

ASIAN DEVELOPMENT BANK

TAR: MON 35376

TECHNICAL ASSISTANCE

TO

MONGOLIA

FOR

**STRENGTHENING PUBLIC SECTOR ADMINISTRATION
AND FINANCIAL MANAGEMENT**

September 2002

CURRENCY EQUIVALENTS

(as of 10 August 2002)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.00090
\$1.00	=	MNT1,104

ABBREVIATIONS

ADB	–	Asian Development Bank
FBWG	–	Finance and Budget Working Group
GRP	–	Governance Reform Program
GRP-II	–	Second Phase of the Governance Reform Program
HRWG	–	Human Resource and Performance-Based Management Working Group
MOFE	–	Ministry of Finance and Economy
PARP	–	Public Administration Reform Program
PSMFL	–	Public Sector Management and Finance Law
SBP	–	strategic business plan
TA	–	technical assistance

NOTES

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. The Government of Mongolia launched a broad-ranging program of public sector governance reforms in 1996, with the objective of infusing fiscal discipline and increasing overall public sector efficiency. The Asian Development Bank (ADB) has supported the Government's initiatives through the Governance Reform Program (GRP), approved in 1999, and a number of technical assistance (TA) grants.¹ Under the GRP, the Government has introduced and implemented wide-ranging process-oriented public sector governance reforms over 1999-2002. As part of the GRP, Parliament adopted the Public Sector Management and Finance Law (PSMFL) in June 2002 to provide the legal basis for improving budget formulation and execution, and public sector performance management. The Government requested ADB in 2001 for TA to support the implementation of the PSMFL and to help design a follow-up second phase of the GRP to further deepen governance reforms. The TA objectives, scope, methodology, cost, financing, and implementation arrangements were finalized during a Fact-Finding Mission in July 2002.² The TA framework is provided in Appendix 1.

II. ISSUES

2. Mongolia's economic growth performance in the period following its transition in 1991 has rivaled that of the other transition economies, despite its land locked geography, lack of product diversity for international trade, and vulnerability of agricultural production and livestock to weather-related uncertainties. The transition-induced decline in output in the early 1990s was reversed in the short span of 4 years, and the economy grew by 6% in 1995. There were also steady improvements in other macroeconomic indicators such as inflation, and fiscal deficits that were brought down from 13% of GDP in 1990 to 7% by 1995. The initial growth performance has, however, not been sustainable due to various structural rigidities in many areas.

3. Among the key impediments is the large and growing size of the Mongolian public sector. The overall administrative structure consists of 21 *aimags* (provinces) and the capital city administration, subdivided into 330 *soums* (municipalities), which provide services at the lowest tier of the government. At the central level, there are 11 ministries and 31 public sector bodies that formulate policy and administer some of the central-level functions. Around 295 aimag administrations and public sector agencies deal directly with the Ministry of Finance and Economy (MOFE) for budget negotiations in order to secure the release of funds. The governors of the soums deal with the aimag governors for budgetary transfers. Over 7,000 public sector entities rely on budgetary support in Mongolia, or about one public sector agency for every 350 people. Though the Government has adopted various decentralization measures beginning in 1995 aimed at improving the delivery of public services to the population, the size of the public sector curtails the benefits of decentralization, given the multiplicity of agencies performing similar tasks.

4. The growing needs of the public sector and the limited scope and economic opportunities for several aimags and soums to raise their own revenue to meet their expenditure

¹ ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for Governance Reform Program*, Manila; ADB. 1999. *Technical Assistance to Mongolia for the Initial Phase of Public Administration Reform*, Manila; ADB. 1999. *Technical Assistance to Mongolia for Public Expenditure Management*, Manila; ADB. 1999. *Technical Assistance to Mongolia for the Study of Central-Local Government Aspects of Reform Implementation*, Manila.

² The TA was listed in the ADBBO on 22 July 2002. Management has approved the request to waive the three-month listing requirement.

needs, which are guided by local political priorities, together led to a spiraling of public expenditures and accumulation of fiscal deficits to 14% of GDP by 1998. The fiscal profligacy at the lower tiers of government was aggravated by (i) weak budget management, reporting, and control frameworks, and inadequate checks and balances over violation of standard budget principles; (ii) full devolution of expenditure responsibilities to the lower tiers of government, which often lacked any strategic prioritization to guide expenditure planning, despite their dependence on revenue streams from the center; (iii) poor revenue administration; (iv) inadequate treasury controls; and (v) lack of political will and bureaucratic commitment for maintaining overall fiscal discipline. As a result, the share of total government expenditures to GDP in the mid-1990s stood at over 50%, one of the highest among comparable transition economies.

5. It was in this context of rising public expenditures from 1995 that the Government launched the process of debating public sector reforms using ADB TA. The Government initially focused on reforming intergovernmental fiscal relations, in the revenue as well as expenditure area, and reorganization of selected aimag–and soum–level institutions.³ This was done on a pilot basis covering six representative aimags. The Government formulated a Policy Framework and Action Plan to improve tax-sharing arrangements and rationalize resource allocation across key sectors, based on their strategic needs in the selected provinces. Based on the outcomes of this pilot experiment as well as an analysis of expenditure needs and realities, the Government then drafted the PSMFL to provide a legal basis for strengthening budget formulation and execution at all levels, and for improving intergovernmental relations.⁴ The Government chose to adopt the New Zealand model, which involves a comprehensive overhaul of public sector resource management aimed at closely linking strategic planning, performance management, and output delivery with budget formulation and execution. At the Government's request, ADB provided TA support to formulate a long-term program of public sector governance reforms and the GRP, based on the legal framework provided by the PSMFL.⁵

6. The centerpiece of the GRP—the first phase of the public sector reform program—is to provide a medium-term framework for public sector governance reforms on a pilot basis in certain key areas over 1999-2002. The GRP supported the formulation of strategic business plans (SBPs), adoption of output–based budgeting, performance contracting, and merit-based recruitment and promotion procedures in five key public service agencies, termed bunch 1: the General Department of National Taxation, Customs General Administration, State Audit and Inspection Committee, State Administrative Service Council, and National Statistical Office. In addition to these 5 agencies, the Government also began introducing reforms in 11 other ministries and agencies. Significant TA support has been provided to all the agencies to build capacities through a number of workshops as well as hands-on training in the formulation of their SBPs; preparation of financial statements; specification of the outputs of each agency including description, quantity, quality, and cost; preparation of output-based budget estimates; and formulation of and adherence to performance contracts.

7. Until the adoption of the PSMFL on 27 June 2002, all the reform measures have been implemented on the basis of government resolutions and decrees. The PSMFL is comprehensive and quite demanding in its provisions, in that it provides the basis for full-fledged

³ ADB. 1996. *Technical Assistance to Mongolia for Institutional Support for Local Government and Decentralization (Phase I)*, Manila.

⁴ ADB. 1997. *Technical Assistance to Mongolia for Institutional Strengthening of the Local Government and Decentralization (Phase II)*, Manila.

⁵ ADB. 1997. *Technical Assistance to Mongolia for the Initial Phase of Civil Service Reforms*, Manila; ADB. 1997. *Program Preparation of Governance Reforms*, Manila.

implementation of budget, financial, and personnel management reforms in all public sector entities at all levels of the Government, and its provisions will become effective from 1 January 2003. The fundamental objective of the law is to infuse budgetary discipline and enhance accountability and transparency in the determination as well as application of budgetary funds. The provisions of the law will integrate strategic planning at all levels closely with budget formulation and execution. While the autonomy of the lower level budgetary bodies and aimag and soum administrations will not be reduced in terms of their day-to-day operations, they will be required to deliver their outputs in accordance with performance contracts agreed upon with the various portfolio ministries and other relevant bodies that coordinate economic activities at the central and local levels. The provisions with regard to output specification and performance contracting have received the most attention during the parliamentary debate on the law, given the practical difficulties involved in both aspects. The PSMFL will also aim at introducing a system of merit-based entry into, and performance-based progression within, the civil service.

8. While the GRP has introduced reforms on a pilot basis in a successful manner in bunch 1 agencies, significant capacity-building support is needed to carry forward the reforms in line ministries, central level budgetary bodies, local level administrations, and central and local state-owned enterprises. Parliament has delegated to the Government the authority to prepare a realistic time table for adoption of reforms throughout the country in a phased manner. The Government's implementation plan aims to introduce reforms in stages, beginning with central level ministries and budgetary bodies, to be followed by local administrations, to be completed by 2005. For effective implementation of reforms, there is need for (i) developing awareness of the significance and implications of the proposed reforms; (ii) properly sequencing future reforms, which have so far evolved in a gradual manner; (iii) addressing capacity constraints in implementing the budget and performance management provisions of the PSMFL; (iv) meeting the challenges of output specification and introducing output contracting in a meaningful manner; (v) proper coordination among the multiple public sector agencies and finding mechanisms to estimate budgetary needs; and (vi) consolidation of the public sector and civil service functions to achieve efficiency, at the same time containing the social cost of such reforms.

9. Though the adoption of the PSMFL has taken over 4 years, the Government has utilized this period to build consensus and commitment for governance reforms. The Government has requested this TA and subsequent loan support from ADB to broaden and deepen reforms in an expedient, sequential, and cautious manner. In particular, there are concerns that the objective of reforms will not be achieved and inter governmental fiscal relations will be adversely affected if the fiscal disciplinary measures and output contracting are not implemented well. Given the complexity of the reform measures and the emerging nature of the public sector budgetary and administrative capacity, TAs have been provided in quick succession. Past TA support has contributed to formulating the basic design of the reform measures, drafting of the PSMFL, and capacity building. A key lesson learned from the past TAs and the GRP is the need for sustained measures to establish budgetary norms and sound management practices. The value added by the proposed TA lies in its focus on formulating an overall view on the implementation of the PSMFL and the steps that are required under the second phase of the GRP.

10. To effectively guide the implementation of the PSMFL and to formulate the next phase of governance reforms, the Government will retain the high-level steering committee that was established under the GRP under the chairmanship of the Prime Minister. Further, two working level bodies will be established under the steering committee, namely the finance and budget working group (FBWG) and the human resource and performance-based management working group (HRWG). Further, the Public Administration Reform Program team, currently working

under the supervision of the Cabinet Secretariat, will work closely with MOFE under the TA. The Government, through the Cabinet Secretariat, will ensure that the Ministry of Justice and Home Affairs will be closely involved in preparing and finalizing the consequential amendments to all relevant legislation, and in drafting a realistic transition law if needed at any stage.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

11. The TA will aim to enhance the efficiency and quality of public services provided by central ministries, budgetary bodies, enterprises, and aimag–and soum–level administrations. The purpose of the TA is to enhance the quality of public sector budget formulation and execution and human resource management. The outputs of the TA will include (i) procedures for effective liaison between MOFE and line ministries in budget formulation as per the provisions of the PSMFL; (ii) training of at least two key staff in each distinct area of the PSMFL within each central level ministry, budget entity, and local administration at the end of the TA; (iii) procedural, guidance, and training manuals; (iv) recommendations for consolidation of multiple civil service functions and the public sector entities; and (v) an agenda to guide the second phase of the GRP.

B. Methodology and Key Activities

12. The TA includes the following components:

- (i) **Formulation of a sound policy reform agenda.** The TA will support the formulation of a realistic and credible reform framework to guide the second phase of public sector administration and governance reforms in Mongolia over 2003-2005. Within this context, it will develop an action plan and help facilitate implementation of all the provisions of the PSMFL.
- (ii) **Capacity building program.** A series of training-of-trainers programs will be organized to train a core group of trainers for key sectors of the economy, such as education and health. Trainers will in turn train personnel at appropriate levels in various public sector bodies and lower levels of government in budget formulation and execution and performance-management. Two subcomponents will be included under this component:
 - (a) **Budget formulation and execution.** The TA will help prepare implementation regulations and instructions to guide the introduction and enforcement of all the budget-related provisions of the PSMFL. At the level of MOFE, the TA will help enhance the capacity of budget formulation, presentation, and analysis of expenditure policy options and improve liaison and coordination among MOFE, sector ministries, and the local level administrations for effective implementation of the PSMFL. For the other ministries, it will guide the process of output specification, formulation of SBPs, and preparation of agency-level appropriation estimates. It will also oversee the formulation of the Medium Term Expenditure Framework and the fiscal framework statement.
 - (b) **Development of performance-management system.** The TA will formulate performance agreements at various levels of the public sector in order to specify the quantity and quality of outputs and services to be

delivered, along with the rights and obligations of the contracting parties. It will prepare implementation guidelines and regulations to guide the introduction and enforcement of all performance-management provisions of the PSMFL.

- (iii) **Functional review of the public sector.** The TA will assess the functions of selected public sector administrative units including a representative sample of central ministries and agencies and of provincial level bodies with the objective of developing recommendations for rationalizing the civil service and public sector administration. This assessment will also feed into the preparation of the budgets and appropriation estimates of the portfolio ministries, agencies, and units.
- (iv) **Strengthening of the legal framework.** The adoption of the PSMFL calls for amendments to a number of laws. The TA will support close coordination between the Ministry of Justice and other line ministries to ensure that all amendments are proposed in a consistent manner.

C. Cost and Financing

13. The total cost of the TA is estimated at \$850,000 equivalent, of which \$403,000 is the foreign exchange cost and \$447,000 equivalent is the local currency cost. The Government has requested ADB to finance \$650,000 equivalent, covering the entire foreign exchange cost of \$403,000 and \$247,000 equivalent of the local currency cost. The Government will finance the balance of the local currency cost, equivalent to \$200,000, through the provision of counterparts and workshop facilities. The TA will be financed by ADB on a grant basis from the ADB-funded TA Special Fund. The detailed cost estimates and financing plan of the TA are in Appendix 2.

D. Implementation Arrangements

14. ADB will engage a team of individual consultants in accordance with its *Guidelines on the Use of Consultants* and other arrangements for the selection and engagement of domestic consultants. The TA will provide for 12 person-months of international consulting services and about 110 person-months of domestic consulting inputs, to meet the significant need for training and dissemination of budget and personnel management principles and techniques. Consultants will have expertise in (i) public sector administration, governance, and civil service reforms; (ii) budget formulation and execution; and (iii) human resource management. The terms of reference for consulting services are presented in Appendix 3.

15. Given the overall public sector governance focus of the TA, the Cabinet Secretariat will serve as the Executing Agency, with MOFE playing a lead implementing role in all aspects of budget formulation and execution. As outlined in para. 10, FBWG and HRWG will coordinate all the technical work under the TA. The TA will be implemented over a period of 20 months from the date of its approval.

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$650,000 on a grant basis to the Government of Mongolia for Strengthening Public Sector Administration and Financial Management, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>To enhance the efficiency and quality of the services provided by the public sector, at all levels of the Mongolian Government</p>	<p>Adherence to the sequence and timing in the implementation plan for the Public Sector Management and Finance Law (PSMFL)</p> <p>Fiscal framework statement and medium-term expenditure framework, in line with the PSMFL</p> <p>Consolidation of public sector bodies, demonstrated by at least a 25% reduction in the number of different types of administrative units</p>	<p>Review missions and policy dialogue with the Government as part of preparing the second phase of the Governance Reform Program.</p> <p>Periodic implementation reports on the adoption of the PSMFL</p>	<p>Effective implementation of the PSMFL as per the plan</p> <p>All budgetary bodies will be able to succeed in clearly defining their outputs and formulating meaningful strategic business plans (SBPs)</p>
<p>Purpose</p> <p>The purpose of the TA is to enhance the quality of public sector budget formulation and execution and of human resource management.</p>	<p>SBPs prepared and output specification completed by all budgetary bodies as per implementation plan.</p> <p>Budget appropriation estimates of public sector bodies in line with PSMFL requirements</p> <p>Output-based performance contracts signed in line with implementation plan</p> <p>General managers and all director-general level staff appointed in line with PSMFL provisions</p>	<p>Evaluation of SBPs, and random review of output specification process</p> <p>Review of the formulation process for the appropriation estimates, and reports submitted to Ministry of Finance and Economy (MOFE) and Parliament</p> <p>Tracking of announcements in newspapers</p> <p>Consultation with staff and end-users</p>	<p>Full commitment from the government at various levels to fully and effectively implement all the provisions of the PSMFL as per the implementation plan</p> <p>Difficulties in specifying outputs in many cases</p> <p>Potential for corruption in civil service appointments</p>

<p>Outputs</p> <p>(i) Procedures for effective liaison between MOFE and line ministries in budget formulation as per the provisions of the PSMFL</p> <p>(ii) Training of at least two key staff in each distinct area of PSMFL within each central level ministry, budget entity, and local administration at the end of the TA</p> <p>(iii) Procedural, guidance, and training manuals</p> <p>(iv) Recommendations for consolidation of multiple civil service functions and the public sector entities</p> <p>(v) Agenda to guide the second phase of the Governance Reform Program (GRP)</p>	<p>MOFE establishes effective coordination arrangements with all line ministries</p> <p>At least 1,000 Government officials have gone through the capacity building programs in various aspects of the PSMFL</p> <p>Manuals produced by the end of the TA</p> <p>Tangible direction to reduce the number of public sector bodies by at least 25%</p> <p>A policy reform agenda produced with key reform measures in budget, financial management, performance management, and audits</p>	<p>Joint consultations with MOFE and all line ministries</p> <p>Training events, modules prepared, and final training reports from consultants</p> <p>Consultations with stakeholders</p> <p>Consultations with the Government and other stakeholders</p>	<p>Full commitment and political willingness to implement governance reforms at all levels of government, and to pursue the second phase of reforms</p> <p>Staff retention ensured through proper career progression procedures as per the PSMFL</p> <p>Efficiency of reforms impeded by resistance to consolidate the public sector</p>
<p>Activities</p> <p>Advisory services in the above areas</p> <p>Formulation and implementation of a training-of-trainers program at various levels of government</p> <p>Formulation of a policy agenda for the second phase of the GRP, based on policy dialogue with the Government.</p>	<p>Implementation of the key provisions of the PSMFL in line with the plan of the Government</p> <p>Policy agenda to help the Government prepare the second phase of reforms</p>	<p>Consultants' and the Government's reports</p> <p>Conduct of training-of-trainers workshops, and post-workshop surveys</p>	<p>Availability of well-qualified trainers at different levels of government</p>
<p>Inputs</p> <p>12 person-months of international consulting services, and about 110 person-months of domestic consulting services in the areas of PSMFL implementation and training</p>		<p>Evaluation of the consultants' inputs</p>	<p>Ability and resourcefulness of the team of consultants to effectively implement all provisions of the PSMFL</p>

COST ESTIMATES AND FINANCING PLAN
(\$)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing			
1. International Consultants			
a. Remuneration (12 person-months)	264,000	0	264,000
b. Per diem	38,000	0	38,000
c. International Travel	30,000	0	30,000
2. Domestic Consultants - Remuneration (110 person-months)	0	166,000	166,000
3. Domestic Travel and Training/Contact Visits to <i>Aimags</i>	0	30,000	30,000
4. Training Workshops	0	30,000	30,000
5. Translation and Communications	0	10,000	10,000
6. Contract Negotiations	6,000	0	6,000
7. Contingencies	65,000	11,000	76,000
Subtotal (A)	403,000	247,000	650,000
B. Government Financing			
1. Office/Logistical Support	0	80,000	80,000
2. Workshops	0	80,000	80,000
3. Domestic Transportation	0	40,000	40,000
Subtotal (B)	0	200,000	200,000
Total	403,000	447,000	850,000

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The technical assistance (TA) will provide for the advisory, training, and project formulation services of three international consultants and a number of domestic consultants. The international consultants will closely work with senior government officials in the Finance and Budget Working Group (FBWG) and the Human Resource and Performance-Based Management Working Group (HRWG) to formulate an effective program to implement the Public Sector Management and Finance Law (PSMFL), will advise them on an ongoing basis during the actual implementation of the PSMFL, and will advise and guide the domestic consultants in training and capacity-building activities. The domestic consultants will be primarily continuing and expanding on the work currently being done by the Public Administration Reform Program (PARP) team, financed under TA 3316.¹

A. International Consultants

1. Budget Advisor—6 person-months

2. The budget advisor will be an individual with appropriate high-level academic qualifications and significant experience in public sector budget formulation, implementation, and liaison among the Ministry of Finance, various portfolio ministries, and local governments in countries comparable to Mongolia. The budget advisor's primary role will be to oversee the budget aspects of the overall public sector governance reform program, and to effectively support the development of smooth fiscal arrangements among the Ministry of Finance and Economy (MOFE), other portfolio ministries, and central and local level administrative units and budgetary bodies. The budget advisor will closely coordinate with the other advisors/experts working in budget, treasury, and overall finance areas at MOFE or other ministries or budgetary bodies. The advisor will also work closely with the other members of the TA team and provide overall guidance. All the tasks outlined will be carried out upon a thorough review and understanding of the provisions of the PSMFL, and the activities already implemented with TA and policy support of the Asian Development Bank (ADB) and other aid agencies. The budget advisor will

- (i) act as an overall advisor to MOFE on implementation of the provisions of the PSMFL, including establishing effective liaison between MOFE and all the portfolio ministries; in particular, focus on analysis and presentation of expenditure policy options, and advise MOFE on the preparation of the fiscal framework statement and the medium-term expenditure framework; prepare implementation regulations and instructions to effectively guide the budget-related provisions of the PSMFL;
- (ii) oversee the design of training programs (to be done on the basis of the past work of the PARP team and the domestic consultants under the TA) to disseminate the provisions and requirements of the PSMFL with regard to budget formulation and execution to ministries, budgetary bodies, and administrative units at all levels, including overseeing the preparation of training modules by domestic consultants; advise the domestic consultants' team, FBWG, and HRWG in identifying appropriate trainers, and periodic implementation of the training programs in order to cover civil servants preparing budgets at all levels of Government;

¹ ADB. 1999. *Technical Assistance to Mongolia for the Initial Phase of Public Administration Reform*, Manila

- (iii) in consultation with MOFE, select three key portfolio ministries and three key aimags, and provide advisory support in the process of preparing their budget appropriation estimates, based on a careful review of (a) their strategic priorities; (b) output specifications; and (c) output and service delivery contracts between the portfolio ministries and the central budgetary bodies, and the portfolio ministries and the aimag level administrations; in doing so, provide continuous advisory support to guide implementation of all budget-related provisions of the PSMFL in a vertical manner, starting with the central level ministry, then to the central level budgetary bodies, and finally down to the level of aimag, soum, city, and district level administrative units;
- (iv) as part of this advisory support, review, refine, and strengthen the mechanisms in place in the portfolio ministries for output-based budgeting, medium-term planning, accrual accounting, and financial reporting practices; in coordination with the human resource expert, also review the potential for effective performance-oriented administration;
- (v) assess if the PSMFL implementation plan with regard to the budget management provisions is realistic, and advise the Government on revisions to achieve effective compliance; and
- (vi) based on all of the above, prepare a matrix of policy, institutional, legal, regulatory, and implementation actions that the Government needs to pursue in the second phase of the Governance Reform Program (GRP-II) in relation to strengthening budget formulation in line with the principles of the PSMFL.

2. Public Administration and Civil Service Reform Expert—3 person-months

3. The public administration and civil service reform expert will be an individual with appropriate high-level academic qualifications and significant experience in public administration, undertaking functional review of public sector and budgetary bodies, and implementation of overall public sector resource management reforms at the central and local levels of government in countries comparable to Mongolia. The primary task of the expert will be to undertake a snapshot functional review of the core versus noncore functions of the ministries; budget bodies; and local level aimag, soum, city, and district level administrations with a view to formulating recommendations on streamlining and rationalizing the public sector. The expert will closely coordinate with the other advisors/experts working in public administration and financial management reforms at portfolio ministries and/or budgetary bodies. The Expert will also closely work with the other members of the TA team and provide any support needed by the other members. The expert will

- (i) undertake a snapshot functional review of the core versus noncore functions of the Mongolian public sector as a whole, and identify (based on consultations within the Government) five key representative ministries or agencies to undertake a more in-depth assessment of their functions, to be able to form a representative picture of the need for reforms;
- (ii) critically analyze the strategic focus and priorities of the selected representative ministries or agencies, and evaluate if multiple agencies adopt similar strategic objectives and priorities in the same or closely related sectors; in coordination with the human resource expert, review if the work programs at selected

budgetary bodies reflect appropriate levels of utilization of the staff inputs and other resources made available to those bodies; select as many aimags and soums as feasible (identified on a representative basis reflecting size, location, importance, and other relevant indicators), and undertake a comprehensive review of the quantity and quality of public services being provided at these administrative units, with the objective of critically evaluating whether the public resources invested in maintaining the administrative units and their staffs are concomitant with the benefits derived from operation those units;

- (iii) engage in consultations and consensus building on the need for consolidation and streamlining of public sector bodies and the civil service functions;
- (iv) oversee the design of training programs (to be done on the basis of the past work of the PARP team and the domestic consultants under the TA) to disseminate the provisions and requirements of the PSMFL with regard to budget formulation and execution to ministries, budgetary bodies, and administrative units at all levels, including overseeing the preparation of training modules by domestic consultants; advise the domestic consultants' team, FBWG, and HRWG in identifying appropriate trainers, and periodic implementation of the training programs in order to cover civil servants dealing with public sector administration at all levels of government; and
- (v) based on all of the above, prepare a matrix of policy, institutional, legal, regulatory, and implementation actions that the Government needs to pursue in GRP-II in relation to rationalizing the Mongolian public sector and enhancing overall public administration and governance at all levels.

3. Public Sector Human Resource Management Expert—3 person-months

4. The public sector human resource management expert will be an individual with appropriate high-level academic qualifications and significant experience in human resource management issues in the public sector and the broader civil service in countries comparable to Mongolia. This expert's primary role will be to oversee the implementation of human resource management reforms in accordance with the provisions of the PSMFL. The expert will closely coordinate with the other advisors/experts working in public administration and human resource management reforms at portfolio ministries or budgetary bodies. The expert will also closely work with the other members of the TA team and provide any support needed by the other members. The expert will

- (i) act as an overall advisor to the Cabinet Secretariat on the public sector human resource management aspects of the PSMFL – such advisory support to include, among others (a) implementation of performance-based contracting and human resource management in key ministries and agencies; and (b) refining and reformulating personnel recruitment guidelines, and the mock-up templates of the performance agreements (from the highest to the lowest levels of employment in all budgetary bodies) and designing of incentive structures in order to motivate and retain well-performing employees at all levels of government;
- (ii) assess the capacity of the State Administrative Services Council (SASC), and advise the Cabinet Secretariat on measures for strengthening it;

- (iii) prepare implementation regulations and instructions to effectively guide the implementation of the personnel management aspects of the PSMFL;
- (iv) oversee the design of training programs (to be done on the basis of the past work of the PARP team and the domestic consultants under the TA) to disseminate the provisions and requirements of the PSMFL with regard to budget formulation and execution to ministries, budgetary bodies, and administrative units at all levels, including overseeing the preparation of training modules by domestic consultants; advise the domestic consultants' team, FBWG, and HRWG on identifying appropriate trainers, and periodic implementation of the training programs in order to cover civil servants dealing with human resource management and performance-based contracting, merit-based recruitment of staff, and designing incentive structures at all levels of government;
- (v) assess if the PSMFL implementation plan with regard to the human resource management provisions is realistic, and advise the Government on revisions to achieve effective compliance; and
- (vi) based on all of the above, prepare a matrix of policy, institutional, legal, regulatory, and implementation actions that the Government needs to pursue in GRP-II in relation to effectively implementing the provisions of the PSMFL with the objective of strengthening human resource management in the Mongolian public sector.

5. **Reporting Arrangements for International Consultants.** The international consultants will submit monthly reports, a draft final report, and a final report. The draft final report will be revised, based on comments submitted by ADB and the Government. The consultants, however, may submit any other additional reports on the TA or on special topics of related interest to the TA. The reports will be technical in nature, and all administrative and other details will be relegated to appendixes.

B. Domestic Consultants

6. The domestic consultants under the TA will be recruited on an individual basis, as under ADB TA 3316, but the individual experts will work under the overall supervision and coordination of relevant international experts for purposes of training and analysis. The PARP team currently recruited under TA 3316, subject to fully satisfactory performance, may be retained under the proposed TA to perform the advisory and implementation activities as outlined in paras.17-19 on Appendix 6 of the Report and Recommendation of the President for Loan 1713-MON: *Governance Reform Program*. However, the entity coordinators, in addition to their duties of ensuring that the reforms are fully implemented and pursued at the Bunch 1 and Bunch 2 pilot agencies, will be realigned to support the implementation of PSMFL provisions at other budget bodies at central and local levels. The assignment of the budgetary bodies to the different entity coordinators will be done by the project director in close consultation with ADB. In addition, as appropriate, other experts with similar skills may be recruited in order to expand governance reform measures as envisaged under the PSMFL to all budgetary bodies at the central and local levels effectively. It is envisaged that about 110 person-months of domestic consulting services will be provided under the TA in order to provide for extension of the project director's and entity coordinators' inputs, given the significant domestic capacity that has been built in the PARP team, subject, however, to fully satisfactory performance based on periodic evaluation of

outputs. An open competition approach, through advertisements in domestic news media, may be adopted.

7. In addition to the project director and entity coordinators, the following experts will also be recruited under the TA, working under the supervision of the project director. The length of their inputs will be decided on a need basis in consultation with and with the prior approval of ADB. Some of these experts may be recruited on a part-time basis.

1. Social Impact Assessment Expert

8. This expert will be an appropriately qualified individual, with significant work experience in undertaking social and economic impact assessment of structural adjustments in key sectors of the Mongolian economy. The key tasks of this expert will be to assess the overall social impact of the introduction of budget, performance, and other process-oriented reforms that will be introduced in compliance with the PSMFL. In particular, the expert will focus on (i) changes in the quality of delivery of public services and goods, whether improvements in quality or deterioration in the quality or delivery of services; (ii) any impact of the public sector reforms on the price of publicly provided goods and services; (iii) impact through retrenchments, changes in terms of employment, the overall size of the public sector, and other adverse dimensions of public sector reforms; (iv) gender impact of public sector management and civil service reforms; (v) impact of the reform measures at the level of individual institutions, to be measured and monitored on a selective, pilot basis in coordination with the entity coordinators; and formulation of entity-specific remedial measures to ameliorate any adverse social impact of the reforms; (vi) proper application of the merit-based entry requirements and testing procedures for employment in administrative, special, and other types of civil service categories; (vii) evolution and application of grievance procedures in cases of disputes; and (viii) the overall social cost of the introduction of public sector governance reforms.

2. Legal Expert

9. This expert will have appropriate high-level qualifications in law and be a well-respected senior lawyer in Mongolia with significant experience in legal areas related to public sector administration and financial management. The expert's key task will be to support the TA and the Governance Reform Program in all legal aspects of the reform agenda. In particular, the expert will (i) explain all the legal provisions of the PSMFL and their implications in a clear and concise manner to the civil servants, and ministry or public sector agency level officials during the dissemination and implementation phase of the program; (ii) in close coordination with the Ministry of Justice and Home Affairs, Parliament legal secretariat and other relevant bodies, provide support in reviewing the legal framework and if needed, in drafting amendments to all relevant legislation in order to achieve consistency with the provisions of the PSMFL; and (iii) provide advisory support to the agencies and officials involved in the implementation of the PSMFL in all aspects of the legal framework.

10. **Reporting Arrangements for Domestic Consultants.** Each domestic expert will submit periodic reports to the project director within the areas of his or her responsibilities. The project director is responsible for submitting a team report in a coherent manner every month to ADB. In addition, the project director will also submit a biannual report and an annual report until the project is completed. The monthly, biannual, as well as annual reports will be comprehensive in nature, clearly outlining the activities undertaken by the team, the technical details of the work, and the progress made during the reporting period. The reports will also outline any problems encountered and remedial measures taken.