

A Survey on SMEs Transaction Cost

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2017 - 02 - 10

Content

- ① Impact of SMEs on the Economic Growth and Development
 - Growth of SMEs Sector and Economic Development
 - Governmental Policy Supporting SMEs Development
- ② Main Factors affecting SMEs Development
- ③ Current Situation of SMEs Development in Mongolia
- ④ Research on the Transaction Cost of SMEs
 - Survey Objectives and Importance
 - Survey Questionnaire
 - Stratified Random Sampling
 - Survey Result
- ⑤ Conclusion Remarks

Growth of SMEs Sector and Economic Development

- The findings of research conducted recently show that SME development is strongly correlated with economic growth.
- There is no evidence that poverty and inequality will decrease as supporting SMEs. (Beck, Demirguc-Kunt, Levine, 2005)
- However SMEs share is low in total employment, their contributions are vital in generating workplace. (Ayyagari, Demirguc-Kunt, Maksimovich, 2011)

Policy Supporting the Development of SMEs

Policy Supporting the Development of SMEs is based on the following background. (Beck, Demirguc-Kunt, Levine, 2005)

- Competition and Entrepreneurship
- SMEs Productivity
- Labor Utilization of SMEs

International Organizations claim that factors below is important for SMEs development. (Abe, Troilo, Juneja, Narain, 2012)

- Business enabling environment
- Promotion of entrepreneurial culture
- Financing the business
- Business development services
- Innovation and technology development and adaptation
- Market access

SMEs development in Mongolia is induced from the adoption of SMEs law in 2007.

- The role of governmental organization in SMEs development (Ministry of Food, Agriculture and Light Industry, Regulation Agency of SME policy implementation and Support center of SMEs in Ulaanbaatar. . .)
- The role of non-governmental organizations in SMEs development (Mongolian Chamber, Mongolian Employer's Federation. . .)
- The role of international organizations in SMEs development (JICA, EBRD, IFC, SDC...)
- The role of private organizations in SMEs development (Khaan bank, Khas bank. . .)

- World Bank (2009, 2013)-Financial access, political instability and corruption...
- World Economic Forum (2014-2015)-Government organization's bureaucracy, bad regulation and the quality of human capital...
- Mongolian National Chamber Of Commerce And Industry (2004)-Government organization's bureaucracy and inspection...
- Mongolbank (2011)-Social Environmental Issues and Infrastructure Development...
- World Bank (2014)-Connecting to electricity, getting construction permits and documenting foreign trade...

Survey Objectives and Importance

Survey objective: The objective of the survey is to define the sources of transaction costs in the relation between public and private organizations and measure transaction costs faced by SMEs through all of their business operational stages.

Survey importance: Other research mainly studied about business environment, public institution and financial accessibility.

Survey Questionnaire

This survey questionnaire has 217 questions and consists of the following main parts defining the sources of transaction cost.

- Transaction cost of business registration (25 questions)
- Transaction cost of getting permits (18 questions)
- Transaction cost of tax compliance (18 questions)
- Transaction cost dealing with examination of specialized inspection (14 questions)
- Transaction cost of connecting to infrastructure (31 questions)
- Transaction cost of customs and international trade (16 questions)
- Transaction cost of enforcement of contract (35 questions)

Survey Questionnaire (Cont')

- Transaction cost of dealing with governmental organizations, local governments and public procurement (25 questions)
- Transaction cost of dealing with financial institutions (18 questions)

Stratified Random Sampling

Business Registry database in Statistical Yearbook published by NSO is used, the brief information about entities registered in this data is presented in table below.

АЖ АХУЙН НЭГЖИЙН ТОО (АЖИЛЧДЫН ТООНЫ БҮЛЭГ)				
Ажилчдын тооны бүлэг	2012	2013	2014	2015
1-9	81'382	90'270	103'791	114'463
10-19	4215	4300	4576	5556
20-49	3015	3192	3356	4092
50+	1926	1841	1879	2449
Нийт	90'538	99'603	113'602	126'560
Үйл ажиллагаа явуулж буй	51'938	54'929	59'843	64'301

Эх сурвалж: (Үндэсний Статистикийн Хороо, 2015)

Stratified Random Sampling

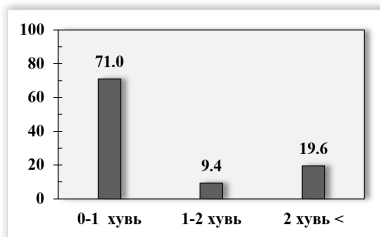
- Y1541 entities were sampled from Business Registry database in 2014 and 2015 using random sampling.
- Stratified sampling is based on the modified definition of SME in the law of 2007.

Average of Total Transaction Cost, Direct and Indirect Costs and Informal Payments of Some Fields

Fields of Transaction Cost	Direct Cost	Indirect Cost	Informal Payment	Total Transaction Cost
1 Formal registration	311	700	289	822
2 Getting permits	498	1364	1117	1609
3 Specialized inspection	1143	342	239	1254
4 Contract enforcement	1558	2048	718	1234
5 Government agencies implementing SME policies	2400	2300	1100	3100
6 Tax compliance	305	2774	2174	3433
7 Customs and international trade	7200	2400	2200	9500

Transaction Cost of Dealing with Government Agencies Implementing SMEs Policies

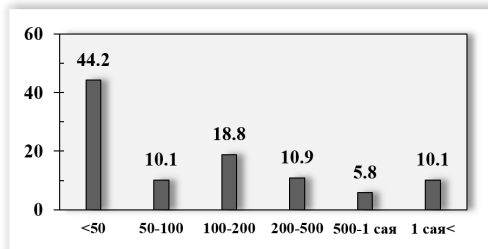
ЗУРАГ 3-22. ТӨРИЙН БАЙГУУЛЛАГАТАЙ
ХАРИЛЦАХ ХЭЛЦЛИЙН ЗАРДЛЫН
АЧААЛЛЫН ТАРХАЛТ



Эх сурвалж: Түүвэр судалгааны үр дүн, судлаачийн тооцоолол.

Transaction Cost of Dealing with Government Agencies Implementing SMEs Policies

ЗУРАГ 3-23. ТӨРИЙН БАЙГУУЛЛАГАТАЙ ХАРИЛЦАХ НЭГ АЖИЛТАНД НООГДОХ ХЭЛЦЛИЙН ЗАРДЛЫН ТАРХАЛТ



Эх сурвалж: Түүвэр судалгааны үр дүн, судлаачийн тооцоолол.

Transaction Cost of Tax Compliance

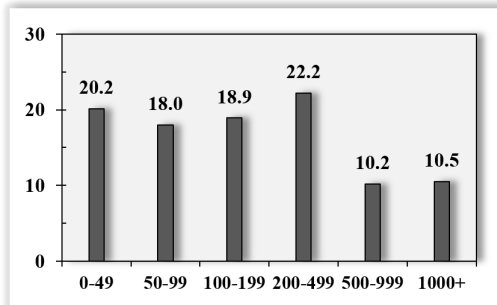
TABLE 4-1. TRANSACTION COST BURDENT OF TAX COMPLIANCE

Type of cost	The number of enterprises faced the cost	Average cost, MNT thousand	Percentage of annual turnover
Cost of seeking information and advice on tax compliance	649	305	0.2
Indirect transaction cost of tax compliance	1493	2774	1.7
Informal payment to tax officers for avoiding tax penalty	29	2174	1.3
Total transaction cost of tax compliance	1508	3433	2.0

Source: The survey findings and researcher's calculation

Transaction Cost of Tax Compliance

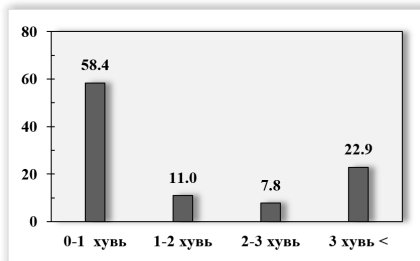
ЗУРАГ 4-4. ТАТВАРТАЙ ХОЛБООТОЙ ХЭЛЦЛИЙН НЭГ АЖИЛТАНД НООГДОХ ЗАРДЛЫН ТАРХАЛТ (ХУВИАР)



Эх сурвалж: Түүвэр судалгааны үр дүн, судлаачийн тооцоолол.

Transaction Cost of Customs and International Trade

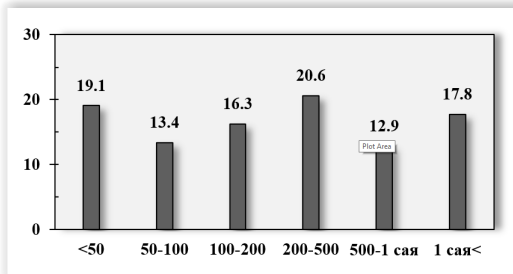
ЗУРАГ 4-7. НИЙТ ХЭЛЦЛИЙН ЗАРДЛЫН БОРЛУУЛАЛТЫН ОРЛОГОД ЭЗЛЭХ ХУВИЙН ТАРХАЛТ



Эх сурвалж: Түүвэр судалгааны үр дүн, судлаачийн тооцоолол.

Transaction Cost of Customs and International Trade

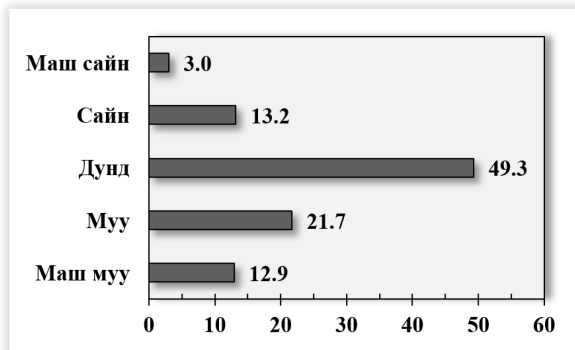
ЗУРАГ 4-8. НЭГ АЖИЛТАНД НООГДОХ ХЭЛЦЛИЙН ЗАРДЛЫН ТАРХАЛТ (ТӨГРӨГӨӨР)



Эх сурвалж: Түүвэр судалгааны үр дүн, судлаачийн тооцоолол.

Governmental Policy Supporting SMEs Development

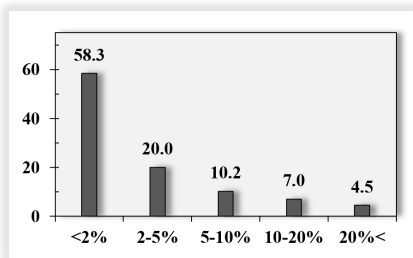
ЗУРАГ 5-12. ЖДУ-ИЙГ ДЭМЖИХ ТӨРИЙН ХӨТӨЛБӨРИЙН ҮНЭЛГЭЭ (ХУВИАР)



Эх сурвалж: Түүвэр судалгааны үр дүн, судлаачийн тооцоолол.

Total Transaction Cost

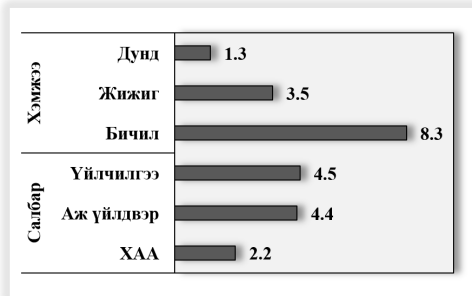
**ЗУРАГ 6-1. НИЙТ ХЭЛЦЛИЙН ЗАРДЛЫН
БОРЛУУЛАЛТЫН ОРЛОГОД
ЭЗЛЭХ ХУВИЙН ТАРХАЛТ**



Эх сурвалж: Түүвэр судалгааны үр дүн, судлаачийн тооцоолол.

Total Transaction Cost

ЗУРАГ 6-2. НИЙТ ХЭЛЦЛИЙН ЗАРДЛЫН АЧААЛЛЫН ХАРЬЦУУЛАЛТ (ХУВИАР)



Эх сурвалж: Түүвэр судалгааны үр дүн, судлаачийн тооцоолол

- Average non-market transaction cost faced by SMEs amounts to 4.4 percent of their sales turnover.
- Micro and small enterprises bear significantly greater burden of transaction cost.
- Transaction costs of tax compliance and customs and international trade is relatively high compared with other fields.
- Indirect transaction cost is the main source of burden in each procedure which SMEs have to deal with.
- Availability of and access to information of public services is a crucial step to reduce transaction costs faced by SMEs.
- The occurrence of bribes and informal payments made by SMEs is relatively low and average monetary value is lower than other types of costs.

Thank you for your attention.