Mongolia Public Expenditure and Financial Management Review (PEFMR)

Education

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Outline

- Outcomes and Achievements in the Education Sector
- The Public Financing of Education
- The Public Financing System – Issues of Equity and Efficiency
- Key Future Priorities and Challenges
The Education Sector in the Current Economic Context

- Given the economic downturn and the fall in Government revenues, some reprioritization will likely be needed.

- How should capital expenditures be employed?

- Is immediate reform of the targeting mechanism for the State Training Fund and other transfer programs needed?

- What other measures can be implemented to increase the efficiency of expenditures?
Demographics Imply an Increasingly Important Education Sector

Source: U.S. Census Bureau, International Data Database.
Enrollment and Completion Rates
High at the National Level…

- Mongolia ranks relatively high among EAP countries in enrollment rates and the % of students completing basic education, but lags other Central Asian countries.

![Completion of Basic Education (%)](chart)

*Source: World Bank Staff*
...But There are Significant Spatial and Income Disparities in Completion

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Urban</th>
<th>Rural</th>
<th>Boys</th>
<th>Girls</th>
<th>Poorest</th>
<th>Richest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>93.95</td>
<td>96.74</td>
<td>89.36</td>
<td>91.69</td>
<td>96.13</td>
<td>90.83</td>
<td>96.60</td>
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<tr>
<td>Lower secondary</td>
<td>81.04</td>
<td>87.41</td>
<td>70.00</td>
<td>75.98</td>
<td>85.72</td>
<td>72.93</td>
<td>90.61</td>
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<tr>
<td>Upper Secondary</td>
<td>54.87</td>
<td>60.01</td>
<td>45.73</td>
<td>48.73</td>
<td>60.35</td>
<td>42.59</td>
<td>69.93</td>
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<td>Diplomas</td>
<td>41.91</td>
<td>47.20</td>
<td>31.56</td>
<td>38.31</td>
<td>45.49</td>
<td>39.59</td>
<td>51.47</td>
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<tr>
<td>University</td>
<td>9.43</td>
<td>10.38</td>
<td>7.79</td>
<td>10.36</td>
<td>9.20</td>
<td>7.48</td>
<td>12.60</td>
</tr>
</tbody>
</table>

Source: HIES 2006
Notes: Figures are Kaplan Meier estimates, which account for censoring (i.e. individuals still attending school at the time of the survey only contribute to the estimation sample up to last level currently attended). Survival rates indicate the cumulative probability of making the transition to each level.
Learning Achievement Is Low by International Comparison and Reveals Further Spatial Disparities

- Students’ Achievement by Location

Source: Education Evaluation Center data 2005
These Outcomes Informed the Development of the ESMP-2

- The ESMP-2 has put forward the sector’s main goals and has led to significant improvements in education policy and planning.

- Education Donors Consultative Mechanism (EDCM) was established to promote increased alignment of donor projects and programs in support of the Master Plan.

- Annual action plans based on the ESMP-2 have been developed as part of Mongolia’s participation in the Education For All Fast Track Initiative (EFA-FTI).
In 2008 the Education Cycle also Expanded to a 12-Year System

- The reform addresses the short (10-year) cycle that previously existed prior to 2004 – 2005.

- The expansion makes pre-tertiary education in the country more aligned with international standards.

- However, many children, particularly the most disadvantaged, do not have access to pre-school.

- Getting and 6 and 7-year olds enrolled continues to be a significant challenge.
MongoliaSpends aRelativelyLargeShareof itsBudgetonEducation

- Education’s share of government spending has recovered in recent years, after dropping during the transition period.
- Mongolia spends more on education than most low-income countries, in terms of both expenditure as % of GDP, as well as % of government expenditure.
Much of that Educational Expenditure is Directed toward Basic Education

- Primary and secondary education expenditure constitute approximately half of overall education expenditures.
- The share of spending on higher education has fallen in recent years, reflecting the rise of the private sector.

Sub-Sector Shares of Education Expenditures
A Large Share of State Expenditures Finance Recurrent Costs, as Opposed to Capital Costs

- Education capital expenditures are very low; the majority of funding finances recurrent costs.
  - *Since 2000, the average share of capital expenditures for the sector was just 3 percent of total education expenditures.*

- Given Mongolia’s harsh climate and low population density, capital expenditures are important in maintaining school facilities.

- Rural-urban migration over the coming years will also require increased capital expenditures to build new schools in over-crowded areas and rehabilitate and renovate under-capacity schools in rural areas.

- 50% of recurrent expenditure finances salaries and benefits for teachers and administrative staff; the remainder finances other goods and services (40%) and fixed expenditures (20%).
Despite the Rise of the Private Sector, State Resources Still Constitute the Bulk of Spending

- The bulk of the funding for pre-tertiary education continues to come from the State budget.

- The State budget also provides a smaller share of funds to higher education institutions, through the State Training Fund.
Mongolia also Has an Active Education Donor Community

While donor financing has largely focused on capital investments at the primary and secondary level, it has also built capacity through numerous in-service training initiatives.

Donor coordination has been improving with the establishment of the EDCM and the development and endorsement of the ESMP-2.

| Table 3.3: Current donor commitments for education sector by level (In $US ‘000) |
|--------------------------------------------------|----------------|----------------|----------------|
| Total                                            | 2007          | 2008          | 2009          |
| Pre-primary                                      | 529           | 798           | 421           |
| Primary & Secondary*                             | 42,311        | 22,789        | 20,681        |
| TVET                                             | 1,351         | 525           | 390           |
| Higher Education                                 | 2,118         | 2,118         | 2,118         |
Donor Aid Remains Outside the Budget

- All donor finances to the education sector remain outside the Government budget.

- Most of donor assistance is channeled to the sector through the following two mechanisms:
  - (1) project support – funds used to finance investment activities agreed in advance between a donor and the Government and often implemented by a discrete project implementation unit, which is often only loosely connected to the organizational structure of MECS
  - (2) agency direct support-funds which are spent by the donor directly, as in the case of donor-executed technical assistance programs and most overseas scholarships.

- Donors will need to work increasingly with MECS to plan more strategically, to the extent possible, the effects that migration will have on school facilities.
Recent Changes Have Been Made to the Public Education Financing System

- The 2002 Public Sector Management and Finance law (PSMFL) has improved the predictability of school financing and fiscal discipline at the school level.

- Schools are allocated resources based on the per-capita principle of money following students that is relatively simple and transparent.

- Since 2008, variable costs are allocated based on the location and type of school.

- Recently teachers’ salaries were separated from other variable costs.

- Funds for school rehabilitation and construction would benefit from greater local involvement in the execution of projects.
Reforms to Address Inequity Have Been Instituted But Could Go Further

- Mongolia’s financing system has achieved a level of vertical equity because it spends more per-student in small and rural schools.

- Despite higher per-student spending, average learning achievement among rural schools is low.

- The variable cost reform introduced in 2008 eliminates micro-coefficients which used to be in place to redistribute funds from large to small rural schools, and uses a more transparent mechanism to target more resources to small rural schools.

- Using national-level coefficients substantially improves the current formula and enhance the objective of compensating small schools and that would avoid the current geographic discrimination.
Demand-Side Financing Could Be Better Targeted

- Looking at demand-side financing programs, the poor represent the largest share of beneficiaries of Government education programs.
- But there is leakage to the non-poor and coverage is low.
Similar Issues Exist with the State Training Fund

- Turning to the State Training Fund, although the poor are more likely to receive government tuition aid for higher education, approximately 54 percent of beneficiaries are non-poor.

<table>
<thead>
<tr>
<th>Grants</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
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<tr>
<td>Need-based Grants</td>
<td>8,119</td>
<td>23.3</td>
<td>13,294</td>
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<tr>
<td>Disadvantaged Group Grant</td>
<td>2,216</td>
<td>6.4</td>
<td>2,454</td>
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<tr>
<td>Merit-based Grants</td>
<td>153</td>
<td>0.4</td>
<td>149</td>
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<tr>
<td>Public Employee Family Grant</td>
<td>15,915</td>
<td>45.7</td>
<td>16,335</td>
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<tr>
<td>Loan</td>
<td>8,409</td>
<td>24.2</td>
<td>7,390</td>
</tr>
<tr>
<td>Total</td>
<td>34,812</td>
<td>100</td>
<td>39,622</td>
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</table>
Some Immediate Steps Could be Taken to Improve Targeting

- Overall, demand side financing programs do benefit the poor.

- But targeting using means-testing and implementation of these programs can be improved to expand coverage of the poor and reduce leakage of benefits to the non-poor.

- A stronger system of monitoring and evaluation is needed to determine if the program is reaching its intended beneficiaries and the overall impact of the program on student achievement.

- Developing a more thorough examination of financial eligibility for STF assistance could improve the equitable distribution of financial aid.
Does the Financing of the Education System Provide Incentives for Efficiency in the Use of Resources?

- Under the current school financing scheme, money reaches schools in a predictable manner.
- Although schools have some autonomy, they are limited in their use of savings and their ability to generate income.
- The lack of budget planning skills among local officials limits efficiency gains from per-capita funding formula.
Recent Reform Measures Have Tried to Improve Efficiency

- The overall budget discipline achieved by the PSMFL in the education sector introduced more rigidity in school budget management.

- Recent reform efforts in the education sector have sought efficiency gains by merging small rural schools together, but average PTRs still remain low.

- Performance-based contracts are widely used by schools, but they fail to evaluate teachers on measurable outcomes.
Further Insight Is Needed to Determine Whether and How Efficiency Gains Lead to Higher Achievement

- There is not a clear relationship between spending and achievement across schools.
Key Future Challenges

- Internal rural to urban migration challenges the survival of small rural schools and puts pressure on urban schools. To make better decisions, data is needed on number of students per class, per aimag, and by rural/urban distinctions, as well as PTRs.

- These issues are complicated by a large and sparsely populated territory with high costs of education service delivery.

- Allocations for fixed costs do not encourage savings, while differences in infrastructure make it difficult to estimate needs.

- Aside from fixed utility costs, since 2008, variable costs are allocated based on the nationwide location and type of school and teachers’ salaries allocation are calculated separately from other variable costs.
Key Future Priorities

- Improve annual budget planning instead of introducing more flexibility in budget execution.
- Improve spending efficiency by reducing heating costs.
- In financial aid program, use a combination of poverty targeting (through proxy means testing) and merit to allocate tuition aid for higher education.
- Use a proxy means test to improve poverty targeting of demand-side financing programs in general education (school supplies and textbooks).
The Importance of Monitoring and Evaluation to Improve Efficiency

- Issues of out-of-school children, non-attendance, gender gaps, and rural/urban disparities are difficult to address in the absence of a comprehensive education management and information system (EMIS).

- Developing an holistic EMIS becomes even more urgent in a period of economic crisis.