



# Report and Recommendation of the President to the Board of Directors

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Project Number: 42322  
November 2008

## Proposed Asian Development Fund Grants Mongolia: Food and Nutrition Social Welfare Program and Project

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 14 November 2008)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.000863
\$1.00	=	MNT1,158

## ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
EIRR	–	economic internal rate of return
FNSWPP	–	Food and Nutrition Social Welfare Program and Project
FSOU	–	food stamp operating unit
GDP	–	gross domestic product
IEC	–	information, education, and communication
LSC	–	livelihood support council
LSWO	–	Labor and Social Welfare Office
M&E	–	monitoring and evaluation
MDG	–	Millennium Development Goal
MOF	–	Ministry of Finance
MOFA	–	Ministry of Food and Agriculture
MSWL	–	Ministry of Social Welfare and Labor
NGO	–	nongovernment organization
NSO	–	National Statistics Office
PIU	–	program implementation unit
SSSDP	–	Social Security Sector Development Project
SWO	–	social welfare officer
TA	–	technical assistance

## GLOSSARY

<i>aimag</i>	–	largest subnational political unit; province
<i>dzud</i>	–	harsh weather conditions that prevent or inhibit livestock from accessing forage, due to deep snow or ice
<i>ger</i>	–	traditional tent
<i>khoroо</i>	–	smallest administrative unit in Ulaanbaatar
<i>soum</i>	–	subnational administrative district below the aimag; district

## NOTES

- (i) The fiscal year of the Government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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## GRANTS AND PROGRAM AND PROJECT SUMMARY

<b>Grant Recipient</b>	Mongolia
<b>Proposal</b>	Support to Mongolia for the Food and Nutrition Social Welfare Program and Project (FNSWPP) through (i) a program grant of \$9 million to design and implement a food stamp program, and (ii) a capacity development project grant of \$3 million to strengthen social welfare systems, both from the Special Funds resources (Asian Development Fund) of the Asian Development Bank (ADB).
<b>Classification</b>	Targeting classification: Targeted intervention-MDG (TI-M) Sector: Health, nutrition, and social protection Subsector: Social protection Themes: Inclusive social development, capacity development, gender and development Subthemes: Other vulnerable groups, gender equity in empowerment and rights, institutional development
<b>Environment Assessment</b>	Category C. The environmental implications were reviewed and no adverse impact was identified.
<b>Social Safeguard Assessment</b>	Involuntary resettlement: Category C Impact on indigenous peoples: Category C No involuntary resettlement or adverse impact on indigenous peoples is expected from program and project implementation.
<b>Rationale</b>	Soaring food prices in Mongolia pose a serious threat to nutritional welfare and could reverse recent gains in poverty reduction and human development in the country. Inflation reduces real incomes and expenditure and has strong social and poverty impacts. Higher food prices are not merely short-term phenomena that the market will automatically correct. Rising inflation has strong implications for macroeconomic stability, poverty incidence, and inequality. There is ample reason for the Government to intervene in the short-term by establishing targeted subsidy programs to alleviate the impact of inflation on the poor. While the needed response is urgent, it also presents an opportunity to introduce innovative safety nets that are well targeted towards the poor. At the same time, there is an opportunity to improve targeting mechanisms; strengthen systems, capacities, and strategies for effective social welfare service delivery; and establish early detection, mitigation, and rapid response mechanisms for food crises and similar emergencies. The grant is in direct support of government plans to provide targeted assistance to the poor, and supports the country partnership strategy pillar of inclusive social development (in preparation). The design is in line with the development agenda of inclusive economic growth in ADB's long-term strategic framework 2008–2020 (Strategy 2020) and responds directly to the President's pledge at the ADB Annual Meeting in Madrid to assist developing member countries to address the problem of soaring food prices.

<b>Impact and Outcome</b>	The impact of the grants is reduced vulnerability to food insecurity through increased food supply and improved access to food for vulnerable and poor households. The outcome is improved access to food by vulnerable and poor households through a targeted food stamp program and strengthened social welfare systems.
<b>Program Grant Amount</b>	It is proposed that ADB supports the Government's policy reforms by providing a grant of \$9 million to Mongolia to fund the design and implementation of a food stamp program (component 1).
<b>Program Period and Tranching</b>	The implementation period of the Program will be 36 months. It will be completed by 31 December 2011. Funding of the Program will be released to the Government in a single payment of \$9 million upon program effectiveness, including the Government's fulfillment of the policy actions included in the policy matrix as confirmed in the Government's policy letter.
<b>Executing Agency and Implementation Arrangements</b>	The Ministry of Finance will be the Executing Agency for the Program. The Ministry of Social Welfare and Labor will be the Implementing Agency. A program steering committee composed of the Ministry of Finance and other ministries dealing with the food crisis, selected local government representatives, nongovernment organizations, civil society, and the private sector will meet quarterly to provide policy and strategic guidance to the Program. ADB will participate as an observer on the committee.
<b>Procurement</b>	In accordance with the simplified disbursement and procurement procedure for program loans, the grant proceeds may be utilized to procure goods and services (excluding local duties and taxes) produced in and procured from ADB's member countries, other than those specified in the list of ineligible items, those financed by other multilateral and bilateral official sources, and imports from non-ADB member countries. ADB reserves the right to audit the use of the grant proceeds and verify the accuracy of the Government certification.
<b>Counterpart Funds</b>	Counterpart funds will be used to finance the short-term adjustment cost generated through the design and implementation of the food stamp program (component 1).
<b>Project Grant</b>	The objective of the Project grant is to assist the Government in implementing the food stamp program; provide capacity development; strengthen social welfare systems; and establish early detection, mitigation, and rapid response mechanisms for food crises and similar emergencies.
<b>Project Investment Plan</b>	The total project cost is estimated at \$3.33 million equivalent.

## Financing Plan

A project grant of \$3 million, representing 90% of the Project's total cost, will be provided from ADB's Special Funds resources. The Government will contribute the equivalent of \$0.33 million as counterpart funds. The grant will be subject to conditions set forth in the Grant Agreement.

Source	Total (\$ '000)	%
Asian Development Bank	3,000	90
Government	330	10
<b>Total</b>	<b>3,330</b>	<b>100</b>

Source: Asian Development Bank estimates.

## Period of Utilization and Estimated Project Completion Date

The Project duration is 36 months. It will be completed by 31 December 2011 and closed on 30 June 2012.

## Executing Agency and Implementation Arrangements

The Ministry of Finance is the Executing Agency. The Project will have the same executing and implementing agencies, steering committee, and implementing unit as that of the Program.

## Procurement

All procurement to be financed under the Project grant will be carried out in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time).

## Consulting Services

The Project will require a total of 43 person-months of international and 76 person-months of national consulting services. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

## Benefits and Beneficiaries

Key benefits and beneficiaries are as follows:

**Targeted Safety Net.** The grants will provide assistance to the Government for delivering targeted safety nets to the poor and vulnerable at the time when the need is most urgent. The grants will protect at least 100,000 poor and vulnerable households from the risk of malnutrition, and prevent them from sliding deeper into poverty.

**Fiscal Sustainability.** By strengthening and reforming social welfare systems, especially improving targeting, the grants will contribute to improved performance and fiscal sustainability of the social welfare sector.

**Gender Benefits.** Women are the most likely users of the stamps, and will increase their ability to balance the household budget, increase their involvement in community concerns, and benefit from increased awareness on their benefits and rights through the grants' information and education activities.



**Improved Local Capacity.** The grants place emphasis on improving the capacities of local governments and livelihood councils to deliver targeted safety nets and social welfare assistance. This emphasis directly benefits poor and vulnerable people in terms of effective and timely assistance.

**Civil Society Participation.** The grants recognize civil society's potential contributions in improving targeting of social welfare and in mobilizing its participation in implementing the FNSWPP.

**Institutional Impact.** Government institutions—particularly Ministry of Social Welfare and Labor, the provincial and district level *soum* and *khoro* governors, local social workers, and livelihood councils—will gain increased capacities for reforming and delivering social welfare services, and integrating civil society organizations and the private sector in the implementation of the grants.

**Risks and Mitigation** Major risks and mitigation measures considered in the design of the FNSWPP are as follows:

**Political Risks.** Government ministries are concerned that the plans and programs developed to respond to increasing food prices will have to go through another process of review and scrutiny by the new Government, thus causing delays to the implementation of the grants. The new minister of finance and minister of social welfare and labor have been informed about the preparation of the assistance. Government officials directly involved in the preparation of the grants are still in place and are expected to remain.

**Pilot-Testing Risks.** The risks here are twofold: (i) beneficiaries will expect a pilot to immediately become an entitlement, thus making later program adjustments difficult; and (ii) the pilot will remain just a pilot even if the results are good and the recommendations are appropriate. These risks will be addressed through consultation and close involvement of beneficiaries in implementation of the pilots and continuous policy dialogue with the highest levels of government on social welfare institutional reforms in order to facilitate the adoption of pilot-testing results, especially on targeting.

**Governance and Bureaucratic Risks.** Implementation of food safety nets is prone to corruption and requires proper governance, a high degree of accuracy, and synchronization of efforts and activities. To manage this risk, the food stamp operating unit will be immediately established to ensure that technical requirements of the program are given full attention by the Government. Governance risk will be addressed through the provision of clear operational guidelines, a communication strategy to make the food stamp program transparent, and external monitoring.

MONGOLIA  
FOOD AND NUTRITION SOCIAL WELFARE  
PROGRAM AND PROJECT



## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a policy program grant, and (ii) a capacity development project grant to Mongolia for the proposed Food and Nutrition Social Welfare Program and Project (FNSWPP). The design and monitoring framework of the FNSWPP is in Appendix 1.

## II. THE SECTOR: PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

### A. Sector Description and Performance

2. **Global Food Prices.** Over the past year (2007-2008), food prices have soared to unprecedented levels all over the world<sup>1</sup> with essential grains such as rice and wheat escalating on international markets (rice by 196% and wheat by 72%).<sup>2</sup> The supply and demand factors underlying the price increases include rising oil prices, which are driving up prices of fertilizers and fuels for agricultural production, increasing diversion of food crop acreage to biofuels, and growing demands for grains as a result of population and income growth in emerging economies and associated dietary changes. Other factors—such as random adverse weather conditions,<sup>3</sup> depreciation of the US dollar,<sup>4</sup> and precautionary demand for food stocks in many countries<sup>5</sup>—have also contributed to the spike in food grain prices. Policy responses, such as export bans by rice-exporting countries (India, Pakistan, People's Republic of China, and Viet Nam), have also resulted in increased price volatility. While the unpredictable and short-term factors of weather conditions, depreciation of the US dollar and precautionary demand for food stocks are significant, they are expected to ease over the coming years. However, the supply and demand factors fueling the price increases, when combined with climate change and natural resource degradation, result in medium- to long-term impacts and indicate that the problem of high food prices will continue into the foreseeable future. In July 2008, the United Nations High Level Task Force on the Global Food Crisis reported that, while food commodity prices appear to be stabilizing, prices are expected to remain high over the medium- to long-term (footnote 1).

3. The most immediate consequence of rising food prices is the risk that an additional 100 million people (added to the already 845 million who are estimated to be undernourished) are being driven into poverty and hunger (footnote 1), thus jeopardizing recent achievements in poverty reduction, attainment of the Millennium Development Goals (MDGs),<sup>6</sup> and social stability. The challenge for governments around the world is to mitigate the immediate impacts of rising food prices, especially for the poor, and to develop medium- and long-term strategies for addressing the root causes.

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<sup>1</sup> United Nations (UN) High Level Task Force on the Global Food Crisis. 2008. *Comprehensive Framework for Action*. New York.

<sup>2</sup> Food and Agriculture Organization database. 2008.

<sup>3</sup> Food and Agriculture Organization. 2008. World wheat production declined in 2006 because of a 60% reduction of output in drought-hit Australia, flooding in South Asia, and pest infestation and cold weather in Viet Nam.

<sup>4</sup> Depreciation of the US dollar contributed to increases in the prices of "soft" commodities (including wheat), the prices of which are denominated in US dollars.

<sup>5</sup> Precautionary demand is defined as replenishing depleted stocks, reports of hoarding by private traders, and sustained procurement by some countries (such as Bangladesh and the Philippines) in international markets.

<sup>6</sup> Particularly those related to poverty, child mortality, maternal health, and education.

4. **Soaring Food Prices in Mongolia.** The spike in food and oil prices threatens to push large numbers of people back below the poverty line in Mongolia.<sup>7</sup> The inflation rate reached 33% in May 2008 and by the end of September 2008 fell just slightly to 32.2% year-on-year, which is much higher than in most other Asian countries.<sup>8</sup> The prices of wheat (primarily imported) and meat (domestically produced) contributed to nearly half of the overall inflation,<sup>9</sup> with oil prices accounting for a small but growing proportion.

5. The underlying dynamics of the steep rise in inflation in Mongolia are multidimensional (footnote 7) and are influenced by (i) increasing domestic demand induced by rapid increase of wages, social transfers, and remittances; (ii) the impact of imported inflation; (iii) policies that have been built up over the years, such as sustained increases in monetary expansion; (iv) increases in the prices of government services (i.e., hospital charges, school fees, and electricity tariffs); (v) opportunistic behavior in the domestic market; and (vi) seasonal and cyclical factors that aggravate the current situation.

6. Both external and domestic factors drive food price inflation in Mongolia. The country has very limited capacity for agricultural food production and imports almost 80% of its food from the People's Republic of China and the Russian Federation, where food prices have also significantly increased. High international prices transmit directly to local markets, which has resulted in staple foods such as rice and flour doubling in price since the beginning of 2008. Meat is domestically produced and accounts for 36% of food consumption. Meat prices are dependent on domestic rather than external factors, including the number of livestock, weather conditions, consumer demands, domestic meat procurement practices, and supply chain bottlenecks.<sup>10</sup> Mongolia's macroeconomic context is in Supplementary Appendix A.

7. **Social Impacts of Rising Food Prices in Mongolia.** Evidence on the impact of the rising food prices is scant, but the available poverty and household income and expenditure data does reveal that poor households, especially those in urban areas, are particularly at risk as nonfood expenditures continue to rise. In 2006, a joint mission of the Government of Mongolia (the Government) and a United Nations Food Security Assessment team<sup>11</sup> concluded that food insecurity affected around 800,000 people (about 30% of the population) and was on the increase in the largest cities (Darkhan, Erdenet and Ulaanbaatar). Despite rising living standards overall, Mongolia is still considered one of the poorest countries in Asia, with an overall poverty rate of 32.6% of the population in 2006, of whom 4.5% are categorized as extreme poor. Data from the household income and expenditure survey (2006–2007) (footnote 11) demonstrates that the poorest of the poor now spend about 71% of their consumption budget on food. In March 2008, fear of inflation rapidly escalated to become the number one problem identified by respondents in a survey implemented by the Asia Foundation.<sup>12</sup> Over 20,000 people took to the streets in April 2008 to protest against price increases and the issue received great attention in the June 2008 general election.

<sup>7</sup> Palanivel, T. 2008. *Policy Note on the Soaring of Food and Oil Prices in Mongolia: Causes, Consequences and Responses at the Macro Level*. Colombo: United Nations Development Program/Regional Center in Colombo (UNDP/RCC).

<sup>8</sup> Inflation has reached an 11-year high in the People's Republic of China (at 8.7% in February 2008), a 9-year high in the Republic of Korea (at 5.5% in June 2008), a 26-year high in Singapore (at 7.6% in April 2008), and a 12-year high in Viet Nam (at 25.2% in May 2008).

<sup>9</sup> This is because food prices have increased (on a year-on-year basis) the most over the last year: 59% in May 2008 and 57% in June 2008, compared with about 7% during the corresponding months in 2007. Wheat prices have increased by 47% and meat products by 49% since the beginning of 2008.

<sup>10</sup> World Bank. 2008. *Mongolia Quarterly*. Ulaanbaatar: World Bank (June).

<sup>11</sup> FAO/UNICEF/UNDP. April 2007. *Joint Food Security Mission to Mongolia*. Ulaanbaatar.

<sup>12</sup> Asia Foundation. 2008. *Mongolia Corruption Benchmarking Survey 2006–2008*. Ulaanbaatar.

8. Rapid qualitative community consultations carried out in preparation for this grant found that, as a result of the soaring food prices, poor households in rural and urban areas are (i) consuming less food and food of lower quality; (ii) postponing or skipping expenditures for schooling and medicines; (iii) limiting travel; (iv) substituting energy sources;<sup>13</sup> and (v) moving in with relatives to reduce costs, particularly of food and heating. Many people said they would rather be warm than full in the winter months, when rapid escalations in heating costs force them to shift priorities in household budgets. The main impacts of rising prices have been felt over the summer months beginning in May–June 2008. As the winter approaches, new stresses will undoubtedly be felt. The 2006 participatory poverty assessment in Mongolia found that the poor are much less likely to be able to cope with, and/or recover from, adverse circumstances because they have decreasing physical and social assets.<sup>14</sup> If left unaddressed, in the medium- to long-term, the soaring food prices will have adverse impacts on health and education (particularly for women and children) and will result in increased poverty.

9. The Government has shown a firm commitment to immediately deliver an emergency response directed to the poor. The emergency of the food crisis highlights several challenges and opportunities for the social welfare sector, such as (i) addressing inadequate systems for delivering assistance targeted to the poor, (ii) defining social welfare strategies and enhancing capacities, and (iii) addressing the absence of emergency response mechanisms.

10. **The Social Welfare Sector.** In Mongolia, the Ministry of Social Welfare and Labor (MSWL) is responsible for the social welfare, social insurance, and employment issues at the central level.<sup>15</sup> There are two implementing agencies under MSWL: the State Social Insurance General Office (SSIGO) and the Labor and Social Welfare Office (LSWO). These agencies have representatives responsible for delivering services at the local level. Governors of all local governments<sup>16</sup> are obliged by law to undertake area-specific social protection activities.<sup>17</sup> MSWL is also responsible for developing national policies on women, children, youth, the disabled, and the elderly.

11. The types of social welfare assistance provided through LSWO include (i) in-kind services (e.g., residential care) for elderly and disabled people, the poor, homeless persons, and children; (ii) subsidies to the elderly and disabled related to housing, health care, and devices (e.g., wheelchairs and hearing aids); and (iii) short-term cash benefits for pregnancy and delivery, child care, multi-children families, support for adopting orphans and infant care, and pensions for those not eligible for assistance from the SSIGO.<sup>18</sup>

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<sup>13</sup> Rural households noted using dung instead of firewood, and urban *ger* (traditional tent) residents using candles instead of electricity to cut back on energy costs.

<sup>14</sup> National Statistics Office (NSO), ADB, and World Bank. 2006. *Participatory Poverty Assessment in Mongolia*. Ulaanbaatar.

<sup>15</sup> This was established by the Government law passed by the Parliament in 1993.

<sup>16</sup> Governors sign annual performance contracts with the minister of MSWL.

<sup>17</sup> This includes (i) coordinating citizens' employment according to legislation, (ii) providing assistance to low-income households, (iii) protecting the interests of children and families, and (iv) organizing activities to improve housing conditions.

<sup>18</sup> ADB. 2008. *Social Protection Index for Committed Poverty Reduction*. Manila (volume 2). Mongolia has an above average social protection index, ranking fourth among 31 Asian countries, almost comparable to the Kyrgyz Republic and next only to Japan and the Republic of Korea.

12. In 2001, the Asian Development Bank (ADB) approved a loan to support the Social Security Sector Development Project (SSSDP)<sup>19</sup> to initiate reforms in social welfare, insurance, and employment services in relation to the emerging needs in Mongolia's transition to a free market economy. The SSSDP has been implemented since February 2002 and, as of its partial completion in 2007,<sup>20</sup> has, among other things, (i) facilitated improvements in social welfare facilities (residential care centers, social security centers, the National Centre for Vocational Training and Rehabilitation for the Disabled);<sup>21</sup> (ii) developed and facilitated the adoption of new programs (e.g., the Center-Based Program for Extremely Vulnerable People and Integrated Community-Based Social Welfare Services); and (iii) provided capacity development to MSWL and LSWO in the social welfare sector.

13. The Government adopted the social security sector strategy paper<sup>22</sup> in 2003 as the framework for long-term development of the sector.<sup>23</sup> The strategy paper defined three long-term policy reforms for social welfare: (i) adjust the centralized public social welfare services towards a comprehensive social welfare system that is community-based and supportive of households' development, (ii) rationalize the scope for social welfare services and improve cost efficiency, and (iii) introduce services that provide care in a family environment. Among the strategies identified are (i) transforming cash-based benefits into multifunctional services based on the initiative and choice of households and/or individuals; (ii) improving the quality and accessibility of social welfare services; (iii) improving the management of, and methodologies in, social welfare services; and (iv) reforming residential care institutions in accordance with community-based approaches. The succeeding actions by the Government appear to be highly inconsistent with the strategy paper.

14. In 2005, the Government introduced the child money program,<sup>24</sup> which was the first social welfare assistance that used a proxy means test<sup>25</sup> to target poor households. However, in May 2006, the Parliament enacted a new law which made "child money" a universal entitlement, with all children below 18 years of age being eligible. Immediately, the number of social welfare beneficiaries soared from less than 160,000 in 2004 to more than 1 million (40% of the population) in 2006, and ADB expressed two concerns: (i) that making the benefits universal was not consistent with the Government's commitment to implement targeted support for the poor, and (ii) that the fiscal sustainability of such welfare measures was unclear.<sup>26</sup> Recently, newly instituted social welfare programs—such as the honored mothers' allowance and newborn and newlywed programs—are more pro-natalist policies rather than being specifically geared towards reducing poverty.

<sup>19</sup> ADB. 2001. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to Mongolia for the Social Security Sector Development Program*. Manila.

<sup>20</sup> All of the Social Security Sector Development Project (SSSDP) activities were completed in 2007, except for one ongoing construction.

<sup>21</sup> The National Centre for Vocational Training and Rehabilitation for the Disabled operates under the management of MSWL.

<sup>22</sup> The social security sector strategy paper was developed in 2001 with technical and financial assistance from ADB.

<sup>23</sup> Social Security Sector Strategy Paper. 2003. *Government Resolution No. 239*. Ulaanbaatar.

<sup>24</sup> The child money program is a targeted conditional cash transfer program launched in January 2005 that provides cash allowances for children under the age of 18 to all families with three or more children living under the minimum subsistence level. Currently, the child money program provides cash transfers of MNT3,000 (\$3) per child per month and MNT100,000 (\$100) as a lump sum per child per year.

<sup>25</sup> The proxy means test was developed through collaboration between SSSDP, MSWL, UNDP, and the Poverty Research Group of the Ministry of Finance.

<sup>26</sup> This resulted in the cancellation of the third tranche of the SSSDP loan.

15. The concerns raised by ADB capture the prevailing issues in the whole social welfare sector to date. All 23 types of current social welfare assistance use population categories<sup>27</sup> rather than poverty as a basis for eligibility. More than 80% of social welfare beneficiaries since 2005 are those receiving “child money”.<sup>28</sup> Among the four social protection indicators (expenditure, coverage, poverty targeting, and social protection impact),<sup>29</sup> targeting received the lowest rating in the social protection index.<sup>30</sup> The index gives Mongolia a “best estimate” overall poverty targeting rate of only 60%.

16. Social transfers<sup>31</sup> have risen sharply from 2006 to 2008. The increases were not related to price hikes or poverty incidence, but were due to the interplay of political pressures and the universal coverage of social cash transfers. The child money program comprised 28% of the MSWL budget in 2007, other cash transfers such as the honored mothers’ allowance are being considered for very large increases in 2009,<sup>32</sup> and one of the Government’s immediate responses to the food crisis was again to increase welfare benefits by 20% in January 2008. Despite the increase in mining revenues, which has helped trigger the increases in public spending in recent years, the major risk for the sector is the escalation in expenditures and the unfavorable creation of an entitlement system that may not be sustainable but will be very difficult to cut in the future. A detailed description of the social welfare sector is in Appendix 2.

## **B. Issues and Opportunities**

### **1. Issues**

17. Rapid and persistent food price increases raise both immediate and long-term issues.

18. **Increasing Malnutrition.** The increase in food prices creates an immediate risk of increasing malnutrition and worsening food and nutrition indicators in Mongolia. The incidence of underweight children, under-5 mortality rates, stunting, wasting, anemia, and rickets are high in Mongolia compared with other Asian countries. The recommended daily calorie intake for adult Mongolians is 2,604.3 calories but, according to survey data gathered before the spike in food prices, the average calorie intake among poor households is 1,728.3 calories, or only 63.3% of the recommended intake.<sup>33</sup> Limiting food consumption, the number one coping mechanism cited by focus groups in the poverty and social assessment (Supplementary Appendix G), will directly affect these intake levels.

19. **Increasing Poverty.** Sustained high food prices will have a direct effect on poor households and will stress households living just above the poverty line. The urban poor allocate 46% of their expenditure to food, 8% to heating, and 3% to transport and communication, while for the rural poor 58% is spent on food, 3% on heating, and 3% on

<sup>27</sup> Examples of current targets of social assistance are the disabled, the elderly, pregnant women, and lactating mothers.

<sup>28</sup> National Statistics Office. 2007. *Mongolian Statistical Yearbook*. Ulaanbaatar.

<sup>29</sup> Social protection impact is defined in the social protection index as the percentage of expenditure reaching poor beneficiaries.

<sup>30</sup> ADB. 2008. *Social Protection Index for Committed Poverty Reduction*. Manila (volume 2).

<sup>31</sup> Subsidies for food and oil in response to price hikes also increased; it was almost MNT16 billion in 2007 and is likely to go up further in 2008.

<sup>32</sup> The allowances for honored mothers provide annual allowances of MNT50,000 for mothers with five or six children and MNT100,000 for mothers with more than six children. The Government plans to further increase the honored mothers’ allowance to MNT500,000 for mothers with five or six children and MNT1 million for mothers with more than six children, covering 155,000 mothers in 2009.

<sup>33</sup> Nutrition Research Center and UNICEF. 2006. *3rd National Nutrition Survey Report*. Ulaanbaatar.

transport and communication (footnote 7). Without direct assistance or access to increased income, poverty levels will rise as households are increasingly unable to meet their basic needs.

**20. Undermining the Millennium Development Goals.** In the long term, the impact of increased food prices will undermine poverty reduction gains and make the MDGs relating to poverty, child and maternal health, and education more difficult to achieve. Poor households are forced to increase their food expenditure at the expense of nonfood expenditure such as medical care and education. These reductions will ultimately adversely affect the achievement of the MDGs and will have a particular impact on women and children.

**21. Straining Informal Support Networks.** A vital network of informal safety nets sustains many Mongolian households. Around 70% receive family remittances, which constitute around 22% of their consumption,<sup>34</sup> making remittances a very important factor in reducing poverty.<sup>35</sup> The adverse effects of the devastating *dzud* in 2000 were somewhat cushioned by this informal safety net. Food price increases are affecting the budgets of both the remitting and the receiving households, which may ultimately weaken this informal support network, consequently reducing its impact on poverty.

**22. Increasing Social Instability.** If food prices and the costs of other basic needs such as energy and transport continue to rise, other more drastic coping mechanisms, such as asset shedding of livestock in rural areas or spending to cover food and fuel costs in urban areas instead of other basic needs such as education and medicine, may prevail. These responses may result in increased movement of people and/or increased social instability in both rural and urban areas.

**23.** Soaring food prices will put additional demand on the social welfare system, which is already facing considerable issues. These include the following:

**24. Lack of Targeting in Current Programs.** The lack of proper targeting results in large inclusion and exclusion errors in the sector. A significant portion of social assistance goes to the nonpoor (70% of all nonpoor households receive some form of social assistance), but a substantial portion of the poor are excluded from these programs (40% of the country's poor do not receive any form of social assistance).<sup>36</sup> As a consequence of poor targeting, in the absence of social assistance, the incidence of poverty could increase by 10%.<sup>37</sup> These errors result in huge expenditures for the Government and exclude a significant portion of poor households from the needed government assistance.

**25. Rapid Increases in Public Expenditure for Social Assistance.** The current untargted cash transfers result in high public expenditures, which are still rising. MSWL's budget has risen from 7% of gross domestic product (GDP) in 2006, to 10% in 2007, and to 16% in 2008. The proposed MSWL budget for 2009 will further raise this to 23% of GDP in 2009. Two issues are paramount: (i) the fiscal sustainability of current social welfare expenditures; and (ii) the resulting entitlements for large numbers of people, which are difficult to cut if found to be unsustainable.

<sup>34</sup> National Statistics Office (NSO) of Mongolia. 2004. *2002–2003 Living Standard Measurement Survey (LSMS)*. Ulaanbaatar.

<sup>35</sup> Family remittances work both ways; rural households usually send meat to family members in the urban areas, and urban households usually send cash and goods to their relatives in rural areas.

<sup>36</sup> The poor might be registered, but due to factors such as deficient targeting, lack of information, lack of skills, or lack of money for transportation, they might not be receiving social assistance which in theory they are entitled to.

<sup>37</sup> World Bank. 2006. *Mongolia Poverty Assessment*. Ulaanbaatar.



26. **Creating Additional Benefits.** The proposed 2009 budget of MSWL is a 51% increase over the 2008 budget due to a huge increase (900%) in the benefit amount for the honored mothers' allowance. In recent elections the Government promised that MNT1.5 million from the revenues of the mining sector would be given out to all Mongolians as a "motherland benefit". In light of the current economic and financial situation, the Government might have to consider the feasibility of this benefit.

27. **Absence of Mechanisms for Emergency Response.** There is a need for Mongolia to (i) constantly strive to ensure food security among its population; and (ii) have early detection, mitigation, and response systems in place for food-related emergencies. While promoting food security should be a medium- to long-term priority, the need to establish early warning, mitigation, and response mechanisms for food-related emergencies should be an immediate priority.

28. **Lack of Impact Measurement and Inadequate Monitoring and Evaluation.** Despite the rapid increase in expenditure and creation of new cash transfers and benefits, due to the lack of adequate monitoring and evaluation (M&E) systems and efforts at impact measurement, the Government has limited understanding of the impact of the welfare programs. As a consequence, there are few mechanisms (other than calculations on expenditures and coverage) to determine if the Government is getting value for money and/or if the assistance is making a significant impact.

29. **Limited Access to Social Assistance.** The complexities of the civil registration system limit access of poor households to social assistance. Civil registration is free but many migrants do not register because of bureaucratic red tape and limited understanding of the registration processes involved.<sup>38</sup> Lack of money and no permission (to de-register) are among the main reasons for not registering. Many migrants do not de-register from their places of origin, thus creating problems in MSWL records. Local administrative bodies are hesitant to pursue unregistered persons because of the resulting implications on their fiscal budgets and capacity to deliver services. As a result, a portion of the population, especially in urban areas, either lose the opportunity to receive Government assistance or are allocated assistance somewhere else.

30. **Decentralized Welfare System with Limited Capacity.** Local social welfare delivery structures still need capacity enhancements. Social welfare officers have heavy workloads and limited knowledge of proper social-work practices.<sup>39</sup> The *soum and khoroo* livelihood support councils (LSCs) were established by law in 2007 to support service delivery and promote fairness in beneficiary identification and targeting,<sup>40</sup> but little has been done to clarify and strengthen the LSC's role in the social welfare system.<sup>41</sup> Community-based delivery of social services is still an underdeveloped concept in Mongolia, despite SSSDP assistance in this specific area.

<sup>38</sup> NSO, ADB, World Bank. 2006. *Participatory Poverty Assessment in Mongolia*. Ulaanbaatar.

<sup>39</sup> Less than 20% of local social welfare officers have degrees in social work.

<sup>40</sup> This was previously the responsibility of the office of the *soum/khoroo* governor.

<sup>41</sup> Issues were raised in the qualitative consultations regarding the selection and objectivity of the council members. On the other hand, many LSCs complain that their recommendations are not being recognized by higher authorities at the *aimag* and district level.

## 2. Opportunities

### a. Government Response

31. **Establishment of National Council, Price Stabilization Committee, and Program.** The Government has organized a price stabilization committee which has undertaken short-term measures including (i) subsidizing reserves for meat and supply of petrol products from the Russian Federation, (ii) nullifying import duties of flour and negotiating discounted prices from the Russian Federation for imports of flour, and (iii) conducting regular monitoring of retail prices for certain basic consumer products. Changes in fiscal and trade policies were also introduced by the Government's action plan approved in May 2008.<sup>42</sup> Although prices remain high, the retail prices for meat, petrol, and flour appear to have stabilized in the third quarter of 2008 as a result of these interventions.

32. **Subprogram Directed at Vulnerable Populations.** In May 2008, the Government started to develop a subprogram to directly support vulnerable groups who are most affected by the food price increase.<sup>43</sup> ADB has worked closely with the Government to ensure the FNSWPP is in line with this subprogram. The subprogram has several components: a food stamp program; temporary shelter and hot meals; and systems improvement in social welfare policies, strategies, and evaluation. The Government has proposed a budget amendment to allocate MNT1.23 billion to subprogram activities for the remainder of 2008. The Government has also estimated that Parliament will need to consider a budget allocation of at least MNT10 billion for the subprogram for 2009.

33. **National Food Security, Food Safety and Nutrition Program.** The Food Security, Food Safety and Nutrition Program (Food II Program<sup>44</sup>), under the Ministry of Food and Agriculture (MOFA), is primarily designed to increase domestic food production. A draft law to support implementation of this plan has been submitted to the Parliament of Mongolia for approval.

34. **Proposed Food Subsidy Law.** A draft law proposing food and nutrition subsidies was forwarded to Parliament in May 2008. The draft law specifies the use of food stamps and proposes to target the poor to deliver food subsidies to the poorest households. The draft law, once passed, will represent the legal umbrella for the subprogram developed by the Government and the food stamp program developed under the FNSWPP.

### b. Mongolia's Increasing Revenues

35. **Special Development Fund.** A special development fund has been established in line with the increase in revenue from the mining sector. The long-term prospect of revenue from the mining sector and the creation of the special development fund provides potential sources of funding to sustain targeted social welfare programs.

<sup>42</sup> This includes tax exemption for oil and food products, subsidizing domestic wheat-producing farms by providing farmers with seeds at discounted price, and subsidizing public transportation.

<sup>43</sup> The subprogram was developed by a multisector working group led by the director general of the Department of Economic Policy at the Ministry of Finance, with members coming from a wide range of line ministries, civil society, and donors. It is a subprogram under the Food Security, Food Safety and Nutrition Program developed under the leadership of the Ministry of Agriculture.

<sup>44</sup> This program is also commonly translated as the Second Program on Food Supply, Quality and Safety.

### c. Public Response

36. **Public Opinion on Inflation.** In March 2008, fear of inflation rapidly escalated to become the number one problem identified by respondents in a semiannual randomized longitudinal survey implemented by the Asia Foundation since early 2006. Until March 2008, unemployment and corruption had consistently turned out first and second in the list of problems (footnote 12). Over 20,000 people took to the streets in April 2008 to protest against price increases and the issue received great attention in the June 2008 general election. No further protests have been reported since the election. The strong public opinion indicates public support and demand for an immediate and appropriate response from the Government.

### d. Development Agencies Response

37. A number of development agencies are expressing interest in supporting the Government in addressing the food crisis. The World Bank has prepared a policy note on rapid inflation and is proposing a program to help improve food security in rural areas, and address the underlying causes of Mongolia's extremely high inflation by strengthening macro-management and targeting of social assistance. The World Bank proposal presents several opportunities for collaboration which are being discussed. The United Nations Development Programme (UNDP), Food and Agriculture Organization, and other United Nations and bilateral agencies are also considering some form of assistance. Several humanitarian nongovernment organizations (NGOs) are continuing to provide daily feeding programs targeting the homeless and the poorest of the poor. The development coordination matrix (Appendix 3) details existing and planned support programs.

## C. Lessons

38. Key lessons learned have been identified from previous assistance to, and analysis of, the social welfare sector.

39. **Reluctance to Implement Targeted Social Welfare Programs.** The combination of poor benefits targeting and exclusion of unregistered residents from many social welfare programs means that poverty reduction from social protection support has been limited. Recent amendments to the Social Welfare Law (January 2008) revised the eligibility criteria for recipients of benefits but still did not distinguish between beneficiaries with income above and below the poverty line. Reforms to improve targeting of social welfare programs will be limited by public sensitivities, popular expectations, and political demands. Reluctance to undertake targeting can also partly be attributed to the lack of capacity, knowledge on targeting mechanisms, and identification of workable models. The current inflationary environment that has highlighted the clear need to assist the most vulnerable has led stakeholders to take the opportunity to create a targeted welfare benefit to address the situation.

40. **Weak Institutional Capacity to Undertake Policy Reforms.** The implementation of the investment loan of the ongoing SSSDP has made satisfactory progress, with achievements in the areas of employment promotion and social insurance, but the policy loan has not. The Government's decision to make the child money program universal led to the cancellation of the third tranche of the policy loan. Technical assistance (TA) completion reports<sup>45</sup> find that poor interministerial coordination, weak project management capacity, staff turnover, and policy vacillation affected project implementation.

<sup>45</sup> ADB. 2008. *Mongolia Country Assistance Program Evaluation: From Transition to Takeoff*. Manila.

41. **Mismatch Between Social Welfare and Population Policies.** Newly instituted social welfare programs—such as the honored mothers' allowance, child money, and newborn and newlywed programs—are not primarily geared towards reducing poverty but are in fact tools to promote population growth. This might be a legitimate policy objective but it blurs the principle of directing social welfare assistance to the poor. Focusing social welfare on poverty issues would increase the performance and the impact of the social protection sector.

42. **Tendency to Increase Social Welfare Spending as Government Revenues Increase.** There is a tendency in the Government to further expand the social welfare system because of expected revenue growth from the mining sector. The high level of social expenditures might be difficult to sustain if revenues from the mining sector drop in the future, or if the Government changes its development priorities. At the same time, experience shows that it will be difficult to cut social welfare spending once programs are considered by the public as entitlements. One related lesson is that there is a lack of capacity, and to some extent reluctance, in the Government to measure the impact of social welfare spending. Result-based management of social welfare programs should increasingly become the basis for funding these programs.

43. **Direct Food Aid is Costly and Poorly Targeted.** Lessons learned from direct food aid distribution in Mongolia, essentially from the United States Agency for International Development and the Government of Japan, point to problems of targeting and prohibitive distribution costs. The city government of Ulaanbaatar included over 60% of the population of the capital in the list of beneficiaries for the recent Indian rice and sugar donation—a good example of poor targeting. Some governments authorize the selling of food donations on the market and then use the proceeds of the sales to fund social programs. These strategies do not always ensure that the benefits directly reach those most in need. There is a need for innovation in food assistance across the country.

44. **Food Stamps as the Appropriate Safety Net.** There are safety nets that can be considered aside from food stamps. Food for work can be applied as a local initiative to complement a national initiative such as food stamps. Direct or in-kind food distribution has proven to be costly and generally suffers from a lack of targeting. Targeted cash transfers can be easier and less costly to implement but there is evidence that the use of food stamps is more effective than cash transfers in increasing food consumption and improving nutrient availability.<sup>46</sup> It is expected that the use of food stamps could help in modifying the behavior of the general population towards cash-based assistance.<sup>47</sup> Hesitation to use cash was repeatedly brought up in stakeholder consultations because of the fear that cash could be used to purchase alcohol. Alcoholism is a major public health issue in the country and both government and community members felt that it was important to target this assistance in such a way that it would not exacerbate any problems. The Government, which tends to resort to unconditional cash transfers, favors the use of food stamps as a safety net response to the increasing food

<sup>46</sup> Poor people tend to have higher marginal propensity to consume food as a result of food transfers than equivalent cash transfers. US experiences in food stamps indicate that (i) an additional dollar of food stamps increased food consumption by 17%–47%, as opposed to 5%–13% induced by cash; (ii) the effect on nutrient availability was roughly 2–7 times larger for food stamps than cash; and (iii) the switch from food stamps to cash transfers triggered a reduction in food expenditures of between 18% and 28%. Studies done outside the US also indicate the same trend (Gentilini, Ugo. 2007. *Cash and Food Transfers: A Primer*. Rome: WFP).

<sup>47</sup> Cash-based assistance manifests the following tendencies: (i) it provides an incentive for people to push for the benefit regardless of their poverty situation, (ii) it limits opportunities for implementing systems which use self selection, (iii) it could be misused to purchase nonfood items, and (iv) it increases opportunities for misuse of funds.

prices and will be in a position to gain significant lessons for policy formulation and program development related to safety nets and other social welfare benefits. Furthermore, a food stamp program is flexible and can be shut down and/or reinitiated depending on the need.

**45. International Lessons from Food Stamp Programs.** Many countries have implemented food stamps, and the US has the longest-running coupon-based food subsidy system, which was established in 1964. Food stamps have consistently been found to increase food consumption (more than with cash transfer) but have weak effect in reducing malnutrition. Many food stamp programs that have started as a temporary measure to sustain consumption of certain vulnerable groups have continued even after the worst effects have passed. Food stamps are complex to implement and critical design decisions include (i) determining clear program objectives and target population, (ii) implementing well-defined beneficiary selection processes and entrance and exit strategies, and (iii) building the institutional capacity to carry out the program. Important implementation considerations are (i) establishing the legal and regulatory framework, (ii) preparing a detailed operations guidelines, (iii) preparing a central registry of beneficiaries, (iv) printing stamps on secure paper, (v) ensuring prompt delivery of food stamps and stamp redemption, and (vi) carrying out effective M&E. Electronic transfer cards reduce fraud and permit tracking of foods purchased but have higher administrative costs. Taking precautions to avoid adverse incentives (black markets, fraud, impact on leisure decisions, and migration) are important elements to consider.<sup>48</sup>

**46. Rationale for the FNSWPP.** Soaring food prices in Mongolia pose a serious threat to nutritional welfare and could reverse recent gains in poverty reduction and human development in the country. Inflation reduces real incomes and expenditures and has strong social and poverty impacts. Higher food prices are not merely short-term phenomena that the market will automatically correct. Rising inflation has strong implications for macroeconomic stability, poverty incidence, and inequality. There is ample reason for the Government to intervene in the short-term by establishing targeted subsidy programs to alleviate the impact of inflation on the poor. While the needed response is urgent, it presents an opportunity for introducing innovative safety nets that are well-targeted towards the poor. At the same time, there is an opportunity to improve targeting mechanisms; strengthen systems, capacities, and strategies for effective social welfare service delivery; and establish early detection, mitigation, and rapid response mechanisms for food crises and similar emergencies. The grant is in direct support of Government plans to provide targeted assistance to the poor and supports the country partnership strategy pillar of inclusive social development (in preparation). The design is in line with the development agenda of inclusive economic growth in ADB's long-term strategic framework 2008–2020 (Strategy 2020)<sup>49</sup> and responds directly to the President's pledge at the ADB Annual Meeting in Madrid to assist developing member countries in addressing the problem of soaring food prices.

### III. THE PROPOSED PROGRAM

#### A. Impact and Outcome

**47.** The impact of the Program is reduced vulnerability to food insecurity through increased food supply and improved access to food by vulnerable and poor households. The outcome of

<sup>48</sup> Castaneda, Tarsicio. 2000. The Design, Implementation and Impact of Food Stamp Programs in Developing Countries. *Working Paper Human Development Network*. Washington, DC: World Bank.

<sup>49</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

the Program is improved access to food by vulnerable and poor households through a targeted food stamp program and strengthened social welfare systems.

## **B. Scope**

48. To achieve the outcome, the FNSWPP will comprise a program grant (component 1) and a capacity development project grant (components 2 and 3).

49. In response to the food crisis, the Program will deliver a short-term food safety net in the form of food stamps focused on poor households by pilot-testing methodologies for targeting the poor, improving existing systems, and building on existing structures. The food stamp program could be shut down or expanded depending on the severity of the food crisis. The project components will maximize learning opportunities from pilot testing and program implementation to develop and embed within the Government, system capacities and instruments for (i) proper targeting, (ii) measuring and analyzing impacts of the food crisis, (iii) external M&E, and (iv) community-based approaches to ensuring household food security.

50. Actual implementation of the food stamp program will be used as a reference point for providing inputs to improve social welfare analysis tools and strategies. Technical inputs will be provided for applying lessons from food stamps implementation to other social welfare programs. Technical inputs will form the basis for active policy dialogue at the highest level of Government to promote institutional reforms of the social welfare sector.

## **C. The Program Grant**

### **1. Component 1: Design and Implementation of a Targeted Food Stamp Program**

51. Component 1 will pilot the targeting and delivery mechanisms for delivering food stamps and test the overall design. The results of the pilot testing will be used to finalize the overall design (including the targeting and delivery mechanisms) to be used for expanding coverage until 2011 (or earlier if the assistance is no longer needed). A total of at least 100,000 beneficiaries (equal to about 4.5% of the population designated as the most poor) will receive a monthly cash equivalent of \$14 as food stamps. This amount is equivalent to monthly expenditures on food of the poorest quintile,<sup>50</sup> hence doubling their purchasing power on food. The food stamp program will be built on best international practices and lessons learned from implementation of pilot approaches. The outputs of component 1 are:

#### **a. Output 1: Innovative Targeting Approaches for Food Stamps Pilot-Tested**

52. **Approach 1.** From January 2009, the Government will start distributing food stamps as an emergency measure to approximately 30,000 disabled and elderly beneficiaries. Approach 1 will identify beneficiaries according to the definition of vulnerable groups as included in the social welfare laws.

53. **Approach 2.** Approach 2 will make use of and update existing MSWL lists of disabled and elderly beneficiaries in selected pilot areas. The updating process will involve adding beneficiaries and deleting recipients previously excluded from receiving benefits based on the

<sup>50</sup> National Statistics Office. 2007. *Household Expenditures July 2006–July 2007*. Ulaanbaatar.

results of an assessment of their socioeconomic status established through home visits. The pilot-testing process will be as follows: (i) the social worker updates the list, (ii) university students or NGO partners validate the list through home visitation and assessment of socioeconomic conditions,<sup>51</sup> (iii) the LSC further validates the list, and (iv) food stamps are provided to the persons on the validated list. Approach 2 will be administered in selected sample areas in and around Ulaanbaatar to initially reach 20,000 beneficiaries. It is envisaged that approach 2 will be started immediately. The recipients of approach 2 will be different to the beneficiaries selected for the emergency measure of the Government (Approach 1).

54. **Approach 3.** Approach 3 will employ innovative<sup>52</sup> targeting approaches for identifying beneficiaries. This approach will explicitly conduct outreach and target households in the poor areas or outskirts of the cities, identified through a household assessment as among the poorest and eligible for the assistance.<sup>53</sup> The pilot-testing process will be as follows: (i) sample geographic areas in or around Ulaanbaatar not covered by approach 2 and considered as “pockets of poverty” are identified for piloting, (ii) a survey using the household assessment form<sup>54</sup> is administered in all the households in the target area by contracted university students or NGO partners, (iii) the results of the survey are evaluated to determine eligibility, (iv) a list of eligible households is provided to the local LSC for validation, and (v) those found eligible will be provided with food stamps. Approach 3 will be administered in selected geographic areas with a sample size of 10,000 beneficiaries and will expand nationwide incrementally. It is envisaged that approach 3 will start during the first semester of 2009 to give time for the development of the household assessment survey instruments.

55. The pilot testing of both approach 2 and approach 3 will be concurrently evaluated by 30 June 2010, after which the household assessment survey instruments will be refined based on the results of the pilot testing. The refined survey instruments and best practices from the approaches will be incorporated into the final design to be used for scaling up to 50,000 beneficiaries in 2010 and a further 20,000 beneficiaries in 2011.

#### **b. Output 2: A Mechanism for Delivering Food Stamps in Mongolia is Established**

56. The mechanism for delivering food stamps involves five interconnected stages: (i) beneficiaries are identified, (ii) food stamps are distributed, (iii) beneficiaries receive the stamps, (iv) shopkeepers<sup>55</sup> get paid with stamps, and (v) banks receive the stamps. In stage (i), beneficiaries are identified using the targeting methodologies outlined above (approach 2 or 3 during pilot testing and the refined outreach approach after pilot testing). Targeted beneficiaries

<sup>51</sup> The criteria for the selection of NGOs (and other civil society groups) and identification of appropriate checks and balances will be outlined in the operational guidelines.

<sup>52</sup> The use of the term “innovative” is justified because the food stamp program represents the first attempt to select beneficiaries of social assistance through the use of a targeting mechanism which seeks to identify the poor and includes independent household assessment (use of civil society groups).

<sup>53</sup> The main basis for eligibility will be the result of the household assessment which will identify poverty and not a category of vulnerability. Some households already receiving social welfare assistance will still be eligible for the food stamps. This methodology will assist in identifying particularly at-risk households such as households in the peri-urban areas headed by women.

<sup>54</sup> The household assessment form will be developed using previous experiences in Mongolia with technical assistance from an international targeting expert.

<sup>55</sup> The poverty and social assessment identified that wholesale market sellers are an important source of cheap foodstuffs for poor families. Efforts will be made by the Program to include these sellers in the food stamp program.

will sign the terms and conditions for receiving the food stamps.<sup>56</sup> The list and information about the beneficiaries will be kept in a central database. A printing company capable of printing on secure paper will be contracted to print the stamps. A contracted institution (bank or post office preferably) will be responsible for delivering the stamps to the beneficiaries in stage (ii). When beneficiaries receive the food stamps in stage (iii), they can then buy food from the contracted shopkeepers (food sellers) using the stamps. The shopkeepers who receive the stamps in stage (iv) will then submit the stamps to the contracted bank. In stage (v), the contracted bank will replace the shopkeeper's collected food stamps with cash and submit all of the collected stamps to the central bank for liquidation.

57. The five stages will be closely monitored during the pilot testing to identify and immediately resolve bottlenecks, issues, and problems in the system. The pilot testing will be evaluated together with the targeting approaches, and adjustments will be made in the final mechanism to be used for food stamp program expansion. The activities of component 1 are described in further detail in Supplementary Appendix B.

## 2. Important Features

58. **Modeling a Targeting Strategy.** The Program will make use of an innovative targeting strategy which will (i) first utilize the existing MSWL lists of beneficiaries that focus on categories in the population (e.g., elderly persons and persons with a disability), (ii) update these lists through validation and verification by a contracted third party (e.g., an NGO), (iii) administer an improved proxy means test to the beneficiaries in the updated list, (iv) validate the LSC, and (v) deliver the food stamps to those identified as poor households based on the results of the proxy means test. Targeting poor households for the food stamp program is the most important feature of the Program because (i) it provides a major step towards solving the prevailing issues in the social welfare sector, and (ii) it will demonstrate to the Government the impact and effectiveness of targeting in making significant improvements in the social welfare sector. As registration of nomadic persons is effective in rural Mongolia (*soums* are the administrative anchors for rural households), the systematic household assessment will capture rural herders, albeit at a higher administrative cost. Through systematic household assessments within "pockets of poverty", the unregistered urban poor will also be captured by the food stamp program. The operational guidelines for the food stamp program will outline the procedures for outreach in greater detail. This strategy will be strongly reinforced through expert inputs to be provided through the Project grant.

59. **Increasing the Capacity of the Livelihood Support Councils.** The program, especially during its final stages, will make use of the LSCs in validating beneficiary selection and identification, as well as in serving as a venue for raising appeals and grievances related to beneficiary selection. Training and other capacity-development activities will be provided to the LSCs. Expert inputs will be provided through the Project as necessary.

60. **Partnering with Civil Society Organizations and the Private Sector.** The Program recognizes the potential contributions that civil society organizations and the private sector can provide. It will outsource different functions within the safety net to universities, NGOs, and the private sector to gain efficiency and augment the capacity of local social workers in areas where civil society organizations have particular expertise and resources (e.g., targeting and

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<sup>56</sup> The terms and conditions include a provision that the food stamps will be used for food, excluding food items on a negative list (e.g., alcohol and cigarettes).



verification of beneficiary eligibility, actual delivery, monitoring, community mobilization, and advocacy).

### 3. Financing Plan

61. The Government has requested a grant of \$9.0 million from ADB's Special Funds resources. The counterpart funds generated from the grant proceeds will be allocated to MSWL for the implementation of the Program. The terms and conditions for the grant will be as set forth in the draft Grant Agreement. The Government has allocated MNT80 million in its 2008 amended budget and plans to allocate at least MNT10 billion in the 2009 budget to fund food safety net program-related activities. Indicative program budget requirements for 2010 and 2011 have been discussed with the Government for inclusion in the Government budget for these years.

### 4. Program Cost

62. Program implementation will involve short-term adjustment costs to fund the food stamp program and this will be financed by counterpart funds. The support needed for the social protection system reform will require incremental costs estimated at \$5.0 million equivalent related to sustained staff development, improved targeting mechanisms, salaries of additional social work staff at *soum* and *khoro* level, TA for social protection system improvement, management information system development, M&E, supervision, and advocacy.

### 5. Implementation Arrangements

63. **Program Management.** The Ministry of Finance (MOF) will be the Executing Agency (EA) with overall responsibility for the implementation and coordination of activities with other partners. A multisectoral Steering Committee composed of senior level officials of (i) MOF; (ii) MSWL, with such official serving as the vice chair; (iii) Ministry of Health; (iv) MOFA; (v) National Statistics Office (NSO); (vi) Mongolian Employers Federation; (vii) Association of Elderly Persons; (viii) the agencies responsible for the distribution of food stamps; (ix) UNICEF; (x) an NGO engaged in food security programs; and (xi) ADB as observer, shall be established and shall meet quarterly to provide policy and strategic guidance to the Program. The Steering Committee shall be chaired by the head of the subprogram to the Food II Plan of the Recipient. An English language version of the minutes of Steering Committee meetings shall be forwarded to ADB on a quarterly basis.

64. MSWL will be the Implementing Agency (IA) for the Program and will be the primary responsible unit for delivering the expected results of the Program. A program implementation unit (PIU) with contracted staff will be established within MSWL to facilitate administrative, financial, and procurement matters, and serve as the secretariat to the Steering Committee. The PIU will closely consult with relevant ministries, agencies, and international partners. It will be headed by a qualified program manager selected on a competitive basis. The PIU will comprise four staff, including an administration and finance officer, secretary, and driver for the entire implementation period of the FNSWPP. MSWL will organize a local structure to ensure effective food stamp implementation locally.

65. The PIU will submit consolidated quarterly progress reports to ADB (in English) and to the Steering Committee and MSWL on all aspects of program implementation. The reports will include details on overall implementation progress, including summary financial information (receipts and disbursements), problems encountered during the reporting period, measures

taken or proposed to be taken to remedy these problems, and the proposed program of activities for the following quarter. The reports will also include an assessment of the implementation of the food stamp program, following monitoring indicators included in the operations guidelines of the program. A pilot testing completion report will be submitted to ADB within 1 month of completion of approach 2 and approach 3. Within 3 months of completion of the FNSWPP, the PIU will prepare and submit to ADB, in a format acceptable to ADB, an FNSWPP completion report on (i) the utilization and impact of the grants, including a statement of expenditures; (ii) performance of the FNSWPP; (iii) economic and social benefits generated; and (iv) details about implementation, costs, and other information requested by ADB.

66. A food stamp operating unit (FSOU) will be immediately established within the PIU to (i) carefully but rapidly provide the technical requirements of operating a food stamp program; (ii) augment the capacity of the Government to immediately undertake setting-up activities necessary for delivering food stamps, such as ensuring proper targeting of the poor, quality printing and reproduction of the stamps, timely and orderly delivery of the stamps to the beneficiaries, and proper contracting with the major operators in the system (post office, banks, printers, and shopkeepers); (iii) provide TA to the MSWL office and LSWO personnel at the districts and *aimags* as well as *soums* and *khoroos*; (iv) provide troubleshooting assistance in case problems arise in the system; and (v) provide technical support to consultants to be deployed through the Project. The Government has agreed to immediately start the selection and hiring process for the national experts who will become part of the FSOU. It is envisaged that the FSOU will be in place before the end of November 2008.

67. Safeguards to prevent leakage and corrupt behavior surrounding the implementation of the food stamp program will be implemented. The grants will address these issues through various means: (i) providing detailed implementation guidelines (i.e., food stamp operational guidelines); (ii) carrying out capacity-development measures at various levels; (iii) implementing a communication campaign to inform the public and ensure transparent implementation; (iv) signing contracts with printers, food stamp distributors, and shopkeepers, which include sanctions for misbehavior; (v) strengthening targeting strategies to minimize food stamps being distributed to ineligible beneficiaries; (vi) implementing independent M&E; and (vii) broadening the scope of the audit to include auditing of food stamp program operations. The grants will utilize existing effective delivery mechanisms and institutions and will enhance their capacity as appropriate. Local governments, particularly at the *aimag* and *soum* or *khoroos* levels, and the *soum* or *khoroos* LSCs, will be involved in the preparation and implementation of the food stamp program. Intersector coordination will be assured by the Steering Committee at the central level. Implementation arrangements are discussed in further detail in Appendix 4.

68. **Period of Implementation.** The duration of component 1 is 36 months. It will be completed by 31 December 2011. The grants implementation schedule is in Appendix 5. A detailed implementation schedule is in Supplementary Appendix C.

69. **Procurement.** All procurement to be financed under the Program grant will be carried out in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). In accordance with the simplified disbursement and procurement procedure for program loans, the grant proceeds may be utilized to procure goods and services (excluding local duties and taxes) other than (i) those specified in the list of ineligible items (Appendix 6) produced in and procured from ADB member countries, (ii) those financed by other multilateral and bilateral official sources, and (iii) imports from non-ADB member countries. All procurements under the Program (component 1) will be made through normal commercial practices for the private sector or the Government's prescribed procurement procedures acceptable to ADB, with due consideration

given to economy and efficiency. ADB reserves the right to audit the use of the grant proceeds and verify the accuracy of the Government certification. The procurement plan is attached in Appendix 7.

70. **Consulting Services.** The FSOU will consist of seven national consultants, to be headed by a team leader and to be complemented by intermittent assistance from an international targeting specialist (2 person-months). The FSOU will be lodged within the PIU and will establish and coordinate the implementation of the food stamp program. A total of 254 person-months of consulting inputs will be provided by these consultants over 3 years. The Government will hire the seven national consultants and the international targeting specialist before starting the Program indicatively from October 2008 to prepare for the implementation of component 1 (21 person-months of national and 2 person-months of international consulting services). All of the consultants mentioned will be hired and financed by the Government under the Program.

71. **Counterpart Funds.** Counterpart funds will be used to finance the short-term adjustment costs under component 1.

72. **Monitoring and Tranching.** Funding of component 1 will be released to the Government in a single payment of \$9 million following grant effectiveness, including satisfaction of all policy actions in the policy matrix as confirmed in the development policy letter (Appendix 8).

73. **Program Performance Monitoring and Evaluation System.** The implementation of the food assistance safety nets will be monitored and evaluated by MSWL, with the participation of MOF, supported by independent external monitoring to be funded under the Project. Monitoring will include operational performance and outcome indicators of the food safety net program as per the operational guidelines, and indicators of the design and monitoring framework. Impact evaluation is conditional on the feasibility of collecting data on the food stamp program through the national socioeconomic household survey, the likely sample size, and cost considerations. The monitoring of households<sup>57</sup> affected by soaring food prices will be assessed on a regular basis by government mechanisms and supported by consultants hired under the Project. The Government monitoring capacity and systems (especially those of MSWL) will be supported during implementation of the Program to ensure full monitoring capacity of the Government after the Program.

74. **Program Review.** ADB will conduct review missions jointly with the Government at least twice a year to identify issues and constraints, determine necessary remedial actions and adjustments, and advise on actions required to keep the Program on course. The joint review missions will review coordination and collaboration with other ongoing programs related to food security and nutrition. To encourage a policy dialogue approach to the review process, the central government, local governments, and ADB will also conduct a joint midterm review of the Program within 18 months of commencement of Program implementation.

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<sup>57</sup> Where relevant, data will be disaggregated by sex, thereby facilitating gender analysis of impacts and supporting changes in program design and implementation. The Gender Action Plan in Appendix 11 outlines indicators to be tracked.

#### IV. THE PROPOSED CAPACITY DEVELOPMENT PROJECT

##### A. Component 2: Capacity Development and Communication Strategy

75. Component 2 will provide the capacity development inputs and communication strategy for both the pilot-testing and the regular implementation of the food stamp program. The following are the outputs of component 2:

###### 1. Output 1: Capacity Development Activities Implemented

76. The Project will undertake capacity development in two stages: (i) capacity development for the pilot-testing of the food stamp program, and (ii) capacity development for delivering the expanded food stamp program and other social welfare services. The first stage will provide training to all groups involved in identifying beneficiaries and delivering the food stamps. This will include the validators for the data generated by approach 2, surveyors for approach 3, LSCs, shopkeepers, social welfare officers (SWOs) in pilot areas as well as in the *aimags* and districts, and key officers in MSWL, LSWO and MOF. The second stage will provide training and capacity development for the LSCs, SWOs, and key officers of MSWL, LSWO and MOF on the final design and mechanisms of the food stamp program to be used for expansion of coverage. Other capacity development topics will include (i) impact studies, baseline data and impact methodologies; (ii) targeting; (iii) M&E; (iv) costing of social welfare reforms and programs; (v) civil registration; and (vi) early warning, mitigation, and response mechanisms.

###### 2. Output 2: Communication Strategy Developed and Implemented

77. The Project will identify and contract a Mongolian consulting firm to (i) design the communication plan for the Program centered on poor households and vulnerable populations, social workers, local government, and national stakeholders; (ii) develop and pilot-test the information, education, and communication (IEC) materials and media for the communication plan; (iii) implement the communication plan in collaboration with the PIU, MSWL, the Steering Committee and MOF; (iv) provide TA to MSWL in the conduct of awareness-raising activities on social benefits; and (v) make recommendations and undertake measures for institutionalizing the communication strategy. The communication strategy will target all stakeholders and promote public awareness<sup>58</sup> about the rationale for the Program, targeting criteria, and agreed delivery mechanisms. Details of this component are described in Supplementary Appendix D.

##### B. Component 3: Strengthening Social Welfare Strategies and Systems

78. The following are the outputs of component 3:

###### 1. Output 1: Effective Food Crisis Response

79. Subcomponent 3.1 will provide expert technical analysis of capacity development needs to promote an effective food crisis response. The areas for technical analyses are (i) strengthening the decentralized social welfare institutional structure under the food stamp program; (ii) measuring and analyzing impacts of the soaring food prices on the poor; (iii)

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<sup>58</sup> The communication strategy will also particularly target women at the community level. The poverty and social assessment found that women are primarily responsible for household food budgets and shopping. As the primary users of food stamps, they will be an important audience for education and outreach in the communication strategy.

targeting mechanisms for food assistance benefits and other social welfare programs; (iv) external M&E of the implementation of the food assistance safety nets; and (v) community-based approaches to ensuring household food security, particularly in the urban sector. For point (v), the Project will make available at least 40 small community grants (of up to \$3,000) to be administered by an experienced NGO (reporting to the PIU) to support and develop best practices in community-based approaches to ensuring household food security. These grants will target poor households, and particularly women, by supporting the establishment of kitchen gardens, community greenhouses, nutritional education programs, and other innovative household food security measures. Grant eligibility criteria will include community involvement, design of a sustainability plan, and identification of at least 10% of in-kind contribution. Further details on the implementation arrangements are in Appendix 4.

## **2. Output 2: A Package of Reform of Social Welfare Strategies**

80. Subcomponent 3.2 will provide technical analysis of social welfare strategies and deliver a set of proposals for (i) policy discussion, (ii) a legislative agenda, and (iii) medium- to long-term policy reform. The technical analyses will focus on (i) social welfare benefits impact analysis, (ii) effective M&E of social welfare programs, (iii) social welfare expenditure and fiduciary and fiscal sustainability analysis of social welfare programs, (iv) facilitating the civil registration system through incentives, and (v) developing a knowledge product on social welfare institutional reforms and capacity development.

## **3. Output 3: An Early Warning and Response System to Social Shocks**

81. Subcomponent 3.3 will provide technical analysis and support for establishing and improving systems and mechanisms for early detection and mitigation of food and nutrition-related emergencies and for undertaking rapid responses to the effects and social shocks of food crises and similar emergencies. The subcomponent will carry out an inventory of Mongolian initiatives on early warning systems, improve existing food and nutrition monitoring and surveillance systems, and establish packages and mechanisms (including funding) for immediate responses to similar emergencies (such as *dzuds*, drought, and national disaster). The activities in this component are described in further detail in Supplementary Appendix E.

## **C. Important Features**

82. **Social Expenditure and Fiscal Sustainability Analysis of Social Welfare Programs.** The study and resulting capacity within MSWL and MOF to undertake social expenditure and fiscal sustainability analysis is expected to have longer-term policy implications in Mongolia. Having a study and the capacity within the Government to undertake social expenditure and fiscal sustainability analysis is expected to inform policy makers on the risks and implications of universal assistance in relation to Mongolia's fiscal balance and sustainability. It will also further emphasize the need for focusing and targeting any further social welfare assistance.

83. **Early Warning, Mitigation, and Response System for Social Shocks.** The need for this system is recognized by the Government as a priority and is acknowledgement of Mongolia's susceptibility to food price shocks. The establishment of an early warning, mitigation, and response system is consistent with, and supportive of, the objectives and activities of the proposed Food II Program. Close coordination and collaboration will be undertaken with the MOFA and all relevant agencies in establishing these systems in order to consolidate and avoid duplication of efforts.

84. **Medium- to Long-Term Institutional Reform and Capacity Development.** The Project builds on the gains of the ADB-supported SSSDP and takes advantage of the experiences and lessons gained from the targeted food safety program in component 1. It also maximizes the results of the broad range of expert technical inputs from components 2 and 3 by consolidating them into specific proposals for medium- to long-term social welfare institutional reforms and capacity development in the social welfare sector for policy discussion with the highest levels of Government. This important feature strongly binds all the FNSWPP inputs, fills potential gaps in implementation, and promotes sustainability of FNSWPP impacts.

#### D. Project Costs

85. The total project cost is estimated at \$3.33 million equivalent, including physical and price contingencies, taxes, and duties. A summary of cost estimates is in Table 1.

**Table 1: Project Costs**  
(\$ '000)

Item	Amounts <sup>a, b</sup>
<b>A. Base Cost</b>	
1. Capacity Development and Communication Strategy	923.1
2. Strengthening Social Welfare Strategies and Systems	1,900.8
3. Project Management	348.4
4. Taxes and Duties <sup>c</sup>	32.4
<b>Subtotal (A)</b>	<b>3,204.8</b>
<b>B. Contingencies</b>	
1. Physical <sup>d</sup>	4.2
2. Price <sup>e</sup>	121.0
<b>Subtotal (B)</b>	<b>125.2</b>
<b>Total</b>	<b>3,330.0</b>

<sup>a</sup> Numbers may not sum precisely because of rounding.

<sup>b</sup> In 2008 prices.

<sup>c</sup> Taxes and duties are computed at 10% of equipment and materials costs.

<sup>d</sup> Physical contingency is estimated at 5% of equipment and vehicles.

<sup>e</sup> Computed based on foreign exchange inflation rate of 0.7% in 2009, 1.4% in 2010, 0.4% in 2011, and local currency inflation rate at 9.5% in 2009, 9% in 2010, and 8% in 2011.

Source: Asian Development Bank estimates.

#### E. Financing Plan

86. The Government has requested a grant of \$3.0 million from ADB's Special Funds resources, representing 90% of the total Project cost. The Government will contribute the equivalent of \$0.33 million as counterpart funds for components 2 and 3. The summary financing plan is in Table 2 and the detailed project cost estimates and financing plan are in Appendix 9.

**Table 2: Financing Plan**  
(\$ '000)

Source	Total	%
A. Asian Development Bank	3,000	90
B. Government of Mongolia	330	10
<b>Total</b>	<b>3,330</b>	<b>100</b>

Source: Asian Development Bank estimates.

## F. Implementation Arrangements

87. **Project Management.** The Project will have the same EA, IA, steering committee, and PIU as that of the Program (paras. 63–67). The PIU will facilitate all administrative, financial, and procurement matters related to the Project. Further details on implementation arrangements are described in Appendix 4.

88. **Period of Implementation.** The project duration is 36 months. It will be completed by 31 December 2011 and closed on 30 June 2012. More details on the time frame are provided in the implementation schedule (Appendix 5) and Supplementary Appendix C.

89. **Procurement.** All procurement to be financed under the project grant will be carried out in accordance with ADB's *Procurement Guidelines*. Procurement under the Project will include one vehicle for the PIU and FSOU. MSWL, in charge of procurement activities of goods and consultant services, is currently implementing two ADB loans<sup>59</sup> and has had previous experience with several TA and grant projects. Key PIU staff will undergo procurement training as needed.

90. **Consulting Services.** The Project will require a total of 43 person-months of international and 76 person-months of national consulting services financed under the project grant, divided into six consultant packages as follows:

- (i) Package 1: Communication strategy; national IEC development specialist (4 person-months).
- (ii) Package 2: External monitoring; national poverty specialist (3 person-months) and national food and nutrition specialist (3 person-months).
- (iii) Package 3: Household food security; national community development specialist (6 person-months).
- (iv) Package 4: Monitoring and evaluation; national economist (5 person-months), international poverty impact analyst (3 person-months), national food and nutrition specialist (2 person-months), international qualitative assessment specialist (2 person-months), international social welfare specialist (3 person-months), international poverty monitoring and evaluation specialist (3 person-months), national social welfare specialist (6 person-months), national social researcher-analyst (30 person-months), international social sector monitoring and evaluation specialist (2 person-months), national monitoring and evaluation specialist (3 person-months), international food and nutrition specialist (2 person-months), international preparedness specialist (1 person-month), international institutional capacity building specialist (2 person-months), international safety net specialist (1 person-month), national safety net specialist (2 person-months), and international monitoring and evaluation specialist (2 person-months).
- (v) Package 5: Institutional development; international institutional capacity development specialist (2 person-months), international social welfare and safety nets specialist (1 person-months), national social welfare specialist (4 person-months), international social safety net targeting specialist (12 person-months), international macro-fiscal policy and public financial management specialist (2 person-months), national macro-fiscal policy and public finance management specialist (2 person-months), international civil registration expert (1 person-month).

<sup>59</sup> Loan 1836-MON: Social Security Development Project and Loan 1837-MON: Social Security Development Program.

months), national civil registration expert (2 person-months), international social welfare specialist (2 person-months), national social welfare specialist (4 person-months), and international development communication specialist (2 person-months).

- (vi) Package 6: National household survey data collection and management.

91. The Government requested advance contracting for the recruitment of consultants. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). The entities for packages 1, 2, and 3 will be hired through consultant qualification selection using biodata proposal. Quality- and cost-based selection procedure using a quality–cost ratio of 80:20 will be applied for the recruitment of the entities for packages 4 and 5. The NSO is the only national organization in Mongolia with the necessary competence to meet the requirements under package 6, and it will be hired through single source selection. The outline terms of reference for consultants are in Supplementary Appendix F.

92. **Anticorruption Policy.** ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government and MOF. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the FNSWPP. To support these efforts, relevant provisions of the *Anticorruption Policy* are included in the grant regulations and bidding documents for the FNSWPP. In particular, all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of MSWL and MOF and all contractors, suppliers, consultants, and other service providers as they relate to the FNSWPP.

93. In Transparency International's 2007 corruption perception index, Mongolia ranks 100th (93rd in 2006), which is typical of countries with high levels of corruption. However, efforts to promote governance and accountability and to combat corruption are accelerating in Mongolia. The Independent Authority Against Corruption (IAAC) was set up in 2006, and commenced investigations upon ratification of the Criminal Procedures Code Amendments in August 2007. The Anti-Corruption Law guarantees the independence and authority of the IAAC and investigations of senior, mid-ranking and junior officials have led to convictions. A sector risk assessment under the Governance and Anti-Corruption Program II guidelines was recently carried out for Mongolia by the Asia Foundation for national systems as well as the education and urban transport sectors in the areas of public finance management, procurement, and anticorruption. Regarding public finance management and procurement systems, the report identifies weaknesses, particularly in internal control and all stages of the procurement process, for both the national systems and in the two sectors and relevant line ministries. ADB will assist in putting mitigation measures in place to improve internal control and the procurement process. The World Bank is introducing program-based medium-term budgeting, and the International Monetary Fund is considering assistance for legal and budgetary reforms.

94. **Disbursement Arrangements.** The project grant will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). To expedite project implementation through timely release of grant proceeds, the Government will establish an imprest account at a commercial bank acceptable to ADB, which will be administered by MSWL. Disbursements from the imprest account will be supported by an appropriate withdrawal application and related documentation. Such documentation will demonstrate, among other things, that the goods and/or services are (i) procured from ADB member countries, and (ii)



eligible for ADB financing. The initial and maximum amount to be deposited in the imprest account will not exceed 10% of the Project grant amount or equivalent of 6 months' estimated expenditure, whichever is lower. ADB's statement of expenditures procedure may be used to reimburse, liquidate, or replenish eligible expenditures that do not exceed \$50,000 per individual payment.

95. **Accounting, Auditing, and Reporting.** The Government, through the PIU, will (i) maintain separate financial accounts for the Project, and (ii) have such accounts and related financial statements audited annually by independent auditors acceptable to ADB in accordance with the provisions of the Grant Agreement and as specified in ADB's financial reporting and auditing standards.<sup>60</sup> The auditors should have qualifications, experience, and terms of reference acceptable to ADB. The use of the imprest accounts and statement of expenditures will also be part of the annual audit and a separate audit opinion will be submitted. The Government will submit to ADB certified copies (in English) of such audited accounts and financial statements, as well as the related reports of the auditors, within 6 months after the close of each fiscal year. The Government was advised that ADB requires timely submission of audited projects accounts and financial statements and that it will suspend disbursements of the proposed ADB grant in case of noncompliance with the requirement.

96. For the purpose of complying with the requirements for the annual audited financial statements, the proceeds of this grant may be used to finance expenditures for preparation of financial statements, sector auditors, and translations of auditor's reports into English.

97. **Project Performance Monitoring System.** The PIU will monitor the Project along the program performance monitoring and evaluation system described in para. 73. Performance indicators are set out in the design and monitoring framework.

98. **Project Review.** Reviews as described in para. 74 will also cover Project activities.

## V. BENEFITS, IMPACTS, AND RISKS

### A. Benefits

99. **Targeted Safety Net.** The FNSWPP will provide assistance to the Government for delivering targeted safety nets to the poor and vulnerable when the need is most urgent and the Government is still struggling to determine who and where these most needy populations are. The short-term, well-coordinated, and targeted safety net program (i.e., focused on mitigating the impacts of food prices and identifying vulnerable households) will provide direct support to the most needy at a substantially lower cost than the usual broad-based actions undertaken by the Government. The quick disbursing nature of the Program will ensure that the assistance will be provided in a timely manner to the targeted beneficiaries.

100. **Greater Social Impact and Fiscal Sustainability of Social Safety Nets and Welfare Assistance.** The FNSWPP responds to soaring food prices by delivering a safety net program that builds on existing structures, resources, and capacity, then uses the FNSWPP to learn and ultimately integrate good practices into the existing social welfare system. In doing so, the grants will have short-term direct impacts on poor and vulnerable populations, a long-term indirect impact on social policy and the social welfare system, and direct impacts on the overall population.

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<sup>60</sup> ADB. 1989. *Financial Reporting and Auditing of Projects Financed by the Bank*. Manila.

101. **Harmonization of Development Efforts.** The FNSWPP's deliberate effort to harmonize its interventions with other international efforts (e.g., those of UNDP and the World Bank), the Government's broader plans and programs (e.g., the Food II Program), and other international organizations' projects and activities (e.g., UNICEF's Nutrition Monitoring System), directly benefit the Government in terms of savings from preventing duplication of efforts and ensuring efficiency of programs related to food security.

102. **Improved Local Capacity.** The FNSWPP's emphasis on improving capacities of local governments and LSCs to deliver targeted safety nets and social welfare assistance distinguishes it from most national programs that have laudable objectives but fail to consider limitations and/or absorptive and carrying capacities of the local bodies. This emphasis directly benefits local social workers, LSCs, governors, and local leaders with better skills and improved resources, which will immediately benefit poor and vulnerable populations in terms of effective and timely assistance.

103. **Civil Society Participation.** The FNSWPP recognizes civil society's potential contributions to it. Deliberate efforts to mobilize civil society participation in appropriate components (i) promotes increased program efficiency, (ii) directly benefits local government bodies in terms of additional resources, and (iii) benefits the vulnerable populations in terms of stronger voice and advocacy for more equitable assistance from the Government.

## **B. Impacts**

104. **Poverty Reduction and Social Impact.** The Program will protect at least 100,000 poor and vulnerable households from the risk of malnutrition and from sliding deeper into poverty by providing a targeted safety net using food stamps. In the longer term the Program will contribute to mitigating the impact of the food price increases and reaching nonincome MDGs. Transparent and more effective systems and capacities will reduce opportunities for corruption. Increased knowledge on rights and benefits among poor and unregistered people and improved civil registration will promote the rights of migrants and unregistered populations, and contribute to poverty reduction and reducing social problems in urban areas. The training and awareness-raising activities of the community grants program that accompanies the safety nets will improve knowledge and practices in proper nutrition and promote household food security and self-sufficiency among poor and vulnerable populations. The summary poverty reduction and social strategy is in Appendix 10, and the poverty and social assessment is in Supplementary Appendix G.

105. **Gender Impact.** Because women are the most likely users of the food stamps,<sup>61</sup> they will (i) increase their ability to balance the household budget and provide adequate nutritional intake for their families, (ii) gain increased awareness on benefits and rights through appropriate IEC materials and strategies, (iii) participate in household economic activities, and (iv) be involved in community concerns and activities. Community-based activities that promote food security (e.g., kitchen gardens, small vegetable farming, and nutritional meals training) will involve parents, especially mothers, in (i) identifying and prioritizing their needs, (ii) planning community projects that respond to their needs, (iii) participating in training activities related to these projects, and (iv) implementing these activities together with their peers. A gender action plan has been prepared for the Project with the intention of maximizing opportunities for gender

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<sup>61</sup> This was confirmed by the rapid qualitative assessments during consultation. Women are generally the ones claiming and budgeting benefits received from the Government.

impact in design and implementation and providing adequate data for M&E of the FNSWPP. The gender action plan is in Appendix 11.

**106. Institutional Impact.** Government institutions, particularly MSWL, the provincial and district *soum* and *khoro* governors, local social workers, and LSCs will gain increased capacities for (i) delivering services; (ii) generating and analyzing data in aid of policy and program development; and (iii) establishing packages and mechanisms for anticipating, mitigating, and responding to food crises and similar situations. The FNSWPP will also promote (i) better ways of identifying and targeting beneficiaries, which is a crucial factor in ensuring program effectiveness and efficiency; (ii) more accurate and reliable data through improved data management, analysis, and evaluation; (iii) improved M&E, which feeds back into more effective program planning; (iv) stronger participation of the community, local government, and LSCs; and (v) more effective coordination and communication strategies among stakeholders. Government ministries will be better equipped with analytical tools and methodologies to develop and implement more focused and responsive policies and programs. Civil society organizations will play a more active role in delivering social welfare services. Established early detection, mitigation, and response mechanisms and packages improve the preparedness of government agencies for rapid deployment in the event of another food crisis or similar emergency.

**107. Economic and Financial Impacts.** The FNSWPP will improve food security for at least 100,000 households, preventing them from sliding deeper into poverty. In order to assess the economic viability and efficiency of the investment under the Project, economic benefits and costs were identified and an economic internal rate of return (EIRR) over 20 years was estimated.

108. The quantified economic benefits are cost savings consisting of reduction in out-of-pocket household expenses resulting from avoided health costs. These may occur, based on the assumption that poor households are more vulnerable to illness than nonpoor because of their poor living conditions. The analysis does not attempt to quantify all economic gains and only provides conservative estimates based on benefit streams that can be quantified.

109. Economic costs were calculated based on the annual program cost disbursements and incremental recurrent costs. It is assumed that for each MNT1.0 spent on investment, an additional MNT0.10 per year is spent on maintenance and operation of the new health facilities. The cost of administration of the FNSWPP—including MSWL's cost of administering the grant, the cost of consultants, and M&E of the grants—are also included as components of the recurrent cost. The estimated total economic cost of the FNSWPP at constant 2008 prices is \$18.4 million for 20 years, including both capital and incremental recurrent costs. Financial costs are converted into economic values based on a standard conversion factor, using domestic price numeraire in all program economic cost conversions.

110. The FNSWPP yields an EIRR of 16.9% and a net present value of MNT11.7 billion. The net present value calculation discounts the cost and benefit streams at 12% in real terms. The actual EIRR is likely to be somewhat higher, reflecting positive externalities and longer-term intergenerational social benefits that come with improved targeting of social protection services. These benefits may be reflected in education outcomes and quality of life, to which it is difficult to assign monetary values.

111. The main investment of the FNSWPP, the food stamp program, is expected to have a cost of \$9.0 million from ADB resources in 2009, which is equivalent to 0.17% of Government

expenditure in 2009. The cost of the program will be financed by ADB, with the Government providing matching expenditure of about \$10 million in 2009 to cover the 100,000 beneficiaries during the Program period. The fiscal burden generated by the new FNSWPP is around 0.32% of Government expenditure. The investment plan for the Project is about 0.06% of the annual budget of the social protection sector, while FNSWPP recurrent costs are about 0.06% of the 2009 budget of MSWL, decreasing to 0.01% in 2011. The Government is committed to assuming all recurrent costs generated by the FNSWPP. The economic and financial analysis is in Supplementary Appendix H.

112. **Sustainability Impact.** The FNSWPP has built-in features to ensure sustainability, namely (i) its support to the Government's subprogram that is a major component of the second National Plan for Food II Program helps promote longer-term food security and nutrition among the poor and vulnerable populations; (ii) improved MSWL capacity in targeting and delivering safety nets helps guarantee sustained social protection for poor households; (iii) strengthened community-based approaches for promoting household food security (e.g., community vegetable gardens) provides better access of poor households to food in the medium term; (iv) increased awareness among the public on their rights and the benefits offered by MSWL; and (v) continuous policy discussion with the highest levels of government on social welfare institutional reforms and capacity development ensures that all institutional reforms are sustained and that capacities gained are embedded within the government system, thus ensuring sustainability of impact.

### C. Social Safeguards

113. **Land Acquisition and Resettlement.** The FNSWPP is designed to initiate a response to the soaring food prices through the food stamp program. Therefore, it will not trigger any resettlement issues.

114. **Ethnic Minority Issues.** The FNSWPP will implement a national food stamp program targeting the poorest and most vulnerable. The poverty and social assessment has confirmed that no negative impacts on indigenous peoples will occur.

### D. Environmental Aspect

115. The FNSWPP is classified as category C, in accordance with ADB's *Environment Policy* (2002). The short-term food subsidy offered to the vulnerable segment of the population will increase demand for the subsidized items that will be met by increased domestic production, greater imports, higher prices faced by the nonsubsidized population in case of inelastic supply response, or some combination of these effects. The environmental impact of the adjustment will then be that of an estimated increase in domestic production, food imports, and price increases faced by the nonsubsidized segment of the Mongolian population. The (most relevant) first category (environmental impacts of greater domestic production attributable to the grant) will be small and the dominant indirect impacts of the grant will be the positive impacts on the vulnerable group's physical and mental health. These positive impacts will comfortably outweigh any possible negative indirect environmental impacts, such as those briefly analyzed above. There is no need to conduct either an initial environmental examination or a strategic environmental assessment for the proposed FNSWPP. The environmental assessment is attached in Supplementary Appendix I.

## E. Risks

116. **Political Risks.** Government ministries are concerned that the plans and programs developed to respond to increasing food prices will have to go through another process of review and scrutiny by the new Government, thus causing delays to program implementation. Potential restructuring and changes in leadership of some ministries are also causing concern among those government officials involved in developing this Program. The risks of new government officials not fully understanding the Program will be mitigated through constant dialogue and consultations between ADB and its partners in the Government. The Minister of Finance and Minister of Social Welfare and Labor have been informed about the preparation of the assistance. Government officials directly involved in the preparation of the FNSWPP are still in place and are expected to remain. The draft law supporting the Program has been submitted to the Parliament during the last session of 2008.

117. **Governance and Bureaucratic Risks.** Implementation of food safety nets requires a high degree of accuracy and synchronization of efforts and activities and is prone to corruption. There is a risk that weak horizontal and vertical coordination will affect program efficiency. This will be especially true if changes occur in senior leadership among implementing ministries. To manage this risk, the FSOU will be immediately established to ensure that technical requirements of the Program are given full attention by the Government. Furthermore, senior officials of all implementing ministries will be invited to an organizational meeting of the Steering Committee once the restructuring and changes within the ministries are finalized. Frequent Steering Committee meetings and consultations (at least twice a month) will be undertaken by the EA, especially at Program start-up, to continuously monitor progress and immediately resolve issues related to the Program. The PIU and FSOU will ensure continuous coordination with MOF, MSWL, and other stakeholders. Governance risks will be addressed through the provision of clear operational guidelines, a communication strategy to make the food stamp program transparent, and external monitoring and other activities described in para. 67.

118. **Resistance to Change.** There is also a risk of national and local stakeholders resisting changes to be introduced by the FNSWPP to (i) improve systems of targeting and service delivery, (ii) shift to better instruments and strategies for policy analysis and program development and management, and (iii) introduce or harmonize mitigation and response mechanisms to food crises and similar emergencies. To help manage this risk, the Project includes a subcomponent that will develop and implement a communication strategy to disseminate complete and accurate information about the Program, its specific components, and its intended outcomes. Participation of all stakeholders (national and local) in all program processes will also help to develop a sense of ownership of, and collaboration with, the FNSWPP, in addition to developing intense policy dialogue at the central level.

119. **Capacity Constraints.** The FNSWPP was designed with consideration given to the limitations and constraints in capacities of local and national partners. Thus, capacity development and augmentation inputs are built into the design. A major concern is the limited staffing capacity at the *soum* and *khoroos* levels, where actual delivery of safety net assistance will happen. This limited capacity will be augmented by (i) providing in-depth training to the *soum* and *khoroos* SWOs on the Program, (ii) training and mobilizing NGO implementing partners to implement the Program in collaboration with the *soum* and *khoroos* SWOs, and (iii) training and activating the *soum* and *khoroos* LSCs to support Program implementation and take the lead in verifying and validating eligibility of target beneficiaries. Components 2 and 3 of the Project were designed to provide expert assistance during implementation, while at the same time delivering

capacity development inputs such as systems of social welfare service delivery and policy and program development.

120. **Pilot-Testing Risks.** Experience with government ministries in Mongolia has highlighted a risk in pilot-testing. This is because beneficiary groups tend to expect a pilot program element to immediately become a regular practice or entitlement from the Government, thus making later program adjustments difficult. This risk will be mitigated by partnering with civil society organizations to (i) allow adjustments in program design as a result of pilot-testing, (ii) augment the limited implementation capacity of the *soum* and *khoroos* SWOs, and (iii) enable the program to be rapidly scaled up. The other aspect of this risk is that the pilot will remain just a pilot, even if the results are good and recommendations appropriate. To lower this risk, specific proposals and continuous policy dialogue with the highest levels of Government on social welfare institutional reforms and capacity development will facilitate the adoption of pilot-testing results into regular social safety net planning and implementation by the Government.

121. **Risks from Rapid Design.** The FNSWPP was designed in an accelerated way—trying to make a response to an emergency in a rapidly changing economic and political environment. Despite the quick design, the FNSWPP has (i) undertaken and proposed continuous policy dialogue with the highest levels of Government to ensure common understanding and actions on needed policy reforms, (ii) included pilot-testing to ensure effectiveness of the design, (iii) built on existing institutions and systems, (iv) integrated Government ideas, and (v) designed for strong technical and administrative leadership and strong technical assistance with components that build on each other to support short- and long-term initiatives.

## F. Assumptions

122. Reaching impact targets assumes that international food prices will stabilize in the near future and that food imports to Mongolia are not hindered. The attainment of outcome targets also assumes that international food prices will stabilize and that there is sufficient political and administrative stability to properly implement the FNSWPP and the ensuing social welfare reforms.

## VI. ASSURANCES AND CONDITIONS

### A. Specific Assurances

123. In addition to the standard assurances, the Government of Mongolia has given the following specific assurances, which will be incorporated in the legal documents. The Government will:

- (i) ensure (a) that the objectives achieved, policies adopted, and actions taken as set forth in the development policy letter and accompanying policy matrix will continue to be in full force and effect for the duration of the Program period and subsequently; (b) proper and timely achievement, adoption, compliance, and implementation of the objectives, policies, and actions to be achieved, adopted, complied with, and implemented as set forth in the development policy letter and accompanying policy matrix; and (c) that once achieved, adopted, complied with, and implemented, such objectives, policies, and actions will continue to be in full force and effect during and subsequent to the FNSWPP period except if it is otherwise mutually agreed to cease the food stamp program;

- (ii) ensure that the roles, responsibilities and accountabilities of all the concerned Government ministries and their attached agencies, *aimag* or district and *soum* or *khoro* government units, and local LSCs are clarified through operational guidelines to be issued through a joint order of MOF and MSWL to ensure clear distinctions in the mandates related to the Project and the Program;
- (iii) allocate and make available in a timely manner the necessary counterpart funds from its budget for each fiscal year to ensure the smooth implementation of the Project;
- (iv) ensure that the counterpart funds are provided as budgetary allocations to MSWL to meet the local currency costs relating to implementation of the food stamp program;
- (v) cooperate with any investigation of any alleged public impropriety in the conduct of the FNSWPP, and extend all necessary assistance, including access to relevant books, files, and records;
- (vi) within 12 months of the effective date, carry out a macroeconomic and fiscal sustainability analysis of the social welfare system, and will ensure that the findings of such analysis are applied in the future budgetary allocation to the social welfare system;
- (vii) within 18 months of the effective date, ensure that based on the results of the pilot-testing, a nationwide, targeted food stamp program is further developed, including application of the outreach targeting methodology to determine eligibility to receive benefits;
- (viii) ensure that the PIU and MSWL carry out the activities relating to the design and implementation of the targeted food stamp program, capacity development and communication strategy, and strengthening of social welfare strategies and systems that are set forth in the gender plan, with sufficient human and financial resources and in a timely manner;
- (ix) ensure that prior to the effective date, MSWL has identified the list of sites for the pilot testing of targeting approaches, and take the necessary measures to ensure that the targeting approaches are implemented so that beneficiaries are not duplicated; and
- (x) ensure that prior to the effective date, MOF and MSWL finalize the food stamp operations guidelines acceptable to ADB.

## **B. Conditions for Grant Effectiveness**

124. The following will be additional conditions for effectiveness of the Grant Agreements: (i) the policy actions under the Program shall have been carried out to the satisfaction of ADB; (ii) a PIU acceptable to ADB will have been established pursuant to a joint MOF and MSWL ministerial order; (iii) an FSOU within MSWL and acceptable to ADB will have been established with key staff (i.e., the task manager, targeting specialist, payment specialist, and MIS specialist) recruited; and (iv) cross-effectivity between the two Grant Agreements.

## **VII. RECOMMENDATION**

125. I am satisfied that the proposed grants would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve

- (i) the grant not exceeding \$9,000,000 to Mongolia, from ADB's Special Funds resources, for the Food and Nutrition Social Welfare Program, on terms and conditions that are substantially in accordance with those set forth in the draft Grant Agreement presented to the Board; and
- (ii) the grant not exceeding \$3,000,000 to Mongolia, from ADB's Special Funds resources, for the Capacity Development Project, on terms and conditions that are substantially in accordance with those set forth in the draft Grant Agreement presented to the Board.

C. Lawrence Greenwood, Jr.  
Vice-President

18 November 2008



## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<b>Impact</b> Vulnerability to food insecurity reduced through increased supply of and improved access to food by vulnerable and poor households	Daily calorie intake of lowest quintiles of income distribution increased from 1,728 in 2004 to at least 2,000 calories by 2015, data to be disaggregated by sex  Percentage of under-weight newborn equal to or lower than 2004 levels (3.7%), data to be disaggregated by sex	National nutrition surveys – NSO  National nutrition surveys – NSO	<b>Assumption</b> International food prices will stabilize and food can continue to be imported
<b>Outcome</b> Improved access to food by vulnerable and poor households through a targeted food stamp program and strengthened social welfare systems	At least 100,000 household beneficiaries of the food stamp program by 2011  Monthly per capita expenditure on food for lowest quintile in 2012 is equal to or greater than expenditure in 2006-2007 (\$14) at constant prices	Food stamp program data  NSO Socio-Economic Household Survey	<b>Assumptions</b> International food prices stabilize  Political and administrative stability  <b>Risks</b> Food safety nets used as a political tool  Resistance to change in existing social welfare systems
<b>Outputs</b> Component 1: Design and implementation of a targeted food stamp program  1.1. Innovative targeting approaches for food stamps pilot-tested by December 2009	Outreach targeting methodology adopted by Government for pilot testing by 2009  At least 70% of beneficiaries identified by outreach methods after 2 years of operation, data to be disaggregated by sex	Project documentation and/or ministerial order  FSOU/food stamp program data	<b>Risks</b> Decision to expand or prolong the food stamp program will be based on recommendations from pilot approach  Lack of coordination among ministries and levels of government  Recommendations on the results from pilot-testing will not be turned into policy reforms

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>1.2. A mechanism for delivering food stamps is established by June 2009</p> <p>Component 2: Capacity development and communication strategy</p> <p>2.1. Capacity development tools for national and local stakeholders and institutional strengthening designed and implemented by January 2010</p> <p>2.2. A communication strategy to ensure transparent implementation of the food stamp program developed and implemented by December 2009</p> <p>Component 3: Strengthening social welfare strategies and systems</p> <p>3.1. Effective food crisis response by 2010</p>	<p>Subprogram to Food II, including a food stamp program approved by the Government by 2009</p> <p>At least 70% of food stamps distributed to lowest two quintiles of income distribution, data to be disaggregated by sex</p> <p>At least 80% of beneficiaries receiving food stamps on time (on the dates specified) by 2011</p> <p>Capacity development tools designed, approved, and implemented by 2010</p> <p>At least 50% of <i>soums</i> and <i>khoroos</i> reached by 2010</p> <p>Communication strategy adopted by steering committee and reflected on television and radio channels, printed material and community outreach activities by December 2009</p> <p>Methodology to measure impact of food price increases developed by 2010</p>	<p>Prime Minister's Decree</p> <p>Food stamp module attached to NSO survey</p> <p>FSOU/food stamp program data</p> <p>PIU/FNSWPP documents</p> <p>FSOU/food stamp program data</p> <p>Steering Committee and PIU, minutes of Steering Committee meetings and FNSWPP documents</p> <p>PIU/FNSWPP documentation</p>	

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>3.2. A package of reform of social welfare strategies by October 2011</p> <p>3.3 An early warning and response system to respond to social shocks by October 2011</p>	<p>Community grant program established by 2010</p> <p>Policy notes produced for each group of reforms by October 2011</p> <p>Knowledge product on social welfare institutional reforms developed by October 2011</p> <p>Recommendations for social welfare reforms forwarded to cabinet by October 2011</p> <p>Early warning and response system developed and approved by Steering Committee by 2011</p>	<p>PIU/ FNSWPP documentation</p> <p>PIU/FNSWPP document</p> <p>PIU/FNSWPP documentation</p> <p>PIU/FNSWPP documentation</p> <p>PIU/FNSWPP documentation</p>	
<p><b>Activities with Milestones</b></p> <p>Component 1:</p> <ol style="list-style-type: none"> <li>1. Install the FSOU (2009)</li> <li>2. Pilot-test two targeting approaches and produce lessons learned (2009–2010)</li> <li>3. Evaluate the pilot-test targeting mechanisms to refine the household assessment survey instruments (December 2009)</li> <li>4. Expand coverage of beneficiaries using improved targeting tools and methodologies (from approaches 2 and 3) (2010–2011)</li> <li>5. Implement all the operational activities involved in establishing the food stamp delivery mechanisms</li> <li>6. Evaluate full food stamp delivery mechanisms and incorporate lessons into final food stamp program design (December 2009)</li> <li>7. Expand capacity of final mechanisms to carry out an expansion of the coverage of the food stamp program</li> <li>8. Undertake supporting activities to improve effectiveness of program expansion</li> <li>9. Implement internal and external monitoring system (continuous)</li> </ol> <p>Component 2:</p> <ol style="list-style-type: none"> <li>10. Undertake capacity development for the pilot-testing of the food stamp program (continuous)</li> <li>11. Undertake capacity development for delivering the expanded food stamps program and other social welfare services (continuous)</li> <li>12. Finalize and implement the communication strategy (2009–2011)</li> </ol>			<p><b>Inputs</b></p> <p>ADF: \$9 million program grant and \$3 million project grant</p> <p>Government: \$8 million for the program and \$330,000 for the project</p>

<b>Activities with Milestones</b>	
<p>Component 3:</p> <ol style="list-style-type: none"> <li>13. Provide technical analysis of capacity development needs to promote effective food crisis response (June 2009–December 2011)</li> <li>14. Provide technical analysis of social welfare strategies and deliver a knowledge product on social welfare institutional reforms and capacity development (October 2011)</li> <li>15. Provide technical analysis and support for establishing early detection, mitigation and response to social shocks (2009–2010)</li> </ol>	

ADF = Asian Development Fund, FNSWPP = Food and Nutrition Social Welfare Program and Project, FSOU = food stamp operating unit, NSO = National Statistics Office, PIU = program implementation unit.

## SOCIAL WELFARE SECTOR ANALYSIS

### A. General Background

1. In Mongolia, the Ministry of Social Welfare and Labor (MSWL) is responsible for social welfare, social insurance, and employment issues at the central level. There are two implementing agencies under MSWL, the State Social Insurance General Office (SSIGO), and the Labor and Social Welfare Office (LSWO). These agencies have representatives responsible for delivering services at the local level. Governors of all local governments<sup>1</sup> are obliged by law to undertake area-specific social protection activities. MSWL is responsible for developing national policies on women, children, youth, the disabled, and the elderly. The percentage of the population receiving social welfare benefits (excluding those receiving social insurance and employment services) was about 6% of the total population in 2004.<sup>2</sup>

2. The LSWO is responsible for delivering social welfare assistance and services and employment promotion. The types of social welfare assistance being provided through the LSWO include: (i) in-kind services, including residential facilities for the elderly and the disabled and services for the poor, homeless persons and children; (ii) discounts and subsidies for the elderly, the disabled, and other groups to reduce the costs of housing and health care; and (iii) short-term cash benefits for pregnancy and delivery, child care, families with many children, adoption of orphans, infant care, and long-term pensions for those not eligible for SSIGO assistance.

3. Mongolia has an above average social protection index (SPI)<sup>3</sup> which reflects the existence of a comprehensive social insurance and assistance system. However, poverty targeting received the lowest rating among the four social protection indicators (expenditure, coverage, poverty targeting, and social protection impact<sup>4</sup>) and the SPI gives Mongolia a “best estimate” overall poverty targeting rate of only 60%.

4. The lack of proper targeting methodologies results in large inclusion and exclusion errors and increasing expenditures. About 70% of all nonpoor households receive some form of social assistance, but 40% of the country’s poor do not receive any form of social assistance. This is partly due to the broad official definitions of vulnerability; there are 23 defined groups of beneficiaries, including all children under 16, elderly people, mothers with newborns, single parents, and unemployed people, irrespective of their socioeconomic status.<sup>5</sup>

### B. Legal Framework

5. The Government Law in 1993 established the MSWL and the 1995 Social Welfare Law established the legal basis for the current social welfare system. Amendments to the Social Welfare Law in 1997 and 1998 created the management and organization of an independent social welfare system. Further amendments and revisions to the Social Welfare Law provided the legal basis for the current package of social assistance including: the Law on the Social Welfare for Elderly Persons; the Law on the Social Security for Persons with Disabilities; and the Law on the Allowances to Mothers and Children and Monetary Assistance to Mothers, Children and New Families and Couples. These laws define the current types and coverage of

<sup>1</sup> Governors sign annual performance contracts with the minister of MSWL.

<sup>2</sup> National Statistics Office. 2007. *Mongolian Statistical Yearbook*. Ulaanbaatar.

<sup>3</sup> ADB. 2008. *Social Protection Index for Committed Poverty Reduction*. Manila (volume 2).

<sup>4</sup> Social protection impact is defined in the SPI as the percentage of expenditure reaching poor beneficiaries.

<sup>5</sup> ADB. 2008. *Mongolia Country Assistance Program Evaluation: From Transition to Takeoff*. Manila.

social welfare pensions, benefits and services; regulate the procedures on appropriation and administration of the social welfare fund; and determine the structure and functions of social welfare institutions.

6. An important aspect of the Social Welfare Law is that the eligibility requirements do not distinguish between the poor and those with incomes above the poverty line. The amendments enacted in January 2008 revised the eligibility requirements for beneficiaries of welfare benefits, but these did not include poverty criteria and thus did not address the need to target the poor (footnote 5).

### **C. Sector Strategy**

7. The Government adopted a social security sector strategy paper<sup>6</sup> in 2003 as the framework for the long-term development of the sector.<sup>7</sup> The strategy paper spelled out three long-term policy reforms for social welfare: (i) adjust centralized public social welfare services to move toward a comprehensive social welfare system that is community-based and supports households' development, (ii) rationalize the scope for social welfare services and improve their cost-efficiency, and (iii) introduce services that provide care in a family environment. Among the strategies identified are: transform cash-based benefits into multifunctional services based on a household's or an individual's initiative and choice, improve the quality and accessibility of social welfare services, improve the management of and methodologies in social welfare services, and reform residential care institutions in accordance with community-based approaches.

### **D. Coverage of Beneficiaries and Expenditures**

8. Beneficiary coverage and expenditure on social welfare benefits have expanded rapidly over the past few years and they are expected to increase even more in the near future. Coverage of social welfare benefits increased by 7.6 times from 2004 to 2007. The number of beneficiaries receiving conditional cash benefits increased by 3.6 times from 2006 to 2007. Pregnant or lactating mothers received more than 80% of the cash benefits in both years. Large increases are being considered for other cash transfers in the coming year, such as the honored mothers' allowance.<sup>8</sup> However, these benefits are not necessarily pro-poor in their objectives.

9. The total budget of MSWL has been 7% to 16% of gross domestic product (GDP) during the last 3 years, and is estimated at MNT1.397 billion in 2009. A 51% budget increase is planned for 2009, mainly arising from the substantial increase in the honored mothers' allowance. The social protection budget consists of five major programs, with social welfare comprising 32% of the budget. Higher anticipated revenues from the mining sector may lead to a further expansion in social welfare.

<sup>6</sup> The social security sector strategy paper was developed in 2001 with technical and financial assistance from ADB.

<sup>7</sup> Ministry of Social Welfare and Labor. 2003. Social Security Sector Strategy Paper. *Government Resolution No. 239*. Ulaanbaatar.

<sup>8</sup> The honored mothers' allowance provides annual allowances of MNT50,000 for mothers with five or six children and MNT100,000 for mothers with more than six children. The Government plans to further increase the honored mothers' allowance to MNT500,000 for mothers with five or six children and MNT1 million for mothers with more than six children, covering 155,000 mothers, in 2009.

**Table A2.1: Number of Persons who Received Social Welfare Benefits and Assistance**  
(by type, '000 persons)

Description	2004	2005	2006	2007
Pregnancy and delivery	54.5	45.6	37.9	0.0
Caring children	59.1	53.9	44.3	22.3
Twin children	0.3	0.4	0.2	0.0
Adopted orphan children	0.6	0.7	0.4	0.4
Infant	7.5	6.7	3.3	0.0
Single person's funeral	0.0	0.0	0.0	0.0
Honored mothers' allowance	33.5	0.0	0.0	0.0
Child money	0.0	647.5	872.4	948.7
Conditioned cash benefits	0.0	0.0	24.3	88.1
Allowances for new families/couples	0.0	0.0	23.6	59.4
Allowances for newborn babies	0.0	0.0	41.1	57.7
<b>Total</b>	<b>155.5</b>	<b>754.8</b>	<b>1,047.6</b>	<b>1,176.6</b>

Source: National Statistics Office. 2007. *Mongolian Statistical Yearbook*. Ulaanbaatar.

**Table A2.2: Social Welfare Budget**  
(MNT '000)

Item	2006	2007	2008	2009		Average 2006–2009	
				Budget	% Increase	% Total	% Increase
Pension and benefits	15,964	28,475	52,667	63,144	19.9	17.5	61.1
Services for veterans and elders	3,243	4,248	18,594	17,958	(3.4)	4.4	121.8
New family program	11,814	29,724	17,500	17,500	0.0	10.2	63.8
Honored mothers' allowance	4,909	8,876	11,625	108,625	834.4	10.4	315.4
Child money	36,104	131,457	148,650	166,008	11.7	51.9	96.3
Services for disabled	1,630	1,397	5,005	6,279	25.5	1.6	89.9
Community-based social welfare service	1,120	1,503	17,223	28,941	68.0	3.9	382.7
<b>Total for Welfare Services</b>	<b>74,783</b>	<b>205,680</b>	<b>271,264</b>	<b>408,456</b>	<b>50.6</b>	<b>100.0</b>	<b>85.8</b>
Wages	3,161	4,697	4,693	6,680	42.0	35.4	30.3
Others	5,063	5,810	8,024	24,212	202.0	64.4	84.9
<b>Social Security Services</b>	<b>8,224</b>	<b>10,507</b>	<b>12,717</b>	<b>30,893</b>	<b>143.0</b>	<b>100.0</b>	<b>63.9</b>

( ) = negative.

Source: Ministry of Social Welfare and Labor. September 2008.

10. Taken together, the child money program and the honored mothers' allowance comprise 68% of the proposed 2009 budget for social welfare. As a percentage of GDP, the overall MSWL budget will also significantly increase from 7% in 2006 to 23% in 2009.

11. One of the Government's immediate responses to the food crisis was to increase welfare benefits by 20% in January 2008. Despite the increase in mining revenues, the major risk for the sector is that this escalation in expenditures and a universal entitlement system may not be sustainable but will be very difficult to cut in the future.

## E. Recent ADB Assistance

12. In 2001, the Asian Development Bank (ADB) approved a loan to support the Social Security Sector Development Project (SSSDP)<sup>9</sup> to initiate reforms in social welfare, insurance, and employment services. The SSSDP was a response to emerging needs in Mongolia's transition to a free market economy. It was envisaged that its social welfare component would: (i) develop and upgrade social welfare service facilities for the elderly and the disabled, (ii) develop community-based social welfare services, and (iii) strengthen the social welfare management capacity. The SSSDP has been implemented since February 2002 and was partially completed in 2008. One of the main goals of ADB's program of support—to refocus eligibility criteria for social welfare benefits on the poorest groups—was not met for the child money program, despite agreement between ADB and the Government on the program policies, advisory technical assistance, and special study support. After the Government decided to broaden social welfare eligibility in 2006 and universalized the child money program, the third SSSDP tranche was cancelled.

## F. Experience with Targeting

13. In 2005, the Government introduced the child money program,<sup>10</sup> which was the first social welfare allowance to use a proxy means test<sup>11</sup> to target poor households. However, in May 2006, in response to political pressure and access to new revenue, Parliament enacted a law which made “child money” a universal entitlement to which all children below 18 would be eligible. Immediately, the number of social welfare beneficiaries soared from less than 160,000 in 2004 to more than 1 million (40% of the population) in 2006. ADB has expressed concern that all 23 types of current social welfare assistance use population categories rather than poverty as the basis for eligibility. More than 80% of social welfare beneficiaries since 2005 are those receiving “child money” (footnote 3).

## G. Human Resources and Capacity

14. Public service agencies employ 1,200 social workers, 798 of whom work for social welfare agencies, with 510 of these employed at the lowest administrative level of the *soum* or *khoroos*. *Soums* and *khoroos* with large populations recruit social worker assistants to help with the workload. The rest are employed by schools (624), law enforcement agencies, or hospitals. About 20% have a social work degree. Recently, social welfare officers<sup>12</sup> have been recruited to support social workers in areas with large populations. Since 1997, a system of training and accreditation for BA and MA degrees has been developed. Livelihood support councils (LSCs) have been created to facilitate social welfare outreach and assist in ensuring identification and validation of needy recipients. Each LSC has seven part-time and unpaid staff (one social worker, two representatives of nongovernment organizations, two representatives of citizens, and two representatives of government organizations). Although the councils are in place, there are few guidelines or resources for staff and little training. Analyzing and strengthening this decentralized social welfare system is therefore one of the most important contributions that the

<sup>9</sup> ADB. 2001. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to Mongolia for the Social Security Sector Development Program*. Manila.

<sup>10</sup> The child money program currently provides cash transfers of MNT3,000 (\$3) per child per month and MNT100,000 (\$100) lump sum per child per year.

<sup>11</sup> The proxy means test was developed through collaboration between SSSDP/MSWL, the United Nations Development Programme (UNDP), and the Poverty Research Group of the Ministry of Finance.

<sup>12</sup> Social welfare officers tend not to have as much formal training as social workers.



Food and Nutrition Social Welfare Program and Project (FNSWPP) can make over the next few years.

## **H. Challenges and Opportunities for the Social Welfare Sector to Address the Food Crisis**

15. Over the past year, food grain prices have soared to unprecedented heights all over the world. International rice prices increased by 196% and wheat prices rose by 72% between May 2007 and May 2008.<sup>13</sup> The inflation rate in Mongolia reached 33% in May 2008, much higher than in most other Asian countries.<sup>14</sup> Food prices accounted for more than two-thirds of inflation, with the prices of wheat and meat products contributing nearly half of the inflation<sup>15</sup> and oil prices contributing a small but growing proportion.

16. The spike in food prices threatens to push large numbers of people below the poverty line<sup>16</sup> and to increase the incidence of malnutrition in Mongolia. Poor households are forced to increase their food expenditure at the expense of nonfood expenditure, such as on medical care and education. Informal safety nets among Mongolians, through remittances between family members, which constitute around 22% of household consumption,<sup>17</sup> are being stressed as a result. The poverty and social assessment (Supplementary Appendix G) found that coping mechanisms such as reducing the quantity and quality of food, and postponing or eliminating expenditures for energy, transport, health and education are already being used. The poor are hardest hit by overall inflation and especially by the food price increases.

17. The emergence of the food crisis highlights several challenges and opportunities for the social welfare sector. These include: addressing inadequate systems for delivering assistance targeted at the poor, defining social welfare strategies and enhancing capacities, and addressing the absence of emergency response mechanisms.

- (i) A failure to initiate targeting systems to identify the poor within the social welfare system leaves MSWL with few tools to address the situation quickly and to direct assistance to those most in need. However, the emergence of this crisis has also created a consensus among government stakeholders that any effort to mitigate the immediate impacts of the food price increases on the poor will need clear targeting mechanisms if it is to make a difference for beneficiaries and to be fiscally sustainable. The food stamp program provides a clear opportunity for targeting a needed benefit directly at the poor and for making a significant impact on their capacity to maintain household nutritional status.
- (ii) Social assistance programs are poorly aligned with fiscal sustainability goals. The current system of untargeted cash transfers results in very high public

<sup>13</sup> The price of rice in the international market rose by 196% (from \$325/ton in May 2007 to \$963/ton in May 2008). Wheat prices in the international market rose by 72% (from \$203/ton in May 2007 to \$349/ton in May 2008). Food and Agriculture Organization (FAO) database, 2008.

<sup>14</sup> Inflation has reached an 11-year high in the People's Republic of China (at 8.7% in February 2008); a 9-year high in the Republic of Korea (at 5.5% in June 2008), a 26-year high in Singapore (at 7.6% in April 2008); and a 12-year high in Viet Nam (at 25.2% in May 2008).

<sup>15</sup> This is because food prices have increased (year-on-year basis) the most over the last year: 59% in May 2008 and 57% in June 2008 compared to about 7% during the corresponding months in 2007. Prices for wheat and meat products have increased by 47% and 49% respectively since the beginning of the 2008.

<sup>16</sup> Palanivel, T. 2008. *Policy Note on the Soaring of Food and Oil Prices in Mongolia: Causes, Consequences and Responses at the Macro Level*. Colombo: United Nations Development Program/ Regional Center Colombo.

<sup>17</sup> National Statistics Office of Mongolia, 2004. *Migration Survey*. Ulaanbaatar.

expenditures, which are still rising rapidly. Mongolia's extensive system of social safety nets cost about 7% of GDP a year in 2006, already large by international standards. The effectiveness and fiscal sustainability of the current programs are being questioned, although limited data and monitoring and evaluation (M&E) systems make it difficult to make definite judgments at this time. The FNSWPP will demonstrate targeting methodologies and their direct impact on the poor. It will build capacity within MSWL and provide a basis for rethinking poverty-focused strategies within the sector and for building adequate M&E systems.

- (iii) Weak capacity at the local level among social workers and LSCs limits the benefits of a decentralized system and compromises the ability to deliver effective community-based social services. Building capacity and creating clear guidelines on roles and responsibilities will facilitate the creation of efficient and adequate systems.
- (iv) MSWL has no emergency response systems in place and is therefore unable to address the needs of the poor immediately during this crisis. Designing an early warning system, mitigation and response mechanisms for food-related emergencies will provide a basis for action in the future to address other possible crises.

## DEVELOPMENT COORDINATION MATRIX

Table A3: Food Security – Proposed Assistance to the Government

Organization	Value of Assistance (\$)	Period of Implementation
<b>A. Strengthen Social Protection Programs to Ensure Household Food Security and Improve Social Welfare Systems</b>		
<b>Asian Development Bank</b> Program grant to design, implement and fund a targeted food stamp safety net for vulnerable populations	\$9 million	2009–2011
Project grant to strengthen existing social welfare through better targeting, improved monitoring and impact measurement, analyzing social expenditure and fiscal sustainability, facilitating civil registration, and developing an early warning and response system	\$3 million	2009–2011
<b>World Bank</b> Strengthen capacity within government to improve coordination and coherence in policies to improve social assistance targeting	\$5 million <sup>a</sup>	2009–2011
<b>United Nations Children's Fund (UNICEF)</b> Support monitoring of nutrition status and growth monitoring: <ul style="list-style-type: none"> <li>(i) growth monitoring charts nationwide supply and capacity development for counseling,</li> <li>(ii) weighing scales supply in focus areas,</li> <li>(iii) vitamins and micronutrient supplementation</li> </ul>	\$250,000	2009–2011
<b>Mercy Corps</b> Projects to strengthen social welfare provision through public–private partnerships using civil society, government, and business to improve targeting, monitoring, impact measurement, and to analyze social expenditures and fiscal sustainability and responsibility	\$1.5 million	2009–2011
<b>Action Contre la Faim</b> Distribution of hot meals for the homeless in Ulaanbaatar	\$ 170,000	Continuous
<b>Save the Children</b> Ongoing social protection program to benefit street children in Ulaanbaatar, which includes provision of food. Limited food support is also provided to very poor families in Ulaanbaatar	\$80,000	2007–2011
Programs to support establishing a national child protection system to protect children from abuse, neglect, and exploitation, which also address case management, individual counseling, service standards development, and stakeholder capacity development	\$2 million	2007–2011
Programs to provide a safe and protective environment for nomadic	\$350,000	2008–2011

Organization	Value of Assistance (\$)	Period of Implementation
household children in school dormitories at <i>soum</i> level, which also includes addressing food security/safety and nutrition issues  Pilot programs to improve food safety and nutrition standards for kindergartens in rural and <i>ger</i> districts of Ulaanbaatar to benefit kindergarten age children from marginalized households	\$800,000	2009–2012
<b>B. Lower Domestic Food Prices through Economy Wide Measures</b> (e.g., trade policy measures, tax and subsidy policies)		
<b>World Bank</b> Strengthen capacity within government to improve coordination and coherence in policies to fight inflation (address the underlying causes of Mongolia's extremely high inflation by strengthening macro-management)	\$5 million <sup>b</sup>	2009–2011
<b>United States Agency for International Development (USAID)</b> Through its Economic Policy Reform and Competitiveness Project, USAID assists Customs General Administration to develop a new layout and related initial engineering works for the customs and inspections yard in Zamiin Uud to facilitate goods movement from the People's Republic of China to Mongolia	Sub-activity under the Trade Policy Support component	Ongoing
<b>C. Enhance the Medium-Term Food Supply</b> (production and distribution - agriculture, supply chain, logistics, customs, subsidies, etc.)		
<b>World Bank</b> Small-scale production to increase availability and quality of vegetables and other crops, through the existing Sustainable Livelihoods Program	\$10 million	2009–2011
<b>United Nations Development Programme (UNDP)</b> Improving agricultural production capacity through research and new technology as well as support to local small-scale enterprises to increase rural income diversification, and adaptation to climate change	Estimated at \$4 million	2009–2011
<b>UNICEF</b> Support for: (i) food fortification with iron, and (ii) production of iodized salt	\$110,000	2009–2011
<b>Food and Agriculture Organization (FAO)</b> Provide high quality certified seeds to small vegetable and potato farmers most affected by the increased prices of inputs and food. The project will contribute to: (i) support small farmers to continue cropping during the forthcoming season, (ii) increase productivity, (iii) fulfill households' needs for vegetables and potatoes, and (iv) market supply in vegetable and potatoes. FAO uses targeting mechanisms to identify the most vulnerable farmers	\$500,000	August 2008–December 2009

Organization	Value of Assistance (\$)	Period of Implementation
<b>International Fund for Agricultural Development (IFAD)</b> Additional grant to supplement ongoing activities under the Rural Poverty Reduction Program (depending on the availability of additional funding)  A recently proposed grant and loan project (Market Access for the Rural Poor) will look at food value chain as a part of its activities	\$500,000  \$11 million	2009  2010
<b>Swiss Agency for Development and Cooperation (SDC)</b> Program grant to enhance potato yields and make quality potato seed and affordable potatoes available to all Mongolians  Program grant to increase livestock animal productivity and sustainable herd management.  Program grant to assist herders in selected <i>soums</i> to use pastureland in a productive and sustainable way and to improve resilience against risks	\$3.5 million  \$4.0 million  \$5.0 million	2008–2011  2008–2011  Phase I: 2005–2008 Phase II: 2009–2012
<b>Mercy Corps</b> Projects to increase small and medium-scale food production, increase access to credit and technology, enhance supply and storage chains, build group procurement and sales mechanisms to improve efficiency and raise profit margins for small producers	\$2 million	2009–2011
<b>D. Other</b> (e.g., food donations, research, and public information)		
<b>UNDP</b> Study on “Soaring Food and Oil Prices in Mongolia”.  The study will analyze the main factors affecting food and oil prices, the impact on the Mongolian economy, and the steps taken by other countries in the region. It will propose measures to be implemented in Mongolia to mitigate this impact.		2008–2009
<b>UNICEF</b> Conduct the next round of multiple indicator cluster survey and national nutrition survey  Information, education, and communication: Behavior change communication (BCC) materials on control of iodine deficiency disorder, infant and young child feeding including exclusive breastfeeding	\$200,000  \$30,000	2009–2010  2009–2010
<b>Japan International Cooperation Agency (JICA)</b> Supply of food aid for wheat in 2007. Approximately 10,000 metric tons of wheat will be delivered to Mongolia by December 2008.	\$4 million	2007–2008

Organization	Value of Assistance (\$)	Period of Implementation
<b>USAID</b> Oversees the Food for Progress Program of the US Department of Agriculture implemented by Mercy Corps and Cooperative Housing Foundation International. The program emphasizes private investment in micro and small enterprises, agricultural development and enhanced food security. The Government of the United States plans to donate 25,000 metric tons of wheat in FY2008, and the monetized proceeds from its sale will be used to support rural and peri-urban business development activities.	Value of imported agricultural products will depend on domestic market prices when they arrive in Ulaanbaatar and are sold. It is estimated that the amount will be about \$10 million.	2009
<b>FAO</b> Assistance to the Ministry of Food and Agriculture in designing the Second National Program for Food Security, Food Safety, and Nutrition (Food II)  Assist the Government of Mongolia in assessing possibilities for dam development, including feasibility studies  Assist the Government of Mongolia in the development of the agricultural census  Assist the Government of Mongolia in developing a food security statistics system		2008  May 2008 to 2009
<b>Mercy Corps</b> Research projects on the storage and transportability of agricultural produce and sustainable resource management; public information on food safety, animal health, zoonotic diseases, and commodity prices and natural resource projections	\$1.5 million	2009–2012
<b>Action Contre la Faim</b> Operational research on chronic malnutrition	\$ 1.7 million	2009–2011
<b>Save the Children</b> Ongoing community-based rehabilitation program for disabled children from <i>ger</i> households of Chingeltei District, Ulaanbaatar, which includes provision of tea and snacks	\$30,000	2007–2011

Organization	Value of Assistance (\$)	Period of Implementation
<p><b>Dolma Ling Community Center</b>  Soup kitchen serving the homeless and poor (mostly old, mentally handicapped or very young, i.e., 2–7 years old)</p> <p>Health Clinic offering free medical care to the poor. Bimonthly community training presentations on social and health issues, e.g., alcoholism, tobacco addiction, sexually transmitted infections, human trafficking</p> <p>Children's Development Project. Focused on teaching moral values, self esteem and environmental awareness</p> <p>Senior citizens club and adult vocational training in Dhakhan</p>	\$120,000 per year	Continuous

<sup>a</sup> \$5 million will also cover the cost of activities to strengthen government policies to fight inflation.

<sup>b</sup> \$5 million will also cover the cost of activities to improve social assistance.

Sources: Donor responses to coordination matrix request for information on programs. September 2008.

## **FOOD AND NUTRITION SOCIAL WELFARE PROGRAM AND PROJECT IMPLEMENTATION ARRANGEMENTS**

1. The Ministry of Finance (MOF), the Executing Agency will provide oversight functions to the Food and Nutrition Social Welfare Program and Project (FNSWPP) implementation. The Ministry of Social Welfare and Labor (MSWL), the Implementing Agency, will have the overall responsibility for delivering the outputs of the FNSWPP and will have reporting functions to the Steering Committee through the MOF. A multisectoral Steering Committee composed of senior level officials of (i) MOF; (ii) MSWL, with such official serving as the vice chair; (iii) Ministry of Health; (iv) Ministry of Food and Agriculture; (v) National Statistics Office; (vi) Mongolian Employers Federation; (vii) Association of Elderly Persons; (viii) the agencies responsible for the distribution of food stamps; (ix) UNICEF; (x) an non-government organization (NGO) engaged in food security programs; and (xi) ADB as observer, shall be established and shall meet quarterly to provide policy and strategic guidance to the Program. The Steering Committee shall be chaired by the head of the subprogram to the Food II Plan of the Recipient. An English language version of the minutes of Steering Committee meetings shall be forwarded to ADB on a quarterly basis.
2. The program implementation unit (PIU) will report to MSWL and to the Steering Committee through the MSWL, coordinate overall FNSWPP implementation with the Labor and Social Welfare Office (LSWO), and provide secretariat support to the Steering Committee through the MSWL. As envisaged in its design, the FNSWPP will work with and through the existing government structures. LSWO, being MSWL's implementing arm for social welfare services, will be the main channel for food stamp program implementation.
3. The food stamps operating unit (FSOU), working under the PIU, will provide support to MSWL and LSWO in the day-to-day management of the food stamp program, coordinate and provide technical support for program implementation at all levels. The FSOU will also provide capacity development to and coordinate targeting issues and grievance systems with the LSCs and the focal persons to be designated in each food stamp program area.
4. The NGO implementing the community food security small grant program will report to the PIU and coordinate implementation of the study on best practices. The NGO will conduct outreach to beneficiaries of the food stamp program, community groups, and other local NGOs and implement the small grants program. The NGO will coordinate with the consultants responsible for the communication strategy to ensure that community food security issues and awareness about the grant program are included in the information campaign.
5. As part of the communication strategy, the NGO will inform food stamp program beneficiaries and community organizations about community food security grants. Small groups will propose projects and these will be assessed by the NGO and the livelihood support council (LSC). The criteria for assessment will include: community involvement, design of a sustainability plan, and identification of at least 10% in-kind contribution. The selection of beneficiaries will be made by the NGO and the LSC and sent to the PIU for endorsement. The NGO will provide technical assistance to the beneficiaries and will be responsible for monitoring the grants. Quarterly reports will be provided to the PIU, including financial accounting for the grant monies. Auditing of the grant program will be included in the overall FNSWPP financial audit. The NGO will provide expertise in community development and food security and will ensure that the team has expertise in gender and development capacity. The NGO will form partnerships with other community organizations and NGOs to ensure that best practices for community food security are mainstreamed across Mongolia.



6. The terms of reference of the key stakeholders in the FNSWPP are as follows.

**1. Steering Committee**

- (i) Provide strategic orientation and overall guidance to the FNSWPP,
- (ii) oversee implementation,
- (iii) approve annual work plans and monitoring and evaluation (M&E) reports, and
- (iv) provide support in developing and promoting a policy and draft legislative agenda that extends the results and recommendations of the FNSWPP into the broader social welfare agenda.

**2. Ministry of Finance**

- (i) Be responsible for the overall implementation,
- (ii) delegate implementation responsibility to MSWL, and
- (iii) communicate with ADB.

**3. Ministry of Social Welfare and Labor and Labor and Social Welfare Office**

- (i) Communicate with ADB according to functions delegated by MOF;
- (ii) determine implementation arrangements to be followed within the MSWL to run the food stamp program, including the selection and hiring of staff of the FSOU, and the reporting arrangements;
- (iii) develop an operational guidelines detailing activities and procedures to be followed by all program participants (including registry of beneficiaries, printing of stamps, distribution, use and cashing of stamps, among others) following the policy guidelines of the Steering Committee (the operational guidelines will be approved by the Steering Committee);
- (iv) develop strategies for implementation of the two pilot approaches;
- (v) prepare and sign contracts with program participants;
- (vi) prepare a set of M&E indicators to follow up Program implementation and results; and
- (vii) prepare guidelines for complaints and a grievance resolution system including functions and responsibilities of local LSCs.

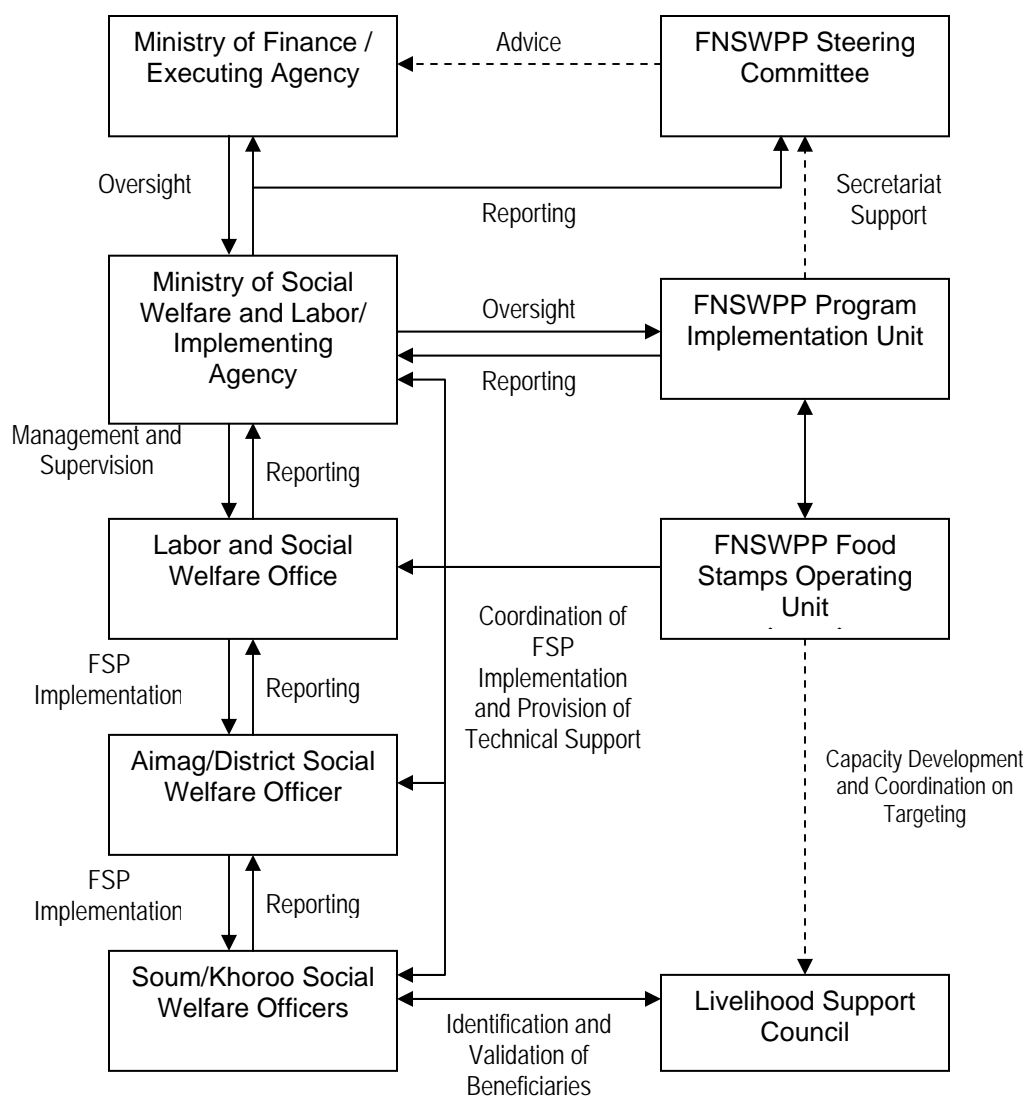
**4. Program Implementation Unit**

- (i) Report to MSWL and the Steering Committee;
- (ii) be responsible for day-to-day implementation and coordination of implementation under the guidance of MSWL and in coordination with LSWO;
- (iii) provide secretariat support to the Steering Committee through the MSWL; and
- (iv) communicate with ADB through MSWL on all administrative aspects in relation to procurement, disbursement, reporting, and supports ADB reviews.

**5. Food Stamp Operating Unit**

- (i) Be responsible for day-to-day operation of the food stamp program to ensure MSWL responsibilities;
- (ii) prepare strategy, instruments, instructions, and manuals on targeting;

- (iii) prepare and implement training program for contractors, validators, surveyors, social welfare officers, and LSCs in pilot areas;
- (iv) monitor implementation of the food stamp program and contractor performance;
- (v) assess options for the printing of stamps, use of stamps by shopkeepers, and redemption of stamps with banks, and prepare contract arrangements with printing office, shopkeepers, and banks;
- (vi) prepare and manage the management information system for the food stamp program, including data entry application, instructions on use of proxy means test questionnaire, computer routines for proxy means test calculations, payroll data reconciling payments of cashed stamps with banks, auditing routines, reports, and monitoring indicators;
- (vii) develop and manage the operation of the food stamp program grievance system, manuals, and operation procedures in collaboration with the LSCs; and
- (viii) develop M&E indicators and undertake regular M&E of food stamp program, regularly produce summary tables on the indicators (using the management information system), liaise with MOF and consultants on external monitoring and evaluation of FNSWPP.

**Figure A4: Implementation Arrangements**

FNSWPP = Food and Nutrition Social Welfare Program and Project, FSP = food stamp program.  
 Source: Asian Development Bank.

# **FOOD AND NUTRITION SOCIAL WELFARE PROGRAM AND PROJECT IMPLEMENTATION SCHEDULE**

Item	2008				2009				2010				2011			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>A. Install the food stamp operating unit</b>																
<b>B. Pilot-tested targeting approaches</b>																
1. Implement approach 1																
2. Install and test approach 2																
3. Install and test approach 3																
4. Evaluate targeting mechanisms																
5. Expand coverage to total of 100,000 household beneficiaries																
<b>C. Implement internal and external monitoring</b>																
1. Internal monitoring regularly conducted																
2. Semiannual external monitoring conducted																
<b>D. Undertake capacity development</b>																
<b>E. Implement the communication strategy</b>																
<b>F. Promote effective food crisis response</b>																
1. Decentralize social welfare system, impact measurement, targeting, monitoring, and evaluation																
2. Community-based household food security (grants)																
<b>G. Provide technical assistance of social welfare strategies and deliver a knowledge product on social welfare reforms</b>																
1. Social welfare benefits impact analysis																
2. Monitor and evaluate social welfare programs																
3. Fiscal sustainability of social welfare programs																
4. Facilitate the civil registration system through incentives																
5. Knowledge product on social welfare institutional reforms																
<b>H. Establish early detection, mitigation, and response to social shocks</b>																
1. Establish a food and nutrition surveillance and monitoring system																
2. Establishing quick response mechanisms and packages																

Source: Asian Development Bank.

## INELIGIBLE ITEMS

1. Grant proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Program.
2. No withdrawals will be made for the following:
  - (i) expenditures for goods included in the following groups or subgroups of the United Nations Standard International Trade Classification (SITC), Revision 3 or any successor groups or subgroups under future revisions to the SITC, as designated by the Asian Development Bank (ADB) by notice to the Borrower;

**Table A6: Ineligible Items**

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver, or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

## PROCUREMENT PLAN

<b>Project Name:</b> Food and Nutrition Social Welfare Project	<b>Grant Number</b>
<b>Loan Amount \$:</b> \$3 million ADF Grant	<b>Executing Agency:</b> Ministry of Finance
<b>Date of first Procurement Plan:</b> 17 November 2008	<b>Date of this Procurement Plan:</b> 17 November 2008

### A. Section 1: Process Thresholds, Review, and 18-Month Procurement Plan

#### 1. Project Procurement Thresholds

1. Except as ADB may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works	
Method	Threshold
International Competitive Bidding for Works	Equal or more than \$1,000,000
International Competitive Bidding for Goods	Equal or more than \$500,000
National Competitive Bidding for Works <sup>a</sup>	Equal or more than \$100,000 and below \$1,000,000
National Competitive Bidding for Goods <sup>a</sup>	Equal or more than \$100,000 and below \$500,000
Shopping for Works	Below \$100,000
Shopping for Goods	Below \$100,000

<sup>a</sup> The recipient's law and regulations relating to national competitive bidding shall be followed, with the clarifications and modifications set forth in section C.

#### 2. ADB Prior or Post Review

2. Except as ADB may otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the Project.

Procurement of Goods and Works		
Procurement Method	Prior or Post	Comments
International Competitive Bidding Works	Prior	
International Competitive Bidding Goods	Prior	
National Competitive Bidding Works	Post	
National Competitive Bidding Goods	Post	
Shopping for Works	Post	
Shopping for Goods	Post	

Recruitment of Consulting Firms		
Quality and Cost Based Selection	Prior	
Quality Based Selection	Prior	
Other selection methods: Consultants Qualifications, Least- Cost Selection, Fixed Budget, and Single Source	Prior	

Recruitment of Individual Consultants		
Individual Consultants	Prior	

### 3. Consulting Services Contracts Estimated to Cost More Than \$ 100,000

3. The following table lists consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value	Recruitment Method	Advertisement Date (quarter/year)	International or National Assignment	Comments
Monitoring and Evaluation (Package 4)	\$565,000	QCBS	I/09	International	Quality-Cost ratio 80:20
Institutional Development (Package 5)	\$600,000	QCBS	I/09	International	Quality-Cost ratio 80:20

### 4. Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000

4. The following table groups smaller-value goods, works and consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Value of Contracts (cumulative )	Number of Contracts	Procurement / Recruitment Method	Comments
Vehicle	\$50,000	1	Shopping	4x4 for program implementation unit (PIU) staff and Food Stamp Operating Unit
Office equipment	\$30,000	1	Shopping	For PIU office
Communication Strategy (Package 1)	\$30,000	1	CQS - National	Amplified Expression of Interest (EOI) will be requested
External Monitoring and Evaluation (Package 2)	\$40,000	1	CQS – National	Amplified EOI will be requested
Community based Household Food Security (Package 3)	\$40,000	1	CQS – National	Amplified EOI will be requested
National Statistics Office (NSO) (Package 6)	\$50,000	1	SSS	NSO is the only organization in Mongolia with required competence
PIU staff	\$145,000	4	Individual consultants – National	Program manager; administrative and finance officer; secretary; driver

**B. Section 2: Project Procurement Plan****1. Indicative List of Packages Required Under the Project**

5. The following table provides an indicative list of all procurement (goods, works and consulting services) over the life of the Project. Contracts financed by the Borrower and others should also be indicated, with an appropriate notation in the Comments section.

<b>General Description</b>	<b>Estimated Value (cumulative)</b>	<b>Estimated Number of Contracts</b>	<b>Procurement Method</b>	<b>Domestic Preference Applicable</b>	<b>Comments</b>
<b>Goods</b>					
Vehicle	\$50,000	1	Shopping		4x4 for PIU staff and Food Stamp Operating Unit
Office equipment	\$30,000	1	Shopping		For PIU Office
<b>Consulting Services</b>					
Monitoring and Evaluation (Package 4)	\$565,000		QCBS/International	STP	Quality-Cost ratio 80:20
Institutional Development (Package 5)	\$600,000		QCBS/International	STP	Quality-Cost ratio 80:20
Communication Strategy (Package 1)	\$30,000	1	CQS/National		Amplified EOI will be requested
External Monitoring and Evaluation (Package 2)	\$40,000	1	CQS/National		Amplified EOI will be requested
Community based HH Food Security (Package 3)	\$40,000	1	CQS/National		Amplified EOI will be requested
NSO (Package 6)	\$50,000	1	SSS		NSO is the only organization in Mongolia with required competences
PIU staff	\$145,000	4	Individual consultants/national		Program manager; administrative and finance officer; secretary; driver



### C. National Competitive Bidding

6. The Recipient's standard procurement procedures are subject to the following modifications.

7. The procedures to be followed for national competitive bidding shall be those set forth in the Public Procurement Law of Mongolia of 1 December 2005, effective since 1 February 2006, as amended (Amendment 1 dated 6 February 2007), (hereinafter referred to as "the Law") with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the Procurement Guidelines.

(i) Applicable Procurement Procedure

Bidding shall be conducted in accordance with the Open Bidding Procedure, as defined in Chapter Two of the Public Procurement Law of Mongolia subject to the provisions stated in paragraph ii(c) below.

(ii) Participation in Bidding and Preferences

(a) Government-owned enterprises in Mongolia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the procuring entity, or the project executing agency or implementing agency.

(b) Prospective bidders shall be permitted to request bidding documents either in person or by mail upon submission of a written application. Bidding documents shall be sold to anyone who is willing to pay the required fee for the bidding documents, and no other conditions shall be imposed on the sale of the bidding documents. The bidding documents shall be delivered, at the prospective bidders' preference, either by hand or by mail or courier, provided that the bidder is willing to pay the mail or courier delivery charges, which should be specified in the bid invitation. Each bidder shall be allowed to purchase only one set of the bidding documents for a given tender. No limitations shall be imposed on any bidder as to the number of tenders in which it may participate during a given period of time, but the bidder's qualification (financial and technical capabilities) for award of contract(s) shall be assessed on the basis of its capacity to meet the aggregated qualifying requirements for the award of contracts for which it has submitted the lowest evaluated substantially responsive bids.

(c) Interested foreign bidders from eligible countries shall be allowed to participate without being required to associate or form joint ventures with local bidders. Foreign bidders shall be eligible to participate in bidding under the same conditions as local bidders. Mongolian bidders and goods manufactured in Mongolia shall be given no preference over foreign bidders and goods manufactured outside Mongolia, either in the bidding process or in the evaluation of bids.

(d) Prior registration shall not be a requirement for any bidder to participate in bidding.

(e) Pre-qualification of contractors shall not be required, except in the case of large or complex works and with the prior written concurrence of ADB.

(iii) Advertising

Invitations to bid shall be advertised in the Mongolian national language in at least one widely circulated national daily newspaper and freely accessible, nationally-known website in accordance with Article 21.1 of the Law... Bidding of NCB contracts estimated at (i) \$500,000 or more for Goods and related services and (ii) \$1,000,000 or more for

Civil Works shall be advertised concurrently with the general procurement notices on ADB's website.

(iv) Standard Bidding Documents

Standard bidding documents, acceptable to ADB, shall be used. The bidding documents shall provide clear instructions on how bids should be submitted, how prices should be offered, and the place and time for submission and opening of bids. Bidders shall be allowed to submit bids by hand, by mail or by courier.

(v) Qualification Criteria and Evaluation Criteria

(a) Qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, shall be used to determine whether a bidder is qualified. The evaluation of the bidder's qualifications should be conducted separately from the technical and commercial evaluation of the bid. When post qualification is applied, the assessment of bidders' qualifications shall be carried out only after the preliminary and detailed evaluation of bids has been completed by the executing agency/implementing agency and, in doing so, the qualifications of the bidder who has submitted the lowest evaluated substantially responsive bid shall be assessed first. The evaluation of a bidder's qualifications shall only take into account the bidder's capacity and resources to perform the contract, in particular its experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction or manufacturing facilities and financial position. In carrying out the post-qualification assessment, the executing agency/implementing agency shall exercise reasonable judgment in requesting, in writing, from a bidder only missing factual or historical supporting information related to the bidder's qualifications and shall provide a reasonable time period (that is, a minimum of 7 days) to the bidder to provide his response.

(b) Evaluation criteria to be used in the evaluation of bids shall be clearly specified in the bidding documents, and evaluation criteria other than price shall be quantified in monetary terms. All evaluation criteria so specified, shall be taken into account in bid evaluation. Merit points shall not be used in bid evaluation.

(vi) Bid Opening, Evaluation and Award of Contract

(a) Bids shall be opened in public, immediately upon the stipulated deadline for submission of bids. Bidders' representatives and the project's beneficiaries from the concerned local community who choose to attend shall be allowed to attend. The name of the bidder and total amount of each bid, including discounts, shall be read aloud and recorded in the Bid Opening Record. Bids received after the deadline for bid submission shall be rejected and returned to the bidders unopened. Immediately after completion of the bid opening proceedings, a copy of the Bid Opening Record shall be posted at a prominent location, accessible to the public, outside the office of the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the Bid Opening Record shall be promptly provided to all bidders who submitted bids.

(b) All bids shall not be rejected or new bids invited without ADB's prior written concurrence.

(c) No bid shall be rejected merely on the basis of a comparison with the owner's estimated cost or budget ceiling without the ADB's prior written concurrence.

(d) A bid containing material deviations from or reservations to the terms, conditions or specifications of the bidding documents shall be rejected as not substantially responsive. A bidder shall not be permitted to withdraw material deviations or reservations once bids

have been opened. Bidders shall not be eliminated from detailed evaluation on the basis of non-material, minor deviations or reservations.

(e) The evaluation of bids shall be done in strict adherence to the criteria specified in the bidding documents, and contracts shall be awarded to the qualified bidder offering the lowest evaluated and substantially responsive bid.

(f) Bidders shall be requested to extend the validity of their bids only under exceptional circumstances and, in all such cases, the executing agency/implementing agency shall obtain ADB's approval for the extension of the bid validity period in a timely manner, and subsequently, communicate such request for extension of the validity period of the bids in writing to all bidders before the date of expiry of their bids. Bidders shall have the right to refuse to grant such an extension of the validity of their bids without forfeiting their bid securities. Bidders agreeing to extend the validity date of their bids shall also extend the validity period of their bid securities.

(g) In the case of contracts of more than 18 months' duration, the bidding documents and the resultant contract shall provide for price adjustment, based on a formula acceptable to ADB, which shall be disclosed to the bidders in the bidding documents.

(h) If a bidder that submitted the lowest evaluated bid refuses to accept the arithmetical corrections made by the executing agency/implementing agency during the evaluation of its bid, its bid shall be disqualified and its bid security shall be forfeited.

(i) A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents or otherwise to modify its bid as originally submitted.

(j) There shall be no post-bidding negotiations with the lowest evaluated bidder or any other bidder. No bidder shall be required, as a condition for the award of contract, to change his bid price or otherwise materially alter its bid after it has been submitted.

(k) A bidder declared ineligible by ADB, based on a determination by ADB that the bidder has engaged in corrupt, fraudulent, collusive or coercive practices in competing for or in executing an ADB-financed contract, shall be ineligible to be awarded an ADB-financed contract during the period of time determined by ADB.

(vii) Inspections of Accounts and Records

Bidding documents and contracts under national competitive bidding procedures financed by ADB shall include a provision requiring suppliers and contractors to permit ADB to inspect their accounts and records relating to the bid submission and the performance of the contract by the supplier and/or contractor, as the case may be, and to have them audited by auditors appointed by ADB, if so required by ADB.

(viii) Complaints by Bidders and Handling of Complaints

Bidders' complaints shall be handled in accordance with the procedures set out in Chapter Seven of the Public Procurement Law of Mongolia.

(ix) Disclosure of Decisions on Contract Awards

At the same time that notification on award of contract is given to the successful bidder, the results of the bid evaluation shall be published in a local newspaper or well-known freely accessible website identifying the bid and lot numbers and providing information on (i) name of each bidder who submitted a bid, (ii) bid prices as read out at bid opening, (iii) name of bidders whose bids were rejected and the reasons for their rejection, (iv) name of the winning bidder, and the price it offered, as well as the duration and summary scope

of the contract awarded. The procuring entity/executing agency/implementing agency shall respond in writing to unsuccessful bidders who seek explanations on the grounds on which their bids were not selected.

(x) ADB Member Country Restrictions

Bidders must be nationals of member countries of ADB, and offered Goods and Works must be produced in and supplied from member countries of ADB.

## DEVELOPMENT POLICY LETTER AND POLICY MATRIX

## A. Development Policy Letter

MINISTER FOR FINANCE  
OF MONGOLIA

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Chingeltei duureg, Ulaanbaatar, MONGOLIA  
Tel./Fax: (976-51) 26-02-47, <http://www.mof.gov.mn>

Date 14.11.2008  
Ref. 2-4/5624

Mr. Haruhiko Kuroda  
President  
Asian Development Bank  
Manila, Philippines

## DEVELOPMENT POLICY LETTER AND POLICY MATRIX

## MONGOLIA: Food and Nutrition Social Welfare Program and Project

Dear Mr. President,

Mongolia's medium-term economic outlook is favorable. The economy has performed extremely well in recent years, primarily driven by development in the mining sector. Real gross domestic product (GDP) has averaged 9% since 2004, while per capita income has more than doubled. Buoyant commodity prices over the past 3 years reduced Mongolia's external debt burden from 74.6% of GDP in 2004 to 35.5% in 2006. But the recent fall in commodity prices and high food and energy prices could undermine this gain.

Despite Mongolia's recent economic success the poverty incidence is still 32.2%.<sup>1</sup> The favorable fiscal context allowed for a rise in the civil service wage bill by 49% and increased spending on social welfare programs. These measures coupled with a more than doubling of capital spending contributed to a decline of the overall fiscal surplus from 8% of GDP in 2006 to a possible fiscal deficit in 2008.

The country is currently experiencing the highest inflation rate in all of East-Asia: 32.6% year-on-year in May 2008 and 32.2% in September 2008. More than two-thirds of the May 2008 inflation was due to increased food prices with oil prices contributing a small but growing proportion. Key food staples such as flour and meat are contributing to inflation the most (25% and 45%, respectively, since the beginning of the year), despite government efforts to regulate their price increases.

Preliminary data on the impact of the soaring food prices on the population show that it affects everyone and especially the poor. Fear of inflation is rapidly becoming the number one preoccupation of the Mongolian population. The Government has recognized an urgent need to address increasing food prices and has set up a National Council to oversee the implementation of the Price Stabilization Program. This Council has been operating since late 2007 and has put in place a series of measures aimed at increasing food production and stabilizing prices. In May 2008, a working group to develop a program to provide support for vulnerable groups who are most affected by the increase of food prices was established under the Council.

<sup>1</sup> Mongolia. 2007. *Millennium Development Goals Implementation. Second National Report*. Mongolia.

A draft law proposing food and nutrition subsidies (discussed by the Cabinet) has been put forward to Parliament proposing the initiation of food vouchers targeting the most vulnerable. The draft law is planned to be discussed as a priority measure during the fall session of the Parliament (starting in October 2008).

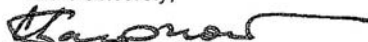
Mongolia has an extensive system of social welfare benefits and has recently initiated a decentralized system for beneficiary identification and delivery of services supported, in part, by the ADB-supported Social Security Sector Development Program (SSSDP).<sup>2</sup> There is a need to further reform the social welfare sector, especially to improve the impact of social welfare benefits on the poor and their fiscal sustainability through better targeting mechanisms, better monitoring of programs, rapid registration of unregistered persons, and increased implementation capacity at all levels. The Government is fully committed to targeting the poor under the food stamp program to be implemented with ADB assistance.

The policy matrix that the Government has agreed to for the proposed Food and Nutrition Social Welfare Program and Project in Mongolia provides for a response to mitigate the effect of soaring food prices, especially on the poor. The matrix ensures the effective and efficient implementation of a food stamp program through improved inter-ministerial coordination mechanisms, proper targeting mechanisms, and independent monitoring and evaluation of the food stamp program. Furthermore, the policy matrix stresses sustainability of the response by identifying Government funding mechanisms, and provides for a longer perspective by mandating a social expenditure and fiscal sustainability analysis of social welfare.

Mr. President, we acknowledge the importance of your announcement during ADB's annual meeting in Madrid stating that ADB will provide immediate assistance to tackle soaring food prices in the Asian region. Let me assure you of my Government's fullest commitment in urgently implementing mitigating measures to address the impact of soaring food prices on the poor and analyzing welfare system issues in the mid-term.

Let me thank you and the Asian Development Bank, on behalf of the Government of Mongolia, for your long-term commitment and support of the development of Mongolia, in particular in the social protection sector. With your support, we can achieve our common objective of sustainable development.

Yours sincerely,



Bayartsogt Sangajav  
Minister for Finance  
Mongolia

<sup>2</sup> ADB. 2001. *Report and Recommendation of the President on Proposed Loan and Technical Assistance to Mongolia for the Social Security Sector Development Program*. Manila.

## B. Policy Matrix

**Impact:** The impact of the Program is reduced vulnerability to food insecurity through increased supply of and improved access to food by vulnerable and poor households.

**Outcome:** The outcome is improved access to food by vulnerable and poor households through a targeted food safety net and strengthened social welfare systems.

**Scope:** In response to the food crisis, the Program will deliver a short term food stamp program focused on poor households by pilot-testing methodologies for targeting the poor and improving existing social welfare systems.

**Table A8: Policy Matrix**

<b>Policy Reform Area</b>	<b>Actions</b> (expected to be satisfied by November 2008)	<b>Indicators and Implementing Agencies</b>
Developing the first targeted food stamp program to reach the poor and vulnerable	Government to have approved the subprogram of the Food II Plan in support of vulnerable groups and the poor	Decree issued by Government
	Interministerial coordination mechanism to address the social implications of soaring food prices established	FNSWPP Steering Committee established through MOF Ministerial Order, which includes the list of members and terms of reference of the Steering Committee
	Government to have approved pilot-testing of the food stamp program, including development and implementation of an outreach targeting methodology based on an household assessment tool, for at least two groups: (i) the elderly and disabled, and (ii) urban and rural poor in selected poverty areas	Letter jointly signed by the Minister of Finance and Minister of Social Welfare and Labor
	Designation of a unit within MSWL to be responsible for monitoring and evaluation system of the food stamp program	Letter from the Minister of Social Welfare and Labor confirming the assignment of responsibility for the monitoring and evaluation system of the food stamp program to an MSWL unit
	Implementation of the external and independent monitoring and evaluation system of the food stamp program initiated	Preparation and advertisement of terms of reference for the external and independent monitoring and evaluation consultants

	Government to have allocated sufficient budgetary resources for the food stamp program to ensure financial sustainability: (i) for FY2008, a supplementary allocation of at least MNT80 million in the amended FY2008 budget; and (ii) for FY2009, at least MNT10 billion in the FY2009 budget	2008 supplementary budget allocation of MNT80 million approved by Parliament  2009 budget allocation of at least MNT10 billion approved by Parliament
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FNSWPP = Food and Nutrition Social Welfare Program and Project, MOF = Ministry of Finance, MSWL = Ministry of Social Welfare and Labor.

Source: Asian Development Bank.



## PROJECT COST ESTIMATES

Table A9.1: Detailed Cost Estimates by Expenditure Category  
(\$'000)

Item	Foreign Exchange	Local Currency	Total <sup>a</sup>	Taxes and Duties <sup>b</sup>
<b>A. Base Costs</b>				
1. Equipment and Vehicle	77.2	10.1	87.3	8.3
2. Staff Development and Workshops	00.0	869.5	869.5	
3. Consulting Services	1,010.0	265.0	1,275.0	
4. Materials	00.0	241.3	241.3	24.3
5. Surveys and Studies	00.0	260.0	260.0	
6. Community Grants	00.0	150.0	150.0	
7. Monitoring and Evaluation	00.0	50.0	50.0	
8. Program Implementation Unit Costs	00.0	272.0	272.0	
<b>Subtotal (A)</b>	1,087.2	2,117.9	3,205.1	32.6
<b>B. Contingencies</b>				
1. Physical <sup>c</sup>	3.7	0.5	4.2	
2. Price <sup>d</sup>	6.8	114.2	121.0	
<b>Subtotal (B)</b>	10.5	114.7	125.2	
<b>Total</b>	1,097.7	2,232.6	3,330.0	32.6

<sup>a</sup> In 2008 prices.<sup>b</sup> Taxes and duties are computed at 10% of equipment and materials cost.<sup>c</sup> Physical contingency is estimated at 5% of equipment and vehicles cost.<sup>d</sup> Computed based on foreign exchange inflation rate of 0.7% in 2009, 1.4% in 2010, 0.4% in 2011, and local currency inflation rate at 9.5% in 2009, 9% in 2010, and 8% in 2011.

Source: Asian Development Bank estimates.

**Table A9.2: Detailed Cost Estimates by Financier**  
(\$'000)

Item	Cost <sup>a</sup>	ADB		Government	
		\$	% of Cost Category	\$	% of Cost Category
<b>A. Investment Costs</b>					
1. Equipment and Vehicle	87.3	79.0	90	8.3 <sup>b</sup>	10
2. Staff Development and Workshops	869.5	600.0	69	269.5 <sup>e</sup>	31
3. Consulting Services	1,275.0	1,275.0	100	0.0	0
4. Materials	241.3	217.0	90	24.3 <sup>b</sup>	10
5. Surveys and Studies	260.0	260.0	100	0.0	0
6. Community Grants	150.0	150.0	100	0.0	0
7. Monitoring and Evaluation	50.0	50.0	100	0.0	0
8. Program Implementation Unit Costs	272.0	272.0	100	0.0	0
<b>Total Base Cost</b>	3,205.1	2,903.0	91	302.1	9
<b>B. Contingencies</b>	125.2	97.1	78	28.1	22
1. Physical <sup>c</sup>	4.2	4.2	100	0.0	0
2. Price <sup>d</sup>	121.0	92.9	77	28.1	23
<b>Total Project Costs</b>	3,330.0	3,000.0	90	330.0	10
<b>% of Total Project Costs</b>	100.0		90		10

<sup>a</sup> In 2008 prices.

<sup>b</sup> Taxes and duties are computed at 10% of equipment and materials cost.

<sup>c</sup> Physical contingency is estimated at 5% of equipment and vehicles cost.

<sup>d</sup> Computed, based on foreign exchange inflation rate of 0.7% in 2009, 1.4% in 2010, 0.4% in 2011, and local currency inflation rate at 9.5% in 2009, 9% in 2010, and 8% in 2011.

<sup>e</sup> In-kind contribution

Source: Asian Development Bank estimates.

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country/Project Title: Mongolia/Food and Nutrition Social Welfare Program and Project (FNSWPP)

Lending/Financing Modality: Grant

Department/  
Division:

East Asia Department/  
Social Sectors division

### I. POVERTY ANALYSIS AND STRATEGY

#### A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

Mongolia is currently experiencing a very high inflation rate: 18.5% since the beginning of 2008 and 32.2% year-on-year in September 2008. More than two-thirds of June inflation was due to increased food prices, with oil prices contributing a small but growing proportion. Price hikes for food staples such as flour and meat are contributing the most, despite Government efforts over the past 9 months to regulate price increases. The poor are hardest hit by overall inflation and especially by the food price increases.

Mongolia has an extensive system of social welfare benefits and recently initiated a decentralized system for beneficiary identification and delivery of services supported, in part, by the Asian Development Bank (ADB) Social Security Sector Development Project (SSSDP) loan. Assessments of the impacts of welfare benefits on the poorest have found that they are often limited because of: (i) lack of targeting, (ii) problems with coverage due to difficulties in attaining the necessary civil registration, and (iii) limited capacity among service providers. There is consensus among stakeholders that any effort to mitigate the immediate impacts of the food price increases on the poor will need clear targeting mechanisms so it both makes a difference for beneficiaries and is fiscally sustainable.

The FNSWPP provides a targeted emergency response to an increase in food prices. It is directly aimed at providing assistance for the poor. The components build on the existing social welfare system and help the Government to design and implement a food stamp program that specifically mitigates the impact of escalating food prices on the poor and strengthens the social welfare system. The FNSWPP will do the following:

- (i) **Target food stamp assistance directly to the poor.** 100,000 urban and rural poor households will be covered, with at least 70% of beneficiaries from the lowest quintiles. A proxy means test will be designed, used, and eventually considered for other welfare programs.
- (ii) **Create awareness on benefits and rights.** The Project will create awareness of the food stamp program and provide information about rights and registration procedures for receiving social welfare benefits.
- (iii) **Pilot community-based food security small grants.** Small grants will be used to promote household and community food security over the long term. The grants will build community greenhouses and kitchen gardens, initiate small producer groups, and provide nutrition education.
- (iv) **Build capacity and awareness among stakeholders.** Capacity development for targeting, food stamp implementation, civil registration procedures, and monitoring and evaluation (M&E) of welfare programs will be carried out.
- (v) **Provide technical assistance to ensure poverty-focused social welfare systems.** Extensive technical assistance will be provided by the Project to facilitate: (a) the design and implementation of the food stamp emergency response; and (b) analysis of key issues and design of M&E systems in support of the midterm social welfare sector strengthening goals.
- (vi) **Ensure gender inclusion.** Gender dimensions of poverty will be covered in the proxy means test, in gender-sensitive communication and awareness programs, including women's non-government organizations (NGOs) in the communication and community grants programs, promoting sex-disaggregated data in the monitoring and evaluation systems, and ensuring the gender dimensions are mainstreamed into the FNSWPP through the gender and development plan.

The grant directly supports Government plans to provide targeted assistance to the poor as part of emergency efforts to address the food crisis. It supports the focus on inclusive social development the country partnership strategy. The design is in line with the emphasis on inclusive economic growth in ADB's long-term strategic framework 2008–2020 (Strategy 2020) and responds directly to the President's pledge at the ADB Annual Meeting in Madrid to assist developing member countries in tackling soaring food prices. ADB has a long history of involvement in the social protection sector in Mongolia. These grants build on the institutional structures and service delivery mechanisms that were designed and initiated under the SSSDP loan.

**B. Poverty Analysis****Targeting Classification:** Targeted intervention-MDG (TI-M)**1. Key Issues**

Food stamp assistance will be targeted at poor households and will have a direct impact on: Millennium Development Goal (MDG) 1 (ending poverty and hunger), MDG 4 (child health) and MDG 5 (maternal health), and an indirect impact on MDG 2 (primary education). In response to rising inflation and food prices, the Government set up a National Council in late 2007 to oversee the implementation of a Price Stabilization Program. In May 2008, a working group headed by the Ministry of Finance (MOF) was established under the National Council to develop a program to support vulnerable groups who are most affected by the increase in food prices. This work is complemented by a draft law proposing food and nutrition subsidies (approved by the cabinet) which also calls for a food stamp program targeting the most vulnerable. In March 2008, fear of inflation was the number one problem identified by respondents in a survey by the Asia Foundation. The Ministry of Social Welfare and Labor (MSWL) does not have a specific mechanism to: (i) address emergency needs arising from the food crisis, or (ii) identify the poorest in the community.

Data on the impact of the rising food prices are scarce, but what is available reveals that poor households, and especially those in urban areas, are particularly affected. In 2006, a joint Government of Mongolia–UN Food Security Assessment Mission concluded that food insecurity affected around 800,000 people (about 30% of the population) and was on the increase in the largest cities (Darkhan, Erdenet, and Ulaanbaatar). Despite rising living standards overall, Mongolia is still considered one of poorest countries in Asia with an overall poverty rate of 32.6% in 2006. Of these, 4.5% were categorized as extremely poor. A household income and expenditure survey from 2006 to 2007 revealed enormous and rising inequality with regard to consumption. The poorest quintile of the population now spends about 71% of its consumption budget on food compared with 23.6% for the wealthiest. The average for all income groups is 38.6%.<sup>a</sup> The food stamp program will directly address this disparity by providing assistance to the poorest and helping them to cope with the rising cost of food.

The FNSWPP will contribute to poverty reduction and the priorities of MSWL and the Government by: (i) introducing targeting methodologies that identify the poor and limit inclusion and exclusion errors; (ii) building capacity among stakeholders for implementation, and awareness among the public on the rights and procedures for receiving benefits; (iii) introducing M&E systems for the sector capable of identifying and analyzing impact; and (iv) providing small grants to facilitate household food security and nutrition education for the mid- and long-term. Direct assistance for poor households to reduce the burden of food expenditure will help to reduce the use of coping mechanisms, such as reduced consumption (leading to malnutrition) and substitution from other expenditures on health, education, transport, and energy.

The distribution of food stamps to poor households will directly address the MDGs. International experience has found the use of food stamps is more effective than cash transfers in increasing food consumption and improving nutrient availability. MDG 1 (target 2) on hunger will be directly addressed by facilitating access to food for the poorest. As a consequence, FNSWPP will also affect the attainment of MDG 4 (child health) and 5 (maternal health). Households headed by women and lactating mothers have both been identified in recent poverty assessments as being particularly vulnerable and these will be identified by the proxy means test. The incidence of underweight children, under-5 mortality, stunting, wasting, anemia and rickets are high in Mongolia compared with other Asian countries and daily calorific intake for poor households is only 63.3% of the recommended amounts. The poverty and social assessment found that already poor households are cutting back on expenditures including education expenses for children. Therefore MDG 2 (primary education) will also be addressed.

**2. Design Features**

Direct poverty reduction mechanisms included in the project design include: (i) establishment of a targeting methodology to identify poor households and beneficiaries; (ii) food stamps to increase income and food intake; (iii) extensive communication outreach directed at beneficiaries, communities, and other local stakeholders; (iv) piloting of community-based food security small grants; (v) establishment of monitoring and evaluation systems capable of analyzing the impact of the food stamp program specifically and social welfare programs overall; and (vi) capacity development of social workers and livelihood support councils.

**C. Poverty Impact Analysis for Policy-Based Lending**

The direct and short-term impact of the food stamp policy reform will be improved access to food and social welfare services for the poorest. Indirect short- and medium-term impacts include extending awareness of the food stamp program, civil registration, and social welfare benefits among the poor and the general population.

The reform will have a direct impact on household food budgets of the poorest and on their capacity to mitigate the impacts of food inflation. It will improve household nutrition, health, and the capacity of households to pay for other essentials such as education, energy, and transport. The proxy means test will ensure proper identification. The policy reform will ensure that Government has a welfare mechanism designed to address emergency needs.

The policy reform addresses poverty reduction and the MDGs by: (i) establishing food stamp emergency assistance for the poorest; (ii) ensuring the poor are able to maintain nutritional levels and do not have to reduce access to healthcare, education, transport and energy; (iii) initiating targeting methodologies to reduce errors of inclusion, exclusion; and (iv) establishing an M&E system capable of monitoring impacts and informing program design and implementation.

## II. SOCIAL ANALYSIS AND STRATEGY

**A. Findings of Social Analysis.** Findings from the social analysis were generated from: (i) a review of available reports and statistical data, (ii) stakeholder interviews, and (iii) a series of rapid community consultations carried out in urban (five in Ulaanbaatar) and rural (six in Dundgobi *aimag*) communities. In each district and *soum*, one ordinary and one poor *khoroob*<sup>b</sup> (Ulaanbaatar) or *bagh* (Dundgobi) was selected. Focus group discussions included the poor, elderly and disabled. Key findings include:

- (i) Rising food prices are directly affecting the poor and have a particular impact on the urban poor who lack alternative access to food sources and have limited informal safety nets. National data for tracking the impacts of food price inflation are not yet available. Urban and rural areas are both feeling the effects but there are important regional differences in price escalation that need to be analyzed.
- (ii) Coping mechanisms being used include: (a) limiting the quantity and quality of food consumed; (b) postponing or skipping expenditures for schooling and medicines; (c) limiting travel; (d) substituting energy sources;<sup>c</sup> and (e) moving in with relatives to reduce costs, particularly of food and heating. The impacts have been primarily felt since May–June 2008 and are expected to intensify over the winter when food expenditures must compete with energy needs in household budgets.
- (iii) Some poor families (e.g., migrants) are not properly registered and are therefore not receiving any social benefits. Many of the poorest rely almost exclusively on child money and other benefits for basic subsistence. Lack of registration adds to the vulnerability of poor households who are forced to absorb the full impact of inflation with no assistance.
- (iv) Decentralized services need to be strengthened. Limited capacity and inadequate methodologies constrain the effectiveness of social worker outreach to poor populations and the effectiveness of livelihood support councils.
- (v) The food stamp program and community food security grants fill important gaps and are welcomed by the poor. Consultations confirmed support for a special food stamp program and verified that several kinds of informal systems providing credit for welfare recipients are already in use with shops in rural areas. Community food security projects have not focused exclusively on the urban poor. Stakeholders feel this is an important gap to be filled by this Project.
- (vi) The food stamp program should include informal markets (e.g., urban and rural wholesale markets) as partners. The pilot tests will investigate the viability of including these as they are important sources of cheaper and lower quality foods for the poor.
- (vii) The choice of a food stamp program over cash transfers is motivated, in part, by stakeholders not wanting funds to go to alcohol purchases. Alcoholism is an important public health and social problem in Mongolia.

### B. Consultation and Participation

1. Extensive consultation was carried out with key national, local and community stakeholders during project preparation. Several Government and donor coordination meetings were coordinated by the ADB team. A series of rapid qualitative consultations with urban and rural communities and local government stakeholders were out carried for the poverty and social assessment.
2. What level of consultation and participation (C&P) is envisaged during the project implementation and monitoring?  
☒ Information sharing    ☒ Consultation    ☐ Collaborative decision making    ☐ Empowerment
3. Was a C&P plan prepared? ☐ Yes    ☒ No  
 The FNSWPP will have no impact on involuntary resettlement and no adverse impacts on indigenous peoples. Therefore no C&P plan has been prepared. The FNSWPP will conduct an extensive community awareness communication program.

### C. Gender and Development

**1. Key Issues.** Key gender issues relevant to the Project identified during preparation are covered in the poverty and social assessment (Supplementary Appendix G) and addressed in the gender and development plan and the FNSWPP design and implementation. These include: (i) households headed by women and breastfeeding mothers are particularly impacted by rising food prices, therefore the gender dimensions of poverty should be addressed in the proxy means test to ensure that they are properly identified; (ii) wholesale markets and informal rural markets are important shopping places for urban and rural poor and should, where possible, be included in the food stamp system; (iii) women are primarily in control of money and decisions regarding food purchases and should be key stakeholders in the communication and awareness programs, and implementation of community grants; (iv) communication strategies and information, education, and communication (IEC) materials must incorporate principles of social equity and inclusiveness; and (v) data disaggregated by sex are rarely available in the social welfare monitoring systems and should be included in the FNSWPP to measure impacts and assist in refining design and implementation.

#### 2. Key Actions

- ☒ Gender plan    ☐ Other actions/measures    ☐ No action/measure

Key features of the gender plan include: (i) attention to the gendered dimensions of poverty in the proxy means, (ii) piloting of urban wholesale markets in urban areas, (iii) gender-sensitive public information campaign, (iv) partnerships with women's NGOs for community-based pilots, (v) women's NGOs to serve as advocates for beneficiaries in grievances, (vi) data from studies to be disaggregated by sex and gendered dimensions of poverty to be analyzed, and (vii) M&E to be carried out for the food stamp program tracking its gender impact. The action plan does not require a separate budget, since it is integrated into the overall FNSWPP cost and key indicators are included in the design and monitoring framework. The food stamp

operating unit and consultants under the program implementation unit will implement the action plan. Overall implementation responsibilities will lie with PIU and Ministry of Social Welfare and Labor (MSWL). Specific responsibilities and activities of the action plan are included in the terms of reference for individual consultants.

### III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

Issue	Significant/Limited/ No Impact	Strategy to Address Issue	Plan or Other Measures Included in Design
<b>Involuntary Resettlement</b>	No impact		<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input checked="" type="checkbox"/> No Action
<b>Indigenous Peoples</b>	No impact		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action
<b>Labor</b> <input type="checkbox"/> Employment opportunities <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Core labor standards	No impact		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action
<b>Affordability</b>	No impact		<input type="checkbox"/> Action <input checked="" type="checkbox"/> No Action
<b>Other Risks and/or Vulnerabilities</b> <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human trafficking <input type="checkbox"/> Others(conflict, political instability, etc), please specify	No impact		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action

### IV. MONITORING AND EVALUATION

Are social indicators included in the design and monitoring framework to facilitate monitoring of social development activities and/or social impacts during project implementation? ☒ Yes ☐ No

(i) Targeting methodology adopted by Government for pilot-testing; (ii) calorie intake of lowest quintiles of income distribution equal at least to 2,000 calories daily (disaggregated by sex) by 2015; (iii) percentage of underweight newborns among the lowest two socioeconomic quintiles lower than 2004 levels (disaggregated by sex); (iv) percentage of per capita consumption budget spent on food for two lowest quintiles remains equal to or increases compared with 2002 (disaggregated by sex) by 2012; (v) at least 70% of food stamps distributed to lowest two quintiles of income distribution (disaggregated by sex) after 2 years; (vi) at least 70% of beneficiaries identified by outreach methods after 2 years of operation (disaggregated by sex); (vii) at least 80% of beneficiaries receiving food stamps on time by 2011; (viii) at least 50% of *soums* and *khoroos* reached with capacity development by 2010; and (ix) recommendations for social welfare reforms forwarded to cabinet by 2011.

<sup>a</sup> See Supplementary Appendix G, Poverty and Social Assessment, for a full discussion of the findings.

<sup>b</sup> The lowest urban administrative unit.

<sup>c</sup> It was noted that rural households were using dung instead of firewood, and urban *ger* residents were using candles instead of electricity to cut back on energy costs.

## GENDER ACTION PLAN

### A. Gender Issues

1. Preparatory work to identify and address gender issues in the Food and Nutrition Social Welfare Program and Project was carried out via stakeholder interviews and as part of the rapid qualitative consultations for poverty and social assessment with communities and local authorities in urban and rural areas. Gender issues are reported in the poverty and social assessment (Supplementary Appendix G).

### B. Gender Plan

**Table A11.1: Gender Plan**

Outputs	Activities	Indicators	Agency Responsible
<b>Component 1: Design and Implementation of a Targeted Food Stamp Program</b>			
<b>Design of Targeting</b>	Ensure that the proxy means test addresses groups affected by gender aspects of poverty (e.g., households headed by and breastfeeding mothers)	<ul style="list-style-type: none"> <li>Gender dimensions of vulnerability included in the proxy means test</li> <li>Reporting on beneficiary households in design and monitoring framework is disaggregated by sex</li> </ul>	FSOU, PIU, MSWL
	Include wholesale food market vendors in urban areas for the two pilots as a part of the food stamp program	<ul style="list-style-type: none"> <li>Three food markets in sub-urban areas or “pockets of poverty” tested as food item vendors of stamp food items</li> <li>Lessons learned document produced</li> </ul>	FSOU, PIU, MSWL
<b>Component 2. Capacity Development and Communication Strategy</b>			
<b>Capacity Development Tools and IEC Materials</b>	Ensure public information and IEC materials incorporate principles of social equity, inclusiveness, transparency, and non-discrimination	<ul style="list-style-type: none"> <li>Gender-sensitive and transparent public information and IEC</li> </ul>	PIU, MSWL
	Ensure IEC materials on food stamps, civil registration, and community grant programs are specifically focused on women	<ul style="list-style-type: none"> <li>Percentage coverage of women beneficiaries</li> </ul>	
	Identify and recruit grassroots women’s NGOs to participate in community food security pilots	<ul style="list-style-type: none"> <li>Number of cooperative/partnerships established</li> </ul>	PIU, MSWL
	Ensure that the grievance system will allow beneficiaries and their advocates (e.g., community groups and grassroots women’s organizations) to submit complaints	<ul style="list-style-type: none"> <li>Community groups and women’s NGOs informed and guidelines provided on grievance procedures</li> <li>Number of grievances submitted to FSOU (disaggregated by sex)</li> </ul>	FSOU, PIU, MSWL, local SW authorities

<b>Component 3: Strengthening Social Welfare Strategies and Systems</b>			
<b>Effective Food Crisis Response</b>	Disaggregate data from the quantitative and qualitative studies by sex, as appropriate	<ul style="list-style-type: none"> <li>• Data disaggregated by sex and information arising from qualitative and quantitative studies</li> </ul>	MSWL, PIU, international and national consultants
	Carry out qualitative studies that include sample groups such as unregistered migrants, homeless people, street children, and garbage dump residents and look into the barriers these women and men face in civil registration, income generation, roles in distribution of food, and money within households	<ul style="list-style-type: none"> <li>• Consultant terms of reference address these issues</li> <li>• Specific recommendations and guidelines developed to assist these groups</li> </ul>	MSWL, PIU, international consultants
<b>Project Management Capacity Enhanced</b>	<p>Put in place M&amp;E mechanisms to enable tracking of gender impacts</p> <p>Ensure there is sufficient gender capacity on relevant consultant teams</p>	<ul style="list-style-type: none"> <li>• M&amp;E mechanism to track gender impacts</li> <li>• Gender capacity integrated into terms of reference for key consultant activities such as M&amp;E design, community grant program, communication strategy, and IEC</li> </ul>	PIU, MSWL

FSOU = food stamp operating unit; IEC = information, education, and communication; M&E = monitoring and evaluation; MSWL = Ministry of Social Welfare and Labor; NGO = nongovernment organization; PIU = program implementation unit.

Source: Asian Development Bank.

### **C. Budget and Implementation Arrangements**

2. The action plan does not require a separate budget since it is integrated into the overall Project cost. The food stamp operating unit and the consultants to be managed by the program implementation unit (PIU) will implement the action plan. Overall implementation responsibilities will lie with PIU and the Ministry of Social Welfare and Labor (MSWL). Specific responsibilities and activities of the action plan (such as ensuring disaggregated data in the monitoring and evaluation systems, providing gender-sensitive communication strategies and materials, and including a focus on women beneficiaries and women's nongovernment organizations in the community grants programs) are included in the terms of reference for individual consultants. The gender and development plan will be periodically refined during implementation by the PIU and the MSWL with support from the gender specialist at Asian Development Bank's (ADB) Mongolia Resident Mission. The action plan's implementation schedule will be for 3 years, from early 2009 through 2011.

### **D. Monitoring and Evaluation**

3. Monitoring and evaluation of the action plan will be incorporated into the overall monitoring and evaluation plan for the Food and Nutrition Social Welfare Program and Project. The PIU will be responsible for establishing and coordinating monitoring and evaluation activities. A midterm review will be accompanied by ADB staff with expertise in gender issues.