

Fostering Inclusive Tourism Development  
in the Aftermath of COVID-19

# Mongolia



June 2021



## Acknowledgements

This study was prepared by a World Bank team led by Michael Engman and Nick Kojucharov, in collaboration with Indraa Bold. The team worked under the guidance of Martin Raiser, Andrei Mikhnev and Zafer Mustafaoglu, and benefitted from valuable comments and inputs by John Perrottet, Andres Garcia, Bernard Aritua, and Akiko Sawamoto. Kayhan Suleman prepared the visual design of this presentation. The team is grateful to the leadership of the Ministry of Environment of Tourism as well as to the Mongolian Tourism Association for their time, insights, inputs and background material. The authors are also grateful for the assistance provided by Marinella Yadao, Otgonbayar Yadmaa and Susana Rey.

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# Background

- The development of the **tourism sector** has long been viewed as integral to Mongolia's efforts to diversify the economy and create more jobs outside the mining sector.
- Mongolia has a **unique value proposition** from a tourism endowment perspective, with strong niche products for leisure tourism linked to the country's diverse nature and stunning sceneries; the nomadic lifestyle and Mongolian culture and festivals; the historical legacy of Genghis Khan; and sports and adventure tourism that thrive during a relatively short tourism season mainly between May and September.
- The **business travel** sub-sector is associated with Mongolia's vibrant mining industry. The spectacular growth of the mining industry has brought rapid economic growth. It has captured the attention of both politicians and business leaders and helped shape the Government of Mongolia's (GoM) policy agenda. It has also absorbed much workforce talent and led to persistent macroeconomic turbulence.
- The **leisure tourism** sub-sector has struggled to expand for most of the past two decades, underperforming its potential, but began to gather growth momentum in 2016, achieving arguably its best year on record in 2019. However, this was followed by the worst year on record in 2020 when the COVID-19 pandemic led to the closure of international borders, cancelled flights and reduced domestic mobility.
- As of the publication date of this study (June 30, 2021), it remains unclear how much longer the COVID-19 pandemic will constrain global tourism activity. Fortunately, Mongolia has reported one of **the fastest roll-outs of vaccines in the world**. By May 10, 2021, Mongolia had inoculated more than 50% of its population with at least one dose of vaccine – the world's second highest rate at the time.\*
- This study is presented in a **visual PowerPoint format** to allow readers to more readily access key data, analytical findings and policy conclusions. It is a follow up to the previous World Bank-commissioned study of Mongolia's tourism sector nearly a decade ago (*World Bank (2012), "Mongolia: Economic Contribution of Mongolia's Tourism Markets", Discussion Paper, February 2012*) that was prepared by a team of sector association and business leaders in Mongolia's tourism sector—many of whom the authors of this new study consulted and whose insights greatly benefited this work.

\* <https://ourworldindata.org/covid-vaccinations>

# Objectives, method and data

- **Objectives:** This study analyses the performance of the Mongolian tourism sector and the policy environment in which it operates. It adopts a data-driven approach to answer the key question of “what can the Government do to make Mongolia a more competitive tourism destination that delivers more inclusive and sustainable outcomes for the country?”
- **Method:** The analysis is structured as follows:
  - **Section 1** reviews the performance of the tourism sector, including the evolution of visitor demand, economic impacts, the profile of private enterprises in the sector, and the impact of COVID-19.
  - **Section 2** examines the Government of Mongolia's tourism vision, policy and targets.
  - **Section 3** presents the findings of a new enterprise survey conducted for this study to identify and rank binding constraints to tourism development. It also provides deep dives into specific constraints based on insights of business roundtable discussions and the recent literature.
  - **Section 4** presents an outlook for Mongolia's tourism sector based on scenarios for future visitor demand. It also assesses the supply-side implications of these scenarios for air transport, product development, accommodation and employment based on a built-for-purpose economic model.
  - **Section 5** concludes with a series of recommendations around regulatory reforms, policy measures, and public investments that could support the implementation of the State Policy for Tourism Development 2019-2026 and promote growth and diversification of Mongolia's tourism sector.
- **Data:** The analysis relies on publicly available data sources as well as quantitative and qualitative data collected for the purpose of this study.
  - ❖ **Central data sources:** provided by the World Bank Open Data portal ([data.worldbank.org](https://data.worldbank.org)) and the Tourism Statistics Data portal provided by the World Tourism Organization ([unwto.org/tourism-statistics-data](https://unwto.org/tourism-statistics-data)).
  - ❖ **Government of Mongolia:** national statistics, survey data and views provided by the Bank of Mongolia and the Ministry of Environment and Tourism.
  - ❖ **Enterprise survey:** firm-level data collected by the authors from 53 tourism companies operating in Mongolia in February-March 2021.
  - ❖ **Business roundtables:** feedback collected in eight roundtable discussions with business leaders from various sub-sectors of the tourism sector in April 2021, in addition to interviews with various sector representatives and government officials between October 2020 and May 2021.

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1.

# THE STATE OF MONGOLIA'S TOURISM SECTOR



Mongolia has a  
**UNIQUE**  
value proposition  
to tourists





1.1

## Evolution of Demand



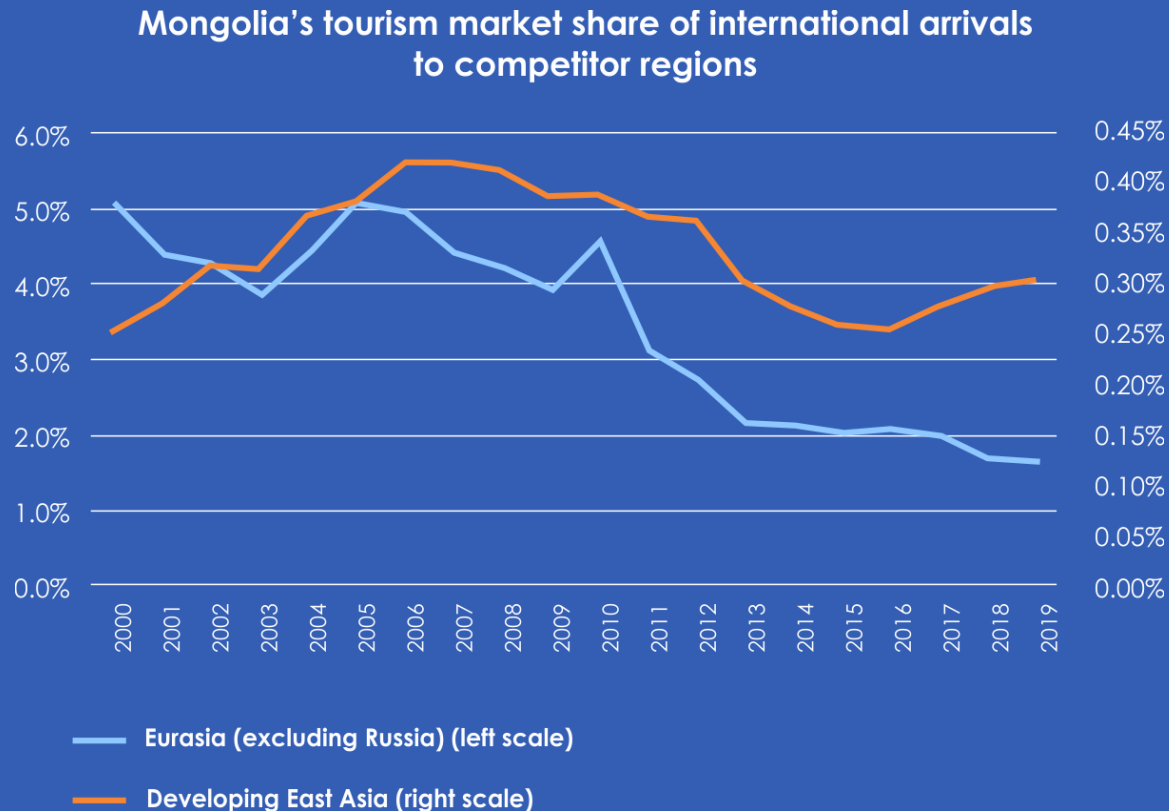
## International tourism arrivals grew rapidly in 1995-2011 before stagnating in 2012-2019



Source: <https://data.worldbank.org/>

- In 1995-2019, international arrivals grew by 10% (compound aggregate growth rate, CAGR) but the growth stagnated in the last decade:
  - ✓ In 2000-2009: CAGR = 11.4%
  - ✓ In 2010-2019: CAGR = 3.2%
- Over this period, the sector has absorbed several exogenous shocks:
  - ✓ 2001: 9/11 terrorist attack
  - ✓ 2003: SARS outbreak
  - ✓ 2008-2009: Global financial crisis
  - ✓ 2014-2015: Domestic measles outbreak
  - ✓ 2020-2021: COVID-19 pandemic
- 2013-2015: business travel was adversely affected by a confluence of factors: (i) the mining industry is hit by the amendment to the Foreign Investment Law, which led to legal uncertainty and resulted in a steep drop in FDI; and (ii) the international market prices for coal and copper—Mongolia's main exports—both plunged.

## In the 2010s, Mongolia lost market share in competing regional tourism markets



*Note: Eurasia regional aggregate includes Mongolia, Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan, Georgia, Armenia, and Azerbaijan. Developing East Asia regional aggregate includes Mongolia, China, Cambodia, Indonesia, Lao PDR, Myanmar, Malaysia, Philippines, Thailand, and Vietnam.*

**Source:** United Nations World Tourism Organization (UNWTO)

- From 2000-2010, Mongolia expanded its market share of international tourism arrivals to **Developing East Asia**, from 0.25% to a peak of 0.4%. This positive trend then reversed and Mongolia's market share dropped to 0.3% in 2019.
- From 2000-2010, Mongolia broadly maintained its market share of international tourism arrivals to **Eurasia** (excluding Russia) at around 5%. This market share then shrank considerably to 1.6% in 2019.

# Benchmarking Mongolia's international arrivals to comparable tourism destinations

		Total arrivals <sup>1</sup> (2019)	Growth in total arrivals, 2010-2019	Arrivals per capita	Arrivals for leisure
	Units	thousands	CAGR, %	ratio (arrivals/ resident population)	% of total arrivals
	<b>Mongolia</b>	<b>577</b>	<b>2.6</b>	<b>0.2</b>	<b>45.1</b>
<b>Regional (Eurasia) comparators</b>	Kazakhstan	8,515	8.5	0.5	0.9
	Kyrgyz Republic	8,508	24.0	1.3	N/A
	Uzbekistan	6,749	24.0	0.2	15.5
	Tajikistan	1,254	25.7	0.1	7.1
	Georgia	5,080	18.9	1.4	66.1
	Azerbaijan	2,876	9.4	0.3	42.2
	Armenia	1,894	12.0	0.6	55.4
	Inner Mongolia (China)	1,866	3.2	0.1	N/A
<b>Comparators with similar geographic features and/or tourism product menu</b>	Namibia	1,596	5.5	0.6	33.6
	Botswana <sup>2</sup>	1,655	-2.2	0.7	22.4
	Bhutan	316	25.5	0.4	89.1
	Nepal	1,197	7.9	0.04	79.4
<b>Comparators with similar climate-driven seasonality patterns</b>	Iceland	2,013	17.0	5.6	N/A
	Alaska <sup>3</sup>	1,204	4.1	1.6	N/A
	Greenland <sup>4</sup>	58	2.7	1.0	N/A
	Russian Arctic	68	4.5	0.03	N/A

- Relative to **comparators in Eurasia**, Mongolia receives the smallest number of international arrivals (and the second lowest on a per capita basis) and has experienced the slowest growth in arrivals over the past decade.
- Relative to comparators outside of Eurasia with similar **geographic features and/or tourism product menu** (nature, wildlife, adventure, culture), Mongolia also lags in terms of arrivals on a per capita basis (except for Nepal).
- Relative to selected comparators with similar climate-driven seasonality patterns**, Mongolia attracts more arrivals than destinations with large land masses such as Greenland and the Russian Arctic, but compares unfavorably in terms arrivals per capita and arrivals growth to more established highly-seasonal destinations such as Iceland and Alaska.

<sup>1</sup> International arrivals staying overnight (excludes same-day visitors and cruise arrivals)

<sup>2</sup> 2018 data.

<sup>3</sup> Arrivals by air only (excludes cruise visitors); includes visitors from the continental United States.

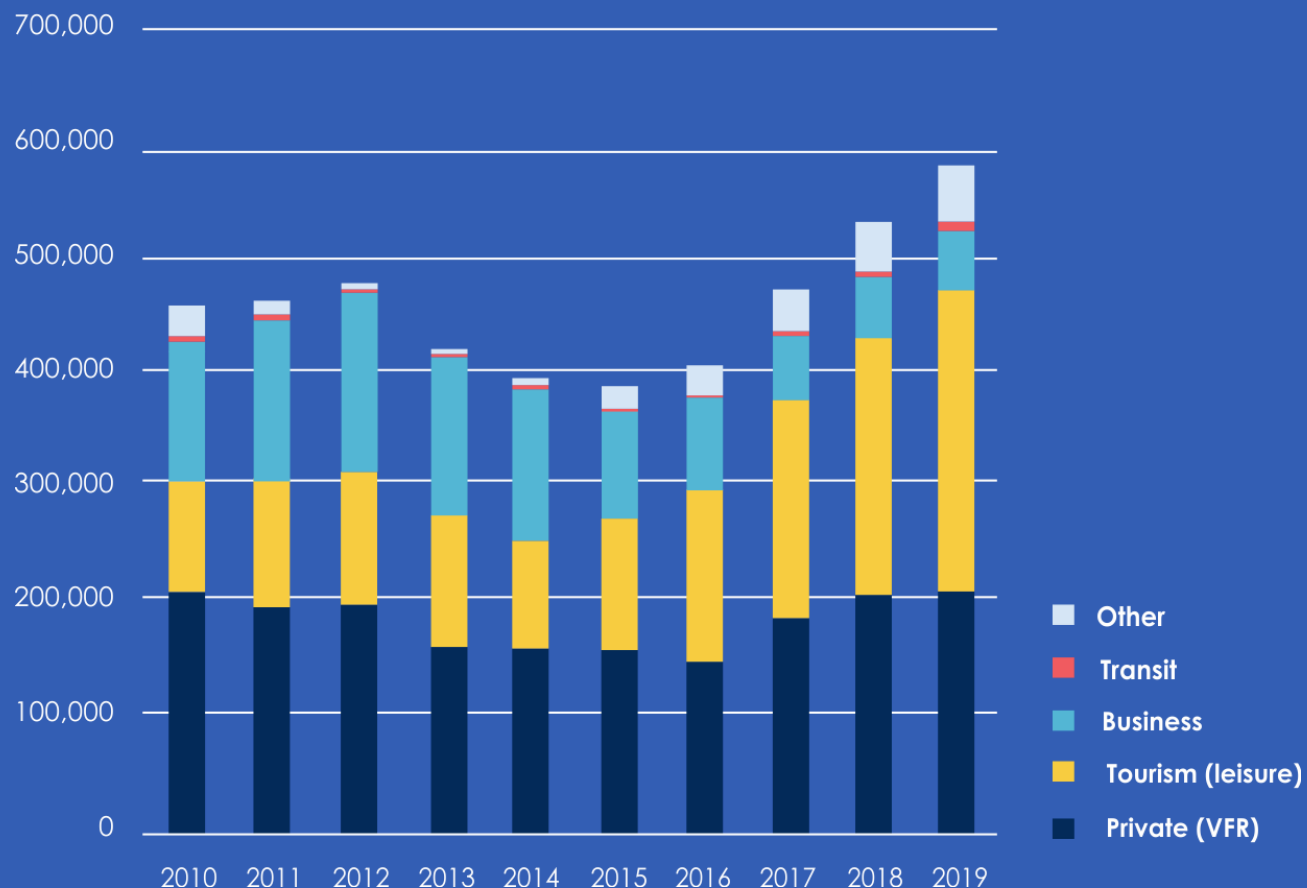
<sup>4</sup> Arrivals by air only (excludes cruise visitors).

**Sources:** UNWTO, China National Bureau of Statistics, Greenland, Alaska Travel Industry Association, Rosstat, Statistics Greenland.

**Note:** these headline arrival figures are not strictly comparable, however, as they hide significant underlying differences in the composition of tourism—for example, the share of leisure tourists exceeds 90% of arrivals in Bhutan but is less than 1% in Kazakhstan.

# Mongolia's visitor mix has been shifting in recent years amidst the decline in business tourism and rapid growth of leisure tourism

International arrival by purpose of visit



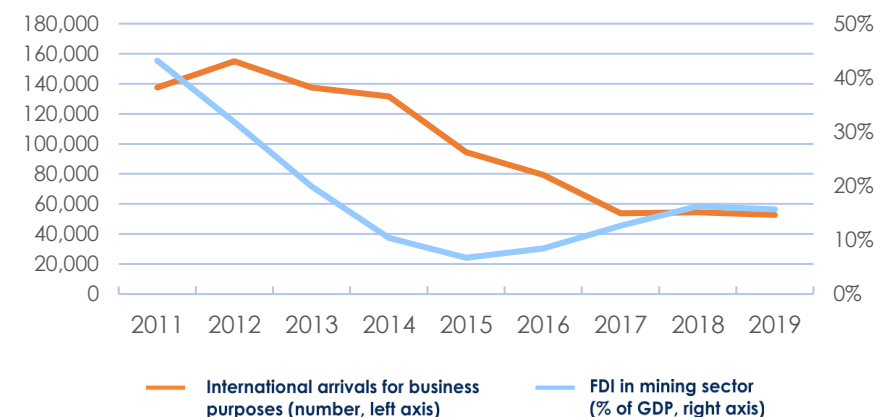
Source: National Statistics Office.

Arrivals for **tourism (i.e. leisure)** purposes were the fastest-growing segment of market from 2010-2019 **+168%**, driven by visitor growth from several key source regions:

1. **East Asia-Pacific: +245%** (64% of total leisure visitors in 2019)
2. **Europe: +87%** (28% of total in 2019)
3. **North America: +80%** (5% of total in 2019)

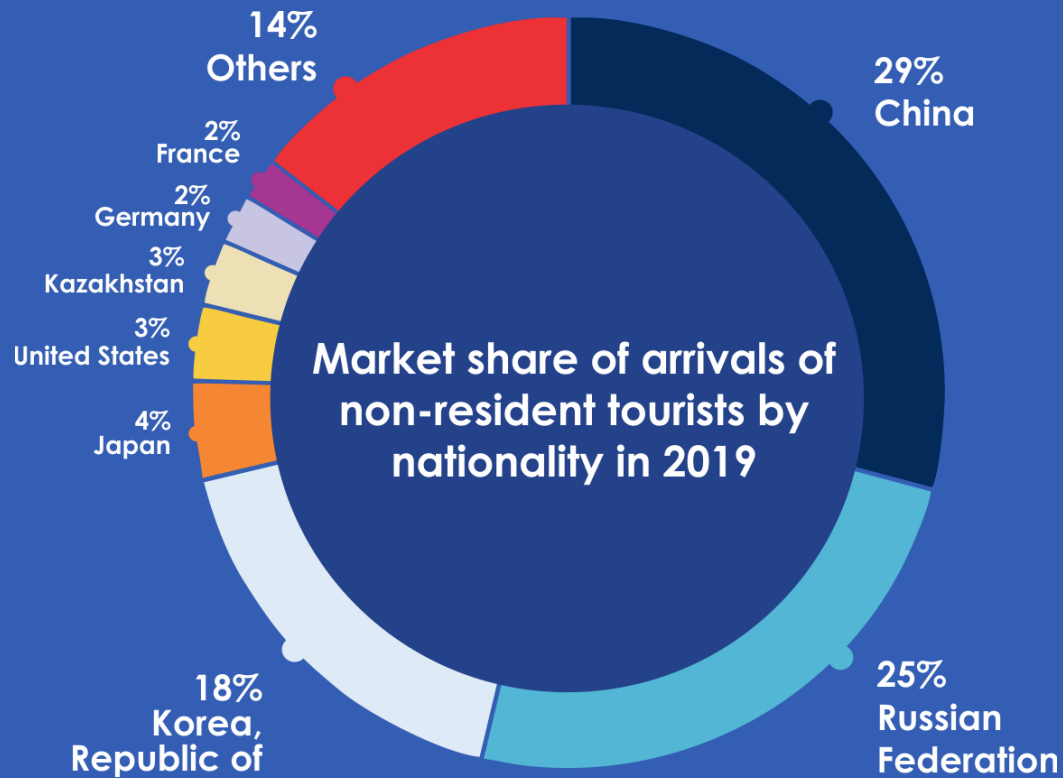
Meanwhile, arrivals for **Business** purposes, which are closely linked to the mining sector, have declined significantly **(-61%)** from a peak in 2013 amidst the mid-decade crisis in Mongolia's mining sector as coal and copper prices plunged and FDI in mining dried up.

Business tourism to Mongolia closely tracks foreign investment activity in mining sector



Note that the interpretation of leisure and business tourism trends is complicated by the nontrivial number of cross-border traders (an estimated 10% of total leisure arrivals in 2019) from China and Russia who enter Mongolia for business purposes but declare "tourism" as their purpose of visit to save time and avoid inspections.

**Mongolia** attracts international visitors predominantly from neighboring China and Russia in addition to South Korea, Japan, the EU, the US and Kazakhstan. In 2015-2019, Russian and Korean arrivals grew fast and so did non-traditional East Asian countries and territories such as Singapore, Hong Kong, Taiwan and Thailand.

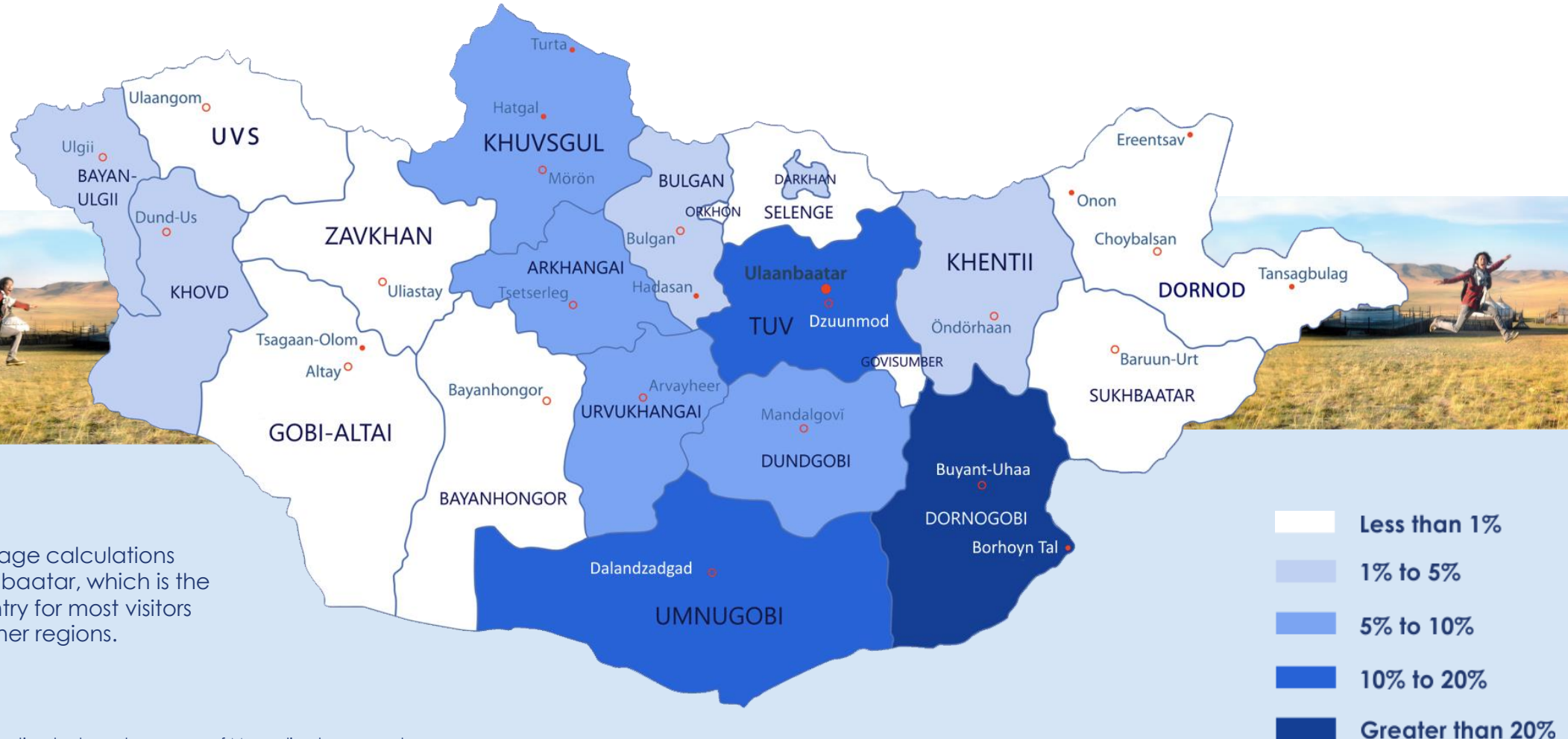


	2015	2016	2017	2018	2019	Market share 2019	% Change 2019-2015
<b>TOTAL</b>	<b>386,204</b>	<b>404,163</b>	<b>469,309</b>	<b>529,370</b>	<b>577,297</b>	<b>100.0</b>	<b>49%</b>
China	145,029	131,312	142,481	163,979	168,298	29.2	16%
Russian Federation	70,668	84,065	106,885	129,095	141,927	24.6	101%
Korea, Republic of	47,213	57,587	74,921	84,184	101,279	17.5	115%
Japan	19,277	19,985	22,519	20,990	24,419	4.2	27%
United States	14,420	15,859	16,667	17,838	18,838	3.3	31%
Kazakhstan	14,434	13,370	14,234	16,144	16,264	2.8	13%
Germany	8,992	9,709	10,582	10,819	12,405	2.1	38%
France	7,989	9,026	10,038	9,773	10,572	1.8	32%
Australia	4,804	5,631	7,287	7,495	7,014	1.2	46%
United Kingdom	6,148	6,161	5,996	5,905	5,931	1.0	-4%
Taiwan Province of China	2,810	3,732	4,452	5,233	5,930	1.0	111%
Hong Kong, China	1,848	1,583	2,808	3,121	4,311	0.7	133%
Italy	2,853	3,000	2,971	3,192	3,655	0.6	28%
Netherlands	2,495	2,876	3,099	3,777	3,613	0.6	45%
Canada	2,566	3,052	3,430	3,578	3,594	0.6	40%
Singapore	1,755	2,064	2,485	2,649	3,010	0.5	72%
Switzerland	2,378	2,627	2,767	2,665	2,927	0.5	23%
Belarus	1,078	1,329	2,107	2,210	2,902	0.5	169%
Thailand	962	1,100	1,492	2,259	2,631	0.5	173%
India	1,478	1,713	1,874	2,298	2,478	0.4	68%
Spain	1,309	1,461	1,647	1,969	2,080	0.4	59%
Turkey	2,421	2,209	2,189	2,699	1,874	0.3	-23%

Source: UNWTO (2021).

# Most international visitor activity is concentrated in Mongolia's central and southern regions, creating geographic disparities in the potential capture of benefits from tourism

Distribution of International Visitors



Note: percentage calculations exclude Ulaanbaatar, which is the first point of entry for most visitors traveling to other regions.

Source: World Bank estimates based on survey of Mongolian tour operators conducted by CAREC Institute.



## Domestic tourism in Mongolia

- There are few data sources on domestic tourism. Visitor statistics for Mongolia's national parks, which contain up to 80% of Mongolia's tourist attractions, indicate that Mongolian visitors outnumber foreign visitors in most national parks.
- Economic spillovers from domestic tourism are relatively modest with most Mongolian tourists using AWD cars to visit the aimags and camp out in the nature during warmer months.
- There are few and mostly irregular domestic flights beyond the peak summer tourist season. Few ger camps can handle harsh winters and few hospitality services are available outside the capital in the low season.
- Mongolians are avid travelers, but mainly venture and spend their money abroad.
- Domestic tourism has increased in importance since Mongolia's international borders were closed in early 2020. This creates a near-term opportunity to capture pent-up demand and spending from Mongolians who would have otherwise traveled abroad, but also potentially for a more durable expansion of domestic tourism if suitable products to attract residents (e.g. themed resort complexes, casinos) are developed.



## 1.2 Economic Impact



# The macro picture: the Mongolian tourism and hospitality sector at large in 2019

- Third largest sector after mining and agriculture, contributing an estimated:



**7.2% to national income**



**7.6% of total employment**



**6.8% of total goods/services exports**

- Inbound tourism expenditure: 4.4% of GDP
- Outbound tourism expenditure: 7.5% of GDP
- Foreign Direct Investment (FDI) in 'tourism and hospitality' = 10% per year of total FDI on average in 2014-2016 (WTO, 2021) and FDI in "hotels and recreation" = 5% in 2017 (World Bank, 2018).

***Mongolia's tourism sector has maintained its relative weight in total exports and increased it in total services exports...***

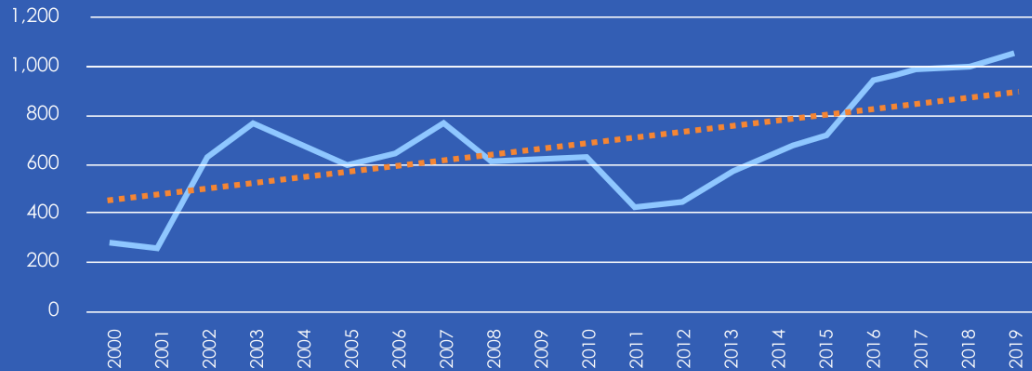
- Mongolia's receipts from international tourism as a share of total exports has fluctuated greatly due to rapid growth in the mining industry but the share in 2000 and 2019 were both 7%.
- Inbound tourism expenditures as a share of services exports was 49% in 2019 (up from 40% in 2015)

***...but Mongolians consume more tourism services abroad as a share of total imports***

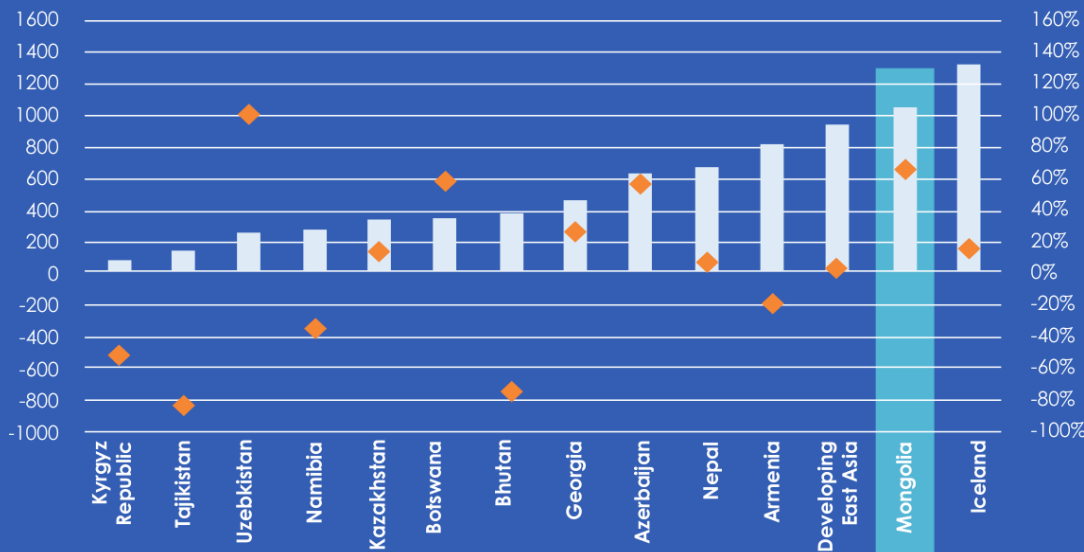
- Mongolians' expenditures on international tourism as a share of imports have fluctuated but rose from 7% in 2000, to 8% in 2010, to 11% in 2019.

# Mongolia's tourism sector enjoyed its best year ever in 2019 but growth in average income per international visitor has been relatively subdued over the last two decades

Mongolia's international tourism receipts per arrival (current US\$)



Mongolia's Tourism receipts relative to international comparators



■ Receipts per arrival 2019 (US\$, left axis)  
 ◆ Cumulative change in receipts per arrival, 2010-2019 (percent, right axis)

Source: World Bank estimates based on UNWTO data.

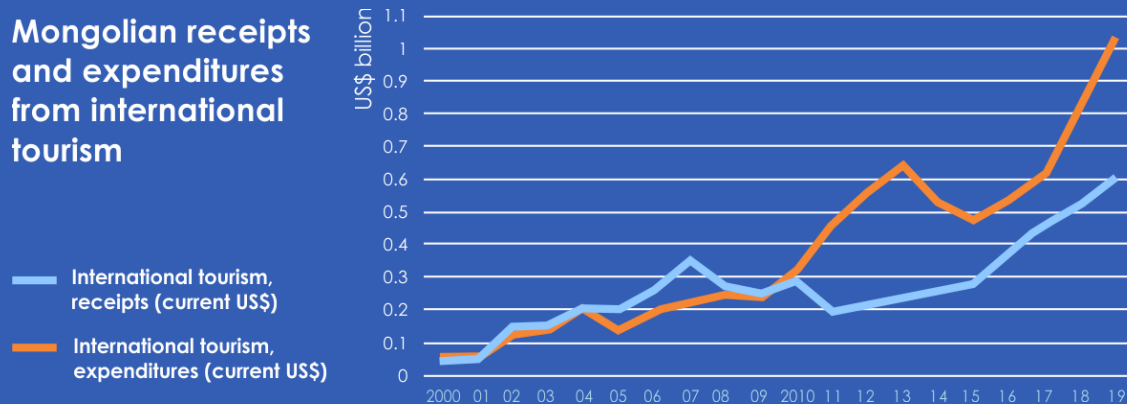
Mongolia's international tourists have, on average, increased their spending over time, but the growth rate has been restrained.

- The income earned per international arrival has trended upward despite significant volatility. Between 2000 and 2019, the CAGR of the fitted trend line was 3 percent.
- The reasons behind the swings are manifold and difficult to disentangle. They include changes in the visitor source country composition and in the average length of stay; changes in tourism visa policy and administration; currency fluctuations, etc. There is anecdotal evidence about an influx of blue-collar guest workers arriving on tourist visas to avoid taxes and fees, and thereby diluting the data (World Bank, 2012).
- Relative to benchmark comparator countries and to the rest of developing East Asia, Mongolia ranks highly in terms of the level of receipts per international arrival (second only to Iceland), and the increase in this level over the past decade (second behind Uzbekistan). While this metric is not strictly comparable across countries (due to differences in visitor's average length of stay, local prices, etc.), it nonetheless suggests that Mongolia is receiving relatively high-value inbound tourism.

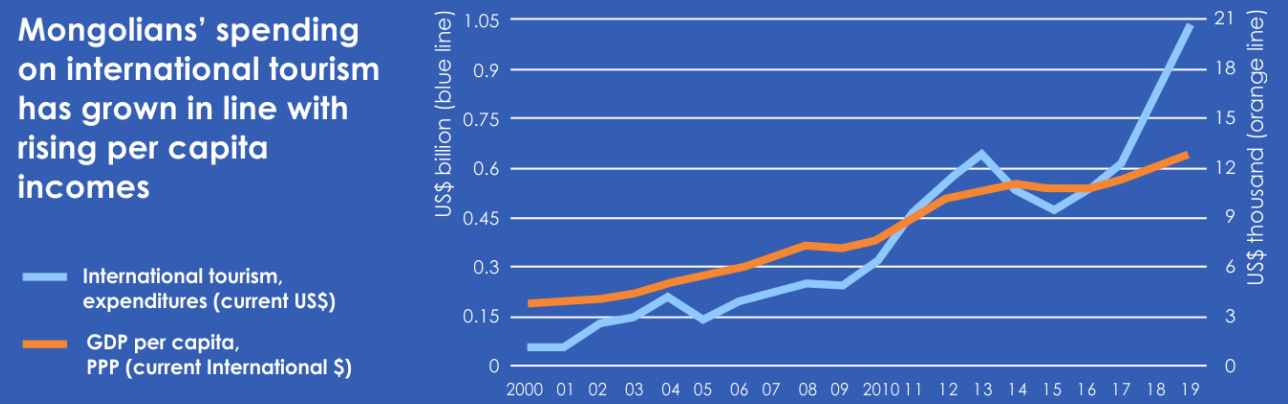
# Amidst rapid growth in outbound travel by Mongolians, tourism has become a net income outflow for the economy

- Income from inbound tourism and expenditures on outbound tourism both grew significantly **in 2000-2019** partly due to a very low baseline:
  - Mongolia's **income** (receipts) from international tourism **increased 13-fold** to US\$605m despite stagnation in 2008-2015. Income doubled in 2015-2019.
  - Mongolia's **expenditures** on international tourism **increased 18-fold** to US\$1,036m. The annual growth rate exceeded 10% during 15 out of 20 years, and it exceeded 30 percent in 5 out of the 20 years.
  - 2010 marked an inflection point when Mongolians started to spend more on tourism abroad than foreigners spent on tourism in Mongolia.
  - In the 2010s, for every US\$1 earned on inbound tourism, Mongolians spent US\$1.74 on outbound tourism.
- Mongolians' increase spending on international is consistent with their rise in global spending power over the past 25 years—Mongolia's expenditure on international tourism was nearly perfectly correlated (+0.96) to its income per capita in PPP terms.

**Mongolian receipts and expenditures from international tourism**



**Mongolians' spending on international tourism has grown in line with rising per capita incomes**





1.3

## The Private Sector

# Snapshot: Mongolian tourism and hospitality sector in 2019

## Establishments



**520**  
Hotels



**12,157**  
Hotel rooms



**526**  
Tourist camps



**31,996**  
Camp beds



**939**  
Food and beverage  
serving facilities



**571**  
Registered tour  
operators

## Employment

**36,480**



**Direct employees** in accommodation and food and beverage serving segments of the tourism sector:

...of which **19,180** employed in accommodation and **17,300** in food/beverage

An estimated **52,220** workers and entrepreneurs derive their livelihoods from tourism.

# The accommodation sector in Mongolia is heavily concentrated in Ulaanbaatar and must contend with the strong seasonality of tourism demand

The seasonality of the tourism demand produces occupancy rates above 60% during only four months out of the year

In 2018, the Mongolian Tourism Association surveyed 235 hotels and found the **annual occupancy** rate to be **32%**.

The shoulder and peak seasons had the following occupancy rates...



...and while these numbers are only indicative, they do stress the challenges of heightened seasonality.

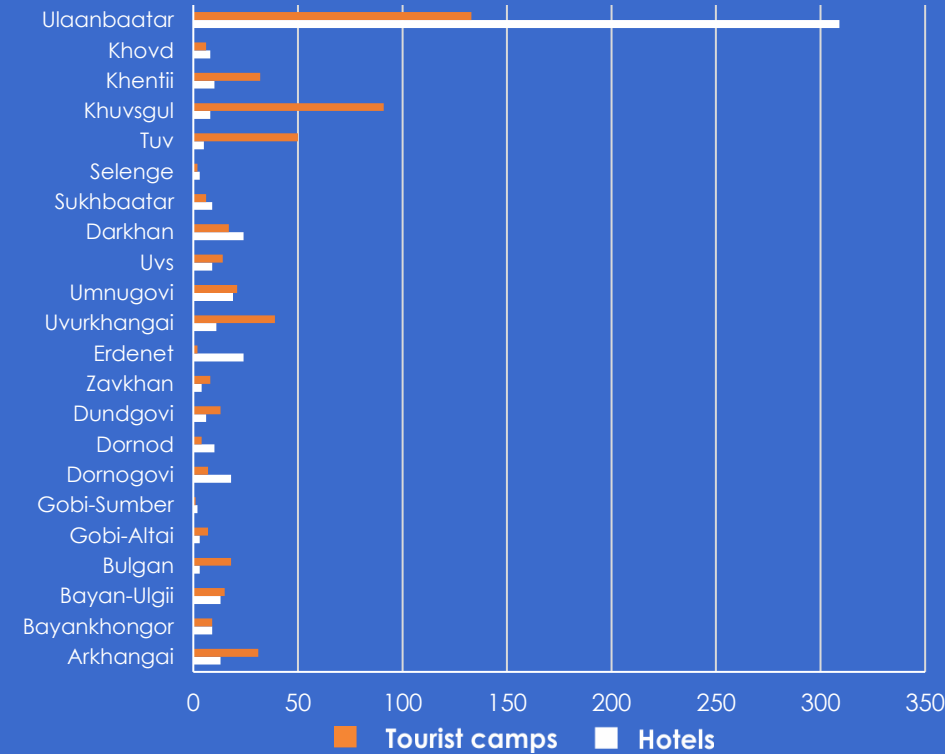
## Regional market share of hotel industry income in 2013-2019

	2013	2014	2015	2016	2017	2018	2019
Ulaanbaatar	90.3%	89.5%	88.3%	89.6%	88.6%	90.0%	90.6%
Khangai region	3.5%	3.7%	3.4%	3.2%	2.7%	2.3%	2.2%
Central zone	4.7%	5.2%	6.5%	5.6%	6.2%	5.6%	5.1%
Eastern region	1.0%	0.9%	1.4%	1.1%	1.5%	1.6%	1.3%
Western Region	0.6%	0.7%	0.4%	0.5%	1.0%	0.6%	0.8%

Source: National Statistics Office (2021).



## Number of accommodation establishments by aimag



Source: Ministry of Environment and Tourism.

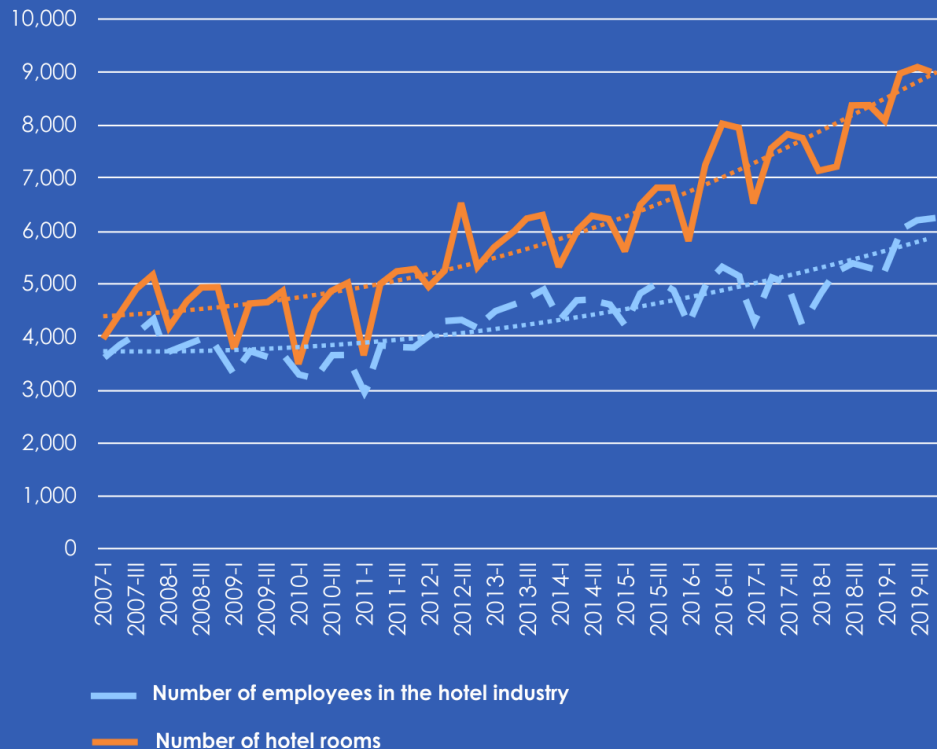
Most hotels (60%) are located in Ulaanbaatar, where 90% of all hotel sector earnings are consistently generated, whereas tourist camps are more geographically dispersed

# The hotel industry has grown in terms of supply and employment but not days stayed

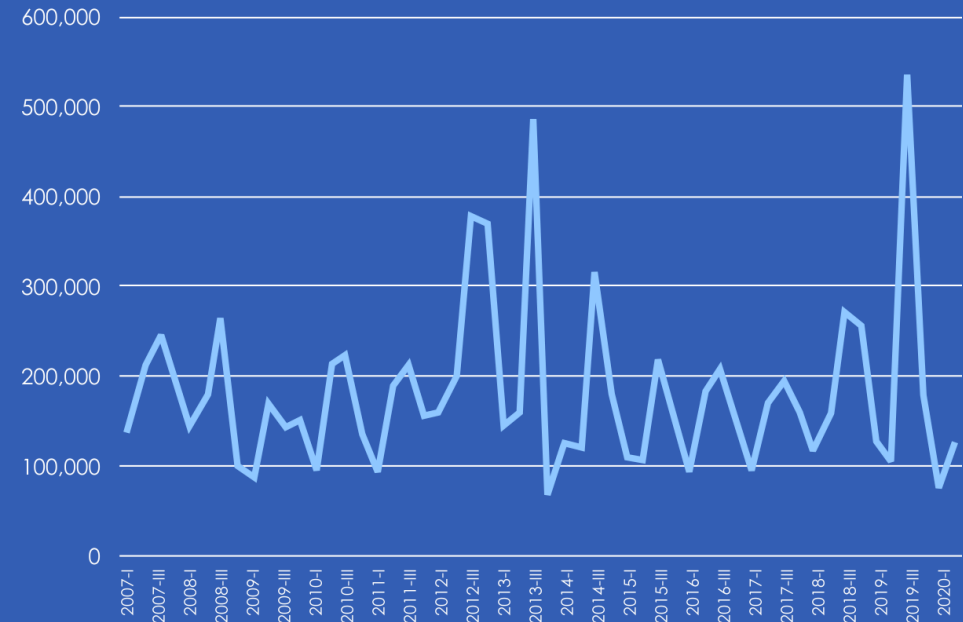
The # of hotel rooms (+91%) grew faster than the # of employees (+49%) in the hotel industry in 2007-2019...

...but the # of days stayed at hotels was stagnant, although there was a pick-up during peak season in 2018-19

Number of hotel rooms and hotel employees in the hotel industry



Number of hotel days stayed per quarter



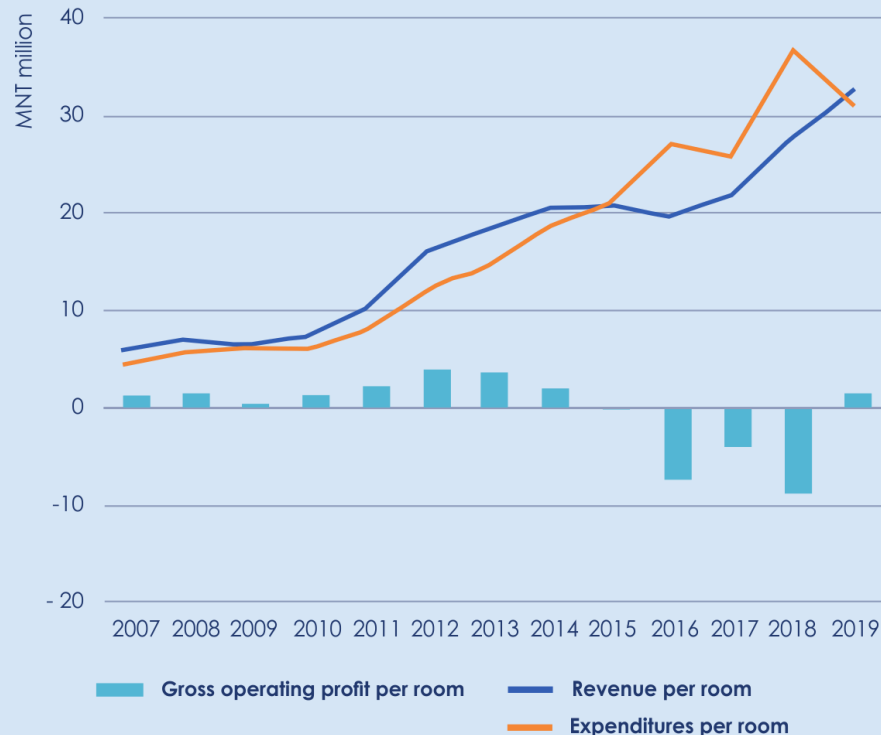
Source: National Statistics Office.

# Hotels were struggling financially before the pandemic, with new investment slowing

The weak growth in room demand has translated to poor financial performance for hotels, with revenues falling short of operating expenditures over the last 5 years

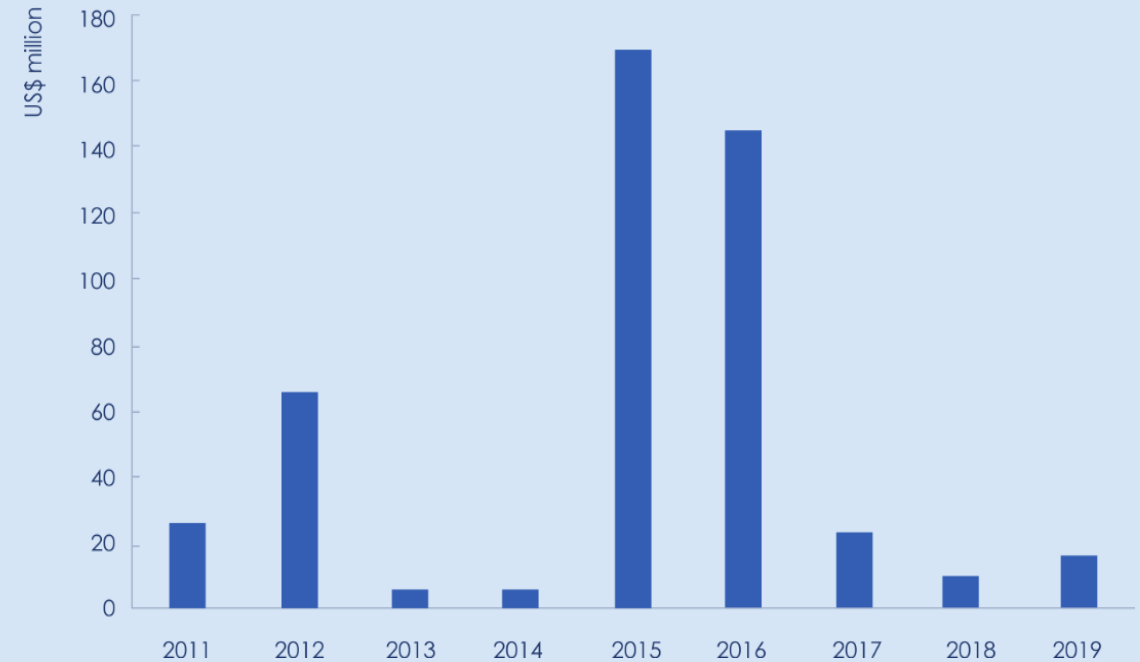
This declining profitability has discouraged new hotel investments, which peaked in 2015-2016, as internationally-branded hotels such as the 5-star Shangri-La entered the market

### Mongolia hotel industry financial performance



Source: National Statistics Office.

### Inward FDI in accommodation and food services in Mongolia



Source: National Statistics Office.



1.4

# COVID-19 Wreaks Havoc



Source: National Statistics Office.



Source: National Statistics Office.

## The impact of the **COVID-19** pandemic has been devastating—it wiped out the 2020 tourism season and will likely do the same to the 2021 tourism season

- The year-to-year drop in **arrivals** in 2020 was **-90** percent ... or **-95** percent in Q2-Q4
  - Compared to -82 percent in South-East Asia, -77 percent in South Asia, -88 percent in East Asia and -70 percent in Europe
- The year-to-year drop in **tourism receipts** was **-94** percent ... or **-97** percent in Q2-Q4
- In 2020, y-on-y, the monthly number of passenger flights was +35% in January, -27% in February, -90% in March, -96% in April and -99% in May.
- Mongolia's COVID-19 cases started to rise quickly in March 2021 and the growth accelerated in April 2021. The border is closed, and it is unclear if international tourism will be able to resume for the critical summer peak tourism season.

# Section 1: Key takeaways

- The trend growth in international tourism arrivals to Mongolia has slowed significantly over the last two decades and Mongolia's tourism market share in East Asia has dropped. The composition of visitors has also undergone a significant shift, with the share of leisure visitors rising from 21% to 45% between 2010 and 2019 (driven mainly by visitors from East Asia), and the share of business visitor shrinking from 33% to 9%.
- Domestic tourism appears limited as Mongolians are avid international travelers. Outbound tourism has grown much faster than inbound tourism, and Mongolians spend nearly twice as much on international tourism than what foreign visitors spend on tourism in Mongolia.
- The tourism sector is an important contributor to Mongolia's economy, accounting for 7.2% of GDP, 6.8% of total goods and services exports (including 49% of services exports), and 7.6% of total employment.
- Accelerating tourism demand in the first part of the past decade helped drive a steady expansion in hotel rooms, which ultimately outpaced room demand in the latter half of the decade, resulting in oversupply, deteriorating financial performance of hotels, and a significant drop off in new hotel investment. This has compounded the long-standing structural challenges for accommodation providers in Mongolia stemming from the pronounced seasonality of tourism demand, which limits annual occupancy rates to around 30%.
- The COVID-19 pandemic wiped out the 2020 tourism season, as revenue from international visitors collapsed by 94% year-on-year. The outlook for 2021 is looking almost as bleak although Mongolia is one of the leading countries in terms of COVID-19 vaccinations, which may allow the GoM to re-open its borders relatively soon and partly salvage the peak summer tourism season.



2.

SECTOR POLICY,  
STRATEGY AND  
TARGETS

# The Government of Mongolia's (GoM) tourism policy emphasizes sustainability and inclusiveness

- The **Ministry of Environment and Tourism (MET)** is the line ministry in charge of the **Tourism Law** (last amended in 2017) that is the main legislation on tourism. The Tourism Law regulates relations between the State, citizens, economic entities, and organizations regarding tourism promotion, engagement in tourism activities, and provision of tourism services. It defines an open market access regime that encourages investment, and notably foreign investment.
- The **Tourism Council** advises and offers opinions to the Prime Minister on the elaboration and implementation of State-integrated tourism policies.
- MET's current **focus is on sustainable and inclusive development in select aimags** where it seeks to strengthen local capacity to host tourists and promote local spillovers. MET's annual budget to develop the tourism sector has over the last five years increased from <US\$0.1 million to nearly US\$3 million. The COVID-19 pandemic, however, led to a 50% budget reduction for 2021. External development partner resources and initiatives for tourism development include:
  - The Asian Development Bank (ADB) has an active US\$38 million project in Mongolia focused on sustainable and cultural heritage tourism, covering road construction and parking facilities; sanitation, solid waste and wastewater management; and park management and tourism complex development. The objective is to transform two national parks in the Khuvsgul and Khentii aimags as models for economically inclusive tourism and conservation in protected areas.
  - MET and the ADB are also negotiating a US\$33 million continuation that would support the development of sustainable tourism within the aimags of western Mongolia: Bayan-Ulgii, Khovd, and Uvs. It would cover improvements in planning, enabling infrastructure, sanitation and waste management; the development of specific value chains such as handicrafts; and capacity building for management of cultural heritage sites and protected areas.
  - The MET is also formulating a Strategic Plan for the post-COVID market jointly with UNWTO.

# Successive GoM administrations have articulated bold objectives and targets for tourism

- The **National Development Strategy 2008-2021** called for action to expand tourism industry capacity and improve standards. The associated **Government Action Plan for 2008-2012** set “sustaining ecological balance” through the management of forest, land, flora and fauna as one of its key objectives. It also sets out to renew cultural heritage activities and shift tourism management responsibility from the Ministry of Road and Transportation to MET.
- In 2016, the **Mongolia Sustainable Development Vision 2030** was launched with the **goal to quintuple the number of foreign tourist arrivals** from 393,000 in 2014 to **2,000,000 in 2030** – representing a CAGR of 11%.
  - ✓ The objective is to “*become the international destination for nomadic culture and tourism*” by improving infrastructure and service quality of major natural and cultural heritage sites, by promoting Mongolia's unique image abroad, by developing eco-tourism regions and by strengthening product compliance with environmental and health standards.
- In 2019, the **State Policy on Tourism Development** was adopted by Government Resolution 333 aimed to accelerate tourism development in 2019-2026.
  - ✓ The policy identifies binding constraints and seeks to integrate tourism development in different communities, increase overall competitiveness of the market, create more jobs through the development of tourism products and services, and to promote effective and sustainable tourism with high social and economic benefits. The implementation of this policy could cost an estimated US\$1 billion and increase annual revenue by US\$1.4 billion
  - ✓ The GoM has developed a **Green Loan** product in association with commercial banks to help the accommodation sector achieve environmentally friendly solutions for heating and for used-water disposal, and to increase the accommodation capacity. The subsidized interest rate of a green loan is 8% and MNT500 million was allocated for Green Loan subsidies in 2020. It also hosted a nationwide training program for the tourism and hospitality sector with a budget of MNT 550 million in the fall of 2020.
- From April 1 to October 1, 2020, the government sought to **alleviate the impact of the pandemic** by exempting businesses, including tourism enterprises, from (i) social insurance contributions, (ii) income tax on salaries, and (iii) business income taxation (for businesses with annual revenue below MNT 1.5 billion. From April to June 2020 a monthly relief lump sum of MNT 200,000 was given to employees of the business entities affected by the economic downturn.

# While the GoM's tourism policy objectives and development strategies are sensible and supportive of sustainable and inclusive tourism, arrivals targets are unrealistic and inconsistent with the GoM's protectionist aviation policies

## Sensible policy and strategy formulation...

- A review of the GoM's Mongolia Sustainable Development Vision 2030, its State Policy on Tourism Development 2019-2026, and the ADB financed tourism development project(s) indicates that **GoM's focus is broadly in line with good international practices given Mongolia's endowments and sensitive environment.**
  - ✓ Focus on sustainable development, including on public goods such as solid waste collection, wastewater treatment and good environmental management and practices.
  - ✓ Focus on inclusive development, fostering stronger linkages to local supply chains.
  - ✓ Focus on the aimags where demand is concentrated, and development is phased in a sensible manner.
  - ✓ Focus on capacity building to strengthen planning, coordination and management at tourism sites.
  - ✓ Focus on replacing the old international airport with a new modern airport developed to international standards.

***But the Aviation Policy remains unchanged and is focused on protecting MIAT rather than promoting market access and encouraging inbound traffic (see Section 4).***

## ...that appear disconnected from targets

- There is a clear disconnect between this focus on sustainable and inclusive tourism development of recent years and the **ambitious but unrealistic growth targets for sector growth.**
- The target of quintupling international arrivals between 2014 and 2030 to 2 million would imply a CAGR=11%. In the last decade—pre-COVID-19—the growth in arrivals was CAGR=3.2%.
  - ✓ The GoM is allocating only a fraction of the resources needed to develop the enabling infrastructure and mobilize the private investment to accommodate the volume of visitors envisioned in targets (see Section 4).
  - ✓ The GoM has stranglehold on the supply of international flights to Mongolia through a *de facto* aviation policy that is centered on protecting MIAT rather than promoting tourism.
  - ✓ Private players in the tourism industry believe past GoM tourism policy was driven by a political appetite for large monuments and other projects for nationalistic pride at the expense of relevant attractions for international visitors.
  - ✓ The GoM has also been slow to adopt a more liberal visa policy based on targeted risk management and digital processing like many other Asian countries.

# A decade on from the last World Bank-led Mongolia tourism sector assessment: How did the projections play out?

A study published in February 2012, sponsored by the World Bank and authored by international academics and business leaders in the Mongolian tourism sector offered **predictions around three scenarios about the growth in leisure tourism by 2020:**

- Scenario 1:** **+10%** -- if the government takes no positive action to strengthen tourism management with little new investment in the sector and declining sector competitiveness.
- Scenario 2:** **+50%** -- if the tourism product is diversified through the development of high-value niche tourism and growth of the Chinese visitor market.
- Scenario 3:** **+100%** -- if high volume tourism consisting mainly of Chinese tourists is successfully developed via six new resort tourism complexes throughout the country.

So what was the **actual outcome by early 2020** - just before the pandemic and lockdown?

- Consultations with the Mongolian tourism sector in Q1-2021 indicate that none of the three scenarios truly played out and there is a moderate impression about the GoM's efforts to support the tourism sector.
  - ❖ **Pros:** the new international airport (yet to open) is a major achievement; the GoM has significantly increased its budget to strengthen the capacity of tourism authorities; and the GoM has started to actively develop sustainable tourism in some aimags. Several new quality hotels entered the market in the mid-2010s.
  - ❖ **Cons:** The Chinese market for leisure tourists remains undeveloped and so does cross-border leisure tourism—compared to assumptions.
- Between 2010 and 2019, the **growth in arrivals of international leisure tourists** was **+168%**.
- The positive outcome reflected rapid growth in leisure tourism from South Korea, Taiwan & Hong Kong (of China) and ASEAN countries in addition to organic growth of tourists from Japan, Russia, the European Union and North America.



## Section 2: Key takeaways

- The scope and objectives of the Mongolia Sustainable Development Vision 2030 and the State Policy on Tourism Development for 2019-2026 are sensible and focused on sustainable and inclusive tourism development. They have been backed by increasing public resources for tourism sector development in recent years, although the COVID-19 crisis has forced a significant scale back in tourism-related spending.
- The GoM has a history of setting ambitious targets for international tourism arrivals (most recently for 2 million by 2030) that appear unrealistic, disconnected from the underlying tourism policy, and inconsistent with the national aviation policy that protects the national carrier MIAT from international competition to the detriment of flight supply and affordability. The visa policy for tourists could also be more welcoming to major source countries (more in Section 3).
- A tourism sector assessment sponsored by the World Bank a decade ago underestimated the growth potential of leisure tourism in Mongolia relative to the increase that materialized between 2010 and 2019. This suggests that Mongolia's tourism assets and products have considerable international appeal and could yield greater economic benefits if further developed.

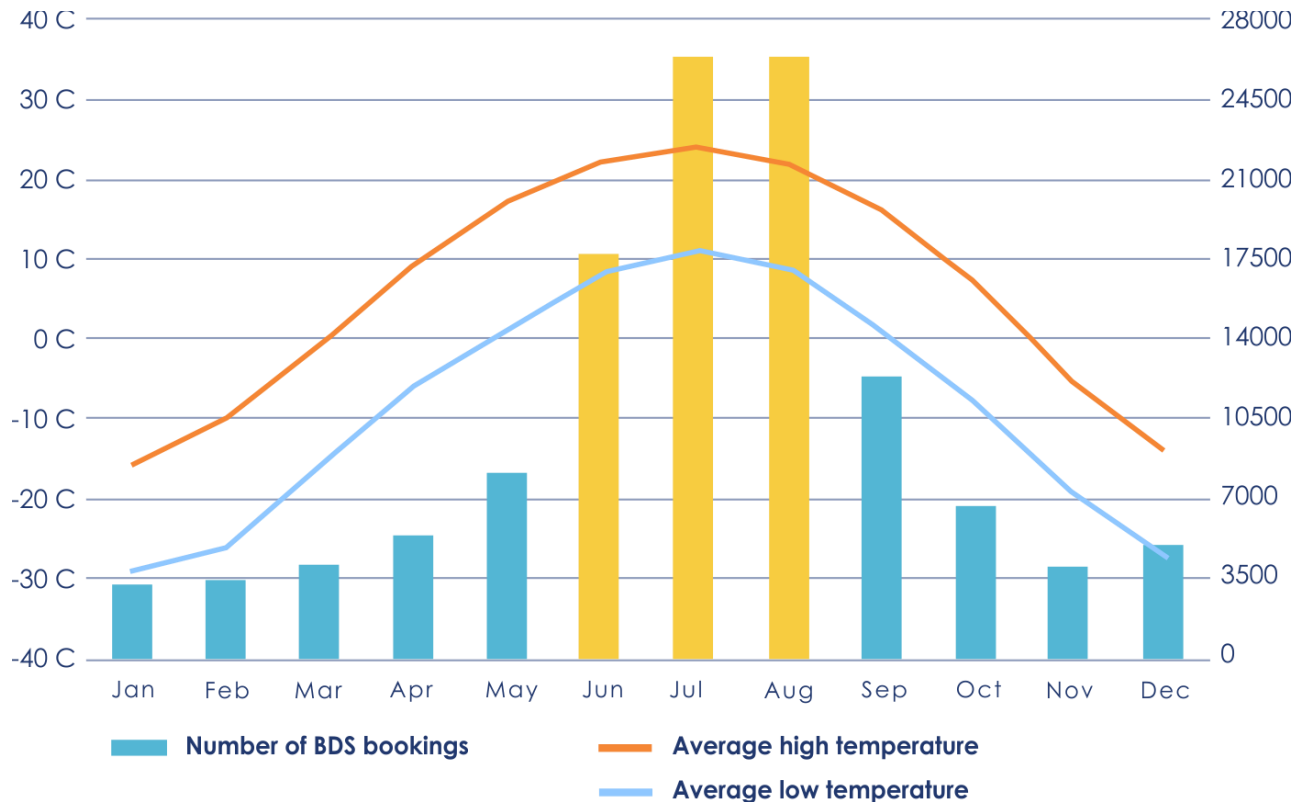


**3.**

**CHALLENGES  
TO TOURISM  
DEVELOPMENT**

# 1. Natural Barriers: Mongolia's harsh climate leads to elevated seasonality + investments in infrastructure are costly due to low population and economic densities

**A harsh climate leads to extreme seasonality**

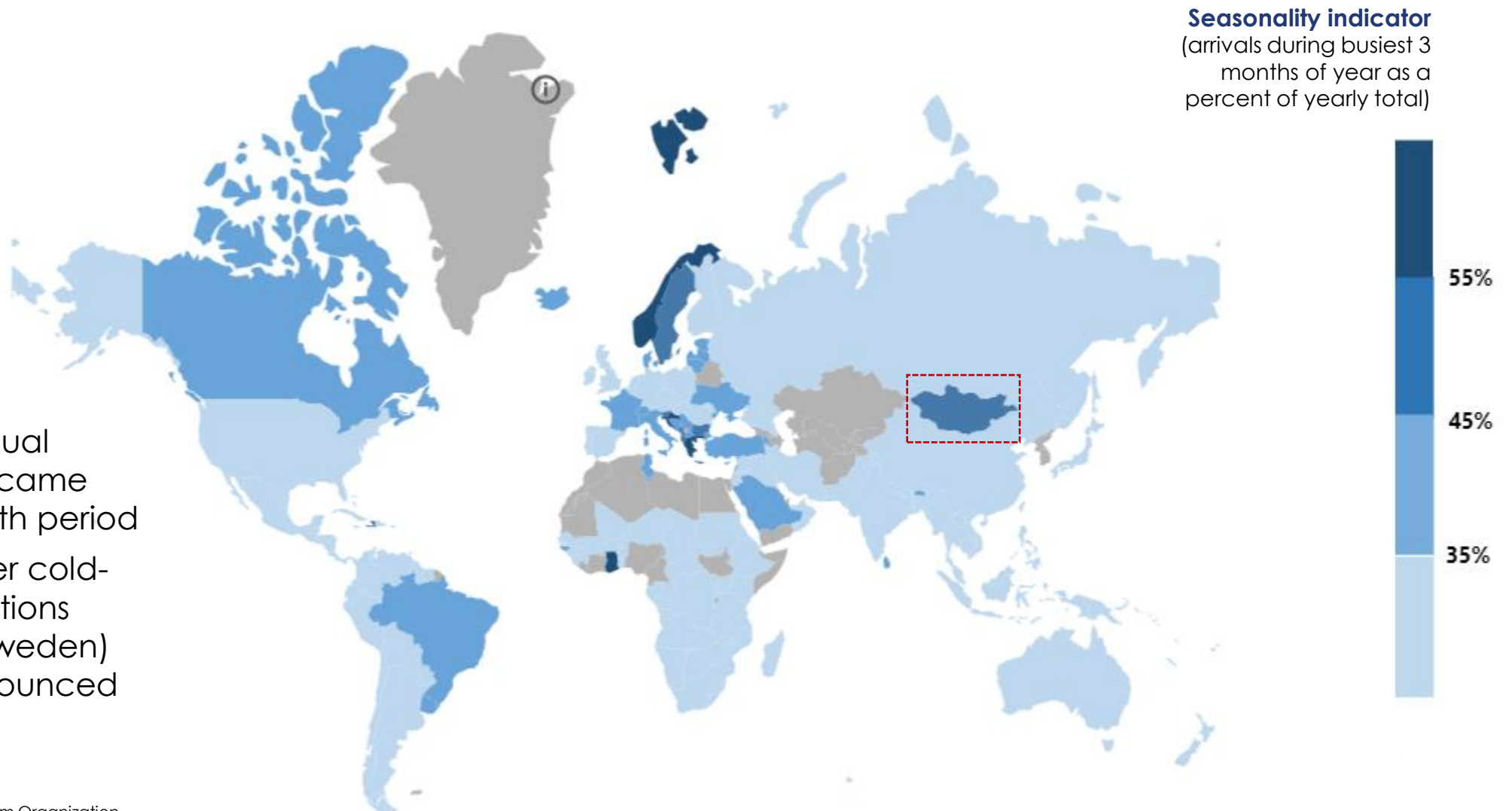


Source: Climate-data.org

- Mongolia has one of the harshest climates in the world with temperatures of  $-15^{\circ}\text{C}$  to  $-30^{\circ}\text{C}$  in the winter, relatively cold springs and autumns, and pleasantly cool summers.
- The leisure tourism season starts to pick up in May and lasts until mid-September when daily low temperatures are marginally above  $0^{\circ}\text{C}$ . The leisure tourism season is concentrated in the summer months.
- Mongolia is landlocked and surrounded by Russia in the north and China in the south. Besides the Trans-Mongolian Railway, which carries relatively few passengers, the country is largely cut off from international transport and tourism corridors.
- Mongolia has the world's lowest population density and resulting low economic densities outside the capital that adversely affect the development of transport infrastructure.

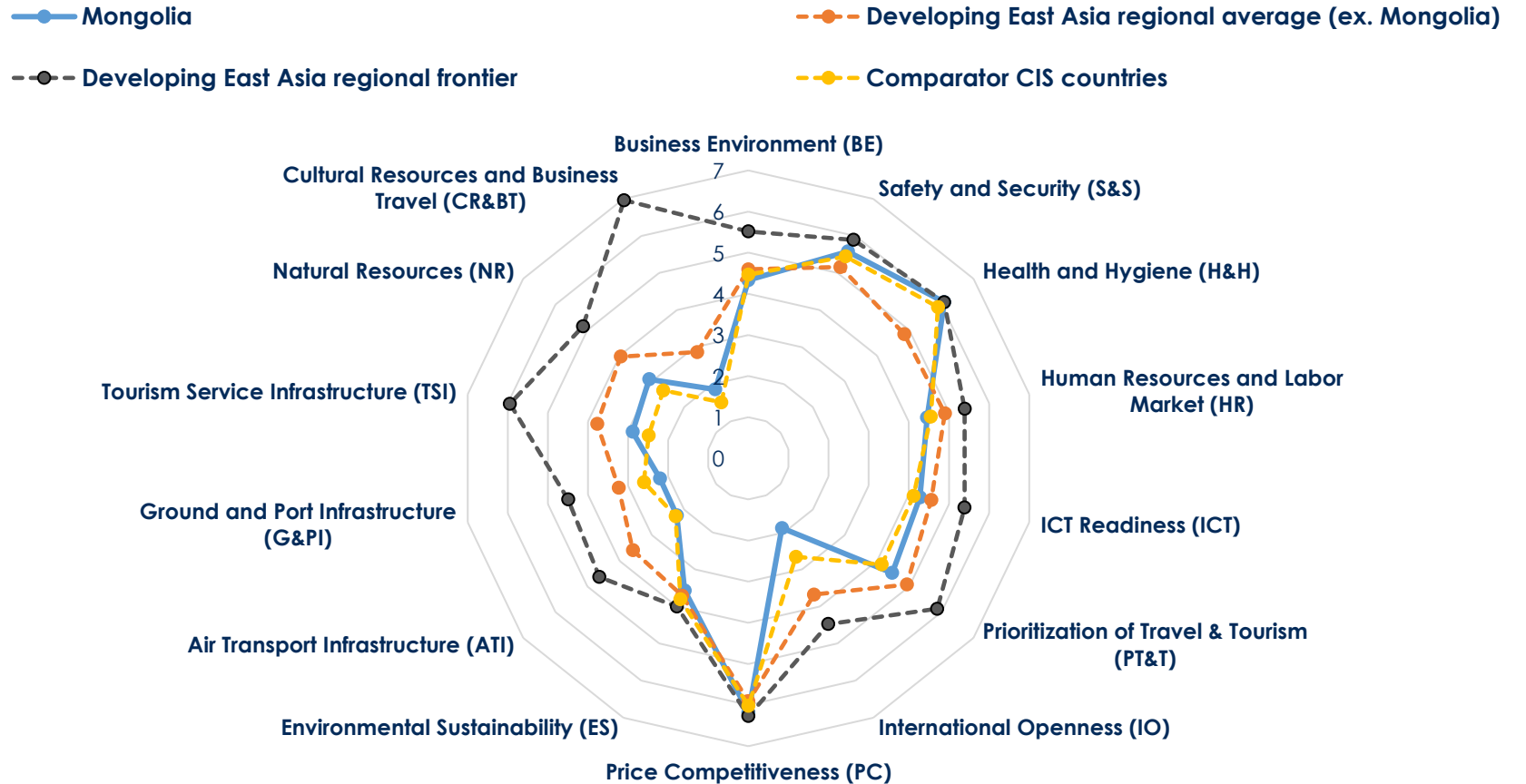
# Mongolia's tourism exhibits some of the most pronounced seasonality of destinations globally

- In 2019, 42% of Mongolia's annual tourism arrivals came during a 3-month period
- Only a few other cold-climate destinations (Norway and Sweden) had more pronounced seasonality





## 2. Lack of tourism sector competitiveness: Mongolia's ranking (93<sup>rd</sup> out of 140 countries) in WEF's Travel & Tourism Competitiveness Index for 2019 suggests significant room for improvement



**Note:** Scores are on a scale of 0 (least competitive) to 7 (most competitive). Regional frontier represents the highest-performing country in a given category. These are: BE (Malaysia), CR&BT (China), NR (China), TSI (Thailand), G&PI (Malaysia), ATI (Thailand), ES (Philippines), PC (Malaysia), IO (Malaysia), PT&T (Indonesia), ICT (Malaysia), HR (Malaysia), H&H (Mongolia), and S&S (Malaysia.) Selected comparator CIS countries include Kazakhstan, Kyrgyz Republic, and Tajikistan (data for Uzbekistan and Turkmenistan are not available).

# Mongolia was the country in East Asia-Pacific that improved the most (up 9 positions) in the 2019 WEF rankings but still remains the region's least competitive tourism destination

## AGGREGATE WEF TRAVEL & TOURISM INDICATORS:

1. Enabling environment (66/140)
2. Natural and Cultural resources (62/140)
3. Infrastructure (111/140)
4. Travel & Tourism Policy and Enabling Conditions (113/140)

## COMPARES FAVORABLY (60-100 PERCENTILE) ON:

- Price competitiveness (top-20)
- Health and hygiene

## COMPARES DECENTLY (40-60 PERCENTILE) ON:

- Safety and security
- Human resources and labor market
- Business environment
- Natural resources
- Cultural resources & business travel

## COMPARES UNFAVORABLY (0-40 PERCENTILE) ON:

- Prioritization of Travel & Tourism
- ICT readiness
- Tourist service infrastructure
- Air transport infrastructure
- Environmental sustainability (bottom-20)
- Ground & port infrastructure (bottom-20)
- International openness (bottom-20)

Global Rank	ENABLING ENVIRONMENT					T&T POLICY & ENABLING CONDITIONS				INFRASTRUCTURE			NATURAL & CULT. RESOURCES	
	Business Environment	Safety & Security	Health & Hygiene	Human Resources & Labor Market	ICT Readiness	Prioritization of T&T	Int'l. Openness	Price Compt'ness.	Environ. Sustain-ability	Air Transport Infra-structure	Ground & Port Infra-structure	Tourist Service Infra-structure	Natural Resources	Cultural Res. & Business Travel
Japan	4	5.4	6.2	6.4	6.3	5.2	4.8	4.8	4.4	4.8	4.9	5.2	3.7	3.5
Australia	7	5.1	6.1	6.2	5.1	5.8	5.2	4.6	4.4	4.5	3.6	4.7	3.5	3.4
China	13	4.7	5.6	5.6	5.2	5.0	4.8	3.1	5.7	3.8	4.3	3.9	3.5	3.7
Hong Kong SAR	14	6.1	6.2	6.0	5.6	5.8	5.8	3.8	4.5	4.6	5.8	4.3	3.6	2.4
Korea, Rep.	16	4.8	5.9	6.4	5.0	6.3	4.9	4.9	5.0	4.7	4.8	5.2	2.4	4.4
New Zealand	18	5.6	6.2	5.9	5.4	6.1	5.6	5.5	4.7	4.2	4.8	3.8	3.5	2.0
Taiwan, China	37	5.7	6.4	6.0	5.2	5.6	4.7	3.7	5.4	4.4	3.9	5.1	4.8	2.6
Mongolia	93	4.3	5.6	6.1	4.5	4.3	4.5	1.9	3.7	3.6	2.2	2.2	2.9	3.1
<b>Eastern Asia-Pacific</b>		<b>5.1</b>	<b>6.0</b>	<b>6.1</b>	<b>5.2</b>	<b>5.7</b>	<b>5.1</b>	<b>4.0</b>	<b>5.1</b>	<b>4.3</b>	<b>4.5</b>	<b>4.5</b>	<b>4.8</b>	<b>3.8</b>
Singapore	17	6.5	6.2	5.6	5.6	6.1	4.5	4.6	5.0	4.3	4.5	5.5	5.1	2.2
Malaysia	29	5.4	5.9	5.3	5.4	5.4	4.8	4.2	4.2	4.0	4.8	4.4	4.5	3.8
Thailand	31	4.9	4.8	5.0	5.1	5.2	5.2	3.9	5.6	3.6	4.6	3.3	3.8	2.6
Indonesia	40	4.7	5.4	4.5	4.9	4.7	5.9	4.9	4.2	3.5	3.9	3.3	3.1	3.2
Viet Nam	63	4.4	5.6	5.0	4.8	4.3	4.1	3.7	5.2	3.8	3.4	3.0	2.8	3.8
Brunei Darussalam	72	4.8	6.1	5.5	4.6	5.4	3.4	3.7	4.9	4.1	3.3	3.8	4.0	2.4
Philippines	75	4.3	3.6	4.8	5.0	4.4	4.9	3.5	5.2	4.0	3.2	2.8	3.6	3.8
Lao PDR	97	4.4	5.3	4.5	4.6	3.4	4.8	3.0	5.4	3.7	2.4	2.5	3.4	2.9
Cambodia	98	3.8	5.1	4.0	4.2	3.9	5.0	3.5	5.6	3.4	2.3	2.5	3.2	3.0
<b>South-East Asia Average</b>		<b>4.8</b>	<b>5.3</b>	<b>4.9</b>	<b>4.9</b>	<b>4.8</b>	<b>4.9</b>	<b>3.9</b>	<b>5.9</b>	<b>3.8</b>	<b>3.7</b>	<b>3.6</b>	<b>4.0</b>	<b>3.5</b>
Russian Federation	39	4.3	5.1	5.7	5.0	5.3	4.4	2.2	5.2	4.2	2.8	3.3	4.1	3.8
Georgia	68	5.2	5.2	6.0	4.7	4.9	5.2	3.4	5.7	4.2	2.5	3.2	4.9	2.4
Azerbaijan	71	5.8	5.9	6.1	5.9	5.0	5.0	3.1	5.8	4.1	2.6	3.9	3.2	2.2
Ukraine	78	4.1	4.8	5.2	4.8	4.5	4.3	3.7	5.3	3.9	2.7	3.1	4.3	2.2
Armenia	79	5.0	5.8	6.0	4.8	4.7	4.7	3.2	5.7	4.0	2.4	2.8	4.3	2.5
Kazakhstan	80	4.7	5.6	5.5	4.7	5.0	4.3	2.5	5.2	3.8	2.7	2.9	3.4	2.6
Tajikistan	104	4.3	5.6	5.5	4.7	3.4	4.3	2.5	5.6	3.9	2.2	2.8	2.0	2.9
Kyrgyz Republic	110	4.4	5.2	5.7	4.3	4.0	3.8	3.0	5.2	3.7	2.0	2.1	2.1	2.5
<b>Eurasia Average</b>		<b>4.6</b>	<b>5.5</b>	<b>6.1</b>	<b>4.8</b>	<b>4.6</b>	<b>4.5</b>	<b>3.0</b>	<b>5.9</b>	<b>4.0</b>	<b>2.7</b>	<b>3.0</b>	<b>3.5</b>	<b>2.6</b>

**In terms of tourism sector competitiveness: Mongolia is roughly:**

1. On par with Lao PDR & Cambodia;
2. Ahead of Tajikistan & Kyrgyz Rep;
3. Behind other countries in East Asia-Pacific, South-East Asia and Eurasia.



Source: World Economic Forum (2020).



### 3. Geographic inequity of tourism benefits

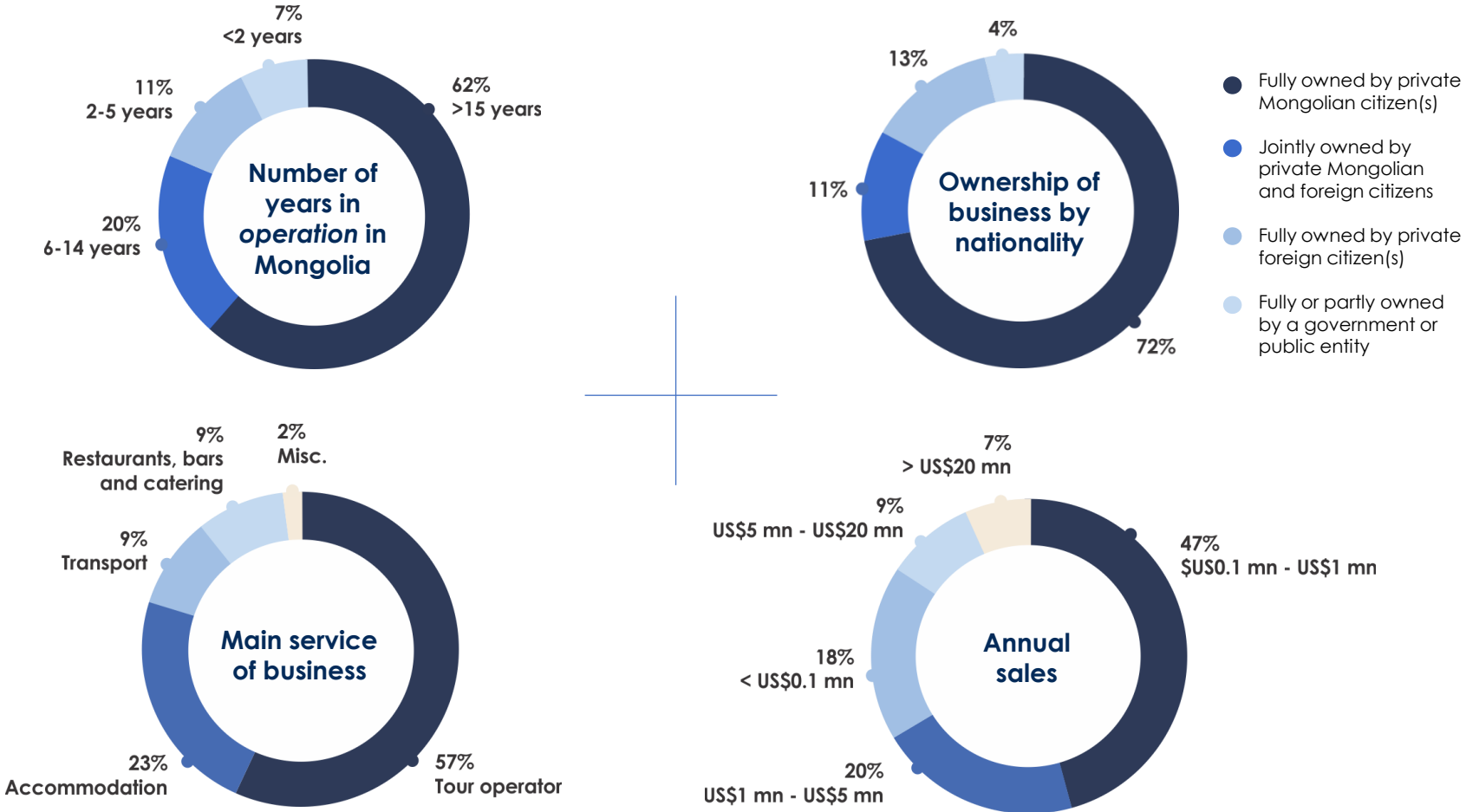
- Current GoM policy does not encourage redistribution of economic and social benefits of tourism to the aimag and local levels:
  - ✓ Tourism-related taxes paid by business operators registered both in the capital city (Ulaanbaatar) and local aimags are not channeled back into developing the sector per se such as improvement of local sanitary facilities, improvement of signage, interpretation centers, etc.
  - ✓ Management of protected areas and natural resources is centralized and funded from the national budget, with any local fees collected generally transferred back to the central government.
- Weak linkages with local supply chains also limit benefits for communities in tourism destinations:
  - ✓ Most supply inputs channeled through Ulaanbaatar-based operators.
  - ✓ Linkages to local agriculture and cashmere are under-developed.
- Access to training and finance for businesses based outside of Ulaanbaatar is limited, forcing most to work as external vendors/contractors as they cannot afford overhead and management costs, thus limiting their share of profits.





## 3.1 Tourism Enterprise Survey Findings

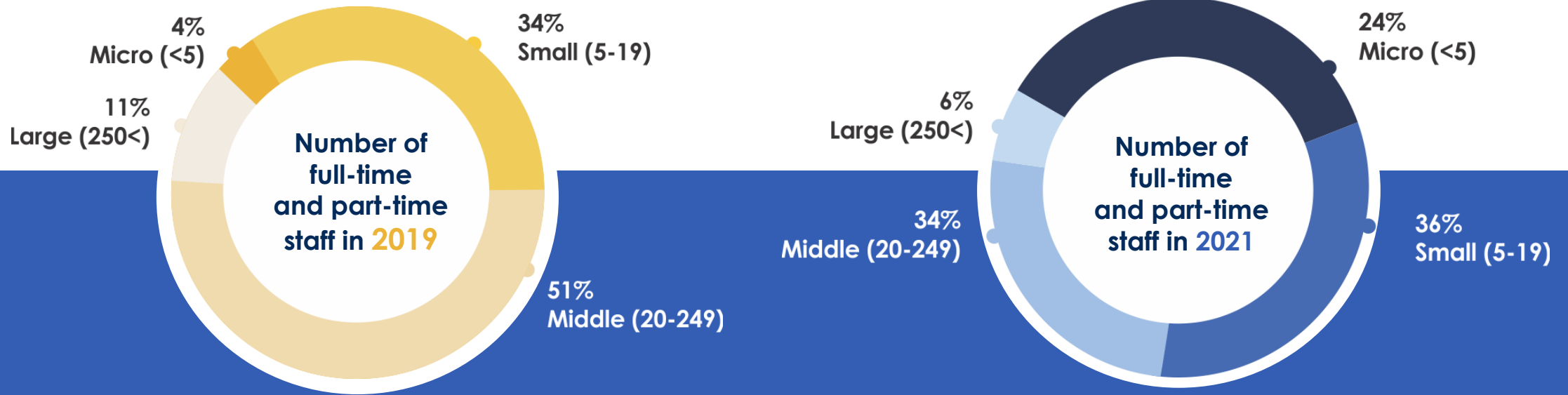
# An enterprise survey of travel and tourism companies operating in Mongolia was conducted in 2021-Q1 to assess the priorities of the private sector and the impact of COVID-19



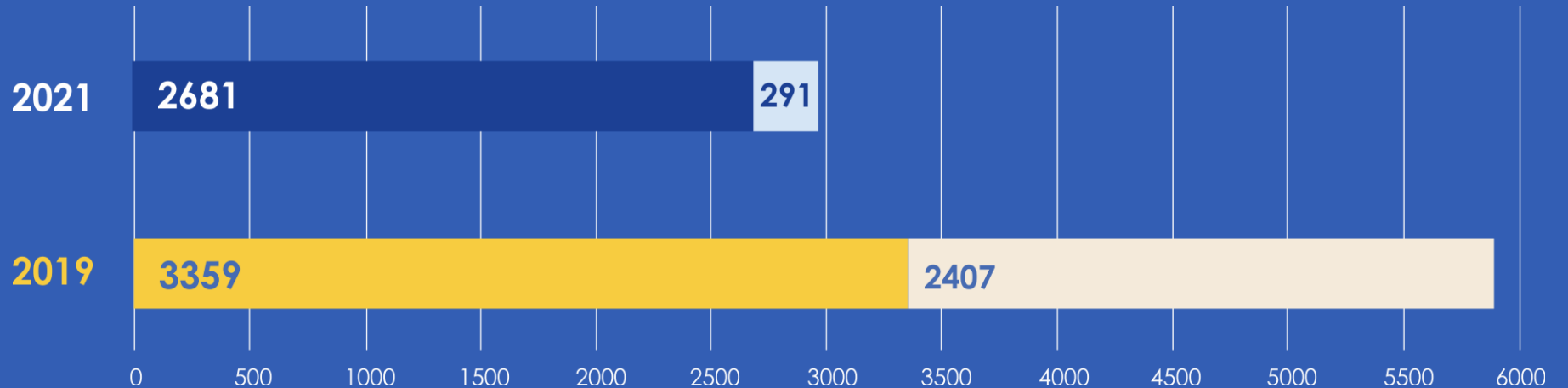
- The online survey targeted a sample of 100 enterprises provided by the Mongolia Tourism Association.
- The survey was open between February 17 and March 30, 2021. It received 53 responses.
- A slight majority of the respondents were tour operators and travel agents and the rest mainly hotel operators, transport companies, and restaurants.
- The median enterprise had been in operation for more than 15 years, was fully owned by Mongolian citizens and had annual sales of US\$1-5 million (in 2019).
- 51 out of the 53 respondents were registered and located in Ulaanbaatar.

Source: Authors' tourism enterprise survey (2021).

# Survey findings: the pandemic has had a severe impact on employment in the tourism industry with full-time staff reduced by 20% and part-time staff by 88%



## Employment in the travel and tourism industry



Source: Authors' tourism enterprise survey (2021).

# Survey findings: A perpetual topic of discussion in Mongolia is the type of tourism development model that would benefit the country and sector most:



Among the tour operators:

12%

argue that high-volume mass market tourism is the appropriate model.

76%

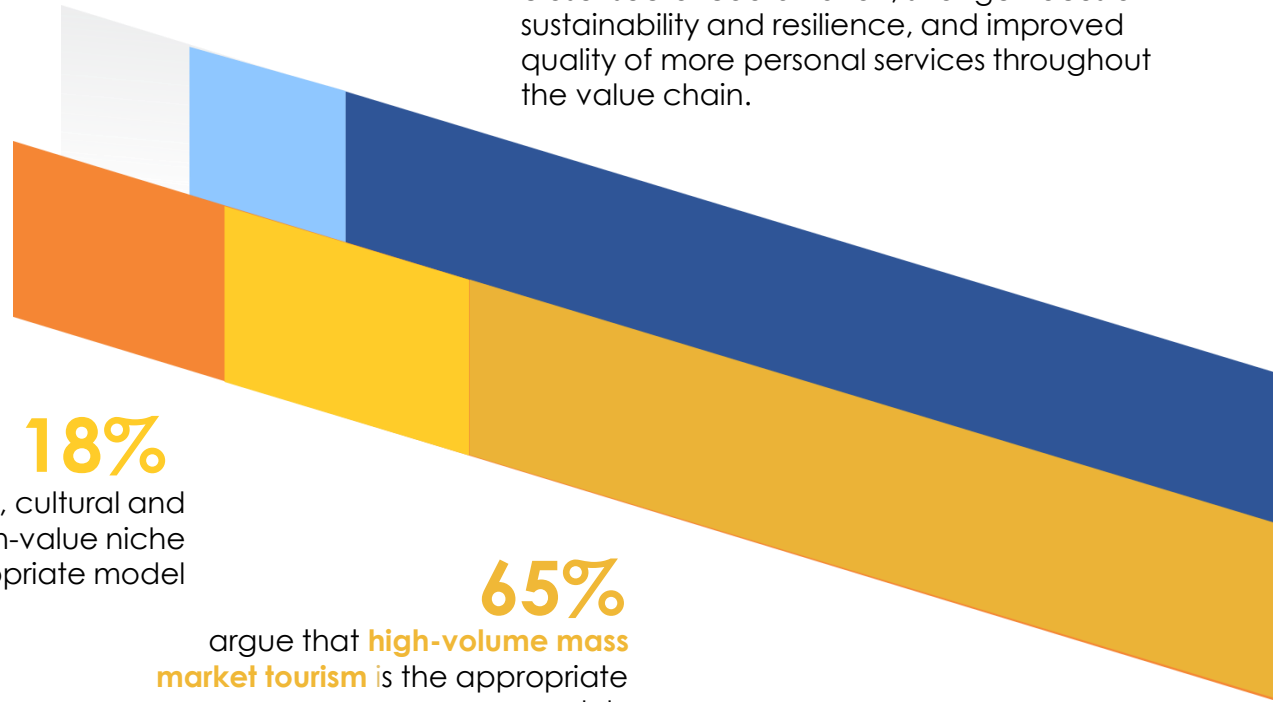
argue that the **nature, cultural and low-volume, high-value niche tourism** is the appropriate model.



This growth model requires better planning, closer sector coordination, stronger focus on sustainability and resilience, and improved quality of more personal services throughout the value chain.

17%

argue that MICE (meetings, conferences and exhibitions) tourism is the future.



18%

argue that nature, cultural and low-volume, high-value niche tourism is the appropriate model

65%

argue that **high-volume mass market tourism** is the appropriate model.

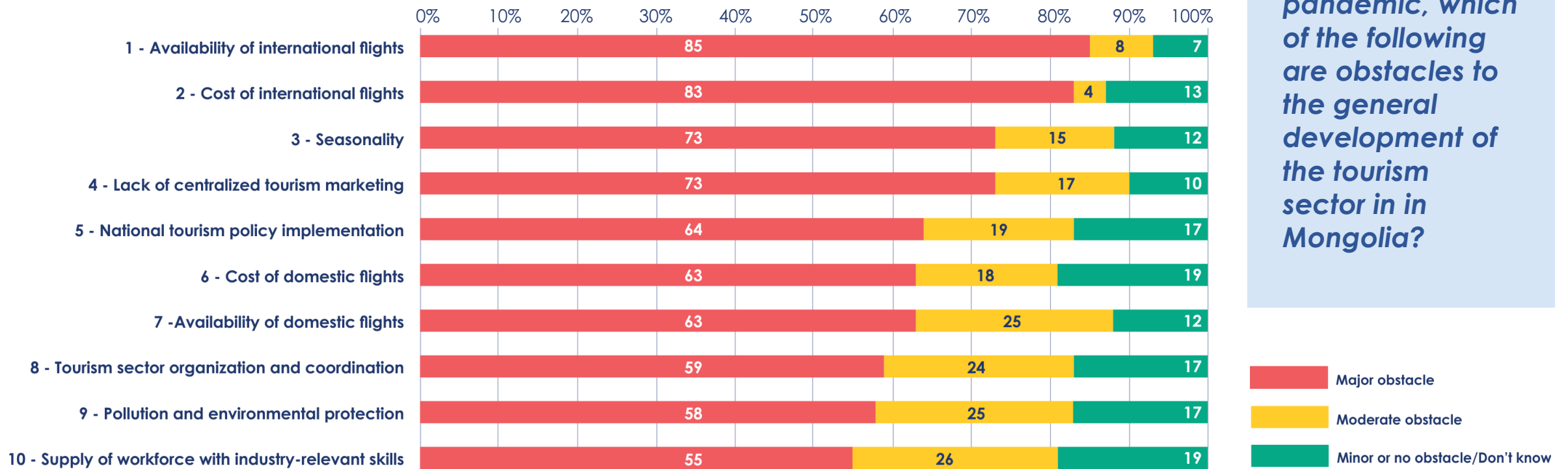


This growth model requires fast liberalization of the aviation policy and visa policy, focus on the development of the Chinese leisure and border tourism market

Among the hotels, transporters and urban restaurants:

# Survey findings: Top-10 obstacles to the development of the tourism sector in Mongolia

*Apart from the COVID-19 pandemic, which of the following are obstacles to the general development of the tourism sector in Mongolia?*



# Survey findings: Top-10 obstacles to the development of the tourism sector in Mongolia

- The greatest obstacle to the development of the tourism sector in Mongolia – according to the tourism sector itself – is the **availability (#1)** and **cost (#2)** of **international flights**: 85% of respondents find the former a major obstacle and 83% find the latter to be a major obstacle. It is notable that air transport companies were among the few who disagreed with this assessment.

*The level of competition and access to the Mongolian air transport market is largely a political decision within the control of the GoM. The liberalization of air access would provide a significant boost to tourism both in the short and long run. There is nearly full consensus on this matter.*

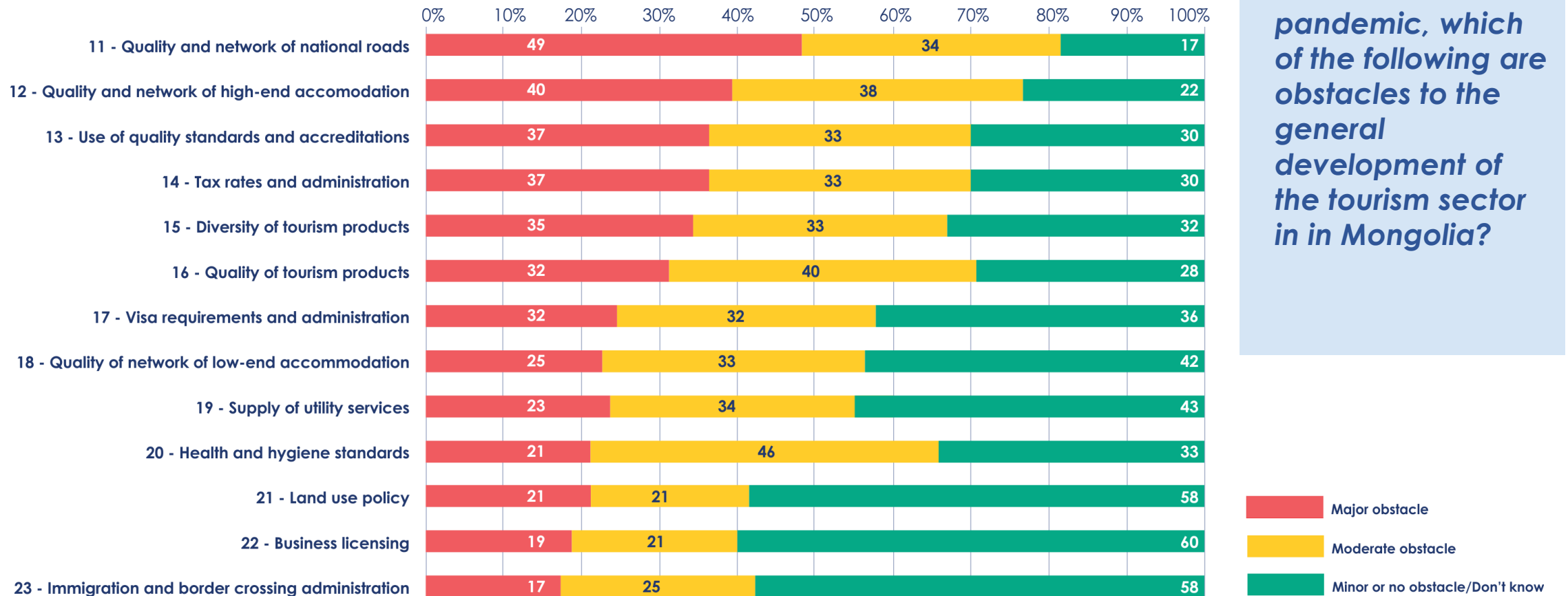
- The **seasonality** of tourism (**#3**) was identified as a major obstacle by 73% of the respondents. This is a largely function of the climate and it will require a joint, concerted effort by the GoM and the private sector to develop new products that can expand the shoulder seasons and explore new strategies to attract visitors during the winter season.
- Three **policy and sector coordination** issues were on the top-10 list:
  - **#4** – The **lack of centralized marketing support** (73% consider it a major obstacle)
  - **#5** – National **tourism policy implementation** (64%)
  - **#8** – Tourism **sector organization and coordination** (59%)

*There is clearly scope to improve outcomes if public and private actors collaborate and coordinate more effectively and if GoM follows through on its commitments. For example, there is no coordination between the Aviation Policy and the Tourism Policy which results in unrealistic targets (see section 2).*

- The **cost (#6)** and **availability (#7)** of **domestic flights** were also high on the list with 63% identifying them as major obstacles to tourism development.
- (**#9**) – **Pollution and** (the lack of) **environmental protection** (58%) is a broader concern that needs to be addressed at the national level.
- (**#10**) – The supply of a **workforce with industry-relevant skills** (55%) is partly a symptom of the strong seasonality and it is an area where the GoM and the private sector could work together to strengthen the quality and relevance of training; promote functional accreditations; and encourage youth to learn foreign languages.

# Survey findings: Lower order (#11-23) obstacles to the development of the tourism sector in Mongolia

*Apart from the COVID-19 pandemic, which of the following are obstacles to the general development of the tourism sector in in Mongolia?*



# Survey findings: Lower order (#11-23) obstacles to the development of the tourism sector

- **(#11)** – The quality and network of **national roads** are considered either a major (by 49%) or a moderate (by 34%) obstacle by the respondents. The large size of the country, the relatively small population, the concentration of the population in the capital and the extremely harsh climate leave road development and maintenance expensive. But it is also a priority to develop the aimags and support tourism.
- **(#12)** – Mongolia lacks a network of quality **high-end accommodation** and the seasonality with relatively low occupancy rates make large capital investments risky. However, the GoM could still seek to promote more high-end ger camps to increase this supply.
- **(#18)** – The respondents found the quality and network of **low-end accommodation** to be better developed.
- **(#13)** – **Quality standards and accreditations** are underutilized in the tourism sector and some respondents noted that **(#15)** the **diversity** and **(#16)** the **quality of tourism products** need to be strengthened.
- The restrictiveness of **regulations and the quality of government** services are considered nuisances by most businesses, and they are mostly in the bottom third of the list of 23 pre-identified obstacles to tourism development. There is still a relatively significant number of respondents who find individual options to be major obstacles to the development of the industry.
  - **(#14)** – Tax rates and tax administration (37%);
  - **(#17)** – visa requirements and visa administration (32%),
  - **(#19)** – the supply of utility services (23%),
  - **(#21)** – land use policy (21%);
  - **(#22)** – business licensing (19%); and
  - **(#23)** – immigration and border crossing administration (17%)
- Finally, **(#20)** – **Health and hygiene** standards, for which there have been complaints in the past and documented in Tripadvisor reviews, are low on the list but 2/3 of the tourism sector still consider it at least a moderate obstacle. The lack of flush toilets outside the capital is a concern to many tour operators. Public investments in better bathroom facilities in public places frequented by tourists may offer a low-cost, high-return opportunity to bolster the image of the country to tourists.





## 3.2 Deep Dives into Select Challenges

# International air transport (#1-2) - problems fall across three dimensions, constraining growth of international and domestic aviation activity and keeping costs high

## 1. Policy and regulations

- Mongolia's aviation policy is based on the principle of gradual liberalization with some mostly old quasi-Open Skies agreements with countries like Norway, Iceland, Denmark, Malta and the UAE, and to a lesser extent Macau, China.
- Mongolia's Air Liberalization Index (0= no liberalization and 50 full liberalization) with important source countries or headquarters of major airlines:
  - ✓ Germany = 11
  - ✓ China = 10
  - ✓ Turkey = 6
  - ✓ Japan = 4
  - ✓ India = 4
  - ✓ Korea, Republic of = 0
  - ✓ Kazakhstan = 0
- Government restrictions have effectively put a lid on the number of foreign airlines and seats that can operate on Mongolia.
- Mandatory code-sharing with MIAT is a way to reconcile two contradictory effects of liberalization: (i) the proliferation of routes and frequencies, and (ii) the additional competition for MIAT. MIAT has only 6 aircraft but 1,000 full and part-time staff to look after.
- Entry into the domestic flight market for private operators is challenging due to strict safety and operating standards that smaller planes such as bush planes or air taxis cannot comply with in an affordable manner.
- There is no ceiling on foreign investment in domestic airlines.

Source: WTO (2021): [https://www.wto.org/english/tratop\\_e/tpr\\_e/s406\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s406_e.pdf)

## Mongolia's international air service agreements

Partner	Date	5th	7th	Cabotage	Coop	Designation <sup>a</sup>	Withholding <sup>b</sup>	Pricing <sup>c</sup>	Capacity <sup>d</sup>	Staff	ALI <sup>e</sup>
China	08/04/1989	Y	N	N	Y	M	SOEC	DA	PD	Y	10
Poland	26/05/1989	N	N	N	N	S	SOEC	DA	PD	Y	0
Korea, Democratic People's Republic	03/08/1989	N	N	N	N	S	SOEC	DA	PD	Y	0
Romania	10/07/1990	N	N	N	N	S	SOEC	DA	PD	Y	0
Korea, Republic of	23/10/1991	N	N	N	Y	M	SOEC	DA	PD	Y	4
Kazakhstan	27/10/1992	N	N	N	N	S	SOEC	DA		N	0
Singapore	18/05/1993	Y	N	N	N	M	SOEC	DD	PD	Y	16
Ukraine	23/07/1993	N	N	N	N	M	SOEC	DA	B1	Y	8
Thailand	25/02/1994	N	N	N	Y	S	SOEC	DA	PD	Y	0
Hungary	13/09/1994	N	N	N	N	S	SOEC	DA	N/A		0
Turkey	09/02/1995	Y	N	N	N	S	SOEC	DA	PD	Y	6
Netherlands	09/03/1995	N	N	N	N	M	SOEC	FP		N	12
Denmark	19/06/1997	N	N	N	N	M	SOEC, PPoB	COO	FD	Y	20
Norway	19/06/1997	N	N	N	N	M	PPoB	COO	FD	Y	23
Sweden	19/06/1997	N	N	N	N	M	PPoB	COO	PD	Y	15
Malaysia	09/09/1997	N	N	N	N	S	SOEC	FP	B1	Y	12
Germany	29/05/1998	N	N	N	N	M	COI	COO	PD	Y	11
India	01/12/1998	N	N	N	N	M	SOEC	DA	PD	Y	4
Japan	10/07/1999	N	N	N	N	M	SOEC	DA	PD	Y	4
Kyrgyz Republic	04/12/1999	Y	N	N	N	M	SOEC	DA	PD	Y	10
Finland	10/02/2000	N	N	N	N	M	PPoB	DA	PD	Y	12
United Kingdom	01/03/2000	N	N	N	N	M	SOEC	DD	B1	Y	14
Switzerland	03/03/2000	N	N	N	Y	M	SOEC	FP	B1	Y	16
Hong Kong, China	24/05/2000	N	N	N	N	M	PPoB	DA	PD	Y	12
Viet Nam	28/06/2000	N	N	N	Y	S	SOEC	DA	PD	Y	10
Philippines	04/09/2001	N	N	N	N	M	SOEC	DA	B1	Y	8
Egypt	27/04/2004	N	N	N	Y	M	SOEC	DA	B1	Y	8
Macao, China	27/06/2006	N	N	N	N	M	PPoB	DA	B1	Y	16
France	22/02/2007	N	N	N	N	M	SOEC	DA	B1	Y	8
Iceland	28/03/2007	Y	N	N	N	M	PPoB	DA	B1	Y	22
Austria	02/10/2007	N	N	N	Y	M	SOEC	COO	B1	Y	11
United Arab Emirates	25/11/2007	N	N	N	Y	M	SOEC	FP	FD	Y	20
Belarus	04/09/2013	N	N	N	N	S	SOEC	DA	B1	Y	4
Cambodia	01/03/2016	N	N	N	N	M	SOEC	COO	PD	Y	7
Czech Republic	25/05/2017	N	N	N	N	M	SOEC	FP	PD	Y	12
Luxembourg	01/06/2017	N	N	N	Y	M	SOEC		FD	Y	12
Malta	14/07/2017	N	N	N	N	M	SOEC	FP	FD	N	20
Myanmar	27/09/2017	N	N	N	Y	M	SOEC	DA	PD	Y	4

a S = single; M = multiple.

b SOEC = substantial ownership and effective control; PPoB = principal place of business; COI = community of interest.

c DA = double approval; DD = Dual Disapproval; COO = country of origin; FP = free pricing.

d PD = pre-determination; B1 = Bermuda 1, i.e. *post facto* determination; FD = free determination.

e ALI = Air Liberalization Index (0 = no liberalization; 50 = full liberalization).

Source: WTO Secretariat; and information provided by the authorities.

## International air transport (#1-2) - problems fall across three dimensions, constraining growth of international and domestic aviation activity and keeping costs high (cont.)

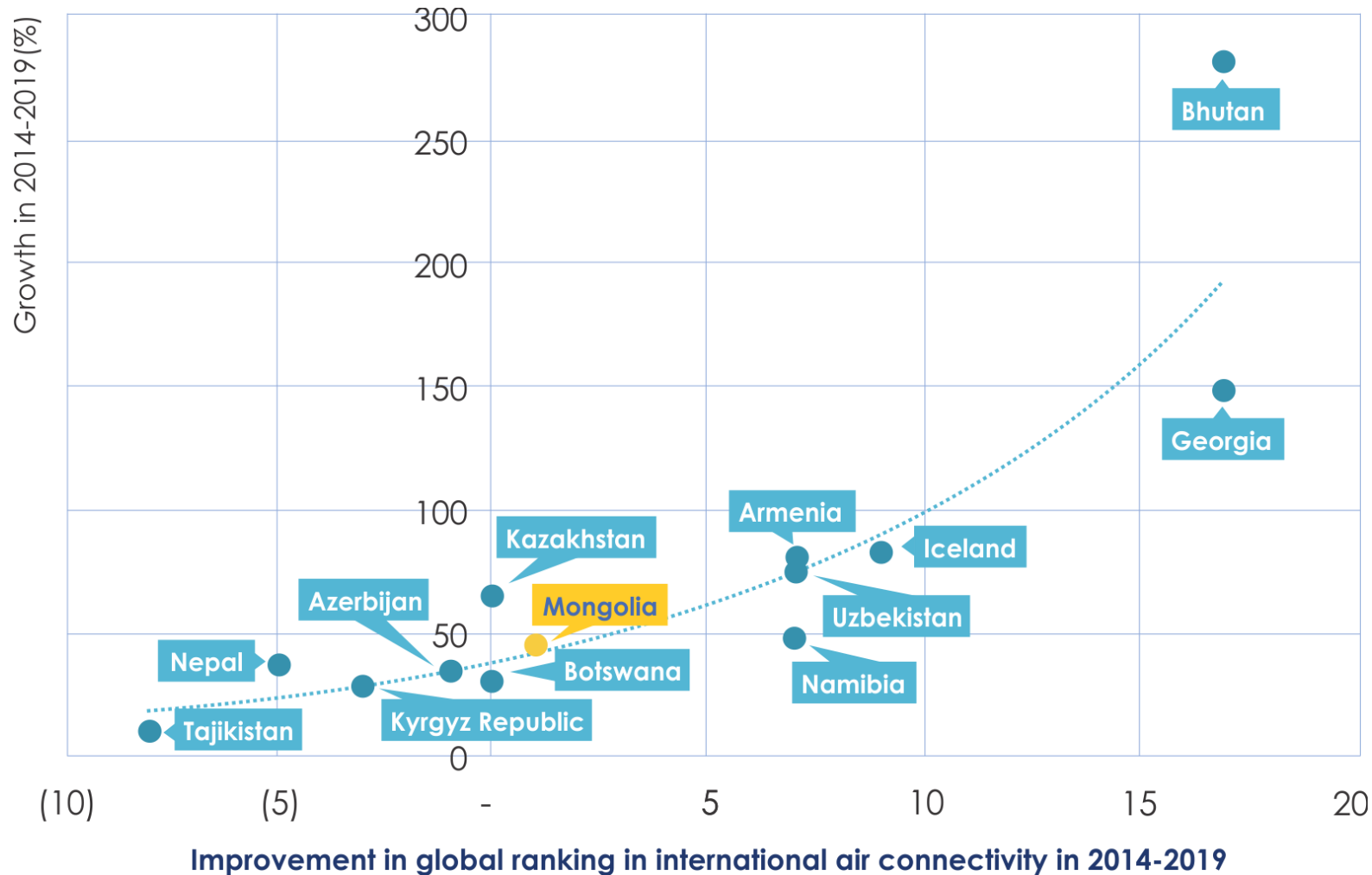
### 2. Infrastructure

- Mongolia has 1 international airport and 16 other licensed airports, of which 10 are owned and operated by the Civil Aviation Authority of Mongolia (CAAM), and 8 have paved runways and runway lighting systems.
- The New Ulaanbaatar International Airport (NUBIA) 50 km south of Ulaanbaatar has two runways and the capacity to handle up to 3 million passengers per year. Construction started in May 2013 and is partially financed by a JICA loan of JPY66 billion. NUBIA is scheduled to open in July 2021.
- The NUBIA Joint Venture is a Japanese consortium formed by Mitsubishi, Narita International Airport, Japan Airport Terminal Co. and Jalux that has a 15-year concession agreement with the right to undertake (or contract out) ground handling services. Domestic flights will face significantly higher airport taxes at the new airport.
- Airports services are governed by the Civil Aviation Law, 1999, which allows for public private partnerships, build-operate-transfer schemes, and concessions.
- The Ministry of Road and Transport Development has in anticipation of the opening invested in capacity building and human resource development to address common complaints at the old airport associated with a lack of customer-oriented staff and poor luggage services.

### 3. Operations

- Aviation jet fuel costs are high due to a single supplier (a refinery in Irkutsk) and limited buyer bargaining power—anecdotal evidence suggests a jet fuel price that is 60% above the international benchmark. Extreme weather and high transport costs further drive up this local fuel price.
- High seasonality leads to large fluctuations in the demand for seats.
- Low economic density also leads to high overhead costs to operate and maintain a network of domestic airports and road transport of jet fuel to distant locations.
- Flight punctuality is an issue in the spring due to wind turbulence that leads to flight cancellations.
- Extreme temperature changes throughout year adds expenses to aircraft maintenance.
- MIAT is to date operating a *de facto* monopoly on ground handling services.
- NUBIA will handle international flights whereas domestic flights largely will be covered by the old Chinggis Khan International Airport, which will require more coordination between international and domestic flights given the 45-minute drive between them.

## International air transport (#1-2) – Improvement in international air connectivity\* is closely correlated with passenger growth in 2014-2019 among Mongolia and comparators



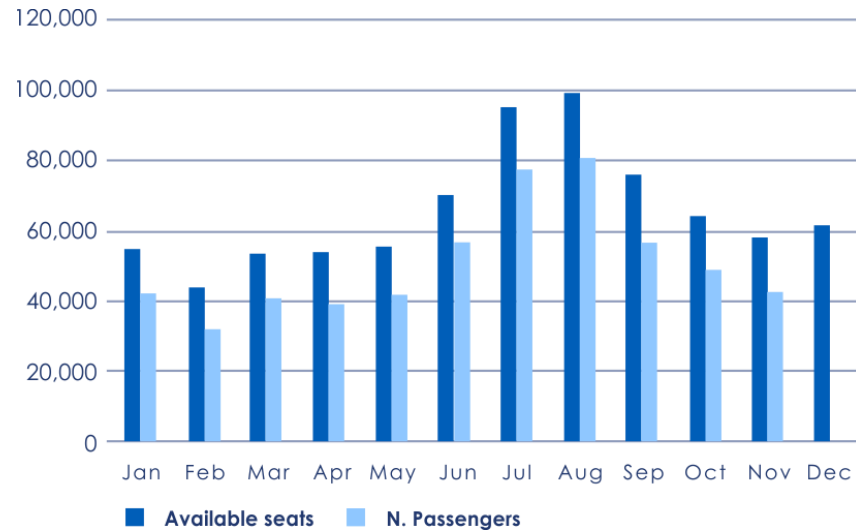
- Mongolia's global ranking in international air connectivity\* improved from 131<sup>st</sup> to 112<sup>th</sup> between 2009 and 2014. It remained stable and was rated as 111<sup>th</sup> in 2019.
- Air transport liberalization would increase Mongolia's ranking further and provide new impetus for passenger growth.

\* Air connectivity is a measure which reflects the scope of access between a country and the global air transport network. The IATA measure captures the range and economic importance of destinations, and the number of onward connections available through each country's aviation network.

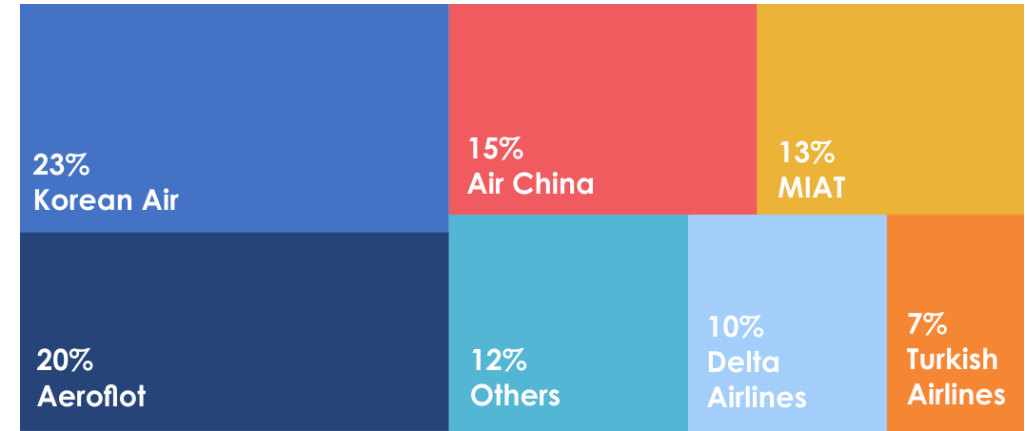
# International air transport (#1-2)



Available seats vs number of international passengers in 2019



Operating carriers by number of seats in 2019 (including stopovers)



- Pre-COVID-19, Air China, Asiana Airlines, Korean Air, Aeroflot Russian Airlines and Turkish Airlines operated regular direct flights to/from Ulaanbaatar.
- Flights to/from Ulaanbaatar are relatively expensive from those few cities that offer direct flights within East Asia. Travel agents note that Chinese, Japanese and Korean tourists can fly to almost any other capital in the region for a lower price.
- The state-owned MIAT Mongolian Airlines has a fleet of 6 aircraft and (as of early 2020) operated a schedule of 9 international (and 1 domestic charter) flights.
- Lobbying by foreign government(s) has (anecdotally) kept out Japanese airlines from operating direct flights to Mongolia.
- After Asiana Airlines starting flying to Ulaanbaatar in 2019, ticket prices from Seoul reportedly dropped by 30%.



*The degree of price competition is low in an environment of few direct flights and few airline operators.*

## Seasonality (#3) is a result of Mongolia's climate and lack of conscious product development

The short tourism season adversely affects businesses and deters potential investors:



**Labor supply:** businesses find it difficult to retain and rehire talent due to the seasonal nature of the industry.



**Cash flow:** the highly seasonal revenue pattern throughout the year makes cash flow management a challenge. Room occupancy rates in hotels drop below 20% in the low season, which deters prospective hotel investors. There are occasional reports of businesses that adopts forms of price gouging during special events such as festivals when demand exceeds supply by a large margin.



**Access to finance:** the uneven cash flow hampers the ability of certain businesses to secure commercial finance.



**Regional competitiveness:** unlike other tourism destinations in Asia, where peak seasons are spring (Mar-May) and winter (Nov-Feb), Mongolia high season summer (Jun-Aug) competes with popular summer destinations for European and North American travelers.



Few tourists spend much time in Ulaanbaatar where there are good hotels and almost all ger camps in the aimags where leisure tourists prefer to stay shut down during the long, cold season.

Seasonality is not unique to Mongolia: the tourism industries in Iceland, Finland, Bhutan and the Kyrgyz Republic, for example, face similar challenges and Mongolia can learn from their experiences in extending the shoulder seasons and developing new tourism products.

## Tourism policy, tourism regulations and government support programs (#4-5)

Eight **business roundtable** meetings were organized in April 2021 by the World Bank team to solicit feedback from the private sector on public policy and support to the tourism sector. Some of the discussions zeroed in on the findings in the enterprise surveys concerns about the lack of implementation of the national tourism policy and the lack of a centralized marketing strategy to put Mongolia on the map to prospective tourists. Common themes raised at numerous occasions were:

1. **Lack of consultations and dialogue:** the private sector is often not consulted about potential policies and regulations under consideration.
2. **Unpredictable business environment:** policies and regulations are often introduced without advance warning, and without adequate transition periods to allow businesses to adapt, which hurts investment in the sector.
3. **Transient regulatory environment:** new rules and regulations are announced but then sometimes dropped or changed soon thereafter (e.g. permits to use cars for tourism transport, color requirements for ger camp sheets or slippers, rules for tour guides). This signals ad-hoc policy-making and a lack of a long-term governing framework for tourism development.
4. **Unrealistic public targets:** the consistent focus on ambitious long-term targets and aggressively growing arrivals coupled with a history of modest budget allocations and scant implementation follow through by MET to achieve targets.
5. **Lack of marketing strategy:** centralized public marketing support for tourism has been inconsistent—occasional big push spending campaigns that are neither sustained nor guided by a longer-term vision for Mongolia as a destination. Mongolia would benefit from a clear brand in marketing and tourism campaigns over prolonged periods independent of changes in the government.
6. **Revolving doors for public administrators:** beyond the political process, which naturally can change sector priorities, there is a perception that concerned public administrators change frequently, which hurts the continuation of public programs and reduces the capacity of relevant line ministries.
7. **Confusing tourism development with mega-projects:** the GoM has in the past pursued so-called mega monuments in the name of tourism development. These projects may enjoy popular support, but they are generally not aligned with the interests of tourists and divert resources away from other socio-economic development needs.
8. **Center-province differences:** there is no central permit system, with different requirements between the capital and the aimags.

*There is a common view that the GoM and the private tourism sector largely ignore each other. This is not strictly true. However, a hot topic of debate is the emergency relief for the tourism sector during the pandemic. Most tour operators and similar businesses are not required to pay value added tax; but in return they do not qualify for subsidized COVID-19 emergency loans (at 3%).*

## Domestic air transport (#6-7)

- The number of air transport passengers reached an all time high of 744,413 in 2019.
- Domestic air transport started to take off in 2010 thanks to the mining industry.
- In 2018, 73% of all domestic flights were chartered by mining companies.
- The CAAM has certified 21 air carriers (o/w 9 foreign) and before the COVID-19 pandemic:
  - ✓ Aero Mongolia (private, 3 aircraft) operated on 2 international and 10 domestic destinations.
  - ✓ Hunnu Air (private, 4 aircraft) operated on 4 international and 9 domestic destinations.
  - ✓ Eznis Airways (private, 1 aircraft) operated on a single international destination.
- The market for small bush planes and bush air strips is underdeveloped due to regulations.

Following 5 crash landings with deadly outcomes in the 1990s, MIAT has improved its safety record and not reported accidents or incidents in the 2000s.

- ✓ In the mid-2000s, MIAT controlled 95% of domestic traffic => today the market share is negligible (it operates one domestic charter flight).
- ✓ MIAT has undergone restructuring efforts, including with the help of an international management team financed by the EBRD in 2003-2004, to give the airline a more rational and commercial orientation before potential privatization. It remains a fully state-owned enterprise.







## Access to skilled labor (#10) and the development and retention of talent

### The short tourism season makes it difficult to attract and especially retain talent over time:

- The industry estimates that approximately 1/3 of workers are full-time and 2/3 are part-time/seasonal.
- Tourism jobs are viewed as seasonal part-time and seldom offer a regular and dependable source of income. The short season disqualifies many staff from social security protection.
- Many staff are relatively young—often students or recent graduates—and turnover rates tend to be high.
- The season for tour guides is mid-May to mid-October and many of Mongolia's 1,063 tour guides are teachers who use their mid-June to early September summer break to work as tour guides.
- Majority of specialized expertise such as boat captains and specialized guides is often brought in from abroad.

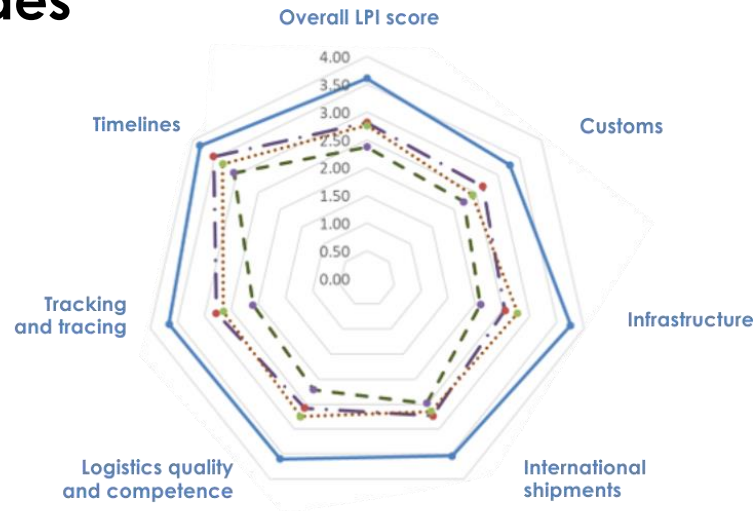
### The quality of services tends to suffer in transient environments partly reflecting:

- A lack of industry-led guidelines that promote quality standards.
- Fierce competition from copy-cat services due to low market entry barriers.
- Limited foreign language skills despite considerable wage premiums for proficiency beyond English.
- Weak academic and vocational training programs for tourism-related functions:
  - ✓ Due to seasonality of the business, enrollment in tourism education/training programs continues to drop and accommodation sector is struggling to recruit and retain staff.
  - ✓ Low returns to investment in training as upskilled workers sooner-or-later take up full-time jobs in other sectors.
  - ✓ Most service providers conduct on-the-job training programs instead of relying on external training.

# Road transport and logistics (#11) are underdeveloped, and the Trans-Mongolian Railway has not experienced passenger growth for two decades

## Logistics Performance Index 2018

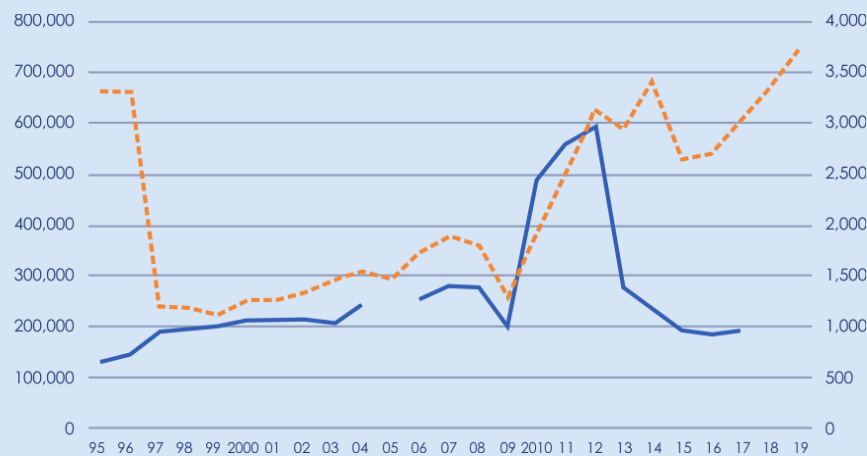
- China
- Kazakhstan
- .-●- Russian Federation
- .-●- Mongolia



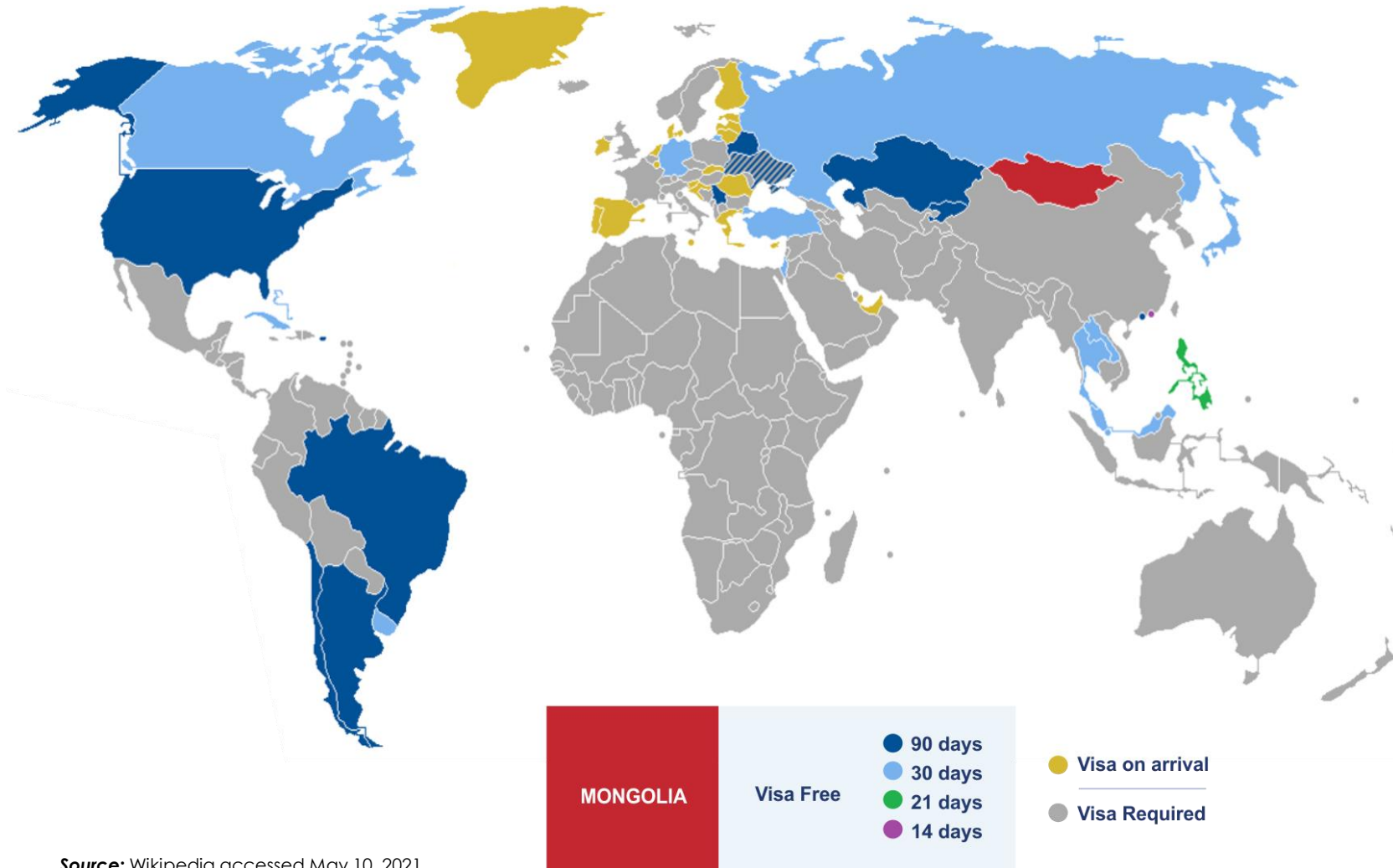
- The **Trans-Mongolian Railway** offers a niche product to tourists and caters more to regional visitors who move for work or family reasons.
- Built in 1949-1961 as a mostly single-track line on the Mongolian segment of the Moscow – Beijing route. Mongolian trains run on 1,520 mm gauge track like Russian trains, whereas China uses 1,435 mm gauge track. Thus, carriages between the two countries must change bogies at the border.
- The number of railway passengers (passenger-km) was flat in Mongolia in the 2000s except for 2010-2012 when it nearly tripled from the trend level. The volume carried in 2015-2017 was the lowest on record in the 2000s.
- Mongolia ranked 130<sup>th</sup> in the World Bank Logistics Performance 2018 Index out of 160 countries – behind all ASEAN and Central Asian countries except Tajikistan (134<sup>th</sup>) and Myanmar (137<sup>th</sup>). It ranked 134<sup>th</sup> in terms of trade and transport-related infrastructure such as roads, railroads, ports and information.

## Air and rail transport passenger developments in 1995-2019

- .- Air transport, passengers carried - left y-axis
- Railways, passengers carried (million passenger-km) - right y-axis



## Visa access (#17): Mongolia's tourism visa policy allows visa free access visitors mainly from the former Soviet Union, Japan and the Americas



Source: Wikipedia accessed May 10, 2021

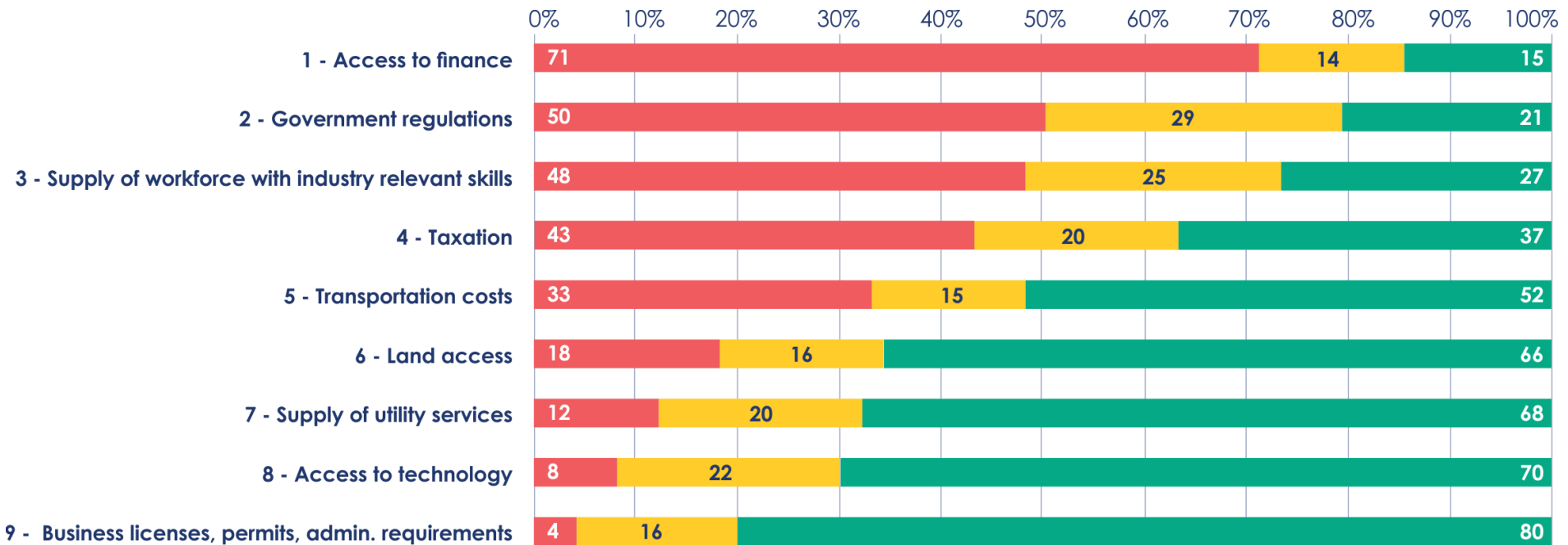
Mongolia's tourism visa policy may not be more restrictive than that of other countries in the region, but it is far from tailored to realize the tourism potential:

- Visa-free access granted to citizens of 24 countries/territories such as Russia, Japan, United States and Germany.
- Visa on arrival valid for 30 days granted to 20 countries/territories but none of them figure high on the list of arrivals.
- Visitors from countries like China, South Korea, France, the UK, Italy, India and Australia do require a pre-arranged visa. It is reportedly difficult to obtain tourism visas from China.
- Tour operators argue that visa requirements are not binding constraints as long as visas are issued fast and efficiently, preferably electronically.

**Mongolia plans to launch an eVisa scheme in 2021 that could facilitate the application and approval process.**

# Mongolia's tourism sector faces considerable obstacles at the individual firm level: access to finance, government regulations + supply of skilled labor are chief among them

*Apart from the COVID-19 pandemic and low visitor demand, which of the following are the key obstacles currently facing your business?*



■ Major obstacle  
■ Moderate obstacle  
■ Minor or no obstacle/Don't know

# Mongolia's tourism sector faces considerable obstacles at the individual firm level (cont.)

The **#1** constraint to the surveyed companies was **access to finance**: 75% of tour operators and travel agencies and 72% of hotels, restaurants and transporters noted that this was a major obstacle. 14 months of closed borders are detrimental to cash flow!

**Tour operators and travel agencies** struggle more with finding adequate **talent** (major obstacle for 67%) and **transportation** (major obstacle for 45%) whereas **hotels, restaurants and transporters** point to **regulations** (major obstacle for 53%) and **taxation** (major obstacle for 44%).

These tourism sector findings can be compared to another World Bank Enterprise Survey conducted in Mongolia before the COVID-19 pandemic in 2019 of 360 manufacturers and service providers. **That top-5 list of individual obstacles was:**

1. Political instability (35%)	not explicitly covered in the tourism survey
2. Tax rates (17%)	#4 in the tourism survey
3. Access to finance (16%)	#1 in the tourism survey
4. Corruption (9%)	not explicitly covered in the tourism survey
5. Inadequately educated workforce (6%)	#3 in the tourism survey

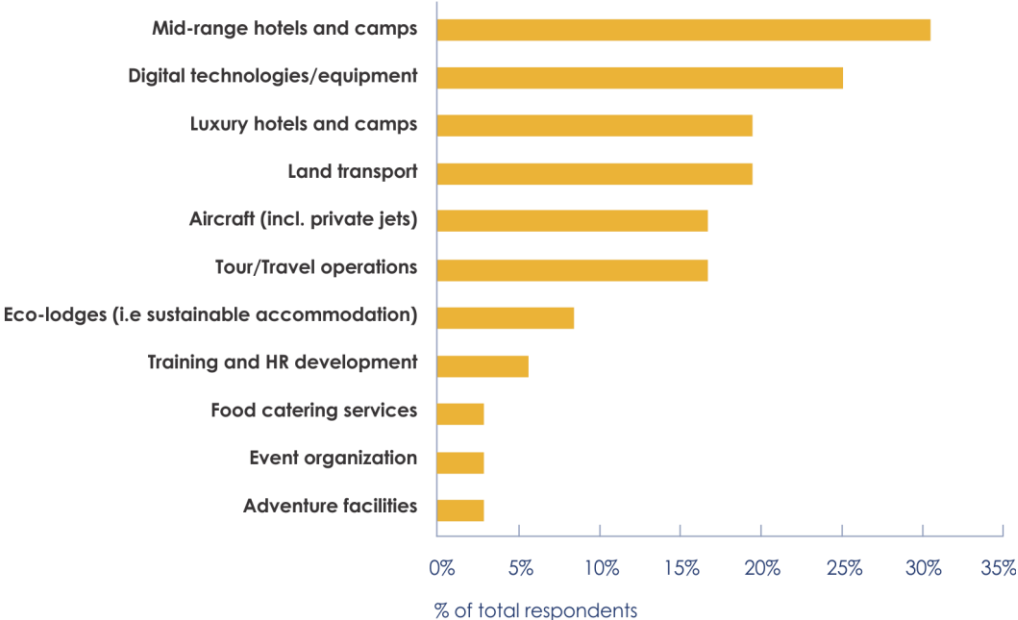
# Tourist satisfaction surveys commissioned by the GoM in 2018 highlight opportunities to develop new tourist products and priorities for improvements

- Most foreign tourists to Mongolia are aged 40+ with one-third aged 55+, which indicate the need for tailor-made products and services for this service segment. There is an opportunity to develop longer travel itineraries for the retired Asian markets of 55+ aged travelers.
- There is limited availability of travel information in nearly all languages, and it impedes prospective tourists from exploring and planning the opportunities of a Mongolian visit.
- The leisure travel segment spent on average 13 days and \$2,300 per trip including the air ticket price. But the high cost of air travel to Mongolia was perceived to put Mongolia at a disadvantage and reducing the attraction of the destination.
- The visa application (+fee) process - and the lack of online visa processing - is a major issue to develop the Chinese market. It also a barrier to many Western European and South Korean tourists.
- 38% of survey respondents replied that they were satisfied with their Mongolia trip, 56% were moderately satisfied, 5% were not satisfied, 1% found their trip to be unacceptable.
- 50% of survey respondents would like to visit Mongolia again within 4 years, 9% would not visit again, and 26% did not know.
- **Other common complaints from tourists** captured in GoM surveys of foreign tourists:
  - ✓ The scarcity and inadequate sanitation of public bathrooms.
  - ✓ Road conditions, status of maintenance, and traffic in the capital.
  - ✓ Irregular room/camp services such as changing of bed clothes and waste management.
  - ✓ Inadequate training of staff and modest foreign language proficiency.
  - ✓ The lack of private taxi services for mobility in and around the capital.
  - ✓ Inadequate internet connectivity in tourist locations.
  - ✓ Limited food menus and lack of choice of vegan and vegetarian dishes in restaurants.

# Despite these challenges, surveyed industry representatives still perceive opportunities for profitable private investments in tourism products and assets in the medium-term

- Despite the current oversupply of **mid-range hotels**, these are still seen as a low-risk investment based on being the preferred accommodation category for future foreign and domestic business travelers.
- Investments in **aircraft** are viewed as high-demand and high-return, provided that the regulatory framework for aviation is amended to reduce entry barriers and onerous and costly operating requirements.
- Firm-level investments in upgrading **digital capabilities** are also seen as instrumental to long-term profitability, seeing as only around 10% of registered accommodations are online and most of their online content is not in English.

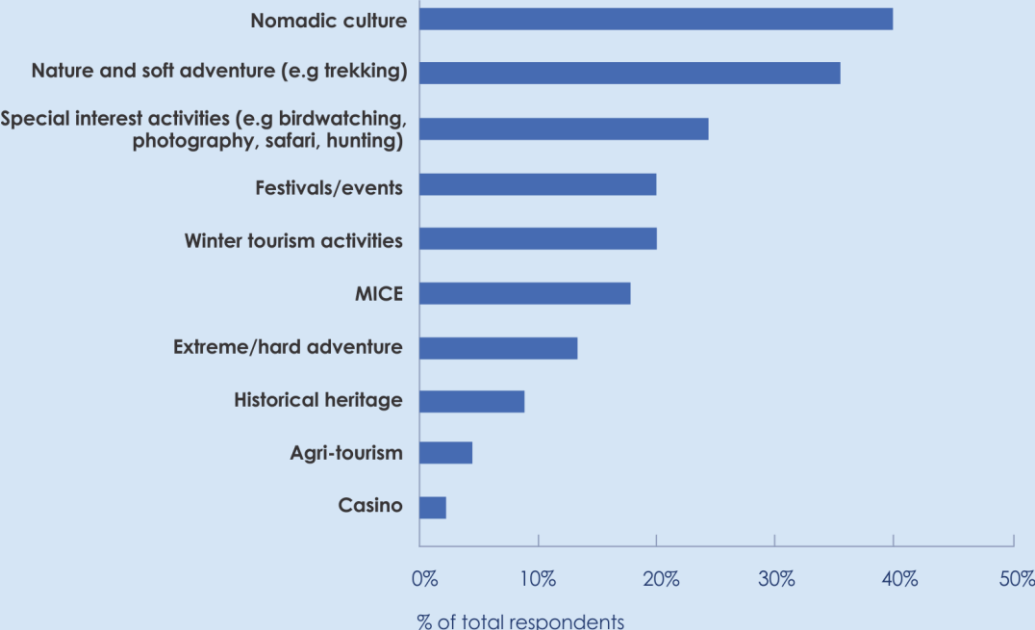
**Key private tourism asset investment opportunities**



Source: Authors' tourism enterprise survey (2021).

- Despite **nomadic culture and nature-based tourism experiences** already being Mongolia's top tourism products, further development of these offerings is seen as no-regret investment given their perceived alignment with the preferences of tourists from key growth markets such as South Korea and Japan.
- Development of **festivals** and **winter tourism products** are viewed as critical to lengthening of tourism season and unlocking potential for year-round tourism revenue.
- Within the **MICE segment**, highest growth potential is seen in the incentives business, targeting companies in China, South Korea, and Southeast Asia.

**Priority tourism products for development**



Source: Authors' tourism enterprise survey (2021).

## Section 3: Key takeaways

Feedback from the tourism enterprise survey and consultations with industry stakeholders revealed the following perceptions about Mongolia's tourism development constraints and the priorities for GoM support:

1. Mongolia's **aviation policy** is the predominant policy constraint to the development of the tourism sector. The GoM could improve access by: (i) negotiating open skies agreements and removing code-sharing requirements with MIAT for foreign airlines; (ii) inviting competition to break the current jet fuel monopoly; and (iii) proactively courting new airline groups to serve Ulaanbaatar, which would also boost domestic air transport.
2. Stronger **sector coordination, public-private collaboration, and tourism policy implementation** would improve sector outcomes: (a) the shoulder seasons could be extended with proactive product development. The GoM has a key facilitating role, but product development is largely a responsibility of the private sector, in collaboration with aimags and city authorities, where ideas for new festivals, conferences, services and experiences originate; (b) a more strategic and persistent tourism marketing and branding campaign would help put Mongolia on the map in key source countries; and (c) the private sector could be more effectively organized as a constituency facing the GoM. More prescient leadership and strategic budget decisions would help on all these matters.
3. The GoM could consider some additional **COVID-19 pandemic emergency relief measures** as the tourism sector is at the cusp of losing a second consecutive year of income. The recovery will only start once Mongolia has the coronavirus under control, which may be near given the rapid increase in vaccinations, but the peak June-August summer season may not be much different from 2020. Thus, the GoM could consider emergency relief to businesses that are under distress but remain financially viable. Regulatory forbearance, tax relief and efforts to improve access to finance under these extraordinary circumstances could be motivated to facilitate a recovery and reduce unnecessary damage.



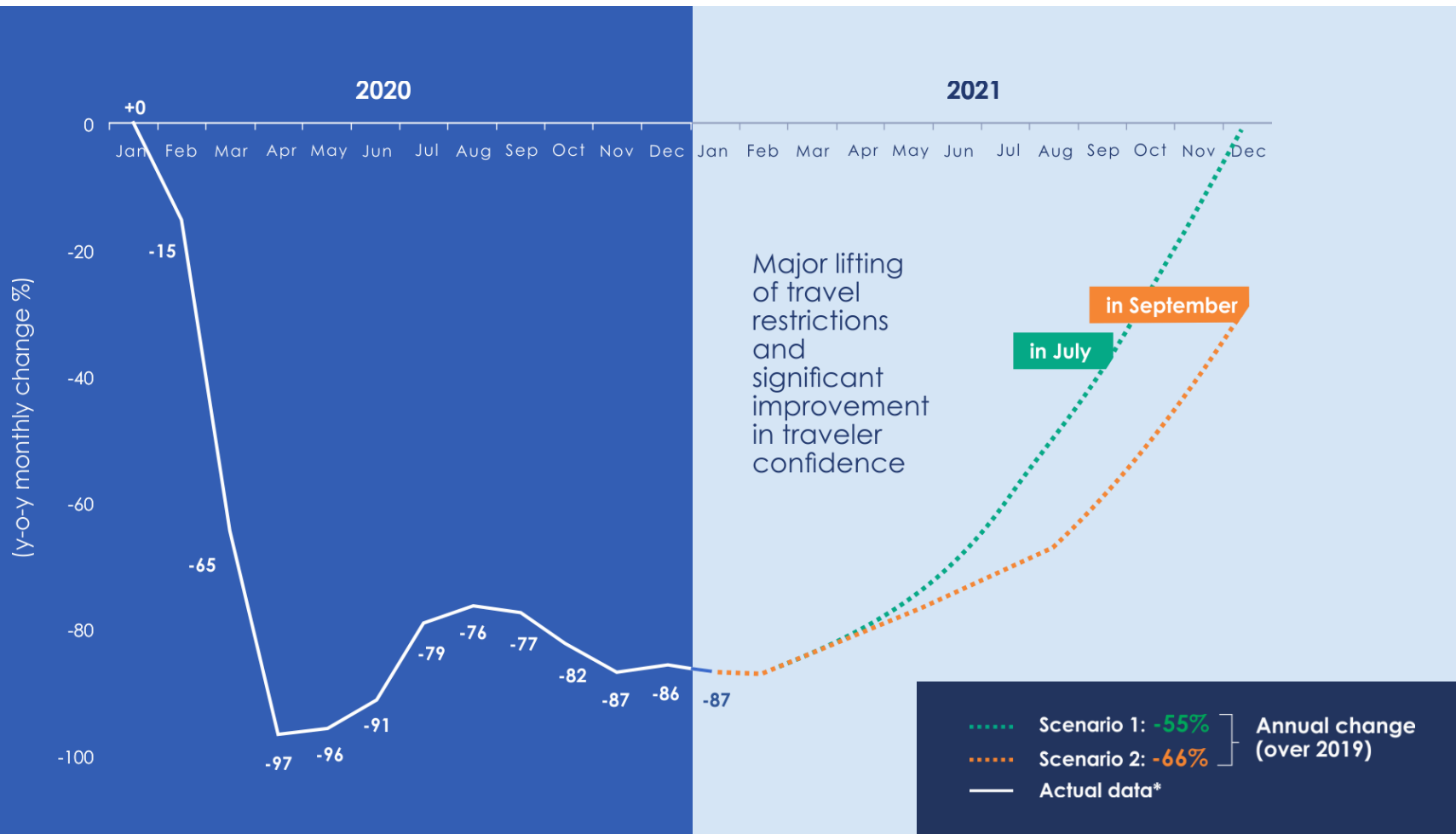


4.

# LOOKING AHEAD: GROWTH POTENTIAL AND DEVELOPEMENT SCENARIOS

# COVID-19 presents a significant challenge to the global (and Mongolia's) tourism outlook

UNWTO's recent projections point to a relatively slow resumption of international tourism for 2021



\*Actual data is preliminary and based on estimates for destinations which have not yet reported monthly results.

(Data as of March 2021)

- Many tourism businesses in Mongolia remain on government life support, and it has become more difficult to access finance amidst sharp drop in revenues.
- There is great uncertainty about the timeline of re-opening and resumption of international travel.
- There are questions marks about the appeal of Mongolia as a tourism destination in post-COVID-19 period – will its attractiveness increase or decrease?

# The pandemic is also prompting structural changes in the international tourism market

## 5 structural shifts to which the tourism industry must respond:



### 1. Changing demand.

Reduced viability of some markets and low-profit models (i.e. high-volume and low margin). The industry is seeing increases in domestic tourism and decreases in business travel, with future growth in high-value, nature-based tourism. Mongolia may have opportunities to capitalize on this shift in demand.



### 2. Consolidation.

Consolidation of sector due to business failures/distress brings opportunities for larger investors with high standards to create new markets but risks crowding out smaller firms and losing local benefits through leakages and insolvency.



### 3. Digitization.

Firms and destinations are forced to rapidly transition to the digital world. Technology drives productivity and offers opportunities for sustainability monitoring but will impact the future of tourism work.



### 4. Health and hygiene standards

will affect traveler experience and supply-side costs.



### 5. Basic services

are needed for sustainability and to prepare for future crises, on which the private sector can build. With limited fiscal space, Mongolia government needs to spend smarter and crowd in private participation.

# In the face of large uncertainty and a changing global tourism landscape, it is more instructive to evaluate Mongolia's future tourism prospects in terms of **scenarios**

A scenario-based approach allows for an analysis of the demand outcomes and supply-side implications of different configurations of tourism policy and investment initiatives. Three key illustrative scenarios are:

## 1. **Business-as-usual** (no policy change)

- The market continues to evolve in line with recent trends (factoring in disruptions from COVID-19 crisis) and its development is not supported by any targeted or comprehensive public investment or policy initiatives.

## 2. **High-volume**

- The government pushes a mass-tourism development model in pursuit of achieving ambitious targets for the *quantity* of international tourism arrivals.

## 3. **High-value**

- Investments and policies are focused on attracting visitor segments with the highest spending levels, even if it means a lower overall number of visitors (quality over quantity), with a view to maximize the economic impact of tourism and reduce pressures on tourism assets, service infrastructure and the environment.

**Note:** Domestic tourism is not included in this future demand analysis due to lack of available baseline data on the quantity and profile of domestic travelers. However, the prevailing sentiment among GoM and private industry is that domestic tourism would flourish more under a mass-tourism model given the particular appeal of resort-based products to Mongolian residents.

# Analytical approach

1

(a) Segment the international visitor market in a manner that allows the demand scenarios to be expressed through differences in the relative growth of these constituent segments (i.e. the market mix)  
(b) Define the demand profile of each segment: size, key source markets, length of stay, expenditure, accommodation preferences, tourism products/activities demanded

2

For each scenario, define contextual underpinnings and assumptions, and develop illustrative projections of demand from the key visitor segments

3

Evaluate the resulting market mix in each scenario and its tourism revenue implications

4

Assess supply-side response needed to realize projected demand (volume and profile) under each scenario in 4 areas:  
(a) Product development      (b) Air transport      (c) Accommodation      (d) Tourism employment

## Segmentation and characteristics of the international visitor base

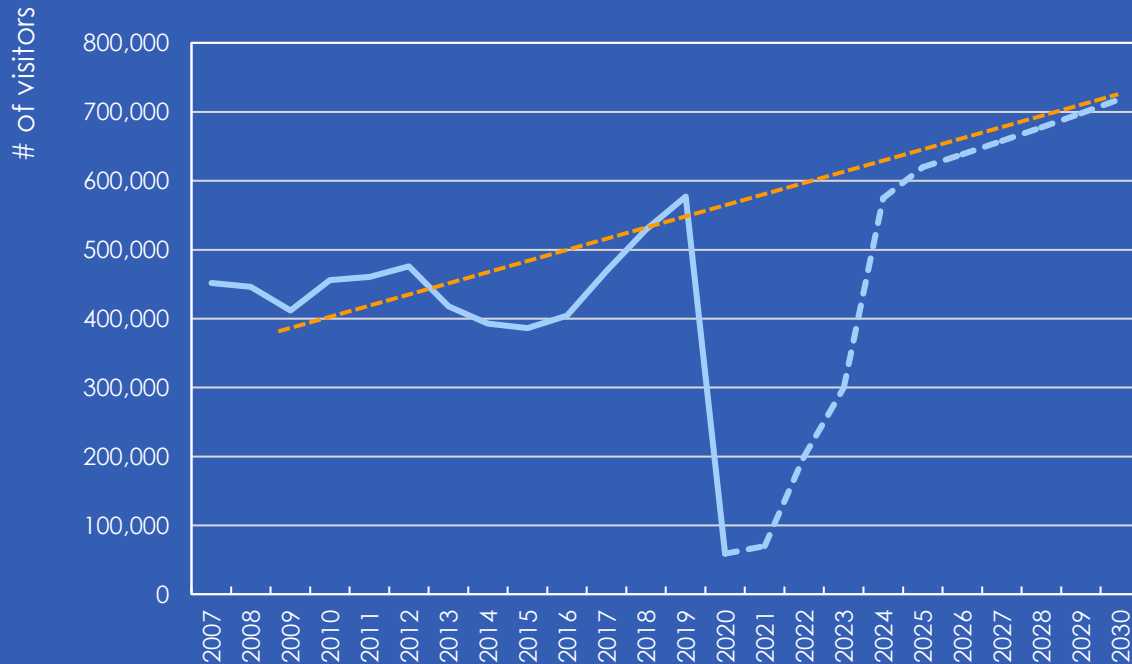
Tourism segment	Definition/constituents	Estimated number of visitors (2019)	Average daily expenditure (US\$, 2019)	Average length of stay (days)	Key source markets
<b>Business</b>		76,101			
<b>Border traders</b>	Merchants from Russia and China engaging in routine overland cross-border trade and staying more than 1 day during each visit	42,883	\$96	1.5	China, Russia
<b>MICE and other</b>	- Meetings, incentives, conferences and events (MICE) - Official visitors and diplomats - Short-term work-related visits (i.e. not for contractual employment), predominantly linked to mining sector activities	33,218	\$190	12	China, South Korea, Other Asia, Europe
<b>Visiting friends and relatives (VFR)</b>	Non-Mongolian citizens traveling for the primary purpose of visiting local friends and relatives	207,850	\$105	15.2	China, Russia
<b>Niche leisure</b>		195,283	\$270	12.7	
<b>Nature and adventure</b>	Visiting primarily for nature-based purposes (e.g. sightseeing of landscapes) and for soft (e.g. cycling) and extreme (e.g. mountaineering) adventure activities	72,425			South Korea, Europe, China
<b>Culture and history</b>	Visiting primarily to experience Mongolian culture (e.g. nomadic life, festivals) and/or visit historical heritage sites	21,728			South Korea, Japan, Europe
<b>Special interest</b>	Highly-niche activities such as hunting, fishing, archeology, etc.	86,910			Europe, Americas, South Korea
<b>Winter</b>	Leisure visitors coming during the winter season (November-February)	14,220			Russia, China, South Korea
<b>Mass leisure</b>	Travel (usually in large groups) for the purposes of shopping, relaxation in resort or entertainment complex (including casinos); includes overland border tourism from China (Inner Mongolia) and Russia	41,374	\$157	8.4	China, Russia
<b>Other</b>	Other non-business and non-leisure purposes such as sports, arts, health, volunteering, transit, etc.	56,692	\$203	12.2	China

# 1. Business-as-usual scenario details

## Premise

There is no active effort to grow or develop specific market segments or address long-standing growth barriers to tourism development

Stylized path for international tourism arrivals under business-as-usual scenario



## Scenario assumptions:

- Following a transitional period where it (conservatively) takes 3-4 years for arrivals to recover to pre-COVID-19 levels, growth in leisure tourism gradually return to 10-year average trend path prior to COVID (~3% per year), resulting in CAGR of 2% in 2019-2030.
- Recovery trajectory of other visitor segment is similar, leaving the market mix (i.e. the relative market shares of different segments) broadly unchanged, which implies:
  - ✓ A resumption of modest growth in business tourism, after its decline and stagnation since 2014 amidst the downturn in mining activity
  - ✓ Continuation of growth momentum in the VFR and “Other” segments that was building in the 4-5 years prior to COVID-19

## 2. High-volume scenario

### Premise

A focus predominantly on developing Mongolia's mass tourism industry and attracting large volumes of visitors, particularly from proximate regional source markets

A mass tourism-oriented growth model would entail expansion of several key visitor segments:

Growth segment description	Key visitor source markets
Relaxation, entertainment and gambling at <b>resort complexes</b> and tourism clusters to be developed throughout the country	China, Russia, South Korea, Japan
<b>Land border tourism</b> —large group-based tourism (i.e. via coach bus) at dedicated resort-style sites near Mongolia's land borders	China (Inner Mongolia), Russia
<b>MICE tourism</b> , particularly large events/conferences and incentives travel	China, Russia, South Korea, Southeast Asia

### Scenario assumptions:

- A nearly ten-fold increase in the mass tourism segment from 2019-2030 (from around 40,000 to 385,000 visitors), enabled in part by large expansion in airlift to large proximate Asian source markets (mainly South Korea and Japan)
- Induced additional demand for certain niche tourism segments (relative to business-as-usual scenario) as the large increase in visitors to Mongolia elevates international profile of the destination and attracts more repeat visitors



### 3. High-value scenario

#### Premise

Exclusive focus on enabling the growth and diversification of products in niche market segments, and attracting higher-spending visitor groups within those segments

#### Scenario assumptions:

- Significantly higher growth in niche leisure segments (+3% per annum) relative to business-as-usual scenario, capitalizing on rising post-COVID-19 demand for more remote and nature-based tourism experiences.
- Development and rapid expansion of winter-time leisure tourism (+8% per annum relative to business-as-usual), to help increase consistency of income for tourism firms and employees throughout the year.
- Increase of 20% in average daily spend of visitors of niche leisure segments, reflecting the diversification of product offerings (providing opportunities for visitors to spend more during their stays) and of more luxury-tier products.

## Product development needs: high-volume (mass tourism) scenario

- The product vision for mass tourism revolves around the development of **tourism clusters/complexes** around the country, each drawing on the unique local assets of the area to offer packaged and thematic experiences.
- The locations of these clusters/complexes have been identified with a view towards distributing visitors more widely and boosting geographic inclusiveness of tourism. Examples of clusters/complexes that have been envisaged in recent years (but not yet developed) are:



## Product development needs: high-value (niche tourism) scenario

Mongolia will need to build on its strong base of niche products to develop new offerings, particularly for winter-time tourism

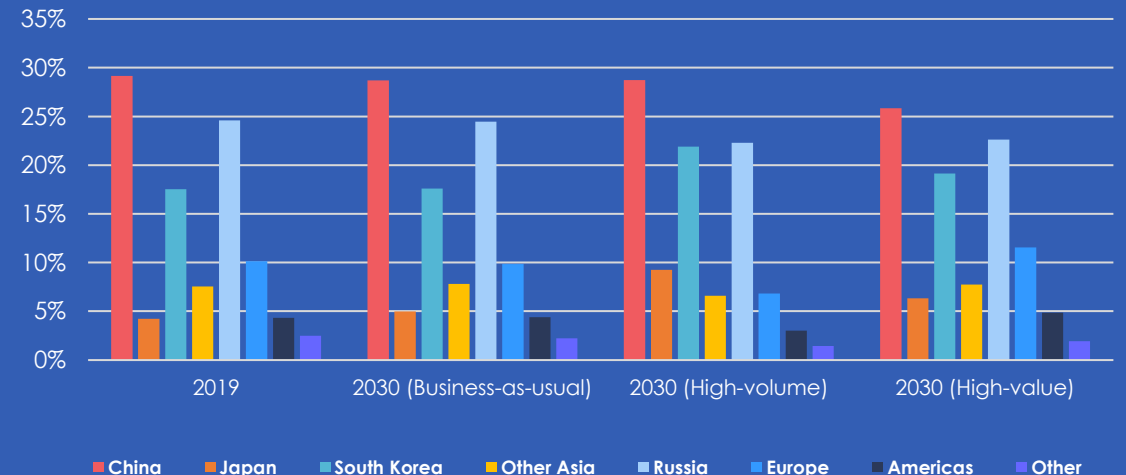
Niche segment	Key products	Current state of development			Target source markets
		Widely offered	Emerging but not widespread	Yet to be developed	
<b>Nature and adventure</b>	Cycling	X			All markets
	Trekking	X			All markets
	Mountain climbing	X			Europe, Americas, South Korea
	Hot air balloon			X	All markets
	Horseback riding	X			All markets
	Moto cross			X	Russia, South Korea, Japan, Europe
	Rafting		X		All markets
<b>Culture and history</b>	Nomadic camps	X			All markets
	Buddhism/Shamanism	X			Europe, Japan, South Korea
	Naadam		X		All markets
	Specialized festivals			X	All markets
	Gobi Marathon			X	Europe, Americas, South Korea, Japan
<b>Special interest</b>	Hunting	X			Americas, Europe, Russia
	Fishing (sport and ice)		X		All markets
	Paleontology, flora, ornithology		X		Europe, Japan
	Wildlife safari		X		All markets
<b>Winter</b>	Camel polo		X		Europe, Russia
	Dog sledding			X	Europe, Russia
	Ice festivals		X		Europe, Russia
	Hiking	X			All markets

## Forecasts: Visitor market mix under the 3 scenarios

Market segment	Number of visitors				(CAGR, %)			Market shares (% of total visitors)			
	2019	2030			2030			2019	2030		
		Business-as-usual	High-volume	High-value	Business-as-usual	High-volume	High-value		Business-as-usual	High-volume	High-value
<b>Business (including MICE)</b>	<b>76,101</b>	<b>94,622</b>	<b>148,094</b>	<b>104,457</b>	<b>2.0</b>	<b>6.2</b>	<b>2.9</b>	<b>13.2</b>	<b>13.2</b>	<b>13.3</b>	<b>12.5</b>
Border traders	42,883	53,320	53,320	53,320	2.0	2.0	2.0	7.4	7.4	4.8	6.4
MICE and other	33,218	41,302	94,775	51,138	2.0	10.0	4.0	5.8	5.8	8.5	6.1
<b>VFR</b>	<b>207,850</b>	<b>258,435</b>	<b>258,435</b>	<b>258,435</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>36.0</b>	<b>36.0</b>	<b>23.3</b>	<b>30.9</b>
<b>Leisure</b>	<b>236,657</b>	<b>294,253</b>	<b>633,964</b>	<b>401,694</b>	<b>2.0</b>	<b>9.4</b>	<b>4.9</b>	<b>41.0</b>	<b>41.0</b>	<b>57.1</b>	<b>48.1</b>
Niche tourism	195,283	242,810	265,254	350,250	2.0	2.8	5.5	33.8	33.8	23.9	41.9
Nature and adventure	72,425	90,052	100,253	123,872	2.0	3.0	5.0	12.5	12.5	9.0	14.8
Special interest	21,728	27,015	27,015	37,162	2.0	2.0	5.0	3.8	3.8	2.4	4.5
Culture and history (including festivals)	86,910	108,062	120,304	148,646	2.0	3.0	5.0	15.1	15.1	10.8	17.8
Winter	14,220	17,681	17,681	40,571	2.0	2.0	10.0	2.5	2.5	1.6	4.9
Mass tourism (resorts, shopping)	41,374	51,443	368,711	51,443	2.0	22.0	2.0	7.2	7.2	33.2	6.2
<b>Other (sports, volon-tourism, transit, etc.)</b>	<b>56,692</b>	<b>70,489</b>	<b>70,489</b>	<b>70,489</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>9.8</b>	<b>9.8</b>	<b>6.3</b>	<b>8.4</b>
<b>TOTAL</b>	<b>577,300</b>	<b>717,800</b>	<b>1,110,984</b>	<b>835,076</b>	<b>2.0</b>	<b>6.1</b>	<b>3.4</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

- Mass tourism-led growth at a **high-volume scenario** enables Mongolia to reach 1 million visitors by 2030 but relying almost exclusively on the proximate regional markets (China, Russia, South Korea, Japan) for growth.
- Under the **high-value scenario**, the visitor would be noticeably more diversified, with greater shares of visitors from longer-staying and high-spending long-haul markets (e.g. Europe and Americas).

Source market evolution

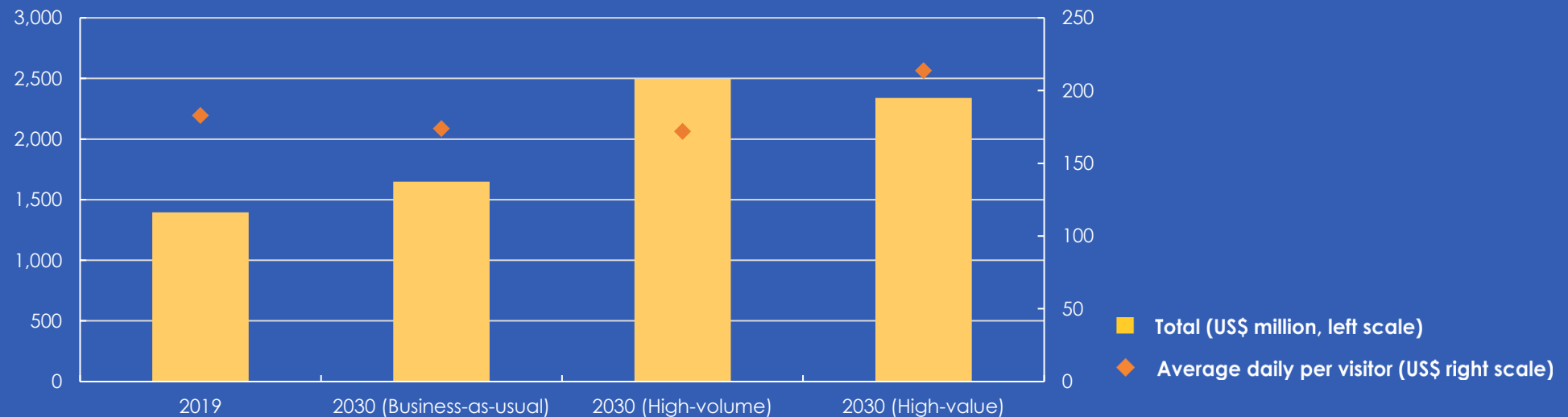


## Forecasts: Economic impacts



- Despite a smaller number of visitors (~275,000 less than in high-volume scenario), the **high-value scenario** results in visitor base with a higher average spend and similar overall tourism revenue for Mongolia.
- This underscores that more visitors is not always better in terms of economic benefits, and that policy targets focused on the quantity of visitors can be misguided and/or counterproductive.

### Evolution of tourism spending

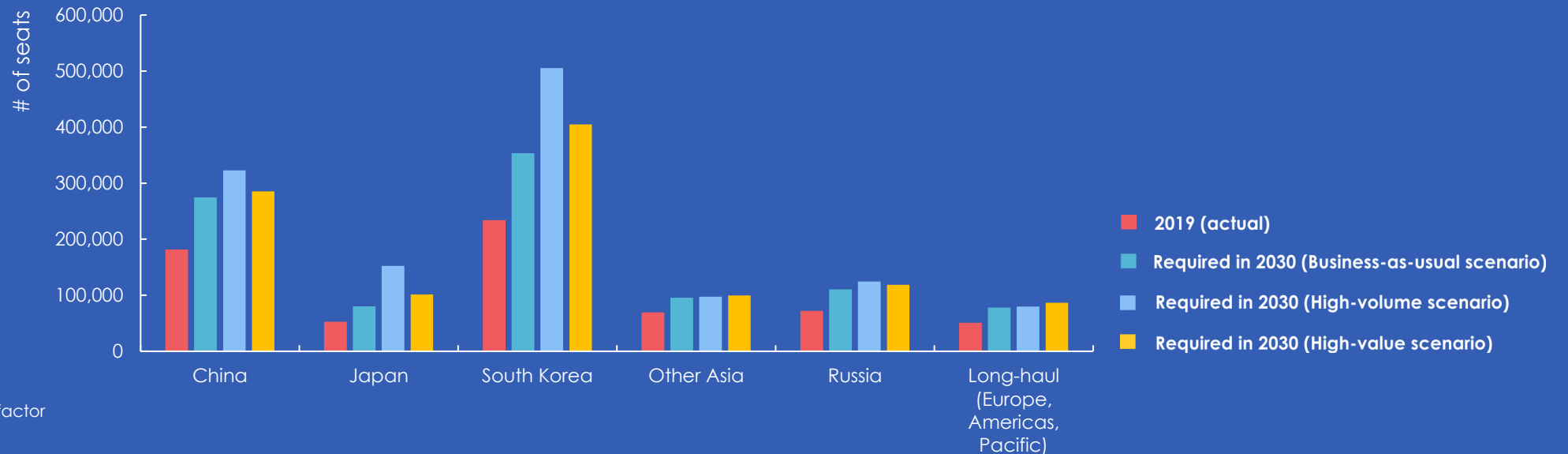


# Forecasts: Air transport requirements



- Across the 3 scenarios, the projected increase in visitor demand **cannot** be realized without significant expansion in airlift from multiple origin markets.
- In the high-volume scenario, an additional **620,000** inbound flight seats would be needed by 2030—a doubling of current capacity—with the largest requirements for flights seats from the two key source markets (South Korea and China) that would likely drive mass tourism to Mongolia.
- A flight seat capacity increase of this magnitude underscores the importance of liberalizing the aviation market and establishing service agreements with foreign airlines to supply the necessary seats.

Annual number of required inbound flight seats by origin of departure\*



\*Calculated based on 80% flight load factor

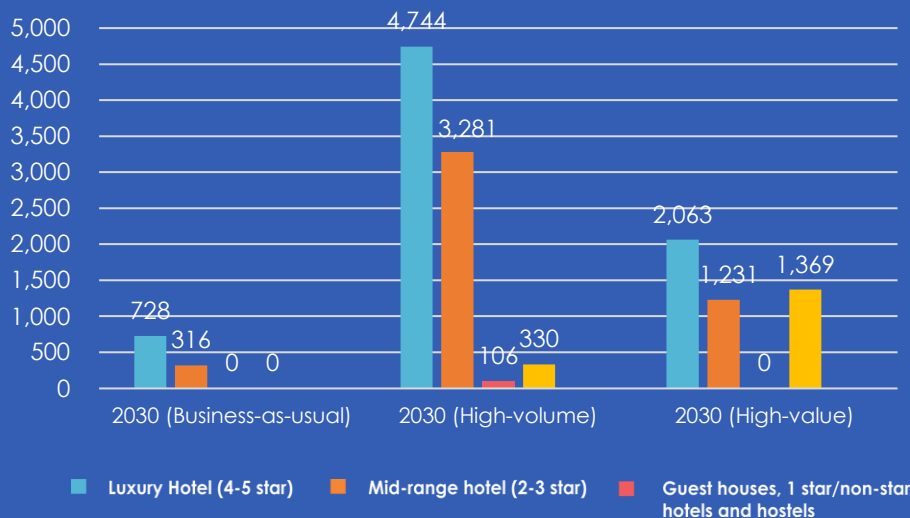
# Forecasts: Accommodation capacity



- In the **business-as-usual scenario**, Mongolia can absorb the projected increase in visitors by 2030 with only minimal new accommodation investments (~1,000 rooms), mainly in the luxury and mid-range hotel category.
- In the **high-value scenario**, new accommodation capacity needs would be more substantial (~4,600 rooms), including in tourist ger camps to host the increased number of visitors in niche tourism segments engaging in cultural and nature-based activities outside of Ulaanbaatar.
- In the **high-volume scenario**, realization of the projected 1 million visitors by 2030 would not be possible without significant new accommodation investment (~8,500 rooms), particularly in the resort-style hotels (3-5 stars) that would be preferred by the mass tourism visitor segments driving growth in this scenario.
  - ✓ Required investment would be on the order of 100 new properties (hotels and camps), with a total estimated investment value of US\$974 million over the next 10 years.
  - ✓ To put this in perspective, it would be double the US\$483 million in total investment (domestic + FDI) in the accommodation and food services in Mongolia from 2010-19. On an annual basis (\$US97 million per year), it would also be four times the investment rate achieved in recent years (average \$26 million in 2017-2019).

These figures likely underestimate the full magnitude of new accommodation requirements as they do not factor in expected growth in domestic tourism.

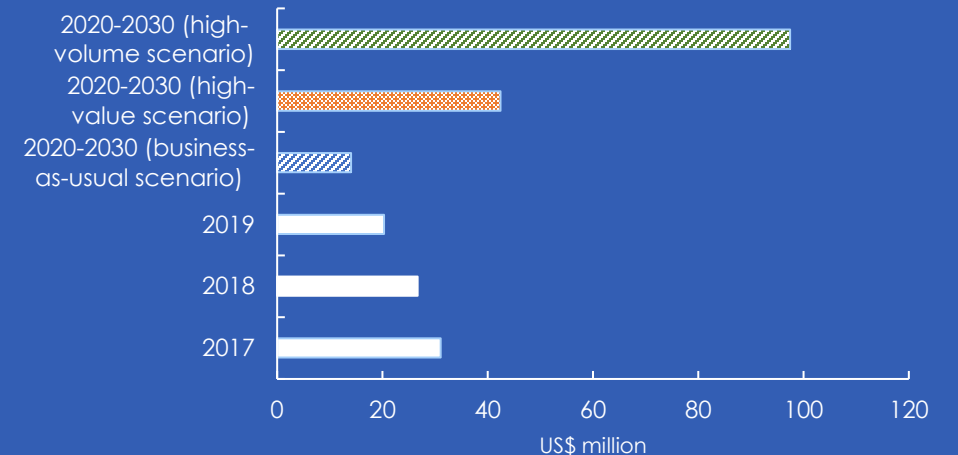
Required additional rooms by 2030 (by category of accommodation)



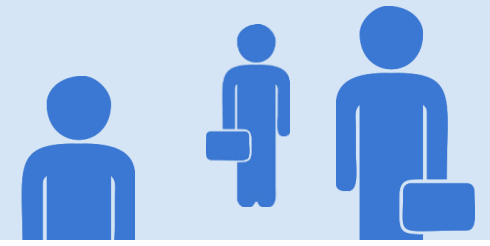
Required new investment in accommodations (cumulative 2020-2030), \$US million

Accommodation category	Business-as-usual	High-value	High-volume
Luxury hotel (4-5 star)	112.5	315.0	720.0
Mid-range hotel (2-3 star)	28.1	95.6	247.5
Guest houses, 1 star/non-star hotels and hostels	0.0	0.0	3.6
Camps	0.0	13.8	3.3
Apartments	0.0	0.0	0.0
<b>TOTAL</b>	<b>140.6</b>	<b>424.4</b>	<b>974.4</b>

Annual rate of capital investment in accommodations and food services

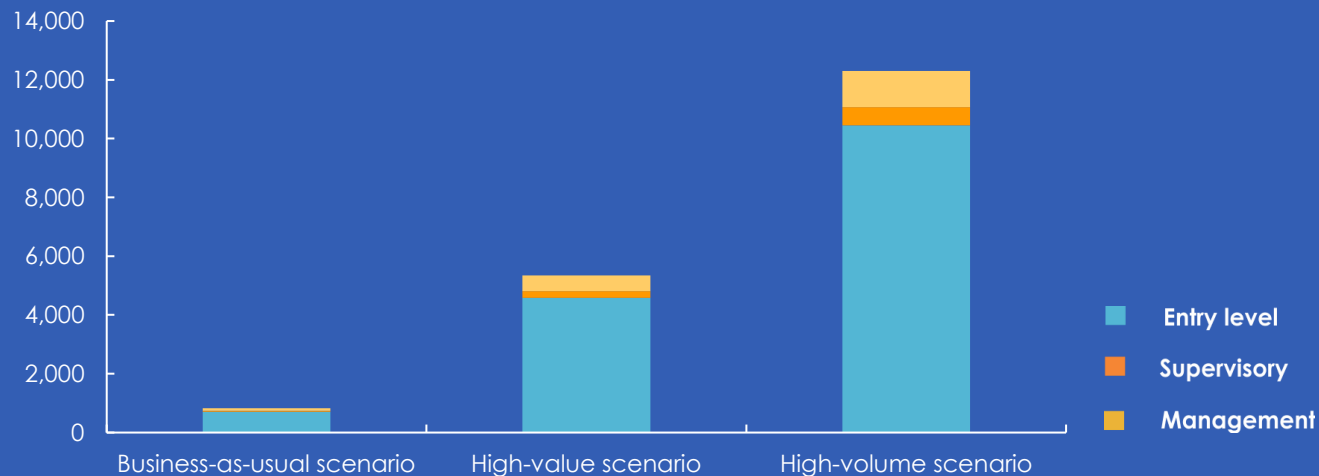


# Forecasts: Employment needs



- To staff the additional accommodations required, an additional **5,300** trained hospitality workers would be needed in the **high-value scenario**, and **12,300** in the **high-volume scenario**, including around 15% at the higher-skill supervisory and management level.
  - Put in perspective, this would be equivalent to 18% and 42%, respectively, of the approximately 30,000 workers currently employed at hotels and tourist camps in Mongolia. The total labor force in 2020 was 1,422,500.
- Based on current ratios of tour guides and tour drivers to leisure visitors, as many as **1,800** additional tour guides and **2,700** tour drivers (in the high-volume scenario) would also be needed to keep up with visitor growth.

Additional staff required at accommodations by 2030



Estimated tour guide and driver needs

	2019	2030		
		Business-as-usual	High-volume	High-value
Leisure visitors	236,657	294,253	633,964	401,694
Tour guides	1,063	1,322	2,848	1,804
<b>Additional required</b>		259	1,785	741
Tour drivers	1,622	2,017	4,345	2,753
<b>Additional required</b>		395	2,723	1,131
<b>Guide-to-visitor ratio</b>	0.004	0.004	0.004	0.004
<b>Driver-to-visitor ratio</b>	0.007	0.007	0.007	0.007





## Key takeaways from scenario demand and supply analysis

- **Targeting 1 million visitors or more by 2030 would entail the development of mass tourism:**
  - ✓ The demand would come predominantly from the large proximate Asian source markets (China, South Korea, Japan) and require an unprecedented increase in airlift to these markets that the current protectionist aviation policy does not allow.
  - ✓ It would also reduce the diversification of the visitor base (and thus resilience to shocks in one of these source markets) and the average visitor spend, resulting in lower incremental economic benefits from tourism.
- **In both a high-volume or high-value scenario, a significant expansion of high-end accommodation will be needed, particularly outside of Ulaanbaatar, to align with preferences of the visitor base:**
  - ✓ This would require the mobilization of private investment on a scale that has not been consistently achieved over the past decade.
- **A supply response in accommodation and tourism services is contingent on attracting more trained workers, which could prove difficult unless the high seasonality of tourism is reduced:**
  - ✓ The development of winter and shoulder season tourism products—an essential feature of the high-value tourism scenario—is critical in this regard.

A row of colorful, dome-shaped traditional houses, likely in a rural or nomadic settlement, set against a backdrop of a vast, open landscape under a bright, hazy sky at sunrise or sunset. The houses are arranged in a line, with some featuring blue and white patterns on their domes. The foreground is a lush green field, and the background shows distant mountains and a body of water.

**5.**

# AN INVESTMENT & POLICY AGENDA FOR TOURISM DEVELOPMENT

# Guiding principles for the investment and policy agenda

## 1. Overarching sector strategy:

- Clarify whether a niche or mass tourism model will be pursued; trying to do a little of both may help diversify the sector but also risks spreading resources too thin, and not facilitating either model in an efficient manner.
- Develop a clear plan for extending the tourism season, which would be beneficial under both a niche or mass tourism model

## 2. Key principles for public investments in service of tourism development:

- Be guided by the demand profile of tourism activity expected in specific destinations.
- Invest in enabling infrastructure that no single private actor can afford to:
  - ✓ Improve the attractiveness of destinations for tourists.
  - ✓ Enable or enhance the logistical viability of tourism products.
  - ✓ Reduce systemic risks, entry barriers, and operating costs for potential investors.
- Protect and preserve natural, cultural, and historical assets.

## 3. Key principles for tourism sector governance and regulatory environment:

- Provide a transparent, fair and predictable regulatory and policy framework for investors.
- Help guide the tourism market towards a growth mix with greater and more equitable and sustainable economic impacts.

# Strategic vision: tradeoffs between high-volume (mass tourism) and high-value (niche tourism) growth models

Area/issue	Mass tourism-led growth model	Niche tourism-led growth model
<b>Economic returns</b>		
<b>Pros</b>	<ul style="list-style-type: none"> <li>Potentially greater geographic dispersion of tourism benefits due to strategic location of new resort complexes.</li> <li>Resort developments likely to also attract significant domestic tourists and thus keep more of the income currently spent on outbound travel in the economy.</li> </ul>	<ul style="list-style-type: none"> <li>Larger flow of tourism benefits to nomadic and herder communities.</li> <li>Stronger potential links to local suppliers.</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>Risk of low linkages with local supply chain amidst high import content of purchases by resorts.</li> <li>High up-front investment cost of building resort-based tourism clusters; risk that these resort developments are disconnected from demand.</li> </ul>	<ul style="list-style-type: none"> <li>Potential capture of benefits by select nomadic families and tour operators specializing in providing niche products.</li> </ul>
<b>Employment</b>		
<b>Pros</b>	<ul style="list-style-type: none"> <li>Greater number of job opportunities due to large resort sites, including during construction phase of resorts.</li> </ul>	<ul style="list-style-type: none"> <li>Higher-quality jobs, particularly those serving luxury niche visitor segments.</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>High share of seasonal jobs, as resort tourism is unlikely to attract winter-time visitors and contribute to the extension of Mongolia's tourism season.</li> <li>Job opportunities limited to resort site area.</li> </ul>	<ul style="list-style-type: none"> <li>Lower volume of tourism job opportunities due to less visitors.</li> </ul>
<b>Environmental impacts</b>		
<b>Pros</b>	<ul style="list-style-type: none"> <li>Potential to limit environmental impacts to localized geographic areas, assuming proper planning and mitigation measures are undertaken.</li> </ul>	<ul style="list-style-type: none"> <li>Lower number of visitors and pressures on tourism and assets and supporting service infrastructure.</li> <li>Opportunities for contribution to conservation at natural, cultural, and historical tourism sites.</li> </ul>
<b>Cons</b>	<ul style="list-style-type: none"> <li>Degradation of environment due to high visitor foot traffic and pollution.</li> <li>Larger strain on local services infrastructure (electricity, water, waste).</li> </ul>	<ul style="list-style-type: none"> <li>Risk of concentrating tourism activity in most environmentally-sensitive nature-based areas, or in remote areas where local infrastructure is not sufficiently developed.</li> </ul>

# Reducing seasonality

- There are various approaches to reducing seasonality that have been adopted by destinations worldwide

Approach	International examples	Considerations for Mongolia
<b>Development of events</b>	<ul style="list-style-type: none"> <li>Brazil (e.g. Gramado)</li> <li>Munich, Germany (i.e. Oktoberfest)</li> </ul>	Expansion of festivals, events, and competitions holds promise for Mongolia, particularly those linked to cultural heritage.
<b>Development of low-season products</b>	<ul style="list-style-type: none"> <li>Iceland</li> <li>Alaska, United States</li> <li>Marrakech, Morocco</li> <li>Lofoten Islands, Norway</li> </ul>	Apart from possibilities related to cold-weather activities, greater urban tourism offerings in Ulaanbaatar have potential.
<b>Dynamic seasonal pricing (deep discounts for off-season, higher prices for peak seasons)</b>	<ul style="list-style-type: none"> <li>Spain</li> <li>Croatia</li> </ul>	Consultations with local tour operators and accommodation providers suggest that, at discounted prices, it may not be worth operating during off-season.
<b>Development of indoor facilities (e.g. museums) and attractions</b>	<ul style="list-style-type: none"> <li>Vancouver, Canada</li> <li>Dubai, UAE</li> </ul>	Large scale facilities would likely need to be concentrated in Ulaanbaatar until sufficient service infrastructure can be developed in other regions.

- For Mongolia's **niche tourism visitor segments**, development of specialized winter tourism products (e.g. dog sledding) would play a key role in reducing seasonality
- For **mass tourism visitor segments**, themed resort clusters (particularly if they have indoor venues, including casinos) and expanded urban tourism attractions (e.g. museums) can become year-round attractions
- Events and festivals (cultural, religious, sports, etc.) can be customized to attract **both types of segments** and scheduled throughout the year to help distribute visitor demand



## Public investments

A list of investment projects was compiled in response to the development challenges identified in section 3 and based on consultations with tourism stakeholders. They are here evaluated and prioritized in a systematic manner:

- Each investment is scored on a scale of 1-4 (4=highest) across five benefit criteria and one cost criterion, which are then combined into a stylized return-on-investment (ROI) metric.

### Benefit criteria:

1. Relevance to attracting demand from mass tourism visitor segments.
2. Relevance to attracting demand from niche tourism visitor segments.
3. Role in mobilizing private investment in the types of accommodation needed to respond to visitor preferences.
4. Catalytic effect to incentivize and create opportunities for the private sector to develop tourism products tailored to targeted visitor segments.
5. Broader potential socio-economic benefits of the investment for local communities and non-tourism sectors.

### Cost criteria:

Approximate relative costs (4=highest cost) compared to average of other investments on the long list.

**Return on investment (ROI)** = combined benefit score/cost score.

## Key investment area #1: Transport and accessibility

Investment	Benefit categories					Total benefit score	Overall cost and (score)	"Return" on Investment (ROI)
	Relevance to niche tourism segments	Relevance to mass tourism segments	Mobilizing Private investment		Collateral benefits			
			Target Accommodation Attracted	Improved Product Development				
<b>1. Upgrading of domestic airport infrastructure</b>	3	3	(3) enabling a greater volume of domestic flights to tourism areas will strengthen demand and commercial viability of potential hotel investments	(2) some impact – improved flight access and frequency to domestic destinations may enable more of these destinations to be included in tour packages, especially for visitors on shorter stays	(3) Improved intra-country access and travel opportunities for local residents depending on flight supply response	14	3	<b>14/3= 4.7</b>
<b>2. Specialized tourist trains and sections of trans-Mongolian railway</b>	3	1	(2) some impact—will increase demand for accommodation in train transit towns	(2) some impact – will encourage packaging of local tours and products with the train journey	(1) no impact expected	9	3	9/3= <b>3</b>
<b>3. International airport in western region of Mongolia (new construction or conversion of existing)</b>	3	1	(3) by enabling international flights directly into western region, will strengthen demand for accommodation, particularly for 3- 5-star hotels	(2) some impact – increased visitors will stimulate some demand for additional tour products, and enable shorter itineraries that do not require starting in Ulaanbaatar	(3) will provide direct international connections for local residents and facilitate outbound travel	12	4	12/4= <b>3</b>

**Note:** Highest-priority investments based on ROI score are highlighted in orange.

## Key investment area #2: Services infrastructure (basic and tourism-specific)

Investment	Benefit categories						Total benefit score	Overall cost and (score)	“Return” on Investment (ROI)
	Relevance to niche tourism segments	Relevance to mass tourism segments	Mobilizing Private investment		Collateral benefits				
			Target Accommodation Attracted	Improved Product Development					
<b>Basic services</b>									
4. Sanitation facilities at tourist sites and protected areas	4	2	(3) improved waste management will reduce the cost of hotel operations	(1) no impact expected on new product development, but may improve visitor experiences for existing products	(3) improved sanitation and waste management for local residents	13	2	13/2= 6.5	
5. Heating infrastructure (i.e. power stations and distribution networks) at winter tourism sites	4	1	(3) will lower entry costs for hotels in winter tourism areas and encourage expansion of winter-resilient accommodation (i.e. hotels rather than camps)	(4) critical to enabling winter tourism product visitors to be hosted in comfortable conditions; will help increase demand for winter products	(3) improved access to heating for local residents	15	3	15/3=5	
<b>Tourism-specific infrastructure</b>									
6. Service infrastructure at resort/casino cluster areas	1	4	(3) will increase appeal of the destination and contribute to demand for mid-range accommodation	(4) will serve as anchor investment, creating a focus and incentive for additional tour products based around the resorts	(2) potential use as events and entertainment space for residents	14	3	14/3= 4.7	
7. Conference and convention centers	2	4	(3) will increase demand for business hotels at a range of price points	(2) some impact – increased visitors will stimulate demand for additional tour products	(2) potential use as events and entertainment space and community center for residents	13	2	13/2=6.5	
8. Specialized infrastructure and facilities in nature-based sites (e.g. national parks)	4	2	(1) no impact expected	(3) will unlock opportunities for additional nature-based products, particularly adventure experiences that require specific facilities and safety infrastructure	(3) will help with the management and preservation of protected	13	1	13/1=13	
9. Dedicated festival venues and facilities	4	2	(2) some impact in increasing demand for accommodation at festival sites	(2) some impact—will improve visitor experience and help with monetization of festivals (e.g. via opportunities for concession stands, memorabilia shops, etc.)	(2) potential use as events space and cultural center for residents	12	2	12/2=6	
10. Improved signage (with interpretation) and visitor facilities at key tourist sites and along transit routes (i.e. rest/service areas)	3	3	(1) no impact expected	(2) some impact—will help improve visitor experience and demand for repeat visits	(1) no impact expected	10	1	10/1=10	
								88	





### Key investment area #3: Tourism human resources

Investment	Benefit categories					Total benefit score	Overall cost and (score)	"Return" on Investment (ROI)
	Relevance to niche tourism segments	Relevance to mass tourism segments	Mobilizing Private investment		Collateral benefits			
			Target Accommodation Attracted	Improved Product Development				
11. Vocational training centers (incl. for digital and language skills)	4	4	(3) increased access to qualified staff will improve service quality and returns for hotels	(3) increased access to qualified staff will improve service quality and returns for tour operators	(2) limited impact expected beyond tourism-related staff, although language and digital skills may help trainees with jobs in other sectors	15	2	15/2= 7.5

**Note:** Highest-priority investments based on ROI score are highlighted in orange.

# Policy and regulatory measures

## A. “No-regret” measures irrespective of preferred tourism development model

AREA/CONSTRAINT	RECOMMENDED REFORM OR ACTION	DIFFICULTY	TIMEFRAME	IMPACT	RESPONSIBILITY
1. Air access	<ul style="list-style-type: none"> <li>Remove of code-sharing requirement with MIAT for foreign airlines and establish open skies agreements.</li> </ul>	Low	Short	High	Ministry of Transport
	<ul style="list-style-type: none"> <li>Develop and adopt of new civil aviation policy centered on better access, quality and price competition and aligned with the tourism policy and economic and export diversification aspirations. This should include a review of the rules and regulations regarding the operation of smaller planes with a view to develop the air transport market for small aircraft, or air taxis/bush planes in sync with planned regional airport development.</li> </ul>	Medium	Medium	Medium	Civil Aviation Authority, MET
	<ul style="list-style-type: none"> <li>Streamline and digitize visa process (e-visa) for all nationalities to reduce time and transaction costs.</li> </ul>	Low	Short	Medium	Ministry of Foreign Affairs
2. Labor and skills	<ul style="list-style-type: none"> <li>Introduce protection schemes for seasonal tourism workers, including some eligibility for social security benefits. A possible mechanism is a Tourism Employee Fund financed by earmarking a share of the VAT on tourism enterprises. Such earmarked funding could be part of the broader <i>Tourism Support Fund</i> currently under consideration by the GoM.</li> </ul>	High	Medium	High	Ministry of Labor and Social Protection
3. Marketing	<ul style="list-style-type: none"> <li>Strengthen coordination and consistency of marketing effort between the public and private sectors, targeted at high-potential visitor segments; centralized marketing support by government has an especially important catalytic in underdeveloped tourism sites in Mongolia where there are no private “anchor” investors to carry the marketing costs.</li> </ul>	Low	Short	Medium	MET, Hotel and Tourism Associations
4. Tourism planning and governance	<ul style="list-style-type: none"> <li>Improve quality and consistency of tourism statistics, including developing a Tourism Satellite Account (TSA); this is important not only for understanding and monitoring demand and economic impact trends in the sector, but also for prospective investors seeking to evaluate the market; some key data gaps to be addressed include domestic tourism activity, international visitor surveys, and hotel occupancy rates.</li> </ul>	Medium	Medium	Medium	MET, National Statistics Office
	<ul style="list-style-type: none"> <li>Adopt a clear land use and zoning policy for protected areas and other sites of historical or cultural significance that encourages good governance and a transparent review and inspection process before permits are issued for construction and development.</li> </ul>	Medium	Medium	Medium	Ministry of Construction and Urban Planning, MET
	<ul style="list-style-type: none"> <li>Adopt strategically-guided (i.e. not ad-hoc) sector quality standards (e.g. for hotels, tour guides, transport providers) and accreditations to help inform consumer choice, incentivize continuous quality upgrading, and support sustainable destination development (e.g. GSTC standards).</li> </ul>	Medium	Medium	Medium	MET
5. Fiscal and investment policy	<ul style="list-style-type: none"> <li>Earmark a proportion of the tax income generated by the tourism sector for redistribution from the capital/center to the aimags/regions where tourism services are consumed with the aim to strengthen local governance and incentivize continuous improvement in aimag-level facilities.</li> </ul>	High	Medium	High	Ministry of Finance

## Policy and regulatory measures (continued)

### B. Measures specific to mass tourism model

AREA/CONSTRAINT	RECOMMENDED REFORM OR ACTION	DIFFICULTY	TIMEFRAME	IMPACT	RESPONSIBILITY
6. Visa policy	<ul style="list-style-type: none"> <li>Consider removal of tourism visa requirements for key source markets; introduce year-round short-term travel permits for non-passport holders from Inner Mongolia (China) to facilitate land border tourism.</li> </ul>	Low	Short	Medium	Ministry of Foreign Affairs
7. Planning and investment policy	<ul style="list-style-type: none"> <li>Develop PPP/concession frameworks for development of resort tourism clusters, including potential tax and investment incentives.</li> </ul>	Medium	Medium	Medium	MET

### C. Measures specific to niche tourism model

AREA/CONSTRAINT	RECOMMENDED REFORM OR ACTION	DIFFICULTY	TIMEFRAME	IMPACT	RESPONSIBILITY
8. Marketing	<ul style="list-style-type: none"> <li>Improve public-private coordination in organizing and funding national festivals and events (academic, cultural, cinema, literature, music, and sports) to attract niche tourism travelers and build up product offerings during winter and shoulder seasons.</li> </ul>	Low	Medium	Medium	MET
9. Sector planning	<ul style="list-style-type: none"> <li>Develop visitor management plans at tourism sites with at-risk environmental, historical, or cultural assets to reduce pressures from visitor foot traffic and facilitate asset preservation.</li> </ul>	Low	Short	Medium	MET



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