

MONGOLIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: MONGOLIAN TUGRIK (MNT)

POPULATION AND GEOGRAPHY

Area: 1 564 120 km²
Population: 3.076 million inhabitants (2017), an increase of 1.9% per year (2010 - 2015)
Density: 2 inhabitants / km²
Urban population: 68.4% of national population (2017)
Urban population growth: 1.7% (2017)
Capital city: Ulaanbaatar (49.4% of national population)

ECONOMIC DATA

GDP: 39.7 billion (current PPP international dollars), i.e. 12 918 dollars per inhabitant (2017)
Real GDP growth: 5.3% (2017 vs 2016)
Unemployment rate: 6.4% (2017)
Foreign direct investment, net inflows (FDI): 1 494 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 24.7% of GDP (2017)
HDI: 0.741 (high), rank 92 (2017)
Poverty rate: 6.0% (2016)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

According to its 1992 Constitution, last amended in 2001, Mongolia is a unitary country and semi-presidential republic. The legislative power is vested in the State's Great *Khural* (Parliament; also spelt *Hural*), made up of 76 members which are directly elected by universal suffrage every four years, on the basis of a first-past-the-post system. The President is the head of the state and is also elected for a four-year term by universal suffrage. The Prime minister, appointed by the President with approval of the Parliament, is the head of government (cabinet) and the leader of the majority party in the Parliament.

Following the country transition to a multi-party democracy and market economy in the 1990s, the central government of Mongolia introduced a number of policy reforms to decentralize the country's political organization and clarify the structure and functions of the different tiers of government. Mongolia has a three-tier subnational government system: *aimags* (provinces) and the capital city of Ulaanbaatar at the provincial level; *soums* and districts at the intermediate level; and *bagh* and *khoroos* at the first level of local government. Chapter IV of Constitution sets the territorial organization of the country (Article 57) and provides for the creation of autonomous subnational legislative bodies, the Citizen's Representative *Khurals* (CRK) – local assemblies – and its presidium. The governance of these subnational entities is based on the "twinning principles" of self-governance (Article 61 to 63) and state governance (Article 60). In addition, various regulations define the legal status of subnational governments: the Law on the Legal Status of Cities and Towns located in the territories of administrative divisions of 1993; the Law on Legal Status of the Capital City of 1994; and the Law on Administrative and Territorial Units of Mongolia of 2006.

At each level of subnational government, CRK members are elected directly and every four years. The Chairperson of the CRK is elected by its peers as the head of the local assembly. The executive body of the *aimags*, Ulaanbaatar, the *soums* and the districts are governors. Governors of the *aimags* and Ulaanbaatar are appointed by the Prime Minister. Each provincial governor nominates the governor at the *soum* and district level, who in turn appoints the governor at the municipal level. Formally, the CRK can make recommendations to the governor of the higher tier of government to appoint and dismiss the governor of its jurisdiction. This has recently happened in Ulaanbaatar at the end of 2018. The Prime Minister or the Governor might refuse the recommendation as provided in Article 60 of the Constitution. While the *de jure* duties and check-and-balance system appear to be clearly defined between Governors and CRKs, in practice this mechanism remains unclear and under the central government's financial and administrative strong oversight. The latest local elections took place in October 2016.

Recent institutional reforms have focused mainly on administrative rather than fiscal decentralization. Recent attempts to improve decentralization and strengthen citizens' participation in local planning have included the adoption of the Governance and Decentralization Programme in 2011, which promoted the new Integrated Budget Law (2013) and the Local Development Fund (LDF) in 2012.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	1 568 communities (<i>Bagh</i>) 152 neighborhoods (<i>Khoroos</i>) Average municipal size: 1 788 inhabitants	330 regions (<i>Soums</i>) 9 districts (<i>Duuregs</i>)	21 Provinces (<i>Aimags</i>) 1 capital city	
	1 720	339	22	2 081

OVERALL DESCRIPTION. The territorial structure of Mongolia reflects the particular geographic and demographic context of the country, with a low population density in each subnational unit in comparison to the capital city, which hosts half of the population. The country's three-tier system of subnational government includes 21 *aimags* at the provincial level; *aimags* are divided into *soums* at the district level (330 in total); finally, each *soum* is subdivided into the lowest unit of self-government, the *bagh* (1 568 in total, located in rural areas). In urban areas, the capital city of Ulaanbaatar holds a provincial status defined by the Law on Legal Status of the Capital City. The capital is divided into 9 districts at intermediate level (same tier as the *soums*), divided in turn into 152 *khoroos*, or neighborhoods, the first level of self-government in this urban area (same tier as the *baghs*). The governor at each level of subnational government is responsible for implementing territorial governance. Governors are accountable to both the central government and the governors of higher instance in their respective territories. Lastly, recent debates over local electoral systems have emphasized the growing mismatch between the size of electoral circumscriptions in rural areas and the particular concentration of population of Ulaanbaatar.

PROVINCIAL LEVEL. *Aimags* as territorial units are based on the delimitations of their former Socialist counterparts. An *aimag* consists, on average, of 18 *soums*. The number of the representatives of *aimag* assembly (CRK) ranges from 25 to 35, depending on the population size (Art. 10 of Law on Administrative and Territorial Units of Mongolia). The CRK of the capital city is composed of 45 representatives.

REGIONS AND DISTRICTS. Mongolia has 330 *soums* with an average population of 4 600 inhabitants. Most *soums* (93%) are rural and host nomadic population. *Soums'* local assemblies are made up of 15 to 25 representatives. Still at the intermediate level, Ulaanbaatar's district assemblies consist of 21 to 35 representatives, according to their population.

FIRST LEVEL. The *bagh* is historically the traditional basic jurisdictional unit of the country, dating back to the Mongolian Great Empire. Local self-governing bodies of *baghs* (rural) and *khoroos* (urban) are called General *Hurals* of Citizens, i.e., local meetings.

COOPERATION BETWEEN TERRITORIAL UNITS has been encouraged by development agencies active in the country. Inter-*soum* models have been developed in health management, and Habitat III's national report mentions other various inter-*soum* experiments in the provision of other services.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The Constitution defines the distribution of competences among Ulaanbaatar's government, *aimags*, *soums* and districts and their CRK (Article 62). The 2002 Public Sector Financial Management Law (PSFML) specifies core subnational government responsibilities, including local administration, environment protection, local public infrastructure facilities, sanitation and sewage, waste management, local road maintenance, and public areas. The 2006 Law on Administrative and Territorial Units defines the tasks of subnational government bodies, even though these competences are ultimately retained by the governor. Policy areas whose output and effect spill over the administrative boundary of individual units, such as education and healthcare, are shared with juxtaposing levels of governments. The balance among these institutions has witnessed various rounds of decentralization and recentralization. The administration of Ulaanbaatar, finally, has also progressively expanded the scope of services it provides, resulting in even more overlaps between different levels of subnational governance.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES AND CAPITAL CITY	INTERMEDIATE LEVEL (SOUM AND DISTRICT)	MUNICIPAL LEVEL (BAGH AND KHOROO)
1. General public services	Administrative and permit services (civil registration); Public buildings and facilities	Administrative and permit services (civil registration); Public buildings and facilities	Administrative services (postal services); Basic Research activities (statistical data preparation)
2. Public order and safety	Traffic signs and lights; Defence (military and civil)	Traffic signs and lights	Public order and safety; Fire protection
3. Economic affairs /transports	Local economic and social development; Support to local enterprises; Mining; Public transport (road); Road networks and facilities (provincial); Telecommunications (IT)	Local economic and social development; Support to local enterprises; Mining; Public transport (road); Road networks and facilities (local); Telecommunications (IT)	Agriculture (livestock)
4. Environmental protection	Sustainable utilization of land; Soil protection; Measures for environmental protection; Prevention from natural disaster; Parks and green areas	Sustainable utilization of land; Soil protection; Measures for environmental protection; Prevention from natural disaster; Parks and green areas; Sewerage (waste water management); Waste management (collection, treatment and disposal of waste)	Nature preservation
5. Housing and community amenities	Housing (management); Urban and land use planning; Housing (construction and renovation); Energy supply	Housing (management); Urban and land use planning; Housing (construction and renovation); Public lightning	Food supply
6. Health	Primary healthcare (medical centres); Preventive healthcare	Primary healthcare (medical centres); Preventive healthcare	Primary healthcare (medical centres)
7. Recreation, culture & religion	Sociocultural activities; Sports and recreation	Sociocultural activities; Sports and recreation	
8. Education	Secondary education; Technical education	Secondary education; Technical education	Pre-primary education; Primary education
9. Social protection			Social care and assistance

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces (<i>aimags</i>), capital city <i>soums</i> and districts.	IMF GFS	Availability of fiscal data: Medium	Quality/reliability of fiscal data : Medium
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GENERAL INTRODUCTION. The 1992 Constitution, the 2006 Law on Administrative and Territorial Units, the 2002 Public Sector Finance and Management Law, the 2008 General Law on Taxation and the 2013 Integrated Budget Law (IBL) set out the first legal framework for subnational government finance systems and mechanisms. Additionally, the 2006 Mineral Laws, amended in 2014, acknowledge subnational governments' capacity to establish local level agreements between local legislative bodies and the mining companies.

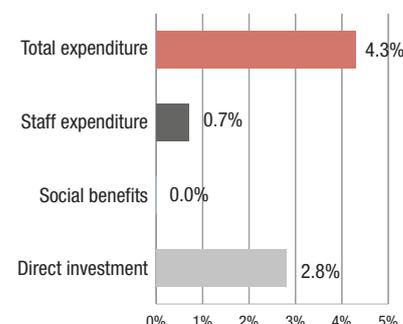
Local governments are empowered to collect subnational revenues from mining exploration. Provinces and districts that host extractive industries have also established subnational councils to promote transparency in the management of resources at local level. The adoption of the Law of Mongolia on Glass Accounts in 2014 was an important step forward to increase fiscal transparency. The law aims to ensure the efficient use of state and local government funds and assets, improve the transparency of decisions and actions concerning budget management and strengthen citizens' oversight through an information system. Finally, Ulaanbaatar and its nine districts have their own treasury accounts.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	1 184	9.7%	100%	
Incl. current expenditure	948	7.7%	80.0%	
Staff expenditure	434	3.5%	36.6%	
Intermediate consumption	243	2.0%	20.5%	
Social expenditure	176	1.4%	14.9%	
Subsidies and current transfers	94	0.8%	8.0%	
Financial charges	0	0.0%	0.0%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	237	1.9%	20.0%	
Capital transfers	0	0.0%	0.0%	
Direct investment (or GFCF)	237	1.9%	20.0%	



EXPENDITURE. The share of local expenditures represented 25% of total public expenditures in 2016. A large proportion of local expenditures are assigned to current expenditures, and in particular staff expenditures, which account for 37% of total subnational government expenditures and 44.5% of public staff expenditure. In Ulaanbaatar, the city government's total expenditures have quadrupled between 2008 and 2011, and accounted for almost 75% of total local expenditures in 2013.

DIRECT INVESTMENT. Under the 2002 Public Sector Finance and Management Law, capital expenditures were an exclusive function of central government, with capital management partly assigned to the aimag and capital city levels and no capital expenditures assigned to the district and soum levels. With the introduction of the 2013 Integrated Budget Law (IBL), capital expenditures are now assigned to the aimag and capital city level, and capital maintenance is partly assigned to the district and soum level. Article 62 of the 2013 IBL acknowledges community participation in the local budget processes, particularly in the allocation of local development funding. In 2016, subnational government spent 237 dollars PPP per capita on direct investment. Ulaanbaatar is responsible for most of the direct investments.

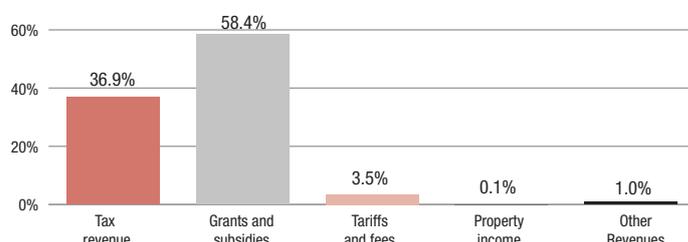
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Considering the functions assigned to the subnational level of governments, the majority of local government expenditures are spent on general public services, housing and community amenities, agriculture and environmental protection, and public transportation and communication. In Ulaanbaatar, in particular, most spending is on public transportation and general administration, the remaining being spent for local services, including street lighting and cleaning, prevention of infectious diseases, land-use management and public safety.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	1 109	9.1%	35.9%	
Tax revenue	409	3.3%	22.7%	
Grants and subsidies	648	5.3%		
Tariffs and fees	39	0.3%		
Property income	2	0.0%		
Other revenues	12	0.1%		



OVERALL DESCRIPTION. Mongolian subnational governments' revenues correspond to 9% of the GDP. It is made up of transfers from the central level, tax revenue, non-tax revenue. The 2013 IBL has redefined the revenue assignment. For instance, license feeing for mining, exploration of mineral resources and stamp duty became the central government's responsibilities, while user fees for water is now allocated to the *aimag*, capital city government, *soum* and district levels. Subnational governments' main source of revenue (58%) are grants and transfers, which include shared taxes and funding from the Local Development Fund. Tax revenue has been decreasing since 2003 and amounts to 37% of total SNG revenues in 2016. Total subnational government revenue accounted for 36% of total public revenue in 2016.

TAX REVENUE. As per the Constitution, taxes that are not mentioned in the 2008 General Law on Taxation can be assigned to subnational governments. The 2008 Law on Taxation provides a list of local taxes that are established by local *Khurals*, including personal income tax (PIT), income tax of individuals engaged in work and services, immovable property tax and various charges (i.e., on use of natural resources, use of natural plants, use of hunting reserves, land charges, among others). Other taxes collected by subnational governments include a "dog tax", as well as an inheritance and gift tax. Tax rates are established by the *aimag* or capital city's CRK, but require approval by the central government. In 2016, PIT represented 2.2% of GDP, 66% of SNG tax revenue and 24% of SNG total revenue, while property taxes amounted respectively to 0.4%, 13% and 5%. Since 2015, Ulaanbaatar has been assigned a special municipal tax law, i.e. the "Capital City Tax", which levies tax from bars, hotels, resorts, restaurants, alcohol and smoking products.

GRANTS AND SUBSIDIES. The 2013 IBL (Article 56) defines three types of transfers to local government: financial support transfers, revenue sharing transfers and earmarked transfers to finance delegated functions by the respective ministries. Financial Support Transfers (FST) are not earmarked and fulfil the general purpose of covering subnational budget deficits. It is formula-based on the estimated total expenditure of each local budget and annually estimated revenue collection, calculated at minimum tax rates as defined by law.

Local Development Fund (LDF) introduces a formula-based transfer. It is made up of four sources, including 25% of VAT, 5% of royalty on minerals, and donations from national and international organizations collected into a single General Local Development Fund. At least 60% of the GLDF transferred to *aimags* and the capital city must be allocated to lower tiers of government on the principle of regional equalization and a pre-set formula: one fourth according to the official level of development of *aimags*; one fourth according to the population; one fourth according to population density, remoteness from Ulaanbaatar, and the area of the *aimag*; and one fourth according to local tax amounts. LDF tends, however, to be unpredictable, as revenues from mining royalties vary from year to year and depend on macro-economic cycles. To date, there is no financial mechanism to ensure predictability in revenue allocations.

Earmarked transfers for delegated functions are defined by Article 60 of the IBL according to an agreement between governors of subnational governments and the central government.

OTHER REVENUES. Other revenues for local CRK consist of user charges such as market fees, transport fees, refuse collection fees; business permits; and charges for registration. In addition, 30% of mining royalties go directly to *aimag* from where the minerals are produced, of which one third is reassigned to the *soums*.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
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Total outstanding debt

Financial debt*

* Currency and deposits, loans and bonds

FISCAL RULES. The country established ceilings on the structural budget deficit, expenditure growth and public debt ratio as fiscal rules. The 2013 IBL introduces annual budget ceilings for the budget of governors, who are responsible for developing the budget proposal. Each governor submits its budget proposal to its respective CRK for approval, then submitting it to the State Central Administrative Body responsible for Finance and Budget. The National Audit Office carries out financial audits of all state entities. The establishment of a Fiscal Stability Council to oversight budget execution and ensure fiscal sustainability is currently underway.

DEBT. The 2013 IBL allows local *Khurals* to incur debt, issue loans and guarantees, contingent liabilities and manage debt. According to Article 62 of the 2013 law, *aimag* and the capital city governments can only borrow from the national treasury. Ulaanbaatar has autonomy to borrow up to 4 years as well as to issue bonds, provided it has the approval of the Ministry of Finance. The city created a Special Purpose Vehicle, the Ulaanbaatar Development Corporation (UBDC), to be able to access financing from the private sector. In general, subnational government repayments to central government lending shall not exceed the subnational governments' base revenue of the previous financial year and the total amount of the debt service shall not exceed 15% of that revenue.



World Observatory on Subnational Government Finance and Investment

Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.

Fiscal data: World Bank // IMF Government Finance Statistics // Unified Budget of Mongolia.

Other sources of information: UNDP (2018) Development Finance Assessment for Mongolia. Diversifying finance for sustainable development // UCLG ASPAC Cities Alliance (2018) City enabling rating: assessment of the countries in Asia and the Pacific // Munkhsoyol Baatarjav (2018) Can Mongolia's Fiscal Stability Council Improve Fiscal Discipline? Natural Resource Governance Institute // Lkhagvadorj, A. (2015) An Analysis of the New Budget Law of Mongolia of 2011 // World Bank (2013) City Finances of Ulaanbaatar, Mongolia // Lkhagvadorj, A. (2010) Fiscal Federalism and Decentralization in Mongolia // Mongolia extractive industries transparency initiative.