
Constraints and challenges for achieving inclusive job-rich growth in Mongolia

Initial diagnostics

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Background

During the socialist period Mongolia prided itself with having achieved full employment, even though it may not always have been very productive. A complex system of cross-subsidisations and administratively set prices made any estimates of productivity near-naught impossible and blurred the relationship between wages and productivity.

Table 1: Development of GDP 1989 - 2009

<i>Year</i>	<i>% growth</i>	<i>Index: 1989=100</i>
1989		100
1990	-2.5	97.5
1991	-9.2	88.5
1992	-9.5	80.1
1993	-3.0	77.7
1994	2.3	79.5
1995	6.3	84.5
1996	2.4	86.5
1997	4.0	90.0
1998	3.5	93.2
1999	3.2	96.1
2000	1.1	97.2
2001	3.0	100.1
2002	4.7	104.8
2003	7.0	112.2
2004	10.6	124.0
2005	7.3	133.0
2006	8.6	144.5
2007	9.9	158.8
2008	8.9	173.0
2009	2.7	177.7

Sources: <http://unstats.un.org>; World Bank (2009c).

Remark: Population is estimated to have increased by approximately 28 per cent over the period.

The collapse of the socialist system, the abrupt transition to a market based economy and the accompanying reorientation of external relations had dramatic consequences on employment as well as on the economy and society as a whole.¹ In aggregate economic terms the rapid economic decline that characterised the first years of transition bottomed out already in 1993 (Table 1). However, the subsequent economic recovery was slow. It took altogether twelve years to regain the level of economic production, as measured by GDP, of 1989. Growth picked up substantially after 2002.

¹ A number of good analysis of employment and labour market aspects of the turbulent years in the early 1990s exist. See for instance, Griffin (1995), Brun, Ronnås and Narangoa (1999).

Between 2002 and 2008, the last year before the onslaught of the global financial crisis, GDP increased by 65 per cent, that is by almost 9 per cent per year.

However, aggregate GDP data mask much of the drama that took place on the labour market and in the economy and livelihood of virtually every Mongolian household. Formal sector wage employment declined precipitously in the early years of the transition at the same time as rampant inflation eroded the purchasing power of wages.² The changes in the rural areas were no less dramatic. The main building block of the economic and social infrastructure in the rural areas was the herding collectives – *negdels* – which were multipurpose units meeting most aspects of the herding households' economic and social needs, ranging from free education and health care to veterinary and marketing facilities.³ The collapse of the *negdels* in the early 1990s left a void that, two decades later, has yet to be adequately filled.

Table 2: Participation in the Labour Force

	1991a	1995a	1998	2003	2008
Total population	2,187.2	2,317.5	2,291.3	2,476.6	2,645.5
Active age groups *	1,069.2	1,186.2	1,417.0	1,636.1	1,848.9
- men			686.8	789.5	888.4
- women			730.2	846.6	960.6
Active population	851.1	839.8	839.2	958.0	1,071.5
- men	446.1		435.8	482.9	524.9
- women	413.9		403.4	475.0	546.6
LFP rate % *	79.6	70.8	59.2	59.2	58.0
- men			63.5	61.2	59.1
- women			55.2	56.1	56.9
Dependency ratio, actual	1.57	1.76	1.73	1.59	1.47
Dependency ratio, age-based*	1.05	0.95	0.62	0.51	0.43

*Active age groups defined as men aged 15-60 and women aged 15-55 in 1991 and 1995, but as all men and women aged 15+ in 1998, 2003 and 2008.

Sources: Brun, Ronna & Narangoa (1999: 18); <http://laborsta.ilo.org>

Remark: Figures for 1991 and 1995 (other than total population) refer to the age group 15-60 for men and 15-55 for women. Figures for 1998, 2003 and 2008 refer to population aged 15+. All figures are based on official estimates. All figures refer to officially estimated de jure population. Note that total employment registered in the 2000 population census, presumably using a different definition, was 779.2 thousand. Actual dependency ratio calculated as non-active population divided by active population. Age-based dependency ratio calculated as population in non-active age groups divided by population in active age groups. Active age groups were 15-60 for men and 15-55 for women in 1991 and 1995, but those aged 15+ for both sexes for subsequent years.

² Most of the existing state-owned enterprises, established as cogs in a centrally planned economy, collapsed at the same time as there was an uncontrolled shedding of labour in the public sector as the fiscal base dwindled. Consumer prices increased 18 times between 1989 and 1993.

³ For a detailed analysis of the transformation of the rural economy and society in the 1990s, see Bruun and Edgaard (1996). For an analysis of more recent developments, see Morris and Bruun (2005).

The employment and labour market impact of the economic transition and turmoil took several forms (Table 2). There was a withdrawal from the labour force as employment opportunities lost were not replaced with new ones, resulting in an absolute decrease of the labour force despite an increase in the economically active age groups. The participation rate in the labour force, using a narrow definition of the economically active age groups,⁴ fell from 80 to 71 per cent between 1991 and 1995 and would seem to have continued to fall, albeit at a slower rate at least until the end of the decade.

The contraction of formal sector wage employment and the urban labour market also resulted in a large return flow of people from urban to rural areas and a resort to herding and to various types of informal sector activities in the urban areas. Between 1989 and 1998 the share of the population living in rural areas increased from 43 to 50 per cent, while the share of agriculture in total employment increased from 32 to 49 per cent.⁵ The flight into herding was primarily driven by push factors, but there were also pull factors at play. For many it obviously offered the sole remaining option for making a living. However, a rapid improvement in the agricultural terms of trade - that is in the relative prices of agricultural prices as against the prices of non-agricultural goods and services - clearly played a major role in cushioning the negative implications on labour productivity and returns to labour from the rapid increase in the number of herders. The combined effect of a massive increase of the number of herders and, in particular, improved relative prices for agricultural inputs was an increase of the contribution of value added produced in the agricultural sector to GDP from 16 per cent in 1990 to 46 per cent in 1996 and 40 per cent in 1998 (Appendix, Table 1). When measured at constant 1990 prices this increase was much more modest; from 16 per cent in 1990 to 19 per cent in 1998 (Appendix, Table 2). The poor resource endowment of most of the 'new' herders and the distressful circumstances under which decisions to take up herding often were taken are reflected in the fact that the average number of animals per herder household fell from 115 in 1990 to 48 in 2000.⁶

Table 3: Headcount poverty in Mongolia. Percentages

	1995	1998	2002/03	2007/08
All areas	36.3	36.2	36.1	35.2
Urban	38.5	39.4	30.3	26.9
- Ulaanbataar	35.1	34.1	27.3	21.9
Rural	33.1	32.6	43.4	46.6
Gini coefficient	0.31	0.34	0.33	0.36

Source: FIDI International (1999); National Statistical Office (2004a); (2009a).

By 1998 the headcount poverty rate had reached 36 per cent, somewhat higher in urban areas (39.4 per cent) than in rural areas (32.6 per cent) (Table 3). Lack of data precludes an analysis of the development of poverty in the early years of the transition, but it is clear that it did increase substantially. It also seems safe to conclude that the

⁴ The official definition of the economically age groups was 15-55 for women and 15-60 for men.

⁵ Griffin (2001: 77, 81).

⁶ Griffin (2001: 82). Calculated as 'standard units of livestock'.

sharp improvement in the prices of agricultural produce, somewhat cushioned the impact of the economic turmoil and decline on poverty.

The flight to rural areas and to herding came to an end in 2000-2002, as three consecutive severe winters with *dzuds* took an extremely heavy toll on livestock and deprived many herder families of their means of existence.⁷ Following an increase in agricultural employment, i.e. mainly herding, by some 54,000 people between 1994 and 2000, agricultural employment actually fell slightly between 2000 and 2003 (Appendix, Table 4). At the same time, the urban to rural exodus was reversed and immigration to Ulaanbaatar picked up speed.

Poverty remains widespread despite high growth

The long period of sluggish growth, which came to an end in 2003, was followed by a period of exceptionally high GDP growth, which lasted until the onslaught of the global financial crisis in late 2008. By 2008 GDP had increased by 65 per cent over 2002 and by 73 per cent over 1989. It would be reasonable to assume that the traumatic period of transition was at last over. Yet, despite this high rate of growth over a period of six years, official statistics suggest that the share of the population living below the poverty line fell only marginally; from 36 per cent in 2002/03 to 35 per cent in 2007/08 (Table 3).⁸ Despite years of rapid economic development, Mongolia was further away than ever from achieving the Millennium goal of reducing the number of people living in extreme poverty by half.

While the overall headcount poverty rate seems to have remained virtually constant at 35-36 per cent for over a decade, there have been significant changes in the rural – urban and regional distribution of poverty. Until 1998 rural – urban differences in poverty remained rather small (Table 3 and 4). Since then, the rural – urban poverty gap has increased significantly. Not only did rural poverty increase sharply between 1998 and 2002/03, which at least partly may be attributed to the impact of the three consecutive and severe *dzuds*, but poverty seems to have continued to increase to the point where by 2007/08 almost half of the rural population ostensibly lived below the poverty line. By contrast, poverty declined significantly in urban areas, from 39 per cent in 1998, to 30 per cent in 2002/03 to 27 per cent in 2007/08 (Table 3).

⁷ *Dzud* is the collective name for a variety of climatic conditions during the winter and spring that prevent animals from access to grazing, such as very deep or icy snow.

⁸ A recent World Bank presentation challenges the poverty estimates of the World Bank supported 2007-08 Household Socio-Economic Survey. This alternative estimate by the World Bank, based on an adjustment of the 2002/03 poverty line by the consumer price index suggests that poverty actually fell from 36.1 per cent in 2002/03 to 11.6 per cent in 2007/08 (World Bank [2009d]). The discrepancy between the two estimates is simply too large to be ascribed to measurement errors, suggesting that an in-depth analysis of the reliability and validity of the estimates are warranted. While the 2007/08 survey was designed to maximise comparability with the previous 2002/03 survey and has the distinct advantage of including a detailed methodological note in the publication, a *prima facie* analysis suggests that the rural poverty estimates, in particular, may be on the high side. The more recent World Bank estimate that poverty fell by 25 percentage units over a five year period in the context of an economic development that was rapid in quantitative GDP terms, but had a very poor employment content, borders on the incredible and cannot be taken at face value. As discussed below, fact remains that economic growth in the past decade did not result in any commensurate increase in productive employment and as a consequence the link between economic growth and improved incomes in general and incomes for the poor in particular was weak.

Table 4: Headcount Poverty in 2002/03 and 2007/08 by Area

	Headcount poverty rate %		% share of total population	
	2002/03	2007/08	2002/03	2007/08
Urban areas	30.3	26.9	55.4	60.8
- Ulaanbaatar	27.3	21.9	30.2	38.4
- Aimag centres	33.9	34.9	25.2	21.6
Rural areas	43.4	46.6	44.6	39.2
- Soum centres	44.5	42.0	16.2	13.4
- Countryside	42.7	49.7	28.4	25.8
Western region	51.1	47.1	17.0	15.4
Highlands	38.7	46.6	24.1	20.7
Central region excl. UB	34.4	30.7	19.5	16.3
Eastern region	34.5	46.7	9.3	7.4
Whole country	36.1	35.2	100.0	100.0

Source: National Statistical Office (2009a).

Remarks: A recent alternative World Bank calculation suggests that by 2007/08 headcount poverty had fallen to 8.8 per cent in urban areas, 15.5 per cent in rural areas and to 11.6 per cent in the country as a whole (World Bank [2009d]).

A more detailed breakdown reveals that the entire reduction in urban poverty was due to a sharp decline in poverty in Ulaanbaatar (Table 4). Headcount poverty actually increased somewhat in the other urban centres. Indeed, the main picture that emerges is a clear dichotomy between rapidly falling poverty in Ulaanbaatar on the one hand and stagnant or increasing headcount poverty rates in most of the rest of the country. There were also large regional changes in the incidence of poverty. It would appear that poverty fell in the Western and Central region, but increased considerably in the Highlands and in the Eastern Region (Table 4).

Table 5: Headcount poverty by educational level of head of household 2002/03 and 2007/08

	Headcount poverty rate %		Share of population	
	2002/03	2007/08	2002/03	2007/08
No education	45.8	58.0	4.2	3.9
Primary	45.6	51.5	14.2	11.9
Lower secondary (8 th grade)	45.5	48.1	27.5	23.1
Complete secondary	34.9	34.6	18.8	31.4
Vocational	40.7	25.3	10.2	13.0
Higher diploma	23.4	9.5	13.6	10.0
University	11.6	8.8	11.5	6.0
All levels	36.1	35.2	100.0	100.0

Source: National Statistical Office (2004a)(2009a).

The exposure to poverty varies considerably by the size of the household and by the educational level of the head of the household.⁹ The larger the size of the household, the higher the incidence of poverty. While only 13.4 per cent of the two member

⁹ The survey data do not yield information on the educational attainment of other household members.

households and 21.8 per cent of the three member households were below the poverty line in 2007/08, 53.4 per cent of the households with seven members and 69 per cent of the households with more than eight members suffered from income poverty.¹⁰ As might be expected, the level of education exerted a strong influence on the exposure to poverty (Table 5). Indeed, it would appear that the importance of education as a determining factor for poverty increased considerably between 2002/03 and 2007/08. Among those with at most lower secondary education (8 grades) the incidence of income poverty increased considerable over this period, while it fell for those with more than eight years of education. By 2007/08 more than half of the households where the head of household had no more than primary education lived below the poverty line (Table 5).

The challenge to increase productive employment

Productive employment is by far the most important link between economic growth and reduction of income poverty. Enhancing employment and returns to labour by (i) strengthening the productive resources of the poor and by (ii) opening up opportunities for everyone to make full use of the productive resources at hand are the main pillars of inclusive and job-rich growth as well as of poverty reduction.

Table 6: Productive employment achieved and required to reduce extreme poverty by half by 2015

	2003	2008	2015
Total population (1,000)	2,476.6	2,645.5	2,855
Population aged 15-59 (1,000)	1,488.9	1,688.6	1,920
Labour force (1,000)	950.1	1,067.1	1,248
Headcount poverty rate, %	36.1	35.2	(Target)18.0
Working poor (1,000)	343.0	375.6	225
Productively employed (1,000)	607.1	691.5	1,023
<i>Memorandum items</i>			
LFP rate	63.8	63.2	65
Dependency ratio, actual	1.59	1.48	1.28
Age-based dependency ratio	0.66	0.57	0.49
Unemployment rate		6.0	

Sources: <http://laborsta.ilo.org>; <http://esa.un.org>; National Statistical Office (2004a);(2009a).

Remarks : Figures for 2003 and 2008 based on official estimates. Estimates for 2015 based on UN population forecasts.
 Figures on labour force exclude those below the age of 15 and above the age of 59.
 Working poor is defined as those in the labour force but not earning enough to bring themselves and their dependents out of poverty. It was calculated as labour force x headcount poverty rate. It includes the unemployed poor.
 Productively employed defined as those in the labour force who are not working poor. It includes those unemployed who are not poor
 LFP rate: Labour force participation rate
 Actual dependency ratio: The total number of economically inactive divided by the total number of economically active (in the labour force).
 Age-based dependency ratio: The population aged below 15 or 60 and above divided by the population aged 15-59.
 Unemployment according to Household Socio-Economic Survey 2007/08.

¹⁰ National Statistical Office (2009a:30).

The glaring discrepancy in recent years between high rates of growth on the one hand and continued high rates of income poverty on the other hand reflects a failure of growth to generate sufficient productive employment. There have been insufficient opportunities for people living in poverty to effectively contribute to the economic development of the country and to fully benefit from the fruits of this development. Indeed, it seems fair to conclude that most Mongolians have not contributed as much as they could have to the economic development, nor have they benefited as much as they should have from it.

The failure of the high rates of growth to reduce poverty through creation of and improved access to productive employment is all the more disconcerting as this development took place in a highly conducive demographic context. Largely as a consequence of the sharp decline in birth rates after 1990 the dependency ratio has for some time improved considerably and is expected to continue to do so (Table 2 and 6). Defining the economically active age groups as those aged 15 years or more, it can be seen that the dependency ratio¹¹ fell from 0.62 in 1998 to 0.51 in 2003 to 0.43 in 2008 (Table 2). Using the more realistic definition of the economically age group as those aged 15 to 59 it can be seen that the age-based dependency ratio fell from 0.66 in 2003 to 0.57 in 2008 and is expected to fall further to 0.49 by 2015 (Table 6). The rapid fall of the dependency ratio has been the combined effect of reduced birth rates and the entering into the economically active age groups of the large number of children born in the 1970s and 1980s.

This stage in the economic transition is often called the demographic window of opportunity as it holds the potential of a substantial positive impact on incomes and poverty reduction. This impact can take several forms. First, a fall in the dependency ratio will automatically translate into higher per capita income a long as the economy manages to generate productive employment opportunities for the growing labour force. This is simply because each bread-winner will have fewer mouths to feed. Second, an improved dependency ratio increases the domestic capacity to save, not least at the household level. Savings, which in their turn translate into productive investments, result in higher growth, the creation of more and better employment opportunities and higher returns to labour. The main prerequisite for benefitting from this demographic window of opportunities is that the number of productive employment opportunities increases at pace with the growth of the economically active age groups and that there is a high degree of equality in terms of accessing these opportunities. The continued high levels of poverty suggest that so far the Mongolian economy has fallen short in both of these respects despite the high rates of growth between 2003 and 2008.

Indeed, the employment elasticity of growth fell sharply from 0.94 in 2000-03 to a mere 0.26 in 2003-2007 (Table 8).¹² More over, it would appear that less than three out of four additional jobs created were productive in the sense that they generated sufficient income to allow the employed and their dependents a standard a living

¹¹ Defined as the population in the non-economical active age groups divided by those in the economically active age groups, i.e. the average number of dependents per person belonging to the economically active age group.

¹² The reasons behind this decline are further analysed below.

above the poverty line (Table 7). Indeed, the ranks of the working poor continued to increase despite the high rate of growth and the improved dependency ratio.

Table 7: Actual and required growth of productive employment

	2003-2008		2008-2015	
	Total change	Annual change	Total change	Annual change
Total population	168.9	33.8	209.5	29.9
Population aged 15-59	199.7	39.9	231.4	33.1
Labour force	117.0	23.4	180.9	25.8
Productively employed	84.4	16.9	331.5	47.4
Working poor	32.6	6.5	-150.6	-21.5

Sources: See Table 6

Remarks: See Table 6

Tables 6 and 7 portray the development of productive employment and of the working poor in the 2003-08 period and cast this against the increase in productive employment needed to achieve the national goal of reducing headcount poverty to no more than 18 per cent by 2015.

A rough estimate suggests that the number of productive employment opportunities in the economy would need to increase by 332 thousand, from 691 thousand in 2008 to 1,023 thousand in 2015.¹³ In other words, the rate of creation of productive employment generation would need to increase from less than 17,000 per year between 2003 and 2008 to 47,000 per year between 2008 and 2015 if the target to reduce the share of the population living below the poverty line to 18 per cent is to be reached (Table 7). It can further be estimated that this would require the creation of some 181,000 additional productive jobs,¹⁴ while an almost as large number of existing working poor would need to enhance their income and return to labour – either through increasing the productivity of existing jobs or by moving to other more productive jobs – enough to allow themselves and their dependents to escape from poverty. This will clearly require not only continued high rates of economic growth, but, as importantly, a much higher quality of growth.

Table 8: Employment elasticity of growth

	2000-2003	2003-2007	2000-2007
Agriculture	(0.86)	-0.12	-0.12
Mining and utilities	0.96	0.38	0.50
Manufacturing	0.02	-0.54	-0.24
Construction	0.46	17.30	1.32
Trade & restaurants	2.04	1.36	1.86
Transport & communications	0.33	0.40	0.33
Other sectors	1.20	0.30	0.66
All sectors	0.94	0.26	0.43

Source: Appendix, Table 4

Remark: Figures in bracket indicate negative growth. Negative figures reflect a decline in employment despite growth. Figures above 1 indicate employment growth, but falling labour productivity.

¹³ The calculation is based on the official 2002/3 and 2007/8 poverty estimates

¹⁴ Assuming that no more than 18 per cent of the new net increase in the labour force will end up as working poor

The need to increase productive employment opportunities at a much faster pace than in the past is further underscored by the existence of a large pool of unutilised labour. Mongolia suffered a sharp decline in the labour force participation rate during the years of economic turmoil and transformation in the 1990s. Since then, the participation rate in the labour force has stagnated at a historically exceptionally low level. Hence, despite the considerable improvement in the age structure of the population, the actual dependency ratio measured as the number of persons each person in the labour force has to support remains very high. In addition, some six percent of the labour force is unemployed.¹⁵ Unemployment is particularly high among the young and in the urban centres outside Ulaanbaatar.¹⁶ Reducing unemployment and increasing labour force participation rates through increased productive employment opportunities could yield substantial benefits in terms of reducing the level of earnings needed by each breadwinner to bring him/herself and his/her dependents out of income poverty.¹⁷

The challenge to make growth more inclusive

Not only has the employment content of growth been low, but it has not been particularly inclusive either. Inequality in terms of consumption increased between 2002/03 and 2007/08 (Table 9). The overall Gini coefficient of consumption increased from 0.33 to 0.36, as the share of the consumption of the poorest quintile in total consumption fell from 7.5 to 7.2, while that of the richest quintile increased from 40.4 to 43.4. As income inequality tends to be higher than consumption inequality and in view of the equalising impact of public transfers, it may safely be concluded that inequality in terms of income from labour was higher than the figures in Table 9 suggest.

The most important aspect of increasing inequality was no doubt the increasing income and consumption gap between Ulaanbaatar on the one hand and the rest of the country in general and the countryside, in particular, on the other hand.¹⁸ While average consumption in Ulaanbaatar increased in real terms by some 16.5 per cent between from 2002/03 and 2007/08, it appears to have fallen by 8.2 per cent in the countryside. By the latter date, average per capita consumption in the countryside had fallen to less than 60 per cent of the average per capita consumption in Ulaanbaatar and to 75 per cent of the national average (Table 9).¹⁹

¹⁵ Unemployed are included in the labour force.

¹⁶ Youth unemployment (among those in the labour force aged 15-24) stood at 17 per cent in 2006/07, reaching 33 per cent in urban areas (UCW 2009: 41). Unemployment in the Aimag and Soum centres (among all active age groups) was 8.1 and 8.4 per cent respectively (National Statistical Office 2009:125).

¹⁷ Half of the households with an unemployed head of household live in poverty (National Statistical Office (2009a: 125)).

¹⁸ Urban areas consist of the capital, Ulaanbaatar, and the centres of the Aimags. Rural areas consist of Soum centres and the ‘countryside’.

¹⁹ National Statistical Office (2009a: 21).

Table 9: Inequality of consumption in 2002/03 and 2007/08

Area	<i>Gini coefficient of consumption</i>		<i>Average per capita consumption</i>			
			<i>Tugrik/month</i>		<i>Index: Mongolia = 100</i>	
	2002/03	2007/08	2002/03	2007/08	2003/03	2007/08
Urban areas	0.33	0.36	101,909	115,501	110	115
- Ulaanbaatar	0.33	0.36	108,612	126,494	117	125
- Aimag centres	0.32	0.34	93,894	97,680	101	97
Rural areas	0.31	0.32	81,504	81,010	88	80
- Soum centres	0.32	0.35	80,523	89,197	87	88
- Countryside	0.31	0.30	82,064	75,344	88	75
Whole country	0.33	0.36	92,814	100,865	100	100.0

Remark: Tugrik in 2007/08 constant prices

Sources: National Statistical Office (2009a: 21)

In addition, inequality also increased within the urban areas as well as within the soum centres. In Ulaanbaatar, the share of total consumption accounted for by the poorest quintile fell from 7.9 to 6.9 per cent, while the share of the richest quintile increased from 40.2 to 43.1 per cent.

Table 10: Decomposition of changes in headcount poverty between 2002/03 and 2007/08 by growth and inequality components. Percentages

	<i>Change in poverty</i>	<i>Growth component</i>	<i>Inequality component</i>
Urban areas	-3.4	-6.7	3.3
- Ulaanbaatar	-5.3	-7.3	2.0
- Aimag centres	1.0	-2.6	3.7
Rural areas	3.2	0.3	2.9
- Soum centres	-2.5	-6.7	4.2
- Countryside	-7.0	6.2	0.8
Western Region	-4.0	-1.8	-1.1
Highlands	7.9	4.8	3.1
Central region, excl. UB	-3.7	-7.9	4.2
Eastern region	12.2	4.7	7.4
Whole country	-0.9	-5.0	4.2

Source: National Statistical Office (2009a: 24).

Remark: The growth component refers to the decline in poverty that would have occurred if only the mean consumption had increased with no change in relative inequalities. A negative figure implies a positive impact on poverty, i.e. a decline in poverty.

The increase in inequality had major implications on the efficiency, or rather lack of efficiency, by which growth translated into reduced income poverty. As may be seen from Table 10, the increase in inequality all but neutralised the positive impact on poverty that growth would have had had it been distributionally neutral. Had growth taken place in a situation of unchanged income and consumption distribution, it would

have reduced headcount poverty by some 5 percentage units. In reality, poverty fell by a mere 0.9 percentages unit, the ‘shortfall of 4.2 percentage units being the consequence of increasing inequality.

Reasons behind the poor quality of growth

The lacklustre performance of economic growth in terms of generation of productive employment may be due to a number of factors.

- *The sector composition of growth* can exert a strong influence on the employment outcome of growth as the employment content of the value added often differs widely from one sector to another.²⁰ If growth is concentrated to sectors with low employment content, then it is likely to result in little increase in productive employment. The sector composition also has a strong bearing on the sustainability of the growth. A broad economic and export base where tradables²¹ play a predominant role as growth engine is generally perceived as a prerequisite for sustaining a high rate of economic growth.
- *The choice of technology* matters for the employment outcome of growth. The use of more labour intensive technology will obviously result in more employment intensive growth. In reality the choice of technology is often quite limited and tends to be closely linked to the product mix and sector composition. However, in some areas, such as public investments, there can be a scope for a wide choice.
- *Changes in the domestic terms of trade* matter. If the value of products and services produced in the labour intensive sectors fall relative to the price of more capital intensive goods, the employment and income of labour in the former sector will suffer and vice versa.
- *The prevalence and importance of rent seeking and rents in the economy*. Rent seeking implies a transfer of income from those who produce goods and services to others who are in a position to extract these rents. It is often associated with corruption, i.e. an abuse of power for personal gains, but it may also take other forms, such as excessive profits derived from a monopoly position, exploitation of natural resources etc. In a broader sense, yet still pertinent from the perspective of the employment content of growth, rents refer to incomes received from the possession of production factors other than labour, such as land, capital, and immaterial property rights.
- *Cyclical factors*. The impact on employment of changes in production typically occurs with a time lag. During periods of economic downturn, production often initially falls more rapidly than employment, while during periods of recovery production at least initially tends to increase faster than employment.

²⁰ The concept of employment content encompasses both the aspect of the quantity of labour used and the returns to labour, i.e. aggregate income accrued to the labour.

²¹ Tradables are goods and services exposed to international competition, that is they may be exported at the same time as production for the domestic market is exposed to competition from imports. The concept of tradables is usefully defined narrowly to exclude raw materials.

An examination of the Mongolian economy during the past decade reveals that several of the above factors were at play. Table 11 displays a striking disparity between the contributions of the various economic sectors to employment creation on the one hand and to value added, i.e. GDP, on the other hand. Over the 2003-2007 period mining²² and agriculture together accounted for almost two thirds of the growth in GDP, but for less than 20 per cent of the increase in employment. At the other end of the spectrum, trade, restaurants and related services accounted for 43 per cent of the employment growth, but for less than 7 per cent of the increase in GDP. Hence, employment growth in this sector took place at the expense of labour productivity, which actually fell.

The role of mining and agriculture as growth engines and the lacklustre employment generation in these two sectors – employment in agriculture actually fell between 2003 and 2007 – was attributable to quite different factors. The rapid growth of mining, which started after 2000 and gained speed after 2003, was closely related to the improvement in world market prices of copper and gold since the late 1990s. Between 2000 and 2007 the terms of trade of mining (and utilities) improved by almost 100 per cent. No doubt stimulated by the increase in prices, production also increased rapidly in volume terms, particularly after 2003. The combined effect of increases in prices and in the volume of production was a doubling of production in terms of value added between 2003 and 2007 (Table A5).²³ However, mining is by nature capital intensive rather than labour intensive. Furthermore, the price increases in all likelihood had little direct impact on employment. Most of the gains from the price increases benefited the exploiting companies and the government in the form of rents rather than those employed in the sector through increased wages.

Table 11: Sector distribution of employment and GDP. Percentages

	1994	2000	2003	2007
Share of total employment				
Agriculture	44.7	48.6	41.8	37.7
Mining and utilities	4.8	4.9	5.9	7.3
Manufacturing	8.3	6.7	5.9	4.7
Construction	3.6	2.9	3.8	5.9
Trade & restaurants	11.1	12.0	16.5	19.0
Transport & communications	4.1	4.2	4.3	4.3
Other sectors	23.3	20.6	21.8	21.2
All sectors	100.0	100.0	100.0	100.0
Share of GDP				
Agriculture	38.8	31.9	22.8	23.2
Mining and utilities	14.4	13.5	16.1	23.1
Manufacturing	7.3	4.5	4.7	4.2
Construction	1.2	1.9	3.4	2.5
Trade & restaurants	13.9	11.8	13.0	11.2
Transport and commerce	7.1	10.6	13.5	12.5
Other sectors	17.3	25.9	26.4	23.4
All sectors	100.0	100.0	100.0	100.0

Sources: <http://unstats.un.org>; <http://laborsta.ilo.org>

²² Including ‘utilities’.

²³ This trend was at least temporarily broken in 2008 as copper prices fell by 58 per cent between the first four months of 2008 and 2009. More recently, copper prices have started to pick up again, but they are not yet back at the pre-crisis level (World Bank [2009a][2009c]).

The story in agriculture has been quite a different one. The rapid growth of the agricultural sector in terms of value added since 2003 reflected to a large extent a recovery from the disastrous years of 2000-2002, not least in the form of a rebuilding of the stocks of animals lost during the three consecutive *dzuds*. Hence, the growth of the agricultural sector should be seen against the decline in production by over 25 per cent in volume terms between 2000 and 2003. Throughout the 1990s agriculture served as an employment buffer; as a source of employment and income of last resort as urban employment opportunities dried up. Following the three disastrous years at the turn of the millennium, a reverse flow of labour out of agriculture and from rural to urban areas commenced. This flight from agriculture continued even after production started to pick up again after 2003. Put in the context of the increasing production and labour productivity in the agricultural sector since 2003, it is both astonishing and highly worrisome that the poverty incidence among the agricultural labour force, i.e. mainly herders, seemingly increased sharply from 39 to 49 per cent between 2002/03 and 2007/08 (Table 13).

With the declining role of agriculture as a source of employment, trade, restaurants and hotels have become by far the most important sectors for employment generation. Since 2000 well over 40 per cent of the increase in employment has taken place in these sectors (Table 12). These sectors are, like most services sectors, labour intensive. However, between 2000 and 2007 the employment elasticity of growth in the trade, hotels and restaurants sectors reached 1.86, implying that employment growth took place at the expense of labour productivity (Table 8). What seems to have happened is that these sectors took over the role of source of employment of last resort from agriculture after the three consecutive *dzuds* around 2000.

Table 12: Sector contribution to GDP growth and to employment growth. Percentages

	1994-2000	2000-2003	2003-2007	1994-2007
Contribution to employment				
Agriculture	109.6	-5.1	-1.9	17.4
Mining & utilities	6.5	12.5	21.1	14.6
Manufacturing	-17.5	-0.3	-7.2	-5.8
Construction	-7.9	10.0	25.5	12.4
Trade & restaurants	25.4	47.5	42.6	41.6
Transport & com.	5.3	5.4	4.6	4.8
Other sectors	-21.3	30.3	15.2	15.1
Total	100.0	100.0	100.0	100.0
<i>Total (1,000)</i>	49.2	117.5	97.6	264.3
Contribution to value added				
Agriculture	-18.2	-36.1	24.1	4.5
Mining & utilities	6.8	33.3	40.5	33.5
Manufacturing	-16.0	6.2	2.8	0.5
Construction	6.8	13.1	0.4	4.1
Trade & Restaurants	-4.1	21.4	6.6	7.9
Transport & com.	36.0	32.4	9.7	18.8
Other sectors	88.8	29.6	15.9	30.1
Total	100.0	100.0	100.0	100.0
<i>Total (million tugrik)</i>	1,684.9	2,172.7	6,452.1	10,309.7

Value added based on current prices discounted by GDP deflator to reflect 1990 prices.

Sources: <http://unstats.un.org>; <http://laborsta.ilo.org>.

Almost two decades after the fall of the socialist system, the manufacturing sector has yet to be reconstructed. The manufacturing sector still accounts for less than 5 per cent of both GDP and employment. Following the virtual collapse of manufacturing in the early years of transition, a nascent textile industry developed, based on ample access to raw material – mainly cashmere – and a privileged access to *inter alia* the US market. With the abolishment of the multi-fibre agreement in January 2005 Mongolia lost its privileged access to key markets and the growth of the textile industry was brought to a halt as it found it difficult to face up to competition from countries such as China. Hence, the incipient reconstruction of the manufacturing sector was largely aborted, and manufacturing continued to decline in relative, if not absolute terms. The decline of the share of manufacturing in GDP can partly be explained by deteriorating terms-of-trade. Terms of trade for manufacturing fell sharply in the 1990s and by an additional 34 per cent between 2000 and 2007 (Table A6). The unfavourable development of terms-of-trade notwithstanding, the continued insignificance of manufacturing as a source of economic growth and employment creation is a severe concern.

Table 13: Headcount poverty by employment characteristics of head of household 2002/03 and 2007/08

	<i>Headcount poverty rate %</i>		<i>Share of population %</i>	
	2002/03	2007/08	2003/04	2007/08
Employment status				
Employed	33.6	34.3	71.5	75.7
Unemployed	48.7	54.4	3.0	4.2
Out of labour force	41.6	34.9	25.5	19.9
Employment by sector				
Agriculture	41.0	49.1	30.2	28.5
Industry	33.2	32.8	8.8	14.5
Services	26.9	20.9	32.6	30.3
Form of employment				
Herder	39.2	49.0	26.5	24.4
Other private	34.7	29.2	24.1	34.7
Public sector	25.9	22.4	17.9	11.4
State companies	21.6	14.6	3.0	3.4
All categories	36.1	35.2	100.0	100.0

Sources: National Statistical Office (2004a);(2009a: 81).

The need for a more broad based and job-rich growth, in which the manufacturing sector needs to play a much larger role, is based on several interlinked considerations.

- The reliance on mining and agriculture as growth engines and on the services sector as a source of employment creation makes for poor quality growth that is neither conducive to productive job creation and poverty reduction nor is it sustainable. As the present crisis has shown, it also makes the Mongolian economy highly exposed to the impact of external economic crises.
- An indispensable component in a strategy for rapid, yet sustainable and job-rich growth must be a diversification of Mongolia's exports and a gradual shift towards more processed goods with a higher value added in total exports. Manufacturing needs to play a key role in such a development.

Manufacturing plays a crucial role for several reasons:

- It can create upstream and downstream linkages to agriculture, thus facilitating as well as enhancing the growth impact of a development of agriculture and it is generally important to strengthen inter-sector linkages and to enhance multiplier effects in the economy.
- It is essential for the development of producer oriented services and thus a more broad-based development of the services sector.
- A diversified manufacturing base can create strong linkages and multiplier effects within the sector, at the same time as it would create an environment more conducive to furthering manufacturing growth.
- The growth enhancing impact of FDI would be greatly improved if FDI could be embedded in an environment where it can link up with domestic firms.
- A more broad based economy would in itself create a business environment better able to hold its own by reducing transaction costs. In particular in a situation where there are severe physical and other obstacles to trade in goods, which could otherwise compensate for the small size of the economy, this is a consideration that carries some weight.

At the heart of the problem of the dismal development of the manufacturing sector would seem to be a problem with competitiveness. By and large, economic growth in Mongolia has been confined to (i) natural resource extraction and (ii) services that are not exposed to any external composition. The only exception to this overall picture would seem to be animal husbandry and, in particular, production of cashmere for which Mongolia has a distinct natural comparative advantage. Hence, addressing the challenge of putting the country on a path of sustainable economic development that is both job-rich and inclusive requires addressing the problem of competitiveness.

Drawing on a growth diagnostic analysis,²⁴ the most recent World Bank country economic memorandum on Mongolia identifies five binding constraints in ‘need of immediate policy intervention’.²⁵

- Infrastructure bottlenecks, affecting not least external trade with and through China.
- Distortionary taxes, a very narrow tax base and complex customs and trade rules.
- Poor internal and international coordination between laws and regulations, trade and logistics, sector strategies and implementation plans as well as resource use and environmental degradation.
- Growing corruption and inadequate contract enforcement.
- A high cost of capital primarily due to poor financial intermediation.

According to the World Bank Enterprise survey of Mongolia in 2009²⁶ the three most important constraints facing firms in Mongolia were, in order of importance, (i) poor access to finance, (ii) tax rates and (iii) inadequate skills / education among the workforce. It would also seem that the high costs of trade imposed by geography are compounded by cumbersome bureaucratic procedures, not least for exporting. Both

²⁴ Ianovichina and Gooptu (2008).

²⁵ World Bank (2007a: ix-x).

²⁶ <http://www.enterprisesurveys.org>

the World Bank Enterprise Survey and the Doing Business Survey²⁷ point to very high trade related costs and time consuming procedures for customs formalities. The evidence with regard to the regulatory framework more generally is contradictory. While the Enterprise Survey points to a scope for streamlining and reducing the regulatory framework, the Doing Business Survey suggests that in most regards the regulatory framework impose less of a burden on firms in Mongolia than in most other countries in the Asia-Pacific region. On the other hand, at least the Enterprise Survey suggests that labour regulations are much less frequently identified as a constraint in Mongolia than in neighbouring countries

The regulatory and institutional framework is clearly very important. It is also an area where policy interventions can yield quick results. There are good reasons to take the identified shortcomings seriously and to take measures to remedy these. However, while these provide an important part of the picture, they do not provide the full picture.

Firstly, macroeconomic policies can matter greatly for competitiveness. For a resource-rich country such as Mongolia they present a particular challenge, as export of raw material generates large inflows of foreign exchange. These flows tend to be insensitive to changes in the exchange rate and have the effect of pushing up the value of the domestic currency, which in its turn is likely to have a detrimental impact on competitiveness. It is not clear that competitiveness has over the years been sufficiently in focus as a key objective for macroeconomic policies, such as exchange rate and trade policies. A study by UNDP the role of trade policy for human development and poverty reduction in Mongolia concludes that even within the framework of WTO membership, there is substantial unutilised scope for more active trade policies aimed at promoting inclusive economic growth and human development.²⁸ The sharp fall in the value of the Tugrik in 2009 followed after a long period of real appreciation of the Tugrik. This appreciation was primarily an effect of Mongolia's heavy reliance on export of minerals and the increase in world market prices of these minerals, but policy obviously also played a role. Not least in view of the challenges facing open resource rich countries in achieving competitiveness and broad-based economic development, a strong case can be made for a comprehensive review of macroeconomic policies from the perspective of competitiveness and sustainable and inclusive job-rich growth.

Secondly, to understand the constraints facing the firms and economic actors in Mongolia the concept of business environment needs to be expanded to include not only aspects related to the institutional and regulatory framework, but also to what for lack of better terms will be called the overall environment of economic actors. From the perspective of an individual economic actor or firm the presence of a dynamic and fairly large and sophisticated economic environment, with a multitude of different economic actors, is essential for its own possibilities to prosper. In economic terms this has to do with positive agglomeration effects, positive externalities and the possibility of reducing transaction costs for the individual firm, which depends on the ease with which an economic actor can interact with other economic actors, access information (about markets, technology etc.), market its products and services, obtain

²⁷ <http://www.doingbusiness.org>

²⁸ UNDP (2008)

support services etc. In other words, a low level of local economic activity is in itself an obstacle to economic development, creating a vicious circle that needs to be broken.

It should be remembered that the Mongolian economy is essentially being rebuilt from scratch and along entirely new lines. While the old economic structures were rather quickly destroyed after the collapse of the socialist economic system in the early 1990s, the reconstruction of the economy along the lines of a market economy has proved to be a much more protracted process. Hence, most of the structures of a modern market economy are still at a fairly early stage of development. This pertains not only to formal institutions and regulatory frameworks, but as importantly to economic agents providing support services, sources of inputs and market for outputs, complementary economic activities etc. The still early stage of development of these fabrics, which are crucial for competitiveness and for the prospects of individual firms to prosper and grow, puts Mongolia at a distinct disadvantage vis-à-vis most of its neighbouring countries in Asia, not least China. Hence, pro-active efforts to promote economic growth and sustainable enterprises aimed reducing the negative consequences that the weaknesses of the overall economic environment have for existing and potential firms and entrepreneurs are needed. It is essentially a question of the need for government to step in and provide in the form of public goods, services and functions that the market as yet do not adequately provide, largely with a view to reduce transaction costs in the economy and for individual firms.

The weak development of the overall economic environment has strong regional implications. While this economic fabric is now developing in Ulaanbaatar, it has yet to begin to develop in the rest of the country. Thus the rapid development and increasing sophistication of the economy in Ulaanbaatar in recent years is in itself creating an increasingly enabling environment for further economic development, in sharp contrast to the situation elsewhere in the country. Hence, pro-active efforts aimed not only at improving the institutional and regulatory aspects of the business environment, but also to compensate for the still weak ‘environment of economic actors’, will need to be combined with efforts to promote local economic development and to promote spatial economic integration. This will require central government working in tandem with local authorities and close collaboration between the authorities, employers’ and workers’ organisations and other key stakeholders at both the national and the local level.

Employability and labour market access

As discussed above, inequality has been on the rise in Mongolia. The gains from economic development have benefitted some, but far from all. Large groups in society have ended up as losers, not only in relative terms, but also in absolute terms. Indeed, income poverty has increased substantially among, herders, the rural population and those with low levels of formal education (Table 14).

The differentiation of the labour market into winners and losers, into those who attain productive employment and those who do not, is largely an issue of poor and unequal employability and labour market access.

Table 14: Poverty by main characteristics of head of household

	2002/03	2007/08
Sector of employment		
- Agriculture	41.0	49.1
Occupation		
- Herder	39.2	49.0
Location		
- Rural areas	43.4	46.6
Educational status		
- No education	45.8	58.0
- Primary education	45.6	51.5
- Lower secondary	45.5	48.1
All households	36.1	35.2

Sources: National Statistical Office (2009a: various tables).

Sustained economic growth is always associated with structural change. The sectors, occupations and geographic areas with the greatest potential for growth change over time and place, but they seldom coincide with those where the majority of the working poor and unemployed are to be found. For the working poor and unemployed to be able to access the opportunities offered by growth and structural change they must be sufficiently endowed with the factors that determine employability AND they must be sufficiently mobile. At the most basic level, the capabilities – employability profiles - of the working poor and unemployed must meet the requirements of emerging and existing opportunities for productive employment. However, there are also a large number of other factors that may limit the opportunities of the working poor and unemployed to access productive employment opportunities, even when the employability *per se* is no hindrance. Poorly functioning markets, not least credit markets, corruption and rent seeking tend to discriminate against the working poor in their role as entrepreneurs, thus unduly reducing their competitiveness and returns to labour. In certain situations labour market institutions may create insider – outsider problems. Poor geographic, vocational and social mobility may prevent the working poor and unemployed to move to more dynamic areas of the country and sectors of the economy. Cultural and social stereotypes may result in a fragmentation of the labour market along gender, ethnic or other lines, thus confining large parts of the labour force to specific segments of the labour market. A society that severely constrains the access of women to productive employment opportunities, will not only see higher inequality, but also lower growth and lower employment elasticity than a

society that offers equal opportunity. An inordinate burden of reproductive work may also limit women's ability to engage in economically productive work. The list of possible inhibiting factors can be made very long.

Table 15: School attainment among those aged 20-24, 2006/07. Percentages

Level of education	Urban	Rural	All areas
No schooling	1.6	9.3	4.6
Primary or less	2.7	20.1	9.5
Lower secondary	11.5	27.5	17.7
Upper secondary	58.9	31.7	48.3
Technical & professional	9.7	5.8	8.2
University	15.6	5.7	11.7
All levels	100.0	100.0	100.0

Source: UCW (2009:48). Data from 2006-07 Labour Force Survey

The most important differentiation of the Mongolian labour force with regard to their ability to access productive employment is 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 both in terms of employability and labour market access. The educational attainment of young people is distinctly lower in rural areas than in urban areas (Table 15). Only 43 per cent of the rural youth (aged 20-24) have completed upper secondary education or more, as against 84 per cent of the urban youth. Indeed, some 9.3 per cent of the rural youth have no formal education and an additional 20 per cent have at most completed primary education, leaving them singularly ill-equipped to become productively employed. Poor access to educational facilities, in particular at the higher levels, problems with the quality of education and competing uses of time, particularly for boys as herders, are likely to be some of the main reasons behind the poor educational attainment of the rural youth. Poor accumulation of human capital results in poor employability. Employability is further constrained by poor access to credit and, in some areas, an overpopulation of livestock and unsustainable land use.

Employability apart, the rural labour force is also handicapped in terms of access to productive employment opportunities. The poorly diversified economy outside the capital city implies that for most of the rural labour force the occupational options apart from herding are severely limited. For most, accessing productive non-agricultural employment requires moving to where the jobs can be found, that is to Ulaanbaatar.

It is also likely that the large rural – urban gap reflects a negative selection. In recent years increasing numbers of people have moved to the capital attracted by better educational opportunities for themselves or their children and by better employment opportunities.

Thus, poor employability and poor access to productive employment opportunities combine to perpetuate and indeed increase poverty in the rural areas and in many *aimag* centres. Breaking this trend will require addressing both of these factors. Educational opportunities for the rural young need to be improved in regard to both availability and quality. A diversification of the economy in *aimag* and *soum* centres is also needed to increase non-farm employment opportunities as well as to create

conditions for a more dynamic and sustainable development of the agricultural sector and of the regional economies outside the capital at large. This will require a development of non-farm economic activities and a strengthening of the rural – urban economic linkages.

Inequalities in employability and access to productive employment also take other dimensions. Despite the fact that young women surpass their male peers in terms of educational achievements, they often end up as losers on the labour market. The wage gap between women and men has increased in recent years (Table 16). To a certain extent this may reflect an overrepresentation of women in low-wage sectors, such as trade. However, also within individual sectors there has been a distinct increase in the wage gap.

Table 16: Average wage by gender and economic sector in 2007. In USD

	2000			2007		
	All	Female	Male	All	Female	Male
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>.

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.²⁹ On the other hand, young women are somewhat more likely than the young men to obtain wage employment.³⁰

In recent years a mismatch between the knowledge, competences and skills produced by the educational system and those in demand by firms and enterprises has emerged as an important issue. This mismatch is manifested in difficulties for firms to find and recruit workers with the desired skills and competences³¹ on the one hand and high rates long term unemployment both generally and among youth, a long transition period between leaving school and entering the labour market and difficulty in accessing formal sector wage employment on the other hand. A recent World Bank study³² concluded that the three interrelated problems of joblessness, informality and skills mismatches have a common root in a poor quality and relevance of the skills and competences produced by the educational system. It concludes that ‘the same lack of relevant skills that prevent people from getting a formal job also makes workers

²⁹ UCW (2009:36). Figures are from the 2006/07 labour force.

³⁰ 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]).

³¹ According to the 2004 Investment Climate Survey (ICS) some 30 per cent of the firms thought that the supply of skilled and educated workers was ‘major’ or ‘severe’ concern (World Bank [2007:14]). However, it should be noted that the ICS was biased towards ‘modern’, formal sector private firms.

³² World Bank (2007).

unable to perform well the tasks required by employers'.³³ The problem is not new. A recent study on youth employment outcomes in Mongolia found that the problems of youth unemployment and difficulties in entering the labour market were even more severe in 2002 than in 2006³⁴

It seems essentially to be a question of a slow supply response to a rapidly changing demand for skills, education and knowledge. This slow response is in its turn due to two main factors. Firstly, formal education and skills are generally obtained in youth prior to entering the labour market. The concept of lifelong learning has yet to make a real impact in Mongolia. Hence, the formal education and skills of a large part of the labour force have been rendered increasingly obsolete by the dramatic changes in the economy and labour market since the early 1990s. Second, it would appear that the education and vocational training system is not yet geared up to meet the requirements of the Mongolian labour market of today and tomorrow. There are complaints about inadequate quality and relevance at both the lower and higher levels of education, a lack of universal standards, curriculum and quality control in higher education and a general lack of accessibility in rural areas.³⁵ A recent World Bank study identifies a number of measures to remedy this situation.

- A system of universal standards in higher education needs to be implemented. A universal system of quality control and assurance needs to be put in place to reign in the proliferation of private institutions of higher learning offering education of uncertain and often poor quality.
- While most adolescents complete lower secondary education the learning achievement is low. The quality of basic education needs to be improved and teaching methods modernised. Improving basic education in rural areas deserve particular focus to close the rural – urban gap in education.
- Vocational education and other forms of ‘post-basic’ education need to be developed and its form and content need to be modernised and put in tune with labour market demands.
- Meeting the growing demand for ‘postbasic’ skills requires connecting school and work, which will require close links and partnerships between industry and schools.
- Second chance programmes need to be developed to offer opportunities for those who have already left the educational system to improve their employability.

Lastly, cultural factors may also play a role. The high prestige attached to a university degree may explain a demand for higher education beyond what would be motivated by an assessment of expected private returns as well as detract attention from the issue of labour market relevance. Anecdotal evidence of problems of adjusting from the independence and self-reliance of a life as a herder to a nine to five job and the rigours of wage employment is also at times advanced as an source of ‘reduced’ employability.

³³ World Bank (2007:ii).

³⁴ UCW (2009: 37). Figures based on labour force surveys.

³⁵ See for instance World Bank (2007).

Summary conclusions

Economic development in Mongolia has neither been job-rich nor inclusive. Despite high rates of growth until 2008 income poverty fell only marginally and the generation of productive employment remained at very low levels and far below what would have been needed to effectively reduce poverty. The main causes behind the poor employment content of growth had to do with the quality of growth. Growth was largely confined to the mining and the agricultural sectors where for different reasons it resulted in little new productive employment. A much more broad-based economic development, where the manufacturing sector and the production of tradables would need to play a much more prominent role, is needed to make economic development more efficient in terms of generation of productive employment as well as to make it sustainable. At the heart of the lack of broad-based growth and of the dismal development of the manufacturing sector would seem to be a problem with competitiveness.

Another key reason behind the failure of growth to effectively reduce poverty has been increasing inequality, which in its turn to a large extent may be attributed to shortcomings and inequality with regard to employability and labour market access. A main divide in this regard has over the past decade developed between Ulaanbaatar on the one hand and most of the rest of the country on the other hand. At the heart of the contrast between rapidly falling poverty in the capital and increasing poverty rates in rural areas and in many smaller towns lies an increasing inequality of access to productive employment. It would also appear that gender inequality on the labour market is on the increase. Despite education and skill levels at par or better than those of their male peers, women often end up as losers on the labour market suggesting that there are problems of labour market discrimination that would need to be addressed.

Addressing the challenge of putting Mongolia on a path of sustainable economic development that is both job-rich and inclusive thus requires addressing the problem of competitiveness as well as the issue inequality in access to productive employment.

The problem of competitiveness is likely to be complex. The roots of the problem may be found in four main areas.

- Macroeconomic policies
- The institutional and regulatory framework for enterprises and entrepreneurs
- The overall environment of economic actors
- Shortages of human capital with adequate and relevant education, skills and competences.

An exploration of the role of macroeconomic policies will require a thorough assessment of these policies from the perspective of competitiveness and job-rich growth, with a particular focus on trade, exchange rate and monetary policies. The institutional and regulatory framework has been subjected to repeated scrutiny through various investment climate and ‘doing business’ surveys. Much knowledge can no doubt be pieced together from the result of these surveys, but the perspective would need to be somewhat recast with a stronger focus on sustainable enterprises

and SMEs. By comparison constraints and challenges resulting from weaknesses in the ‘overall environment of economic actors’ in Mongolia, i.e. high transaction costs resulting from lack of positive externalities and agglomeration effects, have remained less well understood and are likely to require a major analytical and investigative effort. Mismatches of skills and short-comings with regard to the relevance and quality of education, skills and competences of the labour force may act both as a constraint on growth and as a source of poor and unequal labour market access and inequality and would need to be analysed from both of these perspectives.

The problem of the geographic polarisation of economic development with an increasingly dynamic and sophisticated economy in the capital and lack of any such development in most of the rest of the country merits special attention. Successfully addressing this issue is essential for reducing inequality in access to productive employment and poverty. Arguably, it is also important for achieving sustainable and job-rich growth in the country as a whole. Fostering a dynamic and broad-based economic development outside the capital will require well-conceived and forceful local and regional development efforts backed up by suitable policies at the national level. This, in its turn will require a good understanding of the nature of the main constraints on entrepreneurship and enterprise development in urban centres outside the capital and the scope for government interventions to remove or mitigate these constraints.

Appendix

Table A1 Sector distribution to total value added produced at current prices. Percentages

Year	Agriculture	Mining	Manufacturing	Construction	Trade	Transport	Other
1989	16.2	14.4	8.8	3.4	22.4	14.7	20.1
1990	16.0	15.9	9.6	2.9	23.2	14.9	17.5
1991	14.2	13.1	7.6	2.2	30.9	8.0	24.0
1992	31.4	13.7	8.9	1.1	18.1	6.7	20.1
1993	36.8	13.9	8.1	0.9	18.9	5.7	15.7
1994	38.8	14.4	7.3	1.2	13.9	7.1	17.3
1995	38.8	12.2	11.1	1.5	14.7	5.7	15.9
1996	46.1	11.6	4.8	2.6	9.8	6.8	18.3
1997	38.6	16.3	5.3	2.1	13.2	7.3	17.1
1998	40.3	11.7	4.6	2.4	12.7	8.3	20.1
1999	39.5	11.4	4.5	2.4	11.2	8.6	22.4
2000	31.9	13.5	4.5	1.9	11.8	10.6	25.9
2001	28.4	12.2	5.9	2.0	12.2	12.8	26.5
2002	23.5	14.4	4.6	2.5	13.7	14.5	27.0
2003	22.8	16.1	4.7	3.4	13.0	13.5	26.4
2004	24.6	22.3	3.9	2.6	11.0	12.5	23.1
2005	23.9	27.0	4.0	2.3	9.7	12.1	21.0
2006	21.1	35.2	3.8	1.8	8.7	9.8	19.7
2007	23.2	23.1	4.2	2.5	11.2	12.5	23.4

Sources: <http://unstats.un.org>, World Bank (2009c).

Remark: Agriculture includes hunting, forestry and fishing
Mining includes utilities.
Trade includes wholesale and retail trade, restaurants and hotels.
Transport includes Transport, storage and communications.

**Table A2 Sector distribution to total value added produced at constant 1990 prices.
Percentages**

<i>Year</i>	<i>Agri-culture</i>	<i>Mining</i>	<i>Manu-facturing</i>	<i>Const-ruction</i>	<i>Trade</i>	<i>Trans-port</i>	<i>Other</i>
1989	15.7	15.3	9.2	3.7	22.8	15.3	18.0
1990	16.0	15.9	9.6	2.9	23.2	14.9	17.5
1991	16.5	15.1	8.9	2.6	22.0	9.9	25.0
1992	18.0	14.9	9.2	1.6	18.8	9.0	28.6
1993	18.0	14.5	8.7	1.3	20.4	8.8	28.2
1994	18.1	14.9	8.2	1.5	20.0	8.5	28.8
1995	18.1	14.9	10.6	1.5	19.2	8.0	27.8
1996	17.7	15.7	8.5	1.5	18.0	8.3	30.3
1997	18.2	17.0	7.3	1.4	20.5	8.6	27.0
1998	19.1	17.7	7.4	1.4	19.9	10.0	24.5
1999	19.2	17.9	6.9	1.3	19.4	8.8	26.3
2000	15.7	18.5	6.5	1.1	23.2	8.4	26.6
2001	12.3	18.3	8.6	1.2	23.5	9.3	26.8
2002	10.1	14.8	10.0	1.4	27.1	10.2	26.5
2003	9.9	12.9	10.7	2.0	27.5	10.8	26.2
2004	10.8	16.9	9.7	1.7	24.8	11.0	25.2
2005	11.1	18.6	7.2	1.9	23.9	12.5	24.8
2006	11.0	17.9	7.6	1.8	25.2	12.9	23.5
2007	10.6	16.2	9.0	1.7	25.7	11.5	25.2

Sources: <http://unstats.un.org>, World Bank (2009c).

Remark: Agriculture includes hunting, forestry and fishing
Mining includes utilities.
Trade includes wholesale and retail trade, restaurants and hotels.
Transport includes Transport, storage and communications.

Table A3 Development of GDP and of Value Added by Main Economic Sectors. Index: 1989=100.

	<i>GDP</i>	<i>Agri-culture</i>	<i>Mining</i>	<i>Manufacturing</i>	<i>Const- ruction</i>	<i>Trade</i>	<i>Trans- port</i>
1989	100	100.0	100.0	100.0	100.0	100.0	100.0
1990	97.5	98.7	100.4	100.2	75.4	98.6	94.4
1991	88.5	94.3	88.6	86.6	62.9	86.6	57.8
1992	80.1	92.4	78.6	80.5	34.3	66.9	47.5
1993	77.7	89.9	74.5	73.9	28.8	70.5	45.3
1994	79.5	92.3	78.0	71.4	31.8	70.5	44.2
1995	84.5	96.2	81.2	95.8	35.1	70.5	43.7
1996	86.5	100.4	91.4	82.5	36.0	70.9	48.6
1997	90.0	104.7	100.7	71.1	35.1	81.7	51.0
1998	93.2	111.6	105.9	73.5	34.6	80.2	60.3
1999	96.1	116.5	111.6	71.4	35.1	81.3	54.9
2000	97.2	98.0	118.6	69.2	30.1	100.1	54.1
2001	100.1	79.6	121.7	94.9	33.7	104.9	61.7
2002	104.8	69.6	104.3	116.8	40.8	128.8	71.7
2003	112.2	72.8	96.7	133.6	62.2	139.4	81.6
2004	124.0	86.3	139.3	131.8	59.6	137.2	90.4
2005	133.0	95.9	165.1	106.4	69.1	142.4	111.1
2006	144.5	103.1	172.6	120.6	72.6	163.6	124.5
2007	158.8	108.0	169.7	156.8	76.6	181.2	120.3

Sources: <http://unstats.un.org>, World Bank (2009c).

Remark: Figures based on Tugrik at 1990 constant sector prices.
 Agriculture includes hunting, forestry and fishing
 Mining includes utilities.
 Trade includes wholesale and retail trade, restaurants and hotels.
 Transport includes transport, storage and communications.

Table A4 Development of employment, value added and labour productivity by economic sector, 1994-2007

	1994	2000	2003	2007
Employment (1,000)				
Agriculture	339.6	393.5	387.5	385.6
Mining & utilities	36.7	39.9	54.6	75.2
Manufacturing	63.2	54.6	54.9	47.9
Construction	27.3	23.4	35.1	60.0
Trade & restaurants	84.7	97.2	153.0	194.6
Transport & com.	31.5	34.1	39.5	44.1
Other	176.8	166.3	201.9	216.7
All sectors	759.8	809.0	926.5	1024.1
Value added (million tugrik)				
Agriculture	4,777.3	4,471.4	3,686.7	5,240.7
Mining & utilities	1,774.7	1,888.9	2,613.2	5,226.7
Manufacturing	900.8	631.2	767.4	950.2
Construction	147.2	259.7	544.9	567.6
Trade & restaurants	1,716.1	1,647.2	2,111.4	2,534.3
Transport & com	881.1	1,488.2	2,191.5	2,820.5
Other sectors	2,129.5	3,624.6	4,268.8	5,296.1
All Sectors	12,326.3	14,011.2	16,183.9	22,636.0
Labour productivity, tugrik				
Agriculture	14,067	11,363	9,517	13,591
Mining & utilities	48,357	47,341	47,861	69,504
Manufacturing	14,253	11,560	13,978	19,837
Construction	5,392	11,098	15,524	9,460
Trade & restaurants	20,261	16,947	13,800	13,023
Transport & com.	27,971	43,642	55,481	63,957
All sectors	16,223	17,319	17,468	22,103

Remark: Value added based on current prices discounted by GDP deflator to reflect 1990 prices.

Sources: <http://unstats.un.org>; <http://laborsta.ilo.org>.

**Table A5 Development of value added, employment and productivity by economic sectors.
Index: 1994=100.**

	2000	2003	2007
Employment			
Agriculture	116	114	114
Mining & utilities	109	149	205
Manufacturing	86	87	76
Construction	86	129	220
Trade & restaurants	115	181	230
Transport & com.	108	125	140
Other	94	114	113
All sectors	106	122	135
Value added			
Agriculture	94	77	110
Mining & utilities	106	147	295
Manufacturing	70	95	105
Construction	176	370	386
Trade & restaurants	96	123	148
Transport & com.	169	249	320
Other	170	200	249
All sectors	114	131	183
Labour productivity			
Agriculture	81	68	97
Mining & utilities	98	99	143
Manufacturing	81	98	139
Construction	206	288	175
Trade & restaurants	84	68	64
Transport & com	156	198	229
All sectors	107	108	136

Source: Based on Table A4.

**Table A6 Development of value added by economic sector broken down on components.
Index 1990=100.**

	By volume				By value				Terms of trade changes			
	1994	2000	2003	2007	1994	2000	2003	2007	1994	2000	2003	2007
Agriculture	93.4	99.0	73.8	109.4	198.0	185.3	152.8	217.2	2.12	1.87	2.07	1.98
Mining & utilities	77.7	118.1	96.3	169.0	74.2	79.0	109.2	218.5	0.95	0.67	1.13	1.29
Manufacturing	71.2	69.0	133	156.5	62.6	43.9	53.3	66.0	0.88	0.64	0.40	0.42
Construction	42.2	39.9	79.0	101.6	34.3	60.5	77.8	132.3	0.82	1.52	98.5	1.30
Trade & restaurants	71.4	101.5	141.4	183.8	49.2	47.2	60.5	72.7	0.69	0.47	0.43	0.40
Transport & com.	46.9	57.3	86.5	127.5	39.2	66.2	97.5	125.5	0.84	1.16	1.13	0.98

Remarks: By volume: At constant sector specific prices
 By value: Current value adjusted by GDP deflator
 Terms of Trade Change: By value / by volume

Sources: <http://unstats.un.org>, World Bank (2009c).

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Constraints and challenges for achieving inclusive job-rich growth in Mongolia

Initial diagnostics

Per Ronnås

Background

During the socialist period Mongolia prided itself with having achieved full employment, even though it may not always have been very productive. A complex system of cross-subsidisations and administratively set prices made any estimates of productivity near-naught impossible and blurred the relationship between wages and productivity.

Table 1: Development of GDP 1989 - 2009

<i>Year</i>	<i>% growth</i>	<i>Index: 1989=100</i>
1989		100
1990	-2.5	97.5
1991	-9.2	88.5
1992	-9.5	80.1
1993	-3.0	77.7
1994	2.3	79.5
1995	6.3	84.5
1996	2.4	86.5
1997	4.0	90.0
1998	3.5	93.2
1999	3.2	96.1
2000	1.1	97.2
2001	3.0	100.1
2002	4.7	104.8
2003	7.0	112.2
2004	10.6	124.0
2005	7.3	133.0
2006	8.6	144.5
2007	9.9	158.8
2008	8.9	173.0
2009	2.7	177.7

Sources: <http://unstats.un.org>; World Bank (2009c).

Remark: Population is estimated to have increased by approximately 28 per cent over the period.

The collapse of the socialist system, the abrupt transition to a market based economy and the accompanying reorientation of external relations had dramatic consequences on employment as well as on the economy and society as a whole.¹ In aggregate economic terms the rapid economic decline that characterised the first years of transition bottomed out already in 1993 (Table 1). However, the subsequent economic recovery was slow. It took altogether twelve years to regain the level of economic production, as measured by GDP, of 1989. Growth picked up substantially after 2002.

¹ A number of good analysis of employment and labour market aspects of the turbulent years in the early 1990s exist. See for instance, Griffin (1995), Brun, Ronnås and Narangoa (1999).

Between 2002 and 2008, the last year before the onslaught of the global financial crisis, GDP increased by 65 per cent, that is by almost 9 per cent per year.

However, aggregate GDP data mask much of the drama that took place on the labour market and in the economy and livelihood of virtually every Mongolian household. Formal sector wage employment declined precipitously in the early years of the transition at the same time as rampant inflation eroded the purchasing power of wages.² The changes in the rural areas were no less dramatic. The main building block of the economic and social infrastructure in the rural areas was the herding collectives – *negdels* – which were multipurpose units meeting most aspects of the herding households' economic and social needs, ranging from free education and health care to veterinary and marketing facilities.³ The collapse of the *negdels* in the early 1990s left a void that, two decades later, has yet to be adequately filled.

Table 2: Participation in the Labour Force

	1991a	1995a	1998	2003	2008
Total population	2,187.2	2,317.5	2,291.3	2,476.6	2,645.5
Active age groups *	1,069.2	1,186.2	1,417.0	1,636.1	1,848.9
- men			686.8	789.5	888.4
- women			730.2	846.6	960.6
Active population	851.1	839.8	839.2	958.0	1,071.5
- men	446.1		435.8	482.9	524.9
- women	413.9		403.4	475.0	546.6
LFP rate % *	79.6	70.8	59.2	59.2	58.0
- men			63.5	61.2	59.1
- women			55.2	56.1	56.9
Dependency ratio, actual	1.57	1.76	1.73	1.59	1.47
Dependency ratio, age-based*	1.05	0.95	0.62	0.51	0.43

*Active age groups defined as men aged 15-60 and women aged 15-55 in 1991 and 1995, but as all men and women aged 15+ in 1998, 2003 and 2008.

Sources: Brun, Ronna & Narangoa (1999: 18); <http://laborsta.ilo.org>

Remark: Figures for 1991 and 1995 (other than total population) refer to the age group 15-60 for men and 15-55 for women. Figures for 1998, 2003 and 2008 refer to population aged 15+. All figures are based on official estimates. All figures refer to officially estimated de jure population. Note that total employment registered in the 2000 population census, presumably using a different definition, was 779.2 thousand. Actual dependency ratio calculated as non-active population divided by active population. Age-based dependency ratio calculated as population in non-active age groups divided by population in active age groups. Active age groups were 15-60 for men and 15-55 for women in 1991 and 1995, but those aged 15+ for both sexes for subsequent years.

² Most of the existing state-owned enterprises, established as cogs in a centrally planned economy, collapsed at the same time as there was an uncontrolled shedding of labour in the public sector as the fiscal base dwindled. Consumer prices increased 18 times between 1989 and 1993.

³ For a detailed analysis of the transformation of the rural economy and society in the 1990s, see Bruun and Edgaard (1996). For an analysis of more recent developments, see Morris and Bruun (2005).

The employment and labour market impact of the economic transition and turmoil took several forms (Table 2). There was a withdrawal from the labour force as employment opportunities lost were not replaced with new ones, resulting in an absolute decrease of the labour force despite an increase in the economically active age groups. The participation rate in the labour force, using a narrow definition of the economically active age groups,⁴ fell from 80 to 71 per cent between 1991 and 1995 and would seem to have continued to fall, albeit at a slower rate at least until the end of the decade.

The contraction of formal sector wage employment and the urban labour market also resulted in a large return flow of people from urban to rural areas and a resort to herding and to various types of informal sector activities in the urban areas. Between 1989 and 1998 the share of the population living in rural areas increased from 43 to 50 per cent, while the share of agriculture in total employment increased from 32 to 49 per cent.⁵ The flight into herding was primarily driven by push factors, but there were also pull factors at play. For many it obviously offered the sole remaining option for making a living. However, a rapid improvement in the agricultural terms of trade - that is in the relative prices of agricultural prices as against the prices of non-agricultural goods and services - clearly played a major role in cushioning the negative implications on labour productivity and returns to labour from the rapid increase in the number of herders. The combined effect of a massive increase of the number of herders and, in particular, improved relative prices for agricultural inputs was an increase of the contribution of value added produced in the agricultural sector to GDP from 16 per cent in 1990 to 46 per cent in 1996 and 40 per cent in 1998 (Appendix, Table 1). When measured at constant 1990 prices this increase was much more modest; from 16 per cent in 1990 to 19 per cent in 1998 (Appendix, Table 2). The poor resource endowment of most of the 'new' herders and the distressful circumstances under which decisions to take up herding often were taken are reflected in the fact that the average number of animals per herder household fell from 115 in 1990 to 48 in 2000.⁶

Table 3: Headcount poverty in Mongolia. Percentages

	1995	1998	2002/03	2007/08
All areas	36.3	36.2	36.1	35.2
Urban	38.5	39.4	30.3	26.9
- Ulaanbataar	35.1	34.1	27.3	21.9
Rural	33.1	32.6	43.4	46.6
Gini coefficient	0.31	0.34	0.33	0.36

Source: FIDI International (1999); National Statistical Office (2004a); (2009a).

By 1998 the headcount poverty rate had reached 36 per cent, somewhat higher in urban areas (39.4 per cent) than in rural areas (32.6 per cent) (Table 3). Lack of data precludes an analysis of the development of poverty in the early years of the transition, but it is clear that it did increase substantially. It also seems safe to conclude that the

⁴ The official definition of the economically age groups was 15-55 for women and 15-60 for men.

⁵ Griffin (2001: 77, 81).

⁶ Griffin (2001: 82). Calculated as 'standard units of livestock'.

sharp improvement in the prices of agricultural produce, somewhat cushioned the impact of the economic turmoil and decline on poverty.

The flight to rural areas and to herding came to an end in 2000-2002, as three consecutive severe winters with *dzuds* took an extremely heavy toll on livestock and deprived many herder families of their means of existence.⁷ Following an increase in agricultural employment, i.e. mainly herding, by some 54,000 people between 1994 and 2000, agricultural employment actually fell slightly between 2000 and 2003 (Appendix, Table 4). At the same time, the urban to rural exodus was reversed and immigration to Ulaanbaatar picked up speed.

Poverty remains widespread despite high growth

The long period of sluggish growth, which came to an end in 2003, was followed by a period of exceptionally high GDP growth, which lasted until the onslaught of the global financial crisis in late 2008. By 2008 GDP had increased by 65 per cent over 2002 and by 73 per cent over 1989. It would be reasonable to assume that the traumatic period of transition was at last over. Yet, despite this high rate of growth over a period of six years, official statistics suggest that the share of the population living below the poverty line fell only marginally; from 36 per cent in 2002/03 to 35 per cent in 2007/08 (Table 3).⁸ Despite years of rapid economic development, Mongolia was further away than ever from achieving the Millennium goal of reducing the number of people living in extreme poverty by half.

While the overall headcount poverty rate seems to have remained virtually constant at 35-36 per cent for over a decade, there have been significant changes in the rural – urban and regional distribution of poverty. Until 1998 rural – urban differences in poverty remained rather small (Table 3 and 4). Since then, the rural – urban poverty gap has increased significantly. Not only did rural poverty increase sharply between 1998 and 2002/03, which at least partly may be attributed to the impact of the three consecutive and severe *dzuds*, but poverty seems to have continued to increase to the point where by 2007/08 almost half of the rural population ostensibly lived below the poverty line. By contrast, poverty declined significantly in urban areas, from 39 per cent in 1998, to 30 per cent in 2002/03 to 27 per cent in 2007/08 (Table 3).

⁷ *Dzud* is the collective name for a variety of climatic conditions during the winter and spring that prevent animals from access to grazing, such as very deep or icy snow.

⁸ A recent World Bank presentation challenges the poverty estimates of the World Bank supported 2007-08 Household Socio-Economic Survey. This alternative estimate by the World Bank, based on an adjustment of the 2002/03 poverty line by the consumer price index suggests that poverty actually fell from 36.1 per cent in 2002/03 to 11.6 per cent in 2007/08 (World Bank [2009d]). The discrepancy between the two estimates is simply too large to be ascribed to measurement errors, suggesting that an in-depth analysis of the reliability and validity of the estimates are warranted. While the 2007/08 survey was designed to maximise comparability with the previous 2002/03 survey and has the distinct advantage of including a detailed methodological note in the publication, a *prima facie* analysis suggests that the rural poverty estimates, in particular, may be on the high side. The more recent World Bank estimate that poverty fell by 25 percentage units over a five year period in the context of an economic development that was rapid in quantitative GDP terms, but had a very poor employment content, borders on the incredible and cannot be taken at face value. As discussed below, fact remains that economic growth in the past decade did not result in any commensurate increase in productive employment and as a consequence the link between economic growth and improved incomes in general and incomes for the poor in particular was weak.

Table 4: Headcount Poverty in 2002/03 and 2007/08 by Area

	Headcount poverty rate %		% share of total population	
	2002/03	2007/08	2002/03	2007/08
Urban areas	30.3	26.9	55.4	60.8
- Ulaanbaatar	27.3	21.9	30.2	38.4
- Aimag centres	33.9	34.9	25.2	21.6
Rural areas	43.4	46.6	44.6	39.2
- Soum centres	44.5	42.0	16.2	13.4
- Countryside	42.7	49.7	28.4	25.8
Western region	51.1	47.1	17.0	15.4
Highlands	38.7	46.6	24.1	20.7
Central region excl. UB	34.4	30.7	19.5	16.3
Eastern region	34.5	46.7	9.3	7.4
Whole country	36.1	35.2	100.0	100.0

Source: National Statistical Office (2009a).

Remarks: A recent alternative World Bank calculation suggests that by 2007/08 headcount poverty had fallen to 8.8 per cent in urban areas, 15.5 per cent in rural areas and to 11.6 per cent in the country as a whole (World Bank [2009d]).

A more detailed breakdown reveals that the entire reduction in urban poverty was due to a sharp decline in poverty in Ulaanbaatar (Table 4). Headcount poverty actually increased somewhat in the other urban centres. Indeed, the main picture that emerges is a clear dichotomy between rapidly falling poverty in Ulaanbaatar on the one hand and stagnant or increasing headcount poverty rates in most of the rest of the country. There were also large regional changes in the incidence of poverty. It would appear that poverty fell in the Western and Central region, but increased considerably in the Highlands and in the Eastern Region (Table 4).

Table 5: Headcount poverty by educational level of head of household 2002/03 and 2007/08

	Headcount poverty rate %		Share of population	
	2002/03	2007/08	2002/03	2007/08
No education	45.8	58.0	4.2	3.9
Primary	45.6	51.5	14.2	11.9
Lower secondary (8 th grade)	45.5	48.1	27.5	23.1
Complete secondary	34.9	34.6	18.8	31.4
Vocational	40.7	25.3	10.2	13.0
Higher diploma	23.4	9.5	13.6	10.0
University	11.6	8.8	11.5	6.0
All levels	36.1	35.2	100.0	100.0

Source: National Statistical Office (2004a)(2009a).

The exposure to poverty varies considerably by the size of the household and by the educational level of the head of the household.⁹ The larger the size of the household, the higher the incidence of poverty. While only 13.4 per cent of the two member

⁹ The survey data do not yield information on the educational attainment of other household members.

households and 21.8 per cent of the three member households were below the poverty line in 2007/08, 53.4 per cent of the households with seven members and 69 per cent of the households with more than eight members suffered from income poverty.¹⁰ As might be expected, the level of education exerted a strong influence on the exposure to poverty (Table 5). Indeed, it would appear that the importance of education as a determining factor for poverty increased considerably between 2002/03 and 2007/08. Among those with at most lower secondary education (8 grades) the incidence of income poverty increased considerable over this period, while it fell for those with more than eight years of education. By 2007/08 more than half of the households where the head of household had no more than primary education lived below the poverty line (Table 5).

The challenge to increase productive employment

Productive employment is by far the most important link between economic growth and reduction of income poverty. Enhancing employment and returns to labour by (i) strengthening the productive resources of the poor and by (ii) opening up opportunities for everyone to make full use of the productive resources at hand are the main pillars of inclusive and job-rich growth as well as of poverty reduction.

Table 6: Productive employment achieved and required to reduce extreme poverty by half by 2015

	2003	2008	2015
Total population (1,000)	2,476.6	2,645.5	2,855
Population aged 15-59 (1,000)	1,488.9	1,688.6	1,920
Labour force (1,000)	950.1	1,067.1	1,248
Headcount poverty rate, %	36.1	35.2	(Target)18.0
Working poor (1,000)	343.0	375.6	225
Productively employed (1,000)	607.1	691.5	1,023
<i>Memorandum items</i>			
LFP rate	63.8	63.2	65
Dependency ratio, actual	1.59	1.48	1.28
Age-based dependency ratio	0.66	0.57	0.49
Unemployment rate		6.0	

Sources: <http://laborsta.ilo.org>; <http://esa.un.org>; National Statistical Office (2004a);(2009a).

Remarks : Figures for 2003 and 2008 based on official estimates. Estimates for 2015 based on UN population forecasts.
 Figures on labour force exclude those below the age of 15 and above the age of 59.
 Working poor is defined as those in the labour force but not earning enough to bring themselves and their dependents out of poverty. It was calculated as labour force x headcount poverty rate. It includes the unemployed poor.
 Productively employed defined as those in the labour force who are not working poor. It includes those unemployed who are not poor
 LFP rate: Labour force participation rate
 Actual dependency ratio: The total number of economically inactive divided by the total number of economically active (in the labour force).
 Age-based dependency ratio: The population aged below 15 or 60 and above divided by the population aged 15-59.
 Unemployment according to Household Socio-Economic Survey 2007/08.

¹⁰ National Statistical Office (2009a:30).

The glaring discrepancy in recent years between high rates of growth on the one hand and continued high rates of income poverty on the other hand reflects a failure of growth to generate sufficient productive employment. There have been insufficient opportunities for people living in poverty to effectively contribute to the economic development of the country and to fully benefit from the fruits of this development. Indeed, it seems fair to conclude that most Mongolians have not contributed as much as they could have to the economic development, nor have they benefited as much as they should have from it.

The failure of the high rates of growth to reduce poverty through creation of and improved access to productive employment is all the more disconcerting as this development took place in a highly conducive demographic context. Largely as a consequence of the sharp decline in birth rates after 1990 the dependency ratio has for some time improved considerably and is expected to continue to do so (Table 2 and 6). Defining the economically active age groups as those aged 15 years or more, it can be seen that the dependency ratio¹¹ fell from 0.62 in 1998 to 0.51 in 2003 to 0.43 in 2008 (Table 2). Using the more realistic definition of the economically age group as those aged 15 to 59 it can be seen that the age-based dependency ratio fell from 0.66 in 2003 to 0.57 in 2008 and is expected to fall further to 0.49 by 2015 (Table 6). The rapid fall of the dependency ratio has been the combined effect of reduced birth rates and the entering into the economically active age groups of the large number of children born in the 1970s and 1980s.

This stage in the economic transition is often called the demographic window of opportunity as it holds the potential of a substantial positive impact on incomes and poverty reduction. This impact can take several forms. First, a fall in the dependency ratio will automatically translate into higher per capita income a long as the economy manages to generate productive employment opportunities for the growing labour force. This is simply because each bread-winner will have fewer mouths to feed. Second, an improved dependency ratio increases the domestic capacity to save, not least at the household level. Savings, which in their turn translate into productive investments, result in higher growth, the creation of more and better employment opportunities and higher returns to labour. The main prerequisite for benefitting from this demographic window of opportunities is that the number of productive employment opportunities increases at pace with the growth of the economically active age groups and that there is a high degree of equality in terms of accessing these opportunities. The continued high levels of poverty suggest that so far the Mongolian economy has fallen short in both of these respects despite the high rates of growth between 2003 and 2008.

Indeed, the employment elasticity of growth fell sharply from 0.94 in 2000-03 to a mere 0.26 in 2003-2007 (Table 8).¹² More over, it would appear that less than three out of four additional jobs created were productive in the sense that they generated sufficient income to allow the employed and their dependents a standard a living

¹¹ Defined as the population in the non-economical active age groups divided by those in the economically active age groups, i.e. the average number of dependents per person belonging to the economically active age group.

¹² The reasons behind this decline are further analysed below.

above the poverty line (Table 7). Indeed, the ranks of the working poor continued to increase despite the high rate of growth and the improved dependency ratio.

Table 7: Actual and required growth of productive employment

	2003-2008		2008-2015	
	Total change	Annual change	Total change	Annual change
Total population	168.9	33.8	209.5	29.9
Population aged 15-59	199.7	39.9	231.4	33.1
Labour force	117.0	23.4	180.9	25.8
Productively employed	84.4	16.9	331.5	47.4
Working poor	32.6	6.5	-150.6	-21.5

Sources: See Table 6

Remarks: See Table 6

Tables 6 and 7 portray the development of productive employment and of the working poor in the 2003-08 period and cast this against the increase in productive employment needed to achieve the national goal of reducing headcount poverty to no more than 18 per cent by 2015.

A rough estimate suggests that the number of productive employment opportunities in the economy would need to increase by 332 thousand, from 691 thousand in 2008 to 1,023 thousand in 2015.¹³ In other words, the rate of creation of productive employment generation would need to increase from less than 17,000 per year between 2003 and 2008 to 47,000 per year between 2008 and 2015 if the target to reduce the share of the population living below the poverty line to 18 per cent is to be reached (Table 7). It can further be estimated that this would require the creation of some 181,000 additional productive jobs,¹⁴ while an almost as large number of existing working poor would need to enhance their income and return to labour – either through increasing the productivity of existing jobs or by moving to other more productive jobs – enough to allow themselves and their dependents to escape from poverty. This will clearly require not only continued high rates of economic growth, but, as importantly, a much higher quality of growth.

Table 8: Employment elasticity of growth

	2000-2003	2003-2007	2000-2007
Agriculture	(0.86)	-0.12	-0.12
Mining and utilities	0.96	0.38	0.50
Manufacturing	0.02	-0.54	-0.24
Construction	0.46	17.30	1.32
Trade & restaurants	2.04	1.36	1.86
Transport & communications	0.33	0.40	0.33
Other sectors	1.20	0.30	0.66
All sectors	0.94	0.26	0.43

Source: Appendix, Table 4

Remark: Figures in bracket indicate negative growth. Negative figures reflect a decline in employment despite growth. Figures above 1 indicate employment growth, but falling labour productivity.

¹³ The calculation is based on the official 2002/3 and 2007/8 poverty estimates

¹⁴ Assuming that no more than 18 per cent of the new net increase in the labour force will end up as working poor

The need to increase productive employment opportunities at a much faster pace than in the past is further underscored by the existence of a large pool of unutilised labour. Mongolia suffered a sharp decline in the labour force participation rate during the years of economic turmoil and transformation in the 1990s. Since then, the participation rate in the labour force has stagnated at a historically exceptionally low level. Hence, despite the considerable improvement in the age structure of the population, the actual dependency ratio measured as the number of persons each person in the labour force has to support remains very high. In addition, some six percent of the labour force is unemployed.¹⁵ Unemployment is particularly high among the young and in the urban centres outside Ulaanbaatar.¹⁶ Reducing unemployment and increasing labour force participation rates through increased productive employment opportunities could yield substantial benefits in terms of reducing the level of earnings needed by each breadwinner to bring him/herself and his/her dependents out of income poverty.¹⁷

The challenge to make growth more inclusive

Not only has the employment content of growth been low, but it has not been particularly inclusive either. Inequality in terms of consumption increased between 2002/03 and 2007/08 (Table 9). The overall Gini coefficient of consumption increased from 0.33 to 0.36, as the share of the consumption of the poorest quintile in total consumption fell from 7.5 to 7.2, while that of the richest quintile increased from 40.4 to 43.4. As income inequality tends to be higher than consumption inequality and in view of the equalising impact of public transfers, it may safely be concluded that inequality in terms of income from labour was higher than the figures in Table 9 suggest.

The most important aspect of increasing inequality was no doubt the increasing income and consumption gap between Ulaanbaatar on the one hand and the rest of the country in general and the countryside, in particular, on the other hand.¹⁸ While average consumption in Ulaanbaatar increased in real terms by some 16.5 per cent between from 2002/03 and 2007/08, it appears to have fallen by 8.2 per cent in the countryside. By the latter date, average per capita consumption in the countryside had fallen to less than 60 per cent of the average per capita consumption in Ulaanbaatar and to 75 per cent of the national average (Table 9).¹⁹

¹⁵ Unemployed are included in the labour force.

¹⁶ Youth unemployment (among those in the labour force aged 15-24) stood at 17 per cent in 2006/07, reaching 33 per cent in urban areas (UCW 2009: 41). Unemployment in the Aimag and Soum centres (among all active age groups) was 8.1 and 8.4 per cent respectively (National Statistical Office 2009:125).

¹⁷ Half of the households with an unemployed head of household live in poverty (National Statistical Office (2009a: 125)).

¹⁸ Urban areas consist of the capital, Ulaanbaatar, and the centres of the Aimags. Rural areas consist of Soum centres and the ‘countryside’.

¹⁹ National Statistical Office (2009a: 21).

Table 9: Inequality of consumption in 2002/03 and 2007/08

Area	<i>Gini coefficient of consumption</i>		<i>Average per capita consumption</i>			
			<i>Tugrik/month</i>		<i>Index: Mongolia = 100</i>	
	2002/03	2007/08	2002/03	2007/08	2003/03	2007/08
Urban areas	0.33	0.36	101,909	115,501	110	115
- Ulaanbaatar	0.33	0.36	108,612	126,494	117	125
- Aimag centres	0.32	0.34	93,894	97,680	101	97
Rural areas	0.31	0.32	81,504	81,010	88	80
- Soum centres	0.32	0.35	80,523	89,197	87	88
- Countryside	0.31	0.30	82,064	75,344	88	75
Whole country	0.33	0.36	92,814	100,865	100	100.0

Remark: Tugrik in 2007/08 constant prices

Sources: National Statistical Office (2009a: 21)

In addition, inequality also increased within the urban areas as well as within the soum centres. In Ulaanbaatar, the share of total consumption accounted for by the poorest quintile fell from 7.9 to 6.9 per cent, while the share of the richest quintile increased from 40.2 to 43.1 per cent.

Table 10: Decomposition of changes in headcount poverty between 2002/03 and 2007/08 by growth and inequality components. Percentages

	<i>Change in poverty</i>	<i>Growth component</i>	<i>Inequality component</i>
Urban areas	-3.4	-6.7	3.3
- Ulaanbaatar	-5.3	-7.3	2.0
- Aimag centres	1.0	-2.6	3.7
Rural areas	3.2	0.3	2.9
- Soum centres	-2.5	-6.7	4.2
- Countryside	-7.0	6.2	0.8
Western Region	-4.0	-1.8	-1.1
Highlands	7.9	4.8	3.1
Central region, excl. UB	-3.7	-7.9	4.2
Eastern region	12.2	4.7	7.4
Whole country	-0.9	-5.0	4.2

Source: National Statistical Office (2009a: 24).

Remark: The growth component refers to the decline in poverty that would have occurred if only the mean consumption had increased with no change in relative inequalities. A negative figure implies a positive impact on poverty, i.e. a decline in poverty.

The increase in inequality had major implications on the efficiency, or rather lack of efficiency, by which growth translated into reduced income poverty. As may be seen from Table 10, the increase in inequality all but neutralised the positive impact on poverty that growth would have had had it been distributionally neutral. Had growth taken place in a situation of unchanged income and consumption distribution, it would

have reduced headcount poverty by some 5 percentage units. In reality, poverty fell by a mere 0.9 percentages unit, the ‘shortfall of 4.2 percentage units being the consequence of increasing inequality.

Reasons behind the poor quality of growth

The lacklustre performance of economic growth in terms of generation of productive employment may be due to a number of factors.

- *The sector composition of growth* can exert a strong influence on the employment outcome of growth as the employment content of the value added often differs widely from one sector to another.²⁰ If growth is concentrated to sectors with low employment content, then it is likely to result in little increase in productive employment. The sector composition also has a strong bearing on the sustainability of the growth. A broad economic and export base where tradables²¹ play a predominant role as growth engine is generally perceived as a prerequisite for sustaining a high rate of economic growth.
- *The choice of technology* matters for the employment outcome of growth. The use of more labour intensive technology will obviously result in more employment intensive growth. In reality the choice of technology is often quite limited and tends to be closely linked to the product mix and sector composition. However, in some areas, such as public investments, there can be a scope for a wide choice.
- *Changes in the domestic terms of trade* matter. If the value of products and services produced in the labour intensive sectors fall relative to the price of more capital intensive goods, the employment and income of labour in the former sector will suffer and vice versa.
- *The prevalence and importance of rent seeking and rents in the economy*. Rent seeking implies a transfer of income from those who produce goods and services to others who are in a position to extract these rents. It is often associated with corruption, i.e. an abuse of power for personal gains, but it may also take other forms, such as excessive profits derived from a monopoly position, exploitation of natural resources etc. In a broader sense, yet still pertinent from the perspective of the employment content of growth, rents refer to incomes received from the possession of production factors other than labour, such as land, capital, and immaterial property rights.
- *Cyclical factors*. The impact on employment of changes in production typically occurs with a time lag. During periods of economic downturn, production often initially falls more rapidly than employment, while during periods of recovery production at least initially tends to increase faster than employment.

²⁰ The concept of employment content encompasses both the aspect of the quantity of labour used and the returns to labour, i.e. aggregate income accrued to the labour.

²¹ Tradables are goods and services exposed to international competition, that is they may be exported at the same time as production for the domestic market is exposed to competition from imports. The concept of tradables is usefully defined narrowly to exclude raw materials.

An examination of the Mongolian economy during the past decade reveals that several of the above factors were at play. Table 11 displays a striking disparity between the contributions of the various economic sectors to employment creation on the one hand and to value added, i.e. GDP, on the other hand. Over the 2003-2007 period mining²² and agriculture together accounted for almost two thirds of the growth in GDP, but for less than 20 per cent of the increase in employment. At the other end of the spectrum, trade, restaurants and related services accounted for 43 per cent of the employment growth, but for less than 7 per cent of the increase in GDP. Hence, employment growth in this sector took place at the expense of labour productivity, which actually fell.

The role of mining and agriculture as growth engines and the lacklustre employment generation in these two sectors – employment in agriculture actually fell between 2003 and 2007 – was attributable to quite different factors. The rapid growth of mining, which started after 2000 and gained speed after 2003, was closely related to the improvement in world market prices of copper and gold since the late 1990s. Between 2000 and 2007 the terms of trade of mining (and utilities) improved by almost 100 per cent. No doubt stimulated by the increase in prices, production also increased rapidly in volume terms, particularly after 2003. The combined effect of increases in prices and in the volume of production was a doubling of production in terms of value added between 2003 and 2007 (Table A5).²³ However, mining is by nature capital intensive rather than labour intensive. Furthermore, the price increases in all likelihood had little direct impact on employment. Most of the gains from the price increases benefited the exploiting companies and the government in the form of rents rather than those employed in the sector through increased wages.

Table 11: Sector distribution of employment and GDP. Percentages

	1994	2000	2003	2007
Share of total employment				
Agriculture	44.7	48.6	41.8	37.7
Mining and utilities	4.8	4.9	5.9	7.3
Manufacturing	8.3	6.7	5.9	4.7
Construction	3.6	2.9	3.8	5.9
Trade & restaurants	11.1	12.0	16.5	19.0
Transport & communications	4.1	4.2	4.3	4.3
Other sectors	23.3	20.6	21.8	21.2
All sectors	100.0	100.0	100.0	100.0
Share of GDP				
Agriculture	38.8	31.9	22.8	23.2
Mining and utilities	14.4	13.5	16.1	23.1
Manufacturing	7.3	4.5	4.7	4.2
Construction	1.2	1.9	3.4	2.5
Trade & restaurants	13.9	11.8	13.0	11.2
Transport and commerce	7.1	10.6	13.5	12.5
Other sectors	17.3	25.9	26.4	23.4
All sectors	100.0	100.0	100.0	100.0

Sources: <http://unstats.un.org>; <http://laborsta.ilo.org>

²² Including ‘utilities’.

²³ This trend was at least temporarily broken in 2008 as copper prices fell by 58 per cent between the first four months of 2008 and 2009. More recently, copper prices have started to pick up again, but they are not yet back at the pre-crisis level (World Bank [2009a][2009c]).

The story in agriculture has been quite a different one. The rapid growth of the agricultural sector in terms of value added since 2003 reflected to a large extent a recovery from the disastrous years of 2000-2002, not least in the form of a rebuilding of the stocks of animals lost during the three consecutive *dzuds*. Hence, the growth of the agricultural sector should be seen against the decline in production by over 25 per cent in volume terms between 2000 and 2003. Throughout the 1990s agriculture served as an employment buffer; as a source of employment and income of last resort as urban employment opportunities dried up. Following the three disastrous years at the turn of the millennium, a reverse flow of labour out of agriculture and from rural to urban areas commenced. This flight from agriculture continued even after production started to pick up again after 2003. Put in the context of the increasing production and labour productivity in the agricultural sector since 2003, it is both astonishing and highly worrisome that the poverty incidence among the agricultural labour force, i.e. mainly herders, seemingly increased sharply from 39 to 49 per cent between 2002/03 and 2007/08 (Table 13).

With the declining role of agriculture as a source of employment, trade, restaurants and hotels have become by far the most important sectors for employment generation. Since 2000 well over 40 per cent of the increase in employment has taken place in these sectors (Table 12). These sectors are, like most services sectors, labour intensive. However, between 2000 and 2007 the employment elasticity of growth in the trade, hotels and restaurants sectors reached 1.86, implying that employment growth took place at the expense of labour productivity (Table 8). What seems to have happened is that these sectors took over the role of source of employment of last resort from agriculture after the three consecutive *dzuds* around 2000.

Table 12: Sector contribution to GDP growth and to employment growth. Percentages

	1994-2000	2000-2003	2003-2007	1994-2007
Contribution to employment				
Agriculture	109.6	-5.1	-1.9	17.4
Mining & utilities	6.5	12.5	21.1	14.6
Manufacturing	-17.5	-0.3	-7.2	-5.8
Construction	-7.9	10.0	25.5	12.4
Trade & restaurants	25.4	47.5	42.6	41.6
Transport & com.	5.3	5.4	4.6	4.8
Other sectors	-21.3	30.3	15.2	15.1
Total	100.0	100.0	100.0	100.0
<i>Total (1,000)</i>	49.2	117.5	97.6	264.3
Contribution to value added				
Agriculture	-18.2	-36.1	24.1	4.5
Mining & utilities	6.8	33.3	40.5	33.5
Manufacturing	-16.0	6.2	2.8	0.5
Construction	6.8	13.1	0.4	4.1
Trade & Restaurants	-4.1	21.4	6.6	7.9
Transport & com.	36.0	32.4	9.7	18.8
Other sectors	88.8	29.6	15.9	30.1
Total	100.0	100.0	100.0	100.0
<i>Total (million tugrik)</i>	1,684.9	2,172.7	6,452.1	10,309.7

Value added based on current prices discounted by GDP deflator to reflect 1990 prices.

Sources: <http://unstats.un.org>; <http://laborsta.ilo.org>.

Almost two decades after the fall of the socialist system, the manufacturing sector has yet to be reconstructed. The manufacturing sector still accounts for less than 5 per cent of both GDP and employment. Following the virtual collapse of manufacturing in the early years of transition, a nascent textile industry developed, based on ample access to raw material – mainly cashmere – and a privileged access to *inter alia* the US market. With the abolishment of the multi-fibre agreement in January 2005 Mongolia lost its privileged access to key markets and the growth of the textile industry was brought to a halt as it found it difficult to face up to competition from countries such as China. Hence, the incipient reconstruction of the manufacturing sector was largely aborted, and manufacturing continued to decline in relative, if not absolute terms. The decline of the share of manufacturing in GDP can partly be explained by deteriorating terms-of-trade. Terms of trade for manufacturing fell sharply in the 1990s and by an additional 34 per cent between 2000 and 2007 (Table A6). The unfavourable development of terms-of-trade notwithstanding, the continued insignificance of manufacturing as a source of economic growth and employment creation is a severe concern.

Table 13: Headcount poverty by employment characteristics of head of household 2002/03 and 2007/08

	<i>Headcount poverty rate %</i>		<i>Share of population %</i>	
	2002/03	2007/08	2003/04	2007/08
Employment status				
Employed	33.6	34.3	71.5	75.7
Unemployed	48.7	54.4	3.0	4.2
Out of labour force	41.6	34.9	25.5	19.9
Employment by sector				
Agriculture	41.0	49.1	30.2	28.5
Industry	33.2	32.8	8.8	14.5
Services	26.9	20.9	32.6	30.3
Form of employment				
Herder	39.2	49.0	26.5	24.4
Other private	34.7	29.2	24.1	34.7
Public sector	25.9	22.4	17.9	11.4
State companies	21.6	14.6	3.0	3.4
All categories	36.1	35.2	100.0	100.0

Sources: National Statistical Office (2004a);(2009a: 81).

The need for a more broad based and job-rich growth, in which the manufacturing sector needs to play a much larger role, is based on several interlinked considerations.

- The reliance on mining and agriculture as growth engines and on the services sector as a source of employment creation makes for poor quality growth that is neither conducive to productive job creation and poverty reduction nor is it sustainable. As the present crisis has shown, it also makes the Mongolian economy highly exposed to the impact of external economic crises.
- An indispensable component in a strategy for rapid, yet sustainable and job-rich growth must be a diversification of Mongolia's exports and a gradual shift towards more processed goods with a higher value added in total exports. Manufacturing needs to play a key role in such a development.

Manufacturing plays a crucial role for several reasons:

- It can create upstream and downstream linkages to agriculture, thus facilitating as well as enhancing the growth impact of a development of agriculture and it is generally important to strengthen inter-sector linkages and to enhance multiplier effects in the economy.
- It is essential for the development of producer oriented services and thus a more broad-based development of the services sector.
- A diversified manufacturing base can create strong linkages and multiplier effects within the sector, at the same time as it would create an environment more conducive to furthering manufacturing growth.
- The growth enhancing impact of FDI would be greatly improved if FDI could be embedded in an environment where it can link up with domestic firms.
- A more broad based economy would in itself create a business environment better able to hold its own by reducing transaction costs. In particular in a situation where there are severe physical and other obstacles to trade in goods, which could otherwise compensate for the small size of the economy, this is a consideration that carries some weight.

At the heart of the problem of the dismal development of the manufacturing sector would seem to be a problem with competitiveness. By and large, economic growth in Mongolia has been confined to (i) natural resource extraction and (ii) services that are not exposed to any external composition. The only exception to this overall picture would seem to be animal husbandry and, in particular, production of cashmere for which Mongolia has a distinct natural comparative advantage. Hence, addressing the challenge of putting the country on a path of sustainable economic development that is both job-rich and inclusive requires addressing the problem of competitiveness.

Drawing on a growth diagnostic analysis,²⁴ the most recent World Bank country economic memorandum on Mongolia identifies five binding constraints in ‘need of immediate policy intervention’.²⁵

- Infrastructure bottlenecks, affecting not least external trade with and through China.
- Distortionary taxes, a very narrow tax base and complex customs and trade rules.
- Poor internal and international coordination between laws and regulations, trade and logistics, sector strategies and implementation plans as well as resource use and environmental degradation.
- Growing corruption and inadequate contract enforcement.
- A high cost of capital primarily due to poor financial intermediation.

According to the World Bank Enterprise survey of Mongolia in 2009²⁶ the three most important constraints facing firms in Mongolia were, in order of importance, (i) poor access to finance, (ii) tax rates and (iii) inadequate skills / education among the workforce. It would also seem that the high costs of trade imposed by geography are compounded by cumbersome bureaucratic procedures, not least for exporting. Both

²⁴ Ianovichina and Gooptu (2008).

²⁵ World Bank (2007a: ix-x).

²⁶ <http://www.enterprisesurveys.org>

the World Bank Enterprise Survey and the Doing Business Survey²⁷ point to very high trade related costs and time consuming procedures for customs formalities. The evidence with regard to the regulatory framework more generally is contradictory. While the Enterprise Survey points to a scope for streamlining and reducing the regulatory framework, the Doing Business Survey suggests that in most regards the regulatory framework impose less of a burden on firms in Mongolia than in most other countries in the Asia-Pacific region. On the other hand, at least the Enterprise Survey suggests that labour regulations are much less frequently identified as a constraint in Mongolia than in neighbouring countries

The regulatory and institutional framework is clearly very important. It is also an area where policy interventions can yield quick results. There are good reasons to take the identified shortcomings seriously and to take measures to remedy these. However, while these provide an important part of the picture, they do not provide the full picture.

Firstly, macroeconomic policies can matter greatly for competitiveness. For a resource-rich country such as Mongolia they present a particular challenge, as export of raw material generates large inflows of foreign exchange. These flows tend to be insensitive to changes in the exchange rate and have the effect of pushing up the value of the domestic currency, which in its turn is likely to have a detrimental impact on competitiveness. It is not clear that competitiveness has over the years been sufficiently in focus as a key objective for macroeconomic policies, such as exchange rate and trade policies. A study by UNDP the role of trade policy for human development and poverty reduction in Mongolia concludes that even within the framework of WTO membership, there is substantial unutilised scope for more active trade policies aimed at promoting inclusive economic growth and human development.²⁸ The sharp fall in the value of the Tugrik in 2009 followed after a long period of real appreciation of the Tugrik. This appreciation was primarily an effect of Mongolia's heavy reliance on export of minerals and the increase in world market prices of these minerals, but policy obviously also played a role. Not least in view of the challenges facing open resource rich countries in achieving competitiveness and broad-based economic development, a strong case can be made for a comprehensive review of macroeconomic policies from the perspective of competitiveness and sustainable and inclusive job-rich growth.

Secondly, to understand the constraints facing the firms and economic actors in Mongolia the concept of business environment needs to be expanded to include not only aspects related to the institutional and regulatory framework, but also to what for lack of better terms will be called the overall environment of economic actors. From the perspective of an individual economic actor or firm the presence of a dynamic and fairly large and sophisticated economic environment, with a multitude of different economic actors, is essential for its own possibilities to prosper. In economic terms this has to do with positive agglomeration effects, positive externalities and the possibility of reducing transaction costs for the individual firm, which depends on the ease with which an economic actor can interact with other economic actors, access information (about markets, technology etc.), market its products and services, obtain

²⁷ <http://www.doingbusiness.org>

²⁸ UNDP (2008)

support services etc. In other words, a low level of local economic activity is in itself an obstacle to economic development, creating a vicious circle that needs to be broken.

It should be remembered that the Mongolian economy is essentially being rebuilt from scratch and along entirely new lines. While the old economic structures were rather quickly destroyed after the collapse of the socialist economic system in the early 1990s, the reconstruction of the economy along the lines of a market economy has proved to be a much more protracted process. Hence, most of the structures of a modern market economy are still at a fairly early stage of development. This pertains not only to formal institutions and regulatory frameworks, but as importantly to economic agents providing support services, sources of inputs and market for outputs, complementary economic activities etc. The still early stage of development of these fabrics, which are crucial for competitiveness and for the prospects of individual firms to prosper and grow, puts Mongolia at a distinct disadvantage vis-à-vis most of its neighbouring countries in Asia, not least China. Hence, pro-active efforts to promote economic growth and sustainable enterprises aimed reducing the negative consequences that the weaknesses of the overall economic environment have for existing and potential firms and entrepreneurs are needed. It is essentially a question of the need for government to step in and provide in the form of public goods, services and functions that the market as yet do not adequately provide, largely with a view to reduce transaction costs in the economy and for individual firms.

The weak development of the overall economic environment has strong regional implications. While this economic fabric is now developing in Ulaanbaatar, it has yet to begin to develop in the rest of the country. Thus the rapid development and increasing sophistication of the economy in Ulaanbaatar in recent years is in itself creating an increasingly enabling environment for further economic development, in sharp contrast to the situation elsewhere in the country. Hence, pro-active efforts aimed not only at improving the institutional and regulatory aspects of the business environment, but also to compensate for the still weak ‘environment of economic actors’, will need to be combined with efforts to promote local economic development and to promote spatial economic integration. This will require central government working in tandem with local authorities and close collaboration between the authorities, employers’ and workers’ organisations and other key stakeholders at both the national and the local level.

Employability and labour market access

As discussed above, inequality has been on the rise in Mongolia. The gains from economic development have benefitted some, but far from all. Large groups in society have ended up as losers, not only in relative terms, but also in absolute terms. Indeed, income poverty has increased substantially among, herders, the rural population and those with low levels of formal education (Table 14).

The differentiation of the labour market into winners and losers, into those who attain productive employment and those who do not, is largely an issue of poor and unequal employability and labour market access.

Table 14: Poverty by main characteristics of head of household

	2002/03	2007/08
Sector of employment		
- Agriculture	41.0	49.1
Occupation		
- Herder	39.2	49.0
Location		
- Rural areas	43.4	46.6
Educational status		
- No education	45.8	58.0
- Primary education	45.6	51.5
- Lower secondary	45.5	48.1
All households	36.1	35.2

Sources: National Statistical Office (2009a: various tables).

Sustained economic growth is always associated with structural change. The sectors, occupations and geographic areas with the greatest potential for growth change over time and place, but they seldom coincide with those where the majority of the working poor and unemployed are to be found. For the working poor and unemployed to be able to access the opportunities offered by growth and structural change they must be sufficiently endowed with the factors that determine employability AND they must be sufficiently mobile. At the most basic level, the capabilities – employability profiles - of the working poor and unemployed must meet the requirements of emerging and existing opportunities for productive employment. However, there are also a large number of other factors that may limit the opportunities of the working poor and unemployed to access productive employment opportunities, even when the employability *per se* is no hindrance. Poorly functioning markets, not least credit markets, corruption and rent seeking tend to discriminate against the working poor in their role as entrepreneurs, thus unduly reducing their competitiveness and returns to labour. In certain situations labour market institutions may create insider – outsider problems. Poor geographic, vocational and social mobility may prevent the working poor and unemployed to move to more dynamic areas of the country and sectors of the economy. Cultural and social stereotypes may result in a fragmentation of the labour market along gender, ethnic or other lines, thus confining large parts of the labour force to specific segments of the labour market. A society that severely constrains the access of women to productive employment opportunities, will not only see higher inequality, but also lower growth and lower employment elasticity than a

society that offers equal opportunity. An inordinate burden of reproductive work may also limit women's ability to engage in economically productive work. The list of possible inhibiting factors can be made very long.

Table 15: School attainment among those aged 20-24, 2006/07. Percentages

<i>Level of education</i>	<i>Urban</i>	<i>Rural</i>	<i>All areas</i>
No schooling	1.6	9.3	4.6
Primary or less	2.7	20.1	9.5
Lower secondary	11.5	27.5	17.7
Upper secondary	58.9	31.7	48.3
Technical & professional	9.7	5.8	8.2
University	15.6	5.7	11.7
All levels	100.0	100.0	100.0

Source: UCW (2009:48). Data from 2006-07 Labour Force Survey

The most important differentiation of the Mongolian labour force with regard to their ability to access productive employment is 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 both in terms of employability and labour market access. The educational attainment of young people is distinctly lower in rural areas than in urban areas (Table 15). Only 43 per cent of the rural youth (aged 20-24) have completed upper secondary education or more, as against 84 per cent of the urban youth. Indeed, some 9.3 per cent of the rural youth have no formal education and an additional 20 per cent have at most completed primary education, leaving them singularly ill-equipped to become productively employed. Poor access to educational facilities, in particular at the higher levels, problems with the quality of education and competing uses of time, particularly for boys as herders, are likely to be some of the main reasons behind the poor educational attainment of the rural youth. Poor accumulation of human capital results in poor employability. Employability is further constrained by poor access to credit and, in some areas, an overpopulation of livestock and unsustainable land use.

Employability apart, the rural labour force is also handicapped in terms of access to productive employment opportunities. The poorly diversified economy outside the capital city implies that for most of the rural labour force the occupational options apart from herding are severely limited. For most, accessing productive non-agricultural employment requires moving to where the jobs can be found, that is to Ulaanbaatar.

It is also likely that the large rural – urban gap reflects a negative selection. In recent years increasing numbers of people have moved to the capital attracted by better educational opportunities for themselves or their children and by better employment opportunities.

Thus, poor employability and poor access to productive employment opportunities combine to perpetuate and indeed increase poverty in the rural areas and in many *aimag* centres. Breaking this trend will require addressing both of these factors. Educational opportunities for the rural young need to be improved in regard to both availability and quality. A diversification of the economy in *aimag* and *soum* centres is also needed to increase non-farm employment opportunities as well as to create

conditions for a more dynamic and sustainable development of the agricultural sector and of the regional economies outside the capital at large. This will require a development of non-farm economic activities and a strengthening of the rural – urban economic linkages.

Inequalities in employability and access to productive employment also take other dimensions. Despite the fact that young women surpass their male peers in terms of educational achievements, they often end up as losers on the labour market. The wage gap between women and men has increased in recent years (Table 16). To a certain extent this may reflect an overrepresentation of women in low-wage sectors, such as trade. However, also within individual sectors there has been a distinct increase in the wage gap.

Table 16: Average wage by gender and economic sector in 2007. In USD

	2000			2007		
	All	Female	Male	All	Female	Male
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>.

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.²⁹ On the other hand, young women are somewhat more likely than the young men to obtain wage employment.³⁰

In recent years a mismatch between the knowledge, competences and skills produced by the educational system and those in demand by firms and enterprises has emerged as an important issue. This mismatch is manifested in difficulties for firms to find and recruit workers with the desired skills and competences³¹ on the one hand and high rates long term unemployment both generally and among youth, a long transition period between leaving school and entering the labour market and difficulty in accessing formal sector wage employment on the other hand. A recent World Bank study³² concluded that the three interrelated problems of joblessness, informality and skills mismatches have a common root in a poor quality and relevance of the skills and competences produced by the educational system. It concludes that ‘the same lack of relevant skills that prevent people from getting a formal job also makes workers

²⁹ UCW (2009:36). Figures are from the 2006/07 labour force.

³⁰ 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]).

³¹ According to the 2004 Investment Climate Survey (ICS) some 30 per cent of the firms thought that the supply of skilled and educated workers was ‘major’ or ‘severe’ concern (World Bank [2007:14]). However, it should be noted that the ICS was biased towards ‘modern’, formal sector private firms.

³² World Bank (2007).

unable to perform well the tasks required by employers'.³³ The problem is not new. A recent study on youth employment outcomes in Mongolia found that the problems of youth unemployment and difficulties in entering the labour market were even more severe in 2002 than in 2006³⁴

It seems essentially to be a question of a slow supply response to a rapidly changing demand for skills, education and knowledge. This slow response is in its turn due to two main factors. Firstly, formal education and skills are generally obtained in youth prior to entering the labour market. The concept of lifelong learning has yet to make a real impact in Mongolia. Hence, the formal education and skills of a large part of the labour force have been rendered increasingly obsolete by the dramatic changes in the economy and labour market since the early 1990s. Second, it would appear that the education and vocational training system is not yet geared up to meet the requirements of the Mongolian labour market of today and tomorrow. There are complaints about inadequate quality and relevance at both the lower and higher levels of education, a lack of universal standards, curriculum and quality control in higher education and a general lack of accessibility in rural areas.³⁵ A recent World Bank study identifies a number of measures to remedy this situation.

- A system of universal standards in higher education needs to be implemented. A universal system of quality control and assurance needs to be put in place to reign in the proliferation of private institutions of higher learning offering education of uncertain and often poor quality.
- While most adolescents complete lower secondary education the learning achievement is low. The quality of basic education needs to be improved and teaching methods modernised. Improving basic education in rural areas deserve particular focus to close the rural – urban gap in education.
- Vocational education and other forms of ‘post-basic’ education need to be developed and its form and content need to be modernised and put in tune with labour market demands.
- Meeting the growing demand for ‘postbasic’ skills requires connecting school and work, which will require close links and partnerships between industry and schools.
- Second chance programmes need to be developed to offer opportunities for those who have already left the educational system to improve their employability.

Lastly, cultural factors may also play a role. The high prestige attached to a university degree may explain a demand for higher education beyond what would be motivated by an assessment of expected private returns as well as detract attention from the issue of labour market relevance. Anecdotal evidence of problems of adjusting from the independence and self-reliance of a life as a herder to a nine to five job and the rigours of wage employment is also at times advanced as an source of ‘reduced’ employability.

³³ World Bank (2007:ii).

³⁴ UCW (2009: 37). Figures based on labour force surveys.

³⁵ See for instance World Bank (2007).

Summary conclusions

Economic development in Mongolia has neither been job-rich nor inclusive. Despite high rates of growth until 2008 income poverty fell only marginally and the generation of productive employment remained at very low levels and far below what would have been needed to effectively reduce poverty. The main causes behind the poor employment content of growth had to do with the quality of growth. Growth was largely confined to the mining and the agricultural sectors where for different reasons it resulted in little new productive employment. A much more broad-based economic development, where the manufacturing sector and the production of tradables would need to play a much more prominent role, is needed to make economic development more efficient in terms of generation of productive employment as well as to make it sustainable. At the heart of the lack of broad-based growth and of the dismal development of the manufacturing sector would seem to be a problem with competitiveness.

Another key reason behind the failure of growth to effectively reduce poverty has been increasing inequality, which in its turn to a large extent may be attributed to shortcomings and inequality with regard to employability and labour market access. A main divide in this regard has over the past decade developed between Ulaanbaatar on the one hand and most of the rest of the country on the other hand. At the heart of the contrast between rapidly falling poverty in the capital and increasing poverty rates in rural areas and in many smaller towns lies an increasing inequality of access to productive employment. It would also appear that gender inequality on the labour market is on the increase. Despite education and skill levels at par or better than those of their male peers, women often end up as losers on the labour market suggesting that there are problems of labour market discrimination that would need to be addressed.

Addressing the challenge of putting Mongolia on a path of sustainable economic development that is both job-rich and inclusive thus requires addressing the problem of competitiveness as well as the issue inequality in access to productive employment.

The problem of competitiveness is likely to be complex. The roots of the problem may be found in four main areas.

- Macroeconomic policies
- The institutional and regulatory framework for enterprises and entrepreneurs
- The overall environment of economic actors
- Shortages of human capital with adequate and relevant education, skills and competences.

An exploration of the role of macroeconomic policies will require a thorough assessment of these policies from the perspective of competitiveness and job-rich growth, with a particular focus on trade, exchange rate and monetary policies. The institutional and regulatory framework has been subjected to repeated scrutiny through various investment climate and ‘doing business’ surveys. Much knowledge can no doubt be pieced together from the result of these surveys, but the perspective would need to be somewhat recast with a stronger focus on sustainable enterprises

and SMEs. By comparison constraints and challenges resulting from weaknesses in the ‘overall environment of economic actors’ in Mongolia, i.e. high transaction costs resulting from lack of positive externalities and agglomeration effects, have remained less well understood and are likely to require a major analytical and investigative effort. Mismatches of skills and short-comings with regard to the relevance and quality of education, skills and competences of the labour force may act both as a constraint on growth and as a source of poor and unequal labour market access and inequality and would need to be analysed from both of these perspectives.

The problem of the geographic polarisation of economic development with an increasingly dynamic and sophisticated economy in the capital and lack of any such development in most of the rest of the country merits special attention. Successfully addressing this issue is essential for reducing inequality in access to productive employment and poverty. Arguably, it is also important for achieving sustainable and job-rich growth in the country as a whole. Fostering a dynamic and broad-based economic development outside the capital will require well-conceived and forceful local and regional development efforts backed up by suitable policies at the national level. This, in its turn will require a good understanding of the nature of the main constraints on entrepreneurship and enterprise development in urban centres outside the capital and the scope for government interventions to remove or mitigate these constraints.

Appendix

Table A1 Sector distribution to total value added produced at current prices. Percentages

Year	Agriculture	Mining	Manufacturing	Construction	Trade	Transport	Other
1989	16.2	14.4	8.8	3.4	22.4	14.7	20.1
1990	16.0	15.9	9.6	2.9	23.2	14.9	17.5
1991	14.2	13.1	7.6	2.2	30.9	8.0	24.0
1992	31.4	13.7	8.9	1.1	18.1	6.7	20.1
1993	36.8	13.9	8.1	0.9	18.9	5.7	15.7
1994	38.8	14.4	7.3	1.2	13.9	7.1	17.3
1995	38.8	12.2	11.1	1.5	14.7	5.7	15.9
1996	46.1	11.6	4.8	2.6	9.8	6.8	18.3
1997	38.6	16.3	5.3	2.1	13.2	7.3	17.1
1998	40.3	11.7	4.6	2.4	12.7	8.3	20.1
1999	39.5	11.4	4.5	2.4	11.2	8.6	22.4
2000	31.9	13.5	4.5	1.9	11.8	10.6	25.9
2001	28.4	12.2	5.9	2.0	12.2	12.8	26.5
2002	23.5	14.4	4.6	2.5	13.7	14.5	27.0
2003	22.8	16.1	4.7	3.4	13.0	13.5	26.4
2004	24.6	22.3	3.9	2.6	11.0	12.5	23.1
2005	23.9	27.0	4.0	2.3	9.7	12.1	21.0
2006	21.1	35.2	3.8	1.8	8.7	9.8	19.7
2007	23.2	23.1	4.2	2.5	11.2	12.5	23.4

Sources: <http://unstats.un.org>, World Bank (2009c).

Remark: Agriculture includes hunting, forestry and fishing
Mining includes utilities.
Trade includes wholesale and retail trade, restaurants and hotels.
Transport includes Transport, storage and communications.

**Table A2 Sector distribution to total value added produced at constant 1990 prices.
Percentages**

<i>Year</i>	<i>Agri-culture</i>	<i>Mining</i>	<i>Manu-facturing</i>	<i>Const-ruction</i>	<i>Trade</i>	<i>Trans-port</i>	<i>Other</i>
1989	15.7	15.3	9.2	3.7	22.8	15.3	18.0
1990	16.0	15.9	9.6	2.9	23.2	14.9	17.5
1991	16.5	15.1	8.9	2.6	22.0	9.9	25.0
1992	18.0	14.9	9.2	1.6	18.8	9.0	28.6
1993	18.0	14.5	8.7	1.3	20.4	8.8	28.2
1994	18.1	14.9	8.2	1.5	20.0	8.5	28.8
1995	18.1	14.9	10.6	1.5	19.2	8.0	27.8
1996	17.7	15.7	8.5	1.5	18.0	8.3	30.3
1997	18.2	17.0	7.3	1.4	20.5	8.6	27.0
1998	19.1	17.7	7.4	1.4	19.9	10.0	24.5
1999	19.2	17.9	6.9	1.3	19.4	8.8	26.3
2000	15.7	18.5	6.5	1.1	23.2	8.4	26.6
2001	12.3	18.3	8.6	1.2	23.5	9.3	26.8
2002	10.1	14.8	10.0	1.4	27.1	10.2	26.5
2003	9.9	12.9	10.7	2.0	27.5	10.8	26.2
2004	10.8	16.9	9.7	1.7	24.8	11.0	25.2
2005	11.1	18.6	7.2	1.9	23.9	12.5	24.8
2006	11.0	17.9	7.6	1.8	25.2	12.9	23.5
2007	10.6	16.2	9.0	1.7	25.7	11.5	25.2

Sources: <http://unstats.un.org>, World Bank (2009c).

Remark: Agriculture includes hunting, forestry and fishing
Mining includes utilities.
Trade includes wholesale and retail trade, restaurants and hotels.
Transport includes Transport, storage and communications.

Table A3 Development of GDP and of Value Added by Main Economic Sectors. Index: 1989=100.

	<i>GDP</i>	<i>Agri-culture</i>	<i>Mining</i>	<i>Manufacturing</i>	<i>Const- ruction</i>	<i>Trade</i>	<i>Trans- port</i>
1989	100	100.0	100.0	100.0	100.0	100.0	100.0
1990	97.5	98.7	100.4	100.2	75.4	98.6	94.4
1991	88.5	94.3	88.6	86.6	62.9	86.6	57.8
1992	80.1	92.4	78.6	80.5	34.3	66.9	47.5
1993	77.7	89.9	74.5	73.9	28.8	70.5	45.3
1994	79.5	92.3	78.0	71.4	31.8	70.5	44.2
1995	84.5	96.2	81.2	95.8	35.1	70.5	43.7
1996	86.5	100.4	91.4	82.5	36.0	70.9	48.6
1997	90.0	104.7	100.7	71.1	35.1	81.7	51.0
1998	93.2	111.6	105.9	73.5	34.6	80.2	60.3
1999	96.1	116.5	111.6	71.4	35.1	81.3	54.9
2000	97.2	98.0	118.6	69.2	30.1	100.1	54.1
2001	100.1	79.6	121.7	94.9	33.7	104.9	61.7
2002	104.8	69.6	104.3	116.8	40.8	128.8	71.7
2003	112.2	72.8	96.7	133.6	62.2	139.4	81.6
2004	124.0	86.3	139.3	131.8	59.6	137.2	90.4
2005	133.0	95.9	165.1	106.4	69.1	142.4	111.1
2006	144.5	103.1	172.6	120.6	72.6	163.6	124.5
2007	158.8	108.0	169.7	156.8	76.6	181.2	120.3

Sources: <http://unstats.un.org>, World Bank (2009c).

Remark: Figures based on Tugrik at 1990 constant sector prices.
 Agriculture includes hunting, forestry and fishing
 Mining includes utilities.
 Trade includes wholesale and retail trade, restaurants and hotels.
 Transport includes transport, storage and communications.

Table A4 Development of employment, value added and labour productivity by economic sector, 1994-2007

	1994	2000	2003	2007
Employment (1,000)				
Agriculture	339.6	393.5	387.5	385.6
Mining & utilities	36.7	39.9	54.6	75.2
Manufacturing	63.2	54.6	54.9	47.9
Construction	27.3	23.4	35.1	60.0
Trade & restaurants	84.7	97.2	153.0	194.6
Transport & com.	31.5	34.1	39.5	44.1
Other	176.8	166.3	201.9	216.7
All sectors	759.8	809.0	926.5	1024.1
Value added (million tugrik)				
Agriculture	4,777.3	4,471.4	3,686.7	5,240.7
Mining & utilities	1,774.7	1,888.9	2,613.2	5,226.7
Manufacturing	900.8	631.2	767.4	950.2
Construction	147.2	259.7	544.9	567.6
Trade & restaurants	1,716.1	1,647.2	2,111.4	2,534.3
Transport & com	881.1	1,488.2	2,191.5	2,820.5
Other sectors	2,129.5	3,624.6	4,268.8	5,296.1
All Sectors	12,326.3	14,011.2	16,183.9	22,636.0
Labour productivity, tugrik				
Agriculture	14,067	11,363	9,517	13,591
Mining & utilities	48,357	47,341	47,861	69,504
Manufacturing	14,253	11,560	13,978	19,837
Construction	5,392	11,098	15,524	9,460
Trade & restaurants	20,261	16,947	13,800	13,023
Transport & com.	27,971	43,642	55,481	63,957
All sectors	16,223	17,319	17,468	22,103

Remark: Value added based on current prices discounted by GDP deflator to reflect 1990 prices.

Sources: <http://unstats.un.org>; <http://laborsta.ilo.org>.

**Table A5 Development of value added, employment and productivity by economic sectors.
Index: 1994=100.**

	2000	2003	2007
Employment			
Agriculture	116	114	114
Mining & utilities	109	149	205
Manufacturing	86	87	76
Construction	86	129	220
Trade & restaurants	115	181	230
Transport & com.	108	125	140
Other	94	114	113
All sectors	106	122	135
Value added			
Agriculture	94	77	110
Mining & utilities	106	147	295
Manufacturing	70	95	105
Construction	176	370	386
Trade & restaurants	96	123	148
Transport & com.	169	249	320
Other	170	200	249
All sectors	114	131	183
Labour productivity			
Agriculture	81	68	97
Mining & utilities	98	99	143
Manufacturing	81	98	139
Construction	206	288	175
Trade & restaurants	84	68	64
Transport & com	156	198	229
All sectors	107	108	136

Source: Based on Table A4.

**Table A6 Development of value added by economic sector broken down on components.
Index 1990=100.**

	By volume				By value				Terms of trade changes			
	1994	2000	2003	2007	1994	2000	2003	2007	1994	2000	2003	2007
Agriculture	93.4	99.0	73.8	109.4	198.0	185.3	152.8	217.2	2.12	1.87	2.07	1.98
Mining & utilities	77.7	118.1	96.3	169.0	74.2	79.0	109.2	218.5	0.95	0.67	1.13	1.29
Manufacturing	71.2	69.0	133	156.5	62.6	43.9	53.3	66.0	0.88	0.64	0.40	0.42
Construction	42.2	39.9	79.0	101.6	34.3	60.5	77.8	132.3	0.82	1.52	98.5	1.30
Trade & restaurants	71.4	101.5	141.4	183.8	49.2	47.2	60.5	72.7	0.69	0.47	0.43	0.40
Transport & com.	46.9	57.3	86.5	127.5	39.2	66.2	97.5	125.5	0.84	1.16	1.13	0.98

Remarks: By volume: At constant sector specific prices
 By value: Current value adjusted by GDP deflator
 Terms of Trade Change: By value / by volume

Sources: <http://unstats.un.org>, World Bank (2009c).

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