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Mongolia – The enabling environment for sustainable enterprises and a framework for SME growth and development

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Enterprise
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and Enterprise
Development
Department

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization, and*[1] which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work[2], in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.[3]

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.[4]

While the main findings of the research initiatives are disseminated through the Employment Working Papers, the *Employment Report* series is designed to consolidate the major evaluations of employment programmes, conclusions and resolutions of workshops and seminars, and other information details that are particularly, though not exclusively, useful to the work of the ILO and its constituent partners.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

[1] See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

[2] See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

[3] See http://www.ilo.org/gea. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work, "Vision" document*, ILO, 2006.

[4] See http://www.ilo.org/employment.

Foreword

In June 2007, the International Labour Conference (ILC) discussed the promotion of sustainable enterprises. Promoting sustainable enterprises calls for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity.

The conclusions reached at the 2007 ILC discussion on the promotion of sustainable enterprises identified, among other things, 17 pillars for an environment conducive to the promotion of sustainable enterprises. This report is based on these conclusions. It analyses how the country performs with respect to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in Mongolia. In undertaking the assessment it was clear that SMEs face particular challenges in Mongolia but at the same time, they are vital to the diversification of the Mongolian economy and to enhance its national competitiveness. Thus, the second part of this report contains a framework for SME growth and development.

The report is designed to stimulate debate and to provide an evidence base for policy reforms for an environment more conducive to the promotion of sustainable enterprises in general and SMEs. In particular, the report has been used to identify focus areas of policy reform to support the dialogue, advocacy and public policy work of the Mongolian Employers Federation (MONEF).

A number of people have made valuable inputs to the preparation of this report. It is the product of a thorough analysis of secondary data sources, a workshop, focus group discussions and interviews with a wide range of stakeholders in Mongolia. It was put together in close collaboration with MONEF.

The views expressed in the report are the sole responsibility of the authors and do not represent those of the ILO or MONEF. Similarly, any errors or omissions are the sole responsibility of the authors.

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Introduction

In June 2007 at the International Labour Conference (ILC) a tripartite general discussion on the promotion of sustainable enterprises took place. The Conclusions to this discussion identified, among other things, 17 pillars for an environment conducive to the promotion of sustainable enterprises. The first part of this report is based on these conclusions. It analyses how the country performs with respect to a set of indicators corresponding to each pillar, with the aim of assessing the relative strengths and weaknesses of the enabling environment for sustainable enterprises and employment in Mongolia both over time and in comparison to other countries.

Promoting sustainable enterprises calls for the strengthening of the institutions and governance systems which nurture enterprises. Strong and efficient markets need strong and effective institutions. Promoting sustainable enterprises is also about ensuring that human, financial and natural resources are combined equitably and efficiently in order to achieve innovation and enhanced productivity.

The second part of the report builds on a particular theme which emerged from the enabling environment discussions undertaken in Mongolia, namely the need to develop specific policies to diversify the economy in Mongolia through a framework for promoting Small and Medium Enterprises (SMEs).

A policy framework to foster SME growth and development, and one that creates an enabling environment to facilitate SMEs, across sectors, to innovate, grow and create wealth and jobs, is indispensible to Mongolia's long-term future prosperity. This framework document outlines the broad areas where the Mongolian Employers' Federation (MONEF) feels the Government needs to focus in order to engender sustained SME growth. But it is exactly that – *a broad framework* – based on core operating principles that can help shape deeper work across sectors. It is a starting point in the deeper dialogue and analysis MONEF feels is essential in order to grasp current opportunities for SME development.

The report – a work in progress – is designed to stimulate debate and to provide an evidence base for policy reforms for an environment more conducive to the promotion of sustainable enterprises in Mongolia. In particular, the report helps identify focus areas of policy reform to support the dialogue, advocacy and public policy work of MONEF.

All data referred to in the assessment are drawn from publically available datasets. The views expressed in the report are the sole responsibility of the authors and do not represent the official views or policies of the ILO or MONEF. Similarly, any errors or omissions are the sole responsibility of the authors.

Part 1: The enabling environment for sustainable enterprises

1. Political elements

1.1 Peace and political stability

Peace and political stability are basic preconditions to nurture the formation and growth of sustainable enterprises. In the early 1990s, Mongolia undertook a transition from a communist state to a democratic, market-based system. On the whole, after an initial difficult period, the transition has proceeded relatively successfully and the economy has grown rapidly. Nevertheless, there have been some political challenges, stemming to a large extent from frequent changes in cabinet members and coalition partners, as well as from the tense balance of political power between the Mongolian People's Revolutionary Party (MPRP) and the Democratic Party (DP).[5] Political instability rose in 2008/2009 in the aftermath of parliamentary elections[6] which explains the negative change in the World Bank's political stability index in 2008. The score for Mongolia fell from 0.73 in 2006 to 0.35 in 2008, although it remained above the regional average and recent political stability will lead to an improved score. However, according to the Economic Intelligence Unit, the power struggle between the two biggest parties will continue to pose risks to the country's political stability and, by implication this will affect the environment for doing business.

Key Indicators

Political stability and absence of violence/terrorism		**2006**	**2007**	**2008**
The likelihood that the government will be destabilized by unconstitutional or violent means, including terrorism.	**Mongolia**	0.73	0.65	0.35
Source: World Bank, Governance Matters database.[7]	**Kyrgyzstan**	-1.20	-1.07	-0.68
	Turkmenistan	-0.33	-0.10	0.23
	Uzbekistan	-1.59	-1.32	-0.91
	Former Soviet Union[8]	-0.63	-0.43	-0.30
	East Asia[9]	0.37	0.34	0.32
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.			

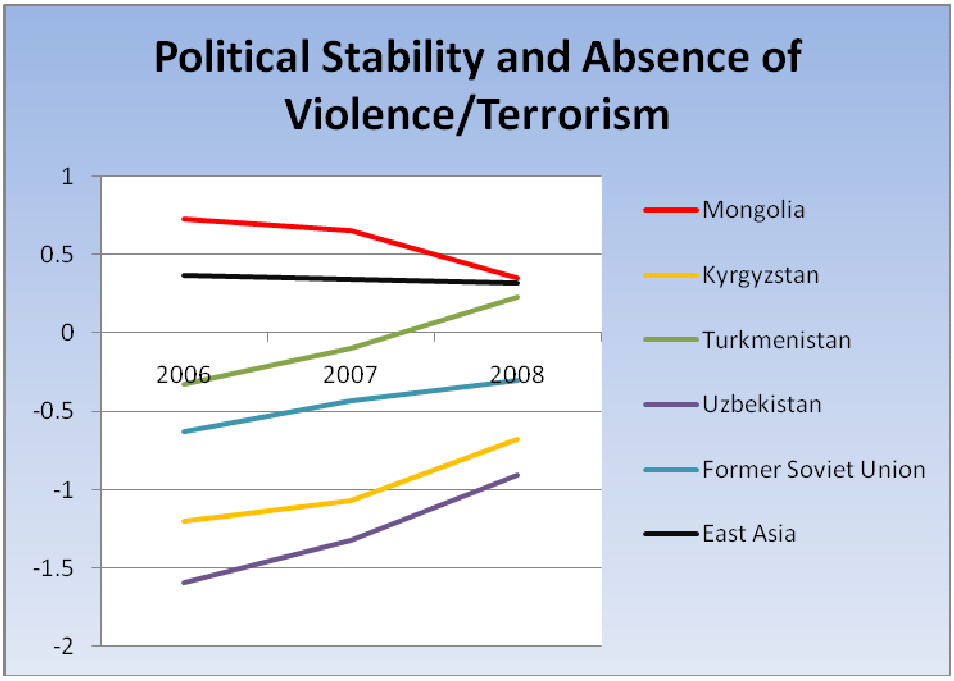
[5] Economic Intelligence Unit (2008). Country Profile 2008: Mongolia, London.

[6] <http://www.freedomhouse.org/template.cfm?page=22&year=2009&country=7665>

[7] <http://info.worldbank.org/governance/wgi/sc_country.asp>

[8] Includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

[9] Includes American Samoa, Brunei, Cambodia, China, Cook Island, Fiji, Guam, Hong Kong, Indonesia, Kiribati, Korea North, Korea South, Laos, Macao, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Philippines, Reunion, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Vietnam.



1.2 Good governance

Poor governance, corruption and inefficient institutions can discourage entrepreneurship and hold back private-sector growth and development. In Mongolia, the transition from a centrally planned economy to a market system has created opportunities for corruption at all levels of government and in the private sector.[10] According to the World Bank statistics, the situation regarding corruption and the quality of public services has worsened since 2007 although it is still good compared to Uzbekistan, Kyrgyzstan and Turkmenistan. The Transparency International ranked Mongolia 120th out of 180 countries in its Corruption Perception Index for 2009 (Mongolia was ranked 102nd in 2008), which leaves it behind neighbouring countries. Lack of transparency and corruption in government-business interactions are also frequently cited impediments to private sector development and doing business in Mongolia.[11] Mongolian law dictates penalties for corruption particularly within the police, judiciary, and customs service. However, corruption-related arrests and convictions are rare.[12] Mongolia performs better in the category of civil liberties. The score of the World Bank's Voice and Accountability Index reflecting the extent to which the country's citizens are able to participate in selecting their government, as well as freedom of expression and freedom of association is comparatively high for Mongolia and has improved since 2006 (from -0.06 in 2006 to 0.24 in 2008). Mongolia also scored well above the regional average in the Freedom House's Civil Liberties and Political Rights Index. Economic governance needs to be improved if the country as a whole is to take advantage of the upcoming mining boom.

[10] Economic Intelligence Unit (2009). Country Report: Mongolia, London; Heritage Foundation. Country report - Mongolia: <http://www.heritage.org/Index/Country/Mongolia>

[11] World Bank (2007). Mongolia - Promoting Investment and Job Creation. An Investment Climate Assessment and Trade Integration Study, Poverty Reduction and Economic Management Department East Asia and Pacific Region.

[12] Heritage Foundation. Country report - Mongolia: <http://www.heritage.org/Index/Country/Mongolia>

Key Indicators

Control of corruption		2006	2007	2008
The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.	**Mongolia**	-0.49	-0.61	-0.62
Source: World Bank, Governance Matters database.[13]	**Kyrgyzstan**	-1.14	-1.10	-1.06
	Turkmenistan	-1.30	-1.21	-1.34
	Uzbekistan	-0.97	-0.93	-1.08
	Former Soviet Union[14]	-0.81	-0.85	-0.86
	East Asia[15]	-0.18	-0.18	-0.21
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.			

Corruption perceptions index (CPI)		2007	2008	2009
The Transparency International CPI measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys.	**Mongolia**	3.0	3.0	2.7
Source: Transparency International.[16]	**Kyrgyzstan**	2.1	1.8	1.9
	Turkmenistan	2.0	1.8	1.8
	Uzbekistan	1.7	1.8	1.7
	Central Asia[17]	2.26	2.2	2.24
	Scores on a scale from zero (highly corrupt) to ten (highly clean).			

[13] <http://info.worldbank.org/governance/wgi/sc_country.asp>

[14] Includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

[15] Includes American Samoa, Brunei, Cambodia, China, Cook Island, Fiji, Guam, Hong Kong, Indonesia, Kiribati, Korea North, Korea South, Laos, Macao, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Philippines, Reunion, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Vietnam.

[16] <http://www.transparency.org/policy_research/surveys_indices/cpi/2008>

[17] Includes Afghanistan, China, Kyrgyzstan, Kazakhstan, Mongolia, Russia, Tajikistan, Turkmenistan, Uzbekistan.

Government effectiveness		**2006**	**2007**	**2008**
The quality of public services, the capacity of the civil service and its independence from political pressures and the quality of policy formulation.	**Mongolia**	-0.49	-0.69	-0.68
Source: World Bank, Governance Matters database.[18]	**Kyrgyzstan**	-0.76	-0.75	-0.70
	Turkmenistan	-1.25	-1.17	-1.16
	Uzbekistan	-0.94	-0.76	-0.68
	Former Soviet Union	-0.69	-0.68	-0.60
	East Asia[19]	-0.11	-0.09	-0.13
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.			

Voice and accountability		**2006**	**2007**	**2008**
The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.	**Mongolia**	0.06	0.23	0.24
Source: World Bank, Governance Matters database.[20]	**Kyrgyzstan**	-0.69	-0.67	-0.72
	Turkmenistan	-1.95	-2.11	-2.06
	Uzbekistan	-1.90	-1.91	-1.90
	Former Soviet Union	-1.00	-1.01	-1.00
	East Asia[21]	-0.06	-0.03	-0.03
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.			

[18] <http://info.worldbank.org/governance/wgi/sc_country.asp>

[19] Includes American Samoa, Brunei, Cambodia, China, Cook Island, Fiji, Guam, Hong Kong, Indonesia, Kiribati, Korea North, Korea South, Laos, Macao, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Philippines, Reunion, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Vietnam.

[20] <http://info.worldbank.org/governance/wgi/sc_country.asp>

[21] Includes American Samoa, Brunei, Cambodia, China, Cook Island, Fiji, Guam, Hong Kong, Indonesia, Kiribati, Korea North, Korea South, Laos, Macao, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Philippines, Reunion, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Vietnam.

Other useful indicators

Political rights index		2007	2008	2009
The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government. Source: Freedom house, The Freedom in the World Survey.[22]	**Mongolia**	2	2	2
	Kyrgyzstan	5	5	5
	Turkmenistan	7	7	7
	Uzbekistan	7	7	7
	Central Asia[23]	6	6	6
	Numerically, Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.			

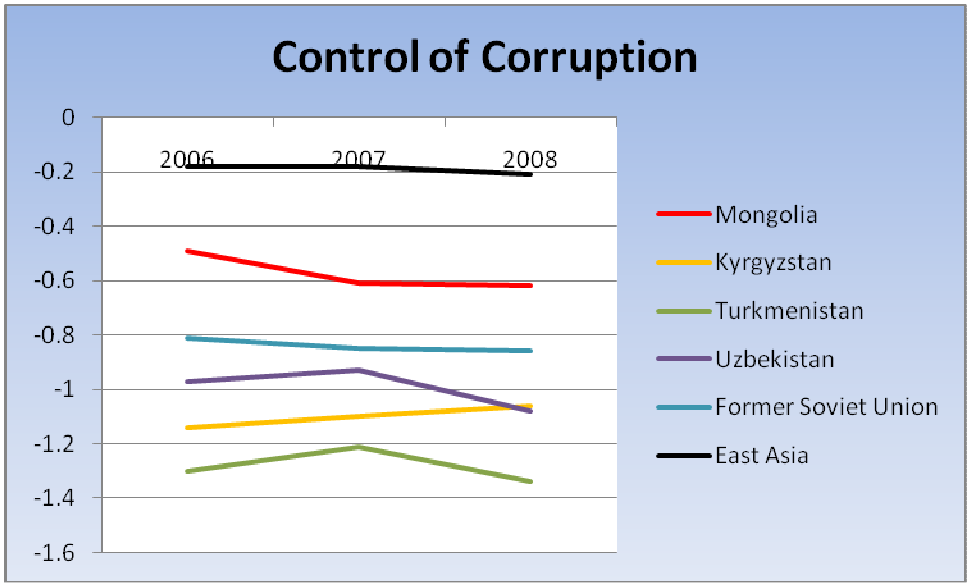
Civil liberties index		2007	2008	2009
The Civil Liberties index measures freedom of expression, assembly, association, and religion. Source: Freedom house, The Freedom in the World Survey.[24]	**Mongolia**	2	2	2
	Kyrgyzstan	4	4	4
	Turkmenistan	7	7	7
	Uzbekistan	7	7	7
	Central Asia[25]	5	5	5
	Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.			

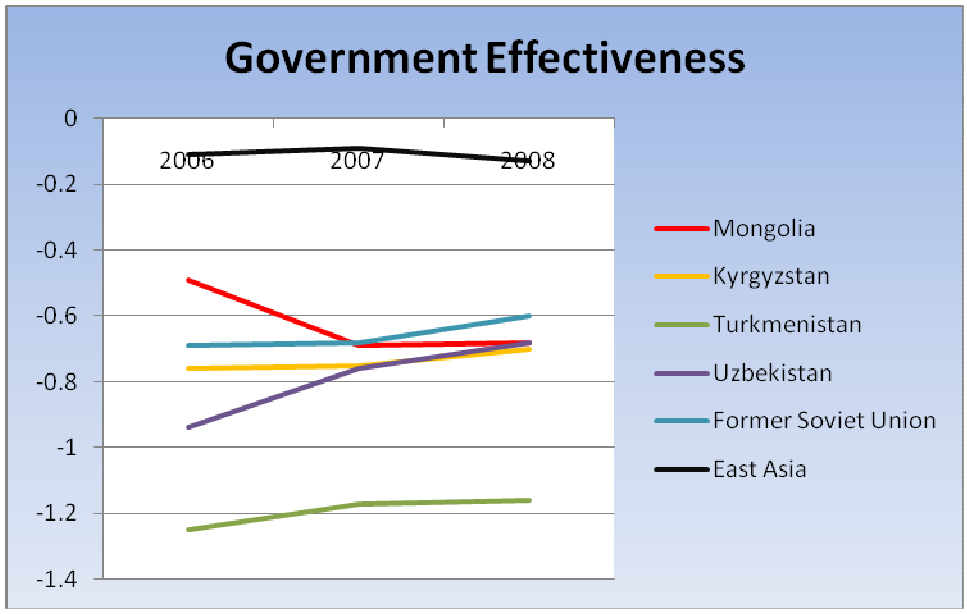
[22] <http://www.freedomhouse.org/template.cfm?page=15>

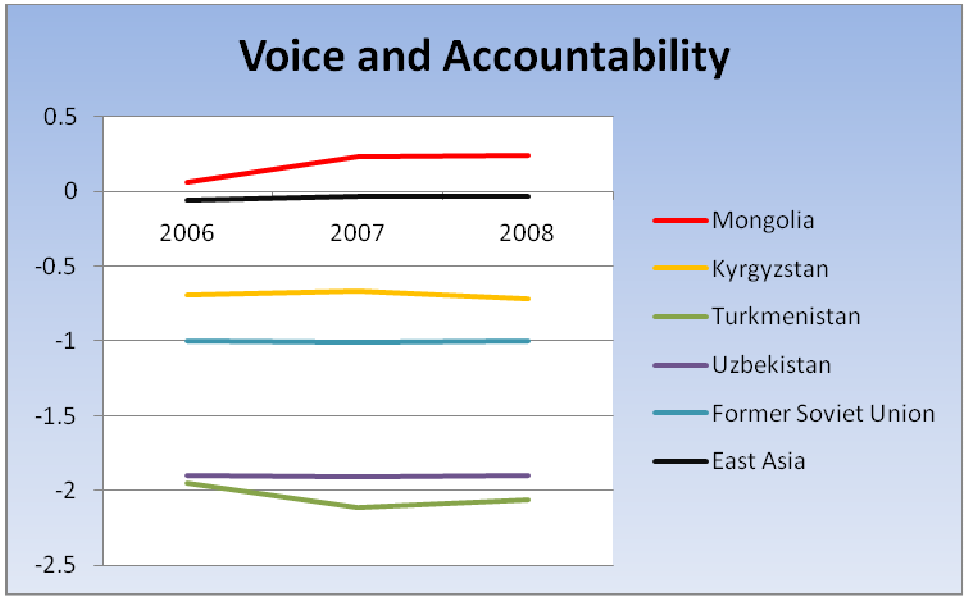
[23] Includes Afghanistan, China, Kyrgyzstan, Kazakhstan, Mongolia, Russia, Tajikistan, Turkmenistan, Uzbekistan.

[24] <http://www.freedomhouse.org/template.cfm?page=15>

[25] Includes Afghanistan, China, Kyrgyzstan, Kazakhstan, Mongolia, Russia, Tajikistan, Turkmenistan, Uzbekistan.


Control of Corruption
0
-0.2
-0.4
-0.6
-0.8
-1
-1.2
-1.4
-1.6
2006
2007
2008
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Former Soviet Union
East Asia


Government Effectiveness
0
-0.2
-0.4
-0.6
-0.8
-1
-1.2
-1.4
2006
2007
2008
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Former Soviet Union
East Asia


Voice and Accountability
0.5
0
-0.5
-1
-1.5
-2
-2.5
2006
2007
2008
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Former Soviet Union
East Asia

1.3 Social dialogue

Social dialogue plays a key role in achieving the objective of promoting opportunities for women and men to obtain decent and productive work in conditions of freedom, equality, security and human dignity. In Mongolia a system of social dialogue emerged in the early 1990s in the form of agreements between the Government, the Confederation of Mongolian Trade Unions (CMTU) and the Mongolian Employer's Federation (MONEF). Moreover, the revision of the Labour Code in 1999 led to the creation of the National Tripartite Committee on Labour and Social Consensus (NTCLSC) as a formal tripartite consultation body.[26] Mongolia has also ratified all the core international labour conventions, including those on freedom of association and collective bargaining. Despite a good policy framework, the country faces challenges regarding the effective implementation of social dialogue based on tripartism.[27] For instance the right to strike in the transportation and law enforcement sectors is restricted. In addition, the right to collective bargaining exists in law, but in practice, it is more common for employers to act independently and to set wages unilaterally.[28] Thus, there is a need for concrete policy measures to promote social dialogue in practice and to encourage higher participation of the private sector in the dialogue.[29] Due to a lack of data, a detailed assessment of social dialogue in Mongolia, as well as regional benchmarking, is difficult. More and better data on trade union density, employer organizations and their members in Mongolia are needed.

Key Indicators

Union density rate		**1985**	**1990**	**1995**
Union density rate measures the number of trade union members as a percentage of the non-agricultural labour force. Source: ILO[30]	**Mongolia**	..	..	..
	Kyrgyzstan	..	..	..
	Turkmenistan	..	..	..
	Uzbekistan	..	..	..
	Measures as a percentage of the non-agricultural labour force.			

[26] ILO: Decent Work Country Programme – Mongolia 2006-2010 <http://www.ilo.org/public/english/bureau/program/dwcp/download/mongolia.pdf>

[27] ICFTI (2005). Internationally recognized core labour standards in Mongolia. Report for the WTO General Council Review of the Trade Policies of Mongolia (Geneva, 15 and 17 March 2005) <http://www.icftu.org/www/pdf/clsmongolia2005.pdf>

[28] Freedomhouse (2009). Country report – Mongolia <http://www.freedomhouse.org/template.cfm?page=22&year=2009&country=7665>

[29] ILO: Decent Work Country Programme – Mongolia 2006-2010 <http://www.ilo.org/public/english/bureau/program/dwcp/download/mongolia.pdf>
Yi, Ilcheong (2006). Social Dialogue in Transition Economy: the Case of Mongolia, Graduate School of Social and Cultural Studies, Kyushu University <http://hdl.handle.net/2324/8680>

[30] ILO (2005). Social Dialogue Indicators – Trade union membership and collective bargaining coverage: Statistical concepts, methods and findings, Paper No. 10, Geneva.

Enterprises belonging to employer organization rate		as of May 1997
It measures the number of enterprises belonging to employer organizations. Source: ILO[31]	**Mongolia**	..
	Kyrgyzstan	..
	Turkmenistan	..
	Uzbekistan	..
	Number of enterprises belonging to employer organizations (Number of enterprises covered). The index is being developed.	

Collective wage bargaining coverage rate		1990	1995	2002
Collective wage bargaining coverage rate measures the number of employers who belong to an employers' organization and the proportion of employees covered by collective agreements (%). However, collective bargaining coverage rate is being developed and major data collection is under way. Source: ILO[32]	**Mongolia**	..	..	..
	Kyrgyzstan	..	..	..
	Turkmenistan	..	..	..
	Uzbekistan	..	..	..
	Proportion of employees covered by collective agreements (%) to total employment.			

Other useful indicators

Cooperation in labour-employer relations		2007/2008	2008/2009	2009/2010
The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: "Labour-employer relations in your country are". Source: World Economic Forum Executive Opinion Survey.[33]	**Mongolia**	4.4	4.2	4.0
	Kyrgyzstan	4.5	4.3	4.1
	Turkmenistan	..	..	..
	Uzbekistan	..	..	..
	World (mean)	4.6	4.5	4.5
	1 = generally confrontational, 7 = generally cooperative			

1.4 Respect for universal human rights and international labour standards

Respect for human rights and International Labour Standards is an important condition of democracy and the pursuit of decent work. Mongolia has ratified all the major Human Rights Conventions, as well as all Conventions covered by the ILO's Declaration on Fundamental Principles and Right at Work. Despite the fact that Mongolia has ratified all the eight core labour conventions, it continues to face problems in the fields of child labour, discrimination of women in employment and there are cases of forced labour and human trafficking. There are various challenges concerning the effective implementation of

[31] <http://www.ilo.org/public/english/dialogue/ifpdial/publ/wlr97/annex/tab2.htm >

[32] ILO (2005). Social Dialogue Indicators – Trade union membership and collective bargaining coverage: Statistical concepts, methods and findings, Paper No. 10, Geneva.

[33]<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/PastReports/index.htm>

various human rights conventions. Most frequently, human rights organizations criticize the Mongolian Government for poor prison conditions, conditions surrounding the death penalty and police abuses.[34] However, Mongolia scores well above the regional average in the Civil Liberties and Political Rights Index. Between 2007 and 2009, it scored better (score 2, which corresponds to "free") than Kyrgyzstan Turkmenistan and Uzbekistan.

Key Indicators

Ratification of Human Rights Conventions — **as of June 2009**

It shows the status of human rights instrument - how many of human rights instruments have been ratified. It refers to ratification of the following 7 conventions: Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, Convention on the Rights of the Child, International Convention on the Elimination of All Forms of Discrimination Against Women, International Convention on the Elimination of All Forms of Racial Discrimination, International Convention on the Prevention and Punishment of the Crime of Genocide, International Covenant on Civil and Political Rights, International Covenant on Economic, Social and Cultural Rights.

Source: UNDP[35]

Mongolia	7
Kyrgyzstan	7
Turkmenistan	6[36]
Uzbekistan	7

Number of ratified Conventions out of 7

Ratification of fundamental ILO conventions — **as of 10 January 2010**

It shows the status of labour rights conventions. It refers to ratification of the following 8 conventions: Freedom of Association and Collective Bargaining (Convention 87, 98), Elimination of Forced and Compulsory Labour (29, 105), Elimination of Discrimination in respect of Employment and Occupation (Convention 100, 111), Abolition of Child Labour (Convention 138, 182).

Source: ILO[37]

Mongolia	8
Kyrgyzstan	8
Turkmenistan	6[38]
Uzbekistan	7[39]

Number of ratified Conventions (out of 8)

[34] Freedomhouse (2009). Country report – Mongolia <http://www.freedomhouse.org/template.cfm?page=22&year=2009&country=7665>

[35] <http://hdrstats.undp.org/indicators/indicators_table.cfm>

[36] International Convention on the Prevention and Punishment of the Crime of Genocide not ratified.

[37] <http://www.ilo.org/ilolex/english/docs/declworld.htm>

[38] Abolition of child labour (Convention 138, 182) not ratified.

[39] Freedom of association and collective bargaining (Convention 87) not ratified.

Other useful indicators

Political rights index		2007	2008	2009
The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government. Source: Freedom house, The Freedom in the World Survey.[40]	**Mongolia**	2	2	2
	Kyrgyzstan	5	5	5
	Turkmenistan	7	7	7
	Uzbekistan	7	7	7
	Central Asia[41]	6	6	6
	Numerically, Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.			

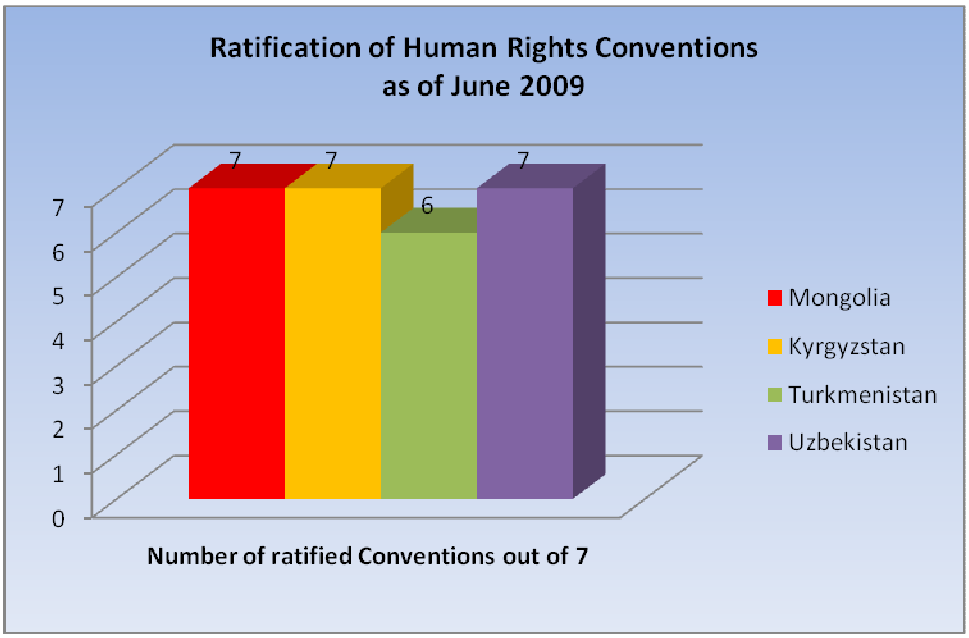
Civil liberties index		2007	2008	2009
The Civil Liberties index measures freedom of expression, assembly, association, and religion. Source: Freedom house, The Freedom in the World Survey.[42]	**Mongolia**	2	2	2
	Kyrgyzstan	4	4	4
	Turkmenistan	7	7	7
	Uzbekistan	7	7	7
	Central Asia[43]	5	5	5
	Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.			

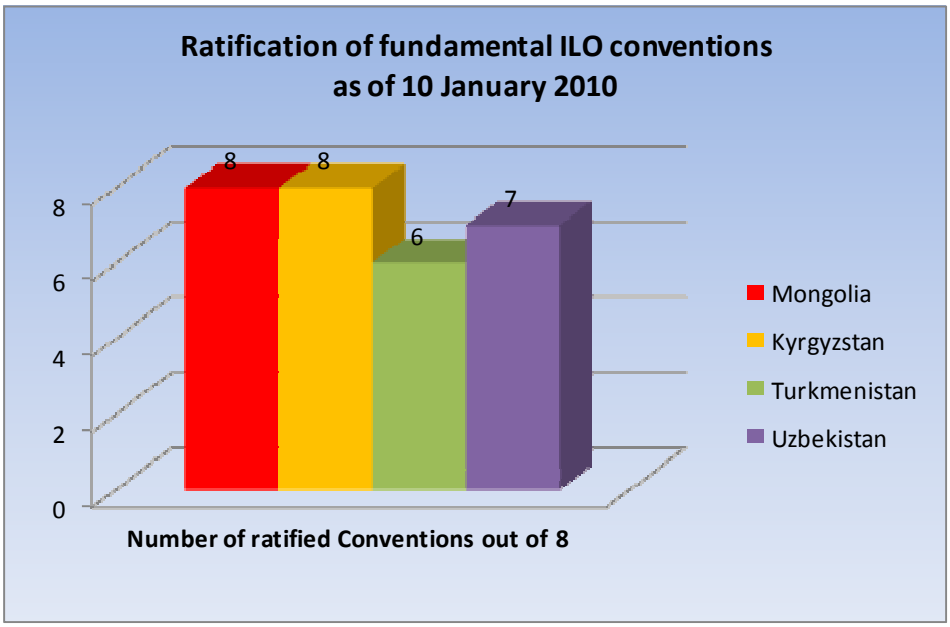
[40] <http://www.freedomhouse.org/template.cfm?page=15>

[41] Includes Afghanistan, China, Kyrgyzstan, Kazakhstan, Mongolia, Russia, Tajikistan, Turkmenistan, Uzbekistan.

[42] <http://www.freedomhouse.org/template.cfm?page=15>

[43] Includes Afghanistan, China, Kyrgyzstan, Kazakhstan, Mongolia, Russia, Tajikistan, Turkmenistan, Uzbekistan.


Ratification of Human Rights Conventions
as of June 2009
7
7
6
7
0
1
2
3
4
5
6
7
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Number of ratified Conventions out of 7


Ratification of fundamental ILO conventions
as of 10 January 2010
8
8
6
7
0
2
4
6
8
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Number of ratified Conventions out of 8

2. Economic elements

2.1 Sound and stable macroeconomic policy and good management of the economy

The stability of the macroeconomic environment is important for business. Mongolia's transformation from a centrally planned to a market-based system has proceeded successfully and prudent macroeconomic policies during the transition period have ensured a relatively stable macroeconomic environment. Debt levels have become manageable and a freely floating exchange rate regime has been put in place. Since the beginning of the transformation, the economy has grown at an average annual rate of 6.3 per cent. In 2007 the GDP growth reached an estimated 10 per cent, which was higher than the average for Europe and the Central Asia region.[44] However, growth slowed in 2008 when the country was badly hit by the global financial crisis (via the collapse in mineral prices) which exposed underlying weaknesses in the economic structure and policy environment. Mongolia's economy is based almost exclusively on two sectors, minerals, such as copper and gold and livestock (herding and livestock trading). In 2006, the industrial sector accounted for 40.4 per cent of GDP and the service sector for 40.8 per cent. Agriculture's share of GDP has been shrinking since 1990, accounting for only 18 per cent in 2006.[45] In response to the crisis, the Government undertook strong actions on fiscal, monetary, exchange rate and financial policies and the economy has emerged strongly from the crisis (largely on the back of mining related FDI). As demand for Mongolia's natural resources and international prices for copper and gold and other minerals have risen, inflationary pressures loom.[46] The consumer price inflation averaged 5.1 per cent in 2006 and rose markedly in 2008 to about 10.57 per cent,[47] plunging in 2009, briefly turning negative towards the end of the year but averaging over 8 per cent in 2010. Although Mongolia's economy has been growing, the country continues to struggle with high unemployment. Statistics put Mongolia's labour force participation which includes the persons employed and unemployed at 61 per cent of whom approximately 3 per cent were officially registered as unemployed in 2007.[48] The proportion of the population economically active (61 per cent in 2008) is low compared with Kyrgyzstan (76 per cent), Turkmenistan (68 per cent) and Uzbekistan (68 per cent).

[44] World Bank (2007). Growth Diagnostics for a Resource-Rich Transition Economy: The Case of Mongolia, Policy Research Working Paper 4396.

[45] Economic Intelligence Unit (2008). Country Profile 2008: Mongolia, London.

[46] World Bank (2008). Mongolia: Trade Brief.
<http://info.worldbank.org/etools/wti2008/docs/brief129.pdf>

[47] Economic Intelligence Unit (2009). Country Report: Mongolia, London.

[48] ILO: Decent Work Country Programme – Mongolia 2006-2010.
<http://www.ilo.org/public/english/bureau/program/dwcp/download/mongolia.pdf >
Economic Intelligence Unit (2008). Country Profile 2008: Mongolia, London.

Key Indicators

GDP growth (%)

Annual percentage growth rate of Gross Domestic Product (GDP) at market prices based on constant local currency. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

Source: World Bank national accounts data (World Development Indicators Online).[49]

	2006	2007	2008
Mongolia	8.56	10.22	8.86
Kyrgyzstan	3.10	8.21	7.67
Turkmenistan	11.40	11.60	9.80
Uzbekistan	7.30	9.50	9.00
Europe & Central Asia	7.46	7.01	5.49

Annual percentage growth rate of GDP.

Inflation rate (%)

Consumer price index reflects changes in the cost to the average consumer of acquiring a fixed basket of goods and services that may be fixed or changed at specified intervals, such as yearly.

Source: IMF[50] and World Development Indicators CD-ROM.

	2006	2007	2008
Mongolia	5.10	9.05	10.57
Kyrgyzstan	5.56	10.20	18.79
Turkmenistan	8.20	6.42	12.00
Uzbekistan	14.22	12.28	11.85
CIS Countries & Mongolia[51]	9.44	9.74	13.08

Rate (%) whereas high inflation can erode the purchasing power of wages and can make enterprises unsustainable.

Labour force participation rate

The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.

Source: ILO KILM[52]

	2006	2007	2008
Mongolia	61.4	61.1	61.0
Kyrgyzstan	75.3	76.1	76.1
Turkmenistan	68.5	68.8	68.9
Uzbekistan	66.9	67.8	68.1

The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population.

[49] <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>

[50] <http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>

[51] Includes Armenia, Mongolia, Azerbaijan, Russia, Belarus, Tajikistan, Georgia, Turkmenistan, Kazakhstan, Ukraine, Kyrgyz Republic, Uzbekistan, Moldova.

[52] <http://www.ilo.org/public/english/employment/strat/kilm/index.htm>

Other useful indicators

Current account balance (% GDP)

Current account balance (also called 'current account surplus/deficit') is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country's transactions with the rest of the world. It shows whether a country is 'living within its means'. If a country is spending more abroad than it earns from the rest of the world then corrective action will be necessary, e.g. to maintain the value of the country's currency in relation to other countries' currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy. All transactions are recorded twice – once as a credit and once as a debit. In principle the net balance should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners' savings.

Source: IMF[53]and International Monetary Fund, Balance of Payments Statistics Yearbook and data files, and World Bank and OECD GDP estimates (World Development Indicators CD-ROM).

	2006	2007	2008
Mongolia	7.022	-0.580	-17.073
Kyrgyzstan	-6.554	-6.500	-8.305
Turkmenistan	15.339	16.815	23.574
Uzbekistan	18.781	23.753	24.574
CIS Countries & Mongolia[54]	7.527	4.497	4.795

% of GDP

Government finance (% of GDP)

Government finance (or cash surplus/deficit) is government revenue (including grants) minus expense, minus net acquisition of nonfinancial assets. This cash surplus or deficit is closest to the earlier overall budget balance (still missing is lending minus repayments, which are now a financing item under net acquisition of financial assets).

When the expenditures of a government are greater than its tax revenues, it creates a deficit in the government budget. This therefore causes the government to borrow capital from the 'world market', increasing further debt. The opposite of a budget deficit is a budget surplus; in this case, tax revenues exceed government purchases and transfer payments.

Whether government deficits are good or bad cannot be decided without examining the specifics. If the government runs a deficit to deal with a severe recession (or depression), to spend on public investment (in infrastructure, education, basic research, or public health), the vast majority of economists would agree that the deficit is bearable, beneficial, and even necessary. If, on the other hand, the deficit finances wasteful expenditure or current consumption, most would recommend tax hikes, transfer cuts, and/or cuts in government purchases to balance the budget.

Source: International Monetary Fund, Government Finance Statistics Yearbook and data files, and World Bank and OECD GDP estimates (World Development Indicators CD-ROM).

	2005	2006	2007
Mongolia	..	6.21	7.68
Kyrgyzstan	..	-0.70	-1.54
Turkmenistan	..	..	..
Uzbekistan	..	..	..
Europe & Central Asia	3.12	2.30	1.87

% of GDP

[53] <http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>

[54] Includes Armenia, Mongolia, Azerbaijan, Russia, Belarus, Tajikistan, Georgia, Turkmenistan, Kazakhstan, Ukraine, Kyrgyz Republic, Uzbekistan, Moldova.

Gross capital formation (% GDP)

Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress."

Gross capital formation (also called investment rate or gross domestic investment), along with foreign direct investment, is critical to economic growth and economic development. High level of gross capital formation in a period of time refers to increase in the value of inventories. High level of gross capital formation or investment is conducive to economic growth.

Source: World Development Indicators Online.[55]

	2006	2007	2008
Mongolia	35.10	40.24	..
Kyrgyzstan	23.80	25.98	..
Turkmenistan	..	..	..
Uzbekistan	23.84	19.44	18.54
Europe &Central Asia	22.60	24.69	24.33

% of GDP

Gross domestic savings (% GDP)

Gross domestic savings are calculated by deducting total final consumption expenditure from GDP at current prices.

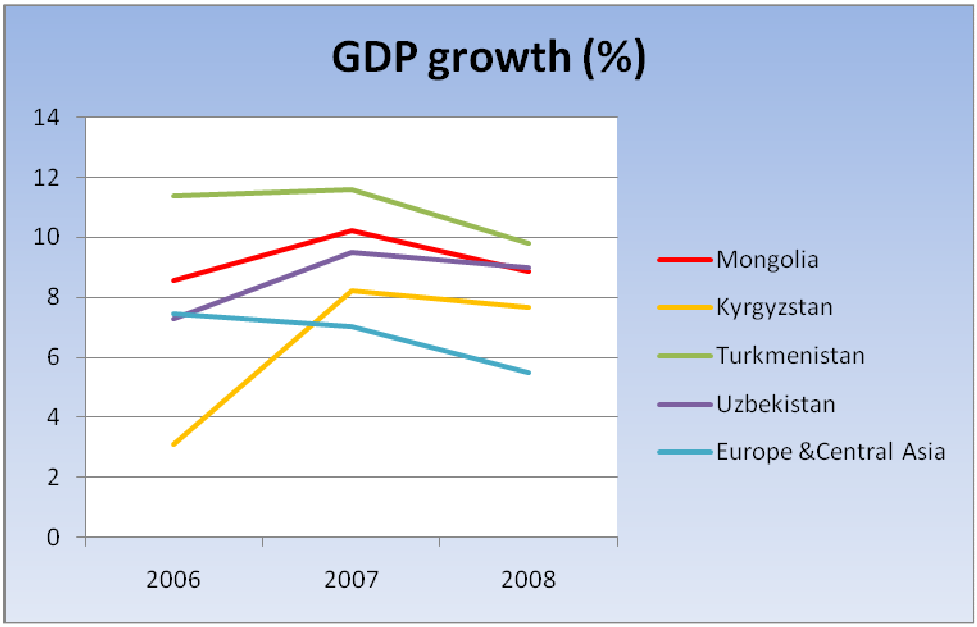
A high gross domestic saving rate usually indicates a country's high potential to invest. Savings can therefore be vital to the amount of fixed capital available, which in turn can contribute to economic growth. However, increased savings do not always correspond to increased investment. If savings are not deposited into a financial intermediary like a bank, there is no chance for those savings to be recycled as investment by businesses. This means that saving may increase without increasing investment, possibly causing a short-fall of demand rather than economic growth. In the short term, if savings fall below investment, it can lead to growth of aggregate demand and economic boom. In the long term if savings fall below investment it eventually reduces investment and detracts from future growth.

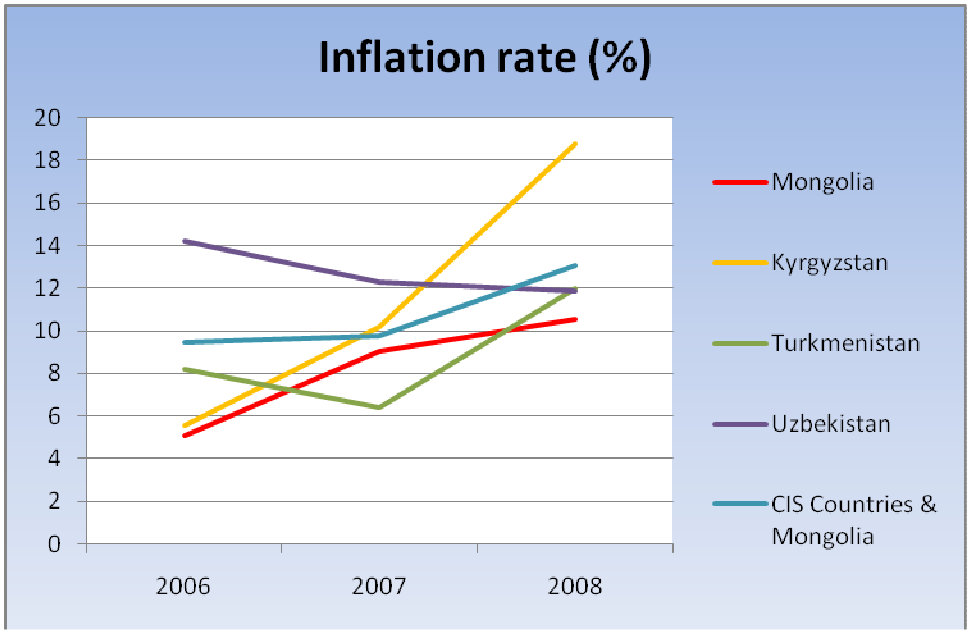
Source: World Development Indicators CD-ROM 2009.

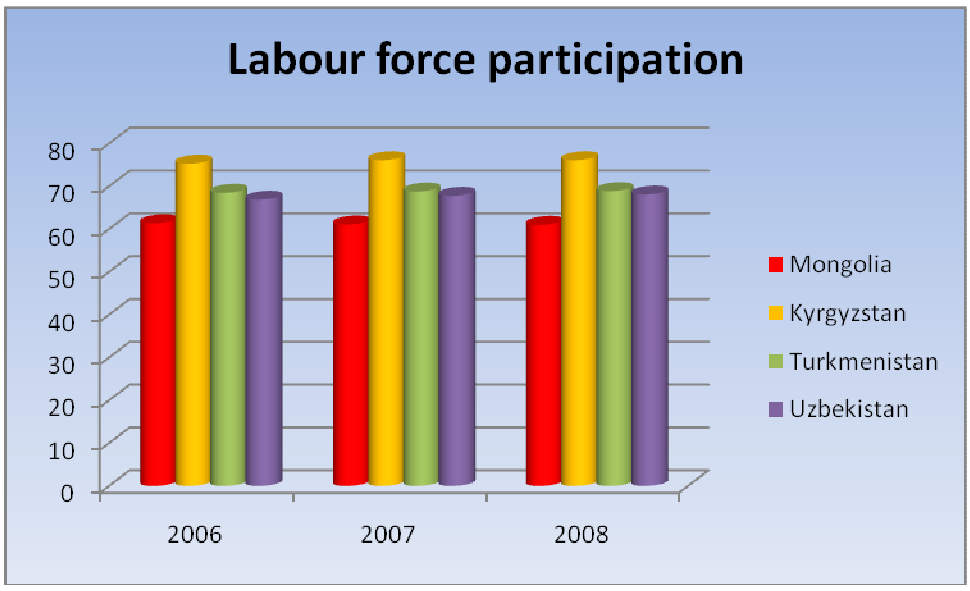
	2006	2007	2008
Mongolia	40.76	38.79	..
Kyrgyzstan	-13.51	-19.22	..
Turkmenistan	..	..	..
Uzbekistan	33.95	29.55	28.91
Europe &Central Asia	23.58	23.50	24.43

% of GDP

[55] <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>


GDP growth (%)
14
12
10
8
6
4
2
0
2006
2007
2008
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Europe &Central Asia


Inflation rate (%)
20
18
16
14
12
10
8
6
4
2
0
2006
2007
2008
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
CIS Countries & Mongolia


Labour force participation
80
70
60
50
40
30
20
10
0
2006
2007
2008
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan

2.2 Trade and sustainable economic integration

Trade, market integration and global value chains are important to the growth of sustainable enterprises. Mongolia liberalized its trade in the course of World Trade Organization (WTO) accession in 1997.[56] This involved the reduction of tariff rates and elimination of a number of import licensing requirements.[57] The Enabling Trade Index (ETI) of the World Economic Forum ranks Mongolia above Uzbekistan and Kyrgyzstan in terms of facilitating the free flow of goods. Mongolia's trade integration measured by trade as a percentage of GDP (the sum of exports and imports) grew from 125.01 in 2006 to 130.02 in 2007, putting it above Turkmenistan, Uzbekistan and the average for Europe and Central Asia. Mongolia is heavily dependent on commodity exports, notably copper, gold and cashmere. The high dependency leaves the economy vulnerable to shifts in world commodity prices. Imports are dominated by oil, food products, industrial consumer goods, machinery and equipment. China is Mongolia's most important trading partner accounting for 74.1 per cent of Mongolian exports in 2007 and supplying 31.1 per cent of its imports. The second most important trading partner is Russia, which (among other things) provides Mongolia with oil. Mongolia is also seeking to develop trade ties with other central Asian nations. However, interaction and trade integration with neighbouring nations is difficult due to the geographic isolation of Mongolia and the distances involved in transporting goods. In addition to the WTO membership, Mongolia is also a member of the Association of South-East Asian Nations (ASEAN) Regional Forum.[58]

As a result of policy measures to create a favorable investment climate, Mongolia has attracted an increasing amount of foreign direct investment (FDI), mostly from China, Canada, and the Republic of Korea.[59] Mining attracts the largest portion of foreign direct investment. Between 2005 and 2007, the FDI inflow in Mongolia was strong (10.98 per cent in 2006) and compares favourably with the rate for Kyrgyzstan (6.42 per cent), Turkmenistan (7.11 per cent), and Uzbekistan (1.14 per cent) and the Europe and Central Asia average (4.67 per cent). FDI is projected to increase rapidly over the coming years as the mining boom takes off but there will be a need to diversify FDI away from solely mining-related investment by improving the broader enabling environment.

There are several trends, which are reinforcing traditional impulses for foreign direct investment (access to natural resources, markets, and low-cost labour). With the rise of globalization technological progress allows for the separation of production into more discrete phases across national barriers. Expansion in information and communication technologies and improvement in logistics necessarily allow production to be close to markets while taking advantage of the specific characteristic of individual production locations.

[56] World Bank (2008). Mongolia: Trade Brief
<http://info.worldbank.org/etools/wti2008/docs/brief129.pdf>

[57] Asian Development Bank Institute (2007). Mongolia. Country Report - Industrial Development Planning by Local Government: Cluster-Based Development Approach Policy Seminar, 14-19 March 2007, Japan.

[58] Economic Intelligence Unit (2008). Country Profile 2008: Mongolia, London.

[59] Asian Development Bank Institute (2007). Mongolia. Country Report – Industrial Development Planning by Local Government: Cluster-Based Development Approach Policy Seminar, 14-19 March 2007, Japan.

Countries have adopted their own respective policies for attracting more investment. Some countries rely on targeted financial concessions like tax concessions, cash grants and specific subsidies. Some countries focus on improving the infrastructure and skill parameters to specifically meet the demands and expectations of foreign investors. Others try to improve the general business climate of a country by changing the administrative barriers and reducing red tape. Many governments have created state agencies to help investors navigate local procedures and incentives and most countries have entered into international governance arrangements to increase their attractiveness for inward investment.

Key Indicators

Trade (% of GDP)

Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. It takes values between 0 and +∞

Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%.

Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators CD-ROM).

	2006	2007	2008
Mongolia	125.01	130.02	..
Kyrgyzstan	120.75	134.57	..
Turkmenistan	128.90	110.56	84.38
Uzbekistan	64.93	70.49	73.49
Europe & Central Asia	69.26	68.73	68.40

Trade share (%) in GDP.

Enabling trade index (ETI)

The Enabling Trade Index measures the factors, policies and services facilitating the free flow of goods over borders and to destination. The index breaks the enablers into four overall issue areas: (1) market access, (2) border administration, (3) transport and communications infrastructure and (4) the business environment. Enabling Trade Index was published in 2008 and 2009.

Source: World Economic Forum.[60]

	2007 (Report 2008)	2008 (Report 2009)
Mongolia	3.38 (rank 93)	3.17 (rank 113)
Kyrgyzstan	3.03 (rank 109)	3.43 (rank 101)
Turkmenistan	..	..
Uzbekistan	3.06 (rank 105)	..

On a scale from 1 to 7, a high score in the overall ETI indicates that a country is relatively successful at enabling the free flow of trade.

FDI net inflow (% GDP)

Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP.

Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, Global Development Finance, and World Bank and OECD (World Development Indicators CD-ROM).

	2005	2006	2007
Mongolia	8.00	10.98	8.34
Kyrgyzstan	1.73	6.42	5.55
Turkmenistan	5.16	7.11	6.22
Uzbekistan	0.61	1.14	1.17
Europe & Central Asia	3.08	4.67	4.87

FDI net inflow (% in GDP).

[60] <http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm>

Other useful indicators

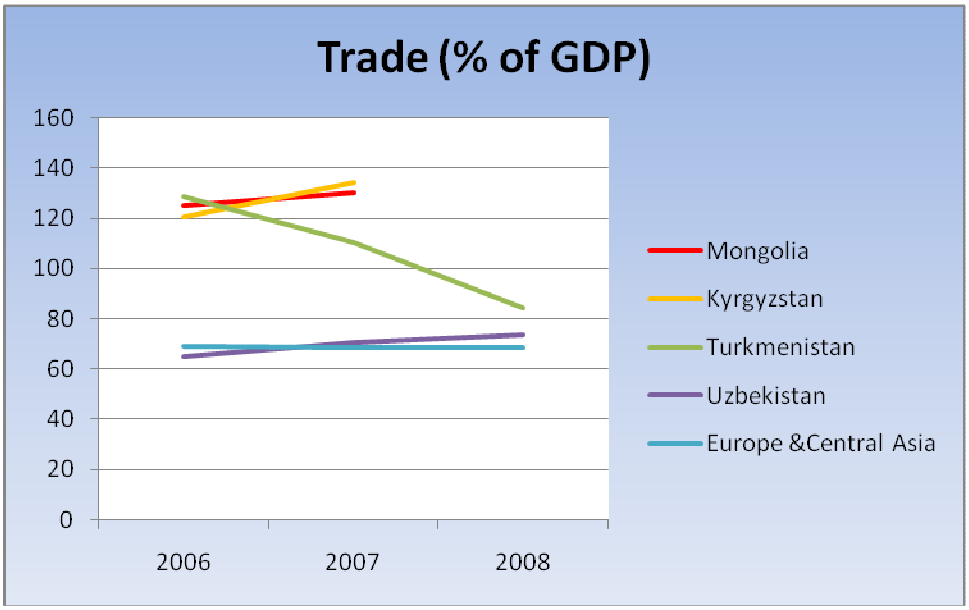
Export propensity index= Exports of goods and services (% GDP)

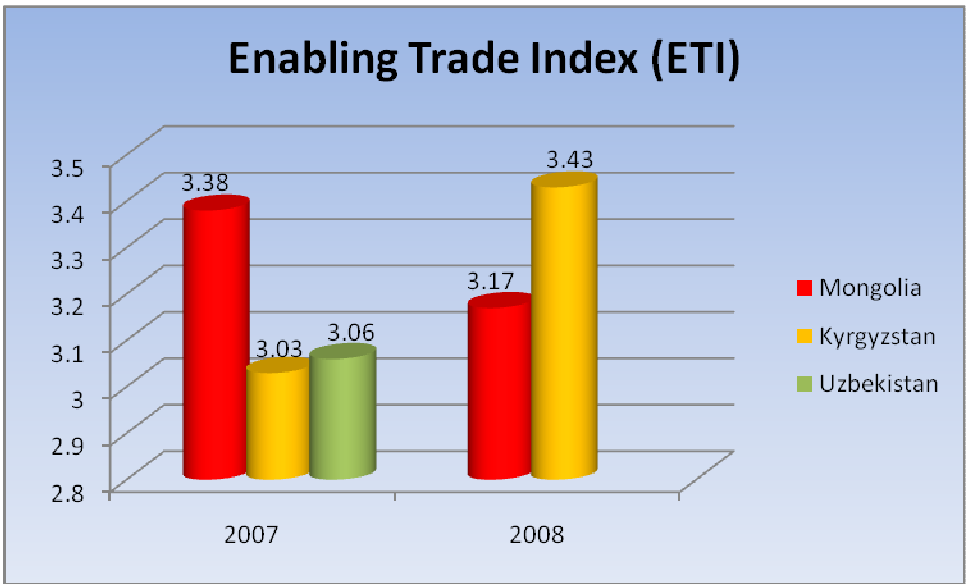
Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.

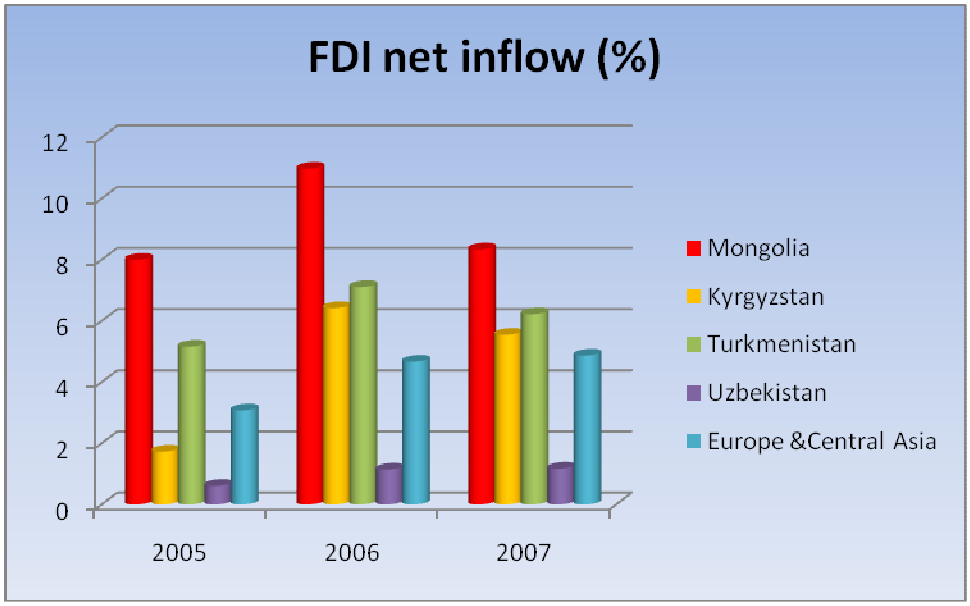
Source: World Bank national accounts data, and OECD National Accounts data files (World Development Indicators CD-ROM).

	2006	2007	2008
Mongolia	65.33	64.29	..
Kyrgyzstan	41.72	44.68	..
Turkmenistan	73.69	62.70	47.47
Uzbekistan	37.52	40.30	41.93
Europe & Central Asia	35.15	33.80	34.24

It ranges from 0 (with no exports) to 100 (with all domestic production exported)







2.3 Enabling legal and regulatory environment

Poorly designed regulations and unnecessary bureaucratic burdens on business constrain enterprise start-ups and can encourage informality. In Mongolia, the private sector is a relatively recent development, formally recognized when the new constitution was adopted in 1992.[61] Today, Mongolia's private sector produces more than 70 per cent of the country's total output.[62] According to the World Bank's Regulatory Quality Index, the ability of the Mongolian Government to provide sound policies and regulations that enable and promote private sector development is relatively good compared to Kyrgyzstan, Uzbekistan, and Turkmenistan. However, Mongolia's business environment is administratively burdensome. The most frequently cited impediments to doing business in Mongolia are business licensing and permits, corruption and crime, limited access to finance and the burden of taxes.[63] In the latest Doing Business Survey, Mongolia's ranking for ease of doing business has dropped from 56th in 2007 to 60th in 2009 and down to 73rd in 2010 (out of 183 countries), partly because it carried out no significant reforms whilst other countries did. It ranked poorly for trading across borders (155th) which is largely a function of its geographical isolation and distance from markets, closing a business (110th) and dealing with construction permits (103rd), but much better for registering property (25th)

[61] Asian Development Bank Institute (2007). Mongolia. Country Report – Industrial Development Planning by Local Government: Cluster-Based Development Approach Policy Seminar, 14-19 March 2007, Japan.

[62] World Bank Country Brief – Mongolia <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/MONGOLIAEXTN/0,,contentMDK:20190297~pagePK:1497618~piPK:217854~theSitePK:327708,00.html

[63] World Bank (2007). Mongolia – Promoting Investment and Job Creation. An Investment Climate Assessment and Trade Integration Study, Poverty Reduction and Economic Management Department East Asia and Pacific Region; World Bank and IFC (2009). Enterprise Surveys – Mongolia Country Profile. <http://www.enterprisesurveys.org/documents/EnterpriseSurveys/Reports/Mongolia-2009.pdf>

and protecting investors (27th).[64] According to the World Bank the Government of Mongolia has already taken a number of steps to improve the business environment, which should begin to show results in 2010[65] which was declared Mongolian Year of Business Environment Reform.

Key Indicators

Regulatory quality index

The ability of the government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Source: World Bank, Governance Matters database.[66]

	2006	2007	2008
Mongolia	-0.29	-0.34	-0.29
Kyrgyzstan	-0.59	-0.40	-0.32
Turkmenistan	-2.19	-2.02	-2.03
Uzbekistan	-1.71	-1.45	-1.41
Former Soviet Union[67]	-0.81	-0.68	-0.58
East Asia[68]	-0.14	-0.18	-0.26

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Ease of doing business rank

Ease of doing business index ranks economies from 1 to 181, with first place being the best. A high ranking means that the regulatory environment is conducive to business operation. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic.

Source: World Bank, Doing Business project.[69]

	2007 (DB 2008 report)	2008 (DB 2009 report)	2009 (DB 2010 report) (rank without "employing workers")
Mongolia	52	56	60 **(61)**
Kyrgyzstan	94	80	41 **(47)**
Turkmenistan	..	..	..
Uzbekistan	138	145	150 **(149)**

The index ranks economies from 1 to 181, with first place being the best.

[64] Economic Intelligence Unit (2009). Country Report: Mongolia, London.

[65] Ibid.

[66] <http://info.worldbank.org/governance/wgi/index.asp>

[67] Includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

[68] Includes American Samoa, Brunei, Cambodia, China, Cook Island, Fiji, Guam, Hong Kong, Indonesia, Kiribati, Korea North, Korea South, Laos, Macao, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Philippines, Reunion, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Vietnam.

[69] <http://www.doingbusiness.org/EconomyRankings/>

Other useful indicators

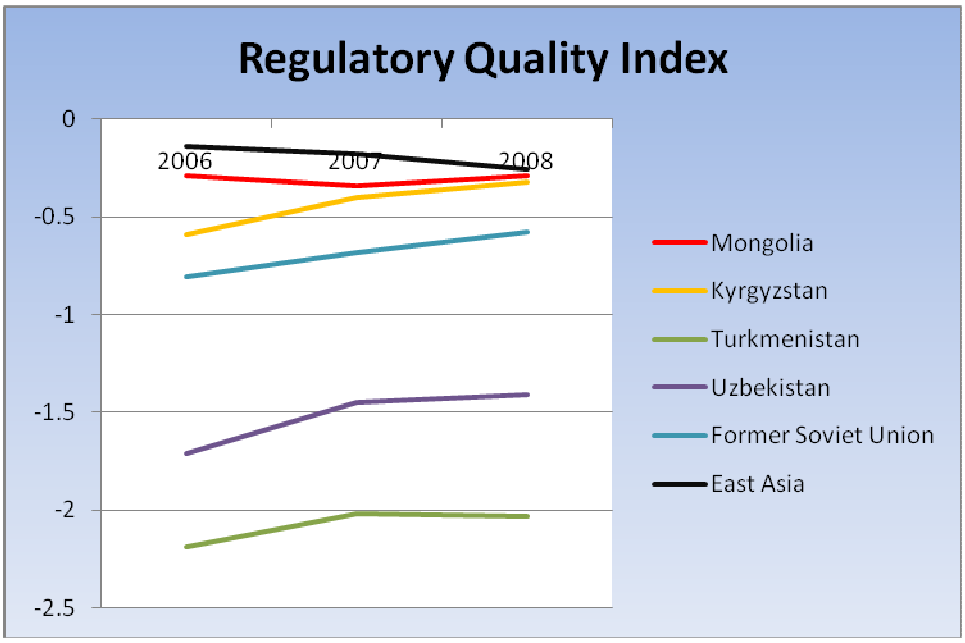
Starting a business (rank)

Starting a Business Index records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities. The index ranks economies from 1 to 181, with first place being the best.

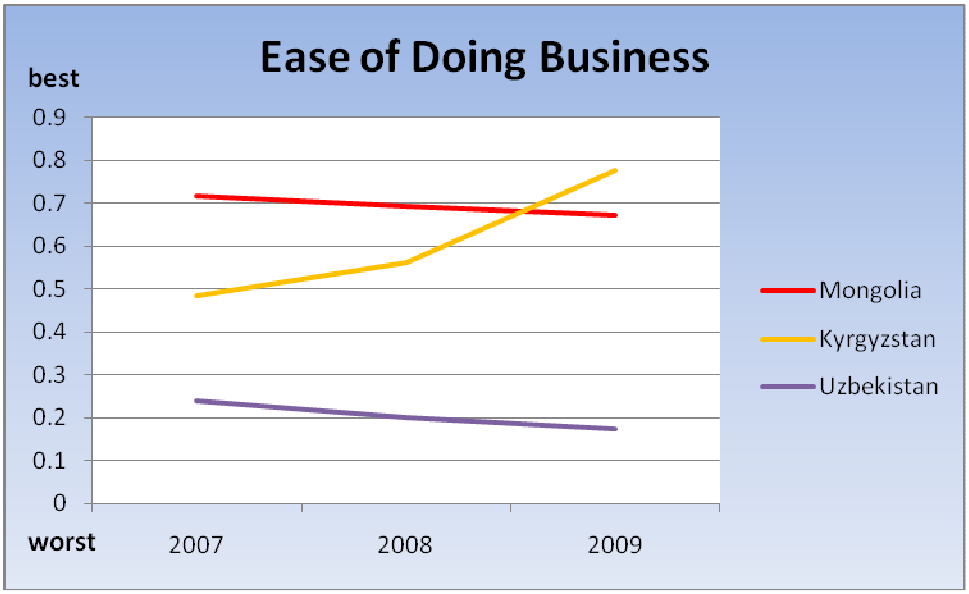
Source: World Bank, Doing Business project.[70]

	2007 (DB 2008 report)	2008 (DB 2009 report)	2009 (DB 2010 report)
Mongolia	62	61	78
	(13 days)	(13 days)	(13 days)
Kyrgyzstan	49	34	14
	(21 days)	(15 days)	(11 days)
Turkmenistan	..	..	..
Uzbekistan	54	71	92
	(15 days)	(15 days)	(15 days)

The index ranks economies from 1 to 181, with first place being the best.



[70] <http://www.doingbusiness.org/EconomyRankings/>



2.4 Role of law and secure property rights

The extent to which the business community has confidence in the rule of law, including the quality of contract enforcement and property rights, affects their readiness to make long-term investments. According to the World Bank, Mongolia's ability to ensure rule of law has worsened since 2006. The Rule of Law Index for Mongolia fell from -0.31 in 2006 to -0.54 in 2008 but it remains high compared to its peers. The legal framework for protecting property rights is composed of the Constitution, Civil Code, and the Land Law of 1994 which regulates the possession, use and protection of the land. However, law enforcement is often inefficient or inconsistent and the institutional infrastructure for land records' management is rather poor.[71] The global ranking published in the Global Competitiveness Report 2009-2010 (World Economic Forum) places Mongolia 112th out of 133 economies in terms of protection of property rights and 118th in terms of intellectual property rights. According to the World Bank, the private sector in Mongolia needs stronger support from the Government in the form of legal coherence and stability, and secure property rights.[72]

[71] Asian Development Bank. Developing Mongolia's Legal Framework: A Needs Analysis: The Legislative Framework. <http://www.adb.org/Documents/Papers/Mongolia_Legal_Framework/property_rights.asp?p=lawdevt>

[72] World Bank Country Brief – Mongolia <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/MONGOLIAEXTN/0,,contentMDK:20190297~pagePK:1497618~piPK:217854~theSitePK:327708,00.html

Key Indicators

Rule of law Index		2006	2007	2008
The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence. Source: World Bank, Governance Matters database.[73]	**Mongolia**	-0.31	-0.43	-0.54
	Kyrgyzstan	-1.20	-1.12	-1.26
	Turkmenistan	-1.38	-1.28	-1.30
	Uzbekistan	-1.36	-1.05	-1.18
	Former Soviet Union74	-0.96	-0.88	-0.84
	East Asia75	0.18	0.13	0.09
	Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.			

Other useful indicators

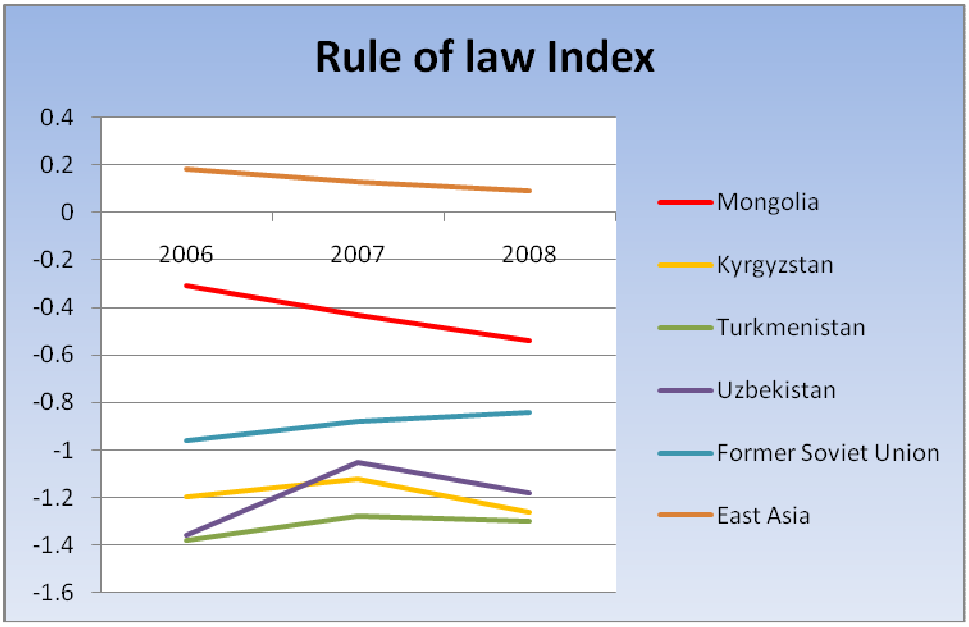
Property rights		2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Property rights in your country, including over financial assets, are 1= poorly defined and not protected by law, 7=clearly defined and well protected by law". Source: World Economic Forum, The Global Competitiveness Report.	**Mongolia**	4.1	3.8	3.4
	Kyrgyzstan	3.2	3.3	2.9
	Turkmenistan	..	..	..
	Uzbekistan	3.9	..	..
	World (mean)	4.7	4.7	4.5
	1= poorly defined and not protected by law, 7=clearly defined and well protected by law			

Intellectual property protection		2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Intellectual property protection and anti-counterfeiting measures in your country are 1= weak and not enforced, 7=strong and enforced" Source: World Economic Forum, The Global Competitiveness Report.	**Mongolia**	2.4	2.5	2.5
	Kyrgyzstan	2.8	2.7	2.4
	Turkmenistan	..	..	..
	Uzbekistan	3.9	..	..
	World (mean)	3.8	3.8	3.8
	1= weak and not enforced, 7=strong and enforced			

[73] <http://info.worldbank.org/governance/wgi/index.asp>

[74] Includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

[75] Includes American Samoa, Brunei, Cambodia, China, Cook Island, Fiji, Guam, Hong Kong, Indonesia, Kiribati, Korea North, Korea South, Laos, Macao, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, Niue, Palau, Papua New Guinea, Philippines, Reunion, Samoa, Singapore, Solomon Islands, Taiwan, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Vietnam.



2.5 Fair competition

Fair competition in the marketplace is likely to produce a range of efficiencies in terms of the provision of goods and services, lower costs, reduced price distortions and wider consumer choice. In Mongolia, the concept of fair competition is covered by the Unfair Competition Law of 1993. The Unfair Competition Law is designed to restrict state control over the competition of business entities in the marketplace and to regulate other activities impeding fair competition. However, the enforcement mechanism of competition law is generally rather weak.[76] According to the Global Competitiveness Report 2009-2010, Mongolia's scores for intensity of local competition, effectiveness of anti-monopoly policies and extent of market dominance have slightly improved in recent years but remain below Kyrgyzstan and the world average.

Key Indicators

Total business density (%)		**2003**	**2005**	**2007**
Total business density is calculated as the number of total registered companies as a percentage of the active working age population in that year.	**Mongolia**	..	..	..
	Kyrgyzstan	..	..	..
Source: World Bank Group Entrepreneurship Survey (WBGES).[77]	**Turkmenistan**	..	..	..
	Uzbekistan	2.39	2.74	3.24
	Number of total registered companies as a percentage of the active working age population.			

[76] Asian Development Bank. Developing Mongolia's Legal Framework: A Needs Analysis: The Legislative Framework. <http://www.adb.org/Documents/Papers/Mongolia_Legal_Framework/fair_marketplace.asp?p=lawdevt>

[77] <http://rru.worldbank.org/businessplanet/default.aspx?pid=8>

Other useful indicators

Intensity of local competition index		2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)". Source: World Economic Forum Executive Opinion Survey[78], The Global Competitiveness Report.	**Mongolia**	4.6	4.6	4.5
	Kyrgyzstan	3.6	3.9	4.0
	Turkmenistan	..	..	..
	Uzbekistan	4.6	..	..
	World (mean)	4.8	4.9	4.9
	1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership			

Effectiveness of anti-monopoly policies		2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Anti-monopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)". Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.	**Mongolia**	3.0	2.9	3.0
	Kyrgyzstan	2.8	3.0	3.0
	Turkmenistan	..	..	..
	Uzbekistan	4.2	..	..
	World (mean)	4.0	4.0	4.0
	1=lax and not effective at promoting competition, 7=effective and promotes competition			

Extent of market dominance		2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)". Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.	**Mongolia**	2.7	2.6	2.3
	Kyrgyzstan	2.8	3.0	3.0
	Turkmenistan	..	..	..
	Uzbekistan	4.0	..	..
	World (mean)	3.9	3.9	3.9
	1=dominated by a few business groups, 7=spread among many firms			

2.6 Information and communication technologies

The continuing shift towards knowledge-based economies and the accelerated growth in the technological sphere has led to increased pressures on enterprises to upgrade their production technologies and adopt ICT innovations to enhance their competitiveness. This shift also increases the need for governments to respond by developing an environment conducive to the promotion of and application of ICTs (and the use of modern technology and related management practices) in business. According to the International Telecommunication Union, Mongolia's development in information and communication technologies is slightly better (score 2.67 in 2007) than in Kyrgyzstan (2.61), Turkmenistan

[78] <http://www.insead.edu/v1/gitr/wef/main/analysis/showdatatable.cfm?vno=1.37>

(2.23) and Uzbekistan (2.05). Since the mid-1990s, the Government of Mongolia has implemented a telecommunications reform programme leading to the liberalization of all market segments, to partial privatization of the fixed line provider and to the establishment of an independent regulatory authority. Moreover, state control of the media has been banned since January 1999. As a result, the telecommunications sector has grown rapidly.[79] Mongolia has seen an increase in the use of ICT, particularly in mobile telephony. The number of mobile-phone subscribers in Mongolia rose to 1,763,200 in 2008, from 319,000 in 2003 and accounted for 78 per cent of all telephone subscribers by 2006. Likewise, the use of the Internet is rising. Mongolia is estimated to have had 12.49 internet users in 2008 and 1.37 broadband subscribers per 100 persons. However, this is still below the Europe and Central Asia average (23.44 internet users per 100 persons in 2007).

Key Indicators

ICT development index (IDI)

IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer the number of Internet users; and literacy levels.

Source: International Telecommunication Union.[80]

	-	2002	2007
Mongolia	-	1.97 (rank 84)	2.67 (rank 88)
Kyrgyzstan	-	1.97	2.61
Turkmenistan	-	1.96	2.23
Uzbekistan	-	1.75	2.05
Central Asia[81]	-	1.90	2.50

Scale from 1 to 10, with lower scores reflecting lower development levels

Other useful indicators

Internet users (per 100)

The Internet is a linked global network of computers in which users at one computer get information from other computers in the network. Internet users are people with access to the worldwide network. The total number of Internet users is divided by the population and multiplied by 100.

Source: International Telecommunication Union[82] and World Development Indicators CD-ROM.

	2006	2007	2008
Mongolia	12.01	12.25	12.49
Kyrgyzstan	12.31	14.03	15.70
Turkmenistan	1.32	1.41	1.49
Uzbekistan	6.39	7.49	9.08
Europe & Central Asia	19.31	23.44	..

Number of users per 100 people

[79] World Bank Country Brief – Mongolia <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/MONGOLIAEXTN/0,contentMDK:20190297~pagePK:1497618~piPK:217854~theSitePK:327708,00.html

[80] <http://www.itu.int/ITU-D/ict/publications/idi/2009/material/IDI2009_w5.pdf>

[81] Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan.

[82] <http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx> and <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>

Fixed line and mobile phone subscribers (per 100 people)

Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network. Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network.

Source: International Telecommunication Union (World Development Indicators CD-ROM).

	2006	2007	2008
Mongolia	36.14	41.32	..
Kyrgyzstan	33.14	50.63	..
Turkmenistan	13.08	16.23	..
Uzbekistan	17.22	28.97	53.34
Europe & Central Asia	107.57	120.01	..

Number of subscribers per 100 people

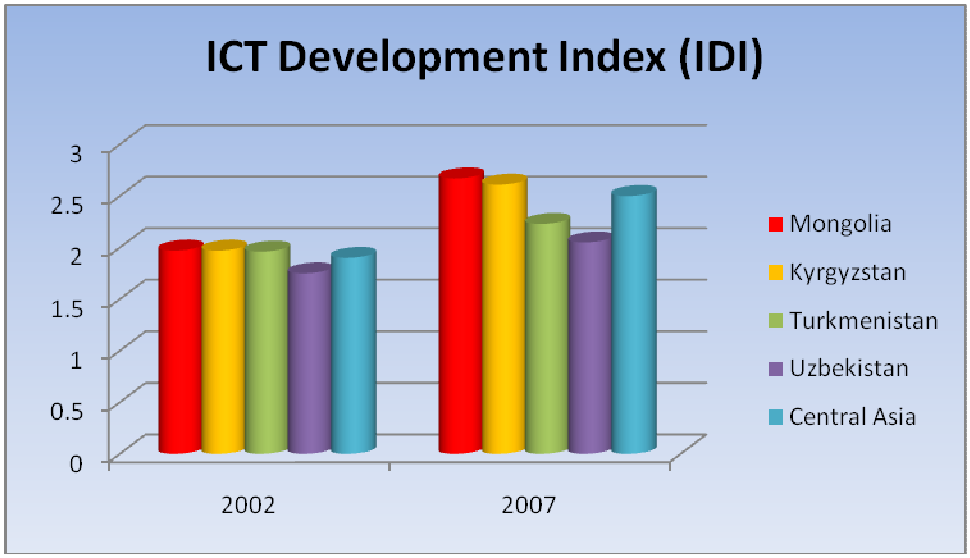
Broadband subscribers (per 100 people)

Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technologies.

Source: International Telecommunication Union.[83]

	2006	2007	2008
Mongolia	0.14	0.28	1.37
Kyrgyzstan	0.05	0.05	0.06
Turkmenistan	..	0.05	0.05
Uzbekistan	0.03	0.07	0.24
Europe & Central Asia	2.70	4.13	..

Number of subscribers per 100 people



[83] <http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx#>

2.7 Access to financial services

Whether to create a new business or to expand an existing one, entrepreneurs of all sizes and types need financial resources to stay competitive and to grow. In Mongolia, the lack of access to and high costs of finance are a major constraint on the growth of businesses (perhaps especially start-ups). Bank lending in Mongolia is almost exclusively collateral-based and immovable assets are the predominant form of collateral. However, collateral to loan values are higher in Mongolia than in any other country.[84] Many people, in particular in rural areas, do not have access to the guarantee required by banks in the form of immovable assets since the land is often not privately-owned. Therefore many businesses do not have access to formal term finance for their investment and rely on finance from informal sources.[85] SMEs and micro-enterprises are likely to find it particularly hard to access credit through formal channels. However, there are some positive trends beginning to emerge. IMF and World Bank statistics show that credit to the private sector as a percentage of GDP has slightly increased from 32.81 per cent in 2006 to 43.62 per cent in 2008, reflecting targeted government efforts to improve access to financial services.[86] In the same context, Mongolia's first private credit bureau was established in 2009.[87] In addition, the current credit information index measuring availability and quality of credit information ranks Mongolia relatively high on a comparable basis to other countries in the region, such as Kyrgyzstan and Uzbekistan.

Key Indicators

Domestic credit to private sector (% GDP)

Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises.

Source: International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates (World Development Indicators CD-ROM).

	2006	2007	2008
Mongolia	32.81	45.51	43.62
Kyrgyzstan	10.47	15.28	..
Turkmenistan	..	..	..
Uzbekistan	..	..	..
Europe & Central Asia	32.18	38.87	43.07

Credit to private sector (% GDP)

[84] World Bank (2007). Mongolia – Promoting Investment and Job Creation. An Investment Climate Assessment and Trade Integration Study, Poverty Reduction and Economic Management Department East Asia and Pacific Region.

[85] World Bank (2007). Growth Diagnostics for a Resource-Rich Transition Economy: The Case of Mongolia, Policy Research Working Paper 4396.

[86] Economic Intelligence Unit (2009). Country Report: Mongolia, London.

[87] "The view from Mongolia on Doing Business 2010" <http://psdblog.worldbank.org/psdblog/2009/09/the-view-from-mongolia-on-doing-business-2010.html>

Other useful indicators

Credit information index

Credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.

Source: World Bank, Doing Business project.

	2007 (DB 2008 report)	2008 (DB 2009 report)	2009 (DB 2010 report)
Mongolia	3	3	3
Kyrgyzstan	2	3	3
Turkmenistan	..	..	..
Uzbekistan	0	3	3
Eastern Europe & Central Asia[88]	3	4	4

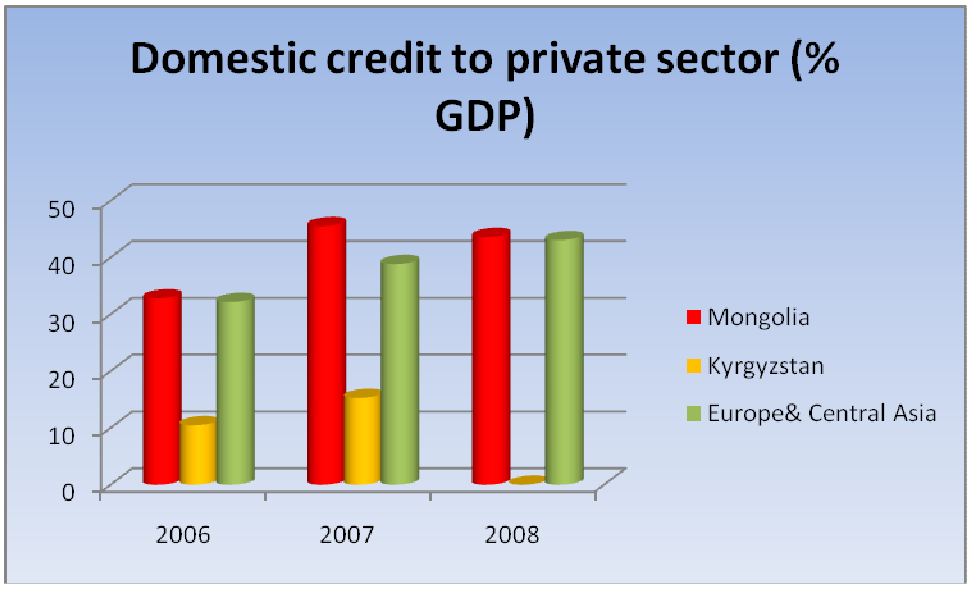
0=less info to 6=more info

Interest rate spread

Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits.

Source: International Monetary Fund, International Financial Statistics and data files. (World Development Indicators CD-ROM).

	2006	2007	2008
Mongolia	8.44	4.08	6.83
Kyrgyzstan	17.63	19.92	15.86
Turkmenistan	..	..	..
Uzbekistan	..	..	..
Europe & Central Asia	6.63	6.05	6.22



[88] <http://www.doingbusiness.org/ExploreEconomies/?economyid=143>

2.8 Physical infrastructure

Enterprise sustainability critically depends on the quality and quantity of the physical infrastructure. Mongolia's population is highly dispersed over the country's vast lands[89] and Mongolia is distant from most markets, creating many challenges for infrastructure development.[90] According to the World Economic Forum, the quality of overall infrastructure is very poor in Mongolia compared with Kyrgyzstan, Uzbekistan and the world average. The country struggles with a poor road and railway network. The single most important transport link is the Ulaanbaatar Railway, but this only serves the three largest industrial conurbations and links Mongolia with Russia and China. Only 1,714 km of Mongolia's 49,250 km of roads were paved in 2003. The national airline, Mongolian Civil Air Transport serves a modest number of domestic and international routes.[91] Moreover, many small settlements have no power supply or heating and access to an improved water source is limited (in 2006 only 72 per cent of the population had access to improved water sources). According to the World Bank, 25 per cent of the population do not have access to electricity.[92] This situation is a significant constraint on business development.

Public-Private Partnership are likely to play a key role in future infrastructure programmes. State Policy on Public-Private Partnership was adopted by Parliament in 2009 and in February 2010, Mongolia's parliament adopted a landmark Concession Law that allows private companies to invest in infrastructure by way of public private partnerships. Furthermore, the Government has approved a list of more than 100 projects in which private investors can invest in railways, roads, power and housing projects.

Key Indicators

Electric power consumption (kWh per capita)		2004	2005	2006
Electric power consumption measures the production of power plants and combined heat and power plants less transmission, distribution, and transformation losses and own use by heat and power plants.	**Mongolia**	1222.03	1271.73	1297.66
	Kyrgyzstan	1651.15	1842.13	2015.37
Source: International Energy Agency, Energy Statistics and Balances of Non-OECD Countries and Energy Statistics of OECD Countries (World Development Indicators)[93]; IEA Energy Africa Statistics.[94]	**Turkmenistan**	1905.58	2021.20	2123.30
	Uzbekistan	1757.71	1659.36	1694.27
	Europe & Central Asia	3581.20	3662.09	3845.32
	kWh per capita			

[89] 1.5 people per square km.

[90] World Bank Country Brief – Mongolia <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/MONGOLIAEXTN/0, contentMDK:20190297~pagePK:1497618~piPK:217854~theSitePK:327708,00.html

[91] Economic Intelligence Unit (2008). Country Profile 2008: Mongolia, London.

[92] Ibid.

[93] <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>

[94] <http://www.iea.org>

Roads, paved (% of total roads)

Paved roads are those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete, or with cobblestones, as a percentage of all the country' roads, measured in length.

Source: International Road Federation, World Road Statistics (World Development Indicators).[95]

	2001	2003	2005
Mongolia	3.50[96]	..	..
Kyrgyzstan	91.10	..	..
Turkmenistan	81.20	..	..
Uzbekistan	87.30	..	..
Europe & Central Asia	..	..	..

% of total roads

Other useful indicators

Improved water source (% of population with access)

Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 liters a person a day from a source within one kilometer of the dwelling.

Source: World Health Organization and United Nations Children's Fund, Meeting the MDG Drinking Water and Sanitation Target. (World Development Indicators online).[97]

	2000	2005	2006
Mongolia	68.00	..	72.00
Kyrgyzstan	82.00	..	89.00
Turkmenistan	..	..	..
Uzbekistan	89.00	..	88.00
Europe & Central Asia	93.37	..	95.00

% of population with access

Quality of overall infrastructure index

Survey data: "General infrastructure in your country is (1 = underdeveloped, 7= as extensive and efficient as the world's best)".

Source: World Economic Forum, The Global Competitiveness Report.[98]

	2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
Mongolia	1.9	1.7	1.9
Kyrgyzstan	2.5	2.7	2.8
Turkmenistan	..	..	..
Uzbekistan	3.6	..	..
World (mean)	3.8	3.8	4.1

1 = underdeveloped, 7= as extensive and efficient as the world's best

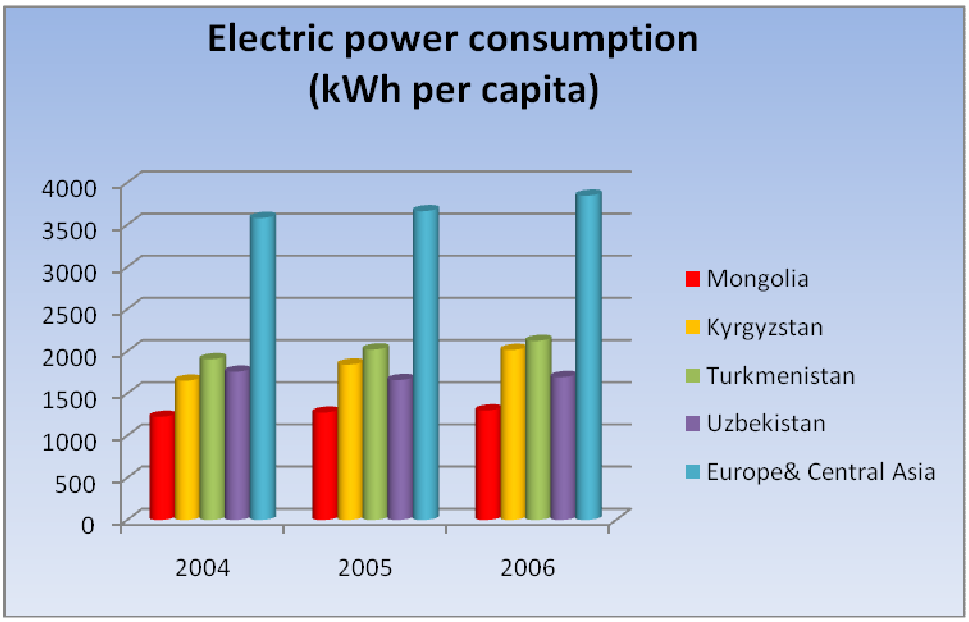
[95] <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>

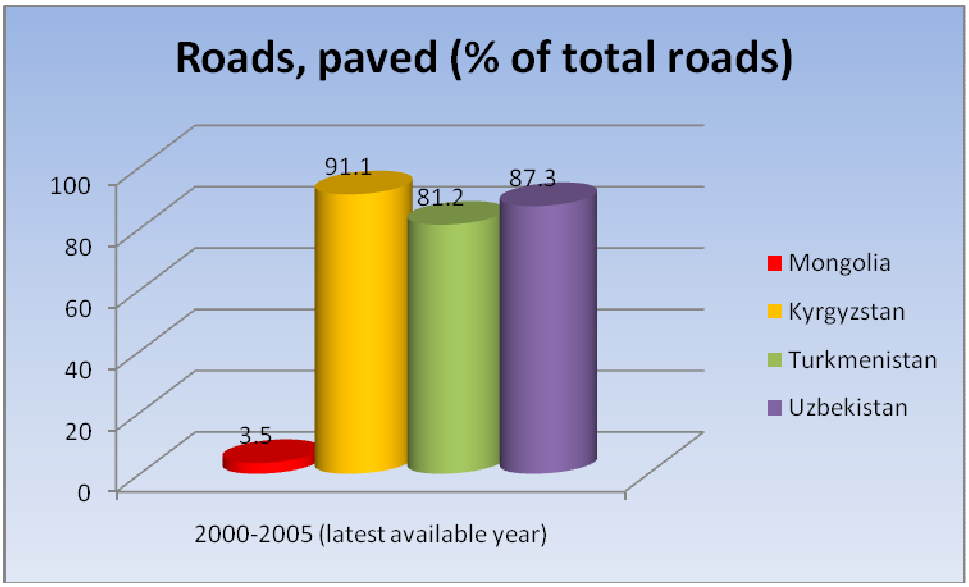
[96] 2002

[97] <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135>

[98] <http://www.weforum.org/pdf/GCR08/GCR08.pdf>

Quality of port infrastructure Index		2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
Survey data: "Port facilities and inland waterways in your country are (1=underdeveloped, 7= as developed as the world's best)/ for landlocked countries this measures the ease of access to port facilities and inland waterways.	**Mongolia**	2.5	2.4	2.9
Source: World Economic Forum, The Global Competitiveness Report.[99]	**Kyrgyzstan**	1.5	1.8	1.6
	Turkmenistan	..	..	..
	Uzbekistan	2.3	..	..
	World (mean)	4.0	4.1	4.2
	1=underdeveloped, 7= as developed as the world's best			





[99] <http://www.weforum.org/pdf/GCR08/GCR08.pdf>

3. Social elements

3.1 Entrepreneurial culture

Promoting an entrepreneurial culture is primarily about making people aware of the potential of business as an alternative to traditional employment in government and the private sector. In Mongolia, an entrepreneurial culture only began to emerge as a result of the transition to a market economy and in particular in connection with the privatization of state-owned enterprises. According to a report by the Asian Development Bank, approximately 26 000 active businesses existed in 2007, of which 96.1 per cent had less than 49 employees. The number of microenterprises has also been growing in recent years although many of them stay in the informal economy and provide precarious sources of income and employment.[100] The Mongolian private sector is dominated by enterprises engaged in wholesale and retail trade.[101] SMEs are estimated to employ over 300 000 people and they account for approximately 60 per cent of the GDP.[102] There is clearly a need to better understand the nature of entrepreneurship in Mongolia in order to foster policies and interventions which nurture a more inclusive private sector.

Key Indicators

New business density (per 1000 people)		**2003**	**2005**	**2007**
Number of newly registered corporations to total working age population (per 1000 of population). Source: World Bank Group Entrepreneurship Survey (WBGES) 2008.[103]	**Mongolia**	..	..	..
	Kyrgyzstan	0.60	0.83	1.19
	Turkmenistan	..	..	..
	Uzbekistan	0.33	0.46	0.59
	Number per 1000 of population			

Entry rate (%)		**2003**	**2005**	**2007**
Entry rate is defined as new firms (registered in the current year) as a percentage of lagged total registered firms. Source: World Bank Group Entrepreneurship Survey (WBGES) 2008.[104]	**Mongolia**	..	..	..
	Kyrgyzstan	..	..	..
	Turkmenistan	..	..	..
	Uzbekistan	0.14	0.17	0.18
	Number of firms as a percentage of lagged total registered firms			

[100] Asian Development Bank Institute (2007). Mongolia. Country Report – Industrial Development Planning by Local Government: Cluster-Based Development Approach Policy Seminar, 14-19 March 2007, Japan.

[101] World Bank (2007). Mongolia – Promoting Investment and Job Creation. An Investment Climate Assessment and Trade Integration Study, Poverty Reduction and Economic Management Department East Asia and Pacific Region

[102] Asian Development Bank Institute (2007). Mongolia. Country Report – Industrial Development Planning by Local Government: Cluster-Based Development Approach Policy Seminar, 14-19 March 2007, Japan.

[103] <http://rru.worldbank.org/businessplanet/default.aspx?pid=8>

[104] Ibid.

3.2 Education, training and lifelong training

Enterprise success, productivity and competitiveness depend on human resources. In Mongolia, education was fully state-funded during the Communist era, giving the country a pool of highly literate and well-educated people. Education is now provided by both the state and the private sector. Free education is available at primary and secondary level, and vocational and tertiary education is partly state-funded. The proportion of public spending going to education grew from 4.75 per cent in 2005 to 5.1 per cent in 2007 (per cent of GDP). Mongolia scores well on indicators such as school enrolment and adult literacy compared with many other countries with similar levels of GDP per capita. For instance the UNDP's Education Index for Mongolia grew slightly from 0.91 in 2004 to 0.913 in 2007 and ranks the country above Turkmenistan and Uzbekistan. Yet, provision of education is uneven, with limited educational opportunities in rural areas.[105] Moreover, UNESCO's Institute for Statistics reports that the youth literacy rate fell from 97.71 per cent in 2000 to 95.44 in 2007. Mongolia used to have a good vocational training system under the socialist economy, but almost all training centres downsized activities or were shutdown in the early stage of the transition.[106] Consequently, the number of firms offering training appears to have grown. The Global Competitiveness Report staff training index shows an upwards trend for Mongolia. However, at the same time, many firms complain that Mongolian workers do not possess the skills that are needed for the modern labour market.[107]

The Education Master Plan (2006-2015) sets out the objectives to increase the vocational education and training (VET) enrolment by 56 per cent, improving the quality of vocational training and reforming VET management. The serious skills mismatch between the demand and supply of the labour force has been recognized at all levels, including the private sector. Addressing this issue has been regarded as a priority policy as the country's economic growth perspectives have improved during the last few years. There are many challenges in the vocational education and training system in relation to strategic framework, skills standards, quality and relevance of the training programmes, governance, finance and partnership with the private sector as well as improving human resources management at the enterprise level. Nevertheless, important legal, institutional changes and policy revisions have been implemented since early 2007. For example, the National Vocational Education and Training (bipartite) Council was established in 2009 consisting of 16 members, of whom eight members represent the private sector. The primary goal of the Council is to ensure the role of the private sector in making VET policy responsive to the labour market needs. A Vocational Education and Training Development Fund is to be established consisting of budgetary allocations and contributions from the private sector. The Millennium Challenge Corporations' TVET project (2008-2013) is implemented to support the VET reforms in Mongolia.

[105] Economic Intelligence Unit (2008). Country Profile 2008: Mongolia, London.

[106] Asian Development Bank Institute (2007). Mongolia. Country Report – Industrial Development Planning by Local Government: Cluster-Based Development Approach Policy Seminar, 14-19 March 2007, Japan.

[107] UNDP (2007). Employment and Poverty in Mongolia <http://hdr.undp.org/en/reports/nationalreports/asiathepacific/mongolia/name,3392,en.html>

Key Indicators

Public spending on education, total (% of GDP)

Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels.

Source: United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators CD-ROM).

	2005	2006	2007
Mongolia	4.75[108]	..	5.10
Kyrgyzstan	4.87	5.58	5.27
Turkmenistan	..	..	..
Uzbekistan	..	..	..
Europe & Central Asia	3.77	4.06	..

Public spending on education as share (%) of GDP

Education index

It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrollment ratio (Gross enrolment index [0, 100]) (with one-third weighting).

Source: UNDP, Human Development Report.[109]

	2004 (HDR 2006)	2005 (HDR 2007/2008)	2007 (HDR 2009)
Mongolia	0.91	0.910	0.913
Kyrgyzstan	0.92	0.917	0.918
Turkmenistan	0.91	0.903	0.906
Uzbekistan	0.91	0.906	0.888
Central & Eastern Europe and the CIS	0.94	0.938	0.916

On a scale from 0 to 100. Higher values correspond to better performance.

Labour skills[110]

Labour skills measure the percentage of senior managers who ranked skills of available workers as a major or severe constraint. The computation of the indicator is based on the rating of the obstacles as a potential constraint to the current operations of the establishment.

Source: World Bank, Enterprise Surveys.[111]

	2002	2005	2008
Mongolia	..	28.53[112]	15.15[113]
Kyrgyzstan	6.30	19.25	28.32[114]
Turkmenistan	..	..	..
Uzbekistan	2.69	4.76	35.32
Eastern Europe & Central Asia	..	..	29.8

% of managers surveyed ranking this as a major business constraint.

[108] 2004.

[109] <http://hdrstats.undp.org/indicators/7.html> and <http://hdr.undp.org/en/reports/global/hdr2006/>

[110] Due to differences in scales used in the ECA countries in 2002 and 2005 (four points) and those used in the 2008 surveys (five points) indicators based on business constraints questions are not fully comparable.

[111] <http://www.enterprisesurveys.org/CustomQuery/>

[112] 2004.

[113] 2009.

[114] Ibid.

Firms offering formal training (% of firms)

Firms offering formal training are the percentage of firms offering formal training programmes for their permanent, full-time employees.

Source: World Bank, Enterprise Surveys[115] and World Development Indicators CD-ROM.

	2002	2005	2008
Mongolia	..	46.21[116]	61.22[117]
Kyrgyzstan	51.59	46.62	29.67[118]
Turkmenistan	..	..	..
Uzbekistan	43.78	16.34	9.63
Eastern Europe & Central Asia	..	..	34.4

% of firms offering formal training

Extent of staff training

The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)".

Source: World Economic Forum, The Global Competitiveness Report.[119]

	2007 (GC 07/08)	2008 (GC 08/09)	2009 (GC 09/10)
Mongolia	3.3	3.3	3.4
Kyrgyzstan	2.6	3.4	3.5
Turkmenistan	..	..	..
Uzbekistan	3.7	..	..

1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees

Literacy rate, youth total (% of people ages 15-24)

Youth literacy rate is the percentage of people ages 15-24 who can, with understanding, read and write a short, simple statement on their everyday life.

Source: United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics (World Development Indicators CD-ROM).

	2000	2004	2007
Mongolia	97.71	..	95.44
Kyrgyzstan	..	..	99.60
Turkmenistan	..	..	99.82
Uzbekistan	99.34	..	..
Europe & Central Asia	98.83	..	98.94

% of people

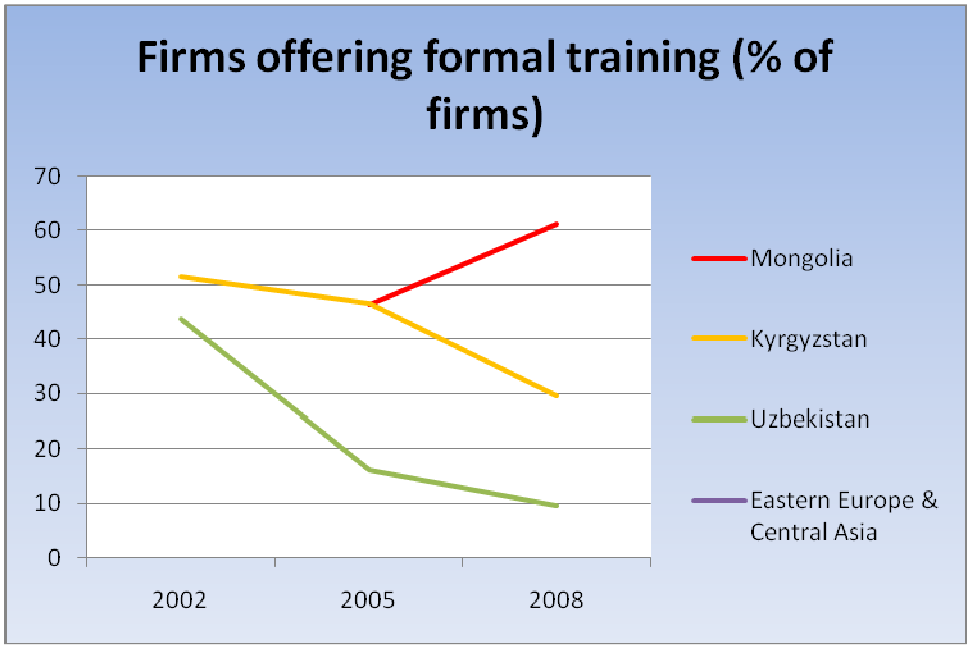
[115] <http://www.enterprisesurveys.org/CustomQuery/>

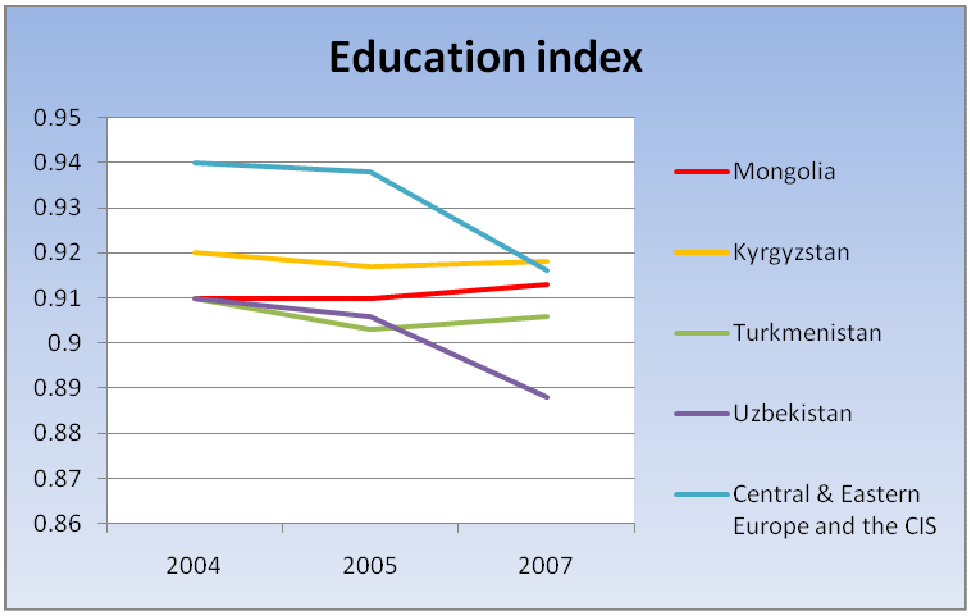
[116] 2004

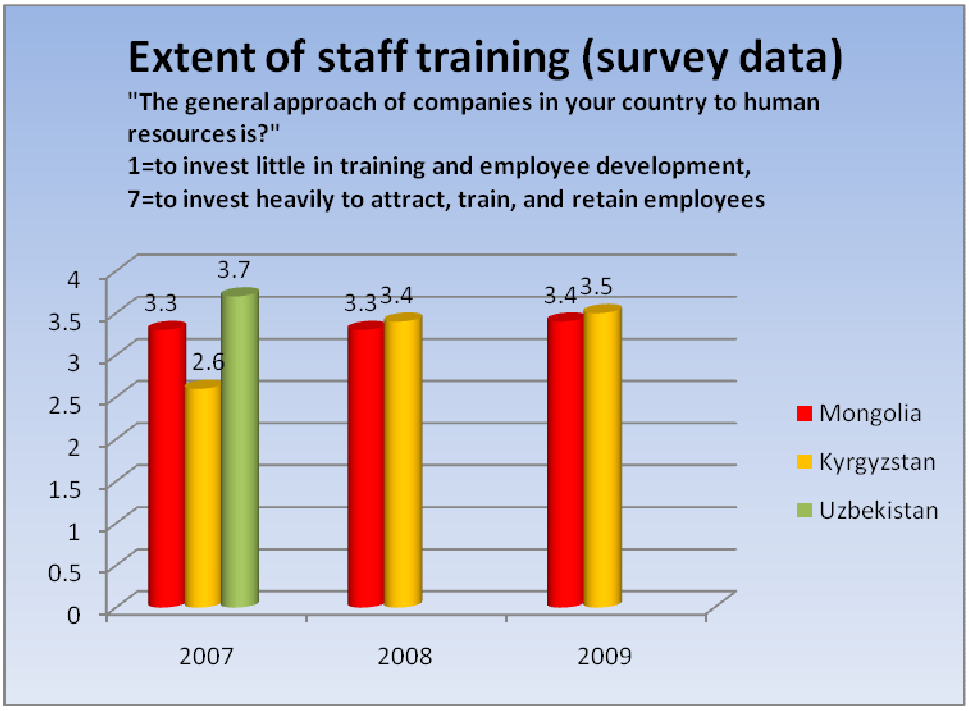
[117] 2009

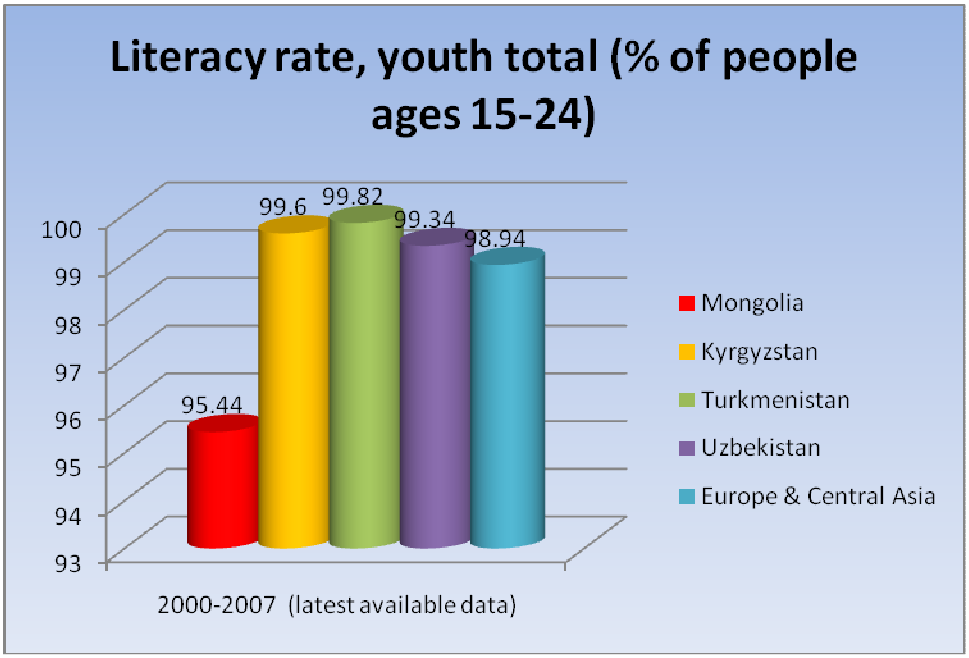
[118] Ibid.

[119] <http://www.weforum.org/pdf/GCR08/GCR08.pdf>


Firms offering formal training (% of firms)
70
60
50
40
30
20
10
0
2002
2005
2008
Mongolia
Kyrgyzstan
Uzbekistan
Eastern Europe & Central Asia


Education index
0.95
0.94
0.93
0.92
0.91
0.9
0.89
0.88
0.87
0.86
2004
2005
2007
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Central & Eastern Europe and the CIS





3.3 Social justice and social inclusion

Inequality and discrimination are incompatible with sustainable enterprise development. Although Mongolia has made good economic progress in recent years, it remains a relatively poor country (with wealth heavily concentrated in the capital city). Poverty rates are falling but not at a rate commensurate with growth. Between 1998 and 2002, the poverty rate fell from 43 per cent to 36 per cent.[120] The gini coefficient shows

[120] World Bank (2006). Mongolia Poverty Assessment 2006.

increased inequality, especially between urban and rural areas. Mongolia also continues to struggle with high (official) unemployment and extensive under employment.[121] Although the informal economy provides jobs and income for a large number of people, the quality of these jobs is low and they typically do little to alleviate poverty. According to the UNDP's Human Development Report, the value of the gender-related development index (GDI) in Mongolia was estimated at 0.727, which would appear to indicate that, at least in the aggregate, the extent of gender-based discrimination in Mongolia is relatively low. Invariably though, the true picture is somewhat nuanced and mixed. For example, women typically face difficulties in obtaining equal pay for equal work and they tend to work longer hours compared to men working in similar occupations. The gender empowerment index (GEM) (0.410 in 2007) indicates that women also lag behind in terms of participation in economic and political life and in decision-making processes.[122] In contrast, women in Mongolia have a much higher average educational level than men.[123]

Key Indicators

GINI coefficient

Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.

Source: World Bank staff estimates based on primary household survey data obtained from government statistical agencies and World Bank country departments (World Development Indicators CD-ROM) and UNDP Human Development Report (HDR).[124]

	HDR 2006	HDR 2007-2008	HDR 2009
Mongolia	30.3	32.8	33.0
Kyrgyzstan	30.3	30.3	32.9
Turkmenistan	40.8	40.8	40.8
Uzbekistan	26.8	36.8	36.7

0= perfect equality, 100= perfect inequality

Labour force participation

The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.

Source: ILO KILM[125]

	2006	2007	2008
Mongolia	61.4	61.1	61.0
Kyrgyzstan	75.3	76.1	76.1
Turkmenistan	68.5	68.8	68.9
Uzbekistan	66.9	67.8	68.1

The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population

[121] ILO: Decent Work Country Programme – Mongolia 2006-2010 <http://www.ilo.org/public/english/bureau/program/dwcp/download/mongolia.pdf >; Economic Intelligence Unit (2008). Country Profile 2008: Mongolia, London.

[122] UNDP (2007). Employment and Poverty in Mongolia <http://hdr.undp.org/en/reports/nationalreports/asiathepacific/mongolia/name,3392,en.html>

[123] IZA (2009). The Gender Gap in Early Career in Mongolia, Institute for the Study of Labour, Discussion Paper No. 4480, Bonn.

[124] see also: <http://hdrstats.undp.org/indicators/147.html>

[125] <http://www.ilo.org/public/english/employment/strat/kilm/index.htm>

Gender-related development index (GDI)

A composite index measuring average achievement in the three basic dimensions captured in the human development index – a long and healthy life, knowledge and a decent standard of living- adjusted to account for inequalities between men and women.

Source: UNDP Human Development Report.

	2004 (Report 2006)	2005 (Report 2007)	2007 (HDR 2009)
Mongolia	0.685	0.695	0.727
Kyrgyzstan	0.701	0.692	0.705
Turkmenistan	..	..	..
Uzbekistan	0.694	0.699	0.708

The lower the value, the more heavily a society is penalized for having inequalities

Gender empowerment measure (GEM)

A composite index measuring gender inequality in three basic dimensions of empowerment – economic participation and decision-making, political participation, and decision-making and power over economic resources.

Source: UNDP, Human Development Report.[126]

	2004 (Report 2006)	2005 (Report 2007-2008)	2007 (HDR 2009)
Mongolia	0.388	0.429	0.410
Kyrgyzstan	..	0.302	0.575
Turkmenistan	..	..	..
Uzbekistan	..	..	..

The lower the value, the more heavily a society is penalized for having inequalities.

Gender equality rating

Gender equality rating assesses the extent to which the country has installed institutions and programmes to enforce laws and policies that promote equal access for men and women in education, health, the economy, and protection under law (1=low to 6=high).

Source: World Bank Group, CPIA database[127] (World Development Indicators CD-ROM).

	2006	2007	2008
Mongolia	3.50	3.50	3.50
Kyrgyzstan	4.50	4.50	4.50
Turkmenistan	..	..	..
Uzbekistan	3.50	4.00	4.00
Europe & Central Asia	..	..	..

Equality: 1=low to 6=high

Female economic activity

Female economic activity is a measure of women over the age of fifteen who are working in industry, agriculture or services as a percent of males.

Source: UNDP Human Development Report.[128]

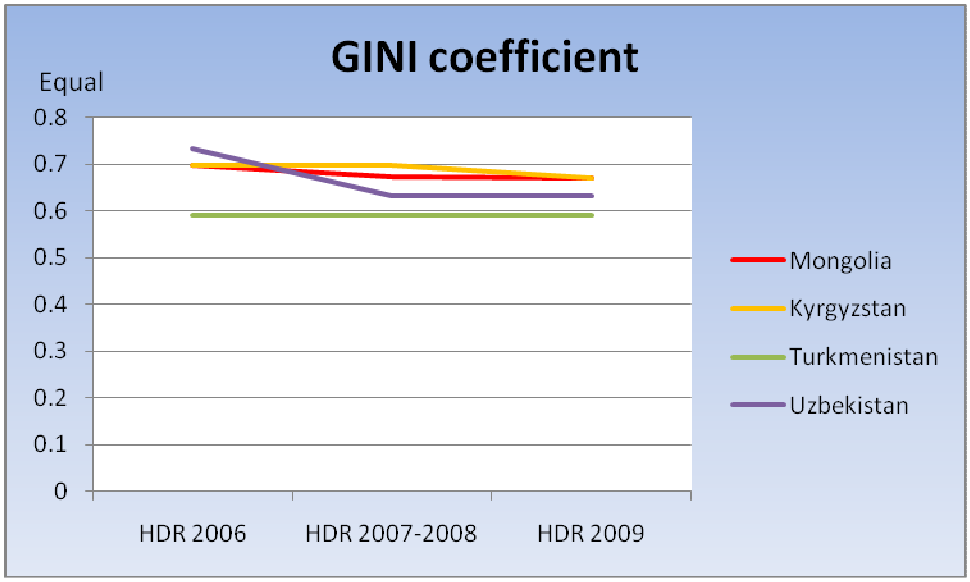
	2003 (HDR 2005)	2004 (HDR 2006)	2005 (HDR 2007-2008)
Mongolia	73.9	53.9	53.9
Kyrgyzstan	61.4	55.1	55.0
Turkmenistan	62.7	60.4	60.5
Uzbekistan	63.0	56.2	56.6
Central & Eastern Europe and the CIS	57.5	52.4	52.4

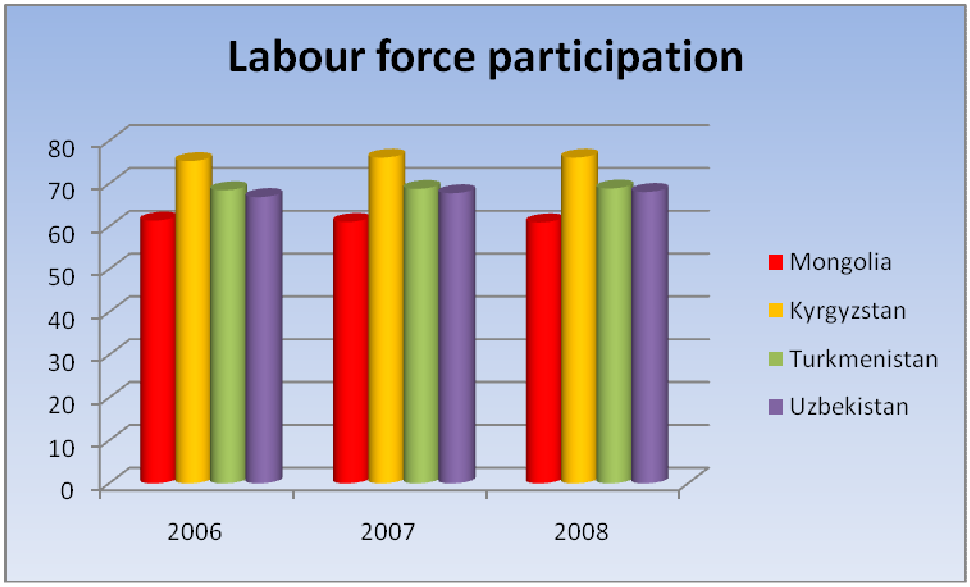
% aged 15 and older

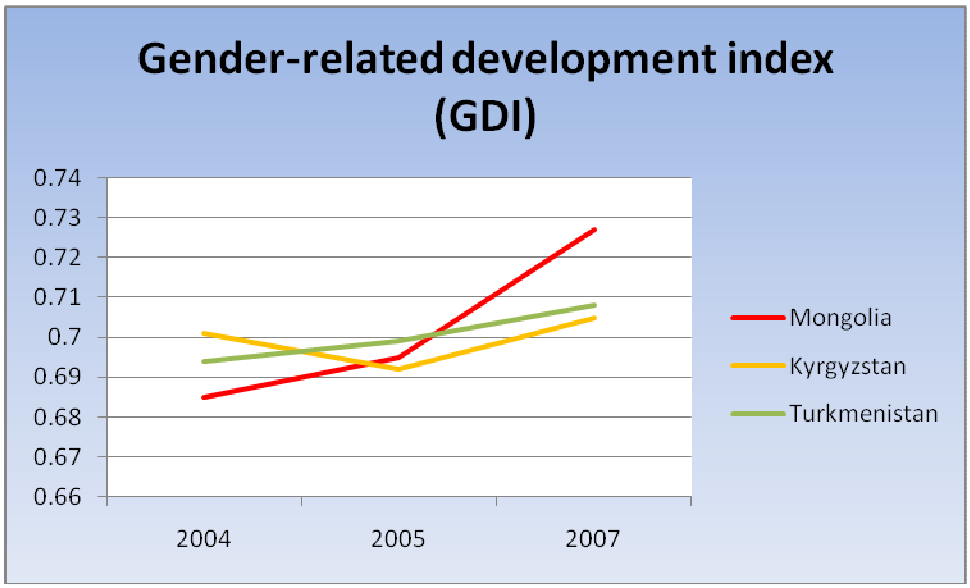
[126]< http://hdr.undp.org/en/reports/>

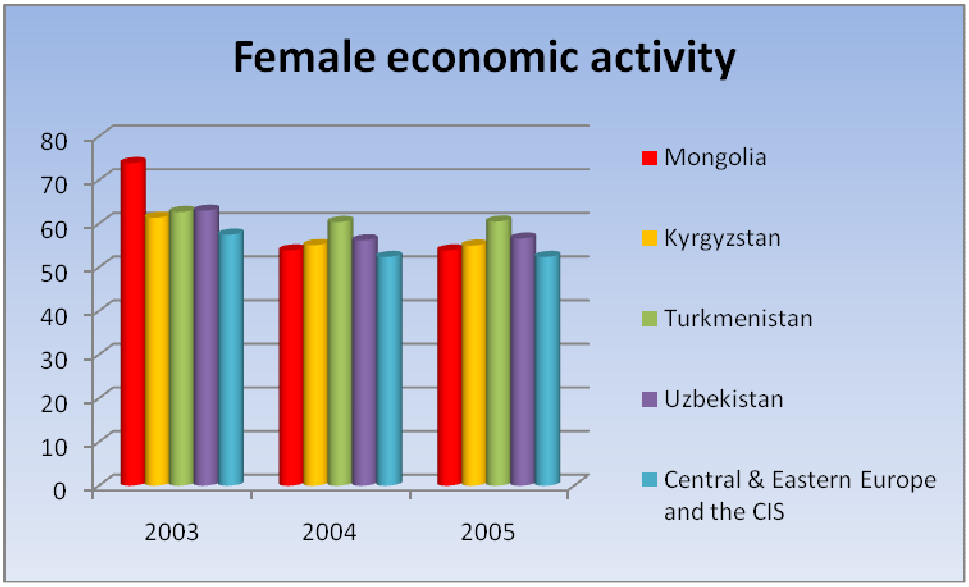
[127] <http://www.worldbank.org/ida>

[128] <http://hdr.undp.org/en/reports/>


GINI coefficient
Equal
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
HDR 2006
HDR 2007-2008
HDR 2009
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan


Labour force participation
80
70
60
50
40
30
20
10
0
2006
2007
2008
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan


Gender-related development index (GDI)
0.74
0.73
0.72
0.71
0.7
0.69
0.68
0.67
0.66
2004
2005
2007
Mongolia
Kyrgyzstan
Turkmenistan



3.4 Adequate social protection

Adequate social protection is important for improving productivity and for fostering transition to the formal economy. Before Mongolia's transition to a market economy, social services such as medical care, pensions, disability insurance and maternity benefits were fully state-funded and provided to everyone. After the transition, the government created a new social security system shifting away from universal coverage to targeted interventions. The current system consists of three key elements: social welfare services and assistance benefits, employment services and social insurance, and costs about 7 per cent of GDP a year.[129] In 2006 Mongolia allocated 4.2 per cent of its GDP to financing the health sector, which indicates an improvement from the earlier years of the transition and is high compared with Kyrgyzstan, Turkmenistan, Uzbekistan and the average of Europe and Central Asia. As a result, health indicators, such as infant mortality and life expectancy have improved since the 1990s. Mongolia's pension system was established under the Social Insurance Law of 1994 covering public and private sector employees and the self-employed, including herders. However, there is a growing problem with sustainability of the pension system.[130] A major problem is extending coverage to informal economy workers, most of whom are often not covered by pension schemes and do not have access to basic healthcare.[131]

[129] World Bank (2006). Mongolia Poverty Assessment 2006; Asian Development Bank: Improving Mongolia's Social Security Sector. <http://www.adb.org/Documents/Brochures/Social-Protection-Project-Briefs/MON-Proj-Brief-on-Social-Security.pdf>

[130] Asian Development Bank: Enhancing Mongolia's Pension System. <http://www.adb.org/Documents/Brochures/Social-Protection-Project-Briefs/MON-Pension-System.pdf>

[131] UNDP (2007). Employment and Poverty in Mongolia <http://hdr.undp.org/en/reports/nationalreports/asiathepacific/mongolia/name,3392,en.html>

Key Indicators

Public social expenditure (% government expenditure)

Social expenditure as a percentage of general government expenditure is a measure of the extent to which governments assume responsibility for supporting the standard of living of disadvantaged or vulnerable groups. It includes expenditure on health care and non-health social security expenditure. A ratio to the total general government expenditure reflects properly the situation in countries with relatively "small" (in terms of public finances) governments. Social benefits provided by private entities are excluded in this measure.

Source: International Monetary Fund (ILO Social Security Expenditure Database.[132])

	2005	2006	2007
Mongolia	..	..	..
Kyrgyzstan	..	26.16	..
Turkmenistan	..	..	..
Uzbekistan	..	..	..

% of government expenditure

Old age (% of GDP)

Old age expenditure as percentage of GDP.

Source: ILO Social Security Inquiry.[133]

	1994	1995	1996
Mongolia	..	..	..
Kyrgyzstan	..	..	..
Turkmenistan	..	..	..
Uzbekistan	..	..	..

Old age expenditure as percentage of GDP

Old age pension beneficiaries

Number of pension beneficiaries at 65 and older (or 60 and older) as a proportion of population at 65 and older. The index includes beneficiaries of all kind of pensions and similar benefits (not only old-age pensions but also survivors' and disability pensions) received by those over the age threshold to see what proportion of all those over a certain age threshold is actually receiving any type of social benefit.

Source: ILO Social Security Inquiry.[134]

	2002	2003	2004
Mongolia	..	..	..
Kyrgyzstan	..	..	100[135]
Turkmenistan	..	..	..
Uzbekistan	..	..	..

Number of pension beneficiaries as a proportion of population at 65 and older

Public expenditure on health (% of GDP)

Public expenditure on health as percentage of GDP - Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds.

Source: World Health Organization WHOSIS[136] and World Development Indicators CD-ROM and UNDP Human Development Report.

	2004	2005	2006
Mongolia	3.60	3.01	4.20
Kyrgyzstan	2.26	2.37	2.75
Turkmenistan	3.22	3.34	2.53
Uzbekistan	2.26	2.38	2.36
Europe & Central Asia	3.68	3.70	3.56

% of GDP

[132] <http://www.ilo.org/dyn/sesame/IFPSES.SocialDBExp>

[133] Ibid.

[134] Ibid.

[135] 2005.

[136] <http://www.ilo.org/dyn/sesame/IFPSES.SocialDBExp>

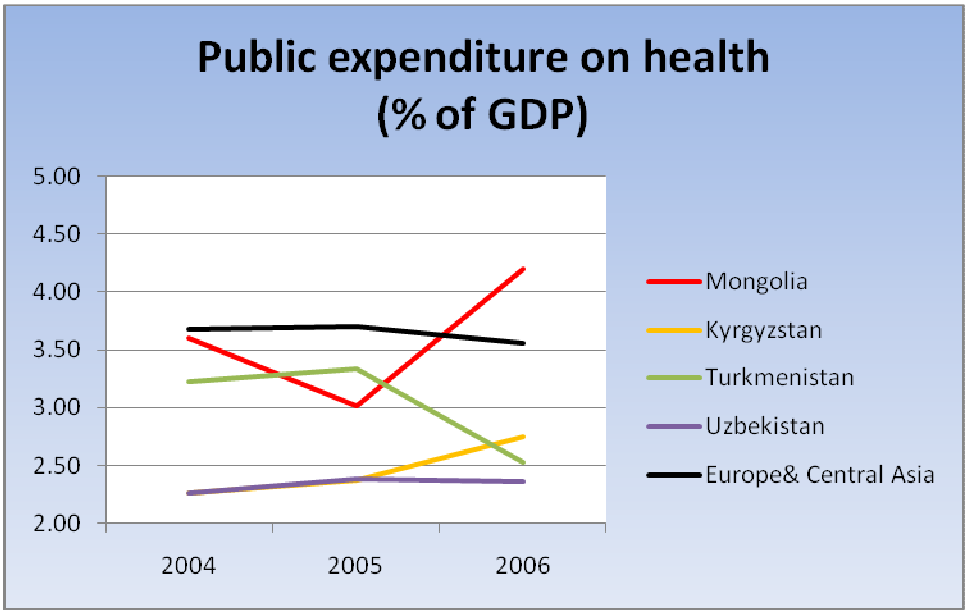
Coverage by health care (% of total health care)

Percentage of total (public and private) health care expenditure not financed by private household's out of pocket payments (as a proxy indicator).

Source: World Health Organization WHOSIS.[137]

	2004	2005	2006
Mongolia	..	..	..
Kyrgyzstan	42.8	42.5	45.9
Turkmenistan	66.7	66.7	66.7
Uzbekistan	49.2	49.2	51.6

% of total health care



[137] <http://www.ilo.org/dyn/sesame/IFPSES.SocialDBExp>

4. Environmental elements

4.1 Responsible stewardship of the environment

Sustainable enterprise development goes hand in hand with responsible stewardship of the environment, which in turn needs appropriate laws, regulations and incentives. Mongolia is rich in minerals, has proven oil reserves and large deposits of copper and gold. The country is dominated by sparsely populated grasslands of which 81 per cent is used as pasture land. Water reserves are scarce in Mongolia and hard weather conditions together with low quality of land restrict agricultural activities.[138] Moreover, herds and livestock have suffered several times in recent years from natural disasters (dzuds), most recently in 2009/10.[139] Mongolia struggles with environmental problems, such as land and pasture degradation, desertification, deforestation, biodiversity loss and urban air pollution.[140] The Ecological Footprint for Mongolia is high (3.5) compared to Kyrgyzstan (1.1), Uzbekistan (1.8) and Asia-Pacific average (2.3). According to the Environmental Sustainability Index (ESI), Mongolia's ability to protect the environment has worsened since 2002 but remains high compared to the region. The Environmental Performance Index (EPI) places Mongolia below Kyrgyzstan and Turkmenistan. However, poor management of natural resources and the environment in Mongolia is based on factors like insufficient institutional and human resource capacities to properly safeguard the natural environment, the absence of enabling conditions for civil society participation in environmental governance and lack of adequate accountability of environmental agencies.[141]

Key Indicators

Environmental Sustainability Index (ESI)

The Environmental Sustainability Index (ESI) benchmarks the ability of nations to protect the environment over the next several decades. It does so by integrating 76 data sets – tracking natural resource endowments, past and present pollution levels, environmental management efforts, and the capacity of a society to improve its environmental performance – into 21 indicators of environmental sustainability.

Source: Yale University's Centre for Environmental Law and Policy in collaboration with Columbia University's Center for International Earth Science Information Network (CIESIN), and the World Economic Forum.[138]

	2001	2002	2005
Kyrgyzstan	39.6	51.3	48.4
Turkmenistan	..	37.3	33.1
Uzbekistan	41.6	41.3	34.4
Peer group average[142]	45.2	47.3	46.7

The higher a country's ESI score, the better positioned it is to maintain favorable environmental conditions into the future.

[138] Economic Intelligence Unit (2008). Country Profile 2008: Mongolia, London.

[139] ILO: Decent Work Country Programme – Mongolia 2006-2010. <http://www.ilo.org/public/english/bureau/program/dwcp/download/mongolia.pdf>

[140] UNDAF (2006). United Nations Development Assistance Framework 2007-2011 – Mongolia, Ulaanbaatar < http://www.undg.org/archive_docs/8381-UNDAF_Mongolia_2007-2011.pdf>

[141] Ibid.

[142] Peer groups were assigned by dividing the countries of the index into five equal groups, sorted by GDP per capita (PPP). The peer group ESI is the Average ESI score for that group. <http://www.yale.edu/esi/b_countryprofiles.pdf> (See page 3 for explanation)

Total Ecological Footprint (EFP) (global hectares per capita)

The Ecological Footprint (global hectares per capita) measures the amount of biologically productive land and sea area an individual, a region, all of humanity, or a human activity requires to produce the resources it consumes and absorb the waste it generates, and compares this measurement to how much land and sea area is available.

Source: Global Footprint Network, based on international data (UNSD, FAO, IEA, IPCC).[143]

	2005
Mongolia	3.5
Kyrgyzstan	1.1
Turkmenistan	3.9
Uzbekistan	1.8
Low income countries[144]	1.0
Asia-Pacific[145]	2.3

lower value= better performance

For 2005, humanity's total ecological footprint was estimated at 1.3 planet Earths - in other words, humanity uses ecological services 1.3 times as fast as Earth can renew them.

Other useful indicators

Environmental Performance Index (EPI)

The 2008 Environmental Performance Index (EPI) ranks 149 countries on 25 indicators tracked across six established policy categories: Environmental Health, Air Pollution, Water Resources, Biodiversity and Habitat, Productive Natural Resources, and Climate Change. The EPI identifies broadly-accepted targets for environmental performance and measures how close each country comes to these goals. The EPI has only been published for 2006 and 2008.

Source: Yale University's Center for Environmental Law and Policy in collaboration with Columbia University's Center for International Earth Science Information Network (CIESIN), and the World Economic Forum.[147]

	2006	2008	2010[146]
Mongolia	48.8	68.1	42.8
Kyrgyzstan	60.5	69.6	59.7
Turkmenistan	52.3	71.3	38.4
Uzbekistan	52.3	65.0	42.3
Geographic Group Average[148]	66.2	70.8	57.4
Income Group Average[149]	51.1	59.5	56.2

The higher the score the better the environmental performance of the country (range of 0-100).

[143]< http://www.footprintnetwork.org/en/index.php/GFN/page/ecological_footprint_atlas_2008>

[144] Low income countries: Afghanistan, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Rep., Chad, Congo, Dem. Rep., Côte d'Ivoire, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Haiti, India, Kenya, Korea DPR, Kyrgyzstan, Lao PDR, Liberia, Madagascar, Malawi, Mali, Mauritania, Mongolia, Mozambique, Myanmar, Nepal, Niger, Nigeria, Pakistan, Papua New Guinea, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Tajikistan, Tanzania, United Rep., Togo, Uganda, Uzbekistan, Vietnam, Yemen, Zambia, and Zimbabwe.

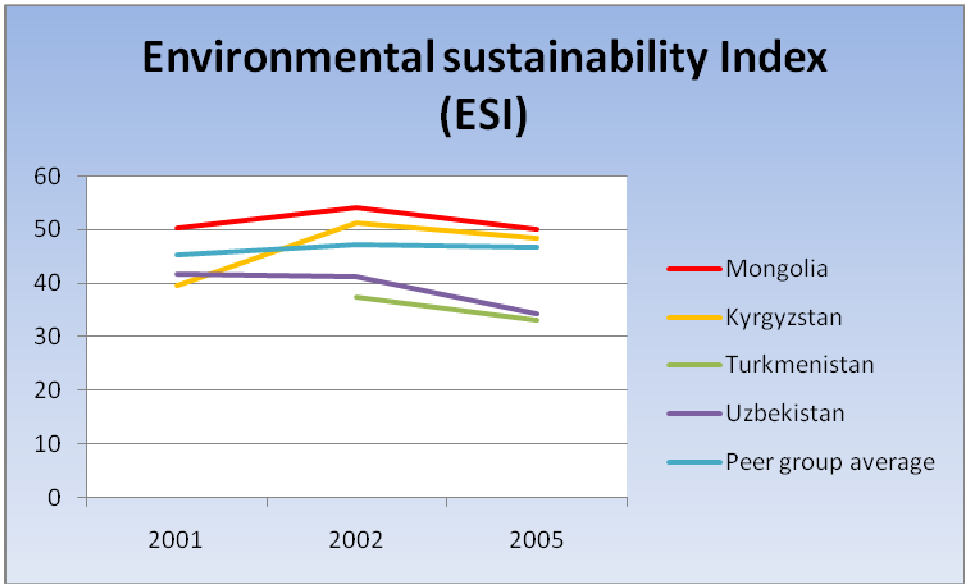
[145] Australia, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Japan, Korea DPRP, Korea Republic, Laos, Malaysia, Mongolia, Myanmar, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Singapore, Sri Lanka, Thailand, Vietnam.

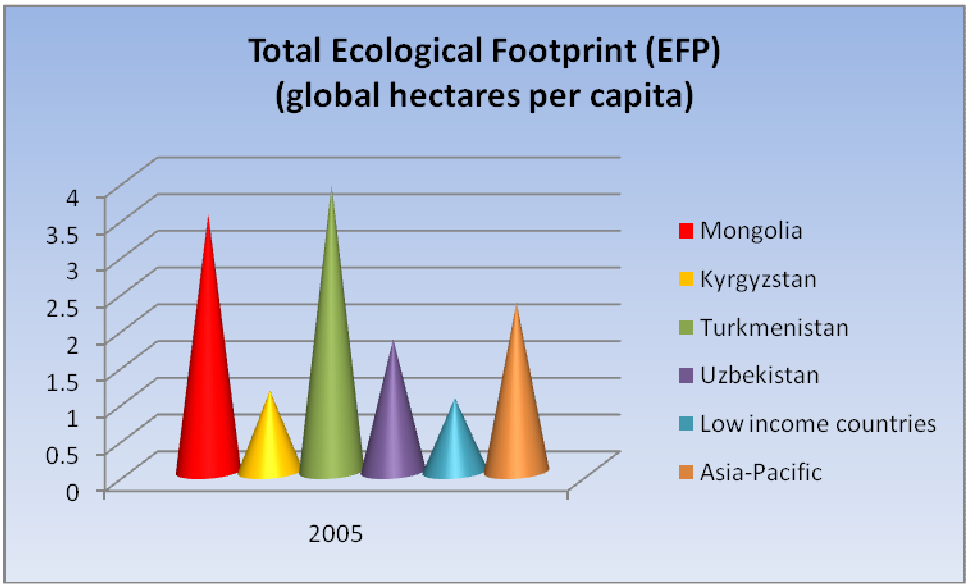
[146] The 2010 EPI differs from the previous index in both structure and content.

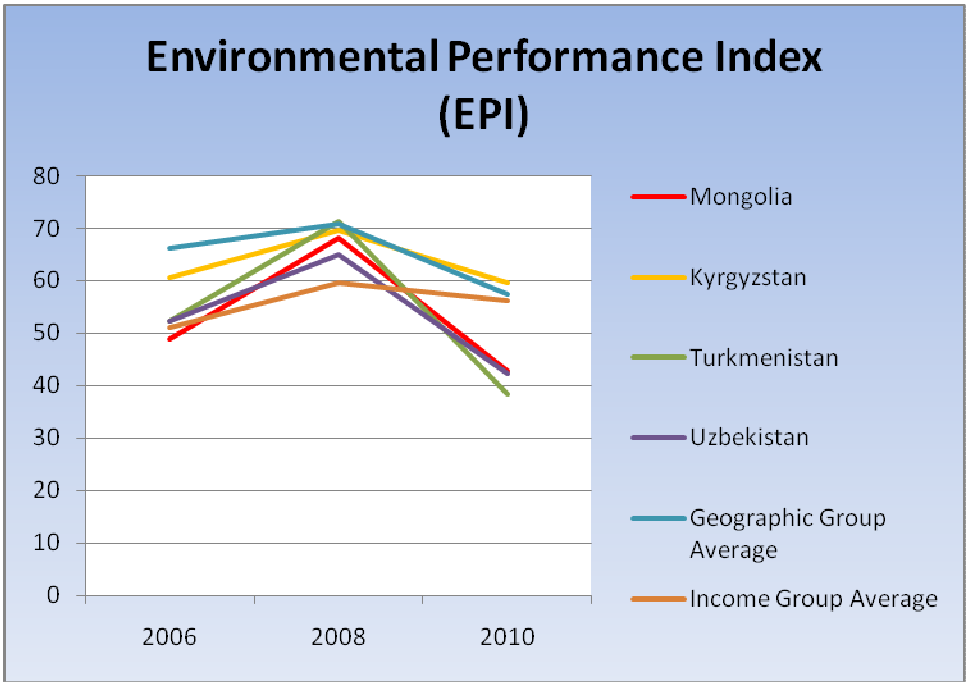
[147] <http://epi.yale.edu/Home> and <http://epi.yale.edu/ResultsAndAnalysis>

[148] Asia and Pacific.

[149] Income Decile 7 (1=high, 10=low).


Environmental sustainability Index (ESI)
60
50
40
30
20
10
0
2001
2002
2005
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Peer group average


Total Ecological Footprint (EFP) (global hectares per capita)
4
3.5
3
2.5
2
1.5
1
0.5
0
2005
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Low income countries
Asia-Pacific


Environmental Performance Index (EPI)
80
70
60
50
40
30
20
10
0
2006
2008
2010
Mongolia
Kyrgyzstan
Turkmenistan
Uzbekistan
Geographic Group Average
Income Group Average

Part 2: A framework for SME growth and development

1. Background

Mongolia in recent years has posted impressive rates of economic growth. Between 2002-2008 GDP increased by 65 per cent, almost 9 per cent a year. Growth has been driven in the mining sector by increasing commodity prices notably copper but also gold. By 2007 it accounted for a quarter of GDP and two thirds of all export earnings.

The present outlook remains largely promising. Total government revenue in the first eight months of 2010 increased by 56 per cent year on year – the main reason being the recovery in commodity prices.[150] The other growth channel was the services sector notably trade, accommodation and food services that are not exposed to any external competition. This has led to a sharp improvement in Mongolia's fiscal position. Increased corporate and value-added tax payments have augmented the position further. Total government revenue in the first eight months of 2010 increased by 56 per cent year on year.[151]

Although the long-term fiscal outlook for Mongolia remains strong, with mining-related revenue expected to continue increasing, the fiscal balance may deteriorate in the short term. On the revenue side, the Windfall Profits Tax on the mining sector expired in January 2011, which will lead to a loss in revenue equivalent to 2-3 per cent of GDP.[152]

According to the IMF, growth in Mongolia this year is projected to top 10 per cent, but the economy is showing signs of overheating with inflation already too high and likely to reach 20 per cent before the end of the year. Large increases in fiscal spending are acerbating this situation.[153]

The current situation is clearly both encouraging and yet a cause for some unease.

The main worry is the concentration of growth to one sector of the economy with few other emerging growth channels. The mining sector has not been nor is likely to be a key provider of jobs. While this sector produces 22.5 per cent of GDP, this accounts for just 3.5 per cent of employees.[154]

The structure of the economy has evolved in a manner where the sources of real GDP growth have become concentrated, and heavily dependent on mining and livestock, and employment generation has been elusive, despite having a young and educated labour

[150] Economist Intelligence Unit Country Briefing November 2010.

[151] Ibid.

[152] According to World Bank estimates 2010.

[153] Statement by IMF Staff at the Conclusion of the 2011 Article IV Consultation and Post-Programme Monitoring Discussion with Mongolia.

[154] Minister of Labour, Mrs. Gandhi's speech to national employment forum October 2010.

force.[155] Worryingly, employment increased by no more than 100,000, less than 11 per cent, between 2003 and 2007.[156]

The majority of jobs are still generated by the private sector,[157] most of them in SMEs – 82 per cent of all enterprises are SMEs, but these are very small, fewer than 10 employees.[158]

A strong coordinated national approach to strengthening and growing the SME sector is vital to sustainable economic development in Mongolia.

Encouragingly, the Government now recognizes the need to actively put in place a supportive policy framework to generate higher SME growth as:[159] *"Supporting growing SMEs is a key way to diversify the economy and broaden its base away from a dependency of natural resources"*.[160]

Furthermore the Mongolian Government has pronounced 2011 as a year of *"Empowering Employment"* year. A National committee has been set up and is responsible for introducing to Government a work plan, progress and results every quarter in the *"Empowering Employment year"* frame. This builds on efforts in 2010 which the Government pronounced as the year of reforming the *"business environment"*.

2. Core principles for SME growth and development

SMEs and entrepreneurs play a major role in all economies and are the key generators of employment and income, and the drivers of innovation and growth. SME development offers the most viable option for private sector led growth that reduces poverty and creates a large number of jobs all across Mongolia, including in rural areas.

The objective of national SME Policies should be to provide a short and a medium to long-term policy framework with an implementation mechanism for achieving higher economic growth based on SME led private sector development. These policies should be based on the following key principles:

- SME development must be at the centre stage of all economic growth policies in Mongolia. An environment needs to be created in which entrepreneurs and growing businesses can thrive and where entrepreneurship is rewarded.

[155] Growth Diagnostics for a Resource-Rich Transition Economy: The Case of Mongolia (Elena Ianchovichina Sudarshan Gooptu, The World Bank 2007).

[156] "Challenges for achieving inclusive Job-rich growth in Mongolia" Paper prepared by the ILO for the national employment conference Ulaanbaatar, October 2010.

[157] As of 2009, 72 per cent of GDP is produced by private sector (national statistics committee estimates).

[158] Minister of Labour, Mrs. Gandhi's speech to national employment forum October 2010.

[159] Ibid.

[160] Luvsandash Zorig, Vice Chairman of the National Development and innovation committee of Mongolia.

- SME development will require decisive and concurrent measures in a number of policy areas such as business regulations, fiscal, trade rules, labour, incentives and support (Human Resource Development, Technology, Marketing, etc.).
- The State should be a facilitator of the growth of the SME sector, through constant dialogue with the private sector. A deep and integrated culture of consultation with the private sector and its representative organizations needs to be created.
- Different approaches are required for supporting Small Enterprises as opposed to Medium Enterprises. SME development requires the provision of a level playing field for smaller firms vis-à-vis large enterprises.
- We must build on successful existing programmes and interventions to support the SME. For example the ILO's Start and Improve Your Own Business (SIYB) has been piloted in Mongolia and has become a much sought after training programme among vocational education centres and universities. Increased support for such programmes could yield further results.
- Particularly valuable to development and employment creation are those firms, which provide innovative, high quality, services and products that have important knock-on effects on suppliers and buyers. These firms should be targeted for support.
- The upgrading of skills, particularly managerial skills in SMEs requires a major policy focus. Women and other marginalized groups should receive special focus within a SME Policy framework.
- Business has a clear interest in ensuring that education and training systems create the skilled, competent and flexible labour force they will need for the future. As key customers of the education and training system, business needs to have a strong consultative role in order to inform policy and practice across a variety of issues.

SME development vision

Developing the policy and regulatory environment whereby SME-led economic growth can achieve poverty reduction, the creation of jobs and unleash the entrepreneurial potential of the people of Mongolia.

3. Policy framework

3.1 Creating an entrepreneurship culture

Challenge Statement

Entrepreneurship is the key underlying driver for economic development. Entrepreneurs drive and shape innovation, they speed up structural changes in the economy, and they introduce new competition, thereby contributing to productivity. The current education system in Mongolia does not sufficiently encourage entrepreneurship as a preferred career option amongst the youth. As a result the economy witnesses the creation of only a small number of new enterprises capable of sustained growth in traditional areas, overcrowding the supply/product base and their markets.

Policy recommendations

- Stimulate innovative and entrepreneurial mindsets among young people by introducing entrepreneurship[161] as a key competence in school curricula, particularly in general secondary education, and ensure that it is correctly reflected in teaching material;
- Ensure that the importance of entrepreneurship is correctly reflected in teacher training;
- Step up cooperation with the business community in order to develop systematic strategies for entrepreneurship education at all levels;
- Include 'Entrepreneurship' courses in (all professional degree awarding) higher education, technical and vocational training institutions; [162]
- Establish or enhance "Entrepreneurship Competitions" at university level to culminate in Annual Entrepreneurship Competition at National level for selecting best business plans/models and providing grants for project implementation;
- Establish technology and business incubators in selected universities;
- Create awareness amongst youth of entrepreneurial opportunities by providing effective support to those who wish to establish new enterprises;
- Identify and promote investment opportunities offered by backward and forward linkages of successful services/products;
- Provide mentoring and support for young people who wish to become entrepreneurs.

[161] A distinction needs to be made between entrepreneurial spirit and entrepreneurship skills, both of which can be promoted through education.

[162] The ILO's KAB (Know about Business) programme has been piloted in Mongolia and could offer a model that could be expanded.

Overarching Objective

By unleashing the entrepreneurial potential and providing a level playing field, information, awareness and support for establishing enterprises, Mongolia can witness fast paced growth in the establishment of new enterprises creating wealth, new employment opportunities, improving distribution of wealth and exploiting the opportunities offered by international markets.

3.2 Better business environment for SMEs

Challenge statement

The regulatory environment is currently strangling SMEs and encouraging informality.[163] *Burdensome legislative and regulative environments affect SMEs disproportionately because their capacity to tackle, understand and comply with complex regulations is limited.*[164] *The business environment needs to facilitate and underpin small enterprise growth and development. It is essential to improve competitiveness.*

Encouragingly there is much being done at the moment to progress positive change with further legislative changes as well as new legislation such as company law foreseen in 2011. It is imperative that the recommendations that were developed in 2010 by the "Business Environment Working Group" be put into effect rapidly.[165]

Policy recommendations

- Reform anti-competitive regulations in product markets so as to encourage the growth of SME suppliers. Obstacles to businesses entering new markets should be reduced to stimulate the creation of new products and businesses and boost demand.
- Encourage Government to establish clear targets to reduce burdensome bureaucracy and administration on SMEs. Put in place, where they do not exist, regular regulatory reviews, with the full participation of the business community, with a particular focus on how they are impacting on SMEs. [166]

[163] As quoted by the Minister of Labour in a speech to national employment forum October 2010.

[164] It has been estimated that where a big company spends one euro per employee because of a regulatory duty, a small business might have to spend on average up to 10 euro, Report from the Expert Group on "Models to Reduce the Disproportionate Regulatory burden on SMEs", May 2007.

[165] But in the latest Doing Business Survey, Mongolia's ranking for ease of doing business has dropped from 56th in 2007 to 60th in 2009 and down to 73rd in 2010 (out of 183 countries), partly because it carried out no significant reforms whilst other countries did.

[166] Regulatory Impact Assessments should include a specific evaluation of the impacts on SMEs. Good practices are considered to be: The Small Firms Impact Test (SFIT) in the UK; and The regulatory impact assessments in Sweden.

- Make regulatory bodies more accountable and create a '*Think SME First'* culture when it comes to costs of legislative or regulatory initiatives.[167] Optimizing the information flow from the business to the public administration is a key element to simplify the life of SMEs. This can be through the application of the "only once" principle and "one stop shops". [168]
- Put in place a framework to safeguard against inappropriate regulation and provide more accountability for decisions.[169]
- Reduce the level of fees for registering a business and continue to work to reduce the time required to set up a business.
- Facilitate SMEs' participation in public procurement for example by packaging public procurement in small bids so that SMEs can participate in the tendering process.
- Advocate the reduction of those taxes that are "profit-insensitive", i.e. taxes that are paid regardless of whether the SME is making a profit. This would increase the ability of SMEs to finance working capital internally. Put in place tax deductions for SMEs to invest in equipment and facilities.
- Create legal certainty for SMEs, for example by ensuring the start of legislation on a number of limited fixed dates and providing easy to digest early information about upcoming new rules.[170]

[167] Costs can be broken down to: a) administrative costs ; b) compliance costs; c) transaction costs; d) costs associated with legal uncertainty. For many interventions, the absolute costs of administrative and compliance requirements for SME are the same or similar to those of larger companies and hence potentially disproportionate (where larger firms are able to benefit from economies of scale). Thus where an intervention affects a particular economic sector, it is important to consider the extent of concentration of output/employment in SME and larger companies and the numbers of SME of different sizes (small, medium and micro). Evaluation of the application of the Think Small First principle in EU legislation and programmes Final Report 2009.

[168] A variety of examples have been identified: The combination of "one stop shop" system in the Czech republic; The application of "only once" principle in Hungary; The ELENA – (Elektronischer Entgeltnachweis) in Germany; The Inter-Institutional Taxation Data Storage (TDS) in Lithuania; The "Osmotherly Guarantee" in the UK; The Rescrit and the chèque emploi in France; The Contribution Payment Centers (CPCs) in Bulgaria.

[169] Regulatory Impact Analysis (RIA) is a tool that can be used to evaluate the costs and benefits of new legislation affecting SMEs. It entails systematically and consistently examining selected potential impacts arising from government action or non-action and communicating this information to policymakers. RIA should be used when SME-related legal instruments are drafted, in order to optimize the efficiency and effectiveness of the instrument and ensure that it will achieve the intended objectives at minimum cost and with the fewest unintended negative consequences. The objective of RIA is thus two-fold: a) to improve SME-related policy instruments; b) to reduce the number of SME-related legal instruments by avoiding unnecessary legislation.

[170] In the UK all legislation affecting businesses is introduced on one of two dates each year, thus ensuring that businesses know when to check for legislative changes and can plan ahead accordingly. This approach is particularly relevant where legislation might affect a large number of businesses across sectors, and also where there are frequent changes to legislation (such as technical amendments).

- Accelerate discussions on developing a modern regulatory framework for labour relations, one that is centred on the realities of the SME sector and does not unnecessarily hamper the growth of that sector.[171]
- Incorporate consultation mechanisms with the private sector into regulatory design processes.[172]
- Clearly and actively communicate to the enterprise sector any regulatory reforms.

Overarching Objective

Regulatory policies that enhance competition and reduce regulatory costs which can boost efficiency bring down prices and stimulate innovation. Reforms need to reduce burdens on small businesses, increase the transparency of regulatory regimes, support entrepreneurship and market entry.

3.3 Boosting financing opportunities

Challenge statement

Lack of access to finance is a major constraint to start ups in Mongolia. Bank lending is almost exclusively collateral-based and immoveable assets are the predominant form of collateral.[173] Most SMEs in Mongolian would be characterized by weak financial structures (i.e. lower capitalization) with a low or no credit rating. Many small Mongolian firms consequently rely on informal financing mechanisms or none.

Policy recommendations

- SMEs' access to finance needs to be facilitated and a legal and business environment supportive to timely payments in commercial transactions developed. Bankruptcy laws need to ensure that entrepreneurs who have faced bankruptcy quickly get a second chance.
- Seek support mechanisms targeted to SMEs, such as advisory services and programmes to assist them in preparing bank loan proposals.
- Promote competition in the banking sector to improve access to finance at an affordable cost.
- Seek the establishment, where necessary and appropriate, of mechanisms to monitor SME lending by banks (e.g. through timely reporting or consultative mechanisms).

[171] There is now increased willingness within the Government to make advances on this agenda: "accepting flexible regulations of industrial relations is beneficial for both employers and employees" Minister of Labour, Mrs. Gandhi's speech to national employment forum October 2010.

[172] Numerous best practice examples of how to consult exist, some examples include: The 3 months mandatory consultation period on proposed major legislation in Sweden; The work of the Division for Better Business Regulation in Denmark; The work of the CNSAE "Comité National pour la Simplification Administrative en faveur des Entreprises" in Luxemburg; The consultation of business associations in Slovenia; The Small Firms Consultation Database in the UK; The public consultation website "Teeme koos" in Estonia; The consultation process in Hungary.

[173] World Bank (2007) – Promoting investment and job creation. An investment Climate assessment and trade integration study.

- Promote, where necessary and appropriate, the establishment of codes of conduct for SME lending by banks.
- Strengthen SME existing credit bureaus to compile the credit ratings of SMEs and provide financial institutions and other lenders with easy access to timely, accurate and reliable credit information on SMEs.
- Promote ways in which SMEs could use their positive credit history as 'collateral' to access loans at better rates and seek more competitive terms from different lending institutions.
- Promote financial products adapted to the needs of SMEs and that financial instruments (e.g. venture capital) are accessible to develop innovative enterprises.
- Ensure that information about financial services is well disseminated to SMEs.
- Promote Micro-finance institutions (MFIs) and targeted micro-credit schemes.
- Appoint, where needed, "credit mediators" who, at regional and central levels, may intervene to ease difficulties and help enterprises obtain bank funding.
- Provide pre-funded agreements directly to SMEs, which can be taken to the banks to obtain guaranteed loans.
- In the case of bankruptcy, aim to complete all legal procedures to wind up the business in the case of non-fraudulent bankruptcy within a year and ensure that re-starters are treated on an equal footing with new start-ups, including in support schemes.
- The managerial competencies of SMEs – especially in the field of finance – have to be supported. SMEs, through their representative organizations, should be engaged in the design of relevant finance-related policies and programmes from the outset to ensure that their perspectives and needs are well understood and taken into account.
- Business incubators, clusters of innovative SMEs, science and technology parks, and development agencies play an important role in facilitating appropriate access to financing for SMEs at local and regional level often through partnerships with private financial institutions and universities. Appropriate financial incentives can correct market failures and stimulate equity investment in local enterprises.
- The combined legal, tax and regulatory framework should ensure that risk capital is not discriminated against, including by safeguarding orderly, equitable and transparent exit routes. Taxes should not put SMEs, entrepreneurs or their financial backers at a disadvantage.

Overarching Objective

Creation of a framework that ensures that capital is available to entrepreneurs and start-ups with financially sound business plans so as to enable them establish and grow their enterprises.

3.4 Promoting export-orientated SMEs

Challenge Statement

Mongolia is heavily dependent on commodity exports, notably copper, gold and cashmere. The high dependency leaves the economy vulnerable to shifts in world commodity prices. A diversified export base would lessen this risk. But experience shows that many export-

orientated Mongolian firms are hampered by high logistical costs[174] *due in part to Mongolia's "comparative disadvantage" when it comes to geography, high trade costs and poor efforts to market their products in foreign markets. Consequently many have failed to maintain export volumes and many discontinued with export markets.*[175]

Policy recommendations[176]

- Encourage the efforts of SMEs to internationalize and become high growth enterprises including through participation in innovative clusters.
- Provide matching grants for firms conducting international marketing research, developing marketing strategies, developing marketing material, packaging, branding, participating and conducting trade fairs and undertaking promotional and marketing activities.
- Improve the means by which SMEs are informed about the availability of SME-related government support measures. This could be facilitated in partnership with business associations.
- Consumer demands and market and trade liberalization are opening new niches and specialized markets for agricultural produce, offering rural-based and agro-processing enterprises an opportunity to diversify into high value, high-quality items.[177] These enterprises should receive special attention through specific support mechanisms.
- Higher value markets open new opportunities for the private sector to foster innovation along the supply chain. Grasping them often requires partnerships among public and private sectors. This should be supported.
- Establish or enhance an annual SME Awards for recognizing outstanding performance in domestic and international markets, technology innovation, and HRD practices.
- Support the development of an electronic identity for businesses, to enable e-invoicing and e-government transactions.
- Install electronic data interchange systems for submitting and processing documents so as to reduce delays in the trading process.
- Ensure that vital information flows pertaining to export and import markets are readily accessible by the business community. Customs officials need to be fully aware of all trade agreements and their implications.
- Ensure that getting the necessary certificates of origin and other essential documentation is a straightforward process.

[174] Transportation services for freight movement are limited, costly and unreliable. The majority of goods are moved by rail and rail transport costs are much higher than those in other landlocked countries in Central Asia.

[175] Data from UN COMTRADE (2004 & 2005) demonstrates clearly this high failure rate amongst Mongolian Start-ups.

[176] Not all of the policy recommendations in this section are exclusive to export-orientated SMEs – and some could apply to all SMEs. For ease of reference however they are included in this section.

[177] High-value markets for domestic consumption are the fastest-growing agricultural markets in most developing countries, expanding up to 6-7 per cent a year, led by livestock products and horticulture – World Bank 2008 Agriculture for Development Report.

Overarching Objective

Trade supporting policies are instrumental in fostering economic growth, creating wealth and generating employment. To achieve this goal, an effective framework is needed to enable Mongolian SMEs expand, increase efficiency and take full advantage of export opportunities.

3.5 Education and Training

Challenge Statement

Skills gaps and mismatches between the knowledge, competences and skills produced by the educational system and those in demand by Mongolian firms and enterprises are a significant constraint on growth.[178] *The three interrelated problems of joblessness, informality and skills mismatches have a common root in a poor quality and relevance of the skills and competences produced by the educational system.*[179]

Within the small enterprise community in Mongolia there is not sufficient reliable information to use in determining the quality and availability of skills. The result is that information on enterprise skills needs is based on the existing low-skilled, low-tech enterprise environment.

The problem is compounded in that the education system is only now adapting with a shift to vocational education and training. There is a need for more effective long-term planning and skill forecasting to better shape the education system and clearly much closer links between business and the education system both second and third level are needed.

Policy recommendations

- A systematic tracking of skills gaps, skills weaknesses or evolving new competences required within companies or across sectors needs to be developed.
- Skills development policies need to be predicated on a short, medium and long-term analysis of the economy and an identification of leading and growing sectors in which individuals can find employment opportunities. The recent establishment of an Agency of TVET, directly under the Cabinet, is very welcome.
- Encourage further the use of the technical training infrastructure by the private sector.
- Capacity building and up-gradation (curriculum redesign, provision of equipment, teachers training, SME liaison, etc.) of selected sector specific technical training institutes serving in major SME clusters and establishment of such institutes where none exist.
- Provide incentives for investment in setting up SME training facilities.
- Induction of SME representatives in private sector boards of the technical training institutes.
- The principle of equality of access should be ingrained across all education and training platforms.

[178] According to the 2004 Investment Climate Survey (ICS) some 30 per cent of the firms thought that the supply of skilled and educated workers was ‘major’ or ‘severe’ concern (World Bank [2007:14]).

[179] Data from the Millennium Challenge Account surveys 2010.

Overarching Objective

Mongolia's new national development strategy[180] sets a gradual transformation of Mongolia from a natural resource based to a human resource based economy as a main long-term objective. To achieve this, nurturing the entrepreneurial spirit and new skills predicated on the real needs of the economy from an early age and throughout the education system and developing specific business-related modules in education schemes, both at secondary level and at colleges and universities is critical.

3.6 Improving management skills

Challenge statement

Poor management skills in SMEs are a key factor in the failure of many small Mongolian businesses to sustain themselves. Small business owners and managers provide the key to workforce development in smaller businesses, but, overwhelmed by day-to-day considerations and pressures, they can be reluctant to engage in external activities away from their day-to-day business. Information on market opportunities, support services and management training to develop the business can be scare or non-existent.

Policy recommendations

- Induce the supply side of market – providers of management development courses, including higher education institutions – to respond to identified gaps and to the demand of SMEs. In this respect there is an important role for SMEs and their representative organizations, to assist in the development of course content.
- Prepare and disseminate advice to industry, trade and professional bodies that have significant numbers of SME members on developing and delivering informal learning opportunities for these members.
- Informal learning opportunities have an important role to play in SME management development. The design of development programmes should take account of the preference that entrepreneurs often have for informal approaches to learning such as through business networks.
- Owner-managers are the key to learning in the SME sector. Where they are engaged with management development, there is a good prospect that they will promote learning among other staff.
- Promote the use of structured business networking for management development.
- Consider developing management diagnostic tool kits that allow SMEs to identify their own specific management development needs.
- Demonstrate and publicize the benefits of management development through SME case studies that show the payoffs delivered by management training.
- Continue to provide financial support for management development activities.
- Demand for management development from entrepreneurs often remains latent, and there may be a need to stimulate demand. Provision of information on learning opportunities is useful in this regard. Provide an accessible central point of reference for information on courses and other learning services for managers.

[180] National Priorities for Economic and Social Development for 2010-2015.

Overarching Objective

To achieve the goal of improving management and leadership abilities in small business owners and managers, it is vital to stimulate demand, and to meet that demand with relevant, accessible solutions. The approach to support management development needs to be holistic and cohesive, un-bureaucratic, accessible to SMEs and totally relevant to their needs. By improving the quality, calibre and capacity of leaders in small and medium-sized enterprises a significant positive impact on the Mongolian economy can be achieved.

3.7 Raising productivity

Challenge Statement

Raising productivity is the driving force behind rates of return on investment which determines growth rates. Prosperity is sustainable, if it is based on the productivity enterprises can reach given the conditions they face in an economy. But current productivity advances are not in line with salary increases. Labour productivity estimated with compared prices increased by 5 per cent a year between 2001-2009 while monthly salaries increased by 9.4 per cent. [181] *Public-sector salaries and pensions were increased by 30 per cent in October 2010*[182] *and this will inevitably have an effect on private sector wage rates.*

Policy recommendations

- Ensuring long-term economic growth and productivity improvements are driven by the accumulation of knowledge-based factors of production through research and development (R&D) and human capital investment. Improving productivity needs to be deeply embedded in training systems.
- Productivity must not lag behind wage growth. Wage levels can impact on the capacity to employ. The best way to share gains through wages is to support productivity growth and the capacities of employers and employees at the workplace level to pursue productivity improvements by agreement.
- Limit entry and exit barriers, such as state monopolies or state licenses as competition forces unproductive enterprises out of the market, increasing the economy's overall productivity.
- Invest in an R&D framework as this can increase multifactor productivity (MFP).[183] There is also a correlation between R&D and the ability of countries, sectors and firms to identify and adapt new technologies.
- Promote the development of SMEs' competences in the research and innovation field, e.g. simplified access to public research infrastructure, use of R&D services, recruitment of skilled employees and training.

[181] D. Delgertsogt Productivity Centre speech to national employment forum October 2010.

[182] EIU December 2010.

[183] Multi-factor productivity (MFP) relates a change in output to several types of inputs. MFP is often measured residually, as that change in output that cannot be accounted for by the change in combined inputs (OECD Definition).

Overarching Objective

No single factor alone can ensure competitiveness. A comprehensive mixture is required. Business along with the other stakeholders, governments, national and local agencies, academic and training institutions and workers' organizations, needs to work collaboratively to increase national competitiveness and raise productivity levels. This is a collective challenge.

3.8 Strengthening the technological capacity of SMEs

Challenge Statement

While the Government has implemented a telecommunications reform programme since the 1990s and the telecommunications sector in particular has grown, too many small firms have systems predicated on outdated structures and processes.

Policy recommendations

- Technology can enable small enterprises to un-bundle their production processes and they can greatly profit from these developments.[184] Provide incentives for investment in export diversification and structured foreign direct investment so as to increase the rate of inbound transfer of knowledge and technology to domestic individuals and institutions.
- Innovation can be improved though better and more effective links between research and development centres and SMEs. A framework to encourage co-operation between SMEs, universities and research and development centres, including support for specific innovation and technology centres is vital.
- A great deal of evidence points to the importance of cluster development in creating competitive advantage. Inter-firm clusters and networks, based on programmes and action plans designed to encourage cluster activities among enterprises in target sectors, should be developed.
- Give particular support to "Innovation-oriented" SMEs.[185]
- Incentivize stronger links between public research organizations and the private sector. This includes actively improving collaboration between private firms and third level institutions.
- Examine the role tax can play in promoting private sector expenditure and investment in innovation.
- Preserve market competition and avoid protectionist measures that undermine efficiency and innovation.

Overarching Objective

Strengthening the technological capacity of SMEs so as to lower transaction costs by reducing information asymmetries and opening up increased market possibilities.

[184] In the past ten years the ratio of poor countries imports of high tech products to their GDPs has risen by more than 50 per cent; the ratio in middle income countries is 70 per cent increase (Economist Feb 2008).

[185] The global ranking published in the Global Competitiveness Report 2009-2010 (World Economic Forum) places Mongolia 118th out of 133 economies in terms of intellectual property rights.

4. Implementation

This framework document outlines the **broad policy framework** that is required, in MONEF's view, to create sustainable SME growth in the country. It is a point of departure and framework for intensified dialogue, between all stakeholders in Mongolia interested in SME development, to enable these actors collectively to develop shared goals and to implement the necessary steps to achieve them, in a time bound fashion.

To achieve this objective the following principles should guide immediate action:

1. Strong Government commitment to implementation

Effective implementation of the Policy framework will require ownership, commitment and monitoring at highest level of the Government in consultation with the private sector and its representative organizations.

2. A joined up governmental response

Intergovernmental co-ordination is essential to ensure transparency and harmonization when SME policies are elaborated. Ideally, this type of co-ordination should be led by a single institution with effective mechanisms for policy coordination, involving key ministries, agencies and local administrations when relevant.

3. Disciplined and time bound approach

An effective SME development strategy must comprise a long-term policy agenda explicitly aimed at continuously strengthening the SME sector, with evidence of implementation demonstrated by achieved time-bound targets.

4. Strong and deep private sector consultative role

The private sector representative organizations such as MONEF have a key role in keeping the pressure on government to actually apply the reforms it has agreed. In its role as the "score keeper" these organizations through their members should assess the actual impact of policy changes and reforms and feed back into policy making mechanisms.

5. An approach embedded in empirical research

A deep analysis of the constraints on current SME growth is needed on a sector-by-sector basis and concrete time bound recommendations specific to those sectors needs to flow from those analysis.

6. Ground policy in a "Think Small First" principle

This new strategy must make the public administration responsive to SMEs' needs and design rules that are grounded in a "Think Small First" principle. The "Think Small First" principle implies that policy makers give full consideration to SMEs at the early policy development stage. Ideally rules impacting on business should be created from the SMEs point of view or in other words, SMEs should be considered by public authorities as being their "prime customers" as far as business regulation is concerned.

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