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LOCAL BUDGET REVIEW OF ZAVKHAN PROVINCE



EUROPEAN UNION FUNDED
“SDG-ALIGNED BUDGETING TO TRANSFORM
EMPLOYMENT IN MONGOLIA”
PROJECT



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LOCAL BUDGET REVIEW OF ZAVKHAN PROVINCE

The “Local budget review of Zavkhan province” was developed within the “SDG-Aligned Budgeting to Transform Employment in Mongolia” Technical Assistance Project funded by the European Union and implemented by the United Nations Development Programme Mongolia in partnership with the United Nation’s Food and Agriculture Organization and the International Labour Organization.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACBG	Central Budget Governor
CIT	Corporate Income Tax
CRA	Citizens' Representative Assembly
FTD	Finance, Treasury Division
GBG	General Budget Governor
GDP	Gross Domestic Products
GFMIS	Government Financial Management Information System
GLDF	General Local Development Fund
GOM	Government of Mongolia
IDPPD	Investment, Development Policy and Planning Department
IMF	International Monetary Fund
LATUG	Law on Administrative and Territorial Unit
LDF	Local Development Fund
LMFBE	Law on Management and Financing of Budget Entities
LOE	Local-owned Enterprise
MEIAT	Monitoring, Evaluation and Internal Audit Department
MOF	Ministry of Finance
NSO	National Statistical Office
PIT	Personal Income Tax
SDGs	Sustainable Development Goals
SGKh	State Great Khural/Parliament
SOE	State-owned Enterprise
SPD	Social Policy Division
TD	Taxation Division
TSA	Treasury Single Account
UNDP	United Nations Development Program
VAT	Value Added Tax
WB	World Bank



CHAPTER ONE:
BACKGROUND



1.1 Research objectives

This report was prepared based on a case study and information from local budget analyses of Zavkhan province, with assistance provided by the “Supporting the Implementation of SDGs 2030 Project,” executed by UNDP. The primary purpose of the local budget analysis was to develop a policy recommendation on the extent to which the local budget is impacting the budget mechanism, and how it meets medium-term development objectives.

In line with research objectives:

- I. To analyze the budget revenue and expenditure planning, outturn and execution performance by revenue sources and sector from the last 3-5 years, and to analyze data on budget planning;
- II. To explore changes occurring in provincial budget policy, planning and revenue generation processes;
- III. Within the framework of the budgeting process, to analyze budget planning, revenue generation, expenditure distribution, reporting, monitoring and evaluation, analysis tools and methods, as well as produce policy recommendations based on research findings and cases.

This research and its findings were based on key data obtained from Ministry of Finance (MoF), other relevant ministries, National Statistics Office (NSO), Citizens Representative Assembly (CRA), Finance and Treasury department, Investment and Policy Planning department of the Governors office, along with other relevant government organizations of Zavkhan province. The secondary data were obtained from other researchers, as well as from UNDP. Furthermore, in depth analysis methodology was used to analyze the quantitative data of relevant research findings.

In order to conduct this research, both quantitative and performance data from the approved budgets of state, province and soums were analyzed and compared to conclude its findings. Additionally, in-depth analysis has been conducted on key documents, including evaluation reports to obtain secondary and qualitative data. Besides that, interviews with officials from relevant government organizations and major stakeholders were carried out. During data collection, some information sources overlapped with each other, enabling the consultant to cross-check and work on various sources.

1.2 Socio-economic information on Zavkhan province



Zavkhan is located in western Mongolia, bordering Tuva Republic on the north, Khuvsgul and Arkhangai provinces on the east, and Bayankhongor and Govi-Altai provinces on the south. It has a long history as one of the five provinces established in **1923**. Today, it has a total population of **72,400** in **116** baghs in **24** soums, covering **82,500** square kilometres of scenic western territory, **1,104** kilometres from Ulaanbaatar.

According to the resolution of the Presidium of the State Baga Hural, dated 18 February 1931, a decision to disintegrate Khantaishir province and establish Zavkhan province was made. It was established on the territories of Numrug Mountain county (former Tsogtoi county of Zasagtkhan province), Tsetsen sartuul county (former Tsetsen sartuul county of Zasagtkhan province), Gurban saikhan Jargalant (former Baatar county of Zasagtkhan province) and Otgonkhairkhan Mountain counties from the Tsetserlegmandal Mountain province. It went under restructuring in 1931 and 1933 respectively, initially splitting its territory to establish Govi-Altai province and later to merge it back into Zavkhan province. In 1940, Govi-Altai province was established and Zavkhan transferred Khukhmorit, Delger and Bayan-Uul soums, which were formed on the territory of the Gurvansaikhan Jargalant Mountain within the jurisdiction of Govi-Altai province.

Table 1. SOCIO-ECONOMIC PERFORMANCE OF ZAVKHAN PROVINCE, 2017-2020

Indicators	Unit of measurement	2017	2018	2019	2020
Total number of Households	Thous.HHD	21.5	21.8	21.8	21.2
Number of herder households	Thous.HHD	9.1	9.1	8.9	9.3
Settled population number	Thous.person	72.1	72.9	73.1	73.2
Human Development Index	Coeff.	0.664	0.665	0.694	0.714
Human Development Index (National average)	Coeff.	0.751	0.759	0.763	0.775
Number of births	Person	1,448	1,601	1,364	1,371
Number of incoming migrants	Person	843	713	468	1081

Number of outgoing migrants	Person	891	599	-	-
Number of deaths	Person	395	384	389	351
Marriage rate	Couple	408	388	352	315
Divorce rate	Couple	23	30	26	28
Number of people with infectious disease	Person	457	465	710	643
Registered unemployed in last 12 months	Person	1,690	1,285	1,452	1,206
Number of retirees receiving pensions from social insurance fund	Person	10,090	10,847	11,197	14,278
Amount issued for retirement benefits	Mln.tugriks	39,055.7	44,446	50,586.7	55,582.5
Number of pensions and benefits granted, services in social welfare services	Person	25,114	25,251	36,350	34,257
Amount issued as discounted retirement and benefits	Mln.tugriks	8,371.4	10,666.1	11,556.3	11,067.7
Industrial output by price	Mln.tugriks	13,382.2	31,133.2	37,770.7	34,785.0
Structure of construction, capital repairs and maintenances by price	Mln.tugriks	104,971.2	161,854.1	208,746.2	61,898.4
Consumer price index	Percentage	104.1	100.2	100.1	100.4
Total number of livestock	Thous.head	3,597.3	3,555.4	3,849.9	3,607.8
Camel	Thous.head	7.5	7.8	8	8.1
Horse	Thous.head	207.4	222.5	243.7	236.7
Cow	Thous.head	192.2	205	228.7	225.0
Sheep	Thous.head	1,837.7	1,827.4	1,951	1,799.8
Goat	Thous.head	1,352.5	1,292.7	1,418.5	1,338.2
Number of healthy animals	Thous.head	1,235.1	1,000.8	1,305.5	1,233.6
Total crop area	hectare	1,863.4	2,471	3,371.1	3,503.3
Total harvested crops	Ton	4,987.4	6,397.5	6,680.4	9,793.1
Potatoes	Ton	2,127.5	1,987.8	1,952.9	1,783.9
Vegetables	Ton	1,120.2	1,338.5	1,703.3	1,587.5
Total hay and fodder prepared	Thous.ton	15.4	15.2	16.8	14.3
Doctors	Number	181	178	182	184
Secondary schools	Number	30	30	29	30
Students	Thous.child	14.7	14.5	15.2	15.5
Number of Kindergartens	Number	39	40	40	41
Number of entrants in preschools	Thous.child	6.5	5.8	5.8	5.2
Gross Domestic Products	Bln.tugrik	313.2	356.5	-	-
Taxation revenue by amount	Mln.tugrik	1,2743.1	1,3679.1	1,4530.1	1,3174.1
Total Budget expenditure	Mln.tugrik	62,045.8	70,804.7	75,401.2	92,108.7
Minimum standard fo living	Tugrik	166,500	178,000	190,700	212,600
Minimum standard fo living (National average)	Tugrik	171,400	181,700	195,500	207,800
Registered entities	Number	1,910	2,019	-	2,210
Number of recorded crimes	Number	221	235	247	271

Source: Statistics of Zavkhan province



CHAPTER TWO:
LOCAL BUDGET LAW
AND REGULATIONS



2.1 Local budget and its legal regulations

Article 16 of the Mongolian Law on Administrative and territorial units and their governance indicates that: “Provinces, capital cities, soums and districts shall have a separate budget. Budget sources of provinces, soums, the capital city and districts shall consist of tax and non-tax revenues, state budget financing, and other sources permitted by law. Provincial, capital city, soum and district budget funds shall be spent on implementing functions provided by this law.” Their “revenue types, expenditure categories, financing purposes and activities related to budget preparation, approval, implementation organization, reporting, and monitoring shall be regulated by the Law on Budget and other relevant legislation in accordance with the principles set forth in Law on Administrative and territorial units and their governance.” Furthermore, article 57 of the Constitution of Mongolia says that: “The territory of Mongolia is subdivided administratively into provinces (aimags) and a capital city; provinces are subdivided into soums and soums into baghs; the capital city is divided into districts and districts into khoroo.” Additionally, article 58 states that: “The province, the capital city, region, and district are administrative, territorial, and socio-economic complexes with their functions and administrations provided for by law”. Additionally, article 59.2 – which was amended by the law in 2019 declares that: “Local self-governing bodies in provinces, the capital city, soum and district shall be the Citizens Representatives Assembly (Local assembly) in their respective territory, and the Public Assembly of Citizens (Local meeting) in bagh and khoroo. The Citizens Representatives Assembly in provinces, the capital, soums and districts shall have the right to undertake property management and set tax rates within the scope prescribed by relevant laws. The functions and budget relations’ basis of local self-governing bodies shall be determined by law in conformity with their economic and social specifics.”

These laws and specific articles within the laws serve as the legal basis for local budget relations, by regulating local budget revenue generation and spending to implement the functions of each administrative units delageted by the law. They also explain relations between the local budget and other relevant budgets, - such as the state budget, social insurance fund budget and health insurance fund budget – within the framework of the Mongolian unified budget.

Article 21 of the Mongolian Law on Budgets clearly illustrates such regulation. The articles provides that “the Mongolian unified budget is composed of a state budget, local budget, social insurance fund budget and health insurance fund budget” (article 21.1), “local budget comprises provincial, capital city, soum and district budgets” (article 21.2), “State budget shall be an upper level budget for province and capital city budget and province and capital city budget shall be an upper level budget for soum and district’s budget” (article 21.3), and “revenue to be allocated for and functions to be implemented by each level of budget shall be determined by law” (article 21.4).

Table 2. LEGISLATION THAT REGULATES BUDGET RELATIONS

Name of Law	Purposes and scope
1 FISCAL STABILITY LAW (2010)	This Law defines the principles of unified budget management and the rights, duties and responsibilities of government organizations in establishing, implementing and monitoring special budget requirements. It also regulates the relationships that may rise from creating renewable resources from mineral revenues, investing to support economic development and generating financial savings.

2	BUDGET LAW (2011)	<p>This Law regulates the relations that may arise out of, or in connection with, setting out the budget principles and regulating special fiscal requirements, defining authorities, roles and responsibilities of public institutions that participate in the budget process, along with budget preparation, budget approval, spending, accounting, reporting and auditing. It also covers local budgets, budget relations, authorities and responsibilities of Citizens' Representative Assembly and Governor's on the budget, local budget preparation, submission and approval.</p>
3	LAW ON ADMINISTRATIVE AND TERRITORIAL UNITS AND THEIR GOVERNANCE (2006)	<p>The purpose of this law is regulating the process of establishing, changing, or dissolving administrative and territorial units; along with their governance structure, authority, operational principles and organization. An administrative and territorial unit has legally assigned functions with a self-governing administration, territory, economy and society. Economic foundation, budget and local government authorities are also legalized.</p>
4	LAW ON DEVELOPMENT POLICY AND PLANNING AND ITS MANAGEMENT (2020)	<p>The purpose of this law is to ensure the sustainability and consistency of development policy-making and planning processes in Mongolia, as well as to establish underlying principles of development policy and planning nationwide. This seeks to develop, plan and effectively implement development policy; carry out monitoring and evaluation; inform and build an integrated and clear system; define rights and roles of stakeholders in policymaking and planning processes. It also aims to ensure partnerships between stakeholders in development policy-making and planning; coordinate regulating relations related to types and forms of policy and planning documents; as well as strengthen development policymaking and planning, its management and structure. Additionally, the law specifies principles of development planning at provincial, capital and city levels.</p>
5	GENERAL LAW OF TAXATION (2019)	<p>This law aims to lay the legal grounds for establishing new tax systems and rates, along with the imposition, collection, reporting and control of taxes and duties, as well as the liabilities of taxpayers and tax authorities. It also defines functions of the Government, capital cities and provinces in setting the tax rates.</p>
6	LAW ON STATE AND LOCAL PROPERTY (1996)	<p>The purpose of this law is to regulate relations arising from legislative and executive powers concerning ownership rights on state and local property. It also covers the level of authority of a legal official with state property and its administration, principle and regulations of activity of an entity implementing policy on state property.</p>

7	PUBLIC PROCUREMENT LAW (2005)	This law aims to regulate relations concerning planning and organizing the procurement of goods, along with work and services carried out with state and local funds. It also provides for oversight of procurement procedures, making and disposing of complaints and imposing penalties for breaches of this law. By conducting public procurement professionally, in a transparent and open way, budget savings and efficiency are enhanced. It also creates an environment for equal, fair, corruption-free bidding processes for the participants, while ensuring public monitoring.
8	LAW ON STATE AUDIT (2020)	The Law on State Audit establishes grounds for the audit institution's authority, structure, organization and legislation, which is an independent entity to monitor the planning, distribution, implementation and spending of State finance, budgets and public property.
9	GLASS ACCOUNT LAW (2014)	The objective of this law is to establish an ecosystem that enables transparent, open and perspicuous budget management decision-making and public oversight for economically efficient management of state and local budgets, along with properties.

Source: www.legalinfo.mn

The following core rules and regulations on local budget management were issued to be implemented and adhered to by public officials of relevant government organizations:

1. "Guidelines for developing local budgets," approved by Order No. 244 of the Minister of Finance in 2012;
2. "Guidelines for the local development fund," approved by Order No. 86 of the Minister of Finance in 2021;
3. "Guidance for estimating the local budget base expenditure," Government Order No. 445, 2019;
4. "Establishment of a common standard and requirement on information content to be posted and uploaded on the Glass account website," Government Order No. 29, approved in 2016;
5. "Soum development fund to generate, disburse, report on and monitor the asset," Government order No. 153 approved in 2016.

The Law on Administrative and Territorial Units and their Governance (LATUG) was amended and adopted with the main purpose to create a favourable legal environment for local governments. It also seeks to make significant changes to the budget, tax and fiscality and to enhance the independence, responsibilities and initiativeness of the local government. The amended law will come into effect on January 1st, 2022. The newly amended LATUG has increased the local budget independence, as well as relevant changes made to the Law on Taxation and Law on Budget.

Budget revenue types and volumes of Soums and Districts were changed as follows:

- The tax on livestock numbers will be transferred as an income source to the local development fund;
- As stated in the Personal Income Tax article 7.1, taxes shall be withdrawn from any income as same as wages and payments;
- Tax on real estate;
- 40 percent of the land fee shall be transferred to soum budgets.

Previously, the income tax of entities was 100 percent transferred to state budgets; after the amendments, 40 percent will be transferred to provincial and capital city budgets.

2.2 Local budgeting process

The budget cycle is a three-year continuous process that consists of budget planning, implementation, reporting and performance assessment phases. The budget development and approval process follows the budget calendar, reflected under article 22 of the Law on Budgets.

1. The Central Administrative Body responsible for finance and budgeting matters shall submit the draft Medium Term Fiscal Framework Statement to the Government no later than the 15th of April every year;
2. The Government shall discuss and submit the Medium Term Fiscal Framework Statement to the State Great Khural/Parliament no later than the 1st of May every year;
3. Parliament shall discuss and approve the Medium Term Fiscal Framework Statement no later than the 1st of June every year;
4. Parliament shall publish the Medium Term Fiscal Framework Statement within seven working days after its approval;
5. The general budget governor shall submit his/her proposal on the budget ceiling based on the Medium Term Fiscal Framework Statement to the Central Administrative Body responsible for finance and budget matters by the 10th of June each year;
6. The Central Administrative Body responsible for finance and budget matters shall consolidate and prepare draft budget ceilings of general budget governors and submit it to the Government by the 20th of June every year;
7. The Government shall discuss and approve draft budget ceilings of general budget governors by the 1st of July each year;
8. The Central Administrative Body responsible for finance and budget matters shall deliver the annual budget ceiling approved by the Government to general budget governors, along with the budget guideline, by the 5th of July every year;
9. Provincial and capital city governors shall submit the budget guideline to relevant level budget governors within three working days upon receipt;

10. The budget governors of local budgetary entities that conduct state functions to be financed based on special purpose transfer by agreements shall submit the base budget proposal to soum and district budget governors by the 15th of July each year;

11. Soum and district governors shall consolidate local budgetary entities base budget proposals to be financed based on the special purpose transfer agreement and submit it to provincial and district governors by the 25th of July every year;

12. Provincial and capital city governors shall submit the base budget proposal of state budgetary entities to be financed by special purpose transfers to the general budget governor by August 1st every year. The base budget proposal of local budgetary entities must be submitted to the central administrative body responsible for finance and budget matters. From the base budget proposal, the management relevant and capital base budget proposal should be submitted to the central administrative body responsible for development policy planning by August 15th every year.

13. Provincial and capital city governors who intend to receive foreign or domestic grants or assistance with the purpose of accelerating local development shall develop an action plan, along with agreements of each budget, to be submitted to the central administrative body responsible for finance and budget matters.

The main points for developing the budget proposal are as follows:

1. As defined in article 7.3 of the fiscal stability law, "development of the budget proposal and approval, as well as amendments of approved budgets, shall be in line with the medium-term fiscal framework statement.
2. The budget proposal should be developed in accordance with the Government-approved budget ceiling and budget guideline and submitted to the central administrative body responsible for finance and budget matters.

This central administrative body, as well as the Governors of the capital city and provinces, shall reflect the following requirements in the budget proposal as stated in the Law of Budget article 27.4, and the guidance on developing a local budget proposal:

1. Estimation of the medium-term fiscal framework statement and explanations on decisions made;
2. Government-approved budget ceiling;
3. Policy guidance on general guidelines for socio-economic development and the Government Action Plan;
4. General and special requirements for preparing investment projects;
5. General conditions for making requests on financing of budget proposals;
6. Special forms and their instruction and information for preparing budget proposals;
7. Deadlines for submitting budget proposals;
8. Policies and directions that boost local development in next year's government budget;
9. Forecast of an inter-budget transfer;

10. Policy changes made for the current year;
11. A methodology on inserting data into the budget information system;
12. Among other things.

In addition to the budget guidance, provincial and capital city governors shall attach their Action Plan, along with other planning related requirements and relevant instructions of the budget proposal, and submit it to the relevant budget governors.

The next phase of the budget planning process is to present the budget proposal and get approval from authorities responsible, in accordance with the budget cycle shown below:

1. The Central Administrative Body responsible for finance and budget matters shall consolidate and prepare annual budget proposals and submit them to the Government by the 15th of September each year;
2. The Government shall submit the annual budget proposal to Parliament by the 1st of October every year;
3. The Government shall publish the annual budget proposal within three working days after its submission to Parliament;
4. The central administrative body responsible for finance and budget matters shall submit a detailed local base budget to provincial and Capital city governors by the 5th of October each year;
5. The National audit office shall present its opinion on the annual budget proposal to Parliament by the 15th of October each year;
6. Parliament shall discuss and approve the annual budget proposal by the 15th of November each year;
7. Provincial and Capital city governors shall submit the budget proposal to the National audit office by the 20th of November, and present to the CRA by the 25th of November every year;
8. The Citizens Representative Assembly of Provinces and the Capital city shall discuss and approve the respective annual budget proposal by the 5th of December each year;
9. Soum and district governors shall submit budget proposals of the relevant level to the respective Assembly by the 10th of December every year;
10. Soum and district CRAs shall discuss and approve the respective annual budget proposal by the 20th of December each year;
11. Provincial and capital city governors shall approve the monthly and quarterly budget plan of respective levels by the 25th of December annually;
12. Provincial and capital city governors shall submit approved annual budgets of the relevant level to the Central Administrative Body responsible for finance and budget matters by the 31st of December annually;
13. The Government shall publish the annual budget proposal within three working days of its submission to Parliament.

The local annual budget proposal shall meet the following requirements:

1. Funding should be determined by the scope of activities pertaining to core functions;
2. Budget balance without deficit;
3. Determine objectives, targets and outcomes of the program;
4. Within the area of responsibility, investment projects and activities, as well as their required amount of re-sources, shall be reflected in their respective programmes;
5. A procurement plan proposal shall be attached.

Table 3. BUDGET APPROVAL CYCLE BY THE CRA OF ZAVKHAN PROVINCE, 2017-2019

	Submission date of budget proposal	Date of approved budget by CRA
Expected performance of 2017 budget and approval stages of the 2018 provincial budget	11/25/2017	12/04/2017
Approval stages of the 2019 provincial budget	11/25/2018	12/03/2018
Approval stages of the 2020 provincial budget	11/23/2019	12/02/2019

Source: Resolution, of the CRA 2020

As a result of the current analysis on whether the local budget proposal meets overall criteria, it was found that the procurement plan has been approved by the Governor's Decree, not by the Resolution of the CRA of the province.

Table 4. STATUS OF THE LOCAL BUDGET PROPOSAL THAT HAS FULFILLED ANNUAL CRITERIA

	Performance indicators	Criteria fulfillment		
		2018	2019	2020
1	Budget shall be approved without deficit	Yes	Yes	Yes
2	Funding should be determined by the scope of activities pertained to core functions	Yes	Yes	Yes
4	Determined objectives, targets and outcomes of program	Yes	Yes	Yes
5	Within the area of responsibility, investment projects and activities and their required amount of resources shall be reflected in the respective program	Yes	Yes	Yes
6	Procurement plan proposals are attached	No	No	No

Source: Decisions and Resolution of the provincial CRA

The CRA of 24 soums of the province shall approve its upcoming year's budget by the 20th of December every year. The CRA resolution on the budget approval of 2020's budget for Otgon and Shiluustei soums has been reviewed for whether it meets the criteria, with the following budget approval structure:

- Total budget revenue of the current year by revenue type and volume of the soum;
- The general budget governors amount of revenue shall be placed in relevant government organizations and other budget entities;
- The maximum amount of expenses to be spent by the General Budget Governor and current years total local budget expenses of the soum;
- Budgetary entities expenses to be financed by a special purpose transfer;
- Budget to be transferred to the provincial budget;
- Current and capital cost to be financed from the previous year's budget;
- General budget governor's action plan and its target;
- List of investment projects including capital and repairs, by building types and as well as implementing activities of the soum.

The local budget planning process has been analyzed of Zavkhan province with the purpose of finding out whether the budget proposal development and approval has had any deficit in the last 3 year. As a result of this analysis, it was found that the budget meets the overall criteria.

Table 5. BUDGET BALANCE OF ZAVKHAN PROVINCE, IN MILLION TUGRUG, FROM 2018 TO 2020

Indicators	2018		2019		2020	
		% in total expenditure and net lending		% in total expenditure and net lending		% in total expenditure and net lending
Total expenditure and net lending	67,153.3		68,576.1		84,016.0	
Total revenue and grant	64,587.0	96.1	64,481.7	94.0	80,098.6	95.3
Finance from previous year's balance	2,566.3	3.9	4,094.4	6.0	3,900.2	4.7
Total financing source	67,153.3		68,576.1		83,998.7	
Budget balance	0.0		0.0		-17.3	

Source: Report by the finance and treasury department of the Governors office of Zavkhan province, 2021

The budget law approved by State Great Khural in 2020 the amount of budget to be issued to provinces, with an estimation of base revenue and expenditure and its differences, is approved in the table below.

Table 6. STATUS OF REVENUE AND EXPENDITURE OF RESPECTIVE PROVINCES, 2020, MNT MILLION

	Aimags	Base revenue		Aimags	Base expenditure		Aimags	Budget balance
1	UMNUGOBI	138,566.0	1	UMNUGOBI	50,864.9	1	UMNUGOBI	87,701.1
2	ORKHON	62,911.5	2	UVS	34,320.0	2	ORKHON	43,352.6
3	DORNOGOBI	26,973.8	3	KHUVSGUL	32,978.2	3	DARKHAN-UUL	6,329.5
4	DARKHAN-UUL	23,467.9	4	TUV	32,388.0	4	DORNOGOBI	4,360.7
5	SELENGE	22,277.9	5	BAYANKHONGOR	28,969.6	5	DORNOD	799.1
6	TUV	22,024.0	6	SELENGE	27,857.2	6	GOBISUMBER	-2,335.1
7	BULGAN	21,633.0	7	ZAVKHAN	27,669.1	7	BULGAN	-4,677.7
8	DORNOD	18,601.1	8	UVURKHANGAI	27,303.6	8	SELENGE	-5,579.3
9	UVURKHANGAI	12,068.5	9	BULGAN	26,310.7	9	BAYAN-ULGII	-7,741.3
10	KHENTII	11,931.8	10	KHENTII	24,724.9	10	TUV	-10,364.0
11	KHUVSGUL	11,731.5	11	DORNOGOBI	22,613.1	11	SUKHBAATAR	-10,753.7
12	KHOVD	11,292.0	12	GOBI-ALAI	22,574.1	12	KHOVD	-11,004.2
13	BAYAN-ULGII	9,870.4	13	KHOVD	22,296.2	13	ДУНДГОВЬ	-12,031.7
14	BAYANKHONGOR	9,388.7	14	ARKHANGAI	21,595.2	14	KHENTII	-12,793.1
15	UVS	9,080.0	15	SUKHBAATAR	19,569.0	15	ARKHANGAI	-13,651.3
16	SUKHBAATAR	8,815.3	16	ORKHON	19,558.9	16	UVURKHANGAI	-15,235.1
17	ZAVKHAN	8,092.6	17	DUNDGOBI	17,992.8	17	GOBI-ALAI	-15,551.4
18	ARKHANGAI	7,943.9	18	DORNOD	17,802.0	18	ZAVKHAN	-19,576.5
19	GOBI-ALAI	7,022.7	19	BAYAN-ULGII	17,611.7	19	BAYANKHONGOR	-19,580.9
20	DORNOGOBI	5,961.1	20	DARKHAN-UUL	17,138.4	20	KHUVSGUL	-21,246.7
21	GOBISUMBER	5,113.6	21	GOBISUMBER	7,448.7	21	UVS	-25,240.0
	Amount	454,767.3		Amount	519,586.3		Amount	-64,819.0

Source: NSO database system, 2021

The above table demonstrates the financial support provided from the state budget, with a base revenue 8,092.6 million tugrug, expenditure 27,669.1 million tugrug and budget balance deficit of 19,576.5 million tugrug approved for Zavkhan province. When comparing provinces in terms of their budget volume, Zavkhan ranked 17th in base revenue, 7th by base expenditure and 18th by budget balance deficit, respectively.

Since 2012, a competitiveness report of the different provinces was released by the Centre for Economic Policy Research and Competitiveness, every year. The following are the key economic and budget related competitiveness indicators of Zavkhan from the 2020 provincial competitiveness report:

- **By economic indicator – 19th place**
- **By economic sector - 15th place**
- **By provincial budget - 19th place**
- **By finance - 12th place.**

For more information on the competitiveness indicators of Zavkhan province, please see the link below: <http://aimagindex.mn/province/>.



THREE.

LOCAL BUDGET ANALYSIS OF
ZAVKHAN PROVINCE



3.1 Analysis of budget revenue outturn

3.1.1 TOTAL REVENUE OUTTURN

Budget revenue analysis is one of the core components of the “Local budget analysis of Zavkhan province” under the UNDP project “Supporting the implementation of the SDG 2030 Agenda in Mongolia”. To conduct this analysis, the consultant reviewed Zavkhan Citizen Representative Assembly’s (CRA) resolutions from 2016 to 2020, General Budget Governor’s (GBG) consolidated annual financial statements from 2016 to 2020, and the Zavkhan branch of the National Audit Office’s (NAO) performance audit of “Local tax items’ proposal and actual” from 2018 to 2020.

When comparing Zavkhan province’s local budget revenue against total expenditure, 12.8 percent was financed by the local budget revenue in 2016, which increased to 16-17 percent in 2017. The remaining 83 percent was financed by the state budget grant revenue.

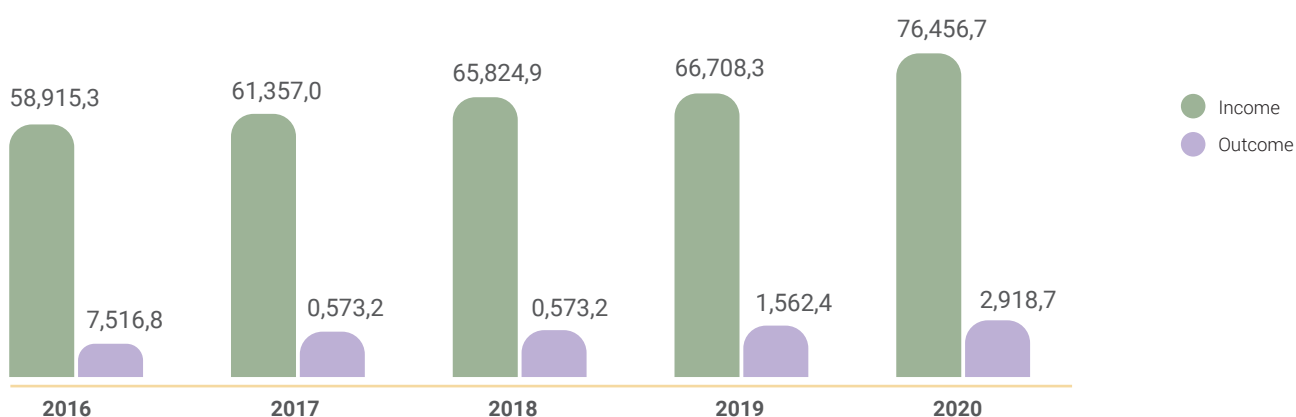
Table 7. ZAVKHAN BUDGET EXECUTION, 2016-2020, MNT MILLION

Indicators	2016	2017	2018	2019	2020
Total expenditure and net lending	58,915.3	61,357.0	65,824.9	66,708.3	76,456.7
Total budget revenue	7,516.8	10,573.2	10,526.5	11,562.4	12,918.7
Percentage of the total budget revenue against total expenditure	12.8	17.2	16.0	17.3	16.9

Source: Finance and Treasury Department’s report, the Governor’s Office, 2020

Further, the local budget revenue and grant revenue increased by 4.1 percent year-on-year in 2017, 9.1 percent in 2018, 2.4 percent in 2019, and 16.6 percent in 2020, respectively.

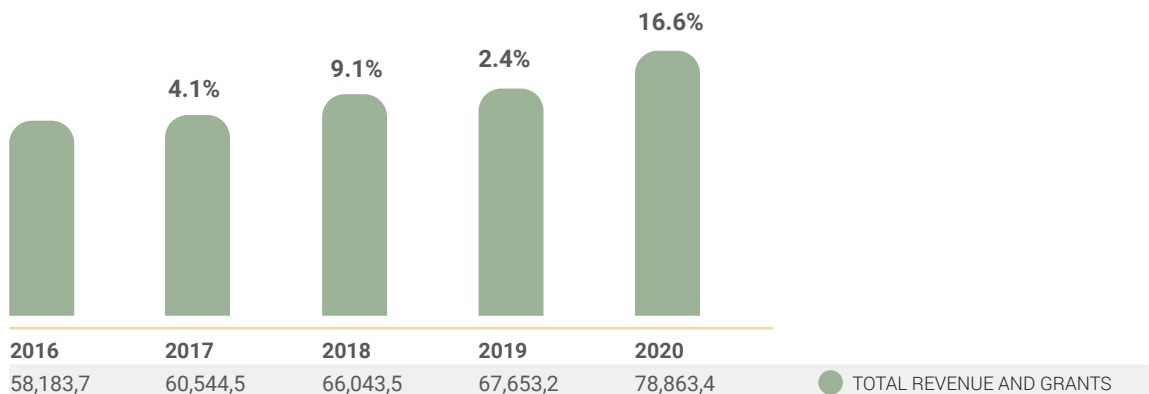
Figure 1. BUDGET REVENUE AND EXPENDITURE OF ZAVKHAN PROVINCE, 2016-2020, MNT MILLION



Source: Finance and Treasury Department’s report, the Governor’s Office, 2020

To identify the drivers of such growth, the structure of total budget revenue must be analyzed. The following table and figures illustrate that 82.5 to 87.1 percent of the local total budget is composed of state budget grant revenues, 11.6 to 13.9 percent is local taxation revenue, while 1.3 to 4.6 percent is non-tax revenue.

Figure 2. GROWTH OF TOTAL REVENUE AND GRANT REVENUE, 2016-2020



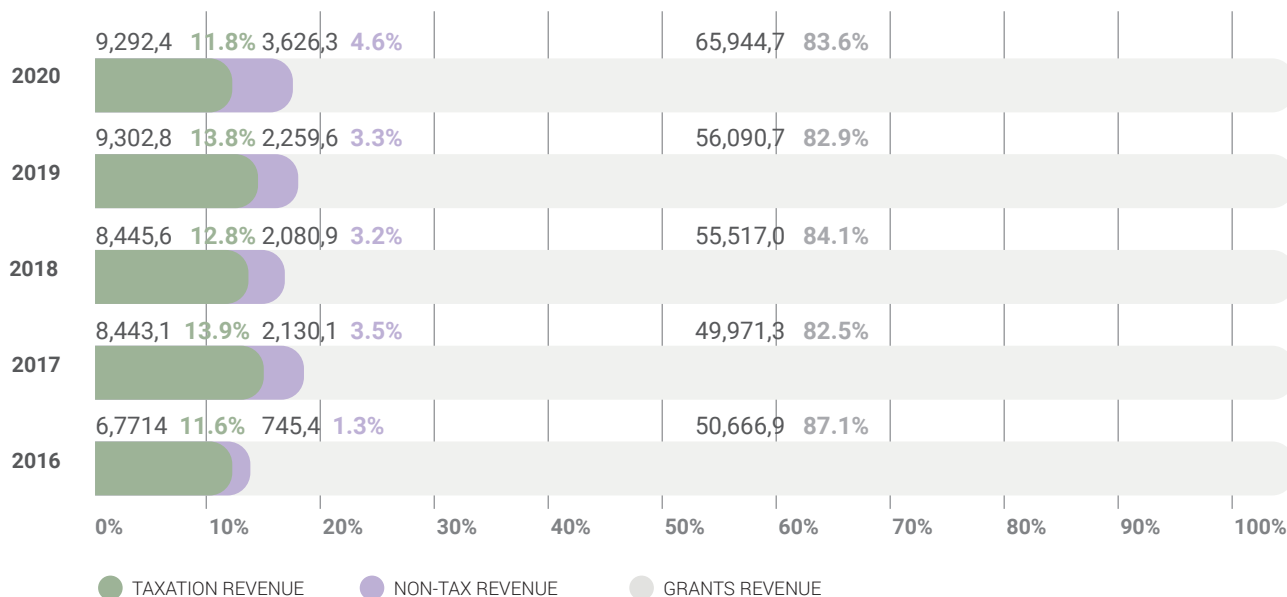
Source: Finance and Treasury Department's report, the Governor's Office, 2020

To identify the drivers of such growth, the structure of total budget revenue must be analyzed. The following table and figures illustrate that 82.5 to 87.1 percent of the local total budget is composed of state budget grant revenues, 11.6 to 13.9 percent is local taxation revenue, while 1.3 to 4.6 percent is non-tax revenue.

Table 8. BUDGET REVENUE COMPOSITION OF ZAVKHAN PROVINCE, 2016-2020, MNT MILLION

Indicators	2016		2017		2018		2019		2020	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Taxation revenue	6,771.4	11.6	8,443.1	13.9	8,445.6	12.8	9,302.8	13.8	9,292.4	11.8
Non-tax revenue	745.4	1.3	2,130.1	3.5	2,080.9	3.2	2,259.6	3.3	3,626.3	4.6
Grants	50,666.9	87.1	49,971.3	82.5	55,517.0	84.1	56,090.7	82.9	65,944.7	83.6
TOTAL REVENUE AND GRANTS	58,183.7	100.0	60,544.5	100.0	66,043.5	100.0	67,653.2	100.0	78,863.4	100.0

Figure 3. BUDGET REVENUE COMPOSITION, 2016-2020



Items within each category were further analyzed. For instance, grants, taxation revenue and non-tax revenue were revised in detail to define items that affected revenues.

3.1.2 THE GRANT REVENUE OUTTURN

In 2017, the state budget grant revenue to the province decreased by MNT 695.6 million compared to the previous year. However, it increased by MNT 5,545.7 million in 2018, MNT 573.7 million in 2019 and MNT 9,854.0 million in 2020, respectively, compared to previous years.

Table 9. STATE BUDGET GRANT REVENUE COMPOSITION OF ZAVKHAN PROVINCE, 2016-2020, MNT MILLION

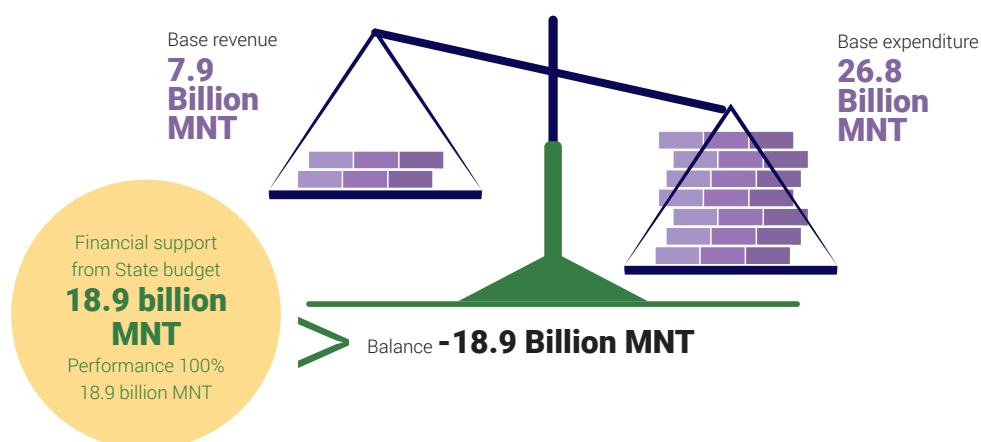
Indicators	2016	2017	2018	2019	2020
Financial support from State budget	11,049.2	10,606.5	13,131.0	14,482.4	18,898.0
LDF transfer	4,185.8	1,708.7	3,471.2	5,152.8	4,276.8
Special purpose transfers	35,431.9	37,656.1	38,914.8	36,276.7	42,431.1
From Health Insurance Funds				178.9	338.8
Grant revenue	50,666.9	49,971.3	55,517.0	56,090.7	65,944.7
Changes /compared to previous year/		-695.6	5,545.7	573.7	9,854.0

Source: Finance and Treasury Department's report, the Governor's Office, 2020

The reason behind the 695.6 million MNT decrease in 2017 is that Local Development Fund (LDF) revenue was reduced by MNT 2,477.1 million from the previous year. The highest increase was in 2020. It grew by MNT 9,845.0 million from 2019, due to an additional MNT 4,415.6 million of financial support, and MNT 6,154.4 million in special purpose transfers.

In 2020, the grant revenue increased, especially financial support, rising by MNT 4,415.6 million. The MOF reviewed the base revenue of the local budget at 7.9 billion MNT and expenditure at MNT 26.8 billion, while Parliament approved MNT 18.9 billion for the state grant.

Figure 4. LOCAL BUDGET REVENUE AND EXPENDITURE, 2020, MNT BILLION



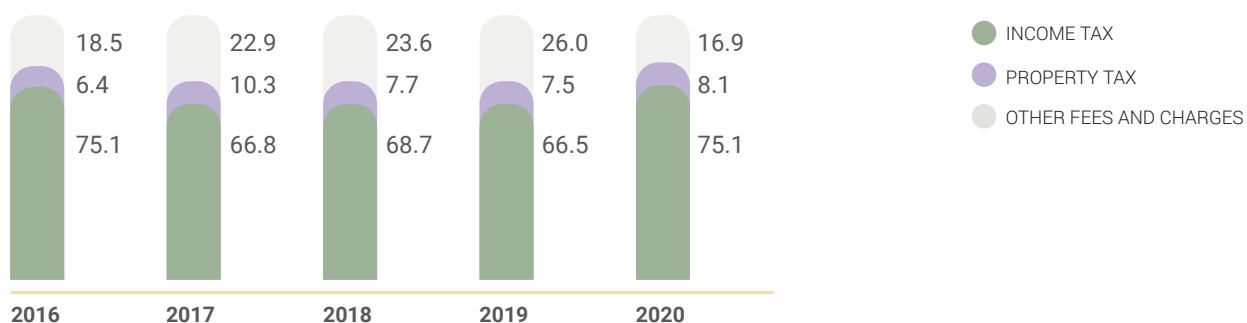
The following changes were introduced to the local budget, due to the shift in policy on a Mongolian unified budget, affecting support and financing revenue through 2016 to 2020:

1. From 2019, operational costs (heating, electricity, consumption, grey water, rent and maintenance) of secondary schools, kindergartens, hospitals, children's organizations and land management agency's offices were managed by local governments, to improve their operations, protection and efficiency of local properties. Their required expenditures were added to local base expenditures.
2. From 2019, operational maintenance costs (fixed and variable) of local museums, cultural centers, libraries, theatres and sports centers were financed by the local budget, with the required funding added to the local base expenditure.
3. From 2019, soum and neighborhood health centers started to provide increased varieties of assistance and services, for which the Health Insurance Fund (HIF) finances the additional budget.
4. The budget for recurring social welfare pensions, allowances, exemptions and services was deducted from the 2019 local budget to be directly transferred from the state budget based on the household database.
5. Since 2020, the local budget receives payments for daily brunch fees of MNT 600 per student at elementary schools, a daily meal fee of MNT 1,650 per child in kindergarten and a daily meal fee of MNT 2,315 per student in dormitories.
6. With the objective of enhancing the local budget self-sufficiency percentage of the mining license payment, crude oil license payments and air pollution payments from raw coal exploiters have been allocated to local budgets from 2019. These payments all used to be collected for the state budget. Since this change, the local government is now capable of taking measurements for environmental protection, forest management and air quality improvement, independently. The additional budget sources are: 1) 50 percent of the state budget revenue from the mineral exploration license payment is allocated to the Local Development Fund (LDF) of that respective province; 2) 30 percent of state budget revenues from crude oil license payments, which are added back to the local budget of the province where exploration or exploitation takes place; and 3) 50 percent of the air pollution payment on raw coal exploitation is budgeted for the Local Development Fund (LDF) of the respective province.
7. The LDF source has been steadily declining, reaching its lowest point in 2017. Therefore, a measure to raise the LDF source was taken in 2018, including support from the "Sustainable livelihoods-III" project. This provides annual performance-based support to soum-level LDFs to encourage citizen initiatives and participation.
8. In 2020, due to the global pandemic, all educational institutions were suspended and budgetary bodies' spending authorization for some expenditures were reduced. A supplementary budget with decreased expenditure was thus approved.

3.1.3 TAXATION REVENUE OUTTURN

As indicated in Article 23 of the budget law, budget revenue is comprised of tax and non-tax revenues. Provincial and soum-level CRAs set the tax rates on some items within the limits established by the law, which regulates the tax system and authority granted to them by relevant laws. The taxation revenue of Zavkhan province is illustrated in Figure 5.

Figure 5. TAXATION REVENUE STRUCTURE OF ZAVKHAN PROVINCE, 2016-2020, BY PERCENTAGE



From 2016 to 2020, 11.6-13.9 percent of Zavkhan province's total budget was generated from taxation revenues, structured as follows:

- **66.5-75.1** percent is comprised of income tax/personal income tax from revenues;
- **6.4-10.3** percent is collected from immovable property tax, gun tax and automobile tax revenues;
- **16.9-26** percent is generated from other tax, payment and fee revenues, including state stamp tax, payments for common minerals and hunting resource exploitation, waste management fees, land fees and payments for environmental resource use.

The finance and treasury department is responsible for conducting provincial budget revenues and expenditure proposals, along with collecting, allocating and executing treasury expenditure and financing. It is also tasked with economic analysis and assessments on budget and finance activities, monitoring accounting operations of budget entities and organizations and regular oversight on the budget revenue and expenditure of agencies under the local governor. The department's contribution to the budget revenue proposal is minimal, after the tax department took over this responsibility in Zavkhan province. The taxation revenue outturn of the province is further analyzed from 2018 to 2020 below:

Table 10. BUDGET REVENUE STRUCTURE OF ZAVKHAN PROVINCE, 2018, MNT MILLION

Items	2018						
	Budget proposal	MOF adjusted	Approved by provincial CRA	Adjustment to the proposal	Adjustment to the MOF proposal	Actual	Performance
1. TAXATION REVENUE	5,280.3	6,656.6	6,677.5	1,397.2	20.9	7,925.5	118.7
Income tax	4,377.3	5,437.5	5,437.5	1,060.2	0.0	5,847.5	107.5
Personal income tax	5,377.3	6,267.5	6,267.5	890.2	0.0	6,772.5	108.1
Wages and salaries	4,900.0	5,257.5	5,257.5	357.5	0.0	5,215.4	99.2
Operational income	36.5	130.0	130.0	93.5	0.0	84.9	65.3
Asset income / interest income/			460.8	460.8	460.8	890.2	193.2
Indirect income	440.8	880.0	419.2	-21.6	-460.8	582.0	138.8
Personal income tax refund	-1,000.0	-830.0	-830.0	170.0	0.0	-925.0	111.5
Property income	371.0	418.6	439.5	68.5	20.9	651.7	148.3
Immovable property tax	110.0	125.0	125.0	15.0	0.0	307.4	245.9
Gun tax	41.0	49.5	49.5	8.5	0.0	55.4	111.9
Vehicle tax	220.0	244.1	265.0	45.0	20.9	288.9	109.0
Other tax, fees, charges	532.0	800.5	800.5	268.5	0.0	1,426.4	178.2
Other fees and charges	209.4	304.0	304.0	94.6	0.0	491.1	161.5
Stamp duty fee	120.0	197.0	197.0	77.0	0.0	319.9	162.4
Mineral's exploration and mining fee	9.4	15.0	15.0	5.6	0.0	43.5	289.7
Waste management fee	80.0	92.0	92.0	12.0	0.0	127.7	138.8
Land fee	148.2	190.0	190.0	41.8	0.0	354.2	186.4
Fee for use of natural resources	174.4	306.5	306.5	132.1	0.0	581.1	189.6
Forest/timber	80.0	100.0	100.0	20.0	0.0	239.7	239.7
Wild animal resources				0.0	0.0	137.8	
Water resources	90.0	200.0	200.0	110.0	0.0	194.8	97.4
Plant use	4.4	6.5	6.5	2.1	0.0	8.8	135.4

Source: Provincial CRA Resolution, Finance and Treasury Department's reports

In 2018, Zavkhan province was projected to have taxation revenues of MNT 5,280.3 million, increasing by MNT 1,397.2 million and approved by the MOF at MNT 6,677.5 million. In doing so, all revenues grew, except for Personal Income Tax (PIT).

The draft budget revenue, which was adjusted by the MOF, increased by MNT 20.9 million from the automobile and self-propelled vehicle tax, when it was approved by the provincial CRA. The actual budget revenue outturn was

MNT 7,925.5 million, which was 18.7 percent or MNT 1,248.0 million above the CRA approved budget proposal. When taxation revenue outturn was analyzed by each tax item, every item – except for salary and comparable revenues personal income tax, operational income tax, payment for water and springs – exceeded the proposal by 7.5-189.7 percent.

Table 11. BUDGET REVENUE PROPOSAL OF ZAVKHAN PROVINCE, 2020, MNT MILLION

Items	2020						
	Budget proposal	MOF adjusted	Approved by provincial CRA	Adjustment to the proposal	Adjustment to the MOF proposal	Actual	Performance in %
1. TAXATION REVENUE	6,620.3	7,598.9	7,631.0	1,010.7	32.1	9,292.4	121.8
Income tax	5,401.1	5,907.0	5,907.0	505.9	0.0	6,976.2	118.1
Personal income tax	6,261.1	6,767.0	6,767.0	505.9	0.0	7,650.0	113.0
Wage and salary	5,208.0	5,481.0	5,481.0	272.0	0.0	6,534.0	119.2
Operational income	63.1	86.0	86.0	23.9	0.0	686.1	788.6
Asset income / interest income/	760.0	900.0	900.0	140.0	0.0	229.8	25.5
Indirect income	230.0	300.0	300.0	70.0	0.0	200.2	66.7
Personal income tax refund	-860.0	-860.0	-860.0	0.0	0.0	-753.1	87.6
Income tax of individuals engaged in work and services, income of which cannot be immediately determined				0.0	0.0	79.2	
Property income	407.6	611.9	644.0	236.4	32.1	749.6	116.4
Immovable property tax	130.0	300.0	300.0	170.0	0.0	331.9	110.6
Gun tax	46.6	54.0	54.0	7.4	0.0	59.1	109.4
Vehicle tax	231.0	257.9	290.0	59.0	32.1	358.5	123.6
Other tax, fees, charges	811.6	1,080.0	1,080.0	268.4	0.0	1,566.6	145.1
Other fees and charges	290.9	319.0	319.0	28.1	0.0	407.7	127.8
Stamp duty fee	189.0	210.0	210.0	21.0	0.0	262.3	124.9
Mineral's exploration and mining fee	12.0	17.0	17.0	5.0	0.0	27.7	163.0
Waste management fee	89.9	92.0	92.0	2.1	0.0	117.7	127.9
Land fee	180.0	240.0	240.0	60.0	0.0	276.7	115.3
Fee for use of natural resources	340.7	521.0	521.0	180.3	0.0	865.5	166.1
Forest/timber	120.0	180.0	180.0	60.0	0.0	324.5	180.3
Wild animal resources		85.0	85.0	85.0	0.0	5.3	6.2

Water resources	214.0	250.0	250.0	36.0	0.0	318.6	127.4
Plant use	6.7	6.0	6.0	-0.7	0.0	217.1	3,618.4

Source: Provincial CRA Resolution, Finance and Treasury Department's reports

In 2020, taxation revenue was projected at MNT 6,620.3 million, which was raised by MNT 1,010.7 million and approved by the MOF at MNT 7,631.0 million. The budget revenue proposal, which was adjusted by the MOF, was later increased by another MNT 32.1 million from the automobile and self-propelled vehicle tax when the proposal was approved by the provincial CRA. Taxation revenue outturn at the end of the year was MNT 9,292.4 MNT million, exceeding the adjusted proposal by MNT 1,661.4 million, or 21.8 percent. Taxation revenues from all tax items, except two types of PIT, along with fees from animal hunting and capture permits, exceeded the proposal.

It was concluded that potential streams for taxation revenues were not completely exhausted when conducting the local budget revenue projection. Additionally, even though the local CRA has the authority to increase and approve the base revenue of local budgets, it did not exercise this power except on the automobile and self-propelled vehicle tax when reviewing and approving the MOF adjusted budget proposal. Furthermore, Article 64.1.2 articulates that CRA authorities, in forming and approving the local budget proposal and supplementary budget proposal, approved budgets with increased revenue projections. For instance, the local budget was approved by CRA resolution No.65, dated 29 November 2019, with an additional MNT 250.5 million in revenue, while the 2020 budget proposal increased revenues by MNT 982.0 million, according to the CRA resolution No.78 dated 3 December, 2020.

According to article 8.3 of the Law on Tax, the provincial and capital city's CRA shall establish rates of PIT, immovable property tax, automobile and self-propelled vehicle tax. It shall also set payments for natural resource exploitation licenses, except for minerals, land fees, dog ownership tax, payments for use of plants, water and springs, fees for animal hunting, payments for common minerals exploitation, along with state stamp fees, within limits approved by Parliament. There was no comprehensive information available on the process of setting rates of tax items that should be set by the Zavkhan CRA within approved limits, except for the following resolutions:

Table 12. TAX RATES SET BY ZAVKHAN CRA RESOLUTIONS

Nº	Tax items/types	CRA resolutions
1	Setting monthly tax rates on micro-sales and services providers	Resolution No.58, 2019
2	Setting tax rates on automobiles and self-propelled vehicles	Resolution No.19, 2011
3	Setting tax rates on waste management services on public lands	Resolution No.56, 2019
4	Setting tax rates on immovable properties	Resolution No.58, 2012
5	Setting payment rates and operations of vehicle compound sites	Resolution No.42, 2018
6	Procedures for leasing local property	Resolution No.51, 2019

Source: Provincial CRA Resolution and Tax Department reports, 2021

All soum-level CRAs issued resolutions regarding:

- Waste management fee rates
- Land valuation, boundaries of the land fee zone, land fee rate
- Livestock official tax rate

The CRA resolutions exhibit that tax rates were set at the lowest level of rates suggested by the law and that some resolutions should be updated. For instance, the legally approved rate of immovable property is 0.6-1.0 percent and the Zavkhan CRA decided to apply the lowest rate, 0.6 percent, for this. Furthermore, the Zavkhan CRA resolution No.19, dated 14 March 2011, sets tax rates on automobile and self-propelled vehicles. However, the Law on Automobiles and self-propelled vehicles was amended on July 7th, 2021. Consequently, the tax rate ceiling of automobiles and self-propelled vehicles changed. The amendment will be effective from 1 January, 2022. Therefore, the local CRA should update resolution No.19, 2011.

The MOF applies the minimum tax rates when estimating the base revenue of local budgets. It allows the local CRA to implement a policy to increase the local budget revenue within the limits set by the law. In future, it is recommended that the CRA review legal regulations relevant to the tax rates and introduce amendments or changes where required.

Registrations of immovable properties and land, along with guns and automobiles, were obtained from the registration office and compared against the Tax department's database. In 2020, 8,150 immovable properties were registered at the National Registration office. However, only 1,351 had paid taxes. According to article 7 of the Law on the immovable property tax, immovable property and housing of a legal entity financed by state or local budgets, along with housing at soum and aimag level, and two housing items in the capital city owned by a citizen or legal entity, as well as public infrastructure, are exempt from the tax. However, relevant organizations did not provide the required information on tax-exempted immovable properties. Therefore, the consultant was not able to estimate the actual number of the taxable immovable properties.

There is a difference of 11,060 automobiles between the data provided by the Tax Department and the Transportation Agency of Zavkhan province, a subdivision of the National Agency of Transportation. According to the explanation from the Tax department, the difference is due to a system update implemented in 2020. When updating the system, automobiles which were written-off at the Transportation Agency's database are still active on the Tax Department's database, as they have tax debts. In addition, the MTA moved to a new system in 2020. However, there was a technical issue that registration of the gun holders was entered twice, thereby, causing a difference in the data. Based on these findings, it is advised to substantiate the tax database with the attested statistics from the responsible organizations, since it is the main factor in generating taxation revenue.

Table 13. SAMPLE SURVEY ON TAX IMPOSING BASELINE

	Immovable property	Automobiles/ self-propelled vehicle	Guns
Tax department	1,351	20,599	3,712
National Registration Office	8,150		
Transportation agency in Zavkhan, National Agency of Transportation		11,060	
Firearms registered at Police Department			2,635
Difference	-6,799	9,539	1,026

Source: Tax Department, NRO, NAT statistics, 2021

It is necessary to validate the data by cross-checking with registration agencies and to take significant measures to ensure data accuracy when estimating the taxation revenue.

Taxation revenue is further analyzed at provincial and soum levels. The local budget is comprised of provincial, city, soum and district budgets. From 2016 to 2020, a total of MNT 42,255.3 million was generated into the Zavkhan province budget, with around 23.6 percent or MNT 9,985.9 million of the total generated into the soums' budget, which grew by 120 percent or MNT 1,232.6 million from 2016 to 2020. The remaining MNT 32,269.3 million was collected for the provincial budget. An annual average of MNT 1,997.2 million was generated into the soum budget, while MNT 6,453.9 million, was generated into the provincial budget.

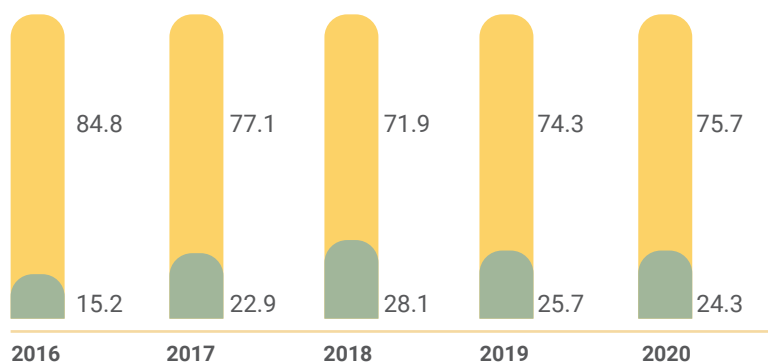
Table 14. ZAVKHAN PROVINCE'S LOCAL BUDGET BY PROVINCE AND SOUM, 2016-2020, MNT MILLION

Years	Total taxation revenue					
	Million. MNT			Percent		
	Soum	Aimag	Amount	Soum	Aimag	Amount
2016	1,026.4	5,745.0	6,771.4	15.16	84.84	100.00
2017	1,935.5	6,507.7	8,443.1	22.92	77.08	100.00
2018	2,370.4	6,075.1	8,445.6	28.07	71.93	100.00
2019	2,394.7	6,908.2	9,302.8	25.74	74.26	100.00
2020	2,259.0	7,033.4	9,292.4	24.31	75.69	100.00
Amount	9,985.9	32,269.3	42,255.3	23.63	76.37	100.00
5-year average	1997.2	6453.9				

Source: GBG budget execution and financial report, Zavkhan province

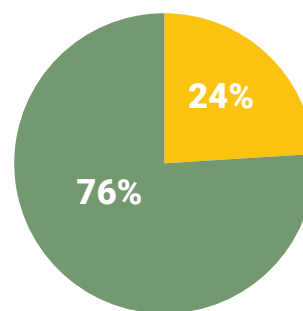
Figure 6: TAX REVENUES GENERATED INTO SOUM, AIMAG BUDGET 2016-2020, PERCENTAGE

Composition of the taxation revenue of the Zavkhan province



● GENERATED TO THE PROVINCIAL BUDGET
● GENERATED TO THE SOUM BUDGETS

Composition of the taxation revenue of the province /average of 2016-2020/



● PROVINCIAL BUDGET ● SOUM BUDGET

Source: Finance and Treasury Department's report, the Governor's Office, 2020

On average, 23.6 percent of the local budget revenue was generated from soums over the last five years. The individual contributions of Uliastai, Tosontsengel and Ikh-Uul to local budget revenue are particularly high, generating 22.1 percent, 9.9 percent and 14.0 percent, respectively. Dorvoljin, Erdenekhairhan, Ider, Numrug, Shiluustei, Yaruu, and Telmen contribute 3-4.6 percent respectively, while the rest produce 1.2-2.9 percent.

Table 15. TAXATION REVENUE OUTTURN OF SOUMS, 2016-2020, MNT MILLION

Soums	Taxation revenue						
	2016	2017	2018	2019	2020	Total taxation revenue 2016-2020	Percentage
ULIASTAI	122.0	577.2	711.0	386.5	406.2	2,203.0	22.1
TOSONTSENGEL	121.9	222.6	293.8	401.4	356.1	1,395.8	14.0
IKH-UUL	91.8	198.9	157.2	148.2	393.4	989.6	9.9
DURVULJIN	44.6	45.4	69.1	111.7	191.7	462.4	4.6
ERDENEKHAIRKHAN	68.0	97.2	105.6	100.6	80.7	452.2	4.5
IDER	51.1	72.6	116.4	97.9	98.8	436.8	4.4
NUMRUG	26.7	61.6	76.4	183.3	42.2	390.2	3.9
SHILUUSTEI	60.4	55.4	89.3	108.5	34.4	348.0	3.5
YARUU	25.7	36.2	67.6	146.1	56.0	331.6	3.3
TELMEN	31.3	48.7	68.3	90.4	58.1	296.9	3.0
TUDEVTEI	34.5	39.8	44.2	85.6	81.4	285.5	2.9
ALDARKHAAN	31.1	32.5	51.4	70.5	72.2	257.5	2.6
BAYANKHAIRKHAN	36.5	48.0	48.7	49.5	47.5	230.2	2.3
OTGON	23.0	35.2	51.2	63.5	42.7	215.7	2.2
TSETSEN-UUL	24.9	36.5	50.5	48.4	50.5	210.8	2.1
BAYANTES	29.9	39.4	42.4	42.6	46.1	200.5	2.0
SONGINO	32.7	49.3	49.4	24.5	32.0	187.9	1.9
TES	27.0	53.2	51.6	25.3	29.1	186.2	1.9
SANTMARGAZ	29.4	37.0	54.7	49.5	12.1	182.7	1.8
URGAMAL	23.2	27.6	34.9	57.9	28.1	171.7	1.7
TSAGAANKHAIRKHAN	22.8	36.6	35.6	42.8	33.4	171.2	1.7
ZAVKHANMANDAL	28.9	28.5	36.2	16.5	32.1	142.2	1.4
ASGAT	19.3	29.2	30.4	27.3	13.5	119.8	1.2

TSAGAANCHULUUT	19.7	26.8	34.3	16.3	20.6	117.8	1.2
SOUM BUDGET REVENUE AMOUNT	1,026.4	1,935.5	2,370.4	2,394.7	2,259.0	9,985.9	23,6
PROVINCIAL BUDGET REVENUE AMOUNT	5,745.0	6,507.7	6,075.1	6,908.2	7,033.4	32,269.3	76,4
TOTAL BUDGET REVENUE	6,771.4	8,443.1	8,445.6	9,302.8	9,292.4	42,255.3	100.0

Source: Finance and Treasury Department's Report, the Governor's Office, 2020

In addition, after analyzing taxation revenue financing of the budget expenditure, Erdenekhairkhan soum had financed 6.6 percent of soum budget expenditure from soum taxation revenue, the highest performance, while Tsagaanchuluut soum financed only 1.68 percent, the lowest among the soums.

Table 16. RATIO OF REVENUES IN SOUM BUDGET EXPENDITURE, MNT MILLION

Soums	Total budget expenditure							
	2016	2017	2018	2019	2020	Total budget expenditure 2016-2020	Total taxation revenue 2016-2020	%
ERDENEKHAIRKHAN	1,125.8	1,304.2	1,265.2	1,555.3	1,596.6			
IKH-UUL	2,552.8	2,714.9	2,690.5	3,362.9	3,696.6	15,017.7	989.6	6.59
DURVULJIN	1,379.1	1,327.0	1,327.6	1,614.6	1,912.5	7,560.8	462.4	6.12
TOSONTSENGEL	3,930.7	4,504.2	4,510.1	5,281.3	6,426.2	24,652.4	1,395.8	5.66
SHILUUSTEI	1,134.6	1,235.0	1,293.0	1,425.8	1,594.0	6,682.3	348.0	5.21
YARUU	1,226.2	1,081.5	1,129.1	1,365.1	1,630.1	6,431.9	331.6	5.16
IDER	1,427.8	1,655.7	1,466.2	1,871.4	2,098.8	8,519.9	436.8	5.13
NUMRUG	1,564.9	1,560.2	1,509.6	1,796.9	2,039.4	8,471.0	390.2	4.61
TUDEVTEI	1,117.3	1,187.0	1,425.2	1,497.4	1,609.7	6,836.6	285.5	4.18
ALDARKHAAN	1,101.7	1,155.0	1,173.4	1,454.9	1,596.2	6,481.1	257.5	3.97
ULIASTAI	10,053.9	10,765.9	10,946.6	11,666.1	12,577.5	56,010.1	2,203.0	3.93
TELMEN	1,531.7	1,499.1	1,555.0	2,003.4	2,372.6	8,961.8	296.9	3.31
BAYANKHAIRKHAN	1,258.6	1,212.3	1,227.3	1,613.1	1,742.8	7,054.0	230.2	3.26
TSAGAANKHAIRKHAN	1,023.3	1,057.9	1,016.8	1,224.0	1,482.9	5,805.0	171.2	2.95
TSETSEN-UUL	1,288.3	1,339.7	1,449.7	1,623.3	1,845.0	7,546.0	210.8	2.79
SONGINO	1,256.4	1,287.7	1,278.7	1,575.1	1,715.0	7,112.9	187.9	2.64
OTGON	1,420.0	1,527.9	1,458.5	1,857.2	2,059.1	8,322.6	215.7	2.59

URGAMAL	1,055.7	1,239.0	1,268.2	1,408.8	1,746.0	6,717.7	171.7	2.56
ZAVKHANMANDAL	986.8	1,114.2	1,075.7	1,285.1	1,432.6	5,894.5	142.2	2.41
SANTMARGATS	1,352.3	1,407.5	1,351.5	1,678.1	2,048.2	7,837.7	182.7	2.33
BAYANTES	1,830.1	1,692.3	1,760.8	2,015.2	2,304.3	9,602.6	200.5	2.09
ASGAT	1,074.2	1,062.0	1,129.4	1,394.4	1,742.4	6,402.5	119.8	1.87
TES	1,900.0	2,040.7	1,942.3	2,209.9	2,461.2	10,554.2	186.2	1.76
TSAGAANCHULUUT	1,210.0	1,184.4	1,156.2	1,608.7	1,853.0	7,012.3	117.8	1.68
Soum total	43,802.3	46,155.5	46,406.5	54,387.7	61,582.7	252,334.7	9,985.9	3.96
Aimag budget	15,113.1	15,201.5	19,418.4	12,320.6	14,874.0	15,385.5	32,269.3	209.74
Total	58,915.3	61,357.0	65,824.9	66,708.3	76,456.7	267,720.2	42,255.3	15.78

Source: GBG's Financial Report, Zavkhan province

Taxation revenue outturn at the provincial level finances only 15.8 percent of budget expenditure. However, this performance is even lower, a mere 10 percent. In other words, soums finance around 90 percent of their expenditures from the upper-level budget financial support and financing.

3.1.4 NON-TAX REVENUE OUTTURN

Non-tax revenue is another component of local budget revenue. It consists of the following sources:

- Local share dividends from partly state and locally owned enterprises;
- Sales revenue and charges for the use of state and local property, proceeds from privatisation, sale and renting of state and local property, fines, revenue from non-core activities of the budgetary body;
- Loans and grants obtained from foreign countries and/or international organisations and;
- Other types of revenue generated into the budget, in accordance with respective laws.

Budget revenues generated from budget entities' own operations are planned, recorded and reported as follows at the local level:

1. Revenues from budget entities' own operations
2. LDF loan payment and interest revenue

The LDF must meet a requirement set by article 4.1.50 of the Budget Law: a "revolving fund means an account where expenditures specified in the law can be financed from the revenue generated by sources specified in the law and (by) which balance is not mobilized into the budget at the end of the year". LDF is regulated by Government decree No. 153, 2016 on "Regulation for LDF revenue generation, spending, reporting and monitoring." It is designed to provide soft loans and financial support to establish small and medium scale enterprises, or to expand operations of existing enterprises.

The soum CRA also approves revenues from loan and interest payments, along with loan expenditures and operations of the fund when discussing and approving an annual budget. LDF is further analyzed separately in another chapter.

Table 17. CHANGES IN NON-TAX REVENUE, 2018-2020, MNT MILLION

Indicators	2018	2019	2020
NON-TAX REVENUE	2,080.9	2,259.6	3,626.3
Non-tax revenue	2,080.9	2,259.6	3,626.3
Stock dividend	0.0	0.0	0.0
Interest income	0.0	552.9	1094.3
Penalty income / Fine	0.0	27.8	763.1
Revenues from budget entities' own operations	2,080.9	1,672.6	1,639.3
Of which: LDF revenue	1,469.4	1,308.3	1,446.6
Budget entity's revenue	611.5	364.3	192.7
Other income	0.0	6.2	129.6

Source: Tax Department report, Zavkhan province, 2021

Non-tax revenue of Zavkhan province has been growing over the last three years. This growth is primarily accrued due to the savings' interest rate revenue and interest, along with a penalty fee revenue increase related to implementation of the Law on Infringement. Zavkhan province's GBG consolidated financial statement illustrates local government owned enterprises' (LoEs) outcomes as follows:

Table 18. LOES FINANCIAL STATEMENTS, 2020, MNT MILLION

Name	Accumulated results as of Dec 31, 2020
Ami-Uus trade	-1,132.0
Western region's Olympic preparation center	-34.1
Ochir-Ilch	-919.5
Toson ochirt khairkhan	-926.2
Shine durvuljin	-0.7

Source: Finance and Treasury Department report, the Governor's Office, 2021

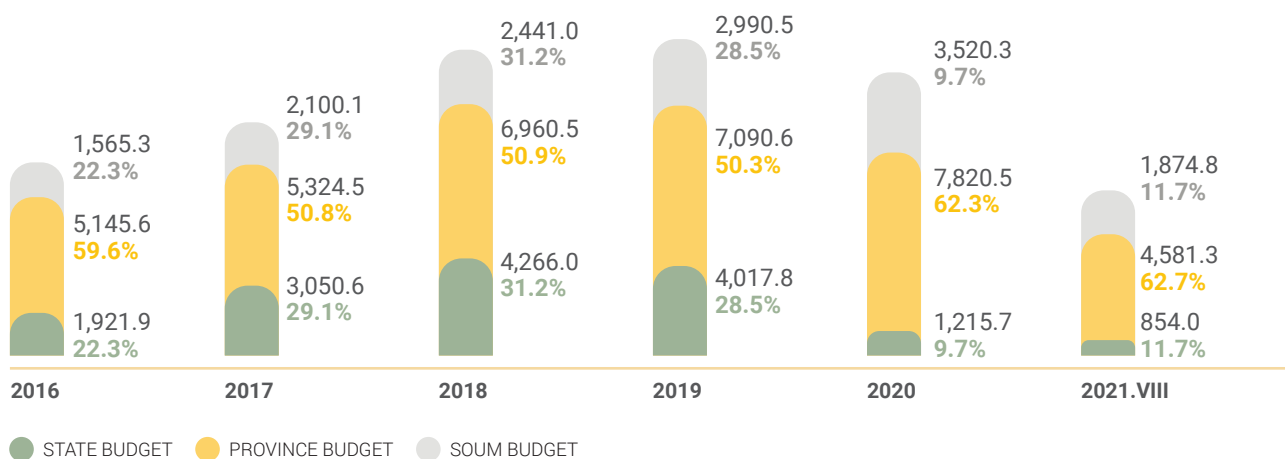
This shows that LoEs are operating with losses and did not contribute to the budget from their share dividends.

The 2022 budget proposal submitted to Parliament includes policy reform for governance and structure, as well as a policy on share dividends with the purpose of improving the profitability of state-owned or partially state-owned enterprises. It also aims to strengthen their governance, transparency, and accountability, to increase their budget revenues. With this objective, Zavkhan province should implement a policy and measures to eliminate loss and improve the profitability of LoEs to contribute to the local budget.

Budget entities' revenue started declining from 2018. This was explained by the fact that art and cultural budget entities stopped providing proposals to the local budget, and instead began dedicating the revenue from their activities towards improving the social welfare of sector employees, from 2019.

The amendment to the "Law on administrative and territorial units and their governance," effective from 2022, defined the soum as the "primary unit" of administration for the first time. Corresponding amendments to the "Law on Budget" introduce specific actions to increase soum and district budget revenues. For instance, soum and district budgets used to collect 40 percent of the land fee, which will become 100 percent. More importantly, all revenues from the PIT will be collected into soum and district budgets, instead of provincial or district budget revenues. Similarly, immovable property tax revenues will be generated into soum and district budgets as well. The Law on Livestock Tax has been passed and the resulting revenue will be collected for soum and district budgets. The provinces and capital city will collect 40 percent of corporate income tax, as they contribute to private sector development – the only way to increase revenue from corporate tax. Economic foundations of local areas are also directly linked to the budget revenue. It is evident that financial support and revenue transfers from the state budget as stated in the Law on Budget will still be essential for local budgets, in addition to tax and non-tax revenues (local revenues). In relation to amendments to the Law on budget, including changes in revenue classifications, Zavkhan province's local budget revenues of soums and their revenues generated into provincial and state budgets, are analyzed as follows:

Figure 7. REVENUES GENERATED INTO THE BUDGET, 2021, MNT MILLION



Source: Tax Department report, Zavkhan province, 2021

According to the 2020 budget revenue outturn, 24 soums in Zavkhan province contributed 1.2 billion MNT to the state budget, 7.8 billion MNT to the provincial budget and 3.5 billion MNT to soum budgets. This equals 28 percent of the total revenue outturn, while the remaining 72 percent was allocated to state and provincial budgets. In 2020, local revenue generated to the state budget declined by 2.3 times (2.8 billion MNT), because corporate tax of the "Bayan-Airag exploration" company which operates in Durvuljin soum used to record in the provincial tax revenue before transferring to the state budget. However, from last year, the corporate tax is directly transferred into state tax. In addition, VAT and corporate income tax revenues declined since the end of 2019, due to the COVID-19 global pandemic, which hampered business operations, causing a financial crisis.

The amendment to the "Law on administrative and territorial units and their governance," effective from 2022, expands the functional roles of soums. Consequently, local expenditures have risen. Below is the estimation of additional revenues, which will be generated into the soum budget due to the changes in the Law on Budget:

Table 19. IMPACT ON TAXATION REVENUE, 2020, MNT MILLION

Soums	Salary and its equivalent income tax	Immoveble property tax	Land fee	40% of land fee	Additional tax revenue which is generated to the soum budget due to legislative amendments
ALDARKHAAN	67.0	4.2	0.6	0.2	72.1
ASGAT	64.8	1.7	0.5	0.2	67.2
BAYANTES	90.9	0.2	0.4	0.2	91.7
BAYANKHAIRKHAN	103.7	1.5	0.4	0.2	105.7
DURVULJIN	328.8	75.8	138.7	55.5	598.9
ZAVKHANMANDAL	64.3	0.1	0.2	0.1	64.7
IDER	95.3	1.9	0.6	0.2	97.9
IKH-UUL	169.4	1.0	2.0	0.8	173.3
NUMRUG	65.0	3.5	0.8	0.3	69.5
OTGON	73.7	0.9	0.4	0.1	75.1
SANTMARGAZ	85.8	1.4	0.4	0.2	87.8
SONGINO	101.1	0.0	0.4	0.1	101.6
TOSONTSENGEL	537.8	8.7	12.2	4.9	563.5
TUDEVTEI	92.0	1.6	0.7	0.3	94.6
TES	286.1	1.0	0.6	0.2	287.9
TELMEN	93.7	2.2	0.9	0.4	97.2
URGAMAL	67.3	2.1	0.4	0.2	70.0
ULIASTAI	3,280.0	159.4	155.3	62.1	3,656.9
TSAGAANKHAIRKHAN	64.7	1.4	0.4	0.2	66.7
TSAGAANCHULUUT	74.3	0.6	0.2	0.1	75.1
TSETSE-UUL	74.2	0.8	0.3	0.1	75.3
SHILUUSTEI	80.6	0.8	0.7	0.3	82.3
ERDENEKHAIRKHAN	75.7	5.1	0.6	0.2	81.6
YARUU	68.1	2.0	0.3	0.1	70.5
Total	6,104.2	278.0	317.9	127.1	6,827.2

Source: Estimated using the data from the revenue outturn from 2018 and 2019, Zavkhan province

The 2020 amendment to the Law on Budgets adds livestock tax revenue to the LDF sources. It stipulates that the revenue be spent on strengthening rangeland management, improving rangeland and cropland water supply and animal health services. It also calls for spending on preventing infectious diseases, enhancing livestock quality, supporting natural disaster preparedness, increasing precipitation and animal fodder crop production, establishing a fodder reserve, protecting the environment, fighting rodents and financing training and awareness activities for herders. The law on Livestock tax was also ratified by Parliament. It indicates that the tax ceiling per livestock is MNT 2,000

and that the soum or district CRA will decide the tax rate on each livestock type within this ceiling in the specific tax year. Soum CRAs in Zavkhan voted to set the following tax rates on average at: horse – MNT 540, cattle – MNT 415, sheep – MNT 252 and goats – MNT 351.

Table 20. LIVESTOCK NUMBER AND ESTIMATION OF LIVESTOCK TAX REVENUE, 2021

Soums	Livestock number by 2020 livestock census						Budget proposal /MNT million
	All	Horse	Cow	Camel	Sheep	Goat	
ALDARKHAAN	282.9	17.4	16.9	0.5	108.6	139.6	92.4
ASGAT	47.4	3.2	3.8	0.0	21.7	18.8	15.8
BAYANTES	172.5	8.9	9.5	0.2	64.9	89.1	58.7
BAYANKHAIRKHAN	121.1	6.5	7.7	0.0	67.7	39.2	34.8
DURVULJIN	176.7	12.0	4.3	2.4	64.4	93.5	62.7
ZAVKHANMANDAL	101.8	4.6	2.3	0.2	44.9	49.8	36.8
IDER	125.8	10.1	10.9	0.0	70.5	34.3	43.4
IKH-UUL	249.1	19.7	31.9	0.1	139.6	57.8	76.1
NUMRUG	123.4	13.5	11.0	0.0	65.7	33.2	46.6
OTGON	202.8	13.9	14.7	0.2	99.4	74.6	97.5
SANTMARGAZ	155.7	10.8	6.9	0.8	72.6	64.6	47.8
SONGINO	124.3	8.2	7.1	0.0	65.7	43.2	37.6
TOSONTSENGEL	166.1	17.8	19.0	0.0	77.1	52.1	94.7
TUDEVTEI	114.8	9.8	8.2	0.0	65.1	31.8	35.1
TELMEN	150.9	12.7	11.1	0.2	92.3	34.7	88.5
TES	119.2	7.7	8.3	0.1	53.2	49.9	37.5
URGAMAL	114.1	6.2	2.5	2.1	53.4	49.9	32.1
TSAGAANKHAIRKHAN	99.0	4.2	6.0	0.0	47.7	41.1	26.4
TSAGAANCHULUUT	104.4	7.5	4.0	0.4	49.5	43.0	28.1
TSETSE-UUL	170.4	7.2	6.8	0.3	100.5	55.7	45.2
SHILUUSTEI	122.1	6.0	6.5	0.2	51.8	57.6	33.2
ERDENEKHAIRKHAN	213.4	10.3	7.3	0.2	132.5	63.2	32.9
YARUU	202.5	12.5	8.3	0.1	128.4	53.2	55.7
ULIASTAI	147.3	6.4	10.1	0.1	62.6	68.3	39.5
Total	3,607.8	236.8	225.0	8.1	1,799.8	1,338.2	1,199.1

Source: NSO, 1212.mn, & legalinfo.mn

3.2 Analysis of budget expenditure outturn

The total budget expenditure of Zavkhan province from 2016 to 2020 ranges from 91 percent, to 98 percent. The highest outturn accrues to 2018, while the lowest was in 2020, with a balance of MNT 7,559.3 million due to the global pandemic, during which time arts, cultural and educational institutes did not operate, due to Government and State Emergency Commission decisions.

Table 21. ZAVKHAN BUDGET EXPENDITURE, 2016-2020, MNT MILLION

Year	Budget	Actual	Performance	Variance
2016	60,158.1	58,915.3	97.9	1,242.8
2017	63,334.8	61,357.0	96.9	1,977.8
2018	67,153.3	65,824.9	98.0	1,328.4
2019	68,576.1	66,708.3	97.3	1,867.8
2020	84,016.0	76,456.7	91.0	7,559.3
Amount	343,238.2	329,262.2	95.9	13,976.1

Source: Finance and Treasury Department's report, the Governor's Office, 2021

The budget expenditure analysis is conducted in accordance with article 22 of the Law on Budgets. It includes analysis:

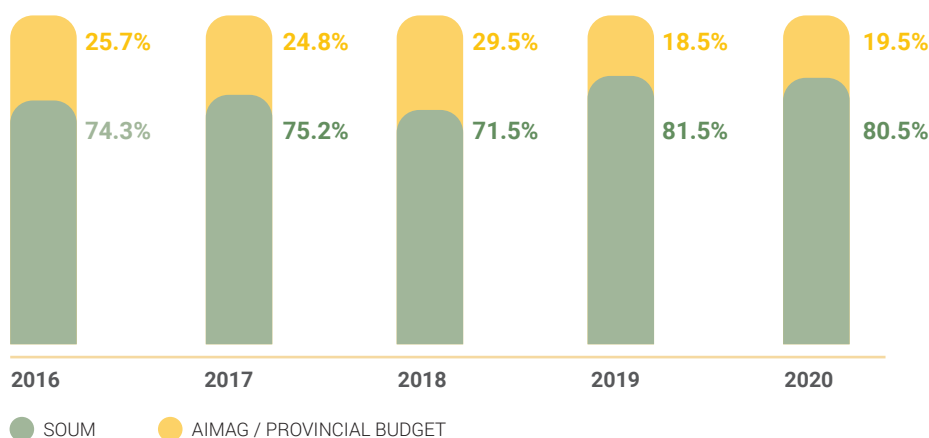
- **By budget level**
- **By budget governors**
- **By economic classification**
- **By programmes and activities**
- **By financing sources**

3.2.1 EXPENDITURE ANALYSIS - BY BUDGET LEVEL

Article 21 of the Law on Budgets states that the local budget is comprised of aimag, capital city, soum and district budgets. To analyze Zavkhan's budget expenditure by budget levels, the consultant estimated the percentages of provincial and soum budget expenditures. From 2016 to 2020, total budget expenditure was MNT 329,262.2 million, of which 76.6 percent was soum spending and 23.4 percent was provincial budget expenditure. Each year, soum-level budget expenditure ranged from 70.5 to 81.5 percent, while provincial budget expenditure was 18.5 to 29.5 percent.

Figure 8. ZAVKHAN BUDGET EXPENDITURE BY BUDGET LEVELS, 2016-2020, BY PERCENTAGE

Composition of the budget expenditure of the province



Source: Finance and Treasury Department's report, the Governor's Office, 2021

When compared against 2016, the budget expenditure of 2020 increased by 29.8 percent or MNT 17,541.4 million, while sum budget expenditure increased by 6.2 percent, or MNT 17,780.4 million and province budget expenditure percent decreased by 6.2 percent, or MNT 239.1 million. Provincial budget expenditures include spending by budget entities, such as local government offices, the CRA, environment and tourism agency, along with LoEs, which is directly financed from the local budget. When the percentages of each sum budget expenditure were reviewed, all sums except Uliastai, Tosontsengel and Ikh-Uul were below 5 percent.

Table 22. BUDGET EXPENDITURES OF ZAVKHAN PROVINCE'S SOUMS, 2016-2020, MNT MILLION

Indicators	2016	2017	2018	2019	2020	Expenditure	Percentage
TSAGAANKHAIRKHAN	1,023.3	1,057.9	1,016.8	1,224.0	1,482.9	5,805.0	2.3
ZAVKHANMANDAL	986.8	1,114.2	1,075.7	1,285.1	1,432.6	5,894.5	2.3
ASGAT	1,074.2	1,062.0	1,129.4	1,394.4	1,742.4	6,402.5	2.5
YARUU	1,226.2	1,081.5	1,129.1	1,365.1	1,630.1	6,431.9	2.5
ALDARKHAAN	1,101.7	1,155.0	1,173.4	1,454.9	1,596.2	6,481.1	2.6
SHILUUSTEI	1,134.6	1,235.0	1,293.0	1,425.8	1,594.0	6,682.3	2.6
URGAMAL	1,055.7	1,239.0	1,268.2	1,408.8	1,746.0	6,717.7	2.7
TUDEVTEI	1,117.3	1,187.0	1,425.2	1,497.4	1,609.7	6,836.6	2.7
ERDENEKHAIRKHAN	1,125.8	1,304.2	1,265.2	1,555.3	1,596.6	6,847.1	2.7
TSAGAANCHULUUT	1,210.0	1,184.4	1,156.2	1,608.7	1,853.0	7,012.3	2.8
BAYANKHAIRKHAN	1,258.6	1,212.3	1,227.3	1,613.1	1,742.8	7,054.0	2.8
SONGINO	1,256.4	1,287.7	1,278.7	1,575.1	1,715.0	7,112.9	2.8
TSETSE-UUL	1,288.3	1,339.7	1,449.7	1,623.3	1,845.0	7,546.0	3.0
DURVULJIN	1,379.1	1,327.0	1,327.6	1,614.6	1,912.5	7,560.8	3.0

SANTMARGAZ	1,352.3	1,407.5	1,351.5	1,678.1	2,048.2	7,837.7	3.1
OTGON	1,420.0	1,527.9	1,458.5	1,857.2	2,059.1	8,322.6	3.3
NUMRUG	1,564.9	1,560.2	1,509.6	1,796.9	2,039.4	8,471.0	3.4
IDER	1,427.8	1,655.7	1,466.2	1,871.4	2,098.8	8,519.9	3.4
TELMEN	1,531.7	1,499.1	1,555.0	2,003.4	2,372.6	8,961.8	3.6
BAYANTES	1,830.1	1,692.3	1,760.8	2,015.2	2,304.3	9,602.6	3.8
TES	1,900.0	2,040.7	1,942.3	2,209.9	2,461.2	10,554.2	4.2
IKH-UUL	2,552.8	2,714.9	2,690.5	3,362.9	3,696.6	15,017.7	6.0
TOSONTSENGEL	3,930.7	4,504.2	4,510.1	5,281.3	6,426.2	24,652.4	9.8
ULIASTAI	10,053.9	1,0765.9	10,946.6	11666.1	12577.5	56,010.1	22.2
Amount	43,802.3	46,155.5	46,406.5	54,387.7	61,582.7	252,334.7	76.6
Provincial budget	15,113.1	15,201.5	19,418.4	12,320.6	14,874.0	76,927.5	23.4
Total expenditure	58,915.3	61,357.0	65,824.9	66,708.3	76,456.7	329,262.2	100.0

Source: GBG budget execution and financial report, Zavkhan province

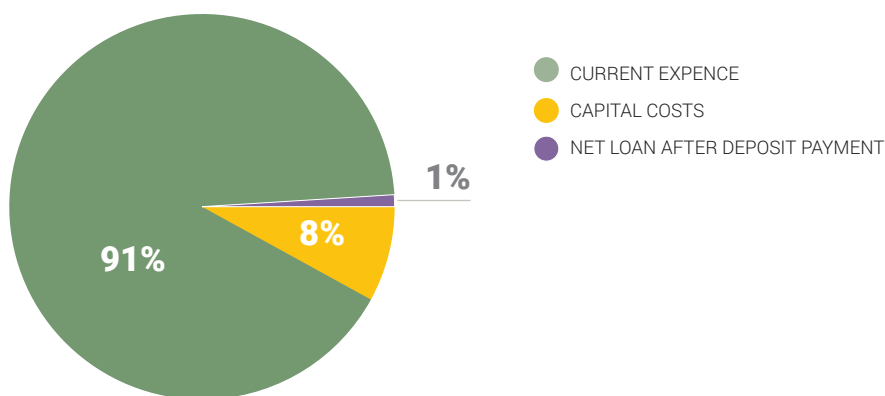
3.2.2 EXPENDITURE ANALYSIS - BY ECONOMIC CLASSIFICATION

The budget is prepared, executed and reported in accordance with the economic classification indicated by the Finance Minister's Order No.7 of 2015. The budget proposal is developed following the "Guidance for estimating the local budget base expenditure," which is Government Order No. 445 of 2019. When analyzing the budget expenditure by economic classification, the consultant accessed the budget outturn and consolidated financial statements from the GBG of Zavkhan province. The economic classification of budget expenditure is as follows:

- **Current expenses:**
 - Wages and salaries, social protection expenses
 - Costs associated with the use of premises
 - Operational expenses of civil servants
 - Other current expenses
- **Capital costs**
- **Net loan after deposit payment / loan financed by the Soum Development Fund (SDF)**

Throughout the research period, 91 percent of budget expenditure was allocated to recurring expenses, 8 percent to capital costs and the remaining was spent on the loan.

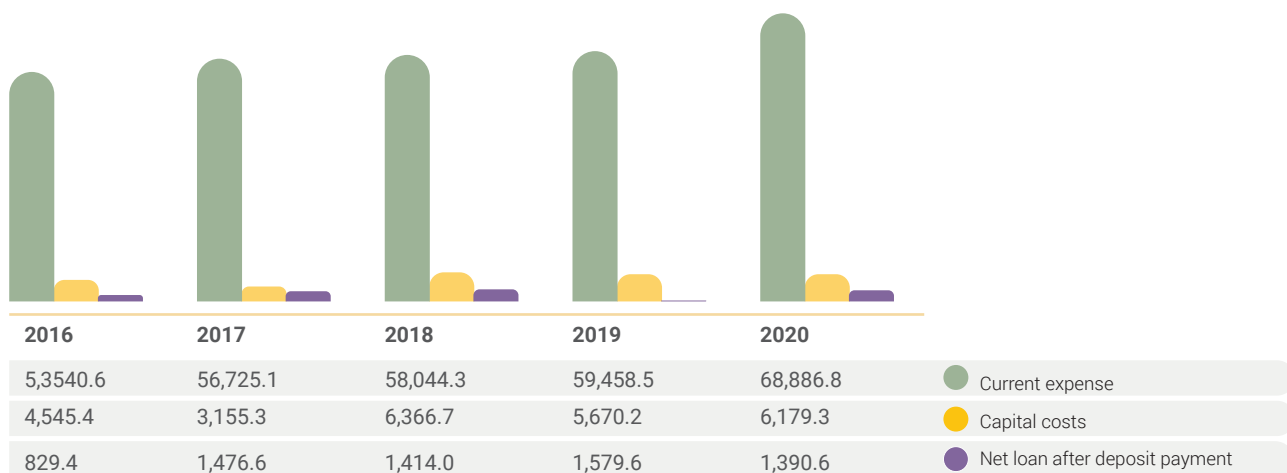
Figure 9. LOCAL BUDGET EXPENDITURE STRUCTURE, 2020, PERCENTAGE



Source: Finance and Treasury Department's report, the Governor's Office, 2021

The following figure illustrates the total budget expenditure, recurring expenses, capital costs and loan costs each year.

Figure 10. BUDGET EXPENDITURE OF ZAVKHAN PROVINCE, BY ECONOMIC CLASSIFICATION, MNT MILLION



The following figure illustrates total budget expenditure, recurring expenses, capital costs and loan costs each year.

Recurring expenses of budget entities include:

● **Wages and salaries, plus social welfare expenses:**

- Salaries and allowances in accordance with standard norms
- Social and health insurances
- One-off benefits, allowances, bonuses

● **Fixed expenses related to office buildings:**

- Heating
- Electricity

- Clean water and sewerage
- Office rent
- **Operational expenses of civil servants:**
 - Stationery
 - Transportation, fuel
 - Travel and guest expenses
 - Clothing and bedding
 - Inventory of low cost, non-durable goods
 - Health and safety items
- **Other expenses:**
 - Other common payments for contracted outsourced works
 - Training expenses
 - Renovation expenses
 - Tools and appliances expenses
 - Postal, telecommunication and internet connection expenses
 - Books and press
 - Garbage removal, disinfection
 - Reserve fund of the Governor
- **Capital costs include:**
 - Purchase or construction of locally-owned buildings and facilities
 - Renovation of locally-owned buildings, facilities and equipment
 - Procurement of furniture, equipment and vehicles

Capital costs are planned and implemented through local investments and the LDF. The capital cost was at its lowest point in 2017 within the reporting period, at MNT 3,155.3 million. Since 2018, certain measurements to increase LDF sources were implemented. This includes general support from the SLP-III project to encourage citizen participation and performance-based incentives to soum LDFs. Detailed information on the capital cost is included in the section “Local investment and LDF planning and implementation”. The list of projects, programmes and activities to implement the capital cost must be approved and implemented, adhering to the “Operational guideline of the LDF,” which was updated by the Minister of Finance’s Order No. 86 from 2021, and the “Guideline for budget investment planning, financing, monitoring and reporting,” approved by the Minister of Finance’s Order No.415 in 2016.

Loans from the Soum Development Fund were classified as net loans after deposit payments were planned, dispursed and reported. The repayment and interest income are sources of LDF loans, while annual revenue and expenditure of the LDF is approved by the soum CRA and disbursed as instructed by Government Decree No. 153, 2016, “Guidelines for LDF capital recording, spending, reporting and monitoring”. Thus, the amount of loan capital available for a particular year depends on loan repayment and interest incomes. More detailed information on LDF planning and performances can be found under “LDF planning and performance”.

Table 23. BUDGET EXPENDITURE OF ZAVKHAN PROVINCE BY ECONOMIC CLASSIFICATION, 2016-2020, MNT MILLION

Indicators	2016		2017		2018		2019		2020		2020 vs 2016	
	Amount	%CE	Amount	%CE	Amount	%CE	Amount	%CE	Amount	%CE	Amount	%CE
CURRENT EXPENSES	53,540.6		56,725.1		58,044.3		59,458.5		68,886.8		15,346.2	
COST OF GOODS AND SERVICES	44,095.5	82.36	44,823.9	79.02	47,865.6	82.46	58,105.4	97.72	67,672.2	98.24	23,576.7	15.88
Wages and salaries, bonuses	28,804.8	53.80	28,627.5	50.47	29,854.3	51.43	36,204.2	60.89	43,552.3	63.22	14,747.5	9.42
Base salary	23,788.0	44.43	23,726.0	41.83	22,856.2	39.38	27,474.9	46.21	31,116.3	45.17	7,328.3	0.74
Additional remuneration	23,34.1	4.36	2,508.9	4.42	4,379.6	7.55	5,989.2	10.07	8,765.8	12.72	6,431.8	8.37
Meal and transportation allowance	49.8	0.09	60.9	0.11	188.4	0.32	268.3	0.45	327.4	0.48	277.5	0.38
Bonus	1,357.3	2.54	1,051.7	1.85	1,264.0	2.18	1,798.2	3.02	2,594.7	3.77	1,237.4	1.23
Contracted work fee	1,275.7	2.38	1,280.1	2.26	1,166.1	2.01	673.6	1.13	748.2	1.09	-527.5	-1.30
Social insurance contributions paid by employers	3,313.9	6.19	3,160.7	5.57	3,592.9	6.19	4,554.5	7.66	5,728.5	8.32	2,414.6	2.13
Pension insurance	2,279.8	4.26	2,190.6	3.86	2,496.5	4.30	3,151.0	5.30	4,006.6	5.82	1,726.8	1.56
Welfare insurance	196.0	0.37	223.8	0.39	262.4	0.45	364.2	0.61	443.1	0.64	247.1	0.28
Insurance on industrial accidents and occupation specific illness	245.1	0.46	218.3	0.38	219.9	0.38	276.6	0.47	343.5	0.50	98.4	0.04
Unemployment insurance	63.4	0.12	55.7	0.10	61.5	0.11	69.0	0.12	91.5	0.13	28.2	0.01
Health insurance	529.6	0.99	472.3	0.83	552.6	0.95	693.7	1.17	843.7	1.22	314.1	0.24
Fixed expenses related to office building	4,904.4	9.16	5,448.7	9.61	5,778.6	9.96	6,284.8	10.57	7,495.3	10.88	2,591.0	1.72
Electricity	354.9	0.66	373.2	0.66	389.7	0.67	460.0	0.77	397.2	0.58	42.2	-0.09
Heating	4,400.6	8.22	4,915.3	8.67	5,219.3	8.99	5,657.6	9.52	6,940.0	10.07	2,539.4	1.86
Clean water & sewerage	137.6	0.26	151.6	0.27	161.1	0.28	167.0	0.28	158.2	0.23	20.5	-0.03
Office rent	11.2	0.02	8.6	0.02	8.6	0.01	0.3	0.00	0.0	0.00	-11.2	-0.02
Office supplies and inventory	1,344.7	2.5	1,360.4	2.4	1,772.8	3.1	1,751.9	2.9	1,930.8	2.8	586.0	0.29
Stationery	159.2	0.30	178.1	0.31	225.7	0.39	295.2	0.50	332.2	0.48	173.1	0.19
Transportation, fuel	786.5	1.47	860.9	1.52	1,034.4	1.78	1,072.2	1.80	1,002.5	1.46	216.0	-0.01
Postal, telecommunication and internet connection expenses	125.6	0.23	124.5	0.22	136.9	0.24	158.2	0.27	205.7	0.30	80.1	0.06
Books and press	17.7	0.03	17.0	0.03	20.6	0.04	21.0	0.04	47.2	0.07	29.5	0.04
Garbage removal, disinfection	51.5	0.10	44.8	0.08	66.5	0.11	17.8	0.03	20.4	0.03	-31.1	-0.07
Inventory of low cost, non durable goods	204.3	0.38	135.0	0.24	288.7	0.50	187.6	0.32	322.8	0.47	118.5	0.09
Standard cost	2,643.5	4.94	2,572.8	4.54	2,702.1	4.66	2,991.8	5.03	2,428.8	3.53	-214.7	-1.41
Medicines	300.3	0.56	337.9	0.60	317.1	0.55	452.8	0.76	437.3	0.63	137.0	0.07
Meal	2,252.8	4.21	2,110.4	3.72	2,219.3	3.82	2,368.2	3.98	1,782.0	2.59	-470.8	-1.62
Clothing and bedding	90.4	0.17	124.5	0.22	165.7	0.29	170.8	0.29	209.5	0.30	119.1	0.14
Furniture, current repair expenses	341.3	0.64	473.9	0.84	549.5	0.95	453.4	0.76	384.2	0.56	42.9	-0.08
Purchase of tools and appliances	27.2	0.05	30.5	0.05	32.5	0.06	97.6	0.16	136.3	0.20	109.1	0.15
Furniture	27.3	0.05	0.0	0.00	4.7	0.01	3.1	0.01	17.2	0.02	-10.1	-0.03

Health and safety items	3.4	0.01	0.0	0.00	0.0	0.00	3.4	0.01	6.5	0.01	3.1	0.00
Renovation expenses	283.4	0.53	443.3	0.78	512.3	0.88	349.3	0.59	224.2	0.33	-59.2	-0.20
Travel and guest expenses	207.6	0.39	230.5	0.41	255.1	0.44	484.3	0.81	214.6	0.31	7.0	-0.08
Domestic trip expenses	207.6	0.39	230.5	0.41	255.1	0.44	484.3	0.81	214.6	0.31	7.0	-0.08
Work, service payment, fee performed by others	957.8	1.79	978.5	1.73	1,260.7	2.17	2,825.8	4.75	2,599.3	3.77	1,641.5	1.98
Other common payments for contracted out-of-work services and work	925.6	1.73	947.2	1.67	1,231.9	2.12	2,580.8	4.34	2,328.9	3.38	1,403.3	1.65
Audit, credit rating and certification fee	8.4	0.02	8.5	0.01	8.6	0.01	14.2	0.02	19.7	0.03	11.3	0.01
Insurance service	10.6	0.02	7.6	0.01	7.0	0.01	18.2	0.03	19.6	0.03	9.0	0.01
Vehicle tax	3.3	0.01	3.3	0.01	6.7	0.01	6.5	0.01	7.6	0.01	4.3	0.00
Vehicle inspection	0.5	0.00	1.0	0.00	1.1	0.00	2.3	0.00	2.3	0.00	1.8	0.00
Information Technology service	7.6	0.01	7.8	0.01	2.0	0.00	7.5	0.01	215.1	0.31	207.5	0.30
Land fee	1.1	0.00	1.0	0.00	0.3	0.00	4.1	0.01	4.6	0.01	3.6	0.00
Bank and financial institution's service fee	0.7	0.00	2.1	0.00	3.2	0.01	192.2	0.32	1.4	0.00	0.7	0.00
Purchase of other goods and services	1,577.5	2.95	1,970.7	3.47	2,099.5	3.62	2,554.6	4.30	3,338.5	4.85	1,761.0	1.90
Other Goods and services expenditures	1,555.8	2.91	1,918.1	3.38	1,812.6	3.12	2,063.7	3.47	2,645.1	3.84	1,089.3	0.93
Expenses on training and practice	21.7	0.04	52.7	0.09	286.8	0.49	491.0	0.83	693.4	1.01	671.7	0.97
SUBSIDIES	20.0	0.04	29.5	0.05	20.3	0.03	34.0	0.06	13.8	0.02	-6.2	-0.02
Subsidies to the private entities	20.0	0.04	29.5	0.05	20.3	0.03	34.0	0.06	13.8	0.02	-6.2	-0.02
CURRENT TRANSFER	9,425.1	17.60	1,1871.7	20.93	1,0158.4	17.50	1,319.0	2.22	1,200.8	1.74	-8224.2	-15.86
Other current transfer	9,425.1	17.60	1,1871.7	20.93	1,0158.4	17.50	1,319.0	2.22	1,200.8	1.74	-8224.2	-15.86
Social welfare pension and benefits	6,921.4	12.93	6,944.5	12.24	7,245.5	12.48	278.3	0.47	127.1	0.18	-6794.3	-12.74
Other bonuses and benefits by employers	12.7	0.02	476.5	0.84	51.6	0.09	47.3	0.08	68.5	0.10	55.8	0.08
Benefits and allowances by the state	689.8	1.29	660.5	1.16	723.0	1.25	724.1	1.22	383.7	0.56	-306.1	-0.73
One off benefits, allowances, bonuses	1,328.1	2.48	883.0	1.56	1,144.0	1.97	247.8	0.42	563.1	0.82	-765.0	-1.66
Hardship benefit to civil servants working in rural areas	349.0	0.65	1,692.4	2.98	865.3	1.49	0.0	0.00	0.0	0.00	-349.0	-0.65
One off benefits, allowances, bonuses	124.0	0.23	1,214.8	2.14	129.1	0.22	21.5	0.04	58.4	0.08	-65.6	-0.15

Source: Finance and Treasury Department's report, the Governor's Office, 2021

Budget entities' current expenses of 2020's performance was compared against the 2016 performance, with an MNT 15,346.2 million increase was observed. This is due to an MNT 23,576.7 million increase in the costs of goods and services account, an MNT 6.2 million decrease in the state subsidy, and an MNT 8,224.2 million decrease in current transfers.

The MNT 15,346.2 million increase in the costs of goods and services was due to MNT 14,747.5 million in salaries and bonuses, MNT 2,414.6 million in social insurance fees, MNT 2,591.0 million in building maintenance, of which MNT 2,591.0 million relates to fuel and heating expenses.

The following factors have affected the current expense variance:

- In 2019, the salary network and standard norms of civil servants were updated and increased by the Government order.

- Following the amendment of the Law on Civil service, civil servants started to receive bonuses based on their duration of employment. In addition, a policy to improve the salary and social protection of doctors and hospital employees was implemented, which increased overall salaries and bonuses.

- The social insurance payment increased due to the Law on Social Insurance.

- From 2016 to 2020, four cultural centers, three health centers, eight kindergartens, five secondary schools, and four local government buildings were built and began operating. Moreover, 21 soum centers of the province were connected to the central heating system, doubling the heating costs of public service buildings and construction.

- In 2020, educational institutes did not operate due to the pandemic, therefore normative expenses, especially costs related to school lunches and other food, decreased from previous years.

- The budget for recurring social welfare pensions, allowances, exemptions and services was deducted from the 2019 local budget to be directly transferred from the state budget based on the household database. It decreased the amount of the current transfer – specifically, social welfare pensions and assistance.

The structure of the current transfer of Zavkhan province is analyzed using 2020 data. Each expenditure as a percentage of the total current transfer as of 2020 is:

Table 24. ZAVKHAN PROVINCE EXPENDITURE, PERCENTAGE

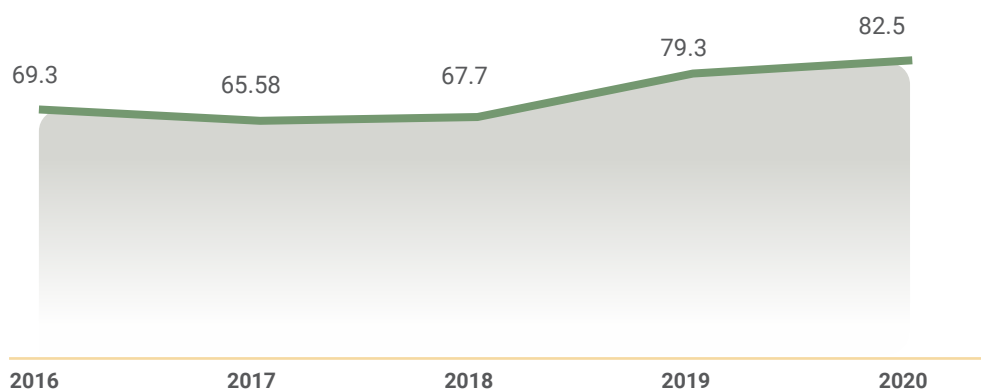
Indicators	2020	
	Amount	% in current expenses
Wages and salaries	43,552.3	63.2
Social security contributions	5,728.5	8.3
Fixed costs associated with the use of premises	7,495.3	10.9
Supply and inventory costs	1,930.8	2.8
Normative costs	2,428.8	3.5
Furniture and maintenance costs	384.2	0.6
Per diems	214.6	0.3
Payments for work and services performed by others	2,599.3	3.8
Other costs of goods and services	3,338.5	4.8
SUBSIDIES	13.8	0.0
CURRENT TRANSFERS	1,200.8	1.7

Figure 11. STRUCTURE OF ZAVKHAN PROVINCE'S CURRENT TRANSFER, 2020



Source: Researchers' analysis

82.4 percent of the current transfer in 2020 is for salaries, social insurance payments and fixed costs associated with the use of the premises. This increased by 19.1 percent from 2016.



Source: Finance and Treasury Department's report, the Governor's Office, 2021

The above analysis shows that the combined percentage of salaries and fixed costs has been increasing annually, while the percentage of goods and other expenses have been decreasing. This scenario could negatively impact public service delivery to citizens and the overall quality of public services.

3.2.3 EXPENDITURE ANALYSIS – BY BUDGET GOVERNORS

According to the Law on Budgets, some state functions are delegated to local governments. Thus, the local Governor performs duties of the central budget governor and enters into agreements with the general budget governors or ministers as the special purpose transfer entity. This includes:

- The minister of Education, Culture and Science – Budgets for pre and secondary schools
- The minister of Health – Budgets for primary health care services

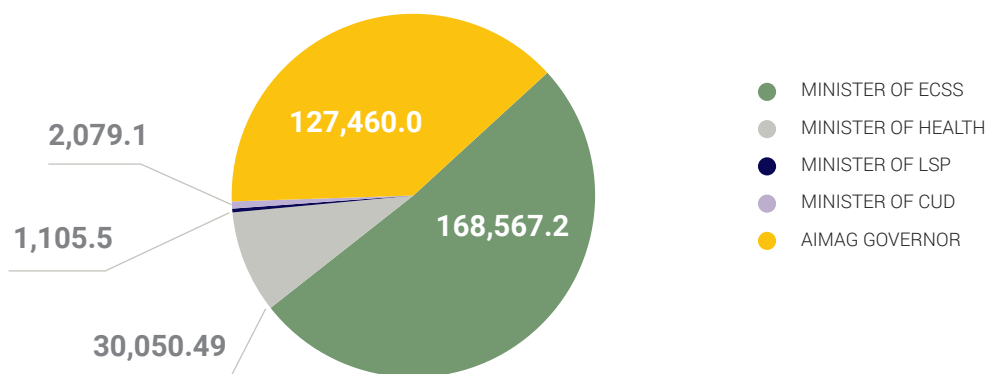
- The minister of Construction and Urban development - Budgets for land management and cadaster
- The minister of Social Protection and Labour - Budgets for child development and protection

During the research period, the following policy changes were introduced to the special purpose transfers, which affected the GBG budget and amounts of local budget base expenditure and special purpose transfers:

1. Since 2019, local governments started to manage local secondary schools, kindergartens, hospitals, children's organizations and land management agency offices (heating, electricity, drinking water and sewerage, rent, maintenance and renovations). This aims to improve local property management, protection and efficiency, with the corresponding expenditure added to the local budget base expenditure.
2. Since 2019, local museums, cultural centers, libraries, theatres, and sports centers' current expenses (fixed and variable costs) were financed from local budgets, with the required funding allocated to the local budget base expenditure.
3. Soum and neighborhood hospitals increased the number of services and assistances they provide, with the required financing funded by the HIF since 2019.
4. Since 2020, the following rates were set on food costs: elementary school lunch at MNT 600 per day, a kindergarten meal at MNT 1,650 per day, and dormitory meals at MNT 2,315 per day.
5. The amendment to the Law on Civil Service is effective, with salary networks renewed and raised. The policy provides bonuses based on employment duration, one-off bonuses for retirement, along with increased salaries and benefits for doctors and hospital workers.
6. Due to the pandemic, all levels of educational institutes ceased operations, with spending authorizations of some budget entities deducted and expenditure decreased by the supplementary budget.

The share of each GBG in the total budget expenditure of Zavkhan province is presented in Figure 13:

Figure 13. ZAVKHAN PROVINCE'S BUDGET EXPENDITURE, BY GBG



Source: GBG's Budget Expenditure Report, 2021

51.2 percent of total budget expenditure is the MECS portfolio or educational institutes' budget, 38.7 percent is the Aimag governor's portfolio (which is the local budget entities' budget), 9.1 percent is the MoH portfolio, including the neighborhood and soum hospital budget. 0.3 percent is the MLSP portfolio on Family, children and youth development agency's budget, while 0.6 percent is the MCUD portfolio on Land management, construction and urban development agency's budget.

Table 25. BUDGET EXPENDITURE BY EACH CATEGORY, 2016-2020, MNT MILLION, PERCENTAGE

GBG	Entity	2016	2017	2018	2019	2020	2020 vs 2016	
MECS	Secondary school	19,818.0	21,430.1	21,570.0	24,009.1	28,281.6	8,463.55	42.7
	Preschool	7,737.4	8,101.8	8,617.3	9,795.2	10,882.9	3,145.47	40.7
	Cultural services	2,268.1	2,447.8	2,419.1			(2,268.05)	(100.0)
	Public sports	230.3	329.4	629.2			(230.32)	(100.0)
	Subtotal	30,053.8	32,309.0	33,235.6	33,804.2	39,164.5	9,110.65	30.3
HIF	Primary health services	5,199.8	5,216.5	5,281.6	6,737.5	7,615.0	2,415.27	46.4
MLSP	Child protection	154.7	158.9	190.5	283.6	317.8	163.05	105.4
MCUD	Land management and cadaster	236.3	221.6	444.1	527.6	649.5	413.22	174.9
Budget expenditure of the special purpose transfers		35,644.6	37,906.1	39,151.8	41,352.9	47,746.8	12,102.19	34.0
Provincial Governor	Local budget	23,270.7	23,450.9	26,673.0	25,355.4	28,709.9	5,439.2	23.4
TOTAL AMOUNT		58,915.3	61,357.0	65,824.9	66,708.3	76,456.7	17,541.4	57.3

Source: Finance and Treasury Department's report, the Governor's Office, 2021

The above table indicates that the special purpose transfer has increased by 34 percent (MNT 12,102.2 million) in 2020 (MNT 47,746.8 million in 2020), compared to the total SPT in 2016. The increase, of MNT 12,102.2 million, is comprised of:

Table 26. GROWTH OF ZAVKHAN PROVINCE SPECIAL PURPOSE TRANSFER, MNT MILLION, PERCENTAGE

Indicator	Amount	Growth in %
secondary school budget	84,63.6	42.7
preschool budget	31,45.5	40.7
health service budget	24,15.2	46.4
Family, children and youth development agency's budget	1,63.1	105.4
Family, children and youth development agency's budget	413.2	174.9

The provincial governor's budget or local budget increased by 23.4 percent or MNT 5,439.2 million in 2020, compared to the total local budget in 2016. The highest increases were the budgets for the family, children and youth development agency, along with the land management, construction and urban development agency. The Land management, construction and urban development agency's budget increased by 174.9 percent, to MNT 413.2 million. 91.9 percent of this growth was due to the payment for salaries, wages and social insurance. The Civil Service law amendment and bigger structure, which has gone to 83 from 66, are the main drivers of the salaries and SIP increase. In 2020, soum governments' clerks were moved to the Land management, construction and urban development agency, which also increased the number of employees and associated expenses.

The budget for the family, children and youth development agency increased by 105.4 percent or MNT 163.1 million. The salary and SIP raise contributed to the 21.1 percent growth, while the contracted work and services payment was 51.0 percent of the total budget. Payments for childcare services were the main driver of the increased budget expenditure.

3.2.4 EXPENDITURE ANALYSIS - BY FINANCING SOURCES

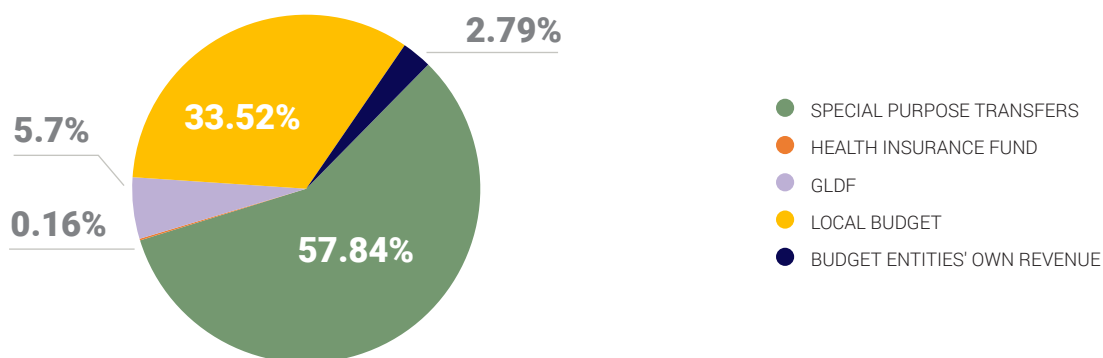
From 2016 to 2020, Zavkhan province had MNT 329,262.2 million in budget expenditure, of which 57.8 percent was from SPT, 33.5 percent was from the local budget, 5.7 percent was from the LDF, 2.8 percent was revenue from the budget entities and 0.2 percent was HIF.

Table 27. FUNDING SOURCES OF THE PROVINCIAL BUDGET, 2016-2020, MNT MILLION

Items	2016	2017	2018	2019	2020	Amount	Percent
TOTAL EXPENDITURE	58,915.3	61,357.0	65,824.9	66,708.3	76,456.7	329,262.2	
FINANCING SOURCES FOR THE EXPENDITURE	59,472.8	60,664.0	66,149.3	66,691.6	76,746.5	329,724.2	100.0
Special purpose transfers	35,431.9	37,656.1	38,914.8	36,276.7	42,431.1	190,710.7	57.8
Health insurance fund				178.9	338.8	517.7	0.2
GLDF	4,185.8	1,708.7	3,471.2	5,152.8	4,276.8	18,795.3	5.7
Local budget	18,185.2	19,169.1	21,682.4	23,410.6	28,060.4	110,507.7	33.5
Of which: Financial support	11,049.2	10,606.5	13,131.0	14,482.4	18,898.0	68,167.1	61.6
Local revenue	7,136.0	8,562.6	8,551.4	8,928.2	9,162.4	42,340.6	38.4
Organization's own operational income	1,669.8	2,130.1	2,080.9	1,672.6	1,639.3	9,192.8	2.8

Source: Finance and Treasury Department's report, the Governor's Office, 2021

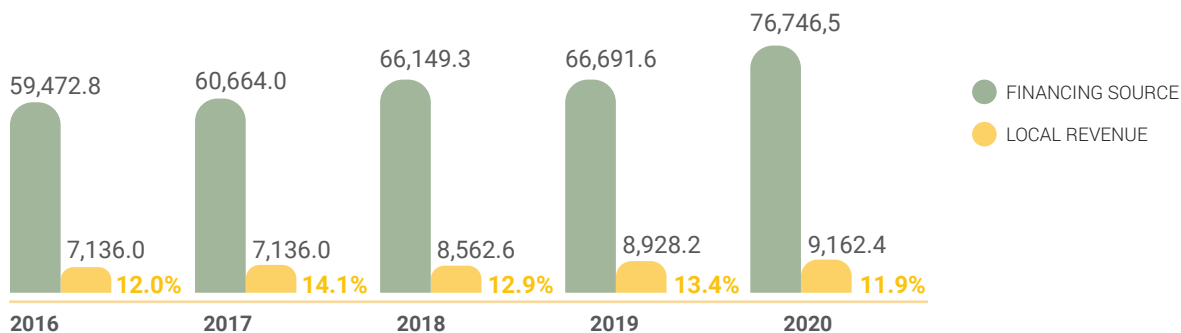
Figure 14. 2016-2020 FINANCING SOURCES FOR EXPENDITURES, BY PERCENTAGE



Source: Finance and Treasury Department's report, the Governor's Office, 2021

From 2016 to 2020, Zavkhan province financed 11.9-14.1 percent of the total budget expenditure from its own revenue.

Figure 15. RATIO OF FINANCING SOURCES AND LOCAL REVENUE, 2016-2020, MNT MILLION



Source: Finance and Treasury Department's report, the Governor's Office, 2021

3.2.5 EXPENDITURE ANALYSIS - BY PROGRAMMES, ACTIVITIES

Article 7.5.6 of the Minister of Finance Order No. 244, 2012, "Guideline to developing a local budget proposal" provides a template for provincial governors and the capital city mayor to prepare programmes, as well as their expected quantitative and qualitative outcome indicators, by each budget governor. The template is filled as an attachment to the core budget proposal and approved by the CRA as a primary attachment to the CRA resolution to approve the annual budget proposal. In addition, the Budget Classification was approved by the Finance Minister's Order No. 7 of 2015. The economic classification of the public expenditures splits into three categories: current expenditures, capital expenditures and net lending.

Program and activities that will be implemented in a particular financial year are approved by the CRA as the primary attachment of the budget proposal. In doing so, the expected outcomes of programmes and activities were integrated in accordance with the budget governor's and functional allocations, and approved. However, program performance is evaluated by the approved budget expenditure outturn.

2020 budget program performance is reported in the GBG's budget execution report as follows:

Table 28. EXPENDITURE ANALYSIS – BY PROGRAMMES, 2020, MNT MILLION

		Program	Budget	Actual	Performance	Deviation
1	71502	Urban development and landscaping	779.9	782.3	100.3	-2.5
2	71411	Environmental policy and management	995.7	995.7	100.0	0.0
3	71105	Road transport control and management, public transportation	13.8	13.8	100.0	0.0
4	72208	Seniors' development and protection	94.2	94.2	100.0	0.0
5	71601	Public health	1,079.1	1,074.1	99.5	4.9
6	70417	Specialized inspection	188.3	186.7	99.1	1.6
7	71101	Road	1,257.6	1,238.1	98.4	19.5
8	71602	Health care services	7,744.8	7,615.0	98.3	129.8
9	72207	Child development protection	325.4	317.8	97.7	7.6
10	70105	Operations of the local self-governing body	2,423.9	2,353.4	97.1	70.5
11	71702	Culture and arts	3,705.2	3,572.5	96.4	132.7
12	71504	Land mapping and cadaster	675.7	649.5	96.1	26.2
13	70106	Local executive government management	11,197.9	10,687.1	95.4	510.8
14	71403	Forestation	134.8	128.1	95.0	6.7
15	71902	Social welfare	136.3	127.1	93.3	9.2
16	71802	Secondary education	30,747.8	28,585.6	93.0	2162.2
17	70426	Exercising state property rights	170.8	157.4	92.2	13.4
18	71801	Preschool education	12,901.7	11,194.4	86.8	1707.3
19	70503	Local targeted investment	6,576.0	5,014.5	76.3	1561.6
20	70801	Livestock husbandry development	415.3	277.9	66.9	137.4
21	72210	Supporting herders, self-employed citizens and citizens working in the informal economy	2,439.8	1,390.6	57.0	1049.2
22	71806	Lifelong learning and non-formal education	12.0	0.9	7.2	11.1
		Total	84,016.0	76,456.7	91.0	7,559.4

Source: Finance and Treasury Department's report, the Governor's Office, 2021

The analysis shows that urban development and landscaping (71,502), environmental policy and management (71,411), road transport control and management, public transportation (71,105), along with seniors' development and protection (72,208) programmes have 100 percent execution. Preschool education (71,801) has 86.8 percent execution, while local targeted investment (70,503) has 76.3 percent execution. Livestock husbandry development (70,801) has 66.9 percent execution, while supporting herders, self-employed citizens and citizens working in the

informal economy (72,210) all have 57 percent execution. Lifelong learning and non-formal education (71,806) both have 7.2 percent execution. Out of a total 22 programmes, four have 100 percent execution, while 13 have execution rates ranging from 99.5 to 92.2 percent and five range from 86.8 to 7.2 percent.

The execution of total expenditure is 91 percent, which is MNT 7,559.4 million. Due to the COVID-19 pandemic, the following programmes did not disburse the following budgets: Secondary education (71,802) – MNT 2,162.2 million, preschool education (71,801) – MNT 1,707.3 million, local targeted investment (70,503) – MNT 1,561.6 million, as well as supporting herders, self-employed citizens and citizens working in informal economy (72,210) – MNT 1,049.2 million. This under-spending was caused by the suspension of secondary and preschool activities on site, as well as a slow-down in investment operations and repayment of LDF loans.

The reports only illustrate the performance of the budget execution, not the targeted outcomes of the programmes. It is important not only to analyze the budget expenditure by each category, but also to investigate the equality of budget allocations and actual benefit to citizens.

3.2.6 BUDGET EXPENDITURE PER PERSON

To understand the equality of budget allocations, the budget expenditure per person must be estimated.

Table 29. BUDGET EXPENDITURE PER PERSON, 2016-2020, MNT MILLION

Soums	2016	2017	2018	2019	2020	Total expenditure	Population	Budget expenditure per person
ASGAT	1,074.2	1,062.0	1,129.4	1,394.4	1,742.4	6,402.5	807	7.9
ERDENEKHAIRKHAN	1,125.8	1,304.2	1,265.2	1,555.3	1,596.6	6,847.1	1,034	6.6
ZAVKHANMANDAL	986.8	1,114.2	1,075.7	1,285.1	1,432.6	5,894.5	933	6.3
URGAMAL	1,055.7	1,239.0	1,268.2	1,408.8	1,746.0	6,717.7	1,119	6.0
TSAGAANCHULUUT	1,210.0	1,184.4	1,156.2	1,608.7	1,853.0	7,012.3	1,173	6.0
TSAGAANKHAIRKHAN	1,023.3	1,057.9	1,016.8	1,224.0	1,482.9	5,805.0	1,002	5.8
NUMRUG	1,564.9	1,560.2	1,509.6	1,796.9	2,039.4	8,471.0	1,608	5.3
SANTMARGATS	1,352.3	1,407.5	1,351.5	1,678.1	2,048.2	7,837.7	1,564	5.0
SONGINO	1,256.4	1,287.7	1,278.7	1,575.1	1,715.0	7,112.9	1,421	5.0
TSETSEN-UUL	1,288.3	1,339.7	1,449.7	1,623.3	1,845.0	7,546.0	1,542	4.9
BAYANKHAIRKHAN	1,258.6	1,212.3	1,227.3	1,613.1	1,742.8	7,054.0	1,639	4.3
BAYANTES	1,830.1	1,692.3	1,760.8	2,015.2	2,304.3	9,602.6	2,291	4.2
DURVULJIN	1,379.1	1,327.0	1,327.6	1,614.6	1,912.5	7,560.8	1,835	4.1
TUDEVTEI	1,117.3	1,187.0	1,425.2	1,497.4	1,609.7	6,836.6	1,672	4.1
YARUU	1,226.2	1,081.5	1,129.1	1,365.1	1,630.1	6,431.9	1,576	4.1

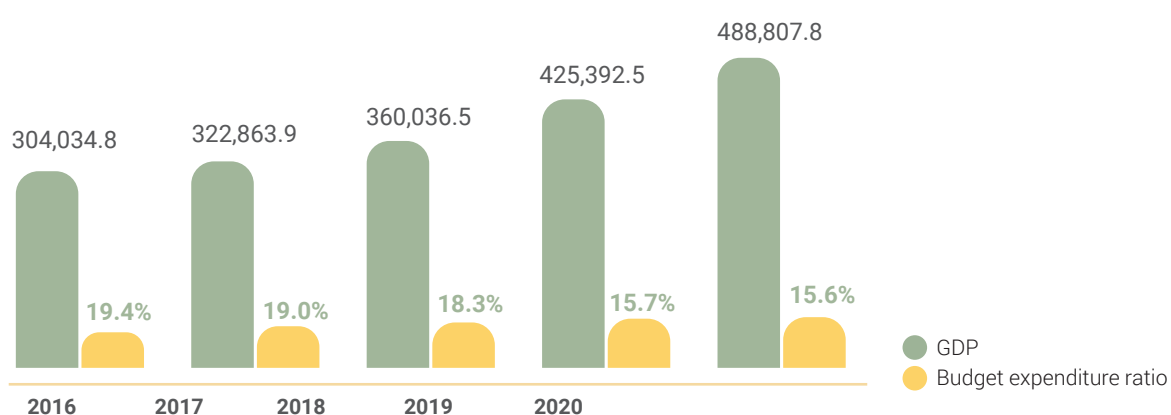
TELMEN	1,531.7	1,499.1	1,555.0	2,003.4	2,372.6	8,961.8	2,293	3.9
SHILUUSTEI	1,134.6	1,235.0	1,293.0	1,425.8	1,594.0	6,682.3	1,715	3.9
TES	1,900.0	2,040.7	1,942.3	2,209.9	2,461.2	10,554.2	2,720	3.9
IDER	1,427.8	1,655.7	1,466.2	1,871.4	2,098.8	8,519.9	2,205	3.9
OTGON	1,420.0	1,527.9	1,458.5	1,857.2	2,059.1	8,322.6	2,282	3.6
ULIASTAI	10,053.9	10,765.9	10,946.6	11,666.1	12,577.5	56,010.1	17,485	3.2
TOSONTSENGEL	3,930.7	4,504.2	4,510.1	5,281.3	6,426.2	24,652.4	7,899	3.1
ALDARKHAAN	1,101.7	1,155.0	1,173.4	1,454.9	1,596.2	6,481.1	2,091	3.1
IKH-UUL	2,552.8	2,714.9	2,690.5	3,362.9	3,696.6	15,017.7	5,018	3.0
AMOUNT	43,802.3	46,155.5	46,406.5	54,387.7	61,582.7	252,334.7	64,924	3.9

Source: Presentation of the socioeconomic performances (2020) and estimations by the consultant

The average budget expenditure per person is MNT 3.9 million. Otgon, Uliastai, Tosontsengel, Aldarkhaan and Ikh-Uul soums are below the aimag average (see Table 27). Asgat, Erdenekhairkhan, Zavkhanmandal and Urgamal soums have the highest per person budget expenditure, which ranges from MNT 6.0 million to MNT 7.9 million. When the per person budget expenditure of Asgat soum, the highest, is compared against Ikh-Uul soum, the lowest, Asgat soum's per person budget expenditure is 2.6 times greater than that of Ikh-Uul soum. Population density is the main factor. Soums with a small population have a higher per person budget expenditure, while soums with bigger populations have lower per person expenditure.

Zavkhan's GDP reached MNT 48,8807.8 million in 2020, growing by 60.8 percent from 2016's GDP. However, the budget expenditure also increased by 29.8 percent in 2020 from the 2016 budget expenditure. The share of budget expenditure in the local GDP has been decreasing annually between 2016 and 2020. In 2016, budget expenditure was equal to 19.4 percent of local GDP, which decreased by 3.8 percent in 2020 and totaled 15.6 percent. In other words, GDP growth exceeds budget expenditure growth.

Figure 16. BUDGET EXPENDITURE RATIO TO THE LOCAL GDP, MLN MNT



Source: NSO and estimations by the consultant

Access to education and health services is another important indicator of budget efficiency.

3.2.7 PRESCHOOL EDUCATION BUDGET

According to 2020 statistics, there are 197 state and 6 private kindergartens, with a total of 720 teachers and 5,245 students. In 2020, MNT 10,882.8 million was disbursed to 203 kindergartens and MNT 2.1 million was spent on each preschooler. Zavkhan's budget expenditure on preschool education by each soum is set out below:

Table 30. BUDGET EXPENDITURE PER PERSON, 2016-2020, MNT MILLION

Soums	2020 budget expenditure	Number of preschoolers		Total expenditure per child	Fixed costs of building maintainance	Variable cost	Variable cost per child
		Plan	Actual				
YARUU	213.4	88	66	3.2	11.7	201.7	3.1
TSAGAANCHULUUT	277.9	108	91	3.1	39.0	238.9	2.6
ERDENEKHAIRHAN	167.4	90	55	3.0	14.6	152.8	2.8
ALDARKHAAN	155.6	80	54	2.9	22.7	132.9	2.5
URGAMAL	239.4	100	93	2.6	26.6	212.8	2.3
ZAVKHANMANDAL	246.1	104	98	2.5	19.4	226.7	2.3
TSAGAANKHAIRKHAN	174.8	79	73	2.4	9.8	165.0	2.3
SANTMARGATS	287.2	140	130	2.2	42.9	244.3	1.9
ASGAT	212.4	110	101	2.1	19.4	193.0	1.9
SHILUUSTEI	252.1	125	121	2.1	17.6	234.5	1.9
ULIASTAI	3,782.7	2,120	1,830	2.1	400.2	3382.5	1.8
IKH-UUL	677.4	343	335	2.0	63.1	614.3	1.8
SONGINO	237.6	125	119	2.0	28.7	208.9	1.8
TES	371.6	200	189	2.0	44.0	327.6	1.7
TUDEVTEI	180.9	113	92	2.0	14.0	166.9	1.8
BAYANKHAIRKHAN	201.9	115	103	2.0	5.3	196.6	1.9
TSETSEN-UUL	209.0	101	107	2.0	7.8	201.1	1.9
IDER	260.3	175	134	1.9	35.2	225.1	1.7
DURVULJIN	260.8	140	136	1.9	48.2	212.6	1.6
TOSONTSENGEL	1,380.7	810	722	1.9	88.3	1292.4	1.8
OTGON	222.0	150	117	1.9	14.8	207.2	1.8
TELMEN	319.7	195	171	1.9	43.1	276.6	1.6
NUMRUG	191.9	94	107	1.8	25.1	166.8	1.6
BAYANTES	360.0	202	201	1.8	12.2	347.8	1.7
	10,882.8	5,907	5,245	2.1	1,053.7	9,829.1	1.9

Source: Financial statement from the Provincial Agency of Education, Sports and Culture, 2020

Yaruu, Tsagaanchuluut, Erdenekhairkhan, Aldarkhaan, Urgamal, Zavkhanmandal, Tsagaankhairkhan, and Santsmargats soums are above average, while Asgat, Shiluustei, and Uliastai reflect the average. All others are below the average budget expenditure per child. Government Decree No.242 of 2016 sets the standard variable cost for preschool students in provincial centers at MNT 812.3 thousand and MNT 998.2 thousand for soums. The actual variable cost per preschooler in the provincial center is MNT 1.9 million, which is twice the standard variable set by the Government Decree No. 242 of 2016. The main cause of this difference is that the standard variable costs were not updated since 2016 to reflect price increases, inflation and salary growth.

The per child variable cost of preschool education of Yaruu, Tsagaanchuluut, Erdenekhairkhan, Aldarkhaan, Urgamal, Zavkhanmandal and Tsagaankhairkhan soums are above average, while Santmargats, Asgat, and Shiluustei reflect the average. The rest of the soums are below the average standard variable cost of the province.

Figure 17. BUDGET EXPENDITURE STRUCTURE OF PRESCHOOL EDUCATION, 2020



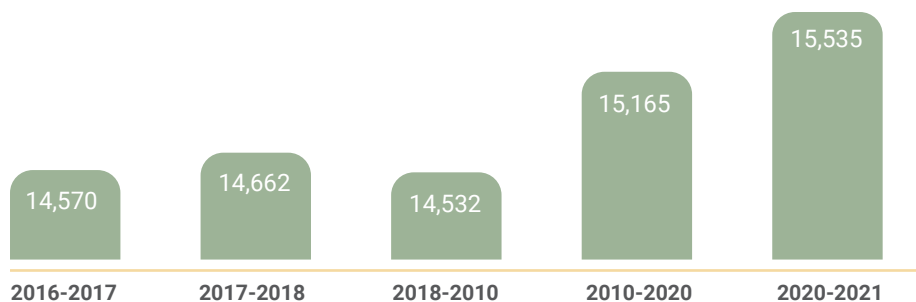
Source: Financial statement from the Provincial Agency of Education, Sports and Culture, 2020

Total budget expenditure was disbursed with 77.8 percent allocated to salaries and SIP, 9.7 percent to fixed costs associated with use of the premises, 2 percent to supply and goods, 7.7 percent to normative costs, 0.1 percent to maintenance of properties, 0.1 percent to per diem costs, 0.9 percent to payments for work and services performed by others and 1.7 percent to other goods and services.

3.2.8 SECONDARY EDUCATION BUDGET

According to Zavkhan statistics, the province had a total of 30 secondary schools with 15,535 students and 912 teachers as of 2020.

Figure 18. TOTAL NUMBER OF STUDENTS IN ZAVKHAN, 2016-2020



Source: Presentation of socioeconomic performances, 2020

The budget expenditure on these 30 secondary schools is analyzed based on 2020 budget execution data.

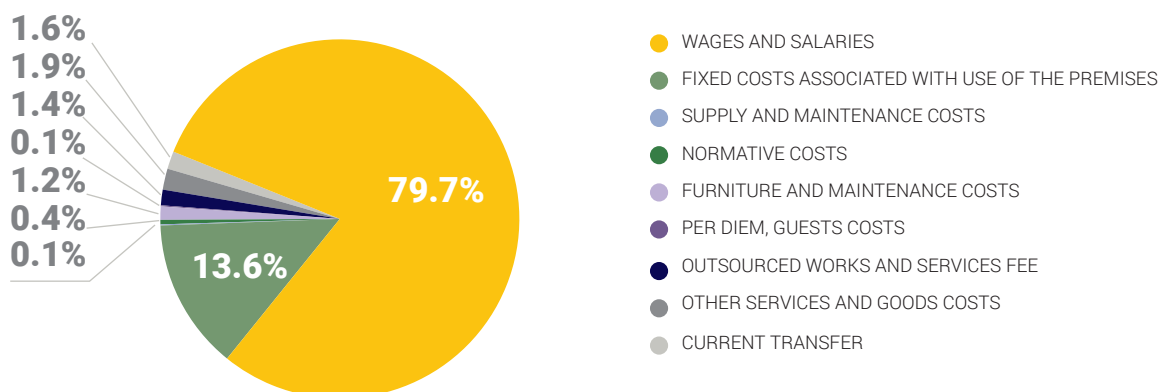
Table 31. SECONDARY SCHOOL BUDGET EXPENDITURE ANALYSIS, 2020, MNT MILLION

Expenditure	2020		
	Budget	Actual	Percent
Wages and salaries	23,624.8	22,535.5	79.7
Costs associated with the use of the premises	4,023.9	3,849.6	13.6
Supply and inventory costs	502.7	454.0	1.6
Normative costs	853.0	534.9	1.9
Furniture and maintenance costs	51.9	36.3	0.1
Per diems	70.8	29.0	0.1
Payments for contracted work and services	175.5	106.8	0.4
Other costs of goods and services	359.8	336.4	1.2
Current transfers	649.5	399.2	1.4
Total	30,312.0	28,281.6	100.0

Source: Financial statement from the Provincial Agency of Education, Sports and Culture, 2020

From the total budget expenditure, 79.7 percent went towards salaries and SIP, while 13.6 percent was for fixed costs associated with use of the premises. 1.6 percent was for supply and goods, 1.9 percent was for normative costs, 0.1 percent was for maintenance of properties, 0.1 percent was for per diems, 0.4 percent was for other costs of goods and services, with 0.4 percent for the current transfer.

Figure 19. BUDGET EXPENDITURE STRUCTURE OF SECONDARY SCHOOLS IN ZAVKHAN



Source: Financial statement from the Provincial Agency of Education, Sports and Culture, 2020

Government Decree No. 242 of 2016 sets the standard variable cost per student from local or state-run secondary schools by elementary, middle and high school classes. The standard variable cost rates are listed in Table 30.

Table 32. AVERAGE NORMATIVE VARIABLE COST PER STUDENT FOR PRIMARY, MIDDLE AND HIGH SCHOOLS CLASSES IN SECONDARY SCHOOLS, MNT THOUSAND

Location	Class levels	Teacher's salary			SIP by the employer			Other variables	Total variable cost		
		Elem entary	Middle	High	Elem entary	Middle	High		Elem entary	Middle	High
Soums other than the provincial center	Elementary school in bagh	576.8			63.5			42.8	683.1		
	9-year school	309.0	481.0		34.0	52.9		21.9	364.9	555.9	
	12-year school	288.3	417.0	438.8	31.7	45.9	48.3	14.6	334.6	477.5	501.7
Provincial center and remote districts	All levels of secondary schools	271.6	392.7	400.4	29.9	43.2	44.0	13.9	315.4	449.8	458.4
Capital city	All levels of secondary schools	246.7	355.1	373.6	27.1	39.1	41.1	13.1	286.9	407.3	427.8

Source: MECS

The 2020 budget execution report shows that variable costs per secondary student are higher than the standard approved by Government decree. This is due to the fact that these standards were not updated since 2016, in alignment with price increases, inflation and salary growth. Therefore, it is necessary to update the standard and revise the variable costs of educational institutes annually, to reflect changes in prices and inflation.

The total number of secondary school students was applied when calculating the variable cost per student.

Table 33. VARIABLE COST ESTIMATION OF SECONDARY SCHOOL STUDENTS, 2020, MNT MILLION

Soum	2020 budget expenditure	Number of students	Total expenditure per student	Fixed costs of building maintenance	Variable cost	Variable cost per student
TSAGAANKHAIRKHAN	496.7	101	4.9	17.5	479.2	4.7
ALDARKHAAN	454.0	83	5.5	66.9	387.1	4.7
YARUU	467.0	117	4.0	24.1	442.8	3.8
ZAVKHANMANDAL	647.9	161	4.0	43.4	604.5	3.8
ERDENEKHAIRKHAN	546.4	155	3.5	70.8	475.6	3.1
TSETSEN-UUL	767.6	273	2.8	50.1	717.4	2.6
TSAGAANCHULUUT	722.9	223	3.2	166.0	556.9	2.5
DURVULJIN	680.1	228	3.0	127.3	552.8	2.4
SANTMARGATS	874.2	306	2.9	145.5	728.7	2.4
BAYANKHAIRKHAN	690.0	275	2.5	38.0	652.0	2.4
URGAMAL	576.3	208	2.8	117.1	459.2	2.2
ASGAT	691.2	263	2.6	119.7	571.5	2.2
SHILUUSTEI	769.8	344	2.2	43.5	726.3	2.1
TUDEVTEI	854.3	325	2.6	207.3	647.0	2.0
NUMRUG	845.2	359	2.4	177.4	667.9	1.9
OTGON	817.6	411	2.0	55.5	762.1	1.9
TELMEN	1,055.2	502	2.1	191.2	864.0	1.7
BAYANTES	950.1	550	1.7	38.8	911.3	1.7
IDER	934.0	468	2.0	171.9	762.1	1.6
SONGINO	640.6	338	1.9	90.6	550.0	1.6
TES	1,134.3	633	1.8	203.5	930.8	1.5
TOSONTSENGEL	3,467.3	2417	1.4	458.4	3008.9	1.2
ULIASTAI	7,488.0	5357	1.4	1159.0	6329.1	1.2
IKH-UUL	1,711.1	1438	1.2	66.3	1644.8	1.1
Total	28,281.6	15,535.0	64.5	3,849.6	24,432.0	1.6

Source: MECS financial statements and estimations by the consultant

Across the province, the average variable cost per student is MNT 1.6 million as of 2020. Ider and Songino soums reflect the average variable cost, Tes, Tosontsengel, Uliastai and Ikh-Uul soums are below average, while the rest are above average. Tsagaankhairkhan and Aldarkhaans soums' variable cost per secondary school student is MNT 4.7 million, which is three times the provincial average, while Yaruu, Zavkhanmandal and Erdenemandal soums are 2.4 times the provincial average. When analyzing the secondary school budget expenditures of Tsagaankhairkhan, which has the highest variable cost, together with Ikh-Uul soum, with the lowest, 91.1 to 93.4 percent of the total variable cost was dedicated to salaries and SIP costs.

Table 34. KEY INDICATORS OF SECONDARY SCHOOLS, 2020, MNT MILLION

Indicators	Tsagaankhairkhan secondary school	Ikh-Uul secondary school
	2020	
	Budget execution	Budget execution
TOTAL CURRENT EXPENDITURE	496.7	1,711.0
Out of: VARIABLE EXPENSES	479.2	1,644.8
Wages and salaries, bonuses	384.1	1,364.4
Social insurance contributions paid by employers	52.3	172.3
Number of employees	33	115
Number of students (annual average)	103.0	1,365
Variable cost per student	4.7	1.1
Student and teacher ratio	0.3	0.08
Ratio of salaries and SIP in the total variable cost	91.1	93.4

Sources: Financial statement from the Provincial Agency of Education, Sports, and Culture and estimations by the consultant

The number of students and teachers at Tsagaankhairkhan secondary school are respectively 13.2 and 3.2 times smaller than that of Ikh-Uul secondary school. Even though their number of students is low, the number of teachers and staff required by the standard, along with their salaries and SIP, directly contributes to the higher variable cost per student.

3.2.9 HEALTH BUDGET

Zavkhan province's health sector statistics were analyzed with the budget expenditure. As of 2020, there are 110 healthcare providers, with the local budget providing finance of MNT 7,615.0 million to 22 health care providers, including 19 soum hospitals and three neighborhood hospitals.

(as shown in the extracts from Zavkhan province Economic and social development annual bulletin in Mongolian)

Завхан аймгийн эдийн засаг, нийгмийн жилийн танилцуулга



ЭРҮҮЛ МЭНД

Аймгийн хэмжээнд нийт эрүүл мэндийн салбарын 110 байгууллага, 1136 эмч, ажилтан ажиллаж, 50 эмнэлэг, 50 эмийн сан, эм ханган нийлүүлэх төвүүд үйл ажиллагаа явуулж байна.

Завхан аймгийн эдийн засаг, нийгмийн жилийн танилцуулга

Хүснэгт 6.1 ЭРҮҮЛ МЭНДИЙН САЛБАРЫН ҮЗҮҮЛЭЛТ

Үзүүлэлт	2016	2017	2018	2019	2020
Эрүүл мэндийн байгууллагын тоо	4545	3,155.3	6,366.7	5,670.2	6,179.3
Аймаг хөдөөгийн нэгдсэн, сум дундын эмнэлгийн тоо	4,185.8	1,708.7	3,471.2	5,152.8	4,276.8
Сумын эмнэлэг	359.7	1,446.6	2,895.4	517.4	1,902.5
Хувийн эмнэлэг					
Хувийн эмийн сан					
Эм ханган нийлүүлэх төв					
Эргэлтийн эмийн сан					
Эрүүл мэндийн салбарын ажиллагсадын тоо					
Их эмч					
Эм зүйч					

The budget expenditure outturn of each soum was compared against their populations. The average cost per person in the health sector across the province is MNT 140.0 thousand, with a higher average cost per person in Ikh-Uul and Uliastai soums than in other soums.

Ikh-Uul and Uliastai soums have bigger populations and thus higher population densities than other soums, but also a relatively smaller per person cost for health services.

Table 35. HEALTH SECTOR BUDGET INDICATORS, MNT MILLION, NUMBER OF PEOPLE

Soums	2020 budget execution	Soum population	Per person budget expenditure on health	HIF financing
ASGAT	292.9	807	0.36	1.2
TSAGAANKHAIRKHAN	318.9	1,002	0.32	9.2
ERDENEKHAIRKHAN	324.4	1,034	0.31	14.1
URGAMAL	329.7	1,119	0.29	10.7
TSAGAANCHULUUT	330.2	1,173	0.28	11.1
SONGINO	350.0	1,421	0.25	15.7
TSETSEN-UUL	342.5	1,542	0.22	15.4
DURVULJIN	397.1	1,835	0.22	18.8
YARUU	326.5	1,576	0.21	17.2
SANTMARGATS	319.8	1,564	0.20	7.0
NUMRUG	323.5	1,608	0.20	17.2
BAYANKHAIRKHAN	315.9	1,639	0.19	15.8
ALDARKHAAN	382.4	2,091	0.18	12.9
BAYANTES	404.7	2,291	0.18	22.5
OTGON	401.5	2,282	0.18	15.7
TELMEN	401.1	2,293	0.17	28.4
IDER	380.7	2,205	0.17	24.6
TES	403.8	2,720	0.15	26.5
IKH-UUL	555.3	5,018	0.11	54.7
ULIASTAI- NEIGHBORHOOD HOSPITAL	714.1	17,485	0.04	
Total	7,615.0	52,705	0.14	338.8

Source: Financial statements of the Agency of Health, 2021

In 2020, several laws concerning the health sector were amended. According to the amendment, hospitals receive financing from the HIF based on the number of the patients checked-in and receiving medical services, as well as the use of additional financing for increasing staff salaries. The consultant analyzed and compared HIF financing to hospitals in Zavkhan province in 2020.

Primary healthcare providers in Zavkhan planned to receive MNT 423.6 million in financing from the HIF in 2020. However, the actual outturn was MNT 338.8 million based on their performance, which was MNT 84.8 million less than the proposal.

HIF financing is legalized as a financing source for the health sector. However, if the number of people receiving healthcare services decreases, their financing also decreases, raising the risk that healthcare providers will not be able to increase employee salaries, or fully cover expenses. Therefore, it is advised that HIF financing be reconsidered and revised, to serve its purpose of raising healthcare providers' salaries while acting as an incentive to improve social welfare.

3.3 Budget analysis of Special Fund

3.3.1 BUDGET ANALYSIS OF LDF

The capital costs mentioned in the economic classification of budget expenditure are financed by local financing and the LDF. Local investment expenditure sources comprise of the account balance of the surplus local budget revenue, along with capital costs allocated to the local base expenditure from the state budget. In 2018, Zavkhan province received MNT 2.8 billion from the state budget towards local base expenditure in capital costs. In other years, local investment expenditure was financed by the surplus local budget revenue.

Table 36. CAPITAL COST EXPENDITURE OUTTURN OF ZAVKHAN PROVINCE 2016-2020, MNT MILLION

Indicators	2016	2017	2018	2019	2020
Capital expenses	4545.46	3,155.3	6,366.7	5,670.2	6,179.3
LDF	4,185.8	1,708.7	3,471.2	5,152.8	4,276.8
LGI	359.7	1,446.6	2,895.4	517.4	1,902.5

Source: Investment, Development Policy and Planning Department, the Governor's Office, 2021

In Zavkhan province, the LDF is the main source of local budget investments. It is regulated by the Law on Administrative and Territorial Units and their Governance, the Law on Budgets, the Law on Public Procurement and the Minister of Finance Order No. 86, 2021, "Guideline to regulate LDF operations".

The LDF has the following sources:

- **Re-allocation of surplus tax revenue for the year**
- **Support and assistance from projects and programmes**
- **Transfers allocated to the province and soums from the GLDF**
- **As stated in the Law on Budgets, the following indicators shall be considered in defining transfers from the GLDF to provincial and soum budgets:**

- a** the local development index;
- b** population;
- c** population density, remoteness, and size of territory; and
- d** local tax initiatives.

The LDF renewed the guideline expanded on LDF financing functions under article 58 of the Law on Budgets and functions of supporting household livelihoods, creating workplaces, encouraging citizen participation and funding training, while adding public awareness activities, to be funded by the revenue from livestock tax.

Provisions have been introduced into the regulation to publicly report LDF planning, bidding, implementation, execution, financing and reporting through the LDF management and information system to citizens and communities.

Table 37. FUNCTIONS OF THE LDF AND LIVESTOCK TAX EXPENDITURE

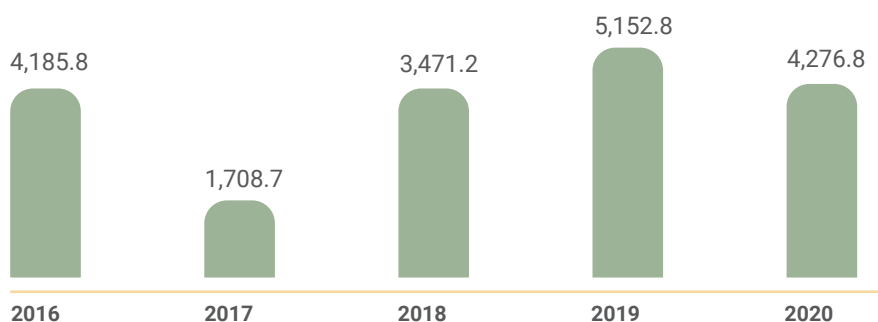
LDF transfers function		Functions of livestock tax revenue expenditure
Province	Soum	
Public health, education, culture, innovation, science and e-technology;	Public health, education, culture, innovation, science and e-technology;	Improving rangeland management;
Infrastructure improvement, road and bridges, dam and trench and electricity and heating networks;	Infrastructure improvement, road and bridges, dam and trench, electricity and heating networks;	Increasing the water supply to rangelands and croplands;
Landscaping, greenery and environmental protection;	Landscaping, greenery, and environmental protection;	Animal health protection;
Drinking water supply and sanitation improvement;	Drinking water supply and sanitation improvement;	Preventing infectious animal diseases;
Provincial development planning, feasibility studies and budget proposal development;	Soum development planning, feasibility studies and budget proposal development;	Improving livestock quality;
Improving province-wide rangeland management, livestock quality, breed and the quality of raw produce, as well as livestock products;	Improving rangeland development and the livestock sector;	Preventing crime and disasters;
Capacity building training and creating a workplace to support household incomes.	Capacity building training to support household income	Planting fodder crops;
		Establishing fodder reserves;
		Establishing fodder reserves;

Creating new workplaces;	
Public awareness activities encouraging public participation.	Combating rodents and enhancing environmental protection.

Source: Renewed guidelines for LDF operations, 2021

Zavkhan province's LDF finance sources was analyzed for the last five years. In 2016, LDF financing was MNT 4,185.8 million, but reached its lowest point in 2017, at MNT 1,708.7 million. Therefore, a measure to raise the LDF sources was taken in 2018, including support from the "Sustainable livelihoods-III" project. The project provides annual performance-based support to soum-level LDFs, to encourage citizen initiatives and participation. Consequently, LDF funding increased by 20.3 and 48.4 percent respectively in 2018 and 2019. However, it decreased by 17 percent in 2020.

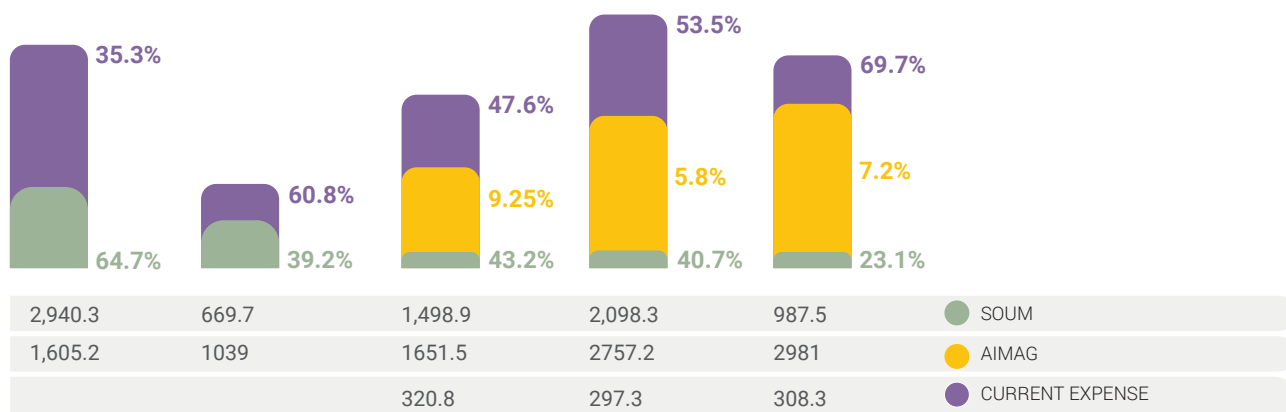
Figure 20. ZAVKHAN PROVINCE'S LDF OUTTURN, 2016-2020, MNT MILLION



Source: Investment, Development Policy and Planning Department, the Governor's Office, 2021

Since the LDF was established, no less than 70 percent of the GLDF transfer revenue of the provinces and the capital city was allocated to soums and districts. However, this was reduced to 30 percent since 2017. With the provision introduced to the Law on Budgets, the LDF is assigned to finance water subsidies, animal health services, public transportation services and subsidies, as well as recurring costs related to street lighting, cleaning and waste removal.

Figure 21. ZAVKHAN PROVINCE'S LDF STRUCTURE, 2018-2020, MNT MILLION, PERCENTAGE



Source: Provincial CRA Resolution, Finance and Treasury Department reports

Of the total LDF financed investments, 10 percent was dedicated to education, 11.8 percent to health, 15.7 percent for agriculture, 6.8 percent towards the environment, 7.7 percent went on water supply, 12.9 percent was for construction and 3.6 percent went on public administration. The remaining 30.9 percent was invested into infrastructure, including transportation, communications and electrification.

Figure 22. LDF INVESTMENT BY SECTOR, 2018-2021, MNT MILLION

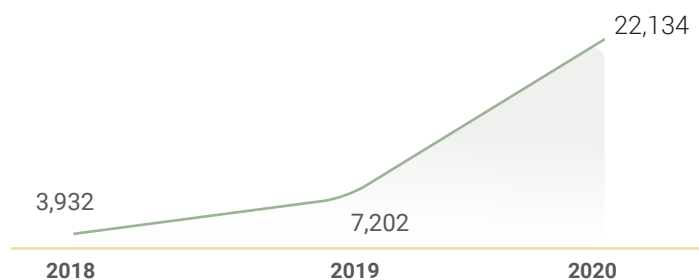


Source: <https://tusuv-oronnutag.mof.gov.mn/>

As detailed in article 5.1.4 of the Law on Budgets, to ensure fiscal transparency, it is essential to enable community participation in budget planning, generation, allocation and reporting processes, as well as provide opportunities to oversee and participate in budget execution, including procurement of goods and services with state or local property financing. It is also key to inform the public on how comments and opinions of citizens and non-government organizations are reflected in budget decisions and the result of its actions to ensure public participation in budget activities.

Article 63 of the Law on Budgets explains the process of enabling public participation in local budgets. It is applied in LDF planning, execution and reporting stages. Programmes, projects and activities implemented by LDF financing are all planned and conducted with public engagement, whereby bagh and khoroo governors and citizen assemblies, as well as all levels of CRAs, participate in during the entire process. The level of public participation in LDF planning is analyzed based on data from <https://tusuv-oronnutag.mof.gov.mn/> which reveals that public participation is 5.6 times higher than in 2018.

Figure 23. PUBLIC PARTICIPATION IN LDF PLANNING, 2018-2020, NUMBER OF PEOPLE

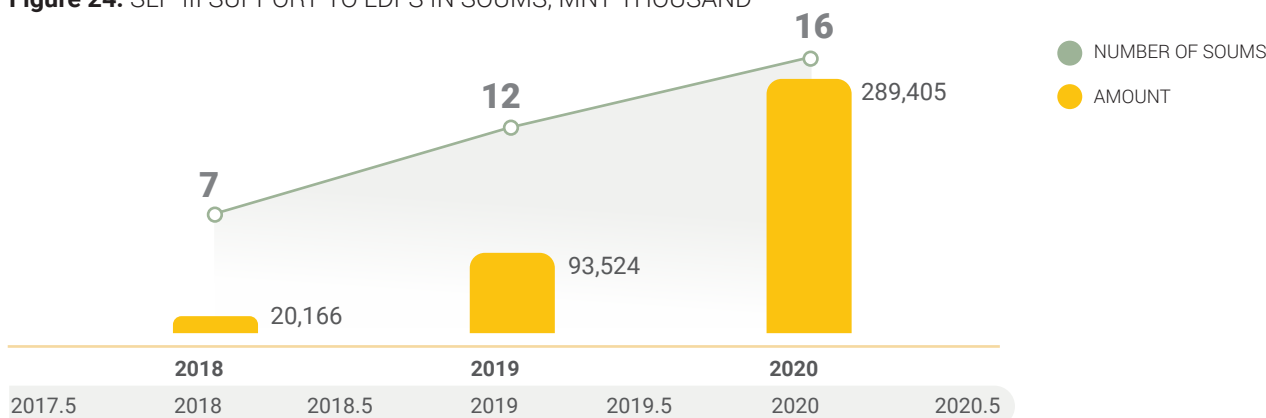


Source: Consolidated report on the LDF, 2021

However, an audit by the State Audit Office on LDF Planning and Execution noted that there were projects and activities not based on the public survey or requests. It also found that they financed local administration functions which were prohibited by laws, did not provide any proposals and budgets had unapproved feasibility studies.

The World Bank and Swiss Development Agency funded the SLP-III project, which commenced in 2016. From 2017, this began to evaluate the annual performance of LDFs in soums and provide incentives to high performing soums to support local development and encourage public participation in LDF processes. 36 percent of total soums in the province received SLP-III support in 2016, which increased to 60.1 percent in 2020.

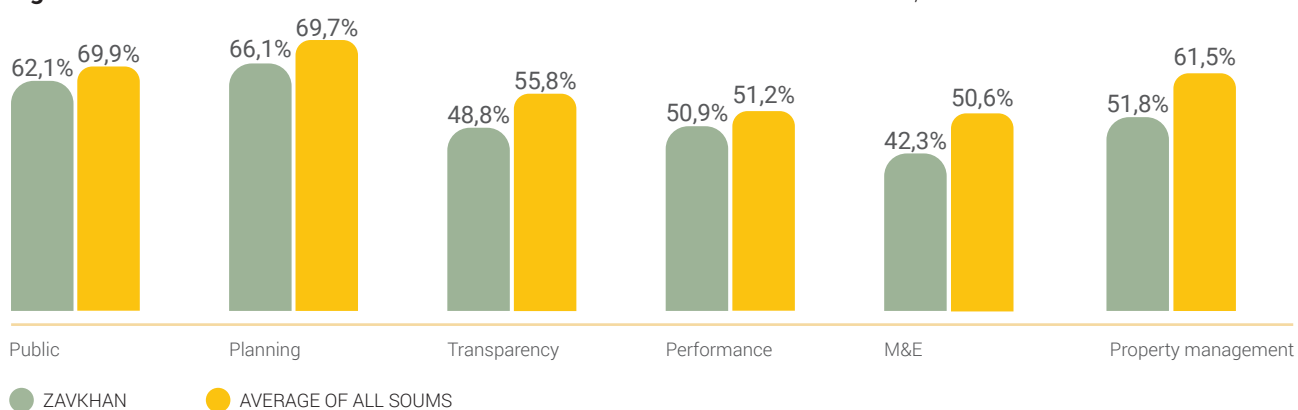
Figure 24. SLP-III SUPPORT TO LDFS IN SOUMS, MNT THOUSAND



Source: Consolidated report on the LDF, 2021

The average performance assessment value of the 24 soums in Zavkhan province were 22.7 percent, 29 percent, 45.4 percent, 48.6 percent and 60.13 percent respectively in 2016, 2017, 2018, 2019 and 2020. In total, soums received MNT 289.4 million in support during these five years. The evaluation criteria assessed soums according to six groups of governance indicators within the framework of laws and regulations related to LDF implementation.

Figure 25. ZAVKHAN PROVINCE COMPARED AGAINST THE NATIONAL AVERAGE, 2020



Source: Consolidated report on the LDF, 2021

Research outcomes suggest that Zavkhan province's performance is improving year by year, but that it is still below the national average. Performance for transparency, property management and monitoring are 7 to 10 percent below than the national average. In future, it is important that Zavkhan focus on monitoring and oversight, public participation and transparency of LDF planning and implementation.

Gurvanbulag soum from Bayankhongor province scored 92 percent on the annual performance assessment, while Tsagaankhairkhan soum from Zavkhan scored 80 percent and ranked 31st place out of 330 soums.

Table 38. ANNUAL PERFORMANCES OF ZAVKHAN PROVINCE, 2020, MNT THOUSAND

	Soum	APS	2020 LDF	Support %	Support
1	TSAGAANKHAIRKHAN	80.0	22,851.07	50.0	11,425.53
2	TSAGAANCHULUUT	79.0	24,735.13	40.0	9,894.05
3	BAYANKHAIRKHAN	75.0	43,341.26	40.0	17,336.51
4	ASGAT	74.0	18,661.11	40.0	7,464.44
5	OTGON	70.0	57,348.44	40.0	22,939.37
6	DURVULJIN	63.0	59,864.97	40.0	23,945.99
7	YARUU	63.0	40,044.08	40.0	16,017.63
8	TOSONTSENGEL	62.0	148,287.75	40.0	59,315.10
9	IDER	62.0	40,790.40	40.0	16,316.16
10	TELMEN	62.0	69,887.63	40.0	27,955.05
11	TES	58.0	36,218.83	25.0	9,054.71
12	SANTMARGATS	57.0	38,398.41	25.0	9,599.60
13	BAYANTES	56.0	66,298.29	25.0	16,574.57
14	TSETSEN-UUL	56.0	37,161.08	25.0	9,290.27
15	IKH-UUL	55.0	113,373.54	25.0	28,343.39
16	SHILUUSTEI	54.0	33,011.46	25.0	8,252.87
	Total amount				293,725.25

Source: SLP-III report, 2020

3.3.2 SOUM DEVELOPMENT FUND AND ITS PLANNING AND IMPLEMENTATION

The “Soum development fund” was established by Government Decree No. 258 in 1996 to establish small and medium enterprises, expand and revive existing ones, create new workplaces and provide financial support to small and medium producers. “Guidelines for generating, spending and monitoring the SDF and templates for contracts” were first approved by the Government Decree No. 134 in 2011 and later updated in 2016 via Government Decree No. 153.

Management and administration of the SDF went through several changes from 2011 to 2017. Due to changes in the Law on the Government of Mongolia and Law on the Government structure, it was under the oversight of the Ministry of Food, Agriculture and Light industry from 2011 to 2012 and moved to the Ministry of Labour from 2012 to 2014, before transferring to the Ministry of Industry from 2014 to 2016. From 2016, the Ministry of Food, Agriculture, and Light industry started to manage this fund again. Consequently, the managing body at local levels frequently changed. At the provincial level, the labour department, provincial governor, food and agriculture departments were

responsible for the SDF. However, at soum level, an agricultural specialist managed the fund related tasks from 2011 to 2013 April, which transferred to a labour specialist from 2013 April to 2017 April, before returning back to the agricultural department specialist from 2017 April. These changes in the managing body and responsible officials imply that the SDF lacked sustainable management and administration. The Government allocated the following financing to the SDF from 2011 to 2014, based on population and economic indicators. However, no additional financing was made since then:

TABLE 39. SDF FINANCING ALLOCATION, 2011-2014, MNT MILLION

	Population size	Number of soums	2011	2012	2013	2014	Total
1	UP TO 3000	169	50.0	50.0	50.0	18.0	168.0
2	3000-5000	98	60.0	60.0	60.0	24.0	204.0
3	ABOVE 5000	31	75.0	75.0	75.0	30.0	255.0
4	SPECIAL CONCERN SOUM	7	110.0	110.0	110.0	30.0	360.0
5	TOSONTSENGEL	1	-	205.0	205.0	122.0	532.0
6	PROVINCIAL CENTERS	24	265.0	265.0	265.0	106.0	901.0

Source: Food and Agriculture Department report

21 soums in Zavkhan have a population of less than 3,000 people, while Ikh-Uul and Tosontsengel soums have more than 5,000 people. In total, Zavkhan had received MNT 5.0 billion. In addition to the current assets from the state budget, SDF sources include loan interest, overdue payments, donations and assistance revenues.

The “Guidelines for generating, spending, and monitoring of the SDF and templates for contracts” – which is Government Decree No. 153 from 2016 – clearly stipulates the function of provincial and soum governors and CRAs. The CRAs approve SDF revenue, expenditures, maximum amount per loan and loan interests, while the Governor manages implementation within the limits of relevant legislation.

As of the first half of 2020, SDFs in 330 soums across Mongolia have total assets worth MNT 98,453.1 million. Of this, MNT 73,724.9 million was in loans to 14,354 borrowers and MNT 24,728.2 million was in account balances. MNT 48,655.7 million in loans to 9,526 borrowers are overdue and registered as non-performing loans, constituting 49 percent of total assets.

TABLE 40. LOAN DETAILS OF SDFS, AS OF 2021.06.30, MNT THOUSANDS

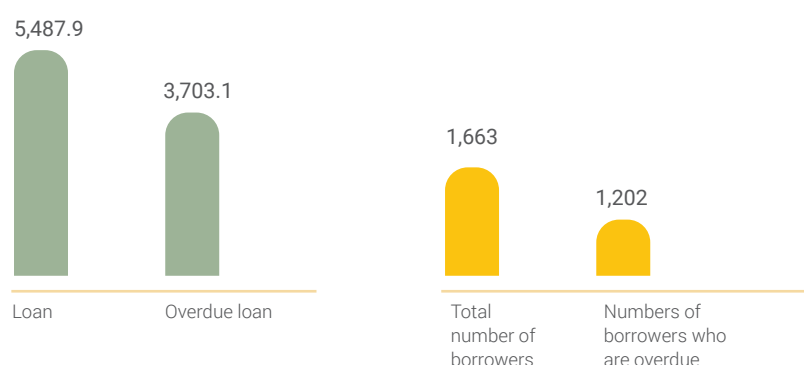
Province	Total financing	Number of borrowers	Loan balance	Account balance	Total asset	Non-performing loan	Balance of Non-performing loan	Percent of the non-performing loan	
1	BAYANKHONGOR	4,540.440	534	2,861.917	1,877.264	4,739.181	240	1,259.289	26.57
2	DARKHAN-UUL	1,765.200	212	1,367.584	412.749	1,780.333	102	614.370	34.51
3	SUKHBAATAR	3,313.860	271	2,406.516	1,133.883	3,540.399	159	1,243.710	35.13

4	DUNDGOBI	3,443.440	382	3,090.192	1,242.388	4,332.580	215	1,540.716	35.56
5	UVS	4,229.980	638	3,507.657	1,324.631	4,832.288	331	1,812.312	37.50
6	GOBI-ALTAI	3,954.160	595	3,048.061	1,591.732	4,639.794	305	1,814.985	39.12
7	ARKHANGAI	4,919.060	1,290	5,161.108	1,874.504	7,035.612	660	2,826.166	40.17
8	KHUVSGUL	5,608.260	969	4,770.628	1,705.988	6,476.616	526	2,665.458	41.16
9	BULGAN	3,905.120	675	3,680.414	1,288.051	4,968.466	436	2,313.665	46.57
10	DORNOGOBI	4,023.560	412	3,647.523	1,150.219	4,797.743	255	2,283.307	47.59
11	DORNOD	3,359.900	456	2,928.830	810,011	3,738.841	286	1,926.353	51.52
12	UMNUGOBI	3,450.160	290	2,460.605	1,350.267	3,810.873	209	2,027.820	53.21
13	ORKHON	1,127.800	191	891,242	419,925	1,311.167	130	722,611	55.11
14	ZAVKHAN	5,585.940	1,663	5,487.962	995,014	6,482.977	1,202	3,703.145	57.12
15	KHOVD	4,310.320	862	3,709.871	1,218.590	4,928.462	642	2,869.739	58.23
16	SELENGE	4,938.900	849	4,571.200	1,200.233	5,771,434	665	3,390.432	58.75
17	TUV	6,012.760	1,362	6,755.000	1,515.468	8,270.469	1,079	5,029.982	60.82
18	BAYAN-ULGII	3,925.600	1,040	3,327.016	799,348	4,126.365	798	2,538.190	61.51
19	KHENTII	4,651.560	529	3,759.881	1,056.343	4,816.224	418	2,969.860	61.66
20	UVURKHANGIA	5,663.260	1,017	5,316.517	1,421.831	6,738.349	758	4,210.376	62.48
21	GOBISUMBER	1,270.720	117	975,216	339,763	1,314.979	110	893,270	67.93
Total		84,000.000	14,354	73,724.950	24,728.211	98,453.162	9,526	48,655.764	49%

Source: MOFALI

Soums in Zavkhan province's SDFs have MNT 5,487.9 million in loan balances to 1,663 borrowers and MNT 995.0 million in account balances. Overdue loans of MNT 3,703.1 million from 1,202 borrowers account for 57.1 per cent of total assets. This is 8 percent higher than the national average. 72 percent of all outstanding borrowers are overdue.

Figure 26. ZAVKHAN PROVINCE'S SDF LOANS' QUALITY AND STATUS QUO, MNT MILLION



Source: Governor's office report of Zavkhan province, 2020

An adjunct council responsible for selecting projects to receive SDF financing is comprised of SME industry and treasury specialists from the soum governor's office, along with representatives from civil society and local communities. It works with approval from the CRA.

During the last five years, all soums in Zavkhan generated MNT 6,678.4 million in revenue from loan repayments, interest and overdue payments, which equals an annual average of MNT 1,335.6 million in revenue.

Table 41. ZAVKHAN PROVINCE'S SDF REVENUE DATA, 2016-2020, MNT MILLION

Soums	2016	2017	2018	2019	2020
ALDARKHAAN	11.2	15.2	19.4	11.2	2.4
ASGAT	8.3	18.3	44.8	32.7	47.4
BAYANTES	18.6	8.9	23.1	30.7	47.7
BAYANKHAIRKHAN	43.7	41.7	66.2	46.3	42.4
DURGUN	56.7	55.0	28.3	32.8	10.5
ZAVKHANMANDAL	55.8	40.9	38.4	38.9	49.7
IDER	41.1	38.1	44.7	28.2	30.2
IKH-UUL	46.1	44.3	39.2	56.1	66.7
NUMRUG	48.6	64.5	64.4	63.5	68.9
OTGON	25.6	87.9	70.0	43.0	90.3
SANTMARGATS	19.8	32.6	20.2	7.5	21.3
SONGINO	35.6	50.3	88.7	33.4	35.5
TOSONTSENGEL	23.0	38.8	86.8	93.5	122.3
TES	39.7	11.0	10.5	1.5	3.8
TELMEN	69.4	80.5	60.2	68.5	114.2
TUDEVTEI	68.3	38.1	45.7	45.6	34.6
ULIASTAI	206.0	282.2	305.5	310.5	254.8
URGAMAL	64.1	62.1	83.6	54.4	81.8
TSETSEN-UUL	25.4	10.6	29.6	12.1	16.9
TSAGAANKHAIRKHAN	37.1	79.2	35.1	31.5	52.0
TSAGAANCHULUUT	85.3	67.8	63.3	98.6	57.1
SHILUUSTEI	25.4	64.0	90.8	56.1	55.9
ERDENEKHAIRKHAN	70.0	0.0	78.5	62.8	71.7
YARUU	75.9	23.7	32.4	48.9	65.9
Total	1,200.6	1,256.0	1,469.4	1,308.3	1,444.1

Source: The Governor's Office report of Zavkhan province, 2020

The following loans were issued based on the soum CRA resolution, project selection council and soum governor decisions:

Table 42. ZAVKHAN PROVINCE'S SDF EXPENDITURE DATA, MNT MILLION

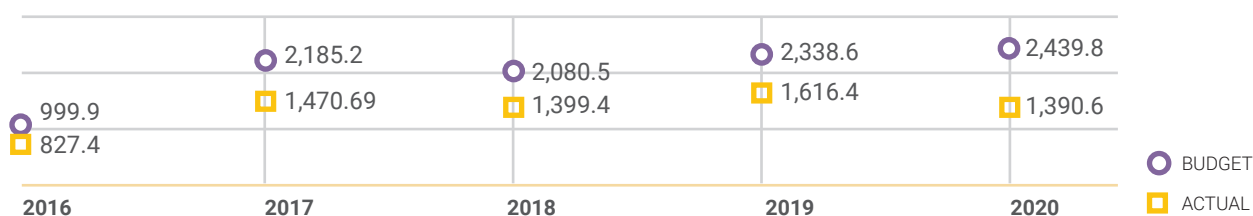
Soums	2016	2017	2018	2019	2020
ALDARKHAAN	12.9	10.5	18.5	6.0	13.2
ASGAT	7.3	3.2	21.3	50.2	65.6

BAYANTES	12.0	21.0	20.3	33.1	44.5
BAYANKHAIRKHAN	35.8	34.1	31.0	90.5	51.7
DURGUN	21.6	61.9	9.2	90.5	26.1
ZAVKHANMANDAL	17.8	79.5	38.7	42.4	49.0
IDER	35.3	33.0	25.4	41.1	60.2
IKH-UUL	28.6	44.1	42.9	38.5	52.9
NUMRUG	52.0	56.4	52.2	61.0	89.8
OTGON	28.9	60.4	24.0	77.3	59.3
SANTMARGATS	0.0	74.1	0.9	34.0	0.5
SONGINO	35.1	37.1	65.8	59.7	0.0
TOSONTSENGEL	24.7	33.2	50.5	122.1	121.6
TES	15.1	43.0	4.6	1.0	1.2
TELMEN	72.4	54.5	80.4	63.5	78.2
TUDEVTEI	44.9	51.9	34.7	48.5	45.3
ULIASTAI	143.1	287.0	437.3	313.5	243.3
URGAMAL	3.0	95.2	120.3	35.8	100.7
TSETSEN-UUL	0.0	0.0	77.8	18.0	20.2
TSAGAANKHAIRKHAN	39.6	81.4	1.1	62.8	42.5
TSAGAANCHULUUT	101.6	61.7	15.4	118.5	86.4
SHILUUSTEI	14.0	84.7	95.9	48.8	67.4
ERDENEKHAIRKHAN	4.0	163.0	90.5	102.0	6.2
YARUU	77.5	0.0	40.9	57.8	64.9
Total	827.4	1,470.9	1,399.4	1,616.4	1,390.6

Source: The Governor's Office report of Zavkhan province, 2020

In 2020, compared to 2016, the revenue or loan repayment of SDFs in Zavkhan increased by 20 percent, while the amount of loans provided by the fund increased by 68 percent.

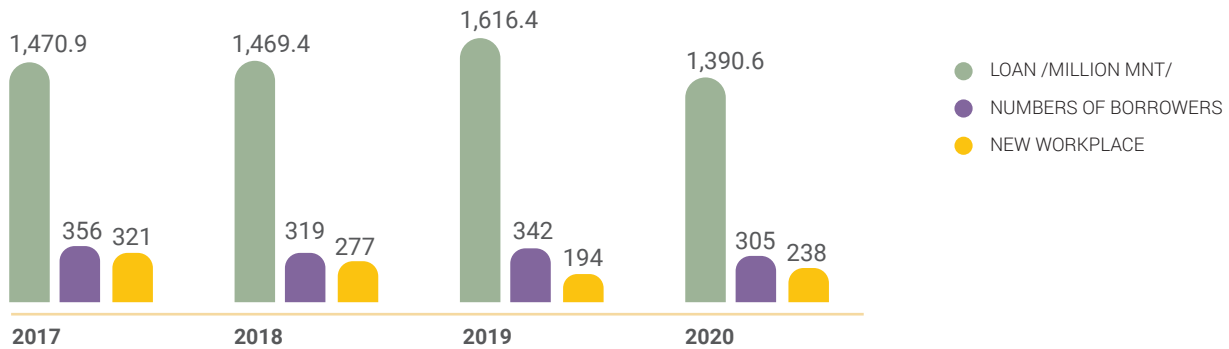
Figure 27. SDF EXPENDITURE PLAN AND OUTTURN, 2016-2020, MNT MILLION



Source: Finance and Treasury Department's report, the Governor's Office, 2021

For instance, in 2020, soum CRAs in the province approved an SDF expenditure plan where 2,439.8 MNT million was allocated for repayable loans to be financed by MNT 662.3 million from the previous year's balance and MNT 1,777.5 million from operating income. Between 2016 and 2020, the SDF had spent MNT 6,704.7 million, with 1,322 people receiving loans and 1,030 new workplaces created.

Figure 28. OUTCOMES OF SDF OPERATIONS, 2020



Source: Finance and Treasury Department's report, the Governor's Office, 2021

SDF revenue and expenditure budgets are approved by CRA resolutions and incorporated into soum GBG financial statements. The CRA resolution approves the purposes and maximum amount of loans allowed to be issued, while the adjunct council of the SDF selects qualified loans and informs the soum treasury to finance selected loans, monitor loan performances and report to the soum CRA. SDF revenue and expenditure outturns are incorporated into monthly, quarterly and annual soum financial statements in accordance with the timeline indicated by the law. This is passed on to provincial financial statements and reported to the MOF. In addition, an SME specialist at the Soum Government Office enters SDF fund generation and expenditure data into an SDF database, which is later integrated by the SME department of MoFALI.

Over 70 percent of SDF borrowers with loan balances have overdue loans which affected loan turnover. The National Audit Office assesses SDF financing outcomes. For instance, the 2019 audit inspection reports that SDFs across the province had beginning balance of accounts receivable of MNT 5,120.3 million in 2019, incurred MNT 1,435.6 million in loans and collected MNT 1,064.4 million in repayments, thus resulting in ending balance of accounts receivables of MNT 5,491.5 million. Of these, 59.8 percent or MNT 3,253.9 million were overdue and 41.4 percent of those overdue repayments – equal to MNT 1,347.1 million accounts receivable – were filed to the court. A contract was signed with the General Executive Agency of Court Decision to collect the 39.8 percent of overdue repayments which were filed to the court, equalling MNT 536.1 million accounts receivable in adherence to court decisions. The SDF incurred loans and the administration of these causes significant challenges to soum governors, which could lead to financial irregularities. Therefore, it is emphasized here that it is necessary to issue loans through commercial banks and enter the data into the Bank of Mongolia's loan database.

3.4 Coherence between the development policy planning and local budget

3.4.1 COHERENCE BETWEEN THE DEVELOPMENT POLICY AND BUDGET

An analysis on coherence between the province's medium- and short-term policy papers and Mongolia's long, medium- and short-term development policies is underway. The consultant reviewed the coherence between these policy papers and the budget execution from 2018 to 2020. In doing so, provincial CRA meeting documents and

relevant resolutions, budget approvals and budget executions from 2017 to 2020 were analyzed. The Province Governor's Action Plan for 2016-2020 – which is aligned with national long, medium-and short-term development policy goals and core activities for the socio-economic development of the province in 2018 and 2019 to implement the Governor's Action Plan – were implemented, assessed and evaluated. A four-year development program and annual core activities were planned and approved with required financing, while financing sources and performances were reported, with disbursed assets and financing sources of each activity.

Table 43. GOVERNOR'S SOCIO-ECONOMIC DEVELOPMENT BUDGET, 2018-2019, MNT MILLION

Year	Total financing for the socio-economic development		Local budget financing to the socio-economic development	
	Budget	Actual	Budget	Actual
2018	31,618.5	3,0601.8	5,977.4	6,366.7
2019	47,203.0			5,670.2

Source: Monitoring, Evaluation and Internal Audit Department report, the Governor's Office

During the last five years, around eight percent of total local expenditure was dedicated to socio-economic development in each year, equal to 15-18 percent of the required financing to implement planned socio-economic development activities. State budget financing, projects and program financing covered other required sources. This suggests that even though it is at minimal scale, the local budget proposal was developed and implemented in coherence with development policy goals.

In addition to the aforementioned policy papers, 27 national and local sub-programmes are being implemented. The monitoring, assessment, evaluation and internal audit department of the local government office monitors and assesses the semi-annual and annual implementation progress of the local Governor's Action Plan, socio-economic development objectives, national and local subprogrammes, the Government Action Plan and resolutions. This is in accordance with government resolution No. 89 from 2017, "General guideline to conduct monitoring and assessment, evaluation to the policy paper implementation and operations of the administrative entity," and is reported to the provincial CRA as well as Government.

Table 44. BUDGET EXPENDITURE DATA ON THE SUBPROGRAMMES IN ZAVKHAN PROVINCE, 2016-2020, MNT MILLION

	Subprogrammes	Started year	Number of Activities	Performance %	Total Budget	Source	
						Local investment	LDF
1	Fruits and berries	2016	7	100%	-	-	
2	Vegetables	2017	13	100%	6.00		6.00
3	Anti-corruption and no-corruption province	2017	20	100%	9.00		9.00
4	Prevention and control of contagious diseases	2017	17	100%	-		
5	Legal education-drastic reform	2017	10	100%	-		

6	Prevention and control of non-contagious diseases	2005	35	95.59%	51.50	1.50	50.00
7	Development of the education, culture and arts sector	2017	32	94.19%	-	-	
8	Local red garlic brand	2013	17	94.12%	20.00	20.00	
9	Implementing the State policy on health in Zavkhan province	2017	60	90.50%	33.00	33.00	-
10	Development of public sports and physical education		21	89.52%	199.40	58.40	141.00
11	Healthy food - healthy Mongolians	2019	20	89%	3.00		3.00
12	Development of the tourism sector	2015	48	88.30%	122.00		122.00
13	Good teacher	2016	19	86.84%	265.50	89.00	176.50
14	Learning from the elders	2017	12	86.67%	40.00		40.00
15	Fight against desertification	2010	27	86.67%	80.00	80.00	
16	Good businessmen	2016	30	86%	27.30		27.30
17	Produced and consumed in Zavkhan	2017	28	83.93%	60.00		60.00
18	Zavkhan with standards	2016	30	83.67%	3.00		3.00
19	Good herder	2016	50	83%	30.00		30.00
20	Health program focusing on liver	2017	6	80%	2.00		2.00
21	Water	2010	45	78.37%	242.10		242.10
22	Child-friendly province	2017	41	76.84%	3.00	3.00	-
23	Good student	2016	5	76%	145.50		145.50
24	Improving the waste management	2014	37	67.84%	134.70		134.70
25	Labour safety and health		20	64%	-		-
26	Good doctor	2016	30	61.67%	80.20		80.20
27	Improving the gender equality	2017	19	57.37%	-		-
	Total		699	85,1	1,557.20	284.90	1,272.30

Source: The consultant's estimations, 2021

The budget proposal reveals that financing for subprogrammes is not always clearly stipulated in the budget, and performances are estimated based on subprogram reports and information from relevant specialists. The law on development policy, planning and its management was ratified in May 2020 and is under implementation. It states that provincial governors and the capital city mayor are responsible for producing a five-year development guideline for the province, capital city and cities, with the action plan of the local government in line with the national long-term development vision, five-year national development guideline and development target programmes. Those documents must be approved by the local CRA and their implementation reported.

Furthermore, it stipulates that goals, targets, criteria, base and target levels, implementing methods and phases, expected results, socio-economic and environmental impacts and risks, sources of finance, monitoring and evaluation plans, as well as responsible agencies, shall be incorporated in the draft development policy and planning doc-

uments. “Zavkhan province’s development plan for 2021-2025”, “Zavkhan province’s Governor’s development action plan 2021-2024” and “Zavkhan province’s development plan for 2021” were developed within the framework of the law. A total of 199 activities will implement MNT 51,272.3 million in financing, of which the LDF and local road fund will finance MNT 5.8 billion, to be included in the 2021 budget.

Budget, financial projections and sources shall be detailed in development policy and planning documents, as well as submitted to corresponding ministries, so that a certain proportion of development activities will be included in the state investment plan for implementation and construction, or infrastructure projects will be included in the corresponding ministry’s portfolio. The local budget only received special funding from the state budget for investment in 2018 during the reporting period.

Table 45. INVESTMENT PROPOSALS SUBMITTED TO ZAVKHAN PROVINCE MINISTERS AND IMPLEMENTATION, 2019-2021, MNT THOUSAND

Ministry	2019		2020				2021					
	Number of the proposals		Implemented by number		Number of the proposals		Implemented by number		Number of the proposals		Implemented by number	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
MoE	3	7,320			8	12,032	2	2,220	4	11,850	1	1,600
MCUD	5	8,284	3	15,580	2	21,200	3	15,580	6	50,500	2	3,000
MRTD	9	162,293	6	424,343	5	21,305	3	7,843	12	265,882	4	2,2743
MoH	9	4,756	4	2,130	4	4,956	5	7,111	8	4,758	2	2,325
MECS	19	48,700	13	24,395	27	55,400	32	79,898	16	39,484	23	56,720
MoFALI			1		1	300						
MET	6	3,444	1	3,000	4	3,294	2	1,858	3	305	1	3,000
CSG	5	5,315	3	3,730	5	9,835	6	4,510	6	11,585	3	3,600

Source: The Governor’s Office and departments’ reports, Zavkhan province, 2021

For instance, the local government of Zavkhan province submitted 56 proposals with required investment of MNT 240 billion to seven ministries, of which 30 were implemented. A significant amount of financing was also approved by the MCUD in 2019 to build 211 kilometres of road from Tosontsengel to Uliastai, with this project still under implementation. In addition, the local government proposed implementing 55 activities. Of these, MNT 128 billion and 54 of them were approved with financing of MNT 119.0 billion. During last three years, 73 percent of total proposals from Zavkhan were included in the state investment plan and implemented.

The consultant analyzed major investments in Zavkhan province between 2016 to 2020. 78.8 percent of the total investment, which is equivalent to MNT 493.0 billion, was financed to build and renovate roads and bridges. 16.95 percent, or MNT 106.8 billion, was invested in health, culture and sports, while 4 percent of investments – MNT 25.1 billion – contributed to improving public services, particularly building bagh citizen centers and soum government houses. This illustrates that there was no substantial investment towards big-scale production to support economic growth and to establish new places to increase the income sources of local citizens.

Table 46. INVESTMENT OUTLOOK OF ZAVKHAN PROVINCE, 2016-2020

Investments financed by state and local budgets and other sources (MNT million)	
Local government offices, vehicles	25,132.8
Secondary school and kindergarten buildings	62,575.5
Cultural center buildings	26,154.4
Sports center	9,704.5
Health	7,935.4
Electricity transmission network	2,220.0
Road	37,093.9
Roads built by state budget and loan and concession contracts	456,900.0
Total	627,716.5

Source: Finance and Treasury Department's report, the Governor's Office, 2021

Article.7 of the Minister of Finance's Decree No. 244 from 2012, "Guideline for developing local budget proposals," regulates that the proposal for the Procurement of goods and services must be attached to the local budget proposal, as well as discussed and approved by the CRA. However, CRA resolutions of 2019 and 2020 do not include the procurement plan. The following estimation and conclusions were made based on reports from the provincial procurement department. Procurements of local recurring costs, local investments and investments from corresponding ministries" portfolios were conducted online and open to the public.

Table 47. PROCUREMENT PERFORMANCE, 2018-2020

Finance source	2018		2019		2020	
	Total budget	Procurement	Total budget	Procurement	Total budget	Procurement
State budget investment	20,258.50	8,575.5	40,501.9	40,501.9	26,444.6	23,765.8
Recurring expenses of the local budget	4,327.60	1,362.4	4,902.8	1,503.4	5,841.4	1,366.2
LDF, local budget investment	6,366.7	3,226.8	5,670.2	3,067.0	6,179.3	4,325.8
Total	30,952.8	13,164.7	51,074.9	45,072.2	38,465.3	29,457.8
Percentage of the investment used for procurement		42.5		88.2		76.6
Online bidding percentage		63.0		67.0		80.0

Source: The procurement report from the Governor's Office, 2021

In total, 210 online bids were organized during the last three years, with 42.5 percent, 88.2 percent and 76.6 percent of the local budget spent through online-bid procurement in 2018, 2019 and 2020 respectively.



CHAPTER FOUR:
PERFORMANCE OF
DELEGATION AGREEMENTS
OF STATE FUNCTIONS



4.1 Implementation and outcomes of agreements between the Governor and sectoral ministers

As provided in section 39.1 of article 39 of the Law on Budgets, article 29 of the Law on Administrative and Territorial Units and their Governance, along with other relevant laws, an agreement is signed and reported annually to implement delegated state functions. The Governor of Zavkhan province signed 15 agreements with national sectoral ministries and local government bodies to implement 555 activities. Out of these, 491 or 88.5 percent were implemented with 100 percent performance, six activities or 1.1 percent, were implemented with 30 percent performance and the remaining 13 were not implemented or unable to be evaluated or assessed.

Table 48. PERFORMANCE OF AGREEMENTS SIGNED WITH ZAVKHAN MINISTRIES AND GOVERNMENT BODIES, 2020

Names	Number of target activities	Performance ratio					Percent	
		100%	70%-Under implementation	30%-inadequate	0-No implementation	Early to evaluate		
1	Deputy Prime Minister of Mongolia	23	20	1	-	-	2	98.5
2	Prime Minister of Mongolia, Head of the Cabinet Secretariat	13	12	-	-	-	0	100.0
3	Ministry of Justice and Internal Affairs	58	56	2	-	-	-	98.9
4	Ministry of Finance	24	19	4	1	-	-	92.1
5	Ministry of Nature, Environment and Tourism	45	38	6	1	-	-	94.4
6	Ministry of Energy	12	11	1	-	-	-	97.5
7	Ministry of Health	43	37	5	-	-	1	96.4
8	Ministry of Labor and Social Welfare	37	29	8	-	-	-	93.5
9	Ministry of Defense	40	28	5	4	-	3	88.3
10	Ministry of Construction and Urban Development	68	48	17	2	1	-	88.9
11	Ministry of Mining and Heavy Industry	24	15	4	-	-	5	93.7
12	Ministry of Education, Culture, Science and Sports	95	85	6	1	3	-	93.9
13	Ministry of Food, Agriculture and Light Industry	24	18	6	-	-	-	92.5
14	Ministry of Road and Transport Development	26	24	-	-	-	2	100.0
15	National Development Agency	12	6	-	1	-	5	90.0
	Total amount	555	491	45	6	0	13	96.1

Specialists from the policy division of the Zavkhan Governor's Office and heads of agencies under the Office included programmes and activities stipulated in agreements between the Zavkhan Governor and sectoral ministries in their performance plans, and evaluated implementation progress semi-annually and annually.

Table 49. PERFORMANCE OF AGREEMENTS SIGNED WITH THE GOVERNOR, BY ORGANIZATION

Performance evaluation of the annual-plan agreement with the Governor in 2020

Nº	Organization	Performance percent
1	State registration	97.5
2	Hydrology, Meteorology and the Environmental Monitoring Center	97.3
3	Financial Monitoring and Audit Office	95.7
4	Education, Arts and Culture Agency	95.3
5	Emergency Management Agency	95.1
6	Local Property Agency	94.8
7	Social Insurance Division	94.1
8	Family, Child and Youth Development Agency	93.9
9	Executive Agency of Court Inspection	93.8
10	he Mongolian Agency for Standardization and Metrology	93.5
11	Police Department	93.5
12	Land Management, Construction and Urban development Agency	93.2
13	Labour and Welfare Agency	93.1
14	Special Inspection Agency	93.1
15	Health Agency	93.0
16	Animal Health Agency	93.0
17	Food and Agriculture Agency	92.8
18	Tax Agency	92.6
19	Sports Agency	92.5
20	Environment and Tourism Agency	91.7
21	Statistics Agency	91.4
22	Executive Agency of Court Decisions	91.3

Source: Monitoring, Evaluation and Internal Audit Department report, Governor's office, 2021

"Promoting employment and creating workplaces program-III" is an activity included in the agreement between the Minister of Labour and Social Welfare every year and reviewed here as an example of implementation of agreements between the Governor and sectoral ministers.

Table 50. PERFORMANCE OF THE AGREEMENT BETWEEN THE ZAVKHAN PROVINCE GOVERNOR AND LABOUR AND WELFARE AGENCY, 2020

Indicators	Target	Actual	Percent
3.1 Establish permanent workplaces	1,400	1,451	70
3.2 Policies to support unemployed and low income citizens' livelihoods will be implemented in line with development policy planning and general functions of socio-economic development and will decrease the level of unemployment	4.3	2.9	100
3.3 Appropriate labour policy and targets will be identified and implemented based on local characteristics, infrastructure, investment, finance and loan polices, to increase sustainable employment	71.3	74.9	105
3.4 To implement projects and activities within the framework of the Law on Employment promotion, including the training and skills programmes for employment, a programme to create workplaces and a programme to support start-ups for youth employment will be established	990.6	806.7	74.6
3.5 Providing micro loans to small business holders, including household producers, entities, communities and cooperatives	380.0	0	0
Evaluation			56.4

Source: Annual performance report of the agreement between the GBG of the Labor and Social Welfare and the Governor of Zavkhan province

Article 58 of the Law on Budgets states that provinces and capital cities shall carry out programmes and activities to support employment and reduce poverty with its budget. The "Guideline to generate, spend and monitor employment support fund financing" enacts that provinces, capital cities and districts shall have a sub-fund, which will receive no less than 0.3 percent of annual budget revenue. The National Committee for Employment ratified "Rules of the provincial, capital city and district committee" with its Decree No. 2 from 2017, based on articles 28.1-28.3 of the Law on employment promotion. The committee serves to ensure stakeholder engagement in implementing employment promotion policy, laws and regulations, leading local implementation of employment policy and activities. It also generates and allocates the budget for the sub-fund of the Employment Promotion Fund, discusses issues and provides guidelines, monitors revenues and expenditures of the fund, as well as obtains approval for employment promotion activities. Additionally, the committee funds and implements provincial and capital city-financed activities at local levels. The head of the provincial Employment Promotion Fund is the Governor of the province. Its 11 members include the head of the social development policy department of the Governor's Office, the head of the Public administration and management department, the head of the Treasury department, the Employer's Association, representatives from the Labour union and civil society. Zavkhan province does not have an independent program to promote employment, although the Governor's action plan for 2016-2020 includes a target for "developing value-added products and services". Key outcomes of this include six entities receiving MNT 451.0 million in loans from the SME fund and 849 local residents from the 24 soums incurring MNT 3.473 billion in loans from the SDF from 2017 to 2020 under the "Good Businessmen" programme. 12 entities also received MNT 1.192 billion in soft-loans from the SME fund, with financial support resulting in 589 new workplaces.

The 2020 to 2025 development guideline for Zavkhan province and 2020 to 2024 Action Plan of the Governor seek to “increase employment, deliver social welfare to the target groups, support family, child and youth development, as well as improve quality of life.” Within the framework of this target, the following activities, financing sources, baselines, target performances and indicators for assessment were planned:

Table 51. THE GOVERNOR'S ACTION PLAN FOR 2020 - 2024, MNT MILLION, PERCENTAGE

Activities	Source	Total resource	Indicator	Baseline	Target			
					2021	2022	2023	2024
OBJECTIVE: INCREASE EMPLOYMENT, DELIVER SOCIAL WELFARE TO THE TARGET GROUPS, SUPPORT FAMILY, CHILD, AND YOUTH DEVELOPMENT, AS WELL AS IMPROVE QUALITY OF LIFE								
To decrease the percentage of youth who are not employed, educated or trained	LB (local budget)	40.0	%	25.7	24.5	22	22	20
To increase the participation of the workforce in the province	LB		%	80	80	83	85	86
To increase the SIP of the economically inactive population	LB	20.0	%	23	28	31	35	40
To reduce unemployment through policies that meet workplace demand	LB	80.0	%	4,3	5,6	4	3	3
To provide vocational education to employees in the service industry	LB	15.0	Human resource	250	280	300	330	350
To expand the labour center operations of the province	LB	10.0	Center	0			1	
To establish a development center for persons with disabilities	LB	40.0	Center				1	
To establish a database of senior consultants	LB	2.0	Number of registered seniors	175	200	230	250	300

Source: Investment, Development Policy and Planning Department, the Governor's office, 2021

Zavkhan province's sub-fund of the Employment Promotion Fund received MNT 4,039,5 million from 2016 to 2020 and engaged 16,786 people in programmes and projects, creating 3,832 new workplaces.

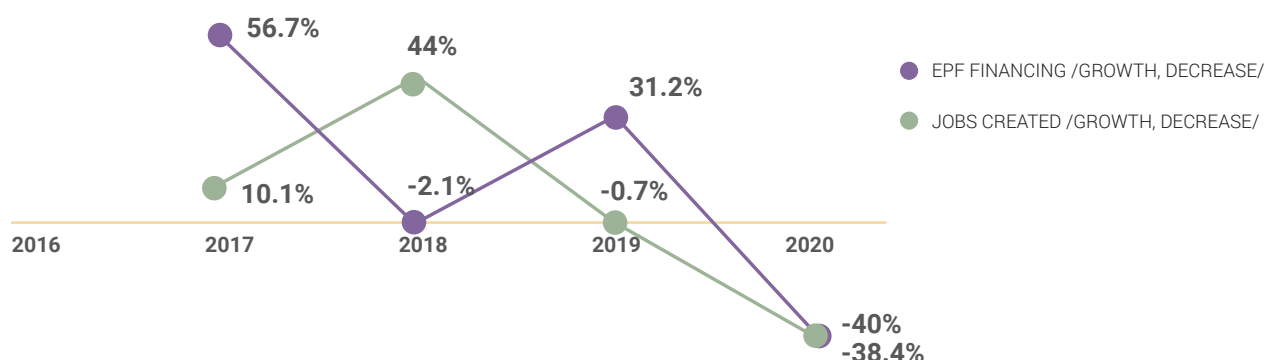
Table 52. OUTCOMES OF THE EMPLOYMENT PROMOTION PROGRAMME IN ZAVKHAN PROVINCE, 2016-2020, MNT MILLION

Program	2016	2017	2018	2019	2020
Employment preparation and skills for employment programme	45.1	30.4	28.9	20.5	10.3
Herders' employment support programme	225.0	281.5	290.8	288.5	110.1
Workplace support programme	160.5	403.4	346.4	486.3	318.3
Youth employment and start-up business support programme	30.7	58.5	91.3	212.9	119.8
Employment support for persons with disabilities programme	76.1	60.5	59.0	61.7	78.2
Senior professionals' advisory service development programme	14.0	30.1	30.3	40.8	31.1
Total	551.4	864.4	846.7	1,110.7	667.8
Total number of people who participated	2,909	3,312	3,703	3,850	3,012
Total number of jobs created	328	759	1,093	1,022	630

Source: Food and Agriculture Department report

When funding from the Employment Promotion Fund and number of jobs created are compared to the previous year's statistics, in 2017, the amount of funding increased by 56.7 percent and the number of jobs created rose by 10.1 percent in 2018. Funding decreased by 2.1 percent, but the number of new jobs increased by 44 percent in 2019. Funding increased by 31.2 percent, however the number of jobs created fell by 0.7 percent and, in 2020, both funding and number of jobs decreased by 40 percent and 38.4 percent respectively.

Figure 29. GROWTH AND DECREASE OF EMPLOYMENT PROMOTION FUND FINANCING JOBS CREATED, BY PERCENTAGE



Source: Food and Agriculture Department report, 2021

Loans to support workplaces of self-employed citizens were provided to the public every year. By the end of 2020, repayable loans from the Employment Promotion Fund had increased by MNT 200 million from previous year, with the total amount receivable at MNT 2,106.5 million.

Table 53. “EMPLOYMENT PROMOTION FUND” FINANCED LOANS, 2020, MNT MILLION

Indicators	2020.01.01	2021.01.01
Supporting self-employed, partnerships, cooperatives	576,021.5	718,009.9
Supporting employment of persons with disabilities	138,382.4	156,365.4
Supporting herders' employment	830,418.6	769,244.3
Supporting the senior professionals' advisory service	37,015.9	49,025.9
Supporting youth employment	315,324.3	411,342.5
Accounts receivable of subsidies	9,606.8	2,520.0
Total	1,906.769.6	2,106.508.1

Source: 2020 financial statements and budget execution audit on the Labor and Welfare Services Department, Zavkhan province

In addition to financing from the Employment Promotion Fund, the province and soums had invested funds from the SDF to reduce unemployment, as well as promote job creation and outcomes as illustrated above. The Governor of the province, Governor's Office and sectoral agencies worked to ensure effective implementation of programmes and activities stipulated in the agreement between the Governor and sectoral ministries, as well as to reflect targets in organizational and staff performance plans, along with evaluate outcomes. The Governor submits its proposals to sectoral ministers before signing the agreement. However, not all proposals are included in the agreement, while some activities – which are not under the functions of local budget expenditure, as well as unfeasible or high-cost activities – are included in the agreements, thereby, affecting their performance. For instance, article 8.1 of the agreement with the Minister of Justice and Internal Affairs sets out “supporting the procurement of the latest technology and equipment for the court inspection agency”, and article 8.3 on “providing support to housing of the employees of the court inspection agency”.

Therefore, it is important that sectoral ministers adhere to the LATUG and Law on Budgets when drafting their agreements, to only include programmes and activities which are eligible for local budget funding and within the scope of local government functions. If the activity or programme is not within the scope of the local government functions, then financing arrangements must be made prior to the agreement signing.

The following conclusions were reached based on analysis of the implementation and outcomes of the Employment promotion programme from the agreement with the Minister of Labour and Social Protection:

- Labour sector budget planning, performance indicators and targets are not clear, unlike other local institutions in Zavkhan province
- The sharp decrease of the Employment Promotion Fund financing in 2020 resulted in a 38.4 percent decrease in job creation, a direct outcome of the fund's investment.
- The Employment Promotion Fund and SDF both have high balances of overdue loans, which diminishes the efficiency of their capital and signals a risk of funding source shortages to the sector. It is necessary to conduct due diligence on participating citizens and strengthen loan monitoring, to reduce loan risks and enhance budget efficiency.

- It is advised to clarify the information flow and coverage of provincial and soum employment promotion program implementations and outcomes, as well as ensure the availability of their data and information.

- Even though there is no independent programme on employment promotion in Zavkhan province, the Governor's Action Plan includes targets and activities to support employment and job creation, with implementation and outcomes assessed.

- Article 58 of the Law on Budgets states that provinces and capital cities shall implement programmes and activities to support employment and reduce poverty.

The "Guideline to generate, spend and monitor the Employment Promotion Fund budget" rules that provinces, capital cities and districts shall have a sub-fund that shall receive no less than 0.3 percent of the province, capital city and district budget. Zavkhan province has not had any funding allocated to the sub-fund. The Law on Budgets, specifically, article 6.4.6, states that: "Unless otherwise specified by law, do not assign purposefully budget revenues to anybody or any activities." However, the "Guideline to generate, spend and monitor the Employment Promotion Fund budget" rule to allocate no less than 0.3 percent of the provincial, capital city and district budget revenue to the sub-fund of the Employment Promotion Fund contradicts it.



CHAPTER FIVE: LOCAL BUDGET MONITORING



5.1 Budget internal control

As stipulated under article 69 of the Law on Budgets, “Each GBG shall establish an internal audit unit and operate an internal auditor aimed at controlling enforcement of legislation, conducting financial inspection of budget revenue generation and its spending, making assessments, evaluations and recommendations, and providing risk management. The State Central Administrative Body Responsible for finance and budget matters shall provide general budget governors’ internal audit units with methodological guidance. The Government shall approve the charter of the internal audit unit.” In accordance with the article, financial monitoring and audit office exercises, the functions of the internal audit follows the “Charter of Internal Audit,” which was approved by Government Resolution 483 from 2015 and the “Charter of Internal Control board,” approved by Government Decree 29 from 2013.

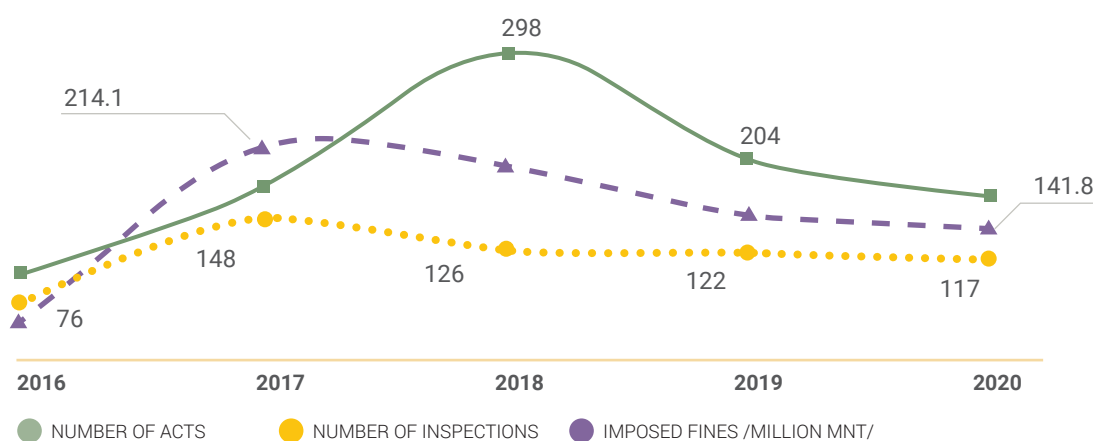
In addition, the Finance and Treasury division, as well as Monitoring and Evaluation and Internal Audit divisions at the Governor’s Office, carry out monitoring as part of their activities. Every primary budget entity has an internal control team established by the budget governor’s decision and performs monitoring functions in line with Government Resolution 311 from 2011.

FINANCIAL INSPECTION AND AUDIT UNIT OF THE GOVERNOR

The Financial Inspection and Audit Unit at the Governor of Zavkhan province has 10 specialists. Under the functions of GBG and within the frameworks of the Law on Budgets and Charter of the internal control, it carries out activities aimed at controlling enforcement of legislation and conducting financial inspection of budget revenue generation and its spending. This includes budgetary assets and liabilities, revenues and expenditures, programmes, activities and investment, making assessments, evaluations and recommendations, as well as providing risk management for the financial activities of budgetary entities, state and locally owned legal bodies and legal bodies with a majority of state and local property under the responsibility of general budget governors.

The financial monitoring and audit unit conducted financial inspections of 589 entities from 2016 to 2020 and imposed 951 acts, violations and fines, resulting in the payment of MNT 773.3 million. The majority of violations pertained to inefficient use of budget resources and disruptions to the budget savings mode.

Figure 30. FINANCIAL INSPECTION AND AUDIT REPORT, 2016-2020, MNT MILLION



Source: Financial Inspection and Audit Unit of the Governor’s Office, 2020 annual report

The number of violations in 2019 decreased by 8.9 percent from 2018, following the inspections and fines. In 2019, the unit conducted a comprehensive inspection on 11 public agencies, 19 funds, projects and activities, along with 78 budget entities and 26 funds from 13 soums (in total, 100 units and organizations). These organizations were fined MNT 155.3 million and MNT 111.7 million, which is 71.9 percent of what was collected from the budget during the reporting period.

In 2020, 114 organizations and units were inspected as planned and fined MNT 138.9 million, of which MNT 125 million, or 95 percent, was generated into the budget. To ensure implementation of the Law on Glass Accounts, the internal control is conducted quarterly. It identified that 199 budget entities produced 21,563 pieces of information out of the total 22,209 pieces of information available to the public, which is 95 percent. Recommendations to hold accountable and rectify the violations of 25 officials who did not post information or submit reports repeatedly were submitted to direct budget governors in five organizations in the province center and 20 in soum centers. It is concluded that the above mentioned data illustrates that the main focus of the unit is financial inspection. However, it must shift its focus to outcome-oriented monitoring.

5.2 Finance and Treasury Division Monitoring and Evaluation

The Finance and treasury unit at the Governor's office executes the following functions: planning local budget revenue and expenditure, generation and allocation; performing expenditure financing, reporting and conducting economic assessments and evaluations on budget and finance activities. It also monitors taxation revenue planning and outturn, along with finance and accounting activities of budget and other entities, providing policy guidelines and conducting an internal audit on the soum treasury.

Article 366.6 of the Law on Budgets provides that the Central State treasury shall conduct an internal audit on the province and capital city treasury, while the provincial treasury and capital audits soum and district treasuries. Thus, the provincial treasury carries out an internal audit on the soums's treasuries. The internal audit by the Treasury is conducted in adherence with Government Resolution No. 24 from 2015, "Guideline on Treasury functions", and the Minister of Finance's Decree No.74 from 2019, "Guideline of the internal audit by the Treasury".

The key tool to implement the internal audit by the Treasury is a risk assessment. The Treasury of Zavkhan province conducted a risk assessment of the soum's treasury activities, using 19 indicators from 2016 to 2020. The risk assessment report reveals that there are high risks of incomplete supporting documents for transaction and delayed financing. In addition, it is stated that there are issues of delayed financing, slow processing of authorization to spend and unmatching financing due to the taxation revenue generated by the end of the month.

When analyzing the risk assessment and operation risk assessment of the treasury units in 24 soums, it is noticed that the risk assessment score of Uliastai soum has been increasing, which indicates a higher risk, while Tsagaankhairkhan and Tsagaanchuluuut soums are risk free.

5.3 External inspection on the budget

According to the Constitution of Mongolia and the Law on State Audits, the state audit body is an organization that implements state finance and budget audits independently. Further, article 6.2 of the Law on Budgets provides that the principle of ensuring fiscal transparency involves enabling community participation in budget planning, generation, allocation and reporting processes. This provides the public with opportunities to oversee the budget process, whether it is executed and spent as an approved plan, as well as giving the public possibilities to oversee any work or services delivered by the state, along with the procurement of goods and services within them. In other words, the law sets out the legal foundations for the public to exercise its right to monitor the budget process, either directly as a citizen, or through civil society.

According to article 641.2 of the Law on Budgets, the CRA has the authority to debate and approve the budget and its supplementary budget for the fiscal year, oversee their implementation and inform the public. Based on the above mentioned legal frameworks, the state audit body, the CRAs in different administrative units, citizens and civil society organizations exercise the external audit of the budget. From 2016 to 2020, policy committees were established to support the activities of the provincial CRA to conduct research, monitoring and evaluations on local development policies, while sectoral issues and findings were discussed and approved by the CRA.

In 2020, five policy committees with 41 representatives were established during the second CRA meeting of the year in Zavkhan province. These five committees are:

- **Local governance, laws and regulations, human rights**
- **Social policy**
- **Economic policy**
- **Food, agriculture, green development and environmental policy**
- **Production, infrastructure and urban development policy**

These committees are established with roles of providing and presenting relevant information on policy planning, along with implementation progress of CRA-approved projects, while submitting guidance and analysis on them when the CRA is held and discussing issues in their respective domains.

The State audit body conducts an annual audit on provincial and soum GBG budget execution and consolidated financial statement reports, as well as provides its assessments. For instance, the audit findings of the consolidated financial statement and financial report on the budget execution conclude that internal control is “effective” at the core functions of Zavkhan province’s GBG and financial internal control risk management.

The consolidated financial statement report 2020 from the GBG includes 24 CBGs, seven locally owned entities and 220 direct budget governors. The financial statements of these 251 entities were audited. Out of these, 127 received an assessment of “no violations” on their financial statements, 20 received “limitations”, while three were assessed as “negative” on their financial statements.

The audit found MNT 6,438.1 million in mistakes and violations related to the budget planning, spending, accounting and calculations and corrected mistakes worth MNT 3,617.8 million during the audit process. It also provided recommendations for the violation worth MNT 1,319.3 million, sanctioned MNT 91.2 million under the payment act and submitted an official warning of not to repeat mistakes worth MNT 1,409.8 million.

Table 54. VIOLATIONS DISCOVERED DURING THE AUDIT, MNT MILLION

	2019		2020	
	Quantity	Amount	Quantity	Amount
Official warning	50	2,211.3	40	1,588.8
Payment sanctions	43	104.2	70	313.9
Recommendation	461	2,092.9	1,285	10,052.7
Correction	161	8,370.1	204	4,862.4
Total	729	12,801.0	1,628	16,881.9

Source: State Audit Report of Zavkhan province

During the last two years, a total of 640 organizations were audited. In 2020, this included 305 financial audits, eight operational audits and five compliance audits. In 2019, 729 violations worth MNT 12.8 billion were identified. However, the number of violations was 1.2 times higher, causing a 31.8 percent increase in violations, equivalent to MNT 16.8 billion. 78.9 percent of the violations received recommendations.

As of 2020, violations and mistakes across the province include: 290 violations related to the accounting and reporting covering MNT 10.0 million, making up 59.5 percent of the total violation amount. Violations related to the budget savings are worth MNT 2.7 billion. By quantity, there are 1,071 violations related to the implementation of law and regulations, especially the Law on Budget, making up 65.8 percent of total violations.



FINDINGS AND RECOMMENDATIONS

Photo by Ikhayar.Ch

The research on Zavkhan province's public budget from 2016 to 2020 provides the following findings:

6.1 Findings

BUDGET REVENUE:

- Total budget revenue in 2016 was MNT 58,183.8 million. By 2020, this increased by 35.5 percent, reaching MNT 78,863.4 million. Specifically, taxation revenue grew by 37.4 percent from MNT 6,771.4 million in 2016 to MNT 9,302.8 million in 2020. With the increased revenue, 12.8 percent of the budget expenditure was financed by the revenue generated in the province and soums. The ratio increased to 16.9 percent in 2020. However, it was noted that taxation revenue planning should be correlated with tax capacity. Because actual revenue generated from the tax exceeded the plan for every year of research. For instance, taxation revenue outturn was 18.7 percent more than the plan in 2018, 32.4 percent in 2019 and 21.8 percent in 2020.
- The budget revenue structure did not change much during the last five years and is still dependent on very few sources. For example, in 2020, 75.1 percent of local tax revenue was generated from PIT, 10.3 percent from property tax and 9.3 percent in payments for natural resource exploitation. These three types of revenue sources make 94.7 percent of the local budget tax revenue.
- According to article 8.3 of the Law on Tax, the provincial and capital city's CRA shall establish rates of PIT, immovable property tax, automobile and self-propelled vehicle tax, payments for natural resource exploitation licenses except minerals, land fees, dog ownership tax, payment for plants, water and spring use, fees for animal hunting, payments for common minerals exploitation and state stamp fees within limits approved by Parliament. There was no comprehensive information available to explain the process of setting the rates of these tax items, which should be set by the Zavkhan CRA within the approved limits, except for a few resolutions. The CRA resolutions exhibit that tax rates were set at the lowest level of the rates suggested by the law and that some resolutions should be updated.

- The MOF issues approval for financial support based on the estimations of base revenue and expenditure. The draft budget revenue which was adjusted by the MOF was approved by the CRA without increasing taxes, except the automobile and self-propelled vehicle tax. In other words, the MOF applies the minimum tax rates when estimating the base revenue of local budgets, however, the provincial CRA sets the tax rates at the lowest levels, which prevents total revenue outturn from growing.
- Article 64.1.2 articulates that the CRA authorities must form and approve local budget and supplementary budget proposals. Zavkhan CRA approved budgets with increased revenue projections. For instance, a local budget was approved by the CRA resolution No. 65 dated 29 November 2019 with an additional MNT 250.5 million in revenue, while the 2020 budget proposal increased revenue by MNT 982.0 million, according to CRA resolution No. 78, dated 3 December 2020.
- There are five locally-owned entities in Zavkhan province, all of them operating with losses by the end of 2020. The 2022 budget proposal, which was submitted to Parliament, includes policy reforms for governance and structure, along with policies on share dividends. This aims to improve the profitability of state-owned or partially state-owned enterprises, as well as strengthen their governance, transparency and accountability, to increase their revenue towards the budget. Under these policy objectives, Zavkhan province should implement policies and measurements to eliminate losses and improve the profitability of LoEs, to better contribute to the local budget.
- Soums' budget revenue generation and their contribution to provincial budget revenue is estimated at a total of MNT 9,985.9 million in taxation revenue, comprising 23.6 percent of total taxation revenue generated at the provincial level. Individual contributions of soums, except for Uliastai, Tosontsengel and Ikh-Uul, are all below five percent of the total taxation revenue of the province. This indicates that soum budgets are highly dependent on upper-level budgets and funds most of its expenditure by financial support.
- The law on livestock tax was ratified and became another source for the local budget, generating around MNT one billion in taxes to the local budget. This opens the opportunity to solve local urging issues through the LDF with the taxation revenue outturn.
- Following amendments to the Law on Budgets, provincial and soum tax items are increasing. Due to this change, the 2022 local budget proposal anticipates an MNT 6.8 billion increase in expected taxation revenue. Consequently, it is expected to change the inactiveness of soums relying on financial support from the province, while local budget independence will be strengthened due to soum governor initiatives to increase the local budget revenue base. With heightened accountability, it is also necessary to improve fiscal discipline.
- The provincial center and soums are sparsely populated, have poor infrastructure and offer limited opportunities for production and trade development, which in turn limits possibilities to establish stable revenue sources. However, soums should plan their budget revenues by exhausting all possible avenues. Annual performances of taxation revenue outturn which exceed the budget proposal indicate that it is a possibility. In addition, the base data used for the budget projection differs from that of the registration agency.

BUDGET EXPENDITURE:

The following conclusions were made based on the analysis of the Zavkhan province's budget expenditure according to the classifications provided by the Law on Budgets:

- According to article 58 of the Law on Budgets, the provincial budget is spent on implementing 19 functions and the soum budget goes towards implementing five functions. 76.6 percent of the total local budget of the province is dedicated to soums' budget expenditure, while the remaining 23.4 percent is for provincial budget expenditure. Special purpose transfers take up 61.3 percent of total budget expenditure, while 38.7 percent is allocated to local budget entities' expenditures. Out of the total expenditure, 91 percent of budget expenditure is allocated to current expenses, 8 percent to capital costs and the remaining one percent is spent on the loan.

- As 90.1 percent of the local budget expenditure is current expenses, there are no adequate budget sources to finance to development policies such as to support economic growth, reduce unemployment through job creation, solve social issues of locals, or improve the living environment.

- From 2016 to 2020, 11.9 to 14.1 percent of the local budget expenditure was financed from the local budget revenue. The ratio of expenses for salaries and fixed costs increased every year to reach 82.5 percent, while goods and materials supply had been decreasing on the other side. This could affect public service accessibility, quality, local functions and implementation of development policies.

- The 2020 budget execution report shows that variable costs per pre-school child and for secondary students are higher than the standard approved by the Government decree. This is due to the fact that these standards were not updated since 2016 in correlation with price increases, inflation and salary growth. Therefore, it is necessary to update the standard and revise variable costs of educational institutes annually, to reflect changes in prices and inflation.

- In 2020, several laws concerning the health sector were amended. According to the amendments, hospitals receive financing from the HIF based on the number of patients checked-in and received medical services and use the additional financing for increasing staff salaries. However, if the number of people who receive healthcare services decreases, then financing also decreases, posing a risk that healthcare providers will not be able to raise employee salaries or fully cover their expenses.

BUDGET DEVELOPMENT, DISCUSSION AND APPROVAL PROCESS:

- The local budget proposal with the presentation was not developed as clearly and specifically as stated under article 67.2 of the Law on Budgets when submitted to the respective CRA discussion.

- The CRA resolution to approve the provincial budget includes soum budgets revenues. It limits the soum level CRA's capacity to exercise its authority and the process of approving the soum-level budget becomes just an act of courtesy.

- The protocols of CRA meetings for the annual local budget proposal and budget execution reports reveal that there were no discussions on programmes and activity planning, their targets and implementation, or performance outcomes. It indicated that outcomes of programmes and activities financed by the local budget are not prioritized.
- The annual procurement plan was not approved by the CRA, but by the provincial or soum governor's decree.

THE SDF BUDGET:

- In total, soums in Zavhkan province issued 1,322 loans worth MNT 6,704.7 million and created 1,300 new jobs. As of the first half of 2021, SDFs in soums have total assets of MNT 6,482.0 million, of which MNT 995.0 million is in SDFs' accounts, with a MNT 5,487.9 million loan balance to 1,663 borrowers. 57.1 per cent of loans are overdue. Having a high percentage of overdue loans negatively affects loan overturn and undermines the primary goal of the fund. Therefore, it is necessary to pay close attention to loan issuance, use and repayment, as well as take actions to settle overdue receivables.
- SDF revenue and expenditure budgets are approved by CRA resolutions and incorporated into the soum GBG's financial statements.
- The CRA resolution approves the purposes and maximum amount of loan allowed for issue, while the adjunct council of the SDF selects qualified loans and informs the soum treasury to finance the selected loans, monitor loan performances and report to the soum CRA.
- SDF revenue and expenditure outturns are incorporated into monthly, quarterly and annual financial statements of soums, in accordance with the timeline indicated by the law, before being passed to provincial financial statements and reported to the MOF. In addition, an SME specialist at the Soum Government Office enters SDF fund generation and expenditure data into an SDF database, which is later integrated by the SME department of MoFALI.
- The National Audit Office assesses SDF financing outcomes. For instance, the 2019 state audit inspection reports that SDFs across the province had beginning balance of accounts receivables of MNT 5,120.3 million in 2019, incurred MNT 1,435.6 million in loans and collected MNT 1,064.4 million in repayments. This resulted in ending balance of accounts receivable of MNT 5,491.5 million. Of these, 59.8 per cent or MNT 3,253.9 million were overdue and 41.4 per cent of those overdue repayments – equal to MNT 1,347.1 million accounts receivable – were filed to the court. A contract was signed with the General Executive Agency of Court Decision to collect the 39.8 per cent of overdue repayments filed to the court, equal to MNT 536.1 million accounts receivable. The SDF incurred loans and the administration of them causes significant challenges to soum governors that could lead to financial irregularities. Therefore, it is emphasized here that it is necessary to issue loans through commercial banks and to enter the data to the Bank of Mongolia's loan database.

LDF BUDGET:

- Zavkhan province's LDF finance source was analyzed for the last five years. In 2017, LDF financing reached its lowest point, MNT 1,708.7 million, or 59.2 percent less than the previous year. Therefore, measures were taken to raise the LDF source in 2018. Consequently, LDF funding increased by 20.3 percent and 48.4 percent in 2018 and 2019 respectively. However, it decreased by 17 percent in 2020, due to revenue generation challenges during the pandemic. LDF sources change almost every year in correlation with GLDF sources, limiting the opportunity to coordinate LDF financing with local development policy.
- Since 2017, no less than 70 percent of the GLDF transfer has been allocated to the province, while the remaining 30 percent goes to the soums. With the provision introduced to the Law on Budgets in 2018, the LDF is now assigned to finance water subsidies, animal health services, public transportation services and subsidies, as well as recurring costs related to street lighting, cleaning and waste removable, leading to decrease in capital costs. An annual average of LDF spending on current expenses is more than MNT 300 million.
- LDF performance assessment does not include the provincial centre LDF, which in fact spends the majority of total resources.
- Out of the total LDF financed investments, 10.6 percent was dedicated to education, 11.8 percent was on health, 15.7 percent was on agriculture, 6.8 percent was on the environment, 7.7 percent on water supply, 12.9 percent on construction, 3.6 percent on public administration and the remaining 30.9 percent was invested into infrastructure, including transportation, communication and electrification.
- Although Zavkhan LDF performances are improving year-on-year, with better planning and implementation arrangements, it is still below the national average at every indicator of the performance evaluation. Thus, is important to focus on monitoring and oversight, public participation and transparency within LDF planning and implementation, to strengthen its achievements.

BUDGET AUDIT:

- Every budget entity has an internal audit team established in accordance with Government Resolution 311 from 2011. The financial monitoring and audit units are obliged to implement article 69 in the Law on Budgets and operate by following the "Charter of Internal Audit," approved by Government Resolution 483 from 2015 and the "Charter of Internal Audit board," approved by Government Decree No. 29 from 2013. Financial monitoring and internal audits are focused more on financial monitoring and inspection rather than risk-based internal monitoring and audit. The provincial Finance and Treasury division carries out internal auditing on soum-level treasuries, as provided by article 36.6 of the Law on Budgets. It operates in accordance with the "Rules of internal audit on the treasury," approved by the Minister of Finance's Decree No. 65 in 2014. The provincial level Finance and Treasury division had conducted risk assessments on soum-level treasuries and implemented actions to lower their risk.

- The state audit body, CRAs at every administrative level, citizens and civil society organizations exercise the external audit within the legal framework. From 2016 to 2020, policy committees were established to support the activities of the provincial CRA to conduct research, monitoring and evaluation of local development policies and sectoral issues, as well as to have the findings discussed and approved by the CRA. These committees were established to provide relevant information on policy planning and implementation progress of CRA-approved projects, as well as submit guidance and analysis on them when the CRA is held and discuss issues around them. However, they have not been successful in fulfilling their objectives yet. Specifically, there was no information of civil society engagement in the budget audit.
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- The state audit body audits provincial and soum consolidated financial statements, along with national and local budget entities' policies, operations, implementation of functions, performances of programmes and activities, as well as economic efficiency and the impact of them as allowed by the Law on State Audits. On average, around 300 entities go under audit annually. In 2020, 305 financial statement audits, eight operational audits and five compliance audits were performed. 59.5 percent of violations and mistakes in 2020 relate to accounting and reporting, 16 percent concern budget savings and efficiency, while the remaining 24.4 percent of violations were breaches of the Law on Budgets and other financial laws and resolutions.

COHERENCE BETWEEN THE BUDGET AND DEVELOPMENT POLICY AND PLANNING:

- The Governor's Action plan and annual core functions are approved with the required capital and financing sources. Performances of them are reported with the amount of capital spent and sources of financing towards each activity.
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- During the last five years, around eight percent of total local expenditure was dedicated to socio-economic development in each year. This was equal to 15-18 percent of the required financing to implement planned socio-economic development activities. State budget financing and projects, along with program financing, covered other required sources. This suggests that albeit minimal in scale, the local budget proposal was developed and delivered in line with development policy goals.

IMPLEMENTATION OF THE AGREEMENT BETWEEN THE GBG AND SECTORAL MINISTERS

- The Governor entered into 15 agreements with the Government members and sectoral ministers, with a 96.1 percent performance rate. The Governor submits proposals to sectoral ministers before signing on the agreement. However, not all proposals are included in the agreement, while some activities which are included are not under the functions of local budget expenditure, are unfeasible, or highly costly, thereby affecting their performance. For instance, article 8.1 of the agreement with the Minister of Justice and Internal Affairs calls for "supporting the procurement of the latest technology and equipment for the court

inspection agency”, while article 8.3 articulates “providing support to housing of the employees of the court inspection agency”. Therefore, it is important that sectoral ministers adhere to the LATUG and Law on Budgets when drafting the agreement, to include programmes and activities which are eligible for local budget funding, and within the scope of local government functions. If the activity or program is not within the scope of the local government functions, then financing arrangements must be made prior to the agreement signing.

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- The Governor of the province, the Governor’s Office and sectoral agencies worked to ensure an effective implementation of the programmes and activities stipulated in the agreement between the Governor and sectoral ministries. They also reflected targets in organizational and staff performance plans, as well as evaluated and assessed their outcomes. The following conclusions were reached based on analysis of the implementation and outcomes of the Employment promotion program from the agreement with the Minister of Labour and Social Protection:
 - Labour sector budget planning, performance indicators and targets are not clear, unlike other local institutions in Zavkhan province.
 - The sharp decrease of the Employment Promotion Fund financing in 2020 resulted in a 38.4 percent decline in jobs created, a direct outcome of the fund’s investment.
 - The Employment Promotion Fund and SDF both have high balances of overdue loans, which diminishes the efficiency of their capital and signals a risk of a funding sources shortage to the sector. It is necessary to conduct due diligence on participating citizens and strengthen monitoring of loan use, to reduce loan risks and enhance budget efficiency.
 - It is advised that information flows and coverage of provincial and soum employment promotion program actions and outcomes be clarified, with availability of data and information ensured.
 - Although there is no independent program on employment promotion in Zavkhan province, the Governor’s Action plan includes targets and activities to support employment and job creation, while assessing implementation and outcomes.
 - Article 58 of the Law on Budgets stipulates that provinces and their capital cities shall implement programmes and activities to support employment and reduce poverty. The “Guideline to generate, spend and monitor the Employment Promotion Fund budget” rules that provinces, capital cities and districts shall have a sub-fund receiving no-less than 0.3 percent of the provincial, capital city and district budget. However, Zavkhan province has not had any funding allocated to the sub-fund. The Law on Budgets, specifically, article. 6.4.6, states that: “Unless otherwise specified by law, do not assign budget revenues purposefully to anybody or any activities.” However, the “Guideline to generate, spend and monitor the Employment Promotion Fund budget” to allocate no less than 0.3 percent of the provincial, capital city and district budget revenue to the sub-fund, contradicts this.

6.2 Recommendations for addressing local budget challenges

1. There are specific legal acts, such as Minister of Finance's Decree No. 244 from 2012, "Guideline to develop local budget proposal", and Government Resolution No. 445 from 2019, "Guideline to calculate local budget base expenditure," that regulate and guide local budget planning and expenditure. However, there is no adequate methodology to assist the process of local budget revenue planning. Therefore, it is necessary to issue and adopt legal acts providing the methodology and tools to support budget revenue planning.
2. The tax rate on livestock is set between 0 to 2,000, regardless of livestock type. However, this legally creates an option to set the tax at 0. Therefore, this provision should be reviewed for amendment and a legal environment should be established for the renewed tax rate, which should be collected and spent on necessary functions.
3. The GLDP resource allocation principle is to allocate more resources to the provinces where the mining sector is developed. However, this contributes to regional development disparities. Thus, it is advised to consider the local development index as the key parameter for resource allocation decisions, whereby provinces with the lowest index shall receive greater resources. This would be in harmony with LDF goals.
4. Annual performance assessments of LDFs cover less than 30 percent of LDF resources. Therefore, it is necessary to include financing expenditures of provincial and capital city LDFs, which receive the majority of resources in the annual performance assessment.
5. The Employment Promotion Fund and SDF both have high balances of overdue loans, which diminishes the efficiency of capital and signals a risk of a funding sources shortage to the sector. It is necessary to take policy actions to improve resource spending, generation and efficiency.
6. The ratio of expenses for salaries and fixed costs have increased every year, reaching 80 percent of total expenditure, while goods and materials supply have been decreasing. This affects public service accessibility, quality, local functions and implementation of development policies. Therefore, it is advised to increase the expenses of goods and services and include expenses for capacity-building of local professionals, including training and capital costs, to improve the working environment when estimating the local budget base expenditure, as well as to introduce changes in the methodology for estimating this.
7. Create enabling conditions to spend the additional revenues allocated to the province and soums due to the amendment to the LATUG and Law on Budgets, specifically the change in the revenue classification, on local development.
8. It is recommended to change the inappropriate practice of sectoral ministers who include high-cost projects of their sectors in the agreement between the sectoral minister and governor, to have them financed from the local budget. The agreement should be established in adherence to the LATUG and Law on Budgets to include activities and functions which are under the local budget. Other activities shall be included only when financing sources are decided.

9. The variable costs per pre-school child and secondary student are higher than the standard approved by the Government. Therefore, it is necessary to update the standard and revise the variable costs of educational institutes annually, to reflect inflation.
10. In 2020, several laws concerning the healthcare sector were revised. According to the amendments, hospitals receive financing from the HIF based on the number of the patients checked-in and receiving medical services. They can then use the additional financing to raise staff salaries. However, this means soums with a small population will be unable to receive this funding. It is recommended to inspect whether the HIF is contributing to salary growth and improving social issues affecting health employees.
11. It is recommended that local budget investments be integrated into the state budget investment database. This will deliver consolidated local and state budget investment profiles in each sector.
12. The Law on Budgets, specifically, article 6.4.6, states that: "Unless otherwise specified in the law, do not assign purposefully budget revenues to anybody or any activities." However, the "Guideline to generate, spend and monitor the Employment Promotion Fund budget" rule to allocate no less than 0.3 percent of the provincial, capital city and district budget revenue to the sub-fund of the Employment Promotion Fund contradict this.

ANNEX



Annex 1.

LOCAL BUDGET REVENUE OF ZAVKHAN PROVINCE, BY CLASSIFICATION AND YEAR, MNT MILLION

Local budget revenue classification	2016	2017	2018	2019	2020
Structural revenues and grant TOTAL	21,738.9	62,789.0	67,606.2	62,518.6	78,863.4
Tax revenues	6,771.3	8,443.1	8,445.5	9,302.8	9,292.3
Income tax	5,088.6	6,641.4	5,800.7	6,185.8	6,976.2
Personal income tax	5,539.2	6,194.0	6,449.0	6,771.8	7,650.0
Wages and salaries	5,217.1	5,423.7	5,244	5,790.9	6,533.9
Operational income	184.6	564.9	398.1	292.8	686.1
Asset income			172.4	341.7	227.5
Income from sale of assets	16.7	28.8	50.4	21.4	2.2
Indirect income	120.7	176.6	583.6	324.9	200.1
Personal income tax refund	(811.8)	(917.6)	(932.0)	(849.8)	(753.0)
Personal income tax refund	(811.8)	(917.6)	(932.0)	(849.8)	(753.0)
Tax on income of private business owners whose income is not determinable	361.3	365.0	283.7	263.8	79.2
Tax on income of private business owners whose income is not determinable	361.3	365.0	283.7	263.8	79.2
Property tax	431.0	872.1	651.2	700.4	749.5
Immovable property tax	121.2	540.7	307.1	326.0	331.9
Gun tax	44.3	52.0	55.9	52.2	59.0
Vehicles tax	265.4	279.3	288.1	322.1	358.5
Other tax, fees and charges	1,251.6	1,929.4	1,993.6	2,416.5	1,566.6
Other fees and charges	280.3	302.3	396.8	350.0	407.7
Stamp duty fee	171.3	160.8	225.7	217.6	262.3
Fees for the use of common minerals	10.1	9.4	43.4	29.0	27.7
Waste management fee	98.1	131.0	127.6	103.3	117.6
License fee for use of natural resources other than minerals	0.6	0.9			
Other taxes	0.1				
Land fee	174.9	191.4	354.1	407.3	276.7
Land fee	174.9	191.4	354.1	407.3	276.7
Fee for use of natural resources	417.9	715.0	666.7	1,019.3	865.4
Forest/timber	194.7	235.6	240.3	294.4	324.5
Wild animal resources	42.7	48.9	137.8	435.5	5.2
Water resources	173.0	349.8	281.3	280.1	318.5
Plant use	7.4	80.5	7.3	9.3	217.1
Other taxes	378.4	720.7	575.8	639.9	16.7
Other taxes	378.4	720.7	575.8	639.9	16.7

Non tax revenues	14,967.6	54,345.8	59,160.6	53,036.9	69,232.2
General Non tax revenues	3,918.4	4,374.5	3,643.6	2,259.6	3,626.3
Interest receipts				552.9	1,094.3
Fine				27.8	763.1
Own revenues of budgetary entites	1,931.9	2,135.8	2,080.9	1,672.6	1,639.3
Financing from primary operating income	3,274.8	1,958.1	1,668.1	1,672.6	1,615.7
Financing from ancillary operating income	326,9	177.7	412.7		23.6
Finance from previous year's balance		2.7			
Other income	764.7	819.2		6.2	129.6
Cost of goods sold /LoEs and SoEs/	1,221.7	1,419.5	1,562.7		
Intergovernmental transfers	11,049.1	49,971.3	55,517.3	50,777.3	65,605.9
Special purpose transfer	35,432.4	37,656.1	38,914.7	36,294.9	42,431.1
Transfer from Local Development Fund (LDF) to General Local Development Fund (GLDF)		1,708.6	3,471.2		4,276.7
Financial support from state budget to local budgets	11,049.1	10,606.5	13,131.0	14,482.3	18,897.9
GRANTS AND FINANCE REVENUE				178.9	338.8
Finance from social insurance fund budget				178.9	338.8
Finance from health insurance fund budget				178.9	338.8

Annex 2.

LOCAL BUDGET EXPENDITURE OF ZAVKHAN PROVINCE, BY CLASSIFICATION AND YEAR, MILLION MNT

	2016	2017	2018	2019	2020
TOTAL EXPENDITURE AND NET LENDING	58,915.3	61,357.0	65,824.9	66,708.3	76,456.7
CURRENT EXPENSES	53,540.6	56,725.1	58,044.3	59,458.5	68,886.8
COSTS OF GOODS AND SERVICES	44,095.5	44,823.9	47,865.6	58,105.4	67,672.2
Wages and salaries, bonuses	28,804.8	28,627.5	29,854.3	36,204.2	43,552.3
Base Salaries	23,788.0	23,726.0	22,856.2	27,474.9	31,116.3
Pay supplements	2,334.1	2,508.9	4,379.6	5,989.2	8,765.8
Travel and meal allowances	49.8	60.9	188.4	268.3	327.4
Bonuses	1,357.3	1,051.7	1,264.0	1,798.2	2,594.7
Contractual pay	1,275.7	1,280.1	1,166.1	673.6	748.2
Social insurance contributions paid by employers	3,313.9	3,160.7	3,592.9	4,554.5	5,728.5
Pension insurance	2,279.8	2,190.6	2,496.5	3,151.0	4,006.6
Benefit insurance	196.0	223.8	262.4	364.2	443.1
Workplace injuries and occupational disease insurance	245.1	218.3	219.9	276.6	343.5
Unemployment insurance	63.4	55.7	61.5	69.0	91.5
Health insurance	529.6	472.3	552.6	693.7	843.7
Fixed expenses related to office buildings	4,904.4	5,448.7	5,778.6	6,284.8	7,495.3
Electricity	354.9	373.2	389.7	460.0	397.2
Heating	4,400.6	4,915.3	5,219.3	5,657.6	6,940.0
Clean water sewerage	137.6	151.6	161.1	167.0	158.2
Office rent	11.2	8.6	8.6	0.3	0.0
Office supplies and inventory	1,344.7	1,360.4	1,772.8	1,751.9	1,930.8
Stationery	159.2	178.1	225.7	295.2	332.2
Transportation, fuel	786.5	860.9	1,034.4	1,072.2	1,002.5
Postal, telecommunications and internet connection expenses	125.6	124.5	136.9	158.2	205.7
Books and press	17.7	17.0	20.6	21.0	47.2
Garbage removal, disinfection	51.5	44.8	66.5	17.8	20.4
Inventory of low cost, non-durable goods	204.3	135.0	288.7	187.6	322.8
Standard costs	2,643.5	2,572.8	2,702.1	2,991.8	2,428.8
Medicines	300.3	337.9	317.1	452.8	437.3
Meals	2,252.8	2,110.4	2,219.3	2,368.2	1,782.0
Clothing and bedding	90.4	124.5	165.7	170.8	209.5
Furniture, current repair expenses	341.3	473.9	549.5	453.4	384.2

Purchase of tools and appliances	27.2	30.5	32.5	97.6	136.3
Furniture	27.3	0.0	4.7	3.1	17.2
Health and safety items	3.4	0.0	0.0	3.4	6.5
Renovation	283.4	443.3	512.3	349.3	224.2
Travel and guest expenses	207.6	230.5	255.1	484.3	214.6
Domestic trip expenses	207.6	230.5	255.1	484.3	214.6
Work, service payments, fees performed by others	957.8	978.5	1,260.7	2,825.8	2,599.3
Other common payments for contracted out of services and works	925.6	947.2	1,231.9	2,580.8	2,328.9
Audit, credit rating and certification fees	8.4	8.5	8.6	14.2	19.7
Insurance services	10.6	7.6	7.0	18.2	19.6
Vehicle tax	3.3	3.3	6.7	6.5	7.6
Vehicle inspection	0.5	1.0	1.1	2.3	2.3
Information Technology service	7.6	7.8	2.0	7.5	215.1
Land fee	1.1	1.0	0.3	4.1	4.6
Bank and financial institution's service fee	0.7	2.1	3.2	192.2	1.4
Purchase of other goods and services	1,577.5	1,970.7	2,099.5	2,554.6	3,338.5
Other Goods and services expenditures	1,555.8	1,918.1	1,812.6	2,063.7	2,645.1
Expenses on training and practice	21.7	52.7	286.8	491.0	693.4
SUBSIDIES	20.0	29.5	20.3	34.0	13.8
Subsidy to private sector	20.0	29.5	20.3	34.0	13.8
Subsidy to private sector	20.0	29.5	20.3	34.0	13.8
CURRENT TRANSFER	9,425.1	11,871.7	10,158.4	1,319.0	1,200.8
Other current transfers	9,425.1	11,871.7	10,158.4	1,319.0	1,200.8
Social insurance pension and benefits	6,921.4	6,944.5	7,245.5	278.3	127.1
Other bonus and benefits by employers	12.7	476.5	51.6	47.3	68.5
Benefits and allowance by the state	689.8	660.5	723.0	724.1	383.7
Home leave travel allowance	1,328.1	883.0	1,144.0	247.8	563.1
Hardship benefit to civil servants working in rural areas	349.0	1,692.4	865.3	0.0	0.0
One-off benefit, allowance, bonuses	124.0	1,214.8	129.1	21.5	58.4
CAPITAL EXPENSES	4,545.4	3,155.3	6,366.7	5,670.2	6,179.3
Capital repair	203.8	302.2	0.0	0.0	0.0
Other investments	4,341.5	2,853.1	6,366.7	5,670.2	6,179.3
NET LENDING	829.4	1,476.6	1,414.0	1,579.6	1,390.6

Net lending (SUBTRACTED FROM THE REPAYMENTS)	829.4	1,476.6	1,414.0	1,579.6	1,390.6
SOURCES OF EXPENDITURE FINANCING	59,472.7	60,664.0	66,149.3	66,691.5	76,746.4
FINANCE FROM THE STATE BUDGET	35,431.9	37,656.1	38,914.7	36,276.7	42,431.1
Finance from the special purpose transfer	35,431.9	37,656.1	38,914.7	36,276.7	42,431.1
FINANCE FROM THE LOCAL BUDGET	22,371.0	20,877.7	25,153.6	28,563.3	32,337.1
From the local budget	22,371.0	19,169.1	21,682.4	23,410.5	28,060.3
Finance from the LDF		1,708.60	3,471.2	5,152.8	4,276.8
Finance from the social insurance fund budget				178.9	338.8
Finance from the health insurance fund budget				178.9	338.8
OPERATIONS OF THE BUDGET ENTITY	1,669.8	2,135.8	2,080.9	1,672.6	1,639.3
Financing from primary operating income	1,506.0	1,958.1	2,063.4	1,630.6	1,615.7
Financing from ancillary operating income	163.8	177.7	17.4	41.9	23.6

Annex 3.

TAX REVENUE OF ZAVKHAN PROVINCE'S LOCAL BUDGET, MNT MILLION

Indicators	2016	2017	2018	2019	2020
TAXATION REVENUE	6,771.4	8,443.1	8,445.6	9,302.8	9,292.4
Income tax	5,088.6	5,641.5	5,800.8	6,185.9	6,976.2
Personal income tax	5,539.2	6,194.1	6,449.1	6,771.9	7,650.0
Wages and salaries	5,217.0	5,423.7	5,244.4	5,790.9	6,534.0
Operational income	184.7	564.9	398.1	292.8	686.1
Asset income	0.0	0.0	172.4	341.7	227.6
Income from sale of assets	16.8	28.8	50.4	21.4	2.2
Indirect income	120.7	176.6	583.6	324.9	200.2
Personal income tax refund	-811.9	-917.7	-932.0	-849.9	-753.1
Income tax of individuals engaged in work and services, income of which cannot be immediately determined	361.3	365.1	283.7	263.9	79.2
Property tax	431.1	872.1	651.2	700.4	749.6
Immovable property tax	121.2	540.7	307.2	326.0	331.9
Gun tax	44.4	52.1	55.9	52.3	59.1
Vehicles tax	265.5	279.3	288.1	322.1	358.5
Other fees and charges	1,251.7	1,929.5	1,993.6	2,416.6	1,566.6
Other fees and charges	280.3	302.3	396.8	350.0	407.7
Stamp duty fee	171.3	160.9	225.8	217.6	262.3
Fee for use of common / widespread minerals	10.2	9.5	43.4	29.1	27.7
Garbage service fee	98.2	131.1	127.6	103.3	117.7
License fee for use of natural resources other than minerals	0.6	0.9	0.0	0.0	0.0
Other taxes	0.1	0.0	0.0	0.0	0.0
Land fee	175.0	191.4	354.1	407.3	276.7
Fee for use of natural resources	418.0	715.0	666.8	1019.3	865.5
Forests / timber	194.7	235.7	240.3	294.4	324.5
Wild animal resources	42.8	49.0	137.8	435.5	5.3
Water resources	173.0	349.8	281.3	280.1	318.6
Plant use	7.4	80.6	7.4	9.4	217.1
Other tax	378.4	720.7	575.9	639.9	16.7

Annex 4.

TAX REVENUE OUTTURN OF ZAVKHAN PROVINCE, BY SOUM

Soum Names	Taxation revenue / MNT million				
	2016	2017	2018	2019	2020
ULIASTAI	122.0	577.2	711.0	386.5	406.2
TOSONTSENGEL	121.9	222.6	293.8	401.4	356.1
IKH UUL	91.8	198.9	157.2	148.2	393.4
DURVULJIN	44.6	45.4	69.1	111.7	191.7
ERDENEKHAIRKHAN	68.0	97.2	105.6	100.6	80.7
IDER	51.1	72.6	116.4	97.9	98.8
NUMRUG	26.7	61.6	76.4	183.3	42.2
SHILUUSTEI	60.4	55.4	89.3	108.5	34.4
YARUU	25.7	36.2	67.6	146.1	56.0
TELMEN	31.3	48.7	68.3	90.4	58.1
TUDEVTEI	34.5	39.8	44.2	85.6	81.4
ALDARKHAAN	31.1	32.5	51.4	70.5	72.2
BAYANKHAIRKHAN	36.5	48.0	48.7	49.5	47.5
OTGON	23.0	35.2	51.2	63.5	42.7
TSETSEN-UUL	24.9	36.5	50.5	48.4	50.5
BAYANTES	29.9	39.4	42.4	42.6	46.1
SONGINO	32.7	49.3	49.4	24.5	32.0
TES	27.0	53.2	51.6	25.3	29.1
SANTMARGATS	29.4	37.0	54.7	49.5	12.1
URGAMAL	23.2	27.6	34.9	57.9	28.1
TSAGAANKHAIRKHAN	22.8	36.6	35.6	42.8	33.4
ZAVKHANMANDAL	28.9	28.5	36.2	16.5	32.1
ASGAT	19.3	29.2	30.4	27.3	13.5
TSAGAANCHULUUT	19.7	26.8	34.3	16.3	20.6
Soum budget revenue	1,026.4	1,935.5	2,370.4	2,394.7	2,259.0
Provincial budget revenue	5,745.0	6,507.7	6,075.1	6,908.2	7,033.4
Total amount	6,771.4	8,443.1	8,445.6	9,302.8	9,292.4

Annex 5.

LOCAL BUDGET EXPENDITURE OF ZAVKHAN PROVINCE, BY SOUM

Soum name	Total budget expenditure / MNT million				
	2016	2017	2018	2019	2020
ERDENEKHAIRKHAN	1,125.8	1,304.2	1,265.2	1,555.3	1,596.6
IKH UUL	2,552.8	2,714.9	2,690.5	3,362.9	3,696.6
DURVULJIN	1,379.1	1,327.0	1,327.6	1,614.6	1,912.5
TOSONTSENGEL	3,930.7	4,504.2	4,510.1	5,281.3	6,426.2
SHILUUSTEI	1,134.6	1,235.0	1,293.0	1,425.8	1,594.0
YARUU	1,226.2	1,081.5	1,129.1	1,365.1	1,630.1
IDER	1,427.8	1,655.7	1,466.2	1,871.4	2,098.8
NUMRUG	1,564.9	1,560.2	1,509.6	1,796.9	2,039.4
TUDEVTEI	1,117.3	1,187.0	1,425.2	1,497.4	1,609.7
ALDARKHAAN	1,101.7	1,155.0	1,173.4	1,454.9	1,596.2
ULIASTAI	10,053.9	10,765.9	10,946.6	11,666.1	12,577.5
TELMEN	1,531.7	1,499.1	1,555.0	2,003.4	2,372.6
BAYANKHAIRKHAN	1,258.6	1,212.3	1,227.3	1,613.1	1,742.8
TSAGAANKHAIRKHAN	1,023.3	1,057.9	1,016.8	1,224.0	1,482.9
TSETSEN-UUL	1,288.3	1,339.7	1,449.7	1,623.3	1,845.0
SONGINO	1,256.4	1,287.7	1,278.7	1,575.1	1,715.0
OTGON	1,420.0	1,527.9	1,458.5	1,857.2	2,059.1
URGAMAL	1,055.7	1,239.0	1,268.2	1,408.8	1,746.0
ZAVKHANMANDAL	986.8	1,114.2	1,075.7	1,285.1	1,432.6
SANTMARGATS	1,352.3	1,407.5	1,351.5	1,678.1	2,048.2
BAYANTES	1,830.1	1,692.3	1,760.8	2,015.2	2,304.3
ASGAT	1,074.2	1,062.0	1,129.4	1,394.4	1,742.4
TES	1,900.0	2,040.7	1,942.3	2,209.9	2,461.2
TSAGAANCHULUUT	1,210.0	1,184.4	1,156.2	1,608.7	1,853.0
Soum total	43,802.3	46,155.5	46,406.5	54,387.7	61,582.7
Provincial budget	15,113.1	15,201.5	19,418.4	12,320.6	14,874.0
Amount	58,915.3	61,357.0	65,824.9	66,708.3	76,456.7

Annex 6.

BUDGET EXECUTIONS OF SPECIAL PURPOSE TRANSFER ENTITIES IN ZAVKHAN PROVINCE, MNT MILLION

SPT entities	2016	2017	2018	2019	2020
	Actuals	Actuals	Actuals	Actuals	Actuals
SECONDARY SCHOOLS	19,818.00	21,430.10	21,570.00	24,009.10	28,281.60
KINDERGARDENS	7,737.40	8,101.80	8,617.30	9,795.10	10,882.90
PUBLIC SPORTS	230.30	329.40	629.20	1,119.30	1,074.10
PRIMARY HEALTHCARE SERVICES	5,199.80	5,216.50	5,281.50	6,737.50	7,615.00
CULTURAL SERVICES	2,268.00	2,447.80	2,419.10		
CHILD PROTECTION	154.70	158.90	190.50	283.50	317.80
LAND MANAGEMENT AND CADASTRE	236.30	221.60	444.10	527.50	649.50

Annex 7.

CALCULATION OF TAX ON LIVESTOCK HEAD, BY SOUMS

Soum name	Number of livestock head, by thousand /end of 2020 livestock census/						Amount	
	Total	Horse	Cattle	Camel	Sheep	Goat	Horse	Cattle
ALDARKHAAN	282.9	17.4	16.9	0.5	108.6	139.6	540	415
ASGAT	47.4	3.2	3.8	0.0	21.7	18.8	550	450
BAYANTES	172.5	8.9	9.5	0.2	64.9	89.1	600	500
BAYANKHAIRKHAN	121.1	6.5	7.7	0.0	67.7	39.2	500	300
DURVULJIN	176.7	12.0	4.3	2.4	64.4	93.5	650	475
ZAVKHANMANDAL	101.8	4.6	2.3	0.2	44.9	49.8	600	500
IDER	125.8	10.1	10.9	0.0	70.5	34.3	500	300
IKH-UUL	249.1	19.7	31.9	0.1	139.6	57.8	500	400
NUMRUG	123.4	13.5	11.0	0.0	65.7	33.2	600	500
OTGON	202.8	13.9	14.7	0.2	99.4	74.6	600	400
SANTMARGATS	155.7	10.8	6.9	0.8	72.6	64.6	500	300
SONGINO	124.3	8.2	7.1	0.0	65.7	43.2	550	450
TOSONTSENGEL	166.1	17.8	19.0	0.0	77.1	52.1	775	650
TUDEVTEI	114.8	9.8	8.2	0.0	65.1	31.8	450	400
TELMEN	150.9	12.7	11.1	0.2	92.3	34.7	1000	800
TES	119.2	7.7	8.3	0.1	53.2	49.9	500	350
URGAMAL	114.1	6.2	2.5	2.1	53.4	49.9	800	600
TSAGAANKHAIRKHAN	99.0	4.2	6.0	0.0	47.7	41.1	500	400
TSAGAANCHULUUT	104.4	7.5	4.0	0.4	49.5	43.0	500	400
TSETSEN-UUL	170.4	7.2	6.8	0.3	100.5	55.7	500	300
SHILUUSTEI	122.1	6.0	6.5	0.2	51.8	57.6	500	400
ERDENEKHAIRKHAN	213.4	10.3	7.3	0.2	132.5	63.2	400	400
YARUU	202.5	12.5	8.3	0.1	128.4	53.2	500	300
ULIASTAI	147.3	6.4	10.1	0.1	62.6	68.3	400	400
Total	3,607.8	236.8	225.0	8.1	1,799.8	1,338.2	540.6	415.6

of tax approved by soum People's Representative Khural /MNT/				Estimation of tax on livestock head /million MNT/				
Camel	Sheep	Goat	Horse	Cattle	Camel	Sheep	Goat	TOTAL
	250	350	9.4	7.0	0.0	27.2	48.8	92.4
0	267	350	1.7	1.7	0.0	5.8	6.6	15.8
0	200	400	5.3	4.7	0.0	13.0	35.7	58.7
0	200	400	3.2	2.3	0.0	13.5	15.7	34.8
0	275	375	7.8	2.1	0.0	17.7	35.1	62.7
0	400	300	2.8	1.1	0.0	17.9	14.9	36.8
0	400	200	5.0	3.3	0.0	28.2	6.9	43.4
0	300	200	9.8	12.8	0.0	41.9	11.6	76.1
	300	400	8.1	5.5	0.0	19.7	13.3	46.6
	350	650	8.4	5.9	0.0	34.8	48.5	97.5
	200	400	5.4	2.1	0.0	14.5	25.9	47.8
	225	350	4.5	3.2	0.0	14.8	15.1	37.6
	450	650	13.8	12.4	0.0	34.7	33.9	94.7
	250	350	4.4	3.3	0.0	16.3	11.1	35.1
	500	600	12.7	8.9	0.0	46.1	20.8	88.5
0	250	350	3.8	2.9	0.0	13.3	17.5	37.5
	200	300	5.0	1.5	0.0	10.7	15.0	32.1
	200	300	2.1	2.4	0.0	9.5	12.3	26.4
	200	300	3.7	1.6	0.0	9.9	12.9	28.1
	200	350	3.6	2.0	0.0	20.1	19.5	45.2
	200	300	3.0	2.6	0.0	10.4	17.3	33.2
	100	200	4.1	2.9	0.0	13.3	12.6	32.9
0	200	400	6.3	2.5	0.0	25.7	21.3	55.7
	200	300	2.5	4.0	0.0	12.5	20.5	39.5
0.0	252.8	351.0	127.1	91.6	0.0	444.3	443.8	1,199.1

