

TECHNICAL ASSISTANCE COMPLETION REPORT

TA No. and Name: TA 3317-MON: Public Expenditure Management		Amount Approved: US\$496,000	Division: ECGF
		Revised Amount: n.a.	
Executing Agency: Ministry of Finance and Economy		Source of Funding: TASF	TA Amount Undisbursed US\$30,121.10
			TA Amount Utilized US\$465,878.90
Date		Completion Date	
Approval 2 Dec 1999	Signing 19 Jan 2000	Fielding of Consultants June 2000	Original: February 2002 Actual: February 2003
		Closing Date	
		Original: December 2002	Actual: July 2003 (expected)

Description: This technical assistance (TA) was designed to help the Government of Mongolia and, in particular the Ministry of Finance and Economy (MOFE), establish an outcome-based public expenditure management (PEM) system to provide the needed backbone for planned public administration reforms. This is an accompanying TA to MON Governance Reform Program (GRP) loan, focusing on capacity building for MOFE in PEM, in support of GRP's goal of facilitating MON's transition to a new system of public sector governance.

Objectives and Scope: The primary objective of this TA was to assist MOF in establishing an outcome-based PEM system that (i) links medium-term planning with annual budgeting, (ii) establishes credible hard budget constraints on aggregate and sectoral spending, and (iii) incorporates contingent liabilities as an integral part of the annual budget. A secondary objective was to provide the necessary public financial infrastructure needed to support reform in public administration that was to be initiated under the GRP.

The scope of the work included the following: (i) training MOFE staff to apply objective criteria for selecting public investment projects; (ii) develop and implement a three-year rolling public investment plan (PIP) system that integrates recurrent and capital expenditures; (iii) develop and implement the top-down elements of a medium-term expenditure framework (MTEF), which involves the establishment of a system for setting strategic priorities of the Government and translating these into binding sectoral budgetary ceilings; (iv) develop the bottom-up elements of an MTEF, which focuses primarily on developing a system of three-year cost estimates of the policies that ministries intend to implement to achieve their strategic objectives; (v) pilot the bottom-up elements of an MTEF in five pilot agencies; (vi) provide training for and exposure of MOFE officials on the preparation and implementation of an MTEF, including arranging a study tour to some countries with experience with such systems, and workshops; (vii) provide advice on the preparation of a fiscal framework statement that presents to Parliament the parameters upon which the medium-term budget is formulated; (viii) develop and implement a system for efficiently monitoring the contingent liabilities of the Government; and (ix) coordinate this TA's activities with the activities of the TA on public administration reforms.

Evaluation of Inputs: The TA provided for 6 months of international¹ and 24 months of domestic² consulting services provided by an international consulting firm over a 24-month period. The timing of particular inputs during the contract period was broadly in line with the approved personnel schedule. In retrospect, the TA's technical inputs could have been improved by taking into account the main capacity needs of the Ministry or the comprehensive reform objectives of the TOR. With the TA being largely local consultant staffed, it would have been appropriate for the team to include a local Macroeconomist, given constraints to formulating the medium term macro forecasts and medium term strategy to underpin the Medium Term Fiscal Framework.

The consultant's performance was highly satisfactory, providing efficient service, sometimes going beyond their TOR just to ensure the project's success. The EA's performance was, in general, satisfactory; all requests for information were responded promptly, all reports were submitted on time, the capability of counterpart staff was fully satisfactory, although office facilities provided were very limited. ADB's performance was satisfactory, providing timely project reviews and inputs.

Evaluation of Outputs: The TA has accomplished the required deliverables set forth under the scope of activities to be undertaken. On the core objective of improving the quality of the PIP, the consultant prepared a discussion paper on *Software Issues in the Presentation of the PIP*, held consultations on a ministry by ministry basis in Oct and Nov 2000, and hosted workshops in Dec 2000 for MOFE Investment Division to train staff of key line ministries and agencies on requirements for making annual PIP budget submissions.

Between Sep 2000 and Apr 2001, the consultant assisted the Government in reestablishing the PIP database, and extended significant input to 3 key reports by the Government for its PIP presentation to the Donor Coordination Meeting in Paris in May 2001. Workshops were conducted in MOFE on *Lessons from Recent Trends in PIP*, held on 11 Aug 2000, and 14-15 May 2001, where the Head of PIP in MOFE presented a paper, with significant discussion ensuing. A one-day formal PIP workshop was held in early Nov 2001 which reviewed content of the PIP Preparation Manual, including chapters related to PIP elements of the Fiscal Framework Statement. Subsequent to this Workshop, the Minister of Finance and Economy formally endorsed the PIP Preparation Manual by way of formal decree in Nov 2001. This would help ensure the sustainability of future PIP preparation.

The Government, with TA contribution, prepared the 3-year PIP, 2002-04, as part of the 2002 to 2004 budget processes, with reasonable integration with the current budget and capital expenditures. Subsequently, the Government developed the Development Vision for 2003-05, which establishes strategic priorities to guide budget formulation over the medium term. To better implement these priorities, a 3-year rolling PIP framework has been formulated by the Government as an integral part of the MTEF. The PIP framework is integrated with recurrent budgets to ensure adequate maintenance of the capital investments undertaken. The PIP is being presented to external assistance agencies and finalized annually based on confirmed commitments.

¹ With expertise on PEM, and valuation and management of public sector contingent liabilities.

² With experience in the areas of PEM and public sector accounting.

The implementation of a three-year system of output-based forward estimates and preparation of a fiscal framework statement was discussed extensively, particularly in the Aug 2000 and May 2001 workshops, where assessment of PEM arrangements in the pilot agencies was also taken up. A paper on the status of development of the Fiscal Framework Statement 2002-04 was presented and took up a significant part of the deliberations. Core elements of the Statement are in place: (a) 3-year macro framework; (b) 3-year revenue forecast; (c) 3-year PIP; (d) 3-year expenditure allocations by budget entity; (e) 3-year financing and debt plan; and (f) a system of forward estimates allowing for consultations between top and bottom. These components were drawn together in a single submission to the High Level Public Expenditure Review Committee. Further consultations were held with all Ministries and budget entities in the context of the 2002 Budget Circular, and were used as a basis to prepare the 2002-04 Budget. All recommendations of the TA on fiscal framework statement model, including preferred forward estimates model, have been accepted in principle, and formed the basis for the Public Expenditure Management Operational Guidelines Manual which was formally endorsed by the Minister of Finance and Economy in Nov 2001.

The Aug 2000 and May 2001 workshops also facilitated discussion on the consultant's paper concerning *Articulation and Presentation of Contingent Liabilities of the Five Pilot Agencies and for the Whole Government*. Contingent Liabilities materials were incorporated as a chapter within the PEM Operational Guidelines Manual.

The introduction of reforms on a pilot basis over 1999-2002 is essentially phase 1 of the Government's 10-year public sector governance reform program, to be implemented over 1999-2009. The work initiated is to be expanded to cover the entire public sector in the subsequent phases.

The TA also supported a study tour of 18 government officials to New Zealand and Malaysia from 5 to 22 Mar 2001. This activity provided an excellent opportunity for the participants to get acquainted with the New Zealand model of Public Administration Reform and Malaysia's experience, which are significant learnings for the implementation of the reforms being pursued through this TA.

The consultant's final report was submitted in Dec 2001 but the TA was kept open to accommodate foreign secondment of MOFE officials, which was delayed due to elections in the host country, Australia, in late 2001. Two officials from MOFE undertook secondment at the Australian Department of Treasury in Jul-Aug 2002. During this period, the secondees were exposed to extensive on-the-job training on the overall policymaking process in the area of fiscal management.

The TA completion date was further extended to support the participation of two senior MOFE officials in the Jan-Feb 2003 Programme on Capital Markets and Public Finance at the London School of Economics and Political Science, and their visit to key government agencies in the UK. This program enabled them to study analytical aspects associated with public finance management, acquire knowledge of macroeconomic forecasting techniques, and examine the structure and working framework of capital markets across various areas of finance.

Overall Assessment and Rating: The TA is rated highly successful. It has provided timely advisory support and helped establish a robust framework for medium-term budget planning. Significant elements of the TA's recommendations were used in preparing the guidelines for articulation of contingent liabilities in the 2002-04 budget documentation. The working papers and workshop presentations prepared throughout the TA formed the basis for the PEM Operational Guidelines Manual and the PIP Preparation Manual, both of which were widely circulated in MOFE in early Dec 2001. They now provide the guidelines for PEM and sustainable preparation of PIP over the coming years. With all these, the TA has successfully laid a sound foundation for an outcome-based PEM system and provided necessary public financial infrastructure to support reform in public administration.

Major Lessons Learned: Notwithstanding the significant progress that was made during the TA, it is important to be realistic when designing the nature, scope and timing of similar projects. The design for this TA called for major and diverse reforms across virtually all key Departments of MOFE, to be accomplished within a narrow timeframe. If the goals of the TA are diverse and comprehensive, the resources available to the TA, including mix of technical input skills, should be matched accordingly. Commencing a TA of this nature in the months leading up to a national election posed limitations. The large turnover of professional staff in MOFE soon after the elections, along with fundamental changes to the economic policy stance, created major challenges for the early work of the TA. Many new staff in MOFE after the 2000 elections were heavily occupied with adapting to their new positions as well as in addressing the demands of the new Government. This placed major constraints on time that could be devoted to public expenditure reform issues. Two lessons may be gleaned from this experience. First, numbers and capacities within MOFE need to be raised over time. Second, reform programs must recognize existing heavy workloads and must be realistic as to the extent of reform that can be concurrently pursued.

Recommendations and Follow-Up Actions: Experience elsewhere suggests that diverse fiscal reforms of the nature being pursued here take considerable time to develop and cement. While Mongolia has made significant strides toward implementing medium-term budgeting in such a short period, the gains remain fragile and in need of further strengthening and consolidation. The following are among the most appropriate areas recommended for longer term future capacity building within MOFE: (i) provision of support for development of an integrated forecasting model covering: national accounts, balance of payments, budget, and monetary sector; (ii) strengthening and advisory support within the Economic Policy and Planning Department in preparation, analysis and presentation of economic information and policies, including policies targeting poverty reduction with growth; (iii) upgrading the ODA/PIP databases within MOFE so as to have modern and coordinated approaches to storage and management of both historical and forecast ODA data that will fully interface with the current budget once installation of the World Bank-funded Financial Management Information System occurs; (iv) training on the recently completed PIP Preparation Manual; (v) assistance to finalize reforms on intergovernmental financing; and (vi) training in areas of medium to long term debt forecasting and in development of appropriate debt policies and debt management strategies for the Treasury Department. ADB is currently formulating a program cluster with two subprograms (2003-05 and 2006-09) to support the Government for the Second Phase of the GRP, and also a TA loan for Capacity Building for Governance Reforms. These recommendations may be considered in enhancing the Government's overall capacity to implement key measures, under the overall framework of GRP II.