

Small and Medium Businesses with Women: A Case study in Mongolia

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Received May 2019; revised May 2019

ABSTRACT.

The content of this study is intended solely for general informational purposes and does not purport to constitute legal advice, securities, and investments, an opinion on the suitability of any investment or an application of any kind. The market study was conducted by a team of international and local consultants in May-July 2017. It began with the theoretical review of literature related to the subject. Two sets of questionnaires were developed to evaluate the supply and demand for financial products, as well as services for small and medium businesses and small and medium women. To assess the environment in which small and medium-sized businesses are used and the availability and scope of financial and non-financial services provided to them, interviews were conducted with various stakeholders involved in the financing of small and medium-sized businesses or regulatory issues and related gender. In addition, a survey was conducted among small and medium businesses of men and women with a representative sample of 240 interviews in cities such as Ulaanbaatar, Darkhan, Erdenet. Through this survey, more information about entrepreneurs and their businesses could be obtained, challenges, limitations, and opportunities could be explored, particularly concerning access to financial and non-financial services.

Keyword: Small and Medium Businesses, women, Ulaanbaatar, Darkhan, Erdenet.

1. Introduction

Mongolia has experienced impressive growth in the last decade, driven mainly by significant investments in mining and large infrastructure projects. Recent growth has been driven in particular by fiscal and monetary programs led by the government. To take advantage of its economic potential, the country still needs to make growth sustainable to develop its economy, be less vulnerable to external shocks and reduce income disparity. This can only be achieved if the extension is full in several sectors and business segments, from large corporations to small and medium businesses [1].

Although small and medium-sized businesses account for almost 98% of all companies in Mongolia, their contribution to GDP remains low by 25% [2]. This question about what measures can be chosen to address the specific needs of Mongolian small and medium businesses to improve their performance and, so, their contribution to economic development.

It is crucial to make efforts to support small and medium-sized businesses in general and women, in particular, by developing their growth potential, especially in developing and transition countries. Before the boom of the last decades, Mongolia's economy focused on agriculture (livestock and livestock), which traditionally allowed women to contribute to family income and participate in economic life. Influenced by Mongolian nomadic way of life, on the one hand, and communist educational policies, the post-communist era of freedom, also, Mongolian culture and history have influenced women's entrepreneurial motivations and social status.

The study was commissioned by the International Finance Corporation, a member of the World Bank Group. The International Finance Corporation intends to implement a banking program for small and medium businesses in Mongolia, assisted by specific advisory services to increase the access for small and medium businesses to financing. The plan of the International Finance Corporation in Mongolia will also focus on small and medium-sized women and will take advantage of the investment and advisory services of the International Finance Corporation. It will also cooperate with women's organizations and other stakeholders to address some of the demand-side obstacles to achieving greater access to financial services for business women.

Profile of the country, demography, and administration.

Mongolia is a landlocked country around Russia and China in Central Asia and covers a vast area of 1.55 million square kilometers. As of 2017, its population of 3.1 million (48.7% men, 51.3% women) makes Mongolia one of the least densely populated countries in the world. Mongolia has 794,100 households, of which 64% are urban and 36% rural [5]. Around 81,700 households, or 10% of all households in the country, are headed by women [6-8].

Mongolia has 21 provinces and Ulaanbaatar (capital of Mongolia). The capital is an independent municipality and is not part of an area. The areas are subdivided into towns; and villages in towns. The city of Ulaanbaatar is divided into districts, and the regions are divided into communities. Ulaanbaatar is the political and economic center of Mongolia, which is home to 46% of the population. Rural areas are less developed and dominated by agriculture, livestock.

The prime minister is the head of government. All the legislative power resides in the Great Khural State, the unicameral parliament of Mongolia, which has 76 people elected by public vote for four years.

The revised electoral law, passed in 2015, contains many new regulations, including the introduction of proportional representation for 28 of the 76 seats. It also specifies that a minimum of 20% of nominated and approved candidates must be women. However, a quota on the number of women parliamentarians has not yet been introduced. As of 2015, 17% of all members of parliament are women, quadrupling the participation of women in 2010, which is shown in Table 1.

Table1: Members of the excellent state khural by gender

	2005	2010	2015
Female	5	3	11
Male	71	73	65

The sector of small and medium businesses.

Small and medium businesses represent 98% of all companies in Mongolia. They contribute 25.01% to (GDP) and employ 52.03% of the labor force [9-11]. According to the law, small and medium businesses are defined as legally registered business entities with 199 or fewer employees and an annual turnover of up to MNT 1,500 million (USD 833,000). The Law on Small and Medium Businesses also differentiates between the sectors in terms of several employees and the annual turnover for a company to be considered a small or medium company that is shown in Table 2.

Table2. small and medium businesses definition in Mongolia law in 2007

business category	sector	Number of Layers	Annual turnover in Mnt
Small	All sectors	≤ 19 employees	≤ MNT 250 mln
	Services	≤ 49 employees	≤ MNT 1.0 bln
Medium	Wholesale	≤ 149 employees	≤ MNT 1.5 bln
	Retail / Manufacturing	≤ 199 employees	≤ MNT 1.5 bln

2. Methodology

In June-July 2017, a demand survey was conducted to analyze the profile of entrepreneurs and their businesses, as well as the demand for financial and non-financial services. 240 interviews (total) were carried out with 121 business women and 119 business women (control group) in three cities of Mongolia in Table 3.

Table3. Sample distribution each gender and city and respondent rate

	Ulaanbaatar	darkhan	erdenet	total
Male	62	30	29	121
Female	58	30	31	119
Respondent Rate	53%	24%	45%	44%

3. Challenges for small and medium businesses

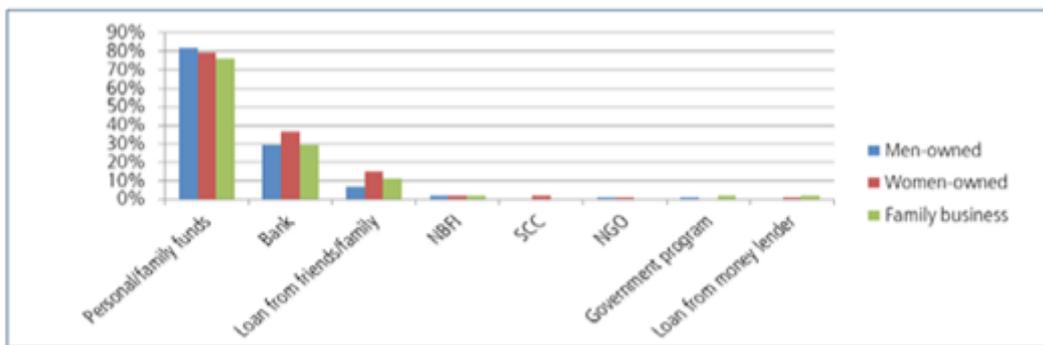
Startup

As Mongolia is a country that has managed a free market system for less than 25 years, the current owners have established most of the companies; only a negligible number has been bought or inherited. To finance the establishment of businesses from the ground, entrepreneurs mainly use their own or family savings in Fig.1. Very few startups obtained financing from banks. Gender-specific differences in the sources of financing are marginal, and women entrepreneurs show a slightly higher application of bank and third-party loans as a source of financing. Banks often avoid new financing companies due to increased risk, and it is very likely that entrepreneurs who obtained a loan can offer private real estate as

collateral. IFNB, credit cooperatives, NGOs and government. In Fig. 1, the initial funds for each type of business do not play an essential role in the initial finances.

The motivation to establish a business by type of business is given in Fig.2. Although respondents more frequently mentioned "having a successful career / fulfilling their aspirations" and "being independent/self-employed", the possibility of creating a job and earning money was an essential motivation for women entrepreneurs and family businesses. Therefore, becoming an entrepreneur is for women entrepreneurs more often a problem of need than an election. This could be the case, especially for divorced/separated or widowed businesswomen.

In addition, the differences in motivation between cities and the date of establishment of the company are interesting. In the city of Darkhan, to a lesser extent, in the city of Erdenet, the main motivation to start a business is the prospect of a successful career, while in the city of Ulaanbaatar it is the goal of creating a job for oneself in the Fig. 3. This suggests that the employment situation in the city of Ulaanbaatar is worse than in other cities, possibly due to migration. In addition, entrepreneurs who established their business in 2009 or later more often claimed that they became entrepreneurs to take a job and earn money, compared to companies created before 2009. While migration can also play a role here, this finding suggests what the situation is. The labor market has worsened and more people have to start a business to make a living.



Note: Multiple answers allowed.

Fig.1: start-up funding per business type

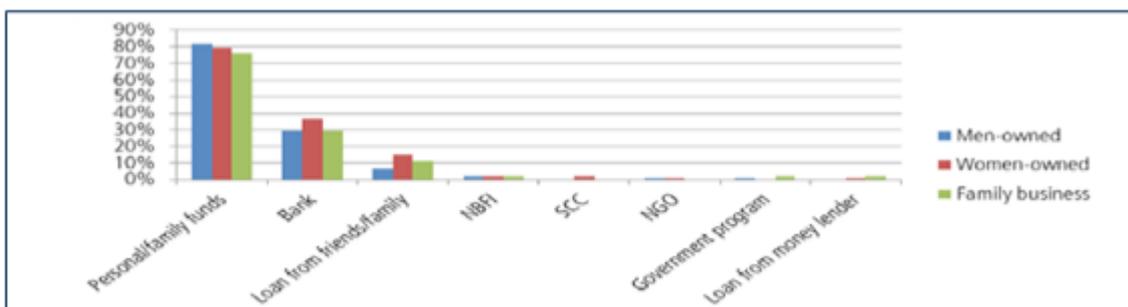


Fig.2. The motivation for business establishment per type of business

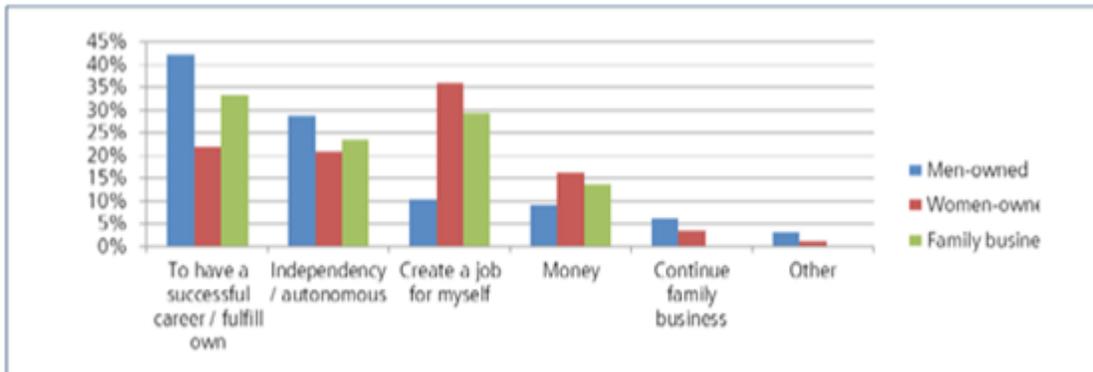


Fig.3. The motivation for business per region and date

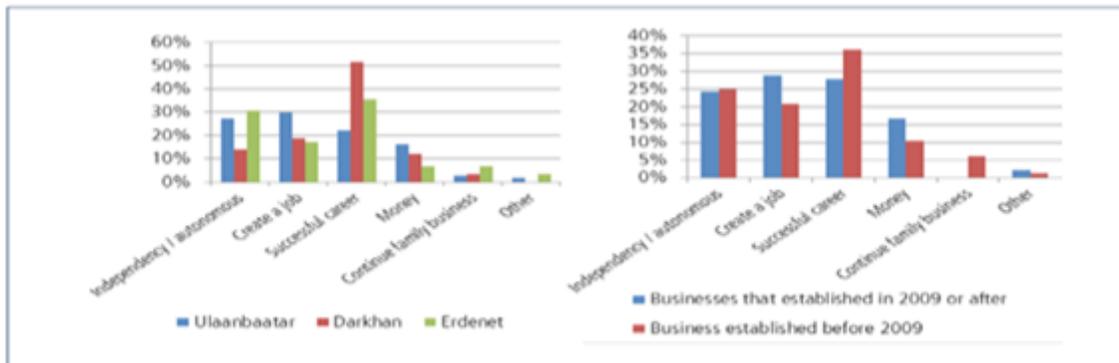
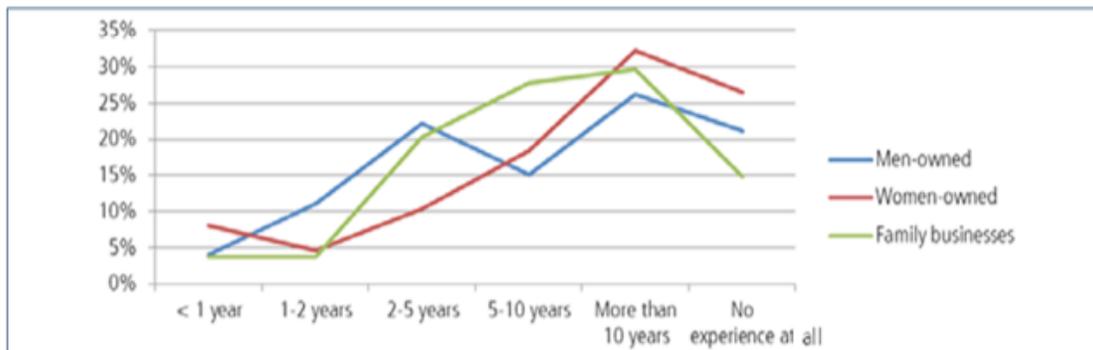


Fig.4. Previous relevant Work-experience before starting a business



Note: Multiple answers allowed.

Fig.5. critical success factors for business start-up per business type

When starting a business, women, businesswomen, generally have more relevant work experience than men. While the majority of women 51% have worked for more than five years in another company before establishing yours, this figure is lower for men of 41%, 37% and 23% of women surveyed reported one to five years. Prior work experience is shown

in Figure 4. Respondents were asked about the critical success factors perceived when setting up their business during the start-up phase. While the male entrepreneurs said it was their previous work experience, the women entrepreneurs said they worked hard and, to a certain extent, received a family support program in Fig. 5. Although women entrepreneurs also benefited from 28% networks, this factor was less relevant for women entrepreneurs of 14%. Sufficient access to capital was not adequate for either category, which also indicates that access to financing during start-up is a challenge and not a success factor.

4. Conclusions

Access to finance is crucial for the development of small and medium businesses, not only in Mongolia but also in other developing economies. Small and medium-sized businesses in Mongolia, whether owned by men or women, face several impediments, such as difficulties in accessing financing, the high cost of financing and managing a company and support mechanisms. The problems related to access to financing derive mainly from the guarantee requirements of financial institutions and the non-existence of a central registry of movable assets. In particular, commercial banks are considered to exercise high and strict guarantee requirements. Small and medium-sized companies in Mongolia are also responsible for the lack of interest in the financial sector. In general, they have low capacity, face difficulties in preparing business plans and cash flow projections and cannot conduct market studies on their own. While several national support programs, as well as other initiatives, have begun offering training or advisory services at reduced prices or cost-sharing, these programs lack scale and often quality, and are not sufficiently accessible for entrepreneurs.

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