

**“MAJOR PROBLEMS OF RUNNING BUSINESS IN MONGOLIA
AND DEVELOPING ITS ECONOMY”**

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Since the 1990 political revolution, my country has emerged as one of the most stable democracies in the post-socialist world. Thanks to the democracy, Mongolia has opened its door to the outside world and encouraged people to run different businesses that they did not have before. In order to develop its economy, Mongolia decided to run successful businesses.

Businesses have business problems to be solved everywhere, however, especially in Mongolia, running a business is such a complicated and sometimes “annoying” task for not just startup companies but for mature ones also. The reason is the followings:

- Unpleasant business environment
- Poor infrastructure
- Hard-to-understand government tax and business regulations
- Highly bureaucratic system in the Government and in other various sectors in Mongolia
- Corruption (bribes and unofficial payments for licensing)
- Underutilization of human capital (in personnel) and skill mismatching

These are also negatively affecting the middle class and small businesses which are the pillars of our economy. Business problems and their solutions are as varied as are different businesses in Mongolia and they turn out to be a potent influence on the economic development

The World Bank released its report on Mongolia in the Country Memorandum in the 2007 series. According to the report, the most binding constraints or problems that the Mongolian economy faces at this point are: infrastructure bottlenecks which worsen the business environment, tax distortion, need for better coordination internally and internationally, growing corruption and inadequate contract enforcement, and a high cost of capital.

A complicated and distorted tax system is widespread and it teamed with complex customs processing. Tax programs often give businesses incentives to stay small so they do not have to pay excessive taxes. Tax evasion and underreporting have become common due to the tax burden. There is an inequality in the distribution of tax revenue according to statistics, with the top 100 taxpayers paying over 90% of the Government tax revenues.

Exploration of mineral resources seems to offer the promise of economic development. At the same time, development remained hampered by corruption, a lack of infrastructure, and the turbulences associated with transition to a market-economy.

Poor infrastructure has led to costly transport of commodities and long transit time, and ultimately it adds to business costs. Almost 40% of the business firms are dissatisfied with the transport sector as the cost of railroad transport, both in terms of unit cost of freight forwarding per kilometer or the cost of border crossing to neighboring countries, is extremely high, more than the other landlocked nations in Asia. Infrastructure is very important to create overall economic growth and advancement of living standards. Improvement of the transport system in importing and exporting goods will ultimately lead to a thriving business sector. In my opinion, funds for investing in infrastructure can be supported from the revenue from Mongolia’s growing mining sector.

The World Bank Investment Climate Survey (2006) estimated that bribes, unofficial payments for licensing etc, average around 40% of the official fees. Corruption is a severe impediment which has infiltrated into various sectors of Mongolian businesses and the economy. Furthermore, while performing my research, I casually observed that big businesses rarely mentioned corruption as a problem while small businesses often complained about government corruption. Perhaps small businesses have a harder time navigating government bureaucracy. Researchers should explore this area of Mongolian institutional development more carefully.

Access to capital in Mongolia is limited because of the difficulty that banks have in giving out loans. Most people need a bank loan to get their business started, but the banks have high collateral requirements and high lending interest rates due to their inability to judge the credit risk of borrowers, coupled with difficulty in recuperating from bankruptcy and debt.

Thus, changes in laws and regulations that can curb and eventually entirely eliminate corruption are essential to the increase of output and efficient implementation of finances. Corruption can be eradicated only with the demolition of the source from which it breeds: lack of transparency and accountability in transactions. Moreover, better aligning of prices with costs of provision of energy, water and sanitation services and improving governance of infrastructure investments will lead to greater poverty alleviation, high economic and business growth and overall efficiency.

Finally, it is also very important to address key workforce issues of underutilization of human capital and skill mismatching. Although Mongolians

have a high literacy rate and are adequately educated, there is an incompatibility in the skills they bring to the market with, what is required in a modern globalized world. The direction into where the Mongolian economy progresses have raised demands for foreign language skills, IT skills, technical and as well as behavioral skills. This leads to a larger issue of directing the education system towards aiding the workers so that there is an improvement in the human capital provided. A number of young Mongolians – who are not lucky enough to have secured public-sector jobs – are being forced to seek international employment opportunities because of the failure to provide enough high-quality jobs.

There needs to be reconciliation between the skills demanded by the market and skills provided by the work force. Along with that, Mongolia needs to continue sustainable growth and macro-economic stability while ensuring the improvement of infrastructure, corruption-free governance and private-sector promoting regulations that do not hinder trade and thus bring in high economic and business achievements.

In conclusion, we do not live in a perfect world, and the problems experienced by many businesses in Mongolia are nothing new. In order to develop out economy, to improve all areas of our businesses and to stay profitable in a competitive business world, the Government and governing officials must assist businesses in making the changes necessary and determine if they (especially foreign companies) will be good long-term matches for Mongolia's business future. In addition, the Government has to spend the \$286 million (USD), received from the Millennium Challenge Fund, wisely and effectively.