

**KEY POINTS**

- The current social welfare system in Mongolia is not effective in protecting the poor and vulnerable people, especially during the economic downturn.
- ADB approved Social Welfare Support Program Phase 2 to protect funding for social welfare programs for the poor and vulnerable people in Mongolia. The program will help the government reform social welfare programs to make them more sustainable, efficient, and effective.
- Phase 2 of the program will deepen the reform agenda by applying poverty targeting to existing social welfare programs.

## SOCIAL PROTECTION BRIEF

# Reforming Social Welfare Programs in Mongolia

**BACKGROUND**

During a period of rapid economic growth between 2004 and 2014, Mongolia expanded its social welfare programs through large fiscal income surpluses and distributed mining income. Social transfers, which account for about 40% of the income of poor people, have significantly reduced poverty in Mongolia. Since 2010, income poverty has declined by 17 percentage points to 21.6% in 2014. Nevertheless, 35% of the population are living just above the 2014 poverty line of MNT146,500 per month. They are particularly vulnerable to shocks and at risk of falling back to poverty.

Since 2015, Mongolia's economic situation has further deteriorated due to continued weak external demand (exports) and the sharp drop in commodity prices. Gross domestic product growth rate declined to 1% in 2016, and unemployment increased to 8.6% at the end of 2016. Income poverty also increased from 21.6% in 2014 to 29.6 in 2016. The economic slowdown and poor fiscal management contributed to the widening fiscal deficit and worsening debt situation. In addition, continued subdued growth in exports and the sharp drop in commodity prices widened the current account deficit and put pressure on the balance of payments.

Given the dire situation of the economy, the government sought assistance from the International Monetary Fund (IMF) in partnership with other bilateral and multilateral agencies. On 24 May 2017, the IMF board approved an extended fund facility to improve fiscal management, improve monetary and central bank governance, strengthen the banking system and financial stability, boost competitiveness, and diversify the economy. Under the facility, the large budget deficits will be reduced steadily as part of the fiscal consolidation process.

As the lead development partner of Mongolia, the Asian Development Bank (ADB) approved Social Welfare Support Program Phase 2 on 30 May 2017 as part of an overall IMF package to protect funding for social welfare programs for the poor and vulnerable people in Mongolia during the implementation of the extended fund facility.<sup>1</sup> The program will also help the government reform social welfare programs to make them more sustainable, efficient, and effective.

**CHALLENGES OF SOCIAL WELFARE IN MONGOLIA**

Social welfare in Mongolia consists of transfers and services designed to support poor and vulnerable groups such as the elderly, orphaned, and people with disabilities. The main

objective, as defined in the Social Welfare Law, is to protect and assist the elderly without social security, people with disabilities, groups of people perceived to be vulnerable, and those assessed to be poor based on a proxy means test.

There are 72 social welfare programs in Mongolia which can be grouped into the following broad categories: (i) social pensions, (ii) social welfare allowance, (iii) community-based welfare services, (iv) allowance for the elderly with state merit, (v) allowance for the elderly, (vi) allowance for people with disabilities, (vii) allowance for mother and children, (viii) food stamp program (FSP), and the (ix) child money program (CMP).<sup>2</sup> Both the FSP and the CMP provide significant support for the poor. For instance, the poverty rate in 2014 would have been 3 percentage points higher, at 24.6% without the CMP (footnote 1).

Mongolia's current social welfare programs are characterized by several problems. First, the programs are fragmented, leading to duplication of benefits and high administrative costs. Second, the issue of high inclusion error of targeting system. Non-poor beneficiaries comprise a large share of welfare program recipients: about 50% receive allowances and social welfare pensions, 61.8% receive allowances for people with disabilities, 69.6% are CMP recipients, 73.2% are community-based welfare service recipients, 72.0% receive allowance for mothers and children, 85.2% receive allowances for the elderly, and 95.4% receive social welfare allowances for the elderly with merit. Third, the benefit level is also inadequate for uplifting beneficiaries from the poverty level. Hence, the current social welfare system is ineffective in protecting the poor and vulnerable people, especially during the economic downturn.

### ADB SUPPORT FOR SOCIAL WELFARE REFORM

Since 2001, ADB has been at the forefront of social welfare reform in Mongolia. ADB has supported Mongolia's strategic vision to further modernize the social welfare system through improved targeting, consolidation of benefits, and financial sustainability. For example, ADB provided support for (i) the introduction of proxy means testing to target the poor; (ii) the introduction of the food stamp program, which was the first poverty-targeted benefit in Mongolia; and (iii) the passage of the amended Social Welfare Law in January 2012, which legalized the reforms (footnote 1).

Building on previous support, phase 1 of the 2015-approved Social Welfare Support Program provided a systematic way to improve social welfare programs in Mongolia. It established the necessary policy framework for improving targeting and consolidation of social welfare programs, such as increasing the coverage and benefit level of the FSP, and establishing the interministerial working group to discuss and analyze options for consolidation of welfare benefits.

The program also helped the government distinguish between the concept of "social welfare" and "income sharing" of mining revenues. Therefore, it helped Mongolia establish a sovereign wealth fund to save mining revenues and cushion the economy during a major economic downturn.

### FURTHER REFORM IS NEEDED

Despite good progress made so far, the reform agenda is far from complete. Phase 2 of the program will deepen the reform agenda. It will apply poverty targeting to existing social welfare programs, such as the CMP, allowance for caregivers, and social welfare allowance. The program will also apply poverty targeting to selected programs of other government agencies, such as the Ministry of Justice, initiated under phase 1. In addition, it will help consolidate the 72 social welfare programs by developing an action plan to further analyze options and impacts of welfare benefit consolidation, including the required amendments to support the proposed consolidation.

### ADB PLAYING A LEAD ROLE IN SOCIAL WELFARE REFORM

The government and development partners have acknowledged that ADB, through phase 2 of the program, will play a lead role in helping the government reform social welfare programs in Mongolia. Knowledge and understanding generated from both phases of the program will be shared with other developing member countries with similar problems in the social welfare systems.

<sup>1</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Mongolia for the Social Welfare Support Program Phase 2*. Manila (Loan 3532-MON, approved on 31 May).

<sup>2</sup> World Bank. 2015. *Review of the Mongolian Social Welfare Programs Design and Beneficiary Profile*. Washington, DC.

### About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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[pubsmarketing@adb.org](mailto:pubsmarketing@adb.org)

Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 632 4444  
Fax +63 2 636 2444

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In this publication, "MNT" refers to Mongolian togrog.

Brief prepared by Sri Wening Handayani, principal social development specialist, Sustainable Development and Climate Change Department and Philip Chang, principal economist, East Asia Department.

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