Mongolia’s Child Money Programme

Results from ESCAP’s Social Protection Simulation Tool
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1. Introduction

The following paper produced by UNESCAP is based on a request by the United Nations Country Team (UNCT) in Mongolia. The focus was discussed with the UNCT and the findings drawn on ESCAP’s Social Protection Simulation Tool. The main purpose of the paper is to examine how different benefit levels and targeting regimes of Mongolia’s Child Money Programme (CMP) could impact levels of coverage, consumption, poverty and inequality, as well as their cost implications.

1.1 Background

The CMP is currently regarded as one of the most impactful social protection schemes addressing inequality in Asia.1 Approved in January 2003 and implemented two years later, the CMP was the Mongolian Government’s first social protection scheme aimed at guaranteeing a basic income to families living below the minimum subsistence level.2 Initially, the scheme was only targeted to the poor, but within two years it became near-universal.

Since its introduction, the use of proxy-means testing to target benefits to the poor has been questioned for its inaccuracy, administrative burden and costs. The difficulty to distinguish non-poor households from poor or near-poor households has also given rise to a sense of injustice by recipients and non-recipients alike.3 These challenges have prompted the need to examine other ways to administer the programme, either through the introduction of a universal child benefit or through other categorical targeting, such as the age of children covered.

In response to the COVID-19 pandemic, in May 2020, the Government, in partnership with the Asian Development Bank (ADB), expanded the programme to offer registered households and increase from MNT 20,000 to MNT 100,000 per child and month until October 2020. Because of growing concerns of the pandemic, the duration of the higher benefit was extended to June 2021. The initial benefit level of MNT 20,000 per child and month represents around 2 per cent of GDP per capita, which corresponds to half the global average.

1.2 Methodology and Limitations

The results from the Simulation Tool is based on a static micro-simulation model, using data from the 2018 Household Income and Expenditure Survey for Mongolia. The analysis covers four alternative scenarios of the CMP:

- Universal child benefits for all households with children aged 0-17 years
- Universal child benefits for all households but restricted to children aged 0-5 years
- Means tested child benefits targeted at 60 per cent of the poorest households with children aged 0-17 years
- Means tested child benefits targeted at 60 per cent of the poorest households but restricted to children aged 0-5 years

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1 UNICEF, Universal Child Benefit Case Studies: The Experience of Mongolia, July 2019
3 An ESCAP study reinforces findings from a UNICEF study that indicates the creation of tensions in communities due to the perceive injustice of the PMT. UNICEF, Universal Child Benefit Case Studies: The Experience of Mongolia, July 2019; ESCAP, Public Sector Policies for reducing Inequality, Forthcoming
For each of the above scenarios, three different benefit levels are used:

- MNT 20,000 to align with the pre-pandemic benefit level
- MNT 40,000 to align with the global average child benefit level of around 4 per cent of GDP per capita
- MNT 100,000 to align with the current benefit level in response to COVID-19

Following common literature, the administrative costs as a percentage of total programme costs are set to 5 and 15 per cent for the universal benefit and the means tested benefits, respectively. GDP projections are based on estimates from the IMF World Economic Outlook. For the analysis of the impact on poverty, the report uses the national poverty line, which is very close to the international poverty line of $5.5 per day. The model also assumes that all additional income from the CMP is consumed.

2. Key Findings

2.1 Coverage scenarios

Using a proxy-means testing to targeted 60 per cent of the poorest households with children aged 0-17 generates high inclusion and exclusion errors (figure 1). As a result, 9 per cent of the lowest income decile and almost two thirds of the sixth income decile would be excluded from the benefit. At the same time, 6 to 31 per cent of families belonging to the 40 per cent richest families would also receive the benefit (inclusion error), as a result of the proxy-mean testing. The situation becomes even worse when the same means-testing is applied to a restricted CMP, covering only families with children aged 0-5 years.

Figure 1: Estimated exclusion and inclusion errors of targeting the CMP to the 60 per cent poorest households, by income decile, among recipient households with children aged 0-17
2.2 Poverty reduction scenarios
Levels of poverty, using the national poverty line, are high for families with children, particularly those with children aged five and below. A universal monthly benefit of MNT 100,000 per child and month has a significant impact on these poverty rates for the recipient households (figure 2). For households with children aged 0-17, the poverty rate is more than halved, leaving around 14 per cent of households in poverty (reduced from 33 per cent, in the case of no benefit at all). For benefit levels MNT 40,000, equivalent to the global average of 4 per cent of GDP per capita, poverty rates would fall by around a quarter. The estimations generate similar impacts for the whole population (not only recipient households), indicating the significance of the CMP for society.

Even when benefits are restricted to children aged 0-5, a significant, but less prominent, reduction in poverty is evident. The impact is somewhat lower mainly as a result of overall higher poverty rates of these households and that benefits are now received for fewer children and thus lifts fewer families out of poverty.

Figure 2: Estimated reduction in poverty among recipient households, universal CMP for children aged 0-17 and restricted to children aged 0-5, at different benefit levels

2.3 Consumption scenarios
The CMP is also important for boosting consumption capacity of households, with a positively skewed impact towards the lowest deciles (figure 3). A universal benefit of MNT 100,000 to households with children aged 0-17 would increase consumption for by almost 60 per cent for the lowest income decile, falling to 7 per cent for the richest decile. For obvious reasons, the impact on household consumption diminishes quickly with increasing incomes. When the benefit is restricted to households with children aged 0-5, the impact is relatively lower. This lower consumption effect is most probably explained by the lower number of children aged 0-5 living in recipient households.
The increase in family consumption from a benefit level of MNT 40,000, ranges from 3 to 24 per cent for families with children aged 0-17 and from 2 to 13 per cent when the benefit is restricted to families with children aged 0-5 (figure 4). On average, the boost in consumption is almost twice as large for households with children aged 0-17 compared to the restricted benefit.
2.4 Impact on inequality
Investments in child benefits also have a positive impact on levels of inequality as measured by the Gini coefficient. A universal benefit of MNT 100,000 for all households with children aged 0-17 would have the largest impact on decreasing inequality, reducing the Gini coefficient dramatically from 0.34 to 0.29 (figure 5). However, even at lower benefit levels inequality would be markedly reduced.

Figure 5. Estimated changes in the Gini coefficient for a universal CMP, different benefit levels, all children and restricted to children aged 0-5

3. Conclusion
Mongolia has taken significant step towards providing a social protection floor for its citizen in recent years, despite some swings between universal and targeted programmes. While balancing the trade-off between coverage, benefit levels and costs; securing decent livelihoods for all through a comprehensive social protection package should be at the centre of policy design.

Targeted social protection schemes may reduce the price tag of a benefit scheme but also come with their own cost of high inclusion and exclusion errors and limited redistribution of resources.

When age of the eligible child is restricted to 0-5-year-olds, the CMP achieves a lower impact for the households covered, both in terms of consumption and poverty impact. It also, per definition, cuts out many households with children.

A child benefit of 4 per cent of GDP per capita (around MNT 40,000) will have a significant impact on consumption and poverty. The current benefit of MNT 100,000 would more than halve poverty, while significantly boost consumption and reduce overall inequality.

Depending on the coverage and benefit level of the CMP, the annual cost varies from of a quarter of 1 per cent to almost 4 per cent of GDP. Covering a lower proportion of the population, the cost would
fall both from a restriction of the eligibility age of the child and from targeting the bottom 60 per cent of the households with children. However, when deciding to either implement a universal scheme or targeting it to the poor, the cost is only one factor out of many. Other factors to consider include fairness, popularity, political risk and public support. However, the overall impact on poverty, consumption and inequality from a redistributive view should also be considered.

**Figure 6: Estimated annual cost of CMP, universal and targeted, by benefit level**