

# Mongolia

In BEEPS V, the top three business environment obstacles identified by Mongolian firms were access to finance; competitors' practices in the informal sector; and electricity issues (Chart 1). Access to land was among the top obstacles for SMEs, young and manufacturing firms, while large firms were concerned about workforce skills and corruption. In BEEPS IV political instability replaced electricity issues as one of the main constraints.

## High collateral requirements and limited access to land in the capital

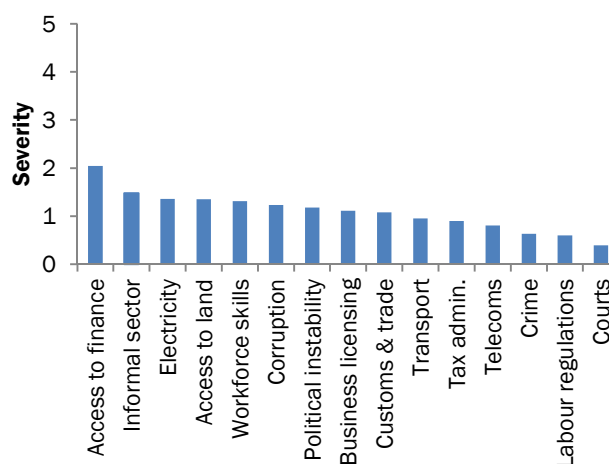
**Access to finance** remained the top obstacle for Mongolian firms, despite the relatively high share of firms with bank loans (48.1%), well above the Central Asia (CA) and BEEPS V averages. However, out of the firms that needed a loan, 46.8% of SMEs and 65.0% of young firms were credit-constrained – they were either discouraged from applying or rejected when they did. Virtually all recent loans (99.5%) required collateral, the highest share across BEEPS countries. The median collateral value relative to loan value increased fivefold, from only 40% in BEEPS IV to 200% in BEEPS V (Chart 2). High collateral requirements discouraged 9.6% of firms from applying for a loan – all of them were SMEs.

**Competitors' practices in the informal sector** ranked second place. About 48% of Mongolian firms reported competing against firms in the informal sector, an increase of 5 percentage points compared with BEEPS IV (Chart 3). This puts Mongolia in first place among countries in Central Asia.

**Electricity issues** were identified as the third most severe obstacle. The wait for an electrical connection, at 94 days, more than quadrupled in BEEPS V compared with 20 days in BEEPS IV. The share of firms reporting that an informal payment was expected or requested to obtain an electrical connection more than doubled to 34.5%. While the share of firms experiencing power outages and the frequency of power outages decreased, their duration increased from 4.3 hours in BEEPS IV to 11.6 hours in BEEPS V, and the associated losses rose from 2.1% to 5.5% of total annual revenue.

**Access to land** moved from 12th place in BEEPS IV to 4th place in BEEPS V. This is perhaps counter-intuitive given how sparsely Mongolia is populated. However, it is proximity to the capital and land quality that matter. Population density in Ulaanbaatar has been growing in recent years, reaching about 50% of Mongolia's entire population. Approximately 45% of applicants for a construction-related permit reported that an informal payment was expected or requested – almost 14 percentage points higher than in BEEPS IV.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Median collateral required

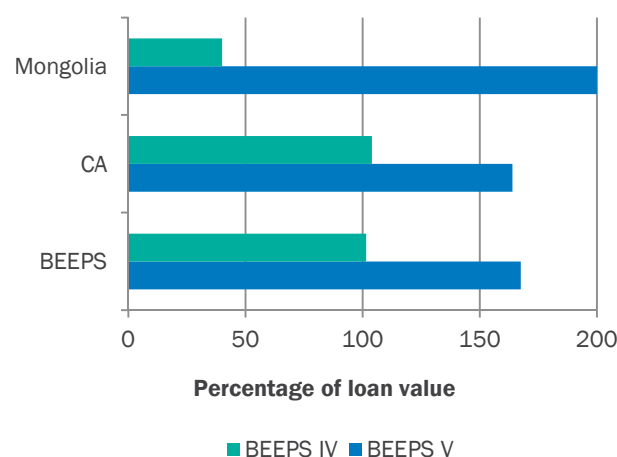


Chart 3. Competition from the informal sector

