

The social assistance system in Mongolia: An unfinished agenda

UB, November 4, 2007

**Arshad Sayed
World Bank**



Background:

- I Types of Public Safety Nets Programs
 - Cash Transfers
 - In-kind transfers
 - Price and tax subsidies
 - Food and nutrition interventions
 - Fee waivers



Background: What are Cash transfers?

- | Help individuals and families cope with the consequences of economic and other shocks and to provide support to the poor
- | Are a part of a social protection system, distinct from social insurance and other social assistance
- | Poverty reduction through redistribution and risk mitigation
- | Beneficiaries can be targeted to include:
 - Poor, women and children, working poor including informal sector, disabled, elderly poor, other vulnerable groups



Cash Transfers as elements of social policy

CCs are only one element of social policy

- I There are **substitutes** in each category of target population and instrument . For example, a CCT with a condition on school attendance can be replaced by a cash transfer and subsidized public education.
- I Hence, CCT programs are not the “silver bullets” of social policy. They are only one instrument among others.

CCs acting on the demand-side of social policy require, to be effective, complementary interventions on the supply-side

- I To deliver the services to which the condition applies, especially pre-school, school, and health services.
- I Hence, **careful balance** needs to be maintained in investing on the supply and the demand sides of social assistance to equalize marginal returns on expenditures.



Cash transfers as elements of social policy

(3) CC's help build the assets of the children of the poor.

- I **Complementary** social policy interventions are also necessary to help them derive higher autonomous incomes from their assets, especially improving labor market conditions and investment opportunities for them.

(4) CC's have multiple objectives

- I Income, price, insurance, and empowerment. There will consequently generally exist **trade-offs** in outcomes according to the way programs are designed, i.e., targeting, calibration of transfers, conditionality, enforcement, and implementation.



How can cash transfer programs be more cost effective as transfer instruments?

- I Qualification rule: conditionality
- I Quality of targeting: errors of inclusion and exclusion
- I Calibration rule: size of transfers in relation to depth of poverty



Social assistance: Key milestones

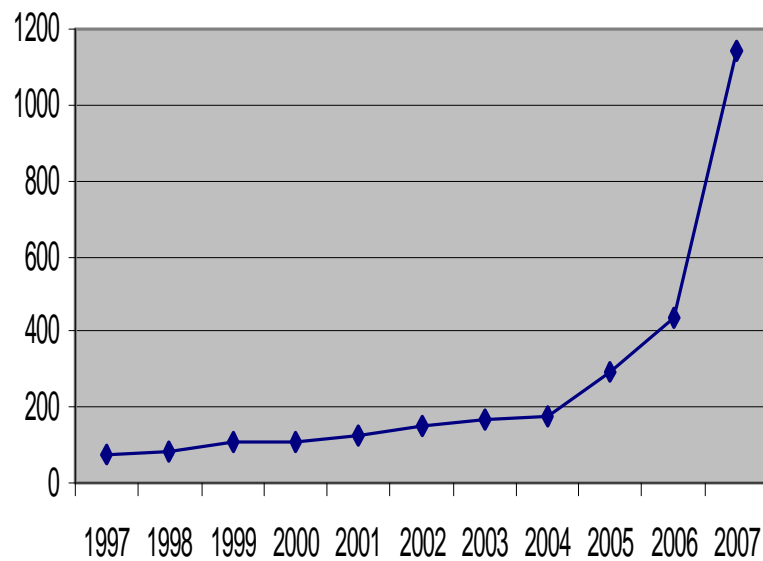
- I The emergence of a social assistance system in the transition
 - to address the needs of people who lost their traditional safety net—jobs and pensions—and were not covered by social insurance.
- I The 2003 Social Security Master Plan (SSMP)
 - Consolidate and rationalize the system and improve cost-efficiency (mainly through improved targeting)
- I Introduction of the Child Money Program (CMP) in January 2005
 - Benefit conditional on “positive” behaviors (mainly mandatory vaccinations and school enrollment)
 - Poor households are identified through an objective proxy-means test
 - Objectives not clearly specified but mimics successful CCT elsewhere
- I Amendments to the social welfare law in July 2006
 - Universalization of the CMP to all families with children
 - Consolidation of child related benefits into a single CCT (20,000 MNT per child per month)
 - Introduction of large one time allowances for newly weds (500,000 MNT) and newborns (100,000 MNT)
- I Large increase in the benefit rate of CMP in January 2007
 - from 36,000 MNT a year (3,000 MNT per month) to 136,000 MNT



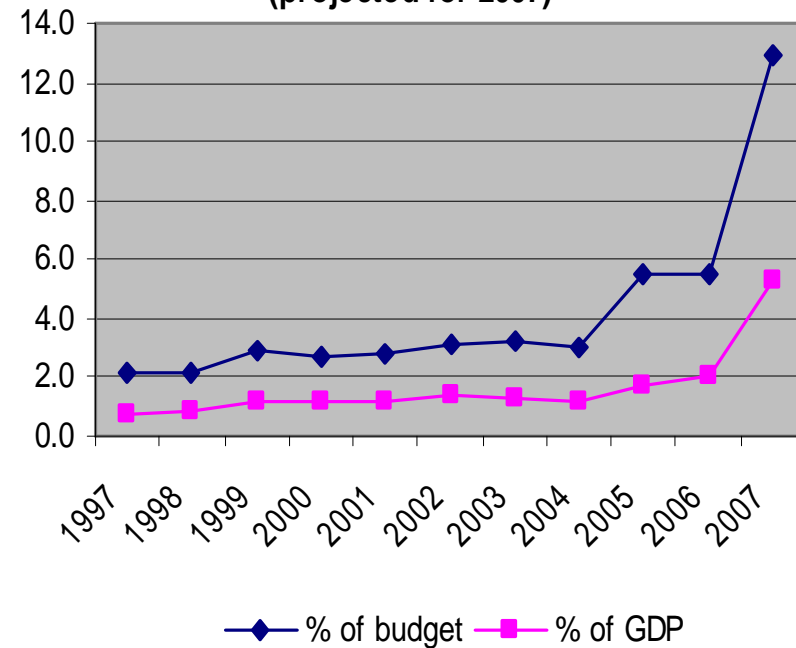
Social assistance: Trends

A dramatic increase in social assistance, particularly since 2005

(real index of social assistance 1997=100; projected for 2007)



...which has translated into large shares of social assistance in the budget and GDP (projected for 2007)

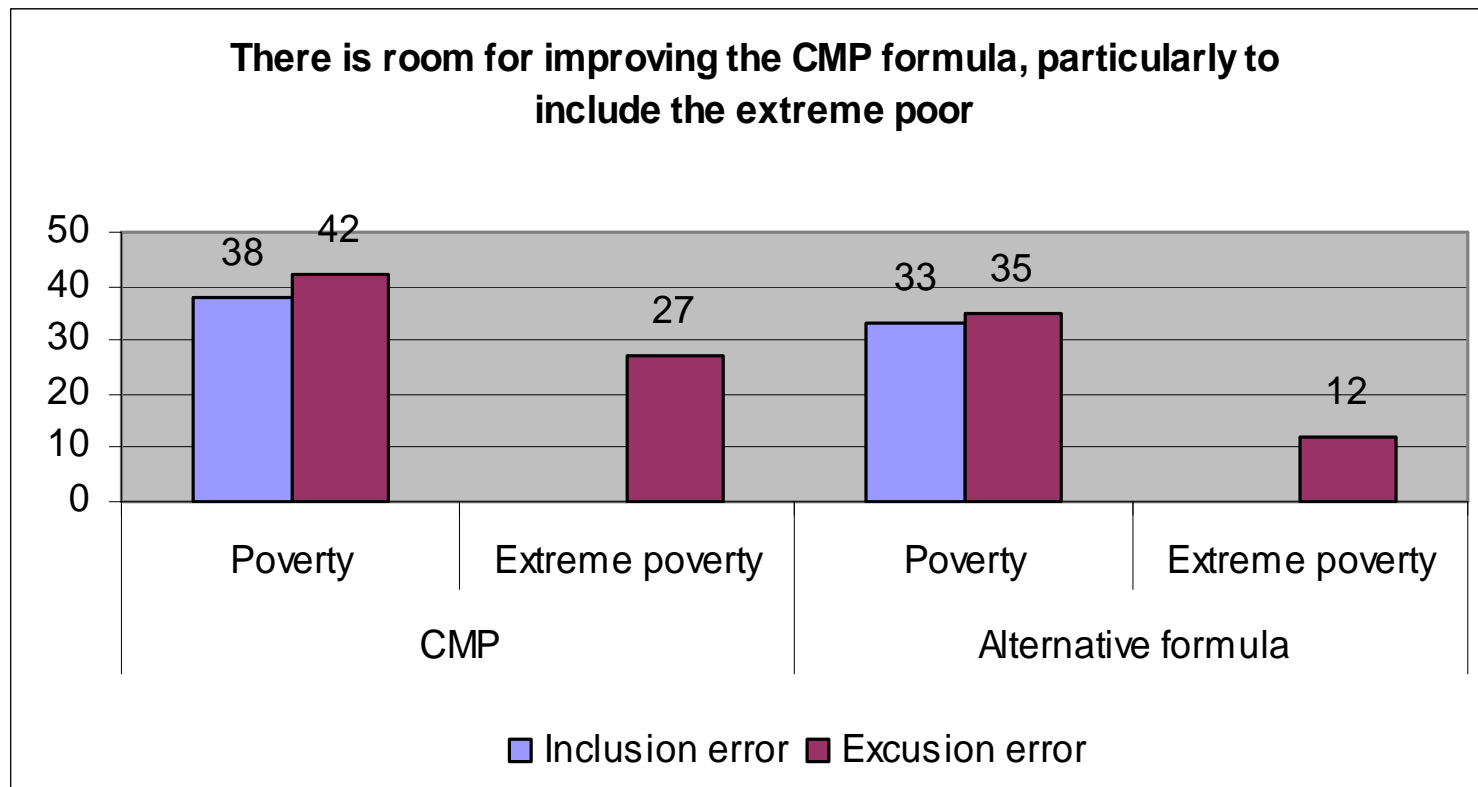


The targeted CMP era—a good start with great potential

- | Its basic design brought important innovations to the system (conditionality and objective poverty-targeting)
- | But it was introduced with little preparation, resulting in some design and implementation problems.
- | It became the largest social assistance program—67% of beneficiaries and 40% of the budget (2005)
- | Ex-ante analysis of the design of CMP
 - There is room for reducing the inclusion and exclusion error (particularly the extreme poor) of the CMP proxy means test
 - The size of the benefit compares well to the direct costs of education but it is only one eighth of the poverty line
 - Recommendation: refine proxy means test, focus on the extreme poor and increase the size of benefits



Ex-ante analysis of CMP targeting



Assessment of the targeted CMP: Intermediate outcomes

I Basics

- 68% of families with children were benefiting from the program; 29% of all children in the country
- 44% of welfare payments to households (62% among beneficiaries) and 8% of beneficiary household income

I Was conditionality followed?

- None of the beneficiaries was over 18 years of age
- None of the 7-18 beneficiaries were engaged in work
- But all children except one who have dropped out of school continue receiving benefits—6.7% of beneficiaries are out of school

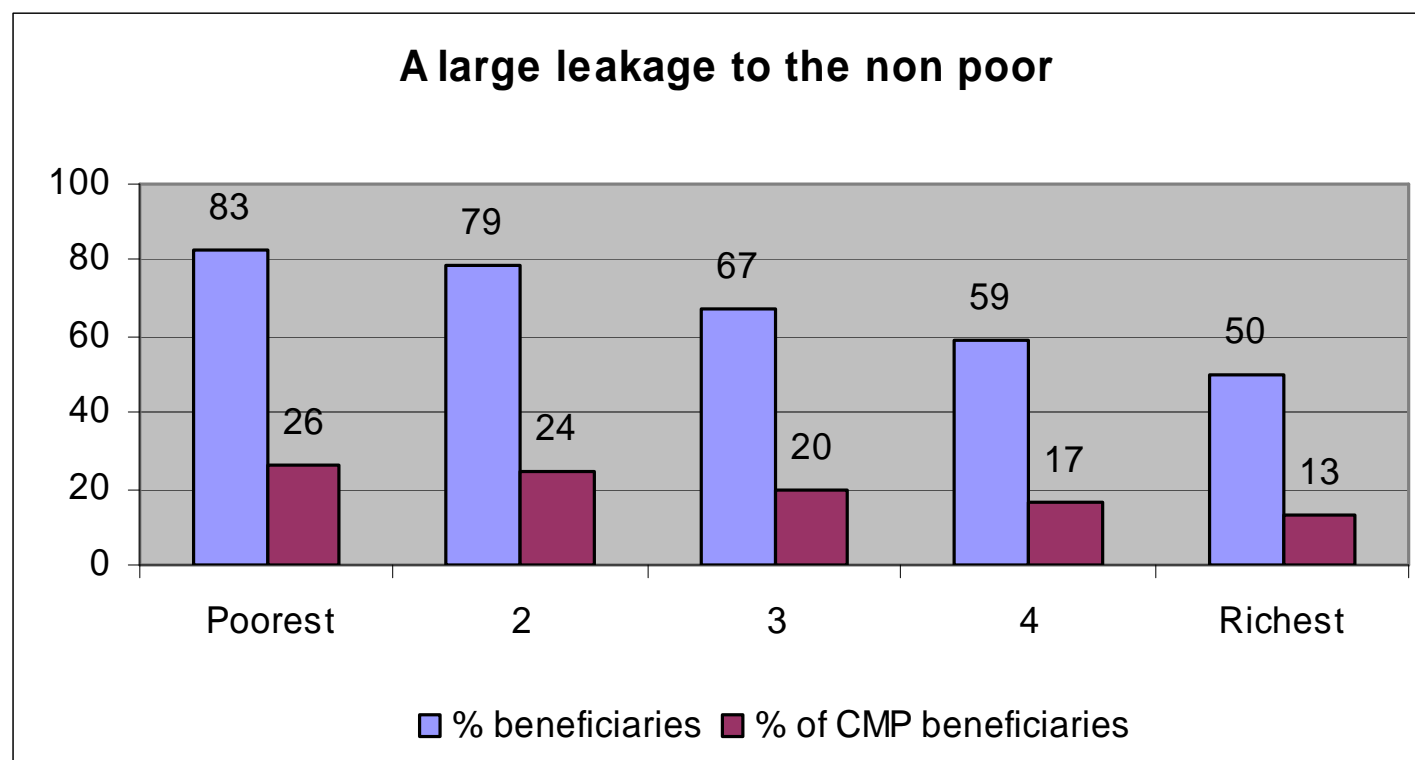


Assessment of the targeted CMP: Intermediate outcomes

- I *De jure* targeting: was the proxy means test followed?
 - A straight application of the proxy means test yields a 70% of inclusion error and a 14% exclusion error
 - About 47 of families in the richest 2 proxy means quintiles received benefits while 16% of those in the poorest 2 quintiles were excluded
 - So, many non-eligible households received benefits
- I Benefit incidence: Did it reach the poor, and the poor only?
 - Using the MSL as the poverty line, 19% of the poor were excluded and 61% of the non-poor were included
 - About 19% of the households in the poorest 2 quintiles were excluded while 55% of those in the richest 2 quintiles received benefits
 - The poorest 2 quintiles only account for 50% of beneficiaries
 - So most non-poor households received benefits



Assessment of the targeted CMP: Intermediate outcomes

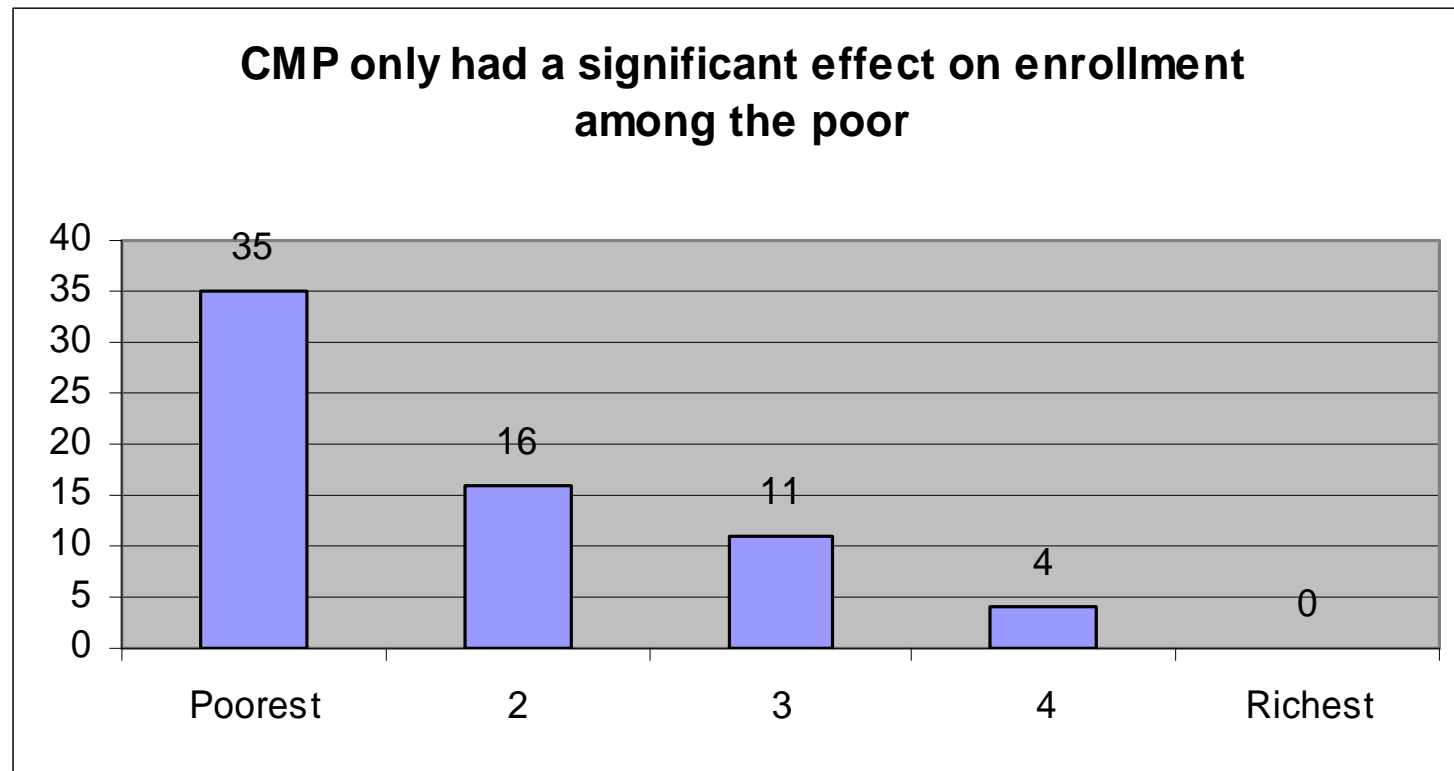


Cost-effectiveness of the targeted CMP

- I The 'impact' of CMP on poverty is small (UNICEF 2007)
 - It reduces the poverty rate and the extreme poverty rate by 4 and 1.6 percentage points respectively
- I The impact on school enrollment is large in high school AND only among the poor
 - High school is the only level where there is room for improvement
 - CMP is associated with a 16 percentage point increase in the probability of being enrolled among 16-18 year olds who have completed lower secondary
 - Large impact among the poor (35 percentage points among the poorest) but it is insignificant among the non poor
 - Since the enrollment conditionality was not enforced most of the impact is likely to come from the income effect, indicating the importance of affordability in explaining school enrollment
- I So the CMP had a large impact on enrollment but at a very high cost in terms of efficiency



Cost-effectiveness of the targeted CMP



The universal CMP era

- I A clear trend in social assistance to grant generous universal and unconditional benefits
 - The CMP was made universal for all families with children in July 2006 and the benefit increased to 136,000 MNT in Jan 2007
 - This also coincided with the introduction of other large universal benefits, facilitated by large revenues from mining and politics
 - CMP now covers 89% of households is predicted to account for 79 of welfare payments to an average family and 16 of family income

CMP accounts for a large share of govt. expenditure

	2006	2007*
% social assistance	45.5	80.5
% of govt expenditure	3.3	8.5
% of GDP	1.1	3.5

* predicted



The universal CMP era: A positive trend?

- I What do we know about the targeted CMP?
 - Overall: The targeted CMP had positive effects but design and, particularly, implementation problems reduced potential benefits and increased efficiency costs
 - Targeting formula was not followed resulting in most non poor households getting benefits
 - The CMP is no longer targeted, nor conditional, but just a cash transfers to families
 - Large effect on enrollment among the poor, but no effect among the non poor



The universal CMP era: A positive trend?

- I Do the changes introduced after July 2006 address any of the above problems?
 - The increase in benefits may lead to larger effects on enrollment among the poor and larger reductions in poverty (UNICEF 2007)
 - But it does so at a large cost because it has not impact on the non poor for whom CMP is basically a consumption subsidy
 - And the current benefit rate may have created work disincentives—CMP is predicted to account for 30% of consumption expenditures among the poorest families
 - The current program is fiscally unsustainable given the large exposure to fluctuations in metal prices
 - And while there is a political cost of cutting ‘down on’ an entitlement, it is politically riskier to do nothing about it



A suggested way forward

- | Go back to the principles on which it was originally designed: poverty-targeted and conditional on human capital investments
- | Refine the targeting formula and focus on the very poor—gradual implementation
- | Strengthen implementation of the targeting formula
 - Training of social welfare workers and resources
 - They should be accountable and requested to keep all the records
 - Complaint mechanism should be available to households
- | Analysis of what to condition on + system for monitoring and enforcing these conditions
- | Do an assessment of the benefit rate that would maximize the impact on schooling and poverty while being fiscally sustainable



A suggested way forward

- I Monitor conditionality
 - E.g. at the time benefits are collected, households should present written evidence from the child's teacher that he or she is enrolled (or from the doctor or nurse in the case of immunizations)
- I Use a "direct-deposit" system in order to avoid double-payments and corruption
- I Build a monitoring system (including a beneficiary database) for CMP and other social assistance programs to monitor eligibility and avoid redundancies
- I Use LSMS to evaluate impact of the program
- I But CCT are not panaceas—They must operate as part of a well functioning and coherent system of social programs and policies

