



ESP Discussion Paper Series

21225

Transition, Poverty and Social Assistance in Mongolia

K. Subbarao
and
Kene Ezemenari

March 1995

Education and Social Policy Department
Human Resources Development and Operations Policy
The World Bank

ESP Discussion Papers reflect work in progress. They are intended to make lessons emerging from the current work program available to operational staff quickly and easily, as well as to stimulate discussion and comment. They also serve as the building blocks for subsequent policy and best practice papers. The views expressed here are those of the authors and should not be attributed to the World Bank or its Board of Executive Directors or the countries they represent.

Acknowledgments

The authors would like to thank Petros Akilu, Vinay Bhargava, and Oey Astra Meesook, for helpful comments and suggestions. The authors also benefited from interactions with the members of the Mongolian delegation which visited the Bank in January 1995. The authors alone are responsible for the views and findings in this paper.

Abstract

Since 1990, the transformation of the Mongolian economy from a centrally planned social system to a market economy has been impressive, although difficult. Economic measures of stabilization and reform have led to a decline in inflation, and a projected increase in GDP growth rate. However, the contraction in government spending, and the privatization of the livestock sector, both of which have accompanied the transition, has led to the emergence of a new underclass of ultrapoor families: nomadic herding families with few livestock; the unemployed; and female headed households.

This paper traces the principal routes through which the transition has given rise to these new vulnerable groups; it traces the increases in proportions of the poor during the period immediately following the transition. In light of these changes, the effectiveness of the current safety net programs are reviewed. The review focuses on the adequacy, equity, and efficiency of actual expenditures allocated to the different categories of vulnerable groups; and on indicators for targeting. Domestic efforts and donor contributions are also assessed, to the extent that data permit. The paper concludes with an outline of a policy framework for a reformed social assistance program in Mongolia.

Transition, Poverty and Social Assistance in Mongolia

by
K. Subbarao
Kene Ezemenari

I. Introduction

1.1 The transformation of the Mongolian economy from a centrally planned socialist system to a market economy began in 1990. Since then, two parliamentary elections have been held, and political and economic reforms have been introduced. Macroeconomic stabilization and economic reform measures have included the liberalization of prices and trade, privatization, improved monetary and fiscal management and the unification of the exchange rate. However, economic reform has been difficult because of several factors: a total cessation of financial aid from the former Soviet Union (which was roughly equivalent to 30 percent of GDP); the fiscal contraction resulting from transition and reduction in aid, and the break-up of the CMEA trading system (with whom 90 percent of Mongolia's trade was linked). All of this has resulted in reduced supplies of energy, spare parts and inputs, and reduced exports.

1.2 Progress in economic reform has been impressive, despite the special circumstances mentioned above, considering the short time span in which these changes have occurred. The annual inflation rate declined dramatically from 330% in 1993, to 75% during the first half of 1994. Real GDP is projected to increase by 2.5 percent in 1994, in contrast to the average decline of 5.3 percent experienced during the period 1989-93. Control of inflation and general recovery of the economy notwithstanding, concerns over the social impact of the transition to a market economy have recently been heightened. Three factors have caused these concerns. First, the severe fiscal contraction has reduced the ability of the State to finance and sustain social programs including transfers that were so pervasive and generous prior to 1990. Second, privatization of livestock—the principal source of livelihood for the average rural Mongolian—has been accompanied by highly unequal ownership of animals. A new underclass of ultrapoor families has emerged in rural Mongolia, characterized as owning very few or no animals. Third, the slashing of the education and health budgets, and the imposition of cost recovery policies regardless of a family's income position have meant unacceptably high financial burdens for the poor, apart from threatening the previous progress in human resources. The traditional safety net has evaporated; new vulnerable groups have emerged; and the social costs of transition are beginning to surface.

1.3 This paper has three objectives. First, the impact of economic reforms on the poor are analyzed as follows: The paper traces the principal routes through which transition is impinging on the poor. Second, using available information, the paper examines the changes in the proportions of the poor and the ultrapoor across Aimags (districts) and over time (section II). The household characteristics of the ultrapoor are delineated by correlating aimag-wise distribution of the ultrapoor with independently observed indicators of vulnerability (section III). Third, the current safety net programs are then reviewed. Financial allocations and actual expenditure on transfers for different categories of vulnerable groups are analyzed, focusing in particular on adequacy, equity, efficiency

and targeting issues. Domestic efforts and donor contributions are both assessed, to the extent that data permit. The last section offers a policy framework for a reformed program of social assistance for Mongolia.

II. Trends in Poverty and the Underlying Factors.

2.1 Prior to the transition, the population of Mongolia enjoyed a high degree of social protection—near universal literacy, generous transfers from the state, a comprehensive health care system and nutritional adequacy, high status of women and relatively long life expectancy. Unemployment was nonexistent. A pro-natalist policy was actively pursued. Women with large families were protected by the state with child and family allowances, child care centers and free pre-school education. Following the transition, the contraction of the Mongolian economy impacted adversely on the livelihood of the population in four ways. First, the downsizing of enterprises and the contraction of output led to massive unemployment. Second, budgetary contraction and hyperinflation reduced the real value of transfers so sharply that, for the first time in Mongolia, households in extreme poverty have emerged. Third, the same contractionary process led to breakdowns in the provision of social services. Fourth, privatization of livestock led to considerable inequities, with detrimental effects on the livelihood of many nomadic herding families.

2.2 **Unemployment.** Official statistics understate the numbers of the unemployed because many first-time job seekers do not get themselves registered with the employment offices as they are not entitled to unemployment benefits. The extent of underemployment is also not captured by official statistics. While precise numbers are unavailable, the Ministry of Population Policy and Labor (MPPL) estimates that by the close of 1994, the total number of the unemployed may be close to 150,000 (or 15 percent of the country's labor force), of which about 60,000 may be found in Ulaanbaatar. These numbers are more than six times the numbers of registered unemployed.

2.3 **Inflation and Real Value of Transfers.** The transition has been accompanied by hyperinflation. Thus, during 1992 and 1993 the CPI increased by 146.6 percent and 330.9 percent respectively. Real incomes contracted sharply. It is expected that the inflation rate may stabilize at 70 percent in 1994. These trends have adversely affected the real value of pensions and family benefits. In addition, there has been a contraction of the number of recipients of family benefits (see section III).

2.4 **Social Services.** The transition has also led to a breakdown of social services. Public health services were affected by inadequate financial resources, shortage of drugs and supplies, and medical personnel—many doctors and nurses have emigrated in response to declining compensation. Foreign exchange and financial constraints have disrupted the supplies of drugs. Likewise, the education sector has suffered from shortages of staff and resources. The deterioration of health and educational outcomes are evident from the dramatic increase in maternal mortality rates and school drop-out rates. The maternal mortality rate doubled from 12 per 10,000 live births in 1990 to 24.1 in 1993. Most of these deaths have occurred in the rural aimags. Infant mortality rates in rural areas remained at 64 per 1,000 births during the late 1980s to the early 1990s, even though birth rates

declined by 20 percent during this period. The rural aimags of Dornod, Hovsgol, and Hentiy have a higher infant mortality rate of 85.5 per 1,000 live births.

2.5 Dropout and non-enrollment in primary and secondary schools, which was negligible before 1991, has become a serious problem, particularly in poor and pastoral aimags. In 1994, roughly 30 percent of the total school age population (ages 8-17) were not in school. The rate of nonenrollment was particularly pronounced in the aimags (37 percent) compared to the cities (16 percent). These trends in nonenrollment rates have resulted not only from a decline in government resources allocated to education (which has increased the cost of education to the poor), but have also been an indirect result of livestock privatization. Livestock privatization has increased the demand for child labor for herding. The closing of rural schools during the winter—18.8 percent of the 426 rural schools were closed—in order to save on heating bills, has been an additional deterrent to school attendance. This has increased the length of time children must be separated from their family to attend schools in some centers—a particular deterrent to attendance for children in kindergarten and early primary education.

2.6 **Privatization of livestock.** The distribution of livestock through the privatization process was extremely uneven. Prior to 1989, 70 percent of livestock were owned by collectives, less than 10 percent by the state, and 20 percent by private individuals. With the inception of privatization, several criteria were used in redistributing livestock among individuals who previously belonged to collectives: (i) the number of animals an individual contributed from their private herd at the time of collectivization; (ii) whether an individual was a founding member of the collective; (iii) the number of years a person had worked in the collective; and (iv) the contribution the person made to the collective.

This meant that former owners of large herds were entitled to receive animals, even though they may have moved to the cities. Able bodied men and their families were then favored over single women. About 20 percent of households (many of them headed by females) received less than 10 animals, which is below the number necessary for family subsistence. Under collective ownership prior to the transition, the livestock collectives provided economic and social benefits to herders by subsidizing prices, allowing for the increase in livestock numbers, and providing suitable conditions for specialization and increased marketed surplus. Privatization has caused a transfer of climatic risks (which is a key constraint to production in Mongolia) from the state to the individual producer. Some producers have responded by diversifying their herds and producing more for subsistence. Furthermore, reports also suggest that women systematically received livestock of lesser value, thus providing them with a smaller asset base and a lower potential income stream. The number of animals per family may continue to decline, as mortality of animals in winter months is quite high, especially among the poorest who find it hard to protect the animals. Thus, privatization of livestock has accentuated income inequality in rural Mongolia and exacerbated the condition of women in general and female-headed households in particular.

2.7 **Post-Transition Poverty Trends.** *Data sources.* Two data sources are relevant, for analyzing living conditions in Mongolia. The first source is from the State Statistical Bureau's household income and expenditure surveys, which are available at regular intervals, the most recent one being December 1993. The data are collected from a sample of 1850 households: 54 percent of which are urban, and the rest rural. All aimags (provinces) are included, but only 70 households are canvassed for each rural aimag. Within each aimag, one "representative" som (district) is purposely chosen; thus the sample selection procedure is both stratified and non-random. Though the sample is

small, it is more representative than pre-transition data sets. The unemployed are represented in the sample, but the nomadic population is under-represented. The data are not released by the Government for public use. Once these data are published and made available to researchers, it should be possible to trace the effects of transition with more rigor.

2.8 The second source of data are collected by the Social Security Offices (SSO) in all aimags throughout the country. Based on both income and other indicators (such as family size, stock of animals, etc.) the social security offices directly estimate the percentage of the population under the poverty threshold, and the percent considered "ultrapoor". The Government uses these data to estimate the poor and the very poor; this information is released regularly. The poverty line adopted by the Government is based on a concept of "minimum standard of living" that enables a person to satisfy his/her basic needs which include food, shelter, heating, schooling and medical supplies. The norm adopted for individual food consumption is 70 percent of the recommended calorie intake, which translates to roughly 2000 kcal per day. The "very poor" are defined as those whose income is less than 40 percent of the minimum standard of living. The poverty line is adjusted for inflation every six months.

2.9 The impact of post-transition changes on poverty are presented in Tables 1 and 2. The SSO data are used here. In nine out of 21 aimags and cities, the percentage of the poor increased systematically over the period 1991-94; in some regions (such as Omnogovi) the increase has been dramatic (from 10 to 58 percent). Ulaanbaatar and five aimags (Arkhangai, Bayankhogor, Zavkhan, Ovorkhangai, Khovd) together account for approximately half of the nation's poor; these also account for over half of the nation's ultrapoor. Both poverty and ultrapoverly are definitely concentrated in a few aimags and in Ulaanbaatar.

Table 1: The Poor and The Very Poor by Aimags, 1991-1994

Aimag Name	Aimag Population	Percent of Aimag Population which are Poor			Percent of Aimag out of National Population which are Poor			Percent of Aimag Population which are ultra Poor		Percent of Aimag out of National which are ultra Poor	
		6-Jun-91	15-Jun-93	15-Mar-94	6-Jun-91	15-Jun-93	15-Mar-94	15-Jun-93	15-Mar-94	15-Jun-93	15-Mar-94
Arkhangai	102716	32.4	50.4	43.1	10.4	10.1	7.5	2.4	10.1	2.9	7.5
Bayan-Ulgii	75043	53.1	47.9	37.8	12.4	7.0	4.8	5.7	8.8	4.9	4.8
Bayankhongor	85301	22.0	27.1	47.2	5.9	4.5	6.9	6.3	11.1	6.1	6.9
Bulgan	60999	8.8	38.0	34.7	1.7	4.5	3.6	6.4	8.1	4.5	3.6
Govi-Altai	71528	22.1	19.1	32.1	4.9	2.7	3.9	2.5	7.5	2.1	3.9
Dornogovi	47773	6.7	3.4	6.7	1.0	0.3	0.5	1.7	1.2	0.9	0.4
Dornod	83722	6.6	23.3	31.8	1.7	3.8	4.5	4.2	7.4	4.0	4.5
Dundgovi	51291	10.7	10.9	22.5	1.7	1.1	2.0	0.3	5.3	0.1	2.0
Zavkhan	101697	12.7	35.1	39.0	4.0	7.0	6.7	3.0	9.1	3.4	6.8
Ovorkhangai	109387	14.5	12.7	38.5	5.0	2.7	7.2	0.6	9.0	0.7	7.2
Omnogovi	45014	10.6	58.1	58.1	1.5	5.1	4.5	0.8	13.6	0.4	4.5
Sukhbaatar	56084	18.2	47.8	43.1	3.2	5.3	4.1	16.8	10.1	10.7	4.1
Scelenge	90690	4.7	16.1	17.2	1.3	2.9	2.7	3.1	4.0	3.2	2.7
Tov	108210	7.2	29.6	27.6	2.4	6.3	5.1	1.4	6.5	1.7	5.1
Uvs	98197	21.1	21.1	22.7	6.5	4.1	3.8	0.9	5.3	1.0	3.8
Khovd	87171	28.2	58.4	37.3	7.7	10.0	5.5	4.1	8.7	4.1	5.5
Khubagul	116867	13.0	18.5	20.8	4.8	4.2	4.1	0.6	4.9	0.8	4.1
Khentii	73096	11.5	44.7	27.6	2.6	6.4	3.4	25.9	6.5	21.5	3.4
Ulaanbaatar	588000	10.8	9.0	13.7	19.7	10.4	13.7	3.1	3.2	20.8	13.7
Darkhan-Uul	91303	2.3	4.4	27.6	0.7	0.8	4.3	2.9	6.5	3.0	4.3
Orkhon	62868	3.0	1.5	6.3	0.6	0.2	0.7	0.5	1.5	0.3	0.7
Sumber-Uul	11289	10.8	22.7	22.9	0.4	0.5	0.4	20.4	5.4	2.6	0.4
Total National	2218246	14.4	23.0	26.5	100.0	100.0	100.0	4.0	6.2	100.0	100.0

Source: Ministry of Population Policy and Labor.

Table 2: Changes in the Proportion of the Poor and Ultra Poor, 1991-94

Aim名称	Percent Change in Proportions of the Poor		Percent Change in Proportions of the Ultra Poor
	1991 to 1993	1993 to 1994	June 1993 to March 1994
Arkhangai	55.3	-14.4	312.6
Bayan-Ulgii	-9.7	-21.2	54.4
Bayankhongor	23.0	74.3	74.7
Bulgan	331.6	-8.6	26.8
Govi-Altai	-13.4	67.8	195.0
Dornogovi	-48.9	95.4	-29.7
Dornod	255.1	36.4	76.2
Dundgovi	2.0	107.2	2001.5
Zavkhan	176.1	11.1	207.8
Ovorkhangai	-12.8	204.4	1402.9
Omnogovi	450.4	-0.1	1516.9
Sukhbaatar	162.2	-9.9	-39.9
Selenge	240.2	6.9	28.9
Tov	313.8	-6.8	359.0
Uvs	0.0	7.7	490.6
Khovd	107.1	-36.1	114.0
Khubagul	41.8	12.3	714.9
Khentii	287.8	-38.2	-75.0
Ulaanbaatar	-16.3	51.6	2.7
Darkhan-Uul	90.2	524.2	124.8
Orkhon	-48.2	312.5	225.7
Sumber-Uul	110.8	0.9	-73.4
Total National	59.1	15.2	56.4

Source: Ministry of Population Policy and Labor.

3.0 The speed with which the numbers of poor and absolute poor population are increasing is evident from Table 2, which presents the changes of the poor from 1991 to 1994, and the ultrapoor from June 1993 to March 1994. In 18 out of 22 aimags, the proportions of the ultrapoor have risen in this short span of 9 months. In some aimags, the increase in the ultra poor has been phenomenal: by five times in Arkhangai, three times in Govi-Altai, fifteen times in Ovorkhangai and eight times in Khubagul (see Table 1). The absolute poor have doubled in many aimags. In 12 out of 22 aimags, the total poor (proportions as well as absolute numbers) have also increased, suggesting a general impoverishment. However, in 8 aimags, the numbers of the total poor have dropped, which could mean either of two things: some of the near-poor have either migrated to other aimags, or have graduated out of poverty (at least temporarily) with the aid of loans and/or other assistance. For the country as a whole, the total poor increased by 15.2 percent whereas the absolute poor increased by 56 percent (see Table 2). The generally sharp rise, in the proportion of the "very poor" relative to the proportion of the "poor", indicates a sharp worsening of living conditions for some households under the food poverty line. In all probability, the poverty gap—a measure of the depth of poverty—may have increased in the recent period. Unfortunately, lack of access to household data made it impossible to estimate changes in the poverty gap over time.

III. Characteristics of Vulnerable Groups

3.1 In order to reduce or at least contain an increase in ultrapoverly, it will be necessary to target social assistance to the very poor. In this regard, the Government has two options: (a) income-based means-tests, and (b) indicator-based tests. In Mongolia as in other economies in transition, incomes in the informal sector are increasing; these incomes are generally not reported by the households. Targeting based on reported household income can be misleading. Given this inherent difficulty in using household income, indicator-based targeting appears preferable to income-based means-tests in Mongolia for some years to come.

3.2 This paper explores the potential for indicator-based targeting by correlating a poverty measure to proxy indicators of vulnerability. Poverty is measured in two ways, which captures the concepts of absolute and relative poverty at the aimag level. The first measure—the proportion of the poor (or ultrapoor) within an aimag—is an estimate of absolute poverty at the aimag level. The second measure—the contribution of each aimag to national numbers of the poor (or ultrapoor)—is an estimate of the relative contribution of each aimag to total poverty. The proxy indicators of vulnerability are based on vulnerable groups reported to have emerged during the period 1991-94: (a) the nomadic population largely dependent on livestock; (b) the unemployed (especially the long-term unemployed); (c) women and children, particularly female-headed households with 4 or more children; and (d) the disabled, the elderly, orphans and pensioners receiving minimum pensions. Aimag-wise disaggregated data are available for (a), (b), and (c) above.

3.3 To what extent are inter-aimag variations in ultrapoverly correlated with indicators of vulnerability at the aimag-level? This question is addressed through regression analysis. For each aimag, its share of the numbers of the ultrapoor, out of the total national number of the ultrapoor, was regressed against the key indicators of vulnerability. These indicators were

summarized at the aimag-level: namely, the share of each aimag's nomad population out of the national nomad population; the share of the total number of female headed households, for each aimag, out of the national numbers. Two sets of regressions were estimated: one set consisted of aimags only; and another set included cities and aimags. Table 3 summarizes the results of these regressions. The results show that those regions that contain proportionately more of the ultrapoor also contain proportionately more of the nomad population—controlling for desert aimags (Equation I). In addition, the regions with proportionately more female headed households also contain proportionately more of the ultrapoor (Equation III). The last result is significant only when cities are included in the sample (Equation IV). Overall, an aimag's share of the nomadic population, as well as its share of female-headed households, emerge as strong indicators of vulnerability. These two indicators alone explain 74 percent of the inter-aimag variation in the contribution to national ultrapoverly (Equation VII).

Table 3: Regional Correlations between Female Headship, Nomadic Populations and Ultrapoverly

Dependent Variables	Equation I (excludes cities)	Equation II (includes cities)	Equation III (excludes cities)	Equation IV (includes cities)	Equation V (excludes cities)	Equation VI (includes cities)	Equation VII (includes cities)
Constant	1.11 (1.32)	0.87 (1.29)	2.94* (1.75)	3.02** (1.66)	1.52 (1.35)	1.94 (1.61)	1.08 (1.5)
Share of Nomadic Population in Aimag out of National Total	0.58** (0.14)	0.61** (0.12)			0.68** (0.19)	0.19* (0.13)	0.39** (0.16)
Dummy for Desert Aimags (Omnogovi, Bayanhongor, Govialtai)	0.98 (0.84)	1.04 (0.81)					
Share of Female Headed Households in Aimag to National total			0.404* (0.24)	0.39** (0.069)	-0.21 (0.25)	0.41** (0.069)	0.32** (0.08)
Dummy for cities (Ulaanbaatar and Darkhan-Uul)							3.34** (1.77)
R-squared	0.55	0.64	0.15	0.64	0.53	0.68	0.74
N	18	19	18	20	18	20	20

Note: In Equations I and II, Sumer-Uul was the city only city in the sample; other cities were reported as not having a nomad population. The independent variable for all equations is the share of the ultrapoor for each aimag out of the national total. Standard errors are in parentheses. The double asterisks and asterisks denote significance at the 5 and 10 percent levels, respectively. The T-test statistic at these levels are: $t_{10}=1.33$ and $t_5=1.73$, with 18 degrees of freedom.

3.4 The importance of female-headed households in general, and women's income in particular, in household poverty and income distribution is also evident from the SSB data set on household incomes. With the decile-wise data, Gini ratios and poverty gap ratios are estimated with and without women's incomes (see Table 4). In rural areas, the wife's income contributes to a substantial reduction in inequality, highlighting its critical role among the bottom deciles. In urban areas, women's income contributes to a substantial reduction in the poverty gap ratio. These results suggest that an increase in female unemployment (and income) may increase the poverty gap ratio to a much greater extent in urban than in rural areas.

Table 4 Gini and Poverty Gap Estimates from Per Capita Household Income with and without Wife's Income, 1993

Region	Gini Coefficient		Poverty Gap	
	without Wife's Income	with Wife's Income	without Wife's Income	with Wife's Income
Rural	63.62	48.5	28.08	25.46
Urban	47.09	44.34	40.45	31.05
National	47.79	46.01	31.94	28.78

Source: Computed from pre capita income deciles (converted from household income deciles made available by the SSB). The official poverty line was used.

3.5 As already noted, the unemployed have emerged as an important vulnerable group. Data from the MPPL show that the percentage of the registered unemployed has risen significantly in the recent period. The registered unemployed increased between 1993 and 1994 in most aimags, particularly in Khubagul, Tov, Zarkhan, and Arkhangai, where half of the registered unemployed were concentrated in 1994 (see Figure 1). This increase in the unemployed has been more marked for females than for males (see Figure 2). Table 5 presents the decile wise distribution of the unemployed. The proportions of the unemployed are much higher in the bottom three deciles, reflecting the impact of unemployment on poverty.

3.6 To the extent that the ultrapoor households identified by the Government are linked with specific categories of vulnerable groups, it seems appropriate to analyze the adequacy and equity of social assistance provided by the Government and the NGOs with reference to the aimag-wise distribution of the ultrapoor population. This is done in the next section.

Table 5 Unemployment by Deciles, December 1993

Decile Ranking	Persons unable to obtain work as percent of adults of working age		
	Rural	Urban	Total
1	17.0	32.0	26.0
2	23.0	23.0	21.0
3	19.0	17.0	19.0
4	7.0	17.0	15.0
5	8.0	20.0	12.0
6	12.0	17.0	17.0
7	14.0	9.0	14.0
8	4.0	9.0	9.0
9	8.0	19.0	13.0
10	5.0	11.0	5.0
Mongolia	12.0	17.0	17.0

Source: SSB.

IV. Transfers: Adequacy and Equity

4.1 Four types of transfers/assistance are important from the perspective of the poor: (a) Pensions (b) Family allowances (c) Other Social Assistance (Transfers), and (d) Loans. Ensuring access to social services such as health and education is also critical.

4.2 Figure 3 gives medium-term trends in total transfers, social security payments, and average wages over the period 1985-93. Average real wages fell consistently since 1990; the decline became sharp after 1991. It is interesting that even prior to the transition, transfers including social security payments were at an upward trend. Upon the onset of the transition, there was a sharp increase in total transfers, after which, all transfers and average wages fall past the 1988 levels. Compared with 1991, all three types of payments have fallen drastically in 1992/93. The absolute number of vulnerable individuals in need of transfer payments dramatically increased since 1990, so that the average transfer per needy individual has decreased substantially.

4.3 Figure 4 presents recent trends in individual transfers. Pensions declined drastically, in real terms, in the recent period 1992-94. The number of pensioners remained relatively stable, but the real value of pension payments in 1994 were less than half of the level in 1992. Family allowances likewise contracted to such an extent that these are now negligible. The number of recipients of family benefits also fell from about 700,000 to 180,000. Compared with other countries in transition (e.g. Russia, Kazakhstan), the reduction in the number of recipients in Mongolia is clearly extremely large. This reduction in overall transfers from the Government is a direct consequence of fiscal contraction.

4.4 From the perspective of the extremely poor, indigent families and individuals, social assistance (both cash and in-kind) are the most important form of transfers. These are shown separately in Figure 4, along with the number of beneficiaries, for Government-funded and nongovernmental or donor-funded social assistance (bilateral aid and the Red Cross). For 1994, the number of awardees was no more than 17,500, or only about 10 percent of the estimated number of 150,000 ultra-poor individuals in the country. While the need for greater disbursement of assistance has become acute, the resources devoted to social assistance (Government and donor assistance combined) fell sharply between 1993 to 1994 (see also Table 6). In 1994, the approved budget provided Tug. 560 million for the Social Assistance Fund, but the amount actually released was nil. The Government of Mongolia's contribution in 1994 was comprised of the balance of resources of the Social Assistance Fund from 1993. Clearly, the social assistance program of the Government has come under severe stress in recent months. While the overall quantity of social assistance (Government plus donor combined) from the beginning of 1994 until the end of October, was substantially lower than in 1993. The absolute numbers of the very poor (according to the Government's own estimates) increased by 56 percent over a 9-month period—June 1993 to March 1994.

Table 6 Social Assistance, 1993/1994

Source	Current Million Tug.	
	1993	1994
GOM	30.0 ^{a/}	27.0 ^{a/}
DONATIONS	0.0 ^{b/}	31.0
FOOD AID	520.0	195.0
TOTAL	550.0	253.0

Notes: ^{a/} Excludes "loans" given to poor families. The components of social assistance included free meals, clothes and subsidized milk for children, and fuel and housing for veterans.

^{b/} In 1993, several aimags received donations. An estimate of total donations received at aimag level is not readily available.

Source: Ministry of Population Policy and Labor.

4.5 Even the meager resources allocated to social assistance has not been equally distributed across regions and vulnerable groups. Figure 5, shows the percent share of each aimag in government assistance and donor assistance. Aimags are arranged in terms of their share in total (national) ultrapoverly—from lowest to the highest. If one excludes Ulaanbaatar's contribution to national ultrapoverly, there appears to be no relationship between the proportion of the poor within an aimag and the percent distribution of assistance—government as well as donor (Red Cross). The inequity is evident from the fact that Ulaanbaatar, where 13.7 percent of the country's ultrapoor reside, received 64 percent of government assistance and 75.6 percent of assistance from the Red Cross.

4.6 The inequity in the distribution of social assistance at the aimag level has been transmitted to the som (sub-district) level. Thus, in an isolated som (such as Alag Erdene), 62 families were identified as poor, of which 22 were ultrapoor (of which 18 families had no livestock at all). It was reported that no assistance whatsoever was received from the Poverty Alleviation Fund during the whole of 1994—which contradicted reports at the aimag level that Tug.200,000 in assistance was released. Leakage of assistance and lack of accountability were major problems. By contrast, one of the 12 som in Ulaanbaatar (Gachuurt som), which hosts 130 near-poor and 34 ultrapoor families and 11 orphan children, received several kinds of assistance from the Poverty Alleviation Fund including: cash, flour and meat, and financing of children's kindergarten expenses, and loans to poor families. The total assistance to this aimag amounted to Tug.800,000.

4.7 These comparisons point to the fact that inter-aimag inequity in social assistance is transmitted into inter-som inequity. One principal factor is distance from an aimag center. The farther a sum from an aimag center, the less assistance it receives. In Mongolia, "where" the poor live is an important indicator of "how the poor are doing".

4.8 Finally, the Government also provides soft (interest-free) loans to the very poor for creation of livelihoods. In 1993 and 1994, nearly a half of total spending was on soft loans for the poor. There has been no evaluation as to how these loans have actually helped the poor, and how much

was actually recovered. The Ministry of Finance has reduced the allocation to social assistance in 1994 because of the slow recovery of past soft loans.

4.9 The consequences of the drastic reduction of government-financed social assistance on the poor in general, and women in particular, has been quite adverse. The existing "Social Assistance Centres", designed to provide one meal, on a daily basis, to destitutes (including orphans, the homeless, and the old and the infirm without any means of support), have substantially contracted their operation. Moreover, the Centres provide meals for selected individuals only for a one-month period. In 1993, about 4300 meals were provided, which implied that 4300 indigent individuals received a meal a day but only for a one-month period. Though the staff delivering social assistance knew that most of these individuals were in need of such assistance for a longer period than one month, shortages of resources constrained the delivery of more assistance. Reports also suggest that the condition of the disabled and orphans especially within certain isolated aimags and isolated rural areas has worsened.

4.10 Fiscal contraction has also affected the delivery of social services to the poor. The cutbacks in government spending, and the imposition of (food) cost recovery by hospitals and schools is beginning to hurt the poor in general and women and children in particular. For example, all households, regardless of income or family size or family attributes or location, have to pay 50 percent of the food cost (US\$ 3 per month) for pre-schools and boarding schools. Considering that the income cut-off level of the very poor is US\$ 8 per month, few vulnerable households can afford to pay for food cost for their children. It is not clear whether food for a child would cost as much as US\$ 3 per month. Schools as well as hospitals are presumably recovering a substantial part of the cost of running the institutions under the label of food cost, either due to a lack of proper accounting systems in the country, or simply due to a decline in resources at the institutional level.

4.11 The cutbacks in spending also led to a closure of many daycare centers and kindergartens. Female-headed households and women are particularly disadvantaged as a consequence of cutbacks and cost recovery policies. Mothers have now to look after their children at home, which restricts their ability to participate in the labor market and, ironically, increases their dependence on (rapidly depleting) welfare. Moreover, the maternal mortality rate has doubled over the last three years. Many factors have contributed to this, including a drop in the number of ambulances and the newly emerged need for patients to bear the (food) cost of hospitalization.

V. Social Assistance: An Immediate Policy Framework.

5.1 To prevent a further erosion of the living conditions of the poor during the transition period, four immediate policy redirection are needed. To begin with, it is critical to enforce targeting when resources are extremely scarce. This can be done in two steps. First, resources may be allocated across aimags in proportion to their contribution to national ultrapovertry. Second, within each aimag, the population belonging to certain categories (such as households with no animals, female headed households, etc.) can be targeted for assistance.

5.2 Once a reasonable framework for targeting is established, the total budgetary allocation for the Poverty Alleviation Fund (PAF) may be increased, and the composition of spending changed. The (tentative) Budget proposals for 1995 indicate that the PAF funds will be augmented. However, simply augmenting the funds of the PAF will not be enough. The composition of spending must be directed away from soft loans to direct cash assistance for the most vulnerable groups (see below), targeted public works, and a few carefully selected income generation schemes for the disabled. Unless resources are better targeted, and utilized on programs that have the potential for reaching the poorest groups, enhancing the budgetary allocation for social assistance would be wasteful.

5.3 In designing programs of social assistance, the particular needs of the most critically vulnerable groups (women and children, particularly female-headed households with many dependent children, orphans, the disabled and the elderly without support, and very poor nomadic herding families) must be addressed. Particular attention needs to be paid to isolated regions and specific vulnerable groups within aimags and soms. For example, a part of PAF funds may be directed to a re-starting of (the previously closed) social assistance centers and elderly care centers, beginning with isolated regions.

5.4 The food cost recovery policy of both hospitals and schools needs to be modified to ensure access of very poor families to services. The prevailing charges for food appear to be very much on the high side. Cost-accounting procedures have to be developed to derive unit costs for various services. The scope for cross-subsidization needs to be explored, in order to reduce the burden on the poor.

5.5 Means-tests for identification of the truly needy among the near-poor may be difficult to implement in the near future as it is difficult to track incomes accruing in the (growing) informal sectors. Self-selection approaches in specific policies—food assistance and public works programs—may be adopted to serve the needs of ultrapoor households.

5.6 Finally, social assistance programs are only a temporary solution to the worsening situation of ultrapoverly in the country. The ultrapoor in rural Mongolia derive their subsistence from livestock. Their incomes can only be sustainably improved by augmenting the quality and quantity of their animal stock. Policies that enhance the quantum of livestock with the ultrapoor, while cushioning them appropriately from climate risks, are a necessary medium-term complementary framework to short-term targeted social assistance.

Figure 1: Registered Unemployed by Aimag, 1993 and 1994

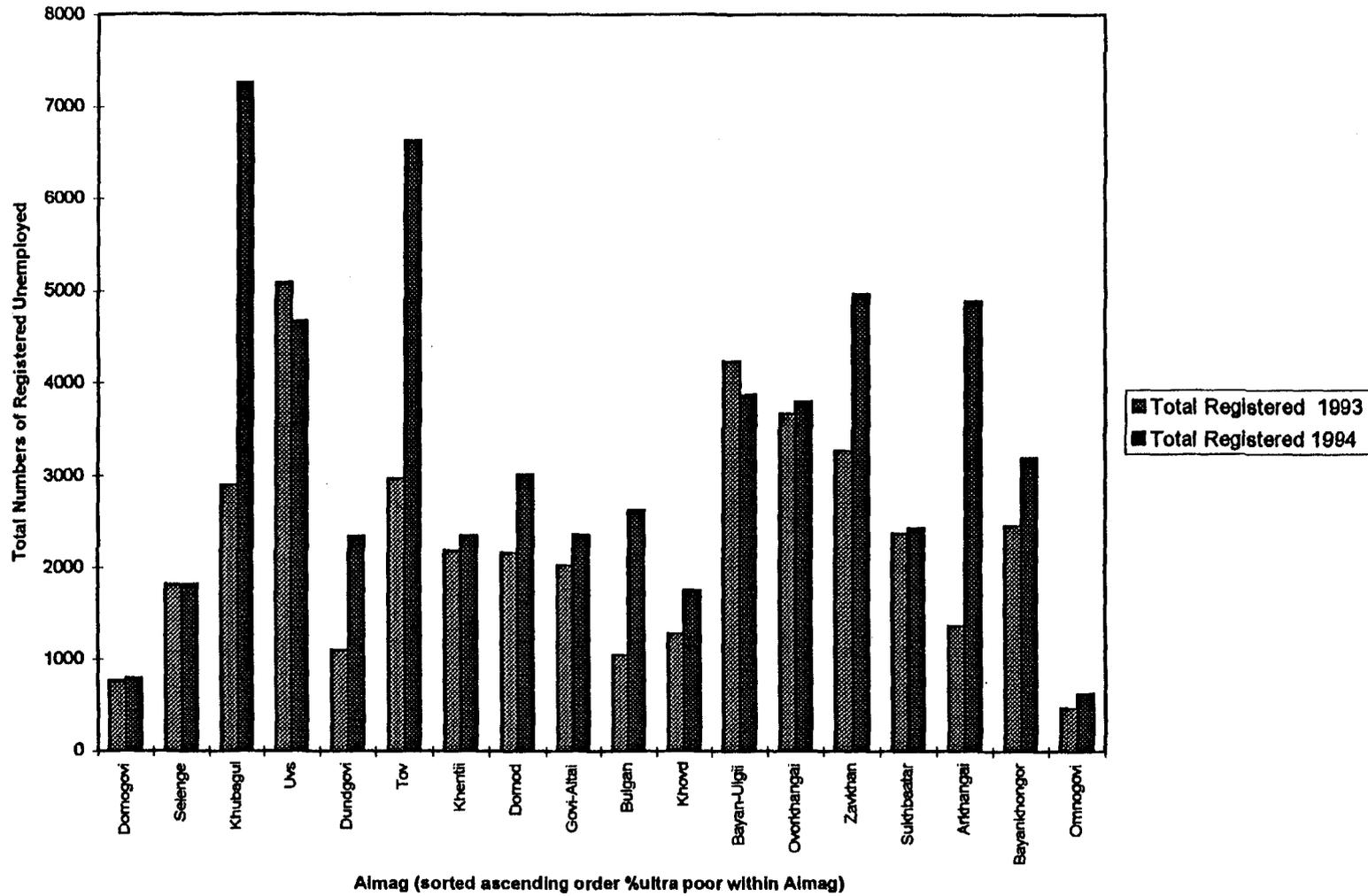
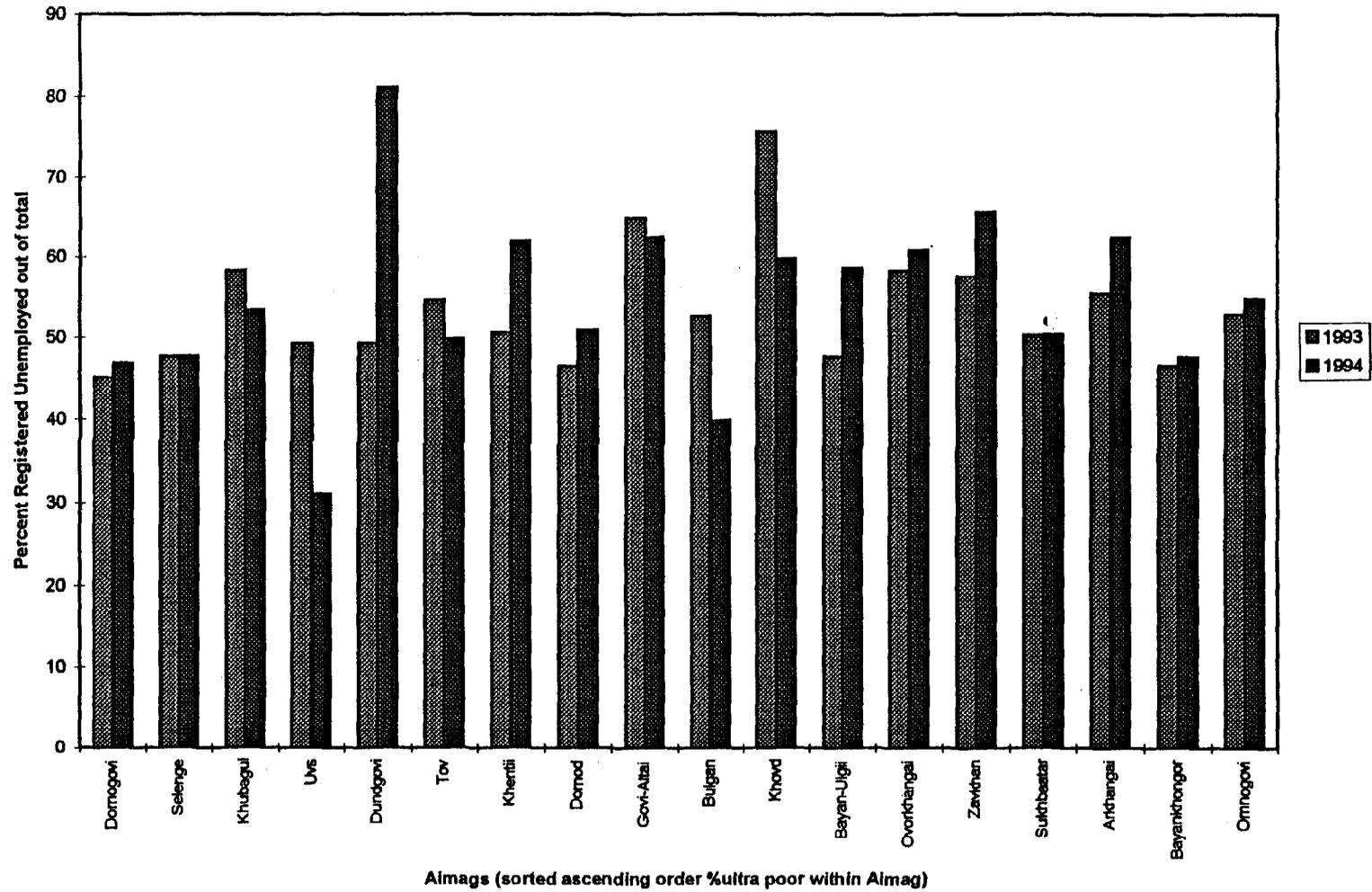


Figure 2: Percent Female Registered Unemployed out of Almag Population, 1993 and 1994



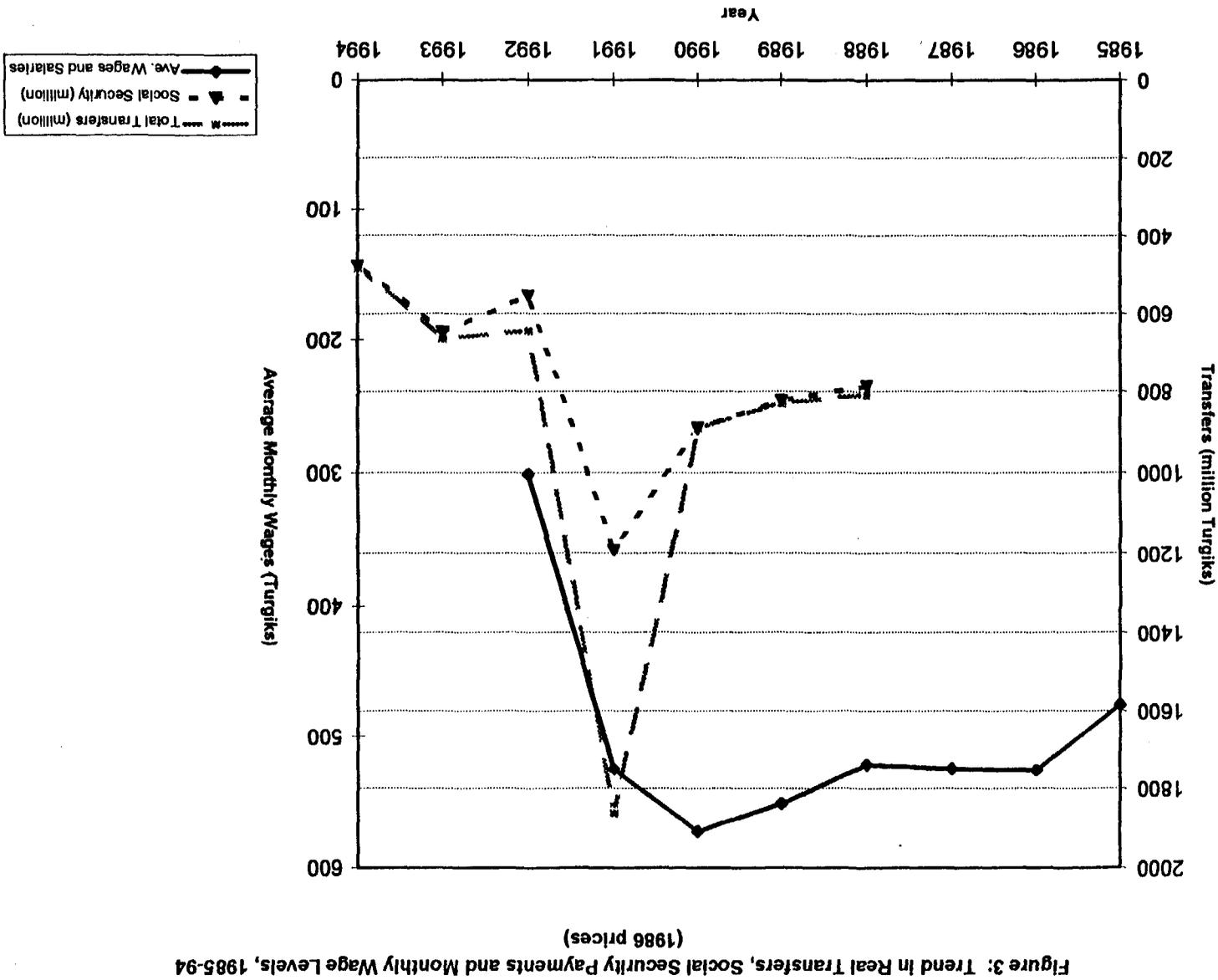


Figure 4: Real Pensions, Family Benefits and Social Assistance, 1992 - 94
(1986 prices)

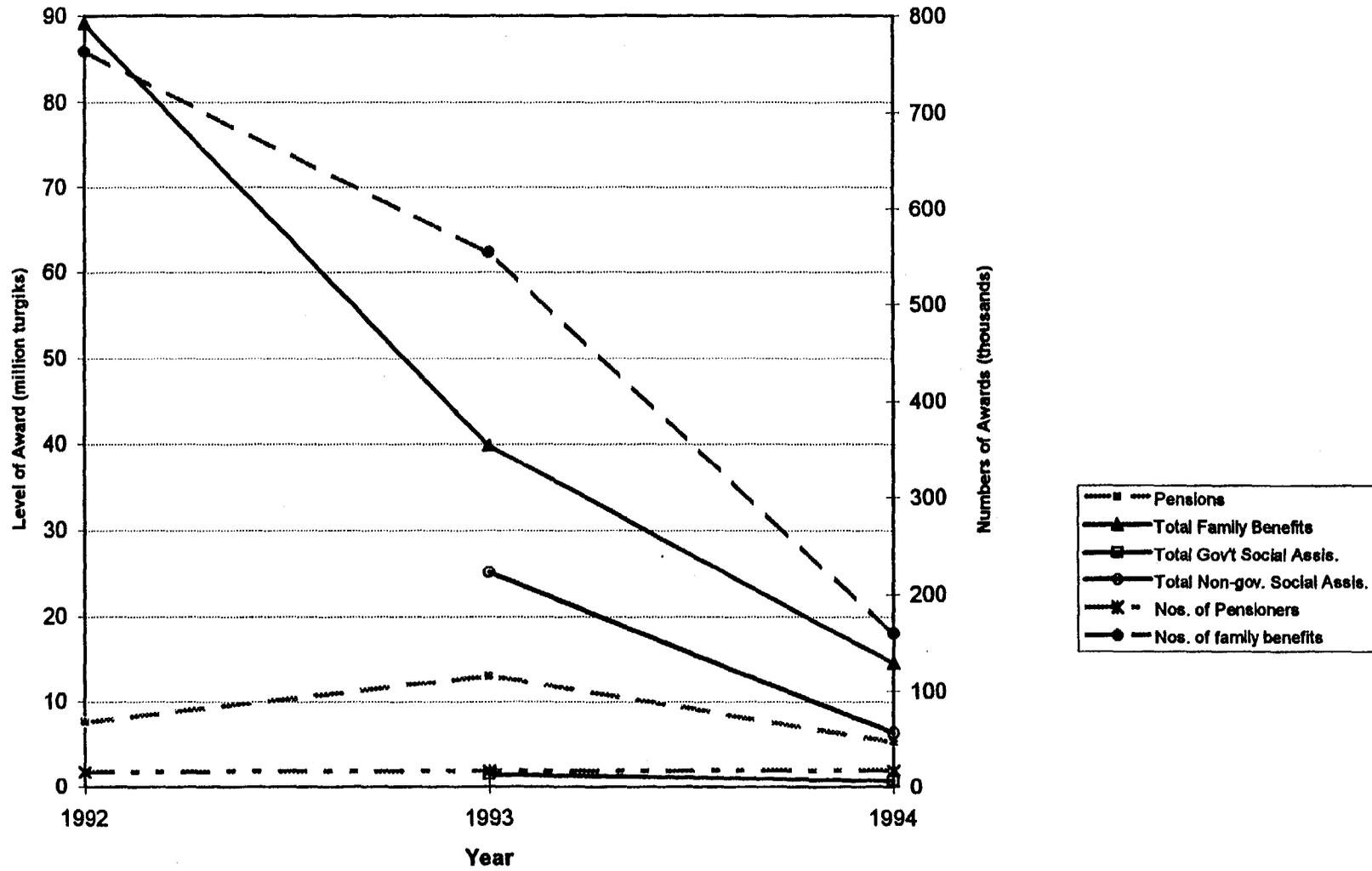


Figure 5: Regional Poverty and the Shares of Government/Redcross Assistance, 1993

