Overview

Mongolia was classified as being highly exposed to the effects of the economic crisis with moderate ability to respond to the crisis according to a methodology developed by Cord et al., 2010. Mongolia was one of the countries hardest hit by the crisis, with real GDP growth at less than minus 1% in 2009.

Mongolia’s vulnerability to the global economic recession was compounded by the sudden collapse of copper prices which created severe fiscal imbalances; occurrence of a drought followed by a harsh winter (dzud) which led to major loss of livestock. Finally, Mongolia had more than 35% of households living below the poverty line.

However, prior to the crisis, per capita health expenditure was relatively high given its level of development ($76), with $60 per capita coming from government expenditures. Thus, Mongolia represented a unique opportunity to examine the extent to which health expenditures were affected by the crisis.

The Case

A rapid assessment of the impact of the global economic crisis on health spending in Mongolia was conducted between March and June 2010 following a methodology developed for a multi-country study. The assessment examined to what extent real public, household, and donor health expenditures changed between pre- and post-crisis periods; the pathways through which changes were affected; and, policies and actions taken by government and stakeholders to possibly mitigate these effects. The results below reflect a descriptive comparison of trends before and during the crisis period.

The bleak macroeconomic picture precipitated a large cut in the 2009 general government budget in order to rein in a looming fiscal deficit. The initial government budget was reduced by 20% in April 2009, from that which was, originally, approved by Parliament at the beginning of the year.

The health sector budget was reduced by exactly 10% in the April amendment, falling from 230 billion to 207 billion tugrik.

Relative to other sectors such as road, transport, construction and urban development, the health and the social sectors were, fairly well-protected. With the April 2009 amendment, the health sector budget rose from 10.7% to 11.4% of the total budget allocation. An even larger increase was observed for education (from 22.5% to 24.3%). However, the initial 2009 allocation of 10.7% was down from an allocation of 12% in the 2008 budget, suggesting that some of the effect of the economic crisis on health spending may have occurred in the initial 2009 allocation.

The composition of health spending changed during the period of the economic crisis (between 2008 and 2010)

While salary expenditure approximately doubled prior to the economic crisis (2007 to 2008), salaries were reduced by 3% in the amended budget for 2009. Hardest hit in the amended 2009 budget was staff training, which was reduced by over 55%. Allocation for medicines and vaccines was reduced by 20% from 29.5 billion to 23.6 billion tugrik.

The budget for other goods and services was reduced by 17%, including cuts in water supply and treatment (~10%);
electricity, heating, fuel and transportation (-20%); information and advertisement (-20%); stationery and supplies (-30%); postal and telecommunication (50%), and business trips by around 50%. Other health related areas affected by the budget cuts included reductions in operating expenses of scientific research projects (> 55%); reductions in the participation of sporting competitions (65%); and, the elimination of the budget for books and periodicals. Capital project budget was reduced by 20%.

There was also, a very clear reduction in the current per capita health allocation at the aimag level in the 2009 health budget amendment. Budgets were increased again for 2010, but still remained lower than the level of the initially approved 2009 budget.

**Hospitals bore the brunt of budget cuts because they are funded through direct government allocations rather than on a capitation basis**

Prior to the crisis period, the budgets of hospitals (at tertiary, aimag, district, soum and inter-soum levels) were increasing rapidly, doubling between 2006 and 2008. However, between 2008 and 2009, hospital budgets fell by about 10%. The effect of budget cuts on family group practices were less pronounced than at higher levels of care because they are funded on a capitation basis and the per capita allocation did not change over the period of the crisis.

**During the economic crisis in Mongolia, out-of-pocket expenditure on drugs was affected not only by an income effect (rising unemployment, falling real wages and declining non-wage income), but also by a price effect**

As in the East Asian crisis of the late 1990’s, prices of drugs rose significantly due to the devaluation of currency. Households had three options: (i) maintain the quantity of drug consumption and incur high out-of-pocket expenditures; (ii) reduce their consumption of drugs in order to keep out-of-pocket expenditure within affordable levels; or (iii) switch to lower cost generic equivalents, including those made domestically. Information obtained from field visits suggest that all responses were adopted. The extent of domestic substitution may be constrained, because of the limited number of pharmaceutical companies in Mongolia.

**In Mongolia, health insurance coverage declined during the crisis period, both in absolute numbers and as a share of the total population**

Mongolia has a relatively generous social health insurance scheme that covers a large share of the population, either through formal sector member contributions (at a maximum of 4% of wage for formal sector employees), individually paying members, and fully subsidized members. Coverage increased to 84% of the population in 2008, but this figure declined to 81% of the population in 2009. This fall was driven by declining government coverage of vulnerable groups, from 60.6% in 2008 to 56.8% in 2009. However, coverage of this population group has been falling since early 2000s and it is unclear how much of this decline can be attributed to the economic crisis. By contrast, insurance coverage among formal sector workers increased in both absolute numbers and as a proportion between 2008 and 2009.

**International donors stepped up their development assistance to Mongolia as a result of the economic crisis**

The International Monetary Fund (IMF) estimated that Mongolia would need US$284 million of external financing in 2009 and US$153 million in 2010 to offset the effects of the crisis across all sectors. Combined disbursements from the IMF, the Asian Development Bank (ADB), and the Government of Japan covered most of the financing shortfall, with a gap of US$15 million in 2009 and US$20 million in 2010 which the Government planned to cover through assistance from other donors.

The ADB has been a major supporter of the health and social sectors in Mongolia since 1991, and has been a major partner in reforming the health sector through its three Health Sector Development Projects. The emphasis in these projects has been on strengthening primary health care through introducing Family Group Practices and strengthening institutional capacity, including improving health care financing and health insurance policy and practice. Cumulative disbursement in the USD$ 15.52 million 2nd Health Sector Development Project was more than 50% in 2007, increasing to 82% at the end of 2008 and 98% by the end of 2009.

The Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) had 3 HIV/AIDS and 2 tuberculosis active grants with the Government of Mongolia. Total commitments to date are US$20.5 million, with 88% of total committed financing disbursed. Except in 2006, disbursements from the GFATM were higher than planned expenditures for any given year.

**Overall, it appears that donor commitments are rising and disbursements remained largely on track throughout the period of the economic crisis in Mongolia.**

**Financial protection through health insurance is set to expand further following creation of the Human Development Fund in November 2009**

An announcement of the Human Development Fund made it clear that it was an explicit response directed at
combating the effects of the current economic environment and poor commodity prices. The Human Development Fund pools revenues from the mining industry. These funds are distributed to the population in the form of cash, payment of health and social insurance premiums, payments for the purchase of housing, as well as health and education service payments. Under this scheme, every citizen expects to receive the equivalent of 1.5 million tugrik ending June 2012. In April-May 2010, the Ministry of Health put forward a proposal to Cabinet to use the fund to: (i) pay the health insurance for those groups currently receiving the state subsidy and to increase the amount per person to bring the contribution closer to the level of the contribution of formal sector employees; and, (ii) expand the range of services included in the benefit package.

Summary

This rapid assessment shows that the economic crisis had a great effect on government health budgets in Mongolia. In response to the severe drop in government revenues, the government health budget experienced a 10% decline in 2009. Budget cuts were concentrated on investment expenditure, with major cuts in pharmaceutical expenditures and more discretionary line items. This is similar to trends observed in other financial and economic crises (Global Monitoring Report 2010).

Cuts in national and sub-national budgets were mirrored at the hospital level, where facilities depended on central allocations that varied from year to year. This did not occur at the primary health care level where services are financed on a capitation basis.

Relative to other sectors, however, the health sector share was protected during the budget amendment of 2009, and its share of total government budget increased from its initial 2009 allocation. It is not clear if this was a specific attempt to preserve health and human well-being. Since a relatively large share of the health budget is spent on salaries and current expenditure, rather than in investment, it may simply be the consequence of an overall policy aimed at reducing investment expenditure rather than an explicit attempt to protect health.

Because of limited data, the effect of the economic crisis on out-of-pocket health expenditure by households could not be fully assessed. However, the analysis suggested mixed levels of financial protection during the crisis period. For instance, the small co-payments at the secondary and tertiary level and free consultations at the primary level would probably not result in much of an effect on health spending as a result of the crisis; on the other hand, since drugs account for up to 90% of out-of-pocket expenditure (depending on location), price increases for drugs during the crisis period would likely have an effect on household spending.

The study, also, found a small decline in health insurance coverage between 2008 and 2009, especially among vulnerable groups. Improving financial protection through health insurance was one of the explicit policy responses to the economic crisis with the establishment of the Human Development Fund (HDF) in November 2009. It was designed to cover health insurance contributions to vulnerable groups and expand the range of services included in the benefit package.

Preliminary findings indicate donor health commitments did not change much over the crisis period, suggesting that donor governments did not withdraw promised support as a result of their own contracting economies.

Finally, this research has highlighted the importance of in-country work—including first-hand contact with government officials, analysts and policy-makers, field visits and interviews—in undertaking a rapid assessment of the effects of the economic crisis.