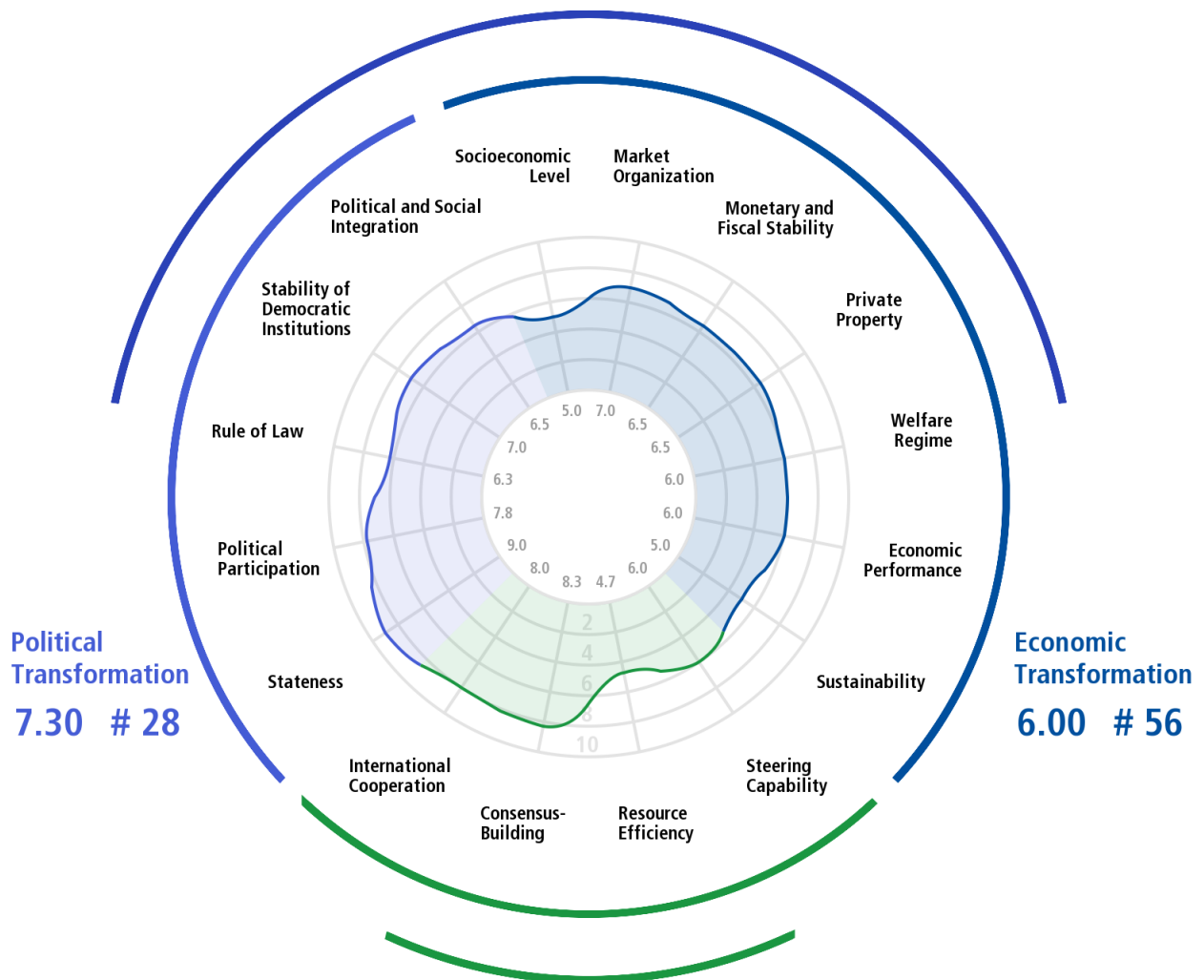


Mongolia

Status Index

6.65 # 37

on 1-10 scale out of 137



Governance Index

5.87 # 33

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report – Mongolia. Gütersloh: Bertelsmann Stiftung, 2020.

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Key Indicators

Population	M	3.2	HDI	0.735	GDP p.c., PPP \$	13735
Pop. growth ¹	% p.a.	1.8	HDI rank of 189	92	Gini Index	32.3
Life expectancy	years	69.5	UN Education Index	0.734	Poverty ³	% 6.9
Urban population	%	68.4	Gender inequality ²	0.322	Aid per capita \$	245.3

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

In July 2017, Democratic Party candidate Khaltmaa Battulga was elected Mongolia's new president with 50.61% of the vote, defeating his rival Miyegombo Enkhbold from the ruling Mongolian People's Party (MPP) who received 41.16% of the vote. Importantly, 8.23% of the voters in the second round chose the none-of-the-above option, the so-called blank ballot. Mongolians believe in democracy as a guiding general principle and vision, but they have less trust in the fairness and effectiveness of political institutions. The State Great Khural was paralyzed several times due to an escalation in frictions between major factions within the ruling MPP. Political scandals, such as some 20 members of parliament having allegedly benefited from the state-run SME fund and sexual misconduct allegations against some members of parliament led to parliament having the lowest public approval of any state institution. In this context, debates over the effectiveness of parliamentary and presidential systems intensified. A number of prominent politicians, columnists and researchers called for establishing a strong presidential system.

The prevalence of clientelistic networks, a lack of opportunities for the younger generation and a lack of financial transparency in major political parties are all serious threats to the country's democratic transformation. There is increasing public dissatisfaction and frustration regarding the lack of democracy and accountability within political parties. Public opinion surveys have continuously confirmed that the majority of Mongolians do not trust political parties.

Mongolia's economic performance improved dramatically in 2017 and 2018 with the GDP growing by 6.4% in 2018. Copper and coal production and exports increased significantly in 2018. Under an IMF program, the government made significant improvements in fiscal performance, mainly through stricter control of public spending. However, poverty remains one of Mongolia's biggest issues. The poverty rate in Mongolia declined from 38.7% in 2010 to 21.6% in 2014 and rose again to 29.6% in 2016. Furthermore, there are serious income disparities across regions and localities. Poverty in rural areas remains higher than in the main urban centers. Urban poverty increased, especially among people residing on the outskirts of the ger/yurt districts of the capital city where access to clean air, water and sanitation remains problematic.

History and Characteristics of Transformation

In 1992, the first democratically elected parliament of Mongolia, the State Great Khural, adopted a new constitution, confirming the nation's aspiration to become a democratic and prosperous country. Mongolia's dual transition from nearly 70 years of centrally planned economy and single-party authoritarian system to a free market economy and multiparty parliamentary system provided a great opportunity for the country to strengthen its independence and achieve its development goals. Mongolia faced dramatic economic difficulties in the first decade of the transition in the 1990s. The country has taken considerable steps forward in establishing a more modern and vibrant economy, with a booming mining sector in the 2000s, driving double-digit economic growth. However, the end of mining boom in 2013 put the natural resource-dependent country in a challenging situation.

Spread out across 1.54 million square kilometers, Mongolia is the world's 19th largest country, but has a population of just three million, making it the least densely populated country in the world. Slightly more than half (54.2%) of the population is Buddhist. The country boasts a high degree of religious freedom and a very high literacy rate of 98.3%. Traditionally, Mongolia has been a country of nomadic pastoralists with a heavy reliance on agriculture; at least 25% of the population still depends on animal husbandry.

The head of the state is the directly elected president. The prime minister is the head of government, and all legislative power is vested in the State Great Khural, Mongolia's unicameral parliament, which has 76 members elected by popular vote to terms of four years. The last parliamentary election (June 29, 2016) yielded the following results: the Mongolian People's Party (MPP) won 65 of the 76 seats, the incumbent Democratic Party (DP) won nine seats, and the Mongolian People's Revolutionary Party (MPRP) won one seat. Only one independent candidate was elected into parliament. The MPP's landslide was followed by its dominance in local elections in November 2016. Elections are regularly conducted on the national and local levels, with consistently successful transfers of power from one ruling party to another – as shown by the landslide shift of power from the Democratic Party (DP) to Mongolian People's Party (MPP). The voter turnout in the parliamentary election increased from 65.2% in 2012 to 73.7% in 2016.

On July 9, 2017, Democratic Party candidate Khaltmaa Battulga was elected Mongolia's new president with 50.61% of the vote, defeating his rival Miyegombo Enkhbold from the ruling MPP, who received 41.16% of the vote. The "blank ballot," a none-of-the-above option introduced into election law in 2015, was chosen by 8.23% of voters.

Mongolia enjoyed unprecedented growth rates in 2011 and 2012 and became one of the fastest growing economies in the world. Driving this growth was a booming mining sector. Mongolia holds significant copper, gold, coking-coal and uranium deposits with a combined value of more than \$1.2 trillion. Mongolia has a major competitive advantage in being located next to China, the largest commodity consumer in the world. However, given that more than 90% of the landlocked

country's exports go to China, the Mongolian economy is also heavily dependent on China's growth. China's economic slowdown seriously hampered Mongolia's economy, as did commodity price shocks beginning in 2013. The economy contracted in 2016 for the first time in eight years. In 2017, the International Monetary Fund helped Mongolia avoid default on its large public debt with a comprehensive \$5.5 billion package, the sixth IMF program since 1990.

Mongolia has often been praised as an "island or oasis of democracy" in the heart of Asia by international observers for its achievement in democratic stability. After 25 years of transformation, entrenched corruption and cronyism in government and political parties have become increasingly threatening, eroding the rule of law and trust in political institutions.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

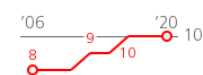
1 | Stateness

The state's monopoly on the use of force throughout the entire territory has not been challenged since the onset of the democratic transition. Political and social protest movements against corruption in government and specific public policies have been mobilized, but there have been no organized groups strong enough to challenge the state's existence and monopoly on the use of force.

Question
Score

Monopoly on the
use of force

10



The entirety of the Mongolian population accepts the nation-state as legitimate. Ethnically, Mongolia is fairly homogeneous with the majority of the population comprised of the same ethnicity.

State identity

10



There is a Kazakh-speaking Muslim minority (3.9%, according to the 2015 Population and Housing by-census), the majority of which live in Bayan-Ulgii province in western Mongolia. Mongolian Kazakhs enjoy significant cultural, linguistic and political minority rights.

Allowing Mongolian citizens to hold dual citizenship has been recently debated in the public domain, but no government decisions have been announced.

The Mongolian constitution explicitly recognizes the separation of church and state. Religion was repressed during the communist era and Mongolia witnessed a revival of religion, especially Buddhism and traditional shamanism, after the transition in 1990. According to the national census of 2010, 53% individuals aged 15 and above self-identified as Buddhist, with 3.9% self-identifying as Muslim, 2.9% as shamanist, 2.1% as Christian, and 38.6% as nonreligious believers. While some high-level officials are known to have deep religious beliefs and attend religious ceremonies, there are no religious groups that have substantial influence on national politics and its decision-making process.

No interference of
religious dogmas

10



Mongolia is a unitary state with a central government and three tiers of subnational government: aimags (provinces) and capital city; soums (rural districts) and duuregs (urban districts); and bag (rural sub-districts) and khorroos (urban sub-districts). The state provides all basic public services throughout the country, but their scope and quality vary. The low population density of Mongolia poses significant hurdles to the maintenance of state infrastructure and the provision of services such as health care, transportation and a court system, especially for the roughly 25% of the population who are pastoral herders. The poor quality of rural and remote health care facilities and outreach services, which are inadequately staffed and equipped, remains a major challenge. Although there have been improvements in rural health facilities to provide quality medical care, local people often face expensive trips to aimag centers and Ulaanbaatar to have specialized and quality medical care.

Frustration is growing among Mongolians regarding implementation of legislation and strategic plans seen as lacking. While state structures exist, they do not function adequately to transmit policies.

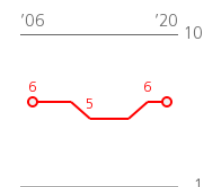
Communication and transport infrastructure have been upgraded in recent years, especially media and communications; however, major challenges remain. According to a 2016 World Bank report, only about 13% of Mongolia's road network was paved. Mongolia has a relatively small electrical infrastructure and is partially dependent on imports from Russia and China. Some 30 rural districts are not connected to the country's central power grid.

According to the 2016 Mongolia Human Development Report, the net enrollment rate reached 99.1% in primary education and 96.1% in secondary education. The capacity of state-run public schools and early childhood education facilities does not meet the needs of Mongolia's growing population. The majority of state-run schools are overcrowded and have two or three shifts. Kindergartens accommodate about 70% of children aged three to five years. In the capital city, state-run kindergartens have space only for 50% of the preschool age children and spots are determined by an annual online lottery.

Mongolia is a member of the Open Government Partnership and implemented National Action Plan I in 2014 to 2016. The Mongolian government successfully introduced a wide range of electronic services in many areas such as taxation, registration and procurement. Local Development Funds, a participatory mechanism through which local community members can propose and vote for priority local development projects, have contributed to the delivery of public services.

Basic
administration

6



2 | Political Participation

Elections are regularly conducted on the national and local level, with consistently successful transfers of power from one ruling party to another. The last parliamentary election took place in June 2016 followed by local elections in October 2016, both of which saw a landslide shift of power from the Democratic Party (DP) to Mongolian People's Party (MPP). The voter turnout in the parliamentary election increased from 65.2% in 2012 to 73.7% in 2016.

The last presidential elections took place in June 2017 (first round) and July 2017 (second round). Candidates from political parties with seats in parliament, the MPP, the DP and the Mongolian People's Revolutionary Party, competed. As a result of the first round, DP and MPP candidates advanced to the second round. The MPRP claimed the election was fraudulent and refused to endorse either of the two candidates in the run-off. On July 9, 2017, Democratic Party candidate Khaltmaa Battulga was elected Mongolia's president with 50.61% of the vote, defeating his rival Miyegombo Enkhbold from the ruling MPP, who received 41.16% of the vote. The "white ballot," a none-of-the-above option introduced into election law in 2015, was chosen by 8.23% of voters.

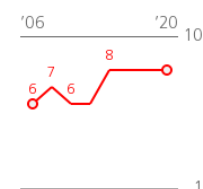
Many Mongolians suspect that vote-buying on a significant scale occurs in elections. The National Police Agency reported at a press conference on June 24, 2018, that it is investigating a case of a car with a significant amount of cash and election campaign materials was discovered in Gobi-Altai province.

Major social media platforms were used extensively by election contenders to influence public opinion. Social media, especially Facebook, which is regularly used by more than 70% of Mongolians, was rife with fake news and "bots."

Election observers from the Organization for Security and Cooperation in Europe (OSCE) concluded that Mongolia's presidential election was competitive and well-organized, but further efforts were required to address ambiguities and omissions related to key elements of the electoral process. These include the following: a lack of transparency and consistency in the appointment and operation of the lower-level election administration, a lack of requirements for parties and candidates to disclose campaign income and expenditures, and ambiguity regarding marking editorial content as different from political advertisements.

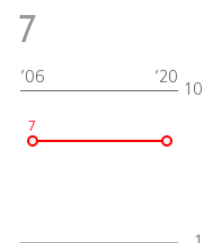
Free and fair elections

8



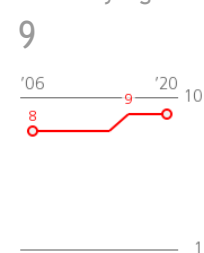
Democratically elected political representatives have considerable power to govern. However, political parties are deeply connected with domestic business and clientelistic groups, posing a major challenge for parliament and government to set and enforce long-term and effective policies. Progress of large-scale and highly impactful industrial and infrastructure projects, such as the giant Oyu Tolgoi copper mine project and Tavan Tolgoi coal mine project, has been decided by the balance of power between these groups.

Effective power to govern



The constitution guarantees freedom of association and assembly. A multitude of formal and informal non-governmental organizations (NGOs) exists. These range from the national coalitions of women's rights, youth and environmental organizations and organized labor, to more informal and issue-specific grassroots groups in rural areas. Registration of NGOs is fairly straightforward.

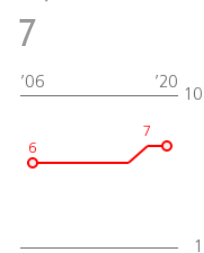
Association / assembly rights



Residents and civic groups can fully exercise their rights without government interference. Under the Law on Organizing Demonstrations enacted in 1994, organizers of demonstrations should notify the governor of the district or aimag where the event is planned. The governor has the authority to approve the notice. In cases where such notifications are not submitted or the governor declined to register the event, police act to disperse protestors. This discretionary power of the governor has often been criticized as restricting the right to assemble and demonstrate. Many public demonstrations and protest events in Ulaanbaatar were organized in the period under review. However, no government intimidation, harassment or threats of retaliation to prevent citizens from exercising these rights were reported.

Under the constitution, freedom of expression is guaranteed against interference or government restrictions, but there are many flaws in the relevant laws and their implementation. Mongolia's 2011 Law on Information Transparency and Right to Information provides legal protection for the right to information. However, the Law on State Secrets vaguely defines state secrets and is used to restrict journalists. Journalists and media outlets practice self-censorship for the fear of retribution and charges of defamation. Many media outlets expressed strong opposition when parliament discussed provisions for increasing the penalties for defamation in the new Law on Violations in April 2017. Many TV channels broadcast blanks screens instead of their normal programming in protest.

Freedom of expression



Mongolia was ranked 71 out of 180 countries in the Freedom of Press Index in 2018. Although there is a plurality of media outlets, they are highly politicized and dependent on big business and prominent politicians: 74% of media outlets have political affiliations, according to the Press Institute of Mongolia. As a result, owners of media outlets have direct influence on the agenda-setting and censor their editors and journalists. Professional bodies (Media Ethics Council and Press Council of Mongolia) have existed for some years and have developed a code of ethics to promote press freedom, protect journalists' rights and support ethical journalism. A

number of new, independent online media outlets that use multiple social media platforms, live streaming and open data analysis play an important role in promoting press freedom and informed public debates. They have played an especially important role in publicizing corruption scandals since late 2018.

3 | Rule of Law

The 1992 constitution laid out a strong separation of powers, keeping any individual or institution from having excessive power, which has guided political practice. Legislative power is vested in the unicameral parliament, the State Great Khural, that comprises 76 directly elected members. Parliament confirms the appointment of the prime minister and cabinet ministers. It has the power to draft legislation, enact and amend laws, approve the annual budget, foreign and domestic policies, declare states of emergency and war, and ratify international treaties and agreements.

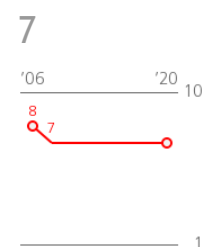
Mongolia can be described as a semi-presidential system. The president is elected directly by the people and has extensive powers, such as heading the National Security Council, issuing guidelines for the government, initiating legislation and appointing Supreme Court judges (the latter upon nomination by the Judicial General Council, the oversight body that is appointed by the president). Constitutional Court judges are appointed by parliament (one-third nominated by parliament, the president and the Supreme Court, respectively).

Constitutional amendments made in 2000 allow members of parliament to simultaneously hold posts in the cabinet, blurring the division of powers between the legislative and executive branches of government. Mongolia's political parties expressed their support for a constitutional reform to improve the separation of powers. The newly elected parliament in 2016 established a working group to prepare constitutional amendments. Despite its supermajority in parliament, the MPP has not yet agreed on any constitutional changes toward a more clearly defined parliamentary or presidential system.

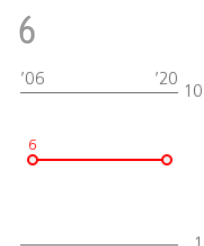
The Mongolian legal system is a hybrid civil law-common law system. Although judges may take notice of prior rulings in cases similar to those that come before them, Mongolian laws lack the specificity needed for consistent interpretation and application.

The judicial system consists of the Constitutional Court, the Supreme Court, aimag and capital city courts, soum and district courts. The Judicial General Council (JGC) has the responsibility of ensuring the independence of the judiciary by appointing judges and ensuring their impartiality. However, the council lacks the authority to investigate allegations of judicial misconduct and is dependent on political power holders, especially the president of Mongolia, who endorses council members.

Separation of powers



Independent judiciary



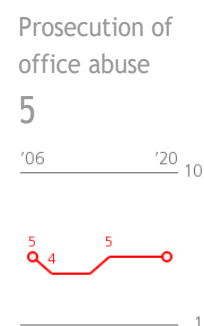
Mongolian prosecutors have a powerful voice in Mongolian courts; their objections are rarely dismissed by courts. The general prosecutor and two deputies are appointed for six years by the president in consultation with the State Great Khural.

Despite a series of judicial reforms launched in the past decade, Mongolia still lacks a consistent legislative framework and the institutional consolidation necessary to enhance the independence of the judiciary. Political influence over appointments of judges and corruption in judicial processes are widely reported and exemplified by the ongoing tug of war between the president, the speaker of the State Great Khural and the prime minister over the appointment of a director to the Anti-Corruption Agency. The bi-annual survey of perceptions of fairness conducted by the Mongolian Anti-Corruption Agency ranked the judiciary third (2016) and first (2018) among government institutions.

According to the Justice Integrity Study in 2016, Mongolia has made significant progress in enhancing transparency of court decisions. All court decisions must be available online.

In late 2018, investigative journalists published reports about the involvement of several politicians, mostly members of parliament from the ruling MPP, in the allocation of low-interest loans by the state-funded Small and Medium Sized Enterprise Development Fund. The general prosecutor requested parliament to revoke the parliamentary immunity of several members, but this was denied by a majority in the MPP-dominated parliament. Several members of parliament apologized for their involvement in the SME loans and some announced that loans would be repaid. The minister responsible for the management of the fund resigned due to strong public contempt. The speaker of parliament was removed, though not directly because of the SME fund scandal. None of the implicated members of parliament have yet been legally held accountable.

Many officeholders who allegedly broke the law and engaged in corruption were investigated by the Independent Authority Against Corruption (IAAC), the principal agency responsible for investigating corruption cases, in the period under review. They range from a former prime minister and governors to bankers and tax and customs officers. Most of these cases were dropped at either the prosecutor or court level. The real impact of the IAAC on high-level political corruption has been viewed as random and politically biased. The head of the IAAC was replaced in July 2016 a week after the parliamentary election. There are widespread suspicions that the IAAC has become a tool for political retribution, largely controlled by people with specific political interests who do not themselves want to face corruption charges leveled by a truly independent authority.



Civil rights are codified by law, but are not always properly respected and protected. The protection of the right to life and security, equality before the law and access to justice are insufficient, and legal systems and measures for protecting physical integrity rights and preventing torture are inadequate. The annual study of the National Human Rights Committee of Mongolia in 2018 reported numerous civil rights violations such as police abuse of prisoners and detainees and poor conditions in detention centers.

Domestic violence remains a serious and widespread problem, although awareness of this problem has grown significantly. A total of 94 women died and 4,102 people were injured from 2010 to 2016 due to domestic violence. The Law on Combating Domestic Violence, which recognizes domestic violence a crime, took effect in February 2017.

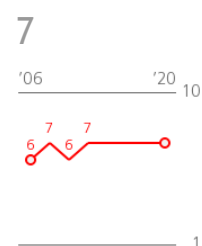
4 | Stability of Democratic Institutions

Democratic institutions perform their functions, but have proved inefficient in some respects. An excessive focus on short-term results at the expense of long-term interests is prevalent at all levels of government. Many long-term development programs have been adopted by parliament but the alignment of actual government policies with them has not been adequate. Government policies are often disrupted by changes in leadership and follow-up personnel shuffles. While the Civil Service Council of Mongolia has a system of selecting civil servants based on merit, it is usually the case that the ruling party appoints civil servants to posts based on political affiliation rather than merit. The capacity of the parliament and government for conducting, using and integrating high quality policy-oriented research is minimal.

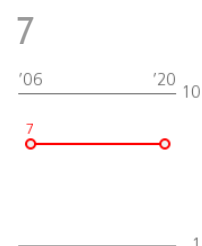
The State Great Khural often appears paralyzed due to the escalation of frictions between factions within the ruling MPP. During the 2018 autumn session of the State Great Khural, only five laws of the planned 23 were discussed by parliament because of political scandals related to the state-run SME fund and sexual misconduct allegations against some members of parliament. This led to public approval of parliament among state institutions being the lowest. Calls for dissolving parliament have come from many political actors, including the leader of the DP. Intra-party political infighting led to the resignation of the mayor of the capital city and the dismissal of the speaker of the State Great Khural.

A corruption case related to allegations that MPP leaders, in particular Speaker of Parliament Miyegombo Enkhbold, had raised 60 billion tugrik (\$23 million) for the party's parliamentary election campaign in 2016 by selling off government positions was a strong blow to the legitimacy of parliament. In addition, corruption allegations connected to individual members of parliament and the widely believed incompetence of many members of parliament and ministers led to a significant decline in the parliament's public approval. Debates about the effectiveness of

Civil rights



Performance of democratic institutions



Commitment to democratic institutions



parliamentary and presidential systems intensified. A number of prominent politicians, columnists and researchers, many of whom belonging to a group of advisers to President Khaltmaa Battulga, have called for establishing a strong presidential system.

Allegations regarding the illegitimacy of judges and prosecutors and corruption agency figures were widespread in social media. There were inconsistencies between the declarations of wealth and the incomes of some judges. Some prominent political figures and businessmen reported to the media that certain political figures wielded direct influence over the judiciary, and that this was used for extortion and political repression.

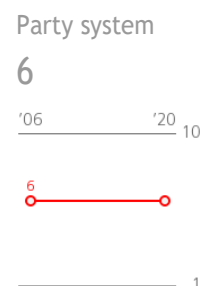
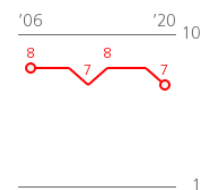
Growing frustration among Mongolians make it appear likely that a major realignment, including the possibility of radical institutional change, may come in the medium-term future.

5 | Political and Social Integration

The first multiparty election was held in 1990 after the ruling Mongolian People's Revolutionary Party accepted the reform program of the democratic movement. Mongolia has seen a marked shift toward a two-party system in the past two decades. In April 2016, under the influence of the major political parties, the Constitutional Court revoked the mixed electoral system in favor of a purely majoritarian system, which provides less opportunities for third parties to win a significant number of seats. Currently, three out of the 24 parties registered at the Supreme Court of Mongolia have seats in parliament. The two major parties won 74 of 76 seats.

The major political parties do not express clear differences in their key political and economic policy positions and thus do not provide voters an opportunity to direct the government toward particular substantive policies. The MPP has the largest party membership and traditionally draws its support from the countryside. The main opposition party, the DP, was formed in 2000 through the amalgamation of a number of smaller parties. The DP claims that it has about 180,000 members. The two parties have party committees at all territorial and administrative levels.

The prevalence of clientelistic networks and a lack of financial transparency in the major political parties have become serious threats to the country's democratization. There is a rapidly increasing level of public dissatisfaction and frustration regarding the lack of democracy and accountability within political parties. Public opinion surveys have continuously confirmed that the majority of Mongolians do not trust political parties. According to the Asia Foundation's study on Public Perceptions of Corruption in 2017, political parties are identified as one of the most corrupt institutions in Mongolia. In January 2019, the former presidential candidate Miyegombo Enkhbold was ousted from his post as speaker of parliament, following



weeks of public protests and media contempt over his alleged involvement in a scheme to pre-sell government positions to raise funds for the MPP before the 2016 parliamentary election. The apparent implosion of the DP and internecine fighting in the MPP further weakened the two main parties.

Financing political parties from the state budget and transparent reporting have been proposed by some researchers and politicians as solutions, but no policy or legal initiatives were taken by the MPP and the DP.

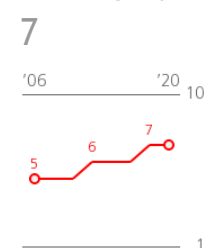
There is a fairly broad range of interest groups reflecting many different interests and communities in society. Associations established on the principles of freedom of assembly emerged only after the democratic transition. Mongolia has a large number of NGOs, with many prominent NGOs in the fields of human rights, environmental protection, women's rights, education and social welfare. Non-partisan homeland associations have formed to represent the concerns of specific provinces in the political process. There are many associations that express and advocate for private sector interests and professional communities. Consistent advocacy campaigns and direct actions organized by Parents Against Air Pollution resulted in well-informed public debates. In January 2019, air pollution became the theme of parliament's first public hearing. Protests and advocacy campaigns by some ultra-nationalist groups attracted increased public attention and support from politicians in the period under review.

The fundamentals of Mongolian democracy remain strong. Despite economic hardships and the lack of a previous democratic legacy, Mongolians have overwhelmingly approved the notion of a democratic regime since 1990. A number of cross-national public opinion surveys confirm that 85% to 90% of Mongolians regard democracy as the best form of government. While support for the strong presidential system is observed sometimes, democratic principles and values are widely accepted by the population. A slight decline in the approval rating of the current form of government can be attributed in large part to the government's inability to fight corruption and enhance inclusive economic growth. The Political Barometer Survey conducted by the Sant Maral Foundation in April 2018 shows that 54% of the population dislike the existing system of democracy in Mongolia.

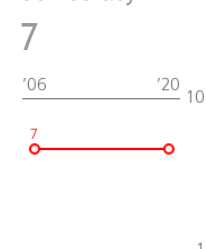
There is strong public perception of endemic corruption in state and political institutions, especially major political parties. Political parties are regarded as one of the most corrupt organizations in Mongolia, according to several public opinion polls. Nearly 100,000 voters (9%) cast a "blank ballot" during the run-off round of the 2017 presidential election, disapproving of the presidential candidates nominated by the MPP and the DP. According to an IRI survey, 72% of the population want Mongolia to transition to a younger, cleaner generation of political leaders.

According to the Political Barometer Survey conducted in March 2017, the confidence and approval rates of democratic institutions in Mongolia were as follows:

Interest groups



Approval of democracy

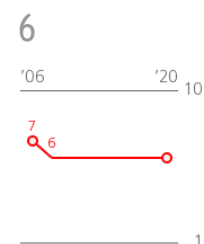


president 41.8%, parliament 51.4%, judiciary 52.9%, political parties 33.3% and civil society 49.8%. A year later, there were some significant changes: the approval rate of the president rose to 74.9% and approval of civil society to 58.7% while parliament's approval dropped to 33.3%, the judiciary's to 31.8% and political parties' to 22.8%.

In general, many Mongolians prefer to trust people with whom they have close relationships or who have local affiliations. This can be attributed in part to the legacy of communism and in part to traditions of self-reliance in nomadic culture. The lack of general trust is exacerbated by the increasing pace of migration to urban areas, as migrants lose their sense of community when they arrive in a new environment. Perceptions of increasing crime rates further undermine social capital and trust, which in turn reinforces a tendency to rely on those one knows rather than on abstract laws and institutions. The adverse effects of a lack of interpersonal trust or strong norms of cooperation can be observed in efforts to create collaborative and transparent organizations.

The continuing growth of the use of social media has contributed to an increase in formal and informal interest groups and online support groups. There are many independently organized cultural, environmental, faith-based and social organizations in urban areas. However, many of these are rather small and cannot directly replace kin and friendship networks as the essential social groups.

Social capital

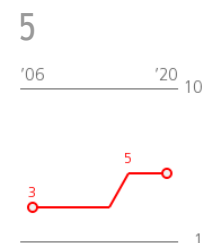


II. Economic Transformation

6 | Level of Socioeconomic Development

Between 1990 and 2017, Mongolia's life expectancy increased from 60 to 69 years and access to electricity from 64% to 85% of the population. Mean years of schooling increased by 2.4 years and the percentage of children without primary education declined from 20% to 3%. The Human Development Index (HDI) score reached 0.741 in the period under review, up from 0.727. Mongolia was ranked 92nd in the world in human development, maintaining its place in the "high human development" category. Overall, loss in HDI due to inequality was 13.7%.

Mongolia's economic growth has been declining since 2013. In 2016, the economic recession led to a situation where the government was at risk of defaulting on its public debt, amounting to billions of dollars. In 2017, the International Monetary Fund (IMF) helped Mongolia avoid default on its public debt with a comprehensive \$5.5 billion package, the sixth IMF program the country entered since 1990. It is generally accepted that political corruption, imprudent fiscal management and unsustainable and diverse sources of foreign exchange caused the economic recession.

Question
ScoreSocioeconomic
barriers

Poverty has become one of Mongolia's biggest issues. As defined by official poverty estimates, the poverty rate in Mongolia declined from 38.7% in 2010 to 21.6% in 2014, to rise again to 29.6% in 2016.

In 2017, Mongolia's Gini coefficient was 32.3. There are serious income disparities across different regions and localities. Poverty in rural areas remains higher than in the main urban centers. Nearly 50% of rural households in the country's western provinces live below the poverty line. Urban poverty increased, especially among people residing on the outskirts of the ger/urts districts of the capital city where access to clean air, water and sanitation remains problematic.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	11749.6	11186.7	11433.6	13009.6
GDP growth	%	2.4	1.2	5.3	6.9
Inflation (CPI)	%	6.6	1.1	4.1	6.8
Unemployment	%	4.9	7.2	6.4	6.3
Foreign direct investment	% of GDP	0.8	-37.2	13.1	15.0
Export growth	%	0.1	13.8	13.6	15.3
Import growth	%	-11.4	12.7	24.8	21.4
Current account balance	\$ M	-948.5	-699.7	-1155.4	-1902.5
Public debt	% of GDP	-	-	-	-
External debt	\$ M	21939.9	25740.1	28773.2	29376.5
Total debt service	\$ M	1833.1	1468.8	3877.2	8068.0
Net lending/borrowing	% of GDP	-4.7	-12.8	-2.7	-
Tax revenue	% of GDP	11.8	11.3	13.6	-
Government consumption	% of GDP	13.5	14.6	12.7	11.6
Public education spending	% of GDP	4.2	5.2	4.1	-
Public health spending	% of GDP	2	2.2	-	-
R&D expenditure	% of GDP	0.2	0.2	0.1	-
Military expenditure	% of GDP	0.9	0.9	0.7	0.8

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The government publicly endorses a policy of improving market competition. It implemented a number of policy programs to ease government bureaucracy, including e-governance initiatives. According to a survey conducted by the Independent Authority Against Corruption (IAAC) in 2015, business registration agencies were seen as the least corrupt and easiest to access government institutions, and that has further improved in recent years.

Difficulties in accessing financing are the main barrier to doing business. Mongolia was ranked 125th regarding financial market development in the Global Competitiveness Report in 2015. The banking sector is comprised of 14 commercial banks, but just three of them constitute 70% of the sector. Approximately 90 of the private sector entities receive financing from these major banks. The banks' high annual interest rate, which is approximately 12%, is criticized as inhibitive to business growth. Initiatives to allow foreign banks to operate in Mongolia, which could result in better access to business financing, have been opposed by the domestic banks. The state-run Fund for Development of SMEs provides loans at significantly lower interest rates than the three major banks. But it was revealed in 2018 that the fund's resources were siphoned off by politicians and government officeholders and the loans were used to finance high-interest loans through their non-banking financial institutions.

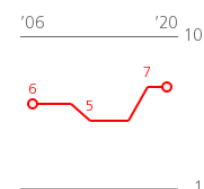
Market competition in many key sectors of the economy is increasing, such as agriculture, textile, telecommunication, food processing, tourism, health and education. State-owned companies are dominant in the energy and mining sectors. There is considerable state intervention in the mining sector, especially in large-scale projects that the government defines as strategically important. Prime Minister Khurelsukh Ukhnaa, who ousted his predecessor Erdenebat Jargaltulga in October 2017, publicly supported the idea of increasing state intervention in the mining sector and nationalization of strategically significant mines. Private investment in the economy was approximately 10% of GDP in the early 1990s. It reached 40% in 2012.

According to Doing Business 2019, starting a business takes 11 days and eight procedures with a cost of 1.3% of GNI per capita. The starting a business score is 86.9 out of 100 (ranked at 87 out of 190 countries)

According to various estimates, the informal sector generates approximately 10%-25% of GDP. Informal employment in Mongolia is estimated at 50% (International Labor Organization Data). A new value-added tax law came into effect on January 1, 2016. The law introduced an incentive mechanism through which taxpayers can recover up to 20% of taxes they have paid. This reform helped develop a better registration system.

Market
organization

7



The first Mongolian competition law, the Law on Restricting Unfair Competition, was promulgated in 1993. However, the Authority for Fair Competition and Customer Protection (AFCCP) was set up only after 10 years as an independent enforcement authority. A new, fully revised competition law was passed by parliament in June 2010. This law was expanded to cover all types of legal and illegal entities running business activities and contained measures against monopolistic or cartelistic structures (e.g., mergers, dominant market positions, concentration) and conduct (e.g., collusion, price fixing, predatory pricing). It also covers issues related to protection of customer rights and government procurement.

However, the law lacks clarity on key legal terms, such as fair and unfair competition, and covers a wide scope that does not match with the competence and capacity of the AFCCP. For example, according to the Law on Elections, the AFCCP has the authority to monitor and inspect candidates' expenses for election campaigns. The AFCCP has no branch offices outside the capital city. Another important limitation of the law is that the AFCCP cannot oppose or stop government decisions that potentially limit fair competition.

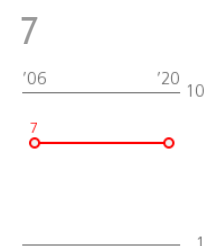
Important sectors of Mongolia's economy such as banking, civil aviation and petroleum are controlled by oligopolies. Domestic banks have identically high interest rates and have opposed the entrance of foreign banks into Mongolia. The price of international air tickets to Mongolia is very high compared to similar destinations, due to a lack of market competition and the government's reluctance to encourage it.

Since the onset of its economic transition, Mongolia has promoted foreign trade and investment, and achieved tangible results in trade liberalization. Mongolia's accession to the World Trade Organization (WTO) in January 1997 underlined the country's relative success in developing a new trade regime. In the wake of this accession, around 30 laws related to the simplification of customs services and the reduction of customs duties on foreign trade were passed and amended. In 2017, Mongolia's most favored nation applied tariff was 5.2%. The government imposes tariffs from 6.5% to 20% on over 100 imported goods to support domestic manufacturing.

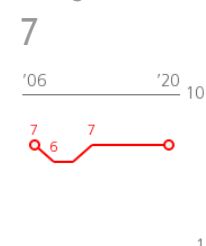
The Mongolian parliament has ratified a number of important treaties and legislative changes in recent years to facilitate foreign trade. Mongolia ratified the Trade Facilitation Agreement (TFA) of WTO in November 2016.

Mongolia's first bilateral free trade agreement, the Japan-Mongolia Economic Partnership Agreement (EPA), entered into force on June 7, 2016. Mongolia and Russia agreed to work toward a free trade agreement (FTA) in May 2018; however, this is widely believed to be a long-term process. The intention to establish free trade

Competition policy



Liberalization of foreign trade



agreements between China and Mongolia was expressed by political leaders from both countries, during the period under review.

The United States and Mongolia signed a Trade and Investment Framework Agreement (TIFA) in July 2004. Furthermore, they signed an Agreement on Transparency in Matters Related to International Trade and Investment between the United States and Mongolia in 2013. A similar agreement with Canada entered into force in 2017.

Mongolia has been a Generalized System of Preferences (GSP)+ beneficiary country since 2006. GSP+ status is granted to countries that ratify and implement core international conventions relating to human and labor rights, environment and good governance. In 2015, 20% of Mongolian goods entered the EU market duty-free.

There are a number of challenges that negatively affect Mongolia's foreign trade. Many goods and products are subject to special import licenses and approvals by relevant government organizations. However, many local businesses and foreign investors have raised concerns over the ambiguity of import licensing procedures. Tariffs are frequently revised and often subject to change without notice. Foreign investors face challenges in resolving legal disputes because of weak courts, a lack of alternative dispute resolution mechanisms and corruption.

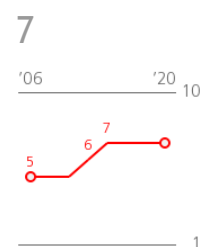
In 2019, there were a total of 14 commercial banks. The banking system and capital market are differentiated and meet international standards. Active assets of the banking sector make up 97% of the Mongolian financial sector. Mongolian banks offer loans with high interest rates (approximately 19%). On the other hand, interest rates for the savings of individuals and companies are approximately 13%.

The financial system has undergone rigorous modernization in recent years. This started with the establishment of the Financial Regulatory Commission in 2006, which is tasked with supervising legal compliance and protecting the rights of investors and clients.

The country's economy is dependent on a few sectors. Bank loans concentrate in those sectors, which increases the risks for the banking system. As of 2016, 60.7% of past due loans in the banking sector are from mining, manufacturing, construction, real estate and trade companies. According to the National Statistics Office, the ratio of non-performing loans decreased from 9.1% in 2016 to 8.2% in 2018. In 2018, Fitch Ratings Agency upgraded the credit ratings of two Mongolian banks from B- to B.

In 2018, parliament revised the Banking Law of Mongolia. The amendments introduced disclosure requirements for the owners of Mongolian commercial banks, new restrictions on banking activities, including a prohibition on establishing subsidiaries or affiliates, clarifications on corporate governance rules and a comprehensive set of measures to prevent bank failures and rescue troubled banks.

Banking system



8 | Monetary and fiscal stability

In August 2016, Bloomberg reported that the Mongolian tugrik (MNT) was the world's poorest performing currency. The tugrik slumped 15% between June and October 2016. Although Mongolia's central bank, the Bank of Mongolia (BoM), lifted the benchmark interest rate by 4.5% to 15% in August 2016, the tugrik had fallen 24.4% compared to the previous year by the end of 2016.

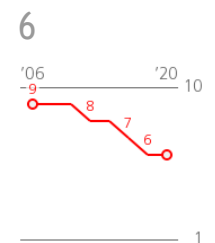
Mongolia's economic stagnation, caused mainly by falling commodities prices, the economic slowdown in China and waning interest by foreign investors, was key to the currency slump. However, the BoM was widely criticized for its inability to pursue an independent monetary policy.

In the period under review, the prices of Mongolia's main export commodities increased, the economic growth rate improved and the government budget deficit declined significantly. The U.S. dollar exchange rate against the tugrik reached a historical high, standing at over 2,600 tugrik to the U.S. dollar as of January 2019. The depreciation of the tugrik resulted in higher import costs and inflation. The inflation rate in Mongolia dropped to 1.9% in 2015 and 1.1% in 2016. However, it jumped to 8.1% in 2018. The main Mongolian oil importing companies raised their retail prices for gasoline and diesel several times in 2018, citing the tugrik's depreciation.

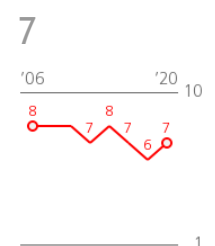
Fitch Ratings downgraded Mongolia's creditworthiness from B to B- in 2016, stating that Mongolia's fiscal indicators deteriorated significantly due to large pre-election spending programs and weaker economic growth. The general budget deficit reached 19.7% of GDP in 2016. Although the Fiscal Stability Law (FSL) went into full effect from January 2013, which aimed to ensure fiscal stability in the medium and long term, the government repeatedly missed targets set under the law. The budget deficit sharply rose in the first half of 2016 due to increased government spending and decreased revenue. Mongolia's total external debt was estimated at around \$23.5 billion, nearly twice the size of its \$12 billion economy, according to the IMF.

The government formed after the 2016 parliamentary election took extensive measures to stabilize the economy and requested financial support from the IMF and other development partners. In May 2017, the IMF approved a three-year extended arrangement under the Extended Fund Facility (EFF) for Mongolia to support the country's economic recovery program. Fiscal consolidation is the main pillar of the EFF. The government committed to improve the administration of revenue, complete an audit of concession contracts, develop a corresponding payment plan, and approve guidelines for appraising and selecting public investment projects. In 2018, the IMF stated that, since the start of the program, the economy had rebounded strongly,

Monetary stability



Fiscal stability



driven primarily by a resumption of Oyu Tolgoi-related investment, strong coal exports and credit-financed private consumption.

Mongolia's economic performance has improved, with GDP growth increasing from 1.2% in 2016 to 5.1% in 2017 to 6.4% in 2018, according to the National Statistics Office. Government debt dropped from nearly 90% in 2016 to 74.4% in 2017 to 63.4% of GDP in 2018. The budget deficit was less than the approved amount in 2017. According to a recent study by the Natural Resources Governance Institute, heavy reliance on volatile commodity prices created uncertainty in Mongolia's budget revenue and revenue projections. Since commodity prices remained high, the Mongolian government announced that the state budget revenue exceeded MNT 10 trillion in fiscal year 2018.

In 2018, Fitch Ratings upgraded Mongolia's creditworthiness from B- to B, referring to ongoing improvements to fiscal stability.

9 | Private Property

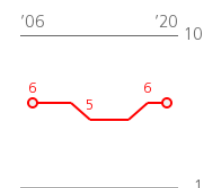
The 1992 constitution established basic property rights, which were further secured by such laws as the Law on Property Ownership Rights and the Law on Registration of Property Ownership. The constitution limits the right to privately own land to citizens of Mongolia. Conflicts regarding land ownership are common, especially in Ulaanbaatar.

According to data collected by the World Bank's Doing Business Survey 2019, registering property in Mongolia requires five procedures, takes 10.5 days and costs 2.1% of the property value, which ranks Mongolia at 49 out of 190 economies. The survey shows a higher minority investor protection index (33rd), indicating that the country's regulations offer stronger investor protection. The survey finds that contract enforcement takes 374 days and costs 22.9% of the value of the claim, ranking Mongolia 66th on the ease of enforcing contracts. Compared to China, Russia and Kazakhstan, Mongolia has very ineffective judicial processes. In Mongolia, all contested foreclosure actions require court review and are subject to appeals up to the Supreme Court. Final resolution can take up to 36 months. According to the U.S. Department of State's Mongolia Investment Climate Statement in 2018, foreign and domestic businesses report inconsistent enforcement of court orders. Increasing the independence of the judiciary is an urgent challenge.

Mongolia is a member of the World Intellectual Property Organization (WIPO) and has signed and ratified most relevant treaties and conventions, including the World Trade Organization Agreement on Trade Related Aspects of Intellectual Property Rights (WTO TRIPS). The key laws protecting intellectual property in Mongolia are the Copyright Law, the Trade Names and Trademarks Law, and the Patent Law. The

Property rights

6



Intellectual Property Office of Mongolia is mainly responsible for ensuring Mongolia's compliance with these agreements.

The private sector constitutes approximately 80% of GDP and 75% of employment in Mongolia according to various estimates. The role of the private sector in the national economy and in overcoming the economic stagnation was widely acknowledged in the period under review.

Key economic sectors are dominated by a few big companies. Especially, oligopolies are evident in petroleum, banking and telecommunications sectors. The boundaries between private companies and major political parties are often blurred and there exist widespread conflicts of interest. The maturity of most private companies is in its early stage. Mongolia has many companies with group, holdings and corporation status. However, reliable information about management structure and performance is often difficult to obtain.

10 | Welfare Regime

Social welfare programs are defined mainly in the 2012 social welfare law. The welfare regime is based on the provision of social pensions, allowances and services to citizens with special needs. Mongolia's social insurance system is widely regarded as outdated and the management of the social insurance fund as highly prone to corruption. Establishing a Sovereign Wealth Fund similar to the Norwegian Pension Fund was proposed by some politicians, but did not significantly develop in the period under review.

The government, through the Ministry of Population Development and Social Protection (MPDSP) and the General Office of Social Welfare Services (GOSWS), implements 71 social welfare programs. In addition to these social welfare programs, the government implemented the Child Money Program (CMP), funded from the Human Development Fund. In August 2018, the government increased the monthly minimum wage from MNT 240,000 to MNT 320,000.

The top 40% of the population according to income receives 28% of total welfare transfers. Just 56% of Mongolia's welfare spending goes to the poorest 40% of the population, according to a World Bank report in 2015. The Food Stamp Program is the only program targeted at the poor, and was implemented in 2013, distributing MNT18 billion to its 144,000 beneficiaries in 2015. The program supports the consumption of basic food items by extremely poor families to increase their daily calorie intake. However, the amount distributed to individuals covers only 9.8% of their consumption, which is two to three times less than the global average.

The new government formed after the parliamentary election in 2016 initiated a number of new social protection programs, such as allowances for people older than

Private enterprise

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Social safety nets

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70 and support programs for mothers with more than one child. For the last 10 years, the government has spent about 7% to 8% of the state budget on health sector public services and this remained relatively stable during the period under review.

Women and members of ethnic, religious and other groups have near-equal access to education, public office and employment. Mongolia has a score of 0.32 on the 2014 Gender Inequality Index (GII). The country maintains a significant positive trend toward decreasing gender inequality. Mongolia had a score of 0.411 in 2010. Mongolia has received very high scores on education attainment, health and survival and economic participation and opportunity. Gross enrollment ratio in primary education is 96% and secondary education is 93%. The adult literacy rate is reported to be 97.8%. The ratio of female to male enrollment (GPI) is 0.98. Mongolians tend to highly value girls' education.

The low quality of Mongolian language education in Bayan-Ulgii aimag where the majority of citizens are Kazakhs is an important concern.

Women do not enjoy fully equal opportunities in politics and the workplace. The Mongolian parliament decreased a 30% quota for women candidates to 20% before the June 2016 election. Mongolia ranked 58th in the Global Gender Gap Report in 2016, which highlighted a widening gender gap among legislators, senior officials and managers. Women's participation in the labor market is 56.6%, which is lower than 69.3% for men. The share of women holding decision-making positions is very low. In the public service, 26.6% of state secretaries are women, 30% of middle managers and 15% of senior managers in Mongolia.

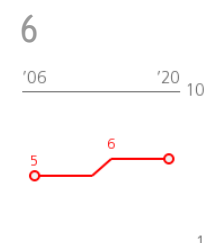
11 | Economic Performance

Economic growth, which reached the world's highest 17.3% in 2012, plunged to 2.3% in 2015. Mongolia's economy still maintained some growth even though the mining boom faded.

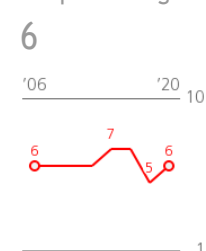
The percentage of export of raw materials increased of total exports from 84% in 1995 to 2005 to 93.8% in 2011 to 2016 of total exports. According to the Bank of Mongolia, Mongolian export income decreased by 18.6% in 2015, primarily caused by the decrease in commodity prices, specifically copper and coal, Mongolia's most valuable natural resources. The country is almost entirely dependent on China's demand for its mineral exports. Coking coal, copper concentrate, iron ore, crude oil and non-monetary gold exports decreased by nearly 33%, 8%, 66%, 25% and 35% respectively, which accounted for a 20% decrease in mining exports in 2015.

In 2016, Standard & Poor's decreased Mongolia's credit rating from B to B- and estimated that overall government debt had ballooned from 26% of GDP in 2010 to 78% in 2016.

Equal opportunity



Output strength



However, economic performance improved dramatically in 2017 and 2018 with the GDP growth rate increasing from 1.2% in 2016 to 5.1% in 2017 and 6.4% 2018 with an even slightly higher level expected for 2019. Exports of minerals increased significantly in 2018. Mongolia's coal exports hit an all-time high in 2018, reaching a total of 36.5 million tons. According to the Natural Resources Governance Institute, the share of the minerals sector in the nation's income increased from 13% in 2016 to 22% in 2017.

Under the IMF program, the government made significant improvements in fiscal performance, mainly through stricter control on public spending, both recurrent and capital expenditures.

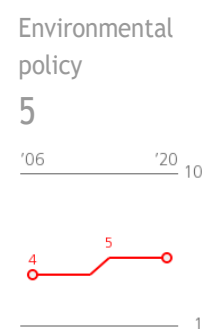
In 2017, government debt decreased to 74.4% of GDP and 2018 to 63.4% of GDP. However, experts state that the decrease occurred due to a 13% increase in GDP. In 2017, the government issued new external bonds worth \$1.4 billion to redeem previously issued government bonds. Concessional loans from international partners under the IMF program also contributed to the government's international loan debt.

According to the World Bank, Mongolia's GDP per capita was MNT 9 million and annual GDP per capita growth increased from 1.1% in 2016 to 5.3% in 2017. GDP per capita in terms of PPP was \$13,000, which has steadily increased in the past two decades.

12 | Sustainability

Mongolia's reliance on the extractive sector for economic growth has induced and exacerbated environmental degradation. In order to sustain economic growth objectives, Mongolia will need to address a number of serious environmental challenges such as water scarcity, degradation of grassland, climatic volatility and environmental pollution in urban areas, especially air and soil pollution in Ulaanbaatar.

In recent years, the Mongolian parliament approved a number of important policy documents that aim to integrate environmental and sustainable development goals into development and economic policy-making and implementation. Parliament adopted the action plan of its Green Development Policy that incorporated poverty, environment and gender concerns in December 2015 and adopted the National Sustainable Development Concept 2030 in February 2016, which was based on the global Sustainable Development Goals and the country's priority development challenges. The Mongolian government set a target of 30% of its electricity generation to come from renewable energy by 2030. The first independent renewable energy generator, the 50-megawatt Salkhit Wind Farm, started production in 2013. Mongolia's first-ever solar power station was launched in January 2017. The government secured a \$40 million loan from the Asian Development Bank in 2018



to develop a 41-megawatt distributed renewable energy system that will supply power and heating in the remote western regions of the country.

The 2007 Law on Renewable Energy was amended in 2015 to strengthen public-private partnerships. According to the 2015 Law on Energy Efficiency, the Energy Conservation Council is responsible for formulating regulations regarding support and incentives for citizens, legal entities and organizations implementing energy efficiency measures. However, effective implementation of the law remains a challenge.

In 2017, the Mongolian government approved rules to encourage companies and citizens to adopt environmentally friendly technologies. An independent technical commission will award “eco labels” to products and services and “green certificates” to companies and organizations that meet criteria defined by the new rules. Since 2013, the government has exempted from customs tax environmentally sound technologies and equipment, including equipment for water recycling and wind-, solar- and hydro-power generation.

However, there is a lack of effective financial incentives for environmentally sound consumption. Incorporating financial incentives to increase wastewater recycling, reduce air pollution and promote renewable energy consumption into the relevant laws and regulations remains a challenge.

According to the UNECE’s 2017 Environmental Performance Review of Mongolia, the government has approved major strategic documents on climate change measures but has not developed a national adaptation plan, which is essential for meeting the relevant SDG targets.

Mongolia has a 5-4-3 formal education structure. Primary school has an official entry age of six and a duration of five grades. Secondary school is divided into two cycles: lower secondary consists of grades six to nine, and upper secondary consists of grades 10 to 12. In principle, primary and secondary school are free and primary and lower secondary school are compulsory. According to the Mongolia Human Development Report 2016, the net enrollment rate had reached 99.1% in primary education and 96.1% in secondary education. In 2017, the U.N. Education index score slightly improved from 0.754 (2015) to 0.766. The urban-rural difference in access to education has narrowed. The share of girls and boys up to lower-secondary school are almost equal. According to UNESCO, the number of out-of-school children in Mongolia was 3,169 in 2017.

Government expenditure on education decreased from 5.2% of GDP in 2016 to 4.1% in 2017. However, government expenditure on education has consistently been 12% to 13% of total government expenditure in recent years.

The quality and international competitiveness of Mongolia’s tertiary institutions has been weak. Spending on research and development is insufficient, inhibiting

Education policy /
R&D

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development of scientific research. According to UNESCO, Mongolia's gross domestic expenditure on R&D (GERD) represents just 0.1% of GDP in 2017, decreasing from 0.2% in 2016. The Global Competitiveness Index 2017 to 2018 ranked Mongolia at 65th in the world with regard to high education and training.

The low quality of education at all levels is a major challenge for Mongolia although the government has made some efforts to improve the education sector in recent years. Social inequality in terms of access to quality education are on the rise. Rural secondary schools have shortages of well-qualified teachers and learning resources. Most public schools are overcrowded and operate in two or three shifts. In Mongolia, 146 out of 798 schools are private, with annual tuition fees ranging from \$1,500 to \$15,000.

It is widely criticized that universities and colleges do not equip the youth with the skills required for the labor market, which is confirmed by the high unemployment rates among young people with TVET and higher educational attainment.

The Mongolian government's policy on developing the education sector has not been clearly defined or consistent since the 2016 parliamentary elections. Education lacks political leadership because the Minister of Education, Culture and Science has resigned twice since the elections and failed to offer robust policy agendas.

Governance

I. Level of Difficulty

The performance of governance performance faces several structural constraints. The country's vast territory, combined with a small and sparsely located population, makes development difficult in administrative, economic and infrastructural terms. In addition, the country is landlocked, which is a disadvantage for trade.

Mongolia is the second largest landlocked country in the world and exposed to winter temperatures as low as -40° Celsius. Although experiencing rapid urbanization (currently at 66.4%), Mongolia has the lowest population density in the world. Semi-nomadic and pastoral occupations continue to prevail in rural areas and the livelihoods of these people are becoming very sensitive to the impacts of climate change.

In harsh winters, thousands of herder households are at risk of losing their livelihood due to high numbers of fatalities in their herds. This comes about during extreme freezes called "dzuds," sometimes locally, sometimes regionally or even nationally.

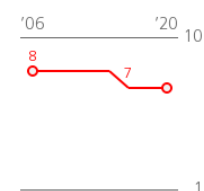
Even though the government's preparedness for dzuds improved in recent years, capacity is expected to be lower this year due to budget cuts and the impacts of previous dzuds. Summers have also brought about extreme weather. The summer of 2017 was marked by forest fires and the summer of 2018 by widespread flooding.

Nearly 60% of Ulaanbaatar's 1.37 million inhabitants live in under-serviced areas, as the city's infrastructure grid was originally designed for a much smaller population. Ulaanbaatar is among the ten most polluted cities in the world, with extremely high levels of air pollution during winter months owing to the use of solid fuel for heating and cooking at the household level.

Mongolian civil society comprises several broad groups of organizations, such as non-governmental organizations (NGOs), trade unions, chambers of commerce, saving and credit cooperatives, local groups under political parties, apartment owners' unions, non-profit media and informal self-help and leisure groups or community groups. Among them, the most influential actors are NGOs. Although there were trade union, women, youth and elders' associations during the communist era, they were neither voluntary, nor separate from the state. They were components of the dominant communist party.

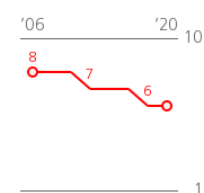
Structural constraints

7



Civil society traditions

6



The 1992 constitution and the Law on Non-Governmental Organizations opened up legitimate ground for NGOs. In particular, since the law came into effect in 1997, the number of NGOs registered by the State Registration Agency boomed and reached over 23,694 (State Registration Agency, 2017). The law guarantees the right of Mongolian citizens to freely establish an NGO on the basis of their interests and opinions without state or other parties' intervention.

Mongolia has been slow to recognize the important role of the private sector, civil society and local governments in national development. Local governments, the private sector and civil society still lack the necessary experience, awareness and capacity to collaborate with the government as an equal partner. Further efforts are required to ensure nationwide development of civil society by providing an enabling policy environment. This would include enacting favorable tax and insurance policies, strengthening CSO rights and freedoms, institutionalizing channels of communication between CSOs and local and central government, and ensuring the legal standing of CSOs in the court of law, particularly in public interest lawsuits.

There are no violent incidents based on social, ethnic or religious differences. Although Mongolians have increasingly questioned the nature and quality of their democratic institutions, no significant violent incidents have occurred since the post-election riots in 2008. Mongolians are debating in peaceful and open ways the need to reform the constitutional framework and the electoral system.

Conflict intensity

2

'06 _____ '20 10



II. Governance Performance

14 | Steering Capability

The Mongolian government has developed in recent years a number of policy and legal documents that provide a framework for long-term policy agendas and coordination of mid-term sectoral and local development policies. In 2016, the Mongolian parliament approved the Sustainable Development Vision 2030. The Law on Development Policy and Planning, the Law on Laws and Regulations and the General Procedure for Drafting Development Policy Documents are the key legal instruments for developing policies and regulations aligned with the country's long-term national development policy. However, implementation of such policies and laws has been slow and lacks coordination and performance measures.

The new majority party after every parliamentary election tends to undo the previous government's policies and replace personnel throughout the government with their

Question
Score

Prioritization

6

'06 _____ '20 10



own party-affiliated staff, inhibiting the development and implementation of long-term planning. For instance, crucial reforms focusing on the judiciary and education that were initiated and implemented by the government formed in 2012 have been stopped or slowed down by successive governments.

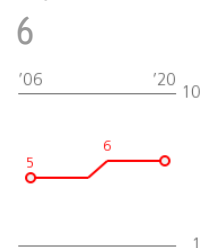
Inter-and intra-party frictions and infighting for political power escalated in the period under review, leading to many ad hoc government decisions and actions motivated by short-term interests of political bargaining. Since 2017, President Battulga and Prime Minister Khurelsukh have allegedly created a political alliance and claimed to be fighting with the politico-business establishment; however, they have not set any strategic policy priorities or concrete action plans. Populist announcements, media campaigns and symbolic acts have defined their leadership style. In 2017, the National Human Rights Commission of Mongolia presented evidence of serious harm to human life and health caused by coal mining and transportation from the Tavan Tolgoi mines and recommended addressing the impacts and risks. While there have been partial and uncoordinated follow-up efforts by different parties, including mining companies, the Mongolian government has not yet developed long-term, coordinated policy priorities.

The government's Economic Recovery Plan under the IMF Extended Fund Facility (EFF) program has been implemented in two main areas: stabilization of the macro economy and restructuring the economy in the medium term to facilitate sustainable growth and alleviate debt pressures. Several key objectives, strategic actions and quantitative targets were set to implement the program. The Ministry of Finance has shown significant capacity to and expertise at setting policy priorities and implement the program despite polarized domestic political developments.

Although the government has established strategic priorities and develops policies, the effectiveness of its policy implementation is invariably questionable. Implementation efficacy is often undermined by political actors' parochial interests and a lack of human and financial resources. Anti-air pollution policies provide a glaring example of the government's inability when it comes to effective implementation. Ulaanbaatar is among the most polluted cities in the world due to air pollution caused mainly by increased levels of urbanization. The government has set long-term priorities and formulated policies to reduce air pollution. However, pollution has dramatically increased in the past decade. Very limited impact was made by government-funded, air pollution programs in 2016 to 2018 that cost MNT 147.3 billion (\$60.7 million).

The government failed to implement a railroad construction project for the massive Tavan Tolgoi coal mine, which could have reduced the need for coal transport by truck and increased the country's competitiveness. In 2018, positive coal price trends and a strong desire of mining companies to export as much coal as possible to China exacerbated irresponsible mining operations in Tavan Tolgoi. Instead of enforcing laws concerning labor, health, environmental protection and transportation, as well

Implementation



as the relevant regulations and standards, the government did not provide sufficient resources to enforce the rule of law. Even though parliament and government decided to take several measures – to build rest areas for drivers and to require mining companies to establish contracts with the transportation companies following visits of senior government officials –, these decisions exist only on paper.

While the volatile nature of minerals – the main source of Mongolian export earnings – has caused alarm among members of parliament, researchers and international consultants over the past decade, politicians did not act on limiting government over-spending. The new cabinet appointed after the elections in June 2016 took measures to reduce fiscal deficits and limit government spending. However, in January 2019, the government decided to distribute the profits earned by the state-owned Tavan Tolgoi coal mine to all citizens of Mongolia as dividends of the 1,072 shares each citizen owns. Furthermore, Mongolia learned serious lessons in the past decade from its failure to ensure accountability with regard to several government funds established to manage revenues from natural resources. According to the Law on the Future Heritage Fund adopted by parliament in 2016, it is expected, based on current commodity price forecasts, that the government will be able to invest about MNT 500 billion into the fund in 2018 and MNT 1.5 trillion in 2020 generated from natural resource revenues. However, the government has advocated establishing another sovereign wealth fund, referring to Government Pension Fund of Norway as a model.

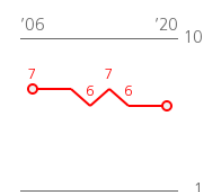
Attempts to increase the incorporation of international best practices into laws and government policies are common. Members of parliament have allocated budgets for international research visits when they initiate laws and amendments. Key international donors such as the World Bank, the UNDP and the Asian Development Bank have provided assistance to facilitate international cooperation and exchanges relevant to policy-making.

In 2017 to 2018, the Mongolian government failed to present a clear set of short-, medium- and long-term policies to tackle the capital city's deadly air pollution. It was unable to engage in policy learning, to create innovation and to facilitate constructive public engagement.

Applied research institutions that should provide policy advice for the parliament and government have not been adequately funded and staffed in Mongolia. The Mongolian parliament has a policy research center but its capacity to deliver high quality output is very limited. Ad hoc committees and working groups consisting of local consultants, lawyers and academic researchers are often formed to work on drafting new laws and amendments.

Policy learning

6



15 | Resource Efficiency

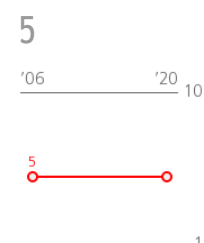
Mongolia has been praised for its efforts toward establishing an efficient and transparent public finance management system and budget execution. The government has developed a consistent legal framework for public finance (law on “glass accounts,” law on budget stability), as well as medium-term and annual budget planning frameworks. However, Mongolia has repeatedly missed targets set under its fiscal stability law, evidence of a poor track record of policy implementation. The most salient examples are the use of the country’s Human Development Fund for cash handouts prior to the 2008 and 2012 elections and off-budget spending of government bond revenues by the Development Bank of Mongolia from 2012 to 2015. These moves came at the cost of state investment in institutions such as education and infrastructure and unsustainable government revenue. The fiscal stability law, which went into effect in January 2013, caps the state structural deficit at 2% of GDP.

The Bank of Mongolia’s available cash declined 23.1% from 2015 after the government once again increased spending ahead of the elections in June 2016. The government launched unbudgeted spending programs in the first half of 2016. These programs included three policy loan programs (Good Herder, Student, Fence Programs) and a buyback program of the Erdenes Tavan Tolgoi (state-owned coal mine project) shares owned by Mongolian citizens (Good Share Program). Over MNT 500 billion was spent for the four Good Programs. In addition, the government spent over MNT 400 billion for the Housing Mortgage Program that was previously undertaken by the Bank of Mongolia. The budget deficit increased to 19.7% of GDP as of August 2016. Due to higher economic growth and resulting growth in public revenue, the budget deficit has been addressed, but not necessarily because hard or forward-looking decisions were made.

In Mongolia, civil service positions are classified as political positions, public administration positions, special state service positions or public support service positions. The total number of civil servants has consistently increased in the past decade. In 2007, the number was 140,000. In 2017, it reached 190,000. The number of public administration positions doubled during this period.

Politically motivated dismissals and new appointments of public servants have been prevalent in Mongolia. Although the law on civil service requires competitive recruiting procedures it has not been implemented adequately. There are many loopholes in the hiring system. Party affiliation, money and personal networks have become crucial conditions for becoming a public servant. Not only does this lead to inefficient use of human resources, but it makes public service unattractive to talented potential recruits, leading to a loss in future efficiency. The new Law on Civil Service became effective beginning in January 2019 and aims to protect the public

Efficient use of assets



administration from political influences, improve the professional capabilities of public servants and enhance accountability. Effective implementation of the law will require strong political will, supplementary procedures and judicial and non-judicial mechanisms for monitoring and compliance.

Overall, policy coordination, which in Mongolia depends entirely on individuals and lacks a systematic framework, is inadequate and in its early stages of development.

Ministries, government agencies, and local governments established memoranda of understanding during the period under review, revealing a lack of methods for horizontal government coordination and an informal measure to address the problem. By law, cabinet members are appointed by the State Great Khural. Unlike the traditional Westminster system of government, the Mongolian prime minister cannot nominate and appoint his own cabinet. Therefore, cabinet members and ministers are appointed as the result of negotiations between and within political parties, creating inherent conflicts of objectives and interests.

The establishment of reliable monitoring and evaluation frameworks at the national and local levels to track policy implementation and progress is the main challenge for policy coordination. For instance, parliament adopted the Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia in 2008, reflecting the government action program, annual state budget and annual guidelines for socioeconomic development. However, in the final year of the Millennium Development Goals, there was no nationwide monitoring and evaluation for the implementation of the national development strategy.

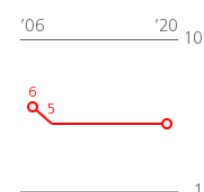
The law on coordination of foreign loans and grant aid is the main law on foreign assistance. However, not all donors and line ministries have followed the procedures specified by the law. This has led to a lack of government coordination, causing an imbalance in the distribution of government efforts and development partners' interventions.

Corruption continues to affect all spheres of the public sector. All politicians and governments continue to claim that they combat corruption, for example, through e-procurement programs, improving budget expenditure reporting and approving the National Program on Anti-Corruption. However, these efforts to combat corruption have not translated into significant improvements.

The anti-corruption legal framework draws primarily on the 1990 law on political parties, the 1996 law on anti-corruption (amended in 2006), the 2000 public procurement law and the 2002 National Program for Combating Corruption. The Independent Authority Against Corruption (IAAC), which was established in 2007, has the ultimate power to investigate anyone whom the authority considers to be involved in corruption. The legal framework for battling corruption improved dramatically in January 2012, when parliament passed the Law on Regulating Public

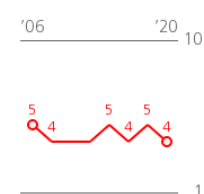
Policy
coordination

5



Anti-corruption
policy

4



and Private Interests in Public Services and Preventing Conflicts of Interest. Officeholders and members of parliament are required to declare their assets to the IAAC each year, although the accuracy of these declarations has been called into question, especially after the recent SME fund scandal. There have been concerns that the IAAC has acted in a biased manner by selectively targeting individuals. Dismissals and other administrative measures against office holders who failed to provide their declarations were reported in the period under review. Changes in the wealth and income of politicians and office holders attracted significant media attention.

The Glass Accounts Law, which entered into force on January 2015, obliges all government agencies and legal entities with state involvement to disclose publicly information on budgets and financial matters. Implementation of this law was widely supported and helped reveal many incidents of financial misconduct. However, many violations and cases of inaction were still reported by the media and civil society groups.

In the last two decades, land administration, mining and customs were considered the most corrupt sectors in Mongolia. According to the Asia Foundation's new study on Public Perceptions of Corruption in 2017, political parties are identified as one of the most corrupt institutions in Mongolia. In 2016, a new law to improve the transparency of political parties, especially with regard to financial accountability, was rejected by parliament during its first reading.

The November 2018 SME fund scandal suggests that it is not only individual politicians who see office as an (illicit) earnings opportunity, but that this attitude is pervasive among the political class. The fund, meant to support small and medium-size businesses through low-interest state loans under the supervision of the Ministry of Food, Agriculture and Light Industry, channeled funds (in excess of \$1 million) to businesses connected with politicians and their family members.

16 | Consensus-Building

All major political actors agree on building a democracy. At the same time, public opinion polls indicate that the general assessment of democratic values is much higher than trust in the institutions, such as state authorities and the judiciary. Considerable debate regarding shifting to a presidential system of government took place among prominent politicians, columnists and researchers in the period under review.

There is little question of Mongolia's commitment to a market economy; however, Mongolian policymakers continue to struggle with balancing market forces while providing social safety and advancing responsible/sustainable development. There is

Consensus on goals



considerable debate and a polarization of opinions over the role of the state in the mining sector and the development of strategically important mines.

Reformers can successfully exclude or co-opt all actors with anti-democratic interests. There are currently no openly anti-democratic actors with substantial influence or veto powers. While there are a small number of people advocating the establishment of a non-democratic regime, these people are not taken seriously by the public or the government. Such groups are primarily limited to hypernationalist parties or gangs. They have no influence and are largely peripheral. The Mongolian Armed Forces do not have a history of seeking political control, and there are no indications that the military seeks any policy-making role.

The political leadership generally prevents cleavage-based conflicts from escalating. However, socioeconomic gaps have been growing, leading to an unstable political environment fueled by populism and social media campaigns. The urban-rural divide, along with the generally lower socioeconomic status of migrants to urban areas, mark significant socioeconomic cleavages.

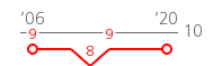
Civil society has emerged as an important partner for the government, playing a crucial role in promoting democratic reforms, human rights and gender equality as well as providing much needed services to vulnerable groups. The political leadership permits civil society participation within the policy-making process. It takes account of and accommodates the interests of most civil society actors. Laws on formal hearings and other mechanisms for soliciting comment have been approved by parliament and implemented in the past several years.

As a result, some important laws and government decisions were developed in collaboration with civil society. A notable example is the newly amended law on domestic violence of 2016 that resulted from more than 15 years of civil society-led campaigning. Another example is a quota for civil society representatives to be members of boards and monitoring committees of public organizations such as national TV and radio and the National Gender Committee. Many civil society groups, either registered NGOs or informal networks, have contributed to policy initiatives on important social problems such as air pollution, sanitation, child rights, gender equality, inclusive education and transparency and fairness.

Although political repression and purges did take place under the former communist regime, Mongolians have not undergone any massive, systematic injustice since the Stalinist purges. From 1922 to 1940, political leaders and other individuals considered potentially subversive such as aristocrats, national entrepreneurs and Buddhist monks, were purged. This activity resulted in capital punishment for more

Anti-democratic actors

9



Cleavage / conflict management

8



Civil society participation

7



Reconciliation

n/a

than 30,000 people and the imprisonment of tens of thousands. After World War II, many intellectuals with nationalist views were subject to repression. Over time, political repression in Mongolia evolved from outright state terror to forms of administrative measures, defamation of personal dignity and discrimination on the basis of opinion.

After the transition to democracy in 1990, a National Rehabilitation Commission was formed to examine each individual case of repression. The commission established around 36,000 case files. In January 1998, parliament passed a Law on the Rehabilitation of Victims of Political Repression and on Granting Compensation. As of today, around 17,400 victims have been recognized and 16 billion tugrik have been paid in compensation. In 1996, the Democratic Party officially asked for a pardon of its members on behalf of the government and party leaders of Mongolia. The MPP did the same in March 2011.

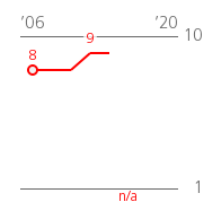
17 | International Cooperation

Mongolia receives substantial amounts of aid in critical areas such as energy, infrastructure, governance, education and social protection. The total Official Development Assistance (ODA) as a share of GDP declined from about 8% in 2007 to below 3% in 2014. Because Mongolia experienced exceptionally high economic growth until 2013, achieving upper-middle income status, important donor countries such as Germany and Japan significantly reduced ODA disbursements to the country.

Convergence between development aid programs and Mongolia's national priorities, sector plans and budget are weak. The government needs to put in place a more systematic framework for aid coordination and allocation in accordance with national development priorities. Progress has been slow toward promoting harmonization and mutual accountability of international aid, which is not supported by a proper system of results monitoring and management.

Emergency assistance has comprised the largest share of grants and support to the agriculture sector the second largest, while the energy and environmental sectors received relatively small allocations. A recent study commissioned by the Swiss Agency for Development and Cooperation (SDC) and other donor organizations suggested that opportunities for mobilizing finance through blended finance mechanisms and concessional loans are significantly greater than are the mobilization of pure grants.

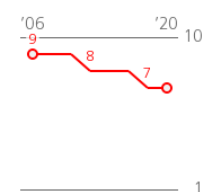
Some aid programs are donor-driven. In many cases, donors formulated loan and grant projects using their own strategies and priorities, then proposed them to the line ministries or other local entities. On the Mongolian side, such projects have often been approved for implementation without regard for national priorities and budget allocations. Such donor-driven projects did not produce a sense of national ownership and were ineffective.



n/a

Effective use of support

7



1

Besides its current economic status, Mongolian democratic and diplomatic credentials are well established in the international community. As a U.N. member-state since 1961, Mongolia plays a constructive role in the intergovernmental policy-making process and has demonstrated its firm commitment to peace, security and dialog. Notably, in 2006, Mongolia passed the U.N. General Assembly resolution on Mongolia's international security and nuclear-weapon-free status (GA resolution 61/87). With this act, Mongolia became the only member-state with an internationally recognized nuclear weapon-free status. In 2012, permanent representatives to the U.N. of the five nuclear weapon states signed a joint declaration to provide security assurances to Mongolia by officially recognizing the country's nuclear weapon-free status.

Mongolia has been elected as a member of the U.N. Human Rights Council by winning the votes of 172 U.N. member states. It served on the U.N. Human Rights Council from 2016 to 2018.

Mongolia became the first country to receive observer status at the Shanghai Cooperation Organization (SCO) in 2004. Mongolian leaders have attended all SCO high-level events.

President Battulga shows little interest in international fora and the U.N. He has not attended the U.N. General Assembly and has mostly traveled regionally. His lack of engagement undermines the country's previously very credible position in the international community. His seemingly spontaneous musings about reintroducing the death penalty and Mongolian membership in the SCO do not endear him to leading democracies, though they do to Mongolia's immediate neighbors.

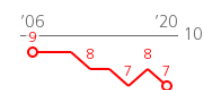
Developing international partnerships has particular significance for Mongolia, a country that is landlocked between two great neighbors. Mongolia's foreign policy emphasizes balanced relations with Russia, on which Mongolia relies for energy, and China, which is Mongolia's main channel for import and export.

Mongolia views balanced foreign relations as key to its ability to maintain national sovereignty and ensure development. Hence, Mongolia has pursued an open and nonaligned policy, maintaining strong commitment to upholding peace. Mongolia's President Elbegdorj, the president of Russia, Vladimir Putin, and the president of China, Xi Jinping, signed an agreement in June 2016 on a trilateral economic corridor, a major cooperation initiative aimed to boost infrastructure and trade integration of the three nations.

Multilateralism is an important pillar of Mongolia's foreign policy. Conceptualized in its Third Neighbor policy, Mongolia's efforts to balance out the influence of its two big neighbors led it to assume an active role in international and regional organizations. Aside from its close cooperation with the Asia-Pacific Economic Cooperation (APEC) and Association of Southeast Asian Nations (ASEAN),

Credibility

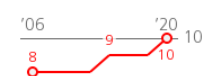
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Regional cooperation

10



1

Mongolia became a participating State of the Organization for Security and Cooperation in Europe (OSCE) in November 2012.

The government created the International Cooperation Fund (ICF) as its development aid program in 2013. Although budgets have been declining, the ICF aims at promoting democratization and sound governance principles of natural resources with partner countries across Asia, most actively with North Korea, Myanmar and Kyrgyzstan. Mongolia is also notable for having maintained ties with other communist states, despite its own successful transition. Mongolia enjoys open relations with North Korea and ties to Laos.

Mongolia became the first country to receive observer status at the Shanghai Cooperation Organization (SCO) in 2004. During the 18th SCO summit in Qingdao in 2018, President Battulga stated that there is government interest in upgrading the level of Mongolia's participation in the SCO but mentioned the necessity of broad-based discussion and approval from the Mongolian population.

Strategic Outlook

The Mongolian public is becoming increasingly intolerant of the political leadership's failures. Oligarchic and patron-client groups (consisting of businessmen, politicians and state officials) have a significant influence on the country's politics and wealth distribution and their conflicts may jeopardize political stability and development, especially since they are not countered by a substantively consistent policy discourse. The following policy measures and developments would likely prove helpful to successfully advance socioeconomic transformation:

1. The Mongolian parliament needs to act decisively to improve the accountability of public office holders and curb political elite-driven corruption in order to restore public trust in the government and political institutions. Supporting the independence of the judiciary is key to achieving this objective.
2. While re-attracting foreign investment is a key priority for the government, it is crucial to develop and implement a comprehensive, long-term policy to support the development of the public sector and improve the stability and competitiveness of domestic companies operating in non-mining sectors such as agriculture, organic food, textile, tourism and alternative energy. The government should maintain and advance its success in fiscal stability and avoid any quasi-fiscal spending and cash transfer programs.
3. Political parties have become the backbone of political corruption in Mongolia because of the dominance of oligarchic and patron-client groups, improper funding schemes and widespread cronyism in party politics. The two major parties should pursue genuine efforts to integrate internal party democracy and political accountability mechanisms. But such efforts will likely require generational change and significant personnel turnover.
4. Public pressure to fix imbalances in the separation of powers and the lack of political accountability is looming. Mongolia must be extremely careful in its attempt to amend and reform its constitution to ensure the continuity of successful democratic transformation.
5. In the coming years, strengthening the democratic quality of the justice system will be key to restoring public confidence in political institutions, underpinning business confidence, job creation and economic growth. The media and civil society need to place greater emphasis than previously on demanding justice reform that would lead to independent and strong courts.
6. Public-private partnerships and foreign direct investment in green development initiatives and renewable clean energy projects must be given high priority in national development strategies. Effective incentive mechanisms must be introduced in order to deal with emerging issues of environmental pollution and over-reliance on imported oil from Russia.