

**GOVERNMENT OF MONGOLIA**

**INTERIM POVERTY REDUCTION STRATEGY PAPER**

**Ulaanbaatar, JUNE 2001**

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## CURRENCY EQUIVALENTS

(As of January 2001)

Currency Unit = Togrog  
1097 Togrog = US\$ 1

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BOM	Bank of Mongolia
CG	Consultative Group
COMECON	Counsel for Multi Economic Cooperation
EU	European Union
FAD	Fiscal Affairs Department
FAO	Food and Agricultural Organization
FGP	Family Group Practice
GDNT	General Department of National Taxation
GDP	Gross Domestic Product
GEF	Global Environment Facility
GGHS	Good Governance for Human Security
GNP	Gross National Product
GOM	Government of Mongolia
HIES	Households Income and Expenditure Survey
HMP	Health Master Plan
HSDP	Health Sector Development Program
IDA	International Development Association
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
LSMS	Living Standards Measurement Survey
MEFP	Memorandum of Understanding of Economic and Financial Policies
MIT	Ministry of Industry and Trade
MJIA	Ministry of Justice and Internal Affairs
MOAF	Ministry of Agriculture and Food
MOD	Ministry of Defense
MOFA	Ministry of Foreign Affairs
MOFE	Ministry of Finance and Economy
MOH	Ministry of Health
MOI	Ministry of Infrastructure
MOSTEC	Ministry of Science, Technology, Education and Culture
MOSWL	Ministry of Social Welfare and Labour
MLS	Minimum Living Standard
MNE	Ministry of Nature and Environment
MP	Member of Parliament
NIC	Nett Import Concern
NGO	Non Government Organization
NSO	National Statistical Office
NPAP	National Poverty Alleviation Program
ODA	Official Development Assistance
OECD	Overseas Economic Cooperation Department
UNDP	United Nations Development Program
PER	Public Expenditure Review
PLSA	Participatory Living Standards Assessment
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SLP	Sustainable Livelihood Project
SME	Small and Medium Enterprises
SPC	State Property Committee
TACIS	Technical Assistance for Common wealth of Independent States
TB	Tuberculosis
TSA	Treasury Single Account
VAT	Value Added Tax
WB	World bank
WHO	World Health Organization
Aimag	province
Soum	provincial (rural) district
Bag	provincial (rural ) sub district
Duureg	Ulaanbaatar city district
Khoroo	Ulaanbaatar city sub-district
Ger	traditional Mongolia felt tent
Dzud	abnormally severe winter weather with sheet of snow and ice covering pastures
Currency Unit	Togrog

## I. INTRODUCTION

1. Mongolia in 1990s has done a great deal to build a democratic society where respect for human rights is considered a valuable social treasure and is committed to developing a market economy as evidenced by macroeconomic stabilization and structural reforms underway in all spheres of social life.

2. The Government of Mongolia with the assistance of international financial organizations has made substantial progress over the last 10 years of democratic restructuring in developing a sustainable macroeconomic agenda and in creating a private sector led open economy.

3. To enhance the transition the following policies are being adopted: liberalization of prices, flexible exchange rate and liberal trade policies, reform and restructuring of banking sector, privatization of state owned enterprises, creation of a legal environment for management of economic activities, improvement of aggregate fiscal discipline, development of an appropriate social safety net system and stabilization of macro economy.

4. During the decade of transition unemployment, poverty and crime increased partly as a result of the withdrawal of Soviet assistance and the lack of comprehensive accompanying policies to mitigate the impact of the transition. Access to and the quality of basic education and health services especially worsened in the early part of the transition. Slow economic activities in rural areas has led to huge migration of the population to urban areas resulting and increasing the depth and severity of poverty in recent years, especially in urban areas.

5. On the basis of an evaluation of the current economic and social condition, the newly formed Government of Mongolia as outlined in the Government Action Plan and other policy documents is committed to reducing poverty in the medium term. The Interim Poverty Reduction Strategy paper (I-PRSP) would outline the main priority policy issues of the government: reduction of unemployment, public sector management, improvement of access and delivery of basic services, and increase of living standards of the population. The Government of Mongolia recognizes that this policy document would play an important role in creating consistency between economic policies and the social development trends, as well as in increasing the participation of NGO's, civil society and donors in poverty reduction efforts.

6. In order to achieve the poverty reduction targets the Government of Mongolia has adopted the International Development Goals and is making efforts to identify its main poverty reducing strategies and adopt a consistent macro-economic framework aimed at ensuring sustained growth and support private sector development.

7. The I-PRSP consists of five sections, including economic and poverty situation in Mongolia, poverty reduction strategy main components, institutional arrangements of PRSP formulation, and extension of participatory approach, monitoring indicators, and policy matrix. The first section describes the overall path of transition in terms of economic and social development, in particular analysis of poverty situation using various survey data. The second section outlines the government's overall strategy of poverty reduction, including medium-term macroeconomic framework, social, infrastructure and environment sectors development. The next two sections describe the institutional arrangement of PRSP formulation and

implementation and wide involvement of civil society in whole process of preparation of the strategy. The last section consists of annexes, illustrating the monitoring indicators, policy matrix, statistical tables and other relevant documents.

## **II. MONGOLIAN ECONOMY AND POVERTY.**

### **A. Economy**

8. The withdrawal of former Soviet Union assistance, and collapse of COMECON left the Mongolian economy in an extremely difficult situation at the beginning of the 1990s. During 1990-1992 GDP decreased by more than 20 percent. GDP per capita decreased by 20 percent between 1990-92. Imports also decreased substantially for this period from US\$ 924 million in 1990 to US\$ 388.4 million in 1992. The rate of investment as percentage of GDP decreased from 32 percent in 1990 to 11 percent of GDP in 1992. In 1992 inflation reached 325.5 percent per annum. There were 54 thousand unemployed people in 1992, who were registered at the Labor Regulation Office and actively seeking employment.

9. To address this economic situation the Government of Mongolia launched a series of reforms including: liberalization of state controlled prices and tariffs, privatization of public sector assets, establishment of two tier banking system, trade liberalization, adoption of floating exchange rate, tight monetary and fiscal policies to reduce inflation, creating favorable environment for private sector development by enacting relevant laws on fair competition and creation of new social welfare system.

10. As a result of above policy measures taken by the Government economic recovery began. GDP growth rate increased to 2.3 percent in 1994 from negative 2.5 percent in 1992, and has remained positive since. In 2000 it dropped to 1.1 percent due to severe weather conditions, and spread of foot-and-mouth disease. Hyperinflation of 325.5 percent in 1992 declined to 66.3 percent in 1994, and has averaged to 27 percent in 1995-1999, with further decline to 8.1 percent by the end of 2000. The trade deficit turned into surplus in 1994 going from US\$ 32.0 million deficit in 1992 to US\$ 102.6 million surplus in 1994, and has averaged at US \$ 110 million deficit since 1996. Level of net official international reserves reached US\$ 40 million in 1994 compare to US\$ 4.6 million reserves in 1992, thereafter has increased substantially reaching US\$ 80 million during 1995-99. By the end of 2000 it amounted to US\$ 140.6 million. Since 1996 unemployment rate gradually decreased and it accounted to 4.6 percent of the labor force at the end of 2000 according to the Labor Regulation Office statistics. The 2000 population and housing census data report that the unemployment rate is 17 percent.

11. Sharp fall in world prices of main export commodities as a result of Asian financial crises has caused great harm to the export earning of our country that has a few main exporting commodities. The price of copper, Mongolia's main export commodity accounting for 33 percent (1999) of the country's total export earning, declined from US\$ 3,000 which was in 1995 to US\$ 1,480 per ton in 1999. In addition prices of gold and cashmere dropped during the same period. Trade deficit widened from US\$ 3 million in 1995 to US\$ 150 million in 2000.

12. In addition to these external influences drastic weather changes and natural disasters "Dzud" hit Mongolia during the winter and spring of 1999-2000 in combination with heavy

snowfall and as a result 3.5 million, or 10.4 percent of total livestock perished and 2.7 million female livestock miscarriage. This led to a substantial decrease in animal husbandry production, the major component of total national production of Mongolia, slowing down the speed of economic growth and worsening the living conditions of hundreds of herder's households.

13. Mismanagement and poor institutional capacity worsened the already fragile macroeconomic environment. The privatization process was not so actively supported by people because of lack of adequate knowledge of nature of privatization process, new owners suffered from lack of management skills and insufficient knowledge of market environment. In addition, the weak financial system could not provide adequate support to new entrepreneurs, especially for upgrading of equipment. Interruption in the supply of some raw materials and technology due to closure of some enterprises led to the stoppage of operations in other efficient enterprises.

14. Total budget tax revenues, in particular corporate income, dividends decreased from 164.0 billion togrogs out of which 54.9 billion togrogs of corporate income tax revenues in 1997 to 154 billion togrogs, including 31.3 billion togrogs of corporate income tax in 1998 due to external trade shock. This has had a harmful effect on budget expenditures as well as on the overall condition of the budget as the government at all levels did not respond accordingly by curtailing unnecessary expenditures. The financial in particular banking sector crisis triggered budget expenditures. Since 1996, 12 banks were bankrupted and the Government paid additional 9 billion togrog as an interest payment for Government bonds to cover losses of some of those banks causing increased fiscal burden on the budget. About 14 percent of total loans are extended by commercial banks considered as non-performing loans in 2000. Although investment of 28.9 percent of GDP by 2000, its productivity is still low.

15. Due to the above mentioned unfavorable external environment and high public expenditure budget deficit to total GDP increased annually and reached to 14.3 percent in 1998, 12.2 percent in 1999 from its level of 7.9 percent in 1996. Budget deficit accounted for 6.8 percent of GDP in 2000. In other words the combination of persisting drop in revenue and high cost of economic restructuring diverted already scarce resources from pro-poor programs. Over the same period, external debt of Mongolia accounted for 46 percent of GDP in 1996 increased to 94 percent of GDP in 1999.

16. Substantial progress has been made in the transition to a market economy over the last 10 years. The economy of Mongolia has been growing for six consecutive years and inflation has been brought down to single digits. As a result of economic restructuring share of private sector is broadened and now accounts for over 70 percent of total GDP. Mongolian economy has become more open and all citizens of Mongolia have the right and the opportunity to set their goals for their lives and a free and competitive environment for any private initiative has been created.

17. Many serious challenges remain to be overcome to increase the living standards of the population and overall social development. Due to the structure of the economy with its relevance on a few export commodities the Mongolian economy remains highly vulnerable to external shocks and economic growth rate is not high enough to meet the required needs. The weak banking system, which plays an important role in the economy remains fragile, and largely in the hands of the state, weakening private sector confidence, specially foreign investment

opportunities. Efficiency of the privatized enterprises is still low, as human capacity and private sector management skills are not fully developed. Lack of strong public sector management and control has led to poor access and quality of basic services, such as education, health. In addition, the targeting mechanism of social welfare system is weak and inefficient.

## B. Poverty

18. Currently 36 percent of Mongolian population is poor according to the 1998 Living Standards Measurement Survey (LSMS). While between 1994 and 2000 the poverty appears to have stabilized, depth and severity of poverty has increased, and inequality widened. From the various surveys (LSMS, PLSA) five categories of population are likely to fall into poverty; (i) *single parent headed households with many children*, (ii) *households with less 100 heads of livestock (depending on size and structure of households)*, (iii) *unemployed*, (iv) *uneducated (without basic education)*, (v) *vulnerable groups (elderly, disabled, street children and orphan children)*.

**Table 1. Mongolia: Poverty Indicators**  
(Percent)

	Incidence, P0		Depth, P1		Severity, P2	
	1995	1998	1995	1998	1995	1998
Urban area	38.5	39.4	12.2	13.9	5.7	7.1
Ulaanbaatar city	35.1	34.1	10.4	13	4.5	7.4
Rural area	33.1	32.6	8.9	9.8	3.6	4.4
National	36.3	35.6	10.9	11.7	4.8	5.6

Source: Mongolia: Living Standards Measurement Survey, 1998

19. According to the 2000 population and housing census 541.1 thousand households with 2373.5 thousand permanent residents are living in Mongolia. Out of them 56.6 percent is urban and 43.4 percent is rural population. 50.4 percent of population is female, and 49.6 percent are male.

20. In Mongolia the Household Income and Expenditure Survey (HIES) has been conducted since 1966. Sampling size has varied from 1000 from 1500 households with increase of the number of households. The HIES not only produces data on income and expenditure, but also serves for analysis of sources of income, patterns of expenditure and levels of living and determining the minimum living standards. It is necessary to improve the HIES's methodology, design, size and scope, because the particular survey provides inputs for main statistics, such as poverty line, inflation, and national accounts. Currently the NSO with the assistance of the World Bank and UNDP is preparing to improve HIES towards use it as base for poverty assessment. The first data on poverty is from Poverty Assessment conducted in 1994 by NSO. The report illustrated that in 1994, 26.5 percent of population was poor. The Minimum Living Standard (MLS) is used to establish the poverty threshold. According to the "Law on Defining the Minimum Living Standard", Togrog of 14,700–19,300 (as of end December of 2000) per capita per month is considered as the minimum living standard. People with income per member

of household lower than 40 percent of the minimum standard or cannot provide food needs are considered extreme poor households.

21. The Government of Mongolia conducted several living standards surveys with the support of international agencies. The first Living Standards Measurement Survey (LSMS) was conducted with the assistance of the World Bank in 1995. The result of this survey revealed that 36 percent of the total population of Mongolia was poor. The next LSMS was carried out in 1998 with UNDP assistance, where it revealed that poverty rate is 35.6 percent. The results of these surveys and HIES are not entirely comparable. For indication purposes some comparison will be made in the text. Between 1995 and 1998, the percentage of poor people declined in Ulaanbaatar city, however it more concentrated in *aimag centers*. The results of LSMS show the followings:

- The depth of poverty, consumption differential, increased from 9.8 to 13.9 percent, and the severity of poverty increased from 0.8 to 2.9 percent from 1995 to 1998.
- Income inequality-Gini coefficient increased from 0.31 percent in 1995 to 0.35 percent in 1998.
- Poverty has direct relation with the employment. 27.3-38.8 percent of employment age poor people in towns and settlements were unemployed. 60 percent of unemployed people of employment age are poor.
- Specific results of LSMS show that cost for education and health services become a heavy burden on the poor families and therefore those families most likely will not able to receive the basic services of health and education. For example, the percentage of household expenditures for education in total household budget has increased by 4.5 times in 1998 comparing to 1995 and its percentage in total non-food consumption expenditures has increased by 9.3 points. School enrollment rate for children 8-15 ages is 87.3 percent and dropouts about 9.3 percent. Dropouts are more evident in rural than in the urban areas and 43.8 percent of them dropped out school due to poor living condition and the necessity for employment.
- Moreover, wealthier households benefit more from health services than poor households. Monthly expenditures on health services per person for different categories of income groups is 9 times higher in wealthier households than that in poor families. Frequency of visits by the poor to the health centers is low too. Regardless of a household's location, a household with many children or female-headed households are more affected by poverty. For instance, 24.6 percent of total extreme poor households and 18.3% of total poor households are female-headed households.

**Table 2. Mongolia: Gender of the Poor Households Head, by Location, 1998**  
(percent)

Head of household	Capital city	Aimag center	Soum	Rural area
Male	21.4	39.1	28.5	25.2
Female	43.8	53.2	51.7	23.6

Source: Mongolia: Living Standards Measurement Survey, 1998

- The income of the population is composed of the following main categories: 1/3 from wage, pension, benefit and incentives, more than 20 percent from agriculture



and non-agriculture production income, 30 percent private business income and 10 percent from free consumption taken from others, moreover this income composition largely depends on a given household's location. For instance, for the urban population 40-60 percent of total income is composed of wage, pension and benefits whereas, in rural area only 7 percent of the total income is composed from wage, pension and benefits and more than 60 percent are composed from household business revenue. However, for poor people wage, pension and benefits still remain main source of income. Depending mainly on population density and employment specifics the population housing types and consumption varies. Majority of rural population dealing with animal husbandry live as nomads throughout the 4 seasons of the year, living in Ger- dwellings, where as certain percentage of the urban population live in apartments. Due to the cost of apartments the majority of the urban poor live in Gers. Significant portion of rural households live in Ger- dwellings with fire heating and 27-30 percent of them consume water from unprotected wells.

22. At the time of losing past achievements in the health and education sector, decrease of people's income followed by occurrences of difficulties in family life and increase the number of crimes the Government of Mongolia approved and commenced the National Poverty Alleviation Program (NPAP) in June, 1994 as a result of multiple consultations with specialized UN agencies, international institutions and donor countries. The goal of this Program was to stop the declining trend of living standards and human capacity utilization based on the principle of decentralization and public participation covering broad range of sectors.

23. Within the NPAP more than 13 thousand small scale projects have been undertaken in remote *soum, khoroo and bags* to create temporary and permanent jobs, to support pre-school and basic education, to enhance basic medical services of rural population, to provide professional training for adult disabled people, to involve them in income generating activities as well as to provide education to disabled children through an income increase of vulnerable groups of the population, and a development of social infrastructure.

24. Results of program implementation show the following achievements:

- Income of over 30 percent of poor families has increased by certain amount through creation of permanent jobs by expansion the scope of income generating projects and public activities.
- For the purpose of sustaining the living standard of herdsmen households 107 thousand heads of livestock have been distributed to 2002 households. In parallel with the restocking project some families increased their living by working on crop sector and vegetable growing activities.
- Female participants benefited more from income generation project. 65 percent of income generating project participants were females. At the same time female participants were benefited from projects on project development and management implemented by non-governmental organizations, rural health improvement projects, especially project so called the Maternity house restoration project.
- Projects for the public have had a positive effect on creation of temporary employment in addition to the long-term impact on the development of local economy and public health.

- Bridges, road, dam and water canals for irrigation are giving sustainable benefits to rural population. Also projects for the fresh water supply, public hot water facility, and heating system contributed to the healthy and cheerful life of the community.
- Projects on strengthening of basic and preschool education and rural health improvement were implemented all over the country and had effected in increasing the number of enrollment in the kindergartens, secondary schools and in decreasing dropouts and mortality rate as well.

25. Parallel to the NPAP the Government of Mongolia with the assistance of the international banking and financial institutions and donor countries has implemented many projects in the health, education, infrastructure, and environment sectors. Although the speed of poverty has slowed down as a result of the above projects, poverty has not been reduced significantly and it still stays as one of the critical problems facing Mongolia.

26. We have learned that programs and projects for poverty reduction and social welfare should be implemented in conjunction with a broad range of policies for sustainable economic growth, intensification of structural changes, stabilizing of inflation level, and strengthening of financial discipline, improvement of banking and financial sector service as well as improvement of social safety services. It means that a poverty alleviation program, no matter how sound in its concept and principles, may not alleviate or eradicate poverty unless it is harmonized with and supported by broad-based, people-oriented and labor-intensive growth strategies. Within this overall frame the development and strengthening of the banking sector to provide fast financial services to the rural communities is crucial. Rural banks could also help to solve the problem of liquidity and barter by injecting cash into rural communities and encourage at the same time the mobilization of rural savings. On the other hand it is important to maintain and strengthen already existing institutional structure and capabilities.

27. Between 1994 and 1999 poverty was basically assessed using the quantitative methods, while the recently completed Participatory Living Standards Assessment provides an opportunity to analyze poverty dimensions from a qualitative perspective. The whole survey is based on a participatory approach, giving an opportunity to the government to listen to the voices of the poor and their assessments and judgment of their livelihood situations, its nature and pursuing policies to improve this.

28. The National Statistical Office conducted “Participatory Living Standards Assessment” with the assistance of the World Bank and other donors in 2000. The purpose of the assessment was to enrich poverty statistics by qualitative indicators and provide supplementary information an upcoming “Poverty Assessment” and “Living Standard Measurement Survey” made in 1995 and 1998. This is the first assessment been made using a participatory approach at the national level.

29. According to this assessment living standards of the people were comparably similar until 1992. During 1992-1995 new poor and rich people emerged, and the gap between the poor and rich has increased for the period of 1995-2000. The assessment also discovered that the poor and extreme poor people became predominant among urban population. The assumption that during 1992-95 the share of middle level households has decreased and share of poor and extreme poor households has increased was confirmed by an assessment of the participants of the survey

indicating that the number of poor and extreme poor households has increased substantially during 1995-2000.

30. As this assessment states the criteria-indicator for determination of well being of people can be categorized as *economic, social, health, physical and mental status*. Economic indicators include number of livestock, distance to water source and pasture, doing/running reasonable job or business, apartment/house owning, debtless and in time access to pension and benefits. Social indicators include number of family members, access to children's education, self-sufficiency, ability of helping to the relatives and friends, having reliable spouse and a guaranteed living, and peaceful environment. However, the above indicators have heavy dependence on the special features of living style and conditions of people. For instance, while the number of livestock and access to water and pasture are important factors for rural people, job opportunities, business environment, health and mental security are important for people living in urban areas. Participants of this survey determined the "Good life" and "Bad life" as followings:

*"Good life is to build one's own life on his/her own way, make a decisions independently about your own life, have children be educated and be healthy"*

group of women from Bayanzurkh soum of Khuvsgul aimag

*"We will be having a good life if we have good work, be healthy, have sufficient food and clothes, and be on the same path with the society."*

Another group of women from Khukhmorit sum of Govi-Altai aimag

*"Bad life means illiteracy of children and youth, suffering from illness, having a shortage in physical and mental needs and being uncertain on their future"*.

Group of men and women from Tuv aimag

*"I'm heavily indebted and have lost control over the amount of the debt I have, which is adding up like the like the number of stars in the sky"*.

Poor lady from Sevrei sum of Unmugovi aimag said

31. In all places the number of poor people was reported to have increased as indicated in the assessment and the reasons explaining this were bankruptcy of enterprises; unemployment ; closure of cooperatives; some technical mistakes in privatization process; abandonment of old trade network; and introduction of fee for health and education services. People were confirming that the main source of income for living is now pension and social benefits. Most of the categories of reasons are similar to LSMS, especially in terms of unemployment, lack of favorable business environment, and mismatch of private sector requirements for job vacancies and existing capabilities of unemployed. Participants of this survey listed the main negative consequences of poverty as followings: children's dropouts from the school, deterioration of health, disability, mental stress, violence, crimes, homelessness, divorce, increasing number of female or male only headed families, wide spread alcoholism, debt and malnutrition.

32. As this assessment demonstrates the source of poverty is the decreased opportunity of being employed during the transition from the centrally planned to the market oriented economy, and low level of income. Deepening of income poverty leads to other types of poverty such as

human insecurity, and poor access to institutions, weak governance and corruption, and the emergence of such phenomenon should not be neglected.

**Table 3. Mongolia: Structure of Population of Working age, by Location, 1998**  
(percent)

Income groups	Employed	Unemployed	Other	Total
Urban area				
1. Very poor	37.6	38.8	23.6	100.0
2. Poor	48.3	27.3	24.4	100.0
3. Not poor (little)	49.9	19.3	30.8	100.0
4. Not poor (middle)	55.2	13.2	31.6	100.0
5. Not poor (wealthy)	58.6	9.0	32.4	100.0
Total	49.8	21.4	28.8	100.0
Rural area				
1. Very poor	58.4	26.5	15.1	100.0
2. Poor	79.6	11.9	8.5	100.0
3. Not poor (little)	83.3	6.5	10.2	100.0
4. Not poor (middle)	81.3	7.2	11.5	100.0
5. Not poor (wealthy)	80.8	4.4	14.8	100.0
Total	77.9	10.3	11.8	100.0
National	65.0	15.4	19.6	100.0

**Table 4 . Mongolia: Employment Rate, 1998**  
(percent)\*

		Very poor	Poor	Not poor (L)	Not poor (M)	Not poor (U)
Urban	1995	44.7	66.0	75.8	78.7	92.8
	1998	49.2	63.9	72.2	80.7	86.8
Rural	1995	65.0	85.9	92.9	95.8	92.7
	1998	68.0	87.0	92.7	91.8	94.8

\*In accordance to 1995 LSMS methodology calculated as a ratio of employed of working age to population of working age.

Source: Mongolia: Living Standards Measurement Survey, 1998

33. In addition to economic insecurity the PLSA has showed the other forms of insecurity: environmental, social, and physical. Public action and investment to reduce risk in livestock production and agriculture declined, and *environmental insecurity* acquired new significance, particularly for those new to livestock production. The effects of natural disasters were exacerbated by a growing over-concentration of grazing pressure, as the numbers of herders and livestock increased while pastoral mobility declined. *Social insecurity* derived from changes in kinship. The 1990s saw a weakening kinship network and rise in semi-commercial forms of intra-household transfers. The most vulnerable of all those were those excluded from kinship and other social networks. Many households were also prone to *physical insecurities*, particularly among the poorer groups. Unemployment and economic insecurity led to widespread social malaise, alcohol abuse, rising crimes, domestic violence and marital breakdown. These

insecurities shape the context within which households could be afflicted by various shocks and longer-run stresses.

**Box 1. Types of Insecurity and Vulnerability**

Economic	Unemployment, isolation/ remoteness from markets, poor terms of trade, price instability, late payment of salaries and pensions, cash deficit, loss of assets, indebtedness
Social	Social exclusion, weakening kinship networks, lack of trust, collective action problems, inexperience of 'new' herders
Environmental	Overgrazing, over-concentration of pasture land use, declining pastoral mobility, conflict over pasture, dzud, drought, flooding, dust- and sand-storms, steppe fire, rodent infestation, predators, shortages of wells and winter shelters for livestock
Physical	Alcohol abuse, domestic violence, theft (particularly livestock theft); poor quality of water, imported foodstuffs and medicines; lack of sanitation and hygiene, health risks in prostitution

Source: PARTICIPATION LIVING STANDARD ASSESSMENT 2000

34. In Mongolia GNP per capita was US\$ 390 in 1993 dropped to US\$ 380 in 1998 and Mongolia ranked 165 of 209 countries in the WB report. Mongolian human development index 0.669 of 1995 changed to 0.628 in 1998 removing Mongolia from 101<sup>st</sup> place in 1995 to 117<sup>th</sup> in 1998 among 174 countries.

**III. MAIN COMPONENTS OF POVERTY REDUCTION STRATEGY**

35. The Government of Mongolia is committed to its goal of reducing poverty and putting Mongolia on a sustainable development path. As part of this effort, Mongolia is determined to make every effort to meet the international criteria on poverty reduction and human development stated in the “Strategy-21” of the OECD and included in the Poverty Reduction Partnership Agreement between the Government of Mongolia and the Asian Development Bank. The Government of Mongolia fully accepted and is making efforts to fulfill the International Development Goals that are to reduce by at least 25 percent the proportion of people in extreme poverty by year 2005, and half by the year 2015; reduce by at least half the proportion of people below the government's officially defined poverty line by the year 2005, and by a further 25 percent by the year 2015; achieve universal primary education by the year 2005, reduce by half the mortality rates for infants and children under 5 years of age.

36. In order to increase private-sector-led economic growth and reduce poverty the Government has produced an economic policy agenda within the framework of the medium term macroeconomic stabilization program. Mongolia’s poverty reduction strategy focuses on directing the benefits from the economic growth to social development and delivering improved services to the population. High economic growth can be achieved through macroeconomic stabilization, deepening of economic reforms, creation of favorable environment for private business and promotion of export-oriented industries.

37. On the one hand economic growth is an important factor in the reduction of poverty among population, on the other, a strong partnership between the state and population is fundamental to achieving poverty reduction goals. Government will pay increased attention to citizens' participation in society and to support citizens' initiatives through creation of favorable economic and social environment. PRSP requires a strong partnership between the state and population based on the system of rights and duties that protect the population, especially the poorest. Therefore, the Government's goal to increase access to education, health and social services, this can be achieved through close cooperation between the state and the NGOs. Much of the poverty reduction work to be done with herders will focus on activities with herders' groups or local cooperatives and the strengthening of these local groups to undertake improved grassland and livestock management and income-earning activities.

#### **A. Overall Poverty Reduction Strategy and Macroeconomic Framework**

38. The Government's macroeconomic policies have been developed in the context of a medium-term framework aimed at supporting more rapid, private-sector led growth and poverty reduction. The three-year PRGF program will aim to create a stable macroeconomic environment conducive to higher private investment, with a view to gradually raising the annual rate of GDP growth to 4-6 percent over the program period, 2001-2004, while reducing the rate of inflation to the single digit range. The external current account deficit will be targeted to be restrained to about 6 percent of GDP by 2004. This should serve to ensure that the external debt service burden remains manageable, while helping to raise the import cover of gross official reserves to 16-17 weeks of imports.

39. The Government's structural reform program will be guided by the need to strengthen the institutions of macroeconomic management, while also creating an enabling environment for private sector development. In the fiscal area, the highest priority will be given to reforms to improve transparency, accountability, and enforcement mechanisms in budget implementation and to ensure a more efficient allocation of public expenditure. Banking sector reforms will aim to consolidate the shift to a market-oriented system of indirect monetary management, including through measures to strengthen bank supervision and accelerate privatization of state-owned banks. Efforts will also be stepped up to reform and privatize non-financial public enterprises, establish a sound legal and regulatory framework, and maintain an open trade and investment system, including in the strategic energy sector, so as to enhance opportunities and incentives for private participation in infrastructure projects and limit reliance on debt-creating aid inflows. Acceleration of the privatization process, privatization of valuable entities and improvement of efficiency in privatization is expected to increase the role of the private sector to 80 percent of GDP.

#### ***Economic restructuring***

40. In medium term, the private-sector-led economic growth will be ensured by acceleration of privatization, implementation of a policy on land ownership reform and utilization, deepening and continuation of structural adjustments in energy, banking and financial sectors. The Parliament has approved Guidelines of Privatization for 2001-2004. Privatization of state owned commercial banks and commercialization of the energy sector will be implemented in the first place. In the framework of structural adjustments in the energy and banking sectors,

comprehensive policies are to be implemented in order to properly provide and serve rural areas with energy, heating, gasoline products, and financial intermediation. Moreover, measures will be taken to analyze and implement policies toward lessening the impact of electricity, heating and gasoline price increase on poor. Privatization adjustment measures to support employment promotion program will be implemented in consistency with the privatization and other related programs and projects. Within the framework of this program the Government shall promote initiatives and beginnings on creation of new jobs, public works and private entrepreneur-ship.

41. A constructive solution towards privatization of large, valuable entities that play major role in Mongolian economy will have an important influence on further economic development. In privatizing the entities the Government hopes to attract potential strategic investors that will be capable to increase the entities' economic and financial efficiency by bringing new technology, know-how and new export markets. In connection with the privatization of valuable entities appropriate measures have been taken prior to the privatization to abolish the negative list of firms not to be privatized, passed by the former Parliament. The Trade & Development Bank, NIC Corporation and Gobi factory are in the list of the first stage privatization plan.

42. Banks with full state ownership or partial state participation will be privatized. The main objective in banking sector privatization is to establish a reliable financial system capable to support the economy. Regarding the privatization of commercial banks, the main focus will be directed to attracting strategic domestic and foreign investors. To enhance confidence in the banking system, the government plans to introduce a deposit insurance system over the medium term.

43. The interim objective in restructuring the banking and financial sectors is to establish a banking system capable of rendering financial services that can respond to the demand of customers, community, businessmen, and citizens etc. The government will continue to strengthen the legal and regulatory environment in the banking system. In particular, the legal environment will be created to support non-banking financial institutions aside with the commercial banks. The legal procedures will be tightened with amendments to the Bank law concerning the direct responsibility of debtor and creditor to each other. Bank management, especially the credit management will be improved through the intensive advancement of staff capability

*“The main reason for poverty is the rise in prices. We are suffering very much from the increase in fuel prices. There is no help out of our pension and allowance, because increases in the prices of flour and rice are much higher than our pension increase” A group of men in Herlen sum of Dornod aimag.*

44. Monetary policy will aim to bring down inflation to low single digit levels, while facilitating the achievement of the external reserve objective. The targeted continued improvement in the fiscal position, that will reduce the government's reliance on banking system credit will provide adequate room for a healthy expansion of credit to the private sector.

*‘The bank loans seem to be granted either to prosperous people or to the poorest. What I think is a loan should be extended to a person who is able to repay it. One should*

*distinguish the difference between loan and aid. Aid must go to the poorest of poorest"* determines a group of women at Songinohairhan district, Ulaanbaatar city.

45. The floating exchange rate policy will be continued. In order to manage money supply and keep prudential requirements at the adequate level the non-direct monetary instruments and open market operations will be utilized widely by the Bank of Mongolia. Building a sound banking system is one of the priority objectives of the Government of Mongolia and the measures to increase confidence of the banks will be taken step by step. In addition the government will refrain from either administrative measures or moral suasion to subsidize and or/ direct credit to favored industrial and other activities, as such measures would undermine the efficiency and soundness of the banking system and could eventually place new burdens on the budget. As progress is made towards fiscal consolidation, disinflation, and banking system reform, there will be room for decline in nominal interest rates, while still keeping real interest rates at positive levels. The current, very high spreads between deposits and lending interest rates will also be addressed by encouraging competition in the domestic financial market.

46. The government is revising the Land laws and preparing for their implementation in order to intensify land reform enabling economic relations in respect of land. In this process the main focus will be on long-term entitlement, improvement of land fee system, and using appropriate incentives to develop production and crop farming industry.

47. In the restructuring of social sectors the Government will create legal environment for social sector privatization (educational, cultural institutions, hospitals).

### ***Promotion of private sector led growth***

48. Mongolia's liberal trade regime has served the country well in recent years and will remain key to promoting efficient investment and growth during the next stages of the transition. To encourage export-led growth and enhance rural incomes, customs controls and licensing for imports will be simplified. The government will introduce no new taxes, quantitative restrictions, voluntary restrains or other measures to discourage exports or imports during the program period. The current account deficit is to be narrowed from 7¼ percent of GDP in 2001 to 6 percent in 2004.

49. Open economic policy will be intensified and efforts will be made to attract increased foreign direct investment. In developing of industries the foreign direct investment plays an important role. In order to attract the foreign investment the Law on Foreign Direct Investment is being amended. The amendment underlines the issues to create mechanism for establishment of a stable environment for foreign investors activities through stable contracts.

50. The Government will pursue a policy of promoting of industries with competitive advantages. In order to create enabling environment for private business development special focus will be drawn on issues of simplified licensing procedures, government and private sector partnership issues.

- Currently most of Mongolian enterprises' capacity utilization rate is very low. In order to improve the utilization, the Enterprises Structural Restructuring project is implemented under the UNDP support. The main objective of the project is to assist



domestic entities in developing business plans and enhancing management capabilities. As outcomes, 10 entities (such as Darkhan sheep coat factory) started their operations.

- The government supports a close partnership with private sector through regular dialogue in the form of information exchange, advertising business opportunities abroad and domestically.
- Human capacity building is strengthened public and private sector partnership.
- Another important aspect of private sector development is simplification of licensing procedures. The Ministry of Industry and Trade (MIT) jointly with relevant agencies is conducting survey on licensing procedures development of unified standards of licensing.

### ***Fiscal policy***

51. A stable macroeconomic environment, underpinned by a sustainable fiscal position and greater fiscal transparency and accountability, will be key to achieving the government's macroeconomic and poverty reduction objectives. The approved general government budget for 2001 aims to build on the recent improvement in the fiscal position by containing the general deficit to 7.4 percent of GDP in 2001 and reducing it to around 6 percent by 2004. In the medium term, fiscal policies shall be directed to macroeconomic stabilization, reduction in public sector size, stabilization of financial sector, improvement of delivery of and access to public services, and improvement of pro poor orientation of the budget expenditures. The Government of Mongolia jointly with the World Bank, Asian Development Bank will implement the comprehensive program on public sector reform based on the ongoing Public Expenditure Review aimed to develop a rational and efficient structure of public expenditure. Improved budget planning, increased efficiency of the budget expenditure and increased assistance to low income people are the expected results of the implementation of these programs.

52. The areas of high priority in fiscal management reform and the nucleus of fiscal management improvement strategy for the short to medium terms are as follows:

- Review of government policies to ensure realistic budgeting for fiscal activities
- Strict enforcement of reporting, accounting and banking requirements of the budget law to achieve high data quality and reporting standards
- Improving management of government cash balances and other assets
- Implementation of integrated accounting system
- Implementation of basic requirements for fiscal transparency to inform policy-makers, the legislature and the public of the intention and impact of fiscal policies
- Selective development of performance measurement and monitoring of key sectors (such as Health and Education)

53. Realistic budgeting. Public sector management reform needs to establish a disciplined and clearly understood budget process. Many of issues faced by the Government arise as the current process is not sufficiently comprehensive, systematic and well disciplined. Steps are being taken to establish a medium term framework of budget but systematic procedures for an effective medium term framework are not yet in place. As a first step in this process the 2002-2004 budget formulation process started to establish a ceiling for overall expenditure and sector allocations on the basis of macroeconomic and fiscal forecasts, an estimate of the continuing

costs of the government and clear directions from the government on priorities for new policies. A clear, phased plan of action needs to be established to fully develop medium term budgeting framework.

54. To improve the overall fiscal situation and fiscal federalism in Mongolia the Government has reviewed the existing fiscal relationships between the central and local governments with the assistance of the Fiscal Affairs Department of the IMF and further actions on enhancement of budget efficiency and control in regard to intergovernmental fiscal relationships have been formulated. The current tax assignment is being revised in order to achieve a sound basis of own budget revenue at the local government level, promote horizontal equity and provide incentives to exploit the full potential of the tax base. The government intends to centralize VAT and to reassign taxes in particular, corporate income tax and excise tax on alcohol by type rather than by taxpayers starting in 2002. Moreover, a reform of the current system of transfers from the central to local governments will be designed to replace existing system of negotiation with a new distribution system based on a transparent formula within a clear legal framework.

55. The recent steps toward more realistic budgeting will be complemented by decisive action to strengthen transparency, accountability, and enforcement mechanisms in budget implementation. The treasury reform measures are enhancement of accountability of fiscal managers, establishment of the single treasury account, enforcement of international accounting standards in Government statistics, and creation of integrated treasury management information system including debt management.

56. A new treasury department has recently been established. A professional accounting cadre is being created in the Treasury department and extensive training programs to train accountants in application of international accounting standards are being introduced. Some steps have been taken to establish the cadre by amending the budget law to ensure that budget governors appoint chief accountants in consultation with the Ministry of Finance and Economy. Regulations specifying the roles of chief accountant have recently been issued by the Cabinet. The Government has taken a range of actions to establish an effective fiscal reporting system which gives clear assurance of high data quality standards.

57. To ensure the reliability of fiscal accounts government and monetary records will be reconciled. As an initial preparation for this reconciliation the government has conducted an inventory of central budget entity bank accounts and is to prepare for an inventory of all local budget entity bank accounts.

58. As initial step toward establishment of single treasury account of the government 11 budget entities have been selected as pilot agencies to initiate "zero" balance bank accounts and centralized payment system at the BOM. Based on the outcomes of the piloting further steps will be formulated and implemented.

59. Fiscal transparency: The government completed a self-assessment report against the IMF fiscal transparency code and on this basis plus additional material, a draft Report on Observance of Standards and Codes has been prepared by the IMF mission. It is expected that the report will be a basis for setting long-term objectives for improving fiscal transparency and monitoring progress.

60. Performance measurement and monitoring: A basic principle of output oriented budgeting is that budgets are to be formulated on the basis of contracts for results to be achieved rather than inputs provided. Developing performance indicators is an important element to achieve this objective and considerable amount of work has been done under the ongoing public administration reform program toward this end. Within the overall framework of the program 5 pilot agencies were selected and started introducing output based budget formulation by identifying their outputs and developing relevant performance indicators. With recognition that the process will take some time to establish output based budgeting at all levels of government the government will focus on those that are most likely to be immediately useful for government decisions. Health and education sectors will be focus in this area where improved performance data will be of direct relevance to government decision-making on poverty reduction.

## B. Sustainable Human Development

61. The Government is pursuing a policy of increasing the efficiency of the budget allocated to the social sector. The comparison of budgets spent in social sector in last 3 years according to the budget expenditure performance is shown below:

**Table 5. Social Sector Total Expenditure**

	Share in Budget expenditure			Percentage of GDP		
	1998	1999	2000	1998	1999	2000
<b>Social sector total expenditures</b>	46.2	48.4	52.3	19.4	19.1	21.5
Education	17.1	17.8	19.1	7.1	7.0	7.9
Health	9.6	9.8	10.5	4.0	3.9	4.3
Social security and social welfare affairs	15.1	16.4	17.2	6.3	6.5	7.3
Housing & communities amenities	1.1	1.3	1.6	0.5	0.5	0.7
Recreation and cultural affairs	3.3	3.1	3.3	1.4	1.2	1.4

Source: Ministry of Finance and Economy, 2000

62. Improved public expenditure management will be key to the achievement of the fiscal sustainability objective. To that end, the 2002 budget will include efficiency-enhancing reforms associated with civil service pay and employment, including targets for public employment reduction and wage decompression in 2002 and beyond. The Government in consultation with the World Bank will design and implement a plan to rationalize the delivery and targeting of social services, with a view to redistributing them in favor of poverty-reducing programs. Policies on public pensions will be guided by the need to protect the solvency of the social security funds.

63. One of the main priority areas of the government is formulating a sustainable human development agenda, ensured by improving education and health, basic services access and quality, reducing poverty and strengthening the social welfare system by promoting people's employment and income generating initiatives. Within this framework the following objectives are to be met in the education and health sector.

## B.1. Education

*“Herdsmen, especially poor families, and some not poor families with large numbers of livestock, and families with few adults tend to take their boys out from school. In last five years we are buying foodstuff on credit and our accumulated debt is already over 300 thousand togrogs. Our relatives in the countryside were supporting us a little bit in food and clothing but now it has also lessened. One of my sons dropped out from 4<sup>th</sup> grade and is now helping my relatives in breeding livestock and this is the way that he feeds and clothes himself.”* A citizen of Huhmorit sum, Gobi-Altai aimag.

64. According to 1998 LSMS the educational level is an important determinant of poverty in Mongolia: 60.3 percent of people who did not complete secondary school are poor, while only 17.7 percent with higher technical and vocational education are poor. According to the 1989 population and housing census, 1.5 percent of children aged 8-15 were illiterate, while in 2000 the illiteracy rate increased to 4.9 percent. This means that it is necessary to provide literacy education to these children and to provide subsequent follow-up education to them.

**Table 6. Mongolia: Employment Status of Working age Population, by Educational Level, 1998**  
(Percent)

	Uneducated	Primary education	Secondary education	Vocational education	Tertiary education
Urban					
employed	26.7	37.1	38.0	51.6	67.5
unemployed	23.3	22.9	28.3	23.0	11.3
Rural					
employed	68.3	79.9	77.0	78.3	80.1
unemployed	4.9	7.3	11.5	12.6	9.6

65. Education levels are lower in the rural areas. Duration of pre-school education in Mongolia for children aged 3-7 is five years. The gross enrollment rate in pre-school education in 2000/2001 is 32.1 percent. Coverage of pre-school education is higher in the cities, coverage in Ulaanbaatar is 48.4 percent, while in aimags and soums it is only 24.6 percent. Results of 2000 census illustrate that 9.1 percent of children aged 8-11, and 18.3 percent of children aged 12-15 drop out of schools. 13.5 percent of children aged 8-15 years drop out of school and have no chance to enjoy their right to education. 16.5 thousand of children aged 8-15 out of school in urban areas as opposed to the 51.7 thousand in the rural areas.

66. Preschool enrollment rates for boys (29.4 percent) and girls (31.9 percent) is similar 30.6 percent are enrolled, according to the annual statistics (2000/2001). Between the ages of 8-11 the gap in enrollment widens between girls and boys from 119 thousand for girls to 117 thousand for boys. The gap is highest for ages 12-15, 94.2 thousand for boys 105.3 thousand for girls. The difference is bigger between the rural and urban populations. In the rural areas drop out rate of boys 12-15 is 23.3 percent and for girls it is 13.2 percent. In academic year 2000-2001, 52.3 percent of primary and secondary school students were female, of which 50.1 percent in primary, 53.4 percent in middle and 59.4 percent in higher secondary schools were female. This shows that starting from middle secondary school, female students prevail. Of these, 61.7 percent of

boys dropped out of schools, between the ages 8-15. In other words, drop out rate differs by gender.

67. The rural people, including soums have less access to education. In 2001, out of 307 soums it is reported that in 203 soums gross enrollment is lower than 80 percent. Due to large territory and nomadic life style children do not have access to schools. Research conducted in 2000 by the Ministry of Technology, Education, Sciences and Culture shows that 15.1 percent of children in rural areas responded that they do not study because they are employed in agriculture sector (need to herd their livestock), while in cities this percentage is 8.3 percent. In addition 6.4 percent of children in rural areas responded that they do not study because they are employed in urban settlements, while this percentage is 1.2 in cities. Majority of those who leave school are boys. The same study shows that the correlation between drop-outs and the number of livestock is higher in areas where the number of livestock is also high.

68. There is a real difficulty in providing herdsmen's children with dormitory facilities. Due to low population density in the rural areas compared to the national average, there is only one school in each soum and it is located 10-300 km away from the herdsmen's home. In order to increase the school attendance dormitories (in most soums temporary buildings) were built at sum schools and the Government provided all tenant with meals and other necessary goods during 1960-1990. These measures played an important role in educating herdsmen's children. As a result, by 1989 the number of tenants of the school dormitories reached up to 75 thousand and basic educational attendance increased up to 90 percent. But since 1991 over 50 dormitories were closed due to economic difficulties related to maintaining the infrastructure.

69. A decision taken by the government in 1994, "That half of school children's food consumption shall be paid for by their parents", led to an increase of school dropouts in the rural areas. In 1995, the number of children in dormitories dropped from 75 thousand to about 19.6 thousand as a consequences this decision. In 2000, the Government decided to cover all the costs of the dormitories. This decision became a good facilitating condition for expanding school attendance and improving the education. In year 2000/2001, 38 thousand children submitted their request to live in dormitory, while only 27.4 thousand were provided with it.

70. On the other hand, the poor learning environment, inadequate living conditions in dormitories, poor food supply, as well as poor quality of education reduce willingness of parents to send their children to school. Students of rural areas report on difficulties of living far from their family for a long time, with almost nothing to eat; and since schools collect money from parents of students for reconstruction, renovation and cleaning of classrooms, this imposes hardship on parents. Learning achievements of students living with their parents were higher (55.2%) compared to those living with relatives, friends or in dormitory. Lower achievement of students living in dormitories (42.2%) proves once again that poor low living conditions and little attention paid by the teachers affect their study.

*"In order to let our children go to school we had had to be divided. My wife is lives together with children at sum centre, but I stay at home to look after our livestock. Thus our annual expenditure increases twice."* Explains a man from Dashbalbar sum, Dornod aimag.

71. In recent years the quality and accessibility of basic education is decreasing. School seating capacity satisfies only 56.6% of the demand. The sharp increase of citizens' migration from rural areas to central locations caused over density of population in the city of Ulaanbaatar and other big cities, settlements, and central areas where now many schools are running classes in three shifts with 45-50 children in a class thus losing their normal procedures and making it difficult to organize classes and out-of-class activities. Furthermore, 30% of children of age 3-7 years old attend kindergartens with capacity of 70.3 thousand seats. The ratio of students to teachers is 25:1, this ratio is 33:1 in primary, and in middle and upper grades is 20:1.

72. The low quality of teachers is affecting education outcomes. 8.6 percent of all teachers are not professional. Every fifth teacher in Umnogovi and seventh in Bayankhongor, Dornod and Selenge aimags are not professional. Majority of non-professional teachers teach drawing and labor education, English, information science and Kazakh language. Data of the first half of 2000/2001 academic year demonstrates that 62.2 percent of teaching staff have bachelor's degree and 31.3 percent have university or college diploma. A total of 719 teachers are needed for secondary schools of which 11 percent should be teachers for primary schools and 10 percent should be mathematics teachers. There is an acute need for teachers of information sciences, Mongolian language, literatures, English language and music. Teachers have low motivation due to low pay. A study by Monitoring Learning Achievements on learning outcomes shows that out of 264 teachers, 103 teachers or 39 percent say that they are ready to leave their jobs as soon as they find a better paid job.

73. Prior to 1999, learning achievements were not monitored in accordance with international methods, it is difficult to do an accurate assessment and comparative study of teaching and learning quality in Mongolia. Such study was conducted in 1999 under the UNESCO project in grades 4 and 8. The study showed that learning achievements of student in grade 4 are acceptable, while performance of students in grade 8 is rather low. For instance, only a few of the tested students could solve the given mathematical problems. Specific attention should be paid to this problem. Studies that compare duration of secondary education showed that 7 countries including Mongolia offer 10 years of secondary education, while 43 countries offer 11 years education, 123 countries offer 12 years education, 43 countries offer 13 years education and 4 countries offer 14 years of secondary education. These findings justify the need to prepare to move the secondary education system in our country to 11-12 years.

74. Because of the deterioration of building condition and heating facilities, 51.6% of kindergartens, 88.2% of all schools and 80% of dormitories are unable to run activities in winter period. There are many problems due to lack of financial sources even for ordinary, routine renovation and capital repair of buildings of secondary schools and dormitories. A total of Togrog 12.4 billion is required for capital repair of 409 school buildings and 298 dormitories in rural areas. Deterioration of school buildings and quality of teaching equipment deteriorates the teaching environment. Due to little expansion and renovation of school buildings in the last decade, their deterioration is causing problems for normal teaching and learning environment. Without physical improvements in schools and especially dormitories, it is insufficient to undertake education activity at sufficient level.

75. Vocational and technical schools are not able to meet labor market needs determined by the private sector, and as a result, the number of their students has almost halved compared to

1990. It is necessary to renew curriculums of vocational and technical schools and to train and re-train their teachers. Equipment in technical and vocational schools has been in use for 24 years on average, necessitating their urgent replacement.

76. The above findings suggest that more attention should be paid to improvement of the teaching and learning environment and reducing disparity between rural and urban areas in order to improve learning achievements of students.

77. The main priorities of education sector are:

- (a) To expand the reach of pre-school education and to improve pre-school learning conditions in rural kindergartens. To introduce methodology of providing pre-school education to children at home.
- (b) To increase an opportunity for children of herder families and poor families to obtain basic education by improving living conditions in dormitories.
- (c) To improve teaching capacity and facilities of dormitories of secondary education schools.
- (d) To improve supply of teaching materials to rural schools.
- (e) To support and develop all forms of education for children who dropped out from schools.
- (f) To improve the curriculum, methodology, structure and quality assessment systems in primary and secondary education.
- (g) To improve training and re-training of teachers.
- (h) To develop vocational education system in line with interests of consumers, social needs and market demand.

## **B.2. Health**

*“Medical service is poor. Lack of doctors. As for service it is only name. In case of hospitalization we have to provide necessary medicines and syringes ourselves. Since we can not often travel to Ulaanbaatar there is no way but to buy medicines and syringes from small traders. Quality and expiration date usually do not meet the need. It is dangerous for rural people health as I think. It seems the product without an quality certification is sold in rural areas.”* A woman from Builsen bag, Sevrei sum, Omnogobi aimag.

78. Currently there are three main concerns in the health sector.

- Maternal mortality is high and not decreasing. According to 2001 Ministry of Health (MOH) evaluation report on National Reproductive Health program, the maternal mortality ratio per 100,000 live births was 121 in Ulaanbaatar and 175 in rural Mongolia on the average of 1996-2000. The 1998 Reproductive Health Survey shows that infant and under five mortality is much higher among babies born from mothers with lower education compared to mothers with secondary or higher education. Respiratory diseases such as acute respiratory diseases and pneumonia have remained the main causes of infant mortality.
- The incidence of infectious diseases such as TB, STD, infectious hepatitis, and brucellosis is growing. As of 1999, the rate of viral hepatitis was 21.6, tuberculosis 13.2, brucellosis 6.1, syphilis 4.5, gonorrhoea 9.0 respectively per 10,000. At the

moment Mongolia is included in the first group of countries where the tuberculosis rate is high and one of the seven countries in this category according to the classification by WHO Western Pacific Region. 2000 TB statistics by National TB center showed that 53.89 percent of TB patients are unemployed. Malnutrition is one of the predisposing factors for certain infectious diseases.

- During the last 10 years an epidemiological transition has occurred in death causes of the population from the predominance of respiratory and digestive tract diseases and infectious diseases to the higher incidences of deaths due to circulatory disorders / stroke and ischaemic heart diseases/ , cancer and accidents and injury.

79. The main challenge for health sector is to improve accessibility and quality of health services efficiently targeting poor and vulnerable. Access to health services is declining particularly for those in rural areas and poor. According to a recent survey (Health Management Information and Education Center 2000), utilization of both inpatient and outpatient services decreases as living standard falls. Causes of poor accessibility of services are mostly related to financial accessibility (i.e. costs of health services, drugs and transport), and poor communication and distances. Declining public health expenditure has not been replenished by alternative sources. Recently implemented health insurance has been funding mainly expensive hospital care. Therefore existing benefit package is being revised and changes to health insurance law are underway in the view of improving primary health care through subsidizing Family Group Practices and other public health services. The health insurance system still needs more comprehensive approach for further improvement to occur.

80. Quality of health services is also in need of improvement. The limited financial resources are mainly used for building maintenance and heating rather than improving services. Quality of care is affected by deteriorating facilities and, insufficient essential medicines and basic medical supplies. Diagnostic capacity of government hospitals is very poor. Currently 60 percent of the 320 soums hospitals (primary health care units) are unable to reliably provide their services. MOH recognizes that the Soum Hospital Development program is to be a part of the Health Master Plan. With this program, soum hospitals will have better medical equipment and supplies, doctors will be trained and essential health package will be revised along with standard protocols.

81. An independent health unit that provides primary health care for 3,800 to 5,200 people is defined as Family group practice (FGP). Family group practices will be established mostly in the aimag and city centers. Within the frame of ADB Health Sector Development program pilot FGP's are being implemented in Ulaanbaatar, Dornogovi, Khovd, and Khuvsgul aimags. Currently there are over 990 family doctors and 99 practices. Moreover primary health care provision through family group practices will be expanded in all aimags with the HSDP.



**Table 7. Mongolia: The Concentration of Poverty by Heating and Drinking Water Sources (percent)**

Living standards	Heating				Water supply							
	Total	by type of heating			Total	Water supply, by source						
		Centralized	Non centralized	Ordinary		Centralized	Well with protected	Unprotected well	Distributed by transport	River rain, snow	Other	
<b>Nation-wide</b>												
Very poor	100	13.8	4.9	81.2	100	16.0	12.0	21.8	16.6	11.7	31.7	2.2
Poor	100	17.2	1.5	81.3	100	17.9	13.6	20.9	13.9	10.6	34.8	1.8
Not poor (little)	100	21.1	2.7	76.2	100	21.7	17.4	16.1	15.9	9.7	36	0.8
Not poor (middle)	100	25.5	2.3	72.2	100	28.3	22.2	15.0	17.5	6.1	30.8	2.3
Not poor (wealthy)	100	31.1	2.4	66.4	100	33.3	29.7	16.3	15.3	4.6	30.4	0.0
<b>Average</b>	100	22.5	2.8	74.8	100	24.2	19.7	17.5	16	8.3	32.8	1.4
<b>Urban area</b>												
Very poor	100	26.2	6.5	67.3	100	28.6	22.6	34.5	3.6	22.0	8.9	2.4
Poor	100	36.4	3.1	60.5	100	38.0	28.7	34.9	4.7	19.4	2.3	0.8
Not poor (little)	100	49.1	5.9	45.0	100	50.5	40.9	26.8	3.2	16.8	2.7	0.0
Not poor (middle)	100	59.3	5.0	35.7	100	64.3	50.3	20.6	2.0	8.5	2.5	2.0
Not poor (wealthy)	100	66.3	4.1	29.5	100	70.5	63.2	18.1	1.6	6.2	3.6	0.0
<b>Average</b>	100	49.0	5.1	46.0	100	51.9	42.6	26.2	2.9	14.1	4.0	1.0
<b>Rural area</b>												
Very poor	100	0.6	3.2	96.2	100	2.5	0.6	8.3	30.6	0.6	56.1	1.9
Poor	100	0.0	0.0	100.0	100	0.0	0.0	8.3	22.2	2.8	63.9	2.8
Not poor (little)	100	0.3	0.3	99.3	100	0.3	0.0	8.1	25.3	4.4	60.6	1.3
Not poor (middle)	100	1.1	0.4	98.5	100	2.2	1.8	10.9	28.7	4.4	51.3	2.5
Not poor (wealthy)	100	0.0	0.9	99.1	100	0.5	0.0	14.7	27.5	3.2	54.1	0.0
<b>Average</b>	100	0.5	0.8	98.7	100	1.1	0.6	10.2	27.0	3.4	56.7	1.7

Source: Mongolia: Living Standards Measurement Survey, 1998

82. Inefficiency is a major drawback of the health sector. This is mainly due to current health care financing that is too fragmented. Health care services are owned by national and local governments that is separated from the supervision and monitoring provided by the MOH. There is lack of nation-wide health information system that maintains national priorities and policies. EU TACIS funded Financial Management project was implemented in 4 aimags, 2 districts and 3 tertiary hospitals of Ulaanbaatar to create health financial management system that provides critical decision making financial data at operational levels. Work is currently underway to expand it at nation-wide and develop further National Health Accounts system. Project proposals have been presented to recent CG meeting in Paris. The WB Participatory Public Expenditure Review emphasizes the importance of developing facilities master plans based on population health needs and utilization pattern. PER has also suggested to identify outputs of the sector, priorities among products and sub-products, and costs of these products. In this regard, work has already been piloted at the MOH and three other tertiary health facilities through ADB Public Sector Management and Financing project.

83. The concept of Health Master Plan is adopted as a basis for determining the type and nature of ODA inputs and to guide the design, planning, implementation and monitoring required for supporting development and reform in the health sector. Recent experience has shown that to develop such a framework for supporting health development and reform, additional preparation

is required, particularly in carrying out a more detailed and focused review of the health sector as a prerequisite to the development of Health Master Plan through a more candid determination of government and donor priorities. This activity is characterized by the employment of combination of approaches and types of cooperation activities within the Japanese ODA programs to give rise to an optimum mix of approaches to technical assistance. Objectives of the HMP includes: review of the health sector; establish strategic planning framework in the MOH; establish donor coordination mechanism to facilitate donor inputs into the planning process; develop appropriate planning and monitoring instruments; develop Health Master Plan; develop a list of projects for short, medium and long term ; develop capacity in the health sector in terms of human resources, research, sector management and planning skills.

### **B.3. Employment**

*“Many people lost their jobs because of bankruptcy of factories and downsizing of budget entities. Some people who were able moved away and those who were not stayed.”* Group of women of Eson Bulag sum Gobi Altai aimag.

*“The living standard of people who were in normal condition 8 years ago is becoming worse and worse and they are entering into the poor people group. The wrong privatization is the main reason of closing many industries which increased the number of unemployed”* Residents of the Dalanzadgad city of the Omnogobi aimag.

84. The unemployment rate in Mongolia is high, estimated at about 15% in 1998 according to LSMS, however official statistics indicate that unemployment is 4.6%. This disparity is mainly related to registration coverage, lack of incentives to be registered, poor development of labor market (lack of information, availability or opportunity to be employed). The annual growth of people of working age is 1.5 times more than the population growth rate. However, work force participation rate has decreased from 75.8 percent to 62 percent through 1992-2000. Over 65 percent of unemployed are young people, half of which have no professional skills, but have secondary education. The unemployment rate is high due to unavailability of professional training. Unemployment rate differs in rural and urban areas depending on the availability of professional training and job occupancy. For example, by the end of 2000 the unemployment rate is 2.8 in Ulaanbaatar while the average is 4.5 percent. The employment rate decrease among the population is the main reason causing income poverty.

85. During the centralized planned economy the workers were used to the permanent jobs at the state enterprises in the cities and local places or at the agricultural cooperatives and state farms and in fact the production downfall, restructuring and privatization started since 1990 caused a heavy impact on people’s living increasing unemployment thus eliminating a reliable revenue source. Therefore there is a need to match the employment promotion policy in consistent with the poverty reduction activities.

86. The government approved the “National Program on Reduction of Unemployment’ in 1995. This program was envisaged to be implemented in two phases, from 1996 to 2000 and from 2001 to 2010. The objective of the first stage of implementation was to reduce the number

of unemployed to 5.8 percent of the total workforce through creation of favorable environment conducive to economic growth leading to creation of new job vacancies, enhancement of skills for people, promotion of SME and cooperatives, especially in rural areas, organization of public works, strengthening of employment services. Although, based on the official statistics, this objective appears to be met, the real unemployment rate is still high. At the time of implementation the projects were quite successful, however the sustainability of projects were inadequate.

**Table 8. Mongolia: Average Income Shares by Consumption Groups**

Poverty categories	Income										Consumption from own products	Gifts from other	Others
	Total	Money income					In kind income (salary, bonus, compensation)	from non-farm business	from agriculture				
		Total	of which:			Agriculture			Livestock				
			Salary	Pension	Social benefits								
<b>National</b>													
Very poor	100	50.6	36	11	3.6	0.8	2.8	0.2	8.1	21.1	13	3.4	
Poor	100	37	29.1	6.7	1.3	0.5	5.4	0.2	12.8	32.4	8.7	2.9	
Non poor(l)	100	32.1	26.4	4.9	0.7	0.4	4	0.3	16.5	34.1	8.2	4.5	
Non poor(m)	100	32.5	27.6	4.5	0.4	0.2	9.9	0.2	16.1	29.8	7.7	3.5	
Non poor(u)	100	29.4	24.8	4.2	0.3	0.1	12.4	0.2	9.9	28.8	13.4	5.9	
<b>Average</b>	100	33	27.2	5.1	0.75	0.29	8.5	0.2	13.3	30.1	10.1	4.4	
<b>Urban</b>													
Very poor	100	71.1	52	15.3	3.8	1.3	4.9	0.1	1.4	4.5	11.6	5.1	
Poor	100	61	50.1	9	1.8	1	11.2	0	4.4	5.9	12.6	3.9	
Non poor(l)	100	59.1	51.2	6.9	1	0.6	9.4	0.3	3.1	5.6	12.2	9.6	
Non poor(m)	100	57.1	51.4	5.3	0.4	0.2	17.3	0.1	3	4.2	11.5	6.6	
Non poor(u)	100	45	40.5	4.2	0.3	0.1	22.1	0.2	1.2	3.8	17.2	10.4	
<b>Average</b>	100	54.6	47.4	6.4	0.9	0.4	15.9	0.2	2.4	4.5	13.8	8.2	
<b>Rural</b>													
Very poor	100	25.8	16.6	5.8	3.4	0.2	0.3	0.2	16.2	41.3	14.7	1.2	
Poor	100	15.7	10.3	4.6	0.8	0.1	0.4	0.4	20.2	56	5.2	2	
Non poor(l)	100	13.6	9.5	3.6	0.6	0.2	0.3	0.2	25.7	53.5	5.5	1	
Non poor(m)	100	14.8	10.4	3.9	0.5	0.2	4.5	0.4	25.6	48.4	4.9	1.2	
Non poor(u)	100	13.3	8.8	4.3	0.3	0.1	2.5	0.3	18.7	54.4	9.4	1.2	
<b>Average</b>	100	14.8	10.1	4.1	0.6	0.2	2.3	0.3	22.6	51.7	7	1.2	

Source: Mongolia: Living Standards Measurement Survey. 1998

87. The Technical Assistance for Commonwealth of Independent States (TACIS) program has made contribution in employment promotion in Mongolia through enhancement of capabilities of Labor Regulation Office through providing equipment, conducting training, creation of labor market information network.

88. The Government's responsibility in employment promotion is the creation of a legal environment and appropriate conditions for employment. The "Law on Employment Promotion" was past by the Parliament and it is effective from 1<sup>st</sup> of June, 2001, this Law aimed:

- To provide technical orientation, consultation and information,
- To provide professional training and re-training,
- To support private entrepreneur-ship and cooperatives,
- To support employers; and
- To carry out public works

89. The Law on Exportation and Importation of Labor (effective on 1<sup>st</sup> June, 2001) will have an impact on improving job security and social security of employees in foreign countries and on reducing unemployment domestically, devoted to the decrease of unemployment, the main cause of the income poverty, and appropriate coordination of employment.

90. Based on the extra need of professional training in rural areas regional professional training centers shall be established within the framework of the “Social Security Sector Development” program which will be implemented with the assistance of the ADB. The training shall be based on participation of the community as well as private sectors. In addition the legal environment for restructuring of technical education and professional training in accordance with market policy shall be established. In this respect the project on the strengthening of professional training will be implemented.

#### B.4 Social Protection

*“We are fed by elderly persons and relatives on pension. We want to work”* expresses a group of young people from Bayantsogt sum, Tuv province. *“The cost for wedding is not affordable, that is why many young people live in their parents’ family on their pension”* Group of women and men from Tariat sum, Arkhangai aimag.

91. Social care allowance is an integral part of the social security system aimed at supporting the vulnerable. According to the provisions 3,1,2 of the Law on Social Care Allowances (i) elderly people who can not be survive on his/her own or without children and/or relatives, (ii) disabled people, orphan children, (iii) very poor elderly, (iv) very poor people with many children are considered to be vulnerable. Mothers with many children and mothers caring for their babies and orphan children (200 thousand beneficiaries in total) get benefits from the social assistance fund. Social care is provided to more than 400 vulnerable persons.

**Table 9. Mongolia: Population Employment, End of the year, 1992-2000, TH/persons**

	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Population of working age	1134.6	1133.6	1165.7	1186.7	1212.8	1229.9	1256.8	1279.3	1347.4
2. Economically active population	860.0	837.3	834.7	812.7	825.0	828.8	842.4	853.4	847.6
3. Employees*	806.0	765.4	759.8	767.6	769.6	765.1	792.6	813.6	809.0
4. Number of unemployed registered at Employment Reg. Office (ERO)	54.0	71.9	74.9	45.1	55.4	63.7	49.8	39.8	38.6
5. Number of students of working age	104.9	100.5	94.4	102.0	116.3	120.8	125.4	149.5	153.7
6. Disabled population of working age	106.1	111.7	136.9	136.2	138.0	82.0	80.2	79.8	77.9
7. Unemployment rate, %	6.3	8.6	9.0	5.5	6.7	7.7	5.9	4.7	4.6

Note: \* excluding people working abroad  
Source: National Statistical Office

92. Social insurance is playing a major role in the social protection system. At present 91.8 percent of hired workers are covered by mandatory insurance and 22.5 percent of herdsmen and private entrepreneurs covered by voluntary insurance and 92.2 percent of total population covered by health insurance. Average pension per person for 254.2 thousand pensioners amounted to 18.2 thousand togrogs (end of 2000), which is a little bit higher than the minimum wage level.

**Table 10. Mongolia: Pensions from the Social Insurance Fund (by December 31, 2000)**

Pension type	Retired	Death	Disabled	Military pension	IAWI*	Total
Number of people, thousand person	171.6	34.8	32.7	9.3	5.7	254.2
Average Pension, thousand togrog	18.7	14.9	14.0	31.7	26.9	18.2

\*Insurance for Accidence on Work Injuries

Source:MOFE

93. Currently the number of people covered by the social security is rising. Therefore due to financial constraints there is a need to develop an efficient mechanism for payment and coverage possibly by shifting some services provided to the private sector and community, decentralization of social care institutions, and improved targeting of services.

94. The Government sets forth an objective to improve the availability and efficiency of social care services to be rendered to the vulnerable group of the society, especially to women, children, elder and disabled persons through the enhancement of social insurance system and proper determination of social care scope. The following policies shall be implemented with the cooperation of the ADB in the framework of the “Social Security Sector Development” program:

- Introduce alternative ways of centralized social care service based on the community
- Determine appropriate scope of social care service in order to direct the source of the social care fund to the vulnerable group.
- Expand services of social workers and improve the quality of services.

## **C. Infrastructure development**

### ***C.1. Energy supply***

*“Some the consumers do not pay for electricity. And it is common to be cut out of electricity because of those people. In general energy supply is insufficient. The diesel generator capacity is very low.”* said citizens of 4<sup>th</sup> bag of Bayandun sum, Dornod aimag.

95. A reliable and continued supply of energy is needed in rural areas in order to develop small and middle-size enterprises, to increase employment, to improve living standards of the people and to enable hospitals, schools and other organizations to operate in an environment that meets occupational health and technical requirements. Families with no access to basic services such as electricity and heating are in a high-risk category to slip into poverty. Currently, 14 percent of the population lives in soums and they are not connected to the centralized energy system. These *soums* operate diesel generators whose cost of input is extremely high and, therefore, consumers in these soum centers are supplied with electricity only a few hours a day. As a result, during the winter schools, hospitals and other organizations in these *soum* centers cannot operate in normal conditions and small enterprises cannot operate continually. In addition, herder families constituting about 40 percent of the population are not supplied with electricity regularly, of which supply to about 10 percent is limited to small power sources that can generate energy only enough to use electric lights.

**Table 11. Poverty Incidence by Lighting and Fuel Sources and Location**  
(percent)

Poverty categories	Lighting					Fuel					
	Total	of which: by source of lighting				Total	of which: by type of fuel				
		Electricity	Kerosin	Candles	Other		Electricity	Wood	Charcoals	Dung	Other
<b>National</b>											
Very poor	16.3	16.9	26.4	15.0	0.0	16.3	11.0	16.7	37.3	14.5	28.9
Poor	13.7	13.5	15.1	13.8	0.0	13.7	11.9	16.1	13.4	12.3	11.3
Non poor(l)	25.9	23.6	26.4	28.6	25.0	25.9	24.7	28.4	14.9	25.2	23.2
Non poor(m)	23.7	23.7	20.8	23.7	50.0	23.7	25.0	22.4	25.4	26.4	16.2
Non poor(u)	20.6	22.3	11.3	18.9	25.0	20.6	27.4	16.4	9.0	21.7	20.4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Urban</b>											
Very poor	18.5	17.4	23.1	28.6	0.0	18.5	10.6	25.6	41.1	27.4	22.5
Poor	14.2	14.2	7.7	15.5	0.0	14.2	12.0	18.0	14.3	19.2	7.5
Non poor(l)	24.2	24.3	23.1	23.8	0.0	24.2	24.1	25.6	14.3	27.4	25.0
Non poor(m)	21.9	22.0	15.4	21.4	0.0	21.9	25.3	18.0	19.6	16.4	17.5
Non poor(u)	21.2	22.2	30.8	10.7	0.0	21.2	28.0	12.8	10.7	9.6	27.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Rural</b>											
Very poor	14.4	15.5	27.5	13.5	0.0	14.4	19.0	12.6	18.2	12.3	31.4
Poor	13.2	11.4	17.5	13.7	0.0	13.2	9.5	15.2	9.1	11.1	12.7
Non poor(l)	27.2	21.2	27.5	29.1	0.0	27.2	38.1	29.8	18.2	24.8	22.5
Non poor(m)	25.2	29.0	22.5	23.9	0.0	25.2	19.0	24.4	54.5	28.1	15.7
Non poor(u)	20.0	22.9	5.0	19.8	0.0	20.0	14.3	18.1	0.0	23.8	17.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

96. About 50 percent of the population is supplied by electricity and heating from the centralized energy system; however, this is a 100 percent state-owned monopoly that is too centralized. This system has inherent weaknesses that affect poverty, including inability to monitor costs of generation, distribution and supply; difficulties in adopting a tariff system and a flexible payments system conformant with market principles; overlapping management functions; increasing burden of payables and receivables resulting from technical and non-technical losses and financial problems; allocation of investment sufficient only to repair existing equipment in order to operate all systems simultaneously. All of this necessitates formulation of a legal framework for restructuring of the entire sector and commercialization of energy operators.

97. The Law on Energy was adopted in February 2001. This law provides a legal framework for commercialization of generation, transmission, distribution and supply systems; determining relations between generators, supplier and consumers, licensing of energy operators based on certain requirements and their regulating, establishing the Energy Regulatory agency responsible for setting energy prices and tariffs based on purchasing power of consumers, impact on the people, economic growth and profitability of energy operators.

98. Coal mines are publicly listed companies with majority government ownership; coal prices are determined by their Boards of Directors and coal is sold at these prices. Measures are being taken to reduce debts of the energy system to coal mines, including requirement for immediate payments for coal supplied after October 2000 and payment of debts accumulated prior to that in accordance to an established schedule. The issue of collecting payments from consumers of energy has a direct impact on repayments of energy system's debts.

99. The government, in order to increase the impact of the energy sector on alleviation of poverty, has planned in its action plan to connect 40 soums to the centralised energy system, to implement a program called “100.000 sunny gers”, to build and operate hydroelectric power stations in Ulaanbom, Durgun, Chargait, and Uuench and a power station in Bayanteeg, and to implement a project “Reduction of losses in the distribution system”. The government also pursues a policy to privatize all energy sectors except the transmission network, and to increase private participation in the energy sector. Currently, 15 percent of all losses in the energy system is due to non-technical reasons, such as, stealing and the inability to pay by poorer consumers. Systematic measures will be taken in order to reduce these losses by renovation of the distribution grid, establishing a flexible tariffs system based on careful research, and clearance of accumulated debts of poor and low-income families. As of 2001, 54 percent of the population had access to energy. By taking the above measures, this rate will increase by 14 percentage points and creating an environment for development of small and middle-size enterprises and increase of employment in both rural and urban areas.

### **C.2 Transportation**

*“The cost of transportaton is high. We have limited places for summer camping, the pasture is deteriorating year by year. “Lack of water. Mountains are very high. So we need to pass 45 km on rented car to get to our summer place. One way cost is 35,000 togrogs.”* Group of woman of rural bag in Tosontsengel sum, Zavkhan aimag.

100. The main objective of the transport sector is to influence the economic and social development of isolated and remote regions and assist in overcoming the isolation and remoteness of such areas. Currently 13% of the state road network and 3% of total road network is paved. The Government of Mongolia is paying more attention to the investment of new road construction and maintenance of existing road as well as on the enhancement of the efficiency of them.

101. Transport service will contribute to poverty reduction through connecting people with the market, delivering social and state services to the population appropriately, and creating new jobs in urban and rural areas. Also bad roads, bad transport and bad drivers increase number of accident that becomes one of the factors of poverty occurrence. Analyzing this, attention shall be paid to the elimination of remoteness, providing safety, improvement of transport infrastructure and service as well as on the reliability of operation.

102. Objectives of the transport sector are to continue privatization of urban city and local transportation services, increase contribution of private sector service, encourage competitiveness, form legal environment, improve regional and rural road, enhance the accessibility and quality of transport service. To achieve these objectives we will rehabilitate and develop road infrastructure, increase the efficiency of existing infrastructure, make organizational restructuring, and improve and strengthen the sector operation. Also measures will be taken to decrease cost of railway transportation and improve the smoothness of its service.

103. Within the framework of the “Millennium road” project income of poor people shall be increased through extensive mobilization of unemployed people in the labor-intensive works.

Also attention shall be paid to the development of larger settlements along the road in complex. The “Millennium road” will provide a base for the development of transport connecting Europe and Asia and be a good motivation for the economic development of soums and villages.

### **C-3. Information and communication**

*“Make information distribution faster, build an information center and make the Russian TV channel available”* said by people from Booroljuut, Tariat sum, Arhangai aimag

104. Currently *aimags* and *soums* are connected through 30 thousand km long airline, 900 km long digital and 2100 km long analog radio relay line, and 4200 km long fibre cable line. 332 communicating stations with a capacity of 131 thousand telephone lines are also in use. 55% of all stations have digital technology. Regarding the density, 4.6 telephones are per 100 persons. A cellular phone station with the capacity of 100 thousand subscribers is operating and it has now over 100 thousand customers.

105. The communication sector objective is to improve the quality and accessibility of its service through renewing the technology and techniques of cities, aimags and soums. Within this context of these objectives, project on equipping radio and TV studios, transmission network, and TV program transmission. General plan shall be developed on the development of postal service and introduce new technology in some soums and settlements. Produce solar battery and provide the soum post offices with that battery. Within the framework of the “Communication 2” and “Communication- 3” projects digital automatic telephone stations and shall be introduced in the centers of Bayan-Ulgii, Hovd, Gobi-Altai, Bayanhongor, Uvs, Zavhan, Arhangai, Hovsgol, Tov, Nalaih, Hentii, Suhbaatar, Dornod, Dornogovi, Dundgovi, Omnogovi aimags, and radio communication systems in the soums of Tuv, Selenge, and Darkhan-Uul aimags shall be transferred from single to multiple spots. Cable lines of all aimags shall be extended and be commissioned. In some aimags FM radio stations will be installed. A fiber cable network, connecting the centers of Hentii, Sukhbaatar and Dornod aimags will be established and communication equipment will be replaced with digital technology.

106. Through development of information infrastructure services such as electron mail, distance learning, health service, electron services and other social services shall be accessible to the remote areas. As a result people will not need to go to the cities or towns in order to provide their need and at the same time service cost will decline accordingly. New types of electron services shall be expanded.

### **C-4. Public and community services**

*“There are many cases of liver disease due to bad quality water. Some people take good quality water from a long distance, while others still use the bad quality water”* cited a lady from Huhmorit sum Gobi-Altai aimag.

73. Urbanization is taking place very fast in Mongolia. During the last decade the migration coefficient from rural areas to urban areas has increased from 0.8 to 4.4. As a result 56.6 percent of the population are living in urban areas in 2000. Migration from rural areas to



cities is continuing and today 33 percent of the population is living in Ulaanbaatar. The results of the 1998 LSMS indicate that annual aimag centers population growth is negative 1.6 percent, while the number of poor people grew by 5.8 percent, which explains relatively high poverty level in aimag centers. This concentration of poor population in urban settlements leads to health problems in those areas: there is a need to improve citizen's hygiene condition, first of all, in the Ger district.

107. Currently in Mongolia only 30.8 percent of the population has access to fresh water through the centralized network, 24.8 percent through mobile transportation services, 38.5 percent through water distribution units and 9.1 percent are using water from river, springs, and snow for their day-to-day consumption in 1998. The number of public bath houses has decreased to 66 from 259 with the capacity of serving 1533 people in one shift. Only 19.7 percent of the sum and village level population have access to bath houses. According to the population and housing census of 2000, 50.6 percent of all households live in gers, 48 percent in apartments and 0.6 percent have no shelter. The 1998 LSMS indicated that 24.6 percent of total population have access to canalization, 49.5 percent to water disposal garbage and 78.6 percent to dry garbage disposal facilities.

108. Main priorities:

- Activities, such as disposing waste and used water, and modernizing/providing toilets, related to the hygiene of the urban areas, particularly Ger districts, shall be implemented.
- Measures will be taken in a systematic way for the improvement of accessibility and quality of fresh water to the public, softening and purifying of hard and mineral water in the midterm.
- Programs and projects for the increased housing will be developed and implemented.
- Objectives of providing all aimag and soum centers with public bath will be implemented step by step.

#### **D. Regional and rural development**

*“Big migration wave has started in 1996 and many families from Govi-Altai aimag moved to Ulaanbaatar, Herlen sum of the Herlen aimag, Selenge, Baganuur, Erdenet, Darhan-Uul and Bornuu. Most of these moved families had relatives or friends in their destination place in addition to being able to bear the cost of moving.”* Group of men from Ulaanbaatar.

109. In 2001 the Parliament discussed the Regional Development Concept doctrine. The main objective of the Concept is to create favorable environment for narrowing the disparities in urban and rural development, within regions, accelerate economic growth and support social progress through efficient utilization of natural, agricultural and crop originated resources in line with capabilities of the particular region leading to decentralization of population concentration.

110. The regional development concept provides equal opportunities for inhabitants of the particular region to study, live, have a good access to information, actively participate in life of the particular region, which leads to an expansion of basic social services such as education, health, culture, information, community utilities. Within this frame in the medium term the legal

environment to support regional development will be created, specific priority sectors for the particular region will be determined, infrastructure network will be improved.

111. Favorable legal environment shall be formed in regions with fast developmental potential to attract foreign investment. In the first stage, measures for the establishment of free trade zones in Altanbulag of Selenge aimag and Zamiin-Uud of Dornogobi aimag, located close to external market, development of certain cities as a regional center will be undertaken. Mining and tourism industry in the areas with potential resources will be developed through attraction of foreign direct investment.

*“The 1997 summer drought and dry spring of 1998 with late pasture greening worsened the pasture livestock died. There was a case that one family lost 50 cattle, 30 sheep and 15 goats. Some families lost all their cattle and darkened their fence”* Herders from the Munkhhairhan sum of Hovd aimag.

112. According to 1999 statistical data, 83.6 percent of the total 267-thousand herder households had up to 200 heads of livestock, from which 42.7 percent had less than 50 heads of livestock. Last 2 years drought and zud heavily affected the living standard of herder households, especially those with a few heads of livestock. The previous year's (1999-2000) dzud covered 15 aimags and 158 soums, while last year (2000-2001) dzud occurred in every place. 2.4 million heads of livestock was lost and 2.4 thousand of herdsman - households left without livestock and thousand left with just 100 and less heads of livestock. Livestock census is planned in June 2001 in order to precisely assess the consequences of dzud and develop appropriate policies in time. The results are under the processing.

*“ Well is very important for us. The pasture is worsening now. If we have well we could've go more than 20 km in order to pasture our livestock along the good grazing field”* said by herders from the Huhmorit sum of Gobi-Altai aimag.

113. To better implement poverty reduction programs in the rural areas, aimag development plans focus on greater consideration to infrastructure development, such as repairing of roads, development and rehabilitation of wells, and development of irrigation system. Improved management of pasture, improving veterinary services, and fodder development should also be an important part of aimag development plans. Rationalizing and grazing capacity of the land will be necessary to prevent environmental degradation.

114. The proposed Sustainable Livelihood project (SLP) by IDA aims to support a shift in emphasis under the national anti-poverty strategy towards operational approaches that promote secure and sustainable rural livelihoods. The proposed project will consist of three main components:

115. **Pastoral Risk Management:** an integrated strategy will be developed and adopted for managing covariant risk in pastoral livestock production, including dzud, drought, disease and price-related risks. In combination with other project components, this component will aim to assist in addressing the underlying causes of rising vulnerability to drought and dzud.

116. **Rural Micro-Finance Service:** the project component will aim at improving the outreach of financially and institutionally sustainable micro-finance services (saving and credit) to poor and vulnerable households and individuals in rural areas with the possible inclusion of micro-insurance instruments to help manage idiosyncratic risks and as a form of guarantee for credit.

117. **Community Investment Funds:** efficient, socially, inclusive, and transparent community-driven mechanisms will be identified and established to facilitate community prioritization, selection, co-financing and execution of investments in basic infrastructure and social services provision, combining local resource mobilization with matching government grants.

118. All three components of the project are inter-linked and will enhance the capabilities of poor and vulnerable households and individuals, assure their access to income-generating assets, and facilitate investment in community-level infrastructure and social service provision.

*“ We are isolated from the market, so traders just come to us. They discriminate people by wealth and number of livestock. Herders using their binoculars visit the herder’s house where the traders stopped by because they do not visit those who have few heads of livestock. Although we know that they have cash they just do barter trade. Sometimes when they are trading with wealthy families they pay in cash. The traders take the best ones from our livestock by choosing themselves but in exchange they give very little. It is difficult to trade with them because they trade unfairly. We miss very much the **old trade network**. ”* Male herders from the Dashbalbar sum of Dornod aimag.

119. The old trade and procurement system collapsed by transferring it in to private sector and a new one still has not yet been put in place. In most soum centers kiosk type trading is prevails. Traders from central region travel to rural areas and trade during the cashmere collection and winter food-stocking season. The main problem is the big gap between prices in city and rural areas. Therefore the government intensified measures to improve market information (including prices, demand, quality) dissemination to rural population and producers. Agriculture bank started its lending to traders of aimag and sum in order to develop banking service in rural areas systematically. Also the “Gobi region economic growth initiative” under the USAID project and “Golden Fund of Development” with UNDP and Finish Government support non-banking institutions are extending their rural-oriented banking service through their local 12 branches. In overall 4 billion togros were lent from these institutions.

## **E. Environmental protection**

*“There are so many roads. Creating new roads should be prohibited in order to protect the pasture and environment. ”* Citizen of Kherlen sum, Dornod aimag

120. Social and economic development of our country is broadly dependent on the use of natural resources. Proper environmental management will create jobs, improve the health condition of population and ensure protection of biodiversity. Nomadic style animal husbandry and crop industry relying on the nature, as well as extract natural resources (minerals) are dominated in industrial sector. During the transition to the market economy many people lost

their jobs and started to excessively interact with the nature and surrounding environment, like breeding livestock exceeding the pasture land capacity, extracting mineral resources, hunting and collecting fruit and nuts, for their living. It reduces the natural resources and degrades the environment. So it is important to determine poverty reduction strategy rationally correlating with increase of economic situation of people on one hand and environment protection on the other hand.

121. Desertification and land degradation affects the living standard of 40% of total herdsmen. 70% of pasture has been grazed to certain extent and yield per hectare dropped by 19-24%. Increase in numbers of livestock and herder households create a deficit of wells and fence as well as they overload the pasture exceeding the carrying capacity of it. There is a real threat of emerging poverty of thousands of families by losing their animal that eliminates the existence of herdsmen. Complex of measures in combating with the desertification and reducing the overgrazing of the pasture and halting sand migration shall be taken including the real activities such as building green strips, replanting drought resistant native plants, using pasture by turn and holding land reform with the participation of local administration and citizens.

*" Today, cost for moving is so high. Place for summer pasturing is limited and the pasture condition is worsening year by year. Due to lack of water and mountainous area we need to move over 45 km hiring a track. It costs about 35 000 togrogs on one way. (Group of Females of the Tosontsengel soum of the Huvsgul aimag.*

122. Mongolia through its constitution passed in 1992 confirmed the right of citizen's to live in healthy and safe environment, and stated that the land and natural resources should be under public ownership and protected by the state. Based on this fundamental principle Mongolia is guided by sustainable development of the society in harmony with the nature and eco-oriented economic development policy. Creation of legal basis for the environmental protection, appropriate use of natural resources and rehabilitation of the nature were at the center of specific attention and therefore Legal package with 25 environmental laws were passed by the State Great Khural since 1994. In addition to this nearly 20 national programs including programs on protecting biological species, Combating with the desertification, Water, and on Special protected areas were approved and are under implementation. Mongolia has joined to 10 international environmental conventions since 1994. Although the legal environment has been set the implementation of them is inadequate due to lack of financial resources, participatory role of citizens and entities in environmental protection, weak responsibility and capacity of local administration in this area, and inadequate state regulation and supervision of use of natural resources and rehabilitation of damaged environment. Within the framework of objectives set forth in the "Environment and Sustainable Development", and "Equity and Social Policy" components of the "Good Governance for Human Security", the Program on Poverty Reduction through Environment Initiatives has been developed. This program consists of activities such as, combating desertification, replanting of forest, reducing pollution of city surroundings and intensifying land reform. These activities have the additional impact of creating permanent and temporary employment. Through incorporated implementation of these measures poor people get real benefit while the degradation of environment removes slightly.

123. Air pollution limits human right to live in a healthy and safe environment, especially endangers environmental security of the population. 75 thousand Ger community families use over 200 thousand tons of coal, 160 thousand meter<sup>3</sup> of wood and dispose the ash and waste in an open environment polluting the air and increasing the illness. A survey found that each citizen inhales annually 90 kg of toxic smoke in Ulaanbaatar city. As a result respiratory diseases are dominating among the population especially among children's disease. Ger districts are the main source of this pollution. Following a successful pilot project to reduce air pollution initiated by the British Embassy, the Government with the assistance of GEF is taking measures to improve the legal environment to control air pollution, introduce eco-friendly and efficient stoves in 75000 poor households of Ger-districts, control the vehicle gas emission and provide power stations and steam boilers with smoke filter. By combined implementation of these measures the poor people will get the real benefit in addition to improving overall ecological condition.

124. Proper solid waste management is one of important issues in Mongolia. Wastes are disposed in 447 official open spots which cover 3,145 hectares of land and over 11,115 hectares of land has been polluted in the country. According to 1999 reports from local administrative units data there are 3 centralized waste disposals in UB, however the daily waste solid is 500 thousand cubic meters, which is inadequate for waste absorption. Incineration of waste adds to air pollution. Therefore seeking a solution on solid waste issue is an urgent problem. Any types of initiative for reduction of air pollution and improvement of waste management made by citizens, NGOs and entities will be encouraged. Waste sorting entities and waste recycling factories shall be established. These measures will create jobs and improve health of population living close to waste disposal areas, particularly children will benefit from proper solid waste management.

*"They live in what ever they found on the waste. There are many young and old people called Tojils or waste diggers. Most of them have no job, money, relatives that can extend their hands, and education and they have no interest of doing anything for their living"* Woman from Baganuur district, Ulaanbaatar.

125. 8.1% of Mongolian territory is covered by forests and this is about a half of what used to be in 1990. According to the survey made by FAO, Mongolia is considered to be one of the countries with least amount of forest in the world. Due to unemployment and poverty illegal logging (fire wood) increased substantially during last 10 years. In addition about 6 million hectares of forests had been hit by fire since 1996 resulting in substantial decreases of forest resources. It is possible to increase significantly the number of permanent and temporary jobs by mobilizing low income and poor people in establishment of forestry, replanting of forest, utilization of semi-burnt trees and tree coal, building fire protective strips and fire preventive measures. Appropriate use of natural resources such as fruits, nuts and medical plants for income source shall be encouraged.

*"This year there was a black zud. We were afraid that we will loose all livestock. It will affect our life"* Citizen from Huhmorit sum, Gobi-Altai aimag

*"1997 summer drought and dry spring of 1998 with late pasture greening worsened the pasture and took many lives of livestock. There was a case that one family*

*lost 50 cattle, 30 sheep and 15 goats. Some families lost all their cattle and darkened their fence”* Herders from the Munkhhairhan sum of Hovd aimag.

126. Over 10 different types of natural disasters such as dzud and drought, step and forest fire, flood, locusts and rodent occur in Mongolia and the frequency of such disasters has increased. The natural disasters cause an enormous loss to the economy of the country and increases number of urban poor. Therefore the Government needs long-term policy measures to mitigate and prepare to reduce the vulnerability of the population to such disasters.

127. Mongolia has 4113 large and small rivers with a total length of 67000 km; over 3060 large and small ponds with total volume of 500 cubic km; over 7000 permanent springs, over 262 permafrost rivers with total area of 659 square km, 120 mineral springs and 139 underground water deposits. Total water reserves on the territory of Mongolia equal 38.8 square km, of which usable reserves equal 34.6 cubic km. 22 cubic km, or 64 percent of all usable water reserves is surface water, while 12.6 cubic km, or 36 percent is underground water. Water usage rate per capita is 3-4 times lower than the world average. Studies show that an average person who lives in ger quarters in large cities and urban establishments uses 8-10 liters of water per day on average, which is 5 times less than the acceptable health standard. As of 1999, water supply in many soum centres in desert and steppe regions has been very limited due to lack of water reserves. Content of drinking water of the population living in 38 percent of the territories of soums and urban establishments does not meet health requirements by one or more measures.

128. The Law on Environmental Assessment of Mongolia was approved in 1998 and is currently in force. This law provided for establishment of the Ministry of Environment and for assessment of the impact on environment of existing enterprises, services, buildings, their expansion and other forms of projects that use natural resources. Environmental assessment is a relatively new concept in our country and, therefore, there are considerable difficulties in implementation of the law. For instance, there is a need to conduct environmental assessment of businesses and organisations that existed prior to adoption of the law. Studies show that relatively few environmental assessments get done in state-owned enterprises due to limited funds. In addition, the legal framework for environmental assessments is poor, the mechanism of implementation of the law and control over assessment does not meet current needs. Therefore, in order to improve the Law on Environmental Assessment, a draft law amending the existing law has been drafted, discussed at the Cabinet meeting and submitted to the Parliament.

129. Community initiative and their work have a crucial role in nature conservation. Government has always encouraged community participation in nature conservation. The Law on Nature Conservation, article 32, says that government institution responsible for nature conservation may delegate its certain functions to civil organisations or citizens. Currently, there are over 100 non-government organisations operating in environmental fields, of which some 40 NGOs are working actively. Also, there are community councils under Citizens' Representatives Khurals in aimags and the capital city that support initiatives of local communities and their activities and help them to organize. However, due to limited initiative of communities in nature conservation, limited knowledge of laws and poverty, the use of natural resources (cutting trees, hunting) unlawfully is widespread. Therefore, a need arises to educate people, especially poorer ones, in ecological issues and to involve people on a large scale in training and promotion on environmental issues.

130. The Cabinet adopted an Environmental Impact Assessment Plan in 1995, and has been ensuring implementation of this program and other activities that were specified in Concept papers on economic and social issues each year. This program is being revised by the Parliament in order to make it consistent with policy papers in environment and other sectors that have been adopted since 1995, within the framework of the “Environmental Impact Assessment Plan” with the support of Trust fund of Norway through the World Bank. The objective of the Environmental Impact Assessment Plan is to support sustainable social and economic development that is adapted to the environment; and to improve living standards of the people and reduce poverty by sustainable use of natural resources. The Environmental Impact Assessment Plan consists of 11 chapters. The program is aimed at meeting 5 strategic objectives: improvement of legal framework and policy regulation on environment; improvement of environmental management and management of natural resources; creation of a system of environmental examination, analysis, assessment and information; improvement of ecological education and community participation; pollution control and increase of investment aimed at protecting bio-diversity. The program also specifies directions of priority projects and measures to be taken in environmental fields.

## **F. Governance**

131. Since 2000, Mongolia has initiated and implemented a national program on "Good Governance for Human Security". It is essential to reach a consensus among policy makers and stakeholders. The program will facilitate policy focus, coherence, and sustainability for the Poverty Reduction Strategy through the achievement of truly national policies with the support of powers of the state administration, scientific organizations, media and press, private sector and civil society.

132. It is far easier to promulgate a Government policy or even law approved by the Parliament than to involve and commit the media, academia, other opinion formers, the private sector, civil society and public opinion. The reward, however, is societal ownership of a policy that can lead to extensive collaboration between the sectors in implementation and greater policy effectiveness, in addition to greater policy continuity and sustainability. This is what can create a good governance enabling environment for human security.

133. In order to ensure good and proper governance the government states two main goals:

- To remove governance crisis and create good governance for human security,
- To develop a democratic civil society with strong ethics that secures citizens' basic rights, and fundamental democratic principles by facilitating independence of the judiciary and free mass media.

134. To achieve the above-mentioned goals the government is committed to implement the following actions:

- To improve efficiency and effectiveness of state entities' business processes, to improve mechanisms for performance management, finance and planning, reporting and responsibility., to ensure quality of and responsiveness of public services, improve the image of the civil services.

- To establish a public management information system network, ensure its timely and reliable nature on the basis of modern technology and improve the executive branch's decision-making and implementation mechanisms.
- To create appropriate mechanism for internal and external monitoring of state organizations.
- To undertake comprehensive measures to improve legal basis for authority and structure of judiciary, to deepen the judiciary reform to ensure independence of judiciary and to improve its reputation.
- To facilitate outreach of state policy to citizens by improving legislation related to mass media freedom and underpinning its responsibility mechanisms.
- To improve responsibility mechanisms of public service and to decisively combat corruption, bribery, and crime.
- To improve management of public relations, to ensure transparency of public organizations and to provide the utmost support to the establishment of good relations with NGOs within partnership scheme.

### **G. Medium term targets**

135. The following table summarizes the main macroeconomic indicators which are consistent with PRGF program.



**Table 12. Mongolia: Macroeconomic Framework 1997-2004**

	1997	1998	1999	2000*	2001**	2002**	2003**	2004**
I. TOTAL REVENUE AND GRANTS	25.5	27.6	27.2	33.6	33.6	32.7	32.6	32.6
II. CURRENT REVENUE	24.7	26.5	26.5	33.2	33.1	32.0	32.0	32.0
1. Tax revenue	19.7	18.8	19.7	25.0	25.7	24.9	24.9	24.9
1.1 Income tax	7.5	5.1	4.2	6.0	5.7	5.8	6.0	6.2
1.2 Social security contributions	2.6	3.2	3.3	3.8	3.3	3.3	3.3	3.3
1.3 VAT	4.6	5.6	6.5	7.3	8.0	7.9	7.9	7.8
1.4 Excise tax	2.4	3.0	2.9	3.9	4.0	4.0	3.9	3.8
1.5 Taxes on special services	0.6	0.8	0.7	0.7	0.7	0.7	0.7	0.7
1.6 Taxes on foreign trade	1.1	0.2	1.0	2.1	2.7	2.0	2.0	1.9
1.7 Other taxes	1.0	1.0	1.0	1.1	1.3	1.2	1.1	1.1
2. Non-tax revenue	5.0	7.7	6.8	8.2	7.4	7.2	7.1	7.2
III. CAPITAL REVENUE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IV. GRANTS	0.7	1.0	0.7	0.5	0.5	0.6	0.6	0.6
I. TOTAL EXPENDITURE AND NET LENDING	34.5	41.9	39.4	40.5	41.0	39.8	39.2	38.6
II. CURRENT EXPENDITURE	23.1	27.2	26.7	30.1	30.5	29.0	28.6	28.1
1. Goods and services	15.4	19.0	17.8	20.2	19.8	18.7	18.4	18.0
1.1 Wages and salaries	5.4	6.8	6.9	8.2	7.5	7.1	6.9	6.7
1.2 Purchase of goods and services	10.0	12.2	10.9	11.9	12.3	11.6	11.5	11.4
2. Interest payments	2.5	1.4	1.9	1.7	1.7	1.7	1.5	1.5
3. Subsidies and transfers	5.2	6.8	7.1	8.1	8.0	7.6	7.6	7.5
3.1 Subsidies to public enterprises	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
3.2 Transfers	5.2	6.8	7.0	8.1	7.9	7.6	7.6	7.5
Dzud contingency allocation	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0
III. CAPITAL EXPENDITURE AND NET LENDING	11.4	14.6	12.7	10.4	10.5	10.8	10.6	10.6
<i>Current Balance</i>	1.6	-0.7	-0.2	3.1	2.7	3.1	3.4	4.0
<i>Overall Balance</i>	-9.1	-14.3	-12.2	-6.8	-7.3	-7.1	-6.6	-6.0
<i>Financing:</i>	9.1	14.3	12.7	6.8	7.3	7.1	6.6	6.0
1. Foreign (net)	11.1	8.4	11.4	6.4	4.9	6.8	6.1	5.7
2. Domestic (net)	-2.1	5.9	1.2	0.4	0.3	-1.6	-0.4	-0.1
3. Financing gap	0.0	0.0	0.0	0.0	2.2	1.9	0.9	0.5

Source: MOFE; Note: \*\*Preliminary projection.

136. The table illustrates the main targets to be achieved as results of macroeconomic policy pursued during the medium-term that focuses on:

- Poverty reduction main strategy will be achieved through an increase of economic growth and social sector development, facilitating infrastructure development, improvement of governance.
- Accelerating economic growth based on private sector development through intensifying the structural adjustments, appropriate fiscal and monetary policy, enhancement of enabling environment for business development, and competitive industries promotion.
- In the fiscal area the highest priority will be given to reforms to improve transparency, accountability, and enforcement mechanisms in budget implementation and to ensure a more efficient allocation of public expenditure.
- Banking sector reforms aimed to consolidate the shift to a market-oriented system of indirect monetary management, including through measures to strengthen bank supervision and accelerate the privatization of state owned banks.

#### IV. THE ORGANIZATIONAL ARRANGEMENT OF THE PRSP FORMULATION

137. A joint workshop of the World Bank / IMF and the Government of Mongolia was organized in October 2000 for the purpose of preparing the development of the Poverty Reduction Strategy Paper. With the extended participation of NGO's, donors, regional representatives the direction, guidelines and main issues were discussed. This was the starting point of the paper development.

138. Ministry of Finance and Economy and the Ministry of Social Welfare and Labor have established technical working group consisting of representatives from ministries, Mongol Bank, National Statistical Office, research institutions and NGOs (the Resolution is attached herewith). The technical working group developed the first draft of the paper by October 2000 and sent to the World Bank. Since that time the finalization process is continuing on the non-interruptible and participatory principle.

139. The Development Debate organized on the national and regional basis by the World Bank and the Soros Foundation was a good exercise in exchanging information. Concentration of broad public participation was one of the features of the National debate for development. MPs, representatives from the ministries, departments, local authorities, donors, NGOs, and public, particularly from the groups of poor people were invited to participate to this debate. The Government of Mongolia participated actively in this action and took of the outcomes of this debate, and some proposals are incorporated into this document.

140. The Government of Mongolia is paying high attention to the capacity strengthening of the paper development through extended participation of governmental and non- governmental institutions in seminars and debates organized by international organizations. The Government of Mongolia and the World Bank has organized a seminar with the NGOs and exchanged views on providing participatory role.

141. Government institutions are participating in the development of that paper in accordance of their mandates/functions in the government. The MOFE working group is reporting its progress in this paper to the other members and its directly reporting authorities constantly and incorporating their comments followed by re-submission of the revised versions. In this way the working group is cooperating closely with other ministries. Comments of ministries, NGOs, as well as international institutions and donor countries are incorporated into this paper. Through precise discussion and exchange of views with NGOs the cooperation activities have been described in detail, such as poverty, education, health, social welfare, labor, environment sections. During May and June the working group has met several times and discussed strategy priority issues, monitoring indicators and policy matrix. Each sector has identified data gap to be filled out for the full PRSP. In addition drafts were sent to donors for their valuable comments. Special attention was paid from the World Bank Resident office and Headquarter office. The World Bank staff and concerned national experts had several joint meetings. Special attention was paid on consistency of PRGF and I-PRSP, amendment budget documents.

142. Poverty related recommendations and proposals noted at the last CG meeting, organized recently, and pre-agreed macroeconomic indicators and policy measures of the PRGF program with the IMF are also incorporated into this paper.

## **V. THE EXTENSION OF PARTICIPATORY APPROACH IN FORMULATION OF PRSP**

143. The Government will set up a Coordinating Committee responsible for arranging the development of PRSP. The Coordinating Committee will be made up of representatives of the Parliament, ministries, and governmental and non-governmental organizations, donor community and will be accountable to the Government. The Minister of Finance and Economy will lead the committee. The cross-sectoral working group will be set up to draft the PRSP. The Working group will be accountable to the Committee. Representatives from ministries of Economy and Finance; Infrastructure; Food and Agriculture; Industry and Trade and the central bank will compose a sub-group on macroeconomic issues; representatives from Education; Health; Social Welfare and Labor and Environment will compose a sub-group on Social issues; sub-groups on justice, governance and civil society participation will be set up. These sub-groups will be responsible for drafting completely the components of the PRSP. The working groups in charge of for the integral parts of the “Good governance for human security” will also be responsible for coordination and compliance of program and projects.

144. Participatory approach will be widely used in the process of developing and implementing the PRSP agenda. Participation in the development of this strategy paper shall be performed through conducting of surveys in certain sectors and issues by the NGOs as well as through active participation of them in the regional meetings. In addition organizing consultative meetings of the NGOs, releasing recommendations, and including representatives from the NGOs in the sub working groups and National Coordinating Committee shall provide the participation. Organization of participation will be based on the same type of procedures that have been applied to the management, organization and working group of “Good governance for human security” program. Any duplication of existing structures, which will weaken, policy, consistency and stability should be avoided.

145. Government high position officials, members of Parliament and Government, local governors, donors, private entrepreneurs, NGOs, citizens, especially representatives of poor and vulnerable group must be involved in the consultative and view exchange meetings at local and national levels, working meetings and other activities.

146. In order to ensure a broad public participation in formulating PRSP, the content, the direction and planned measures will be disseminated via media throughout the country and a cooperation must be established with media and press to listen to the public opinions of and views.

147. During the PRSP formulation several interactive actions with involvement of all stakeholders are scheduled. (Please refer to Annex).

## **VI. MONITORING INDICATORS**

148. The pre-condition for the successful implementation of the poverty reduction strategic goal of the government is effective monitoring. For this purpose the Government will undertake gradual measures to collect, analyze data on living level indicators required for monitoring progress on the F-PRSP, and shall develop and improve appropriate publishing procedures. The

National Statistical Office will finalize the Participatory Living Standard Assessment, and enrich the poverty data with qualitative indicators. This information is to be published.

149. The Government will give an assessment to the implementation of the national program on main guidelines to develop children undertaken jointly with UNICEF. A survey on theme “Children and Development” was conducted in as a preparation to the world summit for children to be held in 2001. The data on maternity and infant health, education, nutrition, vaccination coverage, fresh water supply as well as other related information will be processed and results will be published.

150. The Government will set up a research unit to conduct poverty monitoring and analysis. This unit will be responsible for monitoring and evaluation of the poverty reduction strategy implementation. On voluntary basis NGOs with appropriate experience shall be mobilized in the implementation of this poverty reduction strategy. This evaluation shall form a part of set of evaluations on the implementation of policies of “Good governance for human security” program that includes Government priority directives and policies.

151. The Government will make efforts in monitoring the poverty reduction strategy implementation based on indicators such as average life expectancy of males and females, maternity and infant mortality, children mortality below age 5, coverage ratio in primary and secondary schools as well as vaccination indicators during the implementing process in order to achieve expected results.

152. There were some difficulties in working out the Interim PRSP, including insufficient availability of information. A. Figures prepared by the statistical, and other institutions and international organizations were available but not differentiated according to classification like poverty and vulnerable group etc. particularly, there is a record on service availability and coverage with no possibility to make analysis on how it impact the poorest; B. The first priority objective set forth by the Government is to reduce poverty through economic growth. However, the theoretic and methodological concept on its implementation not yet formulated; C. The national system and capacity are not sufficient to involve appropriate organizations and citizens in the development, implementation and monitoring of the Strategy. Therefore, the technical assistance is required for the purposes stated above.

**Table 13. Mongolia: Selected Macroeconomic Indicators, 1997-2004**

	1997	1998	1999	2000*	2001**	2002**	2003**	2004**
GDP growth (%)	4.0	3.5	3.2	1.1	1.4	4.0	5.0	6.0
Industry (%)	-3.3	4.2	1.1	7.5	6.6	5.5	5.7	5.8
Agriculture (%)	4.3	6.4	4.2	-16.8	-8.7	0.5	3.0	5.3
CPI (12 month, end of period)	20.5	6.0	10.0	8.1	8.0	6.0	5.0	5.0
CPI (average)	36.6	9.4	7.6	11.6	8.8	6.0	5.0	5.0
Gross international reserves (US\$ mln)	137.5	124.6	156.7	190.9	209.2	237.1	259.8	284.2
(in weeks of imports)	12.3	11.4	11.9	14.2	14.8	16.0	16.5	17.0
<i>In percent of GDP</i>								
Total revenue	25.5	27.6	27.2	33.6	33.6	32.7	32.6	32.6
Current revenue	24.7	26.5	26.5	33.2	33.1	32.0	32.0	32.0
Tax revenue	19.7	18.8	19.7	25.0	25.7	24.9	24.9	24.9
Total expenditure and net lending	34.5	41.9	39.4	40.5	41.0	39.8	39.2	38.6
Current expenditure	23.1	27.2	26.7	30.1	30.5	29.0	28.6	28.1
Current budget balance	1.6	-0.7	-0.2	3.1	2.7	3.1	3.4	4.0
Overall budget balance	-9.1	-14.3	-12.2	-6.8	-7.3	-7.1	-6.6	-6.0
Financing	9.1	14.3	12.7	6.8	7.4	7.1	6.6	6.1
Foreign	11.1	8.4	11.4	6.4	4.9	6.8	6.1	5.7
Domestic	-2.1	5.9	1.2	0.4	0.3	-1.6	-0.4	-0.1
Financing gap					2.2	1.9	0.9	0.5
<i>Foreign trade, US\$ million</i>								
Export	569.5	462.3	454.3	537.1	549.2	601.0	647.5	692.9
Import	-538.3	-582.4	-567.3	-687.3	-698.9	-733.2	-771.1	-819.2
Trade balance	31.1	-120.1	-113.0	-150.2	-149.7	-132.2	-123.6	-126.3
<i>In percent of GDP</i>								
Current account balance (including official transfers)	7.1	-7.8	-6.3	-7.0	-7.3	-7.1	-6.1	-5.9
Current account balance (excluding official transfers)	1.3	-13.2	-13.7	-17.2	-16.7	-14.7	-13.4	-12.7
Public and publicly guaranteed external debt	57.4	77.4	93.9	88.0	89.4	93.6	94.2	93.1
Nominal GDP (Tug billion)	832.6	817.4	925.3	1044.6	1152.4	1270.4	1400.6	1558.9
GDP deflator growth (%)	23.8	-5.2	9.7	11.7	8.8	6.0	5.0	5.0
Exchange rate (end of year)	813.2	902.0	1072.4	1097.0	...	...	...	...
Exchange rate (average)	790.0	840.8	1021.9	1076.7	...	...	...	...
Population, thous.persons	2311.3	2344.5	2373.5	2407.5	2443.6	2480.2	2517.4	2555.2
GDP (US\$ mln)	1054.0	972.1	905.5	970.2	1019.9	1077.8	1156.1	1256.9

Note: \* - preliminary, \*\* - projection

Source: MOFE

**Table 14. Mongolia: Health sector Indicators, 1990-1999**

	Measuring unit	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Life expectancy											
male	years	-	-	62.8	-	-	63.8	-	64.3	65.1	-
female		-	-	60.7	-	-	62.1	-	61.1	62.7	-
		-	-	64.9	-	-	65.4	-	67.7	67.6	-
Underweight Born Infants	less 2.5 kg,%	4.4	5.0	6.3	6.0	6.6	6.4	5.5	5.9	5.1	5.0
Budget allocation to health sector	% of GDP	5.5	5.8	4.1	3.8	4.1	3.7	3.6	3.8	3.3	3.8
Mortality											
Infant mortality	per 1000 live births	64.4	62.6	59.5	61.2	48.0	44.4	40.0	39.6	35.3	37.3
Child mortality under 5 years		-	-	-	82.6	67.8	62.0	56.4	55.6	47.8	49.0
Maternal mortality	per 100.000 of live births	119	131	203	240	212	185	175	145	158	175
Birth under control	doctor's %	99.0	99.0	99.0	98.0	98.0	99.0	99.5	99.8	99.3	99.0
Availability of contraceptives	%	-	-	15.0	-	-	28.0	38.0	42.0	44.2	-
Number of abortions	per 1000 women	59.5	60.5	52.8	35.3	29.5	30.7	25.3	20.3	14.0	15.5

Source: Ministry of Health]

**Table 15. Mongolia: Educational Sector Indicators, 1990-1999**  
(percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>A. PRIMARY</b>										
Gross enrolment rate - total	105.8	91.0	81.5	78.7	86.0	93.4	95.3	102.2	102.9	103.8
female	106.4	91.5	82.4	79.8	86.6	93.6	96.1	103.2	103.4	104.4
male	105.3	90.5	80.6	77.5	85.4	93.1	94.4	101.2	102.5	103.1
Entrance age, years :	8	8	8	8	8	8	8	8	8	8
Duration, years	3	3	3	3	3	3	4	4	4	4
<b>B. LOWER SECONDARY</b>										
Gross enrolment rate - total	94.1	84.6	79.1	81.5	80.2	77.2	65.9	60.8	70.9	76.8
female	97.6	n/a	90.4	91.0	89.4	85.1	72.3	66.5	76.9	82.4
male	90.7	n/a	68.0	72.2	71.1	69.3	59.4	55.0	65.0	71.1
Entrance age, years :	11	11	11	11	11	11	12	12	12	12
Duration, years	5	5	5	5	5	5	4	4	4	4
<b>C. UPPER SECONDARY</b>										
Gross enrolment rate - total	41.9	30.9	30.3	29.7	31.5	34.4	50.1	49.3	31.2	34.1
female	51.0	n/a	39.5	39.5	41.8	45.0	63.3	61.0	38.1	40.7
male	32.8	n/a	20.9	19.7	21.0	23.6	36.7	37.3	24.2	27.4
Entrance age, years :	16	16	16	16	16	16	16	16	16	16
Duration, years	2	2	2	2	2	2	2	2	2	2
<b>BASIC* (A+B)</b>										
Gross enrolment rate - total	98.7	87.1	80.1	80.3	82.8	84.3	82.4	82.3	87.5	90.6
female	101.0	n/a	87.1	86.1	88.1	88.8	85.7	85.6	90.6	93.6
male	96.4	n/a	73.2	74.5	77.4	79.7	79.1	79.0	84.4	87.5
Entrance age, years :	8	8	8	8	8	8	8	8	8	8
Duration, years	8	8	8	8	8	8	8	8	8	8
<b>GENERAL SECONDARY ( B+C )</b>										
Gross enrolment rate - total	79.2	67.4	64.1	65.0	63.9	63.4	59.9	56.9	58.0	63.2
female	84.1	71.7	74.5	74.5	73.4	72.1	68.9	64.6	64.2	69.0
male	74.2	63.0	53.7	55.7	54.5	54.6	50.9	49.1	51.8	57.2
Entrance age, years :	11	11	11	11	11	11	12	12	12	12
Duration, years	7	7	7	7	7	7	6	6	6	6

Source: Ministry of Sciences, Technology, Education, Culture

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**Annex I: Monitoring indicators of poverty reduction strategy implementation**

<b>Type of indicator</b>	<b>Interim indicators</b>	<b>2000</b>	<b>Final outcome indicators</b>	<b>2004</b>
Macroeconomic stabilization	Exchange rate depreciation (-), appreciation (+), % Money growth, % External current account deficit to GDP, % Budget current balance to GDP, %	2.3 17.5 7.0 3.1	Economic growth, % Budget deficit to GDP, % Inflation rate, % Unemployment rate, %	6.0 6.0 5.0 4.5
Education	Gross enrollment rate of children at age of basic education, % Percentage of households enrolled in living skills training programs against total number of households, % Percentage of children provided by dormitory against total number of herdsman's children needed for it, %	88.6  29.7	Decrease the gap between urban and rural areas and improve all current data of the survey on evaluation of quality of primary an base education school and analyzing monitoring of education outcome. Percentage of first grade school children enrolled in time, %	
Health	Coverage ratio of vaccination of 0-1 age infants, % Percentage of 0-5 age children with diarrhea, % Percentage of 0-5 age children with infectious respiratory disease, % Percentage of mothers gave birth at home, % Decrease the percentage of pregnant women with anemia from 40 to 30, % Improvement in the supply and availability of TB drugs, % Improvement of diagnosing and curing capability, % Number of patients visited the sum medical center	94 18.9 66.3  less 1 40	Maternal mortality rate , per 100,000	
Employment and social welfare	Number of registered unemployed at Labor Regulation Office, thous. Workforce Participatory rate, %	38.6	Poverty ratio, %	
Regional development	Level of power supply, % Level of communication,% Level of water supply,%		Migration rate (from rural to UB city), %	
Governance capacity building, citizen participation	Access to information and Internet, % Number of TV and Radio stations Detailed publication of budgetary information , times p.a.	3 4	Percentage of women elected to the Parliament and local self-governing bodies, % Percent of voters voted in elections (by gender), % Percentage of women employed in the government,%	

## Annex II: Economic and Social Policy Matrix

Objective	Measures	Responsible agency	Deadline
1. Ensure macroeconomic stability and high economic growth	Increase economic growth up to 6 percent in 2004 through deepening of structural reform in energy and financial sectors, accelerating privatization, improving environment for private sector growth.	Government of Mongolia (GOM)	2001-2004
	Decrease current account deficit from 17.2 percent in 2000 to 12.7 percent in 2004. Favorable condition for foreign trade shall be set and negatively affecting tariff and non-tariff barriers shall be decreased.	GOM	2001-2004
	Intensify structural adjustment process of the banking sector, in particular to undertake measures to cure banking and financial sectors.	GOM, Bank of Mongolia (BOM)	2001-2004
	Improve ODA coordination and debt management	MOFE, BOM	2001-2004
	Create favorable legal environment for economical regional development, improving infrastructure development.	GOM	2001-2004
2. Improve budget management and tax system	Reduce the government budget deficit to GDP ratio up to 6 percent by 2004. Broaden tax bases and improve tax collection system.	MOFE	2001-2004
	Improve budget planning, recording, supervision and information systems. Formulate Medium Term Fiscal Framework Statement.	MOFE	2001-2004
	Improve budget financing and introduce an output based financing. Enhance accountability of budget managers. Pass PSMFA.	MOFE	2001-2004
	Audit Erdenet state enterprise's financial statements.	GOM	2001-2002
	Enhance accountability of tax institutions and build capacity of tax inspectors.	MOFE, GDNT, governors	2001-2004
	Strengthen local tax institutions and improve collection, sharing and monitoring of VAT.	MOFE, GDNT, governors	2001-2004
	Exempt commercial banks' loan loss fund from tax.	GOM	2001

Objective	Measures	Responsible agency	Deadline
3. Reform and improve Government expenditure management	Conduct Public Expenditure Review with the assistance of the WB and implement the recommendations resulted from this review and action plan for further implementation.	MOFE	2001-2002
	Develop and implement reform program of the government institutions. To test, introduce a single account system into treasury management.	MOFE	2001-2004
4. Pursue sound monetary and credit policies	Pursue a policy to bring down inflation to the low single digit number.	MOFE, BOM	2001-2004
	Reduce net banking system credit to government to provide adequate room for a healthy expansion of credit to the private sector	MOFE, BOM	2001-2004
	Pursue prudent monetary and regulatory policies to enhance confidence to the banking system	BOM	2001-2004
	Continue to implement a market determined exchange rate system	BOM	2001-2004
5. Build up sound banking and financial sectors	Accelerate structural reform process in the banking system, and begin to privatize state owned commercial banks.	GOM	2001-2004
	Support development of non-bank financial institutions	GOM, BOM	2001-2004
	Undertake measures to make bank services available to rural areas.	BOM	2001-2004
	Broaden insurance coverage and increase accountability of insurance companies.	GOM	2001-2004
	Create favorable environment for development of securities market and expand its scope. Standardize banking restructuring bonds.	GOM, BOM	2001-2004
6. Intensify structural reform	Intensify privatization and privatize most valuable enterprises.	GOM	2001-2004
	The most valuable enterprises intended to be privatized to strategic investors that are capable of improving financial efficiency, introducing new equipment and technology and connecting with new export markets.	GOM	2001-2004

Objective	Measures	Responsible agency	Deadline
	In partnership with private sector train and assist newly privatized companies in transition process	GOM	2001-2004
	Carry out structural adjustment in energy sectors, and shift to the commercial regime gradually. Take measures to decrease the effect of tariff rise for energy and heating on poor people.	GoM	2001-2004
	Pass law on land reforms	GOM	2001-2004
7. Create favorable environment for private sector led growth	In order to provide private sector led growth utilize public and private investment, ODA for communication, transport and other infrastructure sector development.	GOM	2001-2004
	Expand market information dissemination	MOFE, MIT	2001-2004
8. Accomplish a policy towards strengthening the systems of preschool and overall public education, improve educational environment of rural schools, expand scope of technical education and professional training.	Expand a scope of pre-school coverage, with special emphasis on poor families children share increase.	MOSTEC, Governors	2000-2004
	Enroll handicapped children in kindergarten and schools, create an environment that enables them to study with normal children.	MOSTEC, MOSWL, Governors	2000-2004
	Carry out short-term centralized training to prepare children from herders families for school enrollment and develop them.	MOSTEC, Governors	2000-2004
	Refurbish rural schools and student dormitories and resolve heating and energy problems.	MOSTEC, Governors	2001-2004
	Develop and implement a program designed to improve educational opportunities for extreme poor and poor families children. Support, within the program framework, the supply of food, school supplies and uniform to extreme poor and poor family children of pre-school and primary school age.	MOSTEC, MOSWL, Governors	2003-2004
	Carry out training for dropped out children and youngsters, and reduce illiteracy of people.	MOSTEC, Governors	2000-2004
	Expand scope of livelihood improvement, technical skills and professional orientation acquiring training.	MOSTEC, MOSWL, Governors	2001-2004

Objective	Measures	Responsible agency	Deadline
9. Improve accessibility and quality of primary health care more efficiently targeting rural poor and vulnerable groups of population	Revise benefit package and develop primary health care system .	MOH, MOFE, Governors	2001-2004
	Develop essential health package and criteria for Health Insurance Fund.	MOH, MOFE, Governors	2001-2004
	Develop standard protocol at each health facility levels.	MOH, MOFE, Governors	2001-2004
	Prepare master plan for health sector with main focus on soum and maternal hospitals through renovating hospital sites and providing necessary equipment, medical supplies	MOH, Governors	2001-2004
	Develop and implement maternal mortality reduction strategy	MOH, Governors	2001-2004
	Develop and implement national programs on TB, STI, AIDS, EPI and infectious diseases	MOH, Governors	2000-2004
	Establish vaccination fund	MOH, Governors	2001-2004
10. Reduce a number of unemployed through intensive labor promotion policy. Improve a legal base for labor market operation.	Pass the Law on employment, Law on export and import of labor.	MOSWL, MJIA, Governors	2001-2002
	Revise the law on Labor and the law on Unemployment Insurance.	MOSWL, MJIA	2001-2002
	Undertake a training program through Employment regulation office for people from the vulnerable group of population who are not insured by unemployment insurance and remained unemployed for a long period of time.	MOSWL, Governors	2001-2004
	Arrange public works in infrastructure development, environment protection and restoration as well as local needs activities	MOSWL, Governors	2002-2004
	Develop and implement projects for increased employment of disabled people.	MOSWL, National Union of Disabled people	2001-2004
	Improve job opportunities through expanding micro finance	MOAF, MOSWL, governors	2001-2004

Objective	Measures	Responsible agency	Deadline
	Set up training program in conjunction with private sector, especially for employment of privatized SOEs.	SPC, MOSWL, Governors	2001-2004
11. Formulate a new system and legal environment for the efficient provision of social insurance	Examine feasibility of expanding social insurance to self-employed and herders	MOSWL	2001-2004
	Increase pensions from the social security fund in phased manner.	MOSWL, MOFE	2001
	Revise legislation in order to improve accountability of payment of social insurance fee or contribution.	MOSWL	2001-2002
12. Strengthen self-sufficiency of health insurance and rationalize health insurance	Cover all herdsmen, private entrepreneurs, students of the professional skill acquiring schools, and people with low income in the health insurance. Equalize fee rate paid by those people as well as the state. Take measures to rationalize health insurance fund.	MOSWL, MOH	2001
	Equalize the number of participants from the Government, employers and insurers in the health insurance council. Revise the legislation in order to manage and monitor health insurance policy coherently with the social safety issues.	MOSWL, MOH	2001
13. Set definite scope of social care services and improve accessibility, quality and efficiency of the social care service	Improve legal framework for social care; implement project on establishment of training center for social workers who can assist people to overcome social challenges and work with children.	MOSWL, MJIA	2001-2004
	Provide favorable condition that children be raised in their home under parents care	GOM	2001-2004
	Provide children from extreme poor and poor families by dormitory, school supplies, uniform and primary medical service free of charge and insurance. Extend medical treatment, nursing and recovery services to the retired and disabled people.	MOSTEC, MOSWL, MOFE, MOH	2001-2004
14. Expand activities supporting regional	Develop legal basis for investment and industry growth in regions through simplification of customs procedures.	GOM	2001-2004

Objective	Measures	Responsible agency	Deadline
development	Promote small and medium enterprises and services in a compliance with a given region's environmental capacity and population's consumption specificity.	GOM	2001-2004
15. Increase environment protection and restoration activities	Involve poor and low income people in forest rehabilitation, combating desertification and city greening activities in wide range.	MNE, Governors	2001-2004
	Enhance mitigation of damaged land during utilization of natural resources.	MNE, MIT, Governors	2001-2004
	Increase involvement of citizens in raising of rare and endangered species of flora and fauna.	MNE	2001-2004
16. Promote initiatives of local entities and people on rational utilization of natural resources and by-products.	Provide consumption need of wood for fuel and everyday life through proper management of burnt and insect affected forests.	MNE, Governors	2001-2004
	Support households in growing fruits and mushrooms, running apiary and utilizing by-products.	MNE, Governors	2001-2004
	Organize training for citizens to improve their living standard and rationally utilize the natural resources.	MNE, MOSWL, Governors	2001-2004
17. Organize activities to decrease air-pollution, sorting recycling and burying of city wastes.	Support sorting and recycling activities of city wastes and take measures to mobilize unemployed people in these activities.	Governors	2001-2004
	Create temporary jobs through mobilizing unemployed people in burying of wastes.	Governors	2001-2004
	Reduce air pollution through placing filter in the power stations and steam boiler and provide poor families with fuel-efficient stoves	MNE, MOI, Governors	2001-2004
18. Improve natural protection activities and improve living	Improve quality of water sources in rural areas	MNE, MOI, Governors	2001-2004
	Increase number of water sources at the soum level		

Objective	Measures	Responsible agency	Deadline
environment for people			
19. Improve legal basis for environment assessment, undertake measures to protect nature	Amend law on environment assessment Involve state entities in environment impact assessment activities Improve law enforcement supervision	MNE, Governors	2001-2004
20. Expand accessibility of aimag and soum community service	Recover public bath facilities at all aimags and soums.	MOI, Governors	2001-2004
	Develop and implement project on providing poor and homeless people with housing.	MOI, Governors	2003-2004
	Improve fresh water supply for the capital city and aimag centres' people living in Ger community.	MOI, Governors	2001-2004



**Annex: III: Joint Order of the Finance and Economy Minister and Social Welfare, Labor Minister**

Date: October 16, 2000

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Ulaanbaatar

Concerning the Interim Poverty Reduction Strategy Paper development as a component of the Poverty Reduction and Growth Facilities Program to be agreed with the International Monetary Fund:

1. To approve the Technical Working Group, including:

Head:	N.Ayush	Director, Strategic Planning Department, Ministry of Social Welfare and Labor
Members:	D.Baasankhuu	Advisor to the Finance and Economy Minister
	B.Lkhagvasuren	Advisor to the Mongolbank Governor
	D.Tsedenbal	Leader of the Working Group on Social Issues, Ministry of Finance and Economy
	Ts.Bolorchimeg	Officer, Economic Policy and Planning Department, Ministry of Finance and Economy
	S.Onon	Director, National Poverty Alleviation Program Office
	D.Oyunchimeg	Director, Social Statistics Department, National Statistical Office
	Ts.Bumkhorol	Advisor, "Social Safety Network" MON-2978 project
	B.Enkhbat	Executive Director, Consulting Unit

2. To complete and present the Interim Poverty Strategy Paper by October 23 of year 2001.

Finance and Economy

Social Welfare,

MINISTER

Labor Minister

Chulan

Shibatbaya

## **Annex IV: List of I-PRSP Technical Working Group Participants**

### ***Ministry of Finance and Economy***

Mr.J.Jargalsaikhan - Director, Economic Policy and Planning Department  
Ms.D.Baasankhuu - Director, Fiscal Policy and Coordination Department  
Mr.E.Sandagdorj - Deputy Director, Fiscal Policy and Coordination Department  
Mr.D.Byasgalan - Director, Sector Development Policy Coordination Department  
Mr.Ts.Davaasuren - Director, Treasury Management Department  
Ms.O.Enkhariunaa - Deputy Director, Economic Policy and Planning Department

### ***Ministry of Industry and Trade***

Mr. Ch.Ganzorig - Minister, Ministry of Industry and Trade  
Ms.Oyuntsetseg - Director, Trade and International Cooperation Department  
Mr.Badarch, Director  
Mr.V.Enkhbold - Senior Officer

### ***Ministry of Nature and Environment***

Ms.N.Sarantuya - Director, Strategic Planning Department  
Mr.Dashdavaa - Officer  
Ankhmaa - Officer, International Cooperation Department

### ***Ministry of Science, Technology, Education and Culture***

Mr.Batjargal - Deputy Director, Economic, Supervision, Monitoring Department  
Purev-Ochir - Officer  
Myagmarsuren - Officer

### ***Ministry of Infrastructure***

Mr. Batrenchin - Officer, Energy Section  
Ms.Myagmar - Officer, Public utilities  
Ms. Oyunbileg - Officer, Roads, Transport, Information-Communication and Tourism Policy and Coordination Department

### ***Ministry of Health***

Mr.D.Chimeddagva - Director, Strategic Management and Planning Department  
Ms.Erdenechimeg - Head, Planning Division  
Ms.Tsolmon - Officer, Strategic Management and Planning Department

***Ministry of Social Welfare and Labor***

Mr.Zorig - Officer

***Ministry of Food and Agriculture***

Mihtiv - Officer

Boldkhuyg - Officer, Strategic Planning Department

### Annex V: Data gap Filling between I-PRSP and F-PRSP

Title	Time	Executing agency	Possible donor
Household Income and Expenditure Survey	2001-2002	NSO	World Bank, UNDP
Treasury information system improvement	2001-2002	MOFE	
Fiscal Framework Statement	2001-2002	MOFE	ADB
Data on number of employees of budgetary organizations	2001-2002	MOFE	
Information inflow between MOFE and BOM	2001-2002	MOFE, BOM	
Informal sector survey	2001-2002	NSO, MOFE	UNDP
Reconsolidating of fiscal and monetary data	2001-2002	MOFE	
Debt information management	2001-2002	MOFE, BOM	
Final reports of population census - 2000	2001-2002	NSO	
Labor force sample survey	2001-2002	NSO	ADB
Regional development studies	2001-2002	MOFE	
Civil Service Reforms studies / Budgetary Framework / Treasury Reforms	2001-2002	MOFE	ADB, WB
Public Expenditure Review / Public Expenditure Tracking Survey	2001-2002	MOFE	WB
Studies on Privatization of social sector		SPC, MOFE	
Amendments to Health Insurance Law	November, 2001	MOH	
Study on privatization of NIC and energy distribution system on poor	2001-2002	MOFE, MOI	WB
Land reforms	2001-2002	MOFE, MNE	
Licensing easing survey	2001-2002	MIT	
Textile industry studies	2001-2004	MIT	
Business Enterprises Survey	2001-2004	MIT	USAID
General Data Dissemination Survey	2001-2004	NSO	IMF, WB, EU
National Accounts Data	2001-2003	NSO	IMF, WB
Gender Assessment data	2001-2004	MOFE, NGOs, NSO	UNIFEM
Infrastructure Privatization Study	2001-2004	SPS, MOI	WB
Pension reforms	2001-2004	MOSWL	WB
Integration of Equity and Poverty Reduction Concerns into Development Strategy	2001	MOFE, MOSWL	UNDP
Information systems	2001-2002	MOFE, BOM, NSO	

**Annex VI: Road Map for Development of the Poverty Reduction Strategy Paper (PRSP)**

	Activity	Responsible agency & participants	Time	Expected outcomes
1	Establish a technical working group, headed by Mr. Ch.Ulaan, Mr. Shi.Batbayar	MOFE MOSWL	October, 2000	Technical working group established
2	Deliver a draft of I-PRSP to the World Bank	MOFE, Working group	26.10.2000	First draft of I-PRSP produced
3	Revise draft of I-PRSP in accordance to the World Bank comments	MOFE, Working group	November, 2000	Revised draft of I-PRSP produced
4	Revise of I-PRSP incorporating the WB and other international agencies, donor countries comments	MOFE, Working group	November, 2000 - May 2001	Revised draft of I-PRSP produced
5	Conduct seminar on results of the Participatory Living Standards Assessment	NSO, Government agencies, NGO, donors	December, 2000	Workshop organized and PLS Report discussed
6	Organize meeting with representative s of civil society on participation in PRSP formulation process	WB, MOFE	December, 2000	Meeting organized, main guidelines for I-PRSP formulation discussed
7	Participate in Regional and National Development Debate	WB, Soros Foundation, Government, NGO, donors, media	February - April, 2001	Meeting participation, paper on development (with web site presentation), video prepared
8	Present I-PRSP to the Cabinet for discussion	MOFE, Working group	April, 2001	Discussions at the Cabinet, comments on I-PRSP presented
9	Revise I-PRSP based on Cabinet meeting comments	MOFE	May, 2001	Revised draft prepared
10	Present I-PRSP at the CG meeting	GOM, Minister	May, 2001	Briefing on CG meeting made
11	Discuss I-PRSP and disseminate to Ministries, WB, IMF, other international agencies, donor countries, NGO comments, complete I-PRSP	MOFE, Working group	May - June, 2001	Ministries signing on I-PRSP sections
12	Submit I-PRSP to the Wold Bank and IMF mission	MOFE	June, 2001	Approval of I-PRSP, PRGF
13	Publish I-PRSP and disseminate through organization of regional workshops	MOFE	August, 2001	Dissemination to civil society
14	Brief about I-PRSP at the Parliament	MOFE	October, 2001	Comments presented

15	Set up working groups		August 2001	Working groups set up and TOR approved
	• Coordination committee			
	• Intra-sector working group			
	• Working unit on macroeconomic issues			
	• Working unit on social issues			
	• Working unit on legal, governance, participation issues			
16	Draft work plans for working groups and adopt	Coordination committee, working groups	August, 2001	Work plans approved
17	Workshop on poverty by topics and open discussions among civil society: • From I-PRSP to F-PRSP	Coordination committee, working groups	September, 2001	Discussion on I-PRSP, differences between I-PRSP and F-PRSP
	• Sustainable Human development • Women and women with many children • Herders • Youth and children • Unemployed • Local governors • Specific groups / disabled persons • Universities/ higher educational institutions • Private sector Trade Unions	NGOs	October, 2001	Discussion how to prioritize strategy issues, priority issues for social sector components determined  Summary of suggestions and proposals presented to the GOM
18	Conduct Household Income and Expenditure Survey with LSMS module (release primary results by January 2002)	NSO	July 2002	Reports produced
19	Conduct public campaigns on PRSP			
	• TV program on PRSP	Inter-sectoral working group, Coordination committee	Oct, December, 2001 June, 2002	TV programs conducted
	• Radio program and discussions	Inter-sectoral working group, Coordination committee	Oct, December, 2001 June, 2002	Radio programs broadcasted
	• Radio distance training on development of poverty issues	Working groups, NGOs	December, 2001	Trainings conducted

20	Organize meetings with stakeholders on data gap and discussion on possible ways to address	Intra-sector working group, working units, civil society representatives	October, 2001	Review of schedule surveys and outcomes and agencies to be involved
21	Complete PER, discuss results and disseminate report to relevant bodies	PER working group	October 2001	Recommendations and plan of further actions
22	Conduct debate on Poverty and Economic growth	Macroeconomic and Social sector Working groups	November, 2001	Debate organized and summary of discussions
23	Hold meetings with various stakeholders (government, NGOs, business community) about progress of PRSP formulation,	Intra-sector working group, working units, donor, civil society, business community representatives	December, 2001	Recommendations and summary of discussions prepared, next steps and actions agreed
24	Organize donors meeting on Energy sector restructuring	Government, donors and civil society	December 2001	Meeting held , proposal for energy sector restructuring prepared
25	Produce NGO policy paper on Poverty	NGOs	December, 2002	Policy Paper
26	Produce 1 <sup>st</sup> draft of PRSP	Intra-sectoral working group	January, 2002	1 <sup>st</sup> draft of PRSP produced
27	Discuss about the 1 <sup>st</sup> draft PRSP with key stakeholders	Intra-sectoral working group, donor, civil society, business community representatives	February, 2002	Summary of comments
28	Revise PRSP based on comments	Intra-sectoral working group	March, 2002	Revised draft of PRSP produced
29	Organize donors meeting on Poverty	Government, donors, NGOs	March, 2002	Meeting held, commitments
30	Revise iteratively PRSP based on comments	Intra-sector working group	April - August, 2002	Revised PRSP draft prepared
31	Organize series of regional consultative meetings on PRSP: <ul style="list-style-type: none"> <li>• Western</li> <li>• Eastern</li> <li>• Central</li> <li>• Steppe</li> </ul>	Intra-sector working group, donor, civil society, business community representatives, governors	April - May, 2002	Comments and recommendations on PRSP

	• UB			
32	Prepare revised draft of PRSP	Intra-sector working group	June, 2002	Revised PRSP draft prepared
33	Submit PRSP to donors and discuss potential projects	GOM, WB, donors, NGOs	June, 2002	Presentation of program and project proposals
34	Organize National Consultative Meeting	Intra-sector working group, donor, civil society, business community representatives, governors	June, 2002	Discussion about F-PRSP document draft, recommendations produced, possible donors or other sources of financing proposed
35	Organize Intra-ministerial discussion	Intra-sector working group	June, 2002	Comments on revised draft provided
36	Complete PRSP	Intra-sector working group	June, 2002	Final document prepared
37	Present to the Cabinet PRSP for discussion	MOFE	July, 2002	Comments received
38	Revise PRSP based on Ministers' comments	Intra-sector working group	July, 2002	Document finalized
39	Submit to the World Bank/ IMF mission	GOM	August, 2002	Document sent
40	Present to the WB/IMF Board Meeting	Mission	September, 2002	PRSP approved
41	Discuss and approve PRSP by the Parliament	GOM	September, 2002	Approval resolutions passed
42	Publish and disseminate F-PRSP	Intra-sector working group	October, 2002	Published final document

Note:

- The above mentioned activities are tentatively planned.
- Estimated cost is US\$ 300 thousand.
- Detailed information and financial estimation will be available on request.