

FINANCIAL ANALYSIS

A. Introduction

1. The financial analysis was undertaken in accordance with the Financial Management and Analysis of Projects of the Asian Development Bank (ADB).¹ The project has no revenue-earning component, and therefore the financial cost–benefit was not analyzed. The financial sustainability of the project was assessed on a fiscal and project level. An analysis of recent and projected government expenditure was undertaken to evaluate the impact of the project on the budget of the Ministry of Population Development and Social Protection (MPDSP).

B. Financial Sustainability

2. The objectives of the proposed additional financing of the Food and Nutrition Social Welfare Project are to strengthen (i) social welfare and insurance processes and information technology (IT) systems; and (ii) social welfare and social insurance policy, staff capacity, and communication. Social welfare and insurance processes and IT systems will be strengthened by (i) improving IT systems to support international accounting standard for the Social Insurance General Office (SIGO); (ii) automating periodic reporting and reducing manual processing; (iii) enhancing transparency of SIGO and General Office for Social Welfare Services (GOSWS) operations; (iv) establishing data analytics and a business intelligence environment that support better decision making by the MPDSP; (v) setting up information security and disaster recovery infrastructure; (vi) providing training for SIGO, GOSWS, and MPDSP staff; and (vii) providing IT equipment at central, *aimag* (province), district, and *soum* (administrative subdivision of the *aimag*) levels. Social welfare and social insurance policy, staff capacity, and communications will be strengthened by (i) rationalizing the social welfare system (consolidating benefits, improving the targeting of social welfare benefits, balancing cash transfer and services, and linking social welfare beneficiaries to employment services); (ii) updating the database of poor households identified through proxy means testing and running the grievance and redress mechanism; (iii) providing training for SIGO, GOSWS, and MPDSP staff; (iv) updating the social protection strategy; (v) improving the investment opportunities and the financial due diligence of the social protection funds; and (vi) studying and making recommendations on gender equality in social protection, balancing cash transfers with services delivery, and better linking social protection with labor market policies.

3. The MPDSP will be the executing agency for the project and will provide strategic, policy, and overall oversight, and coordinate project preparation and implementation. SIGO and GOSWS will be the implementing agencies for outputs 3.2 and 3.3. The MPDSP is responsible for the social protection sector budget and allocates resources for capital expenditures and service delivery to SIGO and the GOSWS.

4. The latest annual expenditures of the MPDSP, SIGO, and GOSWS for Mongolia (2010–2012) are in Table 1.

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

Table 1: Expenditure for Social Protection and Welfare, 2010–2012
(MNT million)

	2010	2011	2012
MPDSP ^a	327,812.90	378,666.20	667,173.10
SIGO ^b	489,265.73	600,242.31	918,688.25
GOSWS ^c	99,312.71	131,874.72	181,444.83

GOSWS = General Office for Social Welfare Services, MPDSP = Ministry of Population Development and Social Protection, SIGO = Social Insurance General Office.

^a The values for 2010 and 2011 are expenditures for the former Ministry of Social Welfare and Labour, which was divided into two separate ministries (MPDSP and the Ministry of Labour) in 2012. To enable comparison, the MPDSP figure for 2012 (MNT667,173.10 million) includes both the MPDSP budget (MNT 547,916.6 million) and that of the Ministry of Labour (MNT119,256.4 million).

^b Includes subsidies received from MPDSP.

^c Included in MPDSP budget.

Sources: National Statistical Office. 2013. *Statistical Yearbook 2012*. Ulaanbaatar and Ministry of Population Development and Social Protection.

5. The government's annual share of project costs will average around \$1.00 million or less than 0.10% of the population development and social protection and welfare sector annual budget in 2012. The recurrent costs of the project are estimated to be about \$0.67 million per year and include operation and maintenance of IT systems. The annual operation and maintenance cost to be borne by the executing agency will not exceed 0.005% of its current expenditure. The counterpart funding and operation and maintenance costs are considered both financially sustainable and affordable. Considering an average depreciation value of \$2.00 million per annum for the project investment (IT equipment depreciated over 5 years), the recurrent cost impact will be \$2.67 million per annum, which represents less than 0.01% of the total recurrent cost for 2012.

6. The government has committed to provide the necessary funds to ensure that the investment benefits are not lost.

7. A breakdown of expenditures by SIGO, GOSWS, the Children Department (established in October 2012) and other organizations for 2010–2012 is shown in Table 2. ADB's Food and Nutrition Social Welfare Project focused on building capacity and preparing strategies to reform social welfare. The additional financing will scale up the original project by pursuing the social welfare reforms initiated to date. Social welfare benefits will be further consolidated to reduce the system's complexity and increase its effectiveness. Gender disparities will be analyzed and addressed at the policy level through the preparation of the updated social protection strategy. The use of proxy means testing to identify poor households will be expanded to apply to other social welfare benefits. The additional financing will also support an expansion in the scope of the original project by improving social insurance services.

8. The economic development of Mongolia had a positive impact on government social protection and welfare spending. Recurrent social protection spending almost doubled during 2010–2012, while capital spending was kept constant. The highest portion of the indicated total spending is allocated to SIGO, followed by GOSWS. The increase in recurrent cost reflects high inflation and salary increments.

Table 2: Social Protection Spending, 2010–2012
(MNT million)

	2010		2011		2012	
Total expenditures	622,980.41	100.0%	760,198.49	100.0%	1,175,331.69	100.0%
Total recurrent cost	584,347.34	93.8%	748,933.38	98.5%	1,124,502.97	95.7%
SIGO	487,198.30	78.2%	597,876.80	78.6%	916,835.10	78.0%
GOSWS	93,736.34	15.0%	129,820.08	17.1%	180,359.87	15.3%
Children Department		0.0%		0.0%	8,672.00	0.7%
Other organizations	3,412.70	0.5%	21,236.50	2.8%	18,636.00	1.6%
Total capital cost	38,633.07	6.2%	11,265.11	1.5%	50,828.72	4.3%
SIGO	2,067.43	0.3%	2,365.51	0.3%	1,853.15	0.2%
GOSWS	532.64	0.1%	2,610.59	0.3%		0.0%
Children Department		0.0%		0.0%	34.28	0.0%
Other organizations	36,033.00	5.8%	6,289.01	0.8%	48,941.29	4.2%

GOSWS = General Office for Social Welfare Services, SIGO = Social Insurance General Office.

Source: Ministry of Population Development and Social Protection.

9. Macroeconomic projections for Mongolia reveal the likelihood of increased national income from rapid development of the mineral sector in the coming 5–10 years. In 2012, Mongolia's gross domestic product (GDP) growth rate has been one of the highest in the world (12.4%). The Asian Development Outlook 2012, subject to review, projected that real GDP would increase by 17.5% in 2013, boosted by investments in the mining sector.² Economic growth will be partially absorbed by inflation, which averaged 10.2% for the first 7 months of 2013, and represents a threat to the country's overall development. Real GDP growth is expected to average 10% per year in the medium term (2014–2020), taking into account substantially slower growth in the non-mineral economy. It can be assumed that the social protection and welfare sector will benefit from economic development, and higher allocations for recurrent and capital cost will continue.

Table 3: Social Protection and Welfare Spending Projections
(MNT million)

Funding Source	2013	2014	2015	2016	2017
Ministry of Population Development and Social Protection ^a	402,517	411,901	583,297	610,597	639,175
Social Insurance General Office	1,056,013	1,104,547	1,178,770	1,210,018	1,242,095
General Office for Social Welfare Services ^{bc}	40,279	81,265	93,455	107,473	123,594

^a Exclusive of Ministry of Labour figures.

^b According to the new Integrated budget law of Mongolia of December 2011, the social welfare budget has been decentralized to the local authorities.

^c MNT220,595.9 million was allocated to local governments for 2013, but no projections have been provided.

Source: MPDSP, SIGO, and GOSWS.

10. Regardless of growth, total government expenditures will probably be kept to the current level, as a percentage of GDP. MPDSP expenditures increased from MNT327,812.95 million in

² ADB. 2012. *Asian Development Outlook 2012*. Manila.

2010 to MNT667,173.10 million in 2012, and kept pace with the increase in total government expenditures (Table 4), as reflected by their percentage of total government expenditures (10.64% in 2010, and 10.91% in 2012). MPDSP expenditures as a percentage of GDP increased from 3.9% to 4.78% during the same period. Depending on the rate that social protection and welfare sector staff wages increase (wages in 2012 increased by 20% from 2011, and in 2011 increased by 80% in comparison to 2010), a substantial increment will remain for other recurrent costs. Assuming staff wages increase by 20%, there is the possibility for a substantial improvement in other recurrent cost categories, ensuring sustained quality in the delivery of social protection and welfare services.

Table 4: Selected Indicators 2008–2012
(MNT million)

Item	2010	2011	2012
GDP (current prices)	8,414,504.60	11,087,700.00	13,944,200.00
Total government expenditures	3,080,685.14	4,997,039.86	6,116,650.59
MPDSP expenditures ^a	327,812.95	378,666.18	667,173.10
MPDSP expenditures as a proportion of GDP	3.90%	3.42%	4.78%
MPDSP expenditures as a proportion of total government expenditures	10.64%	7.58%	10.91%

GDP = gross domestic product, MPDSP = Ministry of Population Development and Social Protection.

^a The values for 2010 and 2011 are expenditures for the former Ministry of Social Welfare and Labour, which was divided into two separate ministries (MPDSP and the Ministry of Labour) in 2012. To enable comparison, the MPDSP figure for 2012 (MNT667,173.10 million) includes both the MPDSP budget (MNT 547,916.6 million) and that of the Ministry of Labour (MNT119,256.4 million).

Source: Government of Mongolia, National Statistical Office. 2013. *Statistical Yearbook 2012*. Ulaanbaatar.