



Food and Agriculture
Organization of the
United Nations



The implementation of the Livestock Tax Law: An opportunity for climate action



MONGOLIA

Key messages

- ▶ The livestock sector is a primary source of income for approximately 190 000 herder families in Mongolia, but uncontrolled herd growth and improper grazing management have led to significant overgrazing and pasture degradation.
- ▶ In response to pastureland overutilization, the Livestock Head Tax (LHT) was introduced in 2021, aiming to regulate livestock herd size through economic incentives for smaller, more efficient herds and to generate revenue for pasture management improvements.
- ▶ The LHT is recognized as an opportunity for transformative climate action and has the potential to align livestock numbers with rangeland carrying capacity.
- ▶ Key recommendations include legislative reforms to provide clearer guidance and alignment with climate goals, such as introducing a non-zero minimum tax rate, specific guidance on eligible expenditures for pastureland improvements based on tax revenues.
- ▶ Accompanying measures like awareness-raising and training campaigns for herders and local officials are crucial to strengthen participation, trust, and compliance, thereby enhancing the effectiveness of LHT climate action.

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INTRODUCTION

Mongolia's traditional livestock husbandry takes place on 112 million hectares state owned vast natural rangeland, i.e. approximately 70 percent of the country's territory. The livestock sector is the primary source of income for approximately 190 000 herder families representing close to 20 percent of Mongolia's total population. Since the 1990s, however, uncontrolled herd growth and improper grazing land management have contributed to significant overgrazing and notable pasture degradation. As of 2024, the total national herd comprises 57.6 million heads (National Livestock Census), which greatly exceeds pasture carrying capacity. This is compounded by faster-than-global average climate change effects. For instance, mean air temperatures in Mongolia have already increased by 2.07°C since 1940. Climate projections indicate more frequent and prolonged extreme weather events, including drought and dzud (severe winter condition), affecting animal husbandry practices and rural livelihoods. According to Mongolia's Biennial Update Report to the United Nations Framework Convention on Climate Change in 2020, the agricultural sector is the most significant source of the greenhouse gas (GHG) emissions with 51.2 percent (22 390.57 Gg CO₂eq) share of the national total GHG emissions. Within this, livestock enteric fermentation contributed 58.4 percent of sectoral GHG emissions, which is greatly influenced by husbandry practices. Climate change and overgrazing have been found to be the key contributors to pastureland degradation and desertification (MET, 2020)¹.

The Government of Mongolia has identified strategies to address these issues, inter alia in national policy documents such as Vision 2050, the Nationally Determined Contribution (NDC), and the National Adaptation Plan (NAP). In response to pressing concerns regarding the overutilization of pastureland, in 2020 the Mongolian Parliament adopted the law on Livestock Head Tax (LHT), which entered into force in 2021. Primarily, this approach sought to regulate the increasing population of livestock by creating economic incentives for more efficient livestock management, with an intention to curb or reverse excessive herd growth via economic turnover of surplus animals. In addition, the tax was intended to generate public revenue earmarked for the enhancement of pasture management, herd structure, and livestock product quality. In 2025, reforms of the implementation arrangements for the livestock tax law are under consideration, based on initial experience gained in the first years of implementation. This follows an LHT reform proposal that did not find a majority in the Mongolian Parliament in 2022, as well as the introduction of the related Law on Reducing the Negative Effects of Climate Change on Traditional Animal Husbandry in 2024.

¹ MET (Ministry of Environment and Tourism). 2020. Desertification Atlas of Mongolia 2020. Environmental Information Center. [Cited 20 July 2025]
https://eic.mn/dldbase/upload/2021/tadesertcontent/jpg/20210806_9525.jpg



Photo: Open range animal husbandry in the Alag-Erdene soum of Khuvsgul aimag. (Sergelen Munkhuu/FAO).

METHODOLOGY

The Scaling up Climate Ambition on Land Use and Agriculture through NDCs and NAPs (SCALA) programme is designed to support transformative climate action in the land use and agricultural sectors to reduce GHG emissions, enhance removals, as well as strengthen adaptive capacity in Mongolia. The centrality of the livestock tax law to climate action opportunities was confirmed by SCALA's 'Climate Action Review (CAR) Tool' which identified high transformative potential for sustainable pasture-use practices within the livestock production systems. Against this backdrop, and with a view to informing tax law implementation and forthcoming reforms, SCALA collaborated with the Mongolian National Federation of Pasture User Groups to systematically examine the livestock tax law and its implementation. The assessment encompassed seven dimensions of climate transformation, including climate rationale; systems-thinking; private sector engagement; gender equality and social inclusion; sustainable development; a whole-of-government approach; and technological and financial innovation. Analysis methods included literature review, key informant interviews, a herder survey and stakeholder consultations (including line ministries, research institutes, soum (district) governors, and herder communities). This analysis was complemented by use of modelling tools such as the FAO's Global Livestock Environmental Assessment Model (GLEAM) – a collaboration which resulted in the adaptation of the tool to Mongolia's extensive animal husbandry conditions. "GLEAMongolia" can be used as the methodological tool to estimate the GHG emissions associated with current and projected grazing management practices at soum level.

RESULTS

The assessment further confirmed the CAR findings, solidifying the evidence on the potential for the livestock head tax law to achieve transformative climate action without causing gender and social disparity. The LHT represents a valuable public initiative with potential to contribute to alignment of livestock numbers with the carrying capacity of rangelands. The assessment

confirmed the two interlinked causal pathways for this effect: by generating an economic incentive for herd size reductions and efficiency gains at herd level, and by generating local-level revenues for targeted public spending to support a transition to more efficient and sustainable livestock systems.

In line with the governing law, LHT implementation is determined at local (i.e. soum) level. Both tax rates and allocation decisions for revenues are made by the soum administration via issuance of a soum-level implementation decree. While this allows for a high degree of decentralization and local autonomy – in particular, for local-level needs and priorities in terms of spending priorities, it has also led to a high degree of variance in terms of tax rate per animal species head (see figure 1) (MOF, 2022)². Herder perception of this widespread has been that of arbitrariness, as confirmed by SCALA's survey.

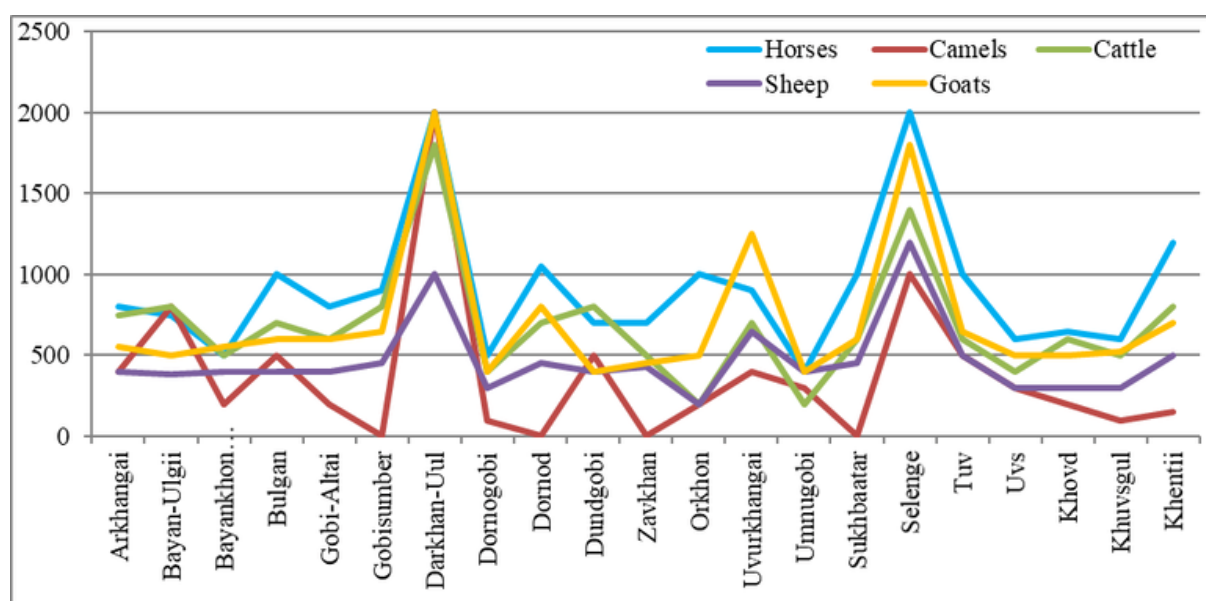


Figure 1: National average tax rates by species are MNT 907 for horses, MNT 374 for camels, MNT 683 for cattle, MNT 467 for sheep, and MNT 710 for goats.

Source: Ministry of Finance. 2022. LHT tax rate in MNT by animal species by aimag (province). Ulaanbaatar, Ministry of Finance.

In terms of economic incentives, what is notable is the differentiation by species. Higher rates for overrepresented species or in areas under higher grazing pressure may be one instrument for local administrations to incentivize diverse and productive herds and pastures, i.e. contribute to herd and pastureland use optimization. Herd optimization has been identified as a key way to boost productivity, allowing to maintain or improve economic output while reducing herd size and minimizing environmental impact (see e.g. “GLEAMongolia”).

In terms of revenue generation and use, the assessment identified two key issues. Firstly, enforcement and compliance issues exist at both individual and aggregate levels, which is largely associated with a lack of human and technical capacity (e.g. in terms of livestock census accuracy and tax collection procedures). Some soums have set a zero (or near-zero) tax rate for individual species, in line with the MNT 0–2000 range provided for by the law. As a result of this incomplete enforcement, total tax revenues so far have remained significantly

² Ministry of Finance (MOF). 2022. Implementation of the Livestock Head Tax. Local Development Fund [Cited 20 July 2025] <https://tusuv-oronnutag.mof.gov.mn/?p=16360>

short of the projected MNT 33 billion on average by the Mongolian Tax Administration, with revenues increasing from MNT 15.3 billion (2021), MNT 19.9 billion (2022), to MNT 21.7 billion in 2023 (MOFALI, 2023)³. Secondly, the survey revealed that there is a lack of systematic and collective involvement of herders in the LHT-related spending decisions, leading to a perceived 'arbitrariness' of eligible and actual expenditures in soum decrees. FAO (2024) revealed a general herder preference for LHT revenues to be re-invested in the sector locally, such as by supplementing soum-level risk management funds that can be used to subsidize and enable access to fodder reserves in times of need⁴. A perceived inequitable distribution of benefits from tax revenues by herders has for instance been identified as a contributing factor for reduced compliance.

RECOMMENDATIONS

The LHT law and its implementation can be recognized as an actionable climate solution taken by the line Ministries of agriculture and environment. For the LHT to fully unfold its inherent transformative potential, including in light of forthcoming refined climate targets under the new NDC, a set of key recommendations emerged. Legislative reforms of the LHT itself or subordinate legislation can provide further guidance and clarity and thereby strengthen alignment of LHT with climate and environmental goals while making informed decisions about trade-offs with other management objectives, such as safeguarding traditional herder livelihoods. Soum administrations could be supported in issuing soum-level LHT implementation decrees by provision of a uniform template.

Potential areas for priority consideration in such reforms include the following:

- A non-zero minimum tax rate or, at the minimum, precise definitions of tax exemption conditions. Further, progressive tax rates whereby tax rates for additional animal increase could be considered to avoid excessive burden on marginal herders or those with smaller herd sizes.
- In terms of LHT administration, for the benefit of transparency, use of separate accounts for the livestock tax revenue and expenditures in line independent from other accounts (such as the local development fund) should be encouraged.
- Further specific guidance on eligible expenditures, and a minimum floor for utilization of the tax revenue for measures for sustainable pasture management and improvement of animal productivity would likely benefit legitimacy. As an example, a share of 10–30 percent for organization of training and consultation meetings for herders and specific grazing management improvements has been proposed. Further, introduction of a common reporting template for soum administrations regarding tax revenue use would benefit herder trust and potentially tax compliance rates.
- A mechanism to ensure similar tax rates across neighbouring soums to avoid unfairness and moral hazard: animals are taxed in the soum a herder is registered in.

³ MOFALI (Ministry of Food, Agriculture and Light Industry). 2023. Consultation on LHT implementation.

⁴ FAO (Food and Agriculture Organization of the United Nations). 2024. Disaster Risk Finance and Anticipatory Action in Mongolia: Lessons from the 2022/23 dzud –Technical Brief. Ulaanbaatar

A mechanism to effectively compensate for animals grazing in neighbouring territories could equally be considered.

- A tax rebate for verifiable sustainable management practices: a reduction in taxation in the event of sustainable utilization and conservation of pastureland through improved practices of improving rotational use, herd structure, animal breeding and productivity could be considered.

Accompanying measures such as awareness-raising and training campaigns with both herders and local-level officials on LHT implementation in line with climate objectives have furthermore been identified as key levers to strengthen participatory character, trust and compliance and in turn effectiveness of LHT climate action. In future reforms, a balance will need to be found between technical design features and practical implementation feasibility at local level, for which capacities will need to be created and sustained. Fairness and transparency should be core principles at the foundation of such reforms.

FOLLOW-UP ACTIONS

Results and recommendations of the LHT assessment summarized here have been presented and validated in multi-stakeholder settings. Continued efforts are being undertaken to inform policy and practice. This includes, on the one hand, the formulation of policies and plans considering the strengthened evidence on LHT implementation. In light of the Paris Agreement's ambition mechanism, Mongolia's NDC is being updated in 2025, including via a participatory process involving a sectoral NDC working group and the consultation of subnational representatives supported by the SCALA programme. Strengthened implementation mechanisms for NDC-aligned LHT implementation can be a key contributor to achievement of sector targets in the post2025 period. A specific proposal that is being explored relates to the anchoring of the LHT in NDC implementation frameworks: The consistent implementation of the LHT in line with recommendations made here could be introduced by MOFALI as an objective and measurable climate action as part of the NDC 3.0 action plan, expected to be drawn up after NDC finalization. Similarly, subnational (aimag) NDC action plans would be useful vehicles to increasingly integrate LHT implementation.

In addition to increased alignment of policies and plans, findings presented here are intended to inform legislative reform and implementation practice at soum level. In this connection, consultative processes on potential LHT amendments are under way at the time of writing.

Finally, such policy and legislative reforms take place in a dynamic context. Methodological advancements inter alia on priority interventions for resilient and low-emissions livestock and pastureland management scenario modelling and emissions monitoring (monitoring, reporting and verification) are under way, including with support of the SCALA programme and the Climate and Clean Air Coalition. Integration of such analysis with LHT implementation as a climate action can be a powerful mechanism for achievement of priority targets. In addition, situating the LHT implementation as a financial mechanism directly affecting herders' personal finances in the wider ecosystem of rural finance (including public finance such as local development or risk funds or lending products targeting herders) and innovative financial mechanisms (such as green bonds or GHG offset schemes) offers additional opportunities for scaled up and coherent transformative climate action.

This assessment took place as part of the Scaling Up Climate Ambition on Land Use and Agriculture through Nationally Determined Contributions and National Adaptation Plans (SCALA) programme, jointly led by the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Development Programme (UNDP). SCALA aims to strengthen the evidence base for transformative climate action in agriculture and land use in more than a dozen countries in Africa, Asia-Pacific, and Latin America, SCALA is supported by the German Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety (BMUKN) through the International Climate Initiative (IKI).

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