40.3%	41.2%	37.0%	33.6%	37.0%	38.2%	33.6%	40.9%	40.0%
Large (MNT 2 billion and over)	14.2%	15.5%	15.2%	17.6%	16.4%	16.4%	16.4%	15.2%	17.6%

Figure 1.5. Date of establishment



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Before 2000	19.7%	17.0%	13.7%	16.8%	18.2%	16.7%	20.0%	17.6%	17.1%
2000 to 2006	40.6%	37.3%	33.8%	32.0%	28.8%	30.3%	27.3%	26.1%	33.3%
2007 to present	39.7%	45.8%	52.4%	51.2%	53.0%	53.0%	52.7%	56.4%	49.5%

Figure 1.6. Gender proportion in management

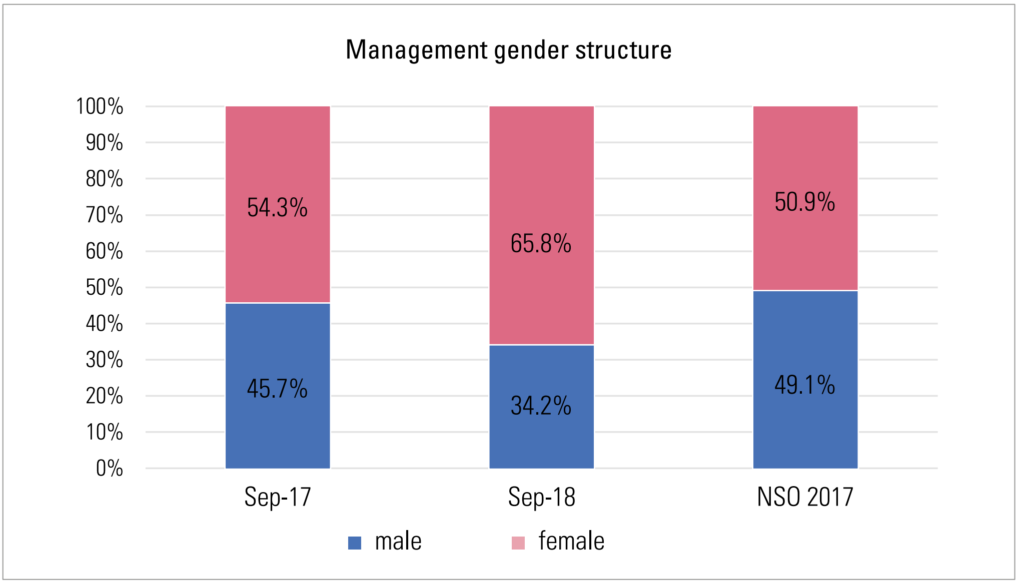


Figure 1.7. Gender distribution by the size of the company (aggregated sample)

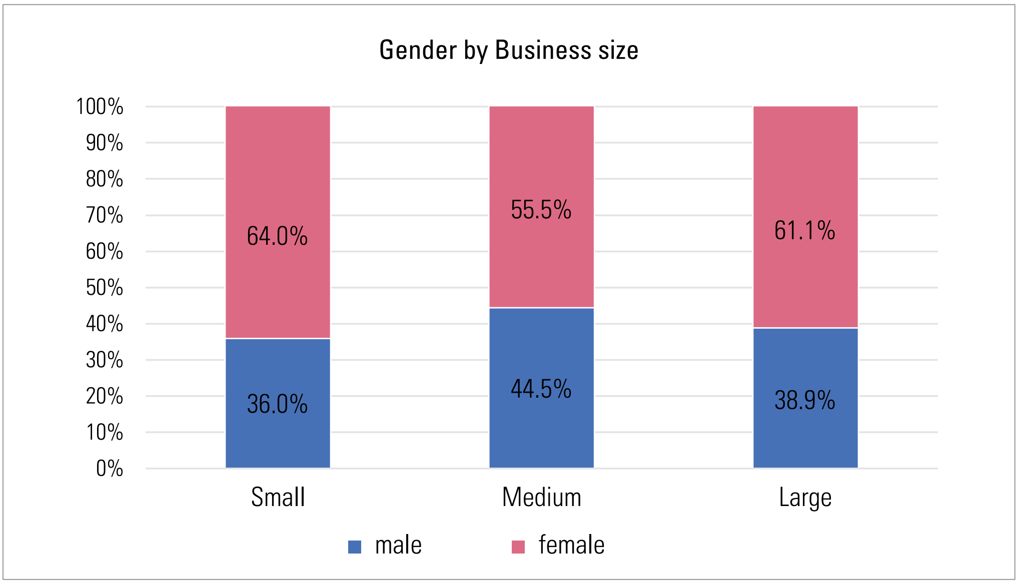
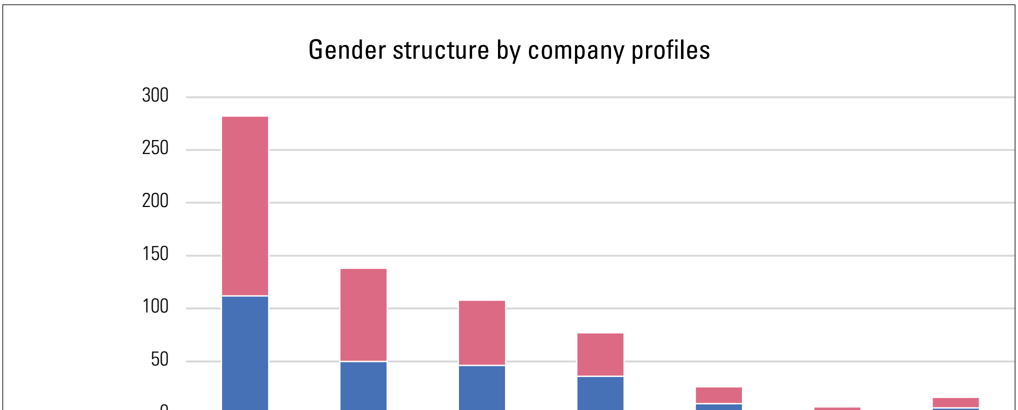
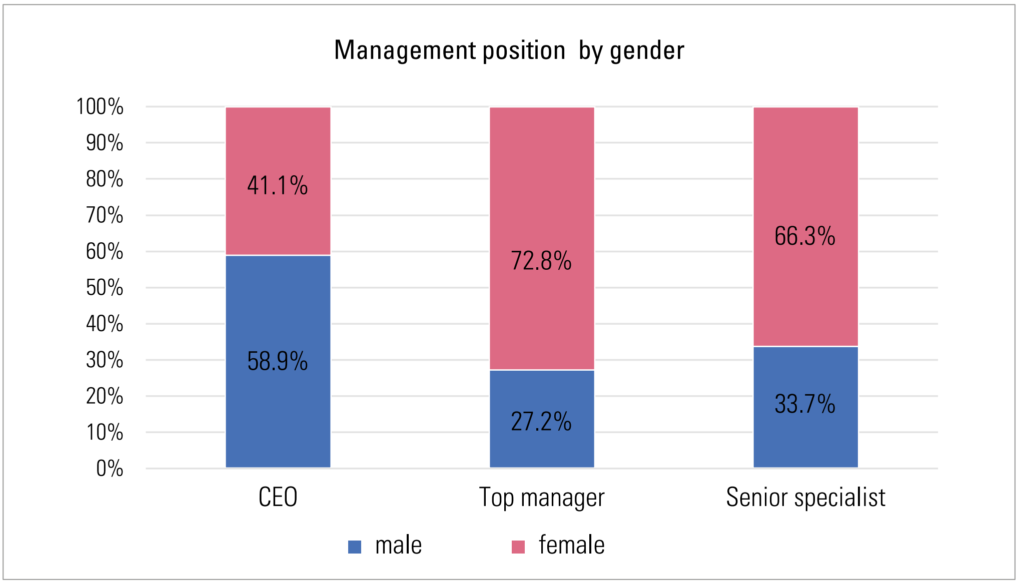


Figure 1.8. Gender structure by company profiles (aggregated sample, by cases)



	Services	Trade	Manufac-turing	Construc-tion	Mining	Agriculture	Other
male	112	50	46	36	10	1	6
female	170	88	62	41	16	6	10

Figure 1.9. Management position by gender (aggregated sample)



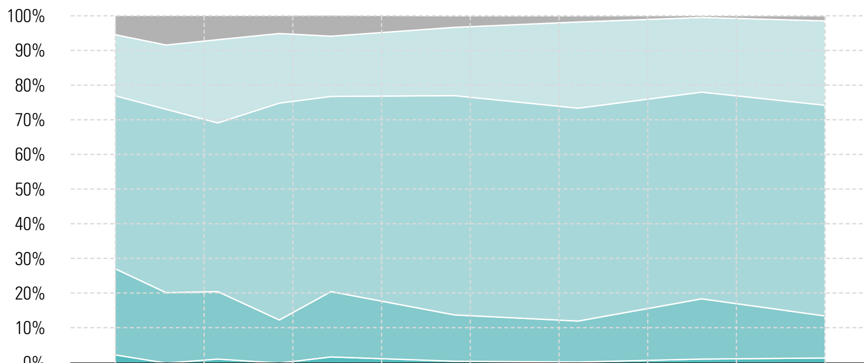
BUSINESS ENVIRONMENT

II. BUSINESS ENVIRONMENT

The World Bank's (WB) July 2018 edition of "Mongolia Economic Update," reported that 2017 was a good year for Mongolia in terms of strong economic recovery and expected Mongolia's economic performance to further improve in 2018. In our findings related to the assessment of the business environment, the data showed improvements for the year 2017, which is in line with the economic recovery. However, respondents from the 2018 STOPP survey became less satisfied with the business environment. The positive shift in the assessment of the business environment that was observed from 2016 to 2017 had disappeared in September 2018 (Figure 2.1). Negative assessments of the business environment increased by 3.9 percent while positive assessment decreased by 4.9 percent. Overall, the 2018 levels are very close to those found in 2016, a trend that is also confirmed by the average of responses each year (Figure 2.2). In 2016, the average was -1.0, compared to -0.83 in 2017. In 2018, the average had become -0.95. This negative trend in 2018 was strengthened by a larger number of "very dissatisfied" female manager respondents. Their number increased from 19.9 percent in 2017 to 25.8 percent in 2018 (Figure 2.3).

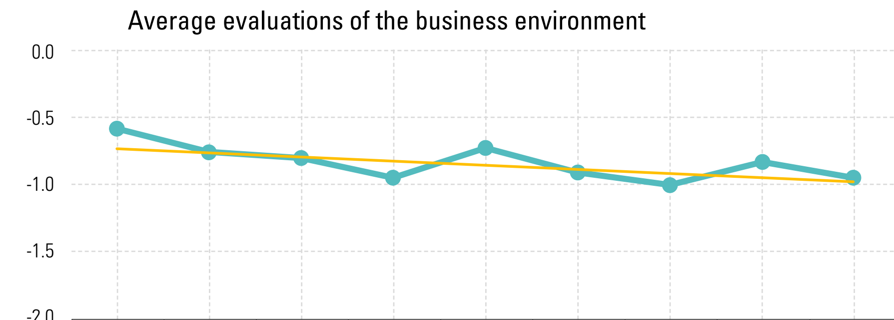
Figure 2.1. Satisfaction with the general business environment in Mongolia

How satisfied or dissatisfied are you with the general business environment in Mongolia?



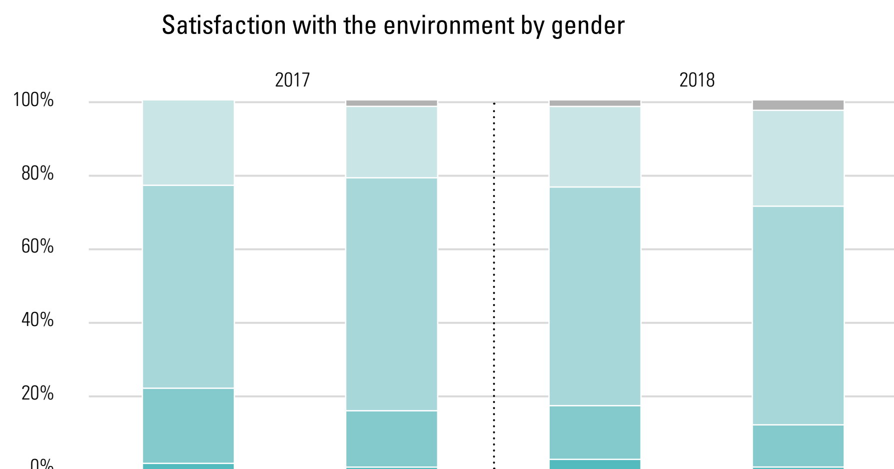
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	5.5%	8.5%	7.0%	5.2%	6.1%	3.3%	1.8%	0.6%	1.5%
Very dissatisfied	17.6%	18.5%	23.9%	20.0%	17.3%	19.7%	24.8%	21.5%	24.2%
Somewhat dissatisfied	49.7%	52.7%	48.5%	62.4%	56.1%	63.0%	61.2%	59.4%	60.6%
Somewhat satisfied	24.8%	20.3%	19.4%	12.4%	18.8%	13.3%	11.8%	17.3%	12.1%
Very satisfied	2.4%	0.0%	1.2%	0.0%	1.8%	0.6%	0.3%	1.2%	1.5%

Figure 2.2. Average (means) of the business environment evaluation (very satisfied: +2, somewhat satisfied: +1, somewhat dissatisfied: -1, very dissatisfied: -2)



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Average mean	-0.58	-0.76	-0.80	-0.95	-0.73	-0.91	-1.00	-0.83	-0.93

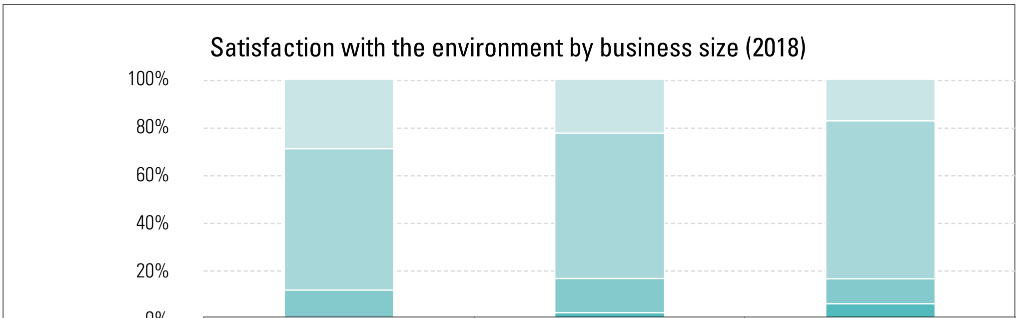
Figure 2.3. Satisfaction with the business environment by gender (2017-2018)



	male	female	male	female
DK/NA	0.0%	1.1%	0.9%	1.8%
Very dissatisfied	23.0%	19.9%	21.2%	25.8%
Somewhat dissatisfied	54.7%	63.1%	61.1%	60.4%
Somewhat satisfied	20.3%	15.3%	14.2%	11.1%
Very satisfied	2.0%	0.6%	2.7%	0.9%

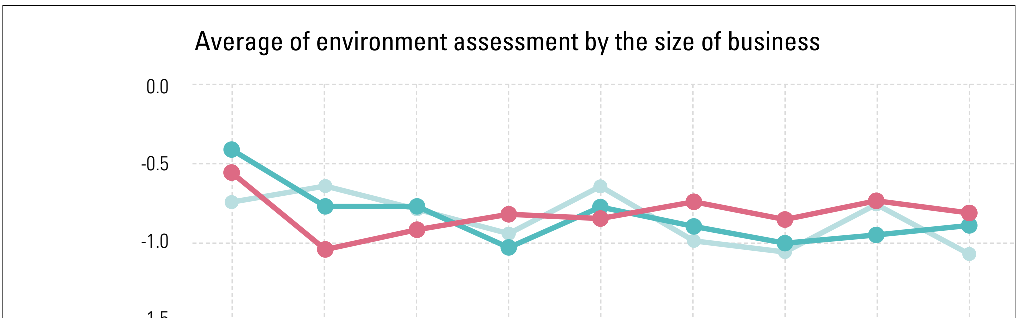
In 2017, small business respondents had a decent level of satisfaction with the business environment that was comparable with both medium and large business groups. These circumstances changed in 2018 as this round of surveying found a clear correlation between the size of companies and growing dissatisfaction among respondents (Figure 2.4-2.5). The smaller the company, the more dissatisfied its owners. When we segregate by company profile, the most dissatisfied respondents are in the construction sector followed by manufacturing and mining (Figure 2.6).

Figure 2.4. Satisfaction with the environment by business size (2018)



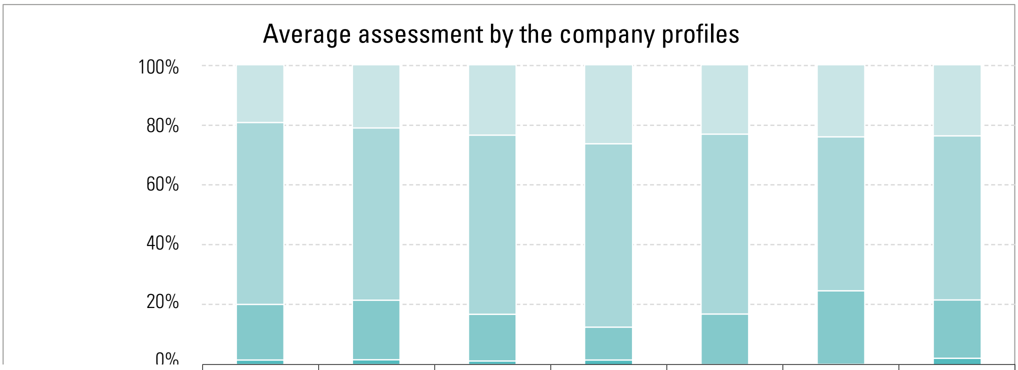
	Small	Medium	Large
Very dissatisfied	29.4%	22.7%	17.5%
Somewhat dissatisfied	59.6%	61.4%	66.7%
Somewhat satisfied	11.0%	14.4%	10.5%
Very satisfied	0.0%	1.5%	5.3%

Figure 2.5. Average assessment by the size of the business (2012-2018)



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Small	-0.74	-0.64	-0.79	-0.94	-0.64	-0.99	-1.06	-0.76	-1.07
Medium	-0.41	-0.77	-0.77	-1.03	-0.77	-0.89	-1.00	-0.95	-0.89
Large	-0.56	-1.04	-0.92	-0.82	-0.85	-0.74	-0.85	-0.73	-0.81

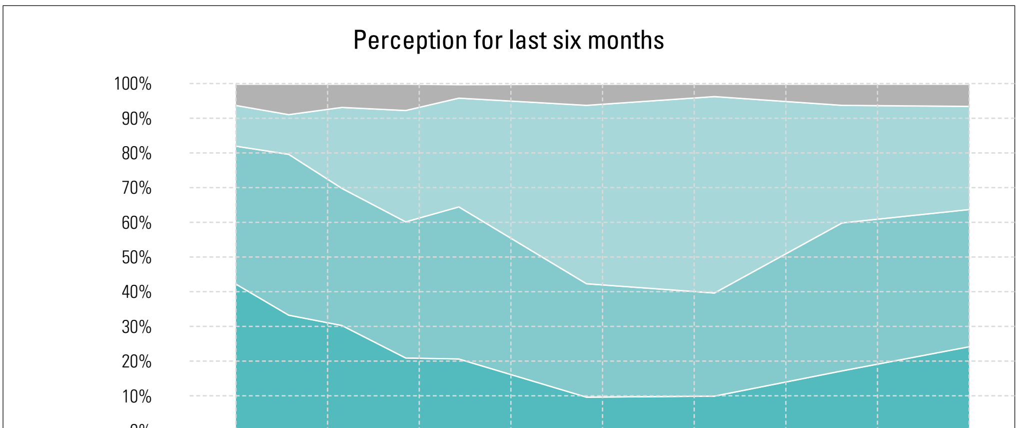
Figure 2.6. Average of business environment assessment by the company profiles (2012-2017)



	Services	Trade	Manufac-turing	Construction	Mining	Agriculture	Other
Very dissatisfied	19.4%	21.2%	23.6%	26.5%	23.3%	24.2%	23.9%
Somewhat dissatisfied	60.9%	57.7%	60.0%	61.4%	60.2%	51.5%	54.9%
Somewhat satisfied	18.6%	19.9%	15.6%	11.0%	16.5%	24.2%	19.5%
Very satisfied	1.1%	1.2%	0.8%	1.2%	0.0%	0.0%	1.8%

Despite a growing negative assessment of the business environment, there is a significant increase in the number of companies reporting improved investment conditions in the last six months (Figure 2.7). The numbers gradually increased from 10 percent in 2016 to 17.3 percent in 2017 and reached 24.2 percent in 2018. Despite this improvement, the number of companies reporting a worsening of the investment climate remains higher than those reporting an improvement, although over time the gap is narrowing.

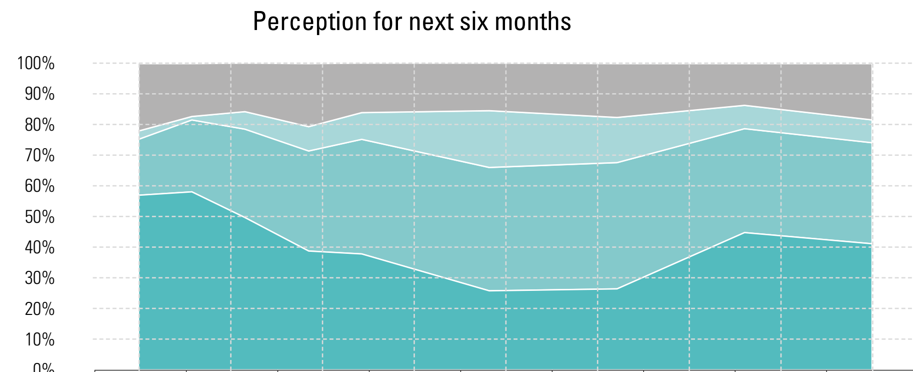
Figure 2.7. During the last 6 months, have investment conditions for company operations improved, worsened, or stayed the same?



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	6.1%	8.8%	6.7%	7.6%	3.9%	6.1%	3.6%	6.1%	6.4%
Worsened	11.8%	11.5%	23.3%	32.1%	31.5%	51.5%	56.7%	33.9%	29.7%
Stay the same	39.7%	46.4%	39.7%	39.4%	43.9%	32.7%	29.7%	42.7%	39.7%
Improved	42.4%	33.3%	30.3%	20.9%	20.6%	9.7%	10.0%	17.3%	24.2%

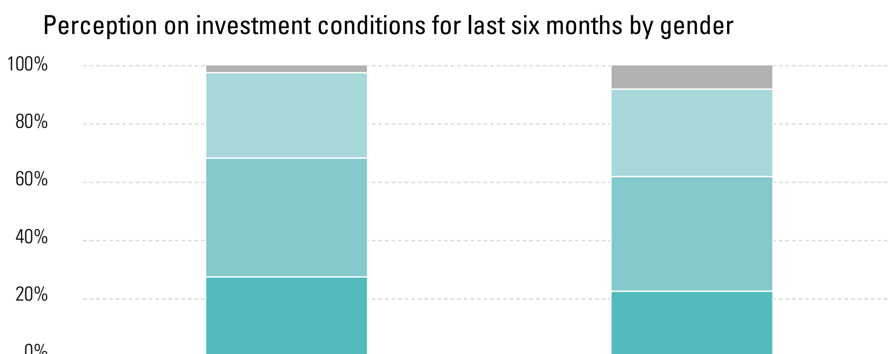
In 2018 the assessment of future investment is similar to 2017 and is much better than in 2016 (Figure 2.8). Despite a bad assessment of the business environment, 41.2 percent of companies are optimistic and expecting improvement of investment conditions in the next six months compared to only 7.3 percent expecting a worsening of investments.

Figure 2.8. In the next six months, do you expect investment conditions to improve, worsen, or stay the same?



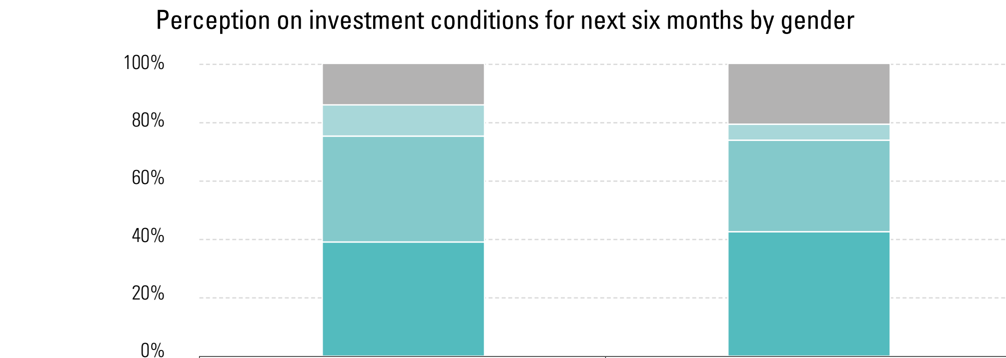
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	22.1%	17.3%	15.8%	20.6%	16.1%	15.5%	17.6%	13.6%	18.5%
Worsened	2.7%	1.2%	5.8%	7.9%	8.8%	18.5%	14.8%	7.6%	7.3%
Stay the same	18.2%	23.3%	28.8%	32.7%	37.3%	40.3%	41.2%	33.9%	33.0%
Improved	57.0%	58.2%	49.7%	38.8%	37.9%	25.8%	26.4%	44.8%	41.2%

Figure 2.9. During the last six months, have investment conditions for company operations improved, worsened, or stayed the same? (by gender, 2018)



	male	female
DK/NA	2.7%	8.3%
Worsened	29.2%	30.0%
Stay the same	40.7%	39.2%
Improved	27.4%	22.6%

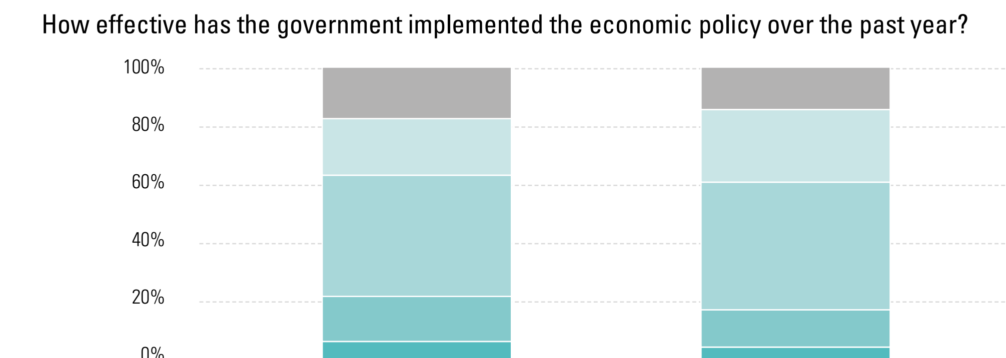
Figure 2.10. In the next six months, do you expect investment conditions to improve, worsen, or stay the same? (by gender, 2018)



	male	female
DK/NA	14.2%	20.7%
Worsen	10.6%	5.5%
Stay the same	36.3%	31.3%
Improve	38.9%	42.4%

In 2018, skepticism was clear in respondents' assessment of the government's ability to effectively implement economic policy, showing increases from 2017 levels (Figure 2.11). The number of respondents thinking implementation of economic policy was "not at all effective" increased from 19.4 percent to 24.8 percent since last year.

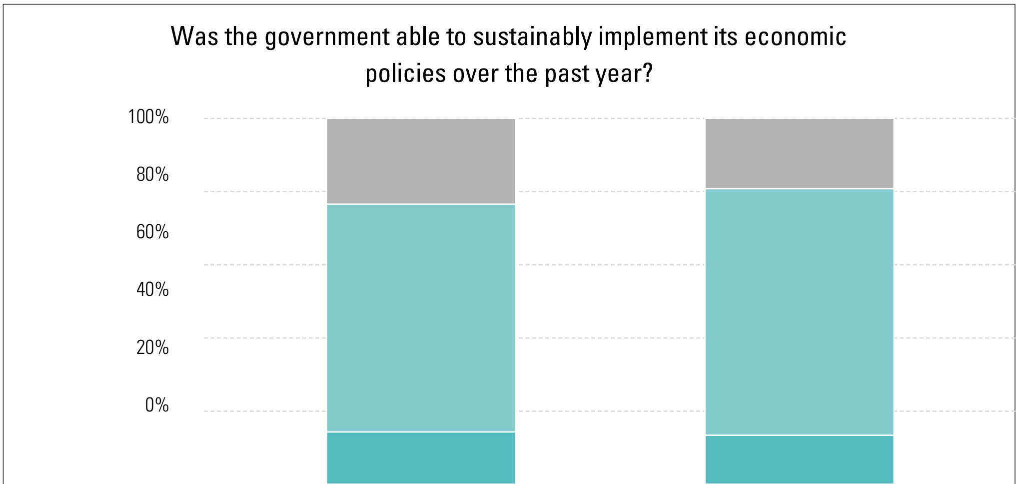
Figure 2.11. Effectiveness of the government's implementation of economic policy



	Sep-17	Sep-18
DK/NA	17.6%	14.5%
Not at all effective	19.4%	24.8%
Hardly effective	41.5%	43.6%
Somewhat effective	15.5%	12.7%
Effective	6.1%	4.2%

The majority of respondents (67.6 percent) do not believe that the government was able to implement its economic politics sustainably, compared to 62.4 percent in 2017.

Figure 2.11. Government's ability to sustainably implement its economic policies



	Sep-17	Sep-18
DK/NA	23.3%	19.1%
No	62.4%	67.6%
Yes	14.2%	13.3%

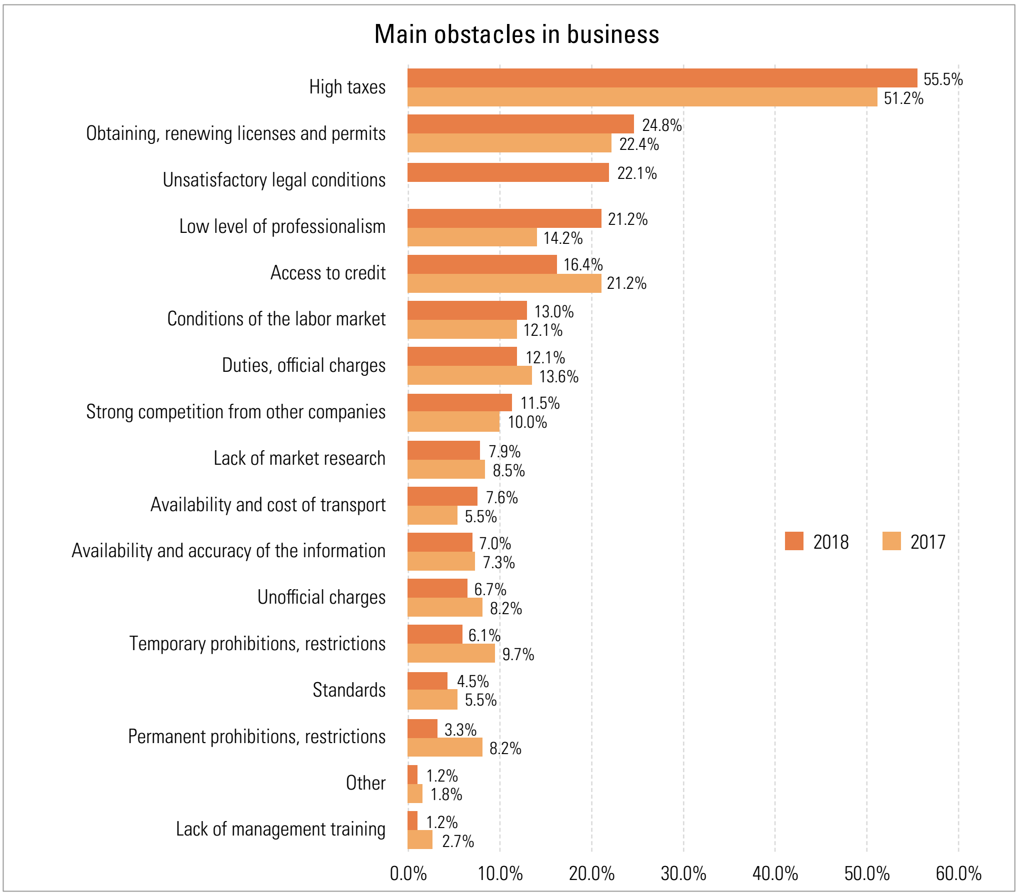
OBSTACLES IN THE BUSINESS ENVIRONMENT

III. OBSTACLES IN THE BUSINESS ENVIRONMENT

In 2018, the two most cited obstacles in the business environment remained the same as in 2017: "high taxes" and "obtaining, renewing licenses and permits." The impact of these problems is widening, as observed in an increasing number of respondents reporting these obstacles. As a result, "obtaining, renewing licenses and permits" has been gradually been viewed as a problem by more businesses, starting from 17.0 percent in 2016 to 22.4 percent in 2017 and reaching 24.8 percent in 2018.

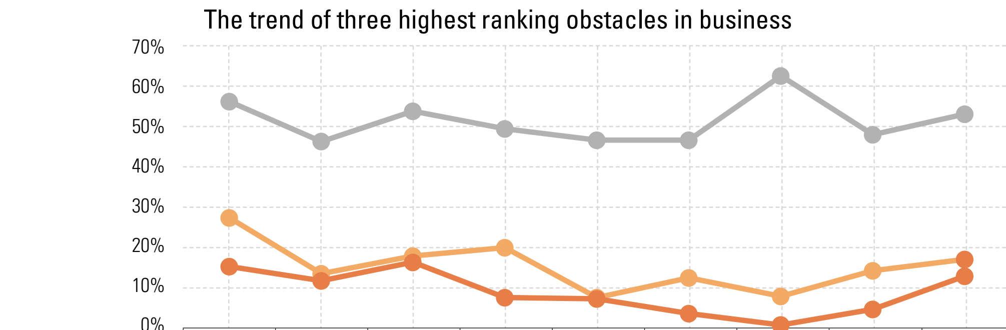
Despite the consistency in the top two obstacles identified, there were significant changes in 2018. Among the obstacles identified, "unsatisfactory legal conditions" was ranked third with 22.1 percent of respondents selecting this option (Figure 3.1-3.2). This is a newly introduced indicator in the 2018 questionnaire, and therefore we cannot compare it with previous years. Since the legal environment is relatively stable, compared to, for example, politics or economy, we can suggest that in previous years the situation was similarly difficult for businesses to navigate. Another change is an increase in complaints regarding the low level of professionalism of the workforce: as this problem was identified by 14.2 percent in 2017, but reached 21.7 percent in 2018.

Figure 3.1. Main obstacles in business (multiple choices)



A significant decrease was observed in the obstacle, "access to credit": from 21.2 percent in 2017 to 16.4 percent in 2018. Among the positive changes, a drop in both permanent and temporary restrictions was also observed.

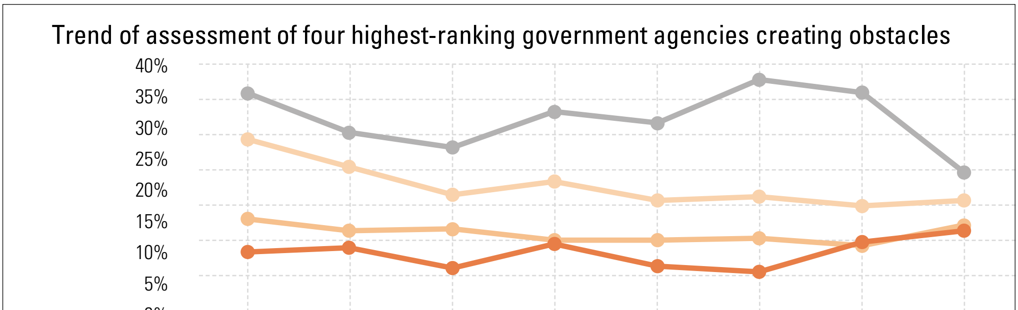
Figure 3.2. 2012-2017 trend of the three highest-ranking obstacles in business.



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
High taxes	58.2%	49.7%	56.1%	52.4%	50.0%	50.0%	63.6%	51.2%	55.5%
Obtaining, renewing licenses and permits	33.6%	21.8%	25.5%	27.3%	16.7%	20.9%	17.0%	22.4%	24.8%
Low level of professionalism	23.3%	20.3%	24.2%	16.7%	16.4%	13.3%	10.9%	14.2%	21.2%

Due to the modifications in questionnaire design,[1] we cannot compare the results of 2012-2017 on government agencies creating obstacles to business with the results in 2018. However, the Tax Office remains at the top of the ranking list, followed by Specialized Inspection Agency and the Customs (Figure 3.3). It is also revealed that the Tax Office results in 2018 are significantly worse than those observed in 2017 (Figure 3.3-3.4).

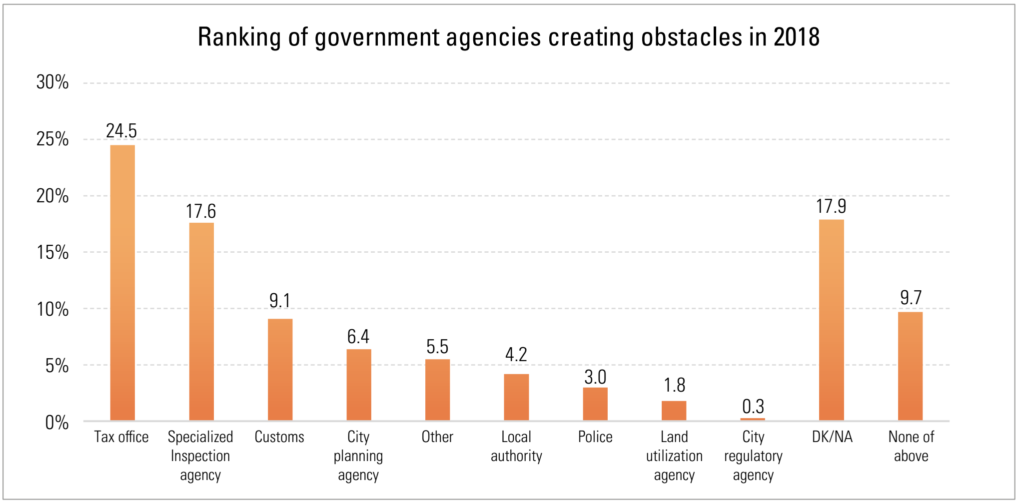
Figure 3.3. Trend of assessment of four highest-ranking government agencies creating obstacles in 2012-2017 (multiple choice)



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
Tax office	35.4%	29.1%	26.7%	32.4%	30.6%	37.6%	35.5%	22.7%
Specialized Inspection Agency	28.0%	23.6%	19.1%	21.2%	18.2%	18.8%	17.3%	18.2%
Customs	15.2%	13.3%	13.6%	11.8%	11.8%	12.1%	10.9%	14.2%
Local authority	9.9%	10.6%	7.3%	11.2%	7.6%	6.7%	11.5%	13.3%

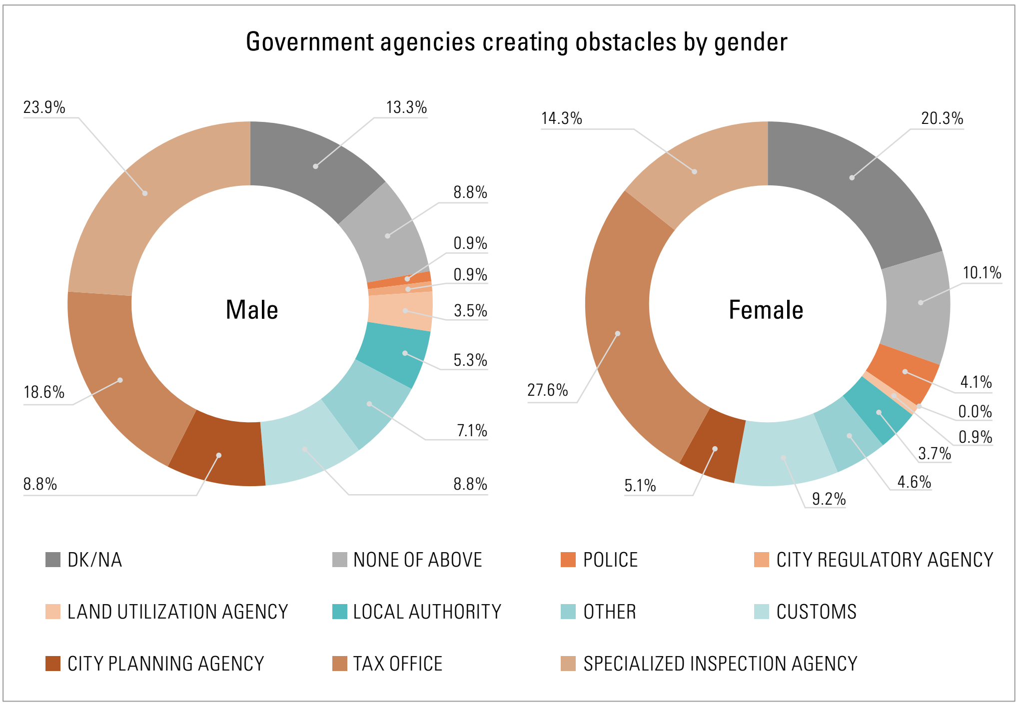
[1] Various state agencies disappeared or became merged with new government cabinets, changing response categories.

Figure 3.4. Ranking of government agencies creating obstacles in 2018 (single choice)



When tabulated by gender, "Tax Office" was ranked much worse by female managers, with 27.6 percent of females reporting it in comparison to 18.6 percent of males (Figure 3.5). In contrast, male management ranked Specialized Inspection Agency worse, with 23.9 percent males reporting it in comparison to 14.3 percent females. Other gender differences were found to be less significant.

Figure 3.5. Government agencies creating obstacles by gender (aggregated)



LOSSES OR NON-PRODUCTIVE OBSTACLES

IV. LOSSES OR NON-PRODUCTIVE OBSTACLES

In 2018, only 10.3 percent of respondents indicated that they spend more than 50 percent of their time dealing with non-productive obstacles (Figure 4.1). This is the lowest result recorded since 2012. The number of those not wasting their time had slightly increased compared to the previous year.

A different picture can be seen in the resources management area (Figure 4.2). While in 2017 only 7 percent of respondents reported wasting more than 25 percent of their resources, in 2018 it reached 9.4 percent. However, this number has been more or less stable over the years and these minor fluctuations are not significant findings.

Figure 4.1. Time that company management spends on dealing with non-productive obstacles

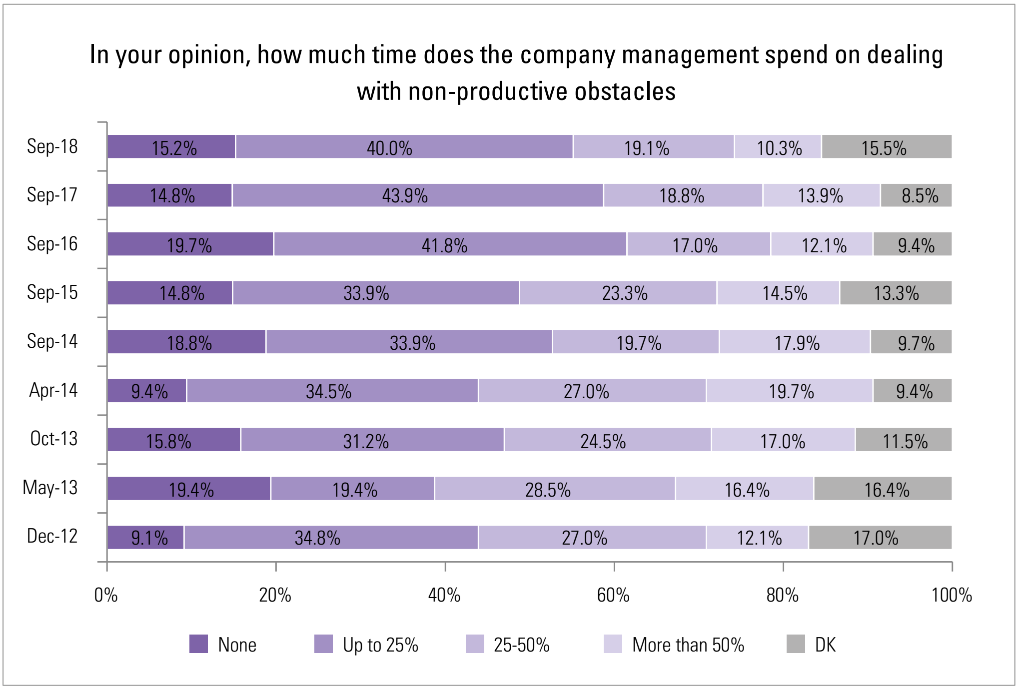
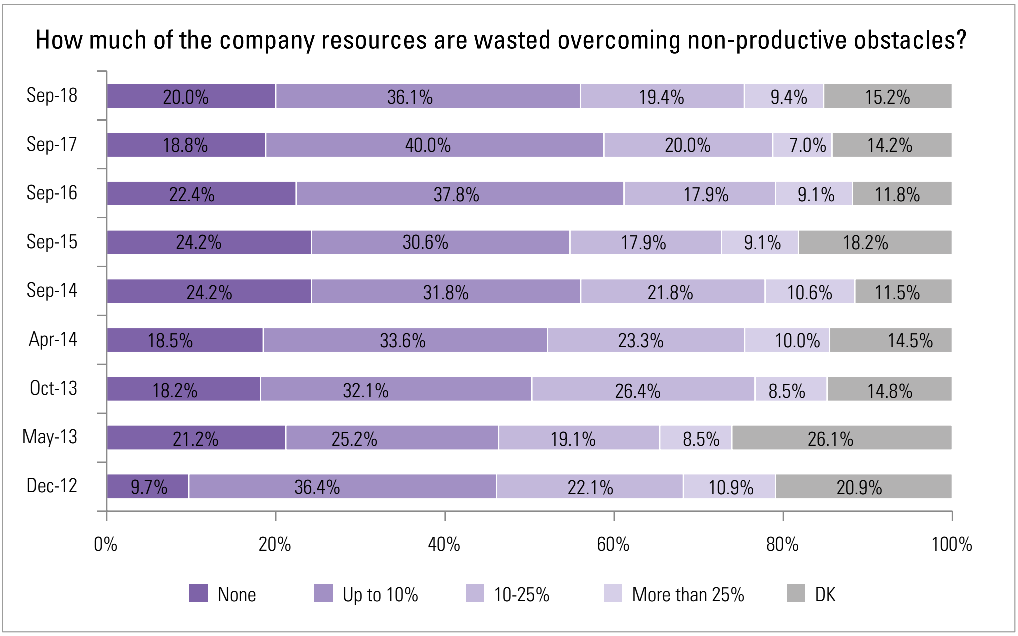
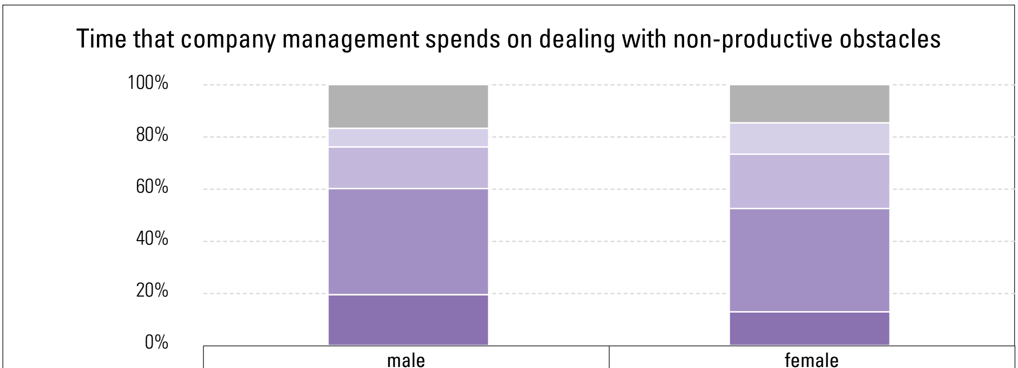


Figure 4.2. Resources that company wastes on overcoming non-productive obstacles



When the results were tabulated by gender, female managers reported slightly higher waste of both time and resources (Figure 4.3-4.4). While 12.0 percent of females reported wasting more than 50 percent of their time, only 7.1 percent of males reported so. Similarly, while 10.6 percent of females reported wasting over 25 percent of resources, only 7.1 percent of males reported so.

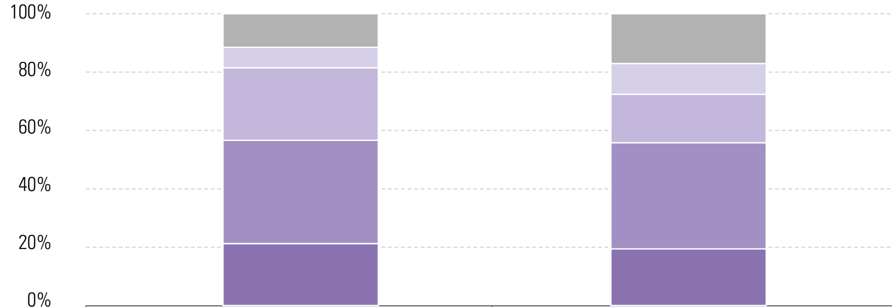
Figure 4.3. Time that company management spends on dealing with non-productive obstacles (2018, by gender)



	male	female
DK	16.8%	14.7%
More than 50%	7.1%	12.0%
25-50%	15.9%	20.7%
Up to 25%	40.7%	39.6%
None	19.5%	12.9%

Figure 4.4. Resources that company wastes on overcoming non-productive obstacles (2018, by gender)

Resources that company wastes on overcoming non-productive obstacles



	male	female
DK	11.5%	17.1%
More than 25%	7.1%	10.6%
10-25%	24.8%	16.6%
Up to 25%	35.4%	36.4%
None	21.2%	19.4%

CORRUPTION IN THE PUBLIC SECTOR

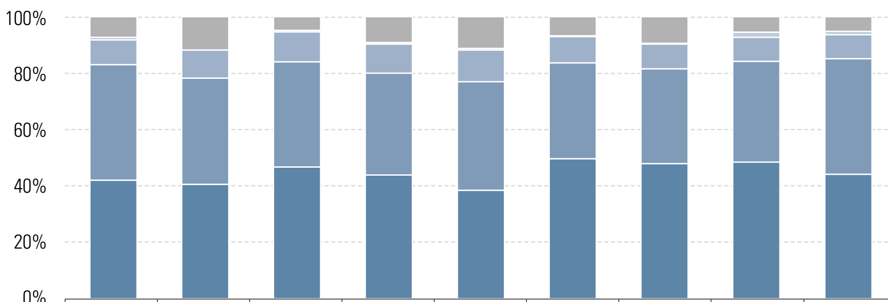
V. CORRUPTION IN THE PUBLIC SECTOR

The World Bank's Mongolian Economic Update for July 2018 found in its analysis of public investment performance that most programs were "overambitious and unrealistic", which had contributed to the fiscal crisis that emerged in recent years. The ineffectiveness of these programs also created lasting inefficiencies that need to be addressed in the future. Although the Global Competitiveness Index for Mongolia improved considerably from 2016 to 2017, shifting Mongolia's rank from 124th to 101st, Mongolia's rankings for public spending show it as being one of the most inefficient ranked countries. The Mongolian Economic Update mentioned three main factors that cause low quality public programs. First is the policy bias--the absence of adequate consideration of sustainability and quality in the selection of projects. The second is excessive decentralization and fragmentation of decision-making, referring to a wide range of ministries and agencies that launch projects outside of national development priorities. The third is linked to low efforts in developing and spreading adequate methods of project evaluation.

In sections I and III of this survey report, we discussed how low efficiency in the public sector is impacting business activity as well as the cost of such inefficiency for the private sector. Section V of this report is going to link this inefficiency of the public sector with another factor: corruption. Although corruption in public sector is regularly assessed as extremely bad (Figure 5.1-5.2), starting from 2017, we observe a slightly positive trend in the overall assessment. If in September 2015 the mean was at an all-time low of 1.57, in 2016 it became 1.58; in 2017 it improved further to 1.62; and in 2018 it reached 1.65 (Figure 5.2). Nevertheless, nearly a half of respondents still believe there is pervasive corruption in the public sector.

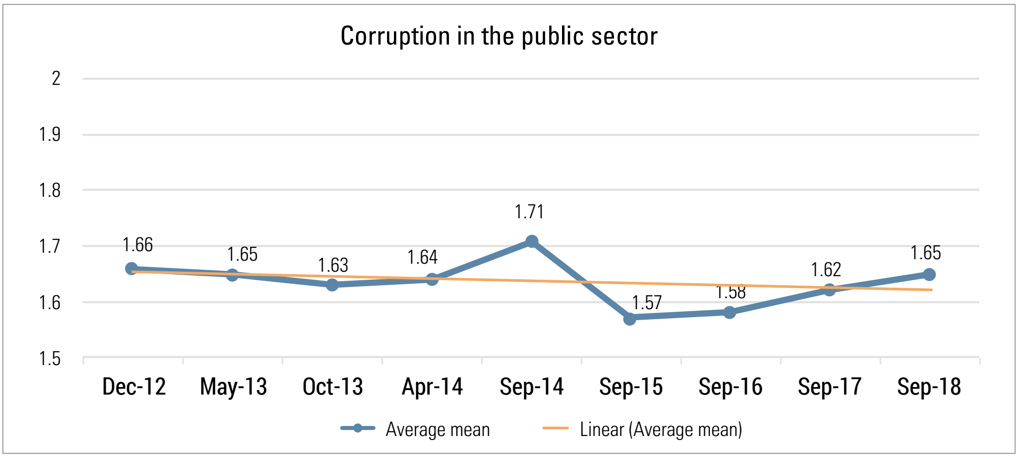
Figure 5.1. Assessment of corruption in the public sector

In your opinion, how much corruption do you think there is in the public sector?



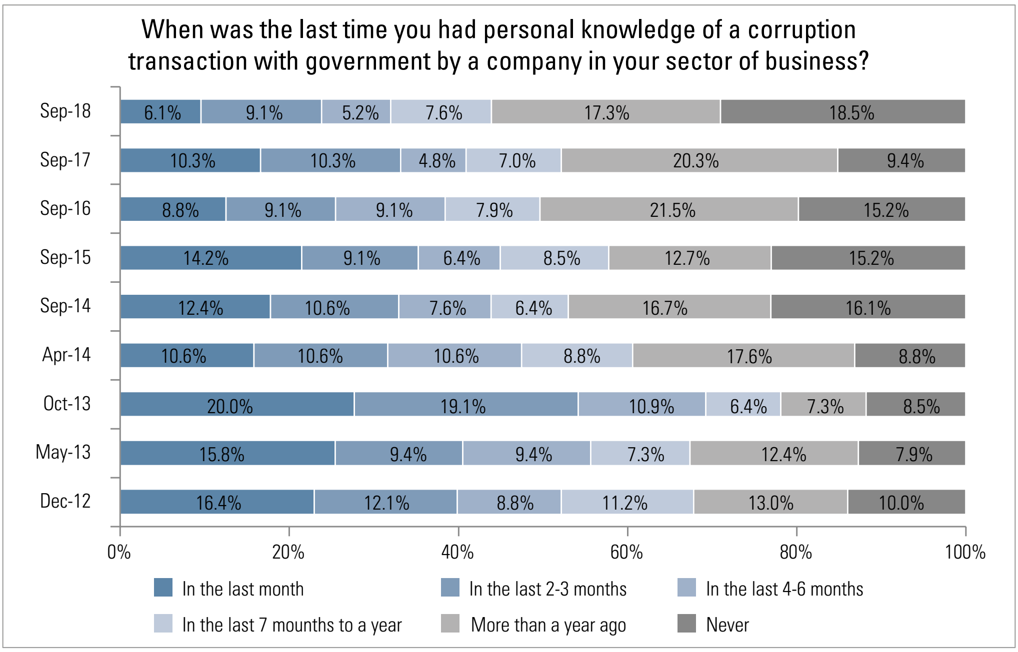
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	7.3%	11.8%	4.8%	9.1%	11.2%	6.7%	9.4%	5.5%	5.2%
None	0.9%	0.0%	0.6%	0.6%	0.6%	0.3%	0.3%	1.8%	1.2%
A little	8.8%	10.0%	10.6%	10.3%	11.2%	9.4%	8.8%	8.5%	8.5%
Some	40.9%	37.6%	37.3%	36.1%	38.5%	33.9%	33.6%	35.8%	40.9%
A lot	42.1%	40.6%	46.7%	43.9%	38.5%	49.7%	47.9%	48.5%	44.2%

Figure 5.2. Corruption in the public sector (Means calculated by 1: "a lot," 2: "some," 3: "a little," 4: "none")



In 2018, the frequency of corrupt practices has also dropped to an all-time low since 2012 (Figure 5.3-5.5). In 2018, the number of respondents reporting that they "never" encountered corruption increased from 9.4 percent to 18.5 percent (Figure 5.3). Correspondingly, the number of companies reporting encounters of corruption decreased.

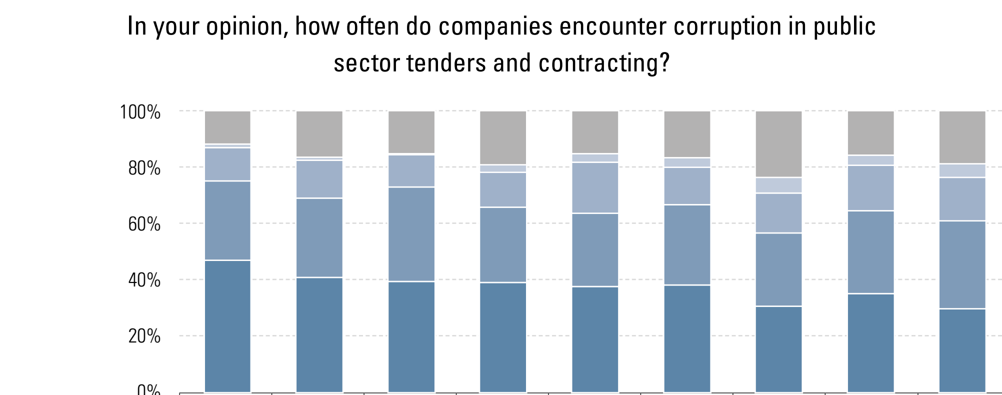
Figure 5.3. Personal knowledge of a corrupt transaction with government by a company in your sector (valid only[2])



[2] Non-valid categories like "don't know" and "not available" are excluded from the graphic view. On average it is around 30percent.

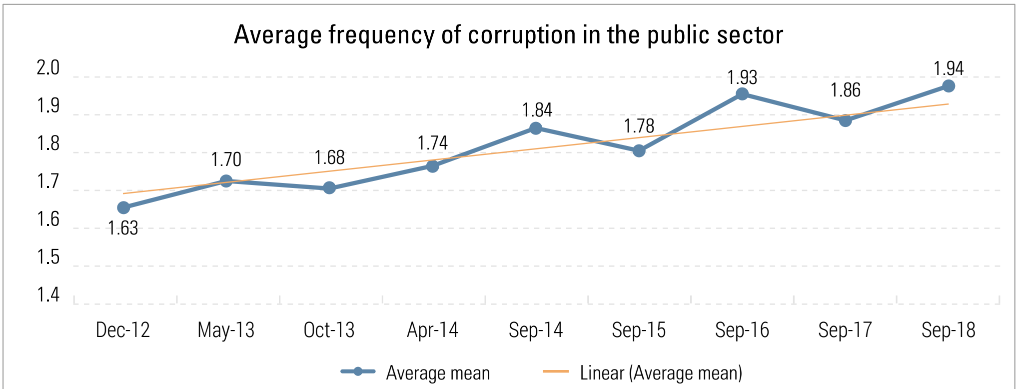
Also, the number of respondents that report that they "always" encounter corrupt practices had also dropped from 35.3 percent in 2017 to 29.7 percent in 2018 (Figure 5.4). This also adds to the overall trend that started from 2012 of reported experience with corruption in public tenders started to improve gradually (Figure 5.5).

Figure 5.4. Frequency of encountering corruption in public sector tenders and contracting



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	11.8%	16.4%	15.2%	19.1%	15.2%	16.7%	23.6%	15.8%	18.8%
Never	1.2%	1.2%	0.3%	2.7%	3.0%	3.3%	5.5%	3.6%	4.8%
Rarely	11.8%	13.3%	11.5%	12.4%	18.2%	13.3%	14.2%	16.1%	15.5%
Often	28.2%	28.2%	33.6%	26.7%	26.1%	28.5%	26.1%	29.4%	31.2%
Always	47.0%	40.9%	39.4%	39.1%	37.6%	38.2%	30.6%	35.2%	29.7%

Figure 5.5. Average frequency of corruption in the public sector (ranging from 1: "always" to 4: "never")



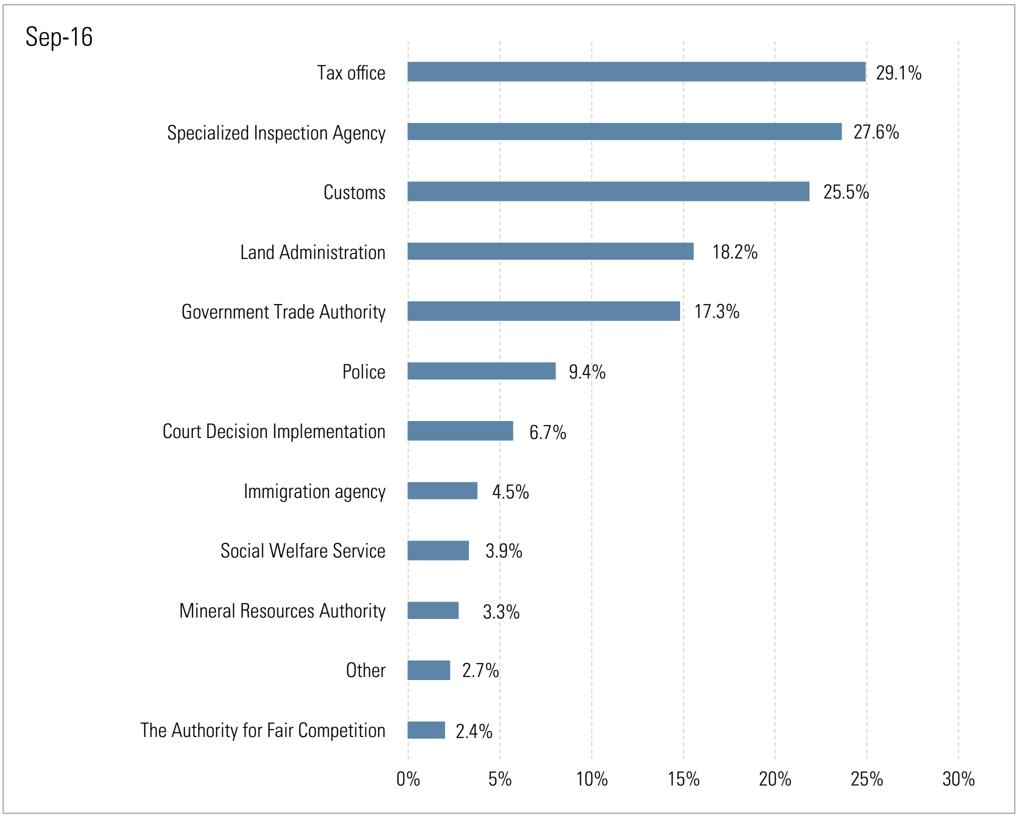
In observing trends through 2016-2018 of government agencies most affected by corruption, the business community regularly ranks the following three at the top of the list: Tax Office, Specialized Inspection Agency, and Customs (Figure 5.6). Tax Office was at the top in 2016 with 29.1 percent, then in 2017 it substantially dropped to 18.8 percent and shifted to the third place. In 2018, the ranking of Tax Office moved up to the second place with 24.8 percent. There is a notable link between the 2018 decline in the assessment of the business environment and increased frequency of mentioning high taxes as obstacles, as well as respondents ranking the Tax Office as the top institution most affected by corruption.

Specialized Inspection Agency moved from the second position in 2016 (27.6 percent) to the first place in 2017 (25.2 percent) and remains there in 2018 (28.8 percent). Customs also shifted positions but stayed at the top. It ranked third place in 2016 (25.5 percent), second in 2017 (23 percent), and third in 2018 (18.8 percent). Despite its high ranking, the percentage of respondents mentioning Customs between 2016-2018 has been steadily declining.[3]

In 2016 and 2017, Land Administration was positioned as fourth with 18.2 percent and 17.3 percent accordingly. In 2018 with the introduction of the new category "Courts," Land Administration shifted to a fifth position (11.8 percent) while "Courts" replaced it in fourth place (16.1 percent). The number of respondents mentioning Land Administration has also declined in each of the last two years.

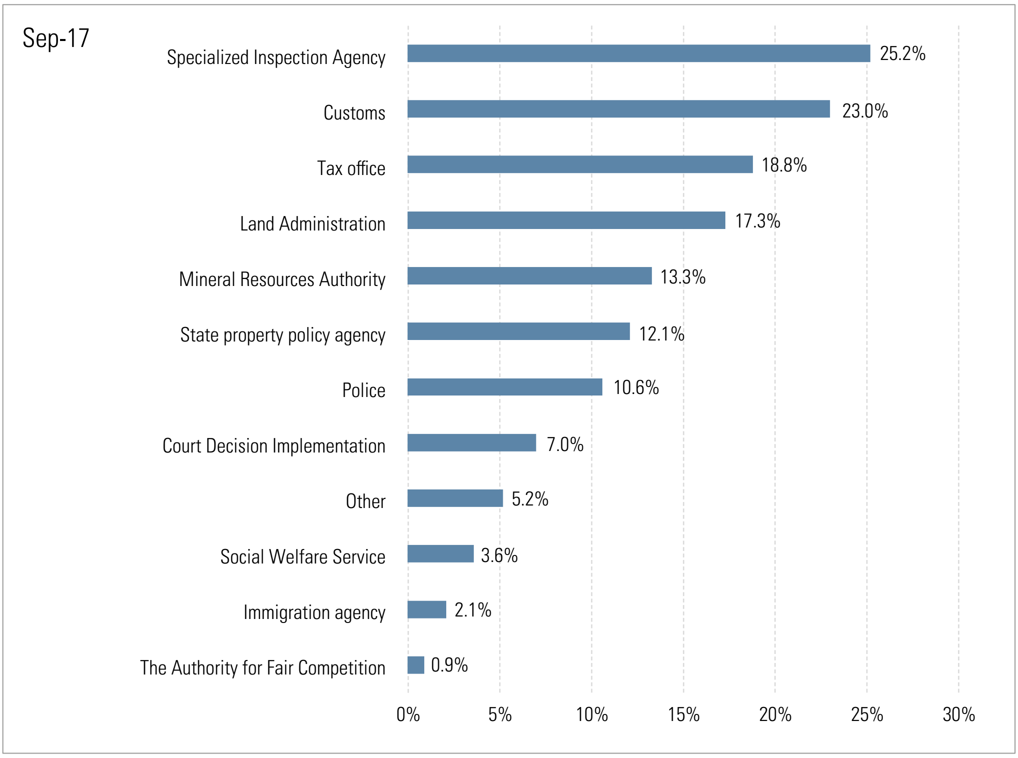
Figure 5.6. In your observation, derived from your business activity which of the following state service, agencies are most affected by corruption? (multiple responses)

a)

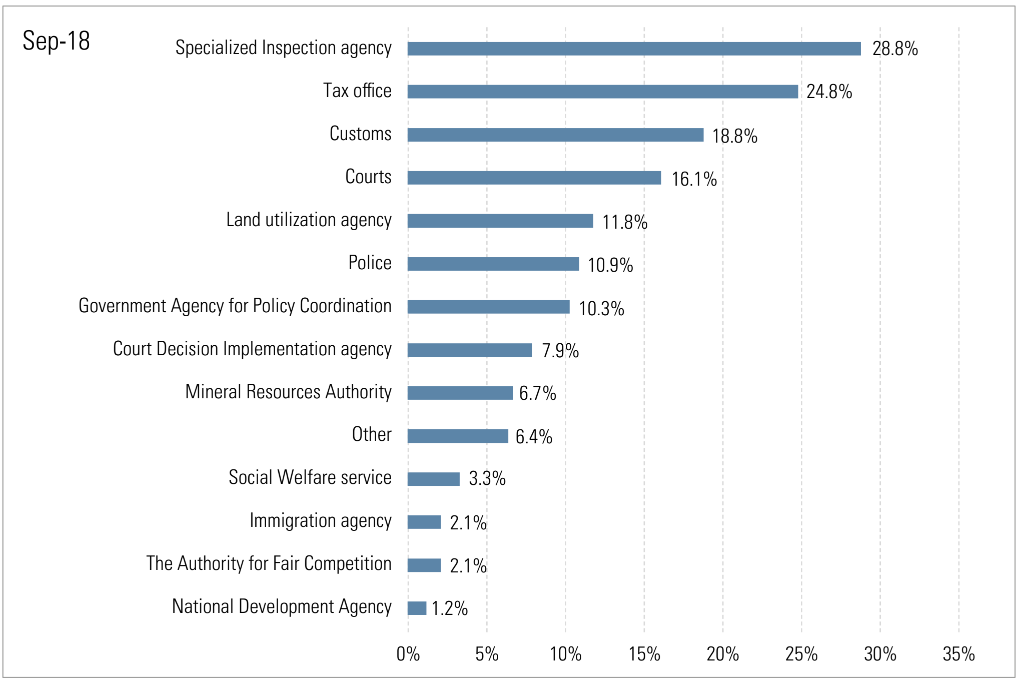


[3] Direct comparison of these changes is problematic due to some methodological changes introduced in 2018 survey.

b)

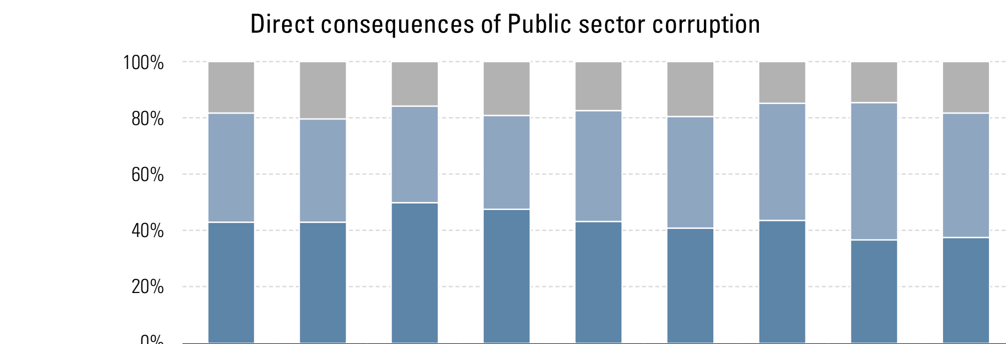

Sep-17
Specialized Inspection Agency
25.2%
Customs
23.0%
Tax office
18.8%
Land Administration
17.3%
Mineral Resources Authority
13.3%
State property policy agency
12.1%
Police
10.6%
Court Decision Implementation
7.0%
Other
5.2%
Social Welfare Service
3.6%
Immigration agency
2.1%
The Authority for Fair Competition
0.9%
0%
5%
10%
15%
20%
25%
30%

c)


Sep-18
Specialized Inspection agency
28.8%
Tax office
24.8%
Customs
18.8%
Courts
16.1%
Land utilization agency
11.8%
Police
10.9%
Government Agency for Policy Coordination
10.3%
Court Decision Implementation agency
7.9%
Mineral Resources Authority
6.7%
Other
6.4%
Social Welfare service
3.3%
Immigration agency
2.1%
The Authority for Fair Competition
2.1%
National Development Agency
1.2%
0%
5%
10%
15%
20%
25%
30%
35%

In 2018, the number of respondents who believe that corruption in the public sector has a direct effect on them is at the same level as in 2017 but is lower than in previous years (Figure 5.7). Despite this trend, the figure remains high, with over a third of respondents reporting that it affects them directly (37.6 percent). This may serve as an indicator of the negative impact business owners and managers perceive of the inefficient public sector on the private sector.

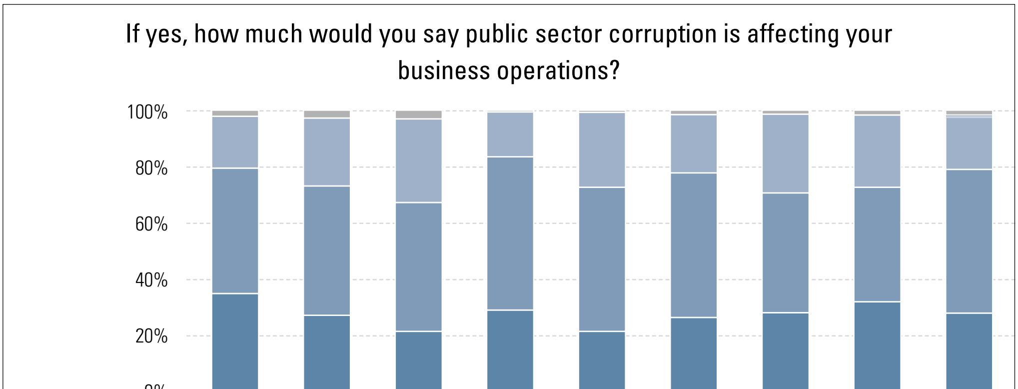
Figure 5.7. Direct consequences of Public sector corruption



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	18.2%	20.3%	15.8%	19.1%	17.3%	19.4%	14.8%	14.5%	18.2%
No	38.8%	36.7%	34.2%	33.3%	39.4%	39.7%	41.5%	48.8%	44.2%
Yes	43.0%	43.0%	50.0%	47.6%	43.3%	40.9%	43.6%	36.7%	37.6%

Among those who reported effects, nearly a third (28.2 percent) reported that their business was affected "a lot," and slightly over a half (50.8 percent) reported that there is "some" impact on their business.

Figure 5.8. Public sector corruption's effect on business operations



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	2.1%	2.8%	3.0%	0.6%	0.7%	1.5%	1.4%	1.7%	1.6%
None									0.8%
A little	18.3%	23.9%	29.7%	15.9%	26.6%	20.7%	27.8%	25.6%	18.5%
Some	44.4%	45.8%	45.5%	54.1%	51.0%	51.1%	42.4%	40.5%	50.8%
A lot	35.2%	27.5%	21.8%	29.3%	21.7%	26.7%	28.5%	32.2%	28.2%

In more recent years the number of bidders on government tenders had slightly increased in 2018 and reached 26.7 percent (Figure 5.9). Nevertheless, the number of respondents willing to bid is still considerably lower than in earlier surveys. Overall, participation in bidding under Mongolia People Party governance is lower than in Democratic Party governance. However, the assessment of the impact of high-level corruption on private business appears to be lower with only a tenth of respondents believing it affects them a lot (Figure 5.10).

Figure 5.9. Bidding on government's tenders

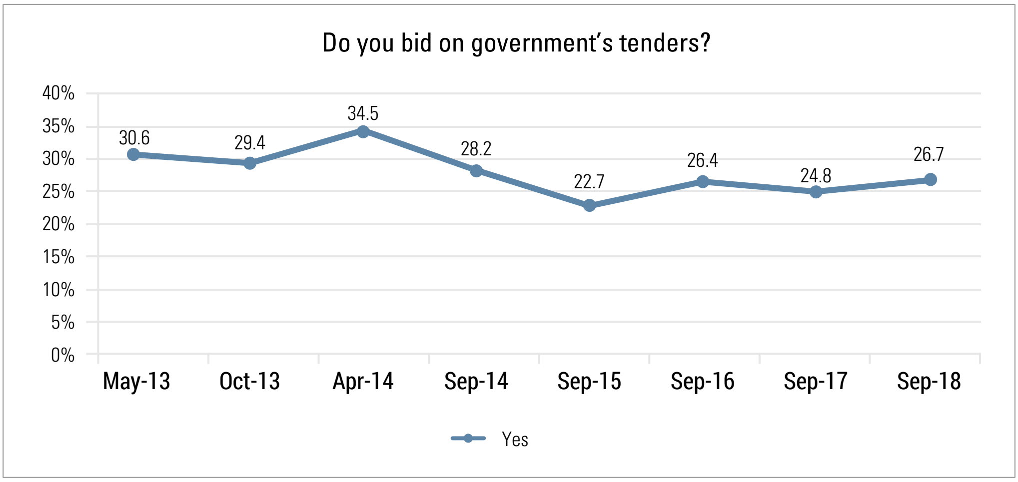
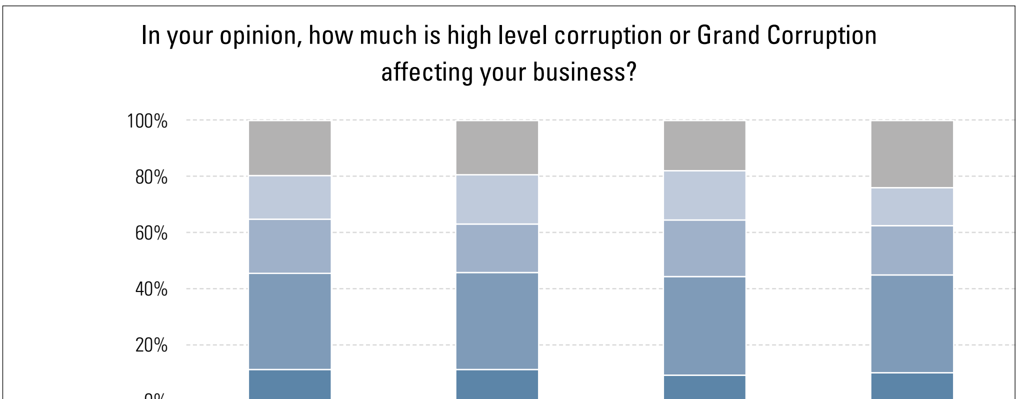


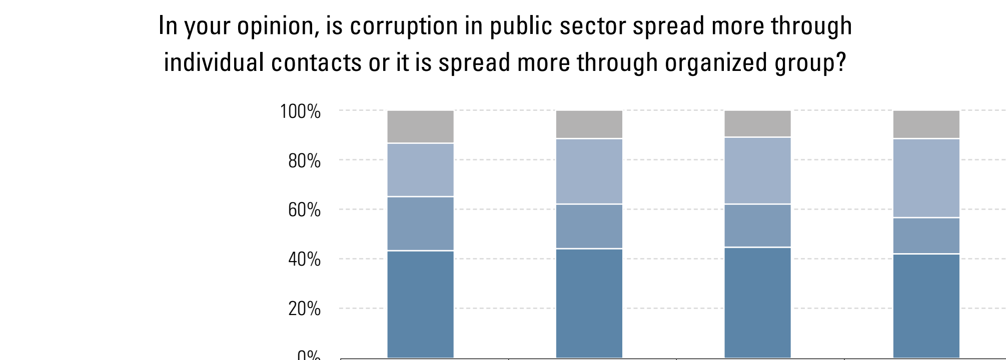
Figure 5.10. Grand Corruption impact on business



	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	19.7%	19.4%	17.9%	23.9%
None	15.5%	17.6%	17.6%	13.6%
A little	19.1%	17.0%	20.0%	17.3%
Some	34.2%	34.5%	35.2%	34.8%
A lot	11.5%	11.5%	9.4%	10.3%

When it comes to the channels through which public sector corruption is spread, 42.1 percent of respondents believe it is a mixture of individuals and organized groups (Figure 5.11). However, 31.8 percent of respondents believe that more organized groups facilitate corruption in the public sector. The number of respondents believing that it had spread through individual contacts is declining. Over the past four years, it had declined from 21.8 percent in 2015 to 14.5 percent in 2018. These trends support a view that the corruption in public tenders is more complex than a 'traditional' way of personal dealings.

Figure 5.11. Channels spreading corruption in the public sector



	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	13.3%	11.5%	10.9%	11.5%
More through organized groups	21.5%	26.4%	27.0%	31.8%
More through individual contacts	21.8%	17.9%	17.3%	14.5%
Equally through individual contacts and organized groups	43.3%	44.2%	44.8%	42.1%

CORRUPTION IN THE PRIVATE SECTOR

VI. CORRUPTION IN THE PRIVATE SECTOR

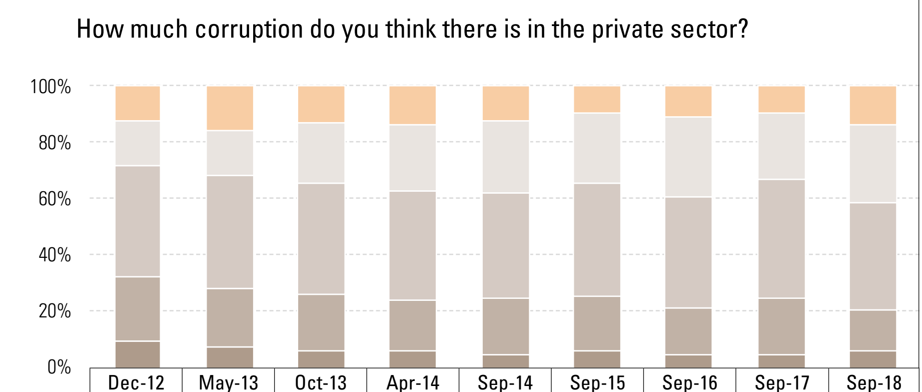
The assessment of corruption in the private sector is better than the assessment of corruption in the public sector (Figure 6.1-6.2). In 2018, 27.6 percent of respondents reported no corruption in the private sector (Figure 6.1), while only 1.2 percent of respondents said that there is no corruption in the public sector (Figure 5.1). The data provided by IAAC and published by the National Statistics Office support this difference in assessments. Table 6.1 shows IAAC data on damage from corruption, and it indicates that damage done in the public sector outnumbers that damage done in the private sector by almost 20 times on average. Looking at the means also shows that both 2016 and 2018 results are at the same level, which is the best-observed evaluation of the private sector since the start of the survey (Figure 6.1b).

Table 6.1. Damage caused by cases of corruption (in billions MNT).[4]

	2010	2015	2016	2017
Public property	24.1	35.8	31.9	63.2
Private property	1.0	2.9	1.3	3.3

Figure 6.1. Assessment of corruption in the private sector [4]

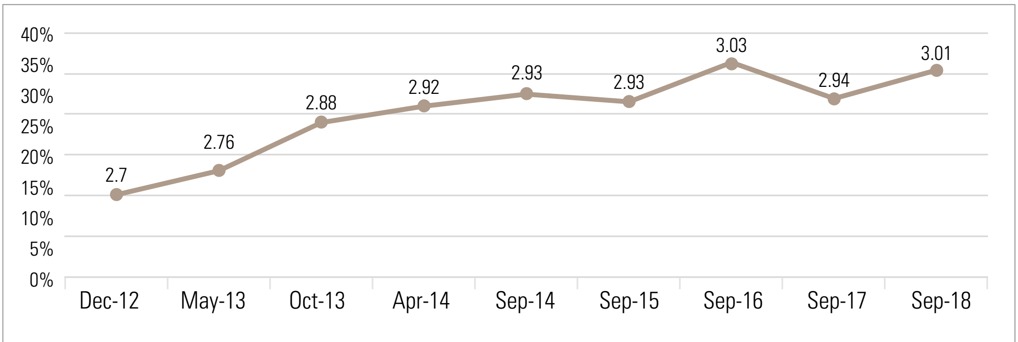
a)



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	12.1%	15.8%	12.7%	13.6%	12.4%	9.4%	10.6%	9.4%	13.6%
None	16.1%	15.8%	21.8%	23.6%	25.2%	25.2%	28.8%	23.6%	27.6%
A little	39.4%	40.0%	39.1%	38.5%	37.9%	39.7%	39.4%	42.1%	38.2%
Some	22.7%	21.2%	20.6%	17.9%	19.7%	20.0%	16.4%	20.3%	14.8%
A lot	9.7%	7.3%	5.8%	6.4%	4.8%	5.8%	4.8%	4.5%	5.8%

[4] Mongolian Statistics Yearbook 2017

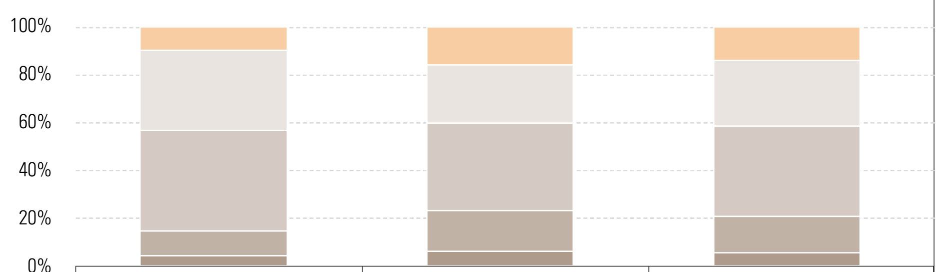
b) Means of corruption assessment in the private sector (from 1: "a lot" to 4: "None").



Gender comparison reveals that in 2018 male management reports less corruption in the private sector than their female colleagues.

Figure 6.2. Corruption in the private sector (by gender)

How much corruption do you think there is in the private sector? (2018)

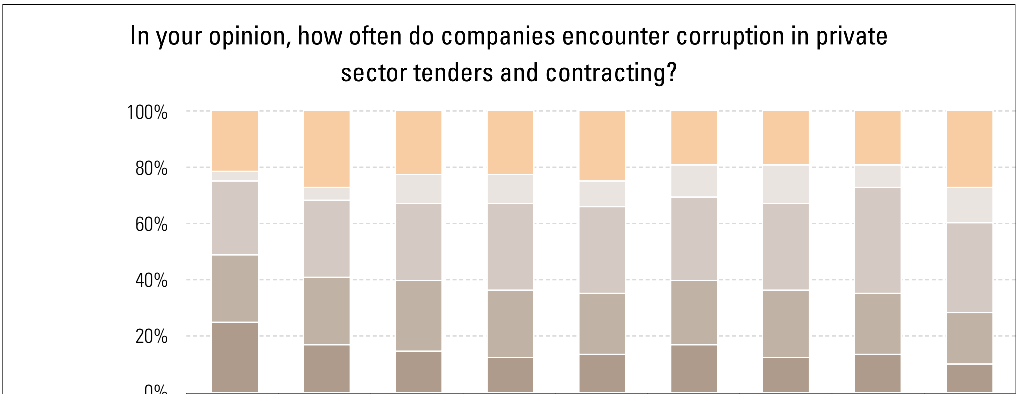


	male	female	average
DK/NA	9.7%	15.7%	13.6%
None	33.6%	24.4%	27.6%
A little	41.6%	36.4%	38.2%
Some	10.6%	17.1%	14.8%
A lot	4.4%	6.5%	5.8%

In 2018, the respondent's reporting of encountering corruption in the private sector during contracting and tendering was at an all-time low (Figure 6.3). If in 2012, 24.89 percent of respondents reported there was "always" corruption in private tenders and contracting, in 2018 it dropped to 9.7 percent. The number of respondents saying they "never" encountered corruption increased from 3.3 percent in 2012 to 12.7 percent in 2018. The average of encounters with corruption had also improved from 2.51 to 2.65. Overall, the continuous positive trend shows that we might expect a gradual improvement in tenders and contracting for upcoming years.

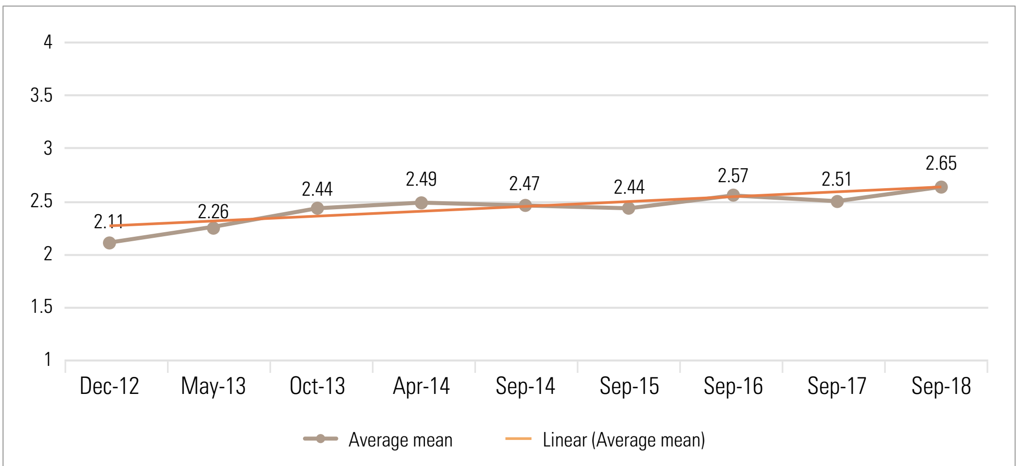
Figure 6.3. Encountering corruption in private sector tenders and contracting

a)

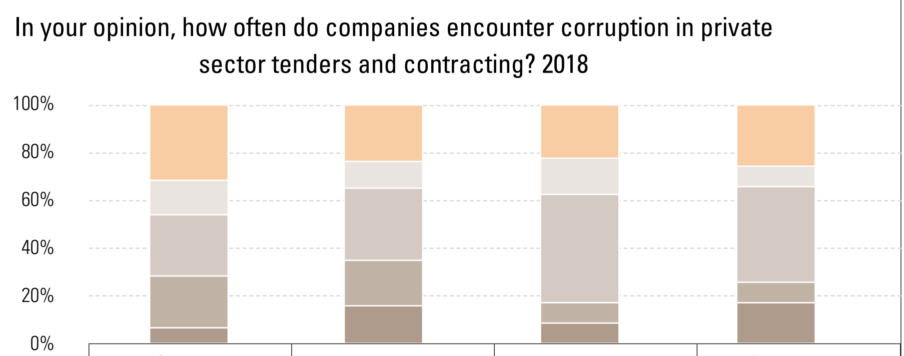


	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	21.5%	27.6%	23.0%	23.3%	25.2%	19.4%	19.1%	19.7%	27.6%
Never	3.3%	4.5%	10.3%	9.4%	8.8%	11.2%	13.6%	8.2%	12.7%
Rarely	26.7%	26.7%	27.6%	31.5%	30.6%	30.3%	31.2%	37.6%	31.5%
Often	23.6%	24.5%	24.5%	23.0%	22.4%	22.1%	23.6%	21.2%	18.5%
Always	24.8%	16.7%	14.5%	12.7%	13.0%	17.0%	12.4%	13.3%	9.7%

b) Means of encountering corruption (ranging from 1: “always” to 4:” never”)



c)

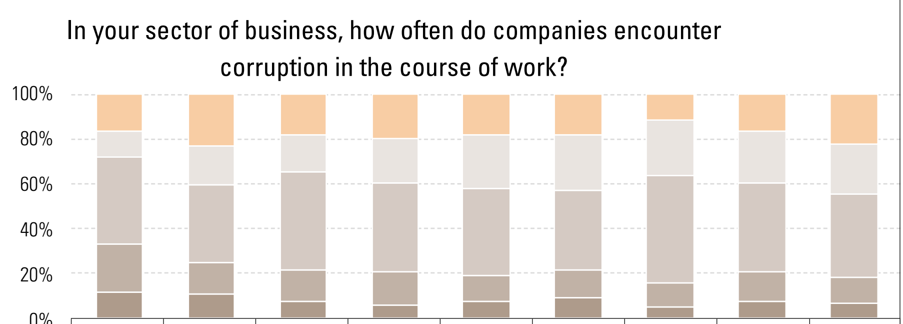


	Services	Trade	Manufacturing	Construction
DK/NA	31.8%	23.8%	22.4%	25.7%
Never	14.6%	11.1%	15.5%	8.6%
Rarely	25.2%	30.2%	44.8%	40.0%
Often	21.9%	19.0%	8.6%	8.6%
Always	6.6%	15.9%	8.6%	17.1%

In 2018, reports of encountering corruption in the course of work was better than in 2017, but worse compared to 2016 (Figure 6.4). In 2018 over a fifth of respondents reported that they "never" encounter corruption in the course of their work (22.7 percent), while only a small number reported that they "always" have this problem (6.1 percent). Therefore, regarding corruption encountered in the course of work, despite some fluctuations, in comparison to corruption in public tenders and contracting, the situation in the private sector in general is steadily improving.

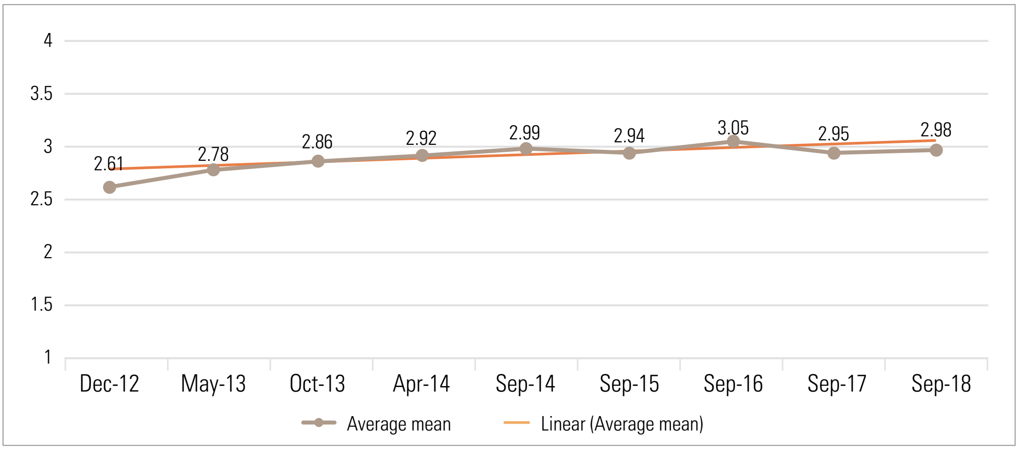
Figure 6.4. Encountering corruption in the course of work (valid % only)

a)



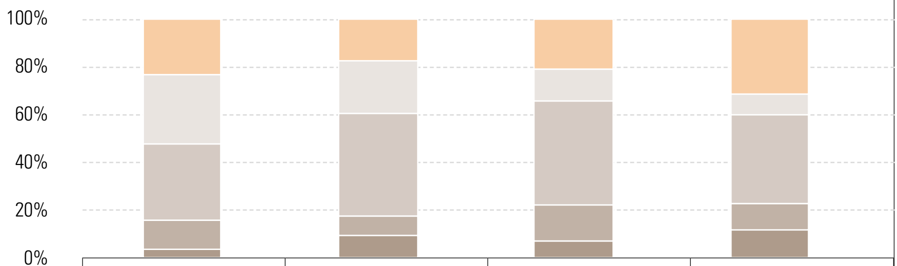
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	16.1%	22.7%	17.9%	20.0%	17.9%	18.2%	11.8%	16.10%	22.4%
Never	12.1%	17.6%	17.0%	19.7%	24.5%	24.5%	24.8%	23.60%	22.7%
Rarely	38.8%	35.2%	43.9%	39.7%	39.1%	36.4%	47.6%	39.70%	37.0%
Often	21.5%	14.2%	13.9%	15.2%	11.8%	12.1%	11.2%	13.60%	11.8%
Always	11.5%	10.3%	7.3%	5.5%	6.7%	8.8%	4.5%	7.00%	6.1%

b) Means of encountering corruption (from 1: "always" to 4:" never")



c)

In your sector of business, how often do companies encounter corruption in the course of work? Compares by four sectors in 2018

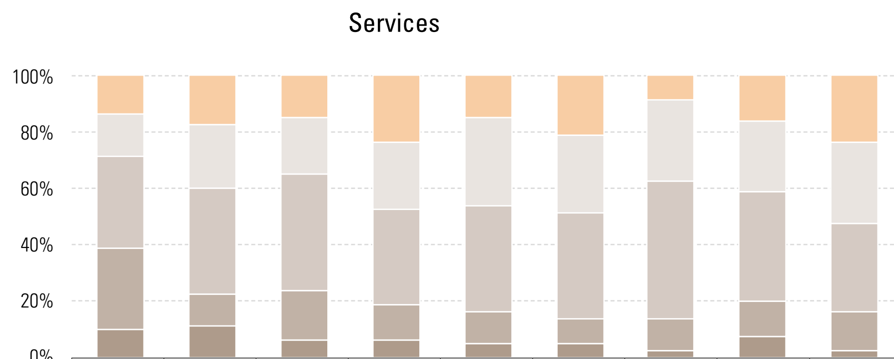


	Services	Trade	Manufacturing	Construction
DK	23.2%	17.5%	20.7%	31.4%
Never	29.1%	22.2%	13.8%	8.6%
Rarely	31.8%	42.9%	43.1%	37.1%
Often	12.6%	7.9%	15.5%	11.4%
Always	3.3%	9.5%	6.9%	11.4%

However, encountering corruption during work varies significantly depending on the business sector, as mentioned in previous STOPP reports (Figure 6.5). In 2018, the overall assessment of the situation in services is better compared to the previous year, while the situation in trade had worsened. In 2018, what is different is that there is a very high number of those who can not evaluate encounters of corruption compared to previous years. For example, a fifth of respondents in manufacturing (20.7 percent) and in construction (31.4 percent). Moreover, in both sectors, the evaluation has become worse than in the previous year.

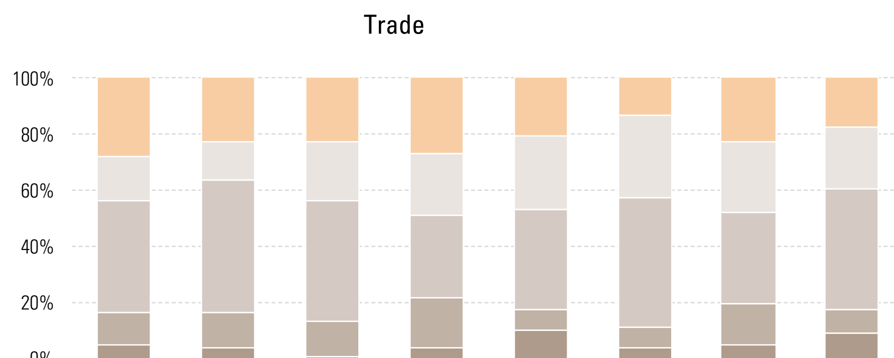
Figure 6.5. In your sector of business, how often do companies encounter corruption in the course of work?

a)



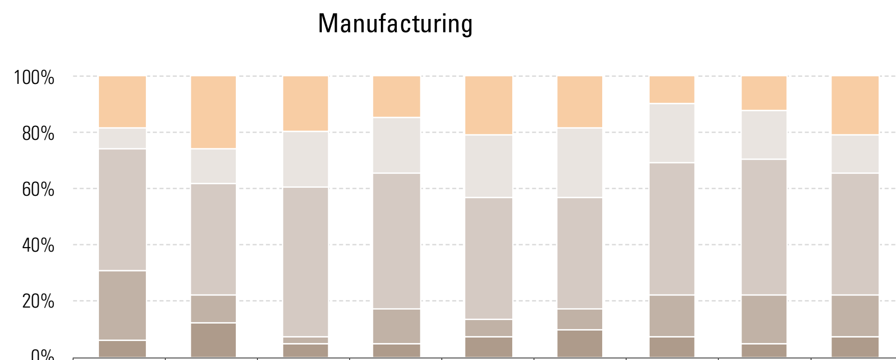
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	13.8%	17.4%	14.6%	23.7%	15.3%	21.4%	8.6%	15.8%	23.2%
Never	14.9%	22.6%	20.4%	23.7%	30.5%	27.1%	29.3%	25.6%	29.1%
Rarely	33.0%	37.4%	41.7%	33.3%	38.2%	37.1%	48.6%	38.3%	31.8%
Often	28.7%	11.3%	16.5%	13.2%	11.5%	9.3%	10.7%	12.8%	12.6%
Always	9.6%	11.3%	6.8%	6.1%	4.6%	5.0%	2.9%	7.5%	3.3%

b)



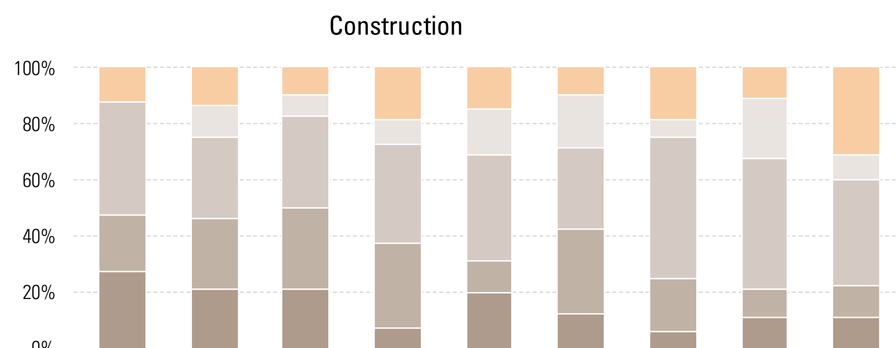
	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	28.1%	22.8%	23.5%	26.9%	21.4%	13.2%	23.4%	17.5%
Never	15.6%	14.1%	20.6%	22.4%	25.0%	29.4%	24.7%	22.2%
Rarely	39.6%	45.7%	42.6%	28.4%	35.7%	45.6%	32.5%	42.9%
Often	11.5%	13.0%	11.8%	17.9%	7.1%	7.4%	14.3%	7.9%
Always	5.2%	4.3%	1.5%	4.5%	10.7%	4.4%	5.2%	9.5%

c)



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	18.8%	26.2%	19.1%	14.8%	21.3%	18.3%	8.9%	11.8%	20.7%
Never	6.3%	11.9%	20.6%	19.7%	21.3%	25.0%	21.4%	17.6%	13.8%
Rarely	43.8%	40.5%	52.9%	49.2%	44.3%	40.0%	48.2%	49.0%	43.1%
Often	25.0%	9.5%	2.9%	11.5%	6.6%	6.7%	14.3%	17.6%	15.5%
Always	6.3%	11.9%	4.4%	4.9%	6.6%	10.0%	7.1%	3.9%	6.9%

d)

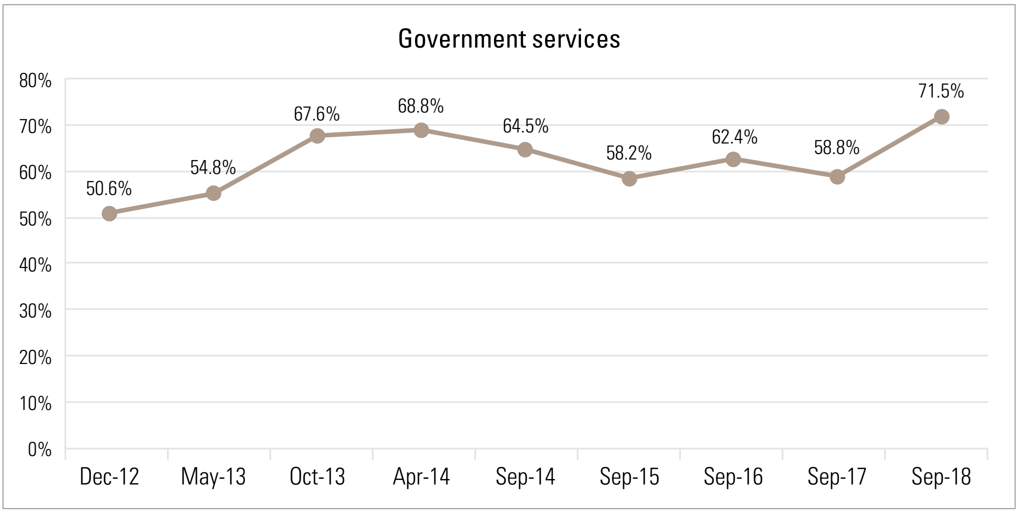


	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK/NA	12.5%	14.3%	10.7%	19.6%	15.6%	10.2%	18.6%	11.6%	31.4%
Never	0.0%	10.7%	7.1%	7.8%	15.6%	18.4%	7.0%	20.9%	8.6%
Rarely	40.0%	28.6%	32.1%	35.3%	37.8%	28.6%	48.8%	46.5%	37.1%
Often	20.0%	25.0%	28.6%	29.4%	11.1%	30.6%	18.6%	9.3%	11.4%
Always	27.5%	21.4%	21.4%	7.8%	20.0%	12.2%	7.0%	11.6%	11.4%

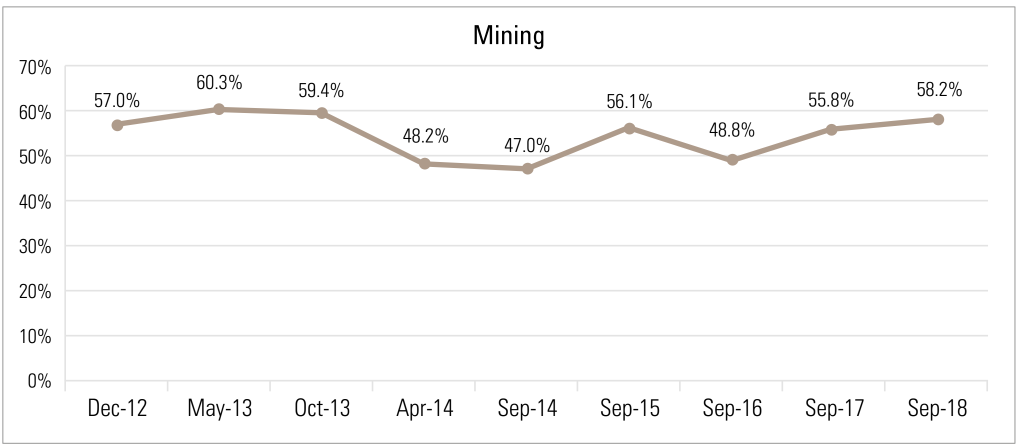
The positive trend in respondents' evaluation of the vulnerability of government services to corruption observed over the past few years has been reversed in 2018 (Figure 6.6). A majority of respondents mentioned government services as vulnerable to corruption (71.5 percent), which is the highest value observed since 2012. The situation in mining is also worse than in previous years (58.2 percent). In comparison, in the construction sector the evaluation has been steady, and in finance and manufacturing the situation is improving. The electricity, heating and water sector is more stable in recent years and is among the sectors evaluated as less vulnerable to corruption.

Figure 6.6. Sectors most vulnerable to corruption (multiple responses)

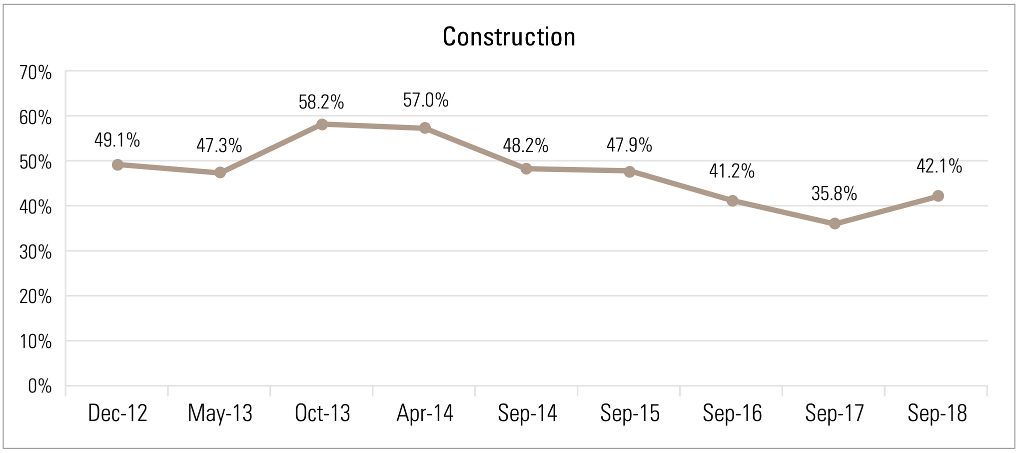
a)



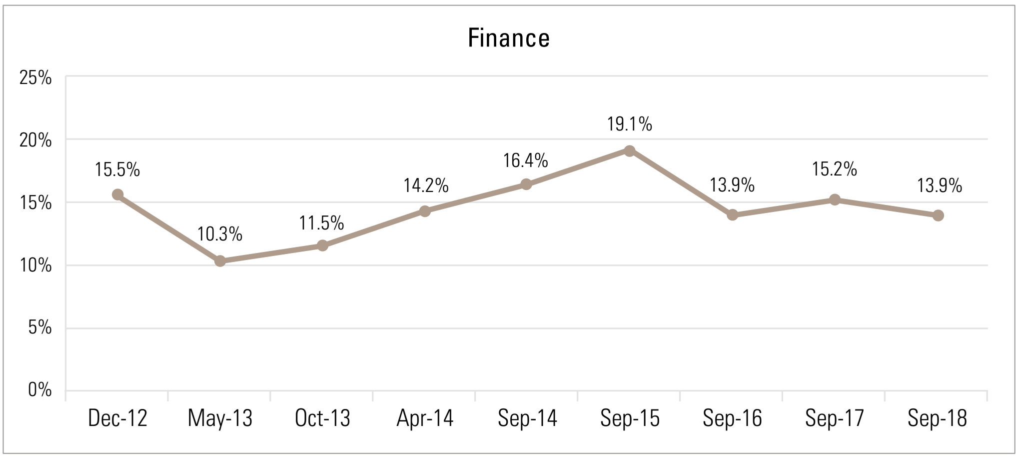
b)



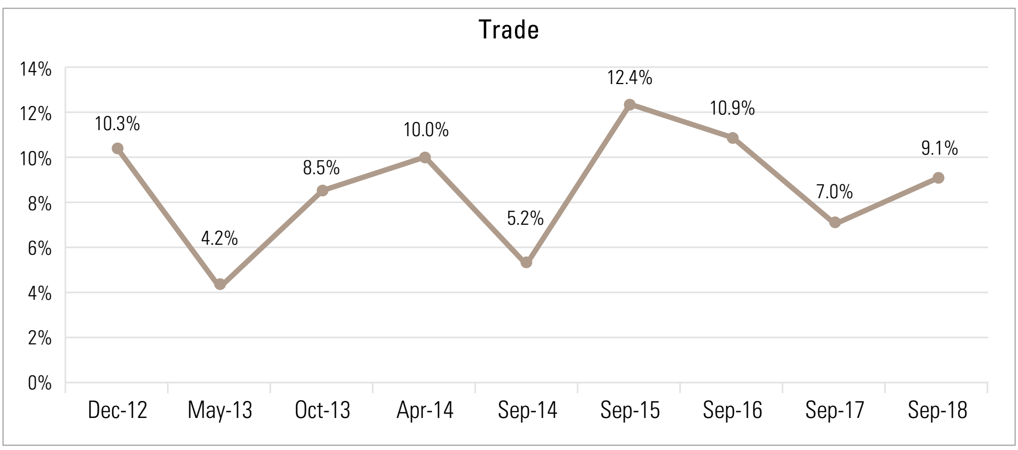
c)


Construction
70%
60%
50%
40%
30%
20%
10%
0%
49.1%
47.3%
58.2%
57.0%
48.2%
47.9%
41.2%
35.8%
42.1%
Dec-12
May-13
Oct-13
Apr-14
Sep-14
Sep-15
Sep-16
Sep-17
Sep-18

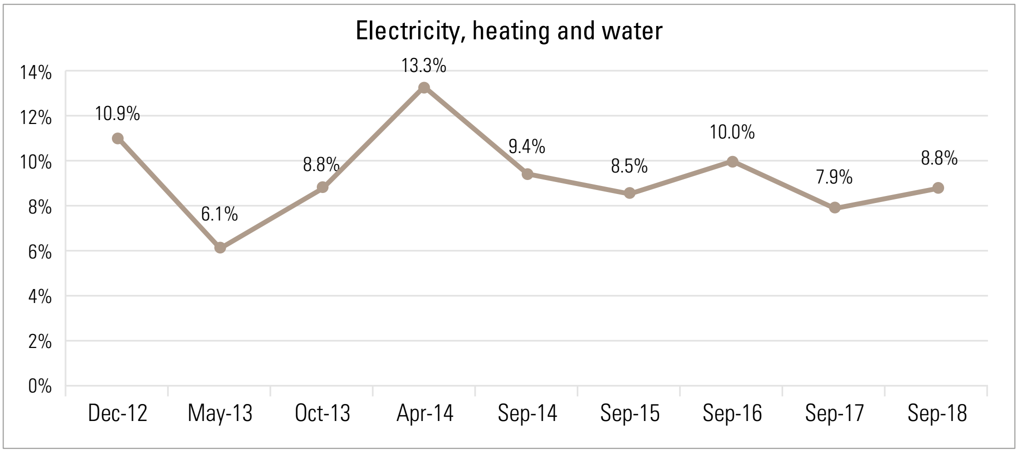
d)


Finance
25%
20%
15%
10%
5%
0%
15.5%
10.3%
11.5%
14.2%
16.4%
19.1%
13.9%
15.2%
13.9%
Dec-12
May-13
Oct-13
Apr-14
Sep-14
Sep-15
Sep-16
Sep-17
Sep-18

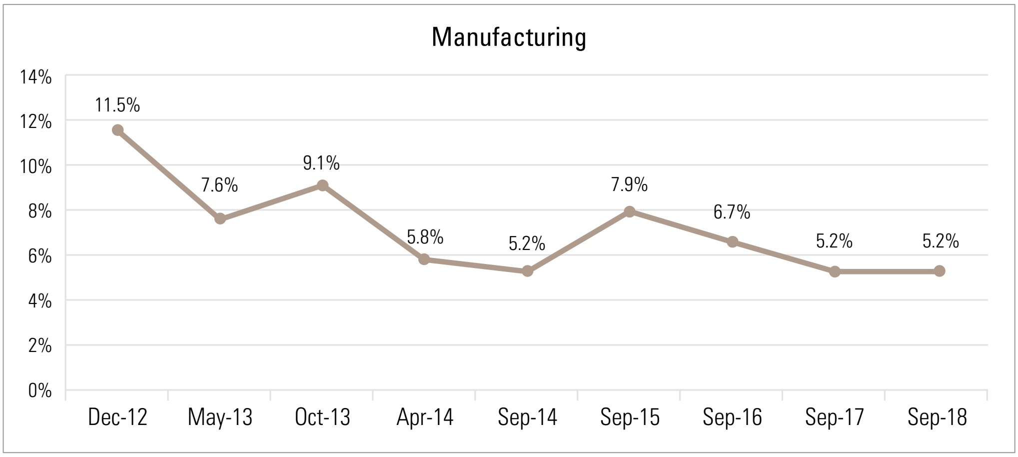
e)


Trade
14%
12%
10%
8%
6%
4%
2%
0%
10.3%
4.2%
8.5%
10.0%
5.2%
12.4%
10.9%
7.0%
9.1%
Dec-12
May-13
Oct-13
Apr-14
Sep-14
Sep-15
Sep-16
Sep-17
Sep-18

f)

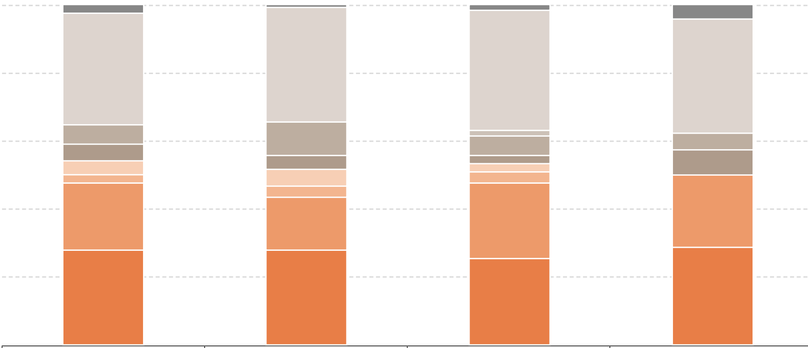

Electricity, heating and water
14%
12%
10%
8%
6%
4%
2%
0%
10.9%
6.1%
8.8%
13.3%
9.4%
8.5%
10.0%
7.9%
8.8%
Dec-12
May-13
Oct-13
Apr-14
Sep-14
Sep-15
Sep-16
Sep-17
Sep-18

g)


Manufacturing
14%
12%
10%
8%
6%
4%
2%
0%
11.5%
7.6%
9.1%
5.8%
5.2%
7.9%
6.7%
5.2%
5.2%
Dec-12
May-13
Oct-13
Apr-14
Sep-14
Sep-15
Sep-16
Sep-17
Sep-18

h)

Sectors most vulnerable to corruption by business area 2018

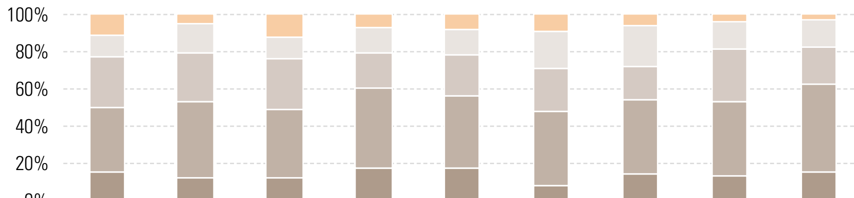


	Services	Trade	Manufacturing	Construction
DK/NA	5.3%	1.6%	3.4%	8.6%
Government services	72.8%	73.0%	74.1%	62.9%
Other private services	0.0%	0.0%	3.4%	0.0%
Finance	13.9%	22.2%	12.1%	8.6%
Trade	9.9%	9.5%	5.2%	14.3%
Electricity, Heating and Water	9.9%	11.1%	5.2%	0.0%
Manufacturing	5.3%	6.3%	6.9%	0.0%
Construction	44.4%	34.9%	46.6%	40.0%
Mining	61.6%	60.3%	53.4%	54.3%

Since 2015, the reports about the number of companies paying the right amount of tax to the government are gradually improving (Figure 6.7). Compared to 2017, in 2018 the number of those who mentioned "almost all companies" increased by 2.5 percent and reached 15.8 percent while "most companies" increased by 7.3 percent and reached 46.4 percent.

Figure 6.7. Companies paying the right amount of tax to the Government (valid only)

In your sector of business, how many companies do you think pay the right amount of tax to the Government?



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
None of the companies	12.0%	5.1%	12.7%	7.9%	8.2%	9.7%	7.0%	4.5%	3.9%
Hardly any companies	11.1%	15.8%	11.5%	12.4%	13.3%	19.1%	21.8%	14.8%	14.5%
Few companies	27.2%	25.9%	25.8%	19.1%	21.8%	21.8%	17.3%	28.2%	19.4%
Most companies	34.6%	40.5%	36.4%	41.8%	38.5%	39.1%	39.1%	39.1%	46.4%
Almost all companies	15.1%	12.7%	11.8%	17.0%	17.0%	7.9%	14.5%	13.3%	15.8%

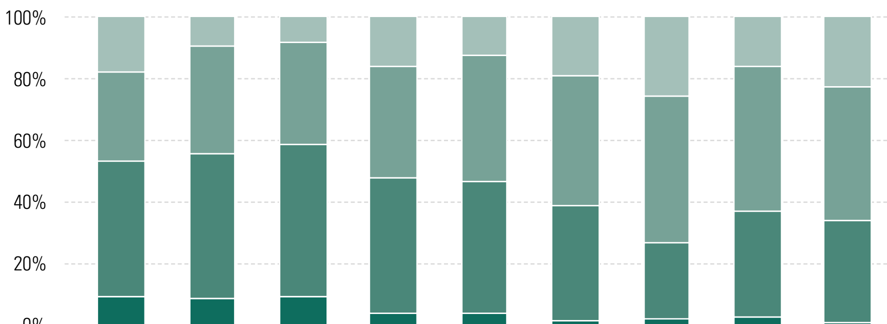
FIGHTING CORRUPTION

VII. FIGHTING CORRUPTION

Overall, the respondents reported low levels of knowledge about government efforts to fight corruption, with over half reporting no knowledge or almost no knowledge of these efforts. In 2018, respondents' knowledge of government efforts to fight corruption remains at the same level as in 2017 (Figure 7.1). If in total, 62.8 percent of respondents had "no knowledge at all" or "almost no knowledge," in 2018 their number slightly increased to 66 percent. The trend over seven years shows no sign of improvement, but rather a worsening situation with a very few respondents reporting that they have "extensive knowledge."

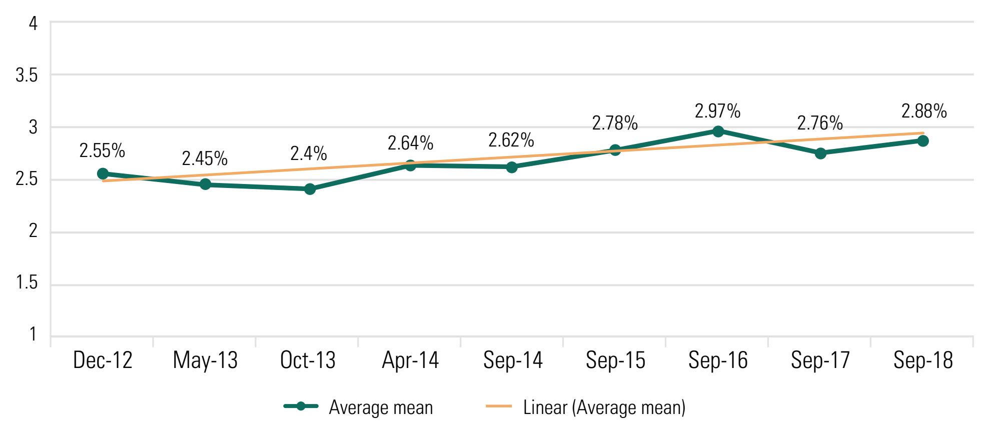
Figure 7.1. How much do you know about the current efforts of the government to fight corruption?

a)



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
No knowledge at all	17.9%	9.4%	8.5%	16.4%	12.4%	19.1%	25.8%	16.4%	23.0%
Almost no knowledge	29.1%	35.2%	32.7%	35.8%	40.9%	42.1%	47.3%	46.4%	43.0%
Some knowledge	43.6%	46.4%	49.4%	43.6%	42.7%	37.0%	24.8%	34.2%	33.0%
Extensive knowledge	9.4%	9.1%	9.4%	4.2%	3.9%	1.8%	2.1%	3.0%	0.9%

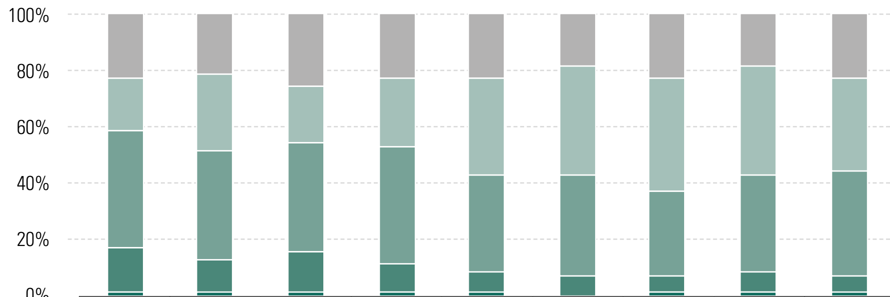
b) Means ranging from 1: "extensive knowledge" to 4: "no knowledge at all".



Similarly, the business community is skeptical about the effects of the legal regime in curbing corruption (Figure 7.2). In 2017, a majority of respondents replied that existing laws are "not at all effective" or "hardly effective" in making the business environment transparent and non-corrupt (72.1 percent). In 2018, their number is still high with 70.6 percent. The overall trend of the situation shows similar negative perspectives.

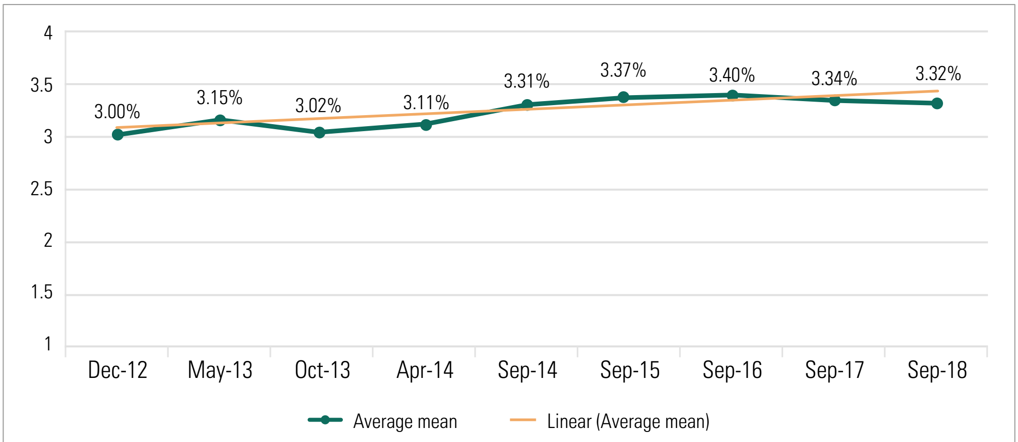
Figure 7.2. Effectiveness of existing laws to make the business environment transparent and non-corrupt

In your opinion, how effective are the existing laws to make the business environment transparent and non-corrupt?



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	23.0%	21.8%	26.4%	23.6%	23.3%	19%	22.5%	19.4%	22.4%
Not at all effective	19.1%	26.4%	18.8%	23.0%	33.3%	38%	39.8%	37.6%	33.0%
Hardly effective	40.9%	38.5%	39.1%	40.9%	34.8%	36%	30.7%	34.5%	37.6%
Somewhat effective	14.5%	12.1%	14.5%	10.3%	7.3%	8%	5.5%	7.0%	5.8%
Very effective	2.4%	1.2%	1.2%	2.1%	1.2%	0%	1.5%	1.5%	1.2%

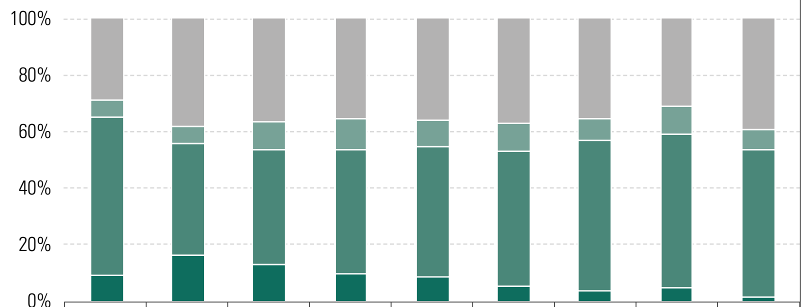
b) Means ranging from 1 "very effective to 4 "not at all effective"



The worsening situation, although related to the time of previous PM J. Erdenebat in office is revealed by comparing the corruption situation to 6 months earlier (Figure 7.3). In September 2017, 9.7 percent of respondents thought that there was more corruption today compared to 7.6 percent in September 2016.

Figure 7.3. Effects from the government's anti-corruption measures

In your opinion, what effect has the Government anti-corruption measures had, specifically in your sector of business, compared to the situation 6 months ago?



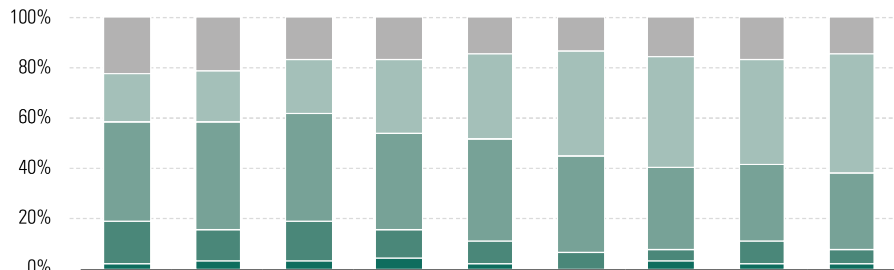
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	28.8%	38.2%	36.4%	35.5%	36.4%	37.3%	35.5%	31.2%	39.4%
There is more corruption	6.4%	6.1%	10.3%	10.9%	8.8%	10.0%	7.6%	9.7%	7.3%
Corruption has remained the same	55.5%	39.4%	40.0%	43.9%	46.1%	47.0%	52.7%	53.9%	51.8%
There is less corruption	9.4%	16.4%	13.3%	9.7%	8.8%	5.8%	4.2%	5.2%	1.5%

In both current government efforts and the legal system, the evaluation of government effectiveness in the overall eradication of corruption is poor (Figure 7.4). By 2018, nearly a half of respondents consider it as "not at all effective" (47.6 percent). It is the highest since we started the survey in 2012, which only a fifth considered it as not effective at all (19.4 percent). The overall trend shows a growing negative assessment.

Figure 7.4. In your opinion, how effective are the steps being taken by the government to eradicate overall corruption in Mongolia?

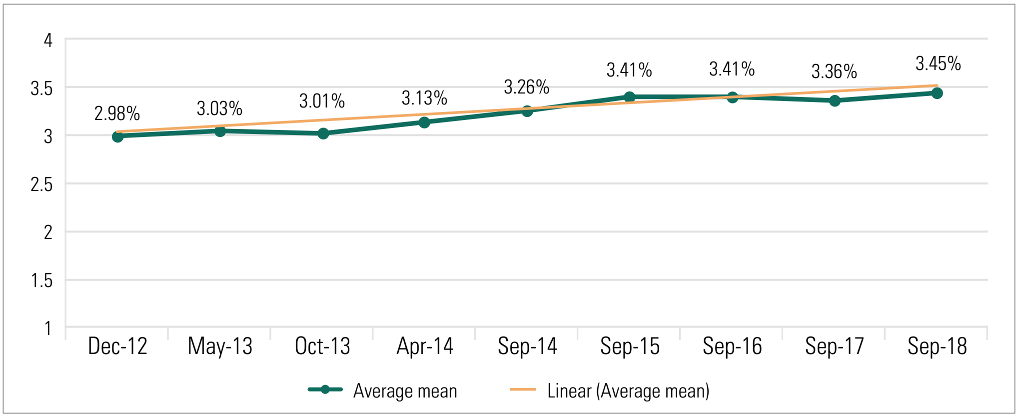
a)

In your opinion, how effective are the steps being taken by the Government to eradicate overall corruption in Mongolia?



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	22.4%	21.8%	17.0%	17.3%	15.2%	14.5%	15.8%	17.6%	14.8%
Not at all effective	19.4%	20.6%	22.1%	29.1%	33.6%	41.2%	44.5%	41.8%	47.6%
Hardly effective	39.1%	41.8%	41.8%	38.8%	40.9%	38.2%	31.8%	29.7%	30.0%
Somewhat effective	17.6%	13.3%	16.7%	11.2%	8.8%	6.1%	5.5%	9.4%	6.1%
Very effective	1.5%	2.4%	2.4%	3.6%	1.5%	0%	2.4%	1.5%	1.5%

b) Means ranging from 1 “very effective” to 4 “not effective at all”



IAAC statistics on dealing with corruption show a growing number of cases transferred to prosecution (Tab 7.1). In 2017 unprecedentedly, the high number of transferred cases (106) is accompanied by a decreasing number of individuals involved (189). There is an increasing number of individual corruption cases, compared to previous years when more organized groups were involved. Previous years had a much higher number of individuals per case.

Nevertheless, the number of IAAC cases “transferred” do not mean that prosecution is happening for each case. In this way it cannot be seen as indicating that some of the high-profile cases of concern to respondents were resolved by the IAAC. As a result there is growing public frustration in the inability of the government to punish corrupt officials (Figure 7.5). This frustration has reached a peak in 2017-2018. In 2017, a large majority of respondents had the opinion that corrupt officials are “rarely” or “never” facing justice (89.7 percent of respondents) and in 2018 a similarly large majority reported the same way (90.3 percent).

Such attitudes are undoubtedly related to a declining evaluation of the IAAC’s performance (Figure 7.6). Negative assessments are dominating our 2016-2018 surveys of the business community, but this trend was also observed in the general population survey (SPEAK Survey)[5] over a much longer time.

The negative evaluation of the IAAC has been clear over many years and corresponds with the finding that respondents are doubtful that the organization is heading in the right direction (Figure 7.7). Only 10.6 percent of respondents believe that the IAAC is heading the right way against 41.5 percent that believe it is heading in the wrong direction. Nearly half of respondents have no opinion at all (47.9 percent).

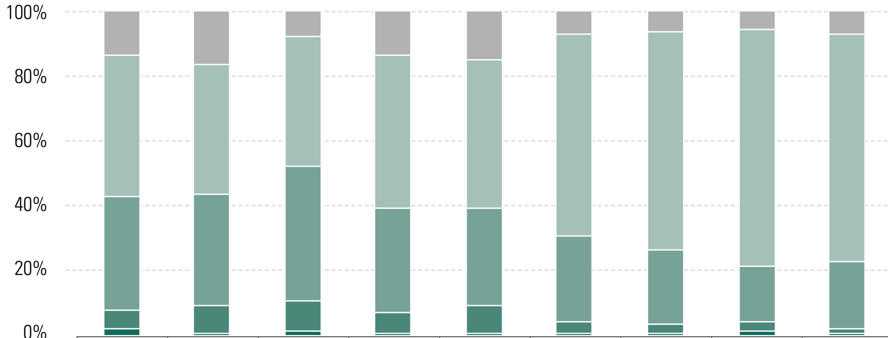
Table 7.1. Corruption cases inspected and transferred to prosecution by the IAAC[6]

	2010	2015	2016	2017
Cases	39	55	67	106
Persons	144	167	206	189
Average person/case	3.7	3.0	3.1	1.8

[5] Follow the link http://khamtdaa.mn/survey-on-perceptions-and-knowledge-of-corruption-2018/ or visit http://www.santmaral.org/
[6] Mongolian Statistical Yearbook, NSO 2017

Figure 7.5. In your opinion, how often does the government punish corrupt government officials?

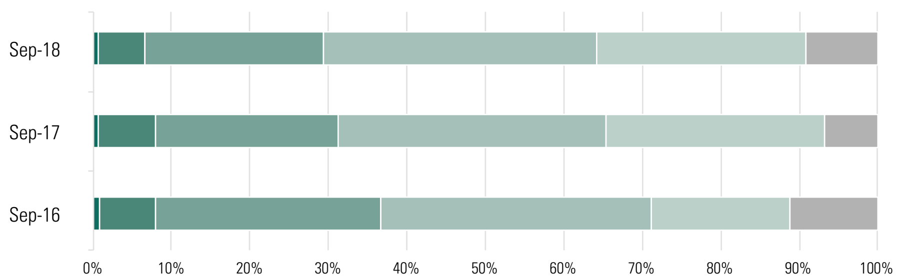
In your opinion, how often does the government punish corrupt government officials?



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	13.9%	16.7%	7.9%	13.6%	14.8%	7.6%	6.4%	6.1%	7.6%
Never	43.6%	39.7%	40.0%	47.6%	46.1%	62.1%	67.6%	73.0%	69.7%
Rarely	34.8%	34.5%	41.5%	32.1%	30.0%	26.4%	22.4%	16.7%	20.6%
Often	5.8%	8.8%	9.7%	6.4%	8.5%	3.6%	3.0%	3.0%	1.8%
Always	1.8%	0.3%	0.9%	0.3%	0.6%	0.3%	0.6%	1.2%	0.3%

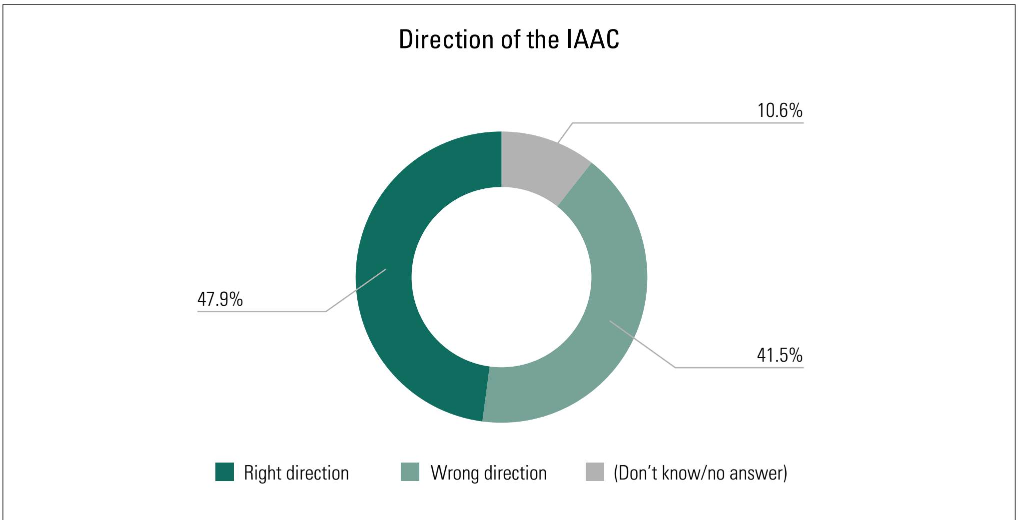
Figure 7.6. The IAAC's performance in fighting corruption

How do you evaluate the IAAC's performance in fighting corruption?



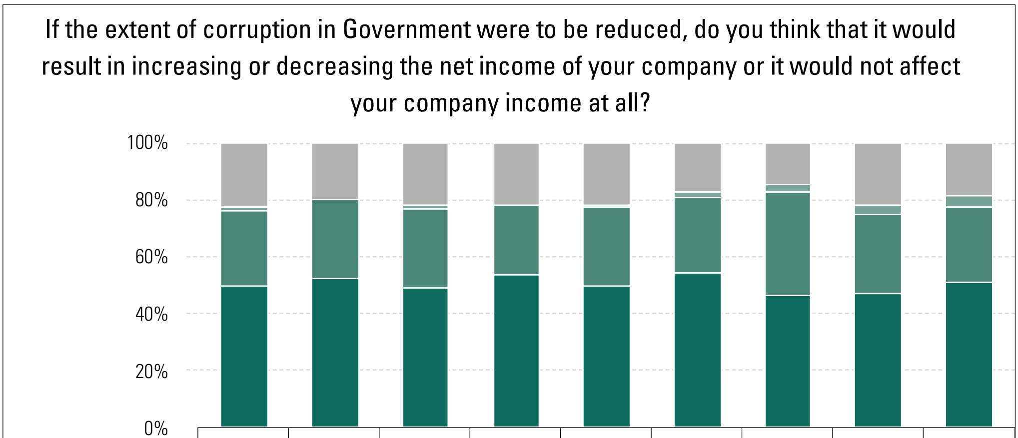
	Sep-16	Sep-17	Sep-18
DK/NA	11.2%	6.7%	9.1%
Bad	17.6%	27.9%	26.7%
Rather bad	34.5%	34.2%	34.8%
Nor good, nor bad	28.8%	23.3%	22.7%
Rather good	7.0%	7.3%	6.1%
Good	0.9%	0.6%	0.6%

Figure 7.7. Direction of the IAAC



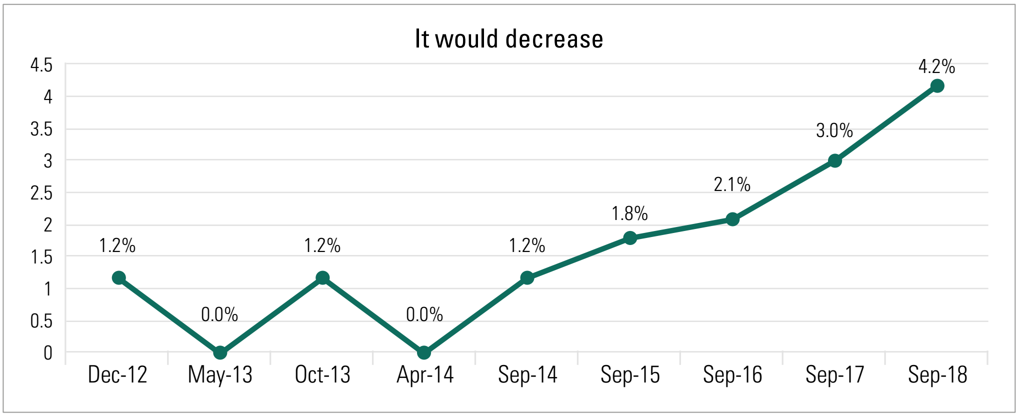
In the assessment of the relationship of government corruption and business activity, approximately half of respondents are expecting higher incomes if government corruption decreases (Figure 7.8). Rather surprising is the observation of 2017 and 2018 that a growing number of respondents are reporting a dependency on government corruption (Figure 7.9). Those expecting a decline in income if corruption is reduced increased from 1.2 percent in 2012 to 4.2 percent in 2018.

Figure 7.8. Effects of reducing the extent of corruption in government



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	22.4%	19.7%	22.1%	21.5%	21.5%	17.0%	14.8%	21.8%	18.5%
It would decrease	1.2%	0.0%	1.2%	0.0%	1.2%	1.8%	2.1%	3.0%	4.2%
It would have no effect	26.4%	27.9%	27.9%	24.8%	27.6%	26.7%	36.4%	27.9%	26.4%
It would increase	50.0%	52.4%	48.8%	53.6%	49.7%	54.5%	46.7%	47.3%	50.9%

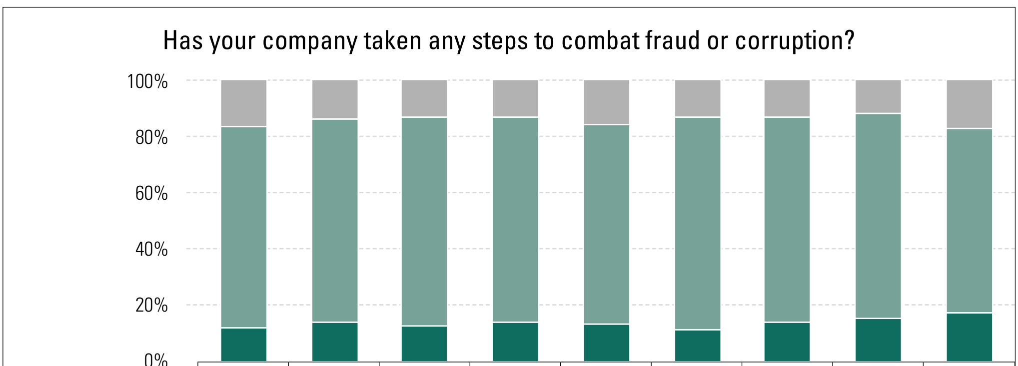
Figure 7.9. If the extent of corruption in government were to be reduced, it would result in decreasing the net income of your company.



A positive shift has been observed since 2015 in the percentage of companies taking some steps to combat corruption. Their numbers increased from 10.9 percent in 2015 to 17.3 percent in 2018 (Figure 7.10). These actions should be of a different nature than reporting corruption, where the number of respondents willing to report corruption decreased from 8.5 percent to 5.2 percent in the same period (Figure 7.11). The main reason of non-reporting is likely to be linked to low effects of such action (Figure 7.12). Less than a fifth of respondents that reported corruption said it had a result.

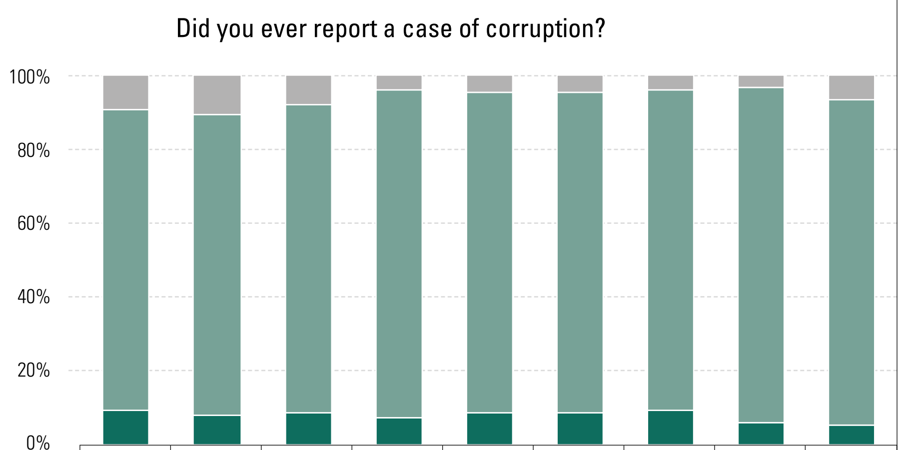
One of the improvements that can be observed is the increased number of companies that adopted a written policy for dealing with corruption. In 2018, the highest number of companies indicated that they have such a policy: 20 percent compared to 13.9 percent in a previous year (Figure 7.13). Still, a large majority of companies do not have such a policy.

Figure 7.10. If yes, did it have any result?



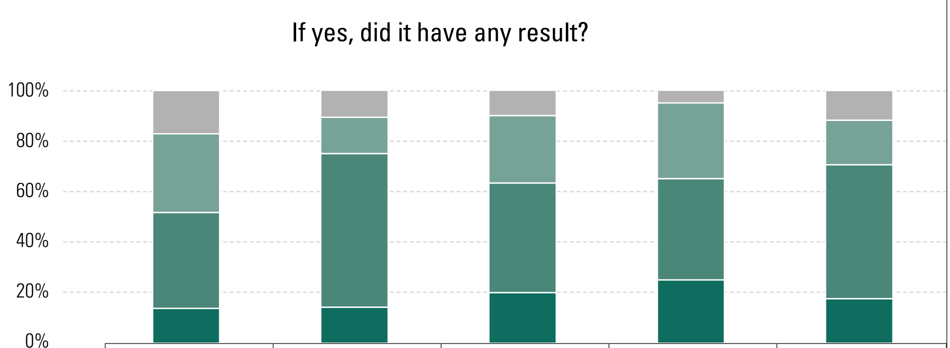
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	16.7%	13.9%	13.0%	13.3%	15.5%	13.3%	13.3%	11.8%	17.0%
No	71.5%	72.1%	74.5%	72.7%	71.5%	75.8%	72.4%	73.0%	65.8%
Yes	11.8%	13.9%	12.4%	13.9%	13.0%	10.9%	14.2%	15.2%	17.3%

Figure 7.11. Report a case of corruption



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	9.1%	10.6%	7.6%	3.6%	4.5%	4.2%	3.6%	3.3%	6.1%
No	81.8%	81.5%	83.6%	89.1%	86.7%	87.3%	87.3%	90.6%	88.8%
Yes	9.1%	7.9%	8.8%	7.3%	8.8%	8.5%	9.1%	6.1%	5.2%

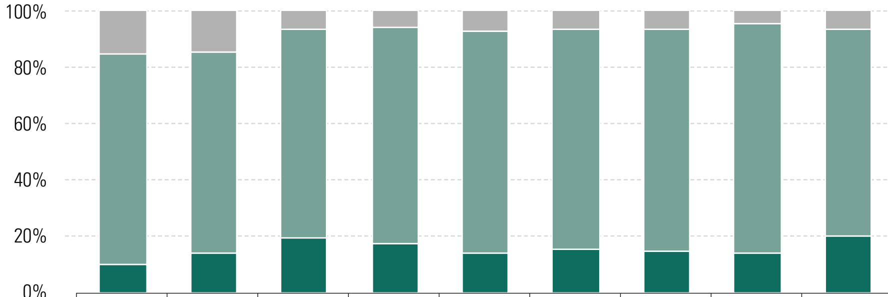
Figure 7.12. If yes, did it have any result?



	Good	Rather good	Rather bad	Bad	DK/NA
DK/NA	0.9%	7.0%	34.5%	17.6%	11.2%
Sometimes YES/NO	0.6%	7.3%	34.2%	27.9%	6.7%
No	0.6%	7.3%	34.2%	27.9%	6.7%
Yes	0.6%	6.1%	34.8%	26.7%	9.1%

Figure 7.13. Written policy or rule about dealing with corruption

Does your company have any written policy or rule about dealing with corruption within your organization?



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
DK	15.5%	15.2%	7.0%	6.1%	7.6%	7.0%	7.0%	4.8%	6.7%
No	74.8%	70.6%	73.6%	77.0%	78.5%	77.6%	78.2%	81.2%	73.3%
Yes	9.7%	14.2%	19.4%	17.0%	13.9%	15.5%	14.8%	13.9%	20.0%

Among the main ways to deal with corruption, using honest business practices at all times remains the main option of the business community (Figure 7.14). It was shared by nearly a half of respondents in 2017 (45.8 percent) and 2018 (43.6 percent). In the past year, a percentage of respondents saying they would "never pay bribes" had significantly increased from 15.2 percent to 25.2 percent. As elections are getting closer, the number of those willing to campaign against corrupt politicians is also growing. Their numbers slightly increased from 6.1 percent to 9.1 percent.

Figure 7.14. Actions against corruption in the business environment