

## **COUNTRY REPORT ON "INFORMAL ECONOMY, WORK AND EMPLOYMENT" (MONGOLIA)**

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### **One. Current situation of Mongolian economy and social development**

Mongolia is a developing country with population of 3 million people and 1.5 million sq. km of land, which is rich in natural resources.

Since 1992 it has been intensively mobilizing from centrally planned economy into a liberalized market economy that is leading to one of the world's rapidly growing economic countries in recent years.

Development features of the country:

- Although traditional agriculture is the main sector of economy, mining sector's percentage is rapidly increasing at the same time and reached 29% of GDP and 83% of total export in 2014. There are obstacles to extend the scope of business and creating jobs in due to economic diversity lacking.
- Ecology is relatively healthy in spite of the fact that it is sensitive with high desertification.
- Still low scope and limited competing opportunity even though private sector is covering 80% of the economy.
- High-level literacy is strengthening an advantage of using information technology.
- Specialized work force shortage in the field of industry, high technology and nature science is affecting the national production capacity, thus labor productivity per employed person was 9.2 times lower than the average of developed countries.
- Weak development of the market service infrastructure such as exchange, bank, insurance, information and mediation.
- Seasonal depend on the sensitivity of the labor market and high existence of informal and non-full employment and economic inactivity.

### **Two. Current situation of Labour market**

Economically active population accounted 62 percent out of 1.9 million people over the age 15 by the labour force survey in 2014. 92.1 percent of them were employed and 7.9 percent were unemployed. 59.4 percent of the economically active population lives in urban area. Employment and labour force participation rate of men in rural area is higher than the national average. The unemployment rate for men is higher in urban area. Employment varies within economic sectors and regions.

28 percent workers in agriculture and 15.3 percent in wholesale and retail trade, car and motorcycle repair within accounted total. Majority of men workers in manufacturing, construction and handicrafts sector, while womens in trading and service sectors.

47.4 percent of workers are women. 52 percent of them engaged in paid labour in non-agricultural sectors, such as 24 percent in education, 11.5 percent in wholesale and retail trade and repair service, 11 percent in health and social protection.

According to the employment status 49.6% are engaged in paid workers, 25.7% are livestock farmers and 20.5% are self-employed. 38.4% are in private sector and 24.5% are in public organization.

### **Three. National terminology on informal employment.**

ILO conference in 2002 determined the informal economy's main criteria as being not engaged in laws and official regulations. And in 17<sup>th</sup> International labour statistical conference in 2003 the concept of informal economy was broadly explained.

In the "State policy on informal employment in Mongolia" the informal employment were determined as "Work and service which is not covered by full social protection, official records and information, non-agricultural and not organized as an entrepreneurship form running by a worker, family and economic unit, even though it's not prohibited by law.

### **Four. Employment in the informal economy**

Economic and social factors, such as country development feature, non-optimized economy structure and diversity, tax, business unfriendly environment, bureaucracy in entrepreneurship licensing, financial service access, poor job availability in the formal sector, low evaluation of wage, are the basis for survival in the informal economy and having an important role on employment.

Mongolian official GDP is expected to grow to 35% in the informal sector's manufacturing volume by the survey "Economy shadow" made by Mongolian bank in 2013.

Employment in the informal sector has become a source of income in many families. By the annual result of labor force survey in 2014 17.7% of total employees are working in the informal sector while 59% of them are men. In the informal sector 96% of total employees are in their primary work, 3.8% is in double work and 77% is in urban area including 49% of capital city Ulaanbaatar.

Two of five people in the informal sector belong to wholesale and retail trade, car and motorcycle repair sector. Majority of women belong to trade and service sector at the same time majority of men belong to fixed equipment and machinery and mechanism sector. 8 in 10 of informal employed are satisfied with their work.

The National Statistical Office of Mongolia has implemented a number of projects to reflect the activities of informal sector in the national economy to the GDP estimation step by step in parallel with the other countries.

Since 1997, the estimations of size of the non-observed economy have been made with the support of international organizations. The first survey was conducted in 1999 under the recommendations of the World Bank consultant Mr. Bill Bikales and the informal activities in retail trade sector (kiosk, small retailers operating in the street and market), transportation (taxi driver), and food services were added to the official GDP of 2000 for the first time. Since this year, value added of informal sector was estimated by extrapolation on the basis of CPI changes and number of people working with the licenses.

The operators who have undeterminable income that is not required to report to the tax authority were covered in the Establishment Census of Mongolia which was conducted in 2006 and the databases of their activities were created. Based on the census results, the activities of those operators were classified by the economic activities and their output reflected to the estimation of GDP of 2006. Also, the previous years' calculations were updated according to the census results.

The following 5 surveys regarding the informal sector and informal employment were conducted. In which:

1. "Informal sector survey, /by Bill Bikales/" which was conducted by USAID in 2000;
2. "Labour force survey, 2002-2003" which was conducted by NSO with the financial assistance of the ADB;
3. "Informal sector survey on transportation and trade sector" which was conducted by NSO with the financial assistance of the Science and Technology Foundation of Mongolia;
4. "Survey on non-observed economy" which was conducted by NSO with the financial assistance of the Open Society Forum-Soros Foundation;
5. "Survey on Household unincorporated enterprises producing for the market (HUEMs), 2007-2008" which was attached to the annual "Labor Force Survey, (LFS)" conducted by the NSO with the financial assistance of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

**"Informal sector survey" which was conducted by USAID in 2000.** This survey covered total 15 activities such as retail in the kiosk, counter, container; taxi and micro bus driver; cafeteria; repair of motor vehicles and was conducted only in Ulaanbaatar, Darkhan-Uul and Orkhonaimags. The survey focused only to the runners of above stated activities. The survey results were used for the estimations of value added of the informal sector of 2000-2005.

**"Informal sector survey on transportation and trade sector, 2004" which was conducted by NSO with the financial assistance of the Science and Technology Foundation of Mongolia under the subscription of Ministry of Finance.** This survey covered total 12 activities such as retail in the kiosk, counter, container; shoe repair; repair of motor vehicles; auto parking; interurban freight and passenger transportation, urban public transport, taxi and urban

freight transportation and was conducted in Ulaanbaatar, Dornogovi, Dornod, Zavkhan, Khovsgol, Darkhan-Uul and Orkhon aimags in 2004. The survey results were used for the estimations of value added of trade sector.

**“Non observed economy survey” which was conducted by NSO with the financial assistance of the Open Society Forum-Soros Foundation.** The survey was conducted in 25 soums of 9 aimags (Arkhangai, Dornogovi, Zavkhan, Umnugovi, Sukhbaatar, Tuv, Uvs, Khuvsgul, Orkhon) representing the 5 regions and in central 6 districts of Ulaanbaatar between the 15 October and 8 November 2004 with the assistance of the University of Maryland and IRIS Centre of USA. It covered totally 19000 households.

**“Survey on Household unincorporated enterprises producing for the market (HUEMs), 2007-2008” which was attached to the annual “Labor Force Survey, (LFS)”.** The survey was financed and recommended by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and Development Institute for Analysis of Long term (DIAL). NSO conducted it using the “1-2-” method which has been implemented in countries such as Mexico, Peru, West Africa, Madagascar, China and Bangladesh since 1990. The main feature of HUEMs was that the survey covered the whole year and reflected all seasonal effects. The main objectives of the survey were to estimate the size of the informal sector in terms of employment and value added generated from it. In HUEMs, we set an additional criterion to define the scope of the informal sector from the 7008 households which were covered in annual LFS and involved 1558 households. For Mongolia, this survey was significant since it reflected additional questions into the questionnaire forms of regular survey conducted by NSO and defined the units which was covered in HUEMs directly.

However, the value added of the informal sector is calculated by using above mentioned surveys’ results and reflected to the official GDP; but there are further needs to improve and update the associated estimations. Also, it is required to cover the other activities that are included in the concepts and frameworks of the non-observed economy to the estimations of informal sector and to complete the calculations.

For the first time, the NSO of Mongolia has estimated the size of non-observed economy in the frameworks of N1-N7 applying the “Handbook for Measurement of the Non observed Economy, 2002” and “System of National Accounts, 2008” which were jointly produced by Organization for Economic Co-operation and Development (OECD), Statistical Committee of the Commonwealth of Independent States (CIS-STAT), International Labor Organization (ILO), International Monetary Fund (IMF), United Nations Statistical Commission (UNSD) and World Bank (WB) and the “Handbook for Non observed economy in National Accounts” which includes the UN and EU’s countries practice

The survey has been fully consistent with the SNA-2008 recommendations and handbook of ILO since the informal sector and informal employment was determined according to the frameworks of N1 and N5. Moreover, the N3 framework which is the production of own final consumption was determined separately. In addition, this survey was conducted based on the previous survey’s methodology, so it could provide with the comparable information with other countries.

Within the framework of the estimation of the non-observed economy of Mongolia, the NSO carried out the several numbers of surveys and calculations. The NUEMs was conducted in 2012 at the national level and the survey results were used to determine the total production of informal sector.

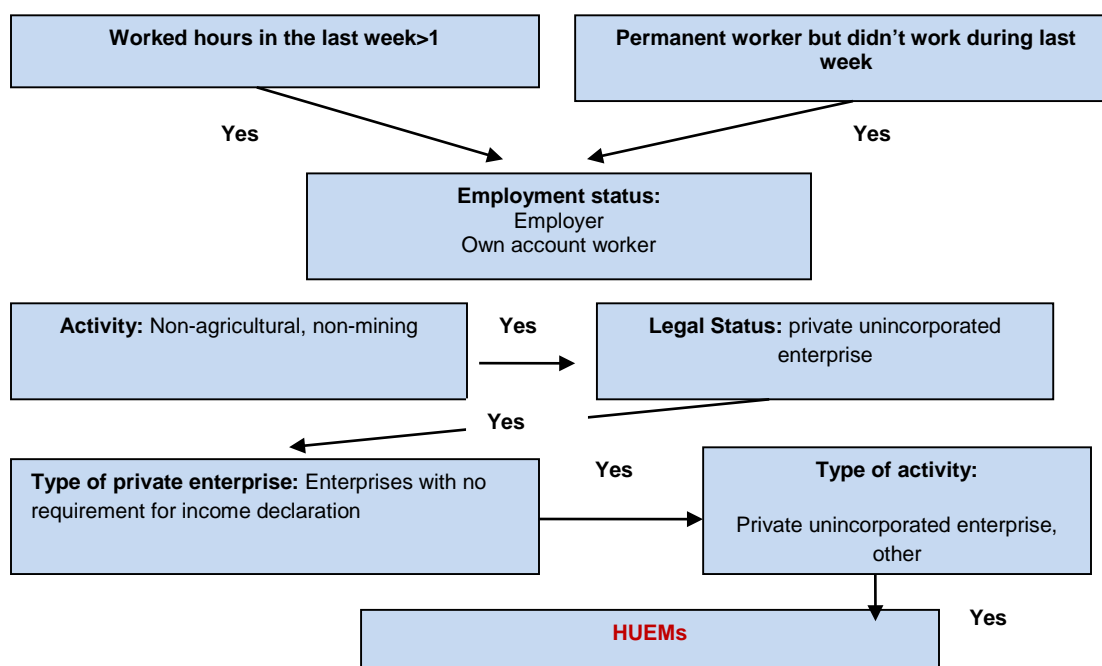
The NSO conducted surveys in accordance with the international framework (N1-N7) of the non-observed economy such as survey of household unincorporated enterprises producing for the market (survey of household unincorporated enterprises producing for the market cover non-agricultural and non-mining, (survey of artisanal mining), survey on Experts opinion of intentional distortion of business accounting, estimation of illegal production.

We consider the Mongolian economy situation, agricultural sector and mining sector uncovered in survey of HUEM based household. The HUEMs were conducted by the “1-2-”method which was recommended by the UNESCAP and DIAL of France and has been implemented in countries such as Mexico, Peru, West Africa, Madagascar, China and Bangladesh since 1990. Agricultural and mining sector were excluded. This method generally has two phases which conduct the LFS and HUEMs sequentially.

The sampling of the survey of HUEM was based on the sampling of the LFS. HUEMs were covered by following criteria.

**Criteria:**

FIGURE 2. SCHEMA FOR IDENTIFYING HUEMs FROM UNITS COVERED BY LFS



Total HUEMs selected, weight of LFS used direct. HUEMs can best describe as:

- A unit engaged in the production of goods or services with the primary objective of generating employment and incomes to all persons concerned.
- Characteristic of HUEMs same the household production.

Production of informal sector and own final use of NOE were estimated from results of survey of HUEM.

**Informal sector production:** Informal sector was considered a sub-sector of the SNA institutional sector households. Enterprises that produce for the market, not fully consist in the official registration and tax, businesses with undeterminable income covered in informal sector. Not all Enterprises are officially registered HUEM of informal sector-separates registered and nonregistered enterprises.

**Household production for own final use:** Production undertaken by household unincorporated enterprises exclusively for own final use by the owners' households is not part of the informal sector according to the 15th ICLS Resolution, and is thus regarded as a separate NOE problem area.

Coverage of household production for own final use is included: Services of owner occupied dwellings, Activities of households as employers (Domestic services produced with paid staff)

By 2010, totally 35276 establishments carried out their activities. Of which, the tax inspections were made for 9465 establishments. Those establishments were divided into several groups by their income nearby interval. In the results, totally 615.4 billions of togrog's underestimated outputs were estimated by 2010. Among the industries, the 48.6 percent of mining and quarrying sector's production and the 29.6 percent of trade sector's production were underestimated, respectively. All adjustments for the non-observed economy have implications on GDP estimates. GDP is computed by three methods (production, income and expenditure method). Adjustments for informal and hidden economic activities are made fog GDP calculated by all methods. In the calculation of GDP by the production method, adjustments are made for related sectors. In calculating GDP by the expenditure method, the main adjustments are made to households' expenditure for final consumption. Small adjustments are made to fixed capital formation, mainly in construction of private dwellings.

**TABLE 2. THE SHARE OF NON-OBSERVED ECONOMY TO TOTAL ECONOMY (MLN.TUG), 2010**

Industries	NOE	GDP	Total economy (NOE+ GDP)	Share of NOE to total economy
<b>Total</b>	<b>1 332 093.1</b> <b>(678 505.7)</b>	<b>8 414 504.5</b>	<b>9 745 568.2</b>	<b>13.7</b>
Agriculture	8 060.2	1 203 348.0	1 211 408.2	0.7
Mining and quarrying	305 661.8 (6542.2)	1 981 970.1	2 287 631.9	13.4
Manufacturing	84 089.5 (61 598.9)	708 931.6	793 021.1	10.6

Electricity, gas, steam and air conditioning supply	1 454.2	174 302.8	175 757.0	0.8
Water supply; sewerage, waste management and remediation activities	2 230.2 (786.8)	33 051.7	35 281.9	6.3
Construction	82 511.7 (39 292.1)	147 178.0	229 689.7	35.9
Wholesale and retail trade; repair of motor vehicles and motorcycles	528 875.9 (340 643.9)	1 310 622.1	1 839 498.0	28.8
Transportation and storage	186 841.2 (178 565.7)	659 297.7	846 138.9	22.1
Accommodation and food service activities	28 266.1 (18 075.7)	54 553.4	82 819.5	34.1
Other services	104 102.3 (33 000.4)	2 141 249.1	2 245 351.4	4.6

By 2010, the size of non-observed economy of Mongolia reached 1332.1 billion of togrog and its share to the GDP was 13.7 percent. The 50.9 percent of the non-observed economy was the informal sector's production.

Hereafter, the NUEMs would be conducted every 5 years. Therefore, the value added of informal sector of the intermediate years could be calculated based on the previous survey's results and number of units which was identified by the Labour Force Survey. And it is possible to estimate the size of other frameworks of non-observed activities annually.

The main objective of the survey and calculation was to define the size of non-observed economy and also, to determine the size of informal employment and the value added produced by the employees which involved in informal sector. In order to conduct this survey, we fixed up the previous surveys' informative issues and covered all the main frameworks of the non observed activities. Thus, it is seen that this survey was more advanced than others. The NUEMs, the estimation of illegal production and the assessments of the entities who hidden their income were made respectively and the results were combined in order to estimate the non observed activities.

Another one is Labour research institute under of Ministry of Labour made a survey on informal sector's employment structure and situation in 2013 to determine informal employment's characteristics and challenges in labour market and necessity of transition to

formalization. The survey captures quantitative research which consists 2950 informal employed from 2715 families.

Below are the key findings of the survey:

- The average age of respondents was 39 showing the informal workers are relatively old.
- 20% of respondents are up to 1 year, 28% are 2-4 years, 52% are above 5 years tends to show the long term history for the informal sector.
- Respondents engaged in informal sector in due to lack of job vacancies is 61% and well income – 17%. 86% out of them expressed a willingness to keep continuing current business.
- 62% of total workers were originally in the informal sector without any official job history.
- Average monthly salary in the informal sector is 513.0 thousand tugrugs though high number of workers who paid below the average in rural area.

#### **Five. The policy and programs on informal economy and employment.**

In 2006, The Parliament approved “State policy on informal employment in Mongolia” with 3 stages of implementation through 2015. The Government organizes its implementation.

In recent years, Mongolian government implements programs such as “Supporting private sector development” /2011 “Owner-100”, Economy stimulate plan in 100 days” /2014/ to stimulate the development of economy and support private sector.

The Government has been working to improve the Labor safety and health law, Social insurance law, Employment support law, Labour law and Small and medium enterprise’s laws to improve the social protection guarantee and tighten up the informal economy.

Making the social insurance tax’s constant payment as one of the basic criteria for taking the financial services, such as occupy loans and leasing from bank and non-bank organizations or enrollment in Governmental housing program, is turning to a way of supporting official employment. Flexible term and method of social insurance payment is leading to a high enrollment of informal workers and providing a good result in social protection guarantee.

The Government provides services through financing from the SMI and Employment support special funds, such as soft loans, loan guarantee and financial support to self-employers and SMIs, and also trainings to support business, consulting and business incubation services.



