



Ministry of Education, Culture and Science Mongolia

in collaboration with :
Asian Development Bank



Designing, Piloting, Monitoring & Evaluating a Pro-Poor Education Sector Block Grant

*Under the: **Education for the Poor – Financial Crisis Response Project***
(Project number 43127)

1st mission report: Designing the Grant

with

(i) Assessment of the Context (ii) Proposed Grant Design and (iii) Grant Manual

Final Report

End of first three missions, August 2010

Submitted by :



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The assignment to “*Design, Pilot, Monitor and Evaluate a Pro-poor Education Sector Block Grant*” was commissioned by the Ministry of Education, Culture and Science (MECS), with funding from the Asian Development Bank (ADB) under the *Education for the Poor – Financial Crisis Response Project*.

As per the Terms of Reference (ToR), the assignment was envisaged to include broadly four different pieces of work being (i) the design of the grant; (ii) preparation of a grant manual and training on the same; (iii) monitoring of the implementation and utilisation of the grant and making initial policy recommendations; and (iv) evaluation of the pilot and making final policy recommendations. This mission report (first issued in June 2010), together with a note on the selection of beneficiary schools (added as Appendix 1) and the Grant Manual (added as Appendix 2, but kept as separate file), signal the completion of the first two sub-tasks.

MECS expressed satisfaction with the mission report as it was presented in June. However, during the discussions on the Grant Manual it became clear that some modifications were needed with regards to the selection of schools, notably by taking into account regional equity as reflected in Appendix 1. The Grant Manual (in Appendix 2) reflects the final position with regards to the design of the grant, but final decisions on the selection of schools for year 2011/12 will only be taken after the evaluation of the first year (2010/11). The Grant Manual 2010/11 is available in both English and Mongolian.

Training of the school principles, school accountants and one parent representative for each of the selected schools took place in August. Schools are expected to present their plans for the utilisation of the block grant before 20th September. Funds are expected to start flowing in early November.

As compared to the original ToR (See Text box 1 in this report), the assignment got more stretched out as a (extra) third mission to place in August to finalise the grant manual. Monitoring missions are planned for late January and late April / early May- while (most likely) a additional mission will be fielded in August 2011 for : (a) the final evaluation of the block grant for year 2010/11, (b) revision of the grant manual (if needed) and (c) training of the additional schools.

The assignment is implemented by the team of three consultants, namely : Gerhard van 't Land (international consultant on public sector reform and institutional issues) – who is notably involved in steps (i) and (ii) above – and most likely the final evaluation (step iv); Jesper Steffensen – local government finance specialist, who is specifically involved in step (iii) and possibly step (iv); and Enkhsaikhan Batjargal, national consultant to be involved in all four steps as mentioned.

Upon the presentation of this report (consisting of both the mission report for sub-task-1 and the grant manual signalling the completion of step-2), the consultants wish to thank all those who contributed, one way or the other, to the production of this report as well as the Grant Manual, notably senior management in the Ministry of Education and Culture and the staff of the Programme Implementation Unit (PIU). Special thanks go to Jazira Asanova, the task team-leader for the project at the Asian Development Bank and the staff in MECS that -tirelessly- provided all the data we requested. Finally, we wish to thank all those that shared times, ideas and their views with us. And needless to say that only the authors bear responsibility for what is finally written and not written.

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Appendices (with Note on the selection of schools and the approved Grant Manual)

Text Box 1 : Tasks for the assignment and initial tentative time-schedule

Tasks :

- (i) Review existing information and statistics on schools with poor students in (a) disadvantaged areas; (b) peri-urban areas; and (c) rural and remote areas, particularly in *Aimags* with high incidences of poverty.
- (ii) Consult with the Ministry of Finance (MoF), Ministry of Education Culture and Science (MECS), the Project Implementation Unit, Aimag centers, and schools in poor areas on (a) operation and maintenance needs and ranking of priorities; (b) the proposed eligible items for block grants, (c) verification process for procured items; (d) administration and monitoring of the funds; (e) transparency and accountability; and (f) grievance and complaint systems. School discussions will include principals, teachers, parents, and the school council, and in addition to the above topics will also cover the availability of maintenance assistance (e.g. for minor repairs) and estimated costs of repairs.
- (iii) Prepare a proposal for the administration of monitoring of block grants including (a) selection of pilot schools, (b) administration of the block grant, (c) allocated amounts to schools, (d) number of pilot schools in the first and the second phase, (e) monitoring of the block grant to ensure transparency and accountability, (f) procurement of items at school level and verification processes, and (g) grievance and complaint systems.
- (iv) Design criteria for the 'success' of the pilot block grant administration to be used during the evaluation of the pilot.
- (v) Develop a draft training module for proposal development and block grant administration for school principals and school councils.
- (vi) At the end of the assignment, prepare recommendations and costs for the inclusion of block grants in the medium term in the education budget

Original Tentative timeframe and sequencing of activities:

1. Inception and analytical phase - <i>1st mission</i>	April/May 2010
2. Preparation of the grant manual and training manual	May/June 2010
3. Training of beneficiaries and Launch of pilot - <i>2nd mission</i>	June 2010
4. Monitoring of pilot and evaluation of pilot - <i>3rd mission</i>	Nov/Dec 2010
5. Policy recommendations, stakeholder workshops - <i>4th mission</i>	Jan/Feb 2011
6. Submission of Final reports	Feb/March 2011

Preamble

With the exception of the 1990s, during the initial stages of the transition process towards a more open and market based economy which stretched all corners of the socio-economic fabric to its limits, the indicators for the education sector in Mongolia have always been good, if not very good. Reportedly, gross enrolment rates, for example, have for many decades been well above 90%. This achievement is the more commendable considering the (semi) nomadic lifestyle of people in rural areas, and the low population densities, -Mongolia being one of the countries with the lowest population densities in the world-, which means that the costs of all public services -be it health, infrastructure or education-, are relatively high.

The Government of Mongolia has always accorded high priority to education, as evidenced by the fact that -by law- at least 20% of the government budget is dedicated to the education sector, making it both in monetary terms as well as in terms of staffing, the largest government sector by far. For 2010, the education sector represents even 22.5% of the total national public sector budget.

Over the last 10-15 years, the support earlier received from notably the former Soviet Union for the education sector, has gradually been replaced by contributions from other partners including UNICEF, JICA, World Vision, Save the Children and ADB. With the latter support, -in addition to the unrelenting effort by Government-, the temporary downturn in the education indicators as seen during the 1990s was arrested. From a 97% enrolment rate at the beginning of the 1990s, and a low of around 86.6% in 2001 (for primary education), by 2007 gross enrolment was back at 98% (UNESCO, 2009).¹

The achievements realised in the years after the transition, however, were put at risk by the financial crisis that started impacting on the world economy in 2008 and that resulted for Mongolia, on the one hand, in an increased un-employment and increased poverty of already vulnerable groups, as GDP growth slowed down; and -more importantly and mainly as a result of fallen copper process- in reduced government revenues, on the other hand, which -during the course of 2009- led to a parliamentary approved substantial reduction in the government recurrent budget for that same year.

To mitigate the impact of this budget cut, the Ministry of Education mounted a programme with the objectives to (i) Assure smooth and sustainable continuation of ongoing activities; (ii) Consolidate the levels of quality reached; (iii) Pay particular attention to education issues for poor and vulnerable children; and (iv) assure continuation of the reform – including the introduction of the 12-year curriculum. In this context, and following a request from the honourable Minister, the Asian Development Bank (ADB) agreed to provide assistance in the form of a USD 17 million “Education for the Poor – Financial Crisis Response Project” – to supplement the already ongoing 3rd Education Development Project and the Education Sector Reform Project.² The programme –that runs from 01 October 2009 to 30th September 2012 has four components as follows:

- *A contribution to the free pre-school food programme in order to enhance enrolment as prior school feeding programs have proven to be a useful tool to avoid school drop out;*
- *Free distribution of Secondary schoolbooks for the 40% poorest children;*
- *An education block grant to top up the reduced budgets in a pro poor manner; and*
- *Capacity building for the Ministry, especially in respect of pro-poor planning and budgeting.*

The present report concerns the preparatory work for the third component that is the design of the block grant. It is the first part of a larger assignment that also includes (ii) the preparation of a manual detailing the rules and regulation for the use of the grant in school years 2010/11 and 2011/12 (hence involving here financial years), (iii) the training of the beneficiary school principles, accountants and school council reps (iv) the monitoring of the use of the grant as well as the evaluation of this pilot and (v) making of policy recommendations (See Text box 1 for the Terms of Reference for the assignment and the initial tentative time-schedule).

¹ According to the statistical information booklet, MECS 2009, net enrolment for basic education in at the start of 2009/10 school-year stood at 91.2 % as compared to 91.4% in 2004.

² This project is de facto the 4th Education Sector Development Project.

As per the project document, the objective of the block grant is to provide additional operation and maintenance funds to schools that -as a result of the financial crises- need them most, which the document assumes to be schools in relatively poor areas, hence schools with students from relatively poor parents.

The impact of –or at least the attention for- the financial crisis has, however, been ebbing away, even though the government budget remained reduced for 2010 and new budget cuts are expected for 2011. Meanwhile, another emergency has occurred: the ‘dzud’; Following a relatively dry summer in 2009 –with little grass- followed by a severe winter 2009/10 many heads of livestock died – thereby impoverishing the concerned rural folk. Especially schools that take care of their own heating systems, saw the operational cost increasing. During the start of the assignment, government officials therefore emphasised the need to design the grant in such a way that it would not only cater for the impact of the financial crisis, but that it would provide lessons on how to cope with any crisis at a more general level. Therefore, the objectives of the assignment became a bit broader to include, first of all, designing a mechanism to allocate the available resources under the block grant in the most appropriate manner – and design procedures that will ensure proper utilisation and reporting on the same.

At the same time, the design of the block grant has implicit further reaching objectives, that include making a contribution to improving the school budget allocation system in general, especially by ensuring that it caters for the poorer –more needy- schools. The assignment of designing the block grant in response to the financial crisis, therefore, could not be undertaking without first considering the wider context in which that block grant is placed and defining the specific objectives it has to fulfil.

The first chapter of this report thus provides a snapshot of the existing situation, with a focus of statistics that relate to or are important in relation to the financing of the schools. The chapter also provide a summary of the present mechanisms in place to allocate funds to schools. As per the Terms of Reference and the project document, the report focuses on primary and secondary education (grades 1-12 in the Mongolian context often referred to as ‘full secondary’ or just briefly as ‘secondary education’). For the data presented, we were fortunate to have access to the database of MECS – and this report may contain the first analysis of that database.

The second chapter provides a brief overview of present policies with regards to the education sector as well as with regards to fiscal decentralisation – because a block grant is first and foremost a mechanism of fiscal decentralisation –a system through which central government makes available resources to lower units of government for a particular purpose (or purposes) – whereby those lower units have –within a given set of rules- some freedom of decision making combined with a responsibility to properly use the resources for the intended purposes.

Given the objectives as stated in the project document, the present situation regarding funding of education as well as the related policies, Chapter 3 discusses a number of options of how the grant could be organised – and comes out with concrete proposals that are summarised in chapter 4 that provides the outline of the proposed block grant. Once this document is discussed and agreed, chapter 4 will form the basis for the instructions manual to be prepared.

Summary of Recommendations

Over the last 15 years, allocations to schools in Mongolia are, at least in part, calculated on the basis of normative amounts per student, providing the schools with an overall budget-envelop as far as the Central Government contribution is concerned. Due to the detailed and prescriptive nature of the rules guiding the use of the budget envelop, schools, however, have limited –if any- flexibility in adapting the budget to the situation and the priorities of the concerned school. Quite often, as the schools do not fit the straightjacket provided, the required modifications to reflect the school's actual situation are –rather than *ex ante* through a proper planning process- made *ex post* through re-allocation across budget lines to clear debts.

This process became more pronounced over the past few years, with increased prices and constraints on the government budget. It put all expenditure categories under pressure, but most of all the category of 'other variable costs' that basically caters for all costs apart from salaries and utility costs. Firstly, because this broad cost category was cut more than the other categories. Secondly, because schools did not or could not adapt their expenditure pattern to the revised – imposed- budget, over-expenditure thus accumulated on other budget lines for items actually 'bought on credit' (such as utilities, notably heating), were in the end 'paid for' through reallocations from the 'other variable cost' items. Schools were thereby requested to only use the budget-line 'other variable costs' towards the end of each month, once the other obligations –notably salaries and utility costs- were fulfilled. This further reduced the amounts available, and so, the budgetary constraints, as experienced since early 2009, increased the pressure on the 'other variable costs', but also further exposed the lack of school level discretion in the allocation of the budget.

The block grant as provided under the '*Education for the Poor – Financial Crisis Response Project*' is to pilot a grant mechanism to help alleviate the immediate problems, with a pro-poor bias, while at the same time piloting a system that may help further improve the planning and budget allocation mechanism.

As far as the public schools are concerned, in Mongolia the government pays for over 95% of all costs and has special programmes for children of parents that cannot afford the schoolbooks and/or stationery. From pre-school up to grade-5 children are provided with free food and also for those opting to do so (and able to secure a place), use of the dormitories is free of charge. It is, however, a widespread practice (as well as necessity considering the available budgets) for public schools to ask 'voluntary contributions' from parents that may vary from MNT 500 to 10,000 depending on the affordability of the parents, which is closely linked to the location of the school. It is therefore fair to argue that for schools with –on average- wealthier parents and/or located in wealthier areas, it is easier to mitigate any shortfall in the budget through other sources of income. As much as all schools have suffered from the economic downturn –especially with regards to the 'other variable costs'-, schools in relatively poor areas have suffered more. For that reason, the application of a pro-poor allocation method for additional resources would be justified.

The voluntary parent contributions are often handled on a classroom-by-classroom basis by the concerned parents themselves, and mainly used for rehabilitation of the classrooms.

Taking into account the project document and given the above observations, it is proposed that the objectives of the block grant be defined as follows:

- to top-up the 'other variable costs' allocation, especially the most severely underfunded sub-budget lines;
- to provide schools with some discretion (local planning and management function);
- to enhance community participation and local oversight in the operations of the schools;
- to test a poverty sensitive allocation formula that may in the longer run contribute to further improving the way schools are funded.

The block grant –which is defined as a government transfer that can be used, within a given set of well-defined parameters, to the discretion of the recipient,- is therefore destined to top-up the budget for the 'other variable costs', with a bias in favour of the 'poorer' schools. The latter is done through two ways. Firstly, because the budget for the pilot is simply too small to sensibly cover the entire country (the amounts per school would just be too small for any meaningful investment), it is proposed that for a start poorer *Aimags* will be selected. Secondly, the formula to allocate amounts to schools will include variables that favour the poorer schools.

Because a block grant is (or is to become) part of an institutionalised intra-governmental fiscal system, -as opposed to an ad-hoc and subjective project style of allocation mechanism- it is proposed that *all* schools in those selected *Aimags* will be eligible – in the understanding that – provided the pilot is successful- either the model itself will be mainstreamed or its lessons integrated in the school financing system and thus ultimately serve all schools.

Based on the “Census-based poverty map of Mongolia”, it is proposed that in the first year of the pilot all 80 public schools in Khovd, Dormod and Khovsgoi are included and that this can be expanded to Bayankhongor, Uvs, Selenge, Zavkan and Bayan Olgii in the second year, to bring the total number of schools to 233.

The recipient schools can use the block grant according to their own local needs and priorities as defined by the school-council after wide consultation and whilst taking into account the overall school budget and other sources of funding. Hence, rather than being prescriptive on how the funds shall be used, it is proposed that the schools make a plan and budget for the block grant within a given set of parameters that read as follows:

- The block grant is to be used for any of the 7 categories of ‘other variable expenses’, being:
 1. Management related costs (communication, stationery, travel, etc.)
 2. Staff development / training (journals, periodicals, etc)
 3. Services support staff (cleaning materials, uniforms, etc.)
 4. Classroom Teaching materials
 5. Sports, competitions, etc
 6. Replacement of Furniture and Equipment (classrooms, canteens and boarding facilities)
 7. Maintenance and minor repair (classrooms, canteens, boarding facilities)
- Spending should be according to priorities set by the school council and fall within the priorities set defined in the education sector policies (such as the Education sector plan and the Government action plan 2008-2012 for the Education sector);
- At least 25% of the allocation to be used for teaching materials (item 4)
- At least 60% to be used for furniture, minor repair and maintenance (items 6 & 7)
[which implies that a maximum of 15% can be used on items 1, 2, 3 & 5 combined].

Based on an average amount of USD 10,000 per school (which on average roughly doubles the present relatively small available amount for the variable costs item), the actual allocation to each school will be calculated on the basis of a formula that is based on (i) a fixed flat amount for all schools reflecting fixed costs that all schools have; (ii) the enrolment figure as a proxy for the variable costs; (iii) the number of classrooms; (iv) the number of boarding students both as a proxy for the volume of maintenance needed; (v) the distance to the *Aimag* centre as a proxy for prices; and finally (vi) a variable that reflects the relative wealth (or poverty) of the *Aimag*. As a result of the latter, because the ‘fixed amount’ favours small schools, while the variables for dormitory students and distance favour both *Bag* and *Soum* schools, the allocation formula is highly poverty sensitive.

Ideally, the grant would coincide with Government financial years (Calendar years), or, alternatively School years (01 Aug to 31 Jul). Given the situation that plans are yet to be made, while the summer holidays have started, it is proposed that the grant will run for a period of 21 months from 01 October 2010 to 30 June 2012 (that is 7 quarters, covering almost 2 school-years and involving three financial years). The pilot in 3 *Aimaigs* will be done for the school-year 2010/11 and the up-scaling to a possible eight *Aimaigs* will cover the school-year 2011/12.

As much as possible, the procedures for the flow of funds, procurement and reporting will follow normal government procedures. But in order to be able to track the grant it is proposed to create one new line item for the grant in the standard line item school budget. In addition, there are a few other additional requirements for the grant that include (i) widespread dissemination of the allocated amount (ii) involvement of the schools council in the procurement; (iii) a co-funding contribution to flow via the school account and (iv) provisions that monies not used during a particular month are not ‘lost’.

Oversight by the school council on the utilisation of the funds is crucial. Transparency on the utilisation of the grant is equally crucial, and it is therefore proposed that the introduction of the block grant be accompanied by a mass awareness campaign using local radio and TV stations in the selected *Aimaigs*. Also within school (via the school council and via the notice boards) communication on the utilisation of the grant (as part of the overall school budget) will be encouraged.

1. Brief description of the Context

1.1 The Education system

For a long time, the education system in Mongolia was based on a 10-year curriculum, with 4 years of primary education; 4 years lower secondary and 2 years higher secondary, and a school entrance age of 8 years. Over the past 5 years, this (4+4+2) system has been changed twice: in 2005, an eleven year curriculum was introduced on the basis of a 5+4+2 model, whereby the school going age was reduced to 7 years, while in 2008 the 12 year curriculum (5+4+3) was introduced and the school entry age lowered to 6 years.

In school-year 2005/06, all formerly enrolled students immediately joined the new system by 'jumping' a class. The phasing in of the 12-year curriculum will be more gradual and the first year-12 graduation will only be at the end of school year 2013/14. The first classes that have been in school for 11 years will only graduate in 2013/14 and the first group that will have benefitted a full 12 year cycle will only graduate in 2019/20. As a result, for the years to come, the structure of classes and curricula will be rather complex (see Annex 1).

The said changes in the education system have –remarkably enough– not resulted in a substantial increase of in the number of enrolled students, which –according to official statistics–, diminished from around 557-thousand in 2005/06 to around 522-thousand in the present school year 2009/10 (See Table 1).

Table 1 : Number of students over the years (government and private schools combined)

School year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Primary (grades 1-5)	n.a	249,622	239,262	239,663	252,604	273,966
Lower Secondary (grades 6-9)	n.a	223,768	216,905	212,243	202,857	178,671
Upper Secondary (grades 10-12)	n.a	83,486	86,338	85,640	76,597	69,429
Total	557,346	556,876	542,505	537,546	532,058	522,066

Source: MECS

In the present 5+4+3 system, the first nine years of education, composed of primary and lower secondary, and also referred to as 'basic education', are free and compulsory. The upper secondary education is also provided as free education, but not compulsory and entry is subject to personal interest, qualifications and available space.³

1.2 Education establishments by type and location

Education infrastructure is closely linked –and therefore best described in combination– with the existing administrative divisions.

Administratively, Mongolia is divided in 4 regions, 21 *Aimags* (provinces) and one municipality (*Hot*), being the city of Ulan Bator (UB). The *Aimags* are further divided in 329 *Soums* (rural districts). The lowest administrative level is *Bag* (rural sub district or village). The *Aimag* capitals, which themselves are a *Soum*, are normally referred to as *Aimag centres*, while the *Soum* capitals are referred to as *Soum centres*. For the city of UB, the districts are called *Düüreg* (urban districts), of which there are nine. These are further divided in 132 *Khooros* or urban sub-districts. Six of the districts (with some 120 *Khooros*) constitute the urbanised area (the 'urban capital proper'), which can be further subdivided in the richer centre and the suburbs, where many rural-urban migrants have settled. The other three districts (with 12 *Khooros*) are located some 40-120 km away from UB-centre and have the characteristics of a peri-urban area.⁴

³ Pre-school and kindergarten for the age group of 2-5 year-olds, is equally free and not compulsory. Entry is subject to parental preference and availability/proximity. The reported numbers of children enrolled in pre-school and kindergarten are high – and over 284-thousand for school-year 2009/10, which is over 50% of the children in primary and secondary

⁴ Peri-urban literally means 'immediately adjoining an urban area; area in between the suburbs and the rural area'. Currently, as per the MECS classification 6 *Khooros* (5 in the urban districts and 1 in a peri-urban district) are referred to as 'UB-outskirts'. These 6 *khooros* have a total of 12 so-called 'outskirt' schools, 6 of which for matters of funding are treated as 'Aimag schools' (see paragraph 1.5.2). The Ministry does not make a distinction between schools in the UB urban and UB peri-urban areas/districts, which basically means that –apart from the 6 schools which are still seen as schools in major urban settlements– all schools in UB are considered to have similar characteristics.

Schools that only offer primary education are mostly found either at *bag* or –more incidentally- at *soum* centres. On the other hand, in *Aimag* centres and UB the vast majority of schools offer education in all grades from the beginning of primary to the end of upper secondary. Most schools offer cumulative packages i.e. either only primary, or basic, or -what is normally referred to as- ‘full secondary’. There are relatively few schools that only offer secondary education.⁵ (See Table 2)

Table 2: Number of schools, by school-type & location (public and private schools), 2009

	<i>Bag</i> centre	<i>Soum</i> centre	<i>Aimag</i> centre	UB urban	Total
Primary (grades 1-5)	37	5	14	7	63
Basic Education (grades 1-9)	6	139	9	2	156
Middle/High school (grades 6-12)	-	3	4	34	41
Full Secondary (grades 1-12)	-	203	128	165	496
Total	43	350	155	208	756

Source: MECS

Since 1993, the government has allowed private operator to run general education schools, albeit under tight government control, also because Government provides the basic salary for the teachers in these schools. The main difference between public and private schools is that the latter, which constitute about 20% of the total number of schools, (can) generate supplementary resources from the parents and hence would be able to provide preferential quality.

Private schools are especially found in UB and the *Aimag* centres, and provide the vast majority of schools that are not ‘full secondary’. Notwithstanding, almost 2/3 of all private schools are ‘full secondary’ schools. (See Table 3)

Table 3: Number of private schools, by school-type & location, 2009

	<i>Bag</i> centre	<i>Soum</i> centre	<i>Aimag</i> centre	UB urban	Total
Primary (grades 1-5)	-	1	9	6	16
Basic Education (grades 1-9)	-	0	7	2	9
Middle/High school (grades 6-12)	-	2	4	27	33
Full Secondary (grades 1-12)	-	5	22	66	93
Total	0	8	42	101	151

Source: MECS

Considering the nomadic lifestyle of part of the population, the relative low population density and the government policy to put focus on larger schools in the urban and semi urban areas, dormitories are an important element to ensure high levels of enrolment, especially for those students that live far from these urbanised areas, whose parents are nomadic and those that can not find host families. However, the majority of schools with dormitories are not found at the *Aimag* level but at the *Soum* level. Over 90% of the *Soum* schools have a dormitory as compared to 23% of the *Aimag* schools. Schools in UB largely cater for the resident population and those that made their own lodging arrangements –either by renting or with relatives- and few dormitories do exist.

Table 4: Number of schools with dormitory facilities, by school-type & location, 2009

	<i>Bag</i> centre	<i>Soum</i> centre	<i>Aimag</i> centre	UB urban	Total
Primary (grades 1-5)	29	1	1	0	31
Basic Education (grades 1-9)	6	134	2	0	142
Middle/High school (grades 6-12)	0	1	2	4	7
Full Secondary (grades 1-12)	0	188	31	7	226
Total	35	324	36	11	406

Source: MECS

5

Quite often, the type of infrastructure used is equated with the school-type. Schools that only offer primary education, for example, are often referred to as ‘*bag* schools’. In the same vein, complex schools, that were created in the second half of the 1990s in all *Aimag*s as well as UB as large schools offering education from grade 1 up to the end of upper secondary, are often considered as different from ‘full secondary schools’, just because they are set up as schools that usually are constituted of 1 to 4 buildings that are physically separated (one for primary, one for lower secondary and one for upper secondary, in order to create a more child friendly environment for each age group) while the so-called ‘full secondary schools’ are housed in one building. In all cases (except one), pre-school is provided in separate schools/units.

1.3 Enrolment data by school-type and location

The total number of enrolled students from Grade I to grade II (there is no grade XII yet) for school year 2009/10 is reported to be 521-thousand, of which 32% (about one in three children) is schooling in UB centre schools.⁶ (See Table 5)

Table 5: Number of pupils, by school-type & location (public and private schools), 2009

	Bag centre	Soum centre	Aimag centre	UB urban	Total
Primary (grades 1-5)	2,541	444	2,514	1,192	6,691
Basic Education (grades 1-9)	1,842	44,261	1,777	520	48,400
Middle/High school (grades 6-12)	-	438	635	4,243	5,216
Full Secondary (grades 1-12)	-	141,380	141,386	177,913	460,679
Total	4,383	186,423	146,312	183,868	520,986

Source: MECS

Table 6: Number of pupils in private schools, by school-type & location, 2009

	Bag centre	Soum centre	Aimag centre	UB urban	Total
Primary (grades 1-5)	-	28	869	766	1,663
Basic Education (grades 1-9)	-	-	1,067	520	1,587
Middle/High school (grades 6-12)	126	212	635	2,730	3,703
Full Secondary (grades 1-12)	-	822	5,107	14,993	20,922
Total	126	1,062	7,678	19,009	27,875

Source: MECS

The configuration of schools and students as reflected in the Tables 2 and 5 above is a reflection of the policy of 'rationalising schools' implemented since 1997 with the objective to increase efficiency and which included three components: (i) closing down of primary-only schools in remote areas; (ii) discontinuation of upper secondary in most *Soums*; and (iii) merging of schools in the *Aimags centres* to form relatively large 'complex schools' that would offer full secondary education under one management, but, in principle, in separate locations (or buildings). As the data show, the number of 'primary only' schools, as well as the number of schools at *bag* level (and the number of children in these schools) is relatively limited; *Aimag* schools have on average a larger student population as compared to *Soum* schools (1100 versus 700 students for full secondary) – but (contrary to the policy), the full secondary schools are still the predominant school-type at *Soum* level.

One would expect that the policy of 'rationalising' schools increased the importance of dormitories. In 1996, a dormitory fee was introduced, but when this appeared to have a negative impact on enrolment, the policy was reversed in 2000. Since then, use of dormitories is free of charge. In the present school-year 2009/10, there is a total of some 41,095 boarding students in the public schools for the grades 1-12, which is 8.8% of the total student population. A bit surprisingly, the boarding rate is highest for *Soum* schools.

Table 7: Number of boarding students in public schools⁷, by school-type & location, 2009

	Bag centre	Soum centre	Aimag centre	UB urban	Total
Primary (grades 1-5)	1,477	70	0	0	1,547
Basic Education (grades 1-9)	837	9,458	110	0	10,405
Middle/High school (grades 6-12)	0	0	0	0	0
Full Secondary (grades 1-12)	0	24,843	3,491	809	29,143
Total	2,314	34,371	3,601	809	41,095

Source: MECS

⁶ This figure is not too surprising considering that well over one-third of the Mongolian population is estimated to live in the capital.

⁷ Of the 151 private schools, only 10 have boarding facilities (one in fifteen as compared to two out of three for the public schools) with and for school-year 2009/10, only 637 boarding students (2.2 % of the student population as compare to 8.3% for the public schools. Seven out of ten private schools with boarding facilities are for middle and high schools (catering for 449 –out of the 637 boarding students).

1.4 Classes and Classrooms

As part of this assignment, MECS compiled data on the number of classrooms and the number of classes, the summary of which is presented in Tables 8 and 9.

Table 8: Number of classrooms, by school-type & location (public schools), 2009

	Bag centre	Soum centre	Aimag centre	UB urban	Total
Primary (grades 1-5)	148	19	40	6	213
Basic Education (grades 1-9)	53	1,598	34	0	1,685
Middle/High school (grades 6-12)	0	0	0	90	90
Full Secondary (grades 1-12)	0	3,728	3,101	3,539	10,368
Total	201	5,345	3,175	3,635	12,356

Source: MECS

Table 9: Number of classes, by school-type & location (public schools), 2009

	Bag centre	Soum center	Aimag centre	UB urban	Total
Primary (grades 1-5)	184	23	53	14	274
Basic Education (grades 1-9)	72	1,763	28	0	1,863
Middle/High school (grades 6-12)	0	0	0	54	54
Full Secondary (grades 1-12)	0	4,784	4,201	4,930	13,915
Total	256	6,570	4,282	4,998	16,106

Source: MECS

Despite the official number of enrolled pupils diminishing (see Table 1), most schools, and especially those in the urban areas, face problems of space. For the year 2009/10, and based on a norm of a maximum of 32 students per class, there are over 16-thousand classes for 12,350 classrooms. As a result, several schools operate a number of classes in two or even three shifts.⁸ As shown in Tables 10 and 11, the problem is most acute in the urban areas, notably UB/Urban and the *Aimag* centres, where the average number of students per classroom is well above the norm for the number of students per class. At *Soum* level the average number of students per classroom is slightly above the norm. At *bag* level, average class size is well below the norm, but because multi grade classes (two or more grades in one group) are not practiced (and not allowed according the Ministry's policy), even at this level the number of classes is superior to the number of classrooms.

Table 10: Average No of pupils per classroom, by school-type & location, 2009

	Bag centre	Soum centre	Aimag centre	UB urban	Total
Primary (grades 1-5)	17.2	21.9	41.1	71.0	23.6
Basic Education (grades 1-9)	34.8	27.7	20.9		27.8
Middle/High school (grades 6-12)	-			16.8	16.8
Full Secondary (grades 1-12)	-	37.7	43.9	46.0	42.4
Total	21.8	34.7	43.7	45.4	39.9

Table 11: Average No of pupils per class, by school-type & location, 2009

	Bag centre	Soum centre	Aimag centre	UB urban	Total
Primary (grades 1-5)	13.8	18.1	31.0	30.4	18.4
Basic Education (grades 1-9)	25.6	25.1	25.4	-	25.1
Middle/High school (grades 6-12)	-	-	-	28.0	28.0
Full Secondary (grades 1-12)	-	29.4	32.4	33.0	31.6
Total	17.1	28.2	32.4	33.0	30.6

Source: Own calculations on basis of data provided by MECS

⁸

Comparison of the number of classes with the number of classrooms suggests that overall some 50% of the classes have their own classroom and that the other 50% shares a classroom. Although the phenomenon of three shifts occurs, this is still an exception found in a few schools mainly in UB, and more exceptionally Bulgan and Dornogov. This is a reflection of the fact that the problem of space is most acute in the urban centres.

Whereas the Mongolian education indicators score high internationally amongst 'same league' countries, with regards to gross enrolment and survival/drop out rates, it scores relatively low on the number of annual instruction hours presently at 745 hrs on average for Grades 1-5 as compared to the *Education for All / Fast Track Initiative* (EFA/FTI) benchmark of 850 hrs (Steiner & Gerelma, 2008). The relatively low number of contact hours may –at least in part- be a reflection of the fact that many schools have to operate in shifts.

1.5 Financing of the Education Sector

1.5.1 The overall sector budget

The Law on Education (2002) states, in Art 39.1, that 'Education funding shall constitute not less than 20% of the annual revenue of the state budget'. This is normally interpreted to mean that 20% of the government's annual budget shall be for the education sector. At least for the last few years, this target –which is high as compared to other countries- is being met (see Table 12).

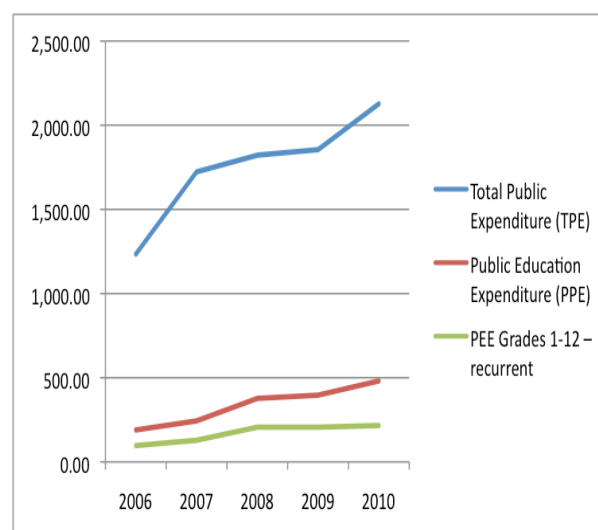
Table 12 : Government budget and expenditure for education, 2006-2010, in MNT billion

	2006	2007	2008	2009	2010*)
Public Education Expenditure	208.5	273.3	414.5	442.0	486.3
PEE Grades 1-12 – recurrent	96.4	127.9	205.1	206.4	214.6
Total Public Expenditure	1,234.2	1,722.7	1,822.0	1,854.8	2,126.9
PEE/Recurrent Grades 1-12 as % of PEE	46.3%	46.8%	49.5%	46.7%	44.1%
PEE as % of PTE	16.9%	15.9%	22.8%	23.8%	22.9%

Source : MoF

Note : *) Budget

The total Public Expenditure for Education (PEE) has been steadily increasing, and especially during the years 2005 – 2008 there was a substantial growth along with a sharp increase in the total public expenditure (TPE) which was made possible because of increased revenues from the booming mining sector. However, as a result of the international financial crisis, which resulted amongst others in a sharp drop in government revenues, growth temporarily slowed down in 2009 as Parliament had to vote twice for a substantial cut in the already approved budget.



While Parliament opted to keep the investment budget intact, it voted in favour of a substantial reduction for the recurrent budget, leaving the details to be worked by the sector ministries. For the education sector, and as far as the budget for the primary and secondary education was concerned (Grades 1-12), the reduction in the budget was realised through a reduction in provisions for salaries (notably a cut for bonuses), a reduced provision for utility costs (which, as we will illustrate below, did not materialise) and a substantial cut in the costs for operational costs including scholastic materials, repairs & maintenance and small furniture.

The share of the recurrent budget for primary and secondary education (grades 1-12), the part of the budget which is mostly relevant for the subject of this report and on which we shall focus in the remaining sections of this chapter, has over the last four years been fluctuation around 45% of the total education budget, with a peak of 49.5% in 2008

1.5.2 Budget for Primary and Secondary education

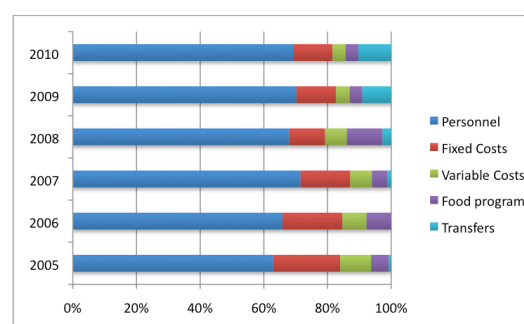
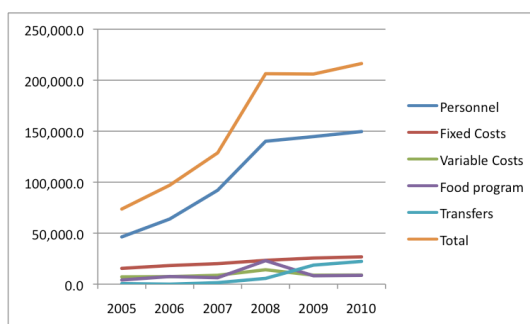
When analysing the overall government budget to primary and secondary school (which make up for an estimated 95% or more of both the income and the expenditure side of school budgets for public schools), we first note a similar trend as for the overall Public Education Expenditure (PEE): a significant increase of the total envelop in nominal terms over the years with a stagnation in 2009 (see Tables 13a and 13b with graphics).⁹

Table 13a : Public Education Expenditure – Recurrent Grades 1-12, 2005-2010, in mln Turug

Cost category	Actual					Budget
	2005	2006	2007	2008	2009	2010
Personnel	46,346.6	63,889.9	92,084.6	140,123.9	144,691.9	149,627.0
Fixed Costs	15,502.0	18,275.2	20,122.8	23,368.9	25,628.4	26,772.1
Variable Costs	7,163.5	7,374.9	8,727.6	14,142.3	8,815.6	8,959.3
Food program	4,083.3	7,487.1	6,325.6	23,035.0	8,194.9	8,647.4
Transfers ¹⁰	560.0	0.0	1,488.4	5,668.0	18,684.8	22,311.2
Total	73,655.4	97,027.0	128,749.0	206,338.1	206,015.6	216,317.1

Table 13b : Same, in % by year :

Personnel	62.9%	65.8%	71.5%	67.9%	70.2%	69.2%
Fixed Costs	21.0%	18.8%	15.6%	11.3%	12.4%	12.4%
Variable Costs	9.7%	7.6%	6.8%	6.9%	4.3%	4.1%
Food program	5.5%	7.7%	4.9%	11.2%	4.0%	4.0%
Transfers	0.8%	0.0%	1.2%	2.7%	9.1%	10.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%



Source : MECS

This stagnation was the result of the above-mentioned cut in the budget for 2009 following the emergence of the international financial crisis that resulted in a reduction of the recurrent budgets for all Ministries. As already apparent from the above figures, but even better illustrated by the data in Table 14, the budget cuts especially affected the category of 'other variable costs', whose share in actual nominal expenditure has over the years diminished from 9.7% in 2005 to 4.5% in 2010.

For the budget cuts, some of the budget lines under 'other variable costs' were completely scrapped, such as those staff development ('books and periodicals'), others were severely reduced. Overall, the initial budget for 'other variable costs' was reduced to less than 50% of the originally approved budget. In the end however, some 76% of the original budget was spent (as compared to 91% for the total recurrent budget). In nominal terms, the recurrent expenditure reached the same overall level as for 2008.

⁹ Details for the tables and graphs presented in this section are provided in Annex 4. Said annexes are based on data the team obtained from MECS, but the presentation has been slightly modified to suit the categorisation as introduced above. It is noted that the Tables in the Annex resemble one of the core Tables in the Project Document, but now include data on estimated expenditure in 2009, the two rounds of budget revisions in 2009, as well as data for the year 2005.

¹⁰ This category includes the costs of the so-called school snack programme (2009 and 2010) and incidental staff benefits and bonuses' (all years). Whereas the latter is in fact part of the category 'personnel costs', the 'snack programme could have been dealt with under 'goods and services' similar to the food programme, rather than being considered as a 'transfers'.

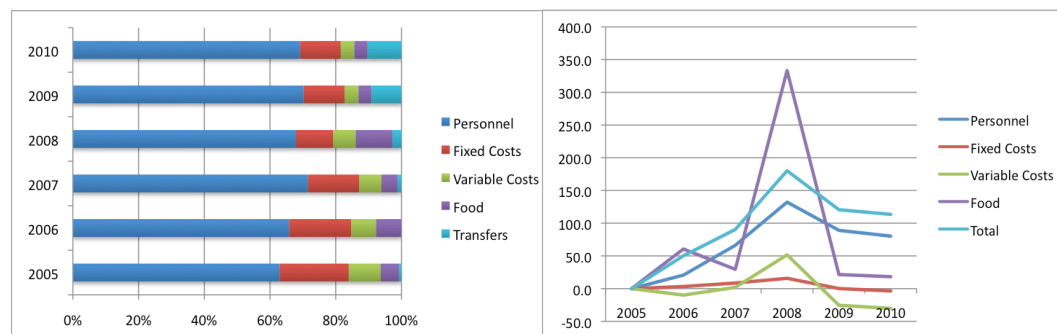
Table 14: Changes in the recurrent cost budget Primary and Secondary education, 2009

Cost category	Approved budget		1st revision	2 nd revision	Actual expenditure	
	MNT bln	Index	index	index	index	MNT bln
1. Personnel Costs	154.8	100.0	95.3	95.3	93.5	144.7
2. Fixed costs	28.4	100.0	81.5	90.2	90.2	25.6
3. Other variable costs	12.1	100.0	46.8	48.4	73.0	8.8
4. Food programmes	12.1	100.0	99.7	96.9	88.9	8.8
5. Transfers	22.7	100.0	99.3	88.1	82.4	18.7
TOTAL	230.0	100.0	91.6	91.5	90.7	206.6

In real terms, the situation is somewhat different period 2005-2010, as is shown in Table 15 and the accompanying graphics. It shows that (i) 2008 was the year with the highest real expenditure and that (ii) the expenditures under the heading 'transfers' have grown exponentially. But more importantly it shows, when comparing 2010 with 2005, that (iii) the expenditure for fixed costs have more or less remained the same level in real terms while (iv) the expenditures for 'other operational cost' are the only major cost category that has in real terms diminished.

Table 15 : Index PEE, Recurrent Grades 1-12, in real terms, by cost category, 2005=100

Cost category	Actual					Budget
	2005	2006	2007	2008	2009	2010
Personnel	100.0	120.7	166.1	232.2	189.1	180.2
Fixed Costs	100.0	103.2	108.5	115.8	100.1	96.4
Variable Costs	100.0	90.1	101.9	151.6	74.5	69.8
Food program	100.0	160.5	129.5	433.2	121.5	118.2
Transfers	100.0	0.0	222.3	777.2	2,020.6	2,223.8
Total	100.0	150.2	190.3	280.1	220.6	213.5



When analysing this sub-category of 'other variable costs' -for which as we just saw the volume in real terms declined over the period 2005-2010-, the following can be noted (see data in Tables 16a, 16b, 17 and in Annex 4) :

- Firstly, and this is a positive development, over the years, an increasing share of the 'other variable costs' was allocated to 'major' sub-budget lines, as the residual line 'other', being the aggregate of a variety of other loosely defined costs items considerably diminished;
- Secondly, and this is also positive, the share of 'in classroom teaching materials considerably increased to over 50% of the budget for 2010; However, it appears that this increase is to a large part due to procurement of materials for vocational training only;
- Thirdly, and this is even more worrying, the share for 'maintenance and repair' and to a lesser extent the share for 'furniture', declined. As we saw above, it is especially for maintenance that 'voluntary' contributions of parents are requested.
- Finally, if we look at the data in real terms for the period 2005-2010, only the budget provisions for teaching materials, support services and sports competitions have increased also in real terms. For the others it decreased (see Table 17).

Table 16a : Other variable costs (Grades 1-12), by category, 2005-10, in million Turug

Cost category	Actual					Budget
	2005	2006	2007	2008	2009	2010
Management	1,429.9	1,043.8	1,955.3	2,192.3	1,743.3	1,111.3
Teacher development	169.3	218.4	281.9	428.5	0.0	136.1
Support Services	225.9	218.1	350.1	788.9	654.4	483.6
Classroom teaching material	870.6	1,682.5	1,118.1	5,304.0	3,992.8	4,652.3
Sport competitions	30.5	19.7	34.2	430.0	225.9	226.0
Furniture	1,012.4	1,013.3	1,589.6	1,753.3	247.9	1,057.7
Repair & maintenance	1,330.5	1,284.5	1,565.3	1,896.3	1,373.5	996.2
Other	2,094.3	1,894.6	1,833.1	1,349.1	577.8	296.2
Total	7,163.5	7,374.9	8,727.6	14,142.3	8,815.6	8,959.3

Table 16b : Same, in % by year :

Management	20.0%	14.2%	22.4%	15.5%	19.8%	12.4%
Teacher development	2.4%	3.0%	3.2%	3.0%	0.0%	1.5%
Support Services	3.2%	3.0%	4.0%	5.6%	7.4%	5.4%
Classroom teaching material	12.2%	22.8%	12.8%	37.5%	45.3%	51.9%
Sport competitions	0.4%	0.3%	0.4%	3.0%	2.6%	2.5%
Furniture	14.1%	13.7%	18.2%	12.4%	2.8%	11.8%
Repair & maintenance	18.6%	17.4%	17.9%	13.4%	15.6%	11.1%
Other	29.2%	25.7%	21.0%	9.5%	6.6%	3.3%
Total	100%	100%	100%	100%	100%	100%

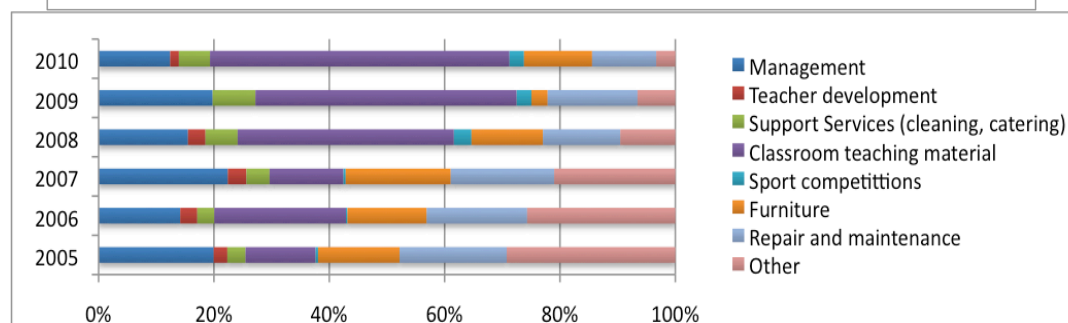
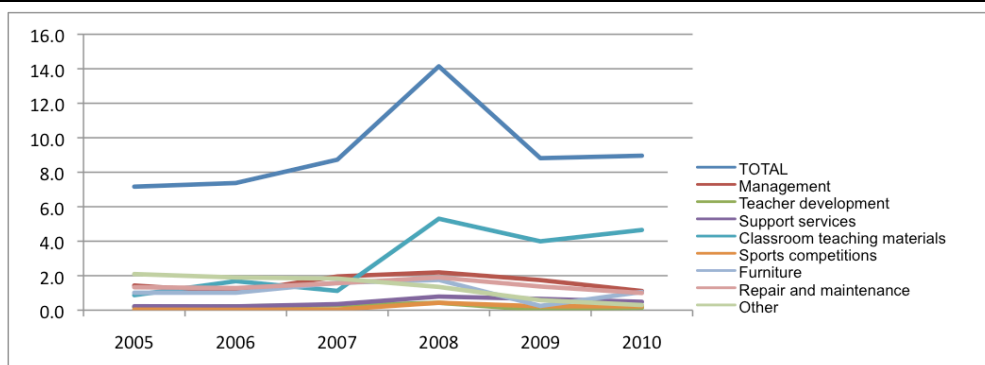


Table 17 : Other variable costs (Grades 1-12), in real terms by category, 2005=100

Cost category	Actual					Budget
	2005	2006	2007	2008	2009	2010
Management	100	63.9	114.3	117.7	73.8	43.4
Teacher development	100	113.0	139.3	194.4	0.0	44.9
Support Services	100	84.5	129.6	268.2	175.5	119.5
Classroom teaching material	100	169.2	107.4	467.8	277.7	298.2
Sport competitions	100	56.6	93.7	1,082.8	448.7	413.6
Furniture	100	87.6	131.3	133.0	14.8	58.3
Repair & maintenance	100	84.5	98.4	109.4	62.5	41.8
Other	100	79.2	73.2	49.5	16.7	7.9
Total	100	90.1	101.9	151.6	74.5	69.8

Source : Calculations based data from MECS

1.5.3 Financing of Schools: Method of Calculating the GoM Allocation

Art 5.1.6 of the Education Law states that “educational organisations shall be treated equally regardless of type and form of ownership”. As a result, both public schools as well as private schools receive transfers from central government.

The budget that central government provides to schools is –in principle- composed of the following three components:

- (i) An amount that is based on a per capita allocation, whereby the per capita amounts vary according to grade and location of the school.

The per capita amounts are based on a normative estimate of the average costs per student for that school-type and location, whereby the main difference that enters into the calculation are differences in average class sizes (leading to differences in salary costs per student). There is a separate allocation for boarding students, to cover their meals and other costs.

The amount thus calculated is commonly called ‘*the flexible budget*’ as it varies with the number of students. The allocation thus calculated is meant to be used for all the above items apart from utility costs;

- (ii) A so-called ‘fixed budget’ – to cover the utility costs, whereby the amount is largely based on historical expenditure data, but in the end it is a ‘negotiated’ budget.

The term ‘fixed’ costs is a little misleading, as the amounts vary per school, while – apart from heating costs in situations with central-heating systems that can not be switched on or off and for which a fixed amount is paid irrespective of its functional use- the cost are not really ‘fixed costs’ but rather ‘flexible costs’ that vary with the quantity of water or coal and KWh used.

- (iii) Targeted social assistance to support children of low-income families in the procurement of books and stationery (primary school). The school-feeding programme (for all children in public schools in Grades 1-5 falls also in this category.¹¹ Although for different sub-programmes rules vary, in most cases schools must provide lists with beneficiaries either *ex post* or *ex ante* as per the instructions, hence flexibility is limited.

Where the ‘flexible’ allocation is made available to both public and private schools, the other two components (for utilities and the social assistance programme) are only available for public school (with exception of the food programme).

The flexible allocation: Table 18 provides the data on the level of the per capita allocations for 2009 after the budget cut which figures are also applicable for 2010. Annex 6 also shows the data for 2008 (which were also applicable for 2009 before the budget cut was announced) as well as the changes (in %). The data show that:

- The allocations per capita are composed of two broad sub-components, being salaries¹² and a provision for all other operational costs.
- The salary components are calculated as the average of the calculated actual wage bill for each school in the concerned location divided by the respective number of students in each school. This figure is triangulated with normative calculations of ‘average schools’ for that location.
- For the other operational costs a normative list of items for an average school is used, costed and divided by the average number of pupils.

¹¹ It should be noted that in the Ministry’s presentation of budget and expenditure, the costs for the school food programme are considered as ‘goods and services’, while the ‘school snack programme’ and the now piloted school lunch programme that may succeed the snack programme are booked as ‘transfers’.

¹² In the presentations of MECS this subcategory is itself divided in basic an amount for basic salaries and an amount for all other staff related expenditures other than salaries such as taxes, premiums, insurances, bonuses etc.)

Table 18 : Amounts per pupil for the 'flexible' per capita grant, '000, 2009/2010

Location	Type of school	Salary & related costs			Other flexible expenses			TOTAL		
		Gr 1-5	Gr 6-9	Gr 10-12	Gr 1-5	Gr 6-9	Gr 10-12	Gr 1-5	Gr 6-9	Gr 10-12
Bag	Primary	305.9	-	-	23.3	-	-	329.2	-	-
Soum centre	Primary	229.4	-	-	19.0	-	-	248.4	-	-
	Basic	163.8	254.2	-	10.9	14.3	-	174.7	268.5	-
	Full secondary	152.9	221.1	232.7	7.6	10.7	11.3	160.5	231.8	244.0
Aimag centre *)	Primary	151.2	-	-	7.6	-	-	158.8	-	-
	Basic	144.0	208.2	-	7.6	10.7	-	151.6	218.9	-
	Full secondary	144.0	208.2	212.3	6.8	9.6	9.9	150.8	217.8	222.2
UB	Primary	142.5	-	-	6.8	-	-	149.3	-	-
	Basic	142.5	206.0	-	6.8	9.6	-	149.3	215.6	-
	Full secondary	130.7	188.3	198.2	6.4	8.1	9.6	137.1	196.4	207.8
Dormitories:										
Primary school		204.4			11			214.4		
Secondary School		136.0			11			147.0		

*) Also applicable for schools in *Soums* that have 'population sizes equal to an *Aimag* centre', and six of the 12 schools in UB 'Outskirt *khoroos*' (see also footnote 4)

Given the way the –what are called- 'normative means' are calculated, it does not come as a surprise that the allocations per student are higher for the schools where the classes are less full, which is at *Bag* and –to a lesser extend at *Soum* level (See Table 11).¹³

Whereas (for 2009/10) the allocation for salary costs per pupil in a *Bag* schools is over twice as much as a UB full secondary school, the allocation for 'other operational costs' is over three times as much, which is a reflection of the 'real' fixed costs –such as management related costs, part of the building maintenance that in small schools are to be born by a smaller number of pupils. The same means that in small schools the share of salaries in the total costs is lower than in larger schools.¹⁴

There is a separately calculated amount for schools with dormitories, the amount for which is a fixed amount for all schools –irrespective of region, location or size-, and therefore likely to benefit the larger schools, whereby it should be kept in mind that the vast majority of boarding students is found at the *Soum* level (see Table 7). The allocation for dormitories is shown in the school budget as a separate budget line.

Schools are also eligible for a 50% higher allocation for all children with disabilities. As the number of children per school will be limited, it is to be expected that schools will receive amounts that are too insignificant to make any noteworthy arrangements thereto. Schools were reported not to know about this rule, and hence often not to include it in their budgets.

The fixed costs allocation: The argument for the 'fixed costs' allocation is mainly that schools have different systems for heating, which forms the most important utility costs and reportedly can take up to 20% of the school budget. Some schools are connected to the central (town) heating system and pay a fixed amount per month based on the volume in cubic meters of the school, irrespective of use, while others have their own boiler and pumping systems, or apply classroom based supplementary heating. For this reason, schools have always been receiving amounts based on the historical expenditure data, and in practice they received incremental budgets.

¹³ Rules with regards to the number of teachers required are quite prescriptive and (a little) inflexible, for example with regards to specialist subjects. Rules also do not allow multiple grade classes. Hence small schools are not in a position to optimise the Teacher-Pupil ratio closer to the norm.

¹⁴ Obviously this trend is further reinforced when also considering the utility costs.

Text box 2 : History of the norm based flexible grant allocation

The system of the norm based flexible grant was introduced in the 1990s. Initially, the allocation process had three stages: (i) norm-based amounts were fixed by region and school-type; then (ii) the allocations were calculated for each *Aimag* (governors) on the total estimated number of students in the *Aimag* while, finally, (iii) a set of micro-coefficients was used to give different schools different weights depending on the size of its student population relative to the average in the *Aimag*. On top of that, governors were given the right to make reallocations between schools which – if they did it- normally was done in favour of the smaller schools.

The different allocations between regions catered for different price levels, as well as for the costs of transportation (remote regions normally having higher costs, both in terms of prices and transport). The regional variations were specifically *not* meant to catered for wealth differences as the size of the budget envelop per school was based on norms, complemented with social programmes- that should combined and in principle guarantee all children the same treatment countrywide. The micro-coefficients were mainly used to further calibrate the allocations within the *Aimags* (and reduce the need for the governors to intervene). The micro-coefficients however led to a situation that two identical schools in different *Aimags* would get different allocations, because of the different sizes of the other schools in each *Aimag*.

The formula was therefore further refined with details (for school type and location) as presented in Table 12. The regional component was abolished, and the present formula assumes that costs in each *Aimag* or each *Soum* outside of UB are more or less equal – as the variation in the norm amount is mainly based on differences in school-type requirements, overall school-size and average class-size.

It is important to note that the system was introduced prior the Budget Law 2002 and the Public Sector Finance and Management Law (2002), when – for example, health and education budgets were still part of the local government (the governor's) office. After the passing of said laws, which re-centralised many functions, and gave Treasury officers in the *Aimags* the role of disbursement officer for central government, the system of the norm based formula allocations remained in use – although planning became increasingly rigid and top-down (as illustrated by the fixed percentages for the various 'other flexible cost' items in the text above).

A good development seen over the last few years is that the norm amount is increasingly accepted as the amount 'a school should get'. However, many schools report that they get less than the calculated amount. Over the last few years, either the District or *Aimag* Authority or the Ministry reduced particular budget lines (because of budget cuts) – but it appears that less re-allocation across schools is taking place. Mostly, it seems, when a school's proposed budget is reduced, the budgets of all schools are reduced in a similar manner.

As mentioned as further explained in the text below, the system of global allocation (as the flexible allocation) is add odds with the total lack of freedom of schools to plan and budget according to the schools priorities on the one hand, and the need to plan within the given budget envelop (which cannot always be done in a proportional manner as the percentages for the other flexible cost categories suggest). The consequence of the system as used is that at the end of the year all kind of budget reallocations are needed to pay the accumulated debts and make the books tally (see text below).

As much as the fixed costs argument may be valid for centrally heated schools, we would argue that it is not necessarily (or at least less applicable) for the other types of utility costs, which may not be 'variable by student', but certainly by class.¹⁵

The targeted social assistance: The third type of allocations to schools (and as far as not made available in kind (such as the schoolbooks for the 40% poorest students under the Financial Crisis Response Project), the social assistance allocations vary for the different programmes, but are mostly based on a headcount multiplied by the allocated ('norm') amount per student (as for the dormitory allocation). Most allocations are reflected in separate budget lines (although not always visible in the consolidated overviews as presented by MECS), and schools have no opportunity to reallocate across the lines.

1.5.4 The Financing of schools – Total income and expenditure

Income: The Education Law specifies that 'government owned education institutions shall be financed by fixed and normative expenditures' (Education Law, Art 40.1).¹⁶ In practice, however, and although the government contribution is by far the single most important component, representing well over 95% of the budgets in public school budgets, some other sources of funding need to be recognised, such as (i) operational revenues; (ii) voluntary contribution from parents; and (iii) contributions from third parties.

Even public schools may generate own income through both core activities (such as tuition from advanced or extra curriculum courses) and non-core activities (such as renting out of the canteen) and within the existing legislation schools can organize income-generating activities. However, such activities should conform with the physical and mental capabilities of children and a percentage of revenue raised through income generation activities should be given to children and teachers involved in the process.¹⁷ Also, the resources/materials used for generating school income should be provided by schools and hence not come out of parents pockets.¹⁸

The Law on Education (implicitly) prohibits that public schools ask for mandatory parental contributions. However, voluntary contributions are existent nearly in all public schools and range from 500 to 10,000 MNT per year per student, depending on the economic situation of parents and the number of students per classroom. The voluntary contributions are mostly collected for concrete, visible and one-time-a-year activities, such as painting of the classrooms.¹⁹

Finally, in particular cases, Local Governments (eg. *Aimag* councils) may supplement school resources from their own revenues. This is most likely to happen in the economically better off areas. Similarly, cases are reported where companies (e.g. mining companies) supplement the resources of particular schools.

Following the instructions of the Public Sector Management and Finance (PSMF) Law, all revenues that schools receive should be deposited in the school's bank account within the Treasury Single Account system – that would hence capture all income and expenditure. As much as this may be the case for the revenues generated by the schools, most –if not

¹⁵ The electricity bill, for example, is assuming that lights are switched off when classes are not in use, variable with the number of classes that are operated. It is the same argument for which the per pupil salary allocation varies between a large school and a small school – that is, because the teacher salaries are the same whether the class is up to capacity or only half full.

¹⁶ Art 41.1 indicates that non-government owned education institutions shall be financed by the assets of the founder(s), part of the normative capitation grant, tuition fees, contributions and operational revenues.

¹⁷ Up to 70% of the tuition fees so generated may be retained by the concerned teacher(s).

¹⁸ School level income generation has gone from total flexibility (prior to the present education laws) to strict control. Some have argued that in the past certain school business projects could be classified as 'forced Child labour' a situation that was arrested in 2002.

¹⁹ In addition these voluntary contributions, parents pay (or are expected to pay) directly for some costs related to the education of their children such as books, stationery, uniform and –if thy can afford- some extra pocket money, the latter especially for the children in dormitories to purchase what is not provided for by the school. As discussed above, MECS has systems in place to provide children of poor families with books and stationery.

all- of the contributions made by parents are directly managed by those parents – and hence not captured in the school accounts. It is estimated (see for example the Public Expenditure Tracking exercise by the World Bank in 2005) that at maximum some 5% of the budget of public schools comes from sources other than the central government contribution.

The overall conclusion is that whereas government finances over 95% of the school budgets (on the basis of the normative amounts for different types of schools as shown in Table 18 - irrespective of their relative wealth or rather the relative wealth of the parents), the schools in relatively better well-to-do areas, are likely to be in a better position to actually grab the last 3-5% of the budget because (i) voluntary contributions of parents are likely higher and (ii) because the change of getting a contribution from the local government or a private donor are higher.

Expenditure: All schools follow the same ‘chart of accounts’, the detailed format of which is given in Annex 5, and which can be summarised as follows:

- (i) Salaries and related costs for the teaching staff
 - (a) Base salaries for teaching and non-teaching staff
 - (b) Social liabilities, benefits, pension and insurances
- (ii) Other goods and services
 - (a) stationery, communication, transport and other costs related to school management
 - (b) utility costs (heating, water and electricity)
 - (c) lessons and practical training
 - (d) books and periodicals
 - (e) furniture
 - (f) small repairs and maintenance
 - (g) clothing and materials for support (cleaning) staff, bedding for dormitories, etc
 - (h) sports competitions and
 - (j) dormitory food

Since a few year, the procurement of textbooks is done centrally (to reap economies of scale), but it should be noted that in the standard chart of accounts, there is –unless subsumed under ‘lessons and practical training’ no specific budget line for procurement of all those supplementary materials that are used for in classroom teaching, ranging from chalks to supplementary reference books as well as other instructional materials (wall maps, globe, etc.) and items needed for the science labs.

It is also noted that apart from the ‘books and periodicals’, there is no specific budget line for teacher development.

It is finally noted that the expenditure items are neither grouped by input category (utility costs or consumables together, for example), nor by function (such as management, education/ classroom, boarding).

In Table 19, we have brought the existing income and expenditure categories together, and tried to make a kind of classification of the expenditure categories, which appear to be linked to the type of financing.

All four –potential- sources of income are shown on the left side, whereby the lion share being the government allocation, is further divided into three broad categories that are directly linked to the expenditure budget lines shown on the right side of the income/expenditure schedule. For the public schools, Central Government, in principle, provides funding for all the expenditure lines, while the other three sources, in as far as available, just ‘top up’ the existing expenditure budget lines.

As mentioned above part or all of the voluntary contributions, may not be reflected in the school accounts. The standard template for a school-budget (as presented in Annex 5), only shows income sources 1 and 2 that is central government contribution and the school’s own income from core (primary) and non-core (secondary) activities.

Table 19 : Possible template for School income and expenditure overview

Income categories	Amount	Expenditure categories	Amount
1. Government Contribution			
1.1 Flexible allocation			
1.1.1 Flexible – salary costs		1. Salaries and related staff costs	
1.1.2 Other flexible costs		2. Other operational costs *)	
		2.1 Management related costs	
		2.2 Staff development	
		2.3 Support services (cleaning, catering)	
		2.4 Classroom/Teaching materials	
		2.5 Sports competitions, etc	
		2.6 Furniture replacement	
		2.7 Maintenance and minor repair	
1.2 Fixed allocation		3. Utility costs	
		3.1 Heating	
		3.2 Electricity	
		3.3 Water	
1.3 Targeted (social) assistance		4. Special programmes / Transfers	
- Flexible allocation boarders		4.1 School food and lunch	
- Specific programmes		4.2 Schoolbooks, stationery, etc	
2. Own income			
2.1 From core activities			
2.2 From non-core activities			
3. From voluntary contribution (parents, mining companies, other)			
4. Local government contribution			
Total Income		Total Expenditure	

*) Apart from utility costs

In the private schools, Government still provides the funds for the salaries and other variable costs and the basic food programme, but tuition fees and income from other sources have to cater for the fixed costs. Some tuition fees are used –and this makes the private schools different from the public schools in the perception of parents- for the topping up of all other items.

Annex 6 provides examples of a examples of school budgets for four –randomly selected- schools, one UB school, one outskirt school, an *Aimag* and a *Soum school*. The data suggest that School own income is probably at best 2% of the school-budget. Data on voluntary parent contributions are not available, but figures of between MNT 500 to MNT 10,000 per child per year are mentioned. How much this constitutes of the school budget - or rather of the other variable costs budget where these contributions go- depends on the actual amount and the school-type (as the norm amounts differ), but may vary from 2% of the ‘other variable budget’ (in a *bag* school with low voluntary contributions) to over 50% or more in urban schools with a contribution of MNT 5000 or above (see Table 20)

Table 20 : Parent contribution in % to ‘other variable budget’ with different levels of funding

		Norm amounts *)	Average voluntary contribution per student, in MNT				
			500	1000	2500	5000	10,000
Bag	Primary	23.3	2.1%	4.3%	10.7%	21.5%	42.9%
Soum	Basic	12.6	4.0%	7.9%	19.8%	39.7%	79.4%
Soum	Full secondary	9.9	5.1%	10.1%	25.3%	50.5%	101.0%
Aimag	Full secondary	8.8	5.7%	11.4%	28.4%	56.8%	113.6%
UB	Full secondary	8.0	6.3%	12.5%	31.3%	62.5%	125.0%

*) Average for the prevailing grades, in thousands

As we saw above, for 2009, and based on the actual expenditure (which was above the budget after the budget cuts) that the ‘other variable costs’ budget constitutes some 4.3% of the total budget. In ‘richer’ schools voluntary parent contributions may therefore

constitute a couple of percentage points of the overall school budget – in relatively poor schools this contribution is negligible (when compared to the budget).

It is important to note that where parents (or other parties contribute) contribute, these contributions always are earmarked for expenditures in the category ‘other variable costs’ (see Table 19).

1.6 Planning and Budgeting process

In 2006, the education sector was amongst the first sectors to introduce the Medium Term Expenditure Framework as a means to move from input to output and programme oriented planning and budgeting and serve as ‘*final budgeting document*’ which, in principle, ensures that budget allocations are consistent with institutional priorities and ceilings, and integrated with in the revenue, recurrent and development budgets’ (UNESCO, 2009). Textbox 3a and 3b provide an overview of the ‘old’ –and as explained below still very much the applied planning framework, and the proposed planning framework.

Textbox 3a : Timeline of the Current Budget Process

January- February	MOF consolidates previous year’s spending
March – April	MOF drafts Fiscal Framework Statement based on own estimates and sectoral drafts
1-May	Cabinet submits their draft FFS to Parliament
1-Jul	Schools submit their draft budgets to MECS
11-Jul	Parliament approves Fiscal Framework Statement (FFS)
15-Aug	MECS delivers its draft sectoral budget proposal to Cabinet
15-Sep	MOF submits draft national budget proposal to Cabinet
10-Oct	Cabinet submits draft national budget to Parliament
1-Dec	The national budget is approved by Parliament

Text Box 3b : Timeline for Annual MTEF Process, with Asterisks at New Steps

January- March	MOF reviews and consolidates previous year’s spending
15-Mar	National MTFF developed by MOF and approve by Parliament
20-Mar	Schools deliver annual budget spending reports and output reports
10-May	Draft sectoral ceilings discussed with ministries and finalized by MOF***
20-May	GOM adopts sectoral ceilings
1-Jun	MOF delivers ceilings and methodology guidelines*** to MECS
10-Jun	MECS delivers budget ceilings to schools
15-Jun	Schools develops ministry MTEFs and Business Plans
15-Jul	MECS develops ministry based on school proposals
15-Aug	MECS and MOF negotiate to finalize sectoral draft MTEF***
15-Sep	MOF prepares draft national MTEF for Cabinet
1-Oct	Government discusses annual draft budget
1-Dec	Parliament approves annual budget and Budget Law

Source: UNESCO 2009

At present, for schools the medium planning perspective is not yet relevant and at best only used to calculate expected budgets over the next three years on the basis of estimated enrolment data. Although the MTEF planning calendar (see Textbox xx above) mentions ‘schools develop MTEF and business plans’, in actual fact schools have little –if any- freedom to allocate their budgets (as calculated through the per capita norms) according to the priorities of the school. Apart from the salaries -calculated on the basis of low end of the scale e.g. for year of experience etc- the Ministry issues fixed percentages for the various eligible items under variable costs – as shown –for 2010- in Table 17 below (whereby the headings and classifications are added following the items 2.1 – 2.6 in Table 15 above).

Table 21: Fixed percentages to allocated the 'other variable costs'

1. Management related costs		22.6%
- Stationery	4.2%	
- Postal expenses/communication:	10.4%	
- Travel	1.0%	
- Bonuses	7.0%	
2. Teacher development		4.4%
- Publication/books:	4.4%	
3. Services support staff		5.5%
- Uniforms support staff :	4.5%	
- Medical costs:	1.0%	
4. Classroom Teaching materials		20.6%
- Classroom materials (incl chalks etc.)	20.6%	
5. Sports, competitions, etc		8.4%
- Provision for participating in competitions	8.4%	
6. Furniture repair / replacement equipment		25.1%
- Small item replacement	25.1%	
7. Maintenance and minor repair		10.8%
- Recurrent Building maintenance	10.8%	
TOTAL :		100%

Hence, at present there is no planning taking place at the school level in the real meaning of the word. Whereas the norm amounts are based on average situations, and not applicable for any particular school in particular, the rigid budget instructions are bound to put the schools in a straight jacket that fits none – and adjustments will have to be made somewhere, somehow.

What actually appears to be happening is the following: In May/June schools are invited to make their budgets on the basis of the expected income from the norm amounts, historical fixed budget data modified for inflation, and estimated other incomes. Because of the guidelines as above described, schools have only flexibility in allocating the 'other sources of income' provided these resources do come without 'strings attached' (most project funding, for example, can normally only be spent on the predetermined purpose). The budgets (that normally go without a plan) are then presented to the district (for UB) or *Aimag* education office who consolidates all the budgets –compiled in an excel spreadsheet-, which is send to MECS. MECS in turn consolidates this information and forwards (or negotiates) with MoF. Approved budgets are then communicated to the schools who can engage spending via the one-single school account kept at the Treasury office for each school. The Treasury officer serves as disbursement agent and internal auditor. The district or *Aimag* education officers have no role in disbursement or expenditure. Whereas the school, notably the school accountant, does all the necessary preparatory work like quotations, tenders where applicable, etc, all expenditures are made –on the request of the school- by the Treasury office, normally via bank transfer. The schools themselves do not handle any cash – not even a *petty cash*.²⁰

Schools report that budgets received are often lower than what was expected on the basis of the norms calculations. Certainly in 2009, due to overall budget constraints, central government had to make budget cuts. The way this happens is that changes are made at the central level (by MECS), without involvement of the schools. Usually, the cuts are made against certain budget lines.²¹

²⁰ That is, schools do at present not even have a small amount of discretionary funds in the form of cash that can be used for expenditures where it is not sensible to make the disbursement by check or bank transfer, because of the inconvenience and costs of writing, signing and then cashing the check or making the transfer.

²¹ The practice is at odds with the system itself, because if the total budget is lowered, this in fact means that that the norms have been lowered. Scrapping or reducing particular budget lines for 'other variable costs' means that the fixed percentages (as described in Table 17) have been changed. But the changes are not communicated and/or not seen in that manner.

1.7 Observed problems and Objectives of the block grant

In response to the financial crisis and the reduced budgets for education, and notably the 'operational costs budget', the *Education for the Poor – Financial Crisis Response Project* earmarked funds to top up these budgets through a block grant.

In this chapter, we have seen that the budget cuts were not as severe as initially anticipated, but that there is clearly pressure on the operational budgets, notably for 'other variable cost' items. This includes general management costs, but more importantly also maintenance, furniture and classroom teaching materials. We noted that, over the past five years, the 'other variable costs' budget was the only category of costs that decreased in real terms. Whereas the share of classroom teaching materials in the overall budget category increased to 50% of the 'other variable costs', it appears that much of this relates to the equipment for the vocational training (and not to 'ordinary' teaching materials).

As much as all schools are affected by the reduced budgets for 'other variable costs', the analysis in this chapter suggests (and we will come back to it in the next chapter) that poor schools are more severely affected than richer schools as the latter can top up their budget by 'voluntary parent contributions', mostly used for classroom maintenance activities once a year.

The analysis, however, also stumbled on another issues related to planning, which is important when designing a block-grant mechanism. But before discussing this, it need to be mentioned that Mongolia has a formula based allocation system to establish school budgets since the late 1990s. As the so-called PET study²² mentions, the formula that determines variable costs [including salaries] was developed in 1992 by government officials in MECS and MoF [and] used exclusively as a planning and budget instrument between the two ministries. However, in 1998, government required *schools* to use the same formula. The PET study continues to note that many countries successfully use school-funding formulas, and international experience suggests that using a per student (or capitation) approach for allocating resources to schools can increase equity efficiency, effectiveness, transparency and predictability in a country's education system. However, there is a necessary condition, which is that such funding mechanisms go hand-in-hand with an increased autonomy of schools in allocating the available resources according to local (school level) priorities.

This condition is lacking in Mongolia at the moment, as the school budget is –on the one hand- (and apart from the allocation for the utility costs) based on an allocation formula, while on the other hand, the budget itself (for salaries and other variable costs) is defined in a very prescriptive manner through (rigid) student/teacher norms (that, for example, do not allow multiple grade teaching) and fixed percentages to allocate the other variable budget. At the moment schools have neither a right to plan, nor –as a result of this- final responsibility to keep the budget (as someone can not be kept responsible for something one was not allowed to plan for). This became particularly exposed with the budget cuts in 2009: when the Ministry had unilaterally reduced various budget lines, and schools could not, or would not, adhere – the buck was passed on to the ministry and budget re-allocations were needed, retrospectively. Apart from the exposure of the system, in real life, it meant that costs for utility use (heating, electricity, water) were met, but that the other variable costs were further reduced (as these expenditures were deferred by instructions from MECS to the end of each month).

But the point that is made is that the 'block grant design' should not only look at topping up the variable cost budgets in a pro-poor manner, but –in its design- also pilot that schools regain a certain amount of flexibility in planning according, as otherwise block grants can not flourish.

At this point it may be good to mention that –in the context of this assignment- we understand a 'block grant' to mean 'a transfer from one level of government to recipients at lower levels of government (be it local governments of service delivery outlets such as

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Public Financing of Education in Mongolia: Equity and Efficiency implications, World Bank, 2006, p12

schools), availed for a well defined purpose, as part of a institutionalised mechanism of funding government services. The word 'block' thereby refers to the aspect that the recipients have a certain degree of freedom on how to spend the funds, and in this context the purpose of the grant (or the definition of the items on which the grant may be spend) can be defined in a specific manner or in more general terms. Examples of block grants are the amounts central governments grant to federal governments for general operations; but it can also be an education sector block grant, where a central government makes available resources to local governments to take care of the education services as far as delegated or devolved to these local governments. In the case of this report, we are talking of a grant from central government, through MECS, to schools for a more narrowly defined purpose, which is topping up the variable costs budget in a pro-poor manner. In the same vein, and on both the basis of the name *block* grant and the planning issue as mentioned above, we have assumed that the grant should start providing schools with some degree of a planning function.

Normally, a block grant system would apply to all units (in our case all schools), whereby a differentiation between the units is made, for example, through the allocation formula. The way the block grant has been provided for under the *Education for the Poor – Financial Crisis Response Project*, however, is only for a restricted number of schools, and should therefore be seen as a pilot with regard to aspects of pro-poor planning and budgeting and allowing discretion to schools, with the objective to generate lessons that should enrich the overall system of school financing.

Against this background, chapter 2 will review some basic questions regarding the design of the block grant that could be more meaningfully called 'supplementary grant for maintenance and other variable cost'. The word 'block grant' however, may, for the time being, be a more widely understood name, and will also be used in this report, but in the end, a name like 'education sector block grant' or 'education operational costs grant' will, depending on the objectives of the grant, be a more appropriate title.

2. Issues for consideration when designing the Block Grant

2.1 Education Sector Policies and the Policy on Financing Education

The education policy is reflected in:

- Various forms of legislation, including the Law on Education (2002) and the Law on Primary and Secondary education (2002);
- The Education Sector Master plan 2006 – 2015; and
- The Government Action plan 2008-2012 for the education sector.

As far as the said Laws make all necessary provisions for government to fund education, and also take care of the poorer student, they also clearly describe other sources of income. None of the policy documents, however, explicitly refer to the funding mechanisms through which government aims to fund schools, nor do they refer to a pro-poor funding of schools.

This notwithstanding, the objectives for primary and secondary education as defined in the Master plan, provide clear guidance that funding should 'reduce disparities' and 'create an environment for conducive learning' (see Textbox 4). These objectives are in full support of a pro-poor allocation of resources as well as a spending of funds under items of the 'other variable costs'. As such, the objectives of the grant as tentatively defined at the end of the previous chapter fully fall within the objectives as said by the education policies.

Textbox 4 : Education master plan – objectives primary and secondary education

#	Objectives	Strategies as ways for implementation
1.	Reduce disparities in obtaining quality education, equally for students, and provide support for children to enjoy their right to study	<ul style="list-style-type: none">• Reduce dependence due to disparities in location of living and studying, specifics of parents' occupation and employment, level of household livelihood and needs of education to be obtained• Create equal opportunities for children of vulnerable groups, whose rights to study are being violated, to study, implement equalizing policy
2.	Create conditions and environment for provision of quality primary and secondary education	<ul style="list-style-type: none">• Renew, develop and pursue standards and requirements for premises of school and dormitory, its facilities as furniture, laboratories, equipment, textbooks and other tools, and create comfortable environment meeting requirements of health, safety and gender• Renew system of training and re-train teachers and managerial staff, ensure equal opportunities to live and work for teachers through policy of salaries and social welfare• Reform evaluation of student's performance to be aimed at encouraging interests and activeness of students to learn, evaluating implementation of educational standards and curriculum and improving educational services
3.	Enhance and develop policy and management to support schools	<ul style="list-style-type: none">• Create favourable policy, legal and regulatory environment to support development of schools and institutions, provide support from the state• Develop information based planning and management• Expand and regulate participation and support of educational stakeholders

Apart from the cost for utilities (heating, water and electricity), and -of course- the provision for teacher salaries, it are the items under this category that help create the enabling environment. In fact, the costs spent on salaries and utilities only render to full capacity if backed up by sufficient provision for 'other variable costs', which are a necessary element of quality education as well as the 'oil in the school-machinery' (and sometimes also the icing on the cake). The maintenance, minor repair and furniture replacement budget lines, falling under the broader cost category of 'other variable costs', will ensure that earlier investments are properly maintained (and retain their value for future years).

It is difficult to ascertain precisely the required level of 'other variable costs' to ensure 'sustained quality of education', but from the analysis in the previous chapter, it is clear that the present budgets for these costs categories –notably maintenance, furniture and

ordinary classroom teaching materials- are funded 'under par', both in absolute terms (on average USD 8,500 per school per year) as well as in relative in relative terms (4% of the total budget – and even lower for many schools – see Annex 6)

Ideally, higher amounts for 'other variable costs' would need to be allocated through the existing school funding mechanism – that is through increasing the norm amounts. However, and as said in the previous paragraph, the block grant as foreseen in the project document is particularly meant to pilot a pro-poor planning and budgeting, and will – at least initially – only apply to selected schools.

2.2 Decentralisation and the role of Local Governments in Education

In the design of the block grant, the larger decentralisation agenda was considered. But given the nature of the block grant on one hand (a pilot in selected schools for a relatively small part of the total financing of the sector) and the uncertainty with regard to even the imminent future with regards to decentralisation, it was not considered opportune at this juncture to directly link the grant to the broader decentralisation process.

As aptly described in '*Decentralisation and Recentralisation Reform in Mongolia: tracing the swing of the pendulum*' (Steiner and Stolpe, 2004), decentralisation tendencies have gone up and down over the years. Prior to 2002, that is, prior to the Public Sector Management and Finance Law (PSFML, 2002), health and education were amongst the most decentralised sectors and the *Aimag* governments were yielding a considerable responsibility for the actual delivery of services in those sectors. With the PSFML and the above-referred Education Laws, responsibility was brought back to the Ministry of Education (as far as technical issues are concerned) and to the Ministry of Finance, as far as approving disbursements against school accounts is concerned. However, in practice – although it appears to considerably vary from one *Aimag* to another- the office of the governor still has some influence on, for example, the allocation of actual budgets to schools.²³ In the years after 2002, the governors were given back the power (taken away from them in 2002) to appoint school principals. Local governments, and notably *Aimag* Governments are meanwhile –as a remnant of the pre-2002 situation- still the official owners of school infrastructure.

At the time of preparing this report, there were signs of the pendulum swinging again back into the direction of decentralising service delivery, as a new budget law was recently presented to parliament, which would –when adopted- largely restore the situation as was prevailing prior to 2002. The gist of the proposals is the search for more community involvement and the recognition that lower levels in the public sector need to gain responsibility. As said, the outcome of the debates is yet unknown, but it seems that whether or not the draft law is accepted, the government policy will –one way or another- favour a further responsibilisation of lower levels of government.

Even though the design of the block grant will (have to) take the present constellation (with a more or less direct relationship between the Ministry and the schools) as starting point, it is prudent for it to be designed in the same spirit as the budget law – that is to seek involvement of beneficiaries and allow local discretion.

If local governments had had a substantial involvement in education, a question in relation to designing a block with a pro-poor bias would have been whether to consider *Aimags* or schools as the first beneficiaries of the grant. As local governments are –for the moment- not part of the equation, the question is reduced to whether schools are the first beneficiaries, or whether poor students should be primarily considered. Considering that Government has special programmes in place to assist poor students (such as with provision of stationary and provision of text books), while there are relatively few activities at the school level that can be undertaken to assist poor children in particular (and doing so without stigmatising them further), it appears most logical for the 'supplementary maintenance and other operational costs grant' to target schools, as opposed to students, and thereby seeks to favour poor schools.

²³ MECS officials, for example, complain that sometimes allocations released by MoF for schools do not reach the school accounts.

2.3 Pro-poor budgeting (Budgeting in favour of ‘poor’ schools)

As much as one may agree (or disagree) with the idea that primary and secondary education should be free of charge (for the parents), the actual fact is that many parents (and teachers) consider it necessary –given the meagre official budgets available, reasons for which were analysed in the previous chapter, to make voluntary contributions to annually improve the learning environment in the classroom. This basically entails basic maintenance work, such as painting and maybe replacement of a broken window (or –as seen in a more affluent schools in UB- equipping a playground for the pre-school).

Hence, as much as the official policy is to provide ‘universal free education’, the practice whereby parents provide resources for basic annual maintenance to improve the learning environment is quite common and makes that schools in more ‘wealthy’ locations are better off than those in relatively poorer areas – also because the normative amounts do not –explicitly- take care of any poverty criteria; For example, a *Soum* school in a richer *Aimag* receives the same as a *Soum* school in a poor *Aimag*. Indirectly, wealth differences *within* an *Aimag* are addressed as *Bag* schools –which may be considered poorer schools- receive higher norm amounts. But the differences in the norm amounts are exclusively based on differences in class and classroom sizes and do not take into account the ability of parents to contribute.

Based on the profile of typical school by location (See Table 22), a rough estimate is made of the ‘variable costs income’ for schools based on the norm amount (see Table 23). Although the amounts per student, as well as the total amounts, vary considerably, the amounts per classroom are fairly similar, and around MNT 375,000.²⁴

Table 24 shows estimates of the ‘voluntary contributions per classroom’ by different levels of contribution. As mentioned in the previous chapter, voluntary contributions are mainly used for classroom maintenance, and contributions may range from MNT 500 to MNT 10,000 per student, whereby in general the lower amounts are reported for rural areas and the higher for UB. As a result of the different levels of contribution and compounded by the difference in class sizes (with *Bag* schools having the lowest and UB schools having the highest class size – See Table 11), it is estimated that the voluntary contributions per classroom can vary from MNT 10-20,000 in rural *Soum* schools to MNT 100-200,000, or even significantly more, in urban schools. Hence the schools in richer areas can substantially top up their variable cost budget, whilst small / poor schools have much more difficulty in doing the same – which justifies the idea of a pro-poor allocation mechanism.

Table 22 : Profile of an average/typical school, by location (see Annex 7)

	Bag centre	Soum center		Aimag centre		UB urban
Grades	1-5	1-9	1-12	1-12		1-12
Number of students	70	320	700	1,300	1,300	1,700
Number of boarding students	50	70	130	0	100	0
Number of classrooms	4	11	19	30	30	37
Number of classes	5	13	24	40	40	51

*) This data are based on data as presented in Annex 7 derived from MECS database

Table 23 : Estimated ‘variable costs budget’, total and per classroom, average/typical schools

	School type	No of students	Norm amounts *)	Total in MNT	No of classrooms	Average per classroom
Bag	Primary	70	23.3	1,631,000	4	407,750
Soum	Basic	320	12.6	4,032,000	11	366,545
Soum	Full secondary	700	9.9	6,930,000	19	364,737
Aimag	Full secondary	1300	8.8	11,440,000	30	381,333
UB	Full secondary	1700	8.0	13,600,000	37	367,568

*) Average for the prevailing grades, in thousands

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This may come as a surprise, but it should be remembered that the norm amounts as far as salaries are concerned are fully based on average class size for the type of school. As noted in Chapter 1, tendencies of class size and classroom occupancy are similar: in rural areas classes are small and classrooms half full. In urban areas, classes are full to the norm and classrooms twice occupied. For the calculation of the norm amount for variable costs, classroom utilisation is implicitly one of the factors used. This could explain why the amounts per class are fairly similar.

Table 24: Estimated Parent contribution per classroom, different levels of contribution, MNT*)

	School type	Average voluntary contribution per student, in MNT				
		500	1000	2500	5000	10,000
Bag	Primary	8,750	17,500	43,750	87,500	175,000
Soum	Basic	14,545	29,091	72,727	145,455	290,909
Soum	Full secondary	18,421	36,842	92,105	184,211	368,421
Aimag	Full secondary	21,667	43,333	108,333	216,667	433,333
UB	Full secondary	22,973	45,946	114,865	229,730	459,459

*) In yellow the most likely range of actual amounts

Hence, when allocating the block grant –to be used for classroom maintenance and improvement amongst others- there is, for reasons of equity, which is an explicit objective in the education policy, a strong argument to take into account the poverty/wealth situation in the area of the school.

The critical question of course is how to determine, in an objective manner, which school is relatively poorer than the other. In fact, there is no data available that will indicate the relative poverty/wealth of the parents for each individual school. Hence, we will have to rely on proxies and have come across two sets of such proxies :

- Firstly, since March 2009, a census based poverty map is available,²⁵ that provides poverty data by region, *Aimag* and *Soums*. Table 25 below provides an overview of the 'poverty headcount' (number of poor persons) for the various *Aimags*. The Table also shows the poverty headcount for the *Soum* that is *Aimag* centre, as well as for the 'poorest' and 'least poorest' rural *soum*. The same is depicted in a graphic.

The graphic shows, – and not surprisingly-, that in general (although exceptions occur) the poverty in the urban centres is lower than in the rural areas. The data also seem to suggest that there is a correlation between, on the one hand, the overall poverty head count and the poverty in the 'poorest' and 'richest' (or least poorest) rural *aimags*. Hence, if one would select poorer *Aimags*, within a band-with, automatically poorer *Soums* are selected also.

- Secondly there are proxies for poverty related to school-type. For example, there appears general consensus that 'smaller and more rural schools' on average cater for the 'more poor' students – which are the *Bag* schools and to a lesser extent the *Soum* schools. This is confirmed by the above data that *Soums* that are *Aimag* centres in most cases the least poor *Soums* within the *Aimags*.

Similarly, schools with dormitories –mainly found at the *Bag* and *Soum* levels (see Ch 1) are generally considered schools that cater for the less well off - as more well-off parents would make their own lodging arrangements and may even prefer to send their children to schools without boarding facilities. The fact that *Aimag* schools have relatively little boarding facilities is a reflection of this.

Hence, if the block grant is to be pro-poor –and given the data available- it should :

- provide relatively more resources to schools in poor *Aimags* and poor *Soums*, and
- within those areas, provide more resources to relatively smaller, more rural, and more remote schools, as well as to schools with boarding facilities.

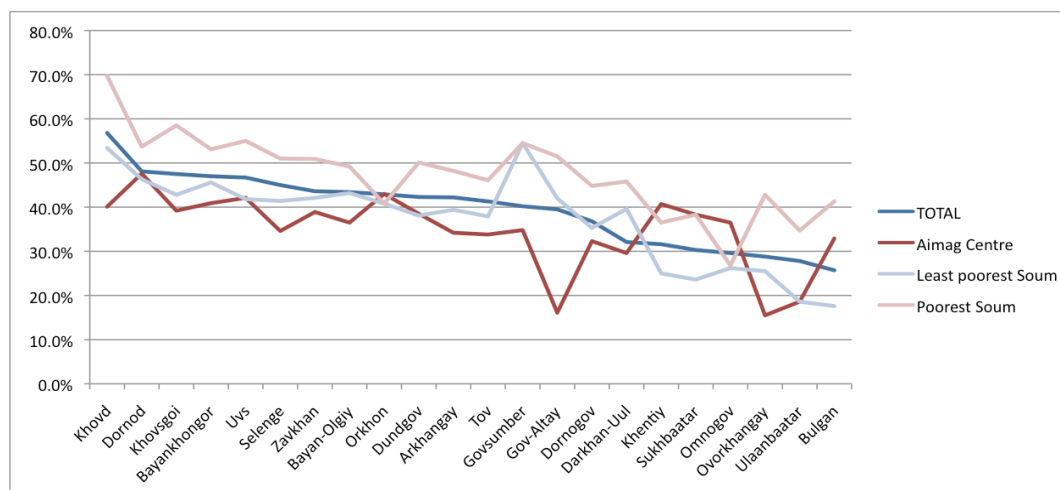
Still, this does not answer the question, whether the schools to benefit from the block grant will be selected from amongst the poorer *Soums* all over the country (as the Danida funded programme implemented by the Mongolia State University of Education did), or only in selected poor *Aimags*. This question will be addressed in the next paragraph.

²⁵

Government of Mongolia, National Statistical Office/UNDP, *Mongolia Census based Poverty Map – Region, Aimag and Soum level Results*, by Harold Coulombe and Thomas Otter, March 2009

Table 25 : Poverty head count data

No *)	Aimag	Region	Poverty headcount (% of population classified as poor)			
			Overall	Aimag centre	Least Poorest Soum **)	Poorest Soum
1	Khovd	Western	56.8%	40.1%	53.4%	69.7%
2	Dornod	Eastern	48.1%	47.6%	46.3%	53.7%
3	Khovsgoi	Khangai	47.5%	39.2%	42.8%	58.5%
4	Bayankhongor	Khangai	47.0%	40.9%	45.6%	53.1%
5	Uvs	Western	46.7%	42.1%	41.8%	55.0%
6	Selenge	Central	45.0%	34.6%	41.4%	51.0%
7	Zavkhan	Western	43.6%	38.9%	42.1%	50.9%
8	Bayan-Olgii	Western	43.4%	36.5%	43.2%	49.2%
9	Orkhon	Khangai	42.9%	43.0%	40.8%	40.8%
10	Dundgov	Central	42.3%	38.5%	38.1%	50.1%
11	Arkhangay	Khangai	42.2%	34.2%	39.4%	48.2%
12	Tov	Central	41.3%	33.8%	37.9%	46.1%
13	Govsumber	Central	40.2%	34.8%	54.5%	54.5%
14	Gov-Altay	Western	39.5%	16.1%	42.0%	51.5%
15	Dornogov	Central	36.8%	32.3%	35.3%	44.8%
16	Darkhan-Uul	Central	32.1%	29.6%	39.6%	45.8%
17	Khentiy	Eastern	31.6%	40.7%	25.0%	36.5%
18	Sukhbaatar	Eastern	30.3%	38.3%	23.6%	38.3%
19	Omnogov	Central	29.6%	36.5%	26.2%	26.8%
20	Ovorkhangay	Khangai	28.8%	15.5%	25.5%	42.8%
21	Ulaanbaatar		27.8%		18.6%	34.7%
22	Bulgan	Khangai	25.7%	32.9%	17.6%	41.3%



*) In order of Aimag level poverty headcount

**) From amongst Soums that are not an Aimag centre

2.4 Overall design considerations

Designing a grant can in a way be compared to piecing together a puzzle or resolving a game of sudoku: the position of one piece or the way one cell is filled, influences the position of the other pieces or the content of the other cells respectively. In the end, all pieces and all cells have to come together in a logically consistent manner.

Similarly, the design of a grant has various elements for which different positions can be taken (that all can have their value or justification), but each position taken will have a bearing on the other elements. Such elements – and as will be discussed in this paragraph are :

- the *grant pool*, that is the total amount available (or to be made available) for the grant, estimated on the basis of a reasonable average amount (and which will of course depend on what the grant is to fund, but also on the amounts available);
- a *selection of the beneficiaries*, to determine –in our case- how many schools and which schools are to benefit from the grant;
- the *allocation criteria*, that will determine how the total amount will be divided amongst the eligible schools; and
- the *menu of eligible activities* to be funded under the grant, which obviously has a bearing on the allocation criteria and the average reasonable amount, but again also dependent on the amount available and the number of selected schools.

Whilst working on the design, the pieces normally fall into place rather simultaneously than sequentially. This means that it is not always easy to describe the design of the grant in a logical sequential order, as the design needs to be described and appreciated in its totality. But in a report there is no other option than to do it in a sequential manner, as done in the paragraphs below.

2.4.1 Menu of eligible activities under the block grant

A first question to be answered is: ‘what should the grant fund, given the set objectives?’ Following the analysis and the tentative objectives as formulated in the previous chapter, it is evident that the grant should ‘top up’ the operational budget. Following the government budget cuts in 2009, the hit on the ‘fixed budget lines’ for utilities was not as severe as anticipated in the project document, it is therefore proposed that the grant will focus exclusively on ‘other variable costs’ for which chapter one established the following categorisation (using all existing budget lines but adding headings):

Textbox 5 : Menu of eligible activities

- 1. Management related costs**
 - Stationery
 - Postal expenses/communication:
 - Travel
 - Bonuses
- 2. Teacher development**
 - Publication/books:
- 3. Services support staff**
 - Uniforms support staff :
 - Medical costs:
- 4. Classroom Teaching materials**
 - Classroom materials (incl. chalks etc.)
- 5. Sports, competitions, etc**
 - Provision for participating in competitions
- 6. Furniture repair / replacement equipment**
 - Small item replacement
- 7. Maintenance and minor repair**
 - Recurrent Building maintenance

The grant must find a balance between guiding the funds towards the so far mostly underfunded budget lines, and at the same time allow schools some discretion. The latter is essential for two reasons: Firstly, the priorities are not the same in all schools, and there is a need to recognise that 'the centre' cannot foresee (and hence can not plan) for the individual needs of each school. It is in the spirit of the argument as advanced by the new budget law described in the previous paragraph. Secondly, formula based allocations can never render 'exact' needed amounts – hence, and depending on the priorities, schools should be allowed to tally their budgets to the existing situation on the ground. This argument, that in a way follows on from the first argument, is also a reflection of the fact that the fixed percentages as presently used (see para. 1.6) can not work, as it puts schools in a straight jacket that does not necessarily (and in most cases will not) conform to that particular school's reality.

It is therefore proposed to allow schools to allocate the budget for particular well-defined activities across the various budget lines, but to ensure that a minimum percentage of the available funds is spend on what –following the policy, the analysis and the objectives of the grant-, is considered most important.

Three budget lines stand out to be given preferential treatment, these being : maintenance & small repairs and furniture, relating to the fixed and movable assets relatively, and the budgets for which were severely cut. Even though in the end the drop in expenditure was less dramatic then initially anticipated, both budget-lines are severely underfunded. Both budget lines relate to 'the enabling environment' and maintaining the existing assets (see Education Master Plan as discussed above).

The third proposed preferential budget line –classroom teaching or education materials-relates to improving the quality of education in the classroom, and equally refers to the Education Master Plan. In chapter 1 it was noted that the share of 'classroom teaching materials' as part of the overall budget of 'other variable costs' had substantially increased over the past few year. However, as also noted (and as can be seen from the example budgets in Annex 6), these costs seem to particularly relate to 'materials for vocational training' and the allocation of said budgets appears often to be a one-off event (as schools in our small sample did not to have it on the budget, and do receive it for one year, and not the following year; See Annex 6).

Given the costs of maintenance and furniture in comparison to the costs of education materials, it seems logical that a larger part of the budget be destined to the former two categories (maintenance and furniture and other movable assets). It is finally proposed that the budget line 'bonuses' is excluded from the block grant.

In line with the pro-poor argument (and the question raised above about targeting poor children), it has been considered to specifically include in the menu activities that would benefit poor children. However, the obvious activities (providing materials, textbooks etc.) is already catered for under existing programmes, and other activities are not that evident. However, adding such activities, provided they could be identified, also would give the grant a very different nature and negate the idea that it will support schools –whilst favouring poor schools- in getting their 'act together'. Meanwhile, schools have the freedom to allocate part of their budget to pro-poor activities provided they fall under 'other variable costs' –and as long as the other rules of the game are adhered.

Finally, it should be noted that –given the budget available- activities of real investments (e.g. for school or classroom construction), but even complete school renovation were 'out of bound'. It is obvious that –if the grant were for investment related activities, both the school selection as well as the allocation criteria would have been very different.

In our case, the grant is designed as an across the board top up of the operational costs budget, favouring poor schools, to compensate them for the fact that they are in a lesser position to top up the government provided budget through 'voluntary' parent or other contributions, as compared to schools in relatively better-off areas. The proposed eligible activities follow this description.

2.4.2 The grant pool

Based on the overall actual expenditure for 'other variable costs' in 2009 – not too different from the budget for 2010–, the amount available for 'other variable costs' can be estimated at MNT 11,75 million (or some USD 8,500) per school on average.²⁶ This constitutes some 4% of the overall budget – and, on average the same would apply to schools. Actual figures do –of course- vary from school to school, in principle on the basis of the number of students and the norm amounts for other variable costs. The example school budgets in Annex 6 do suggest that the percentage for other variable costs can be well below 4% of the school budget²⁷, but in general –and also on basis of the data in Tables 22 and 23- we can estimate the present government contribution to the 'other variable cost budget' at between MNT 4 million to MNT 11.5 million for a 9-Grade *Soum* school and a full secondary *Aimag* school respectively.²⁸

Given the minimal amounts now budgeted for the 'other variable costs', and given the costs of maintenance works (see Table 26), a doubling of the amount appears reasonable, which would bring back the share of the costs category to where it was around 2005-2006 (that is 8-9% of the total budget).

Table 26: Examples of maintenance costs (as mentioned by schools visited)

1. Repair of heating pipes	MNT 3-7 million	USD 3-5,000
2. Repair of floor (one corridor)	MNT 4.0 million	USD 5,000
3. Building of toilet block (in a larger school)	MNT 15.0 million	USD 10-12,000
4. Repair of toilets	MNT 5.0 million	USD 3,500
5. Roof repair	MNT 4.0 million	USD 3,000

We therefore agree with the average amount of USD 10,000 as mentioned in the project document, which we have used for our further modelling and calculations.

With this figure and a total available budget of USD 3.1 million²⁹, and given the project design that the grant would first be piloted in a limited number of schools before being scaled up, the idea was muted to start in around 80 schools and triple the number in the second round (to 240), which would more or less exhaust the budget.

2.4.3 Selection of the schools

It is proposed that the selection of the schools be done on the basis of the following considerations:

- Given the trends in the allocations for 'other operation costs', and notably the reduced availability of amounts in real terms for maintenance, all (public) schools in the country would deserve a topping up of the most affected budget lines.
- Monies could this have been used to top up the norm amounts, but then the amounts per school would have been very minimal and would not allow for any meaningful (maintenance and other) works to be conducted. It would have been impossible to track the impact of the funds thus spent. Hence a choice had to be made.
- Given the idea that all schools would deserve a top up of the other variable costs budget (and some a bit more than others, on the basis of the pro-poor argument), and given the fact that institutional arrangements and institutional improvements are sought

²⁶ The total budget for other variable costs (exclusive of utility costs and food programmes) is MNT 8,815.6 and 8,959.3 billion for 2009 and 2010 (budget) respectively (see Annex 3.1). This amount, allocated through the norm amounts, is divided amongst 756 both public and private schools, which returns a rough average of MTN 11,6 and MNT 11.9 respectively (or, with the present exchange rate, some USD 8,450 and USD 8.550).

²⁷ In cases where, in Annex 6, the share of 'other variable costs' is substantially higher, this is due to the – incidentally- high budgets for teaching materials, which are for vocational training (see text above).

²⁸ The amount for an average UB school is MNT 13,6 million, which explains that the overall average is also MNT 11.5 million as for a typical *Aimag* school

²⁹ The budget was USD 3.2 million, but USD 100,00 was recently used for a budget reallocation to honour the Ministry's request to pay for the cost of the schools' internet connections for school year 2009/10

that can be scaled-up, it is proposed to select entire *Aimags* and make all schools in those *Aimags* eligible.

- The added advantage of the approach of selecting entire *Aimags* (and apart from the very important institutional considerations which are a sufficient argument by themselves) is that the activity (which is a pilot in nature) becomes (a) more manageable and will reduce overhead while, (b) it has the opportunity to get the concerned *Aimag* education offices fully involved. In a situation where the eligible schools would be scattered all over the country, the overhead costs would be much higher, but also the *Aimag* offices (each of them dealing with a few selected schools) would have less of an incentive to do a good job. Finally, if entire *Aimags* are involved, the funding system through *Aimags* can become part of the pilot.
- The final consideration, given the objectives of the project- was to select those *Aimags* on the basis of poverty criteria – with the argument that schools in poor *Aimags* would be most entitled to a top up (see also the graphic attached to table 25). It is proposed to use the *Aimag* poverty headcount data as presented above for this purpose.

Given the tentative number of schools mentioned at the end of the previous paragraph, and using the poverty headcount data as given in Table 25, it is suggested that in the first year of the pilot all public schools in Khovd, Dornod and Khovsgoi are included. Tentatively –and subject to the evaluation of the first year experiences- to be expanded to include –in the order of the aforesaid wealth ranking- Bayankhongor, Uvs, Selenge, Zavkhan and Bayan Olgii in the second year.

Given the actual (2009/10) data on number of schools and students, this would mean that in the first round, 80 schools are involved, to be increased to 233 schools in the second year. In the second year, the block grant will thus benefit 38.5% of the public schools and 31.5% of all the students in the public schools (see Table 27).

Table 27 : Proposed *Aimags* for the block grant

Aimag	Region	No of public schools	No of students	Average number of students per school	Number of schools cumulative		Number of students cumulative	
					No.	% of total	No.	% of total
Pilot 2010/11:								
1. Khovd	Western	23	20,409	887	23	3.8%	20,409	4.1%
2. Dornod	Eastern	23	13,966	607	46	7.6%	34,375	7.0%
3. Khovsgoi	Khangai	34	25,948	763	80	13.2%	60,323	12.2%
To be added 2011/12 :								
4. Bayankhongor	Khangai	29	17,956	619	109	18.0%	78,279	15.9%
5. Uvs	Western	25	19,537	781	134	22.1%	97,816	19.8%
6. Selenge	Central	33	19,029	577	167	27.6%	116,845	23.7%
7. Zavkhan	Western	29	16,640	574	196	32.4%	133,485	27.1%
8. Bayan-Olgii	Western	37	22,407	606	233	38.5%	155,892	31.6%
Mongolia		605	493,111	815	605	100.0%	493,111	100.0%

Taking the average amount of USD 10,000 per school, and assuming that the grant will run for two school years (see paragraph 2.5.1 below), the above selection would result in the budget as presented in Table 28 below.

Table 28 : Determination of the total pool of fund, by year

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 10,000 (MNT 13.8 million)	USD 800,000
2011/12	233	USD 10,000 (MNT 13.8 million)	USD 2,330,000
Total			USD 3,130,000

Note : Given the available budget of USD 3.1million is was later decided to set the average amount per school at USD 9,900. Calculations in Annex 9 are made on that basis. The next paragraph still uses the amount of USD 10,000.

2.4.4 The allocation criteria

Given the total amount (the number of schools, times the confirmed average amount per school) and the selected schools, we now need to turn on how to divide the total pool over the schools. Such allocations need to be transparent, objective and take into account the policy objectives of the grant as well as the nature of the activities for which the grant is meant. Normally³⁰, such allocation criteria –or rather formulae- take into account on the one hand the ‘expenditure needs’ and on the other the ‘capacity to raise own income’. This particularly applies to the case of the proposed grant where the allocation criteria on the one hand needs to cater for costs of activities that are to be funded and on the other hand make up for the difference in capacity of schools to raise other contributions.

Theory and international best practices suggest that such allocation formulae:

- Should focus on service delivery, and be best based on the number of clients to be served or outputs rather than on supply indicators such as inputs or existing infrastructure; If the grant were to finance the entirety of education services, the number of pupils in the school going age (rather than the number of children actually in school), and provided that children of a particular area can be tied to a particular school, would be a good indicator. Equally, it is normally discouraged to include factors of existing infrastructure as it consolidates an existing situation (e.g. if the grant for health services is based on the number of dispensaries, an area that has no health centre will also never receive funds);
- Should provide ‘revenue adequacy, in other words, the grant amount that results from the allocation formula should render amounts to the various units (schools) that are adequate in terms of the objectives and activities that need to be undertaken to deliver the required services;
- Should avoid ‘equal shares’ as a major allocation factor as it negates the principle of a formula based allocation in the first place;
- Should be simple and transparent, as an important element of the objective allocation formula is that beneficiaries can understand how the allocations were arrived at;
- Should be based on variables that are objective, regularly updated and free from manipulation (as we know from experience, enrolment data are not); and finally
- Need to recognise –apart from the principles as just mentioned- the local reality, the availability of data to serve as variables and the specific objectives of a grant in each particular case.

Especially the latter consideration is important, as the Mongolian situation has its peculiar characteristics (such as a partly nomadic population, the fact that classrooms are only half full in rural areas, while urban schools run double shifts), while also the grant is not supposed and not designed to cater for the entire education sector in the *Aimag* or an entire school budget, but only for one particular part of the school-budget.

Based on this, the following variables were initially considered: (i) Number of enrolled students; (ii) Number of classrooms, (iii) Number of boarding students and (iv) the *Soum* Poverty index (measured as number of ‘poor’ students).

The number of enrolled students and the number of boarding students are a direct measurement of ‘expenditure needs’. The number of children in school going age is difficult to establish and is likely to make less sense in the Mongolian situation. Also the fact that the grant has only a duration of 2 years justifies to use the ‘actual number of clients’ rather than the ‘potential number of clients’.

For the same argument (and against theory), we considered including the number of classrooms, as the actual number of classrooms is the only available indicator that provides a proxy for the fixed and movable assets that are to be maintained. Obviously, if classrooms had the same ‘occupancy rate’ across the country, inclusion of the variable would not be needed (as enrolment data would cater for the same), but given the particularities mentioned above, it appears important to include the variable to ‘protect’ the smaller and more rural schools.

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This and the following paragraph are based on theory of fiscal decentralisation which also fits the allocation to schools, being a lower level of government dealing with service delivery.

In order to bring on board the 'potential other revenue' side, the variable for 'poverty head count' was added', which would benefit the poorer schools. However, and as argued above, it should be noted that the variable of 'number of dormitory students' already favours *Soum* and *Bag* schools as those are the schools that have most boarding students. Finally, to further 'favour' the smaller (and normally poorer) schools -and again against theory- a small fixed amount was considered.

We then did –with weights as indicated- calculations for the typical schools as described in Table 22 (see Also Annex 7) which are presented in Table 29a. Table 29b shows similar calculations for schools in hypothetically different areas (with different poverty head counts).

Table 29a: Example of calculation the block grant as per proposed formula, using 6 typical schools

Typical school @	Students		Classrooms		Boarding students		Aimag poverty proxy		
	No	%	No	%	No	%	Poverty head count	poor students	
								no	%
"Bag"	70	1%	4	3%	50	14%	50%	35	2%
"Soum G1-9"	320	6%	11	8%	70	20%	50%	160	7%
"Soum G1-12"	700	13%	19	15%	130	37%	50%	350	15%
"Amaig"	1,300	24%	30	23%	0	0%	50%	650	28%
"Amaig / Boarding"	1,300	24%	30	23%	100	29%	50%	650	28%
"UB"	1,700	32%	37	28%	0	0%	28%	476	21%
Total	5,390	100%	131	100%	350	100%		2321	100%
Average US 10,000 / school – USD 60,000 in total									
	Fixed	Students	C/rooms	Boards	Poverty	Total	Amount (in USD)		
Weighing factor	10.0%	25.0%	20.0%	20.0%	25.0%	100.0%	Total	Per Student	Per classroom
Weighted relative shares :									
"Bag"	1.7%	0.3%	0.6%	2.9%	0.4%	5.8%	3,502	50.02	875.42
"Soum G1-9"	1.7%	1.5%	1.7%	4.0%	1.7%	10.6%	6,332	19.79	575.66
"Soum G1-12"	1.7%	3.2%	2.9%	7.4%	3.8%	19.0%	11,408	16.30	600.40
"Amaig"	1.7%	6.0%	4.6%	0.0%	7.0%	19.3%	11,567	8.90	385.56
"Amaig/Boarding"	1.7%	6.0%	4.6%	5.7%	7.0%	25.0%	14,995	11.53	499.84
"UB"	1.7%	7.9%	5.6%	0.0%	5.1%	20.3%	12,197	7.17	329.64
Total	10.0%	25.0%	20.0%	20.0%	25.0%	100.0%	60,000		

Table 29b: Example of calculation the block grant, using 3 typical schools in two hypothetical aimags

Typical school @	Students		Classrooms		Boarding students		Aimag poverty proxy		
	No	%	No	%	No	%	Poverty head count	poor students	
								no	%
Soum G1-9	320	7%	11	9%	70	18%	60%	192	9%
Soum G1-12	700	15%	19	16%	130	33%	60%	420	20%
Aimag	1300	28%	30	25%	0	0%	60%	780	37%
Soum G1-9	320	7%	11	9%	70	18%	30%	96	5%
Soum G1-12	700	15%	19	16%	130	33%	30%	210	10%
Aimag	1300	28%	30	25%	0	0%	30%	390	19%
Total	4640	100%	120	100%	400	100%		2088	100%
Average US 10,000 / school – USD 60,000 in total									
	Fixed	Students	C/rooms	Boards	Poverty	Total	Amount (in USD)		
Weighing factor	10.0%	25.0%	20.0%	20.0%	25.0%	100.0%	Total	Per Student	Per classroom
Weighted relative shares :									
Soum G1-9	1.7%	1.7%	1.8%	3.5%	2.3%	11.0%	6,614	20.67	601.25
Soum G1-12	1.7%	3.8%	3.2%	6.5%	5.0%	20.1%	12,080	17.26	635.80
Aimag	1.7%	7.0%	5.0%	0.0%	9.3%	23.0%	13,806	10.62	460.20
Soum G1-9	1.7%	1.7%	1.8%	3.5%	1.1%	9.9%	5,924	18.51	538.56
Soum G1-12	1.7%	3.8%	3.2%	6.5%	2.5%	17.6%	10,572	15.10	556.40
Aimag	1.7%	7.0%	5.0%	0.0%	4.7%	18.3%	11,004	8.46	366.81
Total	10.0%	25.0%	20.0%	20.0%	25.0%	100.0%	60,000		

Table 29 shows that a typical *Bag* would receive USD 3,500 and an *Aimag* boarding school USD 15,000. The outcomes show a spread not too far off from the data calculated above (See Table 23) on the basis of the norm amounts, although with a visible bias in favour of the *Bag* and *Soum* schools. The calculations in table 29b effectively show that similar schools in a poor area will receive some more than similar schools in a rich area.

Based on these outcomes, simulations were subsequently carried out with the actual 80 selected schools, whilst one variable was added, being the distance to the *Aimag* centre, reflecting the higher costs of most goods and services in more remote areas. The results of some of these simulations are presented in Annex 8, and the results of the proposed allocation formula (which shows the best results in terms of favouring small and presumably poor school is presented in Table 30).

The proposed formula is –apart from the inclusion of the distance as a proxy for price levels- similar to the formula that was arrived at on the basis of the above argumentation of expenditure needs and potential income. In fact, the simulations confirmed the expectations and assumptions.

The formula means that :

- (i) 10% of the total available amount is equally divided amongst all 80 schools (which is USD 1,000 per school); this component is to cater for costs all schools (large and small) have – and hence percentage wise favours small schools;
- (ii) 25% is divided on the basis of the relative number of enrolled students in each school;
- (iii) 20% is divided on the basis of the relative share of each school in the total number of boarding students; Schools that have no boarding facilities will not share in this 20% of the available amount;
- (iv) 20% is divided on the basis of the number of classrooms;
- (v) 05% is divided on the basis of the relative distance to the *Aimag* centre (distance of the particular school relative to the cumulative distance);³¹ Schools in the *Aimag* centre will not share from this component; and finally
- (vi) 20% is shared on the basis of the relative share in the number of ‘poor students’ which is for each school calculated by multiplying the number of enrolled students by the poverty head count figure for the concerned *Soum*.

Table 30: Summary of allocation results schools in proposed *Aimag*s with proposed weights

		All schools N=80	Bag schools N=4	Soum schools N=54	Aimag Schools N=22
Variables :	Weights	Total :			
Fixed share	10%	Minimum	2,092	*) 3,433	*) 2,438
# Students	25%	Maximum	18,842	17,741	18,842
# Boarding students	20%	Average	10,000	9,928	11,475
# Classrooms	20%	Median	9,843	9,724	11,610
Distance to Aimag	5%	Per student :			
Soum Poverty	20%	Minimum	7.64	11.37	7.64
		Maximum	69.88	27.44	15.79
		Average	16.88	16.81	10.47
		Median	15.16	16.36	10.20
		Per classroom :			
		Minimum	289	358	289
		Maximum	1,579	1,579	679
		Average	588	653	422
		Median	550	603	417

*) Low figures due to relatively small (specialised) schools e.g. for the *Aimag* case: 180 students in 4 classrooms.

³¹

It should be noted that this can only work in case the distances are spread rather homogeneously. In case for example most schools have an average distance of say around 100km and few would have a distance of over 700km this would give rise to too big differences and the variable should be calculated differently, e.g. as an index.

Annex 9 presents the full list of calculation for each individual school. It should be noted that, because (i) the total divisible pool is determined on the basis of 'an average amount per school' and because (ii) the schools added in year-2 are –by coincidence- smaller in size as compared to the three schools of the first year, the average amount per student in year 2 will be higher as compared to the first year (based on 2009/10 student data the amounts will be USD 13,25 and USD 14,95 respectively). It is therefore very well possible that the relatively larger schools, in especially Khovd and Khovsgoi, will receive higher amounts in the 2nd year. More generally it can be noted that the way the formula works, the data in one school, in principle impacts on the calculation of all other schools.

2.4.5 Performance based grant / Bonus and Penalty arrangements

For grants of a similar type in other countries, there is sometimes the provision of a 'penalty / bonus' clause, which means that the entities concerned (a local government or school or dispensary) will receive a higher or lower allocation the following year (a 'bonus' or a 'penalty') depending on their performance in the current (or past) year.

Although such mechanisms can be useful, it does not seem appropriate –at least not now- for this block grant. The foreseeable period is simply too short, and it would only further complicate the system to be put in place. For the time being, the yes/now triggers following satisfactory reporting (see below) are expected to be a sufficiently strong incentive for performance.

At a later stage it could be considered to add performance based indicators to the grant, provided it is in the school management's mandate to influence the performance. As indicated earlier, schools management can only be held accountable for activities that are within their realm of influence.

2.5 Administrative and other Procedures

2.5.1 Financial years

The Mongolian government financial years follow calendar years and run from 01st of January to 31st of December. Schools follow the same planning and budget cycle, which means that school years –with classes from 01 September to 01 June, would run from 01 August to 31st of July, whereby July is considered the month schools are really closed. June is often used to undertake regular maintenance works. It means that school-years are part of two financial years.

Ideally, the block grant cycle should coincide with Government financial years, or otherwise, if such is not possible, school-years.

The *Pro poor financial crisis response project* has a life span up to end of September 2012, whereby the last 6 months are the 'closing period'. Disbursements are to be completed by end of March 2012 and expenditures completed by 30th June 2012.

Given these considerations, it is proposed that the block grant will cover two school years whereby the grant will be operational for 21 months, from 01 October to 30th June 2012. First releases to be made at the beginning of Q4-2010 and the last release in Q1-2012. Schools will need to have used the resources by end of June 2012.

2.5.2 Block grant Funds flow

As a matter of principle, it is proposed that the grant will follow –as much as possible- normal government procedures for funds flows. Others had suggested that schools open separate bank accounts for the block grant. But as the Public Sector Management and Finance Law (PSMFL) explicitly prohibits state budgetary bodies and officials to open bank accounts beyond the centralised cash management system (PSMFL, Art 14.1.2), this is not an option. Other projects have found a way around this by registering an NGO linked to the school, but this would in a way be like trying 'to outsmart government procedures'

and defeat the objective of the grant to 'strengthen the government's system of school financing'.

But the latter point also means that the arrangements for the grant need to be such that present weaknesses (see e.g. Textbox 6) are either avoided or solved. The grant itself may be able to assist in exposing and addressing present weaknesses.

Text Box 6 : Funds flow and use of funds by schools – Present situation

The present practice of funds flows and utilisation of funds is that all schools have an account with an *Aimag* or *Soum* Treasury office. On the basis of the approved school budget and the cash-flow plan (and available resources), school accounts are credited. In principle transfers from Central Government Treasury are made at the beginning of each month, -between the 1st and 5th of every month- but in practice, amounts appear to arrive at the school accounts much later. Schools then can draw on the resources by requesting the treasury office to make payments on their behalf.

Treasury offices act as a normal commercial bank with one additional task: Apart from making the payment as requested/instructed, they check –prior to the payment- whether the payment is in accordance with the approved school-budget and whether there is a sufficient balance left at the concerned budget line to make the payment. Hence, the Treasury offices perform – next to their banking task the role of government internal auditor.

Although schools are budget holders, it is only Treasury offices that can credit accounts and approve and make the payments. At the moment payments are effected, they are entered in the Treasury free-balance accounting system and thus immediately recorded.

As discussed in Chapter 1, from the perspective of the schools and MECS, there are a few weaknesses in the system, including the following:

- The system of crediting accounts is not always transparent – Some schools complained that they receive less in their accounts than expected – and sometimes claim that the 'governor's office is withholding funds'. In other cases, schools do not seem to have the full or correct information on what amounts have been allocated to them.
- Some schools complained that the cash-flow plans (which they claim are made by Treasury office – at least not themselves) do not always reflect the actual required expenditure patterns. For many items on the budget, the total budget divided by either 10 or 12 months to get the monthly cash-flow ceilings; Hence for many budget lines the monthly amounts are small – which makes procurement inefficient.
- Some schools claimed (and this may be a practice that varies from one Treasury's or Governor's office to another) that approved funds not used at the end of the month were 'lost'.
- Because of the small amounts, the late arrival of funds in the school accounts and the chance that funds unspent at the end of the month are lost, many schools in practice operate a system where they buy 'on credit' and pay the suppliers once funds are available. This obviously negates part of the objectives of the entire financial management and accounting system put in place.

The project funds³² are held in a US Dollar account that is kept by Treasury (and for the State Secretary MoF and the Director General of MoF are "A" signatories while the Finance Director and the Chief Accountant of MECS are "B" signatories), also called imprest account no 2. Although the (imprest) accounts are kept by Treasury, they are not part of the 'centralised cash management system' of government. Treasury indicated they prefer to account for the block grant, being donor monies coming from a USD account, separately from government funds, even though they pass through the Treasury single account system.

Taking into account the above considerations and based on further discussions with MoF, Treasury and MECS, the following is proposed for the block grant:

³² Apart from the funds for the kindergarten sub-component that are kept in a separate account – also called Imprest account no 1.

- With regards to the standardised school-budget/chart of accounts (see Annex 5), MoF/Treasury will need to create/designate two budget-lines that can (i) reflect the grant as income and (ii) cater for recording the expenditure.

Ideally, this expenditure line would be part of 'goods and services', notably the 'other variable costs' sub-category. If possible, the newly created expenditure (in the language of MoF called 'programme') line, would have the same number of sub-categories as there are 'other variable costs budget lines (apart for bonuses that are not allowed under the block grant), which would allow to calculate the total budget and expenditures against the government classification.

Based on the income/expenditure sheet in Chapter 1, the new setup that includes the block grant would look as presented below in Table 31 :

Table 31 : Possible template for School income and expenditure overview

Income categories	Amount	Expenditure categories	Amount
1. Government Contribution			
1.1 Flexible allocation			
1.1.1 Flexible – salary costs		1. Salaries and related staff costs	
1.1.2 Other flexible costs		2a. Other operational costs *)	
		- Stationery	
		- Postal expenses/communication:	
		- Travel	
		- Bonuses	
		- Publication/books:	
		- Uniforms / materials support staff	
		- Medical costs:	
		- Classroom materials	
		- Participation in competitions	
		- Small item replacement / furniture	
		- Recurrent Building maintenance	
1.1.3 Block Grant transfer		2b. Block grant - supplement	
		- Stationery	
		- Postal expenses/communication:	
		- Travel	
		- Publication/books:	
		- Uniforms / materials support staff	
		- Medical costs:	
		- Classroom materials	
		- Participation in competitions	
		- Small item replacement / furniture	
		- Recurrent Building maintenance	
1.2 Fixed allocation		3. Utility costs	
		3.1 Heating	
		3.2 Electricity	
		3.3 Water	
1.3 Targeted (social) assistance		4. Special programmes (Transfers)	
- Flexible allocation boarders		4.1 School food and lunch	
- Specific programmes		4.2 Schoolbooks, stationery, etc	
2. Own income			
2.1 From core activities			
2.2 From non-core activities			
3. From voluntary contribution (parents, mining companies, other)			
4. Local government contribution			
Total Income		Total Expenditure	

*) Apart from utility costs

During the mission, MoF/Treasury were not able to confirm that the accounting system would allow the sub classification under the new budget line. For the project (that is for MECS) it will be important to be able to monitor on what the funds are used, both to ensure compliance with the rules (of the menu and the approved plan) but also in terms to be able to analyse where schools spend their money if allowed some discretion.

In case the Treasury accounting system does not allow the sub classification, tracking of the funds will need to rely on additional reporting (outside of the system), which is an arrangement that should be avoided if possible.

- Once the chart of accounts is set, based on the calculated amounts for each school and the cash-flow plan (that will have to follow the plans to be prepared by the schools for the utilisation of the grant), MECS -if needed with assistance of the project accountant-, will ask MoF to make quarterly releases from the project imprest account to the school-accounts;

It is at this point of time that the funds enter the normal government system. Treasury indicated, however, that they will continue to separate the said budget line from government funds.

- Schools will draw on the funds applying normal procedures, whilst taking into account the few additional requirements as described in this chapter and that will be further detailed in the grant manual.

Hence, in brief, for the flow of funds it is proposed that :

- (i) MoF/Treasury make the necessary changes to the chart of accounts such that both the income and the expenditure related to the block grant can be reflected in the school-accounts, preferably in such a manner that expenditure under the block grant can be allocated to the various existing 'other variable costs' categories;

Such a system has 'the best of all': it allows Treasury to account separately for donor funds, it allows tracking of the expenditure of the block grant by expenditure category what ADB likes to see and, finally, all is fully integrated in the existing government system;

- (ii) MECS to request MoF to make the releases into to the school accounts from the project imprest account - which –with good monitoring- will allow to ascertain that the announced amounts indeed reach(ed) the school accounts; and
- (iii) Schools to access the resources following normal procedures, and spend it according to the approved the plan for the block grant. Schools are allowed to over- or under spend each budget-line by a maximum of 5% as per the budget. Larger discrepancies will require prior approval from MECS.

2.5.3 Procurement

At present, the public procurement in Mongolia is guided by the 'Public Procurement Law of Mongolia' of 2006, that replaced earlier scanty regulations. The objectives of the law are 'to bring transparency, efficiency and effectiveness to public sector procurement'. The law, provides for procurements of goods, works and services and is –with few exceptions related to defense and security- applicable to all public bodies, including schools. In terms of the law, schools are 'procuring entities'.³³

The law provides for direct contracting (for small purchases), comparative methods (eg three quotations) or –for more substantive amounts-, a full tender, whereby a committee is required for the tender evaluation. In the other cases, the management of the procurement unit can make the decisions.

³³

At the moment, discussions are ongoing to centralise the procurement functions. Apart from the fact that this would be in contradiction with the spirit of the budget law now before parliament, it is likely that –even if this would happen- that schools, amongst others, will for their own budgets be exempted as their procurement of goods, services and works concern solely local procurement.

The threshold for the just mentioned methods are set by subsidiary legislation, that is cabinet decision. Presently, the set mandatory amounts are as follows :

- Direct procurement Below MNT 1 million
- Comparative method Above one and below 30 million MNT for Goods and Services
Above one and below 50 million MNT for Works
- Tendering Above MNT 30 million for Goods and Services;
Above MNT 50 million for works

Hence, for the block grant, given the amounts established above (a total amount of USD 10,000 on average with a spread from USD 3-19-thousand for all budget line combined), the methods applicable for spending the funds will either be direct procurement or the comparative method – most likely a combination of both.

Given that the objectives of the block grant include increasing transparency, for which it will –amongst others- be needed to get the school councils meaningfully involved in certain aspects of school management, especially oversight. For that reason it is proposed to form a sub-committee from the school council (with two parent representatives and one school staff representative), that will review and approve recommendations as made by school-management (notably the accountant) for all procurements that will require the comparative method.

Direct procurement will be within the discretion of school management, but obviously the school council (as well as the MECS/*Aimag* office) can question the purchases on the basis of the quarterly reporting.

2.5.4 Reporting processes

Schools presently submit quarterly financial reports (or statements) to Treasury, and half yearly reports -every other one of them being the annual report- to the *Aimag* Education and Culture Board (the regional education office), headed by a Director, who is employed by and answerable to MECS. The same director is, at the same time, also having a reporting line to the *Aimag* governor.

The Quarterly financial reports that schools submit to Treasury consist of:

- (i) Financial situation report (includes info on bank account, capital assets, property, payment due, core assets);
- (ii) Financial report comparing previous year actual expenditure with budget year actual expenditure (core activities revenue, expenses associated with employee's salary provision, fixed cost, goods and services expenditures);
- (iii) Money transfer report;
- (iv) Budget expenditure report comparing allotment against actual expenditure in the budget year (income vs expenses).

For *Bag* and *Soum* Schools, the said quarterly financial reports are submitted to the *Soum* Treasury office, while *Aimag* schools submit to the *Aimag* Treasury office. As described in paragraph 2.5.2 on Funds flows, Treasury performs the role of government internal auditor, and when approved, makes the payments as requested. At that point, Treasury takes the necessary actions to enter the transaction in the government's (Treasury's) accounting systems, for which Free Balance software is used.

MECS, neither headquarters nor the *Aimga* offices, is directly involved in the quarterly financial reporting, and has no role in scrutinising the reports, but receives, largely for information only- half-yearly financial reports from the schools, the format of which is exactly the same as the quarterly reports schools submit to Treasury.

In addition, schools submit annual physical progress / activity reports to the *Aimag* Education and Culture Boards. The reporting requirements by schools are summarised in Textbox 7.

Text Box 7 : School reporting requirements			
Name of report	Frequency	Prepared by	Submitted to
Generic reports :			
1. Financial report	Quarterly	School accountant	Soum or Aimag Treasury office
2. Financial report	Half yearly (2nd one being end of the year report)	School accountant	Aimag Education and Culture Board
3. Activity report	Half yearly (2nd one being end of the year report – in June)	School Principal / Training manager	Aimag Education and Culture Board
4. School database / statistical; report	Twice a year / beginning and end of school year	Training manager	Aimag Education and Culture Board
Specific reports :			
4. Prompt activity report	Upon request	Principal / Training manager	Aimag Education and Culture Board
5. Final exam data	Once in June	Training manager	Aimag Education and Culture Board
6. National programmes' *) implementation status report *	Quarterly	Responsible teachers	Aimag Education and Culture Board / Governor's office
7. Food Nutrition Report on dormitory food and school snack food status	Monthly / 9 months	Cook	Aimag Health Center
Region specific :			
8. Report on aimag / soum governor's plan of action	Quarterly	School principal / Training manager	Aimag Education and Culture Board / governor's office
9. Monthly activity report	Monthly	Training manager	Soum Governor's office
10. Education sector master plan report	Quarterly	Training manager	Soum Governor's office

*) eg. English Language National Programme, Mongolian Ancient Writing National Programme etc

The reporting requirements of schools appear rather heavy, and appears to include inefficiencies and 'overlaps'. The duplication refers to the fact that similar reports are sent to both Treasury and MECS, but under separate covers and with different frequencies. It would have been easier to submit to one party and copy (cc.) the other. The objective of submitting the quarterly reports to Treasury is not entirely clear – If Treasury is 'the Bank' – it would appear more efficient for the Treasury to submit statements to the schools, on the basis of which schools would make a reconciliation with their accounts (and alert Treasury in case of any inconsistency), rather than the other way around.

For the block grant, it will be imperative that MECS –notably through its *Aimag* offices– will receive quarterly reports on the utilisation of the funds that includes a 'bank reconciliation', not the least to be able to regularly monitor the use of the funds and –in needed cases– discontinue the transfers when either reporting is lacking or progress unsatisfactory.

The Grant Manual to be prepared will include a format for the quarterly reporting on the block grant. It will include data on the variable cost budget and expenditures for both the regular government contribution and the contribution of the block grant as well as a small narrative on the physical progress.

Report should be presented by the 15th of the first month of the new quarter latest. And to allow the reporting of one quarter to influence the releases of the next quarter

(otherwise the time-lag becomes too long for a project of short duration), for the first year the following time line is proposed:

- Schools submit their plan for the block grant prior to 20 September
 - Procedural Scrutiny of plans by *Aimag* offices with assistance from project – prior to 30 September
 - *Aimags* report to MECS cc project by 01 October
 - Releases 1st quarterly transfer October 2010
 - Schools report to MECS cc Treasury and School councils prior to 15-Jan / 15 April
 - *Aimags* review and report to MECS cc project prior to 31 Jan / 30 April
 - New quarterly releases Early February / May
 - Third and Final report from schools before 15 Jul
- Any justified balance to be returned or deducted from 2010/11 transfers.

The reporting as proposed, and as compared with the present system, will provide both the *Aimag* offices (MECS) as well as the school councils to get more meaningfully involved in public spending by schools.

2.5.5 Co-financing

It is widely acknowledged that people take greater care and are inclined to ask for more accountability if their own money is involved. Hence in order to strengthen the involvement of the school council in the process of planning and implementing activities funded under the block grant, it is suggested that schools will, from own resources and other contributions (items 2,3, and 4 on the income side of the budget as depicted in Table 18), contribute some funds to the plan to be proposed for the utilisation of the block grant.

Obviously, such contributions should not go against the pro-poor argument as developed in this report. It is therefore, and based on calculations as shown in Table 31, matching the allocated amounts with various levels of contributions, that the co-funding levels are set as follows :

Co-funding requirements for the block grant :

- 2,5 % for *Bag* schools
- 7,5 % for *Soum* schools and
- 12,5 % for *Aimag* schools.

It would mean that in all schools the requested contribution is around MNT 1,750-1,800 per student.

Table 32: Summary of allocation results schools in proposed *Aimagas* with proposed weights

			All schools	Bag schools	Soum schools	Aimag Schools
Variables :	Weights	Averages in USD:				
Fixed share	10%	Total amount	10,000	2,860	9,928	11,475
Students	25%	Per student	16.88	53.04	16.81	10.47
Boarding	20%	Per classroom	588	623	653	422
Classrooms	20%					
Distance	5%	Required Co-contribution per student, in MNT with different levels of co-funding				
Poverty	20%	2,5%	582	1,830	580	361
		7,5 %	1,747	5,490	1,740	1,084
		12,5 %	2,912	9,150	2,900	1,807

It is proposed that the co-contribution is passed through the school account at treasury. As indicated in Chapter 1, schools own income already –and mandatory-

through the school account. Other contribution, however, and reportedly because of a lack of trust, do not pass the school account. It means that part of the school budget remains invisible. Clearly, this is an undesirable situation for a public institution. Enforcing part of the other income to now come through the school account, complemented with an increased oversight role of the school council, may help build the confidence of other parties in the system – as well as help build systems as designed by the law.

2.6 Added roles for *Aimag* education offices and School councils

Following the gist of the new interest for decentralisation, it is proposed that the block grant –in addition to topping up the certain budget lines- is also used to assist school councils in getting a more meaningful role regarding the oversight on management of the schools. For that reason, it is proposed that school councils get involved in the various stages of the grant; from planning, to procurement to oversight on execution and reporting. Those new roles are mentioned above and are also set out in the next chapter – that is to form the basis for the grant manual to be used by the schools.

Equally, and as much as the grant will follow existing processes and procedures, the *Aimag* education offices will get some additional roles, which will include (i) screening of the proposals as made by the schools, (ii) helping the schools that fail to make a plan, (iii) oversee execution as well as (iv) reporting and alerting MECS (cc the project) in case the *Aimag* office has doubt about the usage of the funds in a particular school, and which itself is unable to adequately address. As for the school council, the additional roles of the *Aimag* education office will be spelled out in the Grant Manual, in line with the suggestions made in this chapter.

3. Design of the Proposed Pro-poor Education Block Grant

3.1 Introduction

This chapter provides a summary of the grant design as discussed in the previous chapter. The content of this chapter will form the core of the Grant Manual to be prepared. Major changes to be made are adding an introduction, font and format as well as simplifying the language. Planning and Reporting formats will be added to the grant manual.

This chapter contains a few tables already presented in the previous chapters. The tables in this chapter are therefore not numbered.

3.2 Objectives of the Block Grant

Over the last couple of years, and aggravated by the international financial crisis which has put pressure on the governments' overall budget, certain elements, and notably the part of 'other variable costs' has come under severe pressure. This includes the budget for items that are crucial for the quality of education in the classroom (such as scholastic materials ranging from chalk to wall maps, lab materials and furniture) as well as budget provisions to ensure sustainability of the capital stock (funds for maintenance and repair).

Already for almost two decades, the Ministry of Education applies a system of allocations to schools that is based on a schedule of fixed amounts per student. However, as a result of the way this system of allocations has evolved over time, it is now highly prescriptive, and hardly allows any flexibility at the school level to meet specific local needs. This absence of opportunity for meaningful school-level planning has further eroded the function of the school councils.

Moreover, although primary and secondary education is in principle free of costs, it is widespread practice that parents are asked for 'voluntary contributions', mainly used for rehabilitation and maintenance of classrooms. However, the average capacity of parents to make such contributions is likely to vary across the country depending on the economic situation of the area where the school is located.

Against this background, the block grant, introduced as a pilot for a period of two school-years, has the following four objectives:

- to top-up the 'other variable costs' allocation, especially the most severely underfunded sub-budget lines;
- to provide schools with some discretion (local planning and management function);
- to enhance community participation and local oversight in the operations of the schools; and
- to test a poverty sensitive allocation formula that may in the longer run contribute to further improving the way schools are funded.

It is against these objectives the pilot will be evaluated. Obviously, the ultimate objective of the block grant is to contribute to the larger educational objectives (as defined by the policy) such as increasing enrolment, equity and quality of education and simultaneously reducing drop out rates. However, given the pilot nature, the budget envelope available, as well as the period of the pilot (only two years), it is not expected that measurable changes in these indicators can be singled out and attributed to the block-grant. Hence, the definitions of concrete objectives as done above, can be measured, observed and attributed.

3.3 Selected beneficiaries / Eligible schools

Given the trends in the allocations for 'other operation costs', and notably the reduced availability of amounts in real terms for maintenance, all schools in the country would

deserve a topping up of the most affected budget lines. However, the available budget is insufficient to provide every school with a meaningful amount³⁴ and choices had to be made for which pro-poor criteria were used.

The pro-poor dimension of the project and the grant will be addressed in two ways. Firstly, the block grant will be introduced in relatively poor *Aimags*. All *public* schools in those *Aimags* will become eligible. But –and this is the second way in which the pro-poor dimension is included–, the allocation formula is designed such that schools that can be expected to be in a disadvantaged position to generate additional ‘voluntary’ contributions from parents (‘the ‘poorer’ schools) will receive relatively higher amounts. Private schools are not included, because even at present their ‘variable costs’ are covered by tuition fees.

It should be noted that the block grant is not a project specific mechanism to distribute project resources, but that –if successful– it will either be rolled out nationally or it will become part of, -or its lessons mainstreamed into– the way government is making allocations to schools. Hence, in the end, all schools will benefit.

Based on the “Census based poverty map of Mongolia” (GoM/UNDP, March 2009), it is proposed that in the first year of the pilot all public schools in Khovd, Dornod and Khovsgoi are included. Tentatively –and subject to the evaluation of the first year experiences– to be expanded to also include –in the order of the aforesaid wealth ranking– Bayankhongor, Uvs, Selenge, Zavkhan and Bayan Olgii in the second year.

Table : Proposed *Aimags* for the block grant

Aimag	Region	No of schools	No of students	Average number of students per school	Number of schools cumulative		Number of students cumulative	
					No.	% of total	No.	% of total
Pilot 2010/11:								
1. Khovd	Western	23	20,409	887	23	3.8%	20,409	4.1%
2. Dornod	Eastern	23	13,966	607	46	7.6%	34,375	7.0%
3. Khovsgoi	Khangai	34	25,948	763	80	13.2%	60,323	12.2%
To be added 2011/12 :								
4. Bayankhongor	Khangai	29	17,956	619	109	18.0%	78,279	15.9%
5. Uvs	Western	25	19,537	781	134	22.1%	97,816	19.8%
6. Selenge	Central	33	19,029	577	167	27.6%	116,845	23.7%
7. Zavkhan	Western	29	16,640	574	196	32.4%	133,485	27.1%
8. Bayan-Olgii	Western	37	22,407	606	233	38.5%	155,892	31.6%
Mongolia		605	493,111	815	605	100.0%	493,111	100.0%

3.4 Total Budget

Taking into account (i) the budget available (USD 3.1 million), (ii) the present average amount now available for ‘other operational costs’ (USD 8,500) and (iii) the number of schools in the selected *Aimags* for the pilot period of 2 years, the average amount per school is set at USD 10,000/= (same amount as in the project document).

Table : Determination of the total pool of fund, by year

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 10,000	USD 800,000
2011/12	233	USD 10,000	USD 2,330,000
Total			USD 3,130,000

³⁴ Allocating very small amounts to each school would just be a very inefficient use of resources – as they will not allow any substantial works to be undertaken and hence also not meet the threshold to generate community interest.

3.5 Calculation of the allocations for individual schools

The actual allocations to the schools will be based on a formula that reflects the policy objectives of the block grant. This means that schools will receive an amount that depends on their needs in terms of number of students and number of boarding students it caters for, as well as the size of the capital assets it is supposed to maintain, but also takes into account the capacity of the school to draw some income from other sources (including parents' voluntary contributions).

Based on such considerations, international best practice and further discussions and simulations, a formula with the following variables and relative weights has been established:

<u>Variable</u>	<u>weight</u>
Fixed amount per school	10%
Number of enrolled students	25%
Number of classrooms	20%
Number of boarding students	20%
Distance of the school to the <i>Aimag</i> centre	5%
<i>Soum</i> Poverty index (number of 'poor' students)	20%
	100%

This means that :

- Each school will receive a similar basic amount (10% of the available budget divided by the number of eligible schools), which will be in favour of the small(er) schools – which are often also the 'poorer' schools;
- Schools will receive more if they have a higher student population, on the basis of the argument that part of the requirements under 'other variable costs' have a direct relation with the number of students;
- Schools will receive a higher amount depending on the number of classrooms, whereby the number of classrooms is a proxy for the size of the 'capital stock', and hence a proxy for the maintenance requirements;
- Schools will get a higher amount if they have more boarding students – which is a reflection of the fact that boarding students bring additional costs (e.g. in terms of maintenance, a provision for which is not included in the dormitory norm amount), but also reflects the fact that boarding schools normally cater for the student from poorer families;
- Schools that are further away receive a higher amount, because costs (prices) in remote areas are higher; and finally
- Schools in a *Soum* that has a higher level of poverty will receive a higher amount, on the basis of the argument that in such *Soums* –with a same level of effort- schools are likely to receive a lower voluntary contribution from parents.

Annex 9 contains the calculations the block grant for each school is calculated. On average each bag school will receive around MNT 4,0 million, each *Soum* school, on average MNT 13,7 million and each *Aimag* school on average MNT 15,8 million. These amounts are expected to constitute a doubling of the actual budget of 'other variable costs' and are expected to make a major contribution to delayed maintenance and repair works as well as replacement of furniture. The amount is also expected to allow schools to procure additional teaching materials.

The actual amount for each as presented in Annex 9 varies as it is depending on the value of the variables for each school.

3.6 Eligible Activities

In line with the objectives of the block grant as defined above, schools will be given a certain level of discretion as to how they want to use the resources – but mandatory, it must be used for expenditure that normally falls under the budget-lines 'other variable

costs'. With the exception of 'bonuses' that can not be funded from the grant, all other existing budget lines, and the activities that normally fall under them, are eligible. Hence, the block grant is to be used for any of the following 7 categories of 'other variable expenses', being:

- 1. Management related costs (communication, stationery, travel, etc.)**
 - Stationery
 - Postal expenses/communication:
 - Travel
- 2. Staff development / training (journals, periodicals, etc)**
 - Publication/books:
- 3. Support services (cleaning, catering)**
 - Uniforms support staff :
 - Medical costs:
- 4. Classroom / Teaching materials**
 - Classroom materials (incl chalks etc, wall maps, geography materials, reference books, etc)
- 5. Sports, competitions, etc**
 - Provision for participating in competitions
- 6. Replacement of Furniture and Equipment (classrooms, canteen, boarding facilities)**
 - Small item replacement
- 7. Maintenance and minor repairs (classrooms, canteens, boarding facilities)**
 - Recurrent Building maintenance

In order to ensure that a substantial amount of the grant is used for both items that are important for the education sector indicators (education materials) as well as for necessary items for which the budget has been under pressure, the following must be complied with :

- The funds should be spent for priorities as set out in the Education Master Plan and the Government Action Plan 2008-2012 for the education sector;
- At least 25% of the allocation to be used for teaching materials (item 4)
- At least 60% to be used for furniture, minor repairs and maintenance (items 6 & 7)

This implies that only a maximum of 15% can be used on items 1, 2, 3 & 5 combined.

In the plan to be submitted and approved before any release and use of resources, the school has to show that the guidelines are adhered to.

3.7 Minimum Grant access criteria - (Rights and obligations)

All eligible schools –that is all schools in the selected *Aimags*- are entitled to the block grant, but the right to the grant also incurs obligations :

Planning and oversight

- schools have to prepare a brief plan -following a format to be provided- on the basis of discussions of priorities within the school council;
- the plan must be signed by all members of the school-council and there should be evidence that these discussions have taken place and that various ideas were as much as possible taken into account;
- The school council should quarterly discuss the progress with the utilisation of the block grant (and these discussions are to be minuted).

Co-financing

- schools must provide from own resources (either own income or from other contributions) a certain percentage of the budget of the plan. The percentages are set at 2,5% for *Bag* schools, 7,5% for *Soum* schools and 12,5% for *Aimag* schools. These

co-funding contributions should be channelled through the schools account at Treasury.

Procurement

- all normal government procurement rules and regulations apply. However, in addition to this school councils must establish a subcommittee that will act as a tender-board for all procurements using funds of the block grant.
- All procurements under the block grant will at least follow the 'comparative method' of three quotations. The sub-committee should review these quotations prior to actual procurement.

Reporting (including financial reporting)

- As for procurement, also for physical and financial progress reporting, existing government procedures will be followed. However, some minor additional requirements may be added, which include the quarterly reporting on the blockgrant to MECS cc Treasury (a template to be included in the Grant Manual).
- MECS (either on the basis of its own observations or on the proposition of the *Aimag* Director of Education) can stop any further releases in case of no or unsatisfactory reporting on the use of the block grant;
- In case of unsatisfactory reporting on the use of the funds over the year, or in case of unsatisfactory progress at the end of the year, the concerned school may be excluded from the pilot in the 2nd year.

Schools are under no obligation to accept the grant – but once a proposal is submitted, and once awarded this equates to accepting both the rights and the obligations.

3.8 Disbursement procedures and grant flow

As much as possible, the grant will follow normal government procedures for funds flows. Hence, in principle,

- based on the calculated amounts and the cash-flow plan, MECS will ask MoF to make the releases to the school-accounts at the *Aimag/Soum* treasury offices;
- the schools will draw on the funds applying normal procedures and –in addition- few of the requirements that are described in this chapter and that will be described in the grant manual.

Such special arrangements regarding the grant flow and accountability include:

- publication and widespread dissemination of information regarding the amounts allocated, so that schools (management and councils) can verify that 'the allocated amounts do get across';
- monthly or quarterly releases with the guarantee that funds not utilised in any month or quarter are not lost, with the exception of the balances held at 31-July-2011 and 30-Jun 2012;
- need for the proposed co-funding to go through the school account; and
- involvement of the school council subcommittee in evaluating the quotations for procurements using the comparative method.

3.9 Reporting mechanisms and requirements

<worked out in the Grant Manual on basis of recommendations made in Ch 2>

3.10 Communication strategy

Increasing the transparency of the allocations and flow of funds to schools is an important element of the Block Grant. This involves various levels from Central Government, through Treasury offices that are linked to *Aimag* and *Soum* governors offices, to the schools. Even at school level, there is scope to increase the transparency in the use of the funds and to increase involvement of the school council.

Under the grant, the amounts allocated to schools will be widely published, e.g. if needed in the national newspapers, so that both school management and school councils know what amounts their schools are entitled to.

Secondly, as part of the requirement of the grant, schools will be requested to put the budget and the expenditure (quarterly reports) for the grant, together with the overall school budget and expenditure overview, on the school notice board.

<Not be include in the grant manual: but it will very useful to organise a media campaign on local radio and TV channels, foremost at the time the grant is introduced, but with regular follow up during the year. Getting the school councils actively involved will –in addition to availability of funds and the requirement to get school council involved in certain stages of the process- also involve quite an amount of complementary awareness raising, for which all parties will have a role to play>

3.11 Roles and Responsibilities of the various parties

<worked out in the Grant Manual on basis of recommendations made in Ch 2>

4. Next steps

- First of all the proposals as contained in this report need to be discussed with and approved by both MECS, ADB and where relevant MoF. Prior to such an approval, it will be difficult to prepare the Grant Manual, which will also serve as the Training Manual.
- It is proposed that a formal presentation of the report be made to the MECS in the week of Monday 14th of June 2010. For the presentation to MECS, a translated version of the first pages of this report (up to the end of the executive summary) will be made available. Also, a powerpoint presentation will be prepared.
- Upon approval of this report the training manual (max 10 pages) based on the outline as presented in Chapter 3, will be finalised and a popularised English version ready in draft by end of June 2010. In addition to the Grant Manual, a programme for the training sessions will be prepared with the topics to cover.
- It is proposed that the training will take place in the respective *Aimags*. Considering that that logistics require some preparation, while the summer holidays have just kicked in, while the school-committee need to work on the proposal, which will realistically not be done before September, it is proposed to organise the training in August.

The training will be conducted jointly by the national block grant consultant and the project's procurement expert, reinforced by staff from MECS.

Although not initially foreseen, the international block grant design consultant could (budget neutrally) participate in (part of) that training, to fine-tune the outlined procedures based on feedback from the participants.

- It is expected that the training programme will take one day. Topics to be covered are:
 - Introduction of the grant: Background, objectives, rules and regulations
 - Grant access conditions – notably the involvement/roles of the school council
 - Procurement and reporting requirements

The participants are expected from each school: school principal, the school accountant and one member of the school-committee representing the non-teaching members, notably the parents.

- Ideally, the training programmes should be backed up by a mass awareness campaign, for example through local radio and TV stations.
- Schools should present their plans for utilisation of the block grant 2010/11 by 20th of September 2010. Although tight, such a timeframe will allow discussions with the teachers / students, and discussion in the school council once they have resumed after the summer holiday. Resources are expected to start flowing in the last quarter of the year.
- The pilot will be evaluated late 2010 / early 2011 (originally planned 3rd mission) and reviewed again in the 4th mission in March/April which will leave ample time for good preparation for the scaling-up in school-year 2011/12.

Annex 1 : Age-groups, classes and the introduction of the 11 and 12 year curriculum

Annex 2 : Selected data from data-base MECS 2009/10

2.1 Data on all primary/secondary schools by *Aimag*

2.2 Data of public primary/secondary schools by *Aimag*

Annex 3 : Recurrent budget primary & secondary schools, 2005-2010

3.1 In current prices

3.2 As 3.1 in % of total costs per year

3.3 Index real prices (2005=100)

3.4 Composition Variable costs, current prices 2005-2010

Annex 4 : Per Student variable allocations ('norm amounts') 2008, 2009/10

4.1 Normative amounts 2008

4.2 Normative amounts 2009 and 2010 (after 2009 budget cut)

4.3 Comparison between 2008 and 2009/10

Annex 5 : Standard format - Line item school-budget

Annex 6 : Examples of schools-budgets 2009/2010

6.1 A School in UB

6.2 A UB Outskirt school

6.3 An *Aimag* School

6.4 A *Soum* school

Annex 7 : More detailed data on public schools, by location (*Bag*, *Soum*, *Aimag* and UB) and profiles of 'typical schools'

Annex 8 : Summary of results – simulations with different weights for the variables – 80 schools in three proposed *Aimags*

Annex 9 : Block grant calculations eligible schools 2010/11

ANNEX 1:

Age-groups, classes and the introduction of the 11 and 12 year curriculum

	I	II	III	IV	V	VI	VII	VII	IX	X	XI	XII
Year	Primary				Lower Secondary				Upper Secondary			
1995/96	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978		
1996/97	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979		
1997/98	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980		
1998/99	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981		
1999/00	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982		
2000/01	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983		
2001/02	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984		
2002/03	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985		
2003.04	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986		
2004/05	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987		
	Primary				Lower Secondary				Upper Secondary			
2005/06	1997+98	1997 *)	1996	1995	1994	1993	1992	1991	1990	1989	1988	1)
2006/07	1999	1997+98	1997 *)	1996	1995	1994	1993	1992	1991	1990	1989	2)
2007/08	2000	1999	1997+98	1997 *)	1996	1995	1994	1993	1992	1991	1990	
	Primary				Lower Secondary				Upper Secondary			
2008/09	2001+ 2001/02	2000	1999	1997+98	1997 *)	1996 **)	1995	1994	1993	1992	1991	3)
2009/10	2003	2001+ 2001/02	2000	1999	1997+98		97*) + 96 **)	1995	1994	1993	1992	
2010/11	2004	2003	2001+ 2001/02	2000	1999		1997+98	97*) + 96 **)	1995	1994	1993	
2011/12	2005	2004	2003	2001+ 2001/02	2000		1999	1997+98	97*) + 96 **)	1995	1994	
2012/13	2006	2005	2004	2003	2001+ 2001/02		2000	1999	1997+98	97*) + 96 **)	1995	
2013/14	2007	2006	2005	2004	2003	2001/02	2001	2000	1999	1997+98	97*) + 96 **)	
2014/15	2008	2007	2006	2005	2004	2003	2001/02	2001	2000	1999	1997+98	1997 *)
2015/16	2009	2008	2007	2006	2005	2004	2003	2001/02	2001	2000	1999	1997+98
2016/17	2010	2009	2008	2007	2006	2005	2004	2003	2001/02	2001	2000	1999
2017/18	2011	2010	2009	2008	2007	2006	2005	2004	2003	2001/02	2001	2000
2018/19	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2001/02	2001
2019/20	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2001/02

Source: Team's own interpretation of facts and policies

Age-groups, classes and the introduction of the 11 and 12 year curriculum

Explanatory notes:

*) Last year group of 8 year olds that started 10 year curriculum

**) Last year group to graduate in 11-year curriculum. *In orange the 11 year curriculum phasing out.*

1997+98	First group (of 7 and 8 years old) that started 11 year Curriculum - and that will benefit 11 years of education.
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2001	Last group that started for a cycle of 11 years of education / to graduate in the 12 year curriculum. This is the last group to jump from grade V to VII
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2001/02	First group (of 6 and 7 years old) to start 12 years curriculum and that will benefit 12 years of education.
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Age group 1987 means 1987/88 etc.

Observations:

- 1) Change to 11 year Curriculum: All grades 'jumped' a class to enter the 11 year curriculum
- 2) First 11 year graduation / the group benefitted 10 years of education
- 3) Change to 12-year curriculum. Phased-in by letting those that completed class V jump to VII
- 4) First 12-year graduation / with group that has been 10 years in school
- 5) Second 12-year graduation / with first age group that has been 11 years in school
- 6) First 12-year graduation with group that has been 12 years in school

ANNEX 2:
Selected data from data-base MECS, 2009/10, data by Aimag

Annex 2.1 : Data on all primary/secondary schools by Aimag

Annex 2.1a : Number of schools (Public plus Private), by Aimag and by Type, with/without dormitory

	Aimag	Region	No of Soums	No of Bags	Number of schools with/without dorms									
					Primary		Basic Education		Middle/High Schools		Full Secondary		TOTAL	
					With	w/out	With	W/out	With	W/out	With	W/out	No.	%
1	Arkhangay	Khangai	19	99	5	1	5	0	0	1	17	6	35	4.6%
2	Bayan-Olgii	Western	13	86	12	4	3	0	2	1	13	7	42	5.6%
3	Bayankhongor	Khangai	20	103	3	1	15	1	1	1	6	3	31	4.1%
4	Bulgan	Khangai	16	74	2	2	9	0	0	0	10	1	24	3.2%
5	Darkhan-Uul	Central	4	24	0	1	1	1	0	0	5	21	29	3.8%
6	Dornod	Eastern	14	63	0	0	7	0	0	0	10	9	26	3.4%
7	Dornogov	Central	14	60	0	2	10	0	0	0	5	3	20	2.6%
8	Dundgov	Central	15	66	0	0	11	1	0	0	4	2	18	2.4%
9	Gov-Altay	Western	18	83	2	2	10	0	0	0	10	4	28	3.7%
10	Govsumber	Central	3	10	0	0	1	0	0	0	2	1	4	0.5%
11	Khentiy	Eastern	17	83	0	0	16	0	0	0	8	2	26	3.4%
12	Khovd	Western	17	91	0	0	0	0	0	0	17	6	23	3.0%
13	Khovsgoi	Khangai	23	125	2	1	2	0	0	0	22	8	35	4.6%
14	Omnogov	Central	15	56	0	0	10	0	0	0	5	3	18	2.4%
15	Orkhon	Khangai	2	22	0	0	1	6	0	0	9	2	18	2.4%
16	Ovorkhangay	Khangai	19	105	1	2	2	0	0	0	19	6	30	4.0%
17	Selenge	Central	17	49	0	2	4	1	0	1	15	13	36	4.8%
18	Sukhbaatar	Eastern	13	66	0	2	8	0	0	0	5	1	16	2.1%
19	Tov	Central	27	97	0	3	9	2	0	0	16	2	32	4.2%
20	Ulaanbaatar		11	197	0	7	0	2	4	30	7	158	208	27.5%
21	Uvs	Western	19	92	4	2	9	0	0	0	12	0	27	3.6%
22	Zavkhan	Western	24	114	0	0	9	0	0	0	16	5	30	4.0%
	TOTAL		340	1765	31	32	142	14	7	34	233	263	756	100.0%
					4.1%	4.2%	18.8%	1.9%	0.9%	4.5%	30.8%	34.8%	100.0%	

ANNEX 2:

Selected data from data-base MECS, 2009/10, data by Aimag

Annex 2.1b : Number of schools (Public plus Private), by Aimag and location

	Aimag	Region	No of Soms	No of Bags	Number of schools with/without dorms									
					Bag schools		Soum schools		Aimag schools		UB		TOTAL	
					With	w/out	With	W/out	With	W/out	With	W/out	With	W/out
1	Arkhangay	Khangai	19	99	6	1	18	1	3	6			35	4.6%
2	Bayan-Olgii	Western	13	86	14	2	14	0	2	10			42	5.6%
3	Bayankhongor	Khangai	20	103	3	0	20	0	2	6			31	4.1%
4	Bulgan	Khangai	16	74	2	1	17	0	2	2			24	3.2%
5	Darkhan-Uul	Central	4	24			3	2	3	21			29	3.8%
6	Dornod	Eastern	14	63			14	0	3	9			26	3.4%
7	Dornogov	Central	14	60			14	3	1	2			20	2.6%
8	Dundgov	Central	15	66			13	1	2	2			18	2.4%
9	Gov-Altay	Western	18	83	2	1	19	0	1	5			28	3.7%
10	Govsumber	Central	3	10			2	0	1	1			4	0.5%
11	Khentiy	Eastern	17	83			20	2	4	0			26	3.4%
12	Khovd	Western	17	91			17	0	0	6			23	3.0%
13	Khovsgoi	Khangai	23	125	2	1	23	1	1	7			35	4.6%
14	Omnogov	Central	15	56			14	0	1	3			18	2.4%
15	Orkhon	Khangai	2	22			1	0	2	15			18	2.4%
16	Ovorkhangay	Khangai	19	105	2	0	19	3	1	5			30	4.0%
17	Selenge	Central	17	49	0	1	17	10	2	6			36	4.8%
18	Sukhbaatar	Eastern	13	66	0	1	12	0	1	2			16	2.1%
19	Tov	Central	27	97			24	3	1	4			32	4.2%
20	Ulaanbaatar	0	11	197							11	197	208	27.5%
21	Uvs	Western	19	92	4	0	18	0	3	2			27	3.6%
22	Zavkhan	Western	24	114			25	0	0	5			30	4.0%
	TOTAL		340	1765	35	8	324	26	36	119	11	197	756	100.0%
					4.6%	1.1%	42.9%	3.4%	4.8%	15.7%	1.5%	26.1%	100.0%	

ANNEX 2:

Selected data from data-base MECS, 2009/10, data by Aimag

Table 1c : Number of pupils/students, by Aimag and type of school, w/ith/without dormitory

	Aimag	Region	Total population	Area in sq km	Number of students in schools with/without dorms									
					Primary		Basic Education		Middle/High Schools		Full Secondary		TOTAL	
					With	w/out	With	W/out	With	W/out	With	W/out	No.	%
1	Arkhangay	Khangai	92,449	55,313.82	733	43	1,614	0	0	126	13,065	4,583	20,164	3.9%
2	Bayan-Olgii	Western	101,848	45,704.89	1,188	1,114	1,227	0	351	308	11,397	8,282	23,867	4.6%
3	Bayankhongor	Khangai	85,365	115,977.80	112	279	6,224	316	118	70	5,301	5,724	18,144	3.5%
4	Bulgan	Khangai	62,340	48,733.00	95	51	2,824	0	0	0	6,313	1,431	10,714	2.1%
5	Darkhan-Uul	Central	90,050	3,275.00	0	52	394	330	0	0	5,668	12,708	19,152	3.7%
6	Dornod	Eastern	73,625	123,597.43	0	0	1,394	0	0	0	6,099	6,780	14,273	2.7%
7	Dornogov	Central	58,318	109,472.30	0	122	2,771	0	0	0	5,664	2,505	11,062	2.1%
8	Dundgov	Central	47,671	74,690.32	0	0	2,966	167	0	0	4,351	1,416	8,900	1.7%
9	Gov-Altay	Western	59,376	141,447.67	61	142	3,108	0	0	0	6,216	3,159	12,686	2.4%
10	Govsumber	Central	13,293	5,541.80	0	0	104	0	0	0	1,498	1,292	2,894	0.6%
11	Khentiy	Eastern	71,458	80,325.08	0	0	4,695	0	0	0	8,073	2,017	14,785	2.8%
12	Khovd	Western	88,505	76,060.38	0	0	0	0	0	0	12,206	8,203	20,409	3.9%
13	Khovsgoi	Khangai	124,108	100,628.82	125	64	744	0	0	0	17,677	7,642	26,252	5.0%
14	Omnogov	Central	49,333	165,380.47	0	0	3,403	0	0	0	4,158	2,868	10,429	2.0%
15	Orkhon	Khangai	83,145	844.00	0	0	237	830	0	0	670	17,245	18,982	3.6%
16	Ovorkhangay	Khangai	117,513	62,895.33	60	386	693	0	0	0	16,032	6,497	23,668	4.5%
17	Selenge	Central	103,459	41,152.63	0	126	1,106	262	0	0	10,016	7,919	19,429	3.7%
18	Sukhbaatar	Eastern	54,955	82,287.15	0	49	3,529	0	0	0	5,364	1,706	10,648	2.0%
19	Tov	Central	88,503	74,042.37	0	163	1,807	673	0	0	10,799	701	14,143	2.7%
20	Ulaanbaatar		1,106,500	4,704.40	0	1,192	0	520	1,087	3,156	4,846	173,067	183,868	35.3%
21	Uvs	Western	78,801	69,585.39	322	212	4,173	0	0	0	15,042	0	19,749	3.8%
22	Zavkhan	Western	79,320	82,455.66	0	0	2,289	0	0	0	10,382	4,097	16,768	3.2%
	TOTAL		2,729,935	1,564,116	2,696	3,995	45,302	3,098	1,556	3,660	180,837	279,842	520,986	100.0%
					0.5%	0.8%	8.7%	0.6%	0.3%	0.7%	34.7%	53.7%	100.0%	

ANNEX 2:

Selected data from data-base MECS, 2009/10, data by *Aimag*

Annex 2.1d : Number of pupils/students (all schools), by *Aimag* and location

	Aimag	Region	Total population	Area in sq km	Number of students in schools with/without dorms									
					Bag schools		Soum schools		Aimag schools		UB		TOTAL	
					With	w/out	With	W/out	With	W/out	With	W/out	With	W/out
1	Arkhangay	Khangai	92,449	55,313.82	594	43	12,670	126	2,148	4,583			20,164	3.9%
2	Bayan-Olgii	Western	101,848	45,704.89	2,217	190	11,247		699	9,514			23,867	4.6%
3	Bayankhongor	Khangai	85,365	115,977.80	112		9,478		2,165	6,389			18,144	3.5%
4	Bulgan	Khangai	62,340	48,733.00	95	33	7,711		1,426	1,449			10,714	2.1%
5	Darkhan-Uul	Central	90,050	3,275.00			1,407	1,751	4,655	11,339			19,152	3.7%
6	Dornod	Eastern	73,625	123,597.43			5,234		2,259	6,780			14,273	2.7%
7	Dornogov	Central	58,318	109,472.30			6,733	242	1,702	2,385			11,062	2.1%
8	Dundgov	Central	47,671	74,690.32			4,717	167	2,600	1,416			8,900	1.7%
9	Gov-Altay	Western	59,376	141,447.67	61	52	7,494		1,830	3,249			12,686	2.4%
10	Govsumber	Central	13,293	5,541.80			651		951	1,292			2,894	0.6%
11	Khentiy	Eastern	71,458	80,325.08			7,308	2,017	5,460	0			14,785	2.8%
12	Khovd	Western	88,505	76,060.38			12,206		0	8,203			20,409	3.9%
13	Khovsgoi	Khangai	124,108	100,628.82	125	64	16,702		1,719	7,642			26,252	5.0%
14	Omnogov	Central	49,333	165,380.47			5,679		1,882	2,868			10,429	2.0%
15	Orkhon	Khangai	83,145	844.00			552		355	18,075			18,982	3.6%
16	Ovorkhangay	Khangai	117,513	62,895.33	372	0	14,042	1,566	2,371	5,317			23,668	4.5%
17	Selenge	Central	103,459	41,152.63		54	9,492	5,539	1,630	2,714			19,429	3.7%
18	Sukhbaatar	Eastern	54,955	82,287.15		49	6,778		2,115	1,706			10,648	2.0%
19	Tov	Central	88,503	74,042.37			10,242	701	2,364	836			14,143	2.7%
20	Ulaanbaatar	0	1,106,500	4,704.40							5,933	177,935	183,868	35.3%
21	Uvs	Western	78,801	69,585.39	322		11,300		7,915	212			19,749	3.8%
22	Zavkhan	Western	79,320	82,455.66			12,671		0	4,097			16,768	3.2%
		TOTAL	2,729,935	1,564,116	3,898	485	174,314	12,109	46,246	100,066	5,933	177,935	520,986	100.0%
					0.7%	0.1%	33.5%	2.3%	8.9%	19.2%	1.1%	34.2%	100.0%	

ANNEX 2:
Selected data from data-base MECS, 2009/10, data by Aimag

Annex 2.2 : Data on public primary/secondary schools by Aimag and location

Annex 2.2a : Number of Public schools, by Aimag and location

	Aimag	Region	No of Soums	No of Bags	Number of schools with/without dorms									
					Bag schools		Soum schools		Aimag schools		UB		TOTAL	
					With	w/out	With	W/out	With	W/out	With	W/out	With	W/out
1	Arkhangay	Khangai	19	99	6	1	18	0	2	3			30	5.0%
2	Bayan-Olgii	Western	13	86	14	2	13	0	1	7			37	6.1%
3	Bayankhongor	Khangai	20	103	3	0	20	0	1	5			29	4.8%
4	Bulgan	Khangai	16	74	2	1	16	0	2	1			22	3.6%
5	Darkhan-Uul	Central	4	24	0	0	3	2	3	9			17	2.8%
6	Dornod	Eastern	14	63	0	0	14	0	3	6			23	3.8%
7	Dornogov	Central	14	60	0	0	14	2	1	2			19	3.1%
8	Dundgov	Central	15	66	0	0	13	1	2	2			18	3.0%
9	Gov-Altay	Western	18	83	2	1	19	0	1	4			27	4.5%
10	Govsumber	Central	3	10	0	0	2	0	1	1			4	0.7%
11	Khentiy	Eastern	17	83	0	0	20	1	4	0			25	4.1%
12	Khovd	Western	17	91	0	0	17	0	0	6			23	3.8%
13	Khovsgoi	Khangai	23	125	2	1	24	0	1	6			34	5.6%
14	Omnogov	Central	15	56	0	0	14	0	1	3			18	3.0%
15	Orkhon	Khangai	2	22	0	0	1	0	1	9			11	1.8%
16	Ovorkhangay	Khangai	19	105	2	0	19	3	1	4			29	4.8%
17	Selenge	Central	17	49	0	1	17	8	2	5			33	5.5%
18	Sukhbaatar	Eastern	13	66	0	1	12	0	1	2			16	2.6%
19	Tov	Central	27	97	0	0	24	2	1	2			29	4.8%
20	Ulaanbaatar	0	11	197			0	0	0	0	7	100	107	17.7%
21	Uvs	Western	19	92	4	0	18	0	3	0			25	4.1%
22	Zavkhan	Western	24	114	0	0	25	0	0	4			29	4.8%
	TOTAL		340	1765	35	35	8	323	19	32	81	7	100	605
					4.6%	5.8%	1.3%	53.4%	3.1%	5.3%	13.4%	1.2%	16.5%	100.0%

ANNEX 2:

Selected data from data-base MECS, 2009/10, data by *Aimag*

Annex 2.2b : Number of pupils/students in public schools, by *Aimag* and location

	Aimag	Region	Total population	Area in sq km	Number of students in schools with/without dorms									
					Bag schools		Soum schools		Aimag schools		UB		TOTAL	
					With	w/out	With	W/out	With	W/out	With	W/out	With	W/out
1	Arkhangay	Khangai	92,449	55,313.82	594	43	12,670	0	1,827	3,421			18,555	3.8%
2	Bayan-Olgii	Western	101,848	45,704.89	2,217	190	11,035	0	560	8,405			22,407	4.5%
3	Bayankhongor	Khangai	85,365	115,977.80	112	0	9,478	0	2,047	6,319			17,956	3.6%
4	Bulgan	Khangai	62,340	48,733.00	95	33	7,611	0	1,426	1,431			10,596	2.1%
5	Darkhan-Uul	Central	90,050	3,275.00	0	0	1,407	1,751	4,655	9,203			17,016	3.5%
6	Dornod	Eastern	73,625	123,597.43	0	0	5,234	0	2,259	6,473			13,966	2.8%
7	Dornogov	Central	58,318	109,472.30	0	0	6,733	122	1,702	2,385			10,942	2.2%
8	Dundgov	Central	47,671	74,690.32	0	0	4,717	167	2,600	1,416			8,900	1.8%
9	Gov-Altay	Western	59,376	141,447.67	61	52	7,494	0	1,830	3,159			12,596	2.6%
10	Govsumber	Central	13,293	5,541.80	0	0	651	0	951	1,292			2,894	0.6%
11	Khentiy	Eastern	71,458	80,325.08	0	0	7,308	1,743	5,460	0			14,511	2.9%
12	Khovd	Western	88,505	76,060.38	0	0	12,206	0	0	8,203			20,409	4.1%
13	Khovsgoi	Khangai	124,108	100,628.82	125	64	16,702	0	1,719	7,338			25,948	5.3%
14	Omnogov	Central	49,333	165,380.47	0	0	5,679	0	1,882	2,868			10,429	2.1%
15	Orkhon	Khangai	83,145	844.00	0	0	552	0	118	17,245			17,915	3.6%
16	Ovorkhangay	Khangai	117,513	62,895.33	372	0	14,042	1,566	2,371	5,027			23,378	4.7%
17	Selenge	Central	103,459	41,152.63	0	54	9,492	5,211	1,630	2,642			19,029	3.9%
18	Sukhbaatar	Eastern	54,955	82,287.15	0	49	6,778	0	2,115	1,706			10,648	2.2%
19	Tov	Central	88,503	74,042.37	0	0	10,242	673	2,364	701			13,980	2.8%
20	Ulaanbaatar	0	1,106,500	4,704.40							4,846	160,013	164,859	33.4%
21	Uvs	Western	78,801	69,585.39	322	0	11,300	0	7,915	0			19,537	4.0%
22	Zavkhan	Western	79,320	82,455.66	0	0	12,671	0	0	3,969			16,640	3.4%
		TOTAL	2,729,935	1,564,116	3,898	3,898	485	174,002	11,233	45,431	93,203	4,846	160,013	493,111
					0.7%	0.8%	0.1%	35.3%	2.3%	9.2%	18.9%	1.0%	32.4%	100.0%

ANNEX 3:
Recurrent budget primary & secondary schools, 2005-2010

Annex 3.1 : In current prices

Cost Items	2005 Actual expenditure	2006 Actual expenditure	2007 Actual expenditure	2008 Actual expenditure	2009				2010 Budget
					Approved budget	Revision Jul-09	Revision Nov-09	Actual expenditure	
I. Personnel Costs	46,346,646.3	63,889,909.6	92,084,639.6	140,123,904.3	154,765,746.5	147,519,490.7	147,455,691.8	144,691,876.7	149,627,007.5
2. Fixed costs / Utility costs	15,501,986.5	18,275,151.0	20,122,807.0	23,368,923.6	28,422,742.7	23,155,669.3	25,644,219.2	25,628,427.9	26,772,139.8
- Electricity	1,396,923.5	n.a.	1,641,887.0	2,039,127.6	2,375,473.6	1,900,130.8	1,944,476.6	1,933,687.7	2,058,729.7
- Heating	13,098,517.9	n.a.	16,627,953.4	19,377,264.8	23,762,890.4	19,306,726.0	21,539,384.3	21,613,406.7	22,366,738.5
- Water supply and Sewerage	1,006,545.1	n.a.	1,852,966.6	1,952,531.2	2,284,378.7	1,948,812.5	2,160,358.3	2,081,333.5	2,346,671.6
3. Other (variable / operational) costs	7,163,484.5	7,374,904.3	8,727,574.7	14,142,274.9	12,078,322.1	5,657,455.8	5,843,103.7	8,815,595.0	8,959,321.4
a. Stationery	442,296.1	353,487.6	464,237.4	567,681.3	244,295.2	167,910.0	170,212.3	393,327.9	171,676.5
b. Postal and telecommunication	213,637.6	249,132.3	288,862.5	531,207.5	1,077,455.8	549,340.2	549,340.2	480,409.1	265,375.8
c. Domestic business trip	295,935.6	441,222.9	514,356.6	321,812.8	475,365.1	208,301.0	214,928.6	271,683.5	128,170.6
d. Fuel and transportation expenses	478,080.2	0.0	687,857.7	771,573.0	607,609.9	470,124.1	470,923.7	597,923.1	546,054.8
e. Books and periodicals	169,253.1	218,399.5	281,919.6	428,498.2	459,992.5	0.0	0.0		136,077.7
f. Classroom teaching materials	870,634.2	1,682,472.6	1,118,072.4	5,304,003.0	6,434,347.9	2,677,455.0	2,838,856.2	3,992,831.6	4,652,262.5
g. Furniture	1,012,434.9	1,013,327.0	1,589,613.9	1,753,323.8	4,950.0	3,260.4	3,260.4	247,858.7	1,057,740.6
h. Clothing and bedding	225,865.6	218,067.6	350,110.4	788,856.3	1,054,355.5	535,375.8	535,111.6	654,408.8	483,586.4
i. Medicines & vaccines	1,696.4	1,303.1	2,323.4	4,539.8	203,499.6	161,685.6	161,685.6	157,401.8	113,312.8
j. Small repairs and Maintenance	1,330,542.2	1,284,460.4	1,565,272.0	1,896,267.9	692,568.5	551,789.9	566,571.3	1,373,460.7	996,197.4
k. Charges, fees and other expenses	1,311,751.5	963,184.1	861,565.4	882,923.2	120,441.2	96,028.1	96,028.1	400,510.9	182,915.7
l. Sport competition expenses	30,493.5	19,711.8	34,176.3	429,984.1	703,440.9	236,185.7	236,185.7	225,923.0	225,950.6
m. payment for 'services by others'	766,392.7	918,762.9	869,917.8	79,632.0	0.0	0.0	0.0	0.0	0.0
p. other	14,470.9	11,372.5	99,289.3	381,972.0	0.0	0.0	0.0	19,856.0	0.0
4. Food programmes	4,083,297.0	7,487,061.7	6,325,604.6	23,034,977.3	9,217,618.2	9,190,121.0	8,927,980.9	8,194,886.0	8,647,439.9
- School Food Programme / expenses	4,083,297.0	n.a.	6,107,558.6	14,167,170.5	9,217,618.2	9,190,121.0	8,927,980.9	8,194,886.0	8,647,439.9
- School Lunch programme	0.0	n.a.	0.0	7,526,213.1	0.0	0.0	0.0		0.0
- Money transferred to organizations	0.0	n.a.	218,046.0	1,341,593.7	0.0	0.0	0.0		0.0
SUB TOTAL - GOODS and SERVICES	73,095,414.3	97,027,026.6	127,260,625.9	200,670,080.1	204,484,429.5	185,522,736.8	187,870,995.6	187,330,785.5	194,005,908.6

ANNEX 3:

Recurrent budget primary & secondary schools, 2005-2010

Annex 3.1 : Cont'd

Cost Items	2005 Actual expenditure	2006 Actual expenditure	2007 Actual expenditure	2008 Actual expenditure	2009				2010
					Approved budget	Revision Jul-09	Revision Nov-09	Actual expenditure	Budget
5. Transfers/Social protection programs	559,973.4	0.0	1,488,413.8	5,668,043.5	22,676,008.2	22,524,909.1	19,979,472.9	18,684,799.5	22,311,196.7
- School snack programme	0.0	0.0	0.0	0.0	18,703,094.0	18,535,611.3	15,818,347.2	14,506,546.3	17,666,435.0
- Incidental Staff benefits and bonuses	559,973.4	0.0	1,488,413.8	5,668,043.5	3,972,914.2	3,989,297.8	4,161,125.7	4,178,253.2	4,644,761.7
GRAND TOTAL	73,655,387.7	97,027,026.6	128,749,039.7	206,338,123.6	227,160,437.7	208,047,645.9	207,850,468.5	206,015,585.0	216,317,105.3

Source : MECS - First hand information apart from 2006 which is from the ADB project document

*) This includes: Foreign business trip, rent and leasing, operation costs for projects, the *Soum* development fund, and usage of telecommunication channel. In most cases, each of these budget-lines was only applicable for one year

ANNEX 3:
Recurrent budget primary & secondary schools, 2005-2010

Annex 3.2 : As 3.1 as % of total costs

Cost Items	2005 Actual expenditure	2006 Actual expenditure	2007 Actual expenditure	2008 Actual expenditure	2009				2010 Budget
					Approved budget	Revision Jul-09	Revision Nov-09	Actual expenditure	
I. Personnel Costs	62.9%	65.8%	71.5%	67.9%	68.1%	70.9%	70.9%	70.2%	69.2%
2. Fixed costs / Utility costs	21.0%	18.8%	15.6%	11.3%	12.5%	11.1%	12.3%	12.4%	12.4%
- Electricity	1.9%	n.a.	1.3%	1.0%	1.0%	0.9%	0.9%	0.9%	1.0%
- Heating	17.8%	n.a.	12.9%	9.4%	10.5%	9.3%	10.4%	10.5%	10.3%
- Water supply and Sewerage	1.4%	n.a.	1.4%	0.9%	1.0%	0.9%	1.0%	1.0%	1.1%
3. Other (variable / operational) costs	9.7%	7.6%	6.8%	6.9%	5.3%	2.7%	2.8%	4.3%	4.1%
a. Stationery	0.6%	0.4%	0.4%	0.3%	0.1%	0.1%	0.1%	0.2%	0.1%
b. Postal and telecommunication	0.3%	0.3%	0.2%	0.3%	0.5%	0.3%	0.3%	0.2%	0.1%
c. Domestic business trip	0.4%	0.5%	0.4%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
d. Fuel and transportation expenses	0.6%	0.0%	0.5%	0.4%	0.3%	0.2%	0.2%	0.3%	0.3%
e. Books and periodicals	0.2%	0.2%	0.2%	0.2%	0.2%	0.0%	0.0%	0.0%	0.1%
f. Classroom teaching materials	1.2%	1.7%	0.9%	2.6%	2.8%	1.3%	1.4%	1.9%	2.2%
g. Furniture	1.4%	1.0%	1.2%	0.8%	0.0%	0.0%	0.0%	0.1%	0.5%
h. Clothing and bedding	0.3%	0.2%	0.3%	0.4%	0.5%	0.3%	0.3%	0.3%	0.2%
i. Medicines & vaccines	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
j. Small repairs and Maintenance	1.8%	1.3%	1.2%	0.9%	0.3%	0.3%	0.3%	0.7%	0.5%
k. Charges, fees and other expenses	1.8%	1.0%	0.7%	0.4%	0.1%	0.0%	0.0%	0.2%	0.1%
l. Sport competition expenses	0.0%	0.0%	0.0%	0.2%	0.3%	0.1%	0.1%	0.1%	0.1%
m. payment for 'services by others'	1.0%	0.9%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
p. other	0.0%	0.0%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
4. Food programmes	5.5%	7.7%	4.9%	11.2%	4.1%	4.4%	4.3%	4.0%	4.0%
- School Food Programme / expenses	5.5%	n.a.	4.7%	6.9%	4.1%	4.4%	4.3%	4.0%	4.0%
- School Lunch programme	0.0%	n.a.	0.0%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%
- Money transferred to organizations	0.0%	n.a.	0.2%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%
SUB TOTAL - GOODS and SERVICES	99.2%	100.0%	98.8%	97.3%	90.0%	89.2%	90.4%	90.9%	89.7%

ANNEX 3:
Recurrent budget primary & secondary schools, 2005-2010

Annex 3.2 : Cont'd

Cost Items	2005 Actual expenditure	2006 Actual expenditure	2007 Actual expenditure	2008 Actual expenditure	2009				2010 Budget
					Approved budget	Revision Jul-09	Revision Nov-09	Actual expenditure	
5. Transfers/Social protection programs	0.8%	0.0%	1.2%	2.7%	10.0%	10.8%	9.6%	9.1%	10.3%
- School snack programme	0.0%	0.0%	0.0%	0.0%	8.2%	8.9%	7.6%	7.0%	8.2%
- Incidental Staff benefits and bonuses	0.8%	0.0%	1.2%	2.7%	1.7%	1.9%	2.0%	2.0%	2.1%
GRAND TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

ANNEX 3:
Recurrent budget primary & secondary schools, 2005-2010

Annex 3.3 : Index in real prices, (2005=100)

Cost Items	2005 Actual expenditure	2006 Actual expenditure	2007 Actual expenditure	2008 Actual expenditure	2009				2010 Budget
					Approved budget	Revision Jul-09	Revision Nov-09	Actual expenditure	
1. Personnel Costs	100.0	120.7	166.1	232.2	202.2	192.8	192.7	189.1	180.2
2. Fixed costs / Utility costs	100.0	103.2	108.5	115.8	111.0	90.5	100.2	100.1	96.4
- Electricity	100.0	-	98.3	112.1	103.0	82.4	84.3	83.8	82.3
- Heating	100.0	-	106.1	113.6	109.9	89.3	99.6	99.9	95.3
- Water supply and Sewerage	100.0	-	153.9	149.0	137.4	117.2	130.0	125.2	130.1
3. Other (variable / operational) costs	100.0	90.1	101.9	151.6	102.1	47.8	49.4	74.5	69.8
a. Stationery	100.0	70.0	87.8	98.6	33.4	23.0	23.3	53.9	21.7
b. Postal and telecommunication	100.0	102.1	113.1	190.9	305.4	155.7	155.7	136.2	69.3
c. Domestic business trip	100.0	130.5	145.3	83.5	97.3	42.6	44.0	55.6	24.2
d. Fuel and transportation expenses	100.0	0.0	120.3	123.9	77.0	59.5	59.7	75.7	63.7
e. Books and periodicals	100.0	113.0	139.3	194.4	164.6	0.0	0.0	0.0	44.9
f. Classroom teaching materials	100.0	169.2	107.4	467.8	447.5	186.2	197.5	277.7	298.2
g. Furniture	100.0	87.6	131.3	133.0	0.3	0.2	0.2	14.8	58.3
h. Clothing and bedding	100.0	84.5	129.6	268.2	282.7	143.5	143.5	175.5	119.5
i. Medicines & vaccines	100.0	67.2	114.5	205.5	7,264.5	5,771.8	5,771.8	5,618.9	3,728.1
j. Small repairs and Maintenance	100.0	84.5	98.4	109.4	31.5	25.1	25.8	62.5	41.8
k. Charges, fees and other expenses	100.0	64.3	54.9	51.7	5.6	4.4	4.4	18.5	7.8
l. Sport competition expenses	100.0	56.6	93.7	1,082.8	1,397.0	469.0	469.0	448.7	413.6
m. payment for 'services by others'	100.0	104.9	94.9	8.0	0.0	0.0	0.0	0.0	0.0
p. other	100.0	68.8	573.7	2,026.9	0.0	0.0	0.0	83.1	0.0
4. Food programmes	100.0	160.5	129.5	433.2	136.7	136.3	132.4	121.5	118.2
SUB TOTAL - GOODS and SERVICES	100.0	116.2	145.6	210.8	169.4	153.7	155.6	155.2	148.1
5. Transfers/Social protection programs	100.0	0.0	222.3	777.2	2,452.3	2,435.9	2,160.7	2,020.6	2,223.8
GRAND TOTAL	100.0	115.3	146.2	215.1	186.8	171.1	170.9	169.4	163.9

ANNEX 3:
Recurrent budget primary & secondary schools, 2005-2010

Annex 3.4 : Variable costs Indices

Cost Items	2005 Actual expenditure	2006 Actual expenditure	2007 Actual expenditure	2008 Actual expenditure	2009				2010 Budget
					Approved budget	Revision Jul-09	Revision Nov-09	Actual expenditure	
3. Other (variable / operational) costs	7,163,484.5	7,374,904.3	8,727,574.7	14,142,274.9	12,078,322.1	5,657,455.8	5,843,103.7	8,815,595.0	8,959,321.4
a. Stationery	442,296.1	353,487.6	464,237.4	567,681.3	244,295.2	167,910.0	170,212.3	393,327.9	171,676.5
b. Postal and telecommunication	213,637.6	249,132.3	288,862.5	531,207.5	1,077,455.8	549,340.2	549,340.2	480,409.1	265,375.8
c. Domestic business trip	295,935.6	441,222.9	514,356.6	321,812.8	475,365.1	208,301.0	214,928.6	271,683.5	128,170.6
d. Fuel and transportation expenses	478,080.2	0.0	687,857.7	771,573.0	607,609.9	470,124.1	470,923.7	597,923.1	546,054.8
e. Books and periodicals	169,253.1	218,399.5	281,919.6	428,498.2	459,992.5	0.0	0.0		136,077.7
f. Classroom teaching materials	870,634.2	1,682,472.6	1,118,072.4	5,304,003.0	6,434,347.9	2,677,455.0	2,838,856.2	3,992,831.6	4,652,262.5
g. Furniture	1,012,434.9	1,013,327.0	1,589,613.9	1,753,323.8	4,950.0	3,260.4	3,260.4	247,858.7	1,057,740.6
h. Clothing and bedding	225,865.6	218,067.6	350,110.4	788,856.3	1,054,355.5	535,375.8	535,111.6	654,408.8	483,586.4
i. Medicines & vaccines	1,696.4	1,303.1	2,323.4	4,539.8	203,499.6	161,685.6	161,685.6	157,401.8	113,312.8
j. Small repairs and Maintenance	1,330,542.2	1,284,460.4	1,565,272.0	1,896,267.9	692,568.5	551,789.9	566,571.3	1,373,460.7	996,197.4
k. Charges, fees and other expenses	1,311,751.5	963,184.1	861,565.4	882,923.2	120,441.2	96,028.1	96,028.1	400,510.9	182,915.7
l. Sport competition expenses	30,493.5	19,711.8	34,176.3	429,984.1	703,440.9	236,185.7	236,185.7	225,923.0	225,950.6
m. payment for 'services by others'	766,392.7	918,762.9	869,917.8	79,632.0	0.0	0.0	0.0	0.0	0.0
As % of total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
a. Stationery	6.2%	4.8%	5.3%	4.0%	2.0%	3.0%	2.9%	4.5%	1.9%
b. Postal and telecommunication	3.0%	3.4%	3.3%	3.8%	8.9%	9.7%	9.4%	5.4%	3.0%
c. Domestic business trip	4.1%	6.0%	5.9%	2.3%	3.9%	3.7%	3.7%	3.1%	1.4%
d. Fuel and transportation expenses	6.7%	0.0%	7.9%	5.5%	5.0%	8.3%	8.1%	6.8%	6.1%
e. Books and periodicals	2.4%	3.0%	3.2%	3.0%	3.8%	0.0%	0.0%	0.0%	1.5%
f. Classroom teaching materials	12.2%	22.8%	12.8%	37.5%	53.3%	47.3%	48.6%	45.3%	51.9%
g. Furniture	14.1%	13.7%	18.2%	12.4%	0.0%	0.1%	0.1%	2.8%	11.8%
h. Clothing and bedding	3.2%	3.0%	4.0%	5.6%	8.7%	9.5%	9.2%	7.4%	5.4%
i. Medicines & vaccines	0.0%	0.0%	0.0%	0.0%	1.7%	2.9%	2.8%	1.8%	1.3%
j. Small repairs and Maintenance	18.6%	17.4%	17.9%	13.4%	5.7%	9.8%	9.7%	15.6%	11.1%
k. Charges, fees and other expenses	18.3%	13.1%	9.9%	6.2%	1.0%	1.7%	1.6%	4.5%	2.0%
l. Sport competition expenses	0.4%	0.3%	0.4%	3.0%	5.8%	4.2%	4.0%	2.6%	2.5%
m. payment for 'services by others'	10.7%	12.5%	10.0%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%
p. other	0.2%	0.2%	1.1%	2.7%	0.0%	0.0%	0.0%	0.2%	0.0%

ANNEX 4:

Per Student variable allocations 2008 and 2009/10 compared

Table A4.1 : Amounts per pupil for the 'flexible' per capita grant, amounts 2008

Location	Type of school	Salary & related costs			Other flexible expenses			TOTAL		
		Primary	Basic	Full	Primary	Basic	Full	Primary	Basic	Full
Bag	Primary	333.1	-	-	46.6	-	-	379.7	-	-
Soum centre	Primary	249.8	-	-	37.9	-	-	287.7	-	-
	Basic	178.5	277.8	-	21.8	28.6	-	200.2	306.4	-
	Full secondary	166.6	240.8	253.5	15.2	21.4	45.2	181.7	262.2	298.6
Aimag centre *)	Primary	166.6	-	-	15.2	-	-	181.7	-	-
	Basic	158.6	229.3	-	15.2	21.4	-	173.8	250.7	-
	Full secondary	158.6	229.3	233.9	13.7	19.2	19.7	172.3	248.6	253.6
UB	Primary	158.6	-	-	13.7	-	-	172.3	-	-
	Basic	158.6	229.3	-	13.7	19.2	-	172.3	248.6	-
	Full secondary	145.7	209.7	220.7	12.9	16.1	19.2	158.6	225.9	239.8

Table A4.2 : Amounts per pupil for the 'flexible' per capita grant, amounts 2009/2010

Location	Type of school	Salary & related costs			Other flexible expenses			TOTAL		
		Primary	Basic	Full	Primary	Basic	Full	Primary	Basic	Full
Bag	Primary	305.9	-	-	23.3	-	-	329.2	-	-
Soum centre	Primary	229.4	-	-	19.0	-	-	248.4	-	-
	Basic	163.8	254.2	-	10.9	14.3	-	174.7	268.5	-
	Full secondary	152.9	221.1	232.7	7.6	10.7	11.3	160.5	231.8	244.0
Aimag centre *)	Primary	151.2	-	-	7.6	-	-	158.8	-	-
	Basic	144.0	208.2	-	7.6	10.7	-	151.6	218.9	-
	Full secondary	144.0	208.2	212.3	6.8	9.6	9.9	150.8	217.8	222.2
UB	Primary	142.5	-	-	6.8	-	-	149.3	-	-
	Basic	142.5	206.0	-	6.8	9.6	-	149.3	215.6	-
	Full secondary	130.7	188.3	198.2	6.4	8.1	9.6	137.1	196.4	207.8

Table A4.3 : Percentages changes from 2008 to 2009/2010

Location	Type of school	Salary & related costs			Other flexible expenses			TOTAL		
		Primary	Basic	Full	Primary	Basic	Full	Primary	Basic	Full
Bag	Primary	-8.2%	-	-	-50.0%	-	-	-13.3%	-	-
Soum centre	Primary	-8.2%	-	-	-49.9%	-	-	-13.7%	-	-
	Basic	-8.2%	-8.5%	-	-49.9%	-50.0%	-	-12.7%	-12.4%	-
	Full secondary	-8.2%	-8.2%	-8.2%	-50.0%	-50.0%	-75.0%	-11.7%	-11.6%	-18.3%
Aimag centre *)	Primary	-9.2%	-	-	-50.0%	-	-	-12.6%	-	-
	Basic	-9.2%	-9.2%	-	-50.0%	-50.0%	-	-12.8%	-12.7%	-
	Full secondary	-9.2%	-9.2%	-9.2%	-50.3%	-50.1%	-49.8%	-12.5%	-12.4%	-12.4%
UB	Primary	-10.2%	-	-	-50.3%	-	-	-13.4%	-	-
	Basic	-10.2%	-10.2%	-	-50.3%	-50.1%	-	-13.4%	-13.3%	-
	Full secondary	-10.3%	-10.2%	-10.2%	-50.4%	-49.8%	-49.9%	-13.5%	-13.0%	-13.4%

*) *Soums* that have a 'population size equal to an *Aimag* centre' are included in the category *Aimag* centre

ANNEX 5:

Standard format - line item school-budget

School # XYZ

Approved budget for FY 20..

in thousand MNT

Total Expenditure

Operational (recurrent) Expenditure

Goods and Services Expenditure

Salary, wages and additional bonuses	*
Base salary	*
Employer liability to the Social Insurance Fund	*
Pension and Compensations Insurance Total	*
Retirement Insurance	*
Compensation Insurance	*
Workplace accident / professional illness insurance	*
Unemployment insurance	*
Health insurance	*

Other Goods and Services

Stationery	*
Electricity	
Heating and Fuel	
Transportation (gas)	*
Postal and communication services	*
Water and sewage	
Domestic business travel	*
Purchases of books and periodicals	*
Lessons and practical training	*
Purchase of furniture	*
Work clothes and soft apparel	*
Small repairs and maintenance	*
Fees, charges and other expenses	*
Sports competitions	*
Fee for services performed on behalf of the state	*
Dormitory food	

Sources of funding

- Income generated from the primary activities
- Income generated from the secondary activities
- Funded from the central budget

Number of employees

- Administrative staff :
- Teachers :
- Non-teaching support staff :

Number of students :

*) Line items funded by the flexible per capita allocation are marked with an asterix

Source: Ministry of Education – as presented in UNESCO 2009

ANNEX 6:

Typical school budget

Annex 6.1 : Example School budget UB school (school #2 of Sukhbaatar district of UB)

	2009			2010	
	Budget	Actual	%	Budget	%
II TOTAL EXPENDITURE	591,458,300	594,219,572	100.0%	614,652,300	100.0%
IV, CURRENT EXPENDITURE	591,458,300	594,219,572	100.0%	614,652,300	100.0%
Goods and services expenditures	577,213,900	579,059,080	97.4%	598,502,600	97.4%
Salary, wages and supplementary	473,796,100	478,462,261	80.5%	454,682,200	74.0%
Basic Salary	426,843,400	427,768,527	72.0%	409,623,600	66.6%
Wages for contracted out services					
Employers' insurance contribution	46,952,700	50,693,734	8.5%	45,058,600	7.3%
Pension and benefit insurance contribution					
Pension insurance	29,879,000	29,879,000	5.0%	?	
Benefit insurance	2,134,200	908,880	0.2%	?	
Industrial accident and occupational disease insurance	4,268,400	4,268,400	0.7%	?	
Unemployment insurance	2,134,200	2,134,200	0.4%	?	
Health insurance contributions from employers	8,536,900	13,503,254	2.3%	?	
Expenditure on other goods and services	103,417,800	100,596,819	16.9%	143,820,400	23.4%
Utility costs	33,330,900	32,066,702	5.4%	39,751,400	6.5%
Electricity	4,525,800	6,017,274	1.0%	4,613,800	0.8%
Heating	21,370,300	21,220,142	3.6%	24,624,600	4.0%
Water supply and treatment	7,434,800	4,829,286	0.8%	10,513,000	1.7%
Other variable costs	12,381,900	13,533,717	2.3%	35,952,600	5.8%
Stationery	424,600	1,039,200	0.2%	593,000	0.1%
Fuel and transportation expenses	700,500	145,000	0.0%	350,000	0.1%
Postal and telecommunication	1,724,400	1,796,887	0.3%	936,000	0.2%
Domestic business trip	62,500	0	0.0%	156,000	0.0%
Books and periodicals					
Inventories and materials/low cost nondurable items/				5,298,000	0.9%
Clothing and bedding	699,400	1,079,700	0.2%	1,052,400	0.2%
Medicines & vaccines	221,100	223,100	0.0%	265,100	0.0%
Recurrent renovation	1,374,200	2,543,000	0.4%	4,300,800	0.7%
Charges, fees and other expenses	305,200	372,000	0.1%	796,900	0.1%
Sport competition expenses	870,000	445,000	0.1%	667,600	0.1%
Operating expenses of scientific research projects					
Practicals and Vocational training expense	6,000,000	5,889,830	1.0%	21,536,800	3.5%
Food expenses	57,705,000	55,005,400	9.3%	67,635,800	11.0%

ANNEX 6:

Typical school budget

Annex 6.1 : Example School budget UB school (school #2 of Sukhbaatar district of UB)

	2009			2010	
	Budget	Actual	%	Budget	%
Subsidies and transfers	14,244,400	15,160,492	2.6%	16,149,700	2.6%
Transfers to households	14,244,400	15,160,492	2.6%	16,149,700	2.6%
One time benefit provided by employer	12,940,800	12,928,848	2.2%	15,387,200	2.5%
One time allowance provided upon retirement					
Awards and bonuses	1,303,600	2,231,644		762,500	
Allowances rural employees working for consecutive years					
Target group support					
School Snack programme					
FINANCING RESOURCE TO COVER EXPENSES	591,458,300	593,445,171	100.0%	614,652,300	100.0%
Core activities' revenue	0	5,430,000	0.9%	10,005,000	1.6%
Non-core activities' revenue	0	6,246,190	1.1%	3,000,000	0.5%
Financed from the state budget	591,458,300	581,768,981	98.0%	601,602,300	97.9%
NUMBER OF ENTITIES	1	1		1	
TOTAL EMPLOYEES	118	118		119	
Management staff	5	5		5	
Specialist staff	90	90		90	
Support staff	23	23		24	
Contractual employees					
STUDENTS (Annual average)	2,045	2,045		2,069	

ANNEX 6:

Typical school budget

Annex 6.2 : Example budget UB Outskirt school (school #88 outskirts UB, Bayanzurkh district, UB)

	2009		%	2010	
	Budget	Actual		Budget	%
II, TOTAL EXPENDITURE	189,113	210,511	100.0%	53,364	100.0%
IV, CURRENT EXPENDITURE	189,113	210,511	100.0%	53,364	100.0%
Goods and services expenditures	168,991	196,786	93.5%	47,115	88.3%
Salary, wages and supplementary	133,953	141,811	67.4%	34,765	65.1%
Basic Salary	125,187	128,012	60.8%	31,320	58.7%
Wages for contracted out services					
Employers' insurance contribution	8,766	13,799	6.6%	3,445	6.5%
Pension and benefit insurance contribution	0	0		0	
Pension insurance			0.0%		0.0%
Benefit insurance			0.0%		0.0%
Industrial accident and occupational disease insurance			0.0%		0.0%
Unemployment insurance			0.0%		0.0%
Health insurance contributions from employers	8,766	13,799	6.6%	3,445	6.5%
Expenditure on other goods and services	35,038	54,975	26.1%	12,350	23.1%
Utility costs	27,509	28,858	13.7%	10,700	20.1%
Electricity	579	1,560	0.7%	758	1.4%
Heating	26,930	27,299	13.0%	9,942	18.6%
Water supply and treatment	0	0	0.0%	0	0.0%
Other variable costs	7,529	26,117	12.4%	1,649	3.1%
Stationery	359	937	0.4%	80	0.1%
Fuel and transportation expenses	126		0.0%		0.0%
Postal and telecommunication	2,281	819	0.4%	174	0.3%
Domestic business trip			0.0%		0.0%
Books and periodicals				9	
Inventories and materials/low cost nondurable items/					
Clothing and bedding	619	390	0.2%		0.0%
Medicines & vaccines	285	384	0.2%		0.0%
Recurrent renovation	1,749	4,081	1.9%		0.0%
Charges, fees and other expenses	307	473	0.2%		0.0%
Sport competition expenses	723		0.0%		0.0%
Operating expenses of scientific research projects	1,080	19,033		1,387	
Practicals and Vocational training expense	1,080	19,033	9.0%	1,387	2.6%
Food expenses	0	0	0.0%	0	0.0%

ANNEX 6:

Typical school budget

Annex 6.2 : Example budget UB Outskirt school (school #88 outskirts UB, Bayanzurkh district, UB)

	2009		%	2010	
	Budget	Actual		Budget	%
Subsidies and transfers	20,123	13,725	6.5%	6,249	11.7%
Transfers to households	1,452	2,355	1.1%	500	0.9%
One time benefit provided by employer	1,452	2,355	1.1%	500	0.9%
One time allowance provided upon retirement	1,452	2,355		500	
Awards and bonuses					
Allowances rural employees working for consecutive years					
Target group support	18,671	11,370		5,749	
School Snack programme	18,671	11,370		5,749	
FINANCING RESOURCE TO COVER EXPENSES	189,113	210,511	100.0%	53,364	100.0%
Core activities' revenue			0.0%		0.9%
Non-core activities' revenue			0.0%		1.1%
Financed from the state budget	189,113	210,511	100.0%	53,364	98.0%
NUMBER OF ENTITIES	1	1		1	
TOTAL EMPLOYEES	41	41		41	
Management staff	1	1		1	
Specialist staff	33	33		33	
Support staff	7	7		7	
Contractual employees					
STUDENTS (Annual average)	371	391		404	

ANNEX 6:

Typical school budget

Annex 6.3 : Example school budget *Aimag school (Secondary School #1 of Omnogov Aimag)*

	2009			2010	
	Budget	Actual	%	Budget	%
II, TOTAL EXPENDITURE	659,299	654,600	100.0%	747,988	100.0%
IV, CURRENT EXPENDITURE	659,299	654,600	100.0%	747,988	100.0%
Goods and services expenditures	598,723	599,877	91.6%	681,866	91.2%
Salary, wages and supplementary	454,451	457,369	69.9%	456,755	61.1%
Basic Salary	445,742	457,369	69.9%	456,755	61.1%
Wages for contracted out services	8,709				
Employers' insurance contribution	49,990	49,018	7.5%	50,252	6.7%
Pension and benefit insurance contribution	40,900	39,121		41,117	
Pension insurance	31,812	29,516	4.5%	31,973	4.3%
Benefit insurance	2,272	3,217	0.5%	2,284	0.3%
Industrial accident and occupational disease insurance	4,545	2,865	0.4%	4,577	0.6%
Unemployment insurance	2,272	3,523	0.5%	2,284	0.3%
Health insurance contributions from employers	9,090	9,897	1.5%	9,135	1.2%
Expenditure on other goods and services	94,283	93,490	14.3%	174,859	23.4%
Utility costs	80,741	78,138	11.9%	150,014	20.1%
Electricity	10,511	10,560	1.6%	25,988	3.5%
Heating	44,000	46,453	7.1%	64,310	8.6%
Water supply and treatment	26,229	21,124	3.2%	59,716	8.0%
Other variable costs	13,542	15,353	2.3%	24,845	3.3%
Stationery	398	401	0.1%	713	0.1%
Fuel and transportation expenses	139	139	0.0%		0.0%
Postal and telecommunication	1,308	2,535	0.4%	1,079	0.1%
Domestic business trip	788	331	0.1%	548	0.1%
Books and periodicals				567	
Inventories and materials/low cost nondurable items/		103		2,255	
Clothing and bedding	2,274	2,669	0.4%	4,931	0.7%
Medicines & vaccines	653	653	0.1%	550	0.1%
Recurrent renovation	1,008	2,639	0.4%	1,000	0.1%
Charges, fees and other expenses	272	274	0.0%	323	0.0%
Sport competition expenses	707	615	0.1%	786	0.1%
Operating expenses of scientific research projects	5,995	4,994		12,093	
Practicals and Vocational training expense	5,995	4,994	0.8%	12,093	1.6%
Food expenses	27,470	27,470	4.2%	28,837	3.9%

ANNEX 6:

Typical school budget

Annex 6.3 : Example school budget *Aimag school (Secondary School #1 of Omnogov Aimag)*

	2009		%	2010	
	Budget	Actual		Budget	%
Subsidies and transfers	60,576	54,723	8.4%	66,122	8.8%
Transfers to households	6,618	6,617	1.0%	4,876	0.7%
One time benefit provided by employer	6,618	6,617	1.0%	4,876	0.7%
One time allowance provided upon retirement				2,602	
Awards and bonuses	1,110	1,109		896	
Allowances rural employees working for consecutive years	5,508	5,508		1,378	
Target group support	53,958	48,106		61,246	
School Snack programme	53,958	48,106		61,246	
FINANCING RESOURCE TO COVER EXPENSES	659,299	654,600	100.0%	747,988	100.0%
Core activities' revenue			0.0%	1,112	0.1%
Non-core activities' revenue	987	2,674	0.4%	1,251	0.2%
Financed from the state budget	658,312	651,926	99.6%	745,624	99.7%
NUMBER OF ENTITIES	1	1		1	
TOTAL EMPLOYEES	134	132		125	
Management staff	1	1		1	
Specialist staff	96	96		94	
Support staff	32	35		30	
Contractual employees	5				
STUDENTS (annual average)	1955	1919		1882	

ANNEX 6:

Typical school budget

Annex 6.4 : Example *Soum* School budget (Bayandalai *Soum* of Omnogov Aimag)

	2009			2010	
	Budget	Actual	%	Budget	%
II, TOTAL EXPENDITURE	275,139	260,427	100.0%	311,528	100.0%
IV, CURRENT EXPENDITURE	275,139	260,427	100.0%	311,528	100.0%
Goods and services expenditures	253,303	241,060	92.6%	288,593	92.6%
Salary, wages and supplementary	184,678	173,461	66.6%	189,904	61.0%
Basic Salary	166,377	156,889	60.2%	171,085	54.9%
Wages for contracted out services					
Employers' insurance contribution	18,301	16,572	6.4%	18,819	6.0%
Pension and benefit insurance contribution	14,974	13,395		15,398	
Pension insurance	11,646	10,288	4.0%	11,976	3.8%
Benefit insurance	832	780	0.3%	855	0.3%
Industrial accident and occupational disease insurance	1,664	1,547	0.6%	1,711	0.5%
Unemployment insurance	832	780	0.3%	855	0.3%
Health insurance contributions from employers	3,327	3,177	1.2%	3,422	1.1%
Expenditure on other goods and services	68,625	67,600	26.0%	98,689	31.7%
Utility costs	64,941	60,840	23.4%	93,394	30.0%
Electricity	1,472	1,113	0.4%	3,000	1.0%
Heating	63,102	59,277	22.8%	87,394	28.1%
Water supply and treatment	367	450	0.2%	3,000	1.0%
Other variable costs	3,684	6,760	2.6%	5,294	1.7%
Stationery	117	267	0.1%	177	0.1%
Fuel and transportation expenses	451	449	0.2%	576	0.2%
Postal and telecommunication	373	308	0.1%	267	0.1%
Domestic business trip	241	241	0.1%	136	0.0%
Books and periodicals		41		140	
Inventories and materials/low cost nondurable items/				558	
Clothing and bedding	644	1,416	0.5%	466	0.1%
Medicines & vaccines	186	294	0.1%	136	0.0%
Recurrent renovation		1,386	0.5%		0.0%
Charges, fees and other expenses	78	291	0.1%	80	0.0%
Sport competition expenses	200	200	0.1%	195	0.1%
Operating expenses of scientific research projects	1,394	1,867		2,563	
Practicals and Vocational training expense	1,394	1,867	0.7%	2,563	0.8%
Food expenses	28,680	29,942	11.5%	27,336	8.8%

ANNEX 6:

Typical school budget

Annex 6.4 : Example *Soum* School budget (Bayandalai *Soum* of Omnogov *Aimag*)

	2009			2010	
	Budget	Actual	%	Budget	%
Subsidies and transfers	21,836	19,367	7.4%	22,936	7.4%
Transfers to households	6,164	6,053	2.3%	6,502	2.1%
One time benefit provided by employer	6,164	6,053	2.3%	6,502	2.1%
One time allowance provided upon retirement	5,854	5,638		2,147	
Awards and bonuses	310	415		222	
Allowances rural employees working for consecutive years				4,133	
Target group support	15,672	13,314		16,434	
School Snack programme	15,672	13,314		16,434	
FINANCING RESOURCE TO COVER EXPENSES	275,139	260,427	100.0%	311,528	100.0%
Core activities' revenue			0.0%	445	0.1%
Non-core activities' revenue	500	1,385	0.5%	501	0.2%
Financed from the state budget	274,639	259,042	99.5%	310,583	99.7%
NUMBER OF ENTITIES	1	1		1	
TOTAL EMPLOYEES	52	52		50	
Management staff	1	1		1	
Specialist staff	35	35		34	
Support staff	16	16		15	
Contractual employees					
STUDENTS (Annual average)	489	478		466	

ANNEX 7:

Selected detailed data on *public* schools, by location (*Bag, Soum, Aimag* and *UB*) and descriptions of 'typical schools'

Annex 7.1 : Number of public schools, by school-type & location, 2009

	<i>Bag centre</i>	<i>Soum centre</i>	<i>Aimag centre</i>	<i>UB</i>	<i>Total</i>
Primary (grades 1-5)	37	4	5	1	47
Basic Education (grades 1-9)	6	139	2	0	147
Middle/High school (grades 6-12)	0	1	0	7	8
Full Secondary (grades 1-12)	0	198	106	99	403
Total	43	342	113	107	605

Annex 7.2 : Number of pupils in public schools, by school-type & location, 2009

	<i>Bag centre</i>	<i>Soum centre</i>	<i>Aimag centre</i>	<i>UB</i>	<i>Total</i>
Primary (grades 1-5)	2,541	416	1,645	426	5,028
Basic Education (grades 1-9)	1,842	44,261	710	0	46,813
Middle/High school (grades a6-12)	0	0	0	1,513	1,513
Full Secondary (grades 1-12)	0	140,558	136,279	162,920	439,757
Total	4,383	185,235	138,634	164,859	493,111

Annex 7.3 : Number of *classrooms*, by school-type & location (public schools), 2009

	<i>Bag centre</i>	<i>Soum centre</i>	<i>Aimag centre</i>	<i>UB</i>	<i>Total</i>
Primary (grades 1-5)	148	19	40	6	213
Basic Education (grades 1-9)	53	1,598	34	0	1,685
Middle/High school (grades 6-12)	0	0	0	90	90
Full Secondary (grades 1-12)	0	3,728	3,101	3,539	10,368
Total	201	5,345	3,175	3,635	12,356

Annex 7.4 : Number of *classes*, by school-type & location (public schools), 2009

	<i>Bag centre</i>	<i>Soum center</i>	<i>Aimag centre</i>	<i>UB</i>	<i>Total</i>
Primary (grades 1-5)	184	23	53	14	274
Basic Education (grades 1-9)	72	1,763	28	0	1,863
Middle/High school (grades 6-12)	0	0	0	54	54
Full Secondary (grades 1-12)	0	4,784	4,201	4,930	13,915
Total	256	6,570	4,282	4,998	16,106

Annex 7.5 : Number of public schools with boarding facility, 2009

	<i>Bag centre</i>	<i>Soum center</i>	<i>Aimag centre</i>	<i>UB</i>	<i>Total</i>
Primary (grades 1-5)	29	1	1	0	31
Basic Education (grades 1-9)	6	134	1	0	141
Middle/High school (grades 6-12)	0	0	0	0	0
Full Secondary (grades 1-12)	0	187	30	7	224
Total	35	322	32	7	396

Annex 7.6 : Number of boarding students in public schools with boarding facility, 2009

	Bag centre	Soum center	Aimag centre	UB	Total
Primary (grades 1-5)	1,477	70	0	0	1,547
Basic Education (grades 1-9)	837	9,458	110	0	10,405
Middle/High school (grades 6-12)	0	0	0	0	0
Full Secondary (grades 1-12)	0	24,843	3491	809	29,143
Total	2,314	34,371	3,601	809	41,095

Annex 7.7 : Average school size (Number of students), by school-type & location, 2009

	Bag centre	Soum center	Aimag centre	UB	Total
Primary (grades 1-5)	69	104	329	426	107
Basic Education (grades 1-9)	307	318	355	-	318
Middle/High school (grades 6-12)	-	0	-	216	189
Full Secondary (grades 1-12)	-	710	1,286	1,646	1,091
Total	102	542	1,227	1,541	815

Annex 7.8 : Average Number of classrooms, by school-type & location (public schools), 2009

	Bag centre	Soum center	Aimag centre	UB	Total
Primary (grades 1-5)	4	5	8	6	5
Basic Education (grades 1-9)	9	11	17	-	11
Middle/High school (grades 6-12)	-	0	-	13	11
Full Secondary (grades 1-12)	-	19	29	36	26
Total	5	16	28	34	20

Annex 7.9 : Average Number of classes, by school-type & location (public schools), 2009

	Bag centre	Soum center	Aimag centre	UB	Total
Primary (grades 1-5)	5	6	11	14	6
Basic Education (grades 1-9)	12	13	14	-	13
Middle/High school (grades 6-12)	-	0	-	8	7
Full Secondary (grades 1-12)	-	24	40	50	35
Total	6	19	38	47	27

Annex 7.10 : Average Number of boarding students in public schools with such facility, 2009

	Bag centre	Soum center	Aimag centre	UB	Total
Primary (grades 1-5)	51	70	0	-	50
Basic Education (grades 1-9)	140	71	110	-	74
Middle/High school (grades 6-12)	-	-	-	-	-
Full Secondary (grades 1-12)	-	133	116	116	130
Total	66	107	113	116	104

Annex 7.11 : Average number of students per classroom

	Bag centre	Soum center	Aimag centre	UB	Total
Primary (grades 1-5)	17.2	21.9	41.1	71.0	23.6
Basic Education (grades 1-9)	34.8	27.7	20.9	-	27.8
Middle/High school (grades 6-12)	-	-	-	16.8	16.8
Full Secondary (grades 1-12)	-	37.7	43.9	46.0	42.4
Total	21.8	34.7	43.7	45.4	39.9

Annex 7.12 : Average number of students per class

	Bag centre	Soum center	Aimag centre	UB	Total
Primary (grades 1-5)	13.8	18.1	31.0	30.4	18.4
Basic Education (grades 1-9)	25.6	25.1	25.4	-	25.1
Middle/High school (grades 6-12)	-	-	-	28.0	28.0
Full Secondary (grades 1-12)	-	29.4	32.4	33.0	31.6
Total	17.1	28.2	32.4	33.0	30.6

Based on the above data, the following 'typical' schools can be 'defined'

Annex 7.13 : Indicative data for an average/typical school, by location

	Bag centre	Soum center		Aimag centre		UB
Grades	1-5	1-9	1-12	1-12		1-12
Number of students	70	320	700	1,300	1,300	1,700
Number of boarding students	50	70	130	0	100	0
Number of classrooms	4	11	19	30	30	37
Number of classes	5	13	24	40	40	51
Number of such schools	37	139	198	76	30	92
% of total number (605) of schools	6.1%	23.0%	32.7%	10.9%	5.0%	15.2%
	A total of 562 (or 93%) out 605 schools					
Number of students in such schools	2,541	44,261	140,558	136,279		162,920
% of total # (493,111) of students	0.5%	9.0%	28.5%	27.6%		33.0%
	A total of 486,559 (or 98,7%) out of 493,111 students					

ANNEX 8:

Summary of results – simulations with different weights for the variables – 80 schools in three proposed *Aimags*

All calculations in this annex based on USD 10,000 per school on average

Table Annex 8.1			All schools N=80	Bag schools N=4	Soum schools N=54	Aimag Schools N=22
Variables :	Weights	Total :				
Fixed share	10%	Minimum	1,768	1,768	2,858	2,545
# Students	25%	Maximum	20,190	3,382	17,730	20,190
# Boarding students	20%	Average	10,000	2,294	9,666	12,221
# Classrooms	20%	Median	9,783	2,014	9,557	12,460
Distance to Aimag	0%					
Soum Poverty	25%	Per student :				
		Minimum	8.23	30.23	11.39	8.23
		Maximum	61.55	61.55	24.76	16.34
		Average	16.07	43.28	16.08	11.09
		Median	15.05	40.68	15.74	10.91
		Per classroom :				
		Minimum	305	354	359	305
		Maximum	1,555	845	1,555	716
		Average	572	501	628	448
		Median	549	403	590	437

Table Annex 8.2			All schools N=80	Bag schools N=4	Soum schools N=54	Aimag Schools N=22
Variables :	Weights	Total :				
Fixed share	10%	Minimum	2,092	2,092	3,433	2,438
# Students	25%	Maximum	18,842	4,090	17,741	18,842
# Boarding students	20%	Average	10,000	2,860	9,928	11,475
# Classrooms	20%	Median	9,843	2,629	9,724	11,610
Distance to Aimag	5%					
Soum Poverty	20%	Per student :				
		Minimum	7.64	44.94	11.37	7.64
		Maximum	69.88	69.88	27.44	15.79
		Average	16.88	53.04	16.81	10.47
		Median	15.16	48.67	16.36	10.20
		Per classroom :				
		Minimum	289	418	358	289
		Maximum	1,579	1,022	1,579	679
		Average	588	623	653	422
		Median	550	526	603	417

Table Annex 8.3			All schools N=80	Bag schools N=4	Soum schools N=54	Aimag Schools N=22
Variables :	Weights	Total :				
Fixed share	10%	Minimum	1,667	1,667	3,143	2,471
# Students	35%	Maximum	19,806	3,902	18,611	19,806
# Boarding students	20%	Average	10,000	2,508	9,925	11,546
# Classrooms	0%	Median	9,812	2,232	9,742	12,754
Distance to Aimag	5%					
Soum Poverty	30%	Per student :				
		Minimum	8.61	39.45	10.55	8.61
		Maximum	57.01	57.01	27.33	13.73
		Average	16.27	45.25	16.58	10.24
		Median	14.99	42.27	15.97	9.52
		Per classroom :				
		Minimum	248	333	333	248
		Maximum	1,710	975	1,710	734
		Average	588	550	656	427
		Median	562	446	608	415

Table Annex 8.4			All schools N=80	Bag schools N=4	Soum schools N=54	Aimag Schools N=22
Variables :	Weights	Total :				
Fixed share	5%	Minimum	1,141	1,141	2,892	1,852
# Students	30%	Maximum	20,550	4,036	19,748	20,550
# Boarding students	30%	Average	10,000	2,188	10,362	10,533
# Classrooms	0%	Median	10,236	1,788	10,388	11,303
Distance to Aimag	5%					
Soum Poverty	30%	Per student :				
		Minimum	7.73	28.51	9.62	7.73
		Maximum	46.89	46.89	24.80	13.40
		Average	15.93	37.68	17.07	9.16
		Median	15.53	37.66	16.64	8.50
		Per classroom :				
		Minimum	193	228	303	193
		Maximum	1,968	1,009	1,968	761
		Average	589	488	681	384
		Median	530	358	621	369

ANNEX 9

Block grant calculations eligible schools 2010/11

Following discussions with ADB, it was preferred to stick to the available budget, rather than calling on contingencies. Hence, the average amount per school has been marginally reduced to USD 9,900.

The resulting summary data are presented below – the calculations for the individual schools are on the next pages.

**Table A9.1: Determination of the total pool of fund, by year –
With average amount of USD 9,900 per school**

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 9,900	USD 792,000
2011/12	233	USD 9,900	USD 2,306,700
Total			USD 3,098,700

Table Annex 9.2			All schools N=80	Bag schools N=4	Soum schools N=54	Aimag Schools N=22
Variables :	Weights	Total :				
Fixed share	10%	Minimum	2,071	2,071	3,399	2,414
# Students	25%	Maximum	18,654	4,049	17,563	18,654
# Boarding students	20%	Average	9,900	2,832	9,829	11,361
# Classrooms	20%	Median	9,744	2,603	9,627	11,494
Distance to Aimag	5%					
Soum Poverty	20%	Per student :				
		Minimum	7.56	44.49	11.25	7.56
		Maximum	69.18	69.18	27.17	15.63
		Average	16.71	52.51	16.64	10.37
		Median	15.01	48.19	16.20	10.10
		Per classroom :				
		Minimum	286	414	355	286
		Maximum	1,563	1,012	1,563	672
		Average	582	617	647	418
		Median	544	521	597	413

- For the calculations per school – see the print-out of the excel sheet attached to the Grant Manual

APPENDICES

Appendix 1 : Note on the selection of schools

Appendix 2 : Grant Manual / Block Grant 2010/11

Appendix 1: Memo

Memo on the Selection of schools for the Block Grant

The only topic that has attracted much attention following the presentation of the 'block grant design – mission report' has been the selection of schools. Although it was agreed that (i) selection of schools for year-1 would be as proposed (that is all public schools in the three poorest *aimags* in the country; and (ii) that the selection of schools for year-2 will be done in the course of the year based on experiences and further insights, for a proper presentation in the grant manual it is of importance to have at least an idea of the most likely selection for year-2, as this has a bearing on the argument used and the average amounts set for year-1. The below therefore presents an overview of various options and makes a new suggestion that seeks to take into account the various points of view.

Option 1 : As presented in the mission report

The mission report made an argument to select all public schools in selected *Aimags*, whereby these *Aimags* were chosen on the basis of a poverty ranking (poverty headcount as per census data). This resulted on the following:

Table 1.1 : Mission report - Selected Aimags / schools

Aimag	Region	No of public schools	Number of schools cumulative	
			No.	% of total
Pilot 2010/11:				
1. Khovd	Western	23	23	3.8%
2. Dornod	Eastern	23	46	7.6%
3. Khovsgoi	Khangai	34	80	13.2%
To be added 2011/12 :				
4. Bayankhongor	Khangai	29	109	18.0%
5. Uvs	Western	25	134	22.1%
6. Selenge	Central	33	167	27.6%
7. Zavkhan	Western	29	196	32.4%
8. Bayan-Olgii	Western	37	233	38.5%
Mongolia		605	605	100.0%

Table 1.2 : Determination of the total pool, by year, and average of USD 9,900 / school

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 9,900 =MNT 13,662,000 *)	USD 792,000
2011/12	233	USD 9,900 =MNT 13,662,000 *)	USD 2,306,700
Total			USD 3,098,700

*) exchange rate of 1380 applicable earlier this year

Option 2 : Proposal MECS (as prepared by PIU)

The Ministry agreed with the proposal for year-1, but requested the PIU to make another proposal for year-2, taking into account:

- Regional equity – seeking a better regional balance
- Exclude schools already receiving support from other projects
- Increase the number of benefitting schools as much as possible

Based on this request, a proposal was made whereby

- Schools for year-1 would remain as above, but these schools would be excluded in year-2;
- For year-2 new eligible schools were selected on the basis that :
 - By end of year-2, three *aimags* (or 3 urban districts for UB) would have benefitted from the grant
 - These *aimags* (and urban districts) to be selected on the basis of poverty ranking, while
 - In *Aimags* (or urban districts) where more than 50% of the schools were receiving support from other projects, only those public schools that are not receiving such support are eligible.

This resulted in a proposal of eligible schools as per the Table below :

Table 2.1 : MECS proposed guidelines / Selected Aimags / schools

Aimag	Region	No of eligible public schools *)	Comments / difference option 1
Pilot 2010/11:			
1. Khovd	Western	23	1 st on poverty list
2. Dornod	Eastern	23	2 nd on poverty list
3. Khovsgoi	Khangai	34	3 rd on poverty list
Total		80	
Pilot 2011/12 :			
1. Bayankhongor	Khangai	29	4 th poverty list
2. Arkhangai **)	Khangai	30	New – 11 th on poverty list
3. Uvs	Western	25	5 th poverty list
4. Zhavkan	Western	12 out of 29	7 th poverty list
5. Selenge	Central	33	6 th poverty list
6. Dundgobi	Central	8 out of 18	New – 10 th on poverty list
7. Tuv	Central	12 out of 29	New – 12 th on poverty list
8. Khentiy	Eastern	25	New – 17 th on poverty list
9. Sukhbaatar	Eastern	5 out of 16	New -18 th on poverty list
10. Khan-Uul	UB	17	New – UB is 21 st on poverty list
11. Chingeltei	UB	5 out of 13	New – UB is 21 st on poverty list
12. Songino-Khairkan	UB	19	New – UB is 21 st on poverty list
Total		220	

*) IMPORTANT : The total number of schools is from the data-base as established by the consultants on the basis of information given by MECS. Numbers in the 'MECS proposed guidelines', as prepared by PIU (and as provided by *Aimag* offices?) are different for almost all *aimags*. This inconsistencies need to be clarified prior to the calculation of the amounts for each school.

**) Orkhon *Aimag*, that is listed 9th on the poverty ranking as discussed in the mission report, was skipped – without notification- because of its particular character (the *Aimag* is one big mining town).

This would result in the following budget³⁵, that would –as compared to the available amount of USD 3.1 million under the project- lead to an under-expenditure of USD 100,000 :

Table 2.2 : Determination of the total pool – option 2

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 10,000 =MNT 13,300,000 *)	USD 800,000
2011/12	220	USD 10,000 =MNT 13,300,000 *)	USD 2,200,000
Number of addition schools yr2 : 140		Total :	USD 3,000,000

*) exchange rate of 1330 as valid at present

Observations regarding Option 2 :

The major differences in option-2 as compared to option-1 are the following :

- The schools eligible in year-2 do not include those eligible in year-1;
This reduces the grant to a 'money dishing-out facility' as no structural or behavioural changes can be realised in a single year. In fact, for the objectives of the grant to be realised, a similar system should be in place –for all schools- for several years and/or in a sustainable manner.
- Rather than selection on the basis of poverty, Aimags for year-2 are selected on a purely regional basis (even though within each region the most poor *aimags* are selected).
As the number of Aimags per region varies, this results in the fact that in some regions (eg. Eastern) all *aimags* become eligible – even if they are not particularly poor - while *Aimags* in other regions that are significantly more poor are excluded (e.g. Bayan Olgyi – that is 8th on the poverty ranking is dropped in favour of eg Khenty and Suhkbaatar that are 17th and 18th on the poverty ranking). Although there may be good reasons to opt for kind of regional balance, the way applied under this option-2 does not do justice to the poverty orientation of the project seeks to realise.
- For *Aimags* in which more than 50% of the schools receive support from other projects, only those schools that do not receive such support are selected. Coincidentally, the concerned *Aimags* are the least poor of the three selected for each respective region.
However, in all *Aimags* there are schools that receive support from other projects – hence schools in different *aimags* are treated differently – which is something that should be avoided.
A second more general point in this regard is that adapting to other projects results in a fortification of a situation that one seeks to avoid – that is exceptions are made instead of reinforcing the overall system. In the short-term it may seem to make sense – in the longer run it is undesirable, as it leads to a continuation of sub-optimal arrangements.
The choice to make all schools in a particular *Aimag* eligible –and differentiate the amounts per school according to a formula that takes into account the particularities of each school- was precisely advocated in order to arrive at a more structural, systems based, and sustainable situation.
On these grounds, the situation that in particular *aimags* only a fraction of schools becomes eligible needs to be strongly discouraged.

³⁵ This budget is slightly different from the budget as presented in the guidelines, as the total number of schools is different – due to an error in the calculations.

Alternative Options 3a – 3d :

Taking into account the arguments for option-1 and option-2, there certainly is middle ground that takes into account both poverty as well as regional considerations.

However, from a technical perspective there are a few points that should not be tempered with :

- In order to be able to influence a process, schools that are eligible schools in year-1 should also be part of the pilot in year-2;
- All schools in the country deserve the grant – but the budget simply does not allow; But for efficiency, equity and institutional as well capacity building reasons (as explained above; see also the mission report), it is best to make all schools in the selected *aimags* eligible.

As –coincidentally- the proposed selection for year-1 based on poverty also reflects a regional spread, the discussion can be focused on the selection of the additional schools for year-2. However, with the total budget given (USD 3.1 mln) we can still ‘play’ with the number of schools to be included for year-2– but if we want to keep the average amount similar for both years – we need to have an indication of the number of schools that are added in year-2. This is the reason of the importance of having this discussion –at least in general terms- before the Grant Manual for year-1 is finalized.

In the mission report it was noted that at present, the average budget for ‘other operation costs’ is MNT 11.75 mln per school, equal to roughly USD 8,500 with the exchange rate then used. Due to changes in the exchange rate it would now be close to USD 8,800.

The average grant amount was set at USD 10,000 (later changed to USD 9,900) as it nicely tallied with the number of schools in the selected *Aimags* and the amounts initially mentioned in the project document. However, it was also suggested that the grant would ‘more or less’ double the existing amount – hence there is scope for some variation as long as the amounts remain large enough to make choices between the various types of investment as mentioned in the mission report (hence the suggested under limit of on average at least doubling the existing amounts).

Based on all these considerations, 4 options can be distinguished as follows :

Options 3a :

Selection criteria

Year-1 :

- All public schools in three poorest *Aimags*

Year-2 :

- Add the (next) poorest *Aimag* in each region including UB
- Fill the remaining quota (of 240, that means tripling the number of schools of year-1) through selection of the poorest *Aimags*

Table 3a.1 : Selected Aimags / schools

Aimag	Region	No of public schools	Number of schools cumulative	
			No.	% of total
Pilot 2010/11:				
1. Khovd	Western	23	23	3.8%
2. Dornod	Eastern	23	46	7.6%
3. Khovsgoi	Khangai	34	80	13.2%
To be added 2011/12 :				
4. Uvs	Western	25	105	17.4%
5. Khenty	Eastern	25	130	21.5%
6. Bayankhongor	Khangai	29	159	26.3%
7. Selenge	Central	33	192	31.7%
8. Khan-Uul	UB	17	209	34.5%
9. Zavkhan	Western	29	238	39.3%

Table 3a.2 : Rough estimate of total pool, by year, and average of USD 9,700 / school

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 9,700 =MNT 12,900,000 *)	USD 776,000
2011/12	+/- 240	USD 9,700 =MNT 12,900,000 *)	USD 2,328,000
Number of addition schools yr2 : 160		Total :	USD 3,104,000

*) Using the present exchange rate of 1330

Options 3b :

Selection criteria :

- Same as Option-3a but with a quota of 275

As a result of the larger quota, the average amounts are reduced. With MNT 11.6 million it is roughly a doubling of the presently available amount.

As compared to 3a, one Aimag (Bayan Olgiy) is added.

Table 3b.1 : Selected Aimags / schools

Aimag	Region	No of public schools	Number of schools cumulative	
			No.	% of total
Pilot 2010/11:				
1. Khovd	Western	23	23	3.8%
2. Dornod	Eastern	23	46	7.6%
3. Khovsgoi	Khangai	34	80	13.2%
To be added 2011/12 :				
4. Uvs	Western	25	105	17.4%
5. Khenty	Eastern	25	130	21.5%
6. Bayankhongor	Khangai	29	159	26.3%
7. Selenge	Central	33	192	31.7%
8. Khan-Uul	UB	17	209	34.5%
9. Zavkhan	Western	29	238	39.3%
10. Bayan Olgly	Western	37	275	45.5%

Table 3b.2 : Rough estimate of total pool, by year, and average of USD 8,725 / school

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 8,725 =MNT 11,600,000 *)	USD 698,000
2011/12	275	USD 8,725 =MNT 11,600,000 *)	USD 2,399,375
Number of addition schools yr2 : 195		Total :	USD 3,097,375

*) Using the present exchange rate of 1330

Options 3c :

Selection criteria

Year-1 :

- All public schools in three poorest *Aimags*

Year-2 :

- Add the (next) poorest *Aimags* in each region including UB, in such a manner that all regions (and UB) have 2 *Aimags* (or urban districts) in the pilot.

Table 3c.1 : Selected Aimags / schools

Aimag	Region	No of public schools	Number of schools cumulative	
			No.	% of total
Pilot 2010/11:				
1. Khovd	Western	23	23	3.8%
2. Dornod	Eastern	23	46	7.6%
3. Khovsgoi	Khangai	34	80	13.2%
To be added 2011/12 :				
4. Uvs	Western	25	105	17.4%
5. Khenty	Eastern	25	130	21.5%
6. Bayankhongor	Khangai	29	159	26.3%
7. Selenge	Central	33	192	31.7%
8. Dundgobi	Central	18	210	34.7%
9. Khan-Uul	UB	17	227	37.5%
10. Chingeltei	UB	13	240	39.7%

Table 3c.2 : Rough estimate of total pool, by year, and average of USD 9,700 / school

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 9,700 =MNT 12,900,000 *)	USD 776,000
2011/12	240	USD 9,700 =MNT 12,900,000 *)	USD 2,328,000
Number of addition schools yr2 : 160		Total :	USD 3,104,000

*) Using the present exchange rate of 1330

Options 3d :

Selection criteria

- All as option-3c but with a quota a larger quota
- The quota (of 270) to be filled by selection of an additional *aimag*(s) to be selected on poverty considerations

Table 3d.1 : Selected Aimags / schools

Aimag	Region	No of public schools	Number of schools cumulative	
			No.	% of total
Pilot 2010/11:				
1. Khovd	Western	23	23	3.8%
2. Dornod	Eastern	23	46	7.6%
3. Khovsgoi	Khangai	34	80	13.2%
To be added 2011/12 :				
4. Uvs	Western	25	105	17.4%
5. Khenty	Eastern	25	130	21.5%
6. Bayankhongor	Khangai	29	159	26.3%
7. Selenge	Central	33	192	31.7%
8. Dundgobi	Central	18	210	34.7%
9. Khan-Uul	UB	17	227	37.5%
10. Chingeltei	UB	13	240	39.7%
11. Zavkhan	Western	29	269	44.5%

Table 3d.2 : Rough estimate of total pool, by year, and average of USD 8,850 / school

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 8,850 =MNT 11,750,000 *)	USD 706,000
2011/12	270	USD 8,850 =MNT 11,750,000 *)	USD 2,389,500
Number of addition schools yr2 : 190		Total :	USD 3,097,500

*) Using the present exchange rate of 1330

As a result of the larger quota (if we compare 3c and 3d), the average amounts are reduced – A resulting average of MNT 11.75 million it exactly a doubling of the presently available amount. As compared to 3c, one *Aimag* (Zavkhan) is added.

Analysis Options 3a – 3d :

- All options 3a-3d have more schools included than the original option
- Options 3a and 3c come closest to the original average amount of USD 9,900, whereby – in the selection of schools- 3a has a bias towards poverty and 3c a bias towards an equal number of *aimags* per region;
- Options 3b and 3d have a substantially larger number of schools benefitting, with an average amount that is roughly doubling the present average amount. The ‘disadvantage’ of both these options is that the average amount (in USD) is somewhat lower than earlier announced [but MECS can not have a larger number of schools and the same amount – there is trade off].

- Given that option 3d has two *aimags* in all regions, I assume that from the options 3a-3d this one would best suit MECS. I have no problem in recommending this option - ³⁶

Propose we make the Grant Manual on this basis (even though we may not mention the details for year-2 as yet).

Alternatively, if we still want to start with the average of USD 10,000 and given the budget, this will have an implication for the number of schools that can be added for year-2 (see Table 4.1). Or we have to change the amount. Also this is not impossible as long as the changes are not too big and the amount not becoming too small (see Table 4.2 and 4.3).

Table 4.1 : Simulation when we start with USD 10,000 for year-1

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 10,000 =MNT 13,300,000 *)	USD 800,000
2011/12	230	USD 10,000 =MNT 13,300,000 *)	USD 2,300,000
Number of addition schools yr2 : 150		Total :	USD 3,100,000

*) Using the present exchange rate of 1330

Table 4.2 : Simulation when we start with USD 10,000 for year-1

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 10,000 =MNT 13,300,000 *)	USD 800,000
2011/12	240	USD 9,600 =MNT 12,750,000 *)	USD 2,304,000
Number of addition schools yr2 : 160		Total :	USD 3,104,000

*) Using the present exchange rate of 1330

Table 4.3 : Simulation when we start with USD 10,000 for year-1

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 10,000 =MNT 13,300,000 *)	USD 800,000
2011/12	270	USD 8,500 =MNT 11,300,000 *)	USD 2,295,000
Number of addition schools yr2 : 190		Total :	USD 3,095,000

*) Using the present exchange rate of 1330

Hence, if we start, with USD 10,000 options 3a and 3c are still possible, but 3b and 3d become 'less elegant' (especially 3b) because (i) the drop from yr-1 to yr-2 becomes considerable and (ii) the amount falls below the threshold of 'doubling the amount'. If you want to keep all options open (and not discuss now) you are better off starting with USD 9,000 (see Table 4.4).

Table 4.4 : Simulation when we start with USD 10,000 for year-1

Year	No of school	Average amount per school	Total budget
2010/11	80	USD 9,000 =MNT 11,970,000 *)	USD 720,000
2011/12	270	USD 8,800 =MNT 11,700,000 *)	USD 2,376,000
Number of addition schools yr2 : 190		Total :	USD 3,095,000

*) Using the present exchange rate of 1330

³⁶

The option is fairly close to the original proposal – the differences are as follows ;

- Slightly smaller average amount per school (to allow larger number of eligible schools)
- One Aimag in Western (Bayan Olgii) dropped to allow inclusion of UB (two urban districts) and one additional aimag in Central region.

Appendix 2 : Grant Manual / Block Grant 2010/11

See separate files for English and Mongolian versions of the grant manual

Most Relevant Consulted Documentation

1. General Policy Documents – Government of Mongolia

- Government of Mongolia, **Constitution of Mongolia**, 1992
- Government of Mongolia, **Public Sector Management and Finance Law**, Ulaanbaatar 2003
- Government of Mongolia, **Action Plan for the Government of Mongolia (2004-2008)**, Ulaanbaatar 2004
- Government of Mongolia, **Public Procurement Law of Mongolia**, Ulaanbaatar 2006

2. Policy and other Documents Education Sector – Mongolia

- Government of Mongolia, **Law on Education**, Ulaanbaatar 2002
- Government of Mongolia, **Law on Primary and Secondary Education**, Ulaanbaatar 2002
- Government of Mongolia, **Law on Pre-school Education**, Ulaanbaatar 2008
- Government of Mongolia, **Master plan to Develop Education of Mongolia in 2006-2015**, Ulaanbaatar 2006

3. Project Documents and Mission reports

- ADB, **Education for the Poor – Financial Crisis Response Project**, Report and Recommendations of the President to the Board of Directors, Project Number 43127, August 2009

4. Other relevant Documents / Articles – Education

- UNESCO, **Educational Financing and Budgeting in Mongolia**, by Bulut Nanzaddorj, Paris, 2001
- Steiner-Khamsi, Gita and Ines Stolpe, **Decentralisation and recentralisation reform in Mongolia: tracing the swing of the pendulum**, Comparative Education, Vol 40, No 1, February 2004
- World Bank, **Mongolia – Public Financing of Education in Mongolia: Equity and Efficiency Implications**, By M. Caridad Araujo and Katherine Nesmith, Sector report 36379-MN, Washington, September 2006
- Steiner-Khamsi, Gita and Amgaabazar Gerelmaa, **Quality and equity in the Mongolian education sector**, Prospects (2008) 38 p. 409-414
- UNESCO, **Education Financial Planning in Asia : Implementing medium Term Expenditure Frameworks – Mongolia**, Bangkok, 2009

5. Other relevant Documents

- Government of Mongolia, National Statistical Office/World Bank, **Poverty Profile in Mongolia – Main report of ‘Household Socio-Economic Survey 2007-08’**, Ulaanbaatar, 2009
- Government of Mongolia, National Statistical Office/UNDP, **Mongolia Census based Poverty Map – Region, Aimag and Soum level Results**, by Harold Coulombe and Thomas Otter, March 2009

6. Relevant Documents - Fiscal Decentralisation

- Gabor Peteri, **Local Governance and Fiscal Decentralisation issues in Mongolia**, Draft report (unpublished), October 2007

- Arriuna Lkhagvadorj, ***Status Quo on Fiscal decentralisation in Mongolia***, August 2007
- Bird, R., *International Studies Program: Working Paper #00-2: Intergovernmental Fiscal Relations: Universal Principles, Local Applications*. April 2000. Georgia State University, Atlanta, Georgia
- Boex, J., ***Developing an Allocation Formula for the Decentralized Financing and Development Program and Implications for the Design of a System of Intergovernmental Fiscal Relations in Nepal***. October 29, 2002. UNCDP, Kathmandu, Nepal
- Boex, Jameson and Jorge Martinez-Vasquez, ***Local Government Reform in Tanzania : Considerations for the Development of a System of Formula Based Grants***, Working Paper 03-05, , Andrew Young Scholl of Policy Studies, Georgia State University, March 2003
- UNDP, ***Fiscal Decentralisation and Poverty Reduction***, November 2005
- Steffensen, J., ***Introduction to the Principles for Design of Intergovernmental Fiscal Transfer Systems – An International Comparison of Allocation Criteria***. November 2005
- Levitas, Tony, ***Rethinking State – Local relations in Mongolia to-day – Possible directions for Local Government Reform***, June 2008, for UNDP Local Government Support Project
- World Bank, ***The Enabling Environment for Social Accountability in Mongolia***, by Linda Beck, Toby Mendel and Jeff Thindwa, Social Development Department, Report No 32584-MN, June 2007
- Ministry of Finance and Economic Planning, Rwanda, ***Fiscal decentralisation in Rwanda – review of existing grant allocation practice and guidelines for streamlining of allocation formulae for block grants and sector earmarked grants***, February 2009

List of Abbreviations

ADB	Asian Development Bank
EFA/FTI	Education for All / Fast Track Initiative
FFS	Fiscal Framework Statement
GDP	Gross Domestic Produce
GoM	Government of Mongolia
JICA	Japan International Cooperation Agency
MECS	Ministry of Education Culture and Science
MTEF	Medium Term Expenditure Framework
MoF	Ministry of Finance
MNT	Mongolia Tugrik (USD 1 = MNT 1380, June 2010)
PIU	Programme Implementation Unit
PEE	Public Education Expenditure
PSMFL	Public Sector Management and Finance Law
TPE	Total Public Expenditure
UB	Ulaan Baatar
UNICEF	United Nations International Child Education Fund
UNDP	United Nation Development Programme
UNESCO	United Nations Education Science Cultural Organization
USD	United States Dollar

