

FINANCIAL ANALYSIS

A. Introduction

1. The financial analysis was undertaken in accordance with the *Financial Management and Analysis of Projects* of the Asian Development Bank (ADB).¹ The project has no revenue earning component, hence financial costs and benefits were not analyzed. The financial sustainability of the project was assessed at the fiscal and project level. An analysis of recent and projected government expenditures was undertaken to evaluate the potential impact of the project on the budget of the Ministry of Health (MOH).

B. Financial Sustainability

2. The objectives of the proposed Fifth Health Sector Development Project are to (i) improve the safety of blood transfusions, (ii) strengthen medical waste management, and (iii) prevent and control hospital-acquired infections. This will be achieved through establishing the new National Transfusiology Center in Ulaanbaatar, and improving blood safety in *aimag* (province) general hospitals and selected *soum* (administrative subdivision of the *aimag*) health centers. Medical waste management systems will be strengthened by providing infrastructure and equipment, and raising awareness and training personnel to assure that medical waste management is institutionalized at hospital level and meets national standards. Hospital hygiene and infection prevention and control will be strengthened through the provision of infrastructure and equipment, establishing an effective hospital-acquired infection surveillance system, as well as improving the capacity of health authorities, health care workers, and administrative staff on infection prevention and control. Maintenance capacities will be strengthened by establishing a model maintenance unit at the National Transfusiology Center, which will be replicated to improve maintenance capacity in the selected project facilities. Investment includes the construction of a new facility for the National Transfusiology Center, minor civil works for blood banks, microbiology laboratories and Central Sterilization Service Departments of the facilities, as well as the construction of medical waste treatment and storage buildings. Equipment provision encompasses medical equipment for the National Transfusiology Center, blood banks, medical waste treatment, central sterilization service departments, and microbiology laboratories.

3. The executing agency for the project is the MOH, providing coordination support for the preparation and implementation of the project. The MOH will be the executing agency of the project and the implementing agency for all outputs except outputs 1 and 3. The National Transfusiology Center will be the implementing agency for the establishment of the new transfusiology center (output 1 of the design and monitoring framework). The Ulaanbaatar City Mayor's Office will be the implementing agency for strengthening the Ulaanbaatar waste management facility (output 3 of the design and monitoring framework) and will be closely associated to the implementation of project activities related to the district hospitals of Ulaanbaatar City. The National Center for Communicable Diseases will be the implementing agency for strengthening infection prevention and control (outputs 5,6,7,8, and 9 of the design and monitoring framework). The MOH has budget responsibility for the entire health sector budget and allocates resources for capital expenditures and service delivery to the Ulaanbaatar City Authority, the National Center for Communicable Diseases, and the National Transfusiology Center.

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

4. The latest annual health expenditures for Mongolia, 2009–2011 are shown in Table 1. Health sector expenditures reflect the total expenditure on health as reported by the MOH. It includes central headquarters expenditure from the MOH and spending incurred by government agencies delivering health services such as the Ulaanbaatar City Authority, the National Center for Communicable Diseases, and the National Transfusiology Center.

Table 1: Health Expenditures for the Ministry of Health, Ulaanbaatar City Authority, National Center for Communicable Diseases, and National Transfusiology Center, 2009–2011
(MNT million)

Item	2009	2010	2011
Ministry of Health	205,950	250,416	333,702
Ulaanbaatar City			
Health agency (extracted from health sector)			
Ministry of Health (headquarters)	936	913	1,091
Ulaanbaatar City health organizations	29,819	37,855	45,855
Ulaanbaatar City Health Department	816	1,275	1,477
National Center for Communicable Diseases	6,946	7,656	8,654
National Transfusiology Center	1,089	1,456	1,671

Note: Health sector expenditure information includes the Ministry of Health and all contracted health agencies responsible for service delivery, including the Ulaanbaatar City Health Department and Ulaanbaatar City health organizations.

Sources: Ministry of Health, Ulaanbaatar City Health Department, and National Transfusiology Center.

5. The financial sustainability analysis evaluates the project's impact on the government budget. The total financing costs of the project, inclusive of taxes, duties, and contingencies, is \$38.38 million for 5 years from 2013 to 2018. The government's annual share of project costs will average about \$1.5 million or less than 0.6% of the health sector annual budget in 2011. The recurrent costs of the project, to be borne by the Government of Mongolia, are estimated to be about \$0.4 million per annum and include operation and maintenance and consumable costs of the project facilities. The annual recurrent costs to be borne by the executing agency will not exceed 0.15% of its current expenditure. Considering an average depreciation value of \$2.0 million per annum for the equipment investment, the recurrent cost impact will be \$2.4 million per annum, which represents about 1% of the total recurrent costs for 2011.

6. The government has committed to provide the necessary funds to ensure that the investment benefits are not lost. This would especially apply for the National Transfusiology Center, as the additional recurrent costs generated by the project for the National Transfusiology Center will represent about \$0.15 million, which is 10% of the total budget of the National Transfusiology Center in 2011.

7. A breakdown of government health spending over 2008–2012, which identifies the trend for growth in allocated government health sector spending, is shown in Table 2. ADB's Third and Fourth Health Sector Development Projects² focused on correcting inefficiencies in the hospital sector and enhancing the sustainability of the project related activities. The Fifth Health Sector Development Project will focus on improving and sustaining the quality of hospital services and improve patients' and health workers' safety in hospitals in Mongolia. The

² ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Mongolia for the Third Health Sector Development Project*. Manila; and ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to Mongolia for the Fourth Health Sector Development Project*. Manila.

economic development of Mongolia has had a positive impact on government health spending. During the last 5 years (2008–2012), recurrent costs almost doubled and capital costs increased eight times. The highest portion of the total costs is dedicated to the secondary level hospitals, followed by tertiary and primary level hospitals. While recurrent costs from 2008 to 2010 have increased slightly, recurrent costs in 2011 increased by 17% compared with 2010. This was mainly the result of a 20% salary increase. The estimates for the recurrent costs of government health spending for 2012 soared by 60% over 2011. The main reason for this substantial increase is the 35% increase in the overall budget of the Government of Mongolia from 2011 to 2012.

Table 2: Government Health Spending, 2008–2012
(MNT million)

Item	2008		2009		2010		2011		2012 estimates	
		%		%		%		%		%
Recurrent costs	195,738	92	185,100	89	207,724	86.7	242,932	72.8	382,921	75.6
Tertiary-level hospitals	44,639	21.1	44,692	21.6	49,089	22.4	77,745	32.0	85,411	22.3
Secondary-level hospitals	61,808	29.2	61,025	29.5	65,824	30	78,399	32.3	143,882	37.6
Primary-level hospitals	51,805	24.5	47,961	23.2	50,725	23.1	64,885	26.7	73,865	19.3
MOH and local health departments	8,993	4.2	7,702	3.7	8,716	4	12,988	5.3	34,631	9.0
Others	28,493	13.5	23,719	11.5	16,153	7.2	8,912	3.7	45,131	11.8
Capital cost	15,931	7.5	21,729	10.5	29,107	13.3	90,770	27.2	123,547	24.4
Total	211,669	100	206,829	100	236,831	100	333,702	100	506,468	100

MOH = Ministry of Health.

Source: Government of Mongolia, MOH.

8. Macroeconomic projections for Mongolia reveal the likelihood of increased national income from rapid development of the extractive industry sector over 2013–2018. In 2011, the rates of gross domestic product (GDP) growth have been among the highest in the world, topping 17%. The *Asian Development Outlook 2012* projects real GDP to increase by 15.0% in 2012 and 17.5% in 2013, boosted by investments in the mining sector.³ Once production from new copper and coal mines begins in 2013, it will boost GDP growth to about 19% per annum. Economic growth will be partially absorbed by inflation, which in the first half of 2012 reached over 15% and represents a threat to the overall development of the country. Real GDP growth is expected to average 10% per annum in the medium term (2014–2020), taking into account substantially slower growth of the non-mineral economy. It can be assumed that the health sector will benefit from the economic development and that higher allocations for recurrent as well as capital costs will continue.

Table 3: Government Health Budget Projections to the End of Project Period
(MNT million)

Source	2012	2013	2014	2015	2016	2017	2018
State budget	391,745	430,920	474,012	521,413	573,554	630,910	694,001
Health Insurance Fund	97,896	107,608	118,369	130,206	143,227	157,550	173,305
Fee for services and others	16,898	18,587	20,446	22,491	24,740	27,214	29,935
Health Budget Projection	506,469	557,116	612,827	674,110	741,521	815,673	897,241

Numbers may not sum precisely because of rounding.

Source: Government of Mongolia, Ministry of Health.

³ ADB. 2012. *Asian Development Outlook 2012*. Manila.

9. Regardless of growth, total government expenditures will probably be kept to the current level of GDP. As shown in Table 4, government health expenditures increased from MNT211,669 million in 2008 to MNT333,702 million in 2011 but they have not kept pace with the dramatic increase in total government expenditures. This is reflected by a decrease in total government health expenditures as a percentage of total government expenditures from 8.6% in 2008 to 7.7% in 2012. Total health expenditure as a percentage of GDP increased from 3.2% to 3.5% during the same period. Depending on the rate that health sector wages increase (wages in 2012 increased by 50% in comparison to wages in 2011, and wages in 2011 increased by 20% over 2010), a substantial increment will remain for other recurrent costs. Capital investments in 2012 are about 25% of the state health budget, equal to \$100 million per year. Assuming wages are doubled but capital costs remain relatively steady, there is the possibility of a substantial improvement in other categories of recurrent costs—ensuring sustained quality in the delivery of hospital services.

Table 4: Selected Indicators, 2008–2012
(MNT million)

Item	2008	2009	2010	2011	2012 ^a
GDP, at current prices	6,555,569	6,590,637	8,414,504	10,829,689	10,550,549
Total government expenditures	2,466,774	2,336,629	3,080,685	4,792,030	6,309,000
Total government health expenditures	211,669	206,829	250,264	333,702	484,117
Percentage of total government health expenditures to GDP	3.2%	3.1%	3.0%	3.1%	3.5%
Percentage of total health government expenditures to total government expenditures	8.6%	8.9%	8.1%	7.0%	7.7%

GDP = gross domestic product.

^a Projection

Source: National Statistical Office of Mongolia.