Mongolia’s Child Money Program

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Introduction

The charismatic founder of Mongolia's Civil Will Party and vice-speaker of the Parliament, Sanjaasuren Oyun (“Oyun”), must decide where she stands on the future of Mongolia’s largest social welfare initiative, the Child Money Program (“CMP”). The CMP is a conditional cash transfer program that essentially distributes government mining profits to impoverished families with children. The stated original goals of the project are to reduce poverty, increase education, and redistribute mining revenues to Mongolian families living below the poverty line. The CMP has been in existence for approximately 18 months, and has distributed large amounts of cash to communities throughout Mongolia. In 2006, Oyun is under pressure to increase the size and scope of the CMP.

As a key actor in the creation of this influential program, Oyun now must decide whether to support the expansion proposal and deliver more money to families with children, but at the risk of abandoning the poverty reduction goal of the original program. To support an increased second phase of the CMP would (1) drastically increase the number of beneficiaries by essentially removing the "conditional" part of the conditional cash transfer program and (2) increase the monthly payments to beneficiaries.

Mongolia and the Rise of Sanjaasuren Oyun

The international press coined the phrase Minegolia in the early 2000s to describe Mongolia's booming economy and massive natural resource extraction industry. The Mongolian landscape consists primarily of plains that sweep across a vast expanse of 1.54 million square kilometers. This makes it the world's 19th largest country; however, with a small population of
only 2.7 million, it is the most sparsely populated in the world. Landlocked between Russia and China, Mongolia must balance the interests of these larger powers to survive. Before garnering the *Minegolia* appellation, the country was known to a large part of the world as the birthplace of Genghis Khan. However, the international community has begun to pay more attention to Mongolia as major mining projects drawing from newly discovered natural resource deposits, including coal, copper, and gold, have begun to connect the country to the global economy. These new resources have increased government revenues and encouraged political parties to create a large social welfare conditional cash transfer program known as the Child Money Program (“CMP”). This program began in 2005.

Oyun is one of the most well-known politicians in Mongolia, and her decision will have significant impact on the future of the CMP. Oyun was instrumental in the design of the program's cash transfer voucher system. Due to her unique background as a geologist and activist, she is seen as one of the program's champions. As Oyun enters the Parliament building in Ulaanbaatar, named the *Ikh Khoroo*, and passes the seated statue of Genghis Khan, she carefully weighs the increased benefits to a larger group of recipients with the added cost to the government. Despite the booming economy, Oyun also wonders whether an expanded program would move it away from the core goal of poverty alleviation and instead make the proposed CMP more of a universal government handout. In the morning before crucial meetings to decide the outcome of the program, Oyun knows that legislators are trying to balance political realities, budgetary considerations, and outside opinions with the goal of reducing poverty.

Oyun entered politics after her brother, Zorig, one of the most popular Mongolian politicians and a democratic activist, was murdered in 1998. His murder, which remains unsolved, shook the foundations of Mongolia's early democracy and prompted Oyun to return to Mongolia from the U.K. where she had been living. She is an active and intense individual who is part of an early generation of Mongolians who sought education in the West. Fluent in Czech, English, Russian, and Mongolian, Oyun acquired substantial international experience, including during her doctoral studies at Cambridge and employment with the international mining conglomerate, Rio Tinto.
Upon her return to Mongolia 1998, Oyun took up her brother's democratic mantle and was elected to Parliament. Two years later, in 2000, Oyun founded the Civil Will political party, and in 2006, remains its chair. The Civil Will party emphasizes democratic values and progressive reforms, but doesn’t yet have widespread public support.

**The Child Money Program**

In the early 2000s, the Mongolian government began to receive increased revenues from early exploratory mining projects, a welcome change from past years of economic stagnation. The increased revenues prompted the government to explore options to redistribute the earnings to a broad constituent base and avoid the resource curse that has afflicted other developing countries. In 2003, the government first drafted the Social Security Sector Master Plan, which announced the government’s interest in conditional social development programs and constitutes a framework for creation of the CMP conditional cash transfer in 2005.

The CMP is still regarded as the flagship program of the new coalition government. Funded by, and inextricably connected to mining and resource export profits, the CMP has given regular cash allowances to families with children to help reduce poverty and improve quality of life. The CMP’s original stated objectives included improving education, health, nutrition, and boosting household income among disadvantaged populations. The Parliament reasoned that by distributing CMP funds to poor Mongolian citizens they would improve living standards and also win votes for the in the upcoming elections. The CMP began as a campaign promise in 2004, but its implementation became essential to promote the coalition government's legitimacy.

As with all government programs, the CMP’s backers included stakeholders pursuing at least three disparate goals. First, the two major political parties, the Democratic Party (“DP”) and the Mongolian People's Revolutionary Party (“MPRP”), each hoped to win votes from rural constituents for the upcoming 2004 parliamentary election. Second, members of the international development community along with some administrators in the Ministry of Social Welfare and Development primarily saw the cash transfer program as a way to reduce poverty and improve general living conditions for families with children. Lastly, for some members of the military, foreign policy, and security establishments, the CMP represented a pro-natalist policy that would increase Mongolia’s population growth and eventually bolster national security. These security
individuals feared that without a rapid increase in Mongolia’s population, the country could not adequately protect its borders from the larger Chinese and Russian communities.

**Mongolia’s Economy**

To understand the CMP and the decision facing Oyun, it is important to explore the economic conditions that gave rise to the program. For thousands of years, Mongolia’s population consisted of nomadic herders who roamed Central Asia’s arid steppe; only in the last 200 years has anything resembling a stationary city been constructed. The lives of approximately 30 percent of Mongolians don’t differ greatly from the lives of their ancestors. Animal husbandry is still the prominent way of life in most rural communities with the addition of solar-powered cell phones as the only anachronistic clue to the 21st century. These herders live in small, round felt tents called *gers* (known by the Russian term, *yurt*, in most of the world). In modern times, a herder with over 100 animals is considered well off, while having fewer animals is considered a risk due to the harsh winters. While Mongolia was traditionally largely a subsistence economy based on nomadic animal husbandry, the fabric of Mongolian society first shifted toward mining and manufacturing during Soviet proxy leadership in the mid-20th century. By the 1990s, international mining corporations began exploring large natural resource deposits in the Gobi Desert. Discoveries of coal, gold, copper, and rare earths have led to the rapid construction of desert mining towns and intense negotiations between international mining companies and the Mongolian government.

Also during the 1990s, Mongolia transitioned politically and economically from a communist, single party, centrally planned system to a free-market, multiparty parliamentary system. Although Mongolia was not a member of the Soviet Union, the country was essentially a vassal state to the USSR. Mongolia was a socialist state known formally as the Mongolian People's Republic guided by the Mongolian Politburo. During this time, Mongolia's formal economy was completely dominated by state-owned industries while bartering nomadic herders comprised the majority of the country's informal sector. When the Soviet Union disintegrated, Mongolia was forced into a period of transition along with the Eastern European states. In Mongolia that transition was relatively peaceful and the first free elections were held in 1990.
Political change was accompanied by a reformation of the government's role in the economy. Transitional economies generally can choose to rapidly transition to a market economy using shock therapy techniques or decide to more gradually adopt market approaches. Mongolia moved quickly to liberalize trade, privatize state owned enterprises, and establish a national stock exchange. Similar to the shock therapy methods used in Eastern Europe, these liberalization techniques eventually resulted in high levels of inequality as state-owned enterprises fell into the hands of a select few connected individuals. The state also privatized vast animal herds that were far more equitably distributed to a broad number of citizens. This caused an unusual urban-to-rural migration pattern in the early 1990s as state manufacturing capacity declined.

The transition to a market economy and a democratic form of government had immense impacts on every facet of Mongolian life. The CMP, introduced 13 years after this transition, was indelibly influenced by the new political and economic order. First, the abrupt collapse of the Mongolian state social safety net left those living in rural areas with less access to the benefits of privatization. No longer entitled to free healthcare, housing and employment, many people looked to the government to provide replacements for these services. Economically, the dissolution of the USSR meant that the fledgling economy lacked financial oversight and direction. In the past, Soviet economists had assisted Mongolia with planning, subsidized the social spending costs, and covered budget deficits. Without the USSR, Mongolia's economy practically collapsed. In 1992, inflation reached 325 percent while oil and equipment shortages meant that industry and mining ground to a halt. Additionally, there were no clear export markets for Mongolia's meager products without connections to the USSR. With a smaller budget, the government necessarily reduced spending on health, education, and social services. Furthermore, birth rates dropped dramatically following privatization due to the low incomes and the higher costs associated with private healthcare treatment.

From 2000 to 2002, Mongolia's economy was relatively stagnant at growth rates averaging 2.9 percent. It had recovered slightly from the nadir in the early 1990s, but compared to other developing economies during the same time period (i.e. Kazakhstan's average 11.03 percent growth), Mongolia was falling behind. The resource extraction industry had yet to begin major production and the development community described the economy as one dominated by
copper and cashmere. One major reason behind this anemic growth came from a very unusual pattern of intense Mongolian winters or dzuds. The three winters from 2000-2002 were extraordinarily cold, and 11 million animals perished due to harsh weather. During this time, World Bank estimates placed poverty rates above 30 percent.

The Present Economy

Mongolia's economy has begun to grow, and by 2006 the outlook is very optimistic. Driving this growth has been a booming mining sector that draws Mongolia’s key deposits in coking-coal, copper, uranium, and gold with an estimated combined value of more than USD 1.2 trillion. With these new-found revenues, Mongolia's real GDP has skyrocketed, and the country has become one of the fastest growing economies in the world. In 2004, real GDP growth peaked at over 10 percent and GDP per capita also jumped from ~ USD 500 in 2002 to USD 720 in 2004. Please see Appendix A for a graph of GDP per capita income and real GDP growth rates.

Despite this surge in resource extraction revenues, a large portion of Mongolia's economy has remained unchanged, with 36.5 percent of all employment and 21.5 percent of GDP still related to herding, agriculture, and other pastoral activities. Additionally, these changes haven't affected the import/export patterns of a country that has depends on the Chinese economy and its ports to move the majority of its production. In 2005, ~92 percent of all exports go through Mongolia's southern neighbor, China, with only 2 percent moving to Russia.

This growth not only affected private sector industries, but also generated additional tax revenues for the government. Throughout the 1990s and early 2000s, Mongolia's had a fiscal deficit that was largely attributable to a legacy of unfulfilled pension obligations from the socialist era. Due primarily to additional mining receipts, Mongolia's fiscal balance had moved from a deficit of -5.2 percent in 2002 to a surplus of 3.3 percent in 2006. As the revenues increased and government coffers swelled, there was a tendency to increase spending on social welfare through a variety of programs, including the CMP. Please see Appendix B for more information on Mongolia's fiscal balance.

In 2005, the International Monetary Fund (IMF) and World Bank (WB) jointly produced an analysis of Mongolia's debt sustainability and the durability of its government spending. This
report raised concerns about the size of the CMP due to Mongolia's already rigid public expenditures and its over-reliance on natural resource extraction revenues. The IMF-WB report advised the Mongolian government to avoid fast increases in un-targeted social welfare projects without accompanying increases in state revenues. See Appendix C for a breakdown of Mongolia’s government expenditures.

**History of Social Welfare in Mongolia**

For most of the 20th century, Mongolian citizens had access to healthcare, employment, pensions, and housing provided through the government and the Mongolian People's Party. These benefits were organized and directed by Communist Party authorities in Moscow before being passed down to Ulaanbaatar. The Mongolian brand of state socialism created a welfare state that guaranteed universal access to employment through the ubiquitous Mongolian Trade Union organization. Beginning in 1990, the new administration cut most of the social welfare programs associated with former state-run economic era. In the accompanying shock privatization, many benefits, including state-managed housing, hospitals, and jobs evaporated as the country pushed through significant economic and political reforms.

During the socialist era, the government’s pro-natalist policies encouraged the creation of large families by awarding cash benefits for additional children, granting medals to mothers who exceeded the average number of children (4) and celebrated the largest families in the national media. Older Mongolians still remember these programs which had broad popular support, and the CMP is considered by some to be a modern successor to these socialist policies.

In addition, Mongolia’s economic dependence on animal husbandry prompted the state during socialist periods to help recover animals after especially cold winters. Mongolia can get so cold that animal populations are literally decimated, which can cause a family to fall from rich to being poor over the course of a season. The Soviets had helped to implement a system of community insurance and care facilities in the countryside known as *negdels*, which collectivized risk and pooled best practices for rural herders. They also included state-funded veterinary services to county seats. However, following the democratic transition, the *negdels* were dismantled, and herders were left without any formal option to diversify risk or purchase insurance.
**Political Considerations**

As with economics, understanding Mongolia’s political landscape is crucial to the creation and evolution of the CMP. It is important to see the CMP's place in the larger narrative of Mongolia's electoral political system. Reports from international development organizations and anecdotal interviews indicate that the CMP's origin lay in a system of patronage and vote buying. Both parties have admitted that the CMP was both an effort to reduce poverty and support families and also a means to influence voter decisions in the 2004 parliamentary election and the upcoming 2008 election.

Mongolia’s democratic stability is considered surprising because as the communist one-party system ended, in the early 1990s, the country lacked most of the conditions commonly identified with successful long-term democratic transitions. There was no long history of dissident behavior, and the economy was dominated by a small middle class and state-owned enterprises. Despite these potential obstacles, Mongolia was able to build a sustainable democracy led by by a 76-member unicameral legislature. The Mongolian parliamentary elections, held on a four-year cycle, have been hotly contested affairs pitting two major parties, the MPRP (a modern incarnation of the communist party that controlled the country for much of the 20th century) and the DP (the party that fought for change and democratic elections in 1990 after the dissolution of the USSR), against one another for control over the country’s legislature.

In 2000, Oyun’s election as vice-speaker of Parliament was partly due to the alliance of her small Civil Will Party with another minority party, the Green Party, and their proposal to expand social welfare programs. Proposals to create large-scale social welfare programs have been a common feature of Mongolian elections and a way to draw votes. In essence, the CMP was a campaign promise that evolved into one of the country's largest social programs.

**Creation of the CMP and Its Impact on Elections**

The urban-centric DP was crushed in the 2000 parliamentary elections, dropping from 50 seats in 1996 to just one seat in 2000. The loss prompted the party to search for a new direction
and message. The DP decided to move into countryside areas and expand its focus to providing services to these more vulnerable populations. According to the head of the World Bank in Mongolia at the time, the DP launched this initiative before the mining boom and during a difficult time of low growth and high poverty. Following its significant defeat in 2000, the DP, along with Oyun’s Civil Will Party, designed the first version of the CMP as a means to (1) reduce poverty and (2) win support among rural families with many children. The CMP became the DP’s major campaign promise in 2003, with the party giving actual cash transfer voucher books to rural families. Although some families believed the books meant cash payments were forthcoming, the vouchers could not be redeemed until after the election and only if the DP prevailed.

After seeing the reaction to the DP’s CMP campaign promises among rural voters, the rival MPRP formulated their own cash transfer program but promised higher cash payouts. The original DP CMP proposal released in 2003 included a MNT 10,000 monthly allowance per child. The MPRP promised a one-time cash transfer for newborn babies and newly married couples of MNT 100,000 and MNT 500,000, respectively. These proposals became hot button political issues in the run-up to 2004 elections. The MPRP advertised its version of the program as a means of reducing income disparities, decreasing poverty, supporting young families, and improving relationships between parents and children.

When the CMP program debuted in 2005, fiscal and political constraints meant that benefits did not match the campaign promises. Note that details of this original MPRP CMP proposal were reused in 2006 as MPs considered expanding the program.

Political considerations aside, creation of the CMP was also an attempt to avoid the resource curse that has afflicted other resource-rich developing countries, according to interviews with CMP administrators. The resource curse manifests itself when a country begins to center its economy almost exclusively around its high-profit mineral exports. The resulting increase in national revenues tends to overvalue the currency, making the country’s exports less competitive. Eventually, this can make a country wholly dependent on fickle commodity prices.

To mitigate or minimize the effects of the large-scale resource exports, the Mongolian
Parliament and MSW began examining different models for the distribution of mineral revenues. Economists reportedly looked at Alaska’s Permanent Fund, Norway’s sovereign wealth fund, Chile’s copper distribution plan, and Canada’s system among others. By saving the revenues in a national account and slowly distributing portions to families under the poverty line, the Mongolian government hoped to slow the appreciation of the real exchange rate. This form of sterilization (a way to soak up excess money in an economy) has helped developing countries like Azerbaijan and Kuwait, as well as developed countries, like Norway and Canada, to avoid the resource curse.

Comparison to Other Conditional Cash Transfer Programs

Mongolia’s CMP follows in the footsteps of conditional cash transfer programs that have been deployed in several developing countries over the last two decades. The most well-known examples of these conditional cash transfer programs are the Bolsa Familia program in Brazil, Oportunidades in Mexico, and the Chile Solidario program in Chile. One benefit that the CMP has above the aforementioned programs has been its ability to avoid clientalistic targeting. Due to the universal roll-out and well-defined targeting metrics aided by the World Bank, the Mongolian program has avoided some of the regional corruption and vote buying elements common in Latin American cash transfer programs.

Recent Parliamentary Elections Results

The June 2004 parliamentary elections confirmed what many analysts predicted, namely the reemergence of the DP as a serious competitor to the MPRP. Despite the fact that the MPRP had promoted its version of the CMP, the DP won credit among many voters, according to several members of the international development community. The election results were essentially split for the first time in Mongolia’s nascent democratic history (48.23 percent for MPRP and 44.27 percent for DP). Although the MPRP still won the majority of the seats—36 out of 76 seats in the Ikh Khural—the DP made huge strides since the 2000 parliamentary elections, winning 34 seats, up from one. Please see Appendix C for a breakdown of parliamentary composition.
With the DP's electoral gains in 2004, Mongolia established the first ever coalition government between the DP and MPRP. The new coalition government headed by Prime Minister Elbegdorj of the DP, would have to reconcile the DP’s and the MPRP’s conflicting cash transfer campaign promises. After a series of internal debates between DP, MPRP, Civil Will, and international organizations (most prominently the World Bank), the new coalition government released the final details for the program that would begin in 2005. However before it was even implemented, the CMP had significantly altered Mongolia's political landscape by helping to create the country's first coalition government.

The next parliamentary election is scheduled for 2008.

**CMP Roll Out - Stage I**

Even before both the DP and the MPRP’s 2003 campaign promises, the Mongolian government had laid the groundwork for this sort of large-scale social development initiative by approving the Social Security Strategy Paper. This report identified targets and goals for future social welfare and development initiatives, including cash benefits from the social assistance fund towards pregnancy and delivery, childcare, and families with many children. DP leaders saw the Social Security Strategy Paper as an indication that the country was ready for social development programs that included targeted, conditional cash transfers. The party, along with the Civil Will party headed by Oyun, began outlining a program that would evolve, in the run-up to the 2004 elections, into the CMP. By distributing voucher books with sample coupons to rural residents, both parties quickly politicized the fledgling CMP.

The CMP began as a conditional cash transfer program aimed at alleviating poverty. By allocating funds specifically to families with children living beneath the poverty line, the CMP hoped to make the largest impact on reducing rural poverty. The first stage of the program began in October 2004 when the Minister for Social Welfare and Labour of Mongolia (“MSW”) fielded surveys to determine what poverty attributes would be used in determining eligibility for the CMP. While this conditional cash transfer system specified certain eligibility requirements to qualify for the money, there were no requirements for how and where the families could spend this money.
The CMP was intended to provide cash assistance to the poorest rural Mongolians, those who fall below the Minimum Subsistence Line ("MSL"), a line that was different for each region. Since many rural Mongolians living below the MSL depend on a primarily barter-based economy, the CMP had to design a survey that would evaluate the level of family poverty based on a series of proxy measures. Once the initial surveying was complete, the CMP was launched nationally, without any piloting or control groups.

*Surveys and Proxy Targeting*

The CMP was designed to provide benefits only to those citizens with children who were actually in need of the cash transfer. To ensure accurate targeting, MSW workers designed a survey to separate different segments of the population and balance the trade-off between the number of beneficiaries and the total amount each beneficiary receives. The MSW employed a proxy means test, developed by the World Bank for use on poor populations with limited income information, to generate a score for applicant households which was then compared to the MSL for each region. The proxy means test is based on observable household characteristics of the household such as the location and quality of its dwelling, ownership of durable goods, etc. International programs that looked primarily at things like tax receipts would not work as a means of assessing a herder's livelihood.

*Initial Stages*

The program officially began in January 2005, offering a monthly cash allowance of MNT 3,000 (USD 2.49 in 2005) per child to families with 3+ children living under the MSL. While USD 2.49 is a small monthly disbursement, even when compared to Mongolia's modest GDP per capita, according to UNICEF field research, CMP beneficiaries said that it made an important contribution their family life. The benefits of USD $2.49 were less significant for middle and income families,. The CMP money accounted for ~10 percent of the poorest decile's total household expenditures but ~1 percent of the middle decile and ~0 percent of the top decile's household expenses.

The CMP also conditioned receipt of these cash transfers contingent upon the families' compliance with several behavioral requirements. Families had to provide evidence that 1) the
children continue living with the parents, 2) are kept up-to-date with vaccinations, 3) are not involved in harmful forms of child labor, and 4) were enrolled in formal or informal schooling. These behaviors correlate with reductions in structural long-term poverty and their requirement is in line with international development best practices of tying cash transfers to poverty reducing behaviors.

*Corruption*

Conditional cash transfer programs such as the CMP can also eliminate or reduce the potential for government corruption. By moving government surplus from the hands of potentially corrupt bureaucrats and into the hands of the people, the CMP could reduce the risk of higher-level corruption that has affected Mongolian politicians in the past. In 2004, Transparency International gave Mongolia a score of 3/10, which indicated that the country was highly corrupt. And while a USAID assessment found that low-level administrative corruption occurred in many Mongolian government offices in 2005, higher-level corruption, at the parliamentary and ministerial levels, more seriously impacted the country’s economy and well-being. The CMP has potential to reduce government corruption by distributing money directly to disadvantaged families. However, the use of subjective poverty measures exposes regional and local bureaucrats to more potential corruption opportunities.

*Program Costs and Reliance on Natural Resources*

Once the first stage of the CMP was fully rolled out in 2005, the program cost a total of MNT 18.09 billion, equivalent to 2.4 percent of total government expenditure and 0.7 percent of GDP. This was the Mongolian government's largest social insurance expenditure and represented a large portion of the budget. According to World Bank estimates, Mongolia has approximately 434,000 families with children aged 0-18. Of these families, 146,000 (33.6 percent) live beneath the MSL. Due to leakage identified early in the program, the actual number of families receiving CMP funds from 2005 was 223,842. The CMP did not incur additional administrative expenses; the MSW shifted staff from other projects to assist with managing the CMP, and no new staff were hired.
The CMP, like the Mongolian government budget as a whole, has become highly dependent on natural resource extraction and sales. The revenue and profit from natural resource industries is contingent on international commodity prices and Mongolia has a negligible impact on the pricing of these assets. At the same time, while the government can benefit from higher commodity prices, allowing it to spend more on social welfare projects, it can also face difficult choices if energy prices decline. Prices for key Mongolian resources including silver, gold, and copper increased from January 2002 to mid-2006, while coal prices have remained volatile. Price volatility is important because entitlements are notoriously easier to give than to take away. According to the International Monetary Fund's 2005 economic outlook for Mongolia, the country's export growth is expected to become negative in 2006 as world copper prices are projected to decline from their record highs in 2005. Copper accounts for ~21.5 percent of Mongolia's GDP and 10.5 percent of the government's revenues; therefore, any significant decline could affect the funding of new programs. Please see Appendix F for more information on relevant commodity prices.

**Eligibility Requirements**

To receive CMP benefits, families had to prove their eligibility by providing a number of documents to government officials. This process would theoretically ensure that people without children or wealthy families couldn't access the CMP benefits. Generally, the documents needed to prove eligibility included the proxy-mean testing information to prove the family was beneath the MSL; three or more birth certificates for children under 18; the parents’ national ID cards; and a letter of approval from the regional governor. The three general steps to obtain the cash payments are outlined in the table below.

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<th>Steps</th>
<th>Required Documents</th>
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<tr>
<td>Apply to <em>Khoroo</em>* or Bagh Governor to Receive Household Subsistence General Information Questionnaire</td>
<td>Completed Application Form</td>
</tr>
<tr>
<td>Bring Approval to <em>Soum</em>-level Social Welfare Officer to Receive Proxy-Means</td>
<td>Household Subsistence General Information Questionnaire; Parents’</td>
</tr>
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</table>
Test Score

National Identification Cards; Parents’ Marriage Certificates (if Applicable); Children’s Birth Certificates; Children’s Vaccination Records; Children’s Certificate of Enrollment

Retrieve Money from Account Held at the Agricultural Bank of Mongolia

CMP Passbook

** Mongolia is administratively divided into 21 provinces (aimags), which are further are separated into 329 districts (soums). Beneath these districts are 1,671 rural townships (baghs) and urban neighborhoods (khoroo).

**CMP – First Stage Analysis**

**Exclusion and Leakage**

All conditional cash transfer programs suffer from inefficient targeting in the form of exclusion (the number of eligible citizens not receiving benefit) and leakage (the number of beneficiaries who are not eligible). Exclusion can result from poorer families lacking the skills or access to submit paperwork or those unfamiliar with the banking system. Additionally, in Mongolia where long distances may separate a potential beneficiary from the application system and officials who process the applications, travel hardship may increase exclusion rates. Leakage can occur as a result of local-level corruption, falsified application materials, or misguided targeting. The World Bank, in its advisory role for the CMP, predicted that by using the proxy-means test for poverty, the CMP would likely exclude approximately 42 percent of eligible families while granting 38 percent of its payouts to families above the MSL. In 2006, after the program had been in operation for one year, the World Bank calculated that the actual exclusion rate was a much lower 20.7 percent, but the leakage rate was higher than expected at 56.9 percent. This data demonstrates evidence of substantial targeting errors. Please see Appendix G for more information on projected and actual rates of leakage and exclusion.

**Distribution of Benefits**
The CMP was rolled out across Mongolia at once, however, recipients were not equally distributed across the different regions of the country. One method for understanding the accuracy of CMP's targeting metrics is to examine the correlation between poverty levels in certain areas (as measured by a UNICEF poverty index) and the number of households or children who are CMP beneficiaries. These numbers are quite highly correlated, at 0.89 when comparing household CMP access to general poverty statistics and at 0.85 when comparing children CMP access to general poverty statistics. Areas where small mismatches occurred include aimag centers (small townships), which statistically receive more CMP benefits than their poverty index would suggest. Please see Appendix H for a breakdown of regional CMP distribution.

**Poverty Reduction**

The next step in analyzing CMP’s implementation is to determine the program's effect on poverty. One of the principal goals of conditional cash transfers in general and the CMP in specific is to reduce poverty by distributing benefits to the very poor. Given that the Mongolian economy was growing rapidly between 2004 and 2006 along with the country's GDP per capita, analysis of the CMP could demonstrate whether the MSW was able to transfer some of the macro benefits to impoverished families. Analysis based on household survey data and UNICEF information has shown that the CMP has helped reduce child poverty severity (squared distance from MSL), child poverty gaps (distance from MSL), and the head-count of child poverty when compared to the simulated levels without the CMP. These comparisons do not address the efficiency of the CMP or whether another form of cash outlay would have a greater impact. While this effect could have been improved through better targeting to reduce exclusion and leakage, it still shows a significant reduction in poverty among the CMP’s targeted population. Please see Appendix I for more information on child poverty severity, child poverty gaps, and head-count numbers.

**Impact of Conditionality on Enrollment**

Another aspect of the existing CMP that policymakers like Oyun need to understand before deciding whether to expand the program is whether the existing conditionality requirements (i.e., inoculations, school enrollment, etc.) have barred the neediest families from
accessing CMP benefits. Due to the near universality of the proposed CMP revision, this point is especially pertinent. When families find it difficult or costly to enroll or have been previously rejected because of missing documentation, these families may abandon hope even if they are theoretically eligible for the benefits. According to the 2006 survey data, 26 percent of eligible families who did not apply reported they lacked the proper documents. These families might have lived far from towns where they could obtain replacements or the cost of replacement might have been prohibitively high.

Additional conditions, such as the prohibition on child labor and enrollment in education appeared to have no affect on access to CMP benefits. There is near universal enrollment in primary school in Mongolia, so this condition was unlikely to exclude large numbers of families, and CMP officials did not enforce the bar on child labor despite the requirement.

**CMP Stage II – Proposed Expansion**

In June 2006, the Mongolian government began to consider implementing significant changes to the CMP. If approved, the changes would begin on July 1, 2006. The proposed changes would (1) expand the number of beneficiaries, (2) increase existing [cash?] benefits, and (3) add additional cash benefits. Oyun must consider and decide whether these benefits will outweigh their costs for not only the recipients but also the country as a whole.

Reducing the number of restrictions and requirements to obtain payments would expand the number of CMP beneficiaries and make the biggest dent in rural poverty. In the program’s first stage, recipients had to have three or more children and earn under the MSL. Proposals for the second stage would open the CMP to families regardless of number of children or income level. If implemented, these requirements would greatly simplify access to CMP benefits.

**Increasing Benefits**

One proposal for CMP's expansion would maintain the existing MNT 3,000 (USD 2.70) per month, per child benefit, while adding a quarterly transfer of as much as MNT 25,000 (USD 22.50) per child. This proposed new quarterly benefit would almost triple the MNT 3,000 monthly payment (the quarterly payment divides into MNT 8,333 per month or USD 7.50). The
specifics of these additional benefits have not been fully addressed in Parliament, and if Stage II is approved, quarterly payments may be delayed behind the other changes to the CMP.

An expanded CMP would include additional payments to newly married couples, newborns, and a “tea break” for primary school children. Newly married couples would receive a one-time cash payment of MNT 500,000 (USD 450), while newborn children would be eligible for a MNT 100,000 (USD 90) transfer. The “tea break” for primary school children was a political compromise between politicians who wanted to provide full lunches to young children at schools and those who deemed the cost too high. The proposal settled on a MNT 300 (USD 0.27) daily “tea break” allowance for all children in grades 1 and 2. This break allows schools to give a small snack and milk tea to young children while in the classroom. Advocates project that children poverty rates will decline with additional CMP benefits. Please see Appendix I for more information on children's poverty rates under different CMP benefit scenarios.

Comparing Benefits over Different Proposed CMP Plans

A benefit analysis of these three plans (existing, expanded without quarterly benefits, and expanded with quarterly benefits) is included in the table below.

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Stage I (Actual)</th>
<th>Stage II (A - Proposed)</th>
<th>Stage II (B - Proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>3000</td>
<td>3000</td>
<td>3000</td>
</tr>
<tr>
<td>Quarterly</td>
<td>0</td>
<td>0</td>
<td>25000</td>
</tr>
<tr>
<td>Marriage</td>
<td>0</td>
<td>500000</td>
<td>500000</td>
</tr>
<tr>
<td>Birth</td>
<td>0</td>
<td>100000</td>
<td>100000</td>
</tr>
<tr>
<td>Tea Break</td>
<td>0</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Total Annually</td>
<td>36000</td>
<td>72000</td>
<td>197000</td>
</tr>
<tr>
<td>Total One Time</td>
<td>0</td>
<td>600000</td>
<td>600000</td>
</tr>
</tbody>
</table>
Comparing Costs of Different Proposed CMP Plans

A cost analysis of these three plans is included in the table below.

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Stage I (Actual)</th>
<th>Stage II (A - Proposed)</th>
<th>Stage II (B - Proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of GDP</td>
<td>0.7</td>
<td>1</td>
<td>3.9</td>
</tr>
<tr>
<td>% of Government</td>
<td></td>
<td>2.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td>9.5</td>
</tr>
</tbody>
</table>

The Consequences of Expansion

Proponents believe that expanding the program would reduce the exclusion rates because extremely poor families would have to jump through fewer hoops to obtain benefits. Also, since leakage was already found to be unexpectedly high, advocates claim that universalization would have less of an impact on the budget because so many unqualified families were already receiving benefits.

On the other hand, opponents argue that expanding the program would place an even larger strain on the budget, which could be dangerous given volatile future commodity prices. Estimates show that the more inclusive plan could increase CMP costs from MNT 18 billion in the targeted plan to MNT 146 billion. They also noted that universalization would put less focus on the poverty reduction aspect of the CMP, reducing the program into thinly veiled vote buying. Members of the MSW also note that at small transfer levels of MNT 3,000 monthly, corruption was not a major issue with the CMP; however, these social workers caution that by increasing the payouts, the CMP could also increase the incentives for corruption and falsifying application forms.
Conclusions

Sanjaasuren Oyun, must sift through a number of competing interests and motivations before deciding whether to push Parliament to expand the CMP. The broadened access and additional cash transfers could bolster her own political career. The coalition government along with the Civil Will party would likely win greater public support. There are also social considerations about the efficient allocation of scarce state resources and the efficacy of the program’s poverty reduction goal. Oyun must think through the macro implications, whether commodity prices will remain high and how China will respond as a future monopolistic trading partner. Those who oppose universalization claim that the process would vastly increase the financial burden on Mongolia’s fragile budget, possibly pushing the fiscal balance into deficit. Increasing an un-targeted program would be counter to the advice of the WB and IMF, who have supported Mongolia for over 20 years. Lastly, Oyun must consider how expanding the program might dilute its focus on poverty alleviation and behavioral change.

The decision is especially difficult at a time when the country is enjoying rapid economic growth, high commodity prices, and the largest fiscal surplus since economic liberalization in 1991. Given the government's newfound financial reserves, some members of Parliament argue that this is the right time to expand the program and that by distributing mining revenues to all families with children, the CMP will avoid the large targeting and implementation errors of the first phase. By opening the program to a larger number of beneficiaries, policymakers will not have to worry about making sure that the proxy-means survey is accurate or that those too poor to provide the necessary paperwork are getting access. These politicians argue that given an observed leakage rate greater than 60 percent, the CMP is already nearly universal, the government just needs to formalize this expansion to reduce administrative burden and corruption. There are also some who favor the unconditional transfer as a way of incentivizing increased fertility rates as a pro-natal policy.

On the other hand, some members of Parliament are cautioning restraint. They claim that the program has only existed for a little over a year and the policy makers need more time to evaluate its effects. They also claim that prudent governments restrict spending in good
economic times to build savings when the economy inevitably sours. These MPs also note that while it is relatively easy to expand cash transfer programs, eliminating or reducing those payments is extremely difficult politically. The party forced to do will likely pay a heavy price in the polls. Lastly, these dissenters argue that by universalizing the CMP, the program will lose its primary motivation as a tool to reduce poverty, devolving to, essentially, a political payment to middle and upper class families. What should Oyun do?
Appendix A: Economic Growth - GDP Per Capita and Real GDP Growth

Source: World Bank Databank

Appendix B: Mongolia’s Fiscal Balance

Source: National Statistics Office of Mongolia
### Appendix C: Mongolia’s Government Spending

<table>
<thead>
<tr>
<th>Classification of Expenditures</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL EXPENDITURE AND NET LENDING</td>
<td>550,481.26</td>
<td>615,771.25</td>
<td>752,486.4</td>
<td>764,597.1</td>
<td>1,237,008.0</td>
</tr>
<tr>
<td>CURRENT EXPENDITURE</td>
<td>415,309.05</td>
<td>434,831.68</td>
<td>538,699.2</td>
<td>600,288.8</td>
<td>982,349.6</td>
</tr>
<tr>
<td>Goods and services</td>
<td>285,799.22</td>
<td>2291.816.65</td>
<td>356,201.036</td>
<td>286,719.6</td>
<td>692,488.2</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>105,034.1</td>
<td>116,945.9</td>
<td>128,844.9</td>
<td>142,749.0</td>
<td>196,608.5</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>23,360.9</td>
<td>25,494.2</td>
<td>28,186.7</td>
<td>31,532.0</td>
<td>40,098.0</td>
</tr>
<tr>
<td>Purchase of goods and services</td>
<td>180,765.11</td>
<td>174,870.75</td>
<td>227,356.2</td>
<td>243,970.6</td>
<td>495,879.7</td>
</tr>
<tr>
<td>Interest payments</td>
<td>19,581.9</td>
<td>17,649.38</td>
<td>22,069.6</td>
<td>20,682.8</td>
<td>18,081.7</td>
</tr>
<tr>
<td>Subsidies and transfers</td>
<td>109,927.95</td>
<td>125,365.65</td>
<td>160,428.6</td>
<td>192,886.3</td>
<td>271,779.7</td>
</tr>
<tr>
<td>CAPITAL EXPENDITURE</td>
<td>68,100.27</td>
<td>90,465.08</td>
<td>104,886.8</td>
<td>89,818.1</td>
<td>175,671.5</td>
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<tr>
<td>From domestic sources</td>
<td>52,264.16</td>
<td>67,192.18</td>
<td>82,710.4</td>
<td>79,399.8</td>
<td>166,987.3</td>
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<tr>
<td>Domestic investment</td>
<td>34,935.61</td>
<td>51,396.51</td>
<td>57,966.6</td>
<td>56,232.2</td>
<td>134,145.3</td>
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<tr>
<td>Capital Repairs</td>
<td>6,868.86</td>
<td>5,633.93</td>
<td>7,268.8</td>
<td>5,282.8</td>
<td>12,421.4</td>
</tr>
<tr>
<td>Road Fund</td>
<td>4,940.29</td>
<td>5,493.49</td>
<td>11,055.1</td>
<td>10,713.9</td>
<td>11,630.7</td>
</tr>
<tr>
<td>Geological survey</td>
<td>1,299.57</td>
<td>1,438.8</td>
<td>1,590.0</td>
<td>1,831.5</td>
<td>1,304.3</td>
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<tr>
<td>Forest and other environment expenditure</td>
<td>1,253.88</td>
<td>855.41</td>
<td>1,310.6</td>
<td>899.1</td>
<td>1,266.8</td>
</tr>
<tr>
<td>Commodity stocks</td>
<td>2,965.95</td>
<td>2,373.99</td>
<td>3,519.3</td>
<td>4,440.2</td>
<td>6,218.8</td>
</tr>
<tr>
<td>Foreign financed</td>
<td>15,836.11</td>
<td>23,272.9</td>
<td>22,176.4</td>
<td>10,418.3</td>
<td>8,684.1</td>
</tr>
<tr>
<td>Other lending minus repayments</td>
<td>67,071.88</td>
<td>90,474.48</td>
<td>108,900.4</td>
<td>74,490.3</td>
<td>78,986.9</td>
</tr>
</tbody>
</table>

Source: National Statistics Office of Mongolia
Appendix D: Share of Economy Involved in Mining and Animal Husbandry

Data Source: National Statistics Office of Mongolia. Author’s Plot.

Appendix E: Parliamentary Composition

Data Source: Inter-Parliamentary Union, 2004 Historical Archive. Author’s Graphic
Appendix F: Commodity Prices

Commodities Pricing (01/2002 - 05/2006)

Source: Metalprices.com. Author’s Plot

Appendix G: Targeting Errors

Predicted v. Observed Targeting Inefficiencies

Source: UNICEF, Division of Policy and Planning, 2007. Author’s Plot
Appendix H: Regional Distribution

![CMP Distribution and Poverty Graph]

Source: UNICEF, Division of Policy and Planning, 2007. Author’s Plot
Appendix I: Poverty Reduction Effects

**Effects of CMP on Monetary Poverty Among Children**

<table>
<thead>
<tr>
<th></th>
<th>Child Poverty Severity</th>
<th>Child Poverty Gap</th>
<th>Child Poverty Head-Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>With CMP (Actual)</td>
<td>2</td>
<td>14</td>
<td>38</td>
</tr>
<tr>
<td>Without CMP (Sim.)</td>
<td>2</td>
<td>14</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: UNICEF, Division of Policy and Planning, 2007. Author’s Plot

Appendix J: Projected Children’s Poverty Rates

**Child Poverty Rates with Different CMPs**

- Without Program (Projected): 60%
- Targeted Benefits of MNT 36,000 (Observed): 40%
- Universal Benefits of MNT 136,000 (Projected): 20%

Source: UNICEF, Division of Policy and Planning, 2007. Author’s Plot
Appendix K: References


