

MONGOLIA: PROVINCIAL COMPETITIVENESS REPORT 2022

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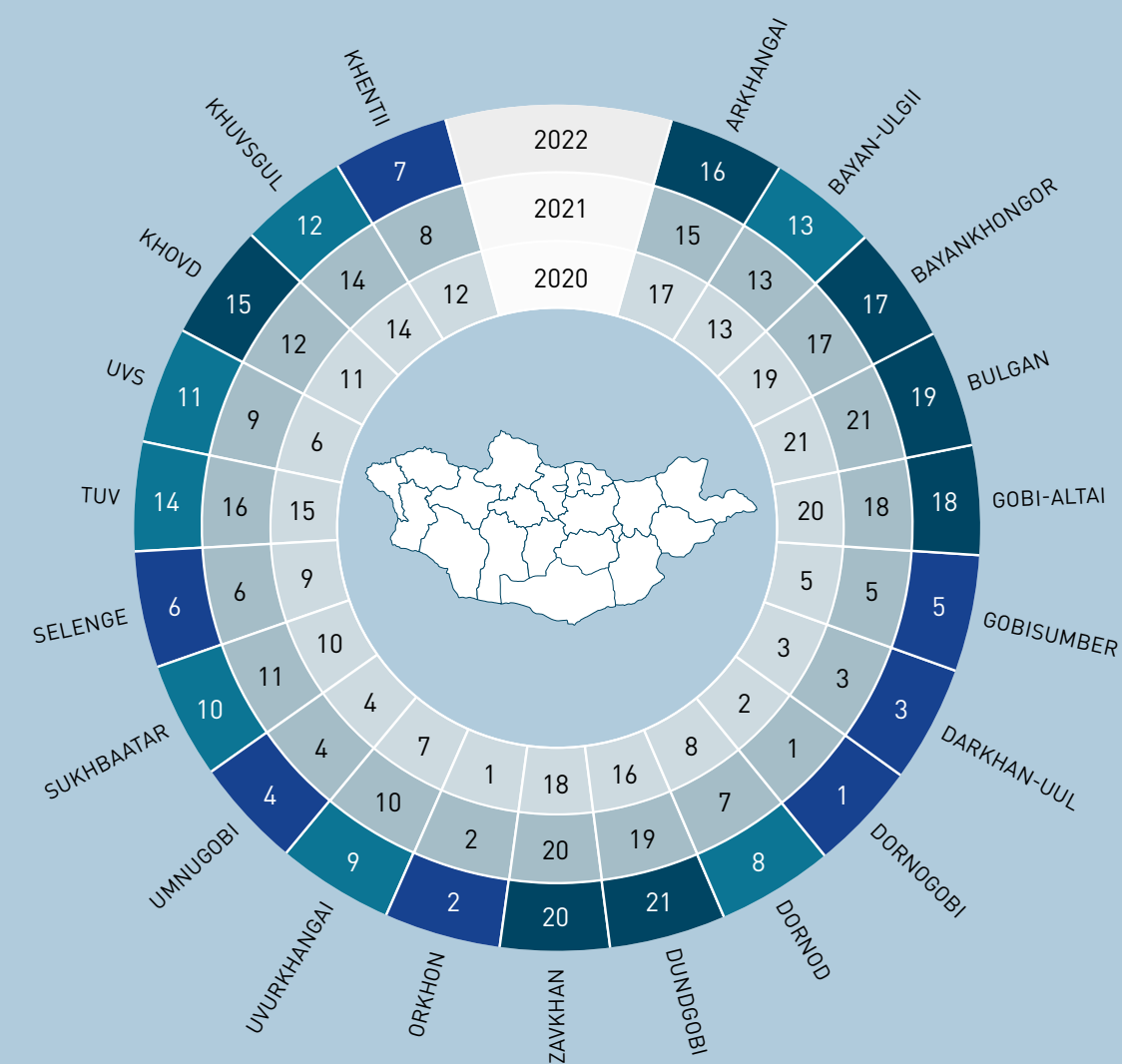
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2022

(based on the statistics of 2021)

www.aimagindex.mn



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ДАА 338.5
М-81

THE PROVINCIAL COMPETITIVENESS REPORT

ULAANBAATAR
2022

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ISBN 978-9919-9722-5-7

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FOREWORD



The Economic Policy and Competitiveness Research Center is presenting the “Provincial Competitiveness Report” which measures the country’s development and progress at the level of provinces for the 11th consecutive year. The annual release of this survey, which highlights the potential and challenging aspects of each province’s competitiveness, provides an opportunity to review past achievements and lessons learned.

When we initiated the report on the competitiveness of the provinces, we focused on doing research that would contribute to the competitiveness and development path of the 21 provinces and be a useful guide for everyone. This research is unique as it is independent of politics and reaches the public every year in printed and electronic versions (www.aimagindex.mn). The development and progressions of the provinces have been measured regularly according to international methods using 180 indicators and it has already become a study that has been localized in Mongolia and created public expectations.

In 2022, numerous important events took place in Mongolia and the world, requiring a constant need to move forward in line with the changing times. In addition to economic difficulties, the ongoing impact of the “Covid-19” pandemic and social tensions presented many challenges such as geopolitical risks and border restrictions for us. This year’s survey findings indicate that the competitiveness scores for all provinces have declined compared to the previous year, resulting in a 6 point drop in an overall average. On the other hand there were some fruitful outcomes as Oyu Tolgoi’s debt was waived, the “Millennium Road” construction was completed and the railway project which had been under development for many years was put into operation. The opening of air transportation, which had been limited for the past two years, brought its benefits. There is a saying “With road comes development”.

Regarding competitiveness rankings, Dornogobi, Orkhon, Darkhan-Uul, Umnugobi, and Gobisumber provinces are ranked in the first five, and Bayankhongor, Gobi-Altai, Bulgan, Zavkhan, and Dundgobi provinces are ranked in the last five. The competitiveness of Bulgan, Tuv, Khuvsgul, Uvurkhangai, Sukhbaatar, and Khentii provinces have improved from the previous year. A unique feature of this year’s report is the inclusion of a special section on local budget transparency. Efficient use of local budget funds and detailed information can be found in this report.

The competitiveness of a country is measured by the productivity of its companies, efficient working environment, and the ability of the people to be wealthy, satisfied and being able to make choices. In the same way, the local administration can optimally determine how to create an

environment for the companies operating in the province to be profitable and productive and how to improve the citizens' comfortable living environment and quality of life through research-based analysis. In other words, the research results remind us of the opportunities and challenges of each province.

I would like to express my profound gratitude to the Asia Foundation for their continued support and recognition of the significance of provincial competitiveness research. Moreover, I would like to extend my gratitude to the Open Society Forum this year. I would also like to sincerely thank the entrepreneurs of the 21 provinces who actively participated in the survey and share their valuable opinions, as well as to the organizations and individuals who cooperated in collecting the official statistics and the executive opinion survey.

We believe that the report on the competitiveness of the provinces will contribute to the provincial development and will be a basis for discussion among the public, policymakers, local leaders and scientists.



Sincerely,

TSAGAAN Puntsag

Chairman of the Board, Ph.D.

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**OPEN
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Open Society Forum

STATISTICAL DATA SOURCES



National Statistics Office



Bank of Mongolia

CONTENTS

| | |
|--|-----|
| Abbreviations..... | 9 |
| PROVINCES, GENDER AND BUSINESS..... | 10 |
| PRINCIPLES OF ANALYSIS AND METHODOLOGY..... | 13 |
| PROVINCIAL COMPETITIVENESS SCOREBOARD..... | 19 |
| Competitiveness factors..... | 20 |
| Overall competitiveness scoreboard 2022..... | 21 |
| Competitiveness structures..... | 27 |
| PROVINCIAL COMPETITIVENESS PROFILES..... | 31 |
| STATISTICAL TABLES | 117 |
| 1. Economic Performance..... | 119 |
| 2. Government Efficiency..... | 131 |
| 3. Business Efficiency | 143 |
| 4. Infrastructure | 155 |
| LOCAL BUDGET TRANSPARENCY ASSESSMENT | 177 |
| MULTI-DIMENSIONAL ENVIRONMENTAL VULNERABILITY INDICATOR..... | 185 |
| ANNEXES..... | 195 |
| The fundamentals of competitiveness..... | 196 |
| Data sources and notes | 198 |

Provincial Competitiveness Profiles

| | |
|--------------------|-----|
| ARKHANGAI | 32 |
| BAYAN-ULGII | 36 |
| BAYANKHONGOR | 40 |
| BULGAN..... | 44 |
| GOBI-ALTAI | 48 |
| GOBISUMBER | 52 |
| DARKHAN-UUL | 56 |
| DORNOGOBI | 60 |
| DORNOD | 64 |
| DUNDGOBI | 68 |
| ZAVKHAN | 72 |
| ORKHON | 76 |
| UVURKHANGAI | 80 |
| UMNUGOBI | 84 |
| SUKHBAATAR | 88 |
| SELENGE | 92 |
| TUV | 96 |
| UVS | 100 |
| KHOVD | 104 |
| KHUVSGUL | 108 |
| KHENTII | 112 |

Abbreviations

| | |
|-------|--|
| BoM | Bank of Mongolia |
| EIC | Environmental Information Center |
| EPCRC | Economic Policy and Competitiveness Research Center |
| GDP | Gross domestic product |
| LDP | Local Development Fund |
| MNT | Mongolian national currency (tugrug) |
| NSO | National Statistics Office |
| OECD | Organisation for Economic Co-operation and Development |
| SME | Small and Medium enterprises |
| UNDP | United Nations Development Programme |

PROVINCES, GENDER AND BUSINESS

In recent years, countries have given great importance to gender issues and defined gender equality as one of the sustainable development goals for which we are working to achieve. The concept of gender is understood in a very limited way in society - only women's issues, domestic violence, and sexual harassment. However, the concept of gender is a factor that covers society, economy, business, and politics and has an essential impact on the country's socioeconomic development.

It has been over 10 years since the Law on Gender Equality was approved in Mongolia. This law defined key concepts of gender, and some of the terms of the law include:

- "gender" means the concepts, ideas, and attitudes that have been inherited and evolved over the course of history regarding the roles and responsibilities of men and women in political, legal, economic, social, cultural, and family relationships;
- "gender equality" means that men and women participate equally in political, legal, economical, social, cultural, and family relations, benefit equally from economic, social, and cultural development, and contribute equally to development to be free from gender discrimination;
- "gender stereotyping" refers to gender-based differences in the roles and rights of men and women in political, economic, social, cultural, and family relations.

A 10-year evaluation of the Gender Equality Law was conducted in 2021. This assessment report concluded that while the overall business environment has improved over the past decade, in terms of gender, it has deteriorated. In addition, the statistical data on business necessary for gender analysis are insufficient, and the implementation of gender policies are weak.

As for the business sector, there is still a need and requirement to pay attention to the detailed assessment of gender differences and the implementation of gender-sensitive and targeted policies. For example, women's participation in the business sector is lower than that of men, women's employment rate is decreasing, gender imbalance in business sectors along with gender

differences in asset ownership and average salary indicate a lack of gender-sensitive policies in the business sector.

Although specific gender-disaggregated data are available in the business sector, they differ in methodology and definitions, making it difficult to use them as a unified database. One of the biggest reasons for this is that there is no definition of women owned business and each organization has used its own definition. Due to the lack of unified understanding and definitions, it is difficult to properly assess the situation based on accurate data and determine targeted policies. The policy implementation is distorted, cannot reach the target group and is not easy to evaluate.

In 2022, a draft law on Enhancing Economic Participation of Woman Entrepreneurs was developed and is currently under public discussion. The draft law defines a woman entrepreneur as one who fulfills one of the following two criteria:

- 51 percent or more of the common shares or shares of the enterprise are owned by one or more women, individually or jointly.

Or

- 33.4 percent or more of the common shares or shares of the enterprise are owned by one or more women, individually or jointly, and if the person legally representing the legal entity is female or 50 or more members of the board are women.

With the approval of this law, a unified understanding of female entrepreneurs and the release of gender-disaggregated information in the business sector will create conditions for implementing long-term sustainable policies. So why do we need gender-disaggregated data for the business sector? Female and male entrepreneurs operate in different industries. Most men work in mining, construction, and logistics, while women are active in crafts, services, and healthcare. Also, there is a big difference between big and small. In the micro, small, and medium enterprise sector, the majority are women, while in large companies, the majority are men. The NSO conducted a business census of enterprises and organizations in 2021. Here are some of the results of this census:

Table 1: Enterprises by number, province, responsibility form, gender of director /Source: NSO/

| | Enterprises | | | Partnership | | | Cooperatives | | |
|--------------|-------------|--------|--------|-------------|-------|--------|--------------|-------|--------|
| | Total | Male | Female | Total | Male | Female | Total | Male | Female |
| Arkhangai | 800 | 499 | 301 | 90 | 65 | 25 | 204 | 152 | 52 |
| Bayan-Ulgii | 1,318 | 988 | 330 | 55 | 44 | 11 | 319 | 260 | 59 |
| Bayankhongor | 1,067 | 653 | 414 | 240 | 185 | 55 | 265 | 176 | 89 |
| Bulgan | 1,016 | 576 | 440 | 148 | 99 | 49 | 126 | 83 | 43 |
| Gobi-Altai | 705 | 440 | 265 | 65 | 47 | 18 | 116 | 82 | 34 |
| Gobisumber | 340 | 211 | 129 | 14 | 5 | 9 | 32 | 20 | 12 |
| Darkhan-uul | 2,932 | 1,683 | 1,249 | 253 | 141 | 112 | 111 | 59 | 52 |
| Dornogobi | 1,222 | 692 | 530 | 86 | 66 | 20 | 66 | 38 | 28 |
| Dornod | 1,764 | 1,021 | 743 | 87 | 46 | 41 | 82 | 50 | 32 |
| Dundgobi | 659 | 390 | 269 | 68 | 50 | 18 | 93 | 72 | 21 |
| Zavkhan | 1,253 | 783 | 470 | 70 | 47 | 23 | 394 | 285 | 109 |
| Orkhon | 3,919 | 2,148 | 1,771 | 138 | 59 | 79 | 72 | 43 | 29 |
| Uvurkhangai | 1,152 | 743 | 409 | 109 | 66 | 43 | 209 | 140 | 69 |
| Umnugobi | 2,616 | 1,622 | 994 | 120 | 87 | 33 | 100 | 56 | 44 |
| Sukhbaatar | 696 | 416 | 280 | 70 | 38 | 32 | 79 | 56 | 23 |
| Selenge | 2,282 | 1,392 | 890 | 632 | 410 | 222 | 177 | 89 | 88 |
| Tuv | 1,536 | 950 | 586 | 165 | 124 | 41 | 191 | 128 | 63 |
| Uvs | 1,514 | 1,011 | 503 | 66 | 46 | 20 | 226 | 170 | 56 |
| Khovd | 1,710 | 1,135 | 575 | 606 | 397 | 209 | 251 | 192 | 59 |
| Khuvsgul | 1,457 | 942 | 515 | 62 | 39 | 23 | 261 | 193 | 68 |
| Khentii | 1,302 | 767 | 535 | 276 | 203 | 73 | 139 | 80 | 59 |
| Ulaanbaatar | 105,726 | 67,131 | 38,595 | 1,293 | 603 | 690 | 584 | 286 | 298 |
| | 136,986 | 86,193 | 50,793 | 4,713 | 2,867 | 1,846 | 4,097 | 2,710 | 1,387 |

Even the business environment between urban and rural areas is different. Out of a total of 136,986 enterprises operating in Mongolia, only 31,260 enterprises operate in 21 provinces. There are even fewer operating with female directors.

The dashboard was created based on the results of the 2021 Business Survey of the NSO. For more information, please visit <https://www.1212.mn/mn/statistic/data-visualisation/home> link.

From the results of the 11-year survey of the competitiveness of provinces, the most pressing problems for entrepreneurs are:

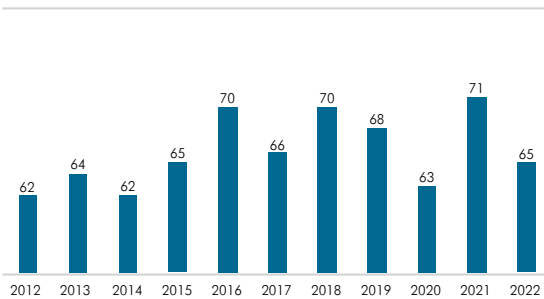
- Support businesses and manufacturers
- Improving bank loan conditions (interest rate reduction, term extension, lower collateral, etc.)

Therefore, developing appropriate credit products for each sector is possible by creating gender-disaggregated information in the business sector and identifying the local entrepreneurs' problems. In this way, there will be opportunities for job creation, livelihood improvement, and more development opportunities in the local area.

Some findings of the 2022 report:

The average score of the overall competitiveness of the provinces was 65, which is a decrease of 6 points from last year. Also, the main group of business efficiency was decreased by 9 points, the main group of economic strength by 6 points, and the main group of infrastructure by 0.6 points respectively.

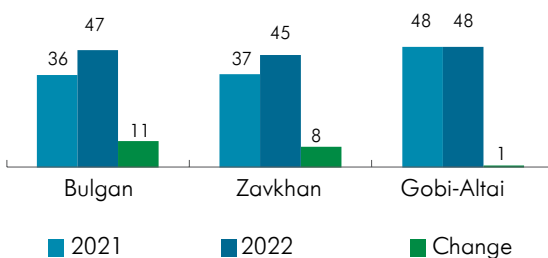
Chart 1. Average overall competitiveness score of the last 11 years



According to the general evaluation of competitiveness, Dornogobi, Orkhon, Darkhan-Uul, Umnugobi, Gobisumber, and Selenge provinces are still leading as the most competitive provinces meaning that the first six ranks have not changed. However, Dundgobi province was ranked the last.

According to this year’s report, the overall competitiveness score of 3 provinces out of 21 provinces increased from last year, while the score of 17 provinces decreased, and the score of 1 province did not change.

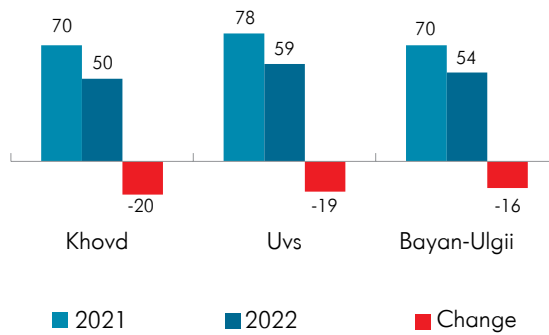
Chart 2. Provinces with an increased overall competitiveness score



Bulgan, Zavkhan, and Gobi-Altai provinces have improved their overall competitiveness scores, and it was common for scores to increase in governance efficiency and main infrastructure groups.

Compared to the previous year’s results, the overall competitiveness score of Khovd, Uvs, and Bayan-Ulgii provinces in the western region have decreased the most.

Chart 3. Provinces with the biggest drop in overall competitiveness score



The decrease in the business environment and financial indicators of Khovd province, the indicators of governance and livelihood of the population of Uvs province, and the indicators of business and technological infrastructure of Bayan-Ulgii province contributed to the decrease in the competitiveness scores.



PRINCIPLES OF ANALYSIS AND METHODOLOGY

THE PURPOSE AND IMPORTANCE OF THE RESEARCH

The purpose of Provincial Competitiveness Research is to make a comparative evaluation of the current competitiveness of 21 provinces in Mongolia and to define their competitiveness holistically. This study identifies the strengths and weaknesses of each province and evaluates their potential to compete, thereby creating a database that is useful for developing a stable, long-term development policy.

The provincial competitiveness index would give us an opportunity to observe any improvement and changes in provincial competitiveness, because this study will be conducted every year according to the same set of methodologies.

Besides comparing the competitiveness of the provinces, this research helps to identify factors that influence the provincial competitiveness either positively or negatively and evaluate the competitiveness strengths and weaknesses. Moreover, this becomes an important source of ammunition to determine which province is more competitive and which is not by addressing factors that drag down the provincial competitiveness.

The concept of provincial competitiveness is a relatively new notion and aims to investigate how efficiently a particular province is allocating its resources and potentials, thereby creating its own competitiveness and enabling a favorable business environment rather than merely studying its dominance. For these reasons, we ranked the provinces by comparing a particular province against others questioning, whether they could create a favorable environment for preserving their competitiveness edges and supplement

the existing advantages. In other words, this report pursues the question of whether a certain province enables local business efficiency and prosperous life for its residents through effective allocation of resources and by exploiting its advantages.

Since this research is designed to compare the provincial competitiveness, those that are ranked top in the list should not necessarily be the best performers. Although they are more competitive than the others, those provinces should promote their incompetency by using its resources effectively and exploiting its advantages. Likewise, those ranked lower in the list should not consider themselves to have poor competitiveness, but rather, they should see themselves as having lower competitiveness than the other provinces and should learn from other provinces and address the factors that are lowering their competitiveness.

For policy makers, the report on provincial competitiveness will be an important source of knowledge and handbook which would help them evaluate the current situation and level of provincial development and to make more effective policies to develop. Also, it makes it possible for provincial administrators to estimate the results of their implemented policies, to make comparisons with other provinces and learn from their experiences. Likewise, businessmen can get reliable and holistic information from this report when making business or investment decisions.

Methodology

1. The methodology of the provincial competitiveness ranking divides into four main factors.

- Economic Performance
- Government Efficiency
- Business Efficiency
- Infrastructure

2. Each of these factors is divided into 4 sub-factors. Altogether, the provincial competitiveness ranking features 16 such sub-factors.
3. These 16 sub-factors comprise of 174 criteria.
4. Of all the 174 criteria, 141 were used in the computation of the competitiveness index. Of these, 66 are hard data and 75 are from the executive opinion survey.
5. Each sub-factors, independently of the number of criteria it contains, has the same weight in the overall consolidation of results, that is 6.25 % (16x6.25=100).
6. Finally, aggregating the results of the 16 sub-factors makes the total consolidation, which leads to the overall ranking of the provincial competitiveness ranking.

The competitiveness index of 16 sub-factors of each province which is based on mean standadized value are calculated using the following formula.

$$I = \frac{STD(x) - STD_{min}(x)}{STD_{max}(x) - STD_{min}(x)}$$

Where:

I – competitiveness index

$STD(x)$ – standardized value of the criteria

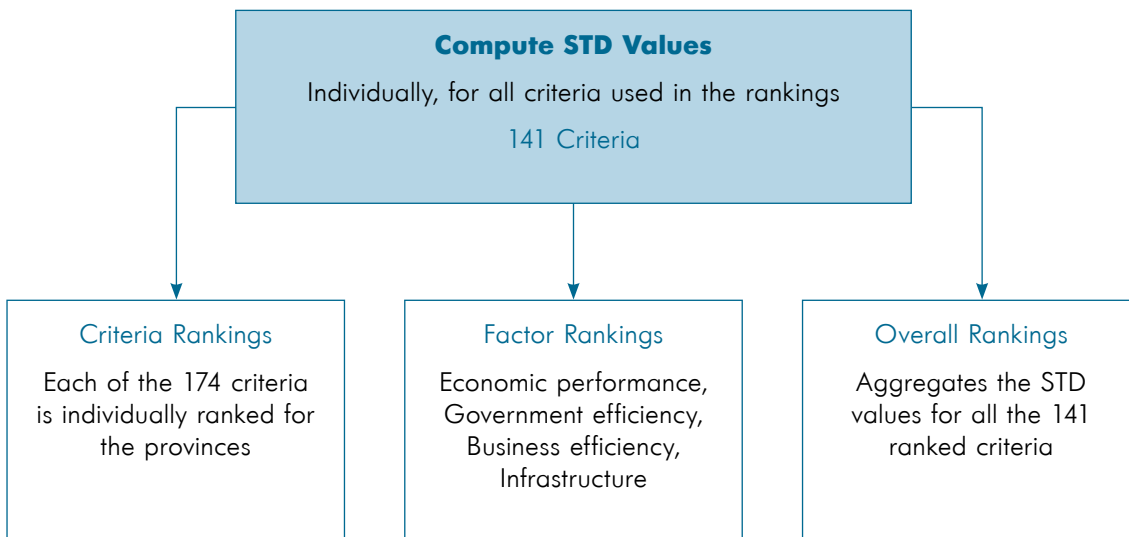
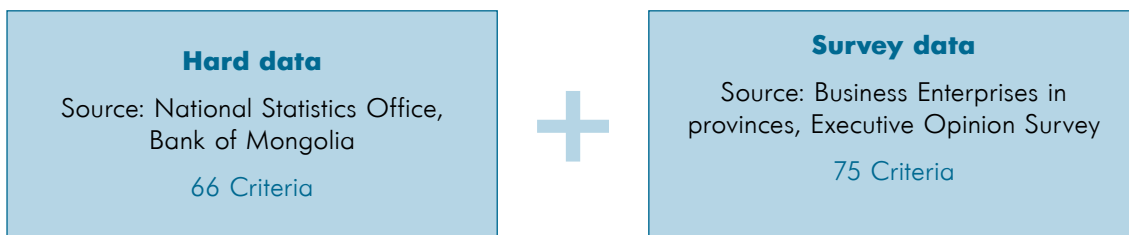
$STD_{min}(x)$ - minimum value of the standardized value of the criteria

$STD_{max}(x)$ - maximum value of the standardized value of the criteria

Factors and sub-factors

| Main Factors | Economic Performance | Government Efficiency | Business Efficiency | Infrastructure |
|--------------|---|--|---|---|
| Sub-factors | <ul style="list-style-type: none"> Economy Economic Sectors Standard of Living Employment | <ul style="list-style-type: none"> Provincial Budget Institutional Framework Business Legislation Societal Framework | <ul style="list-style-type: none"> Business Environment Labour Market Productivity Finance Management Practices | <ul style="list-style-type: none"> Basic Infrastructure Technological Infrastructure Education and Culture Health and Environment |

Computing the Rankings



HOW TO USE THE PROVINCIAL COMPETITIVENESS REPORT?

Provincial competitiveness scoreboard is divided into the following sections:

1. Provincial Competitiveness Scoreboard (pages 21-30)

The provincial competitiveness scoreboard presents the overall rankings for the 21 provinces. The provinces are ranked from the most competitive to the least competitive.

Competitiveness Factor Rankings

In addition to the overall competitiveness scoreboard, provinces are ranked according to each of the four main factors: Economic Efficiency, Government Efficiency, Business Efficiency and Infrastructure.

Competitiveness Sub-Factor Rankings

Provinces are ranked according to all 16 sub-factors (4 from each factor). The sub-factor rankings provide more detailed and in-depth examination on each of the competitiveness factor rankings.

Competitiveness Structures

This section compares the values of the four competitiveness factors for each of the 21 provinces. Charts help identify in which factors a province may have a particular strength or a weakness.

2. Provincial Competitiveness Profiles (pages 31-115)

This section provides a summary of the overall competitiveness, competitiveness structure, sub-factor rankings and challenges facing each province's development.

Moreover, 10 strengths and 10 weaknesses by four competitiveness factors (Economic Performance, Government Efficiency, Business Efficiency and Infrastructure) are highlighted. It is important to determine competitiveness strengths and weaknesses as they play a vital role in the current provincial economic situation and future development perspectives. By properly examining its competitiveness strengths and advantages, the province can identify its comparative advantages. In addition to identifying strengths, addressing its weaknesses would help improve that province's competitiveness.

In addition to comparing competitiveness of different provinces, this report also provides 25 improvements and 25 decreases in comparisons to the previous and this year's indicators for each of the provinces.

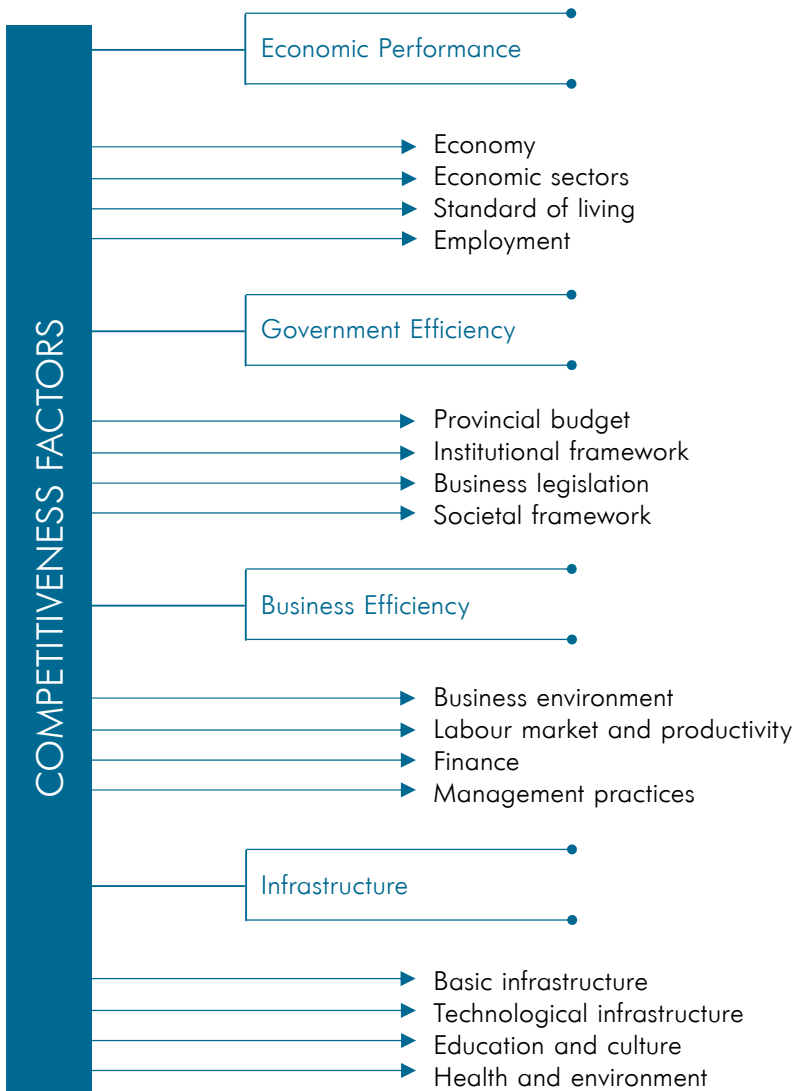
3. Statistical Tables (pages 117-176)

This section presents the complete criteria list, broken down by competitiveness factor. It is possible to find rankings and information about each of the 174 ranked criteria affecting competitiveness.



PROVINCIAL COMPETITIVENESS SCOREBOARD

Competitiveness factors



Overall competitiveness scoreboard 2022

