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COST OF SOCIO-ECONOMIC REFORM: PROBLEMS TO ENSURE HUMAN DEVELOPMENT IN MONGOLIA

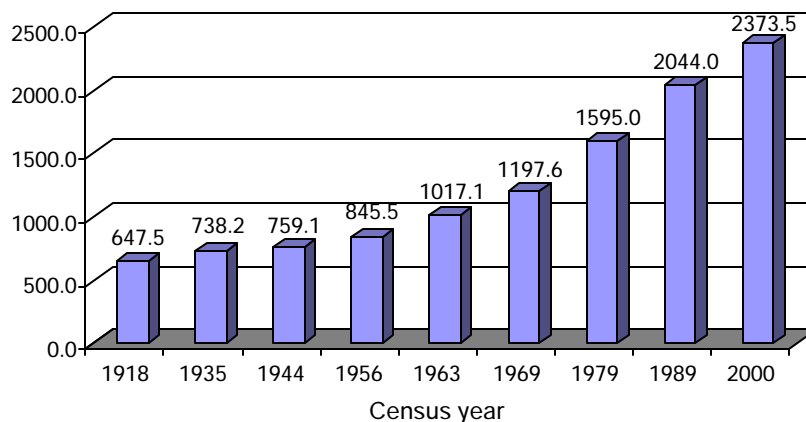
I. Mongolian Socio-Economic Development

1.1 Demographic Profile

Mongolia is one of the most sparsely populated countries in the world, with 2.4 million people living in 1.6 million square kilometers. A population density is only 1.5 per square meter. By 2000, 57% of the population lived in urban areas in contrast to 43% in 1990.

The major demographic change that is caused by 1990s economic reform is migration from rural areas to cities. Ulaanbaatar, as the capital city of the country made significant positive gains-75000 people moved to the city (NSO, 2000). Cities have large numbers of people concentrated in ger (traditional nomadic dwelling) settlements with problems relating to safe drinking water, adequate sanitation and waste disposal.

Figure 1.1. Population (population census year)



Source: NSO, 2000

1.2 Political Reform

The roots of the opposition political movements and parties can be traced to 1988 when young intellectuals began to discuss about issues of change and create unofficial organisations. The first parties were fighting for democracy, market economy and pluralistic elections. These public pressures and demonstrations led to the resignation of the MPRP leadership on March 12, 1990 and on July 29, 1990 parliamentary election was held. Since that time Mongolia has had 3 elections: in 1992, 1996 and 2000. Democratic

election held in July 2000 brought outstanding victory to the Mongolian People's Revolutionary Party: 72 seats in the Parliament.

1.3 Economic Reform

Until 1990 Mongolia had enjoyed a seemingly strong economy. But the foundation of that economy was built on unstable sand. On a per capita basis in 1989 Mongolia was one of the largest recipients of foreign aid in the world. Between 1960-1990 an estimated 30% of Mongolia's GDP was foreign economic assistance. In addition to direct aid, the Soviet Union and other former socialist countries provided credit to cover the financial gap between imports and exports. Over 90% of its trade was with SU. Market relations were completely abandoned in Mongolia. While Poland and Hungary had introduced elements of market economy in some sectors of their economy, all properties in Mongolia were 100% under state ownership.

After the parliamentary election in 1990 Mongolia started the policy towards building a market economy. However, new leaders were unaware of market economic principles. There were almost no intellectuals trained in other than former communist countries. During the first half of 1990s the Government of Mongolia adopted the following policies:

- Liberalisation of prices;
- Privatisation of state owned enterprises;
- Creation of a legal environment for management of economic activities;
- Improvement of aggregate fiscal discipline; and
- Development of social safety network.

Mongolia has achieved great results during 1990s, but it continues to face a significant number of difficulties. Private sector has developed rapidly and by 1999 it accounted for 64 per cent of total enterprises. In contrast to the growth of small and medium enterprises (SME), the biggest national industries are recovering slowly.

The economic growth averaged less than 3,5% a year during the latter period of 1990s. The GDP growth rate was modest, 1.1% during the year 2000 (2000 Population and Housing Census: Economic Activity, Ulaanbaatar, 2001, p. 9). The general government's annual budget deficit averages about 10% and the public debt rose to more than 100% of GDP by the end of 1999. To reduce the government deficit, the Government increased VAT rate from 13% to 15%.

The GNP per capita was \$380 in 1998 and Mongolia ranked 165 among 209 countries in the WB report. Mongolian human development index 0.669 of 1995 changed to 0.628 in 1998 removing Mongolia from 101st place in 1995 to 117th in 1998 among 174 countries (Interim poverty reduction strategy paper, Ulaanbaatar, 2001, p 10).

Table 1.1. Rate of Growth and Composition of GDP, 1989-2000, Mongolia

GDP		1989	1990	1995	1996	1997	1998	1999	2000
Industry		32.7	35.6	25.9	18.5	24.0	18.3	18.1	17.4
Agriculture		15.5	15.2	38.0	43.8	35.9	37.5	37.0	33.4
Construction		6.1	5.0	1.7	2.8	2.2	2.5	2.5	2.3
Transport		12.0	12.0	6.4	7.4	7.7	8.8	9.2	9.5
Trade		19.0	19.4	17.7	17.6	22.0	22.3	22.0	24.7
Service		13	11.5	11.3	9.9	8.2	10.6	11.2	12.7
Other		4	1.2	0.1	-	-	-	-	-
		1.3	-2.5						
Annual GDP growth		4.2	-2.5	6.3	2.4	4.0	3.5	3.2	1.1

Source: 2000 Population and Housing Census, Economic Activity, Ulaanbaatar, 2001, p. 9

II. Human Development Issues

2.1 Human Rights

Human development comprises of a wide range of measures including education, health, life longevity and income. It also includes other aspects of human life such as political freedom and human rights. I should state that Mongolia's transition to a democratic and market economy has brought tremendous benefits in terms of political freedom and human rights. The Constitution of Mongolia recognises the principle of non-discrimination against any individual on the basis of ethnic origin, language, age, race, sex, social origin and status, property, occupation, title, religious conviction, education; equality of men and women; the right of people to participate in the governing of state; the right to freedom of association and political participation; the right to freedom of religion; the right to life and health; the right to education and work; the right to freedom of movement; and the right to a fair and open trial.

Despite the creation of legal framework, problems remain in some areas. Rights to freedom of speech, peaceful protest and assembly are sometimes neglected. Free press is hardly achieved due to pressure. Members of the police at times beat prisoners. Arbitrary arrest and detention are problems, as is corruption. There are restrictions on due process for persons arrested or suspected of crimes. During the year, lacking a legal framework to deal with refugees and responding to a bilateral agreement to return illegal immigrants to the country of origin, the authorities denied entry to some persons claiming refugee status. Official harassment of some religious groups seeking registration persisted. Domestic violence against women, child abuse and child labor are serious problems. There were some instances of forced labor, and some women seeking work overseas may have become victims of trafficking schemes.

2.2 Health Protection

Mongolia has an extensive medical and public health infrastructure. There are roughly 750 hospital beds and 240 physicians per 100,000 population. The distribution of beds and physicians is uneven in Mongolia with many facilities concentrated in Ulaanbaatar, main cities and provincial centers, while many of rural health centers lack basic amenities.

Table 2.1. Social Sector Total Expenditure

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

Source: Ministry of Finance and Economic Affairs

Figure 2.2. National Health Expenditures as Percent of GDP /1980, 1985, 1990-2000/

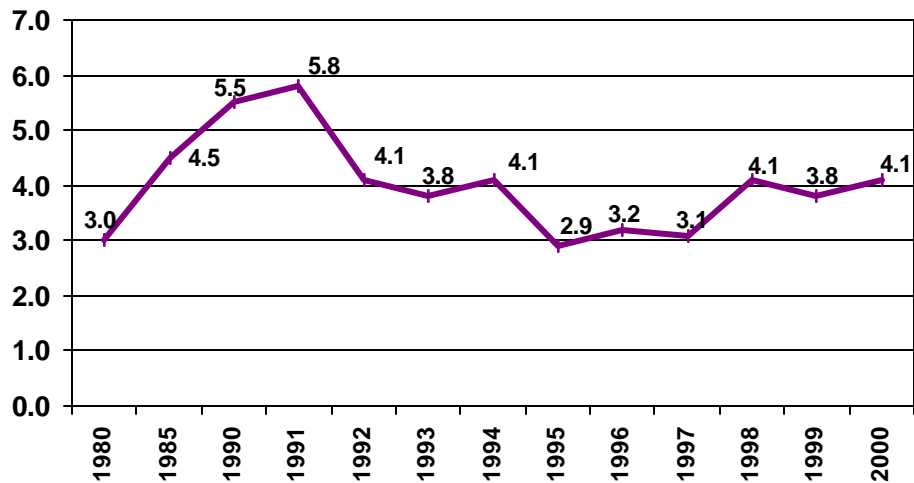
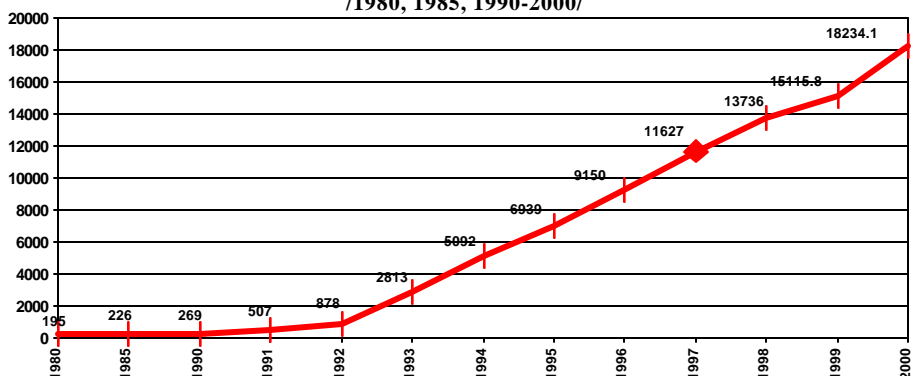


Figure 2.3. Per Capita Health Expenditures, at corresponding year rate, Tugriks /1980, 1985, 1990-2000/



Source: Ministry of Health, 2002

With the transition, a number of social factors affected the health of the population:

- Job security;
- Loosened social bonds;
- Mental health stability (stress, depression etc);
- Suicides;
- Street children;
- Violence; and
- Abuse of alcohol.

The crucial health issues that require the Government attention is health of infant, maternal health and health of adolescents and elderly people.

In recent years fewer children have been born and a higher proportion of these appear to be surviving. Between 1989 and 1999 the crude birth rate per thousand population fell from 37 to 21. Child mortality of infant as well as children up to 15 declined. Over the same period the infant and under five mortality rate have been falling consistently. The major causes of infant mortality rate, acute respiratory infections and diarrhea diseases have decreased by 3.5 times and 2.7 times respectively between 1991 and 1997 (HRD report, 2000).

Maternal mortality rate rose steeply after 1990. The rise may have been due to the closure of most maternal houses that provided pre and postnatal care. Nonetheless, weakened communication and ambulance services and inadequate targeting of high risk areas have contributed to mortality. Another serious issue is abortion that was legalized in 1990. The abortion rate peaked in 1992 and remained remarkably high. In 1998 there was one abortion for every five live births (HRD Report, 2000, p.20). The high rate of abortions is a clear indicator of the inadequacy of family planning.

Figure 2.4. Infant and Child Mortality Rate 1991-2000

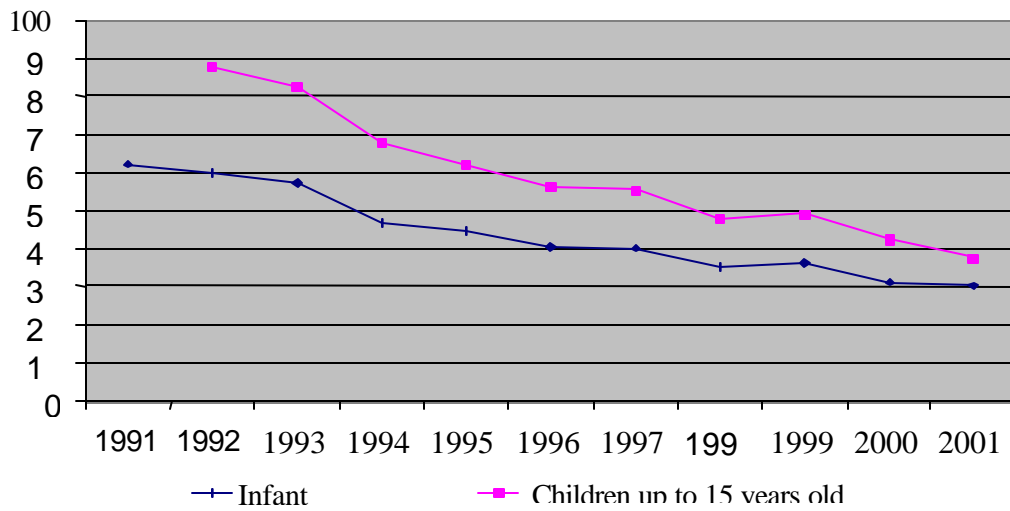
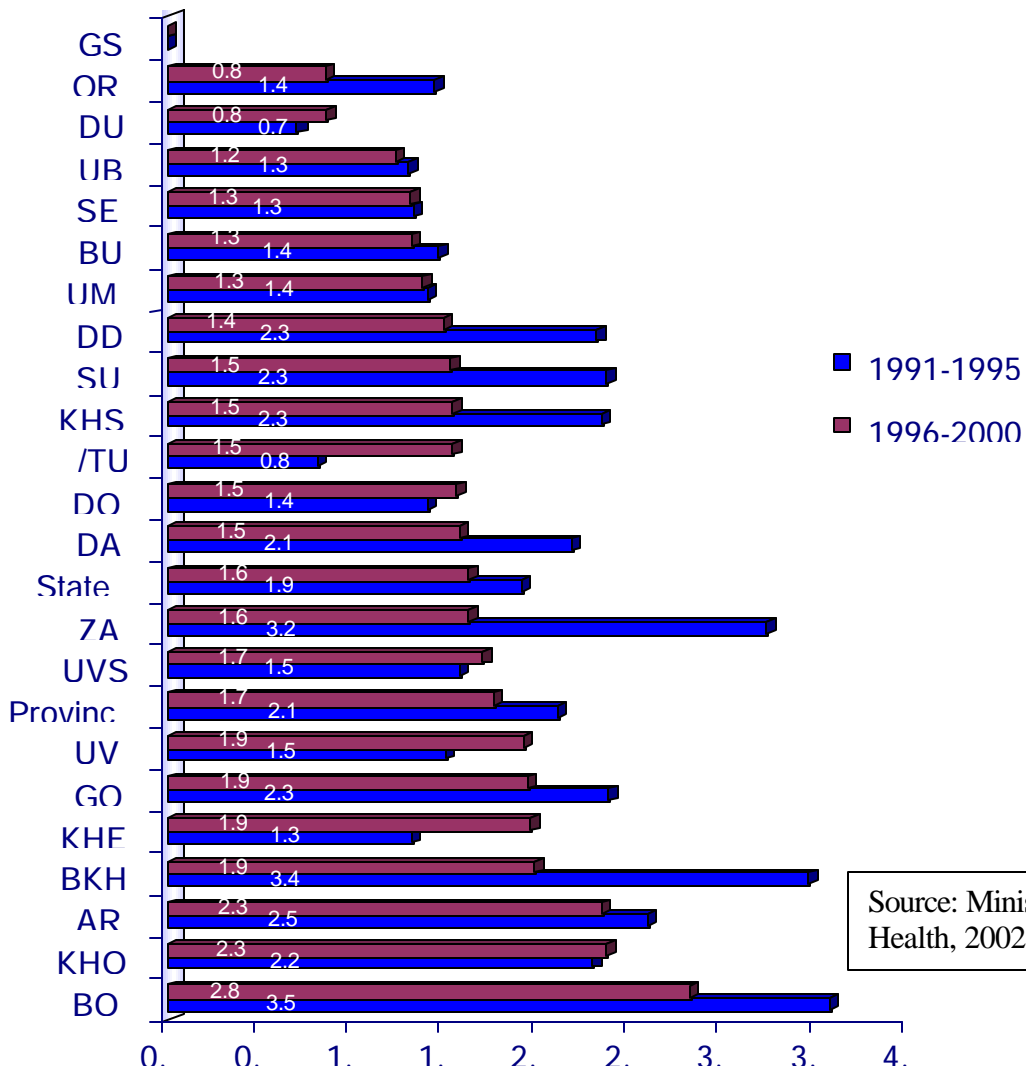


Figure 2.5. Maternal Mortality per 1000 Live Births

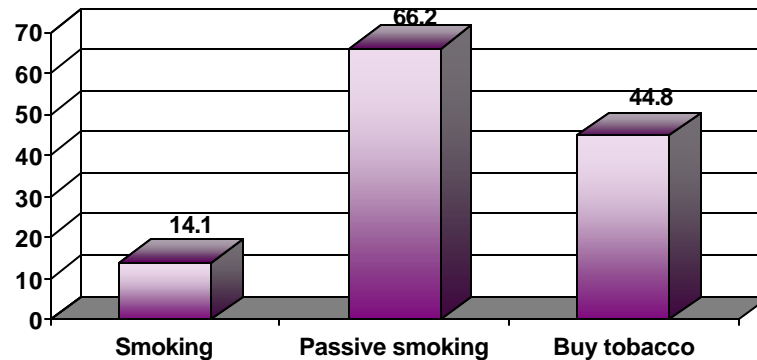


Source: Ministry of Health, 2002

The adolescent population of Mongolia makes 24.6% of the total population. The Ministry of Health reports that

- 14% of adolescents smoke tobacco.
- 60-70% of teenagers have not sufficient physical development.
- 90.5% suffer from oral health problem.
- 2.2-2.3% use drugs.

Figure 2.6. Smoking Habits among Adolescents



Source: Ministry of Health, 2002

The elderly group makes 6.9% of the population. Demographic survey result shows that 2% of elderly are not satisfied with their lives; 29.6% are not sure about their future, 29.6% live alone and the majority state they can not use proper nutrition and feel worsening access to health services (Ministry of Health, 2002).

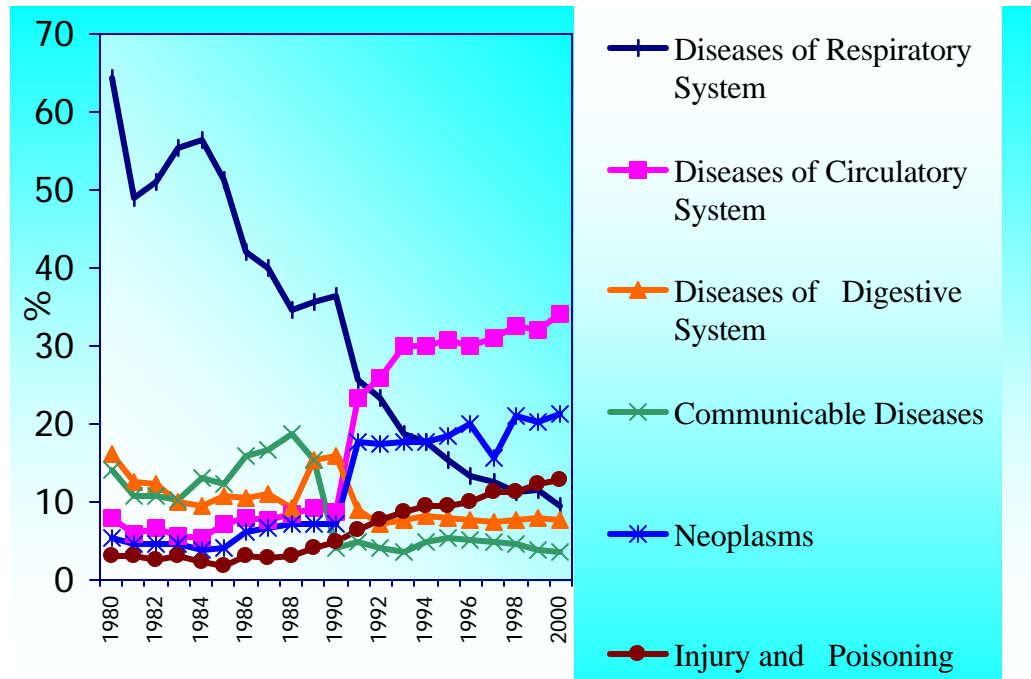
Other concerns for health are main causes of death for adult population. Cardiovascular diseases, diseases of circulatory system and cancer are leading the causes of death (Figure 7) Between 1980 and 1997 the death rate per 100.000 population due to these diseases tripled. Many of these diseases could be linked to increasing stress, depression and the rise in human insecurity. Changes in lifestyle, particularly increasing alcoholism and smoking are significant factors contributing to these diseases. High rate of STDs pose a risk for the spread of the HIV/AIDS epidemic in Mongolia. All of these lifestyle related diseases threaten the youth of Mongolia that makes the majority of the population.

It can be concluded that key health concerns are:

- Increased evidences of non-communicable (cardiovascular diseases, cancer, injury) and certain communicable diseases (STI, viral hepatitis, TB) due to unhealthy lifestyle and the lack of health education (alcohol abuse, smoking, sedentary lifestyle, unhealthy diet, stress, depression etc.);
- Limited accessibility of primary health care services;
- Inequities in access to health care;
- Continuing high maternal mortality;
- Decline in nutritional status; and

- Slow decrease in some diseases (HIV, tuberculosis) and increase in others (STD).

Figure 2.7. Leading Causes of Death



Source: Ministry of Health, 2002

Causes of poor accessibility of services are mostly related to financial ability (costs of health services, drugs and transport), poor communication and distances. Declining public health expenditure has not been replenished by alternative sources. Health insurance is funding only expensive health care. Therefore existing benefit package should be revised to improve primary health services.

2.3 Education

The Mongolian education sector comprises of six sub-sectors. There is a preschool and kindergarten subsector followed by 4 years of primary education and 4 years of lower secondary education. Compulsory education ends after grade 8. Upper secondary education is for 2 years. The technical and vocational education comprises of specialized upper secondary schools as well as post secondary diploma programmes housed in tertiary education institutions. In addition, there is a non-formal and distance education sub-sector.

A) Primary and Secondary Education

Education standards were very high before 1990-literacy had reached 98% for men and 95% for women. All level education was free and there was little difference in educational attainment between all different provinces. During the transition period there was serious pressure on educational budget. The education budget has been reduced and

around two thirds of primary and secondary school expenditure now goes to teachers' salaries and heating, leaving little for textbooks or repair and expansion of school buildings.

In Mongolia there are 620 schools similar to the number in 1990 (634). However, the overall enrolment ratio for children aged between 8 to 15 fell from 98% in 1990 to 87% in 1999 (HRD Report, Mongolia 1999 p. 22). Results of 2000 census show that 9.1% of children aged 8-11 and 18.3% of children aged 12-15 drop out of schools. 13.5% of children aged 8-15 drop out of the school and have no choice to enjoy their right to education. 16,500 children aged 8-15 are out of school in urban areas as opposed to the 51,700 in the rural areas. According to the survey of Ministry of Sciences, Education and Culture of Mongolia, 15.1% of children in the countryside do not study because they are employed in agricultural sector.

Though the public basic education is free, the increasing income gap reduces prospects for children from poor families. The introduction of school dormitory fee at half the cost of meals, inability to provide for kids' clothes and other learning materials leads to dropouts. On the other hand, the poor learning environment, inadequate living conditions in dormitories, poor food supply as well as poor quality of education reduce willingness of parents to send their children to school.

In recent years, the quality and accessibility of basic education is decreasing. School seating capacity satisfies only 56.6% of the demand. The sharp increase of citizens' migration from rural areas to central locations cause over density of population in the city of Ulaanbaatar and other big cities, settlements and central areas where now many schools are running classes in three shifts with 45-50 children in one class. The quality of teachers has undermined due to low salaries, weak incentives and poor working conditions. At current, 8.6% of all teachers are non-professional.

B) Tertiary Education

In Mongolia, there has been explosive growth in higher education institutions and enrolments since 1990. In less than ten years, there has been dramatic expansion of private higher education provision, non-traditional providers of academic training and influx of satellite operations of foreign universities offering business degrees and language programmes. By 2002, there have been more than 170 public and private higher education institutions of which 38 were accredited. In accredited institutions of higher education 59,0% of all students are studying.

Since 1995, while enrolment in private higher education institutions have doubled, there have also been large enrolment increases in public sector institutions. As of 2000-2001, over 75 percent of all enrollments nationally were in public institutions (Annual report of MOSEC, 2000). Both public and private higher education institutions are mainly concentrated in Ulaanbaatar where one third of total Mongolian population live.

Ten years of reform in the higher education sector have brought the following favourable results:

- The establishment of private colleges and universities that intensifies competition and meets the student demands;
- Institutional autonomy and or devolution of authority from the government to institutions. (establishment of the Governing Board that has the power to approve budget and recommend the president of the university for MOSEC);
- The diversification of income sources of universities and colleges;
- Diversification of academic programmes.

Under the centrally planned economic system all students enjoyed free education, stipend to cover living and study expenses, travel allowances or discounts. Tuition fee was introduced in 1993 in all tertiary institutions including public universities and colleges. A fee-paying system brings about a threat of discrimination against students from poor families. Students who could not secure funding from any sources or from poor families found it difficult to study and their places were taken by students with enough money to pay for themselves. Therefore, the Government set up National Student Grant and Loan Fund and started implementing need based assistance programme to ensure students security.

Chart 3.1. Categories of Students and Types of State Aids In Mongolia

No	Categories of Students	Types of Grant and loan
1	*One child of civil servant	tuition grant
2	*A distinguished student	tuition grant
3	*A student from family under poverty	tuition grant
4	*A student from herdsmen family with less than 200-500 cattles	tuition grant
5	*A student from family whose more than 3 children study at university	tuition grant
6	A student from remote five western provinces	return air ticket
7	Public transport card (50% discount)	Every student
8		Soft loan

*Only to students from accredited universities/colleges are eligible.

According to the report of the Ministry of Sciences, Education and Culture (MOSEC), 30.690 students (about 50% of total students) from accredited universities and colleges obtained 7979,4 millions of tugrics aid (MOSEC 2001 report). In 2000-2001 approximately 26% of students studying in state universities/colleges obtained loans and

grants and the remaining paid tuition fees (Ministry of Finance and Economics, 2000). About 75% of students from state universities/colleges who fell under the categories of “grant&loan students” obtained financial support.

Despite the availability of substantial state loans and grants for students there exists shortfall in the Government policy:

- Tertiary and technical education has become increasingly concentrated in Ulaanbaatar, Erdenet and Darkhan. Inequity in favour of students from those cities is obvious because they do not need accommodation and enjoy lower living expenses.
- Student aid programme is a partial solution to increase equity and accessibility because of mismatch between total expenditure borne by students and parents and the government ability to contribute. The effect of unmatched or limited grants on students is that students have to seek for part-time jobs or attend nearby institutions or leave the university.
- The income and eligibility for grants and loan is one of debating issue among the public. It would be beneficial to fall into the categories of “grants & loan” students. In a country like Mongolia, where tax collection is hardly implemented due to poor track of income, determination of real income is almost impossible. Another issue is parental dependence or age limit of students who can be qualified for loan and grants. Criteria for grants and loan must include such issues like the length of financial assistance (from Bachelor to PhD or what), student age limit and dependency of young adult on parental income and his eligibility for loan and grants.
- Unusual phenomenon in Mongolia is increasing gender imbalance among students, particularly in higher education where girls constitute 70% of the matriculation. This imbalance threatens some disruption in modernising the society where men will lack the knowledge and skills necessary to adapt to the rapid changes.

III. The Issue of Poverty

The income of the population is composed of the following main categories: 1/3 from wage, pension, benefit and incentives and more than 20% from agricultural and non-agricultural production income, 30% from private business income and 10% from free consumption taken from others. Moreover, this income composition largely depends on a given household’s location. For the urban population 40-60% of total income is composed of wage, pension and benefits whereas in rural area only 7% of the total income is composed from wage, pension and benefits and more than 60% are composed from household business revenue.

- Mongolia is experiencing severe poverty. Nearly 36.3 per cent of the population lives below the national poverty line of US\$17 a month (NSO, 2000). Between

1995-1998, the number of poor increased by 42000 and the single mothers, children under 16 and the elderly account for half of all the poor.

Table 3. 1. Mongolia: Poverty Indicators (percent)

	Incidence		Depth		Severity	
	1995	1998	1995	1998	1995	1998
Urban area	38.5	39.4	12.2	13.9	5.7	7.1
Ulaanbaatar	35.1	34.1	10.4	13.0	4.5	7.4
Rural area	33.1	32.6	8.9	9.8	3.6	4.4
National	36.3	35.6	10.9	11.7	4.8	5.6

Source: Government of Mongolia, Interim Poverty Reduction Strategy Paper, Ulaanbaatar, June 2001

Poverty surveys show the following results:

- Poverty is related with unemployment: 27.3-38.8 percent of employment age poor people in towns and settlements were unemployed.
- Cost of education and health services become heavy burden on the poor families and therefore, those families most likely will not able to receive the basic services of health and education. For example, percentage of household expenditures for education in total household budget has increased by 4.5 times in 1998 comparing to 1995 and its percentage in total non-food consumption expenditures increased by 9.3 percent. Dropouts are more event in rural than in the urban areas and 43.8 percent of them dropped out school due to poor living condition and the necessity to earn money.
- Wealthier households benefit more from health services than poor households. Monthly expenditures on health services per person for different categories of income groups is 9 times higher in wealthier households than that in poor families. Frequency of visits by the poor to the health centers is too low. Regardless of a household's location, a household with many children or female-headed household is more affected by poverty. For instance 24.6 percent of total extreme poor households and 18.3 percent of total poor households are female-headed households.
- Main negative consequences of poverty are children dropouts from the school, deterioration of health, disability, mental stress, violence, homelessness, divorce, increasing number of single headed families, wide spread alcoholism, debt and malnutrition. Some factors contribute to preventing a consistent reduction in the poverty line:
 - Production capacity is underdeveloped in the rural areas and big national industries are recovering slowly hence employment opportunity is scarce.
 - The rural areas have seriously limited infrastructure, capital and financial capacity to support citizens undertake private business.
 - The citizens entered the free market relations without any accumulated wealth and property.
 - The market environment for absorbing ready goods and products made by private individuals is strictly restricted.

- Natural disasters such as drought, heavy snow or Zud and forest fires heavily affect herdsmen's and farmers' lives. Between 2.2 to 4.3 million heads of livestock have died during each of the past three winters. Environmental deterioration such as overgrazing, desertification and soil erosion are weakening business activities of the poor.

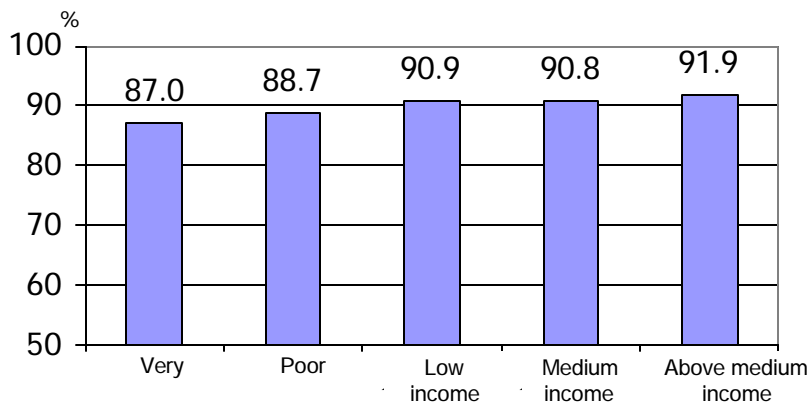
IV. Social Protection

According to the principle that a market economy is based on free and fair competition, it means on the one hand the creation of great possibilities for people to be developed, but on the other hand it is very difficult for the vulnerable strata of the society to live. Thus, the task to maintain social protection has been even more difficult during the transition period. The state really did not address these issues until 1995 when it established mechanisms for social and health insurance, employment services and special benefits for the sick and disabled. The social insurance fund now consists of:

- Retirement insurance;
- Allowances insurance;
- Insurance against industrial accidents and occupational diseases;
- Unemployment insurance;
- Health insurance; and
- Insurance of retirement and allowances.

The prime responsibility for operating social insurance passes to the National Social Insurance Council. Social care agencies deals with most vulnerable people. At present, 91.8% of workers are covered by mandatory insurance and 22.5% of herdsmen and private entrepreneurs are covered by voluntary insurance and 92.2% of the total population is covered by health insurance. Besides that, NGOs have started to enter into partnership with the government, both for elaborating public policy and delivering social services. Among the most active are the ones working for the rights of the elderly, children and youth and women's groups.

Figure 3.1. Coverage of population by health insurance package



Source: Ministry of Health, 2000

Social care allowance is an integral part of the social security system. According to the Law on Social Care Allowances elderly people, disabled people, orphan people, very poor elderly and very poor people with many children are considered vulnerable. Mothers with many children and mothers caring for their babies and orphan children get benefits from the social assistance fund.

Despite the government's efforts, the public is dissatisfied with the current state social services. The following percentage of people surveyed reported that services are bad: 81% in health; 77% in education; 77% in welfare services and 74% in social insurance services. They refer to high charges, poor management, the wrong policies and low quality as main problems with social services (HRD Report 2000).

Economic stress contributes to the break up of families, increasing numbers of children are spending time on streets and are engaged in various activities from begging to petty crime to prostitution. It is estimated that 80% of street children come from single headed families and more than half such children have been abused. There has been an increase in commercial sexual work and a rise in criminal activity. Violence against women is also reported to be on the increase.

In conclusion, it can be said that social services are limited. Some people are not covered by social services and the number of people to be covered by social insurance is rising. Therefore due to financial constraints there is a need to improve the availability and efficiency of social care services to be rendered to vulnerable groups of the society, especially, women, elderly, disabled and children.

V. Conclusion

The economic transition led to:

- Decreasing household food security;
- Cuts in safety nets and social sector services;
- Declining quality of basic education and health;
- Low quality living standard;
- High unemployment and poverty;
- Increased poverty related and life-style related diseases and illnesses; and
- Increasing inequalities between population groups.

Social services are investment in people. Thus, this investment must be made in a timely manner, when people really need support to enjoy rights to life, education, health and welfare. The Government should take extensive measures to prevent people falling into poverty.

The street children in Ulaanbaatar and in other cities demonstrate the manifestation of the breakdown in family and social protection. The Government has to ensure that every child goes to school and that everyone has proper health care and has access to essential social services.

The management of limited fund requires targeted utilization of funds. The poor should be given financial support, provided with lands and other resources to enjoy their basic rights to live, work and right to education.

Public private partnership is necessary to ensure adequate social services. NGOs' activities should be more encouraged. They will help the Government better understand public needs, ensure public participation in decision-making and provide social security services to vulnerable.

Public health cannot be secured without proper consumption, allocation of budget and training. Promoting health awareness is one of necessary targets of all level health institutions.

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