

Development Dialogue 2: Poverty in Mongolia: Looking Beyond the Numbers

Summary Report

On 18 December 2012, the Development Dialogue 2012-13 series was continued with the second dialogue "*Poverty in Mongolia: Looking beyond the Numbers*". The Dialogue brought together over 70 representatives from Government, international development organizations, civil society and academia, for information sharing and discussions on current state of poverty in Mongolia, issues on measurement of poverty, current and planned policies by Government poverty alleviations and impediments to poverty reduction efforts by various parties.

Opening statements were made by UNDP and NSO highlighting:

- Mongolia is experiencing rapid economic growth but without a matching reduction in poverty. This is not necessarily due to lack of Government's initiatives about poverty reduction. But despite the efforts in poverty reduction, there is wide and growing income inequality, which suggests that Mongolia's economic growth is not inclusive. What we are missing and what we can do differently are some the questions that motivate the Dialogue.
- Mongolia recently had a single poverty estimate and methodology as a result of constructive collaboration between the NSO and World Bank. But poverty is a complex issue that cannot be fully represented just by numbers; we have to look beyond the numbers at poor access to clean water and sanitation, insufficient physical security and limited opportunity to better one's lives, etc.
- This leads to the question that does Mongolia have policies in place to fight poverty across all dimensions? Although there are policies to implement the MDGs, and numerous other efforts by the Government and international development organizations in poverty reduction, effectiveness of these actions needs to be evaluated.
- Unlike countries with advanced tax system, which can reliably determine household livelihood from tax records of individuals, Mongolia has to rely on surveys to determine poverty rates. Until 2007, Mongolia's poverty estimations were based on Household Income and Expenditure Survey (HIES) and Living Standards Measurement Survey (LSMS) conducted in 1995, 1998 and 2002-2003. After 2007 poverty estimations have been based on the Survey on Household Social and Economic Indicators (SHSEI). Because poverty estimations were based on different type of surveys, there has been methodological inconsistency between poverty figures for various years. But NSO had made significant advancement in improving methodology for poverty estimation with help from the World Bank and discussions on poverty can now move away from the subject of accuracy of poverty data to more fundamental issues such as policies for tackling poverty. Latest estimations indicate that Mongolia has high poverty rate of 29.8%.
- NSO has recently produced a poverty map of Mongolia which details poverty rate at various levels of aggregation starting at the soum level. This detailed information can be used for various purposes including analysis of poverty, allocation of social assistance to regions and within aimags and determination of development policy at local levels.
- A potential inter-agency collaboration between NSO and MPDSP is to work on combining SHSEI data and proxy means-testing data collected by the MPDSP and cross check each data and create database not only general on poverty rate at local level but also on who is poor within the locality.
- NSO proposes to estimate poverty rate twice in every parliamentary election cycle; first in the election year and second in the middle of election cycle instead of estimating poverty

rate each year. Besides saving valuable resources, this enables evaluation of policies against poverty by the elected Government.

Presentations were made by UNDP, NSO and MPDSP on:

- 1) **"Poverty in Mongolia: What are the issues"**, by Mr. Saurabh Sinha, senior economist, UNDP introducing issues related to inconsistencies of poverty data, insufficient analyses of data, poor linkage with policy and lack of ownership of poverty within the government.
- 2) **"Nature and extent of poverty in Mongolia: What does the data tell?"**, by Mr. Erdenesuren, Vice Chairman, NSO introduced the audience different indicators of poverty and inequality, determinants of changes in poverty and proposed some policy directions for poverty reduction. Highlights of the presentation were:
 - There are significant variations in poverty rates between regions, aimags and even between districts of Ulaanbaatar city.
 - Although some negative relationship is observed between economic growth and poverty rate, degree of correlation is weak and economic growth has only a limited effect on poverty because of three reasons:
 - Changes in investment comprise significant portion Mongolia's economic growth and annual increases in investment have always been significantly higher than annual increase in consumption in recent years. Investments have only indirect effect on poverty reduction as compared with consumption.
 - Foreign direct investment (FDI) has played important role in rapid economic growth in recent years. This is demonstrated by the fact that GDP has always been higher than GNI since 2005. Since dividends paid to FDI are transferred back to overseas, FDI has limited effect on poverty compared with investments from domestic resources.
 - On average, increases in Government consumption have always been higher than increases in household consumption since 2000. Since part of Government consumption is spent on investments and current expenditures that are not necessarily targeted to the poor, the Government consumption has limited effect on poverty reduction relative to household consumption.
 - There are still 8 fold differences in per capita consumption between the richest and poorest households and this difference have not declined much since 2002.
 - There is a strong correlation between number of livestock and poverty rate especially in rural areas. Poverty increases greatly after winter disaster "dzud" and this suggest that one of effective ways to fight against poverty is to try to stabilize the livestock numbers at the threshold level during "dzud" years.
 - There are several other notable determinants of poverty such as having disabled and/or unemployed family members, being eligible for social assistance benefits, working in agricultural sector and not having access to centralized and local power transmission systems.
 - Different ways for tackling poverty include increasing Mongolia's ability to absorb returns to foreign investment, implementing decentralization policy, increasing domestic content of manufacturing and improving coherence of policies for poverty reduction by different agencies.

- 3) **“Social welfare and poverty reduction: Is there a link?”**, by Mr. Tamir.E, Deputy Minister of Population Development and Social Protection provided assessment of current social assistance system and introduced planned policies by MPDSP for reforming the social assistance system. The need for reform in the current social assistance system is motivated by, among others, its non-targeted coverage, dependency on political influence both at national and local levels, poor quality of services, lack of coherence with policies by other institutions and limited effect on poverty despite sharp increases in spending on social assistances.

Government policies for reforming social assistance system include establishing dynamic database on households in true need of social assistances, introducing new channels of delivering social assistance such as food stamps, improving quality of service delivery by introducing new standards and monitoring system, encouraging incentives to work instead of being beneficiaries of social assistance, establishing counseling services at local level and supporting labor-intensive industries with direct Government intervention in areas with prolonged high unemployment.

Mr. Tamir also emphasized that poverty in Mongolia is not only poverty in material sense, but it is also poverty in mind and will of the poor. He noted that one of the novel approaches by the newly elected Government in poverty reduction will be helping poor psychologically to lift themselves out of poverty by offering counseling and intermediary services through local social assistance service centers.

Key points from the ensuing open discussions are summarized below:

- Current governance of social protection system is non-democratic and non-participatory and it has become tool to gain political favor from voters in recent years.
- One of the fundamental issues among the poor is the lack of self-confidence and active involvement by Government and development organizations is necessary for infusing the self-confidence.
- There is increasing divisions not only in income but also in the minds of the poor and the rest of Mongolian society. Significant portion of the rich and middle class has prejudices against supporting and donating to the poor. Therefore, fight against poverty should also focus changing the minds of high and middle income part of the society.
- The poor have limited information and understanding about Government policies on poverty alleviation. Even when they receive information on Government policies and measures, they do not always get complete understanding due to the complexities of the information. One of the most demanded information by the poor is information about loans and grants by Government and international organizations available for the low income people. Consequently, Government and international development organizations should pay more attention to delivery and simplification of information on their policies and actions.
- Fighting against poverty should be a multi-party activity involving the poor, government, international organizations as well as the (potential) employer. Discussions on poverty alleviation in Mongolia tend to exclude the employer. Eventually, the employer is the main provider of the income necessary for poverty alleviation. Government should play an active role as an intermediary between the poor and employer providing various incentives for the employer to hire the poor.
- Actual rate of poverty could be higher than currently reported level because there are many low-income people who do not consider themselves as poor. This is because they do not know what constitutes basic necessities of life. For example, many herders in rural areas have limited access to water and sanitation but they do not consider themselves as poor.

- Fight against poverty should focus on community as well as individual households. In fact, measures focusing on communities may be more effective than measures focusing on individual households because some communities suffer from wide-spread poverty that affects most of their members.
- The gender dimension of poverty needs to be analysed across age groups. Reproductive health issues are also important, and assistance should be provided to women to become less dependent. Humanitarian issues exist along with poverty. More child care centers could benefit young working parents. Though the mining revenue is useful for Mongolia, an important consideration is how it should be used.
- Distinctions should be made between various population groups such as herders and women and appropriate policies for poverty reduction should be formulated for each group.

One of the prevailing themes in the discussion was the low coherence between various efforts by Government and International organizations in reducing poverty. Recognizing this fact, the State Secretary of MPDSP informed that there have been many poverty related projects and programs in Mongolia. Total of 78 projects/programs on poverty of 16 international organizations have been implemented. The MPDSW has calculated the efficiency of those projects and a common recommendation will be issued at a meeting to be organized soon. The poverty issues in Mongolia are within the consideration at the Prime Minister's level, the line ministries have put forward the poverty issue and set goals within their own frameworks. It is possible to solve the poverty issues within a common governance framework. Regular inter-sectoral cooperation is needed due to the low level of connection/coherence. And engagement of all social groups is essential.

The third Dialogue is planned in January 2013 on "Utilizing mining revenue for Mongolia's development."