

SECTOR ASSESSMENT (SUMMARY): SOCIAL PROTECTION

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. The Asian Development Bank (ADB) social protection index for Mongolia was 0.24 in 2010, which is the third-best score among the 33 countries in the Asia-Pacific region for which data are available.¹ The two major pillars of social protection in Mongolia are (i) social welfare, with 68 different types of cash benefits and limited services managed by the General Office for Social Welfare Services (GOSWS); and (ii) social insurance, provided through five social insurance funds, managed by the Social Insurance General Office (SIGO).² SIGO and GOSWS are both under the Ministry of Population Development and Social Protection. Social welfare is also provided by other ministries such as the Ministry of Health (through a program to ensure access to health care for the poor), the Ministry of Education and Science (which provides subsidies to needy students), and other line ministries. Furthermore, Mongolia's state-run employment services, under the newly created Ministry of Labor,³ provide employment opportunities, skills training and micro-loans to vulnerable groups.

2. Social insurance covers all people engaged in the formal labor market. In 2012, social welfare schemes covered almost 1 million beneficiaries (40% of the population). Social welfare has undergone major reforms with ADB support since 2001. However, key issues—including fiscal sustainability; overreliance on cash transfers versus service delivery; predominance of a categorical targeting system, with limited impact on the poor and vulnerable; and uncertain impact of welfare benefits—still need to be addressed through rationalization of social welfare benefits. The absence of an effective centrally operated management information system for SIGO and GOSWS leads to duplication of benefits, and limited analysis of the impact of social welfare on the wellbeing of recipients. It prevents efficiency gains and transparency in the delivery of services, and results in inequity in targeting.

3. The five social insurance funds cover different segments of the population. The health, pension, disability, and unemployment funds are based on contributions from both the employer and the employee; hence, these funds cover formal sector employees. Old age and disability risks of herders and employees working in the informal sector are covered under the social welfare pension. Health insurance coverage is nearly universal as the government subsidizes the health insurance contribution for over 50% of the population. All funds are subsidized by the government.⁴ In 2011, 604,762 Mongolians (22% of the population) contributed to the social insurance funds through compulsory contributions and about 81,642 through voluntary contributions. The contributory pension system covered 301,940 people at the end of 2011. In addition, about 58,000 people received social welfare pensions. Mongolia initiated pension reform at the end of 2012, to shift from a single-layer, pay-as-you-go contributory system to a multilayer pension system, encouraging private sector involvement and individual accounts. The growing fiscal burden of the pension system requires that system be reformed. The difference between pension insurance fund contributions and benefits has grown from a fraction of 1% of

¹ Social Protection Index: <http://spi.adb.org/spidmz/index.jsp>

² SIGO manages the following social insurance funds: (i) pension fund; (ii) unemployment fund; (iii) health insurance fund; (iv) benefits fund (sickness, maternal, and funeral grants); and (v) IAOD insurance fund (industrial accidents, occupational diseases).

³ Before 2013 labor and social protection were united under a single ministry of social welfare and labor.

⁴ The funds are supported by shared employer and employee contributions (2% for health insurance and 7% for pension contributions, from both employer and employee).

gross domestic product (GDP) in 2003 to almost 3% of GDP in 2010. Old-age income security for herders, who are largely outside the current social insurance system, will need to be addressed. Designing a transparent, fiscally sustainable, and effective pension system to include contributory and social pensions will require considerable external technical support. Long-term support for human resources capacity building and institutional development is required as well.

4. The health insurance system covers up to 98% of the population but provides only limited financial protection, with out-of-pocket expenditures still accounting for 41% of total health expenditures in 2010.⁵ Improving health insurance requires addressing poor governance, lack of autonomy, and the poor capacity of the health insurance organization to purchase health services.⁶ The lack of transparency and accountability in the social insurance system leads to frustration on the part of beneficiaries and health services providers. Improving transparency requires an appropriate legal and regulatory framework, which is lacking at present, to ensure disclosure of information and effective complaint and redress mechanisms.

5. A large number of people in Mongolia are vulnerable and poor, despite the country's high rate of economic growth. The National Statistical Office (2013) estimates the incidence of poverty in 2012 at 27.4%, down from 33.7% in 2008. Rising inequality, the growth of informal employment, and increasing life risks and vulnerabilities due to internal migration and urbanization require a continuous focus on social welfare. Along with recent changes in the labor markets, the government intends to rationalize and improve the effectiveness of the social insurance and welfare system to make it better targeted and more in line with the country's socioeconomic development.

2. Government's Sector Strategy

6. The Social Security Sector Strategy Paper and accompanying action plan, approved by the Cabinet in 2003, provided a 10-year development strategy for the social protection sector, including social welfare, social insurance, and employment services. Overall, many aspects of the plan were addressed, but reforms and achievements fell short of expectations. Recent changes in the economy and in the living environment of Mongolians have made it necessary to assess and update the strategy.

7. In July 2012, the newly elected government published the Government Action Plan (2012–2016). The social protection program includes measures to improve social welfare (through better targeting of benefits, and improvement of the old-age pension paid under social welfare); strengthen social insurance (by introducing a multilayer pension system); support youth (by rehabilitating centers for disabled children, and introducing a universal cash benefit for all children); seek private sector investment in elderly care; and improve infrastructure to provide assistance to disabled people. The Government Action Plan calls also for the introduction of new and transparent financial services and advanced information technology tools in the social welfare and insurance sector.

4. The budget of the Ministry of Population Development and Social Protection was MNT402.5 billion in 2013 (equal to 5.4% of the total government budget and 2.9% of GDP in 2013). This indicates the financial sustainability of the social protection system has improved following measures introduced during the financial crisis in 2008, when the budget of the ministry

⁵ World Health Organization. 2010. *World Health Statistics*. Geneva.

⁶ ADB prepared a capacity development technical assistance project, (effectiveness expected in November 2013) to support the implementation of the revised citizens' health insurance law to be passed by Parliament in 2013.

(in charge of social protection and labor) represented 12% of GDP. Rationalizing the system will be difficult, because of politically strong interest groups who seek to protect claims of categorical benefits and a historically deeply rooted entitlement system. Strong political will is needed to come to terms with interest groups. Policy analysis and development requires sufficient analytical capacity to support advocacy efforts and informed policy reforms.

3. ADB Sector Experience and Assistance Program

9. ADB has been at the forefront of social protection reform since 2001, supporting in particular social protection sector reforms, poverty targeting, and health insurance.⁷ ADB has been particularly active in reforming the social welfare system. The following social welfare reforms have been put in place since 2009: introduction of proxy means testing to target the poor, cancellation of several universal benefits considered poorly targeted,⁸ the introduction of the food stamp program as the first poverty-targeted benefit in Mongolia, and passage of an amended Social Welfare Law in January 2012 that legalized the reforms. Other partners involved in reforming the sector are the World Bank, German development cooperation through GIZ, and the United Nations system.

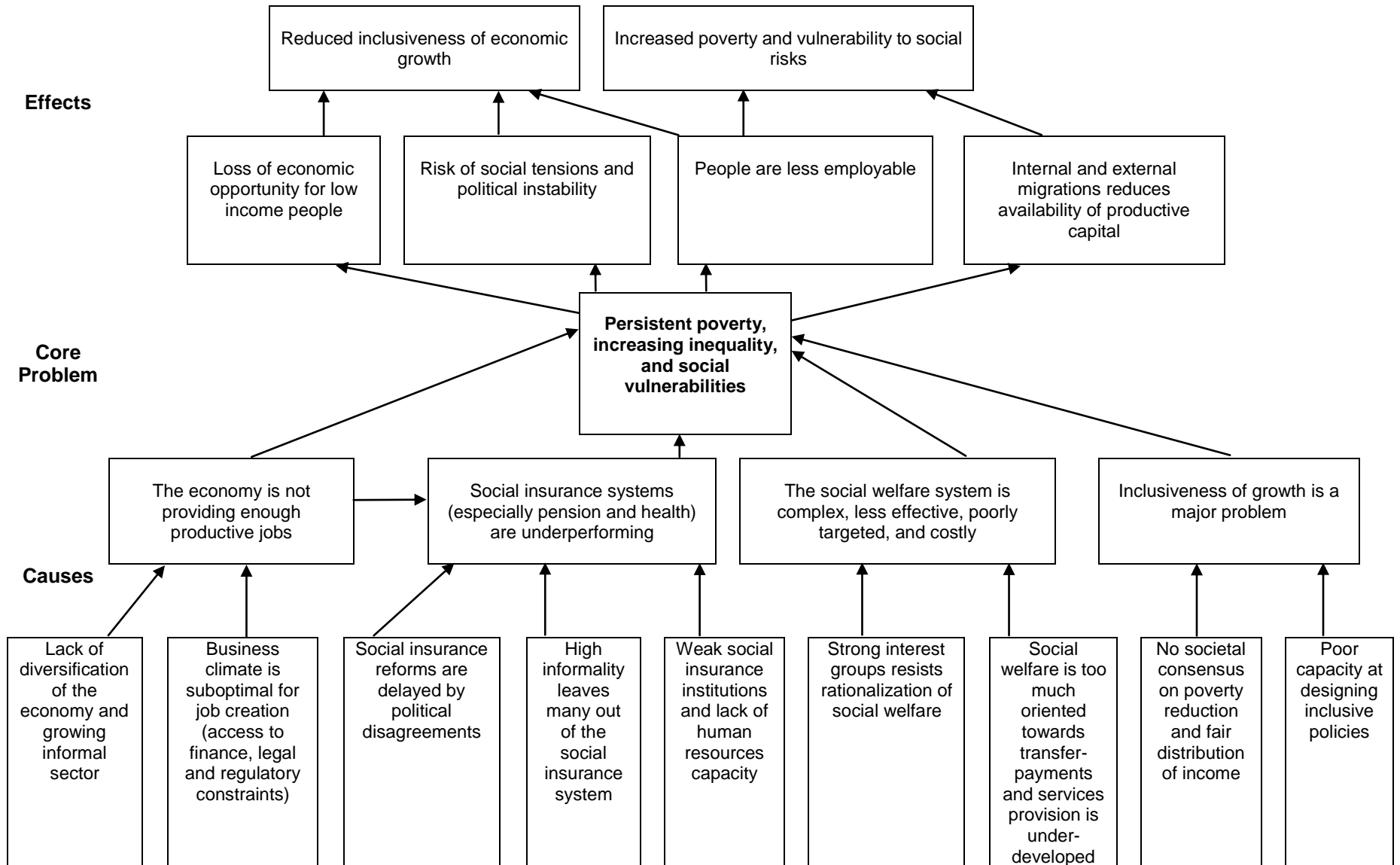
10. A major lesson is the need to provide ongoing support, because reforming a sensitive sector such as social protection requires long-term effort and commitment. ADB supports the government's strategic vision to further modernize the social welfare system through consolidation of benefits, improved targeting, and financial sustainability. While social insurance will need to adapt to a fast growing and possibly volatile economy, shifting the social welfare system from a predominantly cash transfer approach to a focus on service provision will require substantial additional financial, human, and infrastructure resources, including intensive capacity building of social workers. ADB support will require technical assistance and investments, including for optimizing the use of information technology. ADB's inclusive growth strategy encompasses social protection as a third pillar, and its social protection strategy points to the need to better connect to labor markets and provide human development opportunities. The promotion of the inclusiveness of growth through more effective vocational training and employment services and by increased capacity of the government to design inclusive policies in the employment, education, and health and social protection sectors is part of ADB's strategic vision for the sector.⁹

⁷ ADB. 2001. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to Mongolia for the Social Security Sector Development Program*. Manila; ADB. 2008. *Report and Recommendation of the President to the Board of Directors on Proposed Asian Development Fund Grants to Mongolia for the Food and Nutrition Social Welfare Program and Project*. Manila; and ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant and Technical Assistance Grant to Mongolia for the Social Sectors Support Program*. Manila.

⁸ In 2009, the Law on Children, Mothers, and Families was abolished, cancelling the child money program and benefits for newborn children and newlyweds. A universal child benefit was reintroduced in October 2012 after the new government began implementing the Government Action Plan (2012–2016).

⁹ ADB has begun implementing a capacity development technical assistance project to promote inclusive growth in Mongolia in July 2013 (ADB. 2012. *Technical Assistance to Mongolia for Promoting Inclusive Growth*. Manila).

Problem Tree for the Social Protection Sector



Source: Asian Development Bank estimates.

Sector Results Framework (Social Protection, 2014–2019)

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contribution	Indicators with Targets and Baselines	Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
Improved social equity through effective social welfare and insurance coverage and services	<p>The number of social welfare benefits reduced from 68 in 2013 to 20 in 2019</p> <p>The proportion of the social welfare budget allocated to the poor and vulnerable increases from 25% in 2009 to 40% in 2019.</p> <p>By 2020, social pensions for informal sector workers (herders, the self-employed, and nonwage earners) increase (i) in coverage by 20% (current level 55,000); and (ii) in benefits by 30% (current level about \$22 per month).</p> <p>The share of the budget allocation for social welfare services versus cash transfers changes from 10% social welfare and 90% cash transfers (2013) to 30% social welfare and 70% cash transfers (2018).</p>	<p>Improve transparency and efficiency of the social protection entitlement system for the beneficiaries.</p> <p>Consolidate and improve targeting of social welfare benefits.</p> <p>Prepare a 10-year strategy for social protection reform.</p> <p>The updated social protection strategy will comprise a specific section on gender, and on the impact of social protection services and cash delivery with recommendations, and will have a close link to labor market policies.</p>	<p>Processing time for hospital claim and application for disability benefit reduced by 20% on average by 2018 (from 7 days in 2013)</p> <p>Average processing time for financial reporting of SIGO reduced by 30% in 2018 (from 15 days in 2013)</p> <p>Increase in the number of social welfare benefits that use proxy means testing as a targeting method, from 1 out of 68 in 2013 to 5 out of 20</p>	<p>Planned key activity areas Capacity development technical assistance on Strengthening the Health Insurance System</p> <p>Pipeline projects with estimated amounts Additional Financing for the Food and Nutrition Social Welfare Project (\$20 million)</p> <p>Ongoing projects with approved amounts Food and Nutrition Social Welfare Program and Project (\$12 million)</p> <p>Social Sectors Support Program (\$60 million, completed in 2012)</p> <p>Policy and advisory technical assistance on Promoting Inclusive Growth (\$1 million)</p>	<p>Planned key activity areas Improved governance of the health insurance system</p> <p>Increased financial sustainability of health insurance</p> <p>Improved management capacity of the health insurance organization</p> <p>Pipeline projects Increased effectiveness, efficiency, and transparency of social welfare and insurance system, and information technology processes</p> <p>Rationalized social welfare system</p> <p>Ongoing projects A food stamp program implemented targeting the 5% poorest of the country</p> <p>Increased capacity of the government to prepare inclusive policies</p>

ADB = Asian Development Bank

Source: Asian Development Bank estimates.