

MONGOLIA

UNITARY COUNTRY

ASIA PACIFIC

BASIC SOCIO-ECONOMIC INDICATORS

Income group - LOWER MIDDLE INCOME Local currency - Mongolian tögrög (MNT)

POPULATION AND GEOGRAPHY

AREA: **1 564 120** km²

POPULATION: **2.923** million inhabitants (2014), an increase of 1.49% per year (2010-2014)

DENSITY: **2** inhabitants/km²

URBAN POPULATION: **72%** of national population

CAPITAL CITY: **Ulaan Baatar** (45.6% of national population)

Sources: World Bank World Development Indicators, UN World Urbanisation Prospects, ILO

ECONOMIC DATA

GDP: **34.8** billion (current PPP international dollars) i.e. 11 892 dollars per inhabitant (2014)

REAL GDP GROWTH: **7.8%** (2014 vs 2013)

UNEMPLOYMENT RATE: **7.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **384** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **32%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.727** (high), rank **90**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
1 744	339	22	2 105
COMMUNITIES/NEIGHBORHOODS (BAG/KHOROS) AVERAGE MUNICIPAL SIZE: 1 676 INHABITANTS	REGIONS/DISTRICTS (SUM/DUUREGS)	PROVINCES (AIMAGS) ± CAPITAL CITY	

MAIN FEATURES OF TERRITORIAL ORGANISATION. Mongolia is a unitary country with a three-tier government system, divided into 21 aimags (provinces) and the capital city; Aimags are divided into 330 soums and 1592 baghs; the capital city has a different status, it is divided into 9 duuregs (districts) and 152 khoros - the lowest formal administrative and territorial unit. To address the issue of fragmentation, a regional development program has been introduced, but this program is not effective in practice in 2016. The legal status of town and villages situated on territories of administrative divisions are defined by law. Parliaments of the capital city and provinces are elected for a four years period. Governors of provinces and capital city are appointed by the Prime Minister; Those of regions and districts are appointed by governors of provinces.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. The system of intergovernmental fiscal relation is based on the Constitution, the law on Administrative and Territorial Units (LTAU), and the Public Sector Finance and Management Law (PSFML, 2002). After a process of decentralisation of most social services to the sub-national level until 2002, The PSFML assigned most social services back to the central government, and the service provision tasks were delegated to the local governments. Services were then recentralized again until the introduction of the Integrated Budget Law in 2013, that marks a new trend towards effective fiscal decentralization. Pure local responsibilities are local administration, pasture management, local public infrastructure, waste management, and public areas. All other functions are shared among different levels of government (for instance, for health and education). There is a responsibility mismatch at the subnational level as the governor (executive branch) is appointed by the central government, whereas the khural (legislative branch) is elected locally. Even though the Constitution and the Budget Law require uniform treatment for the capital city and other aimags, the Municipality of Ulan Bator, as main urban area of the country has been delivering an increasing scope of additional services.

SUBNATIONAL GOVERNMENT FINANCE

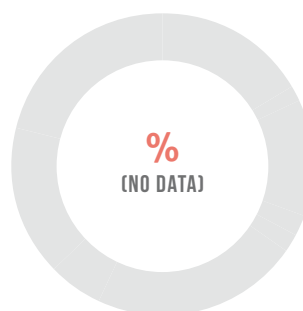
EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	9.4%	29.0%	100%
CURRENT EXPENDITURE	7.2%	-	77.3%
STAFF EXPENDITURE	3.7%	45.8%	39.2%
INVESTMENT	2.1%	27.4%	22.7%

The share of local expenditures dropped sharply after the 2003 reform, and has increased since then to come back to the previous level, approximately 30% of total public expenditures. Yet the expenditure responsibilities and investments is very unequal among the provinces. In 2013, the total expenditures of the capital city Ulaanbaatar, economic center of the country, accounted for almost 75% of local expenditures.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



Local governments in Mongolia do not use Classification of Local Governments Expenditures by Functions of Government. Yet, since the introduction of the IBL in 2013, discretionary spending by local governments is set to increase significantly in the coming years.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	9.9%	31.3%	100.0%
TAX REVENUE	3.2%	13.3%	32.1%
GRANTS AND SUBSIDIES	5.9%	-	59.2%
OTHER REVENUES	0.9%	-	8.7%

Mongolian local governments budget revenues comprise transfers from central level, own-source tax revenue, non tax revenue, including shared taxes between the regions and municipalities, and capital revenue. Tax revenues have been decreasing widely since 2003, and local governments have a very limited fiscal capacity. Non budget revenues also consists of funding from international organizations and donations from citizens and enterprises. The Integrated Budget Law (IBL) of Mongolia that came into effect in 2013 is the first law that specifically prescribes public consultations and inputs to government budget-related decision-making.

TAX REVENUE. Local councils' main taxes include the property tax, personal income tax (PIT) and levies (local taxes on business activities, such as the grain levy for farmers). Local governments have little autonomy on their tax revenues, as any change to tax rates or base requires the approval of central authorities. The capital-city Ulaanbaatar benefits from additional local taxes such as the Capital city tax, user fees and land and real estate transfer taxes, on which they may have some flexibility and autonomy. Other smaller fiscal revenues may include for instance the pole levy (charged on electricity poles), charcoal levy, bicycle levy, etc.

GRANTS AND SUBSIDIES. Local governments in Mongolia are dependent upon transfer from the central government, which constituted close to 60% of their revenues in 2013. The Integrated Budget Law also introduced in 2013 the Local Development Fund (LDF), monetary assistance provided directly to local governments for projects that improve the living standards of local residents.

OTHER REVENUES. Other revenues for local councils include user charges (such as market fees, transport fees, refuse collection fees, etc), licenses (business permits), and various charges for registration (fire registration, marriage registration, etc).

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	1.8%	3.8%

According to the Local Government Act, local councils are able to borrow in order to finance their expenditures. All local long term loans are acquired through the Ministry of Finance and National Planning. However, they are not allowed to borrow internationally. In the case of Ulaanbaatar, the capital city is allowed to borrow since 2011, but remains obstructed to do so because the debt limit of 56% of GDP has already been reached at the national level. To counter this limit, the city has created a SPV, the Ulaanbaatar Development Corporation (UBDC), to be able to contract with private sector to fund investments.

A joint-study of:



Sources: <http://www.mlgh.gov.zm> • A. Lkhagvadorj (2010), Fiscal Federalism and Decentralization in Mongolia • 2013 Mongolian integrated budget performance outcome statement • P. Blunt (2013), Rural Mongolia's Early Experience with local Development Fund Utilisation under the Integrated Budget Law: Findings and Recommendations • UCLG Committee on Local Finance (2016), The conditions for mobilizing sustainable local resources, case study of Ulaanbaatar • Ulan Bator Economic Development Agency.