Knowledge Fellows

IMPACT INVESTING IN CHILDCARE SYSTEMS

Contextualizing the Childcare Systems Map of ECDAN's Systems Thinking for ECD Initiative in Mongolia with a Focus on Impact Investing

ECDAN Knowledge Fellows program project

Authored by
Dulguun Batmunkh
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ECDAN
Early Childhood Development Action Network

455 Massachusetts Ave. NW
Suite 100
Washington, DC 20001

www.ecdan.org

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Abbreviations

CIT	Corporate income tax
CLI	Child-Lens Investing
CMP	Child Money Program
ECD	Early childhood development
ECDAN	Early Childhood Development Action Network
ECEC	Early childhood education and care
ESG	Environmental, social and governance
LDF	Local Development Fund
LMICs	Low- and Middle-Income Countries
MES	Ministry of Education and Science
MLSP	Ministry of Labor and Social Protection
MNT	Mongolian Tugrug
NGO	Non-governmental organization
PPP	Public-private partnership
SDG	Sustainable Development Goals
SIBs	Social impact bonds
SME	Small, and medium-sized enterprise
UN	United Nations
UNICEF	United Nations Children's Fund
USD	United States Dollar

Definitions

The following terms appear throughout this report, and a shared understanding of their meanings will be helpful for readers. While the definitions are drawn from various sources, they are expressed in the author's own phrasing.

Blended Finance: A financing approach that combines public, private, and philanthropic capital to de-risk investments, maximize funding efficiency, and attract private sector participation in social impact sectors, including childcare.

Childcare: A broad term referring to formal and informal care services provided to young children from birth to compulsory school age. These services may include center-based care, family daycare, in-home care, and community-based programs. Childcare supports children's early learning and development, provides a safe and nurturing social environment, and enables parents or caregivers to participate in the workforce or pursue education.

Childcare System: The interconnected set of policies, financing mechanisms, service delivery models, workforce structures, social norms, and stakeholder dynamics that collectively govern the regulation, design, implementation, funding, and evaluation of childcare services for young children from birth until school entry. At its core are young children and their primary caregivers, surrounded by a network of key stakeholders, including policymakers, government bodies, formal and informal childcare providers, the early childhood workforce, and employers. Beyond the core actors, the system is also influenced by local authorities, civil society organizations, development partners, researchers, professional networks, the private sector, and media—each contributing to its design, sustainability, and public perception.

Child-Lens Investing: An investment approach introduced by the United Nations Children's Fund (UNICEF), in which investors intentionally integrate child-focused considerations into investment decisions to advance positive child outcomes while minimizing harm.

Early Childhood Development (ECD): The development of young children from pregnancy through age eight across multiple domains, including physical, social-emotional, language, and cognitive.

ECDAN's Systems Thinking for ECD Initiative: An international collaborative effort led by the Early Childhood Development Action Network (ECDAN) to promote the use of systems thinking in analyzing the ECD landscape in low- and middle-income countries (LMICs), supporting the design of sustainable, equitable, and scalable solutions in the field.

Impact Investing: An investment strategy driven by private funders that seeks to generate both measurable social or environmental impact and financial returns by directing capital toward projects, businesses, or services that address pressing social challenges (e.g., education, healthcare, housing, or inclusive labor participation) while also achieving surplus financial performance. Unlike traditional philanthropy, impact investing leverages private capital markets and applies investment discipline to support scalable and sustainable solutions.

Outcome-Based Financing: A funding model that ties financial disbursements to measurable results, ensuring that resources are allocated efficiently based on specific social and developmental outcomes (e.g., improved child development outcomes, increased parental workforce participation, or expanded childcare service coverage).

Pay-for-Success Models: A subset of outcome-based financing in which private investors provide upfront capital for services and receive returns only if predefined impact metrics (e.g., higher preschool enrollment rates or improved school readiness scores) are achieved.

Public-Private Partnerships (PPPs): A collaborative funding and operational model in which governments, private sector entities, and civil society organizations jointly invest in and manage the design, implementation, and evaluation of industries and services with societal impact.

Social Impact Bonds (SIBs): A performance-based investment instrument in which private investors fund social impact-oriented initiatives and are repaid by the government or donors only if agreed-upon social outcomes are met.

Structural, Attitudinal, and Transactional (SAT) Analysis: A systems-thinking tool that categorizes system factors into: structural (e.g., governance, regulations, economic conditions); attitudinal (e.g., public perceptions, social norms, cultural beliefs); and transactional (e.g., decision-making processes, financing flows, stakeholder interactions).

Systems Thinking: A holistic approach to understanding complex problems by examining how parts of a system interrelate and influence one another. Rather than analyzing individual components in isolation, systems thinking looks at patterns, feedback loops, and broader contexts to understand root causes and unintended consequences. It is especially useful in addressing multifaceted social issues involving multiple actors, institutions, and dynamic interactions. Systems thinking helps identify leverage points for effective, sustainable, and scalable change.

Tax-Incentivized Social Impact Investment: A policy mechanism that enables private companies to allocate a portion of their taxable income toward social investments, including childcare services, by offering tax deductions or credits.

Workforce-Integrated Childcare Solutions: Employer-supported childcare models that include on-site childcare centers, childcare subsidies for employees, and flexible work policies designed to balance workforce productivity with employees' caregiving responsibilities.

Executive Summary

A sustainable and inclusive childcare system is essential not only for child development but also for enabling workforce participation, reducing poverty, and strengthening the national economy. Despite Mongolia's strong political recognition of childcare, rooted in its history of women's labor force participation, persistent structural and financial barriers prevent equitable access to quality services, especially for children under three and those in rural and underserved communities.

This project contextualizes the Childcare Systems Map developed by ECDAN's Systems Thinking for ECD Initiative, applying it to the Mongolian childcare landscape with a focus on financing. Through literature reviews and interviews with 18 national and international experts, the project explores how impact investing, defined as mobilizing private capital toward initiatives that deliver measurable social outcomes alongside financial returns, can complement public and donor funding to address systemic gaps in Mongolia's childcare ecosystem.

Key findings indicate that childcare financing in Mongolia continues to rely heavily on public funds, out-of-pocket expenses by families for service operations, and international development aid for technical support. System-wide reform is constrained by fragmented governance, inequitable access, limited service quality, and a lack of incentives for innovation. However, emerging developments, such as the recent introduction of corporate tax incentives for social investments, present timely opportunities to mobilize blended finance and diversify funding sources.

This paper proposes a three-pronged investment strategy: (1) developing childcare business accelerators to strengthen provider capacity and workforce sustainability, (2) co-financing infrastructure expansion through public-private partnerships, and (3) advancing equity-focused models that ensure inclusive access for the most marginalized children and families. It also offers targeted recommendations for policymakers, caregivers, and private sector actors, emphasizing the role of multi-stakeholder collaboration and impact measurement in ensuring sustainable results.

By reframing childcare as a high-impact, investable sector, Mongolia can move beyond fragmented service provision and toward a system based on a diversified financing model that ensures every child can thrive – regardless of their geography or socioeconomic background.

Keywords: early childhood development, childcare, childcare financing, impact investing, Mongolia, systems thinking, public-private partnerships

1. Introduction

Childcare includes a broad range of services designed to support the healthy development of young children, typically from birth to the start of formal schooling. These services can be delivered in formal settings such as childcare centers or informally by relatives or community members, depending on the country context. Along with supporting children's development, childcare enables their primary caregivers to work, which contributes to reducing household poverty and strengthen national economies in the long run.[1] Unlike preschool or kindergarten, which often focus on preparing children aged three to six for school, childcare typically covers a wider age range and offers more flexible hours to meet the needs of working families. This makes childcare not only an early education and caregiving service, but also a vital part of social and economic systems.

A country's childcare system is shaped by various interconnected elements, including policy and regulatory frameworks, funding sources, service delivery models, workforce conditions, and prevailing social norms around caregiving. Together, these elements determine how childcare services are designed, accessed, and experienced by children and their families.

Given this complexity, applying a systems thinking approach provides a useful lens to examine how these elements interact, where systemic bottlenecks occur, and which leverage points offer the great potential for sustainable positive change. In recognition of this, the Early Childhood Development Action Network (ECDAN) launched the Systems Thinking for ECD Initiative. This global effort, supported by a consortium of experts from Asia and Africa, resulted in the development of the Childcare Systems Map: a visual tool that captures common feedback loops and dynamics within childcare systems across low- and middle-income countries (LMICs).[2] The tool is designed to help policymakers and practitioners better understand and address system-wide barriers to access, quality, and financing.

While the map highlights shared system patterns, it is not specific to individual country contexts. As a 2024 Knowledge Fellow with ECDAN, this project aims to adapt the Childcare Systems Map to Mongolia by examining the unique dynamics of its childcare landscape. Particular attention is given to the system's financing mechanisms, with a focus on how alternative approaches such as impact investing can be integrated to strengthen sustainability and inclusivity.

Although Mongolia allocates a significant portion of its education budget to pre-primary education, investment in childcare remains insufficient. Much of the sector's technical advancement still depends on external development assistance. With recent declines in global aid, such as the reduction in U.S. foreign assistance, the vulnerability of Mongolia's childcare system has become more evident.[3] Additionally, the absence of structured incentives for private sector participation and the lack of integration between childcare financing and broader economic policies continue to hinder progress.

To address these challenges, this project explores a central research question: *How can impact investing be leveraged to support equitable, high-quality, and financially sustainable childcare services in Mongolia?* The analysis highlights the potential for private capital to complement public and international development funding through carefully designed, cross-sectoral partnerships, while also recognizing the risks of market-driven approaches in essential public service systems such as childcare.

This paper is intended for policymakers, impact investors, development partners, and advocates working to improve early childhood systems in Mongolia. By contextualizing ECDAN's Childcare Systems Map and applying it to the Mongolian case, the project aims to provide practical insights and inform future strategies that promote accessible, high-quality, and sustainably financed childcare services.

2. Methodology

This project used a qualitative exploratory approach to examine Mongolia's childcare system, with a focus on its financing structures and opportunities for innovative investment. It began with a desk-based review of existing literature, policy documents, and publicly available data provided. This review helped build a foundational understanding of the childcare landscape in Mongolia and its key system components, including governance, financing, service delivery, and workforce development.

To complement the desk research, a series of 18 key informant interviews were conducted to gather in-depth insights from individuals with direct experience or expertise in early childhood systems. Informants were identified through online research and selected based on their professional or academic background in Mongolia's childcare system, international ECD financing, or impact investing. Participants included childcare business owners, researchers, funders, and technical experts from multilateral organizations and nonprofit institutions. Interviews were held primarily through Microsoft Teams and Facebook Messenger, and a few were conducted in person in Washington, D.C. Each interview lasted approximately one hour. The full list of interview questions, as well as the roles and organizations of the interviewees, were included in the Appendix section. The interview data were analyzed using thematic analysis to identify common patterns, challenges, and opportunities raised by participants. Key themes were organized around the main components of the childcare system, such as financing, governance, workforce, and access. This helped to better understand how different parts of the system are connected and where meaningful change might be possible.

Resources provided by ECDAN, including the Childcare Systems Map, were used to apply a systems thinking approach throughout the analysis to capture the complexity of the system and inform practical recommendations.

3. Limitations

The project is constrained by the availability of country-specific data on the childcare policy framework and financing mechanisms in Mongolia. Additionally, the project relies on secondary sources, which may not fully capture the complexity of informal and de facto childcare financing arrangements that exist in practice.

While the project includes insights from key experts, current government representatives were not interviewed. Only former officials with relevant experience were consulted, which may limit the currency of perspectives related to ongoing and upcoming government priorities and policies.

Lastly, interviews with children and their caregivers in Mongolia were outside the scope of this project. As a result, the lived experiences and perspectives of those who are most directly impacted by investments in childcare systems are not fully reflected in this report.

4. Overview of the Childcare System in Mongolia

4.1. Country Profile

Population dynamics: Mongolia, an upper-middle-income country in Northeast Asia, is home to approximately 3.5 million people.[4,5] Spanning over 1.6 million square kilometers, it holds the distinction of being the world's most sparsely populated sovereign nation.[6] Despite its vast territory, Mongolia's population is increasingly concentrated in urban areas, with over 69 percent residing in cities as of 2024.[7] The urban population continues to grow at an annual rate of 1.6 percent, driven by migration to Ulaanbaatar, the capital, where nearly half of the country's population is settled.[8] Children under the age of five make up approximately 10.4 percent of the total population.[9] The country has witnessed a sharp decline in birth rates in recent years. In 2020, the country registered 77,946 live births, which decreased to 66,763 in 2023, representing a 14.3 percent decline over this period.[10]

Governance: Mongolia has a democratic parliamentary structure with its legislative power vested in its unicameral State Great Khural (Parliament of Mongolia) with 126 members.[11] The executive branch is headed by the Prime Minister, who is appointed by the State Great Khural, while the President, elected by popular vote, serves as the Head of State.[12] Since adopting its democratic constitution in 1992, Mongolia has maintained a multi-party system, with the Mongolian People's Party being the predominant political force.[13]

Economic conditions: The country has experienced notable economic growth in recent years, primarily driven by its mining sector. In 2024, Mongolia's economy was projected to grow by 5.3 percent, attributed largely to a sustained surge in raw minerals export, despite contraction in the agriculture sector caused by harsh climate conditions.[14] However, inflation remains a concern, with the annual inflation rate in Mongolia being recorded at 9.6 percent.[15] The unemployment rate was reported at 6.1 percent for 2024, indicating ongoing challenges in the labor market.[16] Income inequality persists, with a Gini coefficient forecasted to be 0.32 in 2025, reflecting moderate disparity in income distribution.[17]

Gender norms: As of 2024, the labor force participation rate was 72 percent for men and 54.8 percent for women in Mongolia, indicating that while a significant portion of women are engaged in formal employment, their participation rate is lower than that of men.[18] This can be corelated to the persistent traditional role of women as primary caregivers and homemakers, even if they widely engage in the labor market. On average, women dedicate 4.8 hours per day to caregiving and household tasks, whereas men spend approximately 2.3 hours daily in Mongolia.[19]

4.2. Global and National Political Commitments on Childcare

Mongolia's commitment to childcare is anchored in both global and national frameworks that recognize early childhood education and care (ECEC) as essential for children's development and long-term well-being. The country ratified the United Nations (UN) Convention on the Rights of the Child in 1990, reinforcing its obligation to uphold children's rights, including access to safe and nurturing childcare.[20] Additionally at the international level, Sustainable Development Goals (SDG) 4.2 calls for universal access to quality early childhood development, care, and pre-primary education, and Mongolia was one of the first countries to adopt a national development strategy aligned with SDGs.[21]

Nationally, the Vision-2050, outlines a comprehensive development plan for the country until 2050, divided into three phases.[22] In relation to childcare, the first phase (2021-2030) targets implementing family-friendly policies to support sustainable population growth and human development, emphasizing increased parental involvement in children's development. The second phase (2031-2040) aims to create environments that support family and individual development needs, enhancing the quality of comprehensive human development services. The third phase (2041-2050) seeks to implement measures to improve the overall quality of life for every citizen, fostering scaling up the competitiveness of Mongolians on a global scale.

4.3. Policy Framework Regulating Early Education and Care

Mongolia’s current childcare system has evolved within a broader context of significant social and economic transformation following the country’s transition to democracy and a market-based economy which started over three decades ago. These shifts, combined with changing demographic patterns and policy frameworks that are often influenced by short-term political cycles, have led to a system that struggles to consistently meet the diverse and growing needs of young children and their families across different parts of the country.

The country’s current childcare system is guided by a set of laws and policies that define the roles of government, institutions, and families in supporting young children’s development. The foundation of this framework is the Integrated Early Childhood Development Policy, adopted in 2005, which defines early childhood as the period from birth to five years of age and promotes a coordinated, multisectoral approach to support child development through health, nutrition, education, and social protection services.[23]

The Law on Preschool and General Education, most recently revised in 2023, regulates formal preschool education for children aged two to five.[24] It mandates that all children aged five must participate in at least 200 hours of early education and outlines the responsibilities of educational institutions to implement age-appropriate curricula, employ qualified educators, and ensure that facilities meet health and safety standards.

Complementing these frameworks is the Law on Childcare Services, enacted in 2015, which focuses specifically on the organization, standards, and oversight of childcare services.[25] Administered by the Ministry of Labor and Social Protection (MLSP), this law applies primarily to children from the age of two until school entry, although it includes provisions for children with disabilities regardless of age. This law, most importantly, establishes the legal foundation for organizing and delivering non-educational childcare services. It defines key terms, sets service standards, and outlines the responsibilities of both caregivers and service providers. The law places strong emphasis on creating environments that safeguard children’s health and safety while supporting their physical, intellectual, emotional, and moral development. It also highlights the need for childcare services to be flexible and responsive to the needs of parents, guardians, and children, ensuring that participation in such services does not negatively impact children's well-being or access to education.

MLSP is responsible for setting quality standards, issuing licenses to service providers, and ensuring regulatory compliance. Notably, the law distinguishes childcare services from formal preschool education by focusing on caregiving and developmental support, rather than structured early learning curricula. This distinction positions the childcare law as a complement to other early childhood policy instruments, which are overseen by different ministries and focus on broader and educational components of early childhood services.[26]

According to National Statistic Committee of Mongolia, 274,236 children were enrolled in preschool programs in 2023, with the coverage among children aged between three to five years old is almost 86.6 percent.[27,28] While this appears to be a relatively high enrollment rate, significant disparities persist. Particularly, it is important to note that many children under age three and those living in rural areas still face limited access to formal care and often rely on informal arrangements.[29]

4.4. Policy Framework Regulating Parental Leave

Care work is often regarded as a low political priority, with the prevailing view that caregiving is primarily a family responsibility with minimal impact on economic development.

According to the Labor Law of Mongolia, female employees are entitled to a mandatory maternity leave of 120 days (60 days before and 60 days after childbirth), fully paid by the employer and social insurance.[30] Additionally, women may take extended leave until their child reaches the age of three, during which they receive a government-provided limited allowance. Paternity leave, however, remains limited compared to maternity benefits. While fathers are entitled to ten working days of paid paternity leave upon the birth of a child, there is no formalized system for extended paternal leave.

This gap in policy reflects broader challenges in gender-equitable caregiving responsibilities, as the childcare duty predominantly falls on mothers.

4.5. Policy Framework Regulating Financial Support for Children and their Primary Caregivers

In Mongolia, financial support for children and their families is primarily delivered through the Child Money Program (CMP), which provides a universal monthly allowance of 100,000 Mongolian tugrugs (MNT) (approximately $28 USD as of February 2025) for every child from birth until they are 17 years old.[31] This program is intended to reduce the financial burden of childcare and support more equitable childhood development by offering direct income transfers to families.

In addition to the CMP, mothers of children under age three are eligible for a monthly allowance of approximately 50,000 MNT (around $14).[32] Single parents with three or more children, regardless of gender, also receive a quarterly allowance of 420,000 MNT (approximately $120) to support their families.[33] These supplementary benefits are designed to help caregivers during the early years of a child’s life, when caregiving demands and associated costs are typically highest.

However, recent household expenditure data underscore the limitations of this support. According to the National Statistics Office of Mongolia, the average monthly household expenditure in the first quarter of 2024 reached 2.5 million MNT (approximately $714), reflecting a year-on-year increase of 526,500 MNT (around $150) compared to 2023.[34] The increase was mainly driven by higher spending on non-food goods and services, which rose by 365,700 MNT (about $104). Of the total monthly household spending:

- 1.6 million MNT (about $457) or around 66.8 percent was spent on non-food goods and services
- 473,800 MNT (about $135) or around 20.3 percent on food products
- 45,700 MNT (about $13) or around 2.0 percent on gifts and assistance
- 254,000 MNT (about $72) or around 10.9% on other expenses

As of 2025, the average cost of full-day private childcare services in Mongolia ranges from approximately 250,000 MNT (about $71) to 800,000 MNT (about $228) per month, with specialized centers for children with special needs charging even more, according to interviewees of this project who run or work with childcare centers in Mongolia.

Therefore, the social welfare provided through various allowances cover only a small portion of an average household's monthly expenses if they have young children.

4.6. Policy Framework Regulating Impact Investing

Impact investing remains a relatively new concept in Mongolia. The recent amendment to Mongolia's Corporate Income Tax (CIT) Law in 2024, marks the first introduction of official tax incentives for private sector investments in social responsibility initiatives.[35] Under this provision, private companies can claim tax deductions for social investments, donations, and financial support, as long as these contributions meet specific legal conditions. However, the deductible amount is capped at one percent of the company's taxable income for the given year.

Eligible corporate social responsibility (CSR) activities span ten key areas, including:

- Environmental protection
- Resource conservation
- Pollution reduction
- Public space improvements
- Support for vulnerable groups, such as the elderly, people with disabilities, and children
- Cultural heritage preservation
- Public infrastructure development
- Recovery efforts following force majeure events
- Assistance for educational institutions
- Assistance for scientific and healthcare institutions at the state and local levels

This regulatory change, effective since September 19, 2024, also mandates that industry-specific standards for qualifying investments be developed and overseen by relevant sectoral ministers. However, detailed guidelines for these standards have yet to be issued, creating uncertainty regarding the exact eligibility criteria for tax relief. With this policy change, businesses can now directly deduct qualifying social impact investments from their taxable income, creating a stronger financial incentive for CSR.

4.7. Social Impact Business Environment

Mongolia's social impact business environment is still in its early stage, driven by a growing recognition of the role that social enterprises play in addressing societal challenges and promoting sustainable development. The establishment of the Mongolian Social Enterprise Association in 2024[36] marked a significant milestone, aiming to build a self-sustaining ecosystem where social enterprises are key players in catalyzing the economy toward more socially impactful, inclusive, and sustainable development.

Efforts to foster social entrepreneurship have been supported by various initiatives. For instance, the United Nations Development Programme (UNDP) has collaborated with local organizations to inspire and support young social entrepreneurs. Events Mongolia's first Social Entrepreneurship Bootcamp, held in October 2019 and organized by Educated Initiatives and the Zorig Foundation, brought together young innovators to develop business solutions for challenges such as recycling, waste management, and digital education; this was followed by the inaugural Social Entrepreneurship Summit in Ulaanbaatar, which convened over 200 participants from across sectors, reflecting growing momentum in the country's social enterprise landscape.[37]

Financial institutions are also contributing to the growth of social impact investments. In 2024, the International Finance Corporation (IFC) pledged to invest up to $100 million in Mongolia's first social bond, issued by Khan Bank which is one of the biggest national banks of the country.[38] The bond's proceeds are designated for projects in healthcare, education, agriculture, affordable infrastructure, and housing, with a focus on supporting micro, small, and medium-sized enterprises (MSMEs), especially those owned by women in underserved and rural areas.

4.8. Childcare-Focused Social Impact Businesses

While Mongolia has made some progress in expanding early childhood education through public kindergartens, the role of private, social impact-oriented actors in the childcare sector remains limited. Existing private kindergartens and childcare centers primarily serve higher-income families in urban areas, placing them out of reach for the majority of households across the country.

As previously discussed, Mongolia's Law on Childcare Services, enacted in 2015, provides the legal foundation for formalizing private caregiving arrangements. Under this law, caregivers must complete a short training course at the University of Education of Mongolia to obtain a license to operate such centers. Typically run by individual providers from their homes, these centers are intended to expand access to early childhood care while maintaining minimum quality standards. Many operate from 9 AM to 8 PM, offering greater flexibility than kindergartens for working parents. However, despite the regulatory framework, home-based childcare centers continue to face significant financial pressures that challenge their viability and scalability.

According to interviewees who run a childcare center, the Government of Mongolia subsidies provide 143,000 MNT per child per month (around $40) as of the beginning of 2025, plus coverage for utilities like heating, water, and electricity. Parents may contribute up to 60 percent of the total cost, bringing the full monthly funding per child to approximately 393,000 MNT (around $112). Yet, this combined amount often fails to meet actual operating costs, especially in light of staffing requirements. The mandated caregiver-to-child ratio of

1:5 is far stricter than the 1:15 ratio in kindergartens, driving up wage expenses. "*Because the center operates in an apartment I own, we are financially capable to continuously run this center. But if I had to rent space, I don't know how I would cover everything and still make it work,*" explained a childcare center owner interviewed for this project. Additionally, delayed subsidy payments and policy inconsistencies add further uncertainty. These limitations highlight the fragility of Mongolia's current home-based private childcare funding model and point to the urgent need for more sustainable, predictable support to ensure accessible, quality services for families with young children.

Aside of the home-based childcare centers, some innovative business approaches related to childcare are slowly emerging in Mongolia, although they remain relatively rare and in their early stage. One such example is Hello Baby, a mobile application designed to support mothers from pregnancy through their child's first two years. The app offers locally tailored guidance on prenatal and postnatal care, developmental milestones, and parenting practices, addressing a significant gap in accessible information for caregivers, particularly for first-time mothers. While it does not serve as a substitute for formal childcare or early learning services, Hello Baby demonstrates how digital tools can complement Mongolia's existing childcare system by empowering parents with culturally relevant and timely information. Despite their value on enhancing quality caregiving practices, social-impact businesses in this space face significant structural challenges. As one of Hello Baby's co-founders shared during an interview for this project, "*Right now, government bodies, international organizations, investors, and business owners all operate in silos. There's little coordination when it comes to supporting childcare-related enterprises. It would make it much more efficient if there was a more strategic, coordinated approach to support entrepreneurs that combine social impact with a sustainable business model. Greater coordinated efforts across sectors would not only streamline resources more efficiently but also create an enabling environment for childcare innovations to scale and reach underserved communities.*"

Another example of innovation within Mongolia's still-developing childcare system is Creative Bamboo, a social enterprise offering structured early learning programs for children aged zero to 12, with a strong focus on those under five. While it is not a formal childcare provider offering full-day care, Creative Bamboo addresses developmental needs often overlooked by traditional kindergartens. Through interactive theater, creative play corners, and technology-integrated learning experiences, the center fosters creativity, communication, and emotional resilience in young children. Importantly, Creative Bamboo also supports parents through workshops and art therapy sessions, reflecting a whole-child, whole-family approach to early development.

Together, initiatives like Hello Baby and Creative Bamboo underscore the important role that social enterprises can play in diversifying Mongolia's early childhood landscape and highlight the urgent need for more systemic collaboration and investment to allow such models to thrive. Barriers such as limited access to capital, high operational costs, and strict regulatory requirements hinder the growth of new models in the sector, as there is no structured financing mechanisms targeted at childcare innovation.

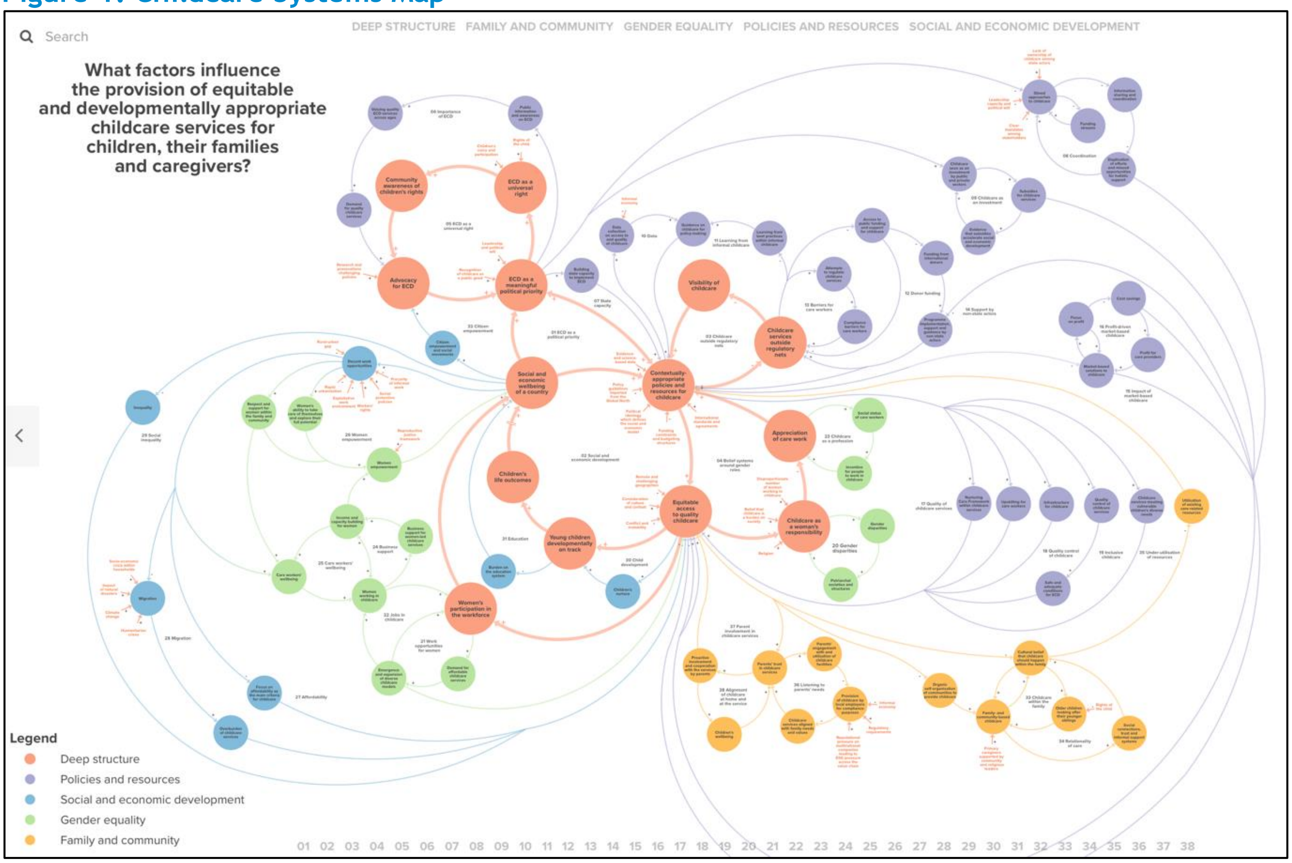
5. Contextualizing ECDAN’s Childcare Systems Map in Mongolia with a Focus on its Funding Mechanism

5.1. The Childcare Systems Map

The Childcare Systems Map, developed within the framework of ECDAN’s Systems Thinking for ECD Initiative, serves as a practical tool for analyzing how different elements of childcare systems interact to influence access, quality, and financing in LMICs. Grounded in the experiences of diverse ECD stakeholders from countries including Bangladesh, India, Kenya, South Africa, and Vietnam, the map draws on shared patterns and system-level insights.

While it is not tailored to any single national context, its value lies in offering a common framework that can be adapted and applied to specific country settings to support more informed analysis and policy dialogue.

Figure 1. Childcare Systems Map



Source: ECDAN. Childcare Systems Map. ECDAN; 2024. https://reimagined-futures.kumu.io/childcare-systems-map-ca8d52ad-f8f5-473e-ab23-9a8faf011749?token=XFBBboULuTALECa6

The development of the Childcare Systems Map followed the Systems Practice methodology developed by the Omidyar Group, which is designed to address complex social challenges by identifying patterns and leverage points for systemic change. A key step in this approach involves defining a guiding star: a clear long-term vision for what the system should achieve.[39] For ECDAN's working group, this guiding star was articulated as building a childcare system that centers the needs of children and delivers equitable, developmentally appropriate services for children, families, and caregivers. To support this vision, the group formulated a framing question to guide their analysis: *What factors influence the provision of equitable and developmentally appropriate childcare services for children, their families, and caregivers?*

Furthermore, the group used a causal loop diagram to map and visualize the key feedback mechanisms shaping childcare systems. As shown in Figure 1, the Childcare Systems Map reflects system-wide patterns commonly observed across the selected LMICs. At the center of the diagram is the deep structure (shown in light red), presenting the core narratives around which the rest of the system is organized.

Moving beyond the deep structure, the map is organized into four interconnected thematic areas, each represented by a different color:

Policies and Resources	• Examines government regulations, public financing, and policy frameworks governing childcare.
Gender Equality	• Explores how childcare intersects with women's economic empowerment, labor force participation, and unpaid care burdens.
Social and Economic Development	• Connects childcare with macroeconomic trends, labor policies, and poverty reduction strategies.
Family and Community	• Highlights the role of caregivers, cultural norms, and grassroots efforts in shaping childcare access and quality.

These thematic areas capture the broader social, political, and economic forces that shape childcare outcomes, and provide a shared structure for exploring system dynamics and identifying key leverage points for change across LMICs. While the map is not exhaustive, it provides a high-level framework that helps illustrate how different forces interact to influence the accessibility, quality, and financing of childcare.

ECDAN's Childcare Systems Map is intentionally designed to be contextualized to individual country settings, offering a flexible systems thinking framework to analyze the complex dynamics of childcare systems. By applying the map to Mongolia, this project models how the tool was intended to be used by adapting it to reflect local realities, even though such adaptation is ideally done in close dialogue with a range of national stakeholders and in a team setting. In the case of Mongolia, the contextualization highlights unique structural challenges such as its dispersed population, underdeveloped childcare market in a shifting political and economic context.

A key contribution of this project is the integration of impact investing as a new element within the Childcare Systems Map, an approach not previously incorporated in its original form. By bringing in this financing lens, the analysis aims to surface pathways for more sustainable, and equity driven investments in Mongolia's childcare landscape.

5.2. Guiding Star and Framing Question

In line with SDG 4.2, which aims to provide all children with access to quality early childhood development, care, and pre-primary education and Mongolia's national commitment to ECEC under its Sustainable Development Vision 2030, a Guiding Star for Mongolia's childcare sector can be: *Establish a sustainable, inclusive, and high-quality early care and education system in Mongolia that meets the needs of both urban and rural populations while ensuring long-term financial viability*.

From this guiding vision, the Framing Question cab be defined as: *How can impact investing be leveraged to enhance the accessibility, affordability, and quality of childcare services in Mongolia, ensuring alignment with national development priorities and international commitments?* This framing allows for an analysis of systemic challenges and opportunities in childcare financing, with a particular focus on alternative funding mechanisms beyond traditional public sector allocations.

5.3. Enablers and Inhibitors

An essential part of contextualizing the Childcare Systems Map is identifying the specific enablers (the conditions or forces that drive positive development) and inhibitors (barriers that hold back further progress) in a country's childcare system.

Drawing from both the literature review and insights gathered through key informant interviews, the Mongolia-specific enablers that could support the development of a more equitable and sustainable childcare system are defined as follows:

+ **Population size:** The country's relatively small population of around 3.5 million allows policy and programmatic changes to produce visible and measurable outcomes more quickly than in larger, more complex systems. This scale presents a unique opportunity to test innovative financing or service delivery models and to demonstrate results within a shorter timeframe, which could, in turn, attract broader political and financial support for childcare system changes.
+ **Public acknowledgment and workforce participation:** Mongolia has a long-standing tradition of female workforce participation, creating a strong foundation for childcare to be recognized as a necessity rather than a privilege. This broad public acknowledgment offers a leverage point for policymakers and impact investors to advocate for sustainable financing mechanisms that align childcare expansion with national productivity and gender equity goals.
+ **Integration within social safety nets:** Even though existing welfare programs provide only partial subsidies, the fact that childcare funding is embedded within national social assistance lowers out-of-pocket expenses for families for childcare services.
+ **Emerging private sector engagement in childcare:** The rise of alternative childcare service providers (such as home-based childcare centers) signals early-stage private-sector

interest. While regulatory bottlenecks exist, the presence of market-driven childcare services offers an entry point for financial innovations, such as results-based financing, microfinance for childcare entrepreneurs, and employer-backed childcare initiatives.

+ **Corporate investment incentives:** The 2024 amendment to Mongolia's Corporate Tax Law allows corporations to allocate 1 percent of their planned taxes toward social impact initiatives. Although it is too soon to unpack the results of this policy amendment, with targeted advocacy and regulatory adjustments, it could be leveraged to incentivize corporate investment in childcare infrastructure and workforce development.
+ **Local development funds**: Mongolia's Local Development Fund presents a promising mechanism to mobilize public investment in early childhood care at the community level. This fund allocates resources based on citizen input, allowing local residents to propose and prioritize projects that address pressing needs in their immediate environment. Between 2013 and 2022, there were approximately 1.5 trillion MNT (about $435 million) invested through this fund in community development projects across the country.[40] While past investments have often focused on infrastructure and public spaces, the fund holds untapped potential to finance much-needed improvements in childcare services. The recent digitization of citizen participation through a mobile application further strengthens this opportunity by making public input more accessible, transparent, and inclusive.

Key inhibitors are structural, economic, and institutional challenges that undermine the accessibility, affordability, and quality of childcare services. The following systemic barriers in Mongolia limit both private and public investment in the childcare system, thereby constraining the potential for impact investment in the field:

- **Fragmented governance and weak coordination:** The governance of Mongolia's childcare system is divided across multiple ministries, primarily the Ministry of Education and the Ministry of Labor and Social Protection. This division often results in policy misalignment, overlapping mandates, and inefficiencies in implementation. More critically, coordination across financing and investment pathways remains fragmented, with no shared mechanism for aligning public, private, and donor resources toward common childcare goals. This lack of integration limits the sector's ability to attract and manage innovative financing, such as impact investment or corporate social responsibility funding, and undermines opportunities for systemic, cross-sector solutions.
- **Regional disparities in access:** While urban centers such as Ulaanbaatar show relatively high enrollment in early education and care programs, children in rural and herder communities face significantly lower access. This disparity is driven by factors such as limited infrastructure, long distances between households and service centers, and acute workforce shortages in remote areas. As a result, many young children in these regions begin school without any formal early learning or care experience, contributing to long-term developmental gaps.
- **Public funds insufficient to scale up childcare**: Mongolia's childcare sector relies primarily on public funds and subsidies for operating costs and international development assistance for technical capacity development and pilot initiatives. While public funding plays a critical role and reflects the treatment of childcare as a public good, current levels of financing remain insufficient to meet the demand, improve service quality, or expand access particularly for children under age three and families in underserved areas. This lack of diversified financing pathways leaves the system vulnerable to budget constraints and shifts in donor priorities, while also missing opportunities to test and scale innovative service models.

- **Weak incentives for private investment in childcare:** Despite the escalating need for childcare services, there are currently no formal mechanisms in place, such as tax incentives, subsidized loans, or public-private partnerships, to encourage private sector investment in early childhood care and development. This absence of financial incentives hampers the expansion and enhancement of childcare services, as private entities may be deterred by the high costs and low-profit margins associated with the sector.
- **Lack of a structured impact investment framework:** Mongolia currently lacks a clear regulatory framework for social impact investment, which poses a significant barrier to attracting dedicated capital for sectors like childcare. Without legal definitions, standardized social impact metrics, or financial incentives, investors have limited guidance or assurance when considering investments aimed at social outcomes. In this regulatory vacuum, capital tends to flow toward more visible or commercially appealing causes, rather than long-term, systems-level solutions such as expanding accessible and affordable childcare.
- **Underdeveloped public-private partnerships (PPPs):** While PPPs have gained traction in some social impact fields such as climate adaptability or technical and vocational education and training initiatives, the ECD field, including childcare, remains largely overlooked. There are currently no PPP models that integrate private financing with public subsidies to expand childcare services as of the beginning of 2025.
- **Limited localized models:** Caregivers and families often lack the training and institutional support needed to create and sustain childcare solutions tailored to their local context. Without dedicated financing pathways (such as seed funding, cooperative models, or local development funds) communities remain dependent on top-down programs that may not fully reflect their needs or capacities.
- **Limited capacity for business expansion among childcare entrepreneurs:** Many small-scale childcare service providers lack the business acumen as well as access to additional financing options to scale their business such as SME loans, microfinance, or grants. Training programs on financial sustainability, impact measurement, and investment readiness could help bridge this gap and create more viable, investable childcare enterprises.
- **Workforce constraints and low incentives for early educators:** Despite their critical role in supporting ECD, educators in Mongolia's childcare sector, particularly those working in home-based centers, face low wages and limited career incentives. According to the National Statistics Committee, the average national monthly salary across all sectors in the fourth quarter of 2024 was approximately 2.6 million MNT (around $742).[41] In contrast, early childhood educators working at home-based childcare centers in Ulaanbaatar earn around 1.1 million MNT per month (approximately US$315), based on insights gathered through the interviews conducted for this project. This stark wage gap, coupled with long working hours and minimal institutional support, makes the profession financially unattractive for many early educators.

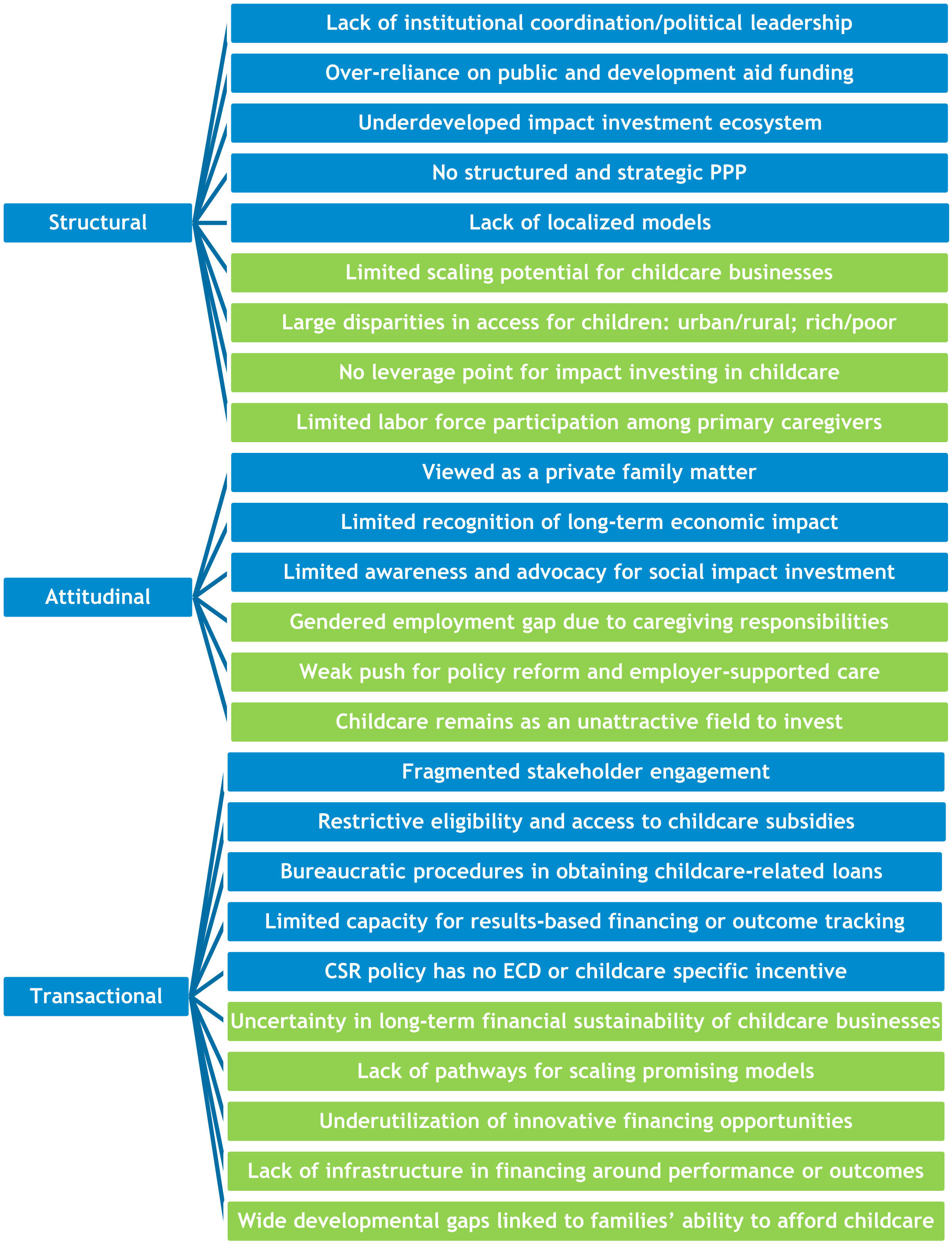
5.4. Cause and Effect Analysis

To gain a deeper understanding of the dynamics shaping Mongolia's childcare system, the next step in contextualizing the Childcare Systems Map was identifying the upstream causes (the root factors shaping the system, marked in blue) and the downstream effects (the resulting consequences for children, families, and the economy, marked in green) of the key enablers and inhibitors, as illustrated in Figure 2 below. To guide this process, a Structural, Attitudinal, and Transactional (SAT) framework was applied to categorize the underlying system components:

- Structural factors include the institutional, legal, and economic frameworks that influence the design and delivery of childcare (such as national policies, financing models, and infrastructure capacity).
- Attitudinal factors reflect societal beliefs and cultural norms that shape how childcare is perceived and valued (including whether it is viewed as a shared public responsibility or a private family matter).
- Transactional factors capture how decisions are made and resources flow within the system (including stakeholder interactions, governance processes, and funding mechanisms).

This framework allows for a more advanced analysis of both the systemic conditions and the behaviors that influence how Mongolia's childcare system functions, and where meaningful interventions may be needed.

Figure 2. SAT Analysis of Childcare Financing in Mongolia



Source: Author’s creation based on multiple sources

Structural causes and effects: Responsibility for childcare is fragmented across multiple ministries (the Ministry of Education and Science, the Ministry of Labor and Social Protection), resulting in inefficiencies and unclear accountability for financing coordination and strategic oversight. Similar governance weaknesses have been observed in other sub-sectors, such as the frequent transfer of the Technical and Vocational Education and Training portfolio between ministries, which has disrupted long-term planning and stability.[42] Impact investment in Mongolia remains underdeveloped due to the absence of clear regulatory frameworks or standardized definitions of social impact, making it difficult for businesses to commit long-term capital to social impact-oriented businesses, including in childcare.[43] Although Mongolia has had a PPP law in place since 2009, its application to childcare remains unrealized.[44] A few corporations provide workplace childcare, but these initiatives are not scalable or accessible to the wider population. The urban-rural divide further exacerbates disparities, as early education and care facilities in urban areas face overcrowding while many rural communities lack any formal early childhood services.[45] Meanwhile, limited financing and the absence of diverse funding channels restrict the establishment of new early education and care centers and the ability of existing providers to improve quality. Staffing challenges are another key concern: with low wages and demanding workloads, qualified professionals are discouraged from entering or remaining in the sector, affecting care quality and long-term service sustainability.[46]

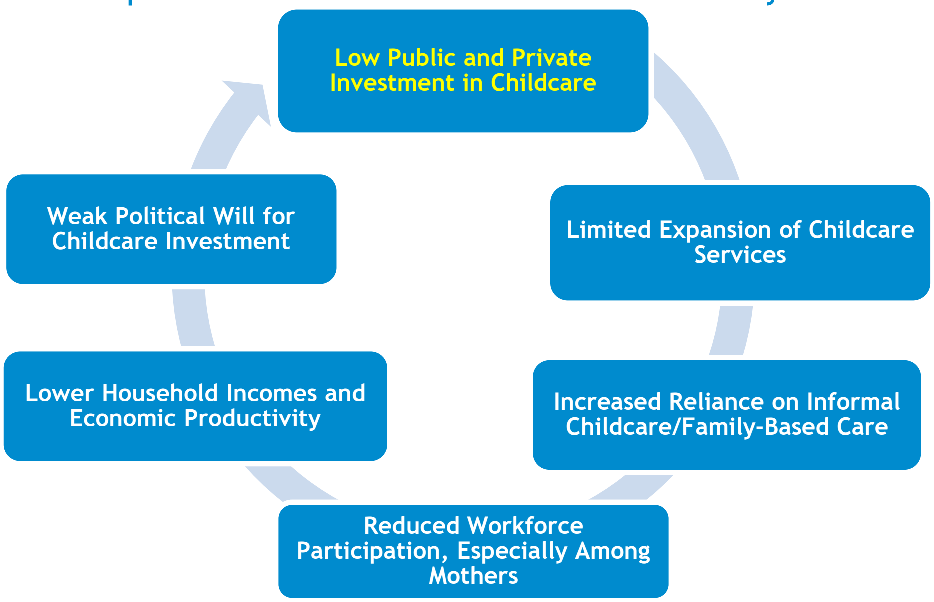
Attitudinal causes and effects: Traditionally, childcare has been regarded as a private family responsibility, with extended family members (especially grandparents) expected to provide care. This expectation remains particularly strong, especially in rural areas, and contributes to a continued reliance on informal arrangements rather than formal services.[47] As a result, there is low public demand for systemic reform, which reduces political pressure on decision-makers to prioritize investment in ECEC.[48] Moreover, while investing in quality childcare has long-term economic benefits (including increased female labor force participation and improved child development outcomes) these are often underrecognized within national policy and business discourse in Mongolia. Unlike infrastructure investments, which generate more immediate and measurable returns, childcare is typically not viewed as an attractive sector for investment, further deterring private sector involvement. These attitudinal barriers have clear downstream effects, most notably the persistence of gendered employment gaps. Women in Mongolia are more likely than men to withdraw from the labor force due to the demand for unpaid care responsibilities at home, a trend that contributes to both wage inequality and long-term financial insecurity.[49]

Transactional causes and effects: Bureaucratic financing models often result in delayed disbursement of government subsidies to private childcare providers, straining their operational capacities according to the home-based childcare owners that were interviewed within this project. Moreover, the absence of a coordinated investment strategy among stakeholders further exacerbates financial constraints in private engagement in childcare: there is no unified effort to pool resources or scale successful models at the moment. This lack of coordination results in unclear entry points for investors, thereby limiting the flow of private capital into the sector. Moreover, existing policy incentives are misaligned; for example, Mongolia's corporate income tax law allows deductions of up to one percent for corporate social responsibility activities, but it lacks specific guidance or incentives for directing funds toward ECEC services.[50] The downstream effects of these transactional challenges are profound. Childcare providers note that they experience financial insecurity due to inconsistent government funding and limited private investment, making it difficult to focus on enhancing operations and improve service quality. Opportunities for innovative financing models, such as social impact bonds and blended finance approaches, remain untapped, resulting in fragmented and unsustainable funding streams.

5.5. Feedback Loops

In complex systems like Mongolia's childcare financing landscape, challenges are not isolated: they are interdependent forces that reinforce or counteract each other. Feedback loops help explain why the system behaves as it does – whether it is improving, deteriorating, stabilizing, or stagnating. Omidyar Network's systems thinking workbook identifies four key types of feedback loops: vicious, virtuous, stabilizing, stagnating.[51] Each one is contextualized with an example from Mongolia's childcare system below.

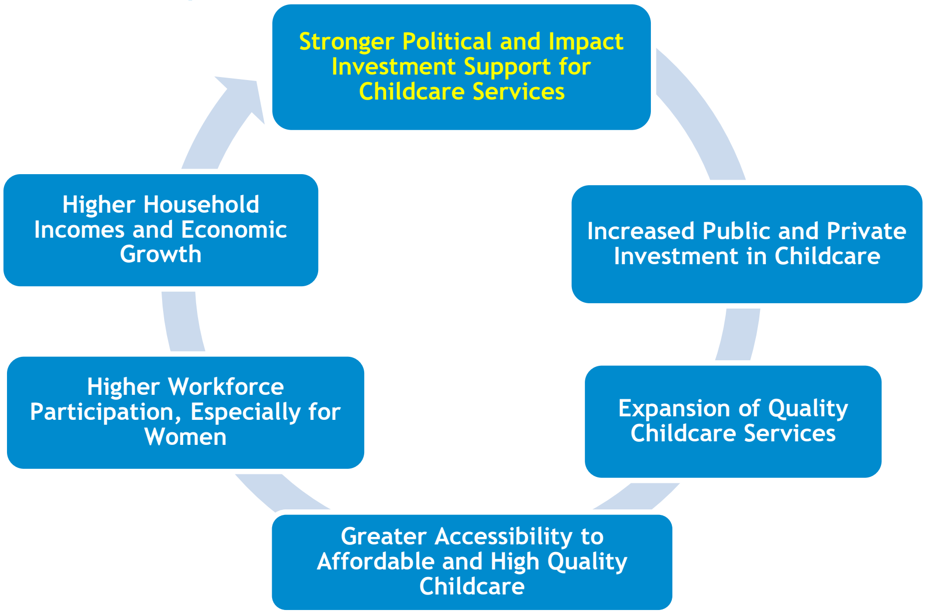
Figure 3. Vicious Loop: Underfunded and Unsustainable Childcare System



Source: Author's creation based on multiple sources

The vicious loop depicted in Figure 3 demonstrates how persistent underfunding leads to system-wide deterioration, reinforcing a cycle of low quality and limited accessibility. As a result, the childcare system remains underfunded, creating a cycle where weak investment limits growth and quality, reinforcing the perception that childcare is a private rather than public responsibility.

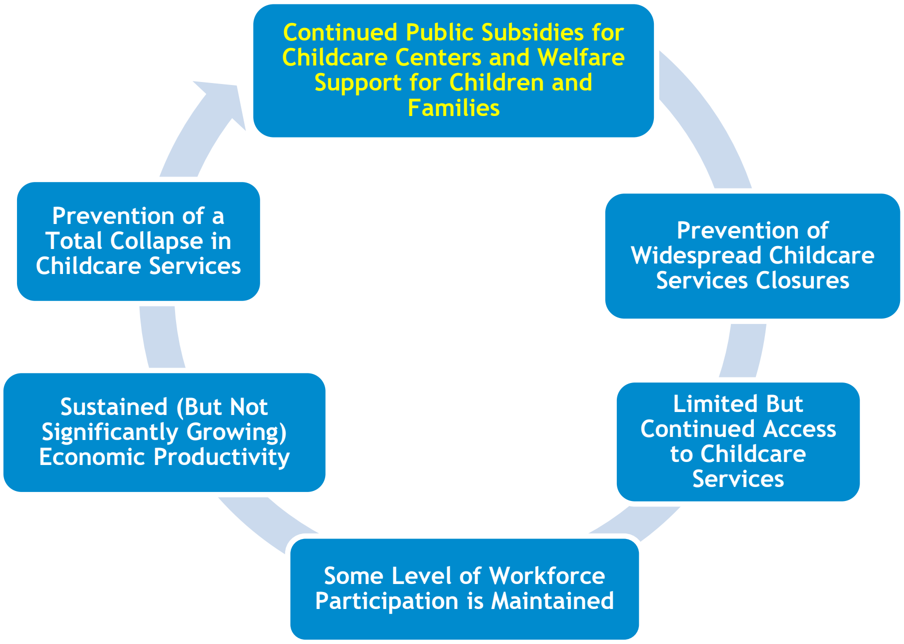
Figure 4. Virtuous Loop: Strengthening Childcare as an Economic Enabler



Source: Author's creation based on multiple sources

The example virtuous loop in Figure 4 highlights how strategic policies encouraging impact investments in childcare can generate long-term economic and social benefits. As a result of recognizing investment in childcare as an economic driver, active participation of caregivers in the workforce and income of households will increase.

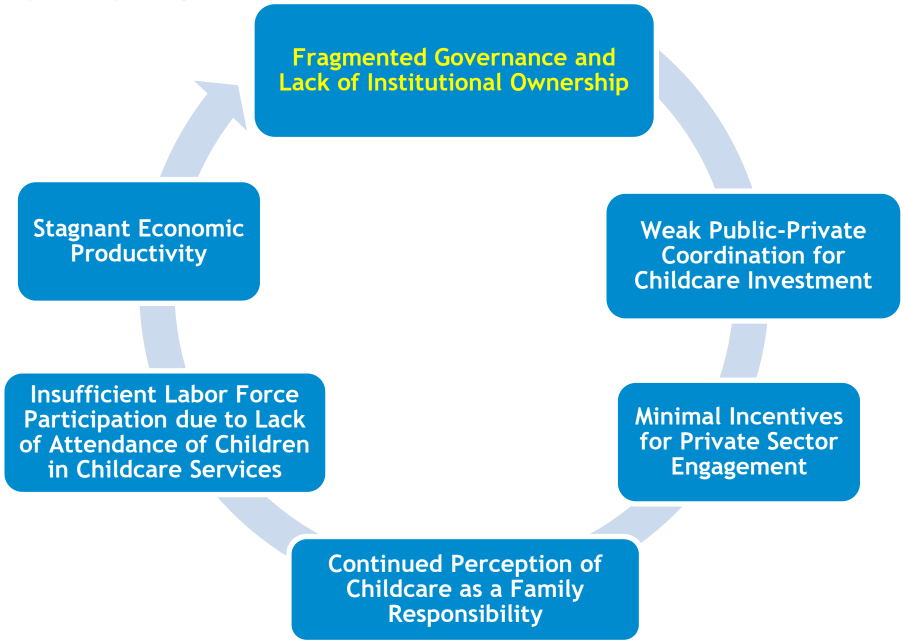
Figure 5. Stabilizing Loop: Preventing Further Decline in Childcare Access



Source: Author's creation based on multiple sources

The stabilizing loop depicted in Figure 5 demonstrates describes how certain policies and safety nets prevent the childcare system from collapsing entirely, even if they do not significantly improve conditions. As a result, public subsidies and welfare measures keep the childcare system functioning, preventing a full collapse but will also not foster substantial growth and equity in the field.

Figure 6. Stagnating Loop: Barriers to Childcare System Reform



Source: Author's creation based on multiple sources

The example stagnating loop in Figure 6 highlights why efforts to improve childcare financing often stall, preventing significant progress in children's and overall societal economic development. The system remains stagnant because of insufficient incentives and efficient multi-stakeholder partnerships, as well as lack of public push for meaningful policy reforms, preventing childcare from becoming a well-funded and self-sustainable sector.

5.6. Opportunities for Leverage

Mongolia's childcare system is not only underfunded and fragmented but also constrained by intertwined structural, attitudinal, and transactional barriers, as described above. Addressing these systemic challenges requires targeted interventions at key leverage points, which are places in the system where small shifts can generate significant, widespread changes. Drawing on the systems thinking approach, particularly the framework outlined by Meadows[52] and the Omidyar Network's model for systems change, this research project identifies a set of leverage points to improve Mongolia's childcare system. These leverage points were selected based on the SAT barriers previously analyzed and are grouped according to their pathways to change as a way of understanding the depth and scale at which they intervene in the system. Specifically, the leverage points fall into three categories:

- System optimization: aimed at improving efficiency within the existing childcare system;
- Partial system redesign – introducing new financial and operational mechanisms to shift how the system functions;

- Full system transformation – targeting fundamental shifts in governance, incentives, and investment structures to redefine how childcare is delivered and financed.

This categorization helps clarify the scope and ambition of each proposed intervention while aligning them with the SAT framework used throughout the analysis.

1. <u>Structural Leverage Points:</u>

Challenge: Mongolia's childcare policymaking- and implementation body is currently fragmented across multiple ministries, leading to inefficiencies in structuring a better funding mechanism for the sector.

- Leverage point: Establish a single coordinating body responsible for directing and managing childcare policy and investments, ensuring accountability and efficient fund allocation.
- Pathway: Partial system redesign (operate a government-led childcare financing authority to streamline public and private investments).

Challenge: Over-reliance on public subsidies and donor aid makes childcare funding unstable and its development stagnant.

- Leverage point: Introduce blended finance models that pool resources from government, impact investors, corporate donors, and international organizations.
- Pathway: Partial system redesign (establish strategic PPPs, outcome-based financing mechanisms, and/or social impact bonds to scale investment in childcare services).

Challenge: Large businesses in Mongolia have no structured incentives to invest in workplace-based childcare, despite evidence that such services increase employee retention and productivity.

- Leverage point: Implement special tax benefits and co-financing models for companies that establish on-site childcare facilities or partner with childcare providers near their office facilities.
- Pathway: System optimization (enhance corporate participation in childcare services through relatively easy-do incentives such as tax reductions. The burden on public funding and out-of-pocket expenditures from parents can decrease significantly).

2. <u>Attitudinal Leverage Points:</u>

Challenge: Childcare is often seen as a family responsibility rather than a critical infrastructure that drives economic growth.

- Leverage point: Shift public and policymaker perceptions by quantifying the economic benefits of investing in childcare, such as increased workforce participation (especially for women) and long-term returns of ECD on society.
- Pathway: System transformation (position childcare as a core pillar of Mongolia's economic development strategy through stronger cooperation by parents to push childcare at the forefront of policy agenda).

Challenge: Low political prioritization of childcare financing.

- Leverage point: Strengthen multi-stakeholder coalitions that include business leaders, labor unions, parents and civil society organizations to advocate for increased public and private investment in childcare.

- Pathway: System optimization can be achieved by fostering unionized public demand for better childcare financing, which would increase the likelihood of policymakers taking proactive action ahead of the next election cycle.

Challenge: Childcare is predominantly seen as a woman's responsibility, limiting male participation in caregiving and reinforcing employment inequalities.
- Leverage point: National campaigns promoting shared caregiving responsibilities and paternity leave policies to encourage more male engagement in childcare.
- Pathway: Partial system redesign (increase of men in childcare would further strengthen the demand for childcare investments as then both parents will recognize the demanding task of childcare and why we need more funding for it).

3. Transactional Leverage Points

Challenge: Complex and bureaucratic licensing processes discourage new childcare businesses from entering the market.
- Leverage point: Simplify business licensing and compliance procedures while maintaining quality standards for childcare business owners.
- Pathway: Partial system redesign (removing regulatory barriers would stimulate market-driven childcare solutions)

Challenge: While childcare subsidies exist, they are inconsistent and fail to cover full operational costs, particularly in rural areas and those of economically challenges backgrounds.
- Leverage point: Expand targeted subsidies for low-income families and families in rural areas, integrating childcare support through community-driven childcare service solutions.
- Pathway: System optimization (more integrated social protection model would increase access to quality childcare while improving family economic stability).

Challenge: Childcare funding is often input-driven (covering salaries, utilities) rather than outcome-driven (measuring child development and family economic mobility).
- Leverage point: Introduce pay-for-success models where public and private funding is tied to clear social and economic outcomes (e.g., increased female workforce participation, improved child development metrics).
- Pathway: System optimization (more efficient funding allocation would ensure higher-quality childcare services).

6. Systemic Solutions to Enhance Impact Investing for Childcare

6.1. Potential Pathways to Streamline Impact Investment in Childcare

Currently, investment in childcare remains limited, in part because both government and private sector actors often perceive it primarily as a social welfare expense rather than a strategic driver of economic development and workforce participation. This perception has emerged from the way childcare has historically been framed in national policy as a support service rather than a productivity-enhancing infrastructure and is reinforced by the lack of data linking childcare access to broader economic indicators. At the same time, the absence of structured financial mechanisms has made it difficult for private investors to see clear entry points or pathways to scale. To unlock meaningful private sector engagement, childcare investments can be categorized into high-leverage opportunities that align with:

- National development goals, by addressing issues of accessibility, affordability, and quality in both urban and rural contexts;
- Investor priorities, by incorporating risk-mitigation tools, clear return expectations, and robust impact metrics; and
- Financial sustainability models, by building pathways for childcare businesses to operate beyond short-term donor or public subsidies, creating confidence for entrepreneurs and investors to enter and grow within the sector.

Based on the current stand of things in the Mongolian childcare system, structuring financing mechanisms that combine both public and private funds, such as through models like PPPs, social impact bonds and blended finance models, childcare can gradually transition from a highly subsidized, underfunded sector into a self-sustaining, high-impact investment field that benefits children, their parents, those who are investing in them, as well as society at large.

To ensure Mongolia's childcare sector transitions into a financially sustainable and high-impact investment opportunity, investments can be structured around a public-private mixed financing model. This model draws on insights from the literature and interviews conducted during this project, and emphasizes a combination of government support, private capital, and innovative financial instruments to close persistent gaps in accessibility, affordability, and quality of childcare. The proposed investment opportunities have been grouped into three categories, each representing a distinct strategic focus area. The categorization is based on the type of financing approach, primary actor involvement, and the specific barriers they address, particularly those related to SAT constraints identified earlier.

<u>Investment Category 1: Childcare Business Accelerator</u>

- Background: Mongolia's childcare sector faces two interconnected challenges. Early childhood educators are often underpaid, overworked, and lack opportunities for ongoing professional development, making it difficult to attract and retain skilled staff. At the same time, many small and independent childcare businesses struggle to scale due to high operating costs, inconsistent subsidies, and administrative barriers. Addressing both business viability and workforce capacity is essential for long-term sector growth.
- Investment Opportunities:
    - Low-Interest Loan Fund for Childcare Quality Assurance: This financing mechanism would provide affordable capital to small childcare providers, with a specific focus on enabling operational growth and professional capacity-building. To ensure impact, the loan fund can be structured using a results-based financing (RBF) approach. In RBF models, disbursement of funds is tied to the achievement of specific, measurable outcomes such as centers maintaining caregiver-to-child ratios or staff retention improvements.[53] This outcome-linked structure helps align funding with service improvements, encourages accountability, and reduces the risk for funders by tying payment to verified performance.
    - Social Enterprise Incubation for Childcare Providers: A blended finance model that supports the development of childcare businesses through a combination of grants, technical assistance, and co-investment from private and public sources. The

incubation centers would provide business development services, mentorship, and capacity-building tailored to entrepreneurs in the childcare sector. Similar to the loan fund, this model can also incorporate results-based elements by linking continued support to performance indicators, such as expanded access for low-income families, inclusion of remote areas in business operation, and other financial sustainability and social equity-focused benchmarks ensuring that public and private capital leads to tangible outcomes for marginalized children and families.

Investment Category 2: Infrastructure and Facilities

- Background: Mongolia faces major childcare infrastructure challenges. Rural areas often lack licensed providers, while the capital city Ulaanbaatar struggles with overcrowded kindergartens and insufficient number of operating childcare centers. High rental costs, land constraints, and expensive construction materials further deter private investment. As a result, scaling childcare services requires co-financing solutions that make infrastructure development both financially feasible and socially impactful.
- Investment Opportunities:
    - PPPs for Childcare Facilities: In this model, private investors fund the construction and/or operation of childcare centers, particularly in underserved areas, while the government can provide operating subsidies or guarantees demand through voucher programs for marginalized families. The incentive for the private sector lies in stable, long-term returns from service contracts, and the potential to establish or strengthen their presence in the market. PPPs allow private providers to de-risk investments by sharing costs with the public sector.
    - Employer-Supported Childcare Centers: In this model, corporations invest in on-site childcare services or build formal partnerships with nearby centers to enroll the children of their employees. The incentive here is primarily workforce productivity and retention: offering childcare reduces absenteeism, increases employee satisfaction, and enhances gender-inclusive hiring.[54]
    - Flexible Childcare Centers Funded by Local Development Budgets: To increase access in hard-to-reach areas, a locally driven approach can be supported through the Local Development Funds mentioned earlier in this paper. While this model is largely publicly funded, the incentive for private actors is the ability to pilot services, develop community goodwill, and potentially scale models in other regions with government or donor co-financing. The main challenge remains underutilization of local budgets for childcare due to low awareness among citizens to propose care-related investments.

Investment Category 3: Inclusive Access and Equity Mechanisms

- Background: Even with improvements in business development and infrastructure, Mongolia's most marginalized children, particularly those living in rural areas, children with disabilities, and those from economically challenged households, have the high risk of remaining excluded from formal childcare. Therefore, having an investment category that specifically focuses on inclusion-centered solutions that embed equity into the financing and design of childcare service can help ensure that innovation and growth in the sector are not only efficient but equitably distributed.
- Investment Opportunities:

- Mobile and Community-Based Childcare Models: Invest in locally managed, mobile, or hybrid care models that can serve nomadic, herder, or rural populations. These could be operated by trained paraprofessionals from the communities themselves, reducing staffing shortages while providing culturally appropriate care.
- Inclusive Facility Incentive Scheme: Offer co-financing or bonus subsidies to childcare centers that build inclusive infrastructure (e.g., accessible toilets, sensory-friendly environments) and enroll children with disabilities. This can be implemented as a matching grant scheme where public investment leverages private or philanthropic upgrades.

6.2. Risks and Safeguards in Impact Investing for Childcare

While impact investing offers promising pathways for diversifying and scaling childcare financing in Mongolia, it is not without risks, especially in a sector that directly affects the rights and development of young children. Without appropriate safeguards, there is a danger that financial returns could be prioritized over child-centered outcomes, particularly in underserved or marginalized communities. If private investors focus primarily on profitability, this could lead to cost-cutting measures that compromise service quality, limit access for vulnerable families, or exacerbate existing inequities between urban and rural regions. For example, centers might be incentivized to serve easier-to-reach, higher-income families while neglecting children with disabilities or those living in remote areas – which is not the intention for social impact investing.

Overdependence on private or philanthropic capital poses another structural vulnerability. If development partners or investors withdraw their funding, due to shifting priorities or economic downturns, the childcare system may become unstable or collapse altogether. This is particularly concerning in Mongolia, where development aid support continues to fill critical gaps in technical expertise and service development.

In addition, the absence of a unified regulatory framework for impact investing in Mongolia makes it difficult to ensure transparency, accountability, and alignment with national development goals. Without a shared definition of impact, consistent and transparent metrics and results, and clear enforcement mechanisms, impact investing risks becoming a loosely defined activity with limited oversight or public benefit.

To mitigate these risks and ensure that private capital complements rather than compromises public responsibility, the following safeguards are essential:

- Public oversight and regulatory clarity must be strengthened to guarantee that all investments (whether public, private, or blended) are aligned with Mongolia's equity, quality, and inclusion goals for childcare. A clear legal framework should define standards for childcare services, set minimum benchmarks for access and quality, and outline investor responsibilities.
- Impact measurement frameworks should be standardized and embedded into financing contracts, linking the disbursement of funds to predefined, measurable outcomes related to children's development and family well-being. This ensures accountability and reinforces the principle that financial returns must be tied to positive social outcomes.
- Blended finance models must preserve a strong public sector leadership role, ensuring that social return (not short-term financial gain) remains the core priority. Government co-investment, priority-setting, and policy alignment are necessary to guide private capital toward system-wide improvements rather than isolated interventions.

- Community participation must be institutionalized in both project design and monitoring to ensure that investments are rooted in the lived realities of families across Mongolia. Local voices (especially those of caregivers, childcare workers, and underserved groups) can provide essential insights that enhance service relevance and sustainability.
- Equity-oriented investment requirements should be mandated, including inclusive access for children with disabilities, rural and nomadic populations, and families with limited income. These targets must be more than aspirational—they should be built into funding criteria and progress tracking mechanisms.
- Transparency and accountability mechanisms must be established, including public reporting of outcomes, third-party evaluations, and formal feedback systems to monitor unintended consequences or disparities.
- Contingency planning and co-investment by public authorities should be required, ensuring that if private funding is withdrawn, childcare services are not abruptly halted. A shared responsibility model helps protect continuity of care and maintains trust among families.

By acknowledging and planning for these risks, Mongolia can create an investment environment that both invites private innovation and safeguards the rights of children and families, ensuring that impact investing remains an additional tool for public good rather than an end in itself.

7. Recommendations for Stakeholders Shaping the Childcare System of Mongolia

In order to move towards this goal and apply some of the leverage points and opportunities identified through the systems analysis, actionable recommendations are provided tailored for different stakeholder groups in Mongolia.

7.1. Recommendations for Policymakers

- **Establish clear political ownership:** Assigning a dedicated government body to oversee childcare investment would enhance accountability, ensure policy continuity, and streamline coordination between public and private stakeholders. A centralized authority can prevent fragmented governance and create a structured institutional mandate for financing and quality assurance in childcare services.
- **Define what counts as social impact investment**: Creating an official definition on what counts as social impact investment and which categories are prioritized within this will give essential fields such as childcare the chance to gain more momentum and channel impact investing sources its way.
- **Implement risk mitigation strategies for private investment:** To attract institutional investors into the childcare sector, the government must adopt de-risking mechanisms such as public subsidies, concessional loans, and investment guarantees. These financial instruments help lower investment risks and encourage long-term private capital engagement. Additionally, blended finance models, which pool public, private, and donor funding, offer an effective strategy to attract capital while ensuring financial sustainability in childcare services.

- **Optimize existing tax incentives for childcare financing:** Mongolia's existing tax incentive framework should be strategically restructured to redirect private sector investment into childcare services. By refining corporate tax deductions, capital gains incentives, and CSR-linked tax benefits, policymakers can create a financially attractive childcare investment ecosystem.
- **Enhance service quality through results-based funding:** Performance-based funding mechanisms can link government childcare subsidies to measurable improvements in service quality, caregiver training, and child development outcomes. This approach ensures that public financing drives tangible progress, promoting evidence-based investment in early childhood services.
- **Integrate childcare into Mongolia's broader economic and social development strategies:** Childcare should be recognized as a core component of Mongolia's entire social and economic policy portfolio. For instance, by introducing the Childcare-Lens concept by UNICEF, Mongolian policy framework can encourage and create an incentivizing mechanism for all businesses, not just childcare providers, to integrate childcare-friendly policies into their operations.
- **Incentivize data systems to track participation in childcare offerings:** Currently, Mongolia lacks sufficient academic and organizational research on its childcare system, particularly in areas such as enrollment rates by age and region, caregiver-to-child ratios, service quality indicators, cost of provision, and workforce-related expenses. Without this foundational data, it is difficult to design evidence-based policies or make a compelling investment case to public and private funders.
- **Revise caregiver-related policies to promote equity and flexibility:** Existing policies on maternity and paternity leave, as well as financial support programs that primarily target mothers, should be updated to reflect shared caregiving responsibilities and reduce gendered burdens. Expanding paid paternity leave, introducing flexible parental leave options, and designing caregiver allowances that are inclusive of all caregiving arrangements, regardless of gender, would support more balanced workforce participation and encourage greater engagement from fathers and extended family members.

7.2. Recommendations for Caregivers

- **Strengthen policy advocacy for systemic support:** Engage in political processes by advocating for stronger government commitment to affordable and accessible high-quality childcare. Encourage policymakers to prioritize childcare as a critical public service and integrate it into broader economic and social welfare strategies.
- **Participate more actively and collectively in local budget allocation and decision-making:** Engage in local civic activities and conversations to influence where local development funds are allocated by actively engaging in public budget discussions. Advocate for increased investment in childcare services at both local and national levels by engaging Members of Parliament to represent the needs of families and caregivers in their constituencies and ensure that funding decisions align with local childcare priorities.
- **Hold employers accountable for family-friendly workplace policies:** Encourage businesses to implement policies that support working parents, such as flexible working arrangements, equally paid parental leave for both mothers and fathers, and employer-sponsored childcare services. Promote childcare as a workplace benefit that enhances employee productivity, retention, and overall well-being.
- **Mobilize male champions for childcare advocacy:** Challenge traditional gender norms by fostering greater male participation in caregiving and childcare policy advocacy.

Encourage fathers, employers, and male policymakers to actively support childcare reforms and workplace policies that enable shared caregiving responsibilities.

7.3. Recommendations for Private Sector Actors

- **Recognize the value of childcare as a key investment:** Policymakers and investors must first acknowledge childcare not merely as a social support, but as a foundational driver of human capital, and economic productivity. Building on this recognition, targeted financial mechanisms should be developed to expand investment in the sector. Active dialogue with decision-makers is needed to co-design innovative approaches (such as impact bonds, blended finance models, and results-based funding) that reduce investment risks and incentivize private sector engagement. Structured policy incentives, including tax benefits and co-financing arrangements, can further encourage institutional investors to support childcare initiatives in ways that are both socially impactful and financially sustainable. For that to happen, both policymakers and private investors must get on the same page first.
- **Integrate childcare into workforce policies:** Recognize childcare as a core component of corporate workforce strategies by implementing workplace-based childcare solutions. Businesses can provide direct subsidies for employees' childcare expenses, introduce flexible work arrangements for parents, and push for family-supportive labor policies. A well-supported workforce with reliable childcare access leads to higher retention rates, improved employee satisfaction, and increased productivity.
- **Make childcare and caregiving an attractive and valued profession:** Partner with government agencies, academic institutions, and social enterprises to establish training programs that enhance public education on childcare practices. This will not only shift societal perceptions that caregiving is something mothers or underpaid childcare workers do but will also elevate the relationship between children and their caregivers in general. Businesses can categorize caregiving education as part of their CSR efforts, reinforcing the critical role of skilled caregivers in ensuring social stability and economic growth in the long term.

8. Recommendations for Refining ECDAN's Childcare Systems Map

8.1. Reflections and Insights from Key Informant Interviews

To strengthen the practical value of ECDAN's Childcare Systems Map for stakeholders such as policymakers, investors, and childcare businesses, several refinements are recommended to better align the tool with investment decision-making processes. These suggestions emerged as part of the consultations with 18 international and Mongolian experts in ECD, development finance, and impact investing, conducted as part of this project. To meaningfully integrate investment considerations into systems thinking for childcare, the mapping process would benefit from: (1) visualizing the flow of financial investments; (2) highlighting the system's structural and financing components; (3) capturing supply and demand dynamics; and (4) noting data availability and coordination mechanisms that influence funding decisions.

Table 1. Recommendations for Enhancing ECDAN's Childcare Systems Map to Improve Investment and Policy Integration

Recommendations on Expanding/Adjusting the Map:	
Strengthening Investment Visibility	• **Stakeholder Ecosystem Analysis:** Include regulatory bodies, public and private childcare service ratio, international organizations actively involved • **Policy and Regulatory Frameworks:** Establish explicit links between systemic challenges and existing policy interventions, such as subsidy structures, licensing processes, and fiscal incentives to help understand the political context regulating childcare.
Expanding Structural and Financial Components	• **Mapping of Public and Private Financing Flows:** Visualize existing childcare financing models; categorizing in public subsidies, blended finance models, and private capital inflows to identify missing areas for targeted investment. • **Integration of Impact Metrics:** Provide investment-focused data such as the per-child cost of care, market size, projected returns, and social impact valuation frameworks to help investors make informed decisions • **Cross-Sectoral Investment Potential:** Illustrate the intersection between childcare financing and key policy areas (education, labor, social protection, and employment etc.) to emphasize opportunities for integrated investment.
Supply and Demand Dynamics	• **Geospatial Mapping of Childcare Accessibility:** Include childcare access levels in urban and rural areas, showcasing demand patterns and areas with insufficient service provision. • **Workforce Development and Labor Market Analysis:** Highlight existing childcare workforce supply and demand, identifying critical shortages. • **Affordability and Market Dynamics:** Integrate childcare cost data relative to household income, alongside projected market growth, to inform policy decisions and investment strategies.
Data Transparency and Systemic Coordination	• **Data Collection and Reporting Mechanisms:** Include information on existing data and literature on childcare system would help not to waste time on initial research every time for newcomers in the field. • **Multi-Stakeholder Coordination Mechanism:** Visualize cross-sectoral collaboration among governments, NGOs, private sector investors, and service providers to get an idea of the potential of creating synergies and foster sustainable financing models. • **Tracking Policy Implementation and Investment Outcomes:** Introduce a monitoring framework to assess policy effectiveness, funding allocations, and social impact outcomes over time would be a very helpful feature of the map.

8.2. Fellow's Reflections and Insights

Applying ECDAN's Childcare Systems Map to the Mongolian context proved valuable in identifying key feedback loops, system-level enablers and inhibitors, and potential leverage points for reform. The framework offered a useful starting point to structure the systems analysis and visualize complex dynamics such as fragmented governance, financing gaps, and social norms surrounding childcare.

The Map's broad structure based on cross-country experiences allowed for flexible adaptation and made it possible to align global patterns with national realities. It helped analyzing Mongolia's childcare challenges by comparing it a wider systemic, international narrative.

However, certain limitations became evident during the contextualization process. While the deep structures of the Map were conceptually useful, they were also too generalized to capture a country's specific nuances (such as the urban–rural divide, the role of extended families in caregiving, and the implications of a small, dispersed population, in the case of Mongolia). Additionally, the current version of the Map lacks explicit visualization of financial flows, investment pathways, and coordination mechanisms between stakeholders (components that are crucial when analyzing systems especially from a funding perspective).

Moving forward, strengthening the Map's investment-related features (such as highlighting financing flows, cross-sector investment intersections, and impact reporting structures) would enhance its practical utility for investors, policymakers, and development partners.

9. Conclusion and Final Remarks

This project sought to contextualize the Childcare Systems Map developed by ECDAN within Mongolia's unique policy, social, and financing landscape, with a focus on exploring the potential role of impact investing in strengthening the country's childcare system. Through a systems thinking lens, the research examined how structural, attitudinal, and transactional barriers reinforce persistent gaps in access, quality, and sustainability of childcare services.

Rather than reiterating existing system constraints, this analysis emphasizes the need for a strategic pivot: to embed childcare within broader economic and social development frameworks and reframe it as an investable sector. By introducing impact investing into the national dialogue, this project identifies new opportunities to channel private capital into public goods: given that investments are governed by inclusive, child-centered, and outcomes-focused principles.

The proposed investment pathways (ranging from business accelerators and infrastructure solutions to equity-focused service models) are not blueprints but adaptable options for stakeholders committed to long-term change. They underscore that financing reform cannot be undertaken in isolation: it must be paired with reforms in governance, regulation, and public engagement to be sustainable.

Crucially, impact investing alone will not solve systemic childcare gaps. Its success depends on a strong public sector leadership role, clear impact criteria, and safeguards that protect the most vulnerable. Investment without accountability can reinforce inequalities rather than reduce them. Therefore, any financing approach must be backed by robust public frameworks, active community participation, and mechanisms for transparency and course correction.

Achieving lasting, scalable reform will require coordinated action across all sectors. Policymakers must take the lead by establishing a dedicated institution to oversee childcare financing, refining incentive structures, and embedding childcare within national development strategies. The private sector should recognize childcare as essential workforce infrastructure and integrate it into their operations through employer-supported care and social impact investments. At the same time, caregivers and communities must continue to advocate for more responsive public policy and workplace norms that reflect the demands of caregiving.

From the perspective of a systems thinking fellow, applying and contextualizing ECDAN's Childcare Systems Map proved to be insightful. The current map offers a strong conceptual foundation for understanding how feedback loops and structural forces interact in shaping childcare outcomes. However, country-specific adaptation was essential to fully capture a nation's unique demographic, geographic, and cultural dynamics. This experience underscores the importance of flexibility and iteration in the use of global tools, reminding that systems thinking is most powerful when grounded in local realities. I hope this Mongolia-specific adaptation helps contribute to ECDAN's continued effort to ensure that the map is not only globally relevant but practically applicable across diverse settings.

Ultimately, this project calls for a shift in mindset across all sectors: from viewing childcare as a cost to recognizing it as a smart, future-oriented investment. If Mongolia can align its policy ambitions with coordinated financing strategies, inclusive service models, and an enabling ecosystem for innovation, it has the potential to build a resilient, equitable, and high-quality childcare system that is accessible for all children, caregivers, and communities.

Appendices

Appendix 1: Interview Questionnaire for Key Expert Interviews

Childcare System Experts in Mongolia:

1. What are the main barriers for both public and private sectors in scaling investments in childcare in Mongolia?
2. How do current policies and regulations support or hinder more investment in childcare, and what specific regulatory updates could drive further investment?
3. In what ways does public perception influence government funding priorities for childcare, and what strategies could shift awareness to encourage more investment?
4. Can you provide examples of recent initiatives in Mongolia that have shown potential for expanding private investment in childcare? What lessons can be drawn from these initiatives?
5. How could a childcare systems map be utilized to better identify policy framework gaps and illustrate the impact of childcare on society, making it a more strategic tool for policymakers?

Impact Investors/Social Entrepreneurs:

1. What factors contribute to the underfunding of childcare relative to other social impact sectors, and what outcomes would demonstrate a shift toward prioritizing childcare funding?
2. What are the top challenges impact investors face when considering childcare investments, and what solutions could address these issues to unlock more funding?
3. What policy and regulatory framework adjustments would most effectively drive impact investors to fund childcare systems?
4. Are there specific financial models or investment structures that could strengthen funding for childcare? What measurable impacts do investors look for in such models?
5. How could a systems map be used to more effectively highlight investment gaps and opportunities in childcare, serving as a strategic tool for investors?

International Development Organizations on Enhancing Funding in ECD:

1. What are the systemic factors driving persistent underfunding of childcare internationally?
2. Systemic challenges for the allocation of resources to assessing quality and access to childcare in the Global South?
3. In what ways do perceptions of childcare as a public versus private responsibility influence funding approaches, and how might reframing these views improve investment in childcare?
4. Could you share examples of effective partnerships in childcare financing, and highlight the critical policy framework elements that made these collaborations successful?
5. How could a systems map help at better illustrating gaps in impact investment opportunities in childcare, making it a more strategic tool for international development actors?

Appendix 2: Experts Interviewed for This Study

To maintain the confidentiality of participants, names have been omitted. The list below presents a summary of key informants categorized by their professional roles and affiliated organizations.

Role	Organization
ESG and Corporate Responsibility Expert	Khan Bank
Philanthropic Sector Leader	Lorinet Foundation Mongolia
Social Impact Entrepreneur	Hello Baby Mongolia
Civil Society Leader	Social Impact Association of Mongolia
Program Officer in Early Childhood Development	OneSky Mongolia
Policy Advisor and Development Specialist	Development Solutions NGO
Global Early Childhood Development Specialist	The World Bank
Education Policy Analyst and Author	Capital
Education Program Specialist	Global Partnership for Education
Early Childhood Educator	Early Head Start Program (United States)
Impact Investing and Standards Specialist	The Global Impact Investing Network (GIIN)
Community-Led Philanthropy Leader	CFLeads
Equity and Inclusion Specialist in Education	Global Partnership for Education
Licensed Childcare Provider	Bambaruush Childcare Center
Impact Fund Executive	Oyu Tolgoi Catalyst Fund
Social Finance and Investment Specialist	The World Bank
Impact Investing Program Manager	Save the Children Global Ventures

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ECDAN
Early Childhood Development Action Network
Knowledge Fellows

ECDAN
Early Childhood Development Action Network

info@ecdan.org

455 Massachusetts Ave. NW, Suite 1000
Washington, DC 20001

ecdan.org