

FOREWORD

“Decentralization policy support project” is being implemented at the Cabinet Secretariat Government of Mongolia within the framework of cooperation of the Government of Mongolia and the Government of Switzerland.

The main goal of the project is contribute to a comprehensive, coherent and sequenced decentralization process in Mongolia and to provide support and assistance to the Government in creating conditions for more effective and accessible public service delivery to citizens and in the development of transparent, accountable, and good governance.

Within the framework of this effort the State policy on Decentralization was elaborated and approved by the Government.

As a next step, the methodology of effective functional reallocation at central and local government levels in conformity with the approved State policy will be elaborated and approved by the Government.

Approval of the methodology will create conditions for further measures with regard to improving the legal environment for decentralization and current fiscal equalization system.

Decentralization policy support project

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**Government Resolution
of Mongolia**

June, 28 2016

Res No.350

Ulaanbaatar city

Approval of State policy on Decentralization

Based on the article 8.4 of the Law on Development Policy Planning, the Government of Mongolia decides hereby the following:

1. To approve “The State policy on Decentralization” attached hereafter.

Signature

Prime Minister of Mongolia

Ch.Saikhanbileg

Minister,

Chair of the Cabinet Secretariat

S.Bayartsogt

STATE POLICY ON DECENTRALIZATION

PART ONE. GENERAL PROVISIONS

1.1 Legal basis for elaboration of the Decentralization policy

The Article 62.1 of the Constitution of Mongolia defines that “local self-governing bodies make independent decisions on matters of socio-economic life of the respective aimag, the capital city, soum, district, bagh and khoroo and shall organize the participation of the population in solving problems of national scale and that of larger territorial divisions.”, and therein, the clause 2 of the same article specifies that “the authority of higher instance shall not take decision on matters coming under the jurisdiction of local self-governing bodies. If law and decisions of respective superior State organs do not specifically deal with definite local matters, local self-governing bodies can decide upon them independently in conformity with the Constitution”, which constitute the main legal basis for decentralization policy formulation and implementation as well as ensuring local autonomy through defining the competence of local self-governing bodies.

“Long-Term Sustainable Development Vision of Mongolia 2030” adopted by the State Great Khural Resolution 19, 2016, defines the main principle of sustainable development governance to be decentralization and inclusive decision-making process. The latter has created the basic conditions for long term sustainable implementation of decentralization policy and measures.

1.2 Decentralization process, experience and lessons

History of the decentralization process in Mongolia can be divided into the following stages:

1. 1992-1996: decentralization policy is actively supported, and certain measures are taken to implement it;
2. 1996-2002: as the result of implementing decentralization policy, local government exercises greater autonomy, but re-centralization approach has gained strong momentum;
3. 2002-2013: power is re-centralized, and the autonomy, structure, organization and budget of local government are weakened.
4. 2013-present: decentralization efforts are started implementing with initiation of new measures, especially toward fiscal decentralization and increased citizen participation at all state levels.

Decentralization policy measures were pursued through delegating some government functions to the private sector and non-government organizations from 1990 in support of privatization, economic liberalization and free enterprise. At the same time, strengthening autonomy of local self-governing bodies, promoting regional economic development and re-allocating administrative functions to local government were undertaken to initiate administrative, fiscal and economic decentralization.

Mongolia successfully reformed its state administrative structure and enhanced the powers of local authorities by adopting the Budget Law (1992), Government resolution №199 on “Some Measures to Implement Management Development Program” (30 December 1993), and State Great Khural resolution №38 on “Policy to Reform Government Structure and Policy Direction” (1996). As part of this measure the Law on Administrative and Territorial Units and their Governance (1992), Law on Legal Status of Capital City (1994) and other laws were passed, resulting in the transfer of certain administrative powers to aimag, capital city and soum authorities.

The following experiences were concluded in the course of Mongolia’s reforms at decentralisation and strengthening local independence:

1. The local self-governing body has not yet fully evolved. Despite the existence of the “Khural”, a representative body elected through free and democratic elections, there is high involvement by the state, namely, Parliament and Government in local affairs [of local administrative and governing bodies], and citizens’ participation in local decision-making and monitoring of local government is weak.
2. The capacity to embrace the reform, as well as transparency of governance and accountability of the local administrative and governing bodies and officials are the factors influencing for successful implementation of the decentralization policy and measures.
3. Economic independence is weak at local level, and too reliant from the state budget.
4. Implementation of prior policy and measures has weakened and became stagnant, and the strong “re-centralization” tendency is growing.

The experience of countries that have successfully implemented decentralization policy indicates that more than enhancing the powers of local governments, these countries have adhered to the policy which aimed at increasing citizens’ participation in decision-making, improving efficiency, effectiveness, and quality of public service delivery, seeking new ways to deliver the public services, increasing role and involvement of private and civil society organizations at certain level, and dismantling economic and political centralization as well as implementing preventive anti-corruption policy measures.

1.3 Rationale and need for the decentralization policy

Improvements were made in the fiscal relationship between the central and local governments and budget allocation after the revision of Budget Law in 2011. However, overlapping of functions among local self-governing bodies and administrations, shortage of funds and financial reserves to finance assigned functions and operations, insufficient access to and quality of public services delivered in remote soums and baghs, and lack of human resource capacity of administrative and territorial units that provide basic public services are creating demand for decentralization. To address this, re-allocation of functions at central and local levels, and, a sufficient revenue generation through improvement of fiscal relationship between the central and local governments, are necessary for ensuring local government independence, improvement of public service quality, efficiency and effectiveness, and increase citizens participation in decision making.

PART TWO. GOAL, PRINCIPLES AND DIRECTIONS OF

THE DECENTRALIZATION POLICY

2.1. The main goal of the State policy on Decentralisation is to foster transparent, accountable, and good governance and economic and social development based on citizen participation, and to create conditions for more effective and accessible public service delivery to citizens by implementing decentralization in Mongolia in a sequenced, coherent, and comprehensive manner.

2.2. The following directions shall be adhered when implementing the State policy on Decentralization:

2.2.1. Re-allocation of some functions of central government and local self-governing and administrative bodies. With regard to this, assign functions related with common public services except for those of court, prosecution, armed forces, police, intelligence, and state security and emergency, to the local administrations which directly interact with citizens at lower and intermediate levels, without overlapping.

2.2.2. Implement flexible investment and tax policies towards ensuring local economic independence and improve local development fund;

2.2.3. Adequate financial resource is allocated through budget allocation to central and local self-governing and administrative organisations to enable performance of functions assigned by law;

2.2.4. Create a mechanism which conducts common or specific timely measures when needed, in order to ensure integrity of the cooperation between the central government and the local governing and administrative organisations.

2.2.5. Ensure coherence between the implementation of functions and the accountability and monitoring of the corresponding government levels.

2.2.6. Some government functions that are assigned by law to be carried out by public-private partnership and non-government organizations can be transferred based on the principle of fair competition.

2.3. When implementing the state decentralization policy, the following principles shall be applied:

2.3.1 Coherent, comprehensive, and integrated;

2.3.2 Systematic;

2.3.3 Based on international good practice, scientific theory and methodology and analysis;

2.3.4 Involves central government and local self-governing and administrative organisations at all levels;

2.3.5 Public services are to be accessible, efficient and effective;

2.3.6 Ensures openness and accountability as well as citizens' participation;

PART THREE

DECENTRALIZATION POLICY OBJECTIVES

AND IMPLEMENTATION MECHANISM

3.1. Within the framework of implementing the goal of State policy on Decentralization, the following objectives are set out:

3.1.1. To achieve political decentralization through increasing participation of citizens and civil society organizations in policy formulation and decision-making processes of local governing bodies.

3.1.2. To achieve administrative decentralization by improving organizational structure and system of government organizations, re-allocating functions and implementing sustainable human resource policy;

3.1.3. To achieve fiscal decentralization through increasing independence of local economy and finance.

3.1.4. To achieve economic decentralization through developing the public-private partnership, assigning some functions of central and local government organizations to private sector, professional associations and civil society organisations on contractual basis and continuing social sector privatization.

3.2 State policy on Decentralization will be implemented according to the following mechanism:

3.2.1 Re-allocation of functions:

3.2.1.1 The methodology for re-allocation of functions of central government and local self-governing and administrative organizations to be elaborated and implemented commonly based on the amendments to the relevant legislations after piloting in particular sector;

3.2.1.2 Proposal to be elaborated towards revision of the administrative and territorial unit arrangement;

3.2.1.3 The Government to provide integrated policy direction and ensure overall coordination for re-allocating functions of central and local government organizations and ;

3.2.2 Allocation of revenue and financial source:

3.2.2.1 Financial sources that are needed for implementing re-allocated functions at the local level to be allocated in respective budget;

3.3.2.2. Issues related to increasing local budget revenue means to be analysed and solved.

3.2.3 Fiscal equalization:

3.2.3.1 The difference between own local revenues and financial resources required to carry out functions allocated to the local levels to be resolved by fiscal equalization;

3.2.3.2 The current scheme on financial support and inter-budget revenue transfer to be further improved.

3.2.4 Global balance:

3.2.4.1 The financial implications of the re-allocation of functions of central and local governments will be accounted in terms of general budget.

PART FOUR

DECENTRALIZATION POLICY IMPLEMENTATION PHASES,

EXPECTED RESULTS AND INDICATORS

4.1. The **State** policy on Decentralization will be implemented in two phases: the first phase is in 2016-2020 and the second phase is in 2020-2024:

The first phase: to enable feasible conditions for implementing decentralization policy and launch administrative and fiscal decentralization the following results are expected:

1. The methodology for re-allocation of central and local government functions is approved.
2. A condition, which equitably assigns clear functions, responsibilities, administrative authority and resources to local self-governing and administrative organizations, is created.
3. The current fiscal equalization system is improved, and the local budget revenue is increased.
4. The legal environment to implement decentralization policy is enabled.

Indicators:

1. The share of local budget expenditure in total consolidated budget expenditure is to be at least 32 percent.
2. At least 20 percent of central and local government functions will be performed by private sector, professional associations and non-government organizations by contracts.
3. Amendments will be made in Integrated Budget Law, Law on Administrative and Territorial Units and their Governance and other relevant laws.

The second phase: the decentralization policy is fully implemented and effective re-allocation of functions at central and local levels is completed. Administrative and fiscal decentralization is achieved.

Indicators:

1. The share of local budget expenditure in total consolidated budget expenditure is to be at least 35 percent

2. Public services will become closer to the citizens by transferring central government functions to aimag and soums or the lower level of territorial and administrative units, thereby the share of employees working at local level will account for at least 60 percent of total public sector employee.

4.2 The following outcomes will be achieved by effectively implementing the State policy on Decentralization:

4.2.1 Functions of the ministries, Government agencies and local self-governing and administrative organisations are reviewed, and, functions, except for those which are necessary, are performed by the private sector, professional associations and non-government organisations on the contractual basis, thus clarifying functions of civil service.

4.2.2 Adequate re-allocation of financial resources will create a condition which enables local governments to solve their socio-economic problems independently, make a significant contribution to local development, reduce procedural steps of public services and improve the quality, efficiency and access thereto and enhance accountability. .

4.2.3. By allocating common public service functions primarily to the lowest administrative and territorial level that directly contact with citizens, citizens' participation in decision-making regarding local socio-economic issues is enabled, accountability is improved, and public servants' capacity is enhanced.

PART FIVE

ADMINISTRATION, REGULATION, MONITORING AND EVALUATION OF DECENTRALIZATION POLICY

5.1 The Cabinet Secretariat will be responsible for organizing the implementation of the decentralization policy at the national level, ensuring inter-sector coordination, and monitoring; the Minister of Mongolia, Chief of Cabinet Secretariat will lead the work.

5.2 A member of the Cabinet, who is a Minister in charge of particular sector, will be responsible for the implementation of the policy in the respective sector.

5.3 **Governors of aimag, the Capital city, district and soum** will be responsible for the implementation of the policy in their respective jurisdiction.

5.4 The Cabinet Secretariat will elaborate the Action plan of the policy and have it approved and **ensure** its implementation and monitoring.

5.5 Aimag, the Capital city Governors and line Ministers will report on the policy implementation progress to the Minister of Mongolia, Chief of Cabinet Secretariat on semi and annual basis. Due dates are set for the semi-annual reporting as the 15th of following month, and for the annual reporting as the first **quarter** of the following year.

5.6 The Cabinet Secretariat will monitor and evaluate the **progress** and results of the policy

implementation annually and submit the results thereof to the Cabinet.

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