

2020

Maximizing Returns on Human Capital Investment in Mongolia



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Maximizing Returns on Human Capital Investment in Mongolia

Policy Note for Mongolia

June 2020

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ACRONYMS AND ABBREVIATIONS

ADB – Asian Development Bank

APSED - Asia Pacific Strategy for Emerging Diseases

CMP - Child Money Program

ECE – early childhood education

ESMTDP - Education Sector Mid-Term Development Program

EQRP – Education Quality Reform Project

FDC - Funded Defined-Contribution

FETP - Field Epidemiology Training Program

FRC - Financial Regulatory Commission

FSP - Food Stamp Program

GDP – gross domestic product

HCI - Human Capital Index

HEI – higher education institution

HSSMP - Health Sector Strategic Master Plan

ICT – information and communication technology

IHD – integrated household database

IHR - International Health Regulations

IAP - individual action plan

IMF – International Monetary Fund

LMIS - labor market information system

MCH - maternal and child health

MECSS - Ministry of Education, Culture, Science and Sport

MLSP – Ministry of Labor and Social Protection

NCD - non-communicable diseases

NDC - Notional Defined Contribution Scheme

NSO – National Statistics Office

PES - Public employment services

PISA -Programme for International Student Assessment

PMT - Proxy-Means Test

SIGO - Social Insurance General Office

STR - Student-Teacher Ratios

SW – social welfare

TSP - Tested Social Pension

TVET – technical and vocational education and training

1. BACKGROUND AND INTRODUCTION

Mongolia has achieved significant progress in human development. The under-five mortality rate decreased from 42.4 per 1000 live births in 2000 to 25.3 and 16.9 in 2010 and 2018 respectively (NSO website, consulted in December 2019, section on Statistics – Family and children). The infant mortality rate decreased from 32.8 per 1000 live births in 2000, to 20.2 in 2010 and 13.4 in 2018. The percent of children under five-years-old underweight also decreased from 6.3 percent in 2005 to 1.6 in 2013, as well as the stunting (height for age) rates which also decreased from 20.9 percent in 2005 to 15.9 in 2010. Gross enrollment rates in secondary education are close to 100%, and over 70% of youth complete upper secondary education. Total coverage of the labor force under mandatory and voluntary schemes which was about half in 2009 grew to 81% in 2016. Over 50 percent of Mongolians are receiving government social assistance transfers.

Mongolia's spending on education, health and social protection are significant. Public pension spending on old age contributory pensions and other social security benefits of more than 7 percent of GDP—is relatively high compared to Mongolia's peers, especially given that over 2 percent of GDP is the deficit of the system covered by the government subsidy. Just over 4 percent of GDP in public spending are financing public health sector. Education sector overall has similar level of spending. Over 2 percent of GDP are spent on social assistance.

Despite these large spending significant challenges remain. Many Mongolians are not fully benefiting from economic development and are not equitably provided with public services of adequate quality, not protected from shocks and suffer from poverty. Poverty has slightly decreased between 2016 and 2018 (only by 2.6 thousand people). This extremely slow pace of poverty reduction despite quite robust economic growth (averaging 4.4 percent) is a source of concern and poses question about how effective human development policies are. Poverty affects families with children, especially younger children, undermining prospects for human capital formation.

Despite highly prevalent social transfers, poverty in Mongolia remains relatively high, with more than a quarter of the population living below the poverty line in 2018.¹ The poverty headcount ratio stands at 28.4 percent in 2018, which means that almost 905 thousand of Mongolians cannot afford to buy essential goods (World Bank and NSO 2020). In addition to the poor, 14.9 percent of the population or 474.8 thousand people live between the poverty line and 1.25 times the poverty line. If any unanticipated shock hits, these vulnerable households could easily fall into poverty. Poverty is strongly associated with underinvestment in human capital, worse employment prospects, vulnerability to shocks, and poorer health. Mongolian population is highly affected by shocks. During the five years preceding 2018, 36 percent of the population was affected by any one or more types of shocks.²

¹ The moderate NSO poverty line is used, it represents 166 580MNT per capita per month, equivalent to approximately 68 USD at the 2018 market exchange rate. Lower poverty line that represents extreme poverty of 124 720 MNT yields a poverty rate of 13.9 percent.

² Based on self-reported shocks in HSES 2018, including health shocks (injury, illness, death of a household member), natural disasters (impacting livestock, crops and/or vegetables as well as property), employment shock

However, social protection does not protect the population from shocks. That prompted the emergency response measures during COVID-19, mostly focused on protecting everyone's incomes and jobs. But these measures have been extremely expensive and undermined future sustainability. While those measures prevented poverty from increasing, applying more targeted approach to the select government measures in response to COVID-19 could have increased the efficiency and reduced cost.

These challenges are also acute in health and education. Despite recent improvement, infant and child mortality remain relatively high in Mongolia. While mortality indicators have largely decreased over the last decades, under-five mortality (25.3 per 1000 live births) and infant mortality (13.4 per 1000 live births) are high compared to neighboring countries (e.g. respectively 8.6 and 7.4 per 1000 live birth in China and 9.9 and 8.8 in Kazakhstan). The country is affected by rapid increases in non-communicable diseases prevalence, and has very high proportion of overweight population, especially among children, posing risks for escalating health care cost.

There is a huge gap between rich and poor households in access to formative pre-school education crucial for children's development, with a low enrolment rate of 48 percent for the poorest quintile, versus 69 percent for the richest quintile (based on 2018 HSES reported in NSO and World Bank 2020). The number of pre-school institutions seems also below the needs, with only 1435 institutions and 7843 teachers in 2018 (NSO website) for about 405 thousand children aged 2 to 6 (HSES), hence a ratio of about 52 children per teacher.

(loss of job or high drop in household income), price shocks (fall of commodity price and increase of consumer price) and others (theft, civil unrest, livestock disease and plague/infestation/disease of crops).

2. KEY POLICY RECOMMENDATIONS

Human capital is a crucial factor of economic development. As stated in Mongolia's Vision 2050, the country has so far relied heavily on its natural resources for development. In the next 30 years, Mongolia aims to create a favorable environment for every citizen to enjoy a long, happy, and healthy life, obtain quality life-long equitable education services and live wealthy throughout their lives. It puts the human development in the center of its strategy, envisioning that children and youth will be educated at world-class standards, adopt active lifestyle, benefit from life-sustaining social protection services, science, and technology. Only by investing in human capital and innovation can Mongolia achieve more sustainable and stable economic growth.

Policies to protect and maximize the human potential and its contribution to equitable growth span the life cycle in six following steps:

- a. ***Building foundations of human capital during early years:*** *in the short term*, ensure continuous support to families with small children for proper nutrition, and provision of early childhood education. *In the medium term*, expand the early childhood education system and ensure quality in both rural and urban areas.
- b. ***Schooling and initial skills acquisition:*** *in the short term* preserve the funding and shift it to finance critical inputs, including those needed to support distance learning, identify gaps and develop remedial action to address them, prepare gradual re-opening of schools. *In the medium term:* ensure quality by revising the curriculum and establishing stricter human resource management and accountability. Provide incentives for teaching excellence. In coordination with social assistance provide support to poor families to invest in the human capital of their children.
- c. ***Utilization of human capital in working age:*** *in the short term*, minimize employment losses by reducing cost of labor, avoid skills depreciation, improve public employment services and support to the unemployed and informal sector workers. *In the medium term:* promote entrepreneurship and job creation, build links between activation policies and employment services.
- d. ***Protection of human capital for adults:*** *in the short term*, invest in reforming the system of primary care and disease surveillance. *In the medium term:* create conditions to increase quality of primary care, monitor its delivery and provide a continuum of care.
- e. ***Life-long learning and continuous adaptation of human capital through life:*** *in the short term*, assess the efficiency of training programs and improve the links to demand side. *in the medium term:* create a system for life-long skills acquisition.
- f. ***Healthy and productive longevity:*** *in the short term*, ensure control of infectious diseases and create protocols for effective management of non-communicable diseases. *in the medium term:* use One health approach to reduce health risks from future pandemics. Control the efficiency of spending by using strategic purchasing to maximize value.

As seen through the lifecycle prism, short term measures have many common features across all human development sectors: they aim for greater pandemic preparedness and ability to manage possible future out flares, protect the poor and vulnerable and ensure they can benefit from the economic recovery, implement financing and budgeting reforms to improve efficiency, and conduct drafting and consultations for the needed changes in laws and regulations.

In order to ensure higher level of human capital, Mongolia needs to prioritize the efficient programs, address gaps in funding and governance of health, education and social protection. Yet, in an increasingly volatile external environment, Mongolia's ability to dedicate considerable resources to human capital investment and protection depends on its ability to complete major restructuring of its public provision of health, education and social protection.

The global COVID-19 pandemic and Mongolia's response to it could catalyze political consensus to conduct much needed reforms and accelerate progress. To make these to happen in the short term the action should be taken to improve the resilience of these sectors to COVID-19 pandemic and associated economic shocks, and to support poor and vulnerable who may be negatively affected. Such impacts can be mitigated and will constitute part of the recovery for the first period of the new government, creating pre-conditions for decisive progress in structural reforms.

This will require coordinated effort to accomplish the following:

- a. **In education:** Improve preparedness of education system for emergencies. The reforms of the system need to aim to ensure equitable access to all levels of education in Mongolia and improving quality and relevance for all by enhancing management, efficiency and accountability in the education system. Table below starts with most urgent measures in response to COVID-19, and includes other short- and medium-term actions:

Short-term Actions	Medium-term
<ul style="list-style-type: none"> • Increase responsiveness: Adopt COVID-19 action plan; assess efficiency of different remote/distance learning approaches to ensure continuity of schooling; ensure better hygiene, nutrition, safety of schools; develop remedial program and teacher led assessment of student learning lags; modify school calendar; adjust high stakes exams; maintain education financing ensure crisis response measures address and reach marginalized groups. 	<ul style="list-style-type: none"> • Increase responsiveness: pursue ICT-based transformation of the education sector; increase use of remote learning, including in providing remedial lessons; develop resources for teacher training, supplementing teaching in remote schools, and home-based schooling.
<ul style="list-style-type: none"> • To ensure equity: Expand home-based ECE modality in rural areas; Offer grants to low income families in order that they access services; develop gender-sensitive approaches for education strategy. 	<ul style="list-style-type: none"> • To ensure equity: expand kindergarten services in urban areas; incorporate gender considerations in education strategy.
<ul style="list-style-type: none"> • To improve quality and relevance: Develop learning strategy covering curriculum revision, learning standards, teacher training, learning assessment, and quality assurance; participate in an international assessment (PISA 2021); Develop qualification framework for HEIs 	<ul style="list-style-type: none"> • To improve quality and relevance: implement learning strategy; rehabilitate rural schools and provide quality learning materials; continue reform of the post-secondary education subsector, targeting TVET, university - industry linkages.

<ul style="list-style-type: none"> • Enhancing efficiency and accountability: undertake sector assessment and develop professional sector standards; increase maintenance budgets at the school level; adopt sector performance indicators and targets. 	<ul style="list-style-type: none"> • Enhancing efficiency and accountability: Implement efficiency measures; report annually on sector performance indicators; implement school-based management approaches.
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b. **In health:** Gear the system towards reducing the burden of non-communicable diseases (NCDs) by integrating primary care with secondary and tertiary care, strengthening governance and health sector stewardship to ensure delivery on public health functions, using strategic purchasing to transition to a more efficient health system. Table below starts with most urgent measures in response to COVID-19, and includes other short- and medium-term actions:

Short-term	Medium-term
<ul style="list-style-type: none"> • Strengthening Public Health Preparedness: improve legislation, build the multi-department joint prevention and control mechanism, strengthen the early warning and reporting system 	<ul style="list-style-type: none"> • Strengthening Public Health Preparedness: Strengthen human resource capacity for disease control and better use of data including one health laboratory networks.
<ul style="list-style-type: none"> • Reduce burden of NCDs by reorganizing services based on high-quality primary care: Accelerate design and deployment of IT solutions. Design a service delivery model focused on integrating curative and preventive services. 	<ul style="list-style-type: none"> • Reduce burden of NCDs by reorganizing services based on high-quality primary care: Prioritize development of multidisciplinary teams to provide the full continuum of care
<ul style="list-style-type: none"> • Transition to High-value Service delivery system: Continue efforts to pool health funds and channel the government budget through the health insurance system. 	<ul style="list-style-type: none"> • Transition to High-value Service delivery system: Strengthen procurement & align incentives to support integrated service delivery

c. **In social assistance:** Better protect the poor by increasing the adequacy of social welfare programs for the poor, foster positive behavior changes and economic inclusion, redirect greater public resources to them by improving the targeting methodology, consolidating existing categorical programs and the delivery system. Table below starts with most urgent measures in response to COVID-19, and includes other short- and medium-term actions:

Short-term	Medium-term
<p>Make Social Welfare programs adaptive and responsive to shocks: provide short-term cash transfers to citizens who are either not employed or who have become unemployed due to the COVID-19 crisis; develop and assess the plan to provide short-term cash transfer to the bottom 30</p>	<p>Make Social Welfare programs adaptive and responsive to shocks: Design an adaptive safety net scheme. Use the administrative databases to pre-identify poor and vulnerable people for cash grants to be provided in the event of specific shocks. Link the pre-qualified</p>

percent of the population, by expanding the FSP or through a temporary cash-transfer program.	households with a payment system so that the benefits can be transferred immediately.
Provide adequate protection for the poor: Develop a plan to broaden the targeted recipients of the FSP or start implementing the poverty benefit that was legislated in 2012 to all households under the national poverty line as a permanent benefit. Introduce eligibility restrictions or benefit restrictions to certain categories of beneficiaries, particularly to those in the top half of the welfare distribution.	Provide adequate protection for the poor: Introduce a formula to determine the FSP benefit or the poverty benefit based on needs, including indexation. Assist the recipients in graduation. Implement tighter eligibility.
Improve targeting: Update the PMT formula with recent data. Digitize data collection and proactively use existing administrative data. Introduce better monitoring mechanisms including random spot-checks and sanctions. Focus on getting full coverage for the bottom 50 percent in the next en-masse PMT survey and, simultaneously, strengthen on-demand inclusion and reassessment systems.	Improve targeting: As administrative systems and databases improve, reduce the use of proxy indicators in favor of income and living standards measures, particularly in urban areas. In rural areas, pilot various ways to combine PMT-based methods with participatory community involvement.
Make social welfare program delivery systems more efficient: Conduct detailed business process mapping for key programs. Develop integrated MIS. Prepare a staff development program.	Make social welfare program delivery systems more efficient: Transfer health-related benefits to be covered by health insurance. Implement the program consolidation. Implement streamlined work organization and processes. Train staff in their new roles.

- d. **In social insurance:** Aging of population makes it imperative to conduct parametric reforms to address escalating fiscal expenditures, including increases in the retirement age, reforming contributions, indexation, and provision of adequate minimum pension. Table below starts with most urgent measures in response to COVID-19, and includes other short- and medium-term actions:

Short-term	Medium-term
<ul style="list-style-type: none"> • Strengthen the fiscal sustainability, equity and predictability of benefits: Protect the value of pensions by establishing automatic indexation linked to the growth in the consumer price index. 	<ul style="list-style-type: none"> • Strengthen the fiscal sustainability, equity and predictability of benefits: Gradually increase the wage base for calculating pensions to a worker’s lifetime wages index; gradually increase the retirement age to 65; and introduce actuarially fair deductions for early retirement provisions. Gradually increase the combined payroll contribution rate once Mongolia’s economy stabilizes.

<ul style="list-style-type: none"> • Improve incentives to contribute and ensure minimum subsistence: Assess the options for a non-contributory Tested Social Pension (TSP) providing universal coverage for all workers over retirement age. Assess options for replacing the minimum pension with TSP. 	<ul style="list-style-type: none"> • Improve incentives to contribute and ensure minimum subsistence: Establish a non-contributory TSP. Establish a pension-testing claw-back feature whereby the TSP would be reduced by a portion of benefits from the pension insurance scheme. Replace the minimum pension with the TSP.
<ul style="list-style-type: none"> • Strengthen the governance: Undertake a detailed assessment of options for strengthening reserve investment and risk management. Draft legal reforms and guidelines. Draft a roadmap for supervision of reserve management. 	<ul style="list-style-type: none"> • Strengthen the governance: Enact necessary legal reforms to strengthen reserve management. Adopt guidelines for reserve investment and risk management. Begin the process of supervision of banks and fixed income investment oversight.
<ul style="list-style-type: none"> • Est. of a framework for private supplemental pensions: Undertake an assessment of supplemental pension arrangements, outline design options and a reform roadmap. Draft a White Paper for supplemental pensions arrangements and have wide consultation with stakeholders. Draft an institutional development plan and provisions for tax treatment. 	<ul style="list-style-type: none"> • Est. of a framework for private supplemental pensions: Enact legislation providing a legal framework for supplemental private pensions. Begin a process of licensing supplemental pension providers. Begin supervision and reporting of supplemental private pensions. Apply revised tax treatment for eligible provisions.

e. In labor market policies and regulations: reduce imbalances on the labor market to better utilize human capital by improving the functioning of the public employment services and improve access to jobs through employment support policies.

Short-term	Medium-term
<ul style="list-style-type: none"> • Monitor the employment impacts of post-COVID-19 crisis and recovery. • Assist the recovery by promoting micro-entrepreneurship and self-employment. • Start Job diagnostics to identify the main barriers for job creation in Mongolia and actions to alleviate them. • Establish client-centric public employment services. • Develop new labor market information system 	<ul style="list-style-type: none"> • Widely discuss Job Diagnostics and develop plans for policy actions to address the barriers for job creation. • Create favorable conditions for a vibrant and growing private sector. • Significantly change skills development and training programs making them more demand driven. • Systematic use of data to inform decision making at all levels. • Reform institutional and implementation arrangements to implement employment programs and policies in effective and coordinated manner.

3. ANNEXES: SECTOR-SPECIFIC NOTES

1) ADVANCING HUMAN CAPITAL BY IMPROVING EDUCATION QUALITY, OUTCOMES, AND EFFICIENCY

Executive Summary

As it strives to strengthen its economic outlook through its Vision 2050, Mongolia seeks to build a knowledge-based society and advance its human capital. Mongolia is currently finalizing its Education Sector Mid-Term Development Program (ESMTDP 2021-2030) with technical support from development partners (ADB, WB and the Global Partnership for Education) and local education stakeholders. The strategy prepared by the Ministry of Education, Culture, Science and Sport (MECSS) focuses on improving the quality of education through the development of a system of open, distance, online, and flexible learning pathways that ensures the education quality and relevance at all levels with shared responsibility, sustainable governance, and management. Mobilizing knowledge and skills are keys to building human capital, reducing poverty, and advancing economic growth—and they can bring profound change to the functionality and ability of the Mongolian education system while expanding the capabilities of learners. This policy note focuses on key challenges within the education system that, if addressed, could serve as the drivers of change towards a more efficient, accountable and results-oriented system. To that end, the key policy recommendations are centered around enhancing the system’s effectiveness to contribute to building human capital through:

- ensuring equitable access;
- addressing issues of education quality, outcomes and relevance;
- enhancing management, efficiency and accountability.

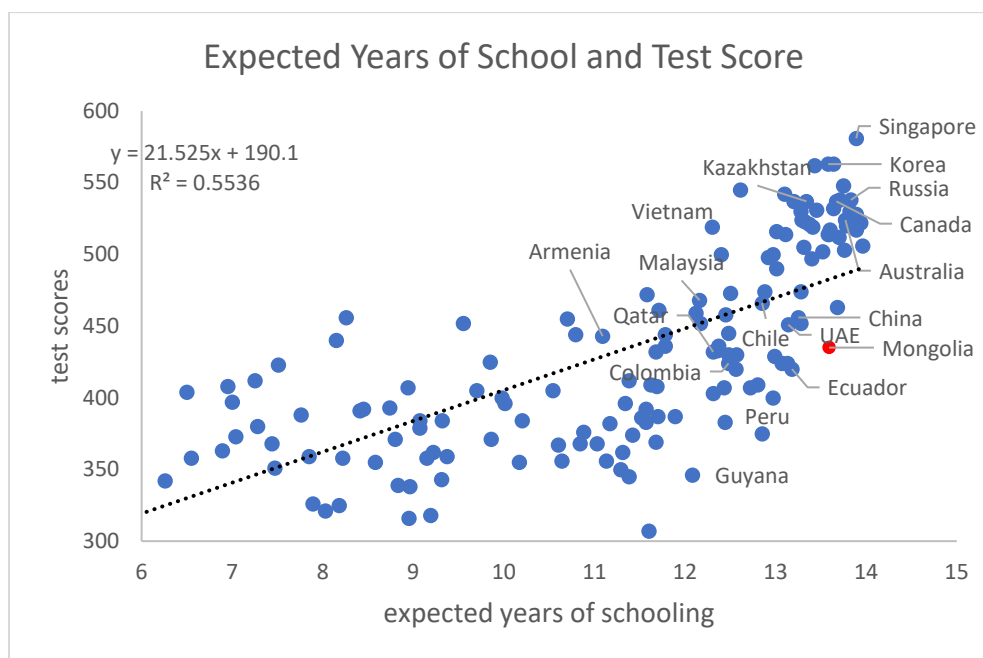
The proposed focus on system effectiveness also addresses the urgency for innovation in the use of learning technology as well as the system’s responsiveness to external shocks and factors, including the COVID-19 crisis.

Context

Mongolia has achieved impressively high rates of enrollment in education. Education access strategies have been implemented with success, particularly in relation to basic education, where enrollment rates are nearly universal at 98.5% (UIS, 2019). Pre-school coverage is almost 70% among children aged 3-5 years old. While Mongolia maintains high participation rates, there is scope to improve the quality of its education in order to contribute more meaningfully to its national development goals. The World Bank’s Human Capital Index (HCI) calculates Mongolia’s HCI as 63% meaning children born in Mongolia today will be 63% as productive when they grow up as they could have been if they had complete education and full health. Out of the average years of schooling in Mongolia (13.6), the number of quality-adjusted learning years is just 9.4 years – meaning that children are in school but not learning for nearly 4.2 years. Based on this indicator there is scope for Mongolia to boost its productivity by strengthening its education outcomes.

To fulfill its promise to build human capital, the education system must generate learning. As revealed by the high percentage of children with low scores on assessment tests, only 41.2% proficient in mathematics, 37.6% in Mongolian language studies, and 46.4% in social studies at grade 5 (2018), improving education quality and learning at all grades is a key challenge for the system. The findings from national assessments reflect Mongolia's ranking in the harmonized test score of the HCI as 68 out of 157 countries below the trend line as demonstrated in Figure 1 below.

Figure 1: Schooling years and test scores



An education that is fit for purpose must be relevant to labor market needs. At the TVET level, efforts have been made to strengthen the education content using a competency-based approach, but the process has been slow and is pending completion. With a view to making education supply more relevant for market demand, both in TVET and higher education, increased partnerships between education institutions and the private sector are required. The policy reforms in the TVET sub-sector have delivered some results, including an effective expansion that has made it more accessible to marginalized groups such as unemployed youth, youth from poor families, women, and people with disabilities. While the system has expanded provision, there are insufficient and/or deficient quality assurance mechanisms—licensing, accreditation, inspection and certification (ADB, 2019). Like other sub-sectors, inadequate attention has been given to ensuring quality and relevance in higher education. For example, the higher education sub-sector remains without a national qualification framework to guide its development along quality standards. Without adequate governance that seeks to enhance quality, it is not surprising that a recent employer satisfaction survey found many graduates did not meet the requirements of employers.

The education system faces various pressures and will need to enhance its responsiveness to address demographic changes, natural disasters, and health emergencies, such as COVID-19. In addition to reorienting the nature of schooling, the education system will have to better manage these sources of pressure, including demographic pressure, which will require innovations to accelerate the use of remote learning, expansion of the system in urban areas, and the use of multi-modal learning mechanisms to reach

all students. The effects of urbanization on the system will call for more efficient management, including through teacher rationalization and balancing of the Student-Teacher Ratios (STR) among schools. More immediately, the COVID-19 emergency challenges the system's ability to support continued learning during school closures. TV lessons are impressively being provided for all grades/subjects, yet these measures will have to be expanded and supplemented with the delivery of home-based schooling materials, especially to areas beyond TV broadcast. As the government plans for the reopening of schools, assessing the learning lag, improving ICT connectivity and availability of education technologies will be a priority. Additionally, the impact of the crisis at the community and school level would need to be addressed, and appropriate mechanisms devised to protect access to quality basic education services for children, especially the vulnerable. The World Bank is well placed to support the government in these efforts, under the planned restructuring of EGRP and through the Government's Education Emergency COVID-19 response Action Plan.

Key Challenges and Recommendations

Key Challenge 1: Equitable Access

Acknowledging that Mongolia has made tremendous progress with regards to education coverage, concentrated efforts are now required to tackle persistent inequities within the system, and those likely to be most impacted by current (COVID-19 related) school closures. The system also needs to address persistent inequities for specific groups such as Early Childhood Education (ECE) for rural and herder children. Preschool coverage is only 46% in rural areas. At higher levels of education, Mongolia sees gender disparities in access and performance with boys. It is also critical to increase access and enhance the learning experiences of children with special needs and children from minority backgrounds. Given the nature and causes of underlying inequity within the system, it is increasingly urgent to implement differentiated strategies targeting groups whose access and outcomes in education have been limited.

The Government of Mongolia is aware of the importance of equity in access. As stated in Vision 2050, "in the absence of a rational mechanism of redistribution of income and poor quality of and limited access to social services, such as schools and medical facilities, children in poor households are exposed to poor physical and intellectual development. Thus, they will not be able to compete in the labor market. Inequality of opportunities may drive to social segregation and rejection of high-income groups, and even causes conflicts." Such inequalities start early on, at the pre-school stage of life, and continue to school years and into the entry to the labor market. Hence, specific policies should target children and young adults at these different stages of life.

Recommendations:

- a) Tackle disparity in access to quality ECE for low-income families and introduce appropriate targeting of interventions aimed at addressing the specific needs of marginalized children (e.g., financial incentives; home-based instruction; quality of teaching in rural kindergartens; and decongestion of classrooms in urban centers). Support to children from poor and vulnerable families should benefit from targeting strategy and be coordinated with measures in social assistance.
- b) Develop a gender strategy to address boys' drop-out rates and poorer performance in comparison to girls in secondary education and beyond. The strategy should also include interventions that

target increasing formal employment for young women as they are under-represented in the formal labor market.

Key Challenge 2: Education Quality, Learning Outcomes and Relevance

Disaggregated data on learning outcomes reveal that there is a significant learning gap between urban and rural school students—with Soum school students lagging their peers in urban areas. In terms of achievement by socio-economic group, learning results among nomadic and minority children are also considerably lower. Moreover, persistently high unemployment rates among TVET and college graduates coupled with reported skills shortages for highly qualified positions reveals poor relevance of higher education and skills training. The lower quality of ECE in rural areas further widens the gap with weaker foundational skills. Vision 2050 notes the absence of progress in education quality and relevance as one of the main impediments to ensure human capital as the new driver of growth and calls for reform of the education system by creating an equitable and inclusive access to quality education for all.

Providing educational services that meet quality standards is a key challenge especially in a budget constrained context. Drawing on the factors that most affect learning in the Mongolian context – school readiness, the quality of the teaching force, 21st century learning environments, standardized tools for measuring learning, and systematic availability of quality inputs — the current education budget does not prioritize these necessary quality investments (about 1.1% spent annually on learning materials).

Recommendations:

- a) Improving the quality of ECE provision by monitoring quality standards using school readiness assessments and quality assurance standards for pre-school.
- b) Developing coherent strategy for the inter-related activities that affect learning including curriculum revision based on new learning standards, teacher training, learning assessment, and quality assurance. These interventions must be well sequenced with the appropriate intensity to ensure that together they address the identified deficiencies in education quality and learning.
- c) Predictable investments in quality primary and secondary education inputs including sufficient teaching and learning materials with greater role for school-based management.
- d) Improve learning environments and reduce variance in the quality of learning environments across schools using school mapping.
- e) Strengthening utilization of learning assessment data—the plan to roll out the PISA assessment in 2021 and continue standardized early grade learning assessments and classroom observations would help generate information for monitoring system performance and strengthening school accountability.
- f) Strengthen quality assurance mechanisms in TVET.
- g) Enhance education relevance in higher education by defining a national qualification framework and strengthening the links with the labor market.

Key Challenge 3: Management, Efficiency and Accountability

To address low and inequitable learning outcomes in basic education, the system has to transition from the current input-oriented approach to one where school-level planning capabilities and accountabilities are enhanced. Such a system hinges on availability of information to monitor performance. Systematically expanding learning assessments and human resource management based on competency standards are

critical steps forward. To strengthen school level capacity to diagnose problems and design and implement solutions as well as new financing mechanisms, there is a need to increase participation of local stakeholders and reform school level planning process.

The education sector could be reoriented to strengthen the institutions and processes required to govern more effectively, manage and finance a functioning results-oriented system. Vision 2050 calls for comprehensive reform of managing all levels of the education system, with a special emphasis on managing personnel, finances and evidence-based decision making. Addressing governance weaknesses in the education system will help achieve equitable, quality education at all levels and for all.

Recommendations:

- a) Address the systemic constraints by establishing professional standards for the sector.
- b) Define strategies to address efficiency issues such as financial allocations to schools, teacher allocation, and use of data for decision-making (using sector performance indicators).
- c) Provide discretionary funding at the school level and enhance school leaders' decision-making ability to plan and budget for school needs. Low maintenance budgets at the school level undermine access gains and capital investments.

Key Challenge 4: Responsiveness of Education Sector

Mongolia's education system has been responding to the COVID-19 crisis using distance learning approaches by expanding video lessons and production for TV broadcasts. The remote education efforts implemented since January 2020 are noteworthy. However, they may not be adequate to prevent significant learning lag, especially for hard to reach and vulnerable populations, and may lead to weakening of education quality, learning outcomes, and relevance. The COVID-19 emergency highlights the opportunity for Mongolia to strengthen access to online educational resources and communication. The school closures give a greater urgency to expanding ICT to schools, students and teachers, and improving digital literacy at scale.

The wider use of ICT is an action planned under Vision 2050, and education sector COVID-19 response is helping to accelerate the progress. While the sector's responsiveness to COVID-19 restrictions has been expedient, efforts will now need to focus on the longer-term recovery efforts as schools re-open. Other important measures include moving more towards integration of ICT methodologies in standard curriculum to better support effective learning, conducting rapid assessments to identify learning gaps and creating targeted programming to help children catch up quickly. Effective planning and support to schools as they re-open will be necessary to ensure the safety and wellbeing of children and teachers.

Recommendations:

- a) Implementation of the MECSS Emergency Response Plan.
- b) Support teachers to adjust curriculum, provide remedial lessons; assess learning lags of students.
- c) Implement ICT strategy which aims to strengthen teacher and student digital literacy, provides options for distance learning, scales up connectivity in schools and among school community.
- d) Utilize teacher-produced videos as supplemental materials for remote schools (where there are fewer qualified teachers); home-based learning (for herder families); and as part of continuous teacher professional development (best teachers producing TV lessons).

- e) School-based management of resources (School grants) to improve school performance and contingency planning for emergency closures.

Summary of the Main Challenges and Policy Recommendations

Objective	Short-term Actions (next 1 year)	Medium-term Actions (next 1-4 years)
Ensuring equitable access	<ul style="list-style-type: none"> Expand home-based ECE modality in rural areas Offer grants to low income families to help them access services Develop targeting strategy to address needs of specific groups (in coordination with the social assistance) Develop gender sensitive approaches for education strategy 	<ul style="list-style-type: none"> Expand kindergarten services in urban areas, including through the private sector Implement targeting strategy to address needs of specific groups (in coordination with social assistance) Incorporate gender considerations in education strategy
Addressing education quality, learning outcomes and relevance	<ul style="list-style-type: none"> Pilot school readiness assessments Develop strategy on learning covering curriculum revision, learning standards, teacher training, learning assessment, and quality assurance Increase and monitor funding for learning materials Implement quality assurance mechanism Participate in an international assessment (PISA 2021) Develop new approaches for strengthening links of TVET programs with the labor market Develop qualification framework for HEIs 	<ul style="list-style-type: none"> Roll out school readiness assessment to improve ECE Implement learning strategy Execute textbook rental program and utilize funding for printing and distributing additional textbooks Rehabilitate rural schools and provide quality learning materials Continue reform of the higher education subsector, targeting TVET, university - industry linkages
Enhancing management, efficiency and accountability	<ul style="list-style-type: none"> Undertake sector assessment and develop professional sector standards. Undertake sector efficiency analysis Increase maintenance budgets at the school level Adopt sector performance indicators and targets Develop approaches to utilize school grants in strengthening school-based management 	<ul style="list-style-type: none"> Revise recruitment and appointment practices in line with professional standards Implement efficiency measures, including rationalizing STRs and those related to the utilization of resources Report annually on sector performance indicators Implement school-based management approaches
Responsiveness of the	<ul style="list-style-type: none"> Adopt COVID-19 action plan 	<ul style="list-style-type: none"> ICT transformation of the education sector

education sector	<ul style="list-style-type: none"> • Assess efficiency of different remote/distance learning approaches to ensure continuity of schooling • Hygiene, outreach, nutrition, safety of schools • Develop remedial program and teacher-led assessment of students' learning lags • Modify school calendar; adjust high stakes exams • Maintain education financing • Ensure crisis response measures address and reach marginalized groups. 	<ul style="list-style-type: none"> • Increased use of remote learning, including for remedial lessons • Resources for teacher training, supplementing teaching in remote schools, and home-based schooling • Emergency preparedness of schools
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2) DEVELOPING A RESILIENT AND VALUE BASED HEALTH CARE SYSTEM

Executive Summary

Mongolia continues to make strong strides in improving maternal and child health (MCH) outcomes, but reform is critically needed to address the burden of non-communicable diseases (NCDs). NCDs constitutes 77 percent of mortality and uses over 70 percent of total health sector spending. Mongolia is not equipped to meet this growing burden and its fragmented system needs to transition to a new service delivery model that integrates preventive and curative services, modernizes role of secondary and tertiary hospitals as providers of complex care, rationalizes human resources, and deploys standardized local and national systems to measure and improve the quality of primary care, chronic disease management, and patient satisfaction. Integrated service delivery requires a set of system-wide incentives and strategic procurement can be a mechanism for lowering costs and improving efficiency and quality. Finally, as COVID-19 has shown a strong public health stewardship and governance is critical for ensuring public health preparedness to meet emerging health threats.

This section recommends:

- i) integration of primary care with secondary and tertiary care through formal linkages, good data, and information sharing;
- ii) strengthening governance and health sector stewardship to ensure health systems are geared to deliver on public health functions such as disease surveillance and emergency response;
- iii) using strategic purchasing to transition to a High Value Service Delivery System.

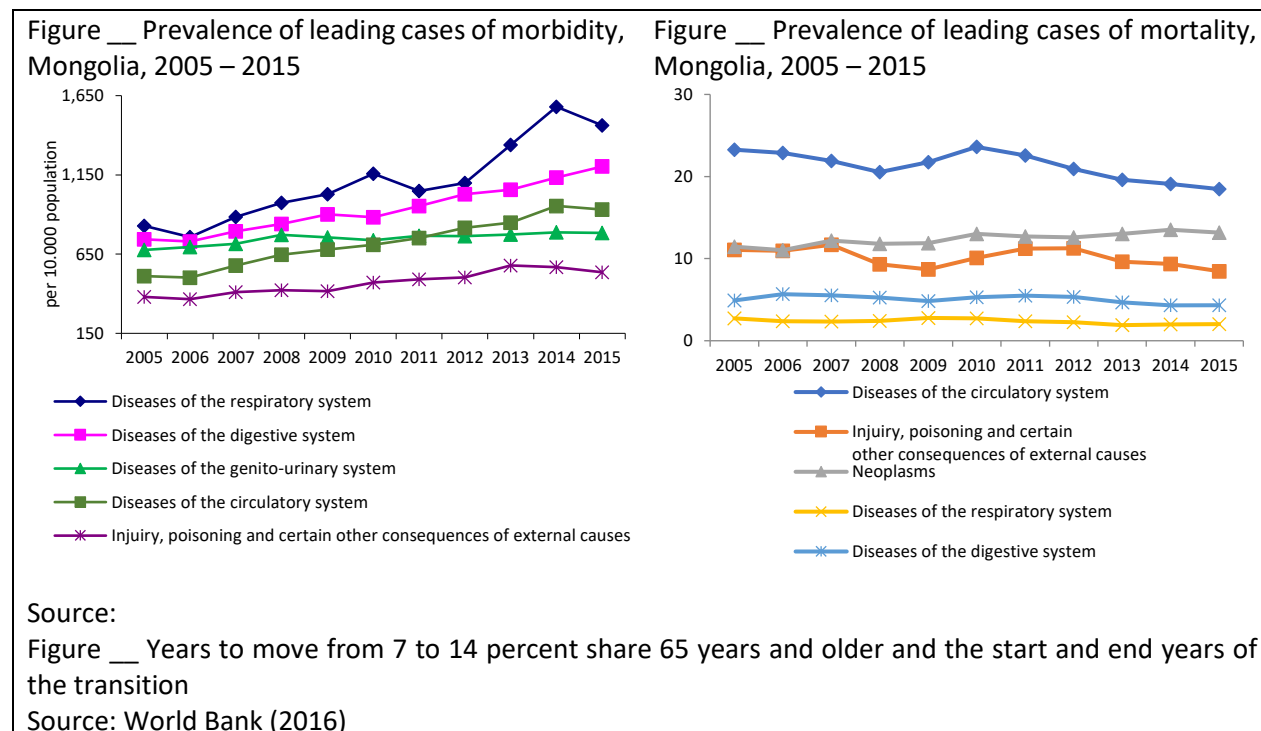
Context

Under the Sustainable Development Vision 2030 endorsed by the Mongolian parliament, health is the center stage with goals formulated around promotion of health and wellbeing for all. Therefore, the World Bank continues to support the Government of Mongolia through financing and provision of technical assistance for improved health service delivery, which underpins the Bank's own corporate goals of ending extreme poverty and promoting shared prosperity.

ADDRESSING THE GROWING BURDEN OF NCDs

Mongolia continues to perform well in improving maternal and child health outcomes. The strong performance on MCH outcomes is likely due to near-universal coverage of basic preventive services, i.e. the near-universal coverage of immunization and skilled attendance at birth. However **non-communicable diseases (NCDs) constitute a growing share of morbidity and continue to be the leading cause of mortality.** NCDs such as heart disease, stroke, cancers, hypertension, diabetes, and chronic lung disease, as well as injuries, have been the leading causes of mortality and morbidity for at least the last two decades. Underlying this are trends in risky behaviors including high smoking prevalence, high intake of fats, sugars and calories in the diet, high levels of alcohol consumption, and low physical activity. There is a clear need to strengthen primary and secondary prevention of chronic diseases. Rapid aging of the population over the next few decades renders the need for action all the more urgent: the share of elderly (those aged 65

years and older) in Mongolia's population is projected to rise from 7 percent in around 2030 to 14 percent over a subsequent period of 25 years.



The health system is not equipped to meet the growing burden of NCDs. As the prevalence of NCDs expands, Mongolia will need to address both their underlying causes as well as increase early detection and chronic disease management. For this, Mongolia's fragmented health system will need to transition from the one biased toward treatment to the one centered around improving population health outcomes. However, several key obstacles stand in the way of this transition.

Quality of health services remains low, despite being highlighted as a priority by the Health Sector Strategic Master Plan for 2006-2015 and the State Policy on Health for 2017-2026. Differentials in service quality cause patients to bypass primary care services in favor of higher quality secondary or tertiary services, and, for those who can afford to do so, opt for overseas treatment over health care within the country. A high share of admissions in tertiary and district hospitals is medically unnecessary or inappropriate.³ The high ratio of hospital beds to population also suggests that planning of health inputs continues to be hospital centric. There is no standardized performance monitoring system to collect information on quality of care and facilitate quality improvement. Most importantly, there are no incentives for health providers to improve quality of care.

Fragmented care, combined with low capacity at the primary care level, compromises the core functions of prevention, case detection, early treatment, and care integration. This leads to under-diagnosis, delays in treatment, and a higher need for more expensive, acute care, especially in rural areas. Providers at various levels have no incentive to manage population health in a coordinated way. Linkages between

³ Bat-Ochir 2000; Byambaa et al. 2005; Bat-Ochir 2000; Bolormaa, et al 2007

hospitals and primary health care providers, including structured referral systems, patient discharge and handover mechanisms, and patient outreach, are generally not in place. Furthermore, there is no horizontal integration across types of care, i.e. promotion, preventive, curative, and palliative.

PUBLIC HEALTH PREPAREDNESS IN NEED OF STRENGTHENING

Public health events regularly occur in Mongolia. The large herder population in Mongolia increases the chances for zoonotic diseases. In recent years zoonotic diseases have expanded and outbreaks of transboundary disease have emerged in animals and humans. Brucellosis, anthrax, tick borne disease, and rabies still constitute a threat to human health and welfare. On average, the national surveillance system detects over 260 public health events a year. But Mongolia remains vulnerable to emerging diseases and public health emergencies, and that challenges exist in national system readiness to respond to large-scale and complex events in an effective and coordinated way. Risk assessments are carried out when outbreaks occur, but there is no comprehensive systematic disease surveillance system. Laboratory capacities are weak in both human and animal health domains. Evidence-based decision making and response, and utilization of risk assessment finding need to be further improved.

Building the policy, technical, institutional and operational framework for a strengthened disease control system will require more sustained effort. The health sector preparedness is guided by the government's Health Sector Strategic Master Plan (HSSMP) for 2019-2024. Led by the Ministry of Health, surveillance and emergency response coordination systems – including regional emergency operations centers and a laboratory network in aimags (administrative districts) near national borders – have been established. Mongolia has also endorsed the International Health Regulations, or IHR (2005), and the Asia Pacific Strategy for Emerging Diseases (APSED), which has been used to build core capacity for surveillance and response including pandemic influenza. The main lessons learned from the 2009 H1N1 and PanStop exercises were that the current pandemic plan almost entirely focused on health issues and health-related problems. The plan lacks preparedness, contingency planning, and integration into national and local disaster management planning. Disaster Protection Law of Mongolia mandates that all legal entities, soums, districts, provinces, and cities should have disaster protection plan and annually update them, including making provisions for resource allocation and stockpiling of emergency supplies for natural disasters and human health emergencies. However, these plans are largely unfunded.

TRANSITIONING TO A HIGH-VALUE SERVICE DELIVERY SYSTEM

Mongolia's health spending is low. At just over 4 percent, the share of total health spending in GDP is lower today than that in 2003 (6.7 percent), and lower than that in most other middle-income countries. Since 2010, government health spending remained consistently low fluctuating between 6-8 percent of the total government spending. Most of the public spending is on recurrent expenditures. While wage spending per health worker is growing slowly, the wage bill is the fastest growing and largest component of recurrent expenditures (before current transfers and medicines). Allocations to maintenance and repairs are extremely low. Poor sector planning that is not based on clear medium-and long-term strategies affects the quality and efficiency of investments and recurrent expenditures. There was a phenomenal expansion of the private sector in provision of both inpatient and outpatient services.

Mongolia faces a choice between continuing “business as usual” at the existing relatively low expenditure level and low quality, and a deep system reform to transition to a high-value system that meets existing and future needs at acceptable fiscal cost, but with attendant increases in medium-term investments. Cost pressures on Mongolia’s health sector will grow in coming decades. As in many other countries, population aging, growing prevalence of chronic disease, and the introduction and expanded use of new drugs, procedures, and other medical technology will all put upward pressure on spending. Expenditure pressures will also come from addressing coverage gaps and disparities in the health system. However, the shortcomings of the system highlighted– weakness in primary care, hospital centrism, lack of integration, and low quality – are an impediment to achieving better health outcomes and higher returns to current investments in health.

Strengthen purchasing and align incentives to support integrated service delivery, focusing on incentives for quality and efficiency. Mongolia’s Vision-2050 indicates to implement a health insurance system that meets the needs of citizens in medical care and protects financial risks. In the short run, efforts to pool health funds and channel the government budget through the health insurance system need to be continued, together with strengthening the capacity of the new insurance organization, ensuring adequate human resources, and introduction of more rational, evidence-based processes for benefits package revision. Deepening of provider payment reform should prioritize the overall payment cap, shift the basis for government budget payment from inputs to parameters reflecting population needs, refine DRG-based payments and capitation to adjust for real costs of service delivery, and increase flexibility to move expenditures across line items. Long term measures include enhancement of selective contracting to enable the purchaser to monitor performance and quality more effectively, and design and introduction of financial and other incentives within a network-wide design in support of population health, quality and cost containment, encouraging cooperation between purchaser and provider to improve performance rather than punitive measures that lead to misreporting. Informal payments could be addressed by clarification of user fees as well as adequate coverage of benefit packages.

Key Challenges and Recommendations

Key Challenge 1: Delivery System Unable to Address the Growing Burden of NCDs

As NCDs expand, Mongolia will need to address both their underlying causes as well as increase early detection and chronic disease management. For this, Mongolia’s fragmented health system will need to transition from one biased toward treatment to one centered around improving population health outcomes. Equally important is integration of primary care with secondary and tertiary care through formal linkages, good data, and information sharing among providers and between providers and patients.

Recommendation: Reorganize services to address chronic illnesses, centered on high-quality primary care

Short term

- a) Continued efforts to strengthen primary health through improvements in payment and monitoring systems along with commitments to increase budget allocation.
- b) Accelerate design and deployment of eHealth solutions to generate and share high quality health data among facilities, the health insurance agency, public health agencies, the private sector, and patients.

- c) Undertake an assessment to design a service delivery model oriented toward emerging needs, focused on integrating curative and preventive services, modernizing role of secondary and tertiary hospitals as providers of complex care, rationalizing human resources, and developing standardized local and national systems to measure and improve the quality of primary care, chronic disease management, and patient satisfaction.

Long term

- d) Undertake intermediate reform steps, prioritizing capacity building of workforce to support integration including development of multidisciplinary teams to provide the full continuum of care, enhancement of information systems to measure outcomes at all stages of care, and development of measurable targets for performance monitoring.

Key Challenge 2: Public Health Preparedness

COVID-19 has shown how ill prepared health systems can lead to major human catastrophe. Strengthening governance and health sector stewardship is critical to ensure health systems are geared to deliver on public health functions such as disease surveillance and emergency response.

Recommendation:

Short term

- a) Strengthen governance and information system by establishing a coordinating body for Disease Control. Tasks will include improving relevant legislation, improving the multi-department joint prevention and control mechanism, and strengthen the early warning and reporting system for epidemic situations. Develop real time, risk-based surveillance with improved timeliness and sensitivity in outbreak/threat detection.
- b) Update pandemic preparedness plan, and specific operational plans. Review and update strategies for stockpiling critical medical supplies and train and equip joint rapid response teams. Improve infection prevention and control in health facilities; prevent misuse of antibiotics and ensure improved risk communication.

Long term

- a) Strengthen human resource capacity in disease control through a) development of current workforce through supporting joint Field Epidemiology Training Program (FETP) courses and conducting joint desk top exercises and drills in order to maintain and update skills and identify the loopholes in rapid response; b) preparing for a future workforce by developing and institutionalizing training on epidemiology in allied sectors; and c) sensitizing priority groups on One Health practices through training and provision of job aids.
- b) Establishment of integrated laboratory networks: Support development of a pool of experts and establish One Health laboratories for pooling resource and expertise for greater efficiency and effectiveness. Promote close networking and joint training among different sectors and with national/international centers of excellence for laboratory diagnosis.

Key Challenge 3: High-Value Service Delivery System

Improving the quality and efficiency of health care in Mongolia will require different parts of the health system to work together to improve the public health by integrating services and tackling the causes of ill health. It will require addressing behaviors, incentives, and structures and represents a different way of working – the emphasis being on places, populations, and systems, rather than purely technical roles. To enable this transition Mongolia will need to: (a) realign incentives in purchasing and provider payments; (b) develop a qualified and motivated and fit-for-purpose workforce; and (c) harness the power of IT for delivering high quality integrated care. Integrated service delivery requires a supporting set of system-wide incentives that influence provider behavior to sustain the fundamental features of the model. A strong strategic purchaser of services able to monitor quality and direct service delivery to priority areas is key.

*Recommendation: Using Strategic Purchasing to Transition to a High Value Service Delivery System***Short term**

- a) Continue efforts to pool health funds and channel the government budget through the health insurance system. Strengthen the capacity of the new insurance organization, ensuring adequate human resources. Introduce more rational, evidence-based processes for benefits package revision.
- b) Continue provider payment reform: prioritize the overall payment cap; shift the basis for government budget payment from inputs to parameters reflecting population needs; refine DRG-based payments and capitation to adjust for costs of service delivery; increase incentives for high-quality care and increase flexibility to move expenditures across line items.
- c) A qualified and motivated work force will be and will require a systematic approach in addressing the identified gaps in human resources, measurement of provider quality coupled with feedback and education to drive continued improvement.

Long term

Enhance selective contracting to enable the purchaser to monitor performance and quality more effectively. Design financial and other incentives within a network-wide design in support of population health, quality and cost containment, encouraging cooperation between purchaser and provider to improve performance rather than punitive measures that lead to misreporting.

Objective	Short-term Actions	Medium-term Actions
Reorganize services to address chronic illness, centered on high-quality primary care.	Continue efforts to strengthen primary health. Accelerate design and deployment of IT solutions to generate and share high-quality health data among stakeholders. Undertake an assessment to design a service delivery model focused on integrating curative and preventive services.	Prioritize development of multidisciplinary teams to provide the full continuum of care and enhancement of information systems to measure outcomes at all stages of care.

Strengthening Public Health Preparedness	Improve relevant legislation, and the multi-department joint prevention and control mechanism, and strengthen the early warning and reporting system for epidemic situations.	Strengthen human resource capacity for disease control and better use of data including One health laboratory networks.
Using Strategic Purchasing to Transition to a High Value Service Delivery System	Continue efforts to pool health funds and channel the government budget through the health insurance system.	Strengthen purchasing and align incentives to support integrated service delivery.

3) PROTECTING AGAINST SHOCKS AND REFORMING SOCIAL WELFARE SYSTEM

Executive Summary

Although Mongolia devotes more than 2% of GDP to social assistance, only a small portion is targeted at the poor and vulnerable, two groups most adversely affected by shocks and crises like the COVID-19 crisis. Most expenditures are categorically targeted and not focused on the poorest, and when they do, they provide very little to help them to overcome poverty. While the government is able to identify the poor through a PMT-based Integrated Household Database, this capacity remains underutilized.

This section recommends that the government:

- i) better protects the poor by increasing the adequacy of social welfare programs for the poor;
- ii) improves the targeting methodology;
- iii) consolidates existing categorical programs and streamlines the delivery system;
- iv) makes the social welfare systems responsive to shocks.

Context and Recent Developments

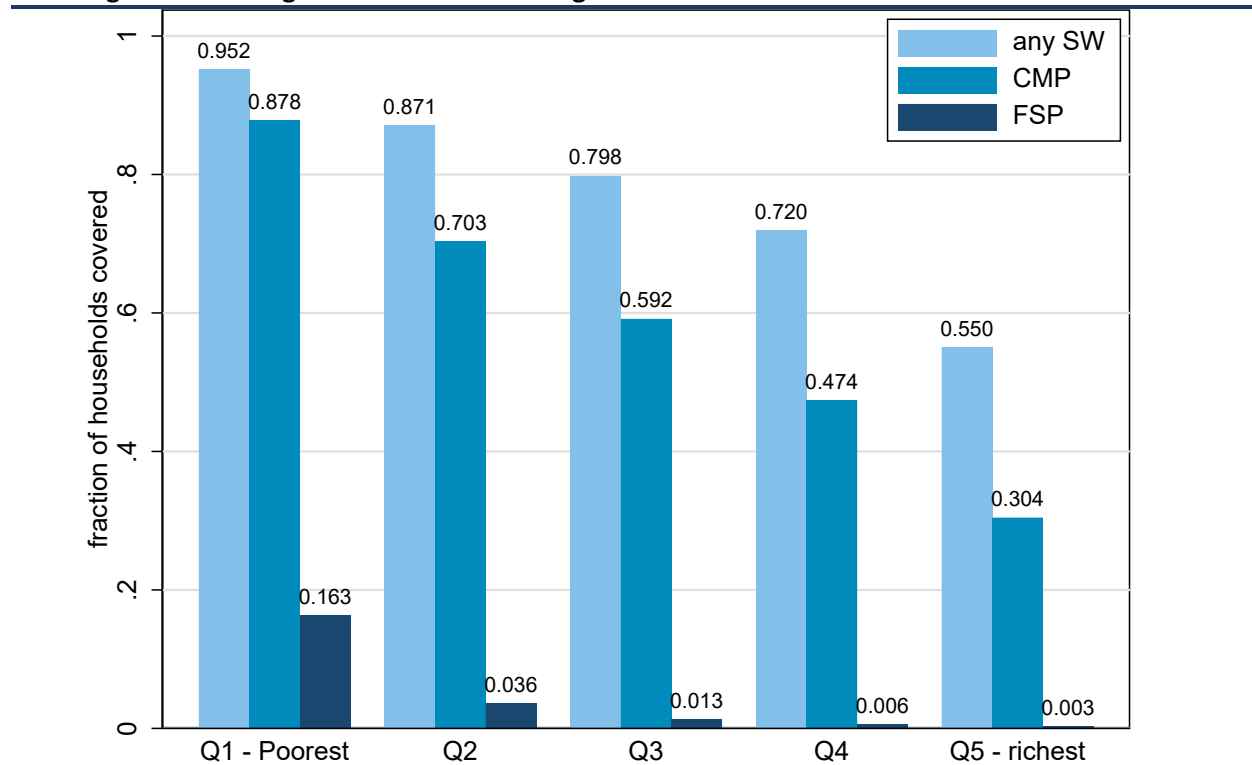
Mongolia's Social welfare system is mostly comprised of categorical social assistance programs.⁴ In 2018, Mongolia spent 2.1 percent of the GDP on social assistance, much higher than the regional average of 1 percent in East Asian countries. Child Money Program (CMP) alone accounts for a third of that spending. Almost all programs remain categorically targeted to the different population groups (e.g., children, the disabled, elderly, single mothers, caregivers). Consequently, the bottom quintile, that needs the most support, gets less than 40 percent of all social welfare expenditure. The need to target social welfare to the poor has been recognized over the recent years, including in the Mongolia Vision 2050, yet it has not been translated into concrete policy and legal actions.

To enable targeting of social welfare benefits, the government has built an integrated household database (IHD) to identify and target the poor households. Currently the IHD has information on 85 percent of the households in Mongolia, collected through a combination of census sweep and on-demand assessments. A Proxy-Means Test (PMT) formula, introduced first in 2010 and revised in 2013 and 2016, generates scores for each of households which could be used as targeting criteria by various programs. The PMT formula and the methodology is being updated through technical assistance from the World Bank (WB) and Asian Development Bank (ADB). The IHD has been made interoperable with the database of social welfare beneficiaries. Unfortunately, the use of IHD to target social welfare benefits has been limited to the Food Stamp Program (FSP) several years after its introduction.

⁴ Social Welfare system in this section is defined as non-contributory programs in cash and in kind, financed by the public budget, and is also called social assistance, a term used by the World Bank classification (see <http://datatopics.worldbank.org/aspire/>). The contributory social insurance system (pensions) is covered in the dedicated section of this note, while unemployment insurance – in the labor market section.

- a) **The Food Stamps Program (FSP), the only Social Welfare program to explicitly target the poor, has very low coverage.**⁵ The FSP targets bottom 8 percent of the households even though about a fifth of households lived below the poverty line in 2018. In 2018, only 16 percent of the poorest quintile received FSP transfers. FSP expenditure accounted for 0.12 percent of the GDP in 2018.
- b) **The CMP, the largest cash transfer program, has close to universal coverage.** Prior to 2017, the CMP was universal. In recent years, CMP has undergone expansions and contractions in the coverage and benefit levels. In 2017, the program was restricted to the bottom 60 percent, a positive movement towards targeting the benefit towards the poor. However, this changed quickly: since 2018 it targeted the bottom 80 percent; and from January 2020, the program has been made accessible to all those who apply.

Figure 1: Coverage of Social Welfare Programs



Source: World Bank (2020)

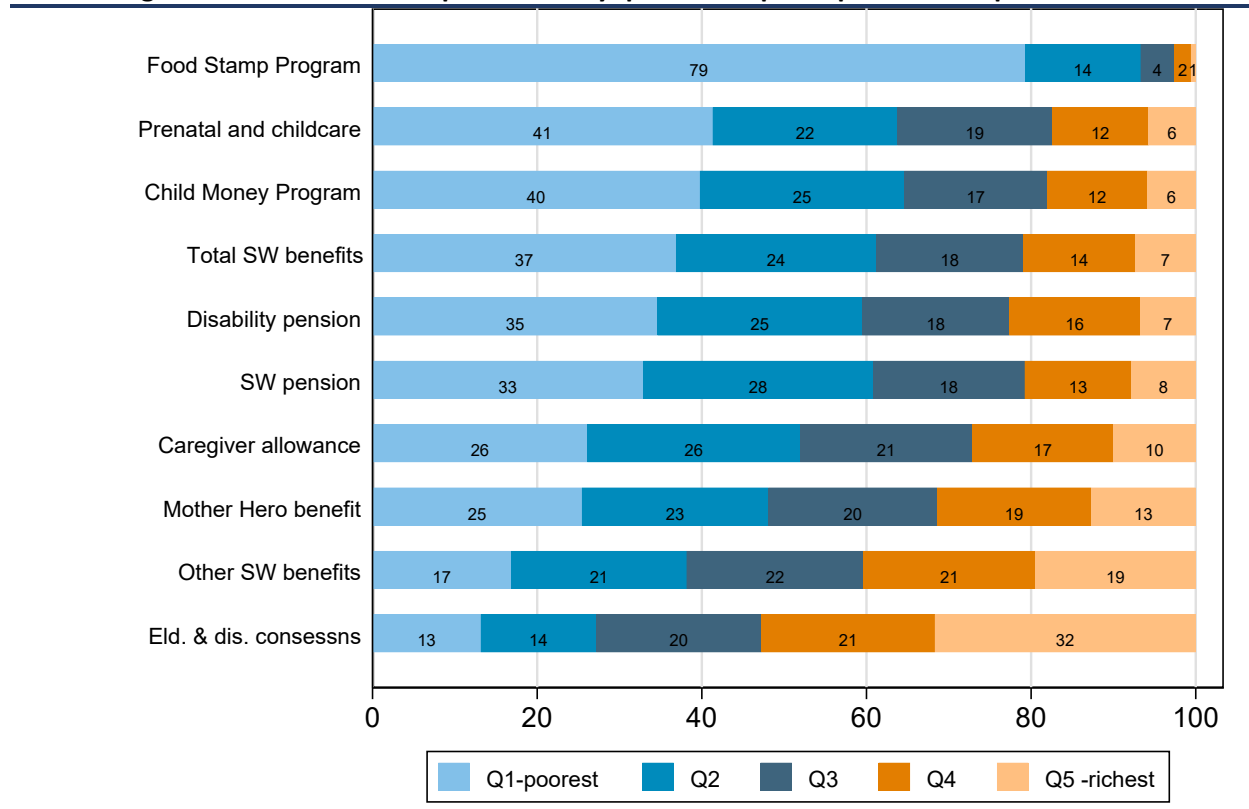
Overall, social welfare programs as a whole tend to slightly favor the poor, but with considerable room for improvement. In 2018, the poorest quintile received slightly over a third of all benefits. However, this is not by design but is driven by the fact that poor families in Mongolia tend to have more children and the largest social welfare program (CMP) targets children. In 2018, CMP expenditures accounted for 0.7 percent of the GDP and the poorest quintile received 40 percent of the benefits. However, the two richest quintiles still received over a fifth of all social welfare spending, including that of the CMP.

Even among the program beneficiaries, benefits received by the poor is inadequate. In 2018, all social welfare transfers were only 18 percent of per-capita consumption for the poorest quintile. Most countries

⁵ Starting from 2016, a poverty targeting was used for a couple of other small benefits for very specific population groups (e.g., ex-prisoners and single, homeless parents with 4 and more children under 18 coverage). The coverage of these benefits is very small. Therefore, it does not affect the debates for targeting the poor population in overall.

provide social welfare benefits that represent 20 to 35 percent of the poorest households’ consumption. Even for the poverty targeted FSP, average transfers per household was MNT 42,000 a month, or only 7 percent of household expenditures. Overall, the poorest quintile only received about a third or the total expenditures in social welfare programs highlighting both the lack of coverage and the adequacy of the benefits.

Figure 2: Social Welfare expenditures by quintiles of per-capital consumption



Source: World Bank (2020)

The country's social assistance programs remain fragmented with many categorical programs providing small benefits. **The government plan to consolidate its social welfare programs into a more effective and efficient system has been challenged by political and public pressures to keep the existing benefits.** Development of a social protection strategy and other analytical efforts can feed into the consolidation process. However, the successful realization of such consolidation plan requires leadership, awareness and social and political consensus building for better protection of the poor and vulnerable. Economic crisis caused by COVID-19 and extraordinary measures undertaken by the government can catalyze the implementation of reforms and contribute to longer term outcomes.

Key Challenges and Recommendations

Key Challenge 1: Inadequate Protection of the Poor

In 2018, only 7 percent of the households reported receiving the FSP, the only poverty targeted program. Even though there are other social welfare programs, such transfers only accounts for 18 percent of household expenditures of the poor which is inadequate to fill the basic needs of the poor. In 2018, the

average post-transfer poverty gap was MNT 200 thousand per month per household, which should be filled through social welfare programs.

Recommendations:

Increase the **adequacy** of social welfare transfers going to the poor while maintaining the overall expenditures of the SW programs. In 2018, 21 percent of all households (28 percent of the population) were under the poverty line. The poverty rate has undoubtedly gone up with COVID-19. This calls for greater coverage of the poor. Mongolia can provide adequate protection for the poor without over-spending on SW program through the following two-pronged approach:

- a) Expand the coverage of the FSP to the bottom 30 percent of the population or more. At the same time increase the benefit level of the FSP so that it covers the average poverty gap for the poor households. Alternatively, the FSP can be replaced by the implementation of the poverty-based cash transfer benefit (that was legislated in 2012 and has not been implemented), which targets the bottom 25-30 percent and provides benefit equivalent to the average poverty gap amongst the poor.
- b) Target existing categorical social welfare programs to the poor. This could be done by limiting the eligibility of the categorical programs to the poor (bottom 30 to 50 percent), or by reducing the benefit amount for beneficiary households in the top half of the income distribution. This will allow to save fiscal resources to finance adequate poverty targeted benefits to maintain sustainability. It will also help to achieve the long-term objective formulated in Vision 2050 of “ensuring income equality by introducing higher taxation on high-income groups and enable to meet the needs of lower-income groups”.

Key Challenge 2: Poverty targeting methodology needs improvement to better identify the poor who need social welfare support

Ongoing analysis finds that the current targeting system has some shortcomings, which can be addressed. In rural areas, asset-based PMT formula performs poorly because of the unique nomadic lifestyle. More widely, potential beneficiaries and implementors are dissatisfied with the performance and utility of the PMT in identifying those truly in need.

Recommendations:

In the short-term, the targeting system needs to be updated and modernized. Specific steps include: (i) updating of the current PMT formula using more recent data; (ii) strengthening monitoring and grievance mechanisms to reduce fraudulent misreporting, including introducing random spot-checks and sanctions; (iii) digitizing data collection and proactively using administrative databases to improve data quality; (iv) strengthening on-demand data collection systems to reduce undue burden on social workers; and (v) limiting the expensive en-masse PMT surveys to the bottom half of the welfare distribution.

In the medium-term, Mongolia needs to gradually move away from purely PMT-based system towards a hybrid system.

- i. In rural areas, PMT formula can potentially be improved with participatory community involvement. Several models of the combined approach exist across the world based on which Mongolia could experiment through pilots and adopt the model that works best.

- ii. In urban areas, PMT process can be improved by proactively including administratively available information on income and assets. As administrative systems and databases improve over the next several years, reliance on proxy indicators can be reduced in favor of actual measure of income and living standards.

Key Challenge 3: Social Welfare Programs Are Fragmented and Overlapping, Which Has Made the Delivery System Inefficient

An increasing number of fragmented benefits going to the same target group has led to multiple and often duplicated administrative processes. An ongoing study conducted by the World Bank finds several inefficiencies in the social welfare delivery system. As these processes remain largely manual and process intensive, they further add to the inefficiencies for beneficiaries as well as for the government.

Recommendations:

- a) Consolidate small programs by prioritizing program design based on the need to provide comprehensive support to targeted populations so beneficiaries need not access multiple programs.
- b) Transfer those programs providing health or health-related benefits to coverage under the national health insurance program.
- c) Optimize and streamline business processes to reduce unnecessary and cumbersome processes.
- d) Use technology to automate processes as much as possible. Doing so will free up valuable social worker time that could be better spent interacting with and resolving problems of the beneficiaries.
- e) Develop an integrated MIS which is interoperable with various databases and systems maintained within MLSP as well as outside.
- f) Social Welfare programs can be more effectively linked with employment programs and services as both services and programs are delivered through the same local office.

Key Challenge 4: No Social Welfare Programs Have Been Established to Protect Against Shocks

The frequency and severity of economic shocks has increased substantially in Mongolia. These include not only the current COVID-19 pandemic but also severe weather-based shocks which have challenged Mongolia population. In 2018, only 9 percent of the household who experienced negative shocks received any form of government support in response to the shocks. The establishment of a contingent program of rapid-response cash transfers can have a dramatic impact in shielding Mongolia's economy and its people from some of the most adverse consequences of these shocks.

Recommendations:

- a) In the short-term, consider more targeted approach in response to COVID-19 using short-term temporary cash transfers for the most vulnerable who have been adversely affected by the COVID-19;
- b) In the medium-term, Mongolia should make a better use of the (improved) IHD system to pre-identify poor and vulnerable people for emergency social assistance that would be provided in the event of specific shocks. Both vertical and horizontal top ups to the exiting poverty targeted benefits with established payment platforms (e.g. bank accounts) can drastically reduce the time between policy decision and benefit transfer.

Summary of the Main Challenges and Policy Recommendations

Objective	Short-term Actions (next 1 year)	Medium-term Actions (next 1-4 years)
<p>Provide adequate protection for the poor through well targeted social safety nets</p>	<ul style="list-style-type: none"> • Develop a plan to broaden the targeted recipients of the FSP or implement the poverty targeted cash transfer to all households under the poverty line as a permanent benefit. Start implementing the plan. • Supplement the benefit level for the FSP. The benefit level, along with other social welfare assistance, could target the average poverty gap for the targeted beneficiaries. • Gradually introduce eligibility restrictions to categorical programs, especially for the top half of the income distribution. 	<ul style="list-style-type: none"> • Introduce a formula for determining the FSP eligibility or the poverty benefit formula, including indexation. • Establish case workers service to assist the poor beneficiaries in graduation. • Establish a stronger formula for determining the timeframe for benefits. • Target categorical programs so that most of the SW expenditure go to the poorest.
<p>Improve the poverty identification system to identify the poor more effectively and efficiently</p>	<ul style="list-style-type: none"> • Update the PMT formula with recent data. • Introduce random spot-checks, sanctions, and better monitoring mechanism. • Digitize data collection and proactively use administrative databases to improve data quality. • Strengthen on-demand data collection systems to reduce undue burden on social workers. • Limit the expensive en-masse / full-enumeration PMT surveys to the bottom half of the welfare distribution. 	<ul style="list-style-type: none"> • As administrative systems and databases improve over the next several years, reliance on proxy indicators can be reduced in favor of actual measure of income and living standards. • In rural areas, pilot various ways to combine PMT-based methods with participatory community involvement. • Scale up a model of poverty identification that works in rural Mongolia.
<p>Make social welfare program delivery systems more efficient</p>	<ul style="list-style-type: none"> • Establish a comprehensive program for consolidation of social welfare programs under programmatic umbrellas. • Identify measures to transfer health-related benefits to be covered by National Health Insurance. • Prepare a staff development program to revise the program officer responsibilities and 	<ul style="list-style-type: none"> • Transfer health-related benefits to be covered by Health Insurance. • Implement the program consolidation. • Implement streamlined work organization and processes. • Train staff in their new roles. • Link social welfare programs more effectively with employment programs and services.

	<p>accountabilities in line with the new programs.</p> <ul style="list-style-type: none"> • Conduct detailed business process mapping for key programs to identify inefficient processes that could be removed, simplified, or automated • Develop integrated MIS that automates various processes, and is interoperable with various databases and system within and outside MLSP 	
<p>Make Social Welfare programs adaptive and responsive to shocks</p>	<ul style="list-style-type: none"> • Provide short-term cash transfers to citizens who are either not employed or who have become unemployed due to the COVID-19 crisis. • Develop and assess the plan to provide short-term cash transfer to the bottom 30 percent of the population, either through vertical and horizontal expansion of the FSP, or through a dedicated temporary cash-transfer program. 	<ul style="list-style-type: none"> • Design an adaptive safety net scheme that would service as a vehicle for contingent support of individuals materially adversely affected by adverse shocks. These might include, for example, shocks brought on by adverse weather conditions, communicable diseases, or even toxic effects of pollution. • Use the IHD to pre-identify poor and vulnerable people for cash grants that would be provided in the event of specific shocks. Link the pre-qualified households with a payment system so that the benefits can be transferred immediately.

4) REFORMING THE PENSION SYSTEM

Executive Summary

Temporary exemption of contributions to social insurance will provide substantial economic benefits during the COVID-19 crisis, albeit at great cost. The state subsidy to the Pension Insurance Scheme is projected to quickly escalate to unsustainable levels which will crowd out essential public expenditures. Parametric reforms are urgently needed to address escalating fiscal expenditures while delaying them will impose difficult adjustments for beneficiaries. The following are recommended:

- i) Automatic indexation of benefits linked to the growth in prices;
- ii) Increasing the retirement age and adopting an actuarially fair reduction for those who retire early;
- iii) Lengthening the wage base used to determine pension benefits from 7 years to lifetime;
- iv) Replacing the minimum pensions with a non-contributory Targeted Social Pension; and
- v) Increasing the contribution rate once Mongolia's economy is on a sound footing.

Mongolia has neither the fiscal resources, financial markets or supervision system necessary to adopt a Funded Defined Contribution scheme design. More importantly, many retirees may face lower benefits with such a scheme.

Context and Recent Developments

Mongolia's Pension Insurance scheme provides the largest cash transfer in the country and the current government has committed itself to introducing pension and social insurance reform legislation during the current legislative session. The World Bank and external consultants have provided analytical reports and actuarial projections to provide an evidence base for considering the effects of different reform options and parameters.

In April 2020, the authorities agreed to exempt all private companies and their workers from social insurance contributions for a six-month period. This will reduce the payroll tax burden yet also remove an important source of fiscal revenues while the authorities still must payout benefits. This will result in an estimated loss of fiscal revenues of up to about 2.6% of GDP in 2020 (for pensions and other social insurance) and will also provide future benefits amounting to between 5% and 8% of 2020 GDP paid out over several decades.

Rapidly escalating fiscal costs for pensions are largely attributed to the disparity between contributions and benefits, as well as retirement age which is too low for Mongolia's rapidly aging population. Contributions to the scheme cover only a fraction of the cost of benefits with the State Subsidy projected to grow from about 9.2% of revenues in 2019 to 37% by 2050, crowding out other essential public expenditures.

Changes in parameters and reversals of reforms since 2011 have substantially increased costs including: (i) a 2012 service credit facility when enabled workers to receive 10 years of service credit at a minimal cost; (ii) substantial real increases in the partial and full minimum pension since 2012; and (iii) 2017 legislation which reduced the retirement age by 5 years for herders.

The World Bank and IMF have supported reforms to the Pension Insurance Scheme since 2017 through a Development Policy Loan. Yet measures enacted in 2017 to increase the retirement age were subsequently reversed and an agreement to gradually increase the contribution rate was partially fulfilled, though the last increase from 17% to 19% in 2019 was vetoed. The Bank has also been a trusted partner providing extensive policy advice and modeling of pension projections. It has also supported technical assistance and institution building through multiple support projects.

Key Challenges and Recommendations

Key Challenge 1: A Formidable Fiscal Challenge as the Required State Subsidy for the Pension Insurance Scheme Is Projected to Increase From 2.8% Of GDP in 2020 to 6.8% In 2030 and 11.3% In 2050.

Projected growth in the state subsidy for pensions will crowd out other essential public expenditures. The projected growth is primarily driven by the insufficiency of contributions compared with the benefits promised, relatively low retirement ages and (55 for women, 60 for men) and extensive early retirement provisions. A growing elderly population will increase expenditures. The longer that Mongolia postpones parametric changes to its Pension Insurance Scheme, the greater will be the fiscal costs and the more difficult will be the transition to more sustainable and equitable parameters.

Recommendations:

Reforms to the benefits, contributions and eligibility criteria could stabilize the required state subsidy at about 1-2% of GDP per year. Even if the authorities were only to adopt inflation-based indexation (rather than adjustments linked to wage growth) as was done for 2020, this could stabilize the state subsidy at about 4% of GDP.

- a) **Automatic indexation** for both total and minimum benefits is needed based on the growth in the consumer price index. This would protect retirees against changes in prices, moderate fiscal costs, and provide predictable increases instead of the current ad hoc adjustments.
- b) **The wage base for calculating pensions** should gradually be increased from the current 7 years to a worker's lifetime wages and the wage base indexed or "valorized" according to the average growth in covered wages. This would improve incentives, equity between workers and reduce the tendency for some workers to increase their reported wages to maximize pension benefits.
- c) **Increase the retirement age and apply an actuarially fair penalty** for workers retiring prior to the prevailing retirement eligibility age. The retirement age should gradually increase to age 65 for men and women. Early retirement provisions for special professions should also gradually be phased out. These measures would increase the flexibility for workers to retire when they desire while at the same time applying fair adjustments to the benefit they receive.
- d) **The mandatory payroll contribution rate should be increased from 17% to 19%** once the economy has stabilized.

Key Challenge 2: Multiple Vesting Periods Create Fragmented Incentives and Gaps in Protection

There are fragmented incentives for workers to contribute toward pensions. Workers who fail to meet the 10-year partial pension vesting requirement receive a non-contributory benefit that is insufficient to protect against poverty. Workers that contribute more than 10 years but less than 20 ¼ years receive a

“partial minimum pension” regardless of the wage base for their contributions. Workers meeting the full vesting requirement receive a full pension subject to ad hoc adjustment. Under a voluntary scheme, workers receive service credit for benefits based on a lower contribution rate. Together these provisions create fragmented participation incentives.

Recommendations:

- a) A Tested Social Pension (TSP) is suggested for everyone above an eligibility age which would replace the partial minimum pension and full minimum pension while also providing a minimum benefit for those receiving either no pension insurance benefit or a low benefit.
- b) A claw back feature is suggested, whereby perhaps 50% of the TSP would be reduced for every tugrug in benefits from the pension insurance scheme. This would create an incentive to work and contribute to the scheme while removing the lumpiness of the vesting periods.

Key Challenge 3: The Notional Defined Contribution Scheme (NDC) Suffers from Multiple Weaknesses in Design and Implementation

- a) The NDC scheme has no transition between cohorts resulting in an abrupt reduction in the replacement rate for retirees born in 1979 when compared to those born before. Such a dramatic decline in benefits between cohorts is not equitable and is unlikely to be feasible.
- b) The abrupt decline in the replacement rate would increase the already high proportion of retirees entitled to the minimum pension.
- c) The NDC scheme is often confused with an FDC scheme.

Recommendations:

The NDC design should be reformed to apply to service after a particular date rather than apply to cohorts born after 1979 which would automatically smooth the replacement rates of different cohorts. Since most of the beneficial features of the NDC scheme can be achieved through the recommended reforms to the PAYG DB scheme, another alternative is to remove the NDC scheme entirely.

Key Challenge 4: A Funded Defined-Contribution Scheme Is Neither Advisable nor Feasible

There have been many proposals to establish an FDC scheme in Mongolia and this design may again be prominent as the authorities move forward to consider pension reform options. The mechanics of an FDC scheme are not well understood and there is therefore a risk that such a design is established without proper guidance as to its implications.

- a) An FDC scheme requires a long-term fiscal commitment to paying for transition costs. An FDC scheme would increase the required fiscal “transition costs” for about 30 years, depending upon the parameters chosen. When moving from an unfunded scheme to a Fully Funded scheme, the authorities have to continue paying existing pension obligations, no longer have pension contributions as a source of financing current retirees and will also need to finance the contributions of government workers. With contributions diverted to accumulate reserves, the government therefore has to increase its state subsidy to ensure that current retirees receive promised benefits.

- b) An FDC scheme will provide an individual replacement rate which is lower than under an equivalent PAYG DB scheme if the real rate of return on pension assets (after management and administrative costs) is lower than the real rate of growth of covered wages. This is important to consider because the workers' benefit could be lower and inadequate under such a design unless the real return in excess of wage growth over the long-term.
- c) Several necessary enabling conditions are needed to be in place to establish an FDC scheme which are not in place for such a scheme in Mongolia. These include sufficient macroeconomic stability and sound fiscal management; breadth and depth of buyers and sellers in financial markets for pension investments; strong regulation and supervision both of pension fund managers and of the financial markets for pension fund investments.

Recommendations: Do Not Adopt an FDC Scheme in Its Reform Design

The risks of establishing an FDC scheme substantially outweigh the benefits. The required fiscal costs are substantial while the benefits are uncertain. Many of the benefits of an FDC scheme can be achieved through the parametric reforms to the PAYG DB scheme we have recommended.

Key Challenge 5: The Social Insurance Fund has suffered from a lack of transparency and proper governance and investment management

Short-term reserves are managed by the Social Insurance General Office (SIGO). Although the reserves in the Pension Insurance Fund are small and liquidate each year, the other social insurance funds do have substantial balances. These balances are placed primarily in Bank deposits and short-term government securities. There is a Social Insurance Investment Committee that makes the investment selections and decides upon investment policies. The Social Insurance funds abide by the government's budget and auditing guidelines but have not been subject to external audit or financial disclosure. There have also been issues of Social Insurance funds invested in banks that became insolvent.

Recommendations:

A detailed assessment is suggested to be undertaken including options for strengthening reserve risk management. Guidelines are needed which set limits on investment concentration and an investment policy which sets out the basis for assessing investment options. A risk-management framework is needed for assessing and measuring risks of both liabilities and assets. Reserve management needs stronger external audit and reporting as well as separate supervision such as by the Financial Regulatory Commission (FRC).

Key Challenge 6: Mongolia lacks a legal, regulatory and tax framework for private supplemental pensions arrangements

Mongolia does not have regulated and supervised supplementary pension provisions. Yet there is considerable demand for supplementary coverage and more relaxed eligibility conditions, particularly in select professions. Some banks and insurance companies have offered unregulated pensions savings arrangements, although there has been no provision for tax treatment for the contributions or investments in such funds. A regulated supplementary pension scheme is a means of providing additional benefits for

workers which encourages investments in training and worker retention. It is also a means of accommodating workers in special professions.

Recommendations:

A White Paper for supplemental pensions is recommended, along with a process which includes wide consultation with industry participants. Careful consideration will be needed as to the legal guidelines, tax treatment, and the institutional development requirements for the Financial Regulatory Commission (FRC). A White Paper can then serve as the basis for drafting a legal framework and initiate licensing of pension providers under the rules to be established.

Summary of the Main Challenges and Policy Recommendations

Objective	Short-term Actions (next 1 year)	Medium-term Actions (next 1-4 years)
Strengthen the fiscal sustainability, equity and predictability of benefits under the Pension Insurance Scheme	<ul style="list-style-type: none"> • Legal amendments to the Social Insurance Law can set out a phased adoption of changes to benefits, contributions and qualifying conditions. • Est. of automatic indexation linked to the growth in the consumer price index. • Est of automatic indexation of minimum pensions according to the same parameters. 	<ul style="list-style-type: none"> • Gradually increase the wage base for calculating pensions from the current 7 years to a worker's lifetime wages index or "valorize" according to the average growth in covered wages. • (i) Gradually increase the retirement age to 65; (ii) adopt an actuarially fair penalty for those retiring prior to the eligibility age; and (iii) phase out early retirement provisions for special professions. • Gradually increase the combined payroll contribution rate from the current 17% to 19% once Mongolia's economy stabilizes.
Remove gaps in incentives to contribute to pension insurance and ensure minimum subsistence for retirees.	<ul style="list-style-type: none"> • Assess the options and parameters for a non-contributory Tested Social Pension (TSP) providing universal coverage for all workers over retirement age. • Assess options for replacing the minimum pension of the Pension Insurance Scheme 	<ul style="list-style-type: none"> • Est a non-contributory TSP providing universal coverage for all workers over retirement age. • Est. a pension-testing clawback feature whereby the TSP would be reduced by a portion of benefits from the pension insurance scheme. • Gradually replace the min. pension with the TSP.
Eliminate the policy confusion by removing NDC legal provisions	Reform the pensions law so that the NDC design applies to service after a particular date rather than apply to cohorts born after 1979.	
Strengthen the governance, management,	<ul style="list-style-type: none"> • Undertake a detailed assessment of options for strengthening 	<ul style="list-style-type: none"> • Enact necessary legal reforms to strengthen reserve management.

<p>accountability & transparency of Social Insurance reserve funds</p>	<p>reserve investment and risk management</p> <ul style="list-style-type: none"> • Draft legal reforms & guidelines • Draft a roadmap for supervision of reserve management. 	<ul style="list-style-type: none"> • Adopt guidelines for reserve investment and risk management. • Begin the process of supervision of bank and fixed income investment oversight.
<p>Est. of a framework for private supplemental pensions arrangements</p>	<ul style="list-style-type: none"> • Undertake an assessment of supplemental pension arrangements, outline design options and a reform roadmap. • Draft a White Paper for supplemental pensions arrangements & have wide consultation with stakeholders. • Draft an institutional development plan for the FRC to supervise private pensions. • Draft provisions for tax treatment. 	<ul style="list-style-type: none"> • Enact legislation providing a legal framework for supplemental private pensions. • Begin a process of licensing supplemental pension providers. • Begin FRC supervision and reporting of supplemental private pensions. • Apply revised tax treatment for eligible provisions.

5) IMPROVING LABOR MARKET PROGRAMS AND EMPLOYMENT OUTCOMES IN MONGOLIA

Executive Summary

Mongolia's labor market has been defined by imbalances across the economic cycle, across seasons and across space, translating into job mismatches, high unemployment, and falling labor force participation. With the current economic downturn prompted by the global pandemic, these imbalances have become particularly pressing. The longer-term objective of making human capital a new engine of growth in Mongolia may not be achieved, if the country is still allocating its human resources inefficiently. The Government of Mongolia has long aimed at improving the functioning of the labor market and the access to jobs through employment support policies such as public employment services and active labor market programs. However, these efforts have suffered from a number of design weaknesses, in particular a widespread focus on supply instead of demand. This practice note makes three key policy recommendations to improve the functioning of Mongolia's employment support policies.

- I. First, improve the effectiveness of public employment services by reforming their building blocks such as the profiling of clients, customer relationship management, and services for employers.
- II. Second, make active labor market programs more demand-driven and better align the incentives of service providers with those of beneficiaries.
- III. Third, reform the production, processing of dissemination of labor market data to provide institutional and other users with pertinent, up-to-date and granular data on labor demand and supply.

Context and recent developments

Comparatively poor labor market outcomes continue to be a major concern in Mongolia. In 2016 the labor force participation rate stood at about 61 percent as compared to an average of 67 percent for upper-middle income countries. In the same year, the labor force participation rate was 67 percent for men and 54 percent for women. In 2016, Mongolia's unemployment rate stood at 17 percent while the average for upper-middle income countries was 5 percent. During the same time period, the unemployment rate was 2 percentage points higher for men than for women. The economic fall out of the recent pandemic has worsened the prospects for gainful employment.

In Mongolia, jobs and poverty are closely linked. Between 2014 and 2016, unemployment rate increased by 4 percentage points while poverty rates increased by 8 percentage points. In 2018, poverty rates among the unemployment was 15 percentage points higher than national average. Even though wage employment accounts for two-thirds of all jobs, the poor are 7 percentage points less likely to have access to wage income. Even then, the poor are more likely to be involved in low-skilled wage jobs. Access to wage jobs differs between urban and rural areas; 73 percent of urban households received wage income in 2018, compared to 44 percent in rural areas. Entrepreneurship opportunities are low with only 13 percent of households receiving any income from household business. The mining sector, which has led the export-oriented growth in Mongolia, has failed to create large numbers of jobs. Only 6 percent of all jobs in 2018 were in the mining sector, an increase compared to the past years.

Ultimately, many of Mongolia’s labor market challenges are of structural nature and can only really be solved by a vibrant and growing private sector that creates a sufficient number of decent quality jobs.

At the same time, labor market policies and programs also have a role to play in promoting employment, improving utilization of human capital, in reducing structural and frictional unemployment and in addressing some of the specific challenges select groups face. The labor market policies have to become more effective in overcoming the consequences of job losses triggered by economic shocks.

In recent years, the Government of Mongolia has recognized and emphasized this role. Vision 2050 formulated a target to ensure that everyone has a job and earns an income by moving towards a balanced labor market and a knowledge economy. Mongolia’s Comprehensive National Development Strategy 2008–2021 stresses the formulation and implementation of policies and programs to support the employment of various population groups including vulnerable social groups as a strategic objective and explicitly mentions the need for ensuring policy actions to provide support for employment and entrepreneurship. During the COVID-19 crisis the government prioritized the support to employment (via temporary exemption of social insurance contributions) and promotion of self-employment (through subsidized credits) to mitigate the negative impacts on welfare. As economy moves towards recovery, it will be essential to dramatically increase the efficiency of public employment policies and programs and avoid build-up of structural unemployment.

Key Challenges and Recommendations

Key Challenge 1:

Public employment services (PES) can play a crucial role in facilitating the matching of labor demand and supply, in particular for groups with scant access to labor market information. Mongolia has a comprehensive network of labor departments. However, in their current manifestation, Mongolia’s public employment services are not an effective mechanism for addressing job search constraints. Only a relatively small share of unemployed job seekers find work through PES as both employers and employees do not feel they are catered properly by their services. Similarly, lack of coordination across various implementing bodies has often led to poor implementation of labor and employment policies. For instance, Municipal Employment Department, which provides employment services in the capital city has no reporting lines to MLSP. Similarly, limited communication between various departments within the same ministry prevents efficient information sharing. Vision 2050 attaches high priority to building PES capacity to identify “the most promising labor market demands and future development trends”.

Recommendation:

An ongoing functional review of public employment system under the MLSP outlines the following recommendations based on international best practices and the country context:

- a) **Incorporate client-centric approach to PES service provision.** Such an approach reinforces the individualization of support provided to the jobseekers and employers. For jobseekers, this can be achieved through close communication between jobseekers and caseworkers. Caseworkers will deliver personalized services through jobseeker profiling, individual action plan (IAP), and continuous follow-up with the jobseekers. For employers, this will facilitate interactions between caseworkers and prospective employers so that employers can get a better sense of the labor market and the services offered by the PES offices.

- b) Reform the institutional arrangement** to implement employment programs and policies in a cohesive and coordinated manner. This would include better-defined roles and responsibilities for various stakeholders and proper coordination mechanisms between various entities within and outside MLSP.

Key Challenge 2:

In 2018, the Government of Mongolia spent MNT 49.8 billion on active labor market programs. However, the programs that are currently implemented suffer from a number of design weaknesses. In particular, most active labor market programs are almost exclusively supply-driven and neglect labor demand. Other design weaknesses include unsustainable financing arrangements, frequent changes in program design, shortcomings in program implementation on the ground and inadequate monitoring and evaluation arrangements. They do not provide sufficient support to build vibrant micro-enterprise sector and startups that would create jobs. As a consequence, active labor market programs are usually not able to effectively address the constraints that prevent youth, rural-to-urban migrants, and other poor and vulnerable groups from accessing decent quality jobs.

Recommendation:

Mongolia would benefit from more relevant and demand-oriented active labor market programs, including short-term trainings or support for micro-entrepreneurs. Active labor market programs that are both adequate to the local context and the needs of specific groups such as youth or women have proven their effectiveness in rigorous impact evaluations. In particular, a substantial body of evidence shows that the most effective training programs are those that are demand-driven, closely involve potential employers at every stage of training, and include opportunities for training beneficiaries to learn on the job. It is also recommended to revise contractual relationships with training providers to emphasize provider performance and to make sure that the interests of training providers and beneficiaries are aligned. Such initiative should be piloted in a small scale before a scaleup. Moreover, in Mongolia's current situation where labor supply is outpacing labor demand, renewed efforts to support micro-entrepreneurship would be expected to be effective. However, the available evidence indicates that financing alone is not enough to ensure the success of a new business. Instead, combining access to financing with business development services and trainings has proved to be more successful. This approach is therefore recommended.

Key Challenge 3:

While the basic infrastructure to provide various users with information related to the labor market is in place and Mongolia has an integrated administrative database that contains records of job vacancies, registered job seekers and beneficiaries of active labor market programs and serves as the country's labor market information system, the actual quality of the information in the database and its processing and presentation are deficient. In particular, it is questionable if the information that is provided is actually in line with what is demanded by users. As a consequence, few users see the information that is offered as an effective instrument to address search constraints resulting from asymmetric information on the labor market.

Recommendation:

To improve the matching of demand and supply on Mongolia's labor market, the collection of a more complete picture of job vacancies would be most helpful. This could be done through public-private partnerships between the Ministry of Labor and online job portals or newspapers where the majority of private sector vacancies that are not filled through informal channels are listed. Besides, efforts that aim to paint a more comprehensive picture of labor demand and supply in Mongolia should be strengthened. For instance, a regular survey of labor demand exists, but its scale is small, and it suffers from methodological weaknesses. Also, it is recommended to strengthen the processing and dissemination of data collected through Mongolia's labor market information system. In terms of data processing, the capacity of the National Center for Employment Service, Research and Information needs to be strengthened. Improvements with regard to outreach and dissemination of information are also needed. Concerning job seekers, such efforts could include the development of cellphone- or smartphone-based communication channels. Finally, both individual and institutional users would benefit from the publication and dissemination of more pertinent, up-to-date and granular information on the labor market.

- a) **Develop a new labor market information system (LMIS).** The LMIS platform has reached the end of its lifecycle and the needs to be updated. The new and revised LMIS should not only facilitate the recording of actions related to all labor market actors, but also, among others, provide the means for the streamlining of the PES business processes through the provision of automations for time consuming tasks. It should also become a supportive tool facilitating the daily tasks of LSWO specialists, freeing up their time and enabling them to provide more qualitative services to the unemployed and the employers. Finally, it should lead to a more efficient case management through realizing a client-centered approach: all the information, services, and tools should be designed and developed having the jobseeker as a starting point.
- b) **Systematically use data to inform decision-making at all levels.** Various sources of labor market data exists which are generated from within the MLSP or outside (NSO). But such data is not being used systematically and to its full extent. The goal of collecting data should go beyond written reports, and should be used to take decisions, improve processes and programs, as well as to monitor and evaluate current services and programs.

Objective	Short-term Actions (next 1 year)	Medium-term Actions (next 1-4 years)
Compensate for a lack of specific labor demand.	<ul style="list-style-type: none"> • Monitor the employment impacts of post-COVID-19 crisis and recovery • Promote micro-entrepreneurship and self-employment. • Start Job diagnostics to identify the main barriers for job creation in Mongolia and actions to alleviate them. 	<ul style="list-style-type: none"> • Widely discuss Job Diagnostics and develop plans for policy actions to address the barriers. • Create favorable conditions for a vibrant and growing private sector. • Significantly change skills development and training programs making them more demand-driven.

<p>Mitigate job search constraints related to asymmetric information.</p>	<ul style="list-style-type: none"> • Establish client-centric public employment services. • Develop new labor market information system 	<ul style="list-style-type: none"> • Systematic use of data to inform decision making at all levels • Reform institutional and implementation arrangements to implement employment programs and policies in effective and coordinated manner.
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