

The Impacts of Economic Crisis in Mongolia: Findings from Focus Group Discussions

Final Version

April, 2011

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Acknowledgements:

Many colleagues have contributed to the research reported in this summary paper. Global Reach Center in Ulaanbaatar conducted the research in Mongolia. Carrie Turk from the World Bank and Wendy Walker from the ADB designed and supervised the research with contributions from Andrew Mason and Andrew Norton (World Bank). Gracie Ochieng (SDV) provided logistical support. Fieldwork was financed by the UK Department for International Development (DFID) and the Asian Development Bank.

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Introduction

Mongolia was hit hard by the global economic recession, notably the fall in commodity prices. GDP contracted by 1.6% in 2009 after growth of 8.9% in 2008¹. The country is narrowly specialized in production of a few primary goods with minerals comprising 70% of total exports.² Since mid-2008, the prices of main export goods, including copper, zinc, crude petroleum, combed goat-down and cashmere dropped by close to or more than 50%, though prices of coal and gold held strong. Furthermore, construction activity fell sharply in 2009 as both the public and private sectors reduced investments and bank loans became less accessible. FDI inflows into the mining and construction sectors were also reduced as global investment flows declined.³

These developments had negative impacts on welfare with some groups of the population being particularly affected. The World Bank and ADB initiated qualitative data collection to identify the impacts of the crisis as seen by individuals and households themselves, examine the coping mechanisms, and analyze the effectiveness of the government's responses as perceived by respondents. To assess the evolution of crisis impacts and coping strategies, four consecutive rounds of research took place in May-June, 2009, August-September, 2009, January-February, 2010 and November 2010 – January, 2011.

The research was conducted in urban and rural areas of Mongolia and involved interviews and focus group discussions with about 500 people total (over the four rounds of data collection) belonging to groups identified as particularly exposed to the impacts of the crisis⁴. These groups included: (1) herders that may have suffered from the drop in cashmere and wool prices; (2) formal and informal miners whose employment status and income may have been affected by reduced global demand for commodities; (3) workers of the non-tradable sectors like construction and services whose employment and income may have suffered from the general economic slowdown; (4) recent migrants to Ulaanbaatar who are working in the informal sector and/or who experience high levels of employment insecurity; (5) young people (recent university graduates and workers) who may have faced increased difficulty in finding/keeping their jobs as well as (6) the self-employed working in rural areas who may have suffered from reduced demand for their services or products and a fall in incomes. More detailed information on the respondents is provided in Annex 1.

This approach to sampling allows conducting an in-depth analysis of crisis impacts on groups that are likely to be particularly vulnerable. However, it also has certain pitfalls. First, it may have overlooked some groups that have also been affected by the crisis. Second, by excluding the population that was not affected, the findings may seem to overstate the importance of the crisis relative to other development challenges. Lastly, the findings are not nationally representative, which makes it difficult to make generalizations.

¹ World Bank. 2010. *Mongolia Monthly Economic Update: January 2010*

² UNDP. http://www.undp.org/asia/pdf/financial_crisis/Mongolia.pdf, accessed on June 10, 2010

³ ADB.2010. *Asian Development Outlook 2010: Mongolia, Ulaanbaatar*

⁴ The researchers attempted to visit the same households in each round but it was not possible (herders were moving to summer/winter camps; small market traders could not always be found in the same place, etc), so no more than 20% of respondents participated in all four rounds of data collection. However, the researchers interviewed people belonging to the same occupations (e.g. herders, miners, etc) throughout the four rounds

The first three rounds of research showed that households across Mongolia were under serious economic stress with the poor most strongly affected while the fourth round recorded broad-based recovery and improvement of living conditions for all surveyed groups. Labor market shocks—rising unemployment, reduced salaries and diminished profits of small businesses and price shocks—falling prices for cashmere and livestock products and rising prices for imported food and consumer goods—were the key transmission channels. The economic hardship also had social impacts, like increase in alcohol abuse and crime. Interviewees in Mongolia commonly mentioned reduced consumption, increased reliance on credit, distress livestock sales and diversification of income sources among coping responses. Government assistance albeit small was an important source of support to poor households during the crisis and following the winter dzud of 2010.

Qualitative research on the impacts of global economic crisis was also conducted in other countries of the region (see Box 1 for more details on that).

Box 1. Impact of the Global Economic Crisis on Selected Countries in East Asia

Apart from Mongolia, qualitative monitoring of the impact of the global economic crisis was organized in several other East Asian economies. The brief description of the impact of the crisis on vulnerable groups of Vietnam, Thailand and the Philippines is given below. At least two rounds of research took place in each country between 2009 and 2010. The participants were chosen based on the researchers' hypothesis on which groups are most sensitive to the crisis and as in the case of Mongolia the findings are not nationally representative.

Vietnam: In the spring of 2009 when the first round of research took place, export-oriented industries in the special economic zones reported being severely affected by the reduced demand for manufactured goods. In some industrial parks, sales reduced by 50%. This resulted in the retrenchment of workers, reduced working hours and correspondingly reduced wages. The communities around the industrial parks, e.g. owners of hostels for migrant workers and vendors selling food, clothes and other items to migrants also suffered big losses. Rural households were strongly affected due to the reduced remittance flows. Most interviewees have not benefited from any government assistance (with the exception of the loan scheme for poor students that was considered helpful) and relied primarily on family and community support. Large enterprises in Go Vap province benefited from the government's subsidized loans but small and medium enterprises did not have access to such assistance. The negative impacts of the crisis were short-lived and already in the summer of 2009 when the second round of research was organized most enterprises reported increased work orders and a shortage of labor. The companies have responded by increasing overtime work, relaxing recruitment requirements and improving worker compensation packages.

Thailand: The first round of crisis monitoring in Thailand was organized in June 2009. The global economic crisis had a varying degree of impact on the different sectors of Thailand's economy. Farmers who owned land and some of the agricultural and fish processing enterprises did not experience production declines as demand for their products remained stable. The industrial enterprises faced reduced production orders in the last quarters of 2008 and early 2009. While some big international companies were able to cope through a freeze on new hires and cancellation of overtime, others had to reduce working hours, cut wages and retrench employees. Jobs in the informal sector became scarcer, incomes reduced significantly and working hours increased. Unlike employees of the formal sector that received severance payments and unemployment benefits, informal sector workers were not eligible for such assistance.

In the second round of research, conducted in June 2010, production in the formal sector recovered and many export-oriented enterprises were reporting a shortage of labor. Jobs and incomes in the informal sector continued to shrink, however. Many informal sector employees became indebted to loan sharks and were struggling to pay daily interest rates. The poorest population groups were not able to benefit from some of the government's support programs (e.g. electricity and water subsidies or debt refinancing) as they did not have access to basic infrastructure and formal banking system, however there was a universal appreciation of the school subsidies.

The Philippines: The first round of crisis monitoring in the Philippines was organized in the fourth quarter of 2009 and the second round in January 2010. The global economic crisis had a direct impact on employees in the export-oriented enterprises. Interviewees of the three exporting sectors (electronics, handicrafts and agriculture) experienced layoffs, reduced working hours and an up to 50% decline in wages. Coconut farmers reported that the price of the whole nut has reduced from PhP 7 per kilo to PhP 3.20 within a year while the cost of the fertilizer increased more than twice within the same time frame. Increased cost of inputs and the need to sell products and services at the reduced price to adjust to the declining demand was a common problem faced by many interviewees (handicraft workers, street vendors and other informal sector workers). The practice resulted in the further erosion of incomes of vulnerable groups. Rural

households dependent on domestic remittances suffered from the reduced and less regular transfers while families with international migrants did not report a significant decline in remittance flows.

Although exports recovered in the first quarter of 2010, the livelihoods of most vulnerable groups have not seen much improvement. Some vendors experienced an increase of income due to better sales in Christmas time but it was a short-term effect. Indebtedness emerged as the major problem particularly in rural areas where some households had to pawn or sell their land to repay the loans.

Source: Vietnam: World Bank, Oxfam GB and CAF (VASS) (2009). *Rapid assessment on social impacts of economic crisis in Viet Nam*; ActionAid and Oxfam GB. 2009. The impacts of the global financial crisis on socio-economic groups in Vietnam: A regular monitoring report

Thailand: Chantavanich, Supang, Mya Than, Samarn Laodumrongchai and Artit Wong-a-thitikul. 2009. *Rapid assessment on the impacts of economic downturn on workers in Thailand*; Tansanguanwong, Pamornrat (2010) Second Round Field Reports. Bangkok.

The Philippines: Institute of Philippine Culture. (2009). *First Quarter Report, Qualitative Research on the Impacts of the Economic Crisis on the Vulnerable sectors of the Philippines*. Manila; Institute of Philippine Culture. (2010). *Second Quarter Monitoring Data*, Philippines. Manila

The rest of the report is organized as follows: part 1 describes the key transmission channels of the crisis focusing on labor market effects, price shocks and social impacts, part 2 discusses the coping strategies, and part 3 offers concluding observations and implications for policy making.

Part I. Transmission Channels

The primary impacts of the crisis were observed through (1) labor market effects (e.g. reduced salaries, increased discrimination in the labor market, intensified competition for jobs and a reduction in profitability of small businesses of the poor), (2) price shocks, and (3) social changes (e.g. increase in crime and alcohol abuse). These impacts were particularly significant for the poor.

1.1 Labor Market Effects

The economic crisis had a major impact on the labor market with rising unemployment, reduced salaries, and intensified competition for scarcer jobs. There were no observed differences in impacts by geographic location. Increased difficulty in finding employment was reported by recent university graduates, urban migrants, low skilled people as well as those working in the informal sector. The bargaining power of employers increased and a number of interviewees reported discriminatory hiring practices, wage cuts as well as abusive practices by employers including requests to work longer hours for the same salary or paying below the agreed amount. Reduced salaries, worsening working conditions, and higher transportation costs contributed to a shift from wage labor to unpaid activities such as gardening in urban locations. With the economic recovery, job situation improved significantly (including in the informal sector), yet migrants and low skilled workers continued to suffer from poor enforcement of labor contracts, low salaries and poor working conditions. The narrative below provides a more detailed description of these trends.

Intensified competition for jobs

Increased difficulty in finding employment was reported by a number of respondents, particularly young people and university graduates, recent migrants to Ulaanbaatar, low skilled workers as well as those employed in the informal sector. For instance, university students and recent graduates believed that they needed to make more efforts, apply for more jobs, and obtain additional skills to find a job while this was not necessary in previous years. In fact, just a year before the crisis most students were employed before graduation while at the time of this research only a small percentage managed to land a job. Job announcements in newspapers shrank significantly and many companies and government institutions were not recruiting new employees. The students reported that they would like to have some support from the government or non-governmental organizations in job search and career development.

A number of young people with university education were forced to accept jobs that were much below their qualifications for lack of other employment opportunities.

I graduated from a private institute paying a very high tuition fee but I am not able to find a job. That is why I'm working as a bus ticket seller. My earnings are not enough to feed my family...

G. Selenge, age 28 (August-September 2009)

I graduated from the University of Ulaanbaatar as an electro-physicist in 2009 and could not find a job in this profession until last October. Thus, I am selling clothes at 'Narantuul' market. I want to find a reasonably-paid job that matches my major...

22 years old male, Chingiltei District, 13th khoroo (January-February 2010)

Many interviewees emphasized the increased importance of networking, personal connections, and even bribes in finding a job.

There is no job even for those who have a Bachelor's degree. My daughter graduated from college majoring in accounting. But she cannot find a job. She tried through newspapers, but it is hopeless to find a job that way. We have to find these important high ranking people. These people are corrupt. My daughter says that she wants to work abroad.

A 50-year old married woman, a resident of 20th khoroo, Bayanzkhurkh district (May-June 2009)

I was searching for a job in June and I have not found it yet. I think people need networking and money to get a job. I also feel that age and appearance play a role. I have three school children and my husband also does not work. We live on children's money.

38-year old woman, 25th khoroo, SHD (August-September, 2009)

Shrinking employment opportunities in the formal sector contributed to increased competition for informal sector jobs and a decline in incomes of informal sector workers. For instance, the number of people engaged in illegal gold mining increased dramatically over the time that this assessment was conducted despite the health risks and the hard physical labor associated with this activity. The increased number of miners reduced individual chances of finding rich sites and correspondingly reduced miners' incomes. Workers engaged in small scale tourism activities reported fewer clients than in the pre-crisis year but despite the declining demand for tourism-related services, the number of people engaged in this activity increased.

I have been offering camel riding for two years. Last year there were only 7-8 people with camels. Two years ago, there were only 3 people with camels. This year there are 12 people offering camel riding. I used to make 70,000 tugrugs a day. Now, I sometimes make 20,000 tugrugs.

A 12-year old boy working near Elsen Tasarkhai –Sand dune (August-September 2009)

Increased discrimination in the labor market

Interviews suggested widespread discrimination in hiring decisions based on age, gender and appearance. Both men and women had to be under 30 years old to be hired. Apart from young age, women faced additional requirements related to good appearance and body shape. Furthermore, some organizations preferred hiring men for fear of incurring losses due to women's entitlement to a one-year maternity leave.

One of my responsibilities is assisting people in township in finding jobs. I sent two young men from my township to Construction Materials Workshop as the employment department of the khoroo recommended to send two men. They went to the employer's office and were interviewed by the human resources officer, however they did not qualify one criterion for these vacancies - age. The employers' target was very young men under 30, but they were already 35 years old".

56 year old female, township leader of 25th khoroo Songino khairkhan district (January-February 2010)

When I apply for a job, companies say I am already old and offer a cleaning job. The cleaning job pays 100,000 tugrugs a month. With 100,000 tugrugs a month, it is impossible to survive. I

have to pay 1000 tugrugs a day for transportation. Besides, I have to eat at work. Therefore, I do not work. I grow vegetables in the spring and summer times.

A 43-year old widow, a resident of the 20th khoroo, Bayanzurkh district (May-June 2009)

Reduced wages and worsening employment conditions

Urban workers (recent migrants to Ulaanbaatar and employees of small service-oriented companies) reported a decline in real wages and pressure on nominal wages. Real wages fell because of increasing prices of food and transportation. Many interviewees also experienced a reduction in nominal wages due to downward negotiation of salaries. Workers of both genders commonly reported working longer hours for the same amount of money, delay in wage payment or receiving it in several installments as well as receiving less than the agreed contracted amount and less than the minimum wage. Recent migrants to Ulaanbaatar were particularly vulnerable to abusive treatment by employers. Focus group discussions revealed instances when migrants were hired without contracts for a short probation period. After one or two months, companies fired them without paying the salary.

I work in a cafe. My salary is 150,000 tugrugs a month and it is not increasing. Instead, I am doing four different jobs and working for 16 hours a day from 8.0 am to midnight.

43 year old married woman, employed at cafe, resident of the 25th khoroo, Songino khairkhan district (May-June 2009)

I graduated from a private college. I worked at the newspaper company. I was responsible for taking newspaper subscription orders and got paid 100,000 tugrugs a month. In addition, I was doing a typing job and got 70,000 tugrugs a month. But, later the company stopped paying the money on time. So, I quit the job.

23-year old single woman, a resident of the 25th khoroo, Songino khairkhan district (May-June 2009)

My two children work in the bakery. This is the oldest and largest company in Mongolia. They bring very little money. One of them brought 50,000 tugrugs. Sometimes the company gives bread and candies instead of salary. The other son works as a driver at the same company. He transports bread to shops. Sometimes the car breaks down. In that case, the company says it has no budget for repair and asks him repair the car himself. If the car breaks down and stops, my son will have a reduced salary.

A female migrant, 25th khoroo, SHD ((August-September 2009)

My son works in construction. He does interior repair. It turned out that the company did not pay his salary on time. He got his salaries for May and June in July. We are still waiting for his July salary...

Nyam, a female migrant, 25th khoroo, SHD (August-September 2009)

Some interviewees who lived in the outskirts of Ulaanbaatar reported that reduced salaries and increasing prices for meals and transportation made them leave their wage jobs and switch to gardening, herding, and other home-based activities.

The jobs are more available in foreign small and medium sized companies. The salary is 180,000 tugrugs a month. Transportation cost from our khoroo to the city is 1000 tugrugs for two rides. In addition, we have to have meals at work. We waste a lot of time by working in the city. So, I believe it is worthless.

A 50-year old woman, a resident of 20th khoroo, Bayanzkhurkh district (May-June 2009)

Reduced sales and profits of small businesses

Small businesses particularly those engaged in trade and service provision (market traders, pharmacists, souvenir sellers, interior designers, well drilling companies, drivers, etc) reported that sales reduced by half in comparison to the pre-crisis year. The interviewees said that it became more difficult to predict consumer behavior and forecast sales. Market traders were used to seasonal demand fluctuations and based on the previous experience expected that sales would

increase before Lunar Mongolian New Year, Naadam Festival in July and during summer time. However, this was not the case after the crisis and many entrepreneurs found themselves with leftover goods.

Last May, the sales income was much higher than it is now. Our sales used to be around 120,000 tugrugs a day and we made approximately 3,000,000 tugrugs of sales per month. The sales decreased sharply and now we hardly make 30,000-40,000 tugrugs of sales per day. Sometimes we do not sell any garments.

A 38- year old female garment retailer (May-June, 2009)

I used to sell five boxes of cigarettes a day last year. Now I sell the same amount for five days.

A 31 year old female cigarette trader, Narantuul market (May-June, 2009)

Some of us started the business with motorbike. We used to carry our souvenirs by motorbike. Three years ago, business was flourishing and many of us bought small cars. Now, we cannot invest anymore. We are thinking whether we are making enough to pay debt and for the winter.

A female souvenir trader from Kharkhorin soum of Uvurhangai province. (August-September 2009)

Two factors contributed to decline of profits of the small businesses: reduced demand for non-food products and services and depreciation of the Mongolian currency, which raised the price of imported goods. Declining access to affordable loans was a widespread concern of entrepreneurs and a limiting factor in diversification of business activity and growth of small enterprises.

Although the prices of raw materials are increasing, we're not able to increase prices of shoes. Because our customers are in a hard economic condition and people do not buy much nowadays. Previously, there were many people who were fond of buying various types of shoes and boots. There were also more tourists to buy buryat shoes. But now only those who really need shoes come to buy. In addition, banks have become very strict in giving loans. It is too much to pay 20 percent of interest rate per year. That's why we want loan interest rate to be decreased and we can have more opportunities then. ... In general, sales are very low this year.

N. Narantuya /Narantuul market/(August-September 2009)

Small businesses reported laying off employees, reducing space sizes, cutting travel, diversifying and expanding product categories as well as selling goods on credit and giving customers a longer repayment period. Most entrepreneurs were concerned about the future of their businesses. The interviewees claimed that improved access to credit, reduced tax burden, simplified procedures for obtaining licenses and skill building programs were some of the steps the government could take to help them withstand the crisis and facilitate business growth.

The Impact of Recovery: The last round of this qualitative research (November 2010-January 2011) recorded significant improvements in the labor market. The availability of jobs in the formal and informal sectors increased; the salaries of miners and civil servants were raised by 30%, which resulted in increased household spending and better sales of market traders and small business owners. While recent migrants to Ulaanbaatar also benefited from improved job availability they continued to face problems associated with breach of contracts by employers, low pay and poor working conditions. The perceived instance of employer's abuse was so high that some migrants reported distrust in job advertisements posted by local governments and preference towards casual self-employment, e.g. wood chopping, or coal reloading. The income of such activities was reportedly enough to cover basic food costs.

1.2 Price Shocks

Households faced multiple price shocks, especially at the beginning of the global financial crisis when food price inflation was still high. A rise in the price of imported food severely affected households as Mongolia is highly dependent on food imports, particularly grain. Furthermore,

the combination of the fall of the price of cashmere and livestock products with depreciation of the national currency shifted the terms of trade against herders. Although oil prices stabilized, rising cost of transportation constrained access to markets for the rural population and was also reported as a limiting factor for job search in urban areas. Lastly, the costs associated with schooling and university tuition increased at the peak of the crisis, which was of great concern to families with children. Following economic recovery, households complained about high inflation, however spending improved as a result of higher income and the government's social transfers.

Deterioration of the terms of trade for livestock producers

Herders' income declined significantly throughout 2009 due to a sharp reduction of prices for livestock products such as cashmere, sheep wool, camel wool, skin, and meat. For instance, in Arkhangai aimag, cashmere was 33,000 tugrugs in June 2007. The price decreased to 24,000 tugrugs in June 2008 and went further down to 22,000 tugrugs in June 2009. The price of sheep skin and intestine declined from 7,000 tugrugs in the summer of 2007 to just 500 tugrugs in the summer of 2009 and the price of wool similarly deteriorated.

Wool is worthless now. I hired people to comb wool of the sheep and paid 100 tugrugs for combing of one sheep. But I got 200 tugrugs per kilogram of wool. It was nonsense.

A herder from Battsengel soum, Arkhangai province (August – September 2009).

No one buys sheep and goat skin today. We have to throw it away or give to dogs.

A female herder from Bogd soum, Bayanhongor province (August – September 2009).

The fall of price for cashmere in the spring of 2009 had a major impact on herders' livelihoods. Many of them had taken loans at high interest rates in the expectation of rising cashmere price. When this did not happen herders decided to sell more meat during Naadam festival in July when prices for meat are usually high. However, the market was oversupplied with meat and prices declined dramatically. While wealthier herders could sell more animals at lower prices and maintain basic consumption, poor households could hardly make ends meet.

I borrowed 1.5 million tugrugs last year... I still owe 400,000 tugrugs. It will be more with interests. We now have nothing than to sell our animals. But it will be sufficient to buy food, not repay bank debts. We really cannot make money during this summer.

A female herder from Nariinteel soum of Uvurhangai province (August – September 2009)

In addition to the reduced prices for livestock products, households also reported being adversely affected by the rising prices of imported food (sugar, flour, rice) in 2009. Furthermore, access to bank loans decreased and the maximum loan amount went down from 5 million tugrugs before the crisis to 500,000 tugrugs in the autumn of 2009. Reduced access to credit limited households' coping strategies.

We used to buy a 50-kilogram bag of flour by selling one sheep. But now it is impossible. We have to sell two sheep...

A herder from Bogd soum, Bayanhongor province (August – September 2009)

Before we could borrow 5.0 million tugrugs from the bank. Now it is only 500,000 tugrugs. We could repay bank loans. Now it is almost impossible. We are in debt. Cash is not available nowadays. The middlemen are coming this summer. We give livestock in the hope to get money after animals are sold...

A herder from Battsengel soum, Arkhangai province (August-September 2009)

To support herders, the government lifted quality restrictions on cashmere exports and abolished an export tax on cashmere. Furthermore, the number of ports authorized for cashmere exports was increased from three to twenty. While these measures slightly increased the cashmere price in August 2009, few households could benefit from it. These were primarily wealthier herders who had savings or diversified sources of income and could afford waiting for a better price. Most households reported selling cashmere at low prices in the spring due to the need to maintain daily consumption and pay back bank loans.

I sold the cashmere for 16,000-17,000 tugrugs. I heard later that the price reached 20,000 tugrugs, but I could not wait for that price...

A herder from Bogd soum of Bayankhongor province (August – September 2009).

The resilience of herder households to commodity price movements was strongly correlated with the number of livestock they possessed, proximity to markets and diversification of income sources. Households with fewer than 100 animals were considered very poor and were the most vulnerable to any shocks (price fluctuations, disasters, theft, etc). These households were not hired by companies or wealthier farmers to herd their livestock as they were not capable to pay if animals were lost. They also faced difficulties in obtaining bank loans because they did not have sufficient collateral. Overall households with more than 500 animals were considered to be more resilient to various shocks than farmers with smaller herds. Distance to markets was another important factor in determining vulnerability as prices for livestock products were much higher in Ulaanbaatar than in local markets. However, very few herders could afford the costs of transportation and had to sell their products at much lower prices to middlemen. Lastly, fast development of tourism provided an opportunity for income diversification in areas adjacent to tourist camps, making their residents less dependent on agriculture.

This summer very few middlemen came to buy sheep and goats. I could not sell even a single sheep. Those who have money can transport animals and sell their animals. For others like me it is impossible. Our province has one meat processing company. But it offers lower prices than middlemen do. Therefore, we have no other way than to sell to the middlemen. The middlemen have a lot of bargaining power.

A herder from Battsengel soum, Arhangai province . (August – September 2009).

I live very close to the entrance to the tourist camp. When I see tourists coming I go there to offer horse riding. I also sell some small handmade items to tourists. I think it is possible to make some money this way.

A female herder and ranger from Bayandelger soum of Tuv province(August – September 2009).

Increased transport costs as a constraint to mobility and job search

Rising transportation costs were cited as a constraint for access to markets in rural areas and for job search in urban locations. As described above, increased transportation costs deepened dependence of herders on middlemen forcing them to sell livestock at lower prices. Farmers living in remote locations complained that no middlemen came to buy sheep and goat skins, so they had to throw them away.

Some of the interviewed low-income urban residents indicated that transport costs from the outskirts of Ulaanbaatar where they lived to more central locations where they worked were so high that they gave up their jobs in favor of growing vegetables and other subsistence activities. University students reported that the price for a student's bus ticket went up from 4,800 to 6,900 tugrugs a month, which added to the overall rise in education-related expenditures. Students from the countryside who studied in Ulaanbaatar reduced visits to their families to save on transportation.

Rising costs of education

School-related expenses increased steeply, which could potentially be attributed to reduced government spending on education due to decreased revenues. Interviewees also reported rising costs of university tuition. Increase of expenditures associated with education was of particular concern to low-income families and households with many children. The interviewed parents mentioned more frequent requests by teachers for purchase of various supplies and in some instances for administration of tests. Furthermore the price of uniforms and children's clothes increased due to depreciation of the national currency.

I have three children and the eldest one goes to school. The teachers sell many different books nowadays, but most of them are not used for the classes. It is compulsory that school pupils wear uniforms. The uniforms are getting more expensive. My son told me that his Class Master was angry with one of the children because his parents could not pay for the uniform. The teacher told him to come to class when he could afford a uniform.

A 32-year old unemployed woman, the 25th khoroo, Songino khairkhan district (May-June 2009)

Last year a white shirt was 2,500-3,000 tugrugs. This year it has become 5,000-7,000 tugrugs. The price has doubled. A uniform for a male pupil was 28,000 tugrugs last year. This year it has become 35,000 tugrugs. The sandals were 1000 tugrugs, now they are 1,500 tugrugs.

A female migrant, 25th khoroo, SHD (August-September 2009)

Recently, the school collected 800 tugrugs from 100 students to give a math placement test. They told us in order to give tests the teachers had to work from 9.0 am to 1p.m., therefore they collected money.

Talks by the miners, Baganuur coal mining company (August-September 2009)

Despite economic hardships, most parents did not withdraw their children from school and saw education as an important precondition for the future well-being of their children. Rural herding households reported selling more animals than usual to cover the increased costs of education while families with few animals often had to engage in gold digging.

I have a student. The tuition is now between 750,000 tugrugs and 1.0 million tugrugs. I used to sell 30 sheep at the price of 50,000 tugrugs to pay his tuition and living in Ulaanbaatar. Now tuition has gone up and living is more expensive in Ulaanbaatar. Probably, I need to sell 100 sheep at the price of 25,000 tugrugs for my son.

A male herder from Bayandelger soum of Tuv province (August-September 2009)

Low-income rural and urban families also reported reducing consumption as well as taking small loans to finance increased education expenses. While school enrollment and attendance were protected some families could not afford the increased costs of university tuition and students had to either terminate their studies or take a temporary leave of absence.

Impact of Recovery: Economic recovery was accompanied by a continued rise in consumer prices. Data for December 2010 showed a rise in inflation to 14 percent year-on-year following 12 percent year-on-year increase in the previous month⁵. Prices for domestic meat and dairy products increased sharply following the devastation of the livestock sector by the dzud of 2010. Prices for cashmere and animal skins also went up, reportedly due to increased demand from Chinese buyers. Higher prices for livestock products improved the livelihoods of herders. Although inflation was a source of concern for many interviewees, the spending improved due to higher incomes and the government's social transfers. Expenses on education became much less burdensome, possibly due to higher government spending on schools, provision of free textbooks and the newly introduced subsidy to offset part of the university tuition costs.

1.3 Social Impacts

Lack of employment opportunities and reduced incomes had significant social impacts. The role of women in income generation increased as the earnings of men were no longer sufficient to cover the households' living expenses. Deteriorating living standards contributed to the increase of alcohol abuse, domestic violence and crime.

Changes in gender roles

Growing economic hardship made women shift from non-paid domestic labor to income generation activities. Many women reported engaging in small business activities like running food stores, cafes and motorbike parts stores as well as spinning wool, producing souvenirs or making shoes. Increased earning power led to an improved self-esteem and an increased role of women in household decision-making and social life at large. The interviewed men said that women were consulted more often in case of livestock sales or major household purchases. In rural areas, microcredit in combination with training on non-pastoral livelihoods was a major driving force for women's entrepreneurial activities. Some urban women reported that training activities organized by local government helped them start their small businesses.

Women were also praised for their ability to manage household budgets, which helped protect basic food consumption and education expenditures. Many women reported buying food in bulk at wholesale prices, sewing new clothes from older ones and collecting dung for heating and cooking. Yet, the working women often suffered from the disproportionate burden of caretaking responsibilities.

Increased apathy, alcohol abuse and crime

Reduced incomes, deteriorating standards of living and unemployment led to apathy and depression, particularly among young people. Some expressed disappointment with the government's ability to improve people's lives.

I am very grateful that you are asking me about my life. I feel very bad about my life. I am losing my patience. I earn to eat today, but not to eat tomorrow. The company is not doing well. I earn as much as I do. Sometimes I just stop working because the company says so. Not many people

⁵ World Bank. Mongolia Quarterly Economic Update, January 2011
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/MONGOLIAEXTN/0,,contentMDK:22817117~menuPK:327714~pagePK:2865066~piPK:2865079~theSitePK:327708,00.html>, accessed on April 27, 2011

study our lives. The people in power do not know the true meaning of life for the poor. I hope the results of your research will come out.

A bricklayer, Chingeltei district (August-September 2009)

Worsening economic conditions also reportedly increased alcohol consumption and crime in urban and rural areas. The situation did not improve with the economic recovery. Urban residents complained that it was no longer safe to go out after dark because there were too many drunken men in the streets. Theft and pick-pocketing also became more common.

In the black market when working day ends, people all get drunk. They sell something and drink the money. Homeless people come to collect left over food and steal things...

A candy and fruit trader from Narantuul market(August-September 2009)

In rural areas, animal theft increased significantly, particularly in locations that are close to major roads and towns. The poor were more likely to have their animals stolen. They lacked hired help and often left the animals unattended. The poor also did not possess motorbikes to chase the thieves or cell phones to inform the police. The herders lacked cooperation to protect animals while the theft network was well organized and equipped with mobile phones.

I had very nice cows. Last year the cows were stolen. My wife was herding the animals and she came in to have some tea. We saw the animals near our ger. It became dark and one car passed through our ger. That evening we could not find our cows.

A herder from Bayandelger soum, Tuv province (August-September 2009)

Rise in Domestic Violence

Unemployment among men and alcohol abuse were seen as the reason for increase in domestic violence, which was more common in urban areas. Focus group participants explained that rural areas still had herding jobs, which kept men busy throughout the year:

“Presence of domestic violence is often observed among our khoroo citizens. Sometimes we find women having black eyes. I observe that unemployed men usually spend their time drinking alcohol and playing game. When they are at home, drunk men often get into conflict with family members and start fighting. It is very depressing for women, children and older family members. Households, who suffer from a drinking family member, do not call police. They feel that after a few cases they would be sentenced by court. In this case, the family members will be responsible for paying an attorney fee, therefore they don’t call police and attend women’s centre”.

A Social worker of 25th khoroo, Songino Khaikhan district, Ulaanbaatar, Mongolia (November 2010 – January, 2011)

Impact of Economic Recovery: Economic growth did not have much impact on the social changes brought about by the crisis. Women continued to engage in income generation activities and reportedly gained a higher status in family and society. Despite improved labor market conditions, crime rates did not go down according to interviewees. It was not possible to judge whether the instance of domestic violence was reduced as this issue is viewed as private and not discussed in much detail with strangers.

Figure 1 below presents a summary of major crisis-related impacts at different points in time.

Figure1. Summary of Major Impacts during the Four Rounds of Research

1 st round:	2 nd round: August -	3 rd round: January-February,	4 th round: November 2009 –
Major decrease in wool and cashmere prices although meat prices are stable Rising prices for imported food (flour, rice, sugar) Increase in education-	Meat prices collapsed because too many herders attempted to sell meat to compensate for losses of income from cashmere Prices for imported food stabilized but herders had to sell more livestock products to	Meat prices reduced further in early winter as a lot of herders attempted to sell larger than usual amount of meat in anticipation of the dzud. Increase in education-related costs remained an issue of concern	Sharp increase in prices of food and consumer goods Increased availability of formal and informal sector jobs Salaries of civil servants and employees of state owned enterprises increased by 30%

Source: Interviews with FGD participants

Part II. Coping Strategies and sources of support

Respondents across all occupations and sites felt the impacts of the global economic crisis through declining employment opportunities and incomes as well as rising prices for imported food. Reduced consumption, increased reliance on credit, distress livestock sales in rural areas and diversification of income sources were the most common coping strategies. Rural-urban migration increased despite job reduction in Ulaanbaatar. The economic growth that started in late 2009 and continued through 2011, was associated with improvement of incomes and living conditions of all income groups.

Reduced consumption

Reduced consumption was the most common coping response, observed in all focus group discussions. However if for the wealthy this meant reducing spending on durable goods, luxury goods, and entertainment, the poor resorted to saving on the quality and quantity of food. For instance, informal gold miners and some low-income urban residents said that with rising food prices and declining earnings, they could afford only one warm meal per day. Rural households reported saving on vegetables and sweets.

With decreased income, we have to cut consumption. If we finish food, for example, sugar, we do not buy more immediately. We wait until next month. We do not buy clothes anymore; we will only buy for children going to school and will not buy to those who stay at home. I sew clothes for younger children from old clothes of elder ones. We don't buy vegetables and eat only flour, rice and meat. We pick up wild onions. We do not buy any other things.

A herder from Bayandelger soum of Tuv province (August-September 2009)

The wealthier population groups reported buying food in bulk, which is less expensive while the low-income households switched to buying food in smaller quantities.

Diversification of income sources

Many participants of focus group discussions reported that relying on one source of income was no longer sufficient to meet consumption needs (for subsistence farmers) or to stay in business. Diversification of livelihoods and business activities emerged as a common coping strategy in urban and rural locations. For instance, entrepreneurs and small businesses reported expanding the range of products or services that they offered.

We used to renovate a two-bed room apartment for 1,200,000 tugrugs, now it costs 700,000 tugrugs. So, we decided to diversify our business and started producing windows.

A 54-year old female interior designer/renovator, 100 ail, Ulaanbaatar (May-June 2009)

A number of herder households became interested in settled or semi-settled farming and in adding value to livestock products through small scale processing (e.g. producing dried milk, spinning wool, etc). Vegetable growing primarily for household consumption was one of the most popular activities. Donor-funded projects that provided support in building green houses and growing vegetables were greatly appreciated by the beneficiaries and there was substantial interest in replicating and scaling up of these initiatives. Some rural households also tried to engage in non-agricultural activities like shoe making, catering, and tourism services. Access to credit and technical assistance was often cited as an important factor in helping farmers diversify their livelihoods.

We borrowed 300,000 tugrugs and spin wool. We buy a kilo of wool for 4,000 tugrugs and make 3 packs of wool needle. We sell one pack of wool needle for 3,000 tugrugs. With new jobs, both of us (husband and wife) are working. My husband does spinning and I do it as well. It is not common that men do this kind of job at home.

A couple from Bogd soum of Bayanhongor province (August-September 2009)

Rural entrepreneurs faced a number of challenges in operating their businesses. The key constraints to business development identified in the focus group discussions were: (1) limited access to markets (due to high transport-related expenditures), (2) lack of access to credit and (3) inadequate skills. Entrepreneurs operating in rural areas faced limited local demand for their products and often had to sell their produce to middlemen at wholesale prices. Those who could afford transportation costs could sell their products at aimag centers or in Ulaanbaatar at much better prices. Access to credit was cited as a major problem in both urban and rural locations. Small scale microcredit initiatives were effective at helping entrepreneurs start their businesses but were insufficient for their expansion. Lastly, the interviewees commonly cited lack of skills, including sewing, production of dairy products and sweets as a limiting factor in business start-up and development.

The interest in diversification in rural areas was stronger in the last round of this research (January-February 2010). This could be attributed to the effects of economic crisis and the recent dzud, which resulted in a large number of animal deaths and impoverished many households whose livelihoods were dependent entirely on livestock.

Increased reliance on Government's assistance

Free school education policy and the government's social transfers played a major role in helping the poor weather the negative impacts of the global financial crisis. Free school education, meals for primary school students and free childcare services helped protect children's education during the crisis. Many low-income interviewees reported that their fixed income consisted

mainly of social welfare payments including pension, child benefits (during 2009), allowance for poor households, and disability allowance. The child benefit program, which provided regular monthly and quarterly payments, was of great importance to rural and urban households especially during times of reduced incomes. According to interviewees, it was often the only source of cash for poor households. Furthermore, child benefit documents were often used in food stores as collateral to obtain food on credit.

Not all people realize how beneficial child benefit money is. It really contributes a lot to low-income families. It helps us when we do not have money.

An informal miners couple, Bayanteel soum, Uvurkhangai aimag (May-June 2009)

Child support money was a major income source for poor and very poor households. Moreover, the child support money documents were used as a collateral in the shop to get some daily food. Unfortunately, the support stopped; livelihood will worsen more.

Dundgobi aimag, Focus group participants (January-February 2010)

The Government terminated *the Child Benefit Program* in the end of 2009 due to fiscal constraints. Instead of the program, a one-time payment of 70,000 tugrugs as part of the so-called “mineral resource sharing money” was distributed by the newly created Human Development Fund. According to interviewees, the money was quickly spent for Tsagaan Sar (Mongolian New Year) and the poor were left with no predictable source of cash income for months to come.

Following economic recovery, the Government renewed cash transfers and starting from August 2010, 10,000 tugrugs a month (around US\$ 8) has been distributed to every citizen of Mongolia. Poor households appreciated such assistance and reported that it helped them cover food consumption. However, the amount was too small to lift them out of poverty or make major changes in their livelihoods. The wealthier households were skeptical about the benefits of universal cash transfers. They believed that the Government should rather invest the resources in job creation, infrastructure and support services for business development. Some also thought that cash transfers should be targeted and provided only to the vulnerable (e.g. single mothers or the elderly).

Another source of cash assistance was the Food Card Program (supported by ADB), which provided 14,000 tugrugs per month to 25,000 poor individuals from November 2009 to August 2010 and helped cover basic food consumption. The program was well targeted and appreciated by recipients.

The government also initiated several programs for herders to help them cope with a drop in the global cashmere prices and later on with the dzud. In May 2009, quality restrictions on cashmere were lifted, the export tax abolished and the number of ports authorized for cashmere exports raised from three to twenty. While these measures did facilitate a rise in cashmere prices in August 2009, most poor households had sold their cashmere earlier and did not benefit from these policies. Government’s initiatives for alleviation of dzud impacts were appreciated by FGD participants and reached many poor households. Support programs included provision of 300,000 tugrugs to households that lost most of their animals (through “Restock with livestock program”), distribution of free or subsidized animal feed to herders in severely affected areas and other in-kind assistance. After the dzud, local governments also became very active in educating herders about improved pasture management, care for weak animals and disaster management.

Benefitting from the assistance of donors and NGOs

Some households benefited from the assistance of donors and NGOs that operated in Mongolia even before the crisis. Donor support involved SME development projects, enhancements of

rural infrastructure, animal husbandry improvement and dzud assistance. NGO support commonly focused on promotion of non-pastoral activities (e.g. vegetable growing, sewing, bakery). Such projects were very appreciated by interviewees.

Luxemburg foundation helped us to grow vegetables. Ten households were involved in the projects as a community group. I feel happy to work in a group. We started last year planting 1.5 hectares of land and started to benefit for own consumption. We would like to learn more and wish to grow more vegetables.

Dundgovi, Govi-Ugtaal, L, male (January-February 2010)

Illegal gold-digging as a diversification strategy and a safety net

Declining income generation opportunities in urban areas and falling prices for livestock contributed to the increase in the number of illegal gold miners. In the summer time, women and children participated in gold mining as well despite the numerous risks associated with this activity. Some people engaged in gold mining on a temporary basis to cover seasonal expenditures (mainly the cost of education), to compensate for losses of livestock, or to accumulate some savings and start a small business. Yet, for the impoverished rural households gold mining often became a major income generation activity.

You cannot imagine that many people, including women, are involved in mining just to support their lives. Many of them let their children drop out of schools and colleges because of financial difficulty. Some students have to break their studies.

A Shop owner, Bayanteel soum, Uvukhrangai aimag (May-June 2009)

My husband frequently goes to neighboring soums to extract gold. We have a large household and income earned from gold is not enough to afford all costs. While I was looking after my sixth baby, I worked hard to build a green house provided by the World Vision and start a vegetable business. We got enough yield for our household consumption and it helped us a lot. We understood that to dig well is essential to expand this new business. I am planning to purchase more new seeds for the next season.

37 year old female, Bogd soum, Bayankhongor aimag (January-February 2010)

Miners expose themselves and their children to significant health risks. Most do not wear protective clothes and helmets and do not follow any safety rules. There are no health clinics at mining sites and miners have to go to soum centers if they get injured. However their access to health services is restricted because they do not pay for health insurance. Malnutrition is common among miners and their children as they often do not have adequate income to buy enough food. Miners operate illegally and are not registered at local government bodies. Therefore they usually do not have access to any social services. Furthermore, low incomes and unclear perspectives for the future result in high alcohol consumption at mining sites.

Informal miners, particularly those for whom gold digging is the major source of income, are an extremely vulnerable group of people. Many interviewed miners said that they would like to quit this risky business but do not see any other livelihood opportunities. Informal miners are in need of public support. Many of them would like to obtain some skills and credit to shift to other occupations or start their own businesses.

Increased borrowing from financial institutions

Borrowing from banks and microfinance institutions was one of the strategies that helped households cope with price shocks, reduced incomes, and rising education expenditures as well as restore their livelihoods after natural disasters. Microfinance institutions were particularly important in rural areas where they helped households recover after dzuds and played a major role in promoting non-pastoral economic activities.

I lost most of the animals because of dzud. Our family was left with only 40 animals. So, I borrowed money from the women's organization twice, at 6-month interval. At maximum, I borrowed 300,000 tugrugs. I initially bought 15 baby goats. Now, I have 121 goats. Thanks to the women's microcredit program, I now have about 150 animals. I pay the loan interest using my pension in the winter time. I can make some money during cashmere period. So, the life is not so bad.

A woman from Bogd soum, Bayankhongor aimag (January-February 2010)

However, interviewees complained that loan conditions worsened after the onset of the crisis – the maximum loan amount was reduced, interest rates were high, while the duration of the loan period was relatively short. Furthermore, poor households did not have access to credit and had to sell things in pawn shops or borrow from shops and relatives.

Unlike other countries in East Asia, most FGD participants in Mongolia managed to repay their loans to banks and microfinance institutions after the economic recovery. There were no reports of loss of land, houses or other essential assets due to inability to pay off the debts. Poor households that had not repaid the loans at the time when the last round of this research was conducted were able to extend the loan period.

Increased rural-urban migration

Despite job reduction in Ulaanbaatar, rural-urban migration increased. People came to Ulaanbaatar in search of better employment opportunities, health and education services. They faced enormous difficulties with finding land to settle and obtaining residential registration, without which they could not access social services or receive child benefits. Long-term unemployment was widespread among migrants due to lack of skills. In May-June 2009, when the first focus group discussion took place two-thirds of interviewed migrant households did not have any family members with a wage job and were engaged in informal activities like gardening, fence guarding or shoe-making. Due to lack of collateral, migrants did not have access to credit, which precluded them from starting/expanding business activities.. Nevertheless, the interviewed migrants were not motivated to return to rural areas due to the costs associated with resettlement, repurchase of livestock, and creation of summer and winter camps in new lands.

Reliance on family and community support

Family ties and community support were vital for coping with the crisis particularly for poor families. Low-income urban migrants reported receiving food products from family members in the countryside. Similarly, wealthier urban residents sent remittances to their relatives in rural areas. Informal gold miners said they shared food and it cost them less. Social networks were also essential for finding jobs in urban locations.

I have eight children and five of them work in Ulaanbaatar. When I face a shortage of money, I call my children. Sometimes, I send meat and dairy products to them. Recently my daughter came on vacation and paid my debt of 500000 tugrugs.

A female herder from Nariinteel soum, Uvurhangai province (August-September 2009)

My son graduated from the National University and got a job in the aimag center. He started to help by sending cash and non-cash items such as clothes to the younger brother and sisters.

Dundgovi, D, female headed household ((January-February 2010)

I found a good job because of my relatives. I am working in this company since June and I like my job.

39 year old female, 20th khoroo, Bayanzurkh District (January-February 2010)

Most poor families did not have savings and could not access bank loans as they lacked collateral. They reported borrowing from friends and relatives or local stores in emergency situations. In case of severe illness or death of a family member, the community collected money and gave it to the affected household.

People borrow goods and food. Some people borrow money to go home or if somebody passes away. They pay back when they earn money. Their payment period is getting longer. Some people disappear without paying for what they borrowed.

A shop owner at the gold mining site, Bayanteel soum, Uvurkhantai aimag (May-June 2009)

Differences in coping strategies for different population groups

There was a noticeable difference in the severity of impacts and the types of coping strategies used by different people. The poor – urban migrants to Ulaanbaatar, herders with less than one hundred animals and illegal gold miners were most strongly affected. They were also limited in their coping responses due to lack of skills and a low asset base, which made them ineligible for bank loans. The most common coping strategies of these groups were – drastic reduction in consumption, including limiting the quantity and quality of food, selling assets, working longer hours and diversifying sources of income if such opportunity became available. The poor had relatively few possibilities for income diversification, with illegal gold digging, being the most common activity.

Wealthier population groups (e.g formal miners, small business owners, herders with a large number of animals) had a wider range of coping strategies, including borrowing from banks, adding value to their products (e.g. spinning wool) or expanding the range of products and business services offered.

In rural areas, there was a major difference in responses to reduced prices of cashmere between poor and wealthier households. Low income herders sold cashmere at the time when goats were combed and when cashmere prices were low due to reduced global demand for commodities. To compensate for the decreased income from cashmere they also engaged in distressed sales of meat. As a result, meat prices fell and the poor had to sell a large number of animals to finance basic consumption. The situation was further compounded by livestock losses due to dzud, which were higher among the poor as they could not afford the costs of animal fodder. Thus, short-term coping strategies of poor herder households would have lasting impacts on their livelihoods. They were left with smaller herds – their major asset. They would not be able to fully benefit from increased prices for cashmere and livestock in 2010-2011 and it would take years to rebuild the herds.

The wealthier herder households (i.e. the ones with 500 or more animals) were more resilient. They could wait until cashmere prices recovered because they could draw on their savings and other sources of income. They had a better sense of price movements, could afford transportation costs to urban locations instead of relying on the middlemen, and sell livestock products at better prices. They also had better access to credit. Overall, wealthier households seemed to seek longer-term coping strategies such as increasing the number of livestock and enhancing animal productivity, improving the quality of fodder, and adding value to their products. They also had a strong interest in exporting their produce.

Protecting children's education

People at all levels of income tried to protect education expenditures and keep their children at school. Low-income families had to sell more livestock or take loans from the banks to cover the increasing costs of education. Children from rural households were helping their parents pay for schooling by engaging in herding animals, preparation of fodder, offering horse and camel-riding services to tourists, and other activities. University students and children from low-income families were assisting their parents at illegal gold sites. Some students from poor families had to terminate their university studies or take a temporary leave of absence as their parents could no longer afford rising tuition costs while wealthier students who had completed their course of studies but were not able to find a job decided to continue their education until the job market improves.

Impact of Economic Recovery: Significant improvements in livelihoods of all income groups were observed during the 4th round of research, November 2010- January 2011. Positive changes included increased job availability, higher salaries of civil servants and employees of the state-owned companies (which were raised by 30%), increase in pensions and government transfers and introduction of a government-funded subsidy for university tuition. Herders benefited from the increased prices for meat and livestock products and most of them were able to repay bank loans. Many rural households that were postponing medical expenditures during the crisis were now able to take better care of their health. Bank loans became more available in rural and urban areas; the maximum loan amount for herders was increased to 5 million tugrugs, i.e. to the pre-crisis level.

Although all income groups benefited from economic growth to some extent, the improvements were rather uneven. For instance, the wealthier herder households could buy durable goods, invest in real estate in a soum center or Ulaanbaatar and make productive investments in their businesses or livestock breeding. Poor herders that were disproportionately affected by the crisis and the dzud could improve nutrition and buy some clothes but could not afford improving ger covers, remaining vulnerable to winter cold, or making investments that would lift them out of poverty. Similarly, formal miners could afford buying electrical appliances and real estate; they could also have access to bank loans on privileged conditions – with lower interest rates and extended duration. However, informal sector workers, e.g. recent migrants to Ulaanbaatar, were able to earn just enough to cover food expenses but could not afford productive investments. The number of people engaged in illegal gold mining decreased with improved availability of jobs in services and agriculture. However, gold mining remained a major source of income for the impoverished rural households, particularly those living close to mining sites. Many of these miners no longer own any livestock and have few livelihood options. Bank loans remained inaccessible for the poor with no collateral – illegal gold miners, herders with less than 100 animals and recent migrants to Ulaanbaatar. These findings point to the importance of targeted assistance to the poor who tend to be disproportionately affected by various shocks and are unable to climb out of poverty in years of economic growth.

Part III: Conclusions and implications for policy

This qualitative research showed that households in Mongolia were severely impacted by the global economic crisis. Labor market impacts observed through layoffs, reduced availability of jobs in formal and informal sector and reduced salaries as well as price shocks – reduced prices for cashmere and higher prices for food and transportation were the key transmission channels. The effects of the crisis were compounded by the winter dzud of 2010. Households responded by

cutting consumption, diversifying sources of income, borrowing from formal and informal sources and, in rural areas, by distress sales of livestock to finance basic consumption. The government's social assistance although small, not always regular and in some instances not targeted to the poor was appreciated by low income FGD participants and helped them weather the crisis.

While all income groups suffered from the effects of the global economic downturn, recent migrants to Ulaanbaatar, informal gold miners (for whom gold digging is the major source of income) and herders with less than 100 animals were most severely affected. These groups of people suffer from chronic poverty and are vulnerable to any shocks. They are least likely to benefit from economic recovery and require targeted assistance. The economic crisis also exposed the vulnerability of herders with up to 500 animals for whom livestock breeding is the only source of income. The latter group was not insecure before the global economic downturn, yet the compound effects of collapse in cashmere prices and dzud showed the risks of dependence on one primary commodity.

The broad-based growth in 2010-2011, accompanied by increased job availability in formal and informal sectors, higher prices for livestock products and increased social transfers improved the livelihoods of all income groups. However, these improvements were rather uneven. The wealthier households reported buying durable goods, real estate and making productive investments in their businesses or livestock breeding. The poorest population groups could improve nutrition and buy some clothes but could not afford the purchase of durable goods or investments that would lift them out of poverty.

Implications for policy The global financial crisis has revealed a number of economic and social vulnerabilities in Mongolia. These include a narrow production base, which makes the country very sensitive to commodity fluctuations and disasters, lack of effective supply chains for meat and low value-added for livestock products, as well as vulnerability of the chronic poor and certain weaknesses of the social safety nets. Furthermore, rising crime rates and violence if unchecked can bear high costs for individuals, businesses and communities. Addressing these issues can help overcome the crisis impacts and make Mongolia's population more resilient to other shocks. The following directions for reforms emerged based on the analysis of focus group discussions:

1) Diversification of economic activity

Mongolia's heavy dependence on exports of a few primary goods – gold, copper and cashmere – has made the economy very vulnerable to global fluctuations in commodity prices. The livelihoods of herders are totally dependent on prices for livestock products. Many of the interviewed rural households reported that they would like to diversify their income sources through vegetable growing and non-farm economic activities. Skill building programs, better access to credit, and lower cost of capital were commonly cited among the desired support initiatives. Further development of the service sector particularly tourism also holds promise for growth.

2) Development of supply chains for meat and increasing domestic value-added for livestock products

Increasing producer prices of livestock products through enhancement of herders' access to markets (both domestic and international) as well as development of value chains for cashmere/wool and meat products has a potential to soften the negative impacts of economic crisis and to improve herders' livelihoods. Local markets for meat easily get saturated, resulting

in a drastic decline of meat prices, as demonstrated during the economic crisis. The situation is similar during dzuds when a lot of herders try to sell a larger than usual number of animals and can potentially be repeated in good years due to improvements in livestock productivity. Farmers have commonly mentioned dependence on middlemen and high costs of bringing meat to urban centers. Thus improvement of domestic supply chains for meat and development of export outlets, particularly to neighboring countries, China and Russia, can smooth the impact of economic shocks and adverse weather events and raise herders' incomes. Development of meat exports will require improved adherence to sanitary standards as well as progress on trade negotiations.⁶ Similarly, enhancing the quality of cashmere and wool products, strengthening the processing industry, and development of direct links between herders and processors can help increase herders' incomes and generate additional employment opportunities.

3) Improving safety nets and access to public services

The crisis has shown the importance of predictable, regular and sustainable social assistance programs for the poor. For instance, the child benefit program was greatly appreciated by interviewees due to the regularity of its transfers but was terminated at the time when it was most needed. The FGD participants were not sure whether the universal cash transfers introduced in August 2010 were the beginning of a continuous transfer program or were rather a temporary intervention to share the "mineral resource wealth" in a year of economic growth. It will be beneficial to limit the transfers only to poor households and increase the generosity of benefits. Regularity and sustainability of social assistance programs will be vital for helping the poor cope with future shocks, accumulate assets and move out of poverty.

Certain vulnerable groups like illegal gold miners, herders with less than 100 animals and recent migrants to Ulaanbaatar require particular attention. These groups suffer from a low asset base, lack of skills and limited access to bank loans. These constraints make them particularly vulnerable to any shocks and prevent them from taking advantage of economic opportunities in good years. Additionally, urban migrants suffer from problems with finding land, obtaining registration, and accessing information about jobs. Addressing the needs of these groups will be important for alleviation of chronic poverty.

4) Preventing crime and domestic violence

Increasing crime rates were of major concern for both rural and urban residents. Well-known approaches to crime prevention include increasing the frequency of police patrols in crime-ridden areas, creation of neighborhood watch programs with the engagement of local community and establishment of social programs that target at-risk youth (e.g. through sports activities, skills development, internships, etc). It is equally important to prevent domestic violence and provide adequate support for its victims. Potential measures can include raising public awareness about domestic violence, educating young people that domestic violence is never an acceptable behavior, teaching health and social workers how to identify the signs of domestic violence and help the affected individuals and establishing hotlines and support centers for victims of domestic violence.

⁶ Green Gold Pasture Ecosystem Management Program and Mongolian Society for Range Management. 2009. "Draft Livelihood Study of Herders in Mongolia", funded by Swiss Agency for Development and Cooperation

Annex 1. Participants and Sites of the Three Rounds of Research

Round 1		
Type of Participants	Number	Geographic Location
Students and recent university graduates	14	Ulaanbaatar
Young adults working at a small drilling company	4	Ulaanbaatar
Formal miners	9	Baganuur and Darkhan towns
Informal miners	9	Nariinteel soum, Uvurhangai aimag; Bayanteel soum, Uvurhangai aimag
Herders	26	Battsengel soum, Arkhangai aimag; Nariinteel soum, Uvurhangai aimag; Bogd soum, Bayankhongor aimag; Erdene soum, Tuv aimag
Self-employed rural women and women owning small businesses in rural areas	14	Bogd soum, Bayankhongor aimag
Recent migrants to Ulaanbaatar	23	Bayanzurkh District 20th khoroo; Songino Khairkhan district, 25th khoroo
Self-employed and small business owners	9	Ulaanbaatar
Total	108	
Round 2		
Recent university graduates	15	Ulaanbaatar
Young workers	10	Ulaanbaatar
Formal miners	9	Baganuur town
Informal miners	10	Nariinteel soum, Uvurhangai aimag Bogd soum, Bayankhongor aimag
Herders	30	Nariinteel soum, Uvurhangai aimag Bogd soum, Bayankhongor aimag Battsengel soum, Arkhangai aimag Bayandelger soum, Tuv aimag
Self-employed rural women and women owning small businesses in rural areas	17	Bogd soum, Bayankhongor aimag
Recent migrants to Ulaanbaatar	17	Bayanzurkh District, 20th khoroo; Songino Khairkhan district, 25th khoroo
Self-employed and small business owners	20	Ulaanbaatar
Tourist-affiliated self-employed people	19	Kharkhorin soum of Uvurhangai aimag and the Elsen Tasarkhai Sand dune area
Total	147	
Round 3		
Recent university graduates	24	Ulaanbaatar
Young workers	10	Ulaanbaatar
Formal miners	12	Baganuur
Informal miners	15	Nariinteel soum, Uvurhangai aimag Bogd soum, Bayankhongor aimag
Herders	40	Nariinteel soum, Uvurhangai aimag Bogd soum, Bayankhongor aimag Bayandelger soum, Tuv aimag
Self-employed rural women and women owning small businesses in rural areas	15	Bogd soum, Bayankhongor aimag
Recent migrants to Ulaanbaatar	26	Bayanzurkh District 20 th khoroo; Songino Khairkhan district, 25 th khoroo
Self-employed and small business owners	27	Ulaanbaatar
Unemployed people	14	Ulaanbaatar
Total	183	
Round 4		
Recent university graduates, young workers, self-employed and small business owners, migrants, khoroo governors and social workers	109	Ulaanbaatar
Herders	26	Nariinteel soum, Uvurhangai aimag Bogd soum, Bayankhongor aimag Battsengel soum, Arkhangai aimag Bayandelger soum, Tuv aimag
Formal miners	12	Baganuur
Informal miners	7	Nariinteel soum, Uvurhangai aimag Bogd soum, Bayankhongor aimag
Self-employed rural women and women owning small businesses in rural areas	15	Bogd soum, Bayankhongor aimag
Soum government officials, social workers and bank representatives (at the local level)	9	Nariinteel soum, Uvurhangai aimag Bogd soum, Bayankhongor aimag Battsengel soum, Arkhangai aimag
Total	178	