



Report and Recommendation of the President to the Board of Directors

Project Number: 54214-001
June 2020

Proposed Emergency Assistance Loan Mongolia: Shock-Responsive Social Protection Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 May 2020)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.0004
\$1.00	=	MNT2,790

ABBREVIATIONS

ADB	–	Asian Development Bank
CDEP	–	countercyclical development expenditure program
CMP	–	child money program
CDEP	–	countercyclical development expenditure program
COVID-19	–	coronavirus disease
FSP	–	food stamp program
IHD	–	Integrated Household Database
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MLSP	–	Ministry of Labor and Social Protection
PAM	–	project administration manual
PFM	–	public financial management
PIU	–	project implementation unit
TA	–	technical assistance
WHO	–	World Health Organization

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 54214-001	
Project Name	Shock-Responsive Social Protection Project	Department/Division	EARD/EASS
Country	Mongolia	Executing Agency	Ministry of Finance (formerly Ministry of Finance and Economy)
Borrower	Mongolia		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=54214-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=54214-001-PortAtaGlance		
2. Sector		Subsector(s)	
✓ Public sector management	Social protection initiatives		ADB Financing (\$ million)
			26.40
		Total	26.40
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities	GHG reductions (tons per annum)		0
✓ Accelerating progress in gender equality	Climate Change impact on the Project		Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.3, 1.5	Effective gender mainstreaming (EGM)		✓
SDG 2.1			
SDG 5.4			
SDG 10.4			
		Poverty Targeting	
		Household Targeting	✓
4. Risk Categorization:	Low		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		26.40	
Sovereign Project (Concessional Loan): Ordinary capital resources		26.40	
Cofinancing		5.00	
World Bank - Project loan (Not ADB Administered)		5.00	
Counterpart		239.39	
Government		239.39	
Total		270.79	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed emergency assistance loan to Mongolia for the Shock-Responsive Social Protection Project.

2. The Government of Mongolia has requested emergency assistance for social protection measures to mitigate the socioeconomic impacts of the coronavirus disease (COVID-19) pandemic on poor and vulnerable groups. The proposed project will apply shock-response social protection principles to expand food support and cash transfers on a temporary basis, utilizing the targeting and delivery systems of two established national social assistance programs.

II. THE PROJECT

A. Rationale

3. **Impact of the pandemic.** The World Health Organization (WHO) declared the COVID-19 outbreak a public health emergency of international concern on 30 January 2020 and a pandemic on 11 March 2020. The WHO recommended that countries take drastic actions to contain the disease, requiring an immediate response to control and prevent its spread and reduce its health, economic, and social impacts, especially on poor and vulnerable groups. Mongolia's early and robust response to contain the spread included strict border closures, a suspension of air travel, enforced quarantine for arriving passengers, closure of schools and non-essential businesses, and other restrictions on daily life. These measures helped keep the number of cases relatively low, but the health risk-level remains high, and the curtailment of economic activity has affected many parts of the economy, including small and medium-sized enterprises, the service sector, and mining and extractive industries. A narrow economic base and dependence on mining make the economy inherently vulnerable.

4. **Mongolia will experience a severe economic slowdown.**¹ Preliminary estimates show that Mongolia will suffer losses totaling \$71 million–\$276 million.² Gross domestic product growth will be much lower in 2020 than envisioned: the Asian Development Bank (ADB) has revised the 2020 growth forecast to 2.1%,³ down from 6.1%,⁴ but a protracted global economic crisis brought about by the pandemic would significantly worsen this outlook. To counter the negative impacts of the COVID-19 pandemic, on 27 March 2020 the government launched a countercyclical development expenditure program (CDEP) and announced its intention to introduce measures with a cost of MNT5.1 trillion (\$1.84 billion). The program includes three areas of support: social protection measures to support citizens, support to vulnerable businesses and fiscal stimulus measures, and public health protection.

5. **Socioeconomic impacts on the poor and vulnerable.** The loss of jobs and income coupled with rising food prices will particularly affect existing poor and vulnerable people. The pre-crisis poverty rate was 28.4% in a population of 3.24 million, but this national average masks significant differences by gender, location, and age. The poverty rate is significantly higher among urban households headed by women (32.4%), households living in the country's eastern region (37.4%), and among very young children aged 0–4 (38.0%).⁵ Childhood poverty is widespread:

¹ ADB. [Mongolia: COVID-19 Rapid Response Program](#).

² ADB. 2020. [The Economic Impact of the COVID-19 Outbreak on Developing Asia](#). ADB Brief. No. 128, 06 March. Manila.

³ ADB. 2020. [Asian Development Outlook 2020: What Drives Innovation in Asia?](#) Manila.

⁴ ADB. 2019. [Asian Development Outlook 2019: Strengthening Disaster Resilience](#). Manila.

⁵ National Statistics Office of Mongolia and World Bank. 2020. [Mongolia Poverty Update 2018](#). Ulaanbaatar.

children under the age of 15 comprise 42% of the country's nearly 905,000 poor people, while 52% live in households with more than three children. A significant share of Mongolians who are technically non-poor nevertheless live precariously close to the poverty line. Increasing the poverty line by half from MNT166,580 to MNT249,870 per capita per month nearly doubles the poverty rate to 55.7% of the population (footnote 5). About 15% of non-poor Mongolians are considered particularly vulnerable to falling into poverty as their household income falls below 1.25 times the poverty line. Mongolia's experience with past crises indicates the adoption of negative coping strategies is a risk. Negative coping strategies can include selling productive assets, reducing consumption levels, or making harmful choices regarding investment in education, health, and livelihoods, all of which can impact long-term well-being.⁶

6. **Global social protection response.** As of 22 May 2020, 190 countries have planned, introduced, or adapted 937 social protection programs in response to COVID-19; the majority are social assistance transfers (559 measures, or 60% of the total).⁷ The most commonly used social assistance instruments are cash-based measures, with 283 measures in 113 countries. During a crisis, expanding support using existing programs and their infrastructure—such as targeting and delivery systems—is more efficient than creating new programs. Mongolia's Ministry of Labor and Social Protection (MLSP) used the food stamp program (FSP) in this way during the most recent financial crisis in 2017. The shock-responsive social protection literature identifies several options for responding to shocks using existing programs, including (i) adjusting the design of existing social protection interventions (such as waiving conditions), (ii) attaching interventions to existing program infrastructure, (iii) vertically expanding programs to temporarily increase the value or duration of benefits for existing recipients, and (iv) horizontally expanding programs to temporarily add new recipients.⁸

7. **Expanded social assistance measures.** The CDEP included a temporary increase in child money program (CMP) benefits of MNT10,000 per child per month for 3 months (April to June 2020). The total additional benefit of about \$11 per child would have provided some basic support to families, but the amount is relatively low from a welfare perspective, and as a share of the poverty line. Recognizing this, on 6 May 2020 the government announced an expanded package of temporary social assistance measures, including (i) a further increase in the CMP, bringing the total to MNT100,000 per child per month for 6 months; and (ii) doubling the value of the FSP to MNT32,000 per adult per month and MNT16,000 per child per month for 5 months (details are in paras. 9–10). The total cost of these two measures—basic program benefits plus temporary top-ups—is about MNT740.6 billion.⁹

B. Project Description

8. The project is aligned with the following impact: adverse socioeconomic impacts of the COVID-19 pandemic reduced.¹⁰ The project will have the following outcome: basic needs of the poor and vulnerable, especially women and children, supported.¹¹

⁶ ADB. 2018. [Strengthening Resilience Through Social Protection Programs: Guidance Note](#). Manila.

⁷ U. Gentilini et al. 2020. [Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures](#). Living paper version 10. Unpublished.

⁸ C. O'Brien et al. 2018. [Shock-Responsive Social Protection Systems Research: Synthesis Report](#). Oxford: Oxford Policy Management.

⁹ Other temporary social assistance measures announced on 6 May 2020 include providing benefits of MNT100,000 per month for 6 months in the form of social pensions for the elderly and allowances for people with disabilities, single parent households, and other vulnerable groups.

¹⁰ ADB. 2020. [ADB's Comprehensive Response to the COVID-19 Pandemic](#). Manila.

¹¹ The design and monitoring framework is in [Appendix 1](#).

9. **Output 1: Poverty-targeted food support increased.** Output 1 will finance a temporary increase in the monthly benefit level for all FSP beneficiaries for 5 months. The cash-like benefits are delivered either as electronic payments to e-cards (for 70% of the recipients, mostly in urban areas) or as physical vouchers (for 30% of the recipients, mostly rural). Food stamps can be used to purchase 10 staple food items, including milk and vegetables, from more than 750 participating vendors nationwide.¹² The FSP helps smooth consumption and protect food intake for more than 240,500 people, among them more than 118,000 children. Women and girls comprise 53% of all FSP recipients. The program reaches 44,325 families (the poorest 5%). Each family receives food stamps worth MNT16,000 per adult and MNT8,000 per child per month. A poor family of five would normally receive just over \$20 per month (less than 7% of the monthly poverty line for a family of five).

10. **Output 2: Child-targeted income support increased.** Output 2 will finance a share of the temporary increase in the monthly benefit level to all CMP beneficiaries for 6 months. The CMP provides monthly cash grants to children aged 0–17. Payments are made to accounts set up in the children's names, with mostly mothers as the custodians, on the condition that children are registered in the Integrated Household Database (IHD). As of March 2020, 1,107,130 children (about 93% of the total) received CMP grants worth MNT20,000 per child per month. A mother of three children under 18 would receive about \$21.50 (about 7.2% of the monthly poverty line for a family of five) to support her children's needs.

11. **Emergency assistance loan characteristics.** The project will (i) restore economic activities during and after the pandemic, (ii) mitigate immediate losses, (iii) provide immediate short-term transitional assistance, (iv) be restricted to the transition phase, (v) complement efforts by other development partners to ease the transition from relief to normal development, (vi) not be a policy-based loan.¹³

C. Value Added by ADB

12. ADB will leverage sector expertise, partner resources, and ongoing technical assistance (TA) to deliver shock-responsive social protection. ADB has been a leading partner in the development of Mongolia's social protection system over several decades, through a series of loans, grants, and TA projects.¹⁴ ADB supported the design and implementation of the FSP as part of the government's effective response to the 2009 food and fuel crisis. ADB also supported the introduction of the poverty targeting system, based on a proxy means test, leading to the IHD. The proposed project includes collaborative cofinancing of \$5 million from the World Bank to support the CMP. The project will also leverage resources and expertise from the ongoing knowledge and support TA to strengthen the social welfare system.¹⁵ The TA has three outputs that aim to (i) improve the capacity of social workers and social welfare policymakers (including to address future shocks); (ii) strengthen delivery and monitoring of community-based social welfare services; and (iii) support social welfare research, protection policy dialogue, and advocacy. Under the third output, the TA will support communication, outreach, and assessment of the shock-responsive adjustments to FSP and CMP benefits. Knowledge products and events will contribute to the discussion on how to build permanent shock-responsive mechanisms into

¹² The 10 staple food items are domestic meat products, domestic dairy products, flour, butter, sugar, fruit, vegetables, rice, vegetable oil, and eggs.

¹³ The project also meets all emergency assistance loan eligibility criteria as described in ADB. 2004. [ADB Disaster and Emergency Assistance Policy](#). Manila, para. 92.

¹⁴ In 2001, the first ADB lending operation, preceded by TA, was ADB. [Mongolia: Social Security Sector Development Program](#).

¹⁵ ADB. [Mongolia: Building Capacity for an Effective Social Welfare System](#).

Mongolia's social welfare system to respond quickly to future natural disasters and financial and health crises.

13. **Holistic pandemic response.** The proposed project is a key part of ADB's holistic package of support to mitigate the impact of COVID-19 in Mongolia.¹⁶ This package, which incorporates gender mainstreaming throughout, includes rapid response measures in the health sector, such as reallocating \$1.4 million under an existing health project to procure emergency health equipment, preparing a small-scale TA project for health sector emergency response systems, and approving a \$1.0 million grant from the Asia Pacific Disaster Response Facility to support further procurement of emergency medical equipment. It also includes short- and medium-term responses such as a \$30.0 million loan to support health security, a \$24.0 million reallocation to support small- and medium-sized enterprises, and a \$100.0 million countercyclical support program to help the government manage the economic impact of COVID-19 and respond to public health and social protection needs for vulnerable groups through the CDEP.¹⁷

14. **Robust emergency assistance coordination.** ADB is a regular participant in development partner coordination activities in Mongolia and plays a leadership role in several sectors, including social protection.¹⁸ ADB is working closely with the International Monetary Fund (IMF), the World Bank, other development partners, and various United Nations agencies, including the Humanitarian Country Team, to ensure that COVID-19 pandemic responses are well aligned and complementary. The World Bank has approved a \$26.9 million investment loan in the health sector and is providing \$5.0 million in parallel cofinancing for the CMP. Other development partners—including the United Nations, Japan International Cooperation Agency, and the United States Agency for International Development—have all made significant contributions to the COVID-19 response.

D. Summary Cost Estimates and Financing Plan

15. The project is estimated to cost \$265.79 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹⁹

¹⁶ ADB. [Mongolia: COVID-19 Emergency Response Project](#); Reallocation (\$1.4 million) and additional financing (\$30 million) for ADB. [Mongolia: Fifth Health Sector Development Project](#); Support for emergency response systems under ADB. [Mongolia: Support for Improving the Preparedness and Response to Novel Coronavirus Outbreak](#); Reallocation of \$75,000 for the purchase of screening equipment at selected border crossing points from ADB. [Mongolia: Regional Improvement of Border Services](#); Reallocation of \$24 million for support to small- and medium-sized enterprises under ADB. Mongolia: [Supporting the Credit Guarantee System for Economic Diversification and Employment Project](#); Countercyclical support of \$100 million (footnote 1).

¹⁷ The COVID-19 Rapid Response Program design and monitoring framework includes the CMP expansion announced in the first round of measures (para. 4).

¹⁸ Emergency Assistance Coordination (accessible from the list of linked documents in [Appendix 2](#)).

¹⁹ PAM (accessible from the list of linked documents in [Appendix 2](#)).

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1: Poverty-targeted food support increased	10.41
2. Output 2: Child-targeted income support increased	255.12
Subtotal (A)	265.53
B. Financial Charges During Implementation^c	0.26
Total (A+B)	265.79

^a Financing of cash-based social assistance program benefits. Any additional beneficiaries will be financed by the government.

^b In May 2020 prices.

^c Includes interest computed at 1% per year.

Source: Asian Development Bank.

16. The government has requested an emergency assistance loan of \$26.4 million from ADB's ordinary capital resources, on concessional terms, to help finance the project. The loan will have an interest charge at the rate of 1% per year; for a term of 40 years, including a grace period of 10 years; with repayment of principal at 2% per year for the first 10 years after the grace period and 4% per year thereafter; and such other terms and conditions as set forth in the draft loan agreement.

17. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to emergency cash assistance and financial charges during implementation. The World Bank will provide loan cofinancing of \$5 million on a parallel basis to support the CMP.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan) ^a	26.40	9.9
Government	239.39	90.1
Total	265.79	100.0

^a The loan amount reflects resource availability for the emergency assistance loan modality. To be responsive to the government's request for \$50 million dated 1 May 2020, and to help meet Mongolia's significant financing needs for coronavirus disease-related social protection measures, the Asian Development Bank will explore modalities and potential cofinancing opportunities for a second phase of support to be processed from the third quarter of 2020.

Source: Asian Development Bank.

E. Implementation Arrangements

18. The project will use the social protection system's existing targeting and delivery infrastructure. As the executing agency, the Ministry of Finance (MOF) will ensure timely monthly food stamp and child grant transfers based on the beneficiary roster provided by the implementing agency, the MLSP. The implementing agency's General Office of Labor and Welfare Services will ensure accurate beneficiary rosters based on the IHD. The existing project implementation unit (PIU) for the Additional Financing of the Food and Nutrition Social Welfare Project will additionally support this project.²⁰ Sex-disaggregated data will be collected and reported regularly to inform monitoring of the gender action plan targets. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 19).

²⁰ ADB. [Mongolia: Food and Nutrition Social Welfare Project \(Additional Financing\)](#).

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	July 2020–April 2021
Estimated completion date	30 October 2020
Estimated loan closing date	30 April 2021
Management	
(i) Oversight body	Project Steering Committee Chair: Ministry of Finance (director, Development Financing Department) Members: (i) director, Policy and Planning Department, MLSP (ii) director, Social Protection Policy Implementation Coordination Department, MLSP (iii) director general, General Office of Labor and Welfare Services, MLSP (iv) project coordinator, project implementation unit for the Additional Financing of the Food and Nutrition Social Welfare Project (Loan 3086-MON)
(ii) Executing agency	Ministry of Finance
(iii) Key implementing agency	MLSP
(iv) Implementation unit	Seven staff of the project implementation unit for Loan 3086-MON
Retroactive financing	Up to 30% retroactive financing for expenditures incurred before loan effectiveness but after the emergency has occurred (27 March 2020) in connection with FSP and CMP benefit top-ups. ^a
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.

ADB = Asian Development Bank, CMP = child money program, FSP = food stamp program, MLSP = Ministry of Labor and Social Protection.

^a The date of approval of the government's coronavirus disease response plan (27 March 2020) may be used as a proxy for the date of the emergency (para 4).

Source: ADB.

III. DUE DILIGENCE

A. Technical

19. **Social transfers as a driver of poverty reduction.** Social transfers reduced poverty in Mongolia by 1.3 percentage points from 2016 to 2018, more than any other factor including farm income (footnote 5). Evidence confirms the effectiveness of the food stamp and child money programs in promoting food security and poverty reduction. A quasi-experimental impact evaluation of the FSP found substantial positive impacts on food security: food stamp recipients ate more diverse diets and were less likely to have inadequate amounts of food than the control group. The study concluded that the model is both appropriate for Mongolia and a viable long-term response to food insecurity.²¹ Analysis of the 2016 household socioeconomic survey revealed that in the absence of the CMP, the poverty rate among children would have been 5 percentage points higher.²² For the poorest quintile of the population in 2018, the CMP contributed an average of 9.8% of household income, while other social transfers contributed

²¹ I. MacAuslan and R. Attah. 2015. [Food stamps for food security: the impact of a targeted social assistance programme in Mongolia](#). *Journal of Poverty and Social Justice*, 23 (2), 121–134.

²² International Labour Organization (ILO) and UNICEF. 2019. [Towards Universal Social Protection for Children: Achieving SDG 1.3: ILO-UNICEF Joint Report on Social Protection for Children](#).

15.3%, for a total of 25.1% of household income. This drops to 14.4% in the next poorest quintile, and 10.3% in the middle quintile (footnote 5).

20. **Poverty targeting system.** FSP eligibility is means-tested. The proxy means test methodology was initially developed with ADB support.²³ Eligible families are those in the bottom 5% in the IHD, ranked according to proxy means test scores. The CMP is targeted to children under the age of 18. The benefits are universal, but conditional on being registered in the IHD. CMP benefits have been targeted at various times in the past. During the 2017 financial crisis, ADB and development partners recommended that the CMP be targeted to the poorest 60% of children in the IHD. This was done for several months, but as the poverty situation worsened, the government proposed to extend the CMP to 80% of children. The IMF and development partners agreed that the fiscal implications of this change were minimal, increasing fiscal expenditure by \$22.8 million, or 0.58% of total fiscal expenditure in 2017.²⁴ In the present context of high vulnerability, the potential gains from targeting the CMP are likely reduced because so many people are in danger of falling into poverty as a result of the pandemic.²⁵

21. **Building resilience through shock-responsive social protection.** Social protection by definition has an overall objective of reducing vulnerability. Social assistance programs (non-contributory transfers) are particularly effective at protecting poor people's income from both idiosyncratic shocks that affect individual households, and covariate shocks that affect almost everyone. Increasing food and cash transfers in anticipation of, during, or after a shock helps poor and vulnerable households meet their basic needs, reduces the impact of shocks, and reduces pressure to engage in coping strategies that weaken long-term adaptive capacity. Support prior to an event reduces risk while support after an event facilitates effective recovery (footnote 6). The project will help ensure that the population is not rendered more vulnerable to future disasters, including the *dzud* (severe winters resulting in livestock deaths) or other shocks as a consequence of adverse coping mechanisms adopted in response to COVID-19. Evidence from the food and fuel crisis regarding the time required for recovery demonstrates that lower income groups took significantly longer to recover. Shock-responsive transfers act as bridging assistance to help maintain recent development gains.

B. Economic and Financial Viability

22. The project's substantial economic benefits and negligible costs indicate a high economic rate of return.²⁶ The project outputs are expected to generate significant social benefits, preventing food insecurity and destitution, and protecting human capital in the face of significant economic impacts resulting from COVID-19. Poor households have a higher propensity to consume than the general population, so targeted social assistance will help cushion the decline in consumption and gross domestic product. Government transfers are not included in a project's economic costs. There are administrative costs in managing such transfer programs, but because the project will use the government's existing household targeting and benefit delivery mechanisms—including direct transfers to bank accounts for 100% of child grant recipients and to e-cards for 70% of food stamp recipients—the marginal cost of distributing the expanded benefits under these programs is minimal.

²³ ADB. [Mongolia: Food and Nutrition Social Welfare Program and Project](#).

²⁴ ADB. Forthcoming. *Completion Report: Social Welfare Support Program Phase 2*. Manila. The CMP's share in fiscal expenditure was 2.3% under 80% targeting, compared to 1.7% under 60% targeting.

²⁵ B. Özler. 2020. [What Can Low-Income Countries Do to Provide Relief for the Poor and Vulnerable During the COVID-19 Pandemic?](#) World Bank Blogs. 19 March.

²⁶ Economic and Financial Analysis (accessible from the list of documents in [Appendix 2](#)).

23. No financial viability assessment is required. The project's outcome and outputs—food stamps and child grants—are public goods with positive externalities and no opportunity for cost recovery.

C. Sustainability

24. The government's food stamp and child money programs are established national social assistance programs. The CMP was introduced in 2005, while the FSP was designed and piloted in 2009 with ADB support (footnote 23).²⁷ Both are institutionalized through government regulations and use the ADB-supported IHD to target benefits. Given the government's yearly funding support to FSP and CMP and the relatively small impact on the government's budget, the project is sustainable. To ensure continuous funding, the government will provide assurances as part of the loan agreement that adequate government funding will be available for the continued provision of basic benefits through FSP and CMP. Continued policy dialogue on social protection system development, including targeting and consolidation, will take place through the ongoing ADB TA project (footnote 15).

D. Governance

25. The financial management assessment update assessed the capacity of MLSP and the PIU of the Additional Financing for the Food and Nutrition Social Welfare Project (footnote 20), which will serve as the PIU for this project and handle the project financial management arrangements. The review considered recent governance assessments and implementation experience of MLSP's current projects. The MLSP and the PIU have adequate financial management systems in place and experience in implementing ADB-funded projects, and the pre-mitigation financial management risk assessment is therefore assessed to be *moderate*. Detailed mitigation measures are described in the PAM (footnote 19).

26. Mongolia has taken steps to improve accountability and transparency in the public sector. Mongolia adopted the Anti-Corruption Law in 1996, ratified the United Nations Convention against Corruption in 2006, amended its Anti-Corruption Law in the same year to introduce criminal penalties for corruption, and most recently revised its Criminal Code in 2017. Despite these efforts, corruption continues to threaten the development of the Mongolian economy. Major corruption risks include weak institutions and enforcement, lack of capacity of integrity institutions, political interference, lack of transparency and accountability, and the prevalence of conflicts of interest. The ADB program combined with monitoring indicators would ensure strict compliance with the program objectives and thereby minimize risks. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the PAM (footnote 19).

E. Poverty, Social, and Gender

27. **Directly targeting the poor and vulnerable.** The FSP targets the poorest 5% of households using the IHD, based on a proxy means test. The pro-poor CMP delivers child-

²⁷ After piloting the FSP in the first year, the project supported national rollout in subsequent years, and food stamps were adopted as a benefit with a dedicated MLSP budget in the Social Welfare Law 2012, which also mandated the proxy means test as the targeting methodology. The project also supported the design and implementation of the proxy means test, with additional financing support for another round of the survey and capacity building.

targeted income support to a particularly vulnerable population group.²⁸ Poverty analysis confirms that children are concentrated in the lower quintiles of the income distribution (para. 5). The pandemic has directly affected children through school closures and the cessation of daily school lunches, which are often an important source of nutrition for poor and vulnerable children. Providing these meals at home adds an extra burden on families, and especially women as the primary caregivers. Physical distancing and quarantine measures have clear implications on both the economy and the distribution and intensity of unpaid care work, which was already disproportionately done by women and girls. UNICEF technical guidance on gender-responsive social protection during COVID-19 confirms that child grants are an effective measure to help address this growing unpaid care crisis.²⁹

28. **Significant gender benefits.** Reducing food consumption is one of the first strategies undertaken by households during economic crises, as demonstrated during the global financial crisis of 2008. The poorest women tend to reduce both the quantity and quality of the food they consume to ensure their children's food quality and quantity are maintained. A 2014 impact evaluation of the FSP found that 40% of women in the control group reduced the quantity of food consumed, compared to 39% of men. The FSP helped limit this negative coping strategy, which fell to 25% for both men and women in the treatment group, e.g., those who received the FSP.³⁰ The pandemic-induced economic downturn, quarantine, and school closures can fuel family tensions, and Mongolia has seen a sharp increase in cases of domestic violence. This may be mitigated through cash-based support, which can lower stress levels by increasing confidence that access to food and basic needs can be maintained, and can thus act as a channel to reduce the potential for violence. Individual CMP accounts are opened in children's names, and mothers are in most cases the account custodians, ensuring they are able to control the use of the grant.

29. The emergency assistance loan is categorized *effective gender mainstreaming*. The FSP will prevent food insecurity during the COVID-19 outbreak for at least 68,000 women and 58,000 girls in the poorest households; 20% of these households are headed by women. The increased benefit levels will help prevent reduced quality of food intake among women. The project will ensure public awareness of eligibility and of the temporary shock-responsive expansion of benefits to ensure that all children across the country can benefit from the CMP. A gender action plan has been prepared. Under an ongoing TA project (footnote 15), ADB will support MLSP to enhance sex-disaggregated data analysis and to conduct an impact assessment, including a gender impact assessment, of the direct and indirect benefits of the adjustments to both programs.

F. Safeguards

30. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.³¹

31. **Environment (category C).** The project activities do not include civil works and will have no adverse environmental impacts.

²⁸ As of March 2020, the FSP reached 58,113 girls, 60,068 boys, 54,006 men, and 68,370 women. MLSP collects sex-disaggregated beneficiary data for the CMP, but data analysis can be improved. As of March 2020, 566,291 boys and 540,839 girls received child grants (93% of the 1,186,000 children in Mongolia), with a steady increase in children being registered following the March 2020 announcement of higher benefits.

²⁹ UNICEF. 2020. [Gender-Responsive Social Protection During COVID-19: Technical Note](#).

³⁰ ADB. 2014. [Food Stamps and Medicaid: Impact evaluation report](#). Consultant's report. Manila. (Grant 0137-MON).

³¹ ADB. [Safeguard Categories](#).

32. **Involuntary resettlement (category C).** The project activities do not include civil works and will not trigger land acquisition or involuntary resettlement impacts.

33. **Indigenous peoples (category C).** The project is socially inclusive without partiality to any ethnic groups. Ethnic groups will benefit from the project if they meet program eligibility criteria and their households are included on the beneficiary list for both poverty-targeted food support, and child-targeted income support. The project's benefits are national in scope.

G. Summary of Risk Assessment and Risk Management Plan

33. A prolonged pandemic resulting in severe economic impacts would require a more substantial social protection response. This current response falls within the boundaries set by the Law on Fiscal Stability 2010,³² ensuring fiscal discipline while providing space to support a heightened policy response if required later in the year, including the ability to accommodate additional lending from development partners. It is considered unlikely that the government will deprioritize social protection given the importance of social protection measures in reducing poverty, and the broad-based support for such measures among the Mongolian people. Social protection systems are both well-established and long-standing. ADB has supported Mongolia's strategic vision to modernize the social protection system through capacity building, improved targeting, consolidation of benefits, and financial sustainability. Public finance-related risks such as corruption and fiduciary risks are mitigated by Mongolia's strong public financial management (PFM) legislation (e.g., the Integrated Budget Law and the Law on Development Planning), and operational PFM systems, including a functional Treasury single account, a unified and consistent chart of accounts, and an integrated government debt and financial management information system. Nevertheless, there are areas in which improvement can be made, related to the efficiency, effectiveness, and transparency of the PFM systems.³³ To address this, the MOF has adopted the Public Financial Management Reform Strategy, 2018–2020, supported by ADB, the World Bank, the European Union,³⁴ and the IMF.³⁵ The risk management plan for this project is summarized in Table 4 and described in detail in the risk assessment and risk management plan.³⁶

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
<p>Prolonged COVID-19 crisis The pandemic spreads and quarantine measures are extended, with more severe economic impacts than anticipated.</p>	<p>ADB will closely monitor the situation and crisis to be able to support early detection and response. ADB is exploring additional resources for providing support later in 2020. ADB is using its leadership role to ensure a consortium of development partners is ready to respond to and support the government. Mongolia's budget is kept within a 5.1% structural deficit target in accordance with the Law</p>

³² Government of Mongolia. 2010. *Law on Fiscal Stability*. Ulaanbaatar.

³³ World Bank. 2019. *Public Expenditure Review. Growing Without Undue Borrowing*. Washington, DC.

³⁴ Since 2018, the Strengthening Governance in Mongolia Project, funded under the European Union Trust Fund with the World Bank, has supported the government's efforts to improve fiscal discipline, public financial management, and transparency and accountability for strengthened governance in Mongolia. With total grant financing of €4.8 million from the European Union, the project has been providing TA to MOF, the Fiscal Council, and the Mongolian National Audit Office to implement the priority actions in the government's Public Financial Management Strategy and Action Plan (2018–2022).

³⁵ IMF. 2019. *Mongolia: Selected Issues. Country Report No. 19/128*. Washington, DC.

³⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in [Appendix 2](#)).

Risks	Mitigation Measures
	on Fiscal Stability, providing some room for an additional policy response in 2020.
Public financial management High-value budget proposals are based on revenue forecast overestimations, leading to decreased budget credibility.	ADB is assisting the government to strengthen its budget planning, execution, and monitoring, as well as the sound forecasting of revenue sources. ^a
Vulnerability to corruption Vulnerability to corruption undermines accountability throughout the economic and political sphere.	ADB supports the strengthening of institutions that are vital for Mongolia's integrity system, such as the Mongolian National Audit Office and citizens' participation in monitoring budget-financed activities. ADB facilitates an active role for Mongolia in international anticorruption initiatives. ^b

ADB = Asian Development Bank, COVID-19 = coronavirus disease.

^a ADB. [Mongolia: Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration Project](#).

^b ADB. [Mongolia: Strengthening the Supreme Audit Function](#); ADB. [Mongolia: Transparency and Efficiency in Public Financial Management](#). Mongolia is also an active member of the ADB and Organisation for Economic Co-operation and Development [Anti-Corruption Initiative for Asia-Pacific](#).

Source: ADB.

IV. ASSURANCES

34. The government and the MOF have assured ADB that implementation of the project shall conform to all applicable ADB requirements, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, financial management, and disbursement as described in detail in the PAM and loan documents.

35. The government and the MOF have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement.

V. RECOMMENDATION

36. I am satisfied that the proposed emergency assistance loan would comply with the Articles of Agreement of ADB and recommend that the Board approve the loan of \$26,400,000 to Mongolia for the Shock-Responsive Social Protection Project, from ADB's ordinary capital resources, on concessional terms, with an interest charge at the rate of 1.0% per year; for a term of 40 years, including a grace period of 10 years; with repayment of principal at 2% per year for the first 10 years after the grace period and 4% per year thereafter; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masatsugu Asakawa
 President

9 June 2020

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with Adverse socioeconomic impacts of the COVID-19 pandemic reduced (ADB's Comprehensive Response to the COVID-19 Pandemic) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Basic needs of the poor and vulnerable, especially women and children, supported	By 2021 a. Food insecurity prevented during the COVID-19 outbreak for at least 240,500 poor people, including 53% women and girls (2020 baseline: 0) (RFI A) b. At least 1.12 million children (50% girls) registered in the Integrated Household Database receive timely CMP benefits (March 2020 baseline, regular CMP: 1,107,130 children [566,291 boys, 540,839 girls]) (RFI A)	a. MLSP periodic FSP reports (2020), and knowledge and support TA impact assessment (2021) b. MOF bank transfer documentation (2020), and MLSP Integrated Household Database (2020)	The pandemic spreads and quarantine measures are extended, with more severe economic impacts than anticipated.
Outputs 1. Poverty-targeted food support increased 2. Child-targeted income support increased	By 2021 1a. FSP monthly benefit level increased to MNT32,000 per adult and MNT16,000 per child for 5 months (March 2020 baseline: regular FSP benefit of MNT16,000 per month for adults, MNT8,000 per month for children) (RFI B) 1b. Delivery of higher value food vouchers or e-cards expands access to 10 staple food items for at least 44,000 of the poorest households, of which 20.5% are headed by women, and within which 53% of beneficiaries are women and girls (March 2020 baseline: 0) 2a. CMP monthly benefit level increased to MNT100,000 per child for 6 months (March 2020 baseline: regular CMP benefit of MNT20,000 per month) (RFI B)	1a. MLSP ministerial order on FSP increase (2020) 1b. MLSP periodic FSP reports (2020), and knowledge and support TA impact assessment (2021) ^b 2a. Government resolution on CMP benefit increase (2020)	Actual revenue lower than forecast could undermine budget credibility and reduce resource availability for social protection

Key Activities with Milestones**1. Poverty-targeted food support increased**

- 1.1 Issue a ministerial order on the temporary increase in food stamps (vertical expansion) by Q2 2020
- 1.2 Ensure timely delivery of expanded monthly food stamp benefits via e-card (urban) and vouchers (rural) to the poorest 5% of households in the Integrated Household Database, Q2 2020–Q3 2020
- 1.3 Monitor implementation and assess the impact of the transfer on households (through knowledge and support TA) by Q2 2021

2. Child-targeted income support increased

- 2.1 Issue a government resolution on the temporary top-up of child grants (vertical expansion) by Q2 2020
- 2.2 Ensure timely delivery of monthly child grants made directly to children's accounts to at least 1.1 million children registered in the Integrated Household Database, Q2 2020–Q3 2020
- 2.3 Implement a communication campaign on temporary social welfare measures (with support from knowledge and support TA and Loan 3086-MON)^c by Q3 2020
- 2.4 Monitor implementation and assess the impact of the transfer on households, including gender impact assessment (through knowledge and support TA) by Q2 2021
- 2.5 Support MLSP to improve collection and analysis of sex-disaggregated data (through knowledge and support TA) by Q3 2020

Inputs

ADB: \$26.40 million (concessional ordinary capital resources loan)

Government: \$239.39 million

Assumptions for Partner Financing

Cofinancing not administered by ADB:

Output 2 (World Bank loan of \$5.00 million)

ADB = Asian Development Bank, CMP = child money program, COVID-19 = coronavirus disease, FSP = food stamp program, MLSP = Ministry of Labor and Social Protection, MNT = Mongolian togrog, MOF = Ministry of Finance, Q = quarter, RFI = results framework indicator, TA = technical assistance.

^a ADB. 2020. [ADB's Comprehensive Response to the COVID-19 Pandemic: Policy Paper](#). Manila.

^b ADB. [Mongolia: Building Capacity for an Effective Social Welfare System](#).

^c Footnote b and ADB. [Mongolia: Food and Nutrition Social Welfare Project \(Additional Financing\)](#).

Contribution to the ADB Results Framework:

RFI A: People benefiting from improved health services, education services, or social protection. Expected: 1.14 million people (sex-disaggregated)

RFI B: Social protection schemes established or improved. Expected: 2 social assistance programs (CMP and FSP).

Source: ADB.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=54214-001-3>

1. Loan Agreement
2. Summary of Impact and Needs Assessment
3. Project Administration Manual
4. Emergency Assistance Coordination
5. Economic and Financial Analysis
6. Summary Poverty Reduction and Social Strategy
7. Risk Assessment and Risk Management Plan
8. Gender Action Plan