

FINANCIAL ANALYSIS

A. Introduction

1. The project has no revenue-earning component, and financial costs and benefits were therefore not analyzed. Instead, the financial position of the government was reviewed and the financial sustainability of the project was assessed at the fiscal and project levels in accordance with Asian Development Bank guidelines.¹

B. Financial Position of the Government

2. In 2011–2012, Mongolia had one of the world’s fastest growing economies as a result of large foreign direct investment (FDI) in the mining sector. The economic dependence on the mining sector resulted in significant worsening of Mongolia’s macroeconomic situation in 2013–2014 because of marked drops in FDI and coal exports. Gross domestic product (GDP) growth declined sharply, from 11.7% in 2013 to 7.8% in 2014.² The government has followed an expansionary fiscal policy to sustain growth and promote infrastructure development. As a consequence, the consolidated deficit remained at almost 10% of GDP, while debt levels reached more than 75% of GDP by 2014.³ At the same time, Mongolian togrog (MNT) weakened against the US dollars and inflation increased to 12.8% in 2014, while the current account deficit shrank to 8.2% of GDP from 25.4% in 2013 as the trade deficit rose in surplus.

3. In 2015 GDP growth is likely to slow to around 3.0%, but it is expected to recover slightly to 5.0% in 2016 with the resumption of the major mining project and the initiation of measures to strengthen fiscal, monetary, and other policies. Inflation is expected to decline to 8.9% on average in 2015, and 7.7% in 2016. The current account deficit is likely to remain stable at 8.0% of GDP in 2015 and is expected to rise to 15.5% of GDP in 2016 when new mining investments begin to increase imports (footnote 2). Mongolia’s medium- to long-term prospects are positive as a result of the country’s abundant natural resources.

4. The macroeconomic situation has not impacted total expenditures of the Ministry of Education Culture, and Science (MECS), which have been trending upward. During 2012–2014, total MECS expenditures increased from MNT897,110.60 million to MNT1,307,416.17 million. The rate of increase in total MECS expenditures was 15.65% in 2012–2013, and 26.01% in 2013–2014, higher than increases in total government expenditures (3.07% in 2012–2013, and 13.81% in 2013–2014). MECS expenditures accounted for 18.59% of total government expenditures in 2014, up from 14.97% in 2012. Moreover, total MECS expenditures as a percentage of GDP increased slightly, from 5.38% in 2012 to 5.99% in 2014.

5. Table 1 presents selected government and MECS indicators for 2012–2014.

Table 1: Selected Indicators 2012–2014

Item	2012	2013	2014
GDP growth (% , constant prices)	12.3	11.7	7.8
Inflation (% per year)	14.3	9.9	12.8
Current account balance (% of GDP)	(27.4)	(25.4)	(8.2)
GDP, at current prices (MNT billion)	16,688.4	19,118.0	21,844.3
Total government expenditures (MNT million)	5,993,800.5	6,177,978.9	7,031,369.4

¹ Asian Development Bank. 2005. *Financial Management and Analysis of Projects*. Manila; Asian Development Bank. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

² Asian Development Bank. 2015. *Asian Development Outlook 2015*. Manila.

³ International Monetary Fund. 2015. *Staff Report for the 2015 Article IV Consultation*. Washington, D.C.

Item	2012	2013	2014
% of total government expenditures to GDP	35.91	32.31	32.19
MECS expenditures (MNT million)	897,110.60	1,037,534.07	1,307,416.17
% of total MECS expenditures to total government expenditures	14.97	16.79	18.59
% of total MECS expenditures to GDP	5.38	5.43	5.99

() = negative; GDP = gross domestic product; MECS = Ministry of Education, Culture, and Science; MNT = Mongolian togrog.

Sources: Ministry of Education, Culture, and Science; Asian Development Bank. 2015. *Asian Development Outlook 2015*. Manila.

6. In 2012–2014, Mongolia's western region accounted for 12.5% of the population and on average 5.9% of the country's GDP. The region's GDP and expenditures increased steadily, reflecting national trends. This was mirrored by trends in GDP and local government expenditures in Govi-Altai, Uvs, and Zavkhan *aimags* (provinces), also in the western region. Table 2 shows selected indicators for the Mongolia, the western region and Govi-Altai, Uvs, and Zavkhan *aimags*.

Table 2: Selected Indicators for Mongolia, the Western Region, and Govi-Altai, Uvs, and Zavkhan *Aimags*, 2012–2014

Item	2012	2013	2014
Population			
Total	2,867,744	2,930,277	2,995,949
Western Region	361,000 (12.6%)	363,306 (12.4%)	377,889 (12.6%)
Govi-Altai	53,699 (1.8%)	53,329 (1.8%)	56,735 (1.9%)
Uvs	73,824 (2.6%)	73,972 (2.5%)	75,792 (2.5%)
Zavkhan	64,620 (2.3%)	64,570 (2.2%)	69,732 (2.3%)
GDP, current (MNT billion)			
Total	16,688.4	19,118.0	21,844.3
Western Region	860.4 (5.2%)	1,136.9 (5.9%)	1,454.8 (6.6%)
Govi-Altai	125.8 (0.8%)	164.8 (0.9%)	223.9 (1.0%)
Uvs	182.9 (1.1%)	234.5 (1.2%)	296.9 (1.4%)
Zavkhan	192.2 (1.2%)	252.6 (1.3%)	326.8 (1.5%)
Local Government Expenditures (MNT million)			
Total	747,181	1,794,118.8	2,079,506.1
Western Region	47,849 (6.4%)	274,672.3 (15.3%)	294,590 (14.2%)
Govi-Altai	10,959.5 (1.4%)	46,746.4 (2.6%)	50,905.8 (2.4%)
Uvs	9,604 (1.3%)	56,276.7 (3.1%)	62,574.1 (3.0%)
Zavkhan	10,180.3 (1.4%)	53,441.8 (3.0%)	54,584.3 (2.6%)

GDP = gross domestic product, MNT = Mongolian togrog.

Source: National Statistical Office of Mongolia.

C. Financial Sustainability

7. An analysis of recent expenditures and projected budgets was undertaken to evaluate the fiscal impact of the project on the budget of the MECS and the local governments of Govi-Altai, Uvs, and Zavkhan *aimags*. Education expenditures accounted for the largest share of total MECS expenditures during 2012–2014. The increase in recurrent costs (over 30%) was particularly notable, and resulted from high inflation and salary increases (of 15.0% in 2011–2012 and 2013–2014). By contrast, trends in local education expenditures were not as clear, except that recurrent costs increased. A breakdown of total MECS expenditures, and those of Govi-Altai, Uvs, and Zavkhan *aimag* education departments for 2012–2014, is in Table 3.

Table 3: Total Expenditures of the Ministry of Education, Culture, and Science and Govi-Altai, Uvs, and Zavkhan *Aimags* Education Departments, 2012–2014
(MNT million)

Item	2012	%	2013	%	2014	%
MECS Total Expenditures	897,110.60	100.0	1,037,534.00	100.0	1,307,416.2	100.0
Total recurrent costs	776,676.44	86.6	921,013.37	88.8	1,038,271.4	79.4
Total capital costs	120,434.16	13.4	116,520.70	11.2	269,144.8	20.6
Education						
Total expenditures	868,107.14	96.77	1,002,027.4	96.58	1,168,405.7	89.37
Recurrent costs	750,333.82	83.64	893,416.81	86.11	948,835.1	72.57
Capital costs	117,773.32	13.13	108,610.60	10.47	219,570.6	16.79
Culture		102,008.4	7.80
Total expenditures						
Recurrent costs		57,858.9	4.43
Capital costs		44,149.5	3.38
Science	29,003.46	3.23	35,506.65	3.42	37,002.1	2.83
Total expenditures						
Recurrent costs	26,342.62	3.03	27,596.55	2.66	31,577.4	2.42
Capital costs	2,660.85	0.2	7,910.10	0.76	5,424.7	0.41
Govi-Altai						
Total expenditures	19,166.55	100.0	29,003.46	100.0	35,506.65	100.0
Recurrent costs	17,943.38	93.6	26,342.62	90.8	27,596.55	77.6
Capital costs	1,223.18	6.4	2,660.85	9.2	7,910.10	22.3
Uvs						
Total expenditures	26,817.85	100.0	30,688.1	100.0	31,786.0	100.0
Recurrent costs	24,824.85	92.6	27,625.9	90.0	31,786.0	100.0
Capital costs	1,993.00	7.4	3,062.20	10.0	0.0	0.0
Zavkhan						
Total expenditures	28,149.79	100.0	32,812.4	100.0	30,502.9	100.0
Recurrent costs	23,529.79	83.6	25,366.1	77.3	29,618.9	97.1
Capital costs	4,620.0	16.4	7,446.3	22.7	884.0	2.9

MECS = Ministry of Education, Culture, and Science

Source: Ministry of Education, Culture, and Science.

8. Within the medium-term budget framework, the budgets of MECS and the Govi-Altai, Uvs, and Zavkhan *aimag* governments are expected to increase during 2015–2020 on the assumption that GDP growth will continue at 5% (Table 4).

Table 4: Projected Budgets for the Ministry of Education, Culture, and Science and Govi-Altai, Uvs, and Zavkhan *Aimags* Governments, 2015–2020
(MNT million)

Item	2015	2016	2017	2018	2019	2020
Ministry of Education, Culture, and Science	1,135,177.6	1,203,288.2	1,275,485.5	1,352,014.7	1,433,135.5	1,519,123.7
Govi-Altai	32,291.72	33,906.31	35,601.62	37,381.70	39,250.79	41,213.33
Uvs	34,614.25	36,344.96	38,162.21	40,070.32	42,073.83	44,177.52
Zavkhan	33,475.89	35,149.68	36,907.17	38,752.53	40,690.15	42,724.66

Source: Ministry of Education, Culture, and Science.

9. The annual share of the project costs borne by MECS will be \$3,586 in 2015, representing 0.001% of the ministry's budget; figures for subsequent years are \$104,118 (0.017%) in 2016; \$115,053 (0.018%) in 2017; and \$9,111 (0.001%) in 2018. Govi-Altai *aimag* government's annual share of the project costs will be \$6,666 for 2016, 2017 and 2018, accounting for 0.037% of projected budget in 2016, 0.036% in 2017, and 0.034% in 2018. Uvs

aimag government's annual share of the project costs will be \$20,000 each in 2016 and 2017, which will be 0.105% of the government's projected budget in 2016 and 0.100% in 2017. The Zavkhan *aimag* government's annual share of the project costs will be \$10,000 in both 2016 and 2017, representing 0.054% of the government's projected budget in 2016, and 0.052% in 2017. The annual commitments to the project by MECS and the *aimag* governments are considered affordable.

Table 5: Annual Commitment of Ministry of Education, Culture, and Science and Govi-Altai, Uvs, and Zavkhan Aimag, 2015–2018

	(\$)			
	2015	2016	2017	2018
Projected Budgets				
MECS	595,581,100	625,360,155	656,628,163	689,459,571
Govi-Altai	16,942,142	17,789,249	18,678,711	19,612,647
Uvs	18,160,675	19,068,709	20,022,144	21,023,252
Zavkhan	17,563,426	18,441,597	19,363,677	20,331,861
Annual Commitment to Project Costs				
MECS	3,586	104,118	115,053	9,111
Govi-Altai		6,666	6,666	6,666
Uvs		20,000	20,000	
Zavkhan		10,000	10,000	
% of Projected Budgets				
MECS	0.001%	0.017%	0.018%	0.001%
Govi-Altai	0.000%	0.037%	0.036%	0.034%
Uvs	0.000%	0.105%	0.100%	0.000%
Zavkhan	0.000%	0.054%	0.052%	0.000%

MECS = Ministry of Education, Culture, and Science.

Sources: Asian Development Bank; Ministry of Education, Culture, and Science.