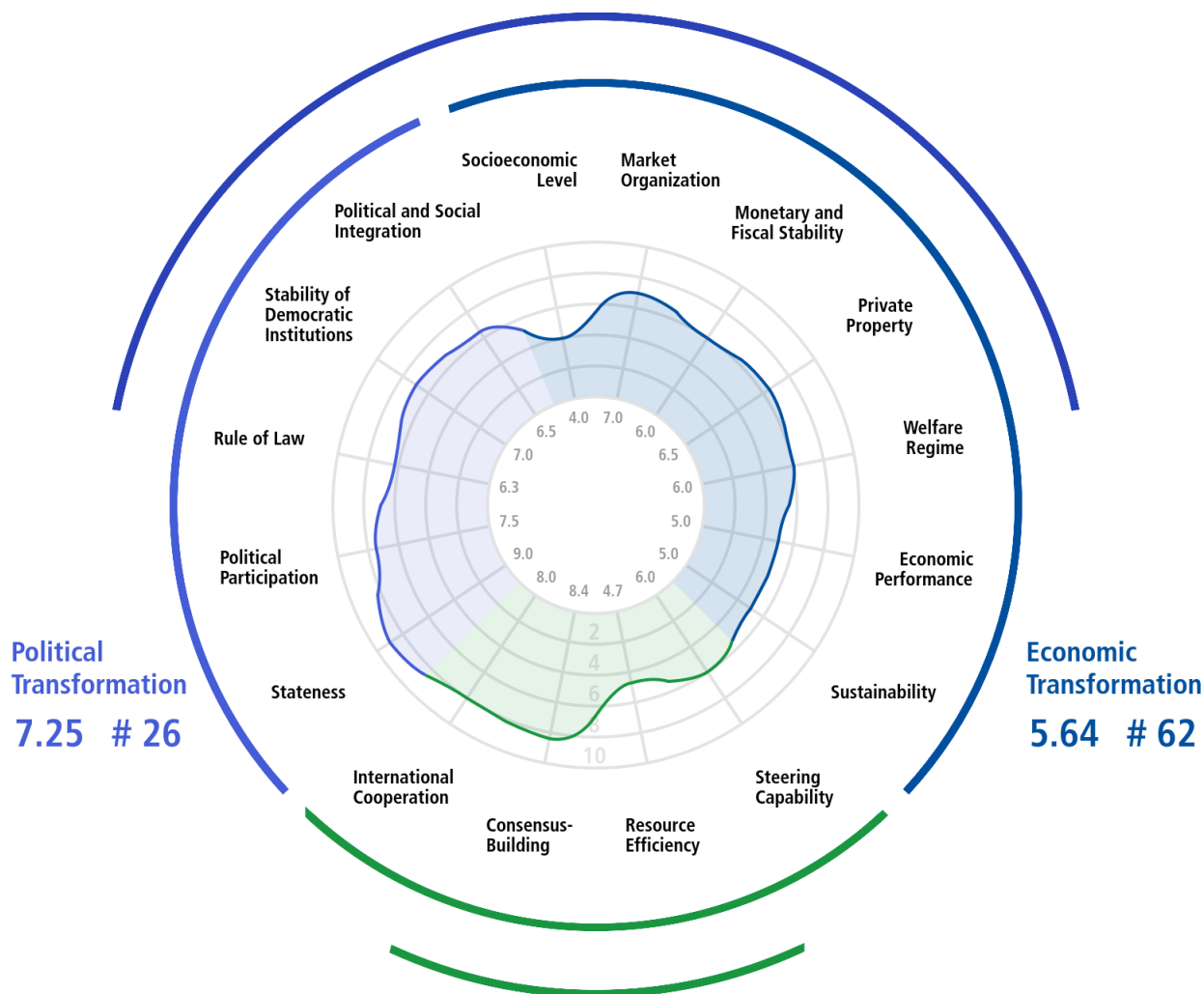


# Mongolia

## Status Index

**6.45 # 35**

on 1-10 scale out of 137



## Governance Index

**5.90 # 26**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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>.

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**Key Indicators**

Population	M	<b>3.3</b>	HDI	<b>0.737</b>	GDP p.c., PPP \$	<b>12101</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.6</b>	HDI rank of 189	<b>99</b>	Gini Index	<b>32.7</b>
Life expectancy	years	<b>69.9</b>	UN Education Index	<b>0.736</b>	Poverty <sup>3</sup>	% <b>5.0</b>
Urban population	%	<b>68.7</b>	Gender inequality <sup>2</sup>	<b>0.322</b>	Aid per capita \$	<b>97.5</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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 November 2019, the State Great Khural enacted amendments to the constitution to reduce excessive interference of parliament in the executive functions of the government. Further amendments limited the president's term from a maximum of 8 years (two terms) to 6 years (one term only) and improved the independent and transparent functioning of the Judicial General Council. Following the amendments, the Mongolian People's Party (MPP) reformers succeeded in gaining a broad-based consensus and won parliamentary approval of the Law on Judiciary in January 2021, which introduced crucial reforms to re-establish the independence of – and public trust in – the judiciary.

The government made significant improvements in its fiscal performance, under the IMF program, primarily through stricter control on public spending, both recurrent and capital expenditures, in 2018 and 2019. However, Mongolia experienced its first recession since 2009 due to the COVID-19 pandemic in 2020 and the government's emergency measures, which resulted in weak external and internal demand. The fiscal balance deteriorated from 1.4% in 2019 to -11.4% in 2020 and government debt increased from 69.5% in 2019 to 83% in 2020.

Mongolia's fight against the COVID-19 pandemic was widely praised by domestic and international observers (including the WHO) until the first community transmission was recorded in November 2020. The success of the government's mitigation measures helped the incumbent party MPP gain a landslide victory in that year's parliamentary election.

A total of 606 candidates, representing 13 political parties and four coalitions, as well as 121 independents, competed in the 2020 parliamentary election. The voter turnout was 73%, despite COVID-19-related restrictions and safety measures. The ruling party, the Mongolian People's Party (MPP), won 62 out of 76 parliamentary seats. The main opposition party, the Democratic Party (DP), secured 11 seats, and two small parties, the MPRP and the HUN party, each won one seat. Former Prime Minister Norovyn Altankhuyag was the only independent candidate who won

a seat. One important factor that helped the MPP consolidate its power was a change of the election system from a single-member district plurality system to a multi-member district plurality one. Parliament hastily voted for the new election system in December 2019, which favored the well-established parties, with their institutional and extensive network of supporters. As a result, the discrepancy between the share of MPP votes (44.8%) and its seats in parliament (81.6%) was very high.

Though the government seemed to heavily prioritize containment measures and emergency preparedness in the fight against the COVID-19 pandemic, it failed to implement clear and effective crisis management measures in response to the first case of community transmission, stirring public fear and frustration.

Corruption remains the greatest obstacle to political and socioeconomic progress in Mongolia. Serious legal reversals and loopholes undermine anti-corruption efforts. Unless major improvements are made in this area, state capture will likely become a permanent characteristic of Mongolia's democracy.

## History and Characteristics of Transformation

In 1992, the first democratically elected parliament of Mongolia, the State Great Khural, adopted a new constitution, thereby confirming the nation's aspiration to end nearly 70 years of a centrally planned economy and a single-party authoritarian system and to build a democratic and prosperous nation. Mongolia has demonstrated a consistent record of free elections and peaceful transfers of power, and it has made significant progress toward strengthening institutions for a market economy in the past 30 years.

Mongolia's majoritarian voting system has provided more opportunities for its two major parties, the Mongolian People's Party (MPP) and the Democratic Party (DP), which has increasingly constrained the development of a multiparty system. The MPP's landslide victory in the last two parliamentary elections allowed the party to consolidate its dominance, while the DP remains mired in a deep-seated institutional crisis. In the last two decades, money and personal wealth has become increasingly influential in the Mongolian party system. Consequently, frictions and political bargaining between clientelistic networks have led to political instability and unpredictability. Public trust in political parties reached historic lows in recent years.

Long-awaited amendments to the constitution were approved by parliament in November 2019. These included crucial provisions for improving the independence of the judiciary, which had been undermined by increasing interference from major political actors, especially the president, in the last decade. Furthermore, the amendments strengthened the executive power of the prime minister and limited the maximum office term of the president to six years. Parliament amended the Law on Judiciary in January 2021 to integrate the principles of the constitutional change, marking a potentially significant step toward rebuilding an independent and fair judiciary.

Corruption has become the major hindrance to prosperity in the country. While significant legal and institutional frameworks, such as the Anti-Corruption Law and the Independent Agency against Corruption, were put in place in the last decade, the implementation of anti-corruption policy has been plagued by deep-seated conflicts of interest in politics. Fighting against corruption at lower levels of government has produced positive results, but justice remains elusive when it comes to prosecuting high-profile and political corruption.

Despite the lack of a civil society tradition, Mongolia has a vibrant field of independent civic activism that includes NGOs, popular movements, independent journalists and social media influencers, all of which have been a crucial force against democratic backsliding. Mongolia's population is the youngest in Northeast Asia and its younger generation, which grew up in a competitive and free society, will likely further strengthen the country's civil society.

Mongolia has abundant natural resources. Its economic growth in the past two decades has been driven by mineral exports to China. The country has not been able to diversify its economy and competitiveness by effectively managing revenues from its mineral exports. Climate change and the degradation of more than 70% of pasture are increasingly putting the sustainability of Mongolia's traditional livestock husbandry at risk.

Mongolia's high economic growth, fueled in the past by a mining boom, has been on the decline since 2013. In 2016, an economic recession ensued which led to a situation in which the government was at risk of defaulting on its public debt, amounting to billions of dollars. In 2017, the International Monetary Fund helped Mongolia avoid default. In 2018-2019, the government was able to reverse the economic decline thanks to prudent fiscal management and increased revenues from mineral exports, maintaining a 5% annual growth of GDP.

The poverty rate in Mongolia declined from 38.7% in 2010 to 21.6% in 2014, but rose to 29.6% in 2016. The rate declined somewhat to 28.4% in 2018. However, 15% of the population lives just above the poverty line and is therefore extremely vulnerable to falling into poverty.

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.

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

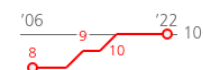
There is a Kazakh-speaking Muslim minority (3.9%, according to the 2015 Population and Housing by-census), the majority of which live in Bayan-Ulgii province in western Mongolia. Mongolian Kazakhs enjoy significant cultural, linguistic and political minority rights.

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 democratic transition in 1990. According to the last available national census of 2010, 53% of individuals aged 15 and above self-identified as Buddhist, 3.9% 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 a substantial influence over national politics and its decision-making process.

Question  
Score

Monopoly on the  
use of force

10



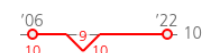
State identity

10



No interference of  
religious dogmas

10



Mongolia has an administrative structure that reflects its unitary state principles. The central government and three tiers of subnational governance are responsible for providing public services throughout the country. The three tiers of subnational or local government are: aimags (provinces) and the capital city; soums (rural districts) and duuregs (urban districts); and bag (rural sub-districts) and khoroots (urban sub-districts). Central government and local self-governing bodies share power and responsibilities at each tier.

Civic registration, law enforcement, taxation and welfare services are provided by the state through all tiers of subnational government. Recent judicial system reforms improved access to the court system. In addition, e-government initiatives significantly improved access to some government services.

Mongolia has serious deficiencies in its provision of transport, energy and water infrastructures. Though Mongolia's national road network increased threefold over the past two decades, it suffers from poor quality of roads and underinvestment in maintenance. For example, the Mongolian government was unable to complete a multimillion dollar project to upgrade the Darkhan-Ulaanbaatar road, one of the busiest intercity routes in Mongolia. Consequently, more than 250 traffic accidents occurred and 25 people died in 2019 because of poor road conditions.

Mongolia's energy infrastructure is insufficient: more than 10% of the population is without access to electricity and less than 25% of the population have access to direct heating. A limited access to water and sanitation infrastructures is a major challenge in the capital, where nearly half of the population resides. Approximately 65% of the city population use unimproved pit latrines with very poor hygiene.

Equal access to quality education is a major challenge. The government's investment in school infrastructure and the teaching workforce has been insufficient and ineffective. Many public schools in the capital are overcrowded: average class size is 30 and the number can reach 50 or 70 in some cases. Many rural schools suffer from a lack of qualified teachers of science and other subjects.

Mongolia provides free and universal health care to its citizens and all health care service centers offer preventive and curative care services for children aged five and under. Though routine immunization, essential medicine and health care are widely accessible, the public health system suffers from a lack of advanced diagnostic and treatment capacity.

One patient from a rural area who required an urgent specialist surgery died at the checkpoint station for visitors entering Ulaanbaatar in December 2020 due to not having a COVID-19 test result. Many people experienced difficulties in receiving urgent medical assistance and regular check-ups due to pandemic containment measures at hospitals and the lockdown restrictions. There were many complaints about the lack of effective communication about public access to medical services and urgent assistance.

Basic  
administration

6

'06 '22 10



1

Schools and universities were closed from January 2020 in Mongolia and remain closed as of January 2021. Except for two months in 2020, students had to study online and through TV channels. Reports showed that school closures had a serious impact on children and families. Distance learning was not adequately accessible for the nearly 50% of children who do not have access to the internet, the 10% who have no TVs at home, and the 3% who have no connection to electricity.

## 2 | Political Participation

Despite calls from President Kh Battulga to postpone the 2020 parliamentary election due to the COVID-19 pandemic, the election took place as scheduled in June 2020. The government of Mongolia issued pandemic-related restrictions ahead of the election, which included rules for campaign activities and procedures at electoral stations.

A total of 606 candidates, representing 13 political parties and four coalitions, as well as 121 independents, competed in the election. The voter turnout saw no decrease from the rate of 73.6% in 2016 despite the restrictions and safety measures. The ruling party, the Mongolian People's Party (MPP), won 62 out of 76 parliamentary seats. The main opposition party, the Democratic Party (DP), secured 11 seats, and two small parties, the MPRP and the HUN party, each won one seat. Former Prime Minister Altankhuyag was the only independent candidate who won a seat.

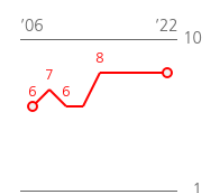
One factor that may have helped the MPP to consolidate its power was a change of the election system from single-member district plurality election system used in the previous election to a multi-member district plurality one. The parliament hastily approved the new rules in December 2019, which was thought to give established parties with significant networks of supporters an advantage. Yet several very prominent candidates for the two dominant parties failed to win election, casting doubts on the thesis that the new rules unduly benefited incumbents and established parties. However, the discrepancy between the share of MPP votes (44.8%) and its seats (81.6%) was very high.

COVID-19-related emergency restrictions prevented opposition parties from campaigning widely, while the ruling party had more exposure to voters through unrestricted government activities.

Five candidates (two from the MPP and three from the DP) were arrested during the election campaign. These arrests were widely perceived to be politically motivated because they targeted politicians who had been in conflict with either Prime Minister Khurelsukh or President Battulga. These arrests set a dangerous precedent for Mongolia's democracy by pointing to a lack of independence of the judiciary.

Free and fair elections

8





Although there were allegations of manipulation of the election results through electronic vote-counting machines, political parties, civil society and the government pushed back against this distrust, agreeing to conduct a manual recount of votes in disputed election districts.

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

Freedom of association and assembly is guaranteed by the constitution and specific laws and regulations. Mongolia's Law on Non-Governmental Organizations, approved in 1997, has fairly straightforward procedures for NGO registration and reporting. Associations and civil groups range from the national coalitions of women's rights to youth and environmental organizations and organized labor, to more informal and issue-specific grassroots groups in rural areas.

Under the Law on Organizing Demonstrations, enacted in 1994, organizers of demonstrations should notify the governor of the district or aimag about where the event is planned. The governor has the authority to approve the event. In cases where such notifications are not submitted or the governor declines authorization, police act to disperse protesters. This discretionary power of governors has often been criticized as restricting the right to assemble and demonstrate. However, rallies occur very frequently in the capital and elsewhere.

The Law on Organizing Demonstrations and Public Gatherings prohibits demonstrations during state emergency, disaster and threats in specific areas or nationwide. A law on infringements includes a section covering the responsibilities of organizers of demonstrations, including their compliance with health and safety regulations. A number of demonstrations organized during 2020 were labelled illegal by the police authority because governor approvals were not granted. However, no major conflicts between demonstrators and police were reported. At least in the capital, restrictions related to COVID-19 were in place well into 2021.

Mongolian and international civil society organizations have expressed their concern over a new draft law on non-profit legal entities, which may lead to increased government interference. A number of activists and lawyers complained about the failure of government bodies to comply with the Law on Organizing Demonstrations and Gatherings during the pandemic, citing arbitrary arrests and excessive force against peaceful protesters.

Effective power to govern

7

'06 '22 10



Association / assembly rights

9

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Mongolia was ranked 73 out of 180 countries in the Freedom of Press Index in 2020, backsliding from 60 in 2016. 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 have direct influence over the political agenda and censor their editors and journalists. Current Prime Minister Oyun-Erdene has appointed the owner of a prominent media outlet as minister of culture, and a former chief editor of the same outlet as his press secretary, representing a further evolution of the relationship between media and government.

By law, the Mongolian national broadcaster is governed by its independent board and reports impartially with a diversity of perspectives. However, political interference has been persistent.

Professional bodies (e.g., 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.

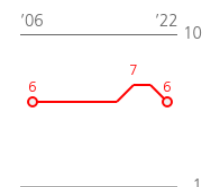
Under the constitution, freedom of expression is guaranteed against interference or government restrictions, but there are many flaws in the relevant laws and their implementation. In September 2017, a new Law on State and Official Secrets became effective. Although the previous Law on State Secrets and the Law on Approving the List of State Secrets were vague, the scope of state secrets was clearly defined. By contrast, the new law allows the government to define the scope of state secrets. According to the Globe International's Annual Press Freedom Report, the volume of what was deemed "secret" information increased from 60 in 2017 to 565 in 2019, indicating a serious setback for the right to access to information. A number of journalists who reported on corruption faced criminal investigation and prosecution.

In 2017, defamation was abolished as a criminal offense and included in the new Law on Administrative Offenses. However, the new law granted the police significant discretionary power to investigate and prosecute journalists and citizens. In 2019, Globe International's survey of 300 journalists found that one-third of them had been questioned by police. Many journalists were charged with defamation and were forced to pay fines for their reporting on politicians and business groups.

In January 2020, parliament reintroduced a defamation clause into criminal law under a different term: distribution of false information. The Law on the Prevention and Fighting the COVID-19 Pandemic and Decreasing Negative Impact on Society and Economy, which was approved in April 2020, further prohibited dissemination of "false information" and

Freedom of  
expression

6



obliges journalists and citizens to disseminate “true and objective information” from a reliable source. Breaches of these laws will be punished by fines, community service and restrictions on travel. In January 2021, a Mongolian citizen who posted on Facebook about the condition of the hotel he was quarantined in was charged and fined MNT 500,000. In April 2020, Transparency International called on the Mongolian government to reverse its increasing restrictions on freedom of expression and media.

### 3 | Rule of Law

The 1992 constitution provides for a separation of powers, restricting 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, which comprises 76 directly elected members. Parliament confirms the appointment of the prime minister, who appoints cabinet ministers. It has the power to draft legislation, enact and amend laws, review and approve the annual government 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 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 2019 empower the prime minister to freely appoint his cabinet but restricts membership to a maximum of four members of parliament. The cabinets of Prime Minister Khurelsukh in July 2020, and of his successor, Prime Minister Oyun-Erdene in January 2021, both included significantly more ministers with relevant subject matter expertise than previously. It remains unclear whether this will centralize power in the offices of the prime minister and cabinet.

In March 2019, the State Great Khural enacted amendments to several laws governing the judiciary to enable the National Security Council, which is headed by the president and includes the prime minister and speaker of parliament, to dismiss and appoint judges, prosecutors and the head of the Anti-Corruption Authority. Consequently, 17 judges were dismissed in June 2019. The general prosecutor and head of the Anti-Corruption Authority were dismissed at a later date. Transparency International and other civil society groups condemned this politically motivated interference as it has called into question the rule of law.

Separation of powers

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In February 2021 parliament passed laws that rectified some of the confusion around judicial appointments stemming from the 2019 constitutional amendments. The National Security Council remains dominant in the appointment and dismissal of judges, but the clarifications satisfied many Mongolian critics of previous legislation, appearing to shore up judicial independence somewhat.

Mongolia did not declare a state of emergency due to the COVID-19 pandemic. Its Law on Disaster Protection was amended in accordance with the new law on COVID-19 containment and protection measures. The Law on Disaster Protection defines three levels of disaster readiness: daily, enhanced and public emergency readiness (complete or partial). Enhanced readiness was declared in February 2020 and continued through to the end of May 2020. In response to the first locally transmitted case of COVID-19, public emergency readiness was declared in November and December of 2020 for several weeks, and again in February 2021. The emergency measures implemented by the State Emergency Commission and local emergency commissions were subject to parliamentary oversight and judicial review. In January 2021, the parliamentary sub-committee on human rights sent recommendations to the State Emergency Commission on improving measures to protect human rights.

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

The judicial system consists of the Constitutional Court, the Supreme Court, provincial and capital city courts, county 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.

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

The president's power of appointment of members of the Judicial General Council and the general prosecutor and their deputy has heavily impaired the independence of the judiciary during the past decade. The judiciary were increasingly used as a weapon against political and business adversaries. The National Security Council's new power to dismiss and appoint judges and prosecutors has further weakened judicial independence. In 2020, a number of politicians, including people who led the negotiation of major investment agreements, were arrested by court decisions and sentenced to imprisonment. These arrests and sentences were allegedly made under political influence.

Independent  
judiciary

6

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The biannual surveys of perceptions of fairness conducted by the Mongolian Anti-Corruption Agency rank the judiciary as one of the poorest performers among government institutions. Many independent legal experts openly criticize extensive patron-client relations and corruption within the system, such as the improper influence of Supreme Court judges over other judges, and a lack of internal accountability mechanisms for unethical behavior.

The constitutional amendments of November 2019 reduced the president’s power over the judiciary through inclusive and democratic selection of members of the Judicial General Council and the establishment of an internal ethics committee. In April 2020, the State Great Khural voted to discuss a set of amendments to the Law on Court, which aimed to integrate constitutional principles into judicial practice and address other challenges to judicial independence.

In January 2019, parliament voted to oust its speaker, Miyeegombyn Enkhbold, who had been implicated in the long-unresolved MNT 60 billion case, in which a group of politicians from the MPP were accused of conspiring to sell government offices in exchange for MNT 60 billion for the 2016 parliamentary election. In March 2020, the Appeal Court of Capital City dismissed the sentences of four-year imprisonment imposed by the Bayangol district court on Ts Sandui and A Ganbaatar, who were allegedly behind the “MNT 60 billion case.”

The Small and Medium-sized Enterprises Development Fund embezzlement scandal, uncovered by Mongolian investigative journalists in late 2018, dominated public discussions over political accountability. The Small and Medium Enterprises Development Fund’s low-interest loans were allocated to companies owned by 16 members of parliament and their relatives and associates. Many other officeholders were also involved in this case. In early 2019, the general prosecutor requested that parliament revoke the parliamentary immunity of several members, but this was denied. Several members of parliament apologized for their indirect involvement in the case and some announced that loans would be repaid immediately. In 2019, Batzorig, the minister responsible for the management of the fund, resigned in the face of large-scale public contempt. In response to adverse publicity, the prime minister and the chair of the MPP, Khurelsukh, promised that politicians who had received loans from the Small and Medium Enterprises Development Fund would be held accountable. Though some of those 16 members of parliament lost their party candidacy for the parliamentary election, the majority of them ran again. In 2020, B Batzorig and three former members of parliament were prosecuted and penalized, but the public criticized their light sentences.

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. The officeholders range from a former prime minister to governors, judges, and tax officers. However, the real impact of the IAAC on high-level political corruption is

Prosecution of  
office abuse

5

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viewed as random and politically biased. Many cases have been dropped and penalized unfairly due to loopholes in the relevant laws and the court system, such as relief from criminal liability due to the expiration of limitation periods and a court's power to return a case to the police for further investigation.

There is widespread suspicion that the IAAC has become a tool for political retribution, largely controlled by people who do not themselves wish to face corruption charges leveled by a truly independent authority. Kh. Enkhjargal, head of the IAAC, resigned in April 2020. After the resignation of Speaker of Parliament Enkhbold, he faced political pressure from President Battulga to resign despite his 6-year term. Subsequently, the president nominated a new head of the IAAC for parliamentary approval in May 2020. In January 2021, parliament made amendments to the Law on Fighting Corruption that enables the prime minister to directly appoint the head of the IAAC.

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 protection of physical integrity and preventing torture is inadequate.

The annual reports of the National Human Rights Commission of Mongolia (NHRCM) submitted to parliamentary review have documented numerous civil rights violations such as police abuse of prisoners and detainees and poor conditions in detention centers. Although Mongolia ratified the Optional Protocol to the Convention against Torture in 2014, it did not follow through on its obligation to establish national preventive mechanisms (NPM). In 2019, Minister Ts Nyamdorj disclosed footage of an intelligence operation that involved torture and ill-treatment of defendants in the S Zorig murder case, conducted in a detention center during 2017 and 2018. This prompted broad-based discussions over torture and ill-treatment. In 2020, amendments made to the Law on the National Human Rights Commission of Mongolia included provisions on establishing the NPM within the structure of the NHRCM.

Mongolia closed its borders and canceled all international flights and trains in February 2020 in response to the COVID-19 pandemic. The government began repatriation of its citizens via a limited number of chartered flights, while it focused on maintaining its record of zero community transmission. By May 2020, the government had evacuated only 30% of approximately 10,000 Mongolians in 35 countries who had requested repatriation. Desperate situations of stranded Mongolians were widely reported. In April 2020, a protest was organized outside the Mongolian embassy in South Korea to demand more repatriation flights from the government.

In 2020, the government organized a total of 119 charter flights and repatriated approximately 30,000 Mongolian citizens. However, when Mongolia recorded its first domestic COVID-19 transmission in November 2020, the government canceled

Civil rights

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all planned charter flights, leaving many of its stranded citizens in desperate situations. Approximately 50% of complaints received by the NHRCM since the first community transmission were from Mongolian citizens who claimed their rights to travel and return to one's own country were being violated. By January 2021, nearly 9,000 more Mongolians had requested government assistance to return to Mongolia. The NHRCM and the Human Rights Sub-Committee of the State Great Khural issued directives and letters of demand to urgently assist those people to return. Repatriation flights resumed in February 2021.

When announcing the first case of COVID-19 community transmission, health officials disclosed the name and personal identification details of the infected person: a truck driver delivering goods from Russia who had completed the three-week hotel quarantine. He was accused of lying about his movements and contacts after his period of quarantine and faced unprecedented discrimination and vilification on social media.

#### 4 | Stability of Democratic Institutions

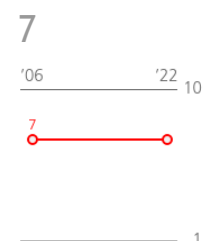
Mongolia held national and local elections amidst the COVID-19 pandemic. Following the June 2020 parliamentary election, the General Election Committee organized local government elections (Citizens' Representatives Khurals) in October 2020. The MPP retained its majority in the capital city and in 13 of the 21 provinces. The DP won the majority of seats in eight provinces. Three candidates of the HUN party were elected to the capital city council. The election results were accepted by political parties and the post-election transitions took place without major difficulties.

The influence of public opinion on political institutions and policymaking is substantial. The State Emergency Commission (SEC), the overarching government body tasked with managing emergency situations, was at the center of public debate and criticism. The SEC changed its decisions many times to respond to public opposition and complaints. On January 21, 2021, Prime Minister Khurelsukh resigned after protests held in the capital city over the government's handling of the COVID-19 pandemic. In accordance with the constitution, parliament appointed L Oyun-Erdene as the new prime minister on January 27, 2021.

While the Civil Service Council of Mongolia has a system of selecting civil servants based on merit, usually the ruling party appoints civil servants to posts based on political affiliation. Hence government policies are often disrupted by changes in leadership and follow-up shuffles in personnel. This has had an adverse effect on many long-term development programs adopted by parliament. However, the alignment of actual government policies with these programs has also been inadequate.

An important step was made toward improving impartiality and meritocracy: in May 2020, five members of the National Human Rights Commission of Mongolia were selected and appointed through open parliamentary hearings.

Performance of democratic institutions





Democratic institutions are accepted as legitimate by all relevant political actors. The cabinet upheld its commitment to democratic institutions (e.g., parliaments, judiciary, oversight and watchdog institutions) during Mongolia's state of emergency.

The Mongolian government has proven unsuccessful in addressing socioeconomic inequality and corruption, and it has a poor record of engagement with youth, low-income communities, and other disadvantaged groups. This has fueled populist sentiments and hence disillusionment with Mongolia's democracy. However, the carefully calibrated semi-presidential system and the emergence of new activism have contributed to a strong defense and solidification of democracy and have helped to combat populism.

## 5 | Political and Social Integration

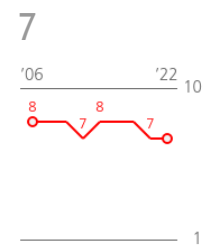
MPP's electoral success in winning an overwhelming majority of seats in parliament consolidated the party's dominance in the Mongolian political system. The two dominant parties prefer single-member majoritarian or multi-member plurality systems, which are thought to benefit them. These election systems present challenges for smaller and new parties, because they reward substantial networks of support and broad mobilization of people and resources on the ground.

However, DP's internal conflicts, a lack of generational turnover, and institutional weakness have adversely affected its role as the main opposition party. Unless significant party reforms and leadership change occurs in the DP, Mongolia's two-party system may shift toward a dominant party system. Alternatively, the election of a single candidate of the HUN party may signal the arrival of a new political force that might replace the DP as the choice of urban professionals. That constituency is limited in numbers but holds significant influence via the media and public debates.

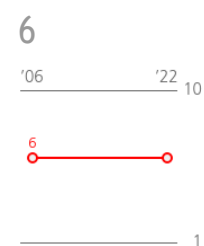
A high level of public dissatisfaction and frustration regarding the lack of democracy and accountability within the major political parties persists. Public opinion surveys have continuously confirmed that the majority of Mongolians do not trust political parties even when the latter are ostensibly committed to democracy.

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, LGBTQ+, education and social welfare. Nonpartisan 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. It is estimated that approximately 70% of Mongolian citizens frequently use Facebook. A range of online interest groups reflect competing social interests.

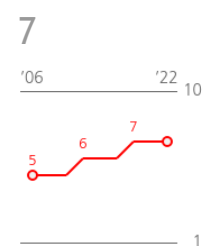
Commitment to democratic institutions



Party system



Interest groups





Mongolians have overwhelmingly approved the notion of a democratic regime since 1990. A number of opinion surveys confirm that 85% to 90% of Mongolians regard democracy as the best form of government. In recent years, support for strong executive power has increased which, however, does not necessarily contradict the contention that democratic principles and values are widely accepted by the population. The Political Barometer Survey conducted by the Sant Maral Foundation in May 2020 found that 67% of the population like the existing system of democracy in Mongolia to some extent. A survey of young Mongolians conducted in June 2020 by the International Republican Institute (IRI) found that despite the economic and social challenges caused by the pandemic, young people expressed overwhelming support for maintaining a democratic system (76%). Young people were the main participants of the peaceful protests that erupted on January 21, 2020, over the inhumane treatment of a COVID-19 patient and her newborn baby by hospital authorities.

Attitudes toward the government and the State Emergency Commission were overwhelmingly positive until the first community transmission of COVID-19 was reported. Henceforth, measures taken by the government and commission to contain the spread of COVID-19 failed to attract public support and approval. It became increasingly clear that the government was not prepared adequately to deal with community transmission.

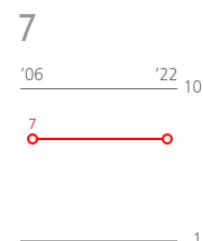
In general, many Mongolians trust people with whom they share close relationships or local affiliations. A survey conducted by the Independent Research Institute of Mongolia in 2018 found that more than half of the population (61%) indicated that they don't trust others in (wider) society.

The lack of general trust is exacerbated by the increasing pace of migration to urban areas, as migrants lose their sense of community as 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.

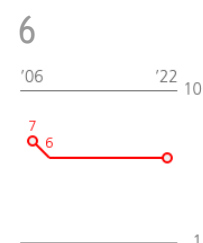
The continuing growth of the use of social media has contributed to an increase in formal and informal interest groups and online support groups. There are many independently organized cultural, environmental, faith-based and social organizations in urban areas. However, many of these are rather small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

Debates and concerns about community transmission risks of COVID-19 associated with the repatriation of Mongolians indicated some negative impact of the pandemic on social solidarity and trust in the country.

Approval of democracy



Social capital



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Mongolia's Human Development Index (HDI) value decreased from 0.741 in 2018 to 0.737 in 2019 and its ranking fell from 97 to 99. However, the country maintained its place in the "high human development" category. According to the UNDP 2020 Human Development Report, Mongolia's life expectancy at birth is 69.9. In 2019, mean years of schooling was 10.3 and Gross National Income per capita was \$10,839 in 2019. The overall loss in HDI due to inequality was 14%. Mongolia had a Gender Inequality Index (GII) value of 0.322, ranking it 71 out of 162 countries in 2019.

The poverty rate in Mongolia declined from 38.7% in 2010 to 21.6% in 2014, before rising to 28.4% in 2018, according to the National Statistical Office (NSO) and the World Bank. However, 15% of the population's income was just above the poverty line. 7.3% of the population (230,000 people) are multidimensionally poor. An additional 15.5% are classified as vulnerable to multidimensional poverty (492,000 people).

There is a widely held view in the country that economic growth has not translated into greater income equality. Indicators of quality of life improved over the last decade but household finance and livelihoods stagnated. Mongolia's Gini coefficient was 0.33 in 2018. It has not changed much in the last decade. According to Asian Development Bank (ADB) estimations, the growth rate of income per capita of the bottom 40% of the population was only 1% between 2011 and 2018. Furthermore, the ratio of household indebtedness in Mongolia increased dramatically in the last 10 years. The World Bank estimated that household loans make up 50% of total credit outstanding and are concentrated among overleveraged borrowers.

In 2020, Mongolia experienced its first recession since 2009 due to the COVID-19 pandemic. The weak external and internal demand and the government's emergency measures severely impacted businesses. According to a survey in August 2020 conducted by the National Statistical Office, 86% of businesses in manufacturing and 76% of businesses in the trade and service sector experienced income losses since January 2020. Though the government implemented social assistance programs targeting low income and socially vulnerable households, many experts forecast a significant increase to the poverty rate in the period 2020 - 2021.

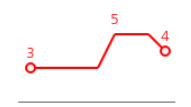
Rising youth unemployment is a major challenge. According to government statistics, approximately 40% of higher education graduates are unemployed. The ILO and Asian Development Bank estimated that the youth unemployment rate was 25.3% in 2019, and increased to 28.5% in 2020 due to the pandemic. They forecast a likely rise to 30% in the next few years.

Question  
Score

Socioeconomic  
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	11425.8	13108.8	13996.7	<b>13137.1</b>
GDP growth	%	5.3	7.2	5.2	<b>-5.3</b>
Inflation (CPI)	%	4.3	6.8	7.3	<b>3.7</b>
Unemployment	%	6.4	5.4	5.3	<b>4.3</b>
Foreign direct investment	% of GDP	13.1	14.9	17.5	-
Export growth	%	14.8	24.0	9.1	<b>-0.1</b>
Import growth	%	24.8	30.9	22.3	<b>-8.9</b>
Current account balance	\$ M	-1155.4	-1902.5	-2161.7	<b>-674.6</b>
Public debt	% of GDP	84.4	74.3	68.4	<b>77.0</b>
External debt	\$ M	27963.2	29788.6	31649.9	<b>33236.2</b>
Total debt service	\$ M	3702.5	7774.6	11726.6	<b>1901.4</b>
Net lending/borrowing	% of GDP	-2.7	3.5	-	-
Tax revenue	% of GDP	13.6	16.8	-	-
Government consumption	% of GDP	12.7	11.7	12.1	<b>14.7</b>
Public education spending	% of GDP	4.1	6.2	4.9	-
Public health spending	% of GDP	2.5	2.2	-	-
R&D expenditure	% of GDP	0.1	0.1	-	-
Military expenditure	% of GDP	0.8	0.7	0.7	<b>0.8</b>

Sources (as of December 2021): 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

Mongolia's position in the World Bank's Ease of Doing Business Rankings fell from 74 out of 190 countries in 2018 to 81 in 2020. The most serious problems were electricity (ranked 152), insolvency (150), and cross-border trade (143). Though a number of government initiatives were implemented to improve business registration and permit processes, the rankings reflect the fact that serious barriers exist for starting a business (100). It takes on average 12 days and eight procedures to start a limited liability company in Mongolia.

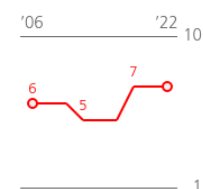
Corruption in all sectors of government and political clientelism remain a serious challenge to doing business and prevent the creation of an even playing field. Politically connected and larger business groups enjoy access to favorable financial resources and regulatory environments, while SMEs and new entrants face significant financial and administrative barriers. Approximately 90% of private sector entities receive financing from Mongolia's domestic banks. The banks' high annual interest rates are 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 Small and Medium Enterprises Development Fund provides loans at significantly lower interest rates than the three major banks. However, it was revealed in 2018 that the fund's resources had been siphoned off by politicians and government officeholders. Although the legal and institutional environment of the fund has been significantly modified since the scandal, the allocation of government funding has been reduced.

Mongolia's private sector accounts for over 80% of GDP. More than 90% of all enterprises are privately owned. However, recent surveys show that ownership of private enterprises has become more concentrated in key economic sectors such as mining, construction and banking. Small and medium-sized enterprises account for 77% of total registered business entities, 72% of the total workforce, 17.8% of gross domestic product, and 2.3% of total exports. According to the National Statistical Office, the informal sector generates between 9.2% and 15.7% of GDP.

Market competition in many key sectors of the economy is increasing, such as agriculture, textiles, telecommunications, 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. In May 2020, the third attempt by Mongolia to raise money from international stock markets to fully develop the Tavan Tolgoi coal mine failed after the government canceled its planned Hong Kong IPO due to pre-election political concerns.

Market  
organization

7



### The Law on Restricting Unfair Competition was revised

in 2010 to cover all types of legal and illegal business entities, and to combat monopolistic or cartelistic structures and practices. According to an Asia Development Bank report on Mongolia's economic prospects, the country's Law on Competition lacks clarity on important legal terms, such as dominance and mergers. Amendments to the law and complementary guidelines were developed in 2017 but have not been reviewed and adopted by parliament. Moreover, the Authority for Fair Competition and Consumer Protection (AFCCP) suffers from a lack of independence from the government. However, in 2020 the AFCCP did take measures to prevent and combat excessive pricing and the creation of artificial scarcity. It fined a number of companies for adopting anticompetitive practices, including meat suppliers, supermarkets and pharmaceutical companies.

Market competition in many sectors of the economy is increasing, but several sectors suffer from high levels of ownership concentration. The World Economic Forum's Global Competitiveness Report 2019 suggests investors and businesses have a very negative perception of market dominance and the effectiveness of anti-monopoly policies. Local companies, especially medium and large ones, view the government as

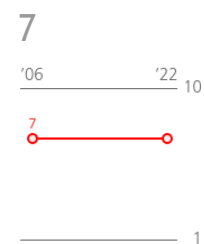
a major contributor to unfair competition in some sectors through its granting of concession agreements, subsidies, and low-interest loans.

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 WTO in January 1997 underlined the country's relative success in developing a new trade regime. In the wake of this accession, approximately 30 laws simplifying customs services and reducing customs duties were passed and amended. Mongolia's most favored nation applied tariff is 5.5%. Above-average most favored nation tariffs are applied only to liquor (including beer), at 25%, 35% and 40%, depending on alcohol content; unmanufactured tobacco and cigars (30%); wood products and cement (20%); live animals and yarns of wool (15%); and eggs and wheat flour (15%).

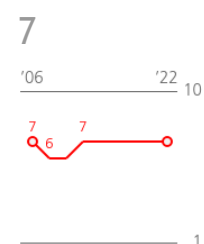
Mongolia's first bilateral free trade agreement, the Japan-Mongolia Economic Partnership Agreement (EPA), came into force on June 7, 2016. There have been similar agreements with the United States and Canada, as well as ongoing negotiations with Russia and declarations of intent with China.

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.

### Competition policy



### Liberalization of foreign trade



In September 2020, Mongolia formally joined the Asia-Pacific Trade Agreement (APTA), one of Asia's oldest regional trade agreements which includes China and five original members: Bangladesh, India, Laos, South Korea and Sri Lanka. While no significant increase of trade seems likely within APTA, this agreement will continue to prepare businesses in Mongolia for international standards.

In the World Bank's 2019 Ease of Doing Business report, Mongolia ranked 117 among 183 countries for ease of trading across borders. A recent survey of trade companies found that about half of respondents reported difficulties in obtaining the required import/export documents. The additional costs incurred by waiting time at customs and borders was "extremely high" or "high" for over half of respondents. A UNESCAP study on the cashmere trade between Mongolia and China found there were too many steps required to export, too many regulatory agencies were involved, and documentary requirements were redundant.

The banking system and capital market are differentiated and meet international standards. There are 13 commercial banks in Mongolia. Active assets of the banking sector make up 97% of the Mongolian financial sector. Six large banks control 92% of the banking sector. According to World Bank reports, the capital adequacy ratio of the six largest banks was 17.2%, while it was 25.6% for seven smaller banks.

The financial system has undergone rigorous modernization in recent years. This began 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. 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. In January 2021, parliament made crucial amendments to the Banking Law to improve banking governance and transparency. Under the amendments, Mongolia's major banks are required to become publicly listed companies by June 2022, and one shareholder can control a maximum of 20% of the shares.

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 Fitch Ratings, past-due loans of the banking system increased to 5.8% of total loans up to June 2020, from 4.5% at the end of 2019. The reported non-performing loan ratio increased to 11% from 10%.

High levels of concentration in commercial bank ownership exacerbate governance weaknesses. The Bank of Mongolia (BoM)'s lack of supervisory independence results in ineffective bank supervision and encourages forbearance. In April 2019, Capital Bank was liquidated by the BoM due to its failure to meet the bank's prudential criteria. Its shareholders were politically well connected, including a member of parliament, B. Undarmaa.

#### Banking system

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Though the Central Bank Law strengthened the independence of the BoM, serious challenges remain. The appointment of the president of the BoM remains dependent on political decisions of the ruling party and is closely linked with political dynamics. Attempts by the bank to maintain its independence face strong political opposition. In May 2020, parliament temporarily reversed the clause in central banking law that limited the BoM's quasi-fiscal involvement. As part of Mongolia's response to the pandemic, the BoM was required to finance debt relief to the elderly and subsidize housing finance because of the political challenges of increasing the budget.

## 8 | Monetary and fiscal stability

Since Mongolia's transition to a market economy, its currency has undergone continuous depreciation, even during periods of strong economic growth. Under political pressure from the government, the Bank of Mongolia (BoM) has intervened in the foreign exchange market to ease the depreciating pressure.

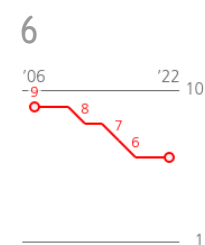
For instance, Mongolia's economic stagnation, caused mainly by falling commodities prices, the economic slowdown in China and waning interest by foreign investors, was key to a currency slump of about 25% in 2016. However, the BoM is widely criticized for its inability to pursue an independent monetary policy.

Since 2017, Mongolia's international fiscal and monetary stability has improved because of macroeconomic reforms conducted under the IMF Extended Fund Facility program. Yet the tugrik continued depreciating, by 4.8% in 2019 (due to a steady increase of imports and the country's addition to a gray list by the Financial Action Task Force). In the first half of 2020, the tugrik depreciated by 5.8% against the dollar. In January 2021, the real effective exchange rate index stood at 97.99, down from 104.11 in January 2019.

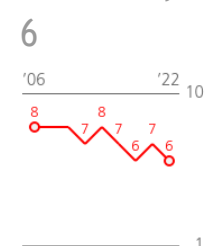
Under the IMF's Extended Fund Facility, the Mongolian government undertook a significant shift in the fiscal management of the country from 2017 to 2020. The fiscal balance was in surplus in 2018 and 2019, the public debt to-GDP ratio declined for three consecutive years, and more than 2.5% of GDP was annually transferred to the Stabilization and Future Heritage Funds.

However, Mongolia's fiscal stability deteriorated substantially in the first half of 2020, driven by weak revenue performance and increased spending due to the pandemic and emergency measures. When China struggled to contain the pandemic in early 2020, Mongolia's mineral products exports declined 45%. The economy contracted by 10.7% in the first half of 2020, primarily due to an unprecedented decline in mineral exports. The trade and service sector, which generates 39% of GDP, declined by 6.8% due to COVID-19 containment measures.

Monetary stability



Fiscal stability



Prior to the parliamentary election in June 2020, the government declined calls to amend the 2020 budget to restructure government expenditure and reduce a looming budget deficit. Only in August 2020 did the government introduce a supplementary budget to fund efforts to contain COVID-19. In 2020, government revenue declined to 27% of GDP due to the economic contraction and fiscal measures associated with its response to COVID-19, which included tax and social security payment exemptions. Mongolia's positive fiscal balance of the two previous years (2.6% in 2018 and 1.4% in 2019) was reversed by -11.4% in 2020.

In September 2020, the government raised \$600 million on international markets by issuing 5.5-year "Nomad" sovereign bonds to repay \$500 million of the five-year Mazaalai bond, which was set to mature in April 2021. The government was able to reschedule the repayment of \$1.0 billion debts of the Chinggis bond. As a result, government debt increased from 69.5% of GDP in 2019 to 83% in 2020.

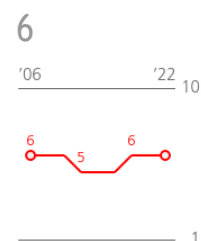
## 9 | Private Property

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 (33 of 190). The survey finds that contract enforcement takes 374 days and costs 22.9% of the value of the claim, ranking Mongolia 66 on the ease of enforcing contracts. In Mongolia, all contested foreclosure actions require a court review and are subject to appeals up to the Supreme Court. Final resolution can take up to 36 months.

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

### Property rights





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 economic stagnation was widely acknowledged in the period under review.

Key economic sectors are dominated by a few big companies. Oligopolies are evident in mining, petroleum, banking and telecommunications sectors. The boundaries between private companies and major political parties are often blurred and there exists widespread conflicts of interest. 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

Mongolia's social protection and welfare system is based on the provision of pensions, allowances and services to citizens with special needs. Mongolia's social insurance and pension system is widely regarded as outdated and the management of the social insurance fund as highly prone to corruption. In 2019, some members of parliament initiated a draft law on pension reform that allows personal pension accounts and private pension funds.

The government, through the Ministry of Population Development and Social Protection and the General Office of Social Welfare Services, implements social protection and welfare programs, which account for 1.1% of GDP. In addition to these social programs, the government has implemented the Child Money Program, funded from the Human Development Fund. Studies have shown that families may benefit from multiple programs. Lack of information can result in a duplication of benefits. Excluding the Child Money Program, 24% of all citizens receive benefits. The top 40% of the population according to income receive 28% of total welfare transfers. Just 56% of Mongolia's welfare spending is directed to the poorest 40% of the population, according to a World Bank report from 2015.

The Food Stamp Program is the only program specifically targeted at the poor and was first implemented in 2009. The program supports the consumption of basic food items by extremely poor families to increase their daily calorie intake. The number of recipients increased from 24,000 to 44,000 in 2020. The per person allowance was increased from MNT 16,000 to MNT 32,000 due to the pandemic.

The MPP-led government initiated a number of new social protection programs, such as allowances for people aged over 70 and support programs for mothers with more than one child. In response to the negative effects of the COVID-19 pandemic, the government approved an MNT 5.1 trillion (13% of GDP) economic stimulus package in March 2020 and a second package of MNT 793 billion (2% of GDP) in April 2020. These packages included provisions to increase child money payments and allowances for vulnerable people. As a result, spending on social welfare benefits reached 5.5% of total government expenditure. In August 2020, when the government amended the budget, it further extended the coverage of welfare packages.

Private enterprise

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Social safety nets

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The constitution and laws guarantee that women and members of ethnic, religious and other groups have equal access to education, public office and employment. Legal provisions against discrimination are widely integrated into laws and policies but their implementation is at times deficient. Mongolia's Gini coefficient was 32.7 in 2018, which is a better performance than most of its geographical neighbors and its peers in the category of "high human development country." Mongolia has received very high scores in education attainment, health and survival, and economic participation and opportunity. The 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. The government provides bilingual education programs for the Kazakh and Tuva ethnic minorities.

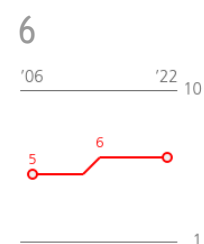
Although poverty in rural areas decreased between 2016 and 2018, income disparity between rural and urban areas remains significant. Some provinces have a poverty rate of 40-50%. In terms of the number of poor people, 42% of them live in the capital Ulaanbaatar, mostly in the ger areas, in the outskirts of the city. These regional and social disparities have serious effects on equal access to good education, health services and adequate housing sanitation.

Mongolia has a score of 0.32 on the 2019 Gender Inequality Index (GII), ranking it 71 out of 162 countries. 17.3% of parliamentary seats are held by women. The share of women holding decision-making positions is very low. In public service, 26.6% of state secretaries are women, 30% of middle managers and 15% of senior managers. According to UNDP, 91.5% of adult women have reached at least a secondary level of education compared to 86.1% of their male counterparts.

Mongolia has not improved the rate of female labor force participation in the last decade despite female educational attainment being higher than for males.

Female participation in the labor market is 53.3%, compared to 66.4% for men, which has not significantly changed in the last several years. Studies show that women are more likely to be employed in lower skilled jobs. According to UNESCO studies, the situation for women is worse in rural areas because many economically active women only do unpaid family work.

#### Equal opportunity



## 11 | Economic Performance

Mongolia's GDP growth was the world's highest (17.3%) in 2012 but has declined since 2013. In 2016, economic recession even led to a situation where the government was at risk of defaulting on its debt, which amounted to billions of dollars. In 2017, the IMF helped Mongolia with a comprehensive \$5.5 billion package, the sixth IMF program the country entered into since 1990. It was generally accepted that corruption, imprudent fiscal management and unsustainable sources of foreign exchange caused the economic recession. In the period 2018 - 2019, the government was able to reverse the economic decline thanks to prudent fiscal management and increased revenues from mineral exports. Mongolia maintained an above 5% annual growth of GDP between 2017 and 2019 and unemployment decreased to just 4.3% by 2020 according to World Bank data.

Mongolia has continued its reliance on mining-led growth. Mineral exports account for 80% of total exports. 90% of exports are to China. Mongolia's coal exports hit an all-time high in 2018, reaching a total of 36.5 million tons. The share of the minerals sector in fiscal revenue increased from 13% in 2016 to 22% in 2017 and 26% in 2019. Mining generated 25% of GDP in 2020, compared to 10% in 2000. The share of FDI in mining increased from 44% of total FDI in 2000 to 73% in 2019.

However, Mongolia's mineral exports plummeted when the COVID-19 pandemic began in China in early 2020, due to a sharp decline in the demand for mineral products. Mongolia's economic growth forecasts for 2020 were adjusted and downgraded from about 5-6% to negative 1-2%.

The State Emergency Commission took several measures to prevent the spread of COVID-19 in Mongolia. The country officially declared a state of high alert preparedness in February 2020: all educational institutions were closed and all international flights and trains were canceled, travel between the provinces and the capital temporarily stopped, and shops and retail businesses temporarily closed. The first COVID-19 case was confirmed on March 10, 2020, a French national working in the southern province of Dornogovi. Until November 2020, Mongolia managed to avoid community transmission by implementing a 3-week mandatory quarantine in government arranged hotels and facilities for all international travelers and repatriates. Despite successful prevention, the government maintained the initial emergency measures it put in place in February 2020,

The containment measures had serious effects on the economy. The revenues of the trade and service sector, which accounts for about 40% of GDP, fell by 6.8% and some sectors such as tourism experienced an unprecedented decline. Since November 2020, the government has tightened containment measures again to prevent a resurgence in community transmission.

Output strength



## 12 | Sustainability

In order to sustain economic progress, Mongolia will need to address a number of serious environmental challenges, such as water scarcity, degradation of grassland, natural disasters and environmental pollution in urban areas, especially air and soil pollution in Ulaanbaatar. Climate change is exacerbating these challenges. For example, according to the Green Climate Fund, the magnitude and frequency of natural disasters have increased severalfold in the last decade, with estimated economic costs around \$10-15 million annually.

In recent years, parliament approved a number of important policy documents that aim to integrate environmental and sustainable development goals into economic policymaking. These include the Action Plan of the Green Development Policy (December 2015) and the National Sustainable Development Concept 2030 (February 2016). The Mongolian government set a target of 30% of its electricity generation to come from renewable energy by 2030.

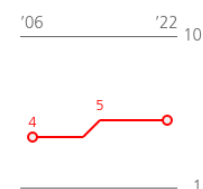
In May 2019, parliament approved amendments to the Water Pollution Fee Law to fully implement the polluter pays principle. The amendments included estimated charges for pollution and incentives for recycling and re-use. According to the World Bank's Water 2030 program, these changes could potentially lead to reduced pollution loads in effluents, discharged by highly polluting activities such as mining. The revenues accruing from fees will provide adequate funds to cover the operational expenses of water treatment facilities.

An estimated 70% of the rangelands in Mongolia are degraded, due to overgrazing. The livestock number increased from 22 million in 1992 to approximately 70 million in 2019. Consequently, the number of livestock per hectare increased dramatically, which induces serious effects on wildlife and sustainability of the livestock industry. Researchers have urged the country to introduce a new model for the livestock industry that focuses on the quality and productivity of animals, and new taxation and fee incentives for herders. In November 2020, parliament approved the Law on Taxation on the Number of Livestock, requiring herders to pay up to MNT 2000 per head of livestock. The government stated that payments should be allocated to the Local Development Fund and finance projects for herders, such as supporting herders' livelihood and protection of pasture and water sources.

Mongolia's reliance on the extractive sector for economic growth has induced and exacerbated environmental degradation. Environmental impacts of government funded infrastructure and mining projects in the southern Gobi region have not been transparent and have failed to include adequate public consultation.

Environmental  
policy

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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. Public primary and secondary schooling is free and open for all children. According to the Mongolia Human Development Report 2016, the net enrollment rate is 99.1% in primary education and 96.1% in secondary education.

The urban-rural difference in access to education has narrowed. The ratio of girls and boys in education up to lower-secondary school level is almost equal. According to UNESCO, the number of out-of-school children in Mongolia was 3,169 in 2017. Mongolia had a UN Education Index score of 0.736 in 2019. Government expenditure on education has consistently been approximately 12% 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 scientific research. According to UNESCO, Mongolia's gross domestic expenditure on R&D represented just 0.1% of GDP in 2017 and 2018, a decrease from 0.2% in 2016. R&D activities have been primarily funded by the government. Only about 5% of R&D expenditure was provided by business. According to the World Bank, R&D personnel per one million inhabitants fell from 1,243 in 1996 to 1,056 in 2017. Among R&D personnel, the shares of core researchers and technicians have fallen from 80% and 9.7% respectively in 1998 to 55% and 7.4% in 2018.

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. Rural secondary schools in particular experience shortages of well-qualified teachers and learning resources. Most public schools are overcrowded and operate in two or even three shifts. 146 out of 798 schools are private, with annual tuition fees ranging from \$1,500 to \$15,000. Discrepancies between learning achievements of private and public schools and urban and rural schools are increasing.

A widespread criticism is that universities and colleges do not equip young people with the necessary skills, which is confirmed by the high unemployment rates among young people with vocational and higher educational attainment. The Global Competitiveness Index 2019 ranked Mongolia 100 in the world with regard to vocational training.

Government policy on education has not been clearly defined or consistent since the 2016 parliamentary elections. Education lacks political leadership because there have been two resignations from the position of minister of education, culture and science since the 2016 elections, combined with the lack of a robust policy agenda. In 2020, the government placed more emphasis on building schools and aims to make the transition from double shifts to one shift. The government stated that it would establish "model Cambridge curriculum schools" which would have international

Education policy /  
R&D

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standards and meet quality requirements in every aimag and Ulaanbaatar district. However, many education experts have opposed the model, stating that it would exacerbate existing inequalities in education.

In response to the COVID-19 pandemic, the government suspended all educational facilities from January 2020 and implemented a large-scale campaign to transition to remote learning. School lessons were delivered on 16 different television channels with fixed daily schedules. Schools restarted in September 2020 but were suspended again in November 2020 when the first case of community transmission of COVID-19 was recorded.

## Governance

### I. Level of Difficulty

The structural constraints on governance are significant. The most important is the country's geopolitical position. Sandwiched between Russia and China, Mongolia's political, economic and foreign policies must carefully navigate through their neighbor's interests and influence.

The country's vast territory, combined with a small and sparsely located population, require significant resources in administrative, economic and infrastructural terms. In addition, Mongolia is the second largest landlocked country in the world and exposed to winter temperatures as low as  $-40^{\circ}$  Celsius. In dzud disasters, thousands of herder households are at risk of losing their livelihood.

Mongolia successfully prevented the community transmission of COVID-19 for 10 months. The first community case was recorded in November 2020. A total of 1,710 cases were recorded by January 2021. To date there have been two deaths, and 1,303 recoveries from COVID-19. The containment measures and the economic contraction have had a disruptive effect on Mongolia's economic recovery. The rapid community transmissions revealed serious weaknesses in the capacity and preparedness to plan and implement effective policies.

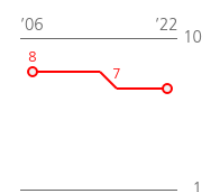
Mongolian civil society comprises non-governmental organizations (NGOs), trade unions, chambers of commerce, saving and credit cooperatives, local groups under political parties, apartment owners' unions, non-profit media and informal self-help and leisure groups or community groups. Among them, the most influential actors are NGOs. Although there were trade unions, 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.

The 1992 constitution and the Law on Non-Governmental Organizations opened up space for NGOs. Since the law came into effect in 1997, the number of NGOs registered by the State Registration Agency has boomed. In 2018, approximately 17,500 organizations were registered. According to government estimates, approximately 8,500 of the registered NGOs were active. Many other NGOs did not extend their registration or submit financial and tax reports.

According to a 2020 survey conducted by the Consortium of Civil Society Organizations, which included a sample of 683 NGOs, more than 90% of NGOs are classified as very small in terms of staff, volunteers and members, and 92% have an

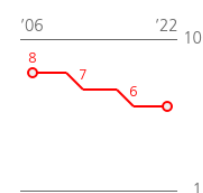
Structural  
constraints

7



Civil society  
traditions

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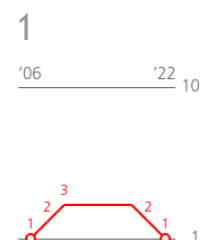


annual budget of up to MNT 50 million. Sources of funding for NGOs are fairly limited: 39% from membership fees, 33% from donations, 30% from own activities, 20% from international sources and 6% from the government.

Mongolia has been slow to recognize the important role of the private sector, civil society and local governments in national development. These sectors still lack the necessary experience, awareness and capacity to collaborate with the government as equal partners. Further efforts are required to develop 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. Frequent political protests and civic demonstrations take place in a peaceful way and confrontations with police did not escalate to violence. Ultra-nationalist groups have limited capacity to mobilize through social media. A number of peaceful protests took place in response to the government's ineffective COVID-19 containment measures.

Conflict intensity



## II. Governance Performance

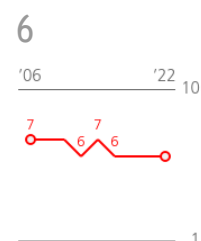
### 14 | Steering Capability

A number of strategic policy documents defining long-term development priorities were approved by parliament in the last decade, including policy guidance on mining, education and fiscal stability. However, these priorities have been disrupted by pedestrian concerns of electoral competition and the interests of powerful politico-business groups. Few prime ministers and cabinets have lasted more than two years during the course of the past three decades, and frequent leadership changes result in short term concerns. The MPP won the last two parliamentary elections and had the opportunity to set more stable, long-term policy priorities. Despite its overwhelming majority in parliament, a number of strategies initiated and defended by reform drivers in the MPP - especially on the judiciary, mining and infrastructure - have encountered serious challenges from factional interests and clientelistic groups.

In May 2020, parliament approved the long-term development policy document “Vision 2050” prepared by the government. The document includes nine fundamental goals and 50 objectives to be met in three periods: 2020 - 2030, 2031 - 2040 and 2041

Question  
Score

Prioritization





- 2050. The new Prime Minister Oyun-Erdene, appointed in January 2021, was the main initiator of this policy document, and he is widely expected to prioritize and implement policies in line with its objectives. The National Development Agency is the main government body responsible for developing strategic policy perspectives and mid-and long-term priorities. The appointment of a new leadership team of the agency based on non-partisan and meritocratic criteria in December 2020 set an important precedent in policymaking.

The composition of the cabinet and government agencies has been defined by political bargaining between major factions in the ruling political parties – as was also the case with the new cabinet appointed in 2021. Conflicts and inconsistencies between the priorities of the prime minister and cabinet members occur at times because of factional and personal interests.

Mongolia's response to the COVID-19 pandemic was widely praised by domestic and international observers and the WHO until the first community transmission was recorded in November 2020. Since the outbreak of the pandemic in China, the Mongolian government prioritized the prevention of overloading its health care system in order to avoid a potential failure of the entire system, which was vulnerable due to its low financial, human and technical capacity. Therefore, the government implemented immediate and strict containment measures, including closing all borders and schools for extended periods. The success of these measures helped the incumbent party MPP gain a landslide victory in the parliamentary election. Yet despite its success in preventing community transmission, the government's restrictions on business and commuting caused unprecedented damage on business and household incomes. Although the government prioritized containment measures, it failed to implement clear and effective containment measures in response to the first case of community transmission in November 2020, which stirred public fear and frustration. Furthermore, the government has to date proven unable to present a long-term recovery plan for the economy.

The implementation of major policy priorities has been undermined by political actors' parochial interests, corruption and a lack of human and financial resources. A glaring example of government failure is its management of natural resources revenues. According to a recent World Bank study, Mongolia produced nearly \$28 billion worth of mineral outputs since 2004 and the government approved laws to allocate some of the associated revenue to stabilization and heritage funds. However, as the study shows, Mongolia has consumed 99 cents out of every dollar of mineral wealth and saved only one cent into the funds. Although the government set a strategy to build a two- or three-tiered economy, which include mining, agriculture and manufacturing, its implementation has been inconsistent and ineffective. Mongolia's dependence on mineral exports has dramatically increased, while other pillars of the economy remain weak.

Implementation

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A number of important government plans and projects have failed due to interruptions and corruption in implementation. The government investment in the preparation of a \$1 billion IPO of the extensive Tavan Tolgoi coal mine was wasted when it scrapped the plan a month before the 2020 parliamentary election. In 2019, the government promised to complete a project to upgrade the 230km Ulaanbaatar-Darkhan road, one of the busiest intercity roads in Mongolia, over the course of one year. However, construction works were very poor and dramatically disrupted the traffic flow of goods and commuters, causing more than 200 accidents and 20 deaths in 2020. The government postponed the completion of the road until 2022.

Mongolia's first community transmission case of COVID-19 was a person who was released after completion of their compulsory 21-day quarantine. It was concluded that the individual was infected during his stay at a designated quarantine hotel. Many cases reported later were also infected during their quarantine, revealing a serious failure of implementation of preventive and safety laws and procedures.

The government recorded some notable achievements as well. The implementation of the fiscal stability plan under the IMF Extended Fund Facility program was deemed successful by the IMF and other donors. The government demonstrated strong political commitment and consistent effort to implement the priorities set under the plan and achieved a significantly improved fiscal position in 2019. The government also showed strong political determination to reduce air pollution in the capital Ulaanbaatar, which has become one of the most heavily polluted cities in the world. In 2019, the government banned the consumption of raw coal in the capital and supplied fuel-efficient briquettes that emit less fumes. Although hundreds of carbon monoxide poisonings and several deaths were caused by the incorrect use of briquettes, the government continued the ban on consumption of raw coal. In 2019 and 2020, air quality in Ulaanbaatar was reported to have improved on previous years, though it remains a challenging problem.

In October 2019, Mongolia was added to the gray list of the Financial Action Task Force (FATF). The government implemented swift measures to comply with recommendations from the FATF on combating money-laundering and terrorism financing. As a result, the country was removed from the gray list in October 2020.

The immediate measures taken by the government in response to the first community transmitted case of COVID-19 in November 2020 revealed a serious failure of the government's preparedness and policy learning. It became increasingly clear in the following two months that the government did not take advantage of the 10 months it experienced without COVID-19 cases to develop effective emergency policies and plans. The State Emergency Commission's decisions were erratic, neither based on expert consultation nor international best practice. For example, its ban on using cars led people to use crowded buses, increasing the risks of infection. The three-week compulsory quarantine and two-week isolation at home policy that the Commission implemented were widely criticized as ineffective and leading to failures of quarantine facilities. The measures were nevertheless rigidly enforced.

Policy learning

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In December 2020, urgent calls to change the Oyu Tolgoi Investment Agreement emerged again. In January, Member of Parliament Ganbaatar, a possible candidate for the presidential election to be held in June 2021, organized a hunger strike at the central square in the capital, demanding the government revoke the agreement. A number of local experts urged an evidence-based and strategic approach to disputes over the costs and benefits of the Oyu Tolgoi project to avoid repeating mistakes made in 2009 and 2013 due to overly populist demands. As the presidential election approaches, the mining deal will likely be exploited for political gain.

The crucial amendments to the Law on the Judiciary made in January 2021 were in part possible because of the strong political commitment of a group of members of parliament. Previously, a number of reform initiatives failed to win parliamentary approval partly because of a lack of collective commitment and public engagement.

## 15 | Resource Efficiency

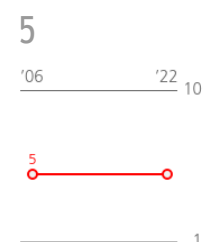
Mongolia has a large public sector and one of the highest public investment budgets in the world, averaging 8.3% of GDP per year between 2004 and 2017, according to a recent Asian Development Bank study. The total number of civil servants has increased consistently over the past decade. In 2017 the number was 140,000. By 2018 it had risen to 192,000. If employees of state-owned companies and entities are included, the figure swells to approximately 230,000.

Efficiency of government spending is undermined by weak control of corruption and auditing mechanisms and the use of multiple financing sources. For example, implementation of the Law on Glass Accounts, which requires government agencies and state-owned enterprises to regularly report their spending, has been inconsistent. While the National Audit Agency did not report significant breaches of the law or inappropriate spending in 2020, ordinary citizens and the media disclosed numerous cases of illegitimate use of funding and expenses.

In Mongolia, civil service positions are classified as political positions, public administration positions, special state service positions or public support service positions. Politically motivated dismissals and new appointments of public servants are common. Although the law governing the civil service requires competitive recruitment 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. A new Law on Civil Service became effective in January 2019. It aims to protect the public administration from political influences, improve the professionalism 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.

Efficient use of assets



Effective management of state-owned companies has been a major challenge. More than 100 such companies operate in a range of sectors. The largest are in the mining and energy sectors. Except for a few mining companies, most of the companies receive government subsidies and have accrued a significant amount of debt.

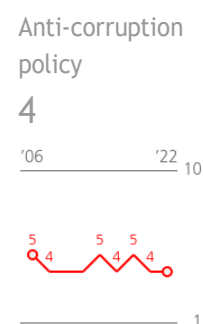
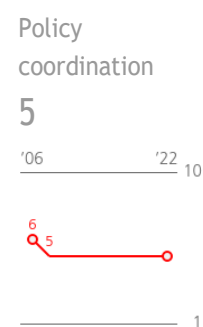
The government did not respond to calls from opposition parties and policy experts to amend the budget in the first half of 2020 and redirect some planned government expenditures to the fight against the pandemic. The government signed contracts with major international financial institutions to receive \$299.5 million in the form of low-interest loans and \$119.4 million as international aid to implement development projects. The government organized domestic campaigns to receive donations from companies and citizens. The expenditure of these resources is not reported in detail and there is increasing public demand for disclosure and auditing.

A personalistic style of policy coordination is prevalent in government; members of parliament in particular pursue “pet projects.” In addition, inter- and intraparty conflicts are frequently exposed between different ministries and government departments and between central and local governments. Ministries, government agencies and local governments only sometimes establish memoranda of understanding, revealing a lack of horizontal government coordination. The recent amendments to the constitution empowered the prime minister to directly appoint his or her cabinet ministries in theory. However, in practice political bargaining between party factions and leaders prevails.

There have been serious inconsistencies and a lack of coordination of the government’s measures to contain the spread of COVID-19. Inconsistent and overlapping measures are taken by the State Emergency Commission and the Capital City Emergency Commission, which frequently caused frustration and anger among businesses and citizens. Some evidence of serious friction between the minister of health and the director of the National Center for Communicable Diseases, the main hospital treating COVID-19 patients, was publicly disclosed in January 2021, indicating limitations of the personalist style of coordination in the currently fragmented system of governance.

The Law on State and Official Secrets approved by parliament in 2016 determined that contrary to its predecessor the new government was entitled to define the scope and list of information considered to be state and official secrets. Consequently, the number of forms of information included in the list of state secrets increased from 50 in 2017 to 565 in 2020. As the law prescribes criminal charges for people who obtain and keep state secrets, the broad scope of secrets will likely discourage public and media access to information. The law can be used by government and officeholders to conceal conflict of interest and corruption.

The new Criminal Law, which came into effect in July 2017, enabled courts to dismiss four cases in 2018 and 9 cases in 2019 due to the lapse of a short limitation period. These included high profile corruption cases. The Criminal Law prescribed



very lenient penalties for corruption offenses, ranging from a ban on working in public administration for up to five years, to fines of up to MNT 27 million and imprisonment of up to 5 years. In 2020, four former members of parliament were prosecuted for abuse of power in obtaining loans from the Small and Medium Enterprises Development Fund and sentenced in accordance with the new law. Two of them were sentenced to three years in prison, while the other two were banned from working in public administration and fined MNT 40 million.

Parliament passed an amendment to the Law on Prevention of Conflicts of Interest in December 2017. Previously, if a conflict of interest was identified, the law permitted the Independent Authority against Corruption (IAAC) to deny an appointment to the public administration. However, the amendment meant the IAAC could only reveal conflicts of interest in a notice to relevant government bodies. This change enables power holders to appoint someone who does indeed have conflicts of interests.

The IAAC has achieved success in reducing middle- and lower-level corruption to some extent. However, its capacity remains limited in reducing higher level corruption and extending its oversight across the country. The institutional independence, investigative power and financial and human resource capacity of the IAAC has been undermined by the existing legal frameworks. Appointment of the head of the IAAC remains highly politicized and influenced by the president of Mongolia. There have been concerns that the IAAC has acted in a biased manner by selectively targeting specific individuals. In December 2020, parliament amended the Law on Corruption to transfer the power to nominate the head of the IAAC from the president to the prime minister. Although there have been widespread calls to strengthen the legal framework for the IAAC, the government has so far not presented any reform programs.

Election campaign expenses increased significantly in 2020. According to the National Audit Agency (NAA), approximately MNT 70 billion were spent, nearly double the amount reported in 2016. The candidates elected to parliament spent more than three times the average compared to other candidates, according to Ikon.mn. Though the NAA released reports from parties and candidates, it does not have the authority to investigate any discrepancies. The current legal environment for the NAA undermines its independence. Political parties did not disclose detailed financial reports, which impeded independent monitoring.

The 2020 amendments to the constitution include new clauses that require parties to disclose the source and expenditure of their financing. Only strong political commitment and leadership and broad-based consultation can lead to a long-awaited reform of party financing in Mongolia.

Implementation of the Law on Public Procurement and other regulations governing transparency of public procurement has been inadequate. The IAAC has reported many breaches of public procurement rules. The Law on Glass Accounts requires publicly funded organizations to disclose their public procurement notices and expenditures. Investigative journalists and social activists who examined the disclosed documents have revealed many breaches of procurement laws.

## 16 | Consensus-Building

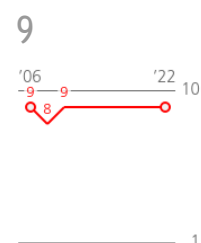
All major political actors agree on building a democracy. At the same time, public opinion polls indicate that the general assessment of democratic values is much higher than trust in the institutions, such as state authorities and the judiciary. The amendments made to the constitution in 2019 were based on consultation among political parties and major political actors; public discussions of these amendments were active and prolonged. Similarly, important amendments to the Law on Judiciary in January 2021 were a result of evidence-based consultation and a general consensus among political parties and civil society.

There is little question of Mongolia’s general 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 considerable debate and a polarization of opinions over the role of the state in the mining sector and the development of strategically important mines in partnership with international investors.

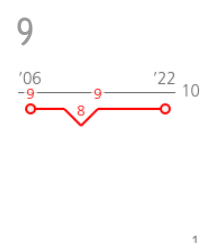
There are currently no openly anti-democratic actors with substantial influence or veto powers. While there are a small number of people advocating the establishment of a non-democratic regime, these people are not taken seriously by the public or the government. Such attitudes are primarily limited to ultra-nationalist groups. 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 policymaking role.

The political leadership generally prevents cleavage-based conflicts from escalating. However, public grievances over social injustice and disparities are prevalent, increasing the risk of an unstable political environment fueled by populist actors.

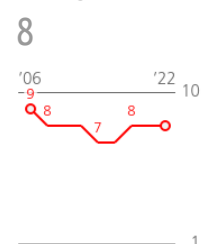
Consensus on goals



Anti-democratic actors



Cleavage / conflict management



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 policymaking 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.

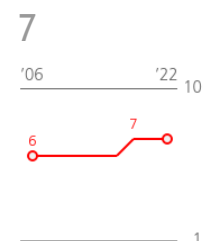
As a result, some important laws and government decisions were developed in collaboration with civil society. A notable example is the newly amended law on domestic violence of 2016 that resulted from more than 15 years of civil society-led campaigning. Another example is a quota for civil society representatives 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 occurred throughout the former communist regime, Mongolians have not undergone further large-scale, 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 than 30,000 people and the imprisonment of tens of thousands. After World War II, many intellectuals with nationalist views were subjected 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.

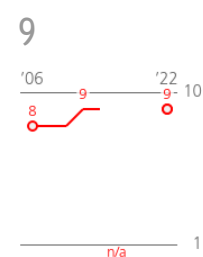
After the transition to democracy in 1990, a National Rehabilitation Commission was formed to examine each case of repression. The commission generated approximately 36,000 case files. In January 1998, parliament passed a Law on the Rehabilitation of Victims of Political Repression and on Granting Compensation. As of today, approximately 17,400 victims have been recognized and MNT 16 billion has 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.

In January 2021, a draft law on compensation for the political repression and purging of the Buddhist religion was submitted to parliament by 56 members of parliament. The law aims to provide funding for the rehabilitation and promotion of tangible and intangible cultural heritage of Buddhism in Mongolia. The draft law prompted public debates and controversies over policy priorities amidst the COVID-19 pandemic. Parliamentary review of the draft law was postponed, citing its inconsistencies with other laws.

#### Civil society participation



#### Reconciliation





### 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 approximately 8% in 2007 to below 3% in 2014. Because Mongolia experienced exceptionally high economic growth until 2013, which led to it achieving upper-middle income status, important donor countries such as Germany and Japan significantly reduced ODA disbursements to the country. The share of food and humanitarian aid has declined sharply in recent years. According to government estimates, Mongolia received \$4.38 billion in loans and \$2.62 billion development aid between 1991 and 2017. The government received MNT 1.2 trillion loans and grant aid in 2019. The Asian Development Bank loans and grants amounted to 42.3%. China’s to 20.5%. Other major donors were Japan, the World Bank, India, South Korea and Germany.

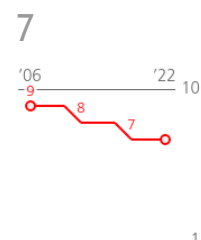
International assistance has increasingly focused on Mongolia’s needs assessments and stakeholder consultations to set program areas and priorities. Inconsistent government policy in some sectors and frequent changes of senior leadership in government have undermined implementation of grant aid projects. Local experts suggested that progress remains slow toward promoting harmonization and mutual accountability of international aid, which is not supported by a proper national system of results monitoring and management.

In 2020, the government signed contracts to receive a \$299.5 million loan from the Asian Development Bank, IMF and Asian Infrastructure Investment Bank, and a \$119.4 million grant to support its response to the COVID-19 pandemic. The Asian Infrastructure Investment Bank approved a loan of \$100 million to support Mongolia’s COVID-19 Rapid Response Program. It is the bank’s first financial project in Mongolia since the country joined it in 2015.

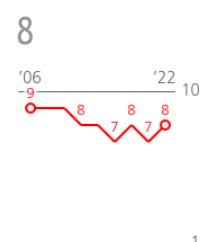
Though the government presented plans detailing the expenditure of these loans and grants, there is a widely held concern that some of the money was not deployed to areas of priority, such as improving the diagnostic and treatment capacity of regional hospitals and medical centers and supporting businesses.

Mongolian democratic and diplomatic credentials are well established in the international community. As a U.N. member-state since 1961, Mongolia has played a constructive role in the intergovernmental policymaking process and has demonstrated its firm commitment to peace, security and dialogue. Notably, in 2006, Mongolia passed a 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, the five permanent U.N. Security Council members and

Effective use of support



Credibility





nuclear weapon states signed a joint declaration to provide security assurances to Mongolia, by officially recognizing the country's nuclear weapon-free status.

In November 2017, the Partnership and Cooperation Agreement (PCA) between the European Union and Mongolia entered into force. 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.

In September 2020, Mongolia formally joined the Asia-Pacific Trade Agreement (APTA), as the seventh member of the long-standing regional agreement that includes Bangladesh, India, Laos, South Korea and Sri Lanka, and China.

Mongolia undertook efforts to obtain COVID-19 vaccines under the COVID-19 Vaccines Global Access Facility (COVAX), a global collaboration aimed at purchasing and delivering vaccines. In January 2021, the Health Ministry, in cooperation with the WHO, UNICEF, World Bank and Asian Development Bank, conducted a complex assessment of the country's readiness to roll out COVID-19 vaccines. Mongolia was also included in India's list of friendly countries; the country will send Mongolia a limited amount of Covaxin, an Indian government-backed experimental COVID-19 vaccine.

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 then-President Elbegdorj, Russian President Putin and China's Xi Jinping signed an agreement in June 2016 on a trilateral economic corridor, a major cooperation initiative which 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 the influence of its two large 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), Mongolia became a participating state of the Organization for Security and Cooperation in Europe (OSCE) in November 2012. Mongolia also joined the Asia-Pacific Trade Agreement in 2020.

In 2019, Russian President Vladimir Putin visited Mongolia to sign a new permanent treaty on friendship and comprehensive strategic partnership, which replaced the existing 1993 Treaty of Friendly Relations and Cooperation. President Battulga

## Regional cooperation

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visited the United States in September 2019 and signed a joint Declaration of Strategic Partnership between Mongolia and the United States of America with then-U.S. President Trump. The House of Representatives of the U.S. Congress adopted a resolution reaffirming the strategic partnership between the United States and Mongolia in December 2020.

In 2020, President Battulga became the first head of state to visit China after the COVID-19 outbreak and meet with Chinese President Xi Jinping. He announced Mongolia's donation of 30,000 sheep to China to support the Chinese people's fight against COVID-19.

In September 2020, Chinese Foreign Minister Wang Yi visited Mongolia amid accusations and protests that the Chinese government was suppressing the native language and culture in Chinese regions with ethnic Mongolian minorities. He promised to provide Mongolia with a \$103 million grant. In October 2020, Japan's Foreign Minister Toshimitsu Motegi visited Mongolia and pledged JPY 2.5 billion in aid to support Mongolia's efforts to manage the pandemic.

## Strategic Outlook

The amendments to the constitution of Mongolia made in 2019 provide crucial justifications for political and socioeconomic reforms. Following the amendments, the MPP reformers succeeded in gaining a broad-based consensus and get parliamentary approval on the Law on Judiciary in January 2021, which introduced crucial reforms to re-establishing the independence of the judiciary and public trust in the institution. Also, parliament made important amendments to the Law on Banking that can reform governance of the banking sector by making public listing compulsory and forcing a deconcentration of ownership. The government of Mongolia has embarked upon an ambitious digital transformation program, which has the potential to significantly upscale the size and performance of civil service. Initiated and led by politicians and professionals born for the most part in the 1970s, these reforms point to the possibility of a generational transition in politics. Domestic and international partners for democracy need to invest and engage in programs and dialogues that support young political leaders and social changemakers.

In the runup to the next presidential election scheduled for June 2021, it should be noted that any party represented in parliament is able to nominate a candidate and that all four parties will presumably do so. There are ambiguities around Pres Battulga's (constitutional) ability to run again, but also to gain the DP's nomination. Former Prime Minister Khurelsukh is widely expected to be nominated as the MPP's candidate. Neither of them would herald major policy changes, so the election is likely to point to further continuity.

Corruption remains the greatest obstacle to political and socioeconomic progress in Mongolia. It is widespread in all levels and sectors of public administration and increasingly entrenched in politics. While Mongolia's civil society and media have revealed high-profile corruption cases, the existing political and judicial system have not made genuine efforts to battle corruption. Worse, serious legal reversals and loopholes were created to undermine anti-corruption efforts. In the absence of major improvements, state capture (i.e., a form of corruption in which businesses and politicians conspire to influence a country's decision-making process) will likely become the new normal of Mongolia's democracy. Effective new laws or amendments on political party funding, the supreme court, the anti-corruption authority as well as criminal penalties and broad-based political consensus could reverse this negative trend.

The repeated disruption of Mongolia's mineral exports during the outbreak of COVID-19 in China exposed the extreme vulnerability of Mongolia's economy. A diversified, high-income economy cannot be built without countercyclical fiscal and monetary policies and an investment climate based on competitive conditions on a level playing field. Mongolia's 5% economic growth in 2017 and 2018, and its improved fiscal stability, underscore the importance of political determination and capability. However, the dramatic deterioration in the country's fiscal position in 2020 and the government's failure to prepare (institutionally and financially) for the fight against COVID-19 reveals an urgent need to implement fundamental reforms related to governance and effective economic development policies.