

MONGOLIA

SECTOR-SPECIFIC INVESTMENT STRATEGY AND ACTION PLAN

*G20 Indicators for Measuring and Maximizing Economic Value Added and Job Creation from
Private Investment in Specific Value Chains*

Pilot Study Results

UNCTAD

November 2012

This Report forms part of the work undertaken by the Inter-Agency Working Group for the Private Investment and Job Creation Pillar of the G20 Multi-Year Action Plan on Development

I. INTRODUCTION

This report is part of a series of six country pilot studies, carried out by UNCTAD in collaboration with other agencies of the inter-agency working group (IAWG) as phase two of the programme of work on “Indicators for measuring and maximizing economic value added and job creation from private investment in specific value chains.”¹

The objectives of this report are:

1. To provide value-added recommendations to policymakers in Mongolia on attracting and benefiting from private investment in the travel and tourism sector. These recommendations must be seen against the backdrop of recommendations on the overall policy framework for investment in the country.²
2. To help refine the indicator methodology developed by the IAWG for the G20 and to provide guidance for the meaningful use of development impact indicators in the formulation of policy recommendations in the area of investment.

For the purpose of the country pilot study and the testing of the usefulness of the indicator approach the focus of this report is on the pre-selected travel and tourism ‘value chain’ only.³ This sector is currently a priority in the Mongolian Government’s diversification strategy and a priority for efforts to attract private investment, in particular foreign direct investment (FDI) or other forms of foreign participation. The focus of this report on one pre-selected sector implies that the indicator approach should help:

1. confirm, nuance or alter current thinking of policymakers on investment priorities
2. identify value chain gaps and opportunities for investment promotion
3. identify prerequisites or challenges for the targeted attraction of investment

This report is the result of desk research and fieldwork carried out by UNCTAD from November 2011 to April 2012. For the fieldwork, interviews were set up in close cooperation with local partner FIFTA. A total of 20 meetings with representatives of government agencies, development partners and private sector actors were conducted (see annex 1). Data were also collected from local statistics sources (NSO). Desk research focused on complementing the data and information collected locally with international comparators in order to establish a reference framework.

The structure of this report is as follows:

- Section II will provide a brief overview of the current profile of the entire travel and tourism sector in the context of the overall economy.
- Section III will look at the impact of investments in the travel and tourism sector through the lens of the indicator framework.

¹ Action item 2 of the Private Investment and Job Creation Pillar of the G20 Multi-Year Action Plan for Development agreed at the G20 Seoul Summit in November 2010. This report is to be considered an integral part of the Pillar’s work. For further background and explanation of the applied methodology, see the interim report to the G20 Development Working Group (presented for the November 2011 G20 Cannes Summit): ["Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains"](#).

² The country pilot projects have been designed as an integral part of ["Investment Policy Reviews"](#) (IPRs), as carried out by UNCTAD and other agencies of the IAWG (notably the OECD). The broader recommendations of the IPRs are included in this document as Annex 2.

³ The pre-selection of sectors is necessary to narrow the scope of the pilot studies, even though the ultimate aim of the development-impact indicators framework is also to help policymakers identify the most promising economic sectors for the attraction of investment. Integrating the indicator approach in the IPR process also implies that policymakers will indicate sector preferences and priorities.

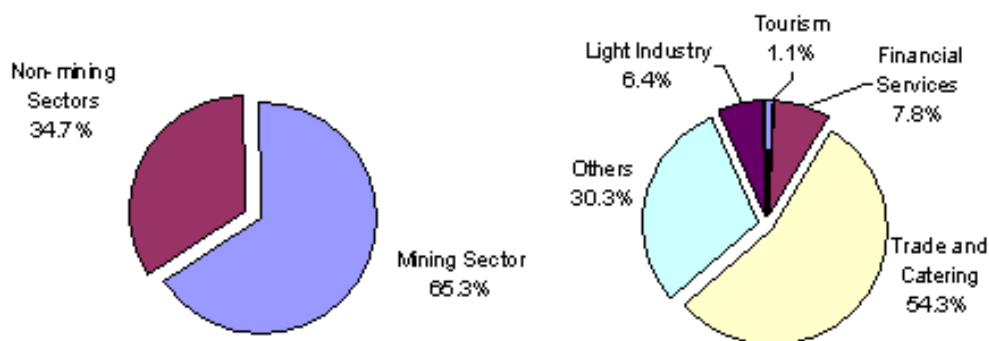
- Section IV maps the key opportunities and challenges arising from the indicator analysis.
- Section VI will draw final conclusions and formulate recommendations, in the form of key elements of an action plan to attract and negotiate high value-adding investment.

II. INVESTMENT PROFILE

The travel and tourism sector in Mongolia is in its early stages of development. Although official statistics claim that almost 458,000 international visitors arrived in Mongolia in 2011, the “actual” number is somewhat lower. Over 40 per cent of the gross visitor number consists of Chinese and Russian nationals – border traders, construction workers etc. – using tourist visas to gain entry for local employment. For the purpose of this report, only the remaining 334,000 international visitors, composed of 244,000 business travelers and 90,000 leisure tourists, are considered⁴

Investment or gross fixed capital formation data by industry/sector are not publicly available for Mongolia, in accordance with the national statistical law (according to the National Statistical Office). Indeed, given the data gap, information on sector structure and distribution of FDI inflows are the only indications of the distribution of investment across and within different sectors in the economy.

Figure 1. Sectoral structure of FDI flows into Mongolia
(FDI 1990 to mid-2011 by sector in per cent)



Source: FIFTA.

The share of tourism in FDI is well below the sector’s share in GDP, but TNCs play important roles through NEMs. FDI to Mongolia is dominated by the mining sector. Over the 1990-2011 period two thirds of FDI was into the mining sector (figure 1), a level of domination which has increased in recent years, e.g. more than 80 per cent of flows in 2010. The share of tourism in total inflows is very low. Nevertheless foreign involvement in the sector is significant. According to the WTTC’s latest report \$404 million were invested in the travel and tourism sector in 2011, which is expected to rise by 15 per cent in 2012 and a further 6.7 per cent on average over the succeeding 10 years. Increased number of international visitors coming to the country mainly on business purposes, together with improved transport infrastructure and better promotion of the country’s natural and

⁴This assessment accords with many sources and experts, e.g. ‘Could Mining Threaten Tourism Potential?’[<http://www.eurasianet.org/node/6519>], Press Release; and Ebel, 2011.

cultural sites fuel this positive expectation. There are 39 registered foreign companies in hotels and resorts and 59 companies in restaurants. In addition, global hotel chains are active using management contracts or franchising arrangements and dominate the top end of the hotel market in Ulaanbaatar.⁵ There are also foreign investments into tour operators, but data are scarce.

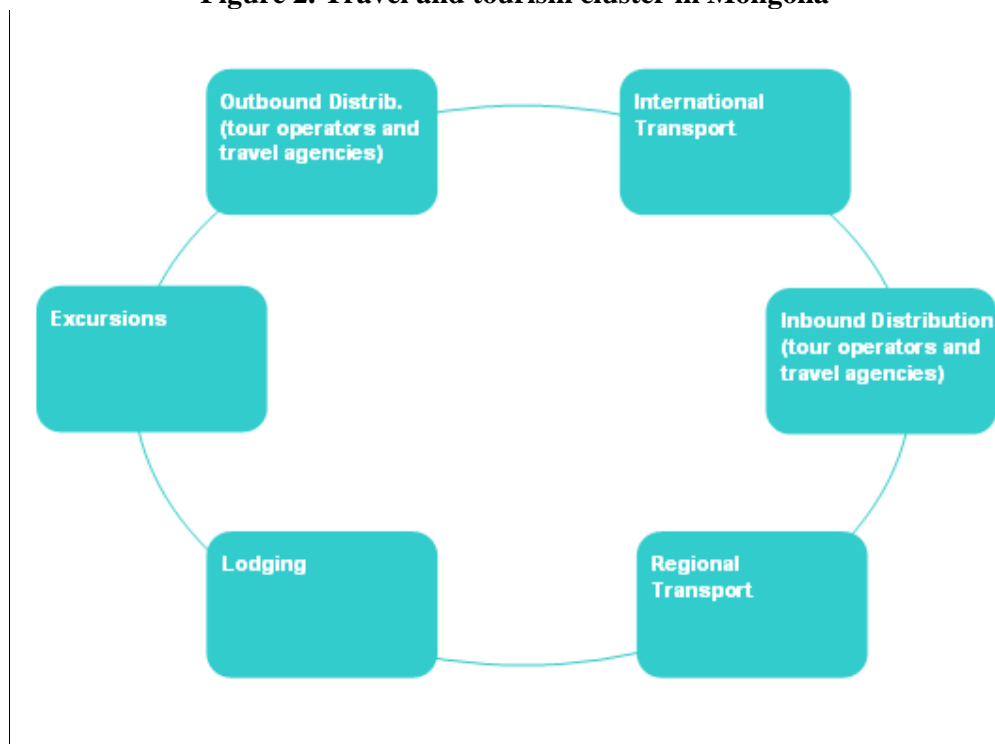
Mongolia has a very open FDI regime. Investment and trade liberalization have been pillars of the country's development strategy since the early 1990s. An impressive body of new laws affecting all aspects of corporate life has been introduced in the recent past, which is generally clear and up to standards. As a result of this consistent effort, Mongolia is today one of the most open economies in the region, including in its approach to foreign investment. With respect to the leisure tourism segment, further improvements of the institutional infrastructure and branding and promotion of services at the national level would stimulate the sector and attract more domestic and foreign investors in this area. A more comprehensive analysis of investment policy in Mongolia is provided in the Annex 2 based on insights from UNCTAD Investment Policy Review (IPR).

The travel and tourism cluster in Mongolia can be represented broadly in six categories (figure 2): 1) *distribution (and coordination) activities outside the country*, 2) *international transport*, 3) *distribution (and coordination) activities inside the country*, 4) *regional transport*, 5) *lodging* and 6) *excursions*. In the distribution category, travel agencies and tour operators assist international visitors through the process of planning their trips. They offer transport alternatives based on available routes, suggest tourism products, organize excursions and bundle these components in various packages. According to the official statistics, there are approximately 650 tour operators in Mongolia with investments from 33 foreign countries. The next step is the provision of international transport services to the country. While leisure tourists almost exclusively arrive by flight - mostly from European countries and Japan-, business travelers also arrive in the country by train. The capital city, Ulaanbaatar acts like a hub where many visitors get connections to reach other areas in the country. The airport is located in the capital and there are 6 airline companies offering international travels, three of which are Mongolian. The country benefits from the Trans Siberian Railway network, and is connected to the route Moscow-Ulaanbaatar-Beijing.

Once the visitors are in the country, regional distribution and transport services delivered by local operators and service providers ensure that the visitors reach their final destinations. In cases where visitors purchase tour packages, these services are usually connected. In Mongolia, the majority of tour operators offer tour packages with a mixture of adventure, nature and culture elements. Lodging options range from traditional *ger* camps in rural areas to luxury hotels near the capital city. Leisure tourists are attracted to experience traditional *ger* camps near major cultural and natural sites, whereas business travelers prefer to stay in upper class hotels located near mining areas. There are over 300 *ger* camps in the country and almost a quarter is rated based on quality standards. Furthermore, in 2010 there were 13 4-5 star hotels in UB with 8 more international brand hotels under construction. Excursions to the natural and cultural sites are usually accompanied by local guides and organized in line with visitors' preferences. Although other services such as food/beverage services or specialized services such as dry-cleaning or retail-shopping are not explicitly represented in the diagram, these activities can be considered as part of the distribution and excursion segments.

⁵ It should be noted that most of the facilities including buildings and equipment – in particular in hotels – are owned by local counterparts and are then either managed by foreign partners or are operated under a franchise. Hence, the low figure for FDI in tourism is related to the fact that capital formation is generated mostly through the use of local sources. However, such non-equity modes (NEMs) of operation provide a package of benefits similar to FDI, including transfer of managerial know-how and skills that add to the competitiveness of the operation and the sector.

Figure 2. Travel and tourism cluster in Mongolia

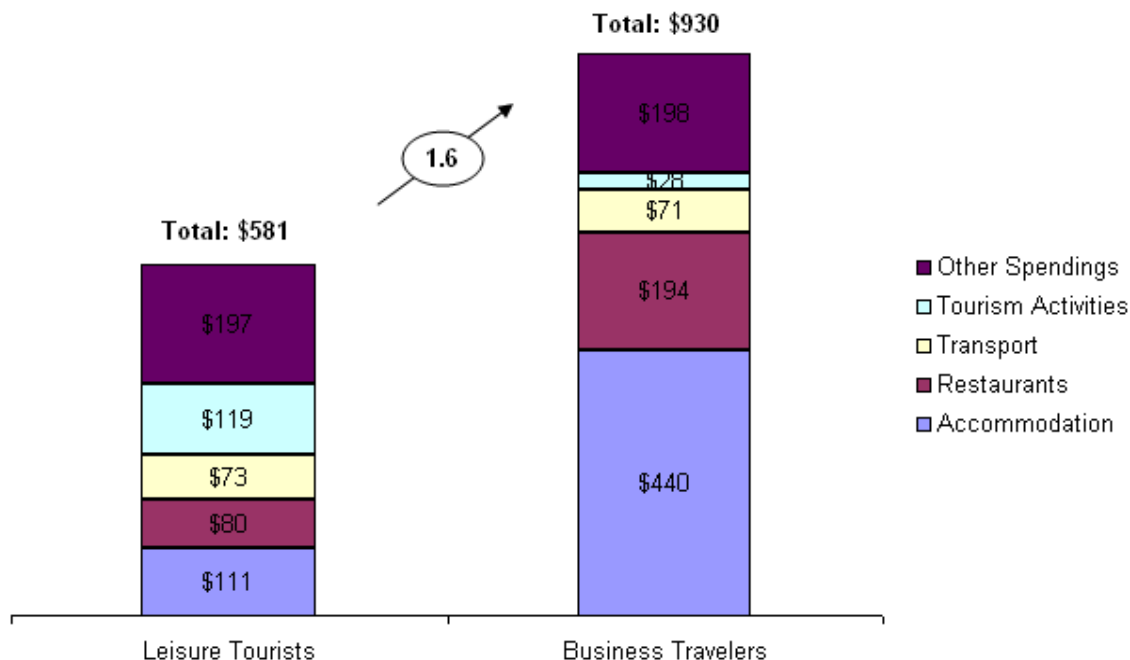


Source: UNCTAD, based on Christian et al. (2011).

The size and the composition of expenditures differ based on visitors' profile. Figure 3 details the composition of international visitors' expenses in Mongolia. Business travelers spend on average 60 per cent more than the leisure tourists per trip. Moreover, business travelers spend mostly on accommodation services, restaurants and other services whereas leisure tourists spend considerably more on cultural activities and tours, and other items such as handicrafts and textiles. Since the bulk of expenditures belongs to the hotel services and the associated investment contributes to a large extent to capital formation in the sector (due to very light capital needs of other travel and tourism activities), the rest of the report largely focuses on the hotel industry. In addition, the limited availability of data regarding other steps in the value chain constrains the analysis.

In the travel and tourism sector there are roughly 766 active companies including 340 hotels (64 of which have 1-5 stars). As mentioned above, in the travel and tourism sector, major investment projects are mostly found in accommodation services. The number of upper class hotels in Ulaanbaatar is limited. In 2010, twenty-seven 3-5 star hotels were in operation, with a total of 1,909 rooms (table 1). The average occupancy rate of these hotels was estimated by experts to be about 65 per cent, which is low compared to international standards. This is mainly due to the high degree of seasonality of the leisure tourism sector in Mongolia. While during summer time some hotels reach 100 per cent occupancy, during low season this can drop to under 30 per cent, although differences between low and high season have become less significant in recent years due to the constant flow of business travelers as a result of the mining boom.

Figure 3. Average expenditure by item and visitor segment per trip (2010 estimates)



Source: UNCTAD estimates, based on USAID (2005) tourism survey expenditure shares and 2010 international tourism receipts data.

An expected increase in demand for upper class accommodation has led to the construction of new hotels in Ulaanbaatar. Targeting mainly the business traveler segment, in 2010 eight new 4-5 star hotels were under construction or planned, with a total of 1,706 rooms. The total stock of capital in hotels in Ulaanbaatar is estimated to be around \$360 million with a gross fixed capital formation of \$76 million in 2010.⁶ Allowing for hotels currently under construction, the capital stock is expected to triple during the next 3 years (up to \$617 million). There is currently one luxury 5-star hotel in the country, the Trelj International Resort and Spa Hotel, which is located in the Gorki-Terelj National Park. Since most of the hotels are concentrated around the capital city, the tables below show the major companies investing in the hotel industry in Ulaanbatar.

For the next decade and more, investment into the mining sector will continue to dominate the Mongolian economy. For example, the Oyu Tolgoi (“Turquoise Hill”) complex in the Gobi desert – a huge copper and gold mine – will account for about a third of the economy by 2020. Allied with the mining boom, there is a rapid expansion in the business travel industry, which has economic, social and policy implications also for the leisure tourist value chain/segment in Mongolia.

⁶ Figures are from a study published by HVS (HVS HOTEL DEVELOPMENT COST SURVEY 2011/12) adjusted, as the study was only for the US market and experts indicated in interviews that costs of construction in Mongolia would almost be double than construction costs in China and triple of those in the US. This is mainly due to the use of different construction material (concrete and steel frames instead of wood/timber) and the high number of imported goods (estimated 80 per cent of all construction and hotel facilities).

Table 1: Existing 3-5 star hotels in Ulaanbaatar, Mongolia (2010)

Hotel	Stars	Rooms
HS Khaan Resort Hotel	4-5	25
Ulaanbaatar	4-5	128
Terej Hotel	4-5	52
Sunjin Grand Hotel	4-5	113
Chinggis Khaan	4	194
Bayangol hotel	4	215
Kempinski	4	102
Palace Hotel	4	88
Corporate Hotel	4	231
Continental	4	32
Hotel Mongolia	4	86
Zolo Star Hotel	3-4	24
Michelle Hotel	3-4	31
Tuushin Hotel	3	24
Flower Hotel	3	180
Sentii Hotel	3	36
Kaiser Hotel	3	27
Voyage Hotel	3	27
Decor Hotel	3	30
New West Hotel	3	24
Lion Hotel	3	25
Evergreen Hotel	3	17
Puma Imperial Hotel	3	31
Springs Hotel	3	61
White House Hotel	3	62
Narantuul Hotel	3	24
Mika Hotel	3	20
	<i>Subtotal (4-5 star)</i>	<i>1321</i>
	<i>Total (3-5 star)</i>	<i>1909</i>

Source: UNCTAD research undertaken in 2012.

Note: By the time of the research, the Ramada Hotel had already been opened (see table 2).

Table 2: New 4-5 star hotels under construction in Ulaanbaatar, Mongolia (2010)

Hotel	Stars	Rooms	Opening date
Radisson Blue Hotel	4-5	175	Opening 2015
Hyatt	4-5	131	Opening 2015
Hyatt Regency Ulaanbaatar	4-5	259	Opening 2014
Sheraton Ulaanbaator	5	300	Opening 2013
Shangri-La Hotel	5	273	Opening 2013
Hilton	5	240	Opening 2013
Hotel Blue Sky Tower	5	200	Opening 2012
Ramada	4	128	Opened 2011
	<i>Total (4-5 star)</i>	<i>1706</i>	

Source: UNCTAD.

III. INVESTMENT IMPACT

Economic Value Added

Value added and Gross Fixed Capital Formation. Mongolia's GDP reached MNT8.3 trillion in 2010 (\$6.1 billion) after very good growth rates for most of the 2000s. Travel and tourism (directly) contributed an estimated 2.0 per cent in 2010 to value added (table 3), but this share has declined from 3.5 per cent in 2005 (annex 3). Some estimates put this number much higher, i.e. at 9.4 per cent of GDP in 2010, including indirect and induced effects (WTTC, 2012a). Hotels account for the bulk of investment in the sector and are estimated to have seen capital formation of about \$76 million in 2010 for 4-5 star hotels, accounting for about 3.4 per cent of total capital formation in the country. This is all contributing to a capital stock in 3-5 star hotels of roughly \$215 million, which is rapidly growing; with an estimated \$365 million being added in terms of 4-5 star hotels by 2015 (table 3 and annex 3). WTTC even estimates the contribution of the sector to capital formation to be at 15.4 per cent of investment in the country (WTTC, 2012a), accounted for mainly by sizable investments in hotel construction (all 4-5 star).

Exports. Exports are equivalent to 56 per cent of GDP and most of this is due to mining exports. Travel and tourism is estimated to have contributed \$279 million (in international tourism receipts) or 8.2 per cent to exports in 2010. Net exports of the sector are much lower though, as the bulk of inputs are imported – experts indicate that in the case of hotel operations this amounts to 80 per cent of inputs for both operations and construction of new facilities. Having said this, leisure tourists are more likely to be enticed into local purchases by preference or perforce than business travelers. WTTC estimates suggest that leisure travel spending generates 67.7 per cent of direct Travel and Tourism GDP where the contribution of business spending stands at only 32.3 per cent based on 2011 figures in Mongolia (WTTC, 2012a).

Number of business entities. There are 40,921 active registered businesses in Mongolia (NSO, 2010), of which roughly 770 (or slightly less than 2 per cent) are “tourism companies” (NSO definition: travel agents, tour operators, camps and hunting places) and hotels.

Fiscal revenues. Mongolia's “fiscal take” from travel and tourism is relatively limited. The input-output table for 2005 shows that 1.7 per cent of total output from the tourism sector flowed to the state as revenues. This translates into an estimated \$7.1 million or 0.4 per cent of total fiscal revenues accounted for by the sector in 2010 (table 3). Among other reasons, this low take is due to the exemption of tour operators from VAT. In contrast, garments contributed 9.8 per cent of sales to the treasury, while the share of mining is 4.9 per cent (in 2005). Given the sheer scale of sales in mining – which is rising as a result of the recent expansion of the sector – the relative value for travel and tourism is becoming small. Over the 2008 to 2010 period, the “Copper Price Premium Tax” (main mining tax) alone, generated 22 per cent of all tax revenues in Mongolia. This share will increase further when the Oyu Tolgoi mine becomes operational in 2013.

Job creation

Total employment. The travel and tourism sector is a sizable employer, directly employing an estimated 30,000-36,700 workers in 2010, accounting for 2.9–3.6 per cent of national employment. Most of the current employment is in hotels and restaurants, with other tourism companies (NSO definition: travel agents, tour operators, camps and hunting places) accounting for less than 10 per cent of this figure. Growth in recent years has been notable, with employment in hotels and restaurants alone rising 19 per cent between 2009 and 2010.

Employment by category. Travel and tourism does not have a very skill-intensive employment profile. While among tour operators most employees are drivers and guides, in hotels lower paid categories form the bulk of the staff. However, the increasing demand for high-end accommodation services requires better trained personnel, which is currently in short supply. In addition, the seasonality of activities in leisure tourism leads to a situation where up to 95 per cent of employees in companies such as tour operators or *ger* camps only have employment during the summer; making it difficult to build a stable skills base.

Table 3. Summary of key quantifiable indicators, 2010 estimates

	Travel and tourism	
	Value (\$ or number)	Share of total economy (%)
Total sales	418 million	-
Value added	125 million	2.0%
Capital formation	76 million	3.4%
Capital stock (3-5 star hotels)	215 million	-
Export generation (<i>International tourism receipts</i>)	279 million	8.2% of total exports 36% of services exports
Number of active formal business entities	766	1.9%
Fiscal revenues (direct)	7.1 million	0.36%
Employment	30'000-36'700	2.9% - 3.6%
Wages (average per month for hotels & restaurants)	197	78% of national average (end of 2011 only 70%)

Source: see annex 3 for details and sources.

Wages. The average monthly wage in Mongolia at the end of 2011 was \$327 (MNT450,000), slightly above that for manufacturing at \$315 (MNT433,000) and much more than in travel and tourism categories such as hotels & restaurants, at \$231 (MNT317,000). The average wage in hotels and restaurants of around 70 per cent of the national average in 2011 has deteriorated from 2010, when it stood at around 78 per cent. The deterioration is due to the rapidly increase in wages elsewhere, primarily in mining.

Sustainable Development (selected indicators)

Labour impact. Seasonality is an issue for many industries in Mongolia, leisure tourism being most affected. Due to the only 3 months of tourism season, employment is very unstable. During winter times, many tour operators almost go into “hibernation” with almost exclusively retaining office personnel, which during peak season accounts for only 5-10 per cent of employment. In terms of gender breakdown employment in leisure tourism-related activities in Mongolia shows typical patterns: While tour operators’ office workers and hotel employees are by majority women, e.g. 70-

75 per cent in some 4-5 star hotels in Ulaanbaatar; jobs as drivers and guides with tour operators are almost exclusively performed by men – forming the majority of employment in this sub-sector.

Social impact. 30 per cent of all Mongolians live in poverty, as defined at the national poverty line.⁷ While travel and tourism does not provide any goods and services to the poor, the direct and indirect employment effects offer potential for poverty reduction. The sector shows strong concentration in the capital though: this is the case for many activities, including luxury hotels, travel agencies and tour operators; despite the tours of the latter going far afield in Mongolia, drivers and guides are often based in Ulaanbaatar. In 2010, of the 1,320 active hotel and restaurant establishments in the country, roughly three-quarters were located in the capital and the two most densely populated aimags (provinces) *Orkhon* (part of *Bulgan* aimag in figure 4)⁸ and *Darkhan-Uul* (yellow area within *Selenge* aimag in figure 4). In rural areas travel and tourism employment is limited and is largely associated with cultural sites and *ger* camps and their immediate suppliers. In comparison to concentrated mining activities, tourism attractions are more dispersed (figure 4) and thus offer the potential to bring additional income to poverty-struck aimags.⁹

Environmental impact. The environmental impact of travel and tourism activities, in contrast, is limited largely due to their limited size and concentration in Ulaanbaatar. International consultants suggest that hotels currently operating in the country are inefficient in their water and electricity consumption. Hotels managed by global-chains, of which many are still under construction, will bring additional know-how of environmental management issues to the country's accommodations industry. An example of this is the introduction of recycling programmes at hotels run by two international hotel groups.

Development impact. Mongolian cultural identity increases country's appeal to leisure tourists. The country's cultural identity is very much one of herdsmen and their survival. The upcoming mining boom will change much of this due to more Western lifestyle being introduced together with rising per capita income; both at a rapid pace. While this is not necessarily a downside of the mining boom, preserving the Mongolian cultural identity is worthwhile in economic terms as part of various branding and marketing efforts, but even more so for the cohesion of Mongolian society. A cultural tourism niche market offers the potential to support cultural activities, which would be lost in the absence of subsidies.

Mongolia's leisure tourism sector is faring well in terms of development benefits compared to similar countries. The share of inbound tourism expenditure over GDP (2006 data) is higher (8.2 per cent) compared to Nepal (2.2 per cent), Kazakhstan (1.2 per cent), Kyrgyzstan (6.7) and Tajikistan (0.4). Moreover tourism openness, which is defined as the sum of inbound and outbound tourism expenditure over GDP, is ranked among the highest with 14.8 per cent, followed by Kyrgyzstan (11.7 per cent).¹⁰ In the same vein, 124 direct jobs are created per \$ million of tourism exports in Mongolia, whereas in Kazakhstan and Kyrgyzstan the employment contribution is lower (99 and 71 respectively). Nepal is a clear outlier from this comparison as a \$ million of tourism exports supports more than one thousand jobs there.¹¹

⁷ The Household Socio-Economic Survey (HSES, 2011) by the NSO and World Bank, In 2010 the poverty rate was 39.2 per cent which has decreased to 29.8 per cent in 2011.

⁸ This aimag was cut out of Bulgan aimag in 1994, to form a new entity together with its capital Erdenet, which had previously been administrated as a federal municipality. In most maps Bulgan and Orkhon are marked together in the same region.

⁹ Poverty levels in rural areas (33 per cent) are much higher than in urban areas (27 per cent).

¹⁰ Data was taken from UNWTO Tourism Compendium 2011.

¹¹ Data was extracted from WTTC Travel and Tourism Economic Impact Country Reports 2012 (WTTC, 2012a-d).

Figure 4. Poverty levels by aimag (province) (2003) and location of tourist attractions in Mongolia



Source: Based on UNDP (2009) Mongolia Census-based Poverty Map: Region, Aimag and Soum Level Results and UNCTAD research (see annex 5).
Note: Cultural and natural sites were identified from government and tourism operators' websites, retaining only those that had several mentions. Data for the map was taken from the 2000 Census and an Living Standards Measurement Survey from 2002/2003.

IV. POLICY CHALLENGES AND OPPORTUNITIES

Given the current investment profile in the travel and tourism sector, the natural potential for leisure tourism and the growth expectations of the economy, there is scope for generating more value from the sector. Since the demands of business travelers and leisure tourists often differ in terms of quality standards or availability of certain services, sector strategy and related policy formulation should take into account the implications for the different market segments. In this regard, this section highlights the opportunities and possible challenges.

Business travelers drive business opportunities

The expected growth of business travel over the next years is not yet matched by the planned capacity increases of business travel facilities in Ulaanbaatar. Driven by the growth of the mining sector, business travel activity is estimated to more than double by 2015 from 2010 levels and triple or even quadruple by 2020. By 2015 growth in planned hotel capacity is even higher than overall growth, but there are no plans yet for additional capacity between 2015 and 2020. Figure 5 illustrates this point by showing the current (2010), planned (2015) and presumably needed (2020) 4-5 star room capacity of hotels located in Ulaanbaatar.¹² In the figure the line illustrates the fast growing GDP, which is expected to rise from \$6,083 billion in 2010 to \$17,279 billion in 2020, and which establishes the lower bound of the estimated demand for hotel capacity in 2020.

With the current capacity of 1,155 available rooms in 2010, high-end hotels meet the demand of an estimated number of 244,000 business travelers (and a fraction of the 90,000 leisure tourists). With further investments into the hotel industry by major players like Hyatt and Sheraton entering the market (Ramada already did in 2011), the room capacity is expected to increase by 147 per cent for high-end hotels (4-5 stars) located in Ulaanbaatar by 2015. However, there will be a need for further capacity by 2020 (see figure 5). A possible challenge on the new investments in hotels may be related to construction permits. There is a strong perception of corrupt practices, specifically in the Land Authority (USAID, 2010).

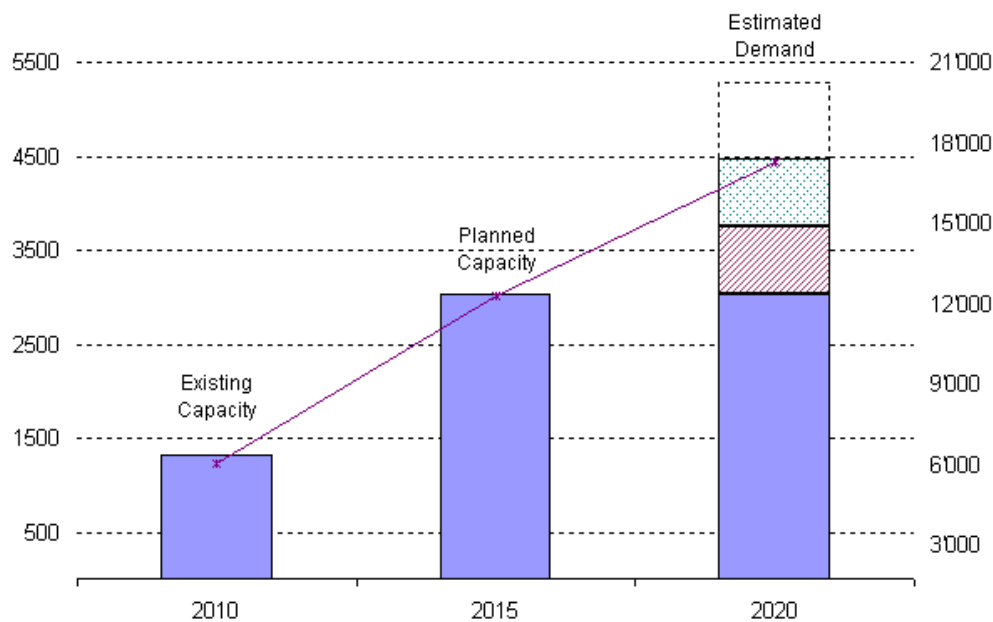
Mining towns also offer potential for professionalized accommodation services provision.

Currently most of the accommodation services for workers as well as business travellers are run by the mining companies. Mongolia's largest copper and gold mining area, Oyu Tolgoi, for instance is estimated to have employed 11,400 workers in 2011 which comprised of 5,480 Mongolians, 5,440 Chinese and 480 expatriates (USAID, 2010). The number of workers and executives is expected to increase rapidly as the production in the mine starts in 2013. Similarly, Tavan Tolgoi which is the main coal mine in the country is expected to reach full capacity by 2016 and has great potential to attract business travelers to the southern part of Mongolia. Workers are generally housed in long prefabricated buildings or in traditional *gers*. Hence, providing improved accommodation services for mining workers and business travelers may offer potential for improvements in terms of quality and efficiency by outsourcing such operations to professional accommodation services providers, e.g. residences operated by international hotel groups. In the short run, professional accommodation

¹² Due to limited accommodation and supplied services in mining areas, most business travelers return to the capital city after their visit to the mining areas.

providers could also be harnessed to quickly scale up the quantity of accommodations needed. In addition this would foster entrepreneurship development as most such operations will be run as franchises or under management contracts. Under such arrangements mining companies may reduce operational costs through improved efficiency and the government collect higher tax revenues as the newly set-up residences would be regarded as separate entities. However weak transport infrastructure and disrupted land due to mining activities may hinder construction activities in these areas and act as potential challenges.

Figure 5. Room capacity in 4-5 star hotels in Ulaanbaatar and GDP, 2010, 2015 and 2020 (Number of rooms (left scale) and MNT billion (right scale for line))



Source: UNCTAD.

Notes: Details for 2010 capacity figures are displayed in table 1 and additions until 2015 in table 2. Upper bound for estimated room capacity in 2020 is based on USAID estimate for GDP growth mainly due to the mining boom, while the baseline estimate takes into account the WTTC figure for the contribution of travel & tourism to GDP and the lower bound reflects UNCTAD estimates taking into account the USDA (2012) real GDP growth figures. GDP values are based on NSO (2011) for 2010; values for 2015 and 2020 have been generated applying USDA real GDP growth rates.

More business opportunities may be found in leisure time activities for mining personnel and business travelers which may increase the average length of stay in the country and expand the sector's contribution to the local economies. On the one hand this means creating entertainment activities for after business hours. On the other hand, encouraging resident mine staff to spend weekends and days off and encouraging business travelers to stay longer in the country (UB or other cities) may be avenues to engage them in leisure tourism activities and thus further foster the sector. While the average length of stay is 3-7 days¹³ this period could be extended by providing alternatives. In cases where mining towns and sites for cultural or nature tourism are not

¹³ Based on the Ministry of Nature, Environment and Tourism estimate for foreign visitors in 2010.

far apart (see appendix 4) offering additional leisure activity services seems to be relatively easy. Improvements in ground transport infrastructure, organized tours and guides and better equipped hotels can be means to capture more value from the sector.

Leisure tourism offers opportunities for business and poverty reduction, but lacks direction

The leisure tourism sector's largest policy challenge is its lack of a clear sector strategy; a low-volume, high-end niche market approach seems a natural choice for leisure tourism. The lack of strategy includes confusion over niche market approach such as promotion of eco-tourism and cultural tourism and mass market tourism approach such as building large complexes with hotels, restaurants and entertainment facilities similar to the one currently built in Karakorum. Moreover, weak institutional arrangements and brand confusion undermine the leisure tourism potential. (see annex 2). This is not an “investment impact issue”, but it is an essential precondition for increased private sector activity. If this foundation is laid, development impact – as measured by the indicators above – will be enhanced. With respect to the type of strategy, the mining boom creates circumstances that make it difficult to opt for any mass market strategy due to the (expert) expectation that the mining boom will render the Mongolian leisure tourism sector uncompetitive in the mid-term with respect to prices due to appreciation of the Mongolian Tugrik. In addition, limited air transport capacity would not allow a much larger number of tourists to travel to Mongolia at this point. Changing this would require a dramatic change in terms of relevant policies, like in the case of an open skies policy, which in Mongolia is not foreseeable at this point.

Emphasis on the mining sector leads to a concentrated transport network and short supply of skilled workers which currently limit Mongolian leisure tourism growth. The dominance of mining sector in the Mongolian economy influences the development of the leisure tourism sector in several respects. Transport services are largely developed around the mining areas with increasing local fares while access to other parts of the country with more tourism potential remains limited. Although the ‘millennium road’ project continued in 2005, with an increase of around 20 per cent in paved and improved roads, further efforts are needed. Also, higher wages offered in the mining sector divert skilled workers away from the tourism sector. Local education institutions, in addition, do not deliver the necessary quality education. This concerns specific skills needed in segments of the tourism value chain, including marketing and sales, but also general skills sought after by mining as well – primarily English language skills. The shortage of the latter is already felt now, with the mining sector absorbing much of the English-speaking workforce.

Despite some limitations there is still potential to increase the number of leisure tourists with better promotion of natural and cultural sites. Leisure tourists are particularly attracted to the natural scenery and the traditional culture in the country. The government's efforts to stimulate the leisure tourism sector by launching special events achieved good results but developing the country image as a tourist destination requires more work. Examples include the ‘Nomads Day Festival’ and ‘Mongol Rally’ as well as announced theme years such as ‘the 800th anniversary of Mongolian statehood’ in 2006. Potential for niche-tourism products such as eco-tourism, cultural tourism or community-based tourism can be further developed. The country hosts two cultural sites (Orkhon Valley Cultural Landscape and Petroglyphic Complexes of the Mongolian Altai) and one natural

site (Uvs Nuur Basin) listed in UNESCO World Heritage. Furthermore, the country currently has 65 protected areas (14 per cent of the country's surface) and the government aims to increase the number of protected areas to cover 30 per cent by 2030. Hence, a number of World Heritage natural and cultural sites and protected areas grant Mongolia a competitive advantage. With good marketing and branding initiatives, a skilled workforce and an improved transport network more international tourists could be attracted to the country. According to the recent Travel and Tourism Competitiveness Report, Mongolia is lagging behind such competitors as China, India and Thailand in terms of effectiveness of marketing and branding leisure activities to attract tourists (WEF, 2011). Furthermore, seasonality is a major challenge since it restrains the number of visitors and also raises the costs for tour operators and limits the economically viable training of workforce due to short contract periods.

A broader range of leisure activities could be offered in the sector to engage visitors more actively in local tourism and generate higher value from the services. Besides experiencing the traditional *ger* camps, visiting the cultural sites such as Karakorum or getting familiar with Mongolian culture and history, there are a number of activities which offer the potential of attracting the attention from leisure tourists. For example, horse riding accompanied by local instructors in *ger* camps is an option. Furthermore other such leisure activities include: learning more about the Buddhist culture and practicing meditation in temples and monasteries; attending fishing expeditions organized by locals near the surrounding lakes; doing rafting particularly in *Tuul Gol* and taking advantage of the abundance of rivers in the country; making nomadic journeys and joining eco-tours; and hiking.

V. CONCLUSIONS AND POLICY RECOMMENDATIONS

The Government of Mongolia adopted the Millennium Development Goals-Based *Comprehensive National Development Strategy of Mongolia* (NDS) with two implementation phases: in the medium-term first phase (2007-2015) the goal is to achieve the MDGs and in the long-term second phase (2016-2021) the aim is to transform Mongolia into a dynamic knowledge and high technology based economy. The NDS foresees the gradual reduction of government involvement to give way to a strong private sector. One other important aim is to take initiatives to diversify the economy away from the emerging dominant mining sector. The travel and tourism sector is a primary area of interest of the Government of Mongolia and was therefore chosen as the focus of the G20 indicators analysis.¹⁴

The assessment of the sustainable development and employment contribution of the travel and tourism sector shows that:

- a) In terms of GDP contribution (2 per cent), employment (2.9-3.6 per cent direct contribution) and export generation (8.2 per cent) Mongolia is currently faring relatively well (section III).

¹⁴ Initially meat processing and cashmere textiles production were also considered as additional sectors, but had to be dropped at a later stage, even though they also offer promising potential for diversification.

- b) Travel and tourism investments can contribute to diversification and sustainable development, i.e. poverty reduction and preservation of the Mongolian cultural identity (section III).
- c) In addition, the skills shortage – aggravated by the booming demand from the mining sector – is a serious problem with local education institutions not delivering the necessary quality education (section IV).

The process of upgrading the travel and tourism sector in Mongolia – as in any country – may call for diverse strategies in order to secure increased development benefits. Factors that may be taken into account when formulating sector policies include the range of travel and tourism products, the structure of the existing value chain, distribution channels, linkages among the industries that are part of the travel and tourism sector and the characteristics of the inbound market. Given the expected growth of the travel and tourism sector in Mongolia, encouraging private sector parties to invest in new opportunities and investments that are facilitated by evidence-driven sector policies may have significant development impacts. The remainder of this section aims to point out the the key elements of the three-pronged approach for the Mongolian travel and tourism sector based on the earlier discussions and analysis in the report.

A) Upgrading within the hotels segment, aiming for higher (luxury) service provision: Business travel provides ample opportunities for increased development benefits from high-end hotel investments. Given the above mentioned growth driven by the mining sector, the hotel capacity in Ulaanbaatar is poised to grow accordingly – even if not yet planned. The indicators from section III and analysis from section IV suggest that there is demand to further increase the capacity to match the number of business travellers by 2020. If the identified gap in hotel investments between 2015 and 2020 would be filled and, therefore, growth in high-end hotels would be broadly in line with the travel and tourism sector growth, this would translate into an extra 2 per cent value added and 3-3.5 per cent direct and 9 per cent total employment to the total economy as of today. Furthermore, nearly 3.5 per cent of capital formation and 8 per cent of exports would be generated. The additional contribution between 2015 and 2020 of the travel and tourism sector to the various impact categories is thus roughly as big as that of the whole sector today.

Attracting international brand hotels to the country is expected to yield a number of benefits, apart from those mentioned above. First, human capital is expected to enhance, not only through increased demand for formal training programmes that would be expanded, but also through upper-class hotels' own training programmes to their staff in acquiring soft skills such as effective communication and conflict management, and technical skills including computer literacy. Moreover, the expertise gained in the hotels is expected to be leveraged into other segments such as tour operators and generate further professionalization in the sector. In addition, given that upper-class hotels offer a wide range of facilities such as conference halls or fitness rooms, the associated investment is expected to make the highest contribution to capital formation when compared to other strategies. Considering high-quality services which are delivered to a large number of customers in high-end hotels, tax revenues are expected to increase as well. However, following this direction is not stimulating entrepreneurship very much as upper-class hotels are often managed by international hotel chains that typically employ expatriates for executive positions. Moreover,

only a small increase in the number of business entities may be expected because high-end hotels usually provide all services in one location and operate at large scale. The impact on poverty alleviation may also be limited as most of the value added does not get distributed to other areas but will be restricted to the capital and major mining areas. Table 4 summarizes the likely impacts of this and the other strategies.

B) Creating value by supporting the creation of specialized service suppliers and fostering the links in the chain: Increased demand for higher quality accommodation and related services will potentially create a sufficiently large demand pool for specialized suppliers such as providers of dry-cleaning and ICT services. Specialized suppliers may improve the quality and efficiency of hotel operations and thus may increase visitors' satisfaction with the services received; raising the likelihood of prospective visits. It would in particular allow international hotel groups to operate budget hotels, which draw much more on standardized and specialized services. Hence, targeting such industries that add higher value may have several implications for the travel and tourism sector in Mongolia.

Since these services are capital-intensive, the operations would require a combination of increased capital and skilled labour. Currently not many of such specialized service providers exist in Mongolia, thus new initiatives may be supported which would in turn contribute to entrepreneurship building and lead to an increase in the number of professionally run business entities. Moreover, an increase in the provision of such services would expand the base for value addition (again despite a presumably large import share in inputs) and tax revenues. In the short term, entrepreneurship impact may be limited due to required fixed costs and specialization but as the service providers gain expertise and the hotel industry continues to expand, this line of activities will prove to be beneficial and contribute to the competitiveness of the sector. In addition, while the service providers would be largely catering luxury and budget hotels in the capital, the impact on poverty elimination would be higher in the medium term than for the upgrading strategy in the high-end hotel segment due to a larger potential for service provision and job creation outside of Ulaanbaatar.






















C) Broadening leisure activities to increase visitor spending and boosting service delivery in the entire chain: Extending the types of leisure activities on offer may encourage entrepreneurial activities, contribute to poverty eradication and strengthen cultural identity. Since the leisure tourism segment seems to generate value below its potential in Mongolia, increasing the number of visitors by diversifying the tourism activities may be a feasible option to stimulate the value chain. Higher demand for services may induce new entries to the sector adding to the entrepreneurial capacity. Furthermore, leisure tourism's geographical spread, particularly in poverty-struck provinces, makes it a poverty-reduction instrument; much more so than business travel activities. Nevertheless, also leisure activities for business travellers and mining staff offer potential for poverty reduction (section II). Taking advantage of natural and cultural sites and sights in Mongolia should not be forgotten (section IV), but fostered to contribute to economic diversification. Finally, what was not possible to quantify in this analysis, but what is equally important and might be decisive for decisions on tourism, is the importance this sector has for Mongolian cultural identity

today and could have in the future (section III). This may potentially justify increased government attention and support in its own right.

With a focus on nomadic culture and natural sites, leisure activities in Mongolia do not require much in terms of capital or technical skills. Hence, entrepreneurs may be encouraged to set up new tourist avenues near attraction areas which would boost entrepreneurial capacity in the country. Poverty impact would be high compared to other strategies because, first, it would have a direct influence on service providers in remote areas and, second, it would induce an indirect effect through employment and linkages with local industries. Given the scale and scope of leisure activities in Mongolia, this strategy is not expected to contribute much in terms of tax revenues.

Table 4 summarizes the likely impacts of each strategic direction in comparison to the others. Building on this analysis, key issues for an action plan have been identified that aim at increasing investment and travel and tourism activities, and increasing development benefits from the sector at large.

Table 4: Upgrading strategies and their likely impact

Strategic direction	A	B	C
Capital formation			
Entrepreneurship building			
Skills development			
Linkages with other industries			
Increase in the number of business entities			
Tax revenues			
Poverty impact/ Sustainable development			

Source: UNCTAD.

Key issues for an action plan

In summary:

- I. The growth in development value added and employment generated from the travel and tourism sector is likely to come mostly from business travelers. The expected increase in business travel implies further significant investment opportunities in hotels, which should be facilitated in investment policy and in related policies (e.g. planning and permissions).*
- II. The (more limited) option for investment in tourism require a clean Tourism Development Strategy, focused on niche tourism segments, and with an evaluation of large-scale investments in establishments aimed at mass-tourism.*
- III. Value added from both types of travelers can be increased through investment in local services and supplies, and value-added activities for visitors to increase their spend and average stay.*

The foreseeable growth of the hotel industry should encourage the Government of Mongolia to put in place a solid policy framework to facilitate related investments. As part of an enabling environment that facilitates quality investments and international knowledge transfer, specialized legislation and a strengthening of the tourism education system can be considered. The government may explore options of putting in place special legislation for franchising and management contracts, which are the preferred modes of operation of international hotel chains. Furthermore, issues of a sufficient supply of skilled labour are already emerging today and the creation or strengthening of relevant educational institutions gain more importance. FDI into the education system might even be an option. More details will need to be explored in a separate study on the needs in terms of HR development.

A clear tourism strategy directed to niche-tourism products is needed to encourage a further development of leisure tourism activities. In terms of government policy, tourism currently lacks a clear sector strategy with confusion between niche market and mass market tourism; institutional arrangements being weak; brand confusion; and national parks management being poor with risks for the natural environment. Limited air travel capacity, strong seasonality and the expected appreciation of the Tugrik suggest a concentration on low-volume, high-end tourism. In this respect, a coordinated marketing/branding effort that is initiated by the Government of Mongolia, and a comprehensive tourism strategy decided upon to give Mongolia and Mongolian tourism a clear positioning in the international tourism market may be a starting point. Part of the development of a tourism strategy may be an in-depth study of the poverty reduction potential of different tourism activities.

There is an opportunity to increase the fiscal contribution of the travel and tourism sector. For one, the current contribution to government revenues seems well below potential. Under the current tax regime, fiscal revenues from hotels and other travel and tourism activities constitutes 0.7 per cent of total tax revenues which is considerably lower compared to the sector's share in GDP of 2 per cent (see table 1). In addition, the distribution of public funds may be reviewed. Most of tax revenues from travel and tourism stay in the capital and are not used for the benefit of the

populations of those places where the actual value generation takes place - like those districts that are home to touristic *ger* camps (World Bank, 2011).

Supporting centralized services and broad leisure activity provision may need government initiative. While the above mentioned growth of the high-end hotel segment (strategy A) may only need some appropriate framework conditions in place, the government should consider undertaking more detailed analysis of what is required to set up centralized services (strategy B) and broaden the leisure activities on offer (strategy C). An external expert seems best suited to undertake such an analysis in collaboration with Mongolian institutions.

Development benefits could be significantly increased by fostering cross-sectoral linkages. Currently there are limited linkages between travel and tourism and Mongolia's leading economic sectors, i.e. mining, agriculture and cashmere. Linkages are important as they allow economic and social benefits from travel and tourism reaching more people and local businesses. In the case of the mining sector, there is potential to invest in additional leisure activities to offer to international staff and business travellers, e.g. organized tours to cultural or natural beauty sites (section IV). Potential also exists with respect to agriculture: Local food service providers are mostly considered unreliable and quality of locally supplied food is varying a lot. As a consequence most tour operators, especially the ones catering to higher end markets, currently rely on imported food products that are purchased in Ulaanbaatar and carried for the duration of a trip. Finally, cashmere shopping can be promoted and directly linked to tourism. The development of travel products based on learning about cashmere and the production process, visiting cashmere processing factories and shopping for high-quality cashmere products could add to Mongolia's product portfolio and encourage increased spending (World Bank, 2011).

Inter-Agency Working Group

Annex 1

Mongolia List of Interviews

Millennium Challenge Account Mr. S. Bayarbaatar, Executive Director	Ministry of Foreign Affairs and Trade Mr. Tsogtbaatar, State Secretary, Mr. Enkhtaivan, and Ms. Zoltuya
Kempinski Mr. Sven Fritzsche, General Manager	Gobi cashmere Mr. Naranbaatar, COO and Mr. Tsogt, Director of Production
Nomadic Expeditions LLC Mr. Badral, Executive Director	Ministry of Food, Agriculture and Light Industry Ms. Erdenejargal, Director, Ext. Coop. Div.,
KOICA Mr. Lee Dong Gu, Resident Representative	GIZ Ms. Müller, Resident Representative and Dr. Hanselmann, Director
Ramada Ms. Tsetsenkhoo, Sales and Marketing Manager	MIAT Mr. Orkhon, President & CEO
National Development and Innovation Committee Ms. Dorjitsoo Zolzaya, Mr. Lkhagva Undes, Mr. Altansnayai	Juulchin LLC Mr. Amgalanbat, Executive Director and Yo.Undraa, General Manager
National Statistical Office Ms. Badamtsetseg, Director of Macro Economic Statistics Department	Development Bank of Mongolia Ms. Bolormaa, First Deputy CEO
Mongolian National Tourism Center Ms. Saruul and Mr. Mendbayar	Just Agro - Makh Market Ms. Bolor, Marketing Deputy Director
FIFTA Mr. D. Nachin and Ms. O. Enkhjargal, Heads of Division	Eznis airways Mr. Munkhsukh, CEO
Genco Tour Mr. Enkhtulga, Marketing Manager	Altai cashmere Ms. Narantuya, CEO

Annex 2

FDI Policy in Mongolia

Since 1992, Mongolia has been carrying out major policy reforms generally aimed at introducing commercial legislation based on modern practice, often with the assistance of international donor agencies. Virtually all of the legislation currently in force, including the key laws affecting business, has been introduced over the last 20 years, and several laws introduced during this period are already undergoing a process of revision to ensure continued consistency with international best practice. In most regulatory areas, therefore, the basic legislation is modern and up to standards and the transition from a planned system is largely complete, at least on paper.

Only few legal and regulatory deficiencies remain in areas such as: 1) the foreign investment legislation, which needs revision in line with Mongolia's liberal attitude to FDI; 2) company operations, where permitting and controls remain focused on sanctioning rather than ensuring compliance with the rules; 3) the regime for the entry of foreign skills, which does not foster the attraction and diffusion of skills necessary to the country's development; 4) the minerals law, which needs to better protect public interest; 5) the concessions regime, where stricter project selection criteria are needed; and finally 6) governance, both as regards public access to information as well as the implementation of key anti-corruption legislation.

The legislative reform effort, however, was seldom accompanied by the institution-building required for the administration to absorb, monitor and enforce the new legislation. As a result, implementation is often partial or deficient. The limited budgetary capacity of the GoM, widespread governance issues and the lack of skills and familiarity with the principles of a market economy are among the key reasons for the current institutional weakness of many government agencies, and constitute serious impediments to entrepreneurship and private sector development.

Such institutional weakness is particularly evident in the tourism sector. The sector is still in its infancy, yet it has considerable potential, and it has so far grown in spite of limited Government support. The institutional foundations for planning and managing the sector are generally inadequate, and various challenges need to be overcome to exploit the potential, especially in the context of regional diversification and poverty reduction. There are also considerable opportunities to develop the sector through the involvement of different forms of FDI and foreign operations. However, as discussed in the Investment Policy Review (IPR), achieving this requires wide-ranging reform of the sector and the implementation of an ambitious reform programme, including:

On the institutional side: i) the reorganization of the MNET; ii) the transformation of the Mongolian National Tourism Centre (MNTC) into a proper national tourism organization; iii) the development of a comprehensive national tourism plan. The latter may focus upon: niche market products for international tourism; the introduction of a single brand message and enhanced international promotion and the establishment of international standards for planning, environment and conservation in the national parks.

On the promotion side: i) targeting niche market opportunities in adventure tourism, eco-tourism, and other special interest groups; ii) promoting FDI in high-end lodges and backpacker hostels or equivalent *gers*, with 'eco-tourism' labels for compliance with high environmental standards; iii) providing assistance to initiatives aimed at increasing local supply sourcing; iv) improving access to finance for small and medium-sized enterprises (SMEs) in tourism.

Source: Investment Policy Review of Mongolia (UNCTAD, 2012).

Inter-Agency Working Group

Annex 3
Breakdown of the Economy and Sectors Under Review by Impact Indicators

Type of Indicator	Indicators	Details - specifics/measures may vary by industry, value chain segment or type of activity within a segment (e.g. budget hotels versus up-scale ones)	Total economy	Travel and tourism
	· Travels	International arrivals	<p>Inbound foreign passengers crossing the border to Mongolia in 2010: 557,488</p> <p>Of these Chinese: 290,092, Russian: 121,647 (Statistical yearbook, Section 18)</p>	<p>Expert estimate: 90,000 leisure tourists, 244,000 business travellers (2010) (Number of business travellers estimated by reducing total number of foreign passengers by 40% (experts suggest that this is the share of Chinese and Russian workers in total foreign passengers) and by 90,000 leisure tourists.)</p>
	· Total sales		-	<p>UNCTAD estimate: \$418 million (2010)</p> <p>The estimated figure for total sales in the travel and tourism sector is calculated by adding to the international tourism receipts (UNWTO data) the estimated domestic sales. The latter is assumed to be 50% of the former based on the domestic share of sales in other peer countries.</p>

Inter-Agency Working Group

<p>Economic Value Added</p>	<ul style="list-style-type: none"> • Total value added 	<ul style="list-style-type: none"> • Value added (GDP contribution) of the new/additional economic activity resulting from the investment 	<p>GDP: MNT8,255,061 million (2010) (NSO, 2011) or \$6,083 million MNT4,956,647 million (2007) (NSO, 2011) or \$4,442.52 million (constant 2010 dollar)</p>	<p>UNCTAD estimate: \$124.9 million The estimate for value added is derived by assuming that it is 30% of the sales value.</p> <p>Other estimates: A) World Tourism & Travel Council (WTTC, 2011): \$200 million i.e. 3.2% of GDP WTTC calculates a Direct Contribution to GDP of MNT328.6 billion (3.9% of total GDP) in 2011, which includes total value added within a country on Travel & Tourism by residents and non-residents for business and leisure purposes as well as government spending directly linked to visitors. Without government spending this amounts to MNT232.9 billion (3.2% of GDP) in 2010. WTTC also calculates a Total Contribution to GDP: MNT759.2 billion (9.0% of total GDP) in 2011 (= direct and indirect contributions from T&T investment spending, government collective spending and domestic purchases of goods and services by sectors dealing with tourists directly).</p> <p>B) The National Statistical Office (NSO, 2011) calculated the amount of MNT54,538.46 (0.7% of GDP) (\$40.2 million) for the Accommodation and Food Services segment in 2010.</p> <p>Notes: a) 98.8% of the sector is private (table 5.8 of Stat. Yearbook); and b) total turnover of the sector is MNT133.5 billion (2010) (\$98.4 million), half of which is in hotels and the other half in restaurants.</p>
------------------------------------	---	--	---	---

Inter-Agency Working Group

<ul style="list-style-type: none"> • Value of capital formation 	<ul style="list-style-type: none"> • Contribution to gross fixed capital formation (GFCF) 	<p>MNT2,991,191 million (2010, current prices) (UN Statistics Division) (\$2,204 million)</p> <p>Other estimates: MNT3,370.7 billion (2010, current prices estimate) (NSO, 2011) (\$2.484 billion) MNT1,252.8 billion (2007, current prices) (NSO, 2011) (\$1.123 billion, constant 2010)</p> <p>Notes: The NSO (2011, table 9.1) even provides information on the composition of investment financing in 2010. According to this domestic investment accounted for 30.8% of total investment and amounted to MNT1,038.5 billion. Out of this MNT551.5 billion were from the government budget (16.4% of total investment) and other sources accounted for MNT487.0 billion (14.4% of total). Foreign investment accounted for 69.2% of total investment, amounting to MNT2,332.2 billion. Out of this FDI contributed MNT2,133.8 billion (63.3% of total investment) and other foreign sources MNT198.4 billion (5.9% of total investment). This information should not be overemphasized but only seen as an indication of the importance of foreign sources for capital formation.</p> <p>Over the 2007-2010 period the share of GFCF in GDP has been around 40% (NSO, 2011: table 5.7); only enabled by negative net exports.</p>	<p>UNCTAD estimate: \$76 million (\$60 million for new hotels and \$16 million for reinvestments into existing facilities - all in Ulaanbaatar), i.e. 3.4% of total GFCF. Overall the stock of 3-5 star hotel investments was estimated to be \$215 million in 2010. But the additional 4-5 star hotels being built until 2015 amounts to another \$365 million. To estimate these figures international average investment needs per room were used, adjusted for a factor derived from individual examples of hotels under construction in Ulaanbaatar.</p> <p>Other estimate: World Tourism & Travel Council (WTTC,2011): In 2011 Travel & Tourism accounted for MNT351.4 billion (8.7% of total investment) and in 2010 for MNT244.9 million (8.2% of total GFCF), but taking into account investments into the whole supply chain and public investments into infrastructure supporting travel and tourism.</p> <p>Notes: a) Engagement of international hotel chains enables significant investments into the hotel industry. Construction of new 4-5 star hotels will each add investments of between \$50 and \$120 million. IFC, for instance, estimates the new Shangri-La hotel (operational in 2013) to have a project cost of \$123 million. b) Tour operators do not require large investments.</p>
--	--	---	---

Inter-Agency Working Group

<ul style="list-style-type: none"> • Total and net export generation 	<ul style="list-style-type: none"> • Total export and import generation by value (also calculate net exports) 	<p>2010 current: Total exports of merchandise and services: \$3,385, i.e. a ratio of 56% of GDP 2010 current: Total imports of merchandise and services: \$3,796 2005 current: Total exports of merchandise and services: \$1,479 2005 current: Total imports of merchandise and services: \$1,565 (All figures are from the UNCTAD GlobStat database.)</p>	<p>\$278.54 million (UNWTO data), i.e. 8.2% of total exports, 36% of services exports in 2010. Other estimates: Gross exports in 2011: MNT426.7 billion (\$300.834 million, constant 2010), i.e. 8.6% of total exports (WTTC, 2011). Gross exports in 2010: MNT374.4 billion (\$275.882 million), i.e. around 8.8% of total exports (WTTC, 2011). Notes: a) In luxury hotels the share of foreign customers is very high, therefore there are relatively high export earnings. Nevertheless, since the bulk of inputs are still imported and might thus even outweigh export earnings. For those hotels, the bulk of customers are business travellers and only a minority leisure tourists. Experts estimate that about 80% of inputs (into operations and construction) have to be imported. b) Even eco-lodges require a large share of inputs from abroad, but there are limited capacity development efforts to strengthen suppliers. c) Net impact of travel and tourism is weak due to the high import content of sales. In the current hotel construction boom the net impact is most likely negative.</p>
<ul style="list-style-type: none"> • Number of formal business entities 	<ul style="list-style-type: none"> • Number of businesses in the value chain or value chain element supported by the investment. 	<p>Number of formal businesses in the economy: 81,846 (NSO, 2010)</p> <p>Note: Of the total number, only 40,921 were active (Statistical Bulletin, Table 26.6).</p>	<p>UNCTAD estimate: 766 (426 tourism companies and 340 hotels)</p> <p>Other estimates:</p> <p>A) NSO (2010) estimates: 403 for 2007 and 426 for 2010 in tourism (tour operators, travel agents, tourist camps and hunting places). In contrast there are about 650 such businesses registered.</p> <p>B) UNWTO (2011) estimates: 347 'hotels and similar establishments' in 2009.</p> <p>C) Information from interviews: In 2010, roughly 1300 registered businesses: around 600 tour operators, 340 hotels (64 of which 1-5 stars), around 360 ger camps (80 of which with stars/flowers). Out of the tour operators there only seem to be 100 active ones.</p>

Inter-Agency Working Group

	<ul style="list-style-type: none"> • Total fiscal revenues 	<ul style="list-style-type: none"> • Total fiscal take from the economic activity resulting from the investment, through all forms of taxation, including taxes levied from the company as well as from employees 	<p>Total tax revenues: MNT2,673,573.3 million (2010, current prices) (NSO, 2011) (\$1,970.06 million)</p> <p>Information on "fiscal take" by sector was not readily available. The I-O Table from 2005 gives an indication.</p>	<p>UNCTAD estimate: \$7.1 million</p> <p>Estimate is based on 1.7% of total sales being fiscal revenues from the sector (as in the 2005 input-output table).</p> <p>Note: Tour operators are exempted from VAT.</p>
Job creation	<ul style="list-style-type: none"> • Total Employment 	<ul style="list-style-type: none"> • Total number of jobs generated by the investment, both direct and indirect 	<p>1,033,700 people employed in 2010 (NSO, 2011)</p>	<p>UNCTAD estimate: 30,000-36,700 directly (i.e. 2.9 - 3.6% of total employment)</p> <p>This range is the combination of available estimates from other sources:</p> <p>A) NSO (2011): Roughly 30,000 employees in hotels, restaurants and other tourism companies (i.e. 2.9% of total employment) in 2010, including those for accommodation and food services activities (27,736 in 2010, down from 32,440 in 2007).</p> <p>B) WTTC (2012) estimates for direct employment: 36,700 jobs in 2010 (in 2011 the figure increased to 39,400, i.e. 3.3% of total employment). Total employment by the sector (including indirect jobs was estimated to be 78,500 jobs in 2010 (in 2011 the figure increased to 92,600 jobs, i.e. 7.8% of total employment).</p> <p>Notes: a) If indirect employment effects are included the figure is most likely more than doubling. b) From interviews: One four-star hotel may have around 150-200 staff.</p>
	<ul style="list-style-type: none"> • Employment by category 	<ul style="list-style-type: none"> • Occupational breakdown of industry employment 		<p>Overall travel and tourism has a low skills profile aggravated by strong seasonality. Tour operators have a core of office staff and hire drivers and guides as needed. During the season the latter can make up to 95% of staff. While it can be a very small share in winter times.</p>

Inter-Agency Working Group

	<ul style="list-style-type: none"> • Wages 	<ul style="list-style-type: none"> • Wages and benefits <p>(Overall benefits seem to vary a lot with the background of a company: former SOEs have relatively comprehensive programmes, some local conglomerates also have formalized programmes, while SMEs less so.)</p>	<p>Average wage level in the economy was MNT341.5 thousand in 2010 (\$251.639), MNT450.3 thousand at the end of 2011 (\$317.48, constant 2010), and MNT173 thousand in 2007 (\$155.05, constant 2010) (NSO, monthly bulletin, Dec2011; Ministry for Social Welfare and Labour, 2011, p. 109).</p> <p>Note: Overall benefits packages seem to vary a lot with the background of a company: former SOEs have relatively comprehensive programmes, some local conglomerates also have formalized programmes, while SMEs less so.</p>	<p>In 2010 the respective average for hotels and restaurants industry was MNT267.1 thousands (\$197) (i.e. around 78% of national average) (Statistical Yearbook, table 4.12).</p> <p>Other estimate: Average wage in 'hotels & restaurants' end of 2011 (NSO bulletin): MNT316.5 thousand (\$231), i.e. much below the overall average (70% of it). This is despite the fact that wages in hotels and restaurants have been increasing in absolute terms: compared to 2005, 15% increase in 2007, and 30% increase in 2010 (NSO,2011).</p> <p>Notes: a) Average wages in air transport are much higher than the average, in particular due to pilots' salaries (but also other specialized personnel). b) Minimum wage seems to be around the national average.</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Sustainable development</p>	<ul style="list-style-type: none"> • Labour impact 	<ul style="list-style-type: none"> • Employment of women · Skills upgrading, training provided; paying particular attention to the creation of transferable skills · Health and safety effects, occupational injuries 	<p>Gender: The share of women in total employment was around 46% whereas the share of men was 54% in 2000 and there was no significant difference for ages younger than 35 or older than 35 (ILO, Laborsta database).</p> <p>Labor participation rate for men is slightly higher than for women, which is estimated to be around 61.6% for men and 56.2% for women (NSO,2011).</p>	<p>Seasonality is an issue: For tour operators employment generation is highly seasonal, with only core staff retained during winter times.</p> <p>Gender profile of employment depends very much on occupational groups: In four star-hotels women seem to account for roughly 70-75% of employees (also in administrative area). In tour operators the bulk of staff are men (drivers and guides), while office workers are predominantly women. This is also seems to be the case for ger camps. It is also the case for air transport.</p> <p>Notes: a) In hotels, labour turnover is highest in food and beverage services. One hotel reported a fluctuation rate of 4% per month in the service area (from interviews). b) On training, one hotel that just opened up also reported on extensive training activities of several months (kitchen), but at least one month (rest). Since opening such training was limited to one week. The four-star hotels interviewed provided English language training to staff. In general training activities are limited though (from interviews).</p>

Inter-Agency Working Group

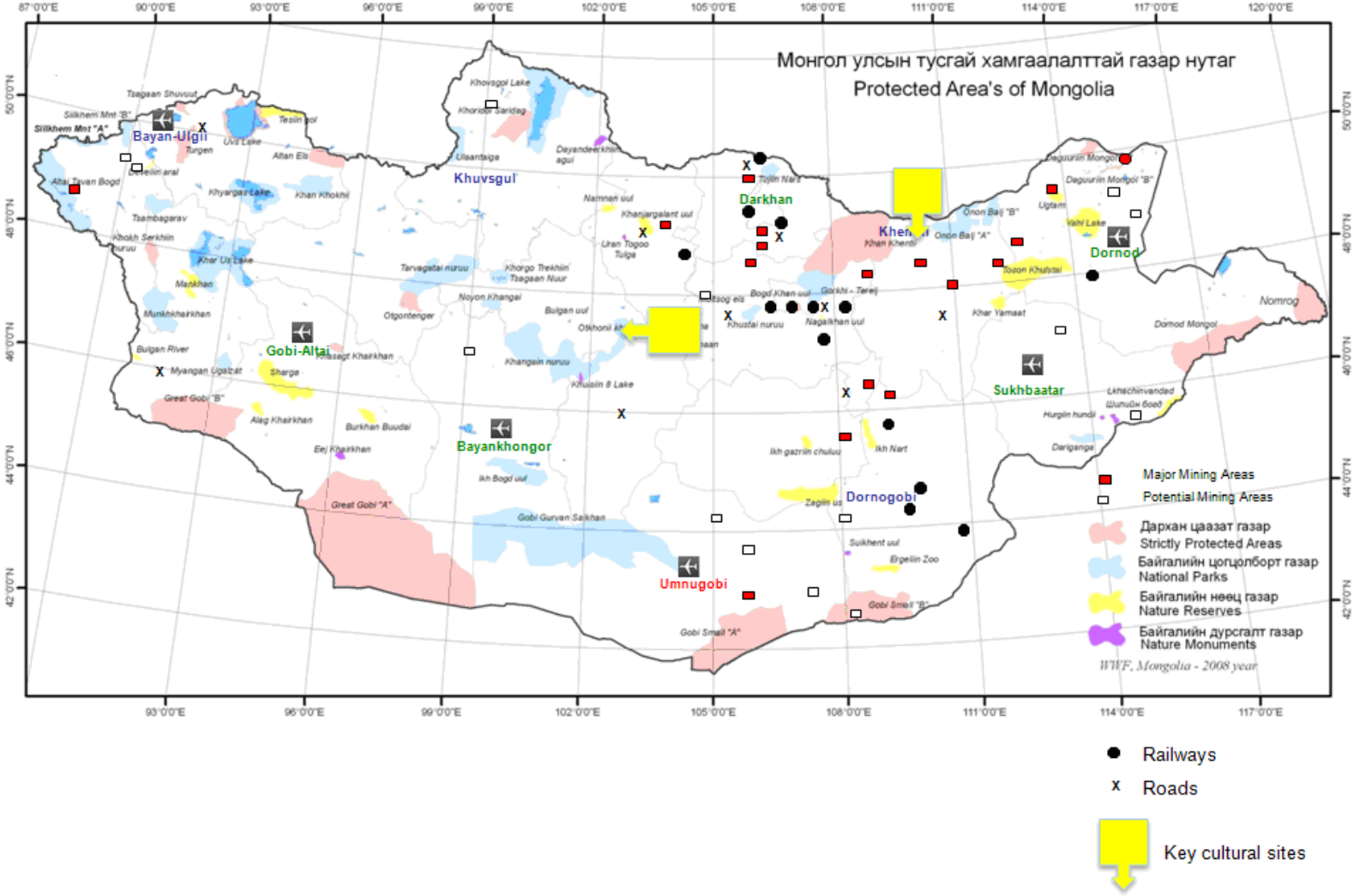
<ul style="list-style-type: none"> • Social impact 	<ul style="list-style-type: none"> • Number of families lifted out of poverty, wages above subsistence level · Expansion of goods and services offered, access to and affordability of basic goods and services 	<p>Poverty level in Mongolia: 35% (national poverty line) The World Bank estimates a lower share and points to a favourable trend of falling poverty figures.</p>	<p>Poverty impact is not assessed by quantitative indicators but the travel and tourism sector is regarded as one of the main sectors that contribute to poverty reduction and welfare distribution across the country.</p> <p>Wages in hotels are above subsistence level, but not above national average wages (see above); some additional benefits exist.</p> <p>Direct employment effects, even when it comes to drivers and guides, seem concentrated to UB, the only exception being ger camps, which also seem to allow for substantial linkage effects that generate employment and income in the countryside (with poverty alleviating effects). Employment in hotels is largely concentrated in the capital: In 2010, out of the 1320 registered active restaurants, three quarters were located in Ulaanbaatar (NSO, 2011, Section 26).</p>
<ul style="list-style-type: none"> • Environmental impact 	<ul style="list-style-type: none"> • GHG emissions · Carbon off-set/credits, revenues from carbon credits · Energy and water consumption and efficiency, use of hazardous materials · Enterprise development in eco-sectors (e.g. eco-tourism, renewable energy,...) 	<p>Mongolia is a very carbon-intensive economy, with almost all electricity generated from coal power plants using old Soviet technology.</p> <p>Burning of coal for heating in gers around UB is creating strong particle pollution in UB.</p> <p>Mining has of course a tremendous impact on flora and fauna in the affected areas.</p> <p>Compared to these grave problems, environmental effects from investments in travel and tourism are negligible. On the contrary, in particular mining will impact leisure tourism as natural beauty will be lost.</p>	<p>In hotels industry, environmental issues include waste as well as water and electricity consumption.</p> <p>International hotel chains try to implement some recycling policies.</p> <p>Apart from all the impacts already considered above, leisure tourism offers potential to preserve Mongolian cultural identity. Cultural tourism and the potentially supporting measures by the government would preserve some of this, while the mining boom will profoundly change the lifestyle of many Mongolians towards "Western" patterns.</p>
<ul style="list-style-type: none"> • Development impact 	<ul style="list-style-type: none"> • Development of local resources · Potential crowding in/out effects or risks 		<p>In hotels international groups (through franchising and management contracts) implement international standards in some areas. In one case for instance, the local dry cleaning supplier was chosen by the franchisor's expert. Similar tech transfer is done for health and safety standards, particularly in food and beverages industry.</p>
<p>FDI stock</p>		<p>Inward stock (UNCTAD TNC/FDI database): 2007: \$1,352.66 million (34% of GDP) (\$1,419, constant 2010) 2010: \$4,512.36 million (81% of GDP)</p>	

Inter-Agency Working Group

FDI inflows	<p>Total FDI inflows (FIFTA): 2007: \$500 million (\$524.5, constant 2010) 2010: \$1,026 million</p> <p>Total for 1990-mid 2011: \$5,357.7 million FDI from BoP data (UNCTAD, based on IMF WEO data): 2005: \$210 million (constant 2010) 2010: \$1691 million</p>	<p>Tourism (FIFTA): 2007: \$487 thousand (\$511 thousand, constant 2010) 2010: \$371 thousand Total: 1990-mid 2011: \$19.5 million (0.36% of total) (sum of nominal values from FIFTA).</p>
-------------	---	--

Source: UNCTAD Impact Indicator Analysis, based on information provided by various official sources, secondary literature and company and stakeholder interviews (see table).

Annex 4. Mongolian key mining, leisure tourism and transportation features



Source: Strengthening of the Protected Area Network (SPAN) Project' implemented by the UNDP and Ministry of Nature, Environment and Tourism of Mongolia in 2011, annex 1, <http://www.cbd.int/lifeweb/project.shtml?did=6580>.

Annex 5

Major Tourism Sites in Mongolia

Eastern Mongolia

1. Khan Khentii Mountain National Park
2. Oglogchiin Kherem (Oglogch Wall)
3. Deluun Boldog, Birthplace of Genghis Khan
4. Bereeven Monastery and Khukh Lake,
5. Dornod Mongolia steppe, one of the last great ecosystem
6. Shiliin Bogd mountain

Western Mongolia

7. Uvs Lake
8. Khyargas Lake
9. Bayan-Ulgii aimag
10. Lake Khar Us (Black Water Lake)
11. Altai Tavan Bogd National park

Northern Mongolia

12. Lake Huvsgul "The Dark Blue Pearl"
13. Tsaatan nomad family in the North West regions of Huvsgul
14. Extinct Volcano of Uran Uul
15. Amarbayasgalant Monastery, nominated for UNESCO World Heritage

Central Mongolia

16. Waterfall Ulaan Tsutgalan (Orkhon)
17. Karakorum and Erdene Zuu monastery
18. Tuvkhun monastery, located in boundary of Arkhangai and Uvurkhangai aimags
19. Khugnu Khan Mountain National Park
20. Khorgo Terkhiin Tsagaan Nuur National Park
21. Ar Burd Sand Ger Camp
22. Taikhar rock in Ikh tamir soum
23. Hot spa area, Tsenkher soum

Southern Mongolia

24. Mongolian South Gobi, designated as the fourth largest Biosphere Reserve in the world in 1991 by the UNESCO
25. Eagle valley (Yol Am) and Gobi Gurvan Saikhan National Park
26. Khongor Sand Dunes (Khongoryn Els)
27. Bayanzag / Rich Saxaul / Flaming Cliffs
28. Baga Gazariin Chuluu
29. Ongi Monastery, on the bank of the Ongiin River
30. Orog lake

Sources: <http://www.discovermongolia.mn>, <http://www.mnto.org>, <http://www.mongoliatourism.org>

Note: Cultural attractions were identified from government and tourism operators' websites, retaining only those that had several mentions.

Annex 6

References

- Christian, Michelle, Karina Fernandez-Stark, Ghada Ahmed and Gary Gereffi (2011). The Tourism Global Value Chain: Economic Upgrading and Workforce Development. Center on Globalization, Governance and Competitiveness, Duke University.
- Government of Mongolia (2007). Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia. Unofficial translation. Ulaanbaatar.
- IMF (2011) Article IV Consultations, IMF Country Report No.11/76.
- Inter-Agency Working Group (2011) 'Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains', Interim Report to the High-Level Development Working Group within the scope G20 Multi-Year Action Plan on Development.
- Ministry for Social Welfare and Labour (2011). Facts & Figures. Ulaanbaatar.
- Ministry of Industry and Trade, UNDP and UNIDO (2002). Mongolia: Industrial and Trade Development Policy Review. Ulaanbaatar.
- National Statistical Office of Mongolia (NSO) (2010). Statistical Yearbook 2010. CD-ROM. NSO: Ulaanbaatar.
- NSO (2009). Main output tables of the "Household Socio-Economic Survey 2007-2008". NSO: Ulaanbaatar.
- NSO (2010) Mongolia Statistical Bulletin. NSO: Ulaanbaatar.
- U.S. Agency for International Development (2010) Mongolia Economic Growth Assessment. USAID: Washington, D.C.
- UNCTAD (2012). Investment Policy Review Mongolia. Advanced unedited draft. Mimeo.
- UNWTO) (2011). Compendium of Tourism Statistics, Data 2005 2009, 2011 Edition. UNWTO: Madrid, Spain.
- USDA Economic Research Service (2012). International Macroeconomic Data Set. Available at <http://www.ers.usda.gov/>.
- World Bank (2011). Mongolia, Tourism Sector Policy Note: Strengthening Management of Natural and Cultural Heritage Assets to Scale-up Tourism and Stimulate Local Economic Opportunity, Working Paper No. 68640.
- World Economic Forum (2011). Travel and Tourism Competitiveness Report. WEF: Geneva.
- World Travel & Tourism Council (WTTC) (2011). Mongolia. London. Available at: www.wttc.org.
- WTTC (2012a). Travel and Tourism Economic Impact: Mongolia. WTTC: London.
- WTTC (2012b). Travel and Tourism Economic Impact: Nepal. WTTC: London.
- WTTC (2012c). Travel and Tourism Economic Impact: Kazakhstan. WTTC: London.
- WTTC (2012d). Travel and Tourism Economic Impact: Kyrgyzstan. WTTC: London.