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Mongolia: Budget Credibility and the Sustainable Development Goals

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1. Overview

Mongolia is a landlocked country located between the Russian Federation and the Republic of China. It is an upper middle-income country with a population of 3.3 million. Mongolia has been working toward achieving the Sustainable Development Goals (SDGs) since 2016 when the country adopted its Sustainable Development Vision (SDV) 2030. The government has much to do to achieve the SDGs by 2030, however. In 2020, Mongolia's national poverty rate stood at 27.8 percent. Although this number is 0.6 percent lower than in 2018, it still means that some 900,000 of Mongolia's residents live in poverty. At the same time, overall income inequality has been deepening in the country, especially for the unemployed, who represented seven percent of the population in 2020, when the most recent figures were collected. Compounding Mongolia's income disparities are unequal access to quality education and healthcare services as well as the disproportionate impact of air pollution on less privileged communities. The situation is expected to worsen further due to the ongoing impact of the COVID pandemic in Mongolia, where the country's economic activities have slowed significantly and mineral exports to China have dropped due to the latter's stricter border measures.

With reduced government revenues, Mongolia is already struggling to make progress toward the SDGs. Reversing that trend will mean mobilizing financing and prioritizing spending that promotes inclusive growth and better services for the country's most vulnerable. More to the point,

accelerating progress toward the SDGs' 2030 milestones will take effective allocation of national resources and implementation through government budgets.

In Mongolia, however, as in other countries covered by this IBP series¹ on budget credibility, the government faces challenges in implementing its budget as planned. The issue is so crucial to sustainable development that the United Nations established an SDG indicator to measure it. Although indicator 16.6.1 gauges "primary government expenditures as a proportion of original approved budget, by sector (or by budget codes or similar)" the government of Mongolia is currently reporting only at the level of its aggregate central budget in its Voluntary National Review Report 2019 on Implementation of SDGs (VNR), leaving out key sector-level information and budget codes listed in the indicator's description.² Although credible budgets at the sectoral level are essential to achieving the SDGs, Mongolia lacks data on budget credibility by sector, hindering the government's ability to assess progress toward the SDGs. Engaging on indicator 16.6.1 can create opportunities for civil society and international development actors to expand the dialogue around SDGs to include issues of budgets and public finance.

Budget credibility is a challenge in Mongolia, where the government tends to spend less than the budget approved at the start of the year, which is also known as underspending. Based on 2018 and

We are grateful to Claire O'Donnell and Sally Torbert, IBP for constructive comments and suggestions on the earlier version of the article, which improved its quality. All remaining errors are ours.

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

² See the detailed explanation for the methodology of Indicator 16.6.1 on the United Nations Global SDG Database (<https://unstats.un.org/sdgs/metadata/files/Metadata-16-06-01.pdf>)

2020 data on approved expenditure allocations compared to actual year-end expenditures, it is clear that the Mongolian government did not achieve its expenditure targets for these years (in 2020, for example, the government missed those targets by eight percent).³ Yet budget credibility issues at the sectoral level are not part of public discussions in the country. While the issue of budget credibility comes up in state audit reports, only a few news outlets report on the differences between planned and actual expenditures shown in those reports.

According to its supreme audit institution, the Mongolian National Audit Office (MNAO), Mongolia has evaluated neither the implementation nor the impact of its Sustainable Development Vision 2030 (SDV).⁴ The MNAO also finds that Mongolia has achieved only 10.2 percent of the targets it set in Stage 1 (2016-2020) of the SDV. Few news outlets have reported the findings of the state audit, which assesses implementation of the country's development policy and planning documents.⁵ Instead, a small selection of news articles, along with public discussions on social media, focus more broadly on progress against the SDGs.

This brief provides an overview of the current status of Mongolia's SDG implementation, by examining budget credibility trends for government expenditures in general as well as in seven sectors connected to key SDG targets: agriculture and food; education; environment; gender equality; health; social protection; and water and sanitation. The brief then connects these trends back to country-level progress in achieving the related SDG goals.

Present research shows that, similar to Mongolia's national budget credibility challenges, the gap between budget allocation and implementation at

the sectoral level remains high. Across the seven SDG-related sectors, which correspond to 10 of the 17 UN goals, year-end actual expenditures fell short of approved expenditure allocations for the three most recently reported fiscal years (2018, 2019, and 2020). All told, Mongolia faces significant challenges in achieving its targets in six of the seven SDG-related sectors, with only SDG 4, "quality education," having been achieved, according to the 2021 SDG Index.⁶ Despite this achievement, the education sector has faced significant setbacks in recent years, due mainly to COVID restrictions and inadequate funding to address them.

Mongolia's lagging progress toward achieving the SDGs is at least somewhat connected to budget deviations at the sectoral level. It is no accident, for example, that underspending in all seven SDG-related sectors has yielded significant challenges in six of them (with the education sector being the sole exception).

This brief therefore recommends that the Mongolian government improve its budget credibility by introducing SDG- and gender-sensitive budgeting, the latter being key to accelerating progress on gender equality goals. The brief also urges the government to investigate the drivers of budget credibility challenges and seek public input into how to resolve those challenges. As part of its audits, the MNAO also needs to closely examine any shift in funds between administrative units, current-year budget implementation, and the drivers and consequences of underspending. Finally, the government is recommended to report on causes of underspending and explain decisions made in budget reallocations.

3 Ministry of Finance of Mongolia (2019-2021). Budget Execution Reports of Mongolia for FY2018-2020

4 National Audit Office of Mongolia (2022). Report of State Auditing of Implementation of Mongolia's Development Policy and Planning Documents (<https://audit.mn/?p=15740>)

5 For example, <https://ikon.mn/n/2fds>

6 The Joint Sustainable Development Goals Fund database (2021) (<https://jointsgdfund.org/where-we-work/mongolia>)

2. Government Priorities and the SDGs

As a sign of its commitment to achieving the SDGs, Mongolia adopted the SDV 2030 in 2016. The country established the National Council for Sustainable Development, led by the Prime Minister, and a Parliamentary Sub-Committee on SDGs. The National Development Agency, which provided technical support on localizing the sustainable development agenda, was replaced by the Ministry of Economy and Development in 2022.

The country issued its VNR on implementation of the SDGs in 2019.⁷ The review showed that, despite early adoption of the SDG agenda and government efforts to localize the UN goals to the Mongolian context – prioritizing and mainstreaming them into short- and medium-term policies and corresponding budgets – the government struggled to develop an Integrated Financing Strategy on resource mobilization for SDV 2030 and SDG implementation, mainly due to a lack of coherence between medium-term planning and budgeting of sectorial ministries.

Mongolia's Law on Development Policy, Planning and its Management was revised in May 2020. In line with this revision, Mongolia adopted Vision 2050 as a new long-term, strategic policy document, replacing the SDV 2030. With the adoption of the Vision 2050, the Five-Year

Development Guidelines for 2021–2025, the Government Action Programme for 2020-2024 and its implementation plan were approved as well. The SDG principles and approaches are broadly reflected in these newly approved three national development plans and policies; however, the level of alignment of the SDG indicators is not sufficient, according to the United Nations Development Programme (UNDP), which cites Mongolia's mapping of the SDGs against the country's National Development Plans and Policies (of 2021).⁸ The mapping exercise found that 80 percent of SDG targets are covered by the three national development strategies. There are gaps in several SDG targets, such as SDG 8.8 (labour rights and safe working environment), SDG 10.c (remittance costs), SDG 12.1 (programmes on sustainable consumption and production), SDG 17.18 (national statistical availability), and SDG 17.19 (statistical capacity and leadership). The study recommends that the government reflect the missing targets in its mid-term development programmes.

International financing and donor

⁷ Government of Mongolia (2019). Voluntary National Review Report 2019 on Implementation of SDGs (https://sustainabledevelopment.un.org/content/documents/23342MONGOLIA_VOLUNTARY_NATIONAL_REVIEW_REPORT_2019.pdf)

⁸ UNDP (2021). Mongolia's mapping of the SDGs against Mongolia's National Development Plans and Policies. p9. (<https://www.mn.undp.org/content/mongolia/en/home/library/mapping-the-sdgs-against-mongolia-s-national-development-plans-a.html>)

support to the government for its SDG efforts

There are several good reasons for incorporating the SDGs into the budget process: doing so can improve policy coherence (helping to ensure that one budget decision does not have a negative effect on another), increase accountability (if the SDGs are used as a monitoring tool), and make national budgets comparable across countries, helping to track progress on the SDGs overall (Inter-Parliamentary Union, 2021).⁹ The Mongolian government has received support from donors for its efforts to achieve the SDGs. For instance, UN agencies have been supporting the Mongolian government as it seeks to introduce SDG budgeting.¹⁰ This support has included the UNDP project, “Supporting the implementation of the 2030 agenda in Mongolia,” which began in 2018. The project is piloting its approach at the Ministry of Finance and the Ministry of Health. As a result of these pilots, Mongolia aims to roll-out guidelines on preparing SDG-informed budgeting and to institutionalize these guidelines in its budget formulation processes.

The country also received financing from the UNDP and United Nations Children’s Fund (UNICEF) for a SDG Finance Program that was to be implemented between July 2020 and July 2022, as reported by the Joint Sustainable Development Goals Fund.¹¹ SDG Finance - Component 1 (Rolling Out an Integrated Approach to the SDG Financing in Mongolia) has \$916,954 allocated in funding, which will be used to improve the alignment of

financial resources with the national development policies and planning system.

The strategy for the joint UNDP and UNICEF program is to build a new financing architecture for Mongolia to finance the SDV through i) strengthening the governance structure, monitoring, and review systems of financing SDGs; ii) formulating an integrated national financial strategy; and iii) building capacity of key stakeholders to implement SDG financing strategies, incorporating international best practices and innovative solutions. The program focuses on strategies and budget activities with specific target beneficiaries, all while centering a “leave no one behind” principle that prioritizes support to social sector ministries working with women, youth, and children.

On social protection, another UN joint Program implemented between 2020 to 2022 by the International Labour Organization (ILO), Food and Agriculture Organization of the United Nations (FAO), United Nations Population Fund (UNFPA), and UNICEF and known as “Extending Social Protection to Herders with Enhanced Shock Responsiveness,” aims to address vulnerability to poverty (SDG 1) and climate change (SDG 13) among Mongolia’s herders and their children. Total funding allocated for this social protection program is \$2,365,000.

To implement the country’s development policy priorities and to finance the budget deficit, Mongolia has previously relied on foreign assistance, but that official development

⁹ Inter-Parliamentary Union (2021). Guidelines for parliamentarians on budgeting for the SDGs: Making the most of public resources (<https://www.ipu.org/file/12836/download>)

¹⁰ UNDP, “Supporting the implementation of the 2030 agenda in Mongolia” project brochure (https://www.mn.undp.org/content/dam/mongolia/Publications/SDG_nub_brochure.pdf)

¹¹ The Joint Sustainable Development Goals Fund database (2021) at <https://jointsdgdffund.org/where-we-work/mongolia>

assistance (ODA) has decreased over the last 10 years according to Mongolia's VNR. The report also claims that "ODA disbursement by sectors shows that during 2011-2015, 50 percent of total ODA was spent on infrastructure sectors (roads, urban development, energy, and communications) while 25 percent was invested in human development. Of the total ODA, 12 percent was spent on production (agriculture, mining, industry, and trade), eight percent on governance and economic reform, and two percent on the environment."

Discussion about government budgets in the VNR

As stated in its VNR, Mongolia needs to mainstream SDGs in policy planning and budget allocations. Mongolia's VNR identifies a gap between policy planning and budgeting, arguing that a financing strategy is overdue for the long-term policy adopted three years ago: "Mongolia needs to include not only the estimated financing needs, but also allocations aligned with policy priorities, sources of funding from public and private stakeholders, and resource mobilization strategies." The report also discusses the disparities between economic growth and adequate social investment, stating that, "even during the years of high economic growth, budgetary allocations for the health and education sectors (as a share in GDP in %) have not increased sufficiently."

The VNR further states that revenue from natural resource use is not properly spent on environmental protection and rehabilitation. It also recommends better alignment between

financing and long-term development policy goals as well as improving the efficiency of spending and monitoring. The VNR reveals the duplication of functions at the National Development Agency and the Ministry of Finance as well as weak regulatory mechanisms, which should ensure consistency between planning and budgeting processes. The report argues that there are opportunities for increasing ODA and tapping into other funding sources by identifying and implementing a sound financing strategy. It also finds that the implementation of SDG 16.6.1 (primary government expenditures as a proportion of original approved budget, by sector) stands at 95 percent for the period 2015 to 2017.¹² There is no discussion about budget execution rates in different sectors, however, or how budget implementation could affect efforts to achieve other SDGs.

¹²SDG Goal 16. Promote Peaceful and Inclusive Societies for Sustainable Development, Provide Access to Justice for All and Build Effective, Accountable and Inclusive Institutions at All Levels.

3. Background on Budget Credibility in Mongolia

The rules and regulations around budget credibility and shift of money between administrative units

Mongolia's Budget Law requires ensuring the following principles in the budget planning, approval, implementation and reporting processes: (i) fiscal stability, (ii) comprehensiveness and accuracy of the budget, (iii) efficient financial and budget management, (iv) fiscal transparency, and (v) accountability.¹³ This means that much of the legal framework about budget revisions focuses on fiscal stability, rather than provisions that require the government to implement the budget according to the budget law approved by Parliament. The Parliament and self-governing body of the local government may make changes to the Government's Budget Proposal, but only without affecting proposed total budget expenditure.

The Budget Law does not require the Government to obtain approval from the legislature prior to shifting funds between administrative units within the portfolio of general budget governors (who are mainly ministers). In practice, the Government shifts funds between administrative units without obtaining approval from the legislature as allowed by Article 42

of the Law. Thus, for example, funds can be shifted between the Tax Office and Customs Office, as the budgets of these units come under the Minister of Finance. Further, Mongolia's Enacted Budget does not disclose revenues and expenditures by either a comprehensive economic classification or functional classification. Instead, it discloses revenues and expenditures by only broad administrative classification. For instance, for FY2022, revenues are disclosed by only 20 general budget governors, while expenditures are disclosed by 35 general budget governors.¹⁴

The Budget Law (Article 42.1) requires a budget amendment by Parliament when shifting funds between general budget governors. However, since the outbreak of the COVID pandemic in 2020, the Mongolian government has been allowed to shift funds even between general budget governors and between capital and current expenditures within the enacted annual total expenditure limit without prior approval by the legislature. The Law on Prevention, Control, and Abatement of Negative Social and Economic Impact of COVID-19 Pandemic, adopted on April 29, 2020, permits this shift.¹⁵ Therefore, the budget oversight by the legislature has been very limited since 2020. The law was valid until December 31, 2022.

¹³ <https://www.legalinfo.mn/law/details/12254>

¹⁴ <https://old.legalinfo.mn/law/details/17035?lawid=17035>

¹⁵ <https://old.legalinfo.mn/law/details/15312v>

Overall trend in budget credibility

Analysis of data on approved expenditure allocations as compared to actual expenditures at the end of the year for the three most recent fiscal years (2018, 2019, and 2020) show that Mongolia's government did not achieve expenditure targets during the fiscal year (Table 1).¹⁶ The country's consolidated budget consists of Central Government Budget, Local Budget, Health Insurance Fund, and Social Insurance Fund. Across the board, the country tends to underspend. For the consolidated budget, deviations for approved expenditure allocations as compared to actual expenditures are -7.2 percent for FY2018, -3.7 percent for FY2019 and -8.1 percent for FY2020, respectively.

Budget discrepancy rose during the COVID outbreak in 2020. For the Central Government Budget, deviations for approved expenditure allocations as compared to actual expenditures are -6.9% for FY2018, -1.2% for FY2019, and -7.9% for FY2020. For local budget, deviations for approved expenditure allocations as compared to actual expenditures are larger (-5.9% for FY2018, -9.3% for FY2019 and -15.1% for FY2020). The largest discrepancy (-15.1%) occurred during the COVID outbreak in 2020. The Health Insurance Fund tends to have larger underspending, with deviations recorded at -8.7% for FY2018, -13.9% for FY2019, and -13.8% for FY2020. Deviations for approved expenditure allocations as compared to actual expenditures are lowest (0.4% for FY2018, -0.3% for FY2019 and -1.7% for FY2020) for the Social Insurance Fund.

Table 1. Budget credibility in Mongolia: Total expenditure and net borrowing, 2018-2020

	Expenditures (MNT billion)											
	Approved Budget			Actual Spending			Deviation			Deviation (%)		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Central Govt Budget	7,711	9,407	11,653	7,182	9,295	10,736	-529	-112	-918	-6.9%	-1.2%	-7.9%
Local Budget	2,935	3,229	3,718	2,763	2,928	3,157	-173	-301	-561	-5.9%	-9.3%	-15.1%
Health Insurance Fund	341	408	495	312	351	426	-30	-57	-68	-8.7%	-13.9%	-13.8%
Social Insurance Fund	1,808	2,069	2,494	1,815	2,062	2,452	6	-6	-42	0.4%	-0.3%	-1.7%
Total Budget	10,035	12,107	15,137	9,317	11,662	13,904	-718	-445	-1,233	-7.2%	-3.7%	-8.1%

Source: MOF (2019-2021). Budget Execution Reports of Mongolia for FY2018-2020

¹⁶ Mongolia's 2018 and 2019 budgets were not revised. We use revised budget for 2020.

4. Sectoral Progress toward the 10 SDG Targets

Data sources and process for classifying the budget according to the seven SDG-related sectors

Since Mongolia prepares its budget by functional classification only at the total government level, for the three years covered by this brief, data is drawn from ministry-level spending (planned and actuals, by functional classification) for total government (which includes both central and local governments), as presented in Mongolia's Budgetary Year-end Reports for 2018 to 2020.^{17,18}

To compare budget credibility trends in the seven sectors with progress on achieving SDG targets, we use the most recent results from the SDG Index of the 2021 Sustainable Development Report, a global assessment of countries' progress towards achieving the SDGs.¹⁹ This index shows country progress against the SDGs as performance categories and trends, with additional data showing outcomes on specific indicators related to each goal.²⁰

Education and Social Protection

The numbers show that Mongolia's education and social protection sectors have the highest share of spending in the budget (13.1 percent), as illustrated in Table 2. The Sustainable Development Report (SDR) shows that Mongolia's education sector is performing well.²¹ In the index, the sector's performance is assessed as "SDG achieved" while its trend is assessed as "on track or maintaining SDG achievement."

Yet, there are still challenges in Mongolia's education sector, with setbacks tracing back to the COVID outbreak. Budget deviation of the education sector is -11.8 percent. In fact, on some education indicators, Mongolia is performing lower compared to the world and to East Asia and Pacific countries. For instance, Mongolia's government expenditure on education as a share of GDP stands at 4.1 percent (as of 2019) while this indicator for the world is 4.5 percent.²² The country's Government expenditure on education

17 Ministry of Finance (2019-2021). Mongolia's Budgetary Year-end Reports for 2018, 2019 and 2021 (https://mof.gov.mn/files/uploads/BUD_2018_ACTUAL-LAST.pdf, https://mof.gov.mn/files/uploads/BUD_2019_ACTUAL-LAST.pdf, https://mof.gov.mn/files/uploads/_2020.pdf)

18 Note on calculation: (i) For sector 'Agriculture and Food', the estimation was done by excluding Programs 'Light industry development' and 'Support SMEs' from total expenditure of Minister for Food, Agriculture & Light Industry); (ii) For sector 'Education' the estimation was done by excluding Programs 'Sports' and 'Culture' from total expenditure of Minister for Education, Culture, Science & Sports); (iii) For sector 'Environment' the estimation was done by excluding a Program 'Tourism' from total expenditure of Minister for Environment & Tourism; Note on calculation: (iv) For sector 'Social Protection' the estimation was done by excluding Programs 'Vocational education', 'Labour Policy & Management' and 'Support for Labour' from total expenditure of Minister for Labour & Social Protection); (v) For sector 'Water and Sanitation' the estimation was done by adding spending by Minister for Construction & Urban Development to spending on Programs 'Hydro meteorological and environmental analysis' and 'Water resources, lakes and rivers management' under the portfolio of Minister for Environment & Tourism.

19 The 2021 Sustainable Development Report, related dashboards and data, are available at: <https://dashboards.sdgindex.org/>

20 Country-level scores and trends can be viewed on the "Country Profiles" section of the Sustainable Development Report website (<https://dashboards.sdgindex.org/profiles>)

21 The Sustainable Development Report at <https://dashboards.sdgindex.org/profiles/mongolia>

22 National Statistical Office (2021), 2020 National Statistical Bulletin, World development indicators.

as a share of total government expenditure is 12.6 percent (as of 2019) while this indicator for the world is 14.3 percent. Mongolia's pupil-to-teacher ratio stands at 30 (as of 2018) while the indicator is 23 for the world and 18 for East Asia and Pacific countries. Some schools in the Mongolia's capital city reportedly have more than 50 pupils per class.

The education sector was severely affected by the COVID pandemic. The government closed all educational institutions, including kindergartens, schools, and universities for over a year, from January 2020 until August 2021. During this closure, students had to learn remotely (through online learning or televised classes). This caused varying student performance because access to technology was a challenge for many in the country, as nearly a third of the population lives below the poverty line. Televised classes were limited in number, and online learning was

restricted to those with internet access. Although some urban poor and remote herding communities lacked even televisions, public-school students relied mostly on televised lectures while private schools had online classes and used various educational applications. Many parents claim that nearly two years of education were lost to pupils, especially to those in public schools.

Despite accounting for one of the highest shares of spending in the budget (13.1 percent), the social protection sector also faces challenges. This sector relates to SDG 1: No Poverty and SDG 10: Reduced Inequalities. On SDG 10, the Sustainable Development Index shows that "significant challenges remain" for Mongolia to reach its targets while "challenges remain" on SDG 1, which is otherwise "on track or maintaining SDG achievement." Budget deviation for the social protection sector is -4.5 percent.

Table 2. Mongolia's SDG Progress as compared to Budget Credibility Performance (2018-2020)

Sector	Related SDG Goal(s)	SDG Index Performance	SDG Index Trend	Share of Total Spending (Average)	Budget Deviation (Average)
Agriculture and Food	Goal 2: Zero Hunger	Major challenges remain	Stagnating	1.6%	-0.8%
Education	Goal 4: Quality Education	SDG achieved	On track or maintaining SDG achievement	13.1%	-11.8%
Environment	Goal 13: Climate Action	Major challenges remain	Stagnating	1.0%	-9.5%
	Goal 14: Life Below Water	Information unavailable	Trend information unavailable		
	Goal 15: Life on Land	Major challenges remain	Stagnating		
Gender	Goal 5: Gender Equality	Significant challenges remain	Moderately improving	0.003%	-4.9%
Health	Goal 3: Good Health and Wellbeing	Major challenges remain	Moderately improving	7.3%	-4.9%
Social Protection	Goal 1: No Poverty	Challenges remain	On track or maintaining SDG achievement	13.1%	-4.5%
	Goal 10: Reduced Inequalities	Significant challenges remain	Trend information unavailable		
Water and Sanitation	Goal 6: Clean Water and Sanitation	Major challenges remain	Moderately improving	0.7%	-5.7%

Source: The Sustainable Development Report at <https://dashboards.sdgindex.org/profiles/mongolia> and calculations based on Mongolia's year-end budgetary reports.

Health

Mongolia's health sector accounts for the third largest share of spending in the budget (7.3 percent), yet the SDR shows that the sector needs attention. The report's index shows that "major challenges remain" in the country's progress toward SDG 3: Good Health and Wellbeing while the SDG index trend shows that the Goal is "moderately improving." Budget deviation for the health sector is -4.9 percent. Mongolia's health expenditure, as a percentage of GDP, stands at 3.8 percent, while the world average is 9.8 percent (as of 2018). Out-of-pocket expenditure, as percentage of health expenditure, is 32.4 percent for Mongolia and 18.1 percent for the world, according to the National Statistical Office (NSO).

Agriculture and Food

The agriculture and food sector accounts for the fourth largest share of spending in the budget (1.6 percent) and has the lowest budget deviation (-0.8 percent) among the seven sectors under consideration. Nevertheless, this sector also needs greater attention. In terms of SDG index performance, the SDR shows that "major challenges remain" for the corresponding SDG goal (Goal 2: Zero Hunger) while the index trend rates the goal as "stagnating." Considering Mongolia's high reliance on imports to meet its food needs, the country is particularly vulnerable to external shocks.²³

Environment

The environment sector accounts for one percent of spending in the budget, and its budget deviation is -9.5 percent. The Sustainable Development index shows that "major challenges remain" on the corresponding SDG goals (Goal 13: Climate Action and Goal 15: Life on Land). The SDG index assesses the trend for both goals as "stagnating." Air pollution has become a serious problem in the capital city, negatively affecting people's health. "About 840,000 people live in Ulaanbaatar's ger areas, unplanned neighborhoods where brick houses or traditional Mongolian tents perch on small family plots allotted by the government".²⁴ As people living in ger areas do not have access to a modern sewage system, soil pollution is a serious problem too. Residents of these areas also burn hard fuel produced from coal for heating during cold seasons. This also contributes to the high levels of air pollution, making Ulaanbaatar one of the most polluted cities in the world.²⁵ The situation is undermining the right of Mongolians to live in a healthy and safe environment, as stated in the country's Constitution.

Water and Sanitation

The water and sanitation sector represents 0.7 percent of budget spending, and its deviation is -5.7 percent. The SDR, in its index performance section, states that "major challenges remain" for the corresponding SDG goal (Goal 6: Clean Water and Sanitation). At the same time, the report's index trend rates the goal as "moderately improving." According to NSO (2022), 75.6 percent

²³ The Government of Mongolia, UN Mongolia, UN Food Systems Summit 2021 and FAO (2021). Towards Sustainable Food Systems in Mongolia (https://summitdialogues.org/wp-content/uploads/2021/09/ENG_sustainablefoodsystems_Mongolia_FSD_Pathway-document.pdf)

²⁴ Asian Development Bank (December 2020). Building affordable, green houses in Mongolia's ger districts (<https://www.adb.org/node/665896/print-25-able/pdf>)

²⁵ <https://www.unicef.org/mongolia/environment-air-pollution>

of Mongolia's urban population is using at least basic sanitation services (as of 2020) while this indicator is 86.9 percent for the world and 94.1 percent for East Asia and Pacific countries. Among Mongolia's rural populations, only 50.6 percent use at least basic sanitation services, a figure that is much lower than the worldwide average of 65.8 percent or the average in East Asia and Pacific countries, which stands at 84.5 percent.

Gender

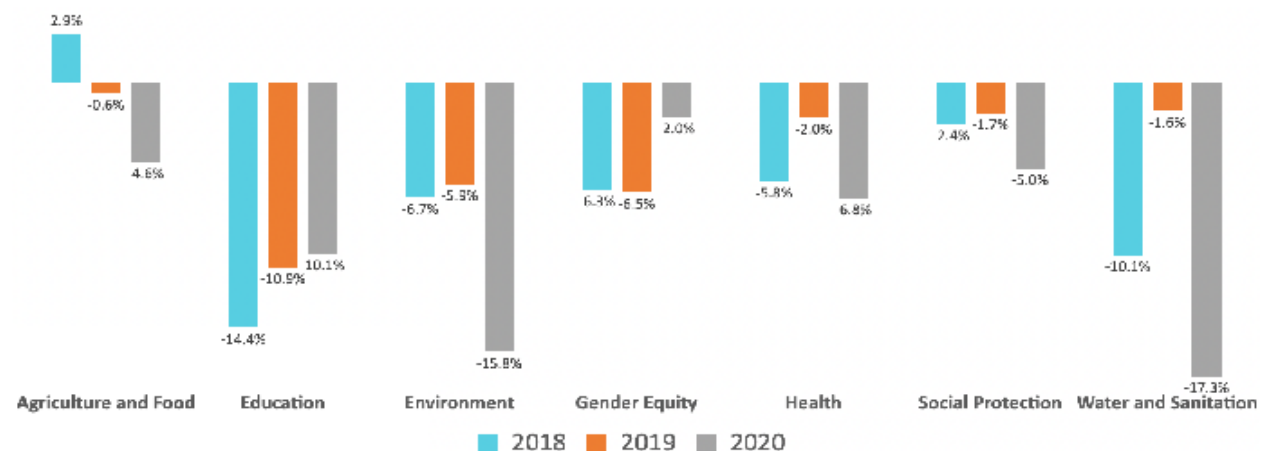
Mongolia does not execute gender-sensitive budgeting, and budget documents do not show expenditure classified by gender. At the same time, domestic violence against women is a serious problem in the country. "Among ever-partnered women, 57.9% have experienced one or more of the following types of violence in their lifetime: physical, sexual, emotional and economic violence, and controlling behaviours."²⁶ This brief uses assistance and support to victims of violence, an expenditure line under the Minister for Labour

and Social Protection, as a proxy for expenditure on gender. Assistance and support to victims of violence account for 0.003 percent of spending while deviation for this portion of the budget is -4.9 percent. The SDR, in its index performance section, states that "significant challenges remain" for the corresponding SDG goal (Goal 5: Gender Equality) while the report's index trend rates progress toward the goal as "moderately improving."

Overall

In most of the above SDG-related sectors, the Mongolian government tended to underspend more in 2020 (at the outset of the COVID pandemic). For instance, the largest budget deviations were recorded in 2020 in water and sanitation (-17.3 percent), environment (-15.8 percent), health (-6.8 percent), social protection (-5 percent) and agriculture and food (-4.6 percent) compared to the previous two years (Graph 1).²⁷

Graph 1. Trends in budget credibility of Mongolia, by sector, 2018-2020



Source: Calculation based on figures obtained from Budget Execution Reports of MOF.

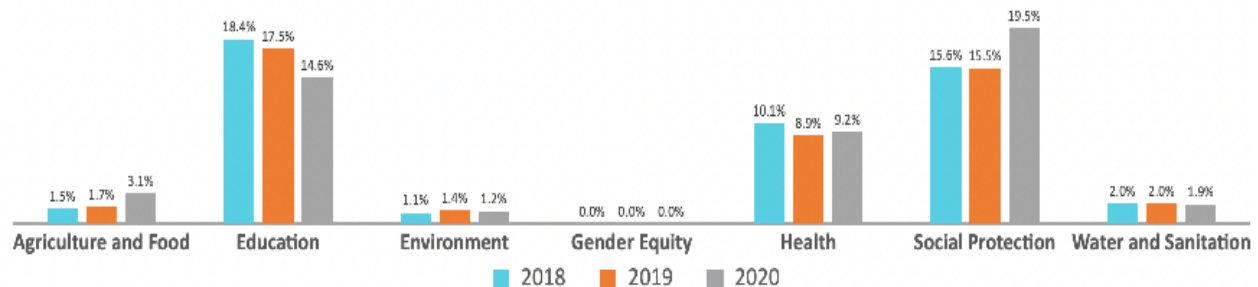
²⁶National Statistics Office and the UN Population Fund (2018). 2017 National Study on Gender-based Violence in Mongolia (https://asiapacific.unfpa.org/sites/default/files/pub-pdf/2017%20National%20Study%20on%20Gender-based%20Violence%20in%20Mongolia_0.pdf)

²⁷For details, refer to Annex.

As Graph 2 illustrates, the share of sectoral spending in Mongolia's Central Government Budget varied significantly between 2018 and 2020. The share of spending on the social protection and agriculture and food sectors saw a larger increase than on the health sector. As illustrated in Graph 2, social protection spending rose by around four percent (from 15.5 percent in 2019 to 19.5 percent in 2020). This rise occurred mainly due to an increase in social allowances, including a boost in the monthly child allowance from MNT20,000 to MNT100,000. Measures like these aimed to reduce the COVID pandemic's negative impact on household income. By contrast, the share of spending on the agriculture and food sector increased by 1.4 percent (from 1.7 percent in 2019 to 3.1 percent in 2020) while the share of spending on health increased by only 0.3 percent (from 8.9 percent in 2019 to 9.2 percent in 2020).

The largest decline in spending, measured as a percentage of the total central budget, occurred in the education sector. In fact, the share of spending on education dropped by 2.9 percent (from 17.5 percent in 2019 to 14.6 percent in 2020). This decline is due in large part to pandemic-mandated school closures during 2020. Although the share of spending on environment and water and sanitation also declined in 2020, that reduction was relatively minimal (0.1 percent for the former and 0.2 percent for the latter).

Graph 2. Trends in the share of spending on sectors in Central Government Budget of Mongolia, 2018-2020



Source: Calculation based on figures obtained from Budget Execution Reports of MOF.

Key Takeaways

Mongolia's slow progress toward achieving the SDGs is closely tied to deviations in sector-related budgets. Between 2018 and 2020, Mongolia underspent on all seven SDG-related sectors, making significant progress in only one sector, education, as shown in the Sustainable Development Report. The remaining six sectors faced significant challenges, as summarized below:

- Despite accounting for one of the highest shares of spending in the budget, the social protection sector struggled to reduce inequalities and poverty and registered a budget deviation of -4.5 percent.
- The health sector, which accounts for the third largest share of spending in the budget, showed a similar budget deviation of -4.9 percent.
- Budget deviation for the environment sector, with one percent of the budget, was -9.5 percent, leaving "major challenges" on climate action (SDG Goal 13) and "life on land" (SDG Goal 15).
- The water and sanitation sector represented 0.7 percent of budget spending. With a budget deviation of -5.7 percent, "major challenges remain" for the sector as it seeks to contribute to SDG Goal 6 on clean water and sanitation.
- With 1.6 percent of the budget, the agriculture and food sector showed a budget deviation of -0.8 percent, leaving "major challenges" in the quest for SDG Goal 2 on "zero hunger".
- With just 0.003 percent of the central budget providing assistance and support to victims of violence, that program's budget deviation is -4.9 percent, and "significant challenges remain" to achieving SDG Goal 5 on gender equality.

Despite a large budget deviation of more than -10 percent, the education sector earned an "SDG achieved" designation in the Sustainable Development Report. Although the sector boasts the highest share of spending in the central budget, it continues to struggle with moving from "access to education" to "access to quality education." This challenge will require a corresponding reduction in the sector's budget deviation.

5. The Pandemic's Impact

To mitigate the health and economic impacts of COVID, Mongolia introduced two packages in 2020. The country introduced the first package through Government Decree No.114 on March 27, 2020. This package, which aimed to “stimulate the economy in light of declaring the state of high alert preparedness,” was introduced as an emergency measure. The package included social security tax relief (with the exception of health insurance) for all employees and employers, except for public servants and government entities; corporate income tax relief for smaller businesses; personal income tax relief for employees, except for public servants; a reduction in the rent income tax; a waiver of penalties for social security tax and income tax delinquencies; an exemption from import duties and value-added tax (VAT) on selected imported foodstuff and COVID-related medical supplies; increased unemployment benefits; increased monthly child allowance, which is universal for eligible children to receive MNT 20,000 (≈USD 7) a month, and gasoline price stabilization measures.

In addition, a priority list of public outlays was approved, along with the list of cuts to certain types of expenditure. Most of the measures were valid until September 30, 2020. The government package was estimated to be MNT 5.1 trillion (approximately \$1.8 billion) at the time of its passage. The government package was shortly thereafter backed by a parliamentary resolution and passage of related laws. On August 5, 2020,

the government announced the extension and amendment of some measures until the end of 2020. On August 28, 2020, the parliament passed a budgetary amendment that incorporated the budgetary outlays specified in the emergency decree. Also on August 28, 2020, the parliament passed amendments to the relevant laws to extend or modify some of the measures (e.g. full exemption from social security taxes was replaced by reduced taxes, full corporate income tax relief was extended, and reductions in rent income taxes were extended until the end of 2020). On December 25 and 31 of 2020, the parliament passed two laws extending the waiver of penalties for social security tax and income tax delinquencies until July 1, 2021.

The second package, which aimed to “stimulate the economy and social safety measures to support the livelihood of citizens during the COVID-19 pandemic,” was introduced by Government decree on May 6, 2020. The package included a further increase in the monthly child allowance; a doubling in the amount of food stamp allowance; an increase in social welfare pensions for the elderly, disabled, and other vulnerable groups; and cashmere subsidies to herder families. All these measures initially were valid until September 30, 2020. The government package was estimated to be MNT 793 billion (approximately \$280 million). On August 28, 2020, the parliament passed a budgetary amendment that incorporated the outlays specified in the second emergency

decree. On September 30, 2020, the government extended these measures (with the exception of cashmere subsidies) until the end of 2020 by amending the initial government decree.

Given the above amendments, it is not surprising that Mongolia also saw changes in budget credibility patterns during 2020. Across the seven SDG-related sectors, the government tended to underspend during the pandemic. For instance, the largest budget deviations in 2020 were recorded in water and sanitation (-17.3 percent), environment (-15.8 percent), health (-6.8 percent), social protection (-5 percent) and agriculture and food (-4.6 percent) when compared to the previous two years.

Each sector's share of the Central Government Budget also changed compared to the previous year. The social protection and agriculture and food sectors saw significant increases while the health sector also saw a slight increase. As a share of total spending, social protection rose by around 2.7 percent, mainly due to the government's emergency packages to mitigate the effects of the pandemic through, among other measures, the increase in monthly child allowance and more sizable unemployment benefits described above. The share of spending on the agriculture and food sector increased by one percent while the share of spending on health increased by only 0.04 percent.

Conversely, the largest decline in spending as a share of the central budget occurred in the education sector. That share dropped by 2.7 percent and was largely connected to pandemic-related school closures during 2020. Also declining, though less significantly, was the share of the budget spent on environment and water and sanitation (by 0.2 percent and 0.1 percent respectively).

Beyond its impact on major sectors like education and social protection, the pandemic continues to affect Mongolia's overall financial standing, with government debt having increased rapidly. Since the onset of the pandemic, Mongolia's budget deficit has reached 9.4 percent of GDP, and the country's budget revenue declined due to weaker economic performance and mineral exports. These changes will negatively impact Mongolia's future efforts to achieve the SDGs.

6. Gender Spending

Mongolia's 2019 VNR states that the policy and legal framework for ensuring gender equality is adequate, but implementation remains weak largely due to a lack of gender sensitivity in policies and programs as well as the poor availability and use of gender-related data. It also recommends the country to include gender as part of its sustainable development audit to improve accountability.

The country needs to further mainstream gender issues in the policy planning and budget allocation processes. Spending on gender is not specifically categorized in the country's budget. The government shows only aggregate spending related to a few specific women's programs in the Government's budget proposals and year-end budget execution reports. For instance, the 2020 Year-End Budget Execution Report includes budget spending on only one project for fighting domestic violence against children and women. These documents do not show how spending across the budget impacts gender equality either.

Although women's participation in Mongolia's economic, social, and political life has improved, only 17 percent of elected parliamentarians are female (2020 National Statistical Bulletin). The share of women in the citizen's representative khural is 17.8 percent in the capital city, 29.9 percent in districts, and 15.8 percent in provinces. Despite having high levels of education, women's

participation in the labor force is lower (51.8 percent) than that of men (58.8 percent). The male-female salary gap is 18 percent. Monthly average wages and salaries of employees in enterprises is MNT 1.1 million for men and MNT 903 thousand for women. Further, it is claimed that gender-based violence remains a challenge and increased during lockdown because of COVID-19.

28 National Statistical Office (NSO) (2021). 2020 National Statistical Bulletin at https://1212.mn/BookLibraryDownload.ashx?url=Yearbook2020.all_link.pdf&ln=Mn

7. Conclusion and Recommendations

This brief examined budget credibility trends for Mongolia's government expenditures in seven sectors that relate to 10 of the 17 SDGs. Mongolia faces significant challenges in achieving SDGs in six sectors (agriculture and food, environment, gender equality, health, social protection, and water and sanitation). In the education sector, which corresponds to SDG Goal 4, the Sustainable Development Report labeled Mongolia as having "achieved" the goal's target of quality education. Nevertheless, the sector has faced significant setbacks, mainly due to pandemic-induced restrictions and inadequate funding. COVID is also hindering efforts to reduce unemployment, poverty, and inequality.

Progress against the SDGs is closely tied to budget deviations in related sectors in Mongolia. This is evident in Mongolia's underspending on all seven sectors. To make progress on the six non-education sectors that are at risk of falling short of the SDGs, Mongolia should improve its budget credibility. This will be a tall order, not least because Mongolia's general budget governors, except for the Civil Service Council (which spent 100 percent of its budget in 2018) and Atonement Steering Committee (which spent 100 percent of budget in 2019 and 2020), underspent their approved budgets for the period of 2018-2020.

Gender equality remains a challenge for Mongolia. The country needs to introduce gender-sensitive budgeting, with budget documents that show expenditures classified by gender, according to international good practice. The country should

also introduce gender-responsive budgeting, which includes gender analysis and tracking throughout all stages of the budget cycle (planning, allocation, execution, and audit). This can be an effective way of understanding and improving the impact of public spending on gender equality.

To improve budget credibility, Mongolia needs to marshal its government and budget oversight institutions. The government should investigate the drivers of budget credibility challenges and take necessary measures, including providing the public with opportunities to help shape ways to resolve budget credibility challenges and accelerate progress toward achieving the SDGs. In addition, the government should introduce public participation mechanisms during the budget formulation phase and enhance opportunities for public oversight during budget implementation. It should also take steps to receive input from vulnerable and under-represented parts of the population on the formulation and implementation of the annual budget. When the government engages with the public, it should provide comprehensive information in advance on the process of the engagement, so the public can participate in an informed manner.

For its part, the legislature should improve oversight at all stages of the budget cycle. As it stands, a budgetary committee of the Mongolian legislature does not examine in-year implementation of the enacted budget during the relevant budget execution period.

In-year budget execution reports released by the Ministry of Finance are not submitted to the legislature for debating. The Budget Oversight and Analysis Division of the Oversight and Evaluation Department of the Parliamentary Secretariat produces monthly reports on the execution of the state budget, but the legislative committee is not required to discuss it. Therefore, the legislature should improve its oversight on the shifting of funds between administrative units, in-year implementation of the enacted budget and underspending and its consequences. The legislature should also hold public hearings or use other participation mechanisms through which the public can provide input during its public deliberations on the formulation of the annual budget and on the audit report as well as during its debate of budget execution. Further, the supreme audit institution should pay closer attention to any shifting of funds between administrative units, in-year implementation of budgets, and drivers and consequences of underspending.

Budget credibility is only one factor that can help countries make progress toward the SDGs. Other factors include whether enough funding is allocated toward addressing the SDG goal, how funding is prioritized, and the effectiveness of public spending. To address these other factors, the government should also prioritize policies that ensure economic growth is inclusive. In addition, Mongolia should intensify its work to introduce SDG-centered budgeting while increasing budgetary allocations for health and education, as a share of GDP, to bring them closer to the world average and thereby improve service quality in these sectors.

9. Annexes

Annex 1: Mongolia's Budget Credibility and the SDGs, 2018–2020 (by sector)

Sector	Related SDGs	Approved Budget (MNT mln)			Actual Spending (MNT mln)			Deviation (MNT mln)		
		2018	2019	2020	2018	2019	2020	2018	2019	2020
Agriculture and Food	Goal 2	103,031	157,952	346,112	106,046	157,010	330,051	3,015	-943	-16,062
Education	Goal 4	1,540,167	1,820,259	1,738,055	1,318,309	1,622,392	1,563,186	-221,857	-197,867	-174,870
Environment	Goal 13, 14, 15	86,829	136,431	154,916	80,987	128,331	130,389	-5,842	-8,100	-24,527
Gender Equality	Goal 5	264	305	356	248	285	348	-17	-20	-7
Health	Goal 3	766,306	839,949	1,058,645	721,881	823,034	986,906	-44,425	-16,915	-71,740
Social Protection	Goal 1 & 10	1,144,499	1,466,438	2,200,921	1,116,810	1,440,783	2,090,596	-27,689	-25,655	-110,325
Water and Sanitation	Goal 6	162,762	191,801	246,567	146,268	188,672	203,977	-16,494	-3,129	-42,589
Total Central Govt Budget		7,710,778	9,406,582	11,653,262	7,181,903	9,295,080	10,735,611	-528,875	-111,502	-917,651
Total Government Budget (including Central and Local)		10,035,057	12,106,505	15,137,299	9,317,221	11,661,701	13,904,273	-717,836	-444,804	-1,233,026

Sector	Related SDGs	Deviation, by Sector (%)			Sector Share of Total Spending (%)			Share of Sector at Central Government (%)		
		2018	2019	2020	2018	2019	2020	2018	2019	2020
Agriculture and Food	Goal 2	2.9%	-0.6%	-4.6%	1.1%	1.3%	2.4%	1.5%	1.7%	3.1%
Education	Goal 4	-14.4%	-10.9%	-10.1%	14.1%	13.9%	11.2%	18.4%	17.5%	14.6%
Environment	Goal 13, 14, 15	-6.7%	-5.9%	-15.8%	0.9%	1.1%	0.9%	1.1%	1.4%	1.2%
Gender Equality	Goal 5	-6.3%	-6.5%	-2.0%	0.003%	0.002%	0.003%	0.003%	0.003%	0.003%
Health	Goal 3	-5.8%	-2.0%	-6.8%	7.7%	7.1%	7.1%	10.1%	8.9%	9.2%
Social Protection	Goal 1 & 10	-2.4%	-1.7%	-5.0%	12.0%	12.4%	15.0%	15.6%	15.5%	19.5%
Water and Sanitation	Goal 6	-10.1%	-1.6%	-17.3%	1.6%	1.6%	1.5%	2.0%	2.0%	1.9%
Total Central Govt Budget		-7%	-1%	-8%						
Total Government Budget (including Central and Local)		-7%	-4%	-8%						

Sources:

2018 Budget Execution Report of Mongolia at https://mof.gov.mn/files/uploads/BUD_2018_ACTUAL-LAST.pdf

2019 Budget Execution Report of Mongolia at https://mof.gov.mn/files/uploads/BUD_2019_ACTUAL-LAST.pdf & MOF file

2020 Budget Execution Report of Mongolia at https://mof.gov.mn/files/uploads/_2020.pdf

Calculation based on figures obtained from Budget Execution Reports of MOF.

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