



## ► Policy Brief

September 2023

# Extending social protection coverage among Mongolian herders

### Key points

- Closing the social protection coverage gap for Mongolian herders

**Mongolian herders are pastoralist workers scattered through the countryside of Mongolia, a country with one of the lowest population densities in the world.**

Their nomadic lifestyle is driven by the continuous need for pastureland, so a herder household may move their dwelling several times a year across vast un-anthropised areas that can be steppic, (semi-)desertic, or mountainous, depending on the region. The customs and traditions of these people are at the core of Mongolian culture. Thus, while recognising and promoting the value of and need for economic modernisation and innovation, Mongolian institutions and their people cherish and desire to maintain the herders' legacy and traditions.

A herder is an individual who earns a living by herding livestock throughout the year. A herder household consists of herder(s) and their nuclear family. Increased education and employment opportunities as well as shocks caused by climate change have increased rural to urban migration in Mongolia over recent years. The total number of herders in the country declined by about ten per cent between 2010-20.

**In 2020, there were 298,789 herders (nine per cent of the population) and overall, 20 per cent of the total population lived in a herder household. Among the labour force, 24 per cent of employed are herders.** The two main sources of income for herders are the sale of wool and cashmere and the sale of livestock and meat. These

### Box 1. Factors influencing social and health insurance coverage

Perceived importance and knowledge of the system:

- Incomplete understanding of social and health insurance schemes.
- Low prioritisation of being a member, especially at younger ages.

Attitudes and expectations:

- Low levels of trust in the Social Insurance Fund.
- Low levels of perceived quality.
- Reliance on informal care and social protection.

Financial capacity:

- Lower levels of income explain lower coverage levels.
- Cost is the main explanation given for not contributing, as well as for having stopped.

Legal environment:

- The voluntary coverage regime allows for adverse selection.

generate an average monthly income close to the national average, although half of it is obtained during springtime. Despite the challenge of fluctuating income, the poverty headcount rate of individuals living in herder households does not differ from the national average, and herder families are significantly less exposed to food insecurity. Nonetheless, herders and their families face critical risks and challenges along their lifecycles such as limited access to healthcare, less dietary diversity, occupational hazards, lower than average life expectancy at birth as well as the risk of livestock losses due to severe climate shocks.

**In 2020, the social insurance coverage rate for herders was 16.4 per cent, and health insurance coverage was only 25.1 per cent, although mandatory.** Social and health protection coverage are crucial to ensure healthy and secure livelihoods for herders and their families and to maintain their productive and symbolic role in the Mongolian society. The existing legal framework characterises working-age herders as self-employed individuals, accommodating them in the voluntary social insurance scheme. In contrast, health insurance contributions are mandatory for all in Mongolia. The social insurance scheme provides long and short-term benefits and covers occupational hazards. Health insurance offers outpatient services, hospitalisation, and the co-payment of medicines and certain therapies. These low rates highlight the challenges the Mongolian social protection system faces in extending coverage, and calls for an urgent revision of the current provisions to close the gaps in social protection for herders.

- The Law on Recognition of the Past Services and Redemption of the Pension Insurance Contributions disincentivises standard contributions.

#### Services delivery:

- Insufficient numbers of local social insurance inspectors and the lack of a budget for field visits, make it difficult to reach out to all herders.
- Up until recently, digital services on the e-government portal were limited.

Source: ILO, 2022.

Based on a more comprehensive publication (ILO 2022), this policy brief focuses on the specific challenges that hinder the extension of social insurance to herders. It explores some policy options to achieve higher coverage rates, based on international experience and guided by ILO social security standards and principles. These policies aim to realise the human right to social security, to support Mongolian social and economic development, and achieve the Sustainable Development Goals (SDGs), particularly target 1.3 on social protection systems, including floors.

## ► Factors influencing social and health insurance coverage

The “Study on herders’ behaviour towards social and health insurance” of 2021, examined the demand side and supply side barriers that prevent herders from enrolling or being enrolled in social protection schemes. The study assessed that the low membership of herders in the schemes is related to financial, administrative, and behavioural challenges associated with information, awareness and trust in the system. Furthermore, the research identified the bottlenecks in the legal environment and service delivery of the Government in the areas of social and health insurance that limit the effective coverage of herders (see Box 1 for a list of the main factors influencing coverage).

### Voluntary payment contributions and retrospective redemption

Two current legal measures create considerable challenges towards extending coverage to herders. These measures are the possibility of redeeming unpaid years of past social security contributions (SSC) and voluntary enrolment in the Social Insurance Fund (SIF). The interaction between the two policies creates disincentives to contribution collection and membership to the scheme and poses further financial sustainability challenges to the already subsidised SIF in the longer term.

The Law on Social Insurance established that herders can voluntarily choose to contribute to the SIF.<sup>1</sup> While the adoption of voluntary schemes is not uncommon, evidence from other countries shows that such provisions are rarely successful in achieving satisfactory levels of coverage among workers (ILO 2021, 2022). Voluntary schemes are less effective than mandatory schemes for several reasons. They can be affected by adverse selection issues, for example individuals with higher risks expect to benefit more, so are keener to become members. Moreover, voluntary membership allows adverse selection and myopic economic behaviours endangering members' future income levels and the scheme's financial and social sustainability (ILO 2022).

Alongside the discretionary participation in the SIF, the Mongolian system with the Law on Recognition of the Past Services and Redemption of the Pension Insurance Contributions, allows the retrospective payments of non-paid contributions.<sup>2</sup> With this legal tool, individuals can redeem past years of service (starting from 1995) at a convenient rate to qualify for the contributory pension benefit at retirement age. While this provision increases the scheme's membership when herders approach retirement age, combined with its periodic re-enactment and the voluntary approach, it effectively delays contributions payment, disincentivising membership from a younger age.

## Financial capacity and reference income

The income of herders, while being close to the national average, is subject to significant seasonal fluctuations depending on the cycle of nomadic herding activities. Notably, up to 50 per cent of an entire year's earnings are made during the springtime when the majority of the wool and cashmere raw materials are gathered and sold. This characteristic is considered by the legal environment, which allows for monthly, quarterly, semi-annual and annual payments of social insurance and health contributions. Despite the accommodating payment schedule, it is noteworthy to mention that increasingly harsher and more frequent dzuds<sup>3</sup> can significantly hamper the contribution capacity of herders, reprioritising their expenditure towards herd restocking. This aspect is partially addressed by Index-Based Livestock Insurance (IBLI). However, the IBLI scheme had only enrolled 18.4 per cent of herder households in 2021.

The social security voluntary contribution rate is set at 11.5 per cent (including health contributions) of the reference income.<sup>4</sup> The reference income is self-determined by the insured herders. However, it cannot be lower than the statutory minimum wage. This feature is due to the difficulties in defining a reference wage for herders. It follows that contributing herders having significantly different levels of income contribute by the same amounts, reducing the fairness of the system. This element is even less fair if compared to those workers who contribute to the mandatory scheme, who might have lower incomes but have to deduct a higher amount of their wage to contribute to the social insurance system.

Compared to the employees' mandatory scheme, the voluntary scheme excludes the matching employers' share of contributions (11.5 per cent vs. 17.5 per cent). Because the statutory minimum pension is roughly at the same level as the minimum wage, the current contribution rate of the old age voluntary scheme (8.5 per cent) seems not proportionate to the benefit, especially considering the option of self-declaring one's earnings.

Subsidising contributions is common among voluntary schemes when they target groups that cannot sustain the double burden that paying the full contribution rate can entail. In Thailand for example, the Government partially or fully matches the voluntarily insured's contributions, depending on their age group, a similar approach is also taken in Malaysia where the State subsidises 80 per cent of the voluntary contribution rate to the self-employed. Nonetheless, these measures have still not shown their effectiveness and mirrors the challenges found in most of the countries that opted for voluntary schemes (Nguyen and Cunha 2019).

In Mongolia, herder households' income positively correlates with higher enrolment rates for social and health insurance. If asked for the reason for not paying social and health contributions, or for having stopped contributing in the past, the financial burden of payments is usually the first answer among the herders participating in an ad-hoc survey (ILO 2022). However, while financial capacity can explain the current enrolment levels, it is not the unique element hindering the potential coverage extension among the not-enrolled.

1 Alongside people working without an employment contract, the self-employed, and freelancers.

2 The 2017 Law on Retrospective Payment of the Pension Insurance Contributions for Herders and Self-employed, which created a window of opportunity for the buy-back of contributions, was renewed every year from 2017 to 2022, normalising what was meant to be an exceptional measure. The Law was not extended to 2023.

3 A phenomena that can result in massive livestock losses due to a deteriorating weather condition in winter and scarcity of hays and fodders for animals.

4 Of which, 8.5 percentage points are destined to the old-age pension scheme.

## Social insurance culture and awareness

The results from the study on herders' behaviour indicate that the majority of herders do not have a complete understanding of social and health insurance schemes. The survey indicates that the financial burden of contributions and the low prioritisation of health and social protection are the main reasons for the current coverage rates. The lack of understanding of the scheme and low perceived relevance are among the top reasons for not contributing to social insurance (ILO 2022).

The perception of importance increases with age. Unsurprisingly, and noted above while discussing the redemption law, aging relates to higher enrolment rates and relevance attributed to insurance and savings. Notably, most herders estimate that during old age they will be taken care of by their families (namely, by their descendants). Among these herders, the enrolment rate is significantly lower than those who think the State will take care of them.

In regards to health insurance, one out of four herders who do not pay contributions deem this service to be unimportant. The share increases to one out of three among lower educated herders. Among the same group, a third declared not knowing how to process the membership. Thus, and this is valid for both health and social insurance, financial literacy, social insurance understanding, and ease of access are crucial factors.

Higher education levels register higher enrolment rates, but among uninsured herders only the highest educated declare themselves willing to start paying contributions. A possible explanation for this can be found in the strikingly low levels of trust in – and perceived quality of – the SIF among uninsured herders. The SIF, because of its continuous budget deficit and high level of government subsidisation, has a widespread negative reputation, even among herders. Some even question the SIF's solvency capacity, reaffirming the low common understanding of social protection systems.

## Administrative barriers and service delivery

Even if herders have the financial capacity to contribute, they still may face administrative barriers related to income declaration, record-keeping, SSC payments, and

benefit receipts. Because they do not have an employer taking care of the paperwork, herders have to deal with the procedures individually. Their administrative capacities are often limited, as they may not be sufficiently informed, and the opportunity cost for registering may seem too high. To meet these needs, the General Authority for Social Insurance (GASI)<sup>5</sup> has a total number of 31 local offices of social insurance in Ulaanbaatar, Aimags and Soums centres.<sup>6</sup> In these local offices, social insurance officers provide important support to set up the voluntary schemes, to issue social and health insurance logs, to review benefits calculations to collect contributions.

For herders and social insurance inspectors, moving from Soums centres to dwellings is not a short walk. Depending on the Aimag and road and weather conditions, travelling to and from local offices may require up to one or two days. While the possibility of deferral contributions accommodates this aspect, the capacity of inspectors to go beyond their role as collectors is hindered. In 2020, Mongolia had 352 social insurance inspectors serving 339 Soums.<sup>7</sup> Therefore, inspectors may not contact and visit all herders in their areas of responsibility. When capable, they may lack the resources (i.e., vehicles and gas) to do so. Accordingly, some herders may not be able to obtain information about the amount of contributions they are expected to pay, nor pay the contributions when they might otherwise wish to. Furthermore, it can be that because of unavailable services, herders cannot pay the contributions whenever they choose to visit urban areas.

On the one hand, the low capacity of inspectors is partially made up by the possibility of mobilising Soums' and especially Baghs' governors as local resources to approach herders and to promote services and awareness. Nonetheless, this already requires additional investment of time and resources to train governors. Without an incentive system, governors may prioritise their primary responsibilities. On the other hand, in 2015, the Government launched an online service portal for accessing, among others, social welfare and insurance services. Although having a limited time-depth of registries, the system allows key functions such as the set-up of voluntary insurance plans, the issuance of social and health insurance logs, and payments via digital banks.

5 The implementation agency that manages contributions collection, benefit payment and fund management.

6 In the Mongolian countryside the administrative tiers are Aimags (provinces), Soums (districts), and Baghs (sub-districts).

7 On average, a social insurance inspector handles an area with 662 herders, managing most of the services for them.

## ► Herders as individuals in a complex system

**Even though most herders often live in remote and isolated areas, they are still embedded in the Mongolian socio-economic environment.** Understanding herders' relationships with institutions and markets allows for identifying potential entry points for policymakers to expand and promote social protection coverage among the target group. The following description and analysis do not aim at exhaustively representing herders' networks and systems; however, it can schematically illustrate the main actors and mechanisms surrounding herders' agency in the social protection system.

**Mongolian herders operate in the broader national administrative and economic systems, which are closely connected to each other.** Several actors intervene in the arena, the main ones are: government ministries and agencies, Aimags and Soums offices, commercial banks and insurance companies, cooperatives, and traders and factory representatives. These actors have, with different intensities, direct roles in the several mechanisms and processes that connect herders with markets and institutions. While individual herders might run their life with a high degree of isolation, most of them still deal with registration, certification and licensing processes, taxation, commercialization, government subsidies, and access to credit.

**A fundamental tool for the Mongolian system is the yearly livestock census (also called the "A" Account), which allows for the tracking of numerous indicators concerning animal husbandry in the country.** Thanks to the "A" Account, the National Statistical Office (NSO) has an annual overview of the number of herding households and the total number of herders, effectively building a herders' registry alongside livestock records. To receive support and subsidies, to obtain livestock insurance, to access loans and to use livestock as collateral, herders must be registered in the "A" Account.

**The "A" Account also serves as a basis for calculating the amount to be paid for the livestock tax. This measure came into force in 2021.** Tax offices, based locally in Aimags and Soums, collect revenues which are, by law, guaranteed to be invested in the district "Local Development Funds" in projects aimed at improving pastureland and livestock productivity, creating fodder reserves, protecting the environment, training and carrying out advocacy activities for herders.

**The tax on livestock is not the only direct tax for herders as they, like the rest of Mongolian workers, are also imposed a ten per cent flat rate for personal income tax on the income generated from sales.** The herders' income tax is collected by the same local offices as above and tied to local investments. Local tax officers must record the herders' tax ledger electronically. The information is stored in the Mongolian digital tax system, which also has an online portal for reporting, paying taxes, receiving information on withheld taxes, tax inquiries and clarifications related to citizens.

**Alongside imposing taxes, the Mongolian Government provides direct monetary subsidies to herders to produce milk, hides, wool and cashmere.** The current system of subsidies is criticised for reducing the livestock sector's ecological sustainability. Subsidies indirectly contribute to pasture degradation and overgrazing because they reward production quantity over quality (World Bank 2020). While the approach may be changed, the subsidies system may still represent a relevant entry point for further development of the herders' social insurance scheme, as expanded on in the next sections of this note.

**Subsidies are transferred by commercial banks to herders in their accounts.** Access to subsidies depends on administrative steps such as applying through the Soum's agricultural division by submitting the relative commercial information, registering on the digital online portal, confirming the "A" Account data, and obtaining veterinary certificates confirming the health of the herd.<sup>8</sup> Moreover, subsidies are obtainable only via supplying raw materials to traders and factories authorised by the Ministry of Food, Agriculture and Light Industry (MAFLI). Through these intermediaries, the herders can obtain the (digital) payment receipts valid for calculating the subsidies amount. District agricultural divisions transmit the information concerning the value of subsidies to be paid to the MAFLI, which subsequently submits a budget request to the Ministry of Finance. Subsidies are then directly transferred by commercial banks to the herders' accounts.

**Commercial banks also offer access to financial and insurance products for herders.** It is estimated that 60 per cent of herder households have loans with either national or commercial banks and that loan repayments constitute, on average, 17 per cent of herder households' expenditure (ILO 2022).<sup>9</sup> Formerly, GASI signed a cooperation agreement

<sup>8</sup> State veterinaries' certificates are not required for trading commodities if herders are not interested in obtaining government subsidies, with the exception of livestock sales.

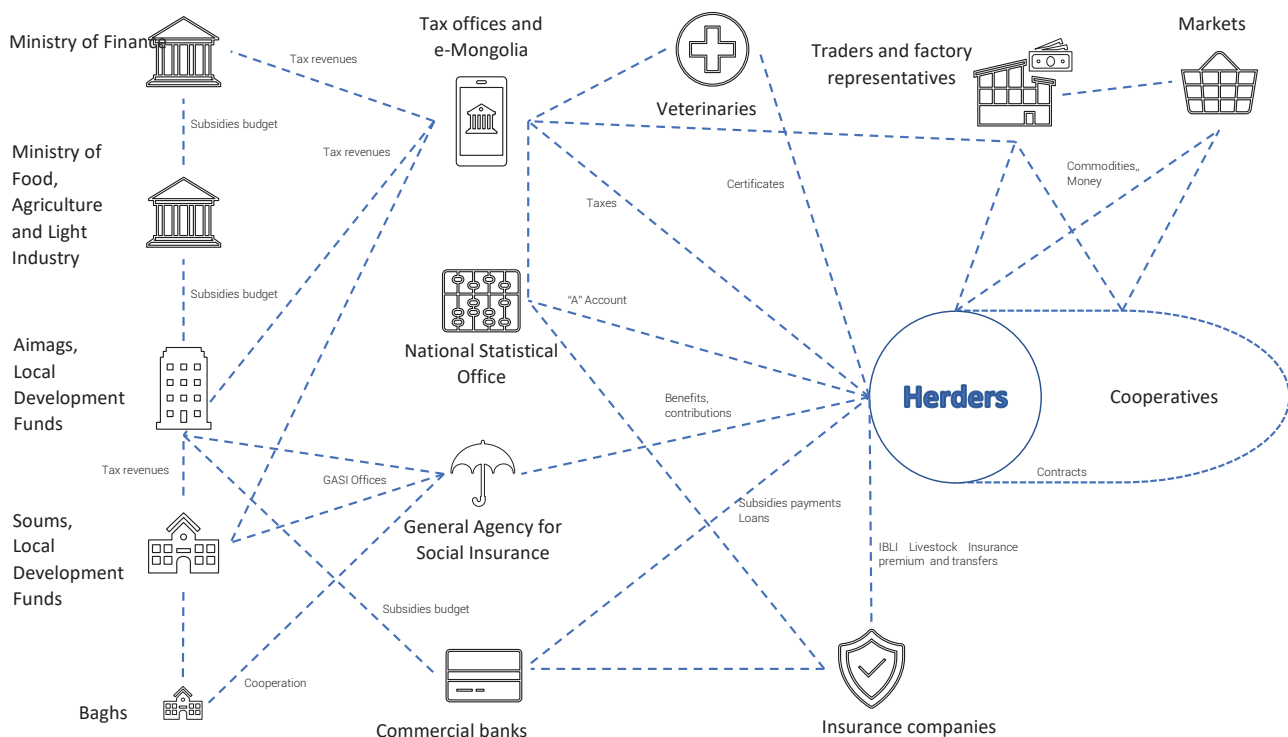
<sup>9</sup> Interest rates on herders' loans range between 15 per cent and 20 per cent.

with commercial banks, requiring herders to have social insurance coverage when applying for loans. However, this cooperation that may have served as an incentive to compliance no longer exists (ILO 2022).

**Other than loans, commercial banks and insurance companies offer Index-Based Livestock Insurance (IBLI).** Introduced in 2006 with the assistance of the World Bank,

IBLI is a voluntary, market-based insurance product. Based on the "A" Account database, the IBLI aggregates livestock losses at the Soum level and activates payments when the indicator reaches six per cent in a given year. This measure covers herders from high losses and is used by commercial banks as the eligibility criteria for loans with lower interest rates.

► Figure 1. Diagram of the economic system surrounding herders



Source: ILO, 2022.

## ► Policy tools to extend social and health protection coverage to herders

**Extending social and health protection to herders means developing a strategic plan with a long perspective on budgeting and social sustainability.** The current system has several flaws that allow for tactical misuses of the schemes. An important measure that could be taken is the alignment of the social and health insurance contribution mandates. While health contributions are mandatory, SSC

are not. On the one hand, voluntary provisions globally have not achieved the desired objective of extending coverage. On the other hand, distinguishing the two types entails a top-down differentiation. This differentiation may inadvertently instruct on the relevance and priority of health contributions over SSC. The result is that currently,

not only is the voluntary payment of SSC extremely low, but also health coverage is below a satisfactory rate.<sup>10</sup>

**The first step could consist of extending the mandatory provision to SSC payments to reinforce their social relevance and to align them with health contributions' status.** If the mandatory enrolment seems too sudden or may create conflicts, the voluntary clause could still be included allowing for the voluntary opt-out from the scheme.<sup>11</sup> With this, the system would automatically extend the legal coverage to all herders but still be far from achieving effective coverage, adding the new daunting challenge of compliance and enforcement.

**Extending the mandatory legal coverage automatically to all herders cannot be done without a structure of incentivisation and enforcement mechanisms capable of achieving the best possible results.** The description of the herders' economic system allowed for identifying potential entry points for implementing the mechanisms.

An incentive for membership and contributions payment that has already been discussed publicly as of June 2022, is to subsidise 50 per cent of the herders' contribution rates for the first five years of membership. Under the current scheme design, the SIF, through the government budget, already subsidises most pensions as the minimum pension corresponds to the minimum wage level, and most pensioners receive the minimum. While the latter is a problem inherent to the wage system and the scheme's design, subsidising herders' contributions can still be used as one of the mechanisms to incentivise participation. However, this may create an equity challenge in the system by privileging herders in respect of other workers (e.g., low income wage earners).

**The United Nations Joint Programme (UNJP) implemented in 2020-21 identified and piloted alternative incentive mechanisms to increase social and health insurance coverage with the involvement of local cooperatives of herders (ILO 2021b, 2021c).** Altogether, these activities have contributed directly and indirectly to increasing herders' social and health insurance coverage by ten per cent in the five target Soums. In contrast, the national coverage rate increased by five per cent during the same period.

The incentives included:

1. the payment of SSC for non-monetary items such as livestock and raw materials;
2. withholding SSC from subsidies payments;

## Box 2. Micro entrepreneurs in Brazil

Brazil created the legal category of self-employed micro entrepreneurs in 2008 through the Complementary Law No. 128, defining them as self-employed persons with a maximum gross annual income of 81,000 Brazilian reais (about US\$20,800) who do not participate in another company as a partner or shareholder and have no more than one employee. The law simplified registration and contribution payments by combining tax and social security contributions into one payment.

While the law is part of the Simples Nacional programme which addresses micro and small enterprises, it foresees lower contribution rates for micro-entrepreneurs than under the regular scheme.

The programme has contributed to increased coverage in Brazil: The social insurance coverage rate among self-employed workers increased from 33 per cent in 2009 to 41.7 per cent in 2015.

Source: ILO, 2021a.

3. providing genetically improved animal breeding services to insured herders in priority;
4. negotiating discounts on veterinary services to herders who are covered by social insurance; and
5. training herder cooperative representatives, lifelong education teachers, social insurance officers, and trade union delegates on the social insurance system, its benefits, laws and regulations.

**Further incentives may be created by promoting the practice of providing lower interest rates to insured herders applying for loans from the commercial banks.**

Potentially, this could be converted into a compliance mechanism by restoring the conditional access to credit upon SSC payment compliance. This requires further integration and cooperation between GASI and commercial banks. Moreover, the "A" Account registry can effectively serve as the shared parent database among institutions. The same registry guides the IBLI scheme, which offers the opportunity for additional incentives.

<sup>10</sup> This is exacerbated by the paradoxical practice of allowing the payment of health contributions (thus granting access to services) at the moment of hospitalisation or treatment, which goes against the basic principles of insurance.

<sup>11</sup> Voluntary opt-out clauses are more commonly considered by social health insurance schemes where private markets can supply the demand. An example of a social insurance scheme allowing voluntary opt-out is the Republic of Korea example that addresses own-account workers.

**For example, as an alternative (or a complement) to horizontally subsidising SSC to all herders, SSC may be proportionally subsidised to insured herders in case of IBLI-defined shocks.** This approach could improve both social and livestock insurance coverage and pooling, and be tied to discounted interest rates on loans.

Alongside the need to create incentives and design enforcement tools, the SIF faces the challenge of defining the reference income for herders. Currently, the system allows for the self-declaration of income, with a minimum corresponding to the minimum wage and a ceiling corresponding to ten times the minimum wage. Due to the pension system design, it is rationally convenient for individuals that choose to contribute to do so with the minimum necessary amount.<sup>12</sup> This is an equity issue between employees and herders (and the self-employed) as the latter can determine their SSC amount. However, both groups eventually obtain the same benefits. This is an issue inherent in the design of the system. There may be alternative options to determine herders' reference income, e.g., linking it to the income tax base, and to the "A" Account and the recently implemented tax on livestock.

The tax on livestock raises revenues on the basis of the quantities of animals owned. While no solution can be presented from this study, SSC amounts could be defined as a function of the tax paid to represent better herders' potential earnings. Nonetheless, this approach may violate the distinction between property and earnings that should be applied when determining a contribution base. Thus, the SSC could be triangulated with the livestock tax and the PIT base system that uses sales to define taxable income.

In conclusion, to progress towards achieving higher social protection coverage, to contribute to the realisation of the human right to social security and to support greater Mongolian social and economic development, it is advised to tackle herders' social protection gaps with a tailored approach. This note identifies potential entry points that can enhance the incentivisation and enforcement of social security contributions payments. It is suggested that, alongside the subsidisation of contributions, additional mechanisms can be explored and expanded, preferably within the framework of a mandatory scheme. The interconnections between the herders and the surrounding economic system can allow policymakers to leverage the existing structure of certifications, subsidies, access to credit, and insurance mechanisms. These mechanisms, if functioning in synergy with the social protection system, can create a conducive environment for the achievement of the social protection system's objectives of social and financial sustainability.

### Box 3. Involving community members in Indonesia

The Kader JKN programme in Indonesia is based on the recruitment of community members who perform some functions on behalf of the public social insurance provider (BPJS Ketenagakerjaan) such as outreach and communication, the enrolment of new members, the handling of complaints and the collection of contributions and their transfer to the scheme.

To qualify as a Kader JKN agent, the candidate must fulfil certain criteria, for example they must have registered for online banking in order to facilitate online payments for members; they must have a domicile near the target area; must have obtained a high school diploma; and must have work experience with a social organization.

The community approach has proven to be effective in reaching people living in remote areas, particularly in an island country like Indonesia. Within one year of implementation, the programme had 2,000 agents who managed two million members while the contribution collection rate increased by 14 per cent. The community approach shows a utilisation rate of 73 per cent, compared to four per cent for e-registration.

Source: ILO, 2021a.

<sup>12</sup> A highly subsidised defined benefit system, with a minimum pension corresponding to the minimum wage.



## ► Policy options

This section presents three different policy options for reforming the current social and health insurance schemes in Mongolia (see Figure 2). These packages should be viewed as illustrations of possible reform options. Further options should be considered, and additional analyses may be required to define features and parameters. In this regard the packages should not be viewed as exact recommendations but more as additional inputs in to the national dialogue.

### Option A

The first policy option installs a mandatory social insurance regime registering all herders included in the “A” Account to the SIF. The reference wage for contributions is based on a formula that takes into account the minimum wage and the number of livestock already registered in the “A” Account. Ownership may be grouped in categories that determine a multiplier of the minimum wage. For example, the reference salary of a herder with less than 200 animals has a multiplier of 1x, meaning that the reference salary of this herder would be the minimum wage.

The payment mechanism is based on both the e-Mongolia digital payments system and the Soums’ one-stop-shops. For the herders in the age group 15-34 years the payment of contributions is fully subsidised for the first five years. As an incentive to contributions’ payment for all, the total contributions rate is calibrated on the indicators from the IBLI to lower the financial burden for herders in areas barely hit by climate shocks. As an enforcement mechanism, access to loans is conditional upon the payment of contributions for a qualifying period.

To effectively cover all herders and further incentivise contribution collection, the social insurance system could partner with existing cooperatives and groups of herders at the Soum level. The partnership would involve the collective payment of contributions on behalf of the cooperatives or group members, at a rate that decreases with the size of the collective. For this, agents from the collectives would be recruited and trained to facilitate the collection of contributions and to improve communication.

► **Figure 2. Policy options**

	Option A	Option B	Option C
Regime	Mandatory	Voluntary opt-out	Voluntary opt-in
Registration	“A” Account	“A” Account e-Mongolia one-stop shops	e-Mongolia one-stop shops
Reference wage	Minimum wage and livestock	Self-defined	Based on sales and livestock
Payment points	e-Mongolia one-stop shops	e-Mongolia one-stop shops Subsidies	e-Mongolia one-stop shops Subsidies
Incentives	Youth contributions’ subsidy Contributions calibrated on IBLI Group-based contributions	Contributions’ subsidy	Genetics and veterinary services Preferential interest rates Labelling
Partnerships	Cooperatives and groups	Tax authority	Cooperatives and groups
Enforcement	Access to loans	Administrative penalties	n/a

Source: ILO, 2022.

### Option B

Option “B” is based on a voluntary opt-out regime for herders and the self-employed in the SIF. All herders included in the “A” Account are enrolled in the scheme at the start of each year. The reference wage for contributions is automatically set as the sectorial median wage, but it can

be self-defined and range from the statutory minimum wage to the SIF ceiling. The members that desire opting out from social insurance can do so by visiting the physical one-stop shops. The payment of contributions is bundled in a mono-tax with the livestock tax and the PIT so that workers have single schedules and processes, and payments are done via e-Mongolia and the one-stop shops. Optionally,

the member can allow contributions to be automatically withheld from the payment of government subsidies on production.

As an incentive to contributions payment for all, the social insurance contribution rate is partially subsidised for up to five years, depending on the age group of the herder. As contributions are bundled with taxes, the enforcement mechanism is unique and aligned too. As a consequence of missing payments, the Tax Authority applies its administrative penalties.

### Option C

The third option maintains the current voluntary enrolment nature of the scheme allowing enrolment via digital and traditional means. The reference wage for contributions is based on a formula that takes into account the minimum wage, the income from sales, and the number of livestock registered in the "A" Account. The contribution base is obtained by multiplying the minimum wage with the livestock multiplier (see Option A) times a sales income multiplier.

To incentivise participation to the social insurance scheme and to promote compliance with the payment of health contributions, a large set of incentives are put in place. Registrations and contributions are promoted and facilitated through cooperatives and groups. This allows the collectives to gather funds and pay contributions all at once on behalf of the members. The contributions can be calculated by using the collectives' average multipliers to simplify procedures and to promote mutuality among members. Optionally, cooperatives can allow contributions withholding from the payment of government subsidies on production.

On the other hand, contributing herders are offered several ancillary services of their interest to incentivise participation. These services include the provision of genetically improved animal breeding services and veterinary services. Most of these services already exist. However, access to them could be made conditional to their participation in social security. Furthermore, contributing herders' products are given a specific label that can be traced by traders, manufacturers, retailers, and buyers. The labelling is expected to increase the market value of the products, especially with those commodities reaching international markets.

## ► Conclusion

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As Mongolian herders are getting older (and fewer younger Mongolians are opting for this occupation), so having accessible and effective old-age pension and health insurance systems in place is of vital importance for this population group of 300,000 individuals. Providing effective and efficient social security protection to the herders in Mongolia is difficult, not the least due to Mongolia's physical and human geography. Furthermore, the herders' nomadic, or semi-nomadic lifestyle, creates challenges for the delivery and administration of social security. Social protection programmes have often been based on standard approaches or prudential approaches. To close the coverage gap for Mongolian herders, and by it significantly close the national one, a different approach is needed. This report is the product of larger study conducted within the UNJP "Extending social protection to herders with enhanced shock responsiveness" and aims at providing concrete policy options to feed the national dialogue and by so achieve SDGs 1.3, 1.5 and 13.1.

This note identifies potential entry points that can enhance the incentivisation and enforcement of social security contributions payments. It suggests that, alongside the subsidisation of contributions, additional mechanisms can be explored and expanded, preferably within the framework of a mandatory scheme. The interconnections between the herders and the surrounding economic system can allow policymakers to leverage the existing structure of certifications, subsidies, access to credit, and insurance mechanisms.

The policy options presented in this brief can be read as examples of possible packages of reform options. They are not meant to be recommendations, but can be seen as an input for national dialogue on the issue towards the achievement of the social protection system's objectives of social and financial sustainability.

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