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Social protection diagnostic review

From a schematic to systems approach for social protection

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▶ Abbreviations

ADB	Asian Development Bank
CMP	Child Money Programme
COVID-19	Coronavirus Disease
DB	Defined Benefit Pension Scheme
FAO	Food and Agriculture Organization of the United Nations
FHC	family health centres
FSP	Food Stamp Programme
GASI	General Authority for Social Insurance
GALSW	General Agency for Labour and Social Welfare
GDP	gross domestic product
HDF	Human Development Fund
HIF	Health Insurance Fund
HIGA	Health Insurance General Agency
HSES	Household Socio-Economic Survey
ILO	International Labour Organization
IMF	International Monetary Fund
LSC	Livelihood Support Council
MIC	Medical Inspection Commission
MLAC	Medical and Labour Accreditation Commission
MLSP	Ministry of Labour and Social Protection
MNT	Mongolian Tugrik
MOF	Ministry of Finance
NDC	Notional Defined Contribution Pension Scheme
NHIC	National Health Insurance Council
NSIC	National Social Insurance Council
NSO	National Statistical Office
OAP	Old-age Pension
OOP	Out-of-pocket (medical expense)
PWD	persons with disabilities
SDG	Sustainable Development Goals
SHC	Soum Health Centres
SHI	Social Health Insurance
SIF	Social Insurance Fund
SPF	Social Protection Floor
SWP	Social Welfare Pension
UN FAO	United Nations Food and Agricultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNU-MERIT	United Nations University - Maastricht Economic and Social Research Institute on Innovation and Technology

Executive summary

The Government of Mongolia has consistently worked to expand social protection coverage and has improved its budget allocation and expenditure on social protection in recent years. The 2016 launch of the Mongolia Sustainable Development Vision 2030, followed by the 2050 Long-Term Development Policy of Mongolia in 2020, reinforced Mongolia's commitment to improving their social protection framework. Among the main objectives of the 2050 Long-Term Development Policy of Mongolia is to "Develop life-guaranteeing social protection services and strengthen the social insurance system to improve the quality of life." Specifically, this aims at increasing the share of the population with social insurance coverage, while adopting a multi-layer scheme and fully covering vulnerable groups with adequate social welfare programmes and services.

However, the external environment, and challenges the system faces, are in constant flux. Increased frequency and severity of climate-related shocks as a result of climate change, have had a significant impact on Mongolia. Nomadic herder households, who account for approximately one third of the population, are particularly vulnerable to these climate shocks given their reliance on livestock for their livelihoods. Despite measures and ongoing discussions concerning disaster prevention and management to reduce the risk of livestock death as a result of droughts and dzuds, there are no explicit provisions within the social protection system to protect the welfare of vulnerable households from the increasing problem of climate-driven shocks.

In addition, the COVID-19 pandemic has had significant effects and serious implications for economic growth and social development in Mongolia. The pandemic had negative impacts on an economy that was highly dependent on export sectors and vulnerable to external economic shocks. The crisis reinforced the importance of a comprehensive and robust social protection system capable of protecting from the impact of the increased frequency and severity of covariate shocks to protect the welfare of the most vulnerable segments of the population.

The objective of this study is to assist social dialogue in Mongolia by building evidence and engaging with constituents to make recommendations pertaining to the future of social protection in the country. This report is part of two studies: the Social Protection Diagnosis Review in Mongolia; and the Financing Strategy produced under the guidance of the ILO and UNFPA, respectively, in collaboration with UNU-MERIT. The report provides a comprehensive picture of the social protection landscape in Mongolia, including key challenges and barriers. The study discusses the coverage and adequacy, efficiency and sustainability of the current social protection system, including options to extend coverage. Providing evidence-based findings, the study proposes a set of reform options and financial projections that can be explored as a basis to achieve comprehensive and adequate protection for all in Mongolia.

Key findings

Overall system

The Mongolian social protection system has evolved over a long period of time and bears the hallmarks of various episodes in Mongolian socio-cultural, economic, and political history. Overall, the labour and social protection sector has a broad institutional framework to implement relevant policies nationwide.

Mongolia has succeeded in establishing a comprehensive social protection system capable of achieving high coverage for each life-cycle contingency. This achievement has been obtained by the combination of both a social insurance and a social welfare system that complement each other, although still with gaps and challenges to overcome. The Law on Social Insurance of 1994 (currently under review) regulates four different schemes that provide a range of benefits. These include pension insurance, short-term benefit insurance, employment injury and occupational disease insurance, and unemployment insurance. Each type of social insurance scheme has a corresponding fund, respectively: (1) Pension Fund; (2) Short-term Benefit Insurance Fund; (3) Unemployment Insurance Fund; and (4) Employment Injury and Occupational Disease Insurance Fund.

Mongolia's social welfare system corresponds to 44 different kinds of benefits, 20 of which are cash transfers and the rest are in-kind or services. Although there are ten different social welfare programmes under the Social Welfare Law, 17 benefits are in place. Furthermore, the six social welfare programmes under the laws related to the elderly and disabled persons with disabilities comprise an additional set of 27 benefits. In the case of the Social Welfare Law, the multiplicity of transfer amounts and frequencies is mainly driven by the allowance programme for emergency assistance and livelihood support, which provides six different types of benefits according to the target groups.

Coverage, adequacy and efficiency

Mongolia has managed to reach quasi-universal coverage of social protection across the life cycle of individuals, which is attributed to the combination of the Social Insurance and the Social Welfare systems.

In terms of adequacy, the diversity of benefits and services, interventions, and procedures make it challenging for people to adequately comprehend the support that they are entitled to. The lack of integration within the system reduces the efficiency and effectiveness in addressing poverty, vulnerability, and achieving social and labour market cohesion.

For people of working-age, social protection benefits are mainly driven by social welfare programmes, particularly transfers for adults with children. If these were excluded, effective coverage for people of working-age would be significantly lower, and if combined with the high level of informality in the country, it would show that the coverage of working-age adults in Mongolia is not comprehensive. The coverage extension of the social insurance system should play a paramount role in the future policy strategy, widening the tax base in the medium to long term and increasing the resources of the fund. The work on formalisation is pivotal in achieving the widest coverage of the social insurance system.

The level of social welfare benefits is higher for the poor than for the wealthy, but on average benefit levels are extremely low compared to the poverty line and the level of per capita consumption. Compared to per capita consumption, benefits clearly have a higher relative importance for the poorest, but even for this group, do not reach 20 per cent of per capita consumption.

Legal considerations

Mongolia's social welfare system has evolved into a complex system with multiple benefits and services regulated by legal instruments and numerous regulations approved by a Government Decree or a Minister's Order.

For example, as it relates to the CMP, there are no legal provisions concerning an automatic and periodic benefit amount adjustment, and the benefit amount had two ad-hoc adjustments before the COVID-19 crisis.

As for tax-financed pensions, there are no legal provisions concerning an automatic and periodic benefit amount adjustment. The Law on Social Welfare established that the amount of welfare pensions and allowances shall be determined by the Government based on the current minimum living standard of the population.

Social insurance, as it currently exists, is unfit to sufficiently accommodate important transformations in the labour market, including the increase in non-standard forms of employment. Large categories of workers, including herders and self-employed, are not legally obliged to be a member of the contributory schemes. Nonetheless, voluntary participation is still not properly incentivised, so the uptake and membership among these categories remains low, fostered by a lack of trust in the system.

Another pressing issue is the fragmentation of the regulatory environment which does not allow for the evaluation of the policies under a single framework of principles and directions.

Linkages with poverty and inequality

The ability of social welfare transfers to lift poor individuals out and above the poverty line depends on the combined effect of the benefit level and horizontal coverage, which vary across programmes. Over the years, significant progress has been made in the areas of poverty and inequality reduction. However, the COVID-19 pandemic had a disproportionate impact on the poor and vulnerable, as elsewhere in the world. In comparison to its neighbours, Mongolia performs better on inequality with an overall Gini coefficient at the household level of 0.34. The urban to rural divide within the country in respect to poverty does not seem to hold as much for inequality, yet an unequal distribution is more evident when the disaggregation is made by region.

Herders are a specific vulnerable group. This group faces challenges in receiving social security protection due to the lack of delivery and administration mechanisms that suit their needs. Additionally, they receive low transfers, as they have access to food sources and thus their monetary needs are not specifically addressed by any programme.

Inequalities in Mongolia are further exacerbated by the accessibility of the system. For example, while the introduction of family health centres (FHC) has increased basic access for all, the distribution of secondary and tertiary facilities is concentrated at the Aimag, district and city levels, far from rural areas. This results in limited access to secondary and tertiary facilities in rural areas, where at the same time the Soum health centres (SHCs) are poorly equipped and staffed.

When it comes to the poverty impact of social welfare in Mongolia, this is mainly driven by a universal and large programme known as the Child Money Programme (CMP). This programme was not intended to target poverty, but rather to recognise the right of every child to receive support. The relevance of the design of social welfare programmes in Mongolia in respect to their objectives is worth further examination, as the only specifically designed pro-poor programme (such as Food Stamp Programme) has a minor impact on poverty, and the programmes that do have a meaningful impact are not primarily designed to target the poor (such as the CMP).

COVID-19 and shock responsiveness

The COVID-19 crisis has emphasised globally the need for social protection systems to build resilience among the poor and vulnerable and to help them to cope with shocks. This was clearly the case in Mongolia with social welfare programmes experiencing an increase, both in terms of coverage and benefits, in several programmes during the outbreak. Total expenditures more than doubled from 2019 to 2020 and increased by nearly 30 per cent the year after.

The crisis also highlighted the importance of databases and registries that are inclusive enough to allow systems to reach the vulnerable, and those who need support in times of crisis. The preparedness of the Mongolian system, and in particular its shock responsiveness, is a critical determining factor in the country's trajectory to recovery.

Governance

Due to the large number of programmes, it is not clear whether coordination and integration between programmes and objectives are rightly addressed. The overlap of objectives, and duplications in beneficiaries among the various programmes, seem to indicate the need for rationalization, given that one programme can serve more than one objective.

Additionally, when examining the portfolio of the non-contributory system of social protection, concerns may arise regarding a specific programmes' relevance, and how development objectives are translated into programmatic choices.

Social protection expenditures

Mongolia's expenditure on social protection (excluding health) decreased over the years preceding the pandemic. While this expenditure sharply rose in 2021 compared with other countries, it is lower than the global average of 12.9 per cent of GDP (ILO 2021a). In 2020, total social protection expenditure reached 11.8 per cent of GDP, driven by a sharp increase in the social welfare component and a moderate increase in delivered social insurance benefits. Before the pandemic (2016-19), social protection expenditure was about ten per cent of GDP. In 2019, total health expenditure in Mongolia accounted for 3.8 per cent of GDP. However, government health expenditure was 2.2 per cent of GDP (The World Bank, 2022; ILO, 2021a). The Government contributed 58 per cent of total health expenditure, out-of-pocket expenditures were 34.8 per cent, and donors provided the remaining share (The World Bank, 2022). Between 2016 and 2019, social welfare programmes cost 1.9 per cent of GDP on average, rising significantly above four per cent in 2020. Social insurance amounted for 7.6 per cent of GDP in 2020.

From an expenditure point of view, contributory social protection in Mongolia is concentrated in the later stages of the life cycle. Consistently with social insurance provisions, most of the social insurance income replacement benefits (the most expensive component of the social protection system) are delivered to those over the 55 years of age. These expenditures equalled almost 4.5 per cent of GDP in 2018, making this age category the highest social protection receiver. On the other hand, the same group received in absolute terms less social welfare assistance compared to the youngest age category. Social welfare represented 88 per cent of the total benefits delivered to the 0-17 age category and just 6.4 per cent for those over 55.

The CMP is the largest programme among all social welfare programmes, and this remains the case throughout the baseline projections. The Social Welfare Pension (SWP) reaches the second most beneficiaries with a total of

81,000. Of these, around 9,000 are individuals over the age of 60, covered under the old age benefit component, leaving a marginal coverage gap reflected in the 2030 expenditures projections.

In terms of status quo cost projections, the SIF expenditure increased 13.2 per cent, annually, between 2017 and 2020, and is projected to further rise. This trend could be linked to the longevity of the population and an increase of payments in benefits due to increases in coverage or awareness. While in principle this can be seen as a positive trend, its long-term sustainability is at risk when considering that revenues are projected to be increasing at a slower pace. Within short-term benefits, maternity benefits represent the major component, reaching nearly 0.23 per cent of GDP by 2030. This overall increase in expenditure will be only partially offset by revenues from contributions, which, under the policy status quo, are projected to increase at a slower pace of growth as indicated earlier. The increase in beneficiaries under the SIF scheme, predominantly is caused by a rise in old-age pensioners.

The 2020 reform reviewed the financial flows of the health protection system, establishing the Health Insurance Fund (HIF) as the sole purchaser of health services. The HIF was vital in supporting people during the COVID-19 crisis and experienced a sharp rise in costs. Most of the deficit through 2020-22 was financed from the new stream of transfers from the State budget. The large increase in revenues and expenditure in 2021 followed from the change in government policies which, besides concentrating the financial flows under the social health insurance, aimed to strengthen the health system and prepare Mongolia to respond better to future health crises.

Way forward

National dialogue with key stakeholders

The Mongolian government needs to engage in a comprehensive discussion on what should be prioritised, what risks it is willing to take on and what kind of shocks it wants to cover. This will allow for a more sustainable forward-looking strategy for social protection, which can create a common understanding of challenges and opportunities. Keeping in mind that while prioritisation is essential, basic provisions need to remain accessible also in times of shocks and crisis. An overarching question would entail an examination of how Mongolia would tackle social protection universally. And what would be the short-term and medium-term approaches to reach a universal system while incorporating policy goals and the long-term vision of the government?

Building further on the government's social protection vision, a national dialogue should be initiated to agree upon clear objectives and pathways for reform, considering as much as possible all relevant stakeholders and partners (including the civil society and the private sector). These pathways must move beyond government mandates and consolidate the key risks facing the population in the short-, medium- and long-term.

Presenting the suggested reform options for the future of social protection can provide a baseline for dialogue among stakeholders. The contrast between a status quo scenario projection and other innovative scenarios may provide alternative avenues for the development of the social protection system.

In the short-term, it is recommended that government initiates a concrete platform for reflection on the outcome of this report in the form of a stakeholder dialogue based on interests and mandates. This can be combined with evidence on regional and international experiences that could be examined. For the long term, there is a need for an overall systemic approach, requiring an investment in the development of a stronger base for delivery. This will increase efficiency while responding to multiple and overlapping shocks, in view

of the contextual realties of Mongolia as they relate to the demographic and labour landscape, as well as the poverty and inequality situation.

Additionally, the national dialogue can also tackle the issue of extending coverage to the informal workers and the transition from the informal to the formal economy.

Governance, coordination and data

The consistent expansion of social protection coverage in Mongolia and the extension of budget allocation and expenditure on social protection in recent years inevitably leads to a larger need to improve the governance and institutional dimensions related to the delivery of effective social protection. This includes how programmes are organized, how they are financed, how effective and efficient they are in delivering social protection services, and the capacity to meet the demands of the overall system.

An important issue that needs to be addressed, is the fragmentation in coordination, overlapping objectives and target groups in the various welfare programmes. This report proposes a two-pronged approach. Firstly, the scenario is to implement a stop in new admissions in some cash-transfer programmes that could be rationalised into new or existing transfers (such as Honoured Mothers and Age Honour Allowances, and Benefits for the elderly with State merits). Secondly, the scenario continues some of the existing social welfare programmes and introduces one new programme. However, when considering reforms, their introduction should be gradual to avoid abrupt changes for individual beneficiaries.

Assessing the capacity of key formal and informal structures (ministries, agencies, communities, and so on.) to develop, administer and implement effectively, monitor and evaluate social protection goals is also crucial. Adequate capacity is critical for effective and efficient delivery of services. Without sufficient and qualified staff, able to respond to local needs, it is difficult to deliver services in a timely and adequate way, within a suitable technical infrastructure.

Additionally, the government should prioritise data collection requirements for two purposes, the first is for evidence-based action. This includes identifying additional data needs to evidence-based assessment of the state of social protection, to identify gaps and needs for protection and to define policies for improved coverage, effectiveness, efficiency and the sustainability of national systems. The second is to build up databases that allow reaching the vulnerable, and those who need support in times of crisis.

Investments and challenges in social protection

The Social Protection Floors Recommendation, 2012 (No. 202), working in tandem with the Social Security (Minimum Standards) Convention, 1952 (No. 102) provide an internationally agreed roadmap to guide the design, financing and governance of national social protection systems. Investments in social protection are investments in a country's human capital development and productivity. But in order to properly invest in social protection in Mongolia it is important to prioritise and understand the challenges of the current system. The baseline projections have revealed that the main challenges in social insurance are with three schemes: old age pensions, military pensions, and unemployment insurance.

Reform options for a universal benefit for persons with a disability (PWDs) show that in order to manage costs in the short- to medium-term, the government could consider a gradual phase-in schedule, for example starting with a pension-tested scheme and expanding that to a universal scheme at a later point in time.

Examining several scenarios for comprehensive expenditure projections for non-contributory programmes, this report finds that if the government would gradually phase-in some of the options in the highest cost scenario, it should be possible to gradually move, over time, from the lowest to the highest cost scenario, maintaining total cost of the social welfare package between 3.5 to four per cent of GDP throughout the projection period.

This would be less than current expenditure on social welfare, with a comprehensive and more coherent set of programmes.

While the existing social insurance laws are being discussed within the cabinet and parliament, it is important to underline that the long-term financial position of the pension scheme must be sustainable and supportable. This includes addressing equity challenges which currently produce low incentives for self-employed individuals to contribute to the system. Additionally, solutions addressing the overall low level of earnings must be further examined. The potential consequence is twofold: (i) the level of the minimum pension is high against the level of a pension that a person can earn during his or her lifetime; and (ii) the assessment base (tax base) for contributions is narrow. There is no easy escape from this. While the gradual increases of the minimum wage represent a solution only in the long run, since this cannot solely rely on policy objectives but accounts for the economic developments, the only short- to medium-term solution lies in a widening of the tax base. This reinforces the need for parametric reform of the pension formula.

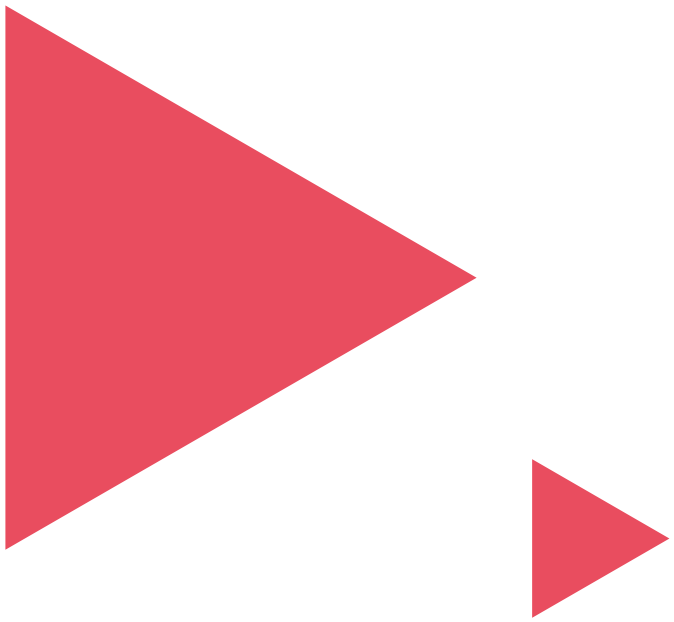
The HIF relies on the budget to provide services to subsidised and semi-subsidised categories. Nevertheless, the public budget does not match the actual needs of the mentioned categories, therefore partially shifting the financing burden towards the categories that are responsible for full contribution. In this regard, the distribution of the new contribution rates should include a more equitable approach, scaling the number of contributions and subsidies based on income levels and not limited to a categorical approach.

The CMP is the largest programme within the social welfare portfolio. Several options for reforming the CMP are possible. Projections show the combination of a universal tier and a means-tested tier for children from poor households turns out to reduce the costs of the programme significantly.

The development of a national strategy for the social protection system, looking at function, financing, and stronger interactions among schemes and programmes, is at the core of the systemic challenges for Mongolia to be envisioned in future policy reforms. Investing in social protection and developing an improved system must build on what Mongolia already has; and take into consideration the external and political environment and the challenges that the national system faces. In particular, growth and government finances, the demographic and labour market conditions, and the situation of poverty and inequality.

1

Introduction



Introduction

The Government of Mongolia has consistently worked to expand social protection coverage and improve its budget allocation and expenditure on social protection in recent years. In 2016, the Mongolia Sustainable Development Vision 2030 was launched, reinforcing Mongolia's commitment to improving the social protection framework. The Mongolia Sustainable Development Vision comprises of 20 national SDG indicators, sustainable economic and social development principles, and phase-specific objectives for 2016-20, 2021-25, and 2026-30. Among its objectives is to "develop a social security system that takes into account national characteristics and changes in the population's age structure, to improve the quality of life" (SDG 2030, 2.2.1 Ensuring social equality through inclusive growth, Objective 3). In 2020, the "Vision-2050, Long-Term Development Policy of Mongolia" was adopted. Following the precedent version, Vision 2050 aims to increase the share of the population with social insurance coverage in the total economically active population.

However, the external environment, along with it the challenges which the system faces, are in constant flux. A major catalyst is the increased frequency and severity of climate-related shocks as a result of climate change. These severely affect the Mongolian population. Specifically, nomadic herder households, who account for approximately one third of the population, are particularly vulnerable to these shocks, given their reliance on livestock for their livelihoods. Despite significant measures in the national system for disaster prevention and management to reduce the risk of livestock death as a result of droughts and dzuds, there are no explicit provisions within the social protection system to protect the welfare of vulnerable households or children from the increasing problem of climate-driven shocks.

Moreover, the disruption caused by the COVID-19 pandemic has further exacerbated some of the social and economic challenges, stressing an economy that is highly dependent on export sectors and increasingly more vulnerable to external economic shocks. The consequences underline the importance of a comprehensive and robust social protection system to protect the most vulnerable segments of the population, in the case of similar future occurrences.

1.1 Vision and mission for social protection in Mongolia

The Mongolian Constitution establishes that it is the duty of the State to regulate the economy of the country to ensure further economic and social development, as well as the security of the population. More specifically in the realm of social protection, the Constitution determines the right to material and financial assistance in old age, disability, childbirth, and childcare and in other cases that the law can provide. Moreover, the right to healthcare is also granted, but left to the legislators to determine.

The main actor involved in managing and delivering social protection in Mongolia is the Ministry of Labour and Social Protection (MLSP). Their objective and mission is to "ensure human development by effectively implementing an interconnected comprehensive policy of population development, labour, vocational education and social protection, creating a favourable environment for citizens to work and develop, and improving social security." This vision is articulated in a series of operational strategic objectives that the Ministry pursues.

Alongside the current provision of social protection from the Government, the State Great Hural, such as, the unicameral parliament of Mongolia, participates in determining the long-term envisioning policies of Mongolia. Recently, two of these envisioning resolutions were adopted: the Mongolia Sustainable Development Vision 2030 in 2016, and the Vision-2050 Long-Term Development Policy of Mongolia in 2020.

Both policies contain explicit references to the country's expectations regarding the role of social protection as a development strategy towards becoming an upper middle-income country, ensuring a steady economic growth rate, ending

poverty in all its forms, reducing inequalities and promoting the growth of the middle and upper-middle class. Overall, the Sustainable Social Development section of the Vision 2030 document aims at a strategy capable of achieving the objectives above through the provision of social welfare services for the target population in an equitable and inclusive manner, addressing gender inequality, and promoting equal participation in social welfare.

For this purpose, the Vision 2030 document defined three-time horizons (2016–20, 2021-25, 2026-30) through and by which specific objectives are expected to be achieved, such as ending all forms of poverty. Additionally, Vision 2030 promoted the achievement of an effective, high quality and accessible health care system by creating and incrementally improving a national system for the prevention, early diagnosis, and urgent responses to preventable and predominant diseases. The 2020 document Vision-2050 Long-Term Development Policy of Mongolia increases the horizon of the objectives and policies. The document adds two long-term phases (2030-40 and 2040-50). The Vision 2050 for Mongolia is to become a leading Asian country in terms of social development, economic growth and citizens' quality of life. The role of social protection in this mission is enshrined in two sections of the document: Human development and quality of life and middle class. The human development vision strongly supports the progressive improvement of healthcare, strengthening the public system through citizens' participation, defining a long-term insurance system capable of expanding provisions and services based on technological improvements and introducing one-stop healthcare services.

The Vision 2050 document also addresses the topic of social welfare and social insurance system reforms. The reform approach would stem from the expansion of existing social insurance coverage and the development of a multi-layered pension system. The intention is that the social insurance system would become fully independent through cost-effective design and administration, and the formulation of an investment policy for funding.

Moreover, the architecture of the social welfare system would provide services adapted to the needs of vulnerable groups and the social development demands, ensuring full effective coverage and adequacy to the most vulnerable. Additionally, the system will incorporate social care centres which would provide long-care and services for seniors.

1.2 Objectives of the study

The ambition of the Mongolian government to create a sustainable and equitable future for its citizens based on social justice and awareness that social protection is an integral component of any strategic effort to reduce the incidence and severity of poverty, is the motivation behind this report.

The objective of the Mongolian Social Protection Diagnostic Review is to inform and support social dialogue by compiling evidence and engaging with stakeholders in order to make recommendations to the Government of Mongolia.

The main output of this study will offer key perspectives and recommendations concerning improvements in the effectiveness (coverage and adequacy), efficiency, and sustainability of the social protection system, including options to extend coverage to the most vulnerable (including herders and those affected by climate change). Moreover, the study includes crucial elements of public finance analysis and management that can support the government in developing a social protection financing strategy.

Towards these aims, the research team sought to enunciate a comprehensive mapping of the existing Mongolian social protection system, which is categorised by a Social Protection Floor Guarantee, offering an integrated view on the contributory and non-contributory systems. The inventory feeds a gap analysis which aims at identifying the main flaws in the system in providing effective coverage to vulnerable groups, including children, working-age population, herders, and elderly. This information, together with in-depth fiscal data, was analysed and fed into an ad-hoc built social budgeting model, capable of describing the present situation and potential future scenarios of social protection in the country, within the national economic framework.

This report is structured as follows. Section 2 describes the background of the demographic and labour market landscape in Mongolia, and a brief overview of the status of poverty and inequality, based on calculations using the HSES 2018. This is followed by Section 3 containing a discussion on the existing social protection system in Mongolia, which includes a description of the institutional and legal framework, as it pertains to social insurance, social welfare and social health insurance. Section 4 presents an inventory of current social protection policies and programmes in Mongolia, classified by the four SPF guarantees as they relate to health, children, working age population, and the elderly. Section 5 focuses on social insurance and social welfare expenditure and presents regional comparisons. The gap analysis and systemic view are presented in Section 6 which incorporates a review of the main performance indicators (such as coverage, distribution, adequacy, and impact). Additionally, it examines the challenges in providing social protection to herders, as well as the challenges of poverty targeting in Mongolia. Moreover, the section provides a systemic view, examining coverage and coordination, benefit levels and adequacy, and the impact on poverty and inequality. The section is concluded with a review of Mongolia's social protection responses to COVID-19. Section 7 looks at reform options, where both parametrical and systemic options are discussed. These aim to provide an overview at the programme and system level on how future social protection expenditure may evolve from today to 2030 under various scenarios, which is discussed in Section 8, together with the costing of selected alternatives. Section 9 concludes the report with a reflection on how to develop a systemic approach towards social protection in Mongolia.

The present publication is accompanied by a separate report (UNFPA and ILO, forthcoming) which explores in depth the Social Protection Financing Strategies for Mongolia. This component aims to identify the scope of available or potential fiscal space to strengthen social protection systems and schemes by ensuring their affordability, and social and fiscal sustainability.

2

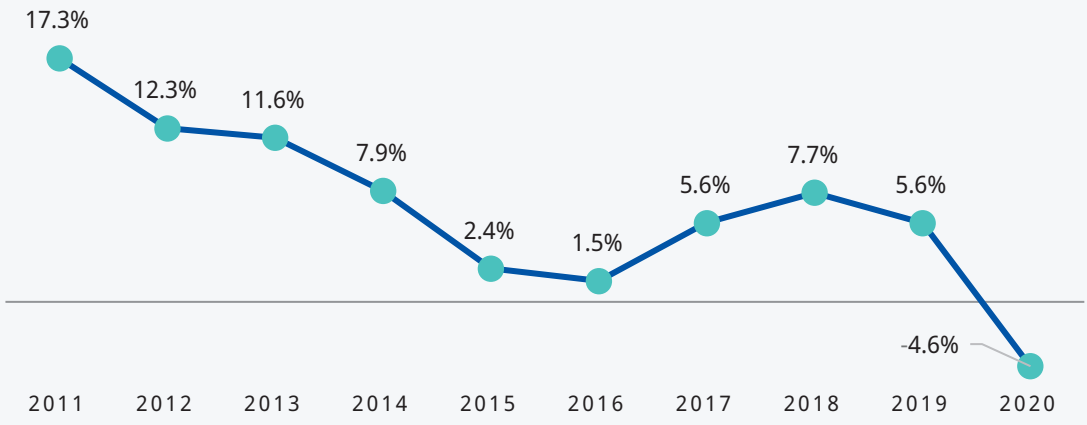
Background

Background

Mongolia is a country with a unique geography that has significant implications for its economic and social development. It is a landlocked nation between China and Russia, with a vast, sparsely populated territory. According to the 2020 Population and Housing Census of Mongolia, the Mongolian population had reached 3,296,966. Mongolia is one of the countries with the lowest population density globally. Moreover, the country has one of the most significant populations of herders (see Box 1. Mongolian herder's employment characteristics) worldwide and an important share of the population lives in rural and hard-to-reach areas. Mongolian administrative units consist of 21 Aimags and Ulaanbaatar City. The Aimags are divided into 330 Soums, Ulaanbaatar is divided into nine districts. These districts of Ulaanbaatar have 171 Khoroos. The harsh and unpredictable climate is one of the country's hallmarks, with severe winters, summer storms, droughts, and the typical Mongolian steppe phenomenon of dzuds, and windstorms.

Past economic growth has fluctuated with variations in commodity prices (mostly natural resources). Mining and its related activities are key drivers of GDP growth in Mongolia. This includes activities such as transportation and construction (establishing the required infrastructure) and services. In 2015, mining contributed 18 per cent of GDP, but its indirect contribution through all kinds of multiplier effects is estimated to be much larger (World Bank 2018). The contribution of the mining sector to GDP has been extremely volatile in the past. For example, in 2011, contribution was 11 per cent of GDP, whereas in 2016, when world market prices for minerals collapsed, it was only three per cent. GDP growth, which recorded 17.3 per cent in 2011, fell below 1.5 per cent in 2016 (see Figure 1).

Figure 1. Real GDP growth in Mongolia (2011-20)



Source: MOF, 2022.

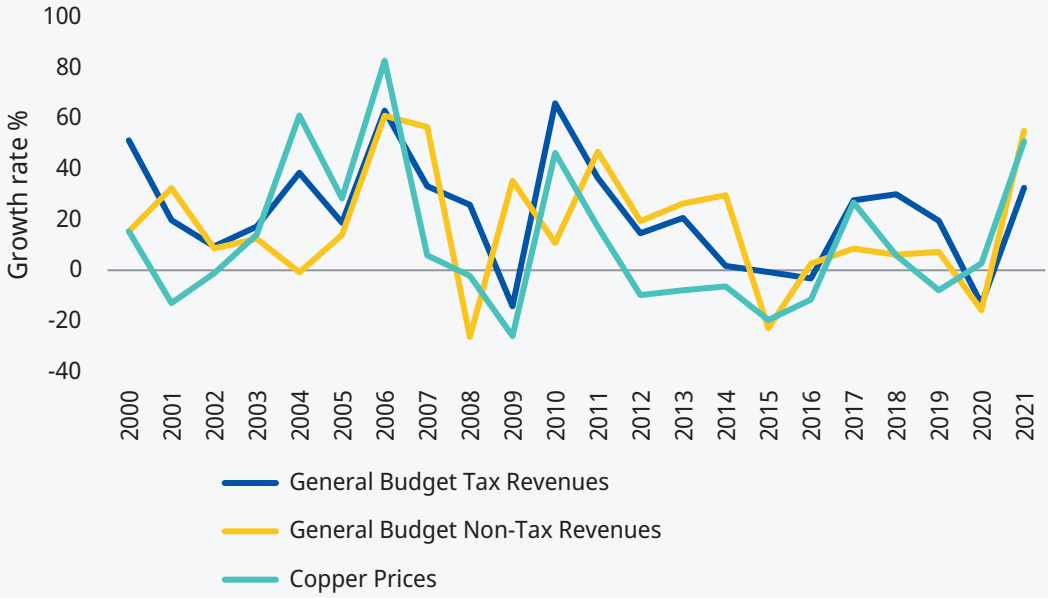
2.1 GDP growth and government finances

Government finances are in many ways closely connected to the ups and downs of the mining sector, as in the relationship between the growth in tax and non-tax revenues with the fluctuations in the price of copper (see Figure 2). The government is responsible for: (i) creating enabling conditions

for investment in natural resources (mainly through offering tax incentives and investment in infrastructure); and (ii) stimulating economic diversification. It seems that, with limited room for spending, these two responsibilities are not naturally aligned, and the government often faces trade-offs in serving them.

In 2011-13, economic growth surged. In 2014, however, Mongolia entered a recession, and the government responded by increasing expenditure, part of which was financed off-budget. As a result, the public debt then soared to 87.2 per cent in 2016 (from 24.1 per cent in 2011).

▶ Figure 2. The price of copper and the ups and downs of government revenues (annual growth rates)



Source: MOF, 2022 and IMF, 2022.

The Fiscal Stability Law, adopted in 2010, was meant to generate more stable conditions for Mongolian public finances. This, however, failed to materialise during the 2014-16 period when the government tried to spend itself out of the recession.

After 2016, with the adoption of the ERP, fiscal discipline was restored (World Bank, 2018).[1] Combined with favorable developments in commodities markets, the government managed to restore balance in its budget in a relatively short amount of time. This resulted, at its high, in one per cent of GDP fiscal surplus in 2019, and a related reduction of public debt to 66.1 per cent of GDP.

Between 2017 and 2019, the economy experienced a modest upswing with GDP growth rates fluctuating between 5.5 per cent and 7.7 per cent. This acceleration of GDP growth, again, coincides with a 27 per cent increase in the price of copper in 2017.

Then, in 2020-21, the COVID-19 pandemic hit Mongolian trade hard and the economy again plunged into recession. Due to its high dependence on revenues from mining and a general lack of diversification in economic activities, Mongolia's economy is particularly vulnerable to external shocks such as variations in global market prices, border closures, and weather-related catastrophes (IMF 2021). Indeed, towards the end of 2021 and

1 Government of Mongolia, 2016. Economic Recovery Programme.

the start of 2022, economic conditions appeared to improve again, until spring, when the Russian conflict with the Ukraine and an upsurge in COVID-19 infections just south of the Mongolian border in China negatively impacted the economy.

With these high uncertainties, it is difficult for the Mongolian government to plan. Moreover, political cycles may influence decision-making, so specific windows of opportunity for social protection policies reform might materialise in the mid-term only. The Government's fiscal balance recovered from a historic deficit in 2016, then turned deeply negative again in FY2020, FY2021, as Figure 3 shows. The evolution of the fiscal deficit is reflected, with a small time-lag, in the path of gross public sector debt. The latter recorded 82.5 per cent of GDP in 2021 due to the cost of the emergency measures enacted to face the outbreak of COVID-19.

Figure 3. General Government fiscal balance and gross public debt, 2015-21

Figure 3a. General Government, fiscal deficit (% GDP)

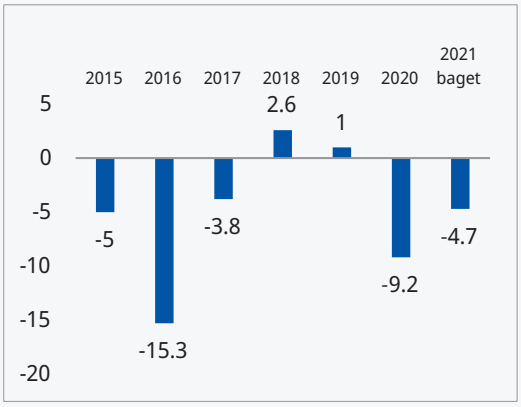
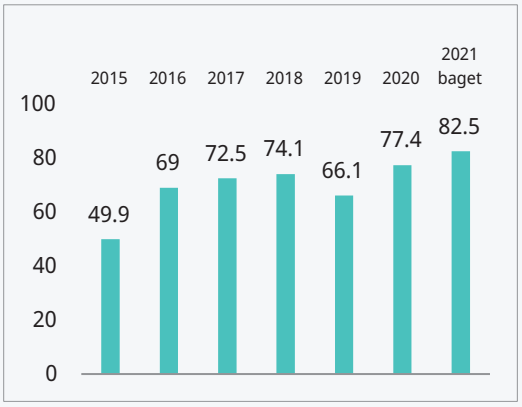


Figure 3b. General Government, gross debt, IMF definition (% GDP)



Source: Author's calculations on data received from Ministry of Finance in 2022.

While the prospects for a substantial government expenditure increase in the short-term would be arguably doubtful, this report is interested in reflecting on a lengthier time horizon. In order to explore efficient and effective ways for ensuring a secured and sustainable social protection budget, the potential for the mid to long-term future financial and fiscal outlook is therefore investigated.

2.2 Demographic and labour market landscape

Examining the demographic and labour market landscape in Mongolia reveals a variance in the speed of population aging compared to the growth of the working-age population. Growth in the old-age dependency ratio, from 16 per cent in 2020 to 38 per cent in 2050 (WB 2020) can be observed, denoting important consequences to social welfare spending and the financing of social insurance schemes.

According to the data from the 2020 Labour Force Survey (LFS) report carried out by the National Statistics Office of Mongolia (NSO 2020), the working age population was 2.106 million (aged 15 and over), of which 1.274 million (60.5 per cent) were part of the labour force. Thus, 832,200 (39.5 per cent) people were outside the labour force. The total labour force participation rate was 60.5 per cent, lower for female (53.4 per cent) than for male individuals (68.3 per cent). The labour force participation rate in urban areas is 14.2 percentage points lower than in rural areas.

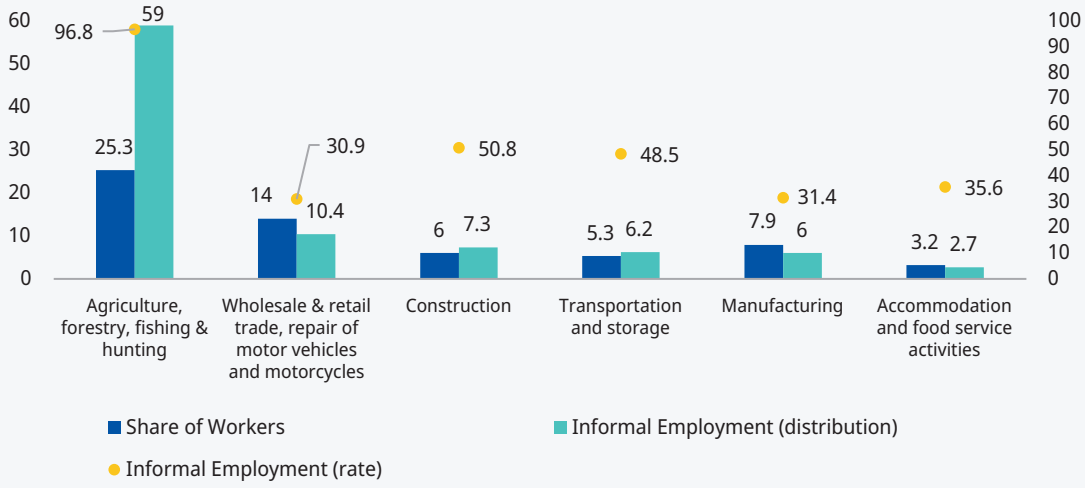
At the national level, the unemployment rate is ten

per cent, 11 per cent for males and 8.9 per cent for female workers. According to data from the NSO, youth unemployment (15–34-year-olds) makes up more than 55 per cent of the total unemployed (NSO 2018). Out of the number of employed in the non-agriculture sector, the number of informal employments is 195,200 (22.8 per cent of the employed in the non-agriculture sector). Out of the total number of employed, 476,100 workers (41.5 per cent) were estimated to be working in the informal sector (0.6 per cent of which work in households), and 670,200 (58.5 per cent) in the formal sector.

Considering the distribution of the workforce across economic sectors, the LFS report shows that more than 25 per cent are employed in the agriculture sector, followed by the wholesale and retail trade (14 per cent). Another 8.4 per cent work in education, and 7.9 per cent work in manufacturing. The remaining 44.4 per cent is split between the rest of the sectors (see Figure 4).

The LFS report also indicates that almost all the labour force was employed in agriculture work in informal conditions. One in every two employed in the construction and transportation and storage sectors are in informal employment, and sectors such as accommodation, manufacturing, and the wholesale and retail trade also have a rate of informal employment above 30 per cent.

▶ Figure 4. Employment and informal employment by main sector of economic activity



Note: The total of not available data for the distribution of informal employment (N/A*) amounts to 2.1 per cent of total informal employment.
Source: NSO (2020).

According to the 2019 LFS report, the average monthly wage of paid employees was 793,100 Mongolian tugrik (NSO, 2020).[2] Higher wages are paid to employees in the capital of Ulaanbaatar (854,800 tugrik), while the lowest income region was the Western region, where the average wage was 598,200 tugrik. The gender wage gap was 6.7 per cent of the national level.[3] This figure varies greatly by location.

Following the 2020 LFS analysis, the wage gap between urban and rural areas is rather wide. In urban areas, the average monthly wage of paid employees was 815,000 and 653,600 tugrik in rural

2 On 29 August 2022, MNT3,197.42 = US$ 1 (Mongolbank, 2022).

3 Defined as the difference between the gross average hourly earnings of male and female employees and expressed as a percentage of gross average hourly earnings of male employees.

areas. Concerning the self-employed, their average monthly income was 793,100 tugrik in 2019, with a significantly higher average in the Central region (where Ulaanbaatar is located) of about 2,000,000 tugrik per month. Different economic sectors reveal different average monthly wages of paid employees, with the highest belonging to the mining and quarrying sector with an average of 1,400,000 tugrik, followed by the real estate sector (1,200,000 tugrik). The average monthly income of the self-employed was also subject to variation within the urban/rural categorisation. In rural areas, the average was 1,400,000 tugrik due to the high income in the agricultural sector.

▶ Box 1. Mongolian herders' employment characteristics

A specific feature of the Mongolian labour market is the significant number of pastoralists in rural areas, most of whom work as herders. Individuals are considered being herders if they earn a living by herding livestock throughout the year. According to the NSO, the number of herders has been decreasing over the last few years and as of 2020, Mongolia registered 298,789 herders, of which 58.3 per cent were men. Overall, 19.9 per cent of the Mongolian population lives in a herder household and 24.1 per cent of the total workforce is employed in the livestock sector (NSO 2020). Overall, 87 per cent of herder household members aged 15 and above work in the livestock sector, 11.2 per cent have paid employment, 1.2 per cent in household business and 0.6 per cent have unpaid work. The share of young herders aged 15-34 has been declining in the recent past. As of 2020 the share of herders aged 15-34 decreased to 29.8 per cent, while it was 11.7 percentage points higher in 2011. Thus, the number of herders is shrinking, and ageing. The herders' work is intense, and the average hours worked per week by herders exceeds the 40-hour work week norm by 24.4 to 37.7 hours (ILO, IRIM, Maastricht University, 2022).

Out of the total 298,789 herders, 233,147 are of working age and according to the latest available estimates only 74,984 herders (25.1 per cent) contribute to the HIF. Moreover, only 49,049 herders (16.4 per cent) currently contribute to the SIF (ILO, IRIM, Maastricht University, 2022). Contributing herders increase as they reach older age. The closer herders get to retirement age, the more interested they seem to be in eventually receiving a pension.

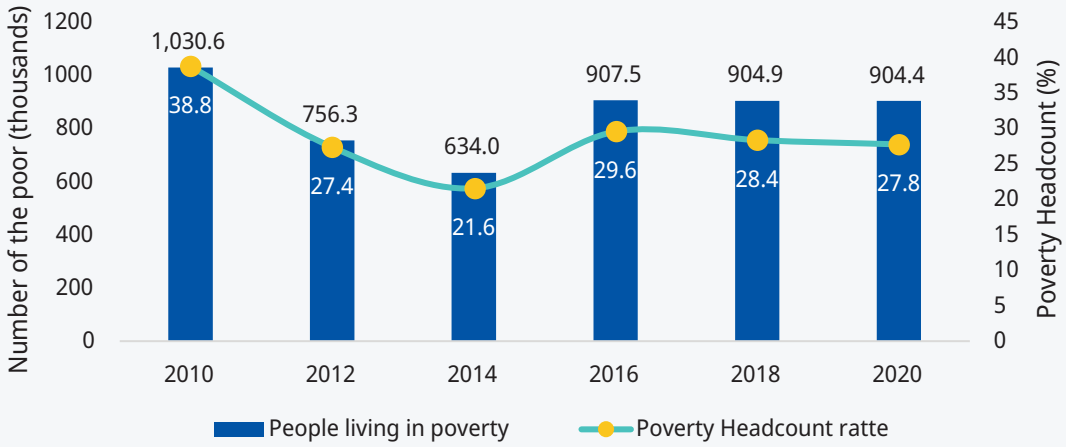
Source: ILO, 2022.

2.3 Poverty and inequality in Mongolia

Mongolia has already made significant progress in poverty reduction (see Figure 5). Nevertheless, the national poverty headcount ratio is still substantial, with 28.4 per cent of the population living below the poverty line and 14.9 per cent at risk of falling into poverty in 2018 (WB & NSO Mongolia 2020). Furthermore, by 2020 data on poverty showed a steady decrease, reaching 27.8 per cent (NSO, 2022). When comparing Mongolia to neighbouring countries the poverty rate is still lower overall but varies substantially from 1.7 per cent in China to 27.4 per cent in Tajikistan.[4] While substantial between 2010 and 2014, the decline of poverty in Mongolia has not improved in the last term and increased in 2016 due to the economic recession that the economy was faced with (See Annex I).

4 Measured in 2018, the WDI indicates the following percentages: China (1.7), Indonesia (9.8), Kazakhstan (4.3), Kyrgyz Republic (22.4), Lao PDR (18.3), Malaysia (5.6), Philippines (16.7), Thailand (9.9), Tajikistan (27.4), and Viet Nam (6.7).

▶ Figure 5. Poverty headcount (2010-20)



Source: NSO, 2022.

The average and median per-capita consumption in 2018 amounted to 282,436 and 231,486 tugrik, respectively. In the same year, almost one million people lived under the poverty line of 166,580 tugrik. Accordingly, the poverty headcount in Mongolia stood at 28.4 per cent in 2018 (see Table 1). The average shortfall from the poverty line or poverty gap amounts to 7.1 per cent (an average poverty gap among the poor of 42,012 tugrik and an average per capita consumption of 124,568 tugrik). The table also shows the severity index, which showcases the variation in inequality among the people living in poverty.

▶Table 1. Poverty indices by geography

	Population	Headcount incidence (n)	Headcount incidence (in %)	Headcount distr. (in %)	Gap	Severity
Total	3,283,474	919,743	28.4%	100.0%	7.1%	2.6%
Urban/Rural						
Urban	2,153,084	579,566	26.9%	63.0%	7.1%	2.8%
Rural	1,130,390	340,177	30.1%	37.0%	7.0%	2.4%
Macro-Regions						
West	440,430	136,628	31.0%	14.9%	7.6%	2.8%
Highlands	603,712	183,443	30.4%	19.9%	7.2%	2.5%
Central	528,414	134,531	25.5%	14.6%	6.4%	2.4%
East	233,571	85,385	36.6%	9.3%	9.7%	3.6%
Ulaanbaatar	1,477,348	379,755	25.7%	41.3%	6.7%	2.6%

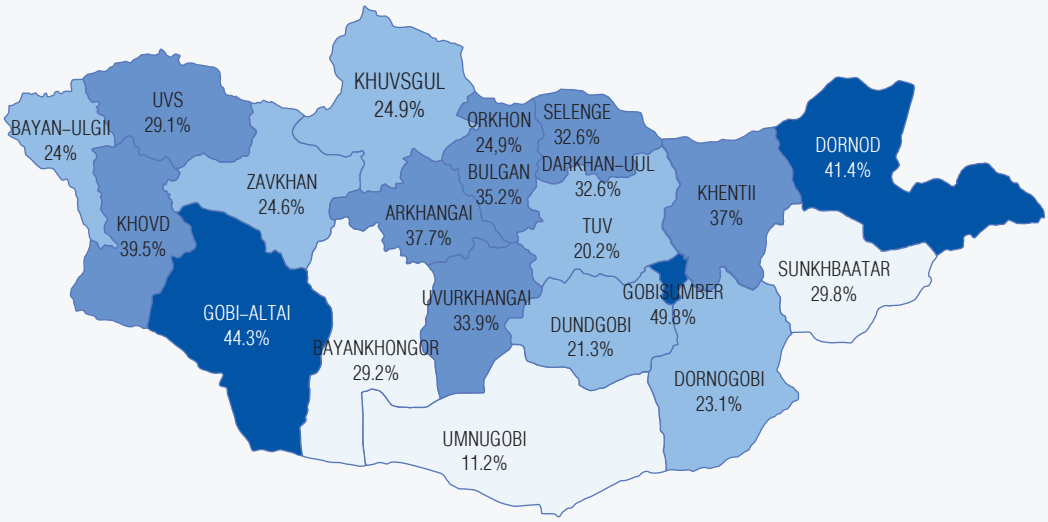
Notes: Consumption per-capita is used at the household level.
Source: Author's elaboration of HSES 2018.

With 65.6 per cent of the population or 2.15 million people living in urban settings – out of which 68.6 per cent are in Ulaanbaatar – tackling poverty largely implies tackling vulnerabilities in the cities. This is especially relevant since the reduction of poverty stagnated in urban areas during the 2016-18 period. And while urban areas have slightly lower incidences of poverty (at 26.9 per cent) than rural areas (at 30.1 per cent) they account for 63 per cent of the people living in poverty. It is worth

noting that the reduction in poverty that rural households exhibited between 2016 and 2018 is attributed to higher livestock product prices which largely contributed to the growth of income seen by herders (NSO of Mongolia, 2020).

The heterogeneity and concentration of poverty is also geographically noticeable (Figure 6). While regions such as Khovd, Dornod, Govi-Altai, and Govisumber show a distressing level of poverty which is higher than 40 per cent, only Umnugovi holds a level which is lower than 20 per cent (11.8 per cent in 2018). Ulaanbaatar alone accounts for 41.3 per cent of the people living in poverty (see Annex II) while having an incidence of 25.7 per cent largely due to its size of 1.48 million people.

Figure 6. Poverty incidence by Aimag



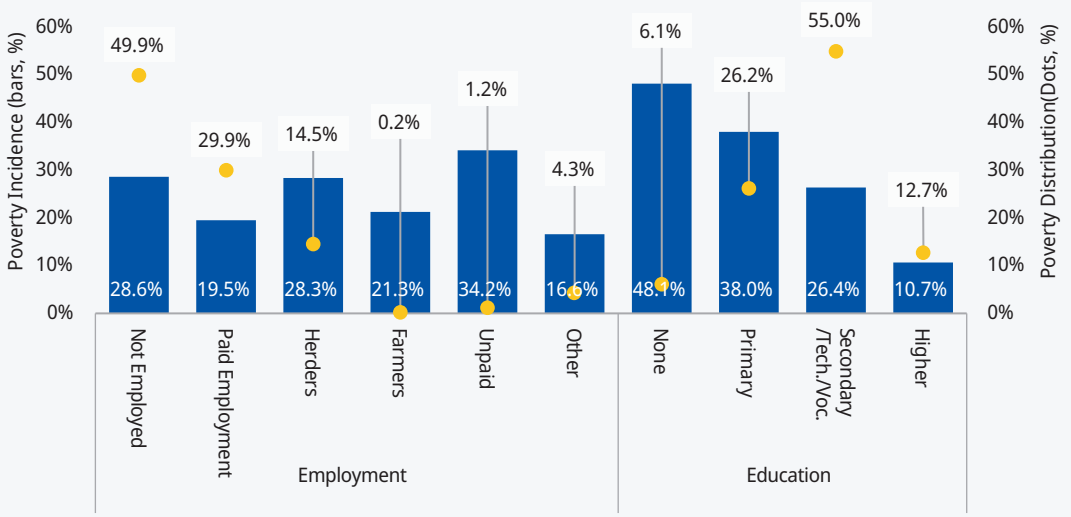
Source: Author's elaboration of HSES 2018.

The population is also considerably divided based on individual characteristics. The country has one of the youngest populations in the region with a child-dependency ratio that peaked at 61.7 per cent and an average age of 28.4 years. This prevalence of children will inevitably translate in a demographic dividend which holds substantial potential for economic expansion. Yet, in current times, the relative lack of income earners means that children and households with more children or dependents are at a higher risk of poverty. About 436,000 children aged 0-17 years are living in poverty. Such an amount translates in an incidence of 36.5 per cent for the same ages against to 24 per cent for the adult population (aged 18-64 years) and 12.3 per cent for the elderly population (aged 65 years and above). The role of dependency is further explained by noticing how one-member households have an incidence of 1.8 per cent compared to 28 per cent for households sized 4-5 members and a staggering 52.4 per cent for households sized six and more members.

The sector of employment, as well as the educational attainment of the individuals in adulthood (aged 18-64 years) are also relevant characteristics (Figure 7). The rate of poverty for adults not in employment is close to the national average but amounts to half of the adults living under the poverty line with the remaining distributed among the working share. The largest portions of the jobs holders are taken by the paid employees (65.3 per cent) and the herders (21.8 per cent) and working with animals or raising livestock means being at a greater risk of poverty (28.3 per cent against 19.5 per cent, respectively). The level of education attained is also positively associated with a lower chance of falling under the poverty line where the largest share is found in

those with primary and secondary education which together account for 81.2 per cent of poor adults.

▶ Figure 7. Poverty incidence and distribution, by employment and education of adults (18-64)



Source: Author's elaboration of HSES 2018.

The estimates reported are sensitive to the poverty line so that potential increases to it can result in non-proportionate changes in the poverty rate both at the national and group level. As an example, an increase of the national poverty line by five per cent would result in a poverty rate of 31.1 per cent from the initial 28 per cent (or 10.9 per cent higher). If we would allow the poverty line to grow by ten per cent instead, the rate would reach 34.1 per cent (or 21.9 per cent higher). These relative differences vary to the 89.2 per cent change led by adding one U.S. dollar per day to the poverty line which would make the headcount of people living below the poverty line reach 53 per cent.[5]

In addition, certain sub-groups of the population are more sensitive to poverty line increases as it appears that the level of vulnerability of their share living above the national poverty line is higher than the others. For instance, the elderly population (of individuals aged 65 years old and above) would experience a 44.9 per cent increase compared an 18.2 per cent increase that children (aged 0-17 years old) and a 24.5 per cent that working-age individuals (aged 18-64 years old) would experience if the poverty line would grow by ten per cent. A similar non-proportionate trend is found on the household composition, as the larger the household the smaller the change led by poverty line increases.

In comparison to its neighbours, Mongolia is better performing on inequality with an overall Gini coefficient at the household level of 0.34 (Table 2).[6] The urban to rural divide seen within the country for poverty does not seem to hold as much for inequality, yet an unequal distribution is more evident when the disaggregation is made by region. Moreover, the ten per cent of the households with the highest per-capita consumption have 4.4 times what the bottom ten per cent or the "worse-off" have. The Theil index instead allows for a measure of dispersion of consumption between households and amounts to 0.21 at the national level with

5 The national poverty line of MNT166,580 amounted to US$2.21 a day in 2018.

6 According to WDI, in 2018: China (38.5), Indonesia (37.8), Kazakhstan (27.8), Kyrgyz Republic (27.7), Lao PDR (38.8), Philippines (42.3), Thailand (36.4), Viet Nam (35.7).

geographical differences as previously found.

▶Table 2. Inequality indices by geography

	Gini	p90p10	Theil
Total	0.34	4.38	0.21
Urban/Rural			
Urban	0.35	4.78	0.23
Rural	0.30	3.76	0.16
Macro-regions			
West	0.29	3.73	0.15
Highlands	0.30	3.68	0.17
Central	0.32	4.12	0.18
East	0.33	4.35	0.20
Ulaanbaatar	0.36	4.87	0.24

Notes: Consumption per-capita is used.
Source: Author's elaboration of HSES 2018.

Mongolia has made significant progress in poverty reduction. Nevertheless, the national poverty headcount ratio is still high. Although regional disparities are rather small, but within regions, at the district level, there is some variance in poverty rates. The pace of poverty reduction as a response to GDP growth (elasticity) has weakened over time (WB & NSO Mongolia 2020). Moreover, the population is facing unprecedented vulnerabilities due to the COVID-19 pandemic. In turn, Mongolian households living in poverty are more likely to undertake detrimental coping strategies and to be moderately food insecure due to income losses caused by the pandemic (World Bank, 2021). These current patterns signal a responsibility to consider policy alternatives for reforming and reinforcing the overall social protection system. With the national objective of continuing poverty reduction and progressing toward effective and sustained social inclusion, a strengthened social protection system would serve as an extremely effective tool in further reducing current poverty and vulnerability, as well as poverty persistence.

3

The social protection system in Mongolia

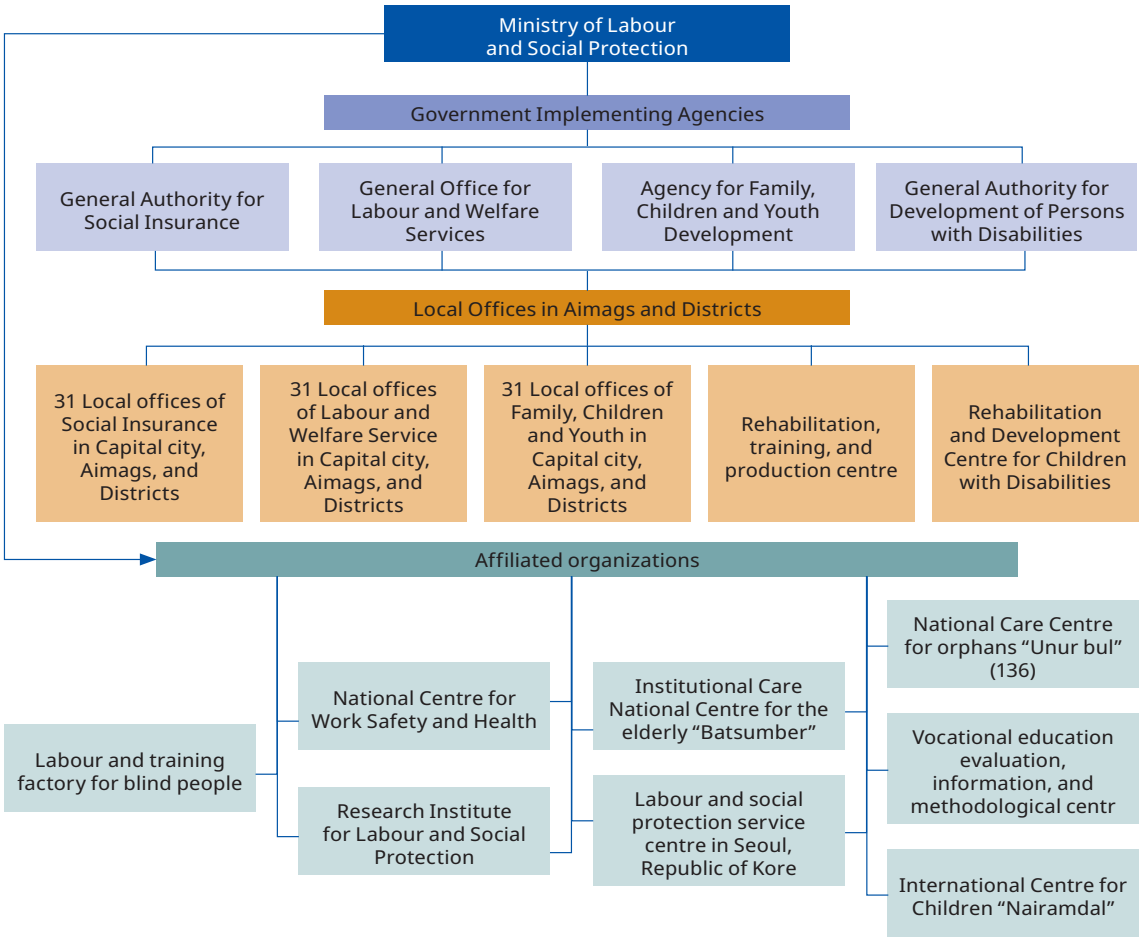
▶ 3. The social protection system in Mongolia

3.1 Labour and social protection sector organizational structure

Overall, the labour and social protection sector has a broad institutional framework to implement relevant policies nationwide. The Ministry of Labour and Social Protection (MLSP) was established in 2016 by the merger of the Ministry of Labour (MOL) and the Ministry of Population Development and Social Protection (MPDSP). The MLSP is responsible for the definition and implementation of national policies on population development, labour, employment, and social protection. These include labour relations, social insurance, social welfare, and labour migration policies. Moreover, the MLSP oversees the national tripartite mechanism to promote social dialogue and to ensure international labour standards in the country.

As illustrated in Figure 8, under the MLSP, there are four Government Implementing Agencies (General Authority for Social Insurance, General Office for Labour and Social Welfare, Agency for Family, Children and Youth Development, and General Authority for Development of Persons with Disabilities), ten affiliated organizations, and 94 local offices related to social protection. The local offices are responsible for social insurance (31 offices), labour and welfare services (31 offices), and family, children and youth development (31 offices) at the Aimag and district levels. In addition, the MLSP administrated 37 public vocational education and training centres and polytechnic colleges before the year 2022, after which the activities fell under the scope of the Ministry of Education.

▶Figure 8. Labour and social protection sector's institutional structure



Source: Author's elaboration based on fieldwork consultations.

3.2 Social insurance

The Ministry of Labour and Social Protection is the centralised organization that supervises social insurance services in Mongolia. Under the MLSP, the General Authority for Social Insurance (GASI), as an implementation agency, manages social insurance systems (contributions collection, benefit payments and fund management), and their application to citizens. GASI has a total number of 31 local offices for social insurance in the Capital, Aimags, and districts.

The Law on Social Insurance of 1994, for which a review is under discussion, regulates four different schemes providing several benefits. The four different schemes are administered by GASI and include pension insurance, short-term benefit insurance, employment injury and occupational disease insurance, and unemployment insurance.

Each type of social insurance system has a corresponding fund: (1) Pension Fund, (2) Short-term Benefit Insurance Fund, (3) Unemployment Insurance Fund and (4) Employment Injury and Occupational Disease Insurance Fund.

Citizens, as well as foreign citizens and stateless persons, are included in the four schemes on a mandatory or voluntary basis. The self-employed and herders are insured on a voluntary basis, while civil servants and those who have an employment contract or a civil contract for work with a business entity or organization are compulsorily insured.

3.3 Social welfare

The first Law on Social Welfare was introduced in 1995 and it founded the current social welfare system in Mongolia. The amendments to this law were made in 2000 and 2008, and major revisions were made in 1998, 2005, and 2012. With the 1998 revision of the Law on Social Welfare, the nascent social welfare system was delinked from the social insurance system. Since 1998, Mongolia's social welfare system has grown and became a complex system with various benefits and services regulated by legal instruments and numerous regulations approved by Government Decree or Minister's Order. Six laws define the social welfare regulatory framework in Mongolia, including the rules establishing the range of benefits provided to the population and its constituent sub-groups.

1. Law on Social Welfare (2012)
2. Law on Senior Citizens (2017)
3. Law on the Rights of Disabled Person (2016)
4. Law on Allowances and Concessions for Honorary (Merit) Senior Citizens (2017)
5. Law on Rewarding Mothers who Raised Many Children (2010)
6. Law on Providing Benefits to Parents or Single Parents with Multiple Children (2017)

Various institutions are involved in the design and delivery of social welfare services and programmes in Mongolia. The central level is responsible for programme design and policy objectives. Programmes are also financed at the central level. The Ministry of Labour and Social Protection is responsible for policy formulation and administration of all social welfare programmes and services. The MLSP submits proposals on amendments or revisions of legal regulations to the Cabinet and the Parliament. Also, the MLSP defines the eligibility thresholds for some targeted social welfare programmes such as the FSP and the CMP.

The General Office for Labour and Social Welfare (GALSW), under the MLSP, is the technical arm of the social welfare system. GALSW is responsible for the implementation and monitoring of all social welfare programmes and services through its local branches. There are 30 branches of General Agency for Labour and Social Welfares (LWSOs) in all 21 Aimags and the 9 districts of Ulaanbaatar, and services are offered in all 330 Soums of the country. Also, a separate office for Labour and Welfare Services operates under the Office for Governor of the Capital City.

The GALSW is responsible for the development and maintenance of the information technology (IT) system supporting the administration of social welfare programmes. It creates the households and beneficiaries' database via the Welfare Administration Information System (WAIS) and validates decisions taken at the local GALSWs. The Aimag and district GALSWs are responsible for verifying all applications, making decisions on

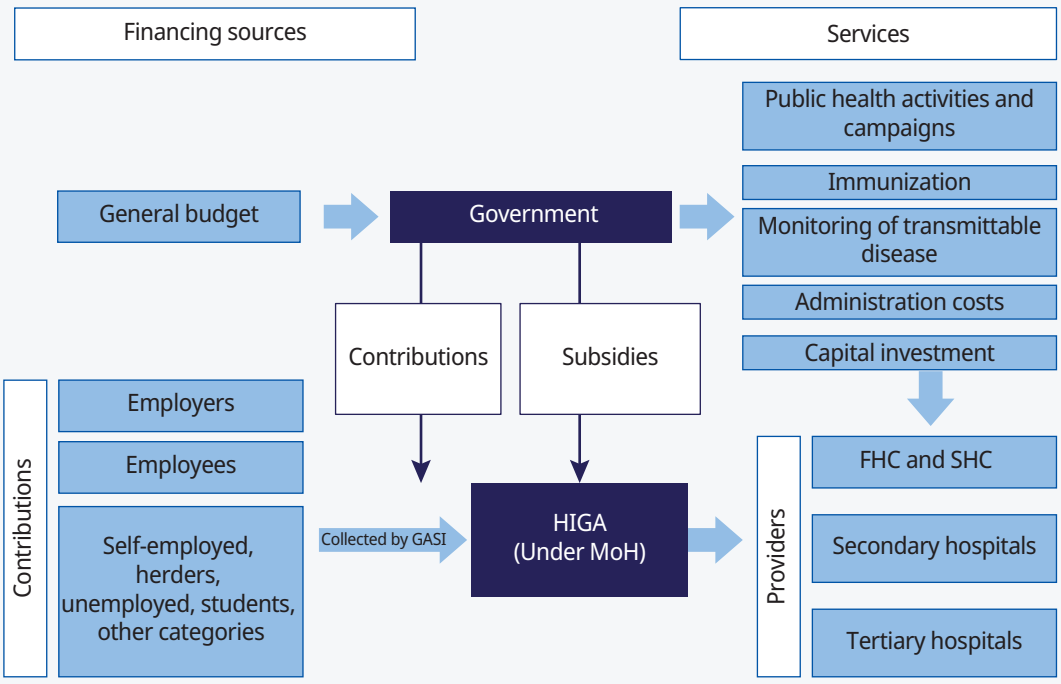
eligibility, and delivering social welfare programmes and services. The Aimag and district GALSWs receive applications for social welfare benefits and services from citizens through social workers who work at each Soum and Khoroo.

Social workers are the citizens' entry point to social welfare. The number of social workers in each Soum and Khoroo depends on the population size. Social workers' services are limited and largely consist of administrative work. For instance, social workers are tasked with collecting applications and facilitating the process for determining eligibility. They also provide information and counselling. The final decision regarding beneficiary eligibility for some benefits is taken by the Livelihood Support Council (LSC), which is composed of a social worker, two representatives of public organizations, two representatives of non-governmental organizations (NGOs), and two citizen representatives.

3.4 Health protection system

The health protection system is formed by two blocks. The first block is a tax-financed primary health care services system, and the second is a contributory system providing secondary and tertiary level healthcare through the HIF. Furthermore, the HIF is a mixed system, financed from contributions and subsidies from the government for individuals, whose contributions are either partially or fully subsidised by the state budget. While the Ministry of Health is the central administrative body for health-related policies, the 2020 amendment of the Health Law and Health Insurance Law were amended to increase the independence of the social health insurance system, making the Health Insurance General Agency the sole purchaser of health services (see Figure 9).

▶ Figure 9. Health protection system financial flows



Note: This figure highlights the new financial flow under the Health Protection Sytem. HIGA is the Health Insurance General Agency. Employer and employees refer to the formal sector.
Source: Authors elaboration of the ILO, 2021. "Extending Social Health Protection: Accelerating Progress Towards Universal Health Coverage in Asia and the Pacific," Mongolia Figure 2. and information from stakeholders.

Jointly with contributions and subsidies from the government, HIGA became the recipient of all the resources previously directed towards the PHC centres. Despite this change, the state budget still covers five items of national relevance: public health activities and campaigns; immunisations; monitoring transmittable diseases; administration costs and capital investment. Moreover, GASI remains the first collector of contributions transferred to HIGA. The following sections describe the institutional and legal framework for the PHC and SHI provision.

3.5 Primary health care

The primary health care provisions, financed medical care and their costs are defined by the Law on Health of 2011 and the Law on Medical Care and Services of 2016 (ILO, 2021b). Before 1990, the Mongolian system relied on a Semashko model, which started declining in the 1990s and was replaced by the introduction of the compulsory SHI scheme which started declining in the 1990s and was replaced by the introduction of the compulsory SHI scheme.[7] In 2005, with the Health Sector Strategic Master Plan 2005-15, the Government committed to providing a wide, equitable and pro-poor service, driving in 2006 the abolishment of co-payments for PHC, and establishing the State budget as the sole responsible agent for the financing of the system (ILO, 2021b).

In 2018 the services were provided by 2,019 FHC in urban areas (135 in Ulaanbaatar) and 273 SHC in rural areas (Jigjidsuren, Oyun, & Habib, 2021). These centres act as the first referral mechanism for access to the secondary and tertiary healthcare provisions and are an essential step for individuals to access pharmaceutical drugs.

With the latest reform in 2020, HIGA acts as the purchaser of services from the primary health care providers, covering recurrent expenditure, while capital expenditure remains a responsibility of the State budget.

3.6 Health insurance

The Health Insurance Law, enacted in 2015, sets the scope for health insurance, conditions and medical services covered, revenue collection and allocation, and the health insurance organization. The law states that through health insurance, Mongolian citizens should be protected from potential health-related financial risks. Health insurance is compulsory for all Mongolian citizens, as well as foreign citizens and stateless persons who are employed under employment contracts and civil contracts for work. The remaining group of people who are, for example, family members and dependents of foreign citizens and stateless persons can be insured on a voluntary basis (ILO 2021b). In addition to the compulsory insurance package, individuals can access private voluntary insurance for provisions not covered under the base package. The Health Insurance Act also regulates the organization and operations that fall under voluntary health insurance.

The National Health Insurance Council (NHIC) is the regulating agency which governs and oversees the organization of health insurance and contracted health services. The NHIC oversees the contracting conditions in terms of quality of services, payable fees and terms of co-payment for services between the HIGA and the insured. It has a tripartite constitution (State, employers' representatives, and representatives on behalf of the insured). The NHIC reports to the national parliament, which approves its statutes and appoints its chairperson and members.

The National Council approves the structure and statutes of the HIGA and regulates its financial operations, including its reserve requirements and investment plan (the share of reserves invested in bank deposits vis-à-vis purchase of government bonds). Further tasks include the approval of the HIGA budget – including the number of resources allocated for administrative costs, setting price

7 A centralised health system providing essential health care to the population.

ceilings, and stipulating discounts and caps on the reimbursement of medical services by the HIGA to the insured. Lastly, the National Council is responsible for the periodic actuarial valuation of the financial operations of the HIGA with a view to safeguarding its longer-term financial position. The HIGA is the national government implementing agency in charge of the implementation of health insurance, contracting and monitoring of medical service providers, pools financial resources and manages revenues and expenditures to ensure the financial balance of the fund, and created and maintains an integrated information system.[8] The HIGA reports on its activities to the National Health Insurance Council.

The GASI is tasked with collecting health insurance contributions, which are then redistributed to HIGA to purchase the health services. Contributions are levied from salaried employees, their employers (including the government), self-employed and other categories for which the State is responsible for their contributions. Other sources of revenue are transferred from the State budget, interest earned from investing the fund's surplus and risk reserves and penalties imposed on the insured.

8 Expenditures include medical services under the health insurance's base package and administration costs – the latter are restricted to a ceiling of five per cent of annual revenue. The fund may accumulate a risk reserve up to ten per cent of its annual revenue.

4

Inventory of social protection policies and programmes in Mongolia

Description: Selling rice at the market. 41.5 percent of workers in Mongolia are engaged in informal economy, and contribute to social insurance voluntarily.

▶ Inventory of social protection policies and programmes in Mongolia

4.1 Guarantee 1 – Health

Universal Social Health Insurance

The Constitution of Mongolia entitles each resident to health protection and medical care, and after 1990 several legal instruments updated the regulatory environment concerning public health. Currently, universal Social Health Insurance (SHI) is regulated by the Law on Health Insurance, enacted in 2015. The health insurance system targets all Mongolian citizens and foreign residents or stateless persons and provides, at secondary and tertiary levels, out-patient and in-patient care services, day care services, in-patient services of traditional medicine clinics, rehabilitation care provided by sanatoria, and drug discounts. In 2021, the average number of insured was 3,181,505, corresponding to 94 per cent of the population.

At the primary level (SHC, inter-Soum hospital, FHC), the SHI subsidises 100 per cent of the costs of all citizens. At the secondary (Aimag and district general hospitals, maternity hospitals) and tertiary levels (regional diagnostic and treatment centres, central and specialised hospitals), the regime is based on co-payments, with the insured contributing between 15 per cent to 25 per cent for in-patient medical services and up to 30 per cent in case of high-cost medical tests.

The scheme is mandatory for all Mongolian citizens, and foreign residents and stateless persons who are employed under employment contracts and civil contracts for work, while the rest of the latter two groups can be insured on a voluntary basis. The law defines minimum contribution rates for specific categories of citizens and residents, as well as the reference incomes and the entities (individuals, State budget, or administrative units) responsible for the payments (see Table 3).

Via the Law's provision, it is possible to identify three main categories of beneficiaries, distinguishing them by the entities responsible for the payment of health contributions. The first category includes employees working under employment contracts, civil contracts for work and civil servants. For these workers, the health contribution rate equals to four per cent of payroll salaries and is equally shared between employers and employees. The second category includes the self-employed, herders, university, college, and vocational training centres' students, foreign citizens and stateless persons who are not mandatorily covered by SHI, and citizens other than elsewhere specified. These individuals are solely responsible for paying their health contributions which is at least one per cent of the minimum wage (see Table 3).

The last category includes children aged 0-18 years old; citizens without regular monetary income other than a pension; family member-citizens in need of social welfare support and assistance; parents caring for a child who is younger than two years (or three years of age in the case of twins); conscripts; and convicts serving a sentence. The contributions for these individuals are the responsibility of the State budget, and the rate ranges from one per cent to two per cent of the minimum wage.

▶**Table 3. Categories and groups of contributors to Social Health Insurance**

Cat.	Group	Contribution rate	Base	Payment schedule	Contributor(s)
(I)	Employees.	4%	Salary.	Monthly.	Insured and employers in equal proportion.
(II)	Self-employed.	1%	Earnings (based on their tax statement).	Semi-annually or annually.	Insured.
	Herders.	"	"	"	"
	University, colleges, and vocational training centres students.	"	"	"	"
	Citizens not specified elsewhere.	"	"	"	"
	Foreign citizens or stateless persons who are not subject to mandatory SI.	2%	"	"	"
(III)	Children aged 0-18 years.	1%	"	Monthly.	State budget.
	Citizens without a regular monetary income other than a pension.	2%	"	Monthly.	State budget.
	Family member-citizens in need of social welfare support and assistance.	"	"	"	"
	Parents caring for a child who is younger than 2 years (or 3 years of age in the case of twins).	"	"	"	"
	Conscripts.	"	"	"	"
	Convicts serving a sentence.	"	"	"	"

Source: Authors' elaboration of the Law on Health Insurance (GoM, 2015).

4.2 Guarantee 2 – Children

Mongolia has a significant number of both social welfare and social insurance schemes indirectly addressing the needs of children, embedding them in overarching schemes such as contributory survivors' benefits and allowances for adopting parents or caretakers of children with disabilities. Moreover, the country implements social welfare services such as community-based services and institutional care services for children with chronic conditions.

Nonetheless, each of these schemes and programmes has a limited incidence among the population and on the State budget. The provision of such targeted programmes aims at increasing efficiency in the system, although the extreme low number of beneficiaries for several programmes may point at significant exclusions. Moreover, the SIF does not include a provision for families and children which leaves the matter to State-financed budget. Indeed, the main child programme in terms of size and budget is the Child Money Programme.

▶Table 4. Main schemes and programmes under Guarantee 2: Children

Programme	Target group	Benefit amount and frequency
Child Money Programme.	Every child below 18	MNT100 000 per month.
Survivor pensions.	The benefit is funded via social insurance contributions to children qualified as survivors. If children do not qualify to receive survivor's pension from the SI fund, they will receive social welfare pension of MNT288,000.	Minimum amount of full pension is MNT500 000 per month. Minimum amount for partial pension is MNT400 000 per month.
Single parent headed family pension (SWP).	Single parents (above 45 years of age for mothers or 50 years for fathers) headed families with at least four children until the age of 18.	MNT188 000 per month. Since COVID-19 intervention MNT288 000 per month.
Twin baby care allowance.	Parents with twins under the age of 4. Parents with triplets or other higher order multiples under the age of 4.	MNT1 000 000 per child, one-off. MNT3 000 000 per child, one-off.
Allowance for single parents with multiple children.	Single parents with 3 or more children under 18.	MNT420 000 quarterly.
Livelihood support allowance.	Children in need of permanent care	MNT288,000 per month.
Caregivers' allowance.	A person adopted a double orphan. A person taking care of a child at risk under a legal guardianship. A person foster caring a child victim of physiological and physical violence who requires protection, until 16 years old.	MNT84 500 per month.
Disabled child-care allowance.	A person caring for a disabled child under medical control, requiring permanent care.	MNT288 000 per month.

Source: Authors' elaboration.

Child Money Programme

The main social welfare programme under "Guarantee 2 – Children" is the Universal CMP which aims to improve the well-being of all children as well as reducing poverty and inequality. The CMP legal provision was regulated by the Law on Social Welfare (19 January, 2012. Art.13.1.5) but was eliminated from it and added to the Law on the Future Heritage Fund, as of December 2021. Nevertheless, for the year 2023 the CMP continues to be stated on the SWF budget. The CMP started as a poverty-targeted conditional cash transfer in 2005. Due to difficulties in the administration of proxy means targeting, the programme was facing critical issues of inclusion and exclusion errors, accompanied by public complaints concerning the proving eligibility. Thus, the programme was made universal to all children under 18 years of age in 2010 (conditional upon school enrolment). In 2012 the condition was removed, but in 2017 the former targeting criteria were reintroduced, plummeting coverage down to about 60 per cent of children under 18 years of age. As of 2018, the number of beneficiary children was 950,001 (80 per cent of total children under 18 years of age). It is estimated that in 2020 the number of beneficiaries had increased to 1,186,289 (about 100 per cent of children). Due to the frequent changes in the programme design, the objective of the programme remains ambiguous and oscillates between universal and targeted provision, and is also tied to the influence of foreign donors and international agencies, and thus fails to be a reliable and predictable cash transfer for families, especially the neediest.

In 2018, the benefit amount was 20,000 tugrik per month per child. To support the livelihoods of beneficiaries during the COVID-19 pandemic, the benefit amount was temporarily increased to 100,000 tugrik per month from April 2020 (Government resolution 167/2020) until 1 January, 2022 (Government resolution 236/2021). In its reduced amount, the benefit was financed through the State budget, while the extended shock-responsive increase in the monthly child grant benefits was financed by an Asian Development

Bank (ADB) loan (at least through to June 2021).[9] Beginning in 2022, the funding source of the CMP has been from the Future Heritage Fund.[10]

There are no legal provisions concerning an automatic and periodic benefit amount adjustment, and the benefit amount had seen at least two ad-hoc adjustments (in 2007 and in 2011) before the 2020 pandemic. The current benefit amount of 100,000 tugrik per month corresponds to 57 per cent of the national poverty line, while if the amount were to return to its pre-crisis level (20,000 tugrik per month), it would correspond to 11.5 per cent of the same poverty line.[11] The CMP benefits are paid to the families through bank transfers.

4.3 Pension

Survivor pensions

A contributory survivor pension, regulated by the Law on Pensions and Benefits provided by the Social Insurance Fund (June 1994. Art. 12.1.1, Art. 12.1.2, Art. 12.1.3 and Art, 12.2.) corresponding to the monthly minimum social insurance pension (at least 400,000 tugrik per month) can be paid to children qualified as survivors. The benefit is funded via social insurance contributions and can be awarded to the following four categories of children. In 2020, 20,600 children pertained to categories I-IV.

- **Category I:** Born and adopted children (applicable to a child born after the father's death) under 19 years of age regardless of whether there is another person as legal guardian/carer.
- **Category II:** Grandchildren and younger siblings of the deceased insured under 19 years old who have no other person legally responsible for maintenance.
- **Category III:** Other dependent children, grandchildren and siblings who have congenital disabilities or incapacitated prior attaining 16 years of age.
- **Category IV:** Children who do not receive any alimony from their parents by judicial decision.

As regulated by the Law on Social Welfare (Jan 19, 2012. Art.12.1.4), a child under 18 years of age whose breadwinner has died and is not entitled to receive a contributory survivor benefit in accordance with the legislation on social insurance is entitled to a pension. The benefit corresponds to 288,000 tugrik per month, increased by Government resolution 25/2020) until 18 years of age. The number of beneficiary children in 2020 was 15,800, and the programme was administered by the General Office for Labour and Social Welfare Services (GALSWS) and the MLSP.

Single parent headed family pension

Single parents (above 45 years of age for mothers or 50 years for fathers) headed families with at least four children until the age of 18, are entitled to a pension of 188,000 tugrik per month, which was increased to 288,000 tugrik during the COVID-19 policy response. Regulated under Article 12.1.5 of the of the Law on Social Welfare (19 January, 2012), and Government resolution 25/2020.

4.4 Allowances

Article 13 of the Law on Social Welfare of 2012 regulates the provision of a set of family-oriented tax-financed allowances administered by the GALSWS and the MLSP.

Twin baby care allowance

Citizens with or households raising up and taking care of twins, triples, or quadruplets are entitled to 1,000,000 tugrik for twins, and 3,000,000 tugrik for triplets or quadruplets, for each child, for one time.

9 ADB, 2022. ADB Project to Expand Cash Grants for Children in Mongolia.

10 Mongolia's Sovereign Wealth Fund is financed by mineral revenues. The objective of the fund is to generate financial returns to ensure intergenerational equity by substituting the non-renewable natural resources with interest-earnings.

11 Updated to 2020 prices with inflation.

This provision was deleted from the Law on Social Welfare (Amendments to the Law on Social Welfare of 2017 and was added to the Law on Providing Benefits to Parents or Single Parents with multiple children (June 30, 2017. Art. 6.3.). In 2020, 915 children had received this benefit.

Livelihood support allowance

Single parents with three or more children under 18 years old are entitled to 420,000 tugrik quarterly. This provision was deleted from the Law on Social Welfare (Amendments to the Law on Social Welfare of 2017) and transferred to the Law on Providing Benefits to or Single parent with multiple children (June 30, 2017. Art. 6.4.). In 2020 7,500 persons benefitted from this allowance.

Child adoption allowance

Citizens having adopted or taken legal guardianship of an orphan child are entitled to 84,500 tugrik per month until 16 years old, or 18 years old if the child still studies in high school (Government resolution 25/2020). Training on caretaking and nursing skills are offered to legal guardians of the beneficiaries and as of 2020, there were 2,030 beneficiaries.

Caregivers' allowance

Benefits a child victim of psychological and physical violence who requires protection according to Article 74 of the Family Law, equal to 84,500 tugrik per month until 18 years old. Including training on caretaking and nursing skills. In 2020, 11,500 children were covered.

Disabled child-care allowance

Disabled children under the age of 16 who require permanent care receive benefits equal to MTN188,000 per month. (During the COVID-19 pandemic the Government increased the amount of the benefit to 288,000 tugrik per month until January 2023, via Government resolution No.167/2020, 60/2022). A benefit corresponding to 123,100 tugrik per month (increased via Government resolution 25/2020 in 2020) also. During the COVID-19 outbreak, the Government equalled this amount to 288,000 tugrik via resolution No.167/2020, 60/2022) to be paid to a person caring for a disabled child under medical control, requiring permanent care. The programme includes training on caretaking and nursing skills. In 2020, 11,400 child carers were covered. Moreover, children with disabilities can have prosthetic correction and rehabilitation costs and other equipment reimbursed.

4.5 Other programmes

More tax-financed programmes for children but not delivering cash-transfers include kindergarten with free meals, free education, primary and secondary, the Equivalency Education Programme, school dormitories, the School Lunch Programme, and social development services. Of these programmes, the educational ones include the largest number of beneficiaries and expenditures. For example, in 2020-21, 247,000 children were involved in preschool education, 86 per cent of whom were in public free of charge kindergartens thus receiving kindergarten free meals (amounting to 2,500 tugrik per day). Furthermore, during the 2021-22 school year, 658,600 students were in public school free of charge. Out of this total, 371,500 students benefitted from the School Lunch Programme (individual cost amounting to 1,500 tugrik per day). The remaining programmes (Equivalency Education Programme, school dormitories, social development services) provide key essential services to the most disadvantaged children.

4.6 Social insurance system for working age adults and pensioners

In 1994, the Parliament of Mongolia passed a new bill regulating social insurance relations that came into force on 1 January, 1995. At this time the newly enacted Social Insurance Law regulated five different schemes providing several benefits. As stated in the law, the schemes were financed through mandatory or voluntary contributions by the insured, the employers (entities), and the State, depending on the insured's employment status. In 1999 a Notional Defined Contribution

(NDC) scheme was established for workers born after 1959, with the intention of gradually moving from a partially to a fully funded system. Moreover, recently the Government promoted the accumulation of reserves by setting aside two per cent of the collected contributions as a further step toward a fully funded individual account system. Nevertheless, an amendment provided an alternative for participants born between 1960 and 1979 to opt for a pension benefit under either the DB or the NDC, choosing the most convenient option.

The social insurance laws regulate the four different schemes that provide pensions, short-term benefits, industrial accident insurance, and unemployment benefits. Citizens are included in the other four schemes on a mandatory or voluntary basis. These two sub-groups of contributors, based on the nature of their working relationships, are qualified as mandatory contributors[12] or voluntary contributors.[13] The following sections describing the contributory provisions present the group-specific provisions separately.

▶Table 5. Social insurance schemes

Scheme	Financing
Old age, Disability, and Survivors Pensions (Both DB and NDC schemes).	Mandatory: Employer 8.5 % and employee 8.5% of the payroll salary. Voluntary: 11.5% of reference income.
Employment Injury and Occupational Disease Insurance.	Mandatory: Employer 0.8%, 1.8% and 2.8% (depending on working condition) of the payroll salary. Voluntary: 1% of self-declared reference earnings.
Short-term Benefit Insurance (Maternity, Sickness and Funeral).	Mandatory: Employer 1% and employee 0.8% of the payroll salary. Voluntary: 1% of self-declared reference earnings.
Unemployment Insurance.	Employers 0.2% and employee 0.2% of the payroll salary.

Source: Authors' elaboration.

4.7 Pensions

Old-age pensions

As regulated by the Law on Pensions and Benefits provided by the Social Insurance Fund of 1994, the contributors shall pay a contribution of 17 per cent[14] (employers 8.5 per cent and employees 8.5 per cent) on their pay-roll salary, between the minimum wage and ten times the minimum wage to get entitled to old-age pensions (see Table 5). The replacement rate is 45 per cent of the monthly average wage of the highest seven years of continuous salary and increased by 1.5 per cent of the reference income for each additional year to the 20 years of contribution. To qualify for a full old-age pension, workers shall have paid not less than 20 years of contribution. The partial old-age pension is obtainable upon the payment of at least 10 to 19 years of contribution, and is calculated based on a proportional basis of the pension for the first 20 years. As of 2020, the number of active contributors was about 1.01 million (of which 0.19 million voluntarily contributed), and the number of pensioners was about 331,600.

From 2018 on, for contributors not meeting the vesting requirements, the retirement age was gradually increased at a rate of three months per year. For male contributors, it will reach 65

12 Workers who are employed in Mongolian business entities, NGOs and other organizations; workers employed in foreign business entities, NGOs, PMUs and international organizations on Mongolian territory; civil servants and public workers; and labour contracted Mongolian working abroad. In 2020 there were 827,600 contributors.

13 Workers (mainly self-employed, including herders) other than the ones specified above. In 2020 the number of these contributors was about 171,600.

14 The contribution rate is 11.5 per cent for voluntary contributor.

in 2038, and for females in 2058. As of 2022, the life expectancies at the normal retirement age are 15.7 years for males (at 60 years of age) and 25.4 for females (at 55 years of age) The insured can voluntarily retire at 55 years (women) and 60 (men) without penalty if they meet the vesting requirements. Women who have brought up four or more children and have contributed for at least 20 years to the SIF can retire at 50 years of age.

There are specific retirement ages for people who have worked in specific labour conditions, such as underground and/or hazardous and arduous conditions may retire if to meet the following conditions:

- 50 years for men with 20 years of vesting service, of which ten years of underground work.
- 50 years for men (45 for women) with 20 years of vesting service, of which ten years (seven year six months for women) of hazardous or in high heat labour conditions.
- 55 years for men (50 for women) with 20 years of vesting service of which 12 years and six months (ten for women) in arduous conditions.

All insured born after 1 January, 1979, will retire under the Notional Defined Contribution (NDC) Scheme enacted in 1999 by the Law on Individual Pension Insurance Contribution Account. Cohorts born between 1960 and 1979 can choose whether to retire under the previous DB scheme or under the NDC scheme. To qualify for a pension, the insured shall have 15 years of contributions, and can retire at the same retirement ages specified above. The pension amount is based on the accumulated notional account balance, accrued by a factor calculated based on the average growth of the last three years' average wages and an average life expectancy factor. The minimum calculated pension is set at 20 per cent of the average national salary, plus an additional 0.5 per cent of the average wage for each additional service year beyond the minimum of 15 years. Since the scheme is quite recent, the first pensioners started retiring under this scheme in 2015, while the total number of contributors in 2020 was 974,900.

▶Table 6. Comparison of old-age pension provisions between the DB and NDC schemes

	DB	NDC
Membership.	Pre-1979 cohorts.	Post-1979 cohorts.
Contributions.	Mandatory: Employer 8.5 per cent and employee 8.5 per cent of the payroll salary. Voluntary: 11.5 per cent of self-declared reference earnings.	Mandatory: Employer 8.5 per cent and employee 8.5 per cent of the payroll salary. Voluntary: 11.5 per cent of self-declared reference earnings.
Normal retirement age.	Increasing to 65.	Increasing to 65.
Benefit.	First 20 years: 45 per cent X pensionable salary. After 20 years: 1.5 per cent * pensionable salary * number of years of contribution in excess of 20.	Based on the accumulated notional account balance, accrued by a factor calculated based on the average growth of the last three years' average wages and an average life expectancy factor.
Indexation.	According to the law, it should be increased in relation to changes in the cost of living. In practice, it is determined on an ad-hoc basis by the Government.	According to the Law, it should be increased in relation to changes in the cost of living. The modalities need to be developed.

Source: Authors' elaboration.

Disability pension

Under the DB scheme, contributors for not less than 20 years of service, or at least three years out of the five prior to becoming disabled, having lost 50 per cent or more of their work capacity are entitled to a disability pension or their dependents to a survivor pension. The pension shall not be less than 500,000 tugrik per month (Government resolution 63/2022) and is determined through an assessment done by the Medical Labour Accreditation Commission.

Under the NDC scheme, the qualifying periods for

a disability pension are same as those under the DB scheme. Members belonging to the NDC cohort can receive a pension amounting to 60 per cent of the monthly average wages in the last three years in the case of total disability. In the case of partial disability, the pension amounts to 60 per cent of the monthly average wages in the last three years times the per cent loss in of capacity.

Survivor pension

Under both the DB and NDC schemes, dependents of insured who had contributed for not less than 20 years of service, or at least three years out of the five prior to his/her death can qualify for a full survivor's pension. For the members of the DB scheme, the survivor pension's benefit is calculated in the same way as the retirement benefit for the highest amount. Out of this amount, the pension is calculated in function of the number of dependents: 100 per cent for three dependents and more, 75 per cent for two dependents, and 50 per cent for one dependent.

The families of the deceased insured belonging to the NDC cohort and having met the above-mentioned qualifying period is entitled to a survivor's pension for one dependent corresponding to 40 per cent of the worker's three last years' average wage. The benefit is increased by ten per cent for each dependent exceeding the first one. The survivors' pension should not exceed 60 per cent of the monthly average wage.

4.8 Employment injury and occupational disease insurance

The Law on Social Insurance (May 1994) and the Law on Pensions, Benefits and Payments provided by the Social Insurance against Employment Injury and Occupational Disease (June, 1994) regulate the provision of short-term benefits and pensions that are consequences of accidents in the workplace and occupational diseases.

Both mandatory and voluntary contributors are entitled to a disability pension (replacement rates equal to the percentage of capacity lost), survivors' pension (replacement rate equals to 50-100 per cent, related to the number of dependents), sickness benefits (100 per cent of wage for maximum 180 working days in a year), and compensation for rehabilitation. Entitlement is dependent upon the mandatory payment of contribution by the amount of 0.8 per cent, 1.8 per cent and 2.8 per cent (depending on working conditions) of workers' payroll salaries, to be paid by the employers while the voluntary payment of contributions equal to one per cent of the reference earnings self-declared by the insured. The contributions apply between the minimum wage and ten times the minimum wage.

4.9 Short-term benefits

The Law on Pensions and Benefits provided by the Social Insurance Fund (June 1994) regulates the provision of short-term benefits such as maternity, sickness, and funeral benefits.

Having paid at least 12 months of contributions, of which six months continuously prior to their maternity leave, both mandatory and voluntary contributors can obtain a maternity benefit equal to 100 per cent of the last 12 months' average wage for a period of four months. Moreover, the insured are entitled to receive sickness benefits (equal to 50-75 per cent of the average wage of the last three months of continuous employment, depending on years of service). One-time funeral grant of 1,000,000 tugrik, increased to 2,000,000 tugrik by the National Social Insurance Council's resolution No.4, dated 1 August, 2022, will be provided to survivors of the deceased if the deceased has contributed for not less than 36 months prior to death. Under the same resolution, survivors of organs donors can access a funeral grant of 3,500,000 tugrik.

4.10 Unemployment benefits

Mandatory contributors, upon payment of 0.4 per cent of the payroll salary (50/50 between employers and employees) for at least 24 months, of which nine continuously prior to unemployment, are entitled to an unemployment benefit. This benefit corresponds to a share of the average wage (ranging from 45 to 70 per cent of the reference wage) of the last three months of continuous employment, depending on years of service, and cannot be less than 75 per cent of the minimum wage. For workers who did not take unemployment benefits from the unemployment insurance fund for five years consistently, the contribution is decreased by ten per cent in the following year.

4.11 Guarantee 3a – Working age social welfare

Working-age social protection provisions are multiple and belong to both the contributory and non-contributory systems. The social welfare system aims at preventing monetary poverty through the provision of pensions to those who do not qualify under the contributory system (such as social welfare pensions), and to provide targeted benefits and allowances to vulnerable groups (such as caretakers and those identified as living in destitution), as well as specific categories that are socially identified as deserving (such as honoured mothers and citizens).

Tax-financed pensions

Articles 12.1.2 and 12.1.3 of the Law on Social Welfare of 2012 established that residents aged 16 and more, having lost their working capacity for 50 per cent and over, or affected by achondroplasia, and never having contributed to the social insurance scheme are entitled to a pension equal to 188,000 tugrik per month (1.07 times the poverty line, increased with Government resolution 25/2020), temporarily increased to 288,000 tugrik per month during the COVID-19 pandemic period (until January 2023, Government resolution 60/2022). In 2020, 40,678 individuals received this benefit. There is no legal provision concerning an automatic and periodic benefit amount adjustment. The Law on Social Welfare (19 January, 2012. Art.16) established that the number of pensions and benefits shall be determined by the Government based on the current minimum living standard of the population.

Through the State budget, but delivered through the social insurance facilities, military personnel and their dependants are entitled to disability and survivors' pensions corresponding to not less than 75 per cent of the minimum wage. This scheme also included short-term benefits such as sickness, maternity, and funeral benefits. These provisions are regulated by the Law on Pensions and Benefits of Guarantee: Military Service Personnel (June 1994).

4.12 Allowances

Emergency assistance

Households who became homeless or whose house became unsuitable for living or lost livelihoods due to sudden accidents, disasters, or other unforeseen reasons can qualify for a one-off payment of 1,200,000 tugrik (corresponding to 2.86 monthly net minimum wages). In 2020, 812 individuals benefitted from this, regulated under Article 13.5.1 of the Law on Social Welfare (19 January, 2012).

Livelihood support

Citizens aged 18-24 who became orphans before reaching the age of 18 (Article 13.5.2), homeless citizens released from prison (Article 13.5.3), and homeless single parents with four and more children (Article 13.5.4) can qualify for a one-off payment of 1,200,000 tugrik.

Caregiver's allowance

Individuals caring for the elderly, children, or citizens with disabilities under medical supervision and in need of regular care are entitled to a benefit corresponding to 84,500 tugrik per month (Article 13.2.4 and 13.2.3 of the Law on Social Welfare, Government resolution 25/2020). In 2020, there were 20,735 beneficiaries.

Pregnancy allowance

Pregnant women starting from the 5th month of pregnancy are entitled to five monthly instalments of 40,000 tugrik (23 per cent of the poverty line). In 2020, 84,700 women received this benefit, regulated by Article 5.1.1 of the Law on Providing Benefits to Parents or Single parents with multiple children (30 June, 2017).

Honoured mothers

The Law on Rewarding Mothers Who Raised Many Children of 2011 established the annual provision of 100,000 tugrik to mothers who have four or more children, and an additional 100,000 tugrik to mothers having given birth to six or more children.

Poor household benefit

Although never implemented, Article 13.3 of the Law on Social Welfare established a cash transfer targeted at household member-citizens in need of social welfare support and assistance selected from households living below the poverty line.[15] The benefit value is not expressed, and as a result of key informants' interviews, the Ministry of Labour and Social Protection is planning to abolish it.

Food Stamp Programme (FSP)

The same Law on Social Welfare (Art. 22) established that citizens in need of social welfare support and assistance qualify for food stamps to purchase food products. Monthly value of food stamps equalled 16,000 tugrik for adults and 8,000 tugrik for children (ten per cent and five per cent of the poverty line) in 2019, while it raised to respectively 32,000 tugrik and 16,000 tugrik per month during 2020 in response to COVID-19 pandemic. In 2018, the number of beneficiaries was 253,468 (27 per cent of individuals living in monetary poor households). As of 2020, the number of beneficiaries was 241,998.

▶ Box 2. Allowances for the disabled under the Law on

According to the Law on the Rights of Persons with Disabilities of 2016, disabled adults and children are entitled to receive almost 14 different cash or nearly cash assistances from the social welfare fund.

Allowance	Amount and frequency
Cash assistance for heating fuel purchases for disabled adults and children who require permanent care.	Once a year: MNT140,000.
Fee waivers for prostheses of the disabled children.	Once in 3 years.
Fee waivers for protheses of the ddisabled adults who are ineligible for a social insurance subsidy.	Once in 3 years.
Fee waivers for orthopedic and medical equipment for disabled adults and children.	Once in 3 years.
Allowances for children with disabilities for transportation cost to kindergarten and schools.	Once a year: MNT200,000.
Communication expenses for disabled adults with visual, hearing or speech impairments.	Monthly MNT20,000.
Fee waivers for costs of local spring/spa treatment and transport for disabled children.	Once a year.

15 i.e., a household member included in the unified household database in accordance with the methodology jointly approved by the National Statistical Office and the state central administrative body in charge of social welfare. The targeting is defined according to a proxy-means test (PMT).

50% discount for costs of local spring/spa treatment and one-way transportation cost for disabled adults.	Once a year.
75% discount for the transportation cost to local spring & sanatorium treatment for 100% blind individuals.	Once a year.
Cash assistance for transportation cost for the permanently disabled living in areas that are 1,000 or more kilometers from Ulaanbaatar.	Once a year.
Discount for the meal at kindergarten children with disabilities.	Case-based.
50% discount for summer camps for the children with disabilities.	Once a year.
Cash assistance for the funeral cost for disabled adults and children if not qualify to receive such assistance according to Law on Social Insurance.	MNT2,000,000.
Allowances to medal winners at world rank and/or international sports competitions including the Paralympics.	Government Resolution.

4.13 Guarantee 3b – Working age / active labour market policies

The main legal instrument regulating active labour market policies in Mongolia is the Law on Employment Promotion of 2011. The Law defines a series of employment promotion programmes to be financed through the Employment Promotion Fund, stipulating that the Government should create employment opportunities, link investment policies with employment promotion measures, regulate labour demand and supply, train a workforce consistent with labour demand, improve data and statistics on employment, and expand the scope of unemployment insurance. The law contains several programmes, listed below.

Job orientation, career counselling and information (Employment common services)

Qualifying conditions: Persons having difficulties finding a job, unemployed persons.

Activities: Provision of information on labour demand, counselling and orientation to secondary schools, organization of job fairs. In 2020, the number of participants was 42,442.

Job placement services (Employment common services)

Qualifying conditions: Persons having difficulties finding a job, unemployed persons.

Activities: Maintenance and development of job portals, provision of job matching services through General Agency for Labour and Social Welfares (GALSWs) and private companies. In 2020, the number of participants was 33,006.

Preparation for the Employment and Employment Skills Programme

Qualifying conditions: Persons having difficulties finding a job (i.e., disabilities), persons who dropped out of school and children that reached working age, as well as citizens released from prison or foster care.

Activities: Job orientation, career counselling and job placement services; preparations for job placements; vocational and re-trainings. The programme is targeted at vulnerable groups. In 2020, the number of participants was 2,587, still a considerably low share of the 38,700 underemployed youth, and the 29,900 unemployed youth.

Employment Promotion Programme for herders

Qualifying conditions: Herder households without livestock or households with less than 200 small livestock.

Activities: Training for herding, counselling for livestock management, financial support up to 5 million tugrik to buy livestock. The GALSWs manage the programme. As recommended by the Soum Livelihood Council, the Aimag employment division selects beneficiaries, then buys livestock from a Soum known for having good animals and grant these animals to the participants. In 2020, the number of participants was 1,600.

Workplace Support Programme

Target groups: Employers who provided a job to a person with difficulty finding a job, entrepreneurs, micro businesses, cooperatives, service providers, jobseekers, undergraduate students of universities and graduates from TVET schools, unemployed, persons or groups of people planning to grow vegetables by establishing micro businesses, partnerships or cooperatives.

Activities: Entrepreneurship training, sales support, rent support, financial incentives for employers, public works, part-time job mediation service, repayable financial support. In 2020, the number of participants was 18,577.

Employment Promotion Programme for people with disabilities

Target group: PWDs, employers hiring PWDs, and mothers or fathers taking care of children with disabilities in need of permanent care.

Activities: Employment preparation measurements; rental and sales support; entrepreneurship and employment training, financial support, financial incentives for employers who hired PWDs, supported job placement services. In 2020, the number of participants was 2,844.

Elderly Advisory Service Development Programme

Target group: Pensionable age senior professionals registered in the database and NGOs and associations working to protect interests of the elderly.

Activities: Consulting services by the senior professionals, financial support. In 2020, the number of participants was 884.

Youth Employment and Business Start-up Support Programme

Target group: Youth between the age of 15-34.

Activities: Start-up grants, entrepreneur trainings, sales support, workplaces rent subsidies. In 2020, the number of participants was 2,532.

Monthly stipends for students studying at TVET schools

Target group: National scholarship for all students studying at TVET schools.

Qualifying conditions: Be a regular course student, or people under 45 who enrolled in 4-6 months short-term vocational courses.

Before 2022 the monthly benefit was of 200,000 tugrik, with 40,011 participants in 2020. Government resolution No. 122, dated 16 March, 2022, established that students will be entitled only to a lump-sum at graduation, with a value of 200,000 tugrik for each month attended. Therefore, a student attending for 2.5 years (30 months) will be granted a lump-sum of 6,000,000 tugrik upon the completion of the studies.

Small loans

Small loans amount up to 10 million tugrik for individuals, and up to 20 million tugrik for entities. Qualifying conditions: small loans are issued through commercial banks and the borrowers must have sufficient collateral for 40 per cent of the loan amount. Interest rate: seven per cent annually. In 2021, the number of participants was 1,113.

4.14 Guarantee 4 – Old-age social welfare

Alongside the DB and NDC schemes that provide contributory pensions to pensioners, Mongolia has a small set of benefits that aim at guaranteeing social protection in old-age for those who do not qualify to receiving contributory pensions.

4.15 Tax-financed pensions

Old-age pension

According to the Law on Social Welfare (19 January, 2012, Art. 12.1.1), citizens having reached 60 years of age (55 years for women), and not entitled to receive a full or partial pension in accordance with the legislation on social insurance, are entitled to receive a monthly pension of 188,000 tugrik (1.07 times the poverty line). To mitigate the COVID-19 impacts, the pension amount was increased by 100,000 tugrik per month and reached 288,000 tugrik from April 2020 to December 2021. As of 2020, the number of Mongolians receiving this old-age social pension was 3,900 (i.e., one per cent of the total population aged 55 and above).

Military pensions

Through the State budget, but delivered through the social insurance facilities, military personnel at the end of service can retire with a benefit calculated as 80 per cent of the monthly average wage and increased by 1.5 per cent of the reference income for each year additional to 20 (for women) or 25 (for men) years of service. In 2020 the number of pensioners was 19,000.

4.16 Honour allowance and care allowance

The Law on Allowances and Concessions for Honorary (Merit) Senior Citizens of 2010 provided additional allowances to senior citizens who won the title/merit of "Hero of Mongolia," "Hero of Labour," or holders of other titles. The allowances correspond to 150,000-200,000 tugrik per month and in 2020 2,600 persons benefitted from these provisions. Also, senior citizens aged over 55 years (female) or 60 years (male) were entitled to care allowances, reimbursements and assistance services depending on their involvement in caretaking.

Alongside monetary transfers, the State provides to elder Mongolian citizens social services such as the provision of information, counselling, mobile services, day care services, voluntary services, temporary accommodation, and care; home based care and service food support, and services against domestic violence (Law on Senior Citizens, 2017 and Law on Social Welfare, 1994).

Moreover, single elderly persons identified as incapable of living independently, with no child supporting them, or with a child who became incapable of caretaking due to disability or old age, or elders who are not able to benefit from community-based welfare services, can make use of institutionalised care facilities (in 2020, 493 persons hosted in care facilities). All social services are funded via the State-budget (Law on Senior Citizens, 2017).

5

Social protection expenditure

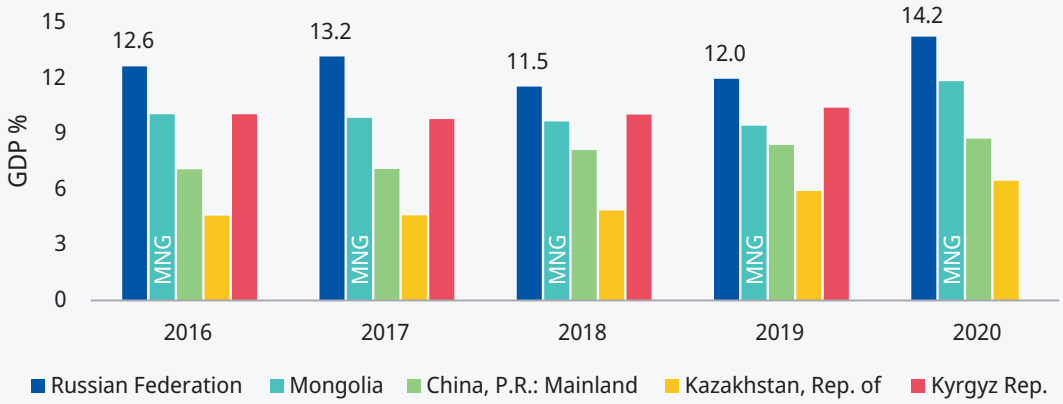
Description: A gas station attendant is on her duty.
© ILO

▶ Social protection expenditure

This section provides an overview of current social protection expenditure in Mongolia. It starts by briefly comparing Mongolia with regional peers, and continues to discuss social insurance and social assistance expenditure, from an overall perspective and with a view to its components.

In 2020, total social protection expenditure, excluding health, reached 11.8 per cent of GDP, mainly due to the policy responses to COVID-19. Before the pandemic (2016-19), social protection expenditure was about ten per cent of GDP, comparable to the Kyrgyz Republic, and higher than China and Kazakhstan, but consistently lower than the Russian Federation and the world average 12.9 per cent of GDP (see Figure 10) (ILO, 2021a).

▶ Figure 10. Regional comparison of social protection expenditure (% of GDP), 2016-20



Note: Mongolia data was retrieved from national sources, while all other countries' expenditures are from IMF GFS Data. Total excludes health expenditure. Data for Mongolia includes all expenditures plus subsidies disbursed from the State budget to the Military Pension Scheme and additional subsidies to the long-term Pension Scheme (see footnote 16). MNG stands for Mongolia.
Source: IMF GFS and National Sources, 2022.

In Mongolia, expenditures on social welfare as a share of GDP have gradually decreased in the past. Over a three years period, expenditure dropped by 0.3 per cent points, from 2.1 per cent of GDP in 2016 to 1.8 per cent in 2019. Only in 2020, through the emergency response to COVID-19 pandemic, social welfare expenditures increased to 4.2 per cent of GDP, up to 4.8 per cent in 2021. In real terms, while social welfare expenditure grew at a yearly compound rate of 1.3 per cent between 2016 and 2019, investments more than doubled between 2019 and 2020. In the same period, social insurance spending remained relatively stable, revolving around six per cent of GDP, with a higher increase in 2020.[16]

Expenditure on health insurance, revolving around one per cent of GDP between 2018 and 2020,

16 Total social insurance expenditure accounts for the listed expenditures plus governments' subsidies that exceed the disbursed expenditures (including paid benefits, administration costs, transfers to other institutions and other expenditures). Subsidies exceeding the scheme expenditure occur for the military pensions (entirely funded by the State budget) and the long-term benefits (only in the 2017-19 period). In 2020, while military pensions expenditure stood at about MNT153.8 billion, mobilised subsidies to the fund were over MNT396.1 billion (+0.6 per cent of GDP). In 2016 and 2020, government subsidies to the long-term pension scheme matched the expenditures unfunded by contributions, while during 2017-19, subsidies exceeded expenditures by 0.1 per cent up to 0.6 per cent of GDP.

sharply increased to 2.8 per cent in 2021 and further to 3.2 per cent in 2022. This increase was mainly due to the 2020 reform of the health protection system; that is, the modification on the purchaser-provider system, as discussed earlier in this report, and the corresponding shift in financing from the state budget to health insurance.[17] The increase reflects in the real growth rate, which rose from two per cent between 2018 and 2019, to 13 per cent in the following year.

One characteristic of contributory social protection expenditure in Mongolia is that it is concentrated in a rather late stage of the life cycle. Consistently with the social insurance provisions, most of the social insurance income replacement benefits (the most expensive component of the social protection system) accrue to the population above 55 years of age. The expenditure on these equalled almost 4.5 per cent of GDP in 2018, rendering this age category the highest recipient of social protection (see Figure 11a).

Figure 11. Social protection expenditures by age group and type, 2018

Figure 11a

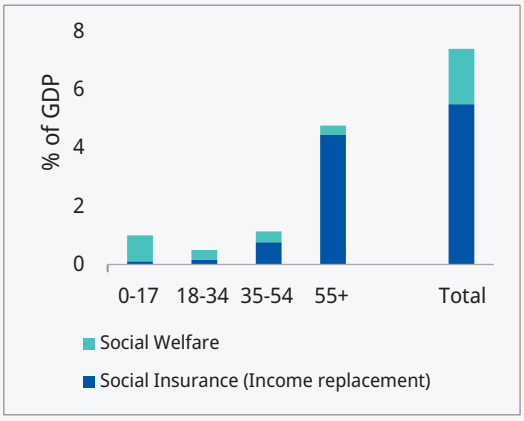
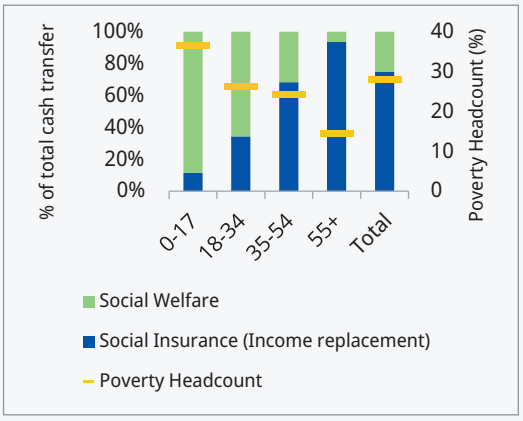


Figure 11b



Note: The analysis uses data from 2018 combining HSES and most recent data from the NSO (2022). Figure 11a shows the cost per age group and type of social protection as share of GDP. Figure 11b, 100 per cent stacked columns showing per age category the type of programme coverage (left axis), plus the poverty headcount by age group (right axis).
Source: NSO, 2022 and HSES, 2018.

Notably, expenditures in the older age group were mostly out of the social insurance system, while the younger stratum of the population benefited the most from the social welfare system.

The following subsections discuss expenditure on specific social assistance and social insurance schemes. The analysis is divided into three sections. The first focuses on the Social Insurance Fund (SIF), subdivided into five main components. The second discusses the Health Insurance Fund (HIF). The third section discusses the top five largest (in financial terms) social welfare programmes.

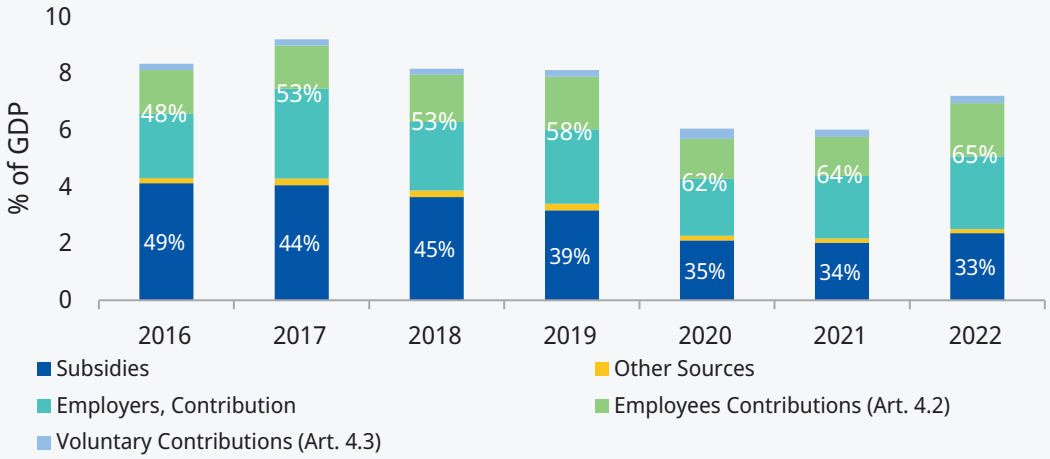
Social Insurance Fund

Figure 12 shows the revenues of the Social Security Fund. Total revenues have marginally decreased, from 8.4 per cent to 8.2 per cent of GDP, between 2016 and 2018. This sharp fall was driven by emergency interventions and contribution exemptions in response to the pandemic, lowering revenues to 6.1 per cent of GDP in 2021 and only partially recovering to 7.2 per cent of GDP in 2022. The share of government subsidies within total revenues also decreased from almost half in 2016 to one-third in 2021. Most of the subsidies were

17 2022 data are budget estimates.

directed to the Military Pension Scheme, which is entirely financed by the State. In 2020, total subsidies for the scheme reached 396.1 billion tugrik, almost half of the total subsidies that were allocated to the SI system in Mongolia. The remaining subsidies almost entirely accrued to the long-term pension scheme. Indeed, old age retirees (under the defined benefit scheme) are entitled to the minimum pension, which in 2013 was provided to more than 50 per cent of beneficiaries, and generates most of the deficit, financed by the subsidies (ILO, 2016).

▶ Figure 12. Total Social Insurance Fund revenues as a share of GDP, 2016-22



Note: Displayed percentages in the bars represent the specific revenue component share of the total. The total contribution corresponds to the sum of employers, compulsory and voluntary contributions (blue shaded bars). The percentages in white represent the share of revenues generated by the total contributions. 2022 are budget estimate data.
Source: National sources, 2022.

In 2019, total revenues exceeded overall expenditures, generating an overall surplus of 2.3 per cent of GDP.[18] Subsequently, due to the COVID-19 pandemic and a subsequent shortfall in revenues, the SIF fell into an overall deficit of 0.8 per cent of GDP. Although the number of active members increased between 2019 and 2020, overall revenues decreased by 26 per cent, with a 21 per cent reduction in contributions and a sharp decrease in subsidies of 34 per cent. Moreover, 2021 saw an increase of 12 per cent in revenues, partially recovering losses, and a further revenue recovery is expected for 2022.

Total expenditure of the SIF for the disbursement of benefits (programme costs) reached 1,794 billion tugrik in 2018 (5.5 per cent of GDP). In the same year, in total, there were 632,654 beneficiaries. The bulk of spending, 75 per cent of the expenditure on benefits, was directed to old age pensioners, who represented 49 per cent of the total social insurance beneficiaries. Most of the old age beneficiaries were from the civil scheme (292,968 individuals), whereas only 16,403 (5.3 per cent of all old age beneficiaries) received pensions from the military scheme. Nevertheless, the latter received 8.8 per cent of the total benefit disbursed to elderly in 2018.

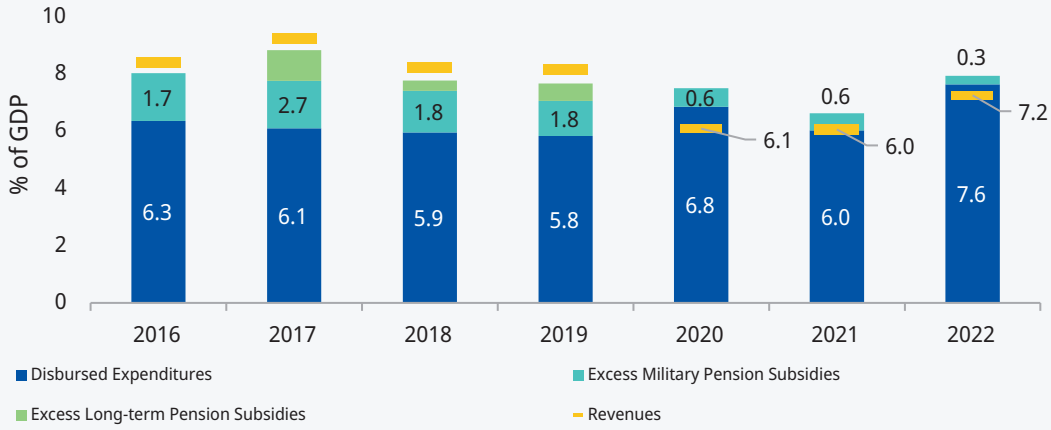
18 The excess of income over expenditure of the SIF contributes to the formation of the insurance accumulation fund. This will include 60 per cent of the yearly surplus. The assets might be invested in: Government bonds; Bank of Mongolia securities; securities issued by foreign governments or international financial institutions; investment funds; shares of publicly listed companies that are registered by the Financial Regulatory Committee; deposited as savings at commercial banks identified by the Bank of Mongolia as those with systemic importance (hereinafter referred to as commercial banks); or others specified by law. Assets which were not placed in the social insurance accumulation fund shall be spent on pensions, benefits, payments, premium discounts and exemptions (Draft General Law on Social Insurance, not approved yet).

Total expenditures, including administration costs, reached 1,937 billion tugrik (5.9 per cent of GDP).

The SIF's total resources spent, plus the additional subsidies, reached 8.8 per cent of GDP in 2017 and subsequently tapered off to 7.5 per cent in 2020.

However, when focusing on the SI distributed benefits (dark blue bar in Figure 13), expenditure reached its peak in 2020, during the COVID-19 pandemic, with a total cost of 6.8 per cent of GDP, and further increasing in 2022.

Figure 13 Total social insurance expenditures as a share of GDP, 2016-22



Note: Segments represent total revenues (including all three components of Figure 12). The bars are divided in disbursed expenditures (filled area), additional subsidies that exceed the expenditures under the Military Pension Scheme (unfilled area), and additional long- term pension disbursed subsidies (dotted area). The first data label from the bottom (in white) presents the disbursed benefits as a share of GDP, while the second label from the bottom (in black) presents the sum of the long-term and military pension additional subsidies (those that excess expenditures) as a share of GDP in 2022 are budget estimate data.
Source: National sources, 2022.

In 2020, total spending exceeded overall revenues, generating a financing gap of 0.8 per cent of GDP, which narrowed to 0.4 per cent of GDP by 2022. A fall in revenues drove the gap's increase. Indeed, between April to July 2021, contributors under the mandatory (for employees and employers) and voluntary schemes were offered partial exemptions, reducing the schemes' revenues from contributions. Although the SIF's financial balance recovered in 2021, with a 0.03 per cent of GDP surplus, it is expected to incur a deficit again in 2022.

Indeed, after many years of consistent surplus and accumulation of SIFs, with the outbreak of the pandemic, most of the programmes under the SIF started to incur negative balances, which were expected to be covered by the programme's social insurance funds existing resources and the State's budget.[19]

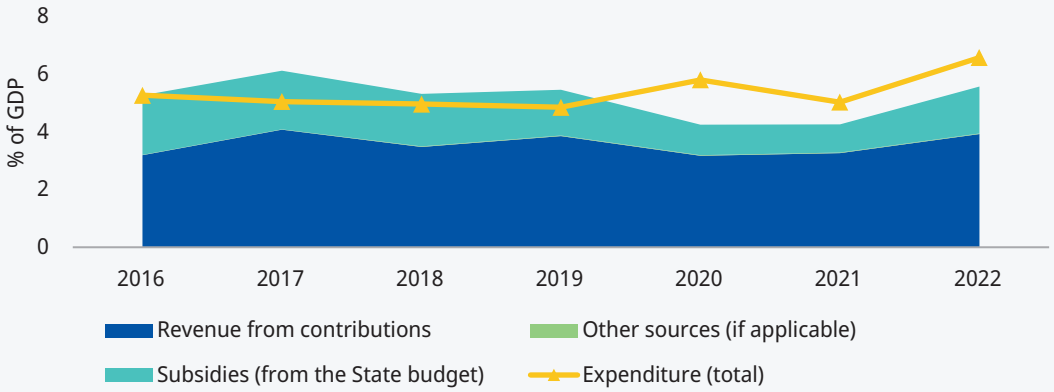
The following analysis focuses on five types of social insurance benefits that are provided within the SIF: The long-term benefits (including, old age, disability and survivors' benefits), the short-term benefits (including maternity, sickness and funeral grants provisions), the unemployment insurance benefit, the occupational disease and employment injury pensions, and the military pension schemes.

19 For instance, the draft "Law on Benefits to Be Paid from The Social Insurance Fund" (not approved yet) states that when a nationwide spread reduction in the performance of all enterprises occurs (50 per cent or more decline in sales income), the funds to support the provision of benefits and support to organizations shall come from the unemployment insurance fund and the State budget.

Long-term benefits

In 2018, total expenditures in the long-term benefits scheme were 1,619 billion tugrik, equivalent to five per cent of GDP, and at the same time, revenues were 1,734 billion tugrik, generating a surplus that recurred in 2019 (see Figure 14). The scheme saw revenues from contributions consistently increasing over the 2016-19 period. Despite this, the scheme strongly relies on public subsidies to be able to pay for all the benefits. Revenues from contributions could only cover 79 per cent of the costs of benefits. Hence, the scheme runs short of money and needs to be fuelled with subsidies. Moreover, as presented in Figure 14, the shortfall in revenues from the combined impact of reduced contribution revenues and subsidies generated a significant financing gap, jeopardising the available resources of the funds.

▶ Figure 14. Total revenues and expenditures for long-term benefits, 2016-22



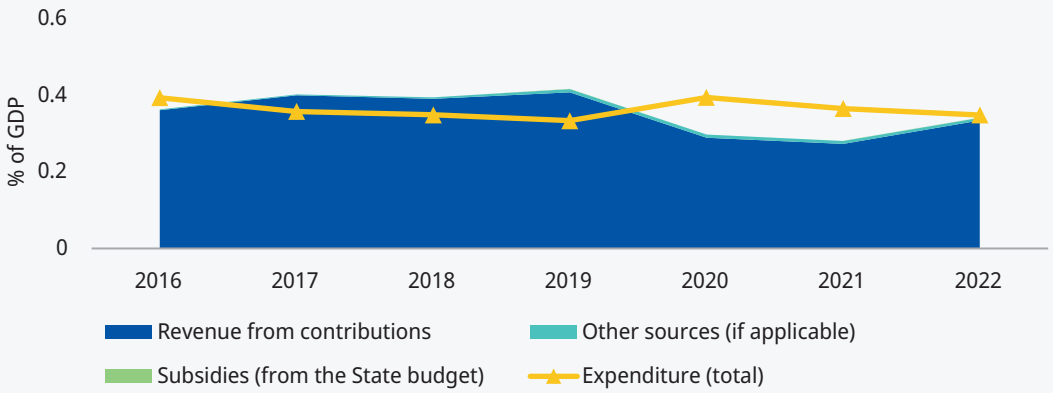
Note: The graph shows the past trend of total revenues and total expenditures for long-term benefits. (Total revenues are based on the sum of the revenues from contributions (filled area), subsidies (pattern area) and other sources (light filled area). 2022 are budget estimate data.
Source: National sources, 2022

At the outbreak of COVID-19, long-term pensions were characterised by a surplus that averaged 0.7 per cent of GDP in the 2017-19 period. In 2020, the scheme fell into deficit, recording 1.5 per cent of GDP (579.6 billion tugrik), and there was a slight recovery to a lesser deficit of 0.8 per cent of GDP in 2021. Similarly, short-term benefits revenues decreased in 2020 and, together with an increase in expenditure, yielded a deficit of 0.1 per cent of GDP in 2020, followed by a marginal recovery in 2021.

Short-term benefits

The short-term benefits include maternity, sickness and funeral grant benefits. In 2020, total expenditure for these benefits reached 147.7 billion tugrik (0.4 per cent of GDP). Revenues in the same year amounted to 157.5 billion tugrik, generating a surplus of 0.08 per cent of GDP (see Figure 15). Indeed, since 2017 contributions were able to cover the whole number of benefits paid out to beneficiaries, generating an average surplus of 0.06 per cent of GDP between 2017 and 2019. Like the long-term benefits, the short-term benefits experienced a contraction of revenues, coupled with an increase in expenditures, which caused a financing gap of 0.1 per cent of GDP in 2020.

Figure 15. Total revenues and expenditures for short-term benefits, 2016-22

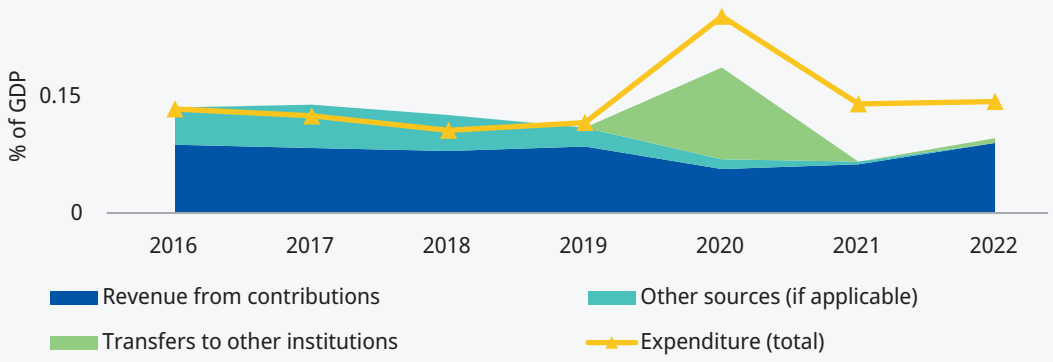


Note: The graph shows the past trend of total revenues and total expenditures for short-term benefits. (Total revenues are based on the sum of the revenues from contributions (filled area), subsidies (pattern area) and other revenues (light filled area), 2022 are budget estimate data.
Source: National sources, 2022.

Unemployment scheme

The unemployment cash benefits constitute the main cost component of this scheme, while expenditures for vocational training are significantly lower. In 2016 unemployment benefit expenditures were 31.6 billion tugrik, rising to 34.3 billion tugrik in 2018 and further to 43.5 billion tugrik in 2019. The unemployment benefit balance was positive between 2016 and 2018, and only in 2019 turned marginally negative, yielding a deficit of 0.01 per cent of GDP (see Figure 16).

Figure 16. Total revenues and expenditures for the unemployment insurance, 2016-22



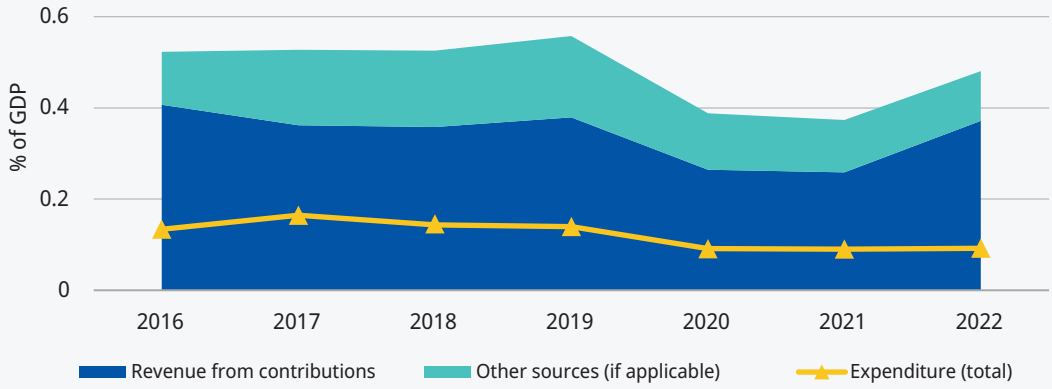
Note: The graph shows the past trend of total revenues (which are the sum of the revenues from contributions (blue area) and other sources (light blue)), and the total expenditures under the unemployment scheme. "Other sources" include "transfers from other institutions" between 2020 and 2022 and being a marginal amount. Additionally, the graph highlights the transfers from the unemployment insurance fund to other institutions that were significant only in 2020. 2022 are budget estimate data.
Source: National sources, 2022.

In 2020, the number of beneficiaries decreased by seven per cent from 2019. Over the same period, the scheme saw an increase of 15 per cent in the income replacement expenditures due to a support of 200,000 tugrik per month provided to insured workers employed in enterprises that suffered losses in revenues. Moreover, 44.2 billion tugrik (47 per cent of the total 2020 expenditures) were transferred to other institutions, widening the deficit for the year 2020 (a deficit of 0.2 per cent of GDP).

Employment Injury and Occupational Disease Benefits

The employment injury and occupational disease component includes both long- and short-term benefits. Income replacement expenditures increased from 29.9 billion tugrik in 2018 to 30.8 billion tugrik in 2019. By 2019, revenues rose to 211 billion tugrik, confirming the positive trend of surplus generation under the scheme (see Figure 17). Furthermore, 79 per cent of the benefits disbursed were delivered as disability pensions, nine per cent as survivors' pensions, two per cent as (short term) sickness benefits, and the remaining ten per cent covered medical expenditures and other costs.

▶ Figure 17. Total revenues and expenditures for Employment Injury Benefits, 2016-22



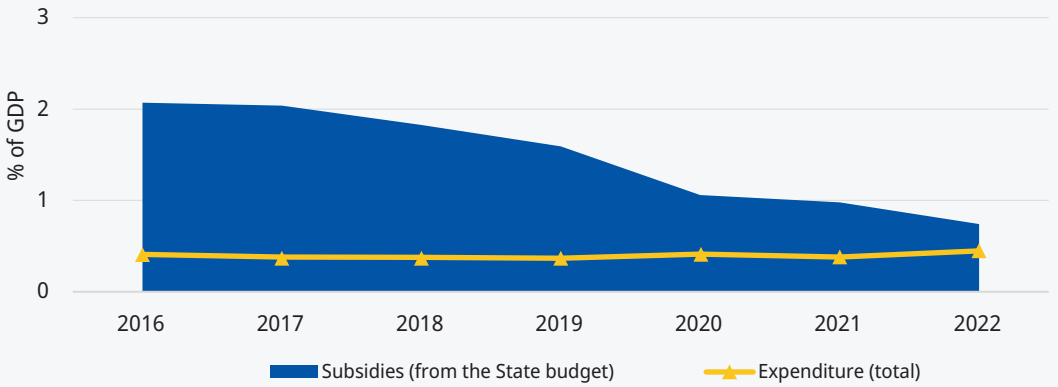
Note: The graph shows the past trend of total revenues, which are the sum of the revenues from contributions (filled area) and other sources (light area), and the total expenditures under the employment injury and occupational disease insurance fund. 2022 are budget estimate data.
Source: National sources, 2022.

The Employment Injury Scheme kept generating a surplus during and following 2020 (average of 0.3 per cent of GDP surplus between 2020 and 2022), despite a fall in revenues to 145.5 billion tugrik in 2020 (-31 per cent compared to 2019).

Military pensions

The Military Pension Scheme is fully financed by the State budget and provides long-term benefits to employees in military services. The scheme's expenditure rose by 16.5 billion tugrik between 2018 and 2019, reaching 139.4 billion tugrik. Over the same period, treasury subsidies increased by one per cent, in line with past trends but with a substantial reduction as a share of GDP (see Figure 18). Nevertheless, subsidies allocated to the Military Pension Scheme experienced a setback in 2020 during the pandemic outbreak. In 2019 there were 18,602 beneficiaries; 96 per cent of the disbursed benefit covered old age beneficiaries, while persons with disabilities received one per cent of the benefit (and were three per cent of beneficiaries) and survivors three per cent (five per cent of beneficiaries).

Figure 18. Total revenues and expenditures for Military Pensions Benefits, 2016-22



Note: The graph shows the past trend of total revenues, which are the sum of the revenues from subsidies (pattern area), and the total expenditures under the military pension scheme. 2022 are budget estimate data.
Source: National sources, 2022.

Between 2016 and 2019, although benefit-related expenditures averaged 0.4 per cent of GDP, the Government investment in the scheme was 1.9 per cent of GDP, making the Military Pension Scheme the most expensive for the State after long-term benefits. Nevertheless, the scheme saw a reduction in available financing over the years, with a 0.5 per cent of GDP reduction between 2016 to 2019. The state budget subsidies were reduced by 34 per cent from 2019 to 2020 (reaching 396.1 billion tugrik in 2020), disrupting the historical trend of high surplus margins. Moreover, while 2021 saw a rise in subsidies (five per cent from the previous year), 2022 will show a further 16 per cent decrease.

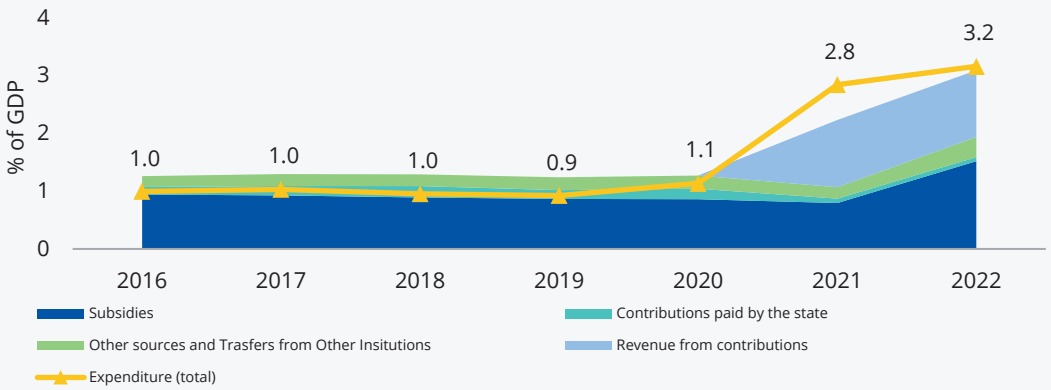
5.1 Health Insurance Fund

Revenues for the Health Insurance Fund (HIF) have increased significantly. Between 2016 and 2018, total revenues grew at an annual average of 18 per cent. Moreover, revenues sharply increased in 2021 due to a transfer from the central government for the contracting of health services which, previously, was transferred directly from the State budget to the primary health care providers. Expenditures were constant as a share of GDP in the years preceding 2019, and the programme ran a surplus of 0.33 per cent of GDP from 2018 to 2019 (see Figure 19).

Revenue from contributions from Cat. I (salaried workers)[20] constitute nearly 50 per cent of total revenues, whereas the contributions paid from the central government budget to cover the subsidised category, 11 per cent, represen a (far) lesser share of total revenue from contributions (see Table 7). Yet, within the fund, there was a significant - albeit implicit - flow of funding (cross-subsidisation) from salaried workers to other groups (such as self-employed and herders). Moreover, since the 2020 reforms, the central government has transferred resources for primary health care provisions to the HIF. These subsidies accounted for 37 per cent of total revenues in 2022, and while they helped cover the gap in the fund in 2021 and 2022, they might increase the future risk of cross-subsidisation.

20 There are five groups of members among the HIF. Category I salaried workers, Category II herders, unemployed and students, category III children 0-18 and other vulnerable categories (fully subsidized), category IV self-employed individuals. The last one, category V, includes foreign nationals and stateless person.

▶ Figure 19. Total revenues and expenditures for the Health Insurance Fund, 2016-22



Note: The graph shows the past trend of total revenues, which are the sum of the revenues from contributions (filled area), contributions paid by the state for partially subsidised groups (category III) (pattern area), subsidies (additional pattern area in 2021 and 2022) and other sources (light area). Expenditures available for 2016 and 2022 exclude administrative costs and transfers to other institutions. These were respectively 1.1 per cent and 0.06 per cent of the programme expenditures in 2018. 2022 are budget estimate.
Source: National sources, 2022.

▶Table 7. Revenues of the Health Insurance Fund, 2016-22

(MNT million)	2016	2018	2020	2022	Relative share in total 2020	Relative share in total 2022
Revenues (total).	303	422	477	1,451	100%	100%
Revenue from contributions.	271	358	407	876	85%	60%
From employers (public and private sector).		112	134	333	28%	23%
From employees.		137	141	348	30%	24%
From citizens whose contributions are paid by the State.	44	67	84	164	18%	11%
Subsidies/transfers (State budget).	-	-	540		0%	37%
Transfers from other institutions.	-	16	15	34	3%	2%
Other sources (if applicable).	32	48	55	-	12%	0%

Source: National source, 2022.

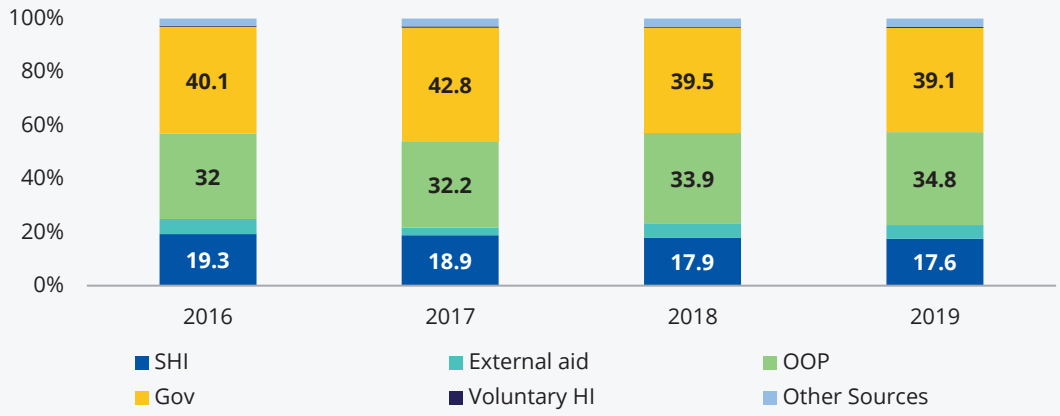
The new resources compensated for the increasing gap, turning the HIF balance to a positive 0.2 per cent of GDP in 2022.

Total recurrent expenditures financed from the fund have increased at an annual average of 13.2 per cent between 2016 and 2019. Moreover, most functional spending categories (programmes) have increased at a moderate rate of around six per cent annually. In the same period, central government expenditure on health services increased at an annual average of 10.6 per cent.

In 2018, the HIF accounted for 22.2 per cent of total recurrent health expenditure. Another 41.3 per cent was paid directly from the government budget. On the other hand, nearly one-third (32.4 per cent) of total recurrent expenditure on health services was financed directly by households (ILO, 2021b; WHO, 2022). Moreover, high out-of-pocket

(OOP) payments which have characterised the past few years, were still revolving around 32 per cent between 2016 and 2017, rising again by 2019 (see Figure 20). In 2018 and 2019, while the HIF accounted for 0.9 per cent of GDP, slightly rising to 1.1 per cent in 2020 with a real expenditure growth of two per cent, general government expenditures accounted for 2.2 per cent of GDP (NSO, 2022; World Bank, 2022).

Figure 20. Health expenditures composition, 2016-19



Note: Health expenditure by type of funding as a share of total health expenditure.
Source: WHO, 2022. Global Health Expenditure Database.

During the COVID-19 pandemic, active contributors drastically reduced, falling by 12.5 per cent at the outbreak of COVID-19 in 2019. In the following year, the number experienced only a partial recovery. In 2020, the share of salaried workers contributing to the SIF and the HIF scheme (Cat.1) reduced to 66.9 per cent (minus 9.5 pp compared to 2018). Moreover, active members insured under categories II and IV fell by 6.9 per cent and 16.5 per cent between 2018 and 2020, with reductions even accelerating after 2020. Nevertheless, total revenues consistently rose in the past years, and in 2021 they reached 951.3 billion tugrik (2.2 per cent of GDP) due to the first transfer from the central government to the HIGA for the contracting of health services which, previously, was transferred directly from the State budget to the health providers. The subsidies yielded additional revenues of 496.6 billion tugrik, reducing the programme's deficit to 0.3 per cent of GDP. Jointly with the fall in revenues from contributions, expenditure inevitably rose from around one per cent of GDP in 2019 to 3.2 per cent in 2022.

5.2 Social welfare

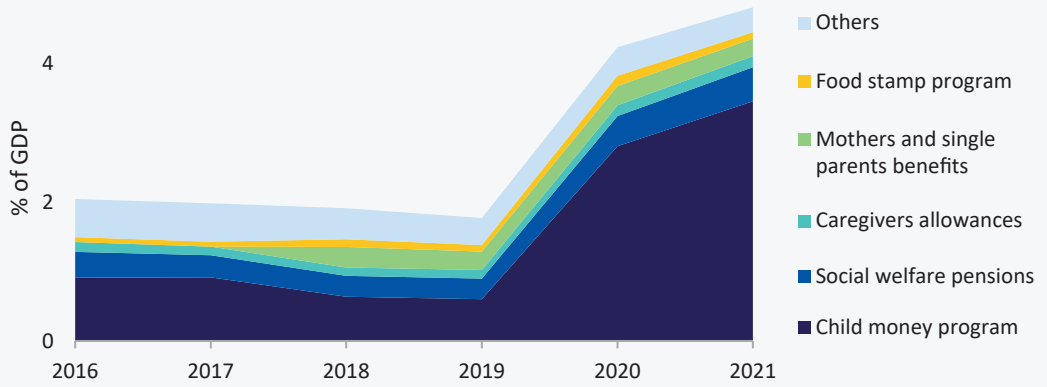
The five financially most sizeable programmes absorbed more than 90 per cent of the Social Welfare Fund's expenditure in 2020. These five social welfare programmes in Mongolia are (i) the Child Money Programme, (ii) the Social Welfare Pensions (SWP), (iii) the Caregivers' Allowances, (iv) the Parents' and Single Parents' Benefits, and (v) the Food Stamp Programme (FSP).

Their share in the total social welfare expenditure rose from 73 per cent of the total social welfare expenditure in 2016, when these programmes cost 1.5 per cent of GPD, to 90 per cent of the total 2020 expenditure, equivalent to 3.8 per cent of GDP. Expenditure on the remaining programmes ranged between 0.6 per cent (in 2016) and 0.4 per cent of GDP (in 2020). These include several programmes including allowances and specific benefits for honoured mothers and elderly with

state merits, community-based social welfare and other expenditures.[21] This disaggregation between the "Top Five" and "Other" programmes helps to explain the main past expenditure trend on social welfare in Mongolia (see Figure 21).

In 2020, in response to the COVID-19 pandemic, the Government extensively increased its provision of social assistance benefits to counter the negative outcomes from the crisis on poverty and vulnerability. Indeed, it is estimated that the CMP increased the number of beneficiaries to 1,186,289, covering nearly 100 per cent of children under 18. Under the same emergency response, the monthly amount of 20,000 tugrik per beneficiary was raised to 100,000 tugrik, generating a sharp increase in expenditures. In 2016, expenditure for the CMP was slightly over 0.9 per cent of GDP and slightly decreased by four per cent over the 2016-18 period. However, from 2019 to 2020, expenditure increased more than threefold, from around 230 billion tugrik to 1.053 billion in 2020 (2.8 per cent of GDP, see Figure 21).

▶ Figure 21. Social welfare expenditure as a share of GDP by programme, 2016-21



Note: The graph shows the social welfare programme expenditure as a share of GDP. Among the other programmes the graph includes all items in footnote 21.
Source: NSO, 2022.

In 2016, 89 billion tugrik (0.37 per cent of GDP) was spent on the SWP programme. This increased to nearly 98 billion tugrik (0.3 per cent of GDP) in 2019. In 2020, the programme expenditures further increase by 46 per cent to 162.9 billion tugrik (0.4 per cent of GDP), due to the increase in the benefit level to 100,000 tugrik between April 2020 and December 2021.The number of eligible households under the FSP has remained fairly constant over the past period. Nevertheless, in 2020 food stamp expenditure reached 55.5 billion tugrik (about 0.15 per cent of GDP), increasing by 55 per cent compared to the previous year and reaching its peak due to the temporary increase of the stamps' value.

While the CMP, the SWP and the FSP experienced significant changes in 2020, the expenditure on the remaining programmes did not significantly change during the COVID-19 pandemic. Indeed, excluding the CMP, the SWP and FSP, the remaining social welfare programmes' total expenditure amounted to 0.84 per cent of GDP (20 per cent of the total 2020 expenditures). Of this 0.84 per cent of GDP, the caregiver allowance and the parents and single parents' benefits (among the Top Five benefits)

21 Programmes included in the "other programmes" definition are: Allowances for honoured mothers; Livelihood Support Allowances; Allowances for pregnant mothers; Allowances and concessions for the elderly; Benefits for the elderly with State merits; Allowances and concessions for the disabled; Community based social welfare services; Specialised institutional care services; "Age honour" allowances for the elderly above 65; Administration and other general services; Goods and services; Honorarium for the members of the Livelihood support council; Banking service fees; and other expenditures.

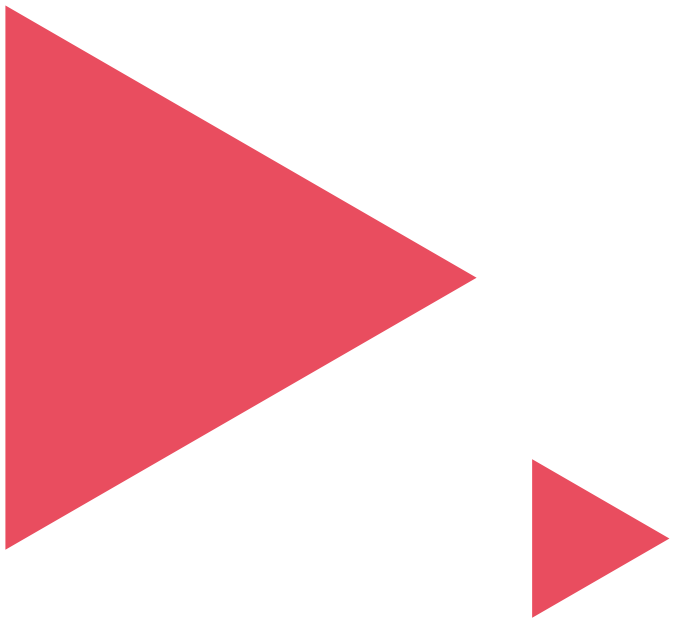
represented more than 50 per cent, equivalent to 0.43 per cent of GDP.

The Caregiver's allowances almost doubled in expenditure over the 2016 to 2020 period. In 2016 the expenditure was 34.1 billion tugrik, which increased by a yearly rate of 14 per cent, yielding 58.6 billion tugrik in 2020 (about 0.15 per cent of GDP).[22] Parents and single parents' benefits include support to parents with children aged 0-3 years old and single parents with three or more children. The benefits had a total cost of 0.28 per cent of GDP (yielding 103.5 billion tugrik) in 2020, which was only four per cent higher compared to 2018.

22 Compound growth rate (or geometric progression).

6

Gap analysis and system view



Description: The middleschool students before their class in village center.

▶ Gap analysis and system view

This section reviews the main performance indicators (i.e., coverage, distribution, adequacy, and impact) presented per social protection floor guarantee. The main policies analysed, with the use of HSES 2018 data,[23] are the CMP, SWP (for all age groups), Disability benefits, and Caregiver Allowances. Crosswise from the guarantees' framework, the section includes the analysis of the FSP, as the unique social welfare programme explicitly targeting the population living in poverty.

Moreover, the section includes an analysis of the social insurance average benefits among each guarantee.

Finally, the social protection programmes are looked at from a systemic perspective to examine, with the previous indicators, the coordination and coherence of the numerous policies, as well as their combined effect on poverty and inequality.

6.1 Guarantee 1 – Health

Because of the universal (tax-financed) nature of the primary health care system, the legal coverage stands at 100 per cent of the population, excluding international migrants.[24] Nonetheless, the effective coverage for secondary and tertiary care provided through the Social Health Insurance scheme is lower, mainly due to internal rural-urban migration fluxes that caused several individuals to lose residential statuses and face hardship in access to services. Because official documents are required to access treatment, many unregistered individuals result in not being covered by SHI. The latest estimates concerning coverage confirm that SHI membership is 94 per cent due to a decline in the coverage of vulnerable groups such as the self-employed, herders, and the groups living in remote areas.[25]

The universality of primary health care and the expansion of SHI for secondary and tertiary care have contributed to improving the financial protection of the population against catastrophic and impoverishing health expenditures. Nonetheless, due to the co-payments mechanism, the out-of-pocket (OOP) expenditures, still correspond to 32 per cent of total national health expenditures, posing a significant challenge to citizens. Among the most vulnerable, close to the entire OOP expenditures (94 per cent) are represented by medication costs indicating that even when subsidised through the SHI, the price of medication can be prohibitive. Overall, the level of subsidisation does not prevent impoverishment of the population, and its flat rate across classes of earners does not have a redistributive effect. Indeed, it is estimated that in 2012 about 20,000 people were forced into poverty due to OOP health expenditures (Dorjdagva, Batbaatar, Svensson, Dorjsuren, & Kauhanen, 2016).

Inequalities are further exacerbated by the accessibility of the system. While the introduction of FHC has increased basic access for all, the distribution of secondary and tertiary facilities is concentrated at the Aimag, district and city levels, far from rural areas. The result is that in rural areas the access to secondary and tertiary facilities is limited, and the population seeking treatment of any type is received by lowly equipped SHC. The capacity of these small centres is not adequate to meet the demands of their users and there is an increasing pressure in terms of patients-to-staff ratios. Moreover, the facilities face a weaker supply of qualified specialised medical personnel.

23 The analysis and interpretation of the performance of the Mongolian Social Protection System is based on self-reported, sampled and weighted data (HSES 2018). Thus, the results may differ from administrative sources.

24 The gap analysis of the Mongolian health system is based on the country profile prepared by the International Labour Organization (ILO, 2021b).

25 In some urban areas, the share of the unregistered population makes up to 20 per cent of the population.

6.2 Guarantee 2 – Children

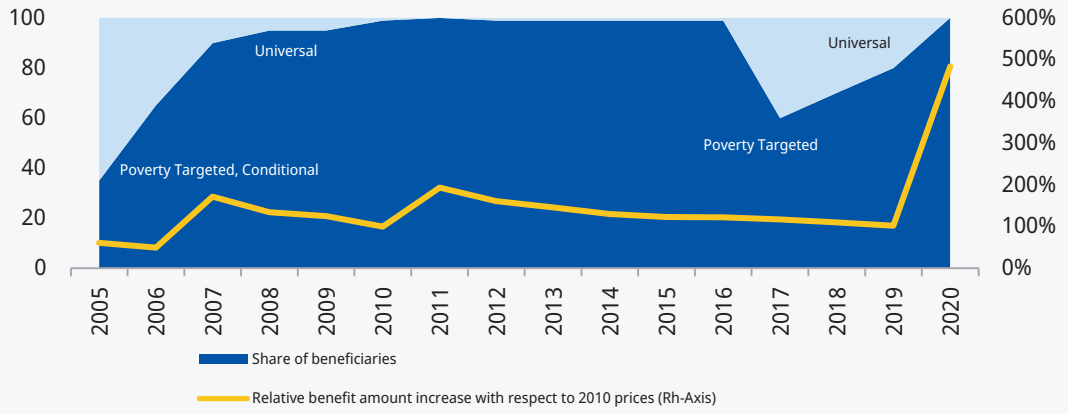
Child Money Programme

The historical development of the Child Money Programme (CMP) coverage unveils some instability. The CMP started as a conditional cash transfer that targeted those living in poverty in 2005. The programme then progressively included more beneficiaries until 2010 when it became available to all children under 18 years of age, on the condition of being enrolled in school.[26] In 2010 the CMP was substituted with the Human Development Fund (HDF) cash transfer which eliminated the conditionality attached and extended it to all children under 18 years old. In 2016 the benefit was reinstated as a targeted programme achieving a coverage rate of 60 per cent in 2017.

Since more than one million children benefitted from the CMP in 2019, to mitigate COVID-19 impacts on household income, the Government of Mongolia's rapid response actions included the programme's expansion, as a quick and administratively cost-effective way to reach a large number of households.

Child money payments are made electronically to children's accounts, and mostly mothers are the account custodians. Thus, the Government increased the amount of child money by five times from 20,000 tugrik per month to 100,000 tugrik for each child per month. As of December 2020, within the CMP, 1,186,289 children received the topped-up transfer of 100,000 tugrik.

Figure 22. CMP coverage, 2005-20



Source: World Bank and authors.

Estimates obtained with HSES 2018 data confirm the almost universal effective coverage of the CMP in 2018. 90 per cent of all children are estimated to be receiving the benefit, with higher coverage rates among lower quintiles (up to 95.7 per cent in the poorest quintile) than in higher quintiles.

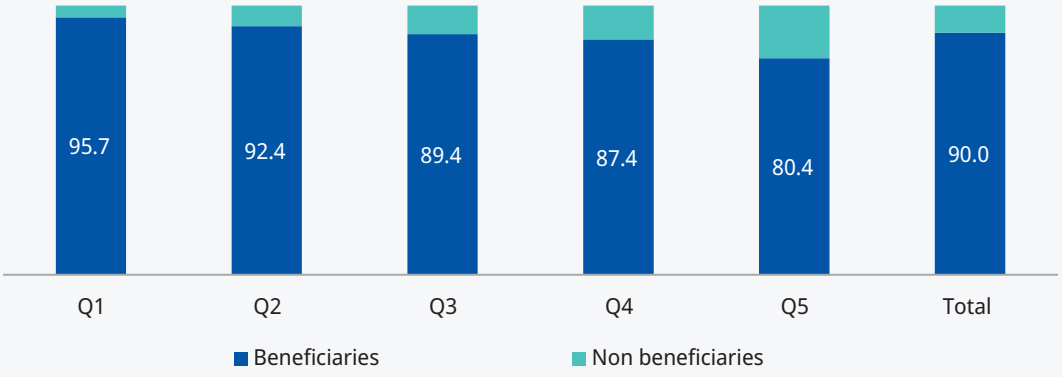
In 2018, the average benefit amount among beneficiaries was 17,887 tugrik per month, slightly lower than the established amount of 20,000 tugrik per month. As of the survey year, the average benefit amount corresponded to about 11 per cent of the poverty line. Concerning the 2020 benefit increase to 100,000 tugrik corresponds to 57 per cent of the national poverty line.

The legal instrument regulating the CMP did not include a clause concerning an automatic and

26 The CMP became a quasi-universal programme with weaker conditionalities in 2006.

periodic adjustment of the benefit. Indexation of the programme is also not included in the latest government resolution concerning the CMP. On the contrary, the law specifies that the amount is determined by the Government. Historically, this rule translated in the benefit amount being ad-hoc adjusted just twice (in 2007 and 2011) before the pandemic.

▶ Figure 23. CMP coverage by quintile and total, HSES 2018



Notes: Q stands for quintile. The target groups are all children under the age of 18 years old (excluded). Labels indicate percentages per quintile.
Source: Authors' elaboration of HSES 2018 data.

The average household total consumption after the distribution of CMP benefits increases by three per cent, and if restricted only to poor households by eight per cent. Due to this effect, the poverty headcount decreases by nine per cent, from 30.5 per cent to 28.0 per cent. Considering child poverty only, the poverty headcount rate diminishes by 9.5 per cent, from 40 per cent to 36.5 per cent. This means that out of the 477,047 children living in households considered poor before CMP's benefits, 41,404 are lifted above the poverty line by the CMP. However, all these children pertain to households in the second quintile, meaning that the CMP is effective among households living closer to the poverty line, and 435,644 children in the first and second quintiles are still living in poverty after transfers. Nonetheless, the CMP has a significant impact on the poverty gap index which decreases from 8.6 per cent to 7.1 per cent (-21 per cent) and reduces inequality by decreasing the Gini coefficient from 34.0 to 32.9 (-3.5 per cent).

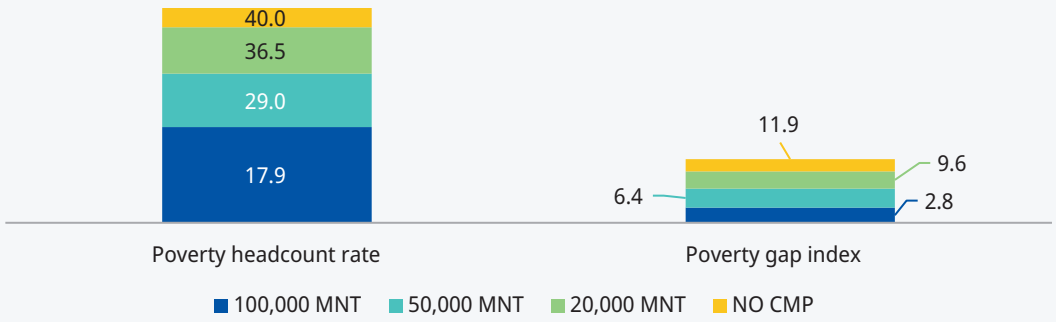
Since these results are based on the HSES 2018 survey, when the benefit amount was 20,000 tugrik per month, a simulation of increased benefit values has been conducted. The simulation includes the increase of the CMP to the current amount of 100,000 tugrik per month, as well as to a hypothetical amount of 50,000 tugrik.

The poverty effectiveness of the current CMP amount (100,000 tugrik per month) on the HSES 2018 data, demonstrates the programme's high relevance for poverty alleviation, and the significant role that it can play during emergencies and crises. Due to the CMP high coverage among households (about 73 per cent of all households were CMP beneficiaries in 2018, 92 per cent among the poor), any benefit increase results in an effective anti-poverty tool. With a benefit amount of 100,000 tugrik per month, the child poverty headcount rate in 2018 could have been 17.9 per cent and the poverty gap index among children 2.8 per cent (see Figure 24). Under this hypothetical scenario, 222,676 additional children would be lifted out of monetary poverty. Despite these optimistic estimates, the increase to 100,000 tugrik per month was implemented in 2020 as a temporary measure to counteract the impact of the COVID-19 pandemic on households' livelihoods. While it is estimated that this measure had at least hindered the poverty increase due to the COVID-19 pandemic (according

to the latest assessment, the 2020 poverty rate did not change with respect to 2018), the future of this benefit is not clear.[27] The increase to 100,000 tugrik per month has been confirmed multiple times during 2020-21, and according to the 2022 Budget Law, the CMP would be funded by 100,000 tugrik per child until the end of 2022.

From the information obtained from key informant interviews it is understood that while at present there is no proposal to reduce the amount to 20,000 tugrik per month to avoid sudden repercussions on households' welfare, one of the reform options being discussed is making the CMP more targeted, possibly through an affluence test capable of excluding the wealthiest households. Moreover, another option, evaluates the possibility of maintaining the CMP benefit level to 100,000 tugrik, but transferring 75 per cent of it in children's nominal accounts held by the Future Heritage Fund. Nevertheless, as of 2023 the CMP will still be under the SWF budget and is expected to be providing 100,000 tugrik per month to 91 per cent of children via an affluence test.

Figure 24. Child poverty effectiveness sensitivity of CMP benefit amounts, HSES 2018



Note: Label indicates percentages.
Source: Authors' elaboration of HSES 2018 data.

Social Welfare Survivors' Pension (SWP)

From the HSES 2018 survey, the number of individual beneficiaries under the age of 18 years of the SWP is 8,170, presumably regarding their survivor status. However, the HSES 2018 effective coverage does not match with the official statistics concerning beneficiaries of these pensions (i.e., 15,800 children). Pensions for survivor children are less generous than tax-financed pensions for adults but are consistently above the level of the national poverty line.

6.3 Guarantee 3 – Working age

The most common benefits among those working in the agriculture sector are the honoured mother benefits. Among individuals working from livestock raising or farming, 13.7 per cent benefits from the honoured mother programme and 6.6 per cent from prenatal allowances, due to the demographics of these households (with many children). Other social welfare programmes reach less than three per cent of this population group. The most common programmes do not respond to specific characteristics of the group, i.e., low income (we could expect a larger coverage of FSP) and exposure to shocks.

27 World Bank, 2021. Mongolia's 2020 Poverty Rate Estimated at 27.8 %.

Mothers' benefits

Two main tax-financed programmes are included in this category: benefits for pregnancy and parents taking care of a child under three years of age, and benefits to mothers who gave birth to and raised many children (Honoured Mother Benefit).

Benefits for pregnancy and parents taking care of a child under three years of age are distributed to 163,218 women between the age of 15 and 54. Out of these beneficiaries, 149,751 (92 per cent) live in households where there is at least one child between 0 and 36 months. Considering only households with new-borns (78,884 households), 93 per cent receive at least one maternity benefit. Notably, seven per cent of households with new-borns do not receive any maternity benefit. While 67 per cent receive the tax-financed benefit, a quarter of households with new-borns receive both tax-financed and contributory benefits. Thus, the coverage among families with new-borns seems to be close to full, falling short by a small percentage (half of which being poor households).

▶Table 8. Maternity benefits coverage among households with new-borns, HSES 2018

Households with new-borns	Not receiving contributory benefit	Receiving contributory benefit	Total
Not receiving Tax-Financed benefit	5,480 (7%)	1,962 (2%)	7,442 (9%)
Receiving Tax-Financed benefit	52,494 (67%)	18,948 (24%)	71,442 (91%)
Total	57,974 (73%)	20,910 (27%)	78,884 (100%)

Notes: Percentages of total in parentheses.
Source: Authors' elaboration of HSES 2018 data.

About 40 per cent of these benefits are distributed to women living in poor households, and 50 per cent in the lowest two quintiles. These households concern 356,895 poor individuals, of which just 1,190 (0.3 per cent) leave poverty thanks to these specific benefits. Indeed, the monthly amount of the parental benefit in 2018 seems inadequate. The average benefit (weighted to five months) corresponds to 66,033 tugrik per month, which consists of 40 per cent of the poverty line only.

Honoured Mother Benefits, delivered to mothers who gave birth to and raised more than four children, were received by 231,425 individuals in 2020. Over the period 2017-20 the number of beneficiaries grew by an annual rate of 2.6 per cent, from 214,019 to 231,425. Overall, 11.6 per cent of all women above 20 years of age are beneficiaries of Honoured Mother Benefits.

Despite the high number of beneficiaries, the Honoured Mother Benefits have a limited incidence among poor households (9.4 per cent). That is, only 12.9 per cent of all direct beneficiaries are poor, and the benefits are distributed across quintiles.

Because the benefit does not have a poverty prevention objective, but it is rather a reward instrument for multiple pregnancies aimed at stimulating births, the benefit amount is small (132,000 tugrik per year from the HSES 2018 survey, or 6.6 per cent of the poverty line if divided by 12 months). Due to the combination of the low amount and low incidence among the poor, the benefit has an extremely small effect on poverty and inequality reduction.

Social Welfare Disability Pensions (SWP)

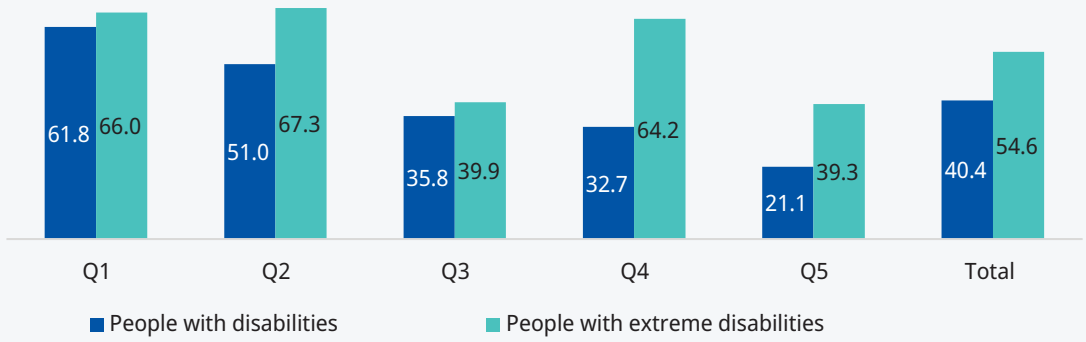
Tax-financed pensions include benefits for (i) persons with disabilities, and for (ii) "seniors, children under 18 who lost the bread winner, single parents, and persons with achondroplasia (short-limbed dwarfism) above 16 years of age." This section analyses this provision in respect to the performance among disabled adults before retirement age.

According to the HSES, the number of Mongolians receiving a tax-financed disability pension in 2018 was 54,973. This figure is not directly comparable with a target group clearly obtainable in HSES

2018.[28] Nonetheless, the target group identified in HSES 2018 (as a proxy) is composed of individuals above 15 years of age and who are unable at all to (either) see, even with glasses, walk, remember, take care of themselves, or communicate, and that do not already receive a disability pension from the SIF. That is, effective coverage of disability social pensions can be assessed against this category that aims at identifying adult individuals with extreme disabilities not covered by social insurance benefits.

Thus, the effective coverage rate of disability pensions attains about 66 per cent of persons with extreme disabilities in the lowest quintile, and it is, on average, 54.6 per cent of the total target group. Nonetheless, less than ten per cent of these pensions are distributed to these persons and about 55 per cent are received by individuals that have self-declared less severe inabilities to the aforementioned list (i.e., they can only do one of those activities "with a lot of difficulty"). Despite the greater concentration of benefits, among this group, the total coverage even decreases to 40 per cent, with lower coverage across all quintiles (Figure 25). Moreover, while 18.4 per cent of disability pensions are distributed among people with mild disabilities, the remaining 17.7 per cent of pensions are not received by individuals identified in the survey as not having any inability.

Figure 25. SWP for persons with disabilities coverage by quintile and total, HSES 2018



Notes: Label indicates percentages per quintile.
Source: Authors' elaboration of HSES 2018 data.

The social welfare disability pension amount was increased from 126,500 tugrik to 188,000 tugrik per month in 2020, and until 1 January, 2023, to 288,000 tugrik per month. In the survey year, the average monthly pension amount was 144,019 tugrik per month (or 86 per cent of the poverty line). Benefit amounts vary significantly, indicating that perhaps respondents include other benefits to this question, or that transfers were not adequately distributed over the year. About 50 per cent of benefits vary between 140,000 tugrik and 155,000 tugrik per month, but the remaining ones can be as little as 1,722 tugrik and as big as 320,000 tugrik.

On average, tax-financed disability pensions increase the total welfare of households by one per cent only, and by 2.5 per cent among the poor. Thus, if these pensions would not exist, poverty would be four per cent higher (29.3 per cent of the total population). Considering poverty among persons with disabilities only, if these benefits were not distributed, the poverty headcount rate would be 27 per cent higher, i.e., 37 per cent of persons with disabilities would be poor.[29] Hence, tax-financed pensions contribute to lifting out of poverty 10,214 of the 47,348 persons with disabilities living in poverty before this transfer.

28 Persons with disabilities having reached 16 years of age and lost 50 per cent or more of their ability to work.

29 Extreme and less severe, as defined above.

▶ Box 3. Assessment of adult disability in Mongolia

The assessment of adult disability in Mongolia is conducted through commissions, the procedure includes three steps:

- A physician conducts an initial examination and assessment.
- The Medical Inspection Commission (MIC) composed of a team of doctors conducts a second verification and decides.
- A Medical and Labour Accreditation Commission (MLACs), verifies the MIC decision.

MLAC disability assessments are based on a medical procedure and decide upon the person's specific degree of disability. Degrees of disability are based upon the diagnosis and the consultation of invalidity tables. The invalidity tables are developed by the Ministry of Health and list 326 different medical conditions, providing a disability score for each.

A disability score ranging from 70 per cent to 100 per cent qualifies individuals for a full disability pension, while a score from 50 per cent to 69 per cent for a partial pension - if individuals satisfy the criteria for qualifying to the contributory pension system. If a person does not qualify the criteria for a contributory pension but has received a score above 50 per cent, a social welfare pension is provided based on the MLAC decision.

Source: Asian Development Bank (2019).

Caregivers' allowances (CA)

Caregivers' allowances include all allowances intended for individuals taking care of elderly, disabled and children in difficult circumstances. The number of persons receiving these allowances was 50,686 in 2018 (from HSES 2018), matching with official statistics. Due to the country's social structure, 76 per cent of allowances are received by female individuals, and about 80 per cent of beneficiaries have between 20 and 55 years old, the remaining being older. While the education level of caretakers does vary, 64 per cent of them did not perform any work-related activity in the seven days prior the HSES questionnaire, and above 90 per cent of them are not currently seeking a job.

Therefore, CA play a significant role as poverty prevention transfers for the beneficiaries, as they may be their (individual) only form of income. However, given the number of beneficiaries, and then the coverage among the poor (less than two per cent), the overall poverty impact of the CA is minimum.

Social insurance benefits

Individuals in their working age receive social insurance benefits covering short (such as sickness and maternity) or long-term (such as disability) needs. Moreover, during the 2018-20 period, between 15 and 16 per cent of the population aged 20 to 59 years received social insurance benefits.[30]

The long-term social insurance pension covers insured elderly, people with a disability and survivors. Under the disability component beneficiaries reached 65,904 in 2020. The average individual disability benefit was 324,343 tugrik per month, increasing since 2018 (an average yearly growth rate of 11 per cent between 2018 and 2022), but still lower than the other two components of the scheme (respectively 93 tugrik and 12,500 tugrik lower than the old-age and survivors average benefits).[31] In 2018, the average disability benefit was 90 per cent of the minimum wage, falling by 77 per cent in 2020 due to the minimum wage increase, and 26.2 per cent of the average monthly income.[32] In contrast, under the Military Pension Scheme, the average replacement rate of disability benefits was 31.6 per cent. Thus, military personnel receive a higher share of the average employees' income

30 The calculation includes unemployment, work injury and long-term disability benefits.

31 The average benefit is calculated by dividing functional expenditures (e.g., old age, disability, survivors) by the relative number of beneficiaries.

32 For a monthly minimum wage of MNT420,000 in 2020 (MNT320,000 between 2018 and 2019, and previously MNT240,000). The minimum wage in 2020 represented 34.4 per cent of the average monthly wage for formal sector workers. The monthly average wage for the formal sector reached MNT1,220,600 per month in 2020 and was MNT1,002,900 in 2018.

compared to the Disability Civil Pension. Individuals with disabilities receiving a benefit under the military pension scheme were only 464 in 2018, and 444 in 2020.

Unemployment insurance covered 21,386 beneficiaries in 2020. Upon the condition of satisfying the qualifying criteria, unemployed individuals are entitled to a benefit payment for 76 working days. In 2020, expenditures reached 50.2 billion tugrik, and the per capita average benefit was 587,139 tugrik per month.[33] Despite the limited duration of the benefit (still in line with ILO Convention 102), the unemployment benefit has one of the highest adequacies among the civil social insurance schemes, guaranteeing at least 45 per cent of former earnings, increased accordingly to the length of the contributing period. The per-beneficiary benefit represented 48 per cent of the average wage and was worth more than the minimum wage (140 per cent).

Nonetheless, accessibility is a challenge. The qualifying conditions of 24 months of contribution and the constrain of nine months consecutive contribution result in a high threshold in terms of access for insured individuals. Moreover, the risk of unemployment faced by the working age population in its youth (15-24) is poorly addressed. The youth employment and business start-up support programme reach just about 2,500 participants out of the 73,600 NEET youth (3.4 per cent of the target group). There is no specific labour market reintegration programme nor any conditionality on job search for beneficiaries of unemployment benefits. The extensive coverage of the unemployed is rather linked with their poverty profile.

Maternity benefits provided under the Short-term Benefits Insurance were delivered to 64,575 beneficiaries in 2020. Per beneficiary benefit for maternity leave reached an average 425,466 tugrik per month (delivered over four months), which stood slightly over the minimum wage (420,000 tugrik) and was 34.9 per cent of the average income. Moreover, under the same scheme, sickness benefits were provided to 113,740 beneficiaries in 2020, for an average annual per beneficiary expenditure of 188,000 tugrik. While over 2018-19 the average benefit sharply increased, the number of beneficiaries entitled to the benefit dropped by 15 per cent between 2018 and 2020.

Survivor pensions are provided under both the civil and military pension schemes. These covered 19,232 and 882 individuals respectively in 2020, both slightly decreasing compared to past beneficiaries' numbers. As for the survivor component of the military and civil schemes, the income replacement rates are consistently higher for the military pension scheme. Indeed, while in 2020 the civil survivors' pension reached an average 336,005 tugrik per month, the military one reached 402,743 tugrik. Hence, while the military pension represented 33 per cent of average employee income, civil survivors' average benefit amounted to 27.5 per cent.

Other benefits such as funeral grants and occupational disease and work injury pensions are paid to insured individuals on an occasional basis. Funeral grants were received by 12,884 beneficiaries, and work injury benefits from 3,876.

6.4 Guarantee 4 – Old age

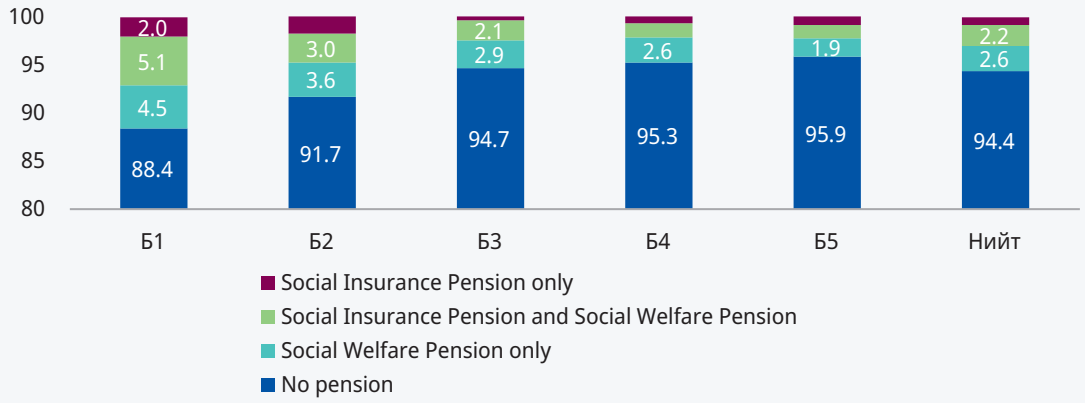
Old-age vulnerabilities and risks are addressed by several programmes. Considering Old-age Pensions (OAP) only, about 0.7 per cent of households with at least one individual aged 65 and more are not covered by any kind of OAP (see Figure 26). The most common kind of OAP are contributory pensions, although the incidence of these in the lowest quintile is significantly lower. Even when receiving a contributory pension, a considerable share (12.9 per cent) of individuals remain in poverty.

Social Welfare Old-Age Pension (SWP)

The risks of lack of income during old age is addressed by the Welfare Old-age Pension which provides a monthly cash transfer to all men (above 60) and women (above 55) who are not entitled to contributory social insurance.

33 The calculation accounts for the annual expenditures divided four "months" (about 76 working days).

▶ Figure 26. Households with older people (65+), by pension receipt and wealth quintile, HSES 2018

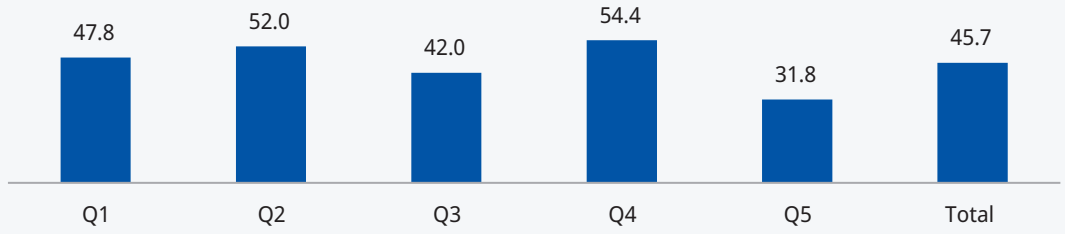


Notes: Percentages. Vertical axis starts at 80 per cent to focus on small differences by quintile. Q stands for quintile.
Source: Authors' elaboration of HSES 2018 data.

Among the poorest quintile, the share of households with elders receiving a SWP (including households receiving social welfare and contributory pensions) is 9.6 per cent, which still leaves two per cent of poorest households with elders older than 65 years old but not benefitting by any OAP. Despite their nature, social welfare OAPs are not concentrated among lower quintiles. Instead, only about 42.1 per cent of benefits are distributed to the poorest two quintiles, and the share of benefits allocated to beneficiaries living in poverty is 28.6 per cent.

By means of the low coverage among the total population and the poor, these pensions have a reduced effect on poverty prevention, i.e., the impact on overall poverty and inequality statistics is less than one per cent. Nonetheless, the relative importance of SWP is high across all quintiles and they correspond to 45.7 per cent of beneficiary households' consumption on average (see Figure 27). Although the national poverty impact of SWP seems low, this considerable weight of SWP on households' consumption highlights their high significance for beneficiaries.

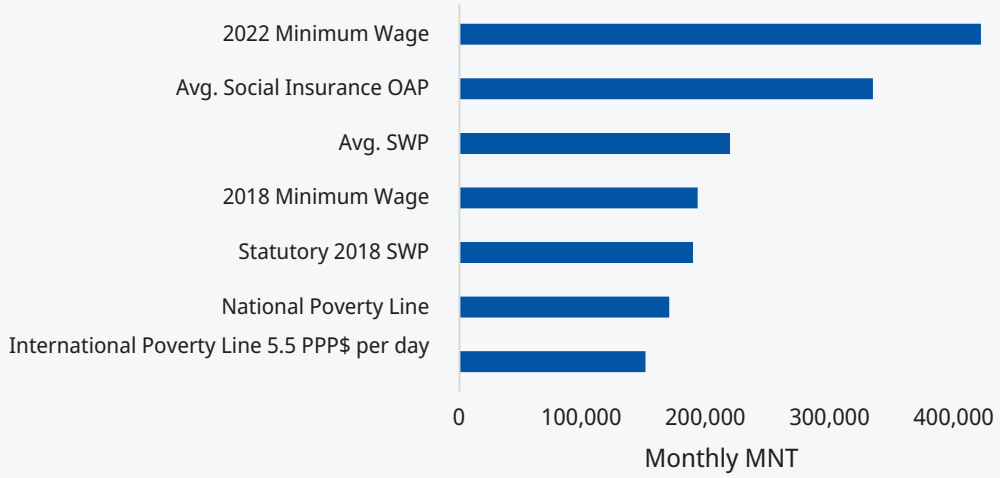
▶ Figure 27. Share of social welfare old-age pensions to beneficiaries' total household consumption by quintile, HSES 2018



Notes: Sample restricted to households with elders receiving social welfare old-age pensions. Percentages of total household consumption. Q stands for quintile.
Source: Authors' elaboration of HSES 2018 data.

As of 2018, social welfare OAP on average, corresponded to about 218,000 tugrik per month, higher than the statutory amount of 188,000 tugrik, the same year's national poverty line, and the 2018 minimum wage (see Figure 28). The Social Welfare Pension benefits were increased significantly in response to the COVID-19 pandemic (additional 100,000 tugrik per month) which brought the benefit closer to the average contributory pensions benefits and the 2022 minimum wage.

Figure 28. Average OAP benefits relative to relevant benchmarks, HSES 2018



Notes: Values in MNT per month.
Source: Authors' elaboration of HSES 2018 data.

Social Insurance Pension

Under the old age long term benefit component, total expenditures sharply rose over past years, almost doubling between 2016 and 2020. The expenditure increases were driven by the increase in beneficiaries' number and in the level of the minimum pension, which reached 280,000 tugrik in 2018. Nevertheless, a less than proportional increase in beneficiaries compared to expenditures drove an overall increase in the average per beneficiary benefit. The average benefit reached 418,714 tugrik per month in 2020, increasing by 20 per cent with respect to from 2018. Indeed, while the old-age pension benefit almost equalled the minimum wage (99.7 per cent of it), it represented just 34 per cent of the average wage.[34] Most of the social insurance old-age pension recipients were above the statutory retirement age. Nevertheless, 13 per cent of male and nine per cent of female beneficiaries received a benefit while under the statutory pensionable age (respectively 60+ and 55+).

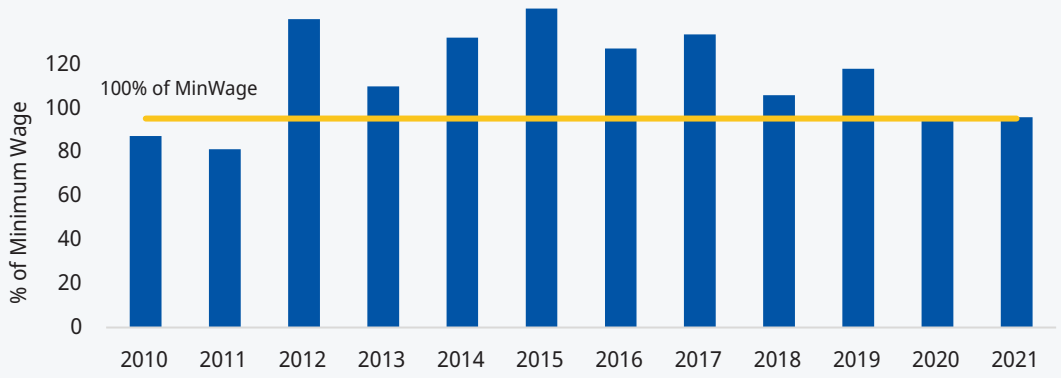
The civil pension old age benefits replacement rate in Mongolia has consistently risen over the past years. Average retirement pension benefits increased from 29.6 per cent of the average monthly wage (of the formal sector) up to 34.7 per cent in 2018, slightly decreasing at the outbreak of COVID-19 and in the following years. Retirees under the civil social insurance scheme received on average 115 per cent of the minimum wage between 2010 and 2021, representing a challenge for the financial sustainability of the social insurance long-term benefit component (see Figure 29). Although the average calculated pension was around 416,500 tugrik in 2018, the minimum pension was set at

34 Jointly with the civil scheme, old age benefits are provided to old age individuals that served in the army. As per other benefits under this scheme, military old age pensions have a sharply higher adequacy, covering 56.7 per cent of the average wage, delivering an average benefit of MNT692,280 per month. Nevertheless, under the military scheme, only 17,738 individuals were covered (14,847 male and 2,891 female), therefore this is excluded from the main discussion on the pension system.

500,000 tugrik. Indeed, in the 2016 ILO actuarial evaluation it was reported that the State budget was subsidising more than 50 per cent of the pensions due to the low contribution density and low reference wages (see as well Box 4) (ILO, 2016).

The minimum pension has the objective of ensuring a minimum standard for individuals in their old age despite their past contribution capacity. Nevertheless, it suggests fostering increases in wages and in particular the minimum wage (as already envisioned to rise to 550,000 tugrik by 2023) above the minimum pension threshold, in order to reduce the State's burden in the financing of the minimum pension and to foster stronger linkages between contributions and benefit levels (see Box 4.). However, the recent increase of the minimum wage to 420,000 tugrik per month in 2020 set temporarily the minimum wage over the average pension and the further expansion to 550,000 tugrik by 2023, shall set the minimum wage over the pension level (see Figure 29).

▶ Figure 29. Average pension benefit as a share of the minimum wage



Note: 2013 average employees wage was not available. The graph shows the benefit as a share of the same year minimum wage. An additional line fixed at 100 per cent of the right-hand axis (red line) was added in order to show the years in which the average pension was higher than the same year minimum wage.
Source: NSO, 2022 and ILOSTAT, 2021.

In 2018, Asia's gross replacement rates ranged between 37.5 per cent (in Thailand) and 87.4 per cent (in India) (OECD, 2018). Recent actuarial evaluations for Mongolia set the country in this range. For instance, the actuarial evaluation of the ILO in 2016 expected a replacement rate reaching over 60 per cent in 2030 basic scenario projections and a forthcoming evaluation corroborated these estimates, with the average benefits as percentages of average covered wages rising from 55 per cent in 2020, up to 62 per cent by 2030 (ILO, 2016; World Bank, 2022). Nevertheless, both the ILO and World Bank studies point to the fact that a full switch to the NDC system, will dramatically reduce the replacement rate of the provision under 40 per cent (on average 20 to 30 pp less over the long-term projection period) (ILO, 2016; World Bank, 2020). Indeed, the replacement rate for Mongolia might be higher than the Thailand pension system, but it is still lower than most Asia/Pacific countries that range between 60 per cent and 75 per cent (OECD, 2018).[35] Emblematic are other countries, such as Japan and Singapore, having higher replacement rates. These countries rely on extremely higher contribution rates (in Singapore[36] SSC reaches 26 per cent), or significantly more years of service (in Japan the full basic pension (tier I) is accrued after 40 years of contributions) (ASEAN, ILO, 2020; OECD,

35 In Thailand the scheme started in 1999, expecting the first full accrual rates of 42.5 per cent of reference wage only by 2029.

36 Where although old age dependency on families decreased over the past years, up to 29 per cent of the elderly were still dependent on their children's support in 2015 (ASEAN, ILO, 2020).

2018; OECD, 2019). In comparison, Mongolians under the mandatory scheme pay a contribution rate of 17 per cent contribution and can obtain the full pension after 20 years at the age of 55/60 years. The pensionable age in Mongolia is 55 for women and 60 for men, while life expectancy was respectively 16 and 13 years at the age of 65. The retirement age is expected to be increased to 65 over the next years, which is more in line with other countries in the region such as Singapore and Japan, adapting the system to the demographic reality of Mongolia. While the system seems to deliver adequate benefits, for comparably less contribution paid in terms of years and amounts, Box 4 suggests that parametric changes and increases in wages can determine higher absolute benefit adequacy and insure the financing sustainability of the fund.

Furthermore, Mongolia's current DB system ensures a higher yearly accrual rate accumulation during the mandatory years of contributions (the first 20 years) compared to each additional year an individual can contribute after having reached the minimum pensionable years of service. Specifically, the DB system envisages an accrual rate of 2.25 per cent for the first 20 years of contributions. Under this premise, an individual contributing 20 years will have accrued a replacement rate of 45 per cent of the reference wage, higher than the 40 per cent established by the C102-Social Security as a Minimum for 30 Years Career (Minimum Standards) Convention of 1952, as is presented in the following formula (ILO, 2008).

$$SSR = 20_{\text{years}} * 2.25_{\text{Yearly accrual rate}} * W_{\text{Reference wage}}$$

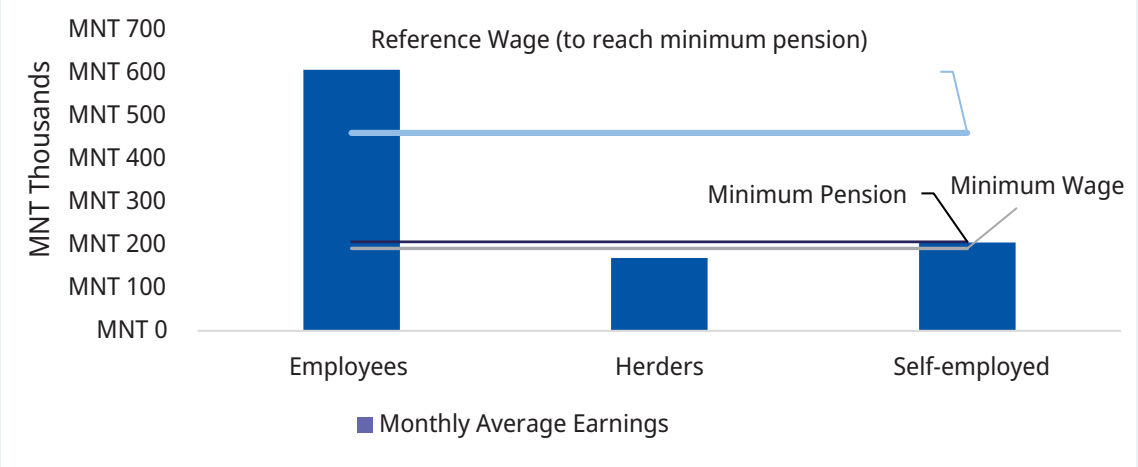
In comparison, in Thailand, workers contributing for 15 years will obtain 20 per cent of their reference wages at retirement, accumulating a yearly accrual rate of 1.3 per cent of their reference wage. Since both countries stipulate accrual rates of 1.5 per cent for each additional year of contribution over the minimum service period, the Thai system seems to offer a higher incentive to contribute one year more to accrue a higher additional rate. Indeed, the Mongolian system does not provide proper incentives to prolong the contribution careers, and upcoming reforms (increasing the accrual rate to a yearly two per cent from the thirtieth year of contribution) will only partially address the issue. Moreover, the poor linkages between years of contributions and accrual rates, generated among stakeholders developed the misleading idea that the DB system is detached from earnings and the contribution records.

The poor incentive is as well visible for the minimum NDC old age pension return calculation, for which workers accrue 20 per cent over the first 15 years period of contributions, and an additional 0.5 percentage points for each additional year, limiting the capacity to address the low contribution density of the system.

▶ Box 4. The DB pension system and the minimum pension level

This simplistic demonstrative exercise aims, on the one hand, to highlight the expected minimum level of pension accrued after 20 years of contributions, and on the other hand to identify the minimum reference wage necessary to reach the minimum pension. The aim of the pension system is to ensure the financing sustainability of the system and the standards on coverage and benefit (relative) adequacy. Nonetheless, these objectives are menaced by slow wage increases, low minimum wage levels, and fluctuating contribution density.

Assuming that in 2013 (data points as of the 2016 actuarial evaluation) the reference wage was equal to the minimum wage, the pension entitlement after 20 years of contributions would have reached 86,400 tugrik per month, significantly lower than the 207,000 tugrik minimum pension in the same year. Indeed, the minimum pension was 108 per cent of the minimum wage. To qualify, through 20 years of contributions to the minimum pension, the reference wage should have been 460,000 tugrik. In 2013 more than 50 per cent of the retirees were receiving a minimum pension (ILO, 2016). For example, in the same year, both the herders and the self-employed had average incomes lower than the 460,000 tugrik threshold. Moreover, the amount represented 27 per cent of the formal sector employees' average wage of 2013.



Note: The minimum wage in 2013 equals to 192,000 tugrik, while the minimum pension was of 207,000 tugrik. The upper line is intended to demonstratively show that only few of the contributing members could generate their pension through their own wages.

Source: ILO, 2016. Financial Assessment of the Proposed Reform to the Social Security System for Older Persons and a Proposed New Pension Scheme for Herders and Self-employed Persons.

In 2020, the minimum pension stood at 350,000 tugrik. In the same year, an individual would have needed a reference wage equal to 29 per cent of the average employees' wage and to 83 per cent of the minimum wage. The overall picture suggests that in 2013 the burden for the State budget was already consistent, and while this analysis presents limited data for 2020, it is estimated that the situation has not changed since the latest actuarial evaluation.

6.5 Social protection challenges in providing services to herders

Providing effective and efficient social security protection to the herders in Mongolia is difficult, not the least due to Mongolia's physical and human geography. Specifically, the herders' nomadic, or seminomadic lifestyle, creates challenges for the delivery and administration of social security.

Moreover, the risks faced by herders are particularly poorly addressed by social welfare. For instance, one could expect that when falling into monetary poverty, herders would benefit from FSP, but their coverage is low as they have access to food sources and thus their monetary needs are not addressed by any programme. Administrative data also show that (in addition to what is captured in the survey) there is a small programme for reindeer herders. However, its coverage is very limited, with only 363 beneficiaries in 2017 (administrative data). The active labour market programme targeted to herders, the EPP-Herders, which provides capacity building and financial assistance for repopulating lost livestock because of dzuds, reached 1,600 herders in 2020, a coverage which seems inadequate if compared to the number of herders affected by the catastrophes and accidents in 2018 and 2019 (304 and 262).

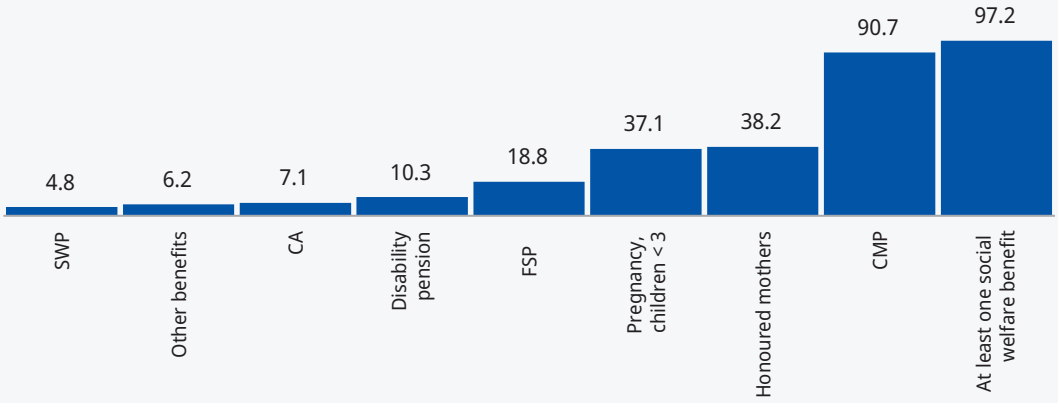
As Mongolian herders are getting older (and fewer from the youth are opting for this occupation), the provision of effective social and health insurance services is of crucial importance. Nonetheless, the evidence shows that herders' participation to the contributory system is very limited (only 25 per cent contribute to the SHI and 16 per cent to the SIF). Alongside geographic and technological challenges and barriers, the legal environment (voluntary enrolment and possibility of buying-back previous contributions' years) set in place so far has disincentivised herders' membership. Indeed, herders have had the opportunity to wait until getting closer to retirement age before starting to pay contributions, and by redeeming past payments herders have had the opportunity to qualify for the social insurance pension without a consistent history of membership to the SIF.

These circumstances have disincentivised younger herders from contributing too, thus exposing them to risks from contingencies such as disability and barriers in accessing healthcare services. Moreover, the lack of voluntary participation of herders in the social and health insurance systems poses the question of equity between societal groups that at the same level of earnings are compulsorily required to pay contributions.

6.6 Reaching the most vulnerable

In Mongolia, the poor and people affected by climate shocks are not a special focus of social welfare programmes. The social welfare system traditionally approaches targeting from a categorical perspective. Thus, targeted programmes do not focus on poverty, which could cause high levels of exclusion among those in monetary needs. Nonetheless, due to the high performance of the CMP and welfare maternity benefits, nearly all the population living in poverty are covered by at least one social welfare programme (see Figure 30). Moreover, coverage by programmes shows progressivity (decreases as we move up across quintiles). Although poverty reduction is at the core of the rationale for reforming the Social Welfare Law, only one programme specifically targets the neediest (the FSP). Moreover, the Social Welfare Law includes a cash transfer programme for the poor, which has not yet been established. The country is often affected by climate hazards and shocks, but only a few benefits target disaster-affected populations. Regarding the social welfare related to shocks, there is only one-time benefit to help people who lost their houses.

Figure 30. Share of poor households receiving social welfare benefits, HSES 2018



Notes: Percentages of poor households receiving a social welfare benefit.
Source: Authors' elaboration of HSES 2018 data.

While official figures report that 253,468 individuals in 2018 benefitted from the FSP, estimates from the HSES 2018 indicate that this number might be 30 per cent lower, i.e., 193,701. Food stamps eligibility criterion is based on a proxy means test formula using the data collected through the Household Living Standards Assessment (HLSA).[37] HLSA is administered every three years, and it is updated between two data collection phases. The HLSA data is stored in the Integrated Household Database (IHD), which currently contains information concerning 714,000 households, representing about 70 per cent of the total.

The HLSA is verified with administrative data and in the event of conflicting information, social workers at the grassroots level are asked to validate the information and provide possible explanations for

37 The use of statistical inference to define the eligibility of a household. A PMT approximates household welfare by computing a score based on observable and relevant characteristics such as socioeconomic, demographic, geographical, ownership, and sanitation variables that can predict household welfare levels (and their poverty status).

the discrepancy. The main criticisms about the PMT performance come from current and potential FSP beneficiaries, as well as from implementers. Most criticisms concern the fact that the PMT is deemed to be not reflective of actual household wellbeing (leading to targeting errors), and that the HLSA is prone to manipulation (Silva-Leander & Jambal, 2021).

Moreover, since the FSP is the only programme actively aiming at providing assistance to households and individuals in the lowest quintiles, its current delivery in the form of food vouchers can be seen as inadequate to meet the immediate needs of the poorest, especially in rural areas. Because of the agrarian lifestyle in these areas, food deprivation is less likely than monetary constraints due to other expenditures (such as OOP health).

Despite this fact, the Mongolian redistributive environment does not favour a transition to cash delivery as there is a shared belief that welfare benefits can create poverty traps, hampering labour activation, and that the neediest do not have the right capacity in prioritising social transfers' expenditure.[38] Nonetheless, a 2022 study commissioned by the Asian Development Bank (ADB, 2022) concluded that due to the low benefits amount the current welfare benefits system is not likely to generate welfare dependency. Moreover, evidence from a pilot vertical expansion of the CMP among vulnerable households showed that up to 70 per cent of the transfers was spent on health, food, and clothing items for children, while the remaining share was kept as savings or not yet spent (UNICEF, 2022).

▶Table 9. Incidence of FSP beneficiaries by poverty status, HSES 2018

	Non-poor	Poor	Total
Non-beneficiaries	98.3	83.4	94.1
Beneficiaries	1.7	16.6	5.9
Total	100.0	100.0	100.0

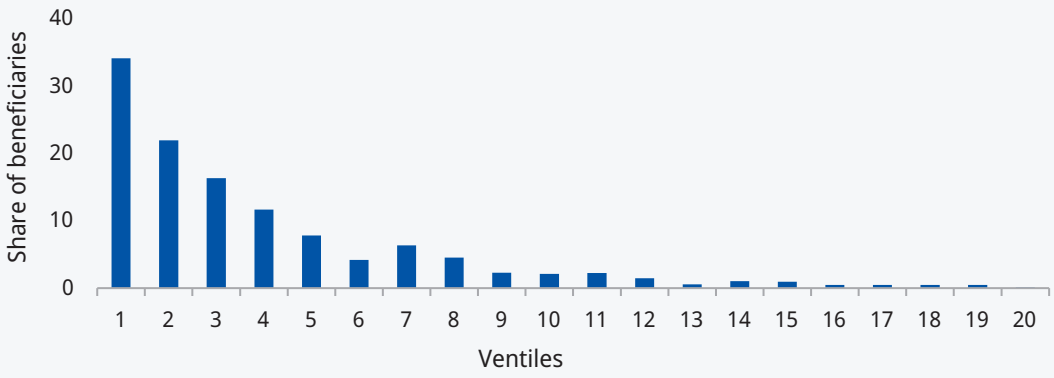
Notes: Values indicate column percentages.

Source: Authors' elaboration of HSES 2018 data.

Additionally, the FSP provides a mere 16.6 per cent coverage among the poor (18.8 per cent of poor households). The share of non-poor benefitting from the FSP is only 1.7 per cent, however this can be regarded as an inclusion error of 21.1 per cent, while the share of the poor excluded by the programme is 83.4 per cent. Nonetheless, the share of beneficiary households significantly increases with the decrease of their wealth, i.e., in the poorest five per cent of households the share of beneficiaries is 34 per cent (see Table 9 and Figure 31).

While the FSP coverage amongst the poorest is low, this may still be an effective instrument to increase their wealth if benefits (stamps) were adequate. However, the average benefit size is small (about 8,000 tugrik per month), which allows the per capita consumption of beneficiaries to grow by 7.8 per cent only. By this mean, the poverty impact of food stamps is significantly lower than ten per cent, raising concerns about their efficiency.

▶ Figure 31. Share of FSP beneficiaries by ventiles, HSES 2018



Notes: Each ventile is representative of five per cent of households ranked by their per capita consumption aggregates.
Source: Authors' elaboration of HSES 2018 data.

38 Assessed via key informant interviews, workshops, and stakeholder meetings during fieldwork in Mongolia during June 2022.

Higher coverage would not necessarily imply effectiveness in reducing vulnerability and alleviating poverty. In order to alleviate poverty, social welfare should cover individuals in need and provide them with an appropriate transfer or service in a timely manner. The insufficient size of the benefits (as well as their duration and frequency) hampers the benefit aim of reducing deprivations.

6.7 Systemic view

Coverage and coordination

Mongolia has succeeded in establishing a comprehensive social protection system capable of achieving high coverage for each life-cycle contingency, in what could be portrayed as based on the principles of a Social Protection Floor. This achievement has been obtained by the combination of both a social insurance and a social welfare system that complement each other, although still with gaps and challenges to overcome.

Mongolia's social welfare programmes correspond to 44 different kinds of benefits, 20 of which are cash transfers and the rest in-kind or services. Although there are ten different social welfare programmes under the Social Welfare Law, 17 benefits are in place. Furthermore, the six social welfare programmes under the laws related to the elderly and disabled bring an additional set of 27 benefits. In the case of the Social Welfare Law, the multiplicity of transfer amounts and frequencies is mainly driven by the allowance programme for emergency assistance and livelihood support, which provides six different types of benefits according to the target groups.

The social insurance system provides for sickness, unemployment, employment injury, maternity benefits, and old-age, invalidity, and survivors' pensions. Coverage, under these schemes, is still not compulsory for all workers which causes high levels of exclusion from social security among vulnerable groups such as the self-employed and the herders. Additionally, the employed in the non-agricultural informal sector, are consistently excluded from social security, labour legislation and workplace safety measures.

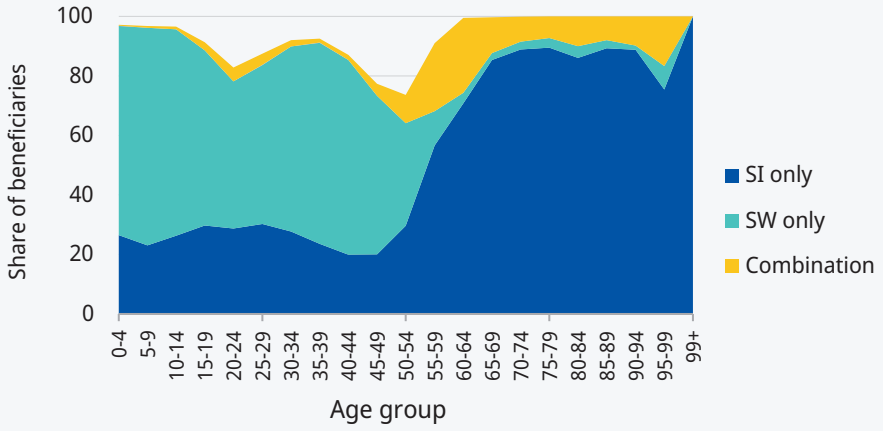
Looking at the system's coverage, thanks to the combination of the social insurance and the social welfare systems, Mongolia manages to reach quasi-universal coverage of social protection across the life cycle of individuals (see Figure 32).[39] Considering Mongolians below the age of 18, about 70 per cent live in a household receiving at least one social welfare programme, and close to 30 per cent in a household receiving at least one SW benefit and one social insurance benefit. Thus, the quasi-totality of children is reached by social protection, although about 436,000 (i.e., 36.5 per cent of children) still lived in monetary poverty in 2018.

During working-age social protection benefits' incidence is lower, but still very high and mainly driven by social welfare programmes (mainly the CMP for adults with children). If the CMP were excluded, working-age effective coverage would be significantly lower, and if combined with the high level of informality of the country, this points out that the effective coverage of working-age adults in Mongolia is far from performant. Nonetheless, considering the legislative environment allowing for voluntary contributions and the inadequacy of government policies and inter-sectoral cooperation towards reducing informal employment (ILO, 2021c) the legal coverage is inefficient too. While active contributors to social insurance in 2020 were 90 per cent of working women and 85 per cent of working men, significant shares of both groups are out of the labour force thence vulnerable to suffer from potential contingencies' risks.

The outlook looks more positive on old-age provisions. Mongolia presents a universal effective coverage for the elders. Elders live, by a large majority, in households which are recipients of a combination of social protection benefits. However, there are also important duplications in programmes regulated by other laws. As such, the forthcoming reforms could address the significant duplication across benefits in the provisions pertaining to the elders and honoured elderly (for example, the monthly cash transfer for the honoured elderly and the biannual cash transfer of the Age-Honour Allowance for elderly).

39 Measured as a share of the population in household's beneficiary of at least one social protection programme (thus including direct and indirect beneficiaries).

▶ Figure 32. Coverage of social protection types per age group, HSES 2018



Notes: SI = Social Insurance. SW = Social Welfare. Combination of more than one type can include any dual combination of SI, ES, SP, all of them simultaneously. Employment support is not displayed due to the extremely low coverage.
Source: Authors' elaboration of HSES 2018 data.

The 44 different kinds of social welfare benefits, differ in nature (cash, fee-waivers, stamps), amount, frequency, and target group. Rationalising benefits (for example, merging benefits that share common objectives or eliminating overlaps between programmes) could reduce the administrative and management costs of the social welfare system. The more rules and procedures for eligibility, the higher the burden is for social workers. It also impacts beneficiaries who face a complex system with various eligibility conditions and application processes.

The multiplicity of benefits may also undermine the transparency of the system, as individuals may not be aware of what they are entitled to. At the same time, the complexity of applications may discourage them from claiming what they could receive. Payment mechanisms are the same across most benefits, with most made through the banking system, except for the FSP. Keeping separate benefits for different target groups is problematic, as it may negatively impact the burden on social workers who are responsible for the verification of eligibility, as well beneficiaries who face multiple application processes.

▶Table 10. Social welfare benefits duplication among households, HSES 2018

	Disability pension	SWP	Maternity, children < 3	CA	FSP	CMP	Honoured mothers	Other benefits
Disability pension		5.7%	18.4%	24.2%	12.8%	63.2%	32.1%	12.9%
SWP	12.5%		16.2%	10.9%	11.1%	69.6%	35.6%	15.9%
Maternity, children < 3	6.6%	2.7%		4.6%	8.2%	91.9%	19.1%	5.0%
CA	29.3%	6.0%	15.6%		10.8%	61.7%	40.5%	29.1%
FSP	18.5%	7.4%	33.3%	12.9%		91.3%	45.5%	8.7%
CMP	6.9%	3.5%	28.0%	5.5%	6.8%		23.4%	6.3%
Honoured mothers	8.1%	4.1%	13.4%	8.4%	7.9%	54.0%		23.2%
Other benefits	7.8%	4.4%	8.3%	14.4%	3.6%	34.9%	55.5%	

Notes: Percentage of households recipient of ROW that are also recipient of COLUMN.
Source: Authors' elaboration of HSES 2018 data.

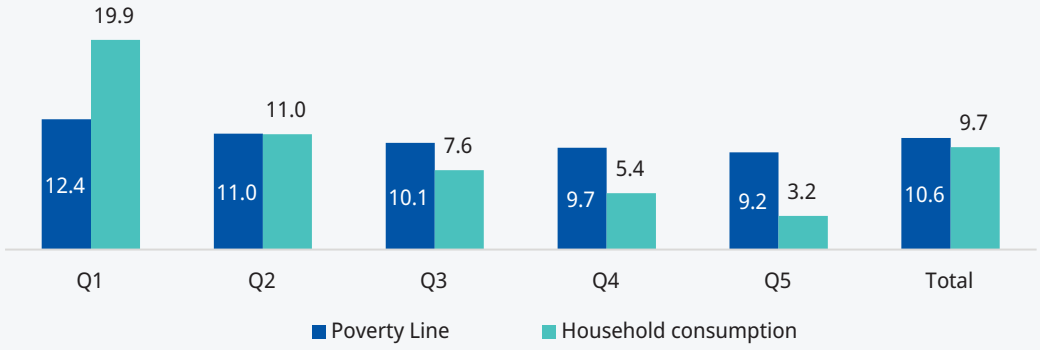
One way of exploring how to rationalise the 44 benefits is determining the overlaps in terms of the target population and intended objectives. Classifying social welfare benefits according to a target group can also help to identify potential duplication and overlap within the system. A low number of programmes do not necessarily indicate a lack of focus on one specific target group, as the resources allocated to each group may be substantial. For example, there are only two main programmes focused on children, the CMP and the Social Welfare Pension benefit for orphans. However, they represent the largest spending. Conversely, many small programmes/benefits for a given target group may indicate a potential source of inefficiency stemming from duplication (see Table 10).

Benefit level and adequacy

The level of social welfare benefits is higher for the poor than for the wealthier, but on average it is extremely low compared to the poverty line and to per capita consumption.[40] Because benefits are shared among households, the average level of social welfare benefits represents about 17,700 tugrik per capita monthly, which represents 10.6 per cent of the poverty line. Benefits follow a progressive path (see Figure 33), but they still represent only 12.4 per cent of the poverty line among the lowest quintile. Compared to per capita consumption, benefits clearly have a higher relative importance for the poorest, but they do not reach 20 per cent of per capita consumption. This rate is in line with the global average (World Bank, 2018) and indicates that households already living in poverty or at risk of poverty (the second quintile) could significantly profit from higher transfers, especially due to the higher household sizes among the poorest. Additionally, the low average confirms the unlikelihood of welfare dependency in Mongolia.

Benefit amounts are established by the Government's resolutions. These resolutions aim at updating the transfers to current living conditions, and were particularly effective during the COVID-19 lockdowns, because the government could immediately top-up the benefits. Nonetheless, in non-emergency times, the benefits may remain flat for long periods and do not follow the economic changes, especially in a highly inflationary economy as Mongolia. While the lack of indexation allows for better planning and savings from a financial sustainability point of view, this is not socially desirable as beneficiaries lose their purchasing power. To counteract this effect, several countries include in their benefits regulation automatic mechanisms of indexation which can be parametrised for example, with consumer prices indexes, wages, or interest rates, or a combination of these.

Figure 33. Average transfer of social welfare as a share of poverty line and per capita consumption, by quintile, HSES 2018



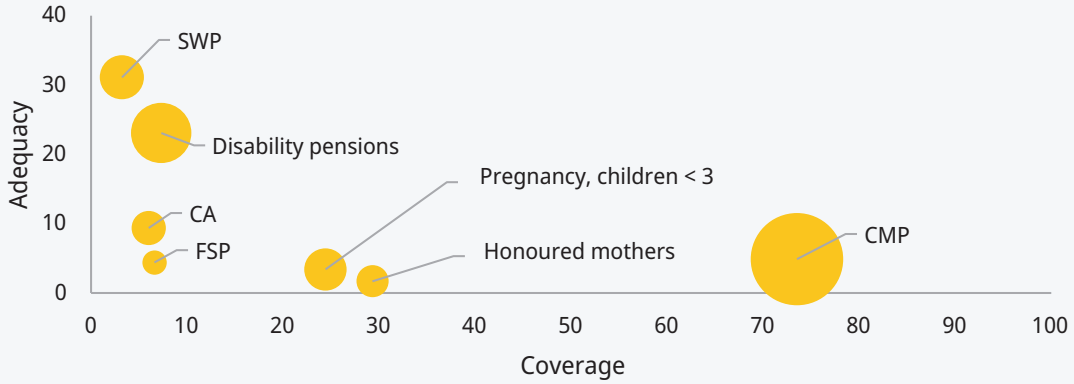
Notes: Percentages.
Source: Authors' elaboration of HSES 2018 data.

40 Calculated as the share of per capita social welfare benefits in a household to per capita consumption, among beneficiary households only.

Impact on poverty and inequality

The ability of social welfare transfers to lift poor individuals out of poverty depends on the combined effect of the benefit level and the horizontal coverage, which vary a lot across programmes. The divergences across benefit levels are wide, for example, from a one-time transfer of 1,200,000 tugrik for the homeless to a monthly transfer of 200,000 tugrik for the honoured elderly. Focusing on social welfare benefits, the highest transfers are delivered by Social Welfare Pensions. The per capita benefit size of the Social Welfare Pension represents 31.1 per cent of the poverty line. The per capita CMP benefit corresponds to 4.9 per cent of the poverty line, while the FSP average benefits 4.4 per cent of the poverty line. Due to their different natures, the benefits differ significantly by their (indirect) coverage (see Figure 34).

▶ Figure 34. Social welfare programmes, three dimensions of performance (impact on poverty), HSES 2018



Notes: On the horizontal axis is the share of the total population receiving the benefit. On the vertical axis is the per capita average monthly benefit as a share of the national poverty line. The size of the bubbles represents the absolute impact of the programme on the poverty headcount rate (size base on pp. reduction).
Source: Authors' elaboration of HSES 2018 data.

Thus, the combination of low coverage and small benefits results in an overall modest impact on poverty for several programmes. The largest poverty reduction effect is achieved by the CMP (-2.5 pp.) which is attained by the universal approach despite a low benefit. The second-best impact is provided by the Social Welfare and Disability Pension. By virtue of their higher benefits, these pensions succeed in reducing the poverty headcount by 1.6 percentage points in total.

Notably, despite is nature, the FSP achieves only a miniscule effect with 0.17 per cent points reduction of pre-transfer poverty. Given that this programme is the only one that explicitly targets poverty alleviation, such a result cannot be considered satisfactory. The poverty impact of the FSP is driven by its low benefits and its low coverage (due to targeting errors).

The poverty impact of social welfare in Mongolia is mainly driven by a universal and large programme (CMP). Indeed, despite not specifically targeting households living in poverty, the CMP is the most effective transfer, being capable to reach them. Nonetheless, the programme's flat benefit does not allow the neediest (the furthest from the poverty line) to escape poverty.

Before any form of social protection, the Mongolian poverty headcount would be 45.94 per cent and the poverty gap index 21.2 per cent (see Table 11). Mainly due to the income smoothing of social insurance schemes, the poverty headcount after social insurance and employment support already decreases by 23.4 per cent, down to 33.8 per cent of the population. The poverty gap is halved by these transfers, reduced to 11 per cent.

Thus, if social welfare programmes did not exist, the poverty headcount in Mongolia would be 33.8 per cent (about 1.11 million individuals). By virtue

of social welfare transfers, mainly by the CMP and Social Welfare and Disability Pension, the poverty headcount reduces by a further 17.2 per cent, or 5.8 percentage points, to 28.01 per cent (0.92 million individuals). Thus, the social welfare system contributes to lifting out of monetary poverty about 191,000 individuals.

▶Table 11. Poverty effectiveness of social protection transfers, HSES 2018

	P0	P0, pp.	P0, %	P1	P1, %
Before all transfers	45.94%			21.2%	
After employment support	45.87%	0.07	0.1%	21.2%	0.2%
After social insurance	33.90%	12.0	26.2%	11.1%	47.8%
After ES & SI	33.83%	12.1	23.4%	11.0%	48.0%
Before social welfare	33.83%			11.0%	
After social welfare	28.01%	5.8	17.2%	7.1%	35.1%

Notes: SI = Social Insurance. ES = Employment support. SW = Social Welfare. P0 = Poverty headcount rate. P1 = Poverty gap index. pp.= Percentage points difference. % = Relative difference.
Source: Authors' elaboration of HSES 2018 data.

Social protection is deemed one of the key instruments to address inequality, poverty and social exclusion. For doing so, the benefits shall nonetheless be adequate to this end and can be following a targeted approach within the universalism of coverage. Overall, the social welfare system reduces the Gini coefficient by 7.8 per cent, from 35.7 pre-transfers to 32.9 (see Table 12). This result is considerable, higher than most of regional peers, and should be considered a major feat of the social welfare system in Mongolia and the CMP (by large the highest contributor to this achievement).

▶Table 12. Redistributive effect of social protection transfers, HSES 2018

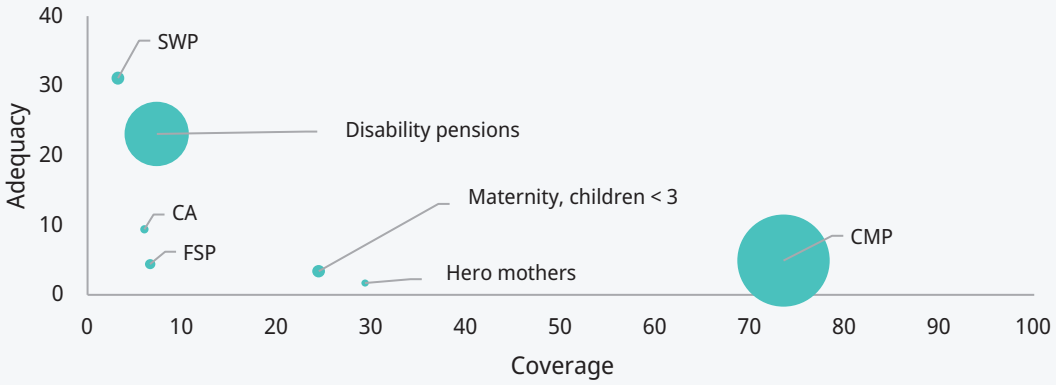
	Gini index	Gini reduction, %	Gini reduction, pp.
Before all transfers	39.68		
After employment support	39.65	0.1%	0.03
After social insurance	35.69	10.1%	3.99
After ES & SI	35.66	10.1%	4.02
Before social welfare	35.66		
After social welfare	32.88	7.8%	2.78

Notes: pp.= Percentage points difference. % = Relative difference.
Source: Authors' elaboration of HSES 2018 data.

Despite its targeted approach, the FSP fails to achieve a satisfactory impact on inequality. In absence of the programme, the Gini coefficient would be a mere 0.04 per cent higher than with it (Figure 35). Then, and perhaps surprisingly, the CMP, despite being a universal benefit, holds the highest effect on reducing consumption inequality.

In absence of the CMP, the Gini coefficient would measure 3.5 per cent higher. This effect can be interpreted by the different benefit levels (a single CMP benefit is higher the size of the value of adults' monthly food stamps), but in a hypothetical family of four with two children the total amount of the FSP benefits was actually higher in 2018 (i.e., FSP being 48,000 tugrik per month and the CMP being 40,000 tugrik per month). Thus, the higher impact of the CMP on inequality is due to the failing targeting tests of the FSP, and to the universal coverage of the CMP combined with its relatively low weight on richer households' consumption.

▶ Figure 35. Social welfare programmes, three dimensions of performance (impact on inequality), HSES 2018



Notes: On the horizontal axis is the share of the total population receiving the benefit. On the vertical axis is the per capita average monthly benefit as a share of the national poverty line. The size of the bubbles represents the impact on the Gini coefficient in absence of the programmes (size based on percentage points increase).
Source: Authors' elaboration of HSES 2018 data.

6.8 Social protection response to COVID-19

As with most countries around the world, the COVID-19 pandemic was one of the largest covariate shocks ever experienced by Mongolia. As of February 2022, the World Health Organization reported over 440,000 confirmed cases of COVID-19 in the country with over two thousand deaths (WHO, 2022).

The pandemic quickly transformed from a global and national health crisis into an unprecedented economic and labour market crisis. The Government of Mongolia was quick to act in response to the global outbreak of COVID-19. Although the first confirmed case in the country was only reported in March 2020, national mechanisms were mobilised in preparation for an outbreak as early as January 2020. Multi-sectoral incident management teams were set up in the country with the shared strategy of solidarity, early preventive measures, cross-sectoral partnership, and a culture of continuous improvement, supported by a range of national and international stakeholders (WHO, 2020).

Measures such as social distancing, closure of borders with China, travel restrictions from high-risk countries, cancellation of public events and closure of educational institutions were quickly put in place to limit the possible impact of an outbreak (Erkhembayar, et al., 2020; IMF, 2021b;). Alongside such preventive measures, the Mongolian Government also invoked a comprehensive social protection response to protect its citizens against the social and economic implications of COVID-19.

The bulk of the initial social protection response was invoked through two policy packages implemented in March and May 2020 (UNICEF, 2020). As of June 2021, several extensions have been invoked supplementing different measures introduced in the country, in lieu of the extended nature of the pandemic and its impact. The response in Mongolia primarily builds on the country's existing social protection mechanisms while also introducing new programmes as needed to protect the most vulnerable population.

This section will present a brief overview of Mongolia's social protection response to the COVID-19 pandemic and possible impacts. For this purpose, it will rely on data as available from a range of different sources including: Global repositories and databases on COVID-19 related policy responses maintained by agencies such as the International Labour Organization, the World

Bank, the International Monetary Fund (IMF).

As a global and national trigger of such enormous scale and magnitude, the pandemic and the associated social protection response presents an unprecedented stress test to the national social protection system and its ability to adapt to covariate shocks. As such, the unfolding scenario holds valuable evidence to help improve shock responsive programming in the country for the future. This section will therefore also evaluate elements of shock responsiveness in the Mongolian social protection response to the COVID-19 pandemic and derive lessons for future programming and policy response.

6.9 Social protection responses to the COVID-19 pandemic in Mongolia[41]

The Government of Mongolia implemented a set of measures to stimulate the economy and to protect the lives and livelihoods of the Mongolian population. Such measures primarily fall under the categories of social welfare and social insurance and are listed below.

Key social welfare measures

Increments to the CMP. Before the COVID-19 pandemic, the programme had a benefit level of 20,000 tugrik per month for every child under the age of 18. In response to the pandemic, the benefit level of the CMP was increased to 100,000 tugrik. The increment was initially offered from April to September 2020 and later extended up until July 2022.

Increments to SWP. The benefit level of the SWP offered to senior citizens who are not eligible for the old-age pensions from the SIF, persons with disabilities, children who lost breadwinners, and single and senior parents with four or more children, was incremented from 188,000 tugrik per month to 288,000 tugrik. The increased benefit levels were initially offered between May and September 2020 but later extended up to January 2023.

A one-time universal cash transfer. To support families through the period of the national lockdown in April 2021, a one-time cash transfer amounting to 300,000 tugrik per person was made available to every Mongolian citizen. The cash transfer was also made accessible to Mongolian citizens residing in other countries, through an online application process linked to the E-Mongolia system.

Increments to the FSP: The monthly food support offered to poor families was incremented from 16,000 tugrik per adult and 8,000 tugrik per child to 32,000 tugrik per adult and 16,000 tugrik per child per month from May to October 2020. The programme was later extended up to January 2021 and has continued at pre-pandemic levels since January 2021.

Subsidies to herders. Herders were provided with a subsidy of 20,000 tugrik for each kilogram of cashmere, to support their income and protect the domestic production of the cashmere industry (Carraro & Tserennadmid, 2020).

Personal and corporate income tax waivers. Personal income tax (except for civil servants) and corporate income tax (for companies with an income lower than 1.5 billion tugrik) was waived for six months and further extended till the end of the year in 2020.

Utility waivers and reductions: Households were exempted from paying utility fees (electricity, heating, water usage and waste disposal services) between December 2020 and July 2021 up to the level paid in December 2019. In addition, the price of enhanced coal briquettes was reduced by almost 75 per cent until April 2021.

The Government also committed to distributing dividends of Erdenes Tavan Tolgoi (a state-owned mining company), to eligible citizens between September and October 2020. The total amount of the dividend was estimated to be around 120 billion tugrik (UNESCAP, 2021).

Deferrals in loan and interest payments: The Bank of Mongolia, and other commercial banks and non-bank financial intuitions extended deferrals to

41 Policy measures reported here are taken from (Gentilini, et al., 2021) unless the source is specifically indicated.

borrowers on the principal and interest payments through the pandemic period.

Key social insurance measures

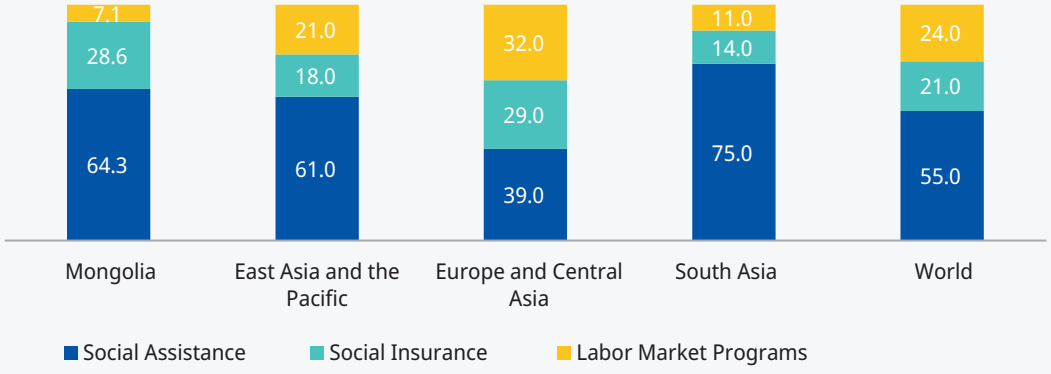
Wage subsidies. A monthly cash support (amounting to nearly 200,000 tugrik) was provided to insured workers employed in enterprises (except government entities and state-owned enterprises) whose operations were halted/sales revenues hindered due to the pandemic or containment measures introduced by the state.

Exemptions from social security contributions (mandatory scheme). Exemptions were offered under the mandatory social insurance scheme to employers and employees of all entities and firms (excluding state-owned/government-run) in the payment of social insurance contributions. The exemption was initially invoked from April to October 2020 and was extended further till July 2021 with tapering conditionalities.

Exemptions from social security contributions (voluntary scheme). Self-employed, own-account workers etc., participating in the voluntary social insurance scheme were offered full and partial exemptions from contributions through a variety of provisions from April 2020 to July 2021.

In addition to the above exemptions, all fines and payments were waived for enterprises (except state-owned/government-run) who reported dues in contribution payments between February and April 2020. Close to 65 per cent of the social protection response in Mongolia falls under the category of social welfare. On the other hand, social insurance accounts for close to 30 per cent of the overall response measures. There were no major labour market interventions reported so far under available sources – however, there have been adjustments and flexibility in working provisions offered to working parents with children. Figure 36 presents a comparison of the composition of Mongolia's social protection response against the response observed globally and in various sub-regions of Asia.

▶ Figure 36. Composition of Mongolia's social protection response in comparison to regional and global trends



Notes: Percentages.
Source: Adapted from (Gentilini, et al., 2021).

As of mid-2021, the measures announced by the Mongolian Government were estimated to account for around eight per cent to ten per cent of GDP. This is estimated to be the highest COVID-19 related social protection expenditure among lower-middle-income countries globally and is comparable also to some high-income countries (Gentilini, et al., 2021; IMF, 2021b). However, reliable comparisons of planned/announced versus utilised expenditures can only be made in due time as more robust and verifiable administrative data becomes available.

Early assessments of the impact of government response

The effectiveness of the government's social protection response may only be available in the future, once reliable demographic, administrative and programme data will be fully available. However, ex-ante assessments estimating possible effects of the government's measures are already available.

Carraro and Tserennadmid (2020) undertook one such assessment. They used microsimulations to assess the poverty and income distribution effects of the policy options invoked by the Mongolian Government in response to the pandemic. The assessment uses the 2018 Household Socio-Economic Survey (HSES) to generate credible estimates of poverty and income distribution in three distinct scenarios: i) a pre-COVID-19 baseline; ii) the pandemic induced recession and iii) the results of the Government's response.[42] The assessment is underpinned by a range of assumptions to allow estimating the economic losses induced by the pandemic in different sectors and the possible implications on household income and consumption.

The results of the assessment estimate that between April and September 2020, the pandemic would have reduced household income on average by ten per cent in the absence of the Government's social protection response (with considerable differences across the income distribution). Similarly, it estimates that both poverty and inequality in the country would have substantially increased in the absence of the Government's social protection response. On the contrary, with the Government's main measures in place, both poverty and inequality did not increase compared to a pre-pandemic scenario.

The assessment also simulated the possible redistributive impact of various policy measures. For example, the Social Security Contribution Waivers and the Personal Income Tax Waivers are estimated to better benefit the top 20 per cent of the population, receiving close to 40 per cent of the overall budget for the programme between April and September 2020. The increments to the CMP on the other hand were estimated to have better benefited the bottom 20 per cent of the population, wherein they are expected to receive close to 27 per cent of the overall budget for the programme.

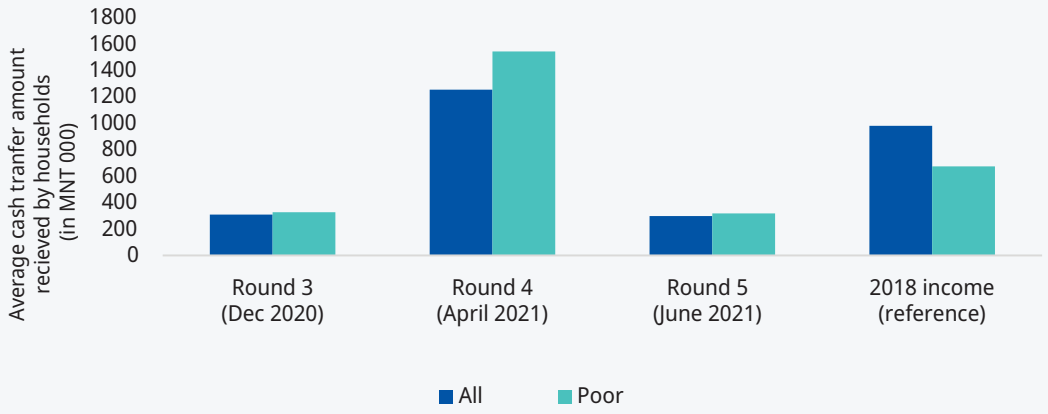
The assessment also reveals that in comparison to the baseline pre-pandemic scenario, the poverty mitigation effect of the Government's policy response is estimated to be most significant for households with children. Whereas single-person households or households without children, the poverty level either increases or remain the same in comparison to the baseline (Carraro & Tserennadmid, 2020).

Other studies have attempted to gather real-time information on the Government's overall response, including social protection measures. For example, since May 2020, the National Statistics Office (NSO) of Mongolia in collaboration with the World Bank have implemented a joint COVID-19 Household Response Phone Survey (HRPS) to monitor the household level impact of the pandemic almost in real-time. As of June 2021, five rounds of the survey were completed, with rounds four and five receiving additional support from the Asian Development Bank (World Bank, 2021).

Results from the survey indicate that although the Government's cash assistance amount declined after the one-time cash transfer was implemented in April 2021, the benefit size continued to remain generous (see Figure 37). The average amount of transfers received by households at the time of round five (June 2021) was reported to be approximately 299,000 tugrik, with poor households receiving close to 318,000 tugrik. Respondents from both poor and non-poor households attributed the CMP to be particularly helpful in mitigating adverse income shocks (World Bank, NSO & ADB, 2021).

42 The assessment focuses on the impact of policy measures that have direct implications on household income. Primarily, the following programmes are included in the simulation: The waiver of social security contributions and the exemptions of personal income tax; the increments in the CMP, FSP and SWP; and the subsidy on the price of cashmere.

▶ Figure 37. Average amount of government cash transfers in the past 30 days for the survey on rounds 3, 4 and 5 of the HRPS



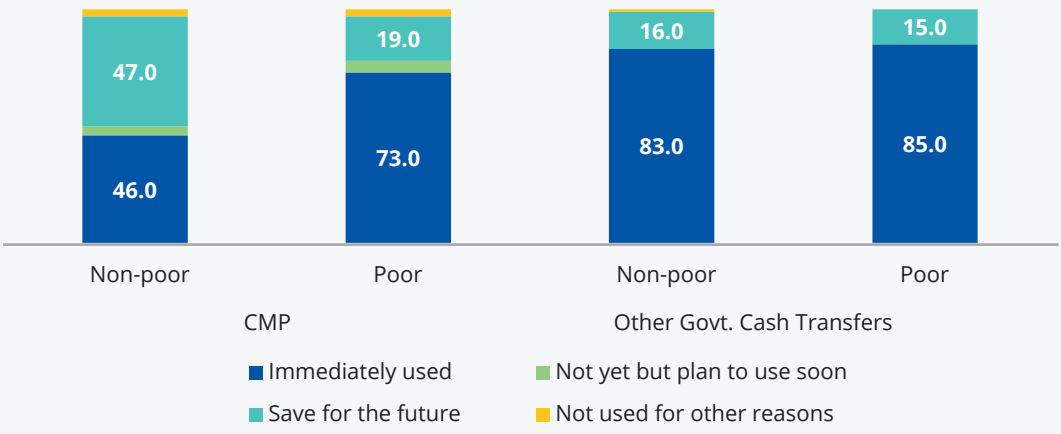
Source: Adapted from (World Bank, NSO & ADB, 2021)

The survey also indicates that poor households had much more immediate needs and tended to spend the benefits over shorter periods, with fewer indication of any saving for the future. While on the other hand, nearly half of the non-poor recipients planned to save the benefits of future use (see Figure 38).

The survey also gauges the population's perception of the Government's COVID-19 pandemic response. While overall, households largely agreed with the Government's containment, mobility restrictions and social protection measures, respondents particularly highlighted the need for further support to affected workers and businesses. In addition, nearly half of the bottom 40 per cent of households indicated the need for further financial assistance to cope with the evolving impacts of the pandemic (World Bank, NSO & ADB, 2021).

The studies discussed above indicate that while the Mongolian Government's social protection response was quite generous and comprehensive in its scale, there is still space to improve the efficiency of the system to benefit vulnerable populations better.

▶ Figure 38. Usage of CMP and other government cash transfers



Source: Adapted from: (World Bank, NSO & ADB, 2021).

Elements underpinning shock responsiveness in the Mongolian response

The Mongolian Government was actively engaged in actions to strengthen the shock responsiveness of the national social protection system even before the COVID-19 pandemic. Primarily, such efforts were focused on improving the capacity of existing social welfare mechanisms to respond to climate-related shocks and the country's harsh winters through temporary scale-ups.

For example, through the winter of 2019-20, the Government in partnership with UNICEF Mongolia, piloted a shock responsive social protection programme for rural children in selected provinces by vertically scaling up the CMP (Joint SDG Fund, 2020).[43] At the onset of the pandemic, such efforts had to be rapidly scaled up to safeguard the Mongolian population against the pandemic's negative implications.

Literature in the domain identifies several options better to encompass the responsiveness of national systems to covariate shocks. These include adaptations to existing programmes through benefit (vertical) expansion, coverage (horizontal) expansion and the introduction of new emergency programmes by using existing systems (UNICEF, 2019). The Mongolian social protection response to the COVID-19 pandemic was swiftly able to adopt many of these options to deliver comprehensive support to its citizens. This was made possible owing to certain inherent characteristics of the existing system in the country. Some notable examples are discussed below.

Equipped with the lessons learnt from the 2019-20 shock responsive social protection pilot study and with close to 96.6 per cent of children in the country benefiting from the programme, the CMP was identified as the most suitable mechanism to deliver emergency relief in Mongolia through the COVID-19 crisis (UNICEF, 2021). The programme's vast coverage and existing implementation mechanics allowed the Government to implement a swift response, reaching a large section of the population. Eventually, CMP beneficiaries were provided with a monetary top-up to help mitigate the impact of the pandemic.

Similarly, every older person in Mongolia receives a pension. The Mongolian pension system consists of several provisions including both contributory social insurance pensions and non-contributory social welfare pensions (USP2030, 2016). With social insurance provisions often limited to formal sector workers and with a considerably higher incidence of poverty and vulnerability among informal sector workers, the social welfare pensions play an important role in safeguarding vulnerable populations. The temporary vertical top-up offered to beneficiaries of the programme forms a critical mechanism to prevent vulnerable elderly and other beneficiaries from resorting to negative coping mechanisms in the face of the COVID-19 induced shock.

The one-time cash transfer of 300,000 tugrik introduced during the lockdown in April 2021 again relied on universality to reach the most vulnerable population. The benefit was made available to all citizens in the country, including the most vulnerable, to help cope with the income loss and economic downturn induced by the lockdown.

It is evident from the above examples that the key element enhancing shock-responsiveness of the national social protection system is the universal or near-universal nature of existing provisions and their underlying administrative mechanisms. While this helps ensure that benefits reach everyone in need, it also raises questions on the efficiency and sustainability of the system to serve the most vulnerable.

For example, as discussed earlier, evidence emerging from the COVID-19 Household Response Phone Survey (HRPS) indicates that poor households have far greater immediate expenditures in comparison to non-poor households, with many non-poor households intending to save emergency cash transfer benefits for future use (World Bank, NSO & ADB, 2021). In a crisis scenario, this indicated that a significant portion of the benefits were not always being utilised to counter the immediate implications they intended to safeguard citizens from.

Similarly, the pandemic response in Mongolia has also come under the lens for issues related to

43 Joint SDG Fund, 2022. Summary of Shock-Responsive Social Protection Programme Pilot for Rural Children.

sustainability and its increasing impact on debt dynamics. In comparison to other countries in the region, Mongolia's social protection response has been criticised for being expensive and regressive, with inadequate support to the most vulnerable populations (IMF, 2021c).

Such observations hold important lessons for the Mongolian system in the way forward and in preparation for future shocks. The extended nature of the COVID-19 crisis and the possible need for further response measures indicates that the financial sustainability of provisions must be considered while ensuring that those most in need are sufficiently supported.

Some lessons from the COVID-19 crisis and social protection response

The COVID-19 crisis provides an important opportunity for Mongolia to reflect on its strategies and investments in the national social protection system. The longevity of the pandemic induced shock, its implications on the population and the possible demand for additional support for large sections of the population calls for careful, evidence-based planning in coming times. The social protection response invoked so far has been a substantial support to the population, but at the same time has several areas where improvements could be envisioned.

As the discussions above indicate, the efficiency of often limited resources to benefit and safeguard the most vulnerable population in a crisis must be a priority in the way ahead. This requires considerations on emergency benefits distribution, based on evident variations observed from the impact of the crisis on different population groups. While maintaining the principle of universality, this could include considerations to slowly taper benefits for the more affluent sections of the population while ensuring more generous support measures (at least through critical emergency periods) to the most vulnerable population.

While existing social protection mechanisms provided a suitable platform to build emergency provisions, a foreseeable economic and social recovery has to be accompanied by effective social protection measures that can help the population benefit from such a recovery, keeping in mind the pandemic's resurfacing nature.

While exports and domestic activity gradually normalise, domestic demand, labour markets and the business sector in the country remain weak. Efforts to reactivate domestic markets must be supported by sufficient social protection measures to protect and reactivate the labour force as needed.

For example, the pandemic has also forcefully restructured labour markets, driven in part by a rapid demand driven reallocation of labour, labour displacements and digitisation. These changes are further anticipated to particularly impact middle and low skilled workers, often with limited access to social protection (Park & Inocencio, 2020). Such workers also stand a high risk of skills mismatch and shortage considering a fast-changing labour market scenario. Considering such implications, the recovery needs to be supported with adequate activation measures, including skills training, job search support and other tailored labour market support where possible.

In addition, those returning to work must be supported sufficiently through worker protection measures such as unemployment benefits and sickness benefits. With close to 41.5 per cent of the Mongolian labour force engaged in informal employment (ILO, 2020), measures to extend such protection to those in informal and non-standard forms of employment must be strengthened in the county in coming times.

The foreseeable added demand from the national social protection system also needs to be supported effectively by efficient administrative, delivery, monitoring and evaluation and data management mechanisms. Furthermore, in many countries across the region and the world, the pandemic accelerated digital innovation in social protection, including the use of interoperable data systems, mobile payment options, and ad-hock demand-based registration mechanisms (GiZ and ADB, 2021). Asia is rich with examples of such innovation and Mongolia could benefit greatly from the shared knowledge generated in the region. Evaluating the digital readiness and innovation needs of the national social protection system could also help identify ways to improve overall system efficiency.

The COVID-19 crisis highlighted the benefits of a timely response, particularly for the most vulnerable population. The crisis continues to unfold across the world and in Mongolia, indicating that sudden onset changes in the nature of the shock and the imposed demand can still be expected in the near future. The preparedness of the Mongolian system, and in particular its shock responsiveness, is a critical determining factor in the country's trajectory to recovery.

7

Policy recommendations

Description: A herder family in Zavkhan province, who have gained knowledge about social insurance as a result of ILO project, started voluntarily contributing to social insurance fund.

▶ Policy recommendations

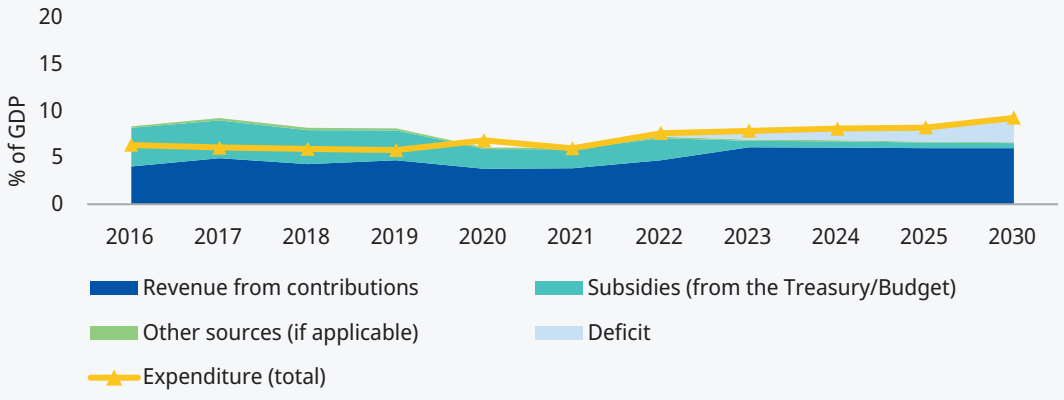
This section aims to provide an overview at the programme and system level on how future social protection expenditure may evolve from today to 2030 (the end of the projection horizon), under various scenarios. First, the findings from the baseline scenario will be discussed. This is a scenario which assumes no major changes in current programme parameters. Subsequently, several reform options will be discussed, and the costs of these alternative options will be presented. Although the social budgeting exercise allows for the assessment of possible major trends it does not replace the further need for an updated actuarial valuation. Hence, among the recommendation of this analysis, following the ILO and ISSA recommendations, an actuarial evaluation is needed for an accurate discussion on the parametrical reforms of the system.

7.1 Status quo social protection cost projections

Social Insurance Fund

The Social Insurance Fund expenditure increased 13.2 per cent annually, between 2017 and 2020, and is projected to further rise during the projection period. The projection findings on expenditure for consecutive periods are as follows: 17.5 per cent for 2021-22; 15.5 per cent for 2023-25; and 15 per cent for 2026-30. Meanwhile, revenues are projected to increase at a slower pace. The projection findings on the SIF's revenues for consecutive periods list 3.2 per cent for 2021-22, 9.8 per cent for 2023-25, and 12.1 per cent for 2026-30. Therefore, the initial post-pandemic deficit of 0.4 per cent of GDP, according to the baseline projections, will reach 2.6 per cent of GDP by 2030, and thereafter, is expected to further increase (see Figure 40).

▶ Figure 39. SIF's consolidated revenue and expenditure



Notes: Includes military pension.
Source: Authors' elaboration.

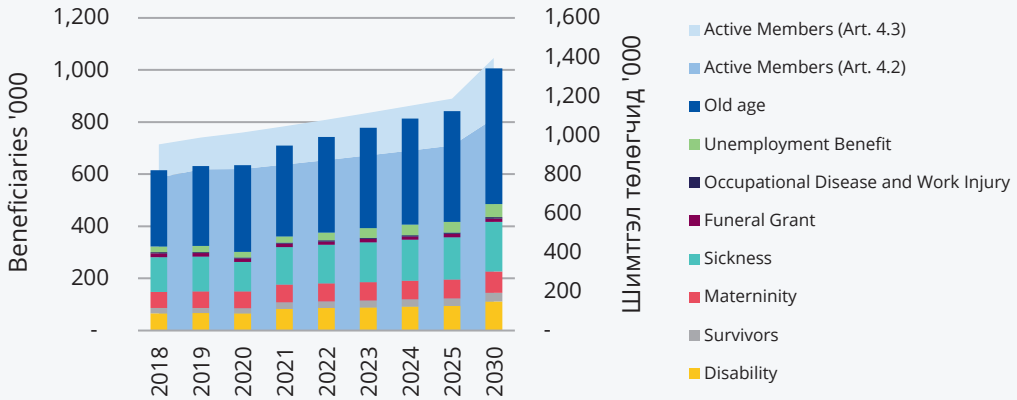
The long-term benefit scheme will be responsible for the major share of the SIF's expenditure increase and is projected to reach a total cost of eight per cent of GDP by 2030, which, by far, exceeds the growth in revenues. To a lesser extent, unemployment benefits, with a projected average annual growth rate of around 15.5 per cent from 2025 onwards, also contribute to the overall deficit. Still, the unemployment scheme deficit, as a share of GDP, only represents a small part of the total

consolidated SIF deficit (that is, 0.1 per cent of GDP by 2030). The other schemes, notably the short-term benefits and occupational disease and work injury pensions, are projected to incur small surpluses by the end of the projection period as their expenditure remains below their projected revenue. Within short-term benefits, maternity benefits represent the major component, reaching nearly 0.23 per cent of GDP by 2030. Total expenditure on contributory cash-transfer schemes, including administrative costs and transfers to other institutions, recording 6.8 per cent of GDP in 2020, will increase to 9.2 per cent of GDP by 2030, according to the baseline projections.

This overall increase in expenditure will be only partially offset by revenues from contributions, which are projected to increase at a slower pace of growth as indicated earlier. Revenues from subsidies (or transfers from the Treasury), estimated at 1.1 billion tugrik in 2022, have been set at zero in the baseline projections, except for the pension scheme for the military. Hence, the projected baseline 2.2 per cent of GDP deficit for the consolidated SIF is what needs to be financed either from the State budget or from other sources of revenue, including potential increases in revenues from contributions.

The figure below shows that the increase in beneficiaries under the SIF scheme, predominantly is caused by a rise in old-age pensioners. In fact, old age beneficiaries are projected to represent 54 per cent of the total beneficiaries by 2030, while their share was 47 per cent in 2019. The total number of beneficiaries in the baseline projections will rise from 653,600 to 961,200, between 2020 to 2030, and SIF beneficiaries will represent 24.7 per cent of the population (see Figure 40).

Figure 40. SIF beneficiaries and active members



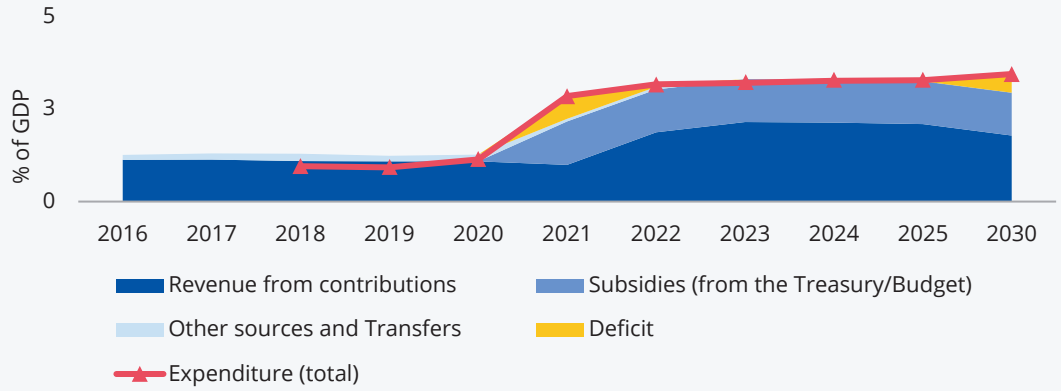
Notes: Active members are divided into compulsory (Article 4.2) and voluntary (Article 4.3). The graph excludes military pension beneficiaries.
Source: Authors' elaboration.

Coverage of future old age pension benefits, by 2030, will reach 520,000 individuals, comprising 83 per cent of the future population above the age of 55. The number of active members will also sharply rise over time, reaching nearly 1.5 million (1,395,000) individuals by 2030 (almost 36 per cent of the population). Future increases in the number of the insured should be driven particularly by voluntary contributors, which in the baseline projections increase from 187,000 (18.5 per cent of total active members) in 2020, to 310,000 (22.2 per cent of active members) by 2030. Nonetheless, this result is based on a perhaps rather optimistic assumption on voluntary insurance coverage. Indeed, from international experiences, extending coverage through mandatory schemes has proven to be more effective, in terms of broad coverage and adequacy, than voluntary mechanisms.

The HIF experienced a sharp cost rise during the pandemic outbreak. This, however, is partly cosmetic as it is related to the introduction of the 2020 reform, by which the HIF will take on the role as sole purchaser of health services vis-à-vis the providers of these services. Simultaneously, reflecting the same policy changes, the central government transferred additional budget to the HIF. The additional resources channelled through the HIF covered most of its deficit between 2020 and 2022.

Revenues from contributions over the projection period are expected to rise steadily at a yearly average rate of 11.3 per cent over the entire projection period (this is below the 2017-19 average of 15.7 per cent). Nevertheless, in a status quo scenario not accounting for a shift in the financing, expenditure is projected to rise at a higher pace (12.9 per cent), generating a deficit of 0.3 per cent of GDP by 2030 (see Figure 41).

▶ Figure 41. HIF's consolidated revenue and expenditure



Source: Authors' elaboration.

Programme expenditure will reach around 4 billion tugrik (3.4 per cent of GDP) by 2030, of which 94 per cent will be spent on health services (such as hospitals and clinics) and the remaining five per cent of total programme expenditures will be to cover the provision of medicines, rehabilitation, and prevention services.

Revenues from contributions will rise to 1.7 per cent of GDP by the end of the projection horizon. Contributions will be the highest revenue source under the HIF (60 per cent by 2030), followed by subsidies, or transfers from the State budget, at 1.2 per cent of GDP in 2030. Together, these two revenue components represent a total of 3.5 billion tugrik, corresponding to 2.9 per cent of GDP by 2030.

Subsidies, or transfers from the Treasury, by 2030, will cover almost 39 per cent of the total revenues, according to the baseline projections.

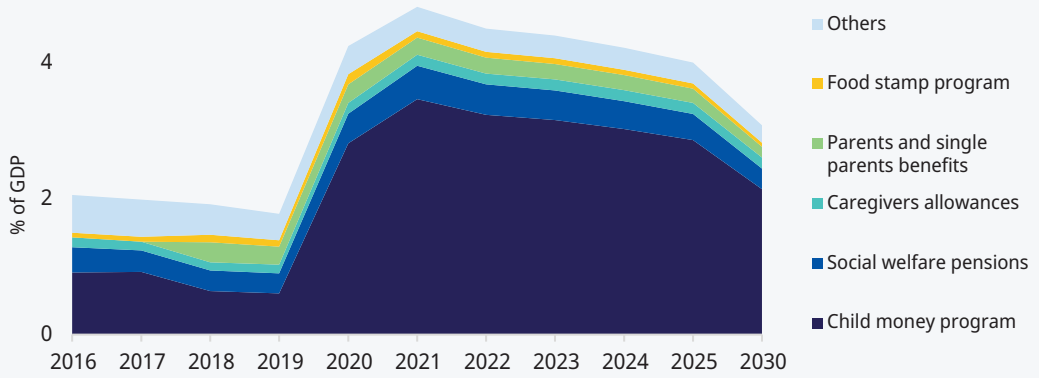
The number of insured will increase among all the categories. The highest absolute increase will be among children 0-18 years old and other vulnerable groups (Cat. III).[44] Their number increases, at an average annual rate of four per cent, from 1.2 million in 2022 to 1.6 million in 2030. The number of insured among self-employed, herders, students, etc. (Cat. II) is projected to increase by around 5.5 per cent annually over the period, even when the numbers of insured in these categories have decreased sharply in recent years (2018-22). The baseline projections, therefore, assume that this downward recent trend will not continue into the projection period.

44 Category III includes children 0-18 years old; citizens who have no other cash income than a pension; household member-citizens to whom social welfare support and assistance is essential; mothers or fathers taking care of a child; conscripts and convicts serving in prisons.

Social welfare

The social welfare programmes saw an increase, both in terms of coverage and benefits, in several programmes during the COVID-19 pandemic. Total expenditures more than doubled from 2019 to 2020 and increased by nearly 30 per cent in the year after. In 2022, total expenditure on social welfare records nearly 4.5 per cent of GDP. The baseline projections largely assume a decrease in social welfare spending after 2024, and from there, would slowly decelerate towards a compound annual growth rate of around 1.5 per cent, to eventually revolve around 3.1 per cent of GDP by 2030 (see Figure 42).

Figure 42. Social welfare cost



Note: Benefits are at the status quo level and adjusted by inflation growth. The graph shows the expenditure as a share of GDP of social welfare programmes. Among the other programmes the graph includes: Allowances for honoured mothers; Livelihood support allowances; Allowances for pregnant mothers; Allowances and concessions for the elderly; Benefits for the elderly with State merits; Allowances and concessions for the disabled; Community based social welfare services; Specialised institutional care services; "Age honour" allowances for the elderly above 65; Administration and other general services; Goods and services; Honorarium for members of the Livelihood Support Council; Banking service fees; and other expenditures.
Source: Authors' elaboration.

The status quo, or baseline, scenario operates under the assumption that the benefit levels are annually adjusted to inflation. The gradual decrease in GDP share is due to the 'denominator effect' which says that the growth in nominal GDP (which is the denominator) outpaces the growth in nominal benefit expenditure and, therefore, suggesting higher benefit adjustment to ensure benefits' medium to long-term adequacy.

The CMP is the most sizeable programme among all social welfare programmes, and this remains the case throughout the baseline projections. Besides CMP, the Social Welfare Pension will reach the second most beneficiaries, more specifically a total of 81,000. Of these, around 9,000 will be individuals over the age of 60, who will be covered under the old age benefit component. This would still leave a marginal coverage gap for the elderly by 2030. In fact, the social welfare pension old age component is assumed to cover only 1.4 per cent of the future population above the age of 60. Moreover, the total number of individuals covered under the parents and single parents benefit components will reach 290,000 - these are primarily mothers with infants up to 36 months, covering 90 per cent of children between the age of 0 and 3. The FSP and the caregiver allowance will be reaching, 304,000 and 122,000 individuals by 2030 respectively, respectively. The numbers of beneficiaries covered under the multitude of other social welfare programmes will remain, limited

7.2 Reform options

This section presents recommendations for social insurance, health insurance, social welfare, and the shock responsiveness of the system. It starts with a general introduction and guiding principles for reform. Subsequently, reform options, either already part of the Mongolian public discourse, or proposed by this study, are discussed. The following section 8 presents the financial projections and costs of the various options which have been discussed.

Directions and guiding principles

This section presents the interaction between the contributory and the non-contributory components (pillars) of the Mongolian social protection system.

If provided with the appropriate blend of instruments and integration with labour systems and tax policies, social protection can improve resilience, equity, and opportunity (Devereux & Sabates-Wheeler, 2004; Cherrier, Gassmann, Mideros Mora, & Mohnen, 2013; Holzmann & Jørgensen, 2001; Merrien, 2013). Social protection systems play a role in mitigating monetary poverty through redistribution mechanisms, and inclusive systems allow households to invest in human and physical capital which facilitates the management of risks and contributes to economic stability and social cohesion (Alderman & Yemtsov, 2014; Barrientos, 2012; Cherrier, Gassmann, Mideros Mora, & Mohnen, 2013). These objectives are reflected in the Mongolia Vision 2050, the Parliament expresses the intention to use social protection to ensure a quality of life, human capital development and to eventually develop a strong middle class. Therefore, the objectives of income smoothing, poverty reduction and insurance against life risk resonate in the Vision 2050 as both drivers for the achievement of the policy objective and as outcomes of specific objectives (such as the promotion and activation of working-age adults in the labour market).

The Mongolian social protection system has evolved over a long period of time and bears the marks of various episodes of the country's socio-cultural and political history. Even though most of the programmes were initiated after the shift from a socialist to a market economy in the 1990s, there are programmes, and specifically elements within them, which were inherited from the former period. Recently, laws have been passed and programmes have been which eventually led to a fragmented system and a proliferation of programmes with similar objectives and overlapping target populations.

Due to the large number of programmes, it is not clear whether coordination and integration between programmes and objectives are rightly addressed. The overlap of objectives, and duplications in beneficiaries among the various programmes, seems to indicate the need for rationalization, given that one programme can serve more than one objective. For example, some programmes contribute to building human capital, supporting old age vulnerability and disability, and some programmes address the (opportunity) costs for mothers with children, while just one programme is specifically designed to alleviate poverty by providing food vouchers to the most vulnerable.

Considering the current legislative processes, with draft laws on social insurance and social welfare being discussed in the parliament, cabinet and ministries, there is an opportunity for a more systemic approach to the process. This report offers some insights in this area.

Social protection schemes could directly contribute to addressing structural drivers of poverty such as a lack of decent work or weak economic performance. Protection against life cycle risks not only relates to poverty, but also touches on issues such as labour force participation of women for example, in the case of maternity protection, and facilitating structural transitions in the economy as well as unemployment insurance (Cunha and Knox, forthcoming; ESCAP and ILO, 2020). The unemployment insurance scheme, as it exists, is unable to accommodate transformations in the labour market, including the increase in less standard forms of work. Large categories of workers, including herders and self-employed, are not legally obliged to be members of the contributory schemes. While economic incentives are in place, these fail to expand participation among the self-employed and herders, so the

uptake and membership among these categories remain low, furthered by a lack of trust in the system.

To counteract the challenges faced by herders, one of the options being currently discussed among stakeholders is partially subsidising contributions for the first five years when herders join the SIF scheme. While economic incentives are a valuable option to stimulate voluntary adhesion to the schemes, stronger incentives could build on a more favourable environment as the extension of services to individuals enrolling in the system (ILO, 2021d). For example, schemes can be adapted to take account of the irregular and unpredictable nature of incomes for certain categories of workers, and mobility in the labour market. This can include putting in place simplified or flat contribution rates, proxy income measures, and alternative reference values (other than earnings wage related) to determine contributions such as the value of services or products commercialised. Nevertheless, further analysis and understanding of sectorial challenges and barriers are needed to develop specific policies for particular groups.

It is important to stress that these solutions will need legal enforcement to reach the desired outcome, and that voluntary participation alone cannot be expected to fill the coverage gaps. Many countries adopted mandatory systems to incentivise work formalisation and to extend social protection systems' coverage. Others make registration automatic, providing the possibility of opting out of the system. Indeed, tailored policies that embed both mandatory provisions and attractive incentives have been developed worldwide. Evidence on outcomes in cases such as in Brazil, Uruguay and Portugal can provide a positive example and a model for the long-term coverage expansion of the social security system in Mongolia (ILO, 2021b; ILO, 2015).

Moreover, while the Mongolian system reached a high level of coverage, the system would benefit from the translation of the development vision into a coherent set of systems (and their schemes and programmes), guided by a set of principles capable of ensuring their objectives and financing sustainability.[45] The Mongolian social protection system has evolved over a lengthy period, as was mentioned already, and its design does not meet the specific needs of the country in its current stage of economic development and aspirations. The question then arises as to how the social protection system can be optimised to address both imminent and future challenges facing Mongolia. To what extent are the current programmes the right ones to meet these challenges? To what extent do these programmes build a coherent and consistent whole?

From a regional perspective, Mongolia spends a fair amount of its GDP on social protection, and government revenues are sufficient to finance a share of these expenditures. This distinguishes Mongolia from countries in, for example, Southeast Asia, which are characterised by overall low levels of government revenues (measured as a share of their GDP) and low levels of social protection spending (Cunha and Knox, forthcoming). Therefore, as opposed to those countries, it is not the size of welfare state spending which is the problem but rather the composition of expenditures vis- à-vis the contribution collection. During the COVID-19 pandemic, the Mongolian social welfare expenditure greatly alleviated poverty and prevented additional segments of the population from falling into destitution.

Nonetheless, the 2020-21 crisis pointed out additional worrying elements such as the need for increasing several benefits amounts for them to be effective, and the inefficiency of the current poverty targeting mechanism, which was swiftly overcome by the universalisation and top-up of the CMP. This, combined with a highly subsidised social insurance system, defines the challenges Mongolia has in securing a financially sustainable system over the coming years.

The contributory schemes were initially designed for a labour market which has never quite been Mongolia's labour market. The Laws on Social Insurance of 1995 and on pensions and benefits provided by the Social Insurance Fund of 1994 regulate stable labour relations with long service careers and earnings which are sufficiently high

45 The latter is the subject of a parallel report on financing strategies (UNFPA, forthcoming).

to provide a base for contributions. Earlier in this report, it was already argued that this is not the case for Mongolia. Moreover, the contributory Mongolia social protection system was designed based on examples from medium-high to high-income countries. The combination of the high incidence of workers on the minimum wage, the constant incidence of informal employment, and the emergence of new, mostly unregulated, forms of work, further detaches the system from the reality of the labour market. On top of this, voluntary mechanisms fail in their objective of being more effective and attractive, and leave large segments of the population unprotected, which potentially constitutes a liability for the system and its members.

The State budget is recognised worldwide as a fundamental agent towards financing inclusive health care systems (such as resources from government revenues covered 45 per cent of the OECD countries' health expenditures in 2019)[46]. Indeed, the commendable achievement of universal health coverage in Mongolia has been obtained thanks to a consistent commitment from the State budget.

Nevertheless, while in the past years, universality of coverage was achieved with respect to primary health care provision, a marginal SHI gap still exists and the quality of provisions are still inadequate compared to the development objectives of the country, due to limited access to services in remote areas, a lack of preventive care, and an excessive burden on users through out-of-pocket expenditures. Moreover, on the demand side, the Mongolian Government intervenes in transferring the contributions for categories not able to contribute for themselves (such as children). In addition, herders and self-employed only contribute a very low nominal amount, far below their average costs for the HIF. Therefore, for these categories, there is a margin for a revision of their capacity towards a more equitable system.

Shifting attention to the social protection non-contributory schemes, concerns may arise regarding specific programmes' relevance and how development objectives are translated into programmatic choices. Fairly recently, several laws were adopted which regulate benefits for specific categories. In fact, four out of the six laws regulating social welfare were adopted in 2016/2017 – these were the Law on the Rights of Persons with Disabilities of 2016, the Law on Senior Citizens, the Law on Allowances and Concessions for Honorary Senior Citizens and the Law on Providing Benefits to Parents or Single Parents with Multiple Children (all in 2017). The question is, how do all these laws fit into the general framework of social welfare as regulated in the Law on Social Welfare? And where in this set of laws is a law that regulates the rights of children?

The fragmentation of the regulatory environment does not allow for the evaluation of the policies under a single framework of principles and directions. In this sense the main recommendation would point towards a more integrated approach capable of outlining a leaner system, where juxtaposed programmes are consolidated, and resources are thence rationalised.

Thus, not only the systems shall be integrated internally, but also, to orientate social protection towards the achievement of its objectives, the coordination of social welfare and insurance programmes can ensure that risks are being pooled across society, fostering equity and redistribution. Otherwise, the lack of coordination between the programmes may undermine the capacity to consistently cover individuals along their life cycle in the future. It needs to be highlighted that covering individuals across their life cycle risks prevents households from falling into poverty, by providing instruments to face covariate and idiosyncratic shocks (García & Gruat, 2003).

The following sub-sections discuss the reform options already part of the Mongolian public discourse jointly with the proposed reforms. The sub-sections are divided into four topics expounding on the arguments of social insurance, health insurance, social welfare and shock responsiveness.

46 (OECD, 2022)

Social insurance

On the contributory side, two recent events warrant discussion. The first is that the Government in October 2021 submitted a set of five draft social insurance laws to parliament. Two of these drafts, the Social Insurance Law and the Law on Pensions and Benefits provided by the Social Insurance Fund, have recently been redrawn for further discussions and amendments within the cabinet. Three important amendments are of particular relevance for this report as they can seriously affect the longer-term financial sustainability of the pension schemes and the SIF.

The first amendment revokes the initial plan to establish a three-tier pension scheme, including a universal basic pension financed from general revenues, augmented by a separated earnings-related second tier financed from contributions, and a third voluntary private insurance tier. The second is a new stipulation that two percentage points of total contributions collected from the long-term pension scheme will be set aside. These resources are expected to fund reserves to compensate for the additional costs arising from the transition from the DB to the NDC system, along the line of establishing a fully funded individual account system in the long term (see Annex IV for the Singapore case on fully funded individual account systems). The third amendment concerns a change in the accrual rates schedule. For the first 20 years of service, the annual accrual rate is and remains 2.25 per cent.[47] Under the earlier draft revision of the law, the accrual rate was set at 1.5 per cent for service years above the 20th. This means, after 40 years of service, a worker could achieve a pension corresponding to 70 per cent of the reference income. The amendment increases the annual accrual rate for service years above the 30th year to two per cent, resulting in a replacement rate of 80 per cent after 40 years of service. Effectively, therefore, this increases the benefit level, rewarding and incentivising longer careers and membership to the SIF. Nonetheless, due to the already high level of subsidisation of the fund's expenditure, this measure is expected to increase the deficit and severely undermine the financial sustainability of the system, while benefitting only a small part of the insured.

Some of the other amendments include a shifting of 0.3 percentage points of contributions from the work injury and occupational disease scheme to the unemployment benefit scheme. This last amendment is technically a recalibration of contribution rates within the overall portfolio.

The other three draft-Laws (the Law on Individual Pension Insurance Contribution Account, the Law on Pension and Benefits of Military Service Personnel, and the Law on Work injury, Occupational disease Pension, Benefits and Payments Provided by Insurance) have not been amended and are expected to be resubmitted to parliament unchanged.

A second notable event marked the spring of 2022 when the cabinet announced the increase of the minimum pension under the SIF long-term pension scheme from 350,000 tugrik to 500,000 tugrik per month – a more than 40 per cent increase, which substantially exceeded the inflation figure of the previous years. The minimum pension increase may concern more than 60 per cent of all pensioners (World Bank, 2020). In other words, as it effectively sets a floor in the level of the benefit, guaranteed by the Government budget, the Government will subsidise pension benefits for more than six out of every ten pensioners to a lesser or larger extent. Moreover, someone who has earned the national average wage during 20 years of service will only marginally receive a pension benefit that is higher than the minimum pension. This poses an equity challenge to the system producing low incentives for the voluntary categories to contribute and challenging the financial status of the SIF, as highlighted in the gap analysis.

The problem is exacerbated by the overall low level of earnings and the earnings distribution, which is rather flat for the first eight deciles. The consequence is twofold: i) the level of the minimum pension is high against the level of a pension that a person can earn during his or her lifetime; and ii) the assessment base (tax base) for contributions is very narrow. There is no easy escape from this. While the gradual increases in the minimum wage represent a solution only in the long-term, since this

47 This accrual rate allows pensioners to obtain a replacement rate of 45 per cent after 20 years of contributions.

cannot solely rely on policy objectives but accounts economic developments, the only short to medium-term solution lies in a widening of the tax base and parametric reforms of the pension formula.

The transition from DB to NDC remains scheduled with the previous timeline and design. Within the general framework of the Social Insurance Law, there are two regimes, one for those who were born before 1960 and one for those who were born after 1978, whereas the cohort born after 1960 until 1978 has a choice to opt for either of the two regimes.

The first regime is a defined benefit (DB) pension, and the second is a notional defined contribution (NDC) pension. Both regimes have been explained in an earlier chapter. The two options, DB/NDC, are more about allocating the risk of an adequate future pension benefit level: either to the pension fund (DB), or to future beneficiaries (NDC). Further action is needed on the social insurance side of one or both the regimes. As it is shaped today, the NDC system needs further reforms to smoothen the transition from the DB system, ensuring social and solidarity principles, or the latter could go through parametrical reform, ensuring the financing sustainability of the system bringing forth an equally viable option. Hence, the discussion should focus on setting the parameters according to the principles of social and financial sustainability (see Annex III for the complete SIF parameters list).

The ILO actuarial evaluation of 2016 suggested some of the parameters that reform could address. Coverage and benefit adequacy under the NDC system could be ensured by extending the co-subsidisation of benefits as needed to ensure the adequacy of benefits and enforcing compliance policies. Moreover, the reduction of early retirement policies, the increase in retirement age and marginal increases in contribution levels could cover for a gradual replacement of the Government subsidies (ILO, 2016). Meanwhile, the long-term financial sustainability of the system will benefit from the current extension of the retirement age and the alignment between women's and men's pensionable age (World Bank, 2020).

This analysis points at the three outstanding issues when looking at the transition from the DB system and within the new NDC system.

Firstly, the opt-in option for the cohort that was born between 1960 and 1979. This leaves scope for what in the social insurance literature is called 'adverse selection' (Gruber, 2009). Those who calculate that it will be beneficial to opt for the NDC scheme (the wealthiest) will choose to do so, leaving the DB pool with a population that will cost more to the system on average. This induces upward pressure on the contribution rate for the pension scheme or on the Government budget to compensate.

Secondly, the discussion revolves around the possibility of early withdrawals. On the one hand, stakeholders advocate that pensioners under certain conditions should be able to withdraw resources from their accounts to cover the costs of education, health services and other extraordinary expenditures. On the other, part of the Government considers the option to make the fund available for individuals to contract mortgages. Early withdrawals might pose severe challenges to the system, like the case for Singapore with its early withdrawal policy (Tat, 2013; Tat & Toh, 2014).

Thirdly, and most striking, is the risk of a significant fall in benefits between two birth cohorts from one year to the following year. Indeed, as calculated by the two latest actuarial evaluations of the system, between cohorts from 1978 and 1979, the replacement rate will fall between 20 and 12 percentage points, drastically reducing the benefit adequacy for the NDC beneficiaries (ILO, 2016; World Bank, 2020). This would call for a smoothening of the transition path by introducing a transition period in order to avoid sudden decreases in benefits for the new retirees. One of the concrete options below will further discuss this.

Jointly with the transition from the DB to the NDC regime, the system faces overall financing challenges. The baseline projections have revealed that the main challenges in social insurance are within three schemes: long-term pensions, military pensions, and unemployment insurance. Moreover, as suggested in the guiding principles, a wider integration of the social insurance and social welfare system could ensure the sustainability of the schemes, fostering equitable and widely accessible benefits. Therefore, the following paragraphs describe concrete parametric reform options aimed at ensuring a more integrated, effective, and efficient social insurance system addressing issues related to both the transition as well as the overall

financing sustainability of the fund.

Starting with old age pensions. The most recent actuarial evaluations of the scheme (ILO, 2016; World Bank, 2022) have found that in the absence of parametric reforms the financial sustainability of the scheme is at risk. The baseline projections in this report have also shown a deficit that progressively increases to three per cent of GDP by 2030. Figure 44 shows two reform options for long-term pensions. The first is the three-tier model submitted by the Government to the Parliament in Autumn 2022 and recently withdrawn. Still, this model could ease some of the financial pressure on the pooled fund in relation to the current situation. For example, the universal basic pension could pool the current social welfare pension and the minimum SI pension. The level of the benefit from these two components could be set somewhere between their current levels. In addition, this model clearly distinguishes subsidies from contributions and, hence, would be transparent and more clearly understandable. The flat pension would become the responsibility of the government and not expressed any more as a subsidy to cover a deficit.

Figure 43. SIF long-term pensions: Old-age and disability

Figure 43a. The three-tier model

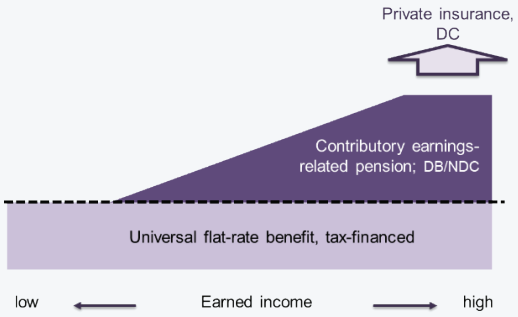
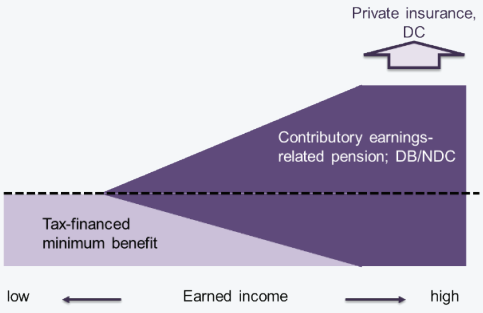


Figure 43b. Tapered subsidies model



Source: Authors' elaboration and ILO, 2021.

The second is a tapered model where the Government keeps subsidising part of the benefit with a tapering out schedule. For example, the Government could provide a minimum pension to all, but beneficiaries that accrued a pension higher than the minimum pension renounce to one Tugrik every three Tugriks of contributory pension exceeding the minimum level. This would create a segment in the earnings distribution where contributors know they will benefit from contributing because a less than proportional (such asone-to-three) reduction in the subsidy does not entirely offset their benefit. This model could be an alternative to the current model with a flat minimum pension threshold, which leaves no incentive to increase contributions until the point where one's benefit level surpasses the minimum pension (which lies far to the right side of the earnings distribution).

Moreover, the coverage extension of the social insurance system should play a paramount role in the future policy strategy, widening the tax base in the medium to long-term and pooling the financial risk of the fund. As much as this area is concerned, the formalisation of work is pivotal in achieving the widest coverage of the social insurance system. Nevertheless, the policy agenda could look at the registration processes to foster increases in coverage among voluntary contributors. For instance, an automatic registration of Mongolian citizens would ensure the widest coverage, yet avoiding to enforce a mandatory enrolment, by leaving the option to opt out at any time from the scheme.

For military pensions, no changes are foreseen in the Government plans.

Unemployment insurance

For unemployment insurance, the latest amendment to the draft Social Insurance Law increases the contribution rate component for employers by 0.3 percentage points. This is compensated by a 0.3 percentage point lowering of the contribution for the occupational diseases and work injuries scheme, which is entirely financed by employer's contributions. Hence, the shift is neutral and aims to address the structural deficit which would accrue from maintaining the current contribution rate in the unemployment benefit scheme.

Nevertheless, unemployment benefits rely on complex qualifying conditions, which impede the capacity of the scheme to cover the intended population. Among the insured individuals, the unemployment benefit recipient's share revolved around three per cent between 2018 and 2021. The number of beneficiaries increased from 18 per cent of the unemployed to 26 per cent between 2017 and 2021, which is still rather low. A reduction of the necessary minimum months of contributions from 24 to 12 and a removal of the consecutive nine months contribution condition might facilitate access to the benefit for individuals losing their employment.

Health insurance

While fundamental objectives such as universal coverage and a quite comprehensive set of benefits were achieved in the past years, some aspects of the system threaten its sustainability in the medium to long-term (Bayarsaikhan, Kwon, & Chimeddagva, 2016). Moreover, with respect to health financing, despite recent reforms, several challenges remain.

The first pertains to the closure of the health insurance coverage gap. While health insurance is mandatory, a marginal share of the population is still not covered. During 2020 coverage rose to 93.7 per cent of the total population, 3.7 pp compared to the previous year, and remained constant yearly until 2022. While the extension of coverage highlights the success of the health protection system in Mongolia, further effort should concentrate on reaching the totality of the population to ensure equitable access to secondary and tertiary health services for all.

Second, households' OOP payments have fluctuated around 35 per cent in the past decade, peaking at 37 per cent in 2013, with drugs being the costliest item for families (WHO, 2019; Hennicot, 2019). Indeed, in 2011 pharmaceuticals represented 94 per cent of the out-of-pocket expenses among the most vulnerable (ILO, 2021b). The amendment to the health protection system in 2020 set a milestone in the efforts to tackle critical issues in the pharmaceutical provision system, establishing the independent agency for pharmaceutical monitoring, to monitor usage, imports/exports and prices of pharmaceutical products. Moreover, the State Health Policy, adopted by the Government in 2017, set a target ceiling for OOPs as a share of total spending on health at 25 per cent, to ensure that health costs remain affordable for families. To reach this objective, future reforms should also revise co-payments, set at the flat rate of 10-15 per cent for accessing secondary and tertiary care, which remain a substantial financial burden for households.

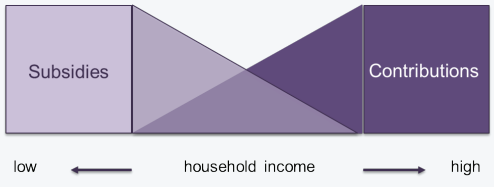
The third challenge is in financing the costs of the current package in times of limited fiscal resources. In the past years, the fund was slightly over-funded, leaving space for corrective measures such as an increase in reimbursement rates or an expansion of the benefits package (Hennicot, 2019; Bayarsaikhan, Kwon, & Chimeddagva, 2016). Indeed, increasing reserves from the HIF in the pre-pandemic years allowed the State to foster an increase in the insured benefit package, providing a rather comprehensive set of benefits. Nevertheless, the latest years posed additional challenges for the scheme and its financial stability, setting the provision of adequate services and benefits predictability at risk.

The fourth challenge, addressed in the alternative option section is the implicit cross-subsidisation of contributors versus partially exempted categories. Indeed, State subsidies rarely matched the effective needs of the categories partially exempted from contributions, generating a transfer from those categories paying full contributions. Furthermore, the future composition of the population will strongly affect the total system's cost (WHO, 2020; Hennicot, 2019). In particular, the contribution rate will be too low to cover the costs of the increases of the subsidised groups. Indeed, while health insurance coverage reached 89 per cent of the

population in 2018 and rose to 94 per cent in 2021, the State was increasingly liable for the provision of benefits. Individuals in the subsidised categories rose from 67 per cent of the insured population in 2018 to 71 per cent in 2021 (WHO, 2019; NSO, 2022).

The outlook and the highlighted issues suggest that the scheme will benefit from a modulation of the contribution parameters, possibly reducing the burden on the State budget. The distribution of the new contribution rates should include a more equitable approach and scaling of the amount of contribution and subsidies based on the income level (see Figure 44). This might also assist in avoiding unfair cross-subsidisation among contributors. Indeed, at this time, a minimum wage employee (contribution rate of two per cent for employee) is contributing more in absolute terms compared to a self-employed individual (contribution rate of one per cent of minimum wage) with a higher wage.

Figure 44. Health insurance, a tapered subsidies/contributions approach



Source: Authors' elaboration.

The Government, with a view to containing costs, has set administrative tariff rates for health treatments (Bayarsaikhan, Kwon, & Chimeddagva, 2016). However, these administrative rates have not been adequately adjusted for medical inflation. The average annual adjustment is set at 5.4 per cent, much lower than actual cost increases. Then, after several years, the Government would issue an ad hoc adjustment to bring tariffs back in line with the price increase that has been accumulating over time. This practice of lagging of administrative tariffs vis-à-vis medical inflation has induced health providers to increase the volume of their services. Setting artificial rates and ad hoc adjustments, therefore, seems to provide the wrong incentive to health providers.

Social welfare

While the objectives of social welfare programmes might be identified as ensuring equity, poverty reduction, the development of human capital, and the provision of tools to support individuals' resilience and coping strategies, a set of programmes in Mongolia seemingly deviate from these (ILO, 2021a; García & Gruat, 2003). Indeed, programmes such as the Allowances for Honoured Mothers support other policy objectives, for instance, incentivising demographic growth, while others seemingly duplicate existing benefits (as the Age Honour Allowances).

This report proposes a two-pronged approach to address the issue of fragmentation in coordination, adherence to main objectives, and avoiding duplication and target groups in the various welfare programmes.

Firstly, the analysis proposes changes to existing social welfare programmes to tackle fragmentation and the duplication of benefits. In this scenario, the Government is to implement a stop in new admissions to the cash-transfer programmes which are mentioned above (i.e., Honoured Mothers and Age Honour Allowances, the Benefits for the Elderly with State Merits), or, alternatively, to disconnect the recognition which is embedded in some of these programmes (for example, the awarding of medals) and the eligibility for a benefit. People would still be awarded, but not in a financial way. Either way, the number of beneficiaries will gradually decrease in these programmes over time. Simultaneously, the scenario sets out to maintain the level of these benefits at current nominal levels. The combined effect of these two measures will be that the benefit expenditure in these programmes is projected to decrease rapidly. Moreover, parents and single parents' benefits, including pregnancy allowances, could benefit from a rationalization aimed at providing pre- and post-natal benefits to newborns and their caregivers, with adjustments of the benefits level. Similarly, programmes targeting individuals living with disabilities and individuals in their old age (such as allowances and concessions for the disabled and for the elderly) might provide cash transfers in one solution for each category. Hence, while preserving the provision of dedicated services, fragmentation would be reduced (such as consolidating the cash transfer for heating

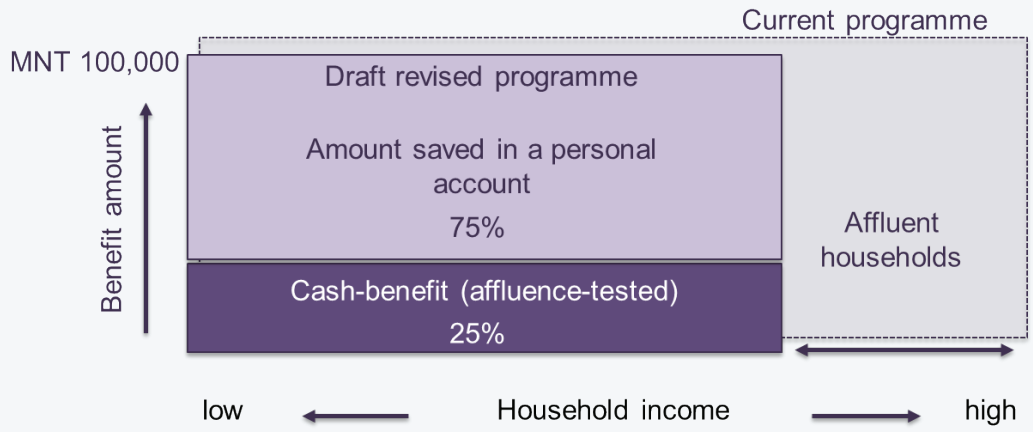
fuel purchases to the social assistance disability benefits).

Secondly, the scenario continues some of the existing social welfare programmes and introduces one new programme. The following programmes are continued, albeit with some changes in their parameters.

Child Money Programme

Concerning social welfare, the CMP nowadays is the largest programme within the social welfare portfolio. In 2019, the CMP expenditure was of 0.6 per cent of GDP, representing 34 per cent of total social welfare expenditure. In 2021, in response to the COVID-19 pandemic, its expenditure rose to 3.5 per cent of GDP, reaching 72 per cent of total social welfare spending. Different ideas have been circulating to reduce costs over time and face future fiscal challenges. One of the preliminary ideas mentioned by Mongolian stakeholders is to reduce coverage within the programme through an affluence test, which means that children from the wealthiest households would no longer be eligible to receive the benefit. In addition, the promoters of this revision of the CMP envisioned a retention of 75 per cent of the current benefit level in the Future Heritage Fund, funding individual savings account until children reach the age of 18, and giving the remaining 25 per cent as a cash-benefit (see Figure 45).

▶ Figure 45. Child Money Programme reform currently under discussion

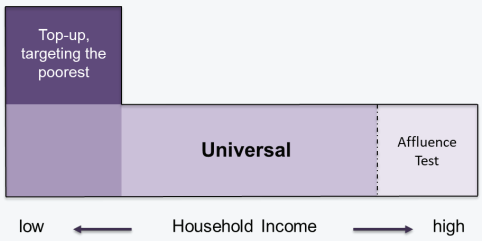


Source: Authors' elaboration.

Nevertheless, for 2023 the CMP will still be falling under the SWF budget and will be providing 100,000 tugrik per month with a target coverage rate of 91 per cent of children, potentially reached through an affluence test.

The first recommendation of this analysis is to follow the principles of a human rights-based approach and align with ILO R202, with the CMP maintaining its universal essence, with a least successful secondary options for the level of the benefit. As the universality of the programme has demonstrated to be achieving crucial outcomes so far, a potential option is to leverage on the existing FSP's means-test to vertically expand the programme, providing higher benefits to children living in vulnerable households (see Figure 47). Furthermore, this approach could be combined with the aforementioned affluence test, on a voluntary opt-out base. In principle, the horizontal dimension of universality shall not be put aside, but the vertical dimension of the benefit (its amount) could be defined differently.

Figure 46. Child Money Programme with a two-tier benefit



Source: Authors' elaboration.

Disability Pension

The recommendations include the achievement of full coverage among persons with disabilities. Currently, people with disabilities (PWDs) in Mongolia can either qualify for a contributory pension or non-contributory benefits. From the microdata analysis, the extension to all PWDs is still not achieved and thus a necessary step for the country. The option included is costed under two different scenarios. The first is the provision of a welfare benefit to all, excluding those receiving a disability pension from the SIF (i.e., a pension-tested benefit). The second is a scenario where a universal flat benefit is financed from general revenues, which for some can be topped up with a second contributory financed tier. Moreover, the analysis includes an evaluation of the costs of targeting all the caregivers to top up the universal benefit for individuals living with disabilities.

Old-age Social Pension

Under the universal old-age pension guarantee, the programme aimed to cover all who are above the official retirement age and who are not covered under the SIF long-term pension scheme. Therefore, the programme will be costed under two different scenarios. The first is a scenario where there is a universal flat benefit rate base pension, financed from general revenue, which for some could be topped up with a second contributory financed tier. The second is a pension-tested scenario that excludes those who receive a pension from the SIF, who still rely on a minimum pension provision under the social insurance system. Moreover, among the recommendations of this report is the tapered option. While the report strongly advocates for this option, further parameters analysis would have to be conducted to implement such options. Hence, the additional recommendation is on the implementation of a new actuarial evaluation.

Social Assistance Programme

Currently in Mongolia, there is no specific programme directly aimed at reducing poverty by transferring resources to the most vulnerable households. The closest programme is the FSP, although its provision in the form of stamps does not allow beneficiaries to prioritise their expenditures, especially those who are not in a state of food insecurity. The main recommendation concerning the FSP is to convert it into a cash benefit while expanding the households database to the entire population, and rediscuss the eligibility criteria to orientate them towards monetary poverty rather than food insecurity. Only for demonstration purposes which could be the costs of a means targeted programme, the analysis includes a simulated social assistance programme.

Shock responsiveness

The Government of Mongolia has responded swiftly and adequately to the challenges induced by the COVID-19 pandemic, as has been argued earlier in this report. The use of the CMP as a 'vehicle' to disburse cash rapidly to families that were suffering from the crisis was effective. Still, the question is warranted: Was it also efficient?

The preliminary analysis of Mongolia's COVID-19 response discussed earlier in this report indicates that, to a large degree, the use of the CMP was both effective as well as efficient through the immediate shock. For example, the COVID-19 Household Response Phone Survey (HRPS) indicated that 90 per cent of all CMP beneficiaries and 97 per cent of poor beneficiaries reported that the programme contributed to mitigating adverse shocks completely or partially (World Bank, NSO & ADB, 2021). The universal nature of the programme, the strength of its existing implementing mechanisms, including its beneficiary database, payment and reporting systems, human resource capacity, and a tried and tested methodology (through the shock responsive pilot programme supported by UNICEF and other development partners) were all crucial elements in strengthening the role of the CMP as

a key system for improved shock responsiveness in Mongolia. The evidence provided by the timely pilot initiative was critical also in making a case for increased budget allocation and the subsequent generous top-up offered through the COVID-19 period (UNICEF, 2021).

However, shock responsiveness, particularly in the face of prolonged covariate shocks such as the COVID-19 pandemic, also warrants critical considerations on the sustainability of such a comprehensive response – and the ability to continue to function efficiently through crisis periods. The COVID-19 crisis is still unfolding, and the global landscape today is further plagued by new challenges and risks, such as the impacts of the Russia-Ukraine conflict and the associated rise in food and energy prices. This, in combination with other overlapping risk factors such as the increasing frequency of adverse climate events and weather phenomena, frequent in Mongolia, indicates that the nature of risks is evolving globally and, in the region, and in most cases at a faster rate than social protection systems. Improving shock responsiveness thus involves a continuous learning path, often through the consequences of the ongoing or previous crisis.

The lessons from the pandemic period thus point to several considerations to improve shock responsiveness. The universal nature of the primary shock-responsive instruments played a critical role in the effectiveness of the response, while efficiency, particularly in the face of prolonged shocks, may benefit from options to vary levels of support based on specific needs and vulnerabilities.

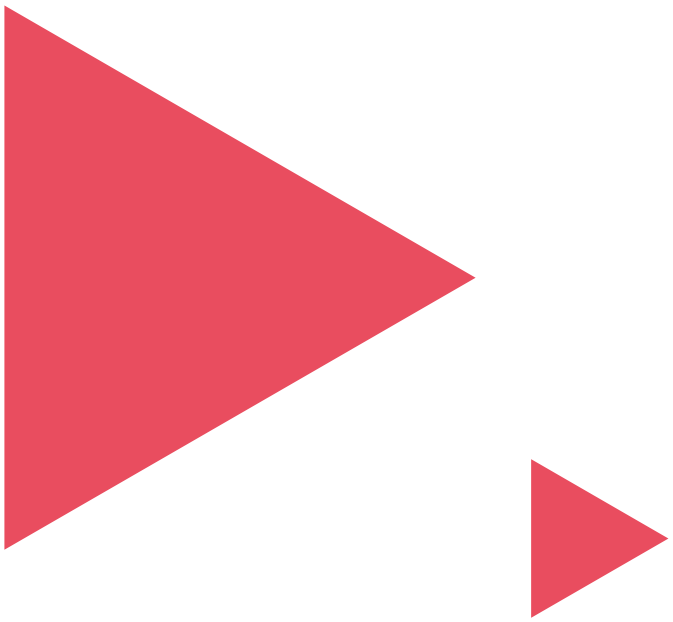
Preparedness, also played a key role in the rapid response, with tried and tested methods providing adequate evidence to channel additional financial resources through crisis periods quickly. Such preparedness should become an essential part of wider social protection programming.

The changing landscape of risks needs adequate consideration in shock-responsive programming and may often require specific mechanisms to counter the impact of shocks. Shock responsive programming should thus be linked and informed by a range of national and global mechanisms, including early warning systems, disaster management systems etc. to plot different response options and a diverse range of instruments, based on corresponding vulnerability profiles.

The pandemic accelerated digital transformation in social protection systems, as well as in related services such as education, health and labour markets. The shock responsiveness of national systems are integrally linked to the ability of systems, databases and other components to effectively communicate with each other and facilitate rapid, digitally enabled response options. An analysis of options to accelerate digital transformation and facilitate better interoperability between systems could thus inform the efforts to improve shock responsiveness.

8

Financial projections



▶ Financial projections

8.1. The impact of different reform options on cost projections

This sub-section discusses the various options for social protection reform that were costed.

Figure 48 shows several options for reforming the CMP. The first option C.1 is merely the status quo option of maintaining things as they are: A universal scheme with a benefit level of 100,000 tugrik per month. This option serves as a benchmark for the reform options.

The second option (C.2) assumes an affluence test which means that children from the top 20 per cent of wealthiest households will no longer be eligible for receiving a CMP benefit. This option was mentioned previously as circulating among the Government and is introduced here as a (second best) option for comparison purposes. This would reduce expenditure from 2.3 per cent of GDP to 1.9 per cent of GDP in 2030. Option C.3 combines a universal benefit of 25,000 tugrik per month with a means-tested benefit of 50,000 tugrik per month for children from poor households – the top up is increased to 100,000 tugrik for children in poor households in option C.3.1.

Finally, option C.4 combines options C.2 and C.3, which means that children from the wealthiest families will be excluded from receiving the benefit

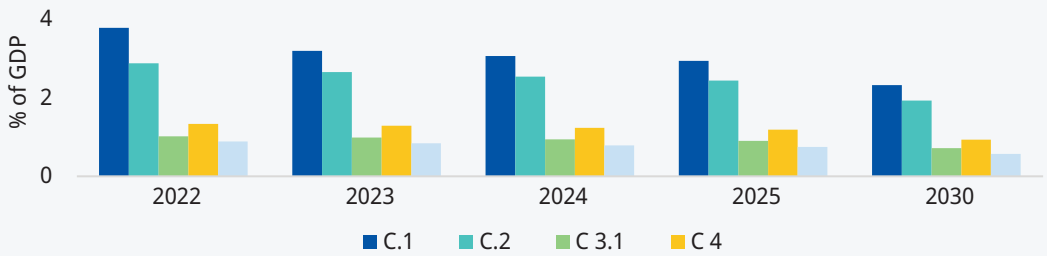
(see Table 13).

▶Table 13. CMP options

Option	Note	Benefit (per month)
C.1	Universal.	MNT 100 000
C.2	Affluence test excluding children in the richest quintile.	MNT 100 000
C.3	Targeted within universality, the share of children in the poorest households.	MN T50 000
C.3.1	Target with universality, the share of children in the poorest households.	MNT 100 000
C.4	Combines option 3 and 2.	

The GDP cost shares of options C.3, C3.1, C.4 would be 0.7 per cent, 0.9 per cent and 0.6 per cent, respectively, in 2030. The figure makes clear that the combination of a universal tier and a means-tested tier for children from poor households reduces the programme's costs significantly compared to the other options, nevertheless drastically affecting benefits coverage.

Figure 47. Costing options for the CMP



Note: Option C.1: Universal MNT100,000 per month. Option C.2 affluence tested (excludes 15 per cent children from wealthiest households and five per cent admin costs). Option C.3, targeted with universalism, provided to all children base MNT25,000 and different benefits MNT50,000 (or MNT100,000 for option C.3.1) for the 18 per cent of children that live in poverty and are part of households receiving the food stamp in 2018. Option C.4 combines Options C.2 and 3.
Source: Authors' elaboration.

Figure 49 shows the costs of several options for a universal benefit for persons with a disability (PWDs). Option D.1 provides a universal benefit to all individuals with disability between the age of 17 and 65 years old– hence, it excludes the children and elderly who should be eligible for either CMP or the universal old age pension (further below). The benefit provided is equal to the one provided under the current social welfare pension at MNT288,000 per month. In option D.1.1, the benefit is pension tested. This means that beneficiaries who are already receiving a pension from the SIF would be excluded. In this case, it would be possible to allow for a higher benefit level in this option. The caregiver allowance is a top-up of 100 per cent of the poverty line for caregivers of children between the age of 0 and 17 years old. The costs of all options will be higher in the short to medium-term than in the long-term. The costs of this universal benefit would be nearly 0.4 per cent of GDP in 2030 in the universal option, vis-à-vis only 0.2 per cent of GDP in the pension tested option. The top-up for caregivers would cost slightly over 0.1 per cent of GDP in 2030.

In order to manage costs in the short to medium-term, the Government could consider a gradual phase-in schedule – for example, starting with a pension-tested scheme and expanding that to a

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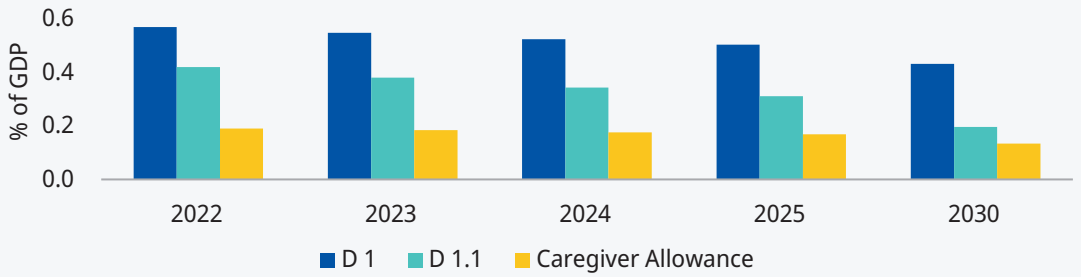
Towards a systems approach for social protection

Description: A social insurance officer is explaining the importance of social insurance.

universal scheme at a later point in time.

▶ Figure 48. Costing options for the universal benefit for persons with disability

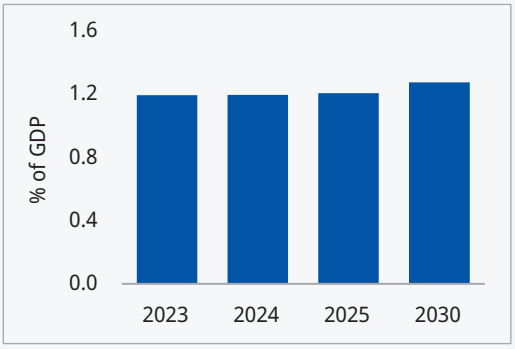


Note: Option D.1 provides a universal benefit to all individuals with disability between the age of 17 and 65 (excludes the CMP and SWP beneficiaries). The benefit provided is equal to the one provided under the SWP (MNT288,000 per month). In the case of option D.1.1, the benefit is pension-tested. The caregiver allowance is a top up of 100 per cent of the poverty line for caregivers of children between the age of 0 and 17.
Source: Authors' elaboration.

Figure 50 shows the cost if the government were to implement a universal old age pension. This could be the first tier of a three-tier old age pension scheme, like how it was envisaged in one of the earlier draft proposals on social insurance presented to parliament. The figure reveals a rather flat progression of costs for this scheme over time. This is the result of two effects which offset each other. One effect is a cost reduction over time due to GDP growth exceeding inflation, with which the level of the benefit is adjusted annually. This is a price effect. The other effect is the volume effect. The costs of this universal pension will increase over time because of demographics – it is population ageing which will drive the number of eligible beneficiaries in this scheme. These two offsetting effects cause the costs of this programme to revolve around 1.2 per cent of GDP throughout the projected period.

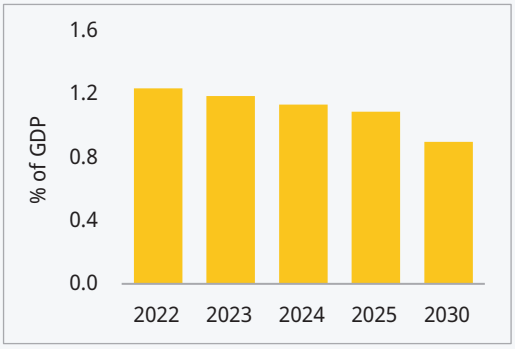
Figure 49. Costing options for the universal old age social pension and the social assistance benefit for poor households

Universal old age social pension



Note: The assumption is MNT288,000 per month for each individual over the age of 65+, adapted by inflation. Indeed, inflation plus the demographic aging result in a relatively constant cost share of GDP.
Source: Authors' elaboration.

Social assistance benefits for poor households



Note: The programme targets four categories among households living in poverty. Households with one individual would receive MNT45,062 per month (= to 25.2 per cent of the poverty line); households with 2-3 members, MNT112,655 per month; households with 4-5 members MNT202,779 per month and households with 6 or more members MNT315,434 per month. The average household benefit is MNT168,982 per month (94 per cent of the poverty line).
Source: Authors' elaboration.

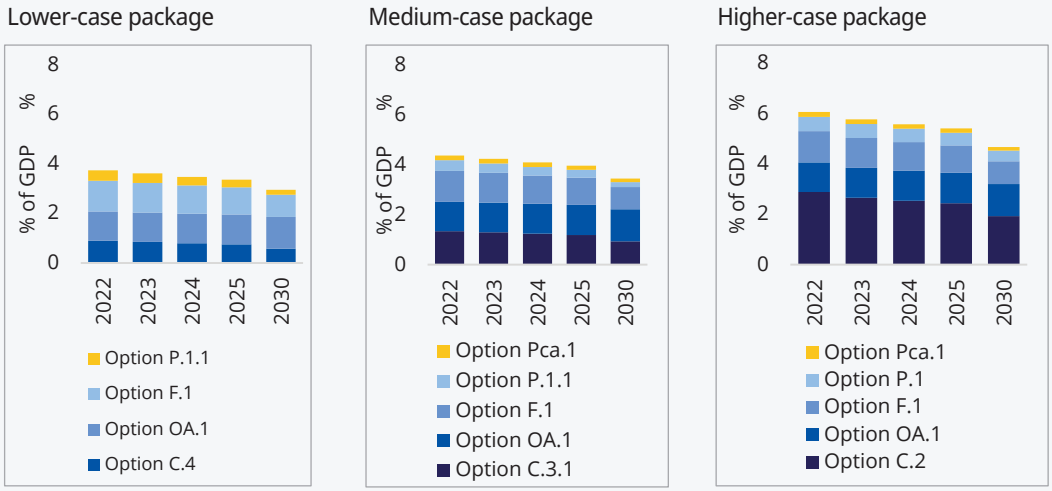
Figure 50 also shows the costs of a means-tested social assistance benefit targeted at poor households which has different benefit levels for various household sizes. The benefit level for a one-person household is set at a level corresponding to the current level of the poverty gap (MNT45,062 per month). This income would elevate the average poor person to the poverty threshold level. The benefit levels for more-person households are progressively increased, accounting for the groups' household size. The costs of this programme reduce over time to arrive at 0.9 per cent of GDP by 2030. Like in the programme for the population living with disabilities, the Government could consider a gradual phase-in to manage short to medium-term costs of this programme.

Finally, the costed options have been consolidated in three packages, which vary in their generosity. The three packages include programmes under the three life-cycle related guarantees providing under each package a unique set of the option described in this section and expanded in Annex V. Costed social welfare programmes for the reform scenarios.

The total costs of the packages range from a little above four per cent of GDP in 2023 to 2.9 per cent of GDP in 2030 in the lowest cost scenario, to nearly six per cent of GDP in 2023 to 4.7 per cent of GDP in 2030 in the highest cost scenario (see Figure 50).

If the Government would gradually phase-in some of the options in the highest cost scenario, it should be possible to gradually move, over time, from the lowest to the highest cost scenario, maintaining total costs of the social welfare package between 3.5 to four per cent of GDP throughout the projection period.

▶ Figure 50. Consolidated expenditure projections for non-contributory programmes, three scenarios



Source: Authors' elaboration.

Towards a systems approach for social protection

A well-functioning and integrated social protection system must align efficiently and effectively at the programme and policy level, while deriving from policy and administrative capacity. There are different types of social protection systems that exist, with each reflecting particular needs, capacities, levels of protection, as well as socio-economic and political realities in a given context. Taking the context into consideration, a properly integrated national social protection system should provide equitable access to all people and protect them throughout their lives against poverty and risks to their livelihoods and well-being. While inherently universal, such a system focuses on those with higher needs and in need of more support; while ensuring that the redistribution of government funds is done equitably and efficiently.

In Mongolia, social protection is already a critical item in the Government's effort to enhance its aspired socio-economic development outcomes. As was shown in this report, Mongolia has existing structures that have been developed at different points in time, with varying degrees of integration into an overall collective system. Additionally, significant progress has been made in the areas of poverty and inequality reduction. However, as the COVID-19 pandemic hit, the disproportionate impact on the poor and vulnerable was evident, as it was elsewhere in the world. And while the Government of Mongolia implemented a robust set of measures to stimulate the economy and to protect the lives and livelihoods of the Mongolian population, the effects of the crisis were far reaching. The pandemic therefore, further underlined the importance of building more adaptive, resilient, inclusive social protection systems.

Hence today, Mongolia finds itself at a crossroad. The preparedness of the Mongolian system, and in particular its shock responsiveness, is a critical determining factor in the country's future trajectory as it works on overcoming the consequences of the COVID-19 pandemic. The challenge is to realise how to further develop social protection beyond a poverty reduction and risk management tool, and move into a comprehensive system which addresses vulnerability and potential future shocks, while contributing systematically to a sustainable future by supporting economic transformation and growth. The Government of Mongolia can take concrete steps in the short and long-term to move towards a systems approach for social protection.

In the short term, it is recommended that the Government initiates a concrete space for reflection on the outcome of this report in the form of a stakeholder dialogue based on interests and mandates. An overarching question would entail an examination of how Mongolia would tackle social protection universally? And what would be the short-term and medium-term approaches to reach a universal system while incorporating policy goals and the long-term vision of the Government. For example, when looking at a programme such as the CMP, it would involve examining how different ways of additional targeting would be beneficial to ensure sustainability and efficiency (for example, combining universal coverage with higher benefits for those with higher needs versus affluence testing) while taking into consideration the political feasibility and financial constraints.

A more critical examination of the issue of gaps in funding must be undertaken, as was shown in this report, while the joint reduction of contributions and subsidies has resulted in a significant deficit. Pre-COVID-19 financial challenges, still make it worthwhile to further examine the underlying structure of the current deficit, and incorporate this understanding into a larger discussion on social protection funding, including a further examination on the implications of debt overall.

Another point of immediate attention which also relates to the sustainability of health financing concerns the topic of raising revenues for social health protection, which would require a critical examination of the high household OOP levels, this could involve different consideration of general revenues to health.

On a global scale, the question is being raised of the implications of an imminent recession and its corollaries on social protection, especially in a long-term outlook. Mongolia can build on its existing gains in social

protection to identify and address the multidimensional needs of its population, especially taking into consideration the most vulnerable. The impacts of the COVID-19 pandemic can serve as a clear indication of the additional effects of shocks, that must also be incorporated into climate considerations into the social protection systems.

Adequacy is another item that requires future vision and thinking. In the case of Mongolia, the diversity of benefits and services, interventions, and procedures make it challenging for people to adequately realise the support that they need. The lack of an integrated system reduces the efficiency and effectiveness in addressing poverty, vulnerability as well achieving social and labour market cohesion.

An overall systemic approach requires an investment in the development of a stronger base for delivery, which will increase efficiency while responding to multiple and overlapping shocks, in view of the contextual realties of Mongolia as they relate to the demographic and labour landscape, as well as the poverty and inequality situation. This would require concrete steps in the investments of capacity strengthening while identifying innovative sources of finance to support investment in social protection as well as preparing for future shocks. Drawing on local expertise, as well and fortifying national ownership becomes a critical pathway for the creation of a coordination, systemic, more comprehensive approach to social protection that would be more resilient to face the global challenges of the future.

Annexes

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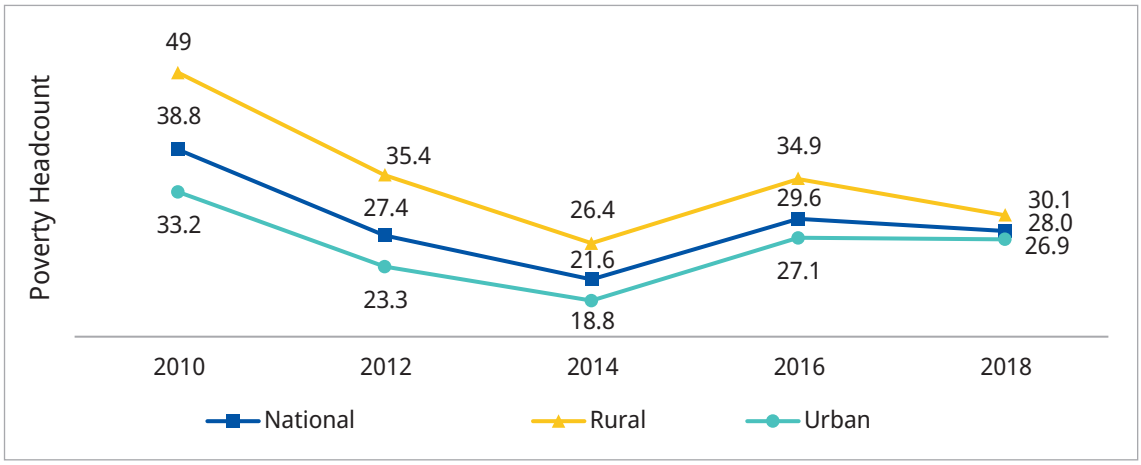
Annex I Poverty trend distribution



Source: Author's elaboration from HSES 2010-16 from (NSO of Mongolia, 2020) for 2010-16 values and HSES for 2018 values.

Annex II Poverty distribution by region, 2018

Source: Author's elaboration from HSES 2018.

Annex III Parameters of the SIF schemes

		Long-term pensions	Short-term benefits	IAODI	UI	Health Insurance (Cat. I)
Contribution rate.	Employer:	8.5	1.0	0.5-2.5	0.5	2.0
	Employee:	8.5	1.0		0.2	2.0
	Self-employed:	11.5	1.0	1.0 өөрөө хүсвэл гарах сонголттой	хамаарахгүй	1.0
Retirement age (for old-age pensions).		Gradual increase (three months per year) to 65 for men.				
		Gradual increase (six months per year) to 65 for women.				
Pension accrual rates (for old-age pensions).		2.25% for the first 20 years.				
		1.5% for years 21 up to 30.				
		2.0% for years 31 and more.				
Reference years for calculation the pension.		Best consecutive 84 months.				
Indexation of the benefit level.		Inflation (when inflation exceeds 4%, or after three years when inflation in these three years remained below 4%).				
Minimum pension.		MNT500,000 per month (this was MNT350,000) For those with less than 20 years of service a pro-rata reduction applies.				

Source: Authors' elaboration.

Annex IV Why (not) a fully funded individual account system?

The Singapore provident fund was considered by the Government as an example for progressing towards an NDC scheme. This calls for a disclaimer on the soundness of the provision of social security benefits through provident funds as in the Singapore system. Although the adequacy of a pension system is determined by preventing social exclusion, ensuring individuals' living standards and promoting solidarity, provident funds fail to redistribute from both an inter- and intra- generational perspective, posing the challenge to individuals to self-insuring against risk (ASEAN, ILO, 2020; Fornero, Lusardi, & Monticone, 2009). Moreover, the provident fund system in Singapore was found to provide low benefit adequacy to the most vulnerable individuals and return on saving (the "adjustment mechanism") lower than inflation, determining a real net loss in the value of funds accumulated by individuals (ASEAN, ILO, 2020).

Emblematic is that since 2016, to face the abovementioned phenomena, Singaporeans over the age of 65 might qualify for the Silver Support scheme. The scheme provides a tax-financed and means-tested old-age pension, covering the most vulnerable to fill the gaps left by the provident fund (ASEAN, ILO, 2020).

Annex V Costed social welfare programmes for the reform scenarios

Programme		Note	Benefit (MNT per month)
CMP.	Option C.1	Universal	100,000
	Option C.2	Affluence test excluding children in the richest quintile	100,000
	Option C.3	Target with universality, the share of children in the poorest households	Universal: 25 000 Vulnerable: 50 000
	Option C.3.1	Target with universality, the share of children in the poorest households	Universal: 25 000 Vulnerable: 50 000
	Option C.4	Combines Option 3 and 2	
Old -age allowance.	Option OA.1	Universal.	288 000
Livelihood support to families.	Option F.1	Poverty targeted (applies the poverty headcount and the poverty gap of the poor)	45,062- 315,43448
Person with disability support.	Option P.1	Universal (18-64)	288,000
	Option P.1.1	Pension tested (18-64)	288,000
	Option Pca.1	Caregivers' children (0-17)	180,000

48 Households with one individual would receive MNT45,062 per month (= to 25.2 per cent of the poverty line); households with two to three members would receive MNT112.655 per month; households with four to five members would receive MNT202,779 per month and households with six or more members would receive MNT315,434 per month. The average benefit is MNT168,982 per month (94 per cent of the poverty line).

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