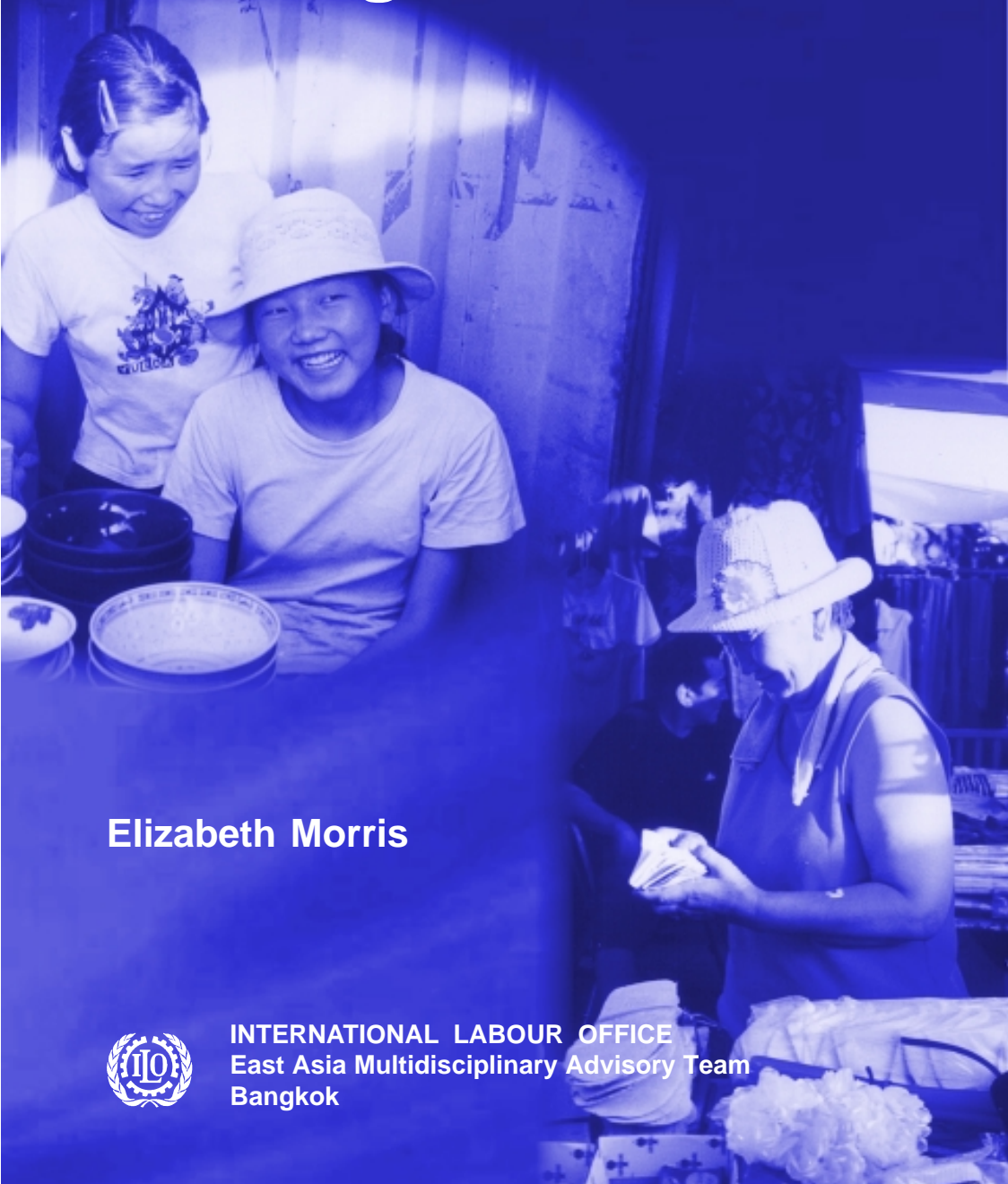


# The informal sector in Mongolia



Elizabeth Morris



INTERNATIONAL LABOUR OFFICE  
East Asia Multidisciplinary Advisory Team  
Bangkok

# **The informal sector in Mongolia: Profiles, needs, and strategies**

**By Elizabeth Morris**

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**International Labour Office  
East Asia Multidisciplinary Advisory Team  
Bangkok**

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## Preface

The informal sector has burgeoned under a process of privatization and “deformalization” that has accompanied the transition to a market economy in Mongolia. Changes in trading patterns and economic assistance along with movement from a command economy towards a market system brought a period of restructuring and adjustment. Mongolia’s development during the 1990s witnessed a sharp contraction in manufacturing production. This has resulted in large numbers of redundant workers in the formal sector. Women and men who were formerly secure in government enterprise and public service have become unemployed and underemployed. New employment opportunities are largely limited to livestock herding and the informal sector.

This study updates and extends earlier research on the informal sector in Mongolia and draws on the experience and expertise of the ILO in conducting research and identifying policies for the informal sector. Several methodologies for statistical measurement were beyond the scope of this project. It was nevertheless thought that examining informal sector characteristics, challenges, and opportunities would lead to useful suggestions for further investigation and policy initiatives. This Support for Policy and Programme Development (SPPD) Project has assessed the situation of informal sector workers with a view to developing viable strategies for promoting employment, generating income, and alleviating poverty. The project was designed to provide an analysis of the informal sector, make recommendations for identifying and measuring informal activities, and set priorities for policy intervention focusing on the significant contribution of women’s work. At the request of the ILO Area Office in Beijing, the ILO East Asia Multidisciplinary Advisory Team (ILO EASMAT) based in Bangkok carried out the technical backstopping for the project.

This report is based on information obtained from secondary research, key informants, case studies, and focus groups. The work was carried out with the support of the United Nations Development Programme (UNDP) and assistance from the National Statistical Office (NSO) in Ulaanbaatar. The field research was coordinated by Professor Endre Sik. Two national consultants, Erdenchimeg Tsedev and Sambuu Tsengelmaa, assisted with case studies, focus groups, and gender issues. Robert Pember assessed statistical information for the informal sector. The final report was written by Elizabeth Morris.

Ian Chambers  
Director  
ILO Bangkok Area Office and East Asia Multidisciplinary Advisory Team  
ILO BAO/EASMAT  
Bangkok



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## Executive summary

The collapse of the former Soviet Union marked the beginning of a transition era for the Mongolian economy. Changes in trading patterns and economic assistance along with movement from a command economy towards a market system brought a period of restructuring and adjustment. Mongolia's development during the 1990s concentrated on mining activities, animal husbandry, and the service sector with a sharp contraction of other sectors and a virtual collapse of manufacturing production. This has had extremely serious implications for employment creation, income generation, and human resources. Despite a highly educated population, unemployment and underemployment are rampant. There has been a rapid rise in poverty. New employment opportunities are largely limited to livestock herding and the informal sector.

This study is a follow-up to earlier research on the informal sector in Mongolia and draws on the experience and expertise of the ILO in conducting research and identifying policies for the informal sector. Several methodologies for statistical measurement were beyond the scope of this project. It was nevertheless thought that examining informal sector characteristics, challenges, and opportunities would lead to useful suggestions for further investigation and policy initiatives. The study includes four sources of information: secondary research, key informants, case studies, and focus groups.

Previous research did not employ international standards for the informal sector, but instead used occupational classifications developed by the tax authorities as a sampling frame. Thus, it is not possible to know about unregistered enterprises. Furthermore, studies conducted by the World Bank, USAID EPSP, and the NSO/UNDP have produced different estimates for the measured size of the informal sector in the capital city and other areas. The Population and Housing Census 2000 will provide additional statistics, but these data are not available at this writing. The widely divergent estimates from these informal sector studies cannot be used to make comparisons or identify trends.

What do we know, then, about the informal economy in urban Mongolia? Despite some significant differences in the estimated size, it is clear that the informal sector is playing an important role in the transition economy. Among other things, it is absorbing redundant workers, cyclically unemployed, new entrants, and "additional workers". Informal sector growth results from downsizing and privatizing state-owned enterprises, structural change of economic production, shifts in effective demand for consumer goods, and migration from rural areas to *aimag* centres and the capital city.

Many are middle-aged workers laid off from the formal sector and young workers just entering the labour force. Women predominate in all sectors of the informal

economy outside of transport services. Compared with registered jobseekers the informal sector workers are highly educated. Perhaps this is because there are no other opportunities to earn a family income or supplement low wages. Or it may suggest that ambitious entrepreneurs are taking advantage of profitable activities that do not require previous experience and bank loans. The answer is probably both. The informal sector offers a survival strategy and a business opportunity: it represents a livelihood or a micro-enterprise.

According to information from key informants and case studies, informal sector workers face several obstacles. One is the absence of an enabling business environment. Laws and regulations for licensing and permits make them difficult and costly to obtain. There is a “grey” area between legality and illegality that includes official and unofficial payments to health inspectors, market-place administrators, tax collectors, and customs police. Tax payments and customs duties are perceived by many workers to be either barely manageable or clearly impossible. Taxes are paid as a flat fee designed to facilitate payment and collection, but the incidence is regressive given the wide range of incomes earned: workers with low earnings end up paying a larger portion of income than workers with high earnings.

Discussions with informal sector workers point to advantages that could be obtained by forming self-help organizations or organizing trade unions. Benefits would include joint efforts to create awareness, increase transparency, reduce corruption, and solve problems. The workers expressed a need for joint action to voice common concerns.

Studies of the informal sector point to a lack of resources. Finance and credit are key issues. Most operators rely on their own or family savings. A few borrow from individuals, pawnshops, or banks. Other sources of start-up capital are revolving credit, the “suitcase trade”, and overseas remittances. Discussions of loans made under the poverty-alleviation programme pointed to areas for improvement. There is a demand for more flexible terms for loans – collateral, size, and repayment. A few workers mentioned the importance of new technologies, raw materials, and capital equipment for increasing enterprise productivity and meeting market demand. Most seem to have adequate vocational training, accounting practices, pricing policies, and business ideas, but these could benefit from support services.

Workers interviewed in Ulaanbaatar, Khentii, and Zavkhan show a remarkable ability to survive in a market economy. They have developed strategies to deal with risk and uncertainty. These are associated with production methods, multiple activities, diversified products, product differentiation, business location, seasonal jobs, networking arrangements, and revolving credit. Informal sector workers have been able to organize resources and to market products that meet the changing demands of a transition economy. In addition, many have improved business practices without formal training.

For some, the beginning course in micro-enterprise development was the “suitcase *ganzaga* trade”<sup>1</sup> with China, the Russian Federation, or the Republic of Korea.

Some of the women and men interviewed did not see the benefits of measures designed to improve safety and health in the workplace. Yet most complained about the working conditions. Open markets, in particular, are unpleasant, unsanitary, and unsafe. Many of the workers are concerned about insurance for pensions and health. While a high priority has been given to social security in the transition economy, much remains to be done to extend what is now non-compulsory coverage to self-employed persons and informal sector workers. In addition to adapting existing programmes, it may be useful to develop new schemes for the informal sector and provide social assistance for target groups.

Women have traditionally played an active role in the Mongolian economy. This has been reflected in impressive levels of educational attainment and high rates of labour force participation. The transition has posed a burden on women. These include lack of childcare facilities and vulnerabilities of older workers as well as additional time spent in unpaid work and family responsibilities. Joblessness and alcoholism have resulted in new family problems and high divorce rates. The number of female-headed households has increased. Women have less access than men to loans. Many do not hold titles to land and property that have been issued in the transition to private ownership. In addition to a review of loans from non-banking and banking institutions, the focus groups of women working in the informal sector recommended that efforts be made through advocacy, laws, and regulations to ensure that Mongolia moves toward non-discrimination in all workplaces. The urgent need to extend social protection to the informal sector was also identified. Finally, the focus groups pointed to the need for appropriate vocational education tied to labour market demands. Many of the women had attained high education levels for which there is no effective demand.

Several factors contributed to increasing school drop-outs and declining school entrants during the early years of economic transition. These include privatized herds and increased poverty combined with substantial cuts in social expenditures. Child labour in the informal sector has been growing. A primary concern is children who live and work without the supervision of adults – generally with little protection and for low pay. Many children work as scavengers in dumpsites or on streets and in markets engaged in petty trade, shoe shining, car washing, house cleaning, and porter services. Street children represent a special group.

The time has come to provide better information about the labour force in Mongolia. While more can be learned through statistical analysis of existing data, it is

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<sup>1</sup> *Ganzaga* means “saddlebag” in Mongolian.

recommended that the National Statistical Office conduct a household-based labour force survey (LFS) with specific questions that will enable users to study the informal sector. Special informal sector surveys (ISS) can be introduced at a later date. In addition to representative sample surveys of the labour force, it will be useful to conduct smaller surveys for specific target groups including street children.

Policy initiatives should not wait for additional research. Given the importance of the informal sector in providing employment and income in urban areas together with the need to act quickly before unproductive attitudes develop or a “black” economy emerges, it will be necessary to begin right away to build policy frameworks for important aspects of the informal economy. High priority should be accorded to developing policy frameworks for:

- Business environment including policy, administrative, infrastructure, and sociocultural environments
- Microfinance including mutual savings and credit schemes and
- Social protection including working conditions and social security.

It is recommended that focus groups be organized for key stakeholders to identify how policies for the business environment, microfinance, and social protection can be made more responsive to the needs of the informal economy. These discussions should bring together relevant government officials, informal sector workers, and non-governmental organizations. Representatives of the Mongolian Employers’ Federation (MONEF) and the Confederation of Mongolian Trade Unions (CMTU) should also participate. There are certain aspects of informal activities that appear to be specific to Mongolia. The very large number of informal sector activities registered with government tax authorities is fairly unusual. Another striking characteristic is the high level of educational attainment. In addition, the informal sector is a fairly new phenomenon unlike traditional Asian bazaars. Some observers point out that Mongolia differs from other economies in transition in that a “second economy” did not exist under the command economy. Unlike some post-communist societies there does not appear to be a legacy of non-compliant behaviour and destructive entrepreneurship. Despite these differences, the diverse nature and growing importance of informal activities are quite typical. For this reason it has been suggested that ILO approaches be used to develop an integrated strategy that will eventually incorporate better labour statistics and improved policy frameworks. These ILO approaches include:

- Incorporating strategies for employment promotion, job creation, and the informal sector into development plans and macroeconomic policies
- Reforming policies and institutions to make them more responsive to the needs of the informal sector such as Community-Based Training (CBT) for employment promotion and income generation and to remove or reduce supply constraints for credit, education, training, technologies, equipment, and markets

- Developing and promoting statistical definitions and methodologies that enable the Government to collect data on the informal sector for labour market analysis and national income accounts that are internationally comparable and conducting a labour force survey (LFS) and an informal sector survey (ISS)
- Promoting and strengthening organizations and networks among entrepreneurs and workers in the informal sector, alliances with employers' organizations and trade unions, and links with support institutions
- Promoting mutual savings and credit schemes and making other financial services accessible to informal sector workers – especially women
- Developing practical, low-cost methods to improve safety and health conditions and
- Expanding social insurance through reforms in formal social security systems and strengthening non-conventional grass-roots social insurance schemes.

All of these should be developed in collaboration with key stakeholders including employers and workers.



# 1 Introduction

Despite some significant differences in the estimated size of the informal sector, it is clearly playing an important role in the transition economy by absorbing redundant workers, cyclically unemployed, new entrants, and “additional workers”. Growth of the informal sector results from reduction in public expenditure, downsizing of state enterprises, cutbacks in the civil service, changes in economic output, and migration to urban areas. The sector is characterized by ease of entry because of lower non-wage costs, more available premises, fewer bureaucratic procedures, and self-finance possibilities. It provides moonlighting opportunities for formal sector employees suffering from reduced real wages. In addition, it absorbs a large proportion of young people who are leaving school and seeking work. Together with livestock herding the informal sector has served as a “safety net” in providing employment opportunities and basic livelihoods.

This study follows up on earlier research on the informal sector in Mongolia. It draws on the experience and expertise of the ILO in conducting research and identifying policies for the informal sector. Several methodologies for statistical measurement were beyond the project budget. Thus, research was not undertaken to obtain new measures for the informal sector. It was nevertheless thought that an examination of informal sector characteristics, challenges, and opportunities would lead to useful suggestions for further investigation and policy initiatives. The study draws on four sources of information: secondary research, key informants, case studies, and focus groups.





## 2 Research methodology

### 2.1 Sources of information

#### *Secondary research*

The secondary research conducted by an international consultant and two national consultants in Mongolia was less extensive than originally planned because the research activities were conducted over an interim period between two governments and during a national holiday. However, several previous studies on informal sector activities were used to provide a quantitative framework for qualitative information collected for this research project. These are discussed below.

#### *Key informants*

Expert interviews were carried out to learn more about the opinions, motivations, assumptions, and attitudes of key players. An “interview outline” was developed based on previous surveys and policy papers for the informal sector.<sup>1</sup> Twelve key informants were selected from a list of government officials, international organizations, and other stakeholders using suggestions from key actors on policy issues. While the number of interviews was not large, the content was extensive.

#### *Case studies*

The principal source of information about the behaviour of households and entrepreneurs in the informal sector was case studies. Since the research method was not a statistical survey that could conform to international standards developed for the informal sector, the individual interviews were meant to provide in-depth information about the “soft” elements of economic activity such as motivations, context, expectations, and perceptions. The object was to provide an opportunity for women and men to tell their own stories in their own words.

The design of the research aimed at providing information about a diverse selection of informal activities. It used the official list of informal occupations prepared by Mongolian authorities as a starting point and covered selected businesses in the capital city of Ulaanbaatar and two *aimag* centres – Khentii in the eastern region and Zavkhan in the western region. Official statistics for 1999 indicate that these *aimags* both had unemployment rates above the national average of 4.6 per cent – 6.2 per cent and 6.7 per cent, respectively (UNDP 2000, p. 56). Equal numbers of women and men were interviewed. Within Ulaanbaatar the tent districts or *ger* areas on the city outskirts were

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<sup>1</sup> This is included in an annex to this report.

omitted, as these are not profitable locations for small businesses. However, geographical coverage of case studies included all districts in the inner city. In some cases the categories of occupations on the list prepared by the Government are broad. For example, petty trade covers a wide range of informal activities.<sup>2</sup> The important differences in trading activities with regard to financial capital and value added are noted in the literature on informal sector activities. (See, for example, Braudel, 1979; Smart, 1989; Czako-Sik, 1999 and Sik-Wallace, 1999; cited in Sik, 2000.) Petty trade was divided into four categories for selection purposes. These were based on location: kiosks, counters, open-air market-places, and street vending. Moreover, the target groups were limited to those selling newspapers, furniture, firewood, and spare car parts. While there are other sources of diversity, the number of cases was too small to explore these dimensions. Following international standards, the working definition excluded agricultural work, livestock herding, and illegal activities. The production, employment, and income of herding communities should be accorded the highest priority for employment promotion. However, research and policies for livestock herding require special expertise that warrants separate consideration and different approaches from the informal sector.

The fieldwork was conducted by trained interviewers in August 2000. Written reports were monitored and evaluated daily. A special premium was offered for high quality. The work followed an interview outline designed to discourage standardized answers and to elicit open-ended responses on relevant topics.<sup>3</sup> Interviews were summarized in English. The interview summaries were then rechecked against the handwritten originals in Mongolian language. Final edited revisions were then prepared for seventy case studies.<sup>4</sup>

### ***Focus groups***

The primary objective of the focus groups was to provide an opportunity for participants to exchange their experience, ideas, and suggestions for the informal sector with special attention paid to gender concerns. Meetings were organized in August 2000 for four groups of workers from the informal sector in Ulaanbaatar.

## **2.2 Concepts and definitions**

### ***International standards***

Measuring the characteristics and activities of the informal sector is difficult. Hussmans (1998) explains, "Because of its nature the informal sector does not easily

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<sup>2</sup> According to a spokesperson for the Ministry of Finance this is because some vendors sell a wide variety of items.

<sup>3</sup> The outline is attached in an annex to this report.

<sup>4</sup> A selected sample of ten cases is included in an annex to this report.

lend itself to statistical measurement. Due to the diversity of activities and modes of operation to which it refers, the concept of the informal sector as such is not very clear-cut. Accordingly, it is difficult to define the informal sector precisely in terms of statistical units and operational criteria, and to specify its scope and composition. Moreover, the large number of units to be surveyed and their characteristics (small size, high mobility and turnover, seasonal variations in business activity, clustering in specific areas, lack of recognizable features for identification/location, lack of usable records, possible reluctance to survey participation, etc.) require modification in traditional survey methods or the development of new methods.” It is nevertheless important to measure the informal sector. Some of the reasons are outlined in Box 1.

International standards have been established to provide more comparable statistics for the informal sector. In 1993 the 15<sup>th</sup> International Conference of Labour Statisticians (ICLS) adopted a resolution on measuring employment in the informal sector using a definition that is consistent with the revised System of National Accounts (SNA 1993) adopted by the United Nations Economic and Social Council. A number of methods have been identified for obtaining employment statistics. The selection of an approach depends on the measurement objectives. Methods include household surveys, establishment surveys, mixed household and enterprise surveys, independent informal sector surveys, informal sector modules attached to household surveys, and integrated surveys.

### ***Working definition***

In broad terms, international standards define the informal sector as comprising enterprises which:

*Are owned and operated by households:* Enterprises which are public companies (“incorporated”) and those which operate financial accounting systems similar to public companies (“quasi-corporations”) are excluded.

*Have few regular paid employees:* A distinction is made between informal sector enterprises with no regular paid employees (“informal own-account enterprises”) and those with one or more regular paid employees (“enterprises of informal employers”). Household-operated enterprises with more than a specified number of regular paid employees may be excluded depending on national circumstances. For example, in some countries the cut-off point might be five or more employees or ten or more employees.

*Are not registered:* In some countries the operational definition also refers to whether the enterprise is registered or whether its employees are registered. However, this information is not always known to respondents in household surveys.

### Box 1. Importance of measurement

An ILO report explains that, “In the past, the informal sector used to be largely ignored by official statistics; informal sector activities were either omitted from the existing statistics or, if captured, not identified separately. Little need was felt to collect data on informal sector activities because the development strategies pursued were mainly oriented towards modern, large-scale enterprises, and the informal sector was considered a transient phenomenon that would dwindle away in the near future as jobs were created through the growth of the modern, formal sector. However, during the past decade economic recession, adjustment policies and continued high rates of urbanisation and population growth have led to an unprecedented expansion of the informal sector in many countries, as modern sector enterprises, and especially the public sector, were obliged to release workers or reduce wages drastically. In some countries, it was in fact only the informal sector which absorbed the labour force and kept the economy going, while the large, modern enterprises producing goods which require relatively capital-intensive technologies imported from the industrialised countries reeled under the downturn. Moreover, the process of industrial restructuring in the formal sector led to a greater decentralisation of pro-

duction through subcontracting to small enterprises, many of them in the informal sector. According to rough estimates, the informal sector now accounts for up to 40, 55 and 70 per cent of total urban or non-agricultural employment in Latin American, Asian and African countries respectively. Its contribution to the gross domestic product is usually lower but far too high to be negligible. There is every reason to believe that a large and probably increasing segment of the labour force in many countries will be engaged in the informal sector for many years to come, and that the informal sector will remain an important and probably expanding part of the national economies. It is therefore increasingly recognised by researchers and policy-makers that the informal sector can no longer be ignored and that it needs to be integrated, in one way or the other, into the overall development process. Informal sector employment is a necessary survival strategy for the population in countries which lack social safety nets such as unemployment insurance, or where wages (especially in the public sector) and pensions are too low to cover the cost of living. In such situations, traditional indicators (such as the unemployment rate and visible underemployment) are insufficient to describe the labour market situation.”

Source: Ralf Hussmans, “Developments in the design and implementation of informal sector and similar surveys: A review of national practices and experiences,” Room Document, 16<sup>th</sup> International Conference of Labour Statisticians, Geneva, October 1998.

*Are non-agricultural:* For practical purposes, household enterprises engaged in agricultural activities are generally excluded from the informal sector. Some countries also exclude paid domestic staff (maids, gardeners, drivers).

Household enterprises located in *both urban and rural areas* should be included, but some countries restrict the scope to urban informal enterprises only (Pember, 2000b).

### ***Three informal sector categories from trade unions***

Despite the adoption of international standards for statistical purposes, other methods have been developed to define and classify the activities and participants in the informal sector. Trade unions have shown a keen interest in the informal sector during recent years. During an international symposium of trade unions held in October 1999 arrangements for production and employment were placed in three broad categories: “(i) owner-employers of micro-enterprises, which employ a few paid workers, with or without apprentices; (ii) own-account workers, who own and operate one-person businesses, who work alone or with the help of unpaid workers, generally family members and apprentices; (iii) dependent workers, paid or unpaid, including wage workers in micro-enterprises, unpaid family workers, apprentices, contract labour, home workers and paid domestic workers. Within each of these main groups, further important variations can be found. Own-account workers differ with respect to their relations with the market and with the means of production; for example, independent small shop owners and market stall operators compared to street hawkers, tricycle and pedicab drivers who own their own vehicle compared to others who lease vehicles from the owner for a daily fee (ILO, 2000a).” These distinctions are of obvious importance for trade unions. One union member pointed out that in setting up an informal transportation service in Ulaanbaatar, there may not be a clear distinction between the driver and the employees. However, their interests will eventually diverge.<sup>5</sup>

### ***Mongolian classifications***

For tax purposes the Mongolian Government has distinguished informal activities from the formal sector. The basis for classification is that it is difficult to determine the amount of income earned in the informal economy. Therefore, a flat tax is applied to different categories. A list that included 32 occupations in 1993 was extended to 38 activities in 1997.<sup>6</sup> The 1997 list contains a wide range of goods and services including manufacturing, transport, trade, repair, traditional medicine, and currency exchange. The taxes and assessments are based on observations of tax inspectors. Revisions to the law are made by the Ministry of Finance after consultations with other government ministries. An amendment was proposed for November 2000.<sup>7</sup>

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<sup>5</sup> Interview with C. Narmandakh, vice president, Confederation of Mongolian Trade Unions (CMTU).

<sup>6</sup> According to the National Tax Office, a list of seven items was issued by the Government in 1988: transport; photography; repair of home appliances, televisions, and radios; typing; hairdressing; watch repair; and gold and silver smiths along with producers of souvenirs and toys.

<sup>7</sup> The lists and rates are attached in annexes to this report. Apparently the first four items on the 1993 list are considered one activity.

The tax list does not conform to international standards for measuring the informal sector. However, two studies of the informal sector in Mongolia have used the government list and similar concepts. Research undertaken with World Bank support in 1997 applied a definition that combines the characteristics of the informal sector and micro-enterprises: “The informal sector consists of small scale, usually family-based, economic activities that may be undercounted by official statistics, and may not be subject, in practice, to the same set of regulations and taxation as formal enterprises.” A survey conducted in 1999 by the USAID Employment Policy Support Project adopted the same definition.

A working definition of the informal sector in Mongolia must take into account the fact that large numbers of informal businesses are registered taxpayers. It is believed that many enterprises that fit the international definition of the informal sector in other ways are registered with the tax authorities. However, without a household survey it is not possible to state accurately the percentage of total enterprises in the informal sector that are registered with the tax authorities.

### 3 Previous studies and potential sources

*World Bank report:* Anderson conducted a study in 1997 on the informal economy in Ulaanbaatar using an “eclectic approach” with data from a number of sources: qualitative interviews with key informants; a sample survey of 770 informal operators including kiosks, taxicabs, and “street informals” from three markets – the Black Market, the Technical Market, and the Kharkhorin Market; sample surveys conducted by the National Statistical Office; and laws and regulations related to taxation, labour, and social insurance (Anderson, 1998, p. 6). The sample survey covered 245 kiosks, 309 taxicabs, and 217 market vendors and street informals.

The Anderson report estimates from these data sources that there were between 105,000 and 130,000 women and men working in the informal sector in Ulaanbaatar in 1997. It is unclear whether this measure refers to a selected number of informal occupations or if it includes all activities in the informal economy. Using various methods to measure employment, Anderson’s study suggests that about one-third of the workforce is engaged in informal activities.

*ILO report prepared under UNDP Support for Policy and Programme Development (SPPD):* A 1999 report on growth, employment, and training in Mongolia executed by the ILO uses several indirect methods to estimate the size of the informal sector. Measured by type of organization 57 per cent of the workforce is employed outside of “formal” organizations: public sector enterprises, limited liability companies, and cooperatives. If those working in places not covered by the census of establishments are counted, then 72 per cent of employed persons are in the informal sector. These estimates are used to divide the employed population into the formal and informal sectors. They do not measure those who are counted as “not employed” but who are actually working in informal activities (ILO, 1999).

*USAID Employment Policy Support Project (EPSP):* During 1999 the USAID Employment Policy Support Project (EPSP) working together with the National Statistical Office and the Ministry of Finance conducted a large survey of selected informal sector enterprises in Ulaanbaatar, Orkhon, Uvs, Zavkhan, Arkhangai, Khentii, and Dornogobi. The survey covered seventeen activities in four sectors: retail trade (kiosks, counters, chemists, containers); financial services (pawnshops and money changers); transport (taxis, trucks, minibuses, and garages); services (cobblers, canteens, barbershops, games, home-cooked meals), and manufacturing (baked goods and soft drinks). The aims of the study were to: estimate the size of the value added for the informal sector to supplement official national income statistics that do not capture it; assess the social impact of this sector by examining the number of people who work in it and who are supported by it; study the characteristics of informal businesses and their workers and gain insights into the reasons



for the rapid growth of the informal sector as perceived by observers; and learn about the financial, legal, and other obstacles faced by informal enterprises. The sample included 4,042 informal entities (Bikales *et al.*, 2000, p. 1).

The EPSP study did not aim to cover all informal sector activities. The survey was designed, instead, to include activities identified *a priori* by the project. There was no estimate made for the omitted activities. In addition, the research provides only limited information on the earnings, hours, and conditions of work of those employed in the informal sector, and there was no separate analysis for different categories of the employed. It would have been useful if the survey had separately estimated the number, characteristics, and conditions of work for each category of worker – the paid employees in the informal sector, the informal sector employers, those who worked independently without employees, and contributing family members. This may not have been possible with the small number of observations. Despite these limitations in scope and detail, the survey is a useful update of the 1997 Anderson study (Pember, 2000b).

The EPSP survey estimated that in 1999 there were 60,283 persons employed in the selected activities in Mongolia (47,000 in Ulaanbaatar and 13,200 in the *aimags*). These statistics are reported in a table entitled “Informal Sector Employees 1999”. However, in the context of the report it would seem that the table relates to total employment in the selected informal sector activities, including the informal sector business operators, family members working in the business, and any paid employees of the business (Pember, 2000b). In addition, it is based on a limited selection of informal sector activities.

*NSO/UNDP Time-Use Survey (TUS)*: A pilot test for a time-use survey was conducted in April and May 2000 to obtain data for national accounting purposes as well as to determine any inequality in paid and unpaid work, the labour force participation of women and children, and the size of the informal sector. The sample of 1,086 households and 2,753 individuals in seven *aimags* and Ulaanbaatar was not meant to be representative of the whole country. Two sources of data include interviews and diaries. The concept used for the informal sector was not consistent with international standards. Box 2 gives classifications of the informal activities for the time-use survey. Paid employees engaged by self-employed operators were not included. Following international standards, farmers and herders were also excluded from definition of the informal sector. According to the time-use survey data, the percentage of employed persons in the informal sector is larger for urban areas (25.2 per cent) than for rural areas (8.5 per cent). The time-use data indicate that 26.9 per cent of those employed in Ulaanbaatar worked in the informal economy (Pember, 2000b).

*NSO/UNDP Living Standards Measurement Survey (LSMS) 1998*: The survey covering the year prior to June 1998 included questions on employment in businesses belonging to respondents. While the published survey report does not include any analysis of

### **Box 2. Activity classifications for informal activities included in the NSO/UNDP Time-Use Survey (TUS)**

The following types of work modified for Mongolia from the United Nations Classification of Activities for Time-use Statistics are included in the informal sector:

#### **Employment for establishments**

#### **Other primary production activities**

- Hunting, fishing, gathering wild products
- Digging, stone cutting, splitting and carving
- Sales and purchases and related activities
- Travel related to other primary production activities
- Other primary production related activities

#### **Services for income and other production of goods not for establishments**

- Food processing and preservation activities
- Preparing and selling food and beverages
- Making and selling textile, leather, and related crafts
- Building and extension of dwellings
- Petty trading, street trading, door-to-door vending, shoe cleaning, and others
- Fitting, installing, tool setting, maintaining, and repairing tools and machinery
- Provision services for income
- Travel related to services and other production activities
- Other services and production-related activities

Source: NSO/UNDP: *A pilot time use survey 2000*, MON (97), Ulaanbaatar 2000, pp. 49-50.

data obtained in response to these questions, more might be learned about the informal sector through direct access to the survey data.

*Administrative records under the informal sector tax law:* As part of this project attempts were made to obtain data from the city tax authorities about taxpayers registered in one of the 38 “informal sector” activities under the tax law. However, these statistics were not made available for this study. These data could be compiled and published to provide more information by sex, district, and type of activity.

*Population and Housing Census 2000:* The Population and Housing Census 2000 obtained data on the employed population by status in employment. It, therefore, separately identified the self-employed and contributing family members and gathered information on age, sex, location, education, occupation, and industry. Final results of the census are not available at this writing. While the data will not separately identify employers and employees in the informal sector, the census should throw more light on Mongolia’s informal sector.



## 4 Background

### 4.1 Geopolitical setting

The development of Mongolia is influenced by its geopolitical situation characterized by the enormous area of the country and the small size of the population, a substantial dependence on world prices of natural resources, and its landlocked position sandwiched between two superpowers (Sik, 2000). Mongolia is located in the centre of Asia, between the Russian Federation to the north and China to the east, south, and west. It is a large country of 1,566,460 square kilometres consisting of several distinctive geographic zones. The west and the north are mountainous and forested, the east consists of steppe zones, with the Gobi Desert in the south (NSO and UNFPA, 1999, p. 1). Most of the land is pasture or desert with 9 per cent forested and 1 per cent arable (Bruun, *et al.*, 2000, p. 1). The fragility of the ecosystem and the severity of the weather have combined to produce two consecutive years of devastating *dzuds* (natural disasters) that have threatened lives and livelihoods for vast numbers of Mongolia's herders.

Mongolia is divided into 21 *aimags* (provinces) and the capital city of Ulaanbaatar. *Aimags* are divided into *soums*. Ulaanbaatar has *duuregs*. The lowest administrative units within a *soum* are *bags* (rural settlements) and within *duuregs* are *khoroos* (urban quarters). There are approximately 1,700 *bags* and *khoroos* in Mongolia (NSO and UNFPA, 1999, p. 1). Between 1918 and 2000 the population of Mongolia increased fourfold to 2.4 million. Yet population density is very low with an average of 1.5 persons per square kilometre (NSO, 2000). Comparisons across *aimags* and *soums* indicate that there are great differences in the territory (NSO and UNFPA, 1999, p. 4) with eight *aimags* having fewer than one person per square kilometre and Ulaanbaatar with 154.6 persons per square kilometre. While the country is rich in resources including minerals and livestock, the distances are great and the infrastructure is sparse (Bruun *et al.*, 2000, p. 1). Mongolia is isolated. Increases in trade, aid, and investment along with improvements in transport and communications will undoubtedly serve to integrate the national economy into a global one.

### 4.2 Macroeconomic context

The collapse of the former Soviet Union marked the start of a transition era for the Mongolian economy. After beginning to replace central planning with market forces in 1990 the economy experienced a number of "shocks". External shocks included the withdrawal of substantial economic assistance from the former Soviet Union and the collapse of the Council for Mutual Economic Assistance (CMEA) that had created a demand for export products and had provided a supply of key imports of spare parts and raw materials. Internal shocks were caused by unintended mismanagement of macroeconomic policies (UNDP, 1994; World Bank, 1999; ILO, 1992; ILO, 1996).

The first years of the transition process brought a sharp drop in domestic output. GDP fell 20 per cent between 1990 and 1993. While expansionary monetary policy delayed the consequent employment adjustment, it resulted in rapid price increases leading to falling real wages. In 1993 real wages were approximately half their 1990 level.<sup>1</sup> Mongolia experienced high rates of unemployment and substantial increases in poverty.

Policies introduced to control inflation gradually led to improvements. By the mid-1990s the Mongolian economy had achieved some degree of macroeconomic stability. Economic performance had subsequently improved with decreases in inflation rates and increases in GDP growth. The inflation rate fell from 325 per cent in 1992 to 6 per cent in 1998. Growth rates of real GDP have been positive but uneven with annual increases of 2.3 per cent in 1994, 6.3 per cent in 1995, 2.4 per cent in 1996, 4.0 per cent in 1997, 3.5 per cent in 1998 (Government of Mongolia, 1999a, Appendix 1) and 3.0 per cent in 1999 (ADB, 2001).

Efforts to achieve macroeconomic stability are made more difficult by heavy dependence on exports of primary commodities including copper, cashmere, and gold. Small changes in international prices have a significant impact on GDP growth. Recent slumps in export earnings have exposed serious weaknesses in the banking system. Another challenge is the debt burden owed to international lenders estimated at 75 per cent of GDP (UN, 2001, p. 13).

The process of restructuring and adjustment continues. The share of industry in GDP has decreased, while contributions of transport, trade, and services have increased. The proportion of GDP arising from agriculture first rose and then fell during the transition period (IMF, 1999, Table 2). Among initial measures introduced by the new Government were privatizing agriculture, livestock, industry, and services. It is now estimated that the private sector generates about 85 per cent of value added in agriculture, 40 per cent in industry, 75 per cent in construction, and 70 per cent in commerce (Government of Mongolia, 1999a, p. 10). A concern is that while output from mining has increased, manufacturing output has collapsed. Thus, industrial activity is concentrated in activities that do not make use of Mongolia's human resources. Mining creates few jobs. Career prospects for laid-off workers and new jobseekers with skills and experience are limited (Bruun *et al.*, 2000, p. 17).

Job losses in the formal sector followed from closing and downsizing state enterprises and reducing the size of the civil service. There was unprecedented uncertainty in labour markets. Unemployment and underemployment along with cutbacks in government programmes and public assistance contributed to reduced income. Social indicators – school enrolment, maternal mortality, infant mortality, and morbidity –

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<sup>1</sup> Data from Ulaanbaatar's Market Research Institute Survey of Economic Reform cited in Bolormaa and Clark, 1998, p. 24.

deteriorated during the early period of economic, political, and social transformation. In short, poverty emerged as a severe problem (World Bank, 1999, p. v). To make ends meet, jobseekers have looked for new ways to earn income. Economic pressures and new opportunities have led to an increased importance of self-employment and the barter economy. Many have sought jobs as herders after the production of livestock was privatized. Others have found employment in the urban informal sector (Bolormaa and Clark, 1998).

A recent report prepared by the Nordic Institute of Asian Studies (NIAS) and supported by the Swedish International Development Association (SIDA) notes areas for concern in Mongolia's strategy for economic development: "(i) the sectoral composition of economic development; (ii) the capacity of the economy to generate employment and incomes; and (iii) the regional aspects of development." Development during the 1990s concentrated on mining activities, animal husbandry, and the service sector – with a sharp contraction of other sectors and a virtual collapse of manufacturing production. Despite a highly educated population, unemployment and underemployment in Mongolia reached high levels which contributed to growing poverty. The report underscores the fact that new employment opportunities are largely limited to livestock herding and the informal sector (Bruun *et al.*, 2000).

The NIAS study goes on to mention the deterioration of transport and communication as well as the collapse of provincial centres created by the closure of herding collectives. Recent growth has been concentrated in Ulaanbaatar, while the rest of the economy risks sliding back into subsistence animal husbandry. The geographic disintegration and increasing isolation of large parts of the country represent a threat to territorial integrity as well as economic development in the long run. These developments introduce a threat of marginalizing significant segments of the population (Bruun *et al.*, 2000).

### 4.3 Employment situation

It is not surprising that patterns of employment, unemployment, and underemployment have been affected by changes in international trade and macroeconomic conditions as well as the restructuring and adjustment that accompanies a period of transition. Demographic trends resulting from earlier policies to promote population growth have produced growing numbers of young workers. In addition, the labour force must absorb larger cohorts of young people as fewer graduates are going on to additional training and professional qualifications. Finally, non-enrolment and dropouts have increased the number of jobseekers (UNDP, 1997).

During the 1990s the population grew at an average rate of 1.8 per cent a year (ADB, 1998, p. 217). At the end of 1998 the working-age population was 1.3 million, or 51.4 per cent of Mongolia's total population (TACIS and Government of Mongolia, 1999). Official data for 1998 show an activity rate of 64.8 per cent and an unemployment

rate of 6.2 per cent. Of the total unemployed 52 per cent are women and 29 per cent are youth.<sup>2</sup> Data on the duration of registered unemployment show that 70 per cent have been unemployed for more than six months, 47 per cent for more than one year, and 26 per cent for more than two years (TACIS and Government of Mongolia, 1999).

Official unemployment statistics are obtained from Employment Regulation Offices (EROs) in each *duureg* or *soum* in Mongolia. The figures are obviously very much affected by whether these offices provide unemployment benefits or serve as effective employment brokers. Statistics for unemployment are, thus, influenced by shifts in benefits and services resulting from changes in policies and practice. What emerges from official statistics is the following: registered unemployment rates are low and the working-age population is expanding (Anderson, 1998, p. 12). Employment declined for most of the 1990s. One interpretation is that a relatively large proportion of the potential labour force is not economically active. The question arises as to what able-bodied people of working age are doing.

A 1992 ILO report concludes that the “missing people” of working age are not unemployed. Rather, they are probably employed in non-wage jobs of “borderline” legality or in black market activities (ILO, 1992, pp. 18-19). This study goes on to suggest that municipal authorities should recognize the economic contributions and social merits of the informal sector. It points out that street vendors should be supported and city markets could be developed to provide incentives to boost economic activity and provide employment opportunities (“The emerging informal sector” in ILO, 1992, p. 30).

The World Bank study conducted by Anderson in 1997 suggests that a large proportion of those “not employed” is in the informal sector. One of the reasons they are not recorded as working is that they do not consider informal activities to be real employment. Anderson’s research shows that roughly 75 to 85 per cent of informal sector workers did not think of themselves as employed. Based on informal sector surveys, employment statistics trends, the human resources balance, household budget surveys, and money supply measures Anderson concludes that his estimate of 30 to 35 per cent of total employment in the informal sector is consistent with other sources of employment information.

In their review of the official data, Bolormaa and Clark also note apparent anomalies in official statistics. Between 1991 and 1997 the recorded employment-to-population ratio declined from 84 per cent to 62 per cent, while the registered unemployment rate remained low. They allocate the residual to hidden forms of unemployment and small-scale activities at home as well as to the informal sector, pointing out that according to a survey conducted by the Women’s Information and

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<sup>2</sup> “Youth” are defined here as those aged 16 to 24 in TACIS and Government of Mongolia, 1999.

Research Centre 63 per cent of those classified as “not working” are involved in the informal sector (Women’s Information and Research Centre, 1998, p. 21). In correcting the unemployment rates the authors estimated the figure for 1991 at 9.3 per cent rather than 6.6 per cent, with the figures for 1997 at 17.9 per cent rather than 7.8 per cent.<sup>3</sup>

Unemployment rates calculated from the Living Standards Measurement Surveys (LSMS) for 1995 and 1998 are substantially higher than other measures.<sup>4</sup> This is partly a result of the reference period for measuring actual unemployment during the preceding week and a relaxed definition that includes those available for work but not actively seeking employment. Thus, it includes discouraged workers. According to these data the rate of unemployment for Mongolia increased from 19 to 21 per cent between 1995 and 1998. Measured unemployment in urban areas was considerably higher at 27 per cent in 1995 and 30 per cent in 1998.<sup>5</sup> Survey data for 1998 showed unemployment rates at 30.0 per cent in urban areas and 11.7 per cent in rural areas. The corresponding figure for Ulaanbaatar is 28.5 per cent. Not surprisingly, the Living Standards Measurement Surveys show a strong correlation between unemployment and poverty.<sup>6</sup>

An ILO report prepared under UNDP Support for Policy and Programme Development (SPPD) entitled *Economic growth, employment and training in Mongolia: Issues and options* estimates the unemployment rate to be closer to 10 per cent of the economically active population. This includes those who are not registered with the Employment Regulation Offices, giving a total of approximately 95,000 rather than the 49,800. This estimate allocates the residual “not employed without a reason” between unemployed workers and the informal sector by reference to age and whether or not there was previous work experience (ILO, 1999).

The NSO/UNDP Time-Use Survey conducted in 2000 collected data from two sources – questionnaires for households and individuals and time-use diaries. Questionnaires were completed based on interviews with household heads or other members who could provide information about household members. Diaries were kept by every household member aged 12 and above. According to the questionnaires 3.2 per cent of the working-age population is unemployed. This implies that 3.8 per cent of the labour force is unemployed.<sup>7</sup> Lower measures for unemployment rates are expected with broader definitions of economic activities.

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<sup>3</sup> Those engaged in informal sector activities should be classified as employed and not unemployed. Consequently, these upward revisions need further consideration and explanation.

<sup>4</sup> The Living Standards Measurement Survey was conducted by the World Bank in 1995 and the National Statistical Office with support from the UNDP in 1998.

<sup>5</sup> From the Mongolia Living Standards Measurement Survey cited in ILO (1999).

<sup>6</sup> It may be that these surveys undercount employment, as is the case in Nepal.

<sup>7</sup> Among the working age population 80.1 per cent are classified as employed and 3.2 per cent as unemployed. Thus, 83.3 per cent are economically active.



The total employment rate for the working-age population in Mongolia as a whole is higher according to data from the questionnaire (80.1 per cent) than from the diaries (76.4 per cent). Data from the questionnaire indicate that the employment rate for men (84.3 per cent) is greater than for women (76.2 per cent) and greater in rural areas (99.0 per cent) than in Ulaanbaatar (68.6 per cent), *aimag* centres (72.3 per cent), and *soum* centres (78.1 per cent). An additional 16.7 per cent of the working-age population is classified as not in the labour force. This includes those studying, on pension, on sick leave, disabled, caring for children, and others staying at home (NSO and UNDP, 2000, pp. 15-16).

Employment stagnated in Mongolia during the 1990s. While the working-age population increased, there was very little change in the labour force and employed population. Official statistics in Table 1 show a rise in agricultural employment. Declining participation rates indicate that a large proportion of the Mongolian population “dropped out” of the labour force. It seems that women and men not counted as economically active were absorbed into agriculture. More specifically, people found employment as herders. Others earning their livelihoods in the informal economy consider themselves to be unemployed. A study undertaken by USAID working with the National Statistical Office and the Ministry of Finance also found that many informal sector workers do not consider themselves to be employed. They are reported as unemployed to the *duureg* administration (Bikales *et al.*, 2000, p. 11). At the beginning of the transition period the unemployed consisted primarily of those who had lost jobs in the formal sector. Increasingly, the unemployed population is comprised of new entrants to the labour force. The vast majority of school-leavers remain outside the formal sector. Youth unemployment has become a serious problem. While many young people are not in the labour force, others earn a living in the informal sector or in animal husbandry. These developments highlight the links between unemployment, income, and poverty.

### 4.4 Poverty issues

In 1994 the National Poverty Alleviation Programme (NPAP) was introduced to reduce poverty levels and improve living standards. The objective was a 10 per cent reduction in poverty by the year 2000. Six elements of the Programme were: policy management and institutional strengthening; poverty alleviation through economic growth and employment promotion; protecting human capital; alleviating women’s poverty; reducing rural poverty; and strengthening the social safety net (UNDP, 1996, pp. 1-2). To help implement the Programme the Government created a Poverty Alleviation Fund (PAF) with four sub-funds – a Local Development Fund (LDF), a Women’s Development Fund (WDF), an Income Generation Fund (IGF), and a Targeted Assistance Fund (TAF) (Poverty Alleviation Programme Office, 1996). Decentralized responsibility for identifying, formulating, appraising, and approving projects was shared by Poverty Alleviation Councils in the 21 *aimags* outside the capital and 9 districts in Ulaanbaatar.

**Table 1. Population and labour force, 1990-1999**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Population	2.12	2.17	2.18	2.22	2.27	2.30	2.34	2.37	2.40	2.43
	(millions)									
Labour force	946.7	1 003.6	1 059.9	1 080.9	1 089.3	1 103.1	1 124.3	1 162.3	1 206.4	1 227.9
Employed	783.6	795.7	806.0	772.8	786.5	794.7	791.7	772.4	809.5	830.0
Agriculture	258.8	274.9	294.2	302.2	336.6	354.3	358.1	373.0	394.3	402.4
Industry	131.2	132.2	133.9	124.1	100.9	108.1	104.6	98.9	97.9	98.8
Others	393.2	388.6	377.9	346.5	349.0	332.3	329.0	300.5	317.3	328.8
Unemployed	45.7	55.4	54.0	71.9	74.9	45.1	55.4	63.7	49.8	39.7
	(thousands)									
Unemployment rate	5.5	6.5	6.3	8.5	8.7	5.4	6.5	7.6	5.8	4.6
	(percentages)									

Source: ADB: *Key indicators of developing Asian and Pacific countries*.

Poverty lines for Mongolia have been developed using both Household Income and Expenditure Survey (HIES) data and Living Standards Measurement Survey (LSMS) statistics. According to the former, the percentage of the population living in poverty increased from 14.5 per cent in 1991 to 19.2 per cent in 1996. The corresponding numbers rose from 321,000 to 452,000 (UNDP, 1997, Table 3.1.1, p. 12). Data in Table 2 from the Living Standards Measurement Surveys in Mongolia show larger proportions and numbers of persons living below the poverty line. Poverty incidence measured by a headcount index remained unchanged at 36 per cent. Measures for the depth<sup>8</sup> and severity<sup>9</sup> of poverty show deterioration over this period. Between 1995 and 1998 the number of people in poverty increased from 821,000 to 863,000.<sup>10</sup>

**Table 2. Key poverty indicators, 1995 and 1998**

	Population below the poverty line (percentages)		Number of poor people (thousands)		Depth of poverty (percentages)		Severity of poverty	
	1995	1998	1995	1998	1995	1998	1995	1998
All Mongolia	36.3	35.6	820.7	862.9	10.9	11.7	4.8	5.6
Rural	33.1	32.6	350.1	369.5	8.9	9.8	3.6	4.4
Urban	38.5	39.4	470.5	493.4	12.2	13.9	5.7	7.1
Ulaanbaatar	35.1	34.1	214.1	221.3	10.4	13.0	4.5	7.4

Source: Living Standards Measurement Surveys in UNDP: *Human Development Report Mongolia 2000*, Ulaanbaatar, 2000.

A review made by the EPSP concluded that methodological differences in the two surveys make them an unreliable basis for determining trends in poverty over time. Changes include the addition of two poor *aimags*, the creation of a revised food basket, and new methods for determining consumption needs by age and sex. The study suggests that direct measures of well-being such as life expectancy, infant and maternal mortality, food consumption, and school enrolments as well as indirect indicators such as GDP growth and herd size are better measures for the poorest groups. The author notes that between 1995 and 1998 there was improvement in virtually all these alternative indicators

<sup>8</sup> The depth of poverty is the *poverty gap index* measured by the average shortfall of per capita expenditure and expressed as a percentage of the poverty line. However, the poverty gap index is not sensitive to the actual distribution of welfare among poor households.

<sup>9</sup> The Foster-Greer-Thorbecke Index is used to measure the severity of poverty. It gives higher weight to the welfare levels of the very poor as opposed to households living very near the poverty line.

<sup>10</sup> Data from the Household Income and Expenditure Surveys of the National Statistical Office show lower figures for poverty with higher incidence in rural areas than in urban areas (UNDP, 1997, pp. 11-13).

(Bikales, 1999, p. 6). Nevertheless, when asked about whether household income is “enough”, 54 per cent of respondents in a national survey conducted in 1998 replied “not enough”. Table 3 shows that the percentage responding that household income is “not enough” was higher in urban areas (58 per cent) than in rural areas (50 per cent).

**Table 3. Answers to attitudinal question about household income, 1998**

	Residence		Total
	Urban	Rural	
Enough	41.7	49.7	45.8
Not enough	58.2	50.3	54.1
Don't know	0.1	0.1	0.1

Source: National Statistical Office and United Nations Population Fund: *Mongolia: Reproductive Health Survey 1998*, Reproductive Health Series, Ulaanbaatar, 17 April 2000, Table 2.06, p. 17.

Who are the poor? The Government of Mongolia has designated six vulnerable groups: children who have lost one or both parents; disabled persons; female-headed households; poor households with many children; unemployed workers; and small herders in remote areas (UNDP, 1997, p. 13 and World Bank, 1996). A profile obtained from the 1995 LSMS indicates that: female-headed households have a higher poverty incidence; small herders predominate among rural poor; unemployment and poverty are strongly correlated; the incidence of urban poverty is marginally higher than rural poverty; *aimag* centres have the highest poverty; low levels of educational attainment are associated with poverty status; pensioners are less likely to be poor; private transfers contribute significantly to household expenditures of poorest quintiles; and poor households have limited access to basic services (World Bank, 1999).

To what extent have the informal sector activities reduced unemployment and poverty? We know that poverty is associated with unemployment. Put another way, “There is no way to reduce the poverty without working.”<sup>11</sup> Using data from the household surveys of income and expenditure Anderson estimates that more than half of income in households whose head is “unemployed” comes from informal sources (Anderson, 1998, p. 11). This indicates that the informal sector has provided a safety net that protects poor households from lower incomes. The 1995 Living Standards Measurement Survey (LSMS) data show that earnings from non-agricultural self-employment are associated with households above rather than below the poverty line, suggesting that informal jobs may protect some households from poverty. It is clear

<sup>11</sup> Interview with N. Sodnomdorj, Member of Parliament and former Director of the Labour Institute.

that more precise information is needed about the percentage contribution of informal sector earnings to total household income.

Based on various components of his extensive research Anderson concludes that the sector has made a significant contribution to alleviating poverty. He estimated that during the early 1990s roughly 30 per cent of the working-age population participated in informal sector activities providing some income to half of the households in Ulaanbaatar. Income from the informal economy enabled approximately 15 per cent of households to rise above the official poverty line (Anderson, 1998, p. 27).

The EPSP report on the informal sector notes that while the great majority of employed persons in informal enterprises is individual workers and the average number is 1.38 persons, the social benefits are more widespread. The study shows that each enterprise helps to support an average of four people. The report states that within Ulaanbaatar this means that over 140,000 residents from a population of 670,000 are benefiting from income earned in informal sector activities.<sup>12</sup>

The NIAS study identifies two main causes of poverty. First, economic transition resulted in a virtual collapse of the safety nets provided directly by the Government or through state enterprises and agricultural collectives. Second, structural change marginalized large segments of the labour force. The result has been a gross underutilization of labour and skills. This is linked to a narrow-based growth concentrated on the capital city and mineral extraction (Bruun *et al.*, 2000, p. 27). Poverty is prevalent in provincial centres that were artificially developed to serve as rural centres. Major cities offer wider opportunities for employment and income, including the informal economy.

ILO studies show the need to include the informal sector in any strategy to reduce urban poverty. “Since the informal sector, consisting of very small scale activities, accounts for a substantial, and increasing, share of urban employment in most developing countries, and since a large majority of the urban poor depend on such activities for their livelihood, any credible strategy to reduce urban poverty in these countries must pay due attention to this sector (Sethuraman, 1997).”

The case studies for this research project add some personal perceptions on poverty issues. Aside from government policies and economic trends, poverty may result from circumstances related to dismissal, death, family, divorce, education, skills, age, and capital. The case in Box 3 combines a family death and job loss. The resulting poverty pushes a man into the “suitcase (*ganzaga*) trade”.<sup>13</sup>

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<sup>12</sup> Preliminary results of the 2000 census indicate that the population of Ulaanbaatar is larger (at 773,700) than was earlier thought to be the case.

<sup>13</sup> *Ganzaga* means “saddlebag” in Mongolian.

### Box 3: From personal setbacks to the “suitcase trade”

I'm a fifty-year-old man. I was born in Uvs and moved to Ulaanbaatar in 1996. I live with my unemployed wife and five children in a private house in the *ger* area. When I moved to Ulaanbaatar I worked in a public firm doing repairs. In 1997 my mother passed away, and with the permission of the firm I left for the funeral held in Uvs. Upon my return I learned that I had been fired. I didn't even spend all of the twenty-

one days after my mother's funeral as had been agreed upon with the administration. In any case, my salary wasn't sufficient for my family to survive. Moreover, I had to travel every morning to the other end of the city to get to the workplace. I had to do something and the most suitable opportunity, I realized, was the “suitcase trade”. I have been selling children's clothes at the Narantuul Market since 1997.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

Another interview identifies redundancy, unemployment, and education as causes of poverty pushing a widower into the second-hand goods trade (Box 4).

### Box 4: From telecommunications agency electrician to second-hand goods trade

I'm a forty-three-year-old widower with a high education. My wife died twelve years ago leaving me with two children. Now I live with my twenty-two-year-old son and thirteen-year-old daughter in a house in my friend's yard in Undurkhaan. My son is unemployed, but he occasionally does some menial jobs at the market. My daughter doesn't go to school. I worked as an electrician for the Telecommunications Agency until I was made redundant in 1989. From then on I couldn't find another job and didn't have enough money to start my own business. Since 1997 I've been selling second-hand goods. The idea of this business came to me when I saw some people selling second-hand goods on the street in Ulaanbaatar. So I gathered some old stuff from my friends, relatives, and acquaintances and

started selling it on the streets outside the “Khuur” food market. This was much better than doing nothing. I was earning a living. My profit has remained the same for three years. It is just enough to buy food. The only progress I made is that I've started to sell second-hand books. I spend my profit on food, but there are times we eat nothing at all. I don't get any help from my children because I wouldn't allow them to help me with this business. My son couldn't find any job because he isn't educated enough. We can't even afford to buy some meat; we only buy bones. My daughter helps me with the cooking, but I do the housework. I have to be both mother and father to my children. What I really care about is getting some money to buy food. But unfortunately, I can't do this every day.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

Unlike in many developing countries, poverty in Mongolia is relatively new. Most of the poor are from households that could attain a higher standard of living in the past by using education and skills more effectively.

## 4.5 Multiple *dzud*

In addition to the immense challenges of the transition era, Mongolia is now facing a second crisis of “multiple *dzud*” caused by pastoral degradation and natural forces.<sup>14</sup> Serious droughts followed by harsh winters with extremely cold weather and very heavy snowfalls have resulted in mass death of livestock for two winters in a row. For most of those affected by the *dzud* livestock are necessary for survival. In addition to food, their cows, horses, sheep, goats, yaks, and camels provide transport, heat, and clothing. Selling livestock is their only source of cash to obtain medical services and to pay school fees. The impact of these disasters on production, employment, and incomes is immense. Heavy losses of livestock have affected food security and foreign exchange. Shortages of meat and milk result in price rises. Increases in the cost of living – especially prices of necessities – have a substantial impact on vulnerable groups (UN, 2001, p. 22). Certainly, the *dzuds* affect the extent and depth of poverty (United Nations Disaster Management Team and National Civil Defense and State Emergency Commission, 2000). Two “safety nets” during the transition period have been livestock herding and the informal sector. Difficulties with livestock herding have led to changes in grazing and migration that have contributed to the seriousness of the *dzuds*. Longer-term plans for Mongolia’s economic development must identify integrated employment strategies to address the needs for employment and livelihood of the people in both herding communities and micro-enterprise.

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<sup>14</sup> “*Dzud* refers to a number of different types of winter conditions that contribute to the mass death of livestock by preventing them from grazing and/or drinking. ‘White *dzud*’ refers to snowfall that is too deep for the animals to penetrate to find grass. ‘Black *dzud*’ refers to the lack of snowfall, and hence the lack of drinking water for animals. ‘Iron *dzud*’ refers to snowmelt and subsequent freezing conditions that leave an impenetrable sheet of ice over the pastures (UN, 2001, p. 13).”

## 5 Emergence of the informal sector

Any discussion of the remarkable growth of the informal sector during the transition era should not overlook the fact that it is a new phenomenon. Elsewhere in Asia the bazaar economy has been a traditional feature of urban landscapes. The relative “newness” of the informal economy may have policy implications. Most of the women and men interviewed for this study became active in the informal economy during the past few years. Only one person had been working in these activities before the transition – a cobbler who also shines shoes. The newness of activities also means that it may be premature to identify successes and failures (Sik, 2000). The recent growth of the informal sector results from various factors listed in Box 5.

### Box 5. The recent emergence of the informal sector in Mongolia

- Collapse of socialism
- Opening of markets
- Shifts in demand
- Process of urbanization
- Issues of culture

### 5.1 Collapse of socialism

The collapse of the command economy has pushed workers into the informal sector in various ways. Closing and downsizing state-owned enterprises meant that many workers were looking for new employment. Lower real wages and delayed wage payments have meant that even those who retain employment in the state sector or civil service must leave to make ends meet. As one woman in a focus group explained, “State agencies don’t pay adequate salaries. That’s why I go into the street with two boxes of soft drinks.” Many of the women and men who are living on pensions are also forced to look for supplementary earnings. New job entrants are no longer absorbed into formal sector employment. The former socialist economy linked social protection with employment opportunities. The collapse of the regime along with cutbacks in social services due to budget cuts have meant that workers must seek employment to cover various contingencies as well as a basic livelihood.

### 5.2 Opening of markets

The informal economy has facilitated the opening of markets for new products and in new locations. Trading patterns have shifted and traditional exports have declined or disappeared. The reforms launched in 1991 included liberalizing prices and markets, including foreign trade and factor markets. Increased vulnerability to world markets was evident during the Asian crisis that affected remittances from guest workers abroad



and earnings from key export products. Markets in Mongolia are flooded with cheap goods from China and the Republic of Korea.

### 5.3 Shifts in demand

The informal sector has responded to consumer sovereignty by providing a greater variety of goods and services. These include new products produced in Mongolia or imported goods. Consumers are given a wider range of quality and price than was available under a command economy. Many Mongolians found themselves with reduced incomes during the transition process. Growing poverty has led to a greater demand for inexpensive products. One observer said that the informal sector is “filling in the cracks” created by economic transition. Lower production costs have enabled informal sector businesses to offer lower product prices. Some customers come to the city from rural areas: “Country folks regularly travel here for the goods supplies. No wonder since these products fulfil basic needs.”

### 5.4 Process of urbanization

Despite a net outflow to rural areas and herding activities during the early 1990s, it is estimated that 30 per cent of those located in vast rural areas and small urban areas have migrated to Ulaanbaatar, Darhan-Uul, and Orhon *aimags* during the transition period (NSO and UNFPA, 1999, p. 4). By 2000 the proportion of the population in urban areas was 57.1 per cent (UN, 2001, p. 16). Several factors have contributed to rural-urban migration. Deterioration of transport and the closure of *negdels* have encouraged herders to move closer to markets. The collapse of institutions providing social services under the communist regime was not followed by mechanisms to deliver basic services under a market economy such as health care and educational facilities for rural communities and provincial centres. Growing unemployment in *soum* centres has attracted migrants to the more populated areas. A massive influx of Mongolian herders is due not so much to improved opportunities for employment in urban areas as to a serious breakdown of services in outer regions and deteriorating terms of trade for livestock products (Bruun *et al.*, 2000, p. 19). Many migrants live in traditional tents and urban poverty of “*ger* areas” without piped water and proper sanitation (Bruun *et al.*, 2000, p. 9). Until recently, internal migration was controlled by a citizen passport system. This has been relaxed. Changes in the system of residence permits and the privatization of housing markets have increased labour mobility. This has opened new opportunities for micro-enterprises and the informal economy.

The 2000 population census indicates that the population of Ulaanbaatar has grown more than had previously been realized (Bikales *et al.*, 2000, p. 20). Without employment opportunities opening in the formal sector, jobseekers have turned to the informal economy. Roughly one in ten of the informal sector case studies refers to “new migrants”. While the interviews were not based on a sample that can be

generalized, they reveal that almost all families who have moved from the countryside to the capital were pushed by poverty.

## 5.5 Issues of culture

Cultural factors as well as economic pressures may affect popular participation in the informal sector. Some of these are independence and family. Mongolian independence is often linked to nomadic traditions. Indeed, the following excerpts from case studies point to independence as an advantage in setting up a business:

- *The advantages of doing this business are income and independence. You're not accountable to others.*
- *The advantage is being independent. We're on our own; we earn money whenever it's possible and don't complain when the trade is slow.*
- *I'm my own person. I decide everything that's relevant to my business and my life. I have flexible working hours. These are the advantages of being in this field.*

In addition, the Mongolian culture puts strong emphasis on family values. The nomadic tradition also relies on teamwork within households and among kin. This kind of cooperation is evidenced in interviews. For example, "My elder son does the housework. I do the basic cleaning and washing during days off. Since this is our family's main income, everybody's willing to contribute as much as possible. At the moment my husband and two sons are preparing to renovate the room. My husband's relatives live here. We help each other when needed. My parents-in-law live in the rural area. We help them by providing fodder for livestock." Cooperation extends to financing and running the enterprise and investing in the next generation. Modern ties are also used to set up informal enterprises. These include networks built up from school, work, and friendships.



## 6 Causes, expectations, and hopes for the informal sector

### 6.1 Causes

While each individual has special reasons for working in the informal economy, there appear to be some common motives (Box 6).

#### Box 6. Reasons for working in the informal sector

- Mere survival
- Income opportunities
- Labour arrangements
- Labour costs
- Easy entry
- Small scale
- Accessible facilities
- Moonlighting activities

#### *Mere survival*

Activities in the informal economy may be associated with mere survival or new opportunities. An ILO report provides an international perspective: “The greater part of the informal sector consists of subsistence-level production units and activities, motivated by the need for survival and characterized by low levels of income, productivity, skills, technology and capital, and weak linkages with the rest of the economy (ILO, 2000a).” For many workers in Ulaanbaatar, as elsewhere in the world, employment in the informal economy is not a choice but a necessity. It represents a means of obtaining income necessary to survive – whether as a supplement to meagre earnings and pension payments eroded by inflation or as the sole source of income for the worker and household. According to an informal sector worker participating in a focus group discussion, “We aren’t working to get rich, but only to earn daily food for the family and to pay the children’s tuition fees.” Another trader pointed out that necessity outweighs inexperience: “Dogs instinctively swim when thrown into water. So did I.”

#### *Income opportunities*

International experience also points to growing subsectors: “However, it has also been observed that there are modern and dynamic segments of the informal sector which are capable of generating significant growth, higher incomes and job creation and/or having linkages to emerging market and formal enterprises, in particular those associated with new technologies in information and communications (ILO, 2000a).”

But mere survival may not be appropriate to describe the motivations of some workers in the informal economy. As elsewhere in the world, a wide range of profits and wages is earned by entrepreneurs and employees in Mongolia. Some street traders with small inventories earn barely enough – or not enough – for food and shelter. Other “informals” earn far more than civil servants. A systematic collection of household statistics for income and expenditure was beyond the scope of this study. However, Anderson made these observations based on his research in 1997: “It is not at all uncommon to find doctors cleaning houses or skilled engineers driving taxicabs. Indeed, the informal sector surveys revealed numerous examples of people who did not want to work in the formal sector simply because salaries were so low. It is particularly instructive that kiosks, which are viewed by local officials as a means of alleviating poverty, generate incomes greater than salaries earned by judges on the Supreme Court (Anderson, 1998, p. 24).<sup>1</sup>”

One study on the informal sector describes two motivations – mere survival and income opportunities – as the difference between “livelihoods” and “microenterprises”. This typology outlined in Figure 1 might also be used to describe the transition from “informal” to “formal”.

### ***Flexible labour***

The fact that most payments in the informal sector are made according to informal arrangements rather than imposed by the Labour Law has made the use of labour more flexible and less costly. The Labour Law enacted in 1991 spells out conditions for hiring and firing, the work week, working hours, annual holidays, overtime payments, maternity benefits, and so forth. While the law protects workers, it obviously increases production costs. Many informal sector workers are family members or casual labour. In short, working arrangements are made by the individual operator rather than according to Labour Law.

### ***Labour costs***

One of the reasons for informal sector growth is lower production costs. There are many ways that production costs are lowered in the informal economy. A key arrangement is through low-cost labour inputs made possible by working long hours, employing family workers, and using kin labour. Another is to reduce transaction costs by organizing and monitoring the purchase, transport, storage, and marketing of the goods and services offered to their customers. Finally, members of the informal economy are better able to avoid taxes and fees that are imposed on business enterprises. Relatively few informal sector workers pay for social insurance.

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<sup>1</sup> Includes some editorial changes.

**Figure 1: Work for livelihood and micro-enterprise**

<b>Characteristic</b>	<b>Livelihood</b>	<b>Micro-enterprise</b>
Reason for entry	Pushed into it for lack of alternatives	Pulled by profit potential and choice
Activities	Multiple – one of many	Main activity
Importance of income activity	Supplements family income	Main source of family income
Skills requirements	Low and rudimentary	Requires more and skills
Entry barrier	Low and rudimentary	High
Use of net earnings	Sustenance and survival	Savings for expansion
Potential for growth	Little or none	High

Source: Prabhu Ghatе, "Livelihood and micro-enterprise programmes in the Philippines: Directions for the future", Draft report as input to the Philippine Rural Credit Study, Asian Development Bank, Manila, 1993, cited in Gopal Joshi, "Urban informal sector in Metro Manila: A problem or solution?" Manila, ILO SEAPAT, 1997, p. 77.

### **Easy entry**

Compared to the formal sector it is *relatively* easy to set up business in the informal sector, but this does not mean that it is easy to obtain start-up capital and business permits. According to the EPSP study, "government pressure including high fees" was cited as a problem by 34 per cent of all informal sector workers and 41 per cent of retail traders. Rather, the problems are more manageable despite a long history of economic enforcement by local administrators. As Anderson states, "There is no escaping bureaucracy, but informals face less of it (Anderson, 1998, p. 19)." Given the problems of red tape encountered by the informal sector, one can only conclude that the formal sector faces enormous difficulties.

### **Small scale**

One aspect of easy entry is small scale. This helps to solve the problem of credit. Many informal sector operators can set up businesses by drawing on savings or borrowing from relatives. Sometimes businesses are financed with loans from pawnshops.

## Accessible facilities

One of the difficulties in setting up a formal business in a transition economy is that private ownership of land and buildings has not been firmly established. It may, therefore, be difficult to find business premises. There are fewer demands in the informal economy for finding a business space. An example is provided in Box 7 describing a solution to difficulties finding premises and obtaining permits. Anderson's study notes a useful linkage between the formal sector and informal sector in Ulaanbaatar's markets. A formal enterprise privately owns the market space that is then rented to informal operators. This provides a business venue with greater flexibility for informal sales.

### Box 7. A shoe shiner works on a small scale with little capital

I'm a forty-two-year-old man with an incomplete secondary education. I'm married and live with my wife and seven children in a *ger* area in Yarmag.

I started this business in 1990. I used to work in a shoe repair shop at Urt Tsagaan. I don't have a permanent place to work and usually set up business on the streets between the Central Post and the State Department Store. Since I don't have a permit, the policemen chase me away.

When I was unemployed, I had time to observe those who were shining and polish-

ing shoes. I found that this wasn't a difficult job and that it didn't require much money. At that time the prices weren't high, so I bought a brush and shoe polish. Then I got a small board and began to work. Actually, the permission to work is usually given to shoe-repairers and not shoe-polishers, especially in the centre of the city. It's considered normal to pay a fine of 1,000 *togrogs* to a policeman every day. Since this area is the busiest and most profitable, I stay here regardless of the daily fines. I can earn two to three thousand *togrogs* a day.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

## Moonlighting activities

While the informal sector provides the sole source of household income to some operators, it is a moonlighting activity for other workers. Some activities are more conducive to moonlighting than others. Anderson's study shows that among those working as street vendors and in outdoor markets roughly 20 per cent are moonlighters. Other activities are more suitable for moonlighting; 32 per cent of kiosk operators and 43 per cent of taxi operators are engaged in the informal economy as second jobs (Anderson, 1998, p. 23). Key informants mentioned that low wages in the formal sector – government jobs and private enterprise – are forcing people into the informal sector. Some of these jobs are full time while others provide supplementary income.

## 6.2 Expectations

According to research conducted for this study, participants and observers believe that the informal sector has been growing in recent years. However, it is expected that informal activities will gradually be replaced by the formal sector. For example, Box 8 indicates that the suitcase trade has been taken over by import business. Interviews suggest that kiosks will give way to supermarkets and informal taxis will be replaced by organized transportation.<sup>2</sup> Market forces may eventually push formal financial institutions into the roles currently played by money changers and pawnshop operators. Nevertheless, new activities are being introduced all the time. These include video game parlours, outdoor billiard tables, and modern Internet cafes.

### Box 8. Business transformation

Practically all small-scale entrepreneurs in the informal sector started their business as “suitcase traders”. By now only those with special skills and survivor instincts have stayed in the suitcase trade business. The informal sector is undergoing a transformation. Now people are turning to set up small-scale enterprises that operate perma-

nently and provide regular incomes. Women and children are doing the small-scale trade nowadays since they need this solution to job shortages and low salaries. The graduates from high schools and those in early retirement are joining the ranks of small traders.

Source: Paraphrased from a focus group, ILO/UNDP SPPD on the Informal Sector in Mongolia.

Many of the workers interviewed expect that competition will grow. The number of workers in the informal sector is expected to increase, while it is not likely that higher incomes will lead to greater demand. Competition will come from formal enterprises and foreign businesses. Another concern is illegal competition. Taxi drivers are worried about rich people and government officials offering rides home from work to cover the cost of fuel. Others working to shine shoes, repair watches, and take photos are concerned that new entrants will lower standards. Some of those interviewed recognize that competition can also provide consumers with wider choice and better quality.

## 6.3 Hopes

Informal sector operators interviewed would like lower taxes and customs duties, less bureaucracy and corruption, reduced competition, better enforcement of rules and regulations, more assistance from self-help organizations, and non-governmental organizations, and improved credit. On an optimistic note, many workers

<sup>2</sup> Interview with Ch. Khurelbaatar, Senior Economist for the USAID Employment Policy Support Programme and advisor to the Prime Minister.



mentioned business expansion and the next generation. Interviews with participants in the informal sector revealed hopes and plans for the future of businesses and families. They include improved working conditions, permanent locations, better infrastructure, and product diversification as well as changes in organization and hours. Among the immediate goals of one furniture maker was “to find a partner with a good sense of art and design.” The hope of one single mother was “to expand the business, build a kiosk, and sell newspapers, journals and stationery.” In some cases, dreams are simple: “building a warm place is on the mind of most fruit sellers.” Investing in children remains part of the vision for the future.

## 7 Economic contributions: “Dilemma”, measures, and perceptions

### 7.1 “Dilemma”

For various reasons promoting the informal sector is especially important for transition economies. Among them is fostering dynamism and efficiency in economies where state enterprises are generally unresponsive and inefficient. Micro-enterprises can often adjust quickly to market signals with smaller capital requirements and more appropriate technology. According to Anderson, a picture of the informal sector in the Mongolian economy provides “an optimistic depiction of people following market signals and addressing society’s needs (Anderson, 1998, p. 1).” They are seen as potential seedbeds for encouraging entrepreneurial ability and practical methods of promoting economic growth. Anderson notes that they demonstrate entrepreneurial energy and “economise” on bottlenecks and bureaucracy (Anderson, 1998, p. 1). The informal sector also serves to create new enterprises that will move towards rectifying the unbalanced structure of command economies. These activities contribute to growth and development.

The other side of the informal sector “dilemma” is that it suffers from low productivity and low income. It escapes regulation and protection. It can be condemned as a vast sea of backwardness, poverty, and crime where working conditions are unsafe and unsanitary (ILO, 1991). The question is whether the informal sector is an adequate foundation on which a private sector can be built or whether it is just a costly detour or dead end constructed with the “scaffolding” or “bricolage” left over from the communist era (Sik, 2000).<sup>1</sup> According to the second analysis, the informal sector is not so much a training ground for entrepreneurial behaviour as it is a market distortion that spawns illegal activities, criminal elements, and ghetto subcultures. Studies of “shock therapy” in transition economies suggest that reshaping attitudes and institutions can lead to outcomes that are both unintentional and undesirable (Sik, 2000).

### 7.2 Measures

Measures of contributions made by the informal sector to GDP, employment, and income are beginning to emerge from research. According to the EPSP study, total annual value added is estimated to be 117.3 billion *togrogs* of which 94.0 billion *togrogs* are from Ulaanbaatar. This represents approximately 13.3 per cent of the GDP for Mongolia in 1999. Within the informal economy itself, 62 per cent is attributable to retail trade. The same study indicates that informal activities in Ulaanbaatar provide employment to 47,000 people and income to 20 per cent of the households.

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<sup>1</sup> In the literature on post-communist transformation two influential authors refer to high inertia institutional elements as “scaffolding” (North, 1997) or as “bricolage” (Stark, 1995).

## 7.3 Perceptions

Despite the economic significance of the informal sector, workers often consider themselves to be “unemployed”. At the same time, however, the small businesses are recognized as a source of family income and self-esteem. While interviews did not collect statistics that can be summarized, evidence suggests that the informal contribution to family income is considerable. It is often the only source of household earnings. In others cases it supplements a very small income arising from pensions and “allowances” paid for previous employment. Almost all the informal sector workers interviewed said that their products were meeting a market demand.

The work itself is usually a source of pride. A single mother reported, “I’m not ashamed of working in the informal sector. On the contrary, I feel very proud. It’s much better than begging and prostitution.” An older man said, “The results of my business make me feel proud.” Another single woman reported, “I’m neither ashamed nor proud of trading in the market. My sister was embarrassed at the beginning when she came across her friends or former co-workers. Our father, who is a member of the Communist Party, used to be against trading. But now he has come to terms with what is the main source of our family income. Business earnings provide 90 per cent of household income. The remaining 10 per cent is from our parents’ pensions.” However, the job is an embarrassment to a few. An informal taxi driver does not feel comfortable with his title referring to it as *khagi* or “fake”.

## 8 Characteristics of informal workers

While the informal economy is characterized by great diversity, workers tend to be predominantly women and middle-aged. Many are women and men who were laid off from factory jobs or government employment and are considered too old for a new job in the formal sector. Others are new entrants to the labour force whose limited opportunities after finishing formal education appear to be in the informal economy.

According to the EPSP survey, informal sector operators include slightly more women (54 per cent) than men (46 per cent). These summary statistics disguise the fact that women *predominate* in all sectors except for transport where virtually all operators are men. The percentage female for other activities is 69 per cent: 69 per cent for retail trade, 77 per cent for financial services, 71 per cent for other services, and 62 per cent for manufacturing activities (Bikales *et al.*, p. 12).

The study conducted by EPSP indicates that almost two-thirds (64 per cent) of informal sector workers are aged between 20 and 40. While 30 per cent are between the ages of 40 and 60. Thus children, youth, and the elderly represent only 5 per cent of the total respondents (Bikales *et al.*, p. 11). It may be that these ages are under-represented in the sample that included registered enterprises. Almost four-fifths (79 per cent) of the respondents for the EPSP survey were married; 12 per cent were never married, with very small percentages in other categories.

**Table 4. Educational level of informal sector and registered unemployed, 1999**

Education	Informal sector (percentages)	Registered unemployed (percentages)
No School	0.32	2.87
Primary	1.24	7.47
Secondary (8 years)	15.28	25.50
Secondary (10 years)	37.33	24.18
Vocational	2.68	23.51
College	17.96	11.57
University	25.19	4.90
Total	100.00	100.00

Sources: USAID EPSP Survey November-December 1999 and Registered 1999 Unemployed in December 1999.

Some of the most interesting data collected by the EPSP study indicate that informal sector workers are more highly educated than registered jobseekers.

Table 4 shows that 43 per cent of informal workers (versus 16.5 per cent of registered) unemployed have either a college education or university degree. The fact that a much larger proportion of registered jobseekers (24 per cent) than of informal sector workers (3 per cent) has a vocational education suggests that the training system has not matched skills with opportunities. Unemployed workers are more likely to have only a primary education or no schooling. The EPSP report concludes that the informal economy is not a haven for the unskilled and uneducated. Its attraction for the highly educated may suggest that ambitious entrepreneurs are taking advantage of profitable activities that do not require previous experience and bank loans. Or perhaps no other opportunities exist for workers to earn an income or supplement low wages and inadequate pensions. One trader remarked, "I'm amazed at how many people in the informal sector are highly educated middle-aged people. I guess it can be explained by the fact that no matter how educated you are, you can't live on a diploma or degree alone in a society where economic hardships are affecting everyone."

## 9 Key issues

Business in the informal sector poses problems as well as offering opportunities. According to the EPSP study presented in Table 5 only 16 per cent of those interviewed reported problems. Roughly one-third of the workers mentioned problems related to high costs and inadequate demand. Over one-third believe that low consumer purchasing power is a problem. One-third reported pressures from Government. Theft and cheating were problems mentioned by 12 per cent of those interviewed. Finally, three-fifths of the workers mentioned “other” problems. Box 9 outlines some of the key issues identified in case studies.

**Table 5. Problems reported by informal sector workers**

Problem	Ulaanbaatar	<i>Aimags</i> (percentages)	Total
Problem	15.19	18.34	15.79
No problem	84.81	81.66	84.21
Total	100.00	100.00	100.00
High price and high cost	32.9	35.9	33.5
Low consumers purchasing power	31.9	47.3	34.8
Government pressure	34.9	29.8	33.9
Theft and cheating	13.9	8.5	12.0
Other	30.4	27.0	29.8

Source: USAID EPSP Survey November-December 1999.

### Box 9. Key issues identified in informal sector case studies

- Inadequate effective demand
- Legal and regulatory environment
- Organizations and associations of informal sector workers
- Productive resources
- Business development services
- Risk and uncertainty
- Social protection

### 9.1 Inadequate effective demand

A major problem identified by surveys and interviews is low consumer purchasing power. According to data in Table 5 this was mentioned by 35 per cent of

respondents to the EPSP survey – 32 per cent in Ulaanbaatar and 47 per cent in the *aimags*. When consumers are poor, producers struggle to cut costs and reduce prices. Issues related to production costs, product prices, and purchasing power represent a problem for 68 per cent of informal sector workers in Mongolia. The percentage in Ulaanbaatar (65 per cent) is lower than in the *aimags* (83 per cent). The informal sector is squeezed on both the supply side and the demand side. Poverty pushes women and men into the informal sector and increases the supply of producers and products. Poverty also limits the effective demand for goods and services in the informal sector. To some extent low earnings create a special market for cheap products. But poverty also adds to fierce competition to sell at lower prices with smaller profits. It restricts consumer demand that limits growth of local markets. Poverty also depresses savings, discourages investment, and curtails expansion of informal businesses that are largely self-financed.

## 9.2 Legal and regulatory environment

From the early 1990s the informal sector appeared to be tolerated in view of the limited number of employment opportunities in the formal sector. International organizations and foreign aid may have contributed to a positive attitude towards micro-enterprise and informal activities (Sik, 2000). Yet “pressure from Government” was mentioned in the EPSP survey as a problem by informal sector workers: 35 per cent in Ulaanbaatar and 30 per cent in the provinces. This can include both the legal and illegal – red tape and outright corruption – that is associated with licenses, contracts, permits, fees, taxes, permits, bribery, extortion, and harassment.

The legal and regulatory environment for conducting business in Mongolia has been cited as a weakness and an obstacle by the business community and outside observers. This is related to more general issues of governance, transparency, and responsiveness. The informal sector is able to circumvent some of the problems of bureaucracy and corruption, but in many ways it would benefit from a more supportive environment. For some activities conducted without a permanent workplace or for temporary employment (such as described in Box 10) there appears to be little interference from government officials in the form of red tape.

### Box 10. Informal business for construction and maintenance

I started this business with my brother who is also a construction worker. I didn't have financial resources, so I borrowed some money from my sister. I paid her back later on. I don't have a permanent workplace. I put ads in the newspaper.

People or organizations contact me and I take the orders. I do all the work according to the terms and conditions that we agree upon. Since my work is occasional and temporary, I don't need to worry about permission, licenses, or taxes.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

International standards developed to measure the informal sector exclude illegal activities and the underground economy. Yet there remains a “grey” area between legality and illegality. While illegal activities such as alcohol import and commercial sex may be easy to identify, legal activities are often undertaken with or without official or unofficial payments. There is sometimes a thin line between enforcing labour regulations and “harassing” workers in the informal economy. This is the case in Mongolia, where workers report that obtaining permits and licenses is cumbersome and costly. Box 11 represents a “collage” of complaints given by workers interviewed for this study.

### Box 11. Taxes, fines, and fees for the informal economy

- The police harass us home-made food vendors. We’re only fighting to live and survive.
- I sell soap, detergents, and shampoo in the market, but, the Narantuul Market administration works with a lot of bureaucracy. They hassle us by demanding hygiene certificates and record books. Whenever something happens, they rush to fine us and threaten us confiscate our goods or storage. They’re very tough on us.
- I’ve opened an ice cream shop. The main difficulty we face is the bureaucratic hierarchy for licenses and permits.
- My job is to sell fruit and vegetables on the street. Of course, I bribed the authority to get a good location.
- Together with my family we sell girls’ clothes, hair accessories, and fashion jewellery purchased in Beijing. How much duty we pay in bringing goods from China depends solely on the customs officer of the day.
- I import spare car parts from Russia and the customs officer requires us to pay a bribe every time we cross the border.
- I do all types of shoe repair. Very often low-ranking policemen come and fine me without any reason. For example, if I’m busy with other customers they threaten to fine or hit me. Some of them don’t even pay for the services provided.
- I have permission from the Tesiin Gol Market administration to sell flour in Uliastai in Zavkhan *aimag*. I have to give a sample of the flour to the hygiene authority each time it arrives so I can get permission to sell it. I also pay a daily tax. I really don’t understand what this tax is for.
- After I retired from the army I set up a pawnshop. The greatest difficulty in getting started was obtaining the license. So far I haven’t faced many problems. But the district authorities sometimes visit us to collect contributions. They don’t give us any idea about where the money goes.
- Although I receive a pension as a retired medical doctor, I couldn’t make ends meet, so I started a credit service. I went through lengthy and bureaucratic procedures to get the business started. This included obtaining a business registration and a company seal, which involved various payments. Though it’s not clear what these payments are for, to me they’re just for the sale of paper.

Source: Excerpts from case study interviews, ILO/UNDP SPPD on the Informal Sector in Mongolia.

Other activities more clearly step over the line into illegality. For example, smuggling is linked to the “suitcase trade” of bringing back goods from abroad for sale in Mongolia. Likewise, poaching occurs in collecting animal products. Thousands



of street children in Ulaanbaatar are most likely working in conditions that are not strictly legal (Sik, 2000; see Colley, 2000, and Bolormaa and Clark, 1998).

Complaints about customs duties concern both the amounts and uncertainties involved. There appears to be an element of “discretion” in imposing the duties. One vendor states, “The government policy, in my opinion, is not supporting traders. The customs duties policy hits us heavily. In order to pay less in duties we have to declare the undervalued amount of the products or to give tips and so forth. This policy has to be reconsidered as soon as possible.”

Informal sector workers report that they face uncertainty about the enforcement of rules, regulations, and standards in their workplaces. While often stopping short of bribery and extortion, tax collectors, health inspectors, market-place administrators, customs officers, and economic police use a certain amount of discretion and interpretation.

Some workers complain that taxes and fees discourage business start-ups rather than support the private sector. One reported that “Because of all these fees I have to pay, sometimes I think of closing up my business.” Others observed that red tape is discouraging. A vendor of fruits and vegetables was asked to provide a list of documents to the Sukhbaatar administration that included a license, permission for sale, a recommendation from the health and hygiene authority, and a medical examination. In addition, government officials needed to approve the place of business. Registration is costly in time and money. The system has been reviewed in light of complaints about its efficiency (Tsedev, 2000a).

Taxes paid by informals have been a subject of debate. The formal sector has tax laws applying to employers (Economic Entities and Income Tax Law) and employees (Citizen’s Income Tax Law). These are based on percentage rates for profits and earnings. Businesses included in categories classified as informal, on the other hand, are taxed at a flat rate according to the Income Tax Law of the Citizens Who Individually Engage in Business Activities and Services Whose Income Can Not be Determined Every Time. This is meant to simplify administration where accounts are not kept to determine profits based on revenues and expenditures. However, given a wide range of earnings both within and among categories, the result is an uneven burden on informal taxpayers (Anderson, 1998, pp. 22-23). Flat taxes on poor workers raise serious problems regarding equity and incentives.

The flat tax for the informal sector was approved in 1993 and introduced in 1994. Taxes that are clearly regressive will affect compliance rates and raise popular discontent. This was the case in the spring of 1997 when higher taxes were followed by a policy review. One study suggests that the proposed flat tax rate increases between 1993 and 1997 were relatively great for the lowest tax brackets (Sik, 2000). Moreover,

these percentage increases were significantly higher than the inflation rate for some occupations. Selected interviews indicated that changes in flat tax rates are based on tax collectors' observations.

According to key informants, establishing business activities in the informal sector should not be used as an easy method of avoiding tax payments. Rather, government policy should be aimed at extending the tax base to reduce unit taxes. It was suggested that tax evasion creates a hidden economy or "shadow economy". A potential problem is that "black money" can influence political decisions. A related issue is that erosion of the tax base makes it more difficult to provide social services for vulnerable groups. Although the informal sector may encourage tax evasion and affect government finances, it also provides a means by which the poor can earn a living.<sup>1</sup>

Other informants mentioned "duality" between the illegal and the legal or between the rich and the poor. The issue was linked to the process of transforming illegal informal businesses into legal formal enterprises by enforcing compliance with tax laws and other regulations. This overlooks the fact that there is an official list of informal enterprises that are legal taxpayers. In addition, avoidance of taxes is sometimes part of mere survival strategies rather than mafia-type activities. Nevertheless, there is concern about abuse by large informal enterprises: while they may make tax payments, they do not necessarily abide by the Labour Law.<sup>2</sup> These discussions point to ideas for creating a business environment that is more conducive to the future development of the informal sector activities, micro and small enterprises (MSEs), and small and medium enterprises (SMEs). These conditions might also facilitate a transition from informality to formality. Box 12 contains an outline for a conducive business environment.

### **9.3 Organizations and associations of informal sector workers**

Many of the concerns raised by informal sector operators might be addressed through associations that can articulate the issues and organize for action. Among the advantages would be to create awareness, increase transparency, reduce corruption, and solve problems. A petty trader in a focus group pointed out that "There is a pressing need to organize around the issue of protecting our interests and rights. We need an association to be able to let the authorities hear our voice." She went on to say that however well traders might understand the laws and regulations, they need to unite efforts behind an institution that will work solely for the protection of their interests. Individuals cannot succeed in convincing the authorities about the need for change, but

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<sup>1</sup> Interview with D. Byambaa, Strategic Management and Planning Department of the Ministry of Health and Social Welfare.

<sup>2</sup> Interview with G. Oyundari of the Mongolian Employers' Federation (MONEF).

**Box 12. What is a conducive business environment for micro and small enterprises (MSEs) and small and medium enterprises (SMEs)?**

- A conducive *policy environment* that encompasses favourable economic policies and fiscal, monetary, trade, and taxation policies at the national level that are helpful to MSEs and SMEs
- A conducive *administrative environment* that comprises favourable and simplified laws, rules, regulations, licenses, permits, and fees that facilitate promotion of commerce on the part of MSEs and SMEs
- A conducive *infrastructure environment* that includes markets, telecommunications, transport, and storage for conducting business by MSEs and SMEs
- A conducive *sociocultural environment* that implies the absence of corrupt practices related to obtaining credit, permits, or licenses and a social culture that supports the value of entrepreneurship and development of private businesses for MSE and SME expansion

Source: Max Iacono, ILO East Asia Multidisciplinary Advisory Team (EASMAT), Bangkok.

together they can make a difference. Several workers interviewed pointed to the advantages of an association or union. Some of their comments are presented in Box 13.

A key informant pointed out that associations of informal workers are preferable to intervention by government administrators insofar as they do not interfere

**Box 13. The role of unions, associations, guilds, and NGOs**

- An association to protect the interests of “suitcase traders” was established in May 2000. I’m one of the members and wish to be actively involved in its activities. The government policy being introduced through the tax system is directed against this business. If we were strictly to follow all the regulations, no profit could be made and traders would have to leave the market.
- The Watchmakers’ Association was set up last spring. But I haven’t heard about its activities or plans. Definitely we should have an organization that looks out for our interests. For instance, training should be organized.
- Hairdressing is seasonal work, since in wintertime the number of customers declines. Therefore, it’s desirable to reduce tax rates according to the annual income level. NGOs should play an important role in protecting the rights of businesspersons. Four years ago the Federation of Hairdressers was established. It was a very good undertaking. The Federation expressed and addressed several opinions, ideas, and recommendations related to improving hairdressing services in Mongolia. They conduct professional evaluations of hairdressers’ skills and award certificates.
- We’ve become members of an association that unites over twenty owners and renters of minibuses. But so far we haven’t done much to defend our rights.

Source: Excerpts from case study interviews and focus group summaries, ILO/UNDP SPPD on the Informal Sector in Mongolia.

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with the free play of market forces. Another mentioned the important role that NGOs can provide by improving policy through both research and action.<sup>3</sup>

## 9.4 Productive resources

One objective of policies for the informal sector has been to enhance its potential to generate income and employment through higher productivity in selected subsectors. Complementary resources used together with human resources can raise labour productivity. Thus, a key issue for the informal sector is securing productive resources – including financial capital, new technologies, and other inputs.

### *Financial capital*

Virtually all studies of the informal sector point to the importance of finance and credit. The most common complaints heard in the Mongolia research relate to financial capital. In 1997 Anderson conducted a small survey of 15 kiosk operators and 15 “street informals” to determine the sources of capital. Of these, 20 used the savings of family and relatives, while 8 borrowed from family and friends with interest. The other 2 borrowed from a business and a pawnshop. According to Anderson, this is consistent with a 1996 study showing that loans and credit are obtained from family, friends, and acquaintances through an informal system. It suggested that loans from pawnbrokers are generally used for purposes of consumption rather than investment (Centre for Social Development, 1996 cited in Anderson, 1998). Frustration was expressed in discussions with workers about reliance on savings: “We work without rest and sleep. That is usual for us. However hard and long we work, we can’t manage to save money. Without savings we can’t even think about expansion and diversification of our business (Tsengelmaa, 2000a).” A member of a focus group complained, “There is no way that we can save money. Traders are feeding six people on average (Tsengelmaa, 2000a).” Box 14 illustrates borrowing from family as a source of start-up capital.

One of the reasons given for the rapid expansion of the informal economy is the relatively small amount of required start-up capital. The 1999 EPSP survey data presented in Table 6 indicate that four-fifths (82 per cent) of informal businesses relied on their own or family savings, while 11 per cent borrowed from individuals. Relatively few used pawnshop operators or bank loans as a source of finance. Other sources of start-up capital not mentioned in the EPSP study such as the “suitcase trade”, overseas remittances, and revolving credit are discussed below.

There are some differences across the sector included in the EPSP survey. Those providing informal transport services (taxis, trucks, minibuses, parking) were more likely (86 per cent) to rely on savings. Pawnshop operators and money changers

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<sup>3</sup> Interview with D. Gankhuu of the Mongolian Employers’ Federation (MONEF).

**Box 14. Borrowing from my brother**

I'm a 32-year-old single mother from Ulaanbaatar with three daughters aged eight, ten, and twelve. I am a trained accountant. Currently, I run a retail trade at the Narantuul open-air market-place. I started about a year ago. Immediately after graduating from secondary school I began looking after my children. When they grew

up I felt desperate because of the financial burden to feed, dress, and educate them – so I had to do something. Having no money of my own, I didn't have the slightest idea how to begin. Fortunately, my brother helped me. I borrowed money from him on condition that I would pay it back when I start getting income from my business.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

**Table 6. Sources of finance for the informal sector, 1999**

Source	Ulaanbaatar	<i>Aimags</i> (percentages)	Total
Family or personal savings	81.23	82.27	81.47
Borrowing from pawnshops	0.95	0.11	0.76
Borrowing from individuals	11.22	11.71	11.33
Bank loans	0.28	1.21	0.49
Other	6.32	4.70	5.95
Total	100.00	100.00	100.00

Sources: USAID EPSP Survey, November-December 1999.

were more inclined than others (18 per cent) to borrow from other pawnshops. Although very few obtained bank loans, retail traders were more likely than other workers to do so (Bikales *et al.*, 2000, Table 9).

Informal financial intermediaries range from friends and relatives to moneylenders, pawnbrokers, and traders. Borrowers use the loans to smooth the peaks and troughs of earnings and to finance new investment and working capital. The motivations for lenders may have more to do with creating stable networks and safety nets than with obtaining short-term financial returns (Hussein, 1997). According to the EPSP report, informal finance plays a large role in the Mongolian economy. Pawnshops operators and money changers added 1.2 billion *togrogs* to GDP and 17.6 billion *togrogs* in loans during 1999 (Bikales *et al.*, 2000, p. 14). Key informants also explained that a credit system works within the informal sector, where there is no access to formal bank loans. People lend to and borrow from each other. Interest rates are determined by market rates. Since borrowers and lenders know each other quite

well, there are few bad loans (Tsedev, 2000a). However, it was also noted that borrowers could be called victims as well as beneficiaries.<sup>4</sup>

An Employment Promotion Fund (EPF) was established to provide credit and training. Vulnerable Group Organizations (VGOs) and Local Development Funds (LDFs) were set up to provide opportunities to the openly unemployed and very poor by encouraging income generation activities through community-based approaches. Changes in the credit methodology introduced in 1998 resulted in the creation of Income Generation Funds (IGFs). There were a number of references by key informants and focus groups to small business credit distributed through poverty alleviation programmes. It was generally remarked that loans and conditions for the poor were not adequate to start a business. Many referred to problems of collateral (Government of Mongolia/UNDP/World Bank, 1999, pp. 17-18).

A number of initiatives have been tested to provide microfinance in Mongolia. One UNDP project identified two NGOs to participate in a MicroStart Programme – the Mongolian Women’s Federation (MWF) and the Liberal Women’s Brain Pool (LEOS). The Golden Fund for Development (XAC) served as a central office for lending activities. In 1999 participating institutions moved the financial services to a private finance company (UNDP, 1999, p. 6). Box 15 provides a summary of MicroStart operations.

#### **Box 15. XAC-MicroStart as a “best practice”**

The XAC-MicroStart microfinance company began operations in Mongolia in 1998. XAC-MicroStart does not present itself as “poverty-oriented” since it is entirely demand-driven. Anyone can apply for a loan. Unlike administered projects, it does not have a “target group”. Despite the differences in presentation, the evidence is that by offering credit services which poor people actually want (very small starter loans; easy graduation to larger loans; low transaction costs) the XAC-MicroStart approach is very much better attuned to the needs of the poor and vastly more sustainable.

With only seven branches, one loan product and with total assets of \$350,000, XAC-MicroStart made 3,500 loans in its first eleven months of operation. The average XAC loan is \$120, about the same as for an Income-Generation Fund (IGF) household, but XAC offers the all-important facility for poor households to begin with a loan as low as \$20 and move on to larger loans as their confidence and capacity increases. XAC’s recovery rate is virtually 100 per cent; the company has already achieved operational sustainability and borrowers in the vicinity of the seven branches – if all goes well – have access to credit services in perpetuity.

Source: Paraphrased and quoted from Government of Mongolia/UNDP/World Bank, 1999, p. 22.

<sup>4</sup> Interview with B. Enkhbat, Managing Partner of the Consulting Unit.

One 61-year-old man interviewed in Khentii borrowed 150,000 *togros* from the Golden Fund for Development to operate a kiosk. His two sons run the business and the father manages the accounts. Every two or three months they make a trip to Ulaanbaatar to purchase stocks at wholesale prices. Usually they borrow 200,000 *togros* from the Golden Fund and pay it back in three instalments. The Khentii trader reported that “Running a kiosk is not a big business, but it is enough to feed the family. So far, we have not made much profit,” but the kiosk business supplements family income.

Case studies reveal other sources of start-up capital for the informal sector: suitcase trade, overseas remittances, and revolving credit. The “suitcase trade” is the import and sale of items from abroad. Profits from sales of goods from the Russian Federation, China, or even the Republic of Korea are then used to begin an informal business in Ulaanbaatar or elsewhere. The following excerpt shows how one entrepreneur imported items from Russia to start a money-changing business: “I did suitcase trade for well over one year relying on my Russian knowledge and on my familiarity with Russian cities. But I hated to spend many nights on the train far away from the family and stand a long time in the market to sell the goods. Therefore, I went into the money-changing business with the money I saved.” Increasingly, the “suitcase trade” is evolving into a formal business. Individual trips abroad are being replaced by wholesale outlets from which informal operators purchase imported items for retail trade (Tsede, 2000a).

Other workers in the informal sector are able to accumulate savings from remittances derived from labour export of guest workers. One worker explained, “I decided to open a kiosk. I heard about this from my friend and realized that it will improve my life. But I didn’t have money to start with, so I had to send my son to Korea for a job.” Arrangements for work abroad are traditionally made through personal connections and private channels. Thus, on the export side the work is often organized through informal networks, but on the import side the process is generally run by formal enterprises.<sup>5</sup> However, the Government has now accredited agencies to handle the recruitment of labour sent to such places as the Republic of Korea, Japan, Hungary, Germany, the Czech Republic, Kazakhstan, and the United States (Tsede, 2000a).

A strategy for dealing with uncertain earnings and irregular savings is a revolving credit arrangement within a family business. There is not always a clear distinction between credit for purposes of consumption and investment as illustrated by excerpts from an interview in Box 16.

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<sup>5</sup> Interview with B. Enkhbat, Managing Partner of the Consulting Unit.

### Box 16. Family-based revolving credit association

I've been doing retail trade in my private kiosk since 1995. After I retired, I decided to go private. I bought a kiosk near our home to sell baked goods made by my wife as well as sweets, cigarettes, and noodles. I plan to do this business for another few years. I don't worry so much about myself, but I do worry about my children's future – especially about my youngest daughter. Banks are unreliable nowadays. Thus we have invested in the family. My two sons, four sons-in-law, my wife's relatives, and I decided to create a family fund. Everybody

contributes twenty thousand *togrogs* a month. Each investor would buy something big with the fund. So far, one son-in-law and myself have purchased colour television sets. Another son-in-law bought a carpet. One son repaid a debt. Another is about to buy a fridge. We decided to create another fund, with each of the members paying five thousand *togrogs* a month. By the end of the year the fund will reach eight hundred thousand *togrogs* and we will begin giving credit at ten per cent interest. I hope in such a way I'll be able to buy a car for my children.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

## New technologies

Petty trade can also involve modern technology. A male trader in the Narantuul Market who specializes in men's garments points out that "High-tech affects the activity of traders. The mobile phone that I use is the most important tool to make my business efficient. International calls to partners in China provide me with timely information on prices and products." Obsolete technology is a problem for a seamstress who uses old sewing machines: "The sewing machines are outdated without all the necessary functions such as those to make additional seams and to punch button holes. Therefore, I'm sometimes not fully satisfied with the quality or the design of my products." One idea proposed by a key informant is that state policy should support and encourage the informal sector in producing for export markets as well as domestic consumers. This might involve not only tax relief and soft loans but also training for new technology.

## Other non-labour inputs

Since some activities in the informal economy rely on international trade, several workers mentioned that trading policies and import duties represent problems in doing business. This includes trading in skins, wool, and cashmere sold for export to China. Likewise, some traders rely on consumer goods and food items purchased from abroad. Production also requires workspace. Workers complain about the rent for premises. In addition, there are problems with contracts or guarantees that enable the workers to stay in a particular location. The informal sector is often defined in terms of the lack of distinction between the business and the household. This is the case of a small catering business in Zavkhan. The woman who runs the business decided



to set up a canteen in a *vagonchik*<sup>6</sup> purchased with the sale of livestock. Equipment included both new purchases and household items. She says, “I bought some furniture, kitchenware, and other goods with money I borrowed from my older brother and sister. The stove and pans I brought from home.”

## 9.5 Business development services

In addition to complementary resources for raising productivity and incomes, many small enterprises require support services to improve human resources through such methods as provision of skills, training in management, and plans for business – including resources, marketing, credit, licenses, and so forth. One package that serves as a best practice in providing support for start-up and expansion of business is the ILO Start and Improve Your Business (SIYB) summarized in Box 17.

### Box 17. Start and Improve Your Business (SIYB): An ILO best practice

The ILO has developed a Start and Improve Your Business (SIYB) package for practical management of small businesses. Training materials include three components:

“**Know About Business**” (**KAB**) aims at creating awareness of entrepreneurship and self-employment as a career option – particularly for trainees in vocational and technical training institutions. It provides knowledge of the required attributes and challenges for starting and operating a successful business.

A “**Start Your Business**” (**SYB**) package develops skills for starting a small business. It uses participatory training methods and brings together basic theory, relevant information, and practical activities. The course is a cost-effective means of helping potential entrepreneurs think systematically through the most important issues in starting a business. One practical result of the training is a business plan for potential business, in a form that can be presented to a credit institution.

“**Improve Your Business**” (**IYB**) is a separate but interlinked component that can supplement the SYB training. The “IYB Basics” covers essentials of basic business management such as marketing, costing, pricing, basic record-keeping, buying, and selling. The materials are flexible and adaptable to the specific training needs of the target group. The manuals use a learning methodology specifically developed for small business owners with relatively low formal education. Topics are presented using step-by-step explanations with illustrations of “real-life” situations.

The following is an anecdotal assessment of business skills obtained through case studies in Mongolia.

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<sup>6</sup> A *vagonchik* is a railway car.

*Vocational training:* Few informal sector workers mentioned a need for skills training support. An exception was a watch-repair person who noted that because more young people are becoming involved, “I think it is time to think about training our younger generation on a more professional level. I plan to conduct training through apprenticeships.” Many have acquired business skills as petty traders: “While working as a trader, I collected information and observed how a business should run.” The experience of the poverty-alleviation programme in granting small business loans points to the need for training in marketing. For example, an evaluation mission encountered a group of vegetable growers in Khentii who planned to store produce for several months before transporting it to Ulaanbaatar in midwinter (Government of Mongolia/UNDP/World Bank, 1999, p. 21).

*Accounting skills:* Accounting practices do not appear to be a major issue for the informal sector. This may be because informal businesses do not need to produce income statements to pay flat taxes. Some workers without special training in accounting practices nonetheless have the basic skills to keep financial records. Other workers appear to be quite skilled. One young woman who runs a kiosk and counter in Khentii said, “I keep records every day on cash flow. Based on the detailed records I analyze which products sell the best and what is most profitable.” For others, it does not seem necessary. A photographer reported, “We don’t have to keep accounts, and it’s easier for us to run the business without them.” A male money changer with “secrets” reported that “Keeping written records is not a good idea.” However, a woman who also works as a money changer said that she must keep accounts for a monthly report to the Mongol Bank.

*Pricing practices:* Pricing seems to have come naturally to many traders whose previous experience was working as salaried employees rather than as business managers. Most traders are aware of the market prices. One explained, “We must set prices according to the market. We compare our prices with those of fellow traders and set them accordingly.” Some calculate mark-ups above all costs including transport, storage, rent, electricity, fees, and taxes. A car-repair service used a more complicated system: “To establish the prices for our services we look at the quality of the car and the rate of exchange. Our prices are not fixed. We negotiate with clients. If someone comes for the first time, we give a discount to attract him.” For a group of people who wash cars in front of the Mongolian People’s Revolutionary Party Building, “the price depends upon how dirty and how big the car is.” Some bargain with their customers. A trader at the indoor market “Tesiin Gol” in Zavkhan said that “If somebody looks poor we sell cheap.” A “junk” dealer in Khentii confessed, “I make up the prices for the goods myself bearing in mind how available and how old they are. I don’t have that much work to do. I just sit here and sell my junk. However, I have to tell customers about what it is and how it works.” Some traders appear to be practising a kind of price discrimination: “The price we charge our customers fluctuates, since the customers have different purchasing power.”

*Business ideas:* Case studies show that business ideas often combine aspects of the enterprise with needs of the households. The distinction between the two may be almost non-existent. Informal workers seem to have creative ideas for expanding and developing their businesses.

Businesses repairing mobile phones and providing computer games are presented in Box 18. Other ideas mentioned by women are sewing, knitting, carpeting, baking, and catering. It might be that identifying business ideas could be developed into business plans tied to training opportunities and microfinance through programmes such as the ILO's Community-Based Training (CBT) for the informal sector. Box 19 provides a summary of the approach and a list of the benefits.

### **Box 18. Business ideas**

#### **Spare parts and electrical repair**

On a regular basis I buy old or broken televisions that were thrown away and use them for spare parts. I'm sure there's a demand for this. The more so because the power system isn't stable and people can't replace the broken electrical appliances with new ones. Until recently we used to watch Russian black and white television. Now there's a variety of new brands made in Japan, Korea, and elsewhere. Consequently, the service is required to fit the demand in this new direction. In the future this type of work will require more knowledge and capital to buy spare parts. It might be that a small firm like mine won't exist any longer, but a few of them could be merged and expanded. I think I'll switch to repairing mobile phones as well. These are becoming an everyday necessity. I tried to repair some of them and it worked.

#### **Computer games in apartment basements**

I think these computer game places are quite popular among young children and the parents are happy that their children don't wander the streets. Most residents say that running this type of business in the basements is a very good idea, because it prevents all sorts of people hanging around the basements and using them for different purposes. In addition, it's a good spot for children to spend their spare time since we don't have many other children's entertainment places.

Source: Excerpts from case study interviews, ILO/UNDP SPPD on the Informal Sector in Mongolia.

## **9.6 Risk and uncertainty**

Risk and uncertainty are part of almost every aspect of informal sector activities. These risks involve purchases, sales, storage, health, hygiene, safety, harassment, theft, contracts, bribery, and extortion among many others. While the essence of entrepreneurship is risk, the levels of uncertainty are especially high in the small businesses that have mushroomed in urban areas. Some would go so far as to

### Box 19. Community-Based Training (CBT) for employment and income generation in the informal sector

#### CBT Approach

The CBT consists of a set of procedures for systematically identifying employment and income-generating opportunities at the local level, designing and delivering appropriate training programmes, and providing the necessary post-training support services – including credit, technical assistance, and market information to launch and sustain self-employment and income-generating activities. It is an area-cum-target groups approach combining direct and indirect measures, but with a strong emphasis on economic activities as an entry point for capacity-building of the institutions involved and feedback to policy-makers.

#### CBT Benefits

- Supports policy-makers and decision-makers in creating an enabling environment for promotion of action-oriented and demand-driven training and employment promotion programmes in the informal sector
- Assists national, regional, and local training and employment authorities to plan, organize, and implement cost-effective training and self-employment promotional systems
- Helps to increase the productivity of those engaged in informal sector activities by upgrading their skills, enabling them to obtain credit, and improving the organization and management of production
- Facilitates participation of women by the mobile sites, flexible schedules, training areas, course content, and training methodology
- Promotes modular training concept and enhances the development of training packages for groups and individuals
- Promotes community participation in the development process

Source: ILO manuscript, Geneva.

say that the market is hostile and lawless. Cheating and theft were reported in interviews. The claim of one member of a focus group is probably exaggerated: “The number of thieves and customers is nearly equal.”

Given that effective demand is limited by widespread poverty, there is fierce competition to lower costs and product prices. Income is uneven. Since high risk is a natural part of the informal economy, operators have developed “strategies” to reduce risk. Some of these are outlined in Box 20.

*Production methods:* An obvious method of reducing risk, maximizing profits, and cutting costs is to employ labour-intensive methods. This responds to the relative abundance of labour and the high cost of capital. It is common for family members to work long hours in informal businesses. Case studies revealed ingenious methods for minimizing production costs. One hairdresser in Zavkhan reported that she supplies government employees with haircuts in lieu of paying for water and electricity.

**Box 20. Some strategies for dealing with risk and uncertainty**

- Production methods
- Multiple activities
- Diversified products
- Product differentiation
- Business location
- Seasonal jobs
- Networking arrangements

*Multiple activities:* In order to hedge against risk, workers in the informal sector often have more than one job. A 45-year-old married man with four children earns a living through animal husbandry, ice cream, and fast food. Box 21 is an example of a man who can take advantage of different hours involved in operating a storage service and driving a taxicab. According to the data collected from individual diaries for the NSO/ UNDP Time-Use Study 6.8 per cent of the population has multiple jobs – 8.8 per cent of the men and 4.7 per cent of the women. This means that 11.8 per cent of the *employed* population has more than one job – 9.6 per cent of the men and 16.2 per cent of the women. In Ulaanbaatar three-fourths of the secondary jobs are classified as production of goods and services not for establishments commonly associated with the informal sector: food processing; food and beverage sales; textile, leather, and handicraft production; construction; petty trade; installation and repair of tools and machinery; travel services; and other services and production centres. In *aimag* centres, *soum* centres, and rural areas a large proportion of secondary jobs is in farm production and livestock herding.

**Box 21. “Suitcase trader”, storage service, and taxi driver**

For eight years I did suitcase trade in China, and as a result, the life of my family has gotten better. From our savings I bought a container and obtained permission to run a storage service. Apart from this business I drive a taxi part time to make some more money. Usu-

ally I stay at the container only between eight and ten in the morning, when the customers are coming to pick up their goods and between six and nine in the evening, when they put them back. During these periods my younger brother helps me as well.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

*Diversified products:* In other cases traders sell a wide variety of products. Furthermore, there are frequent changes in goods and services to meet shifting market demand. One trader decided to focus on girls’ garments, hair accessories, and costume jewellery. A kiosk operator in Zavkhan added fresh bread to his inventory of sweets, cigarettes, and noodles since customers were attracted by the aroma.

*Product differentiation:* Others compete by making their products unique. One woman sells footwear because she wanted an “elegant” job. To help sell her products, she names her boots and shoes: “There are ‘camel’ boots, ‘limousine’ shoes, and so on.”

*Business location:* Many traders pointed out the importance of the sales location. This means making arrangements and obtaining permission to set up business at a street, kiosk, or counter that attracts the most customers. This sometimes requires using connections and paying bribes. The site of a watch repair business was thought to be a major problem: “The location of the workplace is inconvenient and unprofitable. The most preferred area is close to the entrance or at the centre of the market. I asked the market administration to give me a better location. But without having connections, this is not likely to happen.”

*Seasonal jobs:* Another way to provide protection against risk is to combine seasonal jobs with other work. Cashmere combing generally takes place in the spring, and skin preparation is usually done in the autumn. A canteen operator closes down during the winter because there is not enough firewood. During that time she works as a cook in a guesthouse. A firewood trader does not work in the winter months, since most people switch to coal for heating and cooking.

*Networking arrangements:* Networks are used widely to facilitate business and reduce risk. The simplest form is a nuclear family or extended kin working together in a family business. This includes single mothers who rely on the support of parents and grandparents. Box 22 is an example from an interview.

### Box 22. Single mother with family support

I’m a single mother with five children. I organize my work all by myself since this counter trade is my own business. But my relatives give financial and spiritual support to me. My business is the only source of income for my family. Besides,

I share some of my income with my elderly parents. Since my children are still small, I don’t make them help with my business. My children do the housework, when I’m working. My parents, who live in the neighbouring *ger*, help with the cooking.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

Networks extend beyond families and include associates and partners. They can involve friends and neighbours. Sometimes there are cooperative efforts between households (Tsengelmaa, 2000b). Networks may draw on ties developed with school friends, in workplaces, or during military service. They are used for loans, information, ideas, suggestions, and influence (Sik, 2000). Excerpts from interviews in Box 23 indicate that without a network the work would be impossible.

### Box 23. I can't do business alone

#### Raw materials

*This 29-year-old man lives with his wife and baby in a ger. He makes a living trading skins, horns, and hides in the Tsaiz Market: I can't do this business by myself. When a truck loaded with raw materials arrives, I just don't have enough capital to buy them. And this business involves much arguing and bargaining which makes working alone impossible. It also requires timely information. This can be done more efficiently with many partners, so I have a joint financial and labour agreement with six persons. My partners are now in the countryside to collect raw materials. For personal reasons I have to stay in Ulaanbaatar. So I trade.*

#### Car wash

*This is a 26-year-old man who washes cars in Ulaanbaatar: Ten or eleven people work permanently here. We support each other if needed. Without this the business can't go far.*

Source: Excerpts from case study interviews, ILO/UNDP SPPD on the Informal Sector in Mongolia.

A 36-year-old male money changer emphasized the importance of networks: “To succeed in this business we need to avoid being careless – plus good connections and reliable partners have a determining role in success.” Networking can strengthen family values. Contacts and connections can also be developed into self-help associations and trade unions of informal workers. There is a risk, however, that networking can lead to crime and racketeering. Experience from elsewhere suggests that the emergence of a “blackening” economy in which criminal elements are most profitable can discourage the economic expansion of legitimate businesses into formal activities. Moreover, there is a danger that the whole political system becomes infiltrated by competing racketeering groups (Sik, 2000). This underscores the importance of providing simple, transparent, and affordable opportunities that give private business a future.

## 9.7 Social protection

### *Working conditions*

The promotion of occupational hygiene, safety, and health has been endorsed through the Mongolian Constitution and the Labour Law and implemented through both government agencies and NGOs (Buzmah, 2000, p. 1). However, informal sector workers do not generally have adequate awareness, technical means, sufficient resources to put into place measures for safety and health. ILO studies on safe work in the informal sector have pointed to the need for integrated approaches to health promotion, social protection, and employment generation. Innovative measures can prevent occupational diseases, work-related accidents, and environmental hazards through cost-effective

measures and sustainable methods at work sites through capacity-building within the informal sector. There is often a need to sensitize policy-makers, municipal authorities, and labour inspectors to prevention and promotion (Forastieri, 2000, p. 1). Box 24 is an example of long working hours in a kiosk, while Box 25 illustrates problems of weather, hygiene, safety, and health in the Narantuul Market. The need to improve sanitation and hygiene in open-air markets was mentioned by many informal workers.

#### Box 24. Long working hours

*This is the schedule of a 46-year-old woman who operates a kiosk:* I leave home at seven in the morning. Arriving at the kiosk, I prepare the goods for sale. In wintertime it takes a while to remove the window shields. The most profitable hours are between seven and eleven in the morning and from three to five in the afternoon. The customers are mostly students and people

who want to use the telephone. I'm busy in the evening during summertime. Usually, I work seventeen hours a day. Lunch is from one to three in the afternoon. Somebody from my family brings me lunch. I have dinner at the kiosk. When I continue to work until late at night, I sleep here. The next morning I wake up and continue to work.

Source: Excerpt from case study, ILO/UNDP SPPD on the Informal Sector in Mongolia.

#### Box 25. Working conditions in the Narantuul Market

The working conditions are very hard. During the winter I often don't feel my fingers because of the cold. There is no water drainage system in the market, so after the rain there are puddles all around the counter. Customers can't get close to the counters and we lose money. This is more frustrating than the cold or hot weather or than the fact that we stand all day on the hard cement. Because we sacrifice our health just to earn something for our everyday lives. People at the food market next to ours don't suffer from such problems.

As I mentioned earlier, it is expensive to use the toilet. Therefore, though a new toilet was built in the market, many people don't use it. They continue to use the wall or corners as "open-air" toilets. Thus the market area doesn't meet simple hygiene requirements.

Safety doesn't concern the market administration. Just recently part of the market building fell down killing and injuring several people. The plastic shelters we use to shade the place could easily be gone with the wind.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

Efforts by government authorities to improve working conditions are not always understood by the workers themselves. A member of a focus group discussion reported, "Since fire extinguishers are part and parcel of safety considerations, we must buy and use them." Another complained, "We must spray insecticides." Canteen operators questioned the requirement that operators purchase food technology books.



For some the costs in time and expense of regulations to enforce health and hygiene appear excessive. One canteen operator reported that she must have medical examinations monthly including x-rays and tests for tuberculosis and worms to have her hygiene certificates renewed. Other health hazards are quite evident as is shown by excerpts in Box 26 from an interview with a construction worker using cheap materials in the informal sector.

### **Box 26. Health endangered in my own construction business**

I'm a thirty-two-year-old woman with a secondary education and vocational training. I live in Ulaanbaatar with my father, husband, and two children aged one and eight in a one-bedroom apartment.

I started my business in 1994 out of necessity. Now I'm expanding to all major construction and maintenance in apartments. My husband works as a carpenter, plumber, and electrician. Actually, he is a car mechanic but this kind of work doesn't pay well. So we decided to work together.

The working conditions are hard. Construction work is poisonous and the dusty conditions create a constant danger for health. I experienced it myself. My second baby had diarrhoea until her eighth month. Doctors diagnosed the problem as due to materials that I used to paint the apartment.

Most of the time we use Chinese construction materials. They are much cheaper but more dangerous. Paints imported from Poland are less dangerous but cost more. Customers prefer to buy cheap materials.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

## **Social security**

Many workers in the informal sector earn very low incomes and have an extremely limited capacity to contribute to social protection schemes. They cannot afford to save much of their meagre incomes (ILO, 2000b). Three options outlined by the ILO are to extend existing programmes, create new programmes that target the informal sector workers, and develop tax-financed social benefit schemes (van Ginneken, 1996, p. 5). Policies need to take special account of gender differentials in social protection because many social security schemes reflect existing labour market inequalities. Contributory schemes usually do not provide adequate protection to women whose work is performed outside the market.

A high priority has been given to social protection under the transition economy. A social insurance scheme for all employees was launched in 1994 and now covers five branches of social insurance – pensions, benefits,<sup>7</sup> health, injury, and unemployment. A challenge remains to expand coverage to self-employed persons – including informal sector workers. This will require public understanding and

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<sup>7</sup> Sickness benefits and funeral grants.

awareness-raising. In the *formal sector* employers must pay 19 to 21 per cent of total wages for social insurance, while employees must pay 10 per cent. For *self-employed persons* the contribution rates for voluntary insurance are 12 per cent. Contribution rates are presented in Table 7 (Thompson, 1998).<sup>8</sup>

**Table 7. Percentage contribution rates for social insurance, 1997**

Insurance branch	Formal sector Employer	Wage employment Employee	Self-employed
Pensions	13.5	5.5	9.5
Benefits	1.0	1.0	1.5
Health	3.0	3.0	
Employment injury	1.0/2.0/3.0		1.0
Unemployment	0.5	0.5	
Total	19.0/20.0/21.0	10.0	12.0

Note: Variable rates for employment injuries reflect differential risk in different industries.

Source: Kenneth Thompson, "Background paper on social security in Mongolia", Paper prepared for the International Labour Organization/Confederation of Mongolian Trade Unions National Workshop on Social Security, Ulaanbaatar, 19-21 November 1999.

According to Anderson's 1997 study, the following percentages of informal workers were covered by schemes for pension and health, respectively: taxicab drivers (40 per cent and 51 per cent); kiosk operators (34 per cent and 53 per cent); boot repair (13 per cent and 36 per cent); used parts traders (18 per cent and 61 per cent); street vendors (5 per cent and 24 per cent) (Anderson, 1998, Table 1). Among those interviewed for this study, one 50-year-old widow who prepares Mongolian dishes (*khuushuur* and *buuz*) does pay the social insurance premiums.<sup>9</sup> She explained, "I keep the records carefully but don't show the true accounts to my brothers and sons. I pay a social premium twice a month. I don't want to rely on men in case I get sick."

The collapse of the health-care system provided under the previous regime has driven many people to the private sector. Sales of medicines and remedies take place in the informal economy. According to one government official, there are so many counters and kiosks selling medicine that it is not possible to control the quality.<sup>10</sup> Box 27 illustrates one method of taking preventive action against health hazards.

<sup>8</sup> These data are for 1997.

<sup>9</sup> *Khuushuur* is a kind of meat cutlet dipped in flour and fried. *Buuz* is a kind of dumpling with meat inside.

<sup>10</sup> Interview with D. Byambaa, former director, Strategic Management and Planning Department, Ministry of Health and Social Welfare and consultant to the ILO.

### Box 27. Health problems in the Narantuul Market

*This 49-year-old man was forced to retire from the police force and now trades in the market:* The health issue is a serious concern of mine. Unfortunately, we are left out of the government social security programmes. The working conditions are really abnormal. We work in cold, hot, rainy, and snowy weather. The food is bad.

We have to take care of our health ourselves since there is no insurance that works for us. I'm always very careful with what I eat. I take care of myself every day by taking a life-support medicine prescribed by a Korean medicine distributor who comes regularly to the market to introduce and sell the medicine.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

A key policy issue for the Mongolian informal economy will be to provide a system of social protection that replaces the comprehensive coverage once supplied through public service, state enterprises, and rural collectives. A study of existing legislation and proposed changes should be undertaken to make recommendations on the coverage and delivery of social security in the informal sector in line with international standards. In the meantime, the existing voluntary premiums for coverage of the self-employed and informal sector workers should be reviewed and publicized. One political leader pointed out that insurance premiums should be based on income earned.<sup>11</sup> In this case, however, informal sector workers would have to keep formal accounts, thus adding to red tape. An issue raised by a key informant is the link between tax payments and social insurance. Another important concern is whether those who purchase non-compulsory coverage will actually receive the benefits to which they are entitled.<sup>12</sup>

Extending of the formal social security system should receive a very high priority. In addition, grass-roots initiatives such as the ILO Strategies and Tools against Social Exclusion and Poverty (STEP) explained in Box 28 should be considered.

The challenge is “to design for informal sector workers social security schemes that are effective in protecting against poverty, and at the same time promote productivity and employment. Workers are generally willing to contribute to social insurance if they feel they get value for money, if the benefits correspond to their priority needs, and if the system that administers the benefits is trustworthy (van Ginneken, 1996, p. 12).”

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<sup>11</sup> Interview with N. Sodnomdorj, Member of Parliament.

<sup>12</sup> Interview with G. Oyundari, Mongolian Employers' Federation (MONEF).

**Box 28. ILO's Strategies and Tools against Social Exclusion and Poverty (STEP)**

Community schemes complement government systems for social protection. These are developed to provide mutual support in sharing risk and resources. Experimental systems to provide sufficient income and basic services have responded to local needs. However, problems sometimes arise with regard to insufficient funding, benefit coverage, and financial collapse. In some cases, women and

others have been excluded. The ILO is evaluating their design and effectiveness as to whether systems are sustainable and replicable. Without ignoring the need to strengthen social security schemes for formal sector employment, the ILO has taken a pluralistic approach in its global project on social protection: Strategies and Tools against Social Exclusion and Poverty (STEP).

Source: ILO: Report of the Director-General, *Decent Work*, International Labour Conference, 87<sup>th</sup> Session 1999, Geneva, 1999.



## 10 Social partners: MONEF and CMTU

Interviews with the Mongolian Employers' Federation (MONEF) indicate that serious attention is being given to the opportunities that small businesses and "black markets" provide to unemployed people. A MONEF official pointed out that in the past the Government has provided aid and grants to the poor. It must now look to the middle class that has been forced to find employment and income in activities that are mismatched with education and training. One problem is that loans have been channelled through a banking system that is still very weak. MONEF has recommended that loans be disbursed by NGOs that have more information about members. One interesting example of a creative approach to the current situation is an Asian Development Bank project that provided three years' salary to secondary school teachers who were forced into early retirement as part of a severance package.<sup>1</sup> These payments were used as capital to set up small businesses.

The President of the Confederation of Mongolian Trade Unions (CMTU) points out that, because of high levels of unemployment and poverty, many of the jobless are working in informal jobs. Thus, employment issues associated with the informal sector must be addressed. Trade unions should raise the issue of social protection in the informal sector to serve Mongolian workers, even if they are not union members. However, any improvements in the economic situation and working conditions will depend on better information about the informal sector. The unions have organized workshops on the subject that have underscored the need for concepts and methodologies. Survey design will require technical assistance from international organizations.

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<sup>1</sup> It is presumed that this was part of a severance package.



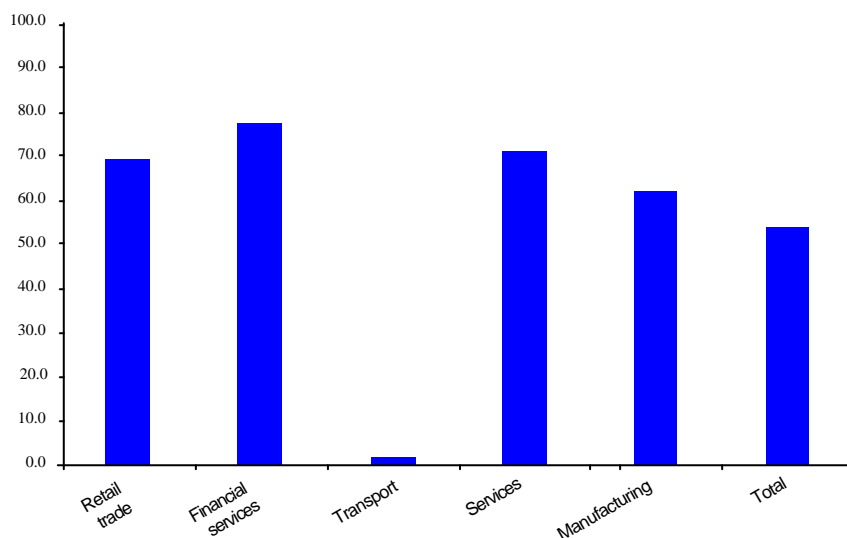
## 11 Special groups

### 11.1 Women

#### *Predominance of women*

As in many countries women play a dominant role in Mongolia's informal economy. According to the EPSP survey (see Figure 2) 69 per cent of the workers are women. Single women who are household heads look to the informal sector for employment and income. Discriminatory provisions of the Labour Law have forced some women into early retirement without adequate pensions. Other women return from maternity leave to discover jobs in the formal sector are no longer open to them. A consensus of focus groups is that, while many women have acquired higher education, they are becoming marginalized in the informal sector because of gender bias and insensitive policies (Tsengelmaa, 2000b).

**Figure 2. Percentage female by type of activity in the informal sector**



Source: USAID EPSP Survey November-December 1999.

#### *Burdens of transition*

Women have traditionally played an active role in the Mongolian economy. Greater equality has strong roots in socialist societies. This has been reflected in impressive educational levels and high participation rates. Mongolian women were active participants in the industrialization that began in the 1930s under communist



rule. The transition and “de-industrialization” have posed a burden on women. Joblessness and alcoholism have resulted in new family problems and high divorce rates. The number of female-headed households has increased. Between 1990 and 1998 the number of single women with children doubled (Bruun *et al.*, 2000, p. 31). The percentage of female-headed households is higher in urban areas (14 per cent) than in rural areas (8 per cent) (NSO and UNFPA, 1999, p. 12).

### *Invisibility of women’s work*

We do not have good statistics about working women in Mongolia. What data we do have indicate that about 55 per cent of the women in urban areas and 70 per cent in rural areas are working. It is even more difficult to obtain an accurate picture of women’s work in the informal sector. However, available information suggests that almost one-third of women in urban areas and around three-fourths in rural areas are self-employed.

Unfortunately, Mongolia does not yet have a labour force survey using household sample survey methods. The “Employment Survey” is actually a census that collects main indicators from primary administrative units for the economically active population. This includes the number of persons of working age who are unemployed. Measures for the unemployed population are for registered unemployed.<sup>1</sup> The Employment Survey does not include a full range of labour statistics recommended by the ILO nor does it use standard concepts and definitions (Pember, 2000a). While the Housing and Population Census 2000 should provide information about the characteristics of working women – including those in the informal sector – these statistics were not available at the time of writing.

One source of data is the Reproductive Health Survey (RHS) 1998. This includes some employment statistics for women aged 15 to 49 from a sample of 7,461. Table 8 shows that the percentage of women who were *not currently working* was 42.0 per cent, including 5.0 per cent who were not working but had been employed at some time during the past year (NSO and UNFPA, 1999, Table 2.12, p. 23). In urban areas a total of 51.0 per cent reported that they were not employed versus 34.1 per cent in rural areas.

According to this source, 62.0 per cent of the women in Mongolia had worked during the year before the survey. The corresponding figure for urban areas (55.0 per cent) was less than for rural areas (69.7 per cent). In Ulaanbaatar 55.7 per cent of the women had some kind of work during the preceding twelve months. Those *currently working* comprised 57.0 percent of all the women surveyed – 49.0 per cent in urban

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<sup>1</sup> For a discussion of official statistics on employment and unemployment see ILO (1999).

Table 8. Percentages of women aged 15-49, not working and working, 1998

	Not working		Working				Total	Number
	No work in last 12 months	Worked in last 12 months	All year 5+ days per week	All year less than 5 days per week	Seasonally	Occasionally		
Residence								
Urban	45.0	6.0	38.2	3.9	4.1	2.7	100	3 904
Rural	30.3	3.8	57.5	2.2	4.4	1.7	100	3 557
Region								
Central	38.0	4.9	47.8	2.5	5.0	1.8	100	2 576
East	34.4	6.3	52.5	1.2	2.4	3.2	100	678
West	33.5	4.0	51.7	3.1	5.1	2.7	100	1 569
South	29.0	1.9	63.0	2.4	2.4	1.3	100	462
Ulaanbaatar	44.3	6.0	38.9	4.6	3.8	2.3	100	2 176
Total	38.0	5.0	47.4	3.1	4.3	2.2	100	7 461

Source: National Statistical Office and United Nations Population Fund. *Mongolia: Reproductive Health Survey 1998*, Reproductive Health Series, Ulaanbaatar, 17 April 2000, Table 2.12, p. 23.

areas and 65.9 per cent in rural areas. In Ulaanbaatar 49.7 per cent reported that they were working. A large proportion of women in Mongolia work at least five days a week (47.4 per cent), with 3.1 per cent working fewer than five days a week. Other women work seasonally (4.3 per cent) or occasionally (2.2 per cent).

A proxy measure for the informal sector sometimes used in developing countries is self-employment. Where possible, certain occupations such as professional and technical workers are excluded. Data from the same survey shown in Table 9 indicate that 55.6 per cent of employed women are self-employed. The corresponding figure is 31.2 per cent in urban areas and 75.5 per cent in rural areas. Thus, an indirect measure of urban informal sector employment for women is 31.2 per cent. The proportion of self-employed women in Ulaanbaatar is 28.6 per cent. Significantly, almost all of the self-employed in urban areas receive their earnings in cash rather than in kind. In rural areas a large proportion of self-employed women probably represents unpaid family workers in livestock-raising households.

**Table 9. Percentage of employed women aged 15-49 by employer, 1998**

	Self-employed	Public sector	Private sector NGO	Total	Number
<b>Residence</b>					
Urban	31.2	49.8	19.0	100	1 911
Rural	75.5	20.7	3.7	100	2 343
<b>Region</b>					
Central	61.2	30.2	8.7	100	1 471
East	61.2	31.3	7.4	100	402
West	68.5	28.3	3.2	100	981
South	75.0	22.3	2.8	100	319
Ulaanbaatar	28.6	48.2	23.3	100	1 081
<b>Total</b>	<b>55.6</b>	<b>33.8</b>	<b>10.5</b>	<b>100</b>	<b>4 254</b>

Source: National Statistical Office and United Nations Population Fund: *Mongolia: Reproductive Health Survey 1998*, Reproductive Health Series, Ulaanbaatar, 17 April 2000, Table 2.13, p. 23.

The Reproduction Health Survey 1998 also collected data on occupation for seven categories: (i) managerial, professional, technical, and clerical; (ii) sales and services; (iii) farmers and herders; (iv) skilled; (v) unskilled; (vi) domestic service; and (vii) not specified. Unfortunately, these do not follow international standards for occupational classifications. It is unclear what the difference is between the first and fourth categories. Perhaps the fourth and fifth categories are production workers.

One estimate for the informal sector in urban areas would be to add sales and services, unskilled workers and domestic service. The corresponding totals in Table 10 are 39.1 for urban areas and 38.2 for the capital city. These figures might well be overstated, as they would include formal sector employees in trade and services. On the other hand, some women working in the informal sector do not consider themselves to be employed at all.

### ***Time-use for working women***

Growing poverty has increased incentives to find gainful employment. While economic circumstances have forced women to seek employment either as a primary breadwinner or as an additional worker, closures of day-care facilities that were provided under the socialist system have made it more difficult to combine work obligations with family responsibilities. In 1990 there were 1,350 pre-school institutions with 130,300 children, dropping to 671 institutions with 79,500 children by 1999 (Tsengelmaa, 2000b). Restructuring and downsizing of the formal sector have forced many women into the informal economy. Not that women are always left alone to manage childcare and housework: several interviews pointed to fathers, husbands, brothers, and sons who share work with women. The operator of a canteen in Khentii said, “My husband and brother work as kitchen hands.” A trader in the Narantuu Market selling beauty products and toiletry items reported that “The whole family helps us in the market. I mainly work with my husband. Our business requires a lot of physical labour, which in turn obviously means lots of manpower.” Another female trader noted, “My husband helps me. While I’m away to replenish stocks, he stays with the children.” A minibus driver described a division of labour within the household: “I am in charge of providing the firewood and coal. My two older daughters take care of the washing and cleaning. My wife is in charge of the kitchen.”

The NSO/UNDP time-use data from diaries show that the proportion of women (67.6 per cent) is smaller than the percentage of men (73.5 per cent) engaged in work defined as SNA activities or economic work. These include production of goods and services measured as GDP in national accounts. Within Ulaanbaatar these percentages are smaller: 48.6 per cent of women and 58.5 per cent of men.

As for the percentage of time spent on GDP activities, women (at 18.6 per cent) spend less time than men (at 26.0 per cent). “Extended SNA” activities are within the production boundary but outside the system of national accounts. These include unpaid work on household maintenance, caring activities (for children, the elderly, the sick, and disabled persons), and community services. Women spend more than twice as much of their time as men in these activities – 19.2 per cent versus 8.8 per cent. Finally, there are non-SNA activities outside the production boundary – including rest as well as social, cultural, and recreational activities. Women have less time than men to spend on these activities – 62.2 per cent versus 65.2 per cent (NSO and UNDP, 2000, pp. 23 and 25).

**Table 10. Percentages of employed women aged 15 to 49 by occupation, 1998**

Residence	Managerial, professional, technical, and clerical	Sales and services	Farmers and herders	Skilled	Unskilled	Domestic	Unspecified	Total	Number
Urban	37.3	30.1	4.3	15.8	5.3	3.7	3.4	100	1 911
Rural	12.9	8.5	68.2	5.4	2.3	1.6	1.1	100	2 343
Region									
Central	17.3	15.4	48.1	8.8	3.3	2.5	4.6	100	1 471
East	23.1	18.4	45.3	8.5	3.0	1.7	0.0	100	402
West	18.7	12.8	56.7	6.4	2.9	2.5	0.0	100	981
South	13.5	9.4	66.8	6.9	1.9	1.3	0.3	100	319
Ulaanbaatar	40.8	29.3	2.1	16.7	5.6	3.3	2.1	100	1 081
Total	23.8	18.2	39.5	10.1	3.7	2.6	2.1	100	4 254

Source: National Statistical Office and United Nations Population Fund: *Mongolia: Reproductive Health Survey 1998*, Reproductive Health Series, Ulaanbaatar, 17 April 2000, Table 2.14, p. 25.

Table 11 shows the average time spent by women and men on GDP production, unpaid work, and personal activities measured in hours during a weekday. While women spend fewer hours on GDP production and personal activities, they devote more time to unpaid work.

**Table 11. Time-use measured in average hours spent by working-age population per working day by residence and sex, 2000**

Activity	Urban		Rural		Total	
	Men	Women	Men	Women	Men	Women
GDP	4.77	3.90	7.90	5.10	6.25	4.47
Unpaid	2.13	3.82	2.05	5.55	2.10	4.62
Personal	17.10	16.28	14.05	13.35	15.65	14.92
Total	24.00	24.00	24.00	24.00	24.00	24.00

Source: National Statistical Office and United Nations Development Programme, *A pilot time use survey 2000*, MON (97) 201, Ulaanbaatar, 2000, Table 8, p. 35.

## **Underutilization of skills**

The educational level of females is higher than that of males in Mongolia. According to the 1988 Reproductive Health Survey data presented in Table 12, 42 per cent of women aged 6 and over have completed secondary school or higher versus 34 per cent of men. A smaller proportion of women (41 per cent) than men (46 per cent) has only a primary education or less. The percentage of persons completing secondary education is greater for women than for men (NSO and UNFPA, 1999, Tables 2.04 A and B, pp. 14 and 15). It is, therefore, not surprising that many women working in the informal sector have education, skills, and experience that are inappropriate for the limited opportunities in the formal sector. Thus, a mismatch of skills results in underutilized labour. Focus groups of informal sector workers in Ulaanbaatar pointed to some of the “advantages” of education and experience for women in petty trade. Box 29 contains excerpts. Box 30 relates the frustration of a woman trained as a geologist as she faces regulations that prevent her from selling home-made food on the streets.

## **Access to capital**

Although women are key actors in the informal economy they face disadvantages and obstacles such as inadequate credit and family obligations. These limit the types of activities that women select to provide employment and income. Many women do not have assets to use as loan collateral. According to focus group discussions, women engage in petty trade because they are “not too poor and not too

**Table 12. Percentage distribution of population aged 6 and above by sex, education and residence, 1998**

Residence	Primary or less		Incomplete primary		Complete primary		Secondary and above		Unknown		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Urban	37.2	34.3	16.6	12.4	19.9	22.4	26.3	30.8	0.1	0.0	100	100
Rural	53.9	48.2	24.0	21.1	9.3	15.1	12.7	15.6	0.0	0.0	100	100
Total	45.5	41.0	20.2	16.6	14.6	18.9	19.6	23.5	0.1	0.0	100	100
Ulaanbaatar	32.3	30.5	14.3	10.3	23.6	25.8	29.8	33.4	0.0	0.0	100	100

Source: National Statistical Office and United Nations Population Fund: *Mongolia: Reproductive Health Survey 1998*, Reproductive Health Series, Ulaanbaatar, 17 April 2000, Tables 2.04 A and 2.04 B, pp. 14-15.

**Box 29. Educated women in petty trade**

The traders are generally thirty to forty years old. Most of them are women. The reason women dominate this type of business is that not many of the men are capable. They are easily addicted to alcohol or gambling and lose everything. Many

of the traders were formerly school teachers, medical doctors, or army staff. Educated traders have an advantage. They don't face language barriers. They also have better managerial and communication skills and are creative doing the job.

Source: Summarized from a focus group, ILO/UNDP SPPD on the Informal Sector in Mongolia.

**Box 30. Meals prepared by a geologist**

I'm a geologist by profession. It's considered inappropriate for a woman to make prolonged work trips to the countryside if she is married and has children. So I never worked as a geologist. During the last eight years I have been earning an income by

vending home-made dishes. However, these sales were banned by the municipal authorities. As I can think of no other occupation, I'm still making the dishes and selling them on the streets, but I'm chased and harassed by the police.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

rich". They can scrape together resources for informal sector activities but do not have the means for small enterprise development. Women were placed at a disadvantage during the transition from state ownership to private property when assets formerly owned by the State, including livestock and housing, were registered in the names of household heads who were predominantly men. This left women without collateral for loans or credit unless they obtained permission from the man who headed the household hampering start-ups and expansion of business and making it more likely that women will operate in the informal economy rather than in the formal sector (UN, 2001, p. 14).

Since lack of capital limits the choice of business, women play a dominant role in retail trade both as street vendors and in personal services. The focus group pointed out popular wisdom that women have advantages over men who are "awkward with communication skills" and "negligent with accurate accounting". The most crucial need identified by women's focus groups was to make small loans available under more realistic terms. The poverty-alleviation programme encountered difficulties with eligibility requirements, loan size, interest rates, and loan terms. Changes were introduced under the Income-Generation Fund (IGF) that moved from group loans to household loans. More flexibility was provided for the intended purpose that was changed to include any income-generating activity except for livestock restocking projects (Government of Mongolia/UNDP/World Bank, 1999, pp. 17-18). A survey on credit activities conducted by the Women's Information and Research Centre in



1998 pointed to constraints and benefits: these are summarized in Box 31. An example of a best practice identified by a focus group is the Gobi Initiative funded by USAID and managed by Mercy Corps. The project issues business loans through non-banking financial institutions. In addition, the focus groups believe that banks – state and private – need to reconsider loan sizes and lending requirements.

### **Box 31. Poverty alleviation programme credit activities**

#### **Constraints**

- Inadequate financial knowledge
- Insufficient accounting skills
- Weak local markets

#### **Benefits**

- About two-thirds of the loan recipients considered the business to be sustainable.
- Approximately two-thirds of the poor households felt they were rising out of poverty.
- Increases in household income led to higher food consumption, new house purchases, and increased consumer durables.
- School dropouts declined and kindergarten enrolments increased.
- Group members acquired new skills and business knowledge.
- Women have learned how to run their own businesses and become economically independent.
- Vegetable projects increased food supplies.
- Members are more confident about their future and more involved in their communities.

Source: Survey conducted by Women's Information and Research Centre in 1998 cited in Government of Mongolia/UNDP/World Bank, 1999.

## **Conditions of work**

Working conditions are often extremely hard for both sexes. Women are exposed to freezing cold in the winter and sweltering heat in the summer. Many stand for long hours on cement pavement. Petty traders often work from dawn to dusk. One woman who trades flour and rice to buy meat reported, "The only problem was the heavy physical work. For a woman, it is very difficult to carry a whole sheep or goat and to travel frequently back and forth from city to countryside having two small children at home."

## **Differences in informal sector work done by women and men**

While existing statistics do not provide accurate measures for the percentage female in various activities classified in the informal economy, it appears that roughly four-fifths of those engaged in petty trade and personal services are women (Tsengelmaa,

2000b). Many women work selling sundry items in “TUTs” – fast-service points. Others are vegetable traders or canteen operators. There is some evidence that women (8.3 per cent) are less likely than men (20.0 per cent) to earn more than 80,000 *togrogs* a month.<sup>2</sup> It appears that women within the informal sector are more likely to be engaged in activities that reinforce traditional roles and require less capital.

### **Discrimination and difficulties**

The Labour Law in Mongolia has explicit provisions to protect against discrimination based on age or sex. An apparent exception is a provision of the Labour Law setting the retirement age of women at 55 versus 60 for men. Under the Pension Law as amended in 1990 women with four or more children can retire early with a pension to provide “social care”. While this is supposed to be done with agreement of the employee, the provision has made women vulnerable to being “retired” without their consent (Tsengelmaa, 2000b). As pensions are often insufficient to make ends meet, retired women often seek work elsewhere. An example in Box 32 is a retired woman who goes into the “TUT” sales of sundry items.

#### **Box 32. Inadequate pension payment and “Fast-Service Point” (TUT – Turgen Ulchilgeenii Tseg)**

After retiring, I got a miserable pension that wasn’t enough to live on. The apartment utilities and electricity bills are high and the pension is hardly sufficient to pay for

them. I had to look for better ways to earn money. It’s obvious that there aren’t employment opportunities for a retired woman like me, so I started this TUT<sup>3</sup> business.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

Women workers in the informal sector reported difficulties finding work in the formal sector after their places of previous employment were privatized and downsized. Box 33 describes a situation in which employers are reluctant to hire older women.

### **Observations and suggestions from focus groups**

Four focus groups were conducted during August 2000 to discuss concerns of the informal sector focusing on gender concerns. These groups included a total of 28 women and 4 men working in various occupations including vegetable traders, grocery sales, canteen operators, newspaper sales, shoe repair, handmade knitwear,

<sup>2</sup> Women’s Information and Research Centre (1998) *The economic status of Mongolian women in the transition period*, Ulaanbaatar cited in Tsengelmaa (2000b).

<sup>3</sup> TUTs trade in different items – mainly groceries, sold in shacks and kiosks.

**Box 33. Specific difficulties faced by older women in the formal sector**

The organization I used to work for was privatized and is under the total control of a foreign investor. They reduced the staff to just two people. There was no way a woman such as myself aged over forty could have obtained employment. When I heard about hiring sales clerks and shop assistants, I applied for a position only to be turned away because the employers were looking for tall young women aged 18 to 25 with good looks. So I started a canteen with my husband.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.

suitcase traders, tailoring services, microbus conductor, hairdressing services, ready-made garments, photocopy services, and pawnshop operators. The ages of the group ranged from 18 to 57. Almost all had a complete secondary or university education. Although they were currently working in the informal sector, their stated occupations included veterinarian, accountant, tailor, hairdresser, cook, doctor, and lawyer. The group also included a fitness instructor, a school teacher, and a construction worker.

The focus groups discussed the same issues raised by key informants and in case studies, so their key concerns are mentioned elsewhere in this report. Comments from the focus groups are summarized in Box 34. Most women identified the need for microfinance: some international best practices are summarized in Box 35. In addition to a review of loans from non-banking institutions and the banking system, focus groups of informal sector workers recommended that efforts be made through advocacy, laws, and regulations to ensure that Mongolia moves toward non-discrimination in all workplaces. Urgent attention should be paid to extending social security to the informal sector. Finally, the focus groups pointed to the need for appropriate vocational education tied to labour market demands. Many of the women had attained high education levels for which there is no effective demand (Tsengelmaa, 2000b). Without a strong system for gender advocacy within the government administration, women's NGOs are working to raise awareness and take action on discrimination in Mongolia. These include NGOs such as the CEDAW Watch National Network, the Mongolia Women's Lawyers' Association, and many others (Tsengelmaa, 2000b).

## 11.2 Children

Child labour in the informal sector has been growing. Children live and work without the supervision of adults – generally without social protection and for low pay. While child labour is illegal, enforcement is likely to be less adequate in the informal economy than in the formal sector. Advocacy should encourage a distinction between child workers in family activities such as housework or herding and child labour in urban places and under hazardous conditions. The central concern about child labour is not work done by children that is an essential part of the socialization

### Box 34. Summary of focus group observations

#### Reasons for working in the informal sector

- Pensions are inadequate.
- Middle-aged women do not have other employment opportunities.
- Wages and salaries paid in both public and private sectors are inadequate.
- Women must ensure that households earn enough to pay for daily necessities and school fees.
- “Mothers cannot see their children go hungry.”
- Professional women such as engineers, doctors, teachers, and lawyers have been forced into the informal sector as the best alternative to earn family income in the transition economy.
- Women are better than men in petty trade, because they know what goods and services families need to purchase.
- Women have skills for communication and accounting.
- Some women who take maternity leave in the formal sector are not permitted to return to previous employment, so they turn to the informal sector.

#### Conditions of work

- Working conditions in markets are unsafe, unhygienic, and unsanitary.
- Severe weather – cold in winter and heat in summer – represents a hardship in open-air markets.
- Women work long hours to make ends meet.
- Many vendors stand on cement surfaces for lengthy periods.
- Young women are afraid of being harassed at night.
- There are no holidays in the informal sector.
- Market-places attract thieves and drunks.
- Focus groups found that there was no community to “fall back on” in case of hardship.
- Traders feel they have “no collective”.
- Inadequate provisions exist for meeting contingencies of illness, accidents, and retirement.

#### Difficulties in business

- Women lack capital to start and expand their businesses.
- Credit is urgently needed.
- “However long and hard we work, we cannot save enough money to expand and diversify our business.”
- Women have inadequate collateral to meet the requirements of bank loans.
- Rents are excessively high for kiosks, counters, containers, and other locations for sales and storage.
- Contractual arrangements for renting business space are not always honoured.
- Taxes, fees, duties, and other payments for licenses, permits, fees, and imports are too high and are often arbitrary.
- Government authorities collect compulsory “contributions” for various purposes such as clothing and badges that are never delivered.
- Flat taxes are not appropriate where there are seasonal changes in income earned.

**Box 34. Summary of focus group observations (continued)**

- Regulations are cumbersome and costly; for example, procedures for transporting fruit and vegetables in containers sometimes lead to delays in delivery that result in spoilage and losses.
- Some informal sector workers are forced to buy unnecessary items such as fire extinguishers and spray insecticides from government inspectors.
- Workers lack income security being subject to price changes such as those caused by livestock shortages.

**Suggestions for improvement**

- Women need access to credit that is flexible and appropriate for their specific circumstances.
- Informal sector workers, non-governmental organizations, and government agencies concerned should disseminate information about how to obtain small business loans from bank and non-bank financial institutions.
- Social insurance is urgently needed.
- Women should organize to protect and promote their interests and rights.
- Informal sector workers must form associations to let authorities hear their voice.
- Steps should be taken to ensure non-discrimination by sex in all places of work.
- Vocational training should provide specific skills that can enhance employability, improve productivity, and increase profits.
- Market administration must take a close look at the collection of fees and the provision of services: the system must be rationalized.

Source: Focus group meetings held between 1 August and 11 August 2000 at the ILO IPEC office in Ulaanbaatar.

process and a means of transmitting acquired skills from parents to children such as through a few hours tending household livestock, doing farm work, or assisting family businesses. Rather, the issue is whether children are denied a childhood and a future by dropping out of school or working long hours for low wages under conditions that damage physical health and mental development.

Table 13 shows the percentage of children who are not attending school. Of those children aged 6 to 15, 27.2 per cent were *not* in school in 1998 – 18.3 per cent in urban areas and 36.0 per cent in rural areas (29.7 per cent for boys and 24.7 per cent for girls). These percentages of girls and boys do not include those who are not living in households and, therefore, are not included in the Reproductive Health Survey 1998. This means that the proportion of children not attending school who are either at home or homeless is even larger.

According to the NSO/UNDP time-use data from diaries, the percentage of children who are employed is 36.6 per cent for those 12 to 15 and 41.8 per cent for those aged 16 to 17. Many employed children are assisting with family livestock

### Box 35. Providing women entrepreneurs with sustainable access to microfinance

#### Common features

- Close targeting of the most needy borrowers
- Decentralised loan delivery and management systems through intermediary institutions or parallel banking system
- Group formation to ensure financial discipline
- Support systems to enhance productivity

#### “Collateral substitutes”

Financial institutions lending to female entrepreneurs most often use “collateral substitutes” to overcome their lack of traditional collateral such as property, equipment, or capital. The best known examples are peer pressure (joint liability arrangements in lending to “solidarity” groups) and probation (credit scoring). Both have performed as well as conventional instruments in terms of ensuring repayment and have been used over a fairly long period.

#### Successful institutions

- Offer primarily short-term working-capital loans
- Have a turnaround time for loan approval of less than two weeks
- Provide services close to borrowers’ home or work
- Charge interest rates significantly above the rate of inflation
- Have lower salary levels than financially less viable programmes

Source: “Women in the informal sector and their access to microfinance”, Paper prepared for the Inter-Parliamentary Union (IPU) Annual Conference, Windhoek, Namibia, 2-11 April 1998.

**Table 13. Percentages of household population not attending school by age, sex, and residence, 1998**

Age	Male			Female			Total		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
6-10	29.5	46.7	38.4	32.0	42.2	37.4	30.7	44.4	37.9
11-15	7.8	33.3	20.4	3.5	17.8	10.1	5.6	25.9	15.3
6-15	18.8	40.4	29.7	17.7	31.7	24.7	18.3	36.0	27.2
16-20	51.8	90.9	70.8	44.9	88.9	65.4	48.3	89.9	68.1
21-24	86.1	97.9	92.0	76.1	98.7	87.5	80.7	98.3	89.5

Source: National Statistical Office and United Nations Population Fund: *Mongolia: Reproductive Health Survey 1998*, Reproductive Health Series, Ulaanbaatar, 17 April 2000, Table 2.05, p. 15.

herding. This explains the much smaller proportions of children in Ulaanbaatar counted as working: 12.0 per cent for those aged 12 to 15 and 13.0 per cent for those aged 16 to 17. Data from the time-use survey questionnaires show lower percentages of children at work (UN, 2001, p. 33).<sup>4</sup>

Many children who drop out of rural schools help with livestock herding or farming activities. Others work under hazardous conditions in coal mines. The exact circumstances and working hours are not known. A serious problem is the growing numbers of children on their own in cities. This is partially explained by breakdowns in families associated with unemployment, divorce, alcoholism, and violence. One study undertaken by Save the Children Fund (UK) provides information about the types of work performed by children – most between the ages of 11 and 15 (SCF, 1998 cited in IPEC, 2001). Many of these jobs are in the informal sector: selling food and newspapers in markets and streets; collecting and selling wood, coal, paper, bottles and cans; shining shoes; washing cars; cleaning houses; and acting as porters. Some of the work is not generally performed by children – such as carrying cement, cutting trees, making horseshoes, repairing cars, loading trains, and digging graves. One unusual occupation is singing on the streets. Other children beg and steal to earn a living. A growing concern is drug selling and child prostitution.

Another study of Ulaanbaatar points to the locations of work – market-places, railway stations, parking lots, and bus stations. Three-fifths of the children were boys (State Labour and Social Welfare Inspection Agency and the National Children's Centre, 1999 cited in IPEC 2001). Boys are hired in markets to act as porters, and many are organized. For example, some 160 workers in the Central Market of Ulaanbaatar rent trolleys for 1,500 *togrog*s a day to reduce the weight of the loads they transport. Most are between the ages of 12 and 18. Working conditions are hazardous due to heavy loads, cold temperatures, and slippery paths (IPEC, 2001).

Street children represent a special group. It is estimated that some 4,000 children in Ulaanbaatar have been orphaned or separated from their parents (Maekawa, 2000, p. 4). One small study indicates that half of these children work. Some mentioned that they would like training to acquire skills necessary to find jobs. Children sometimes work in teams to provide protection. During the severe winters street children live in underground sewers to take advantage of welcome warmth from heating pipes. Living conditions in unsanitary places expose street children to diseases such as tuberculosis and scabies (Maekawa, 2000).

Another group of urban workers earns a living as scavengers in the dumpsites of Ulaanbaatar. The Mongolian Red Cross conducted a small survey of one major

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<sup>4</sup> Data obtained from questionnaires differ from those collected from diaries.

dumpsite called Tsagaan Davaa. Many of the scavenging families have migrated from rural areas and are not officially registered with the district authority. This means that they do not have access to health care and public schools. Children live with families or by themselves. Most live near the dumpsite where people earn a living by collecting waste material and carrying it a distance of two to five kilometres to wholesalers in the city. On average, they earn 1,000 to 2,000 *togros* a day. However, as elsewhere in the informal sector, there is a range of earnings. Some families are able to earn 200,000 *togros* a month. This pulls others to the dumpsite in search of a livelihood. Working conditions are poor. Many of the children are malnourished and suffer from skin diseases and respiratory disorders (IPEC, 2001).

One worker interviewed for this study in Khentii mentioned the plight of children and youth. Excerpts from his remarks appear in Box 36.

### Box 36. Wood collectors

I'm a fifty-year-old man originally from Khentii *aimag*. I currently live with my wife and two of our five children in a *ger* in Ulaanbaatar. I meet many people going around looking for wood. Most are from very poor families. I notice that more young people and even children do this job.

I feel sorry for them having to do this heavy work and in an unprotected job. Perhaps they are homeless and come to live here. When these young people live in a group in the forest, they could threaten the local children or families who could easily become involved in crime.

Source: Excerpt from a case study interview, ILO/UNDP SPPD on the Informal Sector in Mongolia.





## 12 Future directions

### 12.1 Development strategies for economic diversification and employment creation

The Nordic Institute of Asian Studies (NIAS) has reported that the development path followed by Mongolia during the past decade was not sustainable: “Although public works programmes and various labour market and employment programmes can provide useful immediate relief, a long term solution to the problem will inevitably require a fundamental change in the nature of economic development and a diversification of the economic base. This will require a development of agro-processing, manufacturing in areas where Mongolia has a comparative advantage (such as upmarket textiles), and services in general.” Small and medium-sized enterprises should play a prominent role. This is already taking place in Ulaanbaatar in the form of a mushrooming informal sector. However, a cohesive strategy will need to be formulated to include macroeconomic strategies, sectoral policies, financial services, and business support (Bruun *et al.*, 2000, pp. 17-18).

It will be important to give greater attention to two sectors that have absorbed large numbers of unemployed workers and new entrants during the transition period – livestock herding and the informal sector. These are linked insofar as rural development will reduce migration flows to urban centres. Given its important role in the Mongolian economy, the livestock sector should be given a high priority and not merely appended to an employment strategy for the informal sector. However, some opportunities for productive employment in rural areas may be off-farm activities in the informal economy. An assessment should consider developing cooperatives. Efforts to support and develop micro-enterprises and *aimag* centres should also address the related issues of poverty and migration.

It seems clear that informal sector operators themselves see a need for government support through a comprehensive framework for national development. Box 37 contains excerpts from an interview with a 43-year-old woman who runs a canteen and a 43-year-old man who drives a truck.

### 12.2 Further review of the informal sector

The title of a recent government publication is “To act effectively, one needs to see clearly (Government of Mongolia, 1999d).” For an accurate and focused picture of the informal sector existing information must be analysed and additional research would be useful. Clearly the informal sector has provided both employment and income in Mongolia during the transition from a command system to a market economy. Since jobs and earnings have raised household incomes, they have undoubtedly contributed to poverty alleviation. Yet many workers in the informal sector do not consider

### **Box 37. Informal sector demands for a rational policy framework**

#### **Imported food**

Our business is very sensitive to the prices of imported food products. If import restrictions are imposed on Chinese vegetables, then the prices will go up two or three times. Since the country's needs for flour and vegetables are satisfied by Chinese imports, we are completely dependent on Chinese export prices. Also, some unforeseen events could happen. For instance, once the border was closed for ten days due to cholera and prices shot up. The state policy on to this matter should be very rational.

#### **Truck driver**

I don't see anything that is done by the State. Regulation issues aren't considered though it is well known that transport and communication are very important sectors. The roads are in very bad condition. Where has the tax money gone?

Source: Excerpts from case study interviews, ILO/UNDP SPPD on the Informal Sector in Mongolia.

themselves gainfully employed.<sup>1</sup> Furthermore, despite improvements in information on employment and poverty, we do not yet have reliable data on the number and characteristics of informal sector jobs. Nor do we have reliable statistics about the business operations of a broad range of informal activities. Studies of specific groups in the informal sector begin with certain assumptions about occupational, industrial, and status classification. However, such studies may overlook a large segment of informal activities. To formulate effective policies it would be useful to have more complete information about households and enterprises in the informal sector – both registered and unregistered with the tax authorities. Are these additional workers in households whose income is above the poverty line? Are these moonlighting activities of persons who are also employed in the formal sector? What proportion of those working in the informal sector live in poor households? What are the constraints and opportunities for improving productivity and providing protection?

### **Existing data**

A number of data sets already exist that could serve as rich sources for additional tabulations and statistical analysis for the informal sector. These include information collected by the Employment Policy Support Project, the Time-Use Survey, the Living Standards Measurement Surveys, the Population and Housing Census 2000,

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<sup>1</sup> According to a survey conducted by the Women's Information and Research Centre, 63 per cent of those classified as "not working" are involved in the informal sector. See Women's Information and Research Centre (1998) cited in Bolormaa and Clark (1998) p. 21.

and the Reproductive Health Survey 1998. Compiling labour statistics from the administrative records of the tax authorities would be useful. The ILO study *Economic growth, employment and training in Mongolia: A report prepared under UNDP Support for Policy and Programme Development (SPPD)* is an example. These sources should be tapped to provide greater detail, deeper insights, and baseline data.

## **New measures**

There are no fully representative data covering all informal sector activities in Mongolia. Therefore, it is not possible to monitor changes in the informal sector or to compare employment in this sector with other sectors. Over the next two to three years the highest priority should be given to conducting a household-based labour force survey (LFS) including questions that identify employment in the informal sector. This will provide statistics on the number and characteristics of those employed in the informal sector as part of an overall perspective on employment. International standard criteria would be used in this survey to permit comparisons with other countries.<sup>2</sup> The advantages of using representative sample surveys are outlined in Box 38.

The National Statistical Office has already prepared a project proposal for a labour force survey but has not as yet found funding. The initial proposal has been for a survey with national coverage (urban and rural), but if necessary the survey could be restricted to urban areas only or even to Ulaanbaatar. Once this labour force survey (LFS) has been completed, a specialized informal sector survey (ISS) should be conducted to provide more detailed information on this sector. Again, national coverage is preferred, but if funds are limited the survey could be confined to urban areas or the capital only. In the meantime, less expensive methods such as case studies should be undertaken to obtain information about target groups of informal sector activities or micro and small enterprises. These might be restricted to particular industrial sectors or socio-economic groups. An important target group is street children. The ILO has outlined methodologies for obtaining information from children living outside of households (Ashagrie, 1999). Box 39 refers to survey methodologies for street children.

## **Policy frameworks**

While improved methodologies and additional research should provide greater insight into the characteristics of informal sector workers and activities and trends in employment and output, time is of the essence. Policies cannot wait for new studies. Focused policy frameworks should be prepared in three areas drawing on research and

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<sup>2</sup> Attention could be given to identifying special groups of interest in Mongolia, but it would be unwise to ask respondents whether they have paid Informal Sector Income Tax as this might affect the response rate and bias the survey results.

### **Box 38. Broad approaches to measuring the informal sector**

There are two broad approaches used when measuring the informal sector: data collection with representative sample surveys and without representative sample surveys.

#### **(1) Representative sample surveys**

This is the preferred approach in which a sample of households is selected using area sampling methods. Data on the informal sector might be collected in: (a) a household-based labour force survey (LFS); (b) a module attached to an LFS or other survey (such as a living standards measurement survey); or (c) a specialized informal sector survey.

In countries such as Mongolia where there is no labour force survey (LFS) or informal sector survey (ISS), it is recommended that the first step would be to conduct a labour force survey in which employment and unemployment data are collected for the whole population, and special attention is given to identifying those employed in the informal sector.

In several Asian countries (for example Nepal, Thailand, Viet Nam), the Labour Force Survey includes questions to measure the number and characteristics of those engaged in the informal sector using the following criteria: (a) owned and operated by household; (b) less than 10 regular paid employees, with separate data available for nil, 1-4, and 5-9 regular paid employees; and (c) non-agricultural. Once the general overview of employment is provided by the labour force survey, it would be appropriate to conduct a specialized informal sector survey. In a specialized ISS, household survey methods are used to identify operators of informal sector businesses in the selected geographic areas, and then establishment survey methods are used to follow up with a sub-sample of these informal sector operators.

#### **(2) Data collection without representative sample surveys**

When resources are limited, some countries collect quantitative data and/or qualitative information using purposively selected sample surveys, case studies, interviews with key informants, discussions with focus groups, etc. While there is a role for these approaches, the data produced may not represent the true situation and results should be used with caution.

Source: R. Pember, "Measuring the informal sector", ILO East Asia Multidisciplinary Advisory Team (EASMAT), Bangkok, September 2000.

analysis as well as successes and failures of programmes already undertaken in Mongolia:

- Business environment including policy, administrative, infrastructure and sociocultural environments;
- Microfinance including mutual savings and credit schemes; and
- Social protection including working conditions and social security.

### Box 39. Surveys of street children

Homeless children are not represented in household surveys. A purposive approach can be used with trained interviewers who are well acquainted with the areas where children live and congregate. In one country an inquiry was conducted in cities. “The interviewers were sent out in the early evening and often at night with a detailed questionnaire to interview at random the children they found. In many cases, the informal sector operators for whom the children work were also inter-

viewed. The exercise resulted in useful statistical data, enabling the survey team to analyse the various characteristics of street children, such as age, sex, educational background, migration status and reasons for being on the streets, types of economic activity and occupation, earnings, living conditions (food, sleeping place, etc.), difficulties encountered, skills, future plans, activity patterns and background information of their parents and so on.”

Source: Kebebew Ashagrie, “Improving the knowledge base on child labour”, in Nelien Haspels and Michel Jankansih (eds.): *Action against child labour* (Geneva, International Labour Office, 1999).

Attention should be paid to projects developed as part of the poverty alleviation programme and other development initiatives to build upon what has already been learned and achieved. Action-oriented participatory research should include discussions among key stakeholders including relevant government officials, informal sector workers, and non-governmental organizations. It should involve the Mongolian Employers’ Federation (MONEF) and the Confederation of Mongolian Trade Unions (CMTU) as well. Research should use integrated approaches and draw upon multidisciplinary expertise. In all these areas, the special needs of women and children in the informal sector should be accorded a high priority. The aim of participatory research for policy frameworks is to make policies and institutions more responsive to the informal sector.



## 13 Conclusions

Despite differences in measurement, the existing data suggest that the informal sector makes a significant contribution to GDP and employment. A broad range of economic activities represents a mere survival strategy for some and offers lucrative employment opportunities to others. Many informal sector workers have done remarkably well in their on-the-job training for a market economy. They are able to plan strategies that reduce risks, minimize costs, and meet demand. Most are positive about their current activities and hopeful about future opportunities.

The issue of poverty is a key to understanding the sector. Urban employees with inadequate earnings, redundant workers without other employment, retired persons with meagre benefits, livestock herders affected by deteriorating infrastructure, marketing problems, and multiple *dzuds* are pushed by poverty into the informal sector. Many workers in informal activities earn only a basic livelihood and join the urban poor. Poverty affects purchasing power or effective demand for goods and services. This tends to create a special market for cheap products in the informal sector. But it also adds to fierce competition to sell at low prices. Poverty restricts consumer demand that limits growth of local markets. Poverty also depresses savings, discourages investment, and curtails expansion of informal businesses that are largely self-financed. Yet for others the informal sector is a way out of poverty, enabling workers to move beyond mere survival towards business development.

We know that informal sector workers face various obstacles in terms of the environment for conducting business. These include laws and regulations for licensing and permits that are difficult and costly to obtain. Tax payments and customs duties are considered a serious problem. Finance and credit are key issues to be addressed. Many workers do not see the benefit of regulations designed to improve safety and health in the workplace, yet most complain about working conditions. Open markets, in particular, are unpleasant, unsanitary, and unsafe. Workers expressed concern that they no longer have the social insurance available under the communist regime.

Anecdotal information and piecemeal approaches should be replaced with better information about the labour force in Mongolia. While more can be learned through statistical analysis of existing data, it is recommended that the National Statistical Office conduct a household-based labour force survey (LFS) with specific questions that will enable users to study the informal sector. Special informal sector surveys (ISS) can be introduced at a later date. In addition to a broad survey of the labour force, it will be useful to conduct smaller surveys for target groups including street children. Older women workers comprise another target group. They are likely to have inadequate pensions and live longer without family support during older age.



However, improved policies and effective programmes cannot wait for surveys and studies. Focus groups should be organized for key stakeholders to identify policy frameworks in which the business environment, microfinance institutions, and social protection can be made more responsive to the needs of the informal economy. A participatory approach should bring together relevant government officials, informal sector workers, and non-governmental organizations as well as representatives of employers' organizations and trade unions.

Certain aspects of informal activities appear to be specifically Mongolian. However, the diverse nature and growing importance of informal activities are typical. For this reason, it is suggested that ILO approaches be used to develop multidisciplinary strategies that will eventually incorporate better labour statistics and improved policy frameworks. These approaches include promoting integrated strategies for employment promotion; improving policies and institutions to support productivity increases and remove supply constraints; developing labour market information, improving labour market analysis along with a labour force survey (LFS) and an informal sector survey (ISS); strengthening organizations and networks of self-help associations, employers' organizations, and trade unions; improving access by informal sector workers – especially women workers – to microfinance institutions; introducing grass-roots and low-cost methods to improve occupational safety and health; expanding formal social security coverage; and exploring new methods for providing social insurance to the informal sector and for delivering social assistance to target groups.

## 14 Policy recommendations

The ILO has grappled with the informal sector “dilemma” for many years. Should the sector be encouraged as a source of jobs and income by improving its productive potential or should it be controlled by extending labour standards and providing social protection at the risk of reducing its potential to provide employment and livelihood? In dealing with these issues over the years, the ILO has developed various approaches (see, for example, ILO, 2000a). These time-tested contributions appear to be especially relevant for meeting the challenges of the informal sector outlined in this paper. Thus, they are listed here as recommendations for consideration by policy-makers and key stakeholders in Mongolia. As one key informant explained, “If we take the Mongolians from the sector, what we have left are activities commonly found elsewhere in the informal economy.”<sup>1</sup>

The informal sector in Mongolia does have a “distinct flavour” conditioned by its geopolitical situation and nomadic traditions together with its historical heritage of Soviet domination and recent experience of economic transition. A relatively large proportion of informal sector workers is highly educated, reflecting the investment in education and structure of employment during the communist period. Economic activities include a large number of women and men engaged in buying and selling Mongolian products such as meat, skins, and cashmere. Other workers have overcome geographical isolation by engaging in “suitcase trade” to purchase consumer goods from China, the Russian Federation, and the Republic of Korea. Another distinguishing feature is the apparently large proportion of informal sector enterprises registered with the municipal tax authorities. Finally, the informal sector is fairly new. Despite these Mongolian characteristics, the diversity, constraints, and opportunities of the informal sector appear very similar to those found elsewhere. Several general approaches have proved to be effective:

- (a) Incorporating strategies for employment promotion, job creation, and the informal sector into development plans and macroeconomic policies by:
  - Supporting economic growth through development strategies and macroeconomic policies
  - Ensuring macroeconomic stability through sound institutions and effective policies
  - Assessing and evaluating alternative strategies for job creation and decent work
  - Reducing dependency on exports of minerals and commodities by diversifying production
  - Exploring methods of adding value to traditional exports through labour-intensive methods

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<sup>1</sup> Paraphrased from Enkhbat interview.

- Promoting a strong banking system
  - Supporting private sector development in both the formal sector and informal economy
  - Conducting a review of the tax structure focusing on the informal sector
  - Improving the system of providing titles for land and property
  - Reviewing the level and structure of import duties
  - Promoting community participation in development processes;
- (b) Reforming policies and institutions for employment promotion and income generation to make them more responsive to the needs of the informal sector and to remove or reduce supply constraints for credit, education, training, technologies, equipment, and markets by:
- Linking training ideas to market demand and action plans through such programmes as Community-Based Training (CBT)
  - Assisting national, provincial, and local governments to plan, organize, and implement cost-effective training and self-employment programmes
  - Promoting productivity through skills, credit, infrastructure, organization, and management
  - Reviewing past experience and testing new approaches to integrated packages for self-employment such as the ILO's Start and Improve Your Own Business (SIYB) (see Box 17)
  - Reviewing and rationalizing laws and regulations related to business activities
  - Exploring methods of introducing new technologies into business practices
  - Collecting and disseminating best practices
  - Conducting feasibility studies for cottage industries, niche markets, and agricultural processing that might provide self-employment opportunities and contribute to export earnings
  - Organizing meetings between informal sector workers and local government officials (tax collectors, health inspectors, market-place administrators, economic police, and customs officers) to identify methods for reducing red tape and improving governance, transparency, and responsiveness
  - Implementing measures to improve the effectiveness and efficiency of government offices dealing directly with the informal sector
  - Ensuring that policies and institutions are responsive to the special needs of vulnerable groups
  - Removing barriers and eliminating discrimination that make it difficult for women to start or expand businesses within the informal sector;
- (c) Developing and promoting statistical definitions and methodologies that enable the Government to collect data on the informal sector for labour market analysis and national income accounts that are internationally comparable by:

- Setting up a labour market information system (LMIS) for employment issues, labour markets, and the informal sector to link users (policy-makers, administrators, employers, workers, NGOs, donors, educational institutions, training providers, financial institutions, and others) with producers of labour market information
  - Conducting a labour force survey (LFS) containing questions with additional modules to help identify informal sector workers
  - Organizing an informal sector survey (ISS)
  - Reviewing, revising, and expanding the Time-Use Survey (TUS)
  - Undertaking a survey of street children who would be omitted from household-based surveys
  - Continuing Household Income and Expenditure Surveys (HIES) and Living Standards Measurement Surveys (LSMS)
  - Introducing establishment-based surveys to collect data about hours, productivity, costs, wages, earnings, skills, and conditions of work
  - Ensuring comparability of concepts and definitions for labour force concepts in all surveys and studies undertaken by the Government
  - Producing and disseminating tabulations and tables based on discussions between users and producers of labour market information
  - Ensuring that all statistics are disaggregated by sex and age
  - Disseminating information about the informal sector in a format that is understandable and useful to local Government;
- (d) Promoting and strengthening organizations and networks among entrepreneurs and workers in the informal sector, alliances with employers' organizations and trade unions, and links with support institutions by:
- Encouraging partnerships among informal sector workers for purposes of advocacy and awareness
  - Promoting links with trade unions
  - Encouraging contacts with employer organizations
  - Facilitating networking with NGOs
  - Encouraging organizations and associations of informal sector workers to undertake awareness-raising for advocacy purposes through radio and the Internet
  - Supporting efforts by women to form associations, join organizations, and create partnerships that promote their interests within the informal sector
  - Encouraging efforts aimed at moving towards non-discrimination in all workplaces;
- (e) Promoting mutual savings and credit schemes and making other microfinance institutions accessible to informal sector workers – especially women by:

- Reviewing past experience with microfinance
  - Replicating best practices including international successes (see Box 35)
  - Exploring systems for “collateral substitutes” to overcome the problem faced by many women without traditional collateral, including peer pressure and probation arrangements (see Box 35);
- (f) Developing practical, low-cost methods to improve safety and health conditions by:
- Conducting workplace reviews of the informal sector that raise awareness, identify problems, and suggest solutions through methods such as those outlined in the ILO paper *Improvement of working conditions and the environment in the informal sector through safety and health measures* (Forastieri, 1999)
  - Supporting integrated approaches to health promotion, social protection, and employment generation
  - Improving sanitation and hygiene in open-air markets
  - Identifying innovative measures to prevent occupational diseases, work-related accidents, and environmental hazards
  - Sensitizing policy-makers, municipal authorities, and labour inspectors to prevention and promotion
  - Implementing measures to combat the worst forms of child labour in the informal sector;
- (g) Expanding social insurance through reforms in formal social security systems and strengthening non-conventional grass-roots social insurance schemes by:
- Conducting a review of existing legislation and proposed changes to make recommendations on the coverage and delivery of social security in the informal sector in line with international standards
  - Reviewing and publicizing existing voluntary premiums for coverage of self-employed persons and informal sector workers
  - Studying methods of non-conventional social insurance schemes such as the ILO’s Strategies and Tools against Social Exclusion and Poverty (STEP) programme (see Box 28).

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## **Annexes**



## Annex A

### Glossary of terms and abbreviations

<i>aimag</i>	province
<i>airag</i>	mare's milk
<i>bag</i>	rural settlements or administrative unit below <i>soum</i>
Bayalag Market	market in Khentii
“Black” Market	an outdoor market in Ulaanbaatar
<i>buuz</i>	a kind of dumpling with meat inside
Dalai Eej Market	an indoor market in Ulaanbaatar
Da Khuree Market	a car market in Ulaanbaatar
<i>duureg</i>	administrative unit in Ulaanbaatar
<i>dzud</i>	natural disaster
Erdenet	a large city in Mongolia
<i>ganzaga</i>	saddlebag as it refers to commerce means petty trade
<i>ger</i>	traditional dwelling or felt tent
<i>khagi</i>	fake when used for taxis
Khailast	an area on the outskirts of Ulaanbaatar
Kharkhorin Market	a market-place in the western part of Ulaanbaatar named after an ancient capital of Mongolia
<i>khoroо</i>	urban district or administrative unit below <i>soum</i>
Khuur Market	a food market in Khentii
<i>khuushuur</i>	a kind of meat cutlet dipped in flour and fried
<i>koumiss</i>	a drink made of fermented mare's milk
Mercury Market	an indoor market in Ulaanbaatar
Narantuul Market	large open-air market in Ulaanbaatar
<i>negdel</i>	agricultural collective
Songino Khairkhan	a district of Ulaanbaatar
<i>soum</i>	administrative unit below <i>aimag</i> or province
street informals	term used to refer to those engaged in trade, manufacturing, and services on the street
suitcase trade	<i>ganzaga</i> trade
Sukhbaatar	a district in Ulaanbaatar
Technical Market	an outdoor market in Ulaanbaatar
Tesiin Gol Market	market in Zavkhan
<i>togrog</i>	Mongolian monetary unit
Tsagaan Davaa	major dumpsite in Ulaanbaatar
Tsaiz Market	market for raw materials in Ulaanbaatar
Uliastai	<i>aimag</i> centre for Zavkhan
Undurkhaan	<i>aimag</i> centre for Khentii
<i>vagonchik</i>	a railway car

ADB	Asian Development Bank
CBT	Community-Based Training
CEDAW	Convention on Elimination of all Kinds of Discrimination against Women
CMEA	Council for Mutual Economic Assistance
CMTU	Confederation of Mongolian Trade Unions
EASMAT	East Asia Multidisciplinary Advisory Team
EPF	Employment Promotion Fund
EPSP	Employment Policy Support Project
ERO	Employment Regulation Office
GDP	Gross domestic product
HIES	Household Income and Expenditure Survey
ICLS	International Conference of Labour Statisticians
IGF	Income Generation Fund
ISS	Informal sector survey
LDF	Local Development Fund
LFS	Labour force survey
LMIS	Labour market information system
ILO	International Labour Organization
IMF	International Monetary Fund
IPEC	International Programme on the Elimination of Child Labour
IYB	Improve Your Business
KAB	Know About Business
LEOS	Liberal Women's Brain Pool
LSMS	Living Standards Measurement Survey
MONEF	Mongolian Employers' Federation
MSE	Micro and small enterprise
MWF	Mongolian Women's Federation
NHDP	National Human Resource Development Program
NIAS	Nordic Institute of Asian Studies
NPAP	National Poverty Alleviation Program
NGO	Non-governmental organization
NSO	National Statistical Office
PAF	Poverty Alleviation Fund
RHS	Reproductive Health Survey
SAF	Social Assistance Fund
SCF (UK)	Save the Children's Fund (United Kingdom)
SEAPAT	South-East Asia and the Pacific Multidisciplinary Advisory Team
SIDA	Swedish International Development Agency
SIYB	Start and Improve Your Business
SME	Small and medium enterprise

SNA	System of National Accounts
SPPD	Support for Policy and Programme Development
STEP	Strategies and Tools against Social Exclusion and Poverty
SYB	Start Your Business
TACIS	Technical Assistance to the Commonwealth of Independent States
TAF	Targeted Assistance Fund
TUS	Time-use survey
TUT	<i>Turgen Ulchilgeenii Tseg</i> or “Fast-service point”
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
VGO	Vulnerable Group Organization
WDF	Women’s Development Fund
XAC	Golden Fund for Development





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## Annex B

### Interview outline for key informants

Prepared by Endre Sik

Who are the experts on the informal economy in contemporary Mongolia?

#### 1 Basic ideas

- What would be a proper way to define “urban informal economy”?
- Has the size of the informal economy changed recently? If yes, in what way?
- What are the typical activities of the informal economy? Have they changed recently? If yes, how?
- What are the dominant social groups from which the informal economy recruits? Are there new social groups? If yes, which are they?
- What are the main characteristics of state policy concerning the urban informal economy?
- Is policy the same towards all groups and processes or are there differences?
- If there are, what are these?
- Has the policy changed recently?
- If yes, in what way?
- Do you anticipate changes in the future?
- If yes, in what ways?

#### 2 Social and economic issues

- How does the urban informal economy influence the formal economy? The political system? The standard of living of the population?
- If there are any, who are the “losers” and who are the “winners”?
- What is the position of certain social groups (youths, females, migrants)?
- Which elements of the urban informal economy should be eliminated and which should be encouraged? How would you eliminate some and encourage others?

#### 3 Other issues

Before continuing the interview, could you tell us if you think we have missed any relevant issues concerning current and expected trends and processes in the urban informal economy?

#### **4 Hypotheses**

Do you have hypotheses about the following?

- Has the composition of urban informal economy labour changed (for example, “dualization”)?
- What activities of the urban informal economy have become “formal” and what other activities have become “blacker”?
- Has the role of migrants increased?
- Is the state policy towards the urban informal economy becoming more hostile or more encouraging – or neither (laissez faire)?
- Is the informal economy a result of a unique Mongolian value system?

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## Annex C

### Interview outline for case studies

Prepared by Endre Sik

#### **TOPIC 1: The start-up of the current business**

*Idea:*

When, why, and how did individuals start their current jobs? How did they learn or receive information, knowledge, training, and financial resources?

*Suggested questions:*

- When and why did you start this business?
- Do you have any other job?
- What was your previous job and why did you change it?
- What actions have you taken to start this business?
- How did you get start-up capital, workplace, permission, etc.?
- Have you received any assistance?
- What difficulties did you have in the beginning?
- Have you had any difficulties with the government administration or regulatory authorities?
- What would you recommend to someone who is willing to run a business similar to yours?

#### **TOPIC 2: Snapshot of normal working day**

*Idea:*

Overall picture of the individual's working day and time schedule; technology and organization of the activity; workload; allocation of responsibilities; working conditions (property, rent, health, safety); price-setting; difficulties faced, etc.

*Suggested questions:*

- What is the length of the working day, everyday routine?
- Who organizes the workday? Is there any outside influence?
- Who else participates?
- What difficulties do you face in your everyday work?
- Do you keep records?
- If so, how does this influence your workload?

- How does your business satisfy market demand?
- How do you set your price?
- Is everything you use in your business your property (space, goods, equipment, etc.)?

### **TOPIC 3: Current situation and future expectations**

*Idea:*

Current situation; positive and negative changes that have been taken place over the last five years; competition; appropriateness of the existing regulations; difficulties, advantages, and disadvantages of this activity; composition of workforce; changes in age, sex, education; role of migration; social status and well-being; activity change.

*Suggested questions:*

- What do you think about the current situation in the informal sector?
- What are the changes from previous years (size and composition of output; policy-related changes; labour movement and age, sex, education, etc.)?
- What factors regulate or lead the informal sector?
- How do the existing regulations fit reality?
- What happens when the regulations do not work?
- What are the advantages and disadvantages of working in the informal sector?
- What are your expectations about the future development of the informal sector (successful, satisfactory, uncertain, risky, dangerous, etc.)?
- Do you feel ashamed or proud of working in the informal sector?
- If so, when?

### **TOPIC 4: Influence of the current business on family well-being**

*Idea:*

How does the individual contribute to the well-being of the household or family, including parents, brothers, sisters, or relatives? What is the share of the individual earnings in the total household? Are other family members employed?

*Suggested questions:*

- What is the current employment situation in the family?
- Do you share your income with your family, including parents or relatives?
- What is your contribution to the total family income?
- Do you employ family members, including parents or relatives?

- Do you receive any support or help from your family members, including parents or relatives?
- Do you support or help your family members, including parents or relatives?
- How do you participate in the household work?

**TOPIC 5: Short- and long-term business expectations**

*Idea:*

Is current business a reliable source of income? Any intentions for future expansion or change in activities? Any intention to move to the formal sector?

*Suggested questions:*

- What are your business expectations for the near future (continue, extend, change, stop, etc.)?
- Why (new opportunities, falling profit, private reasons, strong competition, etc.)?
- If you are planning to change your job, have you taken some action (looking for another job, preparing to start a new job, collecting information for a new job, drafting a plan, etc.)?
- What opportunities or difficulties do you face if you continue or extend your current business or start a new job (knowledge, labour, capital, regulations, etc.)?

**TOPIC 6: Sociodemographic situation**

- Age
- Sex
- Education
- Marital status
- Employment
- Place of residence
- Number of family members
- Number of adult family members
- Number of children and their ages
- Type of residence (apartment, *ger*, etc.)



## Annex D

### Tax schedule for informal activities, 1993

(togrogs per month)

Type of work	Ulaanbaatar	Darkhan-Uul and Orkhon	Other <i>aimag</i> centres	Other locations
1 Taxi cab (within settlement) 1-4 seats	1100	1000	750	600
Taxi cab (within settlement) 5-8 seats	1250	1200	900	750
Taxi cab (within settlement) 9-15 seats	1800	1800	1500	1200
Bus (within settlement)	2100	2000	1800	800
2 Taxi cab (among settlements) 1-4 seats	1200	1100	600	550
Taxi cab (among settlements) 5-8 seats	1400	1200	1000	750
Taxi cab (among settlements) 9-15 seats	2000	1900	1800	1400
Bus (among settlements)	2400	2200	2000	1600
3 Truck (within settlements) below 1 ton	1800	1800	1500	1000
Truck (within settlements) 1-3 tons	2100	2000	1800	1500
Truck (within settlements) 3-5 tons	2400	2300	2000	1800
Truck (within settlements) 5-8 tons	2700	2600	2400	2000
Truck (within settlements) above 8 tons	5000	4500	2600	2300
Tractor (within settlements)	1500	1200	900	600
4 Truck (among settlements) below 1 ton	2000	1900	1600	1100
Truck (among settlements) 1-3 tons	2300	2200	2100	1900
Truck (among settlements) 3-5 tons	2800	2600	2300	2000
Truck (among settlements) 5-8 tons	3100	2900	2600	2400
Truck (among settlements) above 8 tons	6100	6000	5800	5400
Tractor (among settlements)	1800	1500	1200	900
5 Sale of hand-made paintings, sculpture, carvings, and souvenirs	210	150	90	30
6 Production of souvenirs, decorations, and various toys	300	200	200	100
7 Gold and silver smithing	1000	800	600	400
8 Carving memorial words on souvenirs and repair	240	200	100	20
9 Sale of decorative and house plants	150	90	60	20
10 Car repair	500	400	100	60
11 Radio and TV repair	400	300	300	40
12 Home appliance repair	300	200	200	40
13 Watch repair	300	200	160	100
14 Building repair and decoration	300	200	100	50



## The informal sector in Mongolia

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15	Teaching	160	160	120	60
16	Typing	240	200	160	30
17	Hairdressing and cosmetics	200	200	160	100
18	Traditional medicine	600	400	300	180
19	Other medical services	200	160	100	80
20	Collection and sale of natural resources	240	180	120	60
21	Photo service	500	400	200	100
22	Video and tape recording	700	600	300	100
23	Video tape rental	800	600	400	100
24	Audio tape rental	180	120	90	30
25	Video and movie performance	3000	2000	1800	400
26	Games	5000	2400	900	30
27	Trading	4000	3500	2000	1000
28	Trading of small items (cigarettes, gum, etc.)	600	480	420	60
29	Production and sale of food	300	225	150	60
30	Shoe repair	120	80	40	20
31	Shoe shining	90	40	20	10
32	Wrapping, loading, unloading, and delivery service	60	40	20	0
33	Transportation by camel, horse, or cow	500	300	150	100
34	Collection and sale of animal skin, wool, and cashmere	4000	3500	2000	1000
35	Leather painting	800	600	200	50

Source: Government of Mongolia, *Tax system in Mongolia*, Ulaanbaatar, 1999.

## Annex E

### Tax schedule for informal activities, 1997

(togrogs per month)

Type of work	Ulaanbaatar	Darkhan-Uul and Orkhon	Other <i>aimag</i> centres	Other locations
1 Taxi cab (within settlement) 1-4 seats	6000	5500	3500	2500
Taxi cab (within settlement) 5-8 seats	7500	6500	6000	4500
Taxi cab (within settlement) 9-15 seats	10500	9500	8000	6000
Bus (within settlement)	12000	11000	8000	6000
2 Taxi cab (among settlements) 1-4 seats	9000	7000	5000	4000
Taxi cab (among settlements) 5-8 seats	11000	9000	7000	5000
Taxi cab (among settlements) 9-15 seats	13000	11000	9000	7000
Bus (among settlements)	15000	13000	11000	9000
3 Truck (within settlements) below 1 ton	12000	10000	8000	6000
Truck (within settlements) 1-3 tons	14000	12000	10000	8000
Truck (within settlements) 3-5 tons	16000	14000	12000	10000
Truck (within settlements) 5-8 tons	18000	16000	14000	12000
Truck (within settlements) above 8 tons	18000	18000	16000	15000
Tractor (within settlements)	8000	6000	4000	2000
4 Truck (among settlements) below 1 ton	14000	12000	10000	8000
Truck (among settlements) 1-3 tons	16000	14000	12000	10000
Truck (among settlements) 3-5 tons	18000	16000	14000	12000
Truck (among settlements) 5-8 tons	20000	18000	16000	14000
Truck (among settlements) above 8 tons	22000	20000	18000	16000
Tractor (among settlements)	10000	8000	6000	4000
5 Sale of hand-made paintings, sculpture, carvings, and souvenirs	2400	2000	1600	1000
6 Production of souvenirs, decorations, and various toys	3000	2000	1000	500
7 Gold and silver smithing	16000	14000	12000	10000
8 Carving memorial words on souvenirs and repair	2400	2000	1000	200
9 Sale of decorative and house plants	1200	900	600	200
10 Car repair	18000	16000	14000	12000
11 Radio and TV repair	6000	4000	2000	1000
12 Home appliance repair	4500	3500	2500	1500
13 Watch repair	3000	2000	1000	500
14 Building repair and decoration	8000	6000	4000	2000

## The informal sector in Mongolia

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15	Teaching	2000	1600	1200	1000
16	Typing	2400	2000	1600	300
17	Hairdressing and cosmetics	6000	4000	2000	1000
18	Traditional medicine	6000	4000	2000	1000
19	Other medical services	6000	4000	2000	1000
20	Collection and sale of natural resources	2400	1800	1200	600
21	Photo service	8000	6000	3000	1000
22	Video and tape recording	7000	6000	3000	1000
23	Video tape rental	8000	6000	4000	1000
24	Audio tape rental	2400	2000	1600	1000
25	Video and movie performance	6000	4000	2000	1000
26	Games	12000	9000	4500	3000
27	Trading	6000	4000	2000	1000
28	Trading of small items (cigarettes, gum, etc.)	2400	2000	1600	600
29	Production and sale of food	6000	4000	2000	1000
30	Shoe repair	3200	2800	2400	2000
31	Shoe shining	900	400	200	100
32	Wrapping, loading, unloading, and delivery service	2800	2000	1200	
33	Transportation by camel, horse, or cow	5000	3000	1500	1000
34	Collection and sale of animal skin, wool, and cashmere	8000	6000	4000	2000
35	Leather painting	4000	2000	1000	500
36	Currency exchange	25000	15000	6000	5000
37	Video and audio tape copying and sale	10000	6000	4000	1000
38	Fortune telling	1200	1000	800	400

Source: Government of Mongolia, *Tax system in Mongolia*, Ulaanbaatar, 1995.

## Annex F

### Selected case studies

The following case studies have been selected from the seventy obtained in Ulaanbaatar, Zavkhan, and Khentii to provide greater insights into the working lives of ten informal sector workers.

#### **ULAANBAATAR**

##### ***Petty trade to maintain an extended family***

I'm a thirty-two-year-old single mother of three daughters aged eight, ten, and twelve from Ulaanbaatar. I'm a trained accountant. I now work as a retail trader in the Narantuul open-air market-place. I started about a year ago. Immediately after graduating from secondary school, I looked after my children. When they grew older, I felt desperate because of the financial burden to feed, dress, and educate them – so I had to do something. With no money of my own, I didn't have the slightest idea how to begin. Fortunately, my brother helped me. I borrowed money from him on condition that I would pay it back when I started earning income from my business.

Usually I buy the products wholesale and sell them at prices ten to thirty *togros* higher. I sell mostly shoes and batteries. The main problem is the market fee: it is twenty-three thousand five hundred *togros* a month for the counter and one thousand *togros* a day for the services. Trade is seasonal. It fluctuates significantly from month to month. When I earn no profit, paying the fee is very painful. The quality of the products is a key determinant in setting prices and running a sustainable business. Some traders sell low-quality products, which threatens our business and reduces our profit as well. So I strongly recommend to anyone who wants to start a business that they sell good-quality products. In that way they won't spoil the reputation of their fellow traders. When I began I didn't lack knowledge and expertise since I'm qualified in accounting. The only things I needed were money and credit.

The normal working day lasts thirteen hours beginning at eight-thirty in the morning and lasting until nine-thirty at night including lunchtime. The busiest time is after three o'clock in the afternoon. My working day starts with renting the counter, getting the goods from the containers, and displaying them to sell. In the morning I go to buy goods on the wholesale market and bring them to the counter. Neighbouring sellers are very cooperative in tending counters, while others are away collecting their goods. I organize my work all by myself, since this is my own business. But my relatives give financial and spiritual support to me. Petty trade doesn't require much technological know-how. Basically, a good knowledge of the products and being able to convince

the customers are enough. Record-keeping on income, expenditures, and inventories as well as calculating net profit or loss is done only for our own purposes, since no reporting is required.

The working and weather conditions of a counter-seller require more attention. The business depends completely on the weather and is most profitable during the warm season. It's hard to work in cold, rainy, or snowy periods. It might be good if the indoor market could be available during the cold season as well.<sup>1</sup> The open-air market isn't a secure workplace. Very often sellers are victims of theft and attacks by drunks. Though there is security, it isn't efficient or helpful.

The situation in the informal sector is improving, and some progress can be seen already. Privatization has had a positive effect. The demand for Chinese products is low, while Western products of good quality sell well. This might mean that the purchasing power of people is increasing. Customers have developed expectations about how to be served. There is strong competition in the market. Luckily, my counter is well located. The advantages of doing this business are the good income and independence; in other words, you aren't accountable to others. The disadvantage is that sellers aren't covered by the basic social insurance scheme. We don't know what would happen, if we fall into disaster or accident. I'm sure that the informal sector has a good future. As long as the market operates, people will work and make reasonable incomes. I definitely prefer working in the informal sector to working in the public sector. The money I would earn in the public sector wouldn't be enough to feed my family. As children grow, expenses rise and prices go up as well.

I'm not ashamed of working in the informal sector. On the contrary, I feel very proud. It is much better than begging or prostitution. My business is the only source of income for my family. Besides, I share some of my income with my elderly parents. Since my children are still small, I don't make them help with my business. They do the housework, when I'm working. Except for Tuesday when the market place is closed, they cook and clean the house. My parents, who live in the neighbouring *ger*, help to cook. On Tuesdays I buy food and fuel for a week and wash my children's clothes. Planning my time wisely is important for a working single mother like me. Moreover, the family lives in a traditional *ger* where the household work connected with water, heating, cooking, washing, cleaning, and so forth is much more labour-intensive and time-consuming.

As long as the market exists, I will have enough income since I sell goods for everyday use. I don't intend to work in the formal sector. How can I feed and support my children with the meagre salaries paid in this sector? On the contrary, I'm thinking

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<sup>1</sup> There is an indoor market in the Narantuul Market, which operates year-round, but perhaps there is not enough room for all traders in the cool season.

of expanding my trade, so I've started saving money. I plan to go abroad to buy cheaper goods and sell them for a higher profit.

### ***From forced retirement to informal trade***

I'm a forty-nine-year-old man born in Ulaanbaatar. I live with my wife and daughter in a three-bedroom apartment. I'm a former police worker as well as a qualified photographer. I started the "suitcase trade" in 1991. At that time the government policy was to force police workers of age forty and over to retire. So despite my full ability to work, I retired at age forty. For some time I lost confidence in my future. I had to do something. At that time it was not realistic to set up a small business and there were no jobs in the formal sector for retired people. Looking at what others were doing I decided that the "suitcase" trade was the most suitable option for me.

It didn't require too much knowledge. I just needed to be physically fit. The only obstacle was the lack of a foreign language to trade in China. So I took a two-month English language course. The only big constraint was that financial resources and bank credit weren't available, so I sold some of my household items, borrowed some money from friends, and took a "suitcase" trip to China. My friends and others supported me, but I relied mostly on my wife and myself. My wife helped me a lot and there was no pressure then from legal and administrative authorities.

That is how my business was set up. My current workplace is located in a highly popular part of the Narantuul Market. Profits certainly depend on the location of the counter within the market. It also requires extra charges to get such a counter. I'm supposed to pay rent of twenty-three thousand *togrogs* a month and sales tax of one thousand five hundred to two thousand *togrogs* a day. There are many other charges such as entry fee, toilet fee, and other costs.

The business consists of two parts: first, to go to China to buy men's garments and second, to sell the goods. The working day starts at ten in the morning. I live ten kilometres from the market, so to get there I have to take an express taxi (minibus). I am independent in organizing my own work. Usually I do the following activities: getting goods from storage; paying for delivery; preparing the workplace as neatly as possible; placing and arranging goods in a way to attract the customers; setting prices properly; dusting off the goods; preparing myself; getting dressed and looking nice; and paying taxes regardless of whether I earn money or not. It happens sometimes that no money is earned during the day, but still I have to pay the regular charges for transport, delivery, storage, food, and so forth. I don't have anyone to help me at the workplace, but I try to be cooperative, nice, and friendly with co-workers (porters, cleaners, neighbours at nearby counters, and others). For instance, I became a friend of an old man who comes every day to sell Pampers. He replaces me for a while, giving me some spare time to go to the toilet or to have lunch.

The health issue is a serious concern of mine. Unfortunately, we are left out of the government social security programmes. The working conditions are really poor. We work in cold or hot, rainy or snowy weather, and the food is bad. We have to take care of our own health, since there is no insurance for us. I'm always very careful with what I eat and I care for myself taking a daily life-support medicine and strictly following the prescription from a Korean medicine distributor who comes regularly to the market to introduce and sell the medicine.

High-tech affects the activity of the traders. The mobile phone I use is the most important tool to make my business efficient. International calls to partners in China provide me all the information I need on prices and products on time. Business records are kept. Studies on cash flows are done regularly after hours. The long working hours don't burden me, since I work for myself and for my family. Only we will enjoy the results of our work which are pretty good.

The service we provide is in big demand. The market competition is strong and requires that traders be innovative. For instance, I specialize in men's garments and try to select the goods according to the purchasing power of the customers – classifying them according to good, high, middle, and low income. The prices are set after I return from my trips. Usually the retail price is twice as high as the purchase price in China. The customs duty of ten per cent and a value-added tax of thirteen per cent are collected at the border. It is normal to give tips to authorities to reduce the taxes paid. The cost of running the business is increasing due to two factors – the rising exchange rate and the need for petty traders to make shuttle trips back and forth to China to save money. Usually I go every ten days by train to Beijing.

The living standard of the population is decreasing. For example, traditionally Mongolians haven't bought second-hand goods, but now they do just because they're cheap. Meanwhile, the traders are specializing in better-quality goods, setting up good partner relationships, and trying to reduce costs. There aren't any significant changes at the market: it is quite natural that several newcomers enter while others leave. Why do they leave the market? Some have succeeded and can now run a formal business or a small enterprise.

Generally, the traders are between thirty and forty years old. Most are women. The reason women dominate this type of business is that not many men are capable of doing it. They easily get addicted to alcohol or gambling and lose everything. Among the traders many are former teachers, medical doctors, and demobilized army staff. Educated traders have an advantage, since they have less of a language barrier, have more managerial and communication skills, and are creative in doing the job.

The market in this type of activity is self-regulated. An association to protect the interests of "suitcase" traders was established in May 2000; I'm one of the members

and wish to be actively involved in its activities. The government policy being introduced through taxes is directed against our business. If we strictly followed all the regulations, there would be no profits. Traders would have to leave the market. Who can succeed in this business? Only those who have great marketing skills. From my experience, I would recommend to others starting this job not to waste time. The business will exist regardless of government rules. Be alert to the market signals.

This is a risky business. First, the traders lose their health. It is true that “shame is outside and pride is inside.” There was a time when traders felt ashamed of doing this sort of business. Anyway, the results of my business make me feel proud. With the money I earned, we bought a nice three-bedroom apartment. It also enables me to maintain the business. There was a time when my wife and I baked cookies and sold them through the kiosks. We used to start at midnight and had to make dough from fifty kilograms of flour every day. Our dream was to get a full night’s sleep.

No one helps or assists me in running the business except my wife, who keeps the records. The earnings from my business make up half of the family income. My wife, who now runs a pawnshop, makes the other half. She received a high school education abroad. We have one daughter. Among the relatives we support are my younger brother who, after the completion of his undergraduate studies, is currently unemployed and my wife’s brothers and sisters – three younger and one older. We spend twenty to thirty per cent of my business income for this purpose. I have two children from my previous marriage, but they don’t ask me for support. Sometimes I take my older son from my first marriage to China.

Since the domestic garment industry has begun to compete with this market, in the long run this business doesn’t look promising. I would like to change jobs. Traders with long experience are ready to set up a formal business in the form of a small enterprise. I also have such a plan, and now I am seeking better opportunities and drafting a project proposal. I feel confident about this new idea. I hope my current partners will still be my partners in the future.

### ***International business travel for spare car parts***

I’m a forty-six-year-old man with secondary education, married, originally from Uvs *aimag*. I live with my wife and two children in the Khailast area.<sup>2</sup> I sell spare car parts at the Da Khuree car market and have been doing this job for about five years. Before I used to work at a felt shoe factory for about fifteen years. At that time the factory administration fired most of the workers due to budget constraints. But luckily for me I wasn’t fired and worked until 1994. I quit my job because of my

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<sup>2</sup> On the outskirts of Ulaanbaatar.



wife's brother. He used to import spare parts from Russia and sell them at the car market or from a storage container. I asked him for some help with money and that's how my wife and I started this business.

My wife used to work as a bus conductor. At first, when we had just started our business, it was quite hard since we didn't know the ways and means of selling. So we decided to get a counter for petty trade as well. We have permission from the district administration and another one from the Da Khuree car market. In the beginning we didn't sell much because the spare parts in greatest demand were in short supply. Then I went to Moscow to buy a variety of spare car parts, but it was very expensive. Next I went to Irkutsk where prices were lower and I decided to buy there. It was a bit hard to understand Russian, but after several trips I learned enough to do my business. Usually I go to Russia when the spare parts are about to run out. Recently, I've heard that the prices might be lower in Beijing, so I'm planning to go there. I pay sixty-five thousand *togrog*s a month for the container rent to the market administration and seven thousand *togrog*s to the district taxation office.

Some people say that selling spare parts is the easiest way to earn money. In fact, it isn't true. If you sell good-quality products from the beginning, customers will get to know you. But to become well known, you have to be very smart. My workday starts at eight in the morning; I have to be at the market early to open the container and prepare goods for sale. I work with my wife. The workplace isn't safe, so there has to be more than one person to watch. Otherwise the business would fail. We sell mostly Russian-made spare parts and car accessories. We set our prices by adding a mark-up to the original price, including customs duties which are very high: during my trip I paid one hundred thousand *togrog*s in customs duties. In my opinion, it's too much. And the customs officers require us to pay bribes every time we cross the border. We have to take lunch with us every day since we work hard – especially on busy days such as Saturdays, Sundays, and Thursdays. There are many thieves around on these days, too, and it's hard to know who's who. Drunks and thieves cause a lot of problems during the workday. If they steal only one item it might be all right, but stealing more can be a problem.

This business is expanding compared with last year. Nowadays those who can advertise sell more products and earn higher profits. I don't think that this business is particularly advantageous. We do it just to survive. In my opinion, a car market should be indoors and should be much cleaner than the present one. Then we could have better conditions. We sacrifice our health working outside in winter. This business is not risky. We hope there will be no additional restrictions imposed in the future. The most important thing is to gain the trust of customers and try not to lose them.

When my sons help me, things go better. But they are busy during the school year. In the summer when we do the business all together, we are much happier. We

will keep doing this job, since this is the only employment that brings us income. Maybe in a few years the business will become more difficult, competitive, and demanding. I'm thinking about opening my own spare parts shop, because this is the best way to compete in the market and make good money, but I haven't done anything so far: I'm just thinking and collecting information. People say that a building would cost me over three million *togrogs*, but I don't want to believe it.

### ***Wage employment in two sectors***

I'm a forty-one-year-old man with a secondary education born in Ulaanbaatar. I live with my wife and four children in a private house in a *ger* area. I am now working as a minibus driver on the route connecting Kharkhorin and Narantuul between two open-air market-places. I used to work as a bus and trolley driver and formally I'm still employed at the bus depot. But I haven't been paid regularly for the last three years. At the end of 1999 the bus I used to drive was sent for repairs and since then I've only been paid four hundred *togrogs* a day for meals. The repairs on the bus I drove were not progressing because the necessary spare parts were missing and it was dismantled. I had to stand in a line of drivers waiting for new buses to arrive. The depot couldn't afford to buy new buses very often. This year seven or eight buses were expected to arrive, but they still haven't received them.

I found my current job through one of my relatives who told me that a minibus owner was looking for a driver. He also mentioned that the owner seemed to be a good-natured young man, so we might get along. I decided to meet him. It's much more convenient to drive a minibus because of the shorter working hours and greater comfort. A minibus driver can either rent a minibus with collateral or work for pay as I do. The owner of the minibus I drive is a very nice man. My relative was right when he told me that we could get along, since he knows my character well. We agreed on the terms of my employment orally and the conditions are quite favourable for me: I am paid five thousand *togrogs* a day for a year with the owner's relatives working as conductors. If, during this period, no problems arise, he will lease me the minibus without collateral. It is indeed a very good chance for people like me who have nothing to offer for collateral.

I'm concerned about my social insurance premium not being paid for a long time, but I haven't spoken about it with the administration of the bus depot yet. Actually, working for a state enterprise has advantages: you're supported when you are sick or in a difficult situation. My working day starts at eight-thirty in the morning at the owner's garage and ends at nine at night. Tuesday is my day off since, according to my horoscope, this isn't a lucky day for me. The car is brand new and undamaged. My task is to keep it clean. Since the vehicle is the owner's property, I do what the owner says. The owner manages my daily work and I just receive my daily salary. I don't keep records, since there is no need.

As far as minibus service is concerned, I think it's in demand. Many are grateful for this service that helps them in their own work. I don't think minibus services will be abolished. There is more regulation in recent months, but since this business is expanding there's a need for it. The demand and supply are increasing and profits are good. That is why people import vehicles and rent them extensively. It's all right for those who have the money, but drivers without much to offer still can't find a job. This should be improved somehow. People importing vehicles care only about their profits, but if the Government gets involved in this business, more unemployed drivers who don't have collateral could probably find a job. I know there are many drivers in our bus depot still waiting for a job and for buses. I mentioned earlier that the owner of my vehicle is a very good man. There aren't many like him. He pays well. Maybe he will buy another vehicle with the money he has earned. Then someone else can be given a chance. I trust my employer very much and work willingly and conscientiously.

I believe that the Government can organize and manage this kind of working relationship without any loss and to the benefit of both sides – drivers and the Government. The living standard of drivers is improving, so I'm proud to be doing it. It's a profitable business. In my opinion, the existing legislation works well for the minibus services. Otherwise there would be chaos. Since there isn't much talk about taxes, they're obviously not much of a burden. Yesterday a legal publication related to minibus services was circulated among drivers. I haven't read it yet, but I think it might be a good thing.

My wife works at a felt shoe factory. Her salary is between thirty and thirty-five *togrog*s a month. Production is seasonal: she was idle for the last half of 1999 and from February to August this year. When she's out of work, she makes and sells baked goods. But this bakery business is not in demand and isn't profitable. We don't have much money to spare, so I can't give my children pocket money, but I certainly buy them books, notebooks, shoes, and clothes. As for household chores, I'm in charge of providing the firewood and coal. My two elder daughters take care of washing and cleaning, and my wife is in charge of the kitchen.

I have no specific plans for the next two years and will continue my current work until spring. From then on I'll rent the vehicle and my wife will work as a conductor. My eldest daughter will complete her secondary education studies next year. I have to worry then about her high school tuition. I think that my current job is a starting point for my future independent business.

### ***Family business in dairy products***

I'm a forty-six-year-old widow residing in Ulaanbaatar. I live with my two sons (twenty-three and eighteen years old) and one daughter (fifteen years old) in the *ger* area of Songino Khairkhan district. I have a secondary education. I used to work

with geologists, until in 1993 I joined the ranks of the unemployed. For a while I was doing almost nothing. In 1996, equipped with two ten-litre milk churns, I began selling dairy products on the streets – an activity that needed neither funds nor permission. The advisor was my sixty-year-old retired sister-in-law who had experience in this business. From her I learned how to operate this business and what to sell. Of course, there were the problems of starting a new business. For instance, I couldn't make a good choice of dairy products, nor could I pick them up at the right time. I wasted a lot of money on buying sour milk or milk mixed with water.

Since 1997 I have been selling milk in front of Dalai Eej indoor market. At that time there was a counter for dairy sellers. I paid a fee of eight hundred *togrogs* and five hundred *togrogs* for each forty litres of milk and usually sold two hundred litres of milk a day. I was free to sell, once the fee and rentals were paid. I rented a kiosk in 1998 to sell dairy products and in the following year I bought it. Now the kiosks are mine. I don't need to pay fifteen thousand *togrogs*, as I did while I was renting. I give some samples for analysis to the Dalai Eej market administration before selling the milk and pay six thousand *togrogs* monthly as a fee charged by the Sukhbaatar district taxation office. At the beginning I would go to the office to pay the fee, but now the tax inspectors come to collect it themselves. Also, I have a license that costs three thousand five hundred *togrogs* and is paid to the hygienic research centre (I can't remember the exact name of the organization). I understand that fees should be paid, but I wonder if they could be reduced a bit.

I work from six in the morning until six or seven in the evening during the winter and until eight at night in summer. I stop when the workers in Dalai Eej and Mercury indoor markets close their counters and buy milk from me on their way home. There is almost no seasonal variation in my business. Milk is cheap in summer. Thus it sells well – particularly on Fridays and weekends. The worst day is Monday.

First I go with one of my sons to the railway station to buy the milk from wholesalers on the train from Selenge and Darkhan *aimags*. Then I take a taxi at a thousand *togrogs* to bring the milk to the kiosk. I sell it until nine in the morning, when I go back with my son to the railway station to buy the milk from sellers on the Mandal train. I buy more milk from Mandal, which is usually thick and of better quality. Since everything is routine, I don't experience many problems nowadays. The most important thing is to buy good milk and sell it quickly. Normally there is no train delay. My children help me a lot all day long. While I am at the train station my daughter sells in the kiosk and one of my sons always accompanies me to help me buy and carry the milk. I don't keep detailed records of the business, but I roughly estimate how much I spend and earn.

Dairy products are for everyday consumption. Thus, they are always in demand. I set the price by adding fifty to a hundred *togrogs* to the price at which I buy.

Also, I consider the prices that other neighbouring sellers set. In summer I sell *koumiss*<sup>3</sup> as well. The people from the indoor market buy milk and yoghurt from me. It seems that selling indoors isn't profitable or convenient. Too many sellers are there and the rental is expensive – sixty thousand *togrog*s a month. I don't sell other dairy products like curds and cream, because they're sold inside the markets and these don't sell well. I'm selling less milk and yoghurt than I did in previous years, maybe because of a significant increase in the number of people – old and young – who are selling dairy products outside on the streets. More and more younger people are doing this business. I can't tell about their education. They probably have to sell dairy products, because they don't have a good education.

I wonder if there is any regulation or rule for selling the milk? I just pay what is asked and feel free to sell. The biggest concern with this business is to deliver or carry the milk. Another concern is time pressure. I have to sell quickly because milk spoils easily. But this, in turn, makes for faster cash flow. The demand for milk is likely to persist. So far selling milk is profitable. Customers prefer to drink fresh milk. Instant milk isn't that popular. However, the variety of milk is increasing. For example, packaged milk is imported from Russia. People are buying more of it. Thus, it's not clear if the demand for milk will go down. I'm not embarrassed at all about my business. I have lunch in a nearby canteen together with my customers. They are very friendly and respect me. But I can't say how my children might feel about this in the future.

My children help a lot with the business. My oldest son had sold his car to help me. My younger son recently got a kiosk in another district and has been selling dairy products for almost four months. My daughter receives a "breadwinner loss allowance" of fifteen thousand *togrog*s a month. She minds the kiosk while we're away buying the milk. We buy food and clothes with the income from my kiosk. This doesn't include the income from my younger son's kiosk, because his business is still new and he doesn't earn as much as I do. My family works as one team, so the income is for all of us. We don't give financial support to relatives, but try to help each other by providing information or advice. Recently, my sister began selling dairy products, so I'm sharing my experience with her.

I plan to continue this business. We need more manpower to expand or at least to manage both kiosks well. So far I haven't thought of any other ways to make a better living. Of course, I'm interested in earning more. If the dairy trade becomes less profitable, I'll start selling other products. I've tried cigarettes and noodles and found that the earnings weren't bad. Soon my son will probably buy a car. If this happens the work will run a bit easier. We might even be able to handle three or four kiosks. I always think about my children's future. They should be educated. My older son doesn't

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<sup>3</sup> A very popular drink for Mongolians made of fermented mare's milk.

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have much interest in studying, but I will educate my daughter. As for my younger son, I will let him decide for himself.

### **Health endangered in construction work**

I'm a thirty-two-year-old woman with a secondary education and vocational training. I am married and a resident of Ulaanbaatar. I live with my father, husband, and two children (aged one year and eight years) in a one-bedroom apartment. I started this business in 1994 out of necessity. I used to work in a construction-maintenance agency after the completion of vocational training in the field of construction. I worked there until 1992. Then I gave birth to my first child. When I came back after maternity leave, our agency couldn't pay its employees. In 1994 it was difficult to buy tools, so I borrowed some from my friends. My first job was the repair of a two-bedroom apartment belonging to my relatives. I did it very well. One by one my relatives helped me to find four to five customers. After that I was able to find the customers by myself. Now I'm expanding my business. I do all kinds of construction and maintenance in apartments. My husband works as a carpenter, plumber, and electrician. Actually, he's a car mechanic, but this doesn't pay well so we decided to work together.

The work is poisonous. Dusty conditions create a constant danger to health. I experienced it myself. My second baby had diarrhoea until her eighth month. Doctors diagnosed it as due to materials I use when I paint. Most of the time we use Chinese construction materials. They are cheap, but dangerous. Paints imported from Poland are less dangerous but more costly. Most customers prefer to buy cheap materials. Nowadays the quality of Chinese paints is worse than ever before: I used to use two layers of paint, but now I have to use four layers instead of two layers.

Sometimes customers don't pay for the work. For instance, once I negotiated to do a job for two million *togrog*s with the owner of a company, but he cheated me and paid four hundred thousand *togrog*s less than we agreed. He asked to have a look at the original of my contract and then refused to give it back, leaving me without any evidence of the deal. I would advise those who start this business to work honestly. The customers pay you with their hard-earned money. If the job is done well, they help you to find new customers. Health is a big concern, so take some protective measures. My own experience shows that beer and *airag*<sup>4</sup> help to reduce the side effects of the paint.

I organize my working day according to the particular job. My husband and some other people help me. Many young people in our business came from rural areas. They are different from the urban youth. They are more careful about their spending, and they are more hard-working and honest. Since we work hard, I feel very tired after

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<sup>4</sup> This is mare's milk.

work. Some customers cook for us, but not many. Our assistants need to be paid in advance. Sometimes they disappear as soon as they are paid. Since some of the others don't do the work as required, I have to redo it myself.

I make half of our family income. My father is 74 years old. Thus, he receives a pension allowance. My brother passed away a few years ago in Erdenet. His former wife married, but her current husband, who worked at the carpet factory, got sick with tuberculosis and is now unable to support the family. She is coming to Ulaanbaatar to live with us and work with me. She has two children. I really wish to continue this job, but my health won't allow it because of skin problems caused by the dust. Thus, most likely I will change jobs. I'd like to run a canteen.

## ZAVKHAN

### *Chinese connections for animal products*

I'm thirty-two years old. I live with my wife and son aged seven in the *ger* area. In 1979 our parents died and I was left with my two sisters and one brother. I'm the only one who looks after them. Our relatives tried to help us as much as they could. I graduated in 1989, with a diploma in entomology. After that I started to work as a meteorologist at the Nature Protection Office of Zavkhan *aimag* where I was laid off in 1992. Between 1992 and 1995 I was unemployed. All this time I was looking for some business. Finally, I decided to work as a trader of raw materials such as skins, wool, and cashmere. In the beginning I purchased for someone else. I brought skins and wool for them. In return I was paid for my services. In other words, someone employed me. After awhile I saved some money, so I could begin my own business. My relatives helped me by providing a few skins. I received permission from the hygienic inspection unit of Uliastai *soum* and registered at the taxation office as an "informal sector worker". My monthly tax is twelve thousand *togrogs*.

All raw material collectors occupy the same market segment. Sometimes the administration of the market requests that we move to another place located two-and-a-half kilometres away, but we don't move – so they fine us. First the administration fined us five thousand *togrogs* per person and after awhile the police came and requested us to pay another five thousand *togrogs*. Then the authorities decided to move raw animal materials traders, and now we're worried about our business. Another problem is the lack of information on prices. For instance, we buy skins from local people at three thousand five hundred *togrogs* a piece and bring them to Ulaanbaatar where demand is high. By the time we arrive there, prices are cheaper than here. But if we wait for prices to increase, we need to stay in Ulaanbaatar for at least a week. Another problem is that we usually use truck services that are expensive. One round trip costs around four hundred fifty thousand *togrogs*. Although we carry flour, rice, and other things back with us, the trip is unprofitable. Our business is a seasonal one.

The most profitable time of year is spring for cashmere combing and autumn for skin preparation.

Almost every rural person has started to sell skins and other raw materials, which increases competition. Especially women are coming into the business. And our life is unsafe. People think that all traders are rich and have a large amount of cash. This leads to an increase in crime against traders. We worry about the future of our country. All these resources are exported to China very cheaply. Sometimes we deliver skins, wool, and cashmere directly to China, while on the way back we import flour and rice. The Government doesn't do anything to protect Mongolian interests. If the national producers would buy raw materials at reasonable prices, we would surely prefer Mongolian buyers. In the near future I'd like to continue working in this field. I intend to shift my wife to the vegetable-selling business. It won't require much investment because she can grow vegetables herself.

### ***From wage work to self-employment in the catering business***

I'm a forty-one-year-old woman with a secondary education. I live with my husband and sixteen-year-old daughter in a fenced house. Currently I run a small catering business located near the Uliastai Market in Zavkhan which I started in 1999. I worked for twelve years in one of the leading kindergartens in the *aimag* centre. The principal of the kindergarten was replaced in 1994 and one cook, one teacher, and one nurse were let go. I was the only one asked not to apply for other jobs and wait until they could take me back. Soon the principal was changed again and the new principal employed someone else. He didn't employ a trained and experienced cook like me but instead he hired an inexperienced friend.

Thus, instead of doing nothing, I decided to make and sell *khuushuur*. I realized that I could not trade on the streets, so I worked part-time in canteens and bars. I heard from others that running a canteen is a good business and that many people make good money. And actually cooking is also my hobby. So I bought a *wagonchik* with the money I got selling some livestock. The owner said he was selling it because he's going to change his business. Now I realize that the real reason was that the location was not a good one. People from the market have to go around to get to this place. Still, this job is somewhat better than to work on the street or to be without a job. I bought some furniture, kitchenware, and other necessities with money I borrowed from my older brother and sister. I brought the stove and pan from home.

I work from ten in the morning until four-thirty or five in the afternoon. I bring in some food products from my home in the morning and cook. In the evening I carry water from a river and buy firewood and food in the market. I manage the work on my own. Sometimes when I'm in a hurry or if I'm sick I just lock the place up,



since a security guard works quite well at the market. My daughter helps me a lot. She carries water, makes dough, and cuts meat. My husband is disabled and tries to help with firewood and livestock as much as he can. The number of livestock we own has been reduced since we sold some of the animals for this workplace and many of them died during the winter.

The average daily income is two thousand *togrogs* and the net profit is usually around five hundred *togrogs*. Today I was able to make only a thousand four hundred *togrogs*. I try my best to satisfy the customers. If someone wants a specific kind of meal which isn't on our menu that day, I try to include it in the next day's menu. I already have several regular customers. Our prices aren't much different from other canteens. I regularly pay a monthly tax of two thousand *togrogs*, and land rent of fifteen thousand *togrogs*. I keep everything clean and in order, and I renew the hygiene and medical records. I don't think it's fair that these records have to be renewed every month. It costs too much. In order to renew the records I have to go through several medical examinations and tests. I pay for them every time, even though I pay health insurance premiums. Tests on tuberculosis and intestinal worms plus any x-rays at a thousand *togrogs* each total three thousand *togrogs* a month to get my hygiene records renewed.

For me this is a seasonal business because I can't provide enough firewood for the winter. Thus during the winter I work as a chief cook at the Khaalt Rest House. They don't pay me as promised, but there's nothing I can do to protect myself in such a situation. Until now my family lived on borrowed money, so what I earned I used to pay back debts. Because of the decline in the purchasing power of the population, which is directly related to the living standard, catering services are losing their customers. Basically, unemployed people try to do this business. If they lack money it's very difficult for them to start and run a private business. It seems easier and more profitable to bring goods from Ulaanbaatar and sell them locally. I feel insecure doing temporary jobs, since I'm not sure what might happen next. I'd prefer even to work as a cleaner and at lower pay in the kindergarten where I used to work as a cook. Then I wouldn't be so worried about my future. Also, I would be on the paid staff list which is a very important factor.

My daughter sells soft drinks. She earns four hundred *togrogs* a day and saves this money for her school expenses. Sometimes she buys ice cream or fruit but this happens rarely. My husband chops firewood, carries water, and takes care of our backyard. My daughter and I cook and prepare meat for the next workday in the evening. My business future is uncertain. When winter comes again, our canteen will be closed.

Our daughter's education is a big concern for me. I hope the new Government will do something. I'd like to go back to the kindergarten where I used to work. If I could return to my previous job, I could hire some people and continue to run my

canteen. I've noticed that it's quite easy to make money in Ulaanbaatar. Once I was there helping my sister take care of her son who had been in an accident. In my spare time I used to cook and sold *khuushuur*. I used two kilograms of meat and sold all in one to two hours, while here even one day wouldn't be enough. Also, I've noticed that there's demand for childcare. In fact, I could do it very well. The problem is where to live. I also see opportunities in Ulaanbaatar. It looks quite promising.

## ***KHENTII***

### ***Severe poverty and junk sales***

I'm a forty-three-year-old widower with a good education. My wife passed away twelve years ago leaving me with two children. Now I live with my twenty-two-year-old son and thirteen-year-old daughter in a house in my friend's yard in Undurkhaan. My son is unemployed, but he occasionally does some menial jobs at the market. My daughter doesn't go to school. I worked as an electrician at the telecommunications agency until I was made redundant in 1989. From then on I couldn't find work and didn't have enough money to start my own business. Since 1997 I've sold second-hand goods. The idea of this business came to me when I saw some people selling second-hand goods on the streets of Ulaanbaatar. So I collected some used items from my friends, relatives, and acquaintances and started selling them on the streets outside the Khuur food market. This was much better than doing nothing. I'm earning a living and was the first person to introduce this business in Undurkhaan. Following me others started to sell second-hand goods and their numbers are increasing. Some of them sell even better junk than I do – such as old cars, bikes, spare parts – thus taking away my customers and reducing my profit. To make matters worse, the authorities are pressing us to move, because we can't afford the payment they demand. In response, I decided to move to a new part of Undurkhaan. This was a good decision.

I don't have permission to work here. The tax collector comes by and demands that we get permission to sell our junk, but we don't have any money to make all these payments. The police don't really bother us: they probably think they wouldn't be able to get anything out of us anyway.

Every morning I arrive around ten. I generally work until between six and seven at night, but in the winter I finish a bit earlier. I don't eat all day, unless I make a profit. Then I buy one or two *buuz* or *khuushuur*. It's very difficult to sit outside all day long – especially in the freezing cold. Customers usually buy cheap stuff to fill their needs. When I'm running my business I get help from people who do the same as me. We usually try our best to help and support each other. More than half of the junk I sell belongs to people who asked me to sell for them. I make up the prices for the goods myself bearing in mind how available and old they are. I don't have that much work to do: I just sit here and sell my junk, but I have to tell customers about how it works and

what it is. My profit has remained the same for three years. It is just enough to buy food. The only progress I made is that I have started to sell second-hand books.

I think in the future there will be more junk sellers. Life is getting worse and worse but our Government is doing nothing. People are slipping into poverty. If I had money I would start a different business, but without money I can do nothing. People like me aren't entitled to loans. Running these kinds of business doesn't have any future at all: I think this is a job for people who don't have any other choice. I spend my profit on food, but there are times when we eat nothing at all. I don't get any help from my children, because I don't allow them to help me with this business. My son can't find work because he isn't educated enough. We can't even afford to buy meat; we only buy bones. My daughter helps with the cooking, but I do the rest of the housework. I have to be both a mother and a father to my children. What I really care about is making enough money to buy food, but unfortunately I can't even do that every day.

### ***An accomplished accountant as kiosk operator and counter trader***

I'm a twenty-five-year-old woman with a secondary education. I live with my *ger*-mate and my child – a two-year-old boy. My parents live in the *ger* district with my younger brother. My husband has a temporary job in a construction company and lives with his parents in Ulaanbaatar. I was a student in Ulaanbaatar, but it seems now that I won't be able to continue my studies. After my child was born, I was on maternity leave for one year. I started to run a kiosk three years ago. It is located close to my *ger*. Initially, my mother ran the kiosk and my task was to purchase wholesale products. Since this kiosk is located close to the old market, people don't buy much from us. Therefore, since March I have rented a counter in the new food market and sell vegetables.

My father and brother built the kiosk by themselves. We pay a fee of two thousand two hundred *togrogs* a month plus a similar fee for the market counters, plus rent of fifteen thousand *togrogs* a month. For the counter I also pay six hundred *togrogs* every ten days for sanitary purposes and three thousand *togrogs* for the health notebook every six months. We don't make all these payments for the kiosk. I got the idea to run a kiosk from some people when I was hired as a salesperson at their counter. When I felt I had enough experience I decided to set up my own kiosk.

We open the kiosk at nine in the morning and close at six o'clock in the winter and at eight o'clock in the summer. We just sit and trade. The best profit is on cigarettes. I organize everything by myself. If mother feels better, she can take care of the kiosk while I go to Ulaanbaatar to buy products. I usually go once a month. Sometimes I ask people leaving for Ulaanbaatar if they can buy some goods for me as

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well. I go to Ulaanbaatar every two weeks. I pay eight thousand *togrogs* for a taxi to get there and the same amount to get back. The charge for one ton of freight is twenty thousand *togrogs*. Normally I have between one and one-and-a-half tons of freight. I buy vegetables and potatoes from the Bars open-air food market and other stocks for the kiosk from the Narantuul open-air market. The purchasing power of the population is decreasing. Before trading profits increased during the holidays, but not any longer. Especially now when students go back to school the families don't have money.

I keep records every day on cash flow at the counter and in the kiosk as well. Based on the detailed records I analyse which products sell the best and what the profits are. This business seems suited to the demand. I set prices by adding a mark-up on the Ulaanbaatar price. Of course, it includes transport costs, other expenses, and profit that usually amount to fifty per cent. Also, I take into account the local market price. Sometimes it happens that my prices are lower than local market prices. Then I sell at the market price since I'm not interested in selling below this. Generally my business runs well, but this year isn't good. Especially this summer and autumn, sales weren't as I expected. People are out of money. There aren't many kiosks here in Undurkhaan.

My income makes up about sixty per cent of the family income. I try to cover family needs from kiosk profits. I re-invest profits from the counter. My brother now is a student and I have to think how to help him. My younger brother helped me financially when I used to study. My mother takes care of my baby while I'm away. Now I employ a relative who came from the countryside. My husband and brother-in-law help me, when I go to Ulaanbaatar for stock supplies. They help me buy the goods, find the vehicle, load the merchandise, and so forth. This is a reliable income source for my family, so I will expand it. If the kiosk income drops, I will stay at the counter to sell vegetables, while my sister takes care of the kiosk. But I will keep trading both at the kiosk and at the counter until November. There are some problems transporting stocks from Ulaanbaatar in the winter and products can freeze on the way. If she feels better, I plan for my mother to work at the kiosk. Meanwhile, I will open a new counter at the market and employ my sister. But this is the just my idea.





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