

# MONGOLIA: PROVINCIAL COMPETITIVENESS REPORT 2020

(based on the statistics of 2019)

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## **THE PROVINCIAL COMPETITIVENESS REPORT**

ULAANBAATAR  
2020

ECONOMIC POLICY AND COMPETITIVENESS RESEARCH CENTER

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## FOREWORD



Greetings!

Many pressing events took place in the world as well as in Mongolia throughout 2020. As the COVID-19 pandemic had spread around the world and the scientific community raced against time to develop vaccines against this challenge to humanity, regular parliamentary and local elections were held in Mongolia and the central and local administrations appointed their executives who would lead the country, provinces, cities and implement development policies for the next 4 years.

Concurrently, we are pleased to announce the 10th anniversary of the Economic Policy and Competitiveness Research Center (EPCRC). Along with a group of friends, including Ts.Boldbaatar, and with the support of major Mongolian business entities such as Newcom, Mobicom, Trade and Development Bank, MAK, and MCS, we established the center in 2010 and today we are an institution that not only works with international experts to develop the annual World Competitiveness Yearbook, but also provides professional support for some countries in developing their competitiveness research framework.

Over the past 10 years, our center partnered with the IMD World Competitiveness Center, the Global Federation of Competitiveness Councils and the Green Economy Coalition. In most countries, research and surveys on economic policy and competitiveness are conducted with government support, while in Mongolia, our center has carried out this task for the past 10 years with the support of individuals of good will, international organizations and national business community.

Decision and policy makers at the Government of Mongolia, province and city administrations frequently refer to the annual Mongolia in World Competitiveness Report, Provincial Competitiveness Report and Ulaanbaatar City District Competitiveness Report published by the EPCRC to find out the results of their performance and the development advantages and disadvantages of their respective constituencies. This is the result of 10 years of hard work done by the researchers at the EPCRC.

It should be noted that for 2020, the Provincial Competitiveness Study was carried out based on the statistical data from the Mongolian Statistical Yearbook 2019, published by the National Statistics Office of Mongolia (NSO) in July 2020, which contains data pertaining to the period before pandemic-related movements restrictions, and on the questionnaire and pre-curfew data gathered from businesses in 21 provinces in September 2020.

The highlights of this year include:

- There was no change in Orkhon province's ranking as it has come out on top of all other provinces by overall ranking with its economic strength in 3rd;
- Dornogobi province ranked 2nd in the overall ranking (3rd in the previous year) and 2nd in terms of economic strength, albeit 5-point decrease in total score.

- Darkhan-Uul province ranked 3rd in the overall ranking (it had ranked 4th in the previous year), but was ranked 10th in terms of economic strength, while its business efficiency and infrastructure scores decreased by 2 points respectively;
- Umnugobi province was ranked 4th in the overall ranking, down by 2 spots from the previous year, but still ranks 1st in terms of economic strength. Its governance efficiency score dropped significantly;
- Tuv province, which was ranked 12th in the previous year, ranked 15th in 2020 as a result of significant decline in scores. Its 23 points drop in score may need close examination;
- Khovd province improved its competitiveness by 10 points and Uvs province by 9 points that translated into highest achievements among its peers for the past year;
- Out of 21 provinces, Bulgan [21], Gobi-Altai [20] and Bayankhongor [19] have ranked the last. Governance efficiency remains the worst in these three provinces.

At a time of economic hardship and amidst the extra pressure stemming from the pandemic, the Provincial Competitiveness Report will undoubtedly be a useful guide for local development efforts. In addition to presenting the survey report in hard copy and electronically, information on each province's general and main indexes and rankings by the competitiveness criteria for each year since the inception of the launching of the survey in 2012 is available at [www.aimagindex.mn](http://www.aimagindex.mn).

It is important to understand that the competitiveness report is not a competition; rather it is a set of indicators that demonstrate the actual results of policies implemented and actions taken by authorities. From the report, it is possible to discern which indicators of provincial development are satisfactory and which are not. To collate with human body, it can be construed as a doctor's diagnosis based on test results. If the provinces understand the reality or diagnosis of their situation, they can speed up their development by choosing the right treatment or taking appropriate actions. Trying to treat without knowing such reality and diagnosis can lead to the waste of money, pointless labour and bad investment.

Taking this opportunity, I would like to thank the Asia Foundation, Konrad Adenauer Foundation, German Agency for International Cooperation, individuals and organizations for their continued support in producing the competitiveness reports.

Measure so that you can control  
 Control so that you can manage  
 Manage so that you can develop.



Tsagaan Puntsag, PhD  
 Chairman of the Board

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## STATISTICAL DATA SOURCES

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National Statistics Office

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Bank of Mongolia

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## Abbreviations

BoM	Bank of Mongolia
EPCRC	Economic Policy and Competitiveness Research Center
GDP	Gross domestic product
MNT	Mongolian Tugrug
NSO	National Statistics Office
SME	Small and medium enterprises

## IT IS TIME TO «CLEAR UP AND ASCERTAIN»

Although the Provincial Competitiveness Report mostly quantify the province’s current level of development, advantages and disadvantages, issues and opportunities, the Provincial Competitiveness Profiles section of this report presents the challenges of each province, thus providing valuable information for the provinces in improving their competitiveness. These challenges are identified through an open question “What are the five main pressing challenges that are hindering the competitiveness and the business environment of your province and what actions can the Government take regarding those?”, from the Business Executive Opinion Survey. The answers provided the ground work for addressing the challenges in a more practical manner.

While preparing Provincial Competitiveness Report for 9 consecutive years, issues with the following areas had come out the most in our reports:

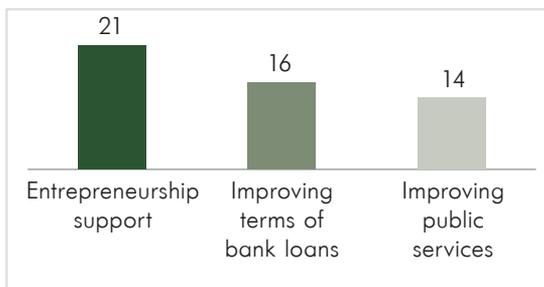
Table 1. Issues /21 provinces, 9 years/

Entrepreneurship support /public-private partnerships, flexible tax policy, environment for fair competition/
Improving public services /bureaucracy, inter-agency coordination, personnel quality, prompt action/
Infrastructure development /road quality, urban planning, energy and heating networks/
Increasing jobs

Issues in these areas are most often mentioned within western, eastern, gobi, central and khangai regions which suggests that challenges are about the same across all regions.

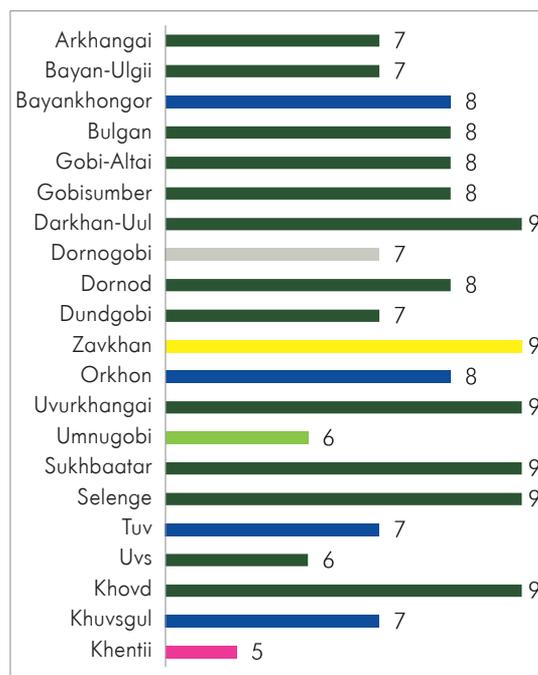
In this year’s survey, the following were identified as main issues in most provinces:

Figure 1. Main challenges and the number of provinces identified as such



Although the identification of five key challenges led to some measures taken across the years, there still remains many unresolved issues which has been holding provinces back from further development.

Figure 2. Number of years, the issue was identified as a challenge



- Entrepreneurship support /public-private partnerships, environment for fair competition/
- Improving public services /bureaucracy, inter-agency coordination, personnel quality, prompt action/
- Flexible tax policy
- Improving road quality
- Increasing jobs, transparent and fair bidding
- Improving terms of bank loans /reduction of interest rates, longer term and less collateral requirement/

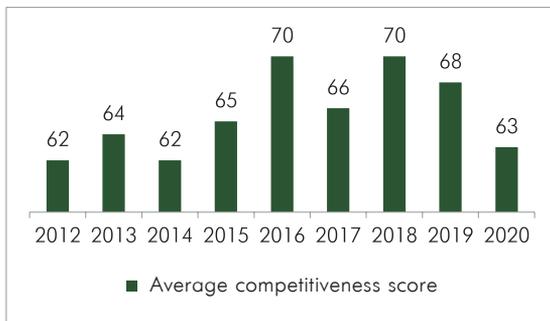
The final result of the study, which is reflected in the competitiveness scoreboard, makes it easier to measure forward and backward progresses in each province. Special attention should be paid to challenges faced by provinces, even though they are not directly involved when computing the index.

There is always a dilemma. But an opportunity opens up every time a problem is solved.

Highlights of 2020 Report:

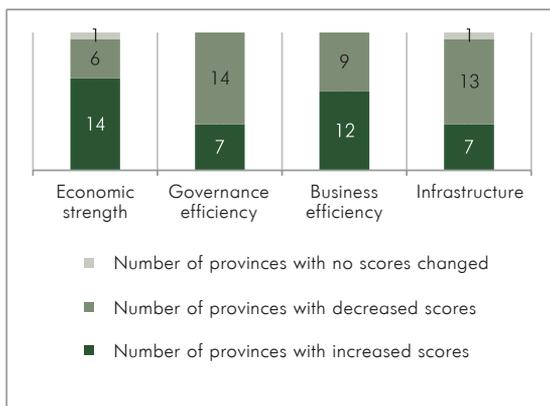
The overall competitiveness score of provinces averaged 63, down by 5 points from last year.

Figure 3. Average competitiveness score of provinces



Out of the four main groups of competitiveness indicators, the average score of the economic performance and business efficiency groups increased, while the average score of the government efficiency and infrastructure groups decreased.

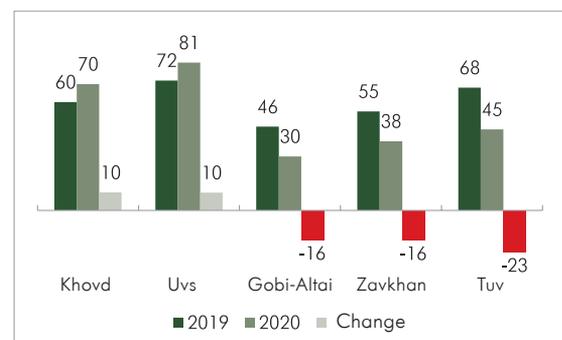
Figure 4. Number of provinces where the scores for main 4 competitiveness groups changed



Orkhon, Dornogobi, Darkhan-Uul and Umnugobi provinces were ranked in the top four last year in terms of overall competitiveness. However, Umnugobi province moved down to the 4th ranking by receding 2 spots, Dornogobi and Darkhan-Uul provinces moved up to the 2nd and 3rd respectively, while Orkhon province kept its 1st place. Bayankhongor, Gobi-Altai and Bulgan were ranked in the bottom three.

According to this year's report, the overall competitiveness scores of 7 out of 21 provinces have increased from last year, while the score of 13 provinces have decreased and the score of 1 province has not changed.

Figure 5. Provinces with significant changes of overall competitiveness scores



Khovd and Uvs provinces in the western region improved their competitiveness scores the most, while Gobi-Altai, Zavkhan and Tuv provinces in the region decreased the most.

Improved business efficiency and infrastructure have mostly contributed to the increased competitiveness of Khovd and Uvs provinces. Decreased infrastructure and labour market indicators in Zavkhan province, governance and technology infrastructure indicators in Tuv province, and governance and economic indicators in Gobi-Altai province have mostly contributed to the decline in competitiveness scores.

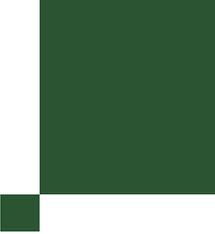
Revised law

The Law on Administrative and Territorial Units and Their Management (revised version) was approved on December 24, 2020. After years of discussion, this revised law transferred the power to local administration. Power meant here includes budget, property, and personnel, and

the revisions will take effect on January 1, 2022. Many other laws will need to be amended as a result.

It is hoped that these changes will create inclusive growth for local communities. It should be understood also that as power increases, so should responsibility.

The most important thing is to develop and implement appropriate policies to support our business community.



# PRINCIPLES OF ANALYSIS AND METHODOLOGY

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## THE PURPOSE AND IMPORTANCE OF THE RESEARCH

The purpose of the 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 improvements 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 rural areas. Also, the report makes it possible for the provincial administrators to estimate the results of their implemented policies, to make comparison 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 176 criteria.
4. Of all the 176 to measure competitiveness, 102 on hard data whereas 74 rely on executive opinion survey. Of the hard data, 34 criteria or 19% are informative criteria intended to give general information but not used in computing the competitiveness.
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 based on mean standardized 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

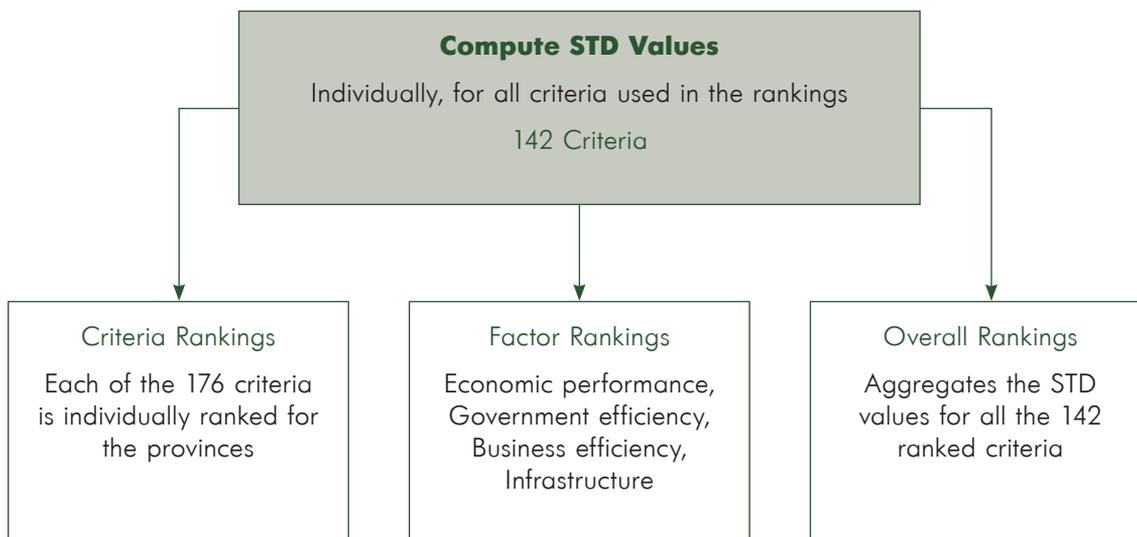
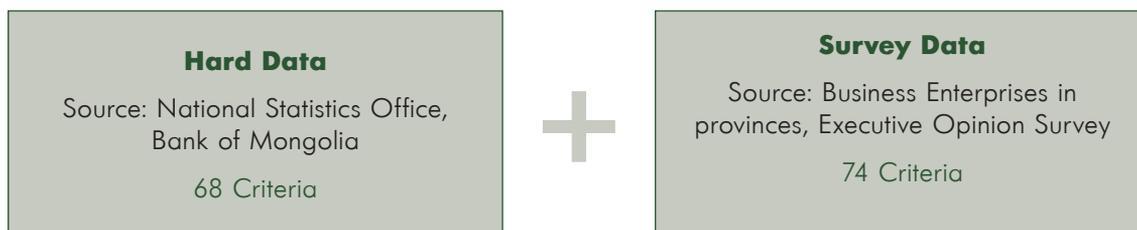
$STD_{min}(x)$  - minimum value of the standardized value of the criteria

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

## Factors and sub-factors

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

## Computing the Rankings



## HOW TO USE THE PROVINCIAL COMPETITIVENESS REPORT?

Provincial competitiveness scoreboard is divided into the following sections:

### 1. Provincial Competitiveness Scoreboard (pages 19-30)

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 31-116)

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

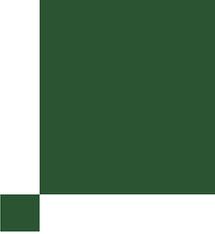
Moreover, 10 strengths and 10 weaknesses by four competitiveness factors (Economic Performance, Government Efficiency, Business Efficiency and Infrastructure) are highlighted. It is important to determine competitiveness strengths and weaknesses as they play a vital role in the current provincial economic 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 of last 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 176 ranked criteria affecting competitiveness.

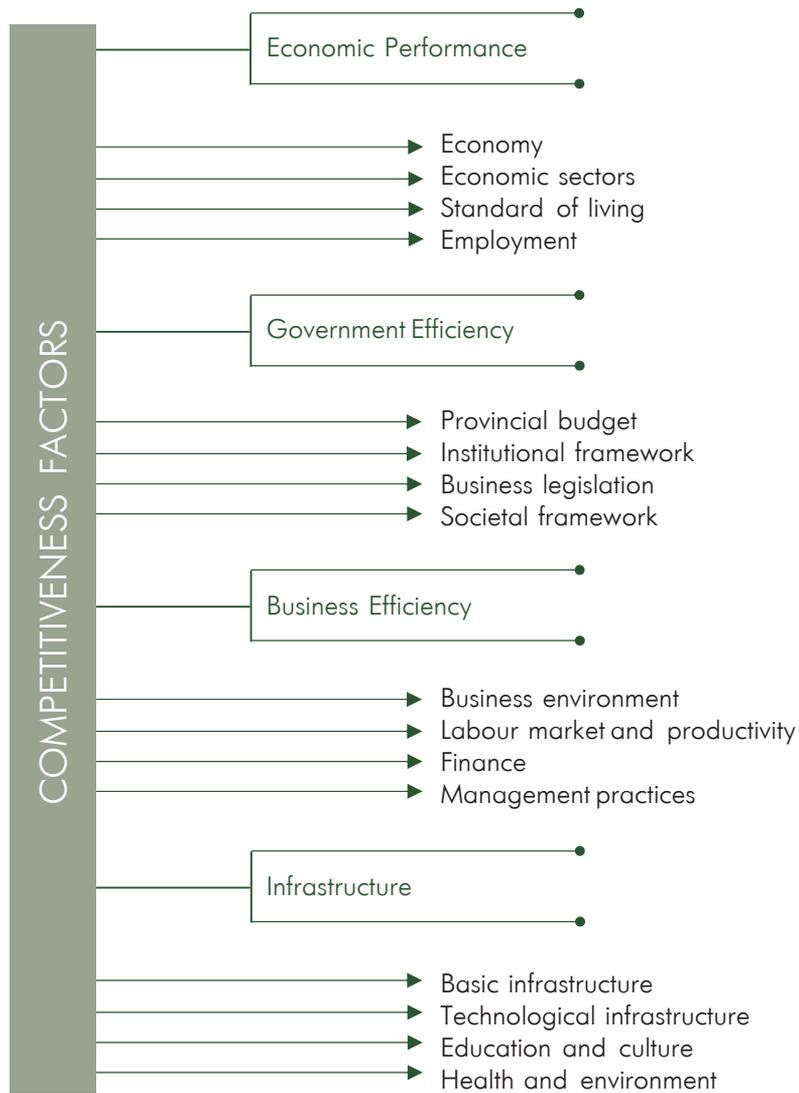




# PROVINCIAL COMPETITIVENESS SCOREBOARD

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## Competitiveness factors



## Overall competitiveness scoreboard 2020

