



# Report and Recommendation of the President to the Board of Directors

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Project Number: 54214-002  
March 2021

## Proposed Loans Mongolia: Second Shock-Responsive Social Protection Project

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 1 February 2021)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.0004
\$1.00	=	MNT2,849.66

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CMP	–	child money program
COVID-19	–	coronavirus disease
IHD	–	Integrated Household Database
IT	–	information technology
MLSP	–	Ministry of Labor and Social Protection
PAM	–	project administration manual
PIU	–	project implementation unit
TA	–	technical assistance
UNICEF	–	United Nations Children’s Fund

## **NOTE**

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

<b>Vice-President</b>	Ahmed M. Saeed, Operations 2
<b>Director General</b>	James P. Lynch, East Asia Department (EARD)
<b>Deputy Director General</b>	M. Teresa Kho, EARD
<b>Director</b>	Sangay Penjor, Urban and Social Sectors Division (EASS), EARD
<b>Team leaders</b>	Itgel Lonjid, Senior Social Sector Officer, Mongolia Resident Mission (MNRM), EARD
<b>Team members</b>	Karin Schelzig, Principal Social Sector Specialist, EASS, EARD <sup>a</sup> Mocktar Adamou Ndiaye; Financial Management Specialist; Public Financial Management Division; Procurement, Portfolio, and Financial Management Department (PPFD) Maricelle David, Associate Project Analyst, EASS, EARD Maria Victoria Dela Cruz, Project Officer, EASS, EARD Aiko Kikkawa Takenaka, Economist, Economic Analysis and Operational Support Division, Economic Research and Regional Cooperation Department Declan Magee, Senior Country Economist, MNRM, EARD Hyun Chol Park, Senior Financial Control Specialist, Loan Administration Division (Loan and Grant Disbursement), Controller's Department Viswanathan Ramasubramanian, Senior Safeguards Specialist (Resettlement), EASS, EARD Mark Allister Robis, Senior Financial Management Officer, Office of the Director General, EARD Bold Sandagdorj, Senior Economics Officer, MNRM, EARD Shotaro Sasaki, Senior Environment Specialist, EASS, EARD Malika Shagazatova, Social Development Specialist (Gender and Development), Thematic Advisory Service Cluster—Gender, Sustainable Development and Climate Change Department (SDCC) Yashna Shrawani, Counsel, Office of the General Counsel Gohar Tadevosyan, Senior Social Development Specialist (Safeguards), EASS, EARD Hiet T.H. Tran, Senior Procurement Specialist, Procurement Division 2, PPF
<b>Peer reviewer</b>	Wendy Walker, Chief of Social Development Thematic Group, Thematic Advisory Service Cluster—Social Development, SDCC

<sup>a</sup> Outposted to the People's Republic of China Resident Mission.

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## CONTENTS

	<b>Page</b>
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Project Description	3
C. Value Added by ADB	4
D. Summary Cost Estimates and Financing Plan	5
E. Implementation Arrangements	6
III. DUE DILIGENCE	7
A. Technical	7
B. Economic and Financial Viability	8
C. Sustainability	9
D. Governance	9
E. Poverty, Social, and Gender	10
F. Safeguards	10
G. Summary of Risk Assessment and Risk Management Plan	11
IV. ASSURANCES	11
V. RECOMMENDATION	11
APPENDIXES	
1. Design and Monitoring Framework	12
2. List of Linked Documents	14



## PROJECT AT A GLANCE

1. Basic Data		Project Number: 54214-002	
<b>Project Name</b>	Second Shock-Responsive Social Protection Project	<b>Department/Division</b>	EARD/EASS
<b>Country</b>	Mongolia	<b>Executing Agency</b>	Ministry of Labor and Social Protection
<b>Borrower</b>	Government of Mongolia		
<b>Country Economic Indicators</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54214-002-CEI">https://www.adb.org/Documents/LinkedDocs/?id=54214-002-CEI</a>		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=54214-002-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=54214-002-PortAtaGlance</a>		
2. Sector		ADB Financing (\$ million)	
✓ <b>Public sector management</b>	Social protection initiatives		73.00
		<b>Total</b>	<b>73.00</b>
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
		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		Poverty Targeting	
SDG 8.5		Household Targeting	✓
SDG 10.4			
<b>4. Risk Categorization:</b>	Low		
<b>5. Safeguard Categorization</b>	<b>Environment: C</b>	<b>Involuntary Resettlement: C</b>	<b>Indigenous Peoples: C</b>
6. Financing			
Modality and Sources		Amount (\$ million)	
<b>ADB</b>		<b>73.00</b>	
Sovereign Project (Concessional Loan): Ordinary capital resources		26.60	
Sovereign Project (Regular Loan): Ordinary capital resources		46.40	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>186.64</b>	
Government		186.64	
<b>Total</b>		<b>259.64</b>	
<b>Currency of ADB Financing: US Dollar</b>			





## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on the proposed loans to Mongolia for the Second Shock-Responsive Social Protection Project.

2. With a worsening coronavirus disease (COVID-19) situation unfolding in the fourth quarter of 2020, the Government of Mongolia has requested urgent additional support for social protection measures to mitigate the socioeconomic impacts of the pandemic on poor and vulnerable groups.<sup>1</sup> The proposed project will (i) apply shock-responsive social protection principles to continue support for pro-poor child grant top-ups on a temporary basis through an established national social assistance program, and (ii) strengthen social welfare programs and systems for improved household resilience and government response to future crises.

## II. THE PROJECT

### A. Rationale

3. **Impact of the pandemic.** Mongolia took early and decisive action starting in January 2020 to prevent the outbreak of COVID-19. However, 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.<sup>2</sup> The economy contracted by 5.3% in 2020, indicating the worst economic recession since 1992.<sup>3</sup> The contraction has been driven by a significant decline in mining, transport, trade, and construction. The resulting household-level shocks can be severe and long-lasting, particularly on the poor and vulnerable. As early as May 2020, (i) nearly three-quarters 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) nearly three-quarters (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.<sup>4</sup> 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 11 January 2021 and again from 11 to 23 February 2021.

4. **Pre-crisis poverty.** The pre-crisis poverty rate was already high at 28.4% in a population of 3.24 million, but this national average conceals important differences by location, sex, 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%).<sup>5</sup> 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

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<sup>1</sup> The project is included in ADB. 2020. [Country Operations Business Plan: Mongolia, 2021](#). Manila. It follows on from the first Shock-Responsive Social Protection Project, an emergency assistance loan approved in June 2020, which supported expanded food stamp and child grant benefits through September 2020. ADB. [Mongolia: Shock-Responsive Social Protection Project](#).

<sup>2</sup> 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).

<sup>3</sup> ADB. 2020. [Asian Development Outlook \(ADO\) 2020 Supplement: Paths Diverge in Recovery from the Pandemic](#). Manila.

<sup>4</sup> World Bank. 2020. [Results of Mongolia COVID-19 Household Response Phone Survey \(Round 1\)](#). Washington, DC.

<sup>5</sup> National Statistics Office of Mongolia and World Bank. 2020. [Mongolia Poverty Update 2018: Main Report of "Household Socio-Economic Survey 2018."](#) Ulaanbaatar.

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% (footnote 5). Mongolia's experience of both past crises and the COVID-19 pandemic confirms the risk of negative coping strategies. These 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.<sup>6</sup> In May 2020, 27% of households reported that their food consumption had declined, with households headed by women being much more likely to report decreased food consumption (41.0%) than those headed by men (22.5%).<sup>7</sup>

5. **Mongolia's effective social protection response.** To mitigate the impact of the pandemic, the government issued a robust package of measures worth about 1.5% of gross domestic product to stimulate the economy and extend social protection. The first set of measures implemented from April to September 2020 included five key interventions: (i) exempting all business entities from social insurance contributions for 6 months, which benefitted employers as well as paid employees and self-employed people who make voluntary contributions; (ii) exempting citizens from personal income tax on salaries for 6 months (excluding civil servants); (iii) exempting smaller companies (with income lower than MNT1.5 billion) from corporate income tax for 6 months; (iv) paying entities that kept employees on the payroll despite weakening operations a monthly allowance of MNT200,000 per employee from April to June 2020; and (v) increasing monthly child grants under the universal child money program (CMP) to MNT100,000 (from the basic benefit of MNT20,000). From May 2020, added measures included doubling the monthly food stamps targeted at the poorest households and increasing social welfare pensions by MNT100,000 for highly vulnerable groups (persons with disabilities, older persons without other pensions, orphans, and single parents with many children). A subsequent set of measures covering October–December 2020 continued some of these policies and measures and suspended others.<sup>8</sup>

6. A microsimulation analysis shows that both inequality and poverty would have increased significantly without these measures (footnote 2), which appear to have not only counteracted the negative effects but may also have reduced poverty from the pre-pandemic baseline level. Because of the high rate of child poverty and the large number of children in poor households, the child grants alone reduced both poverty and inequality (para. 18), reaching 64% of the country's households, comprising 80% of the population. On the strength of this result, and with the crisis worsening as of November 2020 and prolonged socioeconomic impacts expected, the government approved the extension of the child grant top-ups from January to June 2021.

7. **Global social protection lessons.** Mongolia's emphasis on social assistance in its COVID-19 response is in keeping with global practice. 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).<sup>9</sup> About 51% of these safety net measures (and 31% of global measures) were cash-based transfers in 158 countries, as in Mongolia. During a crisis, expanding support using existing programs and their infrastructure, such as targeting and delivery systems, is more

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

<sup>7</sup> United Nations Development Programme. 2020. [Rapid Socio-Economic Impact Assessment of COVID-19 Prevention Measures on Vulnerable Groups and Value Chains in Mongolia](#). Ulaanbaatar.

<sup>8</sup> The increased child grants, food stamps, and social welfare pensions were continued through the end of 2020. Social insurance contributions were no longer waived, but paid at a reduced rate of 5% by both employers and employees. Smaller companies continued to be exempted from corporate income tax until the end of 2020.

<sup>9</sup> 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.

efficient than creating new programs. Mongolia's Ministry of Labor and Social Protection (MLSP) used its food stamp program in this way during the financial crisis in 2017, as well as both food stamps and child grants in the initial response to the pandemic in 2020, supported by ADB under the first Shock-Responsive Social Protection Project (para. 13).<sup>10</sup> International lessons include the importance of strengthening poverty targeting and social welfare delivery systems to be ready to respond when crises hit. Poverty is dynamic, but Mongolia's poverty targeting database is several years out of date. Timely data updating, operational capacity, and limited use across programs are challenges for the system's sustainability and effectiveness. COVID-19 has also underscored the need to develop shock-responsive systems and programs that help address multidimensional poverty, support the longer-term recovery process, and increase resilience to future shocks. Global impact evaluation evidence confirms that an innovative approach to social protection that combines cash support with a more holistic set of livelihood and coaching interventions can address multiple facets of deprivation and help poor people diversify their income sources sustainably, and ultimately become more resilient in the context of shocks (para. 21).<sup>11</sup>

8. **Strategic alignment.** The project is aligned with the April 2020 ADB policy paper, which emphasizes that the scope and scale of the ongoing crisis make it imperative for ADB to step up support to developing member countries to combat the effects of the pandemic.<sup>12</sup> Strengthening social protection systems and service delivery is a fundamental element of both ADB's COVID-19 response and ADB's Strategy 2030 operational priority 1 (addressing remaining poverty and reducing inequalities). The project also addresses operational priority 2 (accelerating progress in gender equality) and is aligned with several Sustainable Development Goals that include social protection targets.<sup>13</sup>

## B. Project Description

9. The project is aligned with the following impact: adverse socioeconomic impacts of the COVID-19 pandemic reduced (footnote 12). The project will have the following outcome: social welfare support for the poor and vulnerable, especially women and children, enhanced.<sup>14</sup>

10. **Output 1: Pro-poor child grant top-ups delivered.** Output 1 will finance a share of the extended shock-responsive increase in the monthly child grant benefits for an additional 6 months (January–June 2021), following on from the earlier top-ups supported under the emergency assistance loan from April to September 2020. The CMP provides universal cash grants to all children aged 0–17 as long as the children are registered in the Integrated Household Database (IHD). Payments are made electronically, directly to accounts set up in children's names, with mothers as the account custodians in 85.6% of households. Before the top-ups, in March 2020, 1,107,130 children (about 93% of all children) received child grants of MNT20,000 per month. A mother of three children under 18 would have received about \$21.50 (about 7.2% of the monthly poverty line for a family of five) to support her children's needs. As of November 2020, 1,184,158 children (comprising 48.2% girls, and 97.6% of all children) received the topped-up child grants

<sup>10</sup> An ADB emergency assistance loan of \$26.4 million supported the first round of Mongolia's food stamp and child grant top-ups from April to September 2020, with 99.05% disbursement as of December 2020. ADB. [Mongolia: Shock-Responsive Social Protection Project](#).

<sup>11</sup> A. Bannerjee et. al. 2015. [A Multifaceted Program Causes Lasting Progress for the Very Poor: Evidence from Six Countries](#). *Science*. 348 (6236), 772-788.

<sup>12</sup> ADB. 2020. [ADB's Comprehensive Response to the COVID-19 Pandemic](#). Manila.

<sup>13</sup> Social protection targets are key to achieving Sustainable Development Goals 1 (no poverty), 2 (zero hunger), 5 (gender equality), 8 (decent work and economic growth), and 10 (reduced inequalities).

<sup>14</sup> The design and monitoring framework is in [Appendix 1](#).

of MNT100,000.<sup>15</sup> A family with three children now receives about \$106 per month to mitigate the impact of the pandemic, equivalent to about 36% of the monthly poverty line for a family of five.

11. **Output 2: Social welfare programs and systems strengthened.** To improve household resilience and the government's response to future crises, output 2 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 people 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,<sup>16</sup> the pilot test covering at least 1,500 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.<sup>17</sup> New impact evaluation evidence confirms that graduation programs have made households more resilient in the context of the COVID-19 shock (para. 21).

### C. Value Added by ADB

12. ADB will leverage sector experience, expertise, partner resources, and technical assistance (TA) to deliver shock-responsive social protection. ADB has been a leading partner in the development of Mongolia's social protection system since 1994, through a series of loans, grants, and TA projects.<sup>18</sup> ADB supported the introduction of the poverty targeting system (para. 19) and the design and rollout of the food stamp program as part of the government's effective response to the 2009 food and fuel crisis. Based on this experience, ADB was able to respond swiftly with the emergency assistance loan to support the child grant and food stamp top-ups in June 2020. The proposed project will access the resources and experts from ongoing TA to strengthen the social welfare system.<sup>19</sup> The TA outputs include (i) improving the capacity of social workers and social welfare policy and decision makers; and (ii) supporting social welfare research, policy dialogue, and advocacy. The TA team produced a well-received assessment of Mongolia's social protection response to COVID-19 (footnote 2) and has coordinated with the United Nations Children's Fund (UNICEF) on a forthcoming assessment of the vertical expansion of child grants and food stamps, including a gender impact assessment. A series of planned knowledge products will contribute to the dialogue on improving targeting, consolidating programs, building more permanent shock-responsive mechanisms, and strengthening social protection to promote resilience, thus contributing to the longer-term reform objectives that ADB has been supporting.

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<sup>15</sup> This broadly matches the sex ratio of Mongolian children confirmed by the National Statistics Office of Mongolia data for 2019, showing children aged 0–19 as 51.1% boys and 48.9% girls. The imbalance is more pronounced among children aged 0–4, at 51.3% boys and 48.7% girls.

<sup>16</sup> A. Bannerjee, 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.

<sup>17</sup> This has been a long-term objective of the MLSP, across administrations, in its efforts to rationalize and strengthen the approach to social protection.

<sup>18</sup> The first ADB lending operation, preceded by TA, was ADB. [Mongolia: Social Security Sector Development Program](#).

<sup>19</sup> ADB. [Mongolia: Building Capacity for an Effective Social Welfare System](#).

13. **Comprehensive pandemic response.** The project forms part of ADB's holistic and comprehensive package of support to mitigate the impact of COVID-19 in Mongolia.<sup>20</sup> This package includes rapid pandemic response measures in the health sector, such as procuring emergency health equipment and TA for emergency response systems, as well as short- and medium-term responses such as (i) the first Shock-Responsive Social Protection Project (footnote 10), (ii) a \$30.0 million loan to support health security, (iii) a \$24.0 million reallocation to support small and medium-sized enterprises, and (iv) 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.<sup>21</sup> Achievements under the emergency assistance loan include increasing food security through food stamp benefit top-ups for 241,962 of the poorest Mongolians, and significantly mitigating the poverty effect of the pandemic-induced recession through timely child grant top-ups reaching 1.18 million children from April to September 2020 (para. 18).

#### D. Summary Cost Estimates and Financing Plan

14. The project is estimated to cost \$259.64 million (Table 1). This includes the total cost of the current increased child grant benefit amount of MNT100,000 per month for 6 months, for 1.2 million children, budgeted at \$254.45 million, for which the ADB-financed share is proposed to be \$68.13 million. Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).<sup>22</sup>

**Table 1: Summary Cost Estimates**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Output 1: Pro-poor child grant top-ups delivered	254.45
2. Output 2: Social welfare programs and systems strengthened	3.90
3. Effective project management	0.24
<b>Subtotal (A)</b>	<b>258.59</b>
<b>B. Contingencies<sup>c</sup></b>	<b>0.30</b>
<b>C. Financial Charges During Implementation<sup>d</sup></b>	<b>0.75</b>
<b>Total (A+B+C)</b>	<b>259.64</b>

<sup>a</sup> The government will finance value added tax and duties for goods totaling \$319,822 through exemption. The Asian Development Bank may finance taxes for consulting services and project management. Such amount does not represent an excessive share of the project cost.

<sup>b</sup> As of 25 November 2020.

<sup>c</sup> Physical and price contingencies, and a provision for exchange rate fluctuation, are included.

<sup>d</sup> Includes interest, commitment, and other charges on all sources of financing.

Source: Asian Development Bank estimates.

15. The government has requested a regular loan of \$46.4 million and a concessional loan of \$26.6 million from ADB's ordinary capital resources to help finance the project. The regular loan

<sup>20</sup> 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 purchasing screening equipment at 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 under ADB. [Mongolia: COVID-19 Rapid Response Program](#); and support for social welfare benefits under ADB. [Mongolia: Shock-Responsive Social Protection Project](#) (footnote 10).

<sup>21</sup> The COVID-19 Rapid Response Program (footnote 20) includes the child grant expansion announced in the first round of measures (para. 5).

<sup>22</sup> Project Administration Manual (accessible from the list of linked documents in [Appendix 2](#)).

will have a 25-year term, including a grace period of 5 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year (the interest and other charges during implementation to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 15.25 years, and the maturity premium payable to ADB is 0.10% per year. The concessional loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan agreement.

16. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to child grants, consulting services, equipment, and project management. The government will finance the remaining child grants, and value added tax and duties.

**Table 2: Summary Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Asian Development Bank		
Ordinary capital resources (regular loan)	46.40	17.87
Ordinary capital resources (concessional loan)	26.60	10.25
Government	186.64	71.88
<b>Total</b>	<b>259.64</b>	<b>100.00</b>

Source: Asian Development Bank estimates.

## **E. Implementation Arrangements**

17. The project will use the social welfare system's existing targeting and delivery infrastructure for the child grants. As the executing agency, the MLSP will ensure timely monthly child grant transfers based on the beneficiary roster provided by the implementing agency, the General Office of Labor and Welfare Services, generated from the IHD. To maximize project readiness and continuity, the project implementation unit (PIU) will comprise five staff (a project coordinator, a finance officer, a procurement specialist, an information technology [IT] specialist, and an administration officer) who supported prior ADB-financed social protection projects with the same executing agency. Before their engagement, the Ministry of Finance requested the MLSP to undertake and document performance reviews and evaluation of the PIU staff. The PIU will ensure the collection and reporting of sex-disaggregated data to inform the monitoring of the gender action plan targets. Implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 22).

**Table 3: Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>		
Implementation period	April 2021–December 2023		
Estimated completion date	30 June 2023		
Estimated loan closing date	31 December 2023		
<b>Management</b>			
(i) Executing agency	MLSP		
(ii) Key implementing agency	General Office of Labor and Welfare Services		
(iii) Implementation unit	PIU under MLSP (five staff)		
Procurement	Direct contracting	1 contract	\$1,058,780
	Open competitive bidding (nationally advertised)	6 contracts	\$760,000
	Request for quotations (non-consulting services)	2 contracts	\$70,000

Aspects	Arrangements		
		Request for quotations (goods)	3 contracts
Consulting services	Consultants' qualification selection	34 person-months	\$90,000
	Individual consultant selection	88 person-months	\$335,445
Retroactive financing and/or advance contracting	Retroactive financing of 20% of the loan amount for child grants before loan effectiveness but no earlier than January 2021. Advance contracting of the PIU staff and individual consultants.		
Disbursement	Disbursement of the loan proceeds will follow 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, MLSP = Ministry of Labor and Social Protection, PIU = project implementation unit.  
Source: ADB.

### III. DUE DILIGENCE

#### A. Technical

18. **Social transfers as a driver of poverty reduction.** Before the pandemic, 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 CMP in reducing poverty. Analysis of the 2016 household socioeconomic survey revealed that, in the absence of the child grants, the child poverty rate would have been 5 percentage points higher.<sup>23</sup> Assessing the impact of the government's 2020 pandemic response, ADB's microsimulation report estimates that the pandemic-induced economic recession could have increased poverty to 36.7%, but social protection measures reduced poverty to 17.6% (footnote 2). The two measures with the largest budgets are the social insurance contribution and income tax waivers and the child grant top-ups. Comparing their effects, if the only policy response were the waivers, the share of people falling below the poverty line would be 30.5%. This is lower than the poverty rate under the pandemic effect, but higher than the pre-pandemic scenario. However, the effect of only the child grant top-ups is a drop in poverty to 24.9%. In other words, the child grant top-ups alone could compensate for the poverty effect of the pandemic. Because they disproportionately reach poorer households, child grants also reduce inequality (unlike the waivers, which disproportionately benefit better off households). With the child grant top-up alone, it is estimated that the Gini coefficient would decrease to 0.307, while the waivers alone would increase the Gini coefficient to 0.342 (against a pre-pandemic baseline of 0.327).

19. **Poverty targeting.** Eligibility for some social welfare programs is means-tested. The proxy means test methodology was initially developed with ADB support,<sup>24</sup> and the World Bank has been closely involved in updating the methodology and building capacity in an attempt to reduce errors of exclusion and inclusion. Child grants are targeted at all children aged 0–17. The benefits are universal, but conditional on being registered in the IHD. Child grants have been targeted in various ways and at various times in the past. During the 2017 financial crisis, ADB and development partners recommended that they be targeted at 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 grants to target 80% of children. The International Monetary Fund and development partners agreed that the fiscal implications of this change were minimal, increasing

<sup>23</sup> 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](#). New York and Geneva.

<sup>24</sup> ADB. [Mongolia: Food and Nutrition Social Welfare Program and Project](#).

fiscal expenditure by \$22.8 million, or 0.58% of total fiscal expenditure in 2017.<sup>25</sup> In the present context of high vulnerability, the potential gains from targeting are likely reduced because so many people are in danger of falling into poverty as a result of the pandemic.<sup>26</sup> A universal crisis such as COVID-19 calls for a universal response, but the government recognizes that, in the future, it will be necessary to consider how to better target benefits for maximum poverty reduction impact.

20. **Building resilience through shock-responsive social protection.** Social protection by definition has the objective of reducing vulnerability. Social assistance (non-contributory transfers) is particularly effective at protecting poor people's income from both idiosyncratic shocks that affect individual households (illness and job loss), and covariate shocks that affect almost everyone (financial crisis, pandemic, and natural disaster). Increasing cash transfers in anticipation of, during, or after a shock helps poor and vulnerable households meet their basic needs, cushions the impact of shocks, and reduces the pressure to engage in coping strategies that weaken long-term adaptive capacity. Support before 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* (a severe winter 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 development gains.

21. **Effectiveness of the graduation approach.** ADB has supported the design, testing, and rigorous evaluation of the graduation approach since 2016, collaborating with BRAC and Innovations for Poverty Action. A November 2020 impact evaluation of ADB's program in the Philippines confirms a range of positive impacts in the context of coping with COVID-19: compared with a control group of households that only received cash transfers, the graduation program participants had diversified livelihoods and increased household resilience across several dimensions including financial security, food security, and mental health during the quarantine period.<sup>27</sup> In addition, graduation program households were less likely than those in the control group to reduce food consumption, skip health care visits, or send children to work in response to the pandemic-induced economic disruption. These initial results contribute to the global evidence base that the holistic graduation approach has the potential to support poor and vulnerable households in diverse settings and challenging circumstances to build resilience and embark on a pathway out of poverty. Diversification is one of the major challenges in Mongolia and an underlying cause of vulnerability, particularly for poor households.

## B. Economic and Financial Viability

22. Assessing the economic viability of the program requires establishing the economic costs.<sup>28</sup> 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 child grant delivery infrastructure (e.g., the targeting system and the 100% electronic payment system directly to bank accounts) and provide only a top-up to existing benefits, the marginal costs for distributing the child grants will be negligible. A standard cost–

<sup>25</sup> ADB. 2020. [Completion Report: Social Welfare Support Program Phase 2 in Mongolia](#). Manila. The share of child grants in the fiscal expenditure was 2.3% under 80% targeting, compared with 1.7% under 60% targeting.

<sup>26</sup> 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.

<sup>27</sup> ADB. 2020. Impact Evaluation of the Graduation Pilot in the Philippines: COVID-19 Phone Survey. Manila (TA 9017-PHI). Unpublished.

<sup>28</sup> Economic and Financial Analysis (accessible from the list of linked documents in [Appendix 2](#)).



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 help the recipients maintain adequate consumption. Since poor households have a higher consumption propensity than the general population, this redistributive measure will help cushion the decline in consumption and gross domestic product growth. Based on the government's commitment to providing a temporary shock-responsive top-up until June 2021, and a return to the base payment on an ongoing basis thereafter, and the relatively immaterial impact on the government's budget, the project is considered financially sustainable. The Government Action Plan, 2020–2024 and the update to the Social Welfare Law, 2012 for approval by Parliament in 2021 both confirm that social protection remains a priority, and there is strong government commitment to improving poverty targeting in the future. To ensure that social welfare is continuously allocated with a budget, an assurance is included in the project legal agreements.

### **C. Sustainability**

23. Output 1 is sustainable because the child grant top-ups will augment the current child grant budget, and it is anticipated that the government will continuously provide social protection through the government's annual budget allocations. To ensure the sustainability of IT systems under output 2, the loan agreement will include an assurance that the MLSP will propose in its budget submission, and the government will allocate, adequate budgetary resources to cover the recurrent costs associated with operation and maintenance of the IT systems to be financed under the project. An impact evaluation of the graduation approach across multiple country contexts confirms the sustainability of impacts long after program interventions end (footnote 16). Continued policy dialogue on social welfare system development, including the targeting and consolidation of programs, will take place through the ongoing ADB TA (footnote 19), working closely with development partners including UNICEF and the World Bank. The high capacity and commitment of the executing agency, demonstrated in previous ADB social protection investments, will also ensure sustainability.

### **D. Governance**

24. A financial management assessment evaluated the capacity of the MLSP and the PIU, which handles the project financial management arrangements. The review considered recent governance assessments and the implementation experience of the MLSP's current projects. The assessed pre-mitigation financial management risk is *moderate* mainly because the MLSP and the PIU have adequate financial management systems in place and experience in implementing ADB-funded projects. Detailed mitigation measures are described in the PAM (footnote 22).

25. **Procurement.** The procurement of goods, non-consulting, and consulting services will follow the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). The MLSP and the PIU have procurement experience in ADB projects, following ADB requirements and government regulations, and have demonstrated their capacity under previous projects. Advance action will be applied.

26. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MLSP. The specific policy requirements and supplementary measures are described in the PAM (footnote 22).

## E. Poverty, Social, and Gender

27. **Extensive poverty, social, and gender benefits.** About 80% of the population and 64% of Mongolia's households will immediately benefit from the project, through the top-up of the monthly cash grants for 1.2 million children. In the medium term, poor and vulnerable households will benefit from being accurately identified in the updated poverty targeting system. All social welfare program beneficiaries will benefit from streamlined processes to apply for and receive benefits through the expanded "e-welfare" system. The graduation program, pilot-tested with about 1,520 poor beneficiaries (at least 50% of whom will be women), will (i) deliver a holistic set of interventions to promote economic inclusion, strengthen resilience, and reduce poverty; and (ii) contribute to the evidence base for policy makers on new approaches to social protection system strengthening.

28. Gender analysis during project preparation identified several key gender issues related to the impact of the pandemic. The United Nations Development Programme survey (footnote 7) revealed that the average monthly income per person in households headed by women was lower than in households headed by men, and declined significantly after the government declared a state of heightened alert and preparedness. Women have been more exposed to a loss of employment and a decrease in wages. The survey also found that, because of the additional burden of taking care of children not in school, income loss, and worry about the risk of an outbreak, women were more likely to experience psychological stress related to COVID-19 compared with men. Physical distancing and quarantine measures have clear implications on 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,<sup>29</sup> which makes the project inherently gender-responsive. ADB collaborated with UNICEF on a November 2020 survey that found that mothers are the custodians of children's grant accounts in 85.6% of households and are the primary decision makers when it comes to spending the child grants in 76.6% of households, making joint decisions with their husbands in a further 7.7% of households.<sup>30</sup> Women's decision-making power over the use of the grants has increased slightly since the top-ups were introduced. The project is categorized *effective gender mainstreaming*, and includes gender targets and indicators that comprise (i) maintaining women's control over the increased child grants to meet their families' needs, and (ii) ensuring that 50% of the graduation pilot beneficiaries are women. A gender action plan is included to monitor gender targets.

## F. Safeguards

29. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.<sup>31</sup>

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

31. **Involuntary resettlement (category C).** The project activities do not include civil works and will have no land acquisition or involuntary resettlement impacts.

<sup>29</sup> UNICEF. 2020. [Gender-Responsive Social Protection During COVID-19: Technical Note](#). New York.

<sup>30</sup> UNICEF and Independent Research Institute of Mongolia. 2020. [Rapid Assessment of the COVID-Responsive Vertical Expansion of the Child Money Program and Food Stamp Program](#). Ulaanbaatar.

<sup>31</sup> ADB. [Safeguard Categories](#).

32. **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 the eligibility criteria of having children aged 0–17 and registering in the IHD. The project’s benefits are national in scope.

#### **G. Summary of Risk Assessment and Risk Management Plan**

33. Significant risks and mitigating measures are summarized in Table 4 and described in the risk assessment and risk management plan.<sup>32</sup>

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigation Measures</b>
Vulnerability to corruption could undermine accountability throughout the economic and political spheres.	ADB supports the strengthening of institutions that are vital to improving Mongolia’s integrity system. This includes the practice of participation by citizens in monitoring budget-financed activities. ADB also facilitates Mongolia’s active role in international anticorruption initiatives.

ADB = Asian Development Bank.  
Source: ADB.

#### **IV. ASSURANCES**

34. The government and the MLSP 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 MLSP have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreements.

#### **V. RECOMMENDATION**

36. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan of \$46,400,000 to Mongolia for the Second Shock-Responsive Social Protection Project, from ADB’s ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB’s London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board; and
- (ii) the loan of \$26,600,000 to Mongolia for the Second Shock-Responsive Social Protection Project, from ADB’s ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; 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

12 March 2021

<sup>32</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in [Appendix 2](#)).

## DESIGN AND MONITORING FRAMEWORK

<b>Impact the Project is Aligned with</b>			
Adverse socioeconomic impacts of the COVID-19 pandemic reduced (ADB's Comprehensive Response to the COVID-19 Pandemic) <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks and Critical Assumptions</b>
<p><b>Outcome</b> Social welfare support for the poor and vulnerable, especially women and children, enhanced</p>	<p>a. By June 2021, at least 1.2 million children nationwide (at least 48.2% girls)<sup>b</sup> registered in the IHD receive topped-up child grant benefits (November 2020 baseline: 1,184,158 children [613,517 boys and 570,641 (48.2%) girls]) (OP 1.1)</p> <p>b. By 2024, at least 80% of graduation pilot program beneficiaries (50% women) have improved livelihoods as measured by the graduation criteria established under the pilot program (2019 baseline: not applicable)</p>	<p>a. GOLWS reports generated from the IHD</p> <p>b. Impact evaluation end line survey report, 2023</p>	<p>R: The pandemic spreads and quarantine measures are extended, with more severe economic and social impacts than anticipated.</p>
<p><b>Outputs</b></p> <p>1. Pro-poor child grant top-ups delivered</p> <p>2. Social welfare programs and systems strengthened</p>	<p><b>By 2023</b></p> <p>1a. Child grant monthly benefit level topped-up to MNT100,000 per child for 6 additional months, January–June 2021 (March 2020 pre–COVID-19 baseline: regular child grant benefit of MNT20,000 per month) (OP 1.1.3)</p> <p>2a. Proxy means test data for at least 150,000 households is recertified using new methodology through household visits, with data disaggregated by age, sex, and geographic area (2020 baseline: 0 households recertified using new methodology)</p> <p>2b. At least 14 additional social welfare programs are connected to the "e-welfare"</p>	<p>1a. Approved 2021 government budget</p> <p>2a. GOLWS reports generated from the IHD</p> <p>2b. "E-welfare" system reports</p>	<p>A: Beneficiary attrition from the graduation pilot program is not significant.</p>

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
	system (2020 baseline: 5 programs) (OP 1.1.3)  2c. At least 1,500 working-age adults in poor households (50% women) receive graduation program asset packages with coaching and training to promote diversified income sources (2020 baseline: 0 households) (OP 1.2, OP 2.5.4)	2c. Project quarterly reports	
<p><b>Key Activities with Milestones</b></p> <p><b>1. Pro-poor child grant top-ups delivered</b></p> <p>1.1 Approve child grant top-ups for 6 additional months, January–June 2021 (Q4 2020)</p> <p>1.2 Transfer monthly child grants electronically to children’s bank accounts in a timely manner (Q1–Q2 2021)</p> <p>1.3 Monitor implementation and assess the impact of the transfer on households (through ADB’s TA for Building Capacity for an Effective Social Welfare System) (Q3–Q4 2021)<sup>c</sup></p> <p><b>2. Social welfare programs and systems strengthened</b></p> <p>2.1 Undertake household visits to recertify households using the new proxy means test methodology to be approved in Q1 2021 (Q2–Q4 2021)</p> <p>2.2 Recruit consultants to support the digitization of social welfare systems (Q1–Q4 2021)</p> <p>2.3 Procure database management system for the Ministry of Labor and Social Protection and undertake training for staff (Q2–Q4 2021)</p> <p>2.4 Prepare detailed design and implementation plan for the graduation pilot program—including TOR and a training plan for social workers as coaches; beneficiary selection procedures; and TOR for service providers for market assessment, training delivery, and impact evaluation (through ADB’s TA for Building Capacity for an Effective Social Welfare System) (Q1–Q2 2021)</p> <p>2.5 Recruit service providers to support the graduation pilot program (Q2 2021)</p> <p>2.6 Implement, monitor, and evaluate the impact of the 20-month graduation pilot program, with support from ADB’s TA for Building Capacity for an Effective Social Welfare System (Q3 2021–Q2 2023)</p>			
<p><b>Inputs</b></p> <p>ADB: \$73 million (loan)</p> <p>    Ordinary capital resources: \$46.40 million</p> <p>    Concessional ordinary capital resources loan: \$26.60 million</p> <p>Government: \$186.64 million</p>			

A = assumption, ADB = Asian Development Bank, COVID-19 = coronavirus disease, GOLWS = General Office of Labor and Welfare Services, IHD = Integrated Household Database, OP = operational priority, Q = quarter, R = risk, TA = technical assistance, TOR = terms of reference.

<sup>a</sup> ADB. 2020. [ADB’s Comprehensive Response to the COVID-19 Pandemic](#). Manila.

<sup>b</sup> National Statistics Office data for 2019 confirm the sex ratio of Mongolian children aged 0–19 as 51.1% boy and 48.9% girls. This varies among age groups and is most imbalanced among children aged 0–4, at 51.3% boys and 48.7% girls. The gender target is set to at least maintain the current ratio among child grant beneficiaries.

<sup>c</sup> ADB. 2019. [Technical Assistance to Mongolia for Building Capacity for an Effective Social Welfare System](#). Manila (TA 9893-MON).

#### **Contribution to Strategy 2030 Operational Priorities**

Expected values and methodological details for all OP indicators to which this operation will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

Source: ADB.

**LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=54214-002-3>

1. Loan Agreement: Ordinary Operations
2. Loan Agreement: Ordinary Operations (Concessional)
3. Sector Assessment (Summary): Public Sector Management (Social Protection Initiatives)
4. Project Administration Manual
5. Economic and Financial Analysis
6. Summary Poverty Reduction and Social Strategy
7. Risk Assessment and Risk Management Plan
8. Contribution to Strategy 2030 Operational Priorities
9. Gender Action Plan