

INDEPENDENT AUTHORITY AGAINST CORRUPTION OF MONGOLIA

The Result of the Mongolian Corruption Index 2009 (summary)

ULAANBAATAR CITY
2010 YEAR

I. What is Mongolian Corruption Index?

Mongolian Corruption Index (MCI) is summary of comprehensive qualitative and quantitative indicators which defines extent and form, causes of corruption and demonstrates spatial and periodical changes of this phenomenon.

In other words, MCI refers to:

- Extent of corruption or scope of corruption and its social and economic consequences
- Corruption forms or situations of phenomenon of corruption
- Causes of corruption or influencing factors for corruption

The above mentioned indicators express periodic changes and differences of corruption in government administrative institutions.

What are specific features of the Mongolian Corruption Index?

The Mongolian Corruption Index (MCI) has following specific features compared to Corruption Perception Index (CPI) developed by the Transparency International and corruption indicators of other international organizations.

- ✓ First effort to measure corruption by integrated quantitative indicator in the national level;
- ✓ It is not only based on perception indicators, but based on both the perception and objective/factual data ;
- ✓ A phenomenon of corruption is studied in its aspects: extent, forms and causes.

II. The rationale and purposes of the corruption index

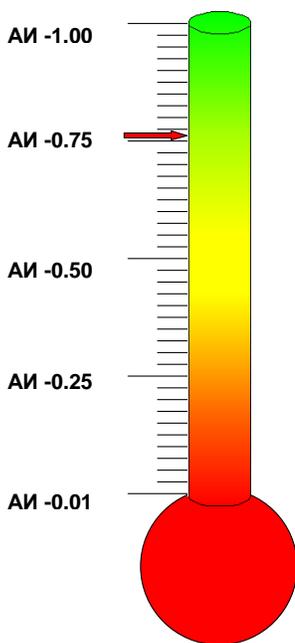
The MCI is based on following legal provisions:

- Article 18 of Anti-Corruption Law of Mongolia on “Functions and mandate of the Independent Authority against Corruption”: Provision 18.1 which states “The Independent authority against corruption assumes the following functions to educate and raise public awareness and prevent corruption”; and Provision 18.1.3 which states that “Conduct a study on scope, form and cause of corruption at least once every two years and develop a corruption index and inform the public”
- The State Great Hural’s Resolution no. 13 of 2008; Millennium Development Goal 9: Strengthen human rights and foster democratic governance; Millennium Development Target 24: Develop a zero tolerance environment to corruption in all spheres of society; Indicator 65: Corruption index

MCI is developed for the following purposes:

- ❖ Determine periodic changes of the phenomenon of corruption;
- ❖ Evaluate implementation of anti-corruption policy of government;
- ❖ Identify factors that influences scope and forms of corruption and develop further anti-corruption policy and program;
- ❖ Assess impact of anti-corruption efforts of central government institutions, sectoral ministries and local government organizations and their vulnerability to corrupt practices;
- ❖ Provide wide range of information related to corruption for state institutions, international organizations, research agencies, non-government organizations, Experts and public.

III. The methodology for the corruption index



The quantitative indicators of corruption index are the arithmetic mean of the indicators of scope and form of corruption. Corruption index is measured between 0-1 values and if indicator is closer to 1, the less is corruption.

The following indicators demonstrate **scope of corruption**:

1. Public and researchers' perception on scope of corruption or the percentage of public and researchers that feels corruption is widespread
2. Indicator of economic consequence of corruption or the percentage of economic damage due to registered corruption crime in annual national budget expenditure for given year
3. Percentage of corruption according to researchers' perception or percentage of corruption and bribe in total cost of a certain type of transactions
4. Percentage of bribe paid to public officials in the household income.

The following indicators were used to define **indicators of forms of corruption**:

1. Percentage of corruption crime with multiple objects;
2. Percentage of corruption crime with more than two recurrence;
3. Percentage of organised corruption crime;
4. Indicator of classification of corruption crime;
5. Percentage of corruption with greedy motivation;

IV. Scope of corruption index and its information sources

The corruption index is a quantitative indicator to demonstrate scope, forms and causes of the corruption within certain areas or aimag and capital city, their local administrative and self-governance institutions and central government institutions, line ministries and their local units and subsidiaries.

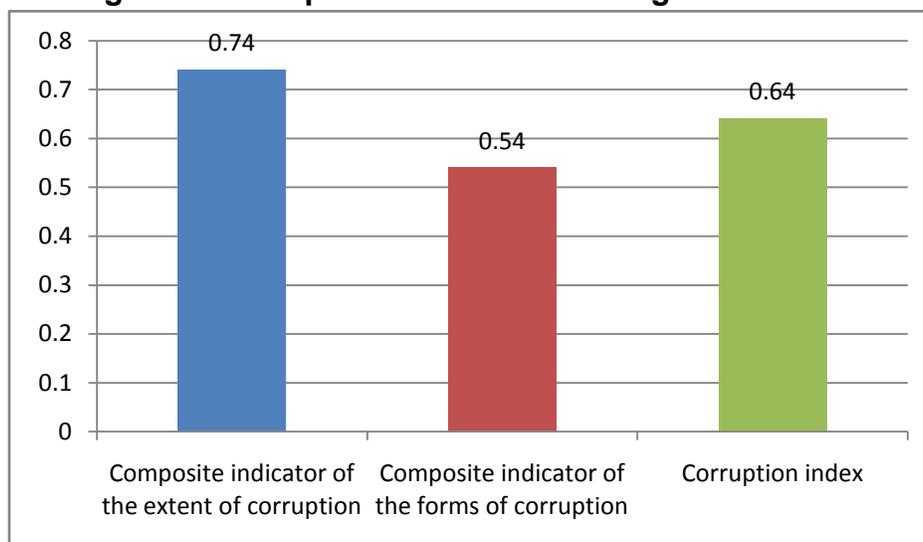
Following surveys and studies were conducted for development of the corruption index:

- “Public perception survey”, involving total 6001 respondents including ordinary citizens, public officials and business entrepreneurs.
- “Experts’ perception survey”, involving 350 Experts representing all the sectors.
- Self-assessment of Public institutions on corruption risk or review of reports on implementation of anti-corruption law by public institutions involving all state agencies and ministries.
- Factual/evidence based study was done including corruption crime statistics and other related data of last 2 years from 2008 to 2009.

V. Outcome of development of corruption index

National average of the corruption index was based on the above indicators estimated in accordance to the methodology was 0.64. The significance of this index is that it will be base data for further bi-annual development of the corruption index and its further changes and the factors contributing to those changes. The composite indicators of scope and forms of corruption and as an integral part of the corruption index are 0.74 and 0.54 respectively (Figure 1).

Figure 1. Corruption index and its integral indicators



Regarding each of the indicator on scope of corruption, the indicator of the public/Experts' perception on the scope of corruption is 0.75 (Table 1). In other words, corruption is widespread and common in Mongolia according to the average of the indicators of perception of the public and of the Experts'.

Table1. Indicators of the scope of corruption

Indicators	Value
Public/Experts' perception on the scope of corruption	0.75
Indicator of the economic consequences of corruption	0.03
Percentage of corruption according to Experts' perceptions	0.10
Average percentage of bribes paid by public to public servants	0.15
Composite indicator of the scope of corruption	0.74

The value of 0.03 of the indicator of economic consequence of corruption means that the corruption crime caused 2.7 percent loss in the annual national budget expenditure. As well as the value of the corruption percentage is 0.10 according to Experts' perception. This indicates that assets equaling to 10.4 percent of the average cost of the agreements/transactions related to government programs and projects, procurement of goods and services with national and local public funds, debt solution and civil litigations and tax deductions and exemptions are spent as bribes, according to the perception by Experts This includes 10.1 percent of the cost

of government projects and programs, 10.45 percent of the cost of procurement purchases, 9.38 percent for debt solution and civil lawsuits and 11.5 percent of the due tax in pursuit of tax deductions or exemptions are paid for corruption as bribes.

13.3 percents of respondents in the public perception survey said that their families had to pay bribe to public servants during the last 12 months and that they paid 14.6 percent of their annual household income or 240.8 thousand *tugrig* to bribe public officials. Of the 677.8 thousand households of Mongolia, 13.3 percent have given bribe to public officials during the last 12 months and each household spent in average 240.8 thousand *tugrig* to bribe. Based on these indicators, the total bribe paid by households to public officials is 21.7 billion *tugrig*.

The indicator of the types of corruption is 0.54 and, as for its components, the percentage of multiple objects corruption crime is 0.31, percentage of recurred corruption crime is 0.30, percentage of organised corruption crime is 0.42, the indicator of classification of corruption crime is 0.37 and the indicator of corruption crime motivated greed is 0.91 (Table 2).

Table 2. Indicators of the forms of corruption

Indicators	Value
Percentage of multiple objects corruption crime	0.31
Percentage of recurred corruption crime	0.30
Percentage of organised corruption crime	0.42
Indicator of classification of corruption crime	0.37
The indicator of corruption motivated by greed	0.91
Composite indicator of the types of corruption	0.54

VI. Corruption index by each sectors

Development of the sector corruption index is based on the result of the Public perception survey and Experts' perception index. It is based on the assessment of public officials who are working on given sector and Experts who consist of public officials who have worked in the given sector many years and have deep knowledge about the sector, officials of the international organizations which are cooperating and implementing projects and programs in given sector, and business entrepreneurs working in the sector.

In a simplified way, the sector corruption index can be understood as sector corruption risk assessment. The sector corruption index calculation was based on the perception of public servants and of the Experts according to following 14 indicators:

1.	The percentage of public servants and Experts' perception about corruption in the certain sector as widespread and common;
2.	The percentage of public servants and Experts' perception that the anti-corruption work in the certain sector is inefficient and incompetent;
3.	The percentage of Experts' perception that anti-corruption commitment of the leaders in the certain sector is low
4.	The percentage of Experts' perception that conflict of interest among the officials in the certain sector is widespread
5.	The percentage of Experts' perception that the structure and system of the certain sector fails to meet the basic criteria of good governance (the basic criteria of good governance are transparency, accountability and the criteria of integrity).
6.	The percentage of public servants perception that the financial performance of public institution is not always open to the staff
7.	The percentage of public servants perception that the decisions of the leadership of the institution is not always open to the staff
8.	The percentage of public servants perception that the performance of the institution is dependent on politics
9.	The percentage of public servants perception that incentives and awards given by the leadership are unrealistic
10.	The percentage of public servants perception that the sector officials always create red tape
11.	The percentage of public servants perception that the sector officials make decisions based on bribe
12.	The percentage of public servants perception that the sector officials work with attitude of nepotism and favoritism
13.	The percentage of public servants that said citizens, clients, high ranking officials, friends, fellows, members of partner organisations, co-workers, representatives of political parties, business entrepreneurs and their relatives have made illegal proposals to them during the last 12 months
14.	The percentage of public servants that said there have been cases of attempts to give bribe to them.

After calculation of these indicators, the arithmetic mean value of them was subtracted from 100 to yield the corruption index of the given sector (Table 3).

Table 3. Corruption index, by each sector

No	Sector classification	Corruption index
1	Within the responsibilities of Minister of Defense	0.71

2	Within the responsibilities of Minister of Welfare and Labor	0.69
3	Within the responsibilities of Minister of Environment and Tourism	0.65
4	Within the responsibilities of Minister of Education, Culture and Science	0.64
5	Within the responsibilities of Minister of Road, Construction and Urban Development	0.64
6	Within the responsibilities of Deputy Prime Ministers	0.63
7	Within the responsibilities of Minister of Foreign Relations	0.63
8	Within the responsibilities of Minister of Finance	0.63
9	Within the responsibilities of Minister of Food, Agriculture and Light Industry	0.63
10	Within the responsibilities of Minister of Justice and Home Affairs	0.61
11	Within the responsibilities of Minister of Health	0.61
12	Within the responsibilities of Minister of Energy and Mineral Resources	0.47

VII. Corruption index by each aimags/capital

Development of the corruption index by each aimags/capital was based on the results of the citizens' corruption perception survey, public servants' perception survey, business entrepreneurs' perception survey and Experts' perception survey. The aimag/capital corruption index was includes local government institutions in all levels.

The *corruption index for a given aimag/capital* can be understood in a simplified way as a *corruption risk assessment of a given aimag/capital*. The aimag/capital corruption index was calculated according to the following 12 indicators:

1. Percentage of the public and Experts' perception that corruption is widespread in the aimag/capital
2. Percentage of public servants of local administrative and self-governance institutions and Experts' perception the anti-corruption work in the given aimag/capital ineffective
3. Percentage of Experts' perception that the anti-corruption commitment of aimag/capital leadership low
4. Percentage of Experts' perception that conflict of interests among the officials of the aimag/capital widespread and common
5. Percentage of Experts' perception that the structure and system of the local administrative institutions fail to meet the basic criteria of good governance (the basic criteria of good governance are transparency, accountability and the criteria of integrity).
6. The percentage of citizens perception that the public institutions of the aimag/capital and public servants make decisions under political influence
7. The percentage of citizens perception that the public institutions of the aimag/capital and public servants make decisions under influence of nepotism and favoritism
8. The percentage of citizens perception that the public institutions of the aimag/capital and public servants make decisions due to bribes

9. The percentage of citizens perception that the public institutions of the aimag/capital and public servants always create red tape
10. The percentage of citizens perception that the public institutions of the aimag/capital and public servants work with inadequate level of responsibility
11. The percentage of citizens perception that the public institutions of the aimag/capital and public servants are always impolite with citizens and clients
12. The percentage of citizens that gave bribes to public servants during the last 12 months.

The corruption indices by aimags and capital vary between 0.47-0.71 (Table 4).

Table 4. Corruption index by each aimags/capital

N	Aimag and the Capital city	Corruption index	N	Aimag and the Capital city	Corruption index
1	Tuv	0.71	12	Govi-Altai	0.59
2	Govisumber	0.67	13	Sukhbaatar	0.58
3	Dundgovi	0.66	14	Bayankhongor	0.58
4	Dornogovi	0.66	15	Khentii	0.56
5	Bulgan	0.66	16	Khuvsgul	0.55
6	Zavkhan	0.64	17	Umnugovi	0.55
7	Selenge	0.64	18	Bayan-Ulgii	0.54
8	Ulaanbaatar	0.60	19	Uvs	0.54
9	Uvurkhangai	0.60	20	Orkhon	0.49
10	Darkhan-Uul	0.60	21	Khovd	0.49
11	Dornod	0.59	22	Arkhangai	0.47

VIII. Findings from the Public perception survey

Young people are more critical about the government's anti-corruption activities and the relatively higher percentage of younger people feels that corruption is extremely widespread and common in Mongolia. Thus, we conclude that younger people are more willing to be intolerant to corruption. *It will be more effective to begin the awareness building work from the young generation and students.*

The question "How widespread is corruption in Mongolia?" was answered by 79.4 percent of the participants as widespread. The question "How widespread is corruption in your aimag/capital?" was answered by 51.6 percent of the public servants as widespread. The question to public servants "How widespread is corruption in your sector?" was answered by 35.7 percent as widespread. *Such a divergence can be explained by the perception of citizens that corruption is extremely widespread at top levels, namely in central government administrative institutions and in the political, legal and enforcement circles and the perception by public servants that corruption is widespread in the political circles.* Another supporting example is that 66.8 percent of the respondents answered the question about the spread of

corruption at certain levels as highly widespread, 58.4 percent perceive political parties are deeply corrupt, 55.0 percent perceive the parliament is extremely corrupt and 49.8 percent perceive public officers are very corrupt. *Additionally, the percentage of public officers perceiving corruption in the given sector tends to increase with lowering the level of management.*

The percentage of public servants that said that defaults such as politically influenced decision making, red tape, bribed decision making, lack of accountability, and impolite treatment of clients, nepotism and inadequate confidence of public employees do exist in public organisations to a certain extent was viewed in pairs. This analysis has demonstrated strong correlation between red tape and nepotism (correlation level 0.91), between bribed decision making and nepotism (correlation level 0.91), between impolite treatment of clients and inadequate confidence of public officers (correlation level 0.92) and between red tape and bribed decision making (correlation level 0.89). *Therefore, red tape serves as a basis for corruption and the low confidence of public servants is a basis for impolite and primitive treatment of citizens and clients.*

The findings of the study demonstrate that mostly citizens and the public take the initiative offering bribe to public servants. *As citizens and public possess insufficient knowledge and information on the public services and on the rules and procedures of handling their issues, they seek solution by offering bribe. Open and transparent provision of information on public services and their rules, procedures and requirements to the public and clients in a comprehensible way is an important step towards prevention of red tape and corruption.*

The findings of the study demonstrate that the indicators of lack of accountability, bribed decision making, making decisions under influences of political parties, red tape, inadequate confidence of public employees, ineffective anti-corruption work in the sector and unrealistic incentives, awards and appointments are strong factors contributing to the spread of corruption in the sectors. Hence it can be concluded that the dependence of the sector operations on political parties, appointment of unconfident staff under decision of political parties, irresponsible actions, red tape and bribed decision making of those politically appointed staff and corresponding failure of the anti-corruption activities in the sectors and unrealistic awards and appointments are reasons for the high level of corruption in the sectors.

The results of the business entrepreneurs' perception of 2009 is basis for conclusions that the government and business are in an unhealthy relation in which businesses support politicians and public officials and gain their profit correspondingly. *Foreign investment entities and joint stock ventures have a stronger tendency to provide contributions and support to central and local government administrative institutions. Correspondingly, corruption and bribery are hidden behind such generosity.*

An interesting finding is that 3.9 percent of entities with public shares have given contributions to political parties. *This finding demonstrates that the leaders of entities with state investment offer financial support to politicians and political parties in an attempt to stay at their*

posts. This issue can be solved by improving the management and structure of the shareholders' representative councils of public investment companies in a way preventing the above situation.

According to the answers to the questionnaires, one third of foreign investment entities and joint ventures and one fourth of export companies have paid bribe to public officials during the last 12 months. *Therefore, it is necessary to address the issue that it is more widespread among foreign investment entities to bribe public officials and politicians to operate their businesses in Mongolia. Companies operating in the mining and construction sectors tend more to offer bribe to public officials.*

IX. Findings from the Experts' perception survey

The Experts' corruption perception survey of 2009 for collection of data for calculation of the corruption index engaged not only the representatives of the central government administrative institutions and their local branches but also representatives of entities operating businesses in the given sectors, international and non-governmental organisations implementing projects and programs in the sectors and researchers. This made the survey serious study gathering important information for assessment and conclusions on the extent, forms and causes of corruption in the sectors and on the anti-corruption work of the leadership of the sectors.

Though the upper level supervising institutions of the given sectors do have anti-corruption strategic plans, the Experts' opinion was that the sectors have no anti-corruption strategy. This indicates that the sectors fail to build awareness on their strategies, that the existing strategies are ineffective and do not penetrate the lower level agencies. The causes of the ineffectiveness of the sector anti-corruption strategies are identified by the Experts' as the anti-corruption strategic plans being exhibits in paper which the leadership has little commitment to make reality. They also explained the reasons of such ineffectiveness by the lack of adequate promotion of the objectives of the anti-corruption strategic plans to the sector organisations, lack of criteria for evaluation of the outcomes of the strategy implementation, lack of clear ownership of responsibility for their implementation, failure to allocate budget for the implementation of the anti-corruption plans, failure to ensure participation of the employees in the development of the anti-corruption strategies, inclusion of unachievable objectives in the plans, lack of leadership support for the implementation of the anti-corruption plans, failure of the strategic plans to reach the sector units and inappropriate approaches of implementation.

According to the Experts', there is a deep conflict of interests among the sector leaders. The study revealed that sectors lack rules, procedures and regulations of reporting conflict of interests and for prevention of conflict of interests. The data of the research also has indicated that the public institutions work insufficiently to amend codes of conduct of their officers with provisions on corruption and bribery, to introduce regulations concerning gifts, personal relations with partner organisations and cooperating individuals, moonlighting and double

employment and to include provisions on corruption and bribe in the contracts and agreements of public institutions with business entities and other parties. These findings point at the further directions of actions to be undertaken for preventing and combating corruption.

X. Conclusions from the implementation of anti-corruption law

Since Independent Authority against Corruption established, it has paid more attention to the submission of assets and income declarations of person specified in the Anti-corruption Law. It was important success in the implementation of anti-corruption regulations due to person specified in the law has been in the routine to submit their assets and income declarations on time which specified in the law. In the further Independent Authority against Corruption should consider on the coverage submission of assets and income declarations, monitoring of its reliability and analysis of it.

Implementations of the anti-corruption law vary among ministries, agencies and their lower level units. Also survey result shows that planning of objective and effective measurements is needed.

XI. Conclusions from audit report

According to performance audit report of the Mongolian National Audit Office, there are there are following conditions for emergence of corruption and embezzlement of state budget:

1. Inadequate internal financial supervisory and monitoring mechanism in special funds of government. Some funds are not under control of board and monitoring board. There is no clear legal framework for spending special fund of government. It leads to embezzlement of various fees, payments and revenues of the fund and inadequate collection of fund debts and exceeding fund budget etc.
2. Poor cooperation among government organizations and poor estimation of operational budget leads to financing that exceeds actual spending, inadequate mechanism to report not spent fund. This is demonstrated by audits of implementation of the “School lunch” program of secondary schools, misuse of state fund to support households and children and organization of the welfare services.
3. Government agencies and ministries financial planning and its monitoring are very inadequate. Therefore, the agencies and ministries attempt to plan low revenue and more spending and thus it looks as if the ministries and agencies saved cost. They spend the extra budget for administrative purposes and purchases of equipments and for social issues of staff etc. This leads to uncontrolled spending of budget by high ranking officials. Agencies and central government institution still finance some costs of ministries.

4. No legal framework to keep balance of health insurance fund and other funds in bank and this issue is left to departmental heads, accountants. This leads to misuse of funds.
5. Late announcement of various bids and procurement services leads to amendment of bidding regulations and corrupt practices.
6. Legal provision on informing the public on result of bids and procurement services is inadequately implemented. This violates the principle of open, transparent bidding.
7. It was common among government organizations that wrong method to select contractor was used. Agreements with contractors selected by wrong method were signed directly by government institutions.
8. Mechanism to monitor implementation of agreement with contractors is inadequately placed. Therefore, government institutions are unable to deal with contractors that implemented the contract inadequately.
9. Needs to create database of businesses that participate in bidding and develop list of businesses that inadequately fulfilled previous contracts and needs to be excluded from future bidding. Without the database and the list, the businesses involved in poor contractual implementation and corruption can take part again in bidding.

Financial audits conducted by the National Audit Office have revealed the financial faults of 1908.1 billion MNT and it accounted to the 77.5 percent of the total state budget expenditure of 2008. It shows that financial recording and internal auditing in public institutions and state owned enterprises are very insufficient. Ineffectiveness financial recording and internal auditing influenced the conditions to embezzle state budget.

XII. Economic consequences of the corruption

Based on the quantitative data collected for compilation of the corruption indices, the economic consequences can be summarised as following:

1. The total loss caused by the registered corruption crimes equals 66.3 billion MNT which makes up 2.7 percent of the national budget. Capital of this scale would have allowed to build 95 schools with 320 children each in the province. However, this is only the known, registered portion, the peak of the iceberg.
2. Based on the data that 13.3 percent of the total 677.8 thousand households of Mongolia have paid bribe during the last 12 months to public officials and that the average spending for corruption of a household was 240.8 thousand MNT, the total number of the bribe paid by households to public servants reaches 21.7 billion MNT. This sum could have supported 4921 average households of Mongolia for entire year.
3. According to the perception of Experts', 10.11 percent of the costs of the project and programmes implemented by the state are lost to corruption and bribery. This is the rate at which the budgets of the projects and programmes such as poverty alleviation, population growth stimulation, and small and medium enterprise support and air pollution reduction are cut down not reaching the target population.
4. In the tenders of purchasing goods and services with public funds, 10.45 of the total costs of contracts are spent for corruption and bribe, according to the Experts'. Thus, if an asphalted road was to be built for 1100.0 million MNT, 115.0 million is spent for bribery and

corruption, and the corresponding amount of construction material expenditure is expropriated adversely affecting the quality of the road. According to the Mongolian National Audit Office invitation for bid of public procurement worth 613.7 billion MNT. Based this data it is estimated that 64.1 billion MNT spent for corruption and bribe from the public funds.

5. According to the perception by the Experts', 11.5 percent of the due amount to be paid as tax is spent as bribery for receiving tax deductions and exemptions. It is impossible to estimate how much of the tax revenue that should have filled up the national budget have enriched the officials this way.

XIII. For the further information

For further information about the survey, please find from following sources:

- “Report on result of the compilation of Mongolian Corruption Index 2009” Independent Authority against Corruption of Mongolia. Ulaanbaatar city, 2010 year.
- Web site of the Independent Authority Against Corruption: <http://www.iaac.mn/index.php?cid=106>

If you want to see the Methodology on compiling corruption index, please visit to following web sites:

- Web site of the Independent Authority Against Corruption: http://www.iaac.mn/pdf/ssha/avliqin_indexiig_tootsoh_argachlal.pdf
- Web site of the national Statistical Office of Mongolia: <http://www.statis.mn/methodology/Avilgaliin%20index%20tootsoh.pdf>

Also you can see result of the compilation of Mongolian Corruption Index 2009 from following sources:

- “Justice” –Theoretical and Methodological Quarterly Bulletin. 2010 year №1 (2) page 65-73.
- “Statistical yearbook 2009”, National Statistical Office of Mongolia, Ulaanbaatar city, 2010 year.
- Millennium Development Goals Online Database: <http://www.devinfo.mn/>

If you have any question on result of the survey and its methodology or for any comments and suggestions, please contact to the following address:

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