The Asia Foundation

SURVEY

STUDY OF PRIVATE SECTOR PERCEPTIONS OF CORRUPTION

2017

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.

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CONTENTS

LIST OF TABLES AND FIGURES

INTRODUCTION

In October 2017, The Asia Foundation, in collaboration with the Sant Maral Foundation (SMF), conducted its eighth 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

- Economic indicators show improvement as compared to 2016:
  - o Positive assessment of the business environment increased from 12.1 percent in 2016 to 18.5 in 2017. If we check cross-tabulation of the satisfaction with the business environment with the gender band, female assessment of the environment is less optimistic
  - o 17.3 percent of respondents reported improvement in investment conditions in 2017 compared to 10 percent in 2016
  - o 44.8 percent of respondents are expecting improvement in investment in 2017 compared to 26.4 percent in 2016
- 37 percent of respondents think that corruption in the business environment had increased as compared to the previous three years
- 21.6 percent of respondents consider government economic policy to be effective, 60.9 percent disagree
- 62.4 percent of respondents think that government was not able to sustainably implement economic policy over the last year
- Since 2012, there has been a substantial decrease in the following three indicators as obstacles to business: "obtaining, renewing licenses and permits", "unofficial charges", and "temporary prohibitions, restrictions"
- "High taxes" remain the biggest obstacle for business but evaluation for the tax office has significantly improved. 35.5 percent of respondents saw the tax office as an obstacle to business in 2016 and this number went down to 22.7 percent in 2017
- Corruption in the public sector is seen as endemic with almost half of respondents noting that there is "a lot" of corruption; the trend-line for the last five years is showing a worsening situation
- There is a sign of improvement in perceptions of public tenders and bidding in 2017 compared to the previous years
- The Mineral Resource Authority had the highest increase as an organization that is "affected by corruption" from 3.3 percent in 2016 to 13.3 percent in 2017
- The level of confidence to the emerging PM U. Khurelsukh government is positive: 35.5 percent of respondents expect improvement in tenders and biddings, against 4.8 percent expecting a worsening of the situation, 19.1 percent think that situation will remain the same, 40.6 percent has no opinion
- Corruption in the private sector is perceived by respondents as rather low (identified as a "little"), with the trend line for the last three years showing a declining corruption level
- "Mining" and "government services" continue to be at the top of sectors most vulnerable to corruption

- 72.1 percent of respondents consider existing transparency legislation relating to the business environment as “hardly effective” or “not effective at all”
- 71.5 percent consider efforts of government to eradicate overall corruption in Mongolia as “hardly effective” or “not effective at all”
- Almost half of respondents, 47.3 percent expect their net business income to increase if there is less corruption in Government
- Businesses feel the business community is not doing enough to combat business corruption

SURVEY METHODOLOGY

1. This is the eighth installment of the STOPP Survey to measure the business community's attitudes towards corruption. The STOPP Survey is conducted by the Sant Maral Foundation and (SMF) The Asia Foundation, under the STEPS project funded by Global Affairs Canada. The collection of data, conducted by the Sant Maral Foundation, began on September 27 and ended on October 12, 2017.
2. The target of the survey is Ulaanbaatar's business community. Based on the information collected during the previous installments, the current list of approximately 1300 companies was created. Three-hundred-and-thirty companies were randomly selected from this list to participate in the 2017 STOPP Survey. All diffrent size of businesses included in sapmlings that were large businesses, medium and small companies. Only 100 percent Mongolian-owned companies were interviewed.
3. 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 a level of significance of 95 percent.
4. Self-administered or face-to-face methods were used for data collection.
5. Interviews and questionnaires were restricted to companies' CEOs or senior staff.

SAMPLE DESCRIPTION

I. SAMPLE DESCRIPTION

In 2017, the sampling structure of the survey was kept the same as in previous measurements. Area distribution was kept at the same proportion level as in previous samplings. Some structural changes in business profiles were observed from 2012 to 2017. Since 2012, the proportion of the trade sector in the sample was declining, but the proportion of the service sector increased (Figure 1.2). However, this situation correlates to the fact that around a quarter of businesses have more than one profile, and it is common that enterprises are active in both the service and trade sectors, while some manufacturing companies additionally sell their products or provide services.

In 2017, the proportion of small businesses had decreased compared to the previous year, while medium sized businesses had increased (Figure 1.3).

There is a continuous decrease in the number of companies that were established before 2007 or during the period of transition[1] (Figure 1.4). While the proportion of companies established before 2000 is more or less at the same level, those created within 2000-2006 are gradually shrinking. They are replaced by new entities emerging in the post-transition period in Mongolia.

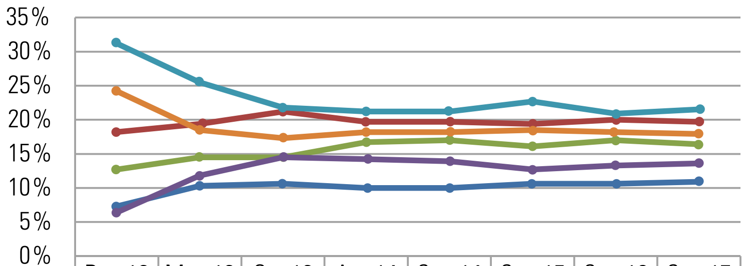
In 2017 for the first time, SMF had collected the basic demographic data from top management participating in the survey. That was done to create an overview picture of the management. The management is predominantly young (Figure 1.7). The biggest age group is 30-39 years old at 37.6 percent, the lowest is 50 years and older, at 15.8 percent.

If we look at the gender structure of the management, the proportion of females in management is higher than the gender distribution at the national level (Figure 1.5). This is related to the Mongolian labor market during all transition and post-transition period being unbalanced in favor of women. There is a higher number of women with tertiary education than men. Table 1.1 shows the number of graduates of educational institutions of all levels at the beginning of academic years between 2007 and 2016 (National Statistical Yearbook 2016). According to this data, over the last ten years, more than 60 percent of graduates from Universities, Institutes and colleges were female.

Although there are proportionally more females at the management level in total, their number declines with the increase in size of companies (Figure 1.6). Females are more engaged in running small businesses, with their activities mostly in the field of service and trade.

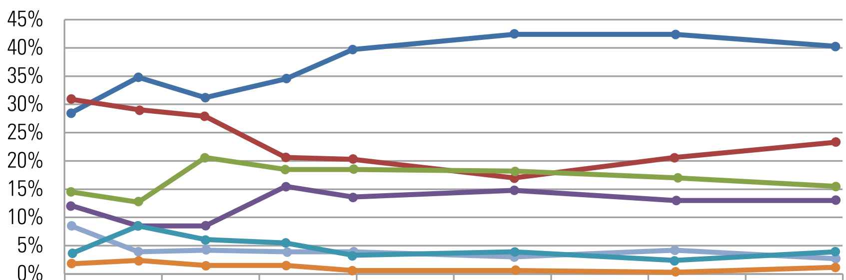
[1]2007 is considered as the end of the period of transition in Mongolia.

Figure 1.1. Area distribution of respondent companies



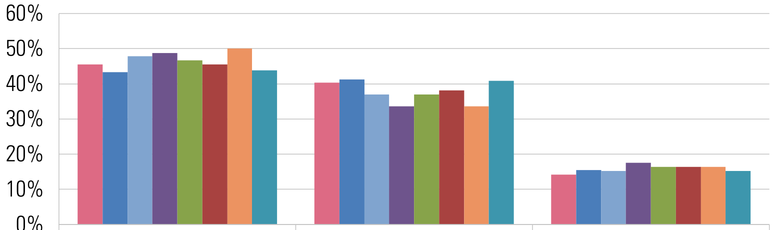
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
Khan-Uul	7.3%	10.3%	10.6%	10.0%	10.0%	10.6%	10.6%	10.9%
Bayanzurkh	18.2%	19.4%	21.2%	19.7%	19.7%	19.4%	20.0%	19.7%
Sukhbaatar	12.7%	14.5%	14.5%	16.7%	17.0%	16.1%	17.0%	16.4%
Chingeltei	6.4%	11.8%	14.5%	14.2%	13.9%	12.7%	13.3%	13.6%
Bayangol	31.2%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

Figure 1.2. Main profile of respondent companies.



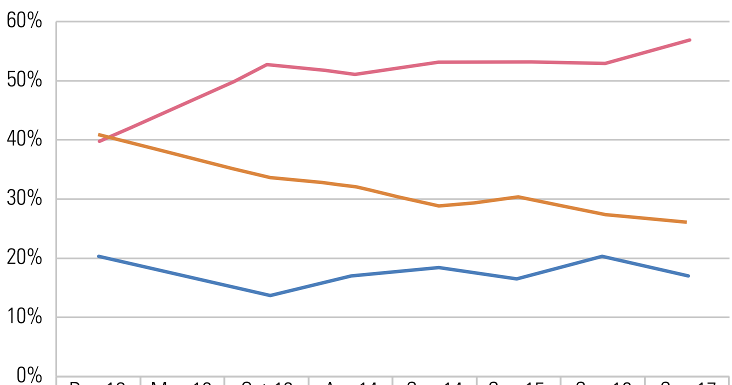
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
Services	28.5%	34.8%	31.2%	34.5%	39.7%	42.4%	42.4%	40.3%
Trade	30.9%	29.1%	27.9%	20.6%	20.3%	17.0%	20.6%	23.3%
Manufacturing	14.5%	12.7%	20.6%	18.5%	18.5%	18.2%	17.0%	15.5%
Construction	12.1%	8.5%	8.5%	15.5%	13.6%	14.8%	13.0%	13.0%
Mining	3.6%	8.5%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

Figure 1.3. *Business size*



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

Figure 1.4. *Date of establishment*



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

Figure 1.5. *Management gender structure*

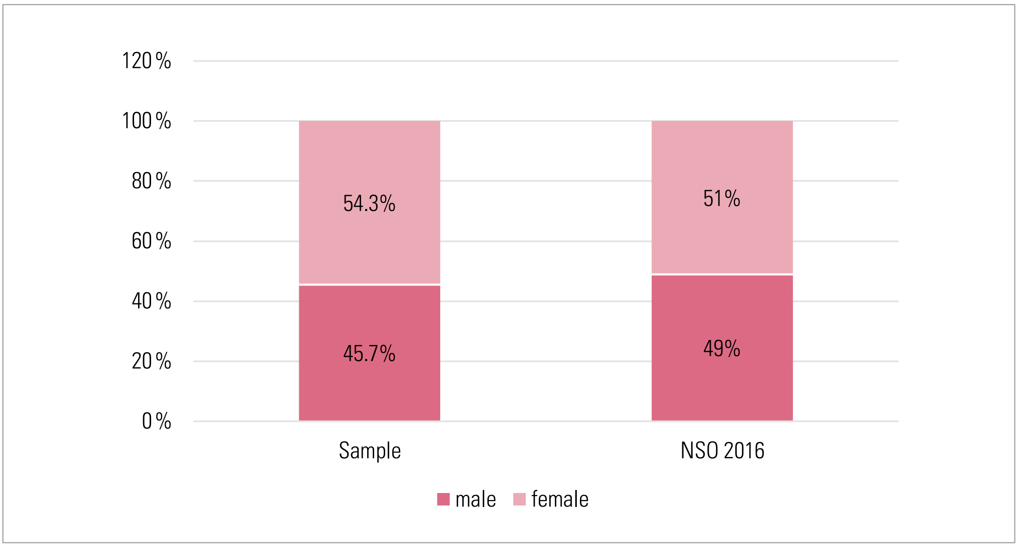


Figure 1.6. *Cross-tabulation of gender by business size.*

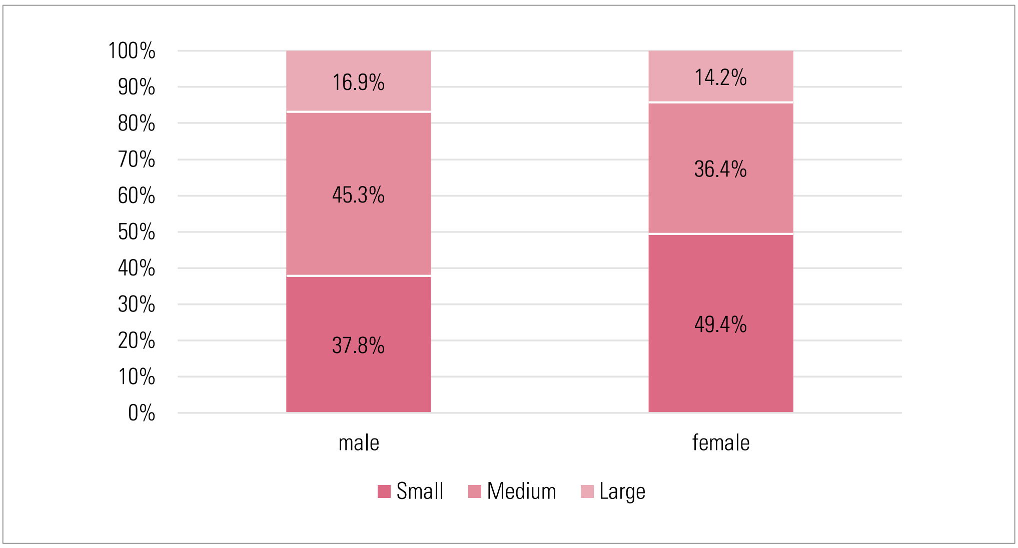


Figure 1.7. *Sector by gender by company profiles*

	Services	Trade	Manufac-turing	Construction	Mining	Agriculture	Other
female	72	47	25	19	4	3	6
male	59	28	25	23	9	1	3

Figure 1.8. *Age groups of management*

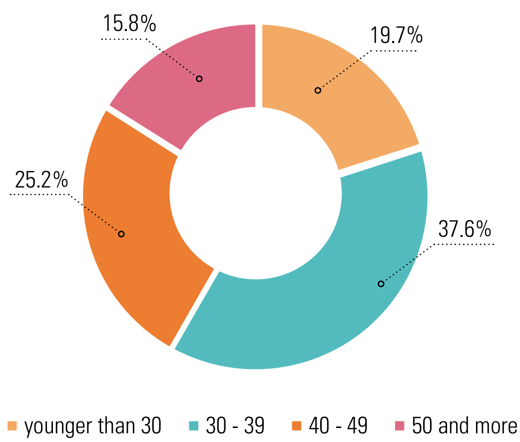


Table 1.1. *Graduates of educational institutions of all levels at the beginning of an academic year*

Classification of educational institutions	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	Sum 2007-2016
Total graduates	133	134.5	134	139.5	134	168	151	137	128	112	1,370
Of which: female%	55%	55%	55%	55%	55%	54%	54%	53%	53%	53%	54%
General educational schools	100	96	90	90	87	107	90	85	74	56	875
Of which: female%	53%	53%	53%	52%	52%	52%	52%	51%	51%	52%	52%
Technical and vocational schools	7	9	11	15	11	23	23	18	19	20	157
Of which: female%	49%	46%	47%	48%	47%	49%	44%	43%	43%	41%	45%
Universities, Institutes and colleges	26	30	33	34	36	38	37	34	35	36	339
Of which: female%	65%	66%	64%	65%	64%	64%	64%	64%	62%	61%	64%

Source: Mongolian Statistical Yearbook 2016

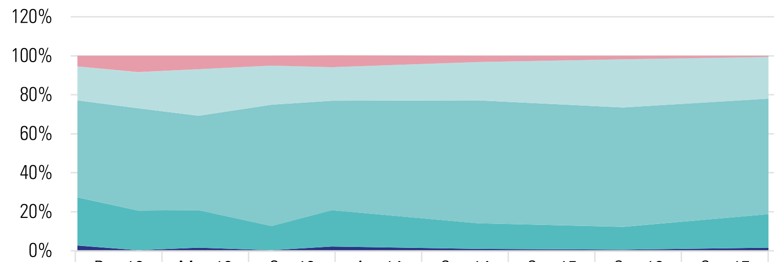
BUSINESS ENVIRONMENT

II. BUSINESS ENVIRONMENT

During the overall survey period from 2012 to 2017, the assessment of business environment was predominantly negative (Figure 2.1). The best record was in December 2012: 33.2 percent of positive assessment against 67.3 percent of negative assessment. The worst observation was recorded in September 2016: 12.1 percent of positive assessment against 86 percent of negative. The downtrend was reversed in 2017: positive assessment had increased by 6.4%: from 12.1 percent in previous year up to 18.5 percent.

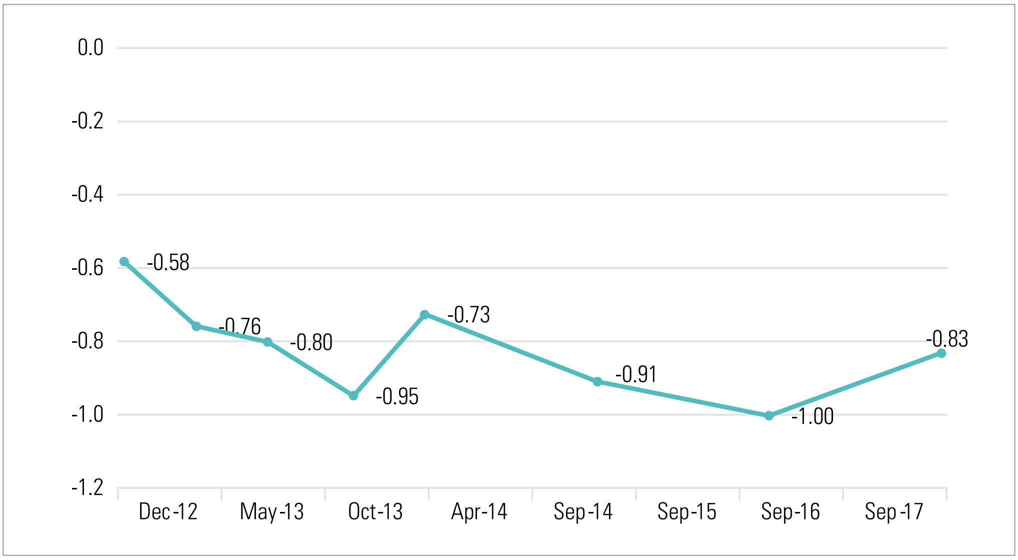
If we compare the average (means) assessment over five years (Figure 2.2), then the situation in September 2017 with a mean value of -0.83 is close to September 2013 with mean of -0.8.

Figure 2.1. *How satisfied or dissatisfied are you with the general business environment in Mongolia?*



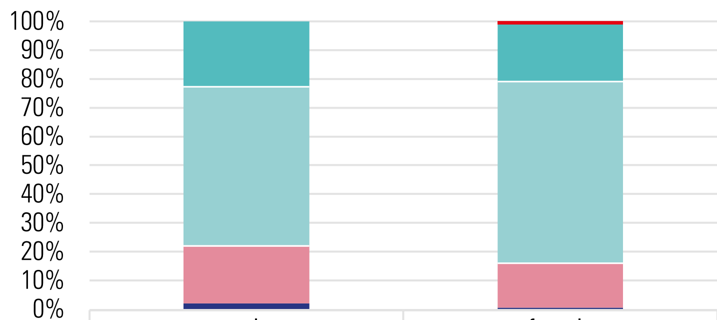
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
Don't know	5.5%	8.5%	7.0%	5.2%	6.1%	3.3%	1.8%	0.6%
Very dissatisfied	17.6%	18.5%	23.9%	20.0%	17.3%	19.7%	24.8%	21.5%
Somewhat dissatisfied	49.7%	52.7%	48.5%	62.4%	56.1%	63.0%	61.2%	59.4%
Somewhat satisfied	24.8%	20.3%	19.4%	12.4%	18.8%	13.3%	11.8%	17.3%
Very satisfied	2.4%	0.0%	1.2%	0.0%	1.8%	0.6%	0.3%	1.2%

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



If we check cross-tabulation of the satisfaction with the business environment with the gender band, female assessment of the environment is less optimistic (Figure 2.3). While 22.3 percent of male managers assess the situation positively ("very satisfied' and "somewhat satisfied" combined), there is only 15.9 percent of female managers thinking the same way. This discrepancy appeared not to be correlated to the size of the companies, or to the sector profile.

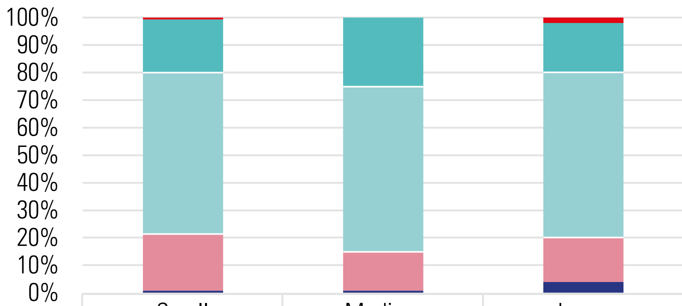
Figure 2.3. *Satisfaction with the environment by gender (2017).*



	male	female
DK/NA		1.1%
Very dissatisfied	23.0%	19.9%
Somewhat dissatisfied	54.7%	63.1%
Somewhat satisfied	20.3%	15.3%
Very satisfied	2.0%	0.6%

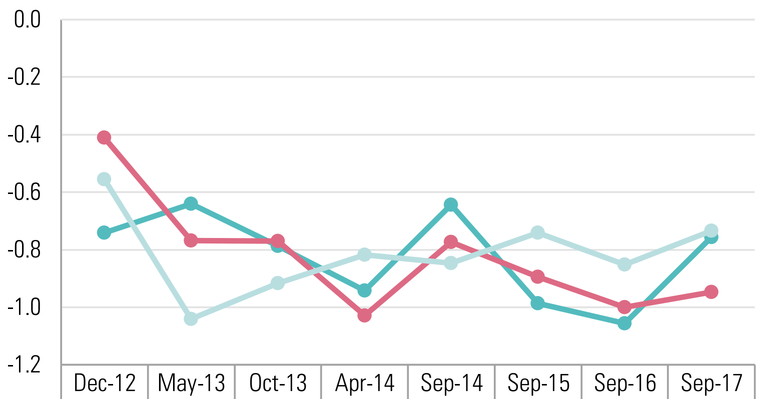
In 2017 the small business sector has evaluated the business environment significantly better than the medium-sized companies (Figure 2.4-2.5). The highest positive assessment shift compared to 2016 (Figure 2.5) was also registered in small businesses, while medium and large business positive increments were significantly lower. The most pessimistic assessment of the environmental situation observed from 2012 to 2017 was found in the mining and construction sectors (Figure 2.6).

Figure 2.4. *Satisfaction with the environment by business size (2017)*



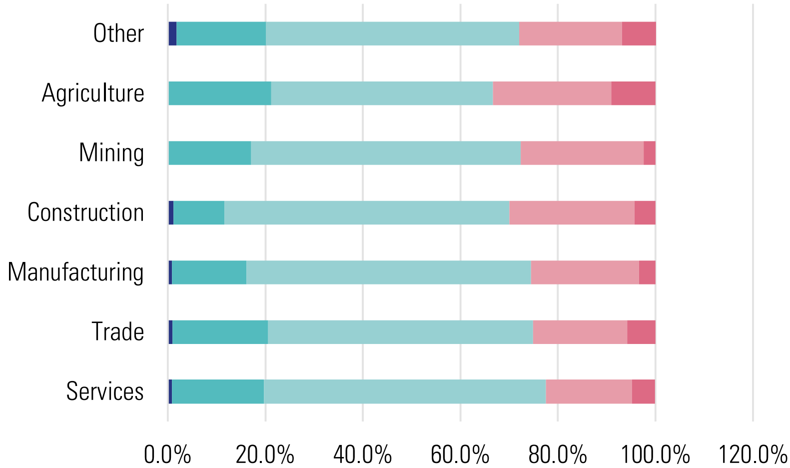
	Small	Medium	Large
DK/NA	0.7%		2.0%
Very dissatisfied	19.3%	25.2%	18.0%
Somewhat dissatisfied	58.6%	60.0%	60.0%
Somewhat satisfied	20.7%	14.1%	16.0%
Very satisfied	0.7%	0.7%	4.0%

Figure 2.5. *Average of business environment assessment by the size of business (2012-2017)*



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

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

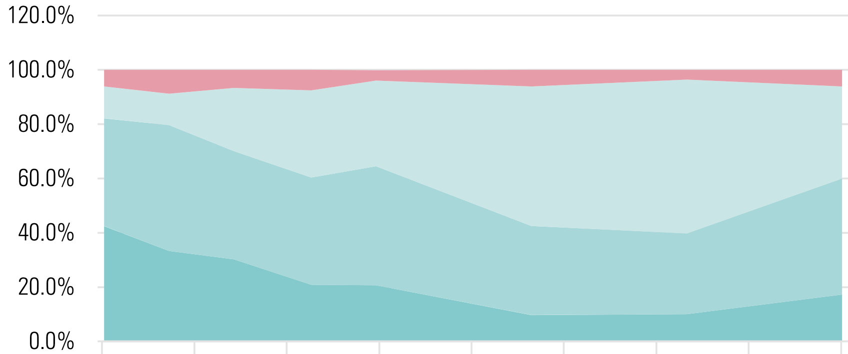


	Services	Trade	Manufac-turing	Construc-tion	Mining	Agricul-ture	Other
Very satisfied	0.9%	1.0%	0.9%	1.2%			1.8%
Somewhat satisfied	18.8%	19.6%	15.2%	10.4%	17.1%	21.2%	18.4%
Somewhat dissatisfied	57.8%	54.3%	58.4%	58.4%	55.3%	45.5%	51.8%
Very dissatisfied	17.7%	19.3%	22.1%	25.7%	25.2%	24.2%	21.1%
DK/NA	4.7%	5.8%	3.4%	4.3%	2.4%	9.1%	7.0%

The positive shift in the business environment is accompanied by the report of improvement of investment conditions occurring in the last six months (Figure 2.7). Responses that investment conditions have "improved" was up by 7.3 percent while "worsened" was down by 22.8%. The optimism about future investment is also higher (Figure 2.8): improvement is expected by 44.8 percent of respondents, which is up by 18.4 percent on the previous year.

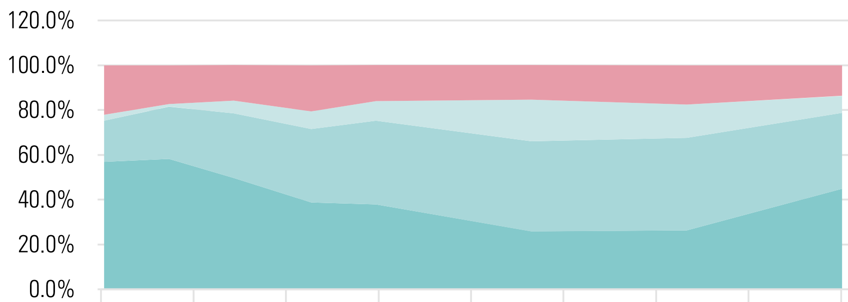
No significant difference by gender band was detected in the assessment of the situation with the investment in the last six months (Figure 2.9). However, female respondents did not give an answer about future investments: 19.3 percent of "don't know or no answer" were among females against 6.8 percent of males (Figure 2.10).

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



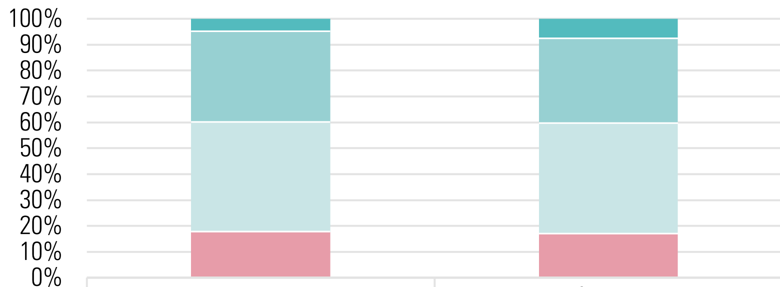
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
DK/NA	6.1%	8.8%	6.7%	7.6%	3.9%	6.1%	3.6%	6.1%
Worsened	11.8%	11.5%	23.3%	32.1%	31.5%	51.5%	56.7%	33.9%
Stay the same	39.7%	46.4%	39.7%	39.4%	43.9%	32.7%	29.7%	42.7%
Improved	42.4%	33.3%	30.3%	20.9%	20.6%	9.7%	10.0%	17.3%

Figure 2.8. *In the next 6 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
DK/NA	22.1%	17.3%	15.8%	20.6%	16.1%	15.5%	17.6%	13.6%
Worsen	2.7%	1.2%	5.8%	7.9%	8.8%	18.5%	14.8%	7.6%
Stay the same	18.2%	23.3%	28.8%	32.7%	37.3%	40.3%	41.2%	33.9%
Improve	57.0%	58.2%	49.7%	38.8%	37.9%	25.8%	26.4%	44.8%

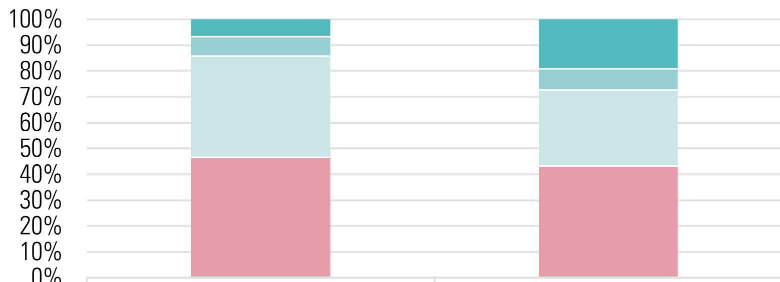
Figure 2.9. *During the last 6 months, have investment conditions for company operations improved, worsened or stayed the same (by gender)*



	male	female
DK/NA	4.7%	7.4%
Worsened	35.1%	33.0%
Stay the same	42.6%	42.6%
Improved	17.6%	17.0%

Improved Stay the same Worsened DK/NA

Figure 2.10. *In the next 6 months, do you expect that investment conditions to improve, worsen, or stay the same (by gender)*



	male	female
DK/NA	6.8%	19.3%
Worsen	7.4%	8.0%
Stay the same	39.2%	29.5%
Improve	46.6%	43.2%

Improve Stay the same Worsen DK/NA

Despite some improvements in the national cconomy, 60.9 percent of respondents consider that the government was "hardly effective" or "not effective at all" over the past year (Figure 2.11). 62.4 percent consider that there was no sustainable government economic policy over the past year (Figure 2.12).

Figure 2.11. *How effective was the government implementing economic policies over the past year?*

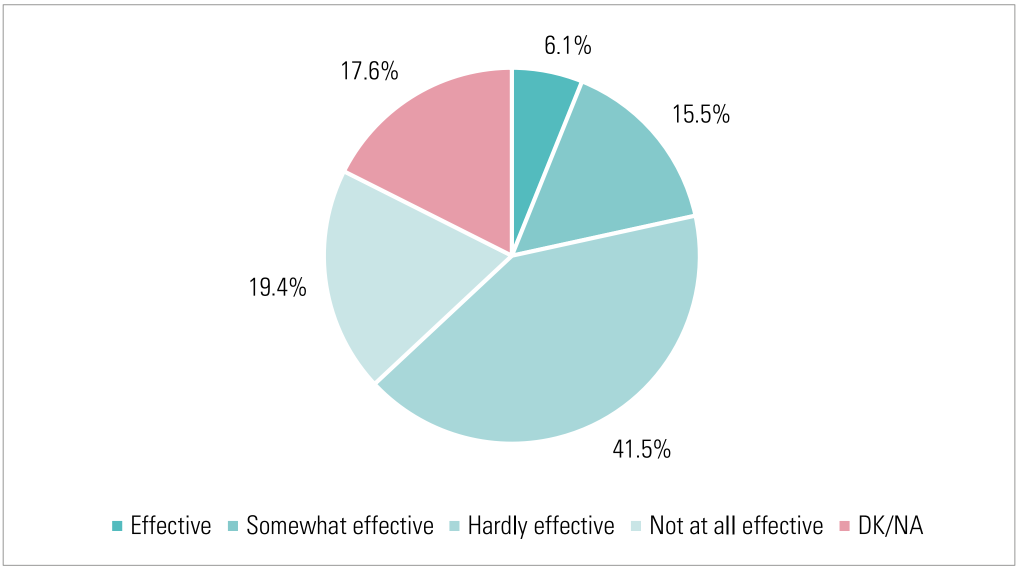
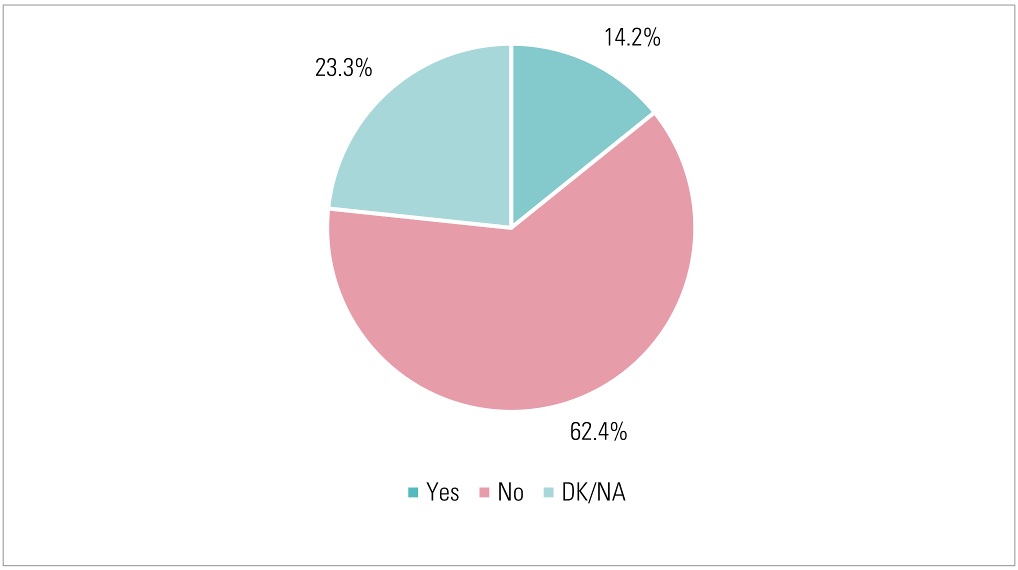


Figure 2.12. *Could the government implement its economic policies in a sustainable way over the past year?*

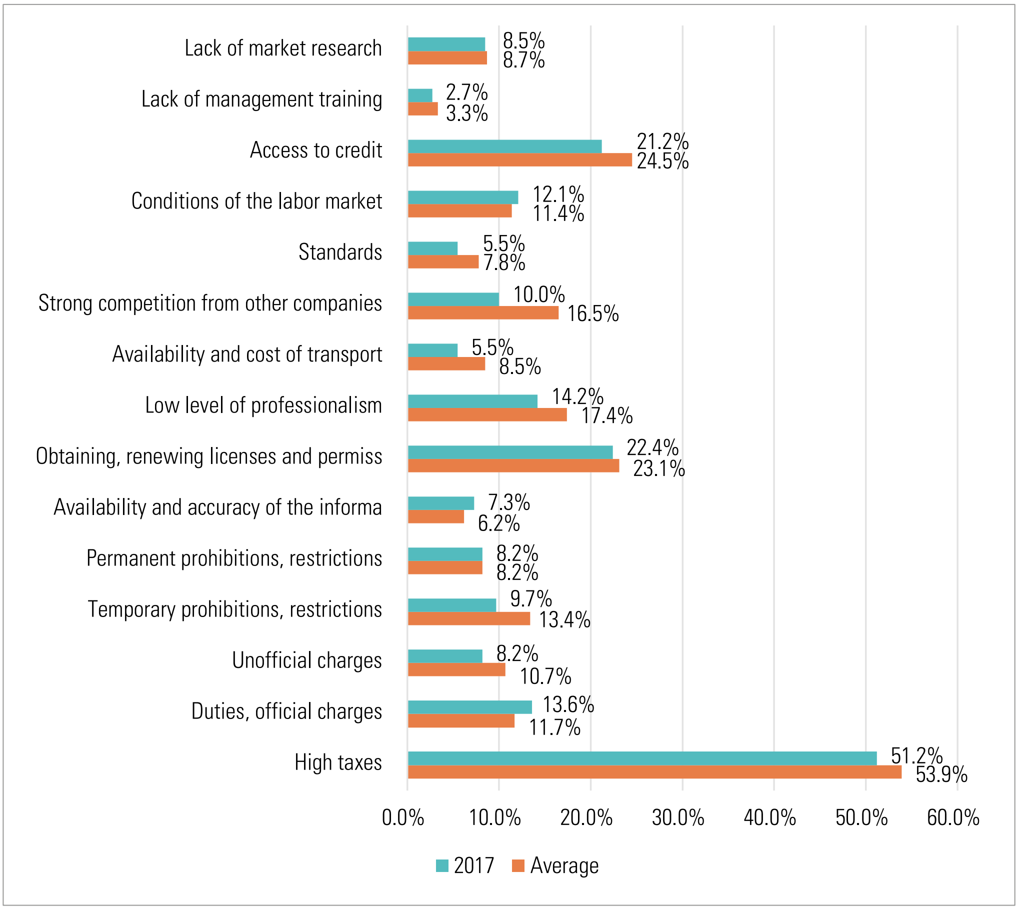


OBSTACLES IN THE BUSINESS ENVIRONMENT

III. OBSTACLES IN THE BUSINESS ENVIRONMENT

A comparison of 2017 obstacles in business with the average of five years of observation shows there is a trend of decline in many of the obstacle indicators (Figure 3.1). The decrease in the following three indicators: "obtaining, renewing licenses and permits", "unofficial charges", "temporary prohibitions, restrictions" could result in diminished corruption levels. Corrupt actions linked to these indicators are used as the main tool for extracting money from business entities. A significant fall was observed in "temporary prohibitions, restrictions": from 13.4 percent to 9.7%, and there is also a decrease in "unofficial charges" - alternative wording for bribes: from 10.7 percent to 8.2 percent. "Obtaining, renewing licenses and permits" had also dropped by 0.7%.

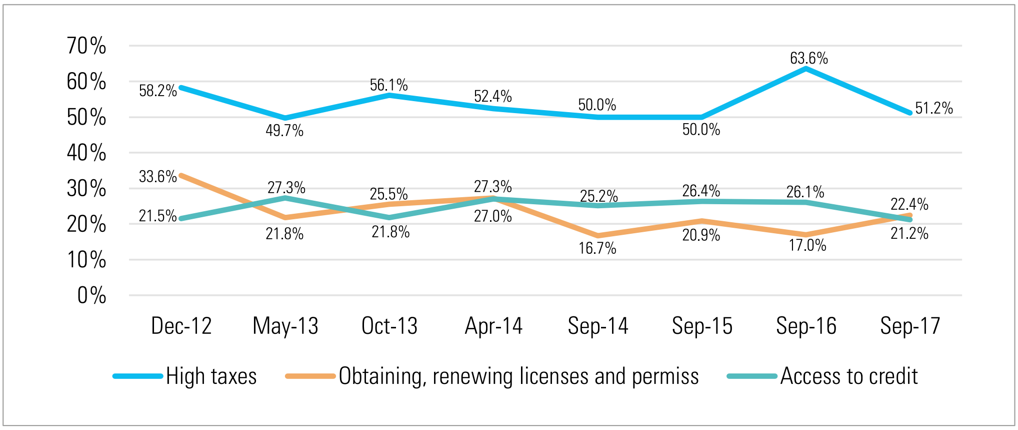
Figure 3.1. Main obstacles in business (multiple choices)



Compared to the previous year, there was a reverse positive trend in "high taxes" where a negative trend was observed in 2015-2016 (Figure 3.2). Still, a very high as 51.2 percent of respondents mentioned it as an obstacle, the "high taxes" indicator had returned to the level of 2014-2015. "Access to credit" in 2017 is substantially better for businesses than in 2016.

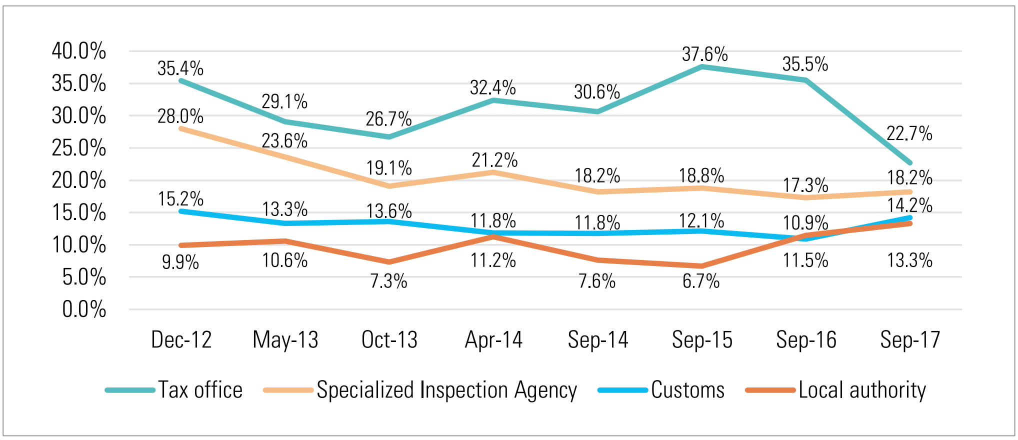
As for "obtaining, renewing licenses and permits", although in 2017 its value is lower than the average, there is an increase by 5.4 percent compared to 2016.

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



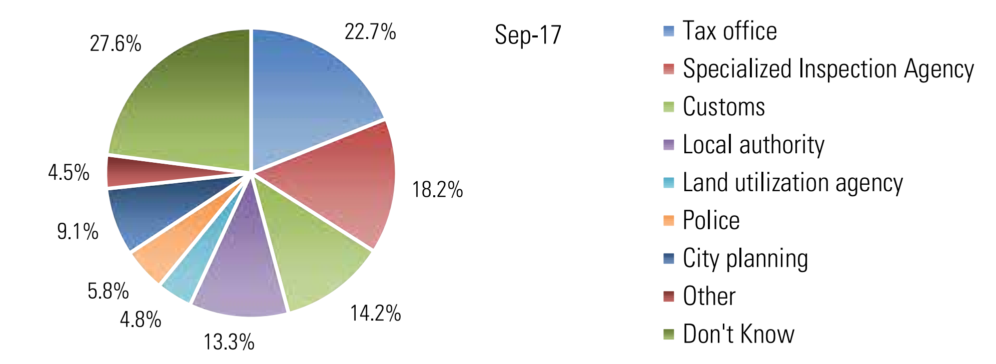
With the decline of "high taxes", there is an all-time low of "tax office" as the organization creating obstacles for business. From 35.5 percent in 2016, there is an impressive descent to 22.7 percent in 2017 (Figure 3.3). In 2017 there is a significant rise of "local authority" in creating obstacles for businesses. From 6.7 percent in 2015 it gradually grew to 13.3 percent in 2017. "Customs" in making obstacles had also increased from 10.9 percent in 2016 to 14.2 percent in 2017.

Figure 3.3. Trend of assessment of four highest-ranking organizations creating obstacles.



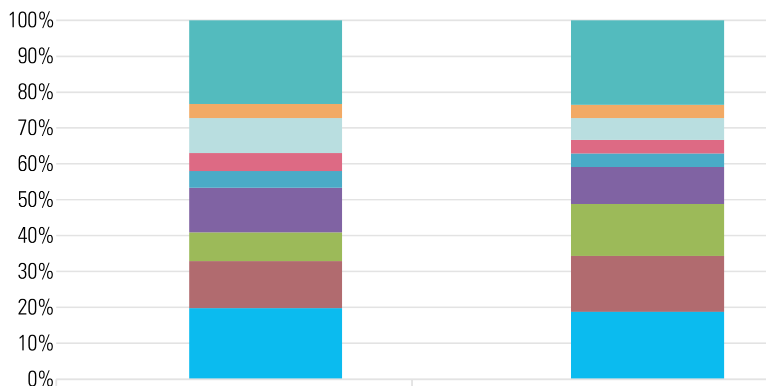
As a rule, every new government in Mongolia starts work by re-structuring government offices. Agencies and ministries are often dismantled, merged, split and renamed. It is accompanied by the shifting and re-distribution of authorities. Such actions are also impact the survey instrument. As an example, in 2017 SMF had introduced “city planning” to the list and it went straight to fifth position (Figure 3.4). The Specialized Inspection Agency had undergone various changes in its authority over time and it directly impacted its ranking.

Figure 3.4. *Organizations creating obstacles in 2017*



In some areas, there is a significant difference in assessment by gender for organizations creating obstacles (Figure 3.5). These differences were observed in “city planning”, “customs” and “specialized inspection agency”.

Figure 3.5. *Gender band of organizations creating obstacles.*



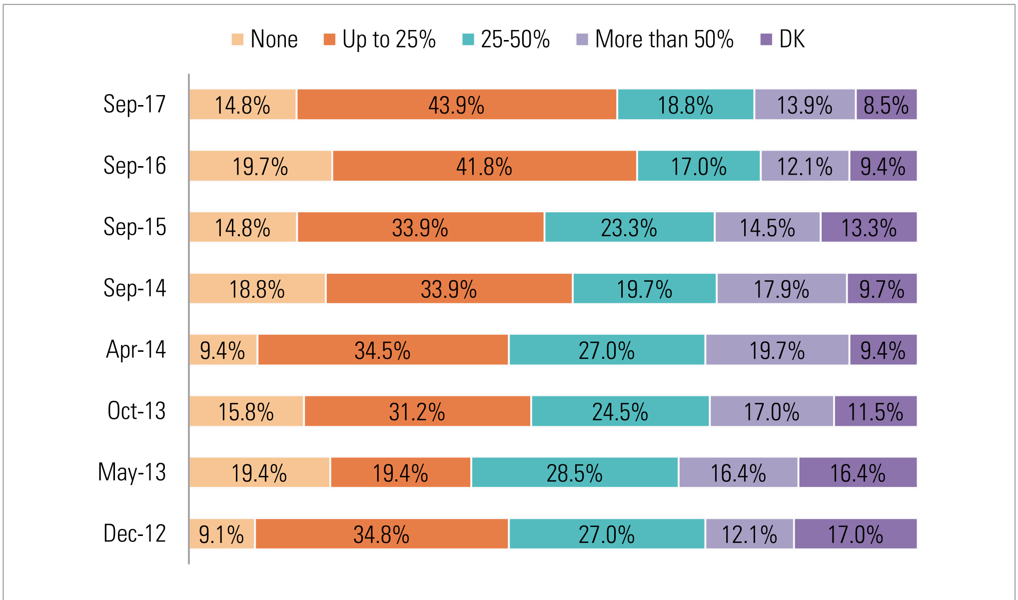
	Male	Female
Don't Know	27.7%	28.4%
Other	4.7%	4.5%
City planning	11.5%	7.4%
Police	6.1%	4.5%
Land utilization agency	5.4%	4.5%
Local authority	14.9%	12.5%
Customs	9.5%	17.6%
Specialized Inspection Agency	15.5%	18.8%
Tax office	23.6%	22.7%

LOSSES OR NON-PRODUCTIVE OBSTACLES

IV. LOSSES OR NON-PRODUCTIVE OBSTACLES

In 2017, with the exception of the category "none", the pattern on wasting time on non-productive obstacles is similar to the previous year and fits with the error margin (Figure 4.1). 43.9 percent of management is spending up to 25 percent of their time on non-productive obstacles. 13.9 percent spending more than 50 percent of their time on non-productive obstacles, an incremental increase of 1.8 percent compared to the previous year. "None" or no time wasted on dealing with nonproductive obstacles decreased from 19.7 percent to 14.8 percent.

Figure 4.1. *In your opinion, how much time does the company management spend on dealing with non-productive obstacles like renewing or obtaining permits, licenses waiting for official responses etc.?*



In the same way, there is a decreasing number of companies that are not losing any resources in 2017 (Figure 4.2). The analysis shows a significant correlation[2] between the wasting of time and the wasting resources, which is of little surprise.

In terms of gender, there is no substantial difference in the assessment for time wasted (Figure 4.3) but there are slight differences in assessing wasted resources (Figure 4.4). The difference appears as a percentage of female managers reporting waste of over 25 percent of resources - 9.7 percent against only 4.1 percent of male managers saying so.

[2] Kendall's correlation = 0.324, significant at the level 0.01

Figure 4.2. *How much of the company resources are wasted overcoming non-productive obstacles?*

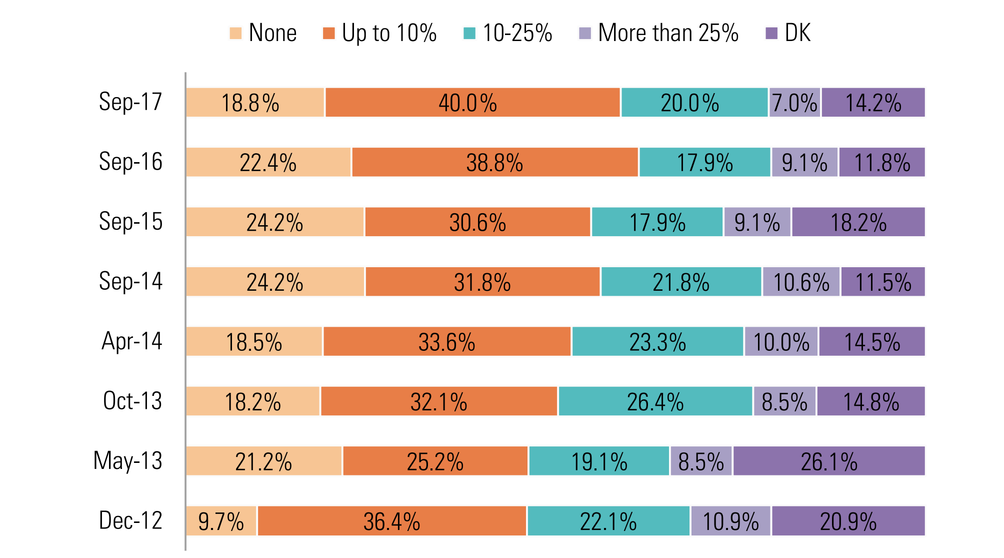
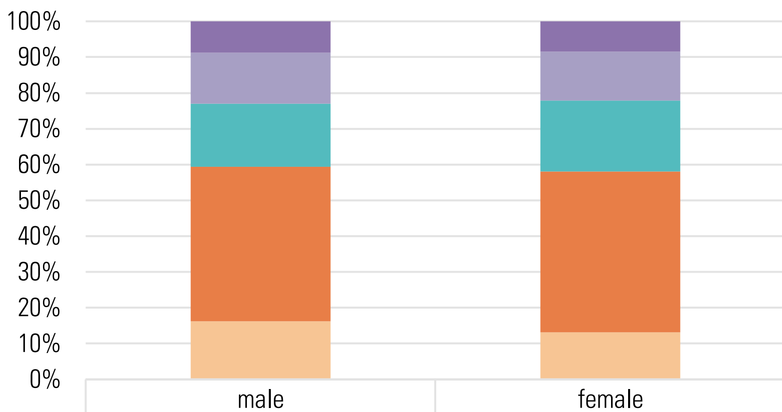
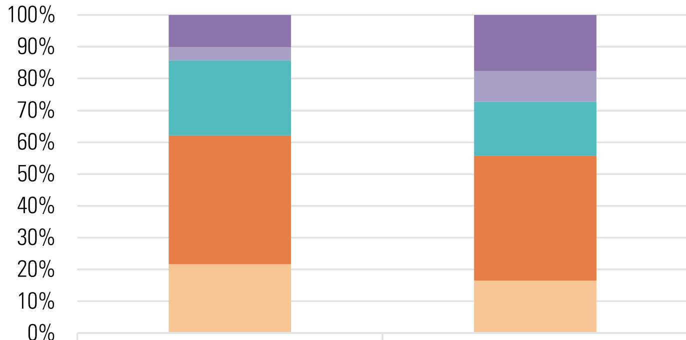


Figure 4.3. *In your opinion, how much time does the company management spend on dealing with non-productive processes like renewing or obtaining permits, licenses waiting for official responses etc.?*



	male	female
DK	8.8%	8.5%
More than 50%	14.2%	13.6%
25-50%	17.6%	19.9%
Up to 25%	43.2%	44.9%
None	16.2%	13.1%

Figure 4.4. *How much of the company resources are wasted overcoming non-productive obstacles?*



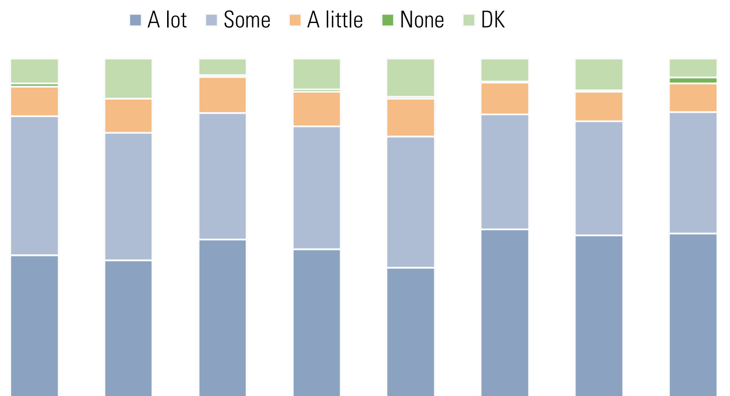
	male	female
DK	10.1%	17.6%
More than 25%	4.1%	9.7%
10-25%	23.6%	17.0%
Up to 10%	40.5%	39.2%
None	21.6%	16.5%

CORRUPTION IN THE PUBLIC SECTOR

V. CORRUPTION IN THE PUBLIC SECTOR

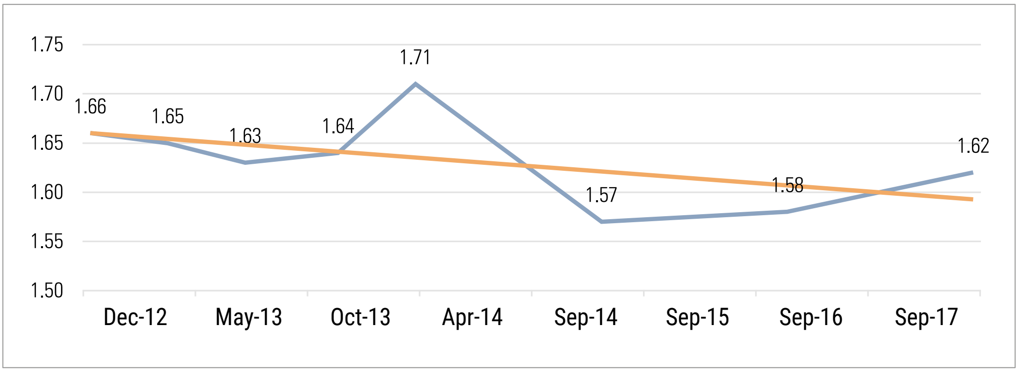
The situation with corruption in the public sector could be described as stagnant – with no progress at all (Figure 5.1). Except for the 'up and downs' in 2013, 2014, more than 40 percent of respondents now said there was "a lot" of corruption in the public sector. Then there was a slight improvement in assessment of corruption in September 2014, but since September 2015 the situation worsened and almost half of respondents said that there is "a lot" of corruption in the public sector. If compared by means, then the declining trend line in Figure 5.2 showed a tendency of increasing corruption in public sector as code 1 is for "a lot" of corruption, code 2 for "some", code 3 for "a little" and code 4 for "none". These figures showed that the business community assessment implies that corruption in the public sector has an endemic nature.

Figure 5.1. *In your opinion, how much corruption do you think there is in the public sector?*



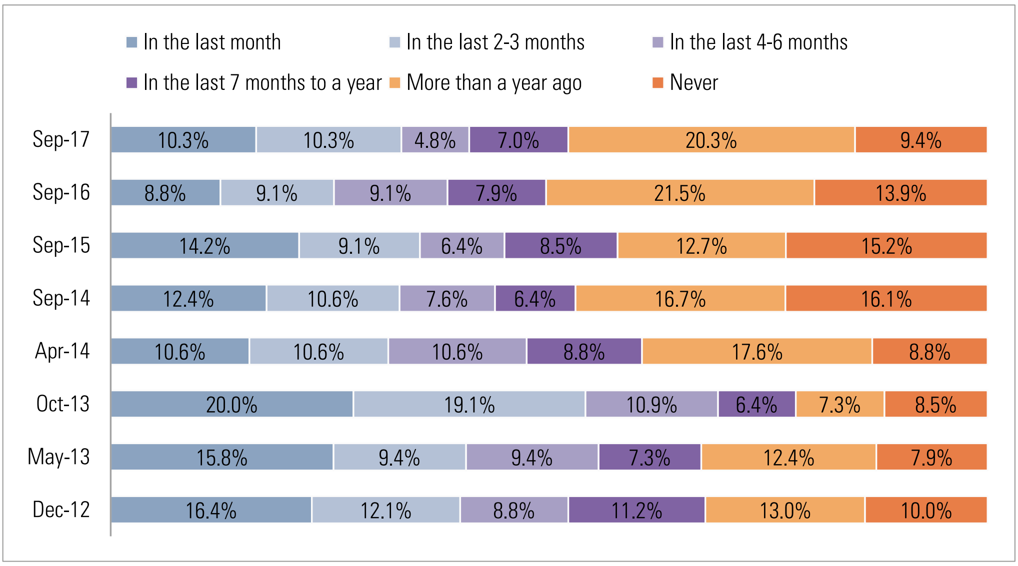
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
DK	7.3%	11.8%	4.8%	9.1%	11.2%	6.7%	9.4%	5.5%
None	0.9%	0.0%	0.6%	0.6%	0.6%	0.3%	0.3%	1.8%
A little	8.8%	10.0%	10.6%	10.3%	11.2%	9.4%	8.8%	8.5%
Some	40.9%	37.6%	37.3%	36.1%	38.5%	33.9%	33.6%	35.8%
A lot	42.1%	40.6%	46.7%	43.9%	38.5%	49.7%	47.9%	48.5%

Figure 5.2. *In your opinion, how much corruption do you think there is in the public sector? (Means calculated by 1: "a lot", 2: "some", 3: "a little", 4: "none")*



There is not much difference in the statistics about the observation of corruption cases in their respective sector by respondents compared to the previous survey (Figure 5.3). Since reporting corruption is a very sensitive issue, the missing values[3] rate is usually high: 37.9 percent of respondents report no opinion on the matter in 2017.

Figure 5.3. *When was the last time you had personal knowledge of a corruption transaction with government by a company in your sector of business?*

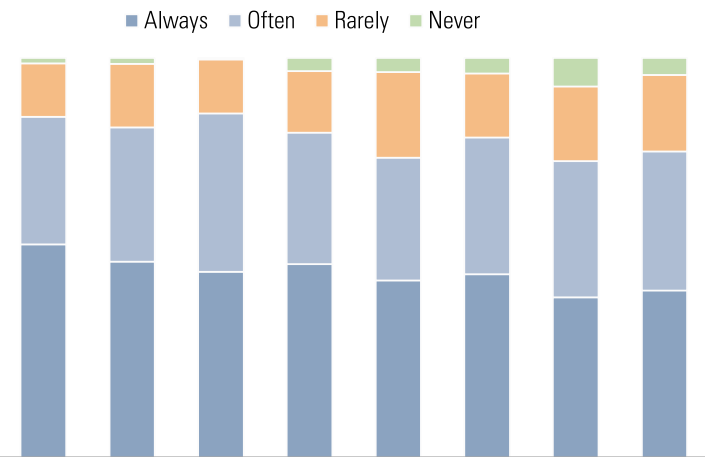


Concerning public sector contracting and tenders, there is a positive trend observed over the last years (Figures 5.4 – 5.5). It shows that the business community considers that there is a sign of the decline

[3] Non response, "don't know".

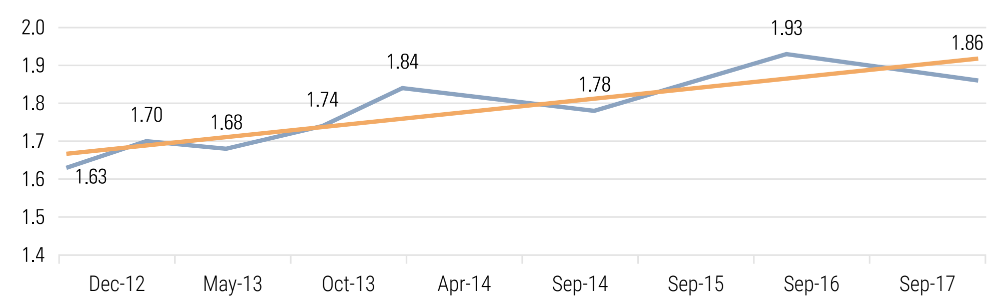
of corruption in tendering. To define the factors leading businesses to such observations could be more complicated. As an example, it may be connected to the general decline of economic activity and the following drop of tender numbers, or artificial limitations on business participation. With the declining participation, the statistics of observed corruption will also fall.

Figure 5.4. *In your opinion, how often do companies encounter corruption in public sector tenders and contracting? (valid only)*



	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
Never	1.2%	1.2%	0.3%	2.7%	3.0%	3.3%	5.5%	3.6%
Rarely	11.8%	13.3%	11.5%	12.4%	18.2%	13.3%	14.2%	16.1%
Often	28.2%	28.2%	33.6%	26.7%	26.1%	28.5%	26.1%	29.4%
Always	47.0%	40.9%	39.4%	39.1%	37.6%	38.2%	30.6%	35.2%

Figure 5.5. *Means of frequency of corruption in public sector (from 1: "always" to 4: "never")*



[4] Non valid categories like "don't know" and "not available" are excluded from the graphic view.

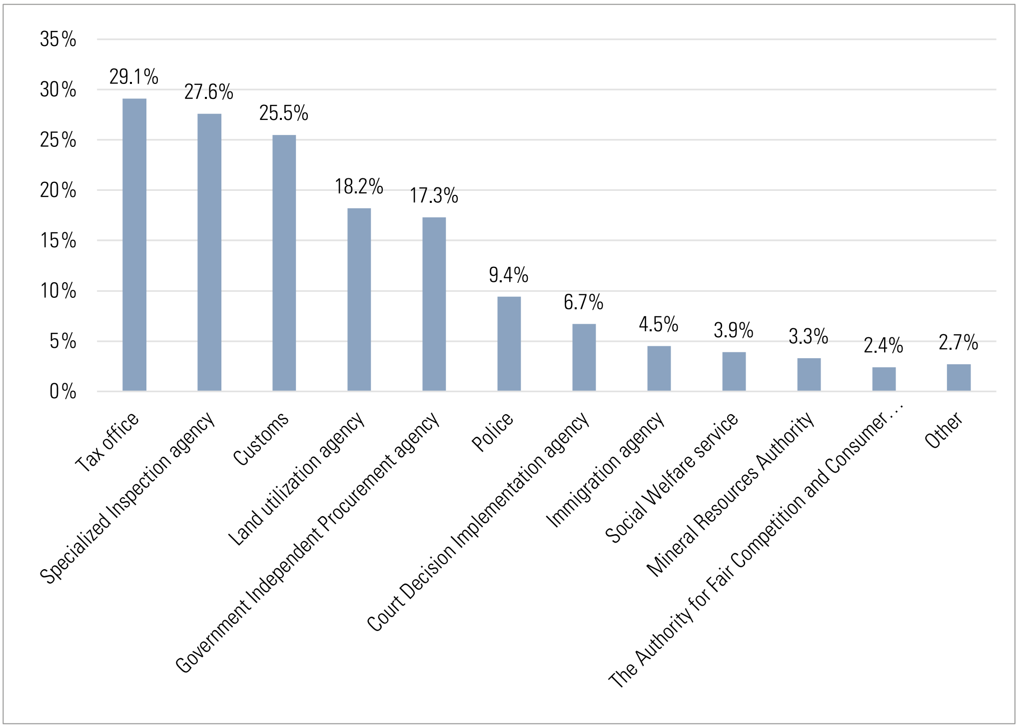
If we compare the 2017 list of the area most affected by corruption with the previous year, there is a significant shift in ranking (Figure5.6). All the values of top-ranking sectors went down, which means the situation is somewhat improving based on business community assessment. The most spectacular achievement was made by the tax office. In September 2016 it was in first place with 29.1%, in September 2017 it moved down to the third position with 18.8 percent.

The Specialized Inspection Agency comes first in the ranking in 2017 with 25.2%. However, this value is 2.4 percent lower than they had in 2016. Customs moved to the second position with 23 percent which is 2 percent lower than in previous year.

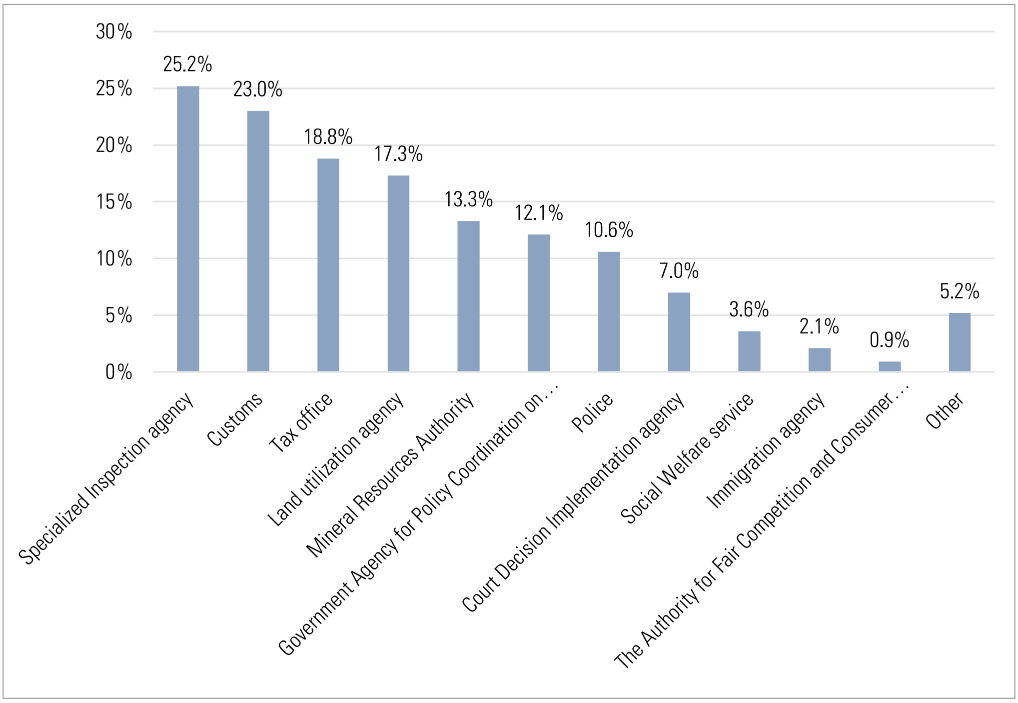
The Mineral Resource Authority is the one which had the highest increase. From 3.3 percent in 2016 it reached 13.3 percent in 2017. It was introduced to the 2017 survey "Government Agency for Policy Coordination on State Property" (before 2017 there was the "Government Independent Procurement agency") had also reached a high point: 12.1 percent.

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

a) September 2016



b) September 2017



Looking at these observations, we are coming to a potential contradictory. On one side, we have reports of endemic corruption in the public sector (Figure5.5), while on the other hand there is a decreased number of corruption cases in public tenders and the decreased estimate of corruption impact on respondent's businesses. The latter gradually dropped from 50 percent in October 2013 to 36.7 percent in 2017 (Figure5.7).

One of the possible explanations could be an extrapolation of what is happening on a general public level. In the SPEAK reports, we were providing statistics showing a steady decline of petty corruption cases in which respondents were directly involved. This process was observed since 2006 when the survey had started. On the other side, the assessment of the Grand Corruption (GC) level in society by the same respondents was very high and not changing. There was a significant difference between two assessments. If petty corruption is directly observed by respondents, then GC is rather an abstract attitude that is formed by media and rumors.

We can assume that in the business area we are viewing the same hierarchical separation. Corruption is becoming less present on lower or visible levels of business activity, and is climbing to a higher invisible level or grand corruption. Grand corruption is not visible to most of our business respondents and could be considered as an abstract case. Accordingly, we can interpret that the decrease in the "a lot" category of the impact of grand corruption on respondent's businesses from 11.5 percent in 2016 to 9.4 percent in 2017 is caused by an improvement in the economy rather than through observation of corruption. The attitude shown in the survey on tender participation could be considered as relevant as 24.8 percent of respondents noted that they took part in public biddings (Figure 5.8).

Figure 5.7. *Is public sector corruption affecting your business directly? (valid only)*

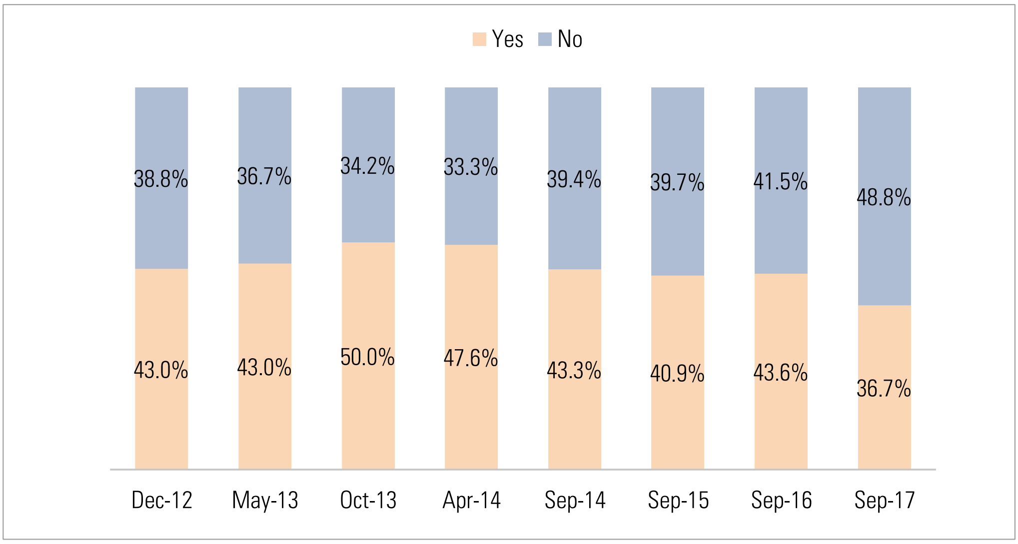


Figure 5.8. *Do you bid on governmenttenders?*

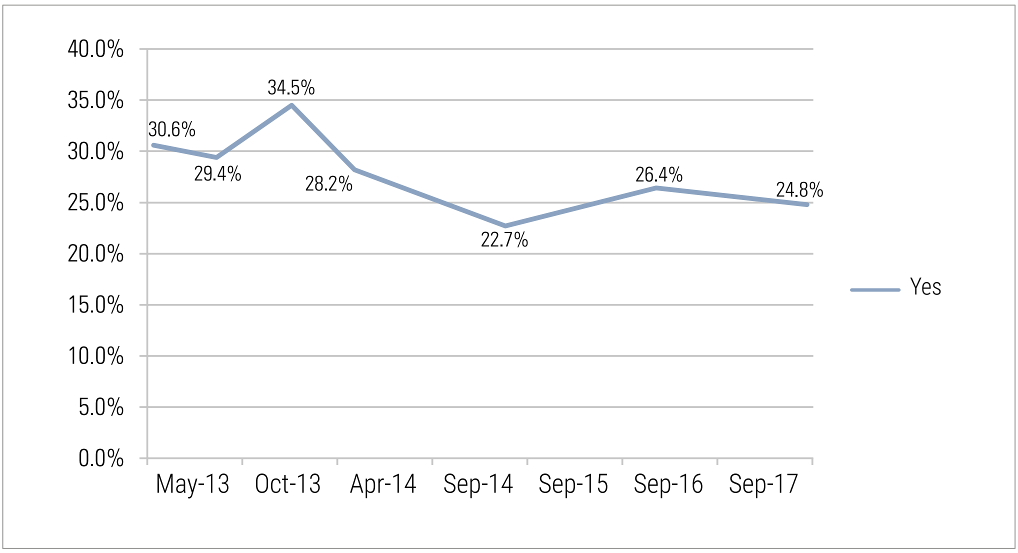
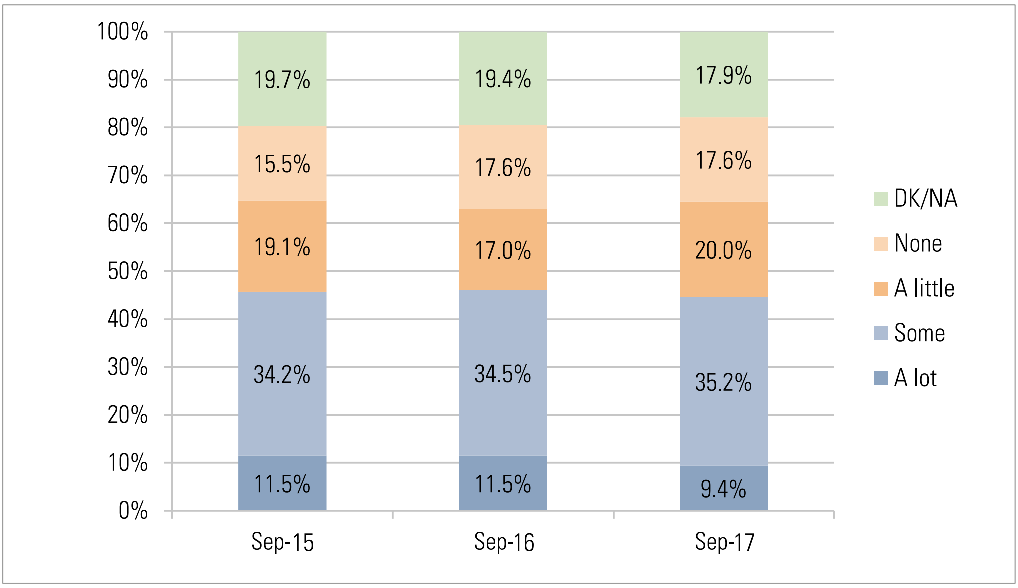


Figure 5.9. *In your opinion, how much is high-level corruption or grand corruption is affecting your business?*



2017 reporting on the ways corruption is spreading in the public sector is almost identical to 2016. Therefore, it can be concluded that ~70 percent of Mongolian businesses think that "organized groups" are involved in corruption processes in one way or another (Figure 5.10).

At the time of the 2017 survey PM U. Khurelsukh's cabinet was under formation there was no possibility for an assessment of his governance. However, for the level of confidence to the emerging government, it appears positive (Figure 5.11): 35.5 percent of respondents are expecting improvement in biddings against only 4.8 percent expecting a worsening situation. 40.6 percent has no opinion about what is going to happen. In his governance PM U. Khurelsukh will meet a confidence challenge from the public to the many strong political and family connections influencing biddings (Figure 5.12). It goes along with the feelings that corruption in Mongolia today is worse than three years back (Figure 5.13).

Figure 5.10. *In your opinion is corruption in public sector spread more through individual contacts or it is spread more through organized groups?*

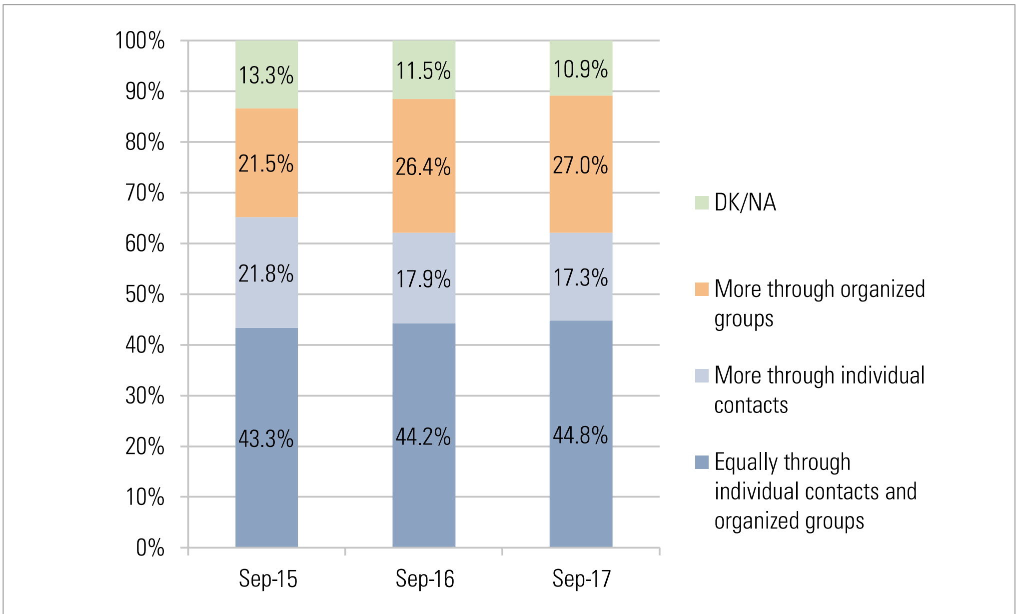


Figure 5.11. *If U. Khürelsükh become Prime Minister, how would the state bidding and purchasing process change compared with the previous government?*

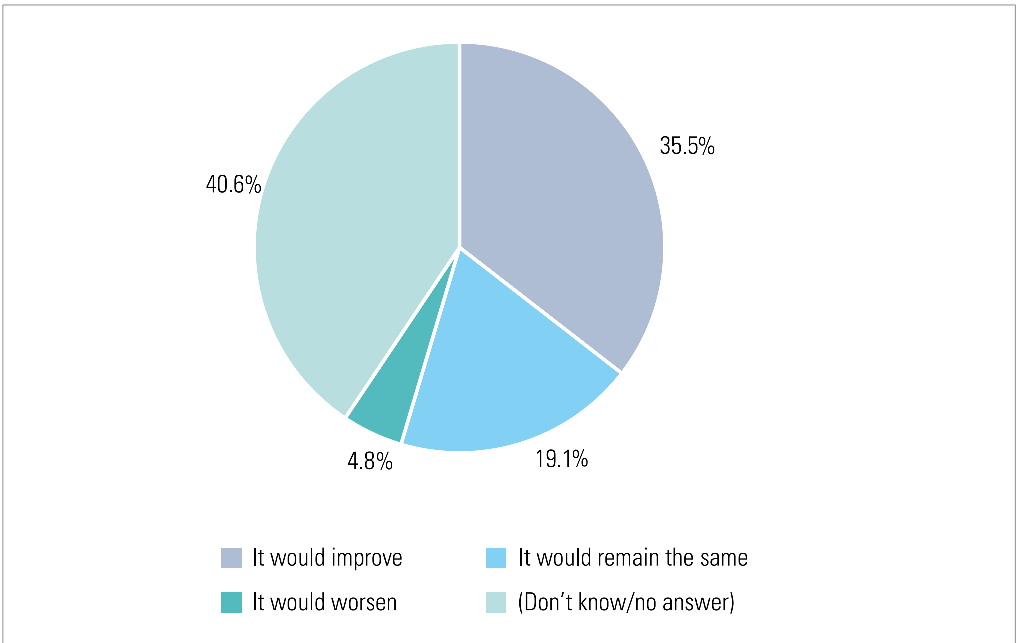
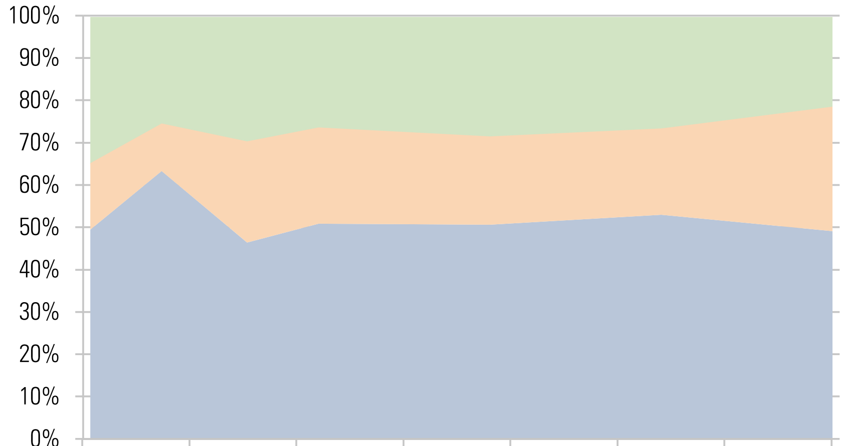
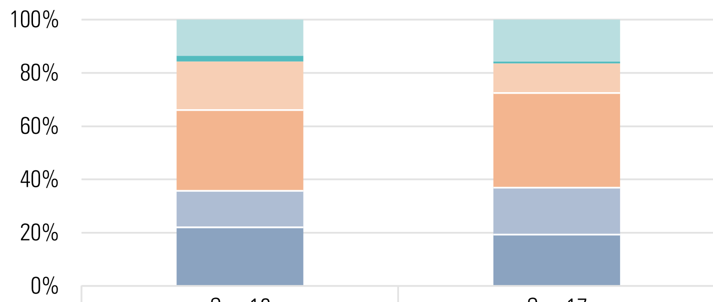


Figure 5.12. *Do you think that political or family membership influence tender awards?*



	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
DK/NA	34.8%	25.5%	29.7%	26.4%	28.5%	26.7%	21.5%
No	15.8%	11.2%	23.9%	22.7%	20.9%	20.3%	29.4%
Yes	49.4%	63.3%	46.4%	50.9%	50.6%	53.0%	49.1%

Figure 5.13. *In the past three years, how has the level of corruption in Mongolian business environment changed?*



	Sep-16	Sep-17
DK/NA	13.6%	15.8%
Decreased a lot	2.1%	0.6%
Decreased a little	18.2%	11.2%
Remained the same	30.3%	35.5%
Increased a little	13.9%	17.9%
Increased a lot	21.8%	19.1%

CORRUPTION IN THE PRIVATE SECTOR

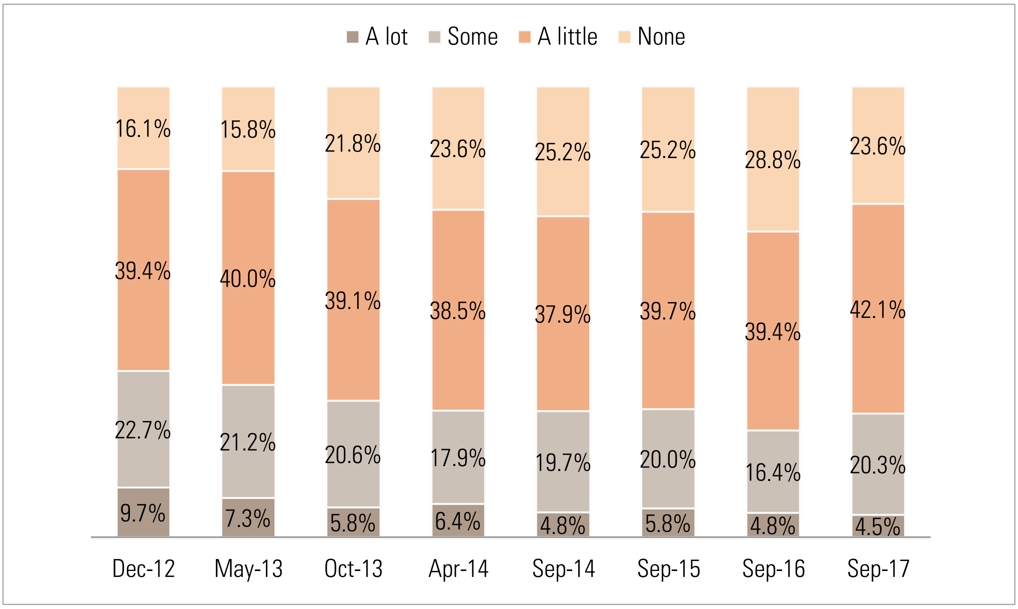
VI. CORRUPTION IN THE PRIVATE SECTOR

The assessment of the corruption level in the private sector shows a declining trend (Figure 6.1.a-b). From 2014 the corruption trend stabilized around value 3: "a little" (Figure 6.1.b). Despite that, if compared 2017 to 2016 the assessment had worsened. The mean of corruption slightly decreased by 0.09 while the number of those who reported "a little" and "some" level of corruption increased by 6.6%.

Gender differentiation in the corruption assessment in the private sector shows a higher number of non-response rates from female respondents (Figure 6.2). The number of female managers that did not know the answer or avoided answering was 13.1 percent against 4.7 percent males. Overall the positive assessment of corruption level by females is lower than by male management.

Figure 6.1. *How much corruption do you think there is in the private sector? (valid only)*

a)



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

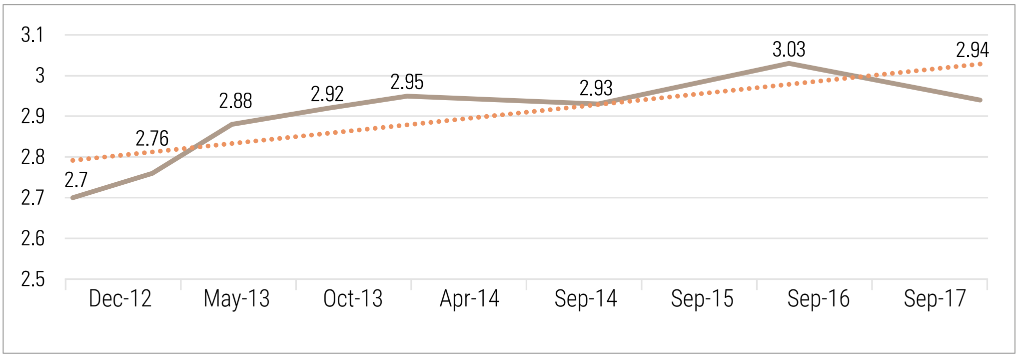
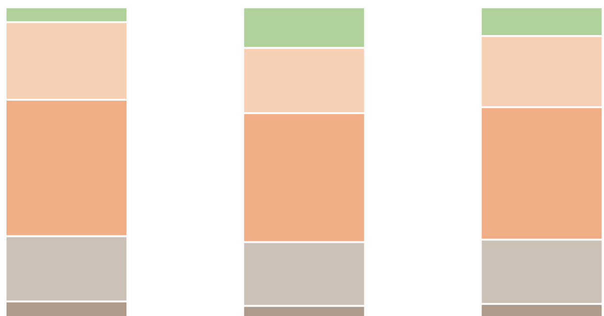


Figure 6.2. *How much corruption do you think there is in the private sector? By gender*



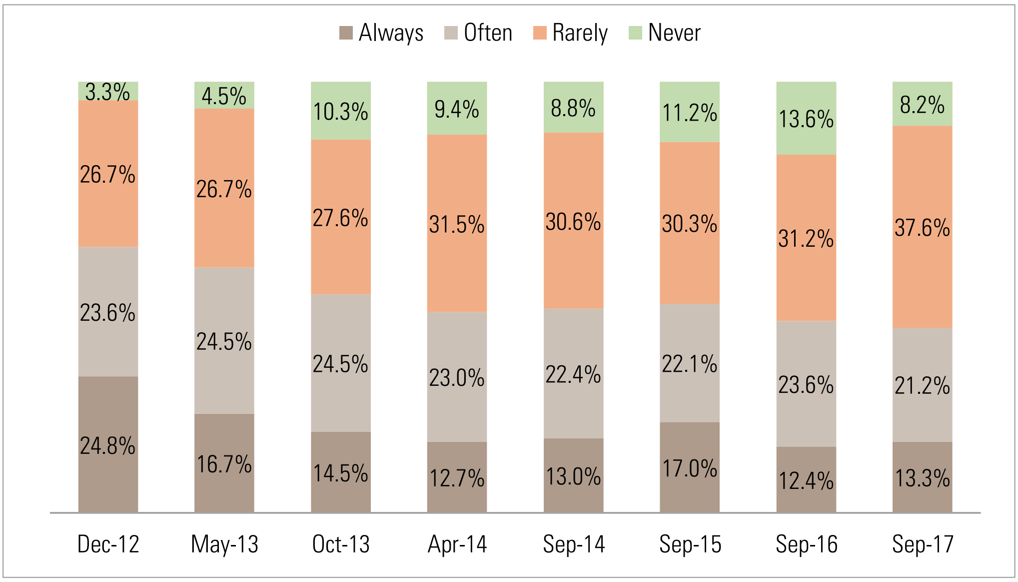
	male	female	average
DK/NA	4.7%	13.1%	9.3%
None	25.0%	21.0%	22.8%
A little	43.9%	41.5%	42.6%
Some	20.9%	20.5%	20.7%
A lot	5.4%	4.0%	4.6%

In 2017 there was a slight growth in statistics of encountering corruption in private sectors tenders and contracting (Figure 6.3) compared to the previous year. Still, 2016 and 2017 years show the lowest records of encountering corruption by respondents if compare results from the beginning of the study in December 2012.

The statistics of encountering corruption cases "in the course of work" as a rule are much lower than encountering at tenders and in contracting areas (Figure 6.4). The average of the means on corruption in tender and licensing is 2.41, while "in the course of work" it is 2.89. There is also the negative reverse in statistics of encountering corruption "in the course of work" in 2017 compared to 2016. The worst statistics of encountering corruption "in the course of work" compared to the previous year was observed in the "services" area (Figure 6.5).

Figure 6.3. *In your opinion, how often do companies encounter corruption in the private sector tenders and contracting? (valid only)*

a)



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

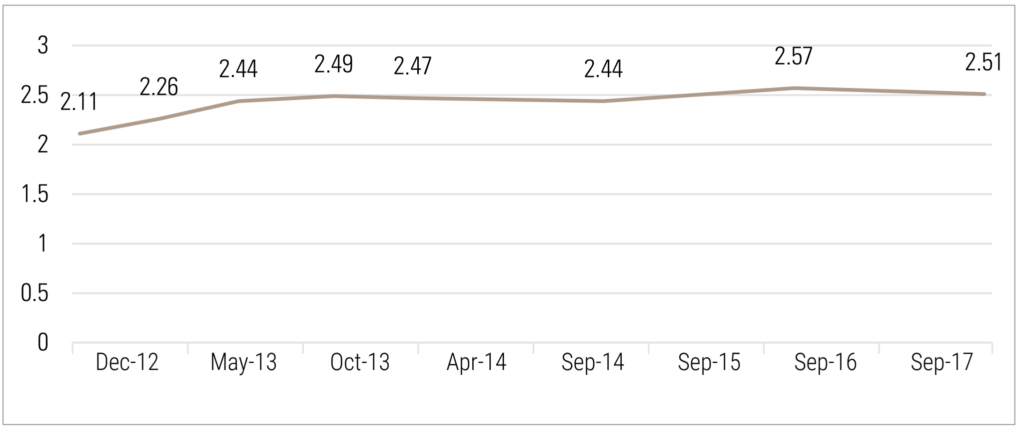
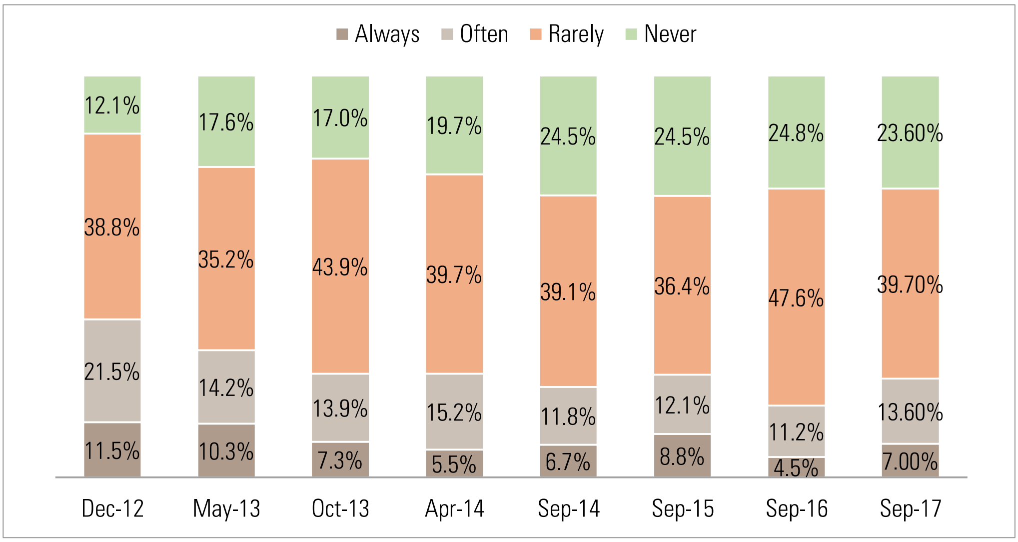


Figure 6.4. *In your sector of business, how often do companies encounter corruption? (valid only)*



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

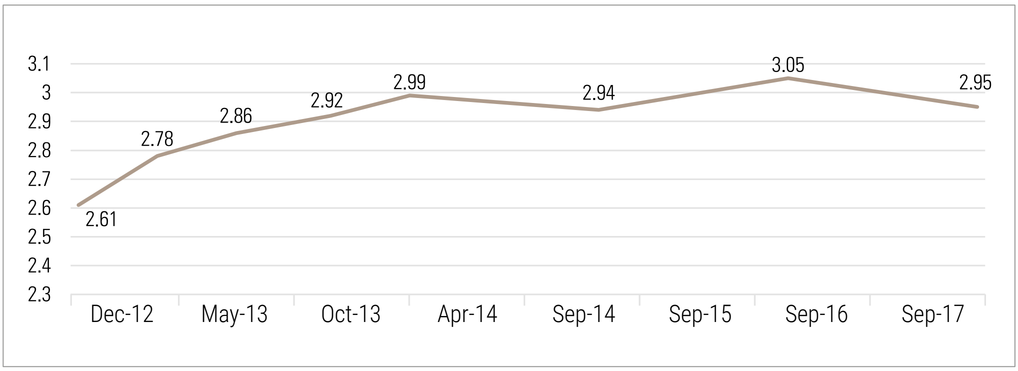
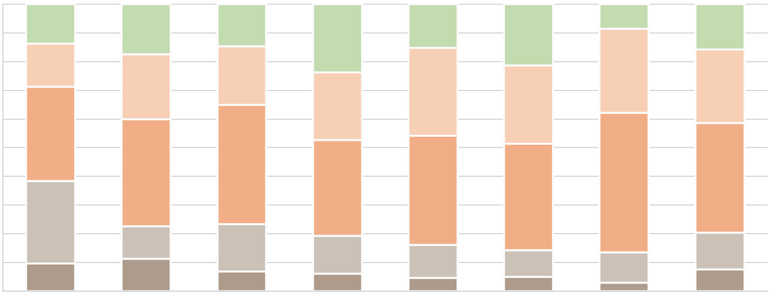


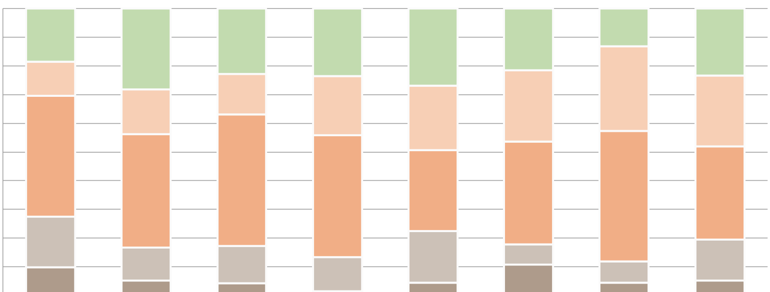
Figure 6.5. *In your sector of business, how often do companies encounter corruption?*

a) Services



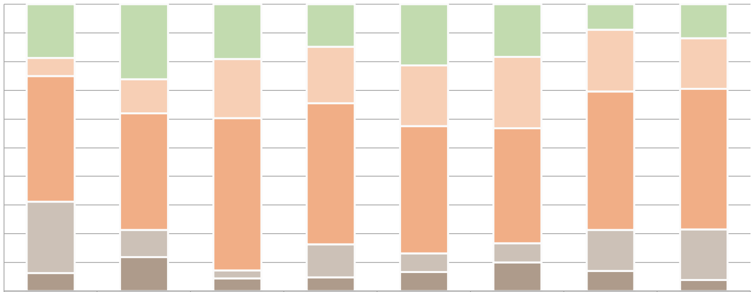
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
DK/NA	13.8%	17.4%	14.6%	23.7%	15.3%	21.4%	8.6%	15.8%
Never	14.9%	22.6%	20.4%	23.7%	30.5%	27.1%	29.3%	25.6%
Rarely	33.0%	37.4%	41.7%	33.3%	38.2%	37.1%	48.6%	38.3%
Often	28.7%	11.3%	16.5%	13.2%	11.5%	9.3%	10.7%	12.8%
Always	9.6%	11.3%	6.8%	6.1%	4.6%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

b) Trade



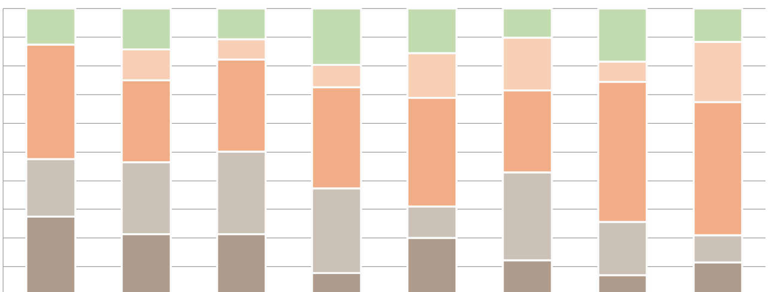
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
DK/NA	18.6%	28.1%	22.8%	23.5%	26.9%	21.4%	13.2%	23.4%
Never	11.8%	15.6%	14.1%	20.6%	22.4%	25.0%	29.4%	24.7%
Rarely	42.2%	39.6%	45.7%	42.6%	28.4%	35.7%	45.6%	32.5%
Often	17.6%	11.5%	13.0%	11.8%	17.9%	7.1%	7.4%	14.3%
Always	9.8%	5.2%	4.3%	1.5%	4.5%	10.7%	4.4%	5.2%

c) Manufacturing



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

d) Construction

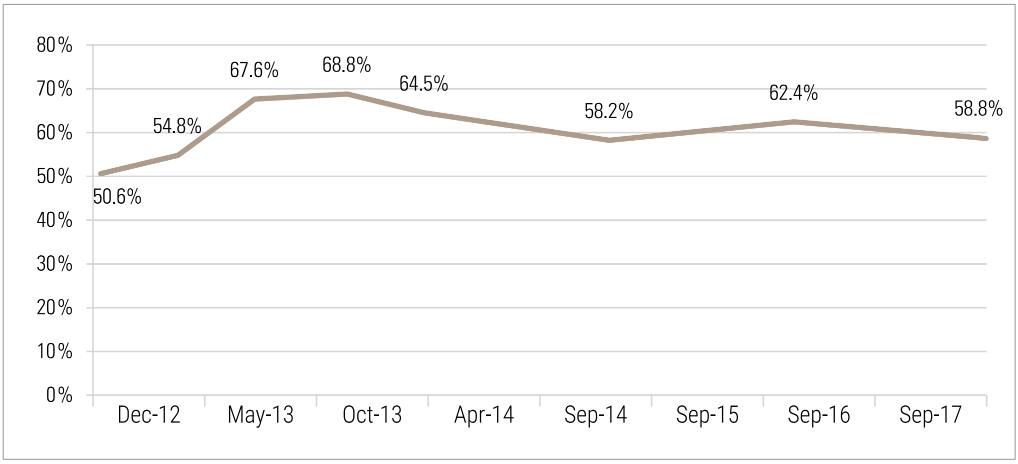


	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
DK/NA	12.5%	14.3%	10.7%	19.6%	15.6%	10.2%	18.6%	11.6%
Never		10.7%	7.1%	7.8%	15.6%	18.4%	7.0%	20.9%
Rarely	40.0%	28.6%	32.1%	35.3%	37.8%	28.6%	48.8%	46.5%
Often	20.0%	25.0%	28.6%	29.4%	11.1%	30.6%	18.6%	9.3%
Always	27.5%	21.4%	21.4%	7.8%	20.0%	12.2%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

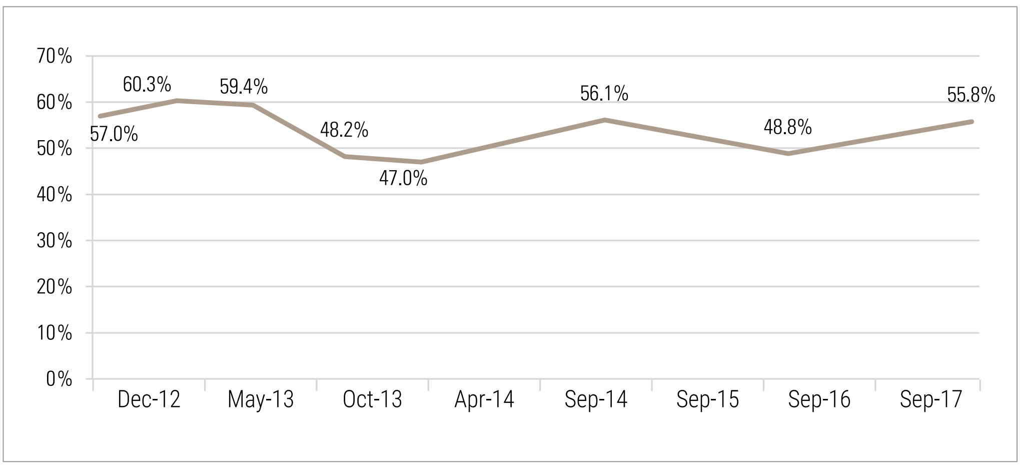
"Mining" and "government services" continue to be at the top of sectors most vulnerable to corruption (Figure 6.6). On the other side, starting from 2015 there is a decline in corruption trends in "construction", "trade" and "manufacturing" sectors. Only 4.5 percent of respondents in 2017 had reported that "none of the companies" are paying the right amount of taxes to the government (Figure 6.7). This is the all-time low observation.

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

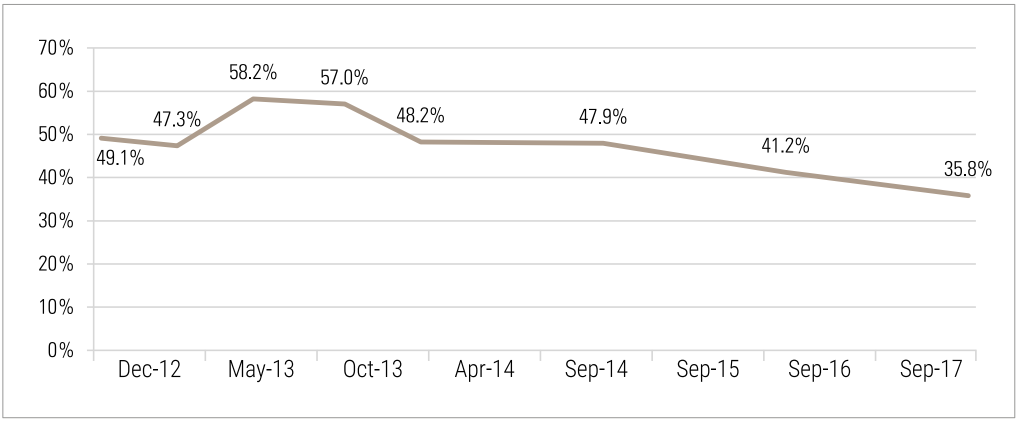
a) Government services



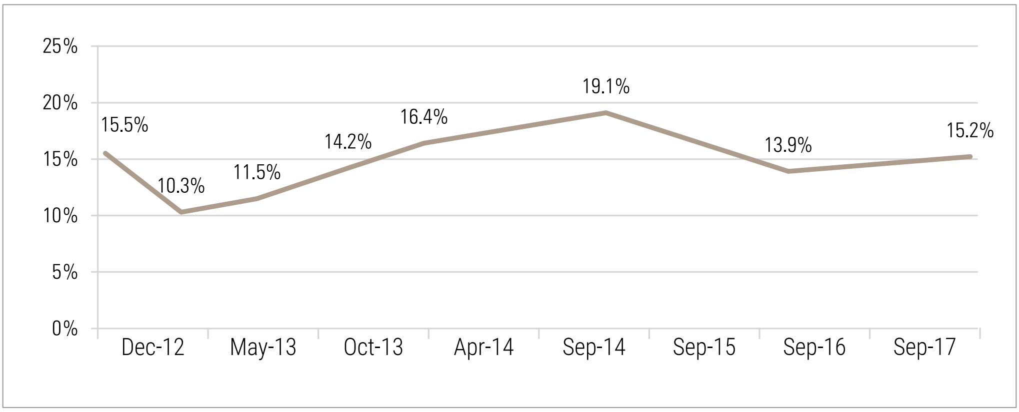
b) Mining



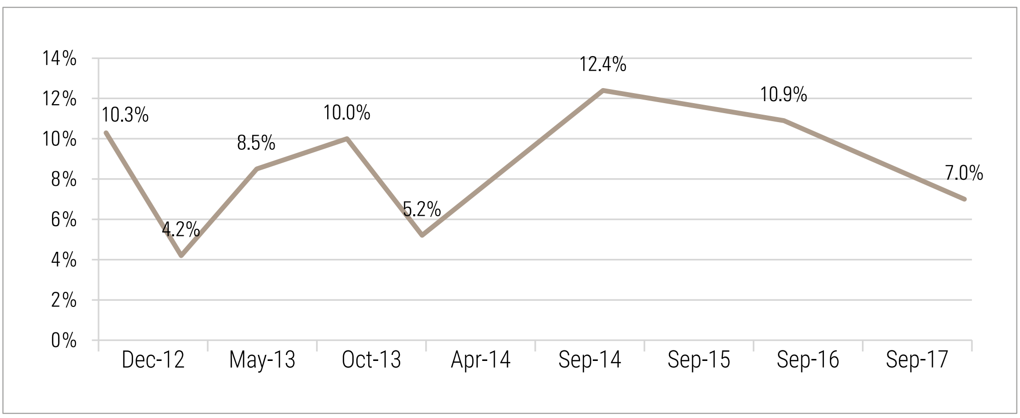
c) Construction



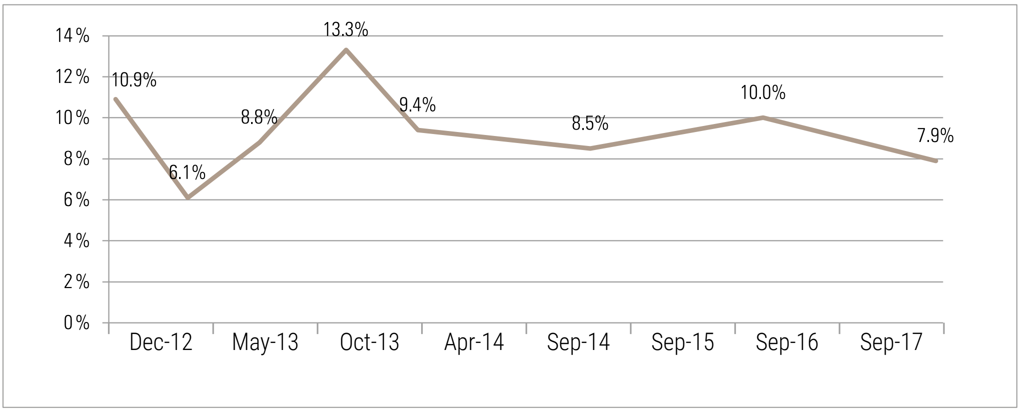
d) Finance



e) Trade



f) Electricity, heating and water



g) Manufacturing

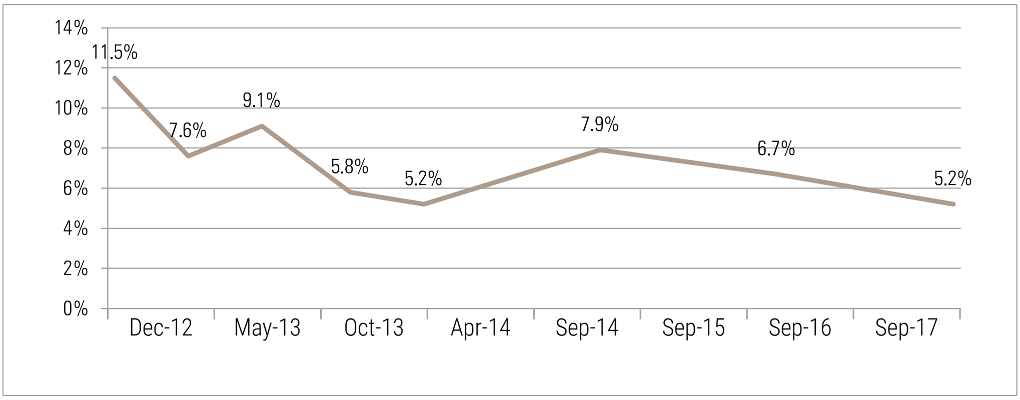
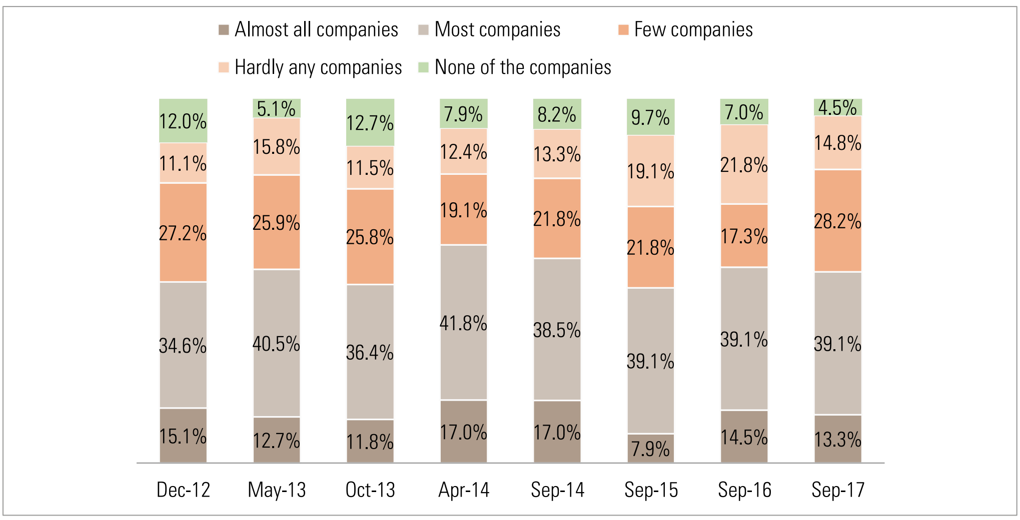


Figure 6.7. *In your sector of business, how many companies do you think pay the right amount of tax to the Government? (valid only)*



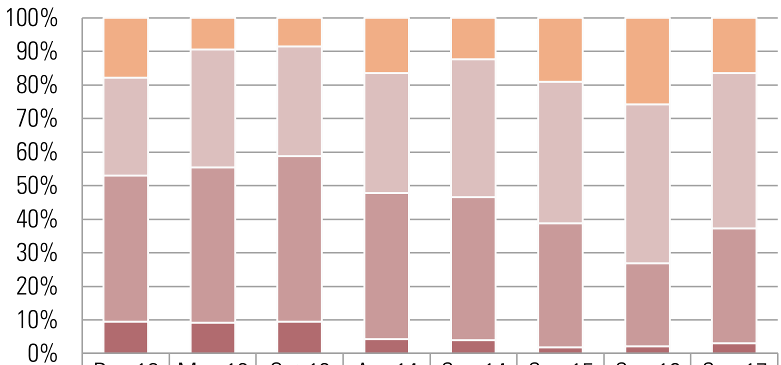
FIGHTING CORRUPTION

VII. FIGHTING CORRUPTION

Between September 2012 and September 2017, Mongolia had four governments and three elections. By the time of the latest survey, the fourth government of PM U. Khurelsukh had begun to take shape. There is a declining trend in the assessment of the knowledge of the government's efforts to fight corruption (Figure 7.1). The main reason could be a short life of governments that prevented from forming a policy known to the public. Frustration could be another one. The situation with the assessment in the year 2017 had somehow improved compared to 2016.

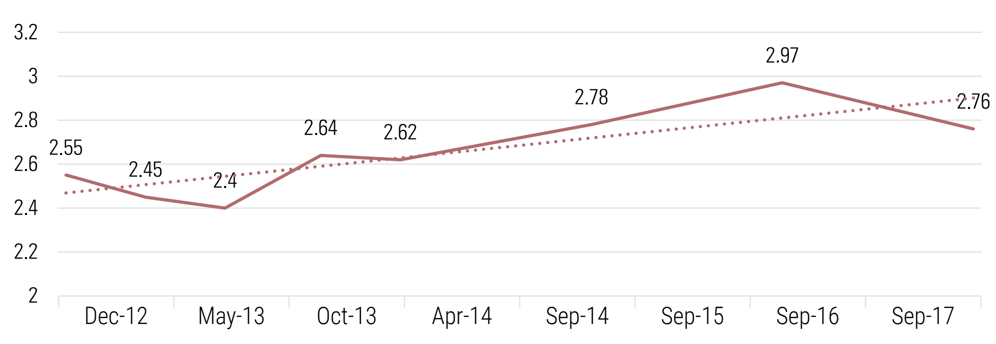
Figure 7.1. *How much do you know about the current efforts of the government to fight corruption?*

a)



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

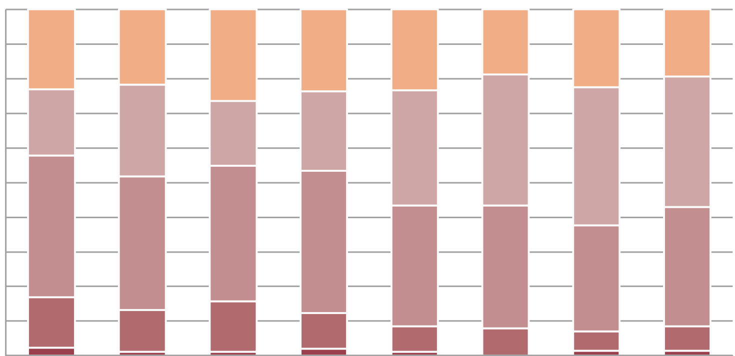
b) Means from 1: "extensive knowledge" to 4: "no knowledge at all".



A similar attitudinal trend is revealed on the effectiveness of existing anti-corruption laws (Figure 7.2). The worst record was in 2016 which had changed slightly for the better in 2017.

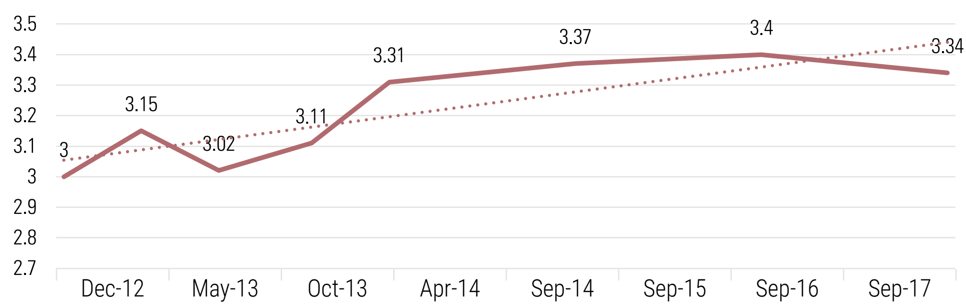
Figure 7.2. *In your opinion, how effective are the existing laws to make the business environment transparent and non-corrupt?*

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



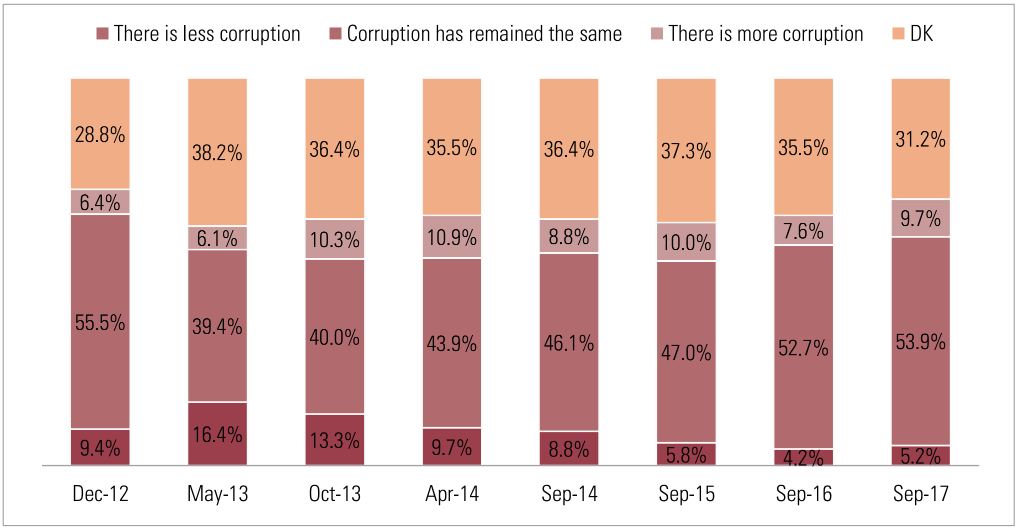
	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
DK	23.0%	21.8%	26.4%	23.6%	23.3%	19%	22.5%	19.4%
Not at all effective	19.1%	26.4%	18.8%	23.0%	33.3%	38%	39.8%	37.6%
Hardly effective	40.9%	38.5%	39.1%	40.9%	34.8%	36%	30.7%	34.5%
Somewhat effective	14.5%	12.1%	14.5%	10.3%	7.3%	8%	5.5%	7.0%
Very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

b) Means 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. *In your opinion, what effect have the Government anti-corruption measures had, specifically in your sector of business, compared to the situation 6 months ago?*

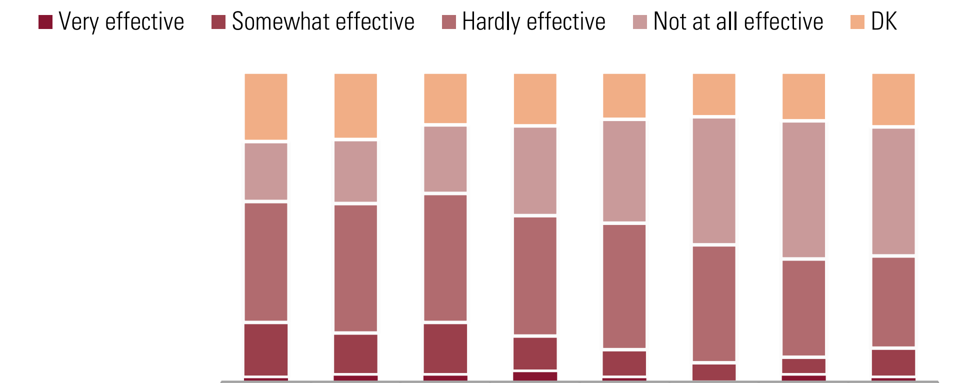


There was a significant surge in the assessment of the effectiveness of "steps being taken by the Government to eradicate overall corruption in Mongolia" in September 2016. The mean of assessment was 2.98, which is the same as the mean at the start of PM N. Altankhuyag's government in September 2012 (Figure 7.4.b).

As no real actions could be taken in such brief time since nomination, it seems to be due to the credit that every new government receives at the start of its governance. The trend in attitudes toward eradicating overall corruption shows a worsening of the situation.

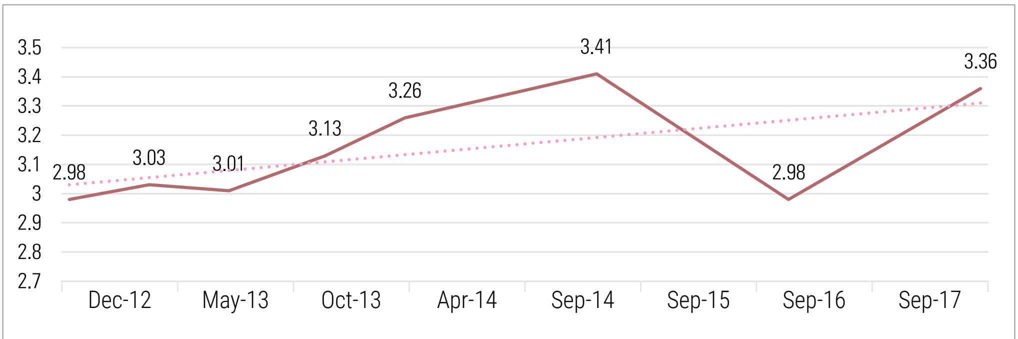
Figure 7.4. *In your opinion, how effective are the steps being taken by the Government to eradicate overall corruption in Mongolia?*

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
DK	22.4%	21.8%	17.0%	17.3%	15.2%	14.5%	15.8%	17.6%
Not at all effective	19.4%	20.6%	22.1%	29.1%	33.6%	41.2%	44.5%	41.8%
Hardly effective	39.1%	41.8%	41.8%	38.8%	40.9%	38.2%	31.8%	29.7%
Somewhat effective	17.6%	13.3%	16.7%	11.2%	8.8%	6.1%	5.5%	9.4%
Very effective	1.5%	2.4%	2.4%	3.6%	1.5%	0%	2.4%	1.5%

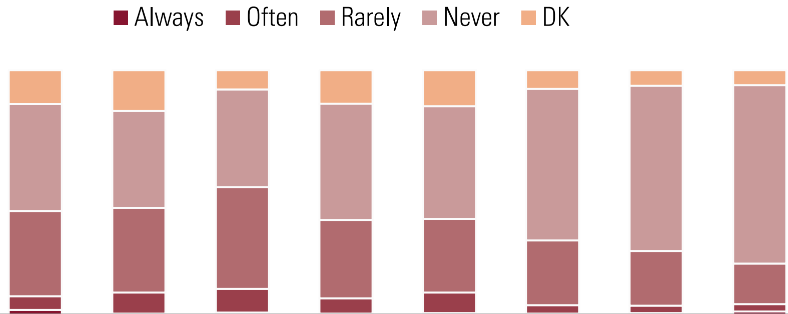
b) Means from 1: "very effective" to 4: "not at all effective"



September 2017 shows that the business community is completely disillusioned about the responsibility of corrupt officials for their actions. In 2012, 43.6 percent of respondents were thinking that government "never" punish corrupt officials. However, after five years of continual growth in September 2017, 73 percent of respondents think the same way (Figure 7.5).

It could be that due to pessimism on prosecuting of the receiving side of the bribery, that respondents are becoming more supportive of punishing both giving and receiving sides (Figure 7.6). Perhaps, the bribe giving side is more vulnerable to law enforcement than the receiving side of government officials.

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

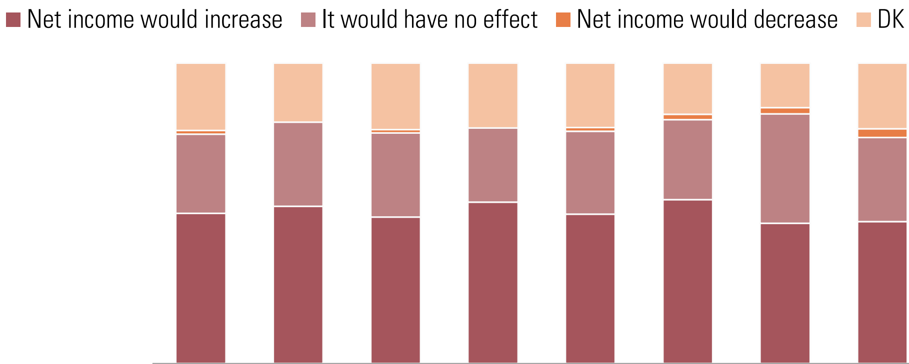


	Dec-12	May-13	Oct-13	Apr-14	Sep-14	Sep-15	Sep-16	Sep-17
DK	13.9%	16.7%	7.9%	13.6%	14.8%	7.6%	6.4%	6.1%
Never	43.6%	39.7%	40.0%	47.6%	46.1%	62.1%	67.6%	73.0%
Rarely	34.8%	34.5%	41.5%	32.1%	30.0%	26.4%	22.4%	16.7%
Often	5.8%	8.8%	9.7%	6.4%	8.5%	3.6%	3.0%	3.0%
Always	1.8%	0.3%	0.9%	0.3%	0.6%	0.3%	0.6%	1.2%

Figure 7.6. *Some people argue that if the Mongolian corruption law is changed to prosecute only those who are receiving bribes it will improve the governance situation. Others think that both givers and receivers should be punished. What is your opinion?*

Compared to the previous measurements, in 2017 more respondents could not evaluate the impact of a possible decrease of corruption in government on their business. In 2016, their number was 14.8%, in 2017 it reached 21.8 percent (Figure 7.7). On average half of respondents are expecting their net income to increase if there is less corruption in Government. In 2016 and in 2017 this expectation was lower than in 2012-2015.

Figure 7.7. *If the extent of corruption in the government were to be reduced, do you think that it would result in increasing or decreasing the net income of your company or it would not affect your company income at all?*



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

In 2017 there is the highest number of respondents taking steps to combat corruption (Figure 7.8). This includes some alternatives to reporting corrup actions, because the number of those who reported corruption decreased from 9.1 percent in 2016 to 6.1 percent in 2017 (Figure 7.9). This decrease is happening despite a positive trend in results of such reporting. In 2014 only 13.8 percent of respondents reported that some effects from their reporting were realised, in September 2017 it reached 25 percent (Figure 7.10). No significant gender differentiation in reporting corruption was found (Figure 7.9.b).

Creating written policies on dealing with corruption in organization is continuing to decline. In 2017 only 13.9 percent of respondents had reported having such a company policy (Figure 7.11).

Figure 7.8. *Has your company taken any steps to combat fraud or corruption?*

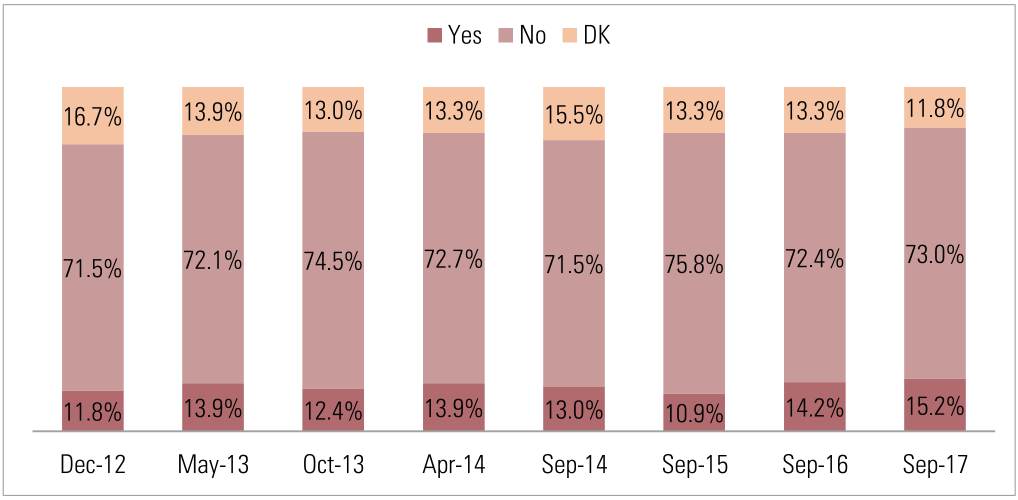
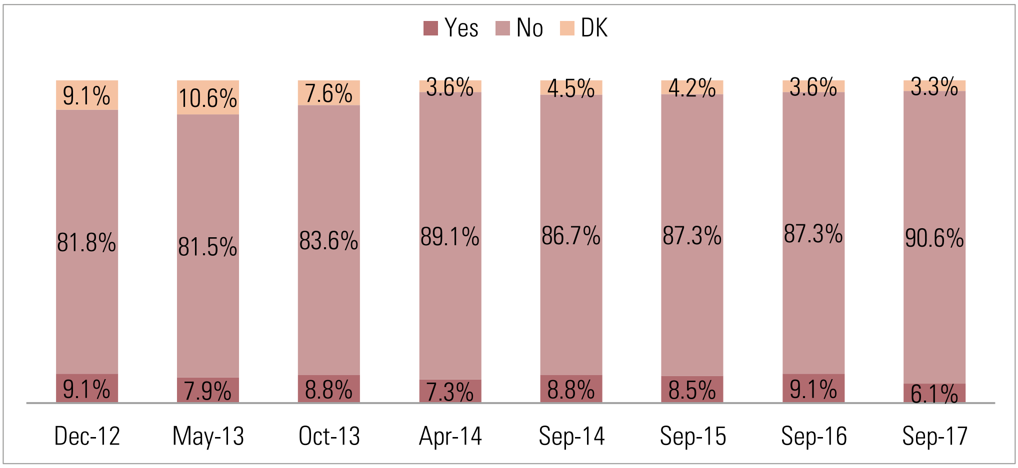


Figure 7.9. *Did you ever report a case of corruption?*

a) Did you ever report a case of corruption?



b) Did you ever report a case of corruption? By gender

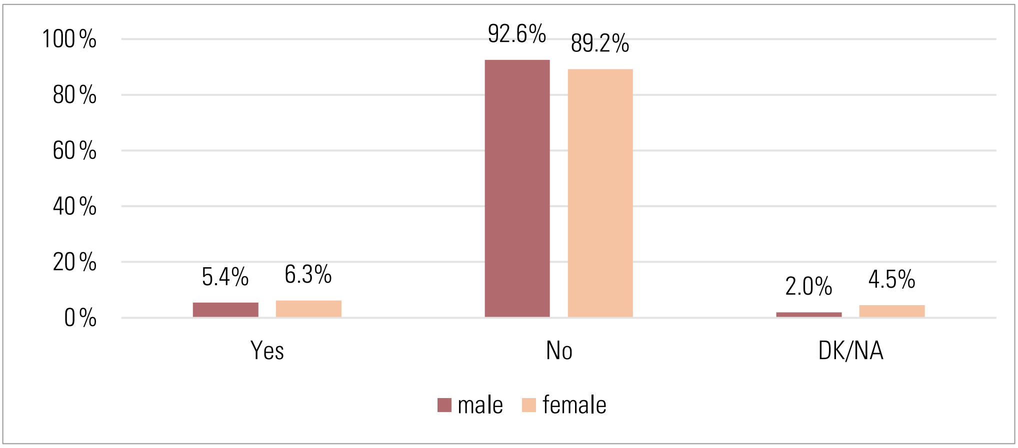


Figure 7.10. *If yes, did it have any result?*

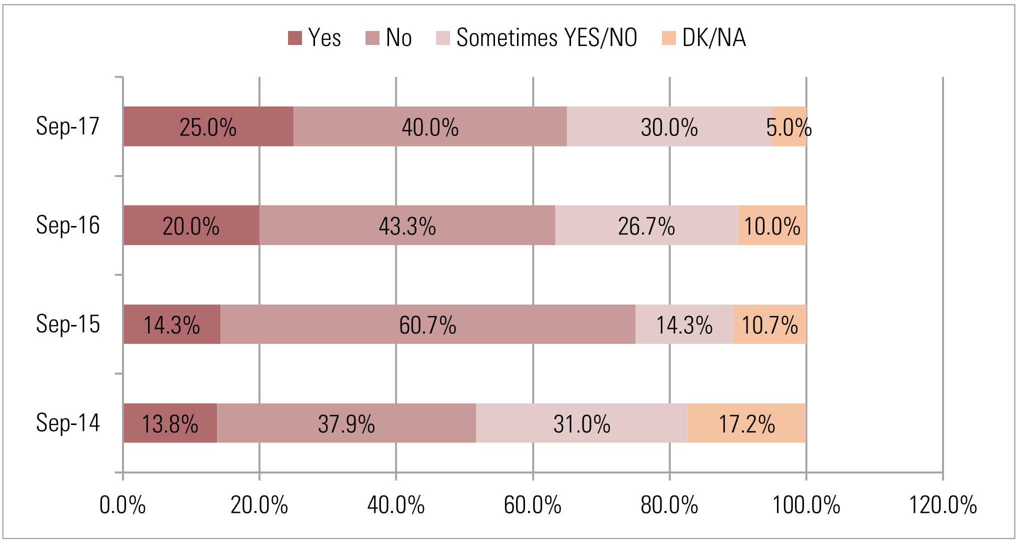
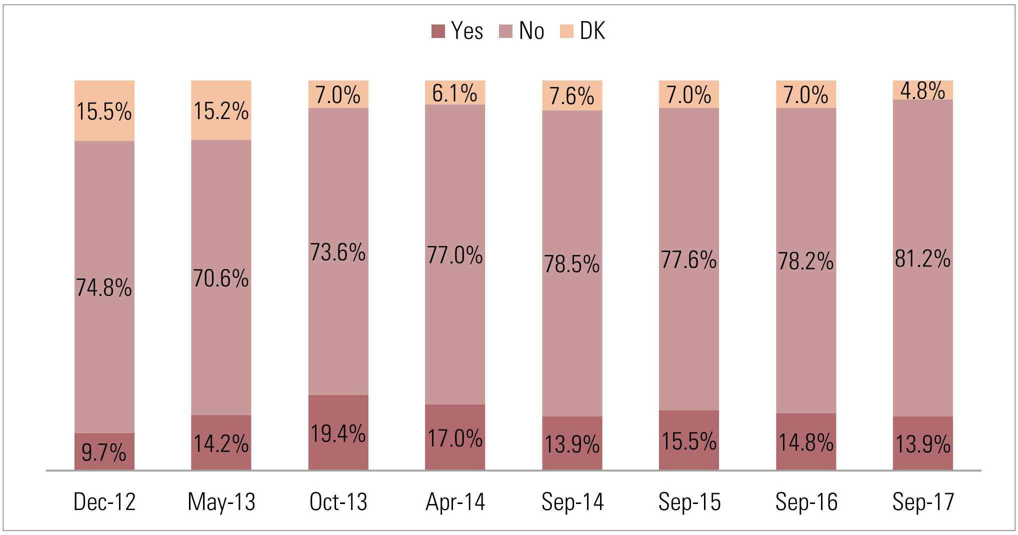


Figure 7.11. *Does your company have any written policy or rule about dealing with corruption within your organization?*



In 2017, the SMF had changed the question about dealing with corruption from general to proactive. The new question (Figure 7.12) is asking which kind of actions the respondent organization is going to choose to diminish corruption. From the responses, we can conclude that the business community prefers a passive stand such as using honest practices, not giving bribes, learning rules etc. There is much less interest in participatory shaping of a non-corrupt environment as only 6.1 percent selected campaigning "against corrupt political candidates". Joining civil society to combat corruption is an option for just 3.6 percent. This passive stance is happening along with a worsening assessment of the main organization that was built to combat corruption. In evaluating IAAC performance, "bad" had increased from 17.6 percent in 2016 to 27.9 percent in 2017.

Figure 7.12. *What will your organization choose to eliminate the corruption in the business environment?*

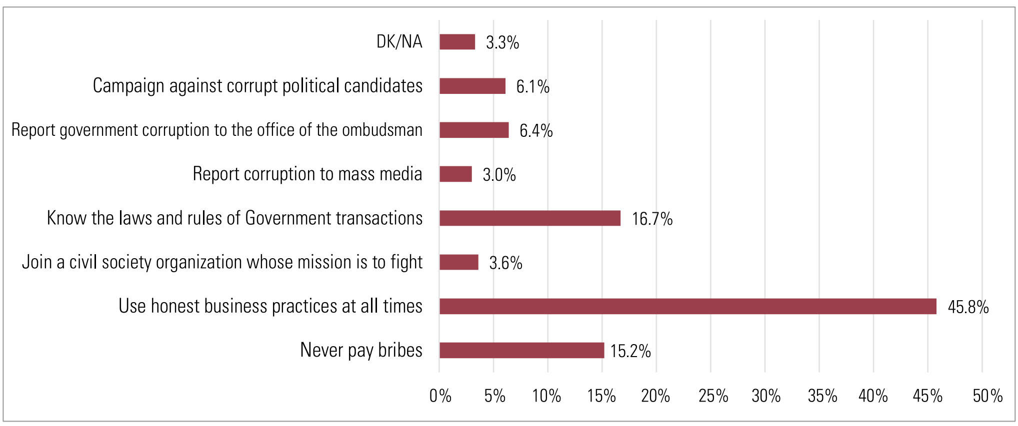
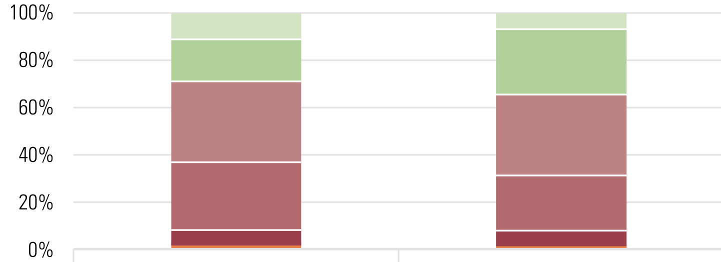


Figure 7.13. *How do you evaluate the IAAC's performance in fighting corruption?*



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