

COVID19: Assessment of the Socio-economic Impacts in Mongolia



In Mongolia socio-economic impacts from the COVID19 prevention measures have been devastating for families and businesses. This report aims to highlight some of the challenges facing families and small business owners.



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1 BACKGROUND

At the beginning of January 2020, reports on a novel coronavirus (COVID19) in Wuhan, China. At the time, the Chinese government had reported more than 800 cases of the new virus and dozens of deaths. Because of the country's close proximity to China, the Deputy Prime Minister passed a resolution which considers Mongolia to be at high risk of coronavirus spread from its southern neighbor, China. The Cabinet held an irregular meeting on Sunday, 26/01/2020, to discuss preventative safety measures against the spread of coronavirus amid public fears. The cabinet ordered the closure of all universities, higher education institutions and vocational training centres and international children's camp Nairamdal until September 2020. The Cabinet also ordered to cancel all public gatherings, which include activities of training centres, cyber gaming centres, public tours, children playground centre, driving schools, etc until at least July. The Government undertook additional measures to ensure increased hospital capacity to accommodate patients in the eventuality of a COVID-19 outbreak in Mongolia. Additionally, movements of flights, auto and pedestrians at border crossings are restricted (as well as Japan and Korea).

From our observations in the field, as well as discussions with the Ministry of Education, Culture, Science and Sport (MoECSS), we found that the social isolation measures imposed by the Government of Mongolia (GoM) were negatively impacting children's education and nutrition. The current closure of schools and other measures to prevent the spread of COVID-19 by the GoM remains particularly difficult for children who rely heavily on the daily nutrition from schools. Due to the lack of food security, as a result of school closures, [partners like UNICEF](#), as well as People In Need, are concerned about the inadequate access to sufficient calories for vulnerable children and their families.



To respond to this crisis, PIN supported over 6,000 children (nearly 2,500 households) with nutrition, hygiene, and education kits during school closures in Ulaanbaatar, Arkhangai and Bulgan aimags with the financial support from the Swiss Development Agency, Embassy of the Federal Republic of Germany, People In Need HQ, and many more contributors who supported the "Clean Hands" [initiative](#) initiated by PIN in January with Breathe Mongolia-Clean Air Coalition. While this emergency response is

helpful in the short-term, the medium and long-term socio-economic impacts remain quite dire. This is particularly true for informal, micro and small enterprises, which were many of the beneficiaries in PIN's emergency response.

It's no secret that the informal economy, the economic heartbeat of Asia and Mongolia, will need help and guidance for months and years to come. In fact, micro, small and medium-sized businesses, fuel some 60 percent of the labour force in many Asian countries, according to the Asian Development Bank.

Therefore, Between April 27 and May 1 2020, People In Need, conducted a survey with informal, micro and small businesses operating in the informal sector on the impact of the novel coronavirus pandemic (2019-nCoV/Covid-19) on their business operations. The goal was to capture data on the needs and expectations with respect to what support is needed for development and economic recovery projects.

Summary of findings

- According to household data collected during the distributions of kits to 2,000 households by People In Need, 57% of those surveyed had either recently lost work and/or were concerned about the costs associated with everyone staying home all day (food, electricity, heating fuel, etc). And, 45% of respondents from the household survey saw a drop in their income.
- This survey indicates that thousands of informal businesses will be at huge risk of closing permanently, if the current situation continues for just a few months;
- Amongst the 145 survey respondents, nearly 60% of require financial assistance of 3.0-10.0 min MNT (1,000-3,700 USD) for their recovery;
- Only 5 of the surveyed informal businesses have business continuity plans to help them cope with emergency situations, such as Covid-19 pandemic;
- In Mongolia, the tourism industry has all but stopped. In places like Khatgal, COVID19 travel restrictions across the world are wreaking havoc on the local economy. The domestic and foreign tourism industry makes up 70 percent of residents' livelihoods in Khatgal soum in Khuvsgul province.
- Covid-19 has had a devastating impact on the revenue generated by the informal sector, and thousands of people, particularly women employed by the informal businesses are already at risk of unemployment as a result.
- Business owners of the informal businesses primarily need additional external financing / financial assistance with a favorable term and penalty free loan deferment on their already obtained credits.
- The international organizations need to invest in informal businesses' education and financial and technical assistance rather than pull back spending on those projects.
- Loan deferment by commercial banks is regarded as the most beneficial relief measure by the Government with 51% of the respondents, followed by providing cash support for retaining jobs (32%).
- Because of shortage in raw materials, 78.9% of the survey respondents claimed that they increased their bid price for purchasing of raw materials, followed by experiencing delay in good delivery. Meanwhile according to the survey result, one-third of the informal businesses cut their production due to lack of raw materials in the market.

2 SURVEY METHODOLOGIES AND SAMPLE

The survey questionnaire was separated into two thematic areas, including:

- 13 questions designed to define the background information of the survey respondents.
- 25 questions to capture the challenges informal sectors encounter with their business activities.

As background data, respondents were requested to provide information on their organisation's size and type (company/other organisation), primary operating field. The effects of the outbreak were analysed by requesting respondents to estimate its impact on their organisation's sales, employee numbers and future expectations.

In addition, respondents estimated whether the outbreak caused a shortage of materials or components, problems in logistics or reduced their order backlog. They were also requested to provide information on how they aimed to mitigate the risks caused by the outbreak.

Survey sampling

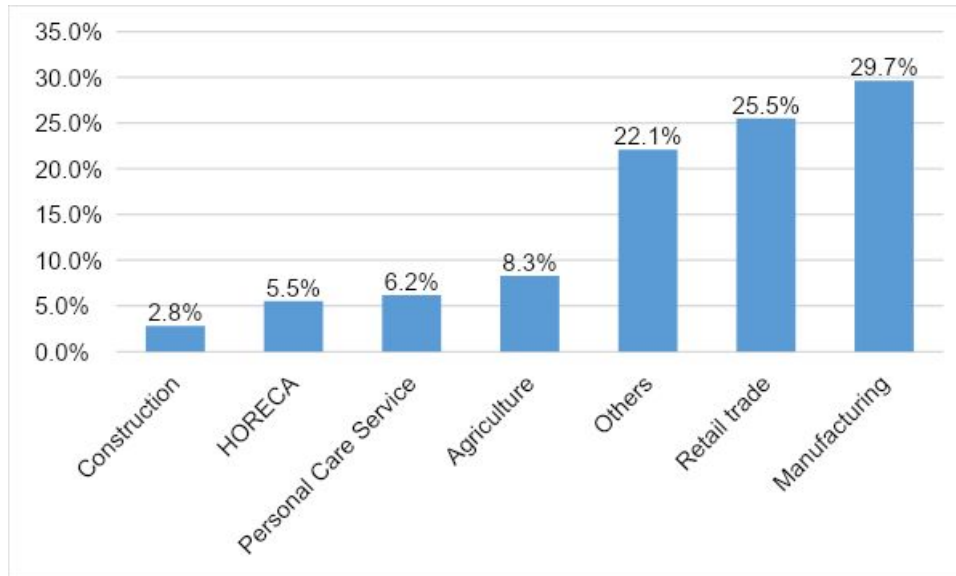
Survey interviewees included business owners and financial officers representing micro businesses operating in the informal sector. In the survey, snowball-sampling technique, where the respondents refer other respondents for data collection, is selected. The data was processed and results were tabulated using SPSS, a professional statistical software program.

A sample of 145 SMEs was collected, including: 46 informal businesses from UB and 99 informal businesses from eight aimags.

No.	Locations	Sample size	Share in total sample size
1	Bayankhongor	9	6.21%
2	Darkhan	10	6.90%
3	Dornod	9	6.21%
4	Dornogovi	18	12.41%
5	Khovd	19	13.10%
6	Orkhon	19	13.10%
7	Selenge	10	6.90%
8	Ulaanbaatar	46	31.72%
9	Zavkhan	5	3.45%
Total		145	100.00%

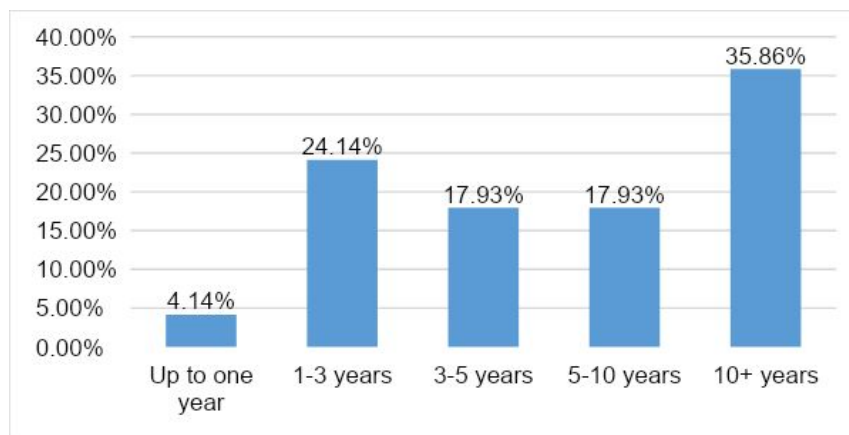
The survey team conducted the survey in the UB and eight aimags via one-on-one interviews. Out of the total survey participants, 76% were women and 24% were men.

Figure 1: The Survey Respondents by Economic Sector

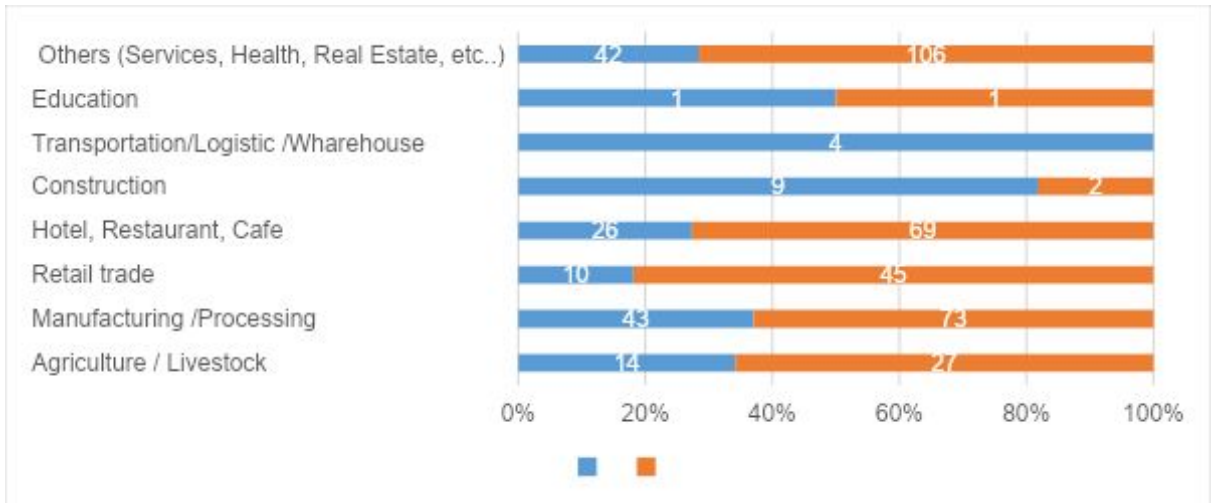


The informal businesses that participated in the survey were divided into seven categories of economic activities, depending on the economic sector in which they operate (see Figure 1). The largest share of respondents (29.7%) were from manufacturing businesses; followed by 25.5% from retail trade; 22.1% from others (health, rental, education, transportation etc.), 8.3% from agriculture businesses; and 6.2% from personal care services.

Figure 2: The Survey Respondents by Number of Years in Operation



The informal business with 10+ years in operation claimed 36% of the total respondents, followed by the businesses in 1-3 years operation. Meanwhile, the majority (104 or 72%) of the survey respondents operate a business with an average annual sales income of up to MNT 10 million while the remaining 41 operate a business with an annual sales between 10-50 million.

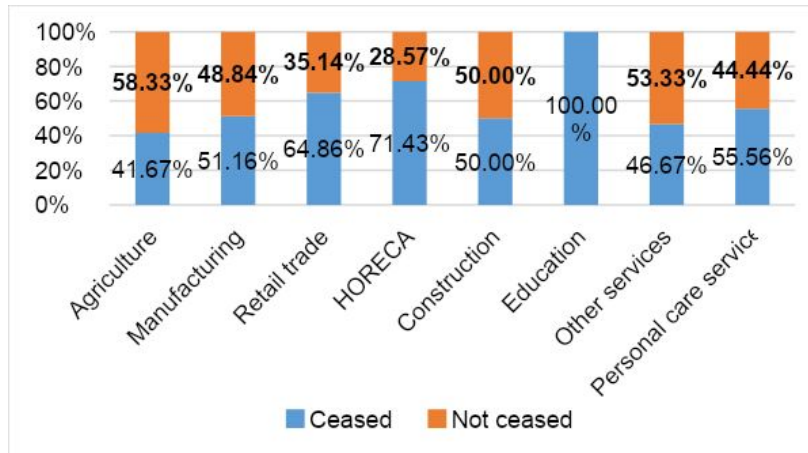


A total of 472 staff are employed by the survey respondents. Of those employees, 68% are women and 32% are men. Figure 3 illustrates that the percentage of women employees is higher in retail trade and HORECA compared to other sectors. (Figure 3)

3 SURVEY FINDINGS

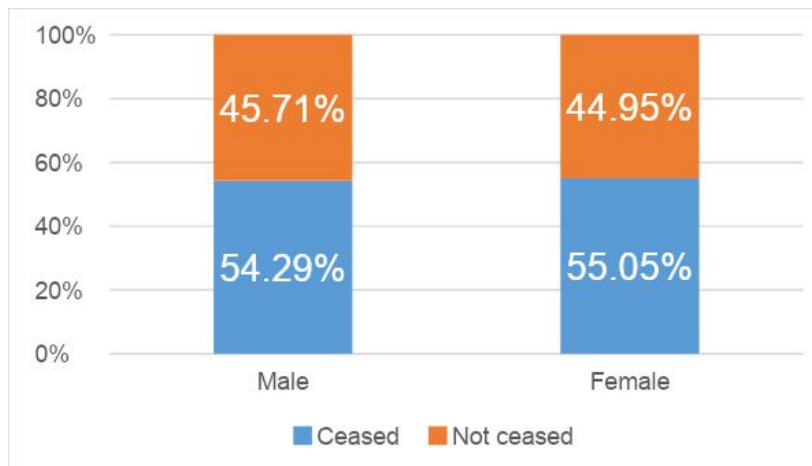
More than half of informal businesses (54.1%) responding to the survey indicated that they had encountered temporary closure of their business due to the Covid-19 pandemic.

Figure 4: Distribution of business closure by sector



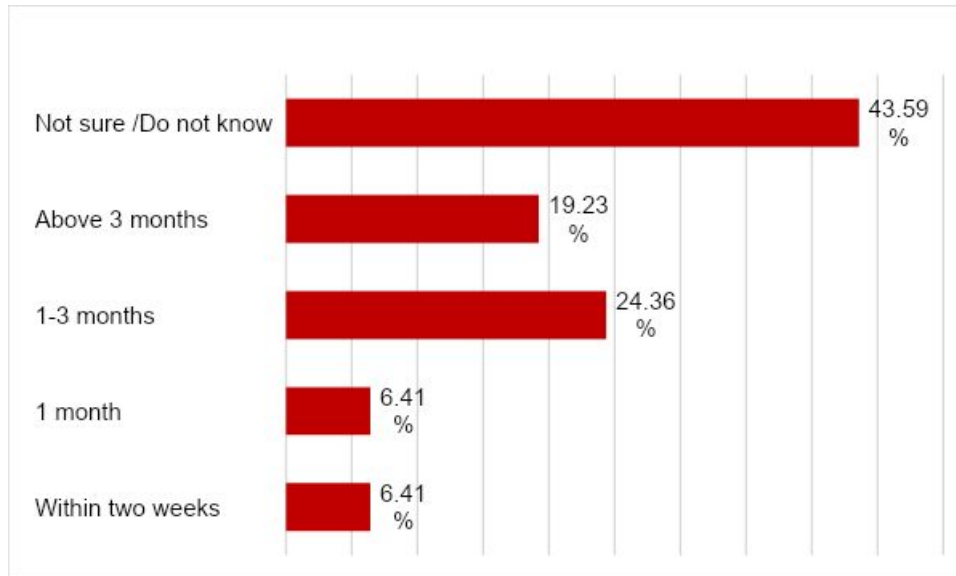
A closer examination of the Covid-19 impacts on the businesses operating shows that challenges businesses face are differed across the economic sectors. According to the respondents, the businesses operating in education, HORECA and retail trade had faced more closed than other sectors.

Figure 5: Distribution of business closure by woman-led and man-led business



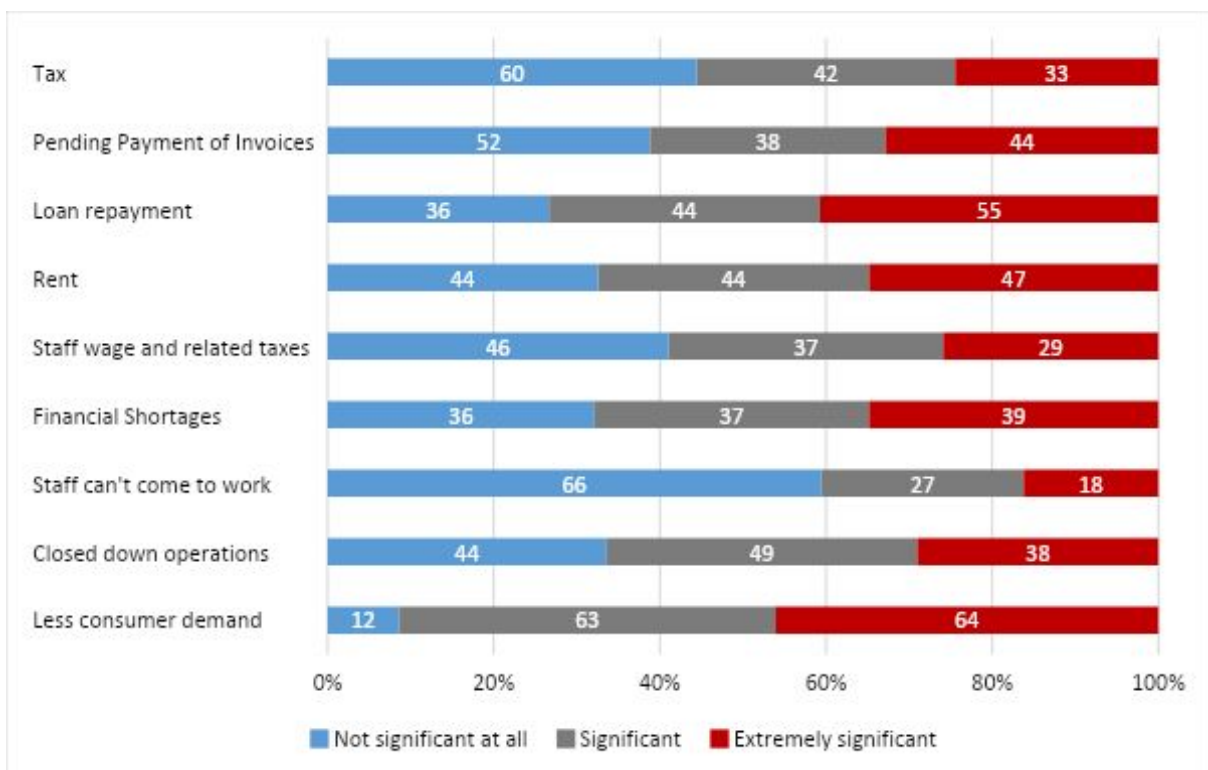
Looking at the gender, there is no considerable gap between woman-led and man-led businesses in terms of business closure.

Figure 6: Expected time for the business recovery



As we look ahead to the expected recovery period, the majority (43.59%) of the businesses whose operation ceased were not able to give a definite timeline on their recovery. Moreover, a small percentage (13%) of the respondents are expecting that their businesses will recover within a period of 1 month.

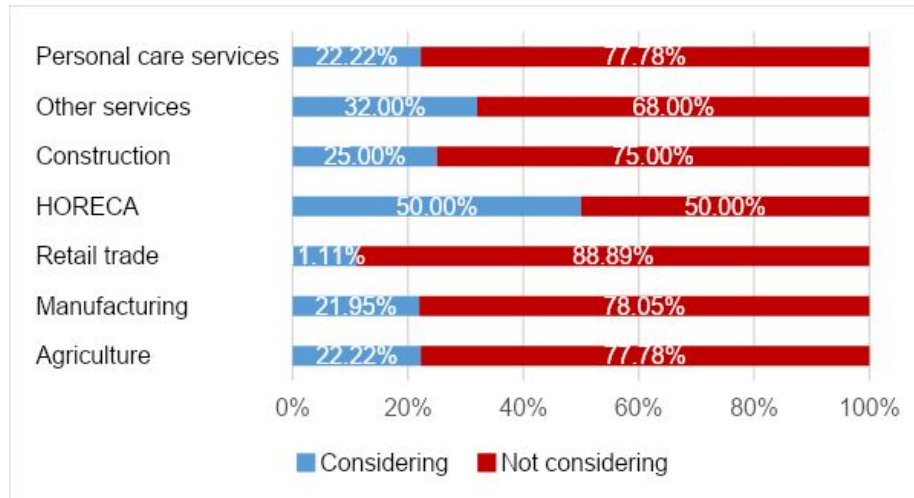
Figure 7: Primary concerns and challenges faced by the respondents



Informal businesses were asked to assess challenges they have faced on a scale of 0-2, where “0” means not challenging at all. Responses are illustrated in Figure 7.

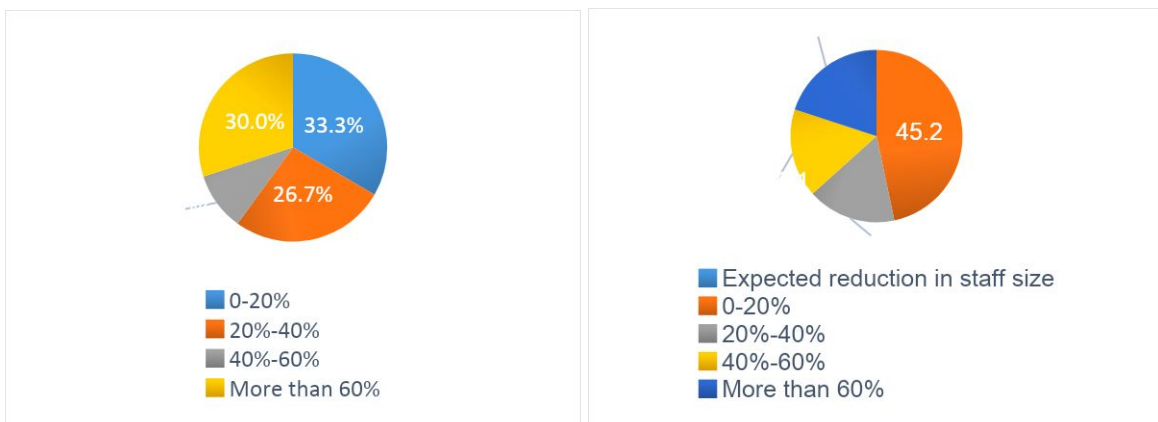
The majority of respondents (46%) indicated that the less demand from consumers or customers is the biggest obstacle they face during the pandemic. This was followed by the loan repayment (40%). Meanwhile, the unavailability of employees coming to work, costs related with wage and taxes were considered the least concerning challenges among respondents.

Figure 8: Consideration of layoff or wage reduction by Economic Sector



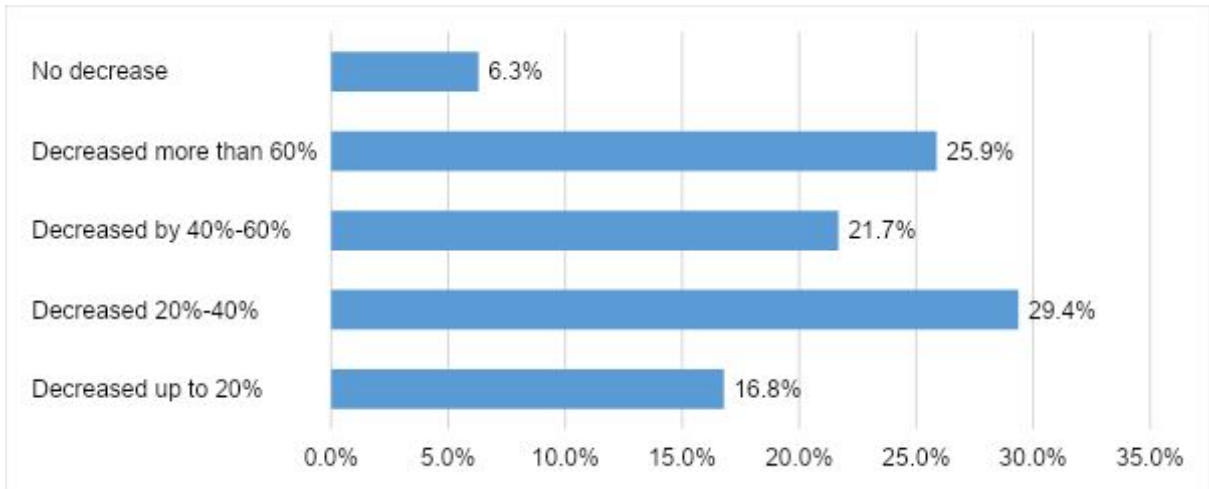
According to the survey respondents, nearly one-fourth (23%) of the informal businesses indicated that they are considering layoff or wage reduction to mitigate the impacts of the Covid-19. Among informal businesses, microbusinesses operating in HORECA and other service industries are more likely to reduce the size of their staff compared to other sectors.

As for the surveyed businesses operating in the HORECA industry, they employ more women (73% or 69) than men (27% or 23). This could mean that more women are at risk of unemployment or layoff according to the survey result.



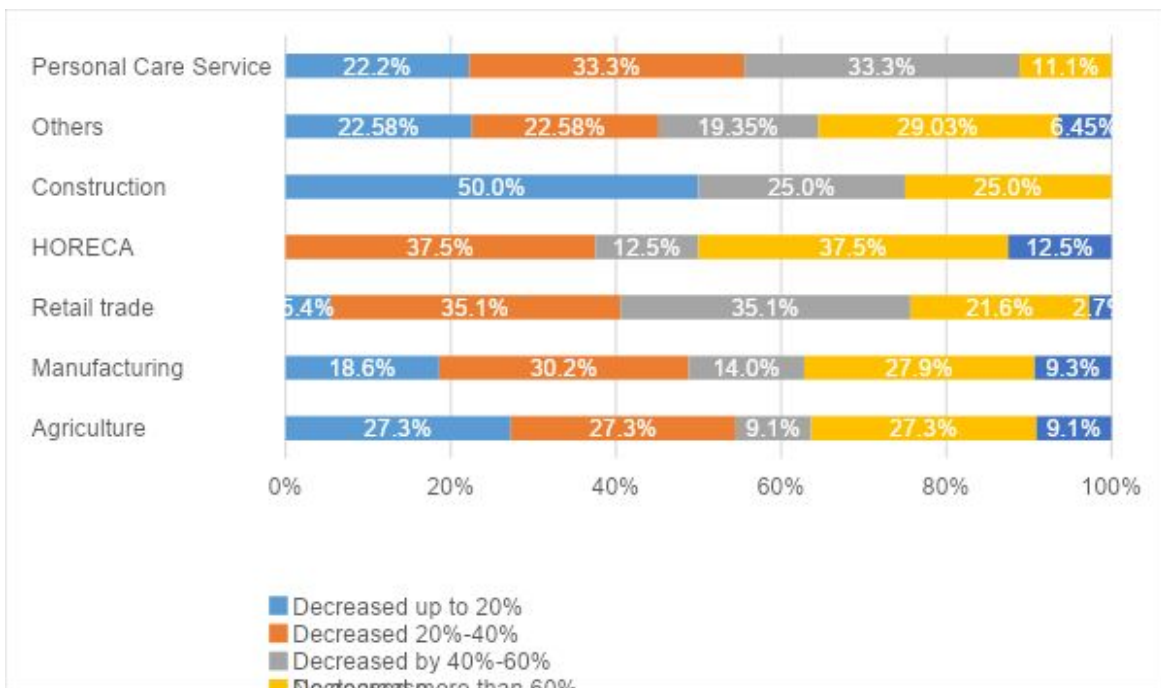
Of those considering layoff, nearly one-fifth are considering reducing the size of total staff by more than 60% while nearly half of them are speculating up to 20% reduction in their staff. As for wage reduction, one-third are expecting to cut their wage cost by 20% while 30% believe that it is necessary to cut their wage cost by more than 60%.

Figure 11: Change in Business Revenue



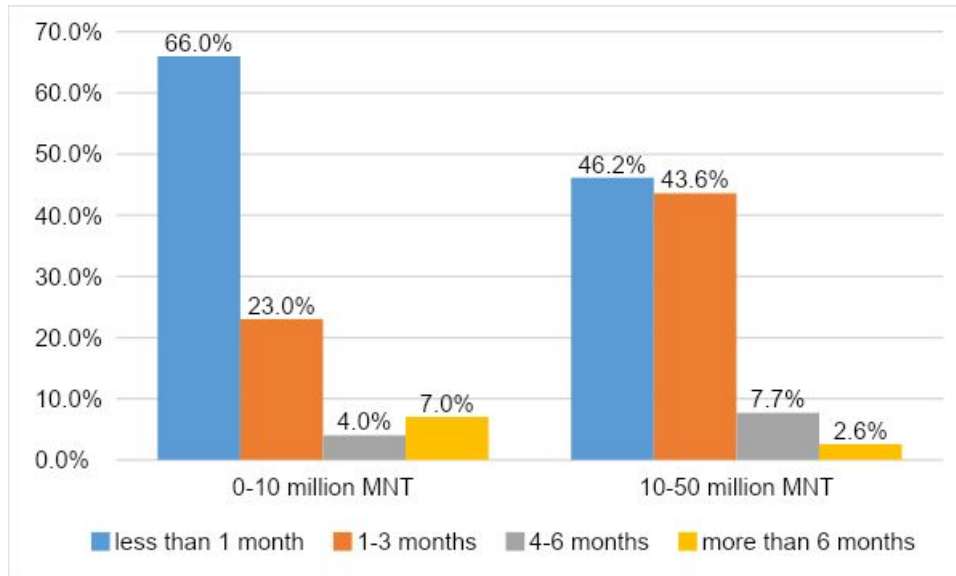
More than 90% of the survey respondents reported a decrease in their business income, whereas only 6.3% of them indicated Covid-19 had no effect in their business income.

Figure 12: Distribution of Change in Business Revenue by Economic Sector



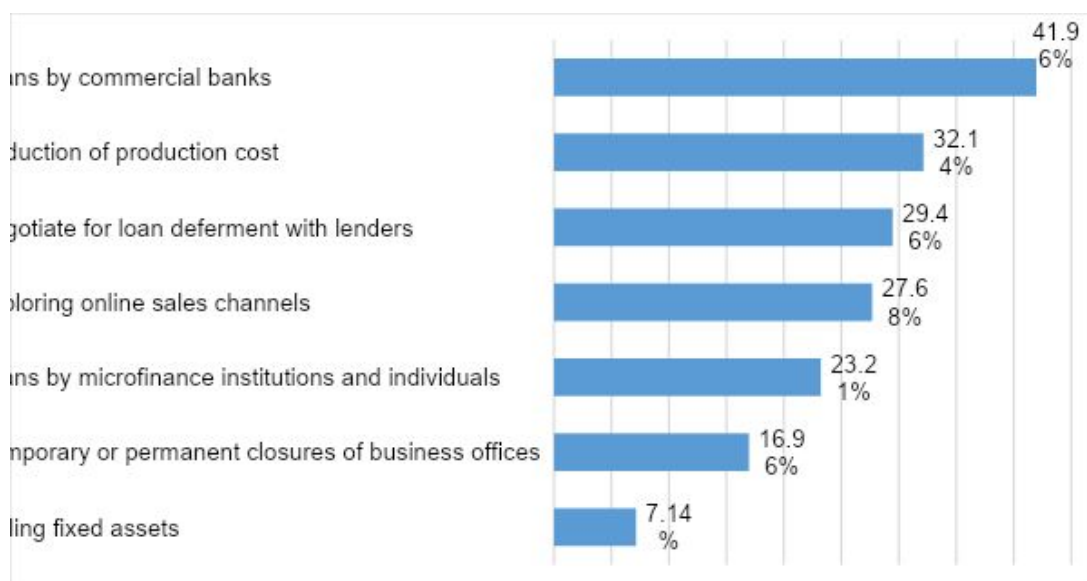
According to the survey, informal businesses from all sectors showed signs of decrease in business income. Particularly, informal businesses operating in HORECA reported more revenue loss with 87.5% of them reporting their revenue decreased by more than 20%. These dramatic reductions in revenue drive the informal businesses' expectation that their staff were at risk of unemployment or layoffs.

Figure 13: How Soon Current Cash Flow would maintain the Business Operation



More than half of the respondents claimed that current cash flow would maintain the business operation for up to 1 month. Specially, two-thirds of businesses with up to MNT 10 million annual business revenue indicated that they would be at risk of closing permanently if business disruption continued at the current rate for more than 1 month. As for relatively larger businesses, more than 80% of them are at risk of going bankrupt if business disruption continues up to 3 months.

Figure 14: Measures the Businesses Consider for Dealing with Cash Flow Problems

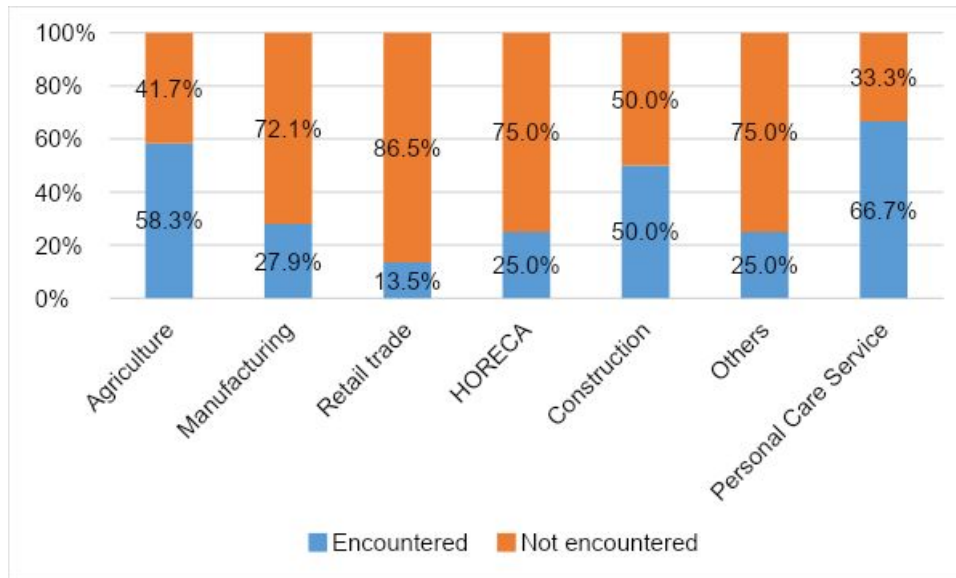


Almost two-third (62%) of the respondents are seeking additional financing from banks and other financial institutions to secure the continuity of their business, almost one-third of the respondents cut their production cost. Other notable measures include negotiation for loan deferment with lenders and exploring online sales channels.

42 or 29% of the total survey respondents claimed that they encountered the problem related to accessing raw materials. As for microbusinesses operating in personal care services including hair

barbers and nail salons, the percentage of businesses encountering problems with raw materials are higher than other sectors.

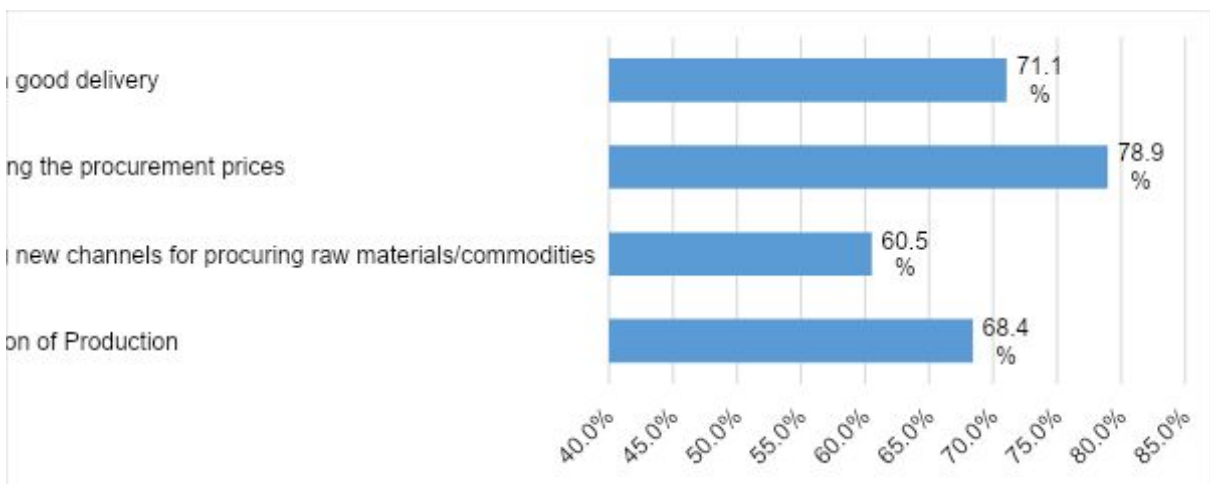
Figure 15: Distribution of the Businesses Encountering Cash Flow Problems by Economic Sector



Those who encountered problems cited price increase in raw materials as their main problem. The data collectors prompted the respondents to share detailed data on the change in raw materials price. According to their estimates, the average mean of increase in raw materials price was 38% with ranging from 6% to 125%.

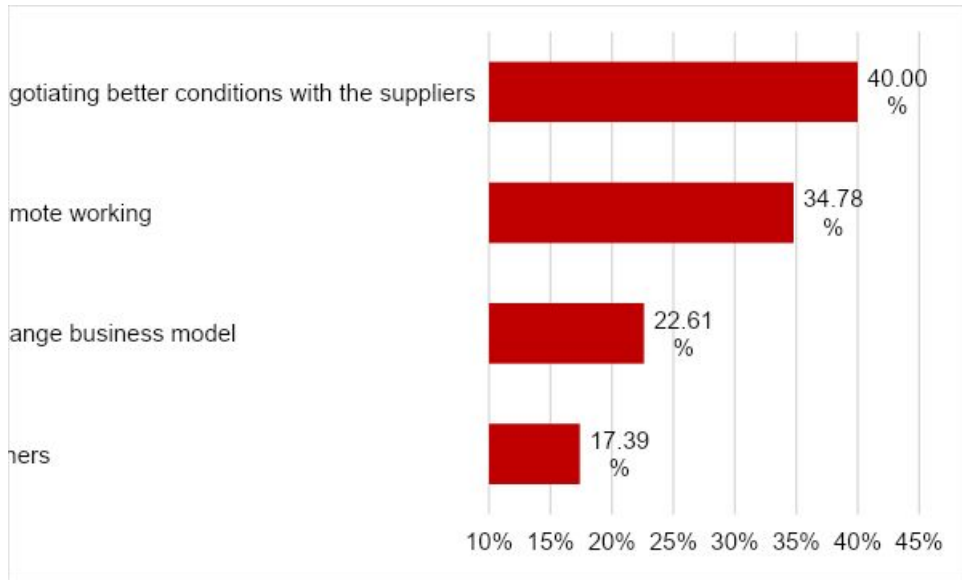
In response to price increase in raw materials, the informal businesses indicated that they increased their product price by average of 20% with a maximum of 50% price increase reported.

Figure 16: Common Responses to the Problems with Raw Materials



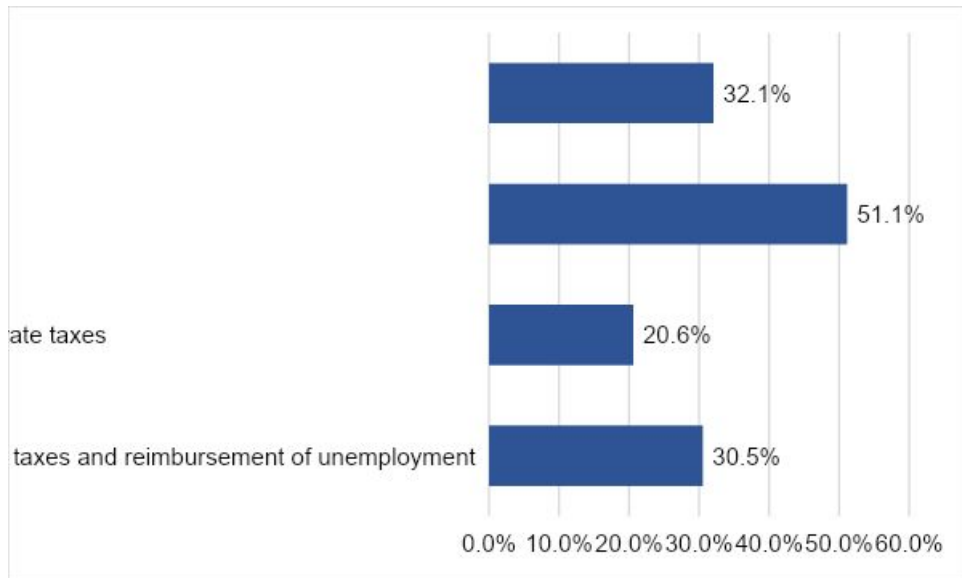
Because of shortage in raw materials, 78.9% of the survey respondents claimed that they increased their bid price for purchasing of raw materials, followed by experiencing delay in good delivery. Meanwhile according to the survey result, one-third of the informal businesses cut their production due to lack of raw materials in the market.

Figure 17: Adaptive Measures taken by the Respondents



According to the survey respondents, informal businesses are forced to introduce some new changes into their operation to mitigate the risk of exposure to the novel coronavirus. Most common measures taken by informal businesses include negotiating better conditions with the suppliers, remote working and changing their business model. Other measures include working time reduction and introducing online sales channels.

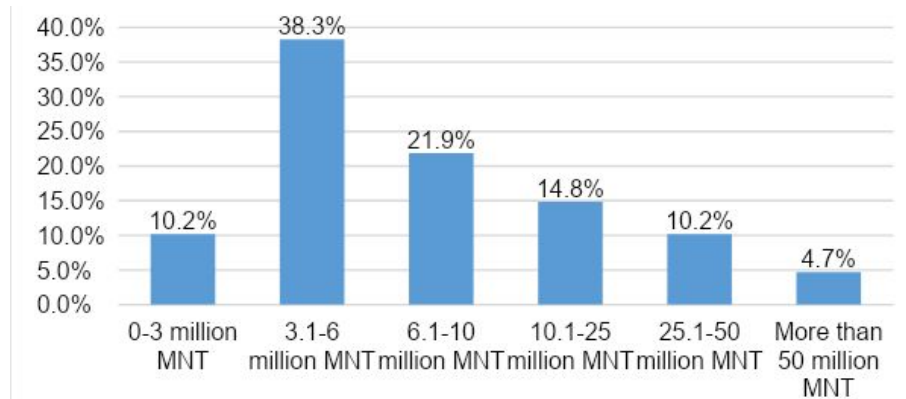
Figure 18: Most Significant Relief Measures by the Government



The survey respondents were asked to select two of the most effective relief measures among the Government's coronavirus stimulus package. Loan deferment by commercial banks is regarded as the most beneficial with 51% of the respondents, followed by providing cash support for retaining jobs (32%).

Meanwhile, half of the respondents claimed that concessional loan will be the most welcome measure during the Covid-19 pandemic, and 43.2% of the respondents mentioned cash grant as the most welcome.

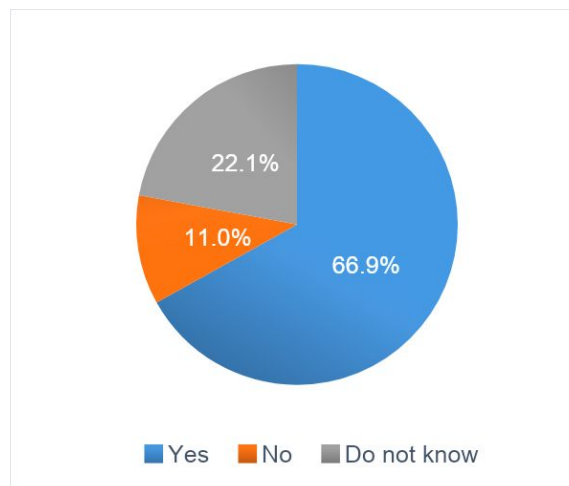
Figure 19: Value of Financial Assistance Needed for Full Recovery



The survey respondents were requested to provide a value of financial assistance that are needed for making a full recovery. 38.3% of the respondents reported that they are in need of financial assistance with a value of MNT 3-6 million. The average mean of necessary financial assistance is MNT 17.5 million as the median value equals MNT 7.5 million.

Among 145 survey respondents, only 5 informal businesses insisted that they have business continuity plans to help them cope with the emergency situations such as Covid-19 pandemic. Majority (84% or 122) of the respondents expressed an interest in participating in the capacity building intervention related to creation of such a plan.

Figure 20: Willingness to Transition into Formal Sector



Two-thirds of the respondents said that they are willing to transition into the formal sector while 22% of them were unsure about the transition. With a high percentage of the informal sector willing to transition into the formal sector, it is an encouraging sign not only of economic development but also economic governance. There are several benefits for businesses that operate formally, particularly as the formal sector tends to be more productive than the informal sector.

4 TESTIMONIALS



From 2016-2019, People In Need, with financial support from the EU, implemented the Empowered People-Improved Livelihoods Project (EP-IL). The project equipped local CSOs and cooperatives with innovative tools to improve their livelihoods. People In Need supported local CSOs to become business service providers to cooperatives, providing business information, helping them to develop business plans and apply for local funds. CSOs trained in the Business Canvas Tool collaborated with the cooperatives in

developing 32 business proposals and getting loans. After the project, local CSOs continued to use the tool.

Throughout the project People In Need promoted/increased the flow of business related information via all means of media, including SMS text messaging, daily papers, local TV stations, one-pager, brochures, and even Facebook. To this day, PIN continues to support the dissemination of useful information, particularly as it relates to COVID19 financing opportunities, through the Facebook channel set-up by the project – providing business related information and/or news for local MSMEs and cooperatives. The project supported cooperatives to improve access to market. The project’s target cooperatives earned an additional 40 million MNT by participating in trade fairs organized at the national and local levels.

Yet, these gains could all potentially be lost. The repercussions from the COVID19 prevention measures have been devastating to many of our past beneficiaries.

To better understand the impact of COVID19 on past participants in the EP-IL project, People In Need conducted interviews with four business owners and one NGO leader from the former project. Below some of their responses from PIN’s interviews with them.

“Due to COVID19 restrictions, tourists are not coming to Kharkhorin. Due to this, our sales are down. We can't even sell our products as we had in the past through the UB-based Tsagaan Alt shop. Our cooperative is now unable to pay our rent, so we had to move out our workshop from the heated place to a smaller unheated place.”

– Ms.Dumaa, traditional wool crafter, head of Zuulun Suvd cooperative in Kharkhorin, Uvurkhangai province.

“Our sales are down. It seems people do not have money in rural areas and nearly all businesses have really slowed. The most important thing is that we lack the knowledge/latest information... There is limited connection and communication being

shared to or amongst the small businesses. We just have to look up information on FB but sometimes we do not know whether the information is reliable or not.”

– Mr. Dorjsuren, a vegetable grower from Nartiin Gunt in Arvaikheer, Uvurkhangai province.

“Two of my hand-made soap and candle crafting workshops in two soums were canceled. My sales are low, almost no sales at all. I ordered a few materials but because of COVID19, my ordered materials are stuck somewhere. I cant’ get them and still waiting for when they will arrive. Everything is uncertain now.”

– Mr. Byambadolgor, a crafter and member of a cooperative from Arvaikheer, Uvurkhangai province.

“Our planned trainings organized in collaboration with the local Social Protection Department was cancelled. It is our main source of income, for a local NGO like ours. For the last five months due to the restrictions and lockdown, we have not been able to hold activities or training that were organized by our NGO. Our trainers are just waiting for when things will improve.”

– Ms. Tungalag, Cooperative Training Center, Erdenebulgan soum in Arkhangai province.

“All my planned trips were cancelled, because of the spread of COVID19 across the world. I am in difficult condition as this is my only income source. I spent all my savings preparing trips and suddenly all of them were cancelled. Some tourists requested to return their deposits, some postponed their trips to 2021. All staff are on non-paid vacations. Here in Khatgal, 70 percent of residents' livelihoods depend on foreign and domestic tourism. Now there are no tourists. Everything has stopped, we are without any income.”

– Ms. Tsenddavaa, a camp owner in Khatgal, Khuvsgul province.

5 RECOMMENDATIONS AND PROPOSED INTERVENTIONS

The social isolation measures implemented to prevent Covid-19 transmission are gravely impacting the rural and urban economies across Mongolia. Some of the most vulnerable categories are business owners: forced to temporarily close their businesses, business owners are unable to make ends meet. In Mongolia, registered business owners impacted by Covid-19 social isolation measures receive government assistance. Informal businesses are excluded. People In Need conducted a needs assessment with informal businesses. 90% of respondents stated being negatively impacted by Covid-19 social isolation implementation measures. Consequently, the People In Need is seeking to support informal businesses in meeting their critical needs and to “Build Back Better”.

Any intervention should take into account a combination of both the typical profile of the sectors and business owners, as well as their poverty status and vulnerability to COVID if other outbreaks occur. Interventions should explore whether they’re included in Government support measures, although most informal businesses are not, and provide support where needed. This can be done through a PPP approach, whereby a project works with larger private companies and financial institutions to support the financing of their businesses during this difficult period.

In terms of target sectors, any programming should work closely with the HORECA and small retail trade industries as they seem to be the hardest hit by most metrics. The assessment recently conducted by PIN sees the HORECA industry as most affected, which also has some of highest numbers of women of the sectors assessed, and highest consideration of lay-offs or wage reduction, followed by the retail trade industry, thus, leaving more workers vulnerable to a loss of income.

Here’s what can be done and how we can help:

- 1. Support business owners negatively impacted by Covid-19 to benefit from immediate economic recovery of their businesses.**
 - PIN and partners are also experienced in working with large companies, chambers, and financial banks to adopt CSR principles. By working with these private sector institutions, they too can play a role in the recovery of micro and small businesses.
- 2. Increase the number of informal and small businesses benefiting from direct financial assistance to mitigate the adverse effects of COVID-19.**
 - The informal sector has been largely left out of the economic stimulus packages provided by the Government. Two-thirds of the respondents said that they are willing to transition into the formal sector while 22% of them were unsure about the transition. There is a need to formalize the informal sector so they may receive support in the short-term, but also prevent them from future economic shocks. PIN has extensive experience providing cash assistance and access to loans/finance.
- 3. Support businesses to increase their resilience to adverse shocks and stresses.**
 - PIN has been in discussion with private sector partners to support the development of the e-commerce sector by improving logistics – potentially building a more diversified market. PIN also has extensive experience supporting MSMEs to develop

business continuity plans.

4. Advocacy and awareness raising to governmental stakeholders, financial institutions, business associations and communities.

- The PIN has proven experience working with high level stakeholders in both the public and private sectors, respectively.