

Examining Budget Credibility in Mongolia's Health Sector

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Introduction

The Mongolian government tends to underspend its allocated budget. Previous research from the International Budget Partnership (IBP) and the Open Society Forum found that Mongolia's social sectors—education, health, and social welfare—showed even higher rates of underspending than the aggregate budget, which fell short of expenditure targets each year between 2018 and 2020.¹

These deviations can be one of factors that hinder Mongolia's ability to achieve the Sustainable Development Goals (SDGs) by 2030. The health sector is of particular concern. Although the sector accounted for 7 percent, on average, of the government's total spending between 2018 and 2020, the 2022 Sustainable Development Report (SDR) shows that, despite moderate improvements, "major challenges remain" in Mongolia's progress towards SDG 3, which measures "good health and wellbeing."²

This brief examines budget credibility in Mongolia's health sector by analyzing budget deviation trends over a five-year period (2017-2021) in the Ministry of Health (MoH) portfolio, including both the overall budget as well as expenses by category, program, and function.³ The study is based on reviews of annual budget execution reports, state audit reports, and SDG reports as well as interviews with staff from the Ministry of Health and Ministry of Finance (MoF).

1 <https://internationalbudget.org/publications/mongolia-budget-credibility-and-the-sustainable-development-goals/>

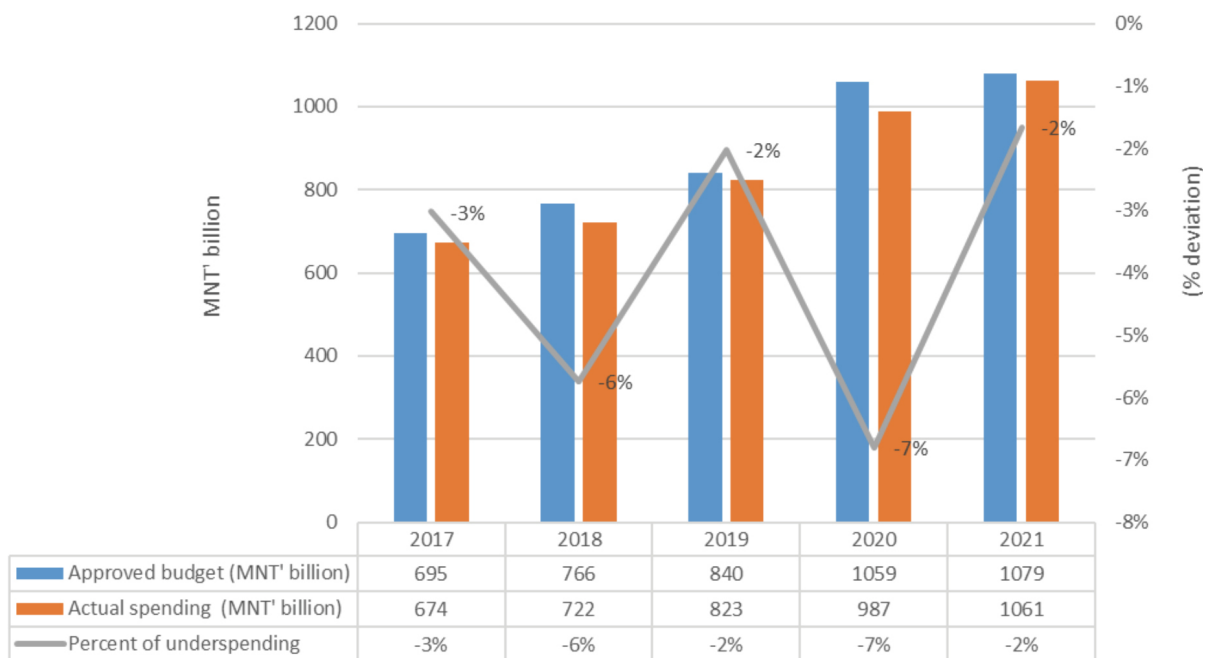
2 <https://www.sustainabledevelopment.report/reports/sustainable-development-report-2022/>

3 Mongolia plans and reports budget spending by portfolios of general budget governors (who are mainly ministers). Health Minister's Portfolio includes the budget for the Ministry of Health, public hospitals, health centers and relevant authorities. Therefore, "MoH" in this paper refers to "Health Minister's Portfolio."

Budget Credibility Trends in the Health Sector

Mongolia's MoH budget execution has been characterized by persistent underspending. Between 2017 and 2021, the rate of underspending against the approved budget ranged from 2 to 7 percent (Figure 1). The highest underspending was observed in 2020, when the ministry did not spend 7 percent, or MNT 72 billion (\$21 million) of allocated funds.

Figure 1: Budget Execution Trends of Ministry of Health (2017-2021)



Source: Ministry of Finance, Budget Execution Reports of Mongolia for 2017-2021⁴

Each spending category within the MoH budget shows a varying rate of execution. The MoH capital budget, which includes construction of buildings and structures, repairs, and equipment purchases,

⁴ https://mof.gov.mn/data_grid/total-budget

shows a higher deviation rate than that of current expenditure. Between 2017 and 2021, the highest underspending in the current expenditure category was recorded in 2020 at 6 percent. Underspending on goods and services ranged from 1 to 6 percent while underspending on wages and salaries ranged from approximately 1 to 2 percent. The budget execution reports show that spending for labor protection equipment experienced the highest deviations of all health-related current expenditure categories, registering underspending of 6 to 22 percent.

Table 1: Ministry of Health Current Expenditure Execution Trends, 2017-2021 (MNT million)

	FY2017	FY2018	FY2019	FY2020	FY2021*
TOTAL CURRENT EXPENDITURE					
Budget	609,068	646,535	735,711	938,693	891,203
Actual Spending	588,261	628,069	726,808	878,747	885,511
Deviation	(20,807)	(18,467)	(8,903)	(59,946)	(5,692)
Deviation (%)	-3%	-3%	-1%	-6%	-1%
GOODS AND SERVICES					
Budget	460,896	505,874	581,791	703,197	196,657
Actual Spending	443,872	488,186	574,007	660,836	192,145
Deviation	(17,024)	(17,688)	(7,784)	(42,361)	(4,512)
Deviation (%)	-4%	-4%	-1%	-6%	-2%
WAGES AND SALARIES					
Budget	217,654	227,984	282,638	316,835	49,297
Actual Spending	215,860	226,636	281,085	311,071	48,294
Deviation	(1,794)	(1,348)	(1,553)	(5,764)	(1,003)
Deviation (%)	-1%	-1%	-1%	-2%	-2%
LABOR PROTECTION EQUIPMENT					
Budget	326	292	290	399	108
Actual Spending	256	253	227	349	101
Deviation	(70)	(40)	(62)	(50)	(7)
Deviation (%)	-22%	-14%	-22%	-13%	-6%

Source: Ministry of Finance, Budget Execution Reports of Mongolia for 2017-2021

*Expenditure on goods and services, wages and salaries, etc. within the MoH portfolio fell in FY2021 due to health sector reform, under which funding for public hospitals was transferred from the MoH portfolio to the National Health Insurance Fund.

In Mongolia, costs of some health aid and services are covered by the government budget while some are financed by the National Health Insurance Fund, which is funded from health insurance premiums.⁵ The government covers costs for health aid and services including pregnancy, child birth, certain child health services provided by public health institutions, studies of infectious disease, mandatory vaccinations, social health programs, costs for services for pandemics infectious disease, tuberculosis, cancer, some treatment for mental illness, some medicines for long-term rehabilitation, emergency medical assistance, diagnosis of infectious disease, some forms of services provided by family health centers, health services at sub-province and town health centers. The National Health Insurance Fund covers costs for health aid and services such as inpatient care, doctor consultations, diagnosis, medical tests and treatments and outpatient care, discounts on the prescription medicines, outpatient cancer treatments and others.⁶ Those who are paid monthly from the state budget according to Clause 8.2.3 of the Law on National Health Insurance include insurance premiums for children aged 0-18, citizens without regular cash income other than pension, citizens in need of social welfare support and assistance, a mother or father who is raising a child up to the age of two (up to the age of three for twins) and regular military servicemen.

As noted in Table 1, the MoH current expenditure category, including spending on goods and services and wages and salaries, was reduced significantly in FY2021 due to a health sector reform introduced that year. Legislative amendments have changed the mode of the government's funding of health services. Prior to August 2020, funding for healthcare services was allocated directly via the public budget to service providers. This has however changed as health funding is now channeled through the National Health Insurance Fund. For this reason, hospitals are directly funded by the National Health Insurance Fund based on the claims of actual health services provided instead of receiving funds in advance from the MoH budget according to planned expenses by economic classification. The General Authority of National Health Insurance receives the transfer from the state budget as well as from contributions to the National Health Insurance Fund, and then transfers funds to hospitals based on an assessment of their health services. Budget spending, therefore, is reported as a decrease in salary expenses and an increase in government transfers.

5 Law on Health (2011), Clauses 4.1.4 and 24.6, at <https://legalinfo.mn/mn/detail/49>

6 Law on Health Insurance (2015), Clause 9.1, at <https://legalinfo.mn/mn/detail/10922>

In its 2022 report on Mongolia's budget execution, the National Audit Office argues that the transition from direct MoH funding of hospitals to funding from the National Health Insurance Fund based on actual spending has had several consequences. According to the National Audit Office, spending on health aid and services per person increased by 2 folds in 2021 compared to the previous year. This created an incentive for hospitals to focus on the number of customers they served instead of the quality of the health services they provided. Furthermore, pending payments by state-owned and locally-owned hospitals to organizations selling medicine and medical devices amounted to MNT 49 billion in 2021, increasing by 14 times compared to the previous year due to the fact that the hospitals did not receive all required funding from the National Health Insurance Fund.⁷

7 National Audit Office (2022). Audit Report on Mongolia's 2021 Budget Execution. (<https://audit.mn/?p=18264>).

Table 2: Budget Execution Trends in the Capital Expenditure Category of the Ministry of Health, 2017-2021 (MNT million)

	FY2017	FY2018	FY2019	FY2020	FY2021
TOTAL CAPITAL EXPENDITURE					
Approved Budget	85,646	119,771	104,238	119,952	188,035
Actual Spending	86,131	93,812	96,226	108,158	175,790
Deviation	485	(25,959)	(8,01)	(11,794)	(12,245)
Deviation (%)	1%	-22%	-8%	-10%	-7%
CONSTRUCTION					
Approved Budget	38,989	76,195	88,552	69,009	56,438
Actual Spending	40,457	60,045	81,405	58,347	53,034
Deviation	1,468	(16,150)	(7,147)	(10,662)	(3,404)
Deviation (%)	4%	-21%	-8%	-16%	-6%
REPAIRS					
Approved Budget	10,981	8,599	5,515	12,424	8,933
Actual Spending	10,945	8,272	5,363	12,126	8,488
Deviation	(36)	(326)	(153)	(299)	(445)
Deviation (%)	-0.3%	-4%	-3%	-2%	-5%
EQUIPMENT					
Approved Budget	28,140	34,977	10,171	38,519	122,663
Actual Spending	28,244	25,494	9,458	37,686	114,267
Deviation	104	(9,483)	(714)	(833)	(8,396)
Deviation (%)	0.4%	-27%	-7%	-2%	-7%

Source: Ministry of Finance, Budget Execution Reports of Mongolia for 2017-2021

Of all categories in the approved budget, the MoH capital budget has the most significant spending deviations. For instance, the total capital expenditure was underspent by 22 and 10 percent in 2018 and 2020, respectively. The highest capital underspending rate of 27 percent was recorded for the purchase of equipment in 2018. The deviation between the budget and execution for construction projects ranges from 4 percent in 2017 to 21 percent in 2018. The underspending rate for repair projects is lower, ranging from 0.3 percent to 5 percent.

According to the Report on Execution of Health Minister's Capital Spending for 2021, annual planned spending for 29 capital projects was not executed as planned.⁸ These include projects such as extension of building of health centers, repairs of hospital buildings and purchase of medical equipment. The public procurement portal shows several procurement cases were executed with significant delays.⁹ Out of these 29 projects, bid invitations for 17 projects were published in the second half of the year. This shows that the MoH needs to streamline its procurement practices to improve implementation of capital projects.

The Ministry of Finance's assessment of 2021 procurement execution derived from the government's public procurement online system reveals that the 2021 MoH procurement plan was amended 122 times.¹⁰ The MoF argues that the frequent changes to this procurement plan have had negative consequences, such as delays in organizing procurement and project implementation as well as failure to execute projects in a timely manner, which can mean further delays if these projects are not commenced during the country's warm season. According to an interview with a MoH official, multiple amendments were made to the ministry's procurement plan due to demand for medicines and medical supplies required during the Covid-19 pandemic.¹¹ This situation was compounded by the fact Mongolia lacked modern medical warehouse and storage facilities to preserve reserve medicines and medical supplies beyond three months during the pandemic. Reserves have since been expanded, with the Central Warehouse for Vaccines and Bio preparation expanding its capacity from storing vaccines for 600 thousand persons to 2-3 million doses of vaccines.¹²

8 <https://old.shilendans.gov.mn/org/20?form=4584491&year=2021&month=12&group=1&task=50>

9 Mongolia's public procurement portal, <https://www.tender.gov.mn>

10 Ministry of Finance. Introduction to Budget Execution Report of Mongolia for 2021 (https://mof.gov.mn/data_grid/total-budget).

11 Interview with staff from Finance and Insurance Division, Department of Finance and Economy. Conducted in June 2023.

12 <https://moh.gov.mn/news/5225>

Table 3: Ministry of Health Budget Execution Trends by Programs and Functions, 2017-2021 (MNT' billion)

	2017	2018	2019	2020	2021
Social Health					
Approved Budget	54	59	77	114	26
Actual Spending	53	59	77	112	24
Deviation	-0.9	-0.5	-1	-1	-1
Deviation (%)	-2%	-1%	-1%	-1%	-5%
Health Aid and Services					
Approved Budget	492	525	618	764	800
Actual Spending	487	519	610	707	798
Deviation	-5	-6	-8	-57	-3
Deviation (%)	-1%	-1%	-1%	-8%	-0.3%
Health Policy and Management					
Approved Budget	108	105	40	62	65
Actual Spending	104	90	136	168	239
Deviation	-4	-15	96	106	174
Deviation (%)	-4%	-14%	238%	173%	268%

Source: Ministry of Finance, Budget Execution Reports of Mongolia for 2017-2021

The MoH report on budget execution by programs and functions shows that the “health policy and management” category recorded higher deviations than the “social health” and “health aid and services” categories. While the ministry underspent funds allocated for health policy and management by 14 percent in 2018, for example, the deviation between planned and executed budgets for health aid and services in the same year was 1.1 percent. The social health category also recorded a relatively small deviation of 0.8 percent in 2018.

Impact of Budget Credibility Challenges on Sector Outcomes

Mongolia needs to ensure full disclosure of MoH performance reports. Its performance reports for 2018, 2019, and 2020 were disclosed in the annual budget execution report. However, the outcomes for 2017 and 2021 were not published either on the MoF's website or by the MoH in the Glass accounts portal.¹³

¹⁴ The reports contain numerical data, however they are published in PDF format, making them difficult to analyze and inconsistent with the open data standard. The Budget Law (Article 54.5.4) and Glass Accounts Law (Article 6.3.3) mandate that the government disclose program outcomes and measures in its budget execution report as well as to explain any discrepancies.¹⁵

In its annual performance target plans for ministries, the Mongolian government does not include information on budgets allocated for each target. Similarly, performance reports do not show actual spending on each target. For example, instead of disclosing spending for the target "reducing maternity mortality," government reports show lump sum spending by four broad programs—health aid and services, social health, health policy and management, and health insurance. This makes it impossible to link individual spending for each target with results.

Table 4: Select Ministry of Health Targets Not Achieved, 2018–2020

Indicator		FY2018	FY2019	FY2020
Scheduled immunization coverage rate	Target	99	99	99
	Outcome	98	99	96
Maternal mortality rate (per 100,000 live births)	Target	26	27	25
	Outcome	27	23	30
Rate of death due to cancer (per 10,000 population)	Target	12	11	11
	Outcome	14	14	13

Source: Ministry of Finance, Budget Execution Reports of Mongolia for 2018-2020¹⁶

¹³ Mongolian government discloses budget information through Glass Accounts portal (shilendans.gov.mn) which is run by the MOF. Information released prior to FY2023 is disclosed at old.shilendans.gov.mn, a previous version of the portal.

¹⁴ Although the MOH's target is disclosed, the outcome is not visible due to a table format error in the corresponding PDF file.

¹⁵ <https://legalinfo.mn/mn/detail/12254>

¹⁶ https://mof.gov.mn/data_grid/total-budget

As seen in annual performance reports, Mongolia did not achieve some health sector outcomes. For instance, the maternal mortality rate target set by the Government for FY2020 was 26, but the outcome was 30 (Table 4). The government also did not achieve its target for rate of death due to cancer. That target was set at 11 while the outcome was 13 for FY2020. Similarly, the scheduled immunization coverage rate target was approximately 99 and yielded only 96 in FY2020.

The MoH's Department of Monitoring, Analysis, Evaluation, and Internal Auditing does not evaluate causes of spending deviations against the approved budget nor how the delivery of promised key health services and programs are impacted. Reports on the consequences of deviations are not produced.¹⁷

Table 5: Mongolia's Performance on SDG 3, "Good Health and Well-Being"

Indicators	Value	Year	Rating
Incidence of tuberculosis (per 100,000 population)	437	2020	
Age-standardized death rate due to cardiovascular disease, cancer, diabetes, or chronic respiratory disease in adults aged 30–70 years (%)	35	2019	Major Challenges
Age-standardized death rate attributable to household air pollution and ambient air pollution (per 100,000 population)	156	2016	
Traffic deaths (per 100,000 population)	21	2019	
Life expectancy at birth (years)	68	2019	
Adolescent fertility rate (births per 1,000 females aged 15 to 19)	31	2019	Challenges
Subjective well-being (average ladder score, worst 0–10 best)	6	2021	Remain

Source: Sustainable Development Report 2022¹⁸

Unsurprisingly, Mongolia continues to face challenges in achieving SDG 3 on Good Health and Well-Being.¹⁹ Out of 14 indicators used for the assessment of progress on SDG 3, the 2022 SDR showed that "major challenges remain" for five indicators and "challenges remain" for two indicators (Table 5).²⁰ Mongolia faces major challenges in incidence of tuberculosis; death due to cardiovascular disease, cancer, diabetes, or chronic respiratory disease; death attributable to household air pollution and ambient air pollution; traffic deaths; and life expectancy at birth.

17 Finding from an interview with MOH staff member.

18 sdgindex.org

19 [Sustainable Development Report 2022 \(sdgindex.org\)](https://sustainabledevelopmentreport2022.sdgindex.org)

20 Ibid.

In addition to underspending the health budget by 5 percent, on average, between 2018 and 2020, Mongolia's health sector indicators fall below the world average. Health expenditure as a percentage of GDP, for example, stands at 4 percent, while the world average, as of 2019, is 10 percent.²¹ Out-of-pocket expenditure as a percentage of health expenditure for 2019 is 35 percent in Mongolia while the global average is 18 percent. Mongolia's average life expectancy at birth is 70 years while the global average is 73.

Budget Management Issues of Ministry of Health

The government's 2021 Financial Audit Report on MoH budget execution found the following compliance-related problems:

- Incomplete recording of revenue to cash flow report.
- Exclusion of asset from accounting record.
- Inaction to address recommendation given under previous state auditing.
- Not recording purchase of asset and equipment funded by a project to its account.
- Direct purchasing not organized in accordance with law.
- Late publishing of budget information required by Glass Accounts Law.
- Conclusion of contracts with 191 media companies under direct purchasing without conducting open bidding.²²

21 National Statistical Office (2022), 2021 National Statistical Bulletin, World Development Indicators.

22 Mongolian National Audit Office (2022). Financial Audit Report of 2021, Financial Statement and Budget Execution of Ministry of Health.

Conclusions and Recommendations

This brief examines the budget credibility and outcomes of Mongolia's health sector. It is found that Mongolia did not achieve some health sector outcomes and is making poor progress in achieving SDG 3 on "good health and well-being."

Based on the above findings, the Minister of Health should:

- Improve MoH's budget management and accounting practices according to audit recommendations, including proper recording of revenue to cash flow, recording of assets and timely disclosure of budget information.
- The MoH, National Health Insurance Fund and MOF should work to ensure prompt payment of claims submitted by healthcare providers.
- Comply with relevant legislation on public procurement to improve execution of infrastructural projects. Streamline procurement processes to limit bureaucratic delays which inhibit the initiation of capital projects.
- Deepen accountability by providing explanations for spending deviations against the approved budget and how the delivery of promised key health services and programs is impacted in the annual budget performance reports published by the MoF.
- Ensure that the MoH's Department of Monitoring, Analysis, Evaluation and Internal Auditing assesses causes of spending deviations against the approved budget and how the delivery of promised key health services and programs is impacted to improve the MoH's budget execution.

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