

## FINANCIAL ANALYSIS

### A. Introduction

1. The project has no revenue-earning component; hence, financial costs and benefits were 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.<sup>1</sup>

### B. Financial Position of the Government

2. Mongolia's macroeconomic situation has worsened recently, with significant external imbalances due to a marked drop in foreign direct investment and weaknesses in the mineral export market. In 2013, gross domestic product (GDP) growth was 11.7%, down from 12.4% in 2012.<sup>2</sup> Medium-term prospects are good, however, with double-digit growth expected (after a further decline in 2014), based on Mongolia's natural resource extraction potential. Growth in non-mineral output is unlikely, on the other hand, given that tighter economic policies are required to reduce high domestic demand and relieve balance of payments pressures. Assuming appropriate policies are put in place, it is projected that inflation will decline, and the current account balance will improve over the next 2 years. The overall budget deficit, including off-budget outlays, is expected to decline from 2013 as the Development Bank of Mongolia curtails investment expenditures and the Bank of Mongolia's liquidity injections begin to be phased out in 2014.

3. Regardless of the macroeconomic situation, total expenditures by the Ministry of Labor (MOL) and the Ministry of Education and Science (MEDS) are likely to remain at least at the current level. Total MOL expenditures increased from MNT100,551.85 million in 2011 to MNT149,813.38 million in 2013 (Table 1), and kept pace with the increase in total government expenditures, rising from 2.01% of total government expenditures in 2011 to 2.42% in 2013. Expenditures by MOL as a percentage of GDP decreased slightly, however, from 0.91% to 0.85% in the same period, probably affected by the overall GDP growth. Similarly, total MEDS expenditures increased from MNT575,539.98 million in 2011 to MNT1,037,534.07 million in 2013, a rate of increase higher than that of the total government expenditures. Expenditures by MEDS were 11.52% of total government expenditures in 2011, and 16.79% in 2013; MEDS expenditures as a percentage of GDP increased from 5.19% to 5.91% during 2011–2013.

**Table 1: Selected Indicators 2011–2013**

| Item   | 2011          | 2012          | 2013          |
|--|---------------|---------------|---------------|
| GDP growth (% , constant prices)                             | 17.5          | 12.4          | 11.7          |
| Inflation (% per year)                                       | 9.1           | 14.3          | 13.0          |
| Current account balance (% of GDP)                           | (31.5)        | (32.6)        | (27.4)        |
| GDP, at current prices (MNT million)                         | 11,087,723.79 | 14,012,898.12 | 17,550,173.26 |
| Total government expenditures (MNT million)                  | 4,997,039.86  | 5,993,800.50  | 6,177,978.90  |
| % of total government expenditures to GDP                    | 45.10         | 42.80         | 35.20         |
| MOL expenditures (MNT million)                               | 100,551.85    | 142,221.11    | 149,813.38    |
| % of total MOL expenditures to GDP                           | 0.91          | 1.01          | 0.85          |
| % of total MOL expenditures to total government expenditures | 2.01          | 2.37          | 2.42          |

<sup>1</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

<sup>2</sup> ADB. 2014. *Asian Development Outlook 2014*. Manila.

| Item  | 2011       | 2012       | 2013         |
|---|------------|------------|--------------|
| MEDS expenditures (MNT million)                               | 575,539.98 | 897,110.60 | 1,037,534.07 |
| % of total MEDS expenditures to GDP                           | 5.19       | 6.40       | 5.91         |
| % of total MEDS expenditures to total government expenditures | 11.52      | 14.97      | 16.79        |

( ) = negative, GDP = gross domestic product, MEDS = Ministry of Education and Science, MOL= Ministry of Labor.  
Sources: Ministry of Education and Science; Ministry of Labor; National Statistical Office. 2013. *Statistical Yearbook 2013*. Mongolia; ADB. 2013. *Asian Development Outlook 2013*. Manila.

4. Within the medium-term budget framework, the MOL projects budget increases during 2014–2018, and MEDS, during 2014–2017, as shown in Table 2. The MOL budget for 2019 and MEDS budget for 2018 and 2019 are estimated by applying a growth factor of 10.00% in accordance with the forecasted GDP growth rate for 2015. The 2018 budget provided the basis for MOL budget estimates for 2019, while the basis for the MEDS budget estimate for 2018 was the 2017 budget.

**Table 2: Ministry of Labor and Ministry of Education and Science Budget Projections to the End of the Project Period**  
(MNT million)

| Item                                 | 2014                | 2015                | 2016                | 2017                | 2018                | 2019                |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Ministry of Labor                    | 187,999.77          | 190,499.10          | 201,524.00          | 213,100.20          | 234,410.00          | 257,851.00          |
| Ministry of Education and Science    | 1,096,471.98        | 1,810,418.00        | 1,917,123.20        | 2,108,835.52        | 2,319,719.00        | 2,551,691.00        |
| <b>Total</b>                         | <b>1,284,471.75</b> | <b>2,000,917.10</b> | <b>2,118,647.20</b> | <b>2,321,935.72</b> | <b>2,554,129.00</b> | <b>2,809,542.00</b> |
| Absolute increase                    |                     | 716,445.35          | 117,730.10          | 203,288.52          | 232,193.28          | 255,413.00          |
| % Increase compared to previous year |                     | 56.00               | 6.00                | 9.60                | 10.00               | 10.00               |

Sources: Ministry of Labor and Ministry of Education and Science.

### C. Financial Sustainability

5. An analysis of the recent expenditures and the projected budgets was undertaken to evaluate the fiscal impact of the project on the budget of MOL and MEDS. A breakdown of MOL and MEDS expenditures during 2011–2013 is in Table 3. During the 3-year period, recurrent MOL costs have increased by 30% and those of MEDS have almost doubled. The increase in recurrent costs has been caused mostly by high inflation and salary increments (salaries increased by 15% in 2013 over 2012, and by 50% in 2012 over 2011). Depending on the rate by which salaries of MOL and MEDS staff increase, substantial increments may arise from other recurrent costs. Both ministries have kept the capital costs almost constant during the same period.

**Table 3: Expenditure Breakdown of the Ministry of Labor and the Ministry of Education and Science, 2011–2013**

| (MNT million)                            |            |        |            |        |              |        |
|--|------------|--------|------------|--------|--------------|--------|
| Item                                     | 2011       | %      | 2012       | %      | 2013         | %      |
| <b>Ministry of Labor</b>                 |            |        |            |        |              |        |
| Total expenditures                       | 100,551.85 | 100.00 | 142,221.11 | 100.00 | 149,813.38   | 100.00 |
| Total recurrent costs                    | 100,551.85 | 100.00 | 125,623.92 | 88.30  | 136,366.68   | 91.00  |
| Total capital costs                      |            |        | 16,597.19  | 11.70  | 13,446.70    | 9.00   |
| <b>Ministry of Education and Science</b> |            |        |            |        |              |        |
| Total expenditures                       | 575,539.98 | 100.00 | 897,110.60 | 100.00 | 1,037,534.07 | 100.00 |
| Total recurrent costs                    | 475,342.63 | 82.60  | 776,676.44 | 86.60  | 921,013.37   | 88.80  |
| Total capital costs                      | 100,197.35 | 17.40  | 120,434.16 | 13.40  | 116,520.70   | 11.20  |
| <b>Education</b>                         |            |        |            |        |              |        |
| Expenditures                             | 556,373.42 | 96.67  | 868,107.14 | 96.77  | 1,002,027.41 | 96.58  |
| Recurrent costs                          | 457,399.25 | 79.47  | 750,333.82 | 83.64  | 893,416.81   | 86.11  |
| Capital costs                            | 98,974.18  | 17.20  | 117,773.32 | 13.13  | 108,610.60   | 10.47  |
| <b>Science</b>                           |            |        |            |        |              |        |
| Expenditures                             | 19,166.55  | 3.33   | 29,003.46  | 3.23   | 35,506.65    | 3.42   |
| Recurrent costs                          | 17,943.38  | 3.12   | 26,342.62  | 3.03   | 27,596.55    | 2.66   |
| Capital costs                            | 1,223.18   | 0.21   | 2,660.85   | 0.20   | 7,910.10     | 0.76   |

Sources: Ministry of Labor and Ministry of Education and Science.

6. The government's annual share of the project costs will average around \$0.72 million or approximately 0.11% of the total expenditures of MOL and MEDS in 2013. The government will bear recurrent costs and contingencies, which will amount to \$3.59 million.

7. The total recurrent costs of the project are estimated to be \$0.99 million over the 4-year project period, corresponding to an average of about \$0.20 million per annum. The government's annual commitment to the project recurrent costs as percentage of the total MOL and MEDS projected budget is estimated to be 0.00% in 2015, 0.02% in 2016, 0.02% in 2017, 0.03% in 2018, and 0.01% in 2019. The government's annual commitment to the recurrent costs plus contingencies as a percentage of the total MOL and MEDS projected budget is estimated to be 0.10% in 2015, 0.09% in 2016, 0.13% in 2017, 0.03% in 2018, and 0.01% in 2019. The government's annual commitment to the project, therefore, is considered affordable.

**Table 4: Government's Annual Commitment to the Project**

| Item  | 2015         | 2016         | 2017         | 2018         | 2019         |
|---|--------------|--------------|--------------|--------------|--------------|
| Government contribution to the project cost (\$ million)  | 0.11         | 1.10         | 1.74         | 0.45         | 0.18         |
| Recurrent cost (\$ million)   | 0.02         | 0.21         | 0.30         | 0.38         | 0.09         |
| Contingencies (\$ million)  | 0.10         | 0.89         | 1.44         | 0.07         | 0.10         |
| Total MOL and MEDS projected budget (MNT million)   | 2,000,917.10 | 2,118,647.20 | 2,321,935.72 | 2,554,129.00 | 2,809,542.00 |
| Total MOL and MEDS projected budget (\$ million)  | 1,130.46     | 1,196.98     | 1,311.83     | 1,443.01     | 1,587.31     |
| % of government contribution (recurrent costs) to total MOL and MEDS projected budget                         | 0.00%        | 0.02%        | 0.02%        | 0.03%        | 0.01%        |
| % of total government contribution (recurrent costs and contingencies) to total MOL and MEDS projected budget | 0.01%        | 0.09%        | 0.13%        | 0.03%        | 0.01%        |

MEDS = Ministry of Education and Science, MOL= Ministry of Labor.

Sources: Ministry of Education and Science and Ministry of Labor.