MONGOLIA PUBLIC FINANCE REVIEW

Making this time different: Fiscal reforms for stable, sustainable, and inclusive development

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP
East Asia & Pacific

MONGOLIA
PUBLIC FINANCE REVIEW

Making this time different:
Fiscal reforms for stable, sustainable, and inclusive development

June 2025

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP
East Asia & Pacific

1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

Design: Baku's Design

The cutoff date for the data used in the report was November 2024.

ACKNOWLEDGEMENTS

The team would like to acknowledge and thank everyone who contributed to this study, especially the Ministry of Finance, for its cooperation during consultations, provision of data, and valuable feedback on the report.

The report was prepared by a team led by Jose Luis Diaz Sanchez (Task Team Leader, Senior Economist, EEAM1), Andrew Blackman (Co-TTL, Senior Economist, EAEM2), and Badamchimeg Dondog (Co-TTL, Senior Public Sector Specialist, EEAG1), with key cross-sectoral contributions and coordination provided by Undral Batmunkh (Economist, EEAM1) and Lydia Kim (Economist, EEAPV), and research assistance from Hrisyana Stefanova Doytchinova (Consultant, EECM2).

Chapter contributions:

- **Chapter 1** (Towards Macro Fiscal Stability), **Chapter 2** (Reducing Fiscal Risks), and **Chapter 4** (Enhancing the Composition of Public Spending): Jose Luis Diaz Sanchez (Senior Economist), Andrew Blackman (Senior Economist, EAEM2), Undral Batmunkh (Economist), Dulmaa Enkhtuya (Extended Term Consultant, EEAM1), Oleksiy A. Sluchynskyy (Senior Social Protection Economist), Mongolmaa Norjinlkham (Senior Social Protection Specialist, HEASP), and Alex Giron Gordillo (Consultant, EMFTX).
- **Chapter 3** (Efficient Revenue Mobilization): Rajiv Kumar (Senior Economist, EMFTX) and Evan Harold Blecher (Consultant, EMFTX).
- **Chapter 5** (Improving the Efficiency and Progressivity of Social Spending): Natalia Millan (Economist, HEASP), Yang Huang (Senior Economist, HEASP), Maria Ana Lugo (Lead Economist, Program Leader, HEADR), and Mongolmaa Norjinlkham (Senior Social Protection Specialist, HEASP).
- **Chapter 6** (Strengthening the Results Orientation of the Health Sector): Kate Mandeville (Senior Health Specialist), Maude Ruest A (Consultant, HEAH1), and Uranchimeg Tsevelvaanchig (Extended Term Consultant, HEAH2).
- **Chapter 7** (Improving Education Quality and Equity): Syedah Aroob Iqbal (Consultant, HEAED) and Salman Asim (Senior Economist, HEAED).
- **Chapter 8** (Enhancing the Efficiency of Public Investment): Badamchimeg Dondog (Senior Public Sector Specialist, EEAG1), Martin Darcy (Consultant, EEAG1), Marco Larizza (Senior Public Sector Specialist, EEAG1), Ganchimeg Perenlei (Consultant, EEAG1), and Naranzul Ganzorig (Consultant, EEAG1).
- **Chapter 9** (Enhancing the Equity of Fiscal Policies): Lydia Kim (Economist, EEAPV).
- **Chapter 10** (Strengthening the Intergovernmental Fiscal System): Badamchimeg Dondog (Senior Public Sector Specialist, EEAG1), Muhammad Khudadad Chattha (Senior Economist, EMNMT), and Roger Shotton (Consultant, EEAG1).

The team would like to thank the following peer-reviewers, listed in alphabetical order, for the valuable feedback: Benedicte Baduel (Senior Economist, EAEM1), Barbara Cunha (Lead Economist, ELCMU), David Elmaleh (Senior Economist, OPSCE), Zahid Hasnain (Lead Governance Specialist, EGVPA), Alberto Leyton (Practice Manager, ELCG2), Elitza Mileva (Lead Economist, EEADR), Raju Singh (Lead Economist, DFCII), Carolina Luisa Vaira (Senior Governance Specialist, ELCG2), and Ruslan G. Yemtsov (Lead Economist, HAWS2).

The report was prepared under the overall direction of Mara Warwick (Division Director, China, Mongolia, and Korea, EACMK), Sebastian Eckardt (Practice Manager, EEAM1), Oleksii Balabushko (Practice Manager, EEAG1), Alma Kanani (Adviser, EEADR), and Taehyun Lee (Country Manager, Mongolia, EACMF).

Communication and administrative support was provided by Javkhlan Bold-Erdene (External Affairs Associate, ECREA) and Sukhchimeg Tumur (Team Assistant, EACMF), respectively.

CONTENTS

ABBREVIATIONS AND ACRONYMS

BoM	Bank of Mongolia
BOT	build-operate-transfer
BT	build-transfer
CEQ	Commitment to Equity
CIT	corporate income tax
CMP	Child Money Program
CPI	Consumer Price Index
DB	defined benefit
DBM	Development Bank of Mongolia
DRC	Dispute Resolution Council
DSA	debt sustainability analysis
EAP	East Asia and Pacific
ETT	Erdenes Tavan Tolgoi
FDC	funded defined contribution
FHF	Future Heritage Fund
FSC	Financial Stability Council
FSF	Fiscal Stability Fund
FSL	Fiscal Stability Law
FSP	Food Stamp Program
FX	Forex
GAHI	General Authority for Health Insurance
GDP	gross domestic product
GNI	gross national income
GoM	Government of Mongolia
HCI	Human Capital Index
HIF	Health Insurance Fund
HMP	Housing Mortgage Program
IBL	Integrated Budget Law
IMF	International Monetary Fund
IPO	initial public offering
Lao PDR	Lao People's Democratic Republic
LATUG	Law on Administrative and Territorial Units and Their Governance
LDF	Local Development Fund
MED	Ministry of Economy and Development
MFLSP	Ministry of Family, Labor, and Social Protection
MGCA	Mongolian General Customs Administration

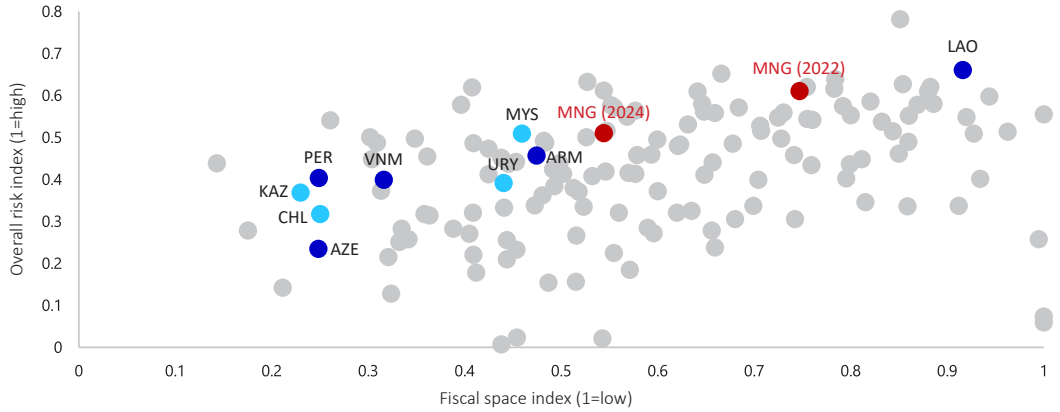
MNT	Mongolian Tugrug
MoF	Ministry of Finance
MTA	Mongolian Tax Administration
MTBF	Medium-Term Budget Framework
MTDS	medium-term debt strategy
MTEF	medium-term expenditure framework
MTRS	medium-term revenue strategy
NCD	noncommunicable disease
NDC	Notional Defined Contribution
NPV	net present value
NRP	New Recovery Policy
OT	Oyu Tolgoi
PBOC	People's Bank of China
PIM	public investment management
PIMA	Public Investment Management Assessment
PIMIS	Public Investment Management Information System
PIP	Public Investment Program
PIT	personal income tax
PMT	proxy means test
PPA	Power Purchase Agreement
PPP	public-private partnership
PWC	PricewaterhouseCoopers
RMBS	residential mortgage-backed securities
ROA	return on assets
SNG	subnational government
SOE	state-owned enterprise
SSC	social security contribution
SWFs	Sovereign Wealth Funds
TVET	technical and vocational education and training
UNICEF	United Nations Children's Fund
VAT	value-added tax
WB	World Bank
WDI	World Development Indicators
WEO	World Economic Outlook
WGI	Worldwide Governance Indicators

EXECUTIVE SUMMARY

After three difficult years, a new phase of mining-led growth that began in late 2022 has helped Mongolia emerge from a period of acute macroeconomic imbalances. Between 2020 and 2022, the economy was hit by overlapping external shocks—the COVID-19 pandemic, Russia's invasion of Ukraine, and prolonged border restrictions with China. These shocks severely weakened fiscal accounts, depleted buffers, increased contingent liabilities, sharply reduced foreign exchange reserves, and raised the risk of debt distress. Since 2023, strong coal exports to China have driven robust growth and supported a significant fiscal improvement. The budget recorded its largest surplus in nearly two decades in 2023, public debt has declined markedly, and external buffers have gradually recovered. Proactive debt management—including successful refinancing of maturing bonds—eased rollover risks. Bond spreads have narrowed and sovereign credit ratings have been upgraded.

Despite improvements in fiscal and macroeconomic outcomes, some vulnerabilities persist. While fiscal surpluses have been achieved, the large inflow of mining revenue has translated into expansionary public spending, with expenditure as a share of GDP exceeding pre-pandemic levels and peer benchmarks. This reflects sustained capital outlays, rising current spending—including social transfers and other recurrent obligations—and only a partial rollback of pandemic-era measures. In addition, quasi-fiscal operations—such as the subsidized housing mortgage scheme and off-budget transfers through state-owned enterprises (SOEs)—further amplify the accommodative policy stance, despite headline fiscal surpluses. Amid the ongoing mining boom, continued fiscal expansion risks reigniting balance of payments pressures, as large import needs fueled by spending and consumption continue to strain Mongolia's external position. Although public debt levels have fallen, the latest Debt Sustainability Analysis shows continued high sensitivity to external shocks. With buffers only partially rebuilt, the country's capacity to respond to future crises remains constrained, despite persistent macroeconomic risks (Figure ES.1).

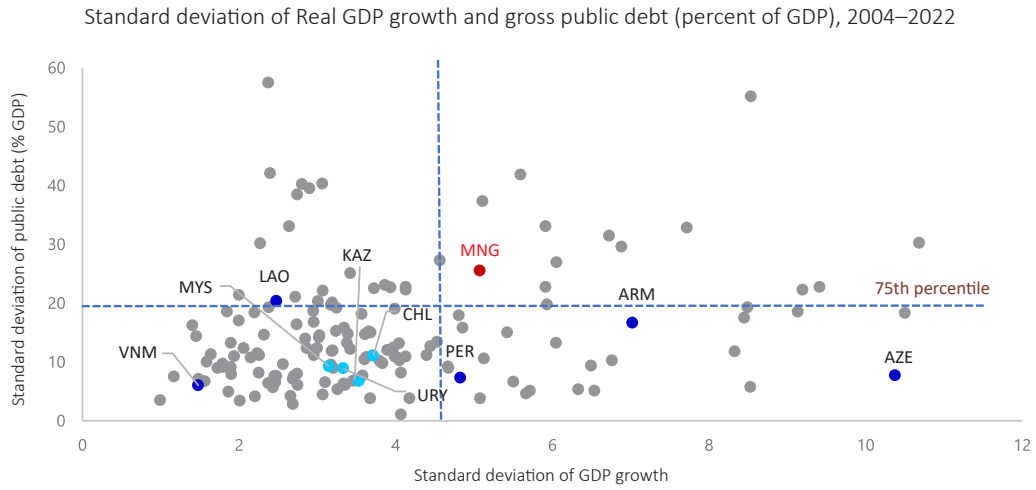
Figure ES.1. Despite recent improvements, Mongolia continues to face nonnegligible macroeconomic risks but has only moderate fiscal space to respond



Source: World Bank staff calculations.

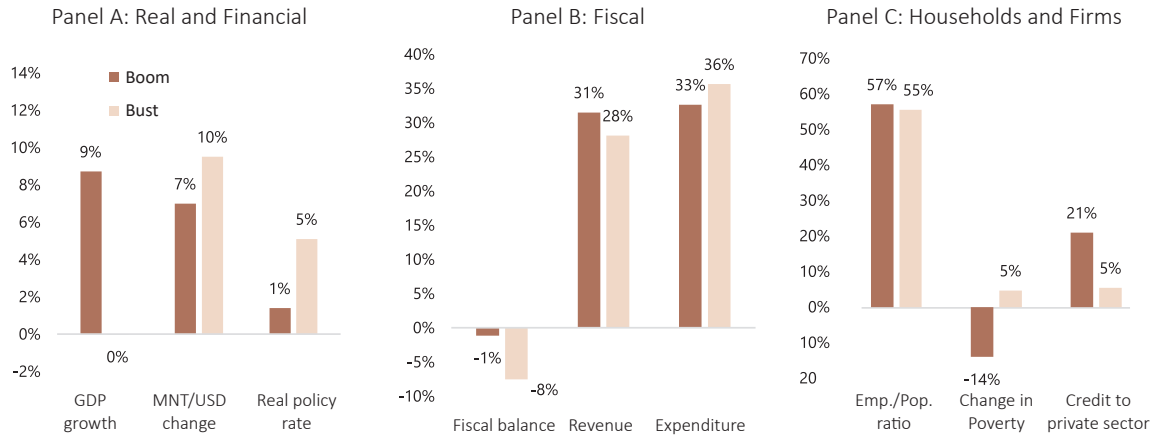
Mongolia has experienced repeated boom-bust cycles in the past—but could this time be different? Over the past two decades, natural resource wealth has driven substantial improvements in income and living standards. At the same time, it has amplified macroeconomic and fiscal volatility (Figure ES.2), with significant costs to households, firms, and public finances (Figure ES.3). As the current mining boom continues, there is a growing risk of repeating past patterns—favoring near-term fiscal expansion over the more difficult but necessary task of rebuilding buffers and addressing structural vulnerabilities.

Figure ES.2. Mongolia's macro-fiscal volatility is among the highest globally, placing it among only 14 countries where both economic growth and public debt volatility surpass the 75th percentile worldwide



Source: World Bank staff calculations based on IMF WEO October 2023 data.

Figure ES.3. Past commodity price busts have had negative impacts on household welfare, firms, and public finances



Source: World Bank staff calculations.

Mongolia's economic stability, resilience, and development are critically dependent on fiscal reforms to reduce macroeconomic volatility and to continue rebuilding fiscal buffers to protect against future shocks. A medium-term fiscal adjustment that unwinds the structural increase in social protection spending, and reinforces the fiscal framework would: (i) entrench macroeconomic stability and mitigate re-emerging inflationary and external pressures; (ii) rebuild fiscal buffers to respond to future shocks; and (iii) create space for future physical and human capital investment—including under the ambitious public investment program outlined in the New Recovery Policy (NRP) and the government's Four-Year Action Plan.

In addition, the equity and efficiency of both public spending and revenue mobilization are critical to achieving Mongolia's NRP and Vision 2050 objectives. Between 2020 and 2023, public expenditure averaged 34 percent of GDP—relatively high for Mongolia's income level and compared to peer countries—indicating that challenges are more closely related to spending efficiency than to spending levels. Spending on physical and human capital, in particular, shows scope for greater efficiency. While Mongolia's social assistance system contributes significantly to poverty and inequality reduction, these impacts are largely driven by high spending rather than efficiency. In the health sector, despite notable improvements in outcomes, service delivery remains uneven: access to noncommunicable disease services is limited, out-of-pocket payments are high—especially for medicines—and hospital services appear to be overused, despite a relatively strong supply of medical personnel and infrastructure. Education outcomes also reflect persistent disparities across levels, regions, and socioeconomic groups, which continue to affect both quality and equity. Mongolia's intergovernmental fiscal framework remains complex and heavily reliant on central government transfers, which may contribute to weaker subnational public financial management and service delivery. Public investment management (PIM) is also constrained by insufficient medium-term planning, fragmented responsibilities, and weaknesses in project management, reducing the overall effectiveness of infrastructure spending and increasing fiscal risks. On the revenue side, Mongolia has performed well relative to peers, with average revenues of 32 percent of GDP between 2020 and 2023. However, the country remains vulnerable to volatility due to its dependence on mining revenues—around one-fifth of the total—and faces ongoing challenges related to efficiency, equity, and the broadness of its tax base.

To address these challenges, the report identifies the following priority areas for action: (i) reinforcing the fiscal framework; (ii) enhancing the efficiency of human capital spending—particularly in social protection, health, and education; (iii) improving the prioritization and value for money of public investment; (iv) strengthening the poverty and distributional impact of the fiscal system; and (v) improving revenue mobilization by enhancing the efficiency, progressivity, and simplicity of the tax system while reducing reliance on volatile mining revenues.

Enhancing Mongolia's fiscal and economic resilience requires decisive policy actions to reduce macro-fiscal volatility, mitigate risks, and rebuild buffers while laying the foundation for stable and diversified growth. Beyond key fiscal reforms to raise revenue more equitably and improve spending efficiency (as detailed below)—these objectives can be further advanced by strengthening the fiscal framework. This involves simplifying fiscal rules, enhancing the Fiscal Stability Council's capacity, and prioritizing savings in the FSF until a sufficient threshold is met would enhance economic stability. Lowering the debt limit to 50 percent of GDP and establishing credible medium-term revenue and expenditure strategies would further strengthen fiscal sustainability. Mitigating fiscal risks requires improving the Development Bank of Mongolia (DBM) governance, strengthening public-private partnerships (PPP) oversight, increasing state-owned enterprises transparency, and implementing pension reforms to

ensure long-term financial viability. Finally, diversifying the economy beyond mining—through strategic investments in infrastructure, human capital, and institutional capacity—is essential to reducing volatility and fostering sustainable, balanced growth.

Equitably diversifying revenue sources requires improving tax collection, efficiency, progressivity, and simplicity. Key reforms include simplifying the corporate income tax (CIT) by adopting a flat 22 percent rate, broadening the base through extended loss carryforwards, and rationalizing tax incentives to boost competitiveness. Making personal income tax (PIT) more progressive would enhance fairness and generate additional revenue by introducing a zero-rated band for low-income earners and a higher rate for top earners, taxing capital gains at marginal rates, and reviewing tax expenditures. Improving value-added tax (VAT) efficiency by streamlining refunds, conducting regular gap analyses, and assessing rebate programs would align Mongolia with global best practices. Regarding the latter, since the VAT rebate and lottery disproportionately benefit wealthier households, their overall benefits—particularly for tax compliance—should be carefully evaluated and weighed. Raising excise taxes on tobacco and alcohol would improve public health, generate revenue, and address the disproportionate burden of related health risks on poorer households. Finally, enhancing tax compliance through simplified e-filing, fair penalties, independent dispute resolution, and risk-based audits would strengthen enforcement and reduce tax evasion.

To build an affordable and progressive social assistance system, Mongolia will need to enhance efficiency while reducing the fiscal footprint of social assistance spending to pre-pandemic levels. Reforms should focus on consolidating programs to improve poverty reduction and spending efficiency to maximize impacts on poverty and inequality reduction. Simulations show that social assistance spending can be reduced without increasing poverty and inequality if accompanied by efficiency improvements. Key strategies include continuing to enhance the proxy means-testing methodology, expanding the Food Support Program, introducing means-testing for certain benefits, and consolidating categorical benefits for the elderly and disabled. To enhance shock responsiveness, Mongolia should integrate Adaptive Social Protection (ASP) into disaster risk management, strengthen outreach mechanisms, improve the interoperability of household data systems, and develop a comprehensive disaster risk financing strategy, including a Dzud Resilience Window. Establishing a framework for social assistance spending and shock response, with expenditure caps around 2.5 percent of GDP, adjusting benefits for inflation, and scaling up during crises, would ensure fiscal sustainability while protecting vulnerable groups. Additionally, activation measures should be introduced, including active labor market programs, to support a transition from welfare to work, combining employment services, case management, and incentives for gradual labor market entry to promote self-sufficiency.

Achieving better health outcomes in Mongolia requires more efficient and equitable health spending, particularly on human resources, medicines, and hospital services. Key reforms include expanding access to outpatient medicines through centralized procurement and streamlined reimbursement could lower out-of-pocket payments and improve affordability. Implementing stronger noncommunicable disease (NCD) prevention policies, such as tobacco and alcohol control, healthier food policies, and taxation on unhealthy products, would reduce the burden of preventable diseases while generating additional resources for the health sector. Strengthening strategic purchasing by refining health insurance policies, adjusting reimbursement rates, and incentivizing cost-effective care would enhance sustainability. These measures would particularly benefit poorer households, who spend a larger share of their income on outpatient medicines and face greater financial barriers to accessing essential treatments. Enhancing service delivery models through flexible staffing, improved preventive care, and

integrated primary healthcare would improve outcomes and reduce unnecessary costs. Finally, addressing overcapacity by rightsizing the workforce, shifting hospital beds toward outpatient care, and enforcing regulatory measures would help optimize resource use.

Improving the quality and equity of Mongolia's education system requires more efficient resource allocation. Redirecting government funding from private to public schools, while targeting financial support to disadvantaged students, would enhance equity. Addressing infrastructure gaps in lagging provinces through cost-effective solutions like modular classrooms and mobile education units would help reduce overcrowding and regional disparities. Establishing minimum learning environment standards and expanding preschool access, particularly for children from low-income families, would promote equal opportunities. Strengthening education management through better data integration and reallocating teachers to primary education would improve efficiency and ensure a more balanced distribution of resources. Finally, closing the skills gap in the labor market necessitates upgrading the quality and relevance of the skills development system.

Improving investment outcomes, reducing fiscal costs, and maximizing the developmental impact of public spending requires strengthening public investment management. The integration of unified investment planning aligned with the medium-term fiscal framework, multi-year budgeting, and quality-based project selection would help manage fiscal risks and prevent delays or cost overruns in investment projects. A unified PIM framework with clear institutional roles, quality appraisal systems, and improved transparency for SOE investments would reduce fragmentation and enhance accountability. Strengthening project selection and appraisal methodologies through independent reviews, standardized reporting, and better tracking would improve project execution and align investments with sustainability goals. Additionally, building implementation capacity for PPPs and strengthening the legal framework would help Mongolia develop a track record of successful projects while managing fiscal risks.

Enhancing public financial management and service delivery requires reforming the intergovernmental fiscal framework to enhance clarity, efficiency, and equity. Subnational government (SNG) spending mandates and revenue assignments need to be clearly defined to align SNGs' responsibilities and financing capacity—such as reallocating PIT to the central government and incorporating CIT revenue-sharing into formula-based transfers. Reforming the fiscal transfer system by replacing the complex review process with formula-based allocations for recurrent spending and prioritizing high-impact local capital investments in line with the overall PIM framework would improve fund efficiency and predictability. Redirecting the Local Development Fund toward smaller, community-focused projects and strengthening performance-based incentives in the allocation mechanism would promote strategic spending, better governance, and more effective service delivery at the subnational level.

Combined, the measures identified in this report can be used to rebuild fiscal buffers while also supporting higher economic growth, equity, and human capital outcomes. The proposed reforms are also crucial to achieving the Government of Mongolia's Vision 2050 ambition of becoming a leading Asian country in terms of social development, economic growth, and quality of life. Figure ES.4 provides a simplified visual representation of the report's structure and Table ES.1 summarizes the identified measures.

Figure ES.4. An organizing structure for the Public Finance Review

Macro-Fiscal Stability and Fiscal Risks **CHAPTER 1:** TOWARDS MACRO-FISCAL STABILITY **CHAPTER 2:** REDUCING FISCAL RISKS	
Revenues	• **CHAPTER 3:** EFFICIENT REVENUE MOBILIZATION
Expenditures	• **CHAPTER 4:** ENHANCING THE COMPOSITION OF PUBLIC SPENDING • **CHAPTER 5:** IMPROVING THE EFFICIENCY AND PROGRESSIVITY OF SOCIAL ASSISTANCE SPENDING • **CHAPTER 6:** STRENGTHENING THE RESULTS ORIENTATION OF THE HEALTH SECTOR • **CHAPTER 7:** IMPROVING EDUCATION QUALITY AND EQUITY • **CHAPTER 8:** ENHANCING THE EFFICIENCY OF PUBLIC INVESTMENT
Cross-Cutting Fiscal Policy Issues **CHAPTER 9:** ENHANCING THE EQUITY OF FISCAL POLICIES **CHAPTER 10:** STRENGTHENING THE INTERGOVERNMENTAL FISCAL SYSTEM	

Table ES.1. The Way Forward: Short- and Medium-Term Priority Policy Actions

RECOMMENDATIONS/AGENCY WITH INDICATIVE RESPONSIBILITIES AND LEADING ROLES	POLICY ACTIONS	TIMEFRAME (Short Term < 2 years; Medium Term 3-5 years)	POTENTIAL IMPACT
Fiscal Framework			
Strengthening the fiscal framework (Cabinet and MoF)	Enhance the FSC's capabilities through adequate staffing, budget resources, and authority to access necessary information.	Short Term	Make fiscal policy more countercyclical
	Prioritize savings in the FSF over the SWFs until a specific threshold is met to help rebuild fiscal buffers and stabilize the economy.	Short Term	
	Lower the debt limit to 50 percent of GDP.	Short Term	
	Establish credible medium-term revenue, expenditure, and debt strategies.	Short Term	
Fiscal Risks			
Strengthening DBM's governance (Cabinet)	Strengthen the DBM's corporate governance by enhancing risk management, credit processes, internal audits, liquidity management, and foreign exchange risk handling.	Short Term	Mitigate contingent liabilities
	Evaluate introducing private participation in the ownership and management of DBM.	Medium Term	
Reinforcing the PPP legal framework (Cabinet and MoF)	Reinforce the regulatory and institutional frameworks necessary to ensure the sustainability of PPP projects, particularly in light of the planned expansion of BOT contracts under the NRP.	Short Term	
Enhancing SOE's governance, reporting, and oversight (Cabinet)	Strengthen corporate governance, reporting and oversight (including of SOE debt), enhance risk assessment, and modernize regulatory frameworks (including energy tariffs to cost recovery levels).	Short Term	
	Develop and implement a carefully designed and sequenced SOE divestment plan from non-core assets.	Medium Term	
	Revise the draft SOE law to better align with international best practices.	Short Term	

Transferring the HMP to the GoM while enhancing its governance and prioritizing affordable housing (BoM and Cabinet/ MoF)	Transfer the HMP to the GoM (preferably) or an SOE, while establishing robust governance, transparency, and risk management, along with significant capacity building to support day-to-day operations and debt portfolio risk management.	Short Term	Mitigate the fiscal risk associated with the HMP transfer while improving efficiency, progressivity, and poverty reduction impact of the program
	Redesign the program to focus on affordable housing for the poor and vulnerable, including by introducing a targeting criterion.	Medium Term	
	Attract private capital to the housing sector by addressing structural obstacles and disincentives to greater private sector participation.	Medium Term	
Undertaking parametric and structural reforms to the pension system (Cabinet, MFLSP, MoF)	Tighten early retirement privileges, improve benefit indexation, and expand the wage base for pension calculations including, respectively, by: (i) raising the minimum required service further, from 25 to 30 years to qualify for retirement at the statutory retirement age; (ii) adjust the benefit indexation rule to reflect both inflation and wage growth; and (iii) gradually expand the wage base to lifetime earnings with strengthened mechanisms for adjusting past wages.	Short Term	Reduce the state subsidy to the pension schema to ensure the long-term sustainability and fairness of the system
	Consider undertaking structural reforms to reduce reliance on deficit financing and improve resilience to future shocks by separating the pension benefit into two components: a basic pension, funded largely through the government budget, and a streamlined insurance pension funded by contributions.	Medium Term	
Revenue			
Simplifying the CIT and broadening its base (MoF)	Replace the progressive CIT structure with a unified flat CIT rate of 22 percent for all companies, except for those with income up to MNT 300 million, which would continue to be taxed at a reduced rate of 1 percent.	Short Term	Equitably diversify revenue sources by enhancing collection, efficiency, progressivity, and simplicity
	Extend the loss carryforward limit to 10 years and rationalize tax incentives to broaden the tax base and encourage capital investments.	Short Term	
Making the PIT more progressive (MoF)	Introduce a zero-rated band for income up to a specified threshold and a higher top rate of 32.5 percent for income above MNT 360 million.	Short Term	
	Tax capital gains, rent, interest, and royalties at marginal rates.	Short Term	
	Review existing PIT tax expenditures, such as those on first-time home purchases and pension income, to assess their economic and distributional impacts and broaden the tax base.	Medium Term	

Improving the efficiency and fairness of VAT system (MoF)	Establish clear criteria for VAT refunds, automated processing, and mandatory refunds or offsets for excess credits.	Short Term	Equitably diversify revenue sources by enhancing collection, efficiency, progressivity, and simplicity
	Conduct regular VAT gap analyses to ensure the system remains predictable and business-friendly.	Medium Term	
	Assess the VAT rebate and lottery programs for their impact on compliance and household distribution.	Short Term	
Enhancing tax compliance (MoF)	Simplify the e-filing process with prefilled forms for SMEs and individuals with limited income sources; establish fair and enforceable penalties, with higher penalties for companies and severe sanctions for non-filing beyond one year.	Short Term	
	Implement a comprehensive arrear management program to address root causes and enforce measures like asset attachment for uncooperative taxpayers.	Medium Term	
	Strengthen dispute resolution by making the DRC independent, eliminating up-front payment requirements, and expanding the advance tax ruling regime.	Short Term	
	Improve compliance risk management by centralizing audits, increasing staffing, and adopting team-based audits for high-risk cases, while simplifying audits for low-risk cases using digital tools.	Medium Term	
Increasing tobacco and alcohol excise taxes (MoF)	Increase excise tax by USD 0.26 per pack of tobacco, along with regular adjustments for inflation and economic growth, to align rates with peers; undertake analysis to determine further reforms to alcohol excises, which should include increases in excise taxes.	Short Term	Address public health risks
Social Assistance			
Implementing strategies for consolidation and improving poverty-reduction and spending efficiency (MFLSP)	Gradually reduce the real value of the CMP to generate savings for reinvestment in targeted assistance and activation measures to help beneficiaries become self-sufficient.	Short Term	
	Enhance the PMT methodology by incorporating administrative data, expand the FSP to cover more of the population, and introduce means testing for certain benefits.	Short Term	
	Simplify categorical benefits for the elderly and disabled.	Medium Term	

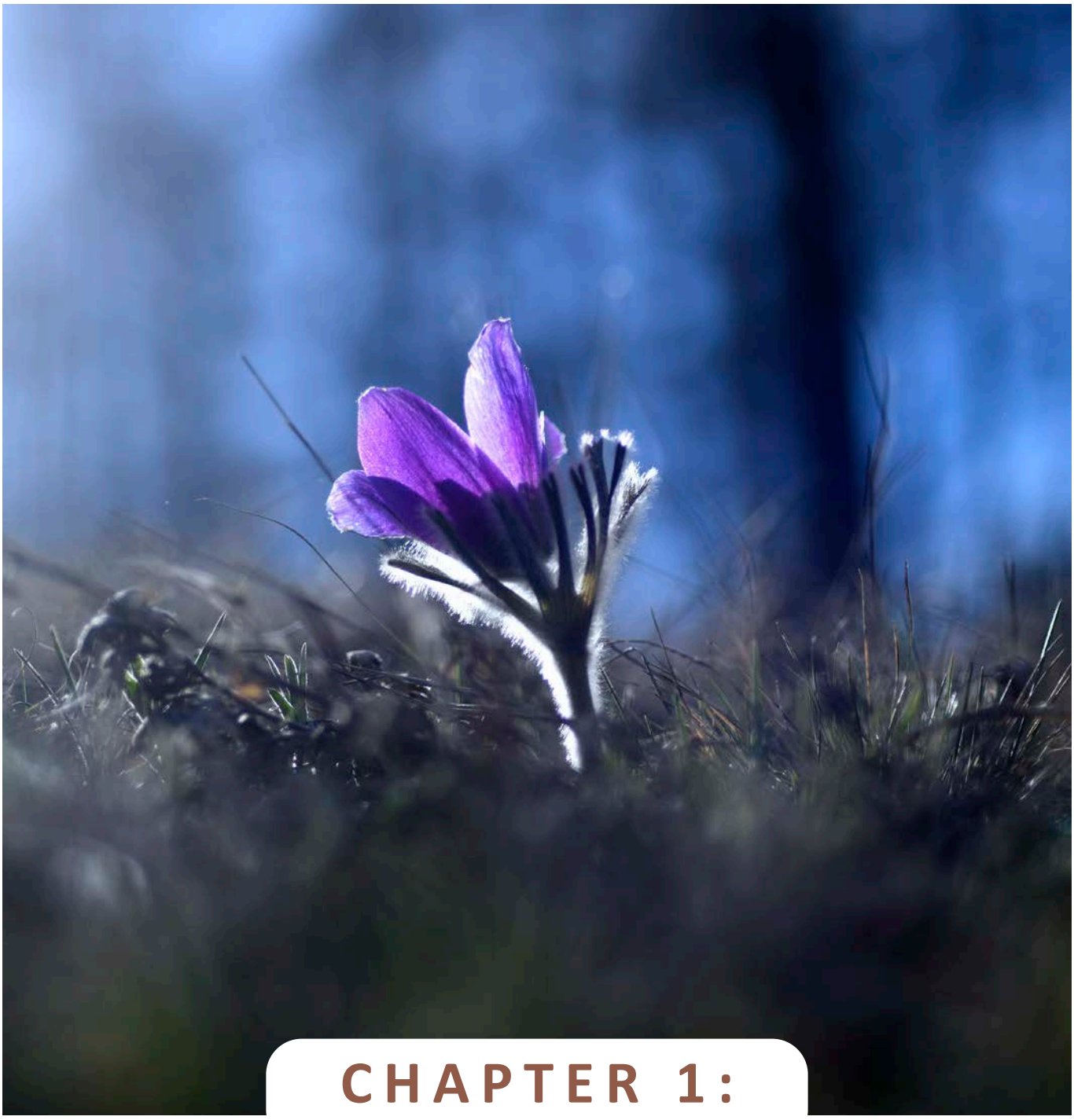
Making the social protection system more adaptive to shocks (MFLSP)	Integrate the ASP into disaster risk management frameworks, strengthen outreach and grievance mechanisms, and ensure better targeting and response systems.	Medium Term	Increase efficiency and progressivity of the social assistance system while returning to pre-COVID spending levels
	Develop a comprehensive disaster risk financing strategy, with a focus on ex-ante measures for high-risk events like floods and dzuds. This includes establishing a Dzud Resilience Window, improving infrastructure resilience, and enhancing early warning systems to ensure effective and timely responses to disasters.	Medium Term	
Establishing a framework for social assistance spending and shock response (MFLSP)	Better control spending while protecting vulnerable populations by setting a cap on total social assistance expenditure as a percentage of GDP, adjusting benefits for inflation, and scaling up benefits during shocks. The spending cap can be set at around 2.5 percent of GDP, closer to pre-pandemic levels aligned with the average among peer countries.	Short Term	
Introducing activation measures (MFLSP)	Strengthen linkages between social assistance and labor market services by providing tailored support such as childcare, counseling, and job search assistance to address employment barriers.	Medium Term	
	Allow partial benefits during the transition to work and adopt a case management approach to promote self-sufficiency.	Short Term	
	Implement a robust monitoring system to help set realistic expectations for welfare-to-work programs, particularly in high-unemployment areas.	Short Term	
Health			
Expanding access to outpatient medicines (MoH, State Procurement Agency, and GAHI)	Reimburse only a limited number of versions of the same medicine to save costs; combined with the efficiency gains from national centralized procurement, savings could be used to expand the reimbursed medicine lists to all medicines on the national essential medicines list and/or reduce co-payments further.	Short Term	
Introducing and strengthening policies to prevent and control NCDs (MoF and MoH)	Introduce and strengthen policies to prevent and control NCDs, particularly comprehensive tobacco and alcohol policies and national campaigns to promote healthier diets and more physical activity.	Short to Medium Term	

Strengthening strategic purchasing	Leverage strategic purchasing mechanisms to shift care towards better value modalities where appropriate.	Short Term	Enhance efficiency and equity by improving quality of spending, particularly on human resources, medicines, and hospital services, to achieve better health outcomes
	Require radiologists' reports as part of imaging reimbursement and apply appropriateness criteria for imaging.	Short Term	
	Establish need-assessment system for high-cost technology investments, particularly imaging.	Medium Term	
Addressing overcapacity (MoE and MoH)	Address overcapacity of staff by reviewing current training places and undertaking a workforce planning exercise.	Short to Medium Term	
	Address overcapacity of beds by updating and enforcing the health sector master plan and compliance with the Certificate of Need regulation accordingly.	Medium Term	
Enhancing service delivery models (MoH)	Review the primary health care service delivery model, including skill mix of staff, patient-oriented care, effective early NCD detection, and control and continuity of care.	Short Term	
	Update health facility standards to create greater flexibility in managing inputs, improved productivity, alignment with caseload, and changing size and health needs of the population.	Short Term	
Education			
Enhancing equity in the education system (MoE)	Reserve per-student financing for private schools for students from disadvantaged socioeconomic backgrounds, with any savings redirected to meet resource gaps in public schools.	Short Term	Enhance resource allocation efficiency to strengthen education quality and ensure greater equity
Closing infrastructure gaps in lagging provinces (MoE)	Use mobile units to provide specialized education in rural areas by sharing resources between schools.	Medium Term	
	Target investments to reduce overcrowding and promote single-shift schools, especially in lagging provinces.	Medium Term	
Ensuring minimum standards and expanding preschool access (MoE)	Implement uniform standards (student-to-teacher ratios, student-to-classroom ratios, and access to digital devices); targeted support will help ensure all schools meet these basic requirements.	Short Term	
	Prioritize public preschool access for all five-year-olds and expand enrollment for three- and four-year-olds from the bottom 40 percent of the socioeconomic distribution.	Short Term	
Closing the skills gap in the labor market (MoE and MFLSP)	Align education with market needs, strengthen school-employer ties, promote private sector partnerships, support school-to-work transitions, and develop employer-informed standards.	Medium Term	

Public Investment Management			
Enhancing the medium-term fiscal framework (MED, MoF, and SNGs)	Adopt multi-year budgeting, prioritize quality-based project selection, and ensure the medium-term plan prevents excessive budget commitments, delays, and cancellations.	Short Term	Strengthen PIM to improve investment outcomes, reduce fiscal costs, and maximize the developmental impact of public spending
	Carefully sequence and monitor projects, considering the economy's absorption capacity and potential risks.	Short Term	
	Regularly update project cost estimates with realistic contingencies and independent assessments to prevent cost overruns and ensure fiscal sustainability.	Short Term	
Enhancing a unified PIM framework (MED, MoF, and SNGs)	Assess whether the legal framework provides sufficient clarity on accountability and decision-making throughout the project cycle.	Short Term	
	Ensure adequate checks and balances between planning and fiscal control, applying a quality appraisal system to all public investment projects, and establishing a unified PIM database to monitor fiscal risks from different investment sources.	Short Term	
	Make public investment by SOEs more transparent and subject to the broader PIM framework, with SOEs publishing their investment plans and maintaining asset records to ensure accountability and maximize their contribution to the economy.	Medium Term	
Ensuring quality-based selection of all projects (MED, MoF, and SNGs)	Strengthen the PIM framework by improving appraisal, including through independent reviews, and ensuring consistent application across all proposals. This includes designing standard reporting templates, establishing independent review capacity, and enhancing tracking and monitoring systems for project progress.	Short Term	
	Build technical capacity within sector ministries and local governments to avoid poorly executed projects.	Medium Term	
	Integrate climate considerations and support the transition to sustainable energy, aligning projects with broader sustainability goals and ensuring the viability of renewable energy investments.	Medium Term	

Building institutional capacity to implement the PPPs (MED and MoF)	Focus on a small number of well-designed, high-priority projects to demonstrate capacity and build confidence with bidders and financiers.	Short Term	Strengthen PIM to improve investment outcomes, reduce fiscal costs, and maximize the developmental impact of public spending
	Delay local governments from entering the PPP until national-level lessons are learned to avoid unknown fiscal risks and potential state budget burdens.	Short Term	
Intergovernmental Fiscal System			
Clarifying SNG spending mandates and revenue assignments (Cabinet and MoF)	Clearly define SNG spending responsibilities, particularly for capital investments and current spending.	Short Term	Improve subnational public financial management and service delivery
	Review SNG revenue assignments, including reallocating PIT to the central government and incorporating CIT revenue-sharing into a formula-based transfer pool.	Short Term	
Reforming the fiscal transfer system (MoF)	Replace the current complex review process with a formula-based allocation for current spending transfers, ensuring more effective fund use.	Short Term	
	Reform capital investment transfers to focus on high-impact investments, with the LDF redirected for smaller, community-focused projects.	Medium Term	
	Introduce formula-based allocations to streamline the budgeting process, giving SNGs advance notice of transfers and promoting realistic revenue forecasts and strategic spending.	Short Term	

Note: MFLSP = Ministry of Family, Labor and Social Protection; MoH = Ministry of Health; MoE = Ministry of Education.



CHAPTER 1:

BUILDING MACRO-FISCAL RESILIENCE

CHAPTER 1: BUILDING MACRO-FISCAL RESILIENCE

1.1. Introduction

This chapter analyzes Mongolia's recent fiscal performance and outlook and presents the case for fiscal reforms to improve macroeconomic and fiscal resilience while supporting higher quality public spending. The chapter highlights the strengths and weaknesses of Mongolia's fiscal framework. It shows how weak implementation of the fiscal framework has amplified—rather than mitigated—economic volatility. While the recent economic recovery has improved fiscal outcomes and reduced debt, fiscal policy has remained procyclical, with the mining-led boom accompanied by expansionary policies. The risks of continuing with current policy settings are illustrated in an updated debt sustainability analysis (DSA). The chapter then considers the case for a medium-term fiscal adjustment to reduce macro-fiscal volatility and risks while supporting better quality public spending to address Mongolia's development goals. It concludes with a set of policy recommendations to enhance fiscal and economic resilience.

1.2. Weaknesses in Mongolia's fiscal framework undermine macroeconomic stability and fiscal sustainability

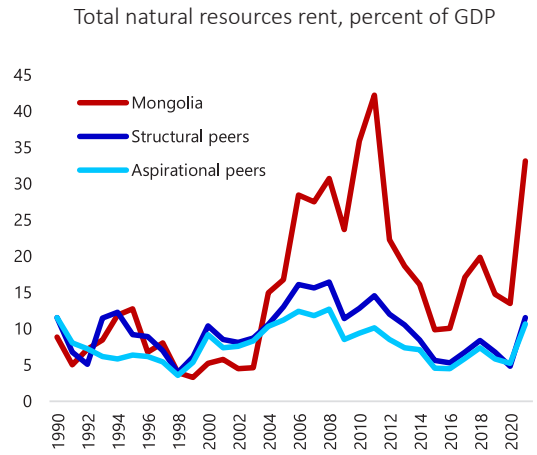
Macro-fiscal developments in Mongolia are closely linked to the mining sector, leading to a "Boom-Bust" dynamic. Volatile commodity prices and production drive economic output and government revenues in the context of low economic diversification and high and increasing dependency on the mining sector. Since the scaling up in mining exploitation in 2004, the mining sector has represented over 20 percent of GDP, on average, far higher than in structural and aspirational peer countries (Figure 1.1 and Box 1.1). In addition, due to weak implementation of the fiscal framework—in particular compliance with existing fiscal rules—fiscal policy has been historically procyclical (Figure 1.2). Budget expenditure and quasi-fiscal operations—through SOEs and the BoM—have tended to increase during economic expansions, amplifying economic cycles and limiting the build-up of fiscal buffers to be used in times of need. Combined, these factors have led to high macroeconomic volatility over the past two decades (Figure 1.3).

Box 1.1. Who Are Mongolia's Peers?

In this report, Mongolia's public spending dynamics and performance are compared with other relevant countries using an international benchmarking exercise. This study uses the World Bank's Country Economic Memorandum 2.0 comparators toolkit to select two sets of countries for comparison with Mongolia. The first is a set of ***structural peer countries*** with broadly similar economic characteristics and income to Mongolia. The second is a set of ***aspirational peer countries*** that have similar structural characteristics but are at a higher stage of development. These comparisons are made to provide a sense of where Mongolia already performs well—according to the key criteria of adequacy, sustainability, efficiency, and equity—relative to other countries with similar characteristics, constraints, and resources, and in which areas there may be scope for improvement. Benchmarking was done based on the following characteristics: (i) income per capita; (ii) natural resource endowments; (iii) government effectiveness; and (iv) integration with the global economy in trade and foreign investment. Structural and aspirational peers were defined based on 2022 GDP per capita (current USD). This provides the following groupings, which are used throughout the report (depending on data availability):

- **Structural peer countries:** Armenia, Azerbaijan, Lao PDR, Peru, and Vietnam.
- **Aspirational peer countries:** Chile, Kazakhstan, Malaysia, and Uruguay.

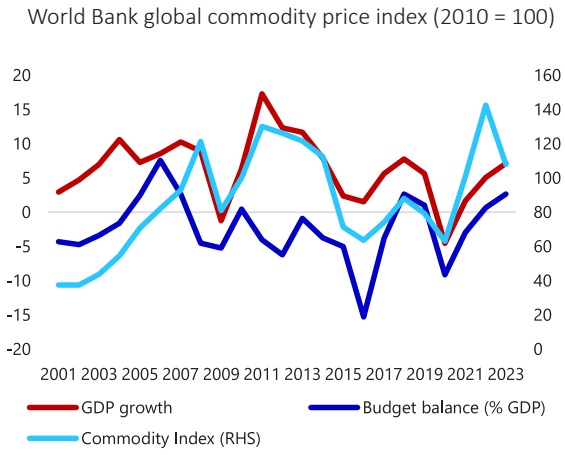
Figure 1.1. Mongolia's dependency on the mining sector increased in the last two decades, exceeding its peers



Source: WB staff calculations based on WDI data.

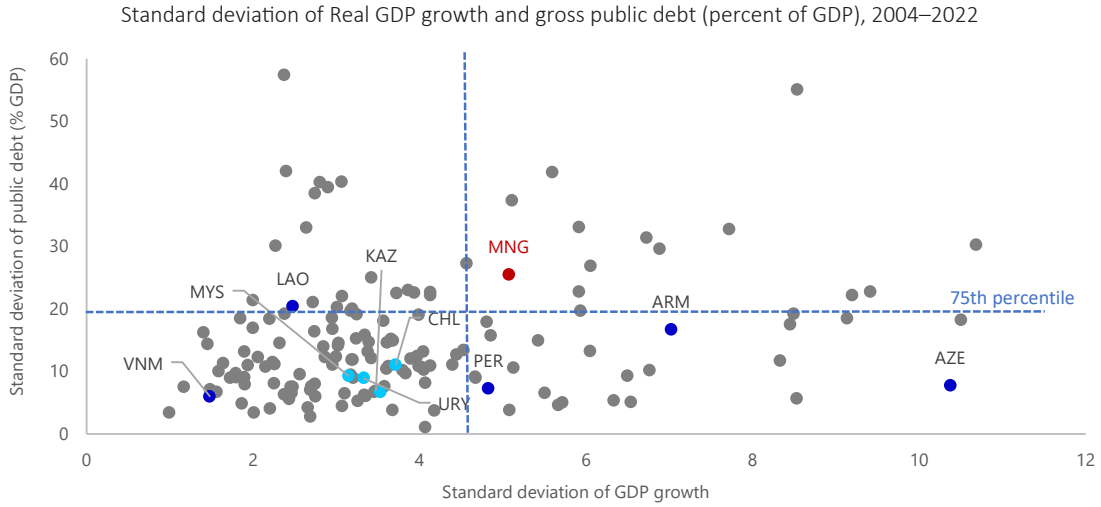
Note: The WB computes natural resource rents as the difference between the price of the resource and the costs of extraction, including normal returns to capital and labor. The rents represent the economic profit from extracting a natural resource after accounting for production costs.

Figure 1.2. Fiscal policy has been procyclical, with growth and the budget correlated to commodity prices



Source: WB staff calculations based on WDI and MoF.

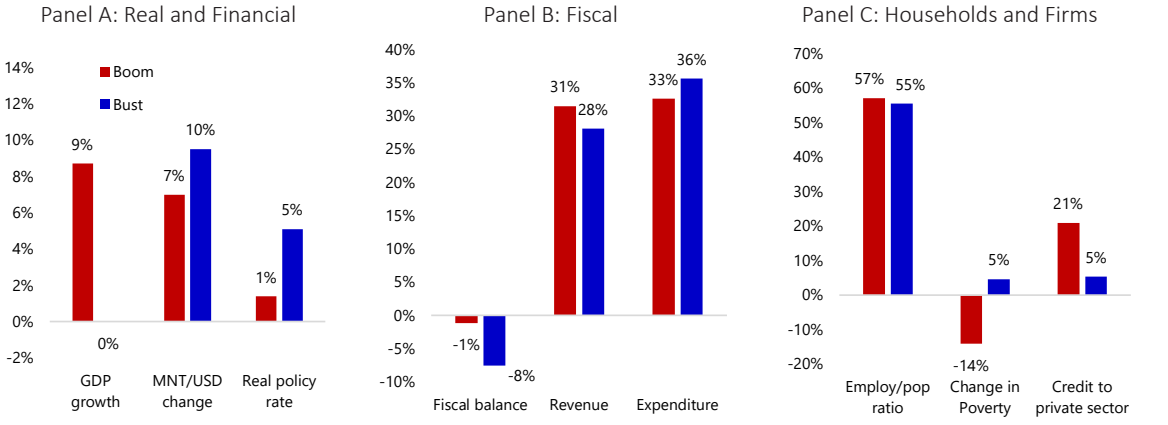
Figure 1.3. Mongolia's macro-fiscal volatility is among the highest globally, placing it among only 14 countries where both economic growth and public debt volatility surpass the 75th percentile worldwide



Source: WB staff calculations based on IMF WEO October 2023 data.

Past "Bust" episodes have had adverse impacts on household welfare, firms, and the state (Figure 1.4), but it does not have to be this way. Due to procyclical macroeconomic policies (fiscal, monetary, and exchange rate), Mongolian households and firms benefit during booms but bear the brunt of economic downturns. From 2009 to 2022, bust periods have been associated with higher poverty, lower employment, and weaker growth in private sector credit. Yet, it does not have to be like this. Indeed, several of Mongolia's peer countries—which are also resource-rich developing countries—experience more muted impacts from commodity cycles due, at least partially, to their more countercyclical fiscal policies.[1]

Figure 1.4. Past commodity price busts have had negative impacts on household welfare, firms, and public finances



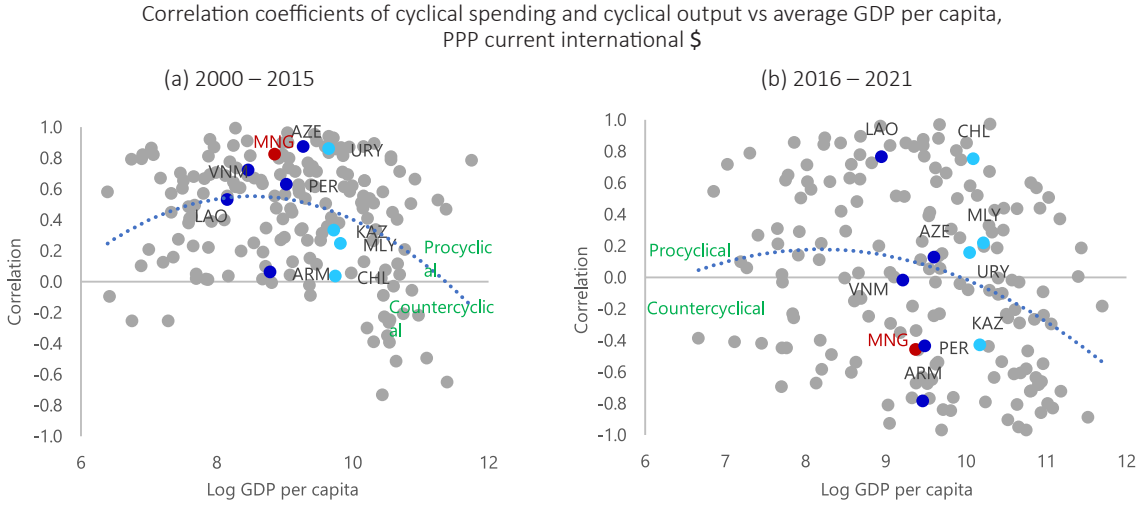
Source: WB staff calculations.

Note: Boom times (2010–2014, 2017–2019, 2022–2023) and Bust times (2009, 2015–2016, 2020–2021) determined based on annual changes in the World Bank global commodity price index. MNT/USD is average annual change. Fiscal data are as a percent of GDP. Employment/population ratio is 15+ years. Change in poverty reflects the change in the headcount poverty ratio measured at USD6.85 a day, 2017 PPP.

1. See Figures A.1.2 and A.1.3 in Annex 1.

Mongolia's own experience immediately before and during the pandemic provides a powerful illustration of the value of countercyclical fiscal policy—and a lesson for today and the future. Over the period 2000–2015, Mongolia's fiscal policy was strongly procyclical, both by global standards and relative to its resource-rich peers (Figure 1.5(a)). However, fiscal consolidation during 2017–2019 rebuilt fiscal buffers, which were used to implement Mongolia's large fiscal response to the shocks that hit the economy over 2020–2022 (simultaneous the COVID-19 pandemic, Russia's invasion of Ukraine, and border restrictions with China, see Section 1.3), helping to mitigate the economic impact on firms and households (Figure 1.5(b) and Figure A.1.3 in Annex 1).

Figure 1.5. Fiscal policy was strongly procyclical during 2000–2015, but the fiscal consolidation during 2017–2019 allowed for a large countercyclical response to the triple shock



Source: WB staff calculations based on WDI and IMF WEO April 2024 data.
Note: Cyclical component of spending and output generated using HP filter with lambda = 100.

Mongolia has adopted a rule-based fiscal framework to anchor sustainable and countercyclical fiscal policy. The Integrated Budget Law 2011 (IBL) and the Fiscal Stability Law 2010 (FSL) are the primary legislation governing Mongolia's fiscal framework. The IBL governs (i) the budget process and Medium-Term Budget Framework (MTBF), comprising the current budget year plus three years of forward budget estimates); (ii) public investment planning and the capital budgeting process; (iii) public financial management; (iv) the authority and financial resources of local governments; and (v) the internal audit function and participatory budgeting.

The IBL is complemented by the FSL (which was amended in August 2024), which contains a set of fiscal rules which impose statutory limits on the public debt-to-GDP ratio, current expenditure, and fiscal deficits. The fiscal rules in the amended version of the FSL are: (i) Deficit rules—A deficit floor of 2 percent of GDP on the structural fiscal balance (defined as the overall fiscal balance net of revenues saved in the nation's Sovereign Wealth Funds (SWFs) and Fiscal Stability Fund (FSF), see below) and a surplus floor of 2 percent of GDP on the base fiscal balance (a new terminology defined as the structural fiscal balance net of expenditures funded by debt securities and foreign loans); (ii) Expenditure rule—A cap on current expenditure at 30 percent of GDP; and (iii) Debt rule—A ceiling on public debt at 60 percent of GDP.

Mongolia also has established stabilization and saving funds designed to stabilize the cyclicality of fiscal policy and to ensure the intergenerational equity of its mineral wealth. The FSF was established in 2011 following the enactment of the FSL. Its main purpose is to insulate the budget from volatile commodity prices and provide a fiscal buffer in times of revenue shortfalls by saving mineral revenues when mineral prices are above "structural prices." When revenues from a single mineral (i.e., coal, copper, etc.) exceed 3 percent of fiscal revenues, the windfall (calculated as the difference between the market price and a "structural price"—broadly a long-term average price) is saved in the FSF. A shortfall in mineral revenues triggers a transfer from the FSF to the budget. The FSL allows for exceptions in case of recession, natural disaster, or national emergency. The Future Heritage Fund (FHF) was established in 2016 to ensure a fair and equal distribution of mineral wealth across generations by saving mineral windfalls; its reserves will remain frozen until 2030, after which 10 percent of the FHF's net investment income, or approximately 0.2–0.5 percent of the value of FHF assets, will be withdrawn annually.[2] The FHF saves 65 percent of royalties from mineral projects, after allocation to the FSF. An accompanying law to the SWF law allocated only 20 percent of royalties (after the allocations to the FSF) to this fund for 2024 (as opposed to the usual rule of 65 percent).

Weak implementation undermines the effectiveness of the fiscal framework, amplifying volatility and fiscal risks. The weaknesses in the implementation of Mongolia's fiscal framework are well-documented (see World Bank 2020a, 2021a, and IMF 2021, 2022a, 2022b), leading to fiscal policy that amplifies, rather than mitigates, the volatility of mineral rents. Key challenges include:

- **Weak compliance with fiscal rules.** Multiple amendments to the definition of public debt in the debt rule, the numerical debt limit, and the deficit ceiling have permitted procyclical spending and sharp increases in debt and off-budget quasi-fiscal activities (Figure 1.6).[3] Despite laws prohibiting BoM quasi-fiscal operations, the authorities have introduced escape clauses via other laws to allow these activities to continue. Finally, on paper, the accumulation and withdrawal rules of the FSF and FHF support countercyclical and intergenerational functions. In practice, however, the rules have been frequently relaxed to finance the budget deficit or additional spending.[4] Indeed, out of every dollar of mineral wealth that has been generated during the past 20 years, Mongolia has consumed over 97 cents and saved less than three cents (Figure 1.7).
- **New SWFs without adding additional funding sources.** In 2024, a new law on the sovereign wealth fund (SWF) made changes to the accumulation and use of the saving funds, allowing them to finance parts of the government's social and investment expenditures. The newly established SWF incorporates the existing FHF, along with two new funds, the Development Fund (DF) (to support investment expenditures) and the Provident Fund (PF) (to finance social expenditures), without adding new funding sources. Indeed, the DF receives half of the revenue that would have previously been

2. The FHF funds are currently placed at the central bank, but the government is considering investing the funds abroad in low-risk, investment-grade instruments.
3. In 2015, the definition of the numerator in the debt/GDP rule was narrowed from public debt to general government debt, thereby excluding SOE debt; government contributions to mining, energy, and railway projects; BoM liabilities; and government guarantees that are fully secured by government securities. In 2016, the FSL was amended to increase the maximum structural budget deficit to 5 percent of GDP and the debt limit to 60 percent of GDP in NPV terms (around 71 percent of GDP in nominal terms). Originally planned as a temporary measure until 2018, the reform subsequently became permanent.
4. For example, a transitory law enacted in 2018 allowed financing of the budget deficit through the FHF until 2022 and provided for repaying the debt of the Human Development Fund, a previous savings fund active from 2010 to 2016 that ultimately ended up in deficit. In 2022, the authorities changed the FHF revenue rule to reduce FHF inflows and increase structural revenues, which were used to finance the increase in the Child Money Program (CMP) allowance. Without the reform, the structural deficit fiscal rule would have been violated.

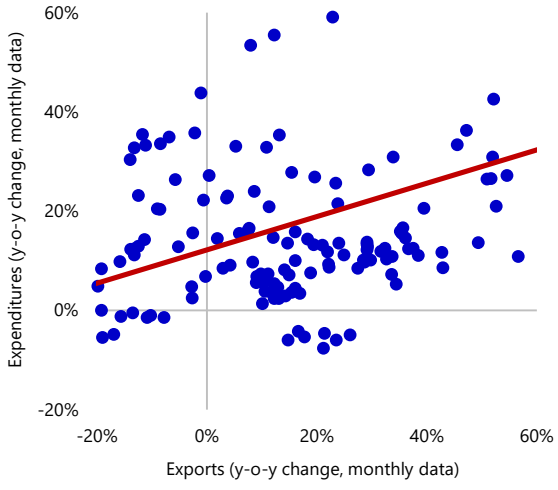
allocated to the FSF in years when the structural balance is in surplus.[5] The PF collects dividends from all existing state-owned mineral projects, limited to dividends on ownership shares of up to 34 percent, which were previously collected in the FHF.[6]

- **Overly optimistic revenue forecasts**. Inflated revenue forecasts have been consistently used to justify higher spending. When revenues have underperformed, this has led either to sharp spending cuts or—in most cases—to higher-than-expected deficits. This results in suboptimal decision-making regarding the use of fiscal buffers (such as drawing down SWFs to finance spending) or unplanned debt issuances, which can be more costly than if they were done in a more planned fashion.

- **Limited credibility and capacity of the Fiscal Stability Council (FSC).** The FSC is mandated to provide independent advice to Parliament on modeling key fiscal variables (including revenue projections), budget proposals, the MTBF, adherence to fiscal rules, and budget laws. While the government has made commendable efforts to reestablish the FSC, its legal placement under Parliament's Budgetary Standing Committee compromises its independence. Furthermore, the FSC is understaffed and lacks the technical capacity and data access required to effectively analyze macro-fiscal trends and risks, limiting its ability to conduct rigorous evaluations of fiscal performance and government fiscal plans, and to provide Parliament with robust fiscal guidance.

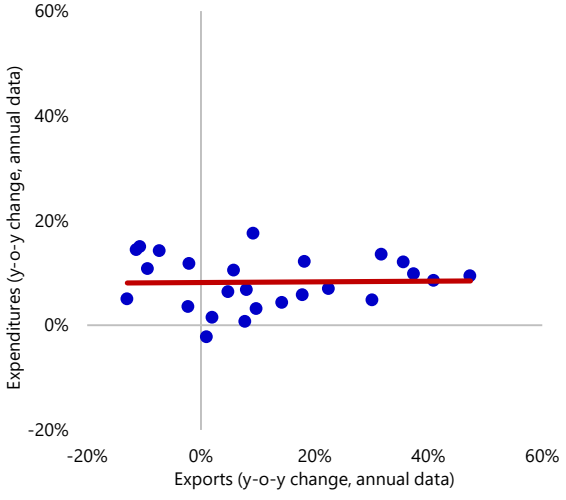
Figure 1.6. Despite similar rules for the management of natural resource revenue in Mongolia and Peru, Mongolia's expenditure pattern reveals a weaker commitment to compliance

a. Procyclical management in Mongolia (2011–2023)
Steeper regression line reveals a weaker commitment to complying with rules



Source: WB staff calculations based on data from Mongolia's National Statistics Organization. The trend is a linear R^2.

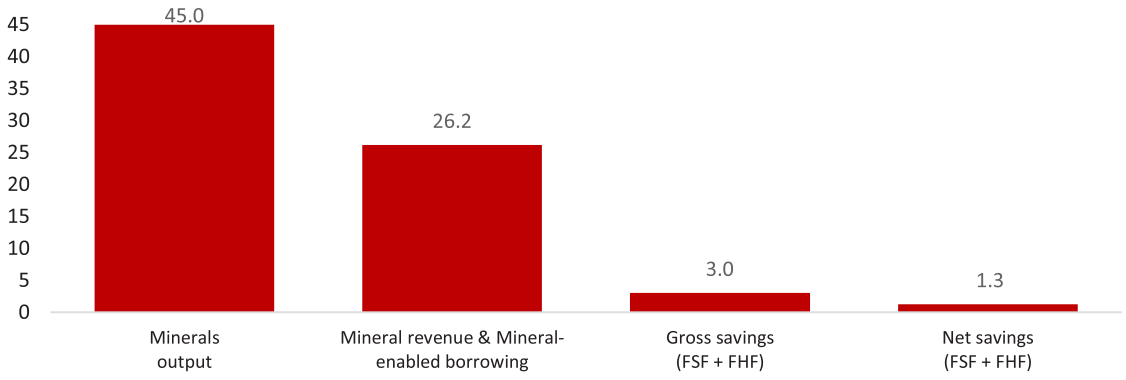
b. Countercyclical management in Peru (1999–2023)
Flatter regression line reveals a stronger commitment to complying with rules



Source: WB staff calculations based on Central Reserve Bank of Peru database. The trend is a linear R^2.

5. The PF assets will be earmarked to notional individual accounts for Mongolians citizens. Once additional regulations and digital infrastructure are established, the current generation of Mongolians will be able to draw from these accounts to finance certain health, education, and housing expenses. Currently, the fund is set to finance only housing expenses.
6. The DP will finance large strategic projects that would support the country's long term economic development and diversification agenda.

Figure 1.7. Out of every dollar of mineral output, Mongolia has consumed over 97 cents and saved less than three cents, and has less than 3 cents (cumulative value in current USD billion, 2004–2023)



Source: WB staff calculations based on MoF data.

Note: Since 2004, Mongolia has produced USD45.0 billion in mineral output. Taxes and royalties amounted to USD14.8 billion. In addition, the GoM borrowed USD11.4 billion, mostly by leveraging its mineral revenue. Since 2011, some of these revenues have been saved in the FSF and FHS: USD3.0 billion was deposited and USD2.0 billion was withdrawn from these two funds, leaving a net saving of USD1.3 billion.

Weaknesses in medium-term budgeting and the monitoring and reporting of fiscal risks also undermine fiscal sustainability. The 2021 PEFA highlighted that the coverage of the MTBF is limited and the links between the MTBF and the annual budget are weak. Budgeting for investment and recurrent expenditure tend to follow separate processes, with the former being the responsibility of the Ministry of Economy and Development (MED) (for investment projects with a value of MNT 30 billion or more) and the latter the responsibility of MoF, with limited coordination between the agencies (see Chapter 8 for a detailed discussion). There is also limited analysis and transparency of fiscal risks associated with SOEs and most types of public-private partnerships (PPPs) that are estimated to involve significant future obligations (see Chapter 2).

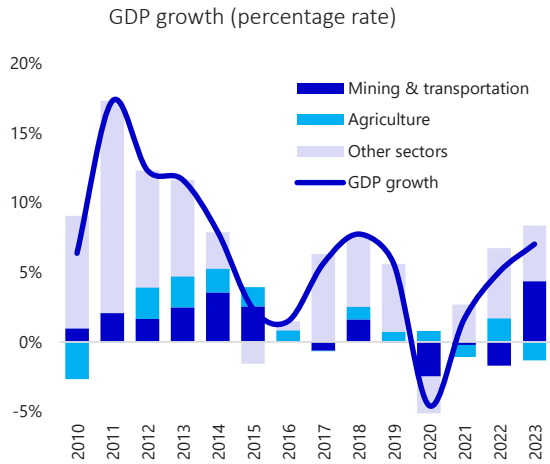
1.3. The cyclical recovery has improved fiscal outcomes, but Mongolia continues to face macroeconomic risks

Recent fiscal developments

Since 2023 a renewed mining boom has helped the economy emerge from a period of acute economic imbalances, though underlying structural fiscal vulnerabilities remain largely unaddressed. During 2020–2022, Mongolia's economy was hit hard by three overlapping external shocks—the COVID-19 pandemic, Russia's invasion of Ukraine, and border restrictions with China (Figure 1.8). These economic shocks also reverberated in Mongolia's fiscal accounts, depleting fiscal buffers and exposing the economy to a high risk of debt distress. By late 2022, however, a new boom in mining activity had begun, driving a rapid economic expansion (7.2 percent in 2023) and a cyclical improvement in the fiscal situation. However, the recent improvement masks a lack of structural adjustment in fiscal policy.

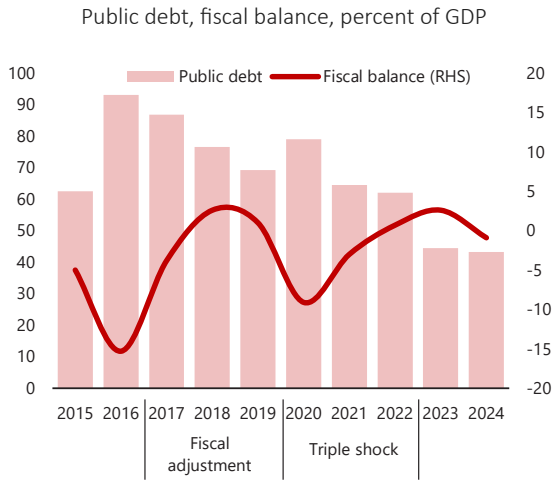
In the years preceding the triple shocks, the government undertook substantial fiscal adjustment to reduce historically high public debt (Figure 1.9). Following a sharp economic slowdown in 2016, marked by a record budget deficit and rising debt, the government initiated three years of fiscal consolidation beginning in 2017. These efforts included rationalizing public investment projects and reducing current spending, including the public wage bill. Improved revenues from enhanced tax administration (including from digitalization), along with rising mineral prices, contributed to budget surpluses and a significant reduction in public debt.

Figure 1.8. Economic growth has rebounded, led by the mining sector



Source: National Statistical Office (NSO) of Mongolia.

Figure 1.9. The fiscal adjustment in the years leading to the triple shocks contributed to the reduction of historically high public debt



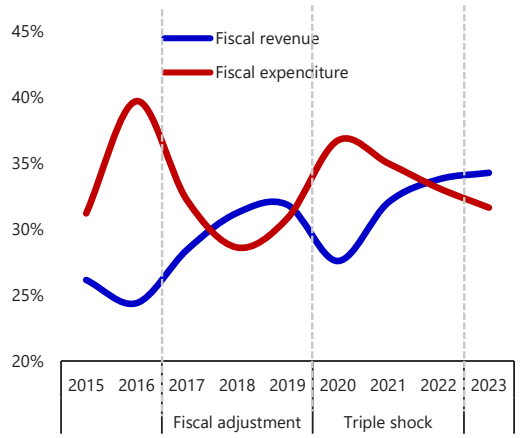
Source: MoF.

Note: Public debt includes guaranteed and non-guaranteed debt from the DBM but not the BoM's swap line with the PBOC.

The fiscal buffers rebuilt during the consolidation phase were used to finance the government's measures to mitigate the economic and social impacts of the COVID-19 pandemic. The relief package, amounting to 18 percent of GDP over 2020–2021—one of the largest in the East Asia and Pacific (EAP) region—included direct income support through expanded social welfare payments (notably a fivefold increase in the Child Money Program in 2020, reaching 3.1 percent of GDP in 2021), pension subsidies, and one-time cash transfers, driving a sharp rise in public spending. Meanwhile, revenues declined significantly due to the economic contraction (-4.4 percent in 2020, the steepest decline since the early 1990s economic transition) caused by mobility restrictions and border closures and as a result of tax relief measures undertaken by the government to support households and firms during the COVID-19 crisis (Figure 1.10). These fiscal pressures resulted in large deficits of 9.1 percent of GDP in 2020 and 3.0 percent in 2021, partly financed by drawing down savings from the FSF, which was fully depleted by the end of 2021 (Figure 1.11).

Figure 1.10. After falling due to the pandemic shock, revenues rebounded, while expenditure soared during the pandemic and remains above pre-pandemic levels

Fiscal revenue and expenditure, percent of GDP

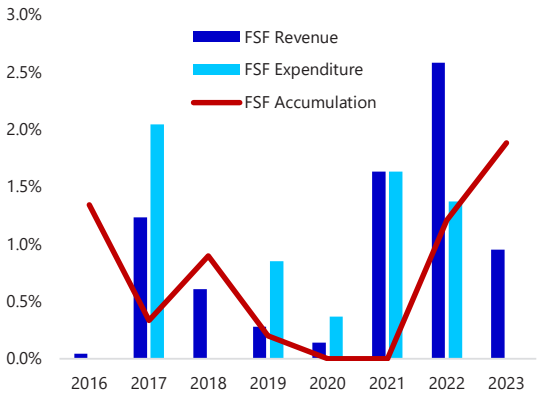


Source: MoF.

Note: Preliminary 2024 data shows that fiscal expenditure (in percent of GDP) remains above the 2017–2019 pre-pandemic average.

Figure 1.11. The Fiscal Stabilization Fund was depleted in 2020, but modest savings were accumulated in 2022 and 2023

Indicators of the FSF, percent of GDP

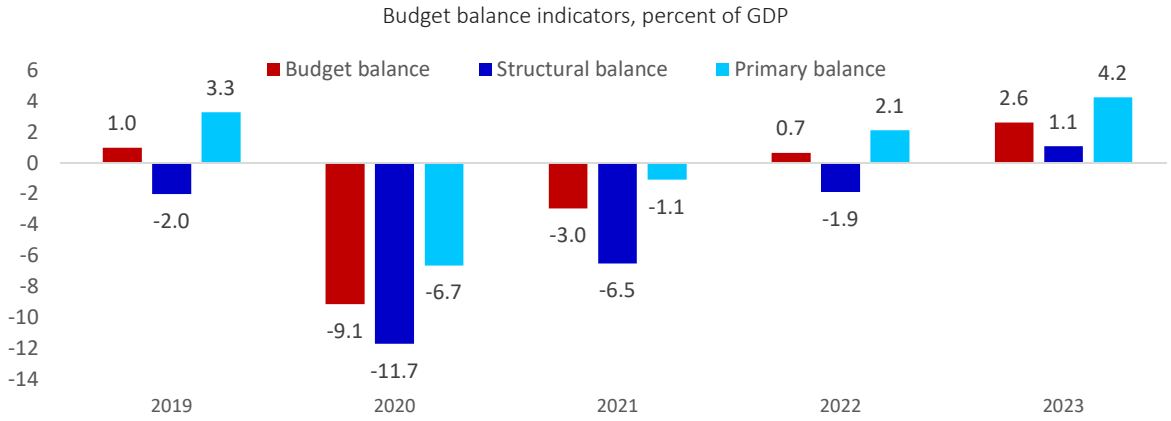


Source: MoF.

As the economy recovered from the triple shocks and then entered a new commodity-driven boom, the fiscal stance improved due to strong revenue performance, while spending has remained high (Figure 1.12). Despite the lingering effects of the pandemic, Russia's invasion of Ukraine, and surging inflation, the economy rebounded in 2022, driven by increases in exports (in particular, coal following the easing of border restrictions by China) and robust consumption. Amid the sustained economic recovery, the fiscal balance turned positive at 0.7 percent of GDP in 2022 and expanded further in 2023 to 2.6 percent of GDP, driven by an unprecedented surge in Chinese demand for Mongolian coking coal exports, which nearly doubled compared to 2019, the previous record year.[7] This helped offset the sustained high level of spending, which remains elevated and above pre-pandemic levels. Combined with robust economic growth, this contributed to a drop in public debt, falling from 79.0 percent of GDP in 2020 to 44.4 percent of GDP in 2023.

7. The surge was to replenish stocks and bolster China's steel exports, which rely on coking coal as a key input.

Figure 1.12. The fiscal balance turned positive in 2022 and 2023 as the strong rebound in revenues more than offset higher spending



Source: MoF.

Note: The structural fiscal balance is defined by the government as the overall fiscal balance net of fiscal saving funds.

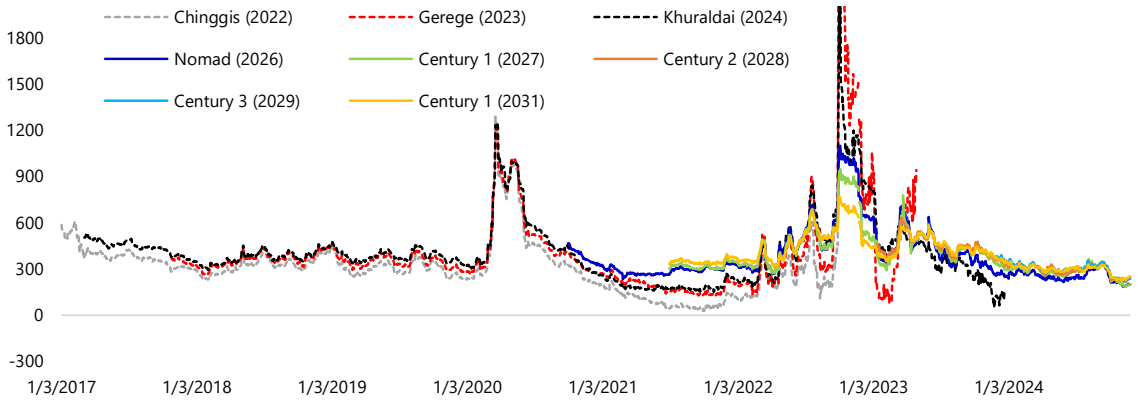
The start of a new mining boom has seen a return to procyclical fiscal policies, with budget and SOE spending significantly expanding amid a continued suspension of Mongolia's fiscal rules. With the end of the pandemic-related restrictions, the need for government support to households decreased (though persistently high inflation warranted some aid to low-income households). However, increases in capital investment, pensions and salaries, and continued large spending on the CMP are contributing to persistently high levels of fiscal expenditure. Furthermore, additional major public investments have been financed off-budget through SOEs, for example, the construction of a railway for coal transportation as part of the NRP (Box 1.2). Additionally, due to higher-than-expected revenues in 2023 and 2024, the budget was amended to increase both current and capital expenditures, with limited allocation of these surplus revenues to the stabilization and intergenerational funds, as mandated by fiscal rules.

Box 1.2. GoM's New Recovery Policy (NRP)

The NRP, a ten-year development strategy prepared in 2021, is the first stage of the government's long-term development policy called Vision 2050. While Vision 2050 targets a sustainable economy resilient to external shocks and a society with a resilient middle class, the NRP seeks to tackle Mongolia's binding development constraints and revitilize the economy following the COVID-19 shock through structural reforms and strategic projects in six thematic areas: (i) energy security, (ii) trade efficiency, (iii) industrial diversification, (iv) urban-rural development and decentralization, (v) green development, and (vi) public sector efficiency. These efforts seek to strengthen economic resilience, reduce regional disparities, address environmental challenges, and improve governance, aligning with Mongolia's Vision 2050 strategy for sustainable, long-term growth. The total cost of the NRP is estimated at about USD35 billion (233 percent of 2021 GDP), with the authorities expecting the private sector to play a key role (including through PPPs).

The recent improvements in the fiscal and debt position have reduced macro-fiscal risks and created some fiscal space; however, the country remains highly vulnerable to external shocks, and fiscal risks are still substantial. The significant decline in public debt, coupled with a strong fiscal position, enabled substantial debt repayments.[8] These factors, combined with successful debt reprofiling—including refinancing upcoming maturities through new bond issuances—resulted in an improvement in debt sustainability (see the updated DSA in Section 1.4). Proactive debt management operations contributed to easing rollover risks, as reflected in declining sovereign bond spreads (Figure 1.13). However, as shown in the DSA, public debt remains highly vulnerable to external shocks (Section 1.4). Fiscal risks also remain substantial due to contingent liabilities related to offtake coal contracts of Erdenes Tavan Tolgoi (ETT), a state-owned coal mine, adding to other existing fiscal risks such as those related to the pension system and the Housing Mortgage Program (HMP). (See Chapter 2 for a detailed discussion of key fiscal risks.) The FSF balance, at 1.9 percent of GDP by end-2023, exceeds historical levels but remains insufficient to stabilize Mongolia's significant fiscal fluctuations.[9] Combined with the modest level of international reserves, the economy remains exposed to nonnegligible macroeconomic and debt vulnerabilities, with only moderate buffers to mitigate these risks (Figure 1.14).[10]

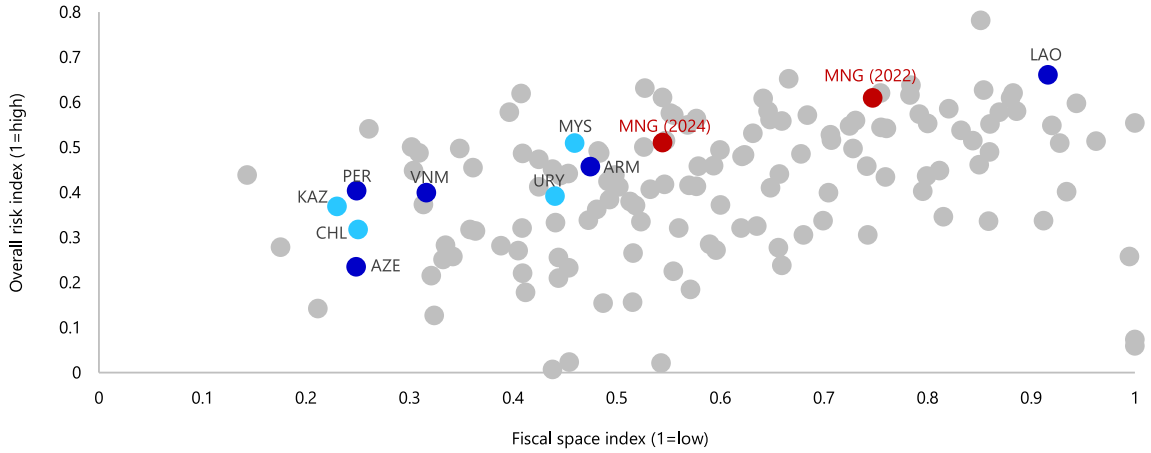
Figure 1.13. In recent months, GoM Eurobond spreads declined, returning to their pre-pandemic averages



Source: Bloomberg and WB staff calculations.
Note: Basis points above US treasury bonds of similar tenor.

8. Between 2022 and 2023, 81 percent of the decline in the debt-to-GDP ratio was due to the 28.4 percent expansion in nominal GDP (28.4 percent in 2023), while the remaining 19 percent resulted from net payments on maturing debt. The public sector repaid public and publicly guaranteed debt worth USD1.4 billion (6.8 percent of GDP) in 2023.
9. For example, the fiscal deficit reached 15.3 percent of GDP in 2016 and averaged 8.5 percent of GDP during 2020–2021, while the FSF averaged just 1.3 percent of GDP between 2011 and 2019, a level that appears insufficient to effectively mitigate such large shocks.
10. High inflation also represents a significant macrofiscal risk because it can destabilize both the real economy and public finances by eroding purchasing power, increasing borrowing costs, straining government budgets, and heightening economic uncertainty.

Figure 1.14. Despite recent improvements, Mongolia continues to face nonnegligible macroeconomic risks but has only moderate fiscal space to respond



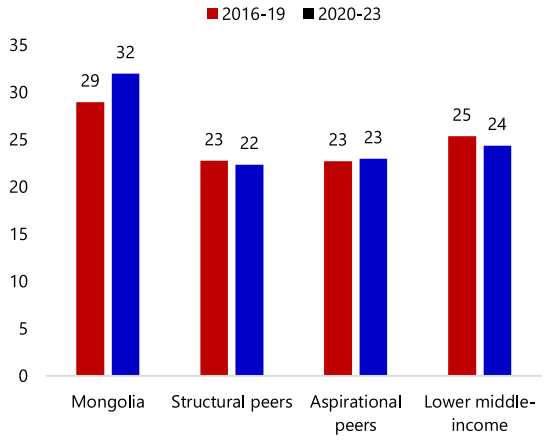
Source: WB staff calculations.

Note: Structural peers in dark blue. Aspirational peers in light blue. The overall risk index is a composite indicator of three equally weighted sub-indices for debt risks, revenue risks, and exposure to the global economy. Each category assesses countries on a scale from 0 (very low risk) to 1 (highest risk). Rankings are a percentile rank, benchmarking a country's value with respect to a particular indicator against the rest of the world. The category-level risk ranking is a simple average of rankings for each indicator within the category. Debt risks reflect general government debt and annual net interest expenses. Revenue risks reflect the level and volatility of general government revenue. Exposure to the global economy reflects exports of goods and services as a share of GDP and the Herfindahl-Hirschman market concentration index. The fiscal space index is a simple average of rankings for three indicators: the country's credit rating, general government debt, and the latest DSA rating.

In addition, the reliance on mining results in volatile revenues and presents additional challenges for Mongolia's fiscal sustainability. At 32 percent of GDP on average over 2020–2023, Mongolia's government revenues outperformed country peers (22 percent of GDP for structural peers and 23 percent of GDP for aspirational peers over the same period) (Figure 1.15(a)). Mining revenues (mainly royalties and corporate income taxes), account for more than a fifth of total revenues, resulting in an unstable revenue stream due to volatile mining production and commodity prices (Figure 1.15(b)). The anticipated long-term decline in global—and particularly Chinese—coal demand, driven by climate change mitigation policies, poses a significant challenge to Mongolia's government revenues. With coal revenues accounting for approximately 40 percent of the government's mining income from 2017 to 2023, this shift threatens the sustainability of Mongolia's high and growing expenditures. Reforms to increase non-mining revenue mobilization, as outlined in Chapter 3, are thus critical to support macro-fiscal stability and sustainable finance Mongolia's large development needs.

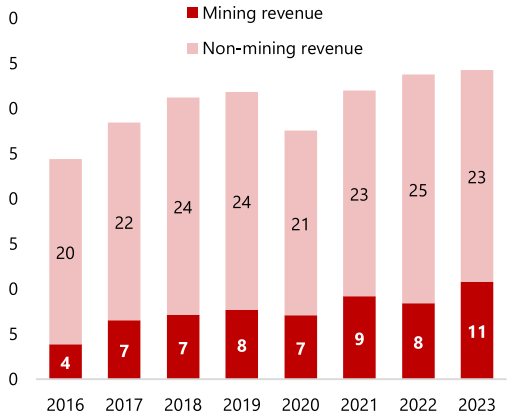
Figure 1.15. Government revenues outperform peers, but they highly rely on mining revenues

(a) Fiscal revenue, percent of GDP



Source: IMF WEO April 2024.

(b) Revenue decomposition, percent of GDP



Source: WB staff calculations based on MoF and monthly reports from Ministry of Mining and Heavy Industry.

External buffers have remained constrained, as the high level of government spending has exacerbated pressure on the balance of payments, contributing to a persistently low level of international reserves. During 2021–2022, continued high government spending put additional pressure on the balance of payments, at a time when the external accounts were already under pressure owing to higher global food and fuel prices resulting from the COVID-19 shock and the Russian invasion of Ukraine, and lower exports due to the border restrictions associated with China's zero-COVID policy. At their lowest, international reserves were equivalent to 2.4 months of import coverage in August 2022 (USD1.1 billion). While the rebound in mining exports has eased acute balance of payment pressures, sustained and significant public investment spending (both through the budget and off-budget capital spending of SOEs) and robust domestic demand associated to the economic rebound, have kept import volumes elevated, limiting the accumulation of foreign reserves (standing at USD4.7 billion as of September 2024, equivalent to only 3 months of imports).

Macro-fiscal outlook[11]

Mongolia's medium-term economic outlook has improved, but the need for greater economic diversification remains pressing. Following steady growth in 2024, economic expansion is expected to accelerate in 2025 and remain robust in the medium term (1.16(a)). A substantial rise in mining output, particularly copper and gold from the Oyu Tolgoi (OT) underground mine—which is projected to more than double its production by 2025 compared to 2023 levels—is expected to drive growth, increase government revenues, and boost exports (1.16(b)). However, continued reliance on mining is likely to limit competitiveness gains in non-resource tradable sectors and reinforce vulnerability to commodity-driven booms and busts. Additionally, macroeconomic volatility from commodity price fluctuations (potentially intensified by procyclical policies) may deter the sustained private sector investment needed for productivity growth and economic diversification.

11. The latest World Bank economic short and medium term forecasts for Mongolia can be found here: Mongolia Economic Update (MEU) Fall issue 2024.

Despite the improved outlook, medium-term fiscal sustainability remains a concern under current policy settings. The outlook for fiscal revenue is positive, with projections indicating an increase from the pre-COVID-19 average of 30.5 percent of GDP (2017–2019) to over 35.6 percent of GDP in 2024–2026 (Figure 1.16(c)). This upward trend is expected to continue, with revenues accelerating to an average of over 35.1 percent of GDP in 2027–2030. While the normalization in coal export volumes are expected to weigh on budget revenue, increased copper and gold production at the OT underground mine is expected to boost revenue.[12] However, spending is also expected to remain above historical levels, reflecting a structural increase in expenditure from a pre-COVID-19 average of 30.5 percent of GDP (2017–2019) to over 36.5 percent of GDP over 2024–2026, and nearly 36.0 percent of GDP over 2027–2030. This structural increase is driven by a sustained rise in capital spending associated with the implementation of the Four-Year Action Plan (see Box 1.3), combined with higher current spending due to the permanent increase in social protection spending, a growing pension deficit, and a steady increase in the public sector wage bill. With spending rising faster than revenue, the budget deficit is projected to average around 0.8 percent of GDP over 2024–2030, while the non-resource deficit—a better indicator of fiscal sustainability—is expected to remain persistently high, averaging over 9 percent of GDP. Although public debt is projected to follow a gradual downward trend (Figure 1.16(d))—driven by strong growth prospects and high mining revenues that more than offset buoyant public spending—it remains highly vulnerable to potential shocks, in particular external ones (see Section 1.4). Continued procyclical fiscal policy will keep debt vulnerabilities elevated for longer, exacerbate fiscal risks, and limit the accumulation of fiscal buffers that are crucial to respond to future shocks.

Box 1.3. Government Four-Year Action Program (2024–2028)

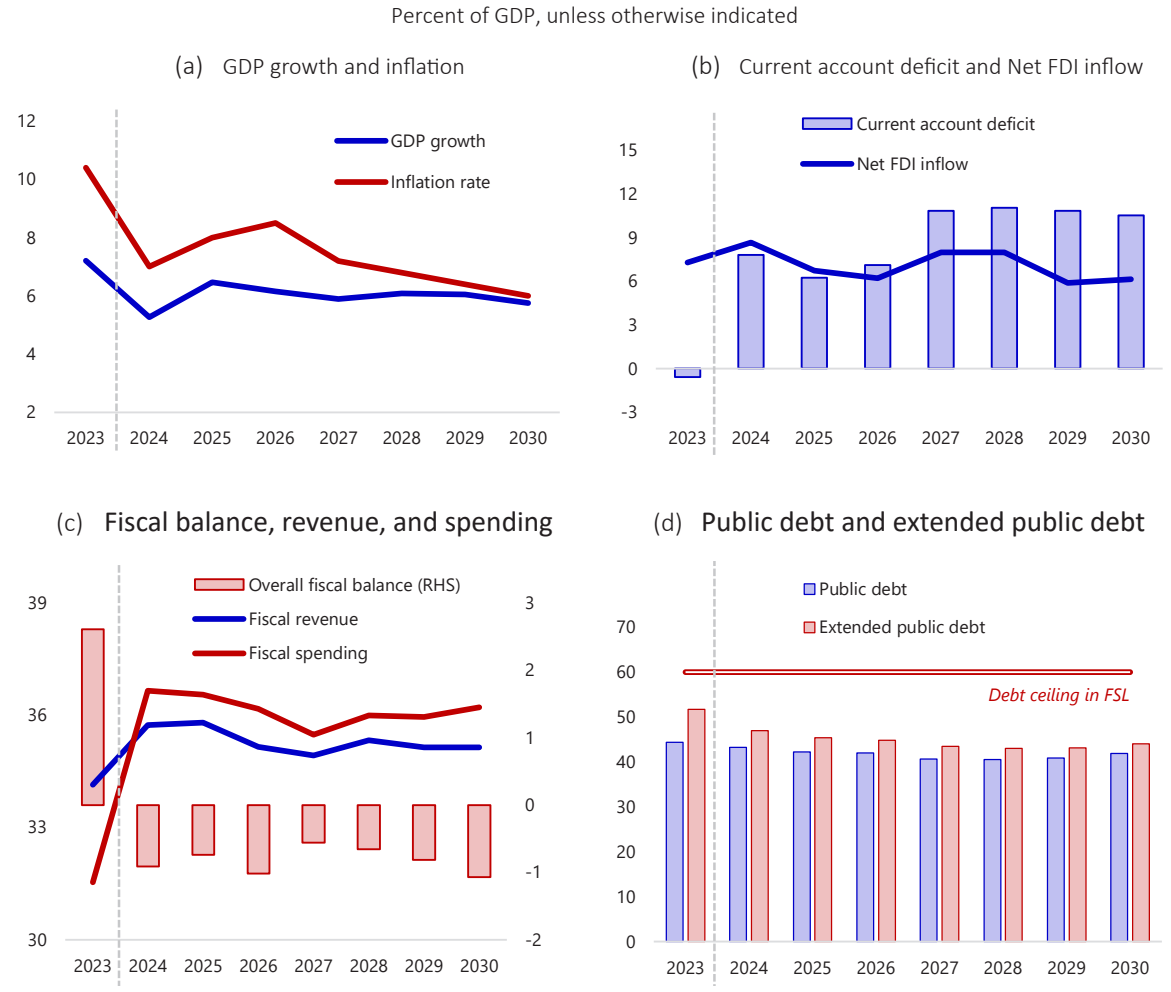
The government's four-year Action Program from 2024–2028 envisages an ambitious spending program. The plan aligns with existing medium- and long-term priorities such as Vision 2050, the NRP, and the Regional Development framework). It is structured around four pillars: regional development, human development, economic policy, and human rights and governance. The action plan envisages 14 mega-projects in transportation, energy, water, and mining-related heavy industry sectors with an estimated total cost of USD40 billion (about 200 percent of GDP). Many of these projects have been under discussion for several years and are currently in the process of securing funding, revising feasibility studies, and/or selecting contractors.

The Four-Year Action Program aspires to reach impressive socioeconomic outcomes by 2028. Upon successful completion of the action plan, the government projects GDP per capita to reach USD10,000 (an increase of around 80 percent from the 2023 level of USD5,956), halving the current poverty rate, maintaining economic growth above 6.0 percent, keeping inflation under 5.0 percent, and achieving a stable sovereign credit rating. Other outcomes cover the areas of human development, business environment, innovation, governance, corruption, privatization, economic freedom, and international competitiveness.

Source: Synthesized from the Government Action Program 2024–2028 published on www.legalinfo.mn and www.parliament.mn.

12. Under its latest production plans, significant increases in OT's production are expected in the medium term, especially over 2025–2029.

Figure 1.16. The current macroeconomic policy settings are inadequate for rebuilding macro-fiscal buffers and enhancing resilience



Source: Mongolian authorities and WB staff projections.

Note: "Public debt" comprises general government debt and DBM liabilities. "Extended public debt" comprises public debt plus the PBOC swap.

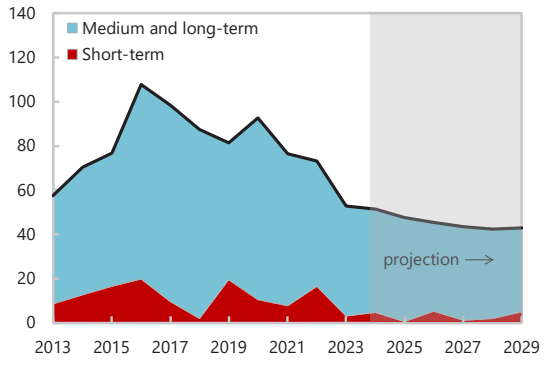
Risks to the short- and medium-term outlook are tilted to the downside. A greater-than-expected fiscal expansion (including through SOE investments and from UB city municipality) could result in larger fiscal and current account deficits and further add to inflationary pressures. Externally, Mongolia could face large negative spillover effects from (i) slower-than-expected growth in China leading to lower external demand for Mongolia's exports; (ii) an escalation of geopolitical tensions resulting in higher prices of imported oil; and (iii) a shortage in Russia's domestic gasoline supply, leading to a reduction in Mongolia's imports. Alternatively, earlier- and larger-than expected production at OT's underground mine and stronger global economic growth would support activity in Mongolia through higher commodity prices and larger mineral exports.

1.4. The risk of public debt distress has declined but vulnerability to shocks remains high

While public debt is expected to remain below the DSA's high-risk threshold (70 percent of GDP) over the projection period, it remains highly vulnerable to downside risks stemming from volatile growth and large exchange rate fluctuations.[13] Additionally, public debt is exposed to the potential realization of contingent liabilities in the financial sector and SOEs (see Chapter 2). Transferring the HMP from the BoM to an SOE would further increase debt significantly. These risks are heightened by the high proportion of foreign currency-denominated debt (Figure 1.17) and limited fiscal buffers.

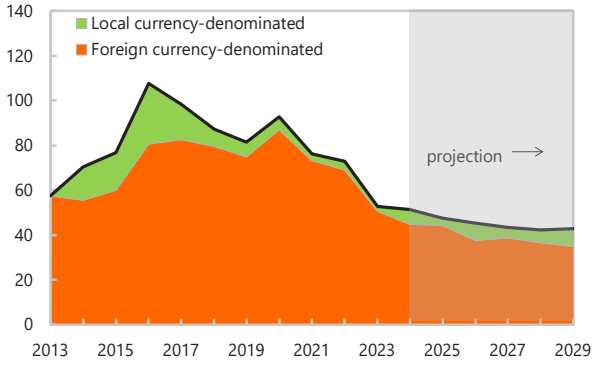
Figure 1.17. Mongolia's extended public debt stock is predominantly medium- and long-term and foreign currency denominated; the latter increases exchange rate risks

(a) By maturity, percent of GDP



Source: MoF and WB staff projections.

(b) By currency, percent of GDP



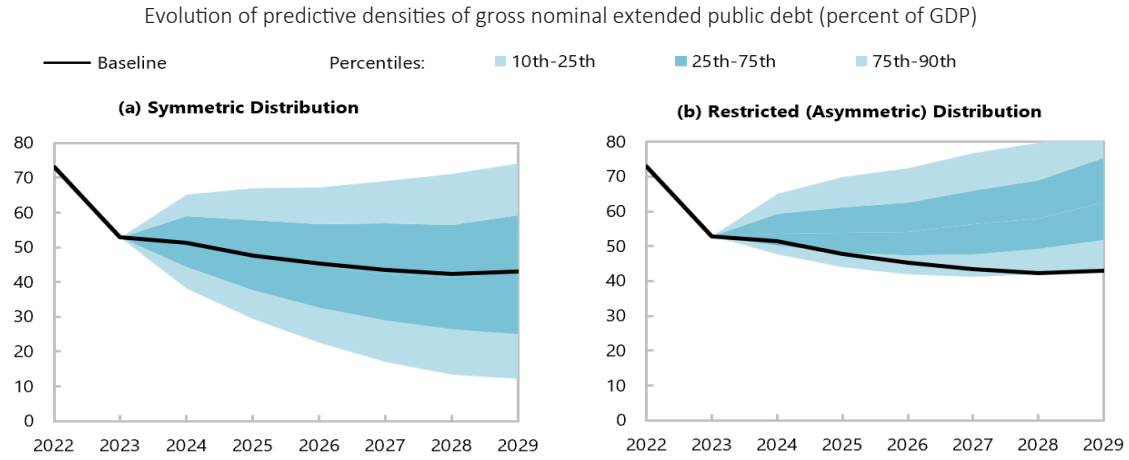
Source: MoF and WB staff projections.

Mongolia's risk of public debt distress has declined, shifting from high in 2023 to medium in 2024; however, several plausible shocks could quickly elevate this risk once again. The Debt Sustainability Analysis (DSA) risk assessment shows that, while public debt remains below 50 percent of GDP throughout the projection period under the baseline scenario, high volatility and the materialization of significant fiscal risks could rapidly drive up debt levels (Figure 1.18), pushing the risk of debt distress to high under a range of plausible shocks, including growth, exchange rate, real interest rate, contingent liability in financial sector and SOEs, and primary balance shocks (Figure 1.19).[14] Furthermore, with a substantial share of extended public debt denominated in foreign currency, the debt stock and debt service payments are highly sensitive to currency depreciation. Mongolia's external debt, largely issued on market terms, is also exposed to interest rate risks. Although current sovereign spreads are moderate, they spiked dramatically in October-November 2022 after revelations of the ETT offtake coal agreements,

13. Two definitions of public debt are used in this section. "Public debt" comprises general government debt and DBM liabilities, while "extended public debt" comprises public debt plus some external central bank liabilities. Extended public debt is used in the DSA analysis, consistent with IMF policy on the Market Access Country DSA (MAC-DSA). However, public debt is used in the fiscal sustainability analysis, since public debt dynamics are directly affected by the fiscal stance and reforms, while external BOP liabilities (e.g., the PBOC swap) are not.
14. The DSA in the IMF Article IV 2023 found that Mongolia was in high risk of debt distress.

and again in March 2023 amid banking sector turmoil in developed markets. Additional domestic or global shocks could significantly increase interest rate risk in Mongolia's debt profile. This high volatility in sovereign risk premia deters foreign investment, underscoring the importance of countercyclical fiscal policies to ensure macro-stability, attract private sector investment, and accelerate economic diversification. The DSA is presented in Annex 2.

Figure 1.18. High volatility and the realization of significant fiscal risks could swiftly escalate debt levels



Source: WB staff calculations and projections.

Note: The asymmetric fan chart restricts positive realizations of the shocks to the exchange rate and the primary balance. More specifically, the following restrictions apply to the upside scenario: (i) No restriction on the growth rate shock; (ii) No restriction on the interest rate shock; (iii) 0 is the maximum positive primary budget shock (percent of GDP); and (iv)-10 is the maximum real appreciation shock (percent).

Figure 1.19. Mongolia's public debt distress risk is rated as medium in the Public DSA Risk Assessment Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock	Combined Macro-Fiscal Shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock	Combined Macro-Fiscal Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt	N/A

Source: WB staff calculations.

Note: 1/ The cell is highlighted in green if debt burden benchmark of 70 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline.

2/ The cell is highlighted in green if gross financing needs benchmark of 15 percent is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. Lower and upper risk-assessment benchmarks are: 200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency-denominated debt.

1.5. Making this time different: Fiscal reforms to support macroeconomic stability and fiscal sustainability

Along with enhancing economic resilience in the short term, fiscal reforms could also boost growth in the medium and longer term. Adopting a medium-term fiscal adjustment strategy will help reduce macro-fiscal volatility, address key fiscal risks, sustainably and equitably boost revenue, enhance the efficiency and equity of spending, and rebuild fiscal buffers. Furthermore, a successful adjustment that lowers Mongolia's macroeconomic risks and rebuilds fiscal buffers could bolster longer-term growth by reducing volatility and policy uncertainty, crowding in private investment (reflecting a lower equilibrium real interest rate), and strengthening Mongolia's resilience to shocks (Balasundharam et al. 2023). Empirical evidence shows that a gradual and credible fiscal adjustment decreases sovereign spreads and debt-to-GDP ratios, with lower domestic financing costs associated with stronger growth dividends (Anzoategui, 2022, and Gupta et al. 2005). Moreover, improving spending efficiency—both in public investment and current expenditures, including in social sectors—can raise potential output, thereby supporting sustained economic growth in the medium to long term.

Options for a medium-term fiscal adjustment

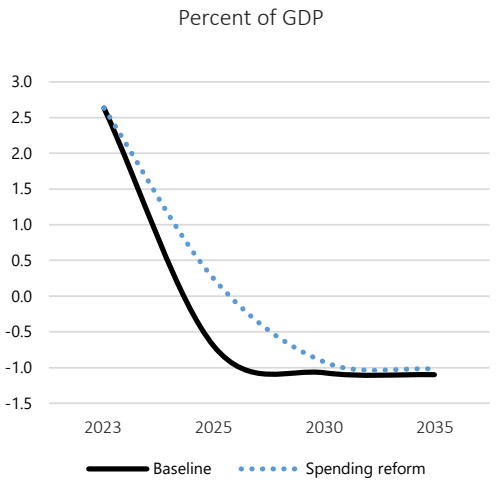
A customized macro-structural model[15] is used to estimate the impacts of fiscal reforms on the fiscal balance and potential output growth (Figure 1.20 and Figure 1.21). The analysis presents an illustrative "*spending reform*" scenario, focusing on public investment and social sector spending reforms. The assumptions for this scenario are outlined below:

- **Public Investment:** The *spending reform scenario* assumes the implementation of reforms to strengthen Public Investment Management (PIM) systems and processes, leading to a gradual improvement in public investment efficiency. Specifically, PIM reforms—such as those outlined in Chapter 8—are expected to raise the ratio of public investment spending to public capital stock from 0.22 (Mongolia's 2010–2019 average) to 0.54 (the average of peers) over five years.[16] Given that public investment in Mongolia is already relatively high (see Chapter 8), no additional increases beyond the baseline are assumed to finance the green transition. Instead, it is assumed that the substantial public financing needs outlined in the World Bank's 2024 Country Climate and Development Report (CCDR) will be met through reallocation and greater efficiency and prioritization in PIM.

15. This section uses the MFMod, a World Bank's structural econometric model. In this model, structural relationships are developed to be both consistent with economic theory and the observed dynamics of the economy. Most parameters are estimated using an error correction approach. The equations' equilibrium or steady state conditions are derived to be consistent with economic theory. In contrast, short-run dynamics are data-driven, with estimated parameters reflecting the actual behavior of the economy. As a result, the speed of adjustment of each country specific model to its economically determined long-term equilibrium as well as the steady-state to which each return depend mainly on the actual historical behavior of the economy.
16. As a caveat, the public investment-to-capital stock ratio has limitations as an efficiency measure, as it does not account for output quality and is challenging to compare across countries with different capital stock levels.

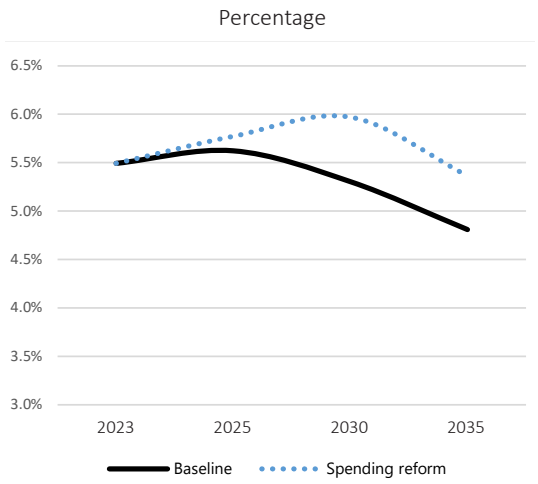
- **Social sector spending**: The *spending reform scenario* assumes that the implementation of reforms to the social assistance system outlined in Chapter 5 will deliver fiscal savings of 1 percentage point of GDP per year over the medium term. Half of these savings are assumed to be used to rebuild fiscal buffers, while the other half is used to improve quality and equity in the health and education sectors, as outlined in Chapters 6 and 7. The efficiency savings identified in these chapters are assumed to be reinvested in the priority areas in these sectors, resulting in a zero net impact on the fiscal balance.

Figure 1.20. Fiscal balance under baseline and spending reform scenarios



Source: WB staff calculations.

Figure 1.21. Potential output growth under baseline and spending reform scenarios



Source: WB staff calculations.

The model simulations indicate that the fiscal reforms recommended in this report can rebuild fiscal buffers and boost potential output growth. Lower fiscal deficits would provide greater fiscal space (either by reducing debt or increasing fiscal savings) enhancing the government's ability to respond to future shocks, strengthen resilience and mitigate macroeconomic and fiscal volatility. Additionally, the fiscal adjustment would ease demand-side inflationary and balance of payment pressures. Enhancing technical and allocative efficiency in the social sectors would strengthen human capital, while improving public investment efficiency would facilitate the accumulation of more productive physical capital—both of which would boost long-term potential growth.[17] Equitably increasing revenues, non-simulated here, would further allow for additional building up of fiscal space while progressively contributing to diversification from volatile mining revenues.

17. Empirical evidence also indicates that the public investment multiplier is likely to be higher in an environment of falling public debt and higher quality PIM (Furceri and Li 2017; Huidrom et al. 2020; Abiad, Furceri, and Topalova 2016; and Berg et al. 2019).

1.6. Recommendations

Enhancing Mongolia's fiscal and economic resilience depends critically on strong policy actions to reduce macro-fiscal volatility and rebuild fiscal buffers in the near term, and to lay the foundations for stable, diversified growth in the longer term. This section outlines policy recommendations on (i) fiscal reforms to boost growth, resilience, and equity; (ii) strengthening the fiscal framework for macro-stability; and (iii) structural reforms to diversify the economy and enhance macro-fiscal resilience.

Undertaking fiscal reforms to enhance growth, resilience, and equity

Well-designed fiscal reforms can strengthen Mongolia's economy while ensuring long-term financial stability. Fiscal reforms that equitably raises revenue and improves spending efficiency across the social sectors, public investment, and the intergovernmental transfer system can raise potential output while creating fiscal space to meet Mongolia's large development spending needs, managing the risk of debt distress, and rebuilding fiscal buffers to prepare for future shocks. By improving the quality of public infrastructure, human capital, and fiscal sustainability, fiscal reforms could also support the diversification of the economy, maintain access to international debt markets, and lower financing costs—helping to reduce macroeconomic volatility.

A credible medium-term reform plan will be essential to reduce recurrent spending, which has been scaled up in recent years, enhance overall spending efficiency and equity, and complement these efforts with measures to improve the equity, simplicity, and transparency of the tax system, which would also support stronger revenue mobilization. Key areas of focus should include gradually returning social assistance spending to pre-pandemic levels while improving its efficiency and implementing pension reforms to reduce reliance on state subsidies (Chapters 2 and 5). The quality and effectiveness of capital spending must also be improved through measures aimed at improving the prioritization and selection of projects (Chapter 8). Reforms in the health (Chapter 6) and education (Chapter 7) sectors should aim to achieve efficiency gains, enabling the reallocation of resources to areas of greatest need in a more equitable manner. Additionally, overhauling the intergovernmental transfer system could enhance efficiency and ensure a fairer distribution of resources across subnational governments (Chapter 10). These spending measures should be complemented by revenue reforms to improve equity, efficiency, and transparency, while also strengthening revenue mobilization (Chapter 3). Table E.S.1 outlines the specific fiscal reform recommendations from this report.

Strengthening the fiscal framework to support macro-stability

Simplifying fiscal rules and explicitly including escape clauses, while enhancing the FSC's capacity and roles, would improve the credibility of the fiscal framework and support a more countercyclical expenditure policy, helping to reduce macro-fiscal volatility. Simpler rules offer a transparent, straightforward, and effective framework that is easier to communicate and monitor (including by citizens), providing a stronger deterrent against political pressures. The recent shift to a nominal public debt-to-GDP ratio limit, replacing the less transparent public debt-to-GDP NPV ratio, is a positive development, since the previous ratio was harder for the general public to interpret. Fiscal rules should also be enforced more systematically, with clear escape clauses and a defined pathway for returning to them when activated. Implementing

these rules requires robust accountability and checks and balances to prevent changes or circumventions for short-term political objectives. Thus, institutionalizing an independent FSC with strengthened capacity—through adequate staffing, budget resources, and authority to access necessary information—is essential for supporting a more countercyclical fiscal policy. In addition, to strengthen the impact of the FSC in monitoring and ensuring compliance with fiscal rules, adopting a more user-friendly approach for communicating its findings is essential.[18] International evidence suggests that binding fiscal rules on natural resource wealth improve fiscal sustainability and development outcomes (see, for example, Grosse Steffen, Pagenhardt, and Rieth 2021). However, achieving these benefits requires strong institutions, accountability, and checks and balances to prevent rules from being altered or bypassed for short-term political goals. In this regard, the FSC has a crucial role to play.

Prioritizing savings in the FSF rather than the SWF—at least until a certain threshold is reached—would help to rebuild fiscal buffers and mitigate macroeconomic volatility. As of end-2023, the FSF balance was 1.9 percent of GDP. In comparison, since the FSF was established in 2011, the annual fluctuations in the fiscal balance have averaged over 5 percent of GDP. At its current level, the FSF is inadequate to smooth government spending in the face of volatile mineral revenues. Rigorous implementation of the FSF's deposit and withdrawal rules can help to build sufficient buffers to mitigate both macroeconomic and natural disaster risks. Reforms to the FSF and SWF deposit rules may also be required—at least until a certain threshold FSF balance is reached. Over the medium to long term, accumulated savings could be rebalanced between the FSF and the SWF.

Lowering the debt limit rule to 50 percent of GDP would materially reduce macro-fiscal vulnerabilities and help to rebuild fiscal buffers. The debt limit was recently revised to 60 percent of GDP (down from 60 percent of GDP in NPV terms, equivalent to 71 percent of GDP). However, previous IMF analyses (2021, 2022a, and 2022b) suggest that a lower threshold of 50 percent of GDP may be more appropriate for Mongolia to mitigate the risk of unsustainable debt levels**.** IMF simulations show that this lower anchor would significantly reduce the risk of debt exceeding safe levels in the event of future adverse shocks.[19] Ideally, the fiscal rule debt limit should also cover budget liabilities incurred by the BoM (HMP and swap with People's Bank of China, PBOC) and implicit contingent liabilities from SOEs (including the Development Bank of Mongolia (DBM) and the HMP, if the program is transferred to an SOE).

18. An effective model to consider is the traffic-light system used by the Slovak Council for Budget Responsibility. This intuitive method simplifies the presentation of complex fiscal information, making it more accessible to the general public. Furthermore, following the OECD's recommendation to Chile's Autonomous Fiscal Council, the FSC could greatly benefit from implementing a robust communication strategy. This strategy should involve hiring dedicated staff focused on enhancing interactions with key stakeholders such as parliamentary bodies, the media, and the public. Additionally, the communications strategy should incorporate a systematic approach to monitor and evaluate the influence of the FSC's work. This can be achieved by tracking metrics such as the reach and engagement levels of its published reports and media interactions (OECD 2020).

19. Among emerging market economies that have adopted fiscal rules, a debt limit of 60 percent of GDP is the most common. However, given Mongolia's greater reliance on external debt and large fiscal risks, the IMF argues that a lower threshold (50 percent of GDP) is required to mitigate the nation's higher risks and macroeconomic volatility. The IMF analysis uses a standard stochastic debt simulation method for emerging market economies (Eyraud et al. 2018). The model accounts for significant procyclicality in the fiscal response to terms of trade shocks and for Mongolia's significant contingent liabilities. Several simulations are considered for different maximum public debt thresholds and different levels of contingent liabilities. The debt rule is calibrated to ensure that the maximum debt threshold is not breached with a 90 percent probability. The simulations indicate that nominal public debt to GDP of 50 percent is a valid debt limit for Mongolia.

Institutionalizing credible and consistent medium-term revenue, expenditure, and debt strategies can help to strengthen the MTBF, manage fiscal risks, and ultimately reduce macro-fiscal volatility. However, a strengthened MTBF—underpinned by strategies for revenue, expenditure, and debt—can help to reduce the impact of volatile revenues, prioritize spending, and strengthen fiscal and debt sustainability in the face of these shocks. A medium-term revenue strategy (MTRS) should focus on increasing domestic revenues, improving tax efficiency and equity, and improving mining revenue forecasting. A medium-term expenditure framework (MTEF) can help to prioritize spending and key investments, particularly to support economic transformation, enhance climate resilience, and link capital and current spending. An MTRS and MTEF should also be linked to simple, transparent, and binding fiscal rules to manage windfall revenues, including rules on SWF accumulation and withdrawal. Finally, these should be placed within the context of a medium-term debt strategy (MTDS) to ensure that the overall fiscal strategy is sustainable, debt-related risks are managed, and contingent liabilities are monitored with sufficient buffers set aside.[20] This should be accompanied by reforms to address the source of these key fiscal risks emanating from the DBM, PPPs, the SOE sector, the transfer of the HMP to the GoM, and the pension system (see Chapter 2).

Reinforcing macro-fiscal resilience through structural reforms to diversify the economy

Building a resilient and diversified economy in Mongolia will require a comprehensive approach, combining structural and fiscal reforms to reduce dependence on mining-led growth and foster balanced, sustainable development. Mongolia's medium-term growth outlook hinges heavily on the mining sector. This reliance has limited its long-term competitiveness, increased macroeconomic volatility, and hindered the development of a more inclusive and resilient economy. Achieving the goals set out in Mongolia's Vision 2050 will involve not only fiscal reforms to strengthen macro-fiscal stability but also structural reforms to boost the non-resource economy. This transition demands a balanced national asset portfolio, including natural resources, physical and human capital, and strong institutions (see the Mongolia Country Economic Memorandum [CEM], World Bank 2020a). While Mongolia has made some progress in developing physical and human capital, it could more effectively channel natural resource revenues into other forms of capital. Potential growth constraints, such as pollution-related health issues, low education quality, and inadequate infrastructure in energy, urban, housing, transport, and digital sectors, persist. Additionally, strengthening public administration and SOE reforms to enhance social service delivery, along with improving business regulation to unlock private sector growth, will further reinforce Mongolia's economic institutions. The World Bank's 2024 Policy Note provides specific recommendations to address these challenges. Furthermore, Mongolia's carbon-intensive growth model, reliant on coal for energy and heating, contributes to local pollution and adverse health impacts. As global demand for coal—particularly from China—declines amid the shift to low-carbon practices, Mongolia faces an urgent need to transition away from coal dependency (see the Country Climate and Development Report [CCDR], World Bank 2024a).

20. The last MTDS was approved by the Parliament in 2022 and covers 2023–2025.

CHAPTER 2:

REDUCING FISCAL RISKS

CHAPTER 2: REDUCING FISCAL RISKS

2.1. Introduction

In addition to the weaknesses in the fiscal framework outlined in Chapter 1, substantial contingent liabilities pose fiscal risks that could also jeopardize macro-fiscal resilience and exacerbate volatility. This chapter analyzes five key fiscal risks that have grown in recent years and are now substantial, threatening debt sustainability, and assesses options to mitigate these risks. Not all of these risks can be readily quantified, but a partial estimate suggests that explicit and implicit contingent liabilities together amount to at least 10.2 percent of GDP (Table 2.1). This chapter first considers four key sources of quasi-fiscal operations—the DBM, PPPs, SOEs, and the HMP. Most of these have not been transparent under existing budget and financial reporting arrangements. Particular attention is paid to the ambitious infrastructure plan in the NRP and, more recently, in the 4-year Action Plan, and how full implementation would significantly increase these quasi-fiscal operations and their associated fiscal risks. The chapter then assesses the fiscal costs of the pension system. It concludes with a set of policy options to reduce these fiscal risks as part of the medium-term fiscal reform outlined in Chapter 1.

Table 2.1. Substantial contingent liabilities threaten fiscal stability

Fiscal risk		Nature of contingent liability	Potential size (% of 2023 GDP)
1. DBM	i. Non – guaranteed domestic debt	Implicit	1.0%
	ii. Non – guaranteed external debt	Implicit	0.6%
2. PPPs	i. Build-transfer (BT)	Explicit	0.2%
	ii. Build-operate-transfer (BOT)	Implicit	Not known
3. SOEs	i. ETT offtake coal agreements	Implicit	Not known
	ii. Tax arrears, overdue payments to DBM, and GoM subsidies due to weak performance	Implicit	At least 2.4%
	iii. Privatization costs	Implicit	0.1–1.7%
4. Transfer of HMP debt stock to GoM or an SOE		Explicit	4.1%
5. State subsidy to the pension system		Explicit	1.7% in 2023 (3.1% in 2050)
TOTAL		**Explicit**	**6.0%**
		Implicit	**At least 4.1%**
		Explicit + Implicit	**At least 10.1%**

Source: WB staff estimation.

2.2. The DBM's weak governance and balance sheet pose fiscal risks

The DBM has a history of weak corporate governance. A state-owned bank, the DBM was established in 2011 to finance strategically significant sectors for Mongolia's economic development. However, from 2012–2016 the government used the DBM as a major off-budget financing vehicle, particularly for public investment projects, with allocations averaging 5.2 percent of GDP.[21] Subsequent audits by the National Audit Office and PricewaterhouseCoopers (PwC) both confirmed significant weaknesses in corporate governance, policies and procedures, and internal controls. In 2015, the DBM's non-commercial activities were brought onto the budget.[22] In 2017, the DBM law was amended to transform the bank into an independent, self-sustainable, financial institution focused only on commercially viable projects, and brought the DBM under the BoM's supervision. The authorities also took several steps to improve corporate governance, including opening senior management positions to external hiring. Nonetheless, the DBM remained saddled with debt—externally-audited financial statements show a net loss on operations from 2016–2021 (largely due to loan impairment)—and asset quality remained a major concern.

In January 2022, a BoM audit revealed that 58 percent of the DBM's loans were classified as non-performing (MNT 1.7 trillion, 3.5 percent of GDP) and another 25 percent as past due. Despite the 2017 reforms, poor lending practices and inadequate oversight led to a significant deterioration in asset quality mainly due to weak governance, with several illegitimate loans to individuals identified as beneficial owners of borrowing companies.[23] The bank has also struggled to objectively measure risk, value collateral accurately, rate borrowers, and monitor borrowers to ensure that loans are being spent on the projects for which they were given.[24] Non-performing loan (NPL) recovery is underway, aided by a June 2022 Cabinet Resolution (No. 220) urging SOEs and borrowers with state participation to repay DBM NPLs (MNT 556 billion, around one-third of total NPLs). Although still significant, the total share of impaired loans in DBM's lending portfolio declined to 43.7 percent by the end of 2023, following haircuts and debt collection efforts.

Ongoing balance sheet weaknesses call into question the bank's viability, and with outstanding debt totaling 1.6 percent of GDP as of end-2024 (of which 0.6 percent is non-guaranteed external debt), a GoM bailout could create a sizable fiscal cost.[25] Despite significant efforts to strengthen DBM's balance sheet over the past two years, as of end-2023, 56 percent of DBM's loans were non-performing and another 8 percent past due (1.8 and 0.3 percent of GDP, respectively) (DBM 2024). The persistence and degree of balance sheet impairment calls into

21. This was done to bypass the deficit ceiling in the FSL, which became effective in 2012. DBM's off-budget spending was channeled through preferential loans to finance government capital expenditures, as well as projects led by private sector entities and SOEs.
22. Yet, DBM's corporate loan programs—funded by government-guaranteed external debt—remained (and remain) off budget.
23. DBM has also been under investigation by the Independent Authority Against Corruption for providing favorable loan terms to some companies with links to high-level politicians, with several former directors arrested in 2022.
24. See PWC 2018. A 2023 Parliamentary Review Committee confirmed that weaknesses remain in DBM's lending practices and oversight, with over 80 percent of loans being either completely or partially used for unintended activities (Department of Media and Public Relations 2023).
25. In May 2024, the DBM issued a non-guaranteed international bond of USD151.7 million, which is equivalent to 0.6 percent of GDP.

question whether the bank can continue to operate normally. If DBM's governance cannot be effectively, credibly, and durably strengthened and the long-term viability of its business model clarified, it may be appropriate to consider closing DBM to reduce fiscal risks.[26]

2.3. PPPs are a significant source of fiscal risk

PPPs represent another significant source of fiscal risk. Over the past decade, two types of PPP-style contracts have been used to finance public capital projects—build-transfer (BT)[27] and build-operate-transfer (BOT) contracts. Involving the private sector in the financing and management of public infrastructure and other investment projects can have advantages in terms of efficient delivery of infrastructure services, provided that the allocation of risks between the public and private sectors is adequately managed and the direct fiscal costs and contingent liabilities do not compromise fiscal sustainability. However, in Mongolia, existing BT and BOT contracts have traditionally not been included in the Public Investment Management (PIM) process and financial reporting arrangements. This means they are not subject to the same level of scrutiny and prioritization as directly funded projects with fiscal costs and risks remaining opaque. While some progress to improve transparency has been made in recent years, there remain areas for further improvement in the management of PPPs, including by integrated BTs, BOTs and other forms of PPPs into a comprehensive PIM framework (see Chapter 8 for a detailed discussion). Management of fiscal risks from PPPs has gained more importance to ensure the development impact of the NRP, which envisages an additional MNT 20.0 trillion of investment, roughly 29 percent of GDP across 21 BOT projects.

The government's cessation of concluding further BT-style contracts in 2017 marked a key step toward improving fiscal prudence, though repayments from past contracts continue to constrain fiscal space. BT contracts were used during 2014–2017, primarily for transport and energy projects. Recognizing significant fiscal risks from such contracts, the government stopped new BT contracts in early 2017. Yet, repayments of outstanding BT contracts remained and reached a peak of over MNT 600 billion. Repayments from past contracts are expected until 2025 (totaling around 0.2 percent of GDP), reducing fiscal space available for development and investment.

The BOT portfolio has had a limited direct impact on the fiscal position to date; but as a common form of PPP, poses fiscal risks. BOT contracts are an internationally recognized form of PPP, as they usually involve some genuine risk-taking by the private partner.[28] Since 2011, the GoM has signed several BOT contracts for projects mainly related to energy and transport. Most of the BOT contracts were yet to start, with only two smaller contracts completed as of mid-2023. The authorities have terminated a number of stale contracts. The outstanding BOT portfolio includes eight projects valued at around 16 percent of GDP.

26. Despite these balance sheet weaknesses, in late-2023 the DBM fully repaid ¥30 billion in Samurai notes and USD654.4 million for two USD-denominated external debts (reducing DBM's overall debts by 1.8 percent of GDP). Also, all key credit rating agencies upgraded DBM's credit rating in 2024, consistent with the upgrade in the sovereign credit rating.
27 Although they are described by the GoM as PPPs, BT contracts are not recognized outside the country as PPPs, as there is no form of risk transfer to the private partner. Instead, they are effectively a deferred payment scheme using contractor finance.
28. Under this contract arrangement, a private party finances, builds, maintains, and operates the item(s) for a specified period, then transfers it to the relevant public authority. During operation, the private party has the right to collect user fees to recover its investments, operating, and maintenance expenses. When the government is the only credible paying customer, these fees are paid directly by the government creating a direct obligation for the life of the contract (often decades long). Examples include power and water projects where there are not full cost recovery tariffs (as in Mongolia), or socially orientated projects in general.

Continued efforts are needed to further improve assessing, managing, reporting, and disclosing the direct and contingent fiscal costs of the BOT portfolio. A comprehensive and regularly updated database of all signed and potential contracts/projects of this nature would be needed, including information on: (i) project specifications, costs, and risks; (ii) contract details, including terms that could create direct or contingent costs on the budget, or have other fiscal, policy, or operational implications; and (iii) updates, amendments, and regular monitoring reports. This would allow the authorities to have comprehensive and accurate knowledge of direct and contingent costs ex-ante, and ex-post reporting and disclosure. Better communication of information, assessment, monitoring, and transparency would strengthen fiscal management, which will help attract higher-quality private sector participants. Adequate risk sharing is also important. For example, implicitly guaranteeing a Power Purchase Agreement (PPA),[29] would transfer demand, operational, and currency risks from the private entity to the public sector excessively.

There are additional fiscal risks from increasing actual contract costs due to inflation and exchange rate depreciation. Most of the active BOTs were signed between 2011–2019, yet the contract values have not been updated, while annual inflation has averaged 8.4 percent since 2011 and 8.8 percent since 2019. Over the same period, the bilateral MNT/USD exchange rate depreciated by 167 percent (since 2011) and 27 percent (since 2019) as of mid-2024. Higher actual costs due to inflation and depreciation are likely to increase the actual costs of outstanding projects, compared to the contract values estimated 5 to 13 years ago.

2.4. Weak SOE performance and governance create significant contingent liabilities

SOEs have a dominant role in the economy. SOEs dominate the mining sector; electricity generation, transmission, and distribution; rail, air, and road transport; fixed-line telecommunications and capital market infrastructure; and development finance. In 2020, the 107 central government SOEs had total assets, liabilities, and revenues equivalent to 230 percent, 134 percent, and 34 percent of GDP, respectively, and employed 49,000 staff, representing 3.4 percent of Mongolia's labor force. While the SOE sector is broad, it is also highly concentrated. For example, in 2020, mining SOEs accounted for around 80 percent of total SOEs' assets and liabilities and 60 percent of revenues.

However, the SOE sector suffers from weak performance, which creates fiscal risks. Despite their large role in the economy, SOE dividends remain negligible, with the whole SOE sector generating a return on equity of just 0.2 percent in 2020 (World Bank 2021b). While some larger SOEs are relatively well-performing, overall SOE sector profitability was weak prior to COVID-19 and deteriorated further during the pandemic, driving around half the SOEs into loss-makers.[30] Weak profitability reflects operational inefficiencies in mining SOEs, and public sector mandates of public utility SOEs to support socioeconomic development goals (including setting

29. A PPA provides a guarantee to an electricity generator that a specified level of power will be bought in the future at a pre-agreed price. If consumer tariffs are below cost recovery (as is the case currently in Mongolia) or supply exceeds demand, a PPA could represent a sizable fiscal risk.

30. Median return on assets (ROA) was 0.06 and 0.12 in 2018 and 2019, falling to-0.7 and-0.1 in 2020 and 2021, with the bottom 10 percent of nonfinancial SOEs surveyed having persistent ROAs of -4 to -6. The top 10 percent of SOEs had ROAs of over 11 percent in 2018 and 2019, falling to 4–6 percent in 2020 and 2021 (IMF 2022b).

energy tariffs below cost recovery levels and the provision of affordable housing). The latter has led to persistent GoM subsidies to cover energy SOE losses and on-lending of foreign loans to finance large capital projects. Deteriorating SOE financial conditions also led to a buildup of SOE NPLs to DBM (MNT 556 billion in 2022 or 1.0 percent of GDP), contributing to DBM's acute financial stress.

SOEs have historically been used to implement quasi-fiscal operations, a practice that has continued in recent years linked to offtake coal agreements. Aside from helping to deliver public sector mandates, SOEs have also been enlisted by the state to deliver public infrastructure projects—with projects sometimes only tangentially related to the SOE's core business. Most recently, this has been evident in ETT's numerous multi-year offtake coal agreements. While some of these agreements remain confidential, the declassified contracts add up to USD3.2 billion payable in coal until 2027 (equivalent to one-fifth of total exports in 2023, 16 percent of GDP). The loans are financing four infrastructure megaprojects that are part of the NRP—a coal refinery plant, a crude oil pipeline, railroads, and bridges. While neither ETT nor the individual projects have an explicit guarantee from GoM, given the strategic importance of ETT and the NRP projects, it is likely that the authorities would step in if ETT were to face difficulties in meeting its obligations. The risk that this contingent liability could materialize is exacerbated by the large volume of ETT future coal production already pledged to meet separate advance payment contracts (64.4 million tons, equivalent to one to two years of production), ETT's mixed performance, and the opaque financial management and poor performance of ETT's parent SOE, Erdenes Mongol.[31]

Weak financial reporting, disclosure, and auditing undermine the GoM's capacity to monitor financial performance of SOEs and properly assess their fiscal risks. Mongolia's mining sector scored 70 out of 100 points in the 2021 Resource Governance Index, an increase of 6 points since the 2017 index. Despite this progress, multiple challenges remain. Financial information is not readily available for most SOEs.[32] Even when available, the quality and reliability of the financial reports are often problematic. A comprehensive register of all SOE loans, sovereign guarantees, and contingent liabilities for the government does not currently exist. Moreover, Mongolia lacks laws requiring the publication of contracts signed with extractive companies or the disclosure of beneficial ownership information about extractive companies. SOE capital projects are also not part of the government's budget and PIM systems, undermining efforts to ensure that scarce resources are directed to their highest marginal return and to manage contingent risks to public finances.

In 2022, GoM contingent liabilities from non-financial SOEs were estimated to be at least 3.1 percent of GDP (2.4 percent of 2023 GDP) (IMF 2022b). This comprised outstanding tax arrears (0.3 percent of GDP), overdue payments to DBM (1.1 percent of GDP), and net lending from the budget to electricity, power, and railway SOEs (1.6 percent of GDP). In addition, non-financial SOE's had pending account payables and social security premium payables estimated at 2.2 percent of GDP. The GoM as a guarantor of the loans or majority shareholder would be obliged to cover the contingent liabilities in case of their financial distress.

31. ETT reported losses in five out of seven years between 2010–2016, with an average return on assets (ROA) of -9.4 percent. Profitability improved prior to COVID-19 and recovered strongly in 2022, with profits for 2017–2022 averaging MNT 645 billion (USD234 million) with an ROA of 4.6 percent. However, Erdenes Mongol, ETT's parent company and one of the largest SOEs in the mining sector, did not report any profits from 2006 to 2015. From 2016–2018 it reported average profits of MNT 13.8 billion (USD5.5 million). The company again released financial statements for 2022 and 2023, distributing dividends of USD327 million (1.3 percent of GDP). Considering that Erdenes Mongol claimed to hold USD3.9 billion in assets in 2018, the company's ROA has been poor since inception (World Bank 2021c).

32. This is despite the Law on Glass Accounts (2014) requiring that all government agencies and SOEs make information on budgets and financial matters, including financing and debt, available to the public.

Depending on the scope of the reform, the additional fiscal costs of SOE privatization were estimated at about 0.1–2.5 percent of 2022 GDP (0.1–1.7 percent of 2023 GDP) (IMF 2022b).[33] These estimates are based on two scenarios: (i) IPOs covering the 23 SOEs listed in Cabinet Resolution No. 244 (dated June 29, 2022); and (ii) expanding the IPO to 40 non-financial SOEs for which the rationale for retained public ownership is unclear.[34] In each scenario, it is assumed that SOEs that have been insolvent or loss-making in the last five years could enter into bankruptcy after privatization, in which case, the government—as majority shareholder—would cover mandatory expenses (wages, social security contributions, and non-guaranteed debt). Under Scenario 1, the estimated fiscal cost of the IPOs is relatively small, at 0.1 percent of GDP. However, if the privatization scope is expanded to include SOEs with larger liabilities under Scenario 2, then the estimated fiscal cost expands to around 2.5 percent of GDP.

2.5. The HMP could create additional fiscal risks

Launched in 2013, the HMP provides fixed-rate 20–30-year housing loans at state-subsidized interest rates. It was introduced to increase the affordability and accessibility of apartments for urban residents. It is a key pillar of the GoM's housing strategy, which seeks to increase the housing stock by 370,000 housing units by 2040, and thus to reduce the housing deficit from the current estimated 50 percent to 20 percent by 2040.[35] Over the last five years (2019–2023), the HMP has supported around 7,800 new mortgages each year. The program originally established a top interest rate of 8 percent, with the rate reduced to 6 percent in October 2020. It is financed by the BoM and commercial banks. Despite several attempts to transfer the public subsidy to the budget, these efforts had limited success.[36] Indeed, the BoM exited the program on January 1, 2020. However, BoM financing of the program was restarted in April 2020 as part of the government's pandemic response.

The HMP is a large quasi-fiscal program and is regressive. As of end-2023, outstanding HMP loans reached MNT 5.2 trillion (7.3 percent of GDP). By providing access to subsidized interest rates, the program provides a substantial implicit subsidy to borrowing households, estimated at 0.6 percent of GDP annually over the past five years (2019–2023).[37] However, key aspects of the program's design mean that most of the benefits accrue to richer households. First, although loans are only available for apartments of up to 80 square meters, even these are too expensive for most of the population. Second, the program provides a flat interest rate regardless of the size of the loan and is not means tested. Thus, larger mortgages attract higher subsidies. Consequently, most of the subsidy is allocated to top income groups with a regressive impact both in absolute and relative terms (see Chapter 9 for a quantitative analysis). There is also evidence that the program has led to inflated house prices (Doojav and Damdinjav 2021).

33. The net fiscal cost of privatization would be smaller due to: (i) fiscal revenues from the share sale; and (ii) the reduction in fiscal transfers to loss-making SOEs would offset the cost of contingent liabilities.
34. Energy SOEs were excluded because the GoM does not intend to privatize energy SOEs in the near term given that the sector operates on a noncommercial basis.
35. The housing stock is currently estimated to be increasing by around 13,000 housing units annually. The targeted reduction in the housing deficit is consistent with the 2040 Ulaanbaatar Master Plan.
36. The 2018 amendment to the BoM Law prohibited quasi-fiscal operations, although the BoM administration of the program continued until January 2020. From 2017 to January 2020, no new net financing was provided to the HMP from the BoM. Additional loans were made using principal repayments and interest inflows to the BoM, along with new net financing from the budget (BoM 2021).
37. This is estimated by calculating the difference between the average annual interest rate on HMP loans outstanding and the average annual market interest rate on mortgages outstanding and applying this difference to the stock of HMP loans outstanding. It suggests that the implicit subsidy has averaged around MNT 280 billion per year, or 0.6 percent of GDP.

Finally, the HMP may have led to an inefficient allocation of capital to the housing sector and may have contributed to the crowding out of private mortgage lenders.

While plans to move the HMP and its debt stock out of the BoM are welcome, the transfer to the GoM creates additional fiscal risks. The authorities plan to transfer both the HMP operations and the associated MNT 3.0 trillion (4.1 percent of GDP) in residential mortgage-backed securities (RMBS) currently held by BoM, to the GoM (either to an existing ministry or an SOE). The intention is that in exchange for the RBMS portfolio, the GoM/SOE will issue a corporate bond to the BoM. If the RMBS portfolio is transferred to an SOE rather than to a ministry, then the debt will not be recorded in the public sector debt-to-GDP ratio, as defined in the FSL fiscal rules. However, as SOE debt, it still represents a sizable contingent liability and is included as part of public debt for the purposes of the DSA discussed in Chapter 1. HMP NPLs and past due loans have remained below pre-COVID-19 levels since late 2021 and have increased only marginally since pandemic-related forbearance measures were unwound in January 2023. Another economic recession that raises NPLs or a natural disaster that destroys loan collateral could put pressure on the new HMP administrator, requiring government support to meet its obligations. This risk will be amplified if the program expands.

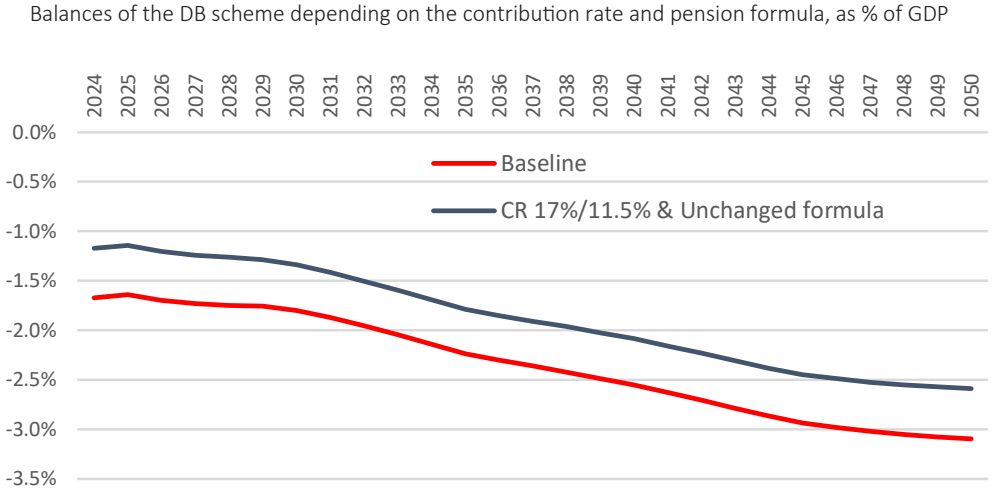
2.6. Further pension reform is necessary to reduce fiscal liabilities and secure sustainability

Despite recent reforms, the national defined benefit (DB) pension scheme, managed by the Social Insurance General Office (SIGO) under oversight of the Ministry of Family, Labor and Social Protection, will continue facing a growing reliance on the general budget financing. To address the rising demographic and financial pressures on its pension system,[38] Mongolia has introduced a series of reforms, most recently in July 2023. The key measure improves the coordination between the gradually increasing retirement age (from 55 for women and 60 for men to 65 for both) and the increasing minimum service requirement from 20 to 25 years (at a rate of three months annually for each). Together, these two parameters determine the individual retirement age eligibility, while their interplay over time will result in an increased average retirement age.[39] Additional reforms include annual pension benefit adjustments tied to inflation, beginning in 2025, and a shift to a new DB formula with flat accrual rate of 2 percent per year, starting in 2029. However, some recent changes may temper these positive impacts. A new funded contribution scheme (FDC) now diverts 2 percent of wages into the individual Pension Reserve Fund (see below), correspondingly reducing the contributions to the DB scheme for both the mandatory and voluntary participants. The wage period used to calculate the old-age pension benefits was shortened from seven to five best consecutive years.[40] While this change may increase the monthly pension benefits, it also makes the system more vulnerable to manipulations with wages, especially for those who contribute on a voluntary basis, as evidenced by the SIGO data. The system retains relatively high minimum pension level and allows early retirement for certain groups, such as those in specialized professions, adding further costs to the system.[41] Without further reform, pension expenditures are projected to rise to 7.0 percent

38. Over the next 25 years, the old-age dependency ratio is expected to worsen from 17 percent to 24 percent, with the number of retirees compared to contributors rising from 39 percent to 60 percent.
39. In 2024, individuals must have at least 21 years and 9 months of service to retire at the ages of 55 for women and 60 for men. Those with less service will only become eligible for retirement at 56.5 years for women and 61.5 years for men.
40. For the purpose of pension calculations, the historic wages are adjusted with the rate of 60 percent of wages and 40 percent inflation, making the very old wages less relevant for the pension benefit calculations.
41. See Mongolia: Pension Policy Reform Options (World Bank 2020b) for a detailed background and discussion of the pension system.

of GDP in 2050 compared to 5.6 percent today, excluding costs of the military pensions. Under the baseline scenario (Figure 2.1, red line), the deficit of the system will reach 3.1 percent of GDP by 2050 (up from 1.7 percent in 2024), which exceeds the 2 percent threshold prescribed by the government's State Policy on Pensions Reforms 2015–2030.

Figure 2.1. Despite recent reforms, the DB pension scheme will remain increasingly dependent on general budget financing



Source: WB PROST calculation.

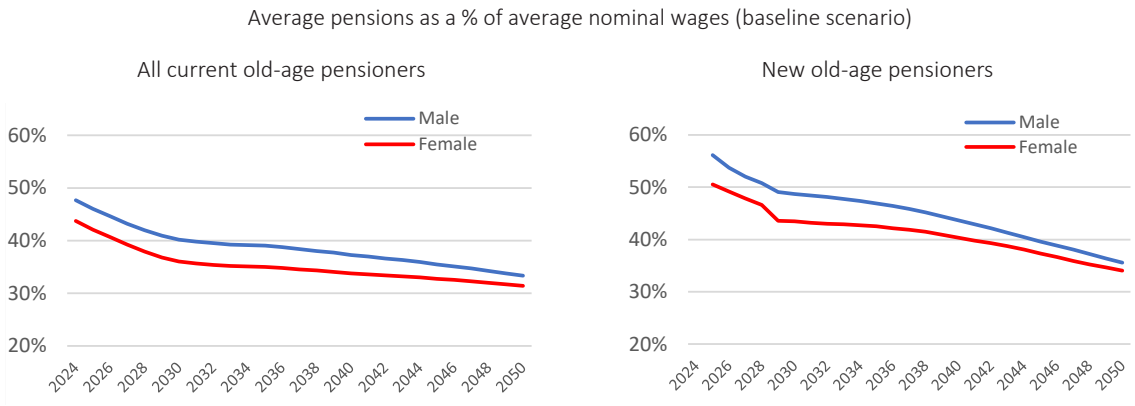
Note: The red line (baseline) assumes contribution rates of 15 percent for compulsory contributors and 9.5 percent for voluntary contributors, with calculation of the wage base using the last five years of earnings, and shift to a flat accrual rate of 2 percent for each year of service in the pension formula in 2029. The blue line shows results prior to the recent changes, as it uses higher contribution rates—17 percent for compulsory contributors and 11.5 percent for voluntary contributors, with unchanged formula (seven-years' wage base and guaranteed replacement rate 45% + 1% for each year of extra-service). Other assumptions are common to both scenarios: (i) implementation of the 2017 reforms, including a gradual increase in the retirement age to 65 for those with incomplete service length; (ii) pensions are indexed annually to 100 percent of inflation; (iii) minimum wage indexed to 100 percent of nominal wage growth; (iv) minimum pension indexation assumes as follows: in 2025, the minimum pension remains at the 2024 level; in 2026–2028, the minimum pension will be indexed to 100 percent of inflation, and then to 100 percent of nominal wage growth to maintain its value at 75 percent of the minimum wage, as stipulated by the legislation, (v) expenditures on military pensions are excluded.

The implementation of the FDC scheme will lead to a revenue loss of 0.5 percent of GDP for the DB scheme due to the 2-percentage point reduction in its contribution rate, while impact of the new FDC scheme on benefit adequacy remains uncertain. The general budget will bear the full cost of transitioning to the new FDC scheme, with only a partial offset from the parametric changes mentioned earlier. Introducing an FDC scheme is a complex public policy decision with significant fiscal implications, which may also affect the adequacy of pension benefits.[42] A combination of the reduced generosity of the DB formula and the provisions for early withdrawals from the individual FDC accounts indicates that the policy of shifting a portion of the contributions from the current DB scheme to the new FDC scheme may result in the reduced combined retirement benefits in most cases. Without a clear strategy of converting the FDC savings into regular supplementary pension payouts, this policy risks undermining the objective of providing secure and adequate pensions in the future.

42. See "Fiscal Sustainability of Mongolian Pension Scheme" in Mongolia 2022 Economic Update, World Bank 2022b, for a detailed discussion of the options and risks of an FDC scheme in Mongolia.

The adequacy of benefits and equity of the Mongolia's pension system require closer attention. While indexing benefits to inflation brings predictability to pension spending, prevents ad hoc increases, and helps control costs, it gradually erodes pension value relative to wages (Figure 2.2). Moreover, limited indexation over time reduces the differentiation between individual pension levels, as the minimum pension (set at 75 percent of the minimum wage) is likely to rise faster than most of the low-level individual pensions. Minimum pension itself is set at a relatively high level, disincentivizing a significant number of workers from contributing beyond the qualification for the minimum pension. Addressing these issues in the next phase of reforms is crucial to mitigate potential social discontent. As an option, the combined price-wage indexation could help preserve pension benefit differentiation over time, thereby strengthening incentives for higher contributions. Furthermore, such an approach to indexation would be particularly important if the minimum pension guarantee is reduced further or delinked from the minimum wages, making pensioners less economically protected. As the government is considering a gradual transition to a Notional Defined Contributions (NDC) scheme as a core new mechanism of accounting of pension rights to replace the current DB scheme, the issue of benefit adequacy in the NDC scheme needs to be carefully analyzed, as preliminary indications point to potentially rapid drop in the new benefits.

Figure 2.2. The adequacy and equity of Mongolia's pension system demand greater attention



Source: WB PROST calculation.

2.7. Recommendations

The medium-term fiscal adjustment and reform outlined in Chapter 1 should be complemented by reforms to reduce key fiscal risks, which can help to lower the risk of debt distress and create space for countercyclical fiscal policy. Most urgently, additional fiscal buffers are needed to protect the budget from the potential realization of these large contingent liabilities (estimated to be at least 10.1 percent of GDP). In parallel, actions are required to reduce the size of these fiscal risks as part of the medium-term fiscal adjustment and reform. Such reforms can: (i) lower the risk of public debt distress by reducing contingent liabilities, helping to reduce macroeconomic volatility; (ii) signal to investors the GoM's commitment to fiscal prudence, helping to maintain bond market access to roll over maturing sovereign external debt; and (iii) lower Mongolia's sovereign risk spread, reducing the private sector's cost of capital for investments to support the economy's structural transformation. This section summarizes policy options to address the five key sources of fiscal risk analyzed in this chapter.

Strengthening DBM's governance

There is an urgent need to strengthen DBM's corporate governance in the short term, while GoM could consider introducing private participation in the ownership and management of DBM in the medium term. Improvements have been proposed for DBM's corporate governance, specifically its: (i) risk management framework and credit approval processes; (ii) internal controls (including internal audits); (iii) liquidity management, including liquidity stress testing; and (iv) FX risk management (World Bank 2021b). Once sufficiently strengthened, the authorities could consider introducing private participation in the ownership and management of DBM. This could further improve its financial performance and remove a significant fiscal risk. Given that the bank is now focused solely on commercially viable projects, the business case for state ownership is more tenuous. Indeed, to the extent that the State-directed strategic projects financed by DBM are economically and commercially viable, then they should be able to attract at least some private financing. The above corporate governance improvements will be especially necessary if the chosen privatization route is to list DBM on the Mongolian Stock Exchange, which requires at least three years of profitability, as well as conformity to disclosure and other corporate governance standards.[43]

Reinforcing the PPP legal framework

Strengthened regulatory and institutional frameworks are urgently needed to ensure the sustainability of PPP projects, in light of the planned scaling up of BOT contracts under the NRP. Approved in December 2022, the new PPP law has established a legal framework that, if implemented fully, should create better conditions for improved fiscal sustainability and transparency. Most urgent is the need to: (i) establish a comprehensive and regularly updated database with information on project specifications, contract details, and fiscal implications; and (ii) strengthen the MoF's role as a gatekeeper to manage PPP-related fiscal risk, including developing analytical tools and capacity to assess PPP projects for fiscal costs and risks ex-ante, and to monitor and disclose them ex-post. Without strong safeguards, the expansion could lead to considerable fiscal risks. Reform options to strengthen PIM systems and mitigate the fiscal risks from PPPs are discussed in detail in Chapter 8.

Enhancing SOE's governance, reporting, and oversight

Improved corporate governance and disclosure are a crucial first step to strengthen SOE performance and fiscal risk management. SOE reform is critical to improve efficiency and reduce contingent liabilities. However, any reform to SOE ownership should be preceded by measures to strengthen governance, reporting, and oversight (including of SOE debt), enhance risk assessment, and modernize regulatory frameworks (including updating energy tariffs to cost recovery levels). The draft SOE law in preparation contains important improvements in financial and performance reporting. However, additional legislative changes will be needed to better align the SOE legal framework with international best practice.[44]

43. World Bank 2021b provides further information on privatization options.
44. For example, the IMF 2022a notes that additional reform should (i) establish a centralized fiscal risk oversight unit (preferably within the MoF) with power to collect information from SOEs and the capacity to monitor and mitigate the risks originating from SOEs; (ii) establish a state ownership policy that clarifies the extent of government influence in SOE decision making and of financial obligations the GoM might assume on behalf of SOEs; and (iii) centralize the state ownership model to a single ministry rather than decentralized to line ministries.

Subsequently, a carefully designed and sequenced divestment from non-core assets could reduce contingent fiscal liabilities. However, the partial privatization of insolvent SOEs could involve significant fiscal costs. To mitigate this risk, the privatization agenda should be based on a multi-year plan and be preceded by the improvements to corporate governance and transparency listed above.[45]

Transferring the HMP to the GOM while enhancing its governance and prioritizing affordable housing

To mitigate fiscal risks, the transfer to the GoM should be accompanied by robust governance, transparency, risk management, and capacity building. This includes the adoption of international good practices regarding transparency, upskilling of staff at MoF and the new administrator to assess and monitor the RMBS portfolio for potential costs and risks, and an independent board of directors if a new SOE is created. The new administrator will also need considerable capacity building to support the transfer of day-to-day operations of the HMP.[46] Transparent reporting and clear communication with market investors will be required to mitigate the risk that the transfer could lead to higher sovereign borrowing costs, exacerbating the already high risk of debt distress.

Over the medium term, the HMP should be reformed to increase its pro-poor impact, attract private capital to the housing sector, and grow the mortgage market. At a minimum, the GoM should introduce a targeting criterion for the program to make it more pro-poor and less distortionary. This would also help to mitigate the fiscal risk to some extent. A redesign of the program to focus on affordable housing for the bottom 40 percent of the income distribution would improve public spending efficiency, progressivity, and poverty reduction impact. The program could also help to encourage more environmentally friendly buildings by requiring that properties meet certain criteria in green construction and energy efficiency. More broadly, achieving the GoM's housing supply target by 2040 will require a more active role for the private sector in the mortgage market. This will require measures to address structural obstacles and disincentives to greater private sector participation, such as a shortage of zoned and serviced land, and weaknesses in the judicial foreclosure process, property valuation, property registration and mortgage rights transfer, and the legal and regulatory framework for capital markets.

Undertaking parametric and structural reforms to the pension system

To enhance the sustainability and fairness of the pension system, reforms should focus on tightening early retirement privileges, improving benefit indexation, and expanding the wage base for pension calculations. This can be done by gradually raising the minimum required service further, from 25 to 30 years, to qualify for retirement at the statutory retirement age. People who meet the increasing years-of-service requirement would not be affected by the higher retirement age. Strengthening this connection between the individual years of service and the right to retire at a certain age would encourage people to work longer, making the pension system more sustainable. The age of early retirement could also be gradually increased. Also, pensions, as core insurance, should be more flexibly structured and linked to individual

45. World Bank 2021b provides a detailed assessment of SOE privatization options, and guidance on preparing and implementing the privatization program.
46. The BoM is expected to stay engaged, both by lending trained staff to the new administrator and by providing training.

participation in the system, such as length of service and earnings. Today, the minimum pension is close to 80 percent of the average rate of pensions. To provide for greater benefit differentiation, the minimum pension guarantee would have to be gradually reduced—for example, from 75 percent of the minimum wage today to around 50 percent of the minimum wage. In parallel, the benefit indexation rule will need to be adjusted to reflect both inflation and wage growth.[47] These changes would likely be budget-neutral in the longer run, while improving benefit security, reducing the need for future ad-hoc adjustments, and supporting greater differentiation in pension benefits. This alignment with insurance principles would also help maintain incentives for participation. Additionally, gradually expanding the wage base to lifetime earnings (from the current five years) with strengthened mechanisms for adjusting past wages, ensures fairer benefit calculations, reduces manipulation, and strengthens incentives for all workers, particularly voluntary contributors.

To strengthen the long-term sustainability and transparency of the pension system, structural reforms should be considered to reduce reliance on deficit financing and improve resilience to future shocks. To address the growing focus on the social aspect of the pension system (minimum income),[48] which increasingly relies on budget funding, the government could separate the pension benefit into two components: (i) a basic pension, funded largely through the government budget, and (ii) a streamlined insurance pension funded by contributions. The basic pension would act as a stand-alone minimum retirement income instrument, while the insurance component would continue as a contributory earnings-related scheme. This approach would improve transparency and manageability while enabling greater flexibility in setting parameters for each component to better respond to future social and fiscal challenges. In addition, if transition to the NDC scheme is still desirable, a careful analysis should look at the issues of equity across cohorts of the new pensioners. Significant drops in the pension benefit levels of the new pensioners may be a considerable reputational risk of this reform for the government.

47. For instance, adjusting benefits annually based on 50 percent inflation and 50 percent wage growth.
48. The proportion of minimum pension recipients is expected to be about 60 percent of all old-age pensioners in the long run.

CHAPTER 3:

EFFICIENT REVENUE MOBILIZATION

CHAPTER 3: EFFICIENT REVENUE MOBILIZATION

3.1. Introduction

Mongolia's revenues are highly volatile due to its heavy reliance on mining, with long-term fiscal stability at risk as declining global coal demand, threatens government revenue. As outlined in Chapter 1, from 2020 to 2023, government revenues averaged 32 percent of GDP, outperforming peers, yet over a fifth stemmed from mining, exposing revenues to commodity price and production fluctuations. Coal, which accounts for about 40 percent of mining income, poses a particular risk as global demand—especially from China—is expected to significantly decline in the long term. While other mineral exports (especially copper) may help partially offset the loss, they are unlikely to fully compensate for the expected drop in coal (see CCDR 2024 at World Bank 2024a). Achieving the Vision 2050 goal of stable, sustainable, and inclusive economic development requires equitably diversifying revenue sources by enhancing collection, efficiency, progressivity, and simplicity.

This chapter analyzes Mongolia's revenue performance and options to improve revenue collection, efficiency, progressivity, and simplicity. This chapter has two main objectives: (i) undertake a high-level diagnostic of the performance of the revenue system focusing on its key constituents; and (ii) use insights from the diagnostic and other sources to identify key revenue reforms that the GoM may consider as part of the medium-term fiscal adjustment outlined in Chapter 1, while improving the tax system's efficiency, progressivity, and simplicity. The chapter considers direct taxes, indirect taxes (including health taxes), and tax administration. It concludes with a set of reform recommendations.

Box 3.1. Mongolia's Tax System

Mongolia's tax system encompasses around twenty different taxes and fees, with the most significant being value-added tax (VAT), corporate income tax (CIT), personal income tax (PIT), excise taxes, and customs duties. Other notable revenue sources include Social Security Contributions (SSC) and mineral royalties. Additionally, various fees apply to the extractive industries, such as mining license fees, water and air pollution fees, land use fees, and natural resource usage fees. The key tax laws governing Mongolia's tax system include the General Law on Taxation, which provides the overall framework, along with the Corporate Income Tax Law (Economic Entity Income Tax), Personal Income Tax Law, Value Added Tax Law, Excise Tax Law, and Customs Law. For further details, see Table A.3.1 in Annex 3.

Though the structure of the tax system has remained relatively stable over the years, several tax policy and administration reforms have been introduced since 2014 mainly to encourage investment, exports, and job creation. Post-2019, these laws have been substantially revised under the Government's tax reform packages. Mongolia joined the OECD's Inclusive Framework on Base Erosion and Profit Shifting Project (BEPS) in December 2017. Consequently, the tax reform reflects some BEPS project recommendations and various international tax concepts including a general anti-avoidance rule, comprehensive transfer pricing, controlled foreign company rules, among others.

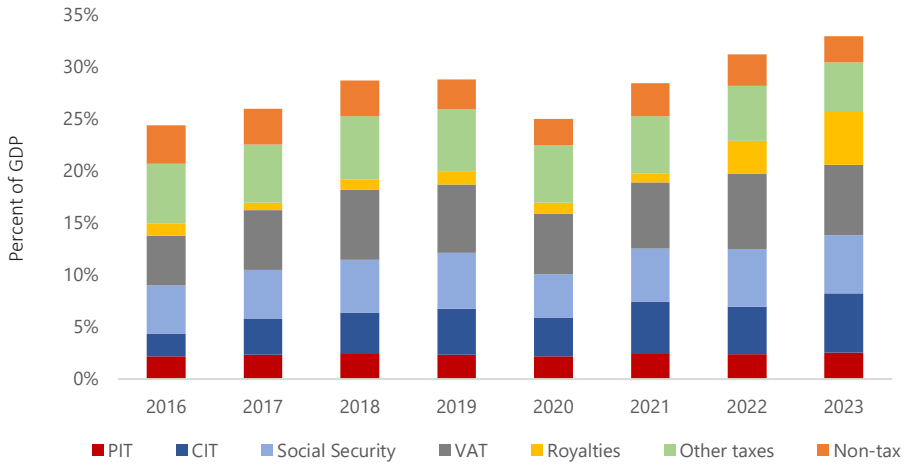
The Mongolian Tax Administration (MTA) and Mongolian General Customs Administration (MGCA) are responsible for implementing tax and customs laws, providing taxpayer support, enforcing compliance, and generating revenue for state and local budgets. The MTA oversees a taxpayer base of approximately 2 million individual taxpayers, 220,000 corporate taxpayers, and 54,000 VAT registrants. According to the General Law of Taxation, the National Tax Administration consists of the central tax authority (MTA), tax offices in aimags, the capital city, and districts, as well as state tax inspectors or tax units in soums. The MTA operates under the direct oversight of the MoF and is responsible for implementing tax legislation, providing taxpayer support and advice, conducting training and outreach, and collecting revenue for state and local budgets. Meanwhile, the MGCA focuses on enforcing customs laws and regulations, determining customs control strategies, overseeing customs houses and branch offices, and formulating and implementing the Customs Development Program.

3.2. Mongolia's revenues components have been volatile, heavily reliant on mining, and affected by structural deficiencies

Revenues components in Mongolia are volatile, largely due to their strong reliance on mining income. Estimates indicate that approximately a quarter of tax revenues are currently derived from the mining sector. From 2019 to 2022, the mining and quarrying sector accounted on average for 48.3 percent of CIT, 15.0 percent of VAT, 14.8 percent of PIT, and 14.0 percent of SSC revenues—shares that increase when indirect impacts are considered.[49,50] As a result, revenues have fluctuated between 25 percent and 33 percent of GDP since 2016 (Figure 3.1). Royalties, in particular, have been highly volatile, ranging from 4 percent and 15 percent of GDP between 2016 and 2023. CIT and VAT have also experienced significant variations, ranging from 2.2 percent to 5.7 percent of GDP and VAT fluctuating between 4.8 percent and 6.8 percent of GDP over the same period.

49. The share of mining sector in VAT collection is based on one month data showing the share of VAT paid by sector. The share of mining sector in SSC collection has been estimated using the share of mining sector in PIT because SSC is roughly proportionate to the PIT collection.
50. This share is higher if supplies by other sectors such as construction, processing, transportation, and electricity sectors to the mining sector are also considered.

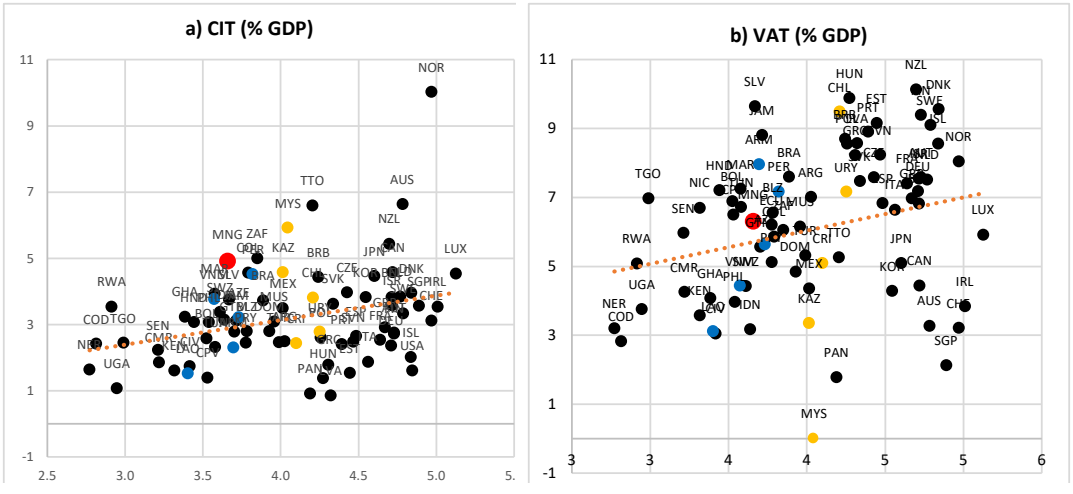
Figure 3.1. Diversified revenue structure masks Mongolia's reliance on mining revenues

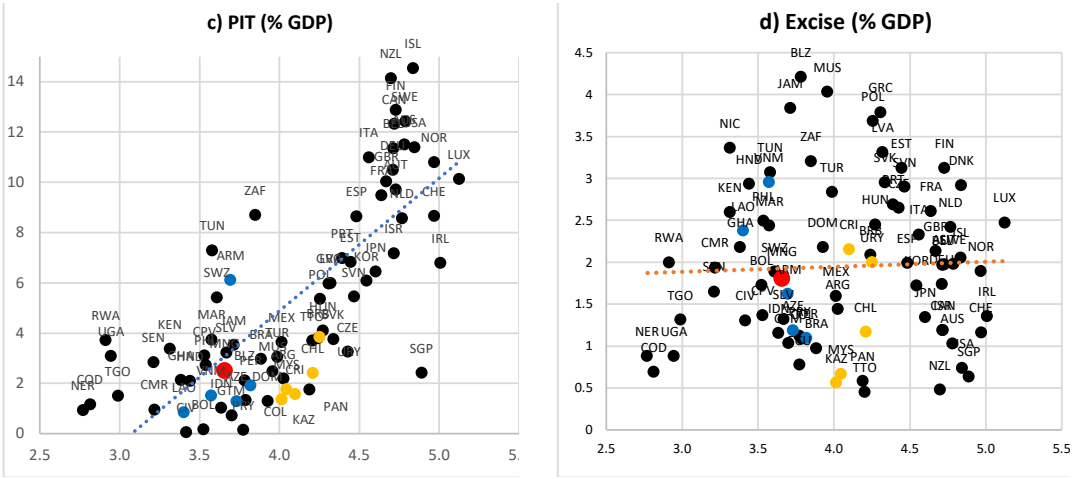


Source: MoF.

Mongolia demonstrates robust tax collection performance in CIT and VAT but faces some challenges in maximizing PIT and excise revenue relative to its income level. Mongolia's CIT and VAT collections (in percent of GDP) are strong, outperforming countries with similar income levels and exceeding the levels seen in most of its country peers (Figures 3.2(a) and (b)). However, PIT and excise tax collections are slightly lower than expected Mongolia's income level, even though both exceed the performance of most peers (Figures 3.2(c) and (d)).

Figure 3.2. Mongolia excels in CIT and VAT collection but struggles to maximize PIT and excise revenue





Source: OECD Global revenue statistics; IMF GFS.

Note: Mongolia is red. Aspirational peers in yellow. Structural peers in blue. The Y-axis represents tax as a percentage of GDP, while the X-axis shows the log of GDP per capita for 2023.

Mongolia's tax system faces several structural inefficiencies, which will be examined in detail throughout this section. In summary, while the VAT Law allows for refunds, payments remain irregular, often forcing taxpayers to carry forward excess credits indefinitely or offset them against future liabilities. The lack of clear refund conditions further exacerbates delays. The corporate tax system, with its multiple progressive rates based on business size, distorts resource allocation and influences business behavior, creating inefficiencies. Additionally, limiting loss carryforward to four years discourages long-term investment. The PIT system lacks a basic income exemption, placing a burden on low-income taxpayers and increasing administrative costs, while tax credits for incomes below MNT 36 million gradually phase out as income rises.

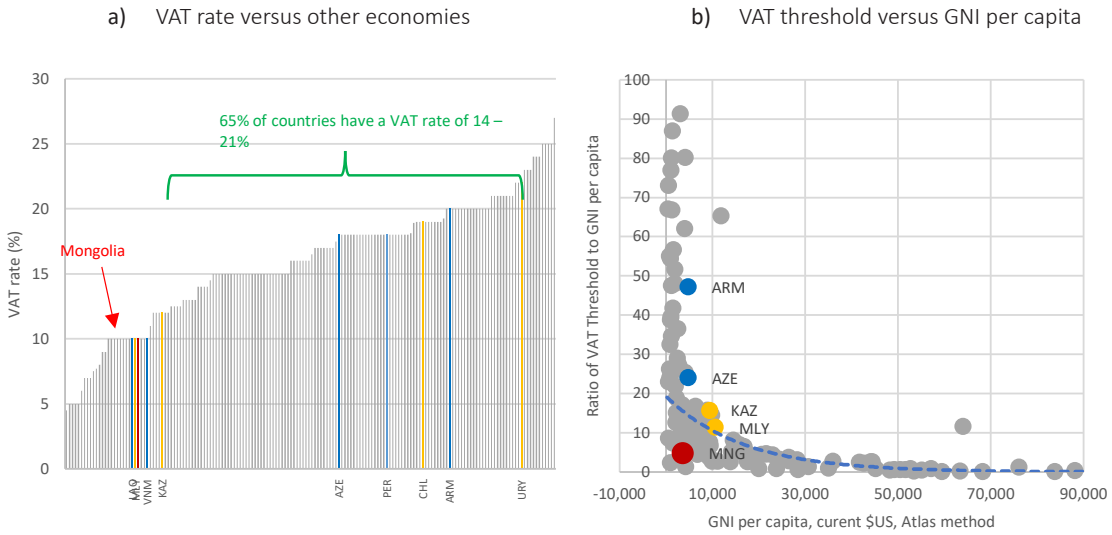
Value-added tax

Mongolia's VAT rate and registration threshold rank among the lowest globally and are lower than those of its peer countries, while two-thirds of VAT revenue is derived from imports, heavily tied to the mining sector. The VAT rate of 10 percent, unchanged since its introduction, is one of the lowest in the world (Figure 3.3(a)) and effectively even lower due to rebates, incentives for final consumers, reduced rates on fuels, and numerous exemptions.[51] Similarly, Mongolia's VAT registration threshold is among the lowest worldwide and lags behind peer countries (Figure 3.3), despite significant reforms in 2016 and 2020 that raised the annual threshold from MNT 10 million to MNT 50 million (about USD14,500).[52] A threshold that is too low can undermine revenue collection by increasing administrative burdens without proportionate gains.[53] Two-thirds of VAT revenue is derived from imports, a significant portion of which are linked to the mining sector. Over half of imports consist of equipment and oil,

51. The VAT rates for fuels—whether imported, produced, or sold domestically—are set by the government and can range from 0 to 10 percent, depending on market conditions. Additionally, numerous exemptions narrow the tax base, including the sale of gold to the BOM and commercial banks, certain locally produced food items, education and health services, and specific financial services.
52. Businesses are allowed to voluntarily register if the turnover exceeds MNT 10 million.
53. A too-low VAT registration threshold burden small businesses with compliance costs, strain tax authorities with high administrative expenses, discourage formal sector growth by driving businesses into informality, yield limited revenue gains from smaller contributors, and create perceptions of tax inequity by disproportionately impacting smaller businesses.

which are primarily used by the mining industry for production and intermediate consumption. Consequently, VAT revenue is highly vulnerable to fluctuations in mining production and global commodity prices.

Figure 3.3. Mongolia's VAT rate and registration threshold rank among the lowest worldwide



Source: USAID Collecting Taxes Database.

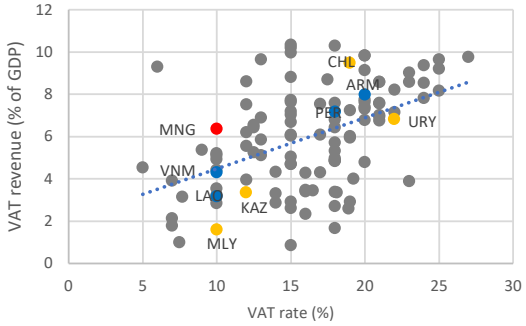
Note: Aspirational peers in yellow. Structural peers in blue

Mongolia's VAT system has exhibited high productivity and efficiency, partly due to the limited availability of VAT refunds, which have artificially inflated revenue collections. Figure 3.4(a) illustrates that Mongolia's VAT revenues, as a percentage of GDP, exceed those of countries with similar VAT rates (including some peers), highlighting greater VAT productivity. In 2021, Mongolia ranked 9th globally in VAT efficiency based on gross VAT collections and 17th based on net VAT collections (gross collections minus refunds), outperforming peer countries and reflecting a seemingly effective regime (Figure 3.4(b)).[54] Although the VAT Law provides for refunds, payments are irregular, often forcing taxpayers to carry forward excess credits indefinitely or offset them against future liabilities or other taxes.[55] The absence of clear conditions for refunds exacerbates delays. Timely VAT refunds are essential for a well-functioning VAT system. Refund delays in Mongolia risk stagnating businesses, causing potential bankruptcies, and undermining the international competitiveness of the country's exports. Resolving these issues could enhance the VAT system's efficiency and fairness.

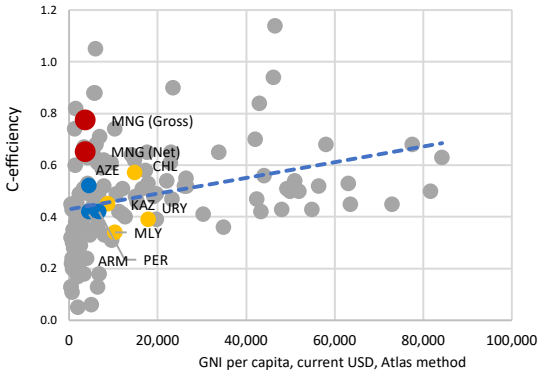
54. There are four kinds of VAT repayment under the 2016 VAT law: (i) normal VAT refunds through input tax credit; (ii) refunds for international and diplomatic institutions; (iii) the consumer refund; and (iv) the consumer lottery.
55. https://pdf.usaid.gov/pdf_docs/Pnadb497.pdf.

Figure 3.4. Mongolia's VAT system exhibits high productivity and efficiency

a) VAT revenue versus rate



b) C-efficiency and GNI per capita



Source: USAID Collecting Taxes Database and OECD Global Revenue Statistics Database.

Note: Aspirational peers in yellow. Structural peers in blue. The VAT C-efficiency is the ratio of actual VAT collections in a country to the potential revenue derived from applying the standard VAT rate to Total Consumption Expenditure. In principle, a VAT with no exemptions, a single rate, and full compliance should result in an efficiency ratio of close to 1. Data is for 2021.

To encourage VAT compliance, the Mongolian government introduced a VAT incentive program in 2016, which significantly increased formalization and drew both consumers and vendors into the tax system. The program included three key elements: (i) amendments to the General Taxation Law mandating the use of Point of Sale machines; (ii) the rollout of the new VAT Law, supported by the e-BARIMT system; and (iii) consumer incentives such as a VAT rebate of up to 20 percent on VAT paid at registered businesses and a VAT lottery. These reforms expanded the VAT tax base dramatically, with the number of firms filing VAT returns increasing sevenfold by 2018, just two years after implementation.

While VAT incentives have effectively fostered compliance, they impose a significant fiscal burden on the government and disproportionately benefit wealthier households. This report estimates that VAT refunds to customers averaged 0.4 percent of GDP annually between 2016 and 2022. However, this estimate excludes additional program costs, such as advertising, staff salaries, support center operations, and bank fees for rebate processing. As a result, the total fiscal cost of the VAT incentives is likely higher than 0.4 percent of GDP.[56] Furthermore, these incentives tend to favor wealthier households, who spend more on VAT-liable goods and services (see Chapter 9).

Mongolia's VAT-related tax expenditures represent a significant fiscal cost and have notable implications for equity and the efficiency of the tax system. According to Mongolia's tax expenditure statement, VAT-related tax expenditures in 2022 resulted in revenue losses equivalent to 0.6 percent of GDP, accounting for approximately 25 percent of total tax expenditures (2.2 percent of GDP). Notable exemptions include gasoline and fuel (IMF 2023), sales of residential houses, gold, services provided by private education and healthcare providers, and branded food products. These exemptions primarily benefit wealthier households, suggesting that reforms could enhance both the equity and efficiency of the tax system.

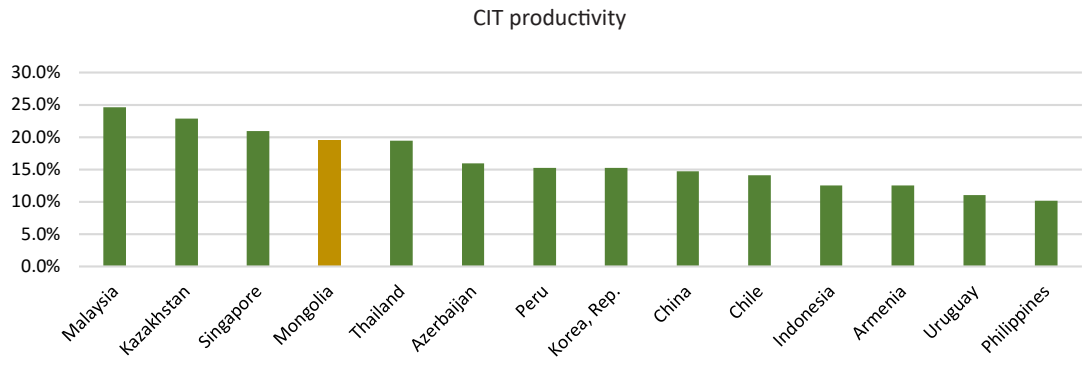
56. The annual lottery prize money from 2018 to 2021 is estimated at around MNT 17.8 billion (USD6.6 million) per year, representing 0.7 percent of gross VAT receipts.

Corporate income tax

Mongolia's headline CIT rate surpasses the rate of its peer countries. At 25 percent, Mongolia's top CIT rate is higher than the global average of 23.5 percent and exceeds the average rate among its structural and aspirational peers (21.5 and 24.0 percent, respectively). However, the corporate tax system is progressive: annual taxable income up to MNT 6 billion is taxed at a rate of 10 percent, while income exceeding this threshold is subject to the 25 percent rate. Additionally, entities with annual taxable income up to MNT 300 million benefit from a reduced tax rate of 1 percent.[57]

Mongolia's CIT productivity ranks among the highest in its peer group but lacks buoyancy. CIT productivity, which measures the efficiency of the tax system in generating corporate income tax revenue, is higher in Mongolia compared to most of its structural and aspirational peers (Figure 3.5). However, with the exception of three years in the past decade, CIT buoyancy has been below 1, indicating that CIT revenues have grown more slowly than the overall economy.

Figure 3.5. Mongolia's CIT productivity surpasses that of most peer countries

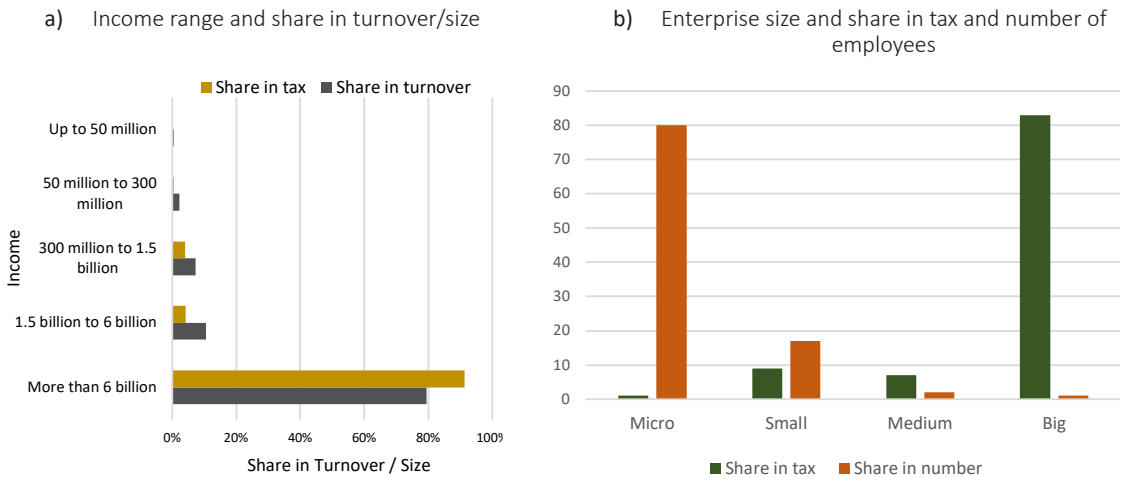


Source: OECD Global revenue statistics.
Note: CIT productivity is equal to CIT revenue/ (CIT rate x GDP). Data for 2021.

The corporate tax regime in Mongolia is highly concentrated, with large enterprises and mining sector firms contributing the majority of CIT revenues. Firms in the highest income bracket (annual taxable income exceeding MNT 6 billion) account for 91.3 percent of total CIT revenues (Figure 3.6(a)). Similarly, large firms (employing over 200 people) contribute 83 percent of CIT revenues, despite comprising less than 1 percent of all registered companies (Figure 3.6(b)). In contrast, micro-enterprises, which constitute over 80 percent of registered firms, contribute less than 1 percent of total CIT revenues. The mining sector alone generates about half of total corporate tax revenues, while wholesale and retail trade, finance and insurance, and the processing industry together account for more than two-thirds of non-mining tax revenues.

57. This excludes entities engaged in exploring and mining minerals, selling and importing alcoholic beverages and tobacco, producing and wholesaling crude oil, and trading and importing gasoline and diesel fuel.

Figure 3.6. Large enterprises accounts for the majority of CIT revenues



Source: Mongolian Tax Administration.

Having multiple CIT rates based on business size can lead to economic inefficiencies by distorting resource allocation and influencing business behavior. In Mongolia, micro firms with annual income below MNT 300 million fall under a simplified tax regime, exempting them from VAT registration and requiring them to pay a flat 1 percent tax on their income, covering both CIT and VAT obligations. Since these firms contribute only about 1 percent of total tax revenue, this system is justifiable for administrative efficiency. Many countries implement similar regimes to reduce compliance burdens for very small businesses and encourage formalization. However, tax thresholds can influence firm behavior, leading to "bunching" around specific income levels. In Mongolia, companies with taxable income slightly above MNT 300 million or MNT 6 billion often adopt strategies to remain below these thresholds, as the marginal tax rate increases significantly at these points. This behavior reflects the impact of "kink points," where tax rates rise sharply and create strong incentives for firms to underreport income or limit growth.[58,59] The effect on effective tax rates (ETRs) is substantial. Companies with income just below MNT 300 million experience a 63 percent lower turnover-based ETR compared to those above this threshold. Similarly, firms with income below MNT 6 billion face a 67 percent lower ETR compared to those exceeding it. These patterns persist when analyzing ETRs by company size, underscoring the significant tax advantage for firms remaining below the kink points.

58. Empirical research shows that firms tend to cluster, or "bunch," just below income or turnover thresholds where marginal tax rates increase sharply—commonly referred to as kink points (Almunia and Lopez-Rodriguez 2018; Best et al. 2015; Chetty et al. 2011; Devereux et al. 2014; Gebresilasse and Sow 2015; Kleven 2016; Saez 2010; Nurfauzi et al. 2019; Brockmeyer 2014). This behavior occurs because firms have a strong incentive to stay below these thresholds to avoid higher tax rates. Firms may adjust either the level of income (e.g., underreporting revenue) or the form in which income is received to remain below the threshold. Owner-managed companies, in particular, have more flexibility in determining the form of income. For example, the owner/manager can choose to classify earnings as corporate profit or personal income, depending on which option minimizes the overall tax burden (Devereux et al. 2014).

59. While progressive tax schedules are often designed with equity considerations in mind, their application to corporations presents challenges. Corporations are legal entities, and the true burden of taxes levied on them ultimately falls on individuals—either employees or shareholders. However, corporate profits often bear little correlation to the financial well-being of their owners. For example, a large corporation may be owned by thousands of individual shareholders, ranging from high-income households to low-income retirees. Conversely, a small corporation might have a single owner with a very high income. As a result, progressive tax schedules are not well-suited for entity-level taxes like the CIT.

The current policy of limiting loss carryforward to only four years discourages long-term investment decisions. For instance, if a company incurs losses over five consecutive years (T-4, T-3, T-2, T-1, and T) and becomes profitable in T+1, the loss incurred in T-4 cannot be used to offset profits in T+1. Additionally, eligible losses are restricted to offsetting only 50 percent of taxable profits in any given year. In contrast, many countries either allow indefinite loss carryforward or permit losses to be carried forward for a sufficiently long period to support businesses investing in capital-intensive projects with extended gestation periods. Mongolia's current restrictive policy on loss carryforward and set-off may deter companies from making substantial capital investments.

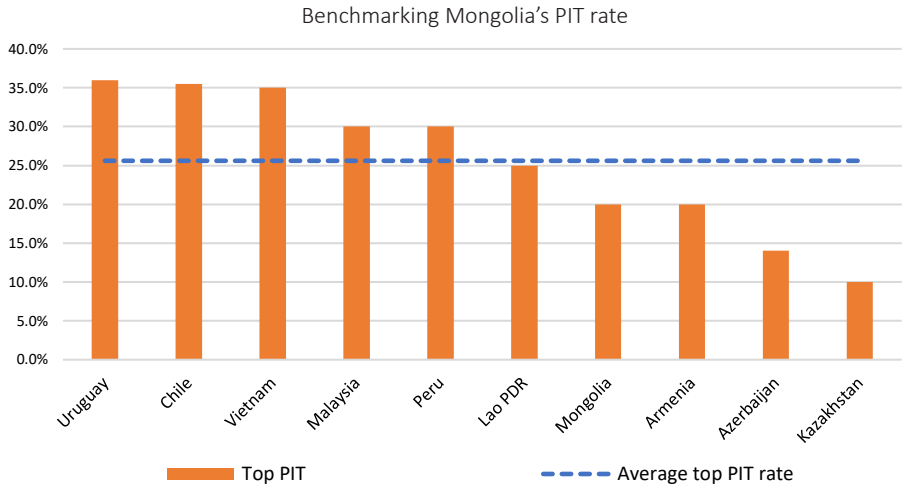
Mongolia forgoes a substantial amount of tax revenue due to CIT incentives. In 2022, revenue losses from CIT incentives amounted to 0.8 percent of GDP, representing 18 percent of CIT revenues. These incentives accounted for the largest share (37 percent) of total tax expenditures, which were 2.2 percent of GDP. Mongolia provides a range of corporate tax incentives to achieve policy goals such as attracting foreign investment, promoting balanced regional development, generating local employment, and encouraging formalization (see Box A.3.1 in Annex 3). Key incentives include reduced CIT rates for foreign investment and regional development, as well as exemptions on certain types of income. Exemptions apply to interest on government bonds; income and dividends from oil industry product-sharing contracts; income from certain educational and healthcare institutions; mediation commissions for intellectual property rights; interest from loans secured by intellectual property; and income earned by investment funds. However, profit-based tax incentives, such as exemptions and reduced rates, are considered less effective than cost-based incentives like tax credits or deductions in achieving policy objectives (Allen et al. 2001; Klemm and Parys 2012; Van Parys 2012). Additionally, these incentives are incompatible with the global minimum tax rules established under the OECD's Pillar Two framework, posing potential challenges for Mongolia's tax policies in the context of international standards.

Personal income tax

Mongolia's top PIT rate of 20 percent in 2023 is among the lowest globally and lower than that of most peer countries. In 2023, the country transitioned from a flat 10 percent PIT rate to a progressive rate schedule with three bands of 10, 15, and 20 percent.[60] Notably, there is no zero-rate band, meaning no basic exemption limit is applied. The top PIT rate of 20 percent applies to income exceeding MNT 180 million—roughly 10 times the per capita GDP in 2022 at current prices. Compared to peer countries, Mongolia's top PIT rate ranks among the lowest (Figure 3.7), and is notably lower than the global average (30 percent). Additionally, Mongolia's highest PIT bracket applies to less than 0.5 percent of taxpayers due to its high threshold (see also Chapter 9).

60. The tax structure is progressive: annual income up to MNT 120 million is taxed at a flat rate of 10 percent. For income between MNT 120 million and MNT 180 million, the tax is MNT 12 million (10 percent of the first MNT 120 million) plus 15 percent on the income exceeding MNT 120 million. For income above MNT 180 million, the tax is MNT 21 million (including 10 percent on the first MNT 120 million and 15 percent on the next MNT 60 million) plus 20 percent on the income exceeding MNT 180 million.

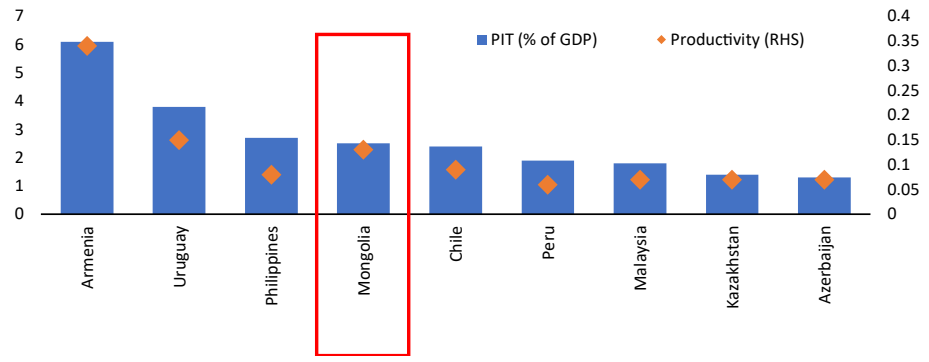
Figure 3.7. Compared to peer countries, Mongolia's top PIT rate is among the lowest



Source: KPMG, OECD Global revenue statistics.

Compared to its peers, Mongolia's PIT productivity is among the highest, although PIT collections lack buoyancy. PIT productivity, which measures the efficiency of the tax system in generating PIT revenue, outperforms that of most peer countries (Figure 3.8). However, PIT buoyancy has remained below 1 in most years, indicating that PIT revenues have not kept pace with overall economic growth.

Figure 3.8. PIT productivity is among the highest among peers

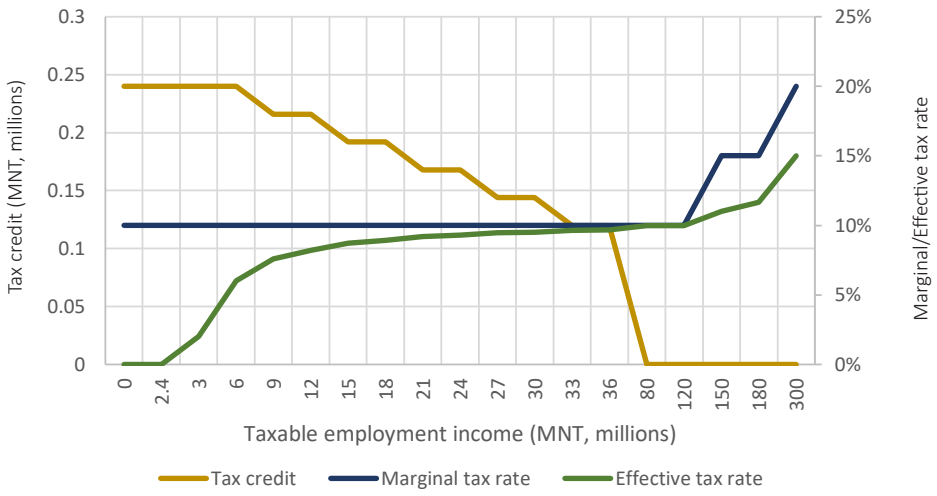


Source: OECD Global revenue statistics.

Mongolia taxes capital income, such as gains from the sale of movable properties (including securities), as well as income from rent, royalties, dividends, and interest, at a low flat rate of 10 percent. Capital gains from the sale of immovable properties (such as buildings or real estate) are taxed at 2 percent of the sale price, while net gains from the sale of land and intangibles, after deducting the purchase price and related expenses, are taxed at 10 percent. Since capital income is predominantly earned by wealthier taxpayers, the low flat rates disproportionately benefit high-income individuals. In contrast, peer countries like Chile apply marginal tax rates to dividends and capital gains, while Kazakhstan imposes higher flat rates on such income (see Table A.3.2 in Annex 3).

The PIT system in Mongolia lacks a basic income exemption, which burdens low-income taxpayers and increases administrative costs; instead, tax credits are provided for incomes below MNT 36 million, tapering off as income rises. These credits effectively act as an income exemption, but their variable nature creates inconsistencies and inequities. For instance, taxpayers earning less than MNT 36 million annually face a noticeable progressive taxation, while those earning between MNT 36 million and MNT 120 million are taxed at a relatively flat rate. Further distortions arise due to multiple "kink points" in the system, where effective marginal tax rates change abruptly at income levels of 6, 12, 18, 24, 30, and 36 million. For incomes between MNT 120 million and MNT 180 million, the effective tax rate (ETR) increases only slightly, from 10.0 percent to 11.7 percent, showing minimal progressivity. However, there is a sharp rise in the ETR for incomes exceeding MNT 180 million, highlighting the uneven progressivity within the system. This structure complicates compliance, creates inequities, and undermines the fairness of the tax system.

Figure 3.9. Tax credits are available for incomes below MNT 36 million but gradually decrease as income increases



Source: Mongolian Tax Administration.

The current tax treatment of capital gains from the sale of immovable property in Mongolia creates economic distortions, particularly in decisions related to investment in assets and the timing of their sale. Unlike capital gains from other assets such as land, intangibles, and movable properties—which are taxed on a net basis after deducting acquisition and improvement costs—capital gains from immovable property are taxed on a gross basis (i.e., the gross sale price). In many countries, the standard practice is to tax capital gains based on the net gain, allowing deductions for acquisition and improvement costs from the sale price. Without such deductions, the effective capital gains tax rate can vary depending on the size of the gain. Under Mongolia's current policy, taxing capital gains on a gross basis discourages the sale of property unless the gains are substantial. As a result, companies may choose to hold onto properties longer, delaying sales when the anticipated gain is relatively small, which can distort investment and market activity.[61]

61. For example, consider the sale of an immovable property purchased for 100. If sold for 120 (a 20 percent gain), the capital gains tax, charged at 2 percent of the gross sale price, amounts to 2.4, resulting in an effective tax rate of 12 percent on the actual gain. However, if the property is sold for 140 (a gain of 40), the tax increases to 2.8, but the effective rate drops to 7 percent. This demonstrates how taxing capital gains on a gross basis leads to varying effective tax rates, disproportionately affecting smaller gains and distorting investment decisions.

PIT-related tax expenditures resulted in significant revenue losses of 0.4 percent of GDP in 2022, accounting for 16 percent of total tax expenditures. These expenditures are often regressive, disproportionately benefiting higher-income households, and could be capped based on taxable income. Examples include the exemption of pension income, interest on government bonds, and VAT incentives for individuals. The exemption of pension income should be reviewed against global benchmarks like Exempt-Exempt-Tax (which most OECD countries use) or Tax-Exempt-Exempt, where pension income is taxable if contributions and fund earnings are exempt. Additionally, interest income and VAT incentives should be included as taxable income to broaden the tax base.

3.3. Despite recent improvements, there is scope to further simplify the tax administration system

Mongolia's tax administration, led by the Mongolian Tax Administration (MTA) and the Mongolian General Customs Administration (MGCA), has seen significant improvements in recent years while maintaining staffing levels that appear appropriate. The MTA oversees all taxes except customs duties, which fall under the MGCA. Both agencies have implemented reforms to boost compliance, efficiency, governance, and digitalization. The MTA's staffing ratio to Mongolia's labor force stands at approximately 0.14 percent, one of the highest among peer countries, though slightly below the range (0.15-0.22 percent) identified in an IMF study (Adan et al. 2023), where marginal returns start to diminish.[62]

Ensuring effective revenue collection in Mongolia is hampered by persistent challenges. These include delays in tax filing and payment, unresolved tax arrears, inefficient dispute resolution, and gaps in risk management and audit processes (see below). Additionally, the collection of coal royalties has proven particularly challenging for the administration (see Box 3.2).

Timely filing of tax returns and payment of taxes

Although e-filing and e-payment of taxes are mandatory in Mongolia, compliance remains a challenge, with low e-filing rates observed across most core taxes, except excise. Mongolia has fully digitalized its tax return system, requiring all tax returns to be submitted electronically, supported by an e-invoicing system for VAT-registered businesses. Despite these advancements, many taxpayers fail to comply.[63] The MTA has mechanisms to monitor non-filers and uses electronic notifications to remind taxpayers of deadlines and obligations. According to the tax law, late filing can result in fines of three to four times the minimum monthly wage. However, enforcement actions are rarely pursued, which may lead taxpayers to perceive the consequences of late filing or non-filing as insufficiently severe. A recent TADAT assessment (IMF 2022c) identified small and micro-businesses as the main contributors to low on-time filing rates, often due to limited knowledge or discipline in preparing tax returns. Non-filing or late filing has several adverse implications, including delayed tax payments, challenges in effective risk management due to lack of data, and potential harm to the tax morale of compliant taxpayers.

62. Among peers, only Armenia has a higher ratio of staffing to labor force (0.16 percent). MTA has 1,840 staff whereas MGCA has a staff strength of 2,326 employees.
63. The on-time filing rate for CIT stands at 68.1 percent overall, with a higher compliance rate of 95.9 percent among large taxpayers. For other taxes, the on-time filing rates are 64.0 percent for PIT, 79.3 percent for VAT, 85.0 percent for excise duties, and 62.7 percent for PAYE. Similarly, the on-time payment rate remains low at 72.2 percent.

Management of tax arrears

The 2022 TADAT assessment (IMF 2022c) highlights that the MTA has accumulated significant tax arrears. According to TADAT, "collectible" core tax arrears accounted for 44.0 percent of the total arrears at the end of 2020, while accumulated arrears represented about 56.8 percent of total revenue collections.[64] Tax law grants MTA the authority to enforce tax recovery through measures such as freezing bank accounts, instructing banks to transfer funds to cover outstanding liabilities, or seizing assets. Anti-abuse provisions are also in place to prevent taxpayers from avoiding payment by transferring assets to third parties at below-market value or for free. However, the high level of tax arrears points to weaknesses in enforcement, audit selection processes, and dispute resolution procedures. Tax audits often lead to excessive liabilities that taxpayers cannot pay or challenge, as disputing them requires an up-front payment of 10 percent (see below). Consequently, arrears may be deemed collectible but remain unrecoverable, with non-collectible arrears often arising from prolonged disputes.

Dispute resolution

The MTA operates a two-tiered quasi-independent dispute resolution mechanism, but its independence and accessibility are hindered by the requirement for taxpayers to make an up-front payment of 10 percent of the disputed tax liability. At the first stage, taxpayers can challenge an auditor's decision before the Dispute Resolution Council (DRC), an internal body composed of MTA legal staff. This up-front payment must be made before filing an appeal with the DRC.[65] If dissatisfied with the DRC's decision, taxpayers can escalate the appeal to the general administrative court. While the number of disputes pending with the DRC in 2023 was relatively low (22 cases after resolving 96), the 2022 TADAT assessment reveals that taxpayers lack confidence in the dispute resolution process. Cases are sometimes handled in bulk, with as many as 211 complaints resolved in a single meeting, raising concerns about fairness and thoroughness. Effective, efficient, and fair dispute resolution is vital to the credibility of the tax system and to fostering voluntary compliance. An efficient system resolves disputes promptly and cost-effectively, while a fair system ensures that taxpayers' rights are protected and that disputes are heard impartially, fostering trust in the process.

Risk management and audits

The MTA's audit practices emphasize detecting violations in the mining sector, but a lack of sector-specific risk-based planning and limited evaluation of audit effectiveness highlight the need for a more balanced and strategic approach. To deter and detect inaccurate reporting, the MTA assesses risks at the taxpayer, case, and category levels, undertaking various types of audits, including comprehensive, industry-specific, high-risk, refund, limited-scope, and criminal audits. However, the audit plan is not based on sector-specific risks, and audits are not centrally selected. Instead, the annual number of audits is determined by the previous year's auditor capacity, rather than a robust risk-based strategy. Furthermore, the MTA does not routinely evaluate the impact of audits on taxpayer compliance, limiting its ability to improve audit effectiveness. Most audit-detected violations that can be categorized are related to CIT. In 2023, while 76.5 percent of violations were uncategorized by tax type, of the remaining 23.5 percent, 65.4 percent pertained to CIT and 32.2 percent to VAT. The largest violations were due to nonpayment or incorrect payment of royalties by mining companies, which accounted for 74 percent of all violations. This strong focus on mining companies may risk overlooking other sectors that also contribute to revenue collections, underscoring the need for a more balanced, sector-specific risk assessment approach.

64. "Collectible core tax arrears" are overdue taxes that the government can realistically recover, excluding amounts tied up in disputes or from taxpayers who are bankrupt or unreachable.
65. Occasionally, the MTA requires full payment of disputed tax amounts (American Chamber of Commerce in Mongolia and EuroChamber Mongolia 2024).

Box 3.2. Challenges in the Coal Royalty Administration System

Regulatory uncertainty and frequent policy changes have plagued the Mongolian mining sector, questioning the administration's ability to capture royalty revenues. In 2023, coal royalties represented 60 percent of mining revenues. However, over the past 20 years, the coal sector has had more than 70 changes to the coal royalty-related legislation, targeting the overall administration system, coal royalty prices, and rates. Public attention and scrutiny sharpened in 2022, when allegations of embezzlement of revenues at ETT, the largest coal SOE, sparked national protests. A government audit showed that some 21 percent of firms underpaid on their royalty obligations, amounting to 0.2 percent of GDP.

There are three key challenges to closing the "coal royalty revenue gap"—accurately determining prices, volumes, and quality. Coal sales are calculated based on the type of coal (coking, thermal, etc.), level of processing (raw, processed, final product), coal quality, and volume. A royalty rate of 2.5 percent is applied for domestic coal sales and 5 percent for exports. In addition, exports are subject to additional "surtax" royalty payments (between 0 and 5 percent) based on the level of processing and the market value. The coal royalty revenue base is equal to the sales value, as no deductions for transport, processing, or other costs are permitted under Mongolian law for the purpose of royalty calculation.

Establishing the appropriate price for royalty calculations is the single most contentious issue in Mongolia's coal royalty administration system. The coal industry has gone through 19 reforms to the legal framework related to coal royalty prices over the past 20 years. Over this time, Mongolian authorities have oscillated between using the declared contract (sale) price and a reference price. Currently, SOEs are obliged to participate in the digital Minerals Exchange (see Box I.1 in World Bank 2023), a platform for public auctions of coal. This partially reduces conflicts between the mining companies and the tax authority, as it improves price discovery by providing a centralized marketplace and thereby also improves price transparency. Private coal mines could also participate in the digital Minerals Exchange or use reference prices set by the GoM's Reference Price Committee (RPC). The RPC uses a combination of contract prices, sxcoal.com,[66] and other data to determine all coal product reference prices. However, both the digital Minerals Exchange and the RPC methodology hold risks to buyer collusion.[67]

Misreporting and underreporting of volumes have allegedly been significant problems in the past; the authorities consider that the recent adoption of the e-tax system to verify coal sales has significantly improved system integrity. The latest scandal on a national stage was the ETT scandal in 2022, where experts found a significant number of trucks reportedly crossing the border empty or with negative weight, corroborating suspicions of large amounts of undeclared coal exports. Following that, the GoM made it mandatory for all coal sales to be invoiced through the e-tax system. This allows for commodity volumes sold to be tracked and verified from the mine gate to the border and for extraction and sales to be cross-referenced with mining and transport licenses—helping to improve royalty administration and collection and to reduce evasion. However, discrepancies between the coal volumes produced and volumes sold (inferred from total coal sales) remain plausible. These differences can be attributed to the varying information requirements for reporting in each dataset.[68]

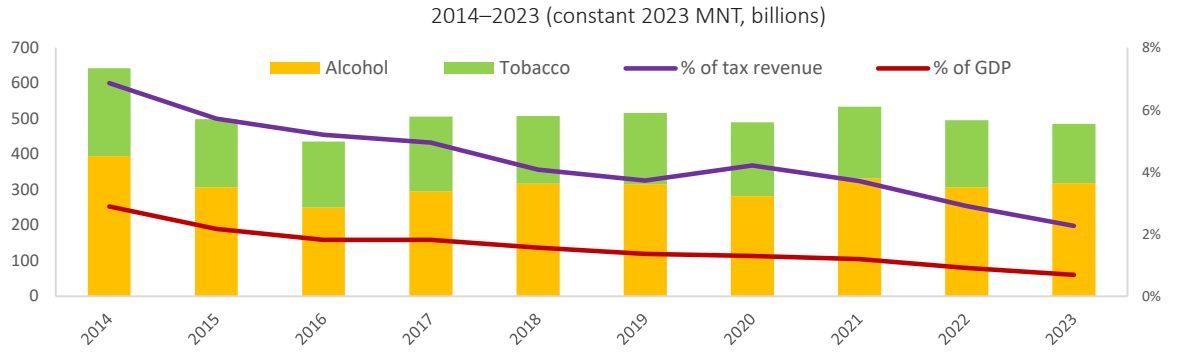
The sharp rise in coal export volumes potentially could put pressure on laboratory testing capacity for coal quality; and plans to allow self-testing could raise risks of fraud. Over the past decade, coal quality regulation and measurement capacity have improved, reducing royalty-related disputes. Coal prices vary widely based on product quality (including its humidity and its caloric, sulfur, and ash content). Certified laboratory test results on coal quality are required for exports to clear Customs at the border (and to be accepted by buyers). Recently, the laboratories have been struggling to keep up with unprecedented high export volumes. In response, the Mongolian General Customs Administration (MGCA) have started to permit some mining companies to establish their own certified laboratories, raising concerns of a conflict of interest.

66. Online platform that contains coal prices at Chinese border points.
67. The digital Minerals Exchange has a limited number of end-users in China, raising potential risks to buyer collusion. On the other hand, the RPC methodology has been criticized as opaque by the mining industry (see ERI 2022).
68. For example, the Mineral Resources and Petroleum Authority of Mongolia (MRPAM) collects volume data, while the MGCA office tracks export values. Since mining companies use accrual accounting—which recognizes revenue when it is earned rather than when payments are received—discrepancies between these data sources can arise. At present, there is no established mechanism to fully verify or reconcile these differences.

3.4. The current pricing structure for tobacco and alcohol is ineffective in addressing health externalities

Mongolia applies health excise taxes on tobacco and alcohol.[69] Specific taxes are applied to tobacco and alcohol, in line with best practices as recommended by the WHO.[70] Tobacco and alcohol are significant contributors to mortality and morbidity in Mongolia. Disability-Adjusted Life Years (DALYs)[71] lost due to alcohol per 100,000 people are 2.5 times higher than in structural peers and 3.2 times higher than in aspirational peers, having surged by 173 percent since 1990. Although DALYs lost to tobacco use have declined by 7 percent since 1990, they remain about 1.4 times higher than those of structural and aspirational peer countries.

Figure 3.10. Alcohol and tobacco excise tax revenue have declined



Source: WB staff estimates based on data from the Ministry of Finance (MoF) and internal sources.

Tobacco and alcohol excise tax revenue declined by 19 and 32 percent, respectively, from 2014 to 2023 (Figure 3.10). Their combined share of total tax revenue dropped from 6.9 percent to 2.3 percent, while their share of GDP fell from 2.9 percent to 0.7 percent. This decline is particularly concerning, as it comes at a high cost to public health, with significant mortality and morbidity associated with tobacco and alcohol use.

Tobacco taxes

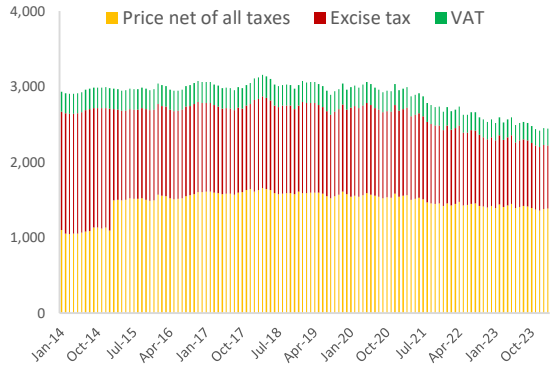
Despite increases in nominal tax rates, tobacco taxes and prices have declined in real terms. Between 2014 and 2023, tobacco excise revenue declined by 4 percent in nominal terms and 47 percent in real terms.[72] Additionally, since 2014, the real prices of both imported and domestic cigarettes have fallen, with domestic cigarette prices decreasing by 17 percent in real terms, despite a nominal increase of 29 percent (Figure 3.11(a)). While declining prices and taxes contributed to increased sales, the growth in excise tax revenue has not kept pace with this rise. Between 2014 and 2023, tax-paid cigarette sales increased by 30 percent, yet the real value of excise tax revenue fell faster than sales rose.

69. Health taxes are levied on products that generate negative health related externalities and internalities, increasing prices to account for the full cost of consumption and also improving health outcomes and raising meaningful tax revenues.
70. WHO 2021; WHO 2023b.
71. DALYs refer to the sum of the years of life lost due to premature mortality and years lived with a disability.
72. For more detail on the impact of inflation on health taxes, see World Bank GTP Knowledge Note: "Health Taxes and Inflation."

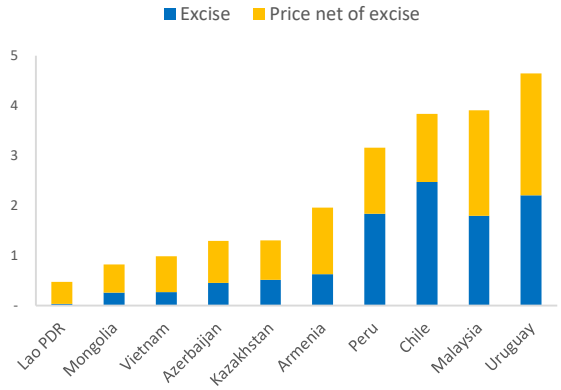
Benchmarking shows that cigarette taxes and prices in Mongolia are significantly lower than those in peer countries (Figure 3.11(b)). In 2022, excise tax levels and prices were 54 and 49 percent lower than the median of peer countries, respectively, and the second-lowest in its comparison group. Increasing taxes to reach the median of its peer group will require an increase of an equivalent of USD0.26 per pack and give Mongolia a significant start in improving its tobacco tax policy and increasing tax revenue. Increasing taxes and prices annually will be required to ensure that cigarettes do not become more affordable over time and protect the real value of tax revenue and lead to sustainable tax policy.

Figure 3.11. Despite nominal tax rate increases, tobacco taxes and prices have decreased in real terms

A. Decomposition of domestic cigarette prices, Jan 2014–Feb 2024 (constant Feb 2024 MNT/Pack)



B. Excise taxes and prices of Most Sold Brand of cigarettes in peer countries, 2022 (USD/Pack)



Source: WB staff estimates using Excise Tax Law and National Statistical Office, MoF, MPO, and WHO data.

Alcohol taxes

Alcohol taxes are more complex, reflecting the heterogeneity of alcohol. Excise is applied volumetrically (i.e., based on the volume of alcohol in each product) across different products. Effective in 2023, beer is taxed with a uniform rate, while other alcoholic beverages are taxed in three different categories (Wine, "Spirits-A," and "Spirits-B"), with tiers based on alcohol content (see Table A.3.3 in Annex 3). The most important categories are the two for spirits, each with four tiers, as they are the most consumed products.[73] The tax structure on spirits was reformed starting in 2023, introducing more granular tiers. A new tier was introduced by splitting the middle tier, with tax rate increases applied, albeit with smaller increments for the lower two tiers. Moving forward, additional tiers will be added every two years until 2029, progressively splitting off a lower-alcohol tier from the original middle tier. Tax rates will continue to increase in small increments to help maintain their real value over time.

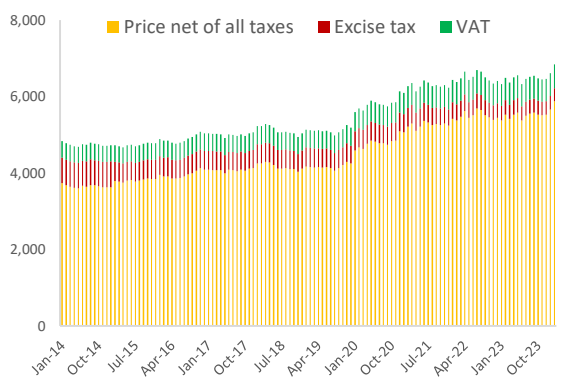
Alcohol taxes have declined in recent years, yet prices have increased. Between 2014 and 2023, beer excise tax rates declined by 4 and 47 percent in nominal and real terms (Figure 3.12(a)). Despite this decrease, beer prices rose considerably, by 42 percent in real terms, and tax-paid sales increased by 16 percent. As a result of higher sales, nominal excise tax revenue grew by 12 percent, though it fell by 38 percent in real terms. Over the same period, the average excise per liter of spirits rose by 23 percent in nominal terms but fell by 32 percent in real terms. Spirit prices also increased, with vodka prices rising significantly (by 16 percent in real

73. World Bank staff estimates that spirits and beer accounted for 65 and 33 percent of total alcohol consumption in 2023. This is measured by the liters of absolute alcohol (LAA) using administrative tax data from MoF.

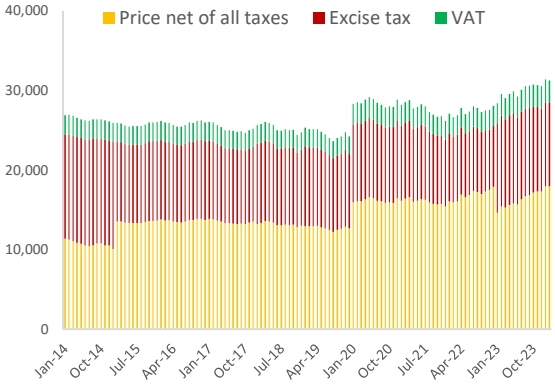
terms, Figure 3.12(b)). Despite higher prices, tax-paid sales increased 28 percent, leading to a 58 percent increase in nominal excise tax revenue, though tax revenue still declined 13 percent in real terms.

Figure 3.12. Alcohol taxes have fallen in recent years, even as prices have continued to rise

A. Decomposition of beer prices, Jan 2014–Feb 2024 (constant Feb 2024 MNT/L)



B. Decomposition of vodka prices, Jan 2014–Feb 2024 (constant Feb 2024 MNT/L)



Source: WB staff estimates using Excise Tax Law and NSO, MoF and MPO data.

Variations in excise rates across and within alcohol categories create both opportunities for health-promoting consumption shifts and unintended incentives for tax avoidance. Excise rates vary substantially between and within categories. For example, excise per LAA of beer is lower than spirits (Table A.3.4, Annex 3). This may be desirable as it may generate substitution from higher alcohol spirits to lower alcohol beer. However, there are also large variations in effective taxes within categories. Excise per LAA on higher alcohol beers is lower than lower alcohol beers, reducing incentives to consume lower alcohol beer. The alcohol-content-based tiers on spirits generates incentives for firms to avoid taxes by reducing the strength. If tiers are set too high, then the adjustment to achieve a lower tax rate does not involve a meaningful change in alcohol content. For example, in 2022, a 40 percent vodka would pay MNT 15,660/L. By reducing alcohol content to 39 percent, it would instead be taxed at MNT 6,960/L. The reduction in strength is not meaningful but firms reduced their tax liability by 56 percent. The report's estimates indicate that between 2014 and 2022, at least 99.9 percent of domestically produced spirits were taxed at one of the two lower rates (i.e., below 40 percent).[74]

The 2023 reforms also appear unlikely to have a meaningful impact on health. The significant tax increase on the highest tier within the two categories of spirits in 2023 is expected to have a minimal impact, as the volume of spirits sold in these tiers is negligible. The addition of more granularity below 40 percent (Table A.3.3, Annex 3) should generate incentives for firms to reduce their tax liability by reducing the alcohol strength further. However, the magnitude of the incentive is small as reducing ABV from 39 percent to 35 percent will only generate 10 percent savings (MNT 1,110/L for spirits of type A) in 2025.[75] The incentives to lower alcohol content are expected to reduce tax revenue; however, this will be partially offset by small biennial increases

74. When including imported products, the proportion declines (92 percent in 2022). Domestic firms clearly exploit these incentives, while importers are less likely to do so. One hypothesis is that the tier was designed to disproportionately affect imported products who are less likely to alter the preparation for a single country. Many imported products are higher value products, where the lower tax rate would have a smaller relative impact on price and thus less incentive to reformulate the product.
75. The tax savings between 40 and 35 percent amounts to a larger 70 percent saving (MNT 24,010/L), thereby generating a larger incentive. However, this is a moot point since, for instance, most vodka is already less than 40 percent. Increasing an incentive that is already universally utilized is a pyrrhic victory.

in nominal tax rates, which appear designed to protect the real value of taxes. This represents a substantial improvement and will help slow the decline in tax revenue. Another consideration is that taxes on beer and wine are not scheduled to increase between now and 2029, while tax increases on spirits may encourage some substitution from spirits to beer and wine, potentially resulting in health benefits.

3.5. Recommendations

Simplifying the CIT and broadening its base

The progressive CIT structure should be replaced with a unified flat CIT rate of 22 percent for all companies, except for those with income up to MNT 300 million, which would continue to be taxed at a reduced rate of 1 percent. This reform would not only generate additional revenues, estimated at 0.5 percent of GDP (see Table A.3.5 in Annex 3 for more details), but also reduce economic distortions caused by the current size-based tax rate system. Adopting a flat CIT rate aligns Mongolia with most structural and aspirational peer countries, as well as advanced economies, where flat CIT rates are the norm.[76]

The loss carryforward limit should be extended to 10 years, along with a rationalization of tax incentives, to help broaden Mongolia's tax base. The extension of the loss carryforward limit for businesses to at least ten years would incentivize capital investments by allowing greater recovery of early-stage losses from depreciation or initial expenses. Additionally, Mongolia should rationalize existing tax incentives by replacing profit-based measures, such as reduced rates and exemptions, with targeted, cost-based incentives like immediate expensing or enhanced capital allowances, which directly support investment. Broadening the tax base through these measures would enhance fairness and efficiency while creating room to reduce the top CIT rate from 25 percent to 22 percent, improving the competitiveness of Mongolia's tax system.

Making the PIT more progressive

Make the PIT rate schedule more progressive including by introducing a zero-rated band. The current system of tax credits for income up to MNT 36 million should be replaced with a zero-rated band for income up to a specified threshold. The proposed PIT rate schedule includes rates of 0 percent, 10 percent, 20 percent, and 32.5 percent, with the top marginal rate applying to income above MNT 360 million. Introducing a higher top rate of 32.5 percent will ensure equity by aligning the tax burden between individual taxpayers who are shareholders in companies and those who are unincorporated.[77] The specific zero-rate threshold should be determined through distributional analysis using micro-level data to optimize fairness and revenue generation.[78] Simulations in Chapter 9 show that a zero-rate band for PIT can help reduce poverty and inequality compared to the status quo, and the introduction of additional income brackets taxed at more progressive rates can offset revenue losses.

76. Malaysia remains an exception among Mongolia's peers in maintaining a progressive CIT system.
77. For instance, if the CIT rate is 25 percent, a company earning a profit of 100 would pay 25 in corporate tax. If the remaining after-tax profit of 75 is distributed as a dividend, the individual shareholder would pay an additional 10 percent dividend tax, amounting to 7.5. This results in a total effective tax rate of 32.5 percent for the shareholder. In contrast, an unincorporated individual earning the same 100 as business profit would pay only 20 percent in tax, highlighting the disparity in tax burdens between incorporated and unincorporated individuals.
78. The revenue and distributional impact of the suggested reform could not be estimated as the micro data of taxpayers is not available.

To enhance the progressivity of the PIT system, income from capital sources should be taxed at marginal rates. Capital gains, as well as income from rent, interest, and royalties, should be subject to marginal rates, as these forms of income typically accrue to wealthier taxpayers in the top income brackets. Specifically, capital gains from the sale of immovable properties should be taxed on a net basis, allowing deductions for purchase price and related expenses to align with the treatment of capital gains from the sale of land. To ensure fairness, gains and income accrued before implementing these reforms should be grandfathered to prevent unexpected tax burdens on existing investments.[79] Taxing capital gains at marginal rates is estimated to generate additional revenue of approximately 0.4 percent of GDP based on a taxable capital income of 896 billion MNT in 2022. This estimate assumes that 50 percent of capital income is earned by taxpayers with annual income exceeding MNT 360 million (taxed at a 32.5 percent rate), while the remaining 50 percent is earned by those with incomes between MNT 120 million and MNT 180 million (taxed at a 20 percent rate). Taxing capital gains at marginal rates can also reduce inequality while not increasing poverty (Chapter 9).

Mongolia should rationalize existing PIT tax expenditures and evaluate their economic and distributional impacts, particularly for tax credits on first-time home purchases, tuition fees, and renewable energy equipment. Expenditures such as the exemption of pension income, interest on government bonds, and VAT incentives should also be reviewed. For pension income, the exemption should be assessed against the international benchmarks of Exempt-Exempt-Tax or Tax-Exempt-Exempt, where pension income is taxable if contributions and fund earnings are exempt. Additionally, interest income and income from VAT incentives should be included in taxable income to broaden the tax base.

Improving the efficiency and fairness of VAT system

To enhance the efficiency and fairness of Mongolia's VAT system, the government should align its policies with international best practices, enabling businesses to claim VAT credit on investments and reducing tax base distortions. Clear and transparent criteria for VAT refunds should be established, with automated systems and adequate resources to ensure timely processing and minimize delays. Addressing the indefinite carryforward of excess credits by introducing mandatory refunds or offsets within a set timeframe for VAT credits would alleviate financial strain on businesses. Additionally, the government should regularly conduct VAT gap analyses to identify areas for improvement, measure the impact of reforms, and ensure the VAT system remains predictable and business-friendly.

Explore the potential to increase the VAT rate to offset the costs of higher VAT refunds and the current VAT incentive program, while evaluating the effectiveness of these incentives on compliance and equity. With Mongolia's relatively low VAT rate, a rate increase could help mobilize additional revenue to cover the costs of enhanced VAT refunds (as recommended earlier) and support the VAT rebate and lottery programs. For instance, increasing the VAT rate by just 1 percentage point, from 10 percent to 11 percent, is estimated to generate an additional 0.6 percent of GDP in revenue (see Table A.3.6 in Annex 3 for details). Furthermore, the effectiveness of the VAT rebate and lottery programs should be thoroughly assessed to understand their impact on compliance and distribution across households.[80]

79. "Grandfathering" exempts income or investments made before a new tax policy from being subject to the new rules, ensuring fairness and avoiding retroactive tax burdens.
80. The simulations in Chapter 9 shows that the removal of VAT rebates have the lowest poverty tradeoffs per MNT of revenue generated among the VAT reforms considered.

Increasing tobacco and alcohol excise taxes

Mongolia should implement substantial reforms to tobacco and alcohol excise taxes to strengthen both public health outcomes and tax revenues. Currently, the real value of these taxes has eroded due to a lack of regular adjustments, making tobacco and alcohol increasingly affordable, which drives up consumption and reduces tax revenue. Despite their negative impacts on poverty and inequalities (see Chapter 9), a significant increase in these taxes is essential to curb consumption, reduce tobacco- and alcohol-related mortality and morbidity, and boost revenue. For tobacco, an increase of USD0.26 per pack is recommended to bring rates in line with peer countries, followed by indexation to inflation and economic growth to preserve the real value of the tax and maintain a stable tax-to-GDP ratio. Recent reforms to alcohol taxes are a step in the right direction but will likely have limited impact on health and revenue without more robust adjustments; further technical analysis could help identify effective measures.

Enhancing tax compliance

Enhancing e-filing compliance requires a combination of simplified processes, fair and enforceable penalties, and stricter measures to deter willful non-compliance. To improve e-filing compliance rates, it is recommended to simplify tax returns for SMEs and individuals with limited income sources, such as salary, interest, or a single business activity. Prefilled tax return forms should be prioritized for these taxpayers, utilizing third-party data from employers, banks, brokers, registration authorities, and e-invoicing systems. Penalty provisions for late filing or non-filing should be restructured to ensure fairness and enforceability. Penalties for companies should be higher than those for individuals, with more severe penalties applied for non-filing beyond one year after the tax year. Late filing penalties should combine a flat penalty for delays and an ad valorem penalty for unpaid taxes as of the filing date, while excessively high penalty amounts should be reduced. Additionally, provisions should be introduced to criminalize non-filing or late filing in cases where the unpaid tax exceeds a specified threshold, serving as a deterrent for willful non-compliance.

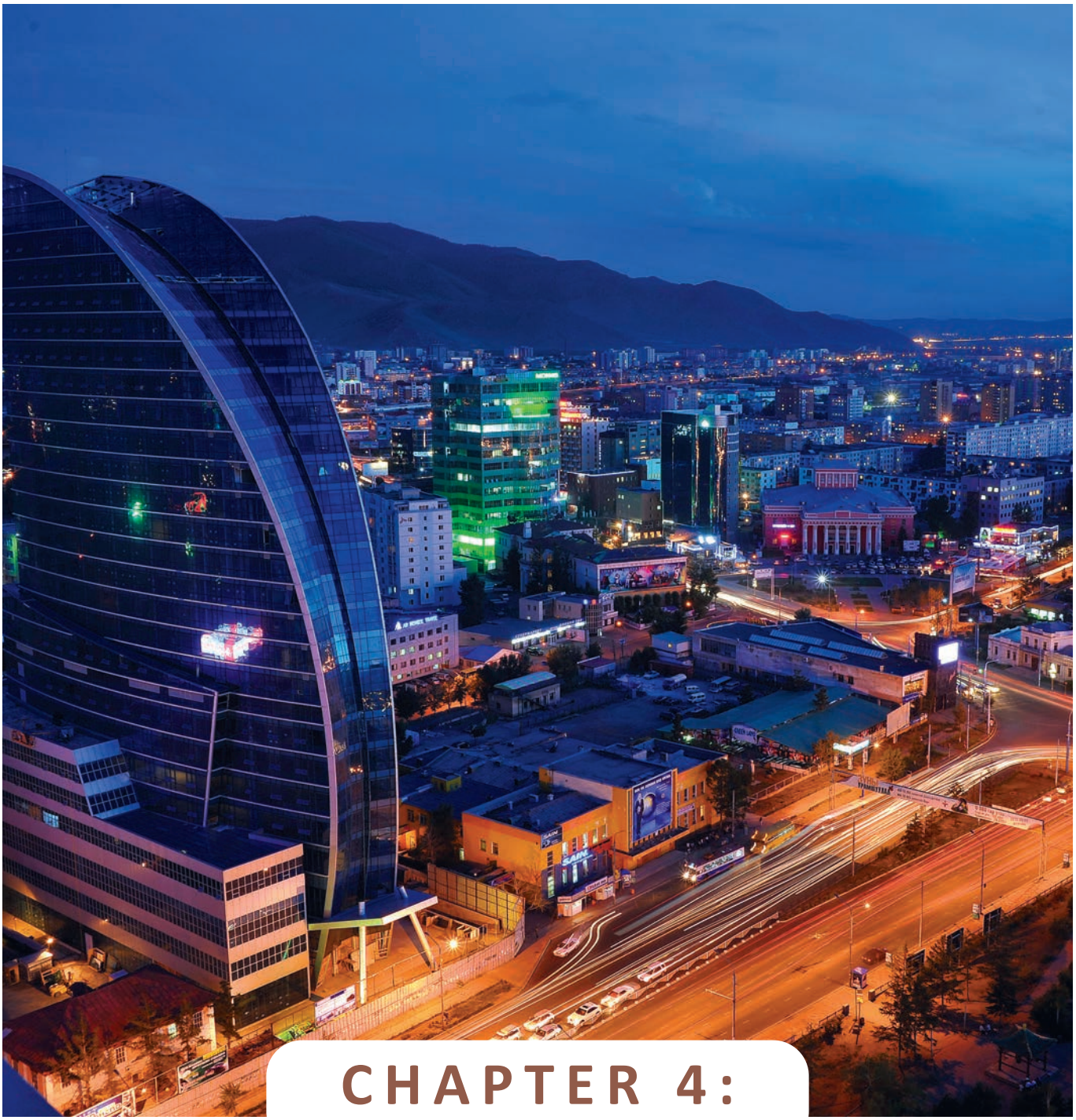
Reducing tax arrears requires a strategic approach that addresses root causes and implements proactive enforcement measures. To reduce tax arrears, it is recommended to implement a comprehensive arrear management program to analyze the root causes and identify necessary institutional reforms. This program should classify collectible arrears by source—such as unpaid liabilities from tax filings versus amounts assessed during audits—and examine contributing factors like audit quality, lack of taxpayer trust, or delays in dispute resolution. Additionally, measures for provisional asset attachment should be introduced. In cases of significant anticipated liabilities or uncooperative taxpayers, measures such as attaching bank accounts or assets during the audit process can help secure timely payment and prevent arrears from escalating.

Strengthening the independence and transparency of dispute resolution mechanisms is key to enhancing taxpayer confidence in the tax system. To enhance taxpayer confidence in dispute resolution, it is recommended that the DRC be made fully independent of the MTA by appointing retired administrative court judges with expertise in tax matters. The DRC should also establish separate benches for transfer pricing appeals to ensure specialized and focused deliberation. The current requirement for taxpayers to pay 10 percent of disputed tax up front

should be eliminated. Instead, no up-front payment should be required at the DRC stage, with taxpayers paying 50 percent of the disputed tax if the DRC rules against them, and the remaining 50 percent if the administrative court also rules against them. Additionally, the advance tax ruling regime should be expanded to address ambiguities in tax legislation.[81] Providing clear and consistent rulings, as is common in developed tax systems, will improve transparency and build trust in the tax system.

Enhancing compliance risk management requires a combination of centralized processes, increased staffing, and tailored audit approaches. To improve compliance risk management, it is recommended to centralize risk assessment and case selection for audits through a standardized, approved audit plan. This ensures uniform audit selection criteria, effective risk management, and consistent audit quality. The MTA should also increase staffing for audit, investigation, and verification activities, as only 13 percent of its staff currently focus on audits—far below peer countries like Chile (46.3 percent) and Peru (30.3 percent). Boosting audit staffing will enhance capacity and effectiveness. For high-risk cases, team-based audits with three or more auditors who have sector-specific expertise should be adopted to ensure thorough and accurate assessments. Simplified audits for low-risk cases, conducted using digital tools such as email or video conferencing, should also be implemented to streamline processes, reduce administrative burdens, and encourage taxpayer compliance.

81. Examples of countries having advance tax ruling as standard practice include US, UK, Netherlands, Germany, Australia, and South Africa (Waerzeggers and Hillier 2016).



CHAPTER 4:

ENHANCING THE COMPOSITION OF PUBLIC SPENDING

CHAPTER 4: ENHANCING THE COMPOSITION OF PUBLIC SPENDING

4.1. Introduction

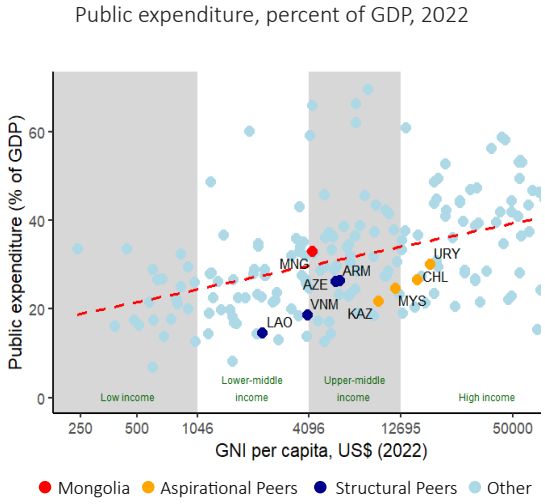
This chapter, along with Chapters 5 through 8, focus on key growth-enhancing expenditures and examine opportunities to improve spending efficiency within the framework of medium-term fiscal adjustment and reform.[82] Enhancing the composition, efficiency, and equity of spending can yield substantial benefits for fiscal sustainability, equity, and growth, aligning with Mongolia's long-term development goals. These chapters analyze public spending on infrastructure, education, health, and social protection—key drivers of growth—that together account for about 60 percent of total public expenditure. This chapter aims to (i) contextualize spending on public investment and social sectors within overall public expenditure, and (ii) assess spending rigidity and its implications for fiscal adjustment. It does this by first assessing the overall level of spending and outlining the broad structure of spending by levels of government. Overall spending is then disaggregated by economic classification (wages, goods and services, capital spending, etc.) and by function (health, education, etc.). Recent trends are analyzed, and the composition of spending is compared with international benchmarks to identify potential allocative inefficiencies. This is followed by an assessment of the level of spending rigidity to determine whether this might hinder the government's ability to implement a medium-term fiscal adjustment and to respond to emerging pressures. The chapter concludes with a summary of key findings. The following Chapters 5 through 8 will evaluate the adequacy, efficiency, and equity of public spending related to physical and human capital accumulation—namely, public investment, social assistance, health, and education.

4.2. Public expenditure is high compared to peers

Mongolia's aggregate expenditure level is high given its income level and compared to its peers and increased further during the triple shocks (see also Chapter 1). Averaging over 30 percent of GDP over 2017–2019, government expenditure was already high given Mongolia's level of income and compared to structural and aspirational peers before the triple shocks. The difference has become even larger in recent years, with total spending increasing to an average of over 34 percent of GDP in 2020–2023, with the authorities implementing one of the largest fiscal support programs in the EAP region to mitigate the impact of the shocks, combined more recently with the return of procyclical fiscal policies. Under current policy settings, expenditure is projected to remain elevated over 2024–2026 (see Chapter 1), increasing the gap with peers (Figure 4.1 and Figure 4.2).

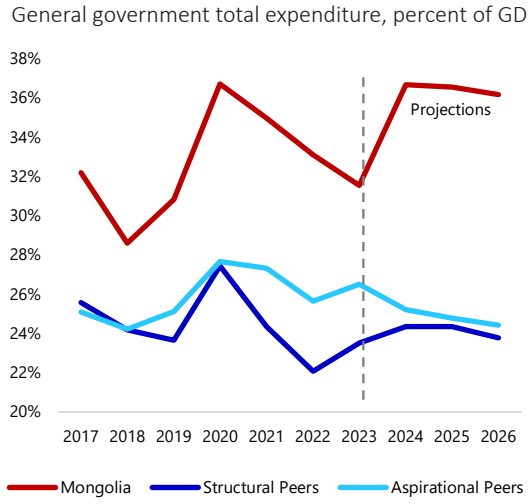
82. The analysis in this chapter is based on the Mongolia 2022 BOOST dataset, supplemented by other sources to include 2023 data in some cases. The BOOST program is a World Bank-sponsored open budget portal that provides highly disaggregated budget data in a standardized format, facilitating analysis over time and across countries. For further information and access to the dataset, see https://www.worldbank.org/en/programs/boost-portal.

Figure 4.1. Public expenditure is high given Mongolia's income level



Source: WDI, WEO.

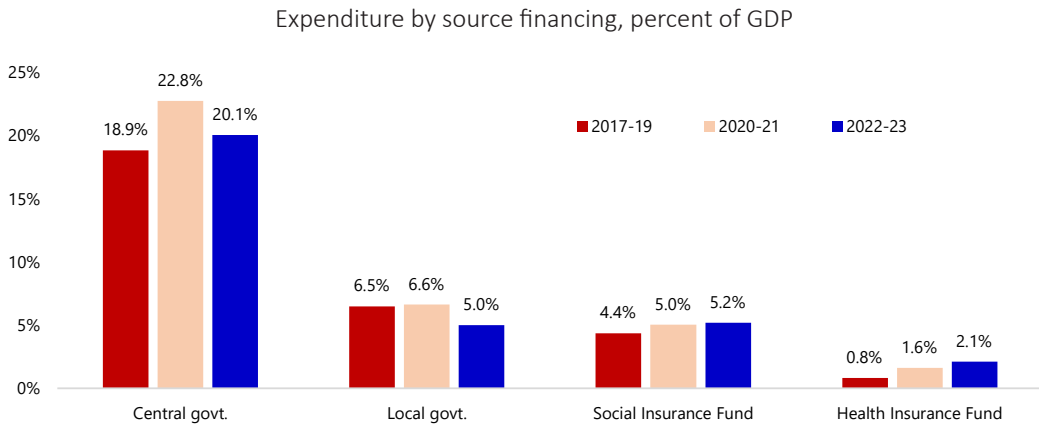
Figure 4.2. Spending was higher than peers pre-pandemic, and has remained elevated following the triple shocks



Source: World Bank MPOs.

The central government continues to dominate spending, but recent policy measures are designed to decentralize expenditure responsibilities to local governments. The recent increase in government expenditure came from a sharp rise in central government spending, increasing further its share of general government spending to over 60 percent, while spending by local governments and health and social insurance funds remained stable as a share of GDP (Figure 4.3). Nevertheless, in an effort to decentralize revenue, expenditure, and service delivery responsibilities to local governments, in 2022 the GoM began implementing a series of changes to institutional arrangements affecting intergovernmental fiscal responsibilities. Chapter 10 assesses the current structure of intergovernmental finances and its impact on allocative efficiency and equity.

Figure 4.3. The central government dominates general government expenditure

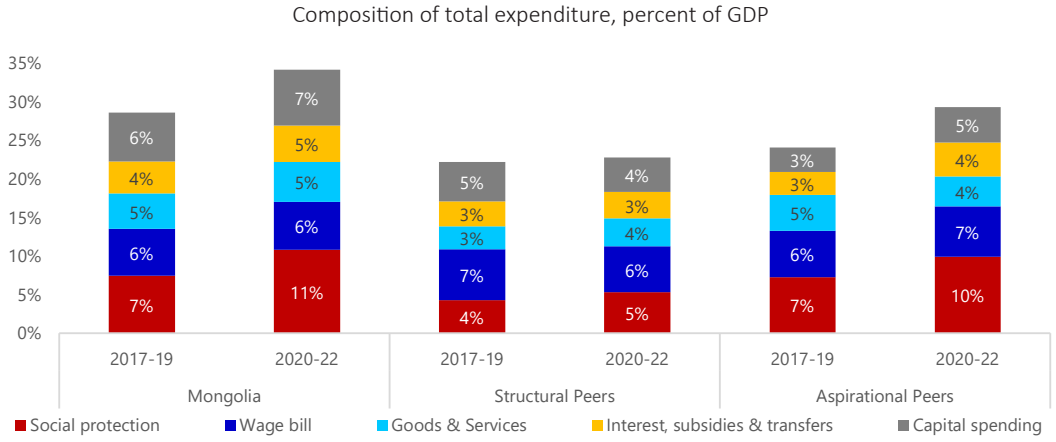


Source: MoF.

4.3. Social protection is the largest spending category by economic classification

Social protection, which represent the largest spending category in the budget, rose sharply in recent years and stands at much higher levels than peers. The recent surge of spending on social protection was mainly driven by a fivefold increase in the CMP benefit during the COVID-19 crisis, along with the increasing state subsidy to the pension system, resulting in social protection spending rising sharply to 10.8 percent of GDP on average over 2020–2022, up from 7.4 percent of GDP over 2017–2019 (Figure 4.4). This is much higher than in structural and aspirational peers, both as a percent of GDP and as a share of total expenditure (Figure 4.4). The specific features of the social protection system are discussed in the subsequent section on the functional composition of spending.

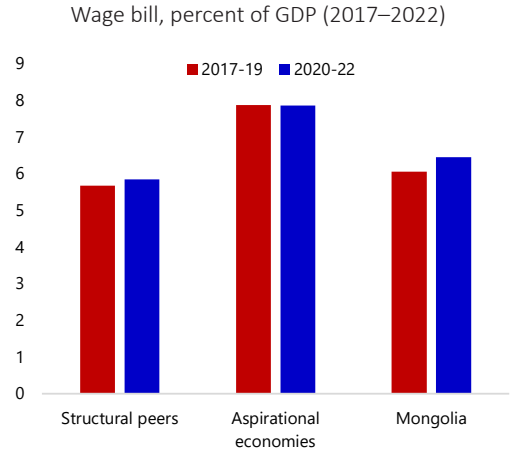
Figure 4.4. Social protection is the largest spending category



Source: WB BOOST calculation.

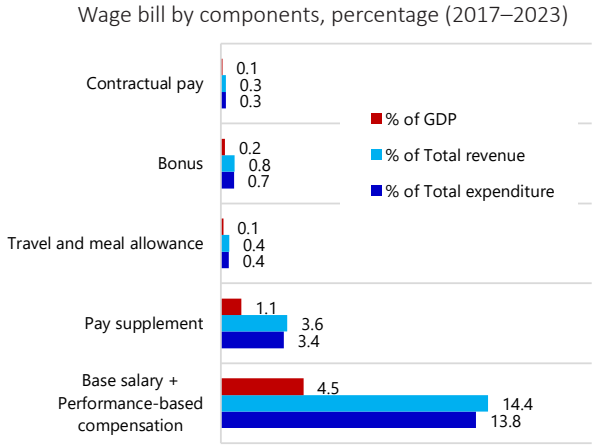
The wage bill has been broadly stable in recent years, remaining slightly higher than the level of structural peers. The wage bill temporarily spiked to 7.0 percent of GDP in 2020 due to higher overtime and emergency spending and flat nominal GDP. However, it returned to pre-pandemic levels of around 6 percent of GDP in 2021–2023 despite large nominal wage increases (see Chapter 1) as robust GDP growth helped to offset the impact. Overall, during 2020–2022 the wage bill remained broadly similar to pre-COVID-19 levels (6.2 vs 6.1 percent of GDP) (Figure 4.5). This is slightly higher than the average for structural peers (5.8 percent of GDP), but significantly lower than the average for aspirational peers (7.8 percent of GDP). Wages in Mongolia are primarily driven by base salary (including performance-based compensation in the education sector), followed by pay supplement, which includes tenure-based payments for years of service in the public sector (Figure 4.6). Most of the wage spending is in the social sectors such as health, education, and social protection (54 percent of the total, on average, over 2017–2021).

Figure 4.5. Wages are slightly higher than structural peers but lower than aspirational peers



Source: BOOST-WB, WDI, WEO.

Figure 4.6. Base salary and supplemental pay dominate the wage bill

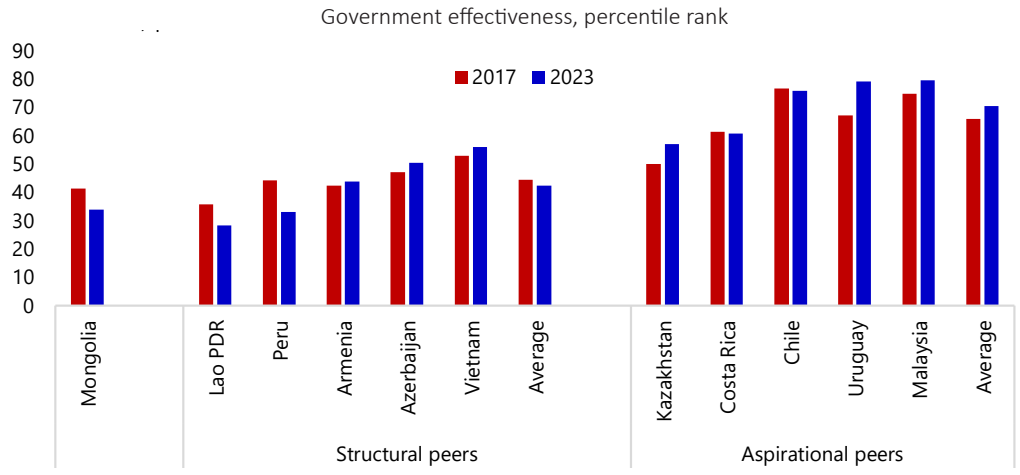


Source: MoF.

Note: Performance-based compensation for public school teachers is added to base salary, to account for changes in classification since 2022.

Despite allocating significant resources to compensate employees, Mongolia's performance on government effectiveness has declined. Mongolia's score on the Worldwide Governance Indicators (WGI) fell from -0.28 in 2017 to -0.47 in 2023 (with the indicator ranging from -2.5 [weak] to 2.5 [strong]), resulting in a drop in its rank from 41th to 34th percentile over the same period. This places Mongolia lower than most of the aspirational and structural peers, except Lao PDR and Peru (Figure 4.7).[83]

Figure 4.7. Government effectiveness is low compared to peers despite a relatively high wage bill



Source: WDI Government Effectiveness, World Bank.

83. "Government effectiveness" captures: perceptions of the quality of public services; the quality of the civil service and the degree of its independence from political pressures; the quality of policy formulation and implementation; and the credibility of the government's commitment to such policies. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to the lowest rank, and 100 to the highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI.

Spending on goods and services, as well as transfers, increased significantly due to the pandemic response and recent reforms in intergovernmental fiscal relations. Goods and services expenditures have risen in recent years, remaining higher than those of peer countries (Figure 4.8). This reflects increased spending during the pandemic, despite government efforts to contain costs through the Austerity Law.[84] Intergovernmental transfers also rose in 2021, driven by higher health-related expenditures during the pandemic and a sectoral reform that reclassified certain wage and salary expenditures as intergovernmental transfers (see Chapter 10).[85] In contrast, subsidies remained largely unchanged, as government support in response to the COVID-19 crisis was primarily delivered through transfers and social protection programs.

Interest payments have declined substantially since 2017, driven by the government's shift to more concessional debt to restore debt sustainability after rapidly rising public debt in 2016, and further supported by the recent decrease in debt stock. The financing package from development partners (including joint IMF-WB budget support) helped reduce more expensive domestic public borrowing and extend the average public debt maturity. These more favorable financing terms, together with the recent decline in the public debt stock, resulted in a fall in debt servicing interest expenditures from a peak of 4.1 percent of GDP in 2017 to 1.6 percent of GDP in 2023.

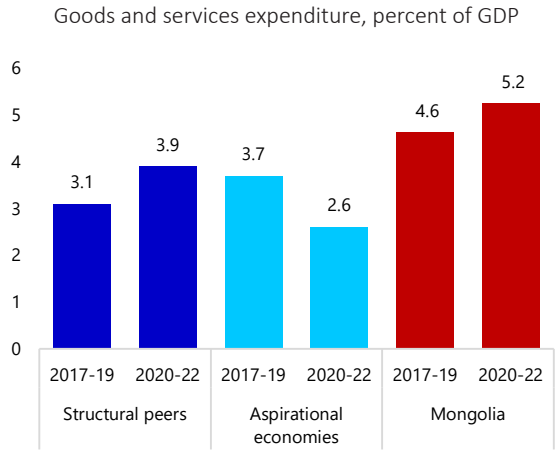
Public investment spending surged following the lifting of pandemic restrictions and the resumption of procyclical expenditures, and it now stands significantly higher than that of peer countries. The GoM briefly cut capital expenditure in 2021 to allocate more funds to social protection and health. However, with the reactivation of investment projects in the aftermath of the pandemic, capital expenditure bounced back to around 7 percent of GDP in 2022 and 2023. As a result, public investment spending in 2020–2022 averaged 7.4 percent, substantially higher than in structural peers (5.3 percent of GDP) and aspirational peers (3.5 percent of GDP) (Figure 4.9).[86]

84. Under the Austerity Law enacted in April 2022, nonessential public recurrent spending was reduced and some public investments were delayed. For instance, administrative expenses related to public events organization, travel, and transportation of public officials were cut, while some employment restructuring was done at SOEs to reduce salary spending. In addition, construction of some nonessential public offices and cultural centers was delayed. This law remains in effect but has been progressively less enforced in recent years.

85. In 2022, changes to the intergovernmental fiscal relations (see Chapter 10) led to the centralization of funding for the health and education sectors. As a result, the government began providing grants to schools, hospitals, and other service delivery units through central government agencies, rather than sending funds directly to them. This spending, which accounted for about 4.5 percent of GDP in 2022, was recorded in the budget as state transfers instead of as wages and salaries. For clarity and consistency in this report, this spending is classified as part of wages, goods, and services for 2022 in the relevant figures.

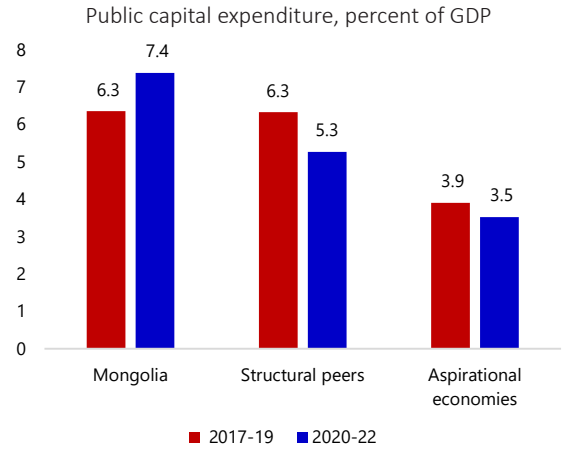
86. Note that the government allocated public expenditures mostly to public administration sectors (62.9 percent of the total over 2017–2022) and to social sectors (18.2 percent of the total over the same period).

Figure 4.8. Mongolia spends more on goods and services than peers



Source: BOOST-WB, WDI, WEO.

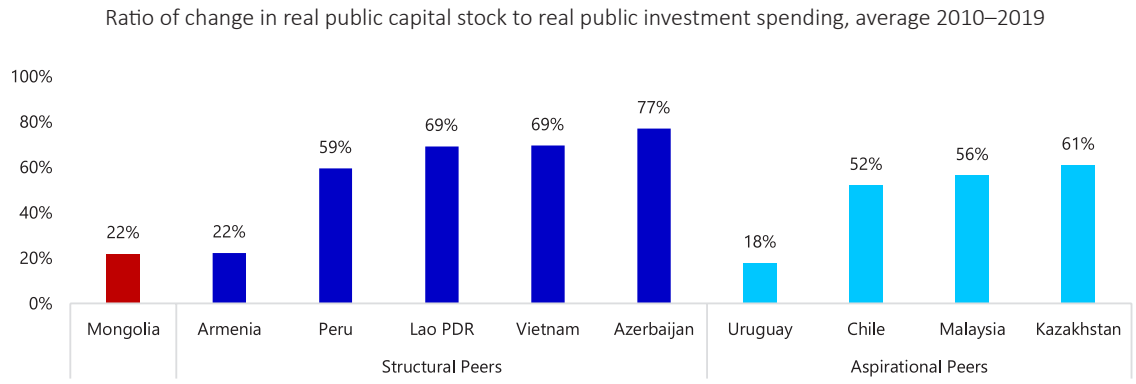
Figure 4.9. Public investment spending increased strongly compared to peers during the triple shocks



Source: BOOST-WB, WDI, WEO.

Despite the large spending allocation, the efficiency of public investment spending lags that of peers. Cross-country analysis indicates that there is scope to enhance public investment efficiency in Mongolia (Figure 4.10). Over the decade 2010–2019, each USD1 of public investment in Mongolia translated into only around 22 cents of additional public capital stock, indicating relatively low efficiency of public investment spending. This is much lower than most structural and aspirational peers, which averaged 54 cents of additional public capital stock for each USD1 of public investment spending. Improvements in the Public Investment Management (PIM) framework can raise public investment efficiency and the economy's growth potential while reducing the fiscal cost of projects and mitigating the associated fiscal risks. In this context, Chapter 8 provides a detailed assessment of PIM practices in Mongolia, and reform options to strengthen PIM to improve spending quality, transparency, and fiscal risk management.

Figure 4.10. USD1 of public investment in Mongolia translates into only around 22 cents of additional public capital stock, much lower than its peers, indicating that public investment spending efficiency could be improved

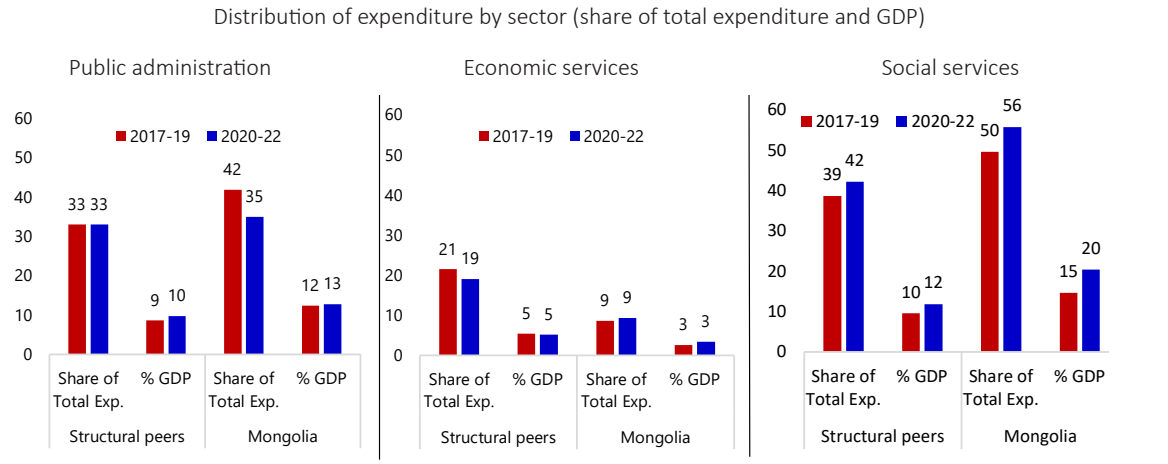


Source: WB staff calculations based on IMF Investment and Capital Stock Dataset (2021).

4.4. Social sector spending is the main driver of government expenditure by functional classification

By functional classification, social sector spending is the main driver of total government expenditure, with a rising spending share during the triple shock period.[87] The GoM has historically allocated a very high share of the budget to the social sector—comprising education, health, and social protection—surpassing the sectoral allocation of structural peers (Figure 4.11). While the share of public administration spending has been similar to peers, the overall higher level of spending in Mongolia means that public administration spending as a percent of GDP has also been higher than in structural peers. At the same time, fewer resources have been allocated to the economic sector (mainly to agriculture, transport, and mining) compared to peers over 2020–2022 (3.4 percent of GDP compared to 5.2 percent of GDP for peers, and 9.4 percent of total spending compared to 19.0 percent for peers).

Figure 4.11. Social sector and public administration spending is much higher than in structural peers



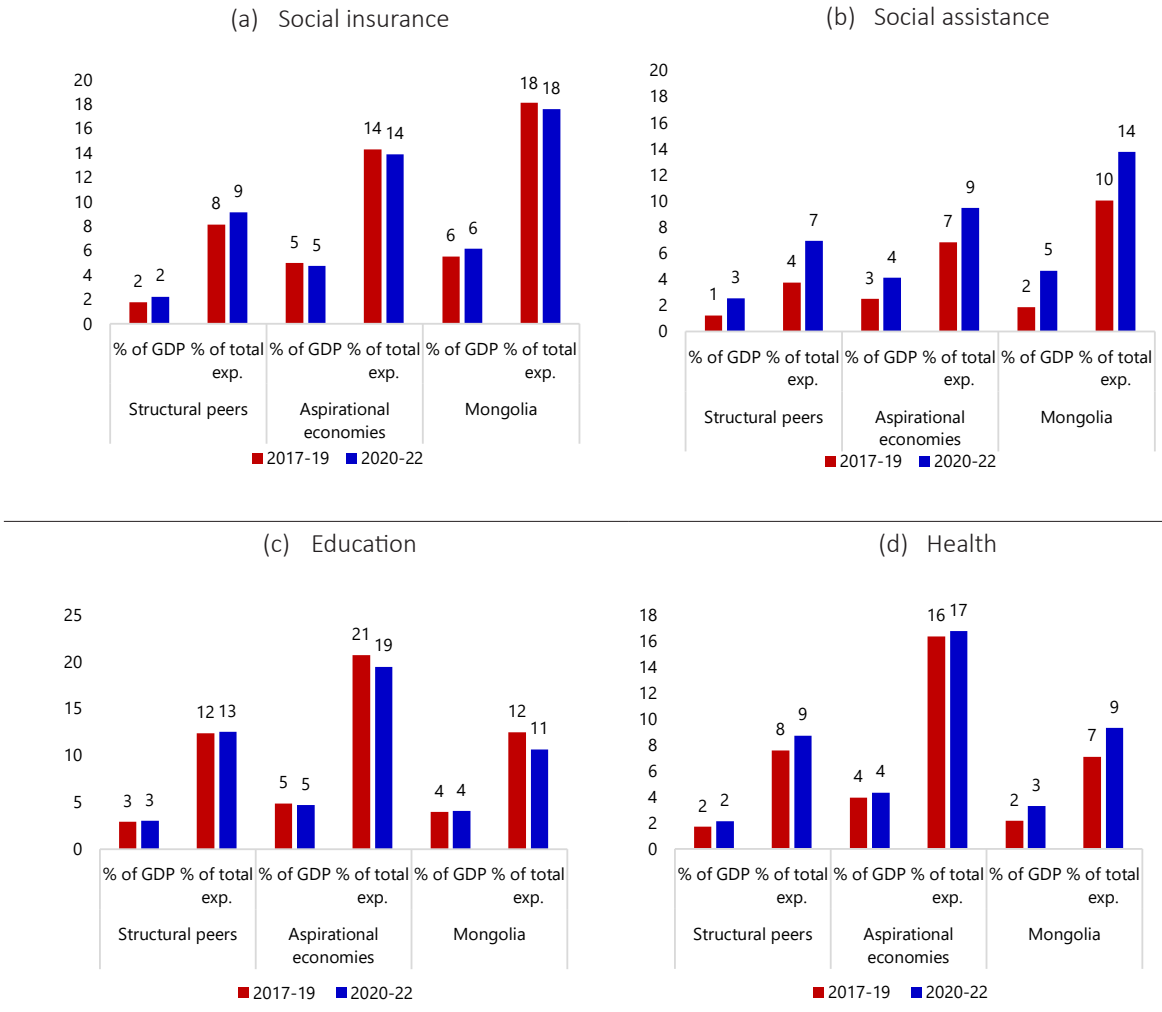
Source: WB-BOOST; WEO.
Note: Structural peers: Armenia, Peru (2017–2021); Azerbaijan (2018–2021).

Mongolia allocates significantly more resources to social protection than its structural peers, while health and education spending are broadly in line with expectations for a country at Mongolia's income level. At 8.9 percent of GDP, Mongolia's spending on social protection is more than double the level of structural peers (3.6 percent of GDP) and represents a much higher share of total expenditures (13.1 percent of total spending for peers over 2017–2021, compared to 30.8 percent for Mongolia). This reflects Mongolia's structurally high spending on social insurance, although the large increase in social protection spending during the pandemic was predominantly due to higher social assistance spending (Figure 4.12(a), Figure 4.12(b) and

87. Taking into consideration the structure of the available programmatic classification, it was deemed relevant to recreate the structure of the classification of the functions of government (COFOG), led by their corresponding broad governmental objectives. For analytical purposes, the resulting ten divisions were regrouped in three categories based on the type of service they provide to the population:
i) Economic services—composed of economic, environmental, and housing functions.
ii) Public administration—comprising general services, defense, order, and safety functions.
iii) Social services—composed of education, health, and social protection functions.

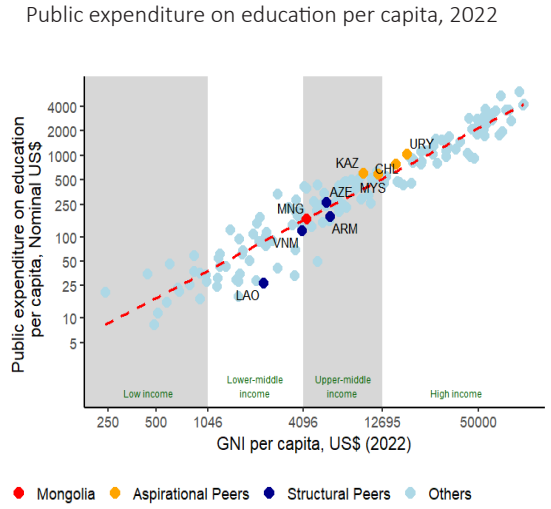
Chapter 5). This is consistent with the large spending on social protection under the economic classification composition. Education spending, as a share of GDP and the national budget, is on par with structural peers (Figure 4.12(c)). Also, per capita education spending is broadly in line with what would be expected for a country at Mongolia's income level (Figure 4.13). Public health spending (as percent of GDP) is slightly higher than structural peers (Figure 4.12(d)) and in line with what would be expected for a country at Mongolia's level of income (Figure 4.14). Chapters 6 and 7 analyze strategies to improve the efficiency of these sectors and offer actionable recommendations.

Figure 4.12. Mongolia allocates more resources to social insurance and social assistance than its peers, while the picture is more nuanced for other social sectors



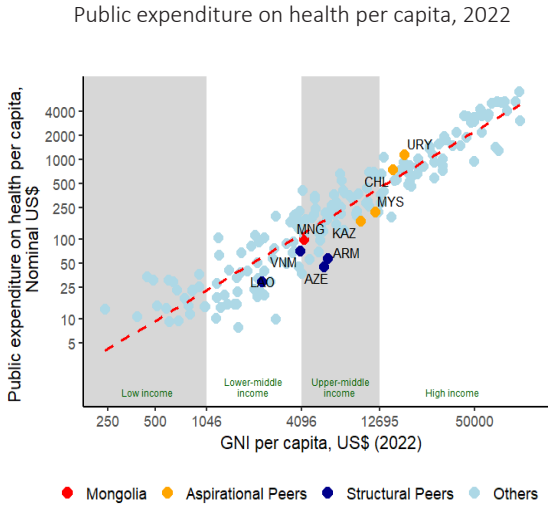
Source: BOOST-WB; WEO.

Figure 4.13. Education spending per capita is around what would be expected given Mongolia's level of income



Source: WDI.

Figure 4.14. Public health spending per capita is in line with Mongolia's level of income, and higher than structural peers



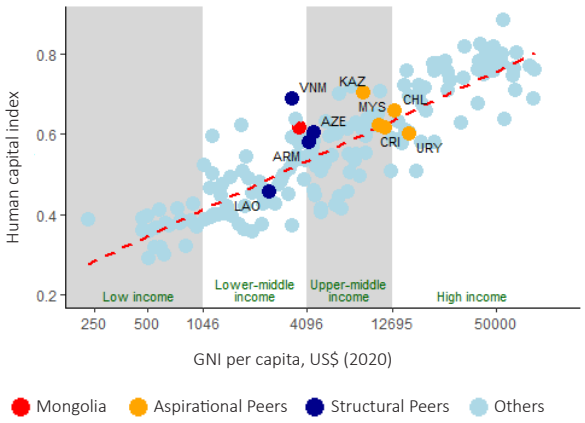
Source: WDI.

Consistent with high social sector spending, the quality of Mongolia's human capital is relatively high—though the low adult survival rate and moderate education outcomes indicate that public spending efficiency and effectiveness could be improved. The public sector dominates spending and service delivery—including in the health[88] and education[89] sectors—so the size and quality of public spending is a key driver of sector outcomes. Mongolia's Human Capital Index (HCI) score is above what would be expected for its level of income and public spending (Figure 4.15). Mongolia performs well compared to its structural peers, and even some of its aspiration peer countries, such as Uruguay and Malaysia. However, its HCI score lags Vietnam, Kazakhstan, and Chile. The significant decline in the incidence of stunting over the past 20 years (from 27.5 percent of children under five years of age in 2005 to 9.4 percent in 2018) and the steadily increasing years of schooling (from 9.4 years in 2000 to 15.0 years in 2019) push up Mongolia's HCI score. Both reflect Mongolia's success in translating high social sector spending into increased access to public health and education services. However, the relatively low adult survival rate and moderate average harmonized test scores drag down Mongolia's overall score, and indicate that there is room to improve the quality and equity of health and education spending (Figure 4.16).[90] Given the large share of the budget allocated to the social sectors, improving the efficiency of this spending will be crucial to support the fiscal adjustment, while also delivering on the government's Vision 2050 goals to improve Mongolia's human capital. Chapters 5 through 7 identify spending areas where the largest efficiency gains could be achieved.

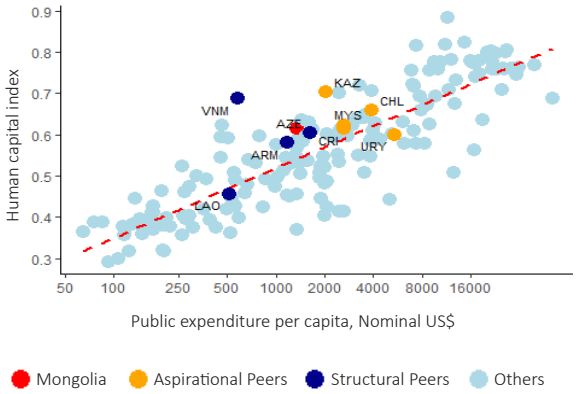
88. The number of private hospitals and clinics has grown rapidly, but public facilities still cover over 80 percent of outpatient visits and 70 percent of inpatient admissions.
89. The public sector accounts for over 70 percent of enrollment in technical and vocational education and training (TVET), over 80 percent in early childhood education (ECE), and over 90 percent in each of primary, secondary, and university education.
90. The relatively low adult survival rate is due to the rising burden of non-communicable diseases, owing to the high prevalence of smoking and alcohol consumption, and the increasing incidence of child and adult obesity due to changing lifestyle and food/beverage consumption patterns (ADB 2020). Poor education quality is evident in the low percentage of Grade 5 students rated as proficient in mathematics (41.2 percent), Mongolian language (37.6 percent), and social studies (46.4 percent) (World Bank et al. 2020).

Figure 4.15. Mongolia's HCI is high given its income level and public spending . . .

(a) HCI and GNI per capita



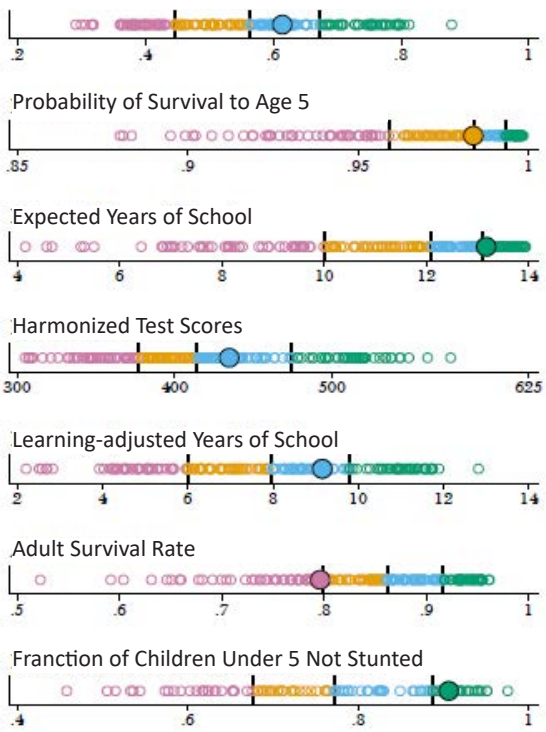
(b) HCI and public spending per capita



Source: WB WDI.

Figure 4.16. . . . though the low adult survival rate and moderate (though improving) education outcomes drag down the nation's overall score

(b) HCI and public spending per capita



Note:

- Large circle represents Mongolia
- Small circles represents other countries
- Lines and color of circles indicate quartiles of the distribution

Source: World Bank 2020c.

Note: Large circle represents Mongolia in 2020. Small circles represent other countries. Lines and color of circles represent quartiles of the distribution.

4.5. The composition of spending has become more rigid in recent years

Assessing the level of flexibility or rigidity in the budget is important to determine the government's ability to reallocate spending toward emerging priorities. Fiscal rigidity can be defined as institutional, contractual, legal, or other constraints that limit the ability of governments to change the level or structure of public spending in a specified period.[91] Research finds that a high level of budget rigidity has important impacts on fiscal performance:[92] (i) it increases financing needs and the probability of a country getting into fiscal distress; (ii) it reduces the ability to start fiscal adjustment; and (iii) it is associated with more inefficient levels of public spending, reducing the quality of public services and, therefore, the welfare of the population. The public wage bill, pensions, interest payments, basic services, and certain transfers are generally considered "rigid" expenditures. For this report, the categories in Table 4.1 were used to classify expenditure rigidity.

Growing inflexibility in the composition of spending has implications for the GoM's ability to respond to emerging priorities, implement countercyclical policy, and implement a fiscal adjustment. Figure 4.17 shows that spending rigidity has increased in Mongolia over the past decade and is now higher relative to peers. Recently, increasing rigidity has been due to rising subnational transfers, social assistance payments, and the pension subsidy, which have more than offset the decline in interest payments (as a percent of GDP) resulting from lower debt stock. There are risks that spending rigidities could increase further over the medium to long term, particularly due to rising state subsidies to the pension system. This could crowd out other forms of spending and limit the GoM's capacity to adjust fiscal policy to address emerging priorities—such as climate change—and to implement countercyclical measures in response to shocks. Although capital spending is defined as "low rigidity," it has been a key source of inefficient spending and fiscal risks in Mongolia, as highlighted in Chapters 2 and 8. Increasing spending rigidity in this context emphasizes the need for reforms to improve the quality and efficiency of spending, particularly for public investment, pensions, and social assistance.

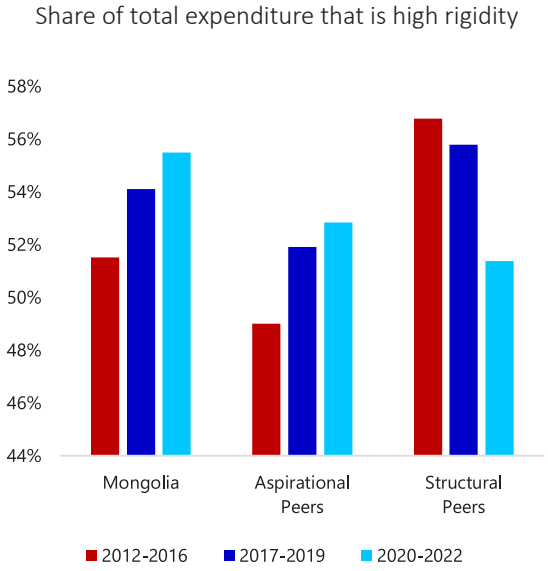
91. Cetrángolo, Jiménez, and Ruiz del Castillo 2010.
92. Herrera and Olaberria 2020.

Table 4.1. Classification of rigidity by type of expenditure

High rigidity	• Social protection (including pension system subsidies and government contributions for civil servant pensions) • Wage bill • Interest expenses on debt • Current transfers to subnational governments • Essential goods and services spending (education and health)
Medium rigidity	• Subsidies (excluding those to the pension system) • Other goods and services (education and health) • Capital spending (education and health) • Current transfers (excluding to subnational governments)
Low rigidity	• Goods and services spending (excluding education and health) • Capital spending (excluding education and health)

Source: WB staff.

Figure 4.17. The composition of GoM spending has become more rigid in recent years



Source: BOOST-WB, WB staff calculations.

4.6. Recommendations

The chapter highlights two key structural changes in the composition of spending in recent years: (i) the increasing importance of social sector spending, and (ii) its growing rigidity. First, the analysis highlights that overall public spending in Mongolia was high given the nation's income level and compared to peer countries before the onset of COVID-19, and this gap has grown further in recent years. This reflects the structural increase in government spending to respond to the pandemic in 2020–21, some of which is yet to be fully unwound—social assistance spending, in particular—along with a return to procyclical fiscal policy. Second, the composition of spending has become more rigid in recent years, and now exceeds that of peer countries. Growing inflexibility in the composition of spending could constrain the GoM's ability to respond to emerging priorities, implement countercyclical policy, and implement a fiscal adjustment.

Increasing spending efficiency

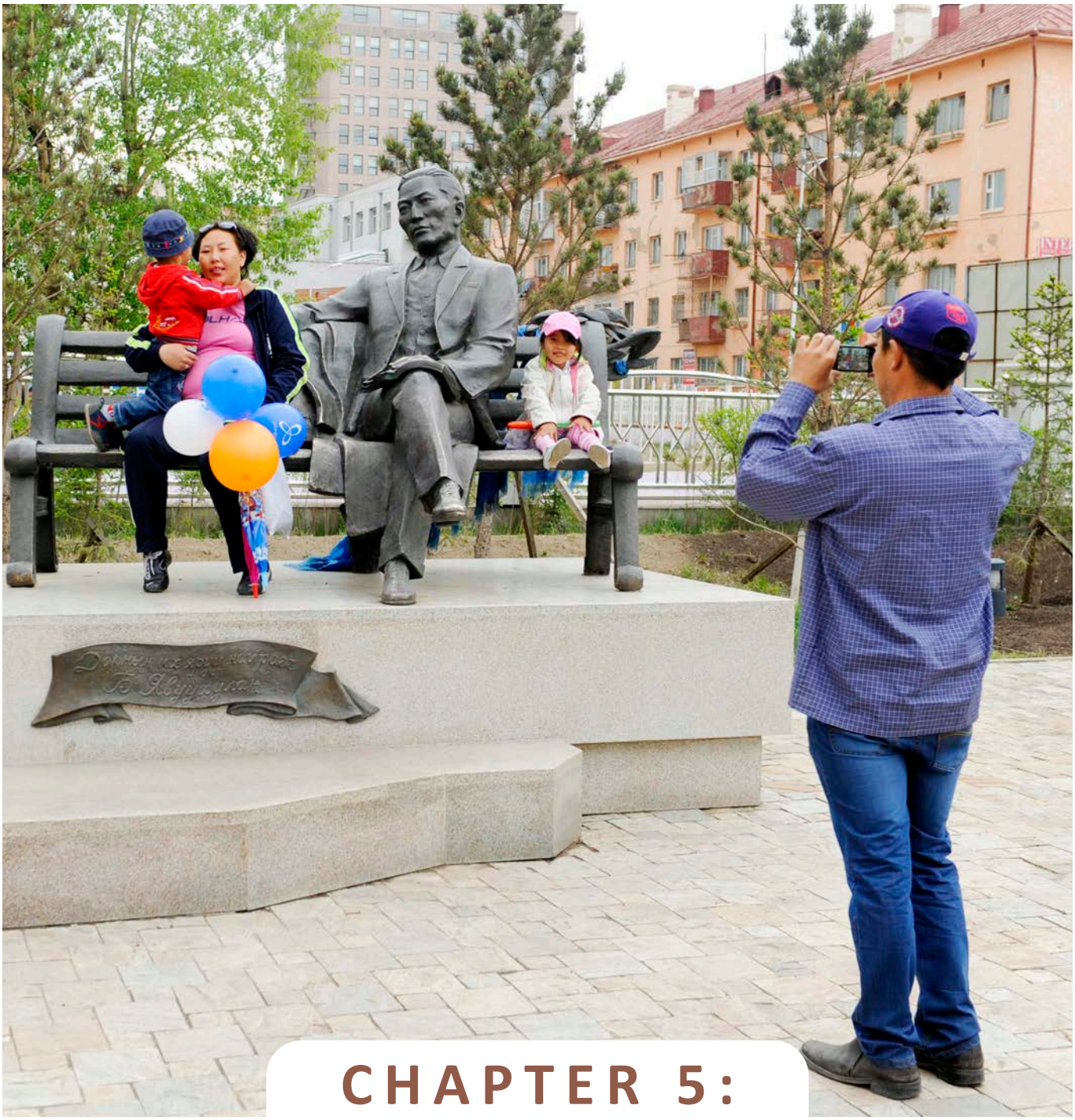
Improving the efficiency of public investment spending can thus raise the country's growth potential while reducing the fiscal cost of projects and mitigating the associated fiscal risks. Despite persistent high spending, the chapter presented evidence suggesting that the quality of Mongolia's public investment spending has been lower than in peer countries. Reform options to improve the quality of public investment spending via enhanced prioritization, and allocative and operational efficiency are outlined in Chapter 8.

A credible medium-term fiscal adjustment will require a further unwinding of social assistance spending back toward pre-pandemic levels while improving spending efficiency. Some of the pandemic-related expansion in social assistance spending has already expired (such as the one-off payments to citizens and the cash incentive for vaccine uptake) but the level of spending remains exceptionally high, with much of the additional spending yet to be unwound. A more effective, progressive, and responsive social assistance system would better protect vulnerable populations but would also improve Mongolia's fiscal sustainability, given the large share of total spending allocated to social assistance. Chapter 5 explores options to return social assistance spending back toward pre-pandemic levels while improving efficiency and progressivity, including by reallocating spending towards pro-poor programs (such as the FSP).

Along with improving financial sustainability and system fairness, pension system reform is also crucial to increase the flexibility of fiscal policy to respond to emerging priorities and shocks. Without reform, the growing state subsidy to the pension system could increase spending rigidities further, crowding out other forms of spending and reducing budget flexibility. Thus, the parametric and structural reforms to the pension system outlined in Chapter 2 will not only improve the system's financial sustainability, equity, and benefit predictability but also contribute to a more responsive fiscal policy.

Improved spending efficiency in the education and health sectors could boost human capital outcomes and long-term growth. While Mongolia's Human Capital Index (HCI) is relatively high, further progress can be achieved by improving the quality and equity of education and healthcare. Achieving these goals will require improved spending efficiency in the health and education sectors, potentially with some additional resources for specific priorities. In addition to improving the welfare of Mongolian citizens—an important outcome in its own right—increasing the quality of human capital is also a crucial driver of labor productivity. Higher allocative and technical efficiency in education and health spending can thus deliver important gains to welfare, fiscal sustainability, and economic growth. Options to achieve this are explored in Chapters 6 and 7.

Finally, improving the efficiency and effectiveness of the civil service will be critical to increasing overall spending efficiency and supporting the fiscal adjustment. While growth of the wage bill has been largely contained and its level is broadly in line with peer countries, cross-country evidence indicates that government effectiveness has declined in recent years. Improving the performance of the civil service is critical to delivering the higher quality of spending in the social sectors and public investment outlined above. This could be achieved through reforms to: (i) strengthen the governing structure of the civil service (including boosting the capacity of the Civil Service Council); (ii) improve human resource management (by re-establishing a competitive and fair entry process and enhance training programs); and (iii) enhance the performance management system—for example, the recently introduced performance-based remuneration system in education and health could deliver significant efficiency gain, if well implemented (World Bank 2020e; World Bank 2024b).



CHAPTER 5:

IMPROVING THE EFFICIENCY AND PROGRESSIVITY OF SOCIAL ASSISTANCE SPENDING

CHAPTER 5: IMPROVING THE EFFICIENCY AND PROGRESSIVITY OF SOCIAL ASSISTANCE SPENDING

5.1. Introduction

While Mongolia's social assistance system offers broad coverage and has helped protect the vulnerable from recent crises and achieve significant poverty reduction, its spending remains high and could be more efficient. As noted in Chapter 4, Mongolia allocates a substantial share of its budget and GDP to social assistance—significantly more than its peers—a trend that intensified after 2020 with large increases in benefit amounts in response to the COVID-19 pandemic. While social assistance does have a positive impact on poverty reduction (see Chapter 9), there is room for improvement in terms of efficiency. The vast majority of Mongolian households receive at least one benefit, many accessing multiple benefits, creating inefficiencies in spending by diverting resources to households not in need. Reducing the system's fragmentation and making the system more progressive could achieve greater poverty reduction while also reigning in spending. A credible medium-term fiscal reform (Chapter 1) will require a gradual unwinding of social assistance spending back toward pre-pandemic levels while improving spending efficiency.

Mongolia's Vision 2050 aims to create a more effective and inclusive social assistance system. This involves improving the relevance and adequacy of benefits for the most vulnerable, streamlining programs and better targeting the poorest. The 2024–2028 Government Action Plan builds on this vision, pledging to continue implementing the CMP while also reforming the social protection legal framework and aligning poverty reduction policies with welfare-to-work principles.

This chapter considers the options to restore social assistance spending back to pre-pandemic levels while enhancing efficiency and progressivity. It begins by examining Mongolia's social assistance programs, evaluating their spending, adequacy, targeting, and efficiency in comparison to peer countries. Next, it assesses the system's capacity to respond to shocks, a critical consideration given Mongolia's increasing vulnerability. Finally, based on these analyses, the chapter concludes with recommendations for reducing social assistance spending without compromising poverty reduction efforts.

5.2. Social assistance, largely driven by the Child Money Program, comprises numerous initiatives, most of which lack effective means testing

Overview of Mongolia's social assistance programs

Mongolia's social assistance system comprises multiple programs providing support to different vulnerable groups. The current system of social benefits has roots in the socialist era, with additional programs introduced over time. Before the 1990s, citizens were provided with secure employment and guaranteed pension and access to healthcare and education, while the social assistance system offered a variety of in-kind and cash benefits, primarily awarded to recognize state service or achievements, such as those given to labor heroes, veterans, and mothers with many children. However, the transition to a market economy in the early 1990s caused deep economic hardship. This led to the expansion of social programs to protect specific vulnerable groups.

Mongolia's social assistance system largely lacks means testing, leading to potential poverty-reduction inefficiencies and inequities in the distribution of benefits. The Food Support Program (FSP)[93] is the only fully means-tested program, but it covered a mere 4.3 percent of the population in 2022 according to HSES data. Conversely, the CMP provides universal coverage to all children under 18, reaching 1.2 million Mongolian children in 2022.[94] Several other programs are targeted to families with children or to the elderly and people with disabilities, some with additional levels of categorical targeting, such as having multiple children.[95] The Social Welfare Pension (SWP) employs categorical targeting but does combine it with *de facto* means testing: recipients must meet age or disability criteria but cannot be receiving social insurance, which functions as a form of income verification and, as seen later, exhibits relative efficiency in poverty reduction.[96]

Mongolia's social assistance system is fragmented, with numerous programs addressing similar needs through diverse benefits. While there are only ten "core" social programs[97] established by various laws,[98] they translate into nearly 40 different benefits for recipients, often addressing the same vulnerable groups (as individuals) or life events and, to a much lesser extent, poverty status of households. These benefits vary significantly in form (cash payments, fee waivers, vouchers), value, distribution schedule, and who they are intended for. System fragmentation and complex benefit structures as well as overlap may be hindering efficient poverty reduction efforts and protection of the most vulnerable.

93. While regulations still refer to it as the Food Stamp Program, the program became known as the Food Support Program when paper vouchers were replaced by bank cards.
94. According to Ministry of Family, Labor, and Social Protection administrative data.
95. See Annex 4 for a full list.
96. The Funeral Grant is also only awarded to a family member of the deceased who were not eligible to social insurance benefits.
97. The ten "core programs" are: Social Welfare Pension; Caregiver allowance; Emergency and livelihood support benefit; Benefits for maternity, childcare, and mother heroes; CMP; Social welfare and institutional care services; Support and concessions for the elderly and Age honor grant; Supplementary benefit, support and concessions for honored elderly; Support and concessions for people with disabilities; and the Food Support Program.
98. These include Social Welfare Law (2012 and amendments), Law on Elderly (2017 and amendments), Law on Rights of People with Disabilities (2016 and amendments), Law on Rewarding Mothers with Many Children (2010 and amendments), Law on Supporting Parents and Single Parents with Many children (2017 and amendments), Law on Providing Supplementary Benefits and Concessions for the Honored Elderly (2017 and amendments).

The CMP, Mongolia's main social assistance program in terms of expenditure and coverage, has undergone significant shifts since its inception in 2005. Originally designed as a targeted program for poor children, it soon after transitioned to a universal child transfer, and was then replaced by the broader Human Development Fund (HDF) cash transfer before going back and forth again between universality and means- testing (see Box 5.1). Benefit levels have been historically adjusted via ad-hoc decisions rather than automatic inflation adjustments, further hindering the program's stability and fiscal sustainability.

Box 5.1. Mongolia's Child Money Program: A Program in Constant Flux

Launched in 2005, the CMP aimed to fight poverty during Mongolia's economic and social transition. The program was targeted toward children in poor households via a proxy means test and was conditional on school enrollment for children ages 8 to 17. However, studies showed issues with targeting, as some poor children were excluded and non-poor families received benefits. In response, the program was transformed into a universal scheme in July 2006, providing benefits to all children under 18 though still conditioned on school attendance; it became unconditional in 2007. A 2007 UNICEF study found the universal program cut the child poverty rate by 10 percentage points compared to the targeted approach (UNICEF and ILO 2019). This difference was due to exclusion errors associated with proxy means testing.

The CMP has faced instability since then, mainly due to volatility with respect to funding. In 2009, the CMP was discontinued and replaced with the HDF, which aimed to distribute mining revenue directly to all citizens. The program ran from February 2010 to June 2012 and every Mongolian citizen received a total of MNT 1 million (around USD855) during this period, with an additional MNT 0.5 million (USD427) allocated to seniors and disabled individuals. However, due to the high cost, the program was discontinued after the 2012 elections and the mining revenues were instead used to reintroduce a universal unconditional CMP, establishing it as a monthly benefit of MNT 20,000 per child. In 2016, in response to the economic downturn, the government switched to a targeted approach again but later reverted to a universal program due to improved economic conditions. Subsequently, in 2018, the program became technically targeted at the bottom 80 percent, though most children still qualified. In the latter half of 2019, the program once again became universal. In January 2023, in response to the need to generate fiscal space, the CMP experienced a brief stint with targeting (this time of the bottom 91 percent of beneficiaries), only to be reverted to universality within six months after strong political backlash and a replenishment of government funds.

There is also instability with respect to the benefit amount. The benefit amount is not automatically indexed for inflation and is instead subject to ad hoc adjustments. Between 2012 and 2019 the nominal monthly benefit amount remained constant at MNT 20,000 per child (around USD7.70 in 2018), without being indexed for inflation. In April 2020, in response to the COVID-19 crisis, it was increased fivefold to MNT 100,000 per child. This increase, initially intended as a temporary measure, has now become permanent, though its real value has eroded due to high inflation.

Sources: UNICEF and ILO (2019); World Bank (2020f).

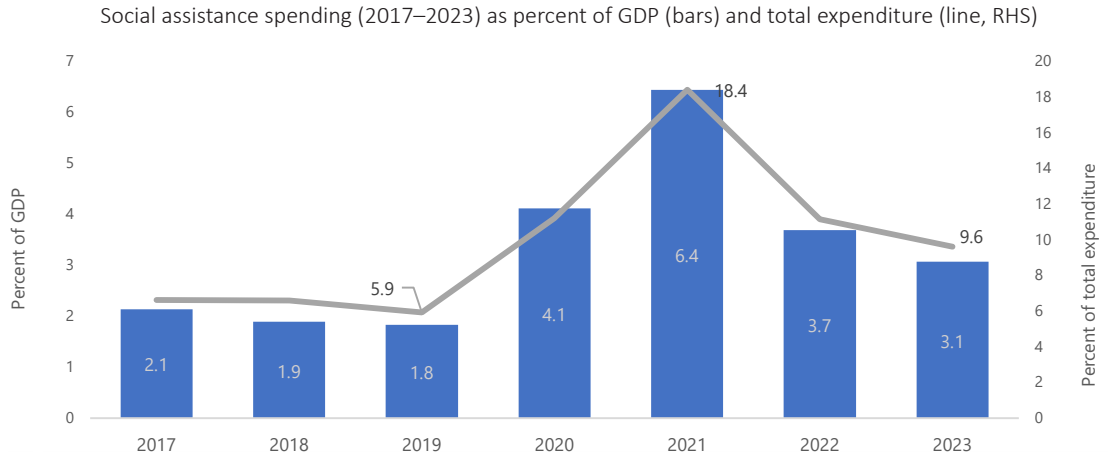
Mongolia's Long-term Development Policy: Vision 2050 (2020) charts a course for a more effective and inclusive social assistance system. This vision aims to improve the relevance and adequacy of benefits, ultimately making a positive impact on the lives of the most vulnerable. The need for reform is acknowledged, including streamlining certain programs and enhancing their effectiveness in supporting vulnerable groups, particularly the poorest. The Ministry of Family, Labor, and Social Protection (MFLSP) has been developing draft amendments to the Social Welfare Law, which is expected to serve the development vision for the social assistance system with greater effectiveness and efficiency. The 2024–2028 Government Action Plan pledges to continue implementing the CMP, Mongolia's primary social assistance program. However, it also vows to reform the social protection legal framework to eliminate universal

transfers to households and citizens based on political considerations. Additionally, the plan commits to legal reforms for poverty reduction policies, aligning them with welfare-to-work transition principles.

Social assistance spending

Social assistance spending surged in response to the pandemic and has yet to return to pre-pandemic levels. Already high compared to peers before the crisis (see Chapter 4), spending increased sharply, driven primarily by a fivefold rise in the CMP benefit. Although social assistance spending has decreased since 2022, it remains well above pre-pandemic levels as a share of both GDP and total expenditure (Figure 5.1).

Figure 5.1. Social assistance spending has risen sharply in recent years

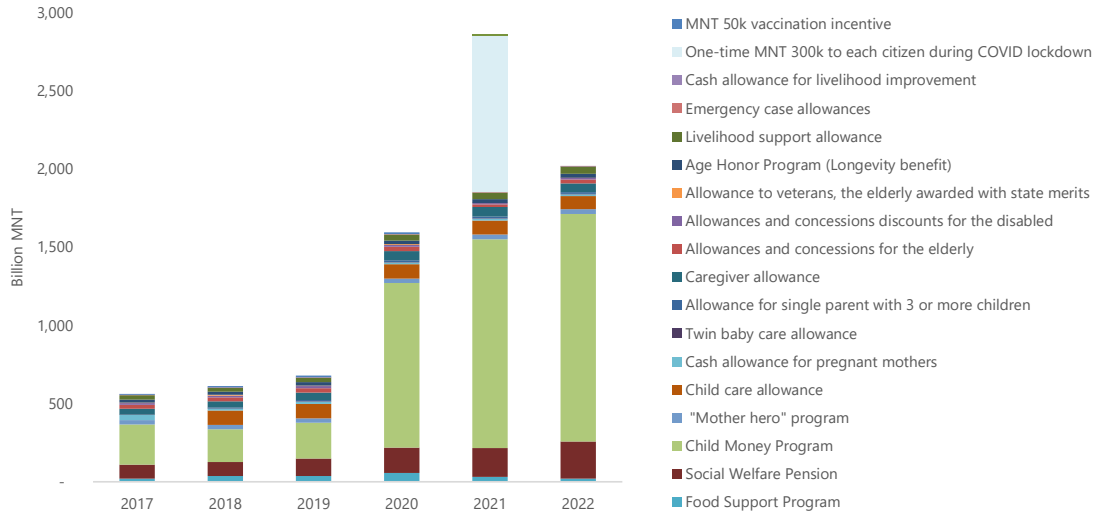


Source: BOOST-WB, WEO.

Mongolia's CMP dominates social assistance spending, particularly since the COVID-19 pandemic. In 2022, the CMP accounted for 72 percent of all social assistance spending, compared to just a third pre-pandemic. This dwarfs all other programs; the next largest program, the SWP (a non-contributory welfare pension for persons with disabilities and old-age citizens), represented only 12 percent of social assistance spending, and no other program exceeds 5 percent of the total. The dominance of the CMP in social assistance spending is mainly due to the steep increase in the benefit amount in response to the COVID-19 pandemic. It is also the program with the largest coverage (59.7 percent of households in 2022).[99] The next largest program in terms of coverage, the Mother hero grant,[100] largely overlaps with the CMP and covered 24 percent of households.[101]

99. According to 2022 HSES survey data.
100. The Mother hero grant provides a lifetime annual cash transfer to women who have given birth to or adopted four or more children.
101. According to 2022 HSES survey data.

Figure 5.2. Composition of social assistance spending by program, billions of MNT, 2017–2022



Source: WB ASPIRE database.

5.3. Social assistance offers broad coverage and adequate benefits but often adjusts amounts ad hoc

Coverage and adequacy

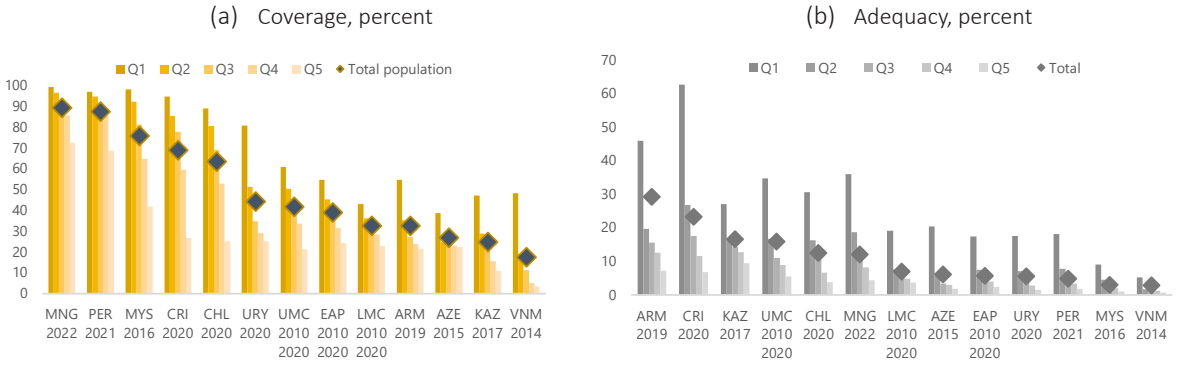
Mongolia is distinguished by its extensive social assistance coverage. Within the lowest welfare quintile, 99 percent of individuals in Mongolia are direct or indirect recipients of social assistance; among peer countries, only Peru and Malaysia have comparable coverage (Figure 5.3, panel a). When considering the entire population, the coverage remains substantial: 89 percent have received some form of social assistance, either directly or indirectly.[102] Among peers, only Peru reported a similar percentage, while four countries registered coverage below 50 percent. The broad reach of social assistance to the total population suggests potential inefficiencies within the system in reducing poverty (see Chapter 9). Given that the poverty headcount was at only 27.1 percent, many benefit recipients do not necessarily belong to the most vulnerable and many even belong to upper end of the income distribution.

At the same time, compared to similar countries, Mongolia's social assistance programs offer relatively adequate benefits, especially for the lowest income quintile. In 2022, benefit adequacy in Mongolia—defined as the total transfer amount as a percentage of pre-transfer beneficiary welfare[103]—averaged 12 percent across the entire population.[104] These rates are comparable to those of many peer countries, although Armenia, Costa Rica, and Kazakhstan have significantly higher levels of benefit adequacy (Figure 5.3, panel b). Adequacy in Mongolia

102. Indirect receipt of benefits refers to belonging to a household where at least one other member is a direct benefit recipient.
103. Pre-transfer beneficiary welfare refers to either the total income or consumption minus the total value of benefits received.
104. In 2018, benefit adequacy averaged 6.5 percent. The increase in benefits in 2020 in response to COVID-19 significantly increased benefit adequacy.

fares comparatively better for the first quintile: at 36 percent, only Armenia and Costa Rica significantly surpass it, and it is significantly higher than in most peer countries.

Figure 5.3. Mongolia's population has high social assistance coverage; benefits have similar adequacy when compared to most peer countries



Source: Figure for MNG is based on 2022 HSES data. All other figures are from the ASPIRE database.

Note: "Coverage" refers to both direct and indirect beneficiaries. "Indirect beneficiaries" refers to individuals belonging to households with direct beneficiaries.

Source: Figure for MNG is based on 2022 HSES data. All other figures are from the ASPIRE database.

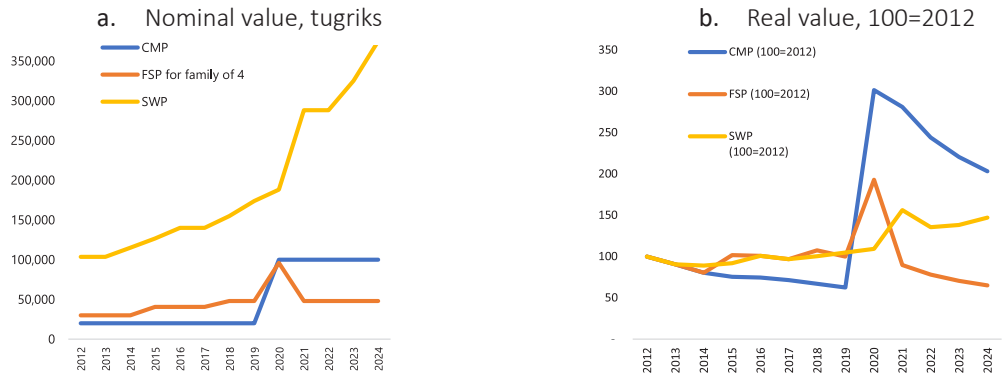
Note: "Adequacy" refers to the total transfer amount received by all beneficiaries in a population group as a share of the total pre-transfer welfare of beneficiaries in that group.

Over time, benefit amounts have tended to be adjusted in an ad hoc manner, rather than following a pre-defined formula. For example, and as previously mentioned, the value of the benefit of CMP increased fivefold in response to the COVID-19 pandemic in 2020. Other benefits were also increased in 2020 but to a much lower degree: the FSP was doubled, and the monthly SWP benefit rose from MNT 188,000 per month to MNT 288,000. By 2022, the FSP benefit had returned to the pre-COVID-19 nominal monthly value of MNT 16,000 per adult and MNT 8,000 per child. Since then, among these three programs, only the value of the SWP has tended to be updated following changes in prices—even if not following a predefined formula.[105] In response to rising inflation during the post-COVID period, the SWP was further increased to MNT 325,000 from July 1, 2023, and then to MNT 375,000 from April 1, 2024.

Reliance on ad hoc changes to benefit levels has resulted in varying changes in the purchasing power of benefits, with some declining and others increasing significantly. Figure 5.4 illustrates how a lack of indexing for inflation or change in minimum subsistence level has led to the continued deterioration of the purchasing power of the FSP: by 2024, the value of the benefit for a family of four was 65 percent the level in 2019. The real value of the CMP (in 2012 prices) also declined between 2012 and 2019. In 2020, it shot up to becoming three times as high. Since then, the real value has slowly eroded and in 2024 its real value represented twice the 2012 value. This means that had the CMP benefit value remained constant in real terms since 2012, it would amount to approximately MNT 50,000 in 2024 prices rather than the current MNT 100,000. According to international experience, automatic indexation for inflation or subsistence levels is a favored practice for cash transfers due to its ability to maintain program effectiveness and offer greater transparency and predictability. Reliance on ad hoc adjustments, in contrast, leads to uncertainty for beneficiaries and variations in their purchasing power and thus household wellbeing.[106]

105. The Social Welfare Law (2012 with subsequent amendments) provides that the Cabinet determine the size of SWP benefits considering the minimum subsistence level, which is based on the national poverty line.
106. Gentilini, TMM Iyengar, and Valleriani 2024.

Figure 5.4. Nominal and real value of selected benefits



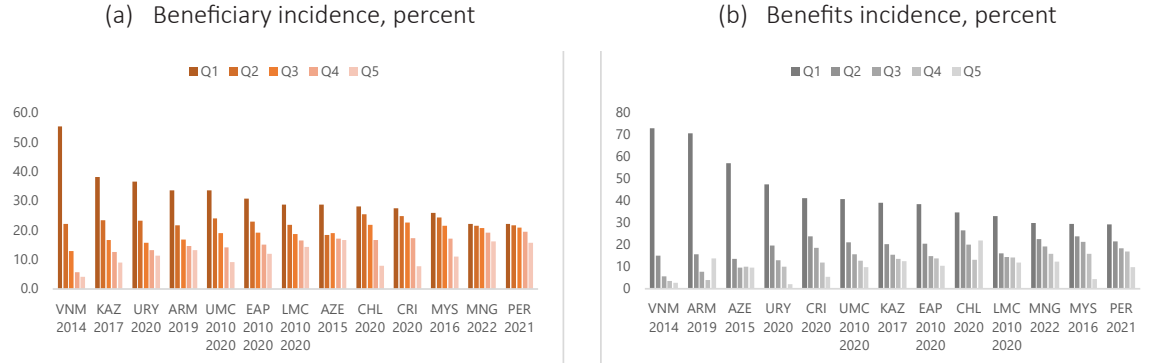
Source: World Bank estimates based on Mongolian CPI from NSO.

Note: The real and nominal value for the FSP is shown for a family with two adults and two children.

While social assistance programs substantially reduce poverty, their overall cost-efficiency is relatively low

Mongolia's social assistance system may reach a wide population, but this also means that there is relatively low progressivity with resources not generally well targeted to those in need (see also Chapter 9). Progressivity in social benefits means that they are concentrated among those at the lower end of the income distribution and thus well targeted. Compared to peer countries, both structural and aspirational, Mongolia's social assistance system is less well targeted toward the bottom quintile. Beneficiaries in the bottom quintile represented 22 percent of total beneficiaries; this is among the lowest share among peer countries for which comparable data are available (Figure 5.5a). The share of beneficiaries in the top quintile is also significant (16 percent), and higher than in all peer countries. With respect to benefit incidence, Mongolia fares somewhat better, with 30 percent of total amount of benefits accruing to the first quintile, compared with 12 percent to the fifth quintile. Nonetheless, there is considerable room for improvement and nearly all peer countries exhibit a higher concentration of benefits' spending among the first quintile (Figure 5.5b).

Figure 5.5. Mongolia's social assistance system is less well targeted than that of its peers



Source: Figure for MNG is based on 2022 HSES data. All other figures are from the ASPIRE database.

Note: Beneficiary incidence refers to the percentage of program beneficiaries in a quintile relative to the total number of beneficiaries in the population.

Source: Figure for MNG is based on 2022 HSES data. All other figures are from the ASPIRE database.

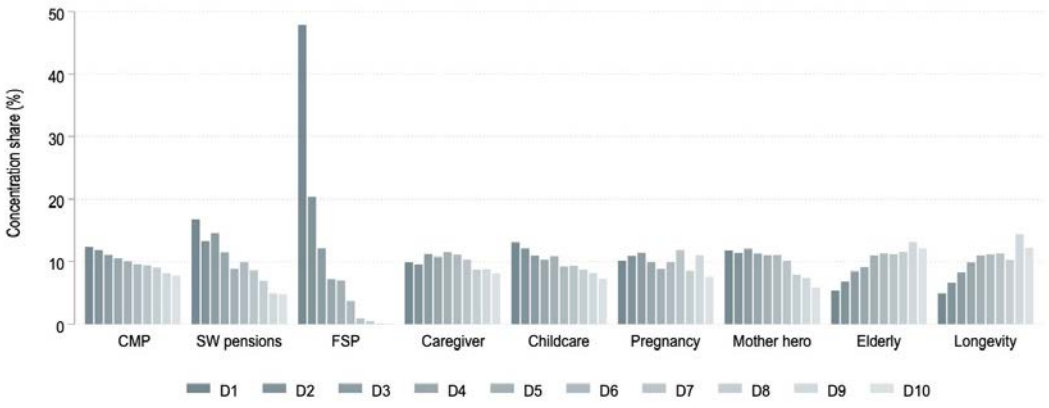
Note: Benefits incidence refers to the percentage of benefits in monetary terms going to a quintile relative to the total benefits going to the population.

Progressivity varies considerably across programs (see also Chapter 9). The SWP and, more notably, the FSP, exhibit high levels of targeting precision according to 2022 Household Socio-Economic Survey (HSES) data, with most transfers accruing to the first two deciles (Figure 5.6). At the other end of the spectrum lie other benefits given to the elderly.

The two most progressive programs, the FSP and the SWP, employ at least some form of means-test targeting. The FSP is designed to assist the extreme poor (just 0.8 percent of the population in 2022) and is Mongolia's only fully means-tested program under the Social Welfare Fund. Eligibility for the FSP is based on a proxy means test (PMT) that has recently been revised to employ both administrative data and a household survey. While there is room to further improve the PMT methodology by incorporating additional administrative data, the current targeting of the FSP remains highly effective. Remarkably, over 50 percent of its benefits reach the poorest decile of market income, which is a noteworthy achievement. In contrast, less than 20 percent of all direct transfers reported in the HSES accrue to the poorest decile. The FSP also stands out for having minimal leakage: not all FSP recipients are poor since the PMT is not perfect; however, these errors are relatively few, with only a negligible share of benefits reaching higher income deciles. The SWP combines categorical and partial means-testing and has a reasonable level of targeting precision. Close to 40 percent of SWP benefits go to the tenth decile, which is considerably lower than the FSP and exhibits greater leakage to upper deciles in comparison. Nonetheless, the SWP still stands out as being significantly better targeted than all other social assistance benefits in Mongolia.

On the other hand, categorically targeted benefits tend to exhibit less progressivity, especially those that target the elderly without employing any additional income tests. The elderly allowances and concessions (as per the Social Welfare Law and Law on Elderly) and the longevity benefit disproportionately benefit higher-income groups. These benefits primarily consider old age for eligibility and, unlike the SWP, do not exclude individuals who are entitled to contributory pensions. Finally, programs targeted toward children or mothers exhibit some level of progressivity because children are disproportionately found among households belonging to the lower end of the distribution. However, these programs are considerably less progressive than the FSP or SWP because they, for the most part, exclusively rely on presence of children in the household for eligibility purposes.

Figure 5.6. Concentration curves of direct transfers in Mongolia



Source: WB staff estimates based on 2022 HSES data.

Note: The figure shows the share of total benefits accruing to each decile of household consumption. "Elderly" refers to both elderly allowances and concessions.

Differences in progressivity translate into variable effectiveness of social assistance programs in reducing poverty (see also Chapter 9). For every trillion MNT allocated to social assistance programs, there is a 4.5-percentage-point decrease in the poverty gap, as shown in Table 5.1. This is more effective than social insurance programs, which achieve a 3.7-percentage-point reduction. However, the impact varies among the programs: the elderly allowance and longevity benefits have a lower benefit-cost ratio of 1.7, respectively, while the FSP boasts a much higher ratio of 7.7. As previously mentioned, the FSP's coverage was limited to 4.3 percent of the population in 2022, which means its high benefit-cost ratio has a limited effect on the broader Mongolian population living in poverty. The CMP, on the other hand, covers a much higher share of the population compared to other programs, thereby achieving notable reductions in poverty. As detailed in Chapter 9, the CMP is particularly effective in both reducing poverty and addressing inequality. However, it is also associated with high expenditures. Consequently, as Table 5.1 illustrates, while the CMP is effective in reducing poverty, it does so at a lower benefit-cost ratio than the FSP or SWP.

Table 5.1. Performance of various social protection programs in reducing the poverty gap, 2022

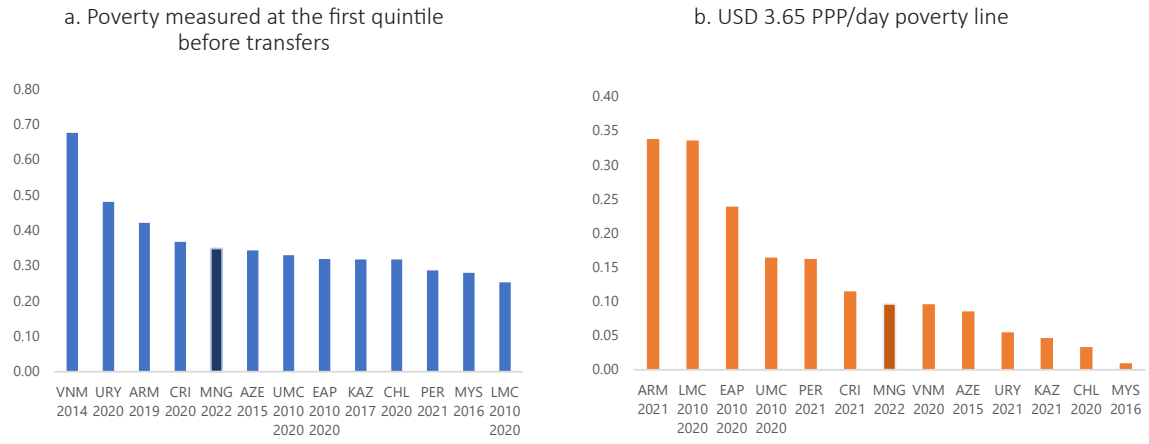
	Coverage (% of households)	Coverage of the poor (% of poor households)	Coverage (% of population)	Coverage of the poor (% of poor population)	Concentration share of benefit: poorest quintile (%)	Benefit-cost ratio
All social protection	**88.9**	**93.7**	**94.0**	**97.1**	**23.8**	**-4.3**
Social assistance	**80.6**	**89.7**	**89.3**	**95.1**	**31.7**	**-4.5**
Food Support Program	2.9	9.5	4.3	12.3	72.8	-7.7
Social Welfare Pension	6.1	10.9	6.9	11.2	51.5	-5.0
Child Money Program	59.7	73.2	77.5	86.6	29.9	-4.4
Childcare benefit	19.1	26.9	27.8	35.2	32.4	-4.0
Pregnancy benefit	5.0	6.6	7.0	8.5	25.4	-3.5
Mother hero grant	24.5	34.8	30.5	43.5	33.5	-3.4
Caregiver allowance	5.6	6.6	5.6	6.6	34.0	-3.1
Elderly allowance	22.7	19.4	16.9	14.5	15.2	-1.7
Longevity benefit	14.0	11.3	10.3	8.0	15.8	-1.7
Social insurance	**52.2**	**45.6**	**48.3**	**42.7**	**15.9**	**-3.7**
Disability pension	6.4	7.3	6.6	7.5	19.9	-4.1
Old-age pension	32.9	27.8	25.3	22.2	13.4	-3.6
Survivors pension	2.1	2.0	2.3	2.0	16.2	-3.4
Social insurance benefits	16.2	14.4	20.8	17.5	22.9	-3.3
Military pension	2.2	0.5	1.8	0.7	26.3	-1.7

Source: WB staff estimates based on 2022 HSES survey data.

Note: "Coverage of the population" refers to both direct and indirect beneficiaries since poverty is calculated at the household level. "Benefit-cost ratio" is defined as the marginal contribution to a reduction in the national poverty gap in percentage points for each trillion MNT spent on the program. Social insurance spending is included for comparability purposes.

Compared to peer countries, Mongolia's relative efficiency in poverty reduction is mixed. Depending on the specific poverty measure used, Mongolia's performance varies in terms of how efficiently resources are allocated to achieve the maximum possible poverty reduction for a given level of expenditure. As shown in Figure 5.7a, Mongolia's benefit-cost ratio[107] for social assistance, which refers to the reduction in the poverty gap obtained for each USD1 spent, when measured at the first quintile (before transfers), holds an intermediate position relative to its peers and aligns with the global average for upper-middle income countries. Yet, Mongolia is relatively less efficient than the EAP and global averages for both upper- and lower- middle income countries in lifting those living in poverty below the global threshold of USD 3.65 PPP per day (Figure 5.7b). Compared to peer countries, Mongolia fares similarly to Vietnam and Azerbaijan and surpasses Uruguay, Kazakhstan, Chile and Malaysia, but it significantly underperforms compared to Armenia and Peru, and trails behind Costa Rica. Mongolia has room for improvement in efficiency, partly due to its high level of spending (see Chapter 4) combined with high coverage, which exceeds all comparator countries and the UMIC average. This results in a larger share of benefits accruing to non-poor households. By improving the targeting efficiency of its social assistance programs, Mongolia could achieve greater poverty reduction while optimizing its budget. The most effective way of doing this, as will be seen later, is by introducing greater targeting of social assistance transfers via proxy means-testing. The latter method more accurately identifies vulnerable households, reducing leakage to higher-income households compared to relying on broad individual-level categories like children, the elderly, or people with disabilities.

Figure 5.7. Social assistance benefit-cost ratio (reduction in poverty gap for each USD spent)



Source: Figure for MNG is based on 2022 HSES data. All other figures are from the ASPIRE database.
Note: The benefit cost-ratio measures refers to the reduction in the poverty gap obtained for each USD1 spent and is estimated as (poverty gap before transfer- poverty gap after transfer)/ total transfer amount, where the poverty gap is either measured at the first quintile (before transfers) or at the USD 3.65 PPP poverty line.

107. In the chart in Figure 5.7, the benefit-cost ratio measures the share of benefits that contribute to reducing the poverty gap.

5.4. Social assistance adaptability

The adaptability of social assistance programs to covariate shocks is a critical factor in determining their overall effectiveness and efficiency. Programs that are responsive to widespread shocks, such as economic downturns or natural disasters, can better address emerging needs while optimizing resource allocation. A robust, adaptive social assistance system is increasingly crucial as Mongolia faces growing vulnerability to climate shocks such as dzuds and floods. Mongolia's strong response to the COVID-19 pandemic demonstrates a solid foundation for social assistance adaptability. However, a recent World Bank assessment of the Mongolian social assistance system's adaptiveness to shocks identified several areas for improvement.[108]

While Mongolia boasts a robust institutional framework for disaster risk management, led by the National Emergency Management Agency (NEMA) and the State Emergency Commission, with the Ministry of Family, Labor, and Social Protection (MFLSP) involved in coordination, the role of social assistance in preparedness and response in disaster management plans remains largely unrealized. Existing laws and strategies, including the next phase of the Disaster Risk Management Strategy, do not explicitly recognize the role of social assistance. There is limited clarity and integration of social assistance within the subnational emergency response coordination structure to ensure effective implementation.

A strong foundation for vertical social assistance response exists, but there is no clear framework for scaling up benefits or expanding eligibility due to shocks. Mongolia has a robust identification system and payment mechanisms, including digital payments, are well developed, providing Mongolia's social assistance programs, such as the CMP, with mechanisms for vertical response to shocks**.** Mongolia also has the ability to swiftly implement one-off universal transfers, as evidenced by its response to the COVID-19 pandemic. However, there is no clear framework established for scaling up benefits or expanding eligibility due to shocks. Moreover, there is limited formal communication between households and local government officials responsible for delivering and overseeing these initiatives. The current grievance redress mechanisms (GRM) offer multiple channels for lodging complaints, but integrating GRM into the MFLSP e-welfare system could enhance efficiency, particularly during crises.

Mongolia's existing databases and information management systems provide a robust foundation for strengthening ASP and establishing a social registry to enable shock response. The government has established a unified household information database, the Integrated Household Administrative Database (IHAD), by consolidating data from multiple administrative sources.[109] The database has further potential for interoperability with more adminstrative databases and the ability to function as a social registry, provided that en masse data updating capability is improved. Morever, the MFLSP maintains the Household Information Database (which integrates administrative and survey data), for identifying the poorest and most vulnerable households. However, coverage remain incomplete due to limited efforts to expand the household survey. If this continues, its ablity to identify all poor and vulnerable households during shocks will remain inadequate. Finally, nongovernmental organizations (NGOs) lack coordination with the MFLSP to access or benefit from critical databases for enhancing effective targeting and coordination of assistance for shock response.

108. World Bank 2025b.
109. It currently incorporates administrative information from seven databases—civil registry (marriage, death, birth), property, motor vehicles, livestock census, tax, social insurance, and the NSO's Population and Household Registration Database—but health insurance, social assistance, and public service data are not included.

While Mongolia relies heavily on the Government Reserve Fund and ex post budget repurposing for contingency social protection financing, proactive pre-shock measures are crucial for building resilience and ensuring effective disaster response. Currently, the existing approach to disaster risk financing/disaster risk management combines ex post (reallocation or repurposing of the revenue budget) with limited ex ante financing (building annual strategic reserves and financing disaster risk reduction activities). For ASP, the primary approach to financing has been ex post, involving reallocation or repurposing of existing revenue budget funds. Except for a non-compulsory index-based livestock insurance program for herders, there is no other significant risk transfer product. The Government Reserve Fund, capped at 1 percent of GDP under the 2019 Law on Government Special Funds, is the main national-level source of contingency financing in Mongolia.

5.5. Recommendations

Implementing strategies for consolidation and improving poverty-reduction and spending efficiency

Mongolia should rein in social assistance spending back to sustainable levels, but do so in such a way that impact on poverty is also improved. As seen in this chapter (see also in Chapter 9), while Mongolia's social assistance system does achieve significant poverty reduction, it does so at a high cost, with a significant share of resources reaching non-vulnerable households that are at the upper end of the distribution, given that targeting largely relies on vulnerable groups rather than means-testing. Additionally, this Chapter also have showed that social assistance increased significantly during the pandemic, reaching its highest level in 2021, and, despite some decline, remained substantially elevated in 2023 compared to the pre-COVID-19 levels. Below are some short- and medium-term strategies that could help Mongolia stride toward a more progressive social assistance system, while limiting current inefficiencies.

1. **Continue to enhance the current PMT methodology for improved targeting of social assistance programs and for effective response to mitigate the impact of shocks on the poor and most vulnerable households.** Mongolia has developed an integrated administrative-based household database. It also has the capability to implement a hybrid PMT that incorporates both household survey and administrative data for identifying the poorest. Together, they provide a solid foundation for further improving the already effective PMT. Based on the government data exchange infrastructure and interoperability arrangements, more administrative data could be linked and used to significantly reduce inclusion errors when applying PMT formulas. The PMT formula itself should also be updated to better reflect current living conditions. Lastly, as interoperability improves and the social registry becomes more dynamic and up to date, Mongolia could further improve exclusion errors. If combined with an enhanced grievance redress mechanism, the latter could significantly reduce the probability that vulnerable groups will be left out of social assistance programs.

2. **Consider expanding the benefit level and coverage of the FSP, Mongolia's most progressive social assistance program.** While the FSP is Mongolia's most progressive social assistance program, its benefit levels are significantly lower than the daily food poverty line (FPL) of MNT 5,603 per adult equivalent. Increasing benefits to 25 percent of the monthly FPL for adults and 10 percent for children, while also expanding the program to 10 percent of the population (compared to the current 4.3 percent), would reduce current poverty by 0.6 percentage points. To ensure a sustainable impact on

poverty, benefits must also be indexed to inflation, rather than adjusted on an ad hoc basis, in order to maintain purchasing power over time**.** While expanding the FSP to 10 percent of the population implies covering about ten times the extreme poverty rate, aiming to cover a larger share of the population can better ensure food security for vulnerable populations. Although horizontal and vertical expansion would incur a cost of 0.19 percent of GDP, this measure can be combined with other short-term and medium-term cost-cutting measures noted below. See Chapter 9 for additional details on this simulation.

3. **Introduce (enhanced) means-testing for certain categorical benefits**. As outlined in this chapter, the SWP is a relatively progressive social assistance benefit, second only to the FSP. This is largely due to its combination of categorial targeting and a partial means-test. As shown in Chapter 9, applying means-testing to several social welfare benefits based on a PMT test with a threshold of 1.5 times the poverty line could yield significant savings of 0.22 of GDP.[110] This would yield a small increase in poverty[111] (due to errors in the PMT). However, these would be offset by a vertical and horizontal expansion of the FSP leading to a 0.4 percentage point reduction in poverty and savings of 0.03 percent of GDP.

4. **Simplify and consolidate the number of categorical benefits offered to the elderly and disabled**. Mongolia's social assistance system is complex, offering a large number of benefits to the elderly and people with disabilities (see Table A.4.1 in Annex 4). While these benefits are crucial for vulnerable individuals with increased needs, the sheer number creates complexity. The system can be difficult for beneficiaries to navigate, often requiring them to submit extensive paperwork for reimbursement. To improve efficiency, the government should consider simplifying and consolidating these benefits. This would streamline the process for both beneficiaries and administrators. The savings generated could be redirected toward increasing the SWP for individuals deemed vulnerable according to the PMT, thereby not compromising benefits for people with disabilities or the elderly.

5. **Finally, to reduce social assistance spending, Mongolia may consider continuing to let the real value of the CMP benefit decline until it reaches its 2012 level, a 50 percent reduction from its current value.** It would be ideal to introduce means-testing for the CMP. However, if this is not politically feasible, a second-best alternative is to maintain CMP's universality but obtain cost savings via letting its real value decline back to the original value introduced in 2012. Given the most recent inflation forecasts (see Chapter 1), it is estimated that a 50 percent decline in the real value of the CMP in 2024 tugrug will take about five years. Subsequently, to preserve purchasing power and ensure reliability, the benefit amount could be adjusted annually based on a predetermined rule, such as CPI indexation. Allowing the real value of the CMP benefit to decrease to 50 percent of its current real value would generate substantial fiscal savings. These savings could be partially used to offset expenditures associated with further enhancing Mongolia's ability to combat poverty through means-tested social assistance that includes comprehensive activation measures for beneficiaries, enabling them to transition off social assistance and escape poverty**.**

110. In the simulation, the population not considered poor or vulnerable, i.e., the top 42 percent of the population, would not receive social welfare benefits. Individuals in the top 42 percent would, however, receive 100 percent of the CMP and 50 percent of the SWP, provided they meet the eligibility criteria for these benefits.
111. Measured at the national poverty line.

Further enhancing the social protection system's adaptability to shocks

Improving the adaptability of social assistance can play a key role in enhancing resilience and preventing or mitigating the adverse effects of covariate shocks while also improving poverty reduction efficiency. In addition to the need for improved data and information systems for better targeting and shock response, as well as the development of an integrated social registry (see below), recent assessments by the World Bank on Mongolia's ASP (World Bank 2025b) and the 2024 Mongolia CCDR identified other key recommendations outlined below.

To enhance the shock response capability of Mongolia's social protection system, it is essential to establish ASP as a fundamental element within disaster risk management and social protection frameworks. This can be achieved by incorporating ASP into existing laws, regulations, and guidelines, as well as the draft Disaster Risk Management Strategy. Recommendations include recognizing ASP's critical role in contingency planning, exploring connections between early warning systems and social protection triggers, and clearly defining the MFLSP's responsibilities within the National Emergency Committee and corresponding subnational disaster response structures.

Outreach and communication efforts and grievance redress mechanisms should also be strengthened. Such efforts, including integrating GRM into the MFLSP e-welfare system, would help ensure that shock response reaches affected populations and to help build trust, legitimacy, and program effectiveness in times of shock response.

A comprehensive disaster risk financing strategy, including guidelines for financing ASP, is essential to bolster system resilience. This strategy should prioritize an ex ante approach over ex post measures, particularly for high-risk shocks such as floods and dzuds. Key components could include the establishment of a dedicated Dzud Resilience Window within the Local Development Fund to channel government financing toward helping herders prepare for, cope with, and respond to dzuds. Additional measures include augmenting and recalibrating disaster response financing, ensuring the resilience of critical infrastructure, improving early warning systems, raising public awareness on disaster risk reduction, and developing an insurance market to protect public and private assets.

Establishing a framework for social assistance spending and shock response

Mongolia could consider implementing rules for social assistance spending and shock response to enhance equity, reliability, and consistency. By establishing a cap on total social assistance expenditure as a percentage of GDP and clear guidelines for adjusting benefits for inflation, as well as for temporarily scaling up benefits or expanding eligibility in response to shocks, Mongolia can better control spending while safeguarding vulnerable populations from inflation and external shocks. This approach would reduce the potential for discretionary changes, promoting a more consistent, dependable, and fiscally sustainable social assistance system that is also able to respond to shocks. The spending cap could be set closer to pre-pandemic levels and aligned with the average among peer countries, i.e., approximately 2.5 percent.

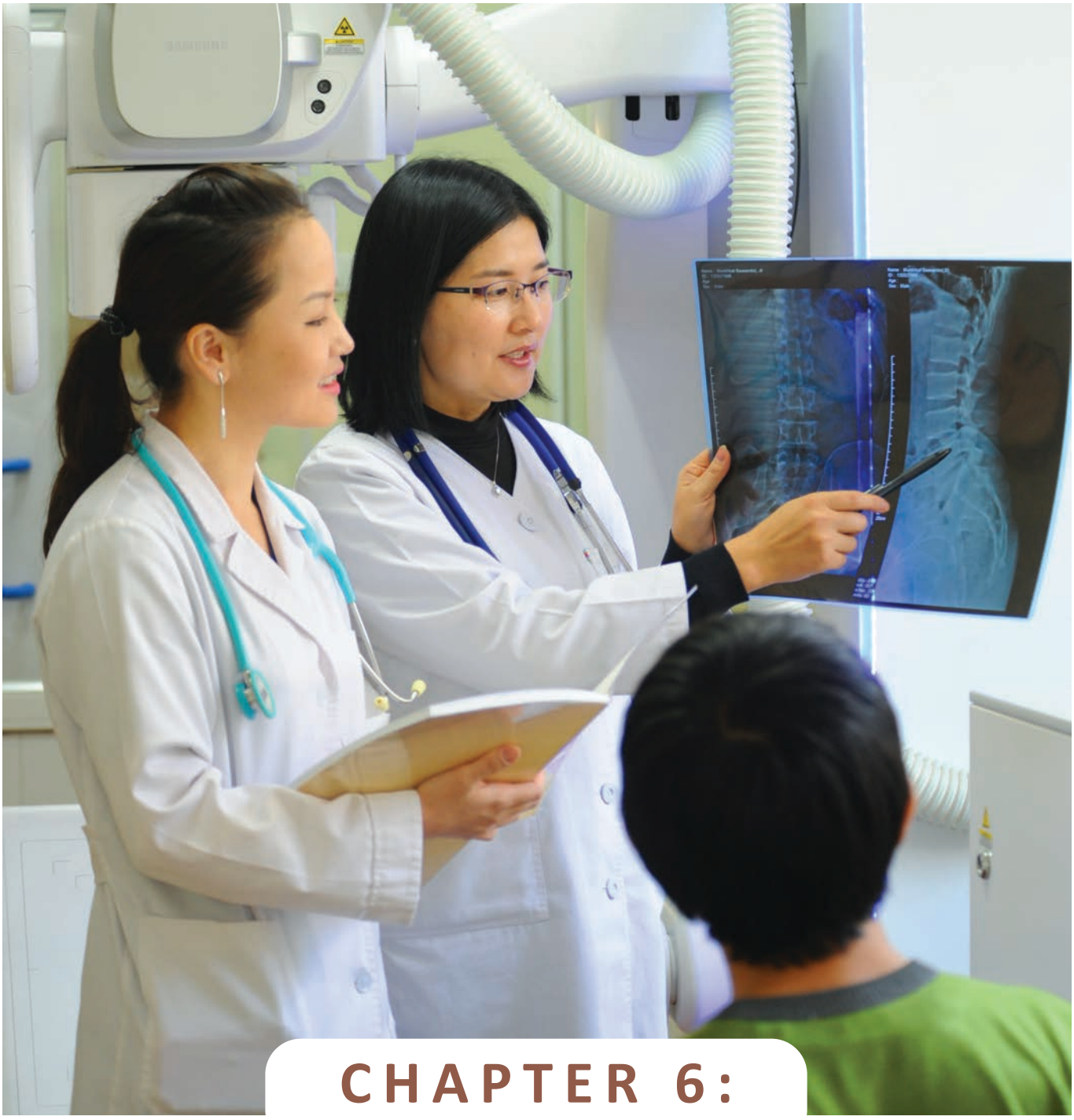
Continuing to build an integrated social registry

Ensuring that social assistance programs benefit those who need them most requires enhancing the interoperability of the Integrated Household Administrative Database. Up-to-date reliable information on income, assets, and other household characteristics would facilitate dynamic enrolment to quickly incorporating those in need or provide additional assistance in times of both idiosyncratic and covariate shocks, hence improving the adaptability of the system. Moreover, a more comprehensive social registry with linkages to, for example, taxable income data, can help improve targeting by allowing for the implementation of a more robust hybrid PMT that combines survey and administrative data, leading to lower inclusion errors. In the long run, as the economy becomes more formal and data reliability increases, the country can move toward more heavily relying on administrative data for means-testing.

Introducing activation measures as part of a welfare to work strategy

Intermediation services, including counseling and job search assistance, in addition to active labor market programs, can play an important role in helping work-able social assistance beneficiaries find employment, thereby enabling them to graduate from benefit receipt. Building on the social registry, Mongolia could integrate its social assistance information system with the labor market information system currently used by public employment services to better enable activation of social assistance beneficiaries. Such activation services include active labor market programs, which can be improved via several measures, as noted in the 2022 Mongolia Jobs Diagnostic.[112] These include developing employability and skills development programs that align with labor market labor market needs and implementing effective skills training mechanisms for unemployment benefit recipients. Moreover, public employment staff capacity needs to be strengthened, and the introduction of activation services should be accompanied by tailored social services that address barriers to employment, such as social care, childcare, transportation subsidies, and substance abuse counseling, among others. Allowing benefit recipients to continue to temporarily receive a portion of monetary benefits upon finding employment can help ensure adequate incentives for finding employment, thereby supporting the welfare-to-work transition. Reductions in benefit levels over time, rather than immediate stoppage of benefits, can also prepare beneficiaries to become self-sufficient upon their exit from the program. In the long run, Mongolia should implement a holistic, tailored approach that assesses and addresses barriers at the household level via a case management approach and introduction of adequate coordination of welfare and employment policies. Finally, a robust monitoring and evaluation system for activation policies should be put in place, with realistic expectations for welfare-to-work programs where unemployment is high and where access to high quality programs and services is not fully available.

112. Betcherman et al. (2022)



CHAPTER 6:

STRENGTHENING THE RESULTS ORIENTATION OF HEALTH SPENDING

CHAPTER 6: STRENGTHENING THE RESULTS ORIENTATION OF HEALTH SPENDING[113]

6.1. Introduction

Mongolia has introduced substantive health reforms over the past decade (Box 6.1), highlighting the government's commitment to health. These changes have resulted in high population and service coverage by public funding for health, and improvements in some health outcomes. In 2024, an estimated 95 percent of Mongolians were covered by the Social Health Insurance (SHI): 100 percent of the formal sector and government subsidized population, and 59 percent of the informal sector. Life expectancy has increased, and Mongolia has made good progress reducing maternal, neonatal, and under-five-year-olds death rates.

Yet, despite higher public spending on health compared to peers, Mongolia underperforms on key indicators of access and outcomes, suggesting there is room to improve spending efficiency. As Chapter 4 shows, public spending on health (as percent of GDP) is higher in Mongolia than its structural peers**.** However, despite recent improvements, Mongolia still lags behind most of its peers in life expectancy (Figure 6.1.-A) and in the coverage of essential health services, as reflected in the Universal Health Coverage Service Coverage Index (UHC SCI)[114] (Figure 6.1.-B). If Mongolia could match the performance of its best-performing peers, life expectancy would increase by up to seven years and the UHC SCI would increase by up to 17 index points, while maintaining the current level of public spending on health.

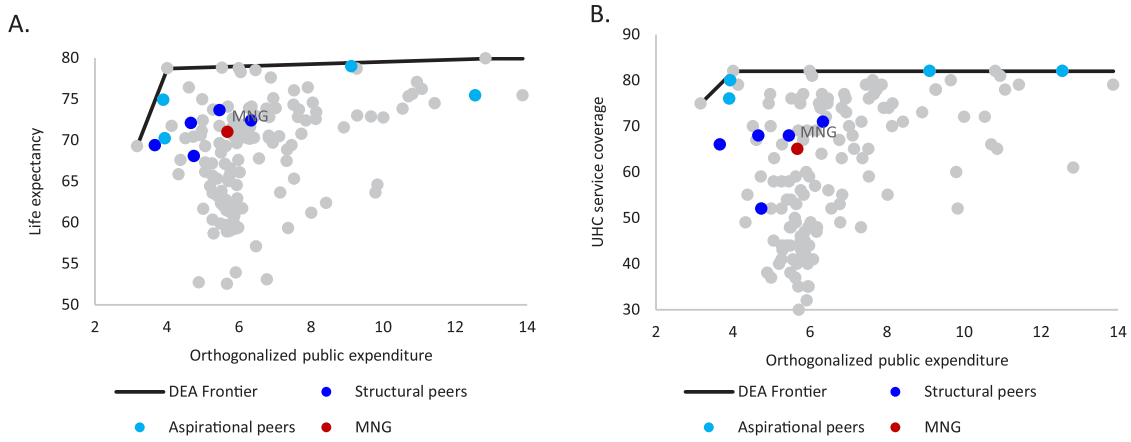
The equitable delivery of quality health services is challenged by Mongolia's unique population distribution: a third of Mongolians lives in rural areas in widely dispersed nomadic communities, while half of Mongolians (~1.7 million people) live in a fast-growing Ulaanbaatar (UB). Delivering quality health care for herders who move between remote areas with their livestock presents an understandable key challenge. Herders live in close contact with their animals and limited water and sanitation, giving rise to the risk of infectious diseases. Ongoing internal migration increases pressure on health services in peripheral areas of UB with informal ger settlements, where 60 percent of UB's population live in. As in rural areas, these settlements are faced with unsafe drinking water, poor sanitation, little or no solid waste management system, and polluted air due to the widespread use of coal stoves for cooking and heating.

113. For additional analysis and technical details refer to World Bank 2025c.
114. The UHC SCI is a summary measure that compares the average coverage of essential health services with 14 tracer indicators across four dimensions: infectious diseases; noncommunicable diseases (NCDs); reproductive, maternal, newborn and child health; and service capacity and access. The UHC SCI score ranges from 0 to 100 (100 being the highest possible score) (WHO Global Health Observatory).

This chapter examines health spending in Mongolia to identify ways to improve efficiency and equity. It begins by an analysis of health outcomes relative to Mongolia's spending levels, comparing these with those of structural and aspirational peers as well as other international benchmarks. The chapter then presents the key features of Mongolia's health system, followed by an assessment of the efficiency and equity of health spending to uncover potential gains. Finally, it provides targeted recommendations on how Mongolia can optimize health spending to achieve better outcomes.

Figure 6.1. Despite spending more than most peers, Mongolia's average life expectancy and progress toward Universal Health Coverage lag most of its peers, indicating that spending efficiency could be improved

A = life expectancy in years; B = UHC service coverage index score (out of 100)



Source: World Health Organization (WHO) 2021; UHC SCI; World Bank WDI.

Note: DEA = Data envelopment analysis. This analysis compares the efficiency of different countries in using public spending on health. The line represents the efficiency frontier, i.e. the countries who are producing the maximum output (life expectancy or UHC service coverage score) for their available input (public spending on health). Countries falling beneath this line are those who could be using public spending on health more efficiently to produce better outcomes. Orthogonalized public expenditure refers to an adjusted measure of health spending that removes the impact of unrelated factors like a country's income level, population size, or demographic makeup. By filtering out these influences, this measure provides a clearer view of how effectively public health funds are being used.

Box 6.1. Recent Reforms in the Health Sector

2016: Public hospitals gain greater autonomy under the Medical Services Law. Public hospitals have gained greater autonomy, with expanded authority to make strategic, financial, and human resources decisions. Reforms in provider payment methods align with the implementation of the hospital autonomy concept, as mandated by the Medical Services Law, 2016. Some public hospitals have established hospital boards responsible for approving strategies, budgets, staff portfolios, and the appointment of hospital directors. For hospitals without hospital boards, these decisions continue to be approved by the Ministry of Health (MoH) or local health departments. Regardless of hospital board status, hospitals enjoy full discretion in managing their income and expenditure, necessitating robust management capacities, particularly in financial management.

2017: General Authority for Health Insurance (GAHI) established under the MoH as the social health insurance agency.

2021: **Government and SHI contributions are pooled into the Health Insurance Fund (HIF) in 2021, with GAHI serving as a single purchasing entity in the health sector.** In SHI, mandatory contributions for health are collected from workers, self-employed people, enterprises, and the government and are pooled. It is this mandatory contribution that is the basis of entitlement to healthcare. In Mongolia, the government contributes on behalf of agreed people who cannot afford to pay themselves. SHI was introduced in 1996.

6.2. Despite some improvements, Mongolia is lagging on key health and access indicators, with non-communicable diseases driving death and disability

While life expectancy has increased over the past two decades, there are severe inequalities, and additional years are not being lived in good health. Mongolia's life expectancy at birth of 71 is lower than most of its peers, and there is up to a six-year difference in life expectancy across aimags. Men's life expectancy was nine years lower than women's in 2022, one of the highest gaps globally, largely due to a higher rate of risky behavior in men (Jarvis and Ruest 2025). The gap between life expectancy and healthy life expectancy at birth has increased from 6.7 years to almost 8 years in the last two decades, so while Mongolians are living longer, these extra years are not as productive or disease-free as they could be. While women have overall higher life expectancy than men, the gap between healthy life expectancy and life expectancy is wider for women than for men.

Premature deaths are largely driven by non-communicable diseases (NCDs), which make up the major share of the disease burden. Out of the ten top causes of death in 2021, eight were NCDs, and two were related to NCDs (self-harm; mental health) or risk factors such as excessive alcohol consumption (road injuries) (Naghavi et al. 2024).[115] NCDs accounted for 66 percent of Mongolia's disease burden in 2021, up from 63 percent in 2011 and above the 2021 average for structural peers (63 percent) (IHME 2021).[116] Between 2000 and 2020, obesity more than doubled among men aged 18 years and older, from 8.6 to 20.9 percent, and almost doubled among women, from 14.4 to 26.4 percent (Development Initiatives 2022). The premature mortality from four main NCDs (cancer, cardiovascular diseases, chronic respiratory diseases, and diabetes) was 35 percent in Mongolia, compared to 18 percent globally, and second largest in the region, after Afghanistan (NCD Countdown Collaborators 2022).

The majority of the risk factors that lead to the most death and disability are preventable, with many worse in men than women (Jarvis and Ruest 2025). High blood pressure, high alcohol use, tobacco, dietary risks, and air pollution are the top five risk factors contributing to the most death and disability (World Bank 2024c). Gender gaps in mortality in Mongolia are associated with strong gender gaps in alcohol and tobacco consumption, with men 13 times more likely to engage in tobacco use and 3.4 times more likely to engage in chronic heavy drinking than women (Pengpid and Peltzer 2022).

Mongolia is not yet making full use of policies that are highly cost-effective at preventing and treating NCDs. There is overall good progress in Mongolia on policies aiming to prevent and control chronic respiratory diseases, cardiovascular diseases, and cancers, with most services covered by GAHI. Policies exist in controlling tobacco and alcohol; however, these are not based on best practice, and there remains some gaps. There are significant policy gaps in promoting healthy diets and physical activity.[117] (See Annex 5.1 for Mongolia's detailed progress on the full list of NCD best buys interventions identified by the WHO.) World Bank estimates found that

115. The top ten causes of death were ischemic heart disease, stroke, COVID-19, liver cancer, stomach cancer, liver cirrhosis, alcohol use disorders, lung cancer, road injuries, and self-harm.
116. Other sources of disease burden in 2021 were communicable, maternal, neonatal and nutritional diseases (21 percent), and injuries (16 percent).
117. A forthcoming World Bank policy note focuses on cost-effective policies to encourage healthier diets.

a tax on sugary drinks resulting in a 20 percent increase in the consumer price would prevent >10,000 cases of obesity, >6,000 cases of type 2 diabetes mellitus, >8,500 cases of ischemic heart disease, ~3,000 cases of stroke, >300 cases of cancers, and ~1.2 million tooth cavities over the first 25 years, for an overall benefit of an additional 100,000 years of life lived in good health over the lifetime of the 2019 Mongolian population (Veerman et al. forthcoming).[118] A recent investment case for tobacco control in Mongolia found that investing now in six selected proven tobacco control measures could prevent more than 19,200 deaths and save MNT 2.4 trillion (~USD 764 million) in economic losses by 2037 (MNT 185 million annualized over 13 years; ~USD 59 million) (UNDP 2024). Chapter 3 provides analysis and recommendations on tobacco and alcohol taxes.

Although the situation is improving, many people with NCDs are still not identified or treated effectively. Many countries measure the effectiveness of NCD management by diabetes and hypertension. In Mongolia, over one in three men and nearly one in four women were not aware they had hypertension in 2019. Even of those who were aware, only one in five men and one in three women had their blood pressure under control. A cross-sectional analysis estimated that the prevalence of type-2 diabetes was at 17 percent of the population, but only 34 percent of those knew they had diabetes, and of those who knew, only 7 percent had diabetes under control (Duan et al. 2022).

Greater access to quality pre-hospital and emergency care would also improve survival. Approximately 75 percent of Mongolian adults are estimated to die outside of a hospital, mostly from cardiovascular disease, trauma, cancer, and poisonings, and it is estimated that almost half of these deaths would have been avoidable by emergency/critical care interventions (Sainbayar, et al. 2023). Emergency medical services in Mongolia are fragmented and underdeveloped, with no unified dispatch system for ambulances. Patients suffer from long emergency medical services response times, especially in rural and remote areas where health workers sometimes travel for 10 to 12 hours to reach patients. Emergency departments at regional hospitals lack medical equipment and specialized emergency professionals for best practice care and ambulances are mainly minibuses.

Mongolia also continues to face challenges with communicable diseases, particularly tuberculosis.[119] The country not only has a higher tuberculosis rate compared with structural and aspirational peers but is also ranked amongst the 30 countries with the highest rate globally and is in the top four within its region (WHO 2023a). The tuberculosis incidence rate per 100,000 population is 437, higher than the global and regional averages (127 and 93 respectively). Tuberculosis rates are higher in UB (88) compared to aimags (55), and higher in men (82) versus women (59) (CHD and WHO 2022). Alcohol use disorders, smoking, and undernourishment are the three main risk factors driving high tuberculosis rates in Mongolia (WHO 2023a).

Reproductive, maternal, neonatal, child and adolescent health (RMNCAH) outcomes have generally improved in the past decade, although there remains an unmet need for family planning. Mongolia has reached its RMNCAH sustainable development goals of reducing maternal mortality ratio, neonatal mortality rate, and under-five mortality rates (despite a spike of maternal deaths around COVID-19 years). However, the unmet need for family planning among women of reproductive age is 12 percent (Phiri et al. 2022; UNFPA World Population Dashboard 2024), with the contraceptive prevalence rate declining from 69 to 41 percent

118. A new sugar-sweetened beverages tax will start in 2027.
119. Sexually transmitted infections represented the largest share of infectious diseases (46 percent in 2022). Respiratory tract infections were the second largest type of communicable diseases (26 percent), with tuberculosis accounting for 38 percent.

between 2003 and 2019. Abortion rates remain relatively high and increasing in recent years (Mongolia MoH and UNFPA 2016; CHD and WHO 2022, 2023).

Population aging will slowly and modestly increase health spending as a share of the economy through 2060; this growth could be limited if aging is accompanied by better health, primarily through NCD prevention and control. Mongolia's population is expanding due to high fertility and is expected to age rapidly in the coming decades. As the elderly population grows, health spending is projected to rise by a relatively modest 1.8 percent of GDP between 2020 and 2060 (Mongolia WHO Kobe Centre 2020).[120] Healthier aging, particularly by preventing and managing NCDs, could help delay dependency, extend workforce participation, and lessen long-term care needs, thereby easing pressure on health services.

6.3. The social health insurance agency purchases inpatient and outpatient health services, but coverage for outpatient medicines is limited

Health care services are delivered by a mix of public and private providers, with a dominant role of public providers. The MoH administrates public tertiary hospitals in UB, while public Aimag General Hospitals, public District General Hospitals, and Health Centers provide secondary care. For-profit private clinics and hospitals provide secondary and tertiary care, mostly in UB. Primary health care (PHC) is delivered by public Soum Health Centers (SHCs) and rural hospitals in rural soums and by non-for-profit private Family Health Centers in UB and aimag capitals. Despite the growth of the private sector, public providers continue to dominate the healthcare landscape, accounting for 74 percent of hospital beds and 59 percent of human resources.

GAHI purchases health care services for the HIF from all public and contracted private providers,[121] with some cost shared through patient co-payments. GAHI employs two payment methods: diagnostic related group (DRG) payments[122] for inpatient and hospital outpatient services across all levels of facilities, including inpatient beds in SHCs, and capitation payments[123] for PHC in Family Health Centers and SHCs. Providers contracted with GAHI are not allowed to charge patients for services, except for official co-payments for certain services. The government has defined an extensive list of vulnerable and disadvantaged groups[124] who are exempt from such co-payments.

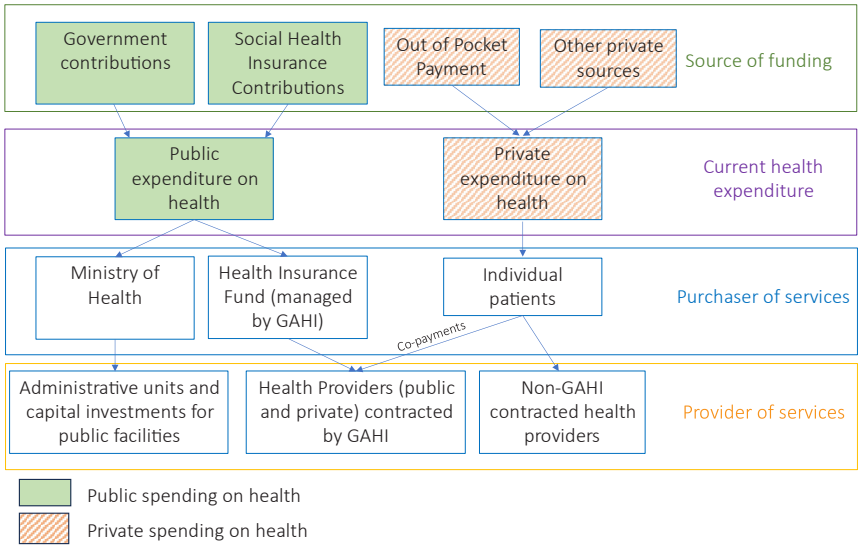
120. This represents a small annual increase (under 0.05 percentage points per year).
121. In 2023, the GAHI had contracts with 2,261 facilities: 60 public hospitals, 219 private hospitals, 218 Family Health Centers, 335 SHCs, 1,395 private retail pharmacies (for outpatient prescription drugs covered by the HIF), and 50 sanatoriums.
122. A DRG is a case-mix complexity system implemented to categorize patients with similar clinical diagnoses in order to better control hospital costs and determine payor reimbursement rates. GAHI has 708 different DRG. They include hospital fixed costs (salary, infrastructure, and maintenance) or healthcare costs (medicine, diagnostics, consultations), but exclude capital investment costs. SHCs are also paid by DRG for inpatient, emergency, ambulance, and per case payment for day care, home care, rehab, and basic diagnostic and laboratory.
123. Capitation payments are a way of paying health care providers or organizations in which they receive a predictable, up-front, set amount of money to cover the predicted cost of all or some of the health care services for a specific patient over a certain period. Capitation payments are paid per person in the allocated catchment area, irrespective of the service received, or whether services are used or not. Minimum standard capitation payments in Mongolia are adjusted by a coefficient based on age, sex, geography (radius of catchment area, population of catchment area, distance from UB, road conditions, remoteness and equity index), and a risk index. Twenty percent of the capitation payment is based on selected performance indicators, such as vaccination rates, antenatal care visits, and screening.
124. This includes disabled people, those who receive social assistance, pensioners with no other income sources, prisoners, children under 18 years of age, soldiers conscripted into military service, and parents taking care of children up to age two or if twins up to age three.

GAHI also reimburses a share of outpatient medicines; however, coverage is limited. GAHI reimburses those outpatient medicines in the Health Insurance Reimbursed Medicine List purchased by patients. These are only available in private pharmacies as there are no public pharmacies in Mongolia. Patient co-payments for outpatient medicines included on that list vary between 30 and 70 percent, without exemptions for vulnerable and disadvantaged groups.

6.4. Health spending in Mongolia is largely public, but ongoing high levels of out-of-pocket payment are concerning

Current health expenditure comprises both public and private expenditure on health (Figure 6.2).[125] This section focuses largely on the public expenditure on health (green section in Figure 6.2), funded through government contributions (from general taxation) and SHI contributions (see Annex 5.2 for more details). Total health expenditure is made up of current health expenditure and capital expenditure, which represented less than 1 percent of total health expenditure in 2021 (WHO Global Health Observatory) and will not be analysed further.

Figure 6.2. Expenditure on health in Mongolia have several sources of funding and flow through various purchasers and providers of services



Source: Authors' design.

Note: Administrative units funded by MoH include (but are not limited to) the National Center for Zoonotic Diseases, the National Centre for Communicable Diseases, the National Public Health Centre, and all management organizations such as the Centre for Health Development, the Medicine and Medical Devices Regulatory Agency, and aimag/UB Health Departments. Other private sources are very small (0.5 percent, Table 2) and include expenditure from pooled resources with no government control, such as voluntary health insurance and spending from profit and not-for-profit corporations and nongovernmental organizations.

125. This section uses the most up to date national data (as shared by various agencies in Mongolia). Global data was also used to facilitate comparison with peers or globally where appropriate.

Real current health expenditure per capita in Mongolia more than quadrupled between 2010 and 2022 and is higher than most structural peers and two aspirational peers as a share of GDP (Table 6.1, see also Chapter 4). Real current health expenditure per capita rose from USD100 to USD448 between 2010 and 2022 in constant 2022 USD. Due to the exceptionally high levels of external financing in 2022 compounded by the transition to GAHI financing, the shares of financing sources may be less representative of longer-term trends. Therefore, Table 6.1 uses 2021 data to compare financing sources to peers.

Table 6.1. Selected health expenditure data in Mongolia and peers (2021 and 2022)

Country	CHE as a % of GDP (2022)	CHE per capita (USD) (2022)	As % of current health expenditure (2021)							Domestic government spending on health (% total government spending) (2022)	GDP per capita (USD) (2022)
			Public spending			Private Spending			Domesti-cally funded (public and private)		
			Gov	*SHI*	Total public	*Other Private*	*OOP*	Total private			
SP-Lao PDR	2.0	42	*58*	*2*	60	*9*	*31*	40	62.0	4	2,049
AP-Kazakhstan	3.7	421	*45*	*22*	67	*8*	*25*	33	99.9	11	11,255
AP-Malaysia	3.9	458	*56*	*1*	57	*11*	*32*	43	100	8	11,731
SP-Azerbaijan	4.0	304	*32*	-	32	*2*	*66*	68	99.6	5	7,646
SP-Viet Nam	4.6	189	*20*	*24*	44	*16*	*40*	56	98.8	11	4,116
SP-Peru	6.1	446	*43*	*24*	67	*8*	*25*	33	99.8	17	7,317
Mongolia	**8.9**	**448**	***13***	***46***	**59**	***10***	***31***	**41**	**90.3**	**9**	**5,064**
AP-Uruguay	8.9	1,851	*24*	*49*	63	*11*	*16*	27	100	21	20,690
AP-Chile	10.1	1,547	*4*	*50*	54	*7*	*37*	44	100	19	15,378
SP-Armenia	10.0	675	*18*	-	18	*3*	*79*	82	99.1	7	6,774

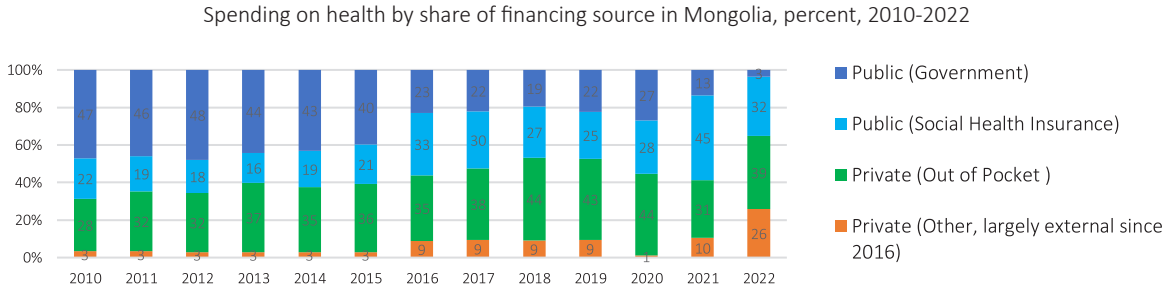
Source: WHO Global Health Expenditure Database (GHED), and World Bank World Development Indicators.

Note: Domestic general government spending includes both SHI and government contributions. SP (Structural Peers), AP (Aspirational Peers), Current health expenditure (CHE).

The majority of current health expenditure is public and domestically funded, increasingly through SHI. In 2021, the share of public expenditure on health was higher than most structural peers except Peru, and higher than aspirational peers such as Chile and Malaysia (Table 6.1). Publicly funded current health expenditure remained relatively stable to 2021 (59 percent in 2021 compared to 68 percent in 2010; Figure 6.3). However, the share of public expenditure on health financed by SHI increased to 45 percent in 2021 (from 28 percent the previous year) following Mongolia's establishment of the HIF, which consolidates government and SHI funding. Apart from Lao PDR, Mongolia and all peers' spending on health is almost fully domestically funded.[126]

126. The domestic share of current health expenditure in Mongolia varied between 90 and 100 percent between 2010 and 2022 (Figure 6.3). In 2022, however, this dropped to 75 percent, likely due to externally funded COVID-related projects reaching full implementation.

Figure 6.3. Current health expenditure is largely public, increasingly funded through SHI, with high levels of OOP payments



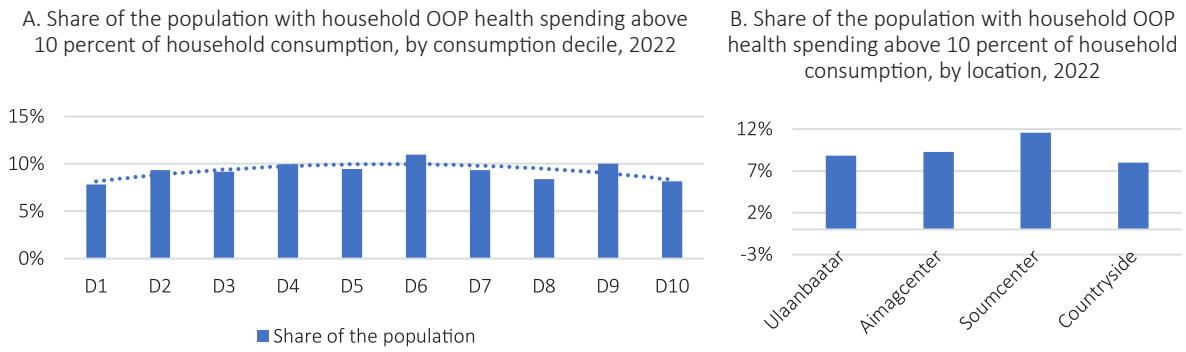
Source: WHO GHED.

Ongoing high levels of out-of-pocket (OOP) payments are concerning. Mongolia has lower levels of private expenditure (41 percent of current health expenditure in 2021) than most peers; however, nearly all of this is OOP expenditure. The share of OOP is mostly stagnating (Figure 6.3), and it remains higher than that of most peers (Table 6.1) and exceeds the WHO benchmark of 15–20 percent. International evidence shows that OOP payments are regressive and contribute to increasing health inequality as they link access to ability to pay and can deter or delay utilization. OOP payments expose individuals and families to catastrophic health and financial shocks. Reducing OOP expenditure would improve equitable access to healthcare.

Catastrophic health expenditure (OOP payments over 10 percent of household consumption) is increasing and unevenly distributed across households. The share of families facing catastrophic heath expenditure (i) was 9.3 percent in 2022, up from 6.0 percent in 2018 and 5.5 percent in 2012;[127] and (ii) varied from 3.5 to 19 percent across aimags, and was higher in those living in soum centres, which may reflect the intersection of lower incomes and access to health care (Figure 6.4.B). It was higher in families without children than those with children, likely highlighting the social support for families with children. It was also higher in families with elderly than those without, highlighting a gap in social protection as older people are likely purchasing more medicines. Catastrophic health spending seems to be slightly higher in mid-decile consumption groups (Figure 6.4.A), with poorer households seemingly protected by social policies or foregoing care due to financial and other barriers.

127. Based on OOP health spending above 10 percent of household consumption using 2022 Mongolian Household Socio-Economic Survey (authors' calculations), 2018 (World Bank Health Equity and Financial Protection Database) Mongolian Household Socio-Economic Survey, and 2012 (Dorjdagva et al. 2016).

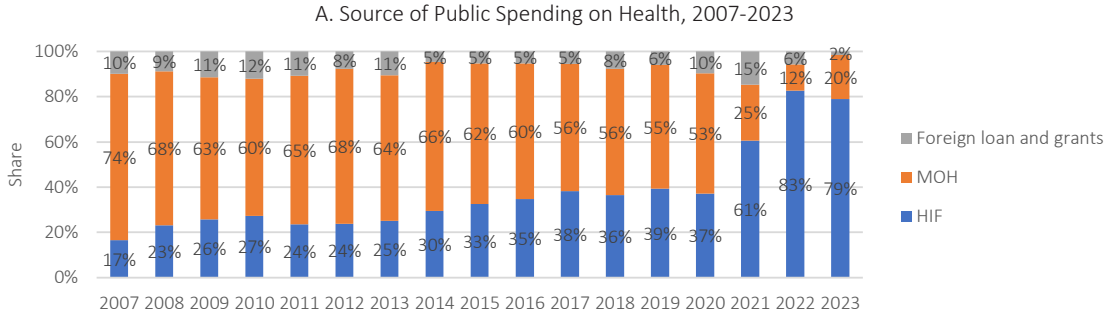
Figure 6.4. Catastrophic spending on health are higher in soum centers, and in mid-decile consumption groups

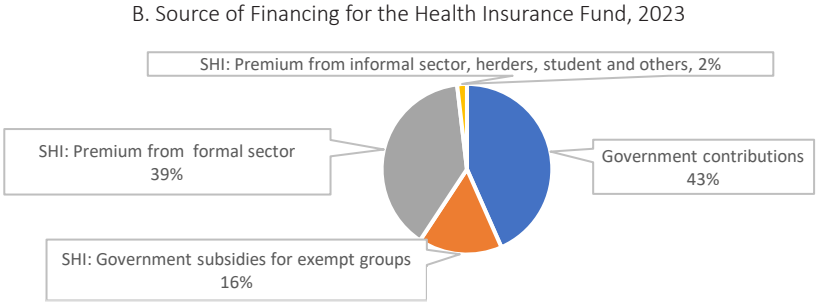


Source: Authors' calculations based on the Mongolia 2022 Household Socio-Economic Survey.

GAHI is responsible for an increasing majority of public expenditure on health in its role as the single purchaser of health services since 2021, with an ongoing reliance on government contributions. HIF spending increased from 25 to 79 percent of public expenditure on health in the decade to 2023 (Figure 6.5.A). About 60 percent of HIF revenue is sourced from government contributions, while premiums from formal sector employees and employers make up nearly 40 percent of HIF revenue (Figure 6.5.B). MoH decreased its spending proportionally and is responsible to fund various administrative units and capital investment. A small share of public spending is funded by foreign loans and grants.

Figure 6.5. GAHI, through the HIF, is responsible for an increasing majority of public spending on health and is largely financed by government and formal sector premiums





Source: Health Insurance Fund Budget Law 2023.

Note: Government contributions are for services under the responsibility of the state.

Yet the sustainability of the HIF is under great strain, with GAHI running annual deficits every year since becoming a single purchaser and now facing an accumulated debt of MNT 218 billion (USD 69 million).[128] This deficit can be explained by two main reasons: (i) COVID-19 healthcare costs (GAHI spent MNT 669 billion (~USD 213 million) on COVID-19 healthcare in 2021–2022, which marked the beginning of the debt for hospitals); and (ii) the introduction of the DRG payment system in 2021 without adequate cost control mechanisms. Since then, expenditures have continued to increase due to a dramatic rise in the volume of services. An excess of hospital beds and human resources, pressure to contract with all public and private providers regardless of value or service quality, increased tariffs due to civil servant salary increases, the removal of the referral requirement for specialist care, and absence of effective cost control mechanisms have all hindered GAHI's ability to control costs.[129] The MoH and GAHI are struggling to find a solution to pay the debts to hospitals and control the volume of services and subsequent costs. Increased tariffs due to government's decision to increase the health workers remuneration in 2023 have swollen the deficit further.

6.5. Efficiency and equity of spending could be improved, particularly on human resources and medicines and in hospitals

Human resources

Mongolia spends a substantial portion of its health budget on human resources and more than other middle-income countries. When accounting for both HIF and MoH expenditures, payments for wages, salaries, and bonuses represented 45 percent of total spending in 2022 (Figure 6.6; WHO 2013). This share is notably higher than the typical range of 33 to 38 percent seen in most middle-income countries (Hernandez et al. 2013; Toure et al. 2023).[130]

Figure 6.6. Spending on human resources, medicines and medical goods makes up more than two-thirds of public spending on health

Public expenditure on health by economic line item (as a share of total), 2022

Source: Data shared by the Mongolia MoF, and MoH original data used because of data gap in MoF data in 2022 following the changes in pooling of state funds for health into HIF in 2021.

Note: "Other" includes all expense categories that are less than 3 percent of total expenditure (office supplies, meals, work, clothing and bedding, travel and guest expenses, and general purchase of goods and services).

128. Health Minister's presentation at the National Health Manager's Meeting on Oct 17, 2024.
129. This section summarizes findings from a World Bank program of support to GAHI on strategic purchasing, including analysis on cost control in the DRG system (2024 data, unpublished).
130. Comparable data for peer countries are not available.

Mongolia has many more skilled health workers per capita than global and peer averages, driven by a high number of doctors. In 2022, Mongolia had 63,372 staff working in the health sector. Of those, nearly half were skilled health workers, defined as doctors, nurses, and midwives. Mongolia has a ratio of 8.1 skilled health workers per 1,000 population, compared to the global average of 5.5 per 1,000 population, and the LMIC and UMIC averages of 2.3 and 5.6 per 1,000 population respectively (WHO GHO). This is driven by a high number of doctors, with the number of doctors per capita similar to high-income countries, while the ratio of nurses and midwives per capita is more similar to structural peers (Figure 6.7). This results in a low nurse-to-doctor ratio of 1.1, compared to an average of 1.7 in aspirational peers, 2 in structural peers, and 2.7 in the OECD (OECD 2023).

Figure 6.7. The number of doctors per capita in Mongolia approaches high-income countries, while nurses and midwives per capita are more in line with income averages and among peers

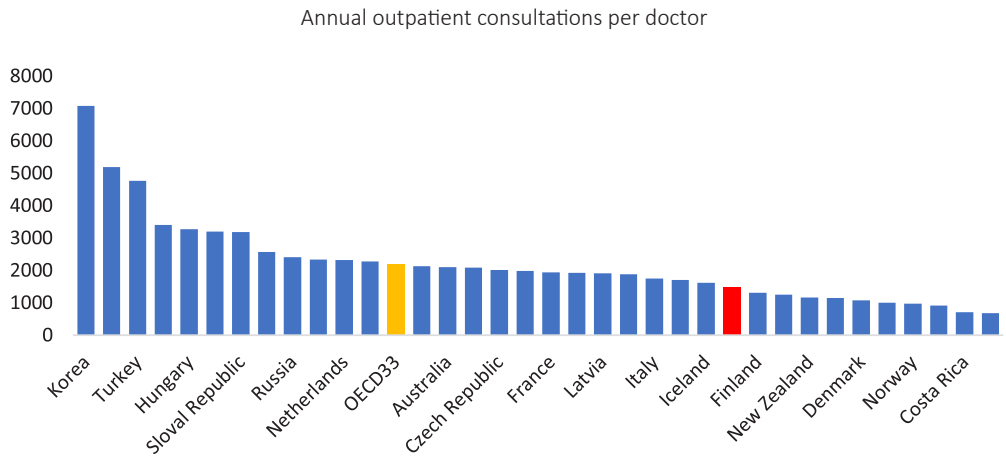
Source: WHO Global Health Observatory.
Note: LIC, LMIC, UMIC and HIC data is latest average available (2019–2022).

Despite this already high capacity, the number of medical graduates in Mongolia is greater than most high-income countries. Mongolia has one medical school per 250,000 people (14 medical schools). This is higher than for peers with data available: for example, Peru has one medical school for every 731,000 people. On average, there is one for every 3.3 million people in Asia and one for every 1.9 million people in Europe. An excess of medical schools has led to an oversupply of new graduates. On average since 2019, there have been 1,164 medical (or 34 medical graduates per 100,000 Mongolians) and 893 nursing and midwifery graduates annually,[131] continuing the production of graduates that expect to be absorbed into the system. This is higher than available data for OECD countries. If Mongolia had a number of medical graduates annually similar to the OECD country with the highest number of graduates (Latvia), Mongolia would produce 925 doctors per year. Even this small adjustment would lead to savings in educational costs and reduce the pressure of the public wage bill.

131. Data communicated by Ministry of Education.

The high number of staff translates into generally low workloads for skilled health workers. Workloads can be assessed as patient contact per skilled health worker per time period**.** A Mongolian doctor[132] saw an average of 1,469 outpatient per year in 2022; this was much lower than OECD countries (Figure 6.8). Similarly, a doctor saw 105 inpatients per year in aimag facilities and 154 inpatients per year in UB facilities (assuming facilities in UB cater for the whole population of Mongolia). SHCs average 13 skilled health workers per facility, ranging from 8 to 20 across aimags. Even in SHCs where skilled health workers are perceived to be in shortage, skilled health workers saw fewer than two outpatients per day (including both in facilities and home visits) and 38 inpatients per year. This compares to an average of 12.5 outpatients per day in a selection of nine African countries, although it is unclear whether this includes in-facility and outreach visits (World Bank Health Service Delivery Indicators). In Tajikistan, staff saw an average of four outpatients and made an additional 16 home visits per day, bringing the total patient contacts up to 20 per day (World Bank 2024d). Low workloads highlight an inefficient use of resources but are also a concern for patient safety as it is challenging to maintain clinical competencies without an adequate number of cases.

Figure 6.8. Staff workload as assessed by outpatient consultations per doctor is low compared to other countries



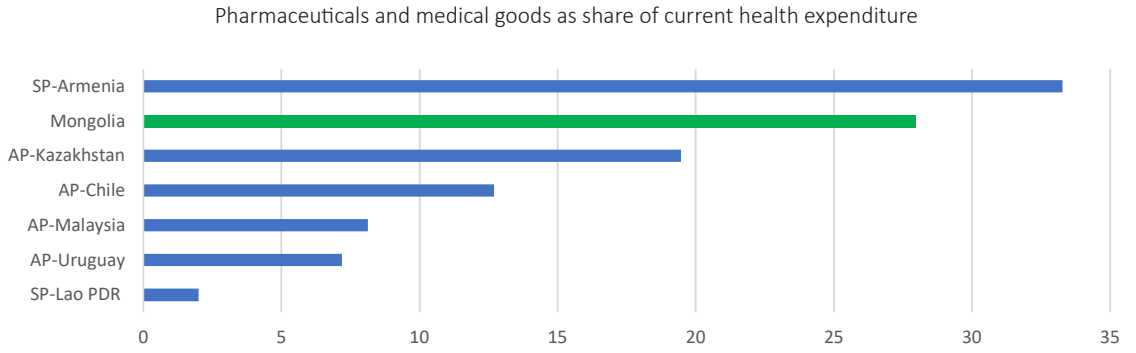
Source: OECD 2019; CHD and WHO 2022.

Medicines and medical goods

Mongolia is also spending nearly double the LMIC and UMIC averages on medicines and medical goods, and more than all peers except Armenia (Figure 6.9). The second highest spending category of public expenditure on health was medicines and medical goods (Figure 6.6), representing 31 percent of HIF and MoH spending in 2022. This is considerably higher than the average of 16 percent and 17.8 percent for LMIC and UMIC respectively, and 17.5 percent globally between 2000 and 2017 (Schneider et al. 2021). Despite this high spending level, spending per capita was lower in Mongolia than in Chile, Armenia, and Uruguay. In 2022, 81.4 percent of GAHI spending on medicines was for inpatient treatment included in the DRG, with the insufficient balance of 18.6 percent spent on the outpatient reimbursed medicines list.

132. Including all doctors and traditional medicine doctors.

Figure 6.9. Mongolia spends significantly more on medicines and medical goods than most peers



Source: WHO GHED, latest year available.
Note: SP (Structural Peers), AP (Aspirational Peers)

Decentralized procurement is likely to be increasing the cost of medicines purchased by hospitals and patients, with recent efforts to pool procurement for greater value for money (Box 6.2). Aimags and UB Health Departments procure medicines for hospitals and SHCs, while state and national centers procure for their individual facility. In 2018, the State Procurement Agency created an e-store for centralized procurement of some medicines. The same year, 17 drugs and medical devices were available for purchase through the e-store; this increased to 143 in 2023. It is mandatory for public hospitals to use the e-store for drugs available through this centralized procurement, and this is estimated to have generated MNT 28.2 billion (~USD 9 million) in savings between 2018 and 2023.[133] Other drugs and medical supplies must be purchased by facilities through the private pharmaceutical sector. The poorly regulated growth of the private pharmaceutical sector has resulted in a proliferation of medicine manufacturers and wholesalers of medicines and medical devices (453 in 2023, or 7.5 per public hospital).[134] Due to small size of procurement for individual facilities, bids do not attract sufficiently competitive and qualified bidders, resulting in high costs and low quality of medicines. The high cost is compounded by the lack of regulation of medicine prices.

Box 6.2. Recent Medicines Procurement Laws

The 2023 update to the Law on Procurement of Goods, Works, and Services with state and local funds allows single source procurement for medicines. On June 5, 2024, the Law on Medicine and Medical Devices further clarified that state funded medicines, HIF funded medicines and medicines used by public facilities will need to be procured by single source procurement. The Medicine and Medical Devices Regulatory Agency and GAHI will define the type and volume of medicine to procure from single source for three years, MoH will provide approval, and the State Procurement Agency will conduct the procurement. The Law on Medicine and Medical Devices also introduced price regulation for medicines on the essential medicines list; MoF and MoH now need to approve wholesale and retail price mark ups for essential medicines.

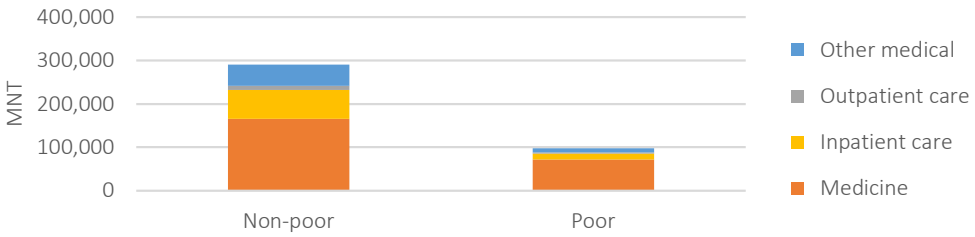
133. Data presented to the Parliament during the discussion and approval of the new Medicine and Medical Devices Law in June 2024, received through personal communication with Mongolia MoH on 6 June 2024.
134. Data presented to the Parliament during the discussion and approval of the new Medicine and Medical Devices Law in June 2024, received through personal communication with Mongolia MoH on 6 June 2024.

Unlike DRGs for inpatient care, capitation payments in PHC do not include the cost of medicines. GAHI currently reimburses only a share of selected outpatient medicines, hampering the accessibility of affordable medicines. Patients buy outpatient medicines in private pharmacies and need to pay either a co-payment for drugs in the reimbursed medicine list or the full price of medicine not included in the list. There are no exemptions for vulnerable and disadvantaged groups. The reimbursed medicine list includes only 159 medicines or 29 percent of medicines included in the national essential medicine list.[135] Co-payments are high (30 percent for 41 percent of brands, 50 percent for 9 percent of brands, or 70 percent for 46 percent of brands), except for 24 medicines (4 percent of brands) covered by a Novartis Access Program provided free of charge to patients. In 2023, only 18 percent of the total population purchased medicines from the reimbursed medicine list.[136] The low medicine coverage in PHC level is likely pushing patients to request inpatient or day care at substantially higher cost to the HIF to ensure that drug costs are covered, or pushing patients to forego needed treatments, especially for chronic conditions such as NCDs, with the consequence of increased severity of disease requiring expensive hospitalization.

Most OOP spending on health is on medicines, with richer households spending more in absolute terms, but poorer households spending relatively more (Figure 6.10). OOP spending on health make up 4.4 percent of total consumption spending by households.[137] The share is similar across income groups, but in absolute terms is larger for wealthier households: OOP expenditures are six times larger for the wealthiest decile compared to the poorest decile. On average, households spend 77 percent of their total health spending on medicines, and this share tends to be higher among poorer households (84 percent) than wealthier households (75 percent).[138]

Figure 6.10. Richer households spend more in absolute terms on out-of-pocket expenditure for health, but poorer households spend proportionally more on medicines

Average per capita annual expenditure per poor/non-poor household and type of health exependiture, 2022



Source: Authors' calculations based on the Mongolia 2022 Household Socio-Economic Survey.

Up to 45 billion (~USD 14.2 million) of savings for GAHI and patients could have been made if GAHI had chosen fewer brands and cheaper versions of medicines to reimburse in 2023, which could be used toward reducing co-payments (Table 6.2). GAHI currently approves the reimbursement of different products/brands (with varying prices and co-payments levels) for the same medicine. For example, in 2023 GAHI selected 15 different versions of the commonly

135. Tenth Essential Medicine List Mongolia, Health Minister's Order A/197, June 5, 2023.
136. Data received from GAHI by authors.
137. National Statistical Office (NSO).
138. Vulnerable (non-poor) households were defined as households that have consumption between the poverty line and 1.5*poverty line.

used antibiotic Ciprofloxacin 500mg ranging from MNT 165 (USD 0.05) to MNT 940 (USD 0.30) per tablet. Patients do not always opt for the cheapest generic versions, often expecting better quality from higher-priced generics or originator brands; indeed, 59 percent of all Ciprofloxacin purchased by patients in 2023 was the most expensive brand with a 70 percent co-payment. If GAHI had only reimbursed Ciprofloxacin 500mg at the median price of MNT 300 (0.1 USD) and 50 percent co-payment in 2022, GAHI would have saved MNT 38.3 million (USD ~12,000) and patients MNT 140.6 million (USD ~45,000).[139] If that same year GAHI had consistently reimbursed only the median priced option across all medicines included in the reimbursed medicine list, GAHI would have saved around MNT 5.7 billion (USD ~1.8 million) and patients MNT 5.4 billion (USD ~1.7 million). The savings generated would be sufficient to bring all medicines on the reimbursed medicine list to a 50 percent co-payment for patients. If GAHI only reimbursed the cheapest option for all medicine, a total of MTN 44.6 billion (USD 14.2 million) could have been saved by GAHI and patients in 2022 (Table 6.2). Another option would be for GAHI to try to negotiate prices for medicines equivalent to those for instance used by Thailand's national medicines reimbursement program. If GAHI were at a minimum to reimburse all medicines at Thai reference prices, around MNT 20.6 billion (USD 6.6. million) could have been saved in 2023.

Table 6.2. Savings from different cost containment scenarios and potential reduction in co-payments

Scenario	GAHI savings	Patient savings	Total savings	Potential patient co-payments for all medicines on the reimbursed medicine list
GAHI reimburses only median priced products for all medicines	MNT 5.7 billion (~USD 1.8 million)	MNT 5.4 billion (~USD 1.7 million)	MNT 11.1 billion (~USD 3.5 million)	50 percent
GAHI reimburses 293 medicines at Thai reference prices	MNT 12 billion (~USD 3.8 million)	MNT 8.6 billion (~USD 2.8 million)	MNT 20.6 billion (~USD 6.6 million)	40 percent
GAHI reimburses only cheapest products for all medicines	MNT 26.6 billion (~USD 8.5 million)	MNT 18 billion (~USD 5.7 million)	MNT 44.6 billion (~USD 14.2 million)	25 percent

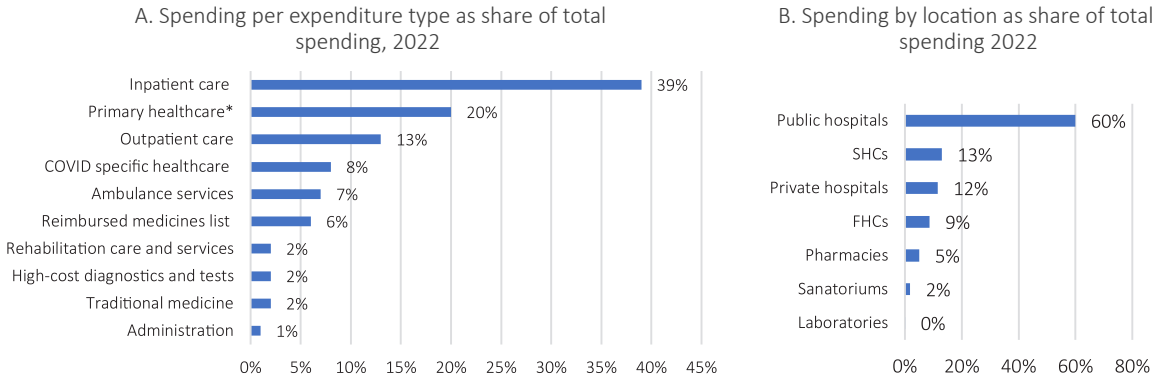
Source: 2023 data shared by GAHI and authors' estimates, Thai prices accessed through personal communication.
Note: Thai reference prices available for only 293 out of 604 medicines on GAHI reimbursed medicine list.

Hospitals

GAHI spending is predominantly on inpatient care, which is slightly higher than the global average. Nearly two fifths of GAHI spending in 2022 was on inpatient care (39 percent; Figure 6.11.A). If it is assumed all private expenditure on health is allocated to outpatient care, this equates to 25.7 percent of current health expenditure. This is slightly above the global average of 22 percent of total health expenditure spent on inpatient care identified by a study of 195 countries between 2000 and 2017 (Schneider et al. 2021). Nearly three-quarters of GAHI spending is in hospitals (60 percent in public and 12 percent in private), whereas PHC facilities account for just over a fifth of spending (SHC 13 percent and Family Health Centers 9 percent) (Figure 6.11.B).

139. This would not be a new approach for GAHI; indeed, under the Novartis Access Program, GAHI replaced various brand names with Sandoz generic equivalents, resulting in substantial savings of MNT 4 billion (USD 1.3 million) and MNT 4.4 billion (USD 1.4 million) for patients and GAHI respectively.

Figure 6.11. Mongolia spends most of its health expenditure on inpatient care and in public hospitals



Source: GAHI HIF statistics book for 2022 (shared by GAHI).
Note: Primary health care includes prevention and detection.

Mongolia has an exceptionally high and increasing number of hospital beds—substantially higher than peers and nearly double the OECD average per capita—which incentivizes inpatient care over other types of care. Unlike many post-Soviet countries, Mongolia has not downsized the number public hospital beds since 1990 (Bolormaa et al. 2007). Instead, the number of beds increased between 1999 and 2023, particularly in the newly developed private sector, now accounting for 26 percent of total beds (CHD and WHO 2023). In 2022, Mongolia had 29,629 hospital beds available nationwide (75 percent public, 25 percent private), equating to 8.3 beds per 1,000 people—up from 6.0 beds per 1,000 in 2010 (CHD and WHO 2022). This is the highest per capita rate among its structural and aspirational peers and nearly double the OECD average of 4.6 beds per 1,000 people (WHO GHO). Of these beds, 16 percent were at SHCs in 2023, with an average of 12 beds per SHC (data shared by the Mongolian CHD).

A preliminary review of hospital performance measures not only points toward systematic overuse of hospitals in Mongolia, but also considerable variation in efficiency across hospitals. There were 22,353 hospital discharges per 100,000 people in Mongolia in 2023 (including repeat admissions, data shared by the Mongolian CHD), the second highest in the Asia Pacific region (OECD and WHO 2022) and higher than the OECD country with the most discharges per 10,000 people (OECD Data), indicating a high number of hospital admissions. An estimated 16 percent of the Mongolian population was hospitalized in 2022[140] (excluding repeat admissions), a rate significantly higher than even high-income countries; for comparison, the hospitalization rate in the U.S. was 5 percent in 2018 (National Center for Health Statistics 2021). The average length of stay in Mongolian hospitals contracted by GAHI was 6.5 days in 2023 (varying between 1 and 17 days across hospitals), whereas in 2019, the average length of stay in hospital was 7.6 days across OECD countries (OECD 2021).[141] Mongolia had an average bed occupancy rate of 66.5 percent in 2023 (70 percent in referral hospitals, 58 percent in SHCs (CHD and WHO 2023). This figure hides significant cross-hospital differences; bed occupancy rate ranged from below 10 percent in 14 hospitals to 22 hospitals having bed occupancy rate over 100 percent. There is considerable variation in bed occupancy rate within the subgroup of hospitals with smaller capacities (fewer than 100 beds), suggesting further investigation of hospital efficiency could provide some insight for improvement.

140. Authors' analysis using GAHI's claims data 2022
141. The average length of stay in hospital is also an indicator of efficiency in health service delivery. All else being equal, a shorter stay reduces the cost per discharge and shifts care from inpatient to less expensive settings. Longer stays can be a sign of poor care co ordination, resulting in some patients waiting unnecessarily in hospital until rehabilitation or long-term care can be arranged. At the same time, some patients may be discharged too early, when staying in hospital longer might have improved their health outcomes or reduced the chances of readmission.

This overcapacity may be exacerbating a tendency to admit people for conditions that could be prevented or treated through good PHC or outpatient care. Ambulatory care sensitive conditions (ACSCs) are those conditions for which timely and effective prevention, screening, treatment, and management can reduce the risks of hospitalization. Hospitalization or health insurance claims data for ACSCs are increasingly used globally to assess access to and quality of PHC services (Tandon et al. 2023). An analysis of GAHI claims data indicates that out of a total of 754,985 inpatient claims in 2022, 158,478 admissions (21 percent) were ACSCs which could have been treated in PHC facilities at much lower expense. The crude hospitalization rate for the ACSCs was 495 per 10,000 insured people. This rate is higher than in Korea, where the rate was 181 per 10,000 population in 2015 (Kim et al. 2019), but lower than in Vietnam, where the rate was 583 per 10,000 in 2020 (Bales et al. 2023). A simulation undertaken for this report showed that reducing inpatient care by 10 percent through shifting them to day cases yielded savings of 4 percent (MNT 25 billion, or ~USD 8 million), while shifting 20 percent of inpatient care to day cases, and 20 percent of day cases to outpatient care yielded savings of 10 percent (MNT 62 billion, or ~USD 20 million).[142]

While ACSCs cannot be fully avoided, more could be done to avoid expensive hospitalizations. GAHI spent MNT 87.5 billion (~USD 27.9 million) on ACSCs in 2022, with patients contributing MNT 1.2 billion (~USD 0.4 million) in co-payments, totaling MNT 88 billion (~USD 28 million).[143] The majority of ACSCs were acute (50 percent of all ACSCs) or chronic (49 percent), while there were very few vaccine-preventable ACSCs (1 percent), underscoring Mongolia's success in vaccination programs. The top five ACSCs accounted for 73 percent of ACSCs and were: bacterial pneumonia (31.5 percent of ACSCs); hypertension complications (16 percent); dehydration from gastroenteritis (9.4 percent); cerebrovascular diseases (8.4 percent); and diabetes complications (8 percent). The most expensive ACSCs were complications from hypertension and cerebrovascular diseases (representing 34 percent of all spending on ACSC in 2022).

There are also indicators of overuse of high-cost imaging. In 2023, providers submitted claims for high-cost diagnostics in ambulatory care to GAHI for a total MNT 32.7 billion (~USD 10.4 million).[144] High-cost imaging is an area sensitive to overprovision, as once a scanner has been installed, the facility gets higher profits the more it is used, and it is challenging to benchmark need.[145] While Mongolia conducts less scan per capita than high-income countries such as Germany or the US, a third of scans were performed in a single UB private provider in 2023, and only 6 percent at Mongolia's national cardiology and stroke center of the Third General Hospital, suggesting potential overprovision by that private provider. Reasons scans are being requested also raise concerns about appropriate use.[146] Hypothesizing even a small reduction of 10 percent on 2023 expenditure levels on computerized tomography, magnetic resonance imaging, and positron emission tomography scans would generate MNT 3.77 billion (USD 1.2 million) in savings.

142. Taking pneumonia as an example (which was the fourth most expensive inpatient presentations reimbursed by GAHI in 2023), between MNT 560 million (USD 178,000) and MNT 1.6 billion (USD 509,000) could have been saved that year by applying this shift.
143. Authors' analysis of GAHI claims data 2022.
144. Authors' analysis based on GAHI's 2023 claims data. This included computerized tomography (97,753 claims, MNT 16 billion, ~USD 5 million), MRI (44,816 claims, MNT 15 billion, ~USD4.8 million), and positron emission tomography (1696 claims, MNT 1.7 billion, ~USD 0.5 million) scans.
145. There were 13 magnetic resonance imaging (MRI) exams in ambulatory care per 1,000 population in Mongolia in 2023, which is lower than in Germany (135 in 2021) or the United States (50 in 2021), but higher than in Korea (6 in 2021). OECD data explorer. https://data.oecd.org/healthcare/magnetic-resonance-imaging-mri-exams.htm.
146. Nearly three in four MRI brain scan requests were based on non-specific ICD-10 codes (73.4 percent), and there were no requests for brain tumors or encephalitis.

6.6. Recommendations

Expanding access to outpatient medicines through increased value from medicine reimbursement and procurement

Mongolia appears to be achieving less value for its spending on medicines and medical devices than other countries and reforming the purchasing model can reduce costs for both government and households, while improving outcomes. Mongolia is spending nearly double that of peers on medicines and medical goods. Most OOP spending is on medicines, with the proportion rising for poorer households. Less than a third of essential medicines are reimbursed in outpatient care, with only 4 percent available without co-payment and no exemptions for vulnerable groups. This narrow pharmaceutical benefit package can drive hospitalization, through both seeking inpatient medicine coverage and forgone care leading to more severe complications.

As earlier referenced, the government has recently passed legislation to enable nationally centralized procurement, providing the opportunity for efficiency gains that could be used to expand the pharmaceutical benefits package, but attention must be paid to robust procedures and quality. The successful implementation of these new regulations will depend on government procedures that will be developed and government capacity to conduct effective procurement, especially in defining needs and volume of medicines in a timely and accurate way (to avoid stockouts or waste from surplus orders), contract negotiation with international manufacturers, and ensuring timely supply contracting with local pharmaceutical companies. Moreover, centralized procurement is not just about achieving cost savings; equal importance must be given to maintaining minimum drug quality standards that meet the expectations of clinicians and patients. For example, both China and Vietnam only procure from manufacturers meeting quality standards.

Mongolia can expand access to outpatient medicines through increasing value from medicine reimbursement and procurement by encouraging GAHI to reimburse only a limited number of versions for the same medicine to save costs; combined with the efficiency gains from national centralized procurement, savings should be used to expand the reimbursed medicine lists to all medicines on the national essential medicines list and/or reduce co-payments further (short-term, MoH, State Procurement Agency, and GAHI). The report estimates that this could reduce OOP payments by up to MNT 44.6 billion (USD 14.2 million) annually.

Introducing and strengthening policies to prevent and control NCDs

Mongolia is not yet taking advantage of the most cost-effective policies to decrease the burden of NCDs (see Annex 5.1). Best buy policies and interventions for the prevention and control of NCDs will reduce premature deaths and disability, particularly for men. Yet some policies remain to be introduced, including support to quit smoking, procuring healthier food in public facilities, and protecting children from unhealthy food marketing. Others can be strengthened, particularly comprehensive tobacco and alcohol control policies,[147] which are the most cost-effective policies available and target the top risk factors in Mongolia. New or stronger taxes on unhealthy products can generate additional revenue (see Chapter 3), which

147. For example, international standards for alcohol control include minimum unit pricing to combat cheap, high-alcohol content products, warning labels on all alcohol products, restrictions on licensing to reduce density of outlets and hours of sale, and tax incentives to produce low-/no-alcoholic products.

could be targeted at removing the co-payments on routine medicines for NCD treatment (e.g., drugs to control high blood pressure and cholesterol) or increasing allocation to the Health Promotion Fund to support targeted public health campaigns for NCD risk factors as well as brief interventions in PHC.

Mongolia can introduce and strengthen policies to prevent and control NCDs, particularly comprehensive tobacco and alcohol policies and high-impact, cost-effective, and feasible interventions for reducing unhealthy diets: mandatory standards to improve the nutritional profile of packaged foods and beverages, front of pack nutrition labelling, and regulations to protect children from unhealthy food marketing (short- to medium-term, MoF and MoH). UNDP (UNDP 2024) suggests that this could save up to MNT 185 billion annually (USD 59 million).

Strengthening strategic purchasing

GAHI is a key player in moving toward a more efficient, equitable, and sustainable delivery model, however more joined-up policies are needed to realize the potential of strategic purchasing. GAHI, as a relatively new entity, is developing the processes and capacity needed for sustainable SHI and has many levers that be used to strategically purchase better value care. As a maturing strategic purchaser, GAHI can support a shift from inpatient to day care or outpatient care for ACSC, which has been shown to create substantial savings. Volume caps can be used in provider contracts for selected high-volume admissions that can be treated safely in outpatient care, complemented by admission criteria, provider and patient education, and provider performance review. Payments (reimbursement rates) for day surgery can be increased, while decreasing payments for inpatient surgeries. GAHI can also carefully monitor and benchmark private (and public) providers and cancel or reduce contracts with providers shown to provide low value services.

Strengthening strategic purchasing of the most appropriate and cost-effective health care services would support efforts to align capacity with health needs. GAHI can identify the kinds of services that can be treated at the primary or secondary level and analyzes geographic availability and utilization of these services to support MoH master planning. GAHI could consider paying higher rates for these services when provided in more remote areas to incentivize facilities to invest in their capacity to provide these services. In urban areas, particularly in UB, GAHI could consider declining to contract with inefficient, poor quality, and low volume providers of services for which many alternative providers are available. This would help with repurposing of beds toward unmet care needs rather than contributing to overcapacity. Furthermore, GAHI can use claims review data to identify geographic gaps in coverage of emergency care or determine the kinds of patients from the provinces who are seeking care at UB hospitals and could be shifted back to the provinces for treatments. While there is clearly a need to ensure the survival of providers (even inefficient ones) in more remote areas through GAHI contracts, GAHI can put pressure on these facilities to improve their service scope, effectiveness and efficiency, for example through strengthening performance indicators to nudge the providers to more effectively meet health care needs with the resources they have been allocated.

Outpatient high-cost imaging is an area with high potential for short-term cost control. GAHI does not require a radiologist report for reimbursement, making it difficult to audit the positivity rate of scans. The European Society of Radiology and the American College of Radiology have developed comprehensive guidelines aimed at ensuring the appropriateness of imaging in clinical practice, which could be adopted in Mongolia in the short-term while developing local clinical pathways. GAHI could then decline claims that do not follow these criteria. Many countries also require a certificate of need to justify further investments in capacity for high-cost technologies to avoid overinvestment and provider-induced demand.

Mongolia can strengthen strategic purchasing by (i) leveraging strategic purchasing mechanisms to shift care toward better value modalities where appropriate (short-term, GAHI); and (ii) requiring radiologist reports as part of imaging reimbursement (short-term, GAHI), applying appropriateness criteria for imaging (short-term, MoH and GAHI), and establishing a needs assessment system for high-cost technology investments, particularly imaging (medium-term, MoH). The report estimates that this could save between MNT 25 and 72 billion annually (USD 8–21.2 million).

Enhancing service delivery models

Mongolia has the necessary numbers of skilled health workers, but this is not preventing patients from unnecessary admissions. Mongolia currently has more skilled health workers than comparator countries, and many more are being added each year. Yet this review found that productivity is low, which is costly in terms of salaries, clinical competence, and NCD outcomes. More flexible facility staffing standards would allow Mongolia to improve skill mix, task shifting, and distribution of health staff that can be adaptable and responsive to workload and healthcare needs across the country. Savings could be directed toward incentives to attract clinicians to more remote areas. Moreover, a review of service delivery could focus on improving preventative care and PHC, particularly relating to NCDs (patient-oriented care, effective early detection, control and continuity of care). This should continue to encompass appropriate skill mix, home visits (including for family planning and tuberculosis treatment), and specialist outreach and staff support options between levels of facilities. For instance, cost effective interventions such as primary and secondary prevention of cardiovascular disease, aspirin for suspected acute coronary syndrome, heart failure chronic treatment, asthma/chronic obstructive pulmonary disease treatment, and diabetes screening/treatment in PHC can reduce NCD premature mortality substantially by 2030 (Watkins et al. 2022). Continuous upgrading of skills and knowledge is needed to ensure that PHC staff can provide evidence-based, high-quality health care.

Further flexibility is needed in facility standards, which currently limit efficient spending and adaptation to changing populations and evolving healthcare needs. Mongolia has achieved good access to healthcare despite immense geographical challenges. This has been supported through defined standards for health facilities of all types, which stipulate number and types of staff, beds, rooms, and equipment. Some of these standards have been slightly relaxed. For example, in 2017, the structure and function standards for general and specialized hospitals were revised. Changes included eliminating the specific number of beds per ward, reducing required equipment, and allowing a more flexible ratio of clinical to support staff. Yet there remain many constraints to reconfiguring the distribution of facilities and staff to optimize resources and improve efficiency in the face of changing health needs. For example, all SHCs, whether they cover a catchment population of 525 or 9,721, require a minimum of 21 staff (13 of them medical personnel). This can mean that SHCs with smaller catchments are under pressure to fill vacancies to meet service standards for staff that may not be needed (given the low workload of existing health professionals) and face financial difficulties in an environment where funding is capitation rather than input based. Greater flexibility would support facility managers in using resources toward meeting performance-based payments. Room space requirements in general and specialist hospitals remained unchanged, resulting in a comparatively low value against international standards (ADB 2019; Mongolian Agency for Standardization and Metrology 2017).

Mongolia can enhance service delivery models by (i) updating health facility standards to create greater flexibility in managing inputs, improved productivity, alignment with caseload, and changing size and health needs of the population (short-term, MoH); and (ii) reviewing PHC service delivery models, including skill mix of staff, focusing on patient-oriented care, effective early NCD detection, and control and continuity of care (short-term, MoH). The report estimates that this could save MNT 88 billion annually (USD 26 million).

Addressing overcapacity of staff and beds

Despite perceptions of chronic shortages of health workers and insufficient bed capacity, the data show that Mongolia has a similar number of doctors to high-income countries and more hospital beds than many of them, making better management of these existing resources an essential priority. Mongolia must be credited for its efforts to make healthcare accessible, and while many facilities may be needed to reach patients in a country with a highly dispersed population, the number, type, location, and staffing of health facilities can be reviewed to be more cost-effective. High numbers of health workers and facilities is common in ex-Semashko (ex-Soviet) models and has propped Mongolia's impressive achievements in infant, child, and maternal mortality, as well as maintaining low mortality rate for COVID-19. Yet this high system capacity is no longer sufficient to deliver the breadth of outcomes required in the face of marked epidemiological and demographic shifts. Many premature deaths from controllable NCDs and evidence of low productivity across many facilities despite greater resources than many peers are indicators of technical and allocative inefficiencies. Rather than advocating for additional facilities and staff, it is now about ensuring existing strengths are fully leveraged for better outcomes.

Consideration could be given to rightsizing the future workforce. Reviewing current training places and government support for medical students would slow down new staff entering the healthcare sector and reduce overcapacity. A planning exercise that considers the existing workforce structure, demographic transitions, and required skill mix to respond to current and future health needs (including specialist training) would help ensure the production of skilled health workers is as efficient and high-quality as possible.

Mongolia has one of the highest bed per capita ratios globally, with evidence of substantial inefficiency in performance, and some beds could be repurposed to improve health outcomes and reduce costs. Having so many beds is expensive, and it may encourage admission for conditions that can be effectively treated without inpatient care. Hospitalization can also be harmful, for example through hospital-acquired infections, loss of mobility, and increased frailty from inactivity. To better use existing beds, there could be a gradual shifting of acute inpatient beds toward other purposes that can still usefully provide needed services for patients and resolve many unmet and future needs. For instance, modern emergency departments, NCD outpatient clinics, and rehabilitation or palliative care would all orient the hospital stock toward current and future health needs. Beds could also be converted into patient and caregiver accommodation for patients from remote areas who can be treated on an outpatient basis, which will be more cost-effective than keeping those patients as inpatients. Efficiency and outcomes could be further improved through stronger networking of facilities to ensure complex care is provided in centers of excellence. For example, trauma care or neurosurgery should be restricted to a well-configured network of facilities that balances concentration of care to drive up quality with access. Health sector master plans were developed in 2005 and 2019; however, subsequent facility development and hospital rationalization have not aligned to these plans. Updating this masterplan to ensure that capacity matches better with health needs and quality improvement mechanisms is a priority. The Certificate of Need regulation was introduced in the Health Law in 2011 as a prerequisite for licensing new hospitals. This regulation aims to assess the need for new hospitals against existing capacity gaps. However, it has not been implemented.

Mongolia can address this overcapacity through (i) reviewing current training places (short-term, Ministry of Education (MoE)) and undertaking a workforce planning exercise (medium-term, MoH); (ii) updating and enforcing the health sector master plan and compliance with regulation accordingly (medium-term, MoH). The report estimates that this could save MNT 956 million annually (USD 0.3 million).

CHAPTER 7:

IMPROVING EDUCATION QUALITY AND EQUITY

CHAPTER 7: IMPROVING EDUCATION QUALITY AND EQUITY

7.1. Introduction

Despite adequate and progressive public education spending and relatively strong outcomes, there are substantial opportunities to improve efficiency within the education sector. As this chapter demonstrates, Mongolia's general education quality (including primary and secondary education) is comparatively high. However, government spending on preschool education requires greater effectiveness and efficiency. Geographic and socioeconomic disparities in educational outcomes highlight persistent inequities that call for targeted interventions. Additionally, critical shortages in infrastructure and basic learning materials continue to impede student achievement. By improving resource allocation efficiency, Mongolia can address these challenges and further enhance the quality and equity of its education system.

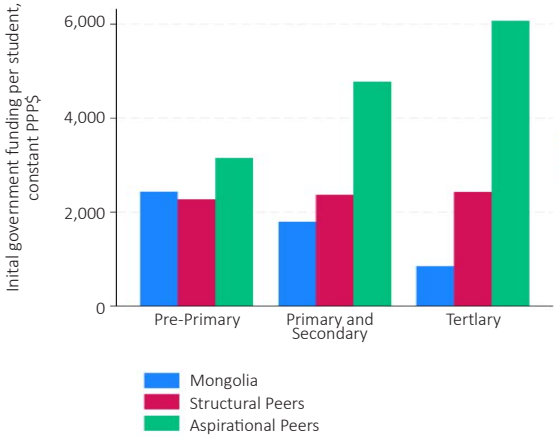
This chapter evaluates the effectiveness and efficiency of government education spending in Mongolia, identifying opportunities for improvement. It begins by assessing the overall level of government education spending relative to education outcomes compared to peer countries. It then examines socioeconomic and geographic disparities in learning outcomes. The chapter also highlights the investment needs necessary to close achievement gaps and identifies potential areas for efficiency improvements and cost savings. Finally, it concludes with key findings and recommendations to enhance the effectiveness and efficiency of education financing in the country.

7.2. Public education spending achieves better outcomes compared to peers

While Mongolia's overall education spending aligns with expectations for its income level, disparities emerge across different levels of education. As discussed in Chapter 4, Mongolia's education spending, both as a percentage of GDP and as a share of the national budget, is slightly lower than that of its peer countries. However, per capita education spending is broadly in line with what would be expected for a country at Mongolia's income level. A closer look at the components of education spending reveals that public pre-primary education spending is comparable to that of peers, while spending on general (i.e., primary and secondary) and tertiary education is significantly lower (Figure 7.1).

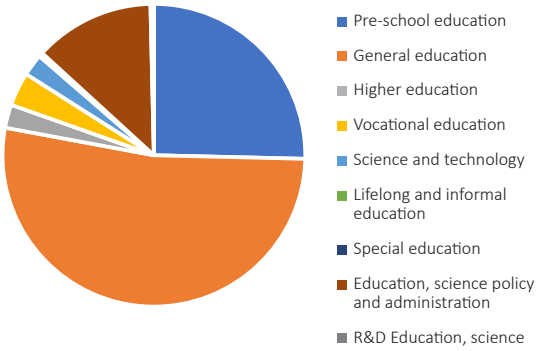
Public spending on education is progressive, with the majority directed toward pre-tertiary education, while household funding covers most tertiary education costs. In 2022, general education (primary and secondary) accounted for 52.5 percent of total education expenditure, followed by preschool education at 25 percent, whereas vocational and higher education made up just 3.6 and 2.5 percent, respectively (Figure 7.2). Compared to its peers, Mongolia allocates a larger share of public spending to pre-tertiary education (Figure 7.3). As poorer households tend to have more children and completion rates for general education are high across all welfare deciles, the prioritization of public spending on pre-tertiary education in contrast to tertiary education means that education benefits are more equitably distributed across deciles compared to peers (see Chapter 9). Additionally, household contributions to pre-tertiary education are relatively low, with families covering 7 percent of pre-primary, 17 percent of general and 20 percent of vocational education costs. In contrast, household funding accounts for majority (86 percent) of tertiary education costs. Overall, household contributions make up 23 percent of Mongolia's total education funding, which is lower than the average in LMICs and UMICs (33 percent) (Figure 7.4).

Figure 7.1. Mongolia's public pre-primary education spending is comparable with peers while general and tertiary education spending is much lower



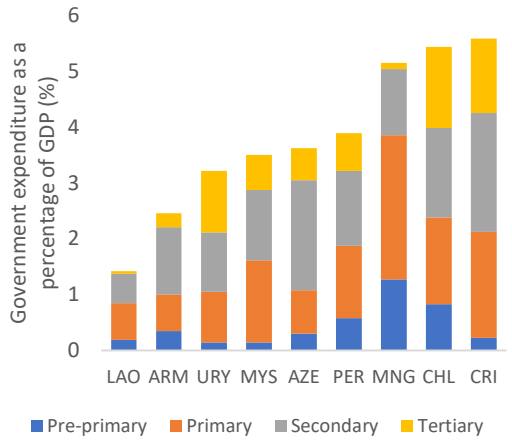
Source: UNESCO Institute of Statistics. Data for Mongolia obtained by dividing 2022 expenditures by number of students across the different levels of education. Source for Mongolia: BOOST Data and Mongolian Statistical Yearbook 2022. Values older than 2018 are removed from calculation of averages for peers.

Figure 7.2. Share of education expenditure across education subsectors (Year = 2022)



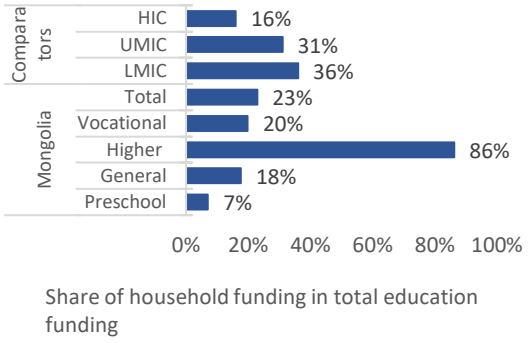
Source: BOOST-WB.

Figure 7.3. Share of education expenditure across education subsectors (Year = 2022)



Source: UNESCO Institute of Statistics.

Figure 7.4. The overall share of household funding in total education funding is lower compared to the average of LMIC and UMIC

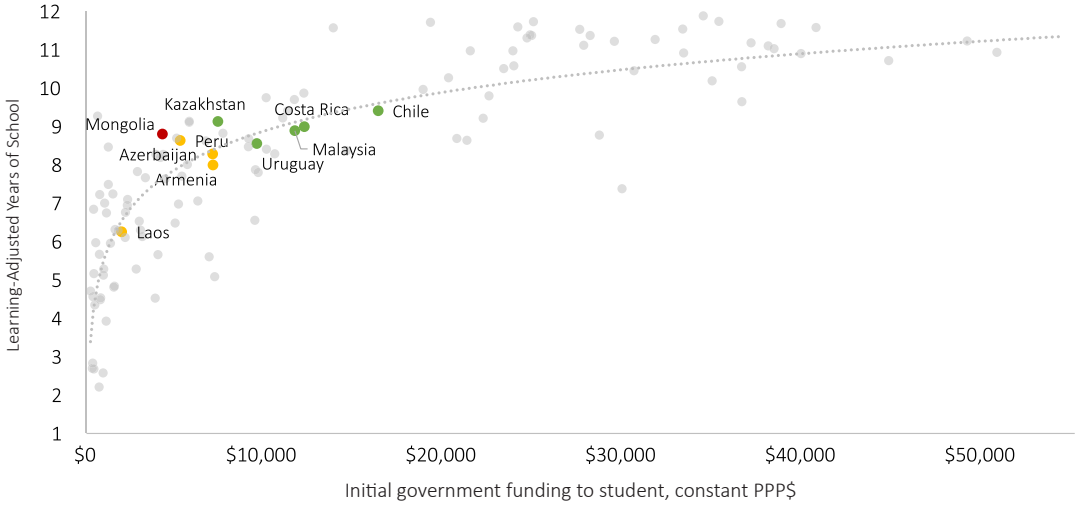


Source: Household Social and Economic Survey, 2022. Averages for LMIC, UMIC and HICs are obtained from the World Bank's Education Finance Watch.

Overall, Mongolia spends less per student compared to its peers but achieves comparatively better education outcomes. With general education being free and mandatory, Mongolia boasts high expected years of schooling (13.2 years), surpassing the averages of its structural peers (12 years) and aspirational peers (12.9 years). Additionally, the quality of primary and secondary education in Mongolia exceeds the average of both its structural peers and aspirational peers. In the 2022 Program for International Student Assessment (PISA) for mathematics, fifteen-year-old students in Mongolia performed 6 and 17 PISA points above the average of their peers in Mongolia's structural and aspirational comparator countries, respectively. Among these comparator countries, Mongolian students performed below only those in Vietnam.[148] Figure 7.5 shows that Mongolia performs better than all structural peers and comparable to aspirational peers in learning adjusted years of schooling (a single measure combining quantity and quality of pre-tertiary schooling) despite spending lower per student than most peers, indicating an effective and efficient education system compared to peers.

148. However, PISA 2022 in Vietnam represented only 68 percent of 15-year-olds, compared to 87 percent in Mongolia, due to much lower upper secondary enrollment rates in Vietnam.

Figure 7.5. Mongolia spends lower per student compared to the country's structural and aspirational peers but yield comparatively better student outcomes



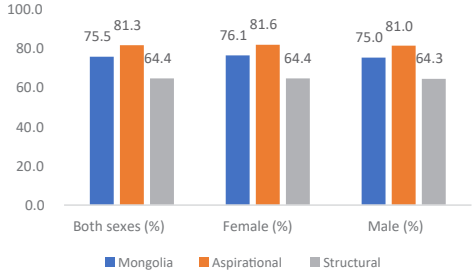
Source: Government funding data from UIS SDG database. Learning-Adjusted Years of School from World Bank HCI database. The per-student financing for Mongolia is calculated using BOOST data for year 2022 and student numbers from Mongolian Statistical Yearbook, 2022.

Note: This plot shows the relationship between funding and schooling in 121 countries with available valid data in both indicators. Mongolia (red) and structural and aspirational peer countries are highlighted as yellow and green dots respectively. To improve plot visibility, Luxemburg (funding $69,740) is excluded. Government funding is calculated as the total sum of the funding to pre-primary, primary and secondary education, and restricted to countries with valid data (non-missing values, non-zeroes) in all three education levels. Of the structural countries plotted, Vietnam is not included due to the lack of funding to student data.

Although Mongolia spends the most per student on preschool education compared to other education levels, the quality of preschool education is low. In 2022, Mongolia spent PPP $2,434 per student on pre-primary education, comparable to its peers. However, spending on general education was only three-fourths of this amount (PPP $1,796 per student), and spending on higher education was just a third (PPP $849 per student). Both figures are significantly lower than those of peer countries (Figure 7.1). While access to preschool education is higher in Mongolia compared to its structural peers (Figure 7.6), early childhood development outcomes lag. A smaller proportion of children aged 24 to 59 months in Mongolia are developmentally on track in health, learning, and psychosocial well-being compared to structural and aspirational peers (Figure 7.7). Additionally, a smaller share of boys is developmentally on track in Mongolia as compared to girls. Home learning environments is a concern, as a significantly lower share of children under five (58 percent) in Mongolia experience positive and stimulating home learning environments compared to the average of LMIC and UMIC for which data is available (71 percent).[149]

149. UNESCO Institute of Statistics. Indicator = Percentage of children under five years experiencing positive and stimulating home learning environments.

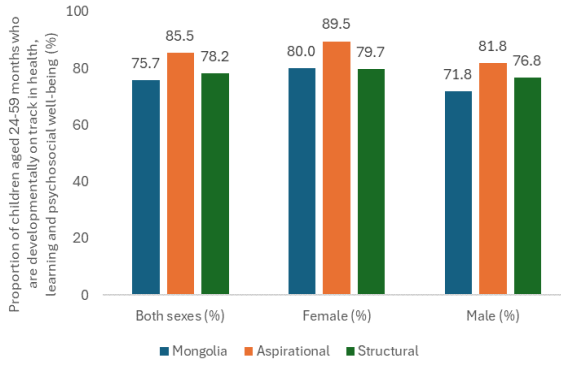
Figure 7.6. A substantially higher share of children of pre-primary education attend pre-primary education as compared to structural peers



Source: UNESCO Institute of Statistics.

Note: Data for Mongolia corresponds to 2022, and aspirational and structural countries to 2021–2023.

Figure 7.7. Fewer children aged 24 to 59 months in Mongolia are developmentally on track in health, learning, and psychosocial well-being compared to peers



Source: UNESCO Institute of Statistics.

Note: Data for Mongolia corresponds to year 2022, for Costa Rica 2021, and for Vietnam 2022. Data for other structural and aspirational comparator countries is not available.

The per-student financing regulation ensures equitable funding across Mongolia's education levels, with extra resources for remote areas. The per-student financing regulation establishes average norms for variable costs per student in preschool, general, and vocational education, ensuring equity in per-student expenditures across geographical locations in the country. These norms vary by level and location, with additional resources allocated to schools in remote areas (Table 7.1). While schools are responsible for allocating funds according to the specified purposes and economic classifications as outlined in the per-student financing regulation, the 2024 regulation gives them autonomy to use unspent balances for school development activities. Additionally, according to Article 38.4 of the General Law on Education, the end-of-year account balance of the educational institution is carried over to the next fiscal year, allowing schools to benefit from any savings made.

Table 7.1. Coefficients for norms for variable costs per student by location

No	Organization	The capital	Capital city of the province	Soum—distance from the capital city less than 200 km.	Soum—distance from the capital city greater than or equal to 201 km.
1.	Kindergarten	1	1.065	1.087	1.091
2.	General educational school	1	1.065	1.08	1.084

Source: Decision of the GoM, Number 39, "Regarding the approval of variable cost measures, certificates and procedures" (January 25, 2024), Appendix 3.

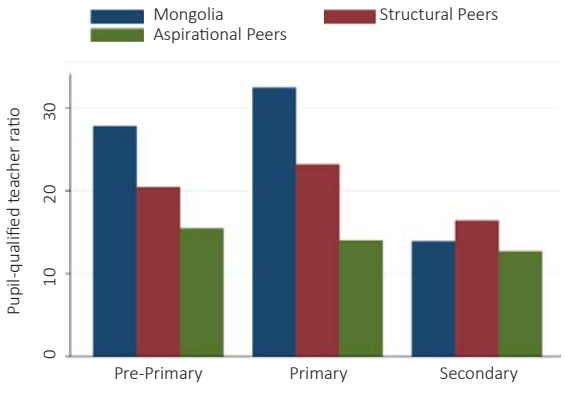
In 2023, schools in Mongolia introduced performance-based incentives for schools. Kindergartens, general education schools, and vocational schools can receive up to 5 percent, 4 percent, and 10 percent of their total variable costs, respectively, as additional funding based on their performance. The criteria for these bonuses are used to rank schools, with different bonus amounts awarded based on their rank. At least 35 percent of the additional funds must be allocated to activities aimed at improving the management of educational institutions, while up

to 65 percent is to be used to reward employees based on their performance. In the 2022–2023 academic year, 38.6 percent of general education schools (n=266) and 39.3 percent of pre-primary schools (n = 377) received performance-based bonuses. The spending on performance-based bonuses accounts for 1.2 and 1.0 percent of total current education expenditure in pre-primary and general education, respectively. School performance evaluation reports are typically displayed on school notice boards.

Mongolia also transitioned preschool and general education financing to a performance-based budgeting structure (2022). Each education level has a set of outcome indicators. The Ministry sets the targets for each outcome indicator and the performance is assessed based on how well these targets are met. Additionally, Ministry's efficiency is evaluated by comparing the outcomes achieved with the expenditures incurred. The MoF intends to use the performance-based budgeting structure to guide future budget allocations. The government is currently working on improving the validity of performance indicators used. This shift toward performance-based budgeting structure is a promising step toward ensuring effectiveness and efficiency of public expenditures. By focusing on learning-oriented outcome indicators and rigorous and reliable evaluation systems, the government can set the foundation for continuous improvement.

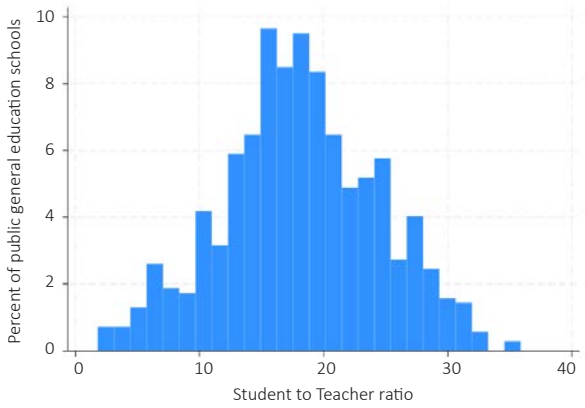
Despite allocating a substantial portion of its education budget to staff salaries and social insurance contributions, Mongolia still faces high student-teacher ratios in primary education. Specifically, these salaries and contributions represent 81 percent of total school expenditures, which is higher than the 73 percent seen in structural peers and equal to the 81 percent of aspirational peers. Despite this, Mongolia has relatively high student-teacher ratios in primary education compared to its peers, while ratios in secondary education are comparable (Figure 7.8). Additionally, significant variations in student-teacher ratios across public schools further underscore the need to improve teacher distribution efficiency (Figure 7.9). This underscores the urgent need to enhance the efficiency of teacher distribution to better meet educational demands.

Figure 7.8. Mongolia has much higher pupil-teacher ratios in pre-primary and primary education than the country's structural and aspirational peers



Source: UNESCO Institute of Statistics. Indicators used: Pupil-qualified teacher ratio in pre-primary education (headcount basis), pupil-qualified teacher ratio in primary education (headcount basis), pupil-qualified teacher ratio in secondary (headcount basis).

Figure 7.9. Student to teacher ratios varies widely across schools

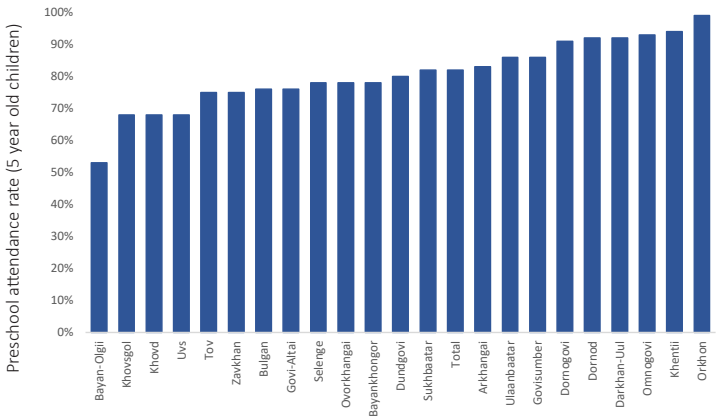


Source: EMIS 2023–2024.

7.3. Large geographic and socioeconomic disparities exist in educational outcomes

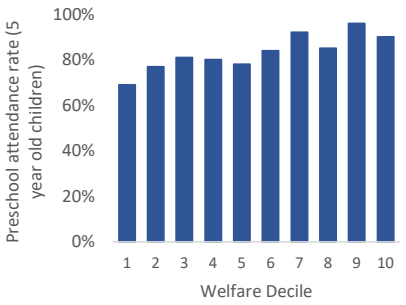
Mongolia faces significant socioeconomic and geographic disparities in access to pre-primary education. In Bayan-Ulgii, the westernmost aimag of Mongolia, only 53 percent of five-year-olds attend pre-primary education. Similarly, a much smaller proportion of five-year-old children in Khovsgol, Khovd, Uvs, and Tov attend pre-primary education (7.10). These differences are also evident across socioeconomic status, with a much lower share of children from the bottom socioeconomic deciles attending pre-primary education (Figure 7.11).

Figure 7.10. Significant gaps exist in access to pre-primary education



Source: HSES 2022 data.

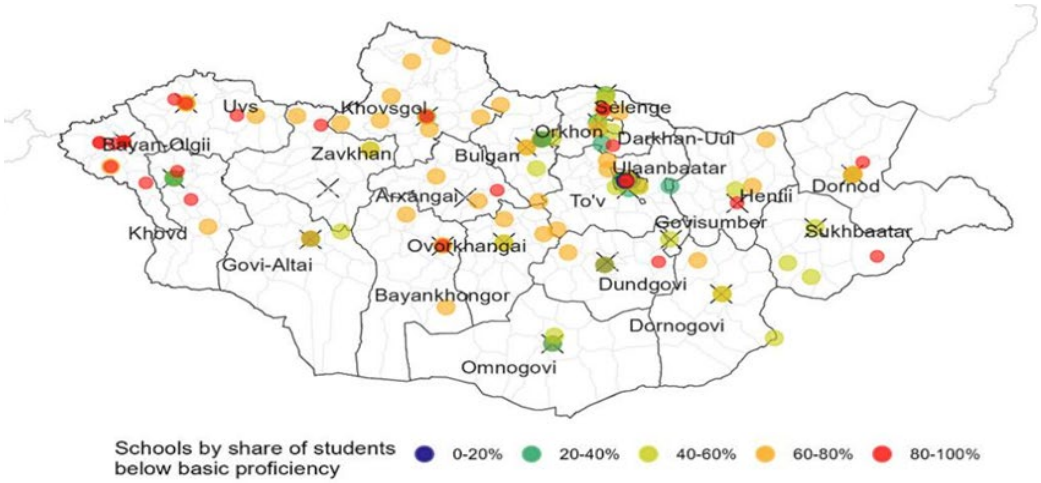
Figure 7.11. A lower share of children belonging to households from lower welfare deciles attend pre-primary education



Source: HSES 2022 data.

Mongolia also faces significant disparities in education quality, especially across socioeconomic, ethnic, and geographical lines, as highlighted by PISA 2022 results. Students from the bottom socioeconomic quartile scored 94 PISA points (or close to five years of schooling) lower than students belonging to the top socioeconomic quartile. This gap is the highest among Mongolia's structural and aspirational peers that participated in PISA 2022. Additionally, students who do not speak Mongolian at home scored 67 points lower than their Mongolian-speaking peers in mathematics. There is also a geographical/regional dimension to educational inequalities in the country with schools further away from the center of the country performing increasingly worse and a higher share of students performing below minimum proficiency (Figure 7.12). Schools in remote areas, like Uvs, Khovd, and Dornod, show over 80 percent of students performing below minimum proficiency.

Figure 7.12. Schools away from Ulaanbaatar perform increasingly worse, with a substantially higher share of students performing below minimum proficiency in mathematics



Source: Authors' illustration based on PISA 2022 data.

Note: The map is based on 168 schools with geographic coordinates obtained from BOOST database. Of the 168 schools, 152 correspond to general education schools, and 16 to vocational schools.

7.4. There is evidence of skills constraints in the labor market

Mongolia's education system faces challenges in adequately preparing school leavers for the skill requirements of the labor market. A core objective of the education system is to ensure that labor supply aligns with labor market demands. However, as highlighted in the 2022 Mongolia Jobs Diagnostic, surveys of recent university and Technical and Vocational Education and Training (TVET) graduates reveal persistent skills constraints. Specifically, one-third of employed graduates report working outside their field of study or training. Approximately one-third also express feeling over- or underqualified for their current roles. Moreover, graduates report a lack of socioemotional skills, which are precisely the type of skills most sought after by employers. The transition from education to employment is also lengthy, particularly for graduates of TVET programs. According to the 2017 Graduate Tracer Study, only about half of TVET graduates were employed one year after graduation, and roughly 35 percent remained unemployed three years later. Furthermore, significant disparities in employment rates exist across different fields of study, especially among TVET graduates. This suggests potential issues with an oversupply of graduates in specific areas or that the quality of training is not effectively meeting employer needs.

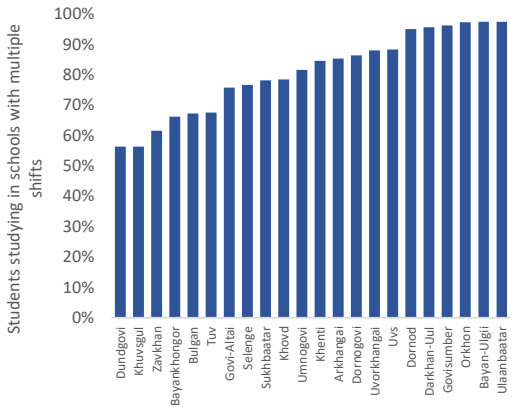
7.5. Shortages of infrastructure and basic learning materials are limiting learning outcomes

There are significant infrastructural challenges in public general education schools, with around two-thirds operating more than one shift. In 2023, out of 695 public schools, 469 operated more than one shift and 8 operated triple shifts. The use of multiple shifts reduces the in-class learning time available to students, and students studying in double or triple shift

schools score 8 PISA points lower than their peers in single shift schools, even after controlling for student and school background characteristics and policy-relevant variables. In the 2023–2024 academic year, the public general education school system exceeded its capacity by 252,045 students, representing 36 percent more students than the system's available capacity, as indicated by the number of students in schools operating beyond their stated capacity in the EMIS data. Faced with greater number of students than the school capacity, schools divide students into multiple shifts. In several provinces like Bayan-Ulgii, Orkhon, and Govisumber, almost all students attend multiple-shift schools (Figure 7.13). Furthermore, there is a lack of basic infrastructure, such as indoor flush toilets; in provinces like Khovsgol, Khentii, Arkhangai, and Bayan-Ulgii, more than 60 percent of public general education schools lack this basic facility.

Investments in infrastructure are important as student numbers in Mongolia are projected to increase in the short to medium term. The growth in the student population is driven by two factors. First, the number of school-age children (ages 5 to 19) is expected to rise in the near future and will not fall below current levels until mid-2060s (Figure 7.14). Second, in 2023, the Government of Mongolia extended mandatory general education schooling from 9 to 12 years, i.e., requiring the completion of upper secondary education. Additionally, in 2022, mandatory preschool education was introduced for children at the age of five. As of 2023, preschool enrollment at age of five was 94.8 percent, and upper-secondary completion at age 18 was 81 percent. Therefore, the transition to mandatory preschool and upper-secondary education is expected to further increase student numbers in the coming years. As the student population increases in the short to medium term, the education system will need to expand its capacity to cater to the increasing student population.

Figure 7.13. In a number of provinces, all students study in schools with multiple shifts



Source: EMIS 2023–2024.

Figure 7.14. Student population (ages 5 to 19) is expected to decline below its current level only by the mid-2060s

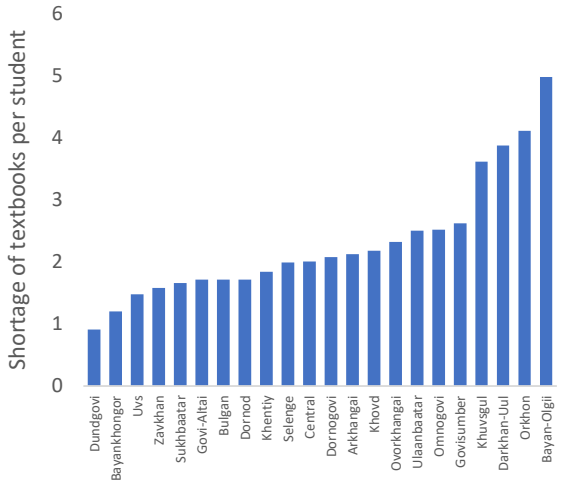
Source: Probabilistic Population Projections based on the World Population Prospects 2022, United Nations, Department of Economic and Social Affairs, Population Division (2022).

A substantial gap in student seating capacity still requires significant investment to be fully addressed. The government has been investing to close infrastructural gaps. From 2016 to 2024, the Ministry of Education (MoE) added 109,046 seats in general education schools, with investment expenses increasing significantly (from MNT 242.8 million in 2020 to MNT 470.1 million in 2024). However, with an estimated shortfall of approximately 252,000 student seats

according to EMIS 2023–2024 data, there is a significant financing requirement of MNT 5.091 trillion to address this gap.[150]

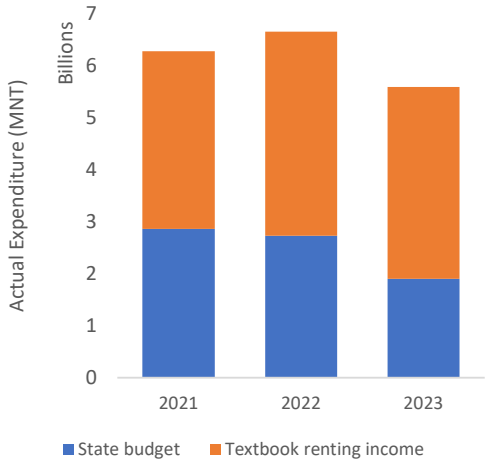
There are substantial shortages of basic learning materials like physical textbooks. While the government provides free textbooks for primary grades, it covers only 40 percent of the cost for lower secondary grades (6 to 9) textbooks. Furthermore, higher secondary students are expected to cover the full cost of textbooks. Students have the option of renting the textbooks from the school library[151] on subsidized cost or purchasing the textbooks from the market. Schools then transfer the textbook renting income to the government for next years' textbook expenditures. The current system of textbook financing and delivery leads to substantial textbook shortages. According to EMIS 2023–2024 data, schools reported an overall shortage of 1.9 million physical textbooks, representing around 20 percent of the required textbooks in the year, and amounting to a cost of MNT 4.7 billion (Table A.6.1 in Annex 6). On average, a student in Mongolia faced a shortage of 2.5 textbooks, as estimated by the ratio of total textbook shortage reported by schools in the 2023–2024 EMIS data to the number of students in the school. The highest shortages are observed in Bayan-Ulgii and Orkhon provinces, where students on average face a shortage of five and four textbooks, respectively (Figure 7.15). Despite these shortages, state expenditure on textbooks have decreased from 2021 to 2023 (Figure 7.16). With the introduction and implementation of the new curriculum, additional funds amounting to MNT 64 billion will be required to print the updated textbooks and educational materials. In contrast to the shortage of textbooks, schools in Mongolia have on average 2.5 printers, 1.7 copiers, and 1.4 scanners per 100 students. Some provinces, like Bayankhongor, have even an average of six printers per 100 students and three to four copiers and scanners per 100 students. This equipment can potentially be used to print books at schools (as the MoE has the copyrights of the textbooks) and reduce the shortages of textbooks and other learning materials.

Figure 7.15. Students face substantial shortages in textbooks, especially in provinces like Bayan-Ulgii, Orkhon, and Darkhan-Uul



Source: EMIS 2023–2024.

Figure 7.16. Despite textbook shortages, government expenditures on textbook have declined from 2021 to 2023



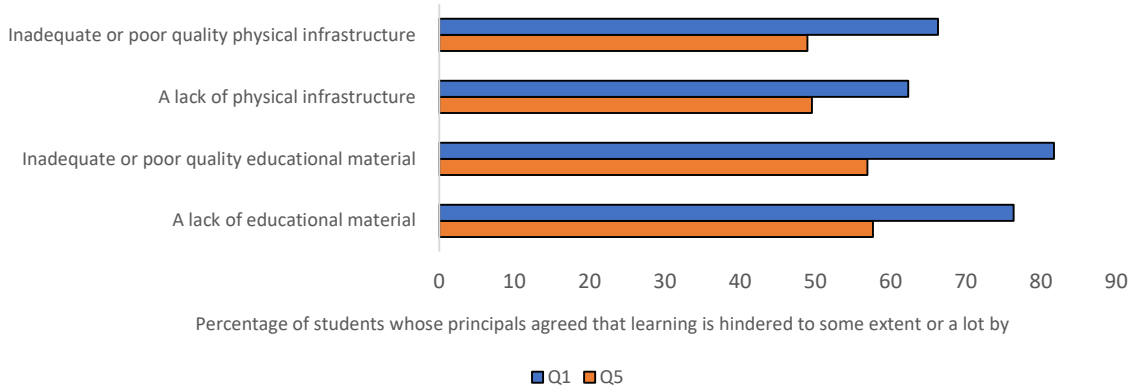
Source: General Authority for Education.

150. The average financing per seat (20.2 million MNT) is calculated using the budget information on investments (from the approved budget law for 2024) in education sector for the year 2024 and includes the cost of equipment per student as estimated using the regulations on equipment requirements per student and information on prices from the Ministry's e-shop and procurement websites. "Equipment" includes teacher desks, teacher chairs, teacher computers, student desks and chairs, smart boards for classes, and digital cabinets for buildings per student.

151. Schools purchase the required textbooks directly from the publishers or from the market.

Students from the poorest socioeconomic quintile in Mongolia experience greater shortages of infrastructure and educational materials. According to data from PISA 2022, two-thirds of students from the poorest socioeconomic quintile studied in schools where principals reported inadequate or poor-quality physical infrastructure as compared to half of students from the richest socioeconomic quintile (Figure 7.17). Similarly, 82 percent of students from poorest socioeconomic quintile studied in schools where principals reported inadequate or poor-quality educational material as compared to 57 percent of students from the richest socioeconomic quintile. Additionally, a higher share of students in the poorest quintile study in schools where principals report that learning is hindered to some extent or a lot by a lack of or inadequate or poor quality of digital resources compared to students in the richest quintile.

Figure 7.17. More students from the poorest quintile face learning barriers due to material and infrastructure shortages than those from the richest quintile



Source: Authors' illustration based on PISA 2022 data.

Rural and remote regions face severe shortages in school infrastructure, with improved digital solutions and internet connectivity needed for equitable access to education. The most significant shortages in school infrastructure and learning materials are observed in the rural and remote regions. The government is investing in digital solutions to extend quality education to these areas; broader internet connectivity and improved student-to-computer ratios are required for these investments to benefit all students equitably. In 2023–2024, there was an average of 1.7 computer per teachers, ranging from 3.23 in Govisumber to 0.84 in Bayan-Ulgii. For students, the ratio was 20 students per computer, with regional differences such as Bayan-Ulgii with the highest average (27 students per computer) and Gobi-Altai with the lowest average (7 students per computer). However, the main challenge remains internet access: only 19 percent of computers available for student training are connected to internet. Of the 1,117 buildings connected to internet in 2023, fewer than 20 percent (209 buildings) had speeds of 20 Mbps or higher.[152] Furthermore, currently, only one or two classrooms in most school buildings are connected to the internet, highlighting the need to ensure internet access in all classrooms. Investments in digital infrastructure and devices, however, require substantial funds (Table 7.2) and need to be made carefully and targeted to lagging and remote regions. Additionally, a comprehensive approach—including investments in digital infrastructure, devices, teacher training and e-learning resources—is essential to ensure these efforts lead to improved learning outcomes.

152. The ITU has set targets for universal and meaningful school connectivity, including a minimum download speed of 20 Mbps per school, 50 kbps per student, and a minimum data allowance of 200 GB (ITU and United Nations Office of the Secretary-General's Envoy of Technology, 2022).

Table 7.2. Estimating financing required for digital investments

Item	Unit price (MNT)	Units required	Cost (billion MNT)
Setting up cost to connect all classrooms to the internet source	17,703,000	1117 school buildings	19.77
Tablets	899,000	286417 (based on student projections for 2024–2025 and 3:1 ratio for entry level connectedness)	257.5
Total			**273.9**

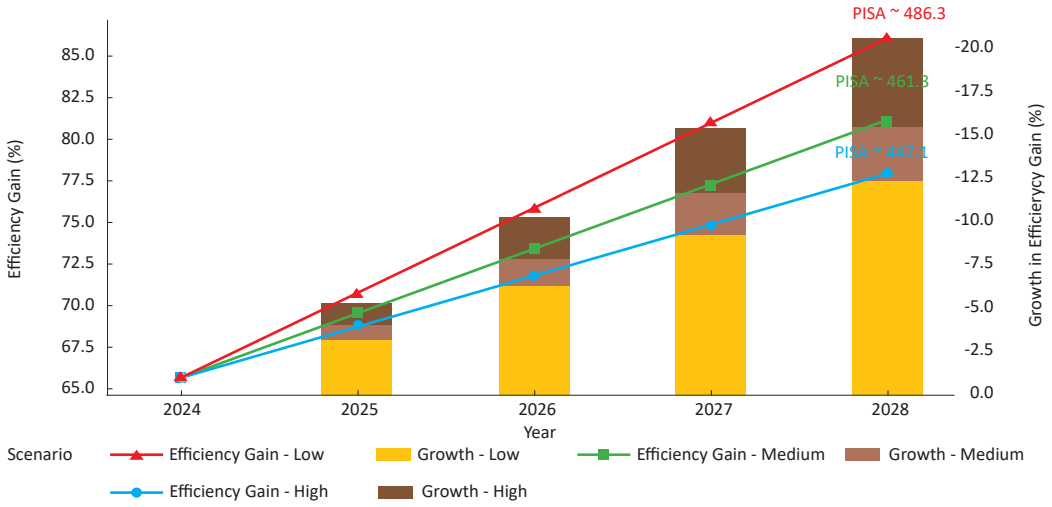
Source: Unit prices are obtained from https://www.tender.gov.mn/mn/eshop/.

In Mongolia, the poorest 40 percent of students face significant learning gaps. These investments are crucial for supporting students who are falling behind. The best improvers in PISA, like Moldova and Peru, have improved their average scores by supporting lagging students and reducing the percentage of students performing below minimum proficiency.[153] In Mongolia, the poorest 40 percent of students perform significantly lower than their peers. As a result, though the poorest 40 percent of students attend 12.8 years of schooling, their learning-adjusted years of schooling is only 8.4, reflecting a 4.4-year gap and an efficiency rate of just 65.7 percent.

Recent projections underscore the transformative potential of targeted educational investments in Mongolia to significantly reduce the achievement gap among students in the bottom 40 percent of the socioeconomic spectrum. In 2024, the baseline efficiency gain of 65.7 percent suggests that only about two-thirds of students' schooling years result in meaningful learning. However, under a high-efficiency scenario, this efficiency is expected to increase to 86.1 percent by 2028, allowing students in the bottom 40 percent to achieve learning outcomes comparable to those in the top 20 percent. This 20.4 percentage-point improvement over five years represents a substantial enhancement in the effectiveness of education, with a higher proportion of time spent in school translating into actual learning gains. By 2028, these improvements could push Mongolia's average PISA scores beyond the current OECD average of 472 points, marking a significant leap in educational quality. Such progress would greatly enhance Mongolia's capacity to prepare its students for success in a rapidly evolving and competitive global workforce, highlighting the critical importance of strategic and targeted educational reforms (Figure 7.18).

153. For example, Moldova improved its PISA score by an average of 13.7 points in reading over each PISA round and reduced the percentage of students performing below minimum reading proficiency from 57.2 percent in 2009 to 43 percent in 2018.

Figure 7.18. Projected efficiency gains and growth for students in bottom 40% (2024–2028)



Source: Author's calculations based on data from the World Bank Human Capital Index (2020) and OECD PISA Results.

Note: The analysis evaluates efficiency gains using the ratio of Effective Years of Schooling (EYS) to Learning-Adjusted Years of Schooling (LAYS), which reflects how effectively schooling years translate into actual learning outcomes.

7.6. Recommendations

Making the education system more equitable

Government funding allocated to private schools could be redirected to the critical needs in public schools. Currently, private preschools and general education schools receive government funding based on the per-student financing norms, amounting to 7 percent and 3 percent of total government spending on these sectors, respectively. However, most private school students belong to the top half of the country's socioeconomic distribution. Additionally, government contributions make up only 9.5 percent of the private schools' total funding—the bulk of their revenue comes from tuition fees and other service charges.[154] To create a more equitable system, the per-student financing for private schools could be reserved for students from disadvantaged socioeconomic backgrounds, with any savings redirected to meet resource gaps in public schools. Targeting public financing to private preschool and school students belonging to the bottom 40 percent of country's socioeconomic distribution will save MNT 60 billion annually.[155]

School meals make up a substantial portion of preschool and general education budget (13 percent and 7 percent, respectively) and can be targeted to students of socioeconomically disadvantaged households. Currently, the government provides free school meals to all children in preschool and primary education, achieving universal coverage similar to high income countries like Chile and Costa Rica.[156] However, these expenditures could be made more efficient by targeting free meals specifically to students from socioeconomically disadvantaged households.[157]

154. Authors' calculations using EMIS 2023–2024 data.
155. Only 5.4 percent students in private schools belong to the bottom 40 percent of the country's socioeconomic distribution (HSES 2022).
156. WFP 2022.
157. Such targeting will save MNT 48 billion annually.

Closing infrastructure gaps in lagging provinces

Mongolia faces a significant financing gap in infrastructure investment, making it essential to explore cost-effective and flexible solutions to accommodate the growing student population. One such approach could be modular classrooms, similar to those used in Alberta, Canada, to manage fluctuating enrollment. Alberta's Building Code and Education Infrastructure Standards provide clear guidelines for constructing modular schools, ensuring safety, energy efficiency, and adequate learning spaces. These standards also promote the use of sustainable materials and environmentally friendly practices. Modular construction offers key advantages: it is about 20 percent more cost-effective per square foot compared to traditional brick-and-mortar schools due to more efficient material usage, lower labor costs, and faster construction timelines. Additionally, modular schools provide flexibility for future expansions or relocations, which is especially valuable in Mongolia, where internal migration patterns make long-term enrollment trends difficult to predict.

An extension of the modular classroom concept is the mobile unit, offering an innovative solution for delivering specialized education in rural areas. In Alberta, mobile Career and Technology Studies (CTS) units provide cost-effective, hands-on learning opportunities to students in small communities. These specially constructed and equipped trailers move between schools, allowing multiple schools to share access to specialized equipment and facilities for part of the school year. This approach is particularly effective in rural areas with small student populations and significant distances between high schools, ensuring that all students benefit from courses that require advanced tools and resources.

Targeting infrastructural investments based on updated data on student overcrowding is essential to address capacity challenges and extend learning time, especially in lagging provinces. By prioritizing investments to reduce multiple shifts and transition to single-shift schools in these areas, significant improvements can be achieved in teacher-student interaction, as well as in the time available for remediation and individualized learning. Focusing on lagging provinces will also promote a more equitable distribution of educational resources, helping to bridge regional disparities.

Ensuring minimum standards for physical/digital infrastructure and teaching and learning materials

As Mongolia addresses infrastructure gaps, establishing minimum learning standards will be critical for all schools. Currently, there are no uniform standards, resulting in significant disparities in basic facilities across schools. For example, student-to-teacher ratios, student-to-classroom ratios, and access to digital devices vary widely. Additionally, 156 public schools lack libraries, and over a quarter do not have indoor flush toilets. To address these challenges, Mongolia should implement minimum standards for all schools and provide targeted support to ensure these standards are met.

Strategically prioritizing access to public preschools

Mongolia should implement sequenced prioritization for public pre-primary education for all five-year-olds and for four- and three-year-olds belonging to the bottom 40 percent of the country's socioeconomic distribution. Currently, Mongolia spends a much larger share of education budget on pre-primary education compared to peers. Still, geographic

and socioeconomic disparities limit access to pre-primary education for five-year-olds. In contrast, 73 percent of four-year-olds and 58 percent of three-year-olds in the country attend preschool. Public resources should first ensure universal preschool access for five-year-olds, while prioritizing children from nomadic and socioeconomically disadvantaged families for three- and four-year-old enrollment. This approach would also help reduce high student-teacher ratios in pre-primary education (Figure 7.17). International examples highlight the value of targeted programs. In the U.S., public preschool programs are targeted to low-income families and have significantly boosted preschool participation. Studies show these programs have substantial positive effects on child development and adult outcomes for disadvantaged children.[158] Similarly, research shows that universal public preschool provides substantial short- and long-run benefits to disadvantaged children, but relatively modest benefits to more advantaged children.[159]

Improving education management and service delivery

To improve education management, the Education Management Information System needs to be enhanced and integrated with data from other sectors to support evidence-based policy making and targeted investments. While Mongolia's EMIS provides detailed school input data, and the Education Evaluation Center (EEC) collects student outcome data, these datasets need to be integrated with school finance data from the General Authority on Education (GAE) and socioeconomic data from the National Statistics Office. This unified platform would enable more effective education management, guiding targeted investments to improve school quality. Such a data platform aligns with Mongolia's Vision 2050, which emphasizes the use of ICT in public sector reforms to promote accountability, transparency, and citizen participation, while reducing corruption and bureaucratic inefficiencies.

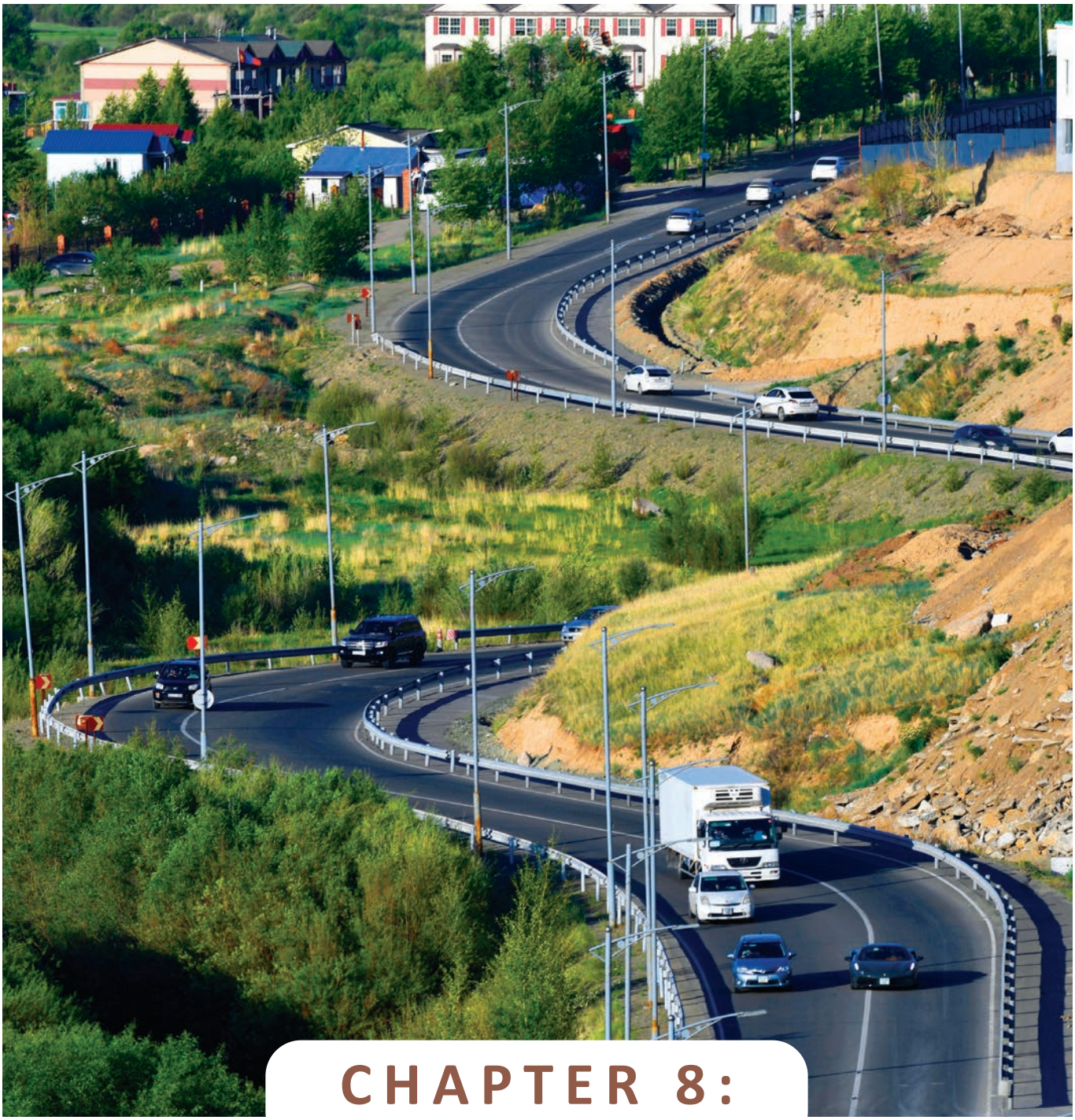
Efficiently allocating human resources in general education

As student populations increase, enhancing the allocative efficiency of human resources within general education becomes increasingly crucial. To tackle this issue effectively, it is important to strategically reallocate more teachers to primary education from other parts of the existing system. This adjustment will help address the disproportionately high student-teacher ratios in primary schools, ensuring a more balanced distribution of educational resources across all levels.

Closing the skills gap in the labor market

Closing the skills gap in the labor market necessitates upgrading the quality and relevance of the skills development system. As highlighted in the 2022 Mongolia Jobs Diagnostic, the GoM can enhance this system through several key actions. These include: utilizing program and labor market information to align higher education and technical/vocational training with labor market demands and national development priorities; implementing effective incentives to strengthen collaboration between educational institutions and the labor market; establishing a results-driven partnership with the private sector for skills development; improving the school-to-work transition by connecting students to workplaces through internships, cooperative learning, and job placements; and further developing occupational standards in collaboration with employers.

158. Barnett 2010.
159. Blau 2021.



CHAPTER 8:

ENHANCING THE EFFICIENCY OF PUBLIC INVESTMENT

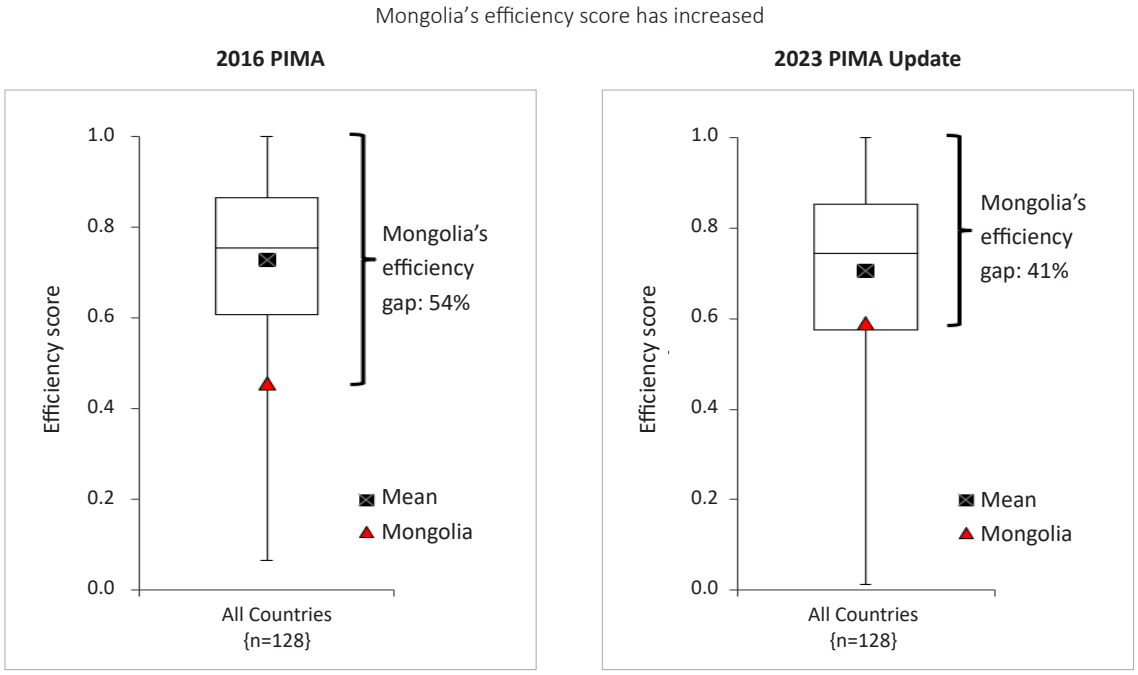
CHAPTER 8: ENHANCING THE EFFICIENCY OF PUBLIC INVESTMENT

8.1. Introduction

Addressing Mongolia's large development and infrastructure needs will require strengthening public investment management. In the context of the proposed fiscal adjustment (Chapter 1), strengthening public investment management (PIM) will be crucial to efficiently utilize fiscal space for investments, particularly those supporting the green transition. The ambitious public investment programs outlined in the NRP, which runs through 2030, and the government's four-year Action Program (2024–2028), underscores the pressing need for efficient PIM, including strong coordination among government ministries and substantial capacity building across central government agencies.

Despite recent progress, the efficiency gap in public investment remains substantial. The Public Investment Management Assessment (PIMA) indicates that while the efficiency gap has narrowed since 2012 (as reflected in the 2016 PIMA), it remains large at 41 percent as per the 2023 update (Figure 8.1). Taking a problem-driven approach, this chapter aims to unpack the key determinants of this gap, with an explicit focus on the underlying institutional constraints. The analysis is organized as follows: Section 8.2 examines recent trends and composition of public investments in Mongolia, along with current commitments and future pipeline, to identify key factors contributing to suboptimal outcomes (including over-commitment, poor quality at entry, and delays in execution). Section 8.3 then focuses on the institutional drivers, targeting selected elements of the PIM cycle, to show how the current PIM systems, regulations, and policies contribute to the observed outcomes. Section 8.4 concludes with policy recommendations aimed to address the identified challenges.

Figure 8.1. The efficiency gap of public investment has narrowed



Source: Mongolia IMF PIMA 2023 update.

8.2. Capital expenditures remain high and are expected to grow further

Mongolia's public investment spending has consistently been high, with significant surges during the COVID-19 pandemic and election years. Building on an already elevated baseline, public investment increased further during the pandemic (see Chapter 4), as expenditure trends shifted, with capital allocations and priorities driven more by emergency responses than by strategic investment planning. More recently, public investment has increased substantially, reaching 7.5 percent of GDP in 2023 (above the 2020–2022 average of 7.4 percent) and is projected to rise further to 8.5 percent of GDP in 2024, a Parliamentary year. This continues the pattern of heightened spending ahead of elections.

Public investment in Mongolia is financed from multiple sources, and PIM system is fragmented and does not allow prioritization across the project portfolio. Public investment projects are financed from: (i) the state budget; (ii) subnational government budgets; (iii) development partner financing; (iv) non-budgetary sources including concessions and PPPs; and (v) SOEs. The source-specific practices have also led to poor prioritization as well as implementation challenges, including volatile funding allocations to approved projects, contributing to allocative and operational inefficiencies. Data limitations, fragmentations, and inconsistent quality posed challenges for the analysis. However, the government's Public Investment Management Information System (PIMIS) is progressively consolidating data from these sources as it continues to develop. Comprehensive and reliable investment data from SOEs remain unavailable, though it is expected to be significant. PPP financing is expected to grow substantially as the NRP and the four-year Action Program implementation progresses, which will be discussed later in the section.

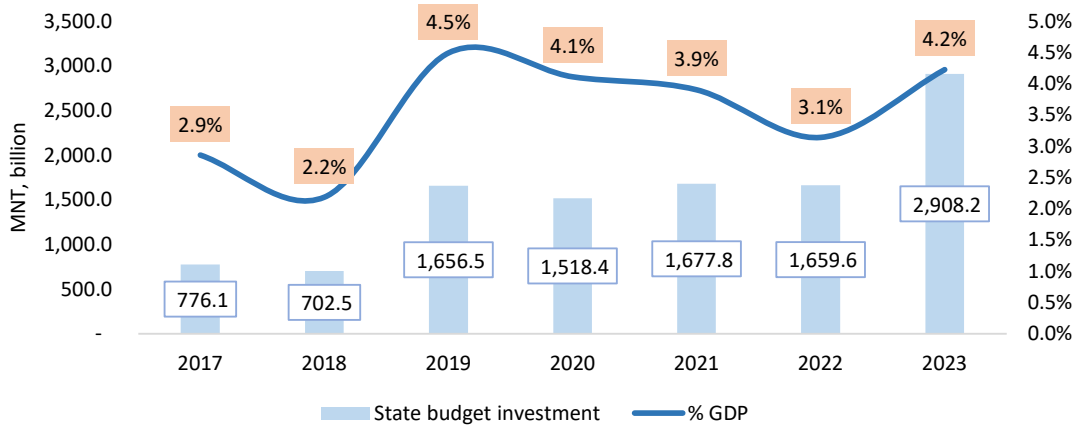
State budget-financed investment

State budget-financed investment from the central government has been growing in absolute terms but has remained stable as a proportion of GDP in recent years (Figure 8.2). State budget-financed investment represents over half of total public investment in the country (56 percent in 2023), with the remainder split nearly equally between investments funded by local government budgets and those financed by development partners.

The figure for state budget-financed investment, also referred to as "capital expenditure," may slightly overstate the actual budget expenditure that can be considered "public investment." The state budget-financed investment currently comprises categories such as buildings and facilities, capital repair/maintenance, equipment and feasibility studies,[160] BT repayments, and capital expenditure from recurrent allocations, not all of which qualify as public investment. In other words, the reported capital expenditure includes expenditure on capital items that would normally be considered "procurement" rather than "investment," including purchases of vehicles and medical or IT equipment. Therefore, public investment should comprise only "buildings and facilities" plus capital repairs.

Figure 8.2. State budget-financed investment has grown but has remained stable relative to GDP in recent years

State budget-financed investment as a share of GDP, 2017–2023



Source: MoF and authors' estimation.

Execution rates for state budget-financed investment projects have fluctuated between 84.8 percent and 98.9 percent since 2017, with an average of 92.2 percent. Budget execution reporting on the state-budget financed investment is managed and recorded through the MoF's Treasury system as well as the PIMIS. It should be noted that capital expenditure includes BT

160. (i) Buildings and facilities—a category that includes all types of economic and social infrastructure. In earlier years, "concessions" were also reported in this line those these were BT repayments combined under "buildings and facilities," which later got disaggregated. These represent paying off arrears from previous years rather than investment in the present day;
(ii) Capital repair—a category not including regular maintenance, representing major renovations that are presented as "projects" and therefore to be counted as public investment;
(iii) Equipment—should not count as public investment;
(iv) Feasibility Study—these represent sunk costs, so should not count as public investment.

repayments and equipment procurement, which are naturally executed at a very high rate in a short time contributing to a very high execution rate.

Despite the high annual budget execution rates, execution levels of public investment expenditure are not monitored against the original plans over time. The current system used for tracking project progress only identifies two systemic reasons why projects are being delayed but does not monitor the length of the delay. The two reasons identified are: (i) technical design and drawings are incomplete at approval or had been outdated at the time of approval; and (ii) contracts not awarded in time within the budget year. While there may be other reasons for poorly performing projects, these are not systematically tracked. A more comprehensive approach to monitoring of the causes of delays would help develop strategies to reduce or prevent them.

A number of projects, even those approved and started, experience delays due to insufficient budget allocation in the following year. This practice allows for fiscal space for new projects every fiscal year, but leads to an overcrowded project portfolio and contributes to insufficient funding, inefficiencies, and implementation delays. In 2023, the National Audit Office identified 29 projects with long implementation periods of up to 6 to 11 years and noted that another 31 projects, which began in 2022 with an expected duration of three years, received financing for less than half of their total budgeted costs in the first two years. In addition, some projects have been left unfinished without funding allocation even after sizable disbursement.

Although not to be included in capital expenditure, funding for maintenance of public assets affects future public investments. Regular and planned maintenance protects the physical integrity of buildings and facilities and can prolong the service life of those assets and reduce additional costs for renovation or rehabilitation. Notably, data evidence showed that funding appears to be stable but modest for maintenance costs for state assets, apart from a sharp increase during 2020 coinciding with the pandemic.

Subnational government public investment

Public investment funded from subnational government (SNG) budgets has consistently grown, nearly tripling in nominal terms and doubling as a percentage to GDP between 2021 and 2023. Revised revenue-sharing mechanisms between central and subnational governments, along with changes in expenditure mandates, have contributed to this large capital spending rise, which will be discussed in more detail in Chapter 10. Public investment at the local government level has been largely dominated by Ulaanbaatar City, which accounted for 42 percent of total SNG capital spending as of 2023 (cumulatively, MNT 2.22 trillion over 2017–2023) (Figure 8.3). Not including Ulaanbaatar city, subnational capital spending has been dominated by aimags with their own revenue sources, mostly from mining activities[161] (Figure 8.4).

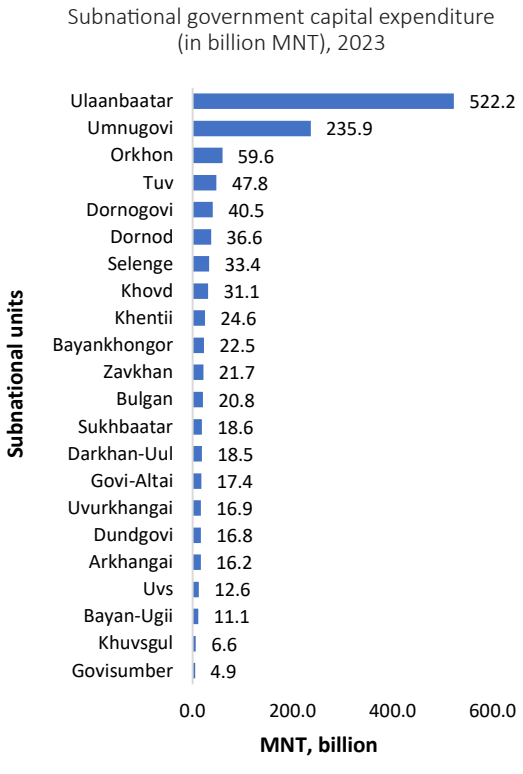
Similar to the state budget-financed investment, the capital expenditure category at the SNG level contains items that would not be considered public investment. There are expenditures on "equipment," for example, that would normally be considered recurrent expenditures, rather than investments (Figure 8.5). In addition, the recurrent nature of certain line items makes it difficult to accurately identify the exact quantity of public investment. For instance, under "buildings and facilities," there are expenditure lines for "General Purpose Current Expenditure" and "Celebrations, Naadam and Anniversaries." Removing these from the dataset would provide

161. In addition to Ulaanbaatar City, six aimags (i.e., Dornogovi, Dornod, Umnugovi, Selenge, Darkhan-Uul, and Orkhon) had surplus revenues that contributed to the 2023 state budget as SNGs must have balanced budgets as per the Integrated Budget Law. (See Chapter 10 for more details.)

a more accurate picture of expenditure that would qualify as "public investment." Accordingly, subnational government capital expenditure may also overstate slightly the actual amount of public investment expenditure. At the time of this review, information concerning time-based execution, dormancy, or abandoned projects at the subnational level had not been collected and reviewed systematically by the government.

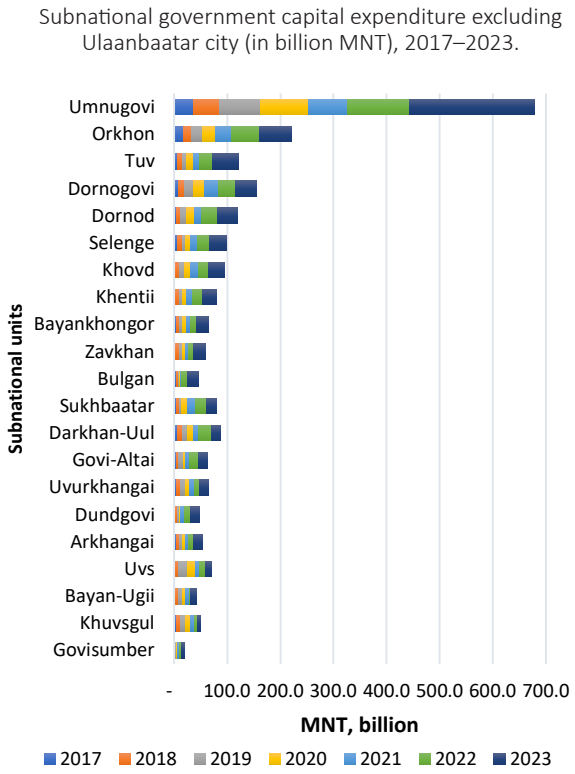
Average budget execution rates for SNG capital spending have been low, comparing unfavorably with central government execution rates, varying between a high of 79.7 percent to a low of 67.4 percent between 2017–2023, with the lowest rate recorded in 2023.[162] The low execution rate is concerning in light of rising capital expenditures at the SNG level. This is particularly notable given that recurrent items included in the spending, such as equipment (Figure 8.5), which could typically be executed more efficiently, as they primarily involve procurement processes—ordering, receiving, and payment—which are generally quicker than construction or repair. Furthermore, the fact that over 50 percent of local level expenditures are categorized as "other investments" raises critical questions about the nature and strategic alignment of these investments. It also underscores the need for a closer review of the management frameworks that govern the planning, execution, monitoring, and reporting of public investments at the SNG level. Some of these issues are discussed in more detail below.

Figure 8.3. Public investment at the local government level in Mongolia has been dominated by Ulaanbaatar City



Source: BOOST-WB.

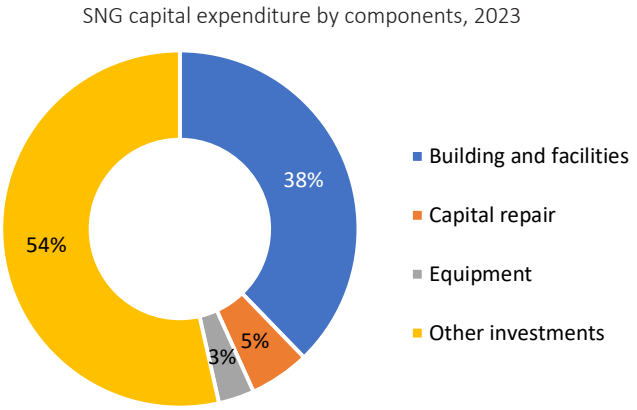
Figure 8.4. Subnational capital spending has been dominated by aimags having significant own revenues mostly from mining activities



Source: BOOST-WB.

162. Capital budget execution rate is considered low if it falls below 75 percent as per the PIMA Methodology (IMF 2022d).

Figure 8.5. Over half of SNG capital expenditure falls under "other investments," complicating efforts to assess its composition



Source: BOOST-WB.

Several weaknesses undermine the effectiveness and efficiency of public investment in Mongolia at the SNG level. A key issue is the lack of clearly defined subnational investment mandates, which currently are poorly regulated. SNGs can allocate funds to a wide range of investments based on their available revenues, as seen in aimags like Umnugobi with substantial own-source revenues. This lack of clear rules and defined responsibilities for subnational investment spending weakens both upward and downward accountability. It also leads to significant overlap with state budget financed investment projects implemented at the local level, resulting in coordination challenges and inefficiencies.

SNG investments in Mongolia can be financed through various sources, including retained surplus revenues, retained carryover revenues, and Local Development Fund (LDF) transfers (see Chapter 10 for more details). However, the fragmented approach risks investment proposals being planned and formulated independently for the different financing sources, which can undermine the development of a coherent investment program and hinder the efficient use of resources. Additionally, LDF regulations present challenges in aligning community preferences with the SNGs' planned priorities aligned with development policy, creating potential conflicts in resource allocation.

Capacity and timing constraints hinder the preparation and budgeting phase for SNG investments. Under the current practice, most SNGs only become aware of their investible revenues, including retained revenues and LDF transfers, just two to three weeks prior to their budget approval. This leaves little time for proper appraisal, prioritization, costing, and preliminary design of investments, a problem compounded by limited budgetary and technical resources. These issues in the early steps of public investment management cycle also contribute to the low execution rates, delays, modifications, cost overruns, etc. The sharp increase in SNG-financed investments in recent years exacerbate the extent of these issues, while also making it more challenging for SNGs to comply with the Development Policy and Planning Law and meet the Annual Development Plan deadlines.

Development partner financing

Between 2017 and 2023, investments financed by IFIs and other development partners nearly doubled in nominal terms while remaining stable as a share of GDP, averaging 2 percent. This was mainly in the form of concessional and non-concessional lending accounting for 73 percent of the total and of donor grant aid for the remaining 27 percent of the total, with the latter growing drastically from MNT 22 billion in 2017 to 280 billion in 2022.

Execution rates for development partner-financed projects have been consistently high, averaging 90.5 percent between 2017 and 2021, and peaking at nearly 100 percent in 2021–2022. The higher execution rate, which surpasses both the state and SNG budget financed public investment components, is likely attributable to better preparation, appraisal, and scrutiny both by the government and the development partners. These better results have been achieved in recent years following the government's introduction of greater flexibility in reallocating funds between development partner-financed projects based on their performance. This change was enabled by bringing together the budgets for all development partner-financed projects under a single budget portfolio under the Minister of Finance and managing it within an IT system called ODAMIS.

PPPs/BOTs

Various forms of private financing in the last ten years have generated significant fiscal costs and still unknown fiscal risks, as discussed in Chapter 2. In addition to the aforementioned BT schemes,[163] a number of build-operate-transfer (BOT) contracts[164] were transacted, most of which were in USD and in the energy and transport sectors. Though most of the BOT contracts were not started, with only two smaller contracts completed as of 2023. Information on the explicit contingent liabilities associated with these contracts is not available. The GoM has since rationalized a number of the projects that were unviable or no longer needed. In 2022, 7 of the 15 BOT contracts with a value of USD4.8 billion had been terminated. It remains unclear whether any compensation was paid by the government as a result of these terminations or if there is a lingering risk of legal action by the private companies against the GoM.

Poor transparency on PPP/BOT activity in Mongolia remains a concern partially due to commercial confidentiality. It exposes the government to unknown contingent liabilities that should be reported and disclosed. In the absence of this information capital markets will reach their own risk-based conclusions and price debt accordingly. This is an issue that needs to be addressed urgently by the government, both to control risks and to gain real value out of PPPs.

Systematic management of the (direct or contingent) financial obligations for the government emanating from PPP projects is critical. Fiscal risks from PPP contracts often can create significant fiscal burden when materialized (see Chapter 2).[165] For example, Independent Power Projects

163. In practice, often referred to as "PPPs," but these are in reality a deferred payment scheme financed by the contractor or associated investor. The private company takes on no risk of any kind.
164. BOTs are PPPs under a different name. Note that there is inconsistency between reported BOT transactions. Using data presented by the GoM, the IMF reported PPP capital stock amounting to 1.5 percent of GDP in 2023.
165. PPP and BOT contracts pose several fiscal risks to the state, including guarantees on project debt, minimum revenue guarantees, and "take or pay" agreements ensuring payments for minimum demand levels (e.g., traffic volume or power generation). Other risks include exchange rate fluctuations (with contracts in USD and funding in MNT), viability gap funding (capital or recurrent subsidies), early termination provisions requiring the state to repurchase assets, environmental warranties, and potential legal disputes with contractors. See also Chapter 2.

(IPPs) can only be financed privately (bankable) if there are long-term contracts—e.g. Power Purchase Agreements (PPAs)—in place to buy kilowatt hours of generated energy or, in the case of water production, cubic meters of drinking water. Although not impossible, it is unusual to find private industrial users that can pay for enough of the output to provide acceptable debt service cover ratios (DSCR) for the loans necessary to finance these projects. This most often leaves the government (often through SOEs) as the only viable large-scale consumer, with long-term obligations to pay for the outputs—whether or not they can recoup these costs through tariffs. Prior to engaging in further PPPs (or other forms of nonbudget finance), it is important for the GoM to understand the impact of these projects on present and future budgets, whether the impacts are direct or contingent.

Mongolia's track record on PPPs so far has demonstrated insufficient planning and preparation, leading to stagnation on all sides. Many have been dormant for years or terminated for a number of reasons. Mongolia could achieve the benefits enjoyed by many countries from well prepared and transacted PPP projects by adopting good international practices. As investors choose to participate in Mongolian PPP projects by assessing the country's track record in executing them, improvements in planning and preparation will expand PPP financing opportunities for Mongolia.

Public investment by SOEs

While the government often uses SOEs to engage in quasi-fiscal activities, the transparency and financial oversight of SOE investment remains low. While investments made by many SOEs, especially mining enterprises, would not normally be considered public investments due to their commercial orientation, it has not been uncommon for SOEs to incur expenses of a public investment nature as part of SOEs' corporate mandate to social responsibility. In contrast, utility orientated SOEs would normally be considered to be public investments as they provide infrastructure or services to the public. Such spending by SOEs, when not adequately accounted and reported, creates a misleading picture of government spending on public investments and reduces public oversight of capital expenditures. Given that the ownership function for SOEs in Mongolia is fragmented and held by numerous government ministries and agencies, there is currently no practice of reviewing and endorsing the annual investment plans of SOEs and recording them in a single database.

The future pipeline of public investments is likely to be ambitious

The GoM has positioned the NRP, which runs through 2030, as the country's cornerstone of medium-term public investment planning, with a focus on large-scale projects. Building on the NRP, the government's four-year Action Program (2024–2028) prioritizes large-scale investments, while smaller projects are incorporated into the Annual Development Plans and subsequently into the annual budget submissions. Both the NRP and the Four-Year Action Plan are highly ambitious and together, they are to form the foundation of the broader Public Investment Program (PIP).[166] The four-year Action Program (2024–2028) alone envisages 14 mega-projects across transportation, energy, water, and mining-related heavy industries, with a total estimated cost of USD40 billion—equivalent to about 200 percent of GDP (see Chapter 1, Box 1.3).

166. The PIP includes development projects above the value of MNT 30 billion (equivalent to USD8.7 million) regardless of the source of financing. The MED is responsible for developing the PIP and employs dedicated methodologies for this purpose. The PIP for the next period (2026–2030) is expected to be developed in 2025.

The feasibility of implementing so many projects of such high value and complexity will critically depend on putting in place a system for managing the quality of preparation and monitoring their progress. It should be also noted that not all of the NRP is "public investment"; much of it is private investment, for example in the mining sector. Investors are likely to expect sufficient detail, which may be more than what is currently available publicly. The government may want to consider publicly sharing at least the most basic information about the need and nature of the projects, expected inputs and results, along with realistic cost and time estimates in total and by component breakdown. Such project information could be updated and presented using Project Concept Notes (PCNs) to help enforce project management discipline, leading to cost-effective, valuable investments. PCNs should be independently assessed to identify errors, ensure realism, and improve design.

It is also notable that the proposed largest financing source for the projects under the NRP and the four-year Action Program is PPP.[167] This underlines the need to ensure putting in place and operationalizing a PPP framework that fits within a credible PIM framework and is able to assess the fiscal costs and risks involved before contracts are signed and committed. Since some PPPs already either exist or are under implementation, urgent attention is needed on how this can be achieved to ensure sufficient fiscal controls ex ante and also in monitoring and disclosing all direct and contingent liabilities ex post.

8.3. Underlying institutional constraints contribute to the efficiency gap of public investment

While commendable progress has been achieved in recent years toward developing a functioning PIM framework, several institutional challenges remain, contributing to the efficiency gaps of public investment. In addition to the passing of a PPP Law, a number of positive amendments to the Integrated Budget Law[168] have been made in recent years including, inter alia, a more comprehensive definition of public investment; mandatory prescreening of project ideas for budget financing; and a legal requirement to prioritize funding to ongoing projects prior to introducing new ones. Together with the addition of semi-automated assessment of demand justification by citizens for smaller projects in the health and education sectors, initial steps toward a fully integrated PIMIS and better public engagement, all of these can be seen as advancements. However, pending institutional weaknesses in the PIM framework continue to drive Mongolia's suboptimal outcomes, acting as a binding constraint to government-led efforts to address the efficiency gap of public investment.

Public investment requires strengthened medium-term planning and budgeting

Recent legal changes have introduced measures to improve the strategic orientation of the public investment program. Investment expenditure must now be clearly linked to the Annual Development Plan[169] and aligned with the Medium-Term Fiscal Framework (MTFF) and prescreening was made a legal mandate,[170] thus moderating the demand for new projects.

167. Around USD6.3 billion is envisaged for new PPPs alone in the NRP.
168. The majority of these amendments were made in April 2022.
169. Integrated Budget Law: Art 29.2.5.
170. Integrated Budget Law: Art. 12.1.23.

The latter builds on the successful development and piloting of a prescreening methodology in 2020. Finally, there is now a legal requirement to finance ongoing projects before introducing new ones, which addresses the problem of abandoning partially completed projects in favor of starting new ones.[171] This essential piece of PIM good practice, now written into the Integrated Budget Law, specifies that ongoing projects have priority, secondly capital maintenance, and only then new projects.

Past experience as well as experience from other countries highlights the importance of a medium-term perspective of budgeting to improve allocative efficiency of public investments. The lack of medium-term perspective to public investment planning in Mongolia has contributed to the high level of volatility of public investment. Also, it has made it difficult to coordinate the various financing sources available to achieve strategic and efficient allocation of resources (e.g., in the case of capital spending for aimags).

Recurrent costs accompanying investment need to be properly estimated and budgeted for project lifecycle through medium-term budget planning. New projects bring with them ongoing financial commitments for future budgets such as salaries, utility and other operational supply costs as well as the costs of maintenance. Over the life of an asset, these costs are usually greater than the original capital cost. The inability to disaggregate recurrent costs by year creates uncertainty regarding the sustainability of future recurrent costs generated by Mongolia's substantial public investment spending. Hence, recurrent costs for new project proposals should be adequately estimated or considered as a critical part of a meaningful appraisal of project proposals.

Roles and responsibilities of key institutional actors in the PIM system require attention

Mongolia's current PIM system has a number of institutional strengths and weaknesses. Key institutional responsibilities for public investment management are currently divided among two ministries: MED and MoF. The current system could contribute to strengthened preparation and implementation of development policy and planning and the alignment of comprehensive public investment planning comprising all sources of financing, while also maintaining sustainable and effective fiscal and budget management. Yet, the system also entails sources of weakness from possible institutional fragmentation to a unified PIM framework due to its nature. International experience suggests that weaknesses could stem from unclear boundaries of ADM (Accountability and Decision Making) responsibilities throughout the project cycle and from weak coordination and communication among key ministries. It is also recommended that a system of good practice, which has been developed for project appraisal and selection and currently applies to smaller projects financed from the state budget, can be also applied or replicated to larger projects regardless of sources of financing or implementation modality.[172]

171. Integrated Budget Law: Art 27.6.
172. MoF's PIM framework only applies to projects with total cost of up to MNT 30 billion (around USD8.7 million). Projects above that threshold are the responsibility of MED for appraisal, meaning that MoF's system does not apply.

Project appraisal and selection practices needs further strengthening in scope

Among the elements of Systematic Framework for PIM,[173] appraisal and prioritization practices still require further development in line with available capacity. Strengthening appraisal and selection of individual projects are key to ensuring that the strongest, most relevant and "ready to go" projects are financed first, and that maximum value can be gained through their efficient and effective implementation. Although the MoF and MED has made a good start within its limited remit, appraisal remains quite basic in Mongolia and feasibility studies do not yet follow a standard format. Further capacity in developing and understanding appraisal techniques is urgently required, especially for smaller projects at the SNG level, where recent increases in funding further highlight this necessity. For larger projects this capacity can only realistically be realized through hiring external consulting firms, the costs of which need to be budgeted and financed. To create a quality framework in the PIM system, it is essential that feasibility studies are structured around a standard format which examines critical elements that determine a project's chances of success. This should now also include climate impacts and climate resilience checks. Standard reporting and review templates would allow projects to be compared to one another instead of in isolation.

Another major gap in the broader PIM framework is a lack of independent review and scrutiny for larger project proposals. As previously mentioned, prescreening is being rolled out in the 2025 budget planning cycle, but its scope of applicability is only limited to those projects financed by the state budget, which are below the value of MNT 30 billion. As prescreened projects go forward for project design work and feasibility studies,[174] this work also needs to be quality-checked to identify mistakes and oversights. There is, however, no mechanism for doing this in Mongolia at present. The result of doing this would be better quality projects with more reliable outcomes. Internationally, all good practice PIM systems have this feature, and it has been proven to work. This quality check should apply to all projects regardless of source of financing and should be independent of MED due to its important role in project promotion, therefore avoiding a conflict of interest.

Moreover, monitoring remains at a basic level and ex post evaluation is nonexistent. Although financial monitoring of projects is undertaken in Mongolia as mentioned in the section on spending trends, there is no meaningful information about the degree to which projects are being delivered on time; nor any tracking of indicators that might point to implementation issues that could be fixed earlier rather than later. There are no completion reports that might allow key performance indicators to be tracked; and no ex-post evaluations that could identify areas of good practice that could be shared by other projects. Lessons learned from issues encountered by projects could be shared so that future projects avoid similar mistakes.

173. A framework developed by Rajaram et al., suggests good practice PIM system to include the elements of guidance (link to a development strategy), appraisal, independent review, selection, implementation, adjustment, operation, and evaluation.
174. And prefeasibility studies for the largest projects.

Finally, there is also room for improved practices in key sectors, in further citizen engagement, and in addressing climate change. In the health and education sectors, the assessment of demand justification has been made semi-automatic through the PIMIS. MoF's Public Investment Department has programmed geographic and demographic data in the health and education sectors, enabling the "red flagging" of proposals that appear not to be justified on pure demographics in a requested area. In addition, the first steps toward citizen engagement on public investment projects have been taken and further work is needed to allow citizens to actively engage as stakeholders and allow them to comment and provide feedback on individual projects. Despite the government's strong interest in mainstreaming climate change adaptation and mitigation strategies in PIM, they are not currently mainstreamed into national policies and sectoral plans. So far, the MoF's appraisal and selection methodology includes limited criteria on prioritizing green investments without any detailed guidance in this regard. As for the larger projects in the NRP and the Government's Action Program, prioritizing and mainstreaming climate change aspects in the PIM framework would be crucial for the country's future development agenda. In this regard, the MED has recently incorporated in its structure a Green Financing Division under the Integrated Public Investment Policy Department, and this new unit requires capacity strengthening and operationalization. Box 8.1 provides possible further considerations of climate change in PIM.

Box 8.1. Climate Change Considerations for PIM

Climate change has forced a reconsideration of the way that governments globally, plan and design public investment projects. There are two primary considerations: (i) the effect a project has on the climate and the broader environment; and (ii) the resilience of the project to the effects of climate change—largely extreme weather events. The recently published CCDR for Mongolia notes that, given the increasing frequency and magnitude of natural disasters in the country, there is a need to better integrate disaster risk reduction measures into development planning and investment as well as the budget process (including fiscal planning, the public investment management framework, and fiscal risk analysis).

So far Mongolia has not been an early adopter of climate change policies and practices in PIM. It still plans to burn coal in large scale power stations such as the signed BOT commitment at Baganuur. It would not be difficult to adopt policies and future practices than can make a positive contribution toward a carbon-neutral future. Some tentative steps have been taken toward harnessing the high number of hours of sunshine in Mongolia, through solar energy projects, but much more could be done.

Existing policies and practices can be adopted rather than needing to develop completely new ones. For example, in 2023, Rwanda quickly revised its PIM policy and adopted new operational tools to undertake climate prescreening as part of its standard Project Concept Note and developed selection criteria with appropriate weightings to favor projects that had the least impact on the climate and/or were best protected against its effects. Not only did it adjust the policy within a few weeks, it subsequently generated two new operational tools that created a practical way to improve climate friendly choices for public investment projects. Both tools focused on two key aspects of climate challenge: (i) that projects should be as carbon neutral as possible and if that wasn't possible, to mitigate to the maximum extent; and (ii) to risk assess projects to check their resilience to the effects of climate change. The two tools were developed quickly with IFI assistance and adopted immediately. They were (a) a revised Project Concept Note that included a number of climate friendly qualifying checks; and (b) prioritization and selection systemization that included climate friendly criteria and weightings compared to other selection criteria.

While marking major progress, the new PPP Law requires stronger readiness and capacity for implementation

In an effort to address weaknesses identified from past experiences with BOTs/concessions, a new PPP Law was developed and approved by the Parliament on December 9, 2022.[175] In particular, the new law is expected to bring technically better prepared projects in priority sectors that meet the basic principles of PPPs as per international good practices and to strike the right balance between encouraging investors and lenders and ensuring adequate safeguards for the public finances. Related to the latter, the new law will regulate all forms of PPPs, and some sources of fiscal risks discussed in Chapter 2 will be partially addressed, as the MoF is required to estimate the fiscal impact of contingent liabilities of PPPs.[176] The expected level of the PPP financing modality requires continued strengthening of capacity to adequately assess and monitor to mitigate significant levels of fiscal risk.

The implementation of the new PPP Law and the supporting regulations will rely on the quality of institutional capacity of responsible ministries. The law requires 12 supporting regulations and norms which have been prepared by both MED and MoF and duly approved by the Cabinet. Implementing the new PPP Law would now require building the required institutional and technical capacity for the MED and the MoF. Also, the MED's investment promotion function and its dedicated agency, Investment and Trade Agency of Mongolia, need to be further strengthened to manage the ambitious public investment plans. The legally required PPP Center under the MED also needs to be properly established and operationalized. Additionally, MoF needs analytical tools and capacity to assess PPP projects for fiscal costs and risks ex-ante; or to monitor and disclose them ex post.

While the PPP Law represents a major step forward in clarifying the legal basis[177] **of PPPs in Mongolia, some concerns remain**. The law provides clarity and motivation for the investor community and project finance providers. It also, for the first time, requires some scrutiny on the fiscal sustainability of proposed PPP projects prior to their commitment. However, it appears to allow MoF only a short period of time of 15 days to review a PPP proposal. This is challenging given the importance of fiscal sustainability checks on PPP projects, and this is an exercise that should focus on quality rather than speed. Also, the law could further clarify who is ultimately responsible for a PPP project. The law assigns equal power to the PPP Center and the sector ministry in this regard. International good practice demonstrates that responsibility and ownership always remain with the sector ministry while a separate entity (such as the PPP unit of MED) is responsible for quality check of project proposals and appraisals prepared by sector ministries. Also, the Parliament appears to be granted powers over detailed technical issues such as service specifications. This is likely to delay the process due to the infrequency of meetings and discourage investors due to risks of political interference and lack of "buy-in" from sector ministries.

175. The initially scheduled effectiveness date (July 1, 2023) of the PPP Law was deferred but it has been in force since December 31, 2023.
176. Integrated Budget Law: Art. 4.1.48.
177. The Concessions Law has been repealed with the enactment of the PPP Law.

Given its importance, the planned PPP Center should be operationalized in order to develop the technical skills needed to provide essential support to sector ministries concerning PPP projects. Without these skills, outcomes will be placed at risk. PPP markets have tended to be unforgiving once mistakes have been made in preparing projects. This can lead to low interest from investors with resultant impacts on value for money; or even worse, a refusal for financing institutions to engage, resulting eventually in stalled projects. A fully skilled and experienced PPP Center could help avoid these situations and eventually build a portfolio of concluded PPP transactions.

Unsolicited proposals (USPs) remain possible through the PPP Law and appear to favor the proponent. Despite welcome attempts to limit the use of USPs, they are still allowed by the law. It still appears possible to propose a PPP project outside the normal rules of doing so and, as such, could undermine one of the key purposes of the law itself as well as being anti-competitive.[178]

It is possible for local governments down to the level of aimags to enter into PPP arrangements while the scrutiny in local PPP projects appears less than that required of national ones. Without fully understanding the costs and risks that come through committing to PPP contracts, there is a risk of local governments finding themselves in fiscal situations that they cannot manage alone and instead would turn to the MoF for assistance (bail out). Control and review processes should be no less strict than for national projects; and local projects should not be passed/approved without the authority of the MoF due to the consequences of fiscal risks materializing. The GoM should consider further measures to manage fiscal risks from PPPs in local governments.

8.4. Recommendations

Strengthening the medium-term fiscal framework

An integrated medium-term public investment planning in line with the Medium-Term Fiscal Framework is important to achieve the country's development goals while managing direct and indirect fiscal risks. Chapter 1 points to fiscal discipline as a key concern for Mongolia while this chapter points to the importance of medium-term planning to public investments to prevent excessive budget commitments, as well as delays and cancellations of public investment projects. To address these challenges, the government should progress toward a more unified investment planning in line with the medium-term planning, and transition to multi-year budgeting of public investments within overall affordable budget constraints. This should run in parallel to enhancing quality-based prioritization processes and project appraisal and selection practices.

Prioritizing, sequencing, and monitoring of the NRP and the four-year Action Program projects within the medium-term fiscal framework will be important. Public investment program should carefully account for the absorption capacity of the economy and the construction industry to avoid unintended consequences. Such consequences include construction inflation and

178. PPP Law 23.5.

shortages of construction materials and equipment, and skilled labor shortages, which would lead to higher-than-expected project costs and potential delays. Higher volumes of imports (related to a larger investment program) will also add pressures to the balance of payments discussed in Chapter 1. Sequencing the projects in the NRP will allow the supply-side to plan its own responses accordingly. Also, considering issues of construction inflation and exchange rate fluctuation discussed in this chapter, cost estimates of all of the projects proposed in the NRP should be revised to present day values with realistic contingencies and be independently assessed. These estimates should be revised at least annually.

Enhancing a unified PIM framework

A well-functioning PIM system requires clear institutional roles and responsibilities. The current PIM system is fragmented allowing for different treatment of investment projects and posing risk that projects not aligned with government objectives are selected. Clear ADM (accountability and decision making) responsibilities throughout the project cycle and close coordination and communication among key ministries involved in the project cycle is required at each decision-making point of the PIM process including project concept, strategic fit screening, appraisal and independent quality review, and project approval. Legal and regulatory improvements could be considered in this regard to regulate all public investments in an integrated and mandatory manner, aligned with the new PPP Law, and applicable framework to SOEs, similar to models in Brazil, Colombia, and Chile.

Further consideration could be given to the following principles of international good practices to improve the effectiveness of Mongolia's PIM system: (i) adequate institutional checks and balances are needed between the project planning and promotion function and the fiscal control function; and (ii) a quality appraisal and selection system needs to be applied to all public investment projects regardless of the project size, sources of financing, and means of implementation. A simpler selection and appraisal system could be applied to small and replicable projects, but the government may want to reassess the adequacy of the financial threshold based on the size that is currently used to define the institutional span of control for public investment projects.

It is also important to identify a cost-effective way of establishing a unified PIM database covering all types of investment projects (regardless of means, size, and source of financing) that could pose fiscal risks directly or indirectly. Mongolia's past lessons with unconventional financing schemes and off-budget vehicles (e.g., BT scheme and quasi-fiscal financing through the DBM and BoM; see Chapters 1 and 2) underscore the importance of planning, monitoring, and controlling all types of investment that could become a source of fiscal burden. A unified public investment management system would allow monitoring different sources of fiscal risks and proactively controlling attempts to bypass fiscal rules. For example, PPPs are a subset of the public investment program, which often requires significant fiscal commitments such as guarantees. Assets built through PPPs are public goods (e.g., infrastructure) and are often linked to public service delivery and to eventually be transferred to the public sector. Thus, establishing a unified PIM framework and database gains more urgency, especially considering that the NRP and the Government's Action Program aims to mobilize significant financing from Official Development Assistance (ODA), PPPs, and SOEs.

Public investment activities in SOEs should also be made subject to the broader PIM framework and be more transparent, given significant contingent liabilities from SOEs. As discussed in Chapter 2, public discussion about the future of SOEs has led to suggestions of some selective privatizations, strategic external investors or IPOs, while this chapter pointed out the challenges in obtaining information on public investments made by SOEs. To realize its plans for SOE reforms, the GoM will need to improve transparency and accountability of SOEs in order to maximize their contribution to the economy. Investments made or planned by the SOEs need transparent planning, a quality management regime for processing project proposals, as well as an asset database that records the age, condition and book value of all assets. Therefore, (i) SOEs should publish their investment plans; (ii) the quality management framework being applied to state budget-financed projects under preparation and execution should be adopted by SOEs; and (iii) SOEs should keep and publish information about their assets.

Ensuring quality-based selection of all projects by strengthening appraisal methodologies and independent review

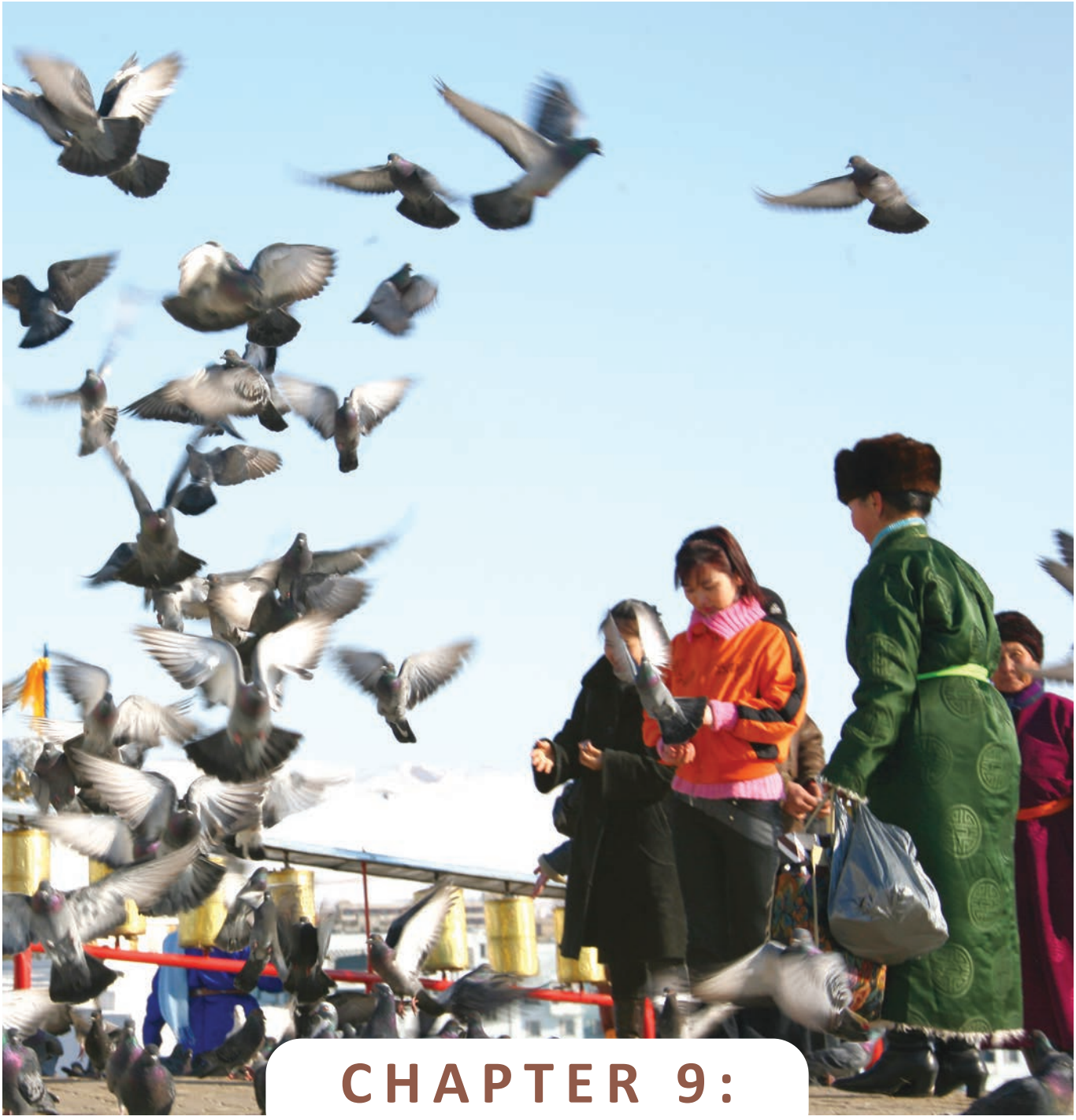
The GoM should further develop the remaining elements of a good practice PIM framework including improved appraisal and independent review and ensure it applies to all proposals. This chapter points to the risk of uncontrolled commitments accumulating because of the inadequacies of the PIM framework. In order to prevent this situation, the PIM framework should be strengthened to: (i) design standard reporting and quality checking templates for feasibility studies and their independent reviews; (ii) establish internal and/or external independent review capacity for checking the accuracy, completeness and overall quality of feasibility studies; and (iii) develop broader capacity to track and monitor projects with time and quality parameters as well as financial. In order to avoid the risk of poorly planned, prepared and executed projects due to inexperience (particularly with regards to large projects and PPP), the government should also invest in the technical capacity at the sector ministries and local governments.

The PIM system in Mongolia should consider how to transition to sustainable energy and sensitivity to climate change. As mentioned in this chapter currently Mongolia's PIM system does not adequately consider climate change issues in its public investment planning. Many developing countries are currently putting 'green' policies in place and adjusting selection criteria to take into account climate-related issues. Integration of climate change considerations for the selection and appraisal of individual projects, would enable aligning projects with the broader efforts aimed at promoting sustainable development and building resilience to more extreme environmental challenges. Aligning energy tariffs to cost recovery levels and channeling sufficient public investment into the energy grid are also critical to ensure the viability of renewable energy investment by the private sector (see the World Bank CCDR at World Bank 2024a).

Building institutional capacity to implement the PPP Law and continue strengthening the legal framework

Given Mongolia is at an early stage of entering PPP markets, building a strong track record of successful PPP projects will be important, especially considering past unsuccessful attempts of using various unconventional forms of private financing for public projects. Moreover, as discussed in Chapter 2 and further in this current chapter, PPPs will generate fiscal costs and risks that need to be understood before they are entered into, and monitored and disclosed ex-post. These investments are likely to also involve forms of government support that need to be checked carefully before they become firm commitments to examine the extent of direct and contingent liabilities. As the NRP envisages PPP being a main modality of public investment in the medium term, a small number of high priority, well-designed and well-resourced projects could be identified to successfully demonstrate the capacity and credibility of the government. Strong confidence with the government will lead to both future interest from bidders and competition among financiers, which will eventually result in better value PPP projects for Mongolia. It is also advisable to focus on getting a small number of projects to financial close using exemplary practices and using internationally recognized consulting support. Once these pilot projects are transacted successfully, lessons can be learned, and then more projects can be added.

As part of the strategy recommended above, the government could consider delaying the entry of local governments into the PPP market until lessons have been learned at a national level. The new PPP Law allows SNGs down to the level of aimags to enter into PPP contracts, presenting unknown fiscal risks for the state budget. Furthermore, the level of scrutiny required by the PPP Law before commitment is less than that required for national level projects. There is no upper limit placed on this activity or any apparent fiscal rules to prevent this from getting out of control. There are numerous cases of similar situations in other countries where the local entity has had to seek MoF bailouts when fiscal risks materialize.



CHAPTER 9:

ENHANCING THE EQUITY OF FISCAL POLICIES

CHAPTER 9: ENHANCING THE EQUITY OF FISCAL POLICIES

9.1. Introduction

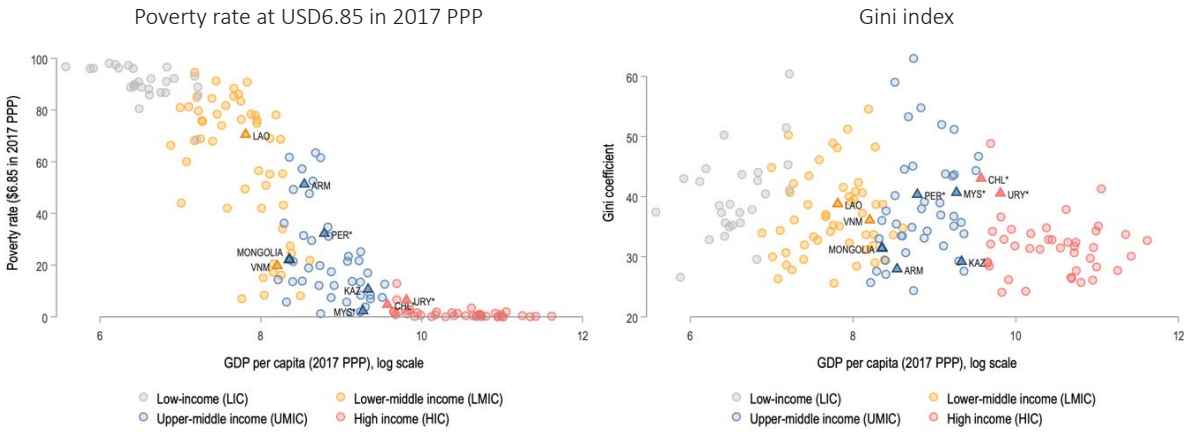
Fiscal policy plays a crucial role in tackling poverty and inequality by shaping the distribution of resources within a country. Comprehensive strategies that combine progressive taxation, targeted social assistance programs, and public investments in essential services and infrastructure can significantly influence the distribution of income, fostering inclusive growth and poverty reduction. Progressive tax systems, which impose higher rates on richer households, serve to redistribute wealth, while well-targeted social transfers offer critical protection to the poorest, particularly during economic shocks. Strategic investments in education and healthcare not only build human capital but also promote upward mobility and help reduce welfare disparities. Balancing these priorities with necessary investments in infrastructure is essential to drive inclusive growth and ensure sustained poverty reduction.

Mongolia's performance in poverty and inequality indicators places it at a crossroads among its structural and aspirational peers, highlighting opportunities for further progress. At the USD6.85 (in 2017 PPP) poverty line, which corresponds to the upper-middle-income standard, Mongolia's poverty rate is about 22 percent—lower than many of its structural peers but still higher than aspirational peers (Figure 9.1). In terms of inequality, Mongolia falls in the middle of the range among peers (Figure 9.2).[179] While this performance demonstrates some achievements in poverty and inequality reduction, it also underscores the potential for Mongolia to make further strides, particularly through more targeted and equitable fiscal policies.

179. Income inequality is generally higher than consumption-based inequality. When compared to countries measuring inequality using consumption, Mongolia ranks in the mid-range.

Figure 9.1. Mongolia performs in the middle range among its peers in terms of poverty . . .

Figure 9.2. . . . and inequality



Source: World Bank Poverty and Inequality Platform.

Note: ARM=Armenia; CHL=Chile; KAZ=Kazakhstan; LAO=Laos; MYS=Malaysia; URY=Uruguay; VNM=Vietnam. Welfare is measured using income in Chile, Malaysia, Peru, and Uruguay and consumption in Mongolia, Armenia, Kazakhstan, Laos, and Vietnam.

This chapter analyzes the impact of fiscal policy on poverty and inequality in Mongolia, focusing on the year 2022.[180] The analysis follows the Commitment to Equity (CEQ) methodology,[181] which examines how taxes and government benefits affect poverty and inequality. It does this by starting with household income before any taxes or transfers (pre-fiscal income) and then gradually adding or subtracting different taxes and benefits to measure their overall impact. Using the 2022 Household Socio-Economic Survey and administrative data, including budget data and records of taxpayers and beneficiaries, the CEQ approach measures income at different stages of fiscal intervention (see Table 9.1 for fiscal instruments modeled in the CEQ) and assesses impacts on poverty and inequality. Specifically, the analysis presented in this chapter examines which households bear the tax burden or benefit from different fiscal policies and how the impact of Mongolia's fiscal system compares to that of its structural and aspirational peers and other middle-income countries. This chapter also simulates the poverty and inequality impacts of various reforms recommended in previous chapters and identifies those that can enhance the cost-effectiveness and the redistributive effect of the fiscal system.

180. See World Bank 2025a for the full report on the distributional impacts of Mongolia's fiscal system on poverty and inequality.
181. The CEQ approach was developed by the Commitment to Equity Institute (CEQ Institute) at Tulane University. More details on the methodology can be found in Lustig 2018.

Table 9.1. Taxes and transfers modeled in the 2022 Mongolia CEQ

	TAXES	TRANSFERS

DIRECT	• Personal income tax
	• Annual property taxes
	• Non-pension social security contributions[1]
		• Social welfare benefits
		  • Child Money Program (CMP)
		  • Food Support Program (FSP)
		  • Social Welfare Pension (SWP)
		  • Caregiver benefit
		  • Childcare benefit
		  • Mother benefits (Mother hero, Pregnancy)
		  • Elderly benefits (Elderly, Longevity)
		• Social insurance benefits
		  • Non-pension benefits
		  • Military pensions (non-contributory)
		• Cash agriculture subsidies
		• Education Loan Fund Scholarships

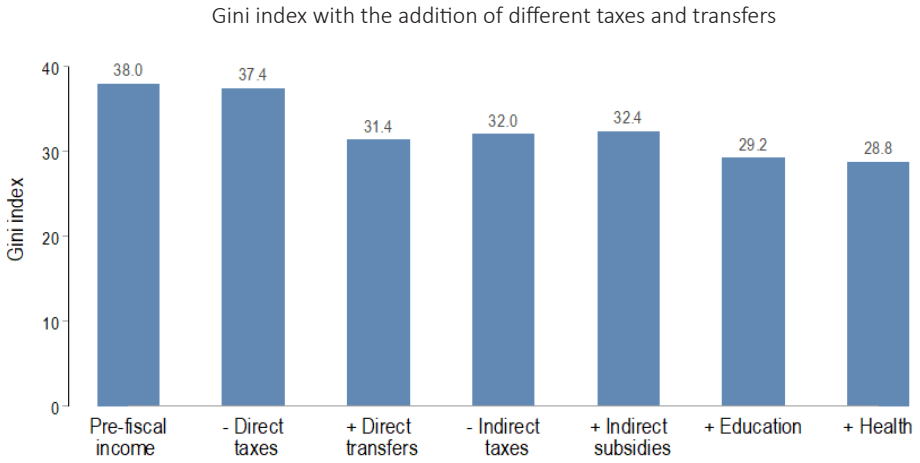
INDIRECT	• VAT (direct & indirect)2
	• VAT rebate
	• Excise taxes (alcohol, tobacco, vehicle, fuel)
		• Utility subsidies (indirect & direct)[2]
		  • Electricity subsidies
		  • Heating subsidies
		  • Water subsidies (clean, hot, wastewater)
		• Mortgage subsidies

Note: 1. The analysis treats contributions to old-age pensions as deferred income, and they thus are not included as direct taxes. All other social security contributions are included. 2. The indirect impacts of VAT and indirect subsidies reflect how household income is affected when firms pass the tax or subsidy to consumers through higher or lower prices for goods and services.

9.2. Mongolia's fiscal system achieves significant inequality and poverty reduction

Mongolia's fiscal system in 2022 demonstrates a notable impact in reducing inequality. Prior to any fiscal interventions, the Gini index stands at 38.0 (Figure 9.3). After incorporating direct, indirect, and in-kind taxes and transfers, the Gini index declines by 9.2 points to 28.8. Direct fiscal instruments account for the largest reduction, together bringing the Gini down to 31.4—primarily due to the significant impact of direct transfers. However, these gains are partly offset by the regressive effects of indirect taxes and subsidies. In-kind benefits, particularly those related to education, play a significant role in further reducing inequality.

Figure 9.3. Both cash and non-cash benefits contribute to inequality reduction



Source: Authors' calculations based on the 2022 Mongolia CEQ.

The reduction in inequality can be attributed to a greater concentration of net benefits among poorer households, driven primarily by generous and broad-based direct transfers. The poorest 40 percent of households in the pre-fiscal income distribution receive more in cash benefits than they pay in taxes, with the lowest-income groups benefiting the most (Figure 9.4a). Direct transfers, which account for nearly 90 percent of all cash benefits and represent a significant portion of pre-fiscal income for poorer households (Figure 9.4b), play a central role in reducing inequality. In contrast, indirect subsidies, such as those for electricity and heating, are relatively small and disproportionately benefit richer households due to their greater access to and consumption of subsidized services. On the tax side, richer households pay more in direct taxes, but relative to pre-fiscal income, differences are not very large across the income distribution. Indirect taxes, however, place a heavier burden on poorer households as a share of their income.

When in-kind education and health benefits are included, all but the richest three deciles are net beneficiaries of the fiscal system. Education benefits are slightly higher among poorer households in absolute terms and account for a significantly larger share of their pre-fiscal income (Figure 9.4a, 9.4b), amplifying their contribution to inequality reduction. Conversely, in-kind health benefits are more substantial for richer households in absolute terms, reflecting disparities in access to and utilization of healthcare services.

Figure 9.4.a Poor households receive more in benefits than they pay in taxes

Concentration of fiscal system (billion MNT)

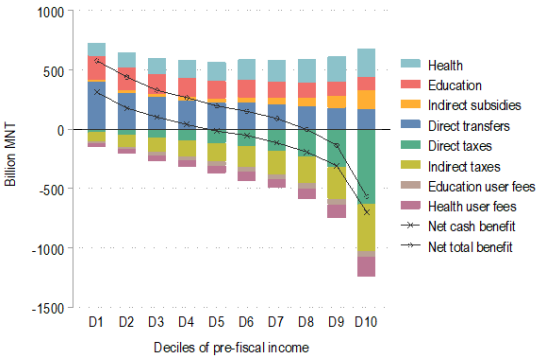
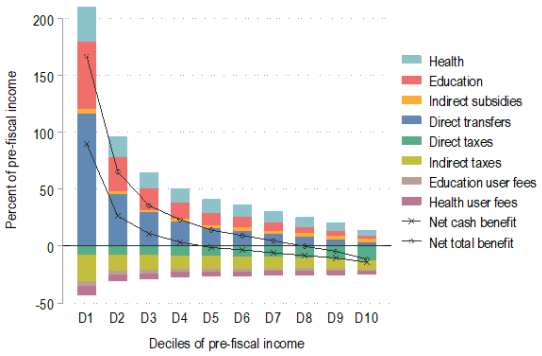


Figure 9.4.b Relative to pre-fiscal income, benefits, especially from direct transfers, are sizable for the poor

Incidence of fiscal system (percent of pre-fiscal income)

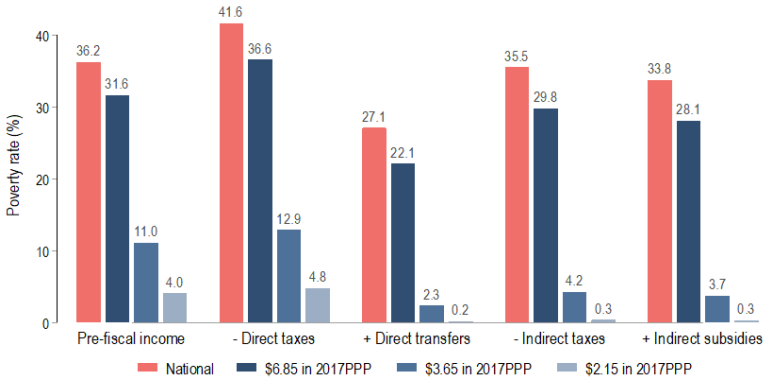


Source: Authors' calculations based on the 2022 Mongolia CEQ.

Mongolia's fiscal system achieves a notable reduction in poverty, lowering the national poverty rate by 2.4 percentage points, from 36.2 percent at pre-fiscal income to 33.8 percent after accounting for direct and indirect taxes and transfers (Figure 9.5).[182] Similar patterns can be observed for poverty measured using international poverty lines. This reduction is largely driven by the significant impact of direct transfers, which lift about 40 percent of households considered poor by pre-fiscal income above the poverty line—even after account for direct taxes, the addition of direct transfers reduce the national poverty rate to 27.1 percent. Direct transfers also significantly alleviate the depth of poverty, with the poverty gap[183] narrowing from 13.0 to 5.1 percent. However, indirect and direct taxes counteract much of these gains, pushing the poverty rate back to 35.5 percent. While indirect subsidies contribute slightly to poverty reduction, their overall effect is limited compared to the considerable role of direct transfers.

Figure 9.5. Mongolia's fiscal system reduces poverty, driven by generous direct transfers

Poverty rate with the addition of different taxes and transfers (percent)



Source: Authors' calculations based on the 2022 Mongolia CEQ.

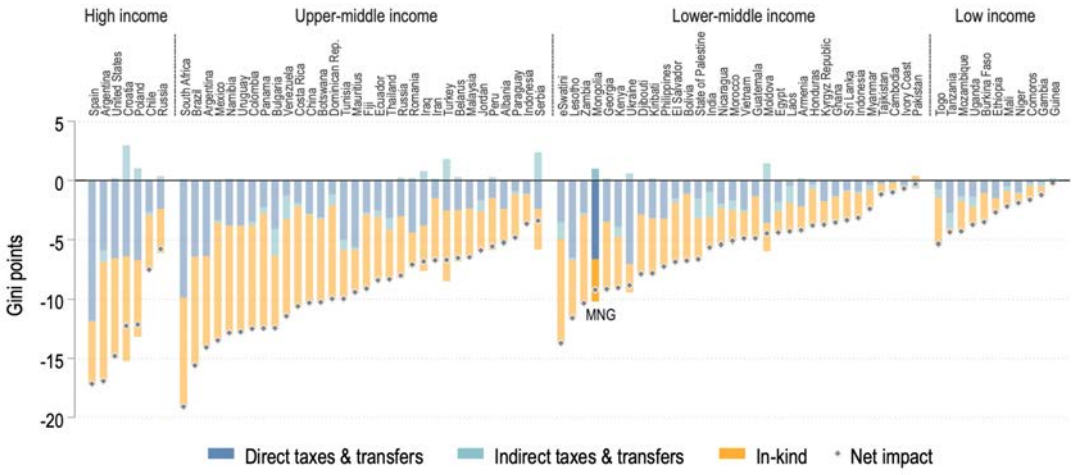
182. The CEQ methodology assesses in-kind education and health transfers for inequality but not poverty, as benefits are allocated based on cost of provision rather than changes in household purchasing power. See Lustig 2018 for details.
183. The poverty gap is defined as the average shortfall of poor households relative to the poverty line.

Mongolia's reduction in inequality through cash fiscal instruments is high for its income level, surpassing its peers and aligning more closely with high-income countries (Figure 9.6). In 2022, the net impact of taxes and cash-based transfers on inequality reduction in Mongolia was 5.6 points, exceeding the lower-middle-income-country (LMIC) average of 2.5 and the upper-middle-income-country (UMIC) average of 3.4. Substantial and broad-based direct transfers, especially under social assistance, drove this result, enabling the country to outperform its structural and aspirational peers as well as many upper-middle and high-income countries.

However, Mongolia's overall performance declines when in-kind health and education benefits are considered, reflecting their comparatively limited role in reducing inequality. In most countries, non-cash benefits have a greater inequality-reducing effect than cash transfers, but in Mongolia, the opposite is true (Figure 9.6). The impact of in-kind benefits in Mongolia is comparable to the LMIC average, and while the country performs better than many of its structural peers, it trails behind its aspirational peers and most upper-middle- and high-income countries. This relatively modest impact of in-kind benefits diminishes the overall effectiveness of Mongolia's fiscal system in reducing inequality.

Figure 9.6. Cash transfers effectively reduce inequality, but the impact of in-kind benefits lag behind that of peers

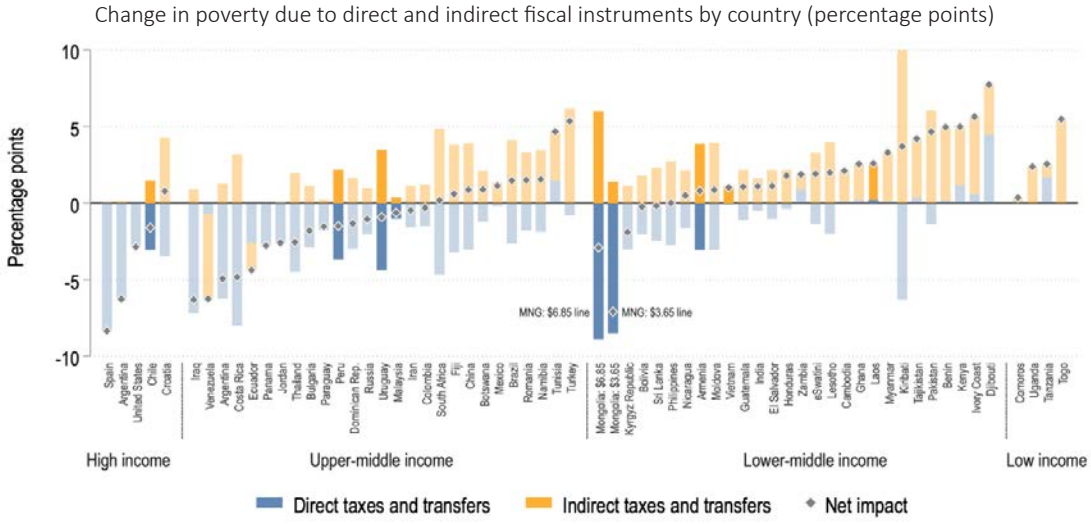
Change in inequality due to cash and non-cash fiscal instruments by country (Gini points)



Source: World Bank estimates based on CEQ Data Center on Fiscal Redistribution, OECD, and World Bank data. See World Bank 2022a; Bachas et al. 2024); and Wai-Poi forthcoming.

The poverty-reducing impact of cash fiscal instruments in Mongolia stands out among lower-middle-income countries and its peers. Mongolia is one of the few middle-income countries where cash fiscal instruments have a net poverty-reducing effect, with net cash benefits decreasing poverty by 7.3 percentage points at the lower-middle-income poverty line of $3.65 in 2017 PPP—the largest reduction among LMICs and greater than any of its structural and aspirational peers (Figure 9.7). At the UMIC poverty line of $6.85 in 2017 PPP, which is closer to Mongolia's national poverty line, the poverty-reducing effect remains positive but diminishes to 3.5 percentage points due to the offsetting impact of indirect taxes. At the UMIC line, Mongolia has one of the largest negative impacts of indirect taxes on poverty, highlighting its relatively large indirect tax base. Nonetheless, the poverty reduction achieved at the UMIC line is still above the UMIC average of one percentage point and comparable to that of its aspirational peers.

Figure 9.7. Among peers, direct transfers in Mongolia have the largest poverty-reducing impact, offsetting the indirect tax burden.



Source: World Bank estimates based on CEQ Data Center on Fiscal Redistribution, OECD, and World Bank data. See World Bank 2022a; Wai-Poi, Sosa, and Bachas 2024; and Wai-Poi forthcoming.

Note: Income category-relevant poverty lines are used for each country: $2.15 in 2017 PPP terms for low-income countries; $3.65 for lower-middle-income countries; $6.85 for upper-middle- and high-income countries.

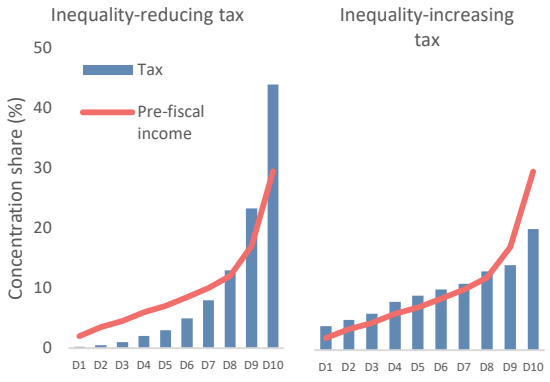
9.3. Among transfers, direct transfers drive much of the poverty and inequality reduction but are marked by high spending and inefficiency

This section uses several measures to assess the impacts of fiscal instruments on poverty and inequality. Progressivity is evaluated by examining the share of taxes paid and benefits received (concentration share) and the relative burden or benefit as a share of household income (incidence). Cost-effectiveness, meanwhile, measures the reduction in the poverty gap achieved for every percentage point of GDP spent. Together, these metrics help identify which groups bear the tax burden or benefit from transfers, how impactful different fiscal instruments are, and how resources can be allocated more efficiently to reduce poverty and inequality (see Box 9.1 for further details).

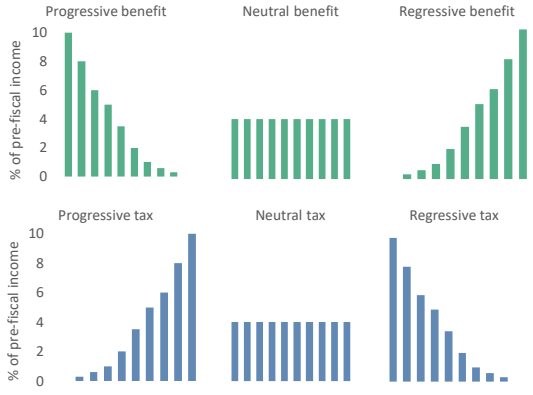
Box 9.1. Measures of Progressivity and Cost-Effectiveness

1. **Concentration share—**The share of taxes paid or transfers received by income groups. A tax (transfer) is progressive if poorer households pay less (receive more) relative to their income share, while richer households pay more (receive less). A tax (transfer) is regressive if the opposite holds, and neutral if shares align with income. Box Figure 9.1.1 illustrates this concept for taxes.
2. **Incidence—**The tax burden or benefit as a share of household income. A progressive tax (transfer) takes (provides) a larger share from richer (poorer) households, while a regressive one does the reverse. Neutral measures affect all households equally. Box Figure 9.1.2 illustrates this.
3. **Cost-effectiveness—**The reduction in the Gini index or poverty gap achieved per percentage-point increase in spending as a share of GDP.

Box 9.1.1. Inequality-reducing and inequality-increasing concentration shares (taxes)



Box 9.1.2. Progressive, neutral, and regressive incidence curves



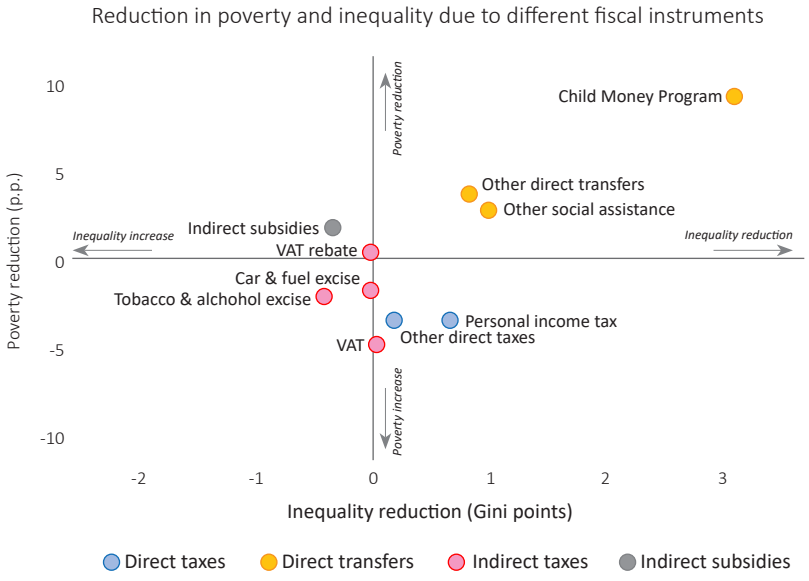
Source: Authors' calculations based on the 2022 Mongolia CEQ.

Direct transfers are the primary driver of the poverty- and inequality-reducing impact of Mongolia's fiscal system, with social assistance playing a central role. Direct transfers reduce poverty by 14.1 percentage points and inequality by 5.2 Gini points. Social assistance constitutes almost 80 percent of total direct transfers, and as shown in Chapter 5, these programs are generally progressive, with more benefits going to poorer households and benefits also making up a larger share of their budgets. This progressivity explains the significant contribution of social assistance to poverty and inequality reduction. Among the social welfare programs, the CMP alone reduces the poverty rate by 9.2 percentage points and the Gini index by 3.1 points, making it the largest contributor to the impact of direct transfers (Figure 9.8).

However, the effectiveness of social assistance in reducing poverty and inequality comes at a significant cost, limiting the efficiency of social spending. As highlighted in Chapters 4 and 5, Mongolia's social assistance spending is high relative to many of its peers but is hindered by inefficiencies stemming from the categorical targeting of many programs. For instance, the CMP achieves significant reductions in poverty and inequality, but this impact is driven by high expenditure and coverage rather than precise targeting. The universal eligibility of children and the program's substantial benefit sizes contribute to its low cost-effectiveness in reducing the poverty gap compared to other social welfare programs. Despite accounting for 2.8 percent of GDP in 2022—the largest share of social welfare spending—the CMP's efficiency is limited (Figure 9.9). Similarly, other categorically targeted programs, such as elderly benefits and benefits to mothers (i.e., pregnancy and mother hero benefits), exhibit relatively low cost-effectiveness.

In contrast, the Food Support Program (FSP) stands out as the most cost-effective social welfare program, achieving a 4.1-percentage-point reduction in the poverty gap and a 2.5-point decrease in the Gini index for every percentage point of GDP spent (Figure 9.9). However, the FSP's impact is constrained by low spending due to limited coverage and modest benefit sizes (see Chapter 5). This underscores the need for better-targeted and more efficient social spending to optimize the impact of social assistance spending on poverty and inequality reduction.

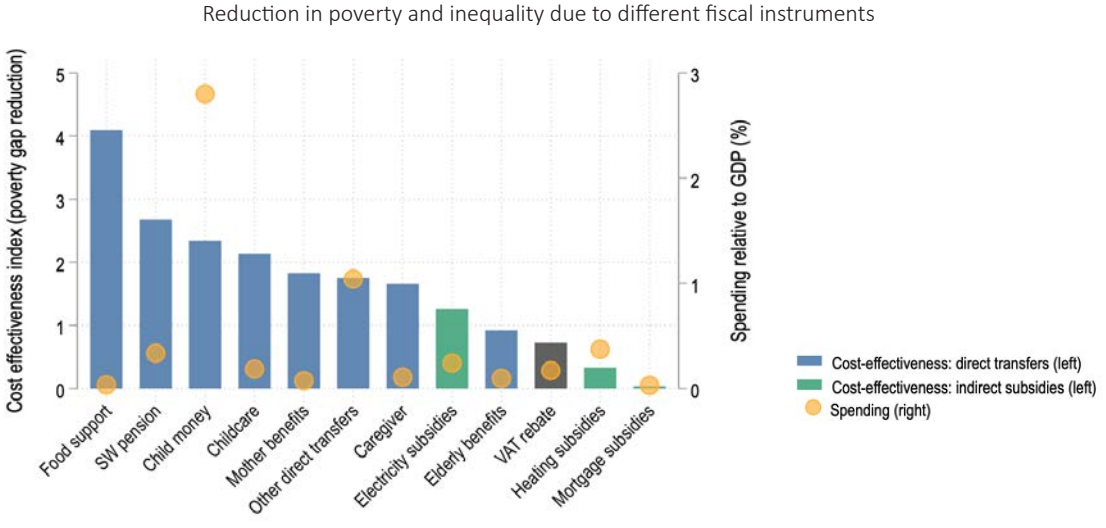
Figure 9.8. Social assistance, especially the CMP, drives poverty and inequality reduction



Source: Authors' calculations based on the 2022 Mongolia CEQ.

Note: "Other direct transfers" includes cash agricultural subsidies, educational scholarships, non-pension social security benefits, and military pension payments. Military pension payments are considered direct transfers in the CEQ because they are fully subsidized by the government. "Other direct taxes" includes non-pension social security contributions and property taxes (e.g., vehicle, livestock taxes). "Indirect subsidies" includes heating, water, electricity, and mortgage subsidies (both direct and indirect). See CEQ report for information on the poverty and inequality impacts of specific fiscal instruments.

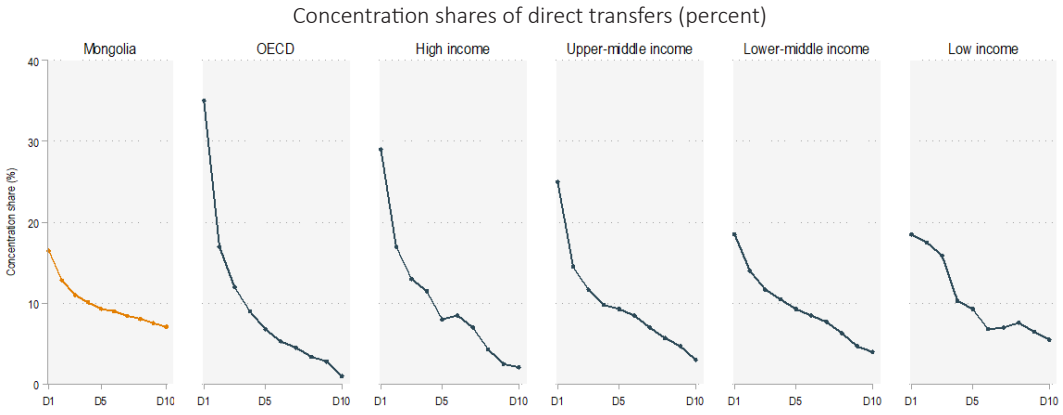
Figure 9.9. But this is mainly achieved through high spending; social assistance spending is generally inefficient



Source: Authors' calculations based on the 2022 Mongolia CEQ.

International comparisons further highlight the inefficiencies in Mongolia's social assistance system. While social welfare benefits represent a substantial share of pre-fiscal income for poor households—exceeding 100 percent of pre-fiscal income for the poorest decile—the distribution of these benefits is less progressive than in other countries. Concentration shares reveal that Mongolia underperforms compared to high-, middle-, and even low-income countries in targeting benefits to the poorest households (Figure 9.10). For instance, the poorest decile in Mongolia receives only 16.5 percent of total direct transfers, significantly lower than the upper-middle-income average of 25 percent and the lower-middle-income average of 18 percent. This suggests that while Mongolia achieves notable poverty and inequality reduction, these outcomes are driven by high levels of spending rather than efficient targeting.

Figure 9.10. The progressivity of direct transfers in Mongolia is low compared to other countries



Source: Authors' calculations based on the 2022 Mongolia CEQ; Bachas, Sosa, and Wai-Poi 2024.

Consistent with international trends, price subsidies in Mongolia disproportionately benefit wealthier households, contributing to their inequality-increasing effects. Indirect subsidies for electricity, heating, water, and mortgages collectively exacerbate inequality, increasing the Gini coefficient by 0.4 points (Figure 9.8). While these subsidies have a minor poverty-reducing impact, their cost-effectiveness is low (Figure 9.9) because they overwhelmingly benefit the richest households. Almost 30 percent of total indirect subsidies go to the richest decile, while less than 3 percent reach the poorest decile (Figure 9.11a).

The regressive nature of indirect subsidies stems from limited access to subsidized services among poorer households and lower consumption levels even when access exists. While 90 percent of households are connected to the central electricity grid, access to essential services such as district heating, clean water, hot water, and wastewater is primarily confined to urban households living in apartments, which are generally wealthier. By contrast, poorer households are more likely to reside in rural areas or urban ger districts, many of which lack adequate access to basic services.[184] Consequently, heating and water subsidies disproportionately benefit richer households (Figure 9.11a) and make up a significantly larger share of their income (Figure 9.11b). Price subsidies to firms on inputs such as electricity, water, and heating also indirectly result in subsidies to households through lower prices of other goods and services; the indirect benefits of these commercial and industrial subsidies disproportionately accrue to wealthier households (Figure 9.11a), as they tend to have higher levels of consumption on average.

184. While households residing in ger districts do not benefit from subsidies for wastewater or hot water, they access clean water through community kiosks, albeit at lower consumption levels compared to apartment dwellers.

Electricity subsidies, unlike other indirect subsidies, contribute marginal reductions in inequality due to preferential prices for households in ger districts; however, they create significant price distortions that undermine fiscal sustainability. Although electricity subsidies disproportionately benefit richer households in absolute terms, concentration shares indicate that a greater share of these subsidies reach poorer households compared to other subsidies (Figure 9.11a). Additionally, electricity subsidies constitute a larger share of income for poorer households (Figure 9.11b). This outcome is primarily driven by the free nighttime electricity policy for ger district households with time-of-use meters,[185] introduced to address air pollution from coal burning during the heating season. While the policy has contributed to air quality improvements in some urban areas, it has also incentivized excessive electricity consumption during the heating season,[186] likely exacerbated by poor insulation and inefficiencies stemming from price distortions. Given mounting fiscal pressures to cover financial deficits in the energy sector, more targeted and efficient fiscal instruments, alongside long-term solutions like energy-efficient and sustainable heating technologies, should be considered to support vulnerable households while addressing the sector's fiscal sustainability.

Figure 9.11.a Indirect subsidies benefit richer households more

Concentration shares of indirect subsidies (percent)

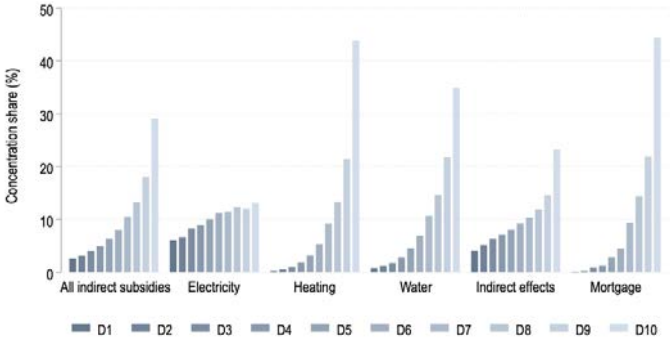
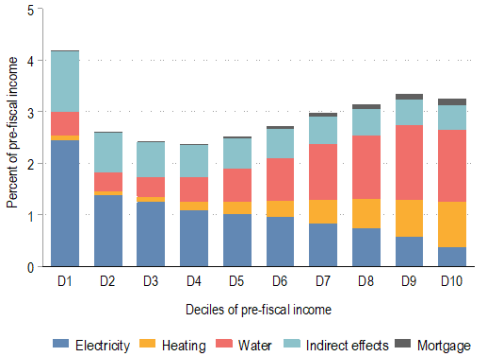


Figure 9.11.b Heating and water subsidies form a larger share of richer households' income

Incidence of indirect subsidies (percent of pre-fiscal income)



Source: Authors' calculations based on the 2022 Mongolia CEQ.

Mortgage subsidies, by contrast, are the most unequally distributed among all indirect subsidies.[187] Reaching about 9 percent of households in 2022, these subsidies benefit a smaller segment of the population compared to other subsidy programs, but they are heavily skewed toward richer households, who are more likely to meet the eligibility criteria to qualify for a mortgage under the program. Nearly half of total mortgage subsidies go to the richest decile and less than one percent reaches the poorest decile (Figure 9.11a). Mortgage subsidies also make up a larger share of the income of the rich, thus contributing to their inequality-increasing effect. These disparities underscore the importance of reforming mortgage and other housing finance programs to more effectively direct resources toward supporting low-income and vulnerable households, fostering more equitable access to affordable housing.

185. Data from the Energy Regulatory Commission of Mongolia suggests that over half of households in ger districts had time-of-use meters in 2022.
186. Mongolia Energy Regulatory Commission
187. The annual subsidy is estimated based on the assumption of a 30-year mortgage. See World Bank (2025a) for further discussion on how mortgage subsidies are estimated in the analysis.

9.4. Despite strong indirect tax collection, direct taxes are low and have a limited impact on reducing inequality compared to peers

The sizable poverty-increasing effect of direct taxes in Mongolia is rare in international contexts and underscores the need for targeted tax relief measures for low-income earners. Overall, direct taxes increase poverty by 5.8 percentage points, with PIT alone increasing poverty by 2.7 percentage points (Figure 9.8). In many middle-income countries, poor households often work in the informal sector and are largely outside the direct tax net. In contrast, Mongolia's relatively high formality (60 percent of the workforce are in formal jobs) means that even low-income households are subject to PIT and SSCs. Among the poorest decile, 28 percent of individuals work in formal jobs, and 40 percent of household income comes from formal wages subject to PIT and SSCs. Despite exemptions and deductions on income from crops and livestock, the relatively high reliance on formal wages among poorer households, combined with the predominantly flat statutory PIT rate of 10 percent,[188] means that poor households face an unusually high tax burden. Direct taxes account for nearly 8 percent of pre-fiscal income for the poorest decile (Figure 9.12). International comparisons show that this burden is significantly higher than among Mongolia's peers and even the OECD average of 5.9 percent (Figure 9.13). In middle-income countries, the poorest households, on average, pay less than one percent of their income in direct taxes, benefiting from stronger protections such as zero-rate tax brackets, which are absent in Mongolia (see Chapter 3).

Moreover, direct taxes play a minimal role in reducing inequality, primarily due to the limited progressivity of the PIT structure. While richer households contribute a larger share of direct taxes both in absolute terms and relative to pre-fiscal income, the effective tax rate does not increase significantly across income groups, indicating limited progressivity (Figure 9.12). This contrasts with the tax systems in OECD and high-income countries, where more progressive effective tax rates result in stronger redistribution (Figure 9.13). As highlighted in Chapter 3, implementing reforms such as introducing more progressive PIT brackets to encompass a broader spectrum of high-income earners or applying higher rates to income sources typically earned by the wealthy, such as capital gains, could enhance Mongolia's tax progressivity and better align its system with international benchmarks.

188. The 2023 PIT reform introduced higher tax brackets for top earners but impacted less than 0.5 percent of taxpayers, offering negligible improvements in overall progressivity.

Figure 9.12. Effective tax rates show minimal variation across the income distribution; poor households pay nearly 10 percent in taxes

Incidence of direct taxes (percent of pre-fiscal income)

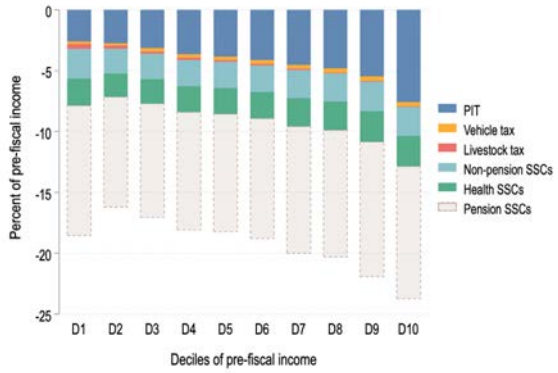
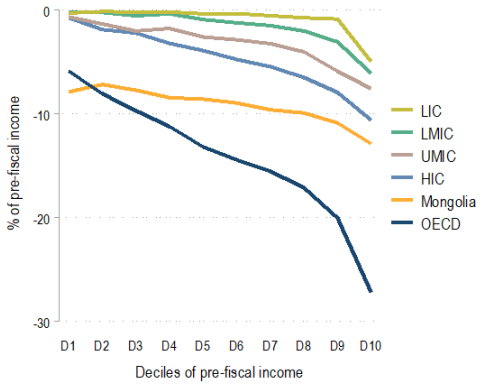


Figure 9.13. Limited protections for poor households reduce the progressivity of direct taxes compared to other countries

Effective direct tax rates (percent of pre-fiscal income)



Source: Authors' calculations based on the 2022 Mongolia CEQ.

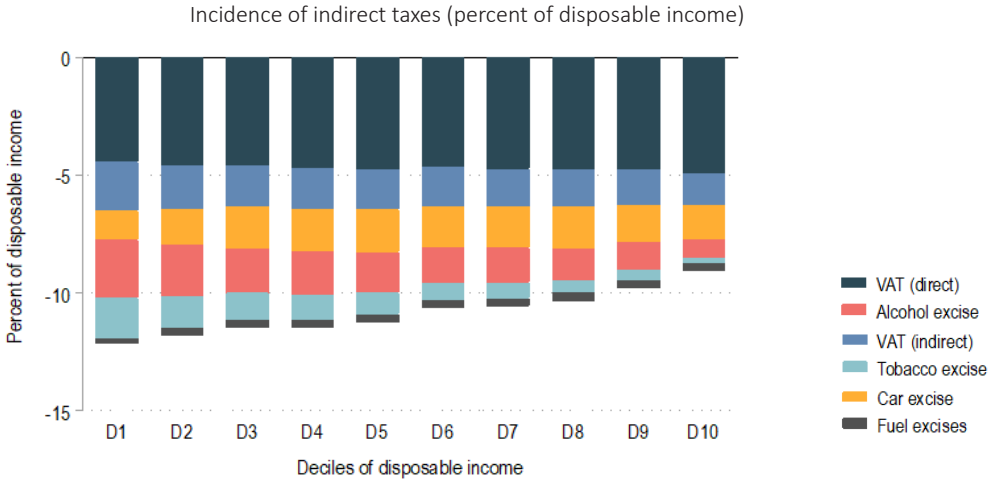
The limited progressivity of direct taxes in Mongolia is compounded by SSCs, which account for a larger share of pre-fiscal income than PIT, averaging 15 percent across the income distribution. SSCs in Mongolia include contributions to five types of insurances, including old-age pensions.[189] Due to relatively high formality in the labor force, most workers are enrolled in mandatory social security schemes; however, poorer workers are more likely to contribute to voluntary schemes or not participate at all. As a share of GDP, Mongolia's SSCs are higher than those of many peers, and the mandatory schemes are based on flat-rate contributions. This results in similar effective rates across all income groups, limiting progressivity and burdening poorer households. These challenges highlight the potential for reforms to SSC policies that could better balance equity and efficiency objectives.

Indirect taxes in Mongolia have minimal impacts on inequality but place a considerable burden on households, including the poor. The impact of VAT on inequality is minimal (Figure 9.8), as the effective VAT rate remains relatively uniform across income groups (Figure 9.14). In contrast, excise taxes—particularly those on alcohol and tobacco—slightly increase inequality, as these taxes represent a larger share of income for poorer households (Figure 9.14). While their effect on inequality is small, both VAT and excises substantially exacerbate poverty due to their broad application across all households. Overall, VAT increases poverty by 4.9 percentage points, while excise taxes increase poverty by 4.0 percentage points (Figure 9.8).

Despite their poverty-increasing impact, indirect taxes play a crucial role in sustaining non-mining revenues in Mongolia, highlighting the need to balance their effects with other fiscal instruments. As discussed in Chapter 3, Mongolia performs well in indirect tax collection compared to its peers, which is vital for maintaining revenue streams given the country's relatively weak PIT collection. While indirect taxes increase poverty, their negative impacts are mitigated by Mongolia's substantial transfers, resulting in a net reduction in poverty. In most middle- and low-income countries, indirect tax burdens typically exceed the benefits of direct transfers for poor households; only in high-income countries do transfers consistently offset the burden. In this regard, Mongolia's performs well, but there is significant scope to make transfers more efficient without compromising their poverty-reducing impact.

189. The CEQ methodology excludes contributions to old-age pensions from direct taxes because they are treated as deferred income rather than a tax. See World Bank (2025a) for further discussion on this topic.

Figure 9.14. VAT rates are similar across income groups, while alcohol and tobacco excises represent a greater burden for the poor



Source: Authors' calculations based on the 2022 Mongolia CEQ.

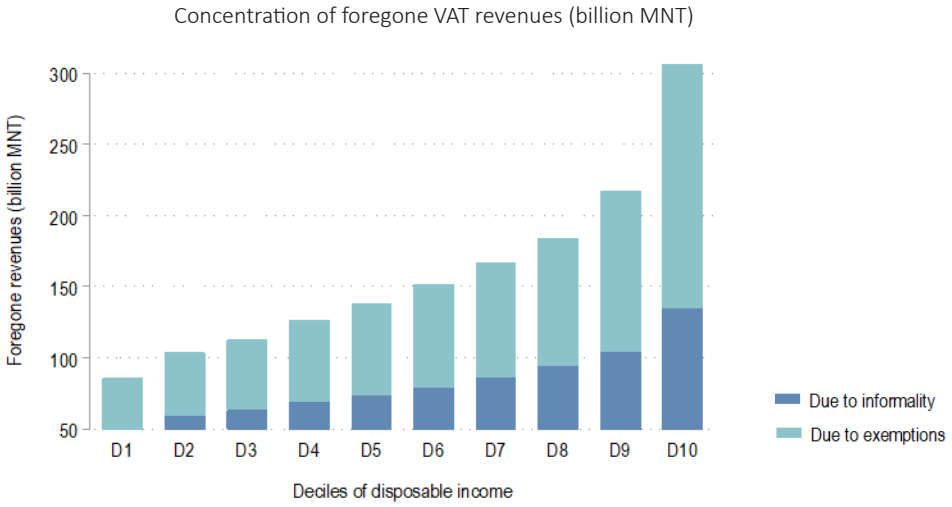
Note: In the CEQ methodology, the indirect effects of VAT refer to its impact on household income through changes in the prices of goods and services, as VAT paid by firms is often passed on to consumers in the form of higher prices. Effective indirect tax rates are calculated based on disposable income rather than pre-fiscal income, as this better captures the nature of indirect taxes, which are levied on consumption and therefore depend on the income households have available to spend. Fuel excises account for both direct effects and indirect effects, which capture the taxes embedded in the prices of other goods and services due to the use of fuel in their production or transport.

Informality and VAT exemptions play a significant role in reducing the VAT burden for poorer households in Mongolia, but these mechanisms are neither efficient nor equitable in lowering tax burdens. Informal purchases, which typically do not incur VAT directly,[190] constitute a larger share of consumption for poorer households, resulting in a greater reduction in the VAT burden relative to their lower incomes. This contributes to similar effective VAT rates across the income distribution, despite richer households paying a much larger share of total VAT due to their higher consumption levels. VAT exemptions and preferential rates on goods such as food, transportation, and energy further lower the effective VAT rate for poorer households, as these items make up a larger share of their consumption baskets. However, in absolute terms, richer households spend more on these exempt or preferentially rated goods, meaning they benefit more from these exemptions.

Indeed, foregone revenues from both informality and VAT expenditures disproportionately benefit richer households. The richest decile accounts for 22 percent of foregone revenues from exemptions compared to less than 5 percent for the poorest decile. Similarly, while informality reduces VAT burdens for poorer households, it also benefits richer households more in absolute terms, with 16.6 percent of total foregone revenues accruing to the richest decile and just 6.1 percent to the poorest. In total, the foregone revenues due to informality and exemptions are estimated to be over 300 billion MNT for the top decile and less than 80 billion MNT for the bottom decile (Figure 9.15). Although informality and exemptions mitigate VAT's impact on inequality, they are neither cost-effective nor sustainable solutions to reduce tax burdens on poorer households. Addressing these inefficiencies through reforms to reduce exemptions, tackle informality, and enhance well-targeted transfers could simultaneously reduce poverty and inequality while increasing fiscal space and improving efficiency.

190. It should be noted, however, that the final price of informal purchases does include embedded VAT charged on formal inputs used in the production of informally purchased items. See World Bank (2025a) on how informal purchases were measured.

Figure 9.15. VAT exemptions and informality create inefficiencies that disproportionately favor richer households



Source: Authors' calculations based on the 2022 Mongolia CEQ.
Note: Foregone revenues for exemptions are calculated in the presence of informality.

The consumer VAT rebate system in Mongolia has been effective in broadening the tax base but disproportionately benefits richer households. As detailed in Chapter 3, this system has significantly increased the number of firms filing VAT returns, improving compliance and boosting VAT revenues. Although VAT rebates represent a small share of GDP (0.4 percent of GDP; see Chapter 3), the richest decile receives an estimated 27 percent of total rebates, while the poorest receives less than 3 percent (Figure 9.16). This unequal distribution may arise from several factors, including higher consumption levels among richer households and fewer informal purchases, which may be related to greater access to businesses that issue electronic receipts. Analysis suggests that richer households also have a higher likelihood of using the e-BARIMT app[191] perhaps due to better access to smartphones or greater awareness of the rebate policy. This regressivity means that the VAT rebate has low cost-effectiveness in reducing the poverty gap, comparing similarly to heating subsidies (Figure 9.9).

While excises contribute to a slight increase in inequality and poverty, they may yield long-term benefits by improving public health and reducing healthcare costs, especially for the poor. For most excised items, richer households pay a larger absolute share due to higher overall consumption (Figure 9.17). Tobacco, which shows a relatively uniform distribution of payments, is an exception, reflecting similar consumption levels across income groups. However, the relative burden of excises—especially for alcohol and tobacco—is higher for poorer households (Figure 9.14), contributing to their inequality-increasing effect (Figure 9.8). Despite these regressive impacts, research indicates that health taxes such as excises on alcohol and tobacco can yield significant medium- and long-term benefits for poorer households (Fuchs, Gonzalez Icaza, and Paz 2019). Because poorer households are typically more sensitive to price increases, they are more likely to reduce their consumption of taxed goods, resulting in improved health outcomes, lower healthcare costs, and greater overall welfare, which can largely offset the initial financial burden imposed by these taxes (see Chapter 3).

191. Data from the e-BARIMT system matched to the 2022 HSES show that individuals from wealthier households are more likely to use the app. See World Bank (2025a) for further information.

Figure 9.16. VAT rebates benefit richer households more than poorer households

Concentration shares of VAT rebates (percent)

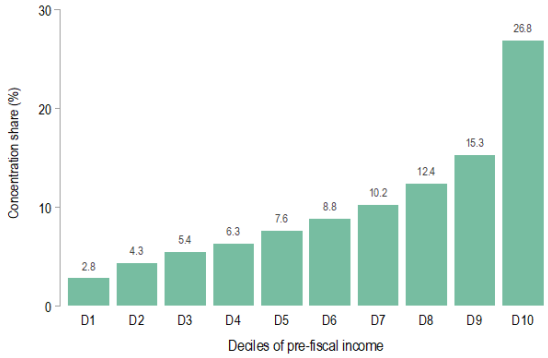
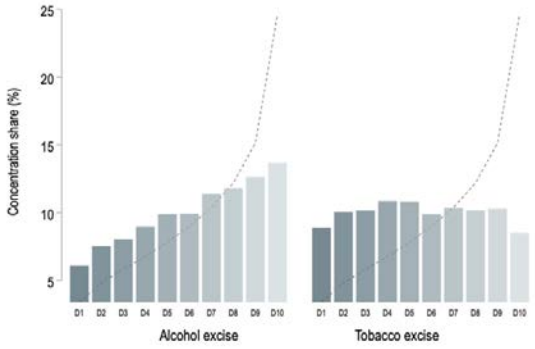


Figure 9.17. Richer households pay more in alcohol excises, while tobacco excises are more uniformly distributed

Concentration shares of alcohol and tobacco excises (percent)



Source: Authors' calculations based on the 2022 Mongolia CEQ.

Note: In Figure 9.17, the dotted line represents the distribution of pre-fiscal income.

9.5. Education reduces inequality but allocation challenges remain; health spending is inefficient, with a disproportionate focus on inpatient care

Education plays a significant role in reducing inequality in Mongolia, driven by a higher concentration of benefits among poorer households. Education benefits reduce the Gini coefficient by 3.4 points, a reduction comparable to the average for high-income and upper-middle-income countries (Figure 9.18). Several factors drive the progressive distribution of education benefits observed in Mongolia. As discussed in Chapter 7, per-student financing is higher for students outside Ulaanbaatar, with additional increases for more remote areas. Since rural students are more likely to come from poorer households, this financing approach contributes to the inequality-reducing effect of education. Additionally, poorer households tend to have larger families; over 40 percent of the poorest decile have three or more children compared to less than 10 percent of the richest decile. Coupled with high enrollment rates in basic education, more children mean that education benefits constitute a larger share of income for poorer households. Additionally, in many countries, subsidies for tertiary education limit the equity of education benefits, as students from wealthier households are more likely to attend higher education. However, Mongolia does not subsidize tertiary education, enhancing the equitable distribution of education benefits across income deciles.[192]

However, inefficiencies in education spending limit its overall cost effectiveness in reducing inequality. Challenges related to access and affordability (Chapter 7) mean that poorer households are less likely to enroll their children in pre-primary education, making the distribution of pre-primary benefits less progressive compared to primary and secondary education (Figure 9.19). As a result, spending on pre-primary education has lower cost effectiveness than spending on

192. This, however, may contribute to lower tertiary educational attainment among poorer households given sizable tuition fees.

primary and secondary education, but spending levels are similar between the two (Figure 9.20). Moreover, subsidies to private schools disproportionately benefit wealthier households, with nearly half of these benefits accruing to the richest decile and only about 1 percent reaching the poorest decile. Although government spending on private schools is modest (around 0.1 percent of GDP), reallocating these funds to support poor students—such as by subsidizing their education fees—could reduce inequality. While richer households pay higher education fees in absolute terms (Figure 9.19), they constitute a larger share of poorer households' budgets and thus increase inequality. Addressing these inefficiencies could improve the impact of education spending on inequality reduction and human capital development.

Figure 9.18. Mongolia achieves relatively high inequality reduction through education, but the impact of health is comparatively low

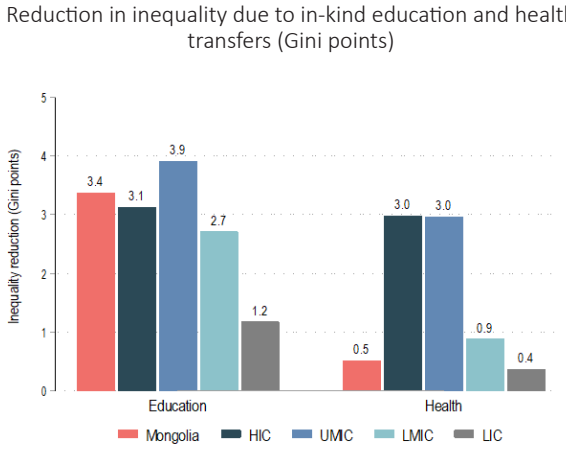
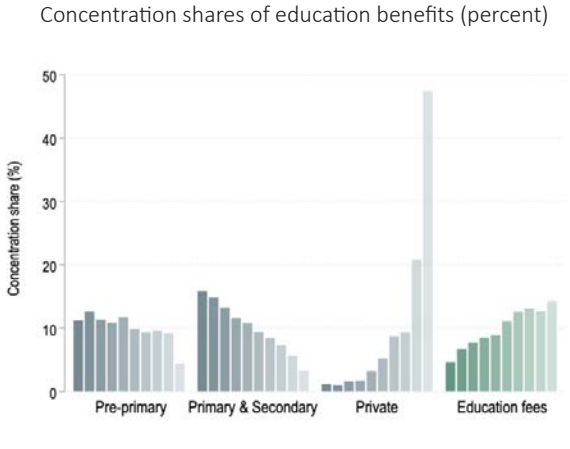
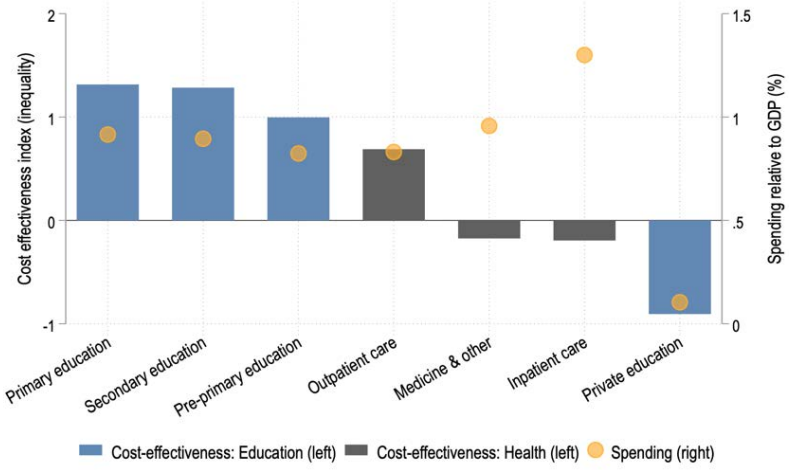


Figure 9.19. Education spending exhibits some inefficiencies



Source: Authors' calculations based on the 2022 Mongolia CEQ and CEQ data center.

Figure 9.20. Despite the low cost-effectiveness of inpatient care and medicine, spending on these services are disproportionately high

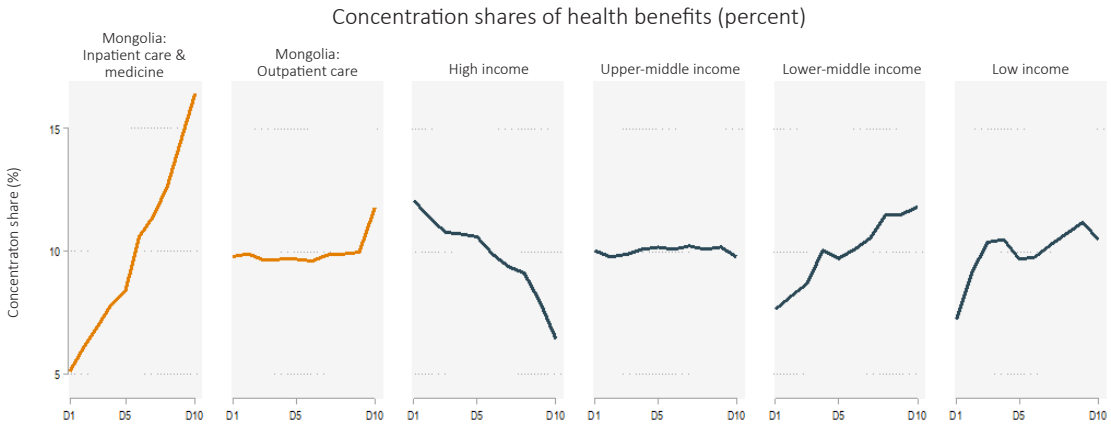


Source: Authors' calculations based on the 2022 Mongolia CEQ.
Note: "Medicine & other" includes inpatient medicine, outpatient medicine, and other health services (e.g., ambulance services).

Health benefits in Mongolia have a significantly smaller impact on reducing inequality compared to education benefits, falling short of impacts achieved by peer countries. Health benefits contribute to a 0.5-point reduction in the Gini coefficient, which is markedly lower than impacts observed in high-income, upper-middle-income, and even lower-middle-income countries, aligning more closely with the levels seen in low-income countries (Figure 9.19). The limited impact of health spending on inequality is largely driven by the high allocation of resources to inpatient care, which disproportionately benefits richer households. This results in a regressivity of health benefits that mirrors distributions typically seen in low- and lower-middle-income countries (Figure 9.21). As highlighted in Chapter 6, the overutilization of hospitals for inpatient care is a systemic issue in Mongolia, with wealthier households benefiting more due to their greater access to and utilization of these services. In contrast, outpatient care benefits are relatively evenly distributed across income groups, reflecting widespread access and similar utilization rates of primary healthcare services. For poorer households, these benefits represent a larger share of their income, contributing to their inequality-reducing effect.

Despite its regressive nature, spending on inpatient care significantly outweighs spending on outpatient care, undermining the overall effectiveness and efficiency of Mongolia's health spending. As discussed in Chapter 6, many conditions treated in hospitals under inpatient care could be addressed or prevented through stronger primary healthcare (PHC) or outpatient services. Outpatient care also has considerably higher cost-effectiveness in reducing inequality, but outpatient spending is significantly lower than inpatient spending (Figure 9.20). Redirecting resources toward improving PHC and outpatient care could thus reduce inequality and maximize the impact of health spending. Additionally, out-of-pocket payments for health, particularly for medicine, constitute a larger burden for poor households (see Chapter 6). Given that insurance coverage for outpatient medicine is considerably lower than for inpatient medicine, most of these out-of-pocket expenditures are likely on outpatient medicine. Expanding coverage for outpatient medicine can thus offer a critical opportunity to improve both equity and the effectiveness of health spending.

Figure 9.21. Health benefits, particularly for inpatient care and medicine, are distributed far more regressively in Mongolia compared to other countries



Source: Authors' calculations based on the 2022 Mongolia CEQ; World Bank 2023.

9.6. Recommendations

This section simulates key policy reform scenarios, providing insights into their potential to reduce poverty, improve equity, and enhance overall fiscal sustainability. The findings from these simulations guide the formulation of targeted policy measures and support the selection and prioritization of the proposed reforms outlined in other chapters of this report.

Increasing the progressivity of taxes

Tax reforms that promote greater non-mining revenue generation and greater redistribution are a critical component of Mongolia's development path. This chapter's findings, which align with the broader revenue recommendations in Chapter 3, underscore the need for reforms in several key areas that can help achieve these objectives:

1. **PIT reforms—**Compared to its peers, Mongolia's PIT system plays a limited role in revenue generation and inequality reduction. Low revenue collection can be attributed to limited progressivity in PIT rates, especially for wages and capital gains. PIT has an uncommonly large negative impact on poverty due to relatively high formality and limited protections for low-income earners. Simulations presented in Table 9.2 show that a zero-rate band for PIT (scenario 1) can have sizable impacts in reducing poverty, and the introduction of additional income brackets taxed at more progressive marginal rates (scenario 2) can offset revenue losses while having a considerable effect on inequality and poverty reduction. Taxing capital gains at increasing marginal rates (scenario 3) can also help reduce inequality, but less effectively.

2. **VAT reforms—**While Mongolia's VAT collection is high compared to its peers, maintaining and potentially increasing these revenues is crucial, especially given the relatively weak PIT collection. However, VAT has significant negative impacts on poverty, and raising the VAT rate (scenario 4) would exacerbate these effects (Table 9.2). Well-targeted transfers, however, can effectively mitigate these impacts. Additionally, the current VAT rebate system is regressive and inefficient and should be reevaluated. While reducing VAT rebates (scenario 5) would negatively affect some poor households who benefit from them, these impacts could be offset by leveraging well-targeted transfer programs.

3. **Excise reforms—**Excise taxes, particularly those on alcohol and tobacco, are regressive, increasing both poverty and inequality. However, these health taxes serve a dual purpose by discouraging harmful consumption behaviors and reducing long-term healthcare costs, especially for poorer households. Strengthening health taxes (scenarios 6 and 7) can lead to small increases in inequality and poverty, but these can be offset by leveraging well-targeted programs. In the longer term, they can help achieve public health objectives while maintaining fiscal stability.

Table 9.2. Simulations of tax reforms

	Description	Fiscal savings (% of GDP)	Inequality reduction (Gini points)	Poverty reduction (p.p.)
PIT				
1	**Zero-rate bracket**: tax relief for individuals with annual wage income < 6m MNT	--0.05%	0.07	3.2
2	**Scenario 1 + additional brackets** with progressive marginal rates: 6m- 1.8m (10%); 1.8m – 8.0m (20%); >8.0m (32.5%)	0.4%	0.60	1.6
3	**Capital gains taxed at increasing marginal rates**: <6m (10%); 6m-12m (15%); 12m-30m (20%); >30m (25%)	0.16%	0.07	0.0
VAT				
4	**Increase in VAT rate** to 11 percent	0.62%	-0.09	-0.5
5	**50% reduction of VAT rebate**	0.30%	-0.03	-0.2
Excise				
6	Average **tobacco excise is increased** by 20 percent	0.06%	-0.04	-0.2
7	Average **alcohol excise is increased** by 20 percent	0.12%	-0.05	-0.3

Source: Authors' calculations based on the 2022 Mongolia CEQ.

Note: Green cells represent positive outcomes (increase/neutral fiscal savings, greater poverty/inequality reduction). Orange cells represent negative outcomes. In scenarios 2-4, inequality impacts may be underestimated due to missing top incomes in the household survey. See World Bank (2025a) for further details. Fiscal savings for VAT are adjusted based on administrative data. Simulations are consistent with recommendations proposed in Chapter 3.

Enhancing the efficiency and impact of social spending

Reforms to enhance the efficiency of social spending are essential to maximize its impact on poverty and inequality reduction while ensuring fiscal sustainability. The findings in this chapter, together with insights from Chapters 5 through 7, highlight the importance of targeted spending reforms in several key areas to improve efficiency and effectiveness:

1. **Social assistance reforms—**Mongolia's social assistance system plays a critical role in reducing poverty and inequality, but its efficiency and cost-effectiveness are low compared to peers due to a reliance on categorical targeting and high spending on the CMP. Well-targeted, cost-effective programs such as the FSP have very small benefits and low coverage, limiting their overall impact. Simulations in Table 9.3 suggest that significant improvements in efficiency will require enhancing the timeliness and comprehensiveness of the social registry. Specifically, adopting a Proxy Means Test (PMT), based on variables available in national administrative databases, can enhance the efficiency of social assistance spending. For example, increasing the FSP benefit to 25 percent of the national food poverty line[193] (43,000 MNT per month) and expanding its coverage to reach 10 percent of the population using PMT targeting could achieve significant reductions in poverty and inequality. The additional fiscal costs associated with this expansion can be offset by phasing out or reducing other programs such as the elderly benefit, childcare benefit, and caregiver benefit for non-poor or nonvulnerable[194] households (scenarios 2 and 3).

193. The national food poverty line in 2022 is roughly 170,000 MNT per adult per month.
194. Vulnerable households (households at risk of falling into poverty) are defined as households with welfare between the poverty line and 1.5 times the poverty line.

2. **Child Money Program—**Reducing the coverage of the CMP to target the poorest households will be the most effective method to increase efficiency; however, political and social sensitivities surrounding the program make it more practical to allow CMP benefits to gradually depreciate in real terms over time, as discussed in Chapter 5. While this may result in modest increases in poverty, historical trends suggest that household consumption growth could potentially outpace these effects. Furthermore, reallocating the resulting "savings" to expand FSP coverage and benefits could effectively mitigate any poverty increases.

3. **Price subsidies—**Indirect subsidies are both regressive and inefficient, consistent with trends observed in many countries. These subsidies also create price distortions that incentivize overuse. Raising tariffs to cost-recovery levels for subsidized services such as electricity, heating, and water, and using the savings to fund well-targeted transfers can enhance fiscal sustainability while protecting vulnerable households. Recent electricity tariff reforms and the planned increases in heating tariffs are positive steps toward the energy sector's financial sustainability and addressing inefficiencies.

4. **Education reforms—**Education benefits significantly reduce inequality; however, there is room for efficiency improvements. Pre-primary education spending and subsidies for private schools are less progressive, indicating a need to better target resources toward students most in need. In the absence of granular data for efficient school-level targeting, simulations suggest that directing resources to schools in poorer aimags could enhance inequality reduction. For instance, reallocating private school subsidies to public schools in the 12 aimags with poverty rates above the national average (scenario 4) could achieve greater inequality reduction without additional fiscal cost. Further increasing spending on public education (scenario 5) could amplify these outcomes, delivering even greater equity gains.

5. **Health reforms—**Health spending in Mongolia is relatively high compared to peers but is constrained by significant inefficiencies. The General Authority for Health Insurance (GAHI) allocates substantially more funding to inpatient care than to outpatient care, despite outpatient services having a greater impact on reducing inequality. Additionally, limited insurance coverage for outpatient medicines places a disproportionate financial burden on poorer households. Implementing reforms outlined in Chapter 6 to redirect resources toward preventative and primary healthcare (scenario 6) and expand coverage for outpatient medicines (scenario 7) could significantly improve the fiscal, distributional, and health outcomes of Mongolia's health spending (Table 9.3).

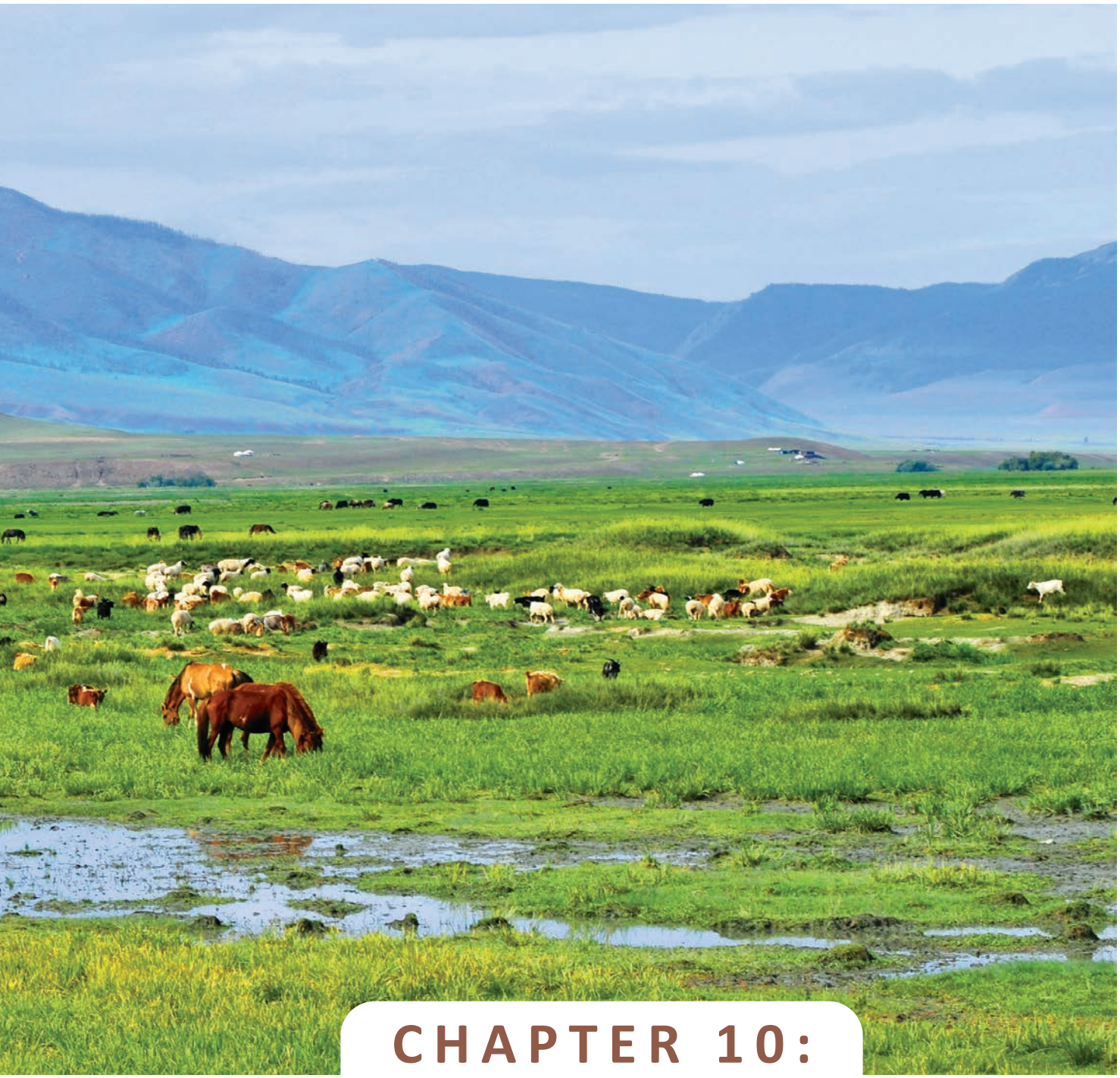
Table 9.3. Simulations of social spending reforms

	Description	Fiscal savings (% of GDP)	Inequality reduction (Gini points)	Poverty reduction (p.p.)
Social assistance				
1	**Food Support Program**: Increase of benefits to 25% of the national food poverty line + expansion of beneficiaries to 10% of the population (using PMT)	-0.19%	0.51	0.6
2	**Removal of Social Welfare benefits for non-poor/non-vulnerable households** (using PMT). Excludes FSP and CMP; 50% decrease for SWP.	0.22%	0.11	-0.2
3	**Scenarios 1 + 2**	0.03%	0.62	0.4
Education				
4	**Reallocation of private school subsidies** to public schools in aimags with poverty higher than the national rate	0.0%	0.25	
5	**Increased spending to primary and secondary schools** in public schools in aimags with poverty higher than the national rate	-1.0%	1.16	
Health				
6	**Reallocation of 20% of spending on inpatient** care and medicine to outpatient care and medicine	0.0%	0.52	
7	**Medicine co-pay exemptions for poor/vulnerable groups** (using PMT)	-0.21%	0.37	

Source: Authors' calculations based on the 2022 Mongolia CEQ.

Note: Green cells represent positive outcomes (increase/neutral fiscal savings, greater poverty/inequality reduction). Orange cells represent negative outcomes. Simulations are consistent with recommendations proposed in Chapter 5 through 7.

Achieving Mongolia's fiscal and development objectives will require a balanced approach that incorporates revenue generation, poverty and inequality reduction, human capital development, and infrastructure investments. While specific fiscal reforms can effectively address targeted goals, it is difficult for a single instrument to achieve all objectives simultaneously. For example, indirect taxes are essential for raising revenues, particularly in a non-mining economy, but they may exacerbate inequality and poverty if not complemented by well-targeted social assistance programs. A cohesive package of reforms—one that aligns revenue measures with efficient and equitable spending—can help achieve fiscal sustainability while safeguarding vulnerable households. Moreover, investments in human capital and infrastructure must be prioritized alongside these reforms to ensure long-term growth, resilience, and shared prosperity. By carefully balancing these priorities, Mongolia can lay the foundation for sustainable and inclusive development.



CHAPTER 10:

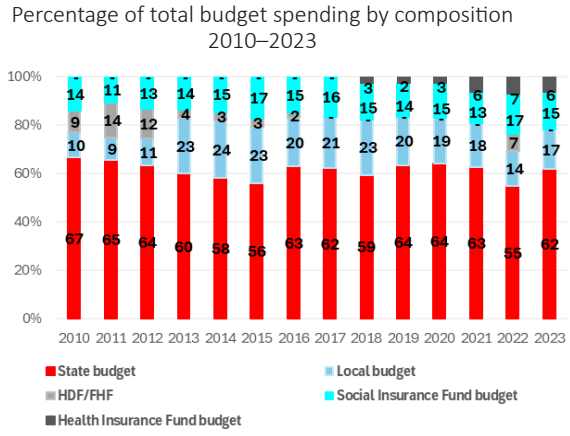
STRENGTHENING THE INTERGOVERNMENTAL FISCAL SYSTEM

CHAPTER 10: STRENGTHENING THE INTERGOVERNMENTAL FISCAL SYSTEM

10.1. Introduction

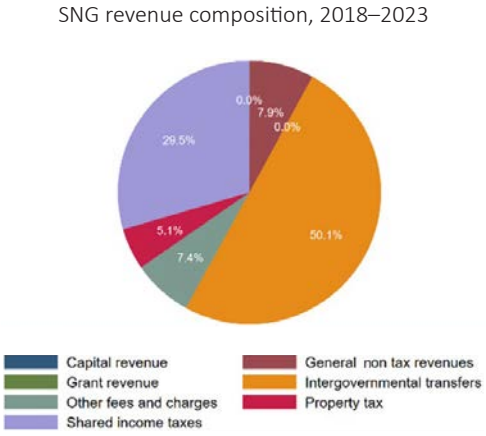
Mongolia's subnational governments (SNGs) play a significant role in the country's fiscal landscape but remain highly dependent on central government funding. Despite several changes in functional assignments, most notably following the 2020 revised Law on Territorial Units and Their Governance (LATUG) and the 2021 Law on Legal Status of the Capital City Ulaanbaatar, SNGs continue to account for approximately 20 percent of total government spending since 2013[195] (Figure 10.1) and nearly quarter of total capital spending (see Chapter 8). This positions Mongolia in the mid-range of fiscally decentralized economies in the region below Kazakhstan and Vietnam, but above Malaysia.[196] However, SNGs rely heavily on the central government for financing, with around 80 percent of their revenues derived from intergovernmental transfers and shared income taxes (Figure 10.2).

Figure 10.1. SNGs in Mongolia constitute around one-fifth of total government spending



Source: BOOST-WB.

Figure 10.2. SNG revenues are highly dependent on intergovernmental transfers and shared taxes



Source: BOOST-WB.

195. In 2011, the Integrated Budget Law (IBL) was approved introducing greater decentralization of public finances; hence local spending doubled in 2013 when the law entered into force.

196. The World Observatory on Subnational Government Finance and Investment (SNG-WOFI) fiscal database, OECD and UCLG: https://www.sng-wofi.org/country-profiles/.

A key feature of Mongolia's subnational budgeting system is the surplus/deficit-based intergovernmental fiscal transfer system in the context of a nested structure of local budgets. Under the 2011 IBL, SNGs must have balanced budgets approved, with transfers from the central government to cover deficits, or surpluses to be sent to higher level of government when projected revenues exceed spending. SNGs with surpluses have more flexibility in funding allocation compared to deficit SNGs. The nested local budgeting process requires lower-tier SNGs to submit budget proposals to higher-tier SNGs, which are then consolidated and sent to the MoF for subsequent approval of the agreed upon deficit/surplus transfers by the Parliament (see Box 10.1 on basic SNG structure). This adds unnecessary complexity to Mongolia's intergovernmental finance framework, leading to double-counting of inter-tier fiscal transfers. As a result, budget figures are inflated, making it more difficult to accurately analyze resource flows.

Mongolia's current intergovernmental fiscal framework exhibits critical weaknesses that affect subnational public financial management, particularly with regard to efficiency, equity, and fiscal discipline. If left unaddressed, these issues could compromise the efficiency, effectiveness, and equity of subnational public finance management (PFM), hinder the quality of basic service delivery by SNGs, and pose risks to the successful achievement of the objectives of urban-rural recovery under the NRP and the 2024 Regional Development Policy. The analysis in this chapter explores these issues, beginning with the disparities in fiscal capacity across SNGs, imbalances between the revenue and spending responsibilities of SNGs, and weaknesses in local budgeting and planning as well as the resulting equity and efficiency concerns and weakened fiscal discipline at the local level. The chapter concludes with recommendations for reforms to Mongolia's intergovernmental fiscal framework to address these challenges.

Box 10.1. Two-Tier Structure for SNGs

A two-tier SNG structure was established under the 1992 Constitution (Chapter 4) and the Law on Territorial Units and Their Governance (LATUG)—initially approved in 1995 and most recently revised in 2020. The upper tier comprises Ulaanbaatar (UB) city and the 21 aimags, while the lower tier includes 9 urban districts of UB and 330 predominantly rural soums. Each tier features a dual institutional structure of government, similar to that found in many countries of the Commonwealth of Independent States and in Vietnam, comprising (i) an elected legislative assembly (Citizens' Representative Khural, CRKh) chaired by a designated chairperson; and (ii) an executive branch led by a governor appointed by the CRKh. The executive branch oversees two different executive arms of the SNG: (i) the core departments directly under the governor's authority; and (ii) the deconcentrated subnational sector ministry departments (health, education, etc.), which are under the joint supervision of the governor and their respective line ministries in UB. The CRKh, supported by a full-time secretariat and with a standing-committee structure, is tasked with policy formulation in limited areas (including approval of the annual budget for their respective tier SNG), oversight of the executive branch, and maintaining consultation with local communities.

An overview of the functional assignments of SNGs, and the funding sources can be summarized as follows:

Type of decentralized spending	Funding source
Devolved functions	
• Base budget spending Recurrent budget spending on a range of nominally devolved functions for the respective tier of SNG (e.g., capital repair and maintenance of SNG-owned assets)[197]	• Deficit transfers • 40 percent CIT revenue-sharing transfers (aimag level only, from 2022) • Own-source revenues (rearranged between tiers from 2022)
• Investment spending Capital budget spending on small/medium investments	• Local Development Fund transfers • Livestock Head Tax own revenues (soum level only) • Retained surplus and carryover revenues
Delegated functions	
• Education, health, and social welfare recurrent budget spending Only fixed costs of utility and maintenance for education and health facilities (as part of base budget spending, from 2022)	• Funding sources for base budget spending as outlined above (Special Purpose Transfers for social sector recurrent budget spending were suspended and centralized to line ministries from 2022)

10.2. The current intergovernmental fiscal system presents challenges in terms of equity, efficiency, and fiscal discipline

In Mongolia, the central government addresses SNG fiscal gaps through a system of negotiating "deficit/surplus" transfers, with upper-tier SNGs (aimags and UB city) applying a similar approach for lower-tier SNGs (soums). The national level deficit transfer pool (i.e., transfers from the central government to certain aimags) remained relatively stable until 2022 but has since more than doubled. This increase occurred despite some expectations that the revised CIT revenue-sharing arrangement introduced in 2022 (see section below) would reduce transfers. On the other hand, surplus transfers (i.e., transfers from aimags and UB city to the central government)—which have historically exceeded deficit transfers—have grown significantly since 2022 now accounting for approximately 2.5 percent of all tax and non-tax revenues of the central government. A similar pattern exists between the two tiers of SNGs, with aimags and Ulaanbaatar city receiving six times more transfers from soums and districts than the deficit transfers provided by the MoF to them. Key elements of this unusual and complex intergovernmental fiscal transfer system are outlined below.

197. Revised LATUG 2020, Articles 21–23 on mandates for aimags and soums.

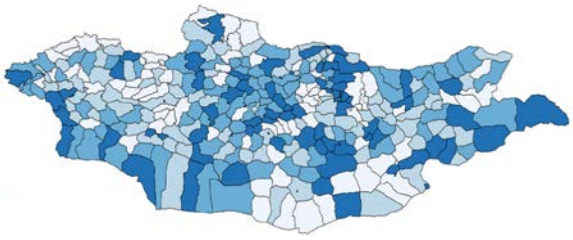
SNG revenue assignments

In 2022, major changes were made to SNG revenue assignments and sharing arrangements for SNGs. PIT, property tax, and land payments have been reassigned from aimags to soums and 40 percent of CIT, typically a central government revenue, is being shared with aimags.[198] Meanwhile, SNGs' control over tax rates remains minimal (PIT and CIT rates are set centrally), and aimags can only adjust certain local taxes within predefined bands. By contrast, soums now have authority to levy livestock taxes, which is a revenue source earmarked for the Local Development Fund account. Revenue collection remains centralized, with Tax Offices in aimags and soums, over which SNGs have no managerial authority.

These revenue changes have exacerbated disparities in fiscal capacity across SNGs. PIT revenue is distributed highly unevenly, with approximately 52 percent accruing to UB city and its districts, while most of the remainder is concentrated in Umnugobi. Even within these SNGs, the distribution across districts and soums is notably imbalanced (Figure 10.3). CIT revenue is even more unevenly distributed, with 98 percent accruing to UB (Figure 10.4). As a result, these disparities in fiscal capacity across soums and aimags necessitate compensatory measures through fiscal transfer equalization arrangements. It is also important to note that most of the assigned SNG own-source revenues are not earmarked (with the exception of the Livestock Head Tax). This allows for broad spending on basic current expenditures, subject to regulatory limits, while also creating opportunities for discretionary spending during the budget approval process. These factors have significant implications for the efficiency and equity of SNG spending of these revenues, which will be discussed further below.

Figure 10.3. PIT assignment to soums results in significant financing disparities

Actual PIT revenue, 2009–2021 (in million MNT)



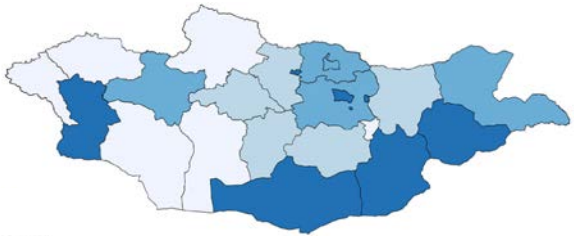
Source: MoF data.

Note: Fuzzy name matching was used to combine datasets for soums, with a probability threshold of 60%.

: 0 – 11; : 11 – 18; : 18 – 28; : 28 – 470,000.

Figure 10.4. Share of CIT assigned to aimags contributes to financing disparities

CIT revenue per aimag, 2022–2023 (in billion MNT)



Source: MoF data.

Note:

: 0.1 – 0.3; : 0.3 – 2.6; : 2.6 – 14.4; : 14.4 – 349.2.

198. The 40 percent share of CIT revenue is usually reported as an aimag "own revenue," but it is technically a revenue sharing transfer from central government.

SNG expenditure responsibilities

Despite the revisions to SNG revenue arrangements, there appears to be no significant change in SNG spending responsibilities. A comparison of the base budget spending mandates outlined in the revised LATUG with those under the previous IBL reveals minimal differences.[199] Feedback from SNG officials reinforces this observation, as they report no notable shift in the types of expenditures they are expected to plan for. This growing misalignment between SNG revenue and spending responsibilities has contributed to a steady increase in net transfers from SNGs to the central government, as previously noted. However, one major change has been the suspension of delegated mandates in key social sectors—education, health, and social welfare—along with the corresponding Special Purpose Transfers. Under the new arrangement, SNGs are now only responsible for funding "fixed" operating costs, such as electricity, water, and heating, as well as maintenance and repair of physical assets (e.g., schools, kindergartens, and clinics) that are officially registered as SNG (primarily soum) property. Since 2022, responsibility for all other recurrent costs—so-called "variable" costs—have shifted back to the line ministries and is funded through the state budget. These costs include salaries for teaching and health staff, as well as essential teaching materials, medical supplies, and other inputs.[200]

There is a significant lack of clear specifications regarding the expected service or output standards and unit costs for various core base budget functions, making it challenging to determine the required level of spending by SNGs. The primary reference for these standards comes from budget input cost norms established by the MoF and sectoral ministries. These norms define allowable unit costs for different geographic areas and categories of aimags and soums. While these cost norms are essential for ensuring consistency and predictability, they are frequently criticized for their rigidity. This rigidity limits the ability of SNGs to tailor expenditures to local needs—undermining one of the core objectives of decentralization. Moreover, the norms often fail to keep pace with inflation, eroding their relevance and placing additional pressure on SNG budgets. Capital spending, which has risen sharply in recent years due to substantial increases in surplus and retained revenues for discretionary spending, faces similar challenges. There is limited guidance on priority-setting, project planning, and the appraisal and selection of project proposals. Aside from the regulations governing LDF expenditures, there is little guidance for SNGs to ensure efficient and effective capital investment. This lack of clear criteria and capacity increases the risk of suboptimal investment decisions, undermining the impact of rising capital expenditures (see Chapter 8).

Surplus/deficit transfer mechanism

Mongolia's surplus/deficit transfer mechanism is characterized by an overly complex budget preparation and review process, involving multiple iterative steps between different tiers of government. During the initial budget submissions in July, aimags and soums are not provided with clear budget ceilings, so their proposals are then subject to line-item adjustments (typically cuts to spending budgets, and often increases to revenue budgets). After Parliamentary approval of fiscal transfers in November, CRKhs at SNGs then approve their own final budgets, which usually reflect much higher spending and revenue levels than those in the earlier agreements signed off with MoF. This is possible since they only need to be consistent with the deficit/

199. Spending mandates for aimags and soums are outlined in the revised LATUG 2020, Articles 21–23, while similar mandates for UB city and its districts and khoroos are detailed in Articles 24, 25, and 26. These mandates are then reprised, albeit not fully consistently, in Article 8 of the 2021 Law on Legal Status of Ulaanbaatar.

200. The rationale behind the suspension of this critical delegated mandate remains unclear. Some stakeholders argue that previous funding arrangements for delegated functions were so restrictive that SNGs had little flexibility in how funds were spent, thereby undermining the intended benefits of decentralization.

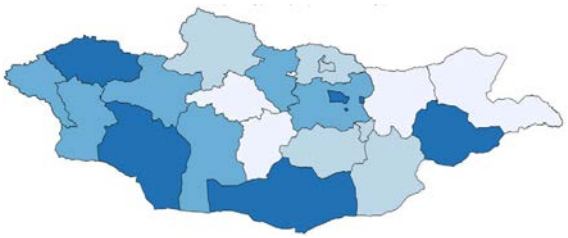
surplus transfer amounts as approved by Parliament as part of the state budget, regardless of the levels of earlier agreed SNG revenues and spending upon which these transfers had been calculated. A significant portion of the difference is attributed to retained revenues and the associated discretionary spending, primarily for capital projects. These funds are often carried over to subsequent fiscal years, giving SNGs additional flexibility in their spending decisions. The 70:30 rule,[201] which governs the retention of surplus revenues, is frequently adjusted in practice, especially at the soum level. While these adjustments may be in some cases justified, they reduce predictability and increase local discretion, complicating fiscal planning. Additionally, budget review and negotiations between SNGs and the MoF tend to focus on detailed spending and revenue line items rather than strategic objectives. This approach reinforces a culture of input-based budgeting, making it difficult to shift toward a results-oriented budgeting system.

Equity and allocative efficiency

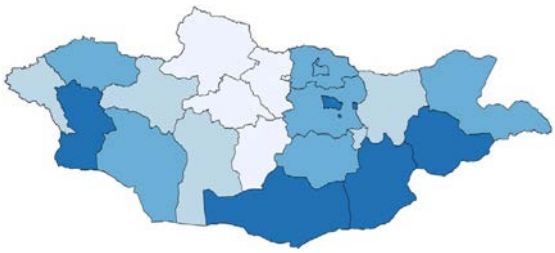
The current system of intergovernmental finance creates significant spending disparities across the country for both capital and current spending, potentially indicating some misallocation of resources. In particular, several provinces in southern Mongolia have significantly higher per capita consolidated current and capital spending for aimags and soums (Figure 10.5).[202] Spending disparities among local governments are primarily driven by the unequal distribution of income tax bases assigned to SNGs. Aimags with higher CIT collections leverage the existing bottom-up calculation system to retain a larger share of these revenues, allowing them to finance additional expenditures. Similarly, the assignment of PIT to soums has created similar financing imbalances, further exacerbating regional inequities across the country (Figure 10.3 and 10.4). These patterns of unequal spending and revenue retention highlight the inefficiencies inherent in the current system, reinforcing concerns about the misallocation of resources and its impact on regional equity.

Figure 10.5. Significant spending inequity for both current and capital spending at the aimag level

a. Actual Current Spending per capita, 2021



b. Actual Capital Spending per capita, 2021



Source: MoF data.

Note: The figure shows current and capital spending per capita by aimag in MNT (with darker blue shades indicating higher MNT per capita spending). Values expressed in millions of MNT.

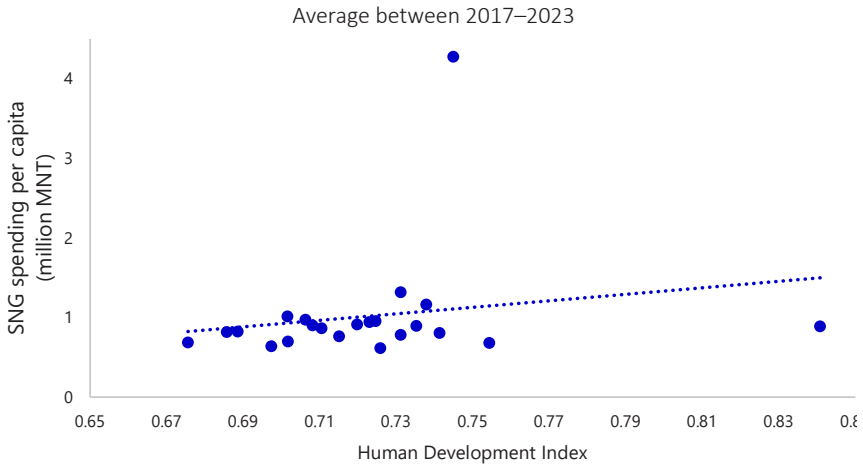
a. *0.7 – 12.9;* *12.9 – 18.9;* *18.9 – 25.0;* *25.0 – 32.4.*

b. *0.1 – 1.2;* *1.2 – 2.5;* *2.5 – 3.7;* *3.7 – 35.9.*

201. Present policy stipulates that aimags must remit 30 percent of their agreed surplus to central government, but some evidence suggests that this may be flexible; it is unclear what portions should be remitted by surplus soums to their aimags, and this appears to be determined on a case-by-case basis, but evidence suggests that surplus soums retain far less than 70 percent.

202. As of 2024, the variance in per capita spending among the 21 SNGs is striking. Umnugobi records the highest per capita spending, which is 34 times greater than that of Bayan-Ulgii, the aimag with the lowest spending level.

Figure 10.6. Overall SNG spending has no relationship with the government's own Aimag Development Index

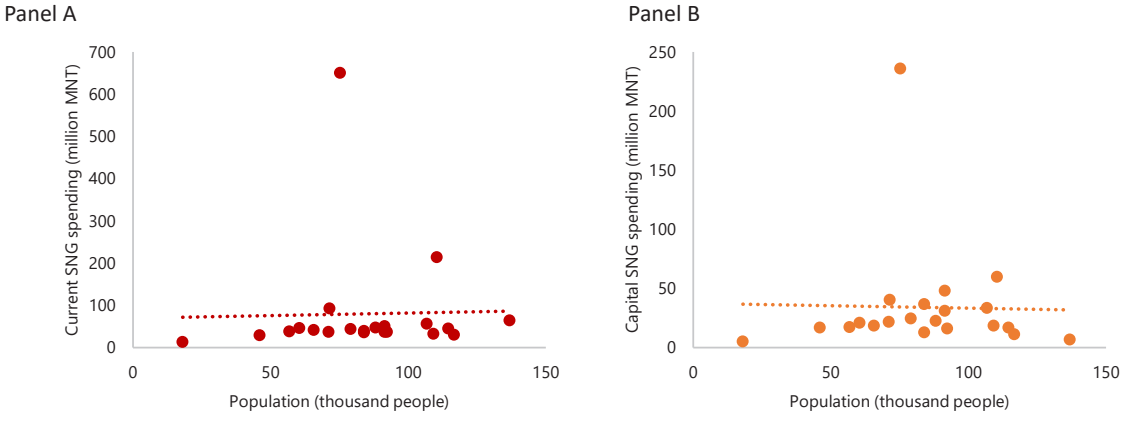


Source: National Statistics Office and Ministry of Finance.
Note: GRDP = Gross regional domestic product. The trend line reflects R^2.

The lack of correlation between SNG spending and development outcomes provides a preliminary indication of weak spending efficiency. Specifically, total SNG spending shows a weak relationship with the government's Aimag Development Index—a proxy for the level of development—as illustrated in Figure 10.6. However, further quantitative analysis is required to explore this issue more comprehensively.

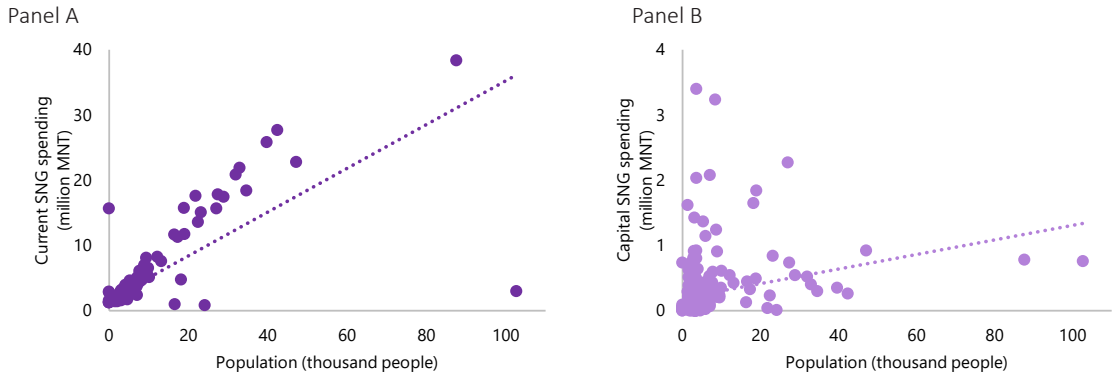
Disaggregating SNG spending reveals a weak correlation between both capital and current expenditures and population at the aimag and soum levels, with the exception of soum current expenditures. For aimags, both current and capital spending show limited alignment with population size, suggesting that areas with larger populations—which likely require more resources for service delivery—may not be receiving adequate funding (Figure 10.7). In contrast, soum current expenditures demonstrate a strong relationship with population size, indicating that current spending at the soum level may be more effectively aligned with population-based needs (Figure 10.8). However, soum capital expenditures, like those at the aimag level, show no meaningful correlation with population.

Figure 10.7. Aimags current and capital expenditures show a very weak correlation with population size in 2023



Source: National Statistics Office and Ministry of Finance. The trend lines reflects R^2.

Figure 10.8. Soum current expenditures show a strong correlation with population size, whereas capital expenditures demonstrate no such relationship in 2021



Source: National Statistics Office and Ministry of Finance. The trend line reflects R^2.

Complexity and fragmentation

SNG base recurrent spending is managed through an unnecessarily complex framework for intergovernmental transfers, driven by the combination of substantial income tax revenue assignments to SNGs and the deficit/surplus transfer system. Assigning CIT and PIT to SNGs provides excessive resources, especially to high-income tax-generating SNGs, requiring a cumbersome, negotiated system of surplus transfers to remit excess funds back to the central government. The deficit/surplus transfer process relies on a bottom-up approach, where SNGs submit proposals for revenue collection and spending, which are then reviewed and adjusted by the MoF, the central government parliament, and the local parliament. This process effectively becomes a negotiation between SNGs and the central government. The absence of clear, objective criteria for estimating fiscal needs and capacities further exacerbates allocative inefficiencies and adds unnecessary complexity to the system.

SNG capital spending is highly fragmented, with unclear mandates between the central government and SNGs regarding financing responsibilities. Local government capital spending is funded through three main sources: (i) the Local Development Fund (LDF) (see Box 10.2), (ii) retained surpluses and other own-source revenues of SNGs, and (iii) capital spending by central government line ministries. Although the LDF is a structured and objective central government grant designed specifically for capital spending, its contribution to total SNG capital spending remains relatively low (21 percent on average over 2019–2023 of total SNG budget for capital spending). Moreover, the lack of clear differentiation between what the central government and SNGs are permitted to finance with their resources leads to inefficiencies in project prioritization and selection, ultimately affecting resource allocation (see also Chapter 8).

Box 10.2. Local Development Fund (LDF)

The LDF was established under the 2012 IBL (Articles 59 and 60) to support community and local investment projects based on locally determined priorities. Since its introduction, LDF transfer financing has grown significantly. However, its contribution to total SNG capital spending remains relatively modest. Despite this, the LDF carries disproportionate policy and political significance for several key reasons: (i) as in its early years, before the expansion of various "surplus" SNG revenues, the LDF was virtually the only discretionary budget resource available to SNGs; (ii) LDF has strong regulatory requirement for citizen participation and its unique position as a budgetary resource over which SNGs have considerable discretion without prior central government control; and (iii) LDF is the only formula-based fiscal transfer mechanism in Mongolia, making it a critical model for deriving policy lessons and guiding future reforms of the fiscal transfer system.

The LDF transfer mechanism consists of two distinct fiscal transfer components:

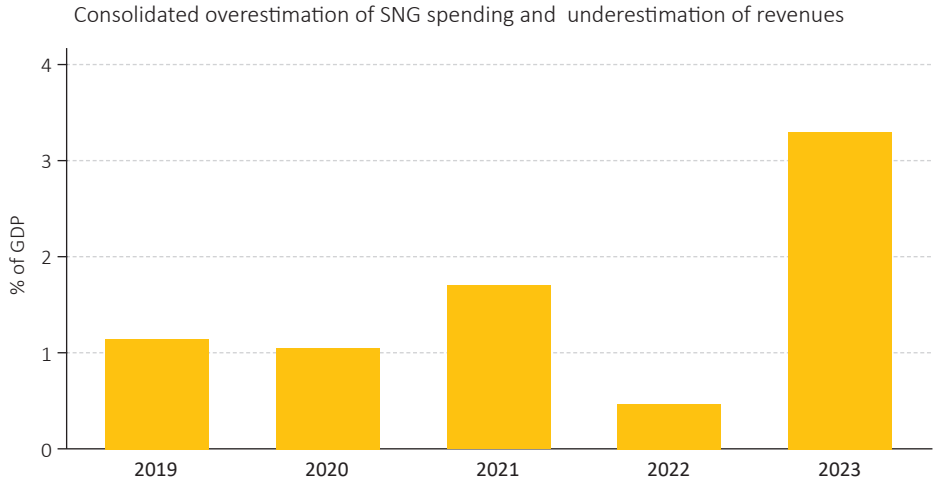
A. **Formula-based General Local Development Fund (GLDF) transfers:** This is the primary component and is funded annually through percentages of central revenue sources specified under Art. 60.2 of the IBL. Over the past decade, the revenue sources and their respective percentages have undergone multiple changes. Currently, funding is derived entirely from the extractive industry-related revenues, including oil royalties. GLDF transfers are distributed to aimags (provinces) based on a formula that also provides allocations to soums. The formula is outlined in Article 59.2 of the IBL and considers three equally weighted criteria: population; aimag development index; and a composite index of land area and distance from UB City.

B. **LDF revenue-sharing transfers of select mining royalties:** In 2017, the IBL introduced provisions for revenue-sharing from select mining-related royalties and other revenues. These revenues were allocated directly to mining localities on a fixed percentage basis, alongside the GLDF allocations. However, changes in 2022 altered this arrangement. Mining revenues are now split between allocations to the GLDF and mining areas of origin, but the method of distribution has become less transparent and lacks proportionality. This revised framework has resulted in significant disparities between mining regions and non-mining areas, raising equity concerns. Additionally, the economic policy rationale for distributing revenues based on derivation remains unclear. This dual-component mechanism illustrates the complexities and challenges in balancing revenue distribution, equity, and economic policy goals. The economic policy rationale for the LDF mining revenue-sharing arrangements raises similar questions to those associated with CIT revenue-sharing practices.

Fiscal discipline

The bottom-up approach to calculating fiscal transfers (surplus/deficit) creates strong incentives for SNGs to underestimate their revenue projections and overestimate their spending needs to secure larger transfers. The central government does not determine transfer amounts using objective criteria for spending needs such as population size or land area. Instead, it relies on SNGs to submit proposals detailing their projected recurrent spending and revenues from assigned taxes. These proposals are subsequently adjusted by the MoF and finalized by the national parliament. Since the surplus/deficit transfer amounts are based on the figures approved by the national parliament, SNGs are motivated to strategically understate revenues and overstate spending in their proposals to maximize their transfers. This practice weakens fiscal discipline, as the central government may allocate more resources to SNGs than are genuinely needed. Figure 10.9 provides an approximate estimation of the total over- or underestimation of spending and revenues as a share of GDP, while Figure 10.10 highlights significant geographical variations in these patterns across aimags.

Figure 10.9. The current surplus/deficit transfer system leads to significant overestimation of spending and underestimating of revenues by SNGs

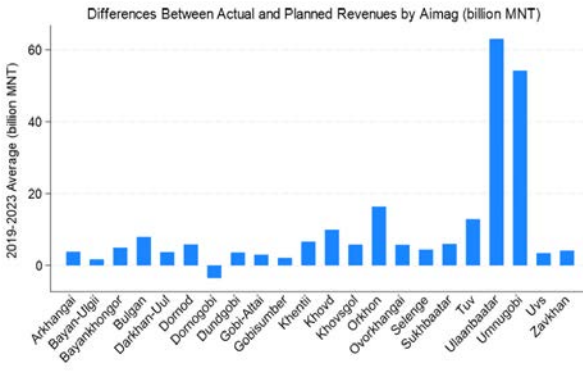


Source: WB staff estimates, Ministry of Finance, Mongolia.

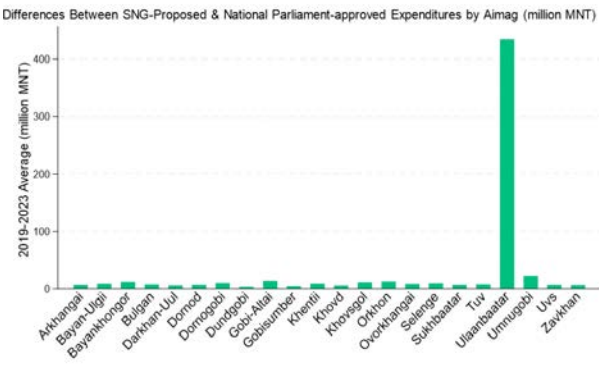
Note: The calculation is based on the sums of differences between two components: (1) aimags' individual actual and planned revenues, and (2) aimags' individual locally-proposed and national parliament-approved expenditures.

Figure 10.10. Difference in actual and planned revenues/expenditures vary substantially across SNGs, implying heterogeneity of fiscal implications and fiscal discipline across the country

Panel A



Panel B



Source: WB staff estimates; MoF.

Overall, the SNG budget credibility and fiscal discipline are undermined by several practices. These include the lack of clear or credible budget ceilings given to SNGs to discipline their budget preparation process; the iterative budgeting process and the seemingly arbitrary changes made; the latitude allowed to SNGs to retain substantial "surplus" revenues and approve budgets at wide variance with those agreed with MoF; and the discretionary changes made to the "70 percent surplus retention" rule. Underlying this, the main focus of the budget review and negotiations between SNGs and MoF continues to be on line items, cementing a budget culture antithetical to a result-based framework. This also undermines transparency, rule-compliance, and efficiency in PFM.

10.3. Recommendations

A reformed fiscal transfer system has the potential to deliver substantial benefits at the SNG level, including: (i) enhancing geographic equity while minimizing political interference in fiscal allocations; (ii) fostering disciplined budget prioritization within clear resource limits, thus supporting the relevant objectives of the NRP, the Government's Action Program and the Regional Development Policy; (iii) strengthening the coordination between recurrent and capital budget decisions; and (iv) facilitating a shift toward a more results-focused budget framework. However, implementing such reforms will be politically challenging and necessitate careful management of "winner/loser" dynamics. To achieve this, two broad areas of reform to the intergovernmental fiscal framework are crucial:

Clarification of SNG spending mandates and revenue assignments

Clear definition of SNG spending responsibilities is essential, with a particular focus on specifying capital investment mandates as well as base current spending responsibilities and expected delivery costs. Simultaneously, SNG revenue assignments need to be reviewed, including reassigning PIT to the central government and integrating CIT revenue-sharing into a formula-based transfer pool. These measures will clarify spending expectations of SNGs and delineate the roles of central government and the two tiers of SNG aligning spending responsibilities with revenue capacities. This in turn will allow the necessary reforms to the fiscal transfer system to enhance equity and allocative efficiency.

Reforms in the fiscal transfer system

The fiscal transfer system requires significant reforms to achieve vertical and horizontal balance while strengthening performance-based incentives. A key change is to replace the current complex and iterative review process for SNG budget proposals with an objective, formula-based allocation system for current spending transfers. As a more reliable and transparent mechanism for determining SNG fiscal gaps, this approach can restore positive incentives for sound local PFM. Such allocations could be segmented into suballocations for local administration costs and service delivery to ensure more effective use of funds. Reforms to capital investment transfers are also essential, with proposals to introduce larger, formula-based single- or multi-sector transfers for strategic, high-impact investments, while redefining the LDF to focus on small-scale community investments with clearer criteria and more equitable allocation. Leveraging international best practices, these allocation formulas should be carefully introduced with stakeholder engagement to ensure a smooth transition from longstanding practices. Additionally, after clarifying SNG spending mandates and own-revenue assignments, preliminary surveys and analyses will be required to establish baseline estimates of revenue potential and spending responsibilities across SNGs, providing the foundation for the design and calibration of new allocation formulas. These reforms aim to create a more transparent, equitable, and performance-driven fiscal transfer system that better aligns resources with local responsibilities and promotes strategic public investment.

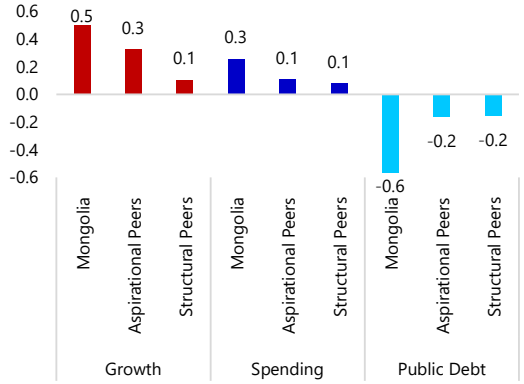
A major additional benefit of reforming the fiscal transfer system to a formula-based allocation model is an opportunity to streamline and improve the annual budgeting process. This shift would eliminate the need for the current cumbersome iterative process of budget negotiations between SNGs and the MoF. By providing SNGs with credible, advance notice of their forthcoming fiscal transfers for both current and capital expenditures, SNGs will be able to prepare their budgets within clear, predefined ceilings. This predictability will create stronger incentives for SNGs to make realistic revenue forecasts and prioritize their own current and capital investment spending. It will also enhance the coordination of current and capital budget decision-making, enabling SNGs to better align long-term recurrent cost commitments with the maintenance and management of capital assets. Additionally, the reform creates the potential to shift from a line-item budget approach to a more results-based framework, fostering a stronger focus on outcomes. Furthermore, the introduction of performance-based incentives could encourage better PFM and improved subnational governance at both aimag and soum levels. Such incentives could be tailored to different types of spending, drawing on the MoF's experience with the Annual Performance Assessment and Performance-Based Grant mechanism for the LDF.

ANNEXES

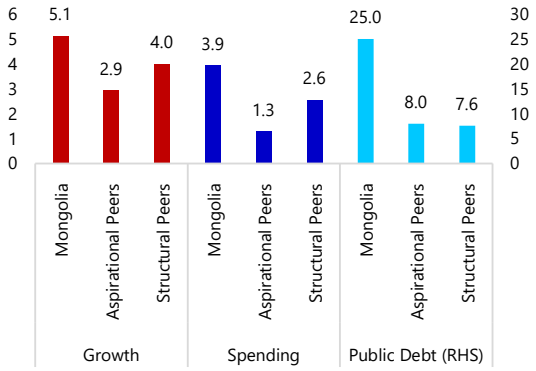
Annex 1: Additional Charts for Chapter 1

Figure A.1.1. Mongolia's output, public spending, and public debt have been both more closely linked to the global commodity price cycle, and more volatile, than peer countries

(a) Correlation coefficients between the World Bank global commodity price index and (i) real GDP growth; (ii) public expenditure; (iii) gross public debt, 2004–2022



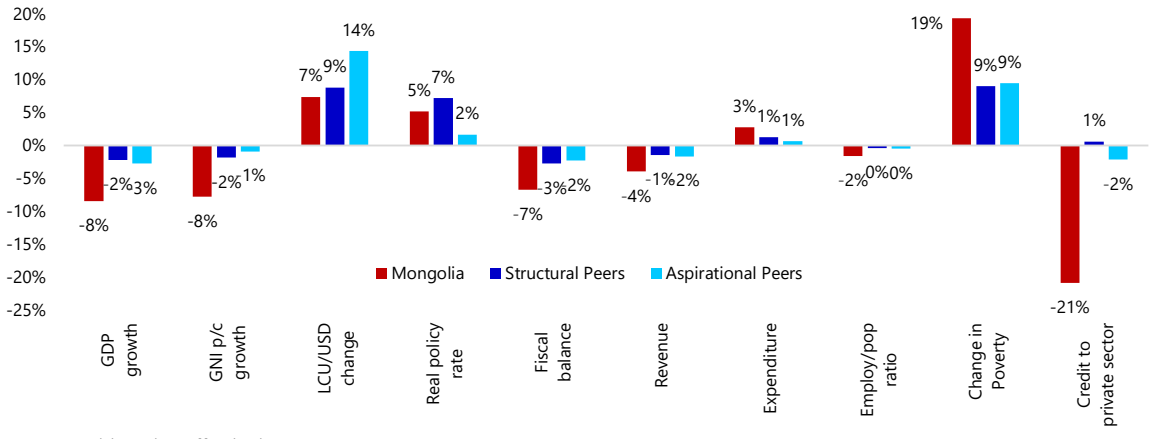
(b) Standard deviation of Real GDP growth, public expenditure, and gross public debt, 2004–2022



Source: WB staff calculations based on WDI and IMF WEO October 2023 data.

Figure A.1.2. These negative impacts are much worse in Mongolia than in peer countries

Difference between indicator averages in commodity price Bust times versus Boom times

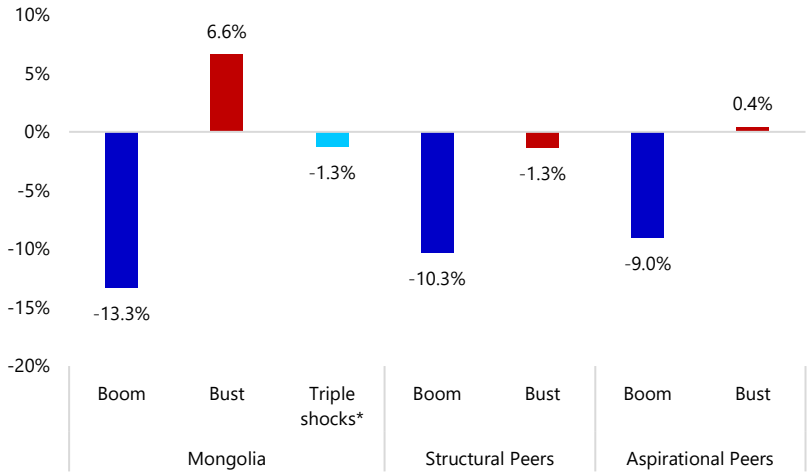


Source: World Bank staff calculations.

Note: Analysis does not include the COVID-19 pandemic period (2020–2022). Boom times (2010–2014, 2017–2019) and Bust times (2009, 2015–2016) determined based on annual changes in the World Bank global commodity price index. Local Currency Unit (LCU)/USD is average annual change. Fiscal data is as a percent of GDP. Employment/population ratio is 15+ years. Change in poverty reflects the change in the headcount poverty ratio measured at USD6.85 a day, 2017 PPP. Credit to private sector is average annual growth.

Figure A.1.3. Historically, bust times are associated with large increases in poverty in Mongolia but not in peer economies—but poverty did not increase during the triple shocks due to the large fiscal response, made possible by countercyclical policy during 2017–2019

Average change in poverty headcount ratio (measured at USD6.85 a day, 2017 PPP) in Bust times versus Boom times



Source: World Bank staff calculations.

Note: Analysis does not include the COVID-19 pandemic period (2020–2022). Boom times (2010–2014, 2017–2019) and Bust times (2009, 2015–2016) determined based on annual changes in the World Bank global commodity price index.

Annex 2: Additional Analysis from the DSA (Chapter 1)

Table A.2.1. DSA baseline scenario, key indicators and contribution to change in extended public debt

Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2013-2021 [2/]	2022	2023	2024	2025	2026	2027	2028	2029
Nominal gross public debt	83.2	73.0	52.8	51.3	47.7	45.3	43.5	42.3	43.0
Public gross financing needs	16.2	0.5	10.1	7.2	6.7	7.0	11.7	5.6	11.7
Real GDP growth (in percent)	4.4	5.0	7.1	4.8	6.6	6.2	5.9	6.1	6.0
Inflation (GDP deflator, in percent)	7.1	17.0	19.9	6.4	8.0	8.7	7.5	7.1	6.2
Nominal GDP growth (in percent)	11.8	22.8	28.4	11.5	15.1	15.5	13.8	13.6	12.6
Effective interest rate (in percent) [4/]	5.6	2.3	2.8	3.5	4.7	4.4	5.7	5.4	5.6

As of June 30, 2024		
Sovereign Spreads		
EMBIG (bp) 3/		293
5Y CDS (bp)		NA
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2013-2021	2022	2023	2024	2025	2026	2027	2028	2029	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.4	-3.3	-20.2	-1.5	-3.6	-2.4	-1.7	-1.2	0.7	-9.8	
Identified debt-creating flows	5.0	-7.3	-12.1	-2.9	-4.5	-3.3	-2.4	-1.9	0.1	-14.9	
Primary deficit	5.3	-2.1	-4.2	-0.2	-0.4	-0.5	-0.3	-0.2	0.0	-1.6	0.1
Primary (noninterest) revenue and grants	26.6	33.8	34.5	33.7	34.8	34.6	34.9	35.3	35.1	208.5	
Primary (noninterest) expenditure	31.9	31.6	30.3	33.5	34.4	34.1	34.6	35.1	35.1	206.9	
Automatic debt dynamics [5/]	0.4	-6.5	-9.4	-3.8	-4.7	-4.6	-3.2	-3.1	-2.6	-22.0	
Interest rate/growth differential [6/]	-4.8	-12.7	-14.5	-3.8	-4.7	-4.6	-3.2	-3.1	-2.6	-22.0	
Of which: real interest rate	-2.1	-9.6	-10.5	-1.5	-1.7	-2.0	-0.9	-0.8	-0.4	-7.3	
Of which: real GDP growth	-2.8	-3.1	-4.0	-2.3	-2.9	-2.6	-2.3	-2.3	-2.3	-14.7	
Exchange rate depreciation [7/]	5.2	6.2	5.1	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.7	1.2	1.5	1.1	0.5	1.7	1.2	1.4	2.8	8.8	
Privatization/Draw-down of Deposits (negative)	-0.7	1.2	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt creating flows	0.0	0.0	0.0	1.1	0.5	1.7	1.2	1.4	2.8	8.8	
Residual, including asset changes [8/]	-1.7	4.0	-8.1	1.4	0.8	0.9	0.7	0.7	0.6	5.0	

Source: World Bank staff.

1/ Public sector is defined as general government.

2/ Based on available data and includes BOM's external liabilities (PBOC swap).

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

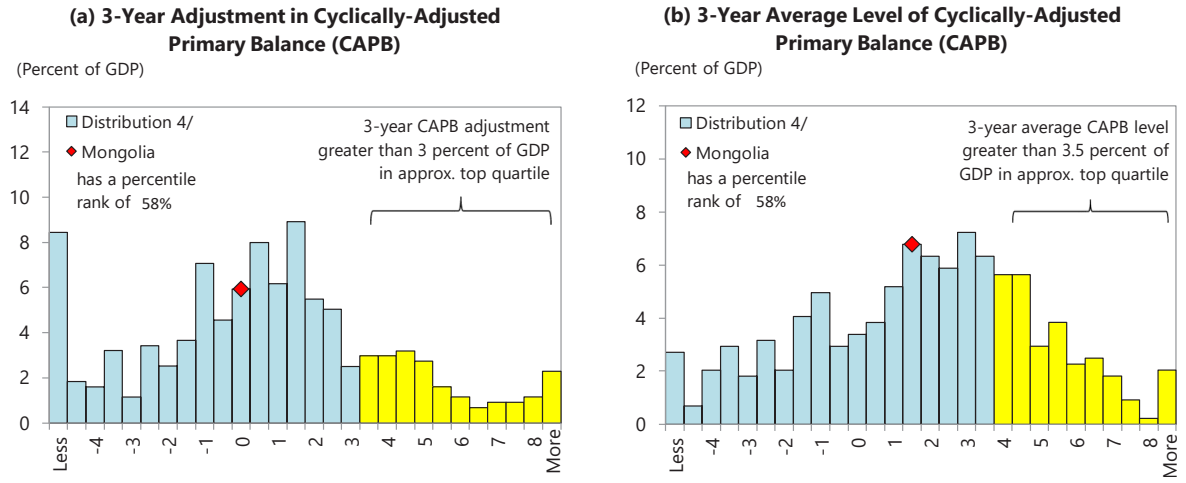
6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

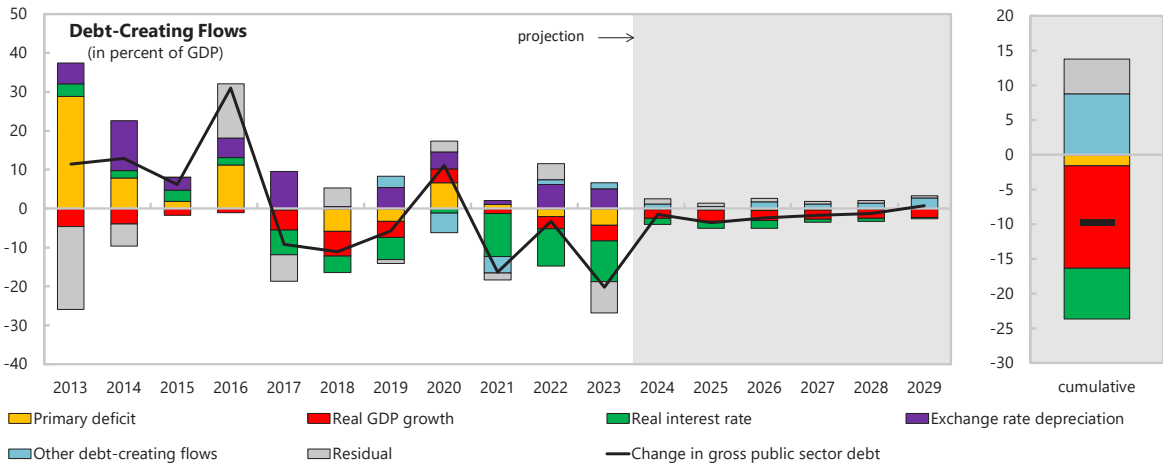
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A.2.1. Assessing the realism of the projected fiscal adjustment



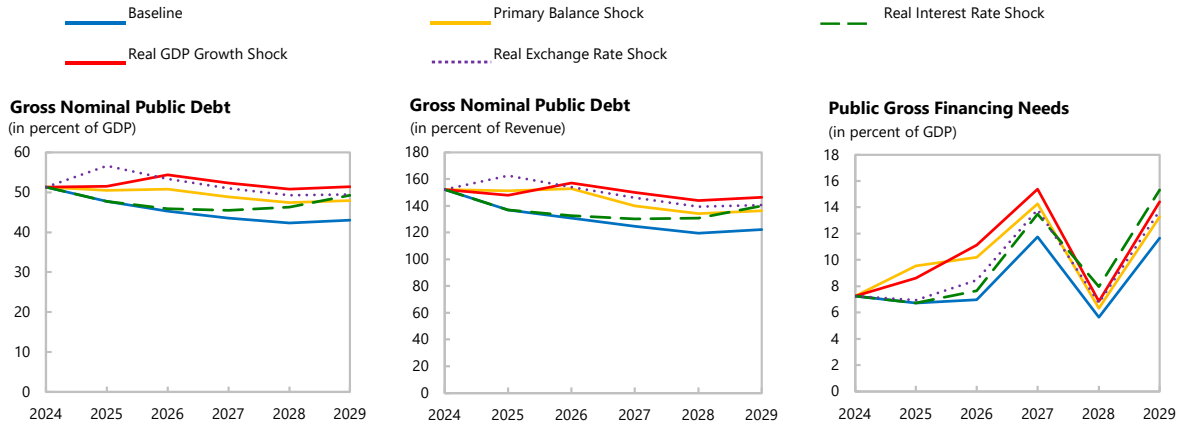
Source: World Bank staff.

Figure A.2.2. Debt-creating flows



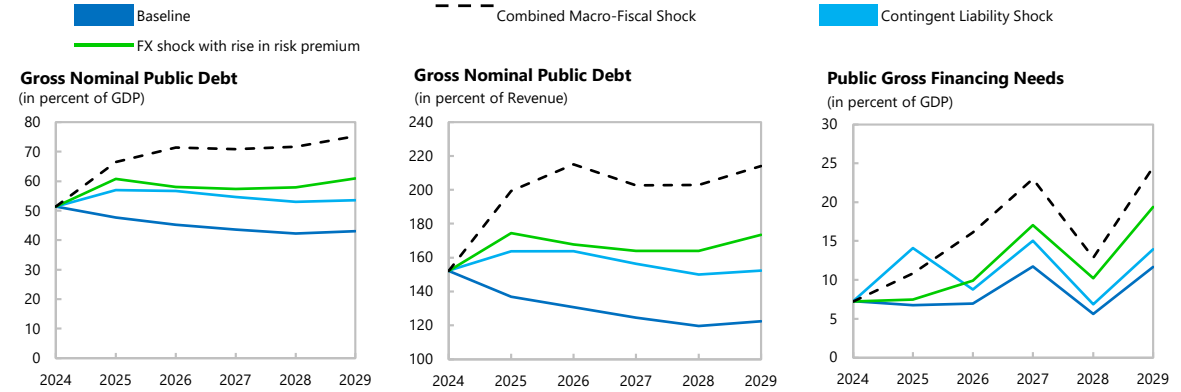
Source: World Bank staff.

Figure A.2.3. Macrofiscal stress tests



Source: World Bank staff.

Figure A.2.4. Additional stress tests



Source: World Bank staff.

Table A.2.2. Underlying assumptions

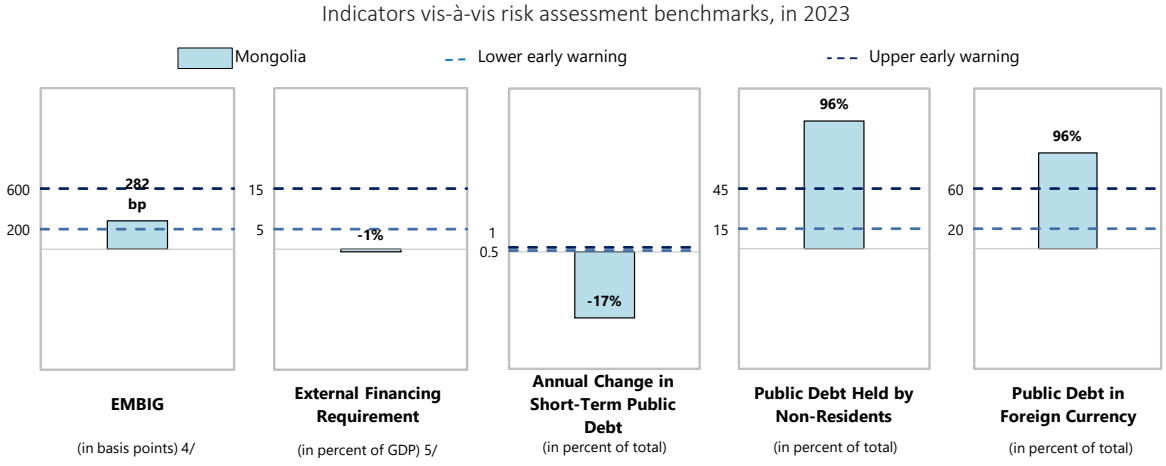
In percent

Primary Balance Shock	2024	2025	2026	2027	2028	2029
Real GDP growth	4.8	6.6	6.2	5.9	6.1	6.0
Inflation	6.4	8.0	8.7	7.5	7.1	6.2
Primary balance	0.2	-2.4	-2.3	0.3	0.2	0.0
Effective interest rate	3.5	4.7	4.6	6.1	5.6	5.7
Real Interest Rate Shock						
Real GDP growth	4.8	6.6	6.2	5.9	6.1	6.0
Inflation	6.4	8.0	8.7	7.5	7.1	6.2
Primary balance	0.2	0.4	0.5	0.3	0.2	0.0
Effective interest rate	3.5	4.7	6.0	9.1	10.6	11.6
Combined Shock						
Real GDP growth	4.8	2.8	2.4	5.9	6.1	6.0
Inflation	6.4	7.0	7.8	7.5	7.1	6.2
Primary balance	0.2	-2.6	-4.1	0.3	0.2	0.0
Effective interest rate	3.5	5.8	6.2	9.8	11.1	11.9
FX shock with rise in risk premium						
Real GDP growth	4.8	6.6	6.2	5.9	6.1	6.0
Inflation	6.4	8.0	8.7	7.5	7.1	6.2
Primary balance	0.2	0.4	0.5	0.3	0.2	0.0
Effective interest rate	3.5	5.8	5.8	9.0	10.6	11.7

Real GDP Growth Shock	2024	2025	2026	2027	2028	2029
Real GDP growth	4.8	2.8	2.4	5.9	6.1	6.0
Inflation	6.4	7.0	7.8	7.5	7.1	6.2
Primary balance	0.2	-1.2	-2.7	0.3	0.2	0.0
Effective interest rate	3.5	4.7	4.5	6.1	5.6	5.7
Real Exchange Rate Shock						
Real GDP growth	4.8	6.6	6.2	5.9	6.1	6.0
Inflation	6.4	15.9	8.7	7.5	7.1	6.2
Primary balance	0.2	0.4	0.5	0.3	0.2	0.0
Effective interest rate	3.5	5.8	4.3	5.7	5.4	5.5
Contingent Liability Shock						
Real GDP growth	4.8	2.8	2.4	5.9	6.1	6.0
Inflation	6.4	7.0	7.8	7.5	7.1	6.2
Primary balance	0.2	-6.6	0.5	0.3	0.2	0.0
Effective interest rate	3.5	5.0	5.0	6.0	5.7	5.8

Source: World Bank staff.

Figure A.2.5. Public DSA debt profile vulnerabilities and early warning benchmarks



Source: WB staff calculations.

Note: 4/ Emerging Market Bond Index Global (EMBIG), an average over the last 3 months, 1 April 2024 through 30 June 2024.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium- and long-term total external debt, and short-term total external debt at the end of previous period.

Box A.2.1. DSA Coverage and Shock Scenario Results

A. COVERAGE

For the DSA, the coverage of public debt has been expanded to include public and publicly guaranteed (PPG) debt, DBM contingent liabilities, PPPs, and the BoM's liabilities to the IMF and the PBOC. The definition of public debt in the DSA is comprehensive and includes (i) consolidated public debt of the general government (in local and foreign currency); (ii) government guarantees of external borrowing in foreign currency by SOEs; (iii) non-guaranteed domestic and external borrowings; (iv) BT type concession projects; (v) IMF credit; and (vi) BoM's PBOC swap.[203] The DSA is assessed over a five-year projection period (i.e., 2024–2029).

B. SHOCK SCENARIOS

The extended public debt and financing needs projections are particularly sensitive to shocks to growth, the exchange rate, and contingent liabilities in the financial sector and SOEs, as well as the transfer of the HMP debt stock to the GoM/an SOE. Shock scenario figures are presented in Figures A.2.3 and A.2.4.

- **Growth shock:** If growth declined by one standard deviation in 2025 and 2026, the debt-to-GDP ratio would rise to 54.4 percent in 2026, reversing the improvements in debt dynamics over the past three years. It would also increase gross financing needs between 1 and 4 percentage points of GDP each year throughout the projection period, with needs peaking at 15.4 percent of GDP in 2027.
- **Exchange rate shock:** An exchange rate depreciation also poses a significant risk to extended public debt, given that as of now almost all the debt is foreign currency denominated. A nominal exchange rate depreciation of 32 percent in 2025 would immediately increase debt to 56.6 percent of GDP, compared to 47.7 percent in the baseline, and keep the debt-to-GDP ratio over 7.6 percentage points higher than in the baseline over the projection period. Gross financing needs would also rise throughout the projection period. A customized scenario with exchange rate depreciation and a significant increase in the risk premium of FX-denominated liabilities ("FX shock with rise in risk premium") would result in even larger persistent increases in extended public debt and gross financing needs.
- **Real interest rate shock:** Mongolia's sovereign spreads are highly sensitive to market sentiment, with significant implications for debt refinancing costs. Assuming a spike in sovereign spreads by 1040 basis points (the difference between the maximum real interest rate over the last 10 years and the average real interest rate over the projection period) after 2024, gross financing needs would increase in every year over the projection period, rising to almost 15.3 percentage points of GDP higher in 2029.
- **Contingent liability shock in financial sector and SOEs:** The realization of these risks would lead to large fiscal costs for the GoM. To examine the effect of this scenario, the contingent liability shock assumes: (i) one-off fiscal costs in 2025 of 2.8 percent of GDP to recapitalize the banking sector,[204] 2.4 percent of GDP to cover outstanding debts from nonfinancial SOEs (see Chapter 2), and 1.0 percent of GDP to support ETT to meet its obligations; and (ii) a decline in real GDP growth of one standard deviation (the same shock as above). Under this scenario, extended public debt would rise to 56.9 percent of GDP in 2025 and gross financing needs would increase significantly throughout the projection period.
- **Primary balance shock:** The DSA considers a primary balance shock in 2025 and 2026 equivalent to 2.8 percent of GDP (around half of the 10-year historical standard deviation) combined with an increase in interest rates of 25 basis points for every 1 percent of GDP worsening in the primary balance. Under this scenario, the extended public debt trajectory worsens and the impact on the gross financing needs is immediate and significant.
- **Combined macro-fiscal shock:** Under a scenario with combined shocks to both GDP growth and the primary balance (of the same magnitudes as discussed above), extended public debt would deteriorate to 71.4 percent of GDP in 2026 and remain above 70 percent over the projection period. Gross financing needs would also rise between 4 and 13 percentage points of GDP each year, reaching a high of 24.5 percent of GDP in 2029.

203. The inclusion of the PBOC swap in public debt for the DSA is consistent with IMF policy on the MAC-DSA (see Annex II of the 2021 MAC-DSA review) since the PBOC swap is not part of the BoM's monetary or liquidity operations, but medium-term balance of payments support to boost gross reserves. It has been included in the DSA since the swap was initiated in 2011 and is also consistent with the practice of including IMF credit in the DSA.

204. This reflects IMF 2022b estimates of the recapitalization needs for distressed banks under an adverse scenario where system wide NPLs rise in line with the experience in the 2008 global financial crisis. The magnitude of this shock thus represents an extreme but plausible shock.

Annex 3: Supplementary Material for Chapter 3

Table A.3.1. Overview of major taxes in Mongolia

Tax	Base	Governing law	Tax rate
VAT	Supplies made by registered businesses with taxable supplies of MNT 50 million or more. Voluntary registration if sale are above MNT 10 million.	Law on VAT	10 percent
CIT	Profit from business activities by economic entities including company, partnership, cooperative, state-owned, or locally owned enterprise that is registered in the state registry and carries out business activities.	Economic entity income tax	Progressive scale from 10 to 25 percent
PIT	Income from salary, business activities or professional activities, property, transfer of property or other sources by individuals.	Personal income tax	Progressive scale from 10 to 20 percent
SIT	Citizens of Mongolia, foreign citizens, and stateless persons employed under a contract by all types of economic entities, organizations, civil servants, religious or other organizations, and foreign economic entities carrying out activities in Mongolia are subject to compulsory social insurance tax.	General law on social insurance	Employer's contribution varies from 12.5 to 14.5 percent; Employee contribution is 11.5 percent capped at 759,000 per month.
Excise	Alcohol, tobacco, gasoline and diesel fuels, automobiles, gambling, and equipment used in gambling.	General Taxation Law	Various
Customs	Imported goods.	Customs law	5 percent for most goods
Mineral royalties	Domestic sales and export of minerals.	Mineral law	5 percent on domestic sales; 5 percent plus additional tax on exports; 5 percent on gold sold to Central Bank; 2.5 percent for domestic sale of coal

Box A.3.1 Corporate tax incentives in Mongolia by policy objective

Box A.3.1. Corporate Tax Incentives in Mongolia by Policy Objective

Mongolia offers several corporate tax incentives to achieve policy objectives like attracting investment, balanced regional development, generating local employment, and incentivizing formalization. Incentives offered to attract investment includes stabilization certificate issued to investor after an ex ante assessment and approval. The investor is required to submit a copy of the business plan and the feasibility study, evidence that the total investment amount and investment completion period meet the minimum requirements under the Investment law of Mongolia, environmental impact assessment; details of how the investment will contribute to creating new jobs, and details of how the investment will utilize advanced technology and techniques. Though the length of stabilization period is publicly known, the terms of stabilization may vary by investor and are based on discretionary powers exercised by the state administrative body in charge of investment affairs.

Intended policy objective	Incentive description	Incentive type
Attract investment	• Stabilization certificate to investors to stabilize tax rate for CIT, VAT, Customs, and mineral royalties for a period that varies from 5 to 18 years based on quantum of investment, sector, and location of project. • Customs duty exemption and zero-rated VAT on imported equipment by projects in certain sectors like construction of a factory for processing construction materials, petroleum, agricultural products, and products intended for export; nano, bio, and innovation technology plant construction; and construction of power plants and railroads. • Free Trade Zones (FTZ) in which companies enjoy CIT, VAT, Customs, Excise, land and property tax related incentives. • Tax credit of 90 percent offered for the first three years starting from the subsequent reporting period of gaining profit to projects that commenced 1 January 2023 onwards and with primary activity income of a heating and electric power production project. • An exemption from corporate tax is available to investors that operate in the oil industry in Mongolia under a product-sharing contract with the Mongolian government.	Reduced CIT rate, Customs duty, and excise exemption in FTZ, reduced VAT rate (included zero-rate)
Balanced regional development	• Longer period of stabilization offered to foreign investors who invest outside Ulaanbaatar region. • When a taxpayer moves its plant or warehouse, which is in the capital city, to outside of the capital city limits, other than Baganuur, Bagakhangai, and Nalaikh district, expenses incurred related to the relocation (meeting the general requirements for the deductible expenses) are deductible from taxable income with additional 50 percent deductibility. This excludes taxpayers holding minerals, radioactive minerals, oil exploration, and mining license. • A tax credit of 50 percent or 90 percent is available to taxpayers that are located in remote provinces. The credit is 50 percent for taxpayers that are 500 or more kilometers away from Ulaanbaatar and 90 percent for taxpayers that are 1,000 or more kilometers away from Ulaanbaatar.	Reduced CIT rate, Customs duty exemption, reduced VAT rate (included zero-rate), Super-deduction, Tax credit
Encourage local employment	• Companies that employ disabled people can get a tax credit in proportion to the percentage of the disabled employees to the total number of employees. • One-off salary expense (of the local employee hired) is deductible from taxable income with additional 20 percent deductibility, for a taxpayer, if it carries out its basic business activities outside of the capital city limits, other than Baganuur, Bagakhangai, and Nalaikh district, and hires a job seeking citizen under an employment agreement for a period of 183 days or more during 12 consecutive months.	Tax credit, super-deduction
Incentivize formalization	• A tax credit of 90 percent is available to a taxpayer whose revenue is less than MNT 1.5 billion and operates in industries other than mining, petroleum, alcoholic beverage, and tobacco.	Tax credit
Encourage start-ups	• A tax credit of 100 percent is available to start-ups in the first five years after company registration. The credit is for domestically produced innovation products, works and services.	Tax credit

Table A.3.2. Capital gains, dividend and interest, Mongolia versus peers

Country	*Regional*	*Structural*	*Aspirational*	*Dividend*	*Capital gains—stock*	*Capital gains—real estate*	*Capital gains—short-term*	*Interest*
Mongolia				0.1	0.1	0.02	na	0.1
Uruguay			x	0.07	0.12	0.024	0.12	0.12
Chile			x	MR	0	0	0	MR
Armenia		x		0.05	na	0.2	na	0.2
Peru		x		0.05	0.05	0.05	0.05	na
Azerbaijan		x		0.05	na	na	na	0.1
Vietnam	x	x		na	na	na	na	na
Kazakhstan			x	0.15	0.15	na	na	0.15
Lao PDR	x	x		0.1	0.02	0.02	na	0
Malaysia	x		x	0	na	0.3	na	0

Note. MR = Marginal rate.

Table A.3.3. Alcohol excise tax rates, 2022-2029 (MNT/L)

Product	**Tiers (in ABV)***	**2022**	**2023**	**2025**	**2027**	**2029**
Beer		350	350	350	350	350
Wine	<35%	870	870	870	870	870
	>35%	7,830	7,830	7,830	7,830	7,830
Spirits (A): All types of white alcohol (including vodka), liqueurs, cordials and other spirits drinks	<25%	3,480	3,700	3,900	4,100	4,300
	25-26%	6,960	7,300	7,700	8,100	8,500
	26-28%	↓	↓	↓	↓	↓
	28-30%	↓	↓	↓	↓	↓
	30-32%	↓	↓	↓	↓	10,440
	32-34%	↓	↓	↓	10,440	11,500
	34-36%	↓	↓	10,440	11,500	12,600
	36-38%	↓	10,440	11,550	12,600	13,800
	38-40%	↓	↓	↓	↓	↓
	>40%	15,660	31,300	34,450	37,900	41,690
Spirits (B): All types of brandy, whiskey, rum and gin	<25%	8,700	9,100	9,600	10,100	10,600
	25-26%	17,400	18,300	19,200	20,200	21,200
	26-28%	↓	↓	↓	↓	↓
	28-30%	↓	↓	↓	↓	↓
	30-32%	↓	↓	↓	↓	26,100
	32-34%	↓	↓	↓	26,100	28,700
	34-36%	↓	↓	26,100	28,700	31,600
	36-38%	↓	26,100	28,700	31,600	34,800
	38-40%	↓	↓	↓	↓	↓
	>40%	20,880	38,280	44,000	50,600	58,200

Source: Excise Tax Law.

Note: *ABV is alcohol by volume, a measure of alcohol strength.

Table A.3.4. Statutory and effective alcohol excise tax rates, 2024

Products	ABV	MNT/L	MNT/LAA
Beer	1.9%	350	18,421
	4.5%	350	7,778
	5.0%	350	7,000
Wine	13%	870	6,692
Liqueur	25%	7,300	29,200
Vodka	36%	10,440	29,000
	39.5%	10,440	26,430
	40%	31,300	78,250
Other spirits	37.5%	26,100	69,600
	40%	38,280	95,700
	43%	38,280	89,023

Source: World Bank staff estimates using Excise Tax Law and prices of widely available brands.
Note: Other spirits are cognac, gin, rum and whiskey.

Scenario analysis for flat CIT rate

It is estimated that additional revenues of 0.5 percent of GDP can be mobilized by adopting a lower flat CIT rate of 22 percent applicable to all companies. Considering a scenario where Mongolia moves to a flat CIT rate regime with a lower rate of 22 percent, and assuming elasticity of tax base with respect to rate of -0.2 (Gruber and Rauh 2005), this would lead to an estimated revenue gain of 0.5 percent of GDP.

Table A.3.5. Scenario where Mongolia adopts a flat CIT rate of 22 percent

Elasticity of tax base	ε	0.2
Current effective tax rate (companies with income > 6 billion)	T_{old}	0.21
Current effective tax rate (companies with income < 6 billion)	t_{old}	0.1
Proposed tax rate	t_{new}	0.22
Fractional change in tax rate of companies with income > 6 billion	$\Delta T = \frac{(1-T_{new})-(1-T_{old})}{1-T_{old}}$	-0.0127
Fractional change in tax rate of companies with income < 6 billion	$\Delta t = \frac{(1-t_{new})-(1-t_{old})}{1-t_{old}}$	-0.1333
Companies with income of more than 6 billion		
Old base (billion MNT)	B	12,302.6
New base (> 6 bn)	B * ε * ΔT	12,146.89
Additional tax (billion MNT)	t_{new} * (B * ε * ΔT)	115.84
Companies with income of less than 6 billion		
Old base (billion MNT)	b	2,155.20
New base (< 6 bn)	b * ε * Δt	1,867.84
Additional tax (billion MNT)	t_{new} * (b * ε * Δt)	163.96
GDP (2022) (billion MNT)		54,878
Additional tax by companies with income > 6 billion) as percentage of GDP		0.21%
Additional tax by companies with income < 6 billion) as percentage of GDP		0.3%

Revenue analysis of increase in VAT rate

Considering that Mongolia has the lowest VAT rate when compared to its peers, increase in VAT rate can also help mobilize additional revenue; it is estimated that Mongolia can raise about an additional 0.6 percent of GDP by merely increasing VAT rate by 1 pp from 10 to 11 percent. This estimate does not take behavioral changes in consumption and compliance into account. However, it will be more realistic to assume that increase in tax rate would lead to lower consumption and compliance. Furthermore, consumer VAT rebate of 20 percent of VAT paid by consumers will also increase with the increase in VAT rate. Table A.3 summarizes revenue impact of increase in VAT rate by 1 pp with and without considering the behavioral response of consumers. Assuming marginal propensity to consume of 0.3 percent, change in compliance due to change in income to be 0.2 percent, and proportionate increase in consumer refunds due to rebate, estimated increase will be slightly lower at 0.58 percent of GDP.

Table A.3.6. Revenue impact of increase in VAT rate by 1 pp

Mongolia	2020	2021	2022
Total final consumption expenditure (MNT mn)	28,570,042	29,580,844	35,422,937
VAT receipts (MNT mn)	2,208,954	2,837,710	3,946,188
VAT repayment (MNT mn)	-348,107	-294,317	-331,415
Net VAT receipts (MNT mn)	1,860,847	2,543,393	3,614,774
Potential VAT (apply 10% to Cons) (MNT mn)	2,857,004	2,958,084	3,542,294
C-efficiency of VAT receipts	77%	96%	111%
C-efficiency of Net VAT receipts	65.13%	86%	102%
GDP (MNT mn)	37,883,042	44,702,733	54,877,816
Consumer VAT refunds (MNT mn)	161,700	205,300	259,600
Consumer VAT refunds (% of VAT net receipts)	8.69%	8.07%	7.18%
MPC	0.30%	0.30%	0.30%
Change in compliance	0.20%	0.20%	0.20%
SCENARIO 1a: VAT OF 11%	11%	11%	11%
Potential VAT (11% rate) (MNT mn)	3,142,705	3,253,893	3,896,523
Estimated VAT net receipts (apply annual C-eff of net VAT) (MNT mn)	2,046,931	2,797,732	3,976,251
Increase in VAT net receipts (MNT mn)	186,085	254,339	361,477
Increase in consumer refunds (as % of additional VAT receipts) (MNT mn)	16,170	20,530	25,960
Net VAT receipts (11% rate) (MNT mn)	2,030,761	2,777,202	3,950,291
Increase in VAT net receipts (MNT mn)	169,915	233,809	335,517
Increase in VAT net receipts (% GDP)	0.45%	0.52%	0.61%
SCENARIO 1b: VAT OF 11% - Adjust for changes in consumption and compliance	11%	11%	11%
Potential VAT (11% rate) (MNT mn)	3,142,705	3,253,893	3,896,523
Decrease in VAT revenue due to lower consumption (MNT mn)	-9,428	-9,762	-11,690
Additional VAT revenue from lower compliance (MNT mn)	-4,094	-5,595	-7,953
Estimated VAT after adjusting for consumption and compliance changes (MNT mn)	2,033,409	2,782,375	3,956,609
Increase in VAT net receipts (MNT mn)	172,563	238,982	341,835
Increase in consumer refunds (as % of additional VAT receipts) (MNT mn)	14,995	19,290	24,549
Net VAT receipts (11% rate) (MNT mn)	2,018,414	2,763,084	3,932,060
Increase in VAT net receipts (MNT mn)	157,568	219,692	317,286
Increase in VAT net receipts (% GDP)	0.42%	0.49%	0.58%

Annex 4: Social Assistance Benefits in Mongolia (Chapter 5)

Table A.4.1. Social assistance benefits in Mongolia

Social Welfare Pension (for individuals not entitled to social insurance pension)
Male aged 60+ and female aged 55 +
Dwarf person aged 16+
Person aged 16+ who lost work capacity at 50% +
Survivor aged below 18 years
Single mother aged 45+ or single father aged 50+ who has four or more children aged below 18 years
Caregiver allowance
Individual who adopted or provide legal guardianship to a fully orphan child (monthly)
Individual who provides foster care to a child victim of violence or child defined by 25.5 of Family Law who needs psychological and physical protection (monthly)
Individual accepted into home who provides care to the single elderly who have no children or relatives (monthly)
Individual accepted into home who provides care to disabled person who have no children or relatives (monthly)
Individual providing care to elderly person who requires permanent care and who is monitored by health care provider (monthly)
Individual providing care to disabled person who requires permanent care and who is monitored by health care provider (monthly)
Individual providing care to disabled child who require permanent care and who are monitored by health care provider (monthly)
Emergency and livelihood support monetary benefit
Household which lost home or whose home was substantially damaged, or household which lost their livelihood means due to calamities and unpredictable events (one-off grant)
Individual aged 18 to 24 years who lost both parents before reaching the age of 18 years (one-off grant)
Individual who was released from prison and who has no home of his/her own (one-off grant)
Single parent who has four plus children aged below 18 years and who (household) has no home/dwelling (one-off grant)
Monthly benefit for a child aged below 16 years who requires permanent care
Quarterly benefit for an adult aged 16+ years who requires permanent care
Child Money Program
Monthly benefit for children aged below 18 years
Benefits and grants for mothers and children
Maternity benefit, provided from fifth month of pregnancy
Child (aged 0 up to 3 years) care benefit (monthly)
Grant: Individual/household raising twin children (once a year)
Grant: Individual/household raising triplets/quadruplets+ children (once year)
Grant: Mother hero (once a year)
Single parent with three plus children aged below 18 years (quarterly benefit)
Food Support Program
Food vouchers for the poorest families identified according to a proxy means test

Grant and concessions for the elderly
Reimbursement of the price for prosthesis and dental implant (except implant by precious metal) purchased domestically (once in five years)
Reimbursement of the price for hearing and visual orthopedic appliance purchased domestically (once every five years)
Concessional voucher for sanatorium and rehabilitation facility which services the elderly
Monetary grant (once a year) to elderly person who has no child or whose child/ren are not able to support the parent for covering utility costs (or for buying firewood/coal in case if elder lives in a *ger*)
Monetary support (once a year) to honored blood-donor elderly for covering utility costs (or for buying firewood/coal in case if elder lives in a *ger*)
50 percent reimbursement (once a year) for voucher and 100 percent of transportation cost (one-way travel only) born by an elder who, upon prescription by a health care provider, received treatment at an accredited domestic sanatorium
100 percent reimbursement (once a year) for voucher cost and 100 percent transportation cost (one way travel only) born by an honored blood-donor elder who received treatment at an accredited domestic sanatorium
Funeral grant (equal to the amount of funeral grant provided from the Social Insurance Fund) in case a single elder who has no children passed away and is not eligible for the funeral grant from Social Insurance Fund
Reimbursement of one-way travel cost to an elder who lives in at least 1,000 kms away from the capital city and who received diagnostic services and medical treatment in the capital city (once a year)
Activity for showing respect to the elderly (who had no firms/organizations to pay respect on the Elderly Day and Lunar New Year)
Services for the elderly
Age Honor grant (provided to the elderly aged 65+ (two times a year)
Grant and concessions for the honored elderly
Monthly benefit for a holder of Hero of Mongolia, or Labor Hero, or Outstanding Distinction titles and a war veteran or a surviving spouse of the person who lost life in war
Monthly benefit for a holder of State Orders and Titles, or a participant in revolutionary battles
100 percent reimbursement of transportation cost (two-way travel) incurred by an honored elder who travelled between aimag and capital city (once a year)
100 percent reimbursement of transportation (two-way travel) and voucher costs incurred by an honored elder who received treatment at an accredited domestic sanatorium (once a year)
Grant (once a year) for an honored elderly for covering utility cost (or for buying heating fuel in case if the elderly lives in a ger)
Grant and concessions for persons with disability
Grant (once a year) to a blind person for covering utility cost (or for buying heating fuel in case if person lives in a ger)
Grant (once a year) to a household having a blind and deaf child, for covering utility cost (or for buying heating fuel in case if person lives in a ger)
Grant (once a year) to a dwarf person for covering utility cost (or for buying heating fuel in case if person lives in a ger)
Grant (once a year) to a disabled child who requires permanent care or disabled person who fully lost work ability and who requires permanent care, for covering utility cost (or for buying heating fuel in case if person lives in a ger)
100 percent cost reimbursement to a child below 18 years for a prosthesis purchased domestically (once in two years)
100 percent cost reimbursement to a disabled person who is not eligible to benefit from Work Injury and Occupational Disease Insurance Fund, for a prosthesis purchased domestically (once in three years)
100 percent cost reimbursement to disabled child aged below 18 years and disabled person not eligible to benefit from Work Injury and Occupational Disease Insurance Fund, for wheelchair and orthopedic appliance purchased domestically (once in three years)
Grant (once a year) to a disabled child for covering the cost of commuting to and from kindergarten or school
50 percent reimbursement for voucher cost and 100 percent transportation cost (one way travel only) born by a disabled child or a disabled person who is not eligible to benefit from Work Injury and Occupational Disease Insurance Fund, who received treatment and rehabilitation services at domestic sanatorium (once a year)

Support to a disabled child or a child (one only) of the disabled person for covering meal cost in kindergarten
Grant for a blind or deaf person aged 18+ years for covering communication cost
Reimbursement of one-way travel cost to a disabled person who permanently resides in at least 1,000 kms away from the capital city and who received diagnostic services and medical treatment in the capital city upon prescription by a Medical Commission of the aimag's general hospital (once a year)
Reimbursement the costs for domestic pouching of braille books and letters (up to 10 kgs) and equipment and materials designed for blind persons
75 percent reimbursement of two-way travel cost for a blind person who resides in an aimag and who received medical treatment or treatment in sanatorium in the capital city upon prescription by a health care provider (once a year)
50% reimbursement of the voucher cost to a disabled child in case of going to a summer camp for children (once a year)
Funeral grant at 100 percent (equal to the amount of funeral grant provided from SIF) in case a single person with disability (who has no children)/who is not eligible for funeral grant from SIF or a disabled child passed away
One-time monetary award to a disabled sportsman/sportswoman who won gold, silver or bronze medal at Olympic Games, Regional Games or World Cup Games
Printing costs to be borne by Social Welfare Fund (printing of braille books, textbooks, etc.)
70 percent reimbursement of aqua treatment costs for a disabled child (treatment by domestic provider)
Food support program/Monthly benefit in the form of a cash card to be used for food for households considered extreme poor according to a proxy means test
Benefit/monthly for a reindeer herder who lives in taiga
Incentive grant for members of Livelihood Support Council members
Operation cost (including costs incurred by local authorities)
Social welfare services
Training for livelihood skills, preparing for employment
Information and counseling
Rehabilitation services
Temporary institutional services
Daily services
Home visit care and services
Other social welfare services responding to the needs of individuals and households
Shelter services for homeless individuals and other related services such as providing civic documents, information, and counseling
Livelihood support and training for increasing the income of households that need social welfare support and assistance (for poor households)
Institutional care services

Annex 5: Supplementary Analysis to Chapter 6

5.1 List of Expanded NCD Best Buys

Table A.5.1. Organizational structure of health sector

- Policy exists, and is aligned with best practice
- Policy exists, but could be improved
- Policy does not exist

Tobacco	**Progress**
BB1. Increase excise taxes and prices on tobacco products	
BB2. Implement large graphic health warnings on all tobacco packages, accompanied by plain/standardized packaging	
BB3. Enact and enforce comprehensive bans on tobacco advertising, promotion and sponsorship	
BB4. Eliminate exposure to second-hand tobacco smoke in all indoor workplaces, public places, public transport	
BB5. Implement effective mass media campaigns that educate the public about the harms of smoking/tobacco use and secondhand smoke, and encourage behavior change	
BB6. Provision of cost-covered effective population-wide support (including brief advice, national toll-free quit line services and cessation) for tobacco cessation to all tobacco users	
Alcohol	
BB7. Increase excise taxes on alcoholic beverages	
BB8. Enact and enforce bans or comprehensive restrictions on exposure to alcohol advertising (across multiple types of media)	
BB9. Enact and enforce restrictions on the physical availability of retailed alcohol (via reduced hours of sale)	
Unhealthy Diet	
BB10. Reformulation policies for healthier food and beverage products (e.g. elimination of transfatty acids and/or reduction of saturated fats, free sugars and/or sodium)	
BB11. Front-of-pack labelling as part of comprehensive nutrition labelling policies for facilitating consumers' understanding and choice of food for healthy diets	
BB12. Public food procurement and service policies for healthy diets (e.g., to reduce the intake of free sugars, sodium, unhealthy fats, and to increase the consumption of legumes, wholegrains, fruits and vegetables)	
BB13. Behavior change communication and mass media campaign for healthy diets (e.g., to reduce the intake of energy, free sugars, sodium, unhealthy fats, and to increase the consumption of legumes, wholegrains, fruits and vegetables)	
BB14. Policies to protect children from the harmful impact of food marketing on diet	
BB15. Protection, promotion, and support of optimal breastfeeding practices	
Physical Inactivity	
BB16. Implement sustained, population wide, best practice communication campaigns to promote physical activity, with links to community-based programs and environmental improvements to enable and support behavior change	
Cardiovascular Diseases	
BB17. Secondary prevention of rheumatic fever and rheumatic heart disease by developing a register of patients who receive regular prophylactic penicillin	
Chronic Respiratory Diseases	
BB18. Acute treatment of asthma exacerbations with inhaled bronchodilators and oral steroids	
BB19. Acute treatment of COPD exacerbations with inhaled bronchodilators and oral steroids	
BB20. Long-term management of COPD with inhaled bronchodilator	

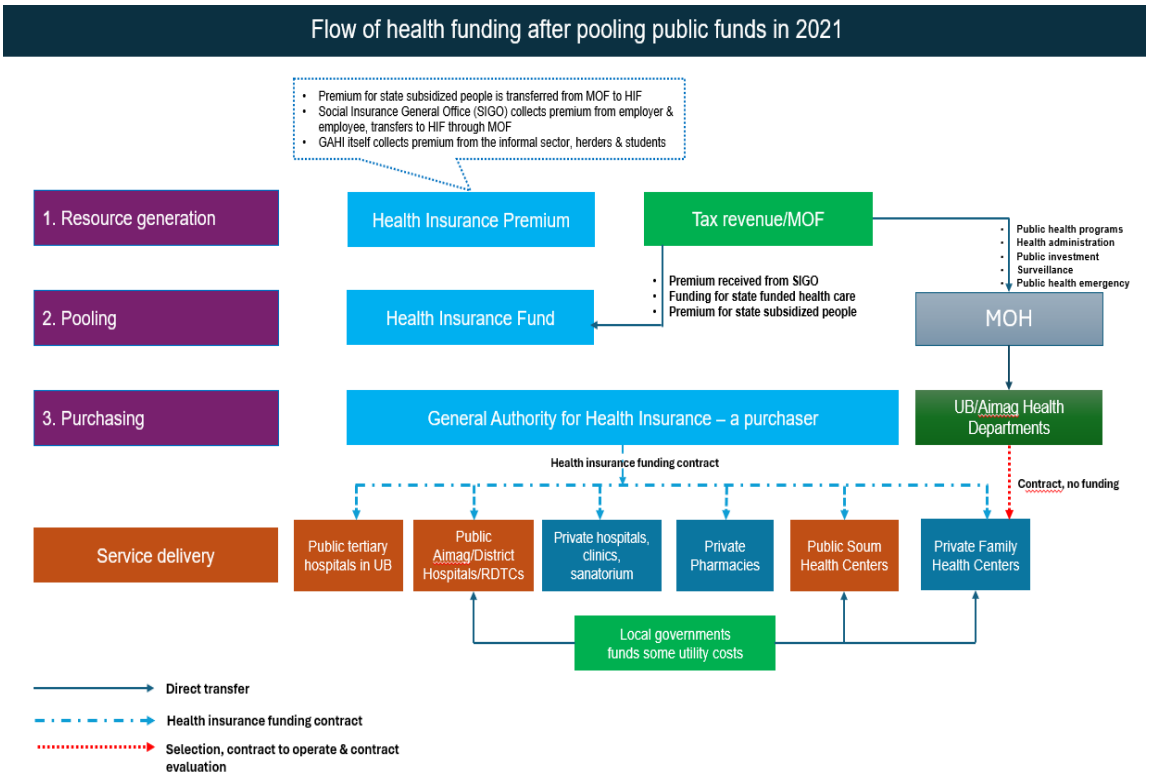
Cancer	
BB21. Vaccination against human papillomavirus (1 to 2 doses) of 9 to 14-year-old girls	
BB22. Cervical cancer: HPV DNA screening, starting at the age of 30 years with regular screening every 5 to 10 years (using a screen-and-treat approach or screen, triage, and treat approach)	
BB23. Cervical cancer: early diagnosis programs linked with timely diagnostic work-up and comprehensive cancer treatment	
BB24. Breast cancer: early diagnosis programs linked with timely diagnostic work-up and comprehensive cancer treatment	
BB25. Colorectal cancer: early diagnosis programs linked with timely diagnostic work-up and comprehensive cancer treatment	
BB26. Prevention of liver cancer through hepatitis B immunization	
BB27. Childhood cancer: early diagnosis programs linked with timely diagnostic work-up and comprehensive cancer treatment, focusing on six index cancers of WHO Global Initiative for Childhood Cancer	
BB28. Early detection and comprehensive treatment of cancer for those living with HIV	

Source: Authors and WHO 2024.

5.2 Further flow of funds and premium collection

Flow of funds for public expenditure on health after the pooling of public funds (MoH and HIF) in 2021:

Figure A.5.1. Flow of health funding after pooling public funds in 2021

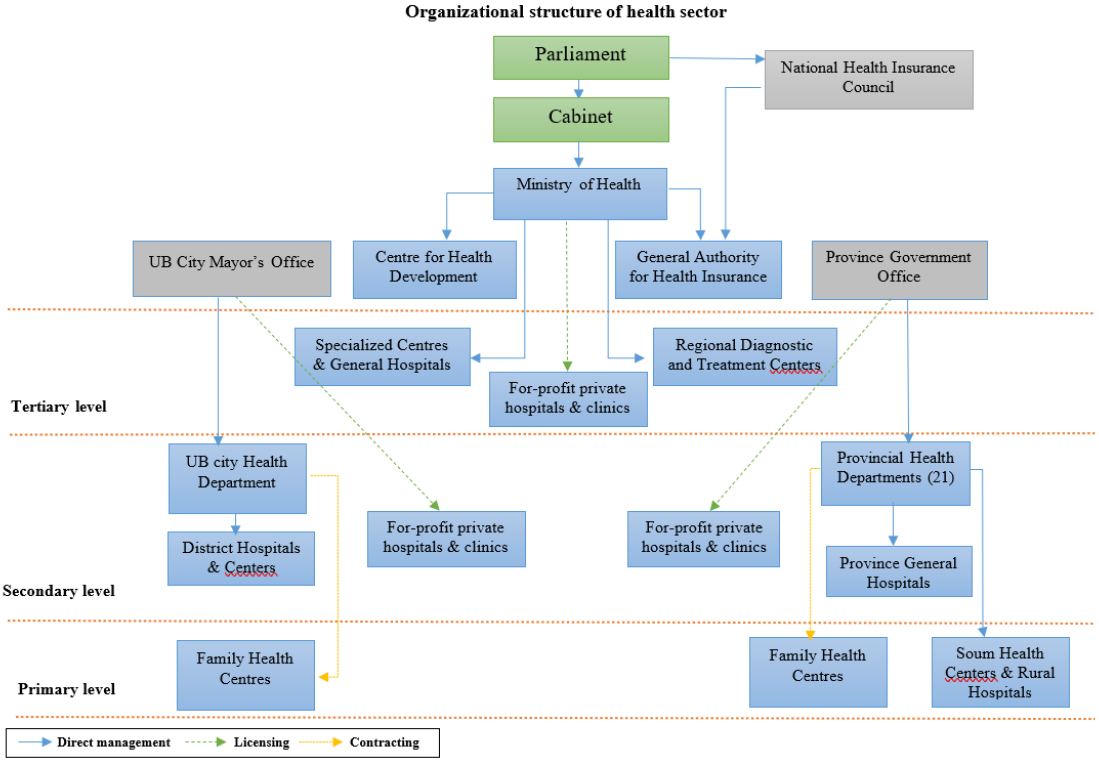


The HIF is financed from premiums and government subsidy for state funded healthcare services. Premiums are:

- Collected by the Social Insurance Agency for the official sector (2 percent of remuneration from both employers and employees). The Social Insurance Agency transfers funds to the MoF, which then transfers it to the HIF;
- Collected by GAHI from the self-employed, herders, colleges students, and others (1 percent of national minimum wage rate) and foreign citizens (2 percent); and
- Provided by the MoF for government subsidized people, including children aged 0 to 18 (1 percent of national minimum wage rate), retired (2 percent), those who need social assistance (2 percent), a mother/ father who is raising a child up to the age of two (if twins up to three) (2 percent), full-time military personnel (2 percent), a prisoner (2 percent). The MoF transfers this budget to the HIF. Funding for stated responsible healthcare services is also transferred from the MoF to the HIF (the total budget includes the projected volume by state responsible DRGs times the tariff approved by the National Health Insurance Council, the PHC budget and the cost of some drugs for which the state is responsible).

5.3 Health care services are delivered through a mix of public and private providers from primary to tertiary levels

Figure A.5.2. Organizational structure of health sector



Source: Authors' design.

Annex 6: Funds Required to Cover Textbook Shortage (Chapter 7)

Table A.6.1. Funds required to cover textbook shortage

Grade	Textbooks required per student	Sum of shortage	Total fund required for shortage textbooks
1	9	28,599	55,977,739.2
2	7	30,344	68,950,441.8
3	8	26,578	61,012,630.4
4	10	40,613	83,288,799.8
5	11	61,415	118,710,996.8
6	15	192,357	428,278,404.6
7	20	209,388	520,070,628.6
8	19	238,857	614,422,007.6
9	18	286,343	785,854,805.9
10	18	300,224	778,775,034.7
11	18	287,828	764,749,210.9
12	12	175,551	433,641,456.6
Total	**165**	**1,878,097**	**4,713,732,156.7**

Note: The funds required to cover shortage of textbooks are estimated using the unit price of the textbooks and the shortage of textbooks for each grade and subject using the grade-subject level data available from Administrative Statistics data from MoE and approved purchase price of books for 2023.

REFERENCES

Abiad, A., Furceri, D., & Topalova, P. (2016). The macroeconomic effects of public investment: Evidence from advanced economies. *Journal of Macroeconomics*, *50*, 224–240.

Adan, H., Atsebi, J.-M., Gueorguiev, N., Honda, J., & Nose, M. (2023). Quantifying the revenue yields from tax administration reforms. *IMF Working Paper* WP/23/231. International Monetary Fund.

Adarov, A., & Panizza, U. (2023). Public investment quality and its implications for sovereign risk and debt sustainability. *World Bank Working Paper Series*. World Bank.

Asian Development Bank. (2019). Development of the health sector master plan technical assistance project (TA 9386-MON). Asian Development Bank.

Asian Development Bank. (2020). *Mongolia: Enhancing medicine safety for noncommunicable disease control* (Technical Assistance Report, Project Number: 53061-001). Asian Development Bank.

Allen, N. J., Wells, L. T., Morisset, J., & Pirnia, N. (2001). Using tax incentives to compete for foreign investment: Are they worth the costs? *FIAS Occasional Paper 15*. World Bank.

Almunia, M., & Lopez-Rodriguez, D. (2018). Under the radar: The effects of monitoring firms on tax compliance. *American Economic Journal: Economic Policy*, *10*(1), 1–38.

American Chamber of Commerce in Mongolia and EuroChamber Mongolia. (2024). *Position paper on comprehensive tax reform and tax dispute resolution in Mongolia*. AmCham Mongolia.

Anzoategui, D. (2022). Sovereign spreads and the effects of fiscal austerity. *Journal of International Economics*, *139*, Article 103664.

Bachas, P., Sosa, M., & Wai-Poi, M. (2024). Taxes, spending and equity: International patterns and lessons for developing countries. *World Bank Policy Research Working Paper*. World Bank.

Badia, M., Gamboa-Arbelaez, J., & Xiang, Y. (2021). Debt dynamics in emerging and developing economies: Is r-g a red herring? *IMF Working Paper No. 2021/229*. International Monetary Fund.

Balasundharam, V., Basdevant, O., Benicio, D., Ceber, A., Kim, Y., Mazzone, L., Selim, H., & Yang, Y. (2023). Fiscal consolidation: Taking stock of success factors, impact, and design. *IMF Working Paper No. 2023/063*. International Monetary Fund.

Bales, S., Đào, L. H., Nguyễn, T. T. D., & Trần, T. H. (2022). Potentially preventable hospitalizations in Vietnam: Analysis using health insurance claims data. *HNP Discussion Paper*. World Bank.

Bank of Mongolia. (2021). *The Bank of Mongolia annual report 2021*. Bank of Mongolia.

Barnett, W. S. (2010). Universal and targeted approaches to preschool education in the United States. *International Journal of Child Care and Educational Policy*, *4*, 1–12.

Berg, A., Buffie, E., Pattillo, C., Portillo, R., Presbitero, A., & Zanna, L. (2019). Some misconceptions about public investment efficiency and growth. *Economica*, *86*(342), 409–430.

Best, M. C., Brockmeyer, A., Kleven, H. J., Spinnewijn, J., & Waseem, M. (2015). Production versus revenue efficiency with limited tax capacity: Theory and evidence from Pakistan. *Journal of Political Economy*, *123*(6), 1311–1355.

Betcherman, G., Huang, Y., Millan, N., & Norjinlkham, M. (2022). *Mongolia jobs diagnostic: More vibrant and inclusive labor markets for economic recovery and diversification synthesis report*. World Bank.

Blanchard, O., Felman, J., & Subramanian, A. (2021). Does the new fiscal consensus in advanced economies travel to emerging markets? *Peterson Institute for International Economics Policy Briefs*, *21–27*.

Blau, D. M. (2021). The effects of universal preschool on child and adult outcomes: A review of recent evidence from Europe with implications for the United States. *Early Childhood Research Quarterly*, *55*, 52–63.

Bolormaa, T., Nymadawa, P., Dulmaa, N., Sarantuya, J., Jongsuksuntigul, P., & Tumurbat, B. (2007). *Mongolia health system review*. World Health Organization.

Brockmeyer, A. (2014). The investment effect of taxation: Evidence from a corporate tax kink. *Oxford University Centre for Business Taxation Working Paper* 13/17.

Center for Health Development & World Health Organization. (2022). *Geneva health indicator report 2022*. Center for Health Development & World Health Organization.

Center for Health Development & World Health Organization. (2023). *Geneva health indicator report 2023*. Center for Health Development & World Health Organization.

Cepparulo, A., & Mourre, G. (2020). How & how much? The growth-friendliness of public spending through the lens. *European Commission Discussion Paper 132*. European Commission.

Cetrángolo, O., Jiménez, J. P., & Ruiz del Castillo, R. (2010). Rigidities and fiscal space in Latin America: A comparative case study. *Series Macroeconomía del Desarrollo 97*. Economic Commission for Latin America and the Caribbean (ECLAC).

Chetty, R., Friedman, J. N., Olsen, T., & Pistaferri, L. (2011). Adjustment costs, firm responses, and micro vs. macro labor supply elasticities: Evidence from Danish tax records. *Quarterly Journal of Economics*, *126*(2), 749–804.

Codogno, L., Favero, C., & Missale, A. (2003). Yield spreads on EMU government bonds. *Economic Policy*, *18*(37), 503–532.

Department of Media and Public Relations. (2023). *Summary of the parliamentary meeting on the report and conclusions of the Ad Hoc Review Committee on the Development Bank of Mongolia*. https://www.parliament.mn/nn/29947/

de Soyres, C., Kawai, R., & Wang, M. (2022). Public debt and real GDP: Revisiting the impact. *IMF Working Paper, WP/22/76*. International Monetary Fund.

Development Bank of Mongolia. (2024). *Year-end consolidated financial report*. Development Bank of Mongolia. https://www.dbm.mn/reports

Development Initiatives. (2022). *Global nutrition report 2022: Stronger commitments for greater action*. Development Initiatives.

Devereux, M. P., Liu, L., & Loretz, S. (2014). The elasticity of corporate taxable income: New evidence from UK tax records. *American Economic Journal: Economic Policy*, *6*(2), 19–53.

Divakaran, S., Halland, H., Lorenzato, G., Rose, P., & Sarmiento-Saher, S. (2022). Strategic investment funds: Establishment and operations. *International Development in Focus*. World Bank.

Doojav, G., & Damdinjav, D. (2021). Policy-driven boom and bust in the housing market: Evidence from Mongolia. *Asian Development Review*, *38*(2), 279–317.

Dorfman, M. (2018). *Mongolia—Policy options for pension reform*. World Bank.

Dorjdagva, J., Batbaatar, E., Svensson, M., Dorjsuren, B., & Hákonsdóttir, K. E. (2016). Catastrophic health expenditure and impoverishment in Mongolia. *International Journal for Equity in Health*, *15*, Article 105. https://doi.org/10.1186/s12939-016-0395-8

Duan, M., Zhang, R., Zhao, Y., Wang, L., Liu, C., Deng, Q., Wang, S., Huang, J., Bao, H., Zhang, Y., Zhao, M., Pan, C., Nan, H., Zhang, Q., Jiang, Y., Zhao, W., & Wang, L. (2022). Prevalence, awareness, treatment and control of type 2 diabetes and its determinants among Mongolians in China: A cross-sectional analysis of IMAGINS 2015-2020. *BMJ Open*, *12*(11), Article e063893. https://doi.org/10.1136/bmjopen-2022-063893

Economic Research Institute of Mongolia. (2022). *Study of international and domestic experiences of AMNAT regulation* [Translated from Mongolian]. Economic Research Institute of Mongolia.

Eyraud, L., Baum, A., Hodge, A., Jarmuzek, M., Kim, Y., Mbaye, S., & Türe, E. (2018). How to calibrate fiscal rules: A primer. *IMF Fiscal Affairs Department How to Note*. International Monetary Fund.

Freiji, S., & Yang, J. (2018). Mongolia: Distributional impacts of taxes and transfers. *Poverty and Equity Global Practice Working Paper 180*. World Bank.

Fuchs, A., Gonzalez Icaza, F., & Paz, D. (2019). Distributional effects of tobacco taxation: A comparative analysis. *Policy Research Working Paper 8805*. World Bank.

Furceri, D., & Li, B. (2017). The macroeconomic (and distributional) effects of public investment in developing economies. *IMF Working Paper 17/217*. International Monetary Fund.

Gebresilasse, M. M., & Sow, S. (2015). Effect of VAT adoption on manufacturing firms in Ethiopia. *Working Paper*. Columbia University.

Gentillini, U., Iyengar, H. T., & Valleriani, G. (2024). *Keep the pace: How inflation erodes cash transfers and what to do about it*. World Bank.

Gnimassoun, B., & Do Santos, I. (2021). Robust structural determinants of public deficits in developing countries. *Applied Economics*, *53*(9), 1052–1076.

Grosse Steffen, C., Pagenhardt, L., & Rieth, M. (2021). Committed to flexible fiscal rules. *Banque de France Working Paper*. Banque de France.

Gruber, J., & Rauh, J. (2007). How elastic is the corporate income tax base? In A. J. Auerbach, J. R. Hines Jr., & J. Slemrod (Eds.), *Taxing corporate income in the 21st century* (pp. 140–163). Cambridge University Press.

Gupta, S., Clements, B., Baldacci, E., & Mulas-Granados, C. (2005). Fiscal policy, expenditure composition, and growth in low-income countries. *Journal of International Money and Finance*, *24*(3), 441–463.

Hernandez, P., Dräger, S., Evans, D. B., Tan-Torres Edejer, T., & Dal Poz, M. R. (2013). Health worker remuneration in WHO Member States. *Bulletin of the World Health Organization*, *91*(11), 808–815.

Herrera, S., & Olaberria, E. (2020). Budget rigidity in Latin America and the Caribbean: Causes, consequences, and policy implications. *International Development in Focus*. World Bank.

Huidrom, R., Kose, M. A., Lim, J., & Ohnsorge, F. (2020). Why do fiscal multipliers depend on fiscal positions? *Journal of Monetary Economics*, *114*, 109–125.

Ilzetzki, E., Mendoza, E., & Végh, C. (2013). How big (small?) are fiscal multipliers? *Journal of Monetary Economics*, *60*(2), 239–254.

Institute for Health Metrics and Evaluation. (2021). *Global burden of disease (GBD) study*. Institute for Health Metrics and Evaluation, University of Washington School of Medicine.

International Monetary Fund. (2008). Fiscal policy as a countercyclical tool. In *World economic outlook October 2008: Financial stress, downturns, and recoveries*. International Monetary Fund.

International Monetary Fund. (2013). *Mongolia: Staff report for the 2013 Article IV consultation—Debt sustainability analysis*. International Monetary Fund.

International Monetary Fund. (2019a). *Mongolia—Staff report for the 2019 Article IV consultation*. International Monetary Fund.

International Monetary Fund. (2019b). *Managing fiscal costs and risks from PPPs* (Technical Report). International Monetary Fund.

International Monetary Fund. (2021). *Mongolia—Staff report for the 2021 Article IV consultation*. International Monetary Fund.

International Monetary Fund. (2022a). *Mongolia—Staff report for the 2022 Article IV consultation*. International Monetary Fund.

International Monetary Fund. (2022b). *Mongolia—Selected issues*. International Monetary Fund.

International Monetary Fund. (2022c). *Tax administration diagnostic assessment tool (TADAT) performance assessment report*. Fiscal Affairs Department, International Monetary Fund.

International Monetary Fund. (2022d). *PIMA handbook* (2022 ed.). International Monetary Fund.

International Monetary Fund. (2023). *Mongolia public investment management assessment (PIMA), 2023 update* (preliminary). IMF Technical Assistance Report. International Monetary Fund.

Jarvis, F. H., & Ruest, M. (2025). *How can Mongolia address the gender gap in life expectancy? A review of promising interventions based on global evidence*. World Bank.

Kim, A. M., Park, J. H., Yoon, T. H., & Kim, Y. (2019). Hospitalizations for ambulatory care sensitive conditions as an indicator of access to primary care and excess of bed supply. *BMC Health Services Research*, *19*, Article 259.

Klemm, A., & Van Parys, S. (2012). Empirical evidence on the effects of tax incentives. *International Tax and Public Finance*, *19*(3), 393–423.

Kleven, H. J. (2016). Bunching. *Annual Review of Economics*, *8*, 435–464.

Kose, M. A., Nagle, P., Ohnsorge, F., & Sugawara, N. (2020). *Global waves of debt: Causes and consequences*. World Bank.

Laubach, T. (2009). New evidence on the interest rate effects of budget deficits and debt. *Journal of the European Economic Association*, *7*(4), 858–885.

Lustig, N. (Ed.). (2018). *Commitment to equity handbook: Estimating the impact of fiscal policy on inequality and poverty*. Brookings Institution Press.

Mongolian Agency for Standardization and Metrology. (2017a). *Structure and function standards for general hospital MNS 5095: 2017*. Mongolian Agency for Standardization and Metrology.

Mongolian Agency for Standardization and Metrology. (2017b). *Structure and function standards for specialized hospital MNS 6330: 2017*. Mongolian Agency for Standardization and Metrology.

Mongolia Ministry of Health & United Nations Population Fund. (2016). *Situation analysis of family planning in Mongolia*. Mongolia Ministry of Health & United Nations Population Fund.

Mongolia WHO Kobe Centre. (2020). How will population aging affect health expenditure trends in Mongolia and what are the implications if people age in good health? World Health Organization/ European Observatory on Health Systems and Policies.

Naghavi, M., Ong, K. L., Aali, A., Ababneh, H. S., Abate, Y. H., Abbafati, C., Abbasgholizadeh, R., Abbasian, M., Abbasi-Kangevari, M., Abbastabar, H., & Abd ElHafeez, S. (2024). Global burden of 288 causes of death and life expectancy decomposition in 204 countries and territories and 811 subnational locations, 1990–2021: A systematic analysis for the Global Burden of Disease Study 2021. *Lancet*, *403*(10440), 2100–2132.

National Centre for Health Statistics. (2021). *Table HopsStay*. National Centre for Health Statistics.

National Statistical Office of Mongolia. (2021). *Mongolia 2021 household income and economic survey*. National Statistical Office of Mongolia.

NCD Countdown Collaborators. (2022). NCD Countdown 2030: Efficient pathways and strategic investments to accelerate progress towards the Sustainable Development Goal target 3.4 in low-income and middle-income countries. *Lancet*, *399*(10331), 1266–1278. https://doi.org/10.1016/S0140-6736(21)02347-3

Nurfauzi, E. A., Nuryakin, C., & Putra, B. C. (2019). Firms bunching response to Indonesian income tax threshold. *JEJAK: Jurnal Ekonomi dan Kebijakan*, *12*(1), 153–167.

Organisation for Economic Co-operation and Development. (n.d.). *Data explorer*. https://data-explorer.oecd.org/

Organisation for Economic Co-operation and Development. (2019). *Health at a glance 2019: OECD indicators*. OECD Publishing. https://doi.org/10.1787/4dd50c09-en

Organisation for Economic Co-operation and Development. (2020). *Assessing Chile's analytical framework for long-term fiscal sustainability*. OECD Publishing.

Organisation for Economic Co-operation and Development. (2021). *Health at a glance 2021: OECD indicators*. OECD Publishing. https://doi.org/10.1787/ae3016b9-en

Organisation for Economic Co-operation and Development. (2023). *Health at a glance 2023: OECD indicators*. OECD Publishing. https://doi.org/10.1787/7a7afb35-en

Organisation for Economic Co-operation and Development & World Health Organization. (2022). *Health at a glance: Asia/Pacific 2022. Measuring progress towards universal health coverage*. OECD Publishing. https://doi.org/10.1787/c7467f62-en

Pengpid, S., & Peltzer, K. (2022). Trends in concurrent tobacco use and heavy drinking among individuals 15 years and older in Mongolia. *Scientific Reports*, *12*(1), Article 16639. https://doi.org/10.1038/s41598-022-21094-7

Phiri, Y. V. A., Nyam, G., Wardani, Y., Unursaikhan, S., Jargalsaikhan, B., Lkhagvasuren, O., Batbaatar, S., Batbayar, G., Tserendorj, C., Jadamba, J., Dorjsuren, B., & Yoshida, S. (2022). Association between history of abortion and current use of contraceptives among Mongolian women. *BMC Women's Health*, *22*, Article 279. https://doi.org/10.1186/s12905-022-01862-3

PricewaterhouseCoopers. (2018). *Financial diagnostic of the Development Bank of Mongolia*. PricewaterhouseCoopers Audit LLC.

Rajaram, A., Le, T. M., Biletska, N., & Brumby, J. (2010). A diagnostic framework for assessing public investment management. *World Bank Policy Research Working Paper 5397*. World Bank.

Saez, E. (2010). Do taxpayers bunch at kink points? *American Economic Journal: Economic Policy*, *2*(3), 180–212.

Sainbayar, A., Bat-Erdene, I., Warburton, D., Tsevegmid, T., Burnham, G., El-Gharieb, M., & Davaasuren, O. (2023). Out-of-hospital deaths in Mongolia: A nationwide cohort study on the proportion, causes, and potential impact of emergency and critical care services. *Lancet Regional Health—Western Pacific*, *39*, Article 100867.

Sambuunyam, M. (2023, March 27). Decisions made at the cabinet session. *Mongolia National News Agency*. https://montsame.mn/en/read/330444

Schneider, M. T., Cao, B., Borges, G., van Baal, P., Dieleman, J. L., Moran, A. E., Murray, C. J. L., Chang, A. Y., Hanlon, M., Hayashi, C., Meara, J. G., Naghavi, M., & Verguet, S. (2021). Health expenditures by services and providers for 195 countries, 2000–2017. *BMJ Global Health*, *6*(7), Article e005799. https://doi.org/10.1136/bmjgh-2021-005799

Tandon, A., Murray, C. J. L., Lauer, J. A., & Evans, D. B. (2023). *From scheme to system: Understanding the concept and measurement of hospitalizations for ambulatory-care-sensitive conditions*. World Bank Group.

Toure, H., Dal Poz, M. R., Hernandez, P., Bachir, M., Ooms, G., & Van Damme, W. (2023). Health expenditure: How much is spent on health and care worker remuneration? An analysis of 33 low- and middle-income African countries. *Human Resources for Health*, *21*, Article 96.

United Nations Development Programme. (2024). *Investment case for tobacco control in Mongolia*. United Nations Development Programme.

United Nations Population Fund. (2024). *World population dashboard*. https://www.unfpa.org/data/world-population/MN

UNICEF & International Labor Organization. (2019). *Towards universal social protection for children: Achieving SDG 1.3*. UNICEF.

Van Parys, S. (2012). The effectiveness of tax incentives in attracting investment: Evidence from developing countries. *Reflets et Perspectives de la Vie Économique*, *51*(3), 129–141.

Veerman, L., Dalugoda, Y., Wa Tam, K., & Cobiac, L. J. (forthcoming). *The potential health effects of taxing sugar-sweetened drinks in Mongolia: An epidemiologic-economic modelling study*. World Bank.

Waerzeggers, C., & Hillier, C. (2016). Introducing an advance tax ruling (ATR) regime: Design considerations for achieving certainty and transparency. *IMF Tax Law Technical Note No. 2016/002*. International Monetary Fund.

Wai-Poi, M. (forthcoming). Taxes, spending and equity in East Asia and the Pacific: Fiscal policy for middle income countries. *Working paper*.

Watkins, D. A., Msemburi, W., Pickersgill, S., Kawakatsu, Y., Gheorghe, A., Danaei, G., Akinyemiju, T., Alleyne, G., Cowan, M., Davies, J., Floyd, K., Gouda, H., Hassen, H. Y., Kengne, A. P., Mwangi, J., Norheim, O. F., Patton, G. C., Binagwaho, A., Bukhman, G., . . . Jamison, D. T. (2022). NCD Countdown 2030: Efficient pathways and strategic investments to accelerate progress towards the Sustainable Development Goal target 3.4 in low-income and middle income countries. *Lancet*, *399*(10331), 1266–1278.

World Food Program. (2022). *State of school feeding worldwide 2022*. World Food Program.

World Health Organization. (n.d.). *Global health observatory*. https://apps.who.int/gho/data/view.main.INDEXOFESSENTIALSERVICECOVERAGEv?lang=en

World Health Organization. (2013). *Mongolia health system review. Health systems in transition*, *3*(2). https://www.chla.org/sites/default/files/atoms/files/Mongolia-Health%20System%20in%20Transition%20%281%29.pdf

World Health Organization. (2021). *WHO technical manual on tobacco tax policy and administration*. World Health Organization.

World Health Organization. (2023a). *Global tuberculosis report 2023*. World Health Organization.

World Health Organization. (2023b). *WHO technical manual on alcohol tax policy and administration*. World Health Organization.

World Health Organization. (2024). *Tackling NCDs: Best buys and other recommended interventions for the prevention and control of noncommunicable diseases*. World Health Organization.

World Bank. (n.d.-a). *Health service delivery indicators*. https://www.worldbank.org/en/programs/service-delivery-indicators/health/interactive-results

World Bank. (n.d.-b). *World development indicators (WDI)*. https://databank.worldbank.org/source/world-development-indicators

World Bank. (2018a). *Mongolia—Systematic country diagnostic*. World Bank Group.

World Bank. (2018b). *Mongolia: Growing without undue borrowing—Enhancing efficiency of spending and revenue* (Public Expenditure Review). World Bank.

World Bank. (2020a). *Mongolia—Country economic memorandum: Minds and mines—Leveraging national wealth to invest in people and institutions*. World Bank.

World Bank. (2020b). *Mongolia: Pension policy reform options*. World Bank.

World Bank. (2020c). *Human capital index country brief: Mongolia*. World Bank.

World Bank. (2020d). *Transition to diagnosis-related group (DRG) payments for health: Lessons from case studies*. World Bank.

World Bank. (2020e). *Towards a high performing civil service: Reform progress and challenges*. World Bank.

World Bank. (2020f). *Mongolia: Assessment of the social assistance system* [Unpublished]. World Bank.

World Bank. (2021a). Mongolia's proposed sovereign wealth fund in the broader fiscal framework. *Working Paper*. World Bank.

World Bank. (2021b). *Mongolia state-owned enterprises reform: Options for preserving state capital and growing private investment*. World Bank.

World Bank. (2021c). *The role of the state in Mongolia's mining sector*. World Bank.

World Bank. (2021d). *Uneven recovery: East Asia and Pacific economic update*. World Bank.

World Bank. (2022a). *Mongolia 2020 poverty report: A decade of progress and stagnation in poverty reduction*. World Bank.

World Bank. (2022b). *Mongolia 2022 economic update: Navigating stronger headwinds*. World Bank.

World Bank. (2023). *Mongolia economic update: Partial recovery and lingering risks*. World Bank.

World Bank. (2024a). *Mongolia—Country climate and development report*. World Bank Group.

World Bank. (2024b). *World Bank 2024 policy note, agenda for action: Key policy recommendations for Mongolia's sustainable development vision*. World Bank.

World Bank. (2024c). *Gender assessment*. World Bank.

World Bank. (2024d). *An assessment of labor productivity of primary healthcare networks in Tajikistan*. World Bank Group.

World Bank. (2025a). *Building resilience: Fiscal policies for poverty reduction and equity in Mongolia—A commitment to equity assessment*. World Bank.

World Bank. (2025b). *Mongolia: Assessing the adaptiveness of social protection and enhancing the resilience of herders facing climate shocks*. World Bank.

World Bank. (2025c). *Mongolia public finance review: Health background note*. World Bank.

World Bank. (forthcoming). *Determinants of education achievement in Mongolia using PISA 2022*. World Bank.

World Bank, Mongolia Ministry of Education, Culture, Science and Sports, & Global Partnership for Education. (2020). *Towards Mongolia's long-term development policy vision 2050: Advancing education equity, efficiency, and outcomes*. World Bank.

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP
East Asia & Pacific