

Poverty Profile

Executive Summary

Mongolia

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Chapter 1 Poverty in Mongolia

1-1 Poverty Line

In 1991, the government of Mongolia officially established a poverty line based on the per capita income equivalent to meet the daily caloric intake of 1,872 kcal per person in rural areas and 1,992 kcal in urban areas. Since then, poverty line has been revised downward several times. In 1995, the World Bank determined another set of poverty lines for its Living Standard Measurement Survey (LSMS) ranging from 5,730 Tuglik (in Dornod Province) to 8,053 Tuglik (in Ulaanbaatar), which is the per month expenditure required for a daily caloric intake of 2,100 kcal. When the National Statistical Office (NSO) carried out the second LSMS in 1998, the poverty line was determined on the basis of expenditure instead of income, adopting the World Bank method. The 1998 poverty line is 14,674 Tuglik per month per person, which is equivalent to 0.58 US dollars per day (based on the 1998 exchange rate).

The government recognises that measuring poverty based on expenditure rather than income is more accurate, and thus accepts the data of the World Bank and NSO. Therefore, this Poverty Assessment also adopts the poverty line determined by the World Bank and NSO.

1-2 Trends of Poverty Incidence and Inequality

Since Mongolia did not officially affirm the existence of the poverty before its transition to a market economy, only data from the 1990s is available. In 1991, the population below the poverty line was estimated at 320,000, or about 15percent of the total population, according to the income-based estimation by the government. In 1995, NSO estimated, on expenditure base, that poverty incidence was 38.5 percent in urban areas, 41.9 percent in *aimag* (provincial) centres, and 33.1 percent in rural areas. In 1998, poverty incidence worsened to 39.4 percent, 45.1 percent and 32.6 percent respectively. From 1995 to 1998, the population below the poverty line increased from 800,000 to 870,000. It is noteworthy that the number of the urban poor was higher than rural areas, and poverty incidence is highest in *aimag* centres. Moreover, the Gini coefficient shows that income inequality has grown steadily, increasing from 0.31 in 1995 to 0.35 in 1998.

1-3 Regional Disparities in Poverty

To observe regional disparities in poverty, the World Bank and NSO divide the country roughly into urban areas (Ulaanbaatar and *aimag* centres) and rural areas (*soum* or district centres and grassland areas). Further subdivided data is not currently available. With regard to social indicators such as unemployment rates and school enrolment rates, they tend to lag behind in Ulaanbaatar as well as in remote provinces. Ulaanbaatar faces the typical problems of the urban poor, and remote provinces face the problems of the rural poor, including limited access to social services (see Profile of the Poor section for further details).

1-4 Depth and Severity of Poverty

Time series data and statistics on regional disparities in depth and severity of poverty are limited. Only data of 1995 and 1998 can be confirmed, which shows both depth and severity worsened during the period in the country as a whole, as well as in the urban areas, Ulaanbaatar, *aimag* centres and the rural areas. Depth of poverty was 13.9 in the urban areas and 9.8 in the rural. Severity was 7.1 in urban and 4.4 in rural. Both measures confirm that rural poverty is more severe than rural poverty.

1-5 Profiles of the Poor

The government identifies the following groups to be particularly vulnerable to poverty: orphans, physically handicapped, single household pensioners, female-headed households, households with more than four children, the unemployed, and small herders in remote areas. These people are economically unstable despite the relatively high achievement in literacy and health indicators. In other words, poverty in Mongolia is mainly a result of the shortage of opportunities for employment and income, although poverty itself consists of many other dimensions. The problem of unemployment and low income observed in the current generation, in turn, will have an impact on the education level and health condition of the next generation, and consequently affect the poverty situation.

The features of urban poverty are different from those of rural poverty. Urban poverty is closely related to unemployment. In general, the urban poor consist of many factory workers and civil servants who have relatively higher educational levels and skills but lost their jobs following the transition to a market economy and privatisation. In addition, the sudden abolition of nursery care services after the economic transition caused extreme difficulty for female-headed households to continue to work. The employed face the higher probability of being poor due to the decrease in real wages. The electric power restructuring resulted in increased tariffs for electricity and heat, adversely affecting the living standard of poor households that struggle to pay these fees. Another outcome of urban poverty is the number of children who have stayed out of school due to economic reasons and have joined the ranks of street children.

Meanwhile, rural poverty is correlated to the number of livestock. Livestock ownership was privatised after the transition to a market economy, and more labour is now required for livestock farming. Female-headed households and small herders who cannot afford extra labour for livestock farming suffer from a decline in their productivity. Children, especially boys, in these households are required to tend livestock, and as a result, enrolment rates of primary and secondary education have dropped. In addition, livestock farmers are prone to natural disasters such as droughts and *zud* (extreme snow conditions), and during the winter of 1999/2000, many livestock were killed by *zud*. The other cause of instability of livestock farming is that it does not guarantee stable earnings, as it provides mostly seasonal jobs.

Chapter 2 Government Policy and Actions for Poverty Reduction

2-1 Development Plans, Poverty Reduction Policies and Responsible Ministries

The Ministry of Health and Social Welfare is the main government body responsible for the implementation of the six-year National Poverty Alleviation Program (NPAP). Also, the National Poverty Alleviation Council (NPAC), the governing body of NPAP, includes representatives of the Ministry of Education, Culture and Science, the Ministry of Food and Agriculture and the Ministry of Construction, though these ministries do not seem in charge of implementing programs and ensuring the budget that are specifically targeted for poverty reduction.

National Poverty Alleviation Program (1994-2000): The NPAP was launched in 1994 with the main target of decreasing poverty incidence from 26 percent in 1994 to 10 percent in 2000. The NPAP considered both economic and social aspects of poverty. Its more specific objectives are the following: 1) poverty reduction through economic growth and employment promotion; 2) human resource development through improvement of education and health services; 3) mitigation of the poverty situation facing women; 4) establishment of a social safety net; 5) poverty reduction in rural areas; and 6) strengthening organisational capacity and policy development. The Poverty Alleviation Program Office (PAPO), the secretariat of NPAC, with its regional offices, is in charge of the implementation of the program.

An evaluation report of NPAP found that 6,400 households, far below the intended number of 28,000, benefited from the income generation project, which introduced micro credit scheme. At least, however, 20 percent of households achieved higher income with resulting improvements to livelihood and food consumption. The program also contributed to an improvement in social indicators by providing regional economic infrastructure (such as roads, bridges and irrigation facilities) and social infrastructures (such as water and drainage, schools, and health and medical facilities).

Although the program benefited some households and areas, poverty incidence decreased only in rural areas and the total population of the poor increased over the implementation period. Overall, NPAP was far less effective than expected. The evaluation report concludes that the major weaknesses in the program were the low rate of the disbursement caused by limited financial resources and the weak organizational capacity of the government. Project design was also deemed inappropriate, as the credit scheme for example did not seem to enable them to outreach as many poor as we had expected. During implementation, the poverty gap widened, which diminished the potential outcome of the program. The NPAP is strongly suggested to be transformed to a more effective poverty reduction program, after building on these lessons learnt.

Action Program of the Government of Mongolia: As a result of the parliamentary elections in July 2000, the government presented its Action Plan for the next years from 2001 on the basis of the election program of the Mongolian People's Revolutionary Party (MPRP). The key objectives of the Action Plan are: 1) achieving higher economic growth through continuous economic reform; 2) sustaining higher growth by an export-oriented economic policy; 3) promoting human resource development; 4) improving the living standard of people by streamlining the distribution of wealth and income, and developing an effective system of social welfare; 5) narrowing the gap between the development and living standard in the rural and urban areas through regional development; and 6) setting up highly efficient and accountable Governance. Regarding poverty reduction, the Plan aims to

reduce the number of households below the poverty line by half by 2004.

New Poverty Reduction Program (since 2001): The objective of the new poverty reduction program the National Programme for Household Livelihood Capacity Support is to improve the lives of the poor who are below or just above the poverty line. To achieve this objective, the program was expanded to include the framework for basic economic and social services and activities for social protection and human resources development. It is notable that the new program has extended its target to include not only those under poverty line, but also the vulnerable group above the poverty line, aiming to prevent them from falling into poverty.

2-2 Poverty Reduction by Economic Growth and Employment Generation

Macro Economic Management: Since Mongolia began shifting to a market economy in 1990, it has attained 3.5 percent annual GDP growth on average. Real GDP growth fell after 1991, but then recovered up to 6.4 percent in 1995. It decreased again following the Asian economic crisis, but managed to reach the target of 3.5 percent in 1999. The number of the employed grew in line with the GDP growth rate, which supports the policy of accelerating economic growth for employment generation.

The major growing industries were agriculture, export and technology. Mongolia has its comparative advantage on farm products and cashmere and other textiles. The poor also enjoyed the opportunities to join these sectors through small-scale enterprises.

Employment Opportunities and Promotion: The unemployment rate rose up to 8.7 percent in 1994, influenced by the privatisation of government enterprises after the economic transition. Although the official rate has stayed between 5 to 7 percent (showing a decline from 1994), the real unemployment rate is estimated to be 12 percent. It is also estimated that 25,000 enter the labour market every year, but it is unlikely that all of them would be absorbed in the formal sector after privatisation of agriculture and the fall of productivity entailed by economic stagnation. Creating employment opportunities seems to be one of the most crucial tasks for poverty reduction since poverty is closely related to unemployment in Mongolia.

In terms of employment creation, the government focuses primarily on achieving economic growth, generating temporary employment through public works projects, and building capacity of the private sector. By March 1999, the NPAP had generated a total of 19,795 temporary jobs through its public works scheme. From 1996 to 2000, the government, through its National Programme of Employment, also promoted small-scale enterprises by offering a variety of support for job seekers (such as vocational training and offering information on labour market).

Promoting Private Sector Activities: As privatization of government enterprises proceeded, the role of the private sector in the provision of goods and services also grew. In 1999, the private sector accounted for 64 percent of GDP, 79 percent of agriculture and livestock farming production, and as much as 90 percent of the commercial and service sector. Fostering industries through privatization is important in poverty reduction, contributing to the generation of employment and income. Nevertheless, private sector employment has remained unchanged for the last few years since most enterprises have already been privatized

The economic and social development objectives of the government include the promotion of small and medium scale enterprises as well as private investment (including provision of tax incentives). For

rural areas, the NPAP has a budget of 2.4 billion Tuglik for promoting small and medium enterprises. The NPAP evaluation report concludes that approximately 15,400 households benefited from the credit, and the majority have started small business (mainly tailoring and vending) and resulted in income generation. However, the credit scheme reached only 8 percent of the poor due to inappropriate design and the weak organisational capacity with little experience.

Infrastructure Development: Provision of infrastructure seems necessary condition for economic and social development of Mongolia. Although the Government does not explicitly recognize it as a part of poverty reduction strategies, so far it has been effective in improving the living conditions of the poor and in generating employment. The Ministry of Infrastructure Development has acknowledged the poor living environment amongst the *gel* areas in the suburbs of Ulaanbaatar and *aimag* centers where nomads and the urban poor are settled, and the importance of making a comprehensive development plan for the areas, including the provision of sanitation, low-cost housing and heating.

2-3 Human Resource Development by Improving Education and Health Services

Education Sector: During the socialist regime, literacy and school enrolment rates for children of primary and secondary school age were close to 100 percent. However, economic stagnation in the 1980s resulted in lowering both the quality and quantity of education. The situation even worsened after the economic transition: the primary school enrolment rate dropped as low as 69.7 percent in 1992. But it then gradually recovered to reach the same rate as before the economic transition as a result of the education reform and the fact that primary and secondary education has remained free of charge. On the other hand, the dropout rate has increased rapidly in rural areas (especially grass land areas) because dormitory charge for children of herdsmen has been introduced and child labor has increased in herdsmen communities following the privatization of livestock ownership.

The current education reform is based on the Education Sector Master Plan that was prepared with the support from ADB. Based on this Master Plan, the government started implementing the Education Sector Development Plan (ESDP) in 1997. The ESDP aims at the education sector reform in line with the post economic situation in Mongolia. With assistance from ADB, it aims to; rationalise the education system as well as its institutions, reduce the number of staff, achieve its cost recovery, expand vocational trainings and promote the private sector participation. The government, with extensive support from ADB, is now engaged in the planning of the Education Sector Strategy 2000-2005. It is also calling on support from other donors, as the estimated cost for its implementation amounted 47,925,500 dollars as a total.

Health Sector: Under the socialist regime, 90 percent of the population received free health and medical services. After the economic transition, a user fee was partly introduced for the purpose of reducing the national expenditure on health. There also emerged problems regarding its medical system such as the following: medical equipments and instruments were obsolete, medicine supplies were insufficient, and wages of medical practitioners were very low. As a result, the quality and quantity of medical services dropped, particularly in rural areas, and still do not meet the needs of the poor.

The National Health Policy, introduced in 1997, aims at decentralisation, community participation in the health sector, shifting to primary health care (i.e., from curative care to preventive care, from hospital-centered care to home doctor and so forth). The health budget was reduced during the 1990s like other social sector expenditures. Instead of increased expenditure, in order to maintain the quality

of the health services, the government is implementing a variety of measures to reform its health sector such as, modernising services of hospitals, promoting private sector activities in provision of health and medical services, and introducing and expanding the medical insurance system. Thanks to the above reforms, health indicators in Mongolia have been improved overall, although health and medical services remains unsatisfactory for the poor.

2-4 Reducing Poverty among Women

Following the economic transition, poverty incidence among women has increased. Both poverty and unemployment became conspicuous especially among women who are the household head. According to statistical data, the female unemployment rate tends to be lower than male, but it is supposed that more women are entering into informal sector or staying at home, facing the difficulties to continue to work in formal sector having lost universal access to nursery services.

The NPAP included a micro credit program for poverty reduction among women. But overall the government and the society have been slow to acknowledge the existence of the gender gap, which has emerged more following transition. Consequently, there is only a few research and study regarding gender in Mongolia and there exist no national machinery or government measures regarding gender related problems.

2-5 Social Safety Net

The formal social safety net includes targeted consumer subsidies particularly for shelter and heating, targeted allowances (unemployment and child allowances), and social insurance (pensions). The new system for social protection is prescribed in the Social Insurance Law enacted in 1995 and in the Social Assistance Law enacted in 1996. In addition, public works programs, emergency assistance, retraining of the unemployed, and enterprise promotion (including microfinance schemes) have been introduced through the NPAP and other projects.

The social insurance system covers the Pension Insurance Fund, Benefits Insurance Fund, Work Injury Fund, Unemployment Fund and Health Insurance Fund. The largest fund is the Pension Insurance Fund. The government is now working toward the pension reform, that is, introducing a partly self-financing system to increase the resource for the fund. Under the 1995 Social Insurance Law, both employers and employees are required to contribute to these funds except the Work Injury Fund, with an expected contribution rate of 29 to 31 percent of employee wages.

The government provides social assistance for those who are identified as vulnerable (the disabled, single parents of large families, and the very poor defined as receiving less than 40 percent of the minimum wage), but does not meet the needs of the poor. According to the World Bank report, only 16.4 percent of the poorest, most of who live in Ulaanbaatar, benefited from the assistance in some way.

2-6 Reducing the Rural Poor

Contrary to the rapid migration to urban areas prior to the economic transition, many urban dwellers have moved back into the countryside in the past decade in search for jobs. From 1990 to 1995 the number of people engaged in the agriculture and stock-farming sector increased by 90,000. It is

therefore considered to have contributed to employment creation and poverty reduction.

With regard to rural poverty reduction, the NPAP implemented the following measures: 1) promoting small and medium scale enterprises engaged in processing agricultural products, and improving the marketing of stock farm products; 2) reforming policies for land ownerships and providing assistance for stock farmers' organisations; and 3) restocking livestock for poor households. Restocking meant the direct assistance for the poor and ranked high among the rural poor. The government is also required to better assist the vulnerable rural poor in the emergency situation due to natural disasters such as *zud*, droughts, floods and forest fires.

2-7 Policy Development and Organization Capacity Building

Public Sector Reform: The government is preparing public sector reform, which aims in order to improve efficiency, transparency, accountability, and accurate forecasting of the central and local governments. Reform focuses on the following areas: 1) strengthening budget planning and management capacity; 2) introducing a merit system in order to improve the staff capacity; 3) ensuring transparency of financial management; 4) enforcing disclosure of the information on government accounts; 5) enacting laws and acts related to the above; and 6) promoting cooperation between state-owned enterprises and private enterprises.

With regard to the rationalisation of public expenditure, its GDP share was reduced from 50 percent in 1993 to 37 percent in 1998. Salaries for public servants have been drastically cut. The social sector budget (education, health, social welfare and social security) has been reduced considerably, and its share of GDP decreased from 22.3 percent in 1991 to 14.9 percent in 1998 (but still remains as high as international standards). The education expenditure and health expenditure have been declined while the expenditure for social welfare and social security have been increased. The number of public servants in the education and health sectors has been reduced on a large scale. For example, in the education sector, 5,000 people were laid off and 2,300 positions were eliminated by attrition up to May 1999.

Capacity Building for Poverty Alleviation: The NPAP evaluation report states that the NSO staff (both at central and local levels) improved data collection and analyzing skills through implementation of the Living Standard Measurement Survey (LSMS). However, the PAPO, the secretariat of NPAP, lacking proper guidance, is said to have failed to assess the effects and impacts of projects such as credit schemes accurately. Building its capacity is recognized to be crucial as a part of implementing poverty reduction measures.

Chapter 3 Partnerships for Poverty Reduction

3-1 Partnerships

The government set up the PRSP task force within the government and has been discussing with the World Bank on Poverty Reduction Strategy Paper (PRSP). The discussion on PRSP has not yet been remarkably fruitful, due to re-formation of the governmental organisations entailed by the establishment of the new government after the general election. On the other hand, UN organisations led by UNDP are formulating a Common Country Assessment (CCA), based on the United Nations Development Assistance Framework (UNDAF). ADB signed the Poverty Partnership Agreement with the government and has drawn up its own poverty reduction strategy. Both local and international NGOs are active in engaging poverty reduction activities but have not expanded the scope of their partnership with other development organisations.

3-2 Donor Assistance for Poverty Reduction

ADB established a local office in Mongolia in the end of November 2000. ADB contributed 400,000 dollars for capacity building of NPAP organisations. In the poverty reduction strategy drawn up by ADB in 1999, it is concluded that poverty in Mongolia is based on low-income level, and not a factor of low human development (i.e., shortage of education and health services). ADB prioritises employment promotion and income generation in urban areas, especially in *aimag* centres, and plans to provide about 40 million dollars of loans and 4 million dollars of Technical Assistance (TA) to sectors such as finances (including micro credit), agriculture and livestock, public sector, social sector and urban development.

The World Bank, through IDA, is supporting the government to achieve private sector-led economic growth, and to build the capacity to cope with structural poverty brought by the transition with the following objectives; 1) completing the transition to a market economy; 2) improving living standards; and 3) reducing poverty. IDA is also supporting the government to achieve long-term growth through strategic utilisation of its resources. IDA-supported these project for poverty reduction is the Poverty Alleviation and Vulnerable Group Project (part of NPAP), promoting micro credit for assisting private sector, and providing water and drainage in Ulaanbaatar particularly in *ger* areas. The World Bank supported NSO to carry out the LSMS and has just completed participatory and qualitative poverty assessment, supporting NSO's Participatory Living Standard Assessment (PLSA).

As mentioned above, UN Organisations (UNDP, UNICEF, UNFPA, FAO,WHO etc.) are working together to prepare a Common Country Assessment (CCA), based on UNDAF. UN organisations are conducting assessment using common indicators to build framework for activities in the following areas for CCA: 1) governance; 2) social development; 3) economic development; and 4) management of environment and natural resources. UNDP has been particularly active in supporting the government poverty reduction efforts, including providing 2 million dollars over time to the NPAP.

No bilateral aid agencies are presently implementing projects that are specifically aimed at poverty reduction. GTZ and USAID are active in supporting for regional development and social development. GTZ has projects in the areas of small enterprises, agriculture and environment. USAID does not implement its own projects, but assists US NGOs engaged in information technology, regional development and micro credit in Govi area.

3-3 Poverty Reduction Programs of Civil Society Organizations

Civil society and NGOs activities had not been fostered under the socialist regime, since the government did not permit the establishment of voluntary organisation of citizens and communities. Recently, a number of local NGOs have been established and gradually became active, especially in the area of micro credit.

The major international NGOs are International Red Cross Committee (working for nomads damaged by *zud* and providing emergency food assistance), World Vision, and Save the Children, UK (supporting primarily street children and their families) among others. NGOs activities tend to focus more directly assisting the poor than the other international organisations and donors.