

Mongolia

Report to the Government

**Extending old-age pension coverage to herders,
the self-employed, informal sector workers
and other non-covered working groups**

Policy recommendations for

The Ministry of Population Development and Social Protection

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Summary

About twenty years have passed since Mongolia embarked on its transition towards a market-based economic framework. The results have been impressive, and economic growth in recent years has been exceptional, by comparison with almost every other country in the world. The development of the country's mineral resources and the opening of new mines, today and in the future, promises a level of national wealth with the potential to transform the lives of all of those living in the country.

Over the course of those twenty years, Mongolia has recognized that it must develop a range of institutional structures to support needs, both economic and social, which are very different from those of the past, and has achieved fair success in this regard. Of particular concern to the subject of this review is the implementation of a system of social security, to meet the livelihood needs of those individuals who suffer the impact of relevant contingencies, including, for example, disablement and old age. Mongolia's system of social protection comprises, in fact, parallel provisions, firstly through a formal, contributory scheme, conforming closely to international practice, and based mainly on social insurance principles, complemented by a set of non-contributory provisions categorized as social welfare, of which old age provision forms a significant part.

The social insurance system, and in particular the component providing for old age pensions, has reached a point in its development at which financial imbalances are evident, and at which other features of its design should be reassessed. The response to the financial problems will undoubtedly lead to lowered pension expectations, and this is becoming a matter of social and political concern in the country. The government has sought advice and assistance from agencies with relevant expertise, notably the ILO and the World Bank, in order to help it find the optimal future pathway for these components of its programmes, and the engagement of the ILO in this regard is ongoing.

In the course of the development to date of the post-transition social security system, many workers in Mongolia, predominantly those in formal employment in either the public or private sector, have been able to affiliate to the social insurance scheme, through the payment of prescribed contributions, and so have made a personal adjustment or transition, of a kind needed to enable their full participation in the market economy.

Some, however, have found this aspect of transition less easy. This is the case, notably, for the community of herders, whose way of life typically involves the rearing and tending of herds of animals, including in particular cattle and horses, and for many has a nomadic aspect. Before the economic transition, the herders benefited in general from livelihood protection by virtue of their participation in cooperative "collectives", a social structure which, in effect, no longer exists. For most, the present-day modalities of their occupation - without this traditional type of support - mean that participation in the existing formal and contributory scheme of social security has proved impractical. While they are permitted to participate on a voluntary basis, their coverage is not required on a compulsory basis, and few become members in practice. Yet they remain, despite shrinking numbers, a large group, representing over ten per cent of the country's total population and around 30 per cent of the estimated work force, and their calling resonates strongly with the country's sense of identity, offering an iconic representation of its culture and values.

More than ten years have passed since formal note was taken of the failure of the country's system of social protection to properly engage the herder community, and the need to address this issue through the development of appropriate policy and legislative responses. In addition, it has been noted that a number of other groups, more or less specifically identifiable, suffer a similar form of exclusion, in practice if not in theory; these include those categorized (in national statistics and elsewhere) as self-employed and those

conceptualized as informal workers, who, in contrast to the group of herders, have emerged in the labour market as new categories only since the start of the transition. Together, these three groups account for more than half the labour force in Mongolia, yet most have no social insurance old-age pension coverage at all.

In view of the intimate linkage of this issue with those impacting on the social security system, the government has asked the ILO to give it due consideration, in the course of its wider assessment of the latter. This document seeks, accordingly, to review the issue in a modestly analytical framework, and to provide indications of the possible first steps towards practical progress.

In the course of this task, the spotlight has fallen, incidentally, on a number of issues which stand to be addressed at the level of the national social insurance pension scheme. Foremost amongst these is the impact of rapidly increasing longevity – in itself, of course, a blessing, but one with major implications in terms of the social cost of financing the livelihood of the elderly populace – at a rate which, by international standards, is quite modest at younger ages, and yet places Mongolia amongst the leaders of this trend at the older end of the age range. The normal age of retirement in Mongolia is, at present, fairly low by international standards, and particularly so for women, the majority of whom are entitled to retire at age 55, at which point of time, for an “average” individual, the current expectation of future life is around 24 years. The conclusion that there is a pressing need to increase the standard age of retirement is straightforward, indeed “obvious”, in technical terms, although it is likely to prove contentious in terms of political economy.

A second issue arises from the exceptional nature of Mongolia’s physical and human geography. As a result, the need for the provision of effective and efficient administrative and outreach services (together with services such as health care) to a thinly-distributed rural populace, of which a significant proportion practises a nomadic lifestyle, in contrast to the large and growing metropolitan conurbation, sets an extreme level of challenge.

It is beyond the scope of this review to offer immediate and specific solutions to these challenges, but it is necessary to note their pressing nature and their relevance to the topic in hand, together with the willingness of the ILO to work with the social partners in Mongolia towards finding such solutions.

In seeking the way forward, a range of options, possibly quite wide, may be contemplated. A few may be suggested here, albeit that this is by no means an exhaustive list. Firstly, consideration should be given to the integration of old-age provision under the existing parallel systems of social insurance and social welfare, which could result, advantageously, in the effective development of a universal old-age pension. A second option would be to enrol the herders into the general social insurance pension scheme, but to reconfigure the scheme on a multi-tier basis, within which, rather than a minimum underpin to the earnings and service-related benefit, the scheme provides a delineated basic, or “first-tier” benefit. This, in turn, would be set, initially at a modest level, which may conveniently be set in relation to the minimum wage. Two sub-options are suggested here, firstly with a basic benefit at the level of 50 per cent of the minimum wage, or alternatively at 75 per cent thereof. A third option, to be pursued if, for any one of a variety of reasons, enrolment of the herders into the existing scheme proves impractical, but not otherwise preferred, may be to inaugurate a special, “tailor-made” scheme for the herders; in each case it is envisaged that the treatment of the self-employed and informal workers’ groups will be accorded similar treatment.

The extension of pension coverage to these groups, under any feasible option, will entail costs, and given that the present contributory systems clearly do not cover their long-term costs from their contribution income, this will fall to some extent on government. The question as to whether sufficient “fiscal space” can be found is, obviously, pertinent. However, it may be noted that the scale of any conceivable cost in this regard is minor by

comparison with the annual funding mobilized at present through the Human Development Fund.

Whatever option or solution the Government chooses, action should be taken as quickly as possible. The groups who are the subject of this paper must be brought within the scope of the social insurance system without delay. It is to the advantage not only of these workers themselves but that of the national budget also that they be enabled to receive insured pensions as of right, rather than having to rely on social welfare or means-tested pensions – which will presumably be increasingly limited in amount – in their old-age.

The design of social security old-age pension schemes for the target groups, if separate from the current ones, should be integrated to the extent possible with the existing social insurance and social welfare provisions, taking into account the prospective future reforms of those schemes so as to ensure the highest degree of mutual consistency. In this way the old-age benefit provisions should support the development of an integrated, dynamic and productive labour market. The ILO stands ready to provide, on request, assistance in regard to such detailed design work, including the assessment of the proposed parameters on the basis of quantitative assessment.

Ultimately, the finding of sustainable and effective solutions must rely critically on the maintenance of a national consensus. At the political level, this seems to be assured. At the level of civil society, work remains to be done. In this regard, it is important to highlight the role of social dialogue, which is a field in which the ILO has specific tools to offer, and would keenly play an active role. A further, newly-developed tool in the ILO's portfolio is that of the Social Protection Floor concept. This would provide a framework for the development of policies in relation to social protection which could effectively and advantageously both integrate and extend the country's programmes of social insurance and social welfare.

Abbreviations

DB	Defined Benefit (basis of calculating scheme pensions)
DC	Defined Contribution (basis of calculating scheme pensions)
ILO	International Labour Office/ International Labour Organization
MLSW	Ministry of Labour and Social Welfare (prior to June 2012)
MPDSP	Ministry of Population Development and Social Welfare (since June 2012)
NDC	Notional Defined Contribution (basis of calculating scheme pensions)
SI	Social insurance (basis of social security scheme(s))
SW	Social welfare (basis of social assistance scheme(s))

1. The social and economic context; national and international perspectives

1.1. Transition of the 1990s and economic growth

As from the early 1990s, Mongolia embarked on a political and socio-economic transition, which has and continues to have profound and long-term impacts on every facet of the country.

In some recent years, exceptional GDP growth has been registered; the year-on-year figure for 2011 is quoted by Mongolian sources at around 19-20 per cent (17 per cent according to the Economist Intelligence Unit). However, this reflects to some extent exceptional factors in the economy, notably the coming on stream of major mining developments, so should not be seen as a sustainable long-term rate.

Nevertheless, the macro-economic environment is certainly favourable, and should be conducive to the extension of social security coverage, especially that of old-age income security, provided that the government exercises due prudence.

1.2. Poverty reduction

The published statistics for 2011 show that the Gross Domestic Product (GDP) of Mongolia amounted to MNT 10,829,690 millions¹. This equates to a per capita figure of MNT 3,886,700, or around US\$ 2,560. This places the country well within the bracket of (lower) middle-income countries, as classified by the World Bank.

Following the election of June 2012, the responsibility within the government structure for social security and social welfare rests with the Ministry of Population Development and Social Protection (MPDSP), which encompasses (inter alia) units responsible for, respectively, social insurance and social welfare. Formerly, these units resided within the Ministry of Social Welfare and Labour (MSWL), and statistics were published by that Ministry which showed the year-by-year trend of poverty. The figures show that over the period from 2007 to 2010, the poverty headcount ratio² increased somewhat, notwithstanding that GDP per capita had begun rising and continued through this period (from MNT 586,800 in 2003 to MNT 2,992,800 in 2010), before falling back to a measured rate of 29.8 per cent in 2011. This level, nonetheless, remains high, considering the advancing economic fortunes of the country, and may be taken as an indication of the need for the development of effective policies measures in relation to both formal social security and broader social welfare.

These figures in themselves do not permit a very specific analysis of old-age poverty. It is clear, however, that coverage of the population for old-age provision through formal

¹ Atlas method.

² As measured against the national minimum subsistence level.

contributory pension schemes is modest, reaching only about one third (676 thousand) of the 1.8 million population aged 15 and over³.

The statistics show that the national average level of household income in 2011 was MNT 504,000 per month, of which pensions and allowances represented MNT 114,000, or 23 per cent; although the absolute income level is naturally higher in urban areas and lower in rural, this percentage is similar in both cases, and provides a further indicator of the importance of pension and welfare provision in overall income.

1.3. Considerations relating to the national budget

In 2011, the published statistics show that the government collected MNT 3,636,866 million by way of taxes of all kinds; this figure represents 33.6 per cent of GDP, a relatively high level, although this classification includes MNT 450,427 million listed as social security contributions, representing in themselves about 4.2 per cent of GDP, or 12 per cent of the “tax take”.

The overall government revenue, including grants and other income, is stated at MNT 4,400,621.8 million, or 40.6 per cent of GDP, and the overall expenditure at MNT 4,792,030.9 million, resulting in a budget deficit of well over 3 per cent of GDP. It is not an objective of this paper to discuss the implications of this outcome in detail, except to note that the need to control the deficit plays an important role in the government’s fiscal policy-making, and must therefore be regarded as a significant factor in any discussion of the fiscal space potentially available for the development of social provisions and objectives, not least social protection.

The national statistics indicate that, in 2011, the expenditure on pension entitlements amounted to MNT 458,206 million, somewhat more than the total income (including contributions for contingencies other than old age) of the contributory social security system as noted above, and on welfare pensions to MNT 35,650. The latter amount represents just over one quarter of the total welfare budget.

One aspect of the national finances which gives rise to some concern is the recent trend of rather rapidly rising price inflation. The year-on-year inflation rate as at November 2012 (for both Ulaan Baatar and the country as a whole) is stated by the Central Bank to have passed 14 per cent, and is accelerating, as against a target figure of under 10 per cent. A range of commentators have linked this dynamic to the developing mining “boom”. The trend is reflected also in a rather rapidly depreciation of the currency exchange rate, while interest rates – in a global environment of generally low rates – are higher than in many other countries. A significant result, yet to be quantified, is that the specific impact on prices of food and fuel, is felt badly by the still-large population groups living on very low incomes.

1.4. Human Development Fund

An unusual feature of Mongolia’s budgetary framework is the Human Development Fund (HDF). It is understood that this has been created as a means to provide, with a reasonable degree of transparency, that the populace of the country are able to share directly in the

³ In general, as far as possible and unless otherwise stated, figures in this document are quoted from or calculated directly from those published by the National Statistical Office of Mongolia in the Mongolia Statistical Yearbook 2011.

wealth expected to be generated by developing the bounty of the country's mineral resources, and in these terms is to be commended.

The HDF is described as having the nature of a trust fund, but is reflected in the government accounts as published. In 2011, the expenditure through the Fund was stated at MNT 733,058.2 million, or 6.8 per cent of GDP.

The early experience in mobilizing the HDF has focused on direct cash transfers. It is understood that early proposals for a general cash distribution to all – which, as noted by a number of commentators may have disadvantageous fiscal results, notably in driving local price inflation – have been reconsidered, although payments have been made to certain groups seen to be specifically disadvantaged or vulnerable.

In this light, it is likely that the trend of policy making will be towards the application of a major proportion of the HDF to meet social objectives, and that the strengthening of the non-contributory social welfare provisions, certainly, and the contributory social insurance system, possibly, should be high on the list of priorities in this regard.

1.5. Legislative development

The laws relating to social security and social welfare through the modern era have been revised on a fairly regular basis. Significant changes were made in 1994 (introduction of contributory obligations), 1999 (introduction of a pension tier which is managed on a notional defined contribution (NDC) basis), and 2008 (reduction of contribution rates).

An important change to the provision of pensions on a social welfare basis is envisaged in a revision of the Law on Social Welfare promulgated in early 2012. This sets out conditions under which a social welfare pension may be paid – broadly, to a man aged 60 years or more, or to a woman aged 55 years or more. However, provision under this heading has been made for some time on the basis of need, in the sense that other means of provision (generally, a pension payable by the social insurance system) are not available. Discussion papers referring broadly to policy development make clear, in a way which the law itself, perhaps does not, that the policy intention is that provision under social welfare will, in future, be “targeted”, in other words paid only to individuals in the qualifying age ranges who, on the basis of a “means test”, are shown to be in need, and possibly also subject to a fiscal funding “envelope”. Clearly, an important factor underlying policy development in this respect is the fiscal situation, notably the budget deficit as noted in section 1.3 above.

This situation leads, arguably, to a change with some rather subtle aspects in the inter-relationship between the laws providing for old-age provision under, respectively, the social insurance and social welfare laws. One set of issues revolves around the incentives for individuals to subscribe and contribute to contributory systems, notably the social insurance pension scheme under the Social Insurance General Office of the MPDSP. It is likely that workers on low levels of wage or salary would have limited incentives to contribute to the social insurance system if confident that, failing to receive a social insurance pension, they would however be granted a social welfare pension at a similar (minimum) level.

It is understood that, in fact, proposals had been developed under which participants in the social insurance pension scheme would receive a flat-rate “social” pension, but that these provisions, on submission to the Parliament in early 2012 (prior to the election of the new Parliament in June 2012) failed to receive approval.

Issues of this character are likely to be of considerable importance in the successful extension of provision of contributory coverage to vulnerable groups, including those of the herders and other self-employed workers.

1.6. The labour market

The development over the last 20 years of a newly market-oriented economy has resulted in a corresponding re-patterning of the labour market. An important feature has been the emergence of certain categories, notably those categorized as (self-employed) herders, in an entrepreneurial role, alongside other self-employed and informal sector workers, which could hardly be identified in the years before the transition. In this reconfigured labour market, the share of the non-traditional or informal economy workers has by no means ceased growing, now accounting for about 57 per cent of the national labour force. Their interests, including that of old-age pension, matter in every sense.

As a result, increasingly close attention is being paid to pension provision for vulnerable groups in Mongolia. Amongst these, a high level of priority is accorded to the group of herders, along with the wider group of the self-employed and informal economy workers. Chapter 2 focuses more closely on these groups.

1.7. International comparisons

In general, it is appropriate for any country that, in developing policies in relation to social security provision, and specifically old-age pensions. It may take note to a reasonable extent of practice and experience, successful or unsuccessful, in other countries.

The unique set of conditions in Mongolia, particularly as experienced by the nomadic herders, are such that there should be no expectation that the model employed in any other country will provide a ready solution for the problems and objectives identified in Mongolia. For this reason, this Section goes no further than to highlight a few of those aspects in which specific experience may relate to particular features of Mongolia's situation. It is envisaged that relevant country experiences would be drawn down and elaborated in more detail in support of the process by which Mongolia will necessarily refine its major policy choices, and the ILO of course stands ready to provide assistance in this regard.

For example, and by no means exclusively, it may be observed that the herders, if not the self-employed workers generally, represent a large, rural-based group, and in this perspective recent experience of the extension of provision to rural workers in China may provide a useful reference. This group of Mongolian workers is, in general, thinly-scattered over a large geographical area, presenting considerable challenges in relation to outreach and administration. In this regard, experience in a country such as Namibia may be of value.

A set of specific concerns regarding the contributory scheme of social insurance pensions in Mongolia relates to the funding vehicle, of the type categorized as Notional Defined-Contribution (NDC), as mentioned further in Chapter 3. This mechanism is used in a relatively small group of countries, most of which are at a later stage of economic development, and include, for example, Sweden and Italy. Recent experience in these countries seems to show that the management of invested assets, in conditions of (global) economic instability, is more challenging than had previously been assumed.

1.8. Aspects of political consensus

It is notable that the objective of achieving full coverage of the population for pension provision has been recognized explicitly for over a decade. Government Resolution No.119 of June 2002 calls for such expansion of coverage of herders and other self-employed people.

Prior to the election of June 2012, soundings amongst representatives of each of the major political parties indicated that it may be expected that the implied political consensus underlying the strengthening of pension (and other social security) provision, and aspiration for extension to population groups such as the herders, would be maintained in its main aspects, regardless of the outcome of the election. In this regard, the application to social protection of at least a substantial part of the Human Development Fund would represent an appropriate utilisation of its resources.

1.9. The Social Protection Floor concept

It will be noted, from the commentary above, and general appreciation of the policy environment in Mongolia, that issues of the extension of coverage of pension (and other) schemes of both formal social security and less formal social protection are closely linked to those of rationalizing the parallel, existing systems of social insurance (generally contributory) and social welfare (generally non-contributory). In this environment, the ILO is able to offer an up-to-date framework for policy making and implementation of integrated provision through the elaboration of a national Social Protection Floor, and it is strongly recommended (see also Chapter 4) that the present opportunity be taken to assess the prospects for extension of social protection coverage on an integrated basis.

The concept of the Social Protection Floor is fully described elsewhere⁴. However, a recent development is the adoption at the International Labour Conference of 2012, of the ILO Social Protection Floors Recommendation, 2012 (No. 202).

In defining its objectives, Recommendation No. 202 states that it: “provides guidance to Member [States] to:

- (a) establish and maintain, as applicable, social protection floors as a fundamental element of their national social security systems; and
- (b) implement social protection floors within strategies for the extension of social security that progressively ensure higher levels of social security to as many people as possible, guided by ILO social security standards.

The new Recommendation thus provides a progressive framework within which to build basic social protection for all in Mongolia. In view of the persistent high levels of poverty and rising levels of income inequality in Mongolia, there is a strong case to carry out urgently an assessment of the scope for implementation of soundly-designed schemes of basic social protection, on a life-cycle basis. Recommendation No. 202 promotes such an approach to all Member States of the ILO, and the Office will keenly work with the MPDSP in this regard.

⁴ A comprehensive set of references may be located and accessed through the web platform of the ILO’s Social Protection Department entitled “GESS”, at www.social-protection.org.

2. The herders, self-employed and other informal economy workers

2.1. The group of herders

In line with the national definition, this section seeks to identify some characteristics of the group nomadic herders, being those who are rural-based, self-employed and engaged exclusively in animal husbandry. This is certainly the largest sub-section of the agriculture sector of the labour force. In 2010, national statistics showed some 327,154 working people as herders, accounting for 28.5 per cent of the economically active population; in 2011 this figure had reduced to 311,185 (27.7 per cent). The national statistical office publishes regularly a broad classification of the herders by age, as shown in Tables 2.1 and 2.2.

Table 2.1. Number of workers identified as herders

	2008	2009	2010	2011
Number (individuals)	360,255	349,303	327,154	311,185
Per cent of total population	13.5	12.9	11.8	11.1
Per cent of economically active	33.6	30.7	28.5	27.7

Source: NSO

Table 2.2. Herders by age as per cent of total

Age group	2008	2009	2010	2011
16 to 35	46.9	45.1	43.5	41.5
36 to 55/60	40.0	41.1	43.5	46.0
56/61 and over	13.1	13.8	13.0	12.5

Source: NSO

2.1.1. Characterizing the herders

It is clear that the herders live, generally, in circumstances of financial vulnerability. One item of evidence in this regard is that the animal flocks are small – over 40 per cent of herds number fewer than 50 animals and 60 per cent fewer than 100 animals.

The tables above illustrate in particular, without going into fine detail, three features – already known in a general way – of the herder community:

- Firstly, the absolute number of herders is decreasing year by year (at a rate over the period shown of more than 4 per cent per year);
- Secondly, the age profile shows a distinct trend of ageing, as seen by the increasing weight (Table 2.2) of the over 36 age group;
- Thirdly, a substantial number of herders remain actively engaged in their occupation into the older years, beyond what, for them, is a hypothetical “retirement age”.

Each of these features should be regarded as an urgent indicator of the need to make adequate provision, through social protection, for livelihoods in old age.

2.1.2. Family perspective and structure

In measuring the population of herders in the country, the Statistical Office (NSO) counts not only on the basis of individual (adults) identified as forming this group, but the “household”, or family groups. In 2011, the number of families counted was 154,917, so that each household counts almost exactly two (adult) herders. This naturally presents a picture (to be confirmed by more detailed observation) of a “nuclear” family structure. The general statistics published by the NSO give no indication as to the “typical” numbers of children who may be living in such family structures, nor of their aspirations or intentions for their future livelihoods, and hence no indication of possible patterns of succession which may enable the long-term continuation of this vocation. It is not planned within the scope of this paper to investigate this question in more detail, except to observe the strong likelihood that, notwithstanding the cultural and historical respect accorded to this vocation, the numbers so occupied will decrease continuously and steadily. This will result from so many factors – the “pull” of organized life in the cities, the prospects of economic betterment in the expanding sector of mining and minerals, and the loss of educational opportunities for those living a nomadic life – as to seem inevitable.

2.2. The group of self-employed workers (other than herders)

According to the national definition, a self-employed person is “the person who is managing an enterprise, organization and joint company without participation of other workers. Family members may work here without salary”; they can be both urban and rural-based and occupied in both husbandry and non-husbandry related fields – but if included in this grouping they themselves engage no salaried workers in employment.

The general statistics published by the NSO provide a less clear outline of the group labelled “self-employed” workers. It is worth noting that the general definition of “self-employed” might in fact include herders, but in view of their status in Mongolia, this group is, by convention, separately and specially identified. The drawing of a more detailed picture of the general group of self-employed workers would be the work of interpreting the Labour Force Survey, which has been conducted regularly in recent years, but is beyond the scope of the present paper.

The general statistics identify occupational categories, but not the characteristic of formality or informality. In any case, it is increasingly recognized that a spectrum exists of work modes, ranging from, at one extreme, complete formality to, at the other, complete informality – characterized by no (written) contractual arrangement, or social protection arrangements of any kind – and that its proper understanding may be facilitated by new analytical tools yet to be fully developed.

That said, the general statistics for 2011 show the total number of those economically active to be 1.125 million. Government employees are counted at 155,679, and taking account of those in agricultural occupations (overwhelmingly the herders, but also including a further 30,000 engaged in farming, forestry, fishing and hunting) those engaged in the general non-government economy number a little over half a million. The proportion of those who are self-employed is very difficult to determine at all precisely, but it seems likely that the numbers of those who are self-employed in a reasonably “formal” sense (and hence likely to subscribe to the available social security schemes) are somewhat less than the number of herders, although, naturally, their characteristics – in particular the urban/rural breakdown will be found to be very different. In view of the importance of focusing on the needs of the specific group of herders, we view, for the purposes of this report, the group of “the self-employed” as comprising essentially the urban-based and non-agriculture self-employed.

The conclusion here is that the magnitude of the need for pension provision for this group will be very similar to, and, *prima facie*, should be accorded a similar priority, those of the herders.

2.3. Overview of employment in the informal economy

It remains to consider the “residual” group, who are essentially those who work in an environment towards or at the “informal” end of the employment spectrum. Again, reference may be made to the national definition: “Informal employment means engagement of individuals, households and groups in non agricultural works and services which are legally not prohibited and not fully reflected in official registration, statistical information and social protection and is not organized in any forms.” Such employment can be both urban and rural based.

Since agricultural works and services are excluded, employment categorized in this way as “informal” exists, conceptually, in the industrial and services sectors, mainly in urban areas.

2.4. Wages and salaries

The key statistics in this regard are:

- The national average wage, which is shown in the statistics for 2011 as equal to MNT 424,200 per month (around US\$ 330 per month); this figure appears close to the average wage in both the manufacturing and public administration sectors.
- The national minimum wage, which is set from time to time by government order, and was fixed fairly early in 2011 at MNT 140,400 per month.
- The average wage for those engaged in agriculture and related occupations, which was measured for 2011 at MNT 203,100 per month.

This last figure seems to represent a reasonable proxy for the income level of herders, and while it is obviously greatly below the level for formal economy workers (48 per cent of the figure noted above), it is nevertheless significantly higher, by 45 per cent, than the minimum wage level. It seems likely therefore that there is scope to mandate that these workers affiliate to formal schemes of social security on the basis of the payment of at least a modest rate of contribution. Whether this is true also for the identified groups of self-employed workers, and even more so for the informal economy workers, could probably be determined only on the basis of a more detailed field investigation.

2.5. Overview of pension status

At present, and in practice, the herders, self-employed and informal sector workers may participate in the social insurance old-age pension scheme on a voluntary, rather than a compulsory basis. The observed result is that relatively few members of these groups do, in fact contribute to the scheme.

There are, however, a fairly substantial number of pensions presently in payment by the Social Insurance General Office (SIGO) to both elderly, former (presumably) herders and to formerly self-employed persons. The figures provided by SIGO for 2011 indicate around 57,000 pensions to ex-herders, at an average monthly amount of close to MNT 100,000 (about US\$ 40), and 28,500 pensions in payment to former self-employed persons at an average monthly amount of a little over MNT 120,000 (a little under US\$ 50).

The number of current contributors is, as noted above, small, being (in 2011) 11,250 herders and 21,400 self-employed. It is assumed that many of the pensions actually in payment reflect entitlements accrued under the schemes operational under the old, centralized economy. Nevertheless, their existence implies a certain degree of awareness of pension provision and its benefits amongst the herder community, and perhaps also a degree of acknowledgement amongst the wider community of the right of the herders and self-employed groups to participate in the national system of social security. If so, this would be a useful foundation on which to build a consensus as to the inclusion as full participants of these groups in formal schemes, whether those presently existing or to be implemented in the future.

The ILO commissioned a modest survey early in 2012 in order to identify and examine, to the extent possible and in particular, the reasons for poor levels of coverage amongst these groups. While the statutory provisions as implemented at present require only voluntary coverage, it is understood that the over-arching law on social insurance would in fact allow for the promulgation of special laws that would vary the affiliation rules for these groups. However, it seems that there is little capacity for enforcement of compliance requirements, and, within the existing environment of voluntary affiliation, the following additional causes were found to contribute to the low coverage rates:

- (a) poor quality of administrative services;
- (b) low financial capacity of prospective members;
- (c) low perceived level of pension benefits;
- (d) poor communication and insufficient advocacy.

2.6. Further remarks

The three groups discussed above are the main, identifiable groups working outside the “traditional” or “formal” economy. They are quite closely related and not necessarily clearly distinguishable from each other.

Beyond them, however, there are some other not-yet-covered groups such as the (settled) farmers, although much smaller. Their livelihood needs, in relation to pensions and other social security provisions are evidently comparable to those of the three main groups.

It is important to recall that the ultimate objective of social security is universal coverage, not least in terms of human rights considerations; this is in full conformity with the Mongolian Constitution and legislation. From a policy perspective, it is important to note issues of equity (and possible exclusion), in particular as they may impact small groups of the population. The extension policy should go beyond the three main groups and apply to all who are facing the same challenge – that of having no old-age pension coverage.

It is unlikely that detailed information and data relating to such small groups can be obtained without undue and costly work, and it was not envisaged that such would be within the scope of the present exercise. Consequently, the policy recommendations in Chapter 4 are framed on the basis of the assessed needs of the three main groups identified above, although with the intention that they should be applicable as far as possible to the others.

It is notable that the objective of achieving full coverage has been recognized explicitly for over a decade. Government Resolution No. 119 of June 2002 calls for such expansion of coverage of herders and other self-employed people.

3. Aspects of old-age pension coverage

3.1. Introduction

The need for social security provision in old age for herders and self-employed individuals, and also for those employed in the informal economy, together with the need to build a political and social consensus to support such participation, has been clearly identified. The most natural way to fulfil the objective of making such provision would be to mandate the participation of these groups in the existing formal schemes, and to ensure the ability of the individuals concerned to fully maintain their benefit rights through the payment, equitably with the wider membership, of appropriate contributions. This Chapter reviews, briefly, the historical background and, selectively, certain features of the national pension scheme, which may either promote or hinder the achievement of that objective.

3.2. The regime before the economic transition

Before the economic and political transition of the 1990s, and the adoption of a new constitution in 1992, the national labour force consisted mainly of two categories of employees – those working for the public sector and state-owned enterprises, and those who were members of collective cooperatives, whose occupations included, importantly, stock (cattle and other animals) rearing. The groups now described as self-employed, informal economy workers, and private sector employees did not exist, at least in recognizable form, at that time.

Like many other former centralized economies, Mongolia operated a system of social security which required no direct contribution by insured workers, and indeed no explicit registration by individuals, but provided cover for all on a more-or-less automatic basis; this system provided without question for those such as nomadic herders. Thus, in effect, the scope of personal coverage in this period was universal. The experience of Mongolia in relation to the difficulties of this transition is, however, shared by a number of other countries.

3.3. Pension reforms after 1990

A number of reforms have taken place, of which two are especially significant.

3.3.1. *The 1994 legislation*

In 1994, the Law on Social insurance introduced, for the first time in Mongolia, a facility for voluntary coverage of individuals whose employment status did not oblige them to participate. The intention was to promote coverage of groups, such as the herders, who were effectively excluded from the scheme with the cessation of the former “automatic” system of affiliation. In practice, however, there has been very little progress in enrolling either the herders or the wider self-employed group. They have been, in effect, allowed exemption from the obligation to participate, mainly on the grounds that their income is irregular, unpredictable and by no means guaranteed, so providing a poor basis for regular deduction of contributions.

3.3.2. The 1999 legislation

The reform in 1999 implemented a “systemic” reform of the existing pension scheme. This had operated on a defined benefit (DB) model, with Pay-As-You-Go (PAYG) financing, and was converted into one based on social insurance principles, using a Notional Defined-Contribution (NDC) mechanism. While the scheme thus retained the solidarity basis of participation, a major result of the reform was a significant reduction in the target level of pensions for all cohorts born after 1960. Estimates indicate that individuals may in the future have “typical” expectations of pension replacement rates (in relation to pre-retirement earnings) as low as 20 per cent. Albeit that there appear to be policy indications of a target that pensions payable on retirement from a “full” career should represent an approximate replacement rate of 50 per cent, pensions providing a replacement rate of only 20 per cent would clearly be inadequate to ensure general income security in old age, and on that basis would not only fail to meet the targets implied in ILO instruments⁵ but might be said to fail the essential objective of social security pension schemes.

A pension scheme of this kind is likely to provide rather poorly for individuals such as the Mongolian herders, because, not only are the prescribed contribution rates for these groups low⁶, so that savings accumulations in the individual accounts at the time of retirement are likely to be relatively low, but also because of the insecurity of regular contribution capacity. In any case, as noted previously, it is the case that very few such workers have elected to join the scheme.

3.4. Social Welfare Provision

In parallel with the development of the social insurance (SI) pension scheme, provision has been available by way of a social welfare (SW) pension payable to all in need and who receive no SI pension.

The Law on Social Welfare, which regulates the provision of SW pensions and other benefits, was most recently revised early in 2012. The Law addresses the needs of those lacking income in various categories and states that residents who reach age 60 (men) or 55 (women) are eligible to receive a SW pension; these benefits are non-contributory and financed by the government from its annual budget.

At face value, the provision of SW pensions serves as an income security floor, for the elderly in Mongolia⁷ who lack SI pensions, regardless of previous employment, contribution and current income level. Anecdotal evidence suggests that the SW may well be seen widely in that light. However, it is clear in fact that the revision of the Law in 2012 has taken place in the context of a policy shift, towards an environment where SW benefits will be provided on a means-tested basis only, and possibly also subject to a funding cap. It is beyond the scope of this discussion to address the policy issues relating to SW benefits; however, it may be noted that one, perhaps relatively minor outcome, is likely to be the

⁵ For example, the Social Security (Minimum Standards) Convention, 1952 (No. 102) requires, broadly, that a schemes should secure a replacement rate of 40 per cent after 30 years of contributions; Mongolia has not, however, ratified this or similar conventions.

⁶ These workers contribute at 10 per cent of earnings, compared with the current “standard” rate for “formal” employees which is 14 per cent of earnings, shared between worker and employer. Even this rate, however, is insufficient to maintain the financial equilibrium of the scheme.

⁷ Qualification embraces those who are legally and permanently resident in Mongolia.

removal of a certain disincentive for individuals (who have the opportunity for affiliation to the national social security scheme) to subscribe to contributory membership.

3.5. Observations on the Interaction between insured coverage and social welfare provision

3.5.1. Decline in personal coverage

A clear, direct and unfortunate consequence of the pension reforms undertaken in the 1990s has been a significant reduction in the rate of personal coverage of the system, having decreased from, essentially universal coverage to, by 2011, a proportion of less than half of the economically active population. A reversal of this trend is needed, not only to ensure the coverage of vulnerable groups, but also for its potentially beneficial effect in correcting, partially at least, the financial imbalances in the scheme.

3.5.2. Increase in reliance on social welfare pension

Sections 3.6 and 3.7 above discuss certain issues around the provision, in the past and in the future, of pensions within the system of social welfare. Observations indicated that, in recent years, a trend has developed towards increasing reliance on SW old-age provision, in preference to participation in the SI schemes (at any more than the minimum level), partly because of the obligation to contribute to the SI scheme, failure in which regard is hardly punished if an SW pension at a similar level to the minimum SI benefit can be claimed. Recent policy changes are likely to change the balance of incentives, and this is a situation which requires regular observation and monitoring.

3.5.3. Inter-generational effects

Pension systems may be seen as having a cost-sharing character which is *always* inter-generational, regardless of the institutional arrangements for savings and investment of assets; these may be subject to severe erosion of value, as has been vividly illustrated around the world over the course of the financial and economic crisis of recent years. As a result, there is a need, which must be addressed at the level of each country's political economy, for the different generations to perceive a fair, long-term balance of rewards and obligations through the national pension system.

4. Observations and policy recommendations

4.1. Extending the scope of coverage

The scope of coverage under social security and social protection has several dimensions. The existing system in Mongolia has components of, respectively, social insurance and social welfare, each of which should be viewed to best advantage in rather different frameworks.

4.1.1. Multiple tiers

In order to maximise the advantages and minimise the disadvantages of different approaches to pension provision, including that based on social insurance, many countries have built social security pension schemes having multiple (usually 2 or 3) “tiers”. Typically, the first tier provides a basic pension, and the second comprises a mandatory additional component, designed to provide a pension element related in some degree to pre-retirement earnings and hence contributions paid. In the case of the Mongolian herders, it is clear that their earnings level is relatively low, and most effective approach to meeting their livelihood needs in old age is likely to focus on a basic, “first-tier” type benefit. At the same time, the NDC mechanism of the national pension scheme should provide reasonably effectively or those who are able to contribute on the basis of relatively higher earnings.

4.1.2. Social Protection Floor

As noted previously, the concept of a national Social Protection Floor should provide a strong framework for the development of the social welfare aspect of old age provision, and it is recommended that an assessment exercise be carried out in relation to the needs standing to be addressed and prospects for progress.

4.2. Observations on basic provision

Basic – “first tier” – pension provision may be arranged through a national pension scheme in different ways, producing, potentially, similar results.

- In a number of countries, such provision is made through a “Universal” pension, payable to all over a prescribed age. Such schemes can often be designed on a simple basis, which can offer ease, and cost-effectiveness, of administration.
- In other countries, the pension to be awarded to a qualifying individual (or “retiree”) may be subject to a minimum level of benefit, with the additional funding need for its support provided whether on a solidarity basis from the scheme’s funds, or by Treasury subvention, effectively a *subsidy*.
- A third possibility, applicable only to provision of the social welfare type, is a basic benefit “Targeted” to those who are assessed for need, by means test or similar procedure, as lacking other resources.
- The selection of an approach to minimum pension provision depends on many factors, social and cultural as well as financial, and policy approaches to the balance between the social insurance and social welfare balance; it is not possible therefore to give a recommendation based only on technical factors.

4.3. Observations on “insured” provision

The principal vehicle for provision of old age benefits to most of the current workforce in Mongolia is that of the Notional Defined Contribution (NDC) pension scheme. Such schemes have, in general, a range of features which can contribute positively or negatively to the effectiveness of the scheme according to different circumstances. Important elements are:

- The basis of participation amongst the members is that of solidarity, which accords well with ILO principles;
- It is possible to design and manage an NDC pension scheme (like Mongolia’s current scheme) in such a way as to mirror, in suitable conditions, the earnings replacement characteristics of a defined benefit scheme (like that operated in Mongolia in the pre-transition years), but
- problems have emerged in the wake of the ongoing financial and economic crisis in many countries related to the (investment) management of scheme assets, even in countries such as Sweden (also Italy).

4.4. Some general observations

4.4.1. *Family perspective*

The characteristics of the herder community are such that a family-based approach to livelihood provision may be fundamentally more appropriate than an individually-based one. This fits less well with the traditional approach to social insurance pension provision, but some compromise may be possible, for example by permitting, or encouraging one membership registration per family or household. The experience in India with regard to employment guarantees may be helpful in this regard.

4.4.2. *Outreach and administration*

The provision and administration of social welfare, in any form, to the community of herders in Mongolia represents a unique challenge. This is a group which is widely-dispersed, and at least partially nomadic in its lifestyle. Inevitably, any system of administration which requires regular or repeated direct contact will entail high costs, and, if “clients” are difficult to locate, may be unreliable.

In these circumstances, the need for innovative solutions is self-evident. Fortunately, it seems likely that the herders themselves organize their lives on a basis which judiciously mixes conservatism and innovation. An indicator, albeit indirect, may be found in the miscellaneous statistics included by NSO in the Statistical Yearbook suggesting, apparently, that nearly 90 per cent of herder families are equipped with electric generators and 80 per cent with televisions.

The social insurance office (SIGO) has, naturally, considered these issues, and has recognized the special responsibilities which devolve on its rural-based officials. Solutions are being actively sought, in particular through collaboration with other socially-focused organizations seeking to achieve outreach to the groups concerned.

4.5. Selected scheme design matters

In the light of the irregularity and uncertainty of wage income received, especially in the case of the herders, but also of the reasonably well established mechanism of setting of minimum wages in Mongolia, it is suggested that participation in the existing or an alternative social insurance scheme should be established on the basis of contributions at the level of the prevailing minimum wage. The available statistics suggest that the average earnings/income of herders is in fact at a level higher, but not by an order of magnitude, than the minimum wage. To the extent that this means that individuals may contemplate “discretionary” savings, provision should be made for the scheme to accept voluntary contributions on as flexible a basis as possible. Depending on the consensus view of “stakeholders”, voluntary contributions may supplement the introduction of at least a basic level of compulsory contributions. On this basis, the design of a suitable scheme may proceed, as concerns:

- Benefits;
- Costs;
- Contributions, which may need, at least in the short term, to be subsidised by the government if the enrolment of the herders and other groups under consideration is to proceed forthwith.

4.6. Options

This section lists a number of options which would seem available for development of the national pension system (generally, but not exclusively, the social insurance pension scheme) in such a way as to make feasible the registration of a large proportion of each of the groups – of herders, the self-employed, and informal economy workers – in the (or a) national system.

4.6.1. Option 1 – Integration of SI and SW pensions

For as long as the SW pension may have been available, in practice, to all who lack a pension from the SI scheme, it would seem to have been a sensible long-term objective to merge these two forms of provision, so as to provide, in effect, a universal pension payable at a minimum level – related in a suitably – defined way to the minimum wage – to all residents in old age.

The more recent divergence of the apparent policy framework applicable to social welfare provision does change this assessment, at least if social welfare pensioners are to be treated reasonably equitably with beneficiaries in other categories, and a merger of the two strands of provision seems less feasible.

It remains the case that the implementation of a universal old age pension would, in the view of the ILO, be desirable; this might represent a very suitable application of the resources of the HDF, and the ILO would be keen to work with the Ministry (MPDSP) to define such a prospect in detail.

4.6.2. Option 2 (a) – Establish mandatory participation for herders with a modest minimum pension

The concept here would be to enrol the herders and similar groups as fully-entitled members of the social insurance pension scheme, but to formulate the minimum pension

“guarantee” existing in the national social insurance pension scheme as a basic, first-tier pension; contributions to the NDC component would provide for additional pension benefits. The basic pension should be set at a modest, but worthwhile level, to be decided; as an indicator a pension after 15 (perhaps 20) years of contributions may be set at 50 per cent of the minimum wage.

4.6.3. Option 2 (b) – Establish mandatory participation for herders with a higher minimum pension

This proposal is similar to that of Option 2(a), but with a basic pension set at a higher level, of, say, after 15 (or 20) years of contribution 75 per cent of the minimum wage (equal to the objective set under the pre-transition defined benefit arrangements).

4.6.4. Option 3 – Create an independent scheme for the herders and/or self-employed

If, for any reason, it proves not to be feasible that the groups under consideration be enrolled in the national (social insurance) pension scheme, it may be possible to envisage a separate scheme, “tailor-made”, for them. This would have certainly disadvantages in terms of the (in) efficiency of administering a relatively small scheme for “hard-to-reach” groups. Moreover, the simplest vehicle for such a scheme would be one of defined contributions, which would entail several disadvantages, in terms of investment risks for members, loss of solidarity, and difficulties of adequate provision at the lowest income levels. For all of these reasons, this paper does not set out design which is detailed in any way, while the ILO stands ready, on request, to work with the MPDSP as appropriate.

4.6.5. Financing

At present, the cost of social security provision as experienced by contributing members on the “standard” basis is represented by a contribution rate of 14 per cent of declared earnings. This has been reduced (in 2004) from an earlier rate of 19 per cent, and includes contributions specified for several contingencies other than old age. For those (few) herders and others who choose to participate on a voluntary basis, the contribution rate is by concession reduced to 10 per cent of declared earnings.

It is clear, however, that contributions, even at the rate of 14 per cent, fall far short of meeting the actual long term costs of the scheme. This is evidenced by the imbalance already observed between contributions income and benefit expenditure, although this is compounded by factors dating as far back as the scheme existing in pre-transition period. In fact, an estimate, albeit highly simplified, suggests that the ongoing contribution rate needed to meet the long term cost of provision is approaching 20 per cent of earnings (a little lower for men retiring at age 60, rather higher for women retiring at age 55), and possibly significantly higher.

From this perspective, the possible cost of establishing a long term financial balance for the scheme may be rather high.

From another perspective, however, it should be possible to make progress within a more manageable cost envelope. This seems to be true as regards provision for the herders. If, say, a large-scale registration takes place of herders numbering 1.5 per family on average, the new registrations would be around 220,000. If, further, the (somewhat unlikely) scenario came about that the government might be required to subsidise the whole contribution of 10 per cent of earnings, at (hypothetically) the level of the minimum wage, then the total annual cost in present terms would amount to about 0.8 per cent of overall government expenditure, or 0.34 per cent of GDP. This may reasonably be compared with

the expenditure flow through the Human Development Fund amounting to around 6.8 per cent of GDP.

4.6.6. Recommendation

On the balance of the considerations discussed above, *it is recommended that* steps be taken to mandate the participation of the herders in the national social insurance pension scheme. This should be on the basis that:

- the contribution rate should be set at the existing level prescribed for voluntary participation amongst these groups, of 10 per cent of earnings, which would be applied to earnings hypothecated at the level of the minimum wage, or such higher level as the individual may wish to declare;
- the government will subsidise, to the extent necessary to ensure the participation and rights of the workers concerned, their contributions at the minimum level;
- membership should be compulsory, but, amongst those properly identified as herders, requiring that for each family or household, only one registration be required;
- the benefit level should be set in relation to the minimum wage, and may at the outset be set at a modest level, of, say, 50 per cent of the minimum wage (for an individual who has contributed in full for a defined qualifying period), with the intention that this be increased in future years, according to assessed needs and financial capacities;
- urgent steps be taken to assess the realistic capacity of herders and others to meet the prescribed obligations by way of contributions (see section 2.5), and hence the potential need for the government to subsidise, in whole or in part, the contributions of some members, possibly all, as noted above.

4.7. Other matters requiring attention

4.7.1. Qualifying conditions

An important element of the basis on which herders and similar groups may be enrolled in the national scheme is to decide on the minimum contributory period which will allow qualification for full benefit entitlement. A period of, say, 15 or 20 years may be appropriate in the short term, so as to minimise, in particular, the dangers of financial stress at an early stage of provision, due to cash flow demands. A further element relates to questions as to the provision of contribution credits for various circumstances, e.g. in periods of education or training, or (notably for women) periods spent away from paid work by reason of maternity and caring responsibilities.

4.7.2. Retirement age

There is no doubt that the increasing financial imbalances observed in the national pension in Mongolia reflect in part the availability of benefits, which may be substantial depending on an individual member's participatory and contributory history, at the age of 60 (men) or 55 (women). The latest statistics⁸ for expectation of life at these ages show that women may expect to live for more than 24 additional years, and men for 17 additional years, and

⁸ UN estimates as published by WHO.

it is likely that further improvements will be observed in the forthcoming years in these life expectation statistics. On the basis of these figures it can be seen that the period typically spent by an individual in retirement (particularly in the case of women) is quite rapidly approaching that spent in work, potentially as a contributor to the social security system. This factor alone, although it interacts with others, is driving the increase of costs of social security provision to very high levels.

4.8. Additional recommendations

4.8.1. Administration

The administration of a social security scheme, or a sub-section of one, providing not only pensions in old age but benefits in relation to the whole range of standard contingencies, for a rural and nomadic community such as the herders in Mongolia is potentially very challenging. The relevant “outreach” is likely to be costly in terms of not only time and general human resource, but also, therefore, finance. It will be necessary to keep administration systems as simple as possible, to maximise the advantage of direct contact between members and managers when possible, and to assess whether technological approaches (based, possibly, on mobile telephone networks) can offer at least partial solutions.

4.8.2. Linkage to wider social provisions

It will be important to ensure that, as government policy develops in relation to each, the provisions under social insurance and social welfare are integrated to the best extent possible.

Likewise, it will be important to ensure that, once enrolled, herders and the other groups have access to all available branches of social security coverage. Particular issues may arise in ensuring that the groups of rural and nomadic workers are accorded access to health care networks.

As noted previously, the framework of the Social Protection Floor should be seen as offering significant advantages to a country such as Mongolia.

The development in any way of a national system of social security or social protection is likely to be successful only on the basis of consensus between the “stakeholders”. In this regard, the expertise which can be offered by the ILO in promoting *social dialogue* is likely to be valuable.

4.9. Transitional issues

It is fairly well-known that the systemic reform of a solidarity-based pension system, requires that very careful attention be paid to so-called transition costs, because the established (and normal) pattern of implicit intergenerational cost transfers is disturbed. In fact, such disturbance may be unavoidable if a scheme experiences dramatically shifting demographic patterns amongst its members. This is likely to be the case amongst the group of herders in Mongolia, who display an accelerating pattern of ageing, even if not to the same extent amongst the general membership. In such circumstances it is essential that the pattern of cost transfers be recognized, and a sufficiently gradual approach be adopted to, for example, a change in income replacement rates, to allow acceptance amongst the different generations of members that their respective interests are balanced and managed fairly.

Annex

List of existing provisions (contingencies) under social security in Mongolia

The following are provided with varying degrees of adequacy under various statutory headings, including social insurance, social welfare, and the labour code.

Old-age pension

Disability pension

Survivors' pension

Military pension

Sickness benefit

Funeral benefits

Pregnancy and maternity benefits

Employment injury benefits

Unemployment benefits

Health insurance