

HUMAN DEVELOPMENT REPORT MONGOLIA 2000

Reorienting the state

Printed in Mongolia



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ADB	Asian Development Bank
COMECON	Council for Mutual Economic Assistance
CMTU	Confederation of Mongolian Trade Unions
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HMIEC	Health Management, Information and Education Centre
IMF	International Monetary Fund
LSMS	Living Standard Measurement Survey
MHDR	Mongolian Human Development Report
MHSW	Ministry of Health and Social Welfare
MNE	Ministry of Nature and Environment
NGOs	Non Governmental Organizations
NPAP	National Poverty Alleviation Programme
NSO	National Statistical Office
NUM	National University of Mongolia
SMEs	Small and Medium Sized Enterprises
STIs	Sexually Transmitted Infections
TACIS	Technical Assistance to the Commonwealth of Independent States
Tg	tugrug (unit of Mongolian currency)
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children’s Fund
UNV	United Nations Volunteers
USA	United States of America
WASH 21	Water Sanitation and Hygiene Project
WB	World Bank
WHO	World Health Organizations

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Unemployment rate

Aimags and city	1994	1995	1996	1997	percentage	
					1998	1999
Arkhangai	11,7	5,7	5,4	6,4	5,5	4,9
Bayan-Olgii	22,3	10,1	10,2	22,7	11,3	6,5
Bayankhongor	7,4	6,0	9,1	8,4	6,4	5,5
Bulgan	10,7	6,1	7,8	7,7	6	5,7
Govi-Altai	9	9,4	7,4	7,9	6,8	6,9
Dornogovi	5,3	5,8	5,9	5,8	4,6	4,1
Dornod	14	18,9	24,9	25,5	21,4	8,9
Dundgovi	4,2	3,7	4	5,9	4,9	3,7
Zavkhan	8,6	4,7	7	8,7	8,4	6,7
Uvurkhangai	8,7	5,6	7,1	4,7	5,8	5,0
Umnugovi	4,2	4,6	4,5	5,5	4,5	3,8
Sukhbaatar	10,5	5,6	6,5	8,0	6,5	4,9
Selenge	4,7	7,6	9,6	11,1	5,7	4,5
Tuv	16,2	4,1	3,4	5,3	4,5	3,8
Uvs	5,1	2,7	4,3	5,1	4,5	4,4
Khovd	5,2	5,4	5,4	5,9	5,6	5,7
Khuvsgul	13,8	4,8	5,8	7,0	6,0	3,7
Khentii	16,2	6,3	7,2	8,1	7,0	6,2
Darkhan-Uul	4,6	3,6	5,4	9,6	7,1	5,8
Ulaanbaatar	5,8	3,6	5,5	5	3,5	3,1
Orkhon	7,8	5,5	5,2	6,4	5,9	8,1
Govisumber	22,1	8,3	9,4	11,6	7,7	9,6
Total	8,7	5,4	6,5	7,5	5,8	4,6

Source : NSO,2000



By endorsing a new Constitution in 1992 and committing herself to the supreme goal of building a humane, democratic civil society upholding human rights and freedoms, Mongolia has irrevocably embarked upon the road of political, economic, social and spiritual reforms to build a democratic society underpinned by a market economy.

Governments round the world are embracing the idea of human development in a token of recognition of the changed times where the human factor has come to prevail over the pace of economic growth as the primary measure of development. There should be no doubt whatsoever that the source of Mongolia's development and progress is the precious human being.

We have every ground to take pride in the solid foundation that our democratic processes have laid for the furtherance of human development. In today's Mongolia an individual has the opportunity to choose a vocation most suitable and build one's life thereon, to influence and monitor any issue affecting one's interests.

Focusing special attention on human development, the Mongolian State is doing everything possible to set upward trends. However, the economic constraints typical of all the developing countries and moreover, such phenomena of global and regional dimensions as environmental degradation, climatic changes and others are indeed being factors working against human development in Mongolia.

International cooperation to address these problems and to create conditions favoring human development has become a reality given the worldwide agreement on the need to broaden this alliance in the population, sustainable development and environmental fields.

A national Human Development Report serves as a valuable source of concrete information and data that provide the basis for catalyzing national action and mobilizing international support to deal with the common obstacles in the way of social advancement.

On the threshold of this new century we see our second Human Development Report. Placing in the limelight the issue of re-orienting the State, this document draws a conclusion that a state of a new substance is needed to tap the initiative and creativity of the people of Mongolia, and describes the seven functions of the State. The Report gives us the opportunity to learn about the status of such issues pertinent to public services as health and education, employment and income generation, social insurance and social care poverty and the environment. It gives an account of the constraints and challenges these face in the process of transition, and tables the options for solution as viewed by analysts and the academia.

This Report is a product combining the independent thought and analysis of our talented experts and researchers, and the global experience of international consultants. By offering specific solutions apart from describing the situation, this one appropriately moves yet another level up from Mongolia's first ever Human Development Report of 1997.

The participation of all the sections of Mongolian society – the academia, the governmental and non-governmental organizations, the private sector and the communities – is absolutely critical in ensuring human development in our country. The Mongolian Government will do all it can to secure the levels achieved and to promote a steady and sustained progress in this area.

I appreciate the second Human Development Report of Mongolia as an important document for our civil servants at all levels and the public at large to share in theoretical and empirical knowledge, to appraise the situation and to generate fresh ideas. The Government of Mongolia expresses deep gratitude to the experts and researchers for their pro-active contribution, and the United Nations Development Programme and other UN Agencies for all-round support to the development of this document.



Rinchinniyamin Amarjargal
Prime Minister of Mongolia

Ulaanbaatar
April 2000

COMMON COUNTRY INDICATORS

1. HUMAN RESOURCES

1.1 Population

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total population, at the end of the year	thousands	1,900.6	2,095.6	2,149.3	2,187.2	2,215.0	2,250.0	2,280.0	2,317.5	2,353.3	2,387.0	2,420.5	
Population growth rate	annual %	..	2.5	1.7	1.3	1.6	1.3	1.6	1.7	1.5	1.4	1.4	
Urban population	% of population	53.5	57.0	57.0	57.0	56.5	54.6	53.6	51.9	52.1	52.5	51.1	

Source: NSO, 1999

1.2 Employment

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Labor force	thousands	..	..	..	851.1	860.0	844.7	861.4	839.8	847.2	852.0	859.3	869.8
Labor force participation rate	% of activ. pop.	..	..	..	79.6	74.9	74.5	73.9	70.8	69.9	69.3	68.4	68.0
Employed labor	thousands	..	764.1	783.6	795.7	806	772.8	786.5	794.7	791.8	788.3	809.5	830.0
Percentage of employed in:													
Agriculture	%	..	32.0	33.0	34.5	36.5	39.1	42.7	44.6	45.2	47.9	49.7	48.5
Industry	%	..	16.1	16.8	16.6	16.6	16.1	12.8	13.6	13.2	12.7	12.4	11.9
Others	%	..	51.9	50.2	48.9	46.9	44.8	44.5	41.8	41.6	39.4	37.9	39.6

Source: NSO, 1999

1.3 Unemployment rate

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total unemployment	%	..	..	..	6.5	6.3	8.5	8.7	5.4	6.5	7.5	5.8	4.6
Male	%	..	..	2.9	5.5	6.4	7.8	8.0	5.0	6.3	7.8	6.4	5.2
Female	%	..	..	3.2	7.5	6.1	9.4	9.9	6.1	7.2	7.3	5.2	5.3
Minimum monthly wage	tugs.	..	..	..	..	..	..	..	..	..	..	12,000	..

Source: NSO, 1999

1.4 Poverty

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Poverty line (official)	tugs/person/month	..	..	..	260	990	3,200	4,200	8,000	10,400	..	..	..
Urban	tugs/person/month	..	..	..	150	650	2,900	3,700	6,900	9,720	..	..	..
Rural	tugs/person/month	..	..	..	..	..	..	..	..	..	..	..	..
Poverty line (LSMS)	tugs/person/month	..	..	..	..	..	..	..	7,240	..	..	14,674	..
Headcount index /LSMS/	% of population	..	..	..	..	..	..	..	36.3	..	..	35.6%	..

Source: NSO, 1999

2. ECONOMIC INDICATORS

2.1 GDP

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP (at constant 1993 prices)	(in million tugs.)	172,737.3	214,027.7	208,641.9	189,349.2	171,365.4	166,219.1	170,042.3	180,775.4	185,047.7	192,508.3	199,205.2	..
GDP per capita	(in US\$)	1,810.6	1,645.7	1,245.0	616.8	477.5	328.2	333.8	328.9	401.4	442.0	452.0	..
GDP (average annual growth)	%	5.7	-4.2	-2.5	-9.2	-9.5	-3.0	2.3	6.3	2.4	4.0	3.5	..
GNP per capita (average annual growth)	%	..	3.2	-5.1	-5.6	-9.8	-9.2	1.4	4.9	1.5	2.4	2.1	..
Exchange rates (annual average)	US\$ 1 = tugs.	3.0	..	4.0	25.7	40.0	393.7	409.5	446.9	547.2	791.0	837.4	..
Consumer price index (End of the year)	1991.01.16=100	..	..	..	152.7	649.8	1838.7	3057.8	4681.8	7423.2	8729.4	..	..

Source: NSO, 1999

2.2 Structure of the economy

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture	% of GDP	14.3	15.5	15.2	14.1	30.2	35.1	36.9	36.7	36.8	33.5	32.8	..
Industry	% of GDP	31.8	32.7	35.6	30.2	32.0	30.9	30.5	32.4	20.6	24.1	24.1	..
Construction	% of GDP	4.4	6.1	5.0	4.0	1.9	1.6	2.1	2.7	3.8	3.3	3.4	..
Trade	% of GDP	22.3	19.0	19.4	27.0	15.4	16.0	11.7	12.3	18.3	18.4	18.9	..
Transport & communication	% of GDP	13.0	12.0	12.0	6.7	5.5	4.6	5.8	4.6	5.8	6.6	6.7	..
Services	% of GDP	12.9	13.4	11.5	17.1	12.9	9.5	10.5	11.2	14.7	13.9	14.0	..
Others	% of GDP	1.3	1.3	1.2	0.9	2.1	2.3	2.4	0.1	0.0	0.0	0.0	..

Source: NSO, 1999

2.3 External Trade

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total exports (fob)	US\$ mln.	689.1	721.5	660.7	348.0	388.4	382.6	356.1	473.3	424.3	451.5	316.8	335.6
Total imports (cif)	US\$ mln.	1,095.5	963.0	924.0	360.9	418.3	379.0	258.4	415.3	468.3	472.4	425.8	425.8
Trade balance	US\$ mln.	-406.4	-241.5	-263.3	-12.9	-29.9	3.6	97.7	58.0	-26.6	-16.8	-155.6	-90.2

Source: NSO, 1999

COMMON COUNTRY INDICATORS

1. HUMAN RESOURCES

1.1 Population

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total population, at the end of the year	thousands	1,900.6	2,095.6	2,149.3	2,187.2	2,215.0	2,250.0	2,280.0	2,317.5	2,353.3	2,387.0	2,420.5	
Population growth rate	annual %	..	2.5	1.7	1.3	1.6	1.3	1.6	1.7	1.5	1.4	1.4	
Urban population	% of population	53.5	57.0	57.0	57.0	56.5	54.6	53.6	51.9	52.1	52.5	51.1	

Source: NSO, 1999

1.2 Employment

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Labor force	thousands	..	..	..	851.1	860.0	844.7	861.4	839.8	847.2	852.0	859.3	869.8
Labor force participation rate	% of activ. pop.	..	..	..	79.6	74.9	74.5	73.9	70.8	69.9	69.3	68.4	68.0
Employed labor	thousands	..	764.1	783.6	795.7	806	772.8	786.5	794.7	791.8	788.3	809.5	830.0
Percentage of employed in:													
Agriculture	%	..	32.0	33.0	34.5	36.5	39.1	42.7	44.6	45.2	47.9	49.7	48.5
Industry	%	..	16.1	16.8	16.6	16.6	16.1	12.8	13.6	13.2	12.7	12.4	11.9
Others	%	..	51.9	50.2	48.9	46.9	44.8	44.5	41.8	41.6	39.4	37.9	39.6

Source: NSO, 1999

1.3 Unemployment rate

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total unemployment	%	..	..	..	6.5	6.3	8.5	8.7	5.4	6.5	7.5	5.8	4.6
Male	%	..	..	2.9	5.5	6.4	7.8	8.0	5.0	6.3	7.8	6.4	5.2
Female	%	..	..	3.2	7.5	6.1	9.4	9.9	6.1	7.2	7.3	5.2	5.3
Minimum monthly wage	tugs.	..	..	..	..	..	..	..	..	..	..	12,000	

Source: NSO, 1999

1.4 Poverty

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Poverty line (official)													
Urban	tugs/person/month				260	990	3,200	4,200	8,000	10,400			17600
Rural	tugs/person/month				150	650	2,900	3,700	6,900	9,720			13800-16400
Poverty line (LSMS)													
Headcount index (LSMS/	tugs/person/month								7,240			14,674	
	% of population								36.3			35.6%	

Source: NSO, 1999

2. ECONOMIC INDICATORS

2.1 GDP

Indicator	Unit of measure	1985	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP (at constant 1993 prices)	(in million tugs.)	172,737.3	214,027.7	208,641.9	189,349.2	171,365.4	166,219.1	170,042.3	180,775.4	185,047.7	192,508.3	199,205.2	
GDP per capita	(in US\$)	1,810.6	1,645.7	1,245.0	616.8	477.5	328.2	333.8	328.9	401.4	442.0	452.0	
GDP (average annual growth)	%	5.7	-4.2	-2.5	-9.2	-9.5	-3.0	2.3	6.3	2.4	4.0	3.5	
GNP per capita (average annual growth)	%	..	3.2	-5.1	-5.6	-9.8	-9.2	1.4	4.9	1.5	2.4	2.1	
Exchange rates (annual average)	US\$ 1 = tugs.	3.0	4.0	4.3	25.7	40.0	393.7	409.5	446.9	547.2	791.0	837.4	
Consumer price index (End of the year)	1991.01.16=100	..	..	..	152.7	649.8	1838.7	3057.8	4681.8	7423.2	8729.4	..	

Source: NSO, 1999



The first Mongolian Human Development Report (MHDR) which was launched in September 1997 provided an assessment of how Mongolians were progressing in the transition period. This first MHDR called attention to an important aspect of Mongolia’s progress, not just in macroeconomic terms, but in terms of how people are doing in their daily lives – how the expanding choices of modern Mongolia are leading to greater freedoms, expanded business opportunities, participation in the global economy, more open coverage of issues by the media and a better quality of life.

Likewise, the 1997 report looked at the wellbeing of people not just in income measures but in terms of physical and intellectual development. The MHDR 1997 showed that many people were prospering in the transition but that others were not and that expanding poverty and disparity was a serious problem.

As one former Head of State observed recently, the term “human development” has now become a regular term in Mongolian discussions of development and directions of the nation. Human development is being viewed as the end result of Mongolia’s forward progress. The reforms underway can serve as a means to achieve accelerated human development.

The Mongolian Human Development Report 2000 is again an independent piece. It is not an official document of the Government nor UNDP. Rather a team of independent Mongolian writers has done the research and prepared the report. The document was subsequently reviewed by a multitude of individuals from academia, NGOs, Government and the UN agencies operating in Mongolia. The MHDR 2000 provides a further snapshot on the status of human development but it also addresses a specific theme – the role of the State in modern Mongolia.

While the State played a dominant role in the pre 1990 era with a presence in virtually every aspect of life, Mongolians have exercised their democratic right of choice to forge a new direction with an open society, a market economy and individual rights and liberties that are enshrined in the Constitution. While there has been a dramatic and successful effort to remove the shackles of the socialist state, there is not yet a consensus on what is the desired role of the State in modern Mongolia. The Mongolian Human Development Report 2000 is an attempt to put possibilities on the table and hopefully facilitate the debate on what Mongolians want the State to do.

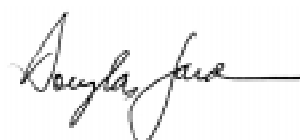
Clearly there is a central role for the State in assuring basic social services for all citizens. Commitments have been taken by the Mongolian Government at various UN Summits on issues such as universal primary education and access to quality health care. The question arises, what is the role of the modern State in reaching these commitments?

Likewise, a functioning market economy needs effective State institutions (judiciary, central bank, etc) to ensure a level playing field and that all players follow the rules. The MHDR 2000 refers to this as a “paradox of transition”. On one hand in the post socialist era there is a desire to minimize the role of the State, yet on the other hand there is still a fundamental need for the State to effectively support the operation of a market economy, build infrastructure and ensure healthy, well-educated people. Thus the question is not just one of a bigger or a smaller State, but rather to have a more effective state that is both responsive to citizens and operating within its financial means.

In addition to the need for clarity on “what” the State does is the question of “how” the state operates. The MHDR 2000 calls for a service orientation of civil servants and the State to support citizens. It calls for transparency and accountability of the State – not just every four years at the time of elections but on a daily basis with the free flow of information and a service mentality vis-à-vis the citizens.

Global experience has shown that sound governance is a central ingredient for the sustainable and equitable development of a nation's people. A recent UNDP assessment of poverty reduction programmes in 23 countries around the globe found that sound governance was in many cases the "missing link" in successful poverty reduction. There is a clear need for citizens to be involved in the decisions that affect them. Administrators at all levels of the State as well as donors should be held accountable for the use of funds invested in poverty programmes.

We thank the many people and organizations that have contributed to this year's Human Development Report. We hope that it may serve both as a useful resource tool and as a stimulus for discussion on this central theme of the role of the State in modern Mongolia.



Douglas Gardner
UN Resident Coordinator &
UNDP Resident Representative

Ulaanbaatar
April 2000

Population

(by permanent population and location ,at the end of the year)

	thous.persons				
Aimags and city	1995*	1996*	1997*	1998*	1999**
Arkhangai	103,0	104,0	103,6	103,7	104,3
Bayan-Ulgii	90,1	91,6	94,1	96,2	100,0
Bayankhongor	89,5	90,5	90,9	91,6	92,3
Bulgan	63,3	64,1	65,2	66,1	67,3
Govi-Altai	74,1	74,8	75,2	74,9	74,1
Dornogovi	48,2	48,8	49,4	49,9	50,5
Dornod	84,6	85,5	83,7	84,3	84,5
Dundgovi	52,7	53,4	53,9	54,4	54,8
Zavkhan	105,8	106,5	106,4	105,0	104,0
Uvurkhangai	112,9	113,8	115,6	116,9	118,4
Umnugovi	44,8	45,5	45,7	46,2	46,3
Sukhbaatar	59,1	59,5	59,8	59,7	59,7
Selenge	102,9	104,3	105,5	107,0	108,5
Tuv	110,9	112,3	113,8	113,7	111,9
Uvs	101,9	102,9	101,8	100,5	98,4
Khovd	90,4	91,8	93,0	93,0	94,5
Khuvsgul	120,1	121,3	122,7	123,6	124,5
Khentii	75,2	76,3	77,3	77,7	78,3
Darkhan-Uul	89,4	90,9	92,5	94,2	95,5
Ulaanbaatar	616,9	629,2	645,6	668,8	691,0
Orkhon	64,6	67,3	70,8	72,5	74,3
Govisumber	12,4	12,8	13,1	13,1	13,3
Total	2312,8	2347,1	2379,6	2413,0	2446,4

* Permanent population

** Preliminary results of 2000 Population and Housing Census, NSO

Source: NSO,2000

Number of households

Number of households							thous.	
Aimags and city	1969	1979	1989	1993	1995	1997	1998	1999*
Arkhangai	15,6	16,6	19,1	29,0	25,9	25,4	25,4	24,7
Bayan-Olgii	10,6	12,5	17,3	15,7	17,4	18,3	19,2	19,3
Bayankhongor	12,4	13,6	16,1	20,1	20,6	21,5	21,2	20,6
Bulgan	8,4	8,9	11,7	14,9	15,2	15,7	16,4	15,4
Govi-Altai	10,0	10,7	12,5	15,2	15,6	15,4	16,0	14,8
Dornogovi	9,5	8,7	12,4	11,5	10,9	11,4	11,5	12,2
Dornod	7,3	12,1	17,5	17,3	17,3	17,1	16,9	17,2
Dundgovi	7,0	8,2	10,3	11,9	11,6	12,1	12,3	12,3
Zavkhan	15,7	16,1	18,4	22,4	22,9	25,9	22,8	21,6
Uvurkhangai	15,9	17,9	21,4	28,2	28,4	29,3	29,1	26,9
Umnugovi	6,5	7,3	9,5	11,2	10,7	11,3	11,3	11,6
Sukhbaatar	7,7	13,5	17,9	12,1	12,3	12,7	12,7	12,8
Selenge	9,2	8,8	10,2	20,7	21,4	22,1	22,5	22,9
Tuv	14,5	17,1	21,7	25,0	24,4	25,2	25,1	23,7
Uvs	12,5	14,2	17,7	22,2	22,6	21,1	21,9	20,3
Khovd	10,1	11,6	15,1	18,5	18,7	18,9	19,0	18,2
Khuvsgul	17,8	19,4	23,2	28,3	28,3	29,0	29,2	28,7
Khentii	10,3	12,0	16,6	18,3	17,5	17,9	17,8	17,5
Darkhan-Uul	3,7	8,1	18,2	21,7	20,0	20,4	21,0	19,5
Ulaanbaatar	47,5	70,5	108,1	130,6	135,8	142,3	145,1	161,8
Orkhon		3,2	12,9	14,4	13,8	15,1	16,0	17,3
Govisumber				2,7	2,8	2,9	2,9	3,0
Total	252,2	311,0	427,8	511,9	514,1	531,1	535,3	542,3

*Preliminary results of 2000 Population and Housing Census

Source : NSO,2000

Maternal mortality rate. The annual number of deaths of women from pregnancy and delivery related causes per 100 thousand of live births.

Monthly average wages and salaries. It is an average monthly amount (main and additional) paid for labour compensation. In the case of Mongolia this indicator has not been adjusted by the Consumer price index yet.

Participation. Literally, taking part. Effective participation occurs when group members have an adequate and equal opportunity to place questions on the agenda and to express their preferences about the final outcome during decision-making. It can occur directly or through legitimate representatives.

Percentage of the number of students at all educational level to population at the specific age. It is calculated as a ratio of students at the primary, secondary, tertiary education (net number) to the number of population of the particular age. In the case of Mongolia according to the Educational law the particular age depends on the age of entry to the primary school and further educational levels. This indicator is estimated as a ratio of students of specific education to the population of the particular age.

Primary education. Education at the first level (according to the International Standard Classification of Education –level 1), the main function of which is to provide primary or basic education. The successful graduates from the 4th grade of secondary schools are considered as persons with primary education.

Private sector. In a mixed economy, the part of the economy not under government control and that functions within the market; private enterprise.

Private consumption. The market value of all goods and services, including durable products (such as cars, washing machines, home computers and etc.), purchased or received as income in kind by households and non-profit institutions. It excludes purchases of dwellings but includes imputed rent for owner-occupied dwellings.

Public sector. The part of the economy that is not privately owned, either because it is owned by the state or because it is subject to common ownership. Includes the national government, local authorities, national industries and public corporations.

Purchasing power parity. The purchasing power of a country's currency: the number of units of that currency required to purchase the same representative basket of goods and services that a US dollar would buy in the United States.

Reforestation. In the case of Mongolia reforestation area includes area, which has been regenerated. This terms differs from that used in the Human Development Report.

Rule of law. Equal protection (of human as well as property and other economic rights) and punishment under the law. The rule of law reigns over government, protecting citizens against arbitrary state action, and over society generally, governing relations among private interests. It ensures that all citizens are treated equally and are subject to the law rather than to the whims of the powerful. The rule of law is an essential precondition for accountability and predictability in both the public and private sectors.

Secondary education. Education at the second level (according to the International Standard Classification of Education – level 2), the main objective is to provide specialized or secondary education (it might be both) during at least 4 years. It consists of 2 levels:

-1st level : incomplete secondary education. In the case of Mongolia it comprises the students from the 5th to 8th grades of secondary

schools. the general educational institutions. The successful graduates from the 8th grade are considered as persons with incomplete secondary education.

- 2nd level : complete specialized or secondary (or both) education. In the case of Mongolia it comprises the students from the 9th grade to 10th grade of secondary schools or vocational schools. The successful graduates from these institutions considered as persons with complete secondary education or primary vocational education.

Sustainability. Sustainable processes and institutions meet certain criteria: they do not exhaust resources for the future generations; the capacity of people and institutions is permanently enhanced; and responsibilities and benefits are broadly shared.

Tax revenue. Compulsory, unrequited, non-repayable receipts for public purpose (interest collected on tax areas and penalties collected for non-payment or late payment of taxes).

Tertiary education. Admitted persons who successfully completed the secondary schools or primary vocational schools to such institutions as universities, higher institutes, and colleges (according to the International Standard Classification of Education – level 3). Tertiary education consists of the following 3 levels:

- 1st level: admitted graduates from the 10th grade of the secondary schools or primary vocational schools and graduates considered as persons with vocational education. In the case of Mongolia it includes the primary college education and vocational education. The successful graduates are considered as persons with secondary vocational education.

- 2nd level: admitted graduates from the secondary vocational education or 1st level of tertiary educational institutions, and graduates are considered as persons with higher education (Bachelor Degree).

- 3rd level: admitted persons with Bachelor Degree and graduated with Masters Degrees

Total fertility rate. The average number of children would be born alive by the particular woman during her reproductive period (15-49 years).

Transparency. Sharing information and acting in an open manner. Transparency allows stakeholders to gather information that may be critical to uncovering abuses and defending their interests. Transparent systems have clear procedures for public decision-making and open channels of communication between stakeholders and officials, and make a wide range of information accessible.

Under-five mortality rate. The annual number of deaths of children under the age of five per thousand live births averaged over the previous 5 years. In other words, the probability of dying between the period of birth and the age of five.

Unemployment. Unemployed person considered as a person of working age regulated by the Labour Law (in Mongolia – 16 years) who has not engaged in paid employment or self-employed, but who has registered at the Employment Regulation Office and is actively looking for job.

Water renewable resources. The average annual flow of rivers and aquifers generated from endogenous precipitation.

Water resources used. It includes the average water size used and resources available for safe water supply.

Source: NSO, 1999
Source for governance-related terms: UNDP, 2000

Mongolia’s transition from a socialist to a democratic state has brought huge benefits – offering fresh vistas of political and economic opportunity. But not everyone has gained in the first decade of the transition. It is clear that the next stage of transition should involve the moulding of a new kind of state – one that will help Mongolians thrive and prosper in a dynamic market economy.

Following seven decades of socialism, in which the state controlled virtually every aspect of Mongolians’ lives, it was inevitable that in the democratic era there would be a strong counter-reaction – an impulse to roll back the state and leave people to manage their own affairs in a free market.

In parallel with a sudden political change, Mongolia also chose the path of sudden economic change – a course of ‘shock therapy’ which tried to clear away the accumulated debris of controls and barriers. No one doubted that the process would be painful – hence the ‘shock’ – but it was assumed that the sacrifice would be short lived.

In practice, the sudden political transformation proved more successful than the economic one. It now seems that some of the earliest economic changes have been problematic since Mongolia had not yet acquired the requisite institutional capacity to handle efficiently this new market freedom.

The early years were particularly traumatic as inflation rocketed to more than 300% and government revenue dwindled. Not all the problems were of Mongolia’s own making. The sudden withdrawal of Soviet aid that had been equivalent to 30% of GDP was a severe external blow. But mistakes in the phasing of the transition exacerbated the crisis.

Desperate to balance its budget, the Government rapidly started to shut some industries, privatize others and made severe cuts in social services. For most people, this meant a serious drop in income. Between 1990 and 1993, real wages in industry dropped by one-fifth and in agriculture by nearly one-third.

Subsequently, there has been a partial recovery. By 1999, the private sector was responsible for 64%

of economic activity and GDP per capita has moved back towards the 1990 level. The incidence of poverty also seems to have been plateaued in recent years. However, because of population growth, the total number of poor people has increased slightly. Some 36% of the population are classified as poor or very poor.

A special opinion survey commissioned for this report asked people how they thought living conditions today compared with the pre-1990 period. About three out of ten people believed they were worse off.

Some of their concern was for public services – which they felt were short of resources and of low quality. Continuing budget tightening has indeed steadily eroded the quality of education and health care. Between 1992 and 1998, as a proportion of GDP, government spending on health, education, and social security continued to drop – from 16.2% to 14.8%.

The Government has, however, made commendable efforts to build a new system of social protection. In 1994 it established mechanisms for social insurance and for health insurance, which now covers around 90% of the population. So far most of the social insurance funds are being used to finance a new pension system, which takes up 90% of the budget, leaving little prospect, for example, for a reasonable level of unemployment benefit.

Efforts to reduce pressure on the budget has involved some degree of privatization of services – permitting the expansion of private education, for example, and some private health care. At the same time the government has introduced fees at a nominal level. While such moves are understandable, they carry inherent dangers that should be carefully considered.

The first danger is that of heightened inequity. Moving towards a market economy widened the gap between rich and poor. Mongolia’s Gini-coefficient, which is a measure of inequality, has increased from 0.31 in 1995 to 0.35 in 1998. The state’s role should be to offset such tendencies, resolutely ensuring equality of access to basic social services, rather than allowing social services themselves to become more polarized.

The second danger is that weakening public provision of basic social services will stifle future human development. Mongolia’s successful entry into a global economy will require a healthy and educated workforce that can cope with the ever-changing demands of the marketplace. Accepting that some people will remain poorly educated not only does them an injustice, but it also restricts the country’s long term potential. Social service expenditure has to be seen less as a cost and more as an investment in the capacities of the Mongolian people.

Making this kind of investment, and doing so within a market economy, requires a new kind of state. It may appear simpler to ruthlessly prune branches of the state on the assumption that the private sector will grow to fill the gap. For the foreseeable future, this would be a mistake without careful analysis and public consultations. As the banking crisis has demonstrated, in many respects the private sector is not yet sufficiently mature to fulfil many of the functions being thrust upon it. Such mistakes are costly – restructuring the banks in 1996 alone cost 9.6% of GDP.

Nor are many national institutions, from the legal system, to the tax collection system, to NGOs sufficiently robust to achieve the role they play in more mature market economies. This is not an argument for slowing down the reforms but rather for ensuring that the way ahead is clear – that the stepping stones are in place before crossing the river.

The *Human Development Report, Mongolia 2000* argues for a transition to a new kind of state that is even more democratic and participatory. One that widens the opening for private initiative and creative thinking. The state must know when to step forward but also when to step back.

This will mean ensuring the provision of many of the ‘public goods’ that markets alone will not offer. Thus, for example, the state has a key role in protecting Mongolia’s environment. There is a tendency for enterprises to regard the land, the air or the water as free resources that they can profitably exhaust or pollute at will. By the standards of some other countries, Mongolia’s environment is still in fairly good shape. But there are worrying signs – particularly in the forested area and in

pasture land, of which 70% is now thought to be degraded. The winter snow emergency (1999/2000) has shown the dramatic link between the pastures, the animals and the well-being of the herders.

The report suggests seven responsibilities of the state: protecting national security; ensuring human rights; establishing the rule of law; managing economic growth; protecting the environment; offering adequate social protection; and fostering the development of democracy.

Performing these functions efficiently will require a civil service that is trained and skilled and – just as important — prepared to open its mind to new ways of working. Public servants have to be receptive to public participation at all levels, and willing to work with community groups, with NGOs, with the private sector – all sections of civil society.

Mongolia should not be aiming for large government or for small government, but for government that is strong, effective and that lays the foundations needed for sustainable human development.

Accountability.The requirement that officials answer to stakeholders on the disposal of their powers and duties, act on criticisms or requirements made of them and accept (some) responsibility for failure, incompetence or deceit.

Adult literacy rate. This is a ratio of people of aged 15 and over to total population of the same age.

Average population. An average population estimated as simple arithmetic divisions mean of population number at the beginning and the end of the particular year.

Birth attended (%). The percentage of births attended by physicians, nurses, and midwives to total number of births.

Civil society. Individuals and groups, organised or unorganised, who interact in the social, political and economic domains and who are regulated by formal and informal rules and laws. It offers a dynamic, multi-layered wealth of perspectives and values, seeking expression in the public sphere.

Civil society organisations. The multitude of associations around which society voluntarily organises itself and which can represent a wide range of interests and ties, from ethnicity and religion, through shared professional, developmental and leisure pursuits, to issues such as environmental protection or human rights.

Crude birth rate. Annual number of alive births per thousand population. It is estimated as a ratio between total number of births for particular year and annual average population.

Crude death rate. Annual number of deaths per thousand population. It is estimated as a ratio between total number of deaths for particular year and annual average population.

Decentralisation. The general term for a transfer of authority and/or responsibility for performing a function from the top management of an organisation or the central governance level of an institution to lower level units or the private sector.

Economically active population. All persons of either sex who supply labour for the production of economic goods and services as defined by the United Nations System of National Accounts, during a specified time – reference period. According to this system, the production of economic goods and services should include all production and processing of primary products, whether for the market, for the barter or for own-consumption, the production of all other goods and services for the market and, in the case of households that produce such goods and services for the market, the corresponding production for own-consumption.

Education expenditures. Expenditures on the provision, management, inspection and subsidiary services of pre-school, primary, secondary, all levels of specialized educational institutions

Equity. Impartial or just treatment, requiring that similar cases be treated in similar ways.

Female-male gap. A set of national, regional and other estimates in which all the figures for females are expressed in relation to corresponding figures for males, which are indexed to equal 100.

Food production per capita index. The average annual quantity of food produced per capita in relation to that produced in the indexed year. Food is defined as comprising meat, meat products, fruits, cereals, vegetables and etc.

Governance. The exercise of political, economic and administrative authority in the management of a country’s affairs at all levels. Governance is a neutral concept comprising the complex

mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences.

Good governance. Addresses the allocation and management of resources to respond to collective problems; it is characterised by participation, transparency, accountability, rule of law, effectiveness and equity.

Government consumption. It includes all current expenditure for purchases of goods and services by all levels of government. Capital expenditure on national defense and security are regarded as consumption expenditure.

Gross domestic investment. Calculated as a sum of additions to the fixed assets of the economy and net changes in level of inventories.

Gross domestic product. The total output of goods and services for final use produced by both residents and non-residents, regardless of the allocation to domestic and foreign claims. It does not include deductions for depreciation of physical capital or depletion and degradation of natural resources.

Gross national product. The total output of goods and services produced by the nationals of the particular country. This is calculated by adding to the total value –added income received from abroad for factor services, and deducting payments made to non-residents who contribute to the domestic economy.

Gross national product per capita growth rate. Annual GNP per capita expressed in current US dollars, and GNP per capita growth rates are annual average growth rates computed by fitting trend lines to the logarithmic values of GNP per capita at constant market prices for each year in the period.

Immunization rate/%. Calculated as a ratio between children of under the age of 1 covered by the Universal Child Immunization Programme to total number of children of particular age.

Infant mortality rate. The annual number of deaths of infants under one year of age per thousand life births. It is calculated as a ratio between annual number of deaths of infants to the number of births during the particular year.

Inflation rate. Determined by the increase of the gross national product deflator. The GDP deflator is calculated by dividing, for each year of the period, the value of GDP at current values, both in national currency. This ratio called as an inflation rate and shows annual price movements for all goods and services produced in an economy.

Health expenditures. They comprise capital and current expenditures by all health agencies and hospitals, family planning and prevention actions.

Health services access/%. Percentage of population that has an access to local medical services. This definition slightly differs to that used in Global Human Development Reports. Because Mongolia has a vast territory, less population and low population density the access to health services is not appropriate measure in terms of standard hours (for instance, in the international practice one hour used as standard time for reaching appropriate local health services on foot or by local means of transport).

Life expectancy at birth. The number of years a new-born infant would live if prevailing patterns of a population mortality at the time of birth were to stay the same throughout the child’s life.

Literate persons. Person who is able to read a short, simple statement with basic understanding (regardless of language, type of script) is considered as a literate person.

Box 6.2– Role of the NGOs: Khuvsgul aimag

Khuvsgul is the most populated province amongst the 21 aimags of Mongolia. Fifty two per cent of Khuvsgul population are women. As major factories and organizations reduced their staff and some closed down in the 90s, many women became unemployed. Women’s non-governmental organizations like Liberal Women’s Brain Pool (LEOS) and Aimag Women’s Council are making efforts to help women to help themselves during these challenging social and economical conditions. LEOS Branch in Khuvsgul aimag was established in 1993, and their main activity is to expand income generating opportunities for women and their families.

One of the Khuvsgul women, Ts.Munkhbayar (40) recieved a loan from Poverty Alleviation Fund through LEOS branch in cooperation with other women: Odtsetseg (single parent), Baasantseren (Single parent with 4 children) and Tsetsegmaa (Single parent with 7 children).

Munkhbayar’s team is now running a sewing cooperative with their loan of Tg. 500.000. They are producing clothing, such as shirts, suits, skirts and trousers. “We are making a considerable profit that enables us to strenghten our social position and also the sewing cooperative. We purchased 5 sewing machines and are quite ambitious regarding our future”, says Ts.Munkhbayar.

They sell their products in the local market at a fair price and their work is considered by the local consumers to be of better quality than the cheap imported merchandise that have flooded the market. LEOS in Khuvsgul aimag involves 240 women in the income generating projects.

“Although the government budget for improving social conditions of women is limited, the initiatives from us to organise events and activities for women are received well by aimag government. Now we are proposing an organization of Aimag Women’s Forum”, says Ms.G.Tseepil, the Khuvsgul Coordinator of LEOS. Ms.Tseepil and Ms.Baasankhuu, Head of the Aimag Women’s Council actively discuss issues of fundraising for the Aimag Women’s Forum. One concern they share is the “need for intensive implementation of Aimag Sub-programme for the Advancement of Women”. The programme was approved in 1997 but since then “no activity has been undertaken” according to Ms.Tseepil and Ms.Baasankhuu. “The sub-programme was developed with an understanding outlining many activities required for resolving issues concerning the well-being of the Khuvsgul women. We, the women NGO’s are doing many activities since then but it is sparse. If the government can unite us for the purpose of the implementing of the programme, allocating funds and capacities, then we could see more results.



The government can select NGO’s for specific activities on a bidding basis.” Leaders of the various women NGOs in Khuvsgul have declared: “We are ready to become the leading force for change.”

* * * * *

CHAPTER 1

Reorienting the state



Mongolia needs to continue to work towards a new kind of state – one that is based on democracy and participation, and that provides the framework and institutions essential for a dynamic market economy.

Mongolia enters the new millennium as a dramatically different country. Ten years of transition have established Mongolia on a radically new path and injected fresh energy and momentum. For many people the changes of the 1990s have opened up vast new economic opportunities, though for others they have caused huge and painful upheavals. In some respects the transition has thrust human development into reverse.

The change from socialism to a market economy was inevitably going to be confusing and disruptive. Each transition country has had to find its own way, testing new forms and innovative approaches. Ten years on, however, it is appropriate to pause for thought, to make a more realistic assessment of what has worked and what has failed – and make the best choices for the years ahead.

One of the most urgent tasks for Mongolians is to reassess the role of the state. What can and should their government be doing to give a new vitality to human development?

The communist era

Mongolia, which in 1921 became the first socialist country in Asia, saw its state grow very rapidly – extending its influence ever deeper into people's daily lives. In Mongolia, the state owned every cow, sheep, yak and goat. It owned the enterprises within which people worked. And it repressed any political opposition or alternative ways of thinking – a process which included closing down hundreds of Buddhist monasteries. All of this took place under the watchful eye and the patronage of the Soviet Union which became the country's major benefactor.

It was argued that in its early years Mongolia needed a more monolithic state: to assert its identity in the face of powerful neighbours; to integrate the scattered people of a huge country; and to mobilize the resources for rapid industrialization. Such a state was also able to create a strong network of social services. By 1990, however, it was clear that the capacity of socialism to further modernize the economy had long since been exhausted.



The nine staves, which have represented the State of Mongolia since the time of Chinggis Khaan, symbolize the nine tribes that made up the core of the Mongolian Empire.

The counter-reaction

With the collapse of communism in the Soviet Union there was a quick reaction in Mongolia. There was no need to wait for the socialist state to decay; it could immediately be dismantled. In political terms, this meant creating a parliamentary democracy; in economic terms it meant opening up the society to the free play of market forces.

Mongolia's political transformation has been swift and largely positive. Following extensive consultations in 1990, Mongolia came up with the original and successful idea of using its traditional national assembly, the People's Great Hural, with 430 members, as the basis for a democratic parliament. It also established a small 50-member working upper chamber the Baga (little) Hural.

In 1992 the country adopted a new Constitution with one Parliament comprised of 76 full-time members. The Constitution established the legal and political framework for a pluralistic society that respects human rights and freedoms. In 1992 the people elected the former communist party to power. Then in 1996 there was a peaceful change of government as power passed to a coalition of democratic parties. Remarkably, in a country where people are so widely dispersed, the enthusiasm for democracy was such that the turnout in that election was 90%.

Mongolia chose to carry out its economic reforms at a similarly rapid pace. Like most of the other transition countries of Eastern and Central Europe it opted for 'shock therapy'. The government quickly liberalized prices and privatized the national herd of livestock. Especially after 1996, it opened up the economy to the outside world. Indeed at one point

Decentralization

An important part of sound governance is the process of bringing government closer to the people for improved service delivery, also known as decentralization. Mongolia's government has thus been delegating authority, resources and responsibility to the aimag level and also to the soums in the rural areas and the durregs and horoos in the cities. At present, however, one on-going issue seems to be that some local governors still tend to function in an authoritarian rather than participatory fashion. This limits the scope and impact of many of the democratic changes. Increased emphasis on community involvement in decision-making, resource mobilization, and monitoring will promote increased responsiveness and sustainability of services.

Transparency

People will only be able to monitor their government and redirect its activities if they are aware of what is going on. It is essential therefore that the government at all levels operates in an open and transparent fashion. The Constitution declares that, except for listed classified documents, all requisite information should be made available to the people. The development of the internet now opens a new means for information sharing which is quick and effective. Although few Mongolians are likely to have access for some time yet, the media should be able to monitor government information and disperse it widely. The growing and dynamic media in Mongolia has become the leading provider of information and a supportive pillar to Mongolia's democracy. The proliferation of newspapers since the transition is a testimony both to Mongolia's high levels of literacy and the people's appetite for information.

Civil society organizations

A democratic government can and should be open to participation by individual citizens. Such involvement tends to be more effective when channelled through groups of people with shared concerns – based on their community, or their profession, or just their determination to serve their fellow citizens in a particular area of interest.

Mongolia's authoritarian past discouraged the formation of groups that were not part of the state administration. Thus, the citizenry have had limited

practical experience in participation in civil society organizations. As a result, Mongolia has fewer community groups or NGOs than many other countries. Such NGOs are developing but are concentrated in Ulaanbaatar rather than in the rural areas. NGOs have a particularly important role in representing the interests of the poor – whom official agencies may have difficulty in reaching effectively. Women's organizations have proved very effective in many countries, both for promoting gender equality and organizing economic and social services at all levels. NGOs can be a useful support partner for Government to apply participatory approaches and to institutionalize participation at all levels.

The government has taken the necessary legislative steps to permit the formation of NGOs. But it could also explore opportunities to stimulate community-based initiatives and new organizations. This is an area where it could usefully and productively cooperate with international organizations, be they official aid agencies or international NGOs.

A new state of mind

Creating the kind of state that Mongolians want and will need during the 21st century, seems a daunting task. The resources may frequently seem too few and the time too short.

In such a resource short situation, consultation with the stakeholders and building a popular consensus around national policies is essential. Democratic Mongolia must shed the old tradition of a handful of high level technocrats establishing policies and expecting people to understand, then to follow. A change from this requires a new mind set – one where the state embodies a culture of communication with a transparent flow of information and with an openness and responsiveness to the voices of Mongolian citizens.

What will actually determine success or failure is whether both the government and the people believe in their capacity to carve out a different kind of future. This will not be the old country, and it will not be the old state. The most important shift will not be just to new economic structures, or to new institutions, but to a different state of mind that appreciates the need and potential for government action in support of the well-being of Mongolia's people.

Mongolia has already made an extraordinary breakthrough in its movement to democracy with commensurate development of freedoms in so many areas of Mongolian lives. But democracy implies far more than visits to the polling booth and individual freedoms. Mongolia has to now strengthen many of the vital institutions of democracy and create a productive partnership between the government and the people.

A crucial component of human development is participation. The state can establish the framework and environment for economic and social development. Markets can create and expand economic opportunities. But ultimately it is Mongolia's own people whose energy and commitment will shape the country's destiny in the new millennium.

Perhaps the greatest failure of the socialist regime was that it stifled popular participation. The state curbed individual freedom and systematically denied Mongolians the opportunity and freedom to contribute to social and political life.

Mongolia's democratic reforms have now begun to release some of that potential. The country has already taken significant steps. Progress so far has been uneven, but it has still been remarkable in a country with less than ten years' experience of democracy. The Constitution of 1992 established the basis for democratic development. It identified the rights of citizens and established the duties of the state in guaranteeing those rights.

Sound Governance

Achieving a strong, working partnership between the state, the private sector and the people requires the political will to build sound governance.

The civil service

In addition to political leadership, good governance implies, among other things, a well trained and effective civil service. In the future the Government will need to invest in the professional capacities of its staff, strengthening their ability to plan, regulate, monitor and set priorities. These are all complex activities and require integrity, skill, energy and commitment. If public servants are to carry out their duties effectively, they will need the right incentives and support.

Box 6.1 – Human Rights and Fundamental Freedoms

The Constitution of Mongolia adopted in 1992 recognises:

- the principle of non-discrimination against any individual on the basis of ethnic origin, language, age, race, sex, social origin and status, property, occupation, title, religious conviction, education;
- equality of men and women;
- the duty of the State as to ensure democracy, justice, freedom, equality and the supremacy of law;
- the right of the people to participate in the governing of the State, either directly or through representative bodies;
- the right to freedom of association and political participation including the submission of petitions and complaints to State bodies;
- the right to freedom of religion, conscience, opinion, speech and press;
- the right to life, health and safe environment;
- the right to fair acquisition, possession and inheritance of property;
- the right to work, education and access to medical care;
- freedom of movement;
- the right to a fair and open trial as well as the right to appeal.

"The State shall be responsible, before citizens, to create economic, social, legal and other guarantees for ensuring human rights and freedoms, to fight against violation of human rights and freedoms, and to restore infringed rights."



Adoption of the 1992 Constitution being declared

Probably one of the most difficult tasks is to ensure that civil servants remain open to participation and responsive to citizens' wishes. The socialist regime encouraged a bureaucratic system to run according to its own internal priorities. Devising and carrying out policy within a democratic system requires a completely different mindset. Instead of being authoritarian providers of services, the state and its personnel have to be partners, catalysts and service providers.



State Great Khural (parliament) in session

Mongolia was the only country in the world to levy virtually no taxes at all on trade.

This withdrawal of the state from the economy has not been unanimously welcomed. There is still a more traditionalist point of view which says that Mongolia needs a strong, paternalistic state to embody the collectivist ethical traditions of its people – who look to the state to defend national sovereignty and protect national interests. In recent years however, the predominant vision has been neo-liberal. Backed by some international donors, reformers have argued that the best thing the state can do is to largely withdraw from the economy – by rapidly privatizing state enterprises, and dismantling as many regulations and controls as possible, and allowing market forces to determine the production and allocation of goods and services.

It should also be emphasized that there is as yet no overall consensus on the path forward. Mongolia has policy documents on these issues, for example the National Development Concept that was gazetted for nationwide debate and approved by parliament in 1995. However, no consistent action has been taken to duly update and follow up this and other strategic policy guidelines. Indeed some argue that Mongolia needs a coherent set of policies to direct the country's human development at the start of the next millennium.

Making up for market failure

The minimalist view of the state in a market economy is that it should simply step in where markets fail or where they are absent. One example of this is the provision of 'public goods' – goods

that are consumed by everyone. These would include, for example, clean air, national defence, or street lighting. It is difficult to charge individuals for these, and even more difficult to exclude their benefits from people who cannot or will not pay.

Another important area of market failure concerns 'externalities'. This is where the costs or benefits of a particular activity cannot be neatly confined to a precise group of producers or consumers. Examples of negative externalities include, for example, situations where individual or corporate activity exacerbates air pollution, or traffic congestion, or deforestation. In these cases enterprises are effectively passing on some of the real costs of their activities to society as a whole. They can thus charge a low price that does not reflect the true cost and so may be tempted to recklessly overproduce.

Examples where there are 'positive externalities' include basic education, public health and immunization. Private producers may provide these, but only to people who can afford to pay. This not only adds to inequality but is also inefficient since it is likely to result in underproduction. Maximizing production of these goods is important since their benefits reverberate through society as a whole. Everyone gains when their fellow citizens are healthy, literate and more productive. Left to their own devices, private markets would produce less than optimal quantities of such vital goods.

Another, more obvious, area of market failure is the emergence of monopolies. Even the most vigorous capitalist societies ensure that one or two large companies do not crush their competitors and exploit consumers.

Seven functions of the state

The state clearly has an important role in making up for the absence or failure of markets. But its activities typically go beyond this. The most successful states accept a broader and deeper range of responsibilities. These can be divided into roughly seven categories.

1. Protecting national security and national interests

This falls squarely into the classification of 'public goods'. Each state takes responsibility for securing its national borders and maintaining relations with

the rest of the world. Increasingly governments have been concerned with the national effects of international economic and social developments. In an age of globalization the conduct of international relations has an important impact on human development. Thus the Mongolian state, which joined the World Trade Organization in 1997, has a central responsibility for ensuring that participation in the global economy works in the interests of all its citizens.

2. Assuring human rights

Over the past half century there has been a growing consensus on the need for states to guarantee certain minimum human rights. These include the civil and political rights that Mongolia now offers as a democracy, but there are also a set of social, economic and cultural rights. Though the latter can be expensive and thus more difficult for poorer countries to fulfil, they remain a central responsibility of every state. Governments have to ensure, for example that every child goes to school that everyone has proper health care, and has access to essential social services. Socialist Mongolia was weak on civil, political, and cultural rights, but stronger on social and economic rights. In modern Mongolia, the situation has to some extent been reversed.

3. Establishing the rule of law

This involves not just the appropriate legislation, but also an efficient system of justice to enforce the law and protect citizens' rights. In Mongolia, the need has become even more urgent in the face of rising rate of crime including corruption. The rule of law is also critical for the functioning of a market economy. Investors, particularly foreign investors, are reluctant to commit resources without assured property rights and a consistent application of the law. Mongolia has done a lot to revamp its legislation to fit the needs of a market economy based on private property rights. But laws can be flouted, ignored, or simply not implemented. In terms of the law, Mongolia has in some respects changed from a "hard state" to a "soft state". Mongolians did not in the past really internalize the country's legal standards. They obeyed the law largely out of fear. Nowadays, with less rigorous enforcement, there is a temptation to ignore the law. Corruption too remains a growing problem. A survey in October 1999 found that

people rated banking and customs as the most corrupt areas, though they also had a low opinion of the judiciary system itself.

4. Managing economic growth

In every society the state has a prime responsibility for economic management. This involves keeping inflation under control, for example and following fiscal, monetary and trade policies that promote economic growth. But just as important as the quantity of growth is its quality. Growth needs to be broadly based, equitable and sustainable if it is to translate into human development. One of the main priorities is to create sufficient employment. While Mongolia has now brought inflation under control, and achieved greater macroeconomic stability as well as positive economic growth, many people have yet to see the benefits. Inequality is increasing: an estimated one-fifth of the workforce are unemployed and most of the rest are surviving on low wages.

5. Assuring sustainable development

While the state's immediate concern is for today's citizens, it also bears a responsibility for future generations. In particular this means caring for the environment by protecting it from pollution, soil degradation, deforestation or other forms of over-exploitation. Mongolians have an instinctive regard for their environment and consider certain parts as sacred. A low population density and limited economic development have also restricted environmental damage. But the country's fragile ecology is at risk from the free play of market forces and from pressures of local citizens who have resorted increasingly to make a living from the land and forests as industrial activities have fallen.

6. Offering social protection

In all market economies, some people get left by the wayside. Children, the aged and the disabled require support. Others who are suddenly impoverished by accidents or ill-health will need temporary care and protection. The socialist system offered blanket protection. Many Mongolians accustomed to such support have been shocked by the ruthlessness of the new market circumstances. The street children in Ulaanbaatar and other cities are an obvious manifestation of the breakdown in family and social protection.

CHAPTER 6

A new state of mind

Box 5.2 Interview:
G. Tangad (70) demands a more caring government



"I went on pension in 1990, back then it was 320 tugrugs per month. This was sufficient for my life at that time. Now I receive 15,000 tugrugs every month, which is barely enough to buy meat and flour. The pension is not enough for my survival. I cannot even afford clothes with my pension money.

"But it is the delay of the payment of pensions that cause the real problems. I heard, pensions are given either late, or in kind rather than cash-as required. It is very important to disburse these thin pensions to the elderly during this period of economic shortages.

"I think that every state and government payment should reach every elder. All elders should also have equal access to government benefits. My only request is that those officials who delay pension disbursement or spend pension money for other purposes should bear the responsibility for their misdeed."

high charges; poor management; the wrong policies; and low quality. In the case of the social welfare services they were understandably unhappy with the level of benefits.

In many cases people recognised that the main problem with all these services was a lack of funds. This budgetary pressure is unlikely to ease, particularly given the narrow and price vulnerable range in Mongolia's major exports. It seems probable therefore that the provision of services in the future will become more selective. The Government will need to improve its ability to target the neediest.

Not all the deficiencies are concerned with finance. While extreme commitment has been observed among teachers for example, in many cases the problems lie with weak management or poor technical capacity.

Investment in people

Mongolia faces an enormous challenge in sustaining and developing its social services. The best approach, however, is not to consider social issues in isolation, but rather as part of a broad human development strategy. Social services are not a cost, they are an investment in people. Like other investments, they can take time to produce their benefits, but when they do, the dividends can be enormous.

In the next few years it is vital that the state resists the temptation to assume that effective social services can only come after economic growth. In fact without such services, sustainable growth is unlikely. When economic output does increase more rapidly, there will be less need for social safety nets, and people will be in a better position to pay for private services. To withdraw many provisions prematurely would lead Mongolia into a dead end without the necessary human capital to lead a happy life and to compete in the global economy. In this regard, balancing social and economic policies with a view to the long-term should become a matter of national imperative.

* * * * *

7. Fostering democracy and collective action

Democracy at its most basic consists of providing each elector with one vote and allowing him or her to use it freely. But the most stable democracies have also been underpinned by a wide range of other institutions of civil society. A free media represents a cornerstone for democracy. Likewise, many distinctive non-governmental agencies have their own constituencies and expertise. In Mongolia, as in most other former communist countries, the state was a large and pervasive entity that afforded little space for civil society.

In the years ahead, the Mongolian state will have to help design new forms of social organization that ultimately will replace many of its own functions. Thus it will need to create a legal basis, a supportive environment and a financially sustainable framework for decentralized media, non-governmental organizations, community action groups and individual citizens' initiatives.

This support for civil society has another important dimension – fostering a new set of values based on individual freedom, responsibility and initiative, a plurality of beliefs, tolerance and consensus building. This will be vital for strengthening the fabric of the new Mongolian society.

The State and the market - the "transition paradox"

In the initial enthusiasm of the transition much of the debate was polarized. It was assumed that states and markets were somehow opposites – that the choice was either the state or the market. But as the previous section illustrates, states and markets are essentially complementary. What Mongolia needs is a more sophisticated state.

Certainly the state needs to withdraw from a number of economic activities and has to guard against excessive controls and direct intervention in the economy. But there are other areas where the state needs to take a more active and imaginative role. It must, for example, take positive steps to complement and support market activities – investing in physical infrastructure, for example, establishing appropriate regulations, and creating the conditions that will attract investors. This can

be termed the 'transition paradox'. On the one hand, the state has to reduce its direct economic role; on the other hand it has to operate more competently and energetically in many other areas.

One of its prime responsibilities is to provide basic social services. Mongolia has made a number of

Box 1.1
The state and the government
The terms *State* and *Government* are often used interchangeably, though strictly speaking there is a difference.

State, in its wider sense, refers to a set of institutions that possess the means of legitimate coercion, exercised over a defined territory and its population, referred to as society. The state monopolizes rulemaking within its territory through the medium of an organized government.

Government is often used differently in different contexts. It can refer to the process of governing – to the exercise of power. It can also refer to the existence of that process, to a condition of 'ordered rule.' Government often means the people who fill the positions of authority in a state. Finally, the term may refer to the manner, method, or system of governing in a society: to the structure and arrangement of offices and how they relate to the governed. While keeping these distinctions in mind, we also use the terms *state* and *government* colloquially and sometimes interchangeably – as they are often used in discussion and writing around the world.

The government is normally regarded as consisting of three distinct sets of power. One is the legislature, whose role is to make the law. The second is the executive (sometimes also referred to as 'the government'), which is responsible for implementing the law. The third is the judiciary, which is responsible for interpreting and applying the law.

Source: World Development Report, WB, 1997

significant changes in the social sector – introducing social insurance, private education, and moves towards primary health care and a system of family doctors. However, for many people these changes have heightened their insecurity. The challenge for Mongolia is to maintain the previous levels of service while meeting people's demands for better quality and expanded choice. This does not of course mean that the state itself has to produce and deliver all these services. Even in the case of 'public goods' the state can contract provisioning to the private sector. However, such decisions need to be taken carefully and transparently

to avoid corruption and to ensure a high quality of service. Effective public supervision of private companies can produce a good result. In some cases the private sector may be more expensive and less responsive and less caring towards citizens. State and private activities can also be supplemented by non-governmental organizations. In many countries these have proved the most effective agents for reaching the poor.

In a general atmosphere of privatization, there has been recent enthusiasm for ‘small government’. In the past there was little other than the government, so it was more likely to be large. But a blind push for small government can be very damaging – indeed it may force governments to abdicate some of their responsibilities. For all its imperfections, the state is the main agency for caring for the vulnerable such as the poor and the handicapped; markets will ignore them. What matters more than the size of the government is its efficiency and effectiveness.

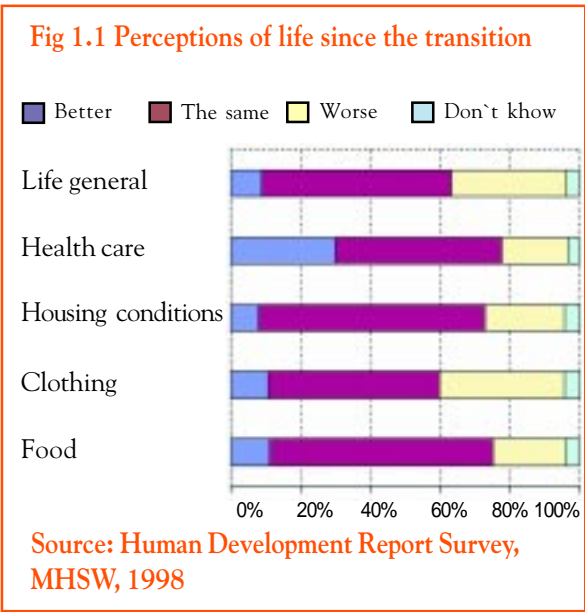
Achieving this will require not only a political consensus but also committed and competent personnel. Mongolia needs now to work out a new strategy of training for its civil service in order to improve performance and professionalism and ensure that it operates on principles of accountability, openness and integrity.

Although Mongolia has created an impressive and functioning democracy within a very short space of time, there are some immediate issues that merit attention and action. In the 1990-92 period, Mongolia was actively engaged in building democratic institutions. Since then, a number of weaknesses have emerged. These have included an impasse in the relationships between the parliament, the government and the presidency. There are also questions of the ‘division of labour’ between the centre and the provinces. In addition there have been extensive changes in the executive branch, with a frequent reshuffling of political and civil service appointees.

Apart from reducing the state’s effectiveness in performing its responsibilities, such weaknesses threaten to undermine Mongolians’ enthusiasm for, and confidence in, the democratic processes.

Perceptions of progress

Some of that confidence has already been shaken by what many people see as a deterioration in the quality of life. This was evident in an opinion survey carried out for this report which asked people how they thought living conditions today compared with the pre-1990 period. The results are summarized in Figure 1.1. Overall, on most issues around one-tenth



of those surveyed thought that life was better, and around one half to two-thirds thought it was much the same. Nonetheless, between one quarter and one third believed they were worse off.

The following chapters explore many of these concerns in greater detail, starting first with a survey of the current state of human development. The role of the state is interwoven in the analysis throughout the report.

* * * * *

benefits and various subsidized services. Benefits are means-tested, based on a living-standard minimum which in 1999 was Tg 13,800-17,600 depending on the region.

The National Center for Children

This center is responsible for developing policies towards children and supporting services for child protection and development. One of its most important tasks is to promote the implementation of the UN Convention on the Rights of the Child in the context of Mongolia’s own National Programme of Action for Children in the 1990s. In recent years the high visibility problem of street and neglected children has become an issue of special focus with a shift from institutional approaches to community-based prevention.

Box 5.1
Vaccinating street children

Mongolia has a good record for vaccinating its children against the most common of childhood diseases. Despite the widely scattered and often nomadic population, the vaccination rate is around 90%. More difficult to reach have been street children in urban areas, many of whom live in tunnels and sewage channels to protect themselves during the bitter winters.

Though they are not officially registered, they do have their own personal networks that can be used to reach one another. Health officials go to the places where these children live, explain the necessity of vaccination and bring them to the health centers.

As well as being vaccinated, the children are also given a meal, shown a video and receive a free T-shirt that carries a vaccination symbol. Children with the T-shirts are then encouraged to persuade others to go to the health centers.

The dedication to protect children’s rights is well demonstrated by this example as no Mongolian child – regardless of their status or marginalized position – can be allowed to have their rights violated because of the circumstances created by the ongoing transition.

Employment regulation offices

These operate at all levels of local government and help the unemployed search for work, and aim to provide appropriate training, as well as maintaining data on unemployment.

The National Poverty Alleviation Programme (NPAP)

Operating since 1994, this is a social safety net programme jointly funded by the government and the international donor community. The NPAP offers access to resources for income generation, improved social infrastructure, some public works providing temporary employments, as well as in-kind assistance to the poorest groups. The NPAP is implemented involving local governments and in close cooperation with local communities and NGOs.

While NPAP has been independently evaluated in 1999 with good marks for its outreach to the poor, the nation still lacks a holistic linking of government programmes to hit poverty from a multitude of angles. The NPAP has been viewed as the primary means to alleviate poverty which has perhaps led other sectoral interventions to miss the opportunity to join in a wider multi-sectoral effort to alleviate poverty.

Non-government organizations

NGOs have started to enter into partnership with the government, both for elaborating public policy and delivering social services. Among the most active are the ones working for the rights of the elderly, children and youth, and particularly the women’s groups who are typically more mature as independent voluntary associations. In the future, by forging stronger links with NGOs and other civil society organizations, the state would encourage people to participate rather than merely being passive observers/recipients. NGOs can also help give people a stronger political voice and a stake in the process of reform.

Public perception of social services

Despite the governments’ recent efforts, it is clear that the public is dissatisfied with the current state of social services. A survey of 1,000 people conducted in 1999 for this report found dissatisfaction for most social services. The following percentage of people surveyed found them either mediocre or bad; 81% in health; 77% in education; 77% in welfare services; and 74% in social insurance services.

When asked what were the main problems with public services, the most common responses were:

ment by the hospital staff due to a lack of proper papers. The drift towards privatization and charging for some drugs and services appears to be heightening inequities in health. Figure 5.1 shows the average monthly expenditure by income group – with the highest group spending nine times more per person than the poorest.

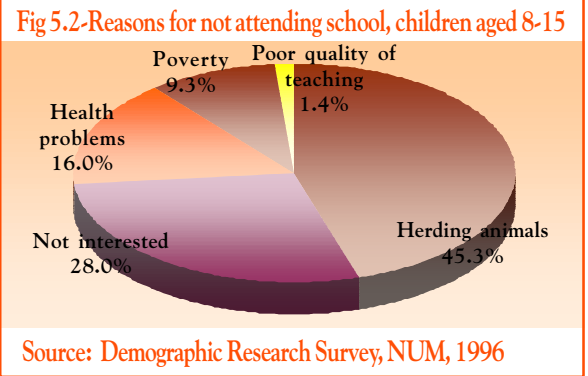
Education services

Education coverage was one of Mongolia’s main achievements during the Soviet era. While there was a marked decline during the first years of transition as indicated in Chapter 2, this was followed by some improvements over the period 1995-98.

Around 80% of education expenditure still comes from central or local government budgets. Of this, a large proportion goes for heating and salaries. In primary and secondary schools, 28% goes on heating, 3% on electricity, and 49% on salaries. Most of the salary bill is met from local budgets.

However, as indicated in table 5.1, government expenditure on education has been falling, and there has been a marked deterioration in quality at all levels. There are limited funds for textbooks and other teaching materials as well as for repair of buildings. Teachers’ salaries are low and frequently paid in arrears. In addition there are now fewer boarding facilities for the children of herding families. Generally the quality of schooling is better the closer you get to major urban centers such as Ulaanbaatar, Darkhan and Erdenet.

As figure 5.2 shows, the main reason for not attending school is a lack of income – which in the rural areas also includes the need to work, particularly for boys from herding families. This is increasing educational disparities – which become even more marked at the tertiary level.



Social protection

The task of maintaining social protection during the transition period has been even more difficult. Under the socialist regime, the pension system, and various kinds of benefit and care for the sick and elderly, although funded by the state, were delivered through a wide range of semi-state, semi-party organizations, such as the trade unions, the Mongolian Women’s Committee, and youth and children’s unions. Many of these organizations subsequently disappeared or changed their functions. In addition the state now had to deal with two new powerful phenomena – unemployment and poverty.

The state did not really start to address these issues until 1994-95 when it established mechanisms for social and health insurance, employment services, and special benefits for the sick and disabled. In addition, it introduced a National Poverty Alleviation Programme which received support from international donors. In 1996, the State Great Khural passed a number of laws to build the institutional framework for these services. As a result, social protection is now delivered through a number of different agencies.

Social insurance agencies

These deal with pensions and benefits paid for by a combination of insurance fees and budgetary subsidies. The lead agency is the State Social Insurance General Office which has a nation-wide delivery system. The total spending for 1999 was Tg 38.8 billion which paid for unemployment benefits, work-related injury benefits, disability benefits and other types of pension. By far the largest share, taking up more than 90% of the budget, goes for pensions for almost a quarter of a million people. In 1999, a comprehensive package of social insurance legislation envisaged that by 2021 Mongolia would have shifted towards a partially funded pension system. From 2000, the prime responsibility for operating and developing the social insurance system will pass to the National Social Insurance Council.

Social care agencies

These agencies, of which the leading one is the State Social Care Department, deal with the most vulnerable people, including some of the elderly, the disabled, single mothers, large families, and orphans, as well as providing maternity benefits. In 1999, a total of Tg 11.9 billion was spent on pensions,

CHAPTER 2

Human development in Mongolia



Mongolia’s rapid transition to a democratic market economy has brought immeasurable benefits in terms of freedom and human rights. But offset against these are some disturbing declines in the standard of social services – and a general rise in human insecurity.

During the Soviet era, the people of Mongolia took rapid strides in many aspects of human development – with particularly impressive gains in health and education. Between 1960 and 1990, life expectancy increased from 47 to 63 years, and by 1990 almost everyone had access to health services. Education standards too were high – 96% of the population were literate. Notably, women had shared fairly equally in this progress – they made up more than 40% of higher education graduates, for example, and around 85% of women were working.

Offsets against these material gains, however, were serious restrictions on individual liberty. Most Mongolians were denied freedom of speech and movement and had little chance to participate fully in political or social life.

1990 saw a sudden break with the socialist past. This brought immediate political gains. Multiparty elections suddenly opened up the political horizon and offered democratic rights that had long been denied. But at the same time there were severe economic costs. The abrupt removal of Soviet subsidies and the loss of guaranteed markets in the COMECON countries led to a dramatic decline in



Students of National State University of Mongolia listening to a lecture

in a newly liberalized economy many of the state-owned industries were too inefficient to survive international competition.

The Government responded by down-sizing investment in social services and by closing many loss-making industries. This may have helped balance the budget but it took a heavy toll on human development. Many of this generation of Mongolians face the real threat of poverty – and a future of insecurity.

A dip in human development

The early years of transition were especially difficult. Between 1990 and 1995, there was a steep decline in income, and school enrolment. Life expectancy also decreased. After 1995 and a series of policy interventions, some of the lost ground was recovered. By 1998 life expectancy, for example, was up to 65 years. This sequence

Table 2.1 Human Development Index for Mongolia

	Life Expectancy at birth (years)	Adult literacy rate (%)	Combined gross enrolment ratio (%)	Real GDP per capita (PPP\$)	Life Expectancy index	Education index	GDP index	Human Development Index (HDI) value
1990	63.7	96.5	60.4	1,640	0.645	0.845	0.467	0.652
1992	62.8	96.5	54.3	1,266	0.630	0.824	0.424	0.626
1995	63.8	96.5	57.0	1,267	0.647	0.833	0.424	0.635
1998	65.1	96.5	62.0	1,356	0.669	0.850	0.435	0.651

Source: NSO, 1999

Note: The adult literacy figures represent the data from 1989 Population Census. Recent surveys indicate literacy rate has fallen. It could be in the vicinity of 90% and will be determined in the 2000 census.

income. It soon became clear that Mongolia’s own economic resources were too limited to support its extensive network of social services. Additionally,

of events is indicated in table 2.1 which tracks recent changes in Mongolia’s Human Development Index.

Table 5.1 Composition of government expenditure

	1992		1998	
	% of GDP	% of Total	% of GDP	% of Total
Total Expenditure	35.6	99.9	37.0	94.3
Consumption total	16.4	46.1	17.0	45.8
Transfer +Subsidies	5.9	16.5	6.3	17.0
Interest	0.4	1.2	1.1	3.0
Investment	12.9	36.1	12.6	28.5
Expenditure by function total	16.2	45.5	14.8	38.0
Health	4.6	12.9	3.5	9.1
Education	6.1	17.1	5.6	14.7
Social Security	5.5	15.5	5.7	14.2

Source: IMF, 1999

Health services

The state has a responsibility to ensure citizens are receiving full health coverage (from public sector or private sector), but it appears that the quality of services has declined in recent years. As indicated in Chapter 2, the number of physicians and the number of hospital beds per person is quite high, but the distribution is uneven, with many of the facilities concentrated in Ulaanbaatar, the main cities and the aimag centers, while many of the rural health centers lack basic amenities. With the proportion of the budget devoted to health services falling, the government is struggling to maintain standards. Often staff are not paid on time, and there are delays in disbursing funds to hospitals. Medical malpractice is considered a serious problem though measurements of this are difficult and data non-existent.

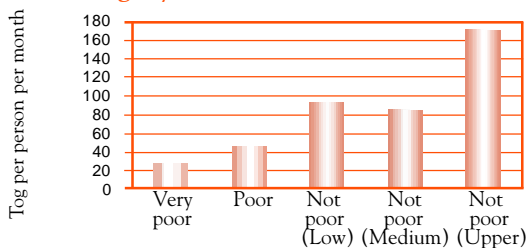
During 1997-98 the government drafted a national health policy that offered a fresh vision and direction for the health sector. This envisaged a shift from curative to preventive medicine, from hospital-centered medicine based on specialists to primary care based on general practitioners. Generally it involved greater decentralization and wider community participation. The Health Law was approved by the State Great Khural in 1998 and the draft health sector development policy has been refined and submitted to the parliament.

In addition, some of the hospital services are being modernized and rationalized. The government plans to upgrade 120 of the 340 soum hospitals to first referral centers and downgrade the remainder to health centers.

The government is also encouraging private-sector participation in health services. By 1998 there were around 820 private health enterprises, mostly physicians and individual pharmacies. In addition the government has handed over some state hospitals, paramedical and ancillary services for management by the private sector and is experimenting with private management of state hospitals at the soum level.

In order to ease pressure on the health budget the Government in 1994 introduced a system of health insurance. Currently around 90% of the population are enrolled. In 1998 insurance was meeting 50% of health expenditure. The premiums are not high and the government has agreed to pay the premiums of the most vulnerable groups. It also stated that those without health insurance should be provided with free care supported by local budgets. Even so, it has become common for hospitals to reject people who have no fixed residence or insurance. There have been, for example, cases of street children and others, brought to hospitals in life threatening conditions by the police after an accident, but being refused treat-

Fig 5.1 Health expenditure by consumption category



For consumption categories, see box 2.3
Source: LSMS, NSO, 1998

The transition has led to profound changes in the investments in people – through health, education, and social protection. Social-sector spending has come under intense budgetary pressure, while new systems of social protection have had to be created. Unless these basic services can be sustained and developed, Mongolia’s future human development is in jeopardy.

Many of the socialist era’s greatest human development successes were in the social sector – in achieving high standards of health and literacy, and in providing a pension system and a broad social safety net. It would be tragic if Mongolia were to let these achievements slip away for either financial or ideological reasons.

In every country, it is the state’s responsibility to assure universal access to good quality health care, basic education, and social protection, and to do so in the most efficient manner – minimizing wastage and making the best use of limited resources. This does not mean that the state has to provide such services itself; many could be provided privately with the state establishing quality standards.

In the general enthusiasm for privatization during the transition, it has also been argued that it is better to transfer many social services to the private sector – which it is assumed could provide them more efficiently, more cheaply and to a higher standard. However, this is not necessarily the case. Economies of scale could still allow the public sector to provide a more economical service. A uniform service provided by the state is likely to be more equitable.

In practice there are a range of options available for the provision and finance of public services. These include:

Government direct provision – In some cases, such as public health, basic education, and infrastructure, as well as basic pensions, the government is likely to be the most suitable provider. Within Government direct provision, the services may also be better provided by local government.

Private direct provision – Some people may choose private health care and education – to gain more

rapid hospital treatment, for example, or for university education. This may, or may not, provide higher quality for those concerned but, in a democratic Mongolia, it expands the free choices available to citizens. The down side to this situation is that, if the public sector loses its more educated and articulate clients, it also loses the people best able to exert pressure to maintain standards.

Private provision of public services – In this case, the delivery of certain public services may be sub-contracted to the private sector – kindergartens, for example, or care for the elderly. This can have advantages. Competitive bidding, combined with close monitoring, can ensure reasonable prices and good quality.

Cooperatives – These fall between private and public provisioning, and can be a good way of providing housing, for example, or credit or insurance.

Other groups – Community-based organizations and non-governmental organizations can also provide some services. They too can act as agents for delivery of government services.

Combined with these different forms of delivery, there is a whole range to the methods of finance. The simplest, though potentially the most expensive, is universal funding from the government budget. Then there are various forms of insurance system; public or private, obligatory or voluntary. And even public providers can recover some of their costs by charging fees for certain services.

Clearly Mongolia has to choose the solutions most appropriate to its own circumstances. But one of the major concerns must be the wide dispersal of the population. Many are nomadic and difficult to reach, which suggests that, for the time being at least, the public sector will predominate social service delivery while other options are developing.

Public finance for social sectors
Most government-financed social services have suffered major financial cutbacks since 1990. As indicated in table 5.1, between 1992 and 1998, government spending on health, education, and social security fell from 16.2% of GDP to 14.8% – and this has been combined with a fall in real GDP per capita.

The Human Development Index (HDI) measures overall achievements in a country by combining three basic dimensions of development – longevity, educational achievement and income. Longevity is simply measured through life expectancy. Educational achievement is a composite of adult literacy and combined enrolment at primary, secondary and tertiary levels. Income is based on real GDP per capita adjusted for purchasing power parity and for diminishing returns at higher incomes. As table 2.1 shows, each of these indices dipped in 1992 but rose after 1995 and by 1998 the overall index had virtually recovered to the 1990 level.

For international comparisons, according to the 1999 global *Human Development Report*, Mongolia ranked 119th in the world out of 174 countries. The Russian Federation was 71st and China was 98th.

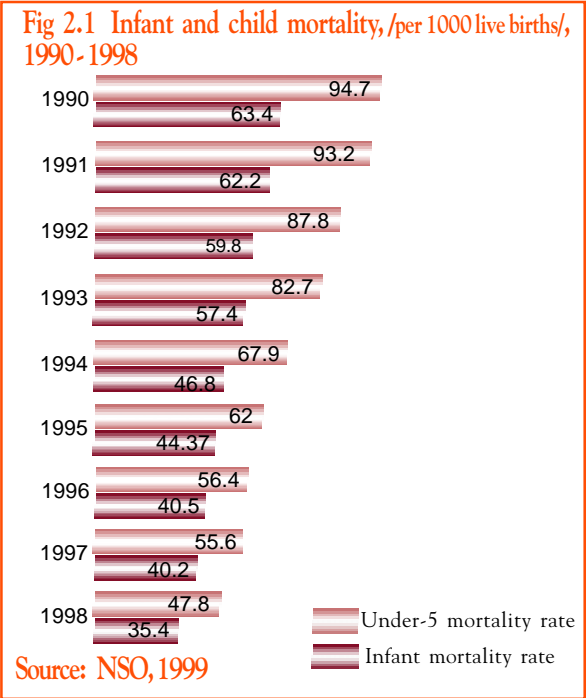
The HDI is a useful indicator for simple international comparisons and overall trends. But it has some limitations. The main one is that it is confined to a narrow group of indicators. The concept of human development embraces a wide range of other aspects of life – including political freedom, for example – which are not measured within the HDI. Human development is also concerned with national disparities, but the HDI is confined to simple overall averages.

Closer examination of the 1998 HDI for Mongolia, for example, suggests that the fastest recovery has been in life expectancy. In the HDI this improvement offsets the decline in income, which remains far below the 1990 level. To appreciate Mongolia’s current state of human development it is important to look more closely at individual aspects, including some that are not components of the HDI.

The state of health
The rise in life expectancy is encouraging – though even at 65 years this is still behind some countries. An important contribution to this improvement is the reduction in infant mortality. Key health concerns include continuing high maternal mortality, high incidence of communicable diseases (e.g. tuberculosis, hepatitis, sexually transmitted diseases, and brucellosis), and more evidence of non-communicable diseases, along with declines in nutritional status. The large health system continues

to struggle with issues of cost-effectiveness, quality, and access.

Infant mortality
In recent years fewer children have been born – and a higher proportion of these appear to be surviving. Between 1989 and 1999 the crude birth rate per thousand population fell from 37 to 21. And as figure 2.1 shows, over the same period the infant and under-five mortality rates have been falling consistently. There has been some debate about these mortality figures – especially those for 1990-94. Some people have argued that in the face of declining incomes and deteriorating health services, this steady reduction in infant mortality is unlikely – and could be due instead to under-reporting of deaths. However, it is likely that there has been a real decline due to the focused efforts of the Government and aid agencies to aggressively address key issues. The major causes of infant and under-five mortality, specifically acute respiratory infections and diarrhoeal diseases, have decreased by 3.5 times and 2.7 times, respectively, in terms of the number of related deaths between 1991 and 1997 as a result of national programmes supported by WHO and UNICEF among others. Immunization coverage rates have increased steadily over the last five years and now exceed 90% for nearly all major antigens. Combined with a dramatic rise in breastfeeding rates these targeted programme interventions have managed to work

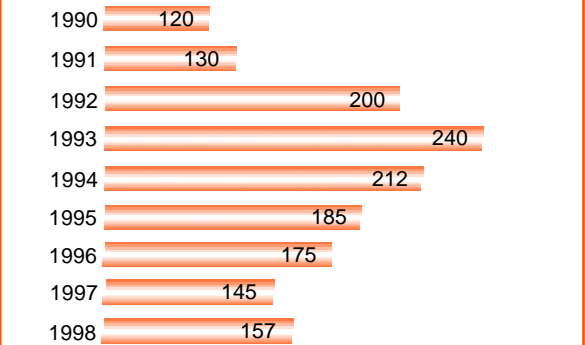


for children despite continued high levels of poverty and weakening services in the last couple of years.

Maternal mortality and reproductive health

The trends in maternal mortality are less consistent. As indicated in figure 2.2, the rate rose steeply after 1990, then fell again. In Mongolia, the vast majority of women have in the past received ante-natal care from health professionals and most births have taken place in medical facilities. The sudden rise may have been due to the closure of most maternal rest homes that provided pre- and post-natal care, as well as to changes in the definition of maternal mortality. Common problems with women’s reproductive health include urinary tract infections and anaemia. Declines in maternal mortality after 1993 are attributed to improved diagnosis and treatment from better training, equipment, and essential supply provision associated with safe motherhood programmes. Several maternal rest homes have been reopened and maternal and obstetric care practices are improved among service providers.

Fig 2.2 Maternal mortality, /per 100 000 live births/, 1990 - 1998



Source: NSO, 1999

Nonetheless, weakened communication and ambulance services, and inadequate targeting of high risk areas have contributed to mortality figures which remain a significant concern. Another serious issue is the number of abortions which were legalized in 1989. The abortion rate apparently peaked in 1992 and remained remarkably high: in 1998 there was one abortion for every five live births and even this may be an underestimation since more abortions now take place in the private sector where they may not be accurately reported. The high rate of abortions is a clear indication of the inadequacy of family planning.

Other health problems

For adults, the main causes of death are now cardiovascular problems and cancer. Between 1980 and 1997 (see table 2.2.), for diseases of the circulatory system and for cancer, the death rate per 100,000 population more than tripled. Many of these deaths could be linked to increasing stress and the rise in human insecurity. Changes in lifestyle, particularly increases in alcoholism and smoking, are significant contributors to current morbidity and mortality among adults. Other diseases which have shown increases in recent years are sexually transmitted infections (STIs) whose incidence tripled between 1987 and 1997. High rates of STIs pose a significant risk for the spread of the HIV/AIDS epidemic into Mongolia which to date has had a nominal impact in the country. All of these lifestyle-related diseases significantly threaten the country’s adolescents and youth who now comprise a majority of the population. Environmental health concerns increasingly affect all Mongolians as pollution levels escalate and access to safe water and sanitation decline with increased urbanization and deteriorating infrastructure throughout the country.

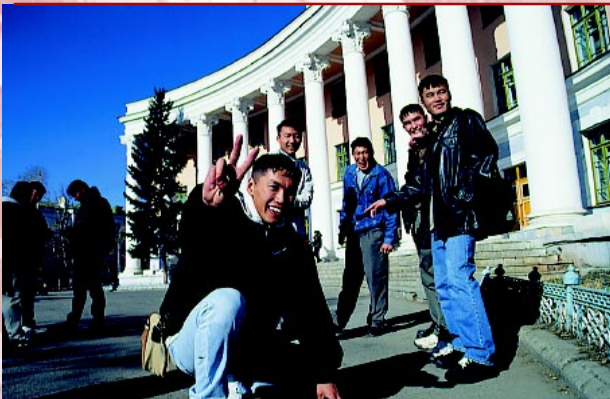
Table 2.2 Mortality by disease category

Disease group	Mortality per 100,000 population			Mortality as % of total mortality		
	1980	1990	1997	1980	1990	1997
Diseases of the circulatory system	43.3	132.2	197.3	62	16.5	31.3
Neoplasm	28.7	131.1	125.9	41	16.4	19.9
Diseases of the respiratory system	348.0	234.2	80.8	49.6	29.2	12.8
Traumas and poisoning	16.4	38.7	70.0	23	4.8	11.0
Diseases of the digestive system	87.1	104.9	48.4	124	13.0	7.7
Infectious and parasitic diseases	76.8	33.9	31.8	10.9	4.2	5.0
Diseases of the prenatal period	27.1	41.9	12.8	3.9	5.2	2.9
Diseases of the genito-urinary system	85	17.6	14.3	12	2.2	2.3
Other	66.6	66.6	49.6	94	8.2	7.8
Total	703.1	800.9	631.2	100	100	100

Note: For 1980, only hospital deaths are included; from 1990, all deaths.
Source: MHSW, 1997

CHAPTER 5

Investing in social services



Nutrition

Overall growth among children up to six months of age has remained generally adequate during the last five years. The success of the Baby-Friendly Hospital Initiative and other programmes to promote breastfeeding contributed greatly to this outcome as exclusive breastfeeding rates rose from roughly 45% in 1991 to nearly 94% in 1998. The combination of good nutrition, hygienic feeding, and improved immune function from breastfeeding means that children grow better in poor and well-off household alike. On the other hand, under nutrition, as measured by low height for age (stunting), low weight for age (underweight), and low weight for height (wasting) have increased slightly among children from weaning to 5 years of age. In 1998, nearly 30% of children in this age group were stunted and as many as 10% were found to be underweight. The amount of stunting is about four percentage points higher than was detected in the 1992 UNICEF-Government survey.

The number of malnourished children is a matter of significant concern and reflects improper care practices in households, including late introduction of complementary feeding, inappropriate foods and inadequate intake, among others. Limited resources for care - including human, economic, and organizational - directly influence the practices in households. They also have indirect effects through household food security, the use of health services, and the healthiness of the environment in which children grow. Low access to appropriate foods, heavy workloads among caretakers, inaccurate knowledge and beliefs all affect nutrition in Mongolian households.

In addition, to protein energy malnutrition, Mongolians are suffering a number of micronutrient deficiencies, including iodine deficiency disorders, rickets, vitamin D deficiency, and iron deficiency anemia. Again the often low level of available resources influences efforts to combat these types of hidden hunger, all of which are directly linked to maternal and child health status. Presently only 32% of all households are consuming iodized salt largely as a result of the slightly higher price this product commands on the open market. In making a choice, poor families will often select the cheaper product,

robbing their children of the essential benefits to child development of this mineral. This scenario also applies to the purchase of supplements for the other aforementioned micronutrients which have been confirmed as significant public health problems in Mongolia.

Access to health services

Mongolia has an extensive medical and public health infrastructure. There are roughly 750



hospital beds and 240 physicians per 100,000 population. In the last several years, the Government has promoted efforts to downsize, decentralize, and in some cases privatize elements of health care. This has been done with the expressed intent to improve cost-effectiveness and quality of care. Implementation of the national health insurance law-which was intended to increase cost-sharing between patient and government –has resulted in a number of people who cannot receive treatment because they don’t participate in the insurance scheme or have dropped out and do not have cash to make direct payments. Poor families and migrants are particularly at risk in this regard.

In rural areas, physical access to services is often a constraint due to lack of transport and communication links. Government policy increasingly emphasizes preventive care over curative services and the training of the country’s medical practitioners reflects this new emphasis. As the country’s economic and epidemiological transition continues with possibly more people in poverty and degenerative diseases overtaking infectious diseases as the major cause of sickness and death – the functioning of health services will become an increasingly significant issue linked to the country’s development.

The state of education

Education has been one of Mongolia’s strengths. Under the socialist regime, literacy had reached 98% for men and 95% for women – largely due to a vast network of schools that included boarding facilities for children of herding families. Since all of this was free, there was very little difference in educational attainment between different aimags.

Box 2.1
A principal’s views on the state of schooling

Mr. C. Haisa is the principal of a secondary school in the Altai soum in Bayan-Ulgii aimag. He describes how poverty affects the lives and activities of soum schools and offers some suggestions:

“Of 454 pupils in our school, 70% are from cattle breeders’ families. The school’s dormitory houses 100 children, of whom 90 are from poor families.

“Dropping out of school is a serious problem in our soum. One of the main reasons for dropping out is the inability of parents to provide basic clothes, shoes, and school accessories, including books, even food. About half the students in the dormitory are provided meat by the school. But the situation has worsened this year as the school’s farm lost the bulk of its herds in snowstorms.

“Poor infrastructure and the great distance from major markets affect the school – a truckload of sand costs Tg 30,000, and a truckload of coal anywhere between Tg 120,000 and Tg 130,000. In today’s environment of scarce cash and insufficient budgets, it becomes next to impossible to operate the school’s activities normally.

“I suggest a change in the school semesters to save on electricity and heating costs. The school year should be divided into two semesters: the first semester to start on September 1 and end on December 1; and the second to start on January 5 and end on July 1.”



But during the early transition years there were serious reversals as a result of the withdrawal of Soviet aid and the pressure on the education budget.

The total number of secondary schools in 1999 was 620. This number represents both 8 and 10 year schools as well as schools that teach grade 1-6 exclusively. This number is similar to 1990 (634). However, overall enrolment ratio for children aged 8 to 15 fell from 98% to 84%. Since then there has been something of a recovery. The total number of primary schools is back up to 96, and by 1998 enrolment had reached 87%. Nevertheless it is clear that a number of problems remain.

Box 2.2
Ganpurev’s story

Ganpurev is a carpenter in Dundgovi aimag. His household comprises his wife Tsedenbal and five children between 4 months and 12 years. Ganpurev has a secondary education but since 1990 he has been unemployed and he and his wife earn their livelihood by bringing drinking water to households from a distant water source.

Because their ger (Mongolian felt dwelling), is damaged and leaking, the local administration has provided them with a one-room shelter in a corner of an old building. In addition to their shabby clothes and fragile health, the family have also suffered a loss of self-esteem.

They have also been marginalized from their community. For example, when loans were being offered in their soum for income-generation projects they were not considered – indeed they were unaware of what was available. When told about the loans, Ganpurev said that there was plenty of carpentry work available, all he needed was a set of tools.

The local governor, administrator and others pointed out that one of the qualifications for a loan was entrepreneurial ability and attitude – characteristics that Ganpurev in his impoverished state did not appear to have.

Ganpurev’s greatest ambition is to ensure a good education for one of his sons whom he considers an intelligent child, who could subsequently help support the family. He said he needed money to buy good clothes and books for his son but did not know how to do this since they could scarcely afford two square meals a day.

Provide sufficient energy:

- Improve efficiency of energy utilization and reduce waste; focus on effective insulation of buildings and gers
- Explore new technologies for renewable sources of energy such as wind, solar and biomass
- Promote modernization of the energy sector
- Mobilize resources – financial and technical – for exploration of environmentally sound technologies
- Introduce new fuel technology and the production of more environmentally friendly fuel briquettes

Control air pollution:

- Explore non-exhaustible solar, wind and water power in the energy sector
- Promote extensive use of efficient fuels and stoves
- Introduce and enforce pollution standards
- Set up filter facilities for pollutant sources
- Systematize waste recycle and burial procedures
- Reduce urban soil erosion
- Develop a comprehensive legal, economic and management action plan for collection, transportation, storage, reuse and recycling of resources

Protect grazing lands:

- Introduce natural rehabilitation of plants for pastures
- Promote scientific pasture management including appropriate technologies, proper irrigation of unused areas, building appropriate livestock shelters, building up buffer stocks of pastures, and setting up man-made pastures
- Rationalize livestock breeding by improving the quality and productivity of livestock breeds
- Improve people’s knowledge regarding land use and management

Deforestation

- Build public awareness on the essential nature of the trees within the entire eco system – the water table, soil protection, agricultural production, flood prevention, etc.
- Enforce reforestation measures, especially with commercial logging operations
- Involve communities in protection of the forests by providing usage entitlements
- Strengthen forest fire prevention measures

Prevent desertification:

- Promote use of pastures on rotation to combat overgrazing
- Establish windbreakers in crop fields
- Improve soil fertility and minimize soil erosion
- Introduce advanced technologies in cropping practices
- Rehabilitate degraded environment
- Undertake reforestation
- Provide legal, economic and management support for the implementation of a national program for combating desertification

Prevent forest fires:

- Develop a comprehensive set of preventive actions against forest and steppe fire outbreaks
- Strengthen legal, economic and management actions for eliminating fire damage
- Intensify implementation of the 1998 National Programme on Forests

Protect biodiversity:

- Involve communities in the sustainable use of biodiversity, especially in sensitive buffer zones around protected areas
- Build public awareness on the importance of endangered flora and fauna
- Promote people’s participation in growing edible and herbal plants

Control the effect of natural disasters:

- Improve enforcement of the law on natural disasters
- Improve implementation of national programmes for combating desertification and preventing natural disasters
- Create natural disaster insurance systems
- Strengthen national capacity for disaster management

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sunshine each year has a considerable potential for solar energy generation, for example, as well as the option of wind power. Likewise, improved energy efficiency of buildings and gers would reduce the level of air pollution.

Climate change

Over the past 50 years, global climate changes have led to an average increase in air temperature. During the winter months average air temperature has risen several degrees centigrade while during the summer it has fallen by 0.5 degrees. The rise in winter temperatures combined with a reduction in forest cover has been melting some of the permafrost, and the fall in the summer has been a factor in the reduced growth period for vegetation, leading to fodder shortages particularly in the semi-arid areas.

Much of the climatic change that Mongolia faces is outside its own control. Therefore, the state clearly has a strong incentive to support initiatives that aim to protect the environment at a global level.

Coping with natural disasters

Global warming has heightened Mongolia’s exposure to a number of regular natural disasters.

• **Drought** – A large part of Mongolia consists of arid and semi-arid areas, and around one-quarter is affected by drought every two or three years.

• **Floods** – Overgrazing, deforestation, and soil erosion are thought to be increasing the frequency and duration of floods.

• **Fires** – As the climate has become drier, there have been an increasing number of fires. In 1998 alone, there were 132 outbreaks of fire causing damage to the environment and infrastructure, and livestock losses of more than Tg 3 billion. Most fires in Mongolia are related to human activity.

• **Dust and snow storms** – Climatic change is also thought to be associated with the severe snow and dust storms of recent years. In 1996-97 storms and snowfalls that covered 20% of the territory resulted in the deaths of over 600,000 animals which together with damage to infrastructure cost more than Tg 10 billion.

In a country so exposed to natural disasters, the state has to take the lead in coordinating preparation and response. It should, for example, create advance warning systems as well as prepare plans for relief operations, preferably in conjunction with

community groups and non-governmental organizations which are usually in a good position to act quickly at the local level.

A comprehensive environment policy

State protection of the environment is a prime example of providing ‘public goods’. Left to their own devices many enterprises can overuse natural resources and add to pollution. However, they will also be willing to accept sensible environmental regulation that is enforced consistently and fairly. The state therefore needs to implement a comprehensive environmental policy to ensure compatibility between the expansion of economic opportunities and environmental protection. This should address issues of pricing, technology, management, financing, regulation and sustainability.

At the same time the state needs to increase public awareness of environmental issues and encourage community participation. Accelerating Mongolia’s human development in a sustainable fashion can only be achieved by a broad coalition between government, local communities, non-governmental organizations and the private sector.

While action on the environment is called for from the public good perspective, the proper use of the environment has strong economic arguments – i.e. enhanced tourism, agricultural productivity, livestock quality and poverty reduction. Likewise, the state’s support to the dynamic informal sector and small and medium sized enterprises (SMEs) will ultimately decrease the pressure on the commons.

Box 4.2
Implementing environment policy

The Government has taken a number of measures to protect the environment. It has signed major global treaties and conventions dealing with the environment and formulated a series of commendable action plans. The key to impact will be effective implementation for which the following suggestions are provided.

Ensure clean water supplies:

- Develop a system of pricing that better reflects costs and scarcity
- Improve utilization of water in agriculture and industry
- Undertake infrastructure investment to reduce water loss
- Promote people’s involvement in the development and management of local water supply services

Quality of schools

Recent reports suggest that there has been a marked deterioration in the quality of education at all levels. The education budget has been reduced and around two-thirds of primary and secondary school expenditure goes to teachers’ salaries and heating, leaving little for textbooks or other teaching materials – or for repairing decaying school buildings. The quality of teachers is also undermined by limited training facilities and also by low salaries that are often paid late. Mongolia still has a good pupil-teacher ratio – averaging 32.8 for primary and secondary schools but this could be under further pressure as the best qualified teachers are tempted to leave the public sector for private schools – or to leave teaching altogether.

Parents’ priorities

Poor parents also now find it more difficult to send their children to school. The introduction of a school dormitory fee at half (50 kg of meat) the cost of meals in addition to the inability to provide for kids’ clothes, school textbooks and other materials leads some parents to taking their children from school. Other parents may simply need their children to work: the recent increase in the size of herds means that herding families have to travel greater distances to find suitable pastures. In the case of vocational institutions, parents may also have reservations about sending their children to schools that do not really equip pupils with skills appropriate for the currently available jobs.

Emerging disparities

Even though basic education is free, the increase levels of poverty are likely to reduce the prospects for the poorest children – and thus increasing inequalities. This is gradually happening at the secondary level as poor parents withdraw children from school early. At the same time, declining quality

of public secondary education is tempting wealthier parents to send their children to the private secondary schools abroad or at home for high fees.

Inequalities are increasingly evident at the tertiary level – despite the availability of substantial state loans for students from vulnerable families. Tertiary and technical education has become increasingly concentrated in Ulaanbaatar and two other city centers and also is the prerogative of the relatively well off, some of whom are also sending their children to study abroad. The phenomenon of increasing gender imbalance among students, particularly in higher education where girls constitute 70% of the matriculation, threatens some disruption in a modernizing society where men will risk lacking the knowledge and skills necessary to adapt to the rapid changes.

Consumption levels and poverty

While overall income has fallen during the transition period there has also been an increase in inequality, which is measured using the ‘Gini-coefficient’. For any country, this is a number between 0 (absolute equality) and 1 (one person owns everything). Between 1995 and 1998 Mongolia’s Gini-coefficient rose from 0.31 to 0.35.

The current levels of consumption were measured in the 1998 Living Standard Measurement Survey (box 2.3). This also indicates that 35.6% of the population are now poor or very poor. Table 2.3 shows how poverty is distributed between different population groups. It should be noted that the 1998 LSMS study had several small but significant methodological differences from 1995 study making the poverty headcount statistics not directly comparable. Nevertheless, it is clear that poverty remains a serious problem and includes about one third of the population. Mongolia is distinctive in that

Table 2.3 – Key poverty indicators, 1995 and 1998

	% of population below the poverty line		Number of poor people ('000s)		Depth of poverty		Severity of poverty	
	1995	1998	1995	1998	1995	1998	1995	1998
All Mongolia	36.3	35.6	820.7	862.9	10.9	11.7	4.8	5.6
Urban:	38.5	39.4	470.5	493.4	12.2	13.9	5.7	7.1
Ulaanbaatar	35.1	34.1	214.1	221.3	10.4	13.0	4.5	7.4
Other cities	41.9	45.2	256.5	272.1	n.a.	n.a.	n.a.	n.a.
Rural	33.1	32.6	350.1	369.5	8.9	9.8	3.6	4.4

Source: LSMS, NSO, 1998 **Note: In the 1995 and 1998 LSMS some methodologies have changed making it difficult to directly compare the two years.**

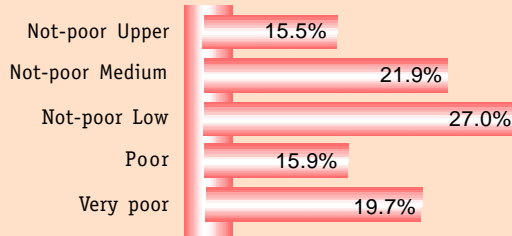
Box 2.3

Poverty levels

The 1998 LSMS divided the population into five categories based on consumption level.

Very poor: Less than Tg 11,005.
Poor: Tg 11,005 to Tg 14,674.
Not poor - Low: Between the poverty line and 150% above the poverty line.
Not poor - Medium: Between 150% and 225% above the poverty line.
Not poor - Upper: More than 225% above the poverty line.

Sample size of population in each category is indicated in the chart below.



Source: LSMS, NSO, 1998

poverty tends to be less in rural areas than in urban areas, especially the provincial and township centers where poverty is the highest.

Table 2.3 indicates an increase in the depth and severity of poverty. The ‘depth’ is the percentage that the average poor person’s income is below the poverty line. The ‘severity’ takes into account income distribution within the poor, giving more weight to those who are furthest from the poverty line. These increases correspond to increasing inequality and the rising Gini-coefficient mentioned above.

The poorest people typically belong to families where the head of household is unemployed, or a pensioner, or a female single parent. In Ulaanbaatar, for example, around two-thirds of the very poor are unemployed.

Employment and wages

Socialist Mongolia had no recorded unemployment. For the majority of people the early transition years were very difficult. Many lost their jobs as industries closed. According to official data, the unemployment rate was 5.8% in 1998. But this represents only those that register with employment

regulation offices. The 1998 LSMS offers a different picture suggesting a national unemployment rate of 19%. This breaks down into 12% in rural areas and 30% in urban areas.

Rural employment

In rural areas the main source of income is herding, in which livestock numbers increased between 1980 and 1998 from 23 to 34 million – of which 72% were sheep or goats and 11% cattle. Previously, the herds were managed by cooperatives. But in 1990 livestock was privatized and since then ownership has become more concentrated. In 1997, around 71% of herder households had between 51 and 500 head of cattle. A herd under 100, however is economically unfeasible and their owners are considered poor.

Urban employment

Poverty is greatest in the urban areas, partly because of the closure of industrial enterprises, but also because of immigration from the countryside. Many of the new arrivals swell the growing informal sector which is now thought to employ 40% of the workforce in Ulaanbaatar.

Wages

These are generally low. In 1998 the average monthly wage rate was Tg 47,000 (around \$50). The minimum wage rate set by the government in 1998 was Tg 71 per hour.

The position of women

At first glance it does not appear that Mongolian women face serious problems of discrimination. Women make up half the workforce, and many more are now employed in the private sector. According to the Employers’ Federation, women owned more than one-quarter of private enterprises in 1996. Women have also seen a modest increase in political participation – between 1992 and 1996 the proportion of women members in the Great Hural increased from 4% to 9%.

However, in practice women tend to have less job security as workers and less access to information and credit as entrepreneurs. They are also more likely to be poor if they are heads of households. In Ulaanbaatar in 1998 while 21% of male-headed households were poor, for female-headed households the proportion was 44%.

Box 4.1 Interview with a Herder

Khutag-Undur soum in Bulgan aimag is only seven kilometers from the banks of Selenge River. It meanders through a beautiful valley, which is beginning to show increasing signs of pasture degradation. The livelihoods of the local people depend on agriculture. Bumbiin Gonchigjav, a retired soum darga (administrator) and a herdsman talks about his concerns for the valley.



“In recent years an influx of migrating herder families from western aimags have increased pressure on our pastureland. They graze their animals on the territory of our soum as they make their way to near-by market. But many families have also decided to settle down here, instead of passing through. As a result, the pasture is being degraded and its sustainability is sharply declining.”

He refers to the vegetation, which is undergoing severe depletion in the already overgrazed pastures, resulting in overgrowth of unedible weed (artemisia). Heavy sand encroachment (desertification) also continues to degrade unfarmed areas.

“Before, there were measures implemented nationwide to exterminate harmful pests and insects. Nowadays, there are no such measures. So forests are being plagued by aggressive wood-devouring insects. These pests not only devastate wood but also destroy fruits, plants and pasture land.

“As I mentioned, livestock of migrating families are also degrading pasture. More over, livestock diseases are spreading such as blood infection and lung diseases. I have no idea how many other kinds of livestock diseases are spreading.

“I believe a nationwide action plan is urgently needed to fertilize and irrigate pasture, crop and farm lands; to protect the forests and to combat desertification. Otherwise it will be too late to take any measures.”

quantity and quality) to sustainably use this natural resource.

Sustaining biodiversity

Apart from rearing their own livestock, Mongols hunt over 200 species of animal for their meat, skin, antlers and musk pods. During the period of the command economy such activity intensified and this, along with other human incursions on their territory and climate change, has severely depleted animal numbers. By 1998, more than 100 species were listed as endangered. The failure to regulate hunting in Mongolia even in protected areas has led to a sharp decline in numbers of wild animals.

The degradation of land and forests has also threatened plant species. Many of Mongolia’s plants are of medicinal value – currently over 100 species are used for various treatments. In addition many species are processed into special foods and beverages. In recent years a number of companies have been growing many plants specifically for medicines and food preparations. The state should encourage these and other companies to ensure that this activity is taking place in a sustainable fashion.

Ensuring clean air

Mongolia is increasingly suffering from air pollution in urban areas. In Ulaanbaatar, Darkhan, Erdnet and Baganuur, the concentration of air pollutants, especially during the long winter months, can be more than five times the permitted safe levels.

Much of this is generated by households. In Ulaanbaatar nearly half the households are heated by coal or wood fires. The smoke from all these fires results in a serious deterioration in air quality, particularly in the outer ger districts where levels of carbon dioxide can be seven times higher than in the city centre. Added to these fumes are increasing quantities of industrial pollutants from the city’s three thermal power plants which consume more than three million tons of coal per year. Ulaanbaatar’s 60,000 or more vehicles add to this noxious atmosphere.

This has had a growing effect on people’s health as manifested by respiratory ailments. The state will have to exert much greater control over air quality. One option is to investigate the potential for alternative energy sources. A country with 280 days of

for deep concern, both for quantity and quality. The past five years have seen falling groundwater levels as well as the drying up of some springs and small streams. Around one-quarter of supplies are used by households, with the rest going to livestock and industry. However, for domestic use there is a dramatic difference in consumption between ger and other informal districts, which consume around 8 litres per person per day, and the apartment bloc districts (with centralized water supply) of the capital where people use 200 litres or more daily.

In the rural areas, at least 60% of the 35,000 engineered and/or deep water wells which were established in the socialist era are out of operation.

In addition to ensuring the quantity of water the state also has a prime responsibility to ensure its quality. In this regards, there are increasing concerns about pollution. Much of this results from the hundreds of industrial enterprises that generate an even increasing variety of effluents. But there are also worries about the processing of human waste. Around one-third of sewage treatment facilities are not functioning, and another third are only operating partially. Millions of cubic metres of untreated sewage are being dumped. As a result, the basins of large rivers, such as the Tuul, Yurui and Orhon, which have high concentrations of both population and industry, are becoming increasingly polluted. In the majority of the Gobi region and in the eastern steppe, ground water has an extremely high mineral content (fluoride, calcium, magnesium) that negatively impacts on the health in these regions.

If the state is to plan for future water use it will need to improve the systems of delivery while developing a system of pricing water supplies that better reflects costs and scarcity. Communities, as the end-users of the water, must be included in the decision making on the management and pricing of the water rather than being simply passive recipients. The state will also need to address urgently the problems of sewage treatment and enforcing tighter control on the dumping of toxic waste by-products.

Using the forests

The Mongolian forests used to cover 15% of the territory in the socialist days, but this has dropped to an estimated 9% at present. Precise figures from a



forest inventory are lacking. As mentioned earlier, citizens are turning to the commons for both wood (either legally or illegally harvested) and non forests products (berries, nuts, herbs, antlers, etc). When such increased human pressures are combined with forest fires and damaging insects, Mongolia is facing a dangerous situation with the accelerating loss of its forest cover.

Deforestation and forest degradation are of local, national and global concern, due to the ecological importance of forest cover. Loss of the forests aggravates erosion, increases evaporation and lessens snow retention, leads to desertification, impacts negatively the water table and decreases agricultural productivity in surrounding areas. Forests influence and are influenced by development issues (poverty, generation of employment and income, provision of energy, and earning of foreign exchange) and conservation issues (soil and water conservation, protection of biodiversity and mitigation of greenhouse gas emissions and climatic changes).

Unless forests are seen in the proper light – as having an economic, social and ecological value to individuals, communities, and the nation as a whole, their future will be in jeopardy.

The role of the state (in harmony with the citizens, NGO's and the private sector) vis-à-vis the forests, which are indeed a global treasure, include: the control of deforestation; the enforcement of reforestation; forest management, ensuring a proper balance in the production, protection and conservation functions of trees; harmonisation and use of modern and traditional technology for improved and efficient forest utilization; provision of a favourable environment for a sustainable forest industry; and the development of the required skills and specializations (both in

Increases in unemployment during the transition will inevitably have placed the heaviest burden on women. Any reduction in health or social services means that women have to spend more time caring for the young, sick and elderly.

Human insecurity

Increased levels of unemployment and the weakening of social services since the end of the socialist system have generally heightened people's sense of insecurity. Economic stress is also

ground lost in the early years of transition. But given the ongoing economic difficulties and the pressures on the government budget, human development still risks slipping.

Fig 2.3 Offences, 1990-1998



Source: Statistical Yearbook, NSO, 1998

contributing to the break-up of families, and increasing numbers of children are spending more time on the streets – engaged in a variety of activities, from begging, to petty crime to prostitution. It is estimated that 80% of street children come from single-parent families and that more than half such children have been abused. There has also been an increase generally in commercial sexual work, with the attendant risks of increasing sexually transmitted infections and HIV/AIDS.

The transition period has also seen a rise in criminal activity. The increase in recorded crime is indicated in figure 2.3.

Violence against women is also reported to be on the increase. The 1998 survey, conducted by the Population Training & Research Centre of the National University of Mongolia, suggests that more than 31.6% of women have experienced physical and psychological abuse or violence.

A precarious success

The current state of human development, which is summarized in the balance sheet in box 2.4, shows that Mongolia has done a great deal to recover the

Box 2.4 – Human development balance sheet for Mongolia

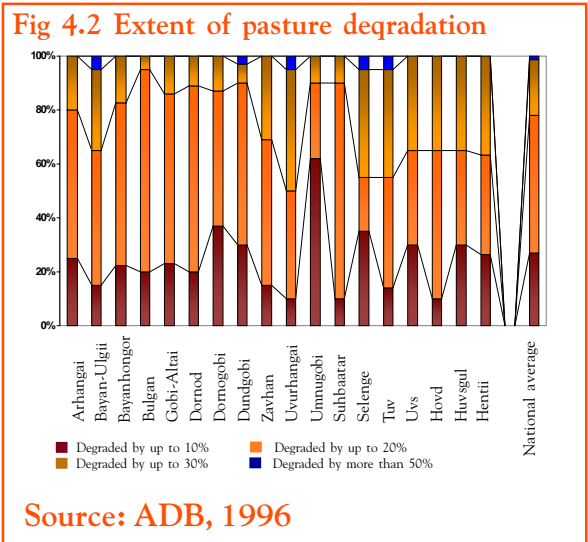
Achievements	Shortfalls
Health	
<ul style="list-style-type: none">National programme adopted for modern, cost-effective health reforms such as family care practices, preventive medicine and primary health care; cost recovery mechanisms have started.The incidence of many communicable diseases is decreasing. (except for STIs)Some 90% of children had been immunized against measles in 1997, and 92% had received DPT3.	<ul style="list-style-type: none">Access to health services and medicines are limited among the poor, the nomadic, and those living in remote areas. The quality of health care is extremely poor.Shortage of medical equipment and poor quality of existing outdated equipment.Health personnel need retraining.Heart disease and cancer are increasing.Brucellosis, tuberculosis and sexually transmitted diseases (including HIV/AIDS) are increasing.
Education	
<ul style="list-style-type: none">The literacy rate has been high – 96.5% in 1989 – a legacy of the socialist investments.Mongolia has a unique system of residential schools for children of nomadic communities.Gross enrolment ratios in primary schools fell from 103% 1990 to 74% 1993, but then rose to 86% 1998.	<ul style="list-style-type: none">Poor quality buildings, heating and equipment and weak infrastructure are hampering learning.The quality of education needs to be improved; technical and vocational training remains neglected.Access by the poor is limited; literacy has dropped during the transition; pre-school attendance rates have fallen dramatically.
Employment	
<ul style="list-style-type: none">The informal sector continues to grow in Ulaanbaatar and provides income to an estimated 40% of the working population.The livestock herd has expanded to over 34 million and continues to serve as a de facto social safety net.	<ul style="list-style-type: none">Unemployment and underemployment affect around 20% of the working population.Additional reforms and investments are needed in the education/vocational-training sector for development of relevant skills in the market economy.
Social protection	
<ul style="list-style-type: none">A pension system was established in 1995.A social assistance system was set up in 1996.	<ul style="list-style-type: none">Limited services offered, with some people not covered.Increasing problem of street children.
Poverty	
<ul style="list-style-type: none">The trend of increasing income poverty (as a percentage of the population) has stabilized at 36% of the population below the poverty line.In 1995, the Government introduced a poverty alleviation programme that now has an extensive national outreach up to bagh level.	<ul style="list-style-type: none">There are some 870,000 people living below the poverty line (latest LSMS data).Preliminary data suggests that between 1995-98, the number of income-poor increased by 42,000.Single mothers, children 0-16 years and the elderly account for half of all the poor.
Gender	
<ul style="list-style-type: none">Women’s basic education standards is high.High participation of women in the workforce.	<ul style="list-style-type: none">Low levels of women in senior Government positions.High levels of abortion.
Environment	
<ul style="list-style-type: none">Vast natural resources available.The launch of the Green Revolution has boosted household vegetable production by over 40%.	<ul style="list-style-type: none">70% of pastures have been degraded due to over-grazing; unchecked deforestation.Pollution from household stoves and power plants. Devastating mining practices, especially in gold.
Other basic services	
<ul style="list-style-type: none">90% of households in urban areas have electricity.Urban bus systems provide effective public transportation.	<ul style="list-style-type: none">80% of rural households do not have electricity.51% of the population does not have access to safe drinking water.Urban housing needs are not met, leading to crowding, squatting and decreasing living standards.

Mongolia. Legislation, action plans and rules exist, but implementation at the local level is weak to non-existent. Corruption can and is prospering in this situation.

Protecting the land

While Mongolia is the seventeenth largest country in the world in terms of territory, much of the land is not productive. Likewise, the productive land is under rapidly increasing pressures leading to its increased deterioration.

Pasture land has come under pressure. As figure



4.2 shows, around 70% of the land has been degraded to some extent. This is partly because the increased livestock in recent years has forced herding communities to exploit the land more intensively. As a result the total area of useable pasture land has steadily been shrinking. Much of the land used to raise crops has been subject to soil erosion. Almost half the 1.3 million hectares of arable land have had to be abandoned. Over the past 20 years average yields of wheat have fallen by half. This is a result of a number of different factors including poor agricultural practices and a lack of quality inputs, including improved seed varieties.

Intensive mining operations, especially for gold, have also contributed to land degradation. Around 600 sites have been under exploration and 200 are being mined – activities that have positively contributed to economic growth but degraded millions of hectares of land. Rehabilitation of the land by the mining companies is not taking place. Mining

companies find it less expensive to pay fines than to rehabilitate the land. It is also highly unusual for fines to be applied.

The more intensive use of cars and trucks in the rural areas has resulted in the proliferation of rutted tracks. In the urban areas there is also increased soil pollution from the dumping of wastes: by 1998 waste disposal sites throughout the country covered more than 30,000 hectares of land.

Not all the degradation comes from direct human activities. There have been swarms of grasshoppers, and large numbers of rodents such as the Brandt’s Vole, which have laid waste to millions of hectares of land. In the most extreme case, land degradation is resulting in desertification. In 1998, an estimated 21% of the land was moderately effected by desertification – and 4% was severely affected.

Protecting the land and combating desertification should be one of the state’s environmental priorities. On the arable land for example, it needs to encourage better cropping practices and the creation of wind breaks. Currently, extension services and good practical advice for farmers do not exist. On the pasture land there needs to be a comprehensive effort to restore the pastures and use them more carefully by ensuring rotation. The state should consider reduction of the growth rate of the national herd while increasing its productivity “on the hoof”.

Ensuring clean water supply

The annual water reserves available for use in Mongolia total 34.6 cubic.km. Mongolia’s water supplies are adequate given the low population density, but there are some causes

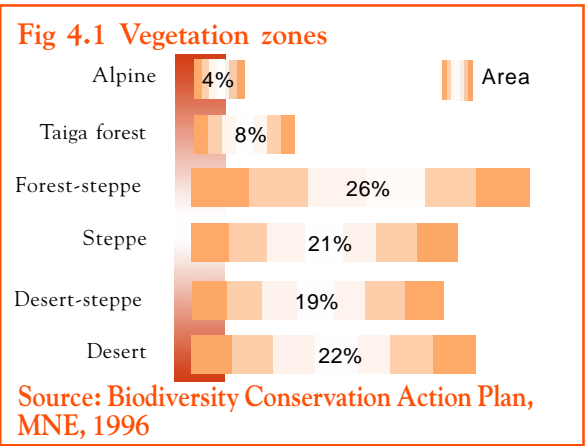


Children of herders drawing water from a traditional well

By the standards of many other countries, Mongolia's environment is relatively unspoilt. However, the transition has accelerated the risks of damage. Many areas of concern are emerging; highlighting the need for integrating comprehensive policies into the overarching national development strategy and, most importantly, ensuring effective implementation which has been lacking.

During the transition period many people, who may have lost their industrial jobs, have turned to the land for their livelihood—through raising livestock, growing vegetables, harvesting wood, hunting, gathering berries, etc. Some have referred to this as the “de-industrialization” of Mongolia, which has brought increased pressure to bear on the commons.

Mongolians have a deep reverence for their environment and a close symbiotic relationship with the natural world. At present much of Mongolia's landscape is still in reasonable shape. But there are many worrying developments, and in the years ahead the state will need to pay close attention to the health of the natural environment. In any market economy there is a tendency for enterprises to regard the land, the air or the water as free resources that they can profitably exhaust or pollute at will.



Most of Mongolia consists of steppes. But as figure 4.1 indicates, the country has a variety of vegetation zones. The southern flank consists of the hot and arid Gobi desert. The territory rises as you travel further north through the grasslands of the vast steppes and forests and onwards to the snow-covered peaks and glaciers of the north-west. In the absence of the moderating effects of oceans, the climate can often be quite extreme, with strong



winds and sharp fluctuations in temperature. Mongolia also has a rich variety of flora and fauna – many of them rare and threatened. There are, for example, 845 species of medicinal plant. Apart from the millions of livestock animals, there is a wealth of wild animals, including the wild mountain sheep, the snow leopard, the musk deer, the wild camel, the Gobi bear and many varieties of gazelle.

However, this environment is fragile and vulnerable. The prolonged and bitterly cold winter, combined with strong winds and bursts of snow and rainfall, exert intense pressure on the ecosystem. In these circumstances, any insensitive human encroachment can disturb the fine ecological balance.

The country's environmental resources offer great potential for expanding economic opportunities – in mining, forestry, animal husbandry and tourism. But these can only take place in a sustainable fashion if the state assumes a leading role, develops the appropriate policies, legislation and systems of enforcement, and forms partnerships with the private sector and NGOs.

Before 1990, the state paid little attention to environmental issues. Even during the early years of transition it gave the environment a low priority and the situation deteriorated further. Since then the Government has taken positive action in a number of areas. At the international level, it has endorsed Agenda 21 and numerous other agreements related to biodiversity, climate change and desertification. At the national level it has passed a series of important laws and action plans. However, the issue of implementation of plans and enforcement of laws is shaping up to be a leading environmental issue in



CHAPTER 3



Managing the economy



After a difficult start to the transition, Mongolia has achieved some macroeconomic stability and economic growth. Now it needs to ensure that it is pursuing the right kind of growth.

One of the state’s primary responsibilities is to manage the economy. The state has to ensure macroeconomic stability and create the conditions in which both people and enterprises can thrive and prosper. This should permit Mongolia to embark on a path of steady economic growth. But while growth is essential for human development, it is not sufficient. The state needs to play an active part in ensuring that Mongolia achieves the right kind of growth. Growth needs to be broadly based, equitable and also sustainable – ensuring that today’s gains do not compromise the prospects of future generations.

This will require a deliberate programme of investment, not just in infrastructure and equipment but also in people, to ensure that they can seize the opportunities that become available in a market economy while injecting their own energy and creativity.

Managing the transition

Many of the circumstances that shaped the initial course of the transition were beyond the government’s control. In 1990, the country lost aid from the Soviet Union that was annually equivalent to 30% of GDP. It was also cut off from concessional supplies of raw materials, particularly petroleum, as well as from its markets in the other countries of the Soviet trading bloc, the COMECON. Offsetting this to some extent was the availability of financial support from other sources, the suspension of debt servicing on Soviet loans, technical assistance from a number of international agencies – and a new range of trading partners.

The state’s immediate priorities were to establish the basis of a market economy. Over the next few years this would inevitably have meant dismantling price controls and regulations and establishing a new banking and financial system. It would also have meant privatizing a number of public enterprises. But while the direction of the change was inevitable, the pace and phasing were not. Mongolia, more so than other transition countries, chose the path of “shock therapy” – removing many controls quickly and trying to pass as much activity as possible into private hands. Over the period 1990-92, around 3,000 small and large enterprises were privatized. Initially privatization was through vouchers, though after

1996 it was largely via cash sales through auctions.

Many people have argued that in the early years of this rapid transition there was a lack of clarity and coherence in terms of process. It is fair to say that the reforms were introduced according to immediate economic and political circumstances. Clearly some reforms were not carried out in the best sequence. For example, prices were liberalized before macroeconomic stability had been achieved – which contributed to rapid inflation. Inflation was also fuelled by the premature creation of a private banking system (see Box 3.1). By 1993 annual inflation was running at 326%.

Box 3.1
The banking crisis

Mongolia’s private banking experience has been less than positive. The reforms started early in 1990-91 with five banks breaking off from the State Bank and leaving Bank of Mongolia to function as the Central Bank. The five new private banks then started to extend large volumes of credits that ultimately undermined official efforts to contain inflation. The personnel of the new commercial banks often lacked managements skills and this, combined with a number of other factors, including the lack of effective contract enforcement, led to the subsequent failure of a number of banks.

By the end of 1996, over half of the loans in the banking sector were non-performing, and lacking confidence in the banks, people began to withdraw their deposits. The interbank payment system failed and even the Government had difficulties making payments through the banking system.

Legislation passed in November 1996 went some way in resolving the crisis. The government closed down two banks and created two new ones, which inherited the performing parts of the liquidated banks’ portfolios. It also created an Asset Recovery Agency to recover the non-performing loans. In total, the cost of restructuring the banks amounted to 8.7% of GDP. Even so, there were still subsequent cases of fraud and collapse with losses totalling somewhere in the neighbourhood of Tg 27 billion.

Mongolia’s lack of experience in banking reform demonstrates the hazards of suddenly creating commercial banks without first ensuring that the essential institutional, managerial, and legal requirements have been safely put in place. The absence of an efficiently operating financial system has become a serious constraint to Mongolia’s development, particularly in rural areas.



CHAPTER 4

Nurturing the environment

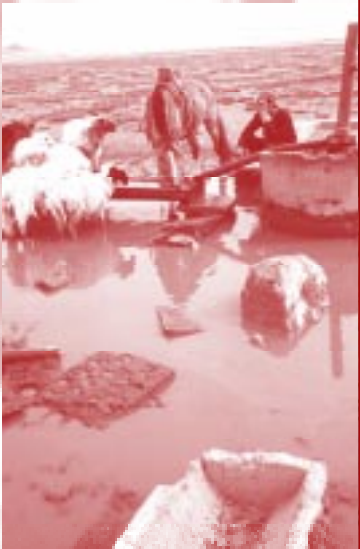
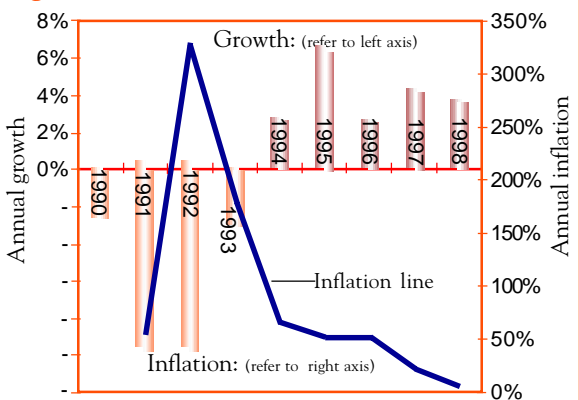




Fig 3.1 Growth and inflation,1990-1998



Source: Statistical Yearbook, NSO, 1998

The government initially tried to maintain on-going production in state industries that were facing shortages of fuel, equipment and raw materials and operating at far below capacity. But it rapidly ran out of funds and had to abandon such support. As a result many enterprises collapsed; others were privatized and laid off surplus workers.

The shrinkage of the formal state sector was not matched by equally rapid growth of private industrial enterprises. The only sector that showed any real growth was livestock where privatization had encouraged a rapid expansion of herds. Overall, though, there was a collapse in output and a dramatic fall in economic growth.

Economic collapse had a devastating effect on the lives of many Mongolians who lost their jobs or suffered a dramatic fall in income. Between 1990 and 1993, real wages in industry fell by one-fifth, and in agriculture and services by one-third. The situation improved after 1994 although the pace of reform slackened in 1995 and 1996. However, since November 1996, a reinvigorated economic reform has contributed to a return to economic growth.

Inflation and economic growth

1998 saw a tight monetary policy that brought inflation down to 6%. Economic growth since 1995 has been positive and in 1998 it was 3.5%. These trends are summarized in figure 3.1.

Although growth has resumed, it still has not been sufficient to restore real GDP per capita to its 1990 level. In 1990, at 1993 prices this stood at Tg 100,607 but in 1998 had still reached only Tg 83,130. At the same time, however there has been a change in the composition of GDP. Between 1990 and 1998 the share of industry in GDP fell from 35.6% to 24.1% while agriculture grew in that period from 15.2% to 32.8%. The percentage share of agriculture has dropped in recent years as against rises for trade, transport and services.

Savings, investment and aid

Growth in national savings remains weak. In 1996 they amounted to only 14% of GDP, well short of what is required to finance the investments needed for faster growth. At the same time foreign direct investment (FDI) has been slow to arrive. Starting from virtually zero in 1990, FDI in 1999 got to more than US\$ 70 million though this is still relatively modest.

Some of this gap has been covered by international aid. The IMF has provided two structural adjustment loans. The World Bank has committed \$158 million for nine projects. And since 1991, the Asian Development Bank has committed \$377 million for 18 projects. Other multilateral donors include TACIS, UNDP, UNFPA, UNICEF and WHO. The major bilateral donors include Japan, USA, Germany, the Netherlands, the Republic of Korea, Sweden, France and the UK.

Table 3.1 Composition of GDP, 1989-1998

Sector	1989	1990	1995	1996	1997	1998
GDP	100.0	100.0	100.0	100.0	100.0	100.0
Industry	32.7	35.6	32.4	20.6	24.1	24.1
Agriculture	15.5	15.2	36.7	36.8	33.5	32.8
Construction	6.1	5.0	2.7	3.8	3.4	3.5
Transport	10.4	10.2	3.4	4.7	5.2	5.3
Communication	1.6	1.8	1.2	1.1	1.4	1.4
Trade & Material Technical Provision	19.0	19.4	12.3	18.3	18.5	18.9
Services	13.4	11.5	11.2	14.7	13.9	14.0
Others	1.3	1.2	0.1	-	-	-

Source: Statistical Yearbook, NSO, 1998

Trade

Mongolia quickly transformed itself into one of the world’s most open economies. In 1997 it joined the World Trade Organization and abolished most import duties. But the balance of payments remains fragile. Mongolia is still over-dependent on copper mining for the bulk of its export earnings. This makes the country very vulnerable to world copper prices both for export income and economic growth.

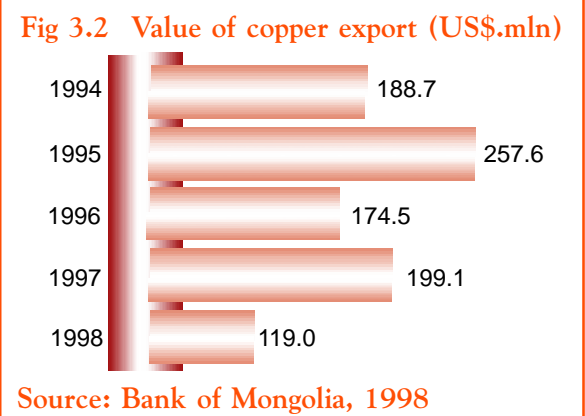


Figure 3.2 shows recent fluctuations in the value of copper exports. Relatively high world prices in 1995 contributed to the country’s high growth rate in that year.

Other important exports are gold and cashmere whose prices have also been falling, though 1999 has seen some improvements. According to the National Statistical Office, in 1997, total exports were \$451.5 million, but imports were \$468.3 million resulting in a trade deficit of \$16.8 million. In 1998, export income fell by 29.8% due to lower commodity prices. At the same time there was a flood of cheap imports in the wake of the Asian financial crisis which has added to the deficit.

Through this period the currency, which is fully convertible, has steadily depreciated. Standing at Tg 584 to the dollar in 1996, by 1999 it was over Tg 1,000.

The budget deficit

Mongolia in recent years has had a persistent budget deficit, due to insufficient tax revenues and increasing additional expenditures.

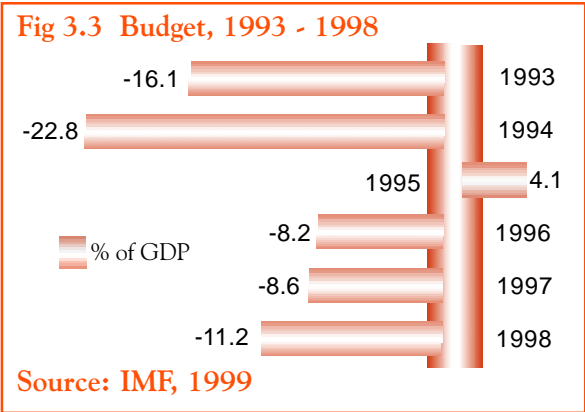
Recognizing this, the government has made a number of tax reforms. It has simplified and reduced personal and corporate income taxes, and

rationalized excise duties. At the same time, it has broadened the base of the sales tax. In 1998 it introduced a Value Added Tax and subsequently raised the rate from 10% to 13%.

But these reforms have not given a sufficient boost to tax revenues. The yield from personal taxes remains low, as a result of generally low incomes. And the yield from corporations is also low since some larger enterprises have performed poorly. Mongolia’s largest taxpayer, for example, the Erdenet Copper Mine, has in the past contributed around 12% of tax revenue. But low copper prices and inefficient management have reduced its contribution. There has also been a knock-on effect to other enterprises. Erdnet has now accumulated large debts to the Central Energy System, so that it too is in tax arrears.

Between 1993 and 1998 total government spending dropped from over 50% of GDP to 37%. Most of this was achieved by the growth of the private sector and by scaling back capital expenditure, which during this period was cut by half. But there were also large staff reductions in public services, primarily in health which accounts for 20% of public-sector employment, and education which accounts for around 35%. Even so, as figure 3.3 illustrates, there has been a budget deficit in most years.

The fiscal crisis continued to escalate in 1999 and the government faced additional costs associated with the drop in the copper exports revenue, bank restructuring and the need to settle domestic and external arrears. In an attempt to boost revenues, the government has raised some taxes, notably on petroleum, and moved away from its previous policies of duty-free imports by introducing a uniform import tariff of 5%, along with an excise tax of 50 cents per litre of beer.



Privatization

One of the main planks of Mongolia’s transition has been the privatization of state property, initially through the distribution of vouchers and later through cash sales. This has dramatically changed the balance between public and private enterprise. In 1990 the private sector accounted for only 10% of GNP, but by 1999 it was up to 64%.

The proportion is particularly high in agriculture, 79%, and in trade and services where it is 90%. The discussions on the privatization of the remaining high value state enterprises are politically charged.

Lessons from the transition

Mongolia, like a number of other transition economies, chose the path of rapid reforms on the assumption that even if this was initially painful it would soon jolt the economy onto an upward path. In retrospect, it appears that some important success has been achieved, especially in macro-economic stabilization. Yet on the flip side, some of the changes may have been premature – liberalizing the environment before some of the necessary institutions were in place. Economic planning in the future will have to pay more attention to the sequence of reforms.

The government has identified the essential components of their future development strategy. These are:

- Macro-economic stabilization
- Private-sector development
- Financial-sector development
- Promotion of export industries
- Implementation of a social-sector development strategy

All of these are important but the final one is in danger of slipping which could imperil all of the other interrelated components. In the years ahead Mongolia will need a healthy and well educated workforce that can take advantage of market opportunities. Without this, the country is likely to fall further behind in an era of globalization. It is particularly disconcerting for the country’s long-term economic and human development prospects that the state seems to be withdrawing to some extent from basic social services.

Box 3.2
Informal sector:
The first private hotel in Ulaan-Uul soum

Radnaabazariin Amarsanaa (43) has a vocational education and is an experienced builder. Mother of eight and a grandmother of two, she built a new wooden house this autumn and opened a two-bed hotel, the first-ever privately-owned hotel in the centre of the Ulaan-Uul soum of the Khuvsgul aimag.

“I’m new to this soum. My husband is a policeman and we have travelled to many soums of Huvsgul aimag, as my husband’s assignment was changed. Now we are going to be here for nearly a year. My husband gets 59 000 tgs of salary a month, but we have not been getting it since May.” (We interviewed her in November, 1999)

“I was unemployed. It was and it is, of course, not easy to feed so many mouths in our family. My eldest child is 26 years old and the youngest one is 13. Two of my children are married and are living separately. Others are enrolled in schools and I send them to a neighbouring soum school which is 80 kms from here. When my husband was on a trip to one of the remote places this autumn, I just started myself building this house. I could not just be sitting anymore like I did before. My husband was not even aware of my plan but by the time he came back, I had had my house already being built.

“So now I’m making a modest income of Tg. 5000-7000 a day. My daughter is helping me here by cooking and making the fire and serving the guests. Now, we get many visitors from Murun and even from Ulaanbaatar. People from various political parties and traders come quite often.”

