



United Nations
Educational, Scientific and
Cultural Organization

UNESCO Bangkok
Asia and Pacific Regional Bureau
for Education
Education Policy and Reform

A large background illustration in shades of blue showing silhouettes of people in a meeting. One person is seated at a table writing, while others stand around, some pointing at documents. The overall scene suggests a collaborative educational or policy-making environment.

Education Financial Planning in Asia Implementing Medium-Term Expenditure Frameworks

Mongolia

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Implementing Medium-Term
Expenditure Frameworks

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Education Financial Planning in Asia: Implementing Medium-Term Expenditure Frameworks — Mongolia. Bangkok: UNESCO Bangkok, 2009.

29 pp.

1. Financial administration. 2. Education. 3. Case studies. 4. Mongolia

ISBN 978-92-9223-262-7 (Electronic version)

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Published by the
UNESCO Asia and Pacific Regional Bureau for Education
920 Sukhumvit Rd., Prakanong
Bangkok 10110, Thailand

Printed in Thailand

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EPR/09/EP/034-1

Table of Contents

Abbreviations	iv
Foreword.	v
Acknowledgement.	vi
Executive Summary	vii
I. Education System	1
Policy and Planning	3
II. Financing the Education Sector	5
Education Funding	5
Education Budget Cycle in Mongolia	7
Analysis of Current Budgeting Practices.	8
III. Medium-Term Expenditure Framework	10
Mongolia's Experiences with Medium-Term Budgeting	10
Future of the MTEF	11
IV. Resource Allocation	15
Allocation Rules for Public Expenditure in Education	15
V. Issues for Further Consideration	18
References.	20
Annex	21
Annex 1. Example Line Items in a School Budget	21
Annex 2. Donor Involvement in Mongolian Education	22
Annex 3. Structure of Mongolian Education Pilot MTEF	23
Annex 4. MTEF Preparation: Bottom-up Planning Timeline	26
Annex 5. A Sample Policy Statement Form for MECS for 2008–2010	27
Annex 6. A Sample Output and Activity Sheet 2008—2010	28
Annex 7. A Sample Expenditure Planning Form	29

Abbreviations

ADB	Asian Development Bank
AIP	Annual Implementation Plan
ECD	Education and Culture Department
EDCM	Education Donor Consultative Mechanism
EFA	Education for All
EGSPRS	Economic Growth Support and Poverty Reduction Strategy
EMIS	Education Management Information System
FFS	Fiscal Framework Statement
FTI	Fast Track Initiative
GDP	Gross Domestic Product
GOM	Government of Mongolia
MDG	Millennium Development Goals
MECS	Ministry of Education, Culture and Science
MLSW	Ministry of Labor and Social Welfare
MNT	Mongolian Tugrik (currency)
MOF	Ministry of Finance
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NDS	National Development Strategy
PIP	Public Investment Project
PSFML	Public Sector Finance and Management Law
SEDG	Socio-Economic Development Guidelines
SMSTB	Strengthening Medium and Short Term Budgeting project
SWAp	Sector-Wide Approach
TEVT	Technical Education and Vocational Training
UNESCO	United Nations Educational, Scientific and Cultural Organization

Foreword

Education Financial Planning in Asia: Implementing Medium-Term Expenditure Frameworks — Mongolia is part of a series of in-depth studies on education financial planning in Asia, commissioned by the UNESCO Asia and Pacific Regional Bureau for Education - UNESCO Bangkok in 2008. The studies initially covered five countries, including Mongolia, Nepal, the Republic of Korea, Thailand and Viet Nam. Additional studies are now underway in Cambodia, Indonesia, Singapore and Tajikistan.

Medium-term expenditure frameworks (MTEFs) have been used in Organisation for Economic Cooperation and Development (OECD) countries for a while, but their history of use in developing countries is more recent, having started in the late 1990s. Over the past decade, however, donor support has provided for MTEFs aimed at strengthening the link between policy, planning and budgeting in many developing countries. Some of the best well-known and studied experiences in introducing and using MTEFs come from African countries. In Asia, a number of countries have introduced or are planning to introduce MTEFs, but no studies had been conducted nor any attempts made to document the experiences that countries have had in using MTEFs until this research.

Thus, the country case studies commissioned by UNESCO Bangkok are an attempt to address this knowledge gap. They look at Asian experiences with MTEFs, and thereby contribute to understanding the diverse practical aspects of introducing MTEFs, in general, and for the education sector, in particular.

The case studies were written as part of UNESCO Bangkok's clearinghouse project on education financing for implementation of Education for All (EFA) programming in Asia and Pacific countries. The clearinghouse has been developed as an e-resource portal on the UNESCO Bangkok website. Through this portal, UNESCO shares the organisation's long-standing experience and expertise in working with national and international partners on education policy analysis and planning. The portal also features more recent on-going work about education financing and the MTEF.

The portal has been designed for easy access by professionals who work on education planning and finance. Included in the portal is a range of practice-oriented information concerning modern planning techniques and medium-term planning and expenditure frameworks in individual country contexts. The site also contains training materials and tools, briefing notes on technical topics, updates on research and a glossary.

It is hoped that this reservoir of resources will provide Asia-Pacific countries with strengthened knowledge to use MTEF and, thereby, to contribute to effective implementation of their planned education reforms.



Gwang-jo Kim

Director

UNESCO Bangkok

Acknowledgement

This publication forms part of a series studying the application of the medium-term expenditure framework in financial planning in the education sector in Asia. The studies were initiated and their implementation co-ordinated by the Education Policy and Reform (EPR) Unit at UNESCO Bangkok. The unit was able to draw on a wide range of local and international expertise available at research institutes, universities and ministries in the participating countries.

The study in Mongolia was prepared by the Open Society Forum, Mongolia. The study has particularly benefited from inputs provided by J. Byambatsogt (Human Development Officer, World Bank-Mongolia), A. Enkhbat, *Strengthening Medium and Long-Term Budgeting* project, J. Ganbaatar (Acting Head, Department of Finance and Economics, Ministry of Education, Culture and Science of Mongolia) and N. Enkhtuya and N. Narantuya (Mongolian Education Alliance NGO). The most recent information included in this report has been collected thanks to the collaboration of education finance experts working to introduce the MTEF in Mongolia and relevant departments of the Ministry of Education, Culture and Science. It was especially helpful that many of the background documents related to education finance planning and more narrowly focused concept papers on the MTEF in Mongolian education have been made available through the official websites of relevant institutions. Comments and insights on the issue have also been obtained through interviews and information sessions and special thanks are given to interviewees, including school leaders, for generously sharing their time and knowledge.

The regional project receives a generous financial contribution from the Japanese Government.

Executive Summary

Education delivery in Mongolia is inherently costly due to geography and recent socio-economic changes. The large territory; the number of nomadic herders (at 40 percent of the population); the long, harsh winters; and the relatively large school-age population are factors that make education expensive. In response to this situation, the Mongolian Government is allocating 20 percent of its spending to the education sector.

Public funding is the single largest source of education funding, along with private sources, parental donations, sub-national support and external assistance. In 2004, 87.1 percent (or 136.6 billion MNT) of educational expenditure came from the central budget. The central government provides funding in three forms: a per capita cost-based flexible budget to public and private schools; a norm-based fixed budget to public schools; and targeted social assistance to public school students from low-income families. In addition, the central budget pays for capital investment in public schools by funding construction and renovation projects. The regulations also encourage local government support to schools and school-level income generation to secure additional revenue.

In 2003, Mongolia adopted a new Public Sector Finance and Management Law (PSFML). Outcome contracts between schools, local governments and the Ministry of Education, Culture and Science (MECS) were introduced to help maintain a focus on outputs and performance. While the public sector had previously used only year-to-year budgeting, the law made three-year medium-term budgeting operational and mandated that national macroeconomic indicators govern sectoral spending decisions.

In 2006, the MECS and the Ministry of Labor and Social Welfare (MLSW) were selected as pilot sites for the medium-term expenditure framework (MTEF) implementation because the two ministries absorbed the largest share of government expenditure, with MECS's budget at 19.6 percent and MLSW's budget at 23 percent of government expenditure in 2006.

Since 2007, the Mongolian education sector has been pilot testing the MTEF approach. There are two fundamental differences between the current budget process and the MTEF. First, all activities are programme-based. Different programmes can be initiated, but these need to be supported by statements of objectives, expected outputs, activities to deliver those outputs and delivery costs. Second, all budgets are based on a three-year framework, in which the performance of each programme in the previous year will inform current budgets. Also, the new MTEF practice places a major emphasis on pre-approval negotiation between the line ministries and the Ministry of Finance (MOF) in order to finalize the resource allocation.

The pilot project has become a model for medium-term planning. Strategies have been developed for unit costing and setting targets. Nonetheless, there are still issues to be resolved. These include the need to reduce the strength of the MOF in the MTEF budget balancing process; frequent violation of sectoral ceilings by, and limited budgeting capacity of, line ministries; a solution to the issue of end-of-year surpluses; and the possibility for more centralized planning. In 2008, all public sectors are expected to work with the programme-based MTEF.

I. Education System

Major shifts in the economy have affected the education system, as well as the rest of the life of the nation. In 1990, Mongolia started to shift from a centrally planned economy to a free market system. During the early transitional years, the Government of Mongolia had to cope with overall economic restructuring, political re-orientation and a severe budget shortage caused by the loss of external assistance from socialist countries (primarily the Soviet Union) that had accounted for 30 percent of the Gross Domestic Product (GDP). Large-scale unemployment, poverty, and rural-to-urban migration were some of the issues with which the Government had to deal. The economic situation of the country has been recovering since the late 1990s, stabilizing throughout the early twenty-first century, and enjoying large increases in national revenue in the last three years (2005-2007), largely from the booming mining sector.

During its pre-transition history, Mongolia's literacy rate and rate of participation in education were among the highest in the world. The literacy rate of 97 percent in the early 1990s (Steiner-Khamsi, 2007) dipped slightly during the transitional years mainly due to a decrease in enrolment to 86.6 percent in primary education and 71.5 percent in secondary education in 2001. It has recovered since the late 1990s, reaching 98 percent in 2007. This recovery in literacy rates despite falling enrolment rates, from 99 percent in pre-transitional years to about 95 percent in 2007 (Bartlett and Byambatsogt, 2004), can be attributed to the development of the non-formal education sector. In the late 1990s, short-term literacy courses and other programmes for dropouts and non-enrollees were introduced.

In general, official statistics report quite low dropout and non-attendance rates. In 2005–2006, the Ministry of Education, Culture and Sciences (MECS) reported that only 6.8 percent of all school-aged children, 9,032 students, were out of school, which is a 1.7 percent improvement on the previous year. An additional 3,771 children, of whom 76 percent were rural children, attended non-formal equivalency programmes. In the same year, 420 students, 0.07 percent of all general secondary education students, were reported as repeating a general education grade (MECS, 2006).

In 2005, the school system was expanded from 10 years (4+4+2 structure) to 11 years (5+4+2), and further to 12 years (5+4+3¹) in 2008. This change has lowered the school entrance age from eight to seven in 2005, and further down to six in 2008. These changes also require additional spending on curriculum, textbook changes and teacher training, as well as upgrading school infrastructures to accommodate younger children.

Pre-school education for two- to five-year-olds is not compulsory, and is subject to parental preference. The goal of increasing pre-school education coverage is reached through *ger*² and mobile kindergartens, with short-term pre-school summer courses and home training complementing conventional intramural kindergartens.

The general education system has a 5+4+3 year system. The first nine years, covering primary and lower secondary grades, constitute free and compulsory basic education, while the last

1 Note that the Education Law describes the new (target) structure of school as 6+3+3. However, Education Sector Master Plan is based on the assumption that 5+4+3 structure will be built and maintained until 2015. There is no official explanation of this inconsistency.

2 Ger is a traditional Mongolian dwelling, made a wooden frame and felt covers. Easy to assemble and less costly, these structures are increasingly used as a low-cost single-room building for small and less formal kindergartens.

three years are free (but non-compulsory) upper secondary grades. Most rural schools have a dormitory to accommodate children of nomadic herder families.

Technical education and vocational training (TEVT) schools offer two- and four-year vocational programmes. In addition, TEVT schools can also offer in-service professional development and short-term skills training courses for adults. The MECS and the Ministry of Labor and Social Welfare (MLSW) collaboratively coordinate education and labour-market policies, with the MECS being formally responsible for overall curriculum and financing, and the MLSW focusing on short-term skills training, on-the-job training and retraining of vocational staff.

Higher (tertiary) education is offered at colleges, institutes and universities. University status is awarded to the best-performing higher education schools based on accreditation results. Universities offer Ph.D. programmes in addition to four-year bachelor's and one- to two-year master's degree programmes, while institutes offer bachelor's and master's degree programmes, and colleges limit their activities to three-year diploma or bachelor's degree programmes. Teacher education is part of the higher education system. The Teacher Training College trains primary school and kindergarten teachers, while Mongolian National University of Education trains secondary-level subject-specific teachers, in addition to offering master's and Ph.D. programmes and in-service professional development courses.

Table 1. Education System

Level of education	Age groups	Curriculum features	Participation features	Exit level exam, credentials and promotion
Pre-school	2–5	Child development in early years and school preparation later years	Voluntary upon parental choice	No exam and credentials. Automatic promotion to primary school Grade 1
Primary	6–10	Reading, writing, elementary math and natural sciences	Compulsory; free of charge	Standardized tests; certificate of primary education; promotion to lower secondary Grade 6
Lower secondary	11–14	Subject-specific contents in natural sciences and social sciences; language and literature; secondary math	Compulsory; free of charge	Standardized national test at the end of final year; certificate of basic education; promotion to upper secondary education, TEVT or exit to labor market
Upper secondary or high school	15–17	Subject-specific advanced natural and social sciences, math, language and literature	Non-compulsory; free of charge	Standardized national test at the end of final year; opportunity to enrol in higher education or exit to labor market
Higher education	Age 18 and above	Professional training in chosen field	Non-compulsory, tuition-based	Diploma or BA degree certificate; exit to labour market
Technical and vocational education	Age 15 and above	Vocational and technical work-oriented training	Non-compulsory; free of charge	Certificate of specialized general education

The non-formal education system, started in 1997, offers a parallel system of equivalency programmes to school dropouts and never-enrolled children, in addition to offering literacy and life-skills training to adults. Equivalency programmes aim for exit-level diplomas or reincorporation into formal schooling through consolidated, shorter-term training.

Policy and Planning

The Ministry of Education, Culture and Science (MECS) is the central government agency in charge of education policy and planning. It has four departments; two with specific sub-sector focuses, the Primary and Secondary Education Policy and Coordination Department and the Higher Education and Professional Education Department. The sector-wide Economics and Finance Department develops school financing policies and supervises education budget planning and spending. The Department of Monitoring collects education statistics and produces the analysis of education performance to support policy development.

The MECS collaborates closely with sub-national governments. Each city or *aimag*³ government office houses an Education and Culture Department (ECD), which oversees the educational and financial performance of schools and kindergartens in their areas, and mentors teachers on classroom management, teaching methods and student assessment. ECDs are increasingly engaged in local education policy development and in donor coordination in their *aimags*. Since the late 1990s, Mongolia has adopted and attempted to implement a number of national and sectoral development strategy papers.

The Economic Growth Support and Poverty Reduction Strategy (EGSPRS) of 2003 was developed as a medium-term national development strategy with a four-year timeframe. It emphasized the leading role of education in combating poverty and unemployment, and set general development goals for educational quality and access at all levels, with an emphasis on rural education. Key activities were identified as strengthening education research and management capacity along with a more traditional accent on better educational resources, including teacher recruitment for rural schools, textbook quality and supply, and improvements to the physical condition of rural schools and dormitories. In 2004, after an election, the new government decided to discontinue this non-binding strategy and instead implement a constitutionally-mandated Action Plan, which incorporated some of the EGSPRS goals.

The Mongolian Government's Medium-Term Action Plan for 2004–2008 is a cross-sectoral development strategy, with major emphasis on the social sectors. Its priorities include effective public sector management, support to private sector development and sustainable human development through better service delivery in health, education and social welfare. Gender equity and good governance are also emphasized. The Government's action plan is supported by annual Socio-Economic Development Guidelines (SEDG), which specify medium-term policy priorities as sector-specific annual plans. Each ministry, including the MECS, develops its annual activity plans based on this document.

The National Development Strategy (NDS) through 2021 was based on the Millennium Development Goals (MDGs). It was developed with support from the UN, and was adopted in 2007. While international and domestic stakeholders greeted the idea of having a

3 Mongolian territory is administratively divided into 22 units: 21 *aimags* and the capital city of Ulaanbaatar. An *aimag* is an equivalent of a rural province and its center forms a rural town, conventionally referred to as semi-urban centers. An *aimag* is further subdivided into *soums*, which can be interpreted as rural districts. Ulaanbaatar city is divided into 9 urban districts.

long-term development vision and praised the process of developing the strategy for being open to stakeholders from outside the government, this document has also received some critical reviews for departmentalization along sectoral lines and an overall lack of measurable targets and proper costing.

The Education for All (EFA) National Action Plan was produced in 2005 by the MECS, with the support of UNESCO. Work on this plan coincided with the development of the second Education Sector Master Plan, and it was decided that the two documents should be merged into a single policy paper to avoid overlaps and save time and human resources.

The Education Sector Master Plan for 2006–2015, developed in 2006, is a lengthy document that was endorsed by all major education partners, including donors and NGOs, which found it to be ‘a sound and credible pathway’ (FTI Secretariat, 2006) to help Mongolia successfully implement EFA goals over the next decade. It creates a framework for better donor-government harmonization by utilizing a full sector-wide approach (SWAp) and a joint government-donor Annual Implementation Plan (AIP).

The Education Sector Master Plan focuses on two issues that affect the whole sector: (1) it seeks access and coverage to ensure that all children have access to education services, and (2) it promotes quality and content, linking learning content and skills acquisition to the country’s economic development needs. These values are made concrete in financial estimations and timeframes, sector-wide strategies and long-term goals until 2015 and sub-sectoral activity plans with target performance indicators until 2010.

Sub-national governments are expected to assume responsibility for implementing national policies at the local level, and therefore local development plans tend to reiterate national government plans. With the adoption of the Education Sector Master Plan in 2006, local education departments are producing *aimag* Education Master Plans. Local education authorities are planning to request that schools in their territory develop school-level Master Plans in line with the national and *aimag* plans.

II. Financing the Education Sector

Education Funding

The government is successfully implementing the allocation of 20 percent of government spending to the education sector. However, as noted in much research literature (see, for example, FTI, 2006a), education delivery in Mongolia is inherently costly due to geography and recent socio-economic changes. The large territory, the number of nomadic herders, at 40 percent of the population, the long, harsh winters, and the relatively large school-age population are factors that make education expensive. Mongolia spends about 20 percent of its education budget on heating alone (World Bank, 2006). Almost all rural schools need to maintain dormitories for children of herders, and in the 2005–2006 school year, the Government spent 4.5 billion Mongolian tugrik (MNT) on food for 41,000 children in dormitories.⁴

In 2006, the Government liberalized the school textbook market by introducing the commercial sale of textbooks, previously provided to school children free of charge through library rental. Printing companies are expected to bid on printing the textbooks and recover the costs from sales through their own book distribution networks. The Government provides school children from poor families with free textbooks. In 2008, MECS was planning to spend about 120 million MNT (GOM, 2007) on this promise. The exact number of textbooks for free distribution is based on school orders. The printing company is charged with the task of delivering MECS-paid textbooks to school libraries for distribution.

In 2006, the Mongolian Government piloted the School Feeding Programme for students in Grades 1 and 2. In 2007, the programme was officially launched and scaled up to include all primary students to Grade 4, with a total budget of 10 billion MNT, followed by a further expansion to Grade 5 in 2008 with a total budget of 12.4 billion MNT.⁵

As stated in the 2002 Education Law, Mongolia finances its education from the national budget, local budget, private contributions and payments, school-generated income and donor assistance. (see Table 2 on page 6 for 2005 data, and Annex 2).

Public funding is the largest source of education revenue. In 2004, 87.1 percent or 136.6 billion MNT of educational expenditure came from the central budget, with a further increase expected to exceed 90 percent from 2008 onward. The central government provides funding in three forms: a per capita cost-based flexible budget to public and private schools; a norm-based fixed budget to public schools; and targeted social assistance to public school students from low-income families. In addition, the central budget pays for capital investment in public schools by funding construction and renovation projects. The regulations also encourage local government support to schools and school-level income generation to secure additional revenue.

Acquiring additional resources from the central government and private donations, as well as school-income generation to complement the central allocation, is legally encouraged. Local governments support their public schools through discretionary allocations, usually through a decision by the local governor, and approved by the local parliament. Local governments

4 Dormitory expenses are paid by the Government. Every year, the Government renews and approves per student dormitory expenditure.

5 In 2007, School Feeding Programme spent 300 MNT per student per day, which was increased in 2008 to reach 400 MNT per student per day. This budget increase is a combination of larger number of programme beneficiaries as well as larger per capita spending of the programme.

often help schools with renovations, the purchase of computers and other equipment, and supplements to teachers' salaries to encourage teacher retention and attract new teachers. School-level income generation has gone from total flexibility to strict controls. Until 2003, schools were allowed to use any means of generating income, including business projects. In 2003, under a new law, many commercial activities by schools were banned. Schools can still generate income through tuition-based (advanced or extra-curricular) courses beyond the standard curriculum, the rental of space to privately-run cafeterias and the sale of products from school workshops. Most schools spend this income on teacher bonuses, student competitions and professional development.

Table 2. School Financing by Sources of Funding in 2005 (MNT Thousand)*

Funding source	Total expenditure	Primary grades	Lower secondary grades	High schools	Specialized training	Private general secondary schools	Short-term courses
Total expenditure, all funding sources	66,221.8	24,571.4	25,222.9	15,767.8	234.5	419.1	6.0
Central budget	63,899.9	23,962.5	24,984.9	14,643.4	148.6	154.6	6.0
as a percentage	96.5	97.5	99.1	92.9	63.3	36.9	100.0
local budget	91.6	0.0	0.0	0.0	83.5	8.1	0.0
as a percentage	0.1				35.6	1.9	
Tuition fee	959.7	354.7	138.7	450.5	0.3	15.6	0.0
as a percentage	1.4	1.4	0.5	2.9	0.1	3.7	
Supporting economic activities	680.2	254.3	99.4	323.9	2.2	0.4	0.0
as a percentage	1.0	1.0	0.4	2.1	0.9	0.1	
Individual donations	33.3	0.0	0.0	0.0	0.0	33.3	0.0
as a percentage	0.1	0.0	0.0	0.0	0.0	8.0	
Projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	3,181.4	984.1	694.4	1,295.9	0.0	207.1	0.0
as a percentage	4.8	4.0	2.8	8.2		49.4	

* Note that donor funding is not included in this table. (See Annex 2)

Source: MECS, 2006

All revenue that public schools receive from central and local budgets, as well as from school-generated income and donations, should be deposited in to the school's bank account within the Treasury Single Account system and must be reported by the school.

The private sector entered Mongolian education in 1991, when private higher education schools were first allowed. Later, the 1993 Education Law supported private general education schools. Private involvement in education is especially large in higher education, serving over 30 percent of tertiary students. The pre-school and general education sub-sectors enjoy moderate private participation. In 2006, about 6 percent of all school-age children and 5 percent of pre-school-age children were privately enrolled. The TEVT sub-sector has the smallest private presence.

In 2006, 10 private TEVT schools were serving about 1.6 percent of vocational students, while the remaining 98.4 percent attended 23 public TEVT schools (GOM, 2006). Private schools are generally believed to offer a more diversified and advanced curriculum than public schools, and to produce better education results by attracting more skilled teachers through competitive salaries. Private sector expansion will be further supported and encouraged in all education sub-sectors except higher education. Although large, the private tertiary sub-sector is believed to be falling behind public tertiary schools in terms of their quality and standards.

Donor involvement in the Mongolian education sector is rather large, as shown in Annex 2. Traditional areas of donor interest were school construction and rehabilitation, teacher training and non-formal and special needs education. More recently, the transition to 12-year schooling and the combined influence of such global projects as EFA and the MDG have triggered donor interest in curriculum development and quality improvement, especially in primary education. Donors have also supplied analytical and advisory work, including sector reviews, strategy papers and Education Master Plans. Most donor direct support is project-based; it does not usually take the form of budget support.

Education Budget Cycle in Mongolia

The fiscal year in Mongolia starts 1 January and ends 31 December. Budget preparation is a combination of top-down sectoral spending ceilings imposed by the Ministry of Finance (MOF), the Cabinet and Parliament in July; and bottom-up estimation of sectoral outputs and costs from schools to the MECS and then to the MOF and Cabinet by mid-September. Budget preparation reaches its final stage in October when the national budget proposal is introduced to Parliament. The last month of the year is devoted to the development of monthly disbursement plans so schools can receive their first installment in January of the new fiscal year.

Table 3. Timeline of the Current Budget Process

January -February	MOF consolidates previous year's spending
March - April	MOF drafts FFS based on own estimates and sectoral drafts
May 1	Cabinet submits draft FFS to Parliament
July 1	Schools submit their draft budgets to MECS
July 11	Parliament approves FFS
August 15	MECS delivers its draft sectoral budget to MOF
September 15	MOF submits draft national budget proposal to Cabinet
October 10	Cabinet submits draft national budget to Parliament
December 1	The national budget is approved by Parliament

The period from January to July is the time for developing top-down sectoral spending ceilings. During the first two months of a new fiscal year, the MOF consolidates the previous year's spending and forecasts revenue prospects and national macroeconomic indicators for the next fiscal year. These figures, together with intended spending statements from each line ministry, serve as the basis for developing a draft Fiscal Framework Statement (FFS⁶) by the MOF. The draft FFS goes through Cabinet discussion, and is submitted to Parliament by 1 May. Once parliamentary approval is issued in July, the FFS sets the national spending ceiling for the next year and also indicates spending frameworks for two more years. The ceilings are communicated to line ministries to serve as a basis for developing sectoral budget proposals.

⁶ Mongolian equivalent of medium-term fiscal framework (MTFF)

From June to September, bottom-up sectoral budgets are planned, starting with public schools, which develop their three-year Medium-Term Activity Plans in June. This plan includes objectives for the coming three years, outputs to be delivered in the upcoming fiscal year and their costing and, as a corollary, the budget proposal for the next year. Schools plan their annual and three-year budgets by multiplying government-approved per student allocations by total student numbers to calculate their flexible budget entitlement and contract costs for electricity, water and heating. There is no separate line for school-specific Development Plans.

School-level budget proposals arrive at the MECS by 1 July and are aggregated into a sectoral budget proposal by adding public investment projects (PIP) and other centrally-managed education expenditures, such as procurements for poor students, school feeding programmes, teacher training, and student grants/loans.

As with the national-level spending framework, school-level three-year spending forecasts have been largely irrelevant: year two and year three estimates are not used, and every year schools prepare a new budget proposal not clearly linked to the existing three-year estimates.

In August and September, the MOF consolidates sectoral budgets into the national draft budget. The MOF receives draft budgets from line ministries by 15 August and checks all numbers against the national census forecast and macroeconomic projections to deliver the national draft budget to the Cabinet by 15 September.

October and November are set aside for parliamentary deliberation. The national budget proposal introduced to Parliament by 10 October includes draft socio-economic development guidelines and budget proposals from each line minister. The deadline for parliamentary approval is the first of December.

Schools receive their approved budgets in December and develop monthly disbursement schedules along standardized spending line-items. This document serves as the basis for the monthly release of installments by local Treasury departments to school accounts.

Later in the year, there is a formal process in place that allows schools to request additional funds. Called the “budget amendment process”, this is a tool for ensuring proper response to policy changes that affect school budgets, unexpected needs or mid-year inflation. For example, sizeable increases in teacher salaries have consumed major parts of the budget amendments in the last three years. Discrepancies between approved school budgets and spending reports at the end of a fiscal year are often explained by such amendments.

Analysis of Current Budgeting Practices

The current budgeting process is heavily driven by MOF as the key fiscal policy agent in the country. Strong MOF involvement has the potential to align government spending with national budget capacity through the use of sectoral ceilings. However, sectoral limits set by MOF and approved by Parliament are not strictly observed. Each line ministry has its national programmes and long- and medium-term sector development strategies, and all want their programmes to have priority. In the absence of formal procedures to facilitate intraministerial negotiations, line ministries feel they need to compete for limited resources by demonstrating greater needs. Ultimately, the MOF has to prioritize sectoral policy decisions through its funding decisions.

Lack of intersectoral communication and the fragmented nature of current budgeting are also concerns, especially for centrally managed capital expenditure. Since school-level budgets

cover only recurrent costs, schools are unaware of the funding priorities, rules and plans pertaining to the MECS capital investment budget.

There is some degree of uncertainty about the possibility of rolling over unspent funds from a previous year. Money remaining in the school's bank account can theoretically and legally⁷ be spent in the next fiscal year with approval from the MECS and the MOF. Most schools, however, prefer to use up all funds by the end of December, rather than risk losing them. Moreover, zero-based budgeting for every new fiscal year despite the existence of three-year school plans is confusing. The use of standardized line items, though designed for budget discipline, also seems to discourage schools from assuming more proactive roles in managing their budgets. All school budgets are cash-based itemized lines, and shifting funds from one line to another is largely prohibited. This line-item approach is basically a tool to control expenditure and fails to reflect the planning side of budgeting, which links budget inputs to programme outputs, performance, and policy/programme goals.

In sum, there is a clear top-down flow of information about resource limits and priority setting in the form of the FFS, which is aligned with the national macroeconomic situation and fiscal policies. The MOF is a key actor in this process, and the national Parliament approves FFS, making it a legally-binding document. It is not clear, though, how FFS estimates beyond Year 1 will be treated in the following years. The bottom-up flow of budget planning is also clearly set, with proposals from individual schools informing the MECS-developed sectoral budget. The MECS is a focal point where top-down funding priorities should meet sectoral policies and school needs. However, MECS and other line ministries may not be given sufficient opportunities to openly negotiate their policy choices.

Mongolian law governing public expenditure supports multi-year budgeting and encourages a strategic approach in policy and budget planning. It emphasizes an output-oriented focus in three-year activity and spending plans. However, this longer-term development view is not fully supported by the annual cycle of budget planning and spending, which is largely zero-based in nature. The pilot MTEF in education, carried out in 2008, has tried to demonstrate how some of these problems can be solved.

⁷ The Public Sector Finance and Management Law (2003) and Education Law (2002) both permit rolling over unspent funds.

III. Medium-Term Expenditure Framework

Mongolia's Experiences with Medium-Term Budgeting

In 2003, Mongolia adopted a new Public Sector Finance and Management Law (PSFML), which formalized an ambitious public service reform modeled on that of New Zealand. Outcome contracts between schools, local governments and the MECS were introduced to help maintain focus on outputs and performance. The public sector had previously used only year-to-year budgeting, but the law has made three-year medium-term budgeting operational and mandated that national macroeconomic indicators govern sectoral spending decisions.

In 2006, the MECS and the Ministry of Labor and Social Welfare (MLSW) were selected as pilot sites for MTEF implementation. The two ministries absorb the largest share of government expenditure, with MECS's budget at 19.6 percent and MLSW's budget at 23 percent of government expenditure in 2006 (Parliament of Mongolia, 2005). Throughout 2006, a MOF-housed project produced a number of technical notes and reports, including a simplified costing methodology for education and an MTEF handbook. The MECS financial staff received intensive capacity-building training and extensive technical advice. As a result, the pilot MTEF was designed and, in 2007, the ministries⁸ produced their first pilot programme-based budgets. In April 2008, the Government initiated the process of legal analysis and capacity-building to apply the MTEF government-wide for the 2009–2011 budget preparation.

In the absence of an actual three-year MTEF implementation, all analysis and illustrations of the Mongolian education MTEF are taken from project documents and reports produced under the Strengthening Medium and Short Term Budgeting (SMSTB) project supported by the World Bank and based at the MOF.

The MECS pilot MTEF is programme-based to facilitate a shift from input- to output-based planning and budgeting. MECS overall activities are grouped into five programmes: Pre-school Education, General Education, Further Education, Culture and Science.

The Education Sector Master Plan contains performance indicators and target outputs for expenditure allocation with unit costing already performed. However, target outputs in the current plan have been assessed as simply a long list of sub-sector indicators. To correct that, numerous target indicators have been reclassified into three broad output groups: service delivery, using quantitative performance measures and unit cost; policy reform, presenting new policy actions that need additional funding; and administration and planning, specifying the cost of managing education services.

Expenditure is allocated to output groups using quantified targets and unit costs. For example, the unit cost in service delivery is the cost per student. It is proposed to include centrally-managed PIPs with the policy reform output groups, while administration and planning presents outputs and activities identified in the performance contracts of MECS staff. Annex 3 shows an example from the pilot Education MTEF.

Outputs are expected to remain essentially unchanged through the three-year timeframe, with only the quantified targets fluctuating from year to year. These changes can easily be projected

⁸ There is another sector, the Food and Agriculture Ministry, whose programme-based draft MTEF is published, with draft MTEFs of the two cited ministries in the official document titled *Mongolian National Budget Proposal for 2008*. This booklet is the only official source for draft MTEFs.

using the national census. Annual performance assessment will help identify outputs that need to be redesigned or discontinued.

The second step of the MTEF is making the three-year resource envelope for annual activities operational in four broad economic categories: wages; non-wage recurrent costs; domestically funded capital expenditure; and capital expenditure funded from external sources. The annual budget is an input-based mechanism to control expenditure.

The overall architecture of the pilot Education MTEF looks as follows:

Programmes: Pre-school Education, General Education, Further Education, Culture, Science
Output groups: the education programme includes pre-school, general education and further education
Outputs: the pre-school programme includes regular kindergarten services and 24-hour kindergarten services
Line costs to produce the outputs include wages, other recurrent expenditures, capital expenditures from domestic sources and from external sources

At the end of the pilot MTEF document, an aggregate table presents all outputs for all five programmes with a budget breakdown for 2008 along the four economic categories.

Future of the MTEF

Because 2008 is the first year of the MTEF pilot, there is no actual MTEF implementation experience from Mongolia. Therefore, this section is a preview of the planned MTEF process.

MTEF terminology is not currently used, except in referring to general concepts. The only existing official sources consulted during this review for terminology reference are the technical notes and progress reports of the MOF project. Here, the term 'medium-term budget framework statement' is defined as "a planning tool for estimating revenue and expenditure for three years ahead". As the MOF explains, the key difference between current annual resource allocation and medium-term budgeting is that the latter is outcome-oriented and based on unit costs. The MOF urges pilot ministries to focus on the question of how many units, at what cost and in what timeframe, are to be purchased to produce the desired outcome.

The working documents use the terms Medium-Term Fiscal Frame (MTFF), Medium-Term Budget Framework (MTBF) and Medium-Term Expenditure Framework (MTEF), allocating resources to policy priorities and costing for effective and efficient service delivery. There seems to be agreement on the following general definitions:

- the MTFF is a fiscal roadmap that provides the framework of resources that can be applied for medium-term budgeting. It is an estimate of aggregate resources available for public expenditure. These estimates are based on macroeconomic forecasts including the GDP, the revenue forecast, the public expenditure forecast, and fiscal policies,
- the MTBF, although not explicitly defined in any of the technical notes, provides a sectoral breakdown of MTFF and sometimes seems to be used interchangeably with "sectoral budget ceilings",

- the MTEF is defined as a “final budgeting document” which ensures that budget divisions are consistent with institutional priorities and ceilings, and integrated with the revenue, recurrent and development budgets. MTEF is not frequently used in the documents reviewed. Instead, “medium-term budget statement” is used along with the more general, “medium-term budgeting”.

As stipulated in the *Medium Term Budgeting Handbook* (World Bank Strengthening Medium and Short-Term Budget Planning Project, 2007), new MTEF preparation starts in March when the MOF prepares a national three-year MTEF. In addition, the Socio-Economic Development Guidelines are drafted to indicate the Government’s medium-term policy priorities. These two draft documents pass through Cabinet discussion and Parliamentary approval in order to become legally-binding. With adoption of the MTEF, the top-down part of the MTEF is completed. The three-year national MTEF should then inform line ministries of sector ceilings. The SMSTB project Technical Notes stress that budget ceilings must be strictly imposed to avoid offsetting longer-term plans. Then the bottom-up section of the MTEF proceeds according to Annex 4.

The MOF proposes structuring the sectoral MTEF development and submission process around ten standardized forms showing:

- how MTEF is linked to policy and planning: Budget Schedule One, Programme Summary; Budget Schedule Two, Economic Classification; Budget Schedule Three, Programme by Output Group;
- how programme activities are estimated with a medium-term perspective: Budget Schedule Four, Financing; Budget Schedule Five, Reassessing Priorities; Budget Schedule Five A, Optimistic Scenario plus five percent for additional or scaled up activities; Budget Schedule Five B, Pessimistic Scenario minus five percent, for activities cut or scaled down; and
- how a link between outputs and budget is ensured: Budget Schedule Seven, Performance indicators and targets; Budget Schedule Eight, Policy Statement for 2008–2010; Budget Schedule Nine, Annual Budget Output/Activity sheet; Budget Schedule Ten, Policy and Expenditure Planning Statement for 2008–2010 MTEF.

These forms are excellent planning tools to guide finance managers through the entire process. They will be included in the Budget Ceilings and Methodology Guidelines that MOF intends to deliver to all budget managers by 10 June. See Annexes 5, 6 and 7 for three examples from the set of 10 forms. These illustrate the links between policy and planning, and policy and budget. These guidelines are new for Mongolia, and there is no doubt that they will add clarity and greater understanding to the entire process.

Upon receipt of the Guidelines, the MECS instructs schools to start their part of the bottom-up MTEF development. When the Education MTEF, based on proposals from schools, is ready, the MECS and the MOF start negotiations. The formalization of negotiation, another new feature proposed by the MOF in the MTEF pilot, is an opportunity to review sectoral policy priorities and realign or reconfirm existing priorities. The negotiation process is also documented using a number of short standardized forms, which pose questions and detect inconsistencies as well as make changes in the budget. The MOF recommends making budget changes at the negotiation meetings, not outside them.

To emphasize the strict observation of sectoral ceilings, MOF officers will reject submissions if the ceilings are not respected. However, some flexibility is suggested by the requirement of three different budget scenarios. Thus, the MECS will need to provide convincing arguments to justify its policy and programme choices in terms of MOF-developed MTEF and sectoral

ceilings. This range of options can be argued to have a positive side effect; motivating the MECS to engage in more education policy research and evaluation of existing options in order to justify programmes in the negotiations with the MOF.

In September, the MOF is expected to submit the national MTEF to the Cabinet, with approval to be expected by 30 September. Then the Cabinet introduces the draft national MTEF to the Parliament by 1 October, the Parliament has four discussions, after which the MTEF should be approved by 1 December. The MOF has also developed standardized templates it would like to recommend for making Cabinet and Parliament submissions. This timeline is presented in Table 4, with the additional steps for the MTEF starred.

Table 4. Timeline for Annual MTEF Process, with Asterisks at New Steps

January–March	MOF reviews and consolidates previous year’s spending
15 March	National MTEF developed by MOF and approved by Parliament
20 March	Schools deliver annual budget spending reports and output reports
10 May	Draft sectoral ceilings discussed with ministries and finalized by MOF***
20 May	GOM adopts sectoral ceilings
1 June	MOF delivers ceiling and methodology guidelines*** to MECS
10 June	MECS delivers budget ceilings to schools
15 June	Schools develop MTEFs and Business Plans
15 July	MECS develops ministry MTEF based on school proposals
15 August	MECS and MOF negotiate to finalize sectoral draft MTEF***
15 September	MOF prepares draft national MTEF for Cabinet
1 October	Government discusses annual draft budget
1 December	Parliament approves annual budget and issues Budget Law

The Mongolian MTEF uses a three-year time frame, consistent with the national budget. In the medium-term framework, the initial year is regarded as an actual proposed budget and the Year 2 and Year 3 budget are to be adjusted based on an assessment of the first year. This approach enhances the existing experience with mandated assessment. The medium-term budget is not zero-based, and neither is it purely incremental, only considering new projects and programmes. The Mongolian model can be best described as a “build-on” model. Under this approach, sectoral ceilings are set for three years, and the Year 1 budget is allocated by the MECS in the initial year. The next budget preparation starts by assessing what was accomplished in the previous year and estimating the additional budget to support further progress, as shown in Table 5

According to this conceptual framework, there should be an annual update of the MTEF. All sector-specific developmental objectives and targets, as well as the unit costs of targets and the performance indicators for measuring progress, should be presented as a part of the MTEF. The MOF has developed budget forms for the Education Sector Master Plan, though specific details of this document need to be updated in light of increased national revenue and changes in national policy since 2006.

With expansion of MTEF intended for all public sectors using the same design and concepts, the Mongolian MTEF can be regarded as an effort to formalize a ‘whole Government’ reform (Le Houerou and Talierno, 2002). As such, a more comprehensive coverage of aggregate national spending and budget deficits is expected.

Table 5. Rolling Nature of MTEF Budgeting, Showing the Tasks for Each Year

	2008		
review implementation of 2007	annual budget set, based on review of 2007	projections for future–2009	projections for future–2010
		2009	
	review implementation of 2008	annual budget set, based on review of 2008	update projections for future–2010
			projections for future–2011
			2010
		review implementation of 2009	annual budget set, based on review of 2009
			update projections for future–2011

Source: This table was developed based on the figure in World Bank Strengthening Medium and Short-Term Budget Planning Project, 2007, p. 6.

IV. Resource Allocation

Allocation Rules for Public Expenditure in Education

Public funding, as the largest and most universally-applied source of education financing, deserves greater scrutiny. Table 6 summarizes the types of funding and the allocations used. Funding is based on different factors: enrolment; school type; and supplements for individual projects or students are the principal ones.

The flexible budget is based on enrolment. It allots a funding per student, differentiated along school-level factors, like grade level, school size and remoteness, and student-level factors like disabilities and linguistic minority status. More remote *aimags* and higher education grades are allocated progressively higher base rates per student, with an additional 50 percent increase for every child with a disability or from a linguistic minority. The student cost is reviewed every year by government resolution to reflect funding policy changes and price increases. Public schools with dormitories receive food money for each student; this is reflected in budget planning and reporting documents as a separate line-item.

The majority of the flexible budget, about 70 percent, is spent on teacher salaries and wages. The rest of the per-student funds should cover all remaining non-utility expenses of the school, such as stationery, transportation, communication, and small repairs. A sample list of the budget items, including items from the flexible budget, is shown in Annex 1.

Guaranteeing these payments from the central budget based on student numbers was intended to increase school enrolment by motivating schools to reach out to every school-aged child. The law mandates that the per-student cost is to be paid to both public and private school students.

The fixed budget covers the school's electricity, water and heating bills. It is also paid from the central budget, but only public schools receive it. This budget is predictable because it is based on school consumption and the contracted rate between the service supplier and the school. Mongolian schools have different forms of supply for electricity, water and heat, ranging from central grids, to small local plants, to even more decentralized boilers for heating, generators for a limited electricity supply and wells for water. This separation of the utilities budget from the operational budget thus allows for better response to individual school arrangements. In addition, during times of economic change, a separate fixed budget allows for periodic adjustment for changing utility costs using a budget amendment, rather than the re-calculation of the entire budget.

An additional pro-poor support from the central budget is intended to prevent the impact of poverty on student enrolment and learning achievement. The MECS provides free textbooks and school supplies to non-tertiary public school students from poor families. A child's eligibility for these services is established by local governments and schools based on an assessment of the family income. At the tertiary level, students from low-income and herder families are eligible for student grants. In addition, as part of the benefits package for civil servants, the Government provides a scholarship grant to one child of a civil servant. Student loans are also available.

Public investment projects (PIPs) in education, such as the renovation and construction of schools, dormitory buildings, heating or insulation systems, are centrally managed by the MECS and the MOF through competitive public procurement. The centralization of large public

procurement projects is necessitated by a weak local capacity to manage bidding and limited local business competitiveness in rural areas.

Table 6. Funding and Allocations in Public Education, by Type

Type of fund	Basis for calculation; levels of education	Intended expenditure	Allocation rule	Entitlement	
				Public schools	Private schools
Flexible budget	Per student; kindergarten, general secondary and TEVT schools	All recurrent costs except utility costs; major spending item is teacher salary	Progressively higher for higher education levels and highest for TEVT. 50% increase for each student with disability or from linguistic minority	yes	yes
Food expenditure	Per student; kindergarten and general secondary schools	Food	Norm-based	yes	no
Fixed budget	Consumption capacity; kindergarten, general secondary, TEVT and tertiary schools	Electricity, water and heating costs	Based on contract with local service provider	yes	no
Capital investment	Technical proposal from bidder	Construction, renovation	Needs-based	yes	no
Free textbooks and school supplies	Per student; general secondary	MECS-approved list of grade-specific textbooks and a list of school supplies	Needs-based; each student's eligibility as assessed by local government and school	yes	no
Student grants	Government-approved; for tertiary student	Tuition fee	Application-based; for students from poor families, herder families and one child of civil servant	yes	yes
Student loans	Government-approved; for tertiary student	Tuition fee	Application-based; no specific target group	yes	yes

Currently, under conventional line-item budgeting, all resource allocation decisions are made at the budget planning stage, before line ministries allocate resources. The Government mandates per student payments through formal resolution, and schools are expected to arrive at an annual flexible budget through multiplying this per-student cost by enrolment. The fixed budget of schools is based on utility contracts between the local service providers and a school. In-year changes in the service contract tariffs are reimbursed to the school account

through Parliament-approved budget amendments. It is expected that more realistic unit costing under the MTEF will reduce the need for budget amendments, allow for better forecasts of expenditure on a medium-term basis and avoid sectoral ceiling violations.

One of the outcomes of the budget discipline adopted in 2003 following the introduction of PSFML was the creation of a consolidated cash management system, the Treasury Single Account, housed by the MOF. The Treasury system forced all public institutions, including schools, to close all bank accounts with commercial banks and open a single account with the Treasury. Only with justification and the permission of the MOF could a school open a second account. The Treasury system is responsible for the disbursement of money in accordance with the school's monthly disbursement plan. It does not have any reallocation power and it cannot make changes in the budget of schools.

Routine financial reporting by all institutions is regulated by the PSFML. Financial reports follow the same standardized line-item form used for budgeting. Schools produce monthly, quarterly, semi-annual and annual spending reports for submission to *aimag* ECDs, with further submission to MECS. The MOF does not usually request a report of individual school disaggregated spending or budget proposal documents. These reports must conform to international accounting standards and be made on accrual basis.

Annual reports receive especially detailed examination because they are audited. Auditing may be performed by an independent state or private agency at the school's request. All auditing services are done by private agencies charging substantial fees, paid through the school's budget.

All non-tertiary schools, including TEVT schools, must have their financial reports audited every year. Reports from public and private higher education schools are audited every two years. Financial reports from the MECS must also be audited annually. In addition to these mandatory audits, the local parliament may request the audit of specific organizations. Individual schools may request an auditing service. All audit reports are publicly accessible in accordance with the Auditing Law of Mongolia, and the release of auditing reports is usually available by request online or in hard copy through public libraries.

Following up on an audit recommendation, however, is problematic. There is no official requirement to report on actions following audit recommendations, and schools and ministries often fail to report if any follow-up activity was ever implemented.

At the MOF level, all financial reports can be cross-checked with information made available by the Treasury in the new online financial management system. The Education Management Information System (EMIS) will have online access to all the routine financial operations of the school system, which should ease the reporting burden. It is hoped that all public schools will be able to input their budget planning and spending data using a custom format, and education managers will be able to generate reports in the formats they need.

Since the design of data input can be modified, theoretically, the EMIS is believed to be able to produce MTEF-aligned programme-based reports if data input is designed with tags and labels that connect to the MTEF format. For example, along with conventional item-line format, data can be labeled with output and activity codes for the ease of retrieving MTEF-compatible reports. The SMSTB project also recommends increasing local civil society engagement in monitoring education inputs and output delivery.

V. Issues for Further Consideration

Mongolia seems to be making good progress in adopting medium-term budgeting. The necessary capacity has been developed since the implementation of the PSFML in 2003. This experience with a three-year time frame for Business Plans, budget forecasts and the formulation of educational activities in output-terms supports the next move to an MTEF. In addition, more recent achievements in the education sector, specifically the adoption of the Education Sector Master Plan, the establishment of the Education Donor Consultative Mechanism and the adoption of the SWAp methodology, should provide a more comprehensive picture of goals, strategies and funding capacities available both from domestic and external sources. Education experts and international consultants have implemented the use of unit-cost expenditure and developed targets under the Master Plan exercise. They should be commended for the thoroughness and scope of their achievements, although more work is expected in order to simplify and ease in applying the framework.

The intended MTEF pilot project, as it is presented by the MOF, promises to create a firm background for medium-term planning. Because 2008 is the first year of the pilot implementation of the MTEF at three national ministries, the absence of actual MTEF implementation experience limits the possibility of making well-substantiated observations. Only a few general findings and recommendations can be offered, based on the comparison of current budgeting practices with the proposed MTEF.

The current budgeting practice makes the MOF the strongest agent in the process. It directly engages in or closely monitors all major budgeting steps (which is appropriate) but can make discretionary decisions without involving line ministers. While strong MOF support is a precondition for successful MTEF implementation, this situation may usurp the power of line ministries like MECS and may result in an overemphasis on spending efficiency at the expense of policy effectiveness. The current focus on budget discipline, with its heavy emphasis on control, could be replaced with a budget responsibility approach, which would combine budget decision-making power for more effective service delivery with the responsibility for spending efficiency.

In the current budgeting practice, sectoral limits are often violated by line ministries. Strictly imposing sectoral ceilings while incorporating flexibility of up to 10 percent under pessimistic, optimistic and neutral scenarios gives constructive options. With this framework, the MTEF seems to offer a sound preliminary approach to these ceilings.

There is concern at the MOF about the limited budgeting capacity of line ministries. This can be overcome with training in the technical and methodological guidelines developed for the current MTEF. Training and handbooks can be delivered to all education finance staff, including school-level staff. It is necessary to recognize that the MTEF is a complex methodology requiring extensive capacity-building.

Currently, rolling unspent funds over to the next year and budget estimates beyond the initial year are not regulated. A multi-year perspective enhances budget predictability and sharpens the planning process. This focus is addressed by the proposed MTEF. It is hoped that the MECS will continue its pilot experience with MTEF in 2009–2011 to complete the full three-year cycle and provide valuable experience in managing longer-term budgets.

The reliability of the actual budget plans depends on how realistic the macroeconomic estimates are. The Government has been criticized by external partners for overly optimistic projections

of copper prices — a commodity that account for a large percentage of Mongolia's revenue. It is thus advised that the government, in line with the MTEF exercise, develops pessimistic, neutral and optimistic scenarios based on different revenue levels.

The Mongolian Government could possibly benefit from introducing a separate planning committee or bureau, as used in a number of countries. The MTEF is a continuous planning process of aligning national and sectoral priorities and intersectoral strategies. Funding decisions, although important, come into this process only after the priorities are set and programmes and outputs are identified. The MOF currently combines funding and planning decisions. A separate planning agency could provide the solution, becoming a capacity-polling agency that separates planning and prioritization from the burden of simultaneously making funding decisions.

In sum, adding MTEF to budgeting and planning reforms that were instituted in 2003 seems to provide positive new directions for Mongolia. As the MTEF is applied in more ministries, training in and monitoring of its implementation will lead to further improvements and effectiveness in medium-term planning and budgeting in response to national and sectoral priorities.

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Annex

Annex 1. Example Line Items in a School Budget

(Showing line-items funded by the flexible per capita budget marked with an asterisk)

School # XYZ	Approved budget for FY 20...
	Amount in thousand MNT
Total Expenditure	
Operational (recurrent) Expenditure	
Goods and Services Expenditure	
*Salary, wages and additional bonuses	
*Base salary	
*Employer Liability to the Social Insurance Fund	
*Pension and Compensations Insurance Total	
*Retirement insurance	
*Compensation insurance	
*Workplace accident/ professional illness insurance	
*Unemployment insurance	
*Health insurance	
Other Goods and Services	
*Stationery	
Electricity	
Heating and fuel	
*Transportation (gas)	
*Postal and communication service	
Water and sewage	
*Domestic business travel	
*Purchase of books and periodicals	
*Lessons and practical training	
*Purchase of furniture	
*Work clothes and soft apparel	
*Small repairs and maintenance	
*Fees, charges and other expenses	
*Sports competitions	
*Fee for services performed on behalf of the state	
Dormitory food	
Sources of Funding	
Income generated from the primary activities	
Income generated from secondary activities	
Funded from the central budget	
Number of Employees	
Administrative staff	
Teachers	
Non-teaching support staff	
Number of Students	

Source: Ministry of Education, standard format.

Annex 2. Donor Involvement in Mongolian Education

Donor	Project/programme	Period	Commitment	Aid type
Asian Development Bank (ADB)	1st, 2nd & 3rd Loan	1997–2011	42,150,000	Loan
International Development Association (World Bank)	Sustainable Livelihoods Projects	2003–2004	2,238,011	Grant
International Fund for Agricultural Dev. (IFAD)	School Renovation/ Rehabilitation	2004–2009	1,954,000	Loan
International Labour Organization (ILO)	Non-Formal Education	1999–2005	502,000	Grant
UNICEF	Various	2002–2006	1,000,000	Grant
UNFPA	Health Education	2002–2006	402,215	Grant
UNESCO	Various	2001–2007	1,022,203	Grant
Denmark (DANIDA)	Rural School Development	2000–2008	1,774,700	Grant
Japan (JICA)	Mostly rehabilitation of schools	2000–2007	86,164,540	Grant
Korea (KOICA)	Various	2003–2007	3,153,592	Grant
Nordic Development Fund (NDF)	Second Educational Development Programme	2003–2007	10,543,000	Loan
Sweden (SIDA)	Inclusive Education	2004–2007	397,000	Grant
Adventist Development and Relief Agency	Dropouts and students with special needs	2001–2006	728,214	Grant
Open Society Forum (Soros Foundation)	Various	2000–2003	4,057,511	Grant
Save the Children Fund U.K.	Various	2003–2008	2,202,193	Grant
World Vision	Various	1999–2006	5,438,929	Grant
FTI Catalytic Fund (World Bank)	Various	2007–2009	27,200,000	Grant
Total			190,928,108	
Loans (%)			54,647,000	(28.6%)

Source: FTI, 2006b.

Annex 3. Structure of Mongolian Education Pilot MTEF

By student numbers and thousands of MNT

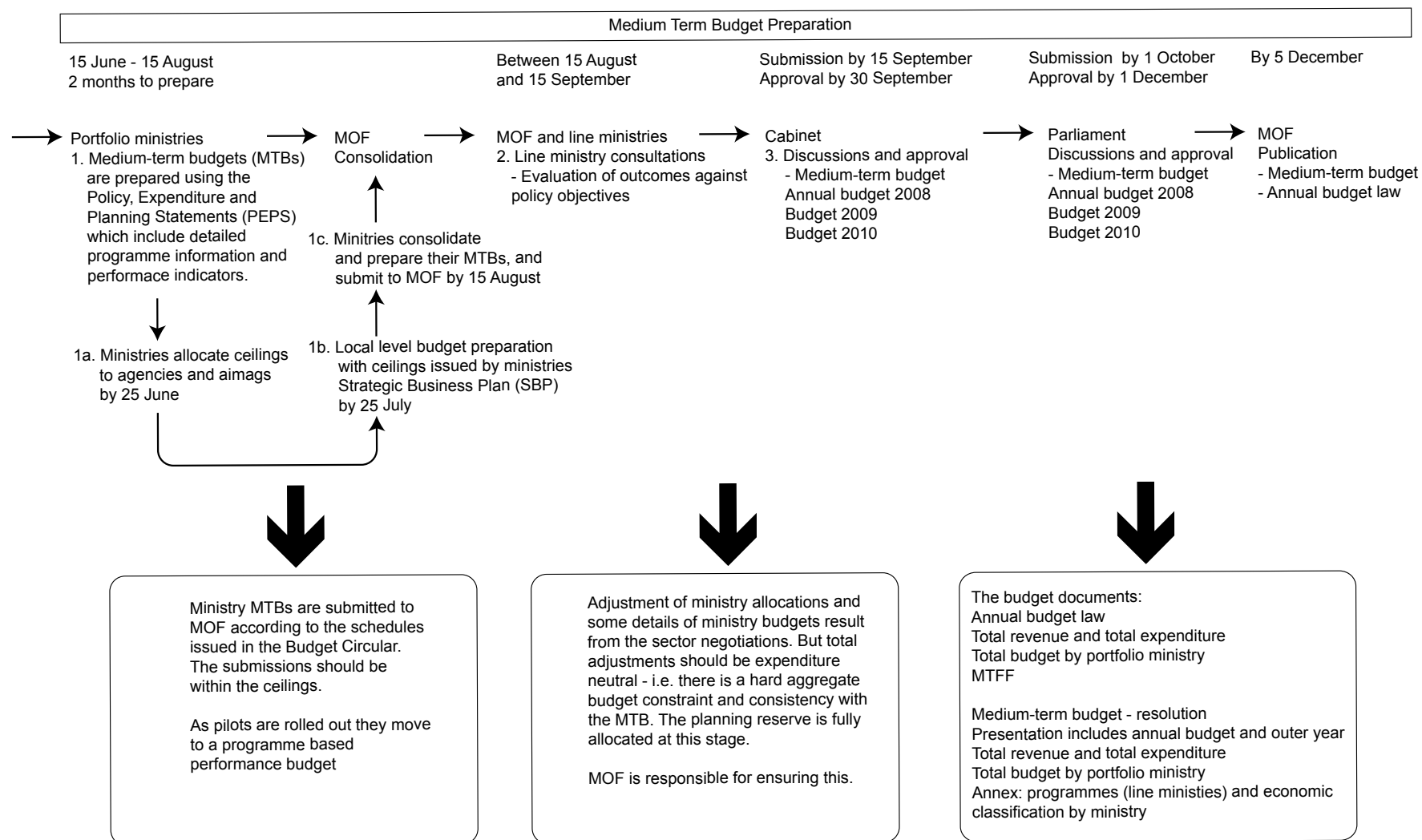
Output Group 2 - General Education					
				Unit: thousand MNT	
		Performance indicator	Target for 2008	Total budget	Unit cost
	Service delivery			189,335,236.2	
1.2.1	Primary, basic and complete secondary education service	Number of students to be enrolled	548,005	172,117,404.1	314.1
1.2.2	Dormitory service	Number of children to be provided with dormitory	46,864	11,711,074.6	249.9
1.2.3	Evening and extra-murual training	Number of students to be enrolled in evening class	1,553	316,172.3	203.6
		Number of students to be enrolled in extra-murual training	1,553	225,668.6	145.3
1.2.4	Special needs education service	Number of disabled children to be enrolled in special school	2,221	1,579,644.5	711.2
		Number of vulnerable group students to be provided with 4 types of textbooks	8,750	120,000.0	13.7
		Number of students to be provided with stationery	66,590	1,000,000.0	15.0
1.2.5	Non-formal education service	Number of people to be made literate	t.b.d.	35,000.0	t.b.d.
		Number of people to be trained with equivalent curriculum	11,690	2,092,272.1	179.0
		Education channel		138,000.0	
	Policy reform			63,402,663.8	
1.2.6	Improved quality of learning	Number of teachers to be trained	864	203,200.0	235.2
		Number of students to be taught special purpose English	6,960	1,914,683.8	275.1
		Number of textbooks to be printed	t.b.d.	969,700.0	t.b.d.
		Number of students to be provided with school lunch	242,923	12,400,000.0	51.0

1.2.7	Improved working conditions in schools	Training facilities required for shifting to 12 year education system	t.b.d.	26,812,600.0	t.b.d.
		Number of school buildings rehabilitated	t.b.d.		t.b.d.
		Number of new school buildings	t.b.d.		
1.2.8	Access (SWAp)	School dropouts in primary and secondary education will be reduced by 0.7% comparing with the previous year, with a goal of 1.5%		9,239,445.0	t.b.d.
		Enrollment of herders' children in dormitories will be increased by 6.5% and reach 49.1%			t.b.d.
1.2.9	Quality (SWAp)	50% of teachers in general secondary schools will be re-trained		11,454,210.0	t.b.d.
		Funding for training equipment and tools and instructional materials in general secondary schools will be increased			t.b.d.
1.2.10	Access for non formal education (SWAp)	Literacy rate will be increased by 0.2%		373,275.0	t.b.d.
		40% of dropouts from general secondary schools will be provided with equivalency and non-formal education			t.b.d.
		A national system of monitoring and evaluation for non-formal education will be established		35,550.0	t.b.d.
1.2.11	Administration and planning			4,244,371.3	
1.2.11.1	Policy and planning	Fulfillment of performance agreement compared with previous year	by 2%	436,142.8	n.a.
1.2.11.2	Professional and methodological guidance and support	Fulfillment of performance agreement compared with previous year	by 2%	2,844,779.2	n.a.
1.2.11.3	Information and M&E	Fulfillment of performance agreement compared with previous year	by 2%	764,369.3	n.a.

1.2.11.4	Improved assessment and evaluation mechanism (SWAp)	The education information and management system and database will be established		199,080.0	n.a.
Total output group 2				256,982,271.3	

Source: SMSTB, unpublished.

Annex 4. MTEF Preparation: Bottom-up Planning Timeline



Source: World Bank Strengthening Medium and Short-Term Budget Planning Project, 2007.

Annex 5. A Sample Policy Statement Form for MECS for 2008–2010

Policy Statement for 2008–2010		
Ministry	Budget manager for Education, Culture and Science sector	
Programme Area	Education	
Programme Description	To deliver 6-year primary education, 9-year basic education and 12-year general education through public and private schools; to deliver primary, basic and general education to school dropouts and adults through evening and correspondence forms; to provide rehabilitation services to children with disabilities and deliver them primary, basic and general education; to deliver non-formal education to adults; to serve primary grade students school lunch	
Programme Goals	To decrease inequality in access to quality education and support implementation of rights of children to education	
Policy Goals	<p>To increase net intake of herder family children in dormitories to reach:</p> <p>45.8. % in 2008</p> <p>45.8% in 2009</p> <p>Increase expenditure on equipment purchase for general secondary schools by 6% annually</p>	
Efficiency gains	To renew per student unit cost at primary and secondary levels, and to create conditions for equitable and fair allocation of budget resources among general education schools	
The Policy and Expenditure Planning Statement (PEPS) form consists of <<number>> of pages and it has been finalized by the WG members with support of the Budget Department		
PEPS Approved by	Head of WG	name

Source: SMSTB, unpublished.

Annex 6. A Sample Output and Activity Sheet 2008—2010

Policy and Expenditure Planning Statement (PEPS) - 2008–2010 MTBF		
Output/Activity sheet 2008		
Ministry	Ministry of Education, Culture and Science	
Programme Area 2	General Education	
Output Group	Services to End-User	
Output 1.1 Primary, basic and complete secondary education services	Activity 1.1.1	Implementation of education standards, curricula and programmes for primary, basic and complete secondary education
	Activity 1.1.2	Issuance of one-time allowance to retiring teachers
	Activity 1.1.3	Participation in subject-specific Olympiads
	Activity 1.1.4	Provide to uninterrupted functioning of schools
Output 1.2. Dormitory service	Activity 1.2.1	Provide food for dormitory students
	Activity 1.2.2	Services to provide normal functioning of dormitories
Output 1.3. Evening and correspondence education	Activity 1.3.1	Describe activity
Describe output, number and target	Activity 1.3.2	Describe activity
	Activity 1.3.3	Describe activity

Note: Delete or add outputs and/or activities according to planning needs

Data highlighted in light blue are taken from the 2008 Education Programme Budget for illustration

Source: SMSTB, unpublished.

Annex 7. A Sample Expenditure Planning Form

Policy and Expenditure Planning Statement-2008–2010 MTBF						
Expenditure Planning YEAR						
programme Area 1						
	Wages	Social insurance	Other recurrent	Transfers	Capital domestic	Capital external
	Unit in Thousand MNT					
Output Group						
Activities						
Activity 1.1.1 Implementation of education standards, curricula and programmes for primary, basic and complete secondary education	113,721,802.7	24,620,772.6	9,198,786.5	862,462.8		
Activity 1.1.2 Issuance of one-time allowance to retiring teachers						
Activity 1.1.3 Participation in subject-specific Olympiads						
Activity 1.1.4 Provide to uninterrupted functioning of schools						
Activity 1.1.5						
Activity 1.1.6						
Activity 1.2.1						

Note: add or remove activities based on those included in the output/activity sheet

Data highlighted in light blue are taken from the 2008 Education programme Budget for illustration

Source: SMSTB, unpublished.



United Nations
Educational, Scientific and
Cultural Organization



UNESCO Bangkok

Asia and Pacific Regional Bureau for Education
Education Policy and Reform

Mom Luang Pin Malakul Centenary Building
920 Sukhumvit Road, Prakanong, Klongtoey
Bangkok 10110, Thailand

E-mail: epr@unesco.org

Website: www.unesco.org/bangkok

Tel: +66-2-3910577 Fax: +66-2-3910866