

Is a nationally defined social protection floor for Mongolia still affordable in the 2016 economic context?

Universal social protection in Mongolia, needed in times of economic recession

Mongolia has a long tradition of social justice and social protection in particular. Over the past two decades, the country has progressively developed a comprehensive social protection system comprising social insurance, social welfare, and active labour market policies for its 3 million population.

The country has achieved remarkable progress in extending social protection coverage, with several universal social protection programmes (social health insurance, education, child allowance) and a high participation of private and public sector employees in social insurance (79.8 per cent, 2014). However, poverty remains a significant concern in Mongolia despite a continued decline to a national average of 21.6 percent in 2014 compared to 27.4 percent in 2012. Only one out of four herders, self-employed people and informal economy workers contributes to the voluntary social insurance scheme, leaving a large majority vulnerable to events such as injuries at work, unemployment, sickness, maternity, disability and old age. Moreover, the system is still too vulnerable to economic cycles and public finance constraints, jeopardizing the continuity, accessibility and quality of social protection programmes and social services.

In 2013-2014, with the support of the United Nations Country Team, the Government, notably the Ministry of Population Development and Social Protection and the Ministry of Labour, together with other national stakeholders engaged in national dialogue to agree on what should compose a social protection floor for Mongolia. Furthermore, recognizing that social security is a universal human right, stakeholders concluded and recommended that the country should maintain the principle of universality at least through the establishment of the nationally defined social protection floor. Universality is already embedded in several social benefits and services, such as access to healthcare, maternity benefits and child protection. The Government is pursuing efforts to extend universal coverage of other benefits including old-age pensions and benefits for the working-age population.

Given the recent economic slowdown, persistent poverty and sharp inequalities in the country, the necessity of maintaining and enhancing social protection is even more pressing to secure the past decade's progress in reducing poverty. Universal social protection, through the establishment of a social protection floor as part of the social security system, is no alternative to prevent Mongolia's population from falling back into poverty and mitigate the social and economic impact of the present recession. However, with a budget deficit of 4.3 billion MNT (18 per cent of GDP) and economic growth of only 0.6 per cent in 2016, the fiscal crisis in Mongolia carries the threat of austerity measures and cuts in social protection spending at a time when people and businesses need it the most.

The UN Country Team is now updating the cost of the social protection floor as it was agreed through national dialogue in 2013-14. The exercise intends to inform the Government of Mongolia and other stakeholders on the affordability of maintaining existing schemes and pursuing efforts to achieve at least a nationally defined social protection floor.

Consolidated package to achieve a social protection floor in Mongolia

To close remaining gaps in the social protection floor in Mongolia, the 2013-14 national dialogue agreed on the following priority recommendations.

Table 1. Definition of a social protection floor for Mongolia, agreed through national dialogue conducted in 2013-2014

 HEALTH	<p>Universal health insurance coverage, with a full subsidy of the contribution for vulnerable group and herders </p> <p>Quality, available and affordable health care for all throughout the country, with efforts to improve supply and services in rural areas </p>
 CHILDREN	<p>Universal and free general education, including free boarding schools </p> <p>Universal CMP, safeguarded by a law and automatically indexed to the cost of living </p> <p>Improved early-child nutrition through a higher meal allowance indexed to the cost of living for all children attending kindergarten (2–5 years old) </p> <p>Improved environment to ensure the development and fundamental rights of children of herder families </p>
 WORKING AGE POPULATION	<p>Universal social insurance coverage for sickness, maternity and working injury, with subsidized contribution for herders, self-employed and informal economy workers (50 per cent subsidized by the State budget) </p> <p>Replacement rate of maternity benefits at 100 per cent for all workers, including herders, self-employed and informal economy workers. </p> <p>Reinforced Employment Promotion Programmes and introduction of a specific programme for young herders </p> <p>Return to work and retraining programmes for victims of working accident and occupational disease, and unemployment insurance. </p>
 OLDER PERSONS	<p>Three pillar pension system composed of:</p> <ul style="list-style-type: none"> - Universal basic pension indexed to the cost of living - Mandatory social insurance old-age pension coverage, with subsidized contribution for herders, self-employed and informal economy workers (50 per cent subsidized by the State budget) - Supplementary pension plans. <p>Create an integrated benefits and services package, including a long term care system for older persons, based on existing social welfare programmes to provide cash or in-kind assistance to poor older persons </p>

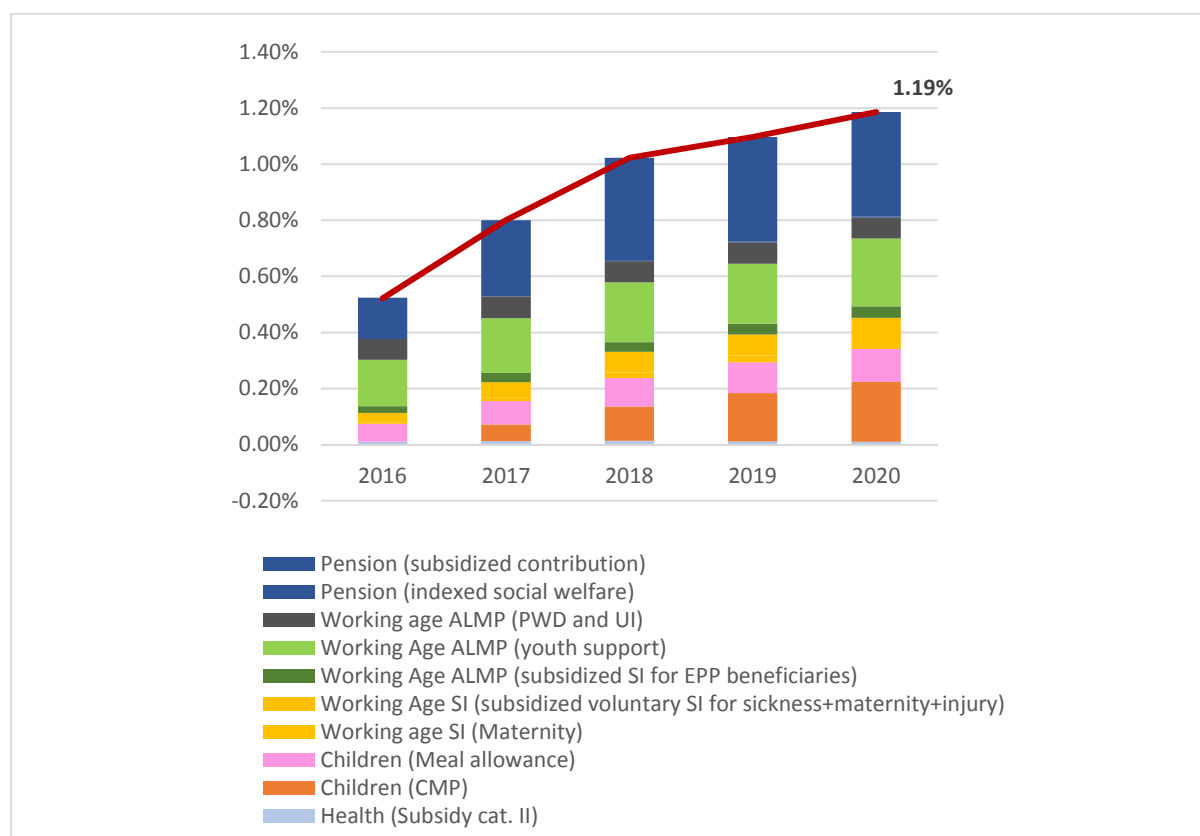
 Already in place, to be improved
  New programme

Source: UN, Government of Mongolia, 2015: Social protection assessment based on national dialogue: Definition and cost of a social protection floor in Mongolia (ILO, Ulaanbaatar).

Cost of a social protection floor in Mongolia in the 2016 economic context

The present costing exercise aimed to update the cost of the social protection floor as defined by stakeholders in 2014 and assess whether Mongolia could afford to continue financing the existing social protection measures and extending coverage to achieve, at least, the agreed social protection floor. Against expectations, the estimated additional cost to complete the nationally defined social protection floor in Mongolia in 2020 would be lower than the estimates from the 2014 costing exercise.

Figure 1. Estimated additional cost to complete the social protection floor, per programme, as a percentage of GDP (2016–20) (using 2016 projections)



Source: ILO calculations, 2016.

On top of social protection expenditure that has already been projected, an **additional 1.19 per cent of GDP** is expected to be required to achieve the **nationally defined social protection floor**. This contrasts with the estimated in 2014 additional needed cost of 1.68 per cent of GDP.

Taking into consideration that universality of social health insurance has nearly been achieved, the additional costs mainly consist of financing improved social protection and nutrition for children, the income security and employability of those of working age, and social protection for those in old age.

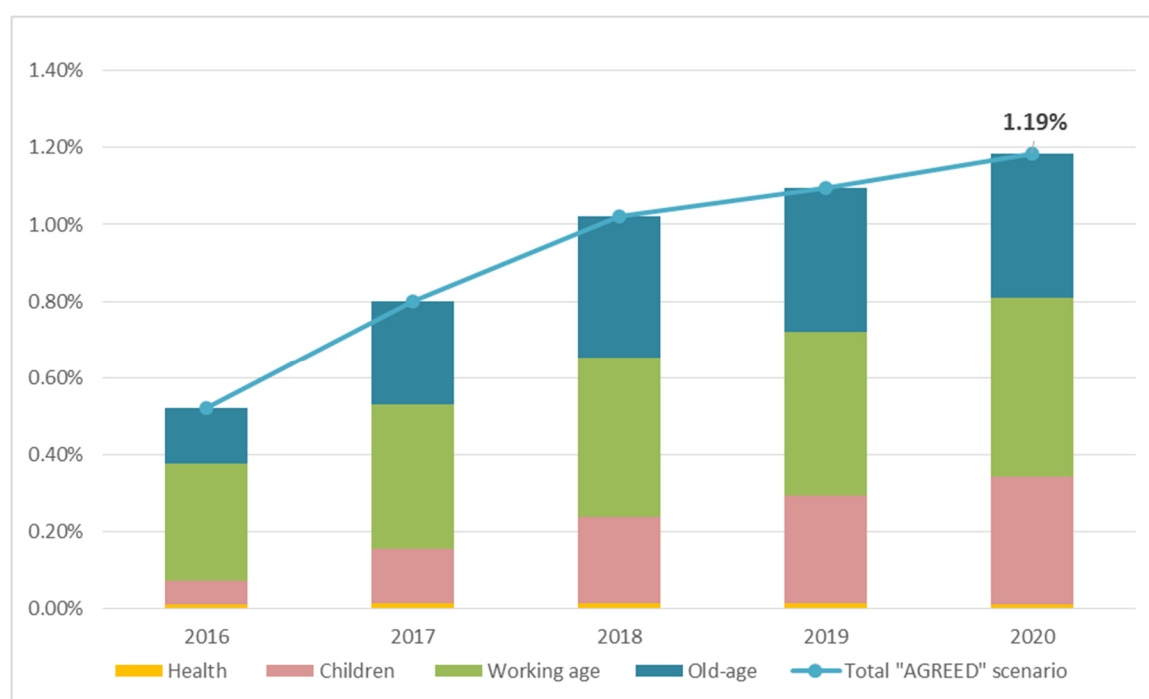
Consequently, the differences between the two costing exercises are due to differences in the estimated costs of the Child Money Programme, the social insurance benefits and active labour market programmes for the working-age population, and the old-age pension. In order to complete the social protection floor scenario in 2020, an additional 0.33 per cent of GDP is needed for the children guarantee, 0.47 per cent for the working-age guarantee, and 0.38 per cent for the old-age guarantee. According to the 2014 estimates, these additional costs as percentages of GDP were respectively 0.6, 0.6 and 0.48 per cent.

The decrease in the estimate of the CMP cost is due to lower projections of the inflation rates for the period 2017-2020 as compared to the projections established in 2014 for the same period. Additionally, even though the projected GDP at current prices in 2020 is expected to be 12 per cent lower than what was previously projected, the decrease in the additional cost of the programme in million MNT exceeds it by 10 percentage points, resulting in an overall decrease in the cost of 15 per

cent of GDP. The lower projected inflation rates limit the proposed increase based on an automatic indexation of the allowance resulting in lower monthly allowances than estimated in the 2014 exercise.

For working-age social insurance schemes and the old-age pension, the differences in the 2014 and 2016 estimates of the additional costs could be explained by a forecasted formalization of employment, reflected in a 8 percent increase in formal employees insured under the mandatory social health insurance scheme, and the correlated decrease (13 per cent) in herders and self-employed people registered to the voluntary scheme.¹ The differences in the costing exercises may also be explained by lower benefit levels, provided that the calculation of the benefits is based on a minimum monthly wage that is lower than previously projected.

Figure 2. Results of the additional cost estimates required to achieve the social protection floor per guarantee (using 2016 projections)



Source: ILO calculations, 2016.

Completing a social protection floor in Mongolia, based on 2016 projections, would bring social protection expenditure to **5.96 per cent of GDP in 2016** (figure 3). In 2020, total social protection expenditure is projected to be **5.76 per cent of GDP**, which corresponds to an additional 1.19 per cent of GDP on top of social protection expenditure that has already been forecasted.

The share would fall to **5.44 per cent** if new EPPs were covered by other budget lines, as per the national definition of social expenditure.² In that case, the additional cost to complete the social

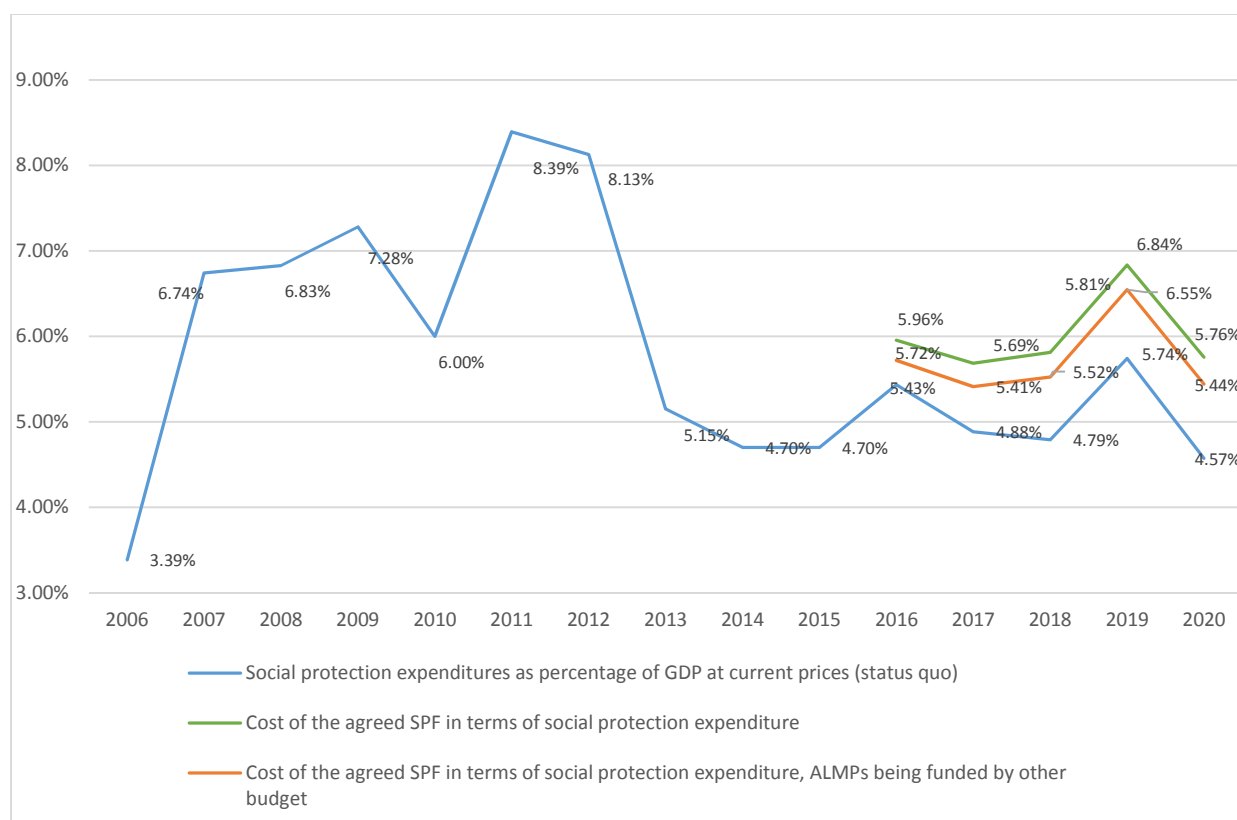
¹ The number of insured to the social health insurance scheme was used as a proxy to estimate the cost of the other social insurance benefits, would universal coverage among herders, self-employed and informal economy workers being achieved by 2020.

² Public social protection expenditure in Mongolia includes social welfare expenditure, subsidies to the social insurance fund, and social transfers from the human development fund.

protection floor by 2020 would represent less than one additional per cent of GDP (0.87 per cent) above the status quo of social protection expenditure.

This total cost of the social protection floor is almost one per cent of GDP higher than the projections made in 2014, reflecting also an anticipated increase in the Government's social protection expenditure of 1.53 per cent of GDP.

Figure 3. Projections of social protection expenditure as a percentage of GDP, comparing the cost of the status quo and the completion of a social protection floor (2016 projections)



Source: ILO calculations, 2016.

Nevertheless, these levels remain much lower than that of social protection expenditure in 2010-12 when the Government introduced a temporary cash transfer to every citizen. In 2011, social protection expenditure peaked at 8.39 per cent of GDP while the level of expenditure to complete the nationally defined social protection floor for the period 2016-20 is forecasted only to peak at 6.84 per cent of GDP in 2019. The cost of the social protection floor is forecasted to follow the status quo, as is visible from figure 3.

Moreover, as shown in table 2, social protection expenditure as a share of GDP in Mongolia remains lower than the world average (8.8 per cent). However, it is still higher than the Asia-Pacific average (4.6 per cent), which is not far from the level found in Sub-Saharan Africa. The cost of the nationally defined social protection floor for Mongolia would place the country at a level of social protection expenditure still three times lower than Central and Eastern European countries on average.

Table 2. Regional average (weighted by total population) of public social protection expenditure by guarantee, latest available year (percentage of GDP)

Major area, region or country	Total social protection expenditure	Public health care expenditure	Public social protection expenditure for older persons	Public social protection expenditure for persons of active age ¹	General social assistance	Public social protection expenditure for children
Africa	4.3	2.6	1.3	0.4	0.2	0.2
North Africa	10.0	3.2	5.0	1.1	0.3	0.4
Sub-Saharan Africa	4.3	2.6	1.1	0.3	0.2	0.1
Asia and the Pacific	4.6	1.5	2.0	0.4	0.4	0.2
Western Europe	27.1	7.9	11.1	5.0	0.9	2.2
Central and Eastern Europe	17.8	4.4	8.3	3.0	1.3	0.8
Latin America and the Caribbean	13.9	4.0	4.6	2.0	2.6	0.7
North America	17.0	8.5	6.6	2.8	1.1	0.7
Middle East	11.0	2.0	3.3	1.5	3.4	0.8
World	8.8	2.8	3.3	1.5	0.7	0.4

¹ Social benefits for persons of active age (excluding general social assistance).

Source: ILO, World Social Protection Report 2014–15 (ILO, 2015).

Conclusion

To conclude, in Mongolia, the additional cost to ensure universal access to income security and basic social services in times of economic crisis would be only 1.19 per cent of GDP by 2020, bringing social protection expenditure to 5.76 per cent of GDP. In other words, a social protection floor would cost 47,980 tugrik (MNT) per month per capita in 2020, or **US\$20**,³ which would represent an additional expenditure of US\$4 per month per capita on top of public social protection expenditure that has already been committed to achieve a universal social protection floor in Mongolia by 2020.

The social protection floor, in addition to already existing programmes, would guarantee universal health insurance with subsidies for all vulnerable groups and herders to ensure their effective access to health care; maintain and index the current universal child allowance, in addition to already existing free general education (until upper secondary school); introduce universal social insurance coverage, including old-age pension, with subsidized contributions for all herders, self-employed people and informal economy workers; and establish targeted and effective employment promotion programmes, notably for young herders and vulnerable groups.

³ Exchange rate on 10 Dec. 2016: US\$1 = MNT2,478.6