

Chapter 4

Employment Generation Strategies for Poverty Reduction

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Compared to 1989, Mongolia had a very high incidence of poverty throughout the 1990s and possibly has experienced an increasing trend in some forms of poverty. This is discussed in Chapter 2. As a result, employment creation has come to be recognized as critical in the struggle to reduce poverty. Evidence from the 1998 Living Standards Measurement Survey clearly shows that people in poorer households are more likely to be unemployed. (See Table 4.1.) Unemployment rates also vary considerably across regions. Urban areas have relatively higher rates than rural areas. Within the urban areas, unemployment rates tend to be lower in Ulaanbaatar than in the aimag centers; but unemployment rates among the “poor” and the “very poor” are higher in Ulaanbaatar. While employment generation is never an easy task, appropriate policy measures can greatly help to increase employment opportunities.

In this chapter, we will focus on employment generation policies and their impact on poverty reduction. First, we will briefly describe recent trends in the Mongolian labour market in the late 1990s. Second, we will examine which areas of economic activity contributed to employment generation. Third, we will analyze industrial labour productivity, economic activities in the informal sector, public works programmes, social safety nets and human resources development. We will conclude the chapter with policy recommendations intended to produce more broad-based economic growth and create jobs, especially for the poor in Mongolia.

Table 4.1
Unemployment Rates by Region and Income Level
(percentages)

	Mongolia	Ulaanbaatar	<u>Aimag</u> centers	<u>Soums</u>	Rural areas
Very poor	50.8	67.0	37.5	40.2	20.9
Poor	36.1	38.5	34.0	33.3	4.5
Not poor (L)	27.8	21.8	33.3	17.1	3.1
Not poor (M)	19.3	17.1	22.2	17.0	1.7
Not poor (U)	13.2	8.7	25.3	10.4	1.7
Average	30.0	28.5	31.7	22.8	4.8

Source: Government of Mongolia and UNDP, Living Standards Measurement Survey 1998.

The Mongolian labour market in the 1990s: trends and issues

This section contains a description of the major characteristics of the Mongolian labour market based on data collected by the National Statistical Office.¹ (See Table 4.2.) The total population of working age (age 15 and above) grew from 1.13 million to 1.37 million during the 1990s. However, the economically active population dropped from 860 thousand to 847.6 thousand. The labour force participation rate (LFPR) was 61.7 per cent in 2000, a decline of more than 14 per cent from the 1992 level. The employment rate also declined and was less than 60 per cent in 2000. However, unemployment rates have declined over the last ten years and the officially recorded unemployment rate was 4.6 per cent in 2000. These are the figures that are usually reported and are based on the data published regularly by the National Statistical Office.

Table 4.2
Population, Employment and LFPR in Mongolia
(thousands and %)

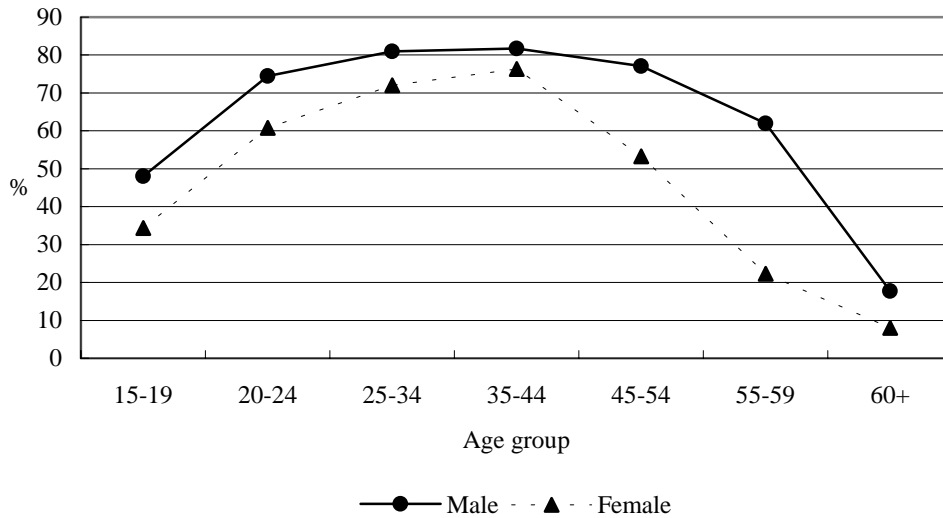
	1992			1995			1999			2000		
	Male	Female	All	Male	Female	All	Male	Female	All	Male	Female	All
Population of working age	565.3	569.3	1134.6	596.3	590.4	1186.7	642.3	637	1279.3	697.9	676.5	1374.4
Economically active population	446.1	413.9	860	428.5	384.2	812.7	445.1	408.3	853.4	434.8	412.8	847.6
Employed	421.1	384.9	806	407	360.6	767.6	426.9	386.7	813.6	416.9	392.1	809
Unemployed	25	29	54	21.5	23.6	45.1	18.2	21.6	39.8	17.9	20.7	38.6
LFPR (%)	78.9	72.7	75.8	71.9	65.1	68.5	69.3	64.1	66.7	62.3	61.0	61.7
Employment Rate (%)	74.5	67.6	71.0	68.3	61.1	64.7	66.5	60.7	63.6	59.7	58.0	58.9
Unemployment Rate (%)	5.6	7.0	6.3	5.0	6.1	5.5	4.1	5.3	4.7	4.1	5.0	4.6

Source: Created from data from the Mongolian Statistical Yearbook 1999 and 2000.

These official data count as unemployed only those who have registered with the central employment regulation office and they exclude the unregistered unemployed. As a result, the official data underestimate the number of unemployed. In 2000, the Mongolian government conducted a Population and Housing Census. The census data are based on a modified definition of unemployment that includes unregistered unemployed. According to the census, the unemployment rate in 2000 was 17.5 per cent for the entire population. This indicates that the unemployment rate is indeed very high in Mongolia.

The LFPR for males has been higher than for females for all age groups. (See Figure 4.1.) Higher school enrollment rates among females partly explains their relatively low LFPR under the age of 24. The LFPR reaches a peak between age 25 and age 45 at around 75-80 per cent. Thereafter, the female LFPR drops significantly to just over 50 per cent at age 45-54 and to around 20 per cent at age 55-59. After age 44, the male LFPR is much higher than the female LFPR. This may be due in part to the difference in the pension age for men (age 60) and women (age 55). Women tend to retire early to have a fixed pension income to support their families, although they are entitled to delay becoming a pensioner until age 60.

Figure 4.1
LFPR by Age Group and Sex



Source: Population and Housing Census 2000 (NSO 2001).

Table 4.3 indicates the volume of employment by major economic activities in 1995 and 2000. The agricultural sector accounted for nearly half of the labour force in 2000. The share has increased over time because those who lost their jobs during the early years of the transition moved into the sector, as discussed in Chapter 3. Contrary to high expectations about an expansion of the private industrial sector, especially in manufacturing activities, the share as well as the number of persons employed in the sector declined. On the other hand, in 1995 trade and services employed fewer people than in manufacturing whereas in 2000, trade and services employed 83,900 people, many more than in manufacturing.

Table 4.3
Employment by Major Economic Activities
(thousands and %)

	1995		2000		Index (1995=100)
	number	per cent	number	per cent	
Agriculture, hunting and forestry	354.2	46.1	393.5	48.6	111.1
Mining & quarrying	18.2	2.4	18.6	2.3	102.2
Manufacturing	67.3	8.8	54.6	6.7	81.1
Electricity, gas and water supply	22.6	2.9	17.8	2.2	78.8
Construction	29.5	3.8	23.4	2.9	79.3
Wholesale & retail trade and repair services	64.8	8.4	83.9	10.4	129.5
Hotels & restaurants	13.7	1.8	13.3	1.6	97.1
Transport, storage & communications	31.6	4.1	34.1	4.2	107.9
Financial services	8.3	1.1	6.8	0.8	81.9
Real estate, renting & business	6.7	0.9	7.2	0.9	107.5
Public administration & defense	31.1	4.1	34.7	4.3	111.6
Education	48.5	6.3	54.4	6.7	112.2
Health & social security	38.1	5.0	33.5	4.1	87.9
Community, social & personal services	26.6	3.5	29.0	3.6	109.0
Others	6.4	0.8	4.2	0.5	65.6
Total	767.6	100.0	809.0	100.0	105.4

Source: National Statistical Office, Mongolian Statistical Yearbook 2000.

Analysis of the Mongolian labour market

Population densities are much higher in the urban areas than in the countryside. Hence it is very important to analyze and disaggregate the Mongolian labour market by region. In the urban areas, employment in the informal sector has grown considerably since 1995. For example, in Ulaanbaatar, the total number of employed persons increased from 186,700 in 1995 to 215,500 in 2000, reflecting a recovery from the economic crisis due to shock therapy in the first half of the 1990s. The number of jobs created in the urban areas needs to be analyzed carefully, partly because the “boom” in the informal

sector is not fully captured by NSO data. Hence we begin by looking closely at the formal sector and then turn to the informal sector.

Employment generation and labour productivity in the formal sector

The formal sector employed 809,000 people in 2000, as indicated in Table 4.3. The agricultural sector, wholesale and retail trading, public administration and education generated more than half of this employment. The growth of value-added in manufacturing activities is not strong enough to create employment or lead the development of the economy.

According to a survey conducted by the Ministry of Industry and Trade,² the total number of private companies exceeded 23,000 in 2000 and more than 97 per cent of them are small and medium sized enterprises (SMEs).³ Most private firms are located in the urban areas.

In the formal sector, employment generation depends mostly on the growth of industry and changes in the productivity of labour. In Table 4.4 we show recent trends in value-added per worker by major industries. Over the period 1995-2000, average value-added per worker increased by 9.1 per cent. However, there was considerable variation from one sector to another. Mining, electricity, gas and water supply, transport, storage and communications increased value-added by more than 20 per cent whereas value-added per worker in agriculture and manufacturing declined by 9.6 and 3.8 per cent, respectively.

Table 4.4
Trends in Labour Productivity by Industry
(Index 1995=100)

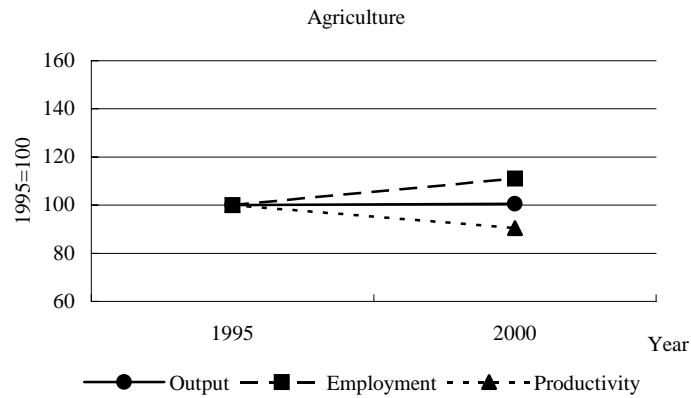
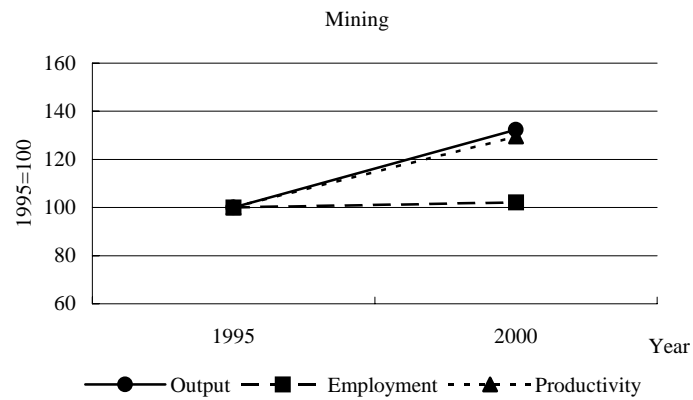
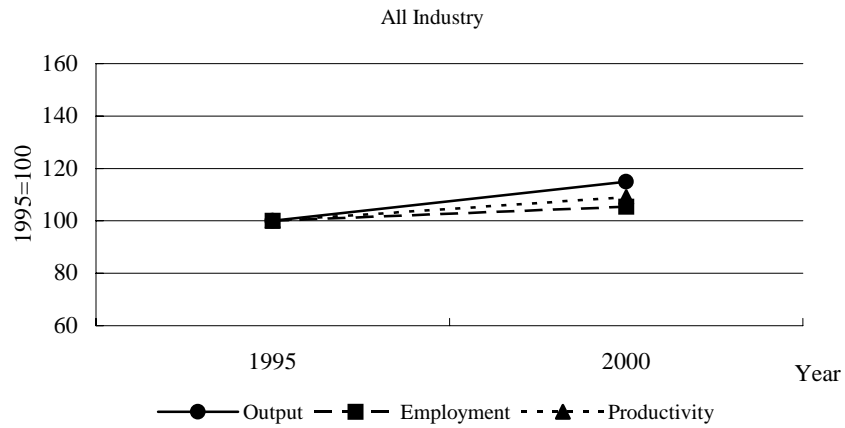
	1995	1998	1999	2000
All Industry	100	106.7	107.3	109.1
Agriculture, hunting and forestry	100	104.1	106.2	90.4
Mining & quarrying	100	115.1	116.2	129.5
Manufacturing	100	89.2	84.6	96.2
Electricity, gas and water supply	100	106.2	115.7	141.1
Construction	100	106.0	107.3	133.8
Wholesale & retail trade and repair services	100	99.0	89.8	110.0
Hotels & restaurants	100	96.2	99.4	131.2
Transport, storage & communications	100	119.6	121.4	145.9

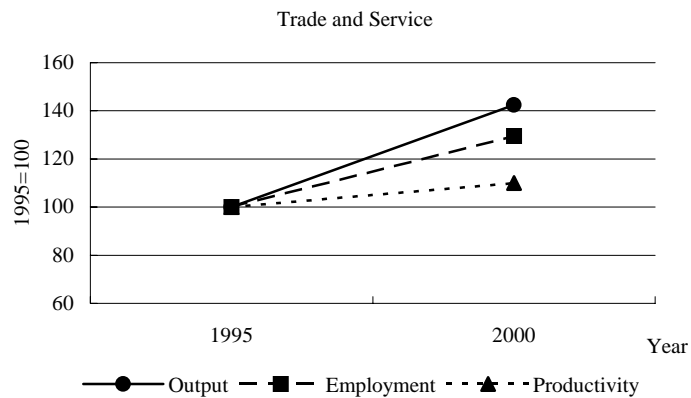
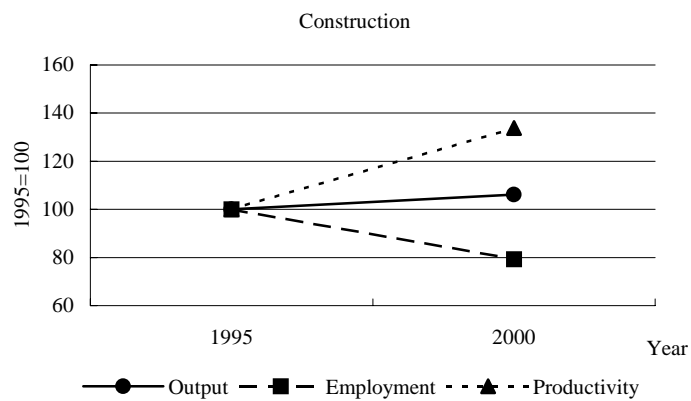
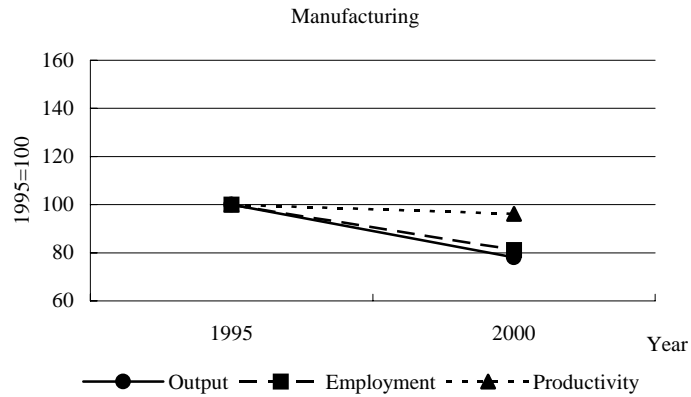
Source: Created from the data published in NSO, Mongolia Statistical Yearbook 2000.

Changes in value-added per worker in an industry reflect changes in the level of output and the level of employment. It is important to analyze whether output change or employment change has the greater influence on changes in labour productivity. In Figures 4.2 we show changes in output, employment and labour productivity for all industry, mining, agriculture, manufacturing, construction and trade and services. The mining and quarrying industry has increased value-added per worker, mainly because of a growth of output; very few additional workers were employed. The construction industry increased value-added per worker, largely because it decreased its labour force. The trade and services industry also increased value-added per worker and enjoyed a positive rate of growth of output and employment. However, agriculture, hunting and forestry experienced a decline in productivity, mainly because of stagnant output growth combined with little change in employment. Finally, manufacturing industry experienced a significant drop in value-added per worker between 1995 and 2000. Moreover, both

output and employment declined sharply. In other words, industry has been shrinking and hurting employment creation in Mongolia.

Figures 4.2
Trends in Output, Employment and Labour Productivity





Source: Created from data published in NSO, Mongolian Statistical Yearbook 2000.

Let us examine more closely the changes in industrial and agricultural output over the period. According to NSO data, the output of furniture, injection syringe, carpets, knitted goods and felt have increased, as well as the output of alcoholic products. However, the output of agricultural products and processed goods (woolen fabrics, sheep

skins, goat skins, leather boots, leather coats, leather jackets, meat and meat products) has fallen dramatically. For example, the output of sheep skins dropped from 193.5 thousand square metres in 1995 to 4.6 thousand square metres in 2000; leather boots from 245.5 thousand pairs in 1995 to 5.6 thousand pairs in 2000; woolen fabrics from 71.1 thousand metres in 1995 to 21.0 thousand metres in 2000; and flour from 158.7 thousand tons in 1995 to 40.2 thousand tons in 2000. The drop in production forced many workers out of their jobs.

Another notable issue in the formal sector is the role of joint ventures between Mongolian and foreign investors. The government has created an incentive scheme for export-oriented foreign direct investment, including duty free imports of raw materials and equipment as well as exemption from corporate income tax for six years (100 per cent exemption for the first three years and 50 per cent for the last three). Most of the joint ventures have been formed in the garment sector,⁴ mainly because of the non-quota status given by the United States to Mongolia. Most of the foreign capital has come from China and South Korea in order to take advantage of the non-quota status of Mongolia in the US market. Around 30,000 jobs have been created in the garment sector.⁵ However, this arrangement may not last long once the quota scheme ends.

Given the current situation in the formal sector in Mongolia, one must ask why production-based manufacturing activities have been stagnant and have failed to expand? One possible explanation has to do with the lack of a comparative advantage in industry. Mongolia has not identified or targeted one or two industries to become core industries that can both earn foreign exchange and help small and medium sized enterprises to grow through industrial linkages. The inefficiency of the capital market and the lack of

managerial skills and experience in industry also are major obstacles. We believe assistance to the formal sector should be a high priority both in manufacturing and in agriculture.

The dynamic informal sector reexamined

The informal sector in Mongolia has attracted attention in recent years. Anderson has collected and analyzed data from 770 informal sector enterprises in Ulaanbaatar.⁶ He has estimated the size of the informal sector and described how the sector has become dynamic and is helping to mitigate economic vulnerability and poverty. He described the size of the informal sector in Ulaanbaatar as follows:

... 70,000 to 100,000 people are engaged in Ulaanbaatar informal sector as their primary occupation – including part-timers, moonlighters, and working pensioners, an estimated 105,000 to 130,000 people are engaged in informal activity, equal to roughly 34-42% of the “able-bodied population of working age” in Ulaanbaatar...⁷

He also analyzed the monetary contribution made by the informal sector to household income and concluded that the average household in Ulaanbaatar receives 32 per cent of its income from informal sources. He even estimated that those informal sector incomes have helped 15 per cent of the households in Ulaanbaatar to rise above the official poverty line.

Bikales et al. conducted another empirical study of the informal sector, including 4,042 enterprises in Ulaanbaatar and seven aimag centers.⁸ Similar to Anderson’s findings, Bikales et al. found that the educational attainment of those actively engaged in

informal sector activities is high, and that more than 40 per cent finished college and above. Their study contains data on value-added in the informal sector and this enables us to compare the productivity of labour in the formal and informal sectors. This is done in Table 4.5 for 1999.⁹ Surprisingly, the informal sector accounted for approximately one-fourth of the combined output of the formal and informal sector activities. Nearly 70 per cent of informal sector output was produced in the trade and services activities. Informal sector output in Ulaanbaatar was four times higher than informal sector output in the seven aimag centers. Total employment in the informal sector is estimated to be around 60,000 and 78 per cent of the informal sector workers resided in the capital city. As regards labour productivity, the informal sector has performed fairly well. Indeed, on average, the productivity of labour is virtually the same in the two sectors. Labour productivity in the informal sector in Ulaanbaatar is very high. For instance, labour productivity in manufacturing in Ulaanbaatar was 27 per cent higher than in the formal sector. On the other hand, labour productivity in the informal sector in the aimag centers was very low compared to labour productivity in the formal sector. This will be discussed later. Evidence from Anderson and Bikales et al. shows that the informal sector in Mongolia is very dynamic and is contributing to the economy and to the creation of employment. There are several reasons for this. First, entry into the formal sector is not very attractive to business people, partly because being a registered formal sector enterprise brings few benefits and these are not enough to cover the costs of entry, including registration fees and the amount of time required to comply with all the formalities. Second, even if one registers one's business as a formal sector enterprise, this

does not improve the chance of receiving a loan from the commercial banks, since they require substantial collateral for loans and their real rates of interest are very high.

Third, the corporate income tax is regarded as very high and this creates an incentive for those who run a micro-enterprise to stay in the informal sector where a fixed monthly tax (known as the informal income tax) is levied. Finally, avoidance of corruption, which is said to be a serious problem for the private sector, provides another reason for entering and staying in the informal sector.

We have concentrated so far on the positive side of the informal sector. It is equally important however to consider its weaknesses. First, the informal sector has been more active in trade and service activities than in manufacturing activities. In the urban areas, the number of foreigners has increased, partly because of the expansion of foreign aid, and they have created demands for a wide range of basic consumer goods, luxury goods and services. In the rural areas, after the collapse of the state-owned distribution system for goods and the deterioration of the rural transportation system, daily consumer goods have become scarce and expensive. As a result, there has been a large increase in the number of traders, who connect the countryside to the cities and Mongolia to neighbouring countries. For instance, aimag centers near the borders with China and Russia have become regional trading centers and cross-border trading has thrived. Traders now also play a bigger role in rural areas to compensate for the demise of the old marketing system and in this way they have helped farmers and herders to sell their products and buy consumer goods. But trading activities alone will not create a high productivity, competitive and rapidly growing economy.

Table 4.5
Output, Employment and Value-added per Worker
in the Formal and Informal Sectors

	Total	Manufacturing	Wholesale & retail trade and repair services	Transport, storage & communications	Financial services
		(1) Output (at current prices)			
Formal	351,954	54,971	191,672	84,691	20,621
Informal	117,255	849	81,965	33,185	1,256
Ulaanbaatar	94,049	554	60,627	31,712	1,157
<u>Aimag</u>	23,206	295	21,338	1,473	100
		(2) Employment			
Formal	184,200	58,500	83,100	34,900	7,700
Informal	60,282	902	38,985	19,651	745
Ulaanbaatar	47,037	465	27,439	18,470	664
<u>Aimag</u>	13,245	437	11,546	1,181	81
		(3) Gross value-added per worker (thousands tugriks)			
Formal	1,911	940	2,307	2,427	2,678
Informal	1,945	942	2,103	1,689	1,686
Ulaanbaatar	2,000	1,192	2,210	1,717	1,742
<u>Aimag</u>	1,752	676	1,848	1,247	1,230
		(4) Index of gross value-added per worker (formal sector=100)			
Formal	100	100	100	100	100
Informal	102	100	91	70	63
Ulaanbaatar	105	127	96	71	65
<u>Aimag</u>	92	72	80	51	46

Source: Data for the formal sector are calculated from data in the National Statistical Office, Mongolia Statistical Yearbook 2000. Data for the informal sector are based on the study by Bikales *et al.*, The Mongolian informal sector: Survey results and analysis.

It is important to recognize, however, that the informal sector does not consist of a homogeneous group of people. There is much heterogeneity within the sector in terms of economic activities and levels of income. Income differences within the informal sector can be very large. Some people earn more than 200,000 tugriks a month, an amount almost triple the average wage in the public sector.¹⁰ Hence, one should distinguish between winners and losers in the informal sector. Winning micro-enterprises in the informal sector could become a foundation for growth, while the bottom end of the

informal sector is likely to contain many people who are poor and need targeted assistance. The government must recognize that the informal sector contains a mixture of the two types of activities and it should adopt two different types of policy: one to provide a supportive business environment for emerging, lively micro-enterprises which will join the mainstream of the Mongolian market economy and another set of policies to provide employment on public works and social assistance for the poor.

Credit for SME-led growth

A lack of capital is always a severe problem for poor and vulnerable people. Micro-enterprises and small and medium scale enterprises (SMEs) complain that they lack access to credit. In rural soums, aimags and remote areas of the countryside, there are people who have promising business plans and technical knowledge and relevant experience, yet they are unable to create viable businesses because capital is unavailable to them.

To overcome this difficulty, the Local Development Fund (LDF) was created to provide small income generation loans to vulnerable group organizations under the National Poverty Alleviation Programme (NPAP). An independent evaluation of the programme estimated that it reached only eight per cent of the total of 192,000 poor households.¹¹ Although its performance was in some respects poor, this scheme appears to be the leading micro-finance institution in urban and rural informal sectors. In 1998, micro-finance institutions under the UNDP's Microstart programme were given the status of Non-Banking Financial Institutions by the Central Bank of Mongolia. The NBFIs provide loans to those who are not able to obtain access to commercial banks. The target

of these micro-finance institutions varies with the institution: some are active in urban areas and others lend mostly in rural areas. According to XAS, a non-banking financial institution created under the Microstart programme, repayment rates have been more than 98 per cent, despite their high monthly interest rate of five per cent. Their quick loan appraisals and quick loan disbursements combined with training in accounting have been well received by their clients. Nearly 35 per cent of their clients are engaged in production (as compared to trading) and include such things as furniture making, leather garments, boot making, clothing and so forth. Even so, the majority of their clients are engaged in trade and services.

Credit Mongol and Goviin Ekhlel, non-banking financial institutions operating in aimag centers and rural soums, have made loans to SMEs in rural aimags, including loans for a meat-processing factory, a poultry factory, animal skin-products and cashmere products. The repayment rate has been more than 90 per cent. Again, their services are highly praised by their clients for providing technical support for managerial skills and information on product markets.

Poverty, especially hardcore poverty, is common in the remote rural areas of Mongolia. In an attempt to address this problem, the Mongolian parliament passed an Employment Promotion Law in April 2001. The law, whose general purpose is to create employment opportunities for the unemployed, is comprehensive and covers a wide range of employment promoting activities. The law clearly states that the government will support self-employed workers and people engaged in partnerships or cooperatives and will provide credit to small enterprises and family businesses. In the spirit of this law, the government should create an attractive business environment that leads to an increase in

the number of non-banking financial institutions and credit and saving cooperatives which lend to SMEs and micro-enterprises. The current high real rates of interest can be reduced by encouraging competition among lenders. It is also important to urge commercial banks to lend more to SMEs and to increase the average size of their loans to SMEs so that they will have adequate working capital.

Public works programmes as a tool for revitalizing local communities

Public works programmes have become very popular in many developing countries as a way to generate employment for the poor. In Mongolia, under the initiative taken by the Poverty Alleviation Programme Office, public works were introduced at the local level and implemented in the 1990s. More than 600 public works schemes, including construction of roads, bridges, dams, sanitation facilities and repair of schools have been implemented. The schemes generated 27,430 temporary jobs lasting about six weeks on average, with an average wage payment of 27,400 tugriks per month.¹² Although the impact of the public works projects on the alleviation of poverty was negligible, mainly because of the short duration of the work undertaken, the schemes had a positive impact on strengthening the community's economic and social infrastructure.

According to data obtained from the Central Employment Regulation Office, the number of people participating in public works programmes has been small, namely, around 8900 in 1998, about 4900 in 1999 and 5100 in 2000. Last year, the Ministry of Social Welfare and Labour started a new programme with the Ministry of Nature and the Environment to accelerate reforestation. The programme is financed by the Japanese and

German aid agencies. The project has two objectives, namely, to protect the environment and to create employment. The number of jobs created under this scheme will be very small, but a large number of similar projects could have a significant impact. One possibility could be the combination of public works programmes and a social infrastructure building programme in Ulaanbaatar and aimag centers where many of the poor now reside. The deterioration of the economic and social infrastructure in aimag centers, as a result of de-industrialization, is well documented in the Participatory Living Standards Assessment survey.¹³ A public works programme could create assets that provide a decent living environment for the poor. This would include safe piped water and stable supply of electricity to those who reside in ger districts, and this, in turn, would make it possible for people to start home-based micro-enterprises.

In 2000, the Mongolian parliament approved the Millennium Road project, an East-West arterial road, which if funded would create 35,000 jobs for eight years for unemployed rural people. This very large infrastructure project would create an opportunity to develop a cohesive set of small public works programmes linked both to the road and to economic production activities and community development for the poor in the rural areas.

A participatory micro-insurance scheme

Mongolia has an unemployment insurance scheme under which workers are entitled to receive unemployment benefits once they become unemployed. Workers must pay a premium, equivalent of one per cent of the monthly wage or salary, shared equally between the employer and the worker. In order to be eligible, the premium must have

been paid for at least two years. The beneficiary is then entitled to receive payments up to 45-70 per cent of the level of wages during the last three months of employment, depending on total years of service. Unemployment benefits last until a new job is found or for up to a maximum of two and half months.

Currently, this benefit scheme gives those who contribute to the social insurance fund for more than two years an incentive to come to the employment registration office when they are laid off. The employment registration office has local offices in all the soum centers. Even so, many people do not register with the office when they become unemployed. Indeed, only 1.5 per cent of the registered unemployed are eligible for unemployment benefits. This shows that the unemployment insurance scheme is ineffective and fails to cover most of the working population.

The unemployed poor have very little protection from unforeseen events such as injury, theft, bankruptcy and death. If a breadwinner becomes ill, it affects all members of his household and his son, for example, may have to withdraw from school to help his father's business. Poverty cannot be measured simply by a household's level of income; the vulnerability of the household to risks also is relevant, even risks which might seem to be rather trivial to the non-poor. Poor people live precarious lives and are highly vulnerable to sudden external shocks such as injury, sickness, theft and fire. Yet precisely because of their poverty, the poor find it difficult to participate in social insurance schemes, even when they exist. Hence when a poor person loses a job, there is likely to be little protection to compensate for the loss of income.

It is for these reasons that the present social safety net needs to be restructured to ease people's fear of accidents. In India, the Self-Employed Women's Association has

developed a participatory micro-insurance scheme for informal workers and it insures more than 32,000 women workers.¹⁴ A similar scheme, suitably adapted to local conditions, could be attempted here.

A multi-purpose micro-insurance scheme, which covers losses caused by illness, injury, fire, theft and so on, might be a modest step in the right direction. The scheme should be demand-driven and must be affordable by low income people and yet meet their needs. Risks may be distinguished by the type of occupation and residential area. Insurance could be provided, for instance, by credit and savings cooperatives, which have become popular both in the urban and rural areas.¹⁵ Cooperative members would decide which risks should be covered in a participatory way. A herders' cooperative might decide, for example, to cover livestock diseases while a cooperative of small shopkeepers might decide to cover risks from fire and theft. The premium payment would have to come from member's savings and the members, of course, would have to decide what types of risk they would like to cover. This is a small insurance scheme – a pro-poor insurance scheme – and does not cover all the risks faced by the poor. But even a little coverage can make a big difference, particularly for those who are poor, and it should be possible to design institutions which can address the urgent needs of the poor in a risk-filled environment.

Human resources development at the crossroads

It is now well recognized that human resources development is one of the keys to a sustainable growth path. Investing in people, especially in children, was one of the virtues of socialist countries. Mongolia was no exception and its long-standing emphasis

on education is admirable, similar in some ways to its neighbouring countries of China, Japan and South Korea. Mongolia has had relatively high school enrollment rates and, thanks to this, the country is well endowed with human capital. However, this human capital is beginning to depreciate, especially among the poor.

Table 4.6 contains information on the number of school-aged children (age 8 –15) who were attending a school as well as the number of those who attended but dropped out of school at the time the Living Standards Measurement Survey was conducted in 1998.¹⁶ More than 15 per cent of children from very poor families in Ulaanbaatar and aimag centers dropped out of school, while more than 90 per cent of children in the other income groups were attending schools. On the other hand, in the rural areas, the number of children of non-poor families who stopped attending school was larger than those from poor and very poor families. It is possible that the more wealthy families in rural areas, who have more livestock, need their children, particularly boys, to help tend the herd, and hence the male children of the non-poor drop out of school.

The Table contains information on how many hours a child spends on domestic work, including cleaning the house, preparing meals for the family, washing the family clothes and fetching wood and water. It is striking that children of the very poor in rural areas who dropped out of school, on average, did domestic work for 47.5 hours per week. In contrast, the average number of hours devoted to domestic work by school leavers in Ulaanbaatar was only 3.9 hours per week, significantly less than those in other locations. This pattern may reflect the fact that in rural areas herding is dominant and requires family members to work on and off the pastures. In the urban areas, however, those who drop out of school might work on the street instead of engaging in domestic work.

The emergence of child labour as well as street children in Mongolia has caught the attention of the public. However, one needs to examine closely why dropouts have increased so conspicuously. In the early 1990s, many children left school after the massive privatization of livestock and the sharp increase in the number of herders. Children were needed to help look after the animals. In addition, young primary school students from rural areas who lived in dormitories during the school year have dropped out because of poor living conditions in the dormitories. Apart from economic hardship, the physical degradation of the school environment has become a major cause of high dropout rates. Finally, local school registration fees have become a disincentive to attend school, particularly for those who migrated to the urban areas. In Ulaanbaatar, for example, the registration fees could cost a family of four (consisting of two adults and two children) around 150,000 tugriks.

Table 4.6
Proportion of In-school and Drop-out Students and
Hours Worked at Home by Region

Status	All	Ulaanbaatar	<u>Aimag</u> center	<u>Soums</u>	Rural areas	
(1) Proportion of in-school and drop-out students by regions (%)						
Very poor	In school	86.2	84.8	82.6	90.7	90.5
	Dropped out	13.8	15.2	17.4	9.3	9.5
Poor	In school	91.3	100.0	93.6	91.3	81.4
	Dropped out	8.7	0.0	6.4	8.7	18.6
Non-poor	In school	89.5	99.0	94.2	92.9	73.5
	Dropped out	10.5	1.0	5.8	7.1	26.5
Total	In school	89.1	95.6	90.9	92.1	77.6
	Dropped out	10.9	4.4	9.1	7.9	22.4
(2) Number of hours worked at home (hours per week)						
Very poor	In school	11.9	8.0	9.4	15.1	19.4
	Dropped out	16.4	4.5	13.7	28.0	47.5
Poor	In school	13.6	4.8	12.3	19.6	18.8
	Dropped out	18.8	0.0	21.0	19.0	17.7

Non-poor	In school	13.9	10.5	14.1	14.6	17.7
	Dropped out	16.4	0.0	12.4	10.9	18.9
Total	In school	13.4	9.1	12.5	15.6	18.2
	Dropped out	16.8	3.9	14.6	17.1	20.4

Source: Created from data from Living Standards Measurement Survey 1998 (Government of Mongolia and UNDP).

Once dropouts start to increase, for whatever reason, it is difficult to reverse the trend. A rising trend of dropouts would weaken the country's human resource base and make it difficult to achieve long-term economic growth with equity. At the individual level, education is a key to human security as well as to prosperity. It is thus essential that Mongolia should give high priority to making schools attractive places of learning and make strenuous efforts to keep children in school and ensure that they learn while they are there.

One important step for the government to take is to give parents an incentive to send their children to local schools as long as possible. Those who migrated from rural to urban areas often mentioned deficiencies in school facilities and the low quality of education in the rural areas as reasons to move to the urban areas. School facilities in rural areas thus need to be renovated to provide a decent environment for studying, and the necessary renovations can be linked to small scale, local public works programmes.

Local schools have the potential to provide extension services to herders and farmers. Aimag schools, in particular, could be developed into regional educational and technological hubs where local herders and others could learn from and teach each other – herders teaching their skills to the young, and a successful small business person sharing his managerial skills and business sense with others. This linkage of extension services to basic education worked well in rural Japan and it is likely that a similar system could work well in Mongolia too.

Conclusions and recommendations

In this chapter we have analyzed the situation in the labour market. We have emphasized the expansion of employment in trade and service industries and the sharp reduction in employment in manufacturing. Small and medium sized enterprises in the informal sector have grown rapidly and this has been assisted by micro-finance institutions in Ulaanbaatar and some aimag centers. Public works programmes have generated employment opportunities for the unskilled and the unemployed but the amount of employment created has been too small to have a significant effect on reducing poverty. The number of children who have dropped out of school has increased, partly because of a deteriorating learning environment at school, including lack of textbooks and decaying dormitory facilities. We also have analyzed the social insurance scheme for the unemployed and have found that it is difficult for the poor to utilize the scheme.

Employment generation is a key to poverty alleviation in Mongolia. In order to create more jobs, a number of government policy measures affecting the labour market would be desirable.

Our first recommendation is that the government should give high priority to promote small and medium sized industries in agriculture and manufacturing. Opportunities should be grasped to increase value-added and thereby create a strong base for sustainable growth and the generation of additional employment, particularly in Ulaanbaatar and the aimag centers. Infrastructure development, tax incentives, credit schemes and technical assistance should be integrated to support small and medium enterprises and help them overcome short term obstacles to their long term viability. The

government should accelerate the expansion of non-banking financial institutions and various types of cooperatives into soums and rural areas. This includes continuing support for the Microstart programme and selective provision of vocational training programmes.

Our second recommendation is that the government should create a de-centralized incubation center for micro-enterprises in every aimag center and urban ger district. The centers should provide consultancy and technical services and assist micro-enterprises to become registered. Skilled retired persons and highly educated young persons should work closely together as core staff members in each center. Registration with the center, we believe, will increase the credibility of the micro-enterprises and make it easier for them to obtain loans from micro-finance institutions.

Our third recommendation is that the government should expand public works programmes as a way to increase public goods in local communities. The programmes should be coordinated with infrastructure investment in aimag centers and ger districts in Ulaanbaatar where piped water, electricity and housing conditions are poorly developed. In the rural areas, the programmes should be integrated into government plans to improve the business environment for small and medium sized enterprises, including road construction and the creation of incubation centers.

Our fourth recommendation is that the government should give very high priority to the rehabilitation of school facilities. In addition, local communities should be encouraged to turn their aimag school into a regional knowledge hub where local people can design programmes suitable to the local context, such as developing management

skills for herders. These knowledge hubs could be combined with an incubation center for micro-enterprises as described above.

Our fifth recommendation is that the government should provide a social safety net for those who are unable to work or obtain employment, through direct transfer payments to the most needy. In addition, the government should experiment with a micro-insurance scheme to cover income losses due to accident, injury and sickness. Local non-governmental organizations such as credit and savings cooperatives could implement this scheme, under which members of the cooperative would pay their insurance premium out of their savings deposit.

Notes

1. The data used here were obtained from the Mongolian Statistical Yearbook 2000, Population and Housing Census 2000, and Living Standards Measurement Survey 1998.
2. The data were provided during an interview with an official at the Ministry of Industry and Trade.
3. The Government of Mongolia has not clarified its definition of small- and medium-scale enterprises. They have developed criteria based on the number of employees and the size of profits, taking into account the type of economic activity in which each firm is engaged. There is no national standard classification of firms by size. Thus the numbers mentioned in the text are mixed results of different standards.
4. There are more than 100 such joint ventures, according to the Ministry of Industry and Trade.
5. Unpublished data obtained from the Mongolian Chamber of Commerce.
6. James W. Anderson, The Size, Origins and Character of Mongolia's Informal Sector During the Transition, World Bank Policy Research Working Paper 1916, Washington, May 1998.
7. Ibid., p.12.
8. Bill Bikales, Chimed Khurelbaatar and Karin Schelzig, Development Alternatives Inc. for the Economic Policy Support Project, United States Agency for

- International Development, The Mongolian informal sector: Survey results and analysis, Manuscript, Ulaanbaatar, April, 2000.
9. Data for the formal sector include both rural and urban areas. Thus, the comparison should be interpreted cautiously.
 10. The average wage in the formal sector is 62,300 tugriks per month. The range of the monthly wage in the formal sector is from 38,700 tugriks for community service workers to 78,400 tugriks for transport, storage and communications workers.
 11. Government of Mongolia, UNDP and World Bank, Independent Evaluation of the National Poverty Alleviation Programme and Options Post-2000, mimeo., Ulaanbaatar, 1999.
 12. National Poverty Alleviation Programme Office, Government of Mongolia, National Poverty Alleviation Programme Final Summary Report 1994-2000, Ulaanbaatar, 2001.
 13. National Statistical Office and World Bank, Participatory Living Standards Assessment, 2000.
 14. International Labour Office, World Labour Report 2000, pp.200-5.
 15. It is estimated that at the end of June 2001, there were about 110 cooperatives.
- National Statistical Office, Living Standards Measurement Survey 1998, Ulaanbaatar, 1999.