

# Mongolia: Why Universal Social Protection?

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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 high participation of private and public sector employees in social insurance (79.8 per cent, 2014). However, 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.

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. 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.



## *Box 1. Social protection is a human right!*

*The right to social security is recognized in the Universal Declaration of Human Rights (1948) and the International Covenant on Economic, Social and Cultural Rights (1966). Mongolia ratified the latter in 1974.*

*In response to the economic and financial crisis of 2009-10, the Chief Executive Board of the United Nations recalled the importance of social protection to support people and businesses during a recession. The concept of guaranteeing at least a social protection floor aims to realize the universal human right to social security and promote inclusive growth.*

*A consensus has emerged in the early 21st century that social protection is a fundamental development priority. Social protection is a key element of national strategies to promote human development, political stability and inclusive growth. This means universal social protection is necessary for all, not just as charitable support for the poor.*

*—Guy Rider, Director General of the ILO, Beijing, September 2016.*

*The adoption of the Social Protection Floors Recommendation, 2012 (No.202), by Governments, as well as trade unions and employers' organizations from 185 countries, confirms this consensus. National social protection floors guarantee access to essential healthcare and basic income security for all children, all persons of working age, and all older persons in a country. Establishing national social protection floors, as part of a social protection system, is also included in the agenda of the G20 and the Members of the United Nations, being part of the Sustainable Development Goals.*



In 2013-2014, with the support of the UN 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 the improvement of old-age pension coverage for future generations and benefits for the working-age population.

### Why universal provision is the solution?

*Universal programmes are inclusive and realize the right to social protection.* With universal programmes, there is no risk that intended beneficiaries are left behind. So far, no developing country has been able to put in place a means-tested or proxy means-tested mechanism targeting the poor that accurately identifies people living in poverty. Even well-known schemes such as Brazil's Bolsa Familia and Mexico's Oportunidades programmes excluded 59 percent and 70 percent of their target populations respectively.<sup>1</sup> Under proxy means-tested (PMT) targeting, exclusion and inclusion errors vary between 44 per cent and 55 per cent when 20 per cent of the population is covered, and between 57 per cent and 71 per cent when 10 per cent is covered.<sup>2</sup> In other words, the smaller the target group in terms of coverage, the higher the rate of errors.

A UNICEF (2007) assessment<sup>3</sup> of Mongolia's first Child Money Programme (CMP)<sup>4</sup> concluded that the efficiency

of income targeting was poor due to flaws in PMT targeting and implementation issues. A more recent analysis<sup>5</sup> indicated that the universal CMP contributed to a 12 per cent reduction in incidences of income poverty and reduced the income poverty gap by 21 per cent.

*Universal social protection allows for better risk management.* People are subject to two levels of risks: individual-related risks (endogenous risks such as maternity, illness, old age, injuries at work and occupational disease, disability) and labour market-related risks (exogenous risks such as unemployment, jobs and skills mismatch, economic downturn, natural disaster). Means-targeted systems are not reactive enough to protect households against exogenous risks.



*Poverty targeting can create social conflict in communities.* It can create situations of tension and envy from those excluded from such a programme, either because they are almost poor enough but do not qualify, or due to an error. In addition, the selection process often relies on the local authority and community, with risks of judgments being unduly influenced. There have been cases in which the proxy means test had caused social unrest due to unfairness within communities. In Indonesia, for example, multiple protests, violence and threats targeted at village heads, as well as stoning, burning and the

<sup>1</sup> Veras, F, Peres R & Guerreiro, R 2007, Evaluating the Impact of Brazil's Bolsa Familia: Cash Transfer Programmes in Comparative Perspective, IPC evaluation note no. 1, International Poverty Centre, Brasilia, Brazil. <http://www.ipc-undp.org/pub/IPCEvaluationNote1.pdf>

<sup>2</sup> Stephen Kidd and Emily Wylde, Targeting the poorest: An assessment of the proxy means testing methodology, 2011 <http://www.unicef.org/socialpolicy/files/targeting-poorest.pdf>

<sup>3</sup> Child Benefits and Poverty Reduction: Evidence from Mongolia's Child Money Programme, UNICEF, 2007

<sup>4</sup> A proxy means tested, conditional cash transfer that was implemented from January 2005 to June 2006.

<sup>5</sup> Tserennadmid, A. (forthcoming). Analyses on effects of changes of CMP on income poverty of children through micro-simulation of the Household Socio-Economic Survey data. Ulaanbataar: UNICEF.

<sup>6</sup> Lisa Cameron, Manisha Shah, Can Mistargeting Destroy Social Capital and Stimulate Crime? Evidence from a Cash Transfer Program in Indonesia, 2012. <http://ftp.iza.org/dp6736.pdf>

destruction of village and sub-village offices, were reportedly caused by people who were unhappy with the mistargeting of beneficiaries for the Targeted Cash Transfer Program<sup>6</sup>. In contrast, universal programmes – which are often regarded as entitlements and offered to everyone – are strongly supported within communities as they do not create tension between beneficiaries and non-beneficiaries.



***Schemes targeting the poor often generate the perverse incentive of discouraging people from working.*** Beneficiaries would rather maintain their income and poverty situation within the qualifying conditions of the targeted programme than exit the programme and lose their benefits. Such programmes can encourage people to divest themselves of their assets and wealth, so that they become poor enough to be eligible. This is called the dependency trap. In this sense, poverty targeting can encourage people to remain poor.

***Poverty targeting rewards dishonesty.*** If people lie about their income or assets, they are often rewarded by receiving a cash benefit. In contrast, those honestly declaring their wealth are punished by being denied access to the benefit. For instance, if the number of livestock serves as a criterion of eligibility, households may split their livestock among different family members to still qualify for the benefit. In Mauritius, the pension was made universal in the 1950s

because of complaints from those who honestly declared their means and were denied the benefit while their dishonest neighbours prospered.

***Schemes targeting the poor are complex to manage and, therefore, administratively expensive.*** In contrast, the simple criteria of universal programmes make them significantly cheaper to implement. This could be particularly true for Mongolia, the most sparsely populated country in the world, where providing high quality social services is a challenge, particularly in rural areas. Targeted programmes, particularly conditional ones, need significant programme administration: Bolsa Família and Oportunidades spend one in every US\$25 and one in every US\$16, respectively, on programme administration; and many smaller programmes spend as much as one in every five dollars on programme administration rather than benefits.<sup>6</sup> Furthermore, if sufficient administrative resources are not invested in targeting poverty, corruption is likely to be the result. Many poverty-targeted schemes in Bangladesh and India, for example, are blighted by corruption and the exploitation of schemes for patronage purposes by local elites.<sup>7</sup>

#### Is universal social protection affordable in Mongolia?



financing methods including a combination of contributory and non-contributory schemes.

Universal social protection including a floor does not mean that all schemes will be tax-funded, but it means that everyone will be protected, involving different

<sup>6</sup> Gaspar Fajth, Claudia Vinay, Conditional cash transfers, 2010. Available at (accessed in December 2016) [http://www.unicef.org/socialpolicy/files/Conditional\\_Cash\\_Transfer\\_s\\_A\\_Global\\_Perspective.pdf](http://www.unicef.org/socialpolicy/files/Conditional_Cash_Transfer_s_A_Global_Perspective.pdf)

<sup>7</sup> Stephen Kidd, Social Protection: Universal provision is more effective than poverty targeting, 2016. Available at (accessed in December 2016): <http://ideas4development.org/en/social-protection-universal-provision-is-more-effective-than-poverty-targeting/>



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



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

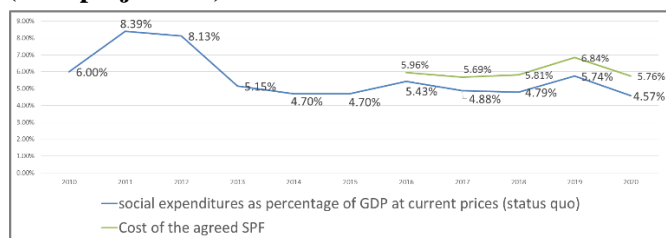
The additional cost to ensure universal social protection in times of economic crisis, as defined by the national dialogue conducted in 2013-2014, would be only 1.19 per cent of GDP by 2020, bringing social protection expenditure to 5.76 per cent of GDP,<sup>8</sup> which remains below the global average public social protection expenditure of 8.8 per cent of GDP.<sup>9</sup> For comparison, in 2011 and 2012, Mongolia's state budget allocated around 9 per cent of its GDP to social protection, mainly going to direct cash transfers.



<sup>8</sup>Updated costing prepared by ILO for the UNCT, December 2016

<sup>9</sup> ILO, 2015: World Social Protection Report 2014-2015 (ILO, Geneva)

**Figure 2. Projection of social 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

In other words, a social protection floor would cost 47,980 tugrik (MNT) per month per capita in 2020, or US\$20,<sup>10</sup> 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 universal 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.



## Looking ahead

The general election held in June 2016 is a critical opportunity to ensure that social protection remains a priority for the new Government amidst the current serious economic downturn. In August, the newly elected Government announced a number of measures to reduce public expenditure, including re-introducing income targeting of the Child Money Programme. This move implied reducing coverage to 60 per cent of children – using an existing household database which was created through the proxy means-testing of households for a smaller programme (the food stamps programme). This and other measures will yet need to be approved by the new parliament (a similar initiative was rejected just six months before the recent election). However, the fiscal situation appears to leave little leeway for belt-tightening measures – at least in the short term.

The debate, therefore, is expected to continue in Mongolia on how to find sustainable solutions for financing social protection measures that have been proven to positively impact poverty and support families in times of crisis, such as the CMP.

In this context, the possible ratification of the ILO Social Security (Minimum Standards) Convention, 1952 (No.102), the requirements of which are already met by Mongolia,<sup>11</sup> would provide useful guarantees for sustaining the country's social protection system, which are needed by people and businesses in the present economic recession.

*This brief was written by Celine Peyron Bista and Lkhagvademberel Amgalan, International Labour Organization*

<sup>10</sup> Exchange rate of 10 December 2016: US\$1 = MNT2478.6.

<sup>11</sup> ILO, Report to the Government, 2016: Assessment of the social security legislation for the ratification of the Social Security (Minimum Standards) Convention, 1952 (No.102)