

BTI 2012 | Mongolia Country Report

Status Index	1-10	6.09	# 51 of 128	
Political Transformation	1-10	6.85	# 39 of 128	➔
Economic Transformation	1-10	5.32	# 71 of 128	➔
Management Index	1-10	5.92	# 34 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

Please cite as follows: Bertelsmann Stiftung, BTI 2012 – Mongolia Country Report. Gütersloh: Bertelsmann Stiftung, 2012.

© 2012 Bertelsmann Stiftung, Gütersloh

Key Indicators

Population	mn.	2.8	HDI	0.653	GDP p.c.	\$	4036
Pop. growth ¹	% p.a.	1.6	HDI rank of 187	110	Gini Index		36.5
Life expectancy	years	68	UN Education Index	0.722	Poverty ³	%	49.1
Urban population	%	57.5	Gender inequality ²	0.410	Aid per capita	\$	139.4

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

Executive Summary

The key political event during the review period (2009 – 2011) was the presidential election held on 24 May 2009 in which, for the first time in Mongolian history, an incumbent president failed to win re-election. Tsakhiagiin Elbegdorj, the oppositional candidate of the Democratic Party (DP), won the elections with 51.21% of the vote, while the incumbent, Nambaryn Enkhbayar, received 47.41%. Mongolia's new president, Tsakhiagiin Elbegdorj, is one of the politicians who led the peaceful transition of Mongolia from a socialist regime to a democracy.

Second and no less important, a reshuffle in Mongolia's party system during the review period marks a recalibration of shifting interests and agendas within the party landscape. After 90 years of existence, the Mongolian People's Revolutionary Party (MPRP) changed its name to the Mongolian People's Party (MPP), creating a split in the party. Together with his followers, Nambaryn Enkhbayar, the party's former leader and Mongolia's former president, quit the party in protest and began plans to merge with the new National New Party. At the same time, in a counter-trend to the split within the dominant MPP, smaller parties have begun joining forces. In January 2011, the Citizen's Will Party and the Green Party decided to unite to form the Citizen's Will Party-Green Party. Extraparliamentary parties and civil movements also began to unite.

The major economic event of the reporting period was the signing of the Oyu Tolgoi investment agreement. On 6 October 2009, Ivanhoe Mines and Rio Tinto signed a long-term, comprehensive investment agreement with the government of Mongolia for the construction and operation of the Oyu Tolgoi copper and gold mining complex. This mining project is the largest financial undertaking in Mongolia's history and is expected upon completion to account for more than 30% of the country's GDP. Financing for the project has come in part from the Rio Tinto Group and out of an investment agreement between Ivanhoe Mines and the government of Mongolia.

History and Characteristics of Transformation

Mongolia is one of the world's least densely populated countries with a total population of 2.7 million living in a vast area of 1.54 million square kilometers. The prevailing religion in Mongolia is Tibetan Buddhist Lamaism. About 94% of the population claims to be Buddhist and 6% are Muslims; there are also small Christian minorities. The level of literacy is 97.8%.

Until 1990, the Mongolian government was modeled on the Soviet system with one ruling party. The perestroika in the former Soviet Union and the democratic movement in Eastern Europe were mirrored in Mongolia. The shift toward reform began in early 1990 when the first organized opposition group, the Mongolian Democratic Union, was established. Mongolia's first multiparty elections for the People's Great Hural (parliament) were held in July 1990. The new constitution was adopted in January 1992.

Mongolia is an independent, democratic and unitary republic. Administratively, Mongolia is divided into 21 aimags (provinces), the capital city (Ulaanbaatar) and three major cities. The head of state is the president. He is nominated by the parties in the State Great Hural and directly elected by popular vote for a term of four years. Tsakhiagiin Elbegdorj of the ruling Democratic Party (DP) was elected president in the elections of May 2009. Enkhbayar has been prime minister twice, as well as vice speaker and majority leader of the parliament.

The prime minister is the head of government. All legislative power is vested in the State Great Hural, Mongolia's unicameral parliament, which has 76 members who are elected by popular vote for a term of four years. The last general elections were held on 30 June 2008. According to the final results, the formerly communist Mongolian People's Revolutionary Party (now the Mongolian People's Party) won 46 of the 76 seats; the Democratic Party won 27 seats; and the Civil Will party, the Civil Coalition and one independent candidate won one seat each. There are 18 registered political parties, the largest being the Mongolian People's Party and the Democratic Party, which have formed a coalition government.

The Mongolian transformation path is unique. In 1990, the year in which the communist one-party system came to an end, the country lacked most of the factors that political scientists commonly consider the preconditions for a successful democratic transition. Mongolia lacked any meaningful pre-communist experience with modern parliamentary democracy. The absolute dominance of the state-owned and collectivized sectors in Mongolia's planned economy, and the resulting absence of a sector of influential private entrepreneurs, greatly hindered the emergence of an independent middle class that could have become an engine of democratization in a manner similar to South Korea and Taiwan. Finally, Mongolia lacked a well-established dissident movement or a long tradition of anti-communist resistance. Despite all of these odds, Mongolia underwent a successful and remarkably peaceful democratic transition in 1990, and it has also succeeded in preserving its newly established democratic system.

In recent years, the economy has grown consistently, driven by advances in key sectors such as agriculture, mining, storage and communications. Although the agriculture sector remains the backbone of the economy, the industrial sector has significantly expanded in the last few years due to rapid growth in the mining and minerals sector. The government's strategy is to reduce the country's dependence on agriculture, in particular on animal husbandry practices rooted in traditional nomadic culture, and to move to more technically sophisticated industry-based production. This strategy anticipates that agriculture will continue to be an important component of production, yet the strategic focus will be on higher value-added and growth-leading manufacturing activities.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

There is no competition with the state's monopoly on the use of force throughout the entire territory. It is established nationwide but is not fully functional, due to a weak infrastructure and rampant corruption. There are no guerillas or mafia groups that contest state power in Mongolia. Apart from an overall urban-rural disparity, there are no sharp inequalities and conflicts of interest between the country's various geographical regions. Under the communist regime, clans and patrimonial lineages did not play a major role in Mongolian politics and society, which further reduced the likelihood of inter-regional and inter-communal conflicts.

Monopoly on the
use of force

9

All social and ethnic groups accept and support the official concept of the nation-state. Ninety-four percent of the population are Mongolian, while around 6% identify themselves as Kazakhs. The Kazakh ethnic group participates in government and social activities without any discrimination. There is widespread public agreement on common citizenship, and there are no significant problems with ethnic, racial, religious or gender discrimination.

State identity

10

According to the Mongolian Constitution, state institutions shall not engage in religious activities and religious institutions shall not pursue political activities. Nevertheless, in recent years, politicians have increasingly used religion to attract public support and to establish close links with voters. Although parliamentary election law prohibits religious rituals in campaigning, politicians commonly resort to such practices. Presidents, prime ministers and members of the State Great Hural regularly took part in religious rituals, such as raising a sacrifice to the mountain spirits or organizing religious mantra recitals by monks in the territory of the district. For the Mongolian Lunar New Year (Tsagaan Sar), leading Lamas of the most important monasteries are included in state ceremonies. There are cases in

No interference of
religious dogmas

9

which local government leaders spend local budget money to build monasteries or to organize religious rituals. All of this, however, does not imply a noteworthy influence of religion on political decision-making.

The administrative structures of Mongolia provide state public services in general but with some deficiencies. For instance, the quality of infrastructure differs between regions. Education and health services are not equally accessible for every citizen. Remote areas lack quality hospital services, diagnostic and medical equipment, and professional teachers at schools. Schools function under poor conditions; all of this contributes to increased migration to cities. In some remote areas, residents lack a constant supply of electricity and have to go without electric power for longer periods of time.

Basic
administration
5

2 | Political Participation

Both domestic and international independent observers are allowed to monitor elections. In the elections of 2008 and 2009, civil society organizations coordinated their observation efforts under the Civil Society Watch for Fair Elections Network. According to the findings of this network, there were a number of serious problems concerning voter registration, as well as the independence and operations of electoral administration bodies during the parliamentary election of 2008.

Free and fair
elections
6

There were reports of vote buying, abuse of office and other fraud during the election campaigns for the 2008 parliamentary elections and the 2009 parliamentary by-election, which exacerbated citizens' distrust in electoral results. In the latter case, the winning candidate of the Mongolian People's Party, D. Zorigt, was accused of purchasing votes. Media sources reported that Zorigt gave 20,000 tugriks to anybody in his district who had the right to vote. The General Election Committee, however, remained silent on this issue and many other accusations of fraud. A new proportional election system is intended to reduce illegal influence peddling among voters.

Campaign financing remains a problem. Parties charge money for candidacies, and each candidate has to privately finance his or her campaign. For this reason, the number of businessmen among members of parliament is quite high.

The mass media have played an increasingly significant role in election campaigns in recent years. For the first time, candidates are presenting themselves in televised debates. Political parties used both paid and free media in election campaigning. The National Public Broadcasting service, influenced by the ruling MRVP/MRP party and for a long time the only station to be received in the countryside, aired free broadcasts of election campaigns and provided equal treatment to political parties, coalitions and candidates according to a distribution schedule prepared by

the General Election Committee. Paid election campaign advertisements on private radio and TV stations are not supposed to exceed 10% of total airtime, but nevertheless, campaign ad saturation reached up to 30% on some television stations in 2008. This is particularly important because private stations often air the views of their owners, who are businessmen and politicians.

Democratically elected political representatives have considerable power to govern in Mongolia. However, civic movements claim that financially powerful oligarchs have a large say in government. There are large companies and groups that fund political parties. These groups tend to win the tenders announced by the government for large mining and infrastructure projects, and they exert influence and pressure on the government via the mass media.

Effective power to govern

7

The civil rights of freedom of association and assembly are protected by the 1992 constitution. Moreover, these rights are regulated by laws on trade unions and NGOs, along with the Law on the Registration of Legal Entities. NGOs are divided into two groups: one group that serves the interests of its members and another that serves the interests of society. The majority of Mongolian NGOs belongs to the second group. In relation to the intensive development of the mining sector in Mongolia, the number and activities of environmental NGOs grew significantly in the reporting period; as of 2010, there are 120 environmental NGOs. In general, citizen groups and NGOs are free from state intrusion and interference. Nonetheless, there is some pressure from the state in some areas such as registration. It is still very difficult to register non-traditional religious organizations, such as Christian organizations, and it is also difficult to register NGOs that represent sexual minorities.

Association / assembly rights

8

Although the constitution guarantees freedom of expression, human rights activists and NGOs that specialize in media freedom blame government authorities and officials for constraining this freedom. They criticize some provisions in the Criminal Code and in the Law on State Secrets, claiming that these laws prevent journalists from enjoying the rights to freely acquire and publish information. Some journalists who accused public officials for corruption were themselves charged for libel or defamation. Since the current legal environment cannot protect freedom of the media, the president of Mongolia, together with media organizations, organized a forum to revise the 1997 Law on the Freedom of the Media in May 2010. A new law has been submitted for parliamentary consideration, but it has not yet been decided when it will be read in a parliamentary session.

Freedom of expression

6

3 | Rule of Law

Despite the formal separation of powers laid out in the 1992 constitution, there remains a dispute over whether members of parliament can simultaneously hold posts in the cabinet, which has been allowed since a measure was passed with the 1999 – 2000 amendments to the constitution. Allowing such dual officeholders compromises horizontal accountability, and conflicts of interest may arise. The disproportionately high number of cabinet members in the State Great Hural and a high number of state administrative officers among representatives of local self-governing bodies create an environment conducive to undermining these institutions' oversight of the executive. However, the situation has slightly changed during the reporting period. Ministers had to explain themselves more often to the State Great Hural. Deputies brought in more initiatives that addressed the interests of their local electorate, including for instance issues related to environmental damages caused by mining.

Separation of powers

7

The judiciary is largely independent. Nevertheless, citizens and human rights organizations complain about human rights violation, corruption and nepotism in the judicial system. In their contributions to a UN human rights review, human rights organizations reported that, due to pressure from the authorities, judges cannot work independently and are susceptible to corruption.

Independent judiciary

6

The judiciary's independence is still hampered by several factors, including insufficient enforcement of the rules regulating the independence of the judiciary, an underdeveloped culture of the rule of law in the political system, the appointment of higher ranking judges based on political criteria, insufficient resources, salaries, travel allowances and housing for judges, and the communication and administration of justice.

Officeholders who break the law and engage in corruption are not sufficiently punished. There are many cases of corrupt public officials and a number of loopholes in the criminal code. Furthermore, current legal provisions hinder the investigation of corruption allegations against high-ranking government officials. Also, the general attorney's request to suspend the immunity of five ministers of parliament for criminal prosecution was not granted by the parliament. Finally, the General Election Committee does not remove candidates from the ballot, even when law enforcement officials can confirm that these candidates have committed crimes.

Prosecution of office abuse

4

Civil rights are guaranteed in Mongolia, but they are partially or temporarily violated. There are persistent problems with arbitrary arrests and detention as well as cruel and inhumane treatment of people in custody (e.g., beatings, inadequate food and medical care). Isolated cases of torture are still being investigated. A clear example of a civil rights violation was the handling of riots on 1 July 2008.

Civil rights

7

According to a review from the Mongolian NGO Forum, around 700 persons were detained, 270 of which were sentenced. This review by Mongolian human rights organizations of the July incidents clearly demonstrated that Mongolia, despite its declaration of commitment to democracy and human rights, lacks an effective system for protecting fundamental human rights. Also, marginalized groups including herdswomen, vegetable growers, artisanal miners, child victims of violence, sexual minorities and people with disabilities need to be better protected within Mongolia's legal framework.

Discrimination against homosexual and transgender persons has increased. According to reports provided by the Mongolian Human Rights NGO Forum to the UN Human Rights Council in November 2010, permanent discrimination against sexual minorities is widespread in all public, private and non-governmental areas including police, the courts, health organizations, education, residences and media.

However, there was some progress in civil rights in 2010. In his January address to the parliament, President Tsakhiagiin Elbegdorj called for the revocation of capital punishment and initiated relevant legislation. This position was strongly supported by human rights organizations, the European Union, other nations and international organizations. On 2 January 2011, the Mongolian parliament passed a law on gender equality, which was the result of 16 years of work and effort by female members of parliament and NGOs. Nevertheless, some empowering provisions were left out, such as a nomination quota for women and a provision dictating that, if a government organization's head is a man, then the deputy is to be a woman. However, this is a major advance in both civil and women's rights.

4 | Stability of Democratic Institutions

Democratic institutions in Mongolia perform their functions in principle, but these institutions are not always effective. The legal requirements for the responsiveness and accountability of members of national, provincial and district parliaments toward citizens are ambiguous, and there are no mechanisms for enforcing them. Members of parliament and citizens' representatives show little initiative in contacting or establishing lines of communication with their constituencies. For instance, beginning in 2004, parliament has distributed large amounts of money to be spent in the districts; in 2011, each member of parliament received one billion tugriks (approximately \$770,000). This in fact turns parliament into a budget spending entity and enables members of parliament to co-opt or purchase votes from their voters. Within the executive branch of government, deficiencies persist; government tender procedures and the selection process for public servants are not

Performance of
democratic
institutions

7

fairly organized. The Mongolian government's ability to develop and maintain an effective system of government responsibility and accountability is its major, possibly its greatest, challenge.

Most democratic institutions are accepted as legitimate by most relevant actors in Mongolia. But a few politicians and civic movements view the current coalition government of the Mongolian People's Revolutionary Party and the Mongolian Democratic Party, established as a result of the 2008 elections, as illegal. They accuse the government of selling out the country's wealth of minerals to foreign companies in the Oyu Tolgoi Investment Agreement and keeping the profits.

Commitment to
democratic
institutions

7

Critics include the chairman of the National New Party, former Minister for Construction and Urban Planning, Ts. Tsolmon, and the leader of the Peoples Union to Demand the Realization of Election Promises, Gantumriin Uyanga. In a press conference on 1 January 2011, Tsolmon and Uyanga called for a people's assembly and a merger of all oppositional parties into a National United Party in order to overthrow the government.

On the same day, the leader of the Mongolian Rivers and Lakes United Movement, Ts. Munkhbayar, called for a coup d'état in an interview with the Shar newspaper. Munkhbayar announced that seven movements had united to organize a coup d'état with the aim of disbanding every political party and adopting a new constitution. This call for a coup constitutes a major step backwards in the history of Mongolian democracy.

5 | Political and Social Integration

Four out of 18 parties registered at the Supreme Court have seats in parliament. The former Communist Party, the Mongolian People's Party (MPP), is still the dominant political faction (holding 46 out of 76 seats). It forms the ruling coalition with the second largest party, the Democratic Party (DP; 27 seats). Supporters of the MPP are primarily rural residents, while the DP recruits its supporters from urban residents, especially in Ulaanbaatar.

Party system

6

In late 2010, the party system went through some changes. First and foremost, the Mongolian People's Revolutionary Party (MPRP) changed its name to the Mongolian People's Party (MPP) after ninety years of existence. The Supreme Court acknowledged the MPP as direct successor of the MPRP. Protest against the re-naming arose from within the party. Together with some followers, the former president and MPRP leader Nambaryn Enkhbayar quit the party in protest and launched a new one under the old name.

While the Mongolian People's Party has split, smaller parties are undergoing a process of integration. After a long negotiation process, the Citizen's Will Party and the Green Party united on 31 January 2011 under the leadership of the former Green Party leader D. Enkhbat.

Extra-parliamentary parties and civic movements have started to unite as well. The People's Movement, which was among the most active, joined the National New Party (NNP) in June 2010. G. Uyanga, former leader of the People's Movement, became Secretary General of the NNP, which agreed to cooperate with the MPRP. Thus, it is fair to say that the party system is in flux. Future reshuffles will depend on the shape of the electoral code after parliamentary approval.

In May 2010, the Parliamentary Standing Committee on the State Structure started hearings on a revision of the election law. However, major political parties in parliament have not reached a consensus, and the bill remains stuck as of this writing. The current version proposes a proportional system, while the MPP supports a mixed system.

In recent years, citizens' confidence in parties has decreased according to independent surveys. An April 2010 poll of the Sant Maral foundation showed that 47.3% of the respondents were convinced that none of the parties can deal with pressing social issues, and 69.3% of respondents asserted that parties cannot represent the views of the masses.

Interest groups conduct wide-ranging activities in Mongolia. Since the inception of the independent NGO community in Mongolia in the early 1990s, women activists have played a key role in promoting democracy and human rights and promoting overall development of civil society, in addition to working on gender-specific issues such as violence against women and women's participation in decision-making.

If NGOs are classified as serving the interests of the society and those serving the interests of its members, 80% of the working NGOs belong to the first group, which includes organizations working in arts, education and health. Groups working in human rights and women's rights have developed good partnerships, and they exert effective pressure on policy-making and the legislature. In recent years, due to the intense growth of the mining sector and its negative impact on both the environment and the lives of indigenous people, many interest groups involved in environmental protection have grown. Many of them are successful in influencing government policy and inhibiting illegal actions. However, in some cases, some groups have called for violent or illegal actions. Moreover, some nationalist groups are calling for protest against expatriates, mainly Chinese workers.

Interest groups
6

Generally, Mongolians' approval of democratic norms and procedures is high. Asian Barometer research done since 2003 suggests that around 91-94% of the population support democracy. However, when asked to choose between regime types, 40.7% of the respondents in 2006 preferred authoritarian rule, compared to 39.7% for democratic governance. According to surveys done by the independent research center Sant Maral in April 2010, 58.2% of the population favor the current democratic system while 39% reject it. Furthermore, 58.1% preferred a strong leadership independent from parliament and elections. This is due to widespread disappointment with the current situation, particularly corruption, power politics and a focus on profit seeking that ignores the interests of the majority of the population.

Approval of
democracy
7

Mutual trust between people in Mongolia is based on relatives and local affiliations. In an Asian Barometer survey of 2005, 75% of the respondents preferred to hire friends or relatives instead of strangers if something is to be done. This marked the highest preference for friends of all countries. Since ancient times, Mongolians have lived in vast areas as nomads with strong local organizations and strong local affiliations. Therefore, issues such as employment, hiring or the promotion of candidates for election are decided on the basis of relationships and joint regional affiliations.

Social capital
6

II. Economic Transformation

6 | Level of Socioeconomic Development

Mongolia recovered from an economic downturn in 2009 in which GDP contracted by 1.6%. In 2010, the economy grew by 6.1%. According to an IMF survey, economic growth will reach more than 10% in 2011 due to mineral exports and intense activity in the private sector. Nonetheless, current economic growth cannot effectively alleviate poverty. According to the World Bank's 2010 World Development Indicator, 13.6% of the population lives on less than \$2 per day (data for 2008). The Household Socio-Economic Survey of the National Statistical Office for 2007 – 2008 shows a poverty rate of 35.2% with a clear rural-urban divide (26.9% in urban areas, 46.6% in rural areas). Rural poverty causes citizens to move to cities for work opportunities; however, due to the lack of job opportunities, this migration tends to increase the share of poor people in the city. The Gini coefficient (36.6 in 2008) shows a moderate level of social inequality, and the 2010 Human Development Report ranks Mongolia at 62 and assesses the inequality-adjusted HDI (IHDI) at 0.527. This indicates that Mongolia ranks among the group of countries that have high inequality with regard to human development. Increasing inequality

Question
Score

Socioeconomic
barriers
3

shows that most of the benefits of economic growth go to the wealthy. Moreover, the numbers of homeless people, working children and single mothers is growing.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	4234.9	5623.2	4583.8	6200.4
GDP growth	%	10.2	8.9	-1.3	6.4
Inflation (CPI)	%	9.0	25.1	6.3	10.1
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	8.8	15.0	13.6	23.5
Export growth	%	9.2	7.3	19.7	6.8
Import growth	%	27.7	23.0	-4.7	24.1
Current account balance	\$ mn.	171.8	-690.1	-341.8	-886.5
Public debt	% of GDP	-	-	-	-
External debt	\$ mn.	1681.7	1832.8	2142.7	2444.1
Total debt service	\$ mn.	55.4	80.9	110.2	171.5
Cash surplus or deficit	% of GDP	7.7	-3.5	-4.5	-
Tax revenue	% of GDP	23.5	21.7	16.5	-
Government consumption	% of GDP	13.1	15.3	14.7	13.7
Public expnd. on edu.	% of GDP	5.1	-	5.6	-
Public expnd. on health	% of GDP	4.1	3.8	4.7	-
R&D expenditure	% of GDP	0.23	-	-	-
Military expenditure	% of GDP	1.4	1.2	1.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

According to the World Bank's Global Competitiveness Report 2010 – 2011, the most problematic factor for doing business in Mongolia is inefficient government bureaucracy. This is followed by corruption and access to financing. The Heritage Foundation's Index of Economic Freedom for Mongolia reached 59.5% in 2011,

Market-based
competition

5

falling back to rank 94 with a drop of 0.5% compared to the previous year. This ranking puts Mongolia into the mostly unfree category. Research done in the last ten years by international and domestic private organizations in Mongolia has come to the conclusion that the legal environment for business is underdeveloped. This is compounded by multiple problems of legal redundancy and conflict, a lack of legal venues for raising multiple sources of financing, a lack of transparency in government services and decision-making regarding business activities, underdeveloped corporate governance, and a lack of accountability, internal auditing and business ethics.

Informal employment is considerably high, especially in rural areas. According to the Mongolian Business Development Agency, 100,000 people or 20% of the rural workforce were involved in informal gold mining in 2006.

Anti-monopoly policy is formulated in the Law on the Prohibition of Unfair Competition of 1993 and the Law on Competition of 2009. In 2004, the Authority for Fair Competition and Customer Protection was set up. However, policy efforts against monopolization are not effective in the current economic environment. There is also unfair competition in infrastructure, rural market and tender selection processes.

Anti-monopoly
policy

7

Since the start of its economic transition, Mongolia has promoted foreign trade and investment and achieved tangible results in trade liberalization. WTO accession in January 1997 underlines the country's relative success in developing a new trade regime. In the wake of WTO accession, around 30 laws related to the simplification of customs service and the reduction of customs duties on foreign trade were passed and amended. However, some pledges were not realized, specifically with regard to foreign trade tariffs. The policy of trade liberalization is often to the detriment of domestic producers who have to compete with cheap imports. As for exports, customs duties were only imposed on a few items such as unprocessed cashmere. Mongolia is actively engaged in negotiations for trade discounts with other nations. The EU, Mongolia's third-largest trade partner, renewed trade discounts for Mongolia from 2009 to 2011. Also, Mongolia started bilateral negotiations with the United States on the transparency of free trade. As a result, Mongolia is able to export handicrafts and 14 other types of goods without any tax to U.S. markets. As only a few Mongolian products are relevant for export, these trade agreements do not have a major impact.

Liberalization of
foreign trade

7

Since the beginning of the economic transformation, the Mongolian banking sector has transitioned from a mono-bank system to a decentralized financial system comprised of private-sector banks. Government ownership has been reduced, foreign capital participation in the sector has increased and the Bank of Mongolia's (BoM) regulatory and supervisory oversight has been expanded. In 2010, there were altogether 15 commercial banks and 177 small non-banking financial institutions

Banking system

6

(NBFIs) in Mongolia. Except for their inability to take deposits, NBFIs provide similar banking products and services such as lending to individual borrowers and small and medium enterprises and foreign exchange trading. Banks are also adopting international best practices in corporate governance and business processes.

These achievements notwithstanding, the financial crisis has revealed some deficits in the Mongolian banking sector. As of December 2009, banking system loans had contracted by 6.8% to 2.4 trillion tugruk (\$1.7 billion) compared to the year before. Non-performing loans reached 18.4%. Most banks suffer from liquidity shortages and poor governance. The government took one bank into trusteeship to restore confidence and nationalized another failing bank in 2009. Other attempts to stabilize the banking system included tightening equity ratios and the introduction of new laws and regulations.

Generally, Mongolian banks are undercapitalized and lack access to long-term funding needed for mortgage and project lending. The banks' small size restricts lending to larger projects. SMEs and business start-ups can hardly find affordable financing. Banks are expected to seek overseas partners for the syndication of larger loans because local banks currently do not work together on a syndicated basis.

The Financial Regulatory Commission was established in 2006 to regulate financial services by supervising legal compliance and protecting the rights of investors and clients. However, according to former IMF advisor Mats Josefsson, provisioning rules were still too lenient in 2010; banks did not comply with regulations, particularly with rules on exposure to risks and connected lending, and proper provisions were lacking for bank managers, board members and bank owners.

8 | Currency and Price Stability

Monetary policy in Mongolia is implemented by Mongolia's central bank, the Bank of Mongolia (BoM). A principle objective of the BoM is to ensure the stability of the Mongolian national currency, the tugruk. The governor of the BoM is formally independent from the government, is appointed for a six-year period by the State Great Hural and reports to the parliament. Policies during the financial crisis have shown that the BoM acts independently in pursuing its goal of monetary stability, although inflation in Mongolia has been increasing in recent years and reached 13% in 2010. Expanding government consumption for raised public wages and social transfers, as well as soaring food and petroleum prices, led to a high inflation rate that peaked at 33.7% in August 2008. In response, the BoM continued its tightening of monetary policy, which helped to trim down inflation again. For 2011, inflation

Anti-inflation /
forex policy

8

target is set at 8%, but the International Monetary Fund warns that it may rise beyond 20%.

The exchange rate against the U.S. dollar has been falling since January 2010, as the BoM kept the policy interest rate at a high level (above 10%) and introduced an auction system for foreign exchange. The stabilization of the exchange rate has been accompanied by a rise in the BoM's foreign currency reserves to a record level of \$1.646 billion as of November 2010. In order to effectively stabilize the currency and rebuild foreign reserves, the BoM intervened in concerted action together with all commercial banks. It also takes a closer look at all commercial bank foreign exchange trading activities and their positions.

Mongolia's macroeconomic stability has been positive in recent years. Strong copper prices on the world market, combined with increased investment flow in the mining sector, provided a strong stimulus. However, since 2010 fiscal and debt policies have been impacted by the implementation of extensive election promises. As of January 2011, each citizen is entitled to receive monthly allowances of 120,000 tugruk (approx. \$19), which replace child allowances and other social transfers. By paying out these new allowances, which are paid out of the Human Development Fund, the government is implementing an election promise made by both coalition parties. In 2010, however, a working group of the International Monetary Fund recommended a reduction in budget expenditure because the current account balance turned negative in 2008 (-14% of GDP) and 2009 (-9.1%), a development which may reverse the positive developments in debt service of the years before.

Macrostability

7

9 | Private Property

The 1992 constitution established the basic regulation of property rights, which were further secured by a series of laws such as the Law on Land Ownership of Citizens of Mongolia, the Law on Property Ownership Rights and the Law on Registration of Property Ownership. However, there are multiple factors that negatively influence the property rights of citizens in reality. Many citizens are not able to enforce their legal rights because they do not have the means and opportunities to get affordable loans, whereas politicians, their henchmen and relatives are able to acquire vast agricultural areas. The World Bank's Global Competitiveness Report 2010 – 2011 ranks Mongolia at 115 out of 139 countries. Property rights in the countryside, where half of the population resides, are not adequately ensured. Herders lose their stock animals in droughts or severe winter condition, and intensive mining operations reduce access to water and pasture fields. This leads to migration into cities in large numbers, where people live in poverty, expecting social welfare.

Property rights

5

The private sector contributes 70% of GDP. However, the government needs to improve conditions by better coordinating laws, implementing land reform, and guaranteeing property rights and a favorable business environment. In addition, the privatization of state companies does not always proceed consistently with market principles. The privatization of social sector institutions, including hospitals and schools, is currently pending. During previous privatization rounds, state-owned enterprises were sold at prices far below their market value. An assessment of USAID discovered corruption and bribery flourishing in the process of privatization. Nowadays, government purchases of service and goods are conducted through tender selection procedures, although companies with good connections to politicians or political parties tend to win.

Private enterprise
7

10 | Welfare Regime

The government has paid significant attention to social welfare, but this has not yielded the desired results. Instead, the government's trend towards cutting social spending continues. One-time cash allowances for newborns, newly-wedded families and a monthly cash allowance of 10,000 tugruk for every child were cancelled in 2010. In the same year, the government established the Human Development Fund, which started with cash allowances of 120,000 tugruk for every citizen. Some policy experts claim that this cash allowance is ineffective and only worsens inflation. Minimum wage is set by the government every now and then; however, it cannot catch up with increasing inflation rates, and pay levels cannot meet the basic needs of life. Human rights NGOs reported that government measures against price hikes in food and fuel are not effective.

Social safety nets
4

Women and members of ethnic or religious minorities have almost equal access to education, public office and employment. There is an overall recognition of the dominance of traditional religion and beliefs. In recent years, however, information about repression targeted at religious minorities, especially Christian, has become less frequent. Administrative barriers against registration or permits for churches have been lowered, although not in all regions. Some advances notwithstanding, women are subject to discrimination in political and social processes. Women's representation in politics falls every year. As of 2000, the percentage of female members of parliament was 11.8%, whereas in 2004 it fell to 6.5% and in 2008 to 3.9%. An article of the Law on Political Parties, which states that "no less than 30% of candidates of a party shall be women," was abolished in 2008. Men are dominant on the decision-making level. Employers tend to prefer men in positions that do not require a specific gender; this is a very common and clearly discriminatory position. However, international organizations tend to give preference to women and pay them salaries higher than those of even high-ranking public servants.

Equal opportunity
5

11 | Economic Performance

Over the past several years, Mongolian economic performance has been satisfactory. GDP has been steadily growing since 2003. In 2009, real GDP fell by 1.6% due to a sudden decline in the price of copper, Mongolia's key export. The economy, however, has since returned to growth. The 2010 growth rate was 6.3%, and would have been 12.7%, if not for damage to agriculture caused by the most extreme winter in over 30 years. Nonetheless, two-thirds of the population is poor. Also, the high unemployment rate is a negative factor that inhibits further economic development. Key commodities of the mining and extractive industry, such as gold, copper and coal attract foreign direct investments. They comprise 22% of GDP but are highly dependent on world market prices and natural factors, much like agricultural goods, which account for 21% of GDP.

Output strength
6

12 | Sustainability

Government policy on the environment has many shortcomings. Extensive natural degradation (destruction of forest, wild animals and pastureland) has increased migration from rural to urban areas. Recent years witnessed the rapid growth of Ulaanbaatar's urban population to as much as half the total population leading to dangerous air pollution and a desperate need to solve utilities, water sanitation and land problems. In the countryside, pastureland is drying up and degrading due to overuse. Illegal hunting of wild animals and logging worsens this situation to a dangerous level. Government policy on mining largely overlooks concerns related to natural conservation and reclamation. Currently mineral licenses were granted for 30% of land, and some mining activities cause pollution in rivers and the soil. For instance, the inappropriate handling of chemicals and harmful technology enabled by a lack of government control on mining operations led to cyanide and mercury pollution in around 203,508 m² of soil in 53.5 hectares of land in 120 spots (in four aimag territories). Accordingly, environmental NGOs are highly critical the government's environmental policy. In January 2011, leaders of some civil movements held a demonstration called "Freedom-16" in front of the government house. They demanded that the government comply with Article 16 of the Mongolian Constitution, which defines principal rights and freedoms including the right to a healthy and safe environment and protection from environmental pollution and ecological imbalance.

Environmental
policy
4

The right to education is guaranteed by the Mongolian Constitution. Basic education is provided free of charge. The education system is a combination of formal and non-formal education. 94.2% of total primary school aged children pursued formal education; for secondary school pupils, the rate is 89.9%. According to Article 39.1 of the Education Law, no less than 20% of annual government

Education policy /
R&D
4

revenues shall be spent on the education sector. As of 2008, 7.2% of GDP and around 21% of the annual budget revenues went to the education sector. Government programs such as “midday tea”, “a computer for every child” and provisions for free stationery and textbooks for vulnerable children provide opportunities and an equal education environment. In general, the spending for education as a percentage of GDP is relatively high. However, an insufficient amount is spent on research and development, which inhibits the further development of scientific research. Because of low wages for schoolteachers at any level, there is a chronic lack of teaching personnel, especially in the countryside. Corruption at schools is widespread. Highly qualified teachers are attracted with better payments to international private schools that only wealthy parents can afford.

Transformation Management

I. Level of Difficulty

There are several structural constraints for the political leadership's governance capacity. The vast land with its small and sparsely located population makes development difficult in administrative, economic and infrastructure-related ways. The city of Ulaanbaatar, where half of the population resides, serves as the center of political, economic and social activities. Some commentators suggest that Mongolia is more like a democratic 'city state' than a democratic country. Semi-nomadic livelihoods continue to predominate in the countryside, which limits the notion of decentralized governmental structures. Another problem stems from the added costs of providing government services, such as education, health, social and other administrative services, to citizens in remote areas. Also, herders derive their income from their stock animals, a practice that depends directly on nature and its vagaries, including drought, severe cold weather and natural disasters, which may wipe out their herds and place them into poverty.

Structural
constraints
8

Until the democratic transformation in the 1990s, Mongolia had almost no civil society traditions, let aside protest movements against the Manchurian-Chinese rule in the nineteenth and early twentieth century. Under socialism, citizens' political involvement was formal and guided by the government. Women's and youth organizations as well as trade unions existed, but were supportive of the ruling party to propagate the dominant ideology. Thanks to the democratic transition, genuine civil society organizations have emerged and started to represent and protect citizens' rights and interests by trying to influence government policies.

Civil society
traditions
7

Mongolia has never experienced any violent incidents based on social, ethnic or religious differences. There were no cases of conflicts between ethnic or religious groups. Nevertheless, in recent years, some environmental groups have begun pressuring the government, asking for the resignation of incumbents, fundamental change in government structures and even a coup d'état. Some armed clashes have occurred in the conflict between local herdsmen and environmental groups on one side and mining companies and private treasure seekers (ninjas) on the other.

Conflict intensity
3

II. Management Performance

14 | Steering Capability

Question
Score

The Mongolian government puts forward long-term strategic priorities; however, it rarely fulfills them. On the one hand, this is related to populist positions and the influence of political party and group interests instead of using scientific research and vision in developing strategic goals. On the other hand, implementation mechanisms and financing for these policies and programs are not well considered. For example, the Millennium Development Goals (MDGs) foresaw the reduction of the poverty level to 18% by 2015, whereas the current poverty rate is at 35%. And the government is pursuing more populist measures of cash allowances to citizens instead of focusing on realistic strategies to alleviate poverty.

Prioritization
6

As mentioned, the government of Mongolia sets strategic priorities in its multiple policies and programs. These policies and programs in many cases fail to reach their goals. For example, with World Bank funding, the government implemented a Poverty Alleviation and Sustainable Livelihood Program, but without good results. The public and trade unions now criticize the lack of implementation of the Healthy Mongolian Citizen Program approved in 2007. Over three years have passed since its implementation, but the Ministry of Health has not yet reported on its performance.

Implementation
5

It is quite rare for the Mongolian government to learn from past experiences as well as from scientific research and academic experts. Various scholars, universities and research institutes provided multiple recommendations to the government. However, policymakers are more susceptible to the interests of political parties and political benefits. A clear example is the long protracted change of the current first-past-the-post single-member election system, which is riddled with multiple loopholes that enable fraud in voter registration and the polling process, a shortcoming that accommodates the interests of the two parties in power. Within various projects sponsored by the UNDP to improve the electoral system, members of parliament were sent to advanced democratic nations in order to learn from electoral experiences and to organize policy research for recommendations. So far, support by parliament and political parties has been limited.

Policy learning
6

15 | Resource Efficiency

The government of Mongolia is not performing well in terms of the effective use of human, financial and organizational resources. First, the selection process of public officials is not transparent. According to legal requirements, vacant positions are to be openly advertised and followed by a series of systematic procedures (examination and interviews), but implementation is inadequate. In a 2010 survey by the Management Academy, 76.1% of experts claimed that public office selection is characterized by political influence and nepotism, which inhibits the enrollment of highly qualified personnel into administrative positions. Moreover, the government fails to organize transparent budget planning and implementation. In 2008, among 54 budgetary organizations under general budget managers, there were only two organizations that have produced full reports on their budgets.

Efficient use of
assets

5

Occasionally, the government's policies and activities are not well coordinated. There are some redundancies and overlaps of functions among ministries. This leads to conflicts between ministries and societal groups that the government fails to resolve. For example, foreign investment is largely under the Ministry of Foreign Affairs; however, the Ministry of Mineral Resources and Energy is in charge of investments in the mining sector. Similar overlaps between ministries sometimes cause disagreement and bureaucratic hindrances in obtaining licenses or permits. There are also difficulties in the division of jurisdiction between central administrative bodies and local organizations. The powerful Ministry of Finance functions as a state within the state. The reconstruction of local schools or hospitals is decided by the relevant ministries, not by the local government, which usually leads to delays and organizational impediments.

Policy
coordination

5

The government is taking some measures to combat corruption. There have been several legal developments with respect to corruption, including the 1990 Law on Political Parties, the 1996 Law on Anti-Corruption, the 2000 Public Procurement Law, and the 2002 National Program for Combating Corruption. In September 2009, a public council was established at the Authority Against Corruption by presidential decree. This council aims to actively engage the public, solicit their opinion and provide recommendations to the Independent Authority Against Corruption. In addition, parliament is currently considering a Law on Conflict of Interests. If approved, this will improve the legal environment for preventing corruption.

Anti-corruption
policy

4

Notwithstanding this progress, issues such as party financing, campaign financing, transparency of income of public servants, and auditing of state spending still lack solid legal regulation. In the political echelons of Mongolia, corruption is always a crime committed by the other side; after power shifts, those convicted of corruption are immediately rehabilitated. Corruption allegations in the media against high-

ranking state officials did not always trigger an official investigation. Speaking about this situation, President Tsakhiagiin Elbegdorj, in his speech to the parliament on the twentieth anniversary of parliament, accused the Authority Against Corruption of being unable to fulfill its main function and of being ruled by unethical persons.

16 | Consensus-Building

All major political actors in Mongolia agree on establishing or consolidating democracy and a market economy as strategic, long-term goals of transformation. Major political parties agreed and approved some key policies and programs of development and democratic consolidation, such as the Millennium Development Goals in 2005 and the Comprehensive Policy of National Development in 2008. This Comprehensive Policy defined the main directions and strategic goals for up to 2021 and performed a nationwide consultation process among parties, scholars and citizens' representatives.

Consensus on goals
9

Although there are no influential anti-democratic actors in Mongolia, some political parties outside the parliament, as well as groups and citizens' movements, have called for an authoritarian regime and a fundamental change in the current state structure. The incumbent rulers and parliamentary parties have not taken any action to cooperate with these groups or pay any significant attention so far.

Anti-democratic
actors
8

If we ignore the fact that the gap between rich and poor is widening in Mongolia, there is no serious cleavage-based conflict. Key political parties cooperate on common development goals. One clear example was the formation of a coalition government following the 2008 election. Although the MPP won enough majority seats to form its own government, they invited DP to join a coalition government in order to solve many problems that they could not solve previously. For instance, the Oyu Tolgoi investment and mining agreement was fixed under this government after six years of arduous negotiations. Nevertheless, prominent DP members regularly call their ministers to leave the coalition government and end this cooperation.

Cleavage /
conflict
management
8

Mongolia's Millennium Development Goals (MDGs), approved in April 2005, provide for democratic governance and human rights. Popular participation in budget approval and local decision-making processes has high priority in these programs. However, the third implementation progress report on the MDGs has pointed out a lack of initiative to participate among citizens, a lack of information and low confidence in the Hural. Furthermore, NGOs prefer to lobby for changes instead of sending their formal proposals on the budget. The low level of political

Civil society
participation
6

participation among citizens may be attributed to red tape in government services, a lack of political education of citizens and a deeply ingrained mentality of expecting action from the government only.

Under the former communist regime, there were political repressions and purges in Mongolia along the Soviet model. From 1922 to 1940, political leaders, persons of aristocratic origin, national entrepreneurs and Buddhist monks were all purged for potential subversion resulting in capital punishment for more than 20,000 people and the imprisonment of tens of thousands. After World War II, many intellectuals with nationalist views were repressed. Political repression in Mongolia first took the form of state terror and later the form of administrative measures, defamation of personal dignity and discrimination on the basis of opinion. After the transition to democracy in 1990, a National Rehabilitation Commission was formed to examine each individual case of repression. The Commission established around 36,000 case files. In January 1998, parliament passed a Law on the Rehabilitation of Victims of Political Repression and on Granting Compensation. As of today, around 17,400 victims have been recognized and 16 billion tugruk have been paid for compensation. In 1996, the Democratic Party officially asked for pardon from its people on behalf of the government and party leaders of Mongolia. The MPP did the same in March 2011 on the occasion of the unveiling of the restored monument for Damdin Sukhbaatar, military leader of the Mongolian Revolution in 1921.

Reconciliation
9

17 | International Cooperation

Mongolia was formerly among the most aid-dependent countries in the world, with \$2.5 billion of foreign aid received from 1991 to 2002. Ulaanbaatar and aimags close to the capital are the primary beneficiaries of assistance that is one of the highest per capita in the world.

Effective use of
support
8

However, due to Mongolia's strong economic performance in the past five years, with GDP nearly doubling, aid dependency has decreased. Japan is the largest bilateral donor and the Asian Development Bank is the largest multilateral one. The use of loans and aids is not always effective. No significant improvements were observed in the infrastructure to which most of the loans and aids are allocated. Some regions still lack a permanent supply of electric power and, due to the concentration of the population in the capital, even Ulaanbaatar may face electricity shortages in the near future.

Since its transition to democracy, Mongolia's reputation in the international arena has grown. The government of Mongolia is considered a credible and reliable partner by the international community. However, international organizations and experts criticize its policies on securing human rights, alleviating poverty and fighting corruption. For instance, the Mongolia Corruption Benchmarking Survey

Credibility
8

of December 2010, sponsored by the Asia Foundation, suggests the lack of strong government policies against corruption. Also, IDEA has sponsored research on the “State of Democracy in Mongolia” and found a number of human rights violations in judicial and prosecution processes.

Mongolia is landlocked between two great powers, the Russian Federation and the People’s Republic of China; Mongolia’s foreign policy activity therefore prioritizes the maintenance of friendly and balanced relations with both. Mongolia’s economy is heavily influenced by its neighbors. For example, Mongolia purchases nearly all of its petroleum products from Russia. China is Mongolia’s chief export partner and a mainstay of the economy. Foreign trade with China takes up almost 43.6% of the total foreign trade turnover. Following China, the Russian Federation is the second-largest trading partner and accounts for around 30% of total trade turnover.

Beyond its neighbors, Mongolia is striving to pursue an active foreign policy in its region. It has been taking an active stance on cooperating with ASEAN and APEC and hopes to become a member of both organizations. Moreover, it has actively engaged in the Central Asia Regional Economic Cooperation (CAREC), established in 1997, and the Shanghai Cooperation Organization (SCO). Yet given its landlocked location, Mongolia is disadvantaged in establishing mutually beneficial economic and trade ties to East Asian and Asia-Pacific nations.

Regional
cooperation
8

Strategic Outlook

Mongolia is successfully democratizing and its economy is growing intensively. However, future development is challenged by a number of pressing issues including poverty, electoral fraud, corruption, environmental pollution and natural degradation, a low level of political awareness among citizens, and disrespect for minority rights. In order to strengthen Mongolia's consolidation, the following tasks need to be addressed:

1. Economic reforms have to be directed toward improving the populace's living standards. Comprehensive measures need to be taken to alleviate poverty while creating jobs, especially in the countryside.
2. In order to promote democratic values and support among citizens, mass political education on democratic governance and principles, as well as on human rights, should be supported. This includes research and training institutions, introductory courses on political education and civic culture at universities, and the support of promotional publications on democracy and political culture on mass media.
3. The General Election Committee (GEC) must be afforded its secure independence in order to avoid future misconduct, such as vote buying and abuse of government offices, and to create equal opportunity for all political parties in free and fair elections. Candidates who commit violations such as vote buying should be de-listed from the ballots. Equal representation of political parties in the GEC has to be guaranteed.
4. It is important to eliminate discrimination against women and sexual minorities, not only on paper but also in real life, in a variety of contexts including media, employment, family and schools. A law prohibiting discrimination against sexual minorities needs to be issued.
5. Corrupt officials should be held accountable. Promotion mechanisms in government offices should be realigned along more merit-based criteria such as skills, ethics, work experience and knowledge in order to reduce political influence. Furthermore, the principles of financing political parties have to be reconsidered.
6. In order to ensure better implementation of government policies and improve accountability and transparency in governance, it is crucial that citizens' participation be supported at all levels of policy-making and implementation. The government must provide citizens access to information about government activities, structures and procedures, and it must eradicate all barriers such as red tape, poor communication and complicated laws regarding citizens' participation. It must also provide different forms of citizens' feedback for the lawmaking process via personal meetings, letters, electronic mail or Internet.

7. As the mining and extraction industry in Mongolia continues to expand, the government must address negative environmental impacts such as natural degradation, pollution, desertification and the violation of the right of indigenous residents to live in a healthy environment. This could be done by introducing legal requirements for environmental and social impact assessments for major development projects, imposing stricter penalties upon mining companies that fail to conduct land reclamation, and establishing a specialized court for environmental issues.