

ECONOMIC AND FINANCIAL ANALYSIS

1. The project will finance temporary child grant top-ups under Mongolia's child money program (CMP), which will pay about 1.2 million children in Mongolia MNT100,000 per month from January to June 2021 (topped up from the regular child grant amount of MNT20,000 per month). The project will finance \$68.13 million of the CMP top-ups while the Government of Mongolia will provide \$186.32 million for the base amount and the remainder of the top-ups. In addition, the project will finance \$3.90 million to strengthen social welfare programs and systems by (i) updating the poverty targeting system and Integrated Household Database (IHD); (ii) digitizing social welfare programs into the "e-welfare" platform; and (iii) pilot-testing the graduation approach, an innovative type of social welfare program that links cash benefits to economic inclusion and labor market opportunities. The project also includes \$0.24 million to support project management.

A. Economic Analysis

2. **Country economic context.** Mongolia has a pre-pandemic record of generally sound macroeconomic management following a difficult economic period before 2017. Given its dependency on commodity prices, Mongolia suffers from a pronounced boom–bust economic cycle. Following the last episode of economic slowdown, Mongolia entered into an International Monetary Fund 3-year Extended Fund Facility in May 2017. The coronavirus disease (COVID-19) crisis has triggered a severe economic contraction, with the country's limited economic diversification and dependence on mining exposing it to external shocks, particularly to swings in commodity prices and balance of payment shocks. The current turmoil in the global economy and commodity markets has reduced revenues, increased balance of payment pressures, and accentuated financial sector risks.

3. Robust economic growth from 2017 to 2019 saw an average annual growth rate of 5.9%.¹ Economic contraction for 2020 was predicted to be –2.6% as of September 2020, but this was subsequently revised down to –5.3%.² The economy contracted by 9.7% in the first half of 2020 but growth contraction narrowed significantly to 1.7% in the second half of 2020, on a year-over-year basis, which resulted to a 5.3% contraction in gross domestic product (GDP) in 2020. This massive shrinkage was mainly because of substantial contractions in transportation and warehousing (–20.1%), wholesale and retail trade (–11.1%), mining (–9.4%), and construction (–7.4%). The mining, transport, and trade sectors together dragged growth down significantly by –4.7 percentage points. The agriculture sector grew by 6.2% and contributed 0.8% to overall economic growth in 2020. Although private consumption (1.6%), government consumption (2.2%), and net exports (10.0%) contributed to growth, investments dragged growth significantly down by –19.1% in 2020. GDP by industry and by quarter is summarized in Table 1. All key industry sectors, except agriculture and manufacturing, have lost ground. Although the outlook for economic growth in 2021 was slightly upgraded to 6.3% in December 2020 from the previous forecast of 5.1% in September 2020 (footnote 2), achieving any overall positive economic growth in 2021 will require industry sectors to increase their output substantially.

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

² ADB. 2020. [Asian Development Outlook Supplement, December 2020: Paths Diverge in Recovery from the Pandemic](#). Manila.

Table 1: Gross Domestic Product (by industry and by quarter)
(MNT billion, in 2010 constant prices)

Composition	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Gross domestic product	3,531.8	5,148.8	5,055.4	5,314.6	3,154.6	4,680.6	4,900.3
Agriculture, forestry, fishing, and hunting	134.5	1,084.0	717.0	602.4	153.3	1,226.5	775.1
Mining and quarrying	914.1	924.1	1,042.7	1,075.6	642.7	654.3	988.4
Manufacturing	200.5	305.7	359.3	536.8	208.8	271.2	328.4
Electricity, gas, steam, and ventilation	102.9	70.5	60.8	106.4	109.5	68.8	59.3
Construction	42.3	174.1	142.0	344.9	47.3	155.6	132.9
Wholesale and retail trade; repair of motor vehicles	424.7	570.8	591.0	723.8	382.1	480.2	517.1
Transportation and warehousing	243.0	240.3	372.8	544.9	168.6	156.7	318.4
Information and telecommunication	102.4	123.5	122.7	103.1	102.7	124.0	123.4
Other services	933.9	946.2	1,044.3	929.1	940.4	935.4	1,065.5
Net taxes on products	433.5	709.5	602.8	347.6	399.3	607.9	592.0

Q = quarter.

Source: National Statistics Office of Mongolia. [Statistical Information Services Database](#) (accessed 13 January 2021).

4. Since the pandemic has sharply reduced economic activity—because of both the economic cost of the containment measures and the fall in external demand—the government’s planned budget expenditure based on government revenue will likely not be realized (Table 2). The International Monetary Fund approved the government’s request for emergency financial assistance of about \$99 million in June 2020. This proposed project, other loans from the Asian Development Bank (ADB), and loans from other development partners will partially address the budget gap, in particular financing for social protection programs.

Table 2: Mongolia Revenue and Expenditures, Actual and Forecast
(MNT billion)

Item	2017	Actual			Projected		
		2018	2019	2020	2021	2022	2023
Total revenue and grants	7,958	10,054	11,937	10,729	13,134	12,291	12,961
Expenditures and net lending	9,017	9,223	11,429	14,577	13,952	13,069	13,404

Sources: The Government Budget Amendment for 2020 and the Medium-Term Government Budget Framework and Budget Forecasts for 2022–2023, approved by Parliament in August 2020; the 2021 Government Budget (November 2020); and National Statistics Office of Mongolia. [Statistical Information Services Database](#) (accessed 13 January 2021).

5. The economic crisis has affected the most vulnerable groups in Mongolia. The loss of jobs and income has particularly affected those who were already poor or vulnerable before the pandemic. The pre-crisis poverty rate was 28.4% of the 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%).³ Childhood poverty is widespread: 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 large share of Mongolians who are technically nonpoor live precariously close to the poverty line. About 15% of nonpoor Mongolians are considered particularly vulnerable to falling into poverty, as their household income falls below 1.25 times the poverty line. Mongolia’s experience of past crises indicates that 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.⁴

6. **Sector analysis.** Mongolia’s social protection system, especially social assistance, has played a central role in fostering and protecting the country’s gains in poverty reduction and human development, particularly during periods of economic difficulty.⁵ Social transfers were the key driver of poverty reduction from 2016 to 2018. The number of social welfare beneficiaries increased by 16% during this period, while expenditure on social welfare benefits increased by 29% to MNT619.8 billion.⁶ Expenditure increased mainly because three of the largest programs expanded: the CMP, the food stamp program, and benefits for mothers. For example, from 2016 to 2018, coverage of the food stamps increased by 55% to 263,354 individuals while benefit levels increased by 20% to MNT16,000 per adult per month and MNT8,000 per child per month

³ National Statistics Office of Mongolia and World Bank. 2020. [Mongolia Poverty Update 2018: Main Report of "Household Socio-Economic Survey 2018."](#) Ulaanbaatar.

⁴ ADB. 2018. [Strengthening Resilience Through Social Protection Programs: Guidance Note](#). Manila.

⁵ More details are in the Summary Sector Assessment: Public Sector Management (Social Protection Initiatives), available from the list of linked documents in Appendix 2 of the report and recommendation of the President to the Board of Directors.

⁶ ADB. Mongolia’s Social Welfare System: Expenditure Allocation and Beneficiary Profile. Unpublished. Consultant’s report (TA 8845-MON).

(food stamp benefit levels were temporarily doubled as part of the government's social protection response to COVID-19).

7. The CMP, originally a universal benefit for all children aged 0–17 when it was established in 2005, was targeted at 60% of children aged 0–17 in 2016, in the context of fiscal constraints, as recommended by ADB and development partners. This was done for several months, but as the poverty situation worsened, the government proposed to extend the CMP to 80% of children. Development partners agreed that this measure was important in the context of a worsening poverty profile. In January 2020, the government again expanded the eligibility to all children. The fiscal implications of the increase in CMP eligibility to 80% of children were minimal, increasing fiscal expenditure by \$22.8 million, or 0.58% of total fiscal expenditure in 2017. The CMP's share of fiscal expenditure was 2.3% under the 80% targeting, compared with 1.7% under 60% targeting.⁷ The increase in CMP eligibility to 100% of children in January 2020 is likely to have had similarly minimal fiscal implications. As of November 2020, 1,184,158 children (comprising 48.8% girls, and 98.6% of all children) received the topped-up child grants of MNT100,000.

8. In March 2020, the government launched a countercyclical development expenditure program to protect public health and reduce the impact on people and businesses through measures totaling MNT5.1 trillion (about \$1.84 billion as of March 2020). The program includes social protection measures to support citizens (\$474.0 million), support to vulnerable businesses and fiscal stimulus measures (\$1.3 billion), and public health protection (\$71.8 million). The social assistance measures in the program initially included a temporary increase in CMP benefits of MNT10,000 per child per month for 3 months, from April to June 2020. The total additional benefit provided some basic support to families, but the amount was relatively low both from a welfare perspective and as a share of the value of the poverty line. Recognizing this, the government announced an expanded package of temporary social assistance measures in May 2020, including a further increase in the CMP, bringing the total to MNT100,000 per child per month for 6 months until the end of September 2020, then extended it to December 2020. In November 2020, the government extended the topped-up CMP payment of MNT100,000 per child until the end of June 2021.

9. **Rationale for public involvement.** The project will support the government's expanded social welfare measures by financing about 27% of the total CMP benefit (base amount plus top-ups) of MNT100,000 per child per month from January to June 2021. For improved household resilience and government response to future crises, the proposed project will finance activities in three key areas: (i) updating the poverty targeting system and the IHD with more accurate data to be better able to reach those in need through support for the next round of the proxy means test survey based on a new methodology, (ii) supporting the digitization of social welfare programs into the "e-welfare" system to streamline benefit and service delivery, and (iii) pilot-testing and evaluating the graduation approach as an innovative type of social protection program that builds on cash transfers with a holistic set of livelihood and coaching interventions. Also described as economic inclusion or "big push" programs,⁸ the pilot program covering 1,520 poor households (participants in the food stamp program and/or CMP) will include rigorous impact evaluation to strengthen the evidence base on what works for lasting poverty reduction in Mongolia. New impact evaluation evidence from other countries confirms that graduation programs have made households more resilient in the context of COVID-19.

⁷ ADB. 2020. [Completion Report: Social Welfare Support Program Phase 2 in Mongolia](#). Manila.

⁸ A. Banerjee, E. Duflo, and G. Sharma. 2020. [Long-Term Effects of the Targeting the Ultra Poor Program](#). *NBER Working Paper Series*. No. 28074. Cambridge, MA: National Bureau of Economic Research.

10. Mongolia took early and decisive action starting in January 2020 to prevent the outbreak of COVID-19. While the direct health impact was initially limited, economic data and several rapid assessments confirm that the socioeconomic consequences of the virus containment efforts—including border closures, trade disruptions, and school and business closures—have been substantial.⁹ The resulting household-level shocks can be severe and long-lasting, particularly on the poor and vulnerable. The first round of a household response phone survey (22–29 May 2020) found that (i) nearly 75% of all Mongolian households and 85% of poor households reported experiencing some sort of economic shock; (ii) nearly two-thirds (64%) of all households reported an increase in food prices; (iii) 73% of self-employed workers experienced income loss; and (iv) 70% of farmers and herder households reported a decline in income compared with the previous year.¹⁰

11. The second round of the same survey (31 August to 7 September 2020) found that (i) self-employed and herder households continued to be impacted, family business closures and income losses have been substantial, and 75% of households that were still operating businesses had lower incomes compared with August 2019; (ii) half of the herders and farmers experienced income losses compared with the same time the previous year (lower prices in livestock products, mainly cashmere, have particularly affected herders); (iii) food security remains a serious problem for the poor, with little sign of improvement between survey rounds: 40% of poor households were still uncertain about their ability to obtain sufficient food and nearly 25% of poor households expressed concerns about food security in the next week.

12. The survey assessed government interventions, finding that 81% of households received some sort of government assistance during the pandemic, mitigating partially or completely the income losses for more than 90% of those receiving assistance. As poorer households tend to have more children, the poor are more likely to receive higher levels of CMP benefits compared with better-off households. The second round found that nearly 80% of poor households received CMP benefits. On average, households in the bottom 20% received MNT259,000 in the 30 days preceding the survey, equivalent to 40% of their pre-pandemic household income.¹¹

13. The impact of the pandemic became more acute in Mongolia with the first community transmission recorded in November 2020, causing the government to issue strict lockdown orders from 12 November 2020 to 15 December 2020. A subsequent lockdown from 23 December 2020 to 11 January 2021 transitioned to heightened state of readiness restrictions—including the continued closure of 18 types of businesses—from 12 January 2021 and again from 11 to 23 February 2021.

14. **Alternatives analysis.** Unconditional cash transfers (which include child grants) are the preferred and most widely used approach to providing direct economic relief to the poor and vulnerable during emergencies.¹² As of September 2020, virtually all countries and territories (212) had planned, introduced, or adapted 1,179 social protection programs in response to COVID-19; the majority were social assistance transfers (724 measures, or 61.4% of the total).¹³ About 51% of these safety net measures (and 31% of global measures) were cash-based

⁹ ADB. 2020. [Building Capacity for an Effective Social Welfare System: Assessment of the Social Protection Response to COVID-19 in Mongolia](#). Consultant's report. Manila (TA 9893-MON).

¹⁰ World Bank. 2020. [Results of Mongolia COVID-19 Household Response Phone Survey \(Round 1\)](#). Washington, DC.

¹¹ World Bank. 2020. [Results of Mongolia COVID-19 Household Response Phone Survey \(Round 2\)](#). Washington, DC.

¹² C. O'Brien et al. 2018. [Shock-Responsive Social Protection Systems Research: Synthesis Report](#). Oxford: Oxford Policy Management.

¹³ U. Gentilini et al. 2020. [Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures](#). Living paper version 13 (18 September). Washington, DC: World Bank.

transfers in 158 countries, as in Mongolia. Insisting on conditions does not work during a global pandemic where compliance is impossible as a result of social distancing measures. During a crisis, expanding support using existing programs and their infrastructure—such as targeting and delivery systems—is the most efficient delivery mechanism, rather than creating new programs. 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 (footnote 12).

15. In-kind transfers such as food could also be considered, but this is a less preferred option in a context that does not involve a market failure. In-kind transfers are more expensive and difficult to coordinate quickly. They also require more face-to-face interaction than cash transfers, which is not feasible in pandemic-related lockdown situations. All CMP benefits are transferred electronically, directly to accounts in the children's names, with mothers as account custodians in 85.6% of households. The administrative costs of cash transfers, especially when made electronically, are far lower than in-kind transfers, which require investment in storage, distribution, and other logistics.

16. **Economic costs and benefits of cash transfer program.** Assessing the economic viability of the program requires establishing the economic costs. A cash transfer is an economic transfer within society and thus has no direct economic costs. Only the administrative costs of transfer payments are considered economic costs. Since the project will utilize existing CMP infrastructure (e.g., targeting and payment systems) and provide only a top-up to existing benefits, the marginal costs for distributing the child grants will be negligible. A standard cost-benefit analysis would require putting value on economic benefits. For this project, the most important benefits are not directly quantifiable in economic terms. However, it is clear that these unconditional transfers will support food intake and other consumption smoothing for the recipients. Since poor households have a higher consumption propensity than the general population (meaning they spend a higher proportion of an increase in income on goods and services), this redistributive measure will help cushion the decline in consumption and GDP growth.

17. **Distribution analysis.** The project will primarily benefit the poor and vulnerable as the CMP is categorically targeted at children, and children are concentrated in the bottom quintiles of the income distribution. Categorical targeting is also referred to as demographic or group targeting. This approach involves defining program eligibility in terms of individual or household characteristics that are easy to observe, difficult to manipulate, and correlated with poverty. Within the targeted group (children under 18), benefits are universal, but conditional on being registered in the IHD. An early CMP assessment found that a universal child benefit resolves exclusion errors, reduces the child poverty headcount, and is progressive along the entire household expenditure distribution because of the heavier concentration of children in the lower (poorer) deciles.¹⁴ In the present context of high child poverty and high vulnerability (55% of the population below 1.5 times the poverty line), any 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.¹⁵

¹⁴ A. Hodges et al. 2007. [Child Benefits and Poverty Reduction: Evidence from Mongolia's Child Money Programme](#). MGSOG Working Paper. No. WP002. Maastricht: Maastricht Graduate School of Governance.

¹⁵ B. Özler. 2020. [What Can Low-Income Countries Do to Provide Relief for the Poor and the Vulnerable During the COVID-19 Pandemic?](#) *World Bank Blogs*. 19 March.

18. A universal crisis such as COVID-19 calls for a universal response, but the government recognizes that in the future it will be important and necessary to consider how to better target certain benefits for maximum poverty reduction impact. Hence, the government's request for the proposed project to support output 2 activities to improve poverty targeting of social welfare programs and to pilot-test the graduation program, which is targeted toward the poor and most vulnerable.

19. Evidence from an ADB technical assistance-supported microsimulation study finds that on average the pandemic economic recession would have reduced Mongolia households' income by 10%. This is the decline in GDP reported by the National Statistics Office of Mongolia for the first and second quarters of 2020. The study finds that both inequality and poverty would have increased significantly without the government's measures, which counteract the negative effects and could even reduce poverty from the pre-pandemic baseline level: the CMP top-up alone could reduce the poverty rate to 24.9% from 28.4% before the program. The CMP is pro-poor in that the poorest two quintiles (bottom 40%) of the population receive 49.6% of the CMP budget while 13.2% of the CMP budget goes to the top quintile (footnote 9).

B. Financial Analysis

20. **Background.** The financial analysis focuses on the financial sustainability of the CMP since the project will finance a share of the benefits under the government's social welfare program. The sustainability of the project was assessed at the fiscal and project levels in accordance with the ADB guidelines.¹⁶ The project has no revenue-earning component, so the financial costs and benefits were not assessed.

21. **Government social welfare regulations.** Social welfare is a cornerstone of the Mongolian social protection system (which also includes social insurance and labor market programs). The CMP was introduced in 2005 and the Social Welfare Law, 2012 provides its legal foundation. The government is strengthening its long-term commitment to social protection in its update to the Social Welfare Law planned for approval in 2021. The Government Action Plan, 2020–2024 commits the government to several social welfare and labor actions (footnote 5).

22. **Government fiscal gap and financial sustainability.** Mongolia's social welfare programs (also known as social assistance or social transfers) are financed from the government's financial resources. This financial sustainability examines the historical expenditures of the government (Table 2), the historical expenditures and projected budget of the Ministry of Labor and Social Protection (Table 3), and the recurrent and projected budget expenditures of the CMP (Table 4). Because of the pandemic's significant economic impact, the planned budget expenditure based on the government revenue will likely not be realized. This project, and several other projects of ADB and other development partners, will address the financing gap of the increased social transfers.

¹⁶ ADB. 2019. [Financial Analysis and Evaluation: Technical Guidance Note](#). Manila; ADB. 2009. [Financial Due Diligence: A Methodology Note](#). Manila.

Table 3: Ministry of Labor and Social Protection Budget and Expenditures, Actual and Forecast
(MNT billion)

Item	Actual Expenditures				Projected Budget		
	2017	2018	2019	2020	2021	2022	2023
Total allocation to MLSP	1,116	1,223	1,561	2,380	1,364	890	961

MLSP = Ministry of Labor and Social Protection.

Source: Government of Mongolia, Ministry of Finance. [Unified System for Legal Information](#) (accessed 13 January 2021); the Government Budget for 2021 and the Medium-Term Government Budget Framework and Budget Forecasts for 2022–2023, approved by Parliament in November 2020; and National Statistics Office of Mongolia. [Statistical Information Services Database](#) (accessed 13 January 2021).

Table 4: Child Money Program, Actual Expenditures and Forecast
(MNT billion)

Item	Actual				Projected		
	2017	2018	2019	2020	2021	2022	2023
Child money program	257.7	209.0	231.2	1,092.2	864.0	307.9	307.9

Source: Government of Mongolia, Ministry of Labor and Social Protection, General Office of Labor and Welfare Services; the Government Budget for 2021 and the Medium-Term Government Budget Framework and Budget Forecasts for 2022–2023, approved by Parliament in November 2020; and National Statistics Office of Mongolia. [Statistical Information Services Database](#) (accessed 13 January 2021).

23. The fiscal impact of the CMP is negligible compared with the projected revenue and grants of the government, as well as the projected government expenditure. The total projected government expenditure is MNT13.4 trillion in 2023 compared with the total CMP budget in 2023 of MNT0.3 trillion, which is about 2.3% of the government expenditure. Similarly, the CMP is well within the envelope of actual expenditures and projected budgets of the Ministry of Labor and Social Protection.

24. Based on the government's commitment to provide a temporary shock-responsive CMP top-up of MNT80,000 per child per month until June 2021, and a return to the base CMP payment of MNT20,000 per child per month on an ongoing basis thereafter, and the relatively immaterial impact on the government's budget, the project is considered financially sustainable. The Social Welfare Law amendment submitted to the Parliament confirms that social protection remains a priority, and there is strong government commitment to improving poverty targeting in the future. To ensure that social protection support is continuously allocated with a budget, an assurance is included in the project legal agreements.

25. ADB will continue to support policy dialogue on social welfare system development, including through ongoing knowledge and support technical assistance.¹⁷ A series of planned knowledge products will contribute to the dialogue on improving targeting, consolidating programs, building more permanent shock-responsive mechanisms, and strengthening programs to promote resilience, thus contributing to the longer-term social protection reform objectives that ADB has been supporting.

¹⁷ ADB. [Mongolia: Building Capacity for an Effective Social Welfare System](#).