



Report and Recommendation of the President to the Board of Directors

Project Number: 42322
November 2013

Proposed Loan for Additional Financing and Technical Assistance Grant Mongolia: Food and Nutrition Social Welfare Project

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 23 October 2013)

Currency unit	–	togrog (MNT)
MNT1.00	=	\$0.000593
\$1.00	=	MNT1,687

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
EIRR	–	economic internal rate of return
GOSWS	–	General Office for Social Welfare Services
GPA	–	Government Procurement Agency
IT	–	information technology
MOF	–	Ministry of Finance
MPDSP	–	Ministry of Population Development and Social Protection
O&M	–	operation and maintenance
SIGO	–	Social Insurance General Office
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

NOTE

In this report, “\$” refers to US dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	5
D. Investment and Financing Plans	5
E. Implementation Arrangements	7
III. TECHNICAL ASSISTANCE	8
IV. DUE DILIGENCE	8
A. Technical	8
B. Economic and Financial	8
C. Governance	9
D. Poverty and Social	9
E. Safeguards	10
F. Risks and Mitigating Measures	10
V. ASSURANCES	10
VI. RECOMMENDATION	10
APPENDIXES	
1. Revised Design and Monitoring Framework	11
2. List of Linked Documents	16

PROJECT AT A GLANCE

1. Project Name: Additional Financing of Food and Nutrition Social Welfare Project			2. Project Number: 42322-023		
3. Country: Mongolia		4. Department/Division: East Asia Department/Urban and Social Sectors Division			
5. Sector Classification:					
		Sectors	Primary	Subsectors	
		Finance		Insurance and contractual savings	
		Health and social protection	√	Social protection	
				Health finance	
6. Thematic Classification:					
		Themes	Primary	Subthemes	
		Social development	√	Human development	
		Capacity development		Institutional development	
6a. Climate Change Impact No Climate Change Indicator available.			6b. Gender Mainstreaming		
			Gender equity theme (GEN)		
			Effective gender mainstreaming (EGM)		√
			Some gender elements (SGE)		
			No gender elements (NGE)		
7. Targeting Classification:			8. Location Impact:		
General Intervention	Targeted Intervention				
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level		
	√				
9. Project Risk Categorization: Low					
10. Safeguards Categorization:					
		Environment		C	
		Involuntary resettlement		C	
		Indigenous peoples		C	
11. ADB Financing:					
		Sovereign/Nonsovereign	Modality	Source	Amount (\$ Million)
		Sovereign	Project loan	Asian Development Fund	20.0
		Sovereign	Capacity development technical assistance	Technical Assistance Special Fund	0.5
		Total			20.5
12. Cofinancing: No Cofinancing available.					
13. Counterpart Financing:					
		Source	Amount (\$ Million)		
		Government	3.0		
		Total	3.0		
14. Aid Effectiveness:					
		Parallel project implementation unit		No	
		Program-based approach		No	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Mongolia for the additional financing of the Food and Nutrition Social Welfare Project. The report also describes proposed technical assistance (TA) for Supporting Social Protection Reforms, and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, approve the TA.¹

2. The Asian Development Bank (ADB) approved the original program (\$9 million Asian Development Fund [ADF] grant) and project (\$3 million ADF grant) in 2008, which were designed in the context of the 2008 food crisis to improve access to food by vulnerable and poor households.² The original program, which included the design and implementation of a food stamp program as part of the social welfare system, has exceeded its target number of beneficiaries.³ The original project improved targeting, provided capacity building, and prepared strategies to reform social welfare in Mongolia. ADB's contribution to the reform of social welfare has been significant at both policy and operational levels.⁴ Progress made in reforming social welfare since 2009 includes (i) the introduction of proxy means testing to target the poor, (ii) cancellation of several universal benefits, (iii) the introduction of the food stamp program as the first poverty-targeted benefit in Mongolia, and (iv) passage of an amended Social Welfare Law in January 2012 that legalized the reforms.

3. The government has requested ADB's consideration of additional financing to the ongoing project to continue reforming social welfare and to strengthen social insurance services. It will scale up the original project by pursuing the reforms initiated in social welfare. Social welfare benefits will be further consolidated to reduce the complexity of the system and increase its effectiveness. The additional financing will also support an expansion in the scope of the original project by improving the delivery of social insurance services and modernizing the social protection sector to adapt to a fast-growing economy.

II. THE PROJECT

A. Rationale

4. In Mongolia, high economic growth coexists with large numbers of vulnerable and poor populations—requiring a continuous focus on social welfare.⁵ Mongolia's promising economic outlook and the prospect of increased labor participation in the formal sector justify the increasing focus on social insurance. In July 2012, the newly elected government issued the Government Action Plan, 2012–2016, which aimed at introducing new and transparent financial

¹ The revised design and monitoring framework is in Appendix 1.

² ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grants to Mongolia for the Food and Nutrition Social Welfare Program and Project*. Manila. The program was completed in December 2012.

³ The food stamp program has reached 124,371 beneficiaries (65,972 females and 58,399 males), surpassing the project outcome target of 100,000 beneficiaries.

⁴ ADB has been at the forefront of social welfare reforms with the following: 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: Proposed Asian Development Fund Grants to Mongolia for the Food and Nutrition Social Welfare Program and Project*. Manila; 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.

⁵ The National Statistical Office released its latest poverty statistics: the 2012 national poverty rate was 27.4%, down from 33.7% in 2011. National Statistical Office. 2012. *National Socio-Economic Household Survey*. Ulaanbaatar.

services and advanced information technology (IT) tools in the social welfare and insurance sector. The government's intention is to address user dissatisfaction with insurance and social welfare services. The Ministry of Population Development and Social Protection (MPDSP) has two main attached agencies—the Social Insurance General Office (SIGO) in charge of managing five social insurance funds,⁶ and the General Office for Social Welfare Services (GOSWS) in charge of social welfare benefit management. SIGO and the GOSWS are fairly decentralized, with their 30 branch offices in all 21 *aimags* (provinces) and nine districts of Ulaanbaatar, and services offered in all 352 *soums* (administrative subdivisions of the *aimag*) of Mongolia.

5. **Social welfare.** Social welfare has undergone major reforms since 2001 with ADB support, but key issues such as fiscal sustainability and the impact of welfare benefits still need to be addressed through consolidation of social welfare benefits. Social welfare includes an excessive number of benefits (more than 60), which lack proper targeting and are overlapping. The absence of an effective, centrally operated management information system in the GOSWS leads to duplication of benefits, limited analysis, and other inefficiencies. Further progress in social welfare reforms requires better availability of data and information for more efficient and effective delivery of social welfare services. A major lesson is the need for sustained support, as reforming a sensitive sector such as social welfare requires long-term efforts and commitment.

6. **Social insurance.** The population coverage of each of the five social insurance funds managed by SIGO varies. All funds are subsidized by the government, and the pension and health insurance funds are contributory funds.⁷ The pension fund covered about 301,940 people at the end of 2011. The MPDSP has initiated reform to shift from a single-layer contributory system to a multilayer pension system encouraging private sector involvement. The health insurance system, covering up to 98% of the population, albeit with low financial protection, is undergoing reforms. These include better governance, more managerial autonomy, and increased health services purchasing capacity.⁸ With recent changes in the economy and the changing living conditions of Mongolians, the social security sector strategy needs to be assessed and updated to develop a consensus on the way forward to 2020. The social security sector strategy was last updated in 2003.⁹

7. **Information technology systems.** The IT systems of SIGO and the GOSWS suffer from lack of automated procedures for reporting, poor connectivity to automate social services at the *soum* and *aimag* levels, and a multitude of databases, which complicate data management, analysis, and reporting. SIGO is using an outdated software system that cannot support international accounting standards requirements for the public sector. The current approach to strictly separate IT systems for the GOSWS and SIGO is inefficient. The lack of information flow and availability constrains efficient functioning of the social welfare and insurance system. Reporting and data analytics (business intelligence) lack automated processes in SIGO, the GOSWS, and at the MPDSP level—creating considerable difficulty in analyzing the performance data of social welfare and insurance, and in preparing projections for

⁶ The five funds are the (i) pension fund; (ii) unemployment fund; (iii) health insurance fund; (iv) benefits fund (sickness, maternal, and funeral grants); and (v) industrial accidents, occupational diseases insurance fund.

⁷ Shared contributions of employers and employees (2% for health insurance and 7% for pension contributions each from employers and employees).

⁸ ADB is preparing capacity development TA (effectiveness expected in November 2013) to support the implementation of the revised citizens' health insurance law to be passed by the Parliament within 2013. ADB. 2013. *Technical Assistance to Mongolia for Strengthening the Health Insurance System*. Manila.

⁹ Social security is to be understood as synonymous with social protection, and includes social welfare and social insurance.

policy analysis and development. Further, data security, disaster prevention measures, and the use of licensed software are lacking. The World Bank is supporting efforts to upgrade selected aspects of the social welfare IT system. IT processes for both the GOSWS and SIGO need to become transparent, with web-based interfaces, and stakeholder-centric. Beneficiaries and other stakeholders request access to information to inquire about the status of benefits processing, capacity to retrieve information, clear grievance and complaints mechanisms, and simplified procedures.

8. Both SIGO and the GOSWS seem adequately staffed, but the human resources capacity will need to be strengthened given the planned IT improvements. Additional IT hardware (computer, server, digital storage) will need to be acquired at central level, *aimag*, district, and *soum* level. This needs to be supported by proper IT budget allocation to implement effective maintenance, depreciation, and replacement policies.¹⁰ About 50% of the *soums* are connected through an internet network. The government is working with private parties to extend network connectivity to remote *soums*. Bandwidth, which seems sufficient for SIGO at present, will need to be reassessed in light of the planned requirements of the IT system in the future.

9. The current project was assessed on the following indicators and is considered to be performing well.¹¹

- (i) **Implementation results against expected project outputs.** All outputs under component 1 (design and implementation of a targeted food stamp program) have been achieved. Nationwide coverage of the proxy means testing implementation was achieved in July 2012 (1.1). The food stamp program is institutionalized and functioning (1.2).¹² Outputs under component 2 (capacity development and communication strategy for the food stamp program) were achieved. Capacity development tools for national and local stakeholders were implemented (2.1). A communication strategy was adopted and implemented nationwide (2.2). Outputs under component 3 are nearly achieved. A methodology to measure the impact of food price increases was developed and disseminated (3.1). Policy notes, a knowledge product, and recommendations to the government have been prepared (3.2). Recommendations on the early warning and response system to respond to social shocks were prepared and are awaiting the government's decision to set up the system (3.3).
- (ii) **Implementation progress.** Implementation progress is satisfactory. The current project had achieved 98% of cumulative physical progress against 97% elapsed time by 8 November 2013. Cumulative contract awards and disbursement are consistent with projections.
- (iii) **Safeguard compliance.** Safeguard classifications for environment, resettlement, and indigenous peoples were C. All requirements have been met. The gender action plan has been implemented satisfactorily. Progress on the gender action

¹⁰ SIGO has a policy to replace hardware every 5 years but most GOSWS hardware is 5–6 years old without a clear replacement policy.

¹¹ ADB. 2011. Additional Financing. *Operations Manual*. OM H5/OP. Manila (para. 3).

¹² The initial results of the impact evaluation of the food stamp program show a significant increase in dietary diversity and a decrease in the number of months without adequate food supply, a significant reduction in negative coping strategies (e.g., debt), a decrease in self-reported poverty, and food insecurity (ADB. 2011. *Impact Evaluation Study: Medicaid and Food Stamp Programs in Mongolia*. Manila). At the same time, the results show no significant impact on household consumption (monetary) or caloric increase. In total, 450,000 households (1.7 million individuals) were covered by the proxy means test survey. The National Socio-Economic Household Surveys for 2010–2012 show that 85% of food stamp eligible are poor—performance in line with international benchmarking. The remaining 15% (eligible non-poor) are the result of inaccuracies of the targeting methodology.

plan was reviewed, and minimal changes made to two indicators to reflect actual implementation and monitoring. The proxy means testing database, food stamp distribution, grievances, and monitoring are fully sex-disaggregated in accordance with the gender action plan.

- (iv) **Management of risks.** Risks were managed successfully. The report and recommendation of the President for the original project identified (a) food safety nets used as a political tool, (b) resistance to change in the existing social welfare system, (c) the decision to expand or prolong the food stamp program based on recommendations from the pilot approach, (d) lack of coordination among ministries and levels of government, and (e) the risks that the recommendations on the results from pilot testing will not be turned into policy reforms. Mitigation measures were implemented and no further risk has surfaced.
- (v) **Project performance rating.** The current project is rated *on track* in the project performance rating.

10. The additional financing is considered to meet the four eligibility criteria for additional financing.¹³ First, ADB reviewed the original project in October 2012. It confirmed the satisfactory performance of the original project, and no changes in approaches or methodologies were envisioned.¹⁴ Accordingly, the original project remains technically feasible, economically viable, and financially sound. Second, the government accords high priority to the original project as proposed to be expanded through the additional financing. Additional financing will be crucial in meeting a key reform in the Government Action Plan, 2012–2016 to deliver social protection services to citizens efficiently and without bureaucratic difficulties, as acknowledged by the government's request for additional financing. Third, the revised project outcome will continue improving social welfare services started under the original project and extend to social insurance services, while the output related to preparing a package of reforms of social welfare will be expanded to cover social insurance. These changes are consistent with the revised project's development objectives. Fourth, the expanded project and its outcome are consistent with the inclusive social development pillar of the current country partnership strategy, 2012–2016 as well as with the ongoing reform efforts of the government.¹⁵

11. The additional financing meets the three criteria for priority consideration: (i) the project is performing well (para. 9); (ii) there is a high degree of project readiness to implement the additional financing; and (iii) developing social welfare and insurance services that are effective, efficient, transparent, and user-centered is highly innovative in the context of Mongolia and could have a demonstration effect for other sectors.

B. Impact and Outcome

12. The impact and outcome will be revised. The impact of the overall project (including the additional financing) will be improved social equity, less poverty, better social risks mitigation and prevention, and improved food security. The outcome will be more efficient and transparent delivery of social welfare and insurance services (including support to food consumption), through strengthened policy, systems, and IT. The outputs will be retained, except for output 3.2 of the original project, which will be expanded to include IT improvements and social protection.

¹³ ADB. 2011. Additional Financing. *Operations Manual*. OM H5/BP. Manila (para. 4).

¹⁴ Aide-Mémoire of the review mission fielded on 17–26 September 2012.

¹⁵ ADB. 2012. *Country Partnership Strategy: Mongolia, 2012–2016*. Manila.

C. Outputs

13. The outputs will be regrouped under the three components of the original program (component 1) and project (components 2 and 3):

- (i) **Component 1: Design and implementation of a targeted food stamp program.** The two original outputs—innovative targeting approaches for food stamps pilot tested by December 2009 (1.1) and a mechanism for delivering food stamps established by June 2009 (1.2)—have been achieved.
- (ii) **Component 2: Capacity development and communication strategy for the food stamp program.** The two original outputs—capacity development tools for national and local stakeholders and institutional strengthening designed and implemented by January 2010 (2.1) and a communication strategy to ensure transparent implementation of the food stamp program developed and implemented by December 2009 (2.2)—have been achieved as well.
- (iii) **Component 3: Strengthening social welfare strategies and systems.** The first original output under this component—effective food crisis response by 2010 (3.1)—has been achieved. The third original output—an early warning and response system to respond to social shocks by October 2011 (3.3)—is partially achieved as the system is not in place yet. The second original output of the project—a package of reform of social welfare strategies by October 2011 (3.2), which is partially achieved—will be replaced by two new outputs under the additional financing to continue reforming social welfare and improve social insurance.
- (iv) **Output 3.2 (new): Information technology processes and systems upgraded.** Activities will include (a) improving IT systems to support international accounting standards for SIGO; (b) automating periodic reporting and reducing manual processing; (c) enhancing the transparency of SIGO and GOSWS operations to ensure friendly and web-based access of social welfare and insurance data based on a secure and electronic access policy; (d) establishing the data analytics and a business intelligence system; (e) setting up information security and disaster recovery infrastructure; (f) building capacity for staff of SIGO, the GOSWS, and the MPDSP at all levels; and (g) upgrading IT equipment at central, *aimag*, district, and *soum* level.
- (v) **Output 3.3 (new): Social welfare reformed and social protection strengthened.** Activities will include (a) rationalizing the social welfare system (consolidate benefits, improve the targeting of social welfare benefits, balance cash transfer and services, and link social welfare beneficiaries to employment services); (b) updating the social protection strategy; (c) building capacity for staff of SIGO, the GOSWS, and the MPDSP at all levels; (d) updating the database of poor households identified through proxy means testing and running the grievance and redress mechanism; (e) improving the investment opportunities of the social insurance funds; and (f) making recommendations on gender equality in social protection, and on better linking social protection with labor market policies, including gender, and child and youth protection issues.

D. Investment and Financing Plans

14. The additional financing project is estimated to cost \$23 million. The overall project is estimated to cost \$26.33 million, including physical and price contingencies, with taxes and duties of \$1.23 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Current Amount ^a	Additional Financing ^b	Total ^c
A. Base Cost^b			
1. Component 1: Design and implementation of a targeted food stamp program	0.00	0.00	0.00
2. Component 2: Capacity development and communication strategy	0.93	0.00	0.93
3. Component 3: Strengthening social welfare and insurance strategies and systems ^d	1.92	19.03	20.95
4. Project implementation management	0.35	0.71	1.06
Subtotal (A)	3.20	19.74	22.94
B. Contingencies^e	0.13	2.28	2.41
C. Financing Charges During Implementation		0.98^f	0.98
Total (A+B+C)	3.33	23.00	26.33

Note: Numbers may not sum precisely because of rounding.

^a Refers to the original amount. Includes taxes and duties of \$0.032 million financed from government resources.

^b Includes taxes and duties of \$1.20 million to be financed by ADB (\$1.05 million) and the government (\$0.15 million).

^c In mid-2013 prices.

^d Revised to reflect the expansion to social insurance.

^e Physical contingencies computed at 5% and price contingencies determined using ADB international cost escalation factors on international purchased equipment and services and at local escalation factors on local currency cost; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^f Interest during implementation for the ADB loan has been computed at the interest rate of 2% and will be entirely funded by the government.

Source: Asian Development Bank estimates.

15. The government has requested a loan in various currencies equivalent to SDR12,960,000 (\$20 million equivalent) from ADB's Special Funds resources for the additional financing, including contingencies and taxes and duties.¹⁶ The loan will have a 25-year term, including a grace period of 5 years, and an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement. The financing plan is in Table 2. The government will provide \$3 million for the additional financing to fund recurrent costs (operation and maintenance of IT systems, \$1.62 million), contingencies (\$0.25 million), taxes and duties (\$0.15 million), and financing charges (\$0.98 million).

Table 2: Financing Plan

Source	Current ^a		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
ADF grant	3.00	90.09	0.00		3.00	11.39
ADF loan			20.00	86.96	20.00	75.96
Government	0.33	9.91	3.00	13.04	3.33	12.65
Total	3.33	100.00	23.00	100.00	26.33	100.00

ADF = Asian Development Fund.

^a Refers to the original amount.

Source: Asian Development Bank estimates.

¹⁶ Memorandum on Mongolia: Cost Sharing Ceiling and Other Financing Parameters approved by the ADB President on 2 June 2010. The following principles were used in determining taxes and duties to be financed by ADB: (i) the amount does not represent an excessive share of the project investment plan, (ii) the taxes and duties apply only to ADB-financed expenditures, and (iii) the financing of the taxes and duties is relevant to the success of the project.

E. Implementation Arrangements

16. The implementation arrangements are summarized in Table 3 and described in detail in the project administration manual.¹⁷ Most implementation arrangements of the original project will be retained for the overall project.

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	June 2014–May 2017
Loan closing date	30 November 2017
Estimated completion date	31 May 2017
Management	
(i) Oversight body	The project steering committee of the overall project will oversee the implementation of the project and give strategic direction. It will be chaired by the state secretary of the MPDSP and include representatives of the Ministry of Economic Development; Ministry of Finance; SIGO; GOSWS; National Statistical Office; IT, Post and Telecommunication Authority; Mongolian Employers' Federation; Mongolian Trade Unions Federation; Association of Elderly; social workers; and a nongovernment organization working for the vulnerable and the poor. ADB and a representative of the United Nations agencies will be observers.
(ii) Executing agency ^a	The MPDSP will be responsible for all project financial matters, procurement, and recruitment of consultants. ^b
(iii) Key implementing agencies	GOSWS (for activities related to strengthening processes) SIGO (for IT systems of social welfare and social insurance)
(iv) Implementation unit	Responsible for the day-to-day administration of project financial matters, procurement, and recruitment of consultants in support of the MPDSP. The staff of the project implementation unit, all nationals, will include a project manager, an IT technical officer, a procurement specialist, a financial management specialist, a secretary, and a driver.
Procurement	International competitive bidding
	4 contracts
	\$7.72 million
	National competitive bidding
Consulting services	9 contracts
	\$2.42 million
	Shopping
	8 contracts
Advance contracting	\$0.34 million
	All procurement of goods will be undertaken in accordance with ADB's Procurement Guidelines (2013, as amended from time to time).
	Quality- and cost-based selection
	1 contract
Disbursement	\$0.15 million
	Consultants' qualification selection
	17 contracts
	\$1.52 million
	Fixed budget selection
	3 contracts
	\$5.98 million
	Individual consultant selection
	14 contracts
	\$1.03 million
	All consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).
	Advance contracting will be requested to accelerate the recruitment of consultants' services.
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

ADB = Asian Development Bank, GOSWS = General Office for Social Welfare Services, IT = information technology, MPDSP = Ministry of Population Development and Social Protection, SIGO = Social Insurance General Office.

^a The Ministry of Finance (MOF) is the executing agency of the original program and project, and the MPDSP (the Ministry of Social Welfare and Labor before July 2012) is the implementing agency. The implementing agency chairs the steering committee and is responsible for procurement under the original project. In 2009, the choice of the MOF as the executing agency was required as the original program and project were part of a wider government plan led by the MOF to address the food and fuel crisis. The additional financing focuses primarily on technical matters and is no longer designed in a crisis context. Therefore, it is relevant to designate the MPDSP as the executing agency of the overall project. The Ministry of Economic Development concurred with the change of executing agency.

^b The MPDSP has advised that the procurement will be conducted by the Government Procurement Agency (GPA). Such arrangements and the respective role of the GPA and the MPDSP will be confirmed during project implementation subject to ADB's assessment of the GPA capacity and resources.

Source: Asian Development Bank.

¹⁷ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

III. TECHNICAL ASSISTANCE

17. ADB will provide capacity development TA for Supporting Social Protection Reforms. The TA is estimated to cost \$0.5 million, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V). The TA will finance consulting services, capacity building for the MPDSP, and contingencies.¹⁸ The MPDSP will be the executing agency for the additional financing and the TA.¹⁹ The TA will be implemented from 30 June 2014 to 30 May 2017.²⁰

IV. DUE DILIGENCE

A. Technical

18. Technology solutions will be introduced under the IT component to ensure the efficiency and transparency of social welfare and insurance services. Web-based IT will be designed and implemented to ensure access to data from all levels, automated reporting systems, strict user access control, an integrated security framework, business intelligence software, infrastructure for backup and disaster recovery, an IT system catalog, and a centralized help desk for all IT-related issues. Capacity building will be provided. A link to the intersectoral poverty database will allow improved targeting of welfare programs of different ministries and government agencies.

B. Economic and Financial

19. The economic analysis evaluated the economic viability of the project as a whole. The analysis covers the macroeconomic context to review the potential for the government to continue to finance the project activities in the longer term following project completion. The quantifiable economic costs and benefits for the upgraded IT processes and systems have been evaluated. Benefits will lead to productivity gain, cost savings for the beneficiaries, and improved allocation of human resources at the agencies level. The evaluation of the economic benefit of reformed social welfare and strengthened social protection cannot be quantified monetarily at this stage; an evaluation will be possible once the efficiency of the current targeting is analyzed and new measures are defined during the envisaged project. Using conservative estimates of project implementation, the baseline results show an economic internal rate of return (EIRR) of 14.85% without taking into account unquantifiable economic benefits for the reformed social welfare and strengthened social protection output. The EIRR was tested through sensitivity analysis using a 20% decrease in economic benefits as the worst-case scenario for all economic benefits. Under these assumptions, the EIRR is 11.16%. The project is considered economically viable.

20. The project has no revenue-earning component, so a financial cost-benefit analysis was not necessary. The financial sustainability of the project was assessed at the fiscal and project level. An analysis of recent and projected government expenditures was undertaken to evaluate

¹⁸ Proceeds of the TA will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Consultants will be recruited under ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

¹⁹ The government will provide in-kind counterpart support in the form of office accommodation, remuneration and per diem of counterpart staff, and administrative support. The project implementation unit will provide day-to-day administrative support to the MPDSP. A capacity assessment confirmed MPDSP's capacity to handle financial matters and recruitment of consultants.

²⁰ Technical Assistance (accessible from the list of linked documents in Appendix 2).

the potential impact of the project on the budget of the MPDSP. The MPDSP, GOSWS, and SIGO will contribute counterpart funding and cover the project's operation and maintenance (O&M) costs. The government's annual share of project costs will average \$1.00 million, or less than 0.10% of the population development and social protection sector annual budget in 2012. The recurrent costs of the project are estimated to be about \$0.67 million per annum and include O&M of IT systems. The annual O&M cost to be borne by the MPDSP will not exceed 0.005% of its current expenditure. The counterpart funding and O&M costs are considered both financially sustainable and affordable. Considering an average depreciation value of \$2.00 million per annum for the project investment, the recurrent cost impact will be \$2.67 million per annum, which represents less than 0.01% of the total recurrent cost of 2012. A financial management assessment concluded that the MPDSP is experienced in managing ADB projects and is prepared for project implementation. The financial management analysis identified issues that will be addressed through the maintenance of project accounts by a project implementation unit and through external audits for the project duration. The government has committed to provide the necessary funds to ensure that the investment benefits are not lost.

C. Governance

21. The MPDSP is a long-term partner of ADB since 2001. IT improvements and better social funds management will substantially improve the transparency of financial transactions. A procurement capacity assessment conducted for the MPDSP, GOSWS, and SIGO confirmed their general ability to conduct procurement in compliance with ADB policy and relevant national laws and regulations on public procurement. Financial management assessments conducted for the MPDSP, GOSWS, and SIGO noted that all the agencies have staff with adequate accounting skills; computerized financial accounting and reporting systems; and accounting, financial, and project monitoring procedures. A project implementation unit will support the MPDSP in project financial matters, procurement, and recruitment of consultants. The Ministry of Finance will arrange annual external audits for the project. The MPDSP, GOSWS, and SIGO are subject to annual auditing conducted by independent auditors.

22. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the MPDSP. The specific policy requirements and supplementary measures are described in the project administration manual (footnote 17).

D. Poverty and Social

23. The poor and socially excluded will particularly benefit from the project through improved systems, better targeting, and increased analytical capabilities and capacity of the MPDSP to better design benefit coverage and plan for the future. Members of the social insurance systems will benefit from more effective and transparent services. The additional financing project is classified under effective gender mainstreaming. Mongolia has a wide range of social protection benefits with social welfare entitlements designed specifically to address strengthening the role of women in society. To date, gender analysis of social protection policies or programs has not been carried out. The additional financing will build on gender aspects developed under the original project by updating the social protection strategy to ensure that the gender implications of social protection policies are identified and policy reforms built into the strategy. The gender action plan was reviewed and updated in light of the additional financing.

E. Safeguards

24. The current project and additional financing will not cause any environment, resettlement, or indigenous peoples' impact. Therefore, the overall project and additional financing remain category C for environment, resettlement, and indigenous peoples. No further actions are required. The assessment of potential environmental implications of the original project is accessible from the list of linked documents to the original report and recommendation of the President (footnote 2).

F. Risks and Mitigating Measures

25. The overall benefits and impacts are expected to outweigh the costs and risks involved. The main risks are (i) resistance by the public and decision makers to rationalize the social welfare system, which will be mitigated through participative processes and effective communication; (ii) SIGO and the GOSWS oppose reorganization of the IT department for increased efficiency, which will be mitigated by technical and policy dialogue with the MPDSP and the two agencies; and (iii) the government provides insufficient resources for the O&M of the upgraded IT systems, which will be addressed by a covenant in the loan agreement on the provision of sufficient counterpart funding to cover maintenance costs. Major risks and mitigating measures are described in detail in the risk assessment and risk management plan.²¹

V. ASSURANCES

26. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, gender, procurement, consulting services, disbursements, and safeguards as described in detail in the project administration manual and loan documents. The government and the MPDSP have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

VI. RECOMMENDATION

27. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan in various currencies equivalent to SDR12,960,000 to Mongolia for the additional financing of the Food and Nutrition Social Welfare Project, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum 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.

Takehiko Nakao
President

18 November 2013

²¹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

REVISED DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
Impact Current project Vulnerability to food insecurity reduced through increased supply of and improved access to food by vulnerable and poor households Overall project Improved social equity, less poverty, better social risks mitigation and prevention, and improved food security	Current project Daily calorie intake of lowest quintiles of income distribution increased from 1,728 in 2004 to at least 2,000 calories by 2015; data to be disaggregated by sex Percentage of underweight newborn equal to or lower than 2004 levels (3.7%); data to be disaggregated by sex Overall project National poverty rate decreases from 27% in 2012 to 20% in 2020. Social pensions for informal sector workers (herders, self-employed, and nonwage earners) increase by 20% in coverage by 2020 from 55,000 in 2012, and by 30% in benefits from about \$22 a month in 2012. Out-of-pocket expenditures for health services for the low-income group are reduced from 41% in 2010 to less than 30% by 2020.	National nutrition surveys – NSO National nutrition surveys – NSO NSO (National socioeconomic survey) National budget and MPDSP statistical data World Health Organization Statistics/Socio-economic Household Survey/NSO	Assumptions International food prices will stabilize and food can continue to be imported Government remains committed to rationalize and better target social protection transfers and services. Risks Ineffective labor market policies Non-inclusive growth process Unaffordable social protection system
Outcome			
Current project Improved access to food by vulnerable and poor households through a targeted food stamp program and strengthened social welfare systems Overall project More efficient and transparent delivery of social welfare and insurance services (including support to food consumption), through strengthened policy, systems, and IT	Current project At least 100,000 household beneficiaries of the food stamp program by 2011 Monthly per capita expenditure on food for lowest quintile in 2012 is equal to or greater than expenditure in 2006–2007 (\$14) at constant prices Overall project Satisfaction of population with social protection system increases (baseline and target will be created by end of 2014 and again measured toward the end of the overall project) Processing time for hospital claim and application for disability benefit reduced by 20% on average by 2018 (from 7 days in 2013)	Food stamp program data NSO Socio-Economic Household Survey Report on pre- and post-satisfaction surveys directed at beneficiaries and staff Periodic report (IT system)	Assumptions International food prices stabilize. Political and administrative stability Risks Food safety nets used as a political tool Resistance to change in existing social welfare systems Lack of coordination between social protection and effective labor market policies

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
	Average processing time for financial reporting of SIGO reduced by 30% in 2018 (from 15 days in 2013)	Periodic report (IT system)	
Outputs			
Component 1: Design and implementation of a targeted food stamp program			
Current project 1.1 Innovative targeting approaches for food stamps pilot tested by December 2009 Overall project Unchanged.	Current project Outreach targeting methodology adopted by government for pilot testing by 2009 At least 70% of beneficiaries identified by outreach methods after 2 years of operation; data to be disaggregated by sex Overall project Unchanged.	Project documentation and/or ministerial order Food stamp operating unit/food stamp program data	Risks Decision to expand or prolong the food stamp program will be based on recommendations from pilot approach Lack of coordination among ministries and levels of government and results from pilot testing will not be turned into policy reforms
Current project 1.2. A mechanism for delivering food stamps is established by June 2009 Overall project Unchanged.	Current project Subprogram to Food II, including a food stamp program, approved by the government by 2009 At least 70% of food stamps distributed to lowest two quintiles of income distribution; data to be disaggregated by sex At least 80% of beneficiaries receiving food stamps on time (on the dates specified) by 2011 Overall project Unchanged.	Prime Minister's Decree Food stamp module attached to NSO survey Food stamp operating unit/food stamp program data	
Component 2: Capacity development and communication strategy for the food stamp program			
Current project 2.1. Capacity development tools for national and local stakeholders and institutional strengthening designed and implemented by January 2010 Overall project Unchanged.	Current project Capacity development tools designed, approved, and implemented by 2010 At least 50% of <i>soums</i> (administrative subdivision of the <i>aimag</i> [province]) and <i>khoroos</i> (administrative subunit of urban districts) reached by 2010 Overall project Unchanged.	PIU documents Food stamp operating unit/food stamp program data	
Current project 2.2. A communication strategy to ensure transparent implementation of the food stamp program	Current project Communication strategy adopted by steering committee and reflected on television and radio channels, printed material, and community outreach activities by	Steering committee and PIU, minutes of steering committee meetings, and project documents	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
developed and implemented by December 2009 Overall project Unchanged.	December 2009 Overall project Unchanged.		
Component 3: Strengthening social welfare strategies and systems			
Current project 3.1. Effective food crisis response by 2010 Overall project Unchanged.	Current project Methodology to measure impact of food price increases developed by 2010 Community grant program established by 2010 Overall project Unchanged.	PIU documentation PIU documentation	
Current project 3.2. A package of reform of social welfare strategies is developed by October 2011 Overall project 3.2. IT processes and systems are upgraded to deliver more efficient and transparent social welfare and social insurance services.	Current project Policy notes produced for each group of reforms by October 2011 Knowledge product on social welfare institutional reforms developed by October 2011 Recommendations for social welfare reforms forwarded to cabinet by October 2011 Overall project Social welfare benefits are integrated in a single database by 2017. The social insurance and welfare database is disaggregated by sex, rural–urban, and socioeconomic status by 2017. SIGO and GOSWS reporting are fully automated by 2017 SIGO and GOSWS software are web-based by 2017. Data monitoring and analysis for SIGO and GOSWS are centralized under MPDSP by 2017. Local SIGO and GOSWS offices are equipped for appropriate data processing by 2017. Staff are properly trained and backup support and	PIU document Project reports, PIU documentation PIU documentation IT-related project reports and demonstration in SIGO and GOSWS MPDSP policy documentation IT-related project reports and demonstration in SIGO and GOSWS MPDSP policy documentation IT-related project reports Human resources departments of SIGO,	Risk Human resources policies of SIGO and GOSWS block coordination and final restructuring of the IT support and analytical staff under the MPDSP.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
3.3. Social welfare reformed and social protection strengthened by 2017	<p>maintenance is institutionalized and funded by 2017.</p> <p>At least 30% of 68 social welfare benefits (in 2013) are consolidated and 30% focus on the poor and vulnerable by 2017.</p> <p>The updated social protection strategy includes (i) a gender section with concrete measures to address gender disparities in Mongolia, (ii) recommendations on the impact of social protection services and cash delivery, and (iii) close links to labor market policies (including gender-related issues in the labor market and child and youth protection) by 2017.</p> <p>About 10% of the households identified through proxy means testing are reassessed yearly for eligibility from 2015.</p> <p>The share in the budget allocation for social welfare services versus cash transfers changes from 10 versus 90% in 2012 to 30 versus 70% in 2017.</p>	<p>GOSWS, and MPDSP</p> <p>MPDSP policy documents</p> <p>MPDSP policy documents</p> <p>MPDSP policy documents</p> <p>Project/MPDSP documentation</p>	<p>Assumption Additional government revenues are available for social protection.</p> <p>Risk Resistance to rationalize and improving the targeting of the social protection system</p>
<p>Current project 3.4 An early warning and response system to respond to social shocks by October 2011</p> <p>Overall project Unchanged.</p>	<p>Current project Early warning and response system developed and approved by Steering Committee by 2011</p> <p>Overall project Unchanged.</p>	<p>Current project PIU documentation</p>	
Activities with Milestones (Overall Project)			Inputs
1.1.1	Install the food stamp operating unit (2009). Completed.		<p>ADB Grant \$3.00 million (current) \$0.00 million (additional) \$3.00 million (overall)</p> <p>Loan \$0.00 million (current) \$20.00 million (additional) \$20.00 million (overall)</p> <p>Technical Assistance Special Fund (TASF V) \$0.50 million (additional)</p>
1.1.2	Pilot test two targeting approaches and produce lessons (2009–2010). Completed.		
1.1.3	Evaluate the pilot-test targeting mechanisms to refine the household assessment survey instruments (December 2009). Completed.		
1.1.4	Expand coverage of beneficiaries using improved targeting tools and methodologies (from approaches 2 and 3, 2010–2011). Completed.		
1.2.1	Implement all the operational activities involved in establishing the food stamp delivery mechanisms. Completed.		
1.2.2	Evaluate full food stamp delivery mechanisms and incorporate lessons into final food stamp program design (December 2009). Completed.		
1.2.3	Expand capacity of final mechanisms to carry out an expansion of the coverage of the food stamp program. Completed.		
1.2.4	Undertake supporting activities to improve effectiveness of program expansion. Completed.		
1.2.5	Implement internal and external monitoring system (continuous). Completed.		

Activities with Milestones (Overall Project)		Inputs
2.1.1	Undertake capacity development for the pilot testing of the food stamp program (continuous). Completed.	Government \$0.33 million (current) \$3.00 million (additional) \$3.33 million (overall)
2.1.2	Undertake capacity development for delivering the expanded food stamps program and other social welfare services (continuous). Completed.	
2.2.1	Finalize and implement the communication strategy (2009–2012). Completed.	
3.1.1	Provide technical analysis of capacity development needs to promote effective food crisis response (June 2009–December 2011). Completed.	
3.2.1	Assess and recommend improved IT systems and processes for SIGO and GOSWS (June 2014–May 2016). Added.	
3.2.2	Procure equipment to support SIGO and GOSWS IT systems at central, <i>aimag</i> , district, and <i>soum</i> levels (June 2014–May 2016). Added.	
3.2.3	Design and implement IT systems for SIGO and GOSWS (January 2015–March 2017). Added.	
3.2.4	Train staff and roll out enhanced IT system for SIGO and GOSWS (January 2016–May 2017). Added.	
3.2.5	Establish unit for data analysis and business intelligence under the MPDSP (June 2014–September 2016). Added.	
3.3.1	Provide technical analysis of social welfare strategies and deliver a knowledge product on social welfare institutional reforms and capacity development (October 2011). Unchanged.	
3.3.2	Provide participatory analysis and background studies on the impact of social welfare and insurance expenditures provided by government, on poverty reduction and vulnerability (October 2014–December 2016). Added.	
3.3.3	Assess and prepare recommendations on benefits of cash transfers versus services, and better targeting (October 2014–December 2015). Added.	
3.3.4	Study and make recommendations on the gender implications of social insurance and welfare benefits (October 2014–March 2017). Added.	
3.3.5	Prepare a proposal on the rationalization of social welfare (January–December 2016). Added.	
3.3.6	Assess and prepare recommendations on interrelation between labor market and social protection policies, and on investment options of the insurance funds (January 2015 and December 2016). Added.	
3.3.7	Ensure proper updates of the proxy means test database over the duration of the project (grievance system and on-demand survey, January 2014–May 2017). Added.	
3.3.8	Update the long-term social security strategic policy and plan in a participatory manner (January 2016–May 2017). Added.	
3.3.9	Carry out a training needs assessment, and develop and implement a sustainable training program for social welfare and insurance staff at all levels (September 2014–May 2017). Added.	
3.3.10	Train MPDSP, SIGO, and GOSWS managers to increase analytical and data management capacity, management skills, and poverty analysis capacity, including proxy means test training (September 2014–May 2017). Added.	
3.3.11	Prepare and implement yearly a public communication program to support social welfare reforms and public promotion of social insurance (January 2015–May 2017). Added.	
3.3.12	Run participatory surveys, focus group discussions, workshops, and conferences to create knowledge and ownership on policy reforms (January 2015–May 2017). Added.	
3.4.1	Provide technical analysis and support for establishing early detection, mitigation, and response to social shocks (2009–2011). Unchanged.	

ADB = Asian Development Bank, GOSWS = General Office for Social Welfare Services, IT = information technology, MPDSP = Ministry of Population Development and Social Protection, NSO = National Statistical Office, PIU = project implementation unit, SIGO = Social Insurance General Office.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=42322-023-3>

1. Loan Agreement
2. Sector Assessment (Summary): Social Protection
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Risk Assessment and Risk Management Plan

Supplementary Documents

12. Upgrading Social Protection Information Technology Processes and Systems: Implementation Plan (Output 3.2)
13. Social Welfare Reform and Social Protection Strengthening (Output 3.3)
14. Technical Assistance
15. Economic Analysis (Complementary Information)