MONGOLIA:
PROVINCIAL COMPETITIVENESS REPORT
2021

(based on the Statistics of 2020)

www.aimagindex.mn

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ECONOMIC POLICY AND COMPETITIVENESS RESEARCH CENTER

KONRAD ADENAUER STIFTUNG

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THE PROVINCIAL COMPETITIVENESS REPORT

ULAANBAATAR
2021

ECONOMIC POLICY AND COMPETITIVENESS RESEARCH CENTER

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FOREWORD

Greetings to you on this day!

When the COVID-19 pandemic broke out across the world in 2020, no one could have imagined that it would last for so long, devastating to humanity and spawning so much damage. For the third year in a row, we are facing a need to adapt to the ongoing pandemic.

Despite the difficult times with the pandemic and lockdown, we are very pleased to present our annual Provincial Competitiveness Report 2021. The Provincial Competitiveness Report features an executive opinion survey of the businesses most affected by the pandemic, namely those operating in the 21 provinces. It is worth noting that we have not made any changes to this survey, as there is an adequate number of studies on the impact of the pandemic on businesses.

The survey results show significant changes in 2021 from the results of the year before. Since the first Provincial Competitiveness Report, Orkhon province has continually led the overall competitiveness rankings every year, but this year Dornogobi province is ranked 1st for the first time. Dornogobi was ranked 2nd in 2020 and 3rd in 2019. Improvement in investment and infrastructure contributed the most in Dornogobi's advancement this year. Congratulations to the citizens of Dornogobi! In contrast, Orkhon province is ranked 2nd, Darkhan-Uul province is ranked 3rd with Umnugobi province at 4th, Gobisumber province at 5th and Selenge province at 6th. On the other end, Bulgan province is ranked 21st with the lowest competitiveness score with Zavkhan province at 20th, Dundgobi province at 19th, Gobi-Altai province at 18th, and Bayankhongor province at 17th.

This year, as the pandemic worsened, the closing of the country's main border-crossing disrupted the supply of goods and created shortages in the market. Although the discussions about diversifying our economy has taken place for a long time, we are still very dependent on imports. With the economy so fragile, there is a need to develop our domestic production and support small and medium enterprises more than ever. As the private sector and small and medium enterprises create many jobs, they make an invaluable contribution to local development. These hard times of the pandemic and economic difficulties can serve as proof of our ability to overcome any challenge with effective public-private partnerships and proper management and organization.

The full text of our annual competitiveness report in addition to information on each of the province's overall and competitiveness factor indices and rankings by the competitiveness criteria are available in Mongolian and English at www.aimagindex.mn.

We would like to express our sincere gratitude to the Asia Foundation, the Konrad Adenauer Foundation, and other organizations and individuals for their continued support and contribution in producing the Provincial Competitiveness Report.

I am glad that our report is serving as an important guide for the development of the provinces, the local community and Mongolia.

Sincerely,

TSAGAAN Puntsag, Ph.D

Chairman of the Board

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National Statistics Office

Bank of Mongolia

CONTENTS

ABBREVIATIONS 9
CHALLENGES AND OPPORTUNITIES 10
PRINCIPLES OF ANALYSIS AND METHODOLOGY 13
PROVINCIAL COMPETITIVENESS SCOREBOARD 19
Competitiveness factors 20
Overall competitiveness scoreboard 2021 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
MULTI-DIMENSIONAL ENVIRONMENTAL VULNERABILITY INDICATOR 177
ANNEXES 187
The fundamentals of competitiveness 188
Data sources and notes 190

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
MNT	Mongolian National Tugrug (currency)
NSO	National Statistics Office
SME	Small and Medium Enterprises

CHALLENGES AND OPPORTUNITIES

Creating a favorable business environment, supporting enterprises, and developing environmentally friendly technologies

Development and competitiveness of a nation is directly linked to its local developments. The annual "Provincial Competitiveness Report" provides an overview of the competitiveness evolution and the current level of development of each province.

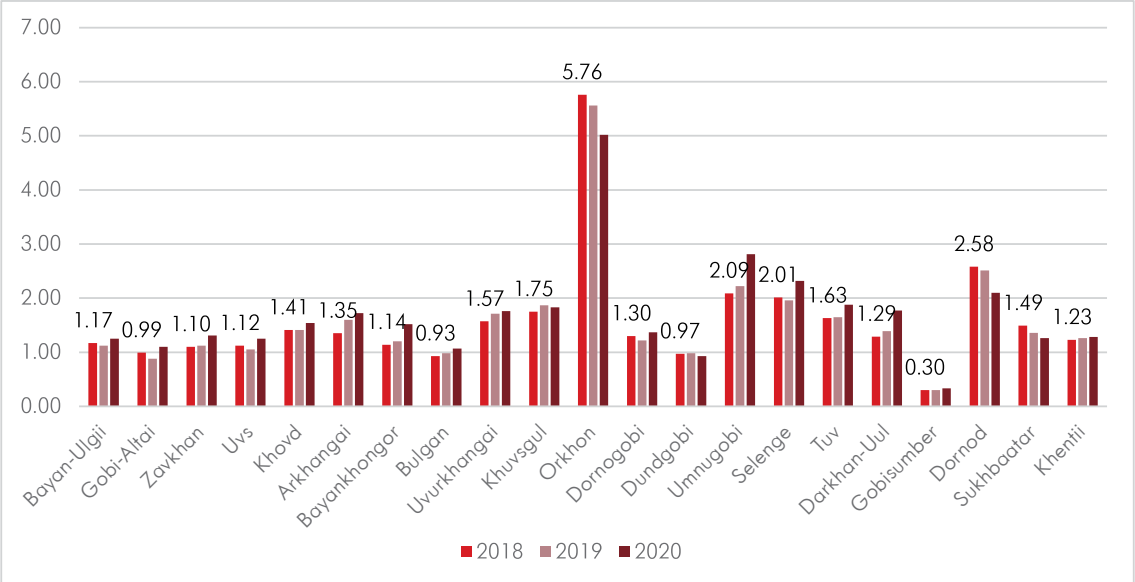
An integral part of local development is decentralization and the transfer of certain powers to local governments. The government is in the process of transferring power to local governments in stages. For example, in accordance with the revised Law on Administrative and Territorial Units and their Governance and amendments to the Budget Law of Mongolia, 40 percent of corporate income tax revenue from the 2022 state budget will be transferred to the provincial and the capital city budgets. This gives an incentive for the provincial administrations to support local businesses and create a favorable business environment as it would also increase their budget. Creating a favorable business environment, in turn, can also attract foreign investment.

Moreover, green economy has also become increasingly important around the world, and the process has intensified due to the pandemic. It is possible to build an immune economy if we can overcome the difficult times of the pandemic and seize the opportunities. Therefore, the insights into the "Provincial Competitiveness Report 2021" provides an opportunity for each province to evaluate its declines and improvements, and in the coming year, to consolidate, correct, and improve the achievements of the past year.

Snapshot of the key findings

In the last three years of 2018-2020, the contribution of provinces to Mongolia's GDP has not changed significantly. Figure1 shows that Orkhon province contributed 5.76% in 2018, 5.56% in 2019 and 5.02% in 2020. Umnugobi province contributed 2.09% in 2018, 2.22% in 2019, and 2.81% in 2020, respectively.

Figure 1. Contribution of 21 provinces to GDP in percentage /Source: NSO/



In terms of the economic sectors of 21 provinces, industrial and construction sectors are more developed in Orkhon, Dornod and Darkhan-Uul provinces, and agricultural sector is more developed in Tuv, Arkhangai and Bulgan provinces. The services sector is more developed in Dornogobi, Gobi-Sumber and Darkhan-Uul provinces.

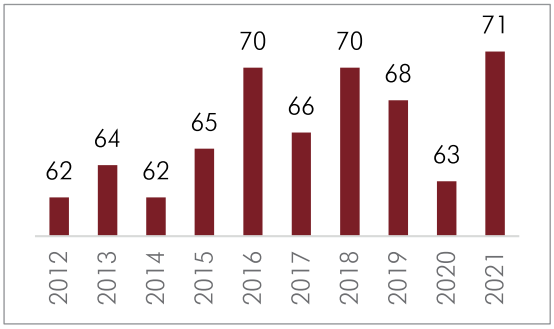
Table1. Share of economic sectors in GDP in percentage (1.2.01)

	Agricul-ture	Industry and cons-truction	Services
Arkhangai	58	21	22
Bayan-Ulgii	46	14	39
Bayankhongor	53	20	27
Bulgan	57	18	25
Gobi-Altai	54	19	27
Gobisumber	24	27	50
Darkhan-Uul	9	50	41
Dornogobi	32	16	52
Dornod	28	51	21
Dundgobi	54	19	27
Zavkhan	52	16	31
Orkhon	1	86	13
Uvurkhangai	47	23	31
Umnugobi	21	45	34
Sukhbaatar	43	34	22
Selenge	27	47	26
Tuv	61	16	23
Uvs	51	16	34
Khovd	39	31	29
Khuvsgul	50	20	30
Khentii	53	18	28

Findings from the 2021 report

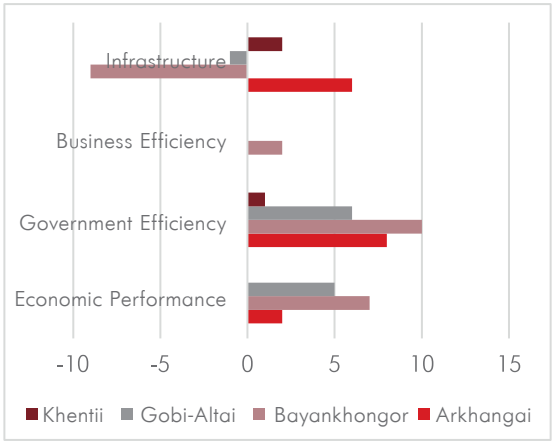
The average overall competitiveness score of the provinces increased by 8 points from 63 in 2020 to 71 in 2021.

Figure 2. Average overall competitiveness score of the provinces /Over the last 10 years/



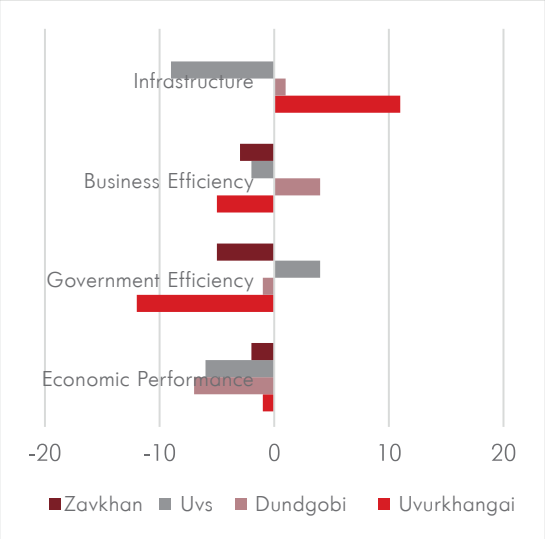
According to this year's report, the most competitive provinces are Orkhon, Darkhan-Uul, Umnugobi, and Dornogobi. Since the first Provincial Competitiveness Report, Orkhon province has led the overall competitiveness ranking, but this year Dornogobi province is ranked first and Orkhon came in second. The increase in infrastructure ranking by six places contributed the most to Dornogobi's improvement this year. Furthermore, Khentii province has moved up four places this year, while Arkhangai, Bayankhongor, and Gobi-Altai provinces have moved up two places each. These provinces have improved their competitiveness scores by increasing their government efficiency, one of the four main competitiveness factors.

Figure 3. Changes in the rankings of the four main competitiveness factors of the provinces with the highest overall improvement



In 2021 compared to the previous year, the overall competitiveness rankings of Uvurkhangai, Dundgobi, and Uvs provinces fell by 3 places while Zavkhan's overall competitiveness ranking fell by 2 places.

Figure 4. Changes in the rankings of the four main groups of competitiveness of the provinces with the lowest overall scores and positions



This was mainly due to a decline in rankings of Uvurkhangai province's government efficiency by 12 places, Uvs province's infrastructure by 9 places, Dundgobi's economic performance by 7 places, and Zavkhan's governance efficiency by 5 places.

Compared to the previous year, 7 provinces have improved their overall competitiveness rankings while 6 provinces have remained at the same ranking and 8 provinces have decrease in rankings.

Decentralization process

When it comes to provincial development, there are many issues to discuss. The most common of these are limited public funding, overlapping of functions between provincial governments and provincial administrative units and centralized funding. It also includes issues such as improving the structure and organization of government organizations and the retention of human resources.

Therefore, there is an urgent need to make the necessary changes to other legislations in connection to the revised the Law on Administrative and Territorial Units and their Governance.

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 drags 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, it makes for provincial administrators it possible 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. Althogether, the provincial competitiveness ranking features 16 such sub-factors.
3. These 16 sub-factors comprise 175 criteria.
4. Of all the 175 to measure competitivenss, 101 on hard data whereas 74 rely on executive opinion survey. Of the hard data, 34 criteria or 33.7% 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 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	• Economy • Economic Sectors • Standard of Living • Employment	• Provincial Budget • Institutional Framework • Business Legislation • Societal Framework	• Business Environment • Labour Market Productivity • Finance • Management Practices	• Basic Infrastructure • Technological Infrastructure • Education and Culture • Health and Environment

Computing the Rankings

Hard Data

Source: National Statistics Office, Bank of Mongolia

67 Criteria

+

Survey Data

Source: Business Enterprises in provinces, Executive Opinion Survey

74 Criteria

Compute STD Values

Individually, for all criteria used in the rankings

141 Criteria

Criteria Rankings

Each of the 175 criteria is individually ranked for the provinces

Factor Rankings

Economic performance, Government efficiency, Business efficiency, Infrastructure

Overall Rankings

Aggregates the STD values for all the 141 ranked criteria

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 31-115)

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.

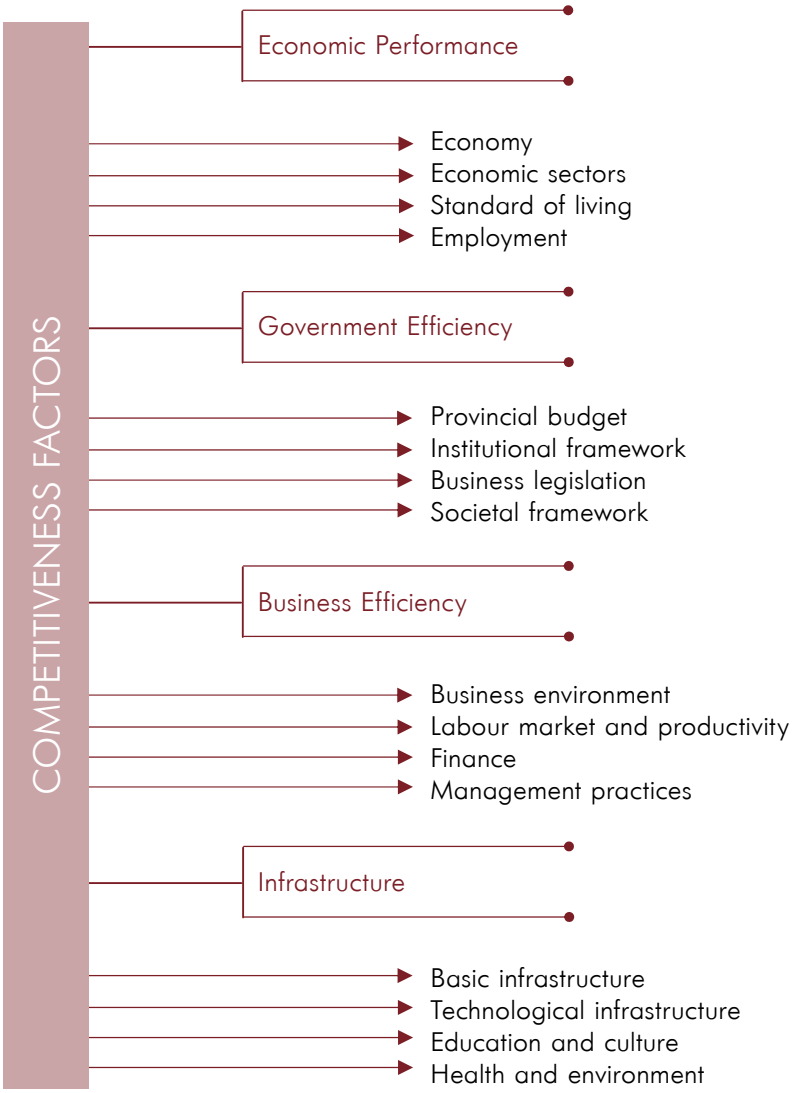
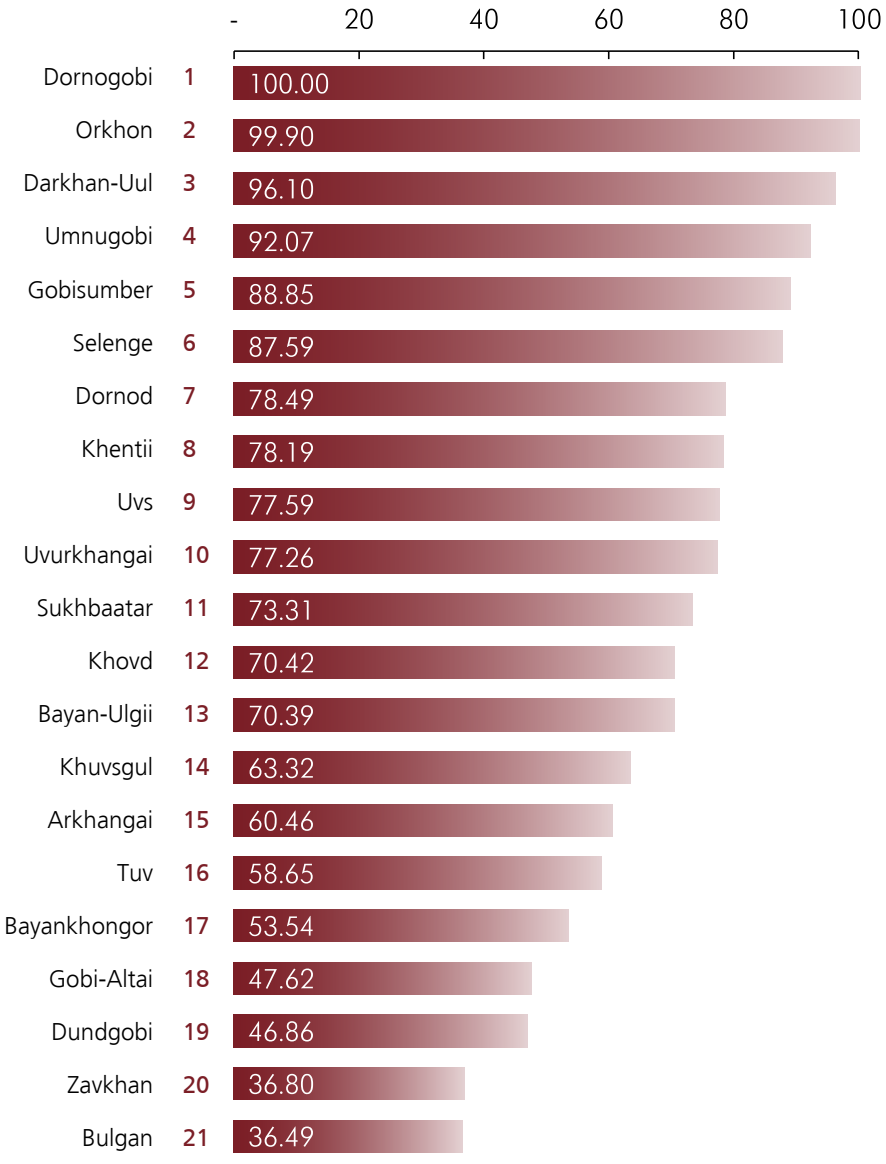
In addition to comparing competitiveness of different provinces, this report also provides 25 improvements and 25 decreases in comparisons of last and this year's indicators for each of the provinces.

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 175 ranked criteria affecting competitiveness.

PROVINCIAL COMPETITIVENESS SCOREBOARD

Competitiveness factors



Overall competitiveness scoreboard 2021