

Mendel University in Brno
Faculty of Regional Development and International Studies

**The role of Small and Medium Business Enterprise in the socio-economic
development of Mongolia**

Bachelor Thesis

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DEDICATION

I dedicate this work of mine to Byamba Nyamtseren, my father, Ing. Jantsan Altantsetseg, my mother, Byamba Tsevelnyam, my loving big mama, Bc. Tsevelnyam Amgalanbayar, my brother, Tsevelnyam Telmen, my younger brother and all my family and friends for their incredible support throughout my study and my final thesis.

Special dedication goes to Yura Otgondorj, my fiancé, who supported me the most.

From your loving daughter, fiancée, sister and friend.

DECLARATION

I declare that I have developed and written the enclosed Bachelor Thesis: The Role of Small and Medium Enterprises in Socioeconomic Development of Mongolia, completely by myself, and have not used sources or means without mentioning in the list of literature. I agree that my work will be published in accordance with § 47b of the Act no. 111/1998 Coll., on universities, as amended, and in accordance with directives on the publication of university thesis.

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ABSTRACT

The main aim of this bachelor thesis is to research the current situation of SMEs in Mongolia and determine its role in socioeconomic sphere of the country. Additionally, this study will be focusing on the possible strategies of sustainable development of this pillar in a long-term.

Theoretical part of the study contains characteristics of SMEs in both developed and developing countries and their state policies towards development of SMEs sector. To tackle the topic, a qualitative approach was adopted in the practical part of the study. Questionnaires were introduced among SMEs in Ulaanbaatar and based on the responses received; analysis of the data was done to determine the main challenges SMEs are facing today and impact of state supported programs for SMEs in Mongolia. Results are presented and evaluated in the conclusions and recommendations.

The study concludes with recommendations for policy makers and commercial banks to improve the connectivity of projects funded by donor countries and reduce unnecessary costs by eliminating overlapping state supported programs.

Keywords: Small, Medium, Enterprises, socioeconomic, development, soft loans, Mongolia

ABSTRAKT

Hlavním cílem této bakalářské práce je zkoumat současnou situaci malých a středních podniků v Mongolsku a určit jeho roli v socio-ekonomické oblasti země. Tato studie se zaměřuje na možné strategie udržitelného rozvoje tohoto pilíře v dlouhodobém horizontu.

Teoretická část práce obsahuje charakteristiku malých a středních podniků v rozvinutých i rozvojových zemích a jejich státní politiky vůči rozvoji malých a středních podniků. Ke zpracování tématu, byl přijat kvalitativní přístup v praktické části práce. Dotazníky byly zavedeny mezi malými a středními podniky v Ulánbátaru a na základě obdržených odpovědí, analýza dat byla provedena ke stanovení hlavních problémů malých a středních podniků, kterým čelí dnes a dopad státních programů k rozvoji tohoto sektoru v Mongolsku. V závěru jsou výsledky prezentovány a vyhodnocovány.

Na závěru studie doporučuje vládě a komerčním bankám, aby zlepšili konektivitu projektů financovaných z dárcovských zemí a snižovat zbytečné náklady spojené s překrýváním projektů.

Klíčová slova: Malé, Střední, podniky, socio-economie, rozvoj, zvýhodněné úvěry, Mongolsko

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1. INTRODUCTION

1.1. Background of Study

The World, where we are living today, is changing day by day and we are becoming less closed to one another through globalization process. Just a few years ago we Mongolians could barely be recognized as a potential competitor on a world market. However, as we accepted democracy in the late 90's we are growing as fast as possible to keep in touch with the rest of the world.

The collapse of the former Soviet Union marked the beginning of a transition era for the Mongolian economy. Changes in trading patterns and economic assistance along with movement from a command economy towards a market system brought a period of restructuring and adjustment. Mongolia's development during the 1990s concentrated on mining activities, animal husbandry, and the service sector with a sharp contraction of other sectors and a virtual collapse of manufacturing production. This has had extremely serious implications for employment creation, income generation, and human resources. Despite a highly educated population, unemployment and underemployment were rampant. There has been a rapid rise in poverty. New employment opportunities were largely limited to livestock herding and the informal sector (Morris, 2001).

The Small and Medium-scale Enterprises (SMEs) and its development are one of the most important keys of economy fulfilling the expectations of nation's development. Therefore SMEs are said to be strategic to attainment of economic prosperity of any government (Ofosua, 2015). Especially for Mongolia, where the market is overflowed from imported products.

Mongolia's SMEs proved that they represent a large and more importantly growing economic segment in recent years. According to data by the Ministry of Labor (2013) there are 90,000 enterprises registered in Mongolia, more than two thirds of them are classified as SMEs. Small companies generate around 20 % of Mongolia's GDP and provide employment to almost 70 % of the national workforce (Ministry of Labor, 2013).

Despite the economic growth and new measures to support the SMEs by Mongolian government, small and medium businesses may still face numbers of challenges, for

example in obtaining credit they need to sustain growth and lack of information in rural areas.

1.2. Statement of the problem

Researchers at Oxford Business Group defined access to finance as the biggest obstacle to growth of SMEs in emerging markets. However, many international agencies like The World Bank, the German Development Bank and the Japan International Cooperation Agency and the government have already taken notice about the problem and started making effort in order to establish the sustainable financial programs for SMEs (Oxford Business Group, 2014). One of them is series of soft loan programs which allows long-term, low-interest funds to banks and they provide soft loans to the SMEs in return.

However, I hereby agree with Mr. Peter Markey, Managing Partner at Ernst &Young that there are other areas which can be huge support to the development of SMEs. As mentioned *“SMEs can be incentivized through government subsidies, direct grants, less bureaucracy, and more importantly, through a good education system. Education should encourage people to be entrepreneurial and take business risks while developing at the same time the necessary technical and business oriented skills”*.

The study concentrates on the Role of Small and Medium Enterprises in Socioeconomic Development in Mongolia through new measures by Mongolian government to ensure financial situation of SMEs and taxation.

1.3. Objectives of study

- To study the measures by Mongolian government to support the growth of SMEs,
- To analyze how pass-through loan programs affect GDP and unemployment in long-term,
- To establish the barriers SMEs are facing in order to get financial sources by banks.

1.4. Research questions

- What is the role of Government to the development of SMEs in Mongolia?
- What are the effective ways to apply the new measures of Government in order to support SMEs growth?
- How financial loan programs effect the socioeconomic development of Mongolia?
- What are the best solutions to create friendlier environment for SMEs?

1.5. Significance of Study

The finding of this study is aimed to show the importance of existing SMEs in Mongolia's socioeconomic development. Therefore, the study aims to emphasize on Governments and commercial bank, and financing institutions role on SMEs development through financial supporting programs and legislative regulations.

The final findings will show the importance of Government to solve the barriers that SMEs are facing nowadays, especially efficient financial support for smaller companies.

2. LITERATURE REVIEW

2.1. General definitions of SMEs

There is hardly any unique, universally accepted definition of SMEs because the classification of business into small and large scale is a subjective judgment (Ekpeyong & Nyong, 1992). The SMEs are generally:

“Business entities with small number of employees which mainly focus on domestic market and most of them are able to compensate short-term costs and compete in marketplace.”

According to Carpenter (2003) the SMEs are defined by major criteria which is consisted from: number of employees, entity size, types of industry and financial strength. In the next paragraphs there will be shared local and international definitions of SMEs for better understanding Mongolian and international SMEs.

2.1.1. Regional definitions of SMEs

2.1.1.1. EU

Small and medium-scale enterprises (SMEs) are the backbone of European economy. There are nearly 23 million SMEs and they representing 99% of all businesses in the EU. In the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU. The European Commission considers SMEs and entrepreneurship as key to ensuring economic growth, innovation, job creation and social integration in the EU (European commission, 2005). However, as Jorge Morales Pedraza said, the SMEs are often confronted with market imperfections. One of the most difficult things that SMEs meet is obtaining capital, especially in the early start-up phase.

EU SMEs are defined in the EU recommendation 2003/361.

The main factors determining whether an enterprise is an SME are:

1. Staff headcount and
2. Either turnover or balance sheet total (European Commission, 2005).

Table 1: Classification of SMEs by European Commission

Enterprise category	Staff headcount	Turnover EUR	Balance sheet total EUR
Medium-scale	< 250	≤ 50 m	≤ 43 m
Small	< 50	≤ 10 m	≤ 10 m
Micro	< 10	≤ 2 m	≤ 2 m

Source: European Commission, 2005

Commission Recommendation of 2003 furthermore tells us that these ceilings apply to the figures for individual firms only. A firm that is part of larger group may need to include staff headcount/turnover/balance sheet data from that group too (European Commission, 2005).

SMEs definition in developing countries is mostly driven by the classification of The World Bank, which defines an SME as a firm with up to 50 employees and fixed assets (excluding land) less than US\$250,000 in value (The World Bank, 2006).

2.1.1.2. The United Nations Industrial Development Organization

(UNIDO) classifies enterprises for developing countries and industrialized countries separately.

Table 2: Classification for Developing Countries

Enterprise category	Headcount
Large	>100
Medium	20 – 99
Small	5 – 19
Micro	< 5

Source: Ofosua, 2015

Table 3 Classification for Industrialized Countries

Enterprise category	Headcount
Large	>500
Medium	100 – 499
Small	< 99

Source: Ofosua, 2015

As it was mentioned in the beginning of my thesis SMEs are the bone of any economy. According to the classification by UNIDO we can clearly see how SMEs are important in country's development.

For example, SMEs in USA provide 60 % of total employment, 51 % of GDP and 55 % of total innovation is there to support those enterprises. Japan has always been one of the key players in Asian economy. SMEs in Japan produce 53.5 % of GDP. In Canada there are nearly 2.6 million SMEs registered and the enterprises with less than 500 employees provide 60 % of total employment. However, Italian SMEs in comparison with Canadian SMEs provide 73 % of total employment. What I wanted to point out was that SMEs in those highly industrialized countries have a direct impact on their economy and development as a whole.

2.1.1.3. USA

As we already know there is no universally accepted definition of an SME, even within the U.S. government. United States International Trade Commission pointed out that this situation reflects the relative nature of the “small” and “medium” size classifications, which can apply differently to firms in the manufacturing, agricultural and service sectors just like Mongolia. In recognition of these differences, using the number of employees and annual firm revenue as basic classification criteria (USITC, 2010), will be presented in table 5 below.

Table 4 Classification of SMEs by sectors, USA

Enterprise category	Headcount	Annual turnover USD
Manufacturing and non-exporting service	< 500	Not applicable
Exporting services	< 500	< 25 mil.
Farms	< 500	< 250 000

Source: USITCS, 2010

Table 5 Classification of SMEs by size, USA

Enterprise category	Headcount	Annual turnover USD	Balance sheet USD
Micro	< 100	< 7 mil.	7 mil.
Small	10 – 100	7 – 25 mil.	25 mil.
Medium	250 – 500	25 – 250 mil.	250 mil.

Source: USITC, 2010

The definition used for SMEs by U.S. Small Business Administration's Office of Advocacy (SBAOA) is the most straightforward, as it includes all enterprises with fewer than 500 employees. Census employs this definition to delineate its data by firm size across all sectors of the U.S. economy, which include both manufacturing and service enterprises (USITC, 2010).

2.1.2. Local definition of SMEs

2.1.2.1. General concept of SMEs in Mongolia

The SMEs basically are: businesses whose personnel numbers and scope of manufacturing activities fall below certain limits, mainly focus on domestic market and they are able to compensate in short-term and many of them require low capital. Moreover SMEs often use highly efficiency and flexible production technologies and should be competitive on market place.

2.1.2.2. Aim of SMEs

The main aim of SMEs in Mongolia is to expand their production and services also ensure their position in the market and attract new customers.

2.1.2.3. What are SMEs?

“The Law of Small and Medium-scale Enterprises” of Mongolia from 2007 defines SMEs by area of activity, employee number and annual turnover.

Table 6 Classification of SMEs Law of Mongolia

No	Size	Area of activity	Employee number	Annual turnover (MNT/CZK)
1	Micro	Manufacture	< 20	50-250 mil. MNT/0.625-3.125 mil. CZK
2	Micro	Service	< 10	50-250 mil. MNT/0.625-3.125 mil. CZK
3	Small	Service	< 50	1 billion MNT/12.5 mil. CZK
4	Medium	Wholesale	< 150	1.5 billion MNT/18.75 mil. CZK
5	Medium	Retail	< 200	1.5 billion MNT/18.75 mil. CZK
6	Medium	Manufacture	< 200	1.5 billion MNT/18.75 mil. CZK

Source: Law of SMEs, 2007

However, despite definitions by SMEs Law the National Statistical Office of Mongolia uses slightly different employee number categorization in collecting its annual business register data.

On the other hand those activities cannot be considered as SMEs by the Law of SMEs:

1. Tobacco and alcohol production,
2. Paid quizzes, gambling and lotteries,
3. Banks, non-banking financial institutions and insurance services,
4. Mineral resource prospecting and exploration.

2.1.2.4. Registration system for SMEs in Mongolia

Registration for SMEs are provided by Mongolian General Authority for State Registration (MGASR) and the application must be filled out correctly and completely. The application for SMEs register includes: (Law of SMEs, §6-2)

1. Name and address of the applicant;
2. Name and address of the business entity;
3. Type of business activity;
4. The number of employees based on contract and annual sales revenue information.

Application shall be accompanied by the following documents: (Law of SMEs, §6-2)

1. Certificate of registration;
2. Confirmation of payment of employee's social insurance;
3. Receipt of stamp duty's payment; /2200 MNT; 27.5 CZK/
4. Previous year's audited financial and tax statements.

2.2. The role of SMEs in socioeconomic development

Developing a group of diverse and competitive SMEs is a central theme towards achieving sustainable economic growth. SMEs are crucial to the economic growth process and play an important role in the countries overall production network.

Some advanced economies have succeeded because SMEs form a fundamental part of the economy, comprising over 98 % of total establishments and contributing to over 65 % of employment as well as over 50 % of the gross domestic product (SMEinfo, 2011).

Why are SMEs in developed countries doing so well? What is the main factor of their success? To answer that question the study focuses on environment and support for SMEs by government in both developed and developing countries in below.

2.2.1. State policies in selected developed countries

2.2.1.1. Japan

SMEs are prevalent across the Japanese economy, constituting the lion's share of enterprises in all sectors. According to Ministry of Internal Affairs and Communications (METI) in 2013 SMEs accounted for 99.7 % of Japan's 4.2 million companies. Companies classified as a SME account approx. 4.19 million and they employ more than 28.27 million (66 %) workers. On the other hand large companies account for only 12000 (0.3 %) of total companies and 14.46 million people (34 % of total employment) are working in big companies.

Japanese definition of SMEs in the Basic Act seems to be very similar to Mongolian. SMEs operators are divided into four industry types: manufacturing, wholesale, service industry and retail. Annual turnover for those companies should be between 50 to 300 million ¥ and number of total employees fluctuate 50 to 300 (Table 7).

Table 7 Classification of SMEs in Japan

Industry types	Annual turnover/JPY	Number of employees
Manufacturing	300 million or less	300 or fewer
Wholesale	100 million or less	100 or fewer
Service industry	50 million or less	100 or fewer
Retail	50 million or less	50 or fewer

Source: SMEs Basic Act, Japan, 1963

Japanese government has been concentrated on four different policies towards SMEs from postwar reconstruction period till now:

- **Basic principles**
 - o Antimonopoly Act (1947),
 - o SME Agency (1948),
 - o SME Basic Act (1963) and its revised Acts (2009, 2013);
- **Monetary policies**
 - o National Life Finance Corporation (1949),
 - o SME Credit Insurance Act (1950),

- Credit guarantee Association Act (1953),
- Small Business Investment Company (1963),
- Japan Finance Corporation Act (2007),
- Credit insurance system (2007);
- **Promotion policies**
 - SME consultant Registration System (1953),
 - Promotion of specific industries (1956),
 - SME Modernization Promotion Act (1963),
 - Promotion of Business Activities by SMEs Utilizing Regional Resources Act (2009)
 - Industrial Revitalization Act revised (2011);
- **Organization policies**
 - SME Cooperatives Act (1949),
 - SME Association Organization Act (1957)
 - Shopping District Promotion Association Act (1962).

When we look at the SMEs development in Japan based on different periods of time, we could clearly say that in postwar reconstruction period (1945-1955) Japanese government concentrated on supporting economic power of SMEs. There were introduced agencies for SMEs development and the most important step in preventing future challenges were creating Credit Insurance Act and Guarantee Acts. Learning from Japanese state policies regarding SMEs financial solutions could be one of the effective way for supporting SMEs development in Mongolia. During the rapid economic growth in 60's and 70's Japan tried to rectify disparities between SMEs and large corporations. As I mentioned above SME Basic Act was enacted in 1963. During this economic expansion the promotion and organization policies of Japan have been a key assistance to SMEs. There were enacted Commerce and Industry Association Act and Shopping Association Organization Act and more importantly the government put emphasis on modernizing SMEs via the Modernization Promotion Act and SME universities. Afterwards in 70's government introduced MARUKEI (Managerial Improvement Program) which allows effective loans for SMEs first time. From economic transition period till present Japanese government is willing to support primarily highly motivated and capable SMEs. In 90's the SME Basic

Act was revised and monetary and promotion policies have been interested in more regional and overseas development of SMEs. Local Shopping Areas were activated, a system for prevention of potential bankruptcies of SMEs was expanded.

2.2.1.2. South Korea

Classification of SMEs is similar to Japanese SMEs Basic Act, number of employees are up to 300 and annual turnover should be 30 billion or less. The criteria is followed but differently by industry types.

As of 2012, Korean Small and Medium Business Administration (SMBA) has declared there are over 3.4 million SMEs are running their businesses and the number of employees they hire has reached 13 million. South Korean SMEs make up 99 % of establishments and take up 87.7 % of total employment.

50 years before in South Korea big corporations played a very important role in terms of their contribution to economic development. In the 60's and 70's large corporations were contributing more than half of total employment, production and value added due to a policy to grow the chemical and heavy industries (SMBA, 2012).

Starting in the 1980's however, SMEs expanded their ratio of contribution to employment to 81.9 % as the government strengthened its policy to support them.

2.2.1.3. Germany

The economic structure of the Federal Republic of Germany is determined by SMEs, accounting almost 99 % of all business, employing more than 80 % of regular workers. Just like any other developed country in EU SMEs in Germany are a major contributor to the GDP (Over and Henkel, 2013).

The Business Membership Organizations (BMOs) in Germany play a major role in the promotion of MSMEs. They represent the interests of MSMEs towards political authorities and other parties and advert to the needs for specific supportive public initiatives. As Albert Over and Jürgen Henkel mentioned in their study about the Role of Business Membership Organization, even though BMOs support SMEs the most, the funding and financing source comes directly and indirectly from government. The German Central Government has a number of common as well as very specific programs for MSMEs -

from financial support for business start-ups and already existing MSMEs to consultancy services, from financing R&D particularly in MSMEs to the promotion of foreign trade. Apart from individual measures, the European Union (EU) has been running a structural framework program aimed at minimizing the economic disparities between and within the countries of the EU, for over 30 years now. With this objective, the EU supports not just infrastructural measures through the 'European Regional Development Fund' (ERDF) but also entrepreneurship development programs or initiatives for upgrading existing companies. In this EU program, the two components emphasized as very important for success are: a bottom-up approach where necessary measures are specified and decided in discussions between governmental and industrial stakeholders. After confirmation, in a top-down approach - the German state governments, city governments and BMOs are responsible for implementation (Oven and Henkel, 2013).

With the help of government's support, Germany's SMEs were some of the most innovative in EU with 54 % of them launching an innovation onto the market between 2008 and 2010. According to the economists this success at innovating turns into the economic growth. SMEs in Germany accounted for 52 % of Germany's economic output in 2010; and whereas large firms cut jobs between 2008 and 2011 (-2.4 %), SMEs increased employment by 1.6 % (MasterCard Worldwide, 2012).

2.2.2. The importance of SMEs in developing countries

For developing countries, integration into the global economy through economic liberalization, deregulation and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector, in which SMEs play a central part (UNIDO, 2005).

SMEs cover nearly 90 % of businesses and provide 50 to 60 % of total employment in the World. To be more specified, a study on The Enabling Environment and Trade and Investment Capacity Buildings for SMEs, by OECD (2004) shows that registered SMEs contribute to over 55 % of GDP and over 65 % of total employment in high-income countries, whereas in low-income countries SMEs contribute 60 % of GDP and over 70 % total employment (see Figure 1). However, if we take a look at the Figure 2, differences between formal (as a private SMEs) and informal sector's (unregistered SMEs) importance

in economic value in high-income and low-income countries could be shown very clearly. Even though the informal sector covers the most percentage of GDP and total employment in developing countries, challenges they face in registering business is far more complicated. Thus, I came to conclusion that SMEs, including informal sector is seen as a synthetic construction mainly of “social and political” importance (Halberg, 2001).

The roles of SMEs in developing countries by UNIDO (2005) were seen as following:

- SMEs tend to employ more labor-intensive production processes than larger enterprisers. In other words, they contribute significant amount of productive employment opportunities, the generation of income and reduction poverty.
- Countries with a high share of small industrial enterprises tend to succeed in making income distribution more equitable as a key to ensuring long-term social stability and reduction of economic disparities between urban and rural areas.
- SMEs are key to the transition of agriculture-led to industrial economies as they provide simple opportunities for processing activities which can generate sustainable livelihoods. According to the study (OECD, 2005) in this context, the predominant role of women is very important.
- SMEs are a seedbed for entrepreneurship development, innovation and risk-taking behavior and provide the foundation for long-term growth dynamics and the transition towards larger enterprises.
- SMEs support the building up systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which SMEs are interlinked.
- SMEs, as simply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner (UNIDO, 2005). This particular role reminded me of Silicon Valley, California, a home to thousands of startup high-tech companies with never ending innovation and technology development. Some developing countries like China (even though China’s economy is one of the biggest in the World) has supported similar technology areas.

Despite those roles in socioeconomic development of the low-income countries, many of the SMEs are facing similar challenges following:

- Lack of new creative and innovative companies,
- Lack of support towards informal enterprises becoming formal,
- Lack of competitiveness and productiveness at global market.

2.2.3. State policies in selected developing countries

2.2.3.1. *China*

According to the Chinese Premier Li Keqiang, there were 1.7 million businesses registered in China (2014) and 1.6 million of them were private businesses, which provided nearly 10.01 million jobs (Steinbock, 2014). The reason why I mentioned Premier's speech is that ever since Premier Li and his reformers have gained the leadership, attention to the Chinese business environment, SMEs and entrepreneurship has increased a lot.

In the past, many of SMEs have been labor intensive, focusing on manufacturing. Now Chinese Central Government is focusing on SMEs to become more capital intensive and focusing on an innovation. In this case innovation means continuous process and design improvements to established products such as automobiles or machine tools. Chinese leadership has made it clear that a new development model is required: a shift of focus to domestic consumption and higher value manufacturing and service figures prominently in the current five-year plan (MasterCard Worldwide, 2012).

In 2012, Chinese government led by Premier Li opened a new opportunity for SMEs on domestic market: Shanghai free trade zone which allowed SMEs in the city to enjoy a wider range of opportunities to upgrade and transform their industrial structures. Main aim of the program was to empower SMEs that were only focusing on being suppliers to large companies or serving predictable, stable industries.

Chinese government is focusing in the past few years on freeing SMEs from tax burden. SMEs running a business in high-technology sector (investment into science and research), or banks which are lending money to SMEs in that sector are free from tax up to 70 % (Yanjin, 2014).

2.2.3.2. India

SMEs in India has emerged a highly vibrant and dynamic sector of the Indian economy over the past few five years. SMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large corporations but also help in industrialization of rural areas. Total number of units in SMEs sector achieved 36 million as for 2014 and they provide employment to approx. 80 million people in India. However, whole sector contributes about 8 % GDP besides 45 % to the total manufacturing output and 40 % to the exports from the country (SMEs Chamber of India, 2014).

Beside the facts as mentioned above, Indian SMEs are facing numerous challenges like sub-optimal scale of operation, technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, working capital shortages, not getting trade receivables from large companies and multinational corporations, unskilled manpower, uncertain market scenario and many more. To overcome those difficulties Indian government set up seven strategic plans to support SMEs in 1999:

- To increase management and technological abilities of SMEs,
- To develop human resources industry
- To support SMEs on global market
- To increase activities of financial institutions towards SMEs finance
- To improve business environment
- To form micro business cooperates
- To increase wholesale business

According to Yanjin (2014), Indian government's strategic plan on financing issues towards SMEs has achieved a pleasant result that in 2014 40 % of total loans of commercial banks were lent to SMEs.

2.3. The role of SMEs in socioeconomic development of Mongolia

As of the first quarter of 2016, National Registration and Statistics Office (NRSO) has revealed that 129.9 thousand enterprises were registered at the Business Registration Database (BRD) and 67.4 thousand (51.9 %) of them are actively running business. In addition, 83.4 % of active enterprises has 1 – 9, 7.3 % has 10 – 19 and 5.7 % of them has 20 – 49 employees. In other words, 96.4 % of total registered and active enterprises in Mongolia are classified as a SME. Remaining 3.6 % of active companies are defined as a large or international companies (NRSO, 2016). The list of total registered active enterprises divided by economic activities (including mining and financial sectors as comparison, even though they are not classified as SME) and employment size will be shown in Table 7 below. As for the location, in terms of operating place, is divided into 5 regions (Figure): 42.6 million companies (63.3 %) in capital city Ulaanbaatar, 8.1 thousand (12.1 %) in Central province, 7.4 thousand (11 %) in Highland province, 6.3 thousand (9.3 %) in West province and 2.9 thousand (4.3 %) enterprises are registered in East province (NRSO, 2016). Meanwhile in 2010 the number of active enterprises were around 40.8 thousand and only 30.7 thousand (74.9 %) of them were registered as SMEs (NRSO, 2010). Therefore in period of six years Mongolian SMEs doubled their number which is a relatively positive economic result in our country.

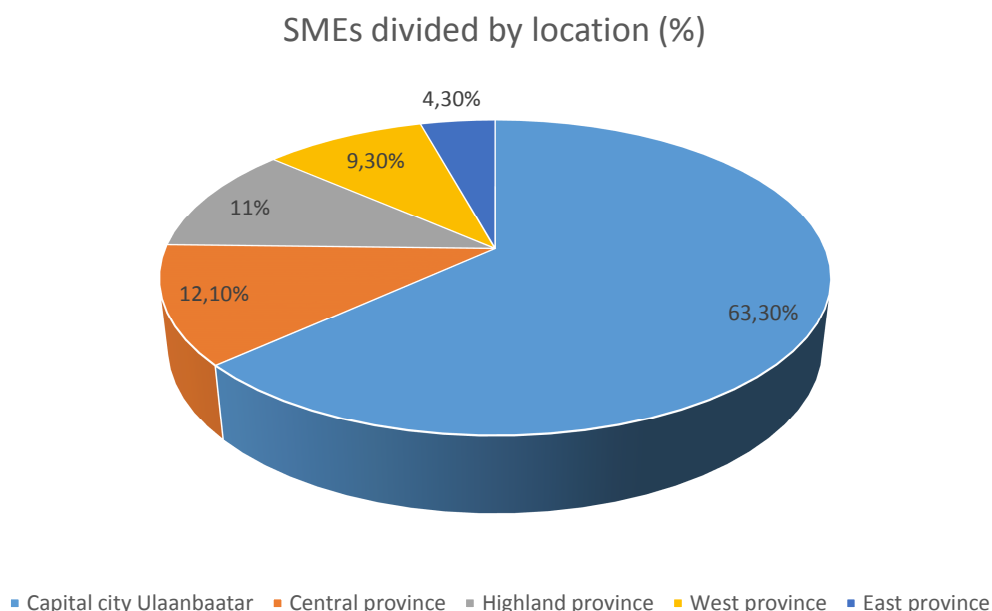
Table 7 Active enterprises in BRD by economic activities and employment size class, first quarter of year 2015 and 2016

Economic activities	2015	2016	Employment size class, 2016			
			1 – 9	10 – 19	20 – 49	50 +
Total	60515	67387	5620	4923	3859	2404
Agriculture	3421	3506	3061	314	110	21
Mining	605	675	404	88	81	102
Manufacturing	5066	5443	4488	485	257	213
Electricity, gas and water supply	301	255	92	66	25	72
Construction	4795	5701	4186	607	539	369
Wholesale, retail	23112	25600	24067	781	472	280

Transport	2045	2042	1654	223	118	47
Financial service	951	1100	1004	43	30	23
Real estate, renting	6050	6413	5441	452	317	203
Public administration	1433	1434	508	276	435	215
Education	2645	3100	1339	532	729	500
Health, social work	2897	3183	2399	362	340	82
Other social services	4855	6492	5536	532	269	155
Other	25	24	24	-	-	-

Source: NRSO, *Monthly bulletin of statistics, March 2016*

Figure 1 Mongolian SMEs divided by location



Source: *NRSO, 2016*

2.4. Role of international projects on development of Mongolian SMEs

As I mentioned in previous part about the state policies in selected developed countries, Japan has been a major international program supporter for development of Mongolian SMEs for a long time. The table below will be showing partner countries and their supports through the past few years in Mongolia.

Table 8 International programs on development of Mongolian SMEs

	Project name	Funded by	Amount of funding	Types of aid
1	Development of SMEs and Environmental Protection Project	Japanese government	2.9 billion JPY 43.500 billion MNT	Government debt
2	Development project on manufacturing sector in Mongolia - 2	UNIDO	1.2 million USD 1.560 billion MNT	Grants, non-repayable aid
3	Sustainable Livelihoods-2	Mongolian government	3.4 million USD 4.240 billion MNT	Non-repayable aid
4	Mongolian Potato Project	The Swiss Agency for Development and Cooperation	4.3 million CHF 5.997 billion MNT	Non-repayable aid
5	Project on Supporting Agribusiness in Rural Areas	Mercy Corps	6.3 million USD 8.190 billion MNT	Non-repayable aid
6	Total		63.487 billion MNT	

Source: SMEs Support Office, 2010

According to this table till 2010 there has been an amount of 63.487 billion MNT international aid projects towards Mongolian SMEs. However, Japanese government was a major supporter for Mongolian SMEs, lending over 43.5 billion MNT in a long-term. Government debt of 43.5 billion MNT was furthermore a source for soft loan projects by nine commercial banks in Mongolia. During years 2007 – 2010 commercial banks contributed soft loans to 139 SMEs. Total amount fund was 43.5 billion MNT as I mentioned above of which 66 – 70 % was provided into manufacturing sector, 8 – 13 % into service sector and 17.26 % was for environmental protection projects. Details will be shown in chapter three, part 3.4. Financial sources by commercial banks.

2.5. Role of Mongolian Government in supporting SMEs

As David Smallbone (professor of SME) and Friederike Welter (senior researcher) mentioned in their article for International Small Business Journal, one of the issues facing countries in the transformation from centrally planned into market economies is the need to develop SMEs as part of a wider social and economic restructuring. In the past few years Mongolian Government has been attempting to strengthen the response of the private sector. Current government policymakers are defining most common issues that SMEs are facing nowadays. Those are:

1. General issues
 - a. Lack of finance, tax burden
 - b. Bureaucracy (complexity and slowness of state agencies)
 - c. Lack of educated workers
2. Issues related to rural areas and its market
 - a. Low market concentration and decreasing purchasing power in rural areas
 - b. Lack of electrical energy
 - c. Lack of infrastructure
 - d. High interest rate business loans and limited access to investments.

Therefore, State Great Hural (unicameral parliament of Mongolia) set up number of measures to overcome those issues and prominent among them was the Resolution No. 10 “National Program to Support Small and Medium Enterprises” in 1990, which was a lever to support the SMEs in rural area. Although the program was amended in 2005 by Resolution No. 64 in order to improve a tax policy and financial issues faced by SMEs and also the Resolution aimed to create favorable environment for development of SMEs which concentrated on legislative instruments and education of those who work for SME sector.

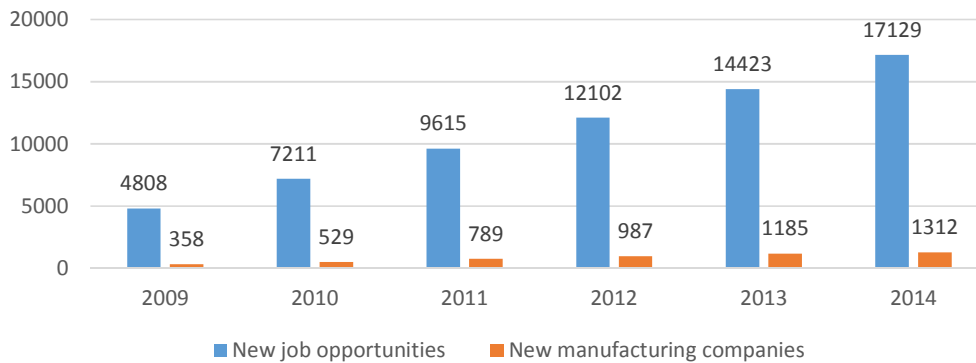
Resolution No. 52 (2008) by parliament had indeed a significant effect on improvement of SMEs, which created Small and Medium-scale Enterprises Office as a government implementing agency. Main aim of this agency is to ensure the implementation of Law of SMEs and National Program to Support SMEs. In addition, they host both local and international exhibitions for SMEs and provide leasing equipment, which is an alternative

and flexible source of long term financing. The laws, which were adopted within the agency, are listed below:

- Socio-economic guidelines to establish an industrial park (2003)
- Laws to affix the Package of Taxation Laws (2006)
- Law of Leasing (2006)
- Law of SMEs (2007)
- Law of tax exemption of manufacturing equipment for SMEs (validate from July 2009 till December 2012). In addition, Law of lowering the tax burden contains three important draft legislations:
 - Draft legislation about 683 types of approved manufacturing equipment for SMEs, which were exempted for customs taxes and VAT;
 - “Industrialization Program for Mongolia” by government, 2009;
 - Draft legislation of industrial park, 2009.

Moreover, Mongolian government built funds from state budget to support the SMEs between 2006 and 2009. The main role of the fund is to provide soft loans for SMEs during start-up phase in suburban and rural areas. In 2009 government invested into the fund 30,850 Billion MNT and participating banks invested 9 billion. Total amount of the money which were used for soft loans for Mongolian SMEs was nearly 40 billion MNT /2 million USD/. Statistics from 2010 shows that 1446 enterprises have participated in this program and 350 of them were starting up their business and 957 of them had an opportunity to replace obsolete technology equipment. In the same year due to the government investment into the SMEs, new job opportunities increased by 5502 (Mongolian Statistical Office, 2015). To be more precise number of new job opportunities and new manufacturing companies which were built between 2009 and 2014 will be shown in the Figure 2.

Figure 2 New job opportunities and new manufacturing companies, 2009 - 2014



Source: NRSO, 2014

Implementation framework of those Acts and government's strategic plans towards Mongolian SMEs could be wrapped up following:

Implementation of Law of tax exemption of manufacturing equipment for SMEs till 2012:

- 1200 SMEs and individuals have gained 8.3 billion MNT tax discount (2010),
- 13.7 billion MNT tax discount for manufacturing tools, 687 million MNT tax discount for technology equipment, 1.5 billion MNT discount on VAT (2011),

Implementation of leasing for technology equipment:

- 4.6 billion MNT was funded,
- 72 SMEs and 3 individuals participated,
- 958.8 million MNT was provided for technology equipment leasing led by "KHAS leasing" and "NVC Ltd.".

Implementation of incubation service:

- SMEs support Office offered 368 programs for 6897 individuals and 7040 SMEs in total.

Implementation of investment programs in 2011:

Total fund 149 billion MNT was divided following:

- Manufacturing development foundation in rural areas – 24 billion MNT,
- Repayment foundation - 25 billion MNT,
- Government bond supporting SMEs – 100 billion MNT. This bond is focusing on financial support for selected industries, which are shown in table below.

Table 9 Government bonds supporting SMEs in 2011-2012

Types of industry	Number of participated companies	Invested amount of money/million MNT	New employment opportunities
Food production	177	259 475,50	11820
Agricultural	108	22 600,00	2880
Light industry	193	115 520,00	2262
Construction industry	34	9 800,00	1657
Total	512	407 395,50	18619

Source: SMEs Support Office, 2011

According to this table between years 2011 and 2012 only 407 395.50 million MNT from government bonds were in use of SMEs improvement in food production, agricultural, light and construction industries.

3. METHODOLOGY

3.1. Research Design

The purpose of this study is to improve state policies, especially financial projects on SMEs development in Mongolia. For example, what major types of problems small and medium companies or individuals who is going to start a new business in Mongolia are facing and their suggestions towards government's supporting program's improvement.

3.2. Research Approach

The respondents will be part of economic active population in Ulaanbaatar who are interested to cooperate. To collect the data there were introduced a survey.

3.3. Sampling Method

The survey procedure for this study will be limited to Ulaanbaatar city only as there are some certain limitations. Moreover, it has already been mentioned that respondents are a part of economic active population in the city. More specifically, respondents consist from individuals, who would like to open a new business or owners of micro, small and medium sized companies.

The sample size for this study will be limited to 50.

3.4. Data Collection Method

The primary data will be collected from the individuals who would like to open a new business and owners of small and medium enterprises. The data will be collected from the respondents through a survey.

3.5. Data Analysis Method

The data analysis of this research will be mostly represented on qualitative explanation.

4. PRACTICAL PART

4.1. Introduction

Practical part of study in chapter three we will focus on finding main challenge for SMEs owners and their operation in Mongolia. In the previous parts one of the main challenges in developing SMEs was mentioned – unstable financial source. From that conclusion chapter two was mainly focused on international and local financial projects to support and development of SMEs sector. However, in this part there will be shown role of the commercial banks and their soft loan programs towards SMEs in Mongolia. Furthermore, cons and pros of those projects will be discussed.

To accomplish the main aim of the practical part finding stable financial source the study used a survey. The survey was introduced among individuals who are a part of economically active population. Results show that the most of the individuals who would like to start their own businesses do not have much financial funds and the most possible way for them was to lend money from commercial banks.

Statistical analyses methods employed were descriptive such as charts and tables for the purpose of the study.

4.2. Ease of doing business index in Mongolia

Ease of doing business index is an index created by the World Bank Group and ranks countries against each other based on how the regulatory environment is conducive to business operation stronger protections of property rights. Economies with a high rank have simpler and friendlier regulations for businesses (Trading economics, 2015).

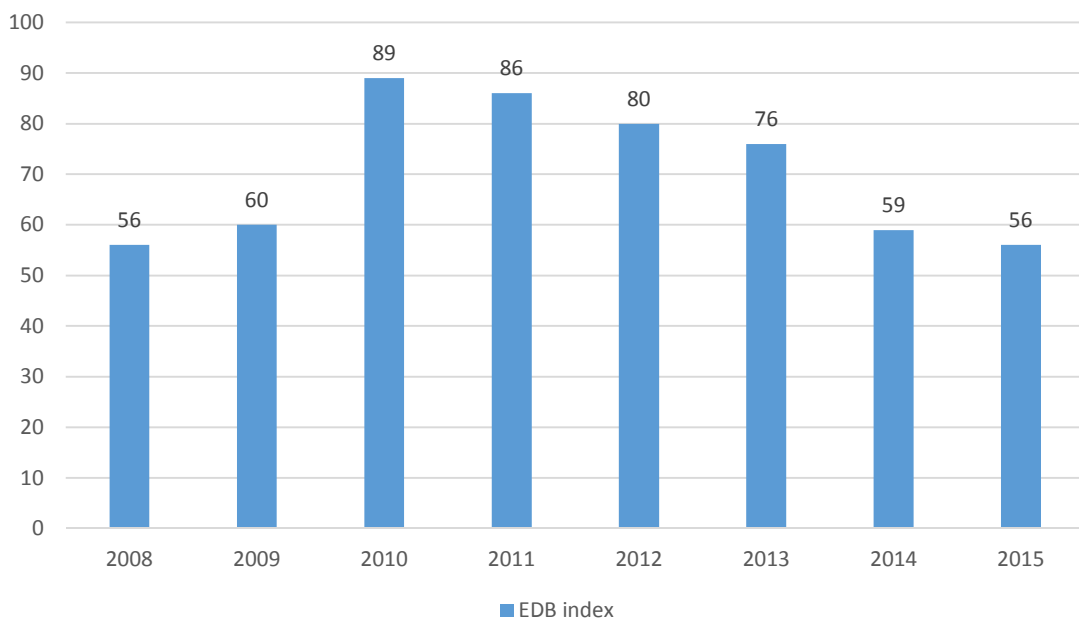
The index is basically based on the average of 10 sub-indices:

- 1) Starting a business – procedures, time, cost and minimum capital to open a new business,
- 2) Dealing with construction permits – procedures, time and cost to build a warehouse,
- 3) Getting electricity – procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse,
- 4) Registering property – procedures, time and cost to register commercial real estate,

- 5) Getting credit – strength of legal rights, depth of credit information index
- 6) Protecting investors – indices on the extent of disclosure, extent of director liability and ease of shareholder suits,
- 7) Paying taxes – number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit,
- 8) Trading across borders – number of documents, cost and time necessary to export and import,
- 9) Enforcing contracts – procedures, time and cost to enforce a debt contract,
- 10) Resolving insolvency – time, cost and recovery rate under bankruptcy proceeding.

Among countries with highest rankings in 2015 are Singapore (index: 1), New Zealand (2), Denmark (3), South Korea (4) and Hong Kong (5). As for Mongolia, in 2015 Ease of doing business index was 56. In the figure below we can see how the Ease of doing business index changed in 8 years.

Figure 3 Ease of doing business index in Mongolia, 2008 – 2015



Source: Trading economics, 2015

As we can clearly see from figure 3 in highest ranking for Mongolia was in 2008 and 2015 and year 2010 was the most difficult time for SMEs that were starting or wanted to start a

business. One of the major reasons why the ranking went down in very short time is the end of the financial programs to ensure financial sources for start-up businesses and empower existing SMEs activities. Those financial programs were supported by Japanese government and major banks in Mongolia.

4.3. Discussion

According to the results from survey, there are five major challenges that Mongolian SMEs are facing in recent.

- a. Lack of financial education among SMEs owners,
- b. Lack of access to finance,
- c. High interest rate of loans,
- d. Bureaucracy of state institutes,
- e. Lack of information regarding state policies.

To study those challenges a survey was introduced among 50 different respondents. Answers of each questions will be discussed below.

Table 10 Would you like to start your own business?

Answer	Frequency	Valid percent
Yes	27	54
No	15	33
Never	8	16
Total	50	100

Source: own survey

As mentioned in the table above, 27 respondents (54 %) answered “yes” for a question whether they would like to start own business. According to Sam Sanders, Ph. D., and chair of the School of Business at the University of Phoenix, younger people (under 30) are more inclined to want to be entrepreneurs because of their exposure to leadership training and technology, which is now ruling the world. The same goes with our questionnaire. As mentioned above, the survey was introduced among economic active population, which consists from people aged 18 – 65. Respondents who answered “never” were mostly 45 years old or more.

Table 11 In case of starting own business, how would you ensure finance?

Answer	Frequency	Valid percent
Own money	10	20
Loan from banks	31	62
Loan from friends, family	7	14
Not sure	2	4
Total	50	100

Source: own survey

More than ½ respondents wanted to open own company in previous table. However, in the second table of answers we can see that more than ½ respondents are not able to ensure finance connected with starting up a business. 76 % of respondents chose either loans from banks or relatives and friends. Only 10 % of the total respondents could start own business with own money.

Table 12 Do you have enough financial education for starting business?

Answer	Frequency	Valid percent
Good	21	42
Bad	14	28
Not sure	15	30
Total	50	100

Source: own survey

Lack of financial literacy has been playing a significant role in development of SMEs, especially in developing countries. Countries like Sri Lanka and South Africa have already taken a note about this problem and started national financial literacy campaigns across the country (The Banking Association South Africa, 2016). Even though the survey for this study was achieved from Capital city, Ulaanbaatar, where the most SMEs are contributing, results are not satisfying. Only 42 % of respondents answered they have adequate financial education for starting own business. Remaining 58 % of respondents either have low financial literacy or not confident about their financial education.

Table 13 Do you have enough information regarding state policies towards SMEs?

Answer	Frequency	Valid percent
Yes	12	24
No	19	38
I haven't explored it yet	19	38
Total	50	100

Source: own survey

One of the main reasons why SMEs development of rural areas has been stagnant in recent years, is lack of connection between government and SMEs. SMEs supporting programs by Mongolian government focuses on only small group of SMEs (especially agricultural and mining enterprises) and leaving the others behind. As mentioned in the answer table only 24 % of the respondents knew about soft loan programs funded by government and remaining 76 % of them had no clue.

Table 14 What could be the most effective way to support SMEs by government?

Answer	Frequency	Valid percent
Providing soft loans	30	60
Tax incentives	11	22
Reducing bureaucracy	9	18
Total	50	100

Source: own survey

Based on the respondents answers the most effective and real way to support SMEs by government would be providing more “soft loan programs” with lower interest rate and longer payback period. In addition, according to the respondents reducing bureaucracy at state offices (SMEs registering office, SMEs supporting office etc.) and banks (unwillingness and unfriendliness towards company owners) could be an effective solution for improving SMEs sector of Mongolia.

Based on the recommendations from previous respondents, the study will be focusing on soft loan programs by Mongolian government.

According to the data from NRSO in 2010, Japanese government lent 43.5 billion MNT to Mongolian government in order to improve legal environment and financial stability for SMEs. Commercial banks became main implementer to accomplish main aim of the government debt. Soft loan projects between 2007 and 2010 were supported by nine major banks in Mongolia. In my opinion one of the reasons why Ease of doing business index during 2008 – 2010 had low numerical value could be connected to those projects.

Details of selected projects will be shown in table 15 (appendices).

During 2007 – 2010 Mongolian government cooperated with nine major banks and totally 43 projects were realized. Loan limits vary by business activities, location and even size of the company.

Trade & Development Bank of Mongolia and Khas Bank offered highest possible limits for SMEs supporting loans, which allowed enterprises get 1 to 3 billion MNT at 1.0 – 1.9 % interest rate per month. However, most of the projects towards agribusiness and development of micro, small and medium enterprises were distributed by Khaan Bank, which is known as a Bank for agriculture sector in Mongolia.

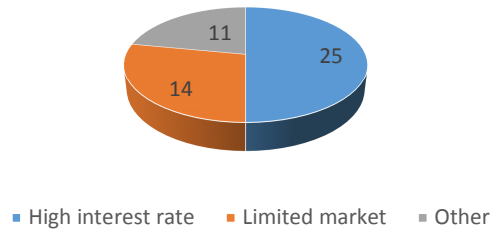
Thanks to the projects by banks funded by Japanese government loan individuals had an opportunity to open a new business.

The second part of the survey focused on reactions of respondents on soft loan programs.

There were 50 respondents participated and results will be shown in charts below.

Chart 1 What is the main challenges of business expansion for you?

Main challenges of business expansion

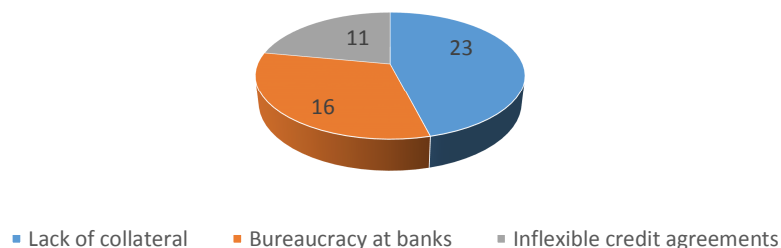


Source: own survey

Main challenges SMEs in Mongolia are facing now are divided into three dimensions: financial, economic and socio-political. Most of the respondents, 50 %, focused on financial burdens. Main financial burden for owners at small companies is high interest rate. Most of the SMEs have financial sources from commercial banks and other financial institutions. Although banks are willing to lend them needed amount of money, the interest rates are tend to be too high. From the economic perspectives the biggest challenge for SMEs is limited market. There is a lack of protectionism towards SMEs in Mongolian economic. Respondents who answered “other” referred to bureaucracy, corruption and lack of needed legal instruments for supporting their activities.

Chart 2 What are the main challenges of getting soft loans from banks?

Challenges of getting soft loans



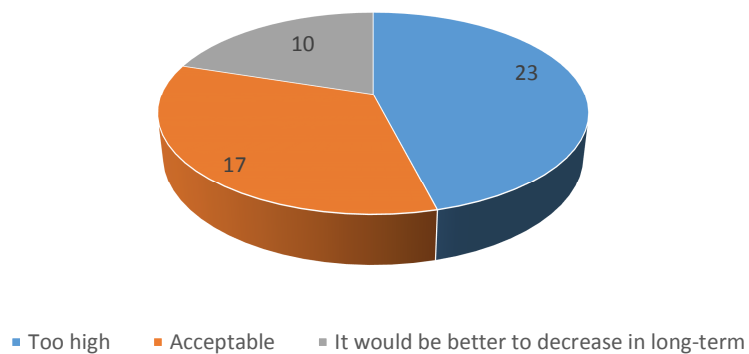
Source: own survey

As the most difficult thing in getting soft loans, 46 % of respondents referred to lack of collateral. Having not enough collateral for signing credit agreement is related to Table 10,

lack of financing source for expanding their activities. On the other hand 32 % of respondents pointed out unwillingness and unfriendliness of commercial banks. According to them banks are not trying to understand entities and registration for soft loan takes long time and costs related are too high. Remaining 22 % of respondents find inflexible credit agreements as most difficult thing in getting soft loan in a long-term.

Chart 3 Interest rates offered by banks

Interest rates offered by banks are:

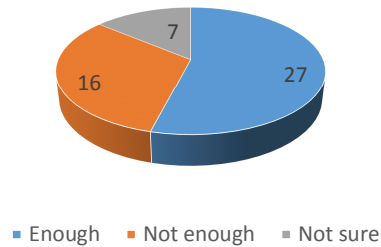


Source: own survey

High interest rate has been one of the main topic of this study. Almost ½ of total respondents (46 %) find interest rates of Mongolian commercial banks unacceptable. Access to funds for SMEs is already very limited in Mongolia, so raising interest rates only worsens the situation (see Table 15, appendices). Remaining 54 % respondents find interest rates in Mongolia acceptable, however half of these respondents recommend to decrease the rate in a long-term.

Chart 4 Payback period of soft loans

Payback period of soft loans are:

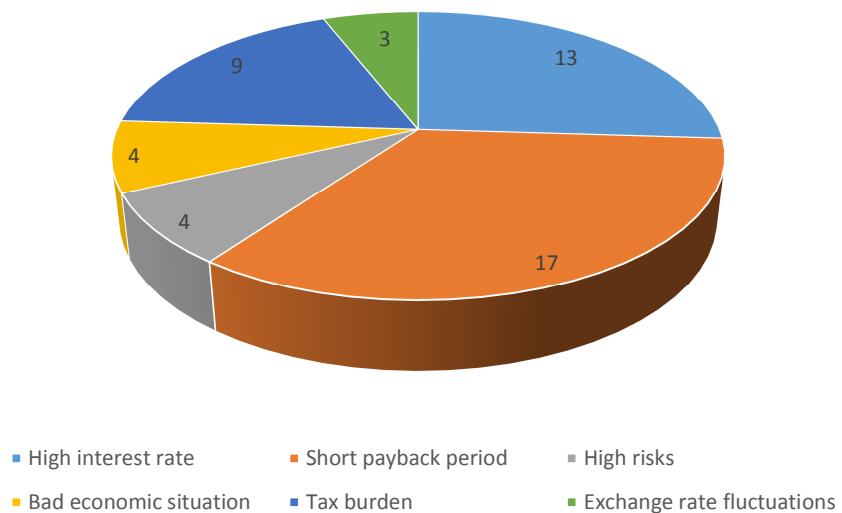


Source: own survey

Short payback period used to cause a panic for start-up companies in Mongolia. 54 % respondents think that payback period of soft loans are too short, not enough to repay back borrowed money. Moreover, the start-up companies have been complaining about tax burden that government should free new companies from tax burden in first 2 years of their activity, also a new born SMEs think the best period of repaying back loan would be 5 and more years.

Chart 5 What could be the hardest thing in repaying loans?

Challenges connected with repayment



Source: own survey

The last question of the survey was about the challenges connected with repaying back borrowed loans. As we can see from Chart 5 the biggest challenges are again high interest rates and short payback period with 30 respondent's answers. Economic crisis and high risks of starting up a new business might be a problem too. Among the popular risks of starting up a new business could be overly ambitious ideals of owner, poor business planning, physical destruction and many more.

5. CONCLUSIONS

After the collapse of Soviet Union, Mongolian economy moved from centrally planned to free market economy at the beginning of 21st century. Market economy had opened new opportunities for Mongolian small and medium enterprises. In less than 20 years, Mongolian SMEs have expanded to over 67.4 thousand companies and they cover nearly 52 % of total active entities in Mongolia. SMEs are contributing mainly near capital city, Ulaanbaatar.

The thesis allowed a detailed review of the role of SMEs in Mongolian socioeconomic development with clear intent to show reasons for the past development and to get the best possible solutions for difficulties facing SMEs in recent.

That includes characteristics of SMEs and its international and local classification, theoretical review about the role of SMEs in both developing and developed countries, state policies of selected countries for SMEs development, main challenges SMEs in Mongolia are facing today and international and local financial project towards SMEs sustainable growth

A main focus is on the financial sources for start-up businesses and sustainable growth of current assets of existing SMEs. According to the survey most of the respondents (80 %) did not have enough money to start a new business and more than half would get a loan from commercial banks. But completing requirements for loans from banks has been quite a pressure for SMEs.

Between 2007 and 2010, when Ease of doing business index in Mongolia had highest ranking, there were realized 43 financial projects by nine major banks of Mongolia. But the limits of loans were not satisfying for company owners and interest rate were relatively high. At the end of the 2010 Ease of doing business index was the lowest due to end of financial projects. Tackling issues of collateral and high rate interests at banks caused illegal money lending activities in recent 5 years. Illegal loan sharks are lending money to individuals and micro, small enterprises for one day to several months with interest rate at 10 % min. The thesis is completed by recommendations.

6. RECOMMENDATION

Within this research, implementation of recent SMEs development projects by Mongolian government and major banks were studied. On the basis of the results of this study, a question on how to improve financial burden for new and existing SMEs can be concluded.

On the basis of the results, it was concluded that Mongolian government has been supporting SMEs development through financial projects such as soft loan programs and financial leasing in the past ten years. However, those programs cannot meet market demand due to the amount offered from state budget, high interest rate and short payback period. Moreover, requirements by commercial banks are too high and entities in rural areas lack information on state projects.

- Improve public policies by generating research and providing analysis that will contribute to the public policy decision-making process.
- Contribute effective and short-term financial projects for SMEs based on the researches.
- Improve connection between state offices and public.
- Increase funding source for soft loan project, decrease interest rates and prolong the payback period.

State policies in selected developed and developing countries show that governments of those countries focus on the development of SMEs for a long time and they know that SMEs are truly the key of successful and strong economy. For example, our neighbor China has been focusing on investment into SMEs. Chinese government frees companies and individuals from tax burden up to 70 % based on their invested amount of money into the development of SMEs. For some developing countries, governments free all SMEs from any kind of tax burden in first three years of starting up new business and some of them even decrease interest rate of financial loans for new companies.

Recommendation:

- In comparison with the countries mentioned in this thesis, Mongolia does not have central information system for SMEs yet and connection between government and public is very weak.

Recent financial projects funded by donor countries contributed almost 63 billion MNT in total. The projects lack of connection between one another and most of them focuses on educational programs. Because of the lack of information in rural areas, entities in need are missing the projects.

Recommendation:

- Improve the connectivity of projects funded by donor countries.
- Eliminate overlapping financial programs.
- Reduce unnecessary costs and time spent on projects by getting rid of overlapping projects.

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8. LIST OF ABBREVIATIONS

BMOs – Business Membership Organizations

EU – European Union

ERDF – European Regional Development Fund

GDP – Gross Domestic Product

MARUKEI – Managerial Improvement Program

MGASR – Mongolian General Authority for State Registration

METI – Ministry of Internal Affairs and Communications

MNT – Mongolian Tugrik

NRSO – National Registration and Statistics Office

OECD – Organization for Economic Cooperation and Development

SBAOA – Small Business Administration’s Office of Advocacy

SMBA – Small and Medium Business Administration

SME – Small and Medium Enterprises

UNIDO – United Nations Industrial Development Organization

USA – United States of America

USD – United States Dollar

USITC – United States International Trade Commission

9. APPENDICES

9.1. Appendix A

Table 15 Selected financial projects by major banks to support SMEs, 2007 – 2010

No.	Name of bank	Type of loan	Purpose of loan	Amount	Interest rate	Loan term
1	Trade & Development Bank of Mongolia (TDB)	SMEs supporting loan	Loan secured by current assets, Equipment loan, Investment loan	150.0 million – 1 billion MNT	1 – 1.85 %	6 – 36 months
		Loan supporting imports from South Korea	TDB & South Korean Bank of Export-Import. Investment on improving imported technologies, equipment for SMEs.	5 million USD		6 – 24 months
		Japanese government loan	To support SMEs in long-term, ensure environmental protection	10 thousand USD – 1 million USD	8.8 % p. a.	3 – 10 years
		World Bank Project	Project funded by Japanese government loan, 2006	600 000 USD	MNT: 14 % USD: 11.4 %	2 – 7 years
2	Golomt Bank	Loan secured	Loan for SMEs	200	Min.	

		by current assets	in short-term	million MNT	1.4 %	
		Lines of Credit	Flexible loan offering a limited amount of money that an individual can access as needed and then repay immediately or over a pre-specified period of time	Max. 200 million MNT	Min. 1.4 %	
		Loan for employment increasing projects	For those SMEs which focuses on labor relations, and its development	Max. 10 million MNT	Variable	
3	Khaan Bank	Short-term business loans	Supports improvements of equipment in order to increase current assets	Flexible, based on annual turnover, number of employees and size of companies	21.6 – 14.4 % p.a.	18-36 months
		Quick micro loans	Same as short-term business loans	100 000 – 5 million MNT	24 % - 18 % p.a.	Max. 18 months

		Import loans	For decreasing costs related to import (tax, transportation costs)	Till 70 % amount of imported goods, equipment	21.6 – 14.4 % p.a.	Max. 6 months
		“Micro business’s support project” by ADRA	Voluntary participants of the project	500 000 – 3 million MNT	2.7 – 2.4 % p.a.	Max. 6 months
		Loan funded by Province Governor’s office	Loan funded by Selected Province Governor’s office: Huvsgul, Gobi-Altai, Bulgan provinces	Max. 10 million MNT		2-8 years
		Regional Development Program	Khaan bank & German government project on SMEs development in rural areas	Flexible, based on annual turnover, number of employees and size of companies	Flexible, based on interest rate in each region	Max. 60 months
		Mercy Corps project	Agribusiness development	500 000 – 20 million MNT	24 – 15.6 % p.a.	3- 24 months
		Loan funded	Agribusiness	Max. 10	0 %	Max. 22

		by French Food aid foundation	development, loans for small farms	million MNT		months
4	Khas Bank	Development loan	Loan secured by current assets, Equipment loan, Investment loan	Max. 3 billion MNT	1.3-1.9 %	12 – 24 months
		Financial leasing	Financial source for start-up business	30% down payment	2 – 2.6 %	24-36 months
5	Khadgalamj Bank	Micro business loan	Loan secured by current assets, Equipment loan, Investment loan	100 000 – 5 million MNT	2.5-1.6 %	12 months
		Business line of credit	To ensure continuous activities of SMEs, increase current assets	Flexible, based on business activities	2.5-1.6 %	12 months
		Investment loan	Supporting investment, new equipment	Flexible, based on business activities	2-1.2 %	Max. 5 years
6	Capital Bank	SMEs supporting loan	Loan secured by current assets, Equipment	Max. 100 million MNT	2.1-2.6 %	Max. 18 months

			loan, Investment loan			
		Manufacturing loan	Investment for SMEs in manufacturing sector	100 million MNT – 20 % of own capital	1.5-2.6 %	Max. 36 months
		Mercy Corps project	Agribusiness development	500 000 – 20 million MNT	2.1-1.7 %	3-24 months
		“Micro business’s support project” by ADRA	To support SMEs with small amount of annual turnover in Ulaanbaatar	Max. 3 million MNT	2.3-1.5 %	3-18 months
		Organic Mongolia project	Development of organic agribusiness and other environmentally friendly activities	500 000 – 5 million MNT	1 %	12-24 months
7	Capitron Bank	Loan secured by current assets	Loan secured by current assets, Equipment loan, Investment loan	20 % of own capital	1.4-2 %	Max. 18 months
		Investment loan	Supporting investment, new equipment	20 % of own capital	1.4-2 %	Max. 24 months

		Project by KfW, German bank	Investment loans, new equipment loans, supporting for continuous activities of SMEs	250 000 EUR	7.25 % p.a.	3-5 years
		Japanese International Cooperation Organization's project		10 000 – 600 000 USD	5.06 % p.a.	3-10 years
		Loan for vegetable farmers	Short-term loan for vegetable farmers to ensure the current assets and investment budget	Max. 2 million MNT	1.8-2.2 %	Max. 2 months
8	National Investment Bank	Investment loan	Investment loans, new equipment loans, supporting for continuous and start-up activities of SMEs	Min. 100 million MNT	0.5-0.8 %	1-10 years
		Line of credit	To ensure continuous	10 – 100 million	2.5-3 %	Max. 6 months

			activities of SMEs, increase current assets	MNT		
9	Credit Bank	Micro business loan	To ensure current assets of micro business	5 – 50 million MNT	2.08 %	3-24 months
		Business loan	To ensure current assets of small, medium and large enterprises	10 – 100 million MNT	1.83 %	3-24 months

Source: *Yanjin, 2014*

9.2. Appendix B

Questionnaire for individuals and SMEs of Ulaanbaatar (survey)

First part of the survey

1. Would you like to start your business?
 - a. Yes
 - b. No
 - c. Not sure
2. In case of starting your own business, how would you ensure finance?
 - a. Own money
 - b. Loan from banks
 - c. Loan from friends, relatives
 - d. Not sure
3. Do you have enough financial education for starting business?
 - a. Good
 - b. Bad
 - c. Not sure
4. Do you have enough information regarding state policies towards SMEs in Mongolia?
 - a. Yes
 - b. No
 - c. I haven't explored it yet
5. What could be the most effective way to support SMEs by government?
 - a. Providing soft loans
 - b. Tax incentives
 - c. Reducing bureaucracy

Second part of the survey

1. What is the main challenges of business expansion for you?
 - a. High interest rate
 - b. Limited market
 - c. Other

2. What are the main challenges of getting soft loans from banks?
 - a. Lack of collateral
 - b. Bureaucracy at banks
 - c. Inflexible credit agreements
3. Interest rates offered by banks are:
 - a. Too high
 - b. Acceptable
 - c. Should decrease in a long-term
4. Payback period of soft loans are:
 - a. Enough
 - b. Not enough
 - c. Not sure
5. What could be the hardest thing in repaying loans?
 - a. High interest rates
 - b. Short payback period
 - c. Economic crisis
 - d. High risks
 - e. Tax burden
 - f. Exchange rate fluctuations