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# Decentralization, Local Governance and Local Development in Mongolia

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# Presentation Outline

1. Macroeconomic and Administrative Context
2. Overview of Context: Sub-national governments (SNGs) and decentralisation in Mongolia
3. SNG role in service delivery, local development and the SDGs through:
  - Local Public Spending
  - Regulatory & Convening Powers
4. Conclusions: challenges and opportunities

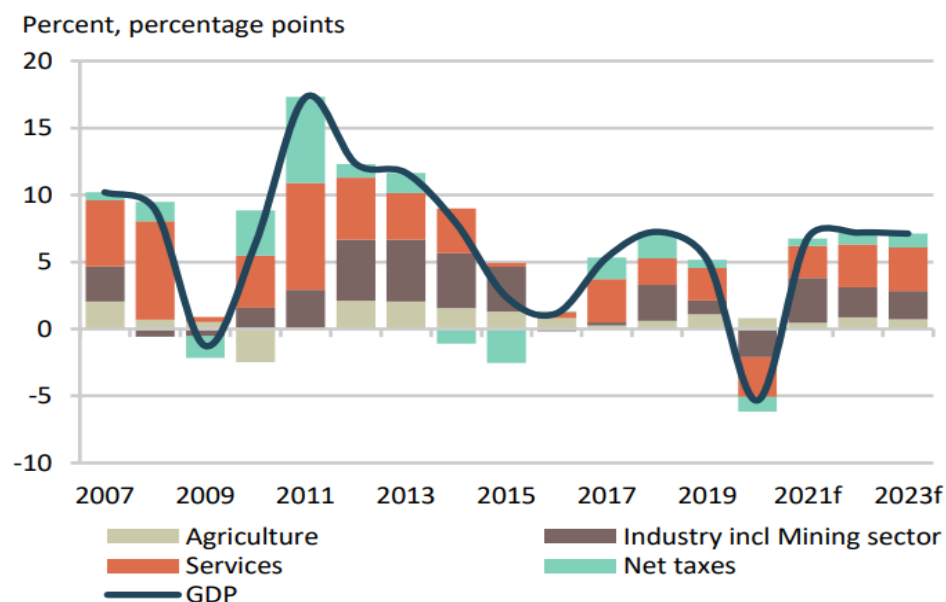


# 1. Macroeconomic and Administrative Context



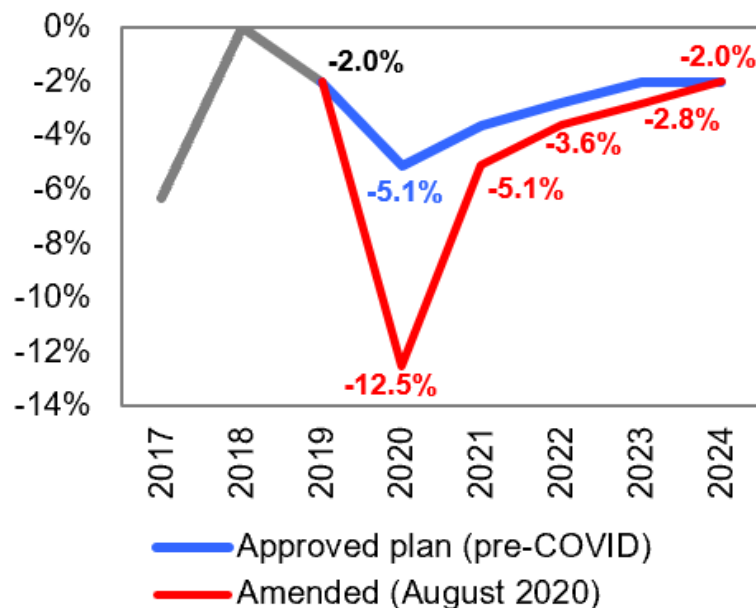
# Volatility and the Need for Diversification

**FIGURE 1 Mongolia** / Real GDP growth and contributions to real GDP growth by sector



Sources: National Statistics Office.

**Structural Deficit (% of GDP)**





# Conceptual Note: Types of Decentralization

## Deconcentration

- Local level offices of central ministries (upward accountability)

## Delegation

- Transfer of managerial-administrative responsibility for a specific function from higher to lower levels of government

## Devolution

- Transfer of decision-making power and (fiscal) authority for a specific function from higher to lower levels of government

*In reality, decentralized systems of governance always end up as combination of these three types (which comes with challenges)*



# Legal and Institutional Framework

## Dual Sub-National Government Structure:

Chapter IV of the Constitution and 'Law on Administrative & Territorial Units and Their Governance' (LATUG rev. 2020):

- **Legislative assembly (Hural)** – elected for 4 year term – full time Secretariat.
- **Executive branch headed by a Governor** (and Deputy) – indirectly elected for 4 year term who:
  - Directly supervise the Governor's Office and its own departments and staff;
  - Have dual oversight of local sector ministry departments & their staff & facilities (schools, clinics, etc.)

Other Areas	Capital City
Aimags (21)	Ulaan Baatar
Soums (330)	Districts (9)
Baghs (1559)	Khoroos (151)

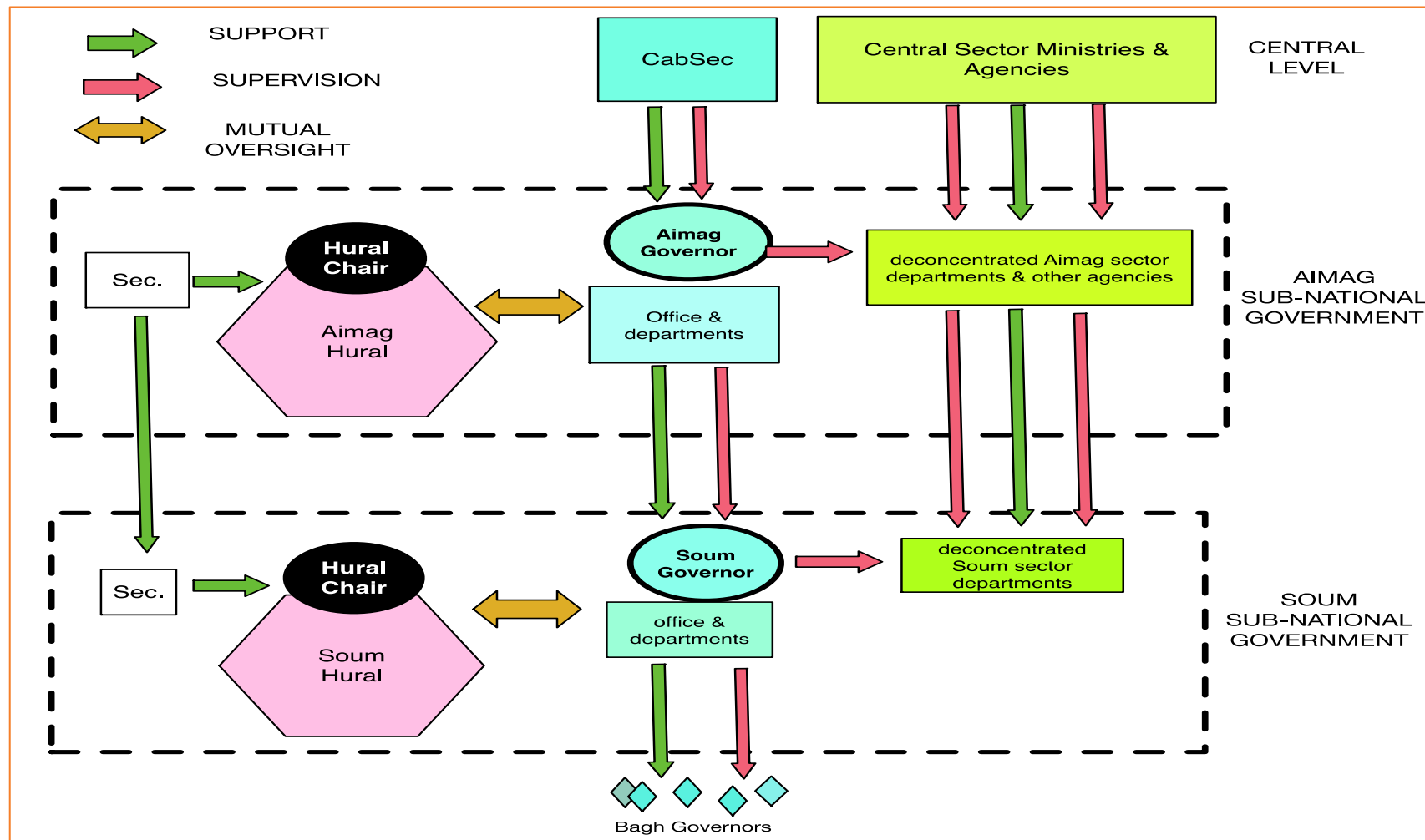
## Central oversight:

- Cabinet Secretariat (via vertical chain of governors)
- Ministry of Finance
- Sector Ministries
- Mongolian National Audit Office
- State Inspection Agency

Local elected representatives (2017)	Other Areas		Capital City	
	Aimag	Soum	UB City	District
<b>Total</b>	762	7,001	45	291
<b>Women</b>	120	1,952	10	82
<b>Women as percent of total</b>	15.7%	27.9%	22.2%	28.2%



# Subnational Governments in Mongolia: Institutional Arrangements



Note: arrangements in Ulaanbaatar differ due to presence of Mayor's Office



## Broad challenges in the framework

- **Oversight of SNGs fragmented:** Cabinet Secretariat, Ministry of Finance, Mongolian National Audit Office, State Inspection Agency
- **No single body** ("Ministry of Local Government") to coordinate / initiate decentralization policy or capacity support
- **No strong cross-government drive** toward major decentralization
- Aside from LATUG & Budget Law, **lack of legal harmonization**
- **Local coordination and dual accountability lines** (SNGs and Sector Agencies)
- Discrepancies re. status & powers of **urban authorities** / role of Mayors
- **Aimags enjoy wide discretion in regard to their Soums** >> variance in arrangements between Aimags
- **Major constraints in local financing and PFM arrangements** for service delivery / very limited local fiscal flexibility > **Section 2**





## 2. Role of SNGs in Service Delivery, Local Development & SDGs

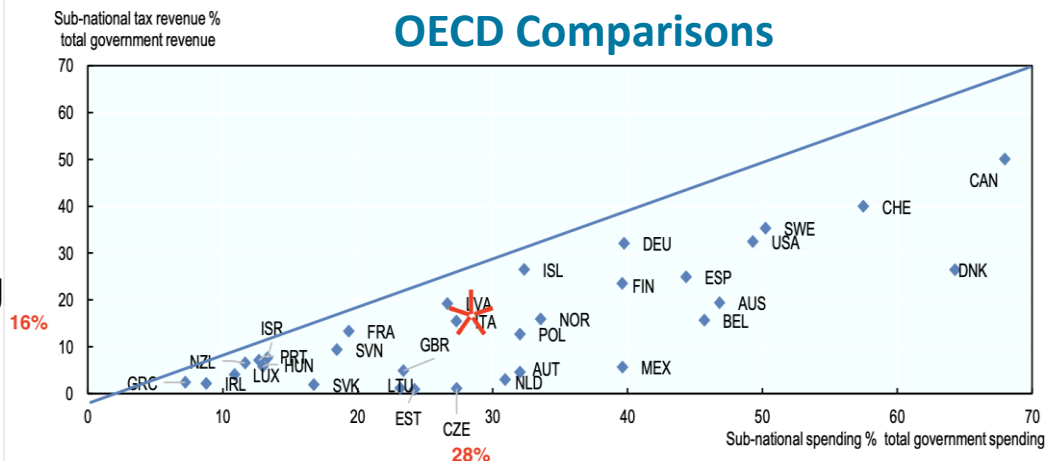
- Local Public Spending
- Regulatory & Convening Powers



# Local public spending: some metrics (2017 budget data)

## SNGs represent:

- 28% all government spending
- 16% all government revenues



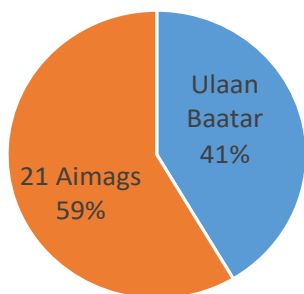
Source: OECD Fiscal Decentralisation database, <http://oe.cd/FFdb>.

## SNG spending composition:

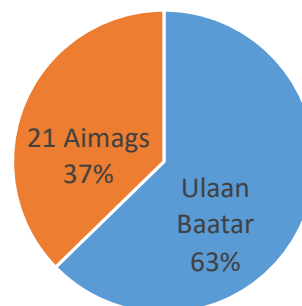
- 86% on recurrent budget
- 14% on capital budget

Surplus	Deficit
UB and 5 Aimags	16 Aimags
Some Aimag centre Soums	Most Soums

Local Expenditures



Local Revenues





# Local public spending: main devolved & delegated functions

Functions	Aimags & Capital City	Soums & Districts
<b>Devolved “Base Expenditure” functions</b> Budget Law Art. 58	<ul style="list-style-type: none"> <li>• Local administration</li> <li>• Local roads &amp; street lighting</li> <li>• Water supply &amp; drainage</li> <li>• Sanitation / Waste removal</li> <li>• Playgrounds &amp; parks</li> <li>• Pasture management, livestock restocking</li> <li>• Environmental protection</li> <li>• O&amp;M local power network</li> <li>• Social care &amp; welfare</li> </ul>	<ul style="list-style-type: none"> <li>• Local administration</li> <li>• Local roads &amp; street lighting</li> <li>• Sanitation / Waste removal</li> <li>• Playgrounds &amp; parks</li> <li>• Pasture management, livestock restocking</li> <li>• Environmental protection</li> </ul>
<b>Delegated functions</b> Budget Law Arts. 39.1 & 61.1	<i>Sector ministry delegation agreements w/ each Aimag:</i> <ul style="list-style-type: none"> <li>• Pre-school &amp; general education</li> <li>• Primary health</li> <li>• Child protection &amp; development</li> </ul>	<i>Aimag discretion to delegate or not to Soums:</i> <ul style="list-style-type: none"> <li>• Pre-school &amp; general education</li> <li>• Primary health</li> <li>• Child protection &amp; development</li> </ul>



# Local public spending: financing sources

## A. OWN REVENUES = 18%

**Various taxes:** e.g. Personal Income & Property taxes

**Fees & charges:** on mining and other natural resources

## B. FISCAL TRANSFERS = 82%

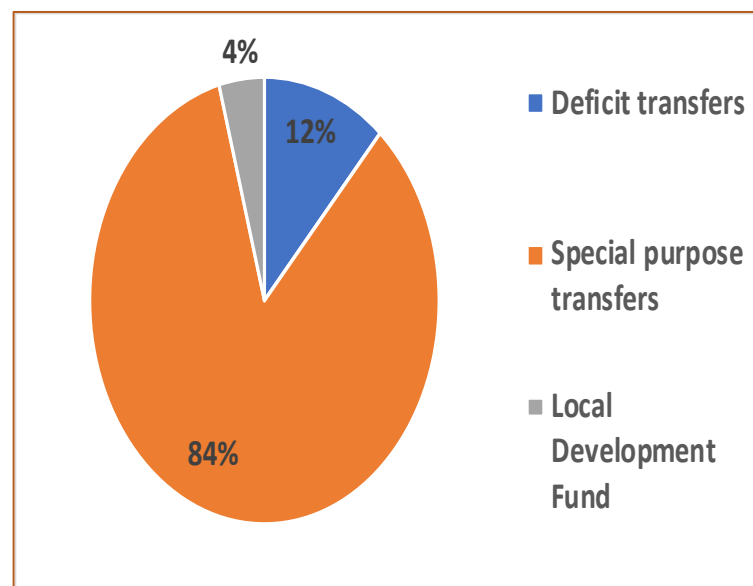
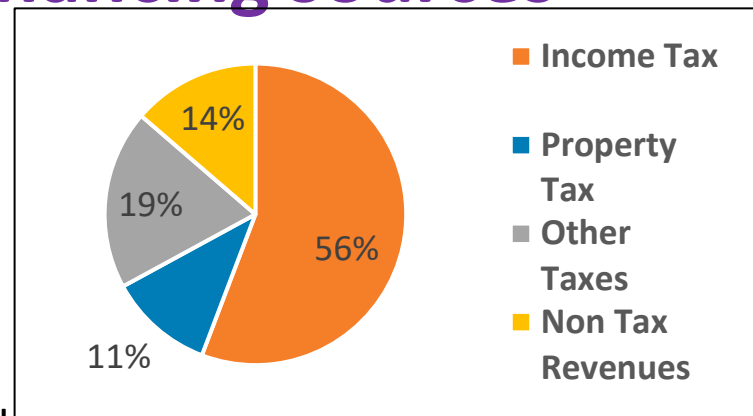
**Deficit transfers:** to finance the deficit between approved “base expenditures” (mainly recurrent) and own revenues - *‘negotiated gap-filling’ transfers feature in many (former) socialist systems.*

**Special purpose transfers:** to finance delegated recurrent expenditures for pre-school & general education; primary health care; child development and protection; culture.

**Local Development Fund transfers:** to finance small/medium capital investment spending on devolved responsibilities.

## C. BORROWING

**None.** Ulaan Baatar borrowing powers repealed in 2015.

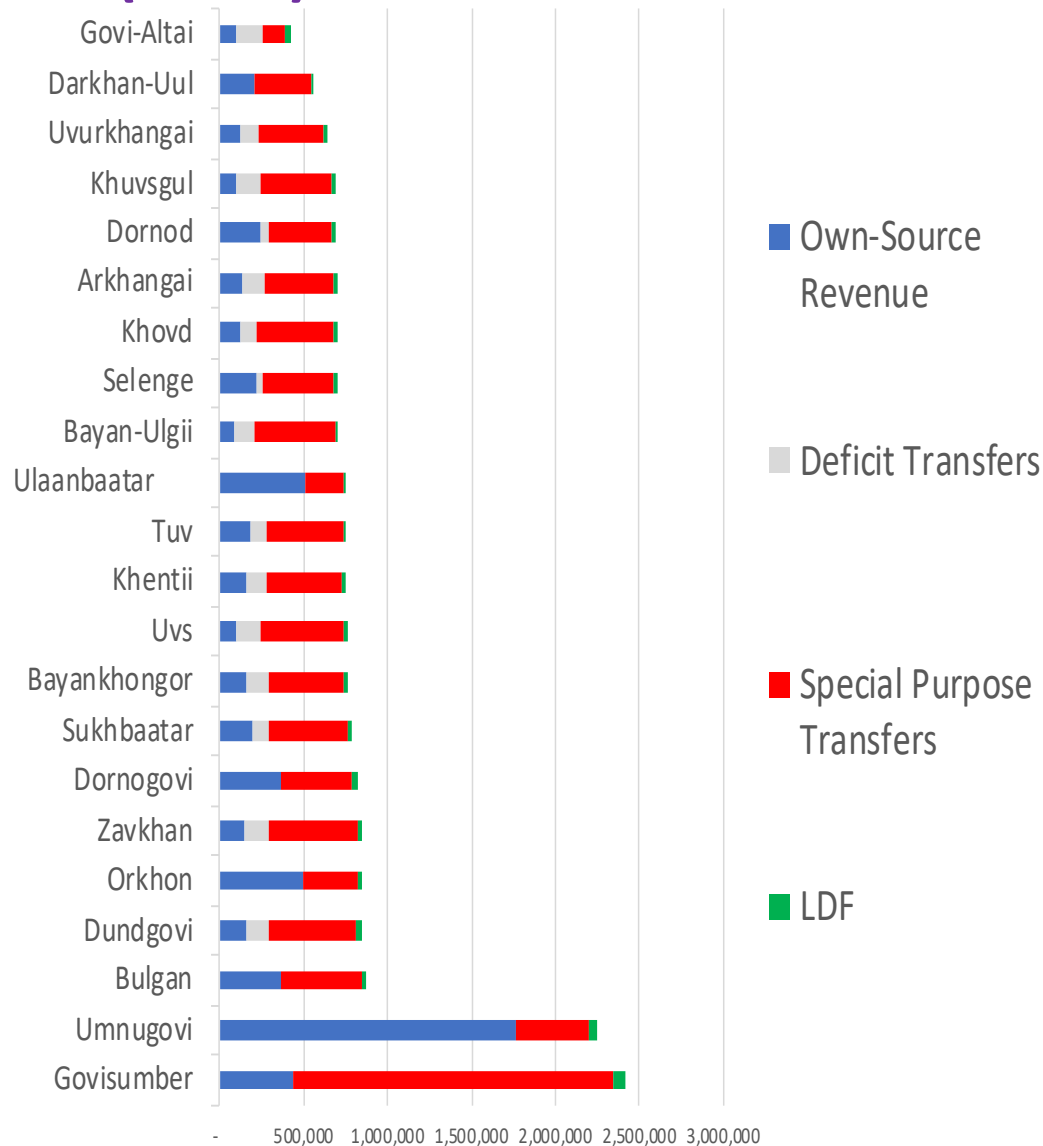
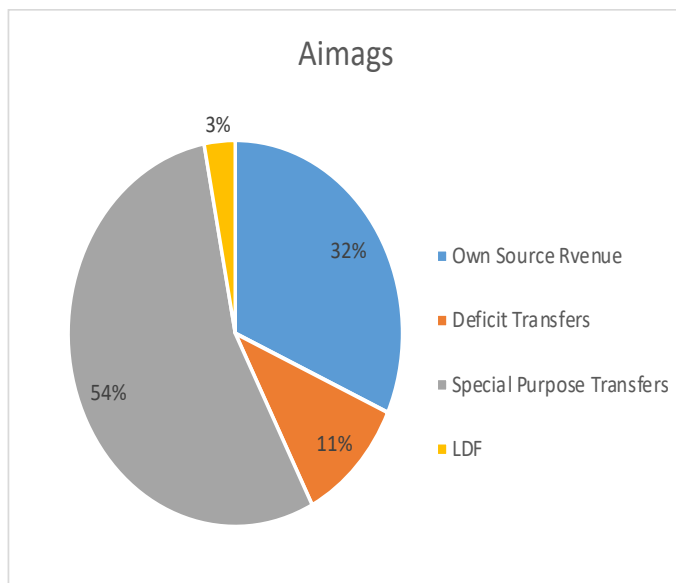
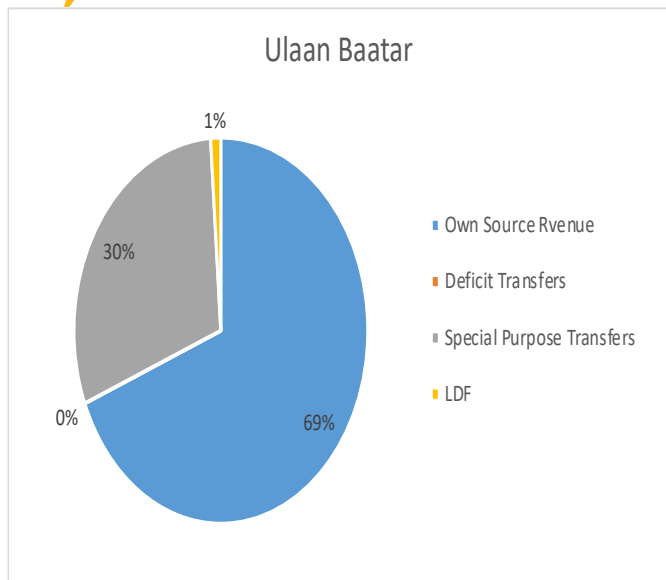




# Local public spending: financing variance

Ulaanbaatar vs 21 Aimags

(2017) Per capita breakdown

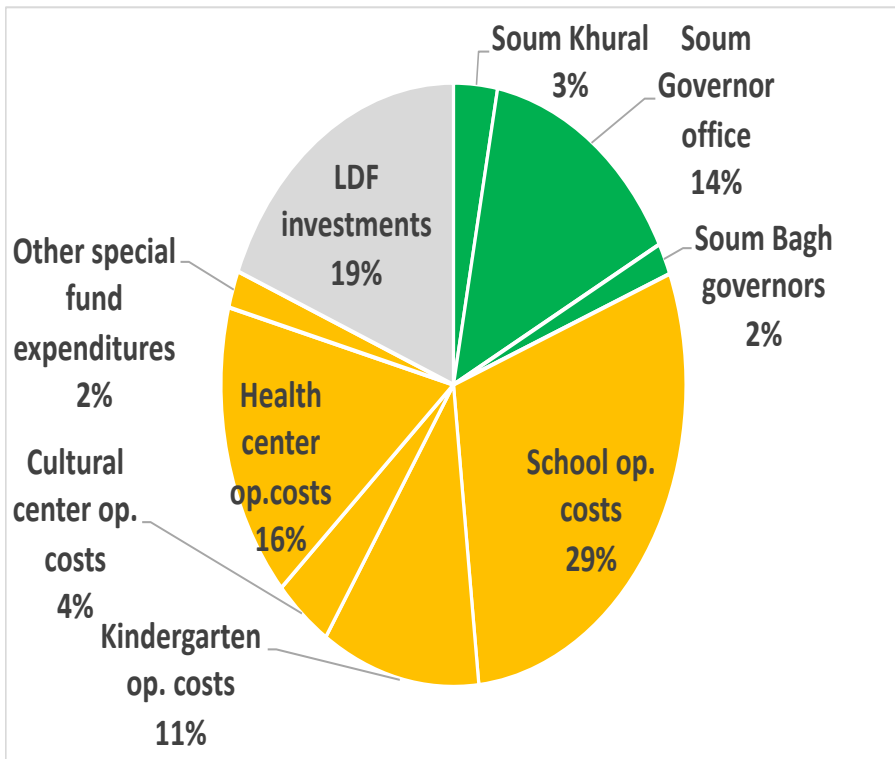




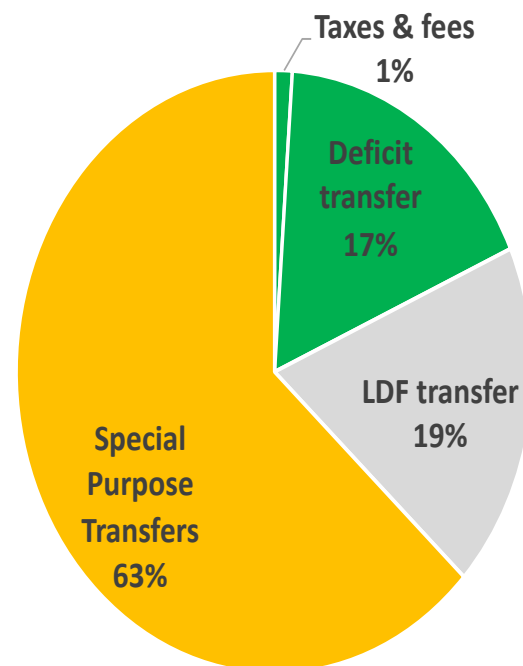
# Local public spending & financing: a preview of some constraints

Bayantal Soum (Govi-Sumber Aimag) - 2017

## Expenditures



## Revenues



Note the earmarking:

**Administration costs** <- Own Revenues + Deficit Transfers

**Social services** <- Special Purpose Transfers

**Investments** <- Local Development Fund transfer





# Local Public Service Delivery: impact of financing & budget constraints

**Very little local flexibility in response to local needs**, due to:

- Rigid budget norms for delegated functions
- Central adjustments even to devolved base budgets
- No capital budget (other than LDF)

**Weak incentives for local budget consultation or for making careful budget priorities**

- Lack clear advance budget ceilings > wish-lists
- Spending patterns largely pre-determined
- Very little time / scope for local hural to play a role in budget approval

**Moves toward local programme-based capital budgeting difficult without clear sector budget allocations**

E.g. Govi-Sumber proposed MNT 30 billion investment plan for 2019 – only MNT 2 billion approved – local authorities not informed on rationale for approvals.

**Geographic public spending equity hard to achieve (SDG 10)** without more transparent formula-based transfer system:

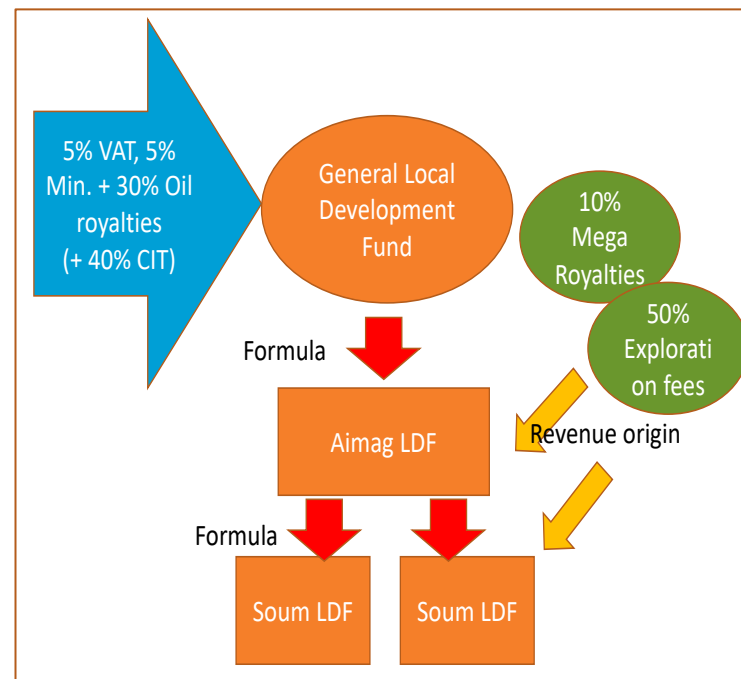
- Sector Ministry / MoF transfer approvals based on Aimag-by-Aimag budget review for special purpose & deficit transfers
- Considerable unchecked Aimag discretion in onward funding of Soums compounds leads to major disparities within Aimags



## Financing postscript: the Local Development Fund (LDF)

### Key Innovation in Local Financing Architecture:

- Only **capital budget resource** for most SNGs
- Only financing source allowing **local budgeting choice**
- Mandated **local participation & citizen voting** in LDF planning
- **Performance-based funding** at Soum level being piloted by MoF holds potential
- Formula Allocation Holds **Potential for Greater Equity**



### LDF Policy Issues Emerging:

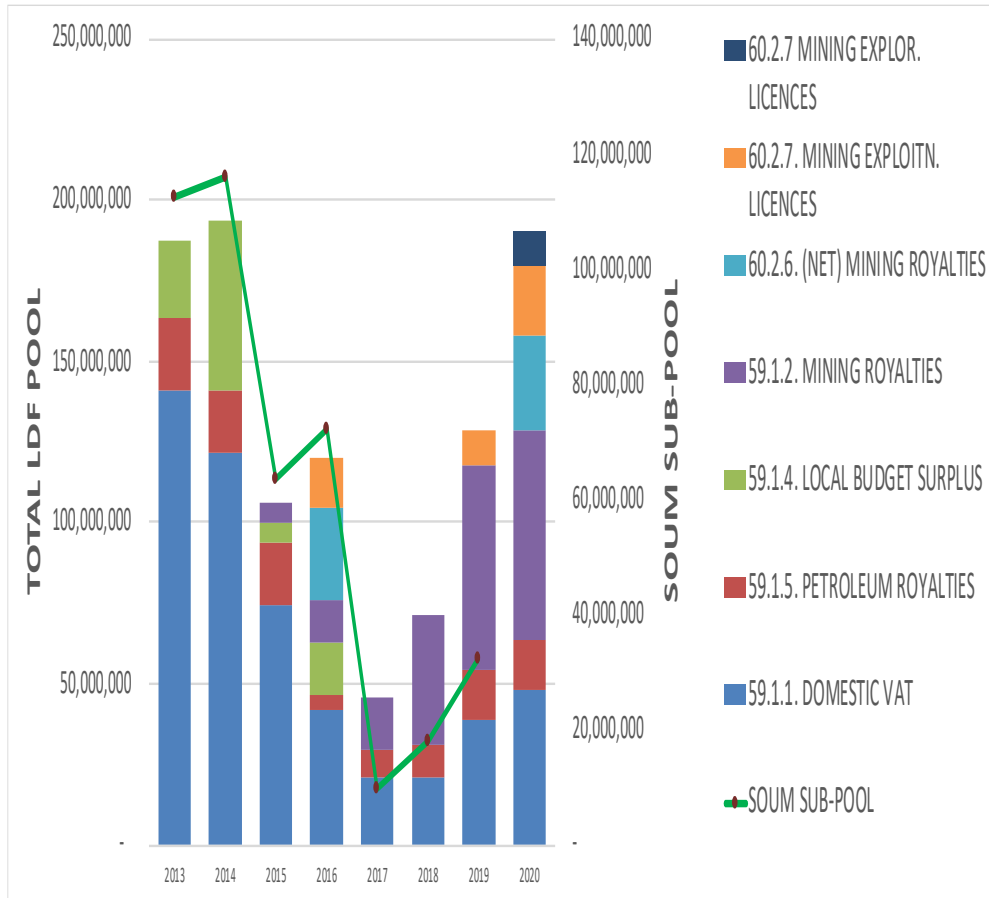
- Volatility in Annual Funding + Aimag/Soum shares > **unpredictability for local planning**
- Revenue sharing by origin > **equity concerns between and within Aimags**
- Eligible menu distinctions often unclear > **planning uncertainty and investment efficiency issues**



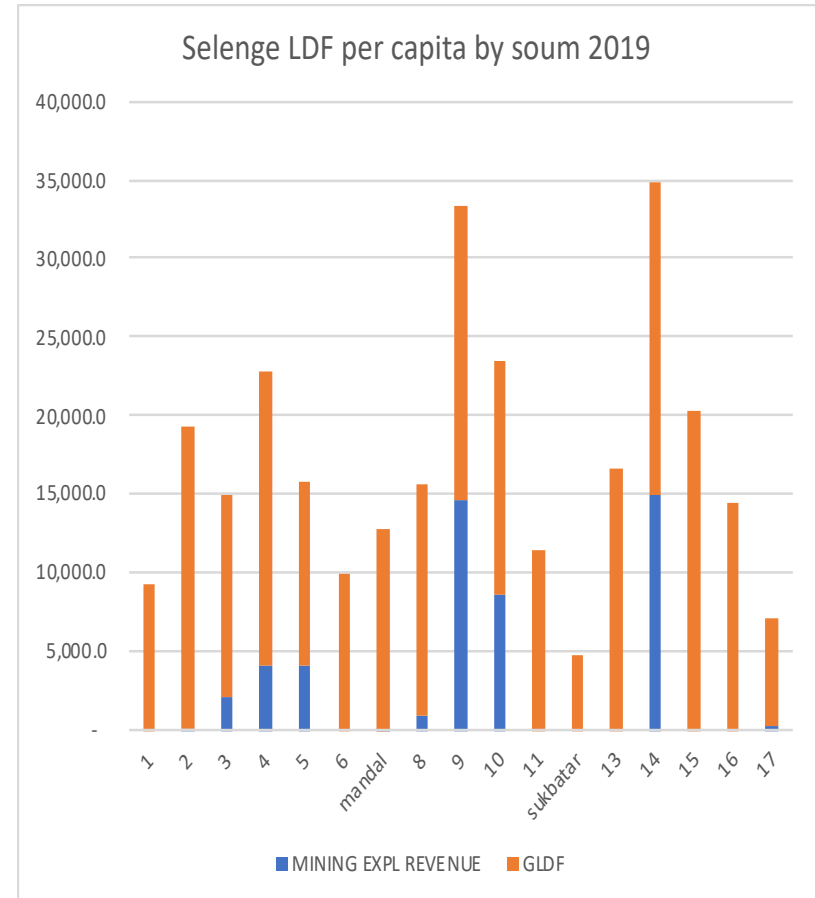


# Local Development Fund: Predictability and Equity Issues

## Variability in funding and in the Aimag/Soum Shares



## Disparities in one Aimag





# Local Development & SDGs:

## importance of regulatory / convening powers

### Key areas of local development:

1. Covid – mitigation and monitoring (SDG 3)
2. Managing urban development (SDG 11)
3. Promoting local economic development (SDGs 1, 2, 8, 9)
4. Environmental protection (SDGs 11, 13, 15)

### Non-spending Levers of local public action:

#### a) Local regulatory powers

- Monitoring, Messaging, and Social restrictions for pandemic control
- Business permits
- Land / Water permits
- Land use / zoning in urban areas
- Incentives (e.g. power tariff subsidies)
- Controls over natural resources & extractive activity & Environmental impact monitoring and mitigation

#### b) Local convening powers

- Herders / pasture management
- Mining companies / communities / environment
- Businesses



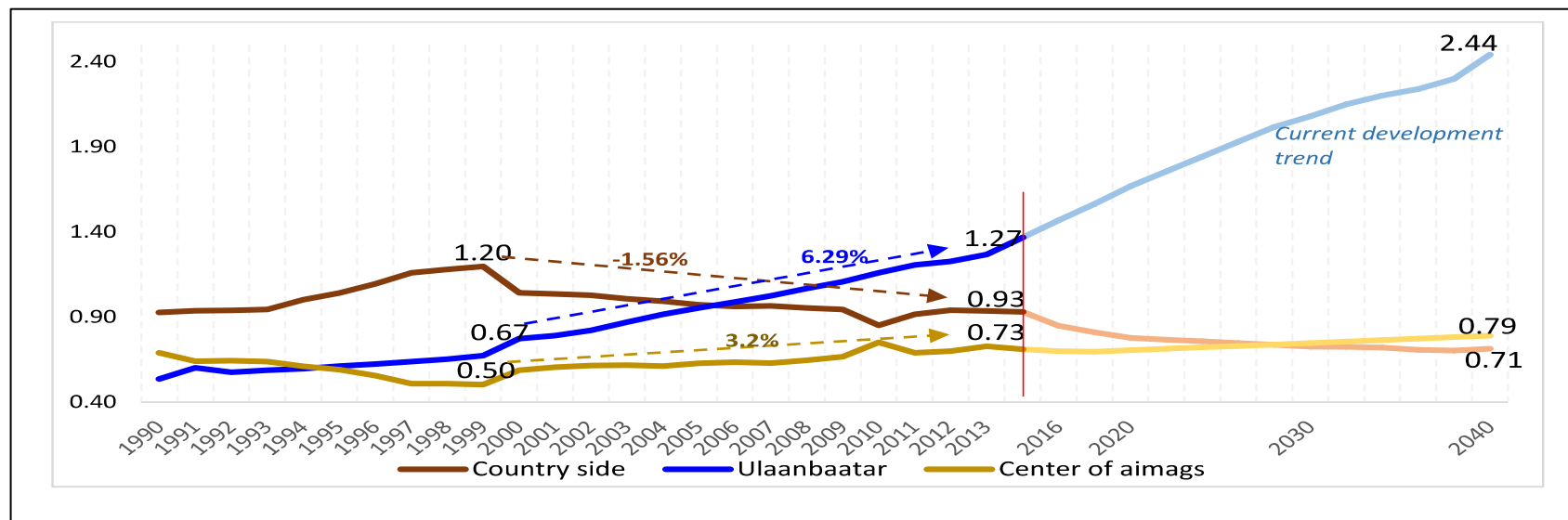
## Covid mitigation & monitoring

- SNGs have limited role – although planned reforms should allow for greater autonomy at hospital level.
- However, Governors play key role:
  - Ensuring / announcing social distancing measures
  - General messaging and social awareness
  - Mobilising local private and civil society support
  - Monitoring / reporting both health outbreaks & issues, and also socio-economic fallout issues, through networks of local officials
  - Deciding / enforcing local area restrictions and mitigation measures adapted to local context:
    - Closure times for shops, markets, etc
    - Local 'border' travel checks and controls



# Managing urban development

## The urbanisation challenge in Mongolia ...



## Legislation – problematic

- **LATUG** has no special powers for urban areas
- Rigid zoning laws and problematic legal framework for land ownership / use
- Improving urban services (especially in *ger areas*) constrained by unclarities in City/District functions, multiple public agencies, costs/financing



# Promoting local economic development

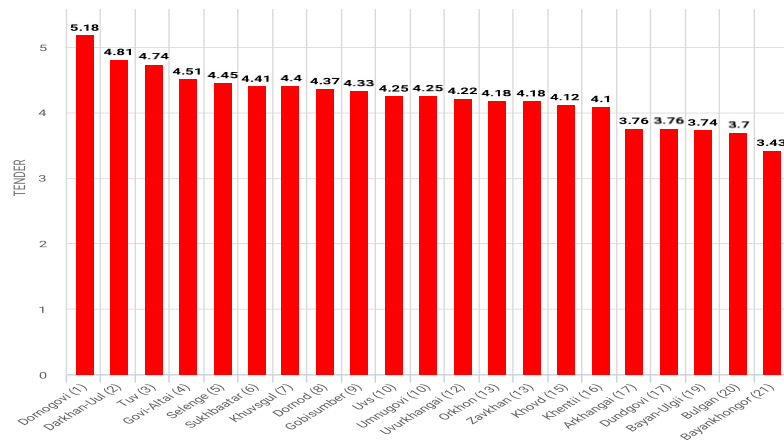
## Legislation gives some powers to Cities, Soums & Aimags:

- **Regulatory powers:** trade permits, land zoning, natural resource permits
- **Incentives:** extension of land use permits; electricity tariff discounts
- **Convening business-persons** to identify / resolve issues, explore scope for public-private partnership

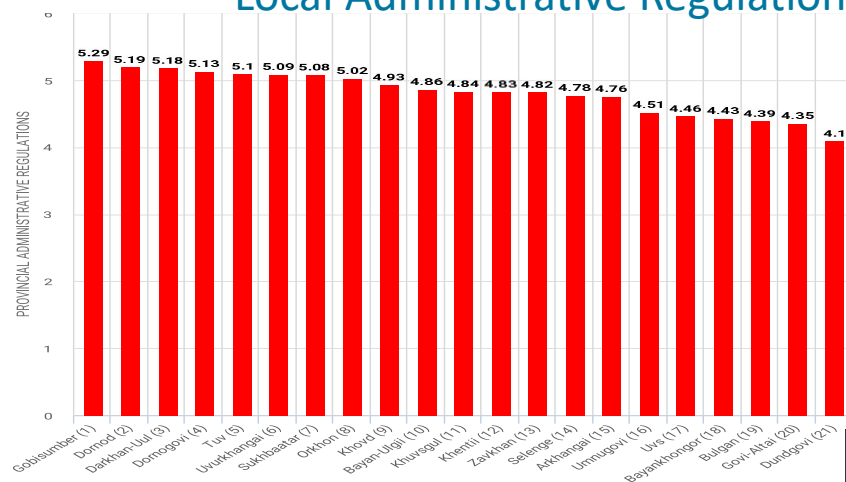
## But in practice ...

- **Little guidance to SNGs** strategic use of these powers
- **Capital investment constraint** for economic infra. – most urban centers only have the LDF
- Evidence suggests **much variance across Aimags in business climate** – hence scope to “level up” – e.g. see **2019 EPCRC Aimag survey** <http://en.aimagindex.mn/>

## Local Tendering Transparency



## Local Administrative Regulations





# Environmental conservation

- Mineral extraction vital but challenging (livelihood, environment)
- **SNGs enjoy substantial legal & regulatory powers:**
  - Issuance of land & water permits conditional on good operator performance & environmental record
  - Ensuring adoption of environmental management plans by operators
  - Negotiating and implementing local level agreements with the operators
  - Administering reclamation funds
- But very **often these provisions not implemented:**
  - Lack of clear or binding regulatory framework to back up legal provisions
  - Unclear of role of governors vis-a-vis local environmental officials
  - Lack of guidance and training



# **3. Conclusions: challenges and opportunities**



## The challenges

**SNG ability to respond and play potential role in local development –undermined by various constraints (not just “weak local capacities”):**

- Blurred accountabilities, weak coordination, weak role for hural
- Financing & PFM imposes tight straitjacket
- Equity challenges: fiscal transfer outcomes, discretion of Aimags in Soum financing
- Lack of legal harmonization

**This all weakens:**

- Accountability, effectiveness, efficiency and equity of SNG public spending for service delivery
- Ability of SNGs to use the ‘levers of public action’: to play their role in local public service delivery and to address other major local development challenges

**Left unaddressed, this will undermine achievement of the SDG agenda**





# The opportunities to build on

No push for major decentralization – but **steady incremental progress:**

- Budget Law (2012) **swung the needle** from centralization toward modest decentralization
- Govt. Resolution # 350 (2016) **committing to fiscal decentralization principles**
- Revised Civil Service Law (2019) **addresses some of the staff morale issues** at local level
- LATUG revision (2020) helps **clarify functional roles and local accountability** issues – also with **move to harmonise multiple laws**
- Budget Law revisions (2021) allow **major increase (x 4) in LDF funding** for SNGs / opens up debate on an **increased role for SNGs in local public spending**



# The opportunities to build on (2)

No push for major decentralization – but **steady incremental progress**:

- Signs of recognition within sector ministries (education, health) of **need for greater decentralisation in budget decision-making** to allow the necessary local flexibilities
- Many **legal openings which can be better “leveraged”** (via improved regulations, capacity support, awareness, etc.) – e.g.:
  - **Urban development, LED, environment**
  - **Deliberative polling, greater citizen participation and engagement with civil society** etc.
  - Growing numbers of **local and national CSOs** with focus on governance & development to work on these agendas with SNGs
- An **emerging body of experience** (civil society, development partners) on improved policy and practice to be capitalised and lessons to be mainstreamed



Thank you.

