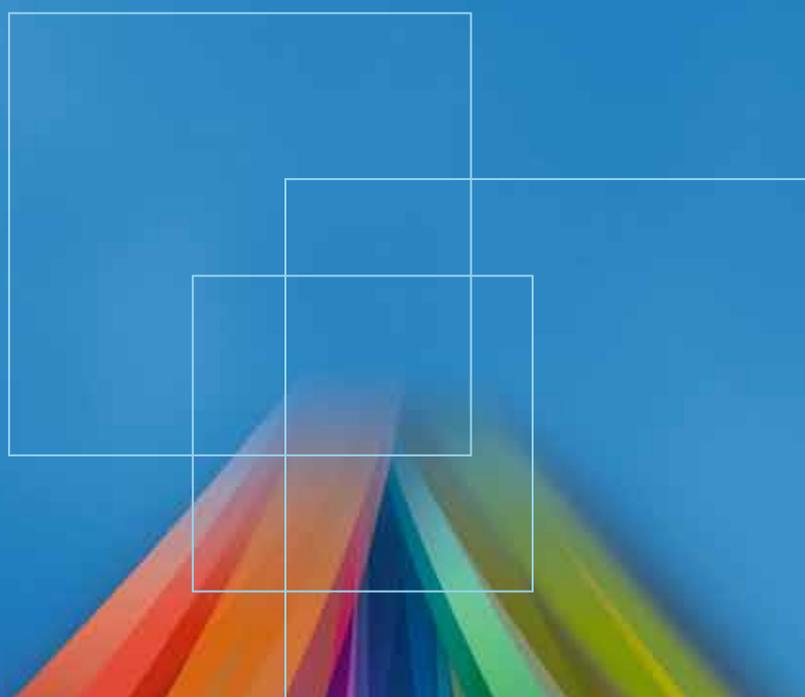




International  
Labour  
Organization

# Global Jobs Pact Country Scan

## Mongolia



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**International Labour Organization**

**Global Jobs Pact Country Scan,**

**Mongolia**



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First published 2011

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ISBN 978-92-2-125396-9 (print)

ISBN 978-92-2-125397-6 (web pdf)

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Photocomposed and printed by the International Labour Office, Geneva, Switzerland

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## Foreword

Representatives of governments and employers' and workers' organizations adopted the Global Jobs Pact at the International Labour Conference in June 2009 as a global policy instrument that puts employment and social protection at the centre of crisis response. It is based on the ILO's Decent Work Agenda and commitments made by the ILO constituents in the 2008 Declaration on Social Justice for a Fair Globalisation. The Global Jobs Pact addresses the social and employment impact of the international financial and economic crisis and proposes a set of policies aimed at stimulating job creation, extending social protection, respecting international labour standards and promoting social dialogue, for countries to adapt according to their specific situation and needs. Globally, the Global Jobs Pact has gained further momentum through the strong endorsement from the United Nations General Assembly and the Group of Twenty (G20) States, among others. The ILO is supporting constituents that have decided to apply the Global Jobs Pact to their national contexts. Following a request from the Government of Mongolia, the ILO is working with national constituents to support their application of the Global Jobs Pact.

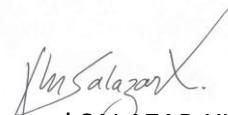
Productive employment and decent work for all are very much in focus as Mongolia embarks on a visionary transformation of the country from a natural resource-based to a human resource-based economy. This has been clearly manifested in the implementation of a comprehensive process of participatory and bottom-up tripartite consultations. Regional employment fora, organised jointly by the Government and the social partners in some 22 *aimags*, led up to and culminated in a National Employment Conference in October 2010 and in the subsequent declaration of 2011 as the *Year of Employment Promotion*. The ILO looks forward to working with its partners in Mongolia in implementing the Global Jobs Pact and in making the vision of an inclusive human resource-based development in Mongolia a reality.

The Global Jobs Pact Country Scan for Mongolia was prepared by the International Labour Office and made available to the Mongolian constituents as an input into their national policy dialogue. The work was undertaken as part of the Director General's Special Office Arrangement to support constituents to give effect to the Global Jobs Pact. Specifically, this work relates to Special Assignment No: 1 concerned with ensuring sound and integrated technical support to the operational response to constituents in countries wanting to apply Global Jobs Pact policies, coordinated by José-Manuel Salazar-Xirinachs, Executive Director of the Employment Sector of ILO.

We thank all those who were involved in preparing this report and hope that it will be a useful contribution to policy dialogue in Mongolia.



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Regional Director, Asia and the Pacific



José Manuel SALAZAR-XIRINACHS  
Executive Director, Employment Sector



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## Introduction

The damage to employment created by the financial and economic crisis has caused hardship to many working women and men, families and communities, and worsened poverty. Recognizing that recovery will not be sustainable unless decent and productive jobs are created and maintained, the Global Jobs Pact, adopted by the International Labour Conference in June, 2009 contains a portfolio of policies to promote jobs, protect people and rebalance policies in line with a more sustainable and inclusive future, based on the Decent Work agenda and a fair model for globalization. It is a framework for the period ahead and a resource of practical policies for the multilateral system, governments, workers and employers that will enable each country to formulate a policy package for a sustainable recovery.

A key element of the ILO's strategy to support constituents in applying the Global Jobs Pact is the preparation of the "Global Jobs Pact Country Scan". This document is intended to provide a description of the impact of the crisis in the country, a detailed description of the policy responses using the GJP portfolio as a checklist, and recommendations on how national policies can contribute to shaping a fair and sustainable globalization. It looks at the country situation and policy responses "through the lens" of the Pact and has three essential parts:

- Part I: Overview of crisis impact on Decent Work in the country
- Part II: Description of crisis response and recovery policies
- Part III: Shaping a fair and sustainable globalization

This document provides the Global Jobs Pact Scan for Mongolia. It is intended to support constituents as they extend and review crisis response policy packages and to be used as an input into national policy dialogue and implementation processes.

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## Part I Overview of the impact of the crisis on Decent Work in Mongolia

### Main features of the economic and labour market developments in the years leading up to the crisis

The Mongolian economy grew at an unprecedented pace during the years leading up to the global financial and economic crisis. Between 2002 and 2008 GDP increased by 65 per cent, that is by almost 9 per cent per year. This rapid growth should be seen against the backdrop of the painful economic and societal transformation in the 1990s. As growth began to pick up in 2002, it was from an economic level that was no higher than it had been twelve years earlier and following a decade that had witnessed massive job destruction, not least in the urban formal economy.

Unfortunately, economic growth, when it finally arrived, did not deliver on job creation. All in all employment increased by no more than 100,000, that is less than 11 per cent, between 2003 and 2007, as the employment elasticity of growth fell to a mere 0.26.<sup>1</sup> This was far short of the need to meet the demand for employment resulting from an increase of the working age population by almost 200,000 in the same period, let alone to reduce the backlog of discouraged workers and unemployed. A rough estimate based on data from household income and expenditure surveys also suggests that the large aggregate increases in productivity were only to a limited extent translated into any broad-based increases in incomes from employment. According to official statistics the percentage of the population living below the poverty line remained virtually unchanged over the period, implying that the number of working poor actually increased somewhat in absolute terms.<sup>2</sup>

The failure of growth to translate into any commensurate increase in productive employment can to a large extent be explained by its sector composition. Growth was primarily driven by a very rapid increase of revenues from mining and, to a lesser extent, by a recovery of agriculture and a rebuilding of the herds of livestock after three devastating winters 1999-2001. Value added from the mining sector more than doubled between 2003 and 2007, accounting for more than one fourth of the total GDP growth in this period, but for only 15 per cent of the small growth in employment. By 2007 the mining sector accounted for 30 per cent of GDP and for two thirds of all export earnings. It had also become a major source of public revenue, accounting for 37 per cent of total government revenue.<sup>3</sup> In the agricultural sector, which accounted for over a quarter of the growth in GDP, employment actually fell marginally as this sector began to shed some of the surplus labour accumulated in the 1990s. Furthermore, the growth of the mining sector was largely driven by increasing commodity prices – notably copper, but also gold – and to a much lesser degree to an expansion of the physical output.

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<sup>1</sup> The employment elasticity measures the percentage increase in employment resulting from a one per cent increase in GDP.

<sup>2</sup> Ronnås, Per, (2010). *Challenges for achieving inclusive job-rich growth in Mongolia*, A Paper prepared by the ILO for the National Employment Conference in Mongolia, Ulaanbaatar, October 14, 2010 (2010). Based on figures from the 2007/08 Household Socio-economic Survey.

<sup>3</sup> IMF (2008).

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Indeed, a fourfold increase in the price of copper between 2003 and 2007 was arguably the main driver of growth of the Mongolian economy over this period.

In short, it may be concluded that there was a severe sector imbalance between economic and employment growth. The economic growth resulted in little new employment and where jobs did increase, it was largely a result of push and supply factors and took place at the expense of productivity.

### **Macro-economic policies in the pre-crisis years**

A very fast increase in public revenue from the mining sector resulted in a rapid increase in the fiscal space. Public revenue increased by 64 per cent in 2006 and a further 36 per cent in 2007, i.e. an increase of more than 60 per cent in real terms over two years. Following over a decade of fiscal austerity and under-investment in both physical infrastructure and human resources, this allowed for a much welcome expansion of public expenditure. Social welfare transfers were raised through the reintroduction of a universal child allowance, an increase in minimum pensions and the introduction of lump sum allowances for newlyweds and newborns. Public sector wages were also substantially increased in both 2006 and 2007. However, the largest increases were on capital expenditure, i.e. public investments, which more than trebled between 2006 and 2008, as their share in total expenditure increased from 15 to 26 per cent.<sup>4</sup> A Mongolian Development Fund was also established to ensure that revenues from a windfall tax on mining would be used according the formula of one-third for capital expenditures, one-third for child and family allowances and one-third saved. There were also cuts in taxes, notably a reduction of VAT from 15 to 10 per cent.

Monetary policy was also expansionary. Private sector credits increased rapidly after 2005, albeit from a low base, while bank lending interest rates began to fall from a high level and the spread between lending and borrowing rates narrowed.<sup>5</sup> Broad money also grew rapidly by between 30 and 50 per cent per year between 2002 and 2008.<sup>6</sup>

Inflation increased in the years immediately prior to the crisis, from 6 per cent in 2006 to 12 per cent in 2007 and peaking at 23 per cent in 2008.<sup>7</sup> The rapid increase in inflation was clearly a major cause of concern for the Government as well as for the IMF, who put it forward as a strong argument for a reversal of the expansionary fiscal and monetary policies, first in 2007 and, more energetically, in 2008.<sup>8</sup> The increase in inflation resulted from a combination of external and internal factors. The sharp increase in world prices for food, which is largely imported, and

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<sup>4</sup> IMF (2007), *Mongolia: 2006 Article IV Consultation – Staff Report*, IMF Country report 07/30, January 2007 (Washington D.C.: IMF); IMF (2008), *Mongolia: Article IV Consultation – Staff Report*, IMF Country Report 08/200, July 2008 (Washington D.C.: IMF). See also *Monthly Bulletin of Statistics*, December 2007 and December 2008 issues (Ulaanbaatar: National Statistical Office of Mongolia).

<sup>5</sup> IMF (2008) *op.cit.*. Bank lending rates stayed above 30 per cent until 2005.

<sup>6</sup> Except for 2005, when its growth fell to 20 per cent. (IMF: 2008, *op.cit.*).

<sup>7</sup> CPI (end-period).

<sup>8</sup> IMF (2007, *op. cit.*) (2008, *op.cit.*).

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energy was a major, if not the main, factor, but an increase in domestic demand clearly also played a role.<sup>9</sup>

From an employment perspective an arguably greater concern was a deterioration of Mongolia's competitiveness from an already precarious situation. This was amply reflected both in a fall between 2002 and 2007 in manufactured exports from an already very low level and in a sharp increase of imports of manufactured goods. By 2007 imports of manufactured goods were ten times larger than exports, while the latter made up a mere 6 per cent of the total exports of goods from Mongolia.<sup>10</sup> Lack of competitiveness was indisputably a main factor behind the dismal performance of the manufacturing sector, even after growth picked up after 2002, which in turn was a main reason behind the very slow growth of productive employment.<sup>11</sup>

The conditions for a rapid reindustrialization after the virtual collapse of manufacturing in the early 1990s were never very good. Both production and transaction costs are inevitably high at the early phase of industrial development and, not least, in the incipient stage of the development of a market economy. A virtually complete trade liberalization in the early 1990s implied that nascent industries had to face the full onslaught of competition, not least from neighbouring China, from the very beginning and before they could gather any strength themselves. After 2002 some of the disadvantages typically associated with Dutch Disease and resulting from the rapid expansion of mining revenues further aggravated the situation. Real wages in manufacturing increased at a much faster pace than productivity after 2005, in part no doubt because increases in public sector wages spilled over to the private sector.<sup>12</sup> Competitiveness was also undermined by a significant increase in the real exchange rate of the Tugrik, primarily due to a rapid increase in the inflow of foreign exchange originating from the mining sector.<sup>13</sup> According to IMF estimates, the real exchange rate appreciated by some 25 per cent between the end of 2004 and the end of 2007.<sup>14</sup> Despite this substantial real appreciation and the dismal performance of tradables in the economy, the IMF concluded in mid-2008 that the exchange rate was somewhat undervalued.<sup>15</sup> It would appear that IMF advice on the exchange rate policy was (and remains) entirely guided by a perception that a strong currency helps curtail inflation, with little or no regard for the implications on competitiveness.

### **I.1 Impact on major macroeconomic variables**

A virtual collapse of the price of copper on the world market triggered the transmission of the

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<sup>9</sup> For a discussion, see *inter alia* IMF (2007, *op.cit.*).

<sup>10</sup> <http://comtrade.un.org>. Data from 2009 International Trade Statistics Yearbook. Volume 1- Trade by Country (New York: United Nations).

<sup>11</sup> Value added in manufacturing increased by 17 per cent between 2003 and 2007. (<http://unstats.un.org>).

<sup>12</sup> Real wages in manufacturing increased by 87 per cent between 2005 and 2008, while labour productivity increased by 46 per cent in the same period.

<sup>13</sup> Mongolia maintains a regime of full current account convertibility. The national currency – the tugrik is floating, although the exchange rate has at times been subject to significant Central Bank interventions.

<sup>14</sup> IMF (2007, *op.cit.*) (2008, *op.cit.*).

<sup>15</sup> IMF (2008: 10, *op.cit.*).

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global financial and economic crisis to the Mongolian domestic economy.<sup>16</sup> By the end of the first quarter of 2009, copper prices had fallen from USD 8,600 per ton in mid-2008 to USD 3,000 per ton, that is by 60 per cent. Fiscal revenues from mining, which accounted for more than one-third of all budget revenues at the peak of the commodity boom in 2007 had by then fallen by 10 per cent of GDP, while exports of copper and gold fell by over 40 per cent in 2009 (over 2008) in value terms, largely as a result of the fall in prices.<sup>17</sup>

The fall in revenues from mining had an immediate and dramatic impact on both the government budget and on the balance of payments. The bulk of the fiscal revenue from the mining sector during the pre-crisis years came from a 68 per cent windfall tax which was triggered when world market prices of copper or gold exceeded a specified base price. While the logic behind the design of this tax is obvious, it made fiscal revenue highly sensitive to fluctuations in the price of copper and gold. The impact on the external accounts was equally dramatic. There was a sharp increase in the current account deficit in 2008, which was exacerbated by a deterioration in the capital account as inflows of FDI dried up and by a flight from the domestic currency to the dollar. An effort to defend the exchange rate and a *de facto* peg to the US dollar proved to be futile, expensive and arguably harmful. This effort had to be abandoned in November 2008, whereafter the Tugrik fell by almost 40 per cent against the US dollar.

By the first quarter of 2009 the fiscal and external positions had deteriorated to such a degree that the Government was forced to request IMF support. An 18 month stand-by agreement was reached with the IMF in April 2009, opening up a credit line to the tune of 153 million SDR, equivalent to 5.5 per cent of GDP.<sup>18</sup> This was topped up by promises of loans of an almost equal magnitude from the ADB, the World Bank and Japan.

The Government committed itself to an immediate reduction in public expenditures to the tune of 5 per cent of GDP. There was a freeze on all new capital expenditure and a reduction of current expenditure across the board. The prescribed monetary policies included an increase in interest rates, ostensibly to prevent further flight from the national currency.<sup>19</sup> The combined effect of the fiscal and monetary responses to crisis was clearly highly pro-cyclical.

### ***Impact on the banking and financial sector***

The direct impact of the global crisis on the financial market was not strong, as the Mongolian banks are not closely integrated in the world financial market. Investments during the years of high growth had mainly been in the mining sector and there had been little foreign portfolio

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<sup>16</sup> A fall in the prices of other primary commodities also had an, albeit lesser, impact, while other transmission channels, such as remittances and FDI/capital account flows, seem to have been of less importance.

<sup>17</sup> IMF (2009), *Mongolia: Request for Standby Agreement – Staff report*, IMF Country Report 09/130, April 2009 (Washington D.C.: IMF); IMF (2010a), *Mongolia: 2009 Article IV Consultation, Third Review Under Stand-by Arrangement, and Request for Modification of Performance Criteria*, IMF Country Report 10/52, February 2010 (Washington D.C.: IMF).

<sup>18</sup> IMF (2009, *op. cit.*).

<sup>19</sup> The high degree of dollarization in private sector borrowing was an important factor behind the concern about the depreciation of the national currency.

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investment in Mongolia. Hence the pressure on the financial sector and on the economy from an outflow of mobile capital was low. This was known to policy makers and they stated continually at the onset of the global financial crisis, that Mongolia would not be affected by the crises, and there was nothing much to worry about.

However, on the eve of the crisis, the Mongolian banking sector was highly vulnerable. A rapid expansion of lending during the years of high growth prior to the crisis, much of it associated with a construction boom, and often weak systems of risk management and oversight over loan portfolios had made many banks exposed to the risk of defaults on loans. The construction sector was severely hit by the crisis as the boom in public physical infrastructure investment and in private construction came to an abrupt halt. In addition, the sharp depreciation of the exchange rate had a negative impact on the ability of many firms to service their loans. The global crisis thus served as a catalyst to trigger a crisis in the banking sector that had primarily domestic causes. Two large banks went bankrupt - Anod Bank in December 2008 and Zoos Bank in November 2009 – due to excessive exposure to non-performing loans. At the time of their collapse up to 70 per cent of their loans were non-performing and in the aftermath of the collapse of Anod Bank some irregularities in its bookkeeping were also discovered. After the bankruptcy of Anod Bank, a law was adopted in early 2009 guaranteeing deposits in order to restore confidence in the banks and to avoid mass withdrawals of deposits by the public. Hence, Zoos Bank was re-structured following its collapse to become fully state owned as Mongol Bank stepped in to guarantee the deposits. The lesson learnt was that there was a need to tighten financial regulation and supervision and to improve banking governance. Mongolia will need a strong banking system to cope up with the strong economic growth envisioned in the near future.

### ***The fiscal impact***

The very rapid increase in fiscal revenue in the years leading up to the crisis – notably a 60 per cent increase in real terms in two years (2006 and 2007) – was largely based on revenues from the mining sector. A main contributor was a windfall profit tax that was triggered once the world market for copper or gold exceeded a predetermined level. While this made a much needed addition of fiscal resources available prior to the crisis, it also made the budget highly exposed to fluctuations in world market prices of key minerals. In retrospect, it is also clear that the rapid growth of public expenditures in the years prior to the crisis was not only pro-cyclical, but that the pace of this growth was unsustainable. Inadequate attention was paid to the need to use the windfall gains to build up a fiscal buffer. The Mongolia Development Fund was established in 2007, but the revenues of the fund were largely spent to fund social welfare programmes to meet the pre-election promises, undermining its use as an instrument for macroeconomic stabilization. When the crisis started to hit the real economy, the government did not have the resources to support the economy. Ambitious spending plans during the years of high economic growth revealed a short-sightedness with respect to fiscal policy which was very much influenced by overly optimistic revenue forecasts.

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As the price of copper and gold plummeted in 2008, so did public revenue. By early 2009 the IMF estimated that the collapse in global mineral prices had reduced fiscal revenues by 10 per cent of GDP since 2007. The windfall tax revenue fell by 198 billion MNT, i.e. the equivalent of more than 10 per cent of public revenues in 2007.<sup>20</sup> Other tax revenues, too, decreased as the crisis affected the real economy. Revenues from import duties fell by 15 per cent and from export duties by 45 per cent, while excise taxes fell by 18 per cent. The budget also came under pressure on the expenditure side. In particular as fiscal resources were used to prop up the reeling financial sector and to bail out the failing Anod Bank. As cuts in fiscal expenditures failed to keep pace with the abrupt fall in revenues, the fiscal surplus quickly turned into a deficit. The pace of the deterioration of the fiscal situation was a main factor behind the request for a stand-by agreement with the IMF in early 2009.

The impact of the global economic crisis on the Government budget, just as on the economy at large, turned out to be brief. The crisis bottomed out during the first half of 2009 and was followed by a recovery that was as swift as the decline had been a year earlier. The recovery was fuelled by a sharp increase in copper prices, which by early 2010 were back at almost the pre-crisis levels, and by a large inflow of FDI as investments in the Ouy Tolgoi mine, which is expected to become one of the world's largest copper mines, gained momentum. The recovery of the copper prices and the renewed economic growth had an immediate impact on the fiscal situation. Fiscal revenues increased sharply in the second half of 2009 and although revenues for 2009 as a whole were below that of the previous year, fiscal revenues during the last quarter of 2009 reached 662 billion MNT as against 537 billion MNT a year earlier.<sup>21</sup> By September 2010, the fiscal revenue forecast for 2010 was a hefty 38 per cent higher than actual revenues in 2009.<sup>22</sup>

Thus, the global financial and economic crisis revealed that the Mongolian economy had become highly vulnerable to the vagaries of world market prices of raw materials and to other external influences. A very rapid expansion of fiscal expenditure during the good years prior to the crisis made fiscal policy highly pro-cyclical and as the global crisis hit the Mongolian economy, the pro-cyclical policies could not be reversed, which aggravated the impact of the crisis. It became clear that fiscal policies and the fiscal system needed to be redesigned to create buffers and safeguards preventing large fluctuations in revenues from translating into similar swings in public expenditure. The crisis also highlighted some of the dangers of becoming excessively dependent on the export of one or two commodities only.

## **1.2 Impact on the real economy**

The crisis rapidly spread to the rest of the economy as both private and public demand contracted and credits to the private sector dried up. In aggregate terms GDP growth

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<sup>20</sup> Impact of the global economic crisis on Mongolian economy, Economic School of MNU, 2010.

<sup>21</sup> Impact of the global economic crisis on Mongolian economy, Economic School of MNU, 2010.

<sup>22</sup> IMF (2010c), *Mongolia: Fifth and Sixth Reviews under the Standby Agreement and Rephasing of Purchases*, IMF Country Report 10/294, September 2010 (Washington D.C.: IMF); *Monthly Bulletin of Statistics, December 2010* (Ulaanbaatar: National Statistical Office).

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contracted by more than ten percentage points, from 8.9 per cent in 2008 to -1.3 per cent in 2009.<sup>23</sup>

Some economic sectors experienced a notable decline. Compared to 2008, the value added produced in the construction sector fell by 44 per cent, retail and wholesale fell by 12 per cent and financial services declined by 16 per cent.<sup>24</sup>

*The construction sector* was the hardest hit sector. During the boom years the construction sector had enjoyed rapidly increased demand, partly fuelled by increasingly easy access to credits. The dramatic decline was the result of a freeze in public investments (as part of the stand-by agreement with IMF) and a sharp fall in private construction-related investments. Thus, the decline followed after years of very rapid growth and reflected a classic boom and bust pattern. The lack of an appropriate regulatory framework for the construction sector and generally poor company governance served to exacerbate both the boom and the bust.

The decline in *the financial sector* was linked to developments in the construction sector through non-performing and overdue loans. The non-performing loans of the banking system increased by 2.4 times between December 2008 and December 2009, and, as discussed above, resulted in the collapse of two main banks.

*Agriculture:* During 2008-2009, agricultural output increased significantly thanks to the government's forceful programme for reviving the agriculture sector (known as the "Atar" programme), which started in 2008. Wheat production increased by 84 per cent and that of potatoes by 12 per cent. As a result, the country became self-sufficient in potatoes and produced half of its domestic demand for wheat and vegetables in 2008.<sup>25</sup> The programme was successfully implemented and included improved regulations and financial support to agricultural businesses.

*Herding:* The total number of livestock reached 44 million in 2009. However, due to the harsh winter and spring of 2009-2010, about 8.8 million livestock<sup>26</sup> perished during the first five months of 2010, resulting in the loss of livelihood for thousands of herders and in an overall decline of agricultural production by 17 per cent in 2010. As of April 2010, 8,700 herder families were left with no livestock, while 32,700 herder households had lost more than half of their livestock.

*Mining* has become the largest economic sector, comprising 65 per cent of all industrial production, and accounting for 60 per cent of export revenues and 40 per cent of fiscal revenues prior to the crisis. The mining sector contracted sharply in the first quarter of 2009, but began to recover by the fourth quarter of 2009 as demand in China increased and the prices of copper

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<sup>23</sup> IMF (2010b), Mongolia: *Fourth Review under the Standby Agreement and Request for Modification of Performance Criteria*, IMF Country Report 10/84, March 2010 (Washington D.C.: IMF).

<sup>24</sup> *Monthly Bulletin of Statistics, December 2010* (Ulaanbaatar: National Statistical Office).

<sup>25</sup> <http://www.fao.org/gIEWS/countrybrief/country.jsp?code=MNG>

<sup>26</sup> A Monthly Brochure of MAFLI for June 2010, <http://www.mofa.gov.mn/mn/images/stories/busad/tsag6.pdf>

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and gold started to pick up.

*Manufacturing production* fell by 9 per cent in 2009.<sup>27</sup> However, the year-to-year figure masks dramatic changes in the course of the year. During the first nine months of the year manufacturing production fell by 10.5 per cent, while the last three months of the year saw the beginning of a recovery which continued in 2010. Overall, *the transport sector* continued to grow, albeit slowly, throughout the crisis. The total carriage of freight and the number of passengers increased marginally by 3.5 per cent and 0.3 per cent, respectively. This growth was entirely due to a growth in road transport, while rail and air transport declined.

*Tourism:* The number of tourists declined by 3 per cent in 2009 (as compared to an 8.4 per cent decline worldwide and 6.3 per cent in South East Asia). The comparatively modest fall in tourism was due to an increase in tourist arrivals from China. While tourist arrivals from Europe, North America, Japan, Korea and Australia fell by 17-25 per cent, the number of tourists from China increased by 16.6 per cent. The decline in tourism could probably be attributed as much to concerns about the H1N1 flu as to the crisis.

*Trade:* Total exports in 2009 fell by 25 per cent as compared to 2008, while total imports declined by 34 per cent. Both exports and imports began recovering during the fourth quarter of 2009. Gold exports almost halted in February 2009 and only resumed again in September 2009. By September 2009 the export of gold reached 2.2 tonnes, as compared to 3.9 tonnes in January of the same year. By contrast, the export of copper concentrate remained stable at around 50 thousand tonnes a month throughout the year. The export of raw cashmere fell during the first three months of 2009 to the very low level of 30-50 tonnes a month. However, this decline was partly due to seasonal factors, as combing begins in March-April. From March onwards exports of cashmere wool increased dramatically, partly due to seasonal factors, but also to the abolition of an export tax on raw cashmere in June 2009. The export of beef, 9 per cent of which goes to Russia, doubled in 2009, while the export of horse meat to Japan and Kazakhstan increased by 42 per cent.

*Remittances* started to fall in November 2008 to a level of 9.2-12.6 million USD per month during the first half of 2009, where after they increased sharply to 18.8 million USD in July and 23.1 million USD in August. For the year as a whole, remittances remained at the same level in 2009 as in 2008. The resilience of the inflow of remittances helped cushion the impact of the crisis for many families.

### **1.3 Impact on the labour market and employment**

As the crisis hit the real economy it rapidly also affected the labour market. The impact was particularly noticeable as it seems to have coincided with an unusually rapid increase in the labour force, which increased by 110 thousand from the fourth quarter of 2008 to the same

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<sup>27</sup> *Monthly Bulletin of Statistics, December 2010* (Ulaanbaatar: National Statistical Office).

quarter in 2009.

Unemployment increased by 36 per cent in absolute terms. Men were disproportionately affected by the increase in unemployment, accounting for almost two thirds of the increase (Table 1). The sharp contraction of the construction sector is a likely reason behind the sharp increase in male unemployment. The crisis does not appear to have resulted in any major withdrawal from the labour force, although there was a small decline in the labour force participation rate for both women and men. The crisis was also clearly affected by shifts in the sector structure and forms of employment. The trend of a rapid shift of labour from agriculture to the non-agricultural, largely urban, sectors was temporarily interrupted. The services sectors accounted for almost the entire increase in employment. Combined with the fact that wage employment accounted for less than 30 per cent of the increase in employment, it seems fair to assume that informal services, much of which are likely to have been in the form of 'distress' employment at very low levels of productivity and incomes, absorbed the bulk of the new employment.

**Table 1: Labour market impact of the economic crisis.**

	2008	2009	2010	Change 2008-09	Change 2009-2010
Labour force	1,009.3	1,120.3	1,129.9	+110.0	+9.5
- Women	487.1	524.2	529.4	+37.1	+5.2
- Men	522.2	596.1	600.4	+73.9	+4.3
Employed	904.4	977.4	1,023.7	+73.0	+46.3
- Women	434.4	460.9	482.4	+26.5	+21.5
- Men	470.0	516.5	541.3	+46.5	+24.8
Unemployed	104.9	142.9	106.1	+38.0	-36.8
- Women	52.7	63.3	47.0	+10.6	+16.3
- Men	52.2	79.6	59.1	+27.4	-20.5
Activity rate, %	61.1	61.4	61.3	+0.3	-0.2
- Women	56.4	55.9	56.1	-0.5	+0.2
- Men	66.2	67.3	66.7	+1.1	-0.5
Employment rate, %	54.8	53.6	55.5	-1.2	+1.9
- Women	50.3	49.2	51.1	-1.2	+1.9
- Men	59.6	58.3	60.2	-1.3	+1.9
Unemployment rate, %	10.4	12.8	9.4	+2.4	-3.4
- Women	10.8	12.1	8.9	+1.3	-3.2
- Men	10.0	13.4	9.8	+3.4	-3.5
<i>Employment by sector</i>					
Agriculture	336.1	336.8	325.2	0.7	-11.6
Industry	144.2	149.2	170.1	5.0	20.9
Services	424.1	491.4	528.4	67.3	37.0
<i>Employment by status</i>					
Paid employee	384.9	395.2	453.5	10.3	58.3
Self-employed	507.3	558.1	556.8	50.8	-1.3

Sources: Monthly Bulletin of Statistics, February 2011 (Ulaanbaatar: National Statistical Office). Data based on labour force surveys.

Remark. All data refer to the last quarter of the respective year. All figures are in thousands, unless stated otherwise.

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In summary, it is observed that informal economy workers, unskilled workers and women and men in temporary and seasonal jobs (often in the construction sector) in urban areas, herders with small stocks of animals and those living far away from market centres are likely to have been worse affected than other segments of the population in terms of employment and income. More detailed information supporting this argument is provided below:

- A fall in demand in China for agricultural raw materials (cashmere, skins etc.) in 2008 resulted in falling incomes of herders. The impact on poor herders with few animals or those living further from the market centers is likely to have been particularly strong as they lack margins to cope with sudden falls in income. This affected the livelihood of herders, who lacked cash for spending on education of their children in both secondary and higher institutions. From NSO data on the composition of incomes and expenditures of families, it is clearly observed that rural households were consuming more from their own resources and livestock to meet their cash needs as compared to the previous year. The data pointed to the special vulnerability of families with few animals and a large number of school-age children, and the risk that as they were forced to draw down on their productive assets an acute crisis pushes them down into poverty from which it would be difficult to escape.
- The inflation and price boom in the summer of 2008, which was also accompanied by an increase of key tariffs such as electricity, heating and transport prices, was followed by a slowdown in price increases and of consumption in 2009. Much of the increase in nominal income in the years before the crisis were offset by inflation. Between June 2008 and June 2009, the price of many basic foods remained constant or even declined somewhat. However, an increase in the price of coal and fuel wood, which are key expenditures for the majority of the urban poor who live in ger districts, undoubtedly hit the poor the most. In rural areas, the combination of a fall in the price of main products and a rise in the price of basic often imported foodstuffs as a result of currency depreciation, has shifted the terms of trade against herders,<sup>28</sup> thus, greatly affecting the livelihood of herders with fewer animals.
- According to a survey by the Ministry of Social Welfare and Labour (MSWL) in April 2009,<sup>29</sup> 74 per cent of the respondents expressed the view that the impact of the economic crisis on their livelihoods had been felt strongly or was beginning to be so felt. Reduced food and other consumption, poor confidence in the future and the difficulty to find temporary jobs were mentioned as the key impacts on them of the crisis.

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<sup>28</sup> *Impacts of the Economic Crises in East Asia; Findings from qualitative monitoring in five countries*. Discussion draft, Carrie Turk, Social Development Department & Andrew Mason, East Asia Poverty Reduction and Economic Management Department, World Bank, 2010

<sup>29</sup> MSWL conducted a nationwide opinion survey covering about 33,000 adults in April 2009

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- To understand the impact of the crisis on poor families in Ulaanbaatar from the perspective of education of children and child labour, IPEC commissioned a small-scale study,<sup>30</sup> the findings of which indicated that the poor suffered from job deficits and consequently from lack of income to make ends meet. Some 78 per cent of the families responded that the economic crises affected them seriously. The economic branches in which the majority of the main breadwinners were engaged were construction, trade and services. In almost one out of four families, there was a sick, disabled or elderly person in need of regular care by another household member, which more often than not resulted in a reduced availability for work of a female member of the household. In about 16 per cent of the households there were children working outside the household. Since September 2008, about 40 per cent of the families had seen their income fall significantly, citing reasons such as ‘could not readily find all available manual job’, ‘wage has been reduced’ or ‘family business has stopped or declined’. Almost one fourth of the families had serious difficulty buying school supplies for their children.
  - An ADB study revealed increased unemployment and loss of income of families along with increased prices for food items and school supplies, especially in remote areas during the economic crisis. The survey showed that 40 per cent of parents could not afford to buy school supplies for their children, including textbooks. Children in secondary grades had missed classes in order to supplement family income.

At the aggregate level, the impact of the economic crisis was reflected in an increase in the headcount poverty rate from 35.2 per cent in 2007-2008 to 38.7 per cent in 2009-2010.<sup>31</sup>

In sum, it may be concluded that the decline in income of poor families, especially those having a large number of children, affected their ability to send their children to school. Children of poor families in both urban and rural areas were at higher risk of dropping out of school and being put to work to supplement family income. With reduced job opportunities in the formal sector and decreased income of parents, children and young persons from poor households were at high risk of being engaged in hazardous and low quality jobs in the informal economy, including informal mining (notably in rural areas) and in the worst forms of child labour, such as begging and prostitution.

### ***Increase of unemployment***

The annual unemployment rate as shown in labour force surveys has been very high over the years, peaking at 14.2 per cent in 2002-2003. A slow decline in unemployment was observed prior to the crisis, standing at an annual rate of 10 per cent in 2006-2007. At the onslaught of the crisis, in the fourth quarter of 2008, unemployment stood at 10.8 per cent for women and 10

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<sup>30</sup> The study covered a random selection of 60 families in horoo 4 of Songino Khaikhan district, a typical ger area in Ulaanbaatar

<sup>31</sup> National Development and Innovation Committee, powerpoint presentation “Current Economic and Social situation and development perspectives”, 2010

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per cent for men. A year later, the rate of unemployment had increased significantly for both sexes, but the picture was reversed, as female unemployment stood at 12.1 per cent, while male unemployment reached 13.4 per cent. Both unemployment as captured by labour force surveys and registered unemployment increased during the economic crisis. The number of registered job seekers increased by 28 per cent from 29,800 (out of which 17,600 were women) in December, 2008 to 38,100 (out of which 21,100 were women) a year later. Such increases were recorded both in aimags and in Ulaanbaatar.<sup>32</sup> Unemployment, as registered in the labour force surveys subsided rapidly as the economy began to recover from the crisis. By the fourth quarter of 2010 it had fallen back to 8.9 per cent for women and 9.8 per cent for men. However, the number of registered unemployed stayed high throughout the year reaching 38,250 in December 2010.<sup>33</sup>

The number of recipients of unemployment benefits rose sharply in 2009 to 11,203 persons compared to 7,943 in 2008 and 7,189 in 2007. The figure for the first half of 2010 (5,224 persons) suggests that the number of beneficiaries remained high during 2010, as the duration of the unemployment benefit was extended. Unfortunately, neither sex nor age disaggregated data are available with regard to recipients of unemployment benefits. Among the newly registered job seekers in 2009 (13,335), some 4,300 persons had become unemployed following structural adjustments entailing staff reductions at their former places of work, while 1291 had been laid off due to close down of enterprises.

### ***Employment in the informal economy***

Information from the labour force surveys strongly suggests that the informal urban economy was forced to assume the role of an employment buffer during the economic crisis. Self-employment in the services sectors accounted for much of the employment growth in 2009. It is a fair assumption that most of this increase took place in the informal economy and that the growth was driven by push rather than pull factors.. An unofficial survey cited by the World Bank suggested that real effective wages in the informal economy had fallen by an almost implausible 60 per cent by the end of the first quarter of 2009.<sup>34</sup> If correct, this corroborates the picture of a large increase of own-account workers in the informal economy, thus increasing competition in a shrinking market with a sharp fall in incomes as the inevitable result. Informal workers in the construction sector are likely to have been particularly severely affected. However, as work and earnings in the construction sector fluctuate over the seasons, the impact of seasonal variations is difficult to distinguish from the impact of the crisis, while lack of pre-crisis data makes comparisons difficult.

Prior to the crisis, there was a decrease in the number of informal miners as cash transfers were expanded, the agricultural sector was growing, and the gold deposits in traditional informal, so-called ninja mining areas (Tuv, Uvurkhangai, Bayankhongor, Selenge) were being depleted.

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<sup>32</sup> Impact of Global Financial and Economic Crises on Mongolian Economy: Labour market, Social Vulnerabilities and Poverty, Report of the Second Half of 2009, Mongolian National University

<sup>33</sup> *Monthly Bulletin of Statistics, December 2010* (Ulaanbaatar: NSO).

<sup>34</sup> World Bank (2009). *Mongolia: Monthly Economic Update, May 2009* (Ulaanbaatar: World Bank).

Ninja mining was, however, spreading to new locations in other aimags, notably to Gobi-Altai and Huvsgul. Artisanal miners reported that there was increased competition for work as poorer herding households, unable to cope with low commodity prices were transferring to mining.<sup>35</sup> After the crisis, the ninja gold miners regained media attention. The number of informal miners is believed to have increased dramatically in 2010, according to the Minerals Agency, from some 35,000 in 2009 to about 62,000 as a result of the impoverishment of rural families after the *dzud*. Child labour is reportedly on the increase in the informal mining sector.

Informal mining can be perceived as a distress activity, reflecting an increase in inequality, long-term unemployment and poverty, the lack of productive employment opportunities in rural areas and the overall stagnation of the rural economy. Informal mining has been considered by many to be a temporary phenomenon. However, unless the rural economy is more fully integrated into economic development processes, the inequality addressed, and productivity increased, this form of employment is likely to persist for many years ahead. Informal mining has resulted in increased tension over the access to land, as the miners encroach on land already used for other purposes, as well as environmental damage. The work is hazardous and combined with the lack of any control, it is resulting in increasing numbers of fatal accidents. The legislative and regulatory framework controlling small scale mining remains inadequate. However, the Mineral Law has been amended to incorporate aspects related to access to land for small scale mining, and a Law on Land was amended in this regard, too. A regulation on small scale mining was adopted by the government in late 2010.

#### **I.4 Impact on the systems for social protection**

Despite efforts to extend social protection, the coverage of social health protection and other social security benefits (old age, death, work injury etc.) remains incomplete. Most of the excluded are women and men working in the informal economy and their families.

**Table 2: Selected main indicators of social insurance, by years**

	<i>Indicators</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
1	The number of employers contributing to social insurance	16,818	18,535	17,519	19,781	21,287
2	The number of persons covered by social and health insurance /thous.persons/	1,988.4	1,932.0	2,152.9	2,296.2	2,174.7
	<b>Of which:</b>					

<sup>35</sup> *Impacts of the Economic Crises in East Asia; Findings from qualitative monitoring in five countries*. Discussion draft, Carrie Turk, Social Development Department & Andrew Mason, East Asia Poverty Reduction and Economic Management Department, World Bank, 2010

	<i>Indicators</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
	The number of insured persons contributing to pensions, benefits, accident and occupational disease and unemployment insurance /thous.persons/	367.9	436.4	484.8	547.2	543.9
2.1	<b>Of which:</b>					
	Compulsory	338.9	410.1	433.7	484.6	492.2
	Voluntary	29.0	26.3	51.1	62.6	51.7
2.2	The number of insured persons contributing to the health insurance /thous.persons/	1,959.4	1,905.7	2,101.7	2,233.7	2,122.9
	<b>Of which:</b>					
	Employees	377.9	456.7	484.4	539.7	546.0
	Herdsmen	133.2	102.4	98.1	90.8	94.2
	Students of vocational training, industrial centres and other institutions	42.3	44.9	48.0	51.5	75.2
	Self - employed	128.3	149.3	175.3	198.3	172.4
	The number of insured whose health insurance contribution is paid by government	1,277.7	1,152.2	1,295.5	1,353.2	1,235.0
	Voluntary insured	0,03	0,13	0,11	0,18	0,16
3	Social Insurance Fund revenue /mln.tog/	176,349.8	225,877.4	327,952.9	453,304.5	471,414.9
	<b>Of which:</b>					
	Contribution income	126,178.6	157,329.1	219,518.4	272,085.6	308,929.3
	Transfers from the State budget	44,224.1	61,023.6	101,602.8	169,014.8	145,930.3
	Total amount of health insurance contribution for the insured whose contribution is paid by the government	4,856.6	4,856.6	4,856.6	8,094.3	8,094.3
	Other income	1,090.5	2,668.1	1,975.1	4,109.8	8,460.9
4	The number of pension beneficiaries	283,651	287,224	293,491	300,616	300,256
	<b>Of which:</b> The number of old-age pension beneficiaries	179,959	183,541	188,500	193,378	196,789
	Monthly average pension /MNT/	36,845	47,943	68,948	96,430	96,640

Source: *Social Insurance Statistical Yearbook of the Social Insurance General Office, 2010.* (Ulaanbaatar).

The crisis had an impact on the ability of the voluntary contributors to maintain their contributions to the social protection system. The number of voluntary contributors to insurance funds and of self-employed contributors declined in 2009 in contrast to the steady pattern for the compulsory scheme participants, which may reflect the drop in incomes in the informal economy.

Some implications of the crisis for the social insurance system can be easily observed from the preliminary information provided in Table 1. For instance, the extent of personal coverage was

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reduced by 5.29 per cent between 2008 and 2009, although more working women and men and their families needed income security and health protection during the crisis. Also, the social insurance system became weaker in terms of self-financing: the share of contributions in its revenue fell from 62 per cent in 2008 to 47 per cent in 2009, 15 points down, although the level of average pension was maintained.

Although statistics are lacking, it can be expected that the rise in female unemployment and the fall in contribution levels would have adversely affected women's right to maternity protection. Under Mongolian law, the right to income replacement during maternity leave requires contributions to social insurance for 12 months, including uninterrupted contributions during the six months prior to maternity leave.

### **1.5 Impact on wages and working conditions**

During the global crisis, wages continued to grow in nominal terms along with double-digit inflation (except in 2009) and thus deflationary pressure was not present. In early 2008, the wages of public servants were increased by an average 29.3 per cent. However, wage growth overall has failed to keep up with the sustained high inflation rates, which has eroded the purchasing power of wages significantly in recent years. In 2009, the average wage increased only marginally by 5.5 per cent (6.7 per cent for males and 4 per cent for females).<sup>36</sup> No changes were made to the minimum wage level during the crisis.

The Government's initial programme for fiscal adjustments proposed budget cuts in the education and health sectors including a reduction of wages for education and health workers by 20 per cent and 3 per cent respectively, which would have affected female workers disproportionately. The proposal was strongly opposed by trade unions in those sectors and subsequently rejected by Parliament. A significant proposed cut in teachers' over-time and bonuses was also cancelled as a result of the trade union's campaign. In April 2010, the trade unions' demand for a salary increase was resumed, and civil servants' salary and pensions were increased by 30 per cent as of October 2010.

Despite those gains, in the face of the global crisis, wage cuts, payment of wages below the legal minimum wage,<sup>37</sup> and complaints about wages that were unpaid or infrequently paid,<sup>38</sup> were more frequently reported in Mongolia.<sup>39</sup>

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<sup>36</sup> Computed from NSO data on average wage (compared figures of QIV of 2008 and QIV of 2009)

<sup>37</sup> Art. 2 of the Minimum Wage Fixing Convention, 1970 (No. 131) – not ratified by Mongolia – provides that “minimum wages shall have the force of law and shall not be subject to abatement, and failure to apply them shall make the person or persons concerned liable to appropriate penal or other sanctions.” Para. 23 of the ILO Global Jobs Pact recommends that “governments should consider options such as minimum wages that can reduce poverty and inequity, increase demand and contribute to economic stability. The ILO's Minimum Wage Fixing Convention, 1970 (No. 131), can provide guidance in this respect.”

<sup>38</sup> Art. 12 of the Protection of Wages Convention, 1949 (No. 95) – not ratified by Mongolia – provides that wages must be paid regularly as prescribed by national law, and that all wages must be settled upon termination of employment.

<sup>39</sup> *Impacts of the Economic Crises in East Asia; op. cit.*

The crisis seems to have affected the wages in the informal economy. Unofficial data suggest that real effective wages in the informal economy had fallen by 60 per cent by the end of the first quarter of 2009.<sup>40</sup> MSWL estimates that almost one-third of working women and men earn less than the minimum wage. The fact that 74 per cent of heads of poor households are employed indicates the poor quality of jobs and the large portion of working poor. The crisis adversely affected employment, wages and working conditions in a number of sectors, notably construction and allied trades, and the service sector.

Until 2007 the construction sector expanded rapidly in Mongolia and working conditions in the sector were relatively better than other industrial sectors before the crisis, but the global financial and economic downturn led to extensive job loss and a wage freeze for those who remained employed.

As the government has tried control prices of public transportation and other public services, the working conditions of service sector employees have reportedly declined and their wages were frozen while other public sector employees saw wage gains.

**Table 3: Industrial accidents by years and selected sectors, 2007-2009**

	Total			Mining sector			Construction sector		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Industrial accidents	343	491	366	36	95	77	62	123	54
Of which: No. of deaths	88	162	54	8	42	23	18	63	11
No. of workers disabled	65	135	37	6	18	3	16	37	8

*Source: Finance, Labour and Social Security Inspections of the General Agency for Specialized Inspections, 2010*

With the increase of activity in the construction and mining sectors in the years preceding the crisis, reported occupational accidents rose remarkably, increasing from 32 in 2005 to 491 in 2008, affecting 366 and 671 persons respectively. The number of fatalities due to occupational accidents rose from 68 in 2005 to 162 in 2008.<sup>41</sup>

Year on year figures show a decline in the number of industrial accidents in 2009 of 25 per cent, and a drop in the number of fatal accidents of 66 per cent. The decline in industrial accidents and deaths in the mining and construction sectors explains most of this overall decline, which appears to be due to the slowdown in economic activity in these hazardous sectors, rather than to any improvement in working conditions.

<sup>40</sup> World Bank (2009, *op. cit.*)

<sup>41</sup> GASI data.

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## **I.6 Impact on labour standards, and respect for fundamental human rights at work**

The impact of the crisis on labour standards has not been formally assessed. Accurate and timely statistical information is crucial in analyzing and responding to the impact of the crisis. Accurate information on standards is not available due to limitations in collection and management of data by labour inspection, and in particular with regard to the crisis period, due to a break in coverage of labour force survey reports.<sup>42</sup>

Similarly, a lack of gender-disaggregated data in the social insurance statistics has made it difficult to assess the differentiated impact of the crisis on men and women.

Nor is data available to observe to what extent the workers laid-off from the formal sector have turned to informal activities. The findings of the 2010 labour force survey have not been available during the write up of the Scan, therefore, a reliable estimation is not possible. Also, there is no information available as regards the number of workers laid-off without severance pay, nor is there data on how many of those who have received unemployment benefit and those laid-off without severance pay have shifted to the informal economy.

Lay-offs caused by a reduction in an employer's "operational requirements" should normally give rise to severance pay, at least in cases where unemployment insurance is not available. There has been very little indication that workers laid off from factories, mining or construction sites were provided such income protection, possibly accelerating the transition of working women and men from the formal sector to the urban informal economy.<sup>43</sup>

Since the informal economy is generally characterized by poor labour standards and wages that are, on average, lower than those in the formal sector in Mongolia and given that the informal workers have been hit most severely by the crisis in terms of income, it can be assumed more workers have been exposed to less social protection and declining livelihoods.

*Freedom of Association and the Right to Bargain Collectively.* In general, freedom of association is guaranteed in Mongolia. As there is no comprehensive report available, the impact on freedom of association can only be sketchily described.

The Government's fiscal adjustment plans, which initially included dramatic cuts in salary and running costs of the education and health sectors, triggered trade union actions in these sectors. The trade unions were concerned with the reduced quality and sustainability of services that would result from the budget cuts. In fact, the cuts in school running costs has increased the charging of fees by schools. For instance, parents in Baganuur district reported that the school had charged small fees for giving tests and organising special classes, and had asked for

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<sup>42</sup> The 2009 labour force survey report covered the period from 1 July 2008 to 30 June 2009 and the forthcoming 2010 labour force survey report will cover the 2010 calendar year. Thus, the second half of 2009 is omitted from the labour force survey reports.

<sup>43</sup> Art. 12 of the Termination of Employment Convention, 1982 (No. 158) – not ratified by Mongolia.

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contribution for repair and maintenance, cleaning and toiletry supplies, which were not imposed in the previous year<sup>44</sup>.

In this context, a case arose in Ulaanbaatar where the fiscal constraints led the authorities to interfere with the trade unionists' membership rights. A decree by the Ulaanbaatar City Governor in 2009 tried to stop the payment of trade union membership fees from teachers' salaries.<sup>45</sup> On 1 April 2009, teachers organized a demonstration in Ulaanbaatar. According to the Teachers' Trade Union, their plan to strike was hindered through different means, such as threats by school authorities to terminate teachers' employment and the questioning of the General Secretary of the Teachers Trade Union by the district police on the grounds of violating the Administrative Liability Law during the organization of the demonstration. There were also cases of firing trade union members. For instance, the chairperson of the Trade Union Committee of School No.74 in Khan-Uul district, Ulaanbaatar was dismissed due to his action regarding the strike. He took his case to Administrative Court accordingly. Also, salary deductions were imposed by the school authorities on teachers in some schools of Ulaanbaatar who participated in the preparation of the strike on the grounds of low turn-out of students to the classroom.

In respect of unionization, the number of trade union committees slightly decreased in 2008 to 1715 from 1815 in 2007 and, then increased to 1775 in 2009.<sup>46</sup> Much of the decrease and later increase were attributed to the changes in aimags, where the organized workforce consists almost exclusively of public officers. In contrast, the number of union committees under sectoral trade unions continued to decline throughout 2008-2010, from 509 to 500 and 486, respectively.

*Collective bargaining.* Out of 12 sectoral trade unions, eleven had effective CBAs during 2008/2009-2010. However, there has been no progress yet in negotiating wage rates in CBAs.

*Individual labour disputes.* There is clear indication that the crisis has contributed to unfair lay-offs of workers. The establishment of Committees for Immediate Settlement of Labour Disputes throughout the country, which had started in early 2008 with no reference to the crisis at that time, has played an important role in responding to the need of workers for protection during the times of crisis. During 2008-2009, the committees received 400 complaints, of which 109 complaints were settled. Almost 80 per cent of the settled cases were related to unjustifiable lay-off.<sup>47</sup>

*Equal opportunities and treatment in employment and occupation.* Personal networking seemed to have become more important in securing jobs in a tight labour market during the times of economic slowdown. It can be assumed therefore, that recruitment based on personal

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<sup>44</sup> Final Report: Second Round Research on Monitoring the Impacts of the Economic Crises in Mongolia (August 20-September 22, 2009), Global Reach Centre, Ulaanbaatar

<sup>45</sup> Telephone interview with the General Secretary of the Mongolian Teachers Trade Union

<sup>46</sup> Information provided by CMTU.

<sup>47</sup> Information provided by the CMTU

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connections has increased the chances of biased decisions and discrimination against more vulnerable groups in society such as women, older workers, persons with disabilities, or those living with HIV.

*Child labour.* There is no statistical data to observe the impact of the crisis on child labour, nor is there a methodology to assess the long term impact of the crisis on child labour and the trafficking of children. Clearly, the risk of dropping out from school and starting to work to supplement family income increased during the crisis, particularly for children of poor urban families, in the context of increased prices for food, job deficits and consequently lack of income, and reduced allocations for school running costs which led to a certain extent, to the collection of fees from students. More frequent missing of classes by adolescents in order to supplement family income is an indication of the increased risk of child labour. See more details under 1.3 (Impact on the labour market and employment)

*Forced labour:* There has not been any incidence of forced labour documented or reported during the economic crisis. However, in general, the lack of proper understanding of the issue and insufficient regulations may conceal this problem. Trafficking for labour exploitation seems to have been increased. According to the Mongolian Gender Equality Centre (NGO which is engaged in the combat against trafficking and victims' return and rehabilitation for many years) 92 women and men were identified as the victims of trafficking into Kazakhstan, Turkey and South Korea for labour exploitation in 2010. The Kazakhstan case, which engaged more than 30 Mongolian Kazakhs has been brought to court, but the traffickers were sentenced under the clause not related to trafficking, but as a fraud, as a result of which traffickers were imposed with probation period and small penalty. This indicates the need for improving the legislation and sensitizing legal officials in properly applying the legislation with regard to the trafficking of humans for labour exploitation.

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## Part II Description of the crisis response and recovery, and post-crisis policies

The crisis bottomed out during the first half of 2009 and was followed by a recovery that was as swift as the decline had been a year earlier. By March 2010, GDP growth forecasts for 2010 had been revised upward to 7.3 per cent.<sup>48</sup> The recovery was fuelled by a sharp increase in copper prices, which by early 2010 were back at almost pre-crisis levels, and by a large inflow of FDI as investments in Oyu Tolgoi mine, which is expected to become one of the world's largest copper mines, gained momentum. The general mood shifted swiftly from gloom to exhilaration as the magnitude of the impact on the economy in the coming years of the two new mega-mines in the south of the country became clear. Growth is presently expected to reach over 20 per cent in 2013 as exploration of these mines commences.<sup>49</sup> However, this unprecedented mining boom will also bring huge challenges. There is an obvious risk that Mongolia will revert to a path of job-less growth. The massive scale-up of mining will inevitably result in a strong upward pressure on the exchange rate as well as upward pressure on domestic wage rates and on inflation, all of which would further undermine the already poor competitiveness of the tradable sectors of the economy and work against economic diversification and a more broad-based economic development.

These dangers are clearly recognized in Mongolia's forthcoming national development strategy,<sup>50</sup> which addresses the challenge of increasing competitiveness and avoiding falling victim to a 'resource curse' and sets the gradual transformation of Mongolia from a natural resource based to a human resource based economy as a main long term objective. The new development strategy implies a need for a sharp focus on productive employment. This has been clearly manifested in the organisation of a massive participative process of regional employment fora leading up to and culminating in a large national employment forum in October 2010, in the selection of Mongolia as a forefront country for the implementation of the Global Jobs Pact and in the declaration by the Government of 2011 as the Year of Employment.

However, to be successful, the forthcoming national development strategy needs to be accompanied and supported by macro-economic policies that pull in the same direction. Foreign exchange and trade policies, as well as fiscal and monetary policies will need to be revisited to ensure that they individually and collectively serve the objective of increasing competitiveness and a more broad-based and job-rich economic development.

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<sup>48</sup> IMF (2010b, *op. cit.*).

<sup>49</sup> IMF (2010a, *op.cit.*).

<sup>50</sup> NDIC (2010), National Priorities for Economic and Social Development for 2010-2015 (Ulaanbaatar: National Development and Innovation Committee). Draft in Mongolian

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## II.1 Accelerating employment creation, job recovery and sustaining enterprises

The economic crisis accentuated an existing concern within Mongolia that the high dependence on mining as a source of economic growth is not conducive to employment generation and poverty reduction and makes the country highly vulnerable to external shocks and to the vagaries of world market prices of a few commodities. Reflecting this concern and a consensus that a focus on productive employment is essential to transform natural wealth into human wellbeing and poverty reduction, the Ministry of Social Welfare and Labour (MSWL) together with the Mongolian Employers' Federation (MONEF) and the Confederation of Mongolian Trade Unions (CMTU) joined forces in early 2010 to undertake a comprehensive process of tripartite consultations, in the form of the organization of Regional Employment Fora in all the 22 *aimags* in the country. This massive bottom-up consultative process culminated in the organization of a National Employment Conference in Ulaanbaatar on October 14. Just as the regional employment fora preceding it, the National Employment Conference was a tripartite event, but with ILO joining as a fourth partner and co-funder. The National Employment Conference was a high profile event. It attracted some 520 participants from all parts of the country and included the participation of the Prime Minister, the Speaker of the Parliament, the President's Office and a large number of Cabinet Ministers.

The National Conference served several objectives:

- Promotional and informative; to place the issue of productive employment at the centre of overall national development planning.
- Develop and achieving agreement on recommendations on the role of employment and on policies and measures for enhancing productive employment.
- Launching the Global Jobs Pact in Mongolia.

The paramount importance attached to the generation of productive employment and decent work by the Government of Mongolia was further underscored by the announcement by the Government of 2011 as the Year of Employment Promotion. The Government has established a National Committee for the organization and implementation of activities of the Year of Employment Promotion, which is headed by the Prime Minister and includes representatives of workers' and employers' organizations as well as other stakeholders. The National Committee has approved a Plan of Action, which focuses on: (i) enhancing the legal environment for sustainable generation of productive employment and decent work; (ii) improving sectoral policy coordination to promote productive employment and decent work, and; (iii) implementing specific programmes and projects for target groups, such as youth, herders, informal workers and men and women over who are over their 40s. Under the umbrella of the Plan of Action, each sector develops its Plan of Action. For instance, the MSWL has approved a Plan of Action on social protection and employment.

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### II.1.1 Measures to boost effective demand

On 3 March 2009 the Parliament approved a resolution concerning measures to overcome the financial and economic constraints, which included measures to promote agriculture, export industry and employment promotion, to address the issues in construction sector, to support reliquidisation of the banks and to protect the poor from the impact of the crisis.

The stand-by agreement reached with IMF in April 2009 was for a duration of 18 months. It comprised USD 243 million to support the balance of payments to help smooth the adjustment to the trade shock.<sup>51</sup> The IMF agreement was complemented by loans from WB, ADB and Japan. The stand-by agreement came with a number of conditionalities. These were both of an immediate short-term nature to address acute problems and of a more long term structural and strategic nature. The combined effect of the fiscal and monetary responses to the crisis was strongly pro-cyclical.

#### ***Fiscal policy***

The government committed itself to forcefully addressing the deterioration in the fiscal account. A main component of this adjustment was an immediate reduction in public expenditures to the tune of 5 per cent of GDP. There was a complete halt to all publicly funded investments that were not already under way as well as a wage and hiring freeze and cuts in bonuses in the public sector. Measures on the revenue side were more modest, but included increases in the excise taxes on petroleum, beer and tobacco as well as some increases in customs duties. Two moves in the other direction were the abolishment of the export tax on cashmere in June 2009 and the abolishment of the 68 per cent windfall tax on 'excessive profits' triggered when world market prices of copper and gold exceeded a predetermined limit. However, it would appear that the latter tax will be re-established in some form in 2011.

The impact on public expenditures was both significant and swift. Public expenditures as a share of GDP fell from 41 per cent in 2008 to 28.3 per cent in 2009 in the context of a falling GDP. Most of this reduction was on capital expenditures, which fell from 10.4 per cent of GDP in 2008 to 7.6 per cent in 2009.<sup>52</sup> Public revenues as a share of GDP fell too, from 36.1 per cent in 2008 to 32.9 per cent in 2009, reflecting their vulnerability to the vagaries of world market prices of raw materials.

A much more controversial conditionality with ideological overtones was a Government commitment to shift from unconditional targeted social transfers, notably the universal child allowance, to exclusively means-tested forms of social support.<sup>53</sup>

Some measures were also taken to cushion the economic and social impact of the crisis. These included:

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<sup>51</sup> Of the total amount of USD 229 million credit line, USD 147 million were eventually disbursed. (NDIC, 2010, *op.cit.*)

<sup>52</sup> IMF (2010b, *op.cit.*).

<sup>53</sup> IMF (2010b, *op.cit.*).

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- Measures to stabilize food prices: subsidies for meat reserves and for petrol products from Russia and a suspension on the import duty on wheat.
  - Scaling of some existing programmes: public works programmes were increased and the duration of unemployment benefits was extended.
  - A time limited exemption of import tax and value added tax for equipment and spare parts imported by SMEs for the production of goods aimed at import substitution or export. This exemption will end on 31 December 2012.
  - Special measures were taken to address the hardships encountered in the banking and construction sectors. The government's resolution of 14 October 2009 concerning measures for responding to the housing needs of public servants also aimed to address the liquidity issues and the financial difficulties encountered in the construction sector. The resolution aimed at creating a long-term loan facility for the purchase of apartments by public servants from the sale of government bonds equal to up to MNT 180 bln, releasing long-term loans to public servants through the Apartment Financing Corporation Co, Ltd. This measure to a certain extent helped banks and construction companies to overcome shared problems.

A series of measures were taken to address weaknesses in the fiscal system. A Fiscal Stability Law was adopted on 24 June 2010 and a Fiscal Stabilisation Fund was created in order to address the systemic weaknesses in the fiscal system resulting from the high dependence on revenues from the mining sector. This law requires fiscal budgeting to be based on the principle of sustainable fiscal balances. Second, the law imposed a limit on the growth of spending in any single year. Third, the law also reduced the scope for political promises affecting fiscal spending without a prior feasibility study. The reserves in the Fiscal Stability Fund were set at not lower than 5 per cent of the GDP. When reserves exceed 10 per cent of the GDP, they may be used, within a set limit, for specified investments, such as in railways, oil refining, power stations and export production meeting international and European standards. Efforts to create a unified Fiscal Law through the merger of the Budget Law and the Public Institutions Management and Financing Law were also initiated.

The approach to the distribution of revenues from the mining sector has been reviewed. A Human Development Fund was established as a special government fund in November 2009, replacing the previous Mongolia Development Fund, for the purpose of using different means to distribute mining revenues. According to the new law, these transfers can take four different forms: contributions to the pension and health insurance system; contributions to the purchase of apartments, health and education grants, and cash handouts. The total revenues of this fund in 2010 were estimated at MNT 347 billion, about two thirds of which were related to incomes from the Oyu Tolgoi mine. According to a Government resolution of 2 April 2010, each citizen will receive a cash payment of MNT 1.5 million from the Fund. The relevant ministries were instructed to draft bills or regulations concerning the payment of contributions of those

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uninsured to the old age pension insurance and health insurance, as well as organising the payment arrangements of the education fee grants for higher education students and grants of school supplies and uniforms for school children, and issuance of vocational training vouchers. The opportunity offered by the Human Development Fund to cover pension insurance contributions should be tapped effectively in view of the need for pension reforms.

Thoughts have been given to reduce the possible impact of the cash distribution on inflation and the cost of living of the poor. The first handout of MNT 120,000 was paid in cash in 2010 and its distribution was linked to the renewal of the population registration system. The Parliament issued a decree that the rest of the cash handouts would be distributed on a monthly basis, in the amount of MNT 21,000. However, there is a debate on the issue of whether a lump sum could be distributed to support household enterprises or cooperatives under certain criteria.

In order to have a unified fiscal law that addresses fiscal effectiveness and transfer of fiscal decision making to local institutions to certain extent, there are ongoing efforts to merge the two laws “Budget Law” and the “Public Institutions Management and Financing Law”. The draft law has recently been subject to heated discussion among local government representatives.

### ***Other macroeconomic policies***

The conditionalities linked to the stand-by agreement included a continued tightening of monetary policy. Monetary policies had already been considerably tightened in the second half of 2008 as a response to inflationary pressure and earlier signs of overheating of the economy. Interest rates were increased in the autumn of 2008<sup>54</sup> and remained high throughout the first half of 2009. The prescribed monetary policies included further increases in interest rates, ostensibly to prevent further flight from the national currency, even as the economy went into a steep fall in early 2009. The Central Bank increased the ‘policy interest rate’ by 425 basis points to 14 per cent on 10 March 2009 and commercial banks were instructed to strengthen their reserves rather than continue lending. Lending in the banking system fell by 22 per cent from a peak in September 2008 until it bottomed out in November 2011. Faced with a large and increasing share of non-performing loans in their portfolios, banks also moved from lending to private clients to the safer option of purchasing Government bonds. Overall bank assets were 22 per cent higher at the end of 2009 than they had been a year earlier. However, this increase was not translated into increased lending. To soak up liquidity and prop up the exchange rate, the Central Bank sold a significant part of its foreign reserves during the first half of 2009. After the crisis had bottomed out and the economy started to pick up, the central bank reverted to net buying of foreign exchange in the second half of 2009. Broad money declined in both nominal and real terms between mid-2008 and mid-2009. The stand-by agreement was also accompanied by strong advice from IMF to move to a regime where fighting inflation would

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<sup>54</sup> The interbank lending rate went up from 11 per cent in August 2008 to 18 per cent a month later (<http://www.mongolbank.mn>)

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have absolute supremacy over other objectives, such as economic growth, in Central Bank activities.<sup>55</sup>

While expansive monetary policies and a rapid growth of bank lending until mid-2008 would have made counter-cyclical monetary policies difficult as the crisis hit the country, it is clear that monetary policies throughout the crisis were guided by concerns about exchange rate stability and inflation, rather than mitigating the economic decline and that they remained strongly pro-cyclical.

Some structural changes were also introduced to strengthen control over foreign exchange and monetary policies, including the adoption of a Law on Making Payments in National Currency in July 2009 which prohibited the making of payments, establishing and announcing the prices of goods in foreign currency.

## **II.1.2 Investment in infrastructure, public services, green production and R&D**

The crisis clearly demonstrated the vulnerability of the Mongolian economy to external shocks and highlighted the need for developing manufacturing industries. Reflecting a clear strong recognition of this reality, the government announced 2009 as the “Year for Industrialization” during and following which a number of important policies, laws and government programmes were discussed or adopted. The State Policy on Public -Private Partnership,<sup>56</sup> the revised Law on Vocational Education and Training,<sup>57</sup> the Law on the Legal Status of Industrial and Technology Park,<sup>58</sup> the Mongolia Industrialization Programme for 2009-2016,<sup>59</sup> and Directions for Developing Industry in Regions<sup>60</sup> were adopted, and a list of 26 priority projects to be implemented during 2010-2016<sup>61</sup> was announced in 2009. Furthermore, the State Policy on High Technology Industry,<sup>62</sup> the State Policy on Railway Transport,<sup>63</sup> the Law on Concessions,<sup>64</sup> and the Law on Competition were adopted<sup>65</sup> and the Banking Law was revised<sup>66</sup> in 2010. In addition, the Priority directions for science and technology development in Mongolia for 2010-2014,<sup>67</sup> the Action plan for developing the stock market,<sup>68</sup> the Mongolian livestock national programme,<sup>69</sup> the New Construction: Medium-term Targeted Programme,<sup>70</sup> and the

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<sup>55</sup> IMF (2010b, *op. cit.*).

<sup>56</sup> Adopted by Parliament Resolution on 2009/10/15.

<sup>57</sup> Adopted by Parliament on 13/02/2009.

<sup>58</sup> Adopted by Parliament on 2009/12/17

<sup>59</sup> Adopted by the government on 2009/09/30

<sup>60</sup> Adopted by the Government resolution No178 on 2009/06/10

<sup>61</sup> Adopted by Government resolution on 2009/10/14

<sup>62</sup> Adopted by Parliament on 2010/06/24

<sup>63</sup> Adopted by Parliament 2010/06/24

<sup>64</sup> Adopted by Parliament on 2010/01/28

<sup>65</sup> Adopted in June 2010 by which the Law on Prohibiting Unfair Competition (of 2000) was denounced.

<sup>66</sup> Adopted on 2010/01/28 replacing the law of 1996.

<sup>67</sup> Adopted by Government on 2010/07/07

<sup>68</sup> Was adopted by the government in May 2010

<sup>69</sup> Adopted by Government resolution No.23 on 2010/05/20

<sup>70</sup> Adopted by Government on 2010/06/25

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South-Gobi Infrastructure Development Programme (2010-2015)<sup>71</sup> were also adopted in 2010. In order to rationalize public investment for local economic and social development, the Government adopted indexes of local development in April 2010.

A number of investment opportunities were developed in support of the government plans and of private sector development:

- The EBRD<sup>72</sup> provided support to the coal mining company Energy Resources to establish a medium-sized coal mining operation in southern Mongolia and supported the first Mongolian oil exploration company through an early-phase equity investment in the company Petro Matad, which was to start drilling for oil in the spring of 2010.
- Supplementary financing was provided for an ongoing ADB regional roads project to supplement planned Government counterpart contributions and to ensure that the road could be completed in a timely manner. In 2010, ADB had operations to develop Gobi border town (\$15 million) and to improve regional transport (\$45 million). In 2011, support will be provided for the first phase of an urban transport system in Ulaanbaatar, and regional logistics development at the border with the PRC. This will be followed by three projects in 2012 in support of the power sector, regional transport systems, and urban sector development in Ulaanbaatar.

### ***Investment in infrastructure***

Despite the limitations imposed on public investment, key infrastructure investment projects were continued:

- Investment in the construction of the “millennium road” continued in 2010. A total of 110 kms of road was completed in Bulgan province, financed by the Kuwait Fund and the government budget. Another 73 km of road was completed in Arkhangai aimag, with government funding.<sup>73</sup> An ADB soft loan project on regional road development was implemented, including the Choir-Sainshand road (total of 432 kms).
- For the implementation of the Western Region Vertical Road Project, the bidding for constructing 214 km of road (with the ADB grant) and 161 km of road (with the soft loan from the PRC) were conducted in 2010. A discussion was also held to implement the second stage of the ADB soft loan in constructing another 148 km of road for the Western Region Vertical Road Plan. In addition, the construction of another 85 km of road with the soft loan from the PRC was started in 2010. This section of the western road (Ulaanbaishint-Ulgii-Knovd-Yarant) is expected to significantly contribute to the

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<sup>71</sup> Adopted by the Government resolution No151 on 2010/06/16

<sup>72</sup> The EBRD focuses on the development of the private sector with projects spread across various industries, including coal mining and mining-related services, downstream oil distribution, retail, beverages production, property and financial institutions.

<sup>73</sup> Website of the Ministry of Road, Construction and Urban Development, <http://www.pmis.gov.mn/>

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western region's economic development through linking the transit roads of Russia, Mongolia and China. The Parliament also approved the ADB soft loan (USD 16 million) for the construction of the Sainshand-Samiin Uud road, which will complete the road stretching from the northern to southern border of Mongolia in the central region. This is one of the three directions through which Mongolia has joined the Asia road network.

- The Government funded construction of a bridge over the Egiin river in Khuvsgul aimag was also completed in 2010, and is expected to serve an important role in developing tourism in northern Mongolia.

### ***Investment in public services***

Investment in public services was reflected in a 30 per cent salary increase for public servants in October 2010.

### ***Investment in green production and R&D:***

- The Netherlands-Mongolia Trust Fund for Environmental Reform (NEMO 1) was established in April 2005. The initial grant of US\$6 million scaled up the scope and type of the World Bank's and Netherlands' environmental programs in Mongolia with a stronger focus on environment and natural resources management sustainability in the context of poverty reduction and economic development. Phase I focused on strengthening the existing knowledge-base and filling knowledge gaps, raising the visibility of environmental issues and broadening the pool of environmental expertise. The second 4-year phase (NEMO 2) with a total support of US\$ 5 million focused on natural resources management, pollution management, and environmental governance during 2007-2010. The planned activities for 2011 include establishing the role of the private sector in financing environmental expenditures and socializing the concept of the 'green economy' among senior decision makers.<sup>74</sup>
- ADB will continue to draw on regional technical assistance from its global funds, the Clean Energy Fund and the Carbon Market Initiative, including support to combat air pollution in Ulaanbaatar. In addition, ADB will support better natural resources management in line with climate change adaptation and mitigation.
- The EBRD signed its first renewable energy project in Mongolia with an equity investment in Salkhit Wind Park assisting the sponsor NewCom to carry out further exploratory work for the construction of the first (50MW) wind farm 70 km from Ulaanbaatar.
- The Mongolian Chamber of Commerce and Trade is implementing an Organic Mongol

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<sup>74</sup><http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/EXTEAPREGTOPENVIRONMENT/0,,contentMDK:21080050~pagePK:34004173~piPK:34003707~theSitePK:502886,00.ht>

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programme to support projects for organic and green products. The programme is supported by Mongolian banks and the private sector. In 2009 the Chamber also started in 2009 the implementation of the EU-assisted Green Products Development and Labeling in Mongolia project with the objective of strengthening the sustainable products support network in Mongolia, focusing on leather, wood, wool, cashmere, food and craft products.<sup>75</sup> The year 2010 was announced by the Mongolian Chamber of Commerce and Industry as the Year for Supporting Green Business and an MOU was signed between MCCI and several banks on developing specific lending products for this purpose.

### ***Investment climate***

According to Business Monitor International, despite a positive political environment, Mongolia's vast untapped resources and its proximity to China, several factors continue to concern investors in Mongolia, including some unpredictability in the regulatory environment, a dearth of infrastructure and complex bureaucratic obstacles.<sup>76</sup>

Poorly designed regulations and unnecessary bureaucratic burdens on business can limit enterprise start-ups and lead to informality. In Mongolia, the concept of a formal private sector is relatively new, having developed when the new constitution was adopted in 1992.<sup>77</sup> Today, Mongolia's private sector produces more than 70 per cent of the country's total output.<sup>78</sup>

According to the World Bank's Regulatory Quality Index, the ability of the Mongolian government to provide sound policies and regulations that enable and promote private sector development is relatively good compared to some Central Asian countries, however, Mongolia's business environment is "administratively burdensome". The most frequently cited impediments to doing business in Mongolia are business licensing and permits, corruption and crime, limited access to finance and the burden of taxes.<sup>79</sup> Mongolia's ranking for ease of doing business in the Doing Business Surveys has dropped from 56<sup>th</sup> in 2007 to 60<sup>th</sup> in 2009 and 73<sup>rd</sup> in 2010 (out of 183 countries), partly because it has not carried out any significant reforms. It ranked very poorly for trading across borders (although this index is somewhat misleading as it effectively disadvantages Mongolia on the basis of its geographic isolation), closing a business

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<sup>75</sup> Website of the MCCI, <http://www.mongolchamber.mn/>

<sup>76</sup> Website of Business Monitor International, posted on 29 Nov 2010. <http://store.businessmonitor.com/article/409114>, see also the 2010 Mongolia Investment Climate Statement at <http://mongolia.usembassy.gov/root/media/pdf/2010-mongolia-investment-climate-statement.pdf>

<sup>77</sup> Asian Development Bank Institute (2007). Mongolia. Country Report - Industrial Development Planning by Local Government: Cluster-Based Development Approach Policy Seminar, 14-19 March 2007, Japan

<sup>78</sup> World Bank Country Brief - Mongolia  
<<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/MONGOLIAEXTN/0,,contentMDK:20190297~pagePK:1497618~piPK:217854~theSitePK:327708,00.html>>

<sup>79</sup> World Bank (2007), *Mongolia - Promoting Investment and Job Creation*, An Investment Climate Assessment and Trade Integration Study, Poverty Reduction and Economic Management Department East Asia and Pacific Region (Washington D.C.: World Bank).

World Bank and IFC (2009). *Enterprise Surveys - Mongolia Country Profile*  
<<http://www.enterprisesurveys.org/documents/EnterpriseSurveys/Reports/Mongolia-2009.pdf>>

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and dealing with construction permits, but much better for registering property and protecting investors.<sup>80</sup> Given the need to attract investment beyond mining and the fact that 2010 was declared the Mongolian Year for Business Environment Reform, it is important that the Government maintain efforts to create a favourable business environment. The government plan on business reforms has included measures to 1) improve the indicators and stands of Mongolia in the World Bank's "Doing Business" survey (reducing barriers to business start-up, property registration and construction permission; improving access to credits, protecting investors, tax payment procedures, reducing barriers to across-border trade, enforcing contracts and closing business); 2) review laws and regulations to eliminate duplication, gaps or barriers to doing business; 3) support financing and investment; 4) rationalize public services; and 5) ensure macro-economic stability and infrastructure development. Clearly, these measures are to be implemented beyond 2010 as well and many of the measures planned under infrastructure development have been reflected in the other government plans and programmes regarding industrialization, agriculture and infrastructure development. Some of the planned measures intend to make an impact on the transition from the informal to the formal sector, such as eliminating the benchmark on minimum property and reducing the requirements for company registration, drafting the Law on Micro-business which would include strategies for informal economy activities to shift to formal enterprise, reducing the duration and costs for property registration, creating a legal framework for loan collateral guarantee and establishing a special fund for loans to micro-businesses.

### **II.1.3 Protection of employed workers through employment retention measures**

The Mongolian Employers Federation (MONEF) advised businesses to consider adopting flexible work arrangements during the crisis, such as unpaid annual leave, or reduction of working hour to avoid lay-offs. However, no data were collected by MONEF from employers regarding the measures actually taken by employers affected by the impact of the crisis.

The Confederation of Mongolian Trade Unions (CMTU) adopted a plan for the period of the economic crisis. However, no information is available at the central level regarding measures actually taken. There were certainly efforts by individual companies to retain workers. For instance, the Ulaanbaatar Railway, a joint Mongolian-Russian company, coped with the difficult times by providing one month unpaid leave to certain categories of workers, during which the company paid social insurance contributions for these workers.

The proposed draft Employment Promotion Law (currently under discussion by Parliament) has included provisions for financial support to employers in retaining jobs that meet defined criteria and requirements.

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<sup>80</sup> Economic Intelligence Unit (2009). Country Report: Mongolia (London: The Economist).

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#### **II.1.4 Active labour market policies**

The serious skills mismatch between the demand and supply of the labour force has been recognized at all levels. Addressing this issue has been regarded as a priority policy as the country's economic growth perspectives have taken more concrete shape during the last few years. There are many challenges in the vocational education and training system in relation to skills standards, quality and relevance of the training programmes, governance, finance and partnership with the private sector.

Nevertheless, important legal and institutional changes and policy revisions have been implemented since early 2007. The monthly stipend to each vocational school student, which was initiated in 2007 to address the low profile of vocational education, was increased to MNT 45,000 (about USD 38) from 1 January 2008. The Law on Vocational Education and Training was revised in February 2009 setting out important policy and institutional changes in this sector. The revised law aimed at making vocational training responsive to labour market demands, revitalizing vocational training standards, curriculum, teachers' training and technology and improving the private sector's role in skills development. Accordingly, the National Vocational Education and Training (bipartite) Council was established in 2009 consisting of 16 members, of whom eight members represent the private sector. The Sector-branches of the National Council have been established to implement the decisions of the National Council in respective sectors. The Vocational Education and Training Agency (VETA) was established under the Ministry of Education, Culture and Science in August 2009. VETA will receive support from the Millennium Challenge Account (MCA) project in developing skills programmes for 50 occupations primarily required for the implementation of the large mining and industrial projects of the government.

The Millennium Challenge Corporation's TVET project (2008-2013) started its implementation in 2008 to support the VET reform in Mongolia, with a total budget of USD 47.6 million. The project aims at reforming the TVET policy and operational framework, creating skills standards and a competencies system, developing a competency-based training system, developing career guidance and labour market information systems and improving the learning environments of 15 vocational training and production centres.

In response to the skills development needs for large mining projects, starting with the Oyutolgoi project, focused vocational training programmes started in 2010. Training of 3300 mine workers for 3 years in 16 vocational training centres started its implementation by the joint decree of the Ministry of Education, Culture and Science (MECS) and MSWL. The next projects for which skills development is needed will be Tavan Tolgoi coking coal project and Sainshand industrial complex, and some criticism has been made with regard to the slow progress in planning for the skills development for these upcoming large projects.

Under the current Employment Promotion Law the employment promotion services and measures have continued their implementation as follows:

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- Public works were implemented as a key strategy for income support to the unemployed during the crisis. The number of women and men covered by public works rose to 50,064 persons in 2009 as against 17,161 in 2008.<sup>81</sup> The total expenditure allocated for public works also increased to MNT 3.2 bln. The proportion of the provincial participants in public works (47.4 per cent), however, suggests that the public works programmes favoured the unemployed in Ulaanbaatar, although almost 80 per cent of the registered unemployed lived in the provinces (the number of registered unemployed was about of 8,000 as compared to about 30,000 in provinces). However, it is likely that public works in Ulaanbaatar covered not only the registered unemployed.
  - No large scale infrastructure projects during 2009 and 2010 had their implementation directly linked to employment promotion measures. However, the public works covered the building and rehabilitation of 505 km of roads, the planting of 269,000 trees or bushes and the removal of 1031 tonnes of waste.
  - The number of unemployed provided with skills training under the employment promotion measures increased slightly to 22,568 persons in 2009 from 20,773 in 2008.<sup>82</sup> Some 51 per cent of those trained found employment after the training. There were no special programmes targeted to the long-term unemployed as part of the crisis response measures. The MSWL has now drafted a targeted pilot programme for women and men with employability constraints, including the long-term unemployed, and a pilot programme was approved in January 2011.
  - A pilot project supported by the ILO developed the capacity of the Municipal Employment Department to provide regular career counselling services for the long-term unemployed and new entrants to the labour market, particularly the vulnerable youth.
  - Micro-loans for the self-employed and micro-enterprises from the Employment Promotion Fund were given to 4,862 persons in 2009, in the total amount of the loan of MNT 7.4 billion. Compared to 2008, the number of beneficiaries decreased by 40 per cent and the total amount of loans disbursed fell by half.
  - In 2009, 16,846 persons were provided with business education, business start-up and business development training through 25 business development centres (992 new jobs created). Through eleven business incubator centres, 169 new businesses were set up and information and training were provided to 880 individuals.
  - An initiative to develop a “Green jobs programme” resourced by the Employment Promotion Fund was undertaken with the aim of creating public works for environmental protection and restoration. A revised Employment Promotion Law was submitted to Parliament.

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<sup>81</sup> Unfortunately, statistics disaggregated by sex are not available.

<sup>82</sup> Unfortunately, statistics disaggregated by sex are not available.

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### II.1.5 Other targeted employment programmes

The MSWL adopted the following programmes to respond to the emerging needs, including the need to strengthen the crisis response measures:

- On-the-job training in mining, road building and construction: This pilot sub-programme addresses the gaps in the skills demand and supply in the three sectors and promotes jobs for Mongolians. It was implemented in March 2009 by the joint decree of the MSWL, Ministry of Minerals and Energy and the Ministry of Road, Transportation and Urban Development. The programme emphasizes collaboration with the private sector and supports funding to companies for the training and employment of nationals. The employment promotion fund covers 50 per cent of the costs related to training and trainees' meal and commuting costs. The programme covered 93 employers and 3536 working women and men.<sup>83</sup> This pilot programme initially designed for one year, has been extended through 2011.
- Students' employment promotion: This pilot sub-programme started in 2009 by the joint decree of the MSWL and the MECS, is resourced by the Employment Promotion Fund. The pilot programme aims at facilitating a successful transition to work through the establishment of the Students' Employment Office at selected universities to provide information and career counselling services, support part-time employment of students through employers' support and job placement measures, and promote and support the entrepreneurship initiatives' of students.
- Herders' Employment Promotion Programme: jointly approved by the MSWL and the Ministry of Agriculture, Food and Light Industry (MAFLI) in April 2010 as a response to the impact of the 2009-2010 dzud, the programme is resourced by the Employment Promotion Fund and delivered through business incubation centres in selected aimags. This programme was based on MSWL experience in implementing the pilot programme for employment promotion of herders in 2008-2009.
- Special employment support measures and services are provided for disabled persons under the Employment Promotion Fund, in addition to the training and job placement support provided as a regular service for all in need. The major support under this modality is the cash support to promote disabled persons' microenterprises based on bidding. The funding for this support more than doubled in 2010, supporting over 300 micro-projects.

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<sup>83</sup> Information disaggregated by sex is not available, but it may be assumed that most of the beneficiaries were men.

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## II.1.6 Support to public and private enterprises

- Special measures were undertaken in 2009 for herders to redress cash deficits and loan defaults. Mongolian herders have seasonal cash earnings, selling cashmere in spring and meat in the fall. The decline in the demand and price for cashmere during the first half of 2009 severely hit herders' livelihoods and left them short of badly needed cash. In addition many were faced with high interest payments on bank loans. By the end of 2008, 25 per cent of total livestock had been retained as collateral for bank loans, and one out of every four households was in default.<sup>84</sup> Thus, the crisis hit herders in two ways; cash deficit and default on loans. To aggravate the situation, herders in several aimags (Bayankhongor, Uvurkhagnai, Umnugovi and Dundgovi) suffered loss of life, livestock and property when a strong blizzard and sand storm hit the Central and Gobi region in April 2009.
- The majority of the herders had loans from Khan Bank. Special arrangements were made by Khan Bank to respond to this specific situation affected by global and climatic factors by reviewing the loan payment schedule and providing re-stocking assistance to herders.
- Parliament issued a decree in 2009 to pay herders MNT 5,000 per goat to offset the impact of the price decline. A total of MNT 30.5 bln was earmarked for this measure. Parliament also ceased the export tax for raw cashmere in June 2009 as a short-term measure to support herders' income during the recession. The tax is likely to be re-introduced in future to support domestic industry.
- The "Reviving Agriculture -III" national programme campaign, supported by soft loans, subsidies, leasing of tractors and equipment and other measures, was put in place in 2008, prompted by escalating food prices. Government support to agro-businesses included subsidization of 50 per cent of the price of imported wheat seeds, provision of seeds to 300 enterprises with 20 per cent advance payment, subsidizing 80 per cent of the costs of imported herbicides, subsidizing 40 per cent of the cost of fuel used for field preparation, subsidizing 50 per cent of the cost of imported machinery and establishing 3 years for re-payment of the remaining cost, and building storehouses and greenhouses. The legal measures included the exclusion of customs duties and VAT for imported agricultural and irrigation machinery. Cash incentives were introduced in 2009 for wheat sold to state reserves or domestic flour mills at the rate of MNT 50,000 per ton.<sup>85</sup> As a result, in 2009, 65 per cent of all tractors were replaced; and 86 per cent of the demand for wheat, 103 per cent of demand for potatoes and 52 per cent of demand for vegetables were supplied domestically.<sup>86</sup> By October 2010, the programme succeeded in achieving self-sufficiency in wheat and potatoes, renewing 80 per cent of agricultural machinery and 65 per cent of

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<sup>84</sup> Cited in MSWL's draft action plan on GJP, 2010

<sup>85</sup> Government resolution No350 of 25 November 2009 concerning cash incentives

<sup>86</sup> NDIC, 2010, PPP

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harvesting machinery, and increasing the number of agricultural business entities and individuals by 600.<sup>87</sup>

- The Law to Annul the Law on Windfall Tax, adopted on 25 August 2009, annulled the 68 per cent windfall tax on some minerals with effect from 1 January 2011. However, the Government priority for 2011-2013 mentions the policy line of previous years, that is, increasing fiscal revenues through a windfall tax.
- The SMEs Development Fund allocated MNT 60.8 billion for 2009 and 2010 to support SMEs with soft loans. Some 684 types of equipment and spare parts were excluded from customs duties and VAT for the period 2009-2012 by a Parliament resolution in 2009.<sup>88</sup>
- An ADB project (USD 14.7 million) started in 2009 to support agriculture and rural development through long-term, relatively soft loans. Its aim is to promote development of value chains for private agribusiness enterprises and develop rural infrastructure and services as well as technical assistance for marketing and brand development of certain products of participating companies that comply with international standards.
- The Agriculture and Food Security Programme of the World Bank decided in November 2010 to provide USD 12.5 mln to support the livelihoods and food security of poor rural families by developing domestic agricultural products markets, improving market information and developing the collaboration of *baghs*<sup>89</sup> and cooperatives.<sup>90</sup>

### **II.1.7 Support to job creation across sectors of the economy**

- A revised draft Employment Promotion Law was submitted to Parliament and is presently under discussion.
- The government took the decision in 2010 to establish a Development Bank to fund infrastructure and industrialization projects from the mining revenues.
- A Law on Loan Collateral and Loan Guarantee is being drafted.
- Stock market reforms are high on the government agenda. An action plan for developing the stock market was adopted by the Government in May 2010. International bidding for the management of the Mongolian Stock Exchange has been announced and the selection process is underway. Policy priorities include the review of stock market legislation,

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<sup>87</sup> Website of the MAFLI, <http://www.pmis.gov.mn/>

<sup>88</sup> Presentation by Mr. Ts.Nyam-Osor, Director of SME Department, MAFLI, at the National Employment Conference, 14 Oct, 2010

<sup>89</sup> A *bagh* is the lowest administrative unit in rural areas.

<sup>90</sup> Website of the MAFLI, <http://www.pmis.gov.mn/>, posted on 05/11/2010

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adopting international standards, capacity building, and creating a legal framework for investing social insurance and other funds in the stock market.

- Access to low interest credit is the most crucial challenge for businesses, especially SMEs. According to MAFLI, only 10 per cent of the loan requests of SMEs are being met.<sup>91</sup> The second step of the project “Two-step loan project for small- and medium-sized enterprises development and environmental protection (2006-2010)”,<sup>92</sup> supported by a Japanese Government soft loan, was endorsed in November 2010. The project goals include developing intermediate and long-term lending facilities to private enterprise, especially to SMEs, by supporting investment projects, creating a pool of long-term loan resources, increasing the capacity of the participating banks, strengthening the supervisory function of Mongol Banks, and supporting environmental protection projects.
- The European Bank for Reconstruction and Development has approved a USD150 million credit facility designed to support the development of gold-mining industries in Kyrgyzstan and Mongolia. The three-year debt facility will be provided to Centerra Gold Inc., a North America-based gold mining company. The firm is the largest foreign investor in the gold mining sector in Central Asia. EBRD's loan will allow it to introduce new mining technology and support sustainable mining development projects in its areas of operations in both countries.<sup>93</sup>

## II.2 Building Social Protection Systems and Protecting People

The stand-by agreement with the IMF included important structural conditionalities. In order to cushion the fiscal exposure to fluctuations in revenues from mining, the Government was compelled to introduce a Fiscal Responsibility Law, which included ceilings on expenditure growth, a debt ceiling and a ceiling on the ‘structural’ deficit.<sup>94</sup> Other obligations included the reform of the banking sector, maintaining a flexible exchange rate and strengthening Central Bank control over monetary policy. A much more controversial conditionality with clear ideological overtones was a Government commitment to shift from unconditional targeted social transfers, such as the universal child allowance, to means tested social assistance.<sup>95</sup>

In order to assist in reducing Mongolia's fiscal gap, to limit social sector expenditure cuts in 2009 and 2010 and to mitigate the effect of the crisis on the poor, the ADB and JICA prepared a USD110 million “Social Sector Support Programme” as an integral component of the Government’s crisis response programme. The programme aimed, through specific short term policy measures, to protect key priority programmes in relation to social welfare, education and

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<sup>91</sup> Presentation by Mr. Ts.Nyam-Osor, Director of SME Department, MAFLI, at the National Employment Conference, 14 Oct, 2010

<sup>92</sup> Information available at Ministry of Finance website: [www.mof.gov.mn](http://www.mof.gov.mn)

<sup>93</sup> Posted by Ivy Mungcal on 17 November 2010 03:13:33 PM:

<sup>94</sup> IMF (2010a, *op.cit.*).

<sup>95</sup> IMF (2009, *op.cit.*).

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health sectors, reduce out-of-pocket expenditures of poor households for health care and to increase micronutrient intake. The Ministry of Social Welfare and Labour prepared the draft of the revised Social Welfare Law to consolidate the existing multiple cash transfers and to establish targeted schemes through proxy means testing and has submitted it to Parliament

### **II.2.1 Cash transfer schemes**

The Government was compelled to reform the social transfer schemes to make them targeted and consolidate existing different benefits. As described above, the Social Welfare Revised Law was drafted during 2009 and submitted to Parliament in 2010. The universal child allowance programme (monthly cash benefit to each child payable under the Mongolia Development Fund) continued in 2009 as an important instrument for supporting the poor and to maintain consumption. However, related to the adoption of the Law on the Human Development Fund in November 2009, the child allowance programme was discontinued on 1 January 2010, as were the one-time benefit for newly married couples, the one-time benefit for new born children and the provision of school supplies to the children of poor families. Many of these measures were taken in accordance with the conditions of the IMF stand-by agreement or advice by other international donors, like the World Bank, ADB, and the Government of Japan. However, the pregnant women and mothers allowance has so far continued. A carer's allowance for taking care of hospitalized children was introduced in July 2009 and was to be effective until 1 January 2011, as part of the crisis response measures. The World Bank provided technical support in re-assessing the poverty measurement approach (advancing the Proxy Means Test methodology).

### **II.2.2 Building adequate social protection for all**

To ease the financial pressure on employers, the Government adopted several measures to reduce social insurance contribution payments during the crisis. By amendment to the Social Insurance Law in July 2009, the effect of the provision concerning payment of pending and overdue contributions and fines for delayed payment was suspended until 1 January 2011. Another crucial measure was the reduction of the contribution rate to the pension fund from 19 per cent to 14 per cent since 2008. It should be noted that the initial contribution rate was already too low to meet the current liabilities. Consequently, the long term financial sustainability of social security is put at risk, as is the achievement of the goal of extending coverage. The question remained as to how adequate social protection for all could be secured and achieved.

### **II.2.3 Expansion of unemployment benefits**

The Law on Unemployment Benefit to be paid from the Social Insurance Fund was amended in July 2009, as an immediate crisis response measure, by temporarily relaxing the requirements

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for eligibility for unemployment benefits. The prerequisite for eligibility was reduced from 9 to 6 months of continuous payment of the contribution prior to becoming unemployed (of the total eligibility requirement of 24 months of contribution payment), the duration of the payment was extended from 76 working days to 126 working days, and the re-entitlement to unemployment insurance and skills training for the unemployed who had previously received the unemployment benefit was improved by reducing the contribution payment period from 6 months to 3 months. These measures were to be effective until 1 January 2011. According to the Social Insurance General Office, the number of unemployment benefit recipients rose to 11,868 in 2009 as compared to 8,762 in 2008.<sup>96</sup>

#### **II.2.4 Ensuring that the long-term unemployed stay connected to the labour market**

There was no targeted special programme for the long-term unemployed as a part of the crisis response measures. The registered unemployed were treated equally without distinction between short and long-term unemployed under the employment promotion measures. However, the MSWL has recently adopted a targeted pilot programme for women and men with reduced employability, including long-term unemployed, youth released from correction centres, individuals living in poor families identified by proxy means testing, to be implemented in selected locations.

#### **II.2.5 Providing minimum benefit guarantees (in countries with inadequate funding)**

The revised draft Social Assistance Law was submitted to Parliament in February 2010. According to the draft law, the different types of social assistance benefits are to be consolidated and poverty benefits introduced. It has been proposed that the targeting of the poverty benefit will be done by proxy means testing.

#### **II.2.6 Improve the pension fund design**

The MSWL requested ILO's technical assistance with the review of pension reform in Mongolia as well as ILO policy recommendations. The report *A review of the 1999 pension reform*, issued in 2010, addressed a number of fundamental issues facing the old-age insurance scheme of Mongolia, such as the minimum pension level, the need for extending personal coverage, long-term financing sustainability and the promotion of social dialogue.

CMTU has strongly campaigned since 2009 against the interest-free use of the free balance of the pension fund by the government as a part of the budget revenues and has demanded a phased transfer of the free balance of the Pension fund (MNT 2.1 trillion) during 2010-2013. The Government has agreed to repay the "borrowings" through fiscal planning measures.

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<sup>96</sup> *Social Insurance Statistical Yearbook of the Social Insurance General Office, 2010*

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CMTU reiterated its demand that the government issue debt bonds, and remit at least MNT 100 mln to the social insurance fund in 2011.

### **II.2.7 Providing adequate coverage for temporary and non-regular workers**

No measures were taken in response to the crisis.

### **II.2.8 Support to vulnerable groups**

The school lunch programme for pupils in primary school was not affected by the fiscal adjustments. However, support for school supplies to children of poor families was stopped in 2010. This measure was apparently linked to the submission of the revised Social Welfare Law.

Responding to fears that children would drop out of school to supplement family income and in light of sharp reductions in school maintenance expenditure, the Government approved the ADB project *“Education for the poor –Financial Crises Response Project: Mongolia”*<sup>97</sup> on 12 August 2009. The project focuses on financing and enhancing the feeding programme at preschools, financing the printing of free textbooks for children of poor families and children enrolled in grades 7-12, equipping teachers in secondary grades with training materials, improving the textbook distribution mechanism, supporting 100 selected schools with repair and maintenance and computer and internet services and building the capacity of the Ministry of Education and schools in managing social sector support programme.

In response to soaring food prices in early 2008, the Government adopted the “Action plan to protect people from high inflation”, which included the design and implementation of a special programme for vulnerable population affected by increased food prices. Consequently, the Government adopted in late September 2009 the sub-programme “Provision of food and nutritional support to selected groups of vulnerable population” for a duration of 3 years. The sub-programme is funded by the Government (MNT 11.3 bln) and the ADB (MNT 13 bln). The food and nutritional support of the programme target homeless people, the elderly who do not have children and relatives, people with disability of more than a 70 per cent loss of work capacity who do not have children or relatives, blind and mentally disabled children aged below 18 years, single parents with three or more children aged below the age of 14, pregnant women and nursing mothers of low-income households, and children under the age of 5 from low-income families;

A short-term cash-for-work programme<sup>98</sup> was implemented during March-June 2010 in three affected aimags to provide temporary work for herders severely affected by the 2009 winter

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<sup>97</sup> Total cost of USD 26.4 mln (USD 17.0 mln from ADB and 9.4 mln from the government)

<sup>98</sup> Funding support provided by UNDP (USD 1.8 mln); [http://www.undp.mn/publications/Early\\_recovery.pdf](http://www.undp.mn/publications/Early_recovery.pdf)

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*dzud* removing the remains of millions of livestock. This income support programme aimed to improve the conditions of herders and to replace household income and help pay for medicines, education and bank loans.

Although HIV prevalence at present is low in Mongolia, the high rates of sexually transmitted infections indicate the potential for a large scale epidemic. Effective workplace interventions to address HIV risk behaviours in sectors which employ large numbers of mobile workers, such as the transport and mining sectors, would help to ensure continued productive growth in those strategic sectors. Initial training in the road transport sector, supported by the ILO, will begin in mid-2011, but would need to be further scaled up.

### **II.2.9 Measures to avoid deflationary wage spirals**

During the global crisis, wages continued to grow along with two-digit inflations (except the year of 2009) and thus deflationary pressure has not been present. However, wage growth has overall failed to catch up the sustained high inflation rates, which eroded the purchasing power of wages significantly in recent years.

### **II.2.10 Measures to regularly review and update the minimum wages**

With technical assistance from ILO, the revised Law on Minimum Wage was drafted by the Ministry of Social Welfare and Labour in consultation with social partners and was adopted by the Parliament in April 2010 to be effective from 1 January 2011. The law established that the National Tripartite Council on Labour and Social Consensus would be in charge of determining the minimum wage, rather than the government alone, as had been the case before the revision.

In April 2011, the tripartite partners reached consensus on raising the national minimum wage by 30 per cent. This was the first time that Mongolia adjusted the national minimum wage in a tripartite manner. The adjustment was based on solid evidence provided by a 2010 wage structure survey, designed and implemented with ILO technical assistance.

In June 2011, the tripartite partners began negotiations on sectoral minimum wages in a number of sectors, including mining. ILO has offered technical assistance to social partners in this respect.

### **II.2.11 Measures to ensure that the negotiated wage rates in procurement contracts are respected**

No specific measures have been taken to this effect in response to the crisis.

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### II.2.12 Measures to narrow gender-based pay gaps

Despite the fact that young women surpass their male peers in terms of educational achievements, they are often disadvantaged on the labour market. Mongolia has a history of small gender-based wage differences. However, the wage gap between women and men has increased in recent years (Table 15). In 2000 the average wage for female wage workers was 92 per cent of that for men, by 2007 it had fallen to 86 per cent and by 2011 to 83 per cent.<sup>99</sup> To a certain extent this may reflect an overrepresentation of women in low-wage sectors, such as trade, however,, within individual sectors there has also been a distinct increase in the wage gap. The wage differential may also reflect breaks in women's employment history or reduced careers aspirations, due to the uneven sharing of family responsibilities. Under Mongolian law, for example, parental leave with benefits is available to mothers and to single fathers, but not to married fathers. The increasing wage gap between women and men is reflected in a trend dating back at least a decade and has little to do with the recent economic crisis. Hence, no specific measures have been taken to address this problem specifically in response to the crisis. However, the issue of equal pay for work of equal value needs to be addressed as part of the overall agenda of achieving social justice and productive and decent work for all.

**Table 4 Average wage by sex and economic sector in 2000 and 2007. In USD.**

	2000			2007		
	All	Women	Men	All	Women	Men
A Agriculture	45	38	49	77	72	82
C Mining	55	53	56	188	152	196
D Manufacturing	61	65	56	137	116	162
F Construction	65	61	67	143	134	146
G Trade	58	57	61	105	104	107
I Transport & com.	73	70	75	149	135	160
All sectors	58	55	60	148	136	159

Source: <http://laborsta.ilo.org>.

### II.2.13 Measures to protect domestic and international migrant workers

The revised draft Law on Sending Workers Abroad and Receiving Foreign Workers was submitted to Parliament. The MSWL is working on the second-submission of the draft after having worked on the recommendations from initial discussion by relevant standing committees of Parliament. The revised law calls for improvements in the regulation of labour migration intermediation, a shift of the authority for defining the quota for foreign workers from the Government to the Ministry of Social Affairs and Labour based on the recommendations of the National Employment Council, the introduction of flexibility for defining penalty fees, the institutionalisation of the tripartite mechanism in the labour migration sector and a clarification and strengthening of sector-wide collaboration for labour migration. The revised draft assigns an

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<sup>99</sup> Table 15 and National Statistical Office (2011b).

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increased role to the MSWL in the coordination of the labour migration policy implementation and the implementation of targeted programmes for returned migrant workers.

Promoting an effective and right-based migration policy aimed at enhancing legal channels for migration, protecting migrant workers abroad, reducing the costs of financial and social remittance and enhancing investment generation and decent work opportunities for migrants and returnees are important measures for Mongolia to consider in addressing policy issues in the aftermath of the crisis.

As the economy picks up, it will also be important to address the potential return of Mongolians working abroad and devise policies facilitating their reintegration into the labour market and full use of the human resources for the benefit of the national development.

### **II.3 Strengthening Respect for International Labour Standards**

#### **II.3.1 Increase vigilance to achieve the elimination and prevention of an increase in forms of forced labour, child labour, trafficking and discrimination at work.**

Some important initiatives have been taken by the government towards the elimination of the worst forms of child labour and to end trafficking in humans.

The Government and social partners continued cooperation with the ILO in the implementation of the IPEC project of support to Mongolia during 2006-2010. The MSWL established a tripartite working group to design the National Programme for the Elimination of the Worst Forms of Child Labour by 2016. The process for designing the national action plan started in July 2010.

In February 2008, Section 113 of the Criminal Code was amended so as to criminalize trafficking in persons. In March 2008, the Supreme Court added further clarity in an advisory opinion, establishing that the new provision covers trafficking for purposes of labour exploitation. At the same time, the Supreme Court appears to have unduly narrowed the concept of trafficking to situations of slavery, defined as situations in which the victims do not receive any payment for their services.

The Law on Combating Trafficking in Human Beings was drafted during 2009-2010 and is being prepared for submission to Parliament. A decision has been made to establish a special unit in charge of crimes related to trafficking in human beings within the State Department for Investigation. An agreement between the Ministry of Foreign Affairs of Mongolia and Macao Special Administrative Region of the Peoples' Republic of China on collaboration against trafficking in human beings was concluded in August 2010.

#### **II.3.2 Measures to increase respect for freedom of association, the right to organize and the effective recognition of the right to collective bargaining.**

No specific national policy measures were implemented to strengthen respect for freedom of

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association and the right to organize and bargain collectively as a result of the crisis.

The Confederation of Mongolian Trade Unions (CMTU) adopted the “Policy and Guiding Directions of the CMTU during the Financial and Economic Crisis” in February 2009. The CMTU’s policy focused on protecting working women and men through legal and economic measures, preventing lay-offs, preventing the reduction of wages and stressing the importance of tripartite consultation, freedom of association and the protection of trade union members from pressure and discrimination. No assessment has been conducted so far as to the effect of these policies.

### **II.3.3 Measures that recognize the relevance of ILO Conventions and Recommendations**

Ratification of international labour Conventions. Mongolia has ratified a total of 15 Conventions, including all eight fundamental Conventions. Its ratification record however, does not reflect a balanced coverage of the four Decent Work pillars, as suggested by the Declaration on Social Justice for a Fair Globalization, 2008.

- (a) *Fundamental ILO Conventions.* Major issues of application of the fundamental Conventions are gradually being identified, e.g. with respect to child labour and the failure of the Labour Law to formally recognize equal pay for men and women for work of equal value. Mongolia’s reporting on the application of all Conventions is irregular.
- (b) *Governance Conventions.* Since 2008, ILO has launched a ratification campaign for the four Conventions which it considers central to labour market governance.<sup>100</sup> Mongolia has ratified Conventions Nos. 122 (Employment Policy) and 144 (Tripartite Consultation). Pending supervisory comments on the application of Convention No. 122 question the extent to which various active labour market policies (e.g. direct job creation measures, skills development, employment services) are coordinated so as to effectively translate into productive employment creation, and are sufficiently inclusive of vulnerable groups in society (e.g. unemployed youth, people with disabilities, herders, women and men working in the informal economy). Mongolia has yet to ratify the labour inspection Conventions Nos. 81 and 129.
- (c) *Technical Conventions.* The National Tripartite Agreement on Labour and Social Consensus for 2010-2011 includes efforts for the ratification of other ILO Conventions. These include the Safety and Health in Mines Convention, 1995 (No.176), Occupational Health Services Convention, 1985 (No.161), Labour Inspection Convention, 1947 (No. 81), and its Protocol of 1995. The Government has expressed its interest in the ratification of the Social Security (Minimum Standards) Convention, 1951 (No. 102). A tripartite workshop on Convention No. 102 was organized with the support of the ILO in 2009, and in September of that year, the ILO undertook a comparative analysis of Mongolian legislation in relation to that Convention. The preliminary findings of this analysis were presented to

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<sup>100</sup>Labour Inspection Convention, 1947 (No. 81); Employment Policy Convention, 1964 (No. 122); Labour Inspection (Agriculture) Convention, 1969 (No. 129); and the Tripartite Consultation (International Labour Standard) Convention, 1976 (No. 144).

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the tripartite constituents in late 2010. Mongolia has ratified the Maternity Protection Convention, 1951 (No. 103), which was revised by the Maternity Protection Convention, 2000 (No. 183).

### **II.3.4 Measures to promote the application of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social policy.**

No known measures were adopted to promote the MNE Declaration in response to the crisis.

#### ***Compliance with ratified ILO Conventions***

The Committee of Experts on the Application of Ratified Conventions (CEARC) has comment on the following issues which need to be addressed to achieve compliance with international commitments:

**The Discrimination (Employment and Occupation) Convention, 1958 (No.111):** inadequate prohibition and prevention from sexual harassment in employment and occupation; exclusion of women from a wide range of occupations based on stereotyped perceptions regarding their capacity and role in society which give rise to violations of the principle of equality of opportunity and treatment, therefore protective measures are to be strictly limited to protecting maternity and that those aimed at protecting women because of their sex or gender, based on stereotyped assumptions, should be repealed; there is a need to extend the protection afforded under Chapter 7 of the Labour Code to working men, as regards family responsibilities, in order to promote equality in employment and occupation of both men and women; and to end dismissals of civil servants based on political opinion.

**The Worst Forms of Child Labour Convention, 1999 (No.182):** The Criminal Code needs to be amended to stiffen the sentence imposed on the crime of involving children under age of 18 years in prostitution and to prohibit the use, procuring or offering of a child under 18 years of age for the production of pornography and for pornographic performances; there is a need to address the relatively low rate of convictions against persons who traffic in children; the scope of application of the Labour Code which is currently limited to persons who work for an employer under a contract of employment; protective measures need to be in place aimed at protecting the health and safety of child jockeys under 18 years of age and are to be strictly enforced; efforts to ensure that children under 18 years of age do not work in underground mines and do not get engaged in prostitution need to be redoubled.

**The Equal Remuneration Convention, 1951 (No. 100):** There is a need to address the narrow definition of equal remuneration for male and female employees in the section 49(2) of the 1999 Labour Code to encompass work which is different but is nevertheless of equal value in both the public and private sectors, thus to ensure eradicating gender-based pay discrimination against women at work; to address the confusion between the issue of performance appraisal and objective job evaluation, and to implement practical approaches for the objective evaluation of jobs with a view to effectively applying the principle of equal remuneration for men and women for work of equal value; and to provide specific training to judges, lawyers, labour inspectors, other relevant government officials and the social partners, regarding the principle of the Convention.

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The Minimum Age Convention, 1973 (No.138): The ratification of Convention No. 138 by Mongolia has not resulted in the denunciation of the Minimum Age (Underground Work) Convention, 1965 (No. 123). The Committee has drawn the Government's attention to the fact that a formal declaration specifying that Article 3 of Convention No. 138 applies to underground work would result in the denunciation with immediate effect of Convention No. 123.

The Right to Organise and Collective Bargaining Convention, 1949 (No. 98): Article 20.4 of the Labour Code providing for the participation of the public authorities in all cases in collective agreements at national or regional levels, or with respect to an administrative or territorial unit, economic sector or profession needs to be amended in order to bring it into conformity with the principle of autonomy of the bargaining parties.

Occupational Safety and Health Convention, 1981 (No. 155): There are shortcomings regarding the application of the provisions of the Convention, including inadequate training of workers; lack of enforcement of safety measures in relation to chemical hazards; failure to notify the competent authority in cases of occupational accidents; and omitting to take into account the importance of mental elements affecting health, which is directly related to safety and health at work.

## **II.4 Social dialogue: identifying priorities, stimulating action, bargaining collectively**

### **II.4.1 National agreements through tripartite dialogue**

A National Tripartite Agreement on Labour and Social Consensus is concluded every other year for a two year period. The agreement for 2010-2011 was adopted in November 2009 and covers issues relating to employment, occupational safety and hygiene, wages, social protection and social dialogue issues. Among these are establishing a legal environment for a mechanism on the immediate resolution of labour disputes, ensuring the engagement of employers and workers' organizations in shaping national policies, participating in coordination mechanisms and monitoring implementation (for example, the SME Support Fund<sup>101</sup>), adopting a National Strategy for Decent Work, considering the ratification of ILO Conventions,<sup>102</sup> reviewing legislation, creating 60,000 jobs per year, collaborating with international organizations and donors to establish a National Labour Market Research Center, renewing national occupational classifications, organizing a nationwide productivity movement, reviewing the quality and impact of SIYB training, development of the state policy on wages, ensuring the issuance of a debt certificate for the funds to be returned by the government to the social insurance fund, and taking action to ensure that by 2015 those debts are fully settled, completing the establishment of tripartite OSH sub-committees in all aimags, and supporting the development of tripartism at provincial, aimag and sectoral levels.

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<sup>101</sup> Under the mandate of the MAFLI where there is no tripartite consultation mechanism.

<sup>102</sup> See section II 3.3 (c).

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Besides the Tripartite National Committee on Labour and Social Consensus, there are 18 tripartite sub-committees, however, those sub-committees lack a supportive legal environment to promote their effective activity.

The parties evaluate the implementation of a collective agreement or bargaining at least bi-annually, or at the times specified in the collective agreement: or bargaining, and must inform all employees of the results of the evaluation.

#### **II.4.2 Collective bargaining agreements**

Collective agreements are established at aimag and sector level. General matters concerning wages, labour conditions, the organization of work and production quotas or norms for employees with special skills, are determined by industrial sector level bargaining, whereas general matters concerning employment and labour relations of employees of administrative or territorial units are determined by bargaining at the aimag, capital city, soum or district level.

Currently Ulaanbaatar and 19 out of 21 aimags and all twelve sectoral trade unions have effective collective bargaining agreements.<sup>103</sup> The sectoral unions which have concluded collective bargaining cover women and men that are 1) public servants, 2) private sector workers, 3) construction workers, 4) education workers, 5) health workers, 6) energy, geology and mining workers, 7) agricultural and environmental workers, 8) auto road workers, 9) transport, communications and oil workers, 10) railway workers, 11) production workers and 12) urban development and public utilities workers.

Collective bargaining had been established among representatives of workers, employers and relevant Government organs. Equal numbers of the parties establish a collective agreement and bargaining through negotiation. Depending on the status of the participating parties, collective bargaining may be bilateral or tripartite. Collective agreements are established for a minimum period of one year and collective bargaining for two years. Collective agreements and bargaining enter into effect as soon as they are registered by the relevant State administrative organ.

Key problems in terms of implementing collective agreements include non-specified obligation mechanism of the parties. Should the parties not implement a provision of an agreement, the procedure to initiate a collective labour dispute is a long one. Nor is there effective reconciliation of collective labour disputes due to the lack of well trained intermediaries and arbitrators.

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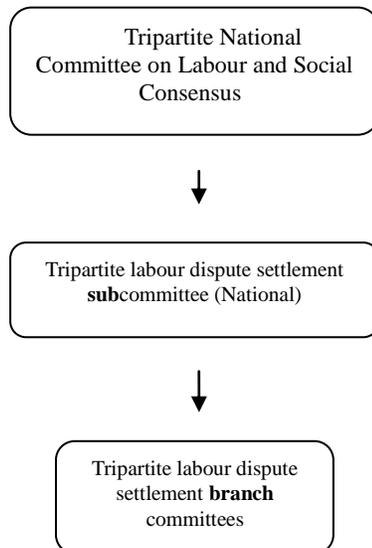
<sup>103</sup> The CMTU does not enter into collective agreements.

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### II.4.3 Tripartite monitoring mechanism of dispute settlement committees

The campaign to establish the Labour Dispute Settlement Committee throughout the country started in 2008.

The social partners agreed within the National Tripartite Agreement to establish a national tripartite subcommittee as well as branch Committees on the immediate settlement of labour disputes in order to improve legal protection services for working women and men.



This three-tiered structure has started activities in 21 aimag, 35 soum, 8 districts and the capital city. The role of these committees during the crisis times was most critical by addressing the claims of laid-off workers. During 2008-2009, 400 complaints were received, of which 109 complaints were settled. During the first half of 2010, 395 complaints were received, of which 179 were settled, which may indicate increased access to and capacity of the sub and branch committees. Almost 80 per cent of the settled cases were related to unjustifiable lay-off.<sup>104</sup>

The structure requires creating of new legal regulation and in this respect, we need to implement following activities:

- a) To approve operating cost of the committees in the annual state budget.
- b) To revise the labour law in order to reflect legal environment of sub or branch committee on immediate labour dispute settlement.
- c) To revise the terms of reference of the tripartite sub and branch committees on immediate settlement of labor disputes.

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<sup>104</sup> Information provided by the CMTU

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- d) To advertise and distribute handbook or brochures.
  - e) To train members of sub and branch committees on immediate settlement of labor disputes in order to upgrade their skills and knowledge as mediator.
  - f) To invite experts who specialized on the issue.

A tripartite employment conference was organised in each province starting from late 2009 and throughout 2010 that culminated in the National Employment Conference on 14 October 2010. This nationwide joint campaign of social partners aimed at reviewing the policy implementation and put employment at the core of development agenda.

#### **II.4.4 Strengthen capacities for labour administration and labour inspection**

*Labour Law reform.* In 2010, the Ministry of Social Welfare and Labour started a consultation process with MONEF and CMTU to revise the Labour Law, which was adopted in 1999 and revised in 2003. The Office has provided assistance by identifying areas in which the Labour Law would need to be brought in line with ratified ILO Conventions, and by providing preliminary advice on issues brought in the course of tripartite consultations. The Office has also started building capacity within CMTU and MONEF to effectively engage in such tripartite consultations.

The Labour Law originally aimed to regulate labour relations in “permanent workplaces”, i.e. workplaces in the public sector and formal manufacturing units. Modernizing the Labour Law will entail reconciling a very wide range of interests and perceptions, from big mining companies who feel the Labour Law is currently overly rigorous, to SMEs who employ more than 80 per cent of the working population and who feel the Law is not tailored to their needs, but also to working women and men who feel the Law does not provide sufficient remedies for the violations that frequently victimize them. To fulfil its role as a minimum labour standards law in an ever diversifying economy, the Labour Law should change in the following respects: identifying clear criteria for the existence of an employment relationship and for mandating an employment contract over the various service contracts referred to in the Civil Code; removing various restrictions on the employment of vulnerable groups of persons that sometimes provide protection beyond situations in which it is needed and in effect constitute barriers to employment (e.g. underground work for women); providing an accessible, speedy and predictable mechanism for the settlement of individual labour disputes; distinguishing minimum labour standards (to be laid down in law) from negotiable labour standards (to be laid down in collective or individual labour contracts) and provide a more solid legal framework for the latter; clarifying standards on employment injury compensation; and providing for more flexible, negotiated working time arrangements.

As part of the plan under the “2010-The Year for Reforming Business Environment”, amendments were made to the Law on State Inspections to introduce the principle of risk-based

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inspections which provided that enterprises shall be classified according to risks and that the frequency of inspection visits will be determined according to this classification. The amendment introduced the need for internal monitoring by enterprises and obliged the Government to adopt generic guidelines for internal monitoring by companies. MONEF has initiated discussions with GASI with regard to the engagement of MONEF in the development of guidelines concerning OSH and industrial relations. MONEF is also developing a handbook for the training of employers on company internal monitoring of OSH, working conditions and labour relations.<sup>105</sup>

The “Main Directions of Mongolian Labour Inspection Reforms” was adopted by joint decree No37/89 of the Minister for Specialized Inspections and the Minister for Social Welfare and Labour in June 2010. The principal change in the policy on labour inspection introduced in this document is the paramount priority placed on prevention. The Labour Inspectorate has begun to review their inspection practices in accordance with this new focus. In this regard, a decision to use checklists for inspection visits requires a serious capacity building programme. This need for capacity building has been communicated to the ILO. Important recent progress within the broad reform process is that the labour inspector is no longer obligated to provide a workplace assessment, which was previously required to make an application for a bank loan, to receive cash assistance from the social welfare fund and to define business types by the tax authorities. The elimination of this task from the labour inspectorate’s function has reduced the burden on labour inspectors and has had a positive impact on their work.

The inspection capacity was also increased following a 2008 agreement reached between the State Labour Inspection Authority and the CMTU, which led to the appointment of 47 trade union representatives as labour inspectors. These inspectors are currently working at the provincial, sectoral and district levels as well as at the General Council of the CMTU.

In addition, within the framework of strengthening labour inspection, the CMTU has created a structure of over 2000 part-time accredited OSH union representatives appointed at the enterprise level.

#### **II.4.5 Have the social partners been involved in the shaping and implementation of crisis response measures?**

An MOU on crisis response strategies was adopted by the MSWL, CMTU and MONEF on 30 Jan 2009. The MOU emphasizes the important role of social dialogue at the national and enterprise level to properly address the impact of the crisis on employment and to identify response strategies, such as allowing some room for flexible arrangements at the enterprise level, supporting employers to maintain jobs through amendment of certain legislation, increasing public works, preventing exploitative child labour, building the capacity of the tripartite committees on resolving labour disputes etc.

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<sup>105</sup> Information provided by MONEF

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In 2009, with reference to the proposed amendments to the Law on Public Employees and related regulations on additional pay, extra pay, awards and bonuses, and benefits for public servants, CMTU urged the Government not to decrease levels of additional pay, extra pay, awards and bonuses, benefits, to create additional pay mechanisms for public servants, to increase pay for school teachers, kindergarten teachers, and educators in school dormitories, especially in rural areas.

In 2009, CMTU also urged the Government not to raise power and heating prices by the 25-35 per cent proposed by the Power regulating agent, with the result that price rises were postponed.

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## Part III      **Shaping a fair and sustainable globalization**

This part of the Country Scan is based on Section IV of the Global Jobs Pact. It is recognized that the inseparable, interrelated and mutually supportive nature of the four strategic objectives in the Global Jobs Pact is increasingly looked to, not only as an effective crisis response and recovery strategy, but as the framework of a new social and economic development paradigm, characterized by employment-centred and income-led growth with equity.<sup>106</sup>

### **Main lessons from the crisis and the pre-crisis economic boom**

*Excessive dependency on mining revenues:* In the past decade the country's economy has become increasingly dependent on mining revenues. While the development of mining and increasing commodity prices has resulted in high GDP growth and promises to continue to do so in the years to come, the lessons from the economic crisis and the pre-crisis boom clearly show that the mining-based growth is neither job-rich nor inclusive. It makes the economy highly vulnerable to external shocks and does not provide a basis for sustainable economic development. The rapid growth during the years preceding the crisis did not create much productive employment, nor did it result in any significant reduction of income poverty. Employment increased by a mere 11 per cent between 2003 and 2008 despite 65 per cent growth in GDP. Income poverty remained high at over 35 per cent, while income inequality increased. A most worrying aspect of the pattern of growth has been the lack of reconstruction of the manufacturing sector, which accounted for less than 5 per cent of GDP growth between 2003 and 2009.<sup>107</sup> There are several reasons why economic diversification and more broad based and job-rich growth, in which the manufacturing sector needs to play a much larger role, are important.

First, the reliance on mining as a growth engine and on the services sector as a source of employment creation results in low quality growth that is neither conducive to productive job creation and poverty reduction, nor sustainable. As the present crisis has shown, it also makes the Mongolian economy highly exposed to the impact of external economic crises.

Second, unbalanced growth results in a lop-sided or even mono-occupational labour market which, in combination with traditional gender-based differences in occupational patterns, is likely to exacerbate gender imbalances in access to productive employment and decent work as well as earnings.

Third, a diversification of Mongolia's exports and a gradual shift towards more processed goods

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<sup>106</sup> ILO: *Report of the committee for the Recurrent Discussion on Employment, International Labour Conference, 99<sup>th</sup> Session*, Geneva, June 2010.

<sup>107</sup> Per Ronnas, *Challenges for achieving inclusive job-rich growth in Mongolia*, A paper prepared by the ILO for the National Employment Conference in Mongolia, Ulaanbaatar, October 14, 2010; <http://unstat.org/unsd/snaama>

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with a higher value added in total exports is needed to make growth sustainable. Manufacturing has to play a key role in such a development.

Indeed, sustainable and job-rich economic development will require a continuous productive transformation of the economy characterized by the adoption of more sophisticated technologies and knowledge, economic diversification and a move to the production of goods and services with a high value added content. This needs to be linked to a continuous accumulation of knowledge and capabilities necessary for development at the individual level as well as within enterprise and embodied in institutions at the national level. Sustainable job-rich economic development requires that the development of capabilities for development and their use in the pursuit of productive transformation should go hand in hand. This requires a comprehensive development strategy that brings together a strategy for human resources development and technology with industrial policies.

Thus, a main challenge ahead will be to shift the development path in Mongolia from one based on natural resources to one based on and driven by human resources. This in its turn calls for a focus on productive employment and decent work at the heart of development planning. It will require increased economic diversification and broad-based economic development, sector-wise as well as regionally. To achieve this change, two main challenges need to be addressed: competitiveness and inclusiveness.

*Excessive geographic concentration of economic development.* A very dynamic development of the capital city - Ulaanbaatar - and a few mining centres contrasts sharply with the economic stagnation in the countryside. The problems of rural development are exacerbated by the very great vulnerability of the herders, who make up the majority of the rural population and about one third of the total population, to the vagaries of climatic factors as well as to volatile commodity prices (primarily cashmere). The harsh winter of 2009, which resulted in massive losses of animals and in destitution on a large scale, was a poignant reminder of the harsh living conditions and extreme vulnerability of the herder population. The effects of climate change and desertification are also increasingly felt, posing a long-term threat to the livelihood of the agricultural population.

Indeed, the most important differences when it comes to productive employment opportunities in Mongolia are arguably along geographic lines. Those growing up and living in rural areas and, to a somewhat lesser extent, in soum and aimag centres are disadvantaged in terms of education as well as skills as well as access to productive employment opportunities. This, in its turn, is reflected in increasing income inequality and differences in standards of living between the capital and the rest of the country. Addressing the problem of rural and regional development is essential for reducing poverty and inequality in access to productive employment. The ambition should be to achieve sustainable and job-rich growth in the country as a whole.

*Creating equal opportunities to access productive employment for women and men.* During the socialist period Mongolia made considerable progress in achieving gender equality on the

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labour market. Widespread access to child care facilities and generous maternity leave benefits made it possible for many women to combine labour market participation with reproductive work. There was also a policy of breaking down occupational stereotypes and of equal pay for the same jobs. Many of these advances were lost in the transition to a market-based economy in the early 1990s. The impact on women and men of the transition differed. As access to affordable day care for children disappeared and public social services, where many women had found employment, were drastically scaled down, many women lost both the ability (in terms of availability of time) and the opportunity to work and withdrew from the labour market back into a more traditional role of reproductive and household work. At the same time, an increased pressure on men to live up to the role of income providers in a situation where the labour market for wage employment all but collapsed led to acute stress, resulting in increased alcoholism and a sharp increase in the mortality of middle-aged men. As Mongolia recovers from the recent economic crisis and sets for itself the ambitious goal of putting the country on a path of rapid, inclusive and job-rich economic development, the disconcerting trend of increasing gender-based inequality on the labour market needs to be broken. Indeed, a comprehensive strategy for making it possible for women and men to contribute to the development of the country on an equal basis and to benefit equally from the fruits of this development needs to become part and parcel of the overall development strategy.

*Fiscal stability:* During the pre-crisis years of economic growth, the fiscal system became highly dependent on revenues from the mining sector. Rapid increases in fiscal revenues from mining were translated into a rapid expansion of fiscal expenditures, as the budget was designed on an annual basis based on revenue projections for the given year. The Government did not build up any financial cushion during the boom years which would have been necessary to soften the fiscal impact of the subsequent economic crisis. The Mongolia Development Fund was established in 2007, but the revenues of this fund were largely spent on funding social welfare programmes to meet pre-election political promises, rather than as an instrument for macroeconomic stabilization. Thus, fiscal policy became highly pro-cyclical during the years of economic boom as well as during the economic crisis. The need to insulate fiscal expenditures from wide fluctuations in fiscal revenues inherent in the high dependency on revenues from mining has been clearly recognized. The Parliament has adopted a Fiscal Stability Law which imposes strict limits on increases in fiscal spending and links these to long term revenue forecasts. It has also approved the establishment of a Fiscal Stability Fund.

*Corporate governance in the financial sector:* The Mongolian financial system remains fairly rudimentary and undiversified. It mainly consists of the commercial banking system as foreign financial institutions and private external creditors and investors have yet to come to the country. Therefore, the impact of the crisis was not a direct one. The crisis hit the Mongolian financial sector through the second-round effect: by putting the banking sector at high risk of non-liquidity as a result of the increased proportion of non-performing and bad loans during the times of economic downturn. However, the suffering of the banking sector cannot be blamed on the effect of the crisis alone. Much of it had to do with the structural problems in the banking sector itself. The crisis revealed institutional shortfalls and irresponsible behaviour on the part of the banks during the economic expansion of the pre-crisis years. It manifested the

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importance of corporate governance and stringent financial regulation and supervision as critical factors for sustainable development.

*Informality on the labour market:* Among those hit hardest by the economic crisis were the informal workers and the poor, who lacked access to productive employment and social protection. These people suffered dramatic falls in income while they had little or no access to social protection. A comprehensive approach is needed to achieve a formalization of the informal economy and this need to be an integral part of development policies. Extending social protection to the poorest and to the herders in a targeted fashion, including income support during the times of economic and natural crises, must continue to be a priority.

*Importance of social dialogue at times of crisis and recession in the labour market:* Timely social dialogue served as an important vehicle for the collective response to the crisis. The speedy adoption of amendments into relevant legislation came as a result of social dialogue.

*Monitoring the impact of economic crisis on the labour market:* The economic crisis highlighted the need for the social partners to further develop tools and mechanisms for monitoring the impact of economic crises on the labour market and to agree on the specific roles of the different partners in monitoring.

*Understanding the impact of macroeconomic policies on the labour market:* Macroeconomic policies have a strong bearing on employment, not least through their influence on competitiveness. Yet, these policies are seldom analysed and assessed from these perspectives. Macroeconomic policies should be brought in harmony with other development policies, such as employment and industrial policies, and aligned to the overall objective of achieving sustainable job-rich and inclusive economic development. This is particularly important as Mongolia faces the formidable challenge of shifting from growth based on natural resources to economic development driven by human resources and to using natural resources for the creation of human well-being based on productive employment and decent work.

### **III.1 Policy coordination, coherence and cooperation between government ministries**

Since policy relating to employment creation and social protection is developed and implemented by various government ministries and agencies, improved policy coherence and coordination would enhance crisis response. If job-rich recovery and growth are to take place, employment must be at the heart of economic and social policies. The ILO's Global Employment Agenda whose principal aim is to make employment central in economic and social policy making in order to create more and better jobs, was adopted by the ILO's Governing Body in March 2003 with strong tripartite consensus and support.<sup>108</sup> This implies *inter alia* that core macroeconomic policies including the fiscal, monetary and exchange rate policies should be geared to contribute to the goal of full and productive employment and decent work for all,

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<sup>108</sup> ILO (2003), *Global Employment Agenda*, (Geneva, ILO).

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including women and young people. In a situation where international competitiveness is being undermined by the macroeconomic impacts of a heavy reliance on mining and export of minerals, it is important that enhancing competitiveness is made a main objective guiding the use of macroeconomic tools, such as monetary and exchange rate policies. This would require a broadening of the objective and a move away from a singular focus on meeting inflation targets.

Regarding monetary and exchange rate policy, there is no evidence that decent work and employment creation are integrated as policy goals, or that employment impact assessments to evaluate policy are carried out. Policies may hinder employment creation.

The National Development and Innovation Committee has an overall responsibility for the formulation of national development policies and strategies and reports directly to the Prime Minister. Several ministries share the responsibility in the areas of skills development, employment promotion and support to SMEs. The coordination of the work of different ministries is crucial to increasing the impact of government programmes. Under the relevant laws, a number of National Councils have been established by Government resolutions to function as coordinating bodies attached to respective ministries. These ministries administer funds such as the SMEs Development Fund (MAFLI), Employment Promotion Fund (MSWL) and Vocational Education and Training Support Fund (MECS). There are individual agencies under each Ministry to implement the respective policies, such as the Small, Medium Enterprises Department under MAFLI, Employment and Social Welfare Agency under MSWL, and Vocational Education and Training Agency under MECS. There is no overarching coordination mechanism for these bodies. The National Employment Council's function does not cover this level of coordination, and the government representatives in the composition of the Council do not include MAFLI, a very important Ministry in all aspects of jobs, rural workers, and SME development. At the capital city and provincial level, sub councils of the above mentioned national councils are established.

The coordination of these funds for greater impact at the local level is a critical concern. Policy coherence also implies that workers and employers need to have the capacity to engage in policy debates at the national and sub-national level. Ensuring that workers' and employers organization have such capacity will require strategic and targeted training as well as an increased availability of data and information.

### **III.2 Policies that promote efficient and well-regulated trade, and markets that benefit all and avoid protectionism**

Mongolia has been committed to the development of an economy based on the principles of an open market economy ever since the collapse of the socialist system in 1990. Remaining shortcomings in the functioning of markets for production factors, goods and services primarily reflect the extraordinary difficulties associated with the development of an adequate institutional, legal and regulatory framework for a market economy and the friction on market transactions imposed by huge distances and a sparse population.

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Mongolia became a member of WTO in January 1997. Mongolia's trade relations with the rest of the world are governed by the instruments of the WTO and the commitments it accepted as terms of accession to that organization. Indeed, Mongolia has applied a trade and investment regime that in many respects has been more liberal than required by WTO. It has participated actively in the Doha Round of multilateral trade negotiations, where it has acted in alliance with like-minded countries to attain trade objectives that would be more difficult to obtain in a bilateral context. Mongolia has submitted proposals in concert with other members on issues crucial to its own economy, notably trade facilitation, aimed at tightening the WTO rules governing freedom of transit, and with the members of the G33 grouping to obtain greater flexibility in the agricultural trade regime to further rural development and food security. Mongolia has also supported the efforts to reduce the massive subsidization of agricultural production and trade.<sup>109</sup>

Mongolia is also working towards establishing Free Trade Agreements with neighbouring and trading partner countries:

- Mongolia and China are in the early stages of discussions on a free trade agreement between the two countries. As reported by *China Daily*, China has initiated feasibility studies for a free trade agreement with Mongolia to further strengthen bilateral trade ties between the two nations. China is actively seeking equity investment in Mongolian companies for minerals like iron ore, zinc and lead and looking to diversify its cooperation in sectors like telecommunications, environmental protection and high-tech.<sup>110</sup>
- During the state visit of the Mongolian President to Japan in November 2010, it was announced that the Japanese Government would officially begin negotiations with the Government of Mongolia on conclusion of the Intergovernmental Agreement on Economic Partnership. The agreement is equivalent to a free trade agreement and is to regulate trade issues and free financial-service flow between banks of the countries. Since 2009, both sides have actively explored the possibility to conclude this agreement. A working group comprised of expert in the public and private sectors of the two countries has been established<sup>111</sup>. Official talks are expected to start in 2011.
- During the official visit of the Mongolian Prime Minister to Russia in December 2010, an agreement was reached to work towards a free trade agreement between the two

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<sup>109</sup> UNDP, *Trade Policy and Human Development in Mongolia* (Ulaanbaatar, 2008).

<sup>110</sup> Article by *China Daily*, posted at <http://www.bilaterals.org/>, 12 May 2010. The bilateral trade between the two countries reached \$2.4 billion in 2009, 50 times higher than 1991 and accounted for 47.4 per cent of Mongolia's total foreign trade. China is the main importer of mineral products from Mongolia and it has speeded up its cooperation with Mongolia in the natural resources sector given its huge domestic demand. Chinese companies' investment in Mongolia, especially in mining and oil exploration, has grown rapidly in recent years. The total capital invested by Chinese companies last year in Mongolia was 7.9 times higher than a year earlier and stood at \$120 million spread over 4,000 projects.

<sup>111</sup> Mongolian News agency MONTSAME, <http://www.montsame.mn/>, 17 November 2010

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countries, and to establish a working group in the first half of 2011.<sup>112</sup> This is particularly important as Russia is not yet a member of WTO.

- Mongolia is seeking to join the Asia-Pacific Economic Cooperation forum (APEC). Mongolia is an observer in the Shanghai Cooperation Organization (SCO), but has stated that it does not intend to seek membership.

The Law on Free Trade Zones was adopted in 2002 to support the development of trade, industry agriculture and tourism. Subsequently, the Law on Altanbulag Free Trade Zone was adopted in 2002 and a Law on Zamiin-Uud Free Economic Zone was adopted in 2003. However, little progress has so far been made in developing these zones. The government has budgeted MNT 4.1 billion in 2011 to construct infrastructure for the free trade zone in Altanbulag.

According to a USAID sponsored analysis,<sup>113</sup> the following have been observed with regard to the Government's Free Trade Zone (FTZ) Programme:

- Benchmarking of Mongolia's FTZ Program against current successful international practices shows deficiencies in the legal and regulatory framework as well as in the process being followed to establish FTZs in the country.
- A lack of implementing regulations and procedural definitions encapsulated in a transparency and predictability quotient required to implement key international best practices.
- A process of due diligence, including a cost-benefit analysis, has not been completed for the proposed Zamyn-Uud FTZ.
- Identifiable funding is not in place to meet off-site infrastructure requirements for Zamyn-Uud and Altanbulag sites.
- Deviations from international best practices in the process of launching FTZs risk repeating mistakes made in other countries and may lead to hidden costs or the provision of subsidies that the Government of Mongolia did not foresee or which will have to be granted at the expense of other high priority needs.

### **III.3 Policies, including industrial policies, that enhance economic diversification**

A main lesson from the past decade is that Mongolia needs to move away from an excessive dependence on the extraction and export of natural resources in order to achieve job-rich, inclusive and sustainable economic development. This will require economic diversification and a broad-based economic development, sector-wise as well as regionally. To achieve this,

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<sup>112</sup> TV interview with the Minister for Foreign Affairs, Mongolia by MNTV, 17 Dec 2010

<sup>113</sup> USAID sponsored Economic Policy Reform and Competitiveness Project (EPRC): <http://www.eprc-chemonics.biz/>, 2004, cited in 2010 Mongolia Investment Climate Statement, U.S Embassy in Ulaanbaatar, Mongolia, 2010.

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special attention needs to be given to the development of manufacturing and the challenges of competitiveness and inclusiveness need to be addressed.

It would appear that Mongolia's competitiveness deteriorated during the past decade from an already difficult situation. Manufactured exports fell from an already very low level, while imports of manufactured goods increased rapidly. By 2007 imports of manufactured goods were ten times larger than exports. Lack of competitiveness was a main factor behind the weak performance of the manufacturing sector, which in turn was a main reason behind the very slow growth of productive employment. Real wages in manufacturing increased at a much faster pace than productivity after 2005. Competitiveness was also undermined by a significant increase in the value of the Tugrik compared to other currencies, primarily due to a rapid increase in the inflow of foreign exchange originating from the mining sector. The value of the Tugrik fell significantly as the economic crisis hit the country, but rapidly appreciating again since the end of 2009.<sup>114</sup>

The Government recognizes that reliance on market forces alone will not suffice to achieve more broad-based and job-rich economic development. The 'National Priorities for Economic and Social Development for 2010-2015' developed by the Government for adoption by Parliament clearly articulates the need for forceful policies for industrial and technological development and development of the country's human resources. Intensification and modernization of agriculture, not least animal husbandry, and implementation of an industrial policy is one of five priority areas identified in this strategic document. The main foundation of the strategy is a rapid expansion of the country's rich natural resources. Revenues from mining are expected to play a major role in funding a modernization of the economy. The challenge of increasing competitiveness and of avoiding falling victim to a 'resource curse' is clearly recognized. Thus, investments in human resources and a move to a high technology based society and economy are recurrent themes throughout the document, as is the need for policies in support of economic diversification, export promotion and import substitution. With a strong and active role of the state and support for development engineering, the strategy represents a significant shift from earlier plans, which ascribed a rather more minimalistic role to the state and prescribed liberalization, privatization and macroeconomic stability as more or less sufficient prerequisites for economic development.

The revised Employment Promotion Law has been drafted and submitted to Parliament. Employment Promotion Laws are typically pursued at times when concerted action among a wide range of government agencies and labour market operators (employers and workers) is paramount to deal with a new economic environment which urgently requires a "reconfiguration" of employment patterns. These laws tend to be both detailed and wide-ranging. It needs to be noted that, in keeping with Convention No.122, all Employment Promotion Laws are based on the principle of free choice of education, training and employment. This is one aspect illustrating that an employment promotion law in itself does

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<sup>114</sup> The value of the Tugrik fell from 1,150 MNT per USD in November to 1,450 at the end of 2009, but has since then increased and was by march 2011 almost back to the pre-crisis level in nominal terms.

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not amount to an employment policy: while the policy often and legitimately consists of a wide range of incentives and facilitating institutions to steer women and men towards certain types of training and employment, the law must guarantee that the choice is ultimately an individual one.

A State Policy on High Technology Industry was adopted in June 2010, charting the road for the development of a high technology industry as a way a transforming Mongolia from an agrarian and mining based country into knowledge based country, diversifying the economy and improving competitiveness. It stresses the need to develop biotechnology, nanotechnology, information technology and electronics.

Other recent supporting government plans and programmes include the State Policy on Herders, adopted in 2009, the Mongol livestock national programme (2010-2021) adopted in May 2010, the Reviving Agriculture III national programme (2008-2010), the Mongolia Industrialization Programme (2009-2016) adopted in September 2009, and the Directions for Developing Industry in the Regions, adopted in June, 2009.

#### **III.4 National supervisory and regulatory framework for the financial sector**

*Safeguarding deposits.* The economic crisis in 2009 cast stark light on regulatory and institutional weaknesses in the financial sector, not least through the bankruptcy of two main banks. A series of structural reforms aimed at eliminating those weaknesses were made part of the crisis recovery programme. A Law on State Guarantees of Individual and Business Savings was swiftly passed by Parliament in 2009 to restore public confidence in the domestic banking system and to forestall the risk of mass withdrawal of deposits as a result of loss of confidence in the banks.

The law was revised in July 2010 to oblige the banks to deposit in Mongol Bank a premium equal to 0.5 per cent of individual cash savings guaranteed under the law, and to exclude certain categories of savings and deposits such as those brought from inter-bank markets and foreign banks and financial institutions and the interest of the loans released with the rates higher than the Central Bank's policy rate.

*Restoring bank liquidity:* During the crisis the share of non-performing and overdue loans increased to MNT 583.7 billion, that is 22 per cent of the total outstanding loans of the domestic banking sector. This very high level put the banking system at high risk. To restore the liquidity of banks, the Mongol Bank extended loans directly to seven commercial banks.

In 2009 the total assets of the domestic banks increased by 22 per cent as compared to 2008. However, this growth was primarily turned into foreign reserves rather than into domestic lending.<sup>115</sup> Domestic lending did not grow in 2009 as the banks focused on consolidation and on increasing their reserves through the purchase of foreign currencies or Mongol Bank bonds.

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<sup>115</sup> Mongolian Financial Market: Report of the second half of 2009, B. Tuvshintugs, MNU

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*Special measures to address the hardships encountered in the banking and construction sectors:* The Government's resolution of 14 October 2009 concerning measures to facilitate the financing of apartments for public servants also served to address liquidity issues and the financial difficulties in the construction sector. The resolution created a long-term loan facility for the purchase of apartments by public officers through the sale of government bonds equal to up to MNT 180 billion.

*Improving the regulation and supervision of the financial sector:* A revised Banking Law was adopted on 28 January 2010 replacing the law of 1996. The revised Banking law and related amendments into the Law on Central Bank (MongolBank) aimed at tightening the regulatory and supervisory mechanism for the financial sector.

### **III.5 Policies that contribute to building adequate social protection for all**

The extension of social protection is a first line of defence in the context of economic crisis. The stabilizing impact of providing basic social protection to workers and their families affected by job losses and the risk of poverty should be emphasized. Social transfers have proved to be an effective means to combat poverty and reduce the social security coverage gap.

ILO's approach to the extension of effective social security coverage consists of a two-dimensional strategy: extension both horizontally and vertically. The horizontal dimension should consist of the rapid implementation of a national *Social Protection Floor (SPF)*, i.e. a minimum package of transfers, rights and entitlements that provide access to essential medical care and offer sufficient income to all in need of such protection. Building a social protection floor requires that essential services are available and that the entire population, especially the poor and the vulnerable, have access to those services. Provision of social transfers in cash or in kind can increase people's ability to access these services. Access to basic health care may be enhanced through a subsidized health insurance scheme. Providing minimum income security to the poor helps them meet many of their basic needs.

The vertical dimension of extension seeks to provide higher levels of social security – at least in line with the coverage and benefit requirements of the ILO's Social Security (Minimum Standards) Convention, 1952 (No. 102) or more recent Conventions providing for higher levels of protection.

The metaphor that has emerged is that of a "social security staircase" as illustrated below. As economies grow and fiscal space is created, social protection systems can and should move up the 'staircase', extending the scope, level and quality of benefits and services provided.



**Figure 1 Social security staircase**

The SPF is part of the overall social security framework of a country. It builds on existing social protection mechanisms that are already in place. Taking into account the financial constraints facing the country, it is recommended that a basic and modest set of social security guarantees, such as the four essential guarantees described below, be put in place first:

1. All residents have access to a nationally defined set of essential **health care** services;
2. All children have income security, at the level of the nationally defined poverty line level, through **family/child benefits** aimed at facilitating access to nutrition, education and care;
3. All those in active age groups who are unable to earn sufficient income on the labour markets should enjoy a **minimum income security through social assistance**, social transfer schemes or through employment guarantee schemes;
4. All residents in old age and with disabilities have income security at least at the level of the nationally defined poverty line, through minimum **pensions for old age and disability**.

Mongolia introduced a social insurance scheme in 1993. Its main policy thrust was to mobilize additional resources for the health sector and to provide financial protection for the low-income and vulnerable population. Coverage rates are high among most population groups – averaging 77.3 per cent for the total population in 2008,<sup>116</sup> thanks to extensive public subsidies for specific categories. Nonetheless, private households still bear significant out-of pocket payments, amounting to 33 per cent of total health expenditure. It is important to consider what specific assistance might be needed for households shouldering a heavy financial burden due to increased medical expenditure for family members, for example, those living with HIV.

The priority policy concerns are related to establishing a consolidated system of social welfare and essential services, reconsidering the 1999 pension reform, and extending social security coverage to herders and women and men working in the informal economy. Increasing the pension coverage is to be complemented with the measures planned under the Human Development Fund.

<sup>116</sup> ILO: *World Social Security Report: Providing coverage in times of crisis and beyond*, pp. 78-79.

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According to the Household Socio-Economic Survey 2007-2008, public transfers reach almost nine out of ten households in Mongolia, making up a bit more than a fifth of the consumption of the recipient households. The two largest public transfers have been pension and child allowance. Pensions made up 41.5 per cent of the consumption of recipients, while child allowance made up 6.7 per cent.<sup>117</sup>

Following the political and economic reform undertaken in the early 1990s, the old-age pension system eventually moved away from social insurance principles and was converted into an individual account regime (IA) in line with advices and assistance provided by the international financial institutions, notably the ADB and the World Bank. Nevertheless, the IA system has remained unsupported by an invested fund, becoming a considerable concern to the members. For the Government, the effective level of IA pension, now predicted to represent a replacement rate of as low as 20 per cent of the reference income and scheduled to fall due for payment from 2015 onward, would have multi-dimension diastal implications. It was in that context that MSWL requested the ILO to assist it to “identify most optimal options” for the country. *‘A review of the 1999 pension reform’* was consequently conducted by the ILO with policy recommendations as summarized below:

- Developing a multi-tier structure for old-age income security.
- Implementing a universal pension for all persons above the specified pensionable age as a basic guarantee for old age income security by transforming the existing minimum pension and social welfare pension.
- Re-establishing the individual account (IA) scheme on an acknowledged notional defined contribution basis, financed on “pay as you go” principles rather than pre-funding requirements, together with considerations given to parametric adjustments such as:
  - Extending the coverage by means of such contribution subsidies as are needed;
  - Enforcing compliance and improving the general administration by addressing a range of capacity needs;
  - Increasing the IA pension level;
  - Aligning the retirement age between women and men and progressively raising the age of retirement;
  - Tightening early retirement policy; and
  - Replacement (gradually) of government subsidies by an increased contribution rate.

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<sup>117</sup> NSO (2009). *Poverty Profile in Mongolia*, Main Report of “Household Socio-Economic Survey” 2007-2008 (Ulaanbaatar: NSO) pp.46-47.

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- Promoting active social dialogue among the tripartite partners and building up the necessary capacity for management and supervision of the pension system to ensure probity and transparency.

In fact, a national strategy for ultimately achieving the goal of social security for all has yet to be fully developed. This should be done in close linkage with the development of a national employment strategy.

Recognition by the government and the social partners of the importance of occupational safety and health has been growing in recent years. In 2008, an occupational safety and health law was adopted and relevant regulations were put in place by the MSWL. A national tripartite occupational safety and health sub-committee was established as well as provincial and UB city committees. Occupational Safety and Health (OHS) training and prevention programmes are funded by the Occupational Injury and Diseases Insurance Fund. Efforts are being made to introduce the OSH management system, notably by MONEF which has established a training unit on OSH management system. The National Occupational Safety and Health Programme has been implemented in three phases.

Nonetheless, further work needs to be done. National occupational safety and health standards need serious review and the OSH training and research system needs institutional strengthening and capacity building. There is a need to improve data collection and analysis, including data on vulnerable groups and informal workers, and to extend OSH information and training to them. Targeted programmes are particularly needed for such high risk sectors as mining and construction, which are currently responsible for the majority of occupational fatalities. Growing cooperation by the social partners to raise awareness of workplace risks, to monitor safe work methods in the workplace, and to put in place OSH management systems would greatly enhance the impact of OSH programmes. The issue of asbestos, which is commonly used in construction, needs to be seriously addressed.<sup>118</sup>

### **III.6 Policies that ensure that young women and men have the appropriate education, skills and opportunities to participate in the economy**

Young women also find it more difficult to get a first foothold on the labour market than the young men do. The transition period between leaving school and obtaining the first job is somewhat higher for girls than boys and among those aged 20-24 some 22 of the women are inactive in the sense that they are neither in education nor in the labour force as against 13 per cent of the men.<sup>119</sup> On the other hand, young women are somewhat more likely than the young men to obtain wage employment.<sup>120</sup>

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<sup>118</sup> This issue was raised by a participant in the tripartite meeting on the evaluation of the Third phase of the National OSH programme (2005-2009), 2010.

<sup>119</sup> UCW (2009:36). Figures are from the 2006/07 labour force.

<sup>120</sup> Some 27 per cent of the women aged 15-24 and in the labour force had wage employment in 2006/07 as against 23 per cent of the men (UCW [2009: 40]).

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The mid-term five year draft plan of Mongolia (National Priorities for Economic and Social Development for 2010-15) identified human development as one of its five priorities. The country's goal is to encourage more investments in human resources so that they are able to move to a high technology based society and economy.

Mongolia needs a well educated and highly skilled workforce and to link this to innovation and technological development. Under the same Plan, it is envisaged that a Plan for National Human Resource Development will be developed and an agency be responsible for implementing and coordinating the policies and programmes.

While significant progress has been achieved in the education and training sector, educational disparities still exist in relation to the MDG and EFA goals. There is a need to draw attention to the education of girls and women. Gender disparities exist at the different levels of education. For instance, in higher education there are almost two female students for every male student.

Among the common problems in the education system are: (1) The lack of universal coverage and access to education for all children, adolescents and young adults in both urban and rural areas; (2) limited opportunities to access the labour market due to the quality and relevance of the educational programme; and (3) lack of an integrated multi-sectoral strategy and inadequate resource allocation to enable the education system to meet actual and emerging challenges.

In the Technical and Vocational Education and Training (TVET) sector, there is a serious mismatch between the skills produced and the skill demands from the various sectors of the economy. There is no comprehensive policy and strategic framework able to promote demand-driven TVET and linkage and partnering with the private sector to ensure better skills standards, quality and relevance of the training programmes. In one of the studies on the current situation of TVET, it was revealed that (1) the system does not provide adequate supply of the necessary qualifications to the labour market; (2) TVET has low status; (3) institutionalized guidance for school leavers is absent; (4) relevance of the formal education sector to the labour market is low; and (5) there is a prevailing shortage of advanced training institutions for post TVET system occupations.<sup>121</sup> It is suggested that efforts need to be made explicitly to recruit and retain vulnerable populations to provide them with economic alternatives and wider livelihood options.

Still, in recent years significant progress has been achieved in the education sector, in particular with regard to improving infrastructure, providing more child-friendly schools and utilizing a competence-based curriculum.

The Mongolia Education Sector Master Plan (2006-2015), which was developed on the basis of some earlier work on the EFA Action Plan, focuses on the issues of access, coverage, quality and content. The Master Plan places high priority on the expansion of the school system from an 11 year to a 12 year system to conform to common standards of general secondary education

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<sup>121</sup> GTZ (2006). Review of Vocational Education and Training in Mongolia.

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throughout the world. In line with this development, measures need to be undertaken to renew the content, standards, curricula, and textbooks, to increase supplies of instructional materials and equipments, and to introduce computer technology and ICT-based training and re-training of teachers.

The Pre-School legislation of 2008 provides for free universal pre-school. This legislation resulted in the increase of the primary school completion rate to 98.4 per cent versus the 87 per cent target and the introduction of alternative pre-school education services. In line with this law, a National Framework on Education for Kazakh children was adopted which recognized the need for bi-lingual education strategies for Kazakh children and other ethnic minority children.

The Law on Technical and Vocational Education and Training was passed in Parliament in February 2009. This law approved training institutions and connected the TVET schools with the labour market and formed a social partnership.<sup>122</sup> Thanks to the shift to a 12-year education structure and development of a new curriculum, more focus will be given to skills-based education. With increased budgetary allocations for the TVET sector, this has made the sector more attractive to high school graduates, because they are provided financial support in the form of a monthly stipend for enrolment in TVET institutions. However, measures to improve TVET to a more demand-driven approach need to be undertaken.

Since the Education law and regulations have been passed and /or amended, new educational standards have been put in place for pre-school and basic education. At the same time, a quality accreditation system has been introduced in higher education institutions. Still, there are challenges faced by the education sector in the areas of access and coverage, quality and relevance, gender issues, management, governance and finance.

### **III.7 Policies that address informal employment and promote the transition to formal employment.**

The informal economy in Mongolia includes both the large herding population and informal non-agricultural activities. The size of the informal economy in Mongolia is difficult to estimate due to the absence of an official definition, but data from labour force surveys indicate that the share of informal activity in non-agricultural employment has declined from 27 per cent during 2002-03 to 21 per cent during 2008-09.<sup>123</sup> Regional variations are significant, ranging from a mere 5 per cent of the non-agricultural labour force in the Eastern Region to approximately half in Ulaanbaatar.<sup>124</sup> Women held 41 per cent of the informal jobs during 2008-09, as against 45 per cent in 2002-03. In rural areas, jobs are related to both herding and non-herding activities. Often herders and farmers supplement their incomes with revenues from subsistence activities and commercial production.<sup>125</sup>

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<sup>122</sup> Mongolia's Vocational Education and Training System and its Accreditation Experience 2009

<sup>123</sup> Labour force surveys of 2002-03 and 2008-09.

<sup>124</sup> Defined as non-agricultural informal employment.

<sup>125</sup> Pastore F. (2008), "School-to-Work Transitions in Mongolia", *Employment Working Paper n°14*, Employment Sector, (Geneva,

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The bulk of informal economy workers are women and men with little education or formal training in the areas that generate their incomes. Only about one-eighth of informal non-agricultural businesses have ever borrowed money, compared to one-third for formal small businesses. Associational activity is low in Mongolia, with more than 98 per cent reporting that they are not involved in business associations.<sup>126</sup>

The Policy of the Government of Mongolia on Informal Employment (2006) aims at formalization through the provision of government services to the women and men engaged in informal employment and the creation of legal, economic, labour and social protection guarantees to protect informal economy workers from any risks. The Policy is rather comprehensive and includes macroeconomic strategies, sectoral policies, financial services, and business support.<sup>127</sup> Its five pillars are:

1. Macroeconomic and sectoral policies, namely **land reform** to ensure either land ownership, proprietorship or utilization rights of informal economy workers; improved **credit policy** to diversify supply and increase loan opportunities; enhanced **insurance services** to protect property and credits of informal economy workers; flexible **taxation policy** and revised income policy to promote formalization; improved **statistical information** on informal economy workers; **investment policy** to raise technical and technological levels in the informal economy and increase collaboration between formal and informal enterprises.
2. Improvement of the legal framework to ensure the rights of informal economy workers. This encompasses reform of labour legislation, putting in place a legal environment supporting the establishment of representation and the organization of informal economy workers, expansion of labour inspection.
3. Involvement of targeted women and men working in the informal economy into employment promotion services, starting with the implementation of the flexible employment policy, targeting older workers, female-headed households, people with disabilities, enhancement of training for entrepreneurship targeted at vulnerable groups, development of business services and IT means to gain market knowledge.
4. Social protection for informal economy workers – improvement of working conditions, expansion of social insurance to informal economy workers, support for voluntary social insurance schemes and micro networks.

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International Labour Office).

<sup>126</sup> Dorligjav B. (2009, *op.cit.*).

<sup>127</sup> See unofficial translation of the Policy of the Government of Mongolia on Informal Employment, 2006.

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5. Using social dialogue to support the transition to formal employment through the support to employers', workers' and other organizations representing informal economy workers, inclusion in tripartite negotiations of informal economy representatives, ratification of treaties and conventions.

The first action plan to implement this policy covered the period 2006-2008 with limited results. Even though a number of activities were implemented in the areas of upgrading informal enterprises<sup>128</sup> and exercising decent work concepts, the situation could have improved much more if the government had put in all the efforts necessary to implement its strategy and supervise the regulatory system. Indeed, the number and scope of informal enterprises has in fact increased. Moreover, the global economic crisis seriously affected the informal economy as economic uncertainty had a stronger impact on vulnerable groups and on women and men engaged in informal enterprises than on others.

In early 2009 the following objectives were defined for the year based on an evaluation of the labor market implementation plan for 2008: Creating new jobs, reducing poverty and developing SMEs. The main implementation methods suggested included business development (incubators), practical training in manufacturing and microcredit services. Nonetheless, it appears that the main focus of the government during the crisis was to protect the interests of the bigger formal enterprises. There was much hesitation with regard to undertaking any action and committing resources for the most vulnerable in the informal economy. Informal entrepreneurs could have been given an opportunity to participate in the actions specified in the action plan of the government on overcoming the economic crisis, approved by the Parliament on 3 March 2009, such as the provisions to stimulate domestic food production, improve the food supply, encourage small and medium size enterprises, preserve and create jobs, etc.

A national review of the informal economy was organized by the Ministry of Labour and Social Welfare in June 2010, leading to the adoption of an action plan for the informal economy for the period of 2010-2012. Recently several NGOs have established the United Confederation of the Informal Economy, initiating some level of organization of informal workers. The new Confederation will, however, need capacity building to implement its mandate.

A long term solution to the problem of informality requires a fundamental change in the nature of economic development and a diversification of the economic base. This will require the development of agro processing, of manufacturing in areas where Mongolia has a comparative

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<sup>128</sup> 2010 was announced as the year for "Business Environment Reforms" and measures taken to review relevant legal provisions and to eliminate the unnecessary regulations and bureaucracies in consultation with business sector and NGOs and to shift the public services to the private sector and citizens to the "one-stop" services. The Ministry of Food, Agriculture and Light Industry announced its policy on improving the small and medium size enterprises soon after the government had announced 2009 as 'Enterprise Promotion Year'. One of its main pillar was to develop 16 types of industries on the basis of local characteristics and public demand. Among these industries were production in animal protein and leather, hog and poultry farming, grain and flour mills, cement, fixtures, iron and glass processing industries, forest clearing and non-polluting fuel industries.

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advantage (such as quality textiles), and services in general. Livestock herding and the informal economy are linked insofar as rural development will reduce migration flows to urban centers, and both have absorbed large numbers of unemployed women and men and new entrants during the transition period. Given its important role in the Mongolian economy, the livestock sector should be given high priority and not merely be appended to an employment strategy for the informal economy. 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.<sup>129</sup>

### **The ILO response**

Since 2002 an overarching framework for the ILO's work on the informal economy has been set in place through a number of Resolutions, notably the Resolution on Decent Work and the Informal Economy adopted in that year by the International Labour Conference (ILC). More recent ILC Resolutions have made specific recommendations with respect to the informal economy, such as the promotion of sustainable enterprises (2007), rural employment for poverty reduction (2008), skills development (2008) and gender equality (2009).

The 2002 Resolution proposed a comprehensive tripartite platform for action composed of representatives of government, employers' and workers' organizations of all ILO member States and called for all action addressing decent work deficits in the informal economy to take the diversity of informal work into account.

In subsequent policy discussions, ILO constituents have reconfirmed the objective of "moving out of informality" as the ultimate goal. They recognize that there are many ways of making the transition to formalization easier, and that formalization is a gradual process cutting across several policy areas.

The Global Jobs Pact adopted by the ILC in 2009 recognizes informal economy workers amongst those particularly vulnerable to the global financial and economic crisis and proposes policy measures to mitigate its impact and to speed up recovery. These include the implementation of employment guarantee schemes, targeted employment programmes, public works, support to micro- and small enterprises and the promotion of a social protection floor.

The ILO's approach to the informal economy is thus an integrated one. Its programme is organized around three principles:

- a more systematic approach by all ILO programmes to deepen their understanding and work with respect to the challenges of the informal economy;
- an integrated and coherent perspective to analyse and support the transition to formality across the four decent work objectives; and
- responsiveness to the diversity of local demands.

Source: [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/documents/publication/wcms\\_140951.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_140951.pdf)

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<sup>129</sup> Morris E. (2001), *The Informal Sector in Mongolia: Profiles, needs, and strategies*, (Bangkok: International Labour Office); and Morris E. and O. Bruun (2005), *Promoting employment opportunities in rural Mongolia: Past experience and ILO approaches* (Bangkok: International Labour Office).

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The 2006 Policy on the informal economy is comprehensive and covers several of the general approaches that have proved to be effective worldwide. For the short to medium term implementation of the Policy, the Government of Mongolia could consider the following elements:

(a) taking stock of the first phase implementation report and carrying out activities that are still relevant, but which were not implemented under phase I

(b) Incorporating strategies for employment promotion, job creation, and the informal economy into development plans and macroeconomic policies by:

- Promoting a strong banking system.
- Supporting private sector development in both the formal sector and the informal economy by intensifying the activities of small business development centers and business incubators.
- Conducting a review of the tax structure focusing on the informal economy.
- Improving the system of providing titles for land and property.

(c) Reforming policies and institutions for employment promotion and income generation to make them more responsive to the needs of the informal economy 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).
- Adaptation and implementation of Training for Rural Empowerment (TREE) to enhance capacities of national and local institutions in planning, designing, and implementing community-based training and support programmes.
- Continue the implementation of integrated packages for self-employment such as the ILO's Start and Improve Your Own Business (SIYB).
- Reviewing and rationalizing laws and regulations related to business activities.
- Exploring methods of introducing new technologies into business practices.

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- 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 women and men working in the informal economy 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 economy.
  - 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 economy.
- (d) Promoting and strengthening organizations and networks among entrepreneurs and workers in the informal economy, alliances with employers' organizations and trade unions, and links with support institutions by:
- Supporting new partnerships among informal economy workers for purposes of advocacy and awareness: for example, encouraging organizations and associations of informal economy workers to undertake awareness-raising for advocacy purposes through radio and the internet.
  - Promoting links with trade unions.
  - Encouraging contacts with employer organizations.
  - Facilitating networking with NGOs.
  - Supporting efforts by women to form associations, join organizations, and create partnerships that promote their interests within the informal economy.
  - Encouraging efforts aimed at moving towards non-discrimination in all workplaces.

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*CMTU* conducts promotional activities for informal economy workers to guarantee and consolidate their labor rights, to enable them to receive social security benefits and to transit to formality. *CMTU* urges the following actions from the trade unions:

- Identify the problems facing informal entrepreneurs.
- Organize an information service on labor legalization.
- Collaborate with social partners on implementing programs to extend the legal scope of labor regulation and develop informal entrepreneurs as well as formal ones.
- Secure informal entrepreneurs' rights and encourage them to upgrade to formality.
- Encourage informal entrepreneurs to join trade unions and establish a trade union committee.
- Organize national, territorial, local and vocational training seminars, conferences and consultation meetings on the informal economy.
- Activate a legal consulting service for informal entrepreneurs on the legalization of the trade union rights, labour rights and other relevant issues.

*Source: Dorligjav 2009.*

(e) Promoting mutual savings and credit schemes and making other microfinance institutions accessible to informal economy workers – especially women by:

- Reviewing past experience with microfinance, in particular the role of the Employment Promotion Fund.
- Replicating best practices including international successes.
- Exploring systems for “collateral substitutes” including peer pressure and probation arrangements to overcome the problem faced by many women without traditional collateral.

(f) Developing practical, low-cost methods to improve safety and health conditions by:

- Conducting workplace reviews of the informal economy that raise awareness, identify problems and suggest solutions.
- Improving sanitation and hygiene in open-air markets.
- Identifying innovative measures to prevent occupational diseases, work-related accidents, and environmental hazards, especially for informal miners.
- Sensitizing policy-makers, municipal authorities, and labour inspectors on prevention and promotion.
- Implementing measures to combat the worst forms of child labour in the informal economy.

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(g) Expanding social insurance through reforms in the formal social security system 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 economy in line with international standards.
- Reviewing and publicizing existing voluntary premiums for coverage of self-employed women and men and informal economy workers.
- Studying methods of non-conventional social insurance schemes such as the ILO's Strategies and Tools against Social Exclusion and Poverty (STEP) programme for possible use in Mongolia.

(h) Developing and promoting statistical definitions and methodologies that enable the Government to collect data on the informal economy for labour market analysis and national income accounts that are internationally comparable by:

- Regularly conducting surveys of women and men working in the informal economy, preferably as part of labour force surveys with specific questions to help identify and characterize informal economy workers.
- Regularly conducting establishment-based surveys to collect data about hours, productivity, costs, wages, earnings, skills, and conditions of work.
- Ensuring comparability of labour concepts and definitions in all surveys and studies undertaken by the Government based on the definitions of labour market statistics adopted jointly by MSWL and NSO in 2009.
- 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.

### **III.8 Policies that facilitate shifting to a low-carbon, environment-friendly economy.**

Mongolia is a country beset by long, harsh winters and the heating of buildings requires almost half of the annual budget of state organizations and a roughly similar portion of individual

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household income. Reducing Mongolia's reliance on wood and coal-based fuels for household heating is paramount, not only for better public health and to reduce air pollution, but also for the overall preservation of the global environment and the reduction of harmful carbon-based greenhouse-gas emissions.

Key areas of focus include the environmental impact of growth in mining sector, combating desertification and, as part of an economic diversification strategy, linking policies to develop intensive agriculture and implant industries with the development of enterprises which safeguard the natural environment. This calls for supporting the existing structure of business incubators to foster "green enterprises", setting up credit programmes to encourage the development of certain types of "green enterprises" (maybe linked to the One Village One Product initiative) especially in rural areas, and promoting skills development (e.g. within the context of the MCA initiative) to increase the capacity to deliver on "green jobs".

The priorities of the national policy on the environment include promoting environmentally friendly technology, production and services, responsible mining, including the prohibition of mining near river deltas and in ecologically vulnerable forest zones, enhancing after-mining environmental rehabilitation, creating green parks in cities, reducing air pollution in Ulaanbaatar, protection and appropriate use of water resources, and introducing new technology and management systems for solid waste disposal, re-cycling and elimination.

The Government of Mongolia announced 2010 as the "Year of Business Environment Improvement" while the Mongolian National Chamber of Commerce and Industry (MNCCI) announced 2010 as the "Year of the Green Economy-Green Business Development". In relation to those, MNCCI and the three major banks of Mongolia, namely Khan Bank, Golomt Bank and XacBank<sup>130</sup> collaborated on efforts to support ecologically clean and environmentally-friendly businesses by launching innovative new products and services tailored for such businesses and providing financial support.

The government's development plan includes expanding the energy supply through atomic energy from 2025 to 2035. So far, six uranium deposits and 59 reserves have been identified, bi-literal discussions have been started with regard to uranium exploration, and research has started with regard to establishing a nuclear power station.

### **III.9 Policy measures, such as minimum wages, that can reduce poverty and inequality, increase demand and contribute to economic stability**

Mongolia has been actively developing policy measures which aim to improve earnings for low-paid working women and women and their families. The new minimum wage law, which has been in effect since 1 January 2011, creates a solid institutional basis for effective minimum wage fixing, with strong support from an independent technical team which will provide

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<sup>130</sup> <http://www.khanbank.com/en/52/News.html?n=109>

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comprehensive analysis of recent trends and policy implications. For the success of this new system, strong efforts will need to be made to improve the capacity of the government and the social partners to evaluate the current situation, develop policy alternatives and undertake constructive dialogue on minimum wages. It is also important to ensure that minimum wages are set to benefit low-paid workers, thus maximizing the poverty-reducing effects of minimum wages. One important positive development in this respect is that the Government, in coordination with the social partners, is developing a mid-term policy document on wages and minimum wages which secures tripartite commitments. This will certainly provide a basis for continuing to make much-needed improvements in wage policies, without being disturbed by unexpected random policy factors.

Along with this strengthened system of minimum wages based on long-term tripartite commitment, there is a need to promote collective bargaining as a way of securing a closer linkage between wages and labour productivity. Recently, given the fact that the lack of useful data and analysis had made wage bargaining more difficult, the tripartite partners expressed their interest in developing a wage guideline which would provide information on wage trends and other labour market developments (including labour productivity) and offer a range of possible wage increases. While only a guideline without statutory power, it is nonetheless expected to facilitate dialogue and bargaining between workers and employers at the workplace level. The wage guideline requires strong statistical capacity and this has been improved in recent years, particularly thanks to the ILO-supported wage structure survey in 2010.

Recognizing the importance of evidence-based decisions in wage policies, the government is considering the possibility of establishing a labour research institute which would provide technical support for minimum-wage fixing and wage guidelines.

ILO is currently providing technical assistance in all of these key areas of policy work.

### **III.10 Strategies to create fiscal space to put in place systematic, well-resourced, multidimensional programmes to create decent work opportunities and sustainable enterprises**

In the context of strategies to create ‘fiscal space’, the usual decomposition into four subcomponents, which are jointly referred to as the “fiscal space diamond” is useful. Each subcomponent measures some aspect of long-term fiscal capacity of government: fiscal balance, tax revenues, overseas development assistance, and reprioritization and efficiency of expenditures, each expressed as a percentage of GDP. In Mongolia’s case, it would perhaps not be unreasonable to expect that ODA will be declining, and fiscal space would need to be created through sound fiscal balance and tax revenues.

In the years leading up to the crisis, there was a very rapid rise in fiscal revenue of 60 per cent in real terms in just two years (2006 and 2007). These increases were largely based on mining revenues, which in turn were reaped from a windfall profit tax that was triggered once the world

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market price for copper or gold exceeded a predetermined level. While making a very positive contribution to fiscal resources, the windfall tax exposed the country to fluctuations in the world market prices of key minerals.

Furthermore, the rapid growth of public expenditure in the years prior to the crisis was not only pro-cyclical, but its pace was unsustainable. Inadequate attention was paid to the need to use the windfall gains to build up a fiscal buffer.

But the impact of the global economic crisis on the Government budget, just as on the economy at large, turned out to be brief. The crisis bottomed out during the first half of 2009 and was followed by a swift recovery fuelled by a sharp increase in copper prices, which by early 2010 were back at almost the pre-crisis levels, as well as by a large inflow of FDI as investments in the Ouy Tolgoi mine, which is expected to become one of the world's largest copper mines, gained momentum. The recovery of copper prices and the renewed economic growth had an immediate impact on the fiscal situation. Fiscal revenues increased sharply in the second half of 2009 and although revenues for 2009 as a whole were below those of the previous year, fiscal revenues during the last quarter of 2008 reached MNT 662 billion as against MNT 537 billion a year earlier.<sup>131</sup> By September 2010, the fiscal revenue forecast for 2010 was a hefty 38 per cent higher than actual revenues in 2009.<sup>132</sup>

Financing constraints forced a large fiscal adjustment in 2009, which was achieved mainly through a reprioritization of spending. The fiscal adjustment continued in 2010, aided by the rebound in copper prices and the economic recovery. The fiscal deficit is expected to fall to 2 per cent of GDP—well below the government's original target.

Among the measures taken by the government so far are the following:

- In 2010 the parliament passed a Comprehensive Fiscal Responsibility Law. This is a landmark piece of legislation which builds the foundation for lasting fiscal discipline and an end to the boom-bust fiscal policies of the past.<sup>133</sup>
- The Mongolia Development Fund was established in 2007, but the revenues to this fund were largely spent to fund social welfare programmes and when the crisis started to hit the real economy, the government did not have the resources to support the economy. Ambitious spending plans during the years of high economic growth revealed the short-sightedness of the fiscal policy which was very much influenced by overly optimistic revenue forecasts.

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<sup>131</sup> Impact of the global economic crisis on Mongolian economy, Economic School of MNU, 2010.

<sup>132</sup> IMF (2010c *op.cit.*, page 14).

<sup>133</sup> IMF (2010, *op. cit.*)

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- Confidence in the banking system is being restored, and risks have been contained even as two important banks were put into receivership. Parliament has approved a revised banking law that will strengthen the regulatory framework. A second piece of legislation to recapitalize the banks has been submitted to Parliament. Finally, tougher supervision regulations have been issued and are now being enforced. These steps will serve to bolster the banking system and ensure that banks can play their crucial role in fostering development by providing credit to the private sector.
  - The government is producing a draft law to use the Human Development Fund to ease the credit pressure on herders. Currently, herders have around MNT 57 billion of debt borrowed from Khan, Khas and Savings banks.
  - In 2010 the government announced 26 priority projects in four sectors – mining, agriculture, infrastructure and education, tourism and environment.
  - A “Local enterprise development directions” programme was adopted by the Government in 2009.

While in the current period Mongolia appears to be doing well again in terms of economic growth, and does not seem constrained in its fiscal budget, it would still be crucial for Mongolia to have a long term vision for creating fiscal space. This is especially important as the economy is still very dependent on external prices of its main commodity exports, and highly dependent on the mining sector, which is generating little employment in relationship to growth. The government has taken several relevant measures, as outlined above, but there are still significant challenges on the employment front. To put in place systematic, well resourced and multidimensional programmes to create decent work, it is critical that policies are pursued to promote fiscal space that would encourage investment in employment generating sectors. These need to be based on financial arrangements that are sustainable in fiscal and political terms, equitable and conducive to economic development.