



Study of Private Perceptions of Corruption (STOPP)

*Strengthening
Transparency and
Governance in
Mongolia Program*

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I. Introduction

The Mongolian economy is growing at an unprecedented rate. Sustained economic growth is boosting gross domestic product (GDP), supporting job creation, reducing poverty levels, and allowing the economy to expand into new fields.

Despite these impressive successes, there have been persistent reports in the media about the existence of corrupt practices. These reports often relate to government employees asking businessmen for non-stipulated fees in return for services, for example, to process or expedite obtaining permits and documents, such as licenses, needed by business to operate.

These practices, paying extra to ensure government officials carry out routine tasks and functions in-line with their duty, can become the norm. More detrimentally, “incentives” can be offered by business to encourage officials to make decisions that favor particular outcomes. Such a supply-side practice by business can contribute to further demand-side expectations. In the long-run, this distorts the whole market economy. Without a level playing field, entry and exit from the market becomes stymied, and competition is driven out of the market. Left unchecked, the prospects for long-term economic growth are seriously affected.

II. STOPP Objectives

Until now, there has been no data about the pervasiveness of corrupt practices affecting business-government relations in Mongolia. The Study of Private Perceptions of Corruption (STOPP) was designed to obtain a picture of the extent of corruption, based on the experience of members of the business community.

Interviewing representatives of small, medium, and large sized business enterprises, this study captures the similarities and differences companies face in relation to corrupt practices, breaking down the findings by sector. It does not try to quantify the cost of such practices for business, except as a percentage of management time and financial resources.

The objectives of this study are two-fold. Firstly, it can be an important way to draw attention to the problem of corruption in Mongolia. The data illustrates this well, and should spur the government and law enforcement agencies to take this issue seriously. Secondly, with such data in the public domain, targets can be set as part of the effort to address the issue.

This STOPP survey is the first in a series of four surveys to be carried out over a two-year period. This will allow changes in the level of corruption, as perceived by business, to be tracked over time.

Corruption is not an issue that can be resolved by any one stakeholder. It requires a concerted effort by all sectors of society. STOPP has been designed to give information about corruption to the business

community, and to encourage it to be pro-active in taking initiatives to root out corrupt practices. The business community must take the lead by developing its own agenda for tackling corruption, in parallel to and to complement government corruption eradication initiatives.

III. Methodology

The survey was conducted by the Sant Maral Foundation on behalf of The Asia Foundation's Strengthening Transparency and Governance (STAGE) in Mongolia Project, funded by the United States Agency for International Development (USAID). Data collection was carried out over three weeks in November 2012, with data analysis taking place in December 2012. Results are based on both qualitative and quantitative analysis.

The STOPP survey design is unique, and responds to local conditions within the Mongolian context. For example, definitions of small, medium, and large sized businesses are based on a mix of company turnover and the number of employees rather than company turnover alone, to take into account difficulties to establish company turnover.

Companies were selected by random sample, based on the Sant Maral Foundation's own database of businesses. All companies that participated in the survey are based in Ulaanbaatar city.

1. Qualitative Analysis

Within the STOPP survey framework, 21 companies were interviewed about obstacles they encounter during their business operations. Interviews were non-structured, face-to-face, and lasted from 30-120 minutes.

The participating companies were predominantly Mongolian, but included a few joint venture companies (JVCs). Most of the companies were defined as medium size, with an annual turnover in Mongolian Tugruk (MNT) ranging from MNT 25 million (approximately USD 18,115) to MNT 5 billion (approximately USD 3.62 million). The number of employees varied from 3 to 60.

Companies interviewed operate in the following fields:

- Trade
- Service
- Mining
- Agriculture
- Construction
- Media

2. Quantitative Analysis

Altogether 330 companies were interviewed. A self-administered questionnaire was used, with each questionnaire taking from 10 to 20 minutes to complete.

The majority of companies, 86 percent, were small or medium size businesses; large businesses accounted for 14 percent of the sample. All companies participating were registered from 1921 to 2011. The number of employees varied from 1 to 750, and annual (reported) turnover varied from MNT 10 million (approximately USD 7,250) – MNT 20 billion (approximately USD 14.49 million).

Companies approached were active in the following fields:

- Trade
- Service
- Manufacturing
- Mining
- Agriculture
- Construction
- Other: including Tourism, Training, and Media

IV. Key Findings

The following are the key findings of the STOPP survey:

- The three most popular ways to combat corruption were to “use honest business practices at all time,” followed by “knowing rules and laws of government transactions” and “campaign against corrupt political candidates” respectively.
- Small and medium businesses suffer more than large businesses from corruption as an obstacle to their business development.
- The greatest impediments to company development were reported to be: taxes; obtaining, renewing licenses and permissions; and low level of professionalism of public officials.
- The Tax Office, Specialized Inspection Agency, and Customs are the three agencies that create the most obstacles for businesses.
- In recent years, public sector corruption has spread to private business. Embezzlement is frequent through auxiliary business entities acquired or created by corrupt public officials.
- Large businesses report a larger percentage of their resources being spent on non-productive activities related to red-tape than small and medium businesses. Seventeen percent of the management of large businesses admitted spending over 50 percent of their time on overcoming non-productive obstacles, compared to a 12 percent average. Also, 15 percent of large businesses use more than 25 percent of other resources to overcome non-productive obstacles, compared to 8 percent of small businesses.

The construction sector attracted the most criticism about its business environment. Although construction companies do not have a good reputation, a significant part of the problem appears to originate from the government agencies overseeing the sector. This has been revealed in respondent’s reports about various obstacles in this sector as part of both the qualitative and quantitative surveys. According to a preliminary study of the mining sector¹, there are similar problems in this sector.

- Despite government efforts to address corruption, there was “little knowledge” (44 percent) or “almost no knowledge” (29 percent) of government efforts to combat corruption within the business community.
- As the business community has rather low expectations about fighting corruption, its involvement in anti-corruption practices is extremely low. Only 12 percent of respondents admitted that they had taken some measures to combat corruption.

¹ Due to the sampling and methodological constraints of the survey mining sector was not included in the data analysis.

V. STOPP Survey Results

1. Business Structure Description

The largest proportion of companies in the sample came from the trade, services, manufacturing, and construction sectors. Due to the relatively small sample (though sufficiently large for Mongolia), cross-tabulations could only be made for these sectors. The small, medium, and large business categorizations used were devised specifically for this study, and were determined by a combination of annual turnover, number of employees, profile, and assets.

Figure 1: Profile of companies by sector

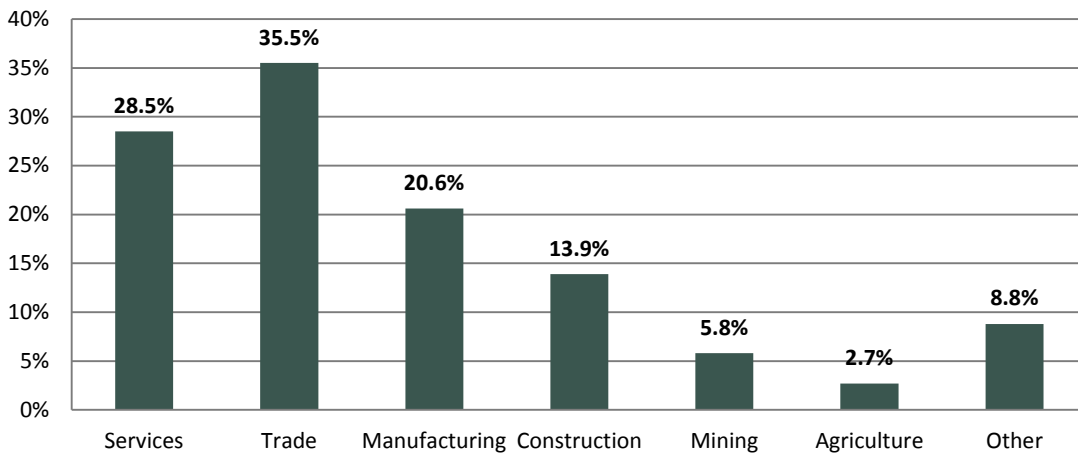
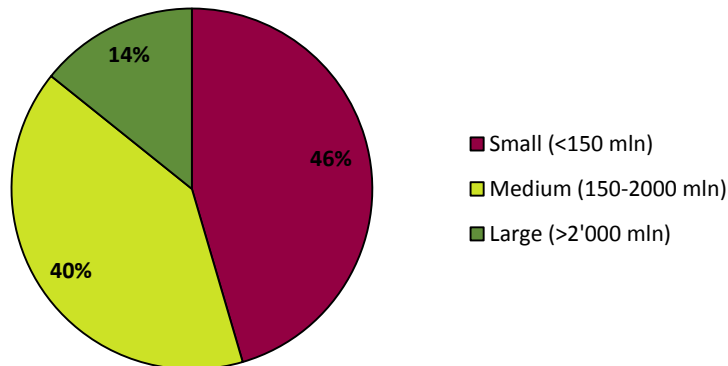


Figure 2: Business size by annual turnover



2. Impact on Productivity

Twelve percent of company management spend more than 50 percent of their time on overcoming non-productive obstacles; 9 percent said that they do not. Large companies spend significantly more time than small and medium businesses.

A similar pattern was observed concerning company resources. When cross-tabulated by company profile, the construction sector leads in non-productive resource spending. This figure does not correlate with management time. Rather, this can be connected to construction's ranking as one of those sectors most vulnerable to corrupt practices.

Figure 3: In your opinion, how much time does company management spend on dealing with non-productive obstacles, for example, renewing or obtaining permits, and waiting for officials to respond for licenses?

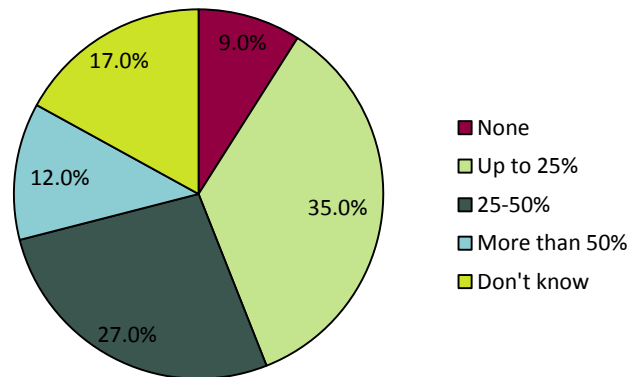


Figure 4: In your opinion, how much time does company management spend on dealing with non-productive obstacles, for example, renewing or obtaining permits, and waiting for an official response for licenses? (By company size)

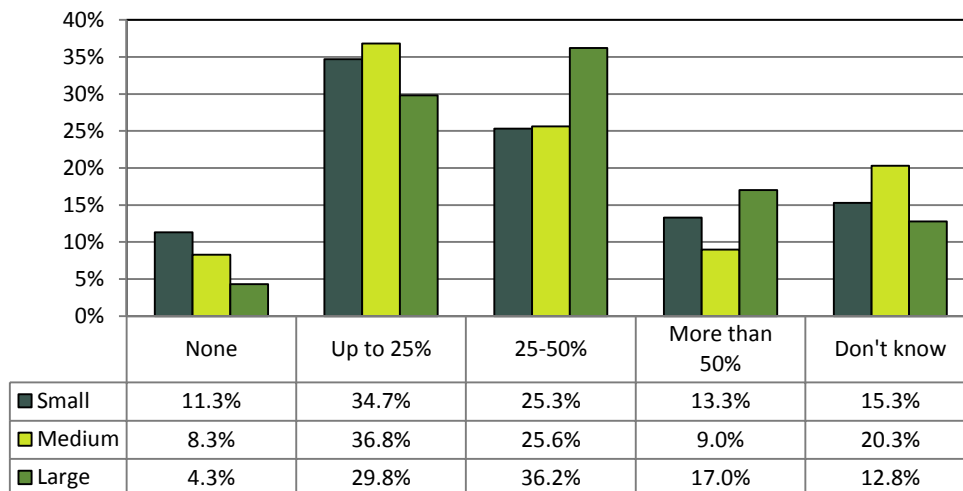


Figure 5: What percentage of company resources are wasted overcoming non-productive obstacles?

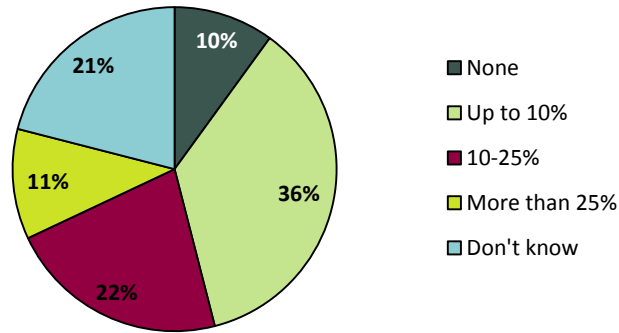


Figure 6: What percentage of company resources are wasted overcoming non-productive obstacles? (By company size)

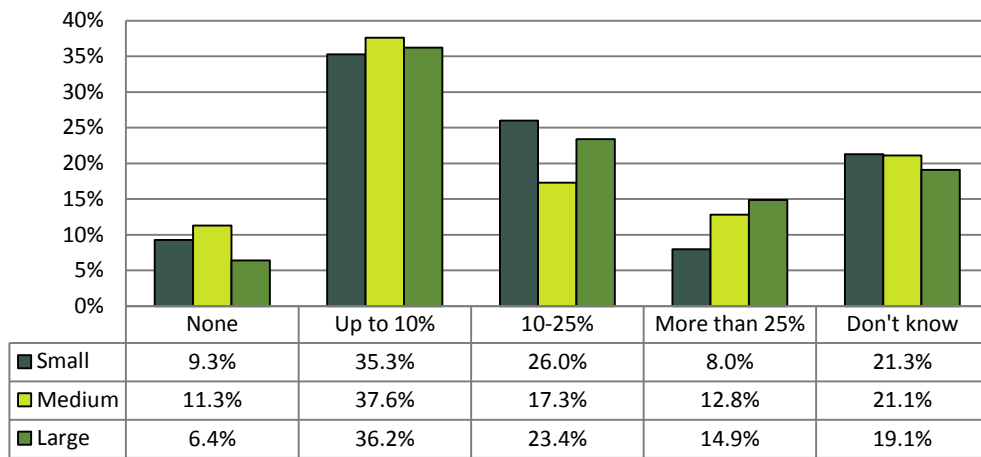


Figure 7: In your opinion, how much time does company management spend on dealing with non-productive obstacles? (By company profile)

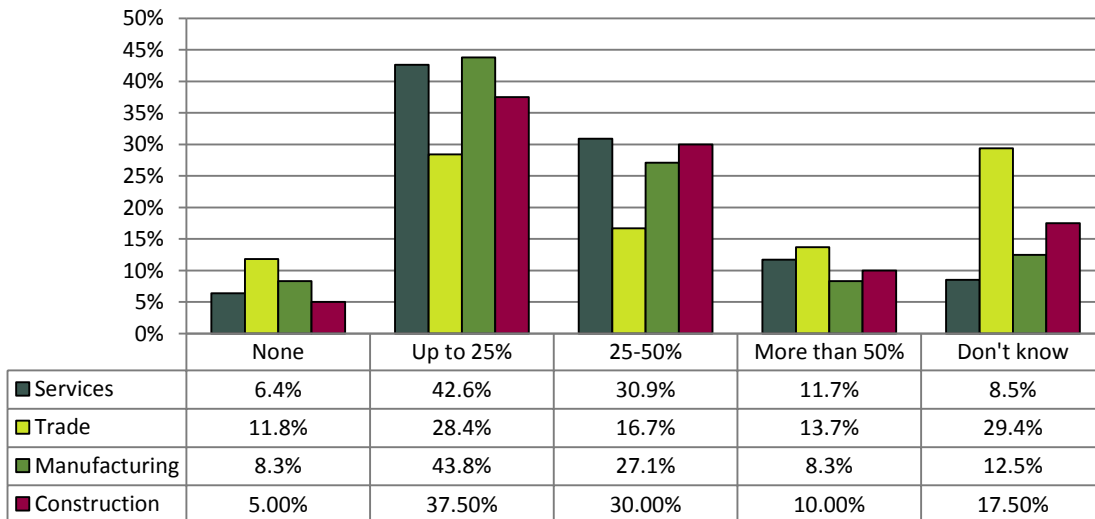
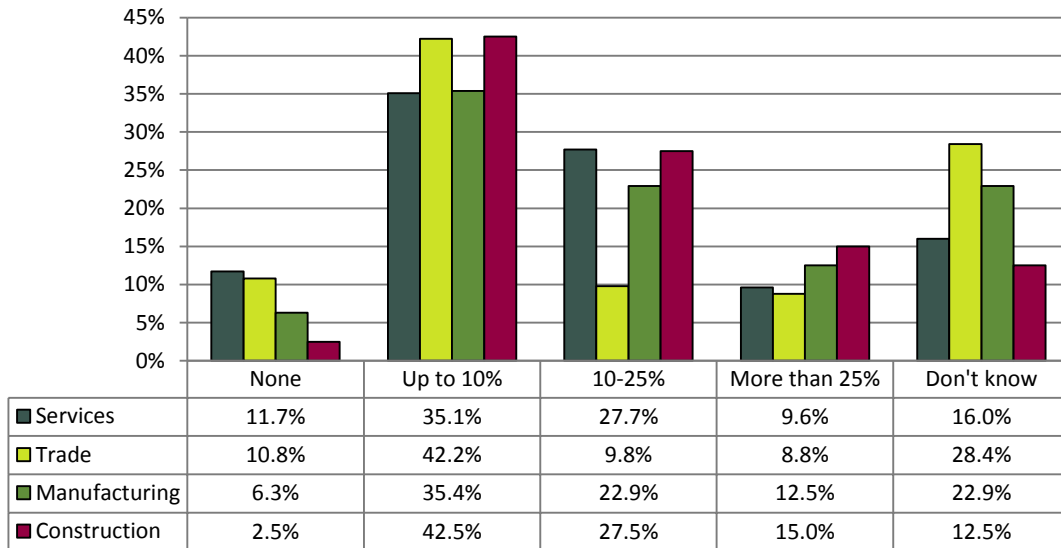


Figure 8: What percentage of company resources are wasted overcoming non-productive obstacles? (By company profile)



3. Business Environment and Business Operations

In an assessment of the general business environment, a negative perception prevails. On average, 27.2 percent of respondents evaluated the environment positively, against 66.3 percent who evaluated it negatively. Small business is more pessimistic than medium and large businesses.

Similarly, the size of the company correlates directly with a positive assessment of the general business environment and investments into company operations. The survey found 63.8 percent of large companies reporting improvements in the business environment, compared to 26 percent of small businesses. Moreover, 68.1 percent of large companies are expecting an improvement in investment conditions in the next six months compared to 49.3 percent of small businesses and 61.7 percent of medium businesses.

The main obstacles hindering company development are, in rank:

1. High taxes
2. Obtaining, renewing licenses and permissions
3. Low level of professionalism of government officials

Some obstacles show that the government should differentiate support for small /medium business and large business. For example, standards, low level of professionalism, and labor market conditions are more disruptive for large businesses, while small and medium businesses have more challenges with access to credit and unofficial charges.

Agencies and offices reported to be the main obstacles for business are:

1. Tax Office
2. Specialized Inspection Agency (SIA)
3. Customs

The Tax Office is reported evenly by all three company profiles. The SIA is dominant in construction. On average, SIA is mentioned as an obstacle by 27 percent of respondents, but in the construction sector by 63 percent of companies. The Land Utilization Agency is also a major hindrance for construction companies.

Table 1: How satisfied or dissatisfied are you with the general business environment in Mongolia?

	Small	Medium	Large	Total
Very satisfied	2.7%	1.5%	4.3%	2.4%
Somewhat satisfied	18.0%	31.6%	27.7%	24.8%
Somewhat dissatisfied	55.3%	47.4%	38.3%	49.7%
Very dissatisfied	19.3%	12.8%	25.5%	17.6%
Don't Know/Can't Say	4.7%	6.8%	4.3%	5.5%

Table 2: During the last 6 months, have investment conditions for company operations improved, worsened, or stayed the same?

	Small	Medium	Large	Total
Improved	26.0%	53.4%	63.8%	42.4%
Stayed the same	52.0%	33.8%	17.0%	39.7%
Worsened	15.3%	8.3%	10.6%	11.8%
Don't Know/Can't Say	6.7%	4.5%	8.5%	6.1%

Table 3: In the next 6 months, do you expect investment conditions will improve, stay the same, or worsen?

	Small	Medium	Large	Total
Improve	49.3%	61.7%	68.1%	57.0%
Stay the same	26.0%	12.0%	10.6%	18.2%
Worsen	2.7%	3.8%	0	2.7%
Don't Know/Can't Say	22.0%	22.6%	21.3%	22.1%

Figure 9: Obstacles companies face in their operations (multiple responses)

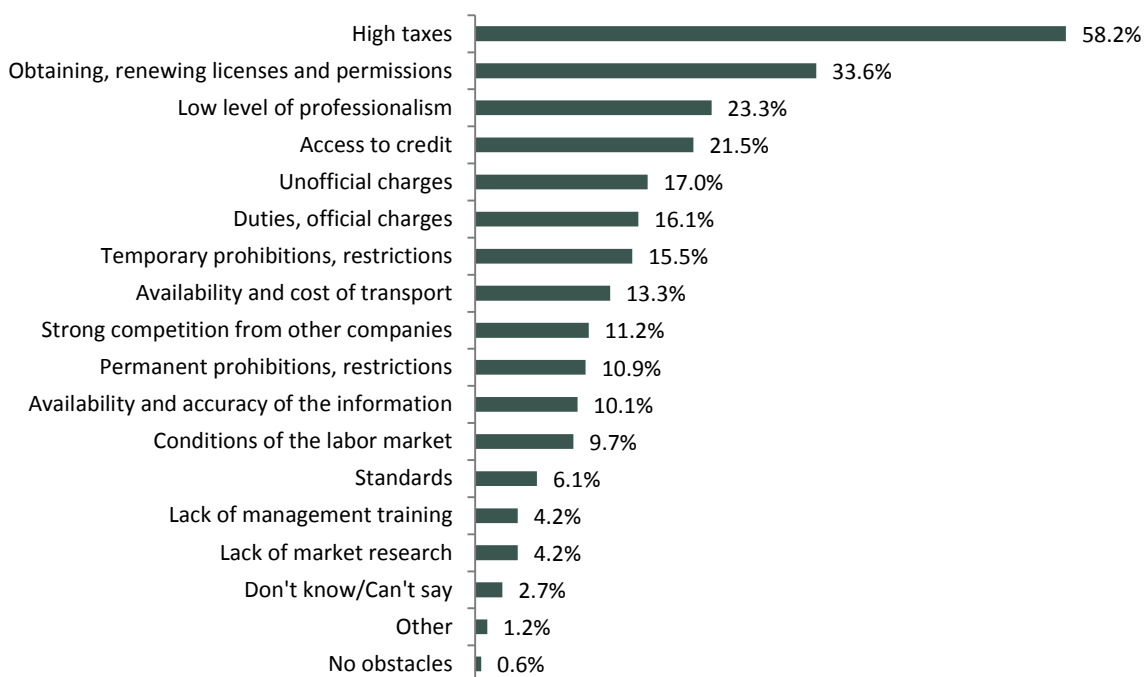


Table 4: Obstacles companies face in their operations (by business size; multiple responses)

	Small	Medium	Large
High taxes	61.3%	54.1%	59.6%
Duties, official charges	16.7%	16.5%	12.8%
Unofficial charges	21.3%	14.3%	10.6%
Temporary prohibitions, restrictions	12.7%	17.3%	19.1%
Permanent prohibitions, restrictions	9.3%	13.5%	8.5%
Availability and accuracy of information	10.0%	9.8%	10.6%
Obtaining, renewing licenses and permissions	34.7%	30.8%	38.3%
Low level of professionalism	17.3%	25.6%	36.2%
Availability and cost of transport	10.0%	21.1%	2.1%
Strong competition from other companies	8.0%	14.3%	12.8%
Standards	5.3%	5.3%	10.6%
Conditions of the labor market	9.3%	9.0%	12.8%
Access to credit	29.3%	15.8%	12.8%
Lack of management training	6.0%	2.3%	4.3%
Lack of market research	3.3%	5.3%	4.3%
Other	1.3%	1.5%	0
No obstacles	0	1.5%	0
Don't Know/Can't Say	2.7%	3.8%	0

Figure 10: Agencies reported to create the maximum obstacles for business

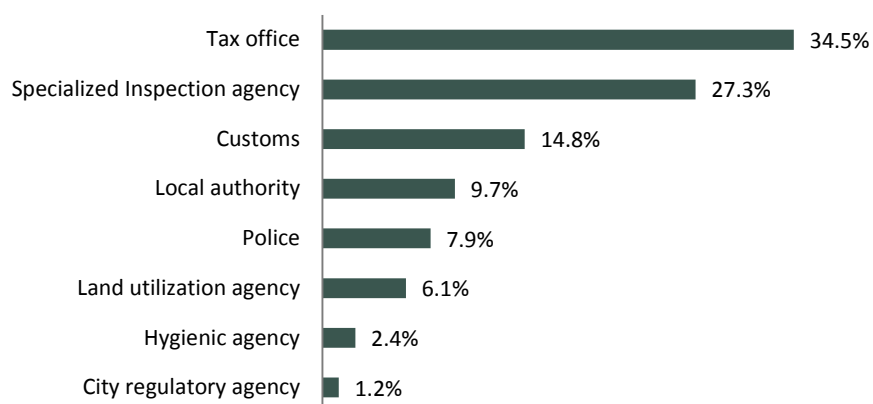


Table 5: Agencies reported to create the most obstacles, by company profile

	Total	Services	Trade	Manufacturing	Construction
Specialized Inspection Agency	27.3%	18.7%	18.0%	35.4%	62.5%
Land Utilization Agency	6.1%	4.4%	2.0%	6.3%	17.5%
Police	7.9%	13.2%	6.0%	6.3%	0
Tax Office	34.5%	29.7%	44.0%	35.4%	25.0%
Customs	14.8%	14.3%	29.0%	6.3%	7.5%
City regulatory agency	1.2%	1.1%	1.0%	4.2%	0
Hygienic agency	2.4%	1.1%	2.0%	6.3%	0
Local authority	9.7%	11.0%	10.0%	8.3%	7.5%
Other	3.6%	8.8%	1.0%	4.2%	0
Don't Know/Can't Say	13.3%	22.0%	10.0%	10.4%	7.5%

4. Corruption in the Public Sector

Forty two percent of respondents stated that there is a lot of corruption in the public sector, with 16 percent indicating that they had observed instances of corruption within the last month. Overall, 37 percent of respondents report having personal knowledge of corrupt transactions within their sector during the last six months. The highest level of knowledge about corruption was observed in the construction sector.

Overall, 75 percent of respondents said that they “always” or “often” encounter corruption in public tenders and contracting. A total of 43 percent of companies interviewed reported that corruption in the public sector affects them directly. Among them, 80 percent stated that it is affecting their business “a lot” or “to some level.”

Figure 11: How much corruption is there in the public sector?

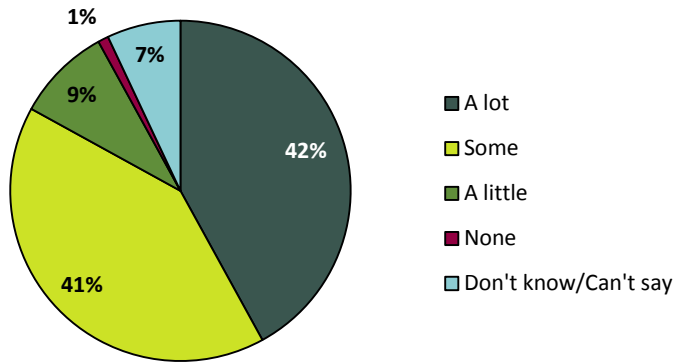


Figure 12: When was the last instance you had personal knowledge about a corrupt transaction with government by a company in your sector of business?

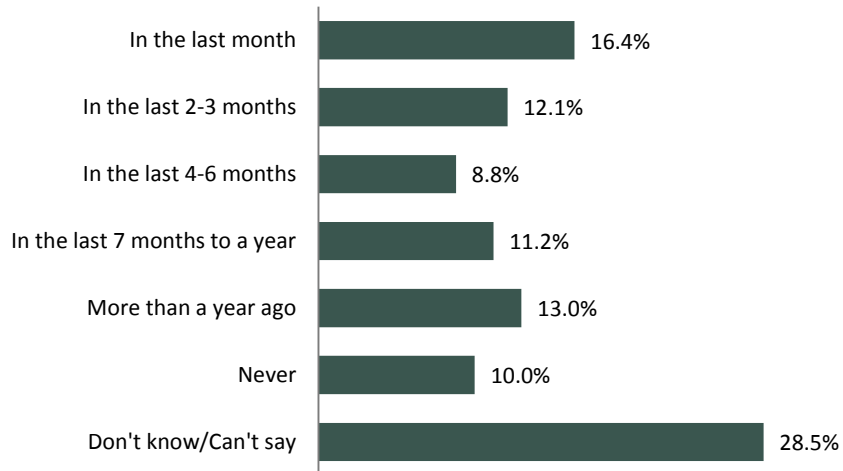


Table 6: When was the last instance you had personal knowledge about a corrupt transaction with government by a company in your sector of business?

	Services	Trade	Manufacturing	Construction
In the last month	14.9%	16.7%	6.3%	27.5%
In the last 2-3 months	13.8%	7.8%	10.4%	20.0%
In the last 4-6 months	12.8%	5.9%	8.3%	5.0%
In the last 7 months to a year	8.5%	12.7%	10.4%	7.5%
More than a year ago	12.8%	15.7%	16.7%	15.0%
Never	17.0%	5.9%	8.3%	7.5%
Don't Know/Can't Say	20.2%	35.3%	39.6%	17.5%

Figure 13: In your opinion, how often do companies encounter corruption in public sector tenders and contracting?

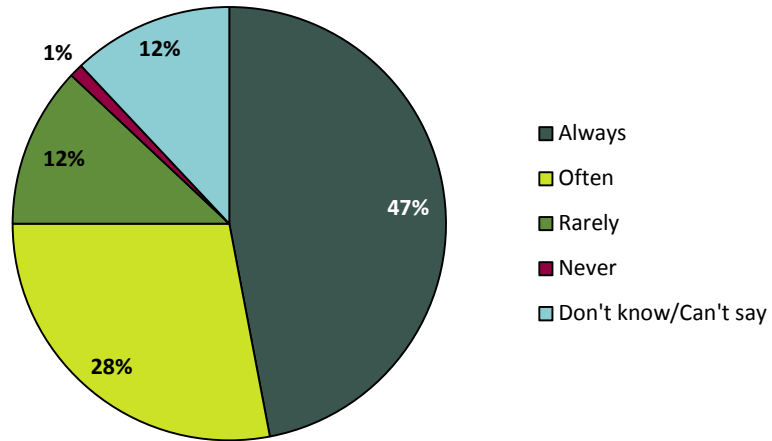


Figure 14a: Is public sector corruption affecting your business directly?

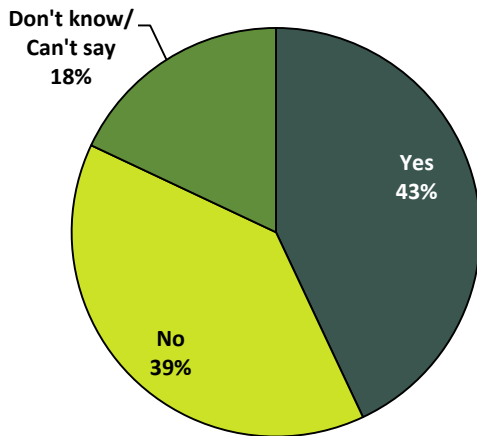
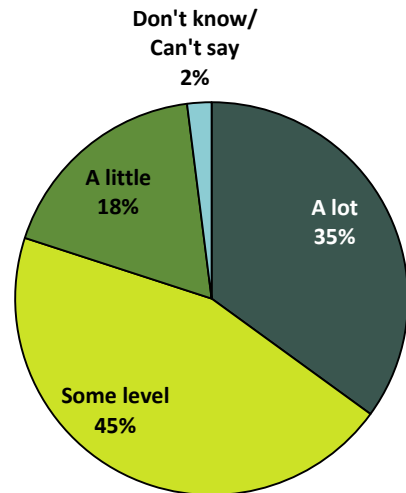


Figure 14b: If yes, how much?



5. Knowledge of Anti-Corruption Efforts

Despite government efforts to address corruption, there was “little knowledge” (44 percent) or “almost no knowledge” (29 percent) reported by respondents of government efforts to combat corruption within the business community. The attitude toward the anti-corruption legal environment is rather pessimistic, with 60 percent citing that it is “hardly effective” or “not at all effective.”

More people (9 percent) say they believe that there is less corruption than those who say there is more corruption (6 percent) compared to six months ago. Nevertheless, the majority of people, 56 percent,

say the level of corruption has remained the same. The construction sector leads in reporting that there is more corruption now.

From the respondents interviewed, 78 percent say that corrupt government officials are “rarely” or “never” punished.

Figure 15: How much do you know about the current efforts of the government to fight corruption?

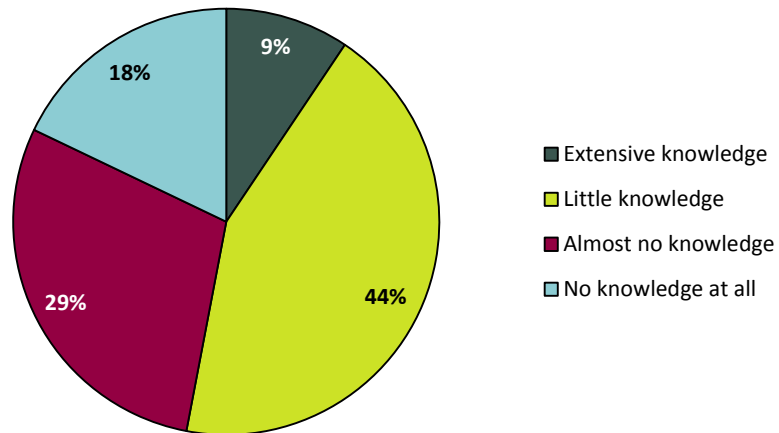


Figure 16: In your opinion, how effective are the existing laws to make the business environment transparent and non-corrupt?

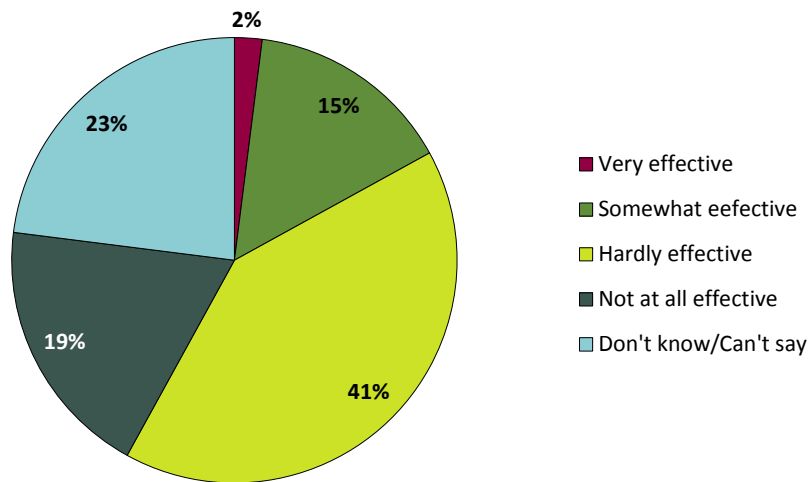


Figure 17: In your opinion, what effect has the government's anti-corruption measures had, specifically in your sector of business, compared to the situation 6 months ago?

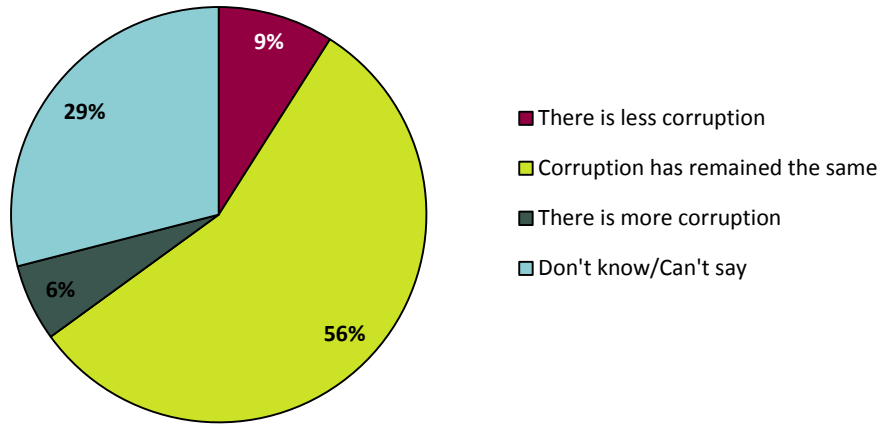


Table 7: In your opinion, what effect has the government's anti-corruption measures had specifically in your sector of business, compared to the situation 6 months ago? (By company profile)

	Services	Trade	Manufacturing	Construction
There is less corruption	14.9%	9.8%	6.3%	2.5%
Corruption has remained the same	55.3%	57.8%	45.8%	45.0%
There is more corruption	7.4%	4.9%	2.1%	12.5%
Don't Know/Can't Say	22.3%	27.5%	45.8%	40.0%

Figure 18: In your opinion, how effective are the steps being taken by the government to eradicate overall corruption in Mongolia?

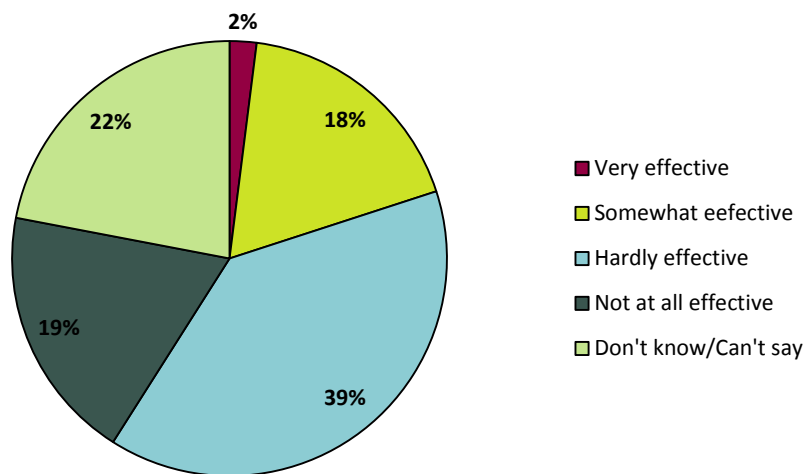
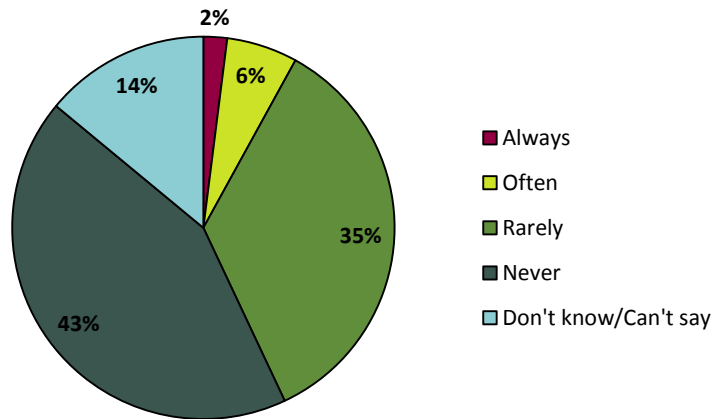


Figure 19: In your opinion, how often does the government punish corrupt government officials?



6. Corruption in the Private Sector

Only 16.1 percent of respondents stated that there is no corruption in the private sector, with 48.1 percent indicating that corruption is “always” or “often” present in private sector tenders and contracting.

Thirty-three percent of respondents report “always” or “often” encountering corruption in the course of their work. The average number who indicated “always” is 11.5 percent, but in the construction sector the number rises to 27.5 percent.

In a ranking by respondents of sectors most vulnerable to corruption, construction came second after mining and public services. Although the reputation of construction companies in general is not very high, a significant part of the problem appears to originate from government agencies overseeing construction companies.

Figure 20: How much corruption do you think there is in the public/private sector?

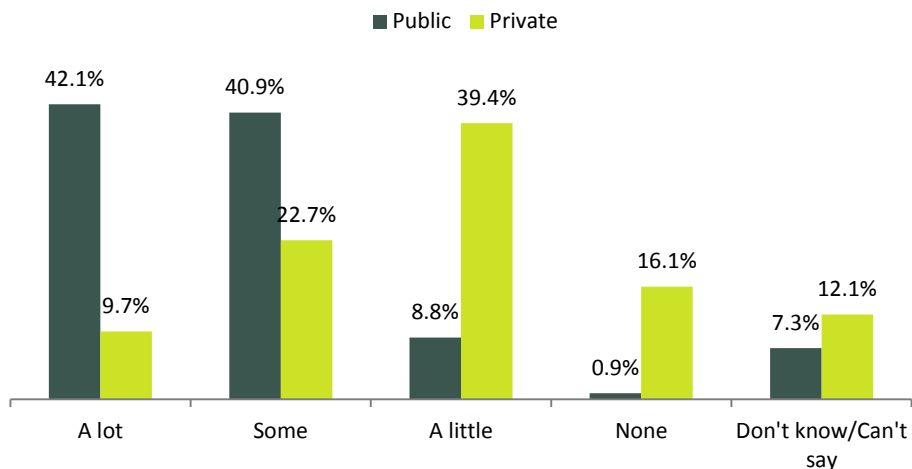


Table 8: In your opinion, how often do companies encounter corruption in private sector tenders and contracting?

	Services	Trade	Manufacturing	Construction	All companies
Always	24.5%	23.5%	18.8%	32.5%	24.8%
Often	21.3%	25.5%	25.0%	22.5%	23.6%
Rarely	22.3%	24.5%	29.2%	40.0%	26.7%
Never	10.6%	1.0%	0	0	3.3%
Don't Know/Can't Say	21.3%	25.5%	27.0%	5.0%	21.5%

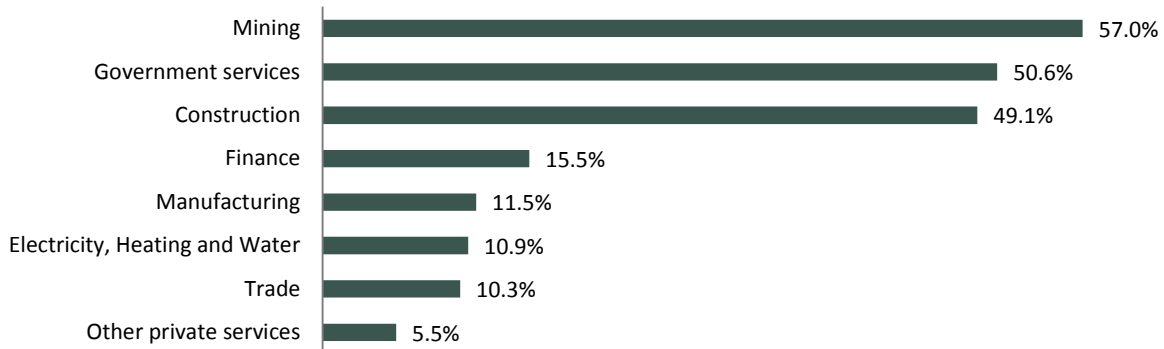
Table 9: In your sector of business, how often do companies encounter corruption in the course of work?

	Services	Trade	Manufacturing	Construction	All companies
Always	9.6%	9.8%	6.3%	27.5%	11.5%
Often	28.7%	17.6%	25.0%	20.0%	21.5%
Rarely	33.0%	42.2%	43.8%	40.0%	38.8%
Never	14.9%	11.8%	6.3%	0	12.1%
Don't Know/Can't Say	13.8%	18.6%	18.8%	12.5%	16.1%

Table 10: In your sector of business, how many companies do you think pay the right amount of tax to the government?

	Services	Trade	Manufacturing	Construction	All companies
Almost all companies	17.4%	12.1%	18.8%	5.0%	15.1%
Most companies	50.0%	37.4%	27.1%	12.5%	34.6%
Few companies	18.5%	28.3%	35.4%	45.0%	27.2%
Hardly any companies	6.5%	12.1%	12.5%	15.0%	11.1%
None of the companies	7.6%	10.1%	6.3%	22.5%	12.0%

Figure 21: Sectors most vulnerable to corruption (multiple responses)



7. Business Attitudes toward Being Involved in Anti-Corruption Actions

The business community attitude toward participating in the STOPP survey can be described as very cautious. Although the majority of respondents say they are aware of corrupt practices in both the public and private sectors, they acknowledged the possibility of retaliation from corrupt officials.

Of note, 26 percent of respondents say they believe that their net income will decrease if corruption in the government decreases, compared to 50 percent who expect it to increase. Some respondents reported they fear that they will lose limited, and frequently the only, access they have to resources channeled through the government.

If corruption decreases, respondents have the highest expectations for revenue growth in the construction sector. If looking at business size, this is also true of large businesses.

There is no unanimous view as to the approach to improve anti-corruption legislation. Respondents from the business community are almost evenly split between those who consider that only recipients of bribes (public officials) should be prosecuted, and those who think that both recipients and givers should be prosecuted. Levels of support for the latter are slightly higher, which could be explained by several factors including widespread corruption within the private sector itself. For some companies, corruption has become the only way to gain (an unfair) advantage over competitors.

The business community has rather low expectations about fighting corruption, while on the other hand, involvement in anti-corruption practices is extremely low. Only 12 percent of respondents admitted that they had taken some measures to combat corruption.

Internal codes, guidelines, or policy papers on how to deal with corruption have been developed by 9 percent of respondents, evenly distributed amongst the small, medium, and large business groups. However, large businesses have not taken any greater steps on this issue than smaller businesses.

The three most popular ways cited by survey respondents to combat corruption are to “use honest business practices at all times” (nearly 63 percent), to “know rules and laws of government transactions,” and to “campaign against corrupt political candidates” (both at 40 percent). However,

campaigning against corrupt political candidates could easily turn into a political struggle, a situation which most business people try to avoid.

Figure 22: Some people argue that if the Mongolian corruption law is changed to prosecute only those who receive bribes it will improve the governance situation. Others think that both givers and receivers should be punished. What is your opinion?

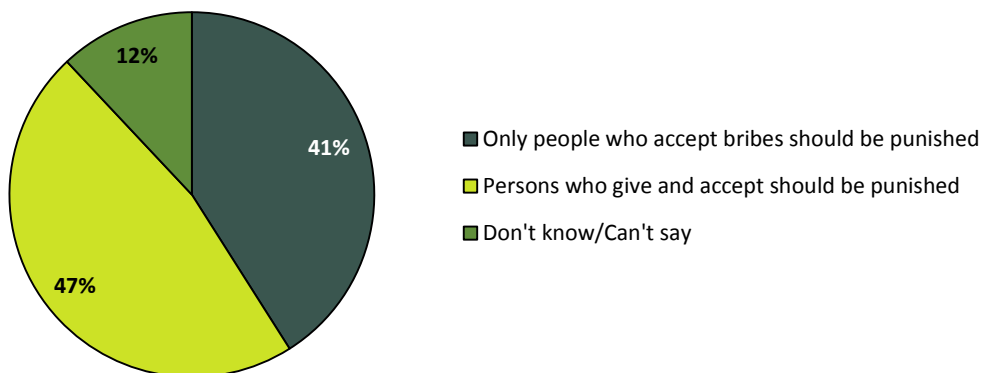


Figure 23: If the extent of corruption in government were reduced, do you think that it would result in an increase or decrease in your company's net income, or it would not affect your company income at all?

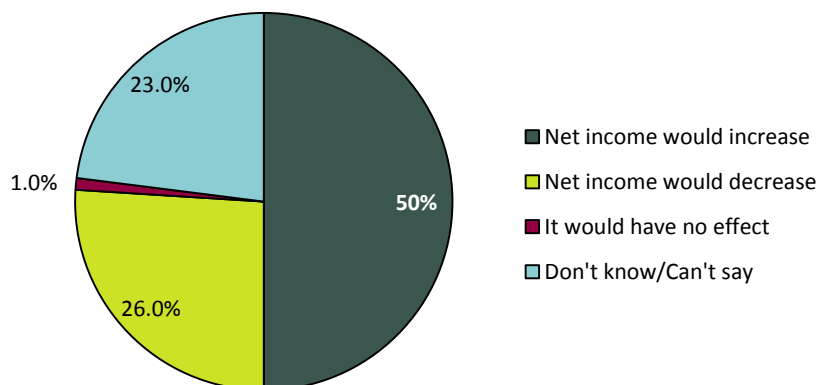


Table 11: If the extent of corruption in government were to be reduced, do you think that it would result in an increase or decrease in your company's net income, or would it not affect your company income at all? (By company profile)

	Services	Trade	Manufacturing	Construction
Net income would increase	43.6%	49.0%	50.0%	65.0%
Net income would decrease	33.0%	25.5%	16.7%	22.5%
It would have no affect	2.1%	1.0%	0	2.5%
Don't Know/Can't Say	21.3%	24.5%	33.3%	10.0%

Table 12: If the extent of corruption in government were to be reduced, do you think that it would result in an increase or decrease in your company's net income, or would it not affect your company income at all? (By company size)

	Small	Medium	Large
Net income would increase	48.0%	46.6%	66.0%
Net income would decrease	25.3%	30.1%	19.1%
It would have no affect	1.3%	1.5%	0
Don't Know/Can't Say	25.3%	21.8%	14.9%

Figure 24: Has your company taken any steps to combat fraud or corruption?

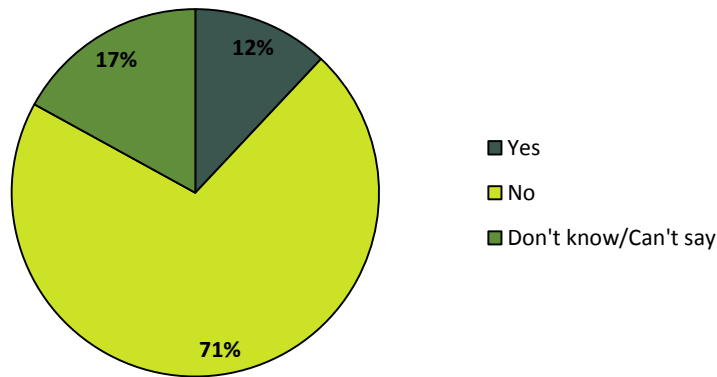


Table 13: Has your company taken any steps to combat fraud or corruption? (By company size)

	Small	Medium	Large
Yes	10.7%	11.3%	17.0%
No	74.7%	72.9%	57.4%
Don't Know/Can't Say	14.7%	15.8%	25.5%

Figure 25: Have you ever reported a case of corruption?

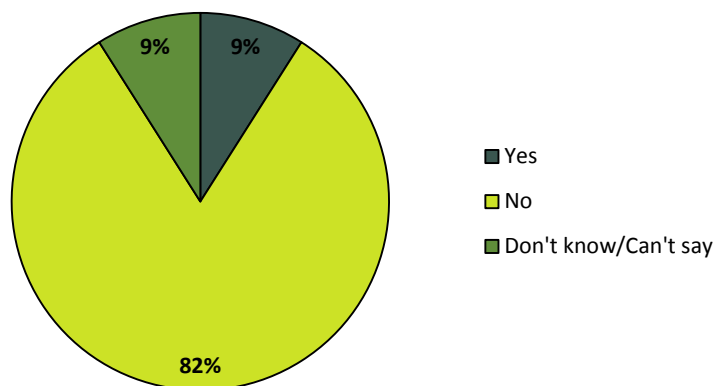


Figure 26: Does your company have any written policy or rule about dealing with corruption within your organization?

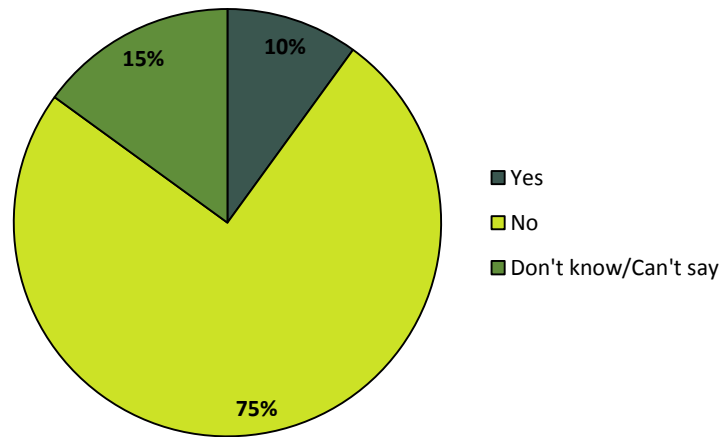


Table 14: Does your company have any written policy or rule about dealing with corruption within your organization? (By business size)

	Small	Medium	Large
Yes	10.0%	9.0%	10.6%
No	72.0%	78.9%	72.3%
Don't Know/Can't Say	18.0%	12.0%	17.0%

Figure 27: Ways to reduce corruption (multiple responses)

