

**Mongolia**

**68640**

**Tourism Sector Policy Note:**

**Strengthening Management of Natural and Cultural  
Heritage Assets to Scale-up Tourism and Stimulate  
Local Economic Opportunity**



**March 2011**

## Executive Summary

1. Mongolia's unique assemblage of natural and cultural heritage sites (NCS) provides a solid foundation for building a sustainable tourism industry that can support economic growth and diversification, and improve local livelihoods. However, many of the country's key NCS are under threat from economic interests, unmanaged development or acts of destruction, and lack of proper management. The rapid and unplanned proliferation of tourism camps has led to overcrowding and diminished appeal of some of the most popular sites, while many other attractive areas remain underdeveloped and inaccessible.

2. The efficacy of NCS management is limited by unclear policy frameworks, regulations that are vague, and weak financial, human and technical capacity. Together these have provided little incentive for agencies and local communities to protect areas for long-term sustainable use. International experience indicates that measures to enhance conservation are most successful when combined with opportunities to generate revenue at the sites and with active engagement of surrounding local communities.

3. Mongolia's competitive advantage in tourism lies in the vast unspoiled landscapes and enduring nomadic lifestyle, which are difficult to find anywhere else in the world. Signature natural areas such as the Gobi Desert and Lake Khuvsgul, endemic and rare plant and animal species (for example, taimen, takhi horse, snow leopard and others), and a number of well-preserved paleontologist finds constitute a strong draw for international travelers.

4. There are several constraints to faster growth of the tourism sector, including: (i) a harsh climate and short tourist season, which is concentrated in the months of June, July and August; (ii) poor quality of infrastructure; (iii) limited international air access to Mongolia; (iv) poor service quality, which is driven by a lack of industry-led guidelines that promote quality standards, and low awareness on what quality and appropriate service culture is; and (v) limited capacity and lack of experienced tourism workforce.

5. In Mongolia, tourism is the third most important economic sector (estimated at 9 percent) after agriculture (estimated 25 percent of GDP) and mining (estimated 20 percent of GDP). Despite Mongolia's short season, the number of tourists visiting Mongolia has grown steadily over the past ten years. Between 2000 and 2007, the number of tourists visiting Mongolia grew on average by nearly 15 percent per annum. Tourism is also the country's third largest producer of foreign exchange. According to the World Travel and Tourism Council, tourism's direct contribution to GDP is expected to be \$233 million in 2010, or 3.3 percent of total GDP. The total tourism economy (direct and indirect economic impact) is forecast to be around 8.9 percent of total GDP, or about \$635 million. The sector generates about 29,000 direct jobs (around 2.5 percent of total employment), and 81,000 indirect jobs (some 7.1 percent of total employment).

6. Greater linkages with local economic development are possible, but a number of challenges currently prevent this. Government policies do not encourage redistribution of economic and social benefits of tourism to the local levels, while management of protected areas and natural resources encourage centralization, rather than local management and preservation processes. Another challenge is the current structure of supply chains in the industry, which lack strong local economic linkages, including service linkages (guiding services, horse rental, etc.), and cross-sectoral linkages (food services and local suppliers). The current structure of tourism taxation concentrates economic benefits in the capital city. Even though most of the tourist

activities occur outside of Ulaanbaatar, the majority of the tourism-related taxes are paid by service providers in the city. Many ger camps and local restaurants in the countryside are also operated by companies registered in Ulaanbaatar, and tourism-related tax revenue does not get redistributed back to the regions or places where tourism activities take place.

7. A number of interventions to strengthen the management of NCS and improve the economic benefits of tourism for local communities are possible:

- There is pressing need for contemporary tourism policies and legislation in Mongolia. There are differences in the way that public officials and private sector professionals see tourism development. A tourism strategy document (master plan or national strategy) developed with the involvement of public and private sector representatives should facilitate the development of a unified vision for the sustainable development of the sector.
- There is need for policy support in taxation and value chains. More detailed studies can help determine problematic aspects and identify appropriate solutions. In the field of taxation, it is important to study the potential for policy approaches that encourage local collection and retention of funds, and improve distribution of public funds.
- The lack of a service culture and other specific skills can be addressed through specialized professional training programs. Training of local entrepreneurs and small service providers is needed to improve their business planning and management skills. Programs could be delivered in collaboration with educational institutions, which have readily trained instructors.
- A significant barrier for growth and improvement of facilities and services of local providers is lack of access to finance. Establishing a mechanism for easy and inexpensive financing, especially for small and medium tourism enterprises, would enable businesses and entrepreneurs to make necessary investments at the beginning of each season and to upgrade facilities and services.
- The development of management plans and appropriate visitor infrastructure in and around cultural and natural sites is crucial to sustaining Mongolia's NCS and tourism assets.
- Consideration should be given to issuing private concessions to improve site management. Concessions can be used to contract business operators to manage the infrastructure and services around a natural or cultural site, or to manage specific services such as restaurant, gers or nature-based tourist activities. Trust funds and NGO-led management have been effective models for improving NCS management.

### **Objective**

8. The principal objective of the assignment is to provide policy guidance to decision-makers for strengthening the management of NCS and building a sustainable tourism industry in Mongolia that enhances economic opportunity, especially for local communities.

## Background

10. Unique Natural and Cultural Sites. Mongolia's unique assemblage of natural and cultural heritage sites (NCS) provides a solid foundation for building a sustainable tourism industry that can support economic growth and diversification, and improve local livelihoods. Landlocked and located in the heart of central Eurasia, Mongolia encompasses large undisturbed tracts of Siberia's boreal forest, Asia's steppe ecosystems, and the Gobi Desert. These relatively undisturbed examples of central Eurasia's ecosystems support a living nomadic culture and provide habitat for a variety of wildlife, including a number of globally endangered species. Mongolia's vast and remote landscapes also hold well-preserved cultural, archaeological, and paleontological sites that are globally significant.

11. Sites under Growing Pressure. The majority of international tourists come to Mongolia for its natural scenery and vast areas of open space, nomadic way of life, and wildlife. However, many of the country's key NCS are under threat from unmanaged development, which leads to concentration of human and vehicle presence in certain spots while many attractive areas remain inaccessible and underdeveloped. The rapid and unplanned proliferation of tourism camps has led to overcrowding in some of the most popular sites, such as Terelj Park and Lake Khuvsgul, which has diminished their appeal for some visitors.<sup>1</sup> Often, there are no formal plans to safely deliver needed utility services and provide access to these areas, and the management of wastewater is less than adequate at many sites. There are also direct threats from mining developments, logging, and other extractive activities and loss due to illegal trade in wildlife and cultural artifacts. At the core of the problem is a lack of development planning and visitor infrastructure to manage visitor flows, better distribution economic activities, and minimize negative impacts.

12. Insufficient Funding, Weak Capacity, Lack of Site Management. The Government has placed a strong priority on expanding the tourism sector in its National Development Strategy, which calls for actions to increase industry capacity and improve standards. Consideration needs to be given to what type of tourism is right for Mongolia. While there are limited opportunities to attract mass markets, niche tourism, including nature-based tourism, cultural tourism, adventure tourism (horseback riding, trekking, photo safaris, etc.) and special-interest tourism (fishing, hunting, falconry) should be considered.

13. Government expenditures for NCS management have been inadequate and poorly distributed. There are no strategies or plans to govern the development and management of sites. While regulations and standards for ger camps and tour operators have been defined, they are not enforced and have been described by industry as ineffective. New standards are currently under development.

14. State and local protected areas, though they formally account for a quarter of Mongolia's territory, operate often as "paper parks." Protected area management is limited by unclear policy frameworks, regulations that are vague, lack of management planning, and weak financial, human and technical capacity. Together these have provided limited incentives for agencies and local communities to protect areas for long-term sustainable use. For tourism to continue increasing its

---

<sup>1</sup> While visitor figures have continued to increase at both Terelj Park and Lake Khuvsgul, two large tour operators in Ulaanbaatar no longer offer tours to these locations because clients have been disappointed with their experiences.

role in Mongolia's economy, the country's natural and cultural assets must be utilized and conserved in a manner that is both environmentally sustainable and economically viable.

15. Conservation and Commercialism. The contemporary vision for natural resource management is that sustainable economic activities, such as nature-based tourism, can help utilize resources to generate funding to support their preservation. The development of such activities is usually based on effective cooperation between relevant authorities and local businesses, and requires effective mechanisms for public-private partnerships (PPPs). Public sector entities ensure that there is a proper legal framework that provides strict rules for the use and management of the resources, while businesses manage economic activities for profit. International practices show that it is essential to involve local communities and ensure that they receive social and economic benefits from the sustainable uses of local resources.

### **Mongolia's Competitive Position**

16. Mongolia's tourism sector is characterized by a set of strong *competitive advantages* combined with some difficult-to-address disadvantages. Its competitive advantage lies in the vast unspoiled landscapes and enduring nomadic lifestyle, which are difficult to find anywhere else in the world. Signature natural areas such as the Gobi Desert and Lake Khuvsgul, endemic and rare plant and animal species (for example, taimen, takhi horse, snow leopard and others), and a number of well-preserved paleontologist finds constitute a strong draw for international travelers. One of the main advantages of Mongolia is that the nature of its product offering is linked to experiencing raw culture and nature that do not require development of high-cost and elaborate infrastructure and supporting systems.

17. The existence of reliable local domestic flight providers is a great advantage for growth, especially in higher-end and specialty markets. Increased flexibility in travel within the country can encourage interest among new markets, such as adding short trips to the increasing number of business trips driven by growing foreign investment in the mining sector. Studies show that travelers are much more reluctant to spend more for getting to the country than on services that support their experience within the destination. Thus, more competitive pricing of international airfare can lower the cost of access and increase readiness to spend on domestic flights.

The country also has *several disadvantages* that constitute challenges to faster growth in the sector. These include:

- Due to the harsh and long winter periods, the active tourist season is concentrated in the months of June, July and August. Although there are modest shoulder seasons (starting beginning or mid-May to June and September to mid-October), tourism service providers rarely make an effort to be open outside the main season. High operational costs in colder weather further limit efforts to extend the season and use price incentives as a way to attract visitors.
- Limited international air access to Mongolia is a significant disadvantage for tourism development.<sup>2</sup> Among the main complaints of tourism service providers in Mongolia are the limited number of flights (due to uncompetitive air transportation policies

---

<sup>2</sup> Only four airlines service international routes to and from Mongolia: MIAT, Korean Air, Aeroflot and Air China.

underpinning the national carrier) and high airfare cost. Weather-related cancellations (especially in Spring and Fall) and last-minute changes in seasonal schedules add to the difficulties associated with international access.

- Poor infrastructure is one of the biggest challenges for the sector. Although the lack of a quality road network and other supporting infrastructure has impeded faster growth of tourism, limited infrastructure should not be seen solely as a disadvantage for three main reasons:
  - i. Insufficient infrastructure has likely facilitated the preservation of many valuable ecosystems and wilderness areas, which constitute Mongolia's main attractions. In fact, the lack of infrastructure represents an opportunity to focus on developing small-group exclusive tourism offerings with limited negative environmental impact and higher profitability (high-end fishing, hunting, trekking, wilderness and photo safaris).
  - ii. The nature of travel experiences that tourists seek in Mongolia is such that they will tolerate the lack of paved roads and well-developed infrastructure provided the overall experience is superlative and their safety is secured. Tourists attracted by wilderness experiences, camping, fishing, hunting and other nature-based tourism activities tend to be more tolerant of unpaved roads, unpaved runways, and the lack of sophisticated infrastructure. However, reasonable safety standards are essential and there is need to improve unpaved road maintenance, signage, availability of search and rescue services, etc.
  - iii. The lack of utility infrastructure is an opportunity to encourage tourism operators to adopt smaller-scale, environmentally-friendly systems, which are possible with appropriate policy and financial tools that incentivize the use of such systems. Some local operators have purchased mobile camping utility systems that secure convenience for tourists while minimizing negative impact on nature.
- Given the adventure-oriented product portfolio of Mongolia, existing domestic transportation options are not inadequate although there is significant potential for improvement. Unpaved roads could certainly benefit from maintenance to offset the impacts of severe weather and improve safety. Signage and markings are also missing, and could be another way to promote the use of already existing unpaved roads and improve their safety. Many vehicles deviate from existing tracks, which contributes to negative impact on the surrounding nature. This is sometimes due to deterioration of the roads but also due to missing signage and lack of awareness on the potential impacts of such behavior among local drivers and tour operators. Wider use of GPS equipment, improved mobile phone connectivity and availability of search and rescue services are also needed to improve safety of local transportation. The existence of reliable local domestic flight providers is also a great advantage for growth, especially in higher-end and specialty markets.
- Service quality is a challenge that appears to be twofold. On one side, there is lack of governmental policies or industry-led guidelines that promote quality standards or encourage the maintenance of higher standards for tourist facilities and services. On the other, there is low awareness on what quality should be and what an appropriate service culture is. To some extent this could be attributed to the seasonality and fast turnover of employees in the sector, relatively young and inexperienced workforce (usually students or young people out of college), and temporary nature of

employment in the sector. Tourism is perceived as a training step for young individuals interested in foreign languages or international education. This is aggravated by competition for quality human resources with mining companies, which offer much higher wages than the average \$150 monthly salary in tourism.

- Mongolia's training and education in the field of tourism are not up to standard. All professional tourism service providers conduct their own training programs and do not rely on knowledge received at official educational institutions.

### **Tourism Demand and Economic Contribution**

19. Tourism and Economic Diversification. Tourism, along with cashmere and agricultural production, is a proven comparative advantage for Mongolia and offers great potential to broaden economic activity and lessen dependence on mining sector activities. Tourism is the third most important economic sector (estimated at 9 percent) after agriculture (estimated 25 percent of GDP) and mining (estimated 20 percent of GDP).<sup>3</sup>

20. For a number of reasons, tourism is not likely to surpass the economic importance of the mining and agriculture sectors. However, it can have a key role in supporting the development of a stronger and more diversified economy by:

- Serving as a non-traditional source of economic growth, which is currently highly dependent on mining and agriculture. Modern developed economies rely on strong service sectors and less on resource-based sectors. Tourism offers an opportunity to increase the share of the service sector in Mongolia and offset dependence on natural resources.
- Providing supplemental income for local communities, many of which rely solely on herding and other agricultural activities. Effectively-planned and well-managed sustainable tourism development has the power to spread benefits to local communities, supplement their income and motivate the sustaining of their traditional culture and lifestyle.
- Supporting the preservation and sustainable management of valuable natural and cultural resources. Along with their important economic impacts, mining and agriculture are linked to negative environmental impacts (pollution, damage of landscapes and ecosystems, overgrazing). The development of sustainable nature- and culture-based tourism can offset these negative impacts and facilitate the preservation of resources of national and international significance.

21. Tourism's Economic Impact. Internationally, tourism and travel represent an important and growing sector, accounting for around 12 percent of global GDP and supporting direct and indirect employment for one in eight people. Despite Mongolia's short season, the number of tourists visiting Mongolia has grown steadily over the past ten years. Between 2000 and 2007, the number of tourists visiting Mongolia grew on average by nearly 15 percent per annum. Tourism is also the country's third largest producer of foreign exchange.

---

<sup>3</sup> Mintel (2009) Travel & Tourism Mongolia. Mintel International Group Ltd.

22. Different government and industry sources in Mongolia cite different figures on tourism's economic contribution. The most reliable set of key tourism data figures was found to be that of the World Travel and Tourism Council (WTTC). According to WTTC, in 2010 the direct tourism GDP in Mongolia is expected to be \$233 million or 3.3 percent of total GDP, and the total tourism economy (direct and indirect economic impact) around 8.9 percent of total GDP or about \$635 million.<sup>4</sup> Estimates show that the direct industry employment is about 29 000 jobs, which is around 2.5 percent of total employment and indirect – around 81 000 or 7.1 percent of total employment. Visitor exports<sup>5</sup> in 2010 are expected to reach \$306.3 million, and total travel and tourism consumption<sup>6</sup> about \$858 million.

#### **Key Travel & Tourism (T&T) Industry Indicators (2005-2010)**

<b>Year</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009 E*</b>	<b>2010 F**</b>
Visitor Exports	203.2	261.3	305.7	366.3	292.2	306.3
T & T Consumption (US \$ million)	451.4	560.5	671.7	812.4	817.2	858.1
T & T Direct Employment ('000)	34.6	31.5	33.7	29.0	27.6	28.6
T & T Direct & Indirect Employment ('000)	74.3	84.2	87.0	79.5	77.8	80.8
T & T Direct GDP (US \$ million)	107.8	130.2	169.2	191.6	223.3	232.9
T & T GDP (Direct & Indirect) (US \$ million)	226.2	335.9	422.2	506.7	607.0	635.1

Source: WTTC 2010

\* E = Estimated \*\* F = Forecasted

Definitions (WTTC):

*Visitor Exports* - expenditures by international visitors on goods and services within the resident economy.

*Travel & Tourism Consumption* - Total Travel & Tourism expenditures made by and on behalf of visitors (goods and services) in the resident economy.

*Direct GDP and Employment* - supply-side industry contribution of Travel & Tourism that can be compared one-for-one with the GDP and employment contribution of other industries in the economy.

*Indirect GDP and Employment* - the upstream resident economy contribution which comes about from suppliers to the traditional Travel & Tourism industry. Establishments in this category include fuel and catering companies, laundry services, accounting firms, etc.

23. Along with increasing numbers of leisure arrivals, growing visitor exports and GDP can be partially attributed to more active business travel linked to increasing investor interests especially in the mining sector. According to government statistics, international arrivals for 2009 were around 450,000. However, in an effort to avoid working visa fees, many incoming Russian and Chinese construction workers register as leisure visitors, which makes reported numbers unreliable. According to industry estimates, growth in actual leisure visitor arrivals has not been significant at all and the true number of international leisure arrivals is around 100,000.

<sup>4</sup> WTTC (2010). Travel & Tourism Economic Impact: Mongolia. WTTC.

<sup>5</sup> Expenditures by international visitor on goods and services within the country.

<sup>6</sup> Total Travel & Tourism expenditures made by and on behalf of visitors (goods and services) in the country.



A look at the data reveals that about half of the 450,000 international arrivals are from China and another 24 percent are from the Russian Federation, which would support this assumption.

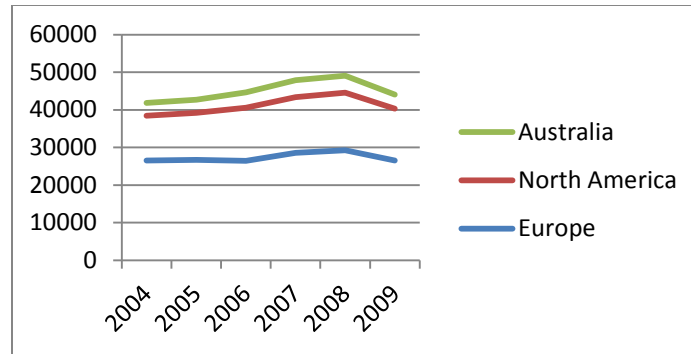
24. Statistics in Mongolia, including for tourism, are operated by the National Statistics Office (NSO). Based on information from border cards provided by Border Control Troops, NSO produces numbers on international arrivals, source destinations, and purpose of visits. About 30 percent of arrivals are reported as leisure visitors but, as mentioned earlier, reported numbers should be interpreted with care. There is no information on movement of tourists beyond entry point, which is a significant gap on travel patterns and behavior of independent tourists. A second source of statistical information on the tourism sector is accumulated through the regular surveys conducted by NSO among businesses. The questionnaire collects information on revenue, employees, numbers of customers, etc. The method used by NSO approach does not include information from hotels, restaurants and transportation companies when estimating the GDP contribution of the sector, which underestimates the economic impact of tourism.

25. An important aspect of tourism's economic significance is its potential to improve the livelihood of local communities throughout the country. There are several successful examples of donor-funded or private-sector led initiatives from Mongolia, which have engaged local communities in the provision of tourism services. At one location, local household income increased by 400 percent within just a couple of years. Such developments lead to a win-win situation of increasing revenue for local communities and decreasing the cost of supply for other tourism service providers. The duplication of such models throughout the country would help strengthen the importance of tourism as economic diversifier, streamline the sector's supply chain, and contribute to increased economic and social benefits for local communities.

26. Travel Patterns for International Visitors. While arrival numbers put Asian countries at the top of the source destinations list for Mongolia, Europe seems to be the most important source market for leisure travel in terms of expenditures. Arrivals from European countries (predominantly Germany, France, UK, Netherlands, Italy and Sweden) represent about six percent of the total, followed by North America (US and Canada) with around three percent, and Australia with one percent. Unsurprisingly, 2009 marked a decline, which is attributed to the onset of the economic crisis. The overall arrivals do not reveal the dramatic erosion that was seen in other countries, but some tour operators reported a decline in business of up to 40 percent in 2009.

**Arrivals from Main Source Destinations**

<b>Source Destination</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Europe	26,514	26,685	26,466	28,590	29,242	26,503
North America	11,889	12,554	14,127	14,785	15,344	13,769
Australia	3,473	3,465	4,074	4,514	4,491	3,741
<b>Totals:</b>	<b>309,982</b>	<b>345,665</b>	<b>389,666</b>	<b>453,710</b>	<b>468,655</b>	<b>464,850</b>



Source: Compiled by Consultant, based on data provided by the Ministry of Nature, Environment & Tourism.

27. A significant share of international visitors book package trips through tour operators. According to the 2005 tourism survey, around 50 percent of visitors came on pre-booked packages. Anecdotal data suggests that higher-spending visitors prefer to rely on the services of tour operators rather than arrive and manage their trip on their own. This is not surprising for destinations that are perceived as remote, less developed and to some extent uncertain. Packages vary based on length of stay and preferred activities, but an average cost of a packaged tour is about \$150 per day, excluding international airfare.

28. There are some distinct differences in the preferences and travel patterns of different markets:<sup>7</sup>

- *Asian visitors* tend to seek more conservative experiences. Japanese tourists typically stay five days to six days, travel in groups, and engage in cultural experiences and exploration of the steppe areas, while avoiding mountain regions. Rather than fly domestically, they tend to visit places that are in the vicinity of Ulaanbaatar and usually visit Mongolia between June and September.
- *Europeans* are typically more adventurous (horseback riding, wilderness camping, trekking and fishing) and have average stays of from 10 days to 12 days, although 20-day packages are not uncommon. They enjoy combining cultural and nature-based experiences, seek soft adventure and authenticity, and prefer to be in small groups. According to tour operator accounts, the more expensive offerings are typically purchased by European travelers.
- *North American travelers* normally stay between 7 days and 10 days and are interested mainly in nomadic culture and natural landscapes. Their preferred attractions include South Gobi Desert and Lake Khuvsgul. Many travelers from the USA are attracted to fishing tours. Some Australians and North Americans visit Mongolia as a stopover to China or other Asian destinations.
- Some *Russians* visiting Mongolia are attracted by extreme tours, shamanism, and traditional Mongolian places. Russia is the biggest market for hunting tourism, which may include trophies at the cost of \$50,000 to \$60,000 for certain species.

<sup>7</sup> This information was gathered through tour operators and concern visitors who book trips through them.

29. There is limited information on domestic travel as well. Even though its importance seems to be undermined, there is a large domestic population that regularly travels. Most domestic travel is driven by visiting friends and family, but weekend camping trips are also popular.

### **Mongolia's Tourism Industry**

30. Tour Operators. There are currently between 500 and 600 officially registered tour operators, but according to industry professionals, only about 30 of them are truly operational. Poorly designed regulatory tools have encouraged the registration of many non-tourism businesses as tour operators. Estimates show that about 80 percent of the tourism business is fueled through the top ten tour operators in the country. Several of the more successful tour operator companies are owned and managed by expats.

31. Accommodations. According to current data, there are 340 ger camps around the country with 7,200 beds and 320 hotels with 11,929 beds.<sup>8</sup> The only internationally branded hotel in the country, a four-star Kempinski property, is located in Ulaanbaatar. Several more international hotel chains are either in the process of developing properties or exploring market entry. There is one 5-star hotel in the country, the Terelj International Resort & Spa Hotel, which is located in the Gorki-Terelj National Park.

32. Food Service Providers. Higher quality food service providers are concentrated in Ulaanbaatar. Due to the unreliability of locally supplied food, most tour operators, especially the ones catering to higher end markets, rely on imported food products that are purchased in Ulaanbaatar and carried for the duration of a trip. Lack of appropriate processing and storage facilities is a challenge in securing consistent and reliable food services outside of the city and leads to missed opportunities for linkages with local food suppliers. Otherwise, most ger camps offer food services of varying quality. Some tour operators enjoy relationships with more experienced camp operators who manage to provide reliable service.

### **Supply Side Constraints**

33. Transportation and Tourism Infrastructure. As discussed earlier, while poor transport and tourism infrastructure are limitations, they are not impossible to overcome. The nature of the country's attraction portfolio does not necessarily require the availability of an elaborate network of paved roads. With improved maintenance, increased safety and installation of good signage, the existing non-paved roads can be sufficient to support and grow tourism. Industry standards can also encourage transportation safety measures such as wider use of GPS equipment in tourist vehicles, increased reliability of mobile phone connectivity, availability of search and rescue services. In addition, the existence of flexible and safe domestic air travel options offers potential for growth in higher-end and special-interest segments.

34. Government Policy and Legislation. The main legal document regulating tourism activities in the country is the Tourism Law of 1999. Since then, the Law has undergone several amendments, although most professionals describe them as insignificant. The main complaint from more experienced tour operators is that existing legislation does not facilitate tourism

---

<sup>8</sup> MNET/ Mintel (2009).

development, while creating bureaucratic barriers. For example, tour companies are required to register every year regardless of the number of years of operations. At the same time, poorly designed license regimes and incentives have led to the registration of many non-tourism businesses as tour companies.

35. Industry has been voicing the need for national-level standards and categorization for ger camps and other accommodation. The standards that have been used are seen as irrelevant and do not recognize accommodation categories, such as guesthouses, homestays and hostels.

36. In addition to quality standards, there is need to regulate the construction of ger camps. A number of camps are beginning to develop permanent cement foundations for their gers, which not only spoils an authentic experience, but violates the temporary structure status of camps located within or near protected areas. The lack of control has also led to the overdevelopment of certain areas (for example parts of Terej National Park) and the high concentration of ger camps in one place, leading to oversupply, deteriorated environments, and generally unworthy travel experience. According to officials the government would like to encourage the development of high-end (4-star and up) accommodation facilities and discourage the expansion of ger camps.

37. Quality social services for tourists, such as health care and medical assistance, and safety and security, are lacking. Leading service providers try to address this gap by providing in-house first aid training, hiring doctors to accompany trips (sometimes from the USA or Europe), and requiring proof for international travel insurance (most often SOS International). If Mongolia is to grow its adventure portfolio, especially for higher-end customers, there is a need for legislative provisions and capacity building efforts to fill these gaps. Appropriate capacity building and training of guides, existence of rescue operations and better medical services are essential.

38. Government Investment and Expenditures. In recent years, there has been only limited government-led investment in tourism development. During 2009, Government expenditures in the tourism sector represent about four percent of total investment, or the equivalent to an estimated \$32.3 million.<sup>9</sup> National level promotion is almost non-existent and there is no national-level marketing or branding of the country. This adds to the financial burden of the private tour operators, who fund their own participation in international trade shows (ITB, WTM, etc.) without government support.

39. There is little, if any, local government support for tourism. In each aimag, there is one person responsible for tourism, but they are typically inactive, without power, and have very small operating budgets.

40. Donor-led attempts to encourage cooperation between private and public sectors (on national and local levels) have not been successful, although part of this can be attributed to the lack of a legislative framework for public-private partnerships (PPPs). It is hoped that the

---

<sup>9</sup> WTTC 2010 includes expenditures made by government agencies to provide travel and tourism services directly linked to individual visitors, such as cultural (e.g. museums), recreational (e.g. national park) or clearance (e.g. immigration/customs) to visitors, as well as operating expenditures made by government agencies on services associated with travel and tourism, but not directly linked to any individual visitor, such as tourism promotion, aviation, administration, security services and resort area sanitation services.

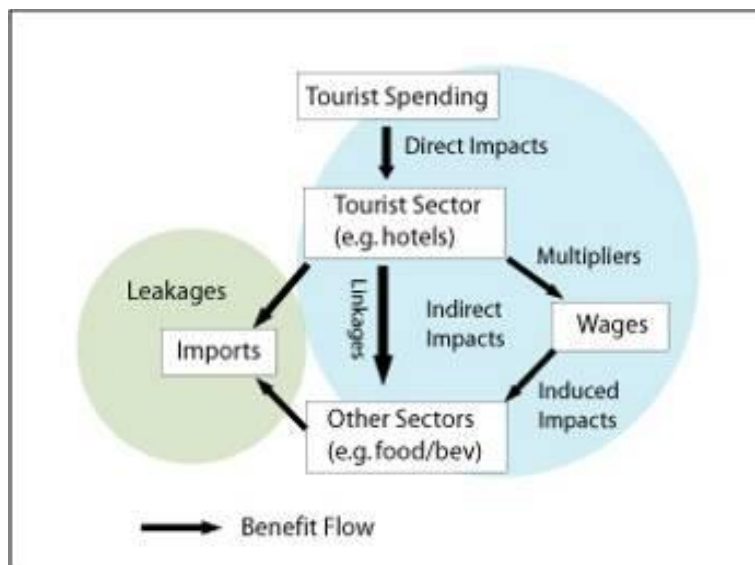
adoption of the Concession Law governing PPPs<sup>10</sup> will encourage greater private sector investment in the sector. More active and effective public-private cooperation is essential for the strengthening of the tourism sector in Mongolia and for ensuring that its economic benefits reach local communities and help sustain the country's natural and cultural assets.

### Linkages with Local Economic Development and Other Economic Sectors

41. Government Policy Discourages Local Linkages. Current government policy does not encourage redistribution of economic and social benefits of tourism to the local levels. Policies governing the management of protected areas and natural resources encourage centralization, rather than local management and preservation processes. Also, the style of tourism development envisioned by some officials (attracting mass tourism segments through development of large accommodation and entertainment complexes) would not support the distribution of benefits to local communities.

42. Ineffective Supply Chains. Another challenge is the current structure of supply chains in the industry, which does not effectively distribute economic benefits from tourism and lacks local economic linkages. Such linkages could be stimulated through local provision of some tourism services (guide services, horse rentals, provision of food, etc.), or through facilitation of more active cross-sectoral linkages (for example between food services and local suppliers) (see Figure 1). Past donor-led support to improve sector competitiveness and value chains are thought to have led to the further channeling of supply through a small pool of tour operators based in Ulaanbaatar, instead of ensuring better redistribution.

**Figure 1: Distribution of Economic Benefits**<sup>11</sup>



<sup>10</sup> The Concession Law took effect on March 1, 2010.

<sup>11</sup> From the Gambia Tourism Value Chain and Prospects for Pro-Poor Tourism, ODI Working Papers 289 (March 2008), adapted from Meyer 2006 Caribbean Tourism, Local Sourcing and Enterprise Development: Review of the Literature Pro-Poor Tourism Partnership, Working Paper No.18.

43. Based on anecdotal data, most of the tour operators work with a relatively low margin (around 10 percent) and outsource a number of services that are included in a package, thus redistributing generated income. A study of the domestic supply chain conducted by The World Bank in 2004-2005 revealed that about 36 percent of services included in a tour package were provided through external vendors. Over half (55 percent) of the cost of a package covered fixed costs, including salaries (15 percent), marketing and promotion (9 percent) and other operations.<sup>12</sup> In recent years, market dynamics and industry developments have probably modified this breakdown, but it seems that concerns about concentration of significant profit in Ulaanbaatar-based operators are more significant than the actual problem. In order to access markets and service tourists coming to Mongolia, larger tour operators make investments in expensive promotion and participation in trade shows, to purchase and maintain equipment (including vehicles, camping gear, etc.), and in training (service, rescue and safety, etc.), which adds to the end costs of marketed packages.

44. One approach for strengthening the economic significance of tourism is to encourage linkages to other leading economic sectors in the country. Currently there are limited linkages between tourism and Mongolia's leading economic sectors:

- a. *Cashmere*: There are limited product offerings based on cashmere production and processing. Cashmere shopping is also not directly promoted and linked to tourism offerings. 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 that would benefit another important economic activity.
- b. *Agriculture* (cattle breeding): Given that one of the key tourism attractions is experiencing nomadic lifestyle and visiting local herder families, it could be stated that there are some modest linkages between agriculture and tourism. Real connections between these two sectors are usually nurtured through the development of links between food services and local suppliers. One of the main challenges in this regard in Mongolia is the lack of up-to-standard food processing systems, which can ensure consistent quality and international standards of offered food products. Successful attempts to support local production of meat, dairy and vegetables as supply for tourism service providers have been made in Mongolia and could serve as models for strengthened linkages with agriculture.
- c. *Mining*: There is a need to raise awareness on the potential benefits of linkages between the tourism and the mining sector, and to alleviate negative attitudes towards mining. Growth in mining has fastened plans for development of infrastructure and public services in areas surrounding mine sites. These do not only contribute to the improved quality of life of surrounding communities but can be shared by the tourism industry. Many of the global leaders in promoting nature-based tourism attractions and maintaining an image of pure natural places have effectively working mining industries along with sustainable tourism sectors.

---

<sup>12</sup> The World Bank/ Mongolian Alternatives Center (2005) Mongolia Tourism Industry Competitiveness Study: Analysis of Existing Domestic Supply Chains

45. Training and Access to Finance. The unavailability and unreliability of supplies and supporting services outside of Ulaanbaatar is one of the main reasons tour operators must be self-reliant and do not outsource. This is especially true for higher-end packages requiring high quality of service, which forces operators to avoid subcontracting with local suppliers, unless it is based on a long-term relationship that has proven to be reliable. For operators, this is a more costly and difficult mode of operating, but the only way to ensure reliable quality of service demanded by international customers. Developing local capacity to provide higher quality and reliable supporting services is an essential step in improving the distribution of economic benefits of tourism services. However, local entrepreneurs need access to finance if they are to provide services locally. Possible improvements in food processing systems and incentives for increased local production can help strengthen cross-sectoral linkages and further increase local economic benefits, while sustaining traditional local lifestyle.

46. Prompt payment for services provided is also critical for redistributing economic and social benefits to the local level. Reports of delayed payments to local service providers are common, which constitutes a significant problem. Tour operators usually pay local providers for services provided at the end of a season, but some ger camp operators have indicated that at the start of the current season, they were still waiting for payments from the previous year. Such practices are unfair and should be discouraged with appropriate regulatory tools.

47. The development of small-scale financing services through local banks could provide valuable support for local operations at the start of the season, and would make a significant difference in strengthening local supply. To fill this gap, some tour operators loan funds to local suppliers at the start of a season, but this is an unsustainable practice that merely transfers the financial burden to another stakeholder in the value chain. It is essential that better access to finance is combined with programs for capacity building and improving local business culture. Training in the area of entrepreneurship, basic business planning, business management and service culture is essential to sustain the effectiveness of local support initiatives.

48. Taxation and Tourism-Related Revenue. An important aspect of the concentration of economic benefits in the capital city is the current structure of tourism taxation. Even though most of the tourist activities occur outside of Ulaanbaatar, the majority of the tourism-related taxes are paid by service providers in the city. Many of the ger camps and local restaurants in the countryside are also operated by companies registered in Ulaanbaatar. Due to the poor redistribution of public funds, tourism-related tax revenue does not necessarily go back to the regions or places where tourism activities take place. In addition to taxes, tourism service providers pay land use and licensing fees, which are collected at the local level. Permit and land use fees collected by protected area authorities<sup>13</sup> go directly to the national budget. As such, tourism utilizes resources that are outside of the city, but generated taxes stay in the city and do not go back to maintain these resources. Amendments to taxation policies encouraging local collection of taxes and improving distribution of public funds would improve local supply.

49. Local protected area management authorities are funded directly from the central budget, but are responsible for generating up to 20 percent of their budget through locally collected fees, which is rarely achieved. Locally generated funds are sent to the national budget with a small share remaining at the local level.

---

<sup>13</sup> Official estimates indicate that about 90 percent of tourism activities occur in protected areas.

50. Improved public funding and increased involvement of local communities in the provision of tourism services would directly lead to better management of natural and cultural resources. When communities begin seeing these resources as sources of additional income, they approach their preservation with increased feelings of ownership and responsibility. According to nature protection organizations, more damage on natural resources is done by locals seeking subsistence than by tourists.

### **Government Intervention and Opportunities for Policy Reform**

51. Need to Differentiate Markets. Among some officials, there appears to be disagreement among government officials and local tourism specialists about how the sector should be developed. Despite the widely held belief that Mongolia needs to focus on specialized smaller-scale tourism, the strategy proposed by the government is to focus on development of large-scale accommodation complexes and attractions. Efforts are focused on “rebuilding” Kharhorin by constructing a large complex that includes hotels, restaurants, and entertainment centers (including a casino) with capacity for up to 3,000 visitors. The development of this and other similar large-scale sites is perceived by officials as needed products that will boost the sector and bring it to another level of growth. In addition to being different from the vision of most national and international tourism professionals working in Mongolia, there are several challenges with this strategy. First, the cost of constructing such large-scale complexes is extremely high. Second, this type of development corresponds to a strategy of attracting mass markets rather than smaller groups interested in niche travel experiences. If they have a significant positive effect, it would likely be on regional and domestic travel. The majority of travelers to Mongolia is attracted to the country’s unspoiled nature and living nomadic culture, and are unlikely to include such complexes in their itineraries. Lastly, such developments are not likely to facilitate the redistribution of economic benefits from tourism development. While these large-scale projects may generate benefits for communities in the immediate vicinity by providing jobs, the operation and management will remain concentrated in the larger operator community.

52. It is, however, possible to accommodate both approaches to developing the sector (mass markets and niche travelers), and investment in several signature developments throughout the country is not necessarily a bad idea. They could serve as hubs for travel in the different regions and facilitate better distribution of tourism benefits throughout the country. However, the type and style of development requires careful planning in the context of existing and potential demand.

53. Weak Institutional Support at Local Levels. There is weak institutional support for tourism at local levels. According to the Tourism Law, each *aimag* must have at least one tourism officer that is responsible for implementing government policies, as set out by the Department of Tourism. The responsibilities of tourism officers often include oversight of other sectors, such as infrastructure, protected areas, and agriculture. Whether there is any communication with local private sector representatives is almost entirely dependent on the individual holding the tourism officer position. With limited capacity and funding, local institutions are unable to do much to support tourism development in their jurisdictions. Their responsibilities are limited to ensuring that relevant fees are collected and permits for tourism activities issued. In places where mining sites have contributed to local economies, tourism has lost the attention of local officials.



54. Site Management. Government expenditures to manage NCS have been inadequate, and there are no strategies or plans to govern the management and further development of existing and potential sites. While regulations for ger camps and tour operators have been defined, they are perceived as irrelevant and are not enforced due to lack of capacity. Ger camps and other tourism service facilities are often built without permits or land use licenses, which are acquired later without any punishment for established violations. The main reason for the current overdevelopment in some sites is not the amount of development or visitation but their poor distribution. Due to a lack of effective enforcement of laws, site management plans, and visitor infrastructure in and around NCS, development is typically concentrated in small areas, while vast areas remain inaccessible and unused. This heightens negative impacts on natural resources, deterioration of the visitor experience, and missed opportunities for economic profits. The development of management plans based on contemporary understanding of “limits of acceptable change” and carrying capacity concepts can help guide a more even and managed development in and around natural sites.

55. Site Infrastructure and Visitor Information. While visitation at most NCS is not that significant, it is simply not managed. Lack of visitor infrastructure, lack of rules for proper visitor behavior, and low awareness among guides and other service providers, are reasons for uncontrolled movement of visitors, often in sensitive areas. This inevitably leads to damage of valuable resources and deterioration of signature tourism attractions. Site management plans should guide the installation of visitor infrastructure and development of visitor services in the context of realistic assessment of potential tourist products. Contemporary visitor infrastructure in natural and national parks includes infrastructure for adventure experiences and exploration, including marking and signage, trails (walking, biking, horseback riding, and driving), camping and resting points, landscape and photo points, eco trails, zip lines, canopy walkways, etc. Visitor information and education services are crucial in raising awareness on the value of local resources and in ensuring proper visitor behavior. This includes visitor centers, information and interactive materials, well-trained guides and others. Visitor infrastructure and information services ensure proper visitor flow management, controlled access and limited impact in sensitive areas, and enhanced nature- and culture-based experiences. Entry fees, as well as fees for different services, help maintain and sustain infrastructure and offerings. This is essential both for sustaining Mongolia’s NCS and for growing the significance of tourism.

56. Business/Management Models for NCS. A widely used and successful model for securing additional income for NCS management is through concessions. Concessions attract business entities interested in managing certain services and sites within protected areas or at cultural sites. These could be camping areas or ger camps, restaurants or souvenir shops, guiding and information services, horseback riding, mountain biking or other nature-based activities. Concession contracts usually set very clear responsibilities related to proper visitor behavior, waste management, maintenance of infrastructure and preservation of resources. To strengthen local economic impacts, concession can provide incentives for contracting local companies and for local employment.

57. While concessions provide an alternative source of funding for individual nature and cultural sites, one of the effective national or regional-level tools for improved financing of natural and cultural resource management are trust funds. Donor organizations and nature conservation NGOs use this model to secure long-term funding for nature conservation that supplements government budgets. Trust funds provide excellent opportunities for financing, but

their development and effective management is associated with a number of challenges. These can be avoided through careful planning and management that is relevant to the local context.

58. Another well-known and effective practice, especially for protected areas, is NGO-led management. Many national parks in African countries, for example, are managed by international NGOs, which have much more capacity than governments in fundraising, preservation, conservation and work with local communities. Many of the large international nature conservation NGOs that are present in Mongolia (such as the World Wildlife Fund and the Nature Conservancy) have plenty of experience managing natural resources of global significance in countries where governments lack capacity to play that role. A well-working NGO-led management model has been working in Khustain National Park, which is the only protected area in Mongolia that is not under the direct supervision of the central government. Tourism activities in and around the park help generate about 80 percent of the park's budget and another MNT 20 million per year for communities residing in the park's buffer zone. Even though some experts express doubt that this model can be fully replicated in other protected areas, it provides an alternative for improving the management of NCS in Mongolia.

## **Conclusions**

59. A number of interventions to strengthen the management of NCS and improve the economic benefits of tourism for local communities are possible.

- There is pressing need for contemporary tourism policies and legislation. There are differences in the way that public officials and private sector professionals see tourism development. A tourism strategy document (master plan or national strategy) prepared with the involvement of public and private sector representatives would facilitate the development of a unified vision for sustainably developing the sector. The strategy should outline a path for tourism development that is based on realistic assessment of demand and existing and potential tourism products.
- Based on an overall tourism strategy, Mongolia must develop contemporary legislation and empower effective institutions. The Tourism Law needs to provide solid and clear regulatory context that facilitates the effective operation of tourism enterprises. Unnecessary bureaucratic barriers should be removed and clear rules established to provide fair conditions for competitiveness. There is need to develop clear standards and procedures for categorization accommodations and other service providers.
- Policies and legislation should also take into account the fact that tourism is cross sectoral and requires coordination among several governmental institutions, and between the private and the public sector. One way to meet this is to establish an intra-ministerial council that includes representatives from different related sectors (environmental protection, transport, agriculture, light industry, mining).
- There is need for policy support in taxation and value chains. More detailed studies can help determine problematic aspects and reveal appropriate solutions. In the field of taxation, it is important to study the potential for policy approaches that encourage local collection and improve distribution of public funds.
- Tracking and monitoring tourism indicators should be improved. Both public and private sector stakeholders would benefit from having access to accurate and reliable

data. The collection of data is also important for monitoring the effectiveness of strategic interventions.

- The development of site management plans for NCS based on contemporary understanding of "limits of acceptable change" and carrying capacity concepts is crucial in sustaining Mongolia's tourism assets. Site management plans should guide the installation of visitor infrastructure, including infrastructure supporting a variety of visitor activities and information services.
- To the extent possible, existing transportation infrastructure should be improved. There is need for maintenance of unpaved roads to improve their reliability and safety. Signage, wider use of GPS equipment, improved mobile phone connectivity and availability of search and rescue services are also essential for improving the safety of local transportation. The existence of reliable local domestic flight providers offers opportunity for growth, especially in higher-end and specialty markets.
- Raising awareness on sustainable behavior of visitors and service providers is needed. Increasing the sustainability culture of private businesses is not only means of managing the impacts of the industry but responds to the expectation of travelers. Contemporary tourists, especially from the segments that Mongolia is likely to continue attracting, are knowledgeable and sensitive to sustainability issues.
- The lack of a service culture and other specific skills can be addressed through specialized professional training programs. Special capacity building programs should be developed for local entrepreneurs and small businesses. These could be delivered in collaboration with educational institutions, which have readily trained instructors with training skills or through professional organizations.
- A significant barrier for growth and improvement of facilities and services of local providers is lack of access to affordable finance. Establishing a mechanism for easy and inexpensive financing, especially for small and medium tourism enterprises, would enable businesses and entrepreneurs to make necessary investments at the beginning of each season to upgrade facilities and services. Improved access to finance should be linked with programs that build the business capacity of local entrepreneurs.
- Consideration should be given to issuing private concessions to improve site management. Concessions can be used to contract business operators to manage the infrastructure and services around a natural or cultural site, or to manage specific services such as a restaurant or nature-based tourist activities. Trust funds and NGO-led management provide alternative models to strengthen the management of NCS.