



# Mongolia Country Strategy 2022-2027

Approved by the Board of Directors on 19 October 2022



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## Glossary of Key Terms

<b>ABI</b>	Annual Bank Investment	<b>IPO</b>	Initial Public Offering
<b>ASB</b>	Advice for Small Businesses	<b>LCY</b>	Local currency
<b>ATQ</b>	Assessment of Transition Qualities	<b>MDDC</b>	Ministry of Digital Development and Communication
<b>CA</b>	Central Asia	<b>MED</b>	Ministry of Economy and Development
<b>CoO</b>	Country of Operation	<b>MFI</b>	Monetary Financial Institution
<b>CPI</b>	Consumer Price Index	<b>MMHI</b>	Ministry of Mining and Heavy Industry
<b>E&amp;S</b>	Environmental and Social	<b>M&amp;S</b>	Manufacturing and Services
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>NDC</b>	Nationally Determined Contributions
<b>EITI</b>	Extractive Industries Transparency Initiative	<b>NPL</b>	Non-Performing Loan
<b>ESG</b>	Environmental, Social and Governance	<b>ODA</b>	Official Development Assistance
<b>ESMS</b>	Environmental and Social Management System	<b>OT</b>	Oyu Tolgoi
<b>ESIA</b>	Environmental and Social Impact Assessment	<b>PFI</b>	Partner Financial Institution
<b>ESP</b>	Environmental and Social Policy	<b>PPP</b>	Public Private Partnership
<b>ETI</b>	Expected Transition Impact	<b>PTI</b>	Portfolio Transition Impact
<b>EU</b>	European Union	<b>RE</b>	Renewable Energy
<b>FDI</b>	Foreign Direct Investment	<b>SME</b>	Small and Medium sized Enterprise
<b>FI</b>	Financial Institution	<b>SOE</b>	State Owned Enterprise
<b>GCAP</b>	Green Cities Action Plan	<b>TA</b>	Technical Assistance
<b>GDP</b>	Gross Domestic Product	<b>TC</b>	Technical Cooperation
<b>GEFF</b>	Green Economy Financing Facility	<b>TFP</b>	Trade Facilitation Programme
<b>GET</b>	Green Economy Transition	<b>TMT</b>	Telecommunications, Media and Technology
<b>GHG</b>	Greenhouse gas	<b>TPES</b>	Total primary energy supply
<b>H&amp;S</b>	Health and Safety	<b>TVET</b>	Technical & Vocational Education and Training
<b>ICA</b>	Industry, Commerce and Agribusiness	<b>UB</b>	Ulaanbaatar
<b>ICT</b>	Information and Communications Technology	<b>WDI</b>	World Development Indicators
<b>IEA</b>	International Energy Agency	<b>WEF</b>	World Economic Forum
<b>IFI</b>	International Financial Institutions	<b>WEO</b>	World Economic Outlook
<b>ILO</b>	International Labour Organisation	<b>WB</b>	World Bank
<b>IMF</b>	International Monetary Fund	<b>WiB</b>	Women in Business programme

During the period since the last Country Strategy, Mongolia has continued to be committed to and apply the principles of Article 1 as set out in the Agreement Establishing the Bank. The 1992 Constitution embodies the principles of the democratic revolution of 1990 and proclaims as its supreme objective “building a human, civil and democratic society.” These foundations were further enhanced in November 2019 when the Constitution was amended to strengthen the separation of powers and judicial independence.

Over the past decade Mongolia was one of the fastest growing economies in the world, with an average annual growth of 7.8 per cent during 2010-2019, driven mainly by the mining sector. Like many countries, the economy contracted during the COVID-19 pandemic, with export volumes falling significantly, although these were offset somewhat by favourable prices for key commodities (namely coal and copper). Mongolia’s economic stability nonetheless remains precarious, as it faces higher inflationary pressures related to food prices, partial closures of borders to China impacting mineral exports and the need to re-route many of its imports away from Russia in light of Russia’s war on Ukraine and its consequences. Elevated public debt also remains a serious concern, with extensive stimulus measures in response to the pandemic worsening the country’s fiscal stance.

Since the last country strategy, Mongolia has continued to enact key reforms, including a number of measures to further diversify the economy, promote regional development and green growth and increase resilience as part of its Long-Term Development Policy Vision 2050 and the recently approved New Recovery Policy. The comprehensive stimulus package instituted by the Government in response to the pandemic helped stabilise the economy, provided crucial liquidity and eased pressure on the banking sector. In addition, in early 2022 a resolution was reached with Rio Tinto over the Oyu Tolgoi mine, which should improve the investment climate going forward.

Yet despite these proactive measures, significant transition gaps remain. The economy is still heavily concentrated in extractive industries, accounting for roughly 20 per cent of GDP and with nearly 90 per cent of raw mineral exports going to China, exposing economic growth to global commodity price volatility and cyclical boom/bust fluctuations. Limited budget resources have also failed to meet high investment needs in transport infrastructure, which in turn have negatively impacted logistics performance and trade. Large gaps also persist in the energy, ICT and agriculture sectors, with an aging, inefficient power system largely reliant on coal and imports from Russia, limited country-wide digital infrastructure and connectivity, and extensive, resource-intensive agricultural practices. Increasing climate vulnerabilities are also driving uncontrolled urban migration – notably to Ulaanbaatar – further straining municipal resources and intensifying inclusion challenges throughout the country.

Although the mining sector will continue to be the dominant driver of the Mongolian economy going forward, the Bank can help the country weather the associated cyclicity by continuing to support economic diversification, including through a stronger, more resilient financial sector and expanded use of local currency finance. It will also work to advance the connectivity agenda notwithstanding potential fiscal and geopolitical constraints, including stronger internal transport, energy and digital links, which can also enhance regional inclusion. Finally, the Bank’s support for responsible mining will not only help improve the environmental sustainability of the sector but may also contribute directly to green transition through production of critical raw materials needed for cutting edge technologies in line with Mongolia’s overall vision for greener growth. Mongolia

has signed on to ambitious NDC targets, and the Bank can help it address these serious challenges in conjunction with international partners and the private sector.

With that in mind, the Bank is set to pursue the following strategic priorities in Mongolia in 2022-2027:

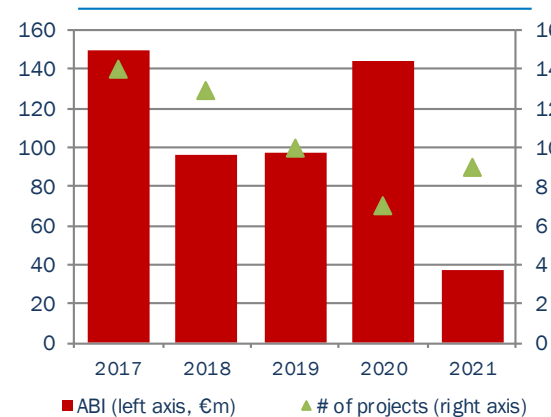
- *Enhancing Mongolia's resilience through a stronger, more diversified and stable private sector;*
- *Strengthening connectivity and regional integration to support growth and enhance inclusion; and*
- *Promoting a greener, more climate resilient economy through sustainable energy, infrastructure and mining.*

# Mongolia - EBRD Snapshot

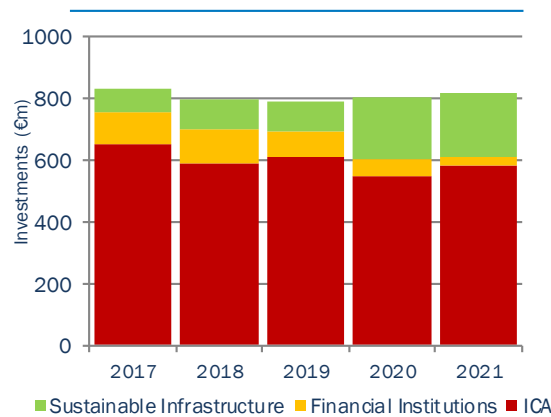
## EBRD Investment Activities (as of August 2022)

Portfolio	€879m	Active projects	45
Equity share	5%	Operating assets	€734m
Private sector share <sup>1</sup>	74.4%	Net cum. investment	€2,222m

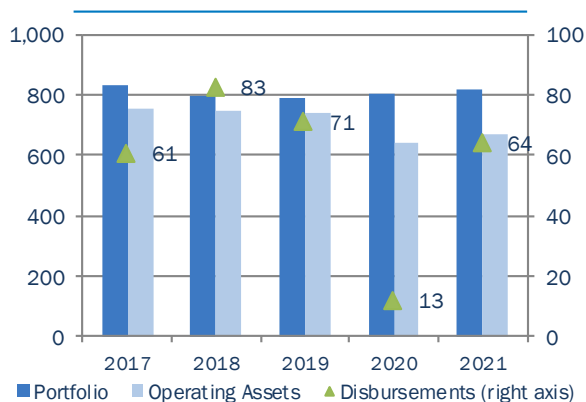
## ABI and Operations



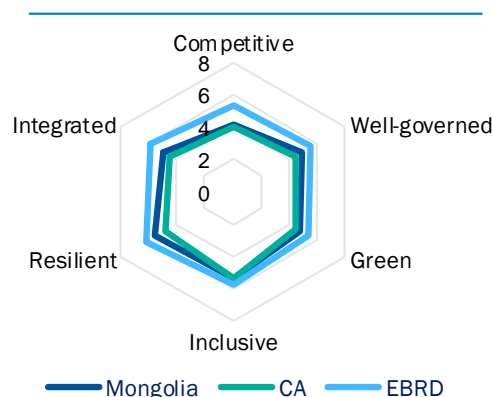
## Portfolio Composition



## Portfolio Dynamics



## Transition Gaps<sup>2</sup>



## Mongolia Context Figures

	Mongolia	Comparators
Population (million) (2021)	3.4	Kazakhstan (19.1) Kyrgyz Republic (6.7) Uzbekistan (35.2)
GDP per capita (PPP, USD) <sup>3</sup> (2021)	12,862.7	Kazakhstan (28,600) Kyrgyz Republic (5,287.8) Uzbekistan (8,497.4)
WEF Global Competitiveness Index (2019) (out of 141 economies)	102nd	Kazakhstan (55th) Kyrgyz Republic (96th) Uzbekistan (NA)
Unemployment (% ILO est) <sup>4</sup> (2021)	7.1	Kazakhstan (4.9) Kyrgyz Republic (9.1) Uzbekistan (7.2)
Youth unemployment (% ILO est.) <sup>4</sup> (2021)	21	Kazakhstan (3.7) Kyrgyz Republic (19.3) Uzbekistan (15.9)
Female labour force participation (% ILO est.) <sup>4</sup> (2020)	51.5	Kazakhstan (63.6) Kyrgyz Republic (41.6) Uzbekistan (44.8)
Energy intensity (TES/GDP) <sup>5</sup> (2018)	7.2	Kazakhstan (6.6) Kyrgyz Republic (5.7) Uzbekistan (8.1)
Emission intensity/GDP (kgCO <sub>2</sub> /2015\$) <sup>5</sup> (2019)	1.6	Kazakhstan (1) Kyrgyz Republic (1.2) Uzbekistan (1.1)

<sup>1</sup> Cumulative Bank Investment: 5 year rolling basis on portfolio. <sup>2</sup> Cf. EBRD Transition Report 2021-2022. <sup>3</sup> World Bank WDI <sup>4</sup> International Labour Organisation (estimates). <sup>5</sup> IEA's Energy Atlas.

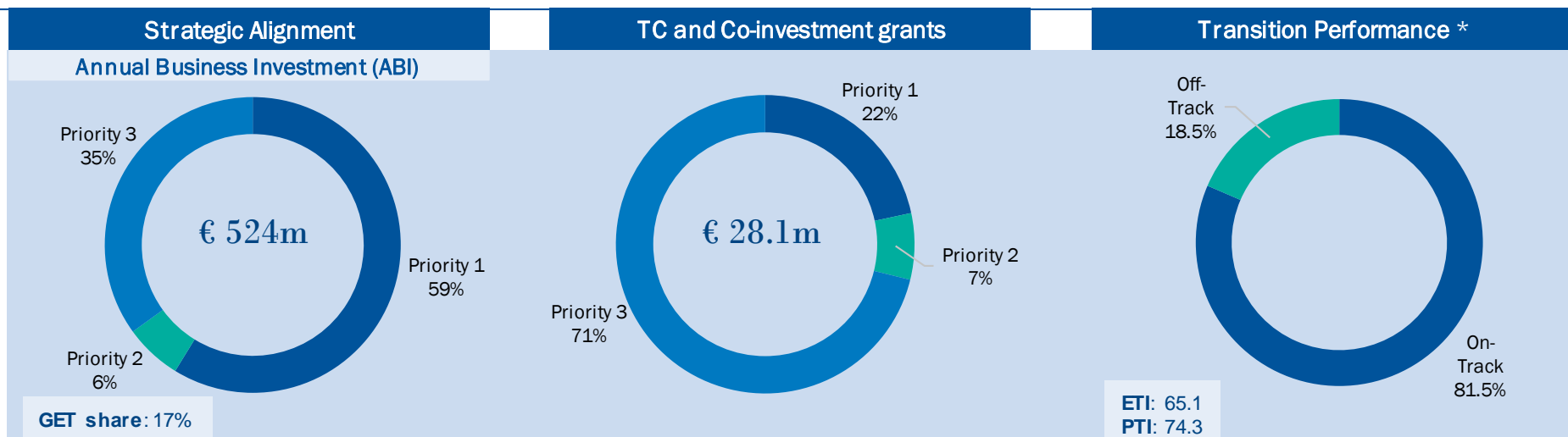


# 1. Implementation of Previous Strategy (2017-2021)



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## 1.1. Key Transition Results



### Priority 1: Enhancing Mongolia's resilience by strengthening the competitiveness of the non-extractive sector and easing access to finance



\* Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.

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# 1. Implementation of Previous Strategy (2017-2021)



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## 1.1. Key Transition Results

### Priority 2: Leveraging a well-governed mining sector to enhance sustainability and maximise value creation

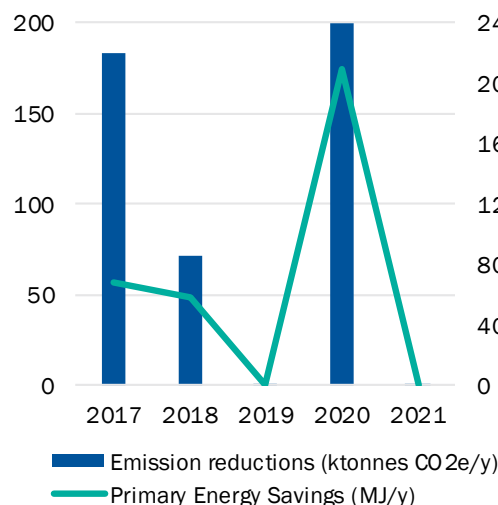


#### Key Transition Results

- Supported local logistic companies, equipment suppliers and SME service providers to the mining sector through advisory, direct financing, and the VCF credit line with Khan Bank (€13.8m).
- Provided a €8m guarantee for the first local currency transaction under RSF with Khan Bank to support the Mongolian company Wagner Asia Equipment, supplier of heavy machinery to the mining sector, to finance working capital needs and manage its exposure to local currency fluctuations.
- Financed with a €4.3m convertible loan Erdenet Resource Development Corporation, a gold mining company, to implement pre-development studies for the production from two gold deposits.
- Engaged in multiple policy initiatives with MMHI, IFIs and private sector, including (i) signing of an MoU to strengthen the legal and institutional framework of the mining sector, (ii) review of Sovereign Wealth Fund Law to ensure proper use of the mining sector proceeds by the Government and, (iii) launch of a benchmark study to identify impediments to mining sector foreign investments and levers for improvements.
- Continued policy dialogue with the Government and Oyu Tolgoi to increase FDI attractiveness for the mining sector, including signing of MoU setting the grounds for TC projects aimed at improving the investment climate in the country.
- Provided TA to the develop National Geoscience Database to improve further transparency in the mining sector and attract investments.

### Priority 3: Improving the quality and sustainability of infrastructure services through increased efficiency, commercialisation and “green” solutions

#### GET



#### Key Transition Results

- Invested €26m for the construction of 55MW Sainshand wind farm, the third wind energy project developed in Mongolia, with estimated CO2 emission reductions of 200,000t/year.
- Provided TA to develop a competitive tender for renewable energy and carried out a feasibility study to assess grid capacity for increase of use of renewables in the energy supply.
- Invested €8.5m for the construction of a new landfill and waste recycling facility in Ulaanbaatar, accompanied by TA to develop a road map for institutional reform in the solid waste sector.
- Financed the rehabilitation and modernization of the district heating sector in Ulaanbaatar (€8.2m) to improve energy efficiency and reduce CO2 emissions.
- Launched the Green Cities Initiative in UB, with GCAP adopted by the Ulaanbaatar City Council in 2019 to guide infrastructure development.
- Signed Erdenet Climate Resilience Project (€6.2m) to support implementation of modern flood-protection measures and improvements of the water supply system.
- Provided €112.7m to expand the Ulaanbaatar-Darkhan road project, connecting the capital to the third largest city in Mongolia, increasing road safety and improving road financing approaches.
- Under MonSEFF, provided two energy efficiency loans (€4.3m) to Khan Bank for the financing of sustainable energy projects in Mongolia.

# 1. Implementation of Previous Strategy (2017-2021)



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## 1.2. Implementation Challenges and Key Lessons

### Context for Implementation

Since the last country strategy, Mongolia has continued to enact key reforms, including important constitutional amendments in 2019 and a number of measures to further diversify the economy and increase resilience as part of Vision 2050 and the New Recovery Policy. To offset the heavy toll of the pandemic, the Government instituted a comprehensive stimulus package to stabilise the economy, provide crucial liquidity and ease pressure on the banking sector. In early 2022 a resolution was also reached with Rio Tinto over the Oyu Tolgoi mine, which should improve the investment climate going forward. Yet despite these measures, significant transition gaps remain. The economy is still heavily concentrated in extractive industries, with nearly 90% of raw mineral exports going to China, exposing economic growth to global commodity price volatility and cyclical boom/bust fluctuations. Limited budget resources have also failed to meet high investment needs in transport infrastructure, which in turn have negatively impacted logistics performance and trade. Large gaps also persist in the energy, ICT and agriculture sectors, including an aging, inefficient power system largely reliant on coal and imports from Russia, limited digital connectivity and extensive, resource-intensive agricultural practices. Increasing climate vulnerabilities are also driving uncontrolled urban migration, further straining municipal resources and intensifying inclusion challenges throughout the country. Although the mining sector will continue to be the primary driver of the economy, the Bank can help Mongolia weather the associated cyclicalities through further diversification, strengthened connectivity and regional integration and an accelerated green transition.

#### Implementation Challenges

- Highly concentrated banking sector and strict collateral requirements, accompanied by uncertain implementation of banking sector reforms, have limited lending, particularly to SMEs
- Frequent changes of government and policy inconsistency has delayed projects in the energy and infrastructure sectors and deterred foreign investment
- Lack of PPP projects, coupled with limited sovereign borrowing capacity, has led to substantial investment gaps, especially in infrastructure
- Uncertainties induced by curtailments and PPA re-negotiations have further complicated renewable energy projects
- Small size of the corporate sector, with many EBRD clients being SMEs, creates operational challenges to service cost-effectively and limits impact of economic diversification vis-à-vis the large extractives sector

#### Key Lessons & Way Forward

- Expand use of Risk Sharing Facility Framework as well as Financial Intermediaries Framework and continue policy engagement with the Government and Bank of Mongolia to finalise banking sector reforms
- Seek to capitalise on current political stability and leverage existing relationship with the authorities to maximize technical cooperation and investments in strategic sectors according to Government policies such as the New Recovery Policy and Vision 2050
- Renewed government commitment to PPPs and new PPP legislation may enable implementation of projects and activities (especially internal) envisaged under the New Recovery Policy action plan
- Continue dialogue with the government on renewable energy and enhance cooperation with the authorities and IFIs to facilitate resolution of curtailment issue and competitive tenders for new renewable energy projects
- Look to expand network of partner banks, NBFIs and explore new Fintech solutions to increase outreach to SMEs with high growth potential



## 2. Economic Context



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### 2.1 . Macroeconomic Context and Outlook for Strategy Period

#### Mongolia - Main Macroeconomic Indicators

	2018	2019	2020	2021
GDP growth (% y-o-y)	6.9	5.6	-4.6	1.4
CPI inflation (% avg.)	6.8	7.3	3.7	7.1
Government balance (% of GDP)	2.9	0.9	-9.4	-3.1
Current account balance (% of GDP)	-16.7	-15.2	-5.1	-13.0
Net FDI (% of GDP) <i>[minus indicates inflow]</i>	-14.9	-17.6	-8.0	-14.0*
External debt stocks (% of GNI)	249.4	250.5	275.8	N/A
Gross reserves (% of GDP)	27.1	31.4	28.9	28.9
General government gross debt (% of GDP)	88.2	78.5	91.3	94.7
Unemployment rate (%)	7.8	10.0	7.0	6.3
Nominal GDP (\$bn)	13.1	14.2	13.3	15.1

- **Between 2010 and 2019, Mongolia was one of the fastest growing economies in the world**, with an average annual growth of 7.8%, mainly driven by the mining sector (both directly and indirectly through the multiplier effect). The rapid expansion of the Chinese economy in the early to mid-2000s led to a sharp increase in global prices of commodities, such as copper, coking coal and iron ore, in turn triggering a rapid increase in Mongolia's FDI and exports.
- **Due to the pandemic, the economy contracted by 5.3% in 2020**. Mining, wholesale and retail trade and transportation were the hardest hit, contributing -2.0%, -1.3% and -1.5% to the recession, respectively. The only sector showing growth in 2020 was agriculture.
- **In 2021, Mongolia continued to face epidemiological and border-restrictions, which led to a significant drop in export volumes**. Nevertheless, amid favourable prices for key export commodities (coal, copper), Mongolia record high export revenues, which enabled a modest economic recovery of 1.4%.
- **The country is highly indebted and its short-term liquidity situation remains tight**. Yet, improved tax collection and fiscal consolidation measures brought the budget deficit to 3.1% of GDP in 2021 from 9.4% of GDP in 2020. Risks associated with Mongolia's external indebtedness are mitigated by a large concessional component and the prospect of export revenues increasing in future years, which helps generate strong market demand for its debt. By reaching agreement with Rio Tinto, the government paved the way for expansion works to begin at the OT underground site, alleviating risks to future FDI flows and leading to increased production in 2023.
- **A moderate recovery in 2021 is expected to be followed by a further rebound in 2022**. Russia's war on Ukraine did not directly affect Mongolia other than through elevated food and fuel prices, and temporary difficulties associated with payments to Russian banks and finding alternative suppliers for goods traditionally distributed through Russia-based hubs and/or transported through Russia. That said, trade logistics remain challenging. The number of containers stuck at China's Tianjin seaport has dropped, but significant bottlenecks have emerged in Ulaanbaatar and Mongolian border ports. However, the outlook for 2023 may improve if tourism activities fully recover, along with continued investment in the Tavan Tolgoi and OT mining projects, as well as public investment in railway, oil processing and other pieces of critical infrastructure.

Source: National authorities, IMF

\* Some of the 2021 indicators are preliminary or based on IMF estimates.

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## 2. Economic Context

### 2.2 . Key Transition Challenges

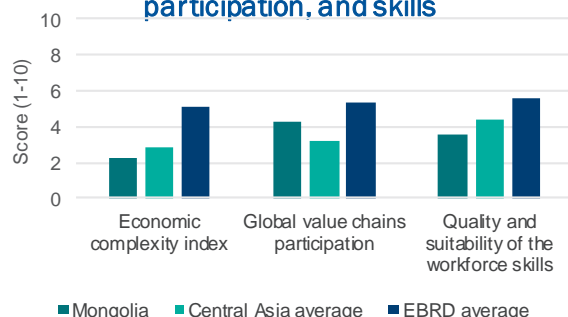


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#### Competitive (4.2)

- The economy suffers from insufficient diversification and the expansion in mining exports in particular, with their low product complexity, has led to one of the **least diversified export baskets** in the world.
- **Poor transport infrastructure and logistics limitations** represent major bottlenecks for Mongolia's business environment, **hindering the country's competitiveness** due to high trade costs.
- In the last decade, urbanization and expansion of foreign investment, particularly in mining, led to **labour productivity growth**.
- Nonetheless,—despite the presence of many universities and TVET programs, **skills and knowledge** remain in **short supply** in Mongolia's labour market, requiring major improvements in education system, including **upskilling and re-skilling programs** targeting recent migrants and youth.

Economic complexity index and GVC participation, and skills

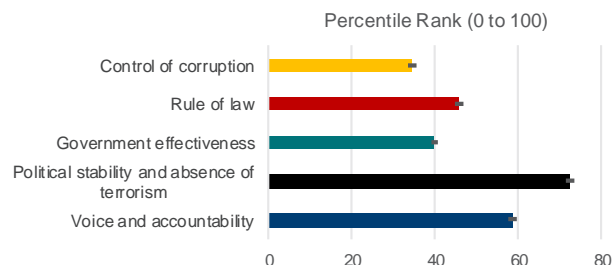


Source: CID Harvard The Atlas of Economic Complexity

#### Well-governed (4.92)

- Until 2021, frequent changes of government and policy reversals inhibited government efficiency, reducing Mongolia's ability to exploit growth opportunities. From 2016 to 2020 Mongolia dropped close to 10 percentile rank positions in the WB World Governance Indicators, falling behind its neighbours.
- Despite early transition successes, Mongolia has not fully secured property rights, **scoring slightly below the world median**. In the 2021 Index of Economic Freedom, Mongolia ranks 103rd out of 184 countries, indicating a **high likelihood of property expropriation** by the government.
- The judicial system needs further reforms, despite recent efforts to enhance transparency and reduce political interference in the appointment of judges.
- Mongolia ranked 111th out of 179 countries in the 2020 Corruption Perceptions Index. **Corruption is not limited to the central government, but is also widespread at the local level.**

Governance indicators

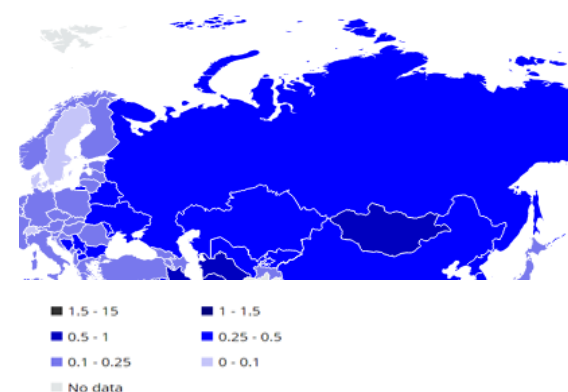


Source: World Bank's Worldwide Governance Indicators 2020

#### Green (4.75)

- Coal has historically been the **primary source of energy supply**, including for district heating. In 2018, the share of electricity generation from RE accounted for less than 1%, while coal accounted for 88% of total generation.
- In 2018, the **industrial sector had the largest final energy consumption (32%)**, closely followed by **residential (26%)**, **transport (19%)** and other sectors (23%).
- The **agriculture sector represented about 55% of GHG emissions in 2018**, and has been the biggest contributor to emissions historically.
- **Air pollution** is a severe environmental problem in urban areas, and is in the **top 10 drivers of death and disability** in Mongolia.
- **Mongolia's waste and waste water sectors** suffer from **underinvestment**.

CO2 emission intensity (kgCO2/2015 USD)



Source: IEA. Note: Emissions from fuel combustion

## 2. Economic Context

### 2.2 . Key Transition Challenges

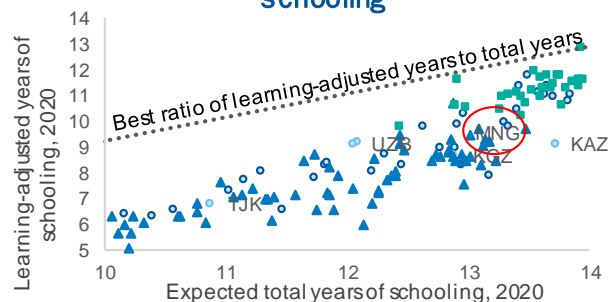


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#### Inclusive (5.27)

- **Women** account for **around 44% among owners and management**, better than the EBRD and Central Asia average.
- **Youth unemployment** (ages 15-24) is almost **three times higher than the rate for the rest of the working age population**, representing the **worst gap** among all Central Asian countries.
- Employers perceive the **national education system** to be of relatively **poor quality**, failing to address the existing skill mismatch challenge.
- Mongolia performs relatively well on enrolment and formal years of schooling, compared to other emerging markets. The education system is less impressive when it comes to quality, as shown by the gap in learning-adjusted years of schooling.
- Large regional disparities exist in **access to water**. Only **61% of the rural population** have access to basic drinking water, as opposed to near universal coverage in urban areas.

Quality of education vs formal years of schooling

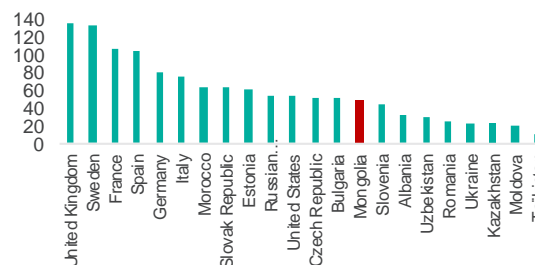


Source: EBRD Transition Report 2021-2022

#### Resilient (5.47)

- The **financial sector** is dominated by banking (87% of financial sector assets). The **top three banks account for more than 70% of banking assets, reflecting excessive concentration**.
- Although credit penetration is higher compared to regional peers, **access to finance remains a top obstacle for Mongolian firms**. **Excessive collateral requirements** (40-60% haircut) and **high interest rates** are the most cited challenges faced by SMEs.
- The economy is vulnerable to **price volatility in the international commodities market**, as well as seasonal and weather related **fluctuations in tourism and agriculture**. This is further worsened by **elevated levels of public and private sector debt**.
- The **energy system**, which is strained by **low end-user tariffs** and **expensive electricity imports** from Russia, is characterised by **high energy losses, low thermal efficiency and low utilisation rates**.

Domestic credit to private sector by banks  
% of GDP, 2019

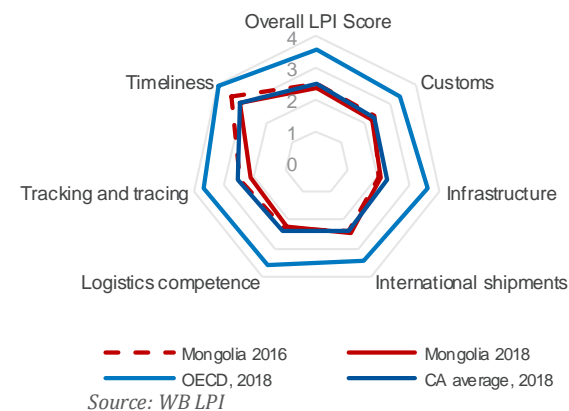


Source: WB WDI

#### Integrated (4.88)

- The country is part of **40 bilateral investment agreements** – below the EBRD average but above that for Central Asia.
- The **quality of road transport** is one of the **lowest** among EBRD countries (34<sup>th</sup> out of 38), with **efficiency and access to air transport and seaport services also below average**, according to the WEF's Global Competitiveness Index.
- The **logistic performance index** score is far below the EBRD average. The **quality of infrastructure, the ability to track and trace, logistics quality and customs** are ranked the **lowest in the EBRD region**.
- **Electric power transmission and distribution losses** are lower than the EBRD average, while the time required to get electricity is above the average for both Central Asia and the EBRD region as a whole.

Logistics Performance Index, 2018



Source: WB LPI

# 3. Government Priorities and Stakeholder Engagement

## 3.1. Government Reform Priorities

In May 2020, the Government introduced its new Long-Term Development Policy **Vision 2050**, which further enshrines sustainable development principles in its long-term policies and will help the country rebound from the COVID-19 pandemic. Vision 2050 sets 9 goals which aim to transform the country's social development, economic growth and quality of life. The main pillars include:

- **Human Development and Quality of Life:** Improve education, public health and expand social protections; develop an internationally competitive innovation network and establish a knowledge economy; ensure business skills development; and promote equality of opportunity, economic security and sustainable development through citizen-centred governance.
- **Economy:** promote a stable, export-oriented economy, including an inclusive and internationally connected financial system; improve economic and trade integration and MSME competitiveness; and establish a wealth fund to support economic diversification, innovation and human and green development.
- **Governance:** optimise balance of powers and state administration functions while fostering stable governance and strengthening the justice system; develop an effective e-governance platform and enhance transparent civil service; and strengthen civil society-private sector-state partnerships.
- **Green development:** promote a balance of primary ecosystems rehabilitating natural resources, preventing water scarcity and accumulating surface water; and adopt climate change mitigation measures by developing a low emission, productive and inclusive green economy.
- **Regional and local development:** create conditions for economic growth by connecting regions through integrated infrastructure networks; enhance localised tourism based on priority sectors; and develop an environmentally friendly, resilient, responsible and highly productive agriculture.
- **UB and satellites cities:** develop an internationally competitive metropolis with growing satellite cities as a balanced ecosystem with a stable legal environment and good governance, to serve as transport, logistics and international hubs in Northeast Asia.

Policy implementation is partly spelled out in the recently released **New Recovery Policy**, a medium term programme focused on (i) expanding border capacity and connectivity, (ii) upgrading industrial technology, (iii) regional integration, (iv) enhancing energy transmission and distribution networks, (v) adopting climate change mitigation measures, and (vi) increasing governmental and SOE efficiency.

## 3.2. EBRD Reform Areas Broadly Agreed with Authorities

The following areas broadly align with the Government's New Recovery Policy and Vision 2050:

- Enhance private sector competitiveness and support the SME sector to help withstand external shocks while continuing to improve key areas such as logistics and human capacity
- Enhance digital connectivity and infrastructure, and further improve delivery of digital services, strengthening cyber security and digital inclusion in rural areas
- Support further development of renewable energy in the country, including through updating the regulatory framework, improving the investment climate and promoting investments in grid efficiency and connectivity and innovative storage solutions
- Develop a long-term decarbonisation plan to navigate green transition and implement credible Net Zero policies
- Promote greater regional development and improved domestic connectivity, including through further investments in roads, transport links and logistics infrastructure

## 3.3. Key Messages from Civil Society to EBRD

- CSOs welcomed the EBRD's proposed strategic directions to enhance Mongolia's resilience and economic governance through strengthened information channels, aimed at increasing transparency as well as individuals' empowerment and entrepreneurship.
- CSOs endorsed the Bank's priority to reduce regional disparities and enhance connectivity as key to promoting women and youth inclusion. In particular, CSOs welcomed the proposed objective to scale up EBRD programmes to improve the business model and digitalisation of women-led businesses, with the potential to extend such programmes to young entrepreneurs. Promoting initiatives for the professional development of young people was recognized as critical in light of the demographic characteristics of the country.
- CSOs also praised the EBRD's plans to accelerate the country's green transition, highlighting the importance of preserving its unique natural wealth, through the engagement of rural communities as well as young people.



# 4. Defining EBRD Mongolia Country Strategy Priorities



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## What needs to change ? (Country Diagnostic)

- Economy remains subject to boom-and-bust cycles due to high extractives share
- Share of formal employment (50%) the lowest in Central Asia, with seasonal employment inhibiting skills development and capital accumulation
- Highly concentrated banking sector that is risk averse towards SMEs
- SMEs employ 40% of workforce but produce only 1/6 of GDP
- Poorly skilled workforce and urban migration leading to shift to informal, low productivity service employment
- Large infrastructure gaps, especially in transport, but low population density outside UB, Erdenet and Darkhan makes prioritisation essential
- Railway capacity needs to be increased for Mongolia to play a greater role in freight transport
- Insufficient physical capacity at border crossing points and lack of adequate logistics
- Climate challenges, including extreme weather (dzud), flooding and melting permafrost that damages road infrastructure driving urban migration
- Low energy tariffs and expensive imports from Russia/China straining the heavily subsidised Central Energy System
- Renewable capacity growing but still very low with insufficient absorption capacity
- Poor quality of municipal infrastructure
- Exports dominated by unprocessed raw materials and heavily concentrated in China (notably coal)
- Surface water shortages, making water stability an adaptation priority
- Mongolia has one of the highest carbon intensities in the EBRD region

## Can it be changed ? (Political Economy)

- Prospects for increased political stability, incl. from constitutional amendments
- Government considering establishing a sovereign wealth fund to manage peaks and troughs of resource cycle
- Promoting value chain diversification and green jobs can spur nature-based solutions in key sectors like tourism
- 2021 banking reforms aim to increase transparency and reduce concentration
- Vision 2050 focus on enhancing human development (including quality education/employment for all citizens)
- Key geographic location between Russia and China enhances trade potential but limits options for market diversification
- New Recovery Policy highlights urgent development priorities, including improved connectivity & border capacity
- Vision 2050 emphasis on regional integration and local development, including more sustainable agriculture
- Gov't priority to create safer, greener and more balanced urban development
- Opportunities to harness digital transformation to modernise service delivery and enhance regional inclusion
- Green growth a major priority under Vision 2050
- Strong potential for renewable energy if physical/regulatory barriers resolved, with Sustainable Development Vision 2030 targeting increased renewable energy share of 30%
- Gov't priority to modernise municipal infrastructure, including EE targets
- Ownership and regulation of natural resources remains intensely political
- Historical policy inconsistency has impacted the investment climate
- Mongolia's NDC target of 22.7%

## What can the Bank do ? (Institutional Capabilities)

- Effective instruments to help SMEs and corporates grow (e.g., value chain, export support) such as targeted credit lines, direct finance (DFF, RSF) and advisory, including for underserved segments
- Strong track record of local currency finance and enhancing bank lending
- Specialised expertise in developing capital markets and expanding financial product range, including capacity building
- Policy engagement can support further business climate reforms and EBRD involvement can facilitate FDI attraction
- Along with other IFIs, EBRD can finance select transport projects to enhance regional connectivity and inclusion
- Experience in logistics improvement
- EBRD investments in underserved regions can boost tourism and improve infrastructure while also creating skilled jobs and backward linkages
- Experience in promoting work-based skills-enhancing solutions, incl. digital
- Comprehensive approach to digital transition, including development and upgrading of infrastructure (e.g. broadband solutions, e-commerce platforms)
- Strong track record of advancing renewable energy and facilitating more efficient generation, transmission and distribution in Central Asia
- Experience in developing sustainable municipal infrastructure via dedicated GET products that leverage donor funds, including Green Cities (which can also help cities adapt to urban migration)
- EBRD finance/advisory can strengthen sustainable mining of critical raw materials and aid upstream value chains
- Institutional, financial & advisory support for resource efficiency and climate resilience, including decarbonisation

## Strategic Priorities (2022-2027)

### Enhancing Mongolia's resilience through a stronger, more diversified and stable private sector

- A more competitive and resilient private sector
- Increased resilience through a stronger financial sector and development of local currency products
- Improved governance and business environment

### Strengthening connectivity and regional integration to support growth and enhance inclusion

- Improved quality, connectivity and access to transport infrastructure
- Reduced regional disparities
- Improved digital connectivity

### Promoting a greener and more climate resilient economy through sustainable energy, infrastructure and mining

- Increased renewable energy capacity and more resilient energy networks
- Improved quality, efficiency and environmental sustainability of infrastructure
- A more sustainable mining sector
- Increased energy, resource efficiency and climate resilience



# 5. Activities and Results Framework

## Priority 1: Enhancing Mongolia's resilience through a stronger, more diversified and stable private sector

Key Objectives	Activities (Outputs)	Tracking Indicators (Outcomes)
A more competitive and resilient private sector	<ul style="list-style-type: none"> <li>Continue to support diversification of the economy by providing direct financing to corporates and SMEs in the non-extractive sector, including agribusiness, tourism and manufacturing, with a particular focus on enhancing exports and strengthening value chains through dedicated financial and advisory products</li> <li>Provide tailored advisory through the ASB programme to help SMEs scale up, increase productivity (including digitalisation), strengthen corporate and social governance and financial management, increase export readiness and further integrate into regional supply chains</li> <li>Provide targeted support for agricultural products, including by working with aggregators and processors, developing value chain financial products, integrating sustainable resource efficient practices, introducing advanced technologies, and providing trade finance through the TFP programme</li> <li>Continue to deploy risk sharing facilities and credit lines with local banks/MFIs, including in niche areas such as women, youth, agribusiness and green finance, along with related capacity building for banks</li> <li>Look to expand the Bank's Women in Business programme and design a similar programme for youth, including by scaling up support for digital solutions, alongside policy dialogue to create a more conducive ecosystem</li> <li>Alongside corporate clients and select SMEs, support enhanced vocational training and other skills development initiatives, as well as equality of opportunity policies, to address skills gaps and create a better qualified workforce</li> </ul>	<ul style="list-style-type: none"> <li>Total number/volume of loans disbursed by PFIs for SMEs and/or female-led enterprises</li> <li>Number of clients reporting increased exports or productivity</li> <li>Number of people receiving new skills as a result of training (f/m)</li> </ul>
Increased resilience through a stronger financial sector and development of local currency products	<ul style="list-style-type: none"> <li>Continue to support development of a domestic money market to improve utilisation of local currency finance, including through policy advisory</li> <li>Continue to support access to finance for micro and small enterprises through the Microfinance/NBFI partner network</li> <li>Look to further develop capital markets, including by deploying new and/or more sophisticated products (e.g., green bonds, corporate bonds), improving the readiness and absorption capacity for IPOs, supporting national efforts related to IPOs and privatisation of SOEs, and other measures to help develop an institutional investor base</li> <li>Along with partner institutions, explore potential digital/fintech solutions to enhance financial inclusion</li> <li>Help strengthen the financial sector through continued policy engagement on key banking sector reforms, in particular recent legislation on bank ownership diversification, including IPOs of the top banks and reduction of shareholding concentration, as well as more generally on financial supervision, the regulatory framework for banks and non-bank financial institutions, capital markets and the identification of ultimate beneficial owners (UBOs)</li> </ul>	<ul style="list-style-type: none"> <li>Total number/volume of loans disbursed by PFIs in local currency</li> <li>Legal and regulatory improvements to capital or money markets</li> </ul>
Improved governance and business environment	<ul style="list-style-type: none"> <li>Continue to support an enabling environment for FDI and enhanced investor protections (e.g., legal and regulatory updates to the bankruptcy law and enforcement of court decisions) and look for opportunities to apply digital solutions, such as the e-Mongolia initiative to make the business environment more efficient</li> <li>Provide advisory support to the SME agency, including to develop an SME strategy</li> <li>Continue to support improved governance and greater commercialisation of SOEs, along with plans for enhanced public-private cooperation, and partial or full privatisation where relevant</li> <li>Support finalisation, adoption and implementation of laws on a Sovereign Wealth Fund and Development Fund</li> </ul>	<ul style="list-style-type: none"> <li>Legal and regulatory improvements to the business environment</li> </ul>



# 5. Activities and Results Framework

## Priority 2: Strengthening connectivity and regional integration to support growth and enhance inclusion

Key Objectives	Activities (Outputs)	Tracking Indicators (Outcomes)
Improved quality, connectivity and access to transport infrastructure	<ul style="list-style-type: none"> <li>Together with IFI partners, and subject to sovereign debt capacity, seek to further develop key transport and logistics infrastructure, including investments to:               <ul style="list-style-type: none"> <li>modernise and expand public transport, railways and rolling stock,</li> <li>upgrade road networks (both internal and if possible cross-border corridors), and</li> <li>improve cross-border logistics, communication and warehousing centres, along with related capacity building to improve performance,</li> </ul>               where possible in ways that enhance exports and strengthen linkages with neighbouring countries, promote internal regional integration and inclusion, incorporate climate and gender-responsive design and employ commercial and/or private sector solutions             </li> <li>In conjunction with the above, explore potential opportunities in the air transport sector to further strengthen internal integration and cross-border connectivity</li> </ul>	<ul style="list-style-type: none"> <li>Transport network capacity improved or increased through Bank-assisted projects</li> <li>Number of individuals with improved access to transport services</li> </ul>
Reduced regional disparities	<ul style="list-style-type: none"> <li>Seek to increase investments in underserved regions, including financial support and capacity building for agricultural aggregators sourcing animal products from remote areas, as well as local processing, storage and logistics hubs for improved collection</li> <li>Explore opportunities to support government-led initiatives to ensure food supply and security</li> <li>Look for opportunities to assist cities in adapting to migration flows from rural to urban areas, including through Green Cities projects</li> <li>Look for opportunities to develop a more diverse, sustainable and inclusive tourism sector with strong backward linkages and related infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Total number/volume of loans disbursed for agribusinesses, aggregators and/or processors, including outside Ulaanbaatar</li> </ul>
Improved digital connectivity	<ul style="list-style-type: none"> <li>Pursue potential investments to increase digital infrastructure and connectivity and enhance countrywide access to information and communication technologies, including data-focused mobile (4G/5G) and broadband networks (e.g., fibre, data centres, shared infrastructure), e-commerce platforms and payment solutions, as well as further support for development of IT products and services generally</li> <li>Explore potential investments and advisory to support digitalisation of government services and processes (e.g., eTrade to strengthen exports, eJustice to enhance access to legal services such as on-line mediation and small claims procedures, and eGovernment, including e-Identity)</li> <li>Support digitalisation efforts and digital outreach/commercialisation of businesses through advisory</li> </ul>	<ul style="list-style-type: none"> <li>Number of people with improved access to ICT infra or services</li> <li>Number of clients introducing new digital technologies or products</li> </ul>

# 5. Activities and Results Framework

## *Priority 3: Promoting a greener, more climate resilient economy through sustainable energy, infrastructure and mining*

Key Objectives	Activities (Outputs)	Tracking Indicators (Outcomes)
Increased renewable energy capacity and more resilient energy networks	<ul style="list-style-type: none"> <li>Provide direct finance to further develop and integrate renewable energy projects (primarily solar and wind), coupled with policy/advisory support to create an supportive regulatory environment, including implementation of an auction system and legal resolution mechanism on ongoing curtailments</li> <li>Help increase grid capacity to better absorb renewables, including investments in smart grid and metering tools as well as existing and new transmission lines, and explore investments in storage and balancing capacity</li> <li>Look to provide capacity building to the energy regulator for handling intermittent sources of energy</li> <li>Selectively consider options to enhance energy security and connectivity and promote the switch from coal to cleaner alternatives, consistent with Mongolia's decarbonisation efforts and a low carbon pathway</li> </ul>	<ul style="list-style-type: none"> <li>Total renewable energy capacity installed (MW)</li> <li>Total CO2e reduced (ton/y)</li> </ul>
Improved quality, efficiency and environmental sustainability of municipal infrastructure	<ul style="list-style-type: none"> <li>Finance commercially and environmentally sustainable municipal infrastructure, e.g. district heating, solid waste, water/wastewater, hospitals, schools, urban transport and green affordable housing, including through a new planned governmental framework, where possible on a sub-sovereign basis</li> <li>Couple the above with technical assistance and capacity building to municipalities to support effective financial management for municipal projects (e.g., tariff reform)</li> <li>Implement Ulaanbaatar GCAP and consider potential Green Cities expansion to Erdenet or Darkhan, including mitigation and climate resilience and adaptation strategies at the city-level</li> <li>Explore opportunities to finance irrigation to facilitate the shift to more sustainable, intensive agriculture and/or water use and potential flood protection in the region</li> </ul>	<ul style="list-style-type: none"> <li>Number of individuals with improved access to services (water, solid waste)</li> <li>Total water saved (m3/year)</li> </ul>
A more sustainable mining sector	<ul style="list-style-type: none"> <li>Consistent with the Bank's Environmental and Social Policy, continue to support development of a sustainable mining sector through financial and institutional support to companies (including select reputable foreign investors) meeting the highest standards of integrity, safety and environmental sustainability, including downstream processing to facilitate higher value-added exports, and mining projects for metals and specialty minerals needed for green economy transition, e.g., e-mobility and energy storage</li> <li>Continue to develop the upstream value chain linked to mining (e.g., equipment, services and logistics) and support initiatives to boost participation of women and people with disabilities in the mining sector and related supply chain</li> <li>Continued policy engagement to foster an enabling environment for development of a sustainable and responsible mining sector, including strengthened governance, EITI and related advisory to support investors</li> </ul>	<ul style="list-style-type: none"> <li>Number of clients with improved governance, standards or practices (e.g., transparency, environmental sustainability or equal opportunity)</li> </ul>
Increased energy and resource efficiency and climate resilience	<ul style="list-style-type: none"> <li>Scale up green intermediated financing (e.g., GEFFs) through energy and resource efficiency credit lines with PFIs and support other green investments and related advisory in the private sector</li> <li>Help the government identify and attract funding for additional green privately-led investments</li> <li>Support Mongolia's implementation of its NDC and long term low carbon, climate resilient pathways across the economy in coordination with other development partners</li> <li>Look to support government-led initiatives to reduce environmental degradation and to increase climate resilience/adaptation considerations within infrastructure project design across sectors</li> </ul>	<ul style="list-style-type: none"> <li>Total primary energy saved (GJ/y)</li> <li>Legal, institutional and/or regulatory improvements supporting climate resilience</li> </ul>



# 6. Mapping of International Partners' Complementarity in EBRD Business Areas



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EBRD BUSINESS AREAS														
		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives			
Indicative average annual investments/ grants (€m, 2017-2021)		Agribusiness	Manufacturing & Services	Property & Tourism	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank Financial Institutions	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
ADB*	244													
JICA	87													
WB	80													
IFC	26													
EU	11													
AFD	7													
FMO	6													
USAID	5													
EBRD	105													

Area of significant investments  
 Area of significant policy engagement  
 Focus mostly on private sector  
 Focus mostly on public sector

## Potential Areas of Cooperation



### Competitive:

- Expand cooperation and identify potential co-investments with EU to strengthen and further develop the non-mining export-oriented SME sector and improve business climate



### Green:

- Enhance coordination under Team Europe Initiative to further support sustainable management of natural resources and development of green value chains



### Integrated:

- Seek co-investment opportunities with ADB and WB to address large investment needs in transport and energy



### Resilient:

- Maximise coordination with IFIs to address rising external vulnerabilities, geopolitical risks, and supply chain disruptions, coupling policy dialogue, advice and targeted investments



### Inclusive:

- Continue collaboration with EU through Team Europe and other initiatives to improve entrepreneurship opportunities for youth and rural populations

Note: IFI mapping based on publicly available data (excluding budget support), with significant IFI investment defined as exceeding 5% of investments signed between 2017-2021. \*ADB is based on numbers from 2017-2020.

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# 7. Implementation Risks and Environmental and Social Implications



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Risks to the Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> <li><b>Macroeconomic risks</b>, including from commodity price volatility, higher inflation, further border closures and the uncertain impact of Russia's war on Ukraine could all delay recovery from the pandemic and undermine macroeconomic stability.</li> </ul>			<ul style="list-style-type: none"> <li><b>Assessment and Management of E&amp;S Impacts:</b> Ensure that direct, indirect, and cumulative E&amp;S impacts (including gender impacts) of projects are appropriately assessed, avoided and mitigated. TC support to regulators with E&amp;S impact (i.e. covering biodiversity and water) and strategic assessments may be needed, as well as support to public sector clients with the implementation of ESMS and contractor management according to international standards.</li> </ul>
<ul style="list-style-type: none"> <li><b>Supply chain disruptions, limited fiscal space</b> and IMF concerns about public debt sustainability are likely to prevent public expenditures on, and limit/complicate the Bank's ability to finance infrastructure projects, necessitating substantial grant resources or concessional finance</li> </ul>			<ul style="list-style-type: none"> <li><b>Labour and Working Conditions:</b> Ensure that clients' labour practices comply with EBRD PR2, in particular wages, benefits and conditions of work; non-discrimination and promotion of equal opportunities; freedom of association; and prevention of child labour, in own operations contractors and primary suppliers. The Bank will pay particular attention to prevention and response to gender-based violence and harassment (GBVH) and support clients in developing and implementing appropriate policies and response mechanisms). TC funds may be necessary to support clients to address GBVH risks in project workforces and communities.</li> </ul>
<ul style="list-style-type: none"> <li><b>Instability of the investment climate</b>, with frequent changes of government and policy reversals in recent years, may deter foreign investment, particularly in the mining sector</li> </ul>			<ul style="list-style-type: none"> <li><b>Resource Efficiency and Pollution Prevention and Control:</b> Identify and develop waste, wastewater and water projects and ensure alternatives are considered to identify investments that support circular economy and resource efficiency and prevent environmental pollution. Support transition to a low carbon and resource efficient economy (such as wind and solar energy, water efficiency), and strengthen resilience to climate change. Projects and TCs addressing air quality in urban areas are priorities.</li> </ul>
<ul style="list-style-type: none"> <li><b>Lack of progress on PPA, curtailment issues and the proposed auctions</b> may limit the Bank's ability to advance renewable energy projects</li> </ul>			<ul style="list-style-type: none"> <li><b>Health and Safety:</b> Aim to improve occupational and community health and safety standards across all sectors, including use of ESMS in mining projects. Road and traffic safety are priority areas and engagement with clients and other key stakeholders may be required. TC funds may be required to improve standards and raise awareness.</li> </ul>
<ul style="list-style-type: none"> <li><b>Limited availability of local currency finance</b> through market-based instruments such as currency swaps could risk EBRD lending to corporates and SMEs</li> </ul>			<ul style="list-style-type: none"> <li><b>Land Acquisition, Involuntary Resettlement and Economic Displacement:</b> Ensure that any project requiring acquisition of land and resettlement comply with compensation and livelihood restoration requirements of the Bank, with special attention on preserving herders' livelihoods and protecting vulnerable groups.</li> </ul>
<ul style="list-style-type: none"> <li><b>Vulnerability to climate change</b> may negatively affect viability of municipal infrastructure and agribusiness projects</li> </ul>			<ul style="list-style-type: none"> <li><b>Biodiversity Conservation and Sustainable Management of Living Natural Resources:</b> Support clients with assessments to ensure species and habitats of conservation importance are protected and ecosystem services and natural capital are sustainably managed. TC funds may be needed to support these activities.</li> <li><b>Cultural Heritage:</b> Work with clients to ensure appropriate assessment to identify and consult with key stakeholders to assign proper significance and then preserve cultural heritage and services of local and national importance.</li> <li><b>Financial Intermediaries:</b> Ensure that FI partners have adequate E&amp;S capacity and risk management procedures in place.</li> <li><b>Stakeholder Engagement:</b> Support clients in developing and implementing stakeholder engagement plans to ensure meaningful public disclosure and inclusive consultation is carried out throughout the project lifecycle.</li> </ul>



# 8. Donor Co-Financing Assessment

## Needs Assessment for the New Country Strategy Period

Donor funding will be needed to achieve the strategic objectives of the Country Strategy, including:

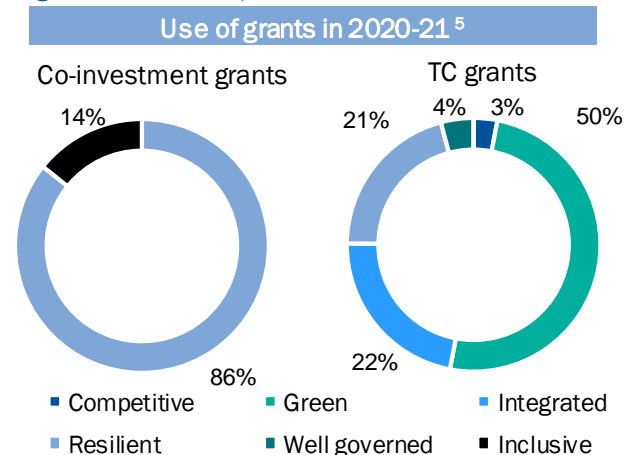
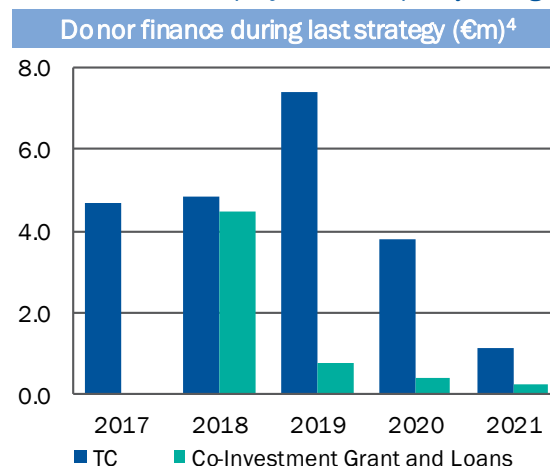
- Grants to promote investments in green infrastructure, renewable energy and resource efficiency, as well as policy and advisory support to create a supportive regulatory environment
- Co-investment grants to further develop key transport, energy and logistics infrastructure, promoting internal/regional integration
- Introduction of new instruments and legal reforms to bolster capital market development, combined with consultancy to broaden its access in niche areas (youth, women, agribusiness, green finance)
- Grants to increase digital connectivity and enhance countrywide access, and support digitalisation of government services and processes through advisory

Selected Affordability Indicators		EBRD regional percentile rank <sup>1</sup>
GDP per capita (PPP, current. \$) <sup>2</sup>	12,862	38 <sup>th</sup>
ODA Country	Yes	N/A
ODA as share of Gross National Income (%) <sup>3</sup>	2.53	68 <sup>th</sup>
ODA per capita (\$ - current prices) <sup>3</sup>	96.3	63 <sup>rd</sup>

1. Simple percentile rank reported as the share of EBRD economies represented below Mongolia.
2. Source: WDI (2021 or latest available year)
3. Source: OECD (2019)
4. 2017-2021. TC data is based on earmarks at the project level. Co-investment grant amounts are based on client signings.
5. Based on the primary Transition Quality of grants earmarked (for TC grants) or signed with clients (for co-investment grants) in 2020 and 2021.

## Potential Sources of Donor Funds

- The EU is a major and regular contributor, notably through the **Support for Mongolian Economic Diversification through SME Access to Finance (ECSM)** programme, which represents an extensive source of funding for risk-sharing instruments, TC and investment funds to support small businesses. The EU also provides capex and TC grant contributions for key infrastructure projects in the solid waste, district heating and climate resilience sectors.
- Additionally, Multilateral Climate Funds may be available to support green transition. **Green Economy Financing Facilities (GEFF)** would scale up green intermediated financing. The **Green Climate Fund (GCF)** could further be drawn on for green investments.
- Support from **bilateral donors** will continue to be sought. Japan has been a substantial contributor and has experience with local currency programmes in the ETC region. Funds can also be channelled through **Multi-Donor Accounts** such as the Sustainable Infrastructure Fund and Small Business Impact Funds.
- Already the largest contributor, the **EBRD Shareholder Special Fund** will also serve as a vital complementary source of funding by helping to bridge mismatches between unmet needs and available support from donors (including for certain projects in the policy dialogue and governance areas).



# Annexes



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# Annex 1 – Political Assessment in the Context of Article 1

*During the period since the last Country Strategy was approved in June 2017, Mongolia has continued to be committed to and to apply the principles of Article 1 as set out in the Agreement Establishing the Bank. The 1992 Constitution embodies the principles of the democratic revolution of 1990 and proclaims as its supreme objective “building a human, civil and democratic society.” Mongolia stands out in Central Asia as a functioning multiparty democracy with a strong record of adherence to Article 1 principles.<sup>1</sup>*

Mongolia cooperates actively with international bodies responsible for monitoring democratic and human rights standards. It underwent the Third Cycle of the UN Human Rights Council Universal Periodic Review in November 2020. It holds an annual human rights dialogue with the EU. International bodies and organisations responsible for promoting and monitoring the application of democracy and human rights standards continue to assess Mongolia’s record in these areas positively.<sup>2</sup>

The most significant area of progress during the period covered by the previous Country Strategy relates to the constitutional amendments approved by the State Great Khural (parliament) in November 2019, on the separation of powers and judicial independence.

First, after public consultation, and after then-President Battulga had proposed a move to a presidential system, the final package of amendments was adopted to create a clearer and more effective separation of powers by enhancing the position of the Prime Minister at the expense of the President and State Great Khural.

Second, the Constitution had not set out clear provisions establishing the independence of the judiciary. This, among other things, had encouraged a culture of politically-influenced prosecutions, which had damaged the investment climate and the fight against corruption. The final approved package of amendments also included measures to bolster the independence of the judiciary.

The main area of concern during the period covered by the previous Country Strategy relates to the lack of progress in the fight against corruption. The Mongolian authorities recognise the need for more determined efforts, but substantive measures are still awaited.

## Free Elections and Representative Government

### *Free, fair and competitive elections*

The Constitution of Mongolia, approved in 1992 and amended in 2000 and 2019, and supporting legislation, set out the basis for the conduct of free, fair and competitive elections. The Constitution’s preamble sets out “securing democracy” as a basic principle of the State. Article 14(9) states that citizens have the “right to take part in the conduct of State affairs directly or through representative bodies.”

The 2019 Law on Parliamentary Elections and the 2020 Law on Presidential Elections are in line with international standards, but the OSCE Office for Democracy and Human Rights (ODIHR) has noted in both cases that long-standing recommendations remain unaddressed.<sup>3</sup> During the period since the previous Country Strategy was approved, this constitutional and legal framework has been implemented consistently and competently and has ensured Mongolian citizens enjoy representative government.

<sup>1</sup> In response to Mongolia adopting a law on human rights defenders, Michele Bachelet, the UN High Commissioner for Human Rights, said that: “As the first country in Asia to enact such important legislation, the law will resonate within and beyond Mongolia’s borders.” Statement on OHCHR website, 30 April 2021.

<sup>2</sup> In 2021, Mongolia was one of only four countries in Asia ranked as ‘free’ by Freedom House in its Global Freedom survey.

<sup>3</sup> For the 2020 elections, these related to related to voter and candidate eligibility requirements and the timely resolution of election-related complaints. Report of ODIHR Needs Assessment Mission, April 2020, p 5. For the 2021 elections, these related to “the exclusion of non-parliamentary parties and independent candidates from candidate nomination, restrictions on suffrage rights on the basis of disability, protected dispute resolution timelines, prohibition on campaigning between two rounds, and insufficient oversight of campaign finance.” Report of the ODIHR Special Election Assessment Mission, October 2021, p 1.

# Annex 1 – Political Assessment in the Context of Article 1

Since June 2017, there have been presidential elections in June-July 2017, parliamentary elections in June 2020 and presidential elections in June 2021. ODIHR sent a limited election observation mission to the 2017 presidential elections, but only a Needs Assessment Mission to the 2020 parliamentary election and a Special Election Assessment Mission to the 2021 presidential elections, because of the COVID pandemic.

ODIHR did not issue an assessment for the 2020 elections but their assessments of the 2017 and 2021 elections were broadly positive. For the 2017 presidential elections, it concluded that the election “was competitive and well-organized, featuring a short yet fierce campaign. The freedoms of assembly and expression were generally respected.”<sup>4</sup> For the 2021 presidential elections, it concluded that the election “was administered efficiently and that candidates were able to campaign freely, but underlined excessive limitations to candidate eligibility, as well as restrictive campaign and media rules, which adversely affected voters’ ability to make an informed choice.”

## *Separation of powers and effective checks and balances*

The Constitution sets out the basis for the separation of powers and effective checks and balances. Mongolia has a mixed presidential/parliamentary system. Article 20 describes the State Great Khural (parliament) as “the highest organ of State power” with sole responsibility for the exercise of legislative power. Article 30 describes the President as “Head of State and embodiment of the unity of the Mongolian people.” Article 38(1) describes the Government as the “highest executive body of the State.” The President is directly elected and the 76-member unicameral legislature (State Great Khural), is elected according to a multiple candidate, non-transferable voting system in which MPs are elected across 29 non-proportional multi-member (2-3 seats) constituencies, with the winning party in each constituency taking all the seats up for election.

By the time of the 2017 presidential elections, there was a consensus that the Constitution, as then framed, did not clearly establish areas of competence between the different branches of the state and contained multiple and confusing areas of accountability, which had exacerbated tensions between the president, legislature and prime minister. As a result, Mongolia had suffered from frequent changes of government, with 14 prime ministers between 1992 and 2020, and inconsistent policy formulation and implementation. After the 2019 constitutional amendments,<sup>5</sup> the balance between the different branches of the state shifted away from the presidency and legislature towards the Prime Minister. Among the changes, the position of the President was weakened by being restricted to a single six-year term, rather than the two four-year terms previously. The status of the PM was correspondingly enhanced. S/he will be able to appoint/dismiss members of his/her Cabinet without reference to MPs. In August 2022, the Constitutional Court over-turned another provision which had restricted the number of members of the Cabinet who could be MPs to four.

It is too early to draw firm conclusions about the impact of these changes, but they hold out the prospect of a clearer and more effective separation of powers and checks and balances, which reinforce accountability and public trust.

## *Effective power to govern of elected officials*

The Constitution sets out the basis for elected officials to govern effectively. Article 3(1) of the Constitution states, “The Mongolian people shall exercise it [state power] through their direct participation in state affairs as well as through the representative bodies of the state authority elected by them.” There have been no systemic problems relating to the effective power of elected officials to govern since independence.

<sup>4</sup> Report of the ODIHR Limited Election Assessment Mission, October 2017, p 1.

<sup>5</sup> The 2019 constitutional amendments reversed measures passed by the State Great Khural in March 2015 which had given the National Security Council (dominated by the executive branch) new powers over the appointment of judges, the Head of the Independent Authority against Corruption and the General Prosecutor.

The Constitution sets out clear and elaborated procedures according to which the President or Parliament can declare a state of emergency, with checks and balances set out to minimise the risk of abuse.<sup>6</sup>

Article 9(2) of the Constitution sets out the separation of state and church and there have been no serious problems relating to that provision since independence.

The armed forces and security services in Mongolia are under civilian control and do not intervene in political decision-making.

## Civil Society, Media and Participation

### *Scale and independence of civil society*

The Constitution and supporting legislation set out the basis for civil society to operate independently. Article 16(10) of the Constitution sets out the “right to form a party or other mass organisation and freedom of association to these organisations on the basis of social and personal interests and opinion.” The current Law on Non-Governmental Organisations, which was passed in 1997, is regarded as generally supportive of civil society initiatives. International bodies responsible for monitoring human rights standards assess that civil society organisations are active across a wide range of issues. Concerns were raised in the summer of 2022 about signs that state agencies were regarding civil society criticism of strategic infrastructure projects as a threat to national security.

Proposed changes to the legislative framework for civil society organisations was withdrawn from parliamentary consideration at the end of 2019 after representations by civil society organisations. In 2020, there were over 24,000 registered NGOs in Mongolia. The number of registered NGOs has been growing strongly over the last ten years.<sup>7</sup>

### *Independent, pluralistic media that operate without censorship*

The Constitution and supporting legislation set out the basis for independent, pluralistic media to operate without censorship. Article 16(16-17) of the Constitution guarantees citizens, among other things, “freedom of thought, opinion and expression, speech, press” and “the right to seek and receive information”. The latter right is subject to qualifications relating to state secrets, which are set out in law.

The Report of the Special Election Assessment Mission to the 2021 presidential elections noted that the 1998 Law on Media Freedom prohibits state censorship, and that defamation was decriminalized in 2017. It described the media environment as “vibrant” with social media becoming a “primary source of political information, alongside television”. However, it expressed concern about the vulnerability of public television to political interference and that provisions for prosecuting “false information” and slander, with excessive sanctions, remain or have been recently introduced in different laws.”<sup>8</sup>

While noting that the “overall environment for the media has improved in recent years”, civil society assessments continue to express concern about the affiliation of many media outlets to political parties. Concern has also been expressed about provisions in the Criminal Code introduced in 2020, which included penalties for disseminating false information.<sup>9</sup>

<sup>6</sup> Article 19(2), Article 25, 1(17-18), 25, 2(1-2), 3 and Article 35, 1(12).

<sup>7</sup> Civil Society Consortium, *Exploring the Current State of Civic Space and Identifying its Need for a Favorable Legal Environment, Full Report*, Ulaanbaatar, 2021, p 12.

<sup>8</sup> Report of the ODHR Special Election Assessment Mission, October 2021, pp 15-16.

<sup>9</sup> Reporters without Borders website, Mongolia page, March 2022; Article 19/Transparency International, 29 April, 2020. Prosecutor.



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## *Multiple channels of civic and political participation*

The Constitution and supporting legislation set out the basis for multiple channels of civic and political participation. Article 3 states that, “state power shall be vested in the people of Mongolia. The Mongolian people shall exercise it through their direct participation in state affairs as well as through the representative bodies of the State authority elected by them.” This right is amplified in Article 16(9) which states that citizens of Mongolia shall enjoy “the right to take part in the conduct of State affairs directly or through representative bodies.” The World Bank Governance Indicator for Voice and Accountability has risen strongly over the period covered by the previous Country Strategy.

The Report of the Needs Assessment Mission for the 2020 parliamentary elections noted continuing issues with discrepancies with the size of electoral districts, which meant that while half the country’s population lived in Ulaanbaatar, the relevant electoral districts comprised only one third the seats in parliament.<sup>10</sup> The Report of the Special Election Assessment Mission for the 2021 presidential elections raised concerns about excessive restrictions on the right to stand as a candidate relating to ethnic origin, health and criminal record.<sup>11</sup>

## *Freedom to form political parties and existence of organised opposition*

The Constitution and supporting legislation set out the basis for the freedom to form political parties and for the existence of an organised opposition, particularly as set out in Article 16(10), as cited above. During the period since the previous Country Strategy was approved, relevant international bodies have not raised significant concerns relating to these freedoms and rights.

Since independence, control of the main branches of state power has alternated between the two main parties, the Democratic party (DP) and the MPP. The DP developed out of the popular democratic movement in the late 1980s, while the MPP was formed on the basis of the Mongolian People’s Revolutionary Party, the governing party under Communist rule. Third parties have emerged from time to time and have sometimes joined governing coalitions. In the 2021 presidential elections, the candidate of the Right Person Electoral Coalition beat the Democratic party, which had been riven by factional conflict, into third place.

The constitutional amendments of 2019 included an additional Article 19(1-3) which sets out the purpose of political parties, basic requirements for their participation in elections and the principles for their internal organisation and funding.

## **Rule of Law and Access to Justice**

### *Supremacy of the law*

The Constitution sets out the basis for the supremacy of the law. Its preamble proclaims “securing the rule of law” as a basic principle of the State. Article 47(1-3) sets out the supremacy of the courts for exercising judicial power. In addition, Article 10(3) states that international treaties shall have the force of domestic law after their ratification or Mongolia’s accession.

<sup>10</sup> Report of ODIHR Needs Assessment Mission, April 2020, pp 56. The report also noted excessive restrictions on the right to vote (disqualifications relating to mental health or prison sentence) and the right to stand as a candidate (disqualifications relating to investigations for corruption). ODIHR Report, pp 7-8.

<sup>11</sup> Report of the ODIHR Special Election Assessment Mission, October 2021, pp 10-11. Article 30(2) PUBLIC constitution stipulates that a candidate for the post of President must be an “indigenous citizen of Mongolia, who has attained the age of fifty years and has permanently resided in Mongolia for at least five years.” 24

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Relevant international bodies have raised concern about relatively poor performance across issues relating to rule of law and governance, although noting some areas of improvement during the period covered by the previous Country Strategy. In the area of Supremacy of the Law, the World Bank Worldwide Governance Indicators for Government Effectiveness and Rule of Law both show improvement over the period covered by the previous Country Strategy while Mongolia's percentile ranking for the former indicator remained stable and for the latter rose slightly.<sup>12</sup>

## *Independence of the judiciary*

The Constitution sets out the basis for the independence of the judiciary, particularly after the 2019 amendments. Article 49(1-2) set out the principle of judicial independence, including the impermissibility of interference by the President, PM, parliament or political parties. Article 49(3-4) sets out the role of the General Council of Courts in guaranteeing judicial independence through the selection of judges and setting the conditions for their work.

The 2019 constitutional amendments reduced the President's powers to appoint judges. It amended Article 49(5) to set out the principles for selecting the members of the General Council of Courts, which should reduce the scope for political interference in this process. It added a new Article 49(6) setting out the role of the Disciplinary Committee of Courts, again to reduce the scope for political interference in the dismissal of judges.

In January 2021, the State Great Khural passed a new Law on Courts to elaborate and implement the 2019 constitutional amendments. These changes have the potential to enhance the independence of the judiciary, but it is too early to judge whether this will be realised in practice.

## *Government and citizens equally subject to the law*

The Constitution sets out the basis for Government and citizens to be equally subject to the law. Article 14(1) states, "All persons lawfully residing within Mongolia are equal before the law and the Court." Article 16(14) sets out at length the rights of citizens to access to the courts, to a fair trial and due process.

Article 5(2-3) sets out legal protection for property rights. However, investors have expressed concerns about interference by government officials and politicians in administrative and judicial dispute resolution processes.<sup>13</sup>

## *Effective policies and institutions to prevent corruption*

Corruption remains a serious problem in all areas of public life and efforts to tackle it lack commitment.<sup>14</sup> Allegations and proven cases of corruption are common at the highest levels of public life. According to many experts, allegations of corruption and prosecutions are frequently directed at public figures for political reasons. The effect is to undermine public trust in government and institutions, to impose costs on business and hold back investment.<sup>15</sup>

<sup>12</sup> From 2015 to 2020, Mongolia's score for Government Effectiveness rose from -0.57 to -0.34 and for Rule of Law from -0.36 to -0.26 with its corresponding percentile rankings rising from 34.93 to 39.90 and from 43.60 to 45.67.

<sup>13</sup> 2021 Investment Climate Statements: Mongolia, US State Department Website.

<sup>14</sup> According to a Transparency International Survey in 2020, 69% of respondents considered corruption "a big problem" and 56% considered MPs to be corrupt. The Global Corruption Barometer Asia 2020, p 47.

<sup>15</sup> An opinion poll conducted in March-April 2021 found only 23% of respondents trusted courts, 30% political parties and 33% the Independent Authority Against Corruption. IRI Center for Insights in Survey Research.

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The OECD concluded in its report on the Fourth Round of Monitoring of the Istanbul Anti-Corruption Action Plan in March 2019 that, “Anti-corruption laws and action plans are poorly implemented. The Independent Authority against Corruption has continued and somewhat stepped up its policy coordination and prevention work; however it lacked independence, resources and necessary support from state bodies to fully exercise its mandate.”<sup>16</sup> However the reversal of the move in March 2019 to give the National Security Council the power to appoint the Head of the Independent Authority Against Corruption has been viewed as a positive step.<sup>17</sup>

Mongolia’s score on the Transparency International Corruption Index has barely changed during the period covered by the previous Country Strategy, falling slightly from 36 to 35. Its ranking (out of 180 countries) has fallen somewhat more, from 103 to 110.<sup>18</sup>

The Government has pledged to step up its efforts to tackle corruption. The 2019 constitutional amendments to enhance the independence of the judiciary will support these efforts. The Government is emphasising the role of digitalisation in its efforts to combat corruption with the implementation of a major programme of eGovernment in 2020-21. These changes have the potential to improve the efforts to tackle corruption, but it is too early to judge whether this will be realised in practice.

## Civil and Political Rights

*Freedom of speech, information, religion, conscience, movement, association, assembly and private property*

The Constitution and supporting legislation, including national human rights mechanisms, set out the basis for freedom of speech, information, religion, conscience, movement, association, assembly and private property. Chapter 2, Human Rights and Freedoms, (Articles 14-19) enshrine a broad range of rights and freedoms. During the period covered by the previous Country Strategy, a number of steps have been taken to improve the institutional and legislative framework for maintaining human rights standards.

Mongolia maintains an active engagement with international bodies responsible for monitoring democratic and human rights standards. During the period since the last Country Strategy was approved, they have not raised substantive concerns about Mongolia’s application of basic civil and political rights. Mongolia has ratified the main UN human rights conventions and has maintained a standing invitation to all thematic special procedures since 2004. It conducts an annual human rights dialogue with the EU.

The main domestic body responsible for monitoring human rights standards, the National Human Rights Commission (NHRC), is fully compliant with the 1993 UN Paris Principles, which set out the standards for national institutions for the promotion and protection of human rights. The status of the NHRC was enhanced by a new law in January 2020, which increased the number of commissioners and set out more transparent procedure for their appointment. In April 2021, the State Great Khural adopted a law on human rights defenders. Michele Bachelet, the UN High Commissioner for Human Rights, noted that, “This is a major achievement for Mongolia, signalling its clear commitment to human rights.”<sup>19</sup>

<sup>16</sup> OECD, *Fourth Round of Monitoring, Mongolia*, p. 8.

<sup>17</sup> The Head and the Deputy Head of the Independent Authority Against Corruption are appointed and dismissed by the State Great Khural.

<sup>18</sup> In July 2021, PM Oyun-Erdenet established a working group to examine ways to improve Mongolia’s ranking on the Transparency International Corruption Perceptions Index.

<sup>19</sup> The adoption of the law came after a critical report by the Special Rapporteur on Human Rights Defenders in 2019. Statement on OHCHR website, 30 April 2021.

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## *Political inclusiveness for women, ethnic and other minorities*

The Constitution and supporting legislation set out the basis for the political inclusiveness for women, ethnic and other minorities, in most respects. Article 14(2) states that, “No person shall be discriminated against on the basis of ethnic origin, language, race, age, sex, social origin, property, religion, opinion and education. Everyone shall be a person before the law.” Article 16(11) states that, “Men and women shall enjoy equal rights in the political, economic, social, cultural fields and in family relationships.” The National Committee on Gender, a public body responsible for ensuring equal participation in public life, is headed by the PM.

Women remain seriously under-represented in senior political and governmental positions. The proportion of seats held by women in the State Great Khural at around 17% is low and has barely changed in the past ten years, despite a legal quota for at registered parties and coalitions to have at least 20% women candidates.<sup>20</sup> ODIHR noted the absence of women candidates in the June 2021 presidential elections and the under-representation of women in the higher levels of the election administration.<sup>21</sup>

In 2020, UN experts repeated earlier recommendations that Mongolia adopt comprehensive anti-discrimination legislation. It also repeated concerns about the “persistence of discrimination against lesbian, gay, bisexual, transgender and intersex persons in the areas of employment, housing, healthcare and education, and the lack of recognition of same-sex couples”.<sup>22</sup>

After a visit in December 2021, a UN Special Rapporteur on Violence Against Women “commended Mongolia’s significant progress in passing legislation to combat gender-based violence against women” but called for more effective implementation.<sup>23</sup>

Mongolia is a relatively ethnically homogeneous country. Kazakhs make up the largest minority, around 4%, with a number of Mongol ethnic minority groups making up another roughly 6%. Relevant bodies raise concerns from time to time about access to education in minority languages and the disproportionately negative impact of economic development on ethnic minorities.

## *Freedom from harassment, intimidation and torture*

The Constitution sets out the basis for freedom from harassment, intimidation and torture. Article 16(13) states that citizens of Mongolia shall enjoy “the right to personal liberty and safety. No one shall be searched, arrested, detained, persecuted or restricted of liberty except in accordance with procedures and grounds determined by law. No person shall be subjected to torture, inhumane, cruel or degrading treatment.”

In 2020, Mongolia established a National Preventive Mechanism within the NHRC to carry out visits to places of detention to reduce the potential for detainees to be subject to torture and other forms of ill-treatment. However relevant international bodies have expressed concerns about the lack of implementation,<sup>24</sup> particularly against the background of restrictions imposed by the authorities in the context of the COVID19 pandemic.

<sup>20</sup> The quota was introduced in 2016. ODIHR report noted that “high campaign costs” might be a factor in holding back women’s participation. Report of ODIHR Needs Assessment Mission, April 2020, p 2.

<sup>21</sup> Report of the ODIHR Special Election Assessment Mission, October 2021, pp 2-3, 4-5.

<sup>22</sup> Human Rights Council. Compilation on Mongolia. Report of the United Nations High Commissioner for Human Rights, March 2020, p 3.

<sup>23</sup> Statement on OHCHR website, 8 December 2021.

<sup>24</sup> The mechanism was set up after recommendations made by the UN Subcommittee on Prevention of Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment in 2018. For expressions of concern about lack of implementation see Amnesty International Mongolia in 2021 page on its website **PUBLIC**

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Although Mongolia has abolished the death penalty for all practical purposes, it remains an option according to the Constitution. Article 16(1) states that citizens shall enjoy the right to life and that, “Deprivation of human life shall be strictly prohibited unless capital punishment is imposed by due judgement of the Court for the most serious crimes, pursuant to Mongolian Criminal Law.”