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Towards a High Performing Civil Service

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
COER	Cost of Employee Rewards
CSL	Civil Service Law
ECD	Education and Culture Department
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
MECS	Ministry of Education, Culture, and Science
MoF	Ministry of Finance
MoSWL	Ministry of Social Welfare and Labour
OECD	Organization for Economic Co-operation and Development
PETS	Public Expenditure Tracking Surveys
PSMFL	Public Sector Management and Finance Law
SES	Senior Executive Service
TEC	Total Employee Cost

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EXECUTIVE SUMMARY

Objective of the Report

1. Mongolia is at a critical juncture in its development. During the copper boom years of 2003 to 2008 its economy grew at a real annual rate of over 8 percent and public revenues increased four-fold, allowing for a rapid expansion in public spending. Some of this windfall was used for much needed infrastructure investments — capital expenditures increased seven-fold over this period — but a lot of it was consumed through untargeted social transfers and across-the-board public salary increases. Avoiding the resource curse and ensuring that the mining boom is channeled into sustained economic growth and poverty reduction is Mongolia's main developmental challenge, the urgency of which is underlined by the dramatic collapse in copper prices over the past six months and the resultant economic crisis.

2. Civil service reform is one important component of the menu of reforms needed to meet this challenge. This is an area of increasing engagement by the Government of Mongolia, as evidenced by the approval of a civil service reform strategy and implementation plan in 2007, and amendments to the legal framework in 2008 aimed at reducing political discretion in personnel management and improving the procedures for determining civil service compensation. The economic crisis in particular has underlined the need for simplifying civil service compensation to enable tighter expenditure controls while reducing horizontal inequities and increasing pay transparency, and for better payroll administration given the significant claims of the civil service on public expenditures.

3. This report aims to capitalize on this window of opportunity and provide advice to the government on these focal areas of reform. The report identifies three key areas of reform for the Government. First, the civil service grading and compensation system requires significant changes in order to be able to attract and retain high caliber staff. Second, Mongolia needs to move in a phased manner towards centralized payroll administration in order to enhance establishment and expenditure controls. And finally, the personnel management regime needs to be improved as it presently does not fully protect civil servants from undue political interference; there is a lack of clarity over the precise recruitment modalities for the senior administrative civil service positions; and limited horizontal mobility that negatively impacts career development. The report provides a phased sequence of recommendations in each of these areas, delineated in the policy matrix in Annex 1.

4. The note is organized along three chapters. The first reviews the legal framework and the structure of the civil service; the second examines civil service grading and pay, and the mechanisms for establishment control and payroll administration; and the third reviews the personnel management regime.

Chapter 1: the Architecture of the Civil Service

The Legal Framework

5. Mongolia's legal framework for the civil service has evolved rapidly since the transition from socialism in 1990, with the present arrangements coming into effect with the passage of two key laws, the Civil Service Law (CSL) and the Public Sector Management and Finance Law (PSMFL) in 2002 and 2003 respectively. As in many countries, the public sector in Mongolia comprises a range of employment regimes with distinct legal statuses. "Civil servants" are

defined under the CSL as the following four sets of public sector employees: the “political service”, which consists of elected officials and their advisors; the “administrative service” which includes managing and executive positions in the ministries, regulatory bodies, local administrations, and other agencies financed from the budget; the “special service” which consists of the uniformed services, the judiciary, and staff of the audit organizations; and the “support service” which consists of key frontline service delivery staff.

6. The administrative and special services are further classified as the “core civil service” and are governed by the personnel management provisions under the CSL and the PSMFL, and enjoy particular rights and protections. Support civil servants are governed by the specific laws pertaining to their sectors, but these in general relate only to the structure of compensation with the personnel management of these civil servants being similar to the arrangements in place for the private sector and governed by the general provisions of the labor code, and with no additional major protections.

7. The CSL and the PSMFL contain modalities for personnel management, pay, and the rights and duties of core civil servants, and place the Civil Service Council as the central agency for leading public sector management reforms and for ensuring adherence to the principles on pay and personnel management enshrined in the law. On recruitment, Mongolia approximates a “position based system” whereby the emphasis is placed on selecting the best candidate for each position, whether by external recruitment or internal mobility, in contrast to “career systems” where the focus is on initial entry into the civil service, or into specific cadres within the civil service, with established career tracks for these groups. On compensation, the Civil Service Council is given broad powers on providing recommendations on all civil servants, and is mandated to conduct annual research benchmarking civil service pay with marker comparators, and with inputs from the Ministry of Social Welfare and Labor. The Council also has the main responsibility for dispute resolution and redress in personnel matters, specifically those pertaining to recruitment, performance evaluation, disciplinary actions, and dismissal. The PSMFL, drawing on the agency reforms of some OECD countries, specifies a comprehensive performance management framework across the public sector consisting of hierarchical sets of annual performance agreements specifying staff accountabilities.

8. In general, the legal framework is quite clear in making distinctions between the different groups within the civil service and what rules and institutions govern human resource management practices for these groups. However, the fact that there are two laws governing core civil servants is unusual from a cross-country perspective, and creates certain ambiguities and tensions. As both the laws have provisions on recruitment, it is unclear exactly which positions in the administrative service are governed by the CSL and which by the PSMFL. More fundamentally, there is a contradiction between the centralized control model laid out in the CSL, and the more decentralized system implied, though not stated, in the PSMFL. The performance contracts stipulated in the PSMFL would be ineffective without significant personnel management authority delegated to the individual departments, which goes against the provisions of the CSL.

9. Unlike many other countries, Mongolia does not have a centralized personnel management agency with ready access to the highest levels of the executive, and day-to-day management is the responsibility of the respective budget entities. The Civil Service Council, which is an independent body that reports to the parliament, fuses oversight, policy, and certain key personnel management functions, which is unusual as the norm in most countries is to have separate bodies be responsible for setting overall personnel policies, for providing oversight to ensure fair treatment of employees, and for monitoring the civil service system to assure adequate

control of its functioning and enforcement of its rules. Instead the Council's status as a parliamentary body creates a disconnect with the executive which while necessary for an oversight body is a handicap for one with policy and management responsibilities.

The size and structure of the civil service

10. The size of the civil service in Mongolia, as measured in the number of sanctioned government posts, has declined steadily following the transition from socialism, from 154,000 employees in 1995 to 122,000 in 2007, before increasing to almost 144,000 in 2008. The support service makes up 73 percent of the civil service, followed by the special service (18 percent), and the administrative service (7 percent). At 4.4 civil servants per 100 population, the Mongolian civil service is large in per capita terms, in part a reflection of Mongolia's geography and the high unit costs of delivering services to a scarce and scattered population. It is also large in terms of its fiscal impact, with the total wage bill increasing more than six-fold in nominal terms between 2000 and 2008, and average civil servant real wages tripling over this period, on account of several rounds of salary increases. The wage bill now comprises over a fifth of total government expenditures.

11. The civil services of many low income countries are characterized by a very large proportion of unskilled staff in the lower grades and a relative dearth of professional and managerial posts. An analysis of the different types of positions within the Mongolian civil service, and the educational qualifications of civil servants, suggests that roughly a fifth to a quarter of civil servants can be categorized as low or semi-skilled, a significant proportion and indicative of the partial social welfare rationale of public sector employment.

12. The geographic distribution of civil servants in Mongolia is quite equitable, in contrast to many developing countries, with even the remote western aimags with similar per capita deployment of staff. Proximity to Ulaanbaatar does play a role in the geographic distribution of skill level with the Ulaanbaatar and the eastern aimags having a higher proportion of advanced degree holders and a lower proportion of civil servants with only primary or secondary school qualifications. By contrast, the functional distribution of civil servants is inequitable, with a number of important agencies — notably the Ministry of Finance, the audit and oversight agencies — grossly understaffed and other less important agencies overstaffed.

Chapter 2: Grading, Compensation, and Payroll Administration

13. Reward structures are central to the performance and motivation of civil servants. Mongolia has one of the most complex civil servant pay regimes in the world, and this complexity has created considerable inequities in compensation, seriously impacted staff morale, and weakened centralized control over the establishment and the payroll. Reform of the civil service grading and compensation structure is required for both fiscal sustainability and for improving public sector productivity. The new compensation regime should be simple and transparent, provide equal pay for equal work, and adequately compensate employees through their careers.

14. The current grading structure results in significant horizontal inequities. Mongolia's grading system can be classified as one in which the allocation of grades to jobs appears to be based primarily on the status of the organization employing the post-holder, with status a function of organizational distance from the center of administrative power (Ulaanbaatar). Similar jobs are graded differentially, and therefore compensated differently, depending on the organization to which the job belongs.

15. The civil service compensation system combines a) complexity of pay, b) non-uniformity of pay across the civil service, and c) for the support services, managerial discretion in setting pay. Civil servants' compensation consists of basic pay, allowances, and extra payments. The types and magnitudes of allowances varies by service, and within the support service by sectors, and, for the support services in particular, is largely at the discretion of the general managers of budget entities and does not require approval by a central authority. For the administrative service, allowances and extra payments contribute roughly 30 percent of overall monetary compensation, with the proportion higher for support civil servants. The complex pay structure with a number of allowances and extra payments exacerbates these grading inequities as pay is driven by the personal characteristics of the employee rather than the features of the job and, combined with the considerable managerial discretion in setting pay, results in a non-transparent compensation regime.

16. Pay scales are very compressed, particularly for some key service delivery staff like nurses and teachers whose careers require grade structures that provide for salary progression over a period of many years ('career grades'), but at present are essentially confined to one or two short grades. The pay increments in the pay scales also overlap to a considerable degree resulting in a rather random pay distribution that appears to serve no organizational purpose. The provisions for performance pay in the PSMFL are also unrealistic and inappropriate for Mongolia in its stage of development. Performance pay is currently only being given to teachers and medical professionals, and is distributed not on the basis of any real performance criteria but largely as a means to utilize surplus funds in the salary budget on account of vacant posts.

17. Payroll administration in Mongolia is decentralized to the individual budget entities, with each of the five thousand budget entities maintaining the register of annually approved staff positions and actual employee databases, and preparing the twice-monthly payroll using this data and the host of relevant pay regulations. This decentralization, together with the complexity of pay structure and pay policy, significantly weakens the fiscal controls of the Ministry of Finance and hampers budgetary planning.

18. The post classification and compensation structure of the civil service needs to be reformed in order to provide the appropriate incentives for recruiting, retaining, and motivating skilled staff, through the principle of equal pay for equal work. The reform would entail moving, in a sequenced manner, to a job-based system in which employees are paid according to the responsibilities of the job they perform and receive equal work for equal pay regardless of the institution in which they are employed. The recommendations following from this analysis are threefold: first, a policy decision on simplifying pay by merging all the allowances and extra payments into basic pay. Second, a phased sequence of analytical activities in order to achieve this reform, which includes job evaluations, the development of a simplified grading structure, and pay surveys to insure that compensation remains competitive with the private sector. Finally, and importantly, in order to be successful these activities require broad ownership by the government and effective coordination between the concerned stakeholders, in particular the Civil Service Council, the Ministry of Social Welfare and Labor, and the Ministry of Finance.

19. Mongolia also needs to develop an automated, centralized payroll for enhanced establishment control. The long term objective of the Government should be a system in which the Government maintains all relevant data on posts, personnel, and the pay regulations and runs the payroll. Such a system would practically need to be developed in a phased manner as it would entail a radical departure from the decentralized business processes currently in place, and ideally should be introduced after the compensation structure has been simplified. A feasible

interim step should be the development of a centralized database that captures this information and allows for better financial planning and modeling.

Chapter 3: Personnel Management

20. Recruiting competent individuals and ensuring that their management is free from undue political interference, that employees have adequate opportunities for career growth, and that there are appropriate checks and balances for major personnel decisions are essential complements to a modern pay regime and all key ingredients of a productive civil service. The legal framework of Mongolia gives adequate prominence to these aspects of personnel management and specifies procedures for them. However, these provisions have not proven to be fully effective.

21. The CSL and the PSFML give a lot of attention to recruitment modalities. These specify open competitive recruitment for senior positions and detail adequate checks and balances through a series of “tiered screens” by differing sets of actors rather than concentrating recruitment and selection power in the hands of a single, central authority. However, having two laws governing recruitment creates ambiguities and confusion for appointing authorities. It is not entirely clear exactly which positions require open competition and which positions can be filled through selection from existing core civil servants.

22. By contrast, recruitment authority of support staff such as teachers is decentralized and unregulated. Decisions about teacher recruitment fall entirely to the school director, who can hire whomever they choose, with no set formal procedures for the recruitment application, interview, or selection process. In practice, this puts the school director in a powerful position, especially in rural areas, where the school is the largest and most regular employer and hence source of income. Prior to the PSFML reforms, civil society representatives had a seat on the school governing board that had responsibility for monitoring the school’s budget. Currently, although some parents’ groups form voluntarily, there is no formal accountability role for civic groups, such as parent-teacher associations, to play a role in monitoring teacher quality or school directors’ recruitment decisions.

23. Tenure protection is one of the defining features of civil services across countries and is required for depoliticized management, and it is what sets apart the legal regime for civil servants from that of the private sector. The Mongolian civil service however, is characterized by a high degree of staff turnover, particularly after elections, and this churn disrupts management and negatively impacts overall civil service performance. These changes affect mostly the more senior civil servants, and the fact that roughly 75 percent to 90 percent of the top three grades in the administrative service have been in their current positions for four years or less is in large measure a reflection of the impact of the election cycle. It is also borne out in the spike in dispute cases and new senior staff appointments immediately after an election.

24. Lack of horizontal mobility is also a serious issue in the Mongolian civil service, with most administrative civil servants spending their careers in one or at most two line ministries, a reflection of the decentralized management arrangement in Mongolia whereby budget entities are the employers of civil servants and the lack of an institutionalized process for job rotation. Some have advocated the creation of a Senior Executive Service (SES) akin to that found in many developed countries to in part address this problem of limited horizontal mobility. This report cautions against this approach as the application of a SES model in Mongolia would add to the complexity of an already overly complicated grading and compensation system. It would also

risk compromising the present recruitment flexibility of the system and closing off senior management positions to only members of the SES.

25. The Government of Mongolia recognizes many of these problems of personnel management and many of the legal changes introduced to the Civil Service Law are meant to address these. The recommendations of this report are in the spirit of ensuring that this improved legal framework can be more effective as well as identifying additional key areas. First, the recruitment modalities for administrative staff need to be improved by removing the recruitment provisions from the PSMFL and incorporating them into the CSL so that there is clarity on the procedures to be applied for the different posts in the service. Second, the Government should, given the stronger treasury controls now in place, consider devolving oversight over school management to parents and local communities. Third, there is a need to tackle the problem of insecurity of tenure through removing some of the loopholes in the legislation and developing an institutional mechanism to manage staff transfers, ideally by setting up a small personnel management unit in the Prime Minister's Office. Finally, the capacity of the Civil Service Council will need to be increased to enable it to effectively operationalize its enhanced mandate.

INTRODUCTION

1. Rationale for the Report

1. Mongolia is at a critical juncture in its development. During the copper boom years of 2003 to 2008 its economy grew at a real annual rate of over 8 percent and public revenues increased four-fold, allowing for a rapid expansion in public spending. Some of this windfall was used for much needed infrastructure investments — capital expenditures increased seven-fold over this period — but a lot of it was consumed through untargeted social transfers and across-the-board public salary increases. Avoiding the resource curse and ensuring that the mining boom is channeled into sustained economic growth and poverty reduction is Mongolia's main developmental challenge, the urgency of which is underlined by the dramatic collapse in copper prices over the past six months and the resultant economic crisis.

2. Avoiding these past mistakes requires a number of reforms — a transparent and fair mining regime that encourages investments while protecting the government's interests, structural fiscal reforms to prevent boom-bust cycles, increased allocative and technical efficiency of public expenditures, a well-targeted safety nets system, to name but a few. An efficient and high-performing civil service will also be a key to a high performing public sector in Mongolia.

3. The objective of this report is to identify specific steps that the Government of Mongolia can take over the next three years to improve the performance of the civil service. Civil service reform impacts both the investment climate and the development of a robust private sector, and sustained improvements in service delivery. A lack of transparency and accountability in government business interactions has been repeatedly cited as the most significant impediment to private economic activity in Mongolia.¹ While in many ways Mongolia's record of public service delivery is impressive, the agenda for service delivery improvements is far from over. Enrollment rates are high compared to regional benchmarks, and a high percentage of children complete basic education. Infant and child mortality are also low compared to other countries at similar levels of economic development. These are achievements that the civil service can be justifiably proud of, given the challenges of geography in Mongolia. However, learning achievements are low, and there are significant inter-regional disparities in access, quality, and outcomes, and addressing these challenges require improvements in public administration.

4. The Government's Medium-Term Civil Service Reform Strategy and Implementation Action Plan (2007) recognizes these problems and specifies a number of strategic priorities for achieving a civil service that is "oriented to meeting the needs of citizens, flexible in responding to changing circumstances, proactive, lean, capable, and outcome-oriented."² These priorities include improved selection procedures for senior civil servants, development of leadership skills, more transparent, fair, and performance-oriented personnel management, and a modern remuneration system that is also fiscally sustainable. Significant amendments in the legal framework of the civil service in 2008 were aimed at many of these areas such as reducing political discretion in personnel management, institutionalizing a transparent, merit-based recruitment process for senior civil servants, and improving the procedures for determining civil service compensation.

¹ World Bank (2007)

² Government of Mongolia (2007).

5. Civil service reform is always politically difficult and many of the current problems in Mongolia's civil service that the report identifies have political roots. However, the economic crisis does provide an opportunity as it has underlined the problems associated with the current policies. For example, there is a recognition that regular across-the-board salary increases are no longer sustainable and that there has to be a more sophisticated approach to remuneration going forward, which in turn requires simplifying civil service pay to enable tighter expenditure controls, reduce horizontal inequities, and increase transparency, and better payroll administration given the significant claims of the civil service on public expenditures.

6. This report aims to capitalize on this window of opportunity and provide advice on what should be the key strategic reform priorities for the Government. It will also inform the Bank's operational engagement in governance, in particular the Governance Assistance Project and the Economic Capacity and Technical Assistance Credit that have significant components on public administration reform and capacity building, the fiscal reforms being supported under the proposed Development Policy Loan, as well as the institutional reform initiatives of key government agencies in some of the other sectoral operations.

7. It should be stated upfront that this is not a comprehensive report about service delivery. While improvements in service delivery are indeed the core motivation for civil service reform, services can also be improved by giving citizens the ability to choose between public or private providers, such as through school vouchers or health insurance, and by institutionalizing community involvement in the management and oversight of service providers.³ This report focuses almost exclusively on improving the accountability relationships between policy-makers and service providers, and therefore only captures one dimension of the service delivery agenda. The agenda for service delivery improvements is much broader, and encapsulates several areas that are beyond the scope of this report, such as improving the functioning of the Social Health Insurance system, institutionalizing parents' role in school management, and exploring demand-side financing mechanisms (grants, loans) to improve access to education.

2. Structure of the Report

8. The report identifies three key areas of reform for the Government. First, the civil service grading and compensation system requires significant changes in order to be able to attract and retain high caliber staff. The present compensation regime has a number of serious problems. The grading structure creates horizontal inequities as similar jobs are graded differently depending on the status of the organization to which the job belongs. The pay structure is highly complex, consisting of basic pay, allowances, and extra payments, which exacerbates these grading inequities as pay is driven by the personal characteristics of the employee rather than the features of the job and, combined with the considerable managerial discretion in setting pay, results in a non-transparent compensation regime. Pay scales are also very compressed, in particular for key service delivery staff. The reform entails the simplification

³ World Bank (2003) presents these alternatives in a framework of accountability relationships. Making service providers — teachers and doctors — accountable to citizens can be achieved via two routes, one long and one short. The long route entails a) improved accountability of policy-makers, often elected, to citizens and b) improved accountability of service providers to policy-makers. Civil service reform focuses on the service provider and policy-maker relationship (what is referred to as the “compact”). The short route entails direct accountability of the service provider to citizens, through giving greater choice to citizens, and giving them a direct role in the management of service providers (what is referred to as “client power”).

of pay through merging the allowances and extra payments into basic pay, and the development of a new grade structure and basic pay scale based on job evaluations and a pay survey.

9. Second, Mongolia needs to move in a phased manner towards centralized payroll administration in order to enhance establishment and expenditure controls. Presently payroll administration is conducted by each budget entity — and there are over 5000 budget entities — using non-standardized procedures which, combined with the complexity of the pay structure, significantly limits the controls of the Ministry of Finance. This system also renders impossible accurate simulations of wage increases, thereby weakening budgetary planning, a deficiency that has been dramatically highlighted in the current economic crisis and the urgent requirement for fiscal adjustment. A feasible first step in the sequenced transition to centralized payroll administration is the creation of a centralized human resource database within the Ministry of Finance with information on posts, personnel, and pay for all budget entities.

10. Third, the personnel management regime needs to be improved as it presently does not fully protect civil servants from undue political interference, there is a lack of clarity over the precise recruitment modalities for the senior administrative civil service positions, and limited horizontal mobility that negatively impacts career development. The report specifies a number of immediate steps that can be taken to resolve these issues.

11. The report is organized along three chapters. Chapter one provides an overview of the legal framework governing the civil service in Mongolia, and its size, geographic distribution, skill mix, and basic demographic characteristics, and provides much of the context for the more detailed analysis in the subsequent chapters. Chapter two examines the pay and grading structure of the civil service, and the mechanisms for establishment control and payroll administration. The final chapter discusses personnel management.

CHAPTER 1: THE ARCHITECTURE OF THE CIVIL SERVICE

1. Introduction

1. Civil servants occupy a distinct legal status within the labor market and are governed by a specific set of laws and regulations that define their rights and responsibilities, their classification, grading, structure of compensation, modes of recruitment, due process protections against dismissal and procedures for disciplinary proceedings, and other aspects of personnel management. Mongolia's legal framework for the civil service has evolved rapidly since the transition from socialism in 1990, with the present arrangements coming into effect with the passage of two key laws, the Civil Service Law (CSL) and the Public Sector Management and Finance Law (PSMFL) in 2002 and 2003 respectively.⁴

2. These de jure arrangements are the starting point for an understanding of civil service performance. This chapter also provides a broad overview of the structure of the civil service, its size, geographic distribution, skill mix, and basic demographic characteristics, and lays the context for the more detailed analysis of the subsequent two chapters. As a preview, the main findings of this overview can be summarized as follows:

- In general, Mongolia's legal framework is quite clear in making distinctions between the different groups within the civil service and what rules and institutions govern human resource management practices for these groups. The strength of the framework is the explicit attention given to merit-based recruitment. However, the fact that there are two laws governing core civil servants is unusual from a cross-country perspective, and creates ambiguities and tensions. The most obvious tension is between the centralized model of civil service management represented in the CSL and the more decentralized system represented in the PSMFL.
- In terms of personnel management, Mongolia approximates a "position-based system" in which the emphasis is placed on selecting the best candidate for each position, either by external recruitment or internal mobility, in contrast to "career systems" where the focus is on initial entry into the civil service, or, more precisely, into specific cadres within the civil service, with established career tracks for these groups. This system provides the service the ability to attract regular, specialized skills from the market and to flexibly respond to changing demands.
- Unlike many other countries, Mongolia does not have a centralized personnel management agency and the Civil Service Council fuses oversight, policy, and certain key personnel management functions. This fusion is unusual and, given the Council's status as a parliamentary body, creates a disconnect with the executive which while necessary for an oversight body is a handicap for one with policy and management functions.
- There is a degree of ambiguity in the legal framework in the division of responsibility over pay and grading policy which is exacerbated by rivalries amongst the relevant government organizations.

⁴ In the translation from Mongolian, the Civil Service Law and the Law on Government Service are used interchangeably.

- The Mongolian civil service is relatively large, a reflection of the country's geography and the high unit costs of service delivery to a sparse and dispersed population, which underlines the need to ensure that it is high performing.
- In terms of the skill mix within the civil service, while Mongolia does not have the same scale of the problem as many low and lower-middle income country bureaucracies, it does contain a significant proportion of low skilled staff.
- While the geographical distribution of civil servants is fairly equitable, the functional distribution is not, with some key agencies, such as the Ministry of Finance, severely understaffed.

2. The Legal Framework

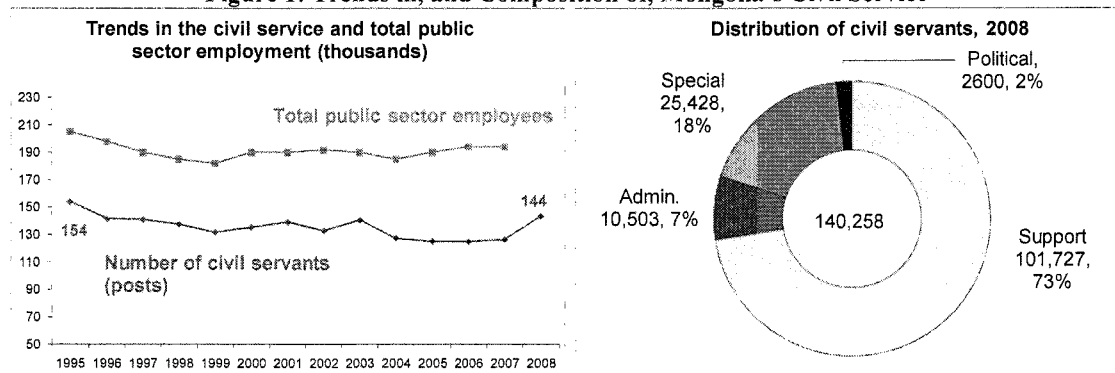
3. As in many countries, the public sector in Mongolia comprises a range of employment regimes with distinct legal statuses. "Civil servants" are defined under the CSL as the following four sets of public sector employees:

- Those holding political posts, designated the "civil political service", which includes the president, prime minister, ministers and deputy ministers, governors of the aimag, capital city, soum, and district and their deputies, and advisors and assistants to these political positions;
- Those holding administrative posts, designated the "administrative civil service", which includes managing and executive positions in the ministries, regulatory bodies, agencies financed from the government budget, aimags, capital city, soums, and lower level local administrations; hospital and school directors; and other managerial positions in the parliament secretariat, local assemblies, and higher level courts. The administrative civil service positions are further classified into five categories — Chief Officer, Leading Officer, Senior Officer, Deputy Officer, and Assistant Officer — with a 14 pay grade structure, as discussed in detail in the next chapter;
- The "special civil service", which consists primarily of public sector employees providing judicial and security services such as judges and public prosecutors of courts of all levels, members of the armed forces, police, intelligence services, border security, as well as managing and executive positions of the anti-corruption commission and the audit organizations;
- The "supporting civil service", which includes key service delivery staff, such as teachers, medical professionals, social welfare workers, and agricultural extension workers.

4. The administrative and special services are categorized as "core civil servants" in the CSL and are governed by special provisions for personnel management under this law, as well as the PSMFL, and enjoy particular rights and protections. Supporting civil servants, by virtue of being civil servants, also have certain rights and obligations, but their overall personnel management is not governed by these laws but rather by the Labor Law and specific laws pertaining to their sector of operation, as for example the Education Law in the case of school teachers. These sectoral laws in general only have provisions on the structure of compensation with the personnel management of these civil servants being similar to the arrangements in place

for the private sector and governed by the general provisions of the labor code, with no additional significant protections.

Figure 1: Trends in, and Composition of, Mongolia's Civil Service



Note: Actual civil service numbers will be lower due to staff vacancies

Sources: Ministry of Finance, Civil Service Council, and National Statistics Office

5. This definition of civil servants excludes, as it should, employees of state owned enterprises and contract workers who provide some basic tasks such as janitorial services in government offices, or who are hired as consultants or specialists particularly for the execution of development schemes. Following this definition, the size of the civil service in Mongolia, as measured in sanctioned government posts, has declined steadily following the transition from socialism, from 154,000 employees in 1995 to 122,000 in 2007, before increasing to almost 144,000 in 2008 (Figure 1, left panel). Actual number of civil servants filling these posts is lower due to staff vacancies, but the trends are likely to be the same. As of January 1, 2009 there were roughly 140,000 actual civil servants as per the payroll (Figure 1, right panel), with the bulk of them in the support services (101,000 or 73 percent), followed by the special services (25,000 or 18 percent), and the administrative services (10,500 or 7 percent). Approximately 20 percent of civil servants work for central government administrative and subordinate organizations, 20 percent for the capital city and districts, and the remainder for the aimag and soum administrations. Trends in overall public sector employment are similar to that of the civil service, with relative stability following the initial large decline in the aftermath of the transition when total public sector employees went from 780,000 in 1990 to 205,000 in 1995. There were approximately 194,000 employees in the public sector in 2007, with roughly 50,000 employees of state owned enterprises, and roughly 10,000 contract workers in addition to the civil servants.

6. This report will focus its attention on the administrative civil servants and the support civil servants. The special service and political service is excluded from the analysis as there are considerable sensitivities around, and limited access to, the uniformed services and the political leadership. Within support staff, which is a very large category, the note will focus on the teaching cadre, both as a matter of pragmatism given the huge variety of legal arrangements governing the different support cadres, and also because of their importance as the largest group of public servants in Mongolia with a key service delivery responsibility. For ease of presentation, the categories and the scope of this report are delineated in the schematic below.

7. In Mongolia, core civil servants are the group that most closely meet the traditional definition of a civil servant given that the essence of civil service status is that the legal basis for employment be different from that found elsewhere in the public sector, and that this framework should provide stronger due process and tenure protections than that afforded by the country's

labor laws. Supporting civil servants, while formally civil servants, are governed under an employment regime that resembles more the private sector, in common with the structure in many other countries. As stated, the Civil Service Law is the main governing framework for core civil servants, and the PSMFL has important provisions on senior civil servants pay, modalities of recruitment, and performance management. These provisions are discussed in some detail below.

Civil Service Categories and the Scope of the Report

Civil Service Classification	Type of Posts	Category	Governing Law	Target of the Policy Note (shaded cells)
Political civil posts	President, Prime Minister, Ministers, Deputy Ministers, Governors, and Advisors			
Administrative civil positions	Executives and officers of ministries, senior staff of aimags, heads of agencies, and other “general managers”	Core Civil Servants	CSL and PSMFL	
Special civil positions	Officers of the armed forces; police; judges; diplomatic officers			
Supporting civil servants	Teachers; medical professionals; social welfare staff; agricultural extension workers		Laws relevant to the particular sector: 33 in total	Limited to teachers

2.1. The Legal Regime for Core Civil Servants

8. The Civil Service Law and the PSMFL contain modalities for personnel management, pay, and the rights and duties of core civil servants, and place the Civil Service Council as the central agency for leading public sector management reforms and for ensuring adherence to the principles on pay and personnel management enshrined in the law.⁵ Important amendments to the Civil Service Law were introduced in May 2008, which are summarized in Box 1, and which, among other changes, greatly enhanced the Council’s powers and purview in pay and grading, and dispute resolution and oversight. The main provisions of this legal architecture are reproduced here with the more detailed analysis done in the following two chapters.

9. Recruitment: Modalities for recruitment are specified both in Article 17 of the Civil Service Law and Articles 45 and 48 of the PSMFL. Together these laws imply that Mongolia approximates a “position-based system” whereby the emphasis is placed on selecting the best candidate for each position, whether by external recruitment or internal mobility, in contrast to “career systems” where the focus is on initial entry into the civil service, or into specific cadres within the civil service, with established career tracks for these groups. The following are the salient features of these laws on recruitment:

- Vacancies for core civil servant positions can be filled either by a) selection from the existing core civil servants employed from that particular government agency or any other government agency; or b) if a) is not possible, then through open recruitment from the market. Employers are obligated to publicly announce any vacancies in the core civil service positions (Article 17 of CSL);

⁵ In the translation from Mongolian, Civil Service Council and Government Service Council are used interchangeably

- The modalities for open recruitment involve a professional examination conducted regularly by the Civil Service Council and registration into a reserve list of citizens entering the core civil service as per the scores on their examinations. The procedures for the professional examination and for creating and maintaining the reserve list are determined by the Civil Service Council. Currently a Mongolian citizen can remain on a reserve list for a period of two years since taking the examination. If vacancies in the core civil service cannot be met from existing core civil servants than a citizen from the reserve list who meets the specific requirements of the particular position will be selected (Article 17 of CSL);
- The details of the selection process for managerial positions of budgetary bodies are specified in Article 45 and 48 of the PSMFL. Article 45 states that for senior managerial positions in the core civil service the Civil Service Council shall publicly advertise the vacancy for at least twenty-one days and nominate three to five candidates for consideration of the appointing authority; the appointing authority will select one candidate from this list of nominees, and will have the right to reject these nominees only once. These general managers shall be appointed for a period of three years but their term may be extended for successive periods of two years;
- Article 48 of the PSMFL states that more junior members of the core civil service not covered under Article 45 will be appointed by the relevant general manager and that the general manager will provide a report to the Civil Service Council on the criteria used to make the appointment. The Civil Service Council has no authority to interfere with the employment authority of general managers with regards to these junior positions.

In addition to these two laws, the Labor Law of Mongolia has one relevant provision (Article 7.4) which stipulates that when employing a citizen, no questions shall be asked as to his/her private life, opinion, marital status, party membership, unless these questions are relevant to the specific nature of the job and duties.

10. Performance Management: The PSMFL, drawing on the agency reform programs of some developed countries such as the U.K, New Zealand, and Australia, specifies a comprehensive performance management framework across the public sector. This framework consists of a hierarchical set of annual performance agreements — for example, between individual departmental staff and the division/department director, the director with the state secretary, and the state secretary with the concerned minister — specifying staff accountabilities to their superiors, and serves as the basis for staff promotions and discipline. The Civil Service Council is responsible for determining the procedures for these performance agreements. The PSMFL also allows for the payment of performance-related bonuses for employees based on the overall financial performance of the particular budgetary organization and the particular staff's individual contribution.

11. Discipline and redress: Core civil servants can be removed from the civil service for repeated — twice or more — unsatisfactory performance or for a conducting a criminal offense (Article 25 of the CSL). Core civil servants can also face one of the following disciplinary sanctions — reduction of basic pay of up to 20% for a period of up to 6 months, or dismissal without the right of re-entering the civil service for a period of 1 year — for a breach of the prohibitions against civil servants or an abuse of power (Article 26). The appointing authority for the particular civil servant also serves as the disciplinary authority. Core civil servants cannot be dismissed from the civil service for any other reasons. In the case of the reorganization of the

concerned government authority or abolition of the civil servant's position, the core civil servant is to be transferred to another job according to his/her qualification and specialization without reduction in salary or be retrained for the period of up to 6 months, and be paid during such period the previous position salary.

Box 1: Key Amendments to the Civil Service Law

Several amendments were made to the Civil Service Law in May 2008. The following summarizes the most salient changes:

- Scope of the administrative civil service expanded to include general managers of all budget entities, such as school and hospital directors, and managing and executive positions of local administrative organizations;
- The Civil Service Council given responsibility for determining the classification, ranking and grading of administrative and support service positions;
- The Civil Service Council given responsibility for annually benchmarking civil service pay with private sector comparators and, together with the Ministry of Social Welfare and Labor, for making proposals to parliament for pay increases if the benchmarking determines that the approximate salary of civil service employees "gets lower by 5 percent or more than those of private sector employees";
- Added a new provision that guaranteed that civil servants who lost their positions due to the restructuring of the particular government organization would be transferred to another job without a reduction in salary or be retrained for a period of six months while fully paid;
- Enhanced the Civil Service Council's powers in dispute resolution by giving it the authority to overturn any personnel decision by an appointing authority if found to be in violation of the law, and requiring the concerned government organization to abide by the council's decision, with an option to complain to a court

12. The Civil Service Council has the main responsibility for dispute resolution and redress in personnel matters, specifically those pertaining to recruitment, performance evaluation, disciplinary actions, and dismissal. Core civil servants, who deem their dismissal not well-founded, shall complain within 1 month to the council, and the council will have the powers to overturn any such decision of the disciplinary authority. The appointing authority is mandated to follow this decision of the council, with an option to appeal the council's decision with the administrative courts within thirty days.

13. Mobility: Core civil servants may be transferred with their consent to another position from one government authority to another, or may be rotated between government authorities at their consent, by agreement between the management of the two authorities, with the specific procedures for transfer and rotation established by the Civil Service Council.

14. Pay and grading: The Civil Service Law specifies that the grading and ranking of administrative, as well as supporting civil servants will be done by the government based on the proposals of the Civil Service Council. On pay, the Council is given broad powers on providing recommendations on all civil servants, and is mandated to conduct annual research benchmarking civil service pay with marker comparators, and with inputs from with the of National Statistics Committee and the Civil Labor Service Committee of the Ministry of Social Welfare and Labor. Article 28.4.5 states that when the approximate salary amount of civil service employee gets lower by 5 percent or more than that of private sector employees, the

recommendation for raising the salary amount shall be made to parliament by Civil Service Council in consultation with the Ministry of Social Welfare and Labor.

15. General prohibitions of core civil servants: The Civil Service Law prohibits core civil servants from being elected as a representative of the aimag, capital city, soum assemblies and from being members of political parties. This provision was introduced in the amendments to the law with an aim of reducing political influence on senior civil servants.

16. The Structure of the Civil Service Council: The Council is an independent body that reports to the parliament and is outside of the executive. It is made up of seven members, three of whom are full time and four part-time, with the Secretariat of the State Great Hural, Secretariat of the Cabinet, and General Council of Courts nominating one of each of the full time members for a once renewable period of six years. The general secretary of the parliament's secretariat, the deputy head of the office of the president, the first deputy head of the cabinet secretariat, and the secretary of the General Council of Courts constitute the part time members. The chairman of the council is appointed by the parliament from among the full-time members, in consultation with the president and on the proposal of the prime minister. Parliament also has the power to remove a full-time member, but can only do so on the basis of an inquiry by a court that determines that a council member has violated the law

17. The administrative rules for the council are approved by the parliament. The council is empowered to have branch councils, with the organizational structure, staffing, and budget determined by the parliament. The powers of the council, as elaborated above, are considerable and include responsibilities for determining the grading and classification system for administrative and support staff, conducting pay research and making proposals on pay increases, maintaining statistics on the civil service, conducting human resource planning for core civil servants, overseeing recruitment of senior core civil servants, and dispute resolution and redress on personnel management.

18. The more detailed analysis of this framework on pay and grading, recruitment and personnel management, will be taken up in the following two chapters. Here we make some observations on the overall macro regime for civil servants.

19. In general, the legal framework is quite clear in making distinctions between the different groups within the civil service and what rules and institutions govern human resource management practices for these groups. However, the fact that there are two laws governing core civil servants is unusual from a cross-country perspective, and creates certain ambiguities and tensions. For example, the PSMFL employs the concept of a General Manager — a civil servant with budgetary accountability — rather than that of the core civil servant defined in the CSL, which has at times resulted in differing interpretations in the application of the provisions of the CSL. The most salient tension is between the centralized control model laid out in the CSL, and the more decentralized system implied, though not stated, in the PSMFL.⁶ The performance contracts stipulated in the PSMFL would be ineffective without significant personnel management authority delegated to the individual departments, which goes against the provisions of the CSL. In the developed countries where they have been implemented, performance contracts give significant authority over recruitment, promotions, dismissals, and post classification to individual departments or implementing agencies.

⁶ Note that this decentralization is limited to the HR components of the PSMFL. With respect to fiscal and financial management, the PSMFL introduced a high degree of centralization.

20. Unlike many other countries, Mongolia does not have a centralized personnel management agency with ready access to the highest levels of the executive, with day-to-day management is the responsibility of the respective budget entities. The Civil Service Council fuses oversight, policy, and certain key personnel management functions, which is unusual as the norm in most countries is to have separate bodies be responsible for setting overall personnel policies, for providing oversight to ensure fair treatment of employees, and for monitoring the civil service system to assure adequate control of its functioning and enforcement of its rules.⁷ Instead the Council's status as a parliamentary body creates a disconnect with the executive which while necessary for an oversight body is a handicap for one with policy and management responsibilities. An example of this disconnect is that the personnel data maintained by the council is rarely shared with the line agencies and appears to have minimal impact on agency human resource planning. It also raises serious questions on how the Council's vital role in recommending grading and pay reform can be operationalized, an issue that will be turned to in chapter 2.

21. The legal framework rightly addresses the need for merit-based recruitment of core civil servants, and makes explicit the requirement to regularly benchmark civil servant salaries with the private sector. However, the details of the recruitment modalities are not entirely clear, the complexity of the grading and compensation structure make benchmarking very difficult, if not impossible, and the protections afforded core civil servants from political pressure have not proved to be adequate and tenure instability is a major problem. Given Mongolia's position-based system and lack of a central personnel agency, there is also the absence of a country-wide or civil service wide career for civil servants with limited options for horizontal mobility. These issues are all discussed in detail in the following two chapters.

2.2. The Legal Regime for Teachers

22. There is no umbrella law for supporting civil servants akin to the CSL. Instead the laws and regulations pertaining to each sector — and there are 33 relevant laws — create a highly fragmented and complicated regulatory regime for these civil servants. In general, and as stated earlier, this regime approximates the private labor market in many ways, with personnel management at the discretion of the appointing authorities and only limited by the provisions of the labor code that apply to all Mongolian citizens. The structure of grading and pay however, and as discussed in the next chapter, varies considerably across the six support services, and by different sectoral groups within these services.

23. The organization of the education sector in Mongolia is unique among line departments. The Public Sector Financial Management Law (PSFML) re-centralized budget management in the Mongolian government, with the overall responsibility for education policy-making and budget preparation shifted from the aimag administration to the Ministry of Education, Culture, and Science (MECS). Day-to-day management of schools however, is almost completely decentralized to the schools themselves, is the responsibility of school directors, and is largely unregulated. School directors have the authority to run their school, appoint and manage teachers, and utilize their school budget (including teacher compensation) according to guidelines established by the central government. In theory the education sector has vertical personnel management controls, particularly through hierarchical performance contracts. In practice, however, vertical personnel performance controls are weak.

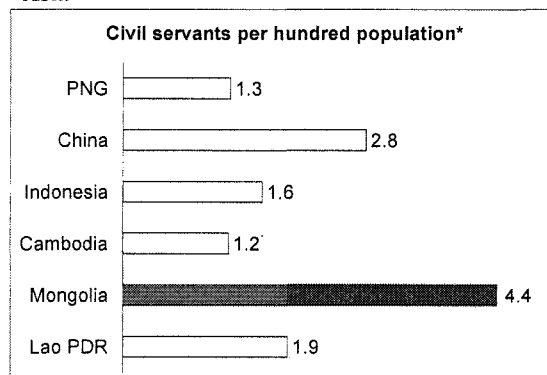
⁷ Nunberg (1992)

3. The Structure of the Civil Service

3.1. Size and wage bill

24. As noted, the size of the public sector in general and the civil service in particular, has remained generally stable over the past decade following the large reductions during the transition from socialism. The civil service however, remains large in comparative terms and, more importantly, in terms of its claim on government resources. While noting the considerable limitations of cross-national comparisons of civil service size given the varying definitions of the civil service across countries, Mongolia's civil service, excluding the military and police for more accurate comparison, at 4.4 civil servants per 100 population is significantly larger than some of the other countries in the East Asia region (Figure 2).⁸ Civil servants form 12 percent of the total labor force. In part this large size is a reflection of the country's geography and the high unit costs of service delivery to a sparse and dispersed population. It also underlines the point that given that the civil service will necessarily have to be relatively large because of these geographical constraints, it is crucial that it is high-performing.

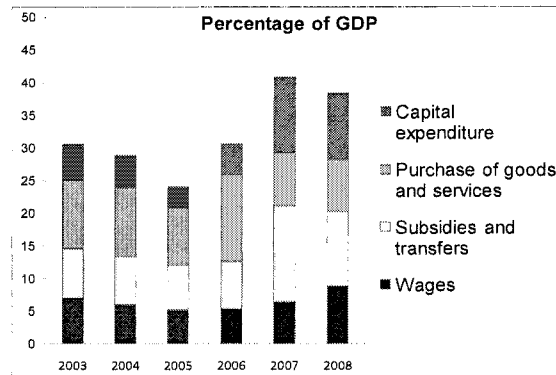
Figure 2: Mongolia's civil service is significantly larger than other countries in East Asia



* Excludes employees of state-owned enterprises, military and police, and contract staff

Sources: Ministry of Finance, Civil Service Council, Bank staff calculations

Figure 3: Trends in the composition of government expenditures



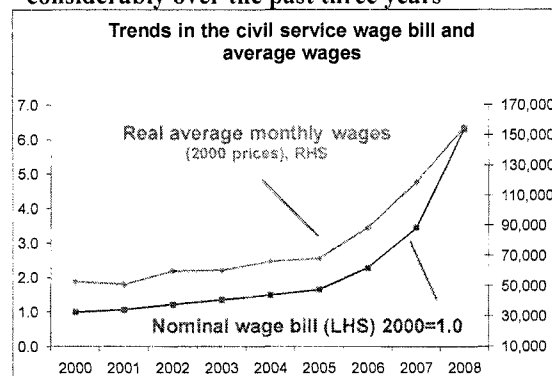
25. The civil service wage bill declined steadily from 7 percent of GDP in 2003 to 5.3 percent of GDP in 2006, before jumping to almost 9 percent for 2008 (Figure 3). In nominal terms, given the high growth in government revenues and expenditures during the copper price boom, the total wage bill increased more than six-fold between 2000 and 2008, with average civil servant real wages (2000 prices) rising from 53,000Tg per month in 2000 to 155,000Tg per month in 2008 due to regular across-the-board salary increases, especially since 2006 (Figure 4). These increases, together with the massive expansion in the untargeted social transfer schemes, have come at the expense of expenditures on operations and maintenance, categorized as "purchase of goods and services" in Mongolia's budget classification system, which shrank from 10.5 percent of GDP in 2003 to 8 percent in 2008 (Figure 3). The issue of whether or not these increases were warranted and the competitiveness of civil servant salaries is deferred to the next chapter. The only point to emphasize here is the considerable fiscal impact of the civil service in Mongolia, and therefore the urgent need to ensure that grading and pay regime, and the personnel

⁸ Unlike in Mongolia, in most countries the military and police force are excluded from the civil service and are therefore excluded from the comparative analysis. In many countries health and education employees also are classified differently but are included in these data.

management regime, create the necessary incentives for a productive and efficient public sector work force.

26. The civil service census conducted in 2007 revealed that the overall system of personnel controls works quite well in Mongolia and that there is no real problem of ghost employees. Of the 122,016 employees on the payroll in 2007, the census did a physical headcount of 116,547 or about 96 percent, with only 745, or 0.6 percent of total employees absent without a proper justification — such as maternity leave, annual leave, study or training — at the time of the enumeration day. Absence in the aimags and soums were even lower than those in central government organizations. However, and importantly, the census did not cover contract workers so it is unknown if these personnel controls extend to them as well.

Figure 4: Civil service wages increased considerably over the past three years



Source: Bank staff calculations based on Ministry of Finance and Civil Service Council data

Table 1: There is no significant problem of ghost employees

	<i>Employees on payroll (2007)</i>	<i>Employees enumerated in census (2007)</i>	<i>Employees absent with justification</i>	<i>Employees absent without justification</i>
Central Government	23,258	20,838	1,964	456
Capital City	24,281	23,371	860	50
Aimags and soums	74,477	72,338	1,900	239
Total	122,016	116,547	4,724	745

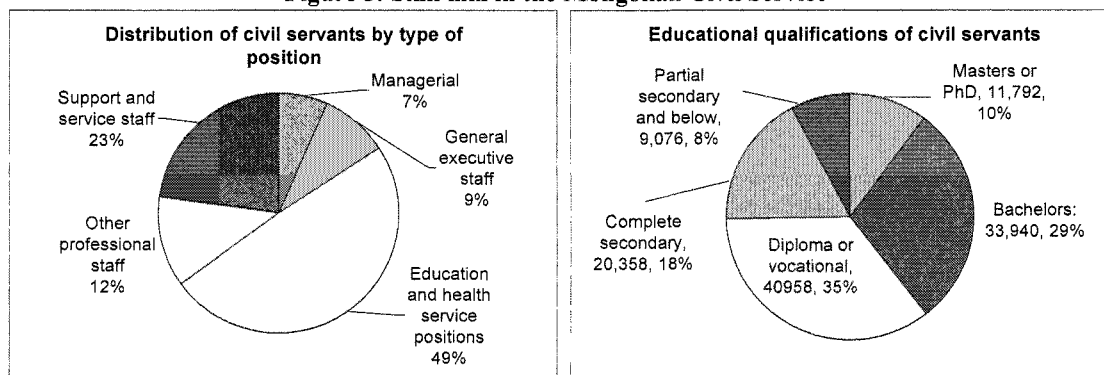
27. These overall controls are a reflection of the tight expenditure execution exercised by the Ministry of Finance through the Government Financial Management Information System (GFMIS), which is the treasury's expenditure control system. As elaborated in the next chapter, civil servants do not get paid unless the aggregate personnel expenditures for the particular budget entity reconcile with the limits set in the GFMIS. However, and importantly, these are only aggregate controls and the absence of a centralized payroll and the complex structure of pay do have significant budget implications.

3.2. Skill mix and geographic distribution

28. The civil services of many low income countries are characterized by a very large proportion of unskilled skill staff in the lower grades and a relative dearth of professional and managerial posts. Given that the Mongolian civil service is bifurcated into political, administrative, special, and support services, each with their own grade structures, a simple analysis of the distribution of staff across grades does not provide adequate information of this skill distribution. Instead, Figure 5 provides two indicators of the skill mix drawing on the data from the civil service census. The left panel summarizes data from a question in the census that asked civil servants to classify their position as per one of seventeen categories, which include

high political positions, managerial positions, advisors and researchers, general executive staff, sectoral specialist staff like teachers and doctors, and “support and service” staff. While these categories are not entirely precise, support and service staff, account for 23 percent of the civil service in Mongolia, managerial and executive positions make up 16 percent of the service, and education and health service staff make up 49 percent, by far the largest group. In terms of educational qualifications (right panel), 39 percent of the service has a bachelors or higher degree, while 26 percent has a secondary education or below, with 8 percent having a partial secondary or primary education.

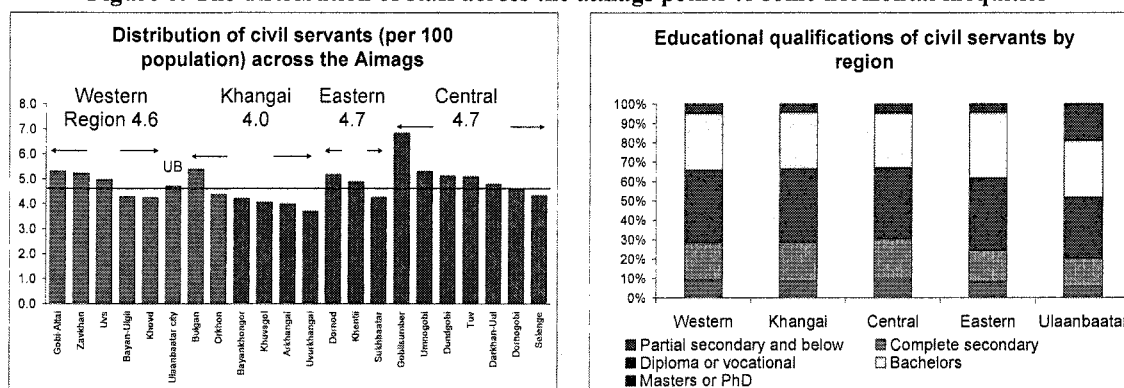
Figure 5: Skill mix in the Mongolian Civil Service



Source: Civil Service Council (2008)

29. In terms of the skill mix, clearly the 8 percent of staff who have not completed secondary education are likely to be in low skilled service positions in the civil service. The majority of the 26% with a maximum of secondary education are also likely to be in these support positions. These data, together with the information on position classification, suggests that roughly a fifth to a quarter of the Mongolian civil service can be termed low or semi skilled, a significant

Figure 6: The distribution of staff across the aimags points to some horizontal inequities



Source: 2007 data from the Civil Service Census

proportion and indicative of the partial social welfare rationale of public sector employment. However, given that nearly 40% of the civil service holds higher educational qualifications, and another 35% holds a diploma or a vocational degree, suggests that the aggregate skill level of the bureaucracy is higher than that of many developing countries.

30. The geographic distribution of civil servants appears to be reasonably equitable, again in contrast to many developing countries. Including the uniformed services, in 2007 Mongolia had

4.6 civil servants per hundred population, with Khangai region having the fewest per capita civil servants (4.0), followed by Western region (4.6), Ulaanbaatar, and Eastern and Central regions (Figure 6, left panel). At the aimag level, per capita civil servants varied from a low of 3.7 in Uverkhangai to a high of 6.8 in Gobisumber, but in general the variation is not particularly striking. The Western region ranks the lowest in terms of remoteness and developmental level, and the government should be commended for its ability to successfully place civil servants there. More generally, there is a weak negative correlation (correlation coefficient of -0.11) between the developmental level of an aimag, as measured by GDP per capita, and per capita civil servants. Proximity to Ulaanbaatar appears to play a role in the geographic distribution of the skill level (Figure 6, right panel), with Ulaanbaatar and the Eastern region having a higher proportion of advanced degree holders and the lower proportion of staff with secondary education or below as compared to the Western, Khangai, and Central regions.

31. Overall, while the horizontal distribution of the civil service is broadly fairly equitable, the government does need to track this statistic on a regular basis, given the significant movement of population in Mongolia, to ensure that inequities do not emerge in the future.

32. By contrast, the functional distribution of civil servants is inequitable. As Table 2 shows, the Ministries of Education and Health are the largest employers, and justifiably so given Mongolia's emphasis on, and achievements in, the social sector. However, some key agencies are clearly grossly understaffed, most conspicuously the Ministry of Finance (111 staff) as well as some other line ministries, and the main oversight agencies such as the National Audit Department (237 staff), the Civil Service Council (20 staff), and the Anti-corruption agency (87 staff). By comparison it is difficult to justify the large number of staff in some other agencies, namely the State Committee of Physical Culture and Sports (596), the State Professional Inspection Agency (1661), and the National Agency of Meteorology (1626). These data point to the need for functional reviews and staff reallocations to overcome the serious staff shortages that some of the ministries face despite the relatively large number of total civil servants in Mongolia.

Table 2: Number of civil servants in key agencies

Ministry of Education	58,329
Ministry of Health	24,057
Nat'l Agency of Meteorology, Hydrology, & Environment Monitoring	1,626
State Professional Inspection Agency	1,661
National Tax Administration	1,509
General Customs Office	1,077
Ministry of Environment	900
State Committee of Physical Culture and Sports	596
Ministry of Food and Agriculture	570
Ministry of Foreign Affairs	400
Ministry of Construction and Urban Development	305
National Audit Department	237
Ministry of Finance	111
Ministry of Fuel and Energy	95
Ministry of Road and Transportation	68
Anti-corruption Agency	87
Civil Service Council	20

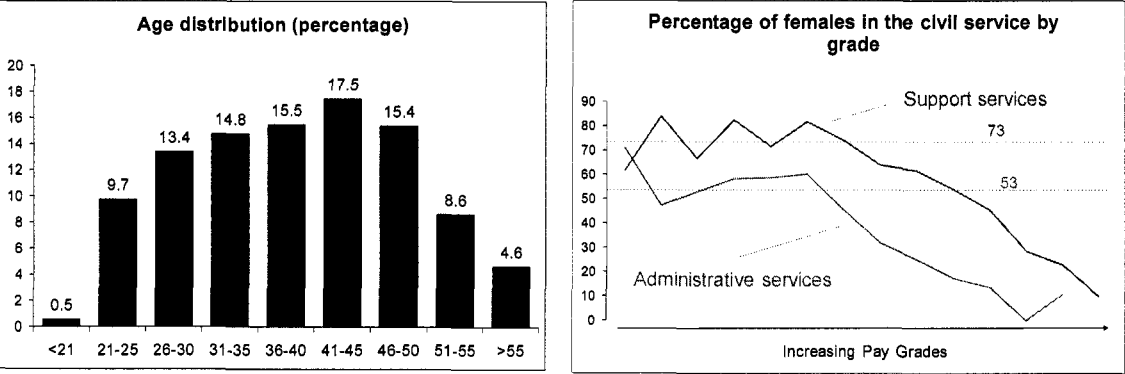
Source: Civil Service Council (2008)

3.3. Basic demographic characteristics

33. Finally, a brief word on some basic demographic characteristics of the civil service pertaining to age and gender. Mongolia's civil service is fairly youthful, with 38 percent under the age of 36 and less than 5 percent above the age of 55. Females form a majority of the civil service, accounting for 53 percent of the administrative service and 73 percent of the support services. However, they disproportionately populate the lower grades (Figure 7, left panel),

forming less than 15 percent of the higher administrative service. Clearly, gender equality remains a significant challenge in the public sector.

Figure 7: Basic demographic features of the civil service



Source: 2007 data from the Civil Service Census

CHAPTER 2: GRADING, COMPENSATION, AND PAYROLL ADMINISTRATION

“I worked for 38 years in the civil service and I never understood how my salary was calculated and what was included or excluded from it.” *A retired civil servant*

1. Introduction

1. Reward structures are central to the performance and motivation of civil servants. Mongolia has one of the most complex civil servant pay regimes in the world and this complexity has created considerable inequities in compensation, seriously impacted staff morale, and weakened centralized control over the establishment and the payroll. Reform of the civil service grading and compensation structure is required for both fiscal sustainability and for improving public sector productivity. The new compensation regime should be simple and transparent, provide equal pay for equal work, and adequately compensate employees through their careers.

2. This chapter provides a review of the civil service post classification (or grading) system, the structure of basic pay and allowances — focusing primarily on the administrative service and, to a more limited extent, on teachers — and the system of payroll management. It highlights the main problems with the present system, and outlines a strategy and a process for reforming the pay and grading structure. The proposed reform is quite comprehensive as the distortions in the present system are considerable and an incremental, piecemeal approach — or a ‘second-best solution’ — is likely to only add to these problems. Annex 1 sequences the recommendations in a three-year policy matrix.

3. The main messages of this chapter can be summarized as follows:

- Civil servants’ compensation consists of basic pay, allowances, and extra payments. The types and magnitudes of allowances varies by service, and within the support service by sectors, and, for the support services in particular, is largely at the discretion of the general managers of budget entities and does not require approval by a central authority. For the administrative service, allowances and extra payments contribute roughly 30 percent of overall monetary compensation; for support civil servants the proportion is higher, and up to 50 percent. Mongolia’s compensation system therefore combines a) complexity of pay, b) non-uniformity of pay across the civil service, and c) for the support services, managerial discretion in setting pay.
- The grading structure results in significant horizontal inequities. Mongolia’s grading system can be classified as one in which the allocation of grades to jobs appears to be based primarily on the status of the organization employing the post-holder, with status a function of organizational distance from the center of administrative power (Ulaanbaatar). Similar jobs are graded differentially, and therefore compensated differently, depending on the organization to which the job belongs.
- Allowances and extra payments exacerbate these inequities as they are based on the personal characteristics of the civil servant rather than features of the job being performed, and are at the discretion of the general manager. They also create a non-transparent compensation regime that demotivates staff and undermines fiscal controls.
- Pay scales are very compressed, with a compression ratio of 1:3 for the administrative service, and even higher for key service delivery staff like nurses and teachers whose careers are essentially confined to one or two grades.

- Payroll administration in Mongolia is decentralized to the individual budget entities, which together with the complexity of pay structure and pay policy, weakens expenditure controls.
 - The post classification and compensation structure of the civil service needs to be reformed in order to provide the appropriate incentives for recruiting, retaining, and motivating skilled staff, through the principle of equal pay for equal work. The reform would entail moving, in a sequenced manner, to a job-based system in which employees are paid according to the responsibilities of the job they perform and receive equal work for equal pay regardless of the institution in which they are employed.
4. This chapter limits itself to pay and does not analyze the pension system. Since in Mongolia all monetary compensation is pensionable the proposed reforms do not have any significant pension implications.⁹

2. The Civil Service Post Classification and Compensation System

5. As outlined in Table 3, each of the three categories of political, administrative, and special services have their own post classifications (grading) while support services have a further six categories — general support services, science support services, professional education, primary and secondary schools, health, and culture and arts. Administrative services have 14 grades (TZ1-TZ14), special services 18 grades, general support services 12 grades, health support services 9 grades, culture and arts 11 grades, science sector 7 grades, preschool and secondary education 8 grades, and professional education 9 grades.

6. Overall monetary compensation for civil servants in each grade is given by a combination of base pay, a number of allowances calculated as a percentage of basic pay, extra payments, and rewards. The nature of the allowances and extra payments varies by services, and for the support services also varies by sector. While the Civil Service Law guides the compensation structure for administrative civil servants, the legal regime for pay for the support civil servants consists of thirty three government laws and resolutions, with pay often determined by ministerial resolutions that do not require any central government approval. Historically, adding new allowances was a means of increasing civil servant compensation for the particular sector without impacting the base pay and therefore setting a precedent that would have to be matched across the civil service. As each sector added its own set of allowances the compensation regime became more complex over time. Given this complexity, it is next to impossible to accurately capture the key elements of compensation for the entire Mongolian civil service. In fact it would not be inaccurate to say that no one in the government has a comprehensive and accurate picture of what these components of pay are, which for one creates huge problems for the Ministry of Finance in budgeting wage increases and in monitoring compliance and enforcing expenditure controls.

7. In general, the following are the main elements of civil servant compensation, also illustrated in Table 3:

8. *Base pay:* The detailed basic pay scales per service for 2008 are provided in Annex 2. Each grade has five levels of basic pay. Importantly, for the support services the basic pay scale only defines the *minimum reference* pay for each level per post, with the responsible budget entity having the discretion to set higher pay levels if they have the available resources. For the

⁹ Pensions have been studied extensively in World Bank (2008) and ADB (2007)

administrative, special, and political services base pay levels are fixed. Graduation from one basic pay level to the next within a grade is at the discretion of the line manager and is de facto determined by the length of service of the civil servant.

9. *Allowances:* The structure of allowances varies by the type of service. For the administrative service, there are three major allowances:

- i) A “length of service” allowance that increases in increments of five percentage points from 5 percent of basic pay for five to ten years of service to 25 percent of basic pay for more than 26 years of service;¹⁰
- ii) An allowance for the possession of higher academic degrees, at 15 percent of basic pay for civil servants with a doctorate and 10 percent of basic pay for an associate doctorate degree;¹¹
- iii) A “rank” allowance, comprising four tiers namely prime officer, deputy officer, third deputy officer, and fourth deputy officer, with a civil servant’s rank determined by a combination of years of service and recognition of good performance. Civil servants are eligible for the first tier rank allowance — fourth deputy officer — only if they have been in the service for more than a certain number of years (depending on their grade), with graduation into higher tier ranks based on performance assessments. Ranking allowance can vary from 10 percent to 35 percent of basic pay.

The total amount of these allowances cannot exceed 40 percent of total monetary compensation.

Table 3: Determinants of Compensation in the Mongolian Civil Service

Post classification		Determinants of pay per grade						
Service	Grades	Base Pay	Monetary allowances				Extra payments	Rewards
Administrative	TZ1-TZ14	5 levels	Years of Service	Academic Degree	Rank	Food and transport	Cash awards	
Support (6)*	TY1-TY12	5 levels; only reference minimum base pay defined	Each service and positions within the service have their own unique allowance structure			Each sector has its own unique payments structure	Quarterly performance bonuses for teachers and doctors	
	TY1-TY9							
	TY1-TY11							
	TY1-TY7							
	TY1-TY8							
	TY1-TY9							
Political	AA1-AA11	5 levels	Special conditions of service	Academic Degree				
Special	TT1-TT18	4 levels	Years of Service	Special conditions of service	Academic Degree	Rank	Food and transport	Cash awards

* These 6 categories are i) general government support organizations; ii) in health; iii) in culture and arts; iv) support services in the science sector; v) in primary and secondary schools; vi) in professional education

Source: Government of Mongolia

¹⁰ Time off for training, maternity leave etc. is included in calculating the length of service allowance

¹¹ These degree allowances are higher and more detailed for civil servants who work in universities and academic research institutions

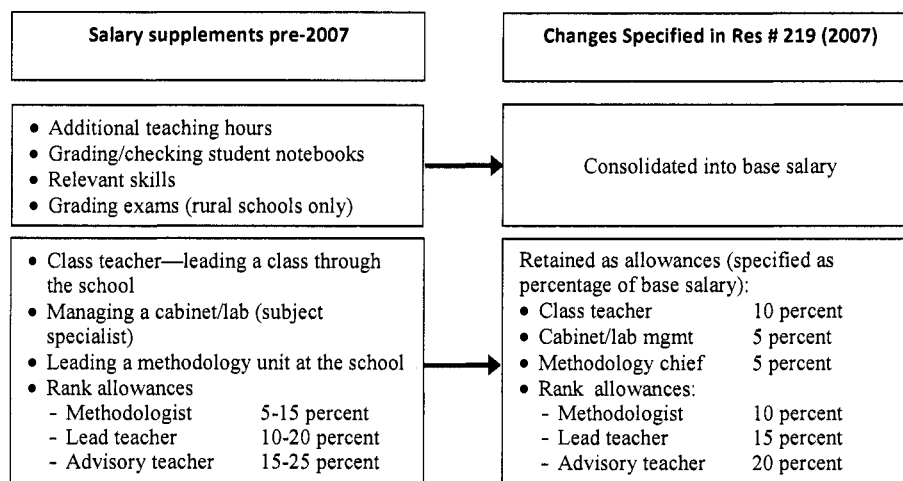
10. *Extra payments:* These consist primarily of overtime for working beyond the daily 8 working hours stipulated in the labor law, for performing additional duties, and food and transport subsidies. In practice only medical workers have access to overtime payments, although these can form a significant proportion of overall compensation for these workers. The size of food and transport subsidies are determined by the relevant budget entity and are generally paid at a fixed daily rate of roughly 200 to 300Tg per day for every working day, and is not paid during absence from work for any reason, such as leave. Again, given the discretion that budget entities have in setting these extra payments, there are significant variations in the rates at which these are paid, even within a particular sector.

11. *Rewards:* In addition, civil servants are also eligible for performance bonuses, awarded quarterly and up to 40 percent of the monthly salary. There are also other lump sum monetary awards specified for outstanding performance. Performance bonuses are rarely given to administrative civil servants, but are a regular component of the compensation of teachers and medical professionals.

12. For teachers, the compensation structure was simplified in 2007 (Government Resolution #219) with a number of the salary supplements — overtime hours, grading and checking textbooks and exams — that were integral to the responsibilities of a teacher merged into base pay (Figure 8). As a result the allowance structure for teachers now resembles the administrative service. The rank of a teacher is determined through a specified set of procedures:

- Promotion from regular teacher status to methodologist (leader of a subject at a school) is based on review by the school administration and the aimag Education and Culture Department (ECD) must be informed of the process.
- Promotion from methodologist to lead teacher (mentor of the methodologist) must be reviewed by the provincial ECD, based on evaluation of the teacher's portfolio and a school visit including in-class observation.
- Promotion from lead teacher to advisor (the highest honor, signifying the teacher is an expert in the field) requires submission of the teacher's portfolio to MECS in Ulaanbaatar, and reviewers from the central ministry must evaluate the candidate on-site (i.e., they must come from Ulaanbaatar to the candidate's school).

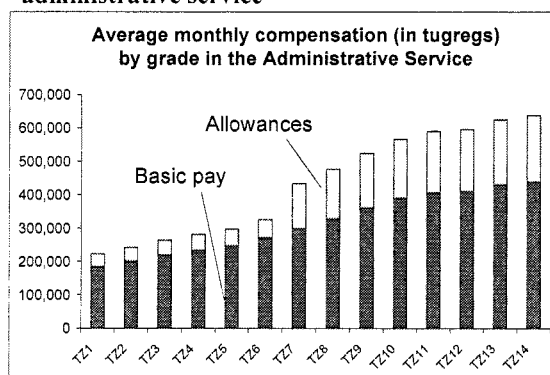
Figure 8: Simplification of teacher pay



13. The rank allowances are fixed at the rates shown above, while the percentage rates associated with the other allowances are maximums, and the school director (in consultation with a school training manager) determines the exact percentage supplement given to teachers. It is important to note that an individual teacher's allowances (and hence total compensation) can change from month-to-month, depending on the training manager's evaluation. The school administration thus retains some discretion over compensation through allowances, although less than before the pay simplification.

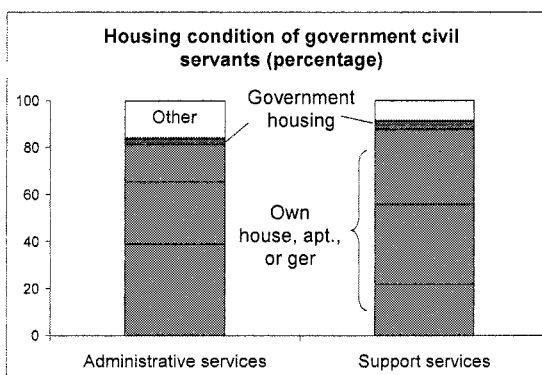
14. Our estimates, based on the salary scales and the proportion of allowances in actual payroll data, are that average total monthly compensation in the administrative service ranges from 220,000tg to 640,000tg, with allowances and extra payments comprising between twenty to thirty percent of overall compensation (Figure 9). Anecdotal evidence suggests that for support services the proportion of allowances and extra payments in overall compensation is even higher. For example, prior to the simplification of teacher pay, allowances and extra payments made up 50 percent of total compensation, and are now down to 20 to 30 percent. For medical personnel, where the compensation regime remains unreformed, allowances are likely to form the bulk of compensation. Given the complexity of the allowances, these averages hide significant variations in compensation for staff in each grade, an issue that will be examined more closely below. This compensation range implies an overall compression ratio of roughly 1:3 for the administrative service, which is quite high by international standards, and suggests that it may impact the attractiveness of the service as a career.¹² There are very few in-kind benefits — for example, as Figure 10 shows, only a very small proportion of administrative or support civil servants receive government housing — unlike the case in many other developing countries.

Figure 9: Allowances are roughly twenty to thirty percent of overall compensation in the administrative service



Source: Government of Mongolia and Bank staff estimates

Figure 10: Most civil servants do not receive in kind benefits like government provided housing



15. This system has created a number of major problems. First, the grading structure is not based on any systematic evaluation of the responsibilities of a job with the result that it is unnecessarily complex and similar jobs with similar responsibilities have different post classifications across the civil service. As there is no job evaluation, the grades have been fixed independently of each other with little regard to the relative positioning of for example, administrative service and support service positions. Second, the grading system has resulted in significant horizontal inequities with the similar jobs being graded differently based on the status

¹² To be precise, pay compression is generally calculated as the ratio of median of the highest pay category to the median of the lowest pay category. Here for ease of calculation, the mean rather than the median is used.

of the organization. Third, these grading inequities are exacerbated by the relatively high proportion of allowances in overall compensation, which are based on the personal characteristics of a civil servant, as opposed to the features of the job, and as a result equal work results in very unequal pay. Fourth, the pay scales are very compressed, particularly for some key service delivery staff like nurses and teachers whose careers are essentially confined to one or two grades. Fifth, the present arrangements making benchmarking pay with the broader labor market very difficult, despite the legal provisions in the civil service law. Finally, a compensation structure driven by personal characteristics also makes it very difficult to undertake fiscal projections of wage increases thereby weakening fiscal controls.

3. Main issues

3.1. Lack of Proper Job Evaluations

16. The civil service grading structure in Mongolia is not based on any systematic job evaluation that positions or classifies jobs correctly relative to each other. While job descriptions exist for different positions, these do not specify the objectives of the job, do not adequately describe the duties pertaining to the job, or the skills and abilities required to meet these. It should be noted that *nominally* there is a system of job classifications specified in the Human Resources Management and Development Handbook produced by the Civil Service Council. The

Table 4: Current job classification in the Administrative Service

Level	Job Title	Core responsibilities
Leading Officer	State secretary and equal posts	<ul style="list-style-type: none"> • Top management of a ministry or with accountability for performance, results and use of resources. • Direct provision of final advice to ministers on complex and sensitive issues within a wide range of activities.
Principal Officer	Head of ministry department and deputy head	<ul style="list-style-type: none"> • Clear accountability for a policy area with responsibility for performance and results • The major source of advice on all issues related to that area and key contributor to wider decisions within the ministry or agency • Management as head or deputy head of department or equivalent organizational unit
Senior Officer	Head of ministry division; section; senior expert	<ul style="list-style-type: none"> • Consideration of new policy options and preparation of final proposal for top management approval • Resolution of complex problems of policy application in specialist areas • Management of major projects or of sections/specialist divisions of a ministry, agency or local government
Executive Officer	Inspector, expert, equal posts	<ul style="list-style-type: none"> • Advice on policy formulation and evaluation of policy options based on professional expertise and specialist knowledge • Resolution of problems with existing policy application <p>Co-ordination of support staff activities</p>
Assistant Officer	Assistant inspector, assistant expert, equal posts	<ul style="list-style-type: none"> • Information research and analyses in support of policy development • Application of rules and regulations <p>Management of general service staff</p>

Source: Handbook

17. Handbook has five categorizes for jobs in the administrative service, outlined in Table 4, which cover the fourteen grades. In reality however, these levels and definitions are not related to

actual jobs except by reference to job titles, and there is no supporting system of job evaluation to enable someone to correctly assess a particular post against these criteria. The Handbook has also not been widely distributed in the civil service and appears to be a largely academic exercise with little operational relevance. The pay and grade scales in reality therefore, appear not to have been designed by reference to jobs, but are an artificial construct. As such they are unnecessarily complex and — most importantly — do not meet the needs of administrative organizations. The scales also fail to meet the main test of any grade system as they do not provide for the *relative* ranking of jobs within an organization.

18. As discussed, the Mongolian civil service consists of nine different services — the political, administrative, special services, and six support services — with each having between seven and fourteen grades. Given the experience of civil services in the OECD countries, it is difficult to argue that these numerous grades are actually distinguishing between different jobs. In fact, the norm in these countries is to have a very limited number of grades, for example two or three administrative grades, and then separate grades for other careers which are highly labor-intensive, and where there is high ratio of operatives to managers, such as for teachers, clinicians, police, and other uniformed services, which may well require a different grade structure because careers in these occupations are different.

3.2. Horizontal Inequities in Grading

19. The purpose of any grade structure is to provide for the relative ranking of jobs within an organization. Such a structure then permits rewards to be allocated according to desired criteria, normally with the aim of ensuring equal pay for equal work, with higher rewards reserved for those with more demanding jobs, or those with greater seniority. There are, internationally, two main types of job grading systems: 'job-based' systems, in which a grade is determined by reference to job content; and 'career' systems, in which grade is determined by reference to an individual's educational qualifications at the date of entry, and by length of service. Some services incorporate aspects of both types of approach. Most public organizations now recognize the superiority of the job-based system over career systems, and those countries most closely associated with the career system (e.g. France, Netherlands) now give far greater weight to the nature of jobs that employees perform. This is certainly the norm in commonwealth countries, and has also been adopted in transition countries such as Poland.

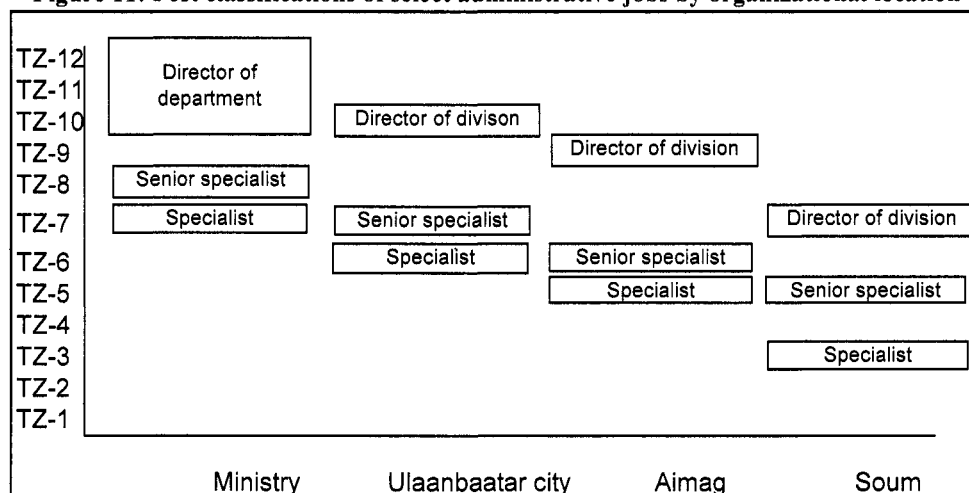
20. Mongolia's grading system does not correspond to either of these two. It is quite unique and can be classified as one in which the allocation of grades to jobs appears to be based primarily on the status of the organization employing the post-holder, with status a function of organizational distance from the center of administrative power. Ministries have the highest status, followed by the offices of the Ulaanbaatar city administration, aimags, and with soums occupying the lowest tier. Similar jobs are graded differentially depending on the organization to which the job belongs. Examples of this horizontal inequity are illustrated in Figure 11. Directors of departments within line ministries can be graded from TZ-10 to TZ-12 in the administrative service, while directors of divisions within UB municipality, aimag offices, and soums are graded TZ-10, TZ-9, and TZ-7 respectively. A similar hierarchy exists for junior officers such as senior specialists and specialists.

21. In the support services, this grading inequity is most visible for medical staff. The grading structure mimics the institutional differentiation between a) professional hospitals based in Ulaanbaatar and b) aimag hospitals and soum clinics. Therefore, principal doctors,

pharmacists, hygienists, and public health officers of professional hospitals are ranked one grade higher than these equivalent positions in aimag hospitals and soum clinics.

22. It may be perfectly conceivable that these jobs, while having the same titles, entail markedly different responsibilities and duties across these organizations and therefore should be ranked differentially. However, given the above point that the grading structure is not based on a systematic job evaluation, there is presently no evidence-based method for making this judgment and the differentiating criteria appears to be only the status of the employing organization.

Figure 11: Post classifications of select administrative jobs by organizational location



Source: Government of Mongolia (1995)

23. Mongolia is highly unusual in having such a grade structure. Anecdotal evidence suggests that this grading inequity creates considerable resentment in the civil service and many staff in aimags and soums feel discriminated against. It results in perverse incentives, in particular the way it encourages employees to seek jobs in high status institutions closer to the centre of administrative power, even if that implies performing a less responsible job, and discourages mobility. In other words, the present system does not promote the best use of scarce resources, in this case, skilled employees.

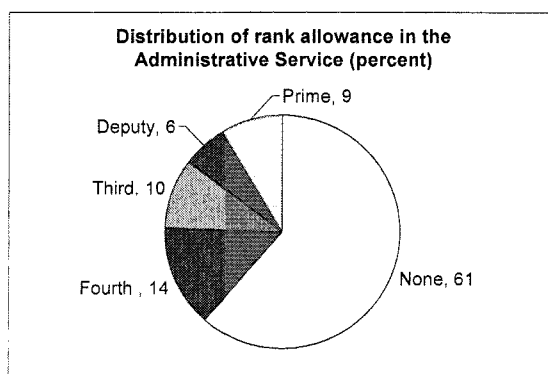
3.3. Complexity of Pay

24. The complex structure of allowances and extra payments exacerbates the inequities in grading and results in other perverse outcomes. The length of service allowance is based on the personal characteristics of the civil servant and is unrelated to the actual job being performed. As the rank allowance also has a length of service component, there is a double impact of this distortion. The rank allowance in particular exacerbates the inequities of the grading system. As Figure 12 shows, the majority of administrative civil servants (61 percent) do not receive the rank allowance as they haven't been in the civil service long enough to meet the length of service eligibility criteria. The performance-related component of the rank allowance, which determines which of the four ranks will be given, favors staff who are employed in ministries or in Ulaanbaatar city administration. Promotion to these higher ranks is determined by the concerned senior officials in the ministries, or in the case of senior officers by ministers, the prime minister, or the president which places a premium on visibility in the relevant corridors of power, and

therefore disadvantages staff in the aimags and soums.¹³ Similarly, it is more difficult for teachers in rural schools far from aimag centers and the capital to be promoted to lead teacher and advisor, due to the requirements for some level of centralized review. This issue is borne out in the data — rural school teachers are less likely to be ranked as lead teachers or advisors and, in turn, their overall compensation levels are correspondingly lower.¹⁴

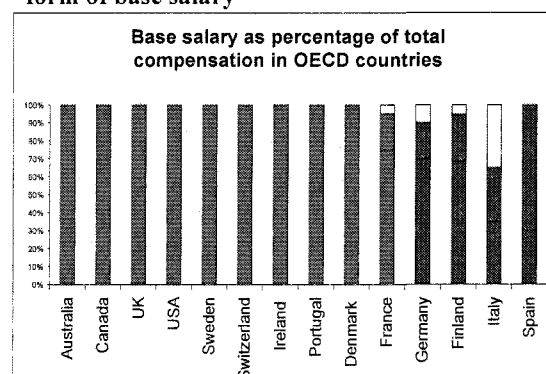
25. The flat-rate food and transport subsidy is not uncommon in former socialist countries and was meant to compensate workers for the cost of traveling to their place of employment and providing a meal during working hours. Therefore, it is paid only when employees actually go to work, and is not paid on annual leaves or absences for other reasons. This subsidy is de facto discriminatory against lower paid employees, for whom it can be as high as 25 percent of basic pay as compared to 10 percent for higher level staff, as it penalizes them for taking their rightful vacations.

Figure 12: Most civil servants do not receive a rank allowance



Source: Civil Service Council (2008)

Figure 13: The majority of OECD countries provide monetary compensation only in the form of base salary



Note: For some OECD countries base salary is in a range. For example, for France it varies from 75% to 95% of total compensation

3.4. Variance in Pay across Similar Positions

26. As stated earlier, in Mongolia, managers of service delivery units have considerable discretion in setting pay for their staff. Schools and hospitals are independent budget entities funded by the ministries based on an output-based financing formula, and the personnel management of teachers and hospital staff is devolved to the school and hospital directors. This discretion naturally results in a variance in pay for teachers and doctors across schools and hospitals, which has resulted in perceptions of unfairness that, anecdotal evidence suggests, is demotivating staff.

27. To encapsulate, the variance in pay for teachers and doctors is due to several, inter-related factors. First, is the inequity in grading due to the different classifications of hospitals discussed above. Second, is the variance that arises from the discretion that each hospital and

¹³ As per the Civil Service Law (Article 20), ranks to leading officers are granted by the President of Mongolia, ranks to leading officers by the Prime-Minister, ranks to senior officers, deputy-officers and assistant officers by ministers and competent officials of the aimag or capital city governors respectively.

¹⁴ PETS data, as reported in World Bank 2006: pp. 51-52.

school has in setting basic pay as the pay scales only stipulate a minimum reference point, which implies that there is considerable disparity in pay even among hospitals within Ulaanbaatar. Third, is the variance resulting from the discretion that each hospital and school director has in setting the levels of allowances. The provision of performance bonuses, discussed below, is particularly susceptible to non-transparent decision-making. As noted, an individual teacher's allowances (and hence total compensation) can change from month-to-month, depending on management's evaluation. And finally, is the inequity resulting from the inherent nature of the length of service and rank allowances.

28. Now it can be argued that there is nothing wrong with allowing variance in pay as after all this principle of allowing flexibility in pay arrangements and decentralizing decisions to line managers has been adopted in a number of OECD countries. Crucially however, in these countries managers are given the freedom to pay staff wages that are more responsive to the local conditions *in return for* being held accountable for the agency's performance. Compensation is also simple in most OECD countries, consisting almost entirely of basic pay (Figure 13), thus making pay comparisons more transparent. In Mongolia, the problem is that flexible pay arrangements are operating in an environment where the pay and grading structure is complex, and where there is no rigorous process for holding managers accountable for organizational performance. The result is therefore an entirely justifiable perception among civil servants that pay variance is undeserved and unfair.

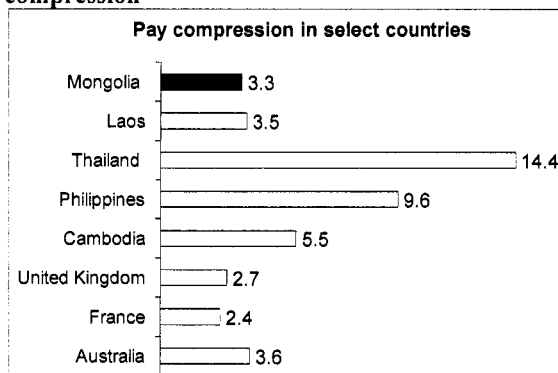
29. This report is not proposing that Mongolia abandon this flexible pay arrangement for support staff. Instead, these need to be properly sequenced so that they are workable and do not create these perceptions of unfairness. It is the combination of a) a complex grading and pay structure, b) variation in the components of pay across the services and the sectors, c) managerial discretion over pay levels and d) and non-functioning performance management system that has created these problems. The main recommendation therefore is to first and foremost simplify pay to remove these distortions. Key stakeholders in the government, in particular the Civil Service Council, recognize these problems and wish to move toward a pay regime in which the bulk of the compensation is composed of basic pay. Mongolia has the advantage that in the present structure of compensation, pension is based on total monetary compensation (base pay plus allowances), and allowances are also taxable therefore this proposed reform will not have any pension or tax implications.

30. Once pay is simplified, the next step in making flexible pay arrangements work would be to operationalize the performance management framework enshrined in the PSMFL. The important distinction to draw here is between performance pay, which this report does not support for reasons given below, and accountability of line manager for the organizational unit's overall performance, which is important. For example, based on regular system of rigorous school assessments, it is possible, and indeed desirable, to allow managers to pay all teachers of a school a higher salary conditional on higher student learning outcomes.

31. Institutionalizing such organizational performance evaluations however, is complex and will likely take many years. However, once pay is simplified, Mongolia will be in a position to introduce some elements of flexible pay quite soon, such as enabling budget managers to provide some locality specific pay to encourage mobility and attract qualified staff to the more remote aimags.

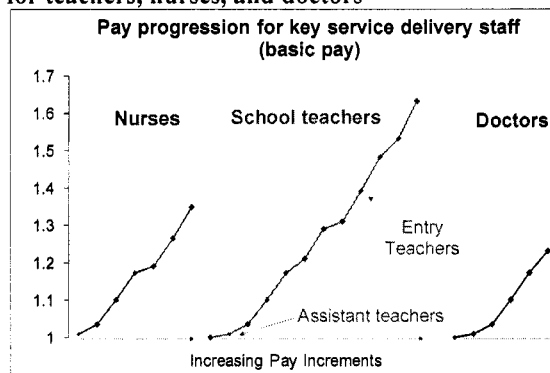
32. It should be recognized that while pay simplification is technically quite straightforward, it can be politically difficult and in all likelihood it may not be politically feasible to merge all allowances and extra payments into basic pay. Therefore, while the overall goal should be to

Figure 14: International benchmarks on pay compression



Note: The figure presents the ratio of base pay of the highest salary grade to the lowest salary grade
Source: World Bank database

Figure 15: Basic pay scales are very compressed for teachers, nurses, and doctors



Note: The figure presents the ratio of basic pay of higher pay increments to the minimum basic pay for the particular cadre
Source: Government of Mongolia

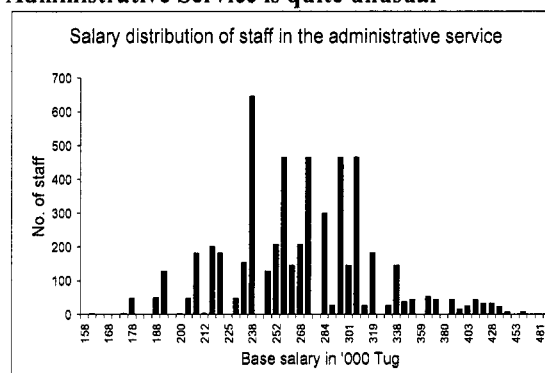
have all compensation consist entirely of basic pay, this goal can be achieved in phases to make it more palatable and to build support. Some of the salary supplements that are least justifiable, such as the transport subsidy and the plethora of extra payments accruing to support staff, can be merged first, followed by length-of-service allowance, and finally the rank allowance, which many stakeholders have pointed out, is particularly difficult to remove.

3.5. Compressed and Overlapping Pay Scales

Overall pay compression in the Mongolian civil service is quite high in comparative terms. Figure 14 provides a crude comparison of compression — measured as the ratio of the highest base pay scale to the lowest base pay scale — with Mongolia's compression ratio of 3.3 being roughly in the range of OECD countries, but being significantly below that of other East Asian countries. While indicative, this rough statistic does not accurately convey the realistic progression of compensation for a representative career for specific cadres of civil servants.

Within the administrative service, as discussed earlier, overall compensation increases three-fold from the lowest grade to the highest grade, which at least points to a reasonable career. For key service delivery staff, such as teachers and medical professionals, however, compression is much higher (Figure 15). Nurses enter the health support service at TUEM-2, have five pay levels within that grade, and then can get promoted to senior nurse at the next higher grade (TUEM-3). Assuming a successful career with promotion, their basic pay can go through seven increments with an overall 35 percent increase.¹⁵ For doctors, the possibilities are even more limited, with 5

Figure 16: The pay distribution of staff in the Administrative Service is quite unusual



Source: Civil Service Census

¹⁵ Since the bottom pay levels in the higher grade overlap with the higher pay levels in the lower grade the actual pay increments in a career are less than the total pay levels in the basic pay scale

pay increments and a 23 percent increase in basic pay. For teachers, the career possibilities depend whether an individual enters the support service as an assistant teacher or a full teacher. If the latter, then the basic pay scales only permit a 17% rise in pay over a teacher's career.

Clearly these pay scales for service delivery staff, who have very specialized skills that are not easily transferable to positions in the administrative service, are too compressed to offer viable career development opportunities. Anecdotal evidence suggests that frustration in these cadres is high and has contributed to high attrition levels. Indeed the position of senior nurse was introduced only recently to try to improve career prospects for nurses, but still remains insufficient to address this problem.

33. The pay increments in the pay scales also overlap to a considerable degree resulting in a rather random pay distribution that appears to serve no organizational purpose. To illustrate this point, the administrative service pay scale was a) decomposed into a "pay spine" comprising pay points at 2 percent intervals; and b) administrative service employees, using the payroll data from the civil service census, were allocated to the next nearest pay point. While no employee's pay exactly matched a pay point, by construction, all pay was matched to within 1 percent of actual pay. The resulting pay distribution is detailed in Figure 16. In most organizations, once pay is above a certain level, there are progressively fewer employees at each higher pay increment. In the Mongolian administrative service however, the frequency distribution fluctuates considerably at the middle salary levels.

3.6. Pay Setting is not based on any Market Comparisons

34. As discussed in the previous chapter, the nominal wage bill for civil servants has increased six-fold since 2000, with an average civil servant monthly wage of increasing from 53,000tg in 2000 to 318,000tg in 2008. As there has never been a survey benchmarking public sector pay with meaningful comparators in the broader labor market, it is not possible to determine whether public sector wages are competitive with the private sector. The crude data that are compiled annually by the National Statistical Office suggest that these wages are, on average, competitive. The 2007 average civil servant wage of 200,000tg was higher than the average wage in all sectors except mining and quarrying (220,000tg.), and financial intermediation (360,000tg.). Anecdotal evidence also suggests however, that for many technical jobs the government wages are insufficient to effectively recruit employees. It is likely that the policy of across-the-board salary increases has resulted in some jobs that are paid relatively well compared to the private sector and others that continue to underpay. While politically easier to implement than a differentiated wage increase, this policy has been an extremely expensive and inefficient way of tackling the issue of wage competitiveness, and is now clearly unsustainable given the economic crisis.

35. The government is increasingly recognizing the need for a more nuanced pay policy. As outlined in Box 1 in the previous chapter, the amended Civil Service Law authorizes the Civil Service Council to conduct annual benchmarking surveys, and a recently formed Wage Research Unit within the Council has given it some new capacity to undertake this work. At this point however, a benchmark survey would be difficult to conduct for the following reasons: civil service jobs are not defined in a way that enables benchmarks to be readily identified; pay is only partly related to the job done, and much more closely related to the status of the institution to which the job belongs, and the seniority of the person currently doing the job, which makes pay comparisons especially problematic; and there is very little data available about either jobs or people within the civil service. There is, therefore, a prior requirement to collect data about a

sample survey of civil service jobs. Such a survey can serve several purposes in reforming pay and grades, and is discussed in greater detail below.

36. It is important to note that the due process protections afforded civil servants implies that remuneration of civil servants need not be as high as private comparators in order to attract the necessary qualified staff. Therefore, the provision in the amended CSL of recommending pay increases when civil servant pay falls 5 percent below that of the private sector is too stringent and risks regular, unwarranted pay increases that can compromise fiscal sustainability.

3.7. Unrealistic Provisions on Performance Pay

37. The PSMFL authorizes general managers to pay performance-related bonuses to employees of the budget entities based on both the personal contribution made by the particular employee towards delivering outputs and the overall financial performance of the budgetary body. In reality however, performance pay is not being implemented by any of the line ministries due both to a lack of effective indicators to measure individual performance and concerns about possible negative effects on staff motivation and tensions between staff.

38. Service delivery units such as schools do provide performance bonuses, but these are almost entirely as a means of utilizing the saved personnel funds on account of vacant staff positions. Schools get the signal that they have to spend their budget at the end of the year since funds cannot be rolled over, and they worry that the Ministry of Finance would cut budgets next year based on any under-spending. The procedures for awarding the bonuses, unsurprisingly, vary from school to school. Some school directors distribute the extra cash equally across the teaching staff; others take more of a differentiated approach, possibly on the basis of performance. One school director in Arkhangai aimag described a fairly systematic process for distributing performance bonuses. A school board — comprising the principal, school accountant, social worker, three training managers, two teachers, and one student — examines the performance evaluations at the end of each year, and makes recommendations for performance bonuses of between 5-40 percent for each teacher. These recommendations are discussed openly at a teacher's meeting. Not all teachers get the same amount, but many get similar amounts, and the principal report that there is little tension surrounding the performance bonuses at this school. Observers have noted that smaller (and hence more likely rural) schools tend to distribute these bonuses more evenly, to prevent frustration in a close-knit context.

39. In effect then, performance bonuses to teachers are distributed less on the basis of any real performance criteria, and more on the basis of the efficiency of school financial management and any resulting surplus funds. One common source of surplus funds — and hence 'performance' bonuses — is fewer teachers on staff than the number funded through the per-student ratio for the school.

40. Performance-related pay is a highly contested issue among developed country bureaucracies, which raises the question of its appropriateness for Mongolia with its more fundamental challenges around pay and grading. It should be noted that many developed country bureaucracies functioned reasonably well for years without any performance pay provisions. The concerns raised against performance pay in OECD countries echo the concerns of managers in Mongolia and include measurement problems, the potential for possibly more demotivated losers than motivated winners, a bias towards quantitative and financial measures, and the imposition of

undue management costs.¹⁶ In less developed countries there is also a real risk that performance pay could be abused and become an avenue for patronage, and further politicize bureaucracies.

41. Our strong recommendation is that the Government set aside these stipulations on performance bonuses for the present and focuses instead on the priority areas highlighted above. The link between pay and performance should instead be achieved by a) establishing a competitive remuneration structure that attracts and retains high quality staff and b) improving the annual performance appraisal system so that promotions, and therefore pay increases, become more transparent and according to more established criteria.

4. Systems for Establishment Control and Payroll Administration

42. Mongolia does not have a central personnel office and establishment control — the approved list of positions (or posts) in a line ministry or government agency — is determined by the Ministry of Finance based on the proposals of the concerned budget entity as part of the annual budget preparation process. Given that there is a degree of output-based budgeting in place for education and health, for schools and hospitals the establishment is determined on the basis of the financing formula that takes into account, in the case of schools, enrollment, student-teacher ratios and some other variables. Budget entities are entitled to fill the established positions that are vacant, but are not entitled to add positions without the authorization of the Ministry of Finance. During budget execution, personnel emoluments are protected and no reallocation of funds is allowed to and from payroll expenditures.

43. This so-called traditional model of establishment control is in contradiction with the performance management provisions of the PSFML. The logic of performance contracts is that line managers should have sufficient autonomy over inputs to justifiably be held accountable for the outputs. This traditional model shares the incrementalist nature of traditional budgeting arrangements, and constrains unit managers from employing the skills they deem necessary to effectively carry out their responsibilities as specified in their performance contracts. As will be discussed on more detail in the following chapter, the performance management provisions of the PSFML appear unsuitable for a country at Mongolia's stage of development, and this report is certainly not suggesting any significant move away from the traditional model of establishment control. The performance oriented model requires a number of preconditions to work, including quite sophisticated data collection and management. The only point here is that these provisions of the PSFML are de facto not being applied, and cannot be effectively applied at this stage, and should therefore be removed.

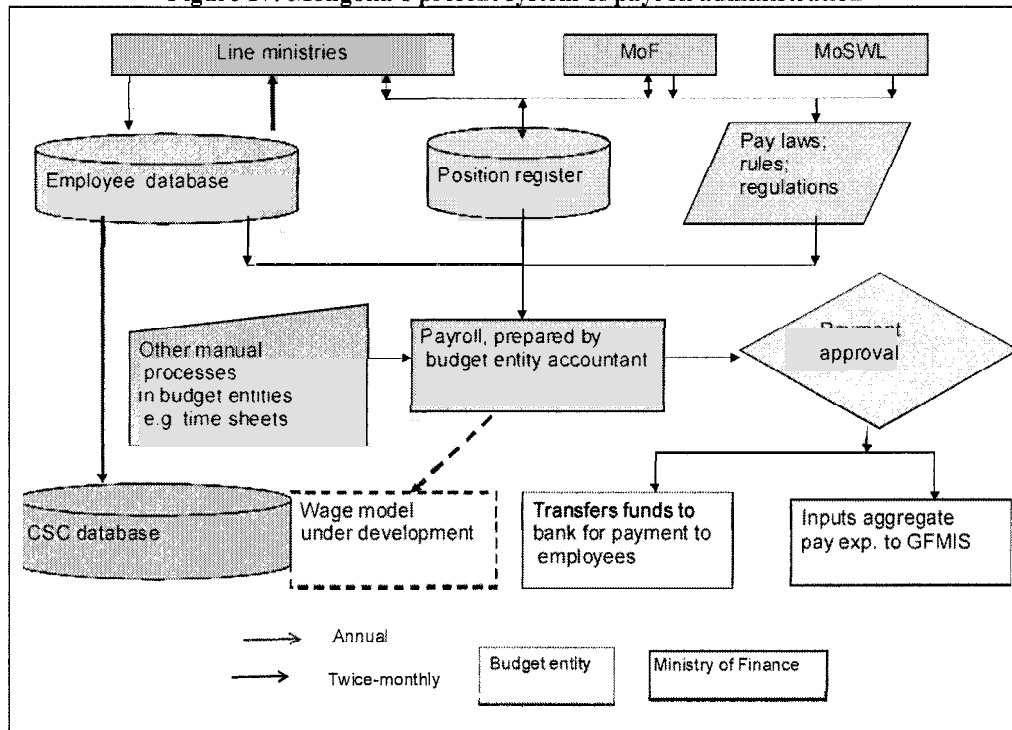
44. More importantly, this system of establishment control is presently being weakened by the absence of a centralized payroll and a compensation structure with a large component of allowances based on the personal characteristics of staff. The current structure for payroll administration is depicted in Figure 17. In Mongolia, again in common with many former socialist countries, payroll administration is conducted by each budget entity — and there are over 5000 budget entities — often using simple excel spreadsheets and clerical procedures. The accountants in each budget entity maintain the register of annually approved positions (with the budget cycle), and an employee database that is updated regularly to reflect personnel changes. Pay for each employee is calculated applying the host of relevant pay regulations. Twice-monthly the total payroll for the budget entity has to reconcile with the allowable ceilings in the Government Financial Management Information System (GFMIS), the treasury's expenditure control system, in order for salary payments to be made. On an annual basis the budget entities

¹⁶ Nunberg (2007)

provide data on their employees to the concerned ministries and to the Civil Service Council, and the latter uses this for its annual reporting obligations to the parliament.

45. The Civil Service Council maintains a personnel database that relies on this updating by ministries and/or budget entities. While this is meant to be an annual exercise in reality it is quite ad hoc, with no established procedures for regular, comprehensive updating. There are no strict data management controls to prevent unauthorized data changes, or to provide an audit trail of

Figure 17: Mongolia's present system of payroll administration



who has changed what and when.

46. This fact that there are many hundreds of payrolls, combined with a pay system which is dependent on personal data (length of service and qualifications) to calculate an employee's pay, significantly limits the controls of the Ministry of Finance. The GFMIS is the only control that the Ministry can exercise, but this control is limited to aggregate expenditures by the main economic expenditure categories — wages, purchase of goods and services, subsidies and transfers, and development expenditures — for the budget entity. So for example, while the total salary bill for the budget entity has to be less than the approved ceiling in the GFMIS, this could in theory be achieved through a very different combination of staff than that in the approved establishment for the budget entity. This limitation clearly has cash flow implications as the Ministry of Finance is unable to gauge savings from unfilled posts during the course of the year — which is particularly common for schools and hospitals — and weakens establishment control within a budget year as it is entirely possible for budget entities to use the savings from unfilled posts to finance new posts without seeking the Ministry of Finance's approval. Indeed a number of ministries have been able to exceed the approved establishments by hiring contract staff.

47. The complex pay structure also renders impossible accurate simulations of wage increases, thereby weakening budgetary planning, a deficiency that has been dramatically highlighted in the current economic crisis and the urgent requirement for fiscal adjustment.

48. In OECD countries, payroll administration is centralized, usually within the Ministry of Finance. Budget entities provide regular input on personnel changes (new entrants, transfers, retirees, terminations, and promotions), but the Ministry of Finance runs the payroll based on centrally maintained relational databases on posts and personnel, and the relevant pay rules, reconciles the data with the other treasury systems, and generates and transfers the payment.

49. Mongolia is some ways away from such a centralized payroll administration, as it would entail a radical departure from the decentralized business processes currently in place. However, the Government has recognized the need for an interim solution to develop a centralized employee database in order to improve its controls and fiscal planning, and some suggestions on this are given below.

5. Recommendations

50. The above analysis points to the need for a reform of the post classification and compensation structure in order to provide the appropriate incentives for recruiting, retaining, and motivating skilled staff, in particular through the principle of equal pay for equal work. It also underlines the need for more effectively managing the government's payroll and imposing expenditure controls. The reform would entail moving, in a sequenced manner, to a job-based system in which employees are paid according to the responsibilities of the job they perform and receive equal work for equal pay regardless of the institution in which they are employed. The recommendations following from this analysis are therefore threefold: first, a policy decision on simplifying pay by merging allowances into basic pay; second, a phased sequence of analytical activities to reform and simplify the grading structure, and benchmarking pay; and third, the introduction of centralized payroll management. Finally, and importantly, in order to be successful these activities require broad ownership by the government and effective coordination between the concerned stakeholders, in particular the Civil Service Council, the Ministry of Social Welfare and Labor, and the Ministry of Finance. The recommendations are summarized and sequence in a three-year policy matrix presented in Annex 1.

5.1. Policy Decision on Simplifying Pay

51. The Civil Service Law now explicitly requires benchmarking of public sector pay with the private sector. However, even more importantly, the government needs to recognize that the current grade and compensation structure is creating serious inequalities within the civil service and therefore needs to be changed. The first step therefore, is a policy decision to simplify pay by merging, as far as possible, all the allowances into basic pay. This can be achieved relatively quickly and prior to the reform of the grading structure. Employees would remain in the same grades and receive the same overall compensation, but would only receive it in the form of base pay. As discussed, this reform will not have any pension or tax implications, and therefore avoids some of the complexities that have plagued other countries.

52. The government has recognized the importance of this reform and a working group on pay has been created with representation from the Ministry of Finance, Ministry of Social Welfare and labor, and the Civil Service Council to propose options. There is also a policy commitment that allowances need to be merged into basic pay. The Government has already

taken important steps in this direction by simplifying the pay of teachers in 2007 through merging a number of idiosyncratic allowances — for checking student notebooks, invigilating exams, maintaining school cabinets etc. — into basic pay (Figure 8). This reform reduced teacher salary supplements from 50 percent to about 20-30 percent of total compensation. This streamlining was undertaken for a number of reasons, foremost among them: (1) the desire to simplify teacher compensation; (2) the recognition that many of the tasks for which teachers were receiving salary supplements (e.g., grading notebooks) were integral to the responsibilities of a teacher and should be included in base salaries; and (3) the attempt to remove some degree of the nontransparent discretion that school director had in determining a significant proportion of teacher compensation through those supplements.

53. The government now needs to have a comprehensive approach to simplifying the pay of all administrative and support civil servants. It can be done immediately for the administrative service, and then extended for all the support services. The actual policy measure, timeframe, and responsible agency for this reform can be summarized as follows:

Actions required:

- In 2009: Government resolution on simplifying pay for the administrative service by merging all allowances into basic pay; responsible agency: Prime Minister's Office based on the recommendations of the Civil Service Council, Ministry of Finance, and Ministry of Social Welfare and Labor
- In 2010: Government resolution on simplifying pay for the support service by merging all allowances into basic pay; responsible agency: Prime Minister's Office

54. Pay simplification for the support services requires prior changes in the legal framework for who is responsible for setting pay for the support services. There is an emerging recognition that individual ministries cannot have the discretion to determine the structure and levels of pay, for which changes to the thirty three relevant laws and resolutions is required so that the Civil Service Law becomes the umbrella law for the pay for all civil servants.

Action required:

- In 2009: Amendments to relevant sector laws to make the Civil Service Law the umbrella law for compensation of all support civil servants; responsible agency: the State Great Hural, based on amendments prepared by the Civil Service Council and the Ministry of Social Welfare and Labor

55. As noted earlier, the merger of allowances, while technically simple, may be politically difficult. Therefore, and depending on the likely political impact, the Government may need to introduce this reform in stages, beginning with merging the extra payments and then move on to the more difficult allowances such as the rank allowance.

5.2. Sequenced Introduction of Grading Reform and Benchmarking Pay

56. Once pay is simplified, the Government should reform the grading structure so that grades are not determined by the status of the government institution but are based on a rigorous job evaluation. Pay and grading reform is complex and requires a sequence of analytical activities. What is described below are these analytical activities that the Government should undertake in order to develop a proposal for an appropriate grade structure and for a level of pay that is sufficient to attract and retain the necessary skills in the civil service. The newly formed Wage Research Unit in the Civil Service Council is well-positioned to begin this work which the

World Bank, through its on-going governance reform projects, is ready support with the necessary technical assistance.

57. The sequence of activities for developing an effective grading and pay system are as follows:

- Step one, job evaluations: Given the present lack of a job classification system, a survey needs to be undertaken of a representative sample of jobs in the Mongolian civil service in order to understand what employees are actually doing, to prepare appropriate job descriptions, and to allow for proper job evaluations in order to correctly position jobs relative to each other;
- Step two, developing a grading structure: using the job evaluations of the surveyed jobs, a grade structure should then be developed that takes into account an organization's needs; plans can then be prepared for the classification (rather than evaluation – which would be too costly) of all remaining jobs in the service, so as to position them in the new grade structure;
- Step three, developing a pay scale: Based on the new pay policy, in which total remuneration consists almost entirely of base salary, a single universal pay spine can be designed, and on which all grades will be positioned so as to achieve correct relative pay;
- Step four, assigning values to the pay scale: benchmark jobs can be identified from within the sample for pay comparisons with the private sector, donors, and non-government organizations. Monetary values may be assigned to the pay spine in the light of feedback from the pay comparison exercise so as to establish competitive pay levels.

Once this analytical work is completed the government will be in a position to introduce a new grade structure and basic pay scale for the administrative and support services.

Step One: Job Evaluation and Determining 'Job Families'

58. The aim of the job evaluation process is to provide a systematic and consistent approach to defining the relative worth of jobs in an organization. It is a process whereby jobs are placed in rank order according to the demands placed on the job holder that determines relative positions within the grading structure and which in turn forms the basis for determining the pay hierarchy. Similar jobs should be similarly graded — a director of a department within a ministry should have a broadly similar job as a director of a department in another agency or level of government and should have the same grade, unless substantial differences can be found. Benchmarking assures consistency across organizational units and arrangements can be made for assessing individual jobs which may have no direct comparison with jobs in other organizations.

59. There are several different types of job evaluation systems currently in use throughout the world, each with their advantages and disadvantages. A 'points-based' system is the most commonly used one by governments and organizations, in which points are awarded for certain criteria, such as 'management of resources', 'management of staff', and 'impact of decisions'. The highest number of points awarded generally equals the highest-graded post.

60. Such a system requires substantial management and staff time and resources to be invested if it is to be operated successfully. The process is additionally complicated if the

organization concerned has no institutional experience of operating this or a similar system. As this appears to be the case in Mongolia, a simpler approach would be one in which a points-based approach is used to evaluate a sample of jobs, and the results are then used to design the grade structure. All remaining jobs could then be classified into the new grade structure using simplified assessment techniques. In order to be representative, employees from all occupational classifications, institutional types, and levels of seniority will have to be included. The size of this sample will require further consideration, but is unlikely to be less than 200 jobs.

61. The first step would be to collect and/or create a complete set of job descriptions for all sample posts contained in the survey. These documents should then be verified as accurate by the managers and post-holders and they would then form the basis of all subsequent action. The second step would be to create 'job families'. The term 'job families' refers to groups of similar jobs which can be classified under broad headings, e.g.: 'management', 'administrative', 'supervisory', 'technical/specialist', 'secretarial/clerical', etc. Each job family has defining characteristics which, taken all together, clearly distinguish it from all other job families. Some of these characteristics may overlap, (e.g.: management of staff is a responsibility which both high-level managers and low-level supervisors can have). However, in general, job families are particular and distinct, and are likely to be a few in number (ten would be reasonable).

Step Two: Development of a Grading Structure

62. Once a job family has been defined, detailed criteria can be devised for assessing jobs within that family. A typical list of criteria for evaluating a job would be:

- *Management:* The number and type of staff directly and indirectly managed by the job holder; the nature, frequency and importance of decisions made affecting those staff; the degree of flexibility and judgment required in making those decisions
- *Complexity/Judgment:* The variety and complexity of issues to be tackled by the job holder and the diversity of activities; the range of processes involved and the types of resources required
- *Independence of action:* The level of initiative required by the job holder, also the amount of ingenuity, creative imagination and original thought - and the extent to which all these elements are dependent upon direction and control received from a manager/supervisor and/or standard practices and precedents
- *Consequence of error:* An assessment of the likelihood and the probable effect of errors made by the job holder; the extent of any loss or damage to the organization that may result, and whether the safety of other people may be involved
- *Contacts:* Refers to working relationships both within and outside the organization, and the ways in which those relationships are made and/or continued, eg: written communications, talking face-to-face, making presentations, etc
- *Physical demands:* The degree and severity of physical exertion and/or visual attention associated with the job, as well as the continuity and frequency of that effort. (Clearly, this may not be a relevant category to apply to civil service jobs which are all essentially office-based)

63. This process will lead directly to a determination of where all jobs fit in relation to each other. A relatively simple points-based system could be used in the first instance to determine, for example, the correct difference in grade between managerial positions such as 'Head of Division' and a 'Deputy Head of Division.'

64. Some occupations do not readily fit into a general system of administrative job families but require specific families of their own. Typically, such groups include teachers, clinicians, uniformed (disciplined) services, and certain top jobs without career paths such as judges and ministers. Teachers, for example, remain in their jobs for many years, and it is important to establish a pay structure for them which allows career progression to be recognized and rewarded, while remaining in essentially the same job. This is normally achieved by creating a 'Teachers Grade' containing job families such as 'Trainee Teacher', 'Teacher', and 'Head of Department'.

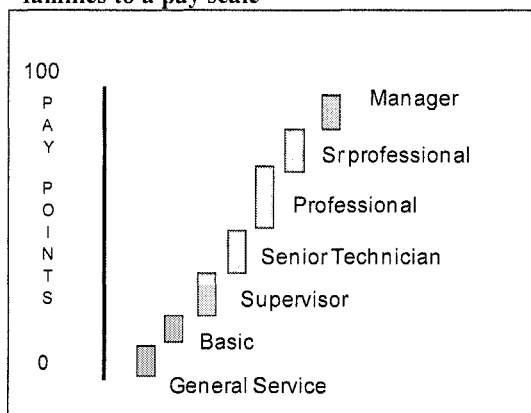
Step Three: Assigning Job Families to a Pay Scale

65. Once all job families have been identified, they can be positioned relative to one another on a universal pay scale for the public sector. This fixes the relative position between job families, but does not yet set actual money values of pay. These will usually be bands of several 'pay points' which can then provide for upward salary movement – but without changing jobs. This can provide the financial incentives not available in the current system. For example, presently there are only five increments within a grade which limits career progression, which can be ameliorated with the universal pay scale with a larger number of salary increments — ten to fifteen for example — within each job family, and with salary progression made subject to performance criteria. A typical allocation of job families to a single pay spine is illustrated in Figure 18. An example of how a job family pay scale can be constructed for a Teachers Grade, and providing longer 'career' grades, is shown in Figure 19.

Step Four: Assigning Values to the Pay Scale

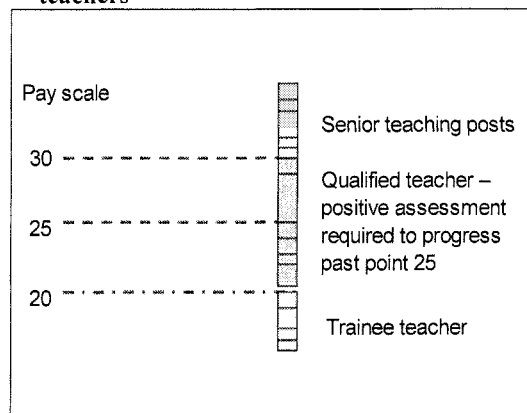
66. The final step involves assigning money values to the pay scale based on a benchmarking each job family with the broader labor market. The principle underlying a pay survey should be that benchmark jobs should be identified on the basis of the job families developed following the exercise described above. During the survey, each job examined should be classified according to the job family that it naturally belongs to, thus providing the basis for comparison.

Figure 18: Assigning administrative job families to a pay scale



Note: For illustrative purposes only

Figure 19: Illustration of a pay band for teachers



67. The pay survey can then be conducted in three stages. Stage one entails the survey design, based on a desk review of documents and preliminary discussions with key stakeholders to form the basis for defining the benchmark jobs and institutional comparators, as well as the design of the survey instruments (normally data capture forms). Stage two involves the conduct of the survey, with the necessary training of the field staff to administer the survey instruments with the comparator organizations, data collection, verification and data entry. Stage three involves analysis and presentation of survey results.

68. In collecting pay data three categories of compensation should be distinguished and taken into account: Base Salary (BasePay), Cost of Employee Rewards (COER) and Total Employee Cost (TEC). The Base Salary Cost (BasePay) is the basic consolidated salary cost paid by the employer to the employee. The Cost of Employee Reward (COER) consists of BasePay plus all cost elements related to the compensation package that the employer pays as a direct guaranteed or routine non-variable benefit to the employee. It consists of basic salary, allowances, use of vehicles and housing, etc. The Total Employee Cost (TEC) consists of COER plus all other indirect guaranteed or routine non-variable benefits paid by the employer on behalf of the employee. It consists of pension and social security contributions, insurance, provident fund, etc.

69. To summarize, the actions required, timeframe, and responsible agency for this reform are as follows:

Actions required:

- 2009: Launching of analytical work on pay and grading reform; responsible agency: Civil Service Council in consultation with the Ministry of Finance and the Ministry of Social Welfare and Labor
- 2010: Government resolution on new grade structure and basic pay scale for the administrative service; responsible agency: Prime Minister's Office
- 2011: Government resolution on new grade structure and basic pay scale for the support service; responsible agency: Prime Minister's Office

5.3. Locality pay to encourage horizontal mobility and to attract civil servants to remote locations

70. Once pay is simplified and the grading structure reformed, Mongolia will be well placed to take advantage of its present decentralized management structure by allowing general managers to introduce some flexibility in pay to encourage staff to more remote locations, and to respond to the specific needs of the local labor market. To reiterate and reemphasize, locality pay should only be introduced once pay has been simplified, and the present allowances and extra payments merged into basic pay, or else it will only add to the problems discussed above.

71. A systemic policy challenge facing the Mongolian education and health sector is the difficulty of recruiting qualified teachers and doctors to remote areas. Rural schools have a higher frequency of teacher vacancies and the positions stay vacant longer. Mongolia currently does have a rural allowance for teachers and doctors but it does not work well as it is poorly structured. Teachers and doctors receive six months of basic pay for every 5 years served in the rural areas, but this only gets paid as a lump sum at the end of the fifth year which, combined with relatively high turnover in the civil service discussed in the next chapter, does not amount to much of an incentive.

72. There are numerous examples of locality pay in other countries, summarized in Box 2, which can inform Mongolia. In drawing from these international experiences, the main recommendation would be to keep locality pay simple, possibly in the form of an additional hardship allowance, but also to recognize that the amount may have to be fairly generous, of the order of 25 percent of basic pay, to be an adequate incentive.

Actions required:

2011: Government resolution introducing locality pay for civil servants; responsible agency: Prime Minister's Office

Box 2: Examples of locality pay

Countries have responded in different ways to the challenge of maintaining a standardized civil service pay system while responding to the specific needs of different regional contexts and of attracting staff to remote or unattractive locations. Some examples are as follows:

- In the United Kingdom, civil servants are given a number of regional work allowances. These include the London Weighting Allowance provided as a flat rate top-up payment to compensate civil servants for the extra costs of living in the capital; additional "Roseland" allowances for other expensive areas in greater London; other regional allowances for specific towns and cities in response to labor shortages and the high cost of living. There are also special regional pay scales and separate London pay scale for teachers
- In Canada federal civil servants get extra pay for isolated geographical postings (north of the 60th parallel) and high cost postings
- In Germany after the unification, western civil servants were encouraged to serve in the east through exceptional promotion opportunities and special assignment pay increments
- The United States has a regional pay policy for the central civil service, with pay adjustments determined by an Employment Cost Index (ECI) for 32 geographical areas and the "rest of the US". There are also additional locality premia for remote areas and harsh locations

5.4. Development of an Automated, Centralized Payroll

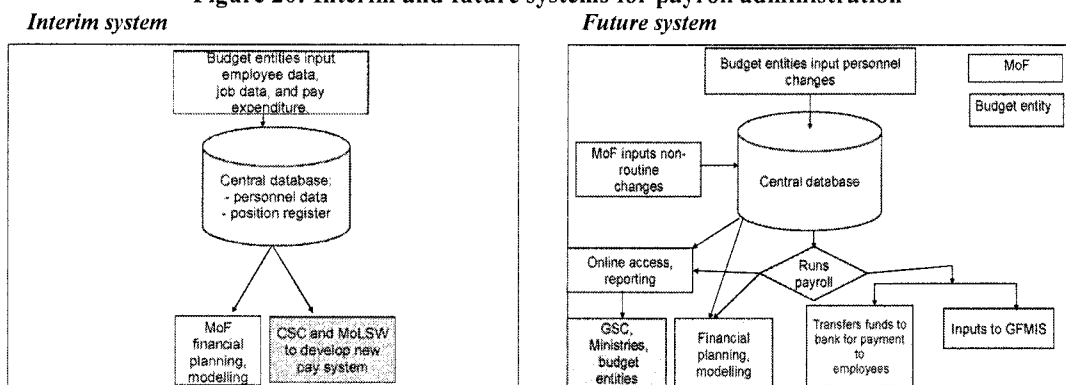
73. A new automated, centralized payroll is a vital complement to these pay and grading reforms in order to ensure the necessary establishment controls. The long term objective of the Government should therefore be a system in which the Ministry of Finance maintains all relevant data and runs the payroll, as depicted in Figure 20 right panel. The Government should therefore prepare and approve an action plan that specifies the steps required for a sequenced transition to this system. Payroll administration would need to be housed in a new Payroll Unit, located preferably within the Treasury Department. Such a system should be developed in the context of a government-wide information systems strategy showing how the payroll system would integrate with the Government Financial Management Information System (GFMIS) operating in the treasury, and other systems under development, such as for budgeting. Equally as important, the business requirements of the payroll system would need to be developed, specifying the working relationship between the individual budget entities and the Payroll Unit. These would include procedures for establishment registers and staff records; operational manuals; calculation, control and accounting procedures; payment and remittance procedures; payroll reports; and audit trails.

74. As discussed, such a fully automated centralized payroll is not feasible presently. However, the Ministry of Finance is rightly moving towards an interim solution (Figure 20 left panel) consisting of a centralized database that captures the relevant information and allows for better planning and modeling. Effective development of this database would require a short feasibility study that would consist of the following activities:

- Design, development, and implementation of a survey to capture information about existing systems, processes, and data in budget entities. The survey will need to identify the full range of payroll practices employed by budget entities, including the current and potential connectivity of the payroll system, and number, frequency, and value of transactions
- Transaction mapping: More detailed analysis of how budget entities capture and store data on employees, how it is manipulated and the how it is used to generate the payroll.
- An assessment of the quality of payroll data being maintained in the budget entities
- Development of system scenarios, showing different types of system from a simple database of employees which allows modeling of pay changes, to a fully comprehensive centralized payroll which controls expenditure in real time

The linkage between the development of a new payroll database and the reform of the compensation structure is critical as little purpose is served by developing a modern system that merely replicates outdated practices. Ideally the simplification of pay and the restructuring of grading should precede any computerization in order to avoid wasted effort.

Figure 20: Interim and future systems for payroll administration



75. To summarize therefore, the actions being proposed for this reform are as follows:

Actions required:

- 2009: Feasibility study completed for the development of a centralized human resource database; responsible agency: Ministry of Finance
- 2010: Centralized human resource database created with information on posts, personnel, and pay for all budget entities
- 2010: Action Plan approved for the sequenced transition to a centralized payroll; responsible agency: Ministry of Finance
- 2011: Payroll Unit established in the Treasury Department to be responsible for administering the centralized payroll

5.5. Ensuring Effective Coordination between the Concerned Stakeholders

76. These complex and comprehensive reforms require coordination between the three main stakeholders, namely the Civil Service Council, the Ministry of Finance, and the Ministry of Social Welfare. Presently there is a disconcerting lack of communication between the Civil Service Council, which is a parliamentary body, and the two concerned ministries which, given the considerable responsibilities bestowed to the Council in the amended law, requires immediate resolution if human resource management is to improve in Mongolia.

Actions required:

- 2009: Steering Committee for Civil Service Reform established with membership from the Ministry of Finance, Civil Service Council, and Ministry of Social Welfare and Labor; responsible agency: Prime Minister's Office.

CHAPTER 3: PERSONNEL MANAGEMENT

1. Introduction

1. Recruiting competent individuals and ensuring that their management is free from undue political interference, that employees have adequate opportunities for career growth, and that there are appropriate checks and balances for major personnel decisions are essential complements to a modern pay regime and all key ingredients of a productive civil service. The legal framework of Mongolia gives adequate prominence to these aspects of personnel management and specifies procedures for them. However, these provisions have not proven to be fully effective. The main messages of this chapter are summarized below:

- The CSL and the PSFML give a lot of attention to recruitment modalities of core civil servants. These specify open competitive recruitment for senior positions and detail adequate checks and balances to through a series of tiered screens by differing sets of actors rather than concentrating recruitment and selection power in the hands of a single, central authority. However, having two laws governing recruitment creates ambiguities and confusion for appointing authorities. It is not entirely clear exactly which positions require open competition and which positions can be filled through selection from existing core civil servants.
- By contrast, recruitment authority of support staff such as teachers is decentralized and unregulated. Decisions about teacher recruitment fall entirely to the school director, who can hire whomever they choose, with no set formal procedures for the recruitment application, interview, or selection process. In practice, this puts the school director in a powerful position, especially in rural areas, where the school is the largest and most regular employee and hence source of income. Prior to the PSFML reforms, civil society representatives had a seat on the school governing board that had responsibility for monitoring the school's budget. Currently, although some parents' groups form voluntarily, there is no formal accountability role for civic groups, such as parent-teacher associations, to play a role in monitoring teacher quality or school directors' recruitment decisions.
- Tenure protection is one of the defining features of civil services across countries and is required for depoliticized management, and it is what sets apart the legal regime for civil servants from that of the private sector. The Mongolian civil service however, is characterized by a high degree of staff turnover, often politically motivated and particularly after elections, and this churn disrupts management and negatively impacts overall civil service performance.
- Lack of horizontal mobility is a serious issue in the Mongolian civil service, with most administrative civil servants spending their careers in one or at most two line ministries, a reflection of the decentralized management arrangement in Mongolia whereby budget entities are the employers of civil servants and the lack of an institutionalized process for job rotation.
- Some have advocated the creation of a Senior Executive Service (SES) akin to that found in many developed countries to in part address this problem of limited horizontal mobility. This policy note cautions against this approach as the application of a SES model in Mongolia would add to the complexity of an already overly complicated

grading and compensation system. It would also risk compromising the present recruitment flexibility of the system and closing off senior management positions to only members of the SES.

2. Recruitment

2.1. Recruitment of administrative civil servants

2. The legal framework for recruitment in the Mongolian civil service is complicated and set in the CSL, the PSMFL, and supplementary government resolutions. Article 17 of the CSL stipulates that:

- Vacancies in the core civil service shall be filled by way of selection from amongst the existing core civil servants of the government
- New entrants into the core civil service shall be selected through a competitive examination and registered into a reserve list; the Civil Service Council shall conduct the examinations and maintain the reserve list
- If a core civil service position cannot be filled from amongst existing civil servants, then new entrants from the reserve list who meet the requirements of the given position will be selected
- Unless otherwise provided in law, employers shall be obligated to publicly announce the existing vacancies in the core civil service positions

Article 5 of the PSMFL states that state budgetary bodies shall recruit civil servants only on the basis of their “knowledge, education, qualification, experience, and professional skills through open, competitive recruitment procedures”, and Article 45 then goes on to give the following detailed recruitment modalities for senior positions in budgetary organizations and in fully or partly funded state-owned legal bodies:

- The Civil Service Council shall nominate 3-5 candidates and suggest them to competent authorities for senior managerial positions such as state secretaries, head of the office of the aimag governor and capital city governor, head of an agency, and some other senior offices
- Before preparing the list of candidates, the State Service Council shall publicly advertise the vacancy at least 21 days in advance of the selection process
- After providing the list of nominees to the concerned minister or appointing authority, the Civil Service Council shall publish the list of recommended candidates together with a description of the selection process
- The appointing authority shall select one candidate from the list of nominees provided by the State Service Council
- The appointing authority shall have the right to reject nominees of the State Service Council only once

- These appointments will be for a period of three years but may be extended for two years as many times as required
- Political leaders — the Prime Minister, the President, members of parliament, and ministers — shall not influence the Civil Service Council in the selection process

Article 48 of the PSMFL provides the procedures for of more junior members of the core government service, i.e. those not covered by Article 45:

- The General Manager of the budget entity has the authority to select and appoint these core civil servants
- Following the appointment of a candidate to any managerial position, the General Manager shall provide a written report to the Civil Service Council on the criteria used to make the appointment. The Council shall make a copy of that report available to the general public
- The Civil Service Council has no authority to interfere with the employment authorities of General Managers

3. The strength of Mongolia's legal framework is the prominence given to recruitment modalities, as in many countries these procedures are not stated in laws but are relegated to administrative documents and do not carry the same authority, and the recognition of the importance of checks and balances through a series of *tiered screens* — advertising, long-listing, short-listing, and selection — by differing sets of actors rather than concentrating recruitment and selection power in the hands of a single, central authority. The weakness of the framework is that having two laws governing recruitment creates ambiguities and confusion for appointing authorities. It is not entirely clear exactly which positions require open competition and which positions can be filled through selection from existing core civil servants. While PSMFL explicitly states that senior management positions require public advertisement and open competition, and indeed article 5 can be interpreted as requiring open competition for all core civil service positions, the CSL prioritizes internal selection and stipulates open competition only if internal selection is not possible. Clearly, there is a case to be made for removing the recruitment modalities from the PSMFL and amending the CSL accordingly so that there is one law governing human resource management, or for at least ensuring that such ambiguities are resolved by appropriate cross-referencing and prioritization between the two laws.

4. The Government's Medium-Term Civil Service Reform Strategy and Implementation Plan, approved in 2004, interprets PSMFL Article 45 as applying to all general managers, or roughly 3000 senior positions in the core civil service. With the recent amendment to the CSL, school and hospital directors have been shifted from the support service to the administrative service, and also fall under the ambit of the CSL and PSMFL. Taking all of these legislations and resolutions together, the recruitment modalities being applied in practice are summarized in Table 5.

5. PSMFL article 45 is being applied to all general managers, CSL article 17 is being applied for other senior positions that are not explicitly stated in the PSMFL, and PSMFL article 48 is applicable for junior core civil service position. The boundaries between the three columns of the table are not clearly defined as none of these legislations specify exactly which positions are considered senior and require the Civil Service Council's oversight. While school and

hospital directors are general managers and should be subject to Article 45, it appears that currently they are being treated as other senior officials and are governed by the provisions in the second column of the table. Clearly there is a need, as also recommended in the PDP report, for the Council to issue a schedule detailing exactly which positions are to be subject to open competition from the outset, which are subject to the provisions of Article 17 of the CSL, and which are subject to Article 48 of the Public Sector Finance and Management Law.

Table 5: Modalities for recruitment for the core civil service

	Most senior officials: State Secretaries and head of agencies, General Managers	Other senior officials: Directors in ministries, aimag and city district high officials, school and hospital directors	Junior positions in the core civil service
Guiding legislation	<ul style="list-style-type: none"> PSMFL article 45 	<ul style="list-style-type: none"> CSL article 17 	<ul style="list-style-type: none"> PSMFL article 48
Step 1: Notification of vacant posts	<ul style="list-style-type: none"> Appointing authority sends request to Civil Service Council 	<ul style="list-style-type: none"> Appointing authority, based on the recommendation of the CSC or Branch Council, may fill the post by selecting from at least 2 civil servants from its own or other government organizations If the posts cannot be filled from existing candidates, then the appointing authority, based on the recommendation of the Council, or Branch Councils, may fill the post from the reserve list If the post cannot be filled from the above two methods, then the appointing authority sends the notice of vacancy to the Civil Service Council or Branch Council 	<ul style="list-style-type: none"> General manager has the authority to select and appoint and Civil Service Council has no authority to intervene General Manager provides report to Civil Service Council on criteria used for selection Council makes report public
Step 2: Advertisement	<ul style="list-style-type: none"> Civil Service Council advertises the posts through the media 21 days prior to the selection 	<ul style="list-style-type: none"> If open recruitment then Civil Service Council or Branch Councils advertise the posts through the media 21 days prior to the selection 	
Step 3: Selection	<ul style="list-style-type: none"> Selection Panel established chaired by members of the Civil Service Council and consisting of other sectoral experts Short-listing of 3-5 candidates Public disclosure of short-list 	<ul style="list-style-type: none"> Selection Panel established chaired by members of the Civil Service Council or Branch Council and consisting of other sectoral experts Short-listing of 2 or more candidates Public disclosure of short-list 	
Step 4: Appointment	<ul style="list-style-type: none"> If appointing authority rejects the short-list then Council can re-nominate from the reserve list or re-advertise 	<ul style="list-style-type: none"> If appointing authority rejects the short-list then Council can re-nominate from the reserve list or re-advertise 	

6. The Mongolian system can be summarized as one that is relatively open with lateral entry and flexible admission mechanisms, in contrast to the “closed systems” in which highly competitive criteria are used to select individuals into an elite cadre of civil service only at the entry level, usually through feeder institutions, and annual national civil service examinations.¹⁷ The legal requirement for open competition, even for senior posts, is one of the great strengths of Mongolia’s civil service, giving it the ability to recruit technical specialists that many of the

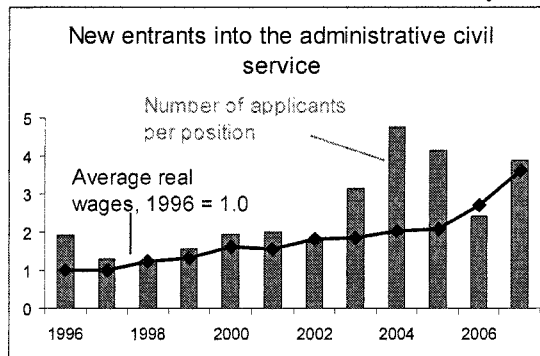
¹⁷ Nunberg (1992)

closed systems lack. However, to the extent that closed systems are associated with an elite service or “mandarin” class that has countrywide managerial experience, an esprit-de-corps, prestige, and considerable horizontal and vertical mobility then these are features lacking in the Mongolian administrative service. In fact the concept of a “service” is a bit of a misnomer in Mongolia as administrative civil servants are de facto employees of the particular budget entity and do not really have a broader corporate identity as exemplified by for example, the elite services of France, Singapore and Japan.

7. In practice open competition is currently being applied to the selection process for the 3,000 or so most senior positions in the core government service. External candidates for these positions go through a qualifying examination. In other words the original intent of the qualifying exam as a means to staff the reserve list, with the reserve list valid for two years as a resource to fill vacant positions, is now no longer applicable. The concept of the reserve list is also outmoded as the top candidates from the reserve list are unlikely to meet the specific criteria of the job being advertised, and therefore is a requirement that should be removed from the law. There are also a number of problems with the qualifying exam, such as the use of general knowledge as opposed to psychometric tests, the suitability of the use of a test for senior managerial positions, and the inequity of only requiring external candidates to take the test.¹⁸

8. The effectiveness of the open competition criteria depends on how many applicants there are per vacancy, which in turn is dependent on the attractiveness of the civil service as a career. Data collected annually by the civil service council on the new entrants into the administrative civil service suggests that recruitment has become more competitive in the past five years. Figure 21 shows that the average number of applicants sitting in the examinations conducted by the Civil Service Council has increased from 1.9 per advertised vacant position in 1996 to 3.9 in 2007, an upward trend that is not surprising given the three-and-a-half fold increase in the average real civil service wage over this period. Clearly, these averages mask considerable variations on the attractiveness of the administrative service for different types of jobs. In the more remote aimags it is difficult to get a sufficiently large applicant pool to develop the short list of 3 to 5 candidates as required by the PSMFL.

Figure 21: The administrative civil service has become a more attractive career in recent years



Source: Bank staff calculations based on Ministry of Finance and Civil Service Council data

9. The Branch Councils of the Civil Service Council have responsibility for conducting the examinations and generating the shortlists for positions in the local administration. Due to the limited number of permanent staff in the Civil Service Council, the Branch Councils are staffed by senior managers of the local administration which creates an obvious conflict of interest. For example, the usual practice at the aimag councils is for the head of the aimag governor’s office to be the head of the branch council, and the human resource officer of the governor’s office to be the secretary of the council. This structure of the councils implies that their independence and the whole purpose of the provisions of the CSL and the PSMFL are compromised.

¹⁸ See PDP reports for details

10. As the PDP reports correctly point out, the Civil Service Council's selection panels are not required to contain representatives from the employing organizations thereby raising issues of the ownership of the selection decision and creating tensions between the Council and the appointing authority. Including an appropriate representative from the employing organization on the selection panel would not compromise the sanctity of the recruitment process and would trust and cooperation. It would also be advisable to have a panel of independent experts who are willing to serve on selection panels, particularly those selection panels charged with selecting candidates for the most senior positions. The Council is moving in this direction and plans to seek a legal power to select 'specialized interview experts' to assist with the selection process.

11. The current legal framework in general provides adequate checks to ensure merit based recruitment in the senior positions of the civil service. In principle, and in line with international best practice, the Civil Service Council should resist the tendency to move towards de facto appointing authority these positions. The present weaknesses stem from the limited capacity of the Council, particularly in the functioning of the branch councils and in the monitoring of the recruitment of junior officers. In line with the recommendations of the PDP reports, the Civil Service Council should do an annual, risk-based audit of the budget entities to ensure that general managers are appointing junior administrative civil servants as per the requirements of the law, and the findings of this audit should be reported to parliament in the Council's annual report.

2.2 Recruitment of teachers

12. Teacher recruitment is largely unregulated and decentralized to school directors. A credential from a teacher training college makes a potential recruit sufficiently eligible; the Ministry of Education, Culture, and Science (MECS) does not distribute any further criteria or stipulate any process for the recruitment of teachers. Although the Civil Service Council technically has some monitoring role on teacher quality, this provision has no real teeth because general managers — in this case, school directors — have the authority to make employment decisions for the support services. The aimag Education and Culture Department (ECD) checks teacher credentials and school directors must report vacancies to it, but it is not involved in recruitment in any other way.¹⁹

13. In essence, then, decisions about teacher recruitment fall entirely to the school director, who can hire whomever they choose, with no formal procedures for the recruitment application, interview, or selection process. In practice, this puts the school director in a powerful position, especially in rural areas, where the school is the largest and most regular employee and hence source of income. Observers differed somewhat on the effects of this discretion enjoyed by school principals. A district governor said that school directors make teacher appointments through connections to relatives and friends, with little advertisement of vacancies. One observer pointed out, however, that the potential for kickbacks to school directors from teachers seeking jobs is constrained in rural areas because there are a limited number of teachers (indeed, sometimes zero) who want any particular rural position, and more generally due to the high cultural value placed on education in Mongolia.

14. In reality, recruitment processes are likely to vary from school to school. The school officials interviewed in the Arkhangai aimag center used fairly systematic internal processes for

¹⁹ The aimag ECD consolidates the payroll and staffing data at the provincial level and passes the aggregated information on the MECS in Ulaanbaatar. It does not, however, maintain an ongoing record of vacant teacher positions or any real picture of the size of the teaching establishment in the aimag. The number of funded teacher positions is calculated strictly according to pupil-teacher ratios.

teacher recruitment even though they receive no central guidelines on this matter. The schools provided documentation showing: first, the advertising of vacant positions on teacher bulletin boards in the district office and in newspapers; and, second, internal deliberations and assessments of the various applicants. In addition, the schools reported that they invited the local ECD to be present at candidate interviews.

15. As stated earlier, PSMFL re-centralized budget management in the Mongolian government. Prior to the PSFML reforms, civil society representatives had a seat on the school governing board that had responsibility for monitoring the school's budget. Currently, although some parents' groups form voluntarily, there is no formal accountability role for civic groups, such as parent-teacher associations, to play a role in monitoring teacher quality or school directors' recruitment decisions.

3. Transfers, dispute resolution, and horizontal mobility

16. Tenure protection is one of the defining features of civil services across countries that insures depoliticized management, and it is what sets apart the legal regime for civil servants from that of the private sector. The Mongolian civil service however, is characterized by a high degree of staff turnover. As Figure 22 left panel shows, approximately 45 percent of the staff in the administrative service have been in their current positions for two or less years, and 80 percent for four or less years. At the lower grades these numbers are not as surprising given new entrants into the civil service, but at the higher grades, with between 40 percent and 60 percent being in their current positions for 2 or less years, they are and require an explanation. The numbers of the support services are lower (Figure 22 right panel), with around 60 percent on average in their current positions for four or less years. This is not surprising given the more limited alternative career opportunities for teachers, doctors, and other service staff, and the compressed grade structures discussed earlier.

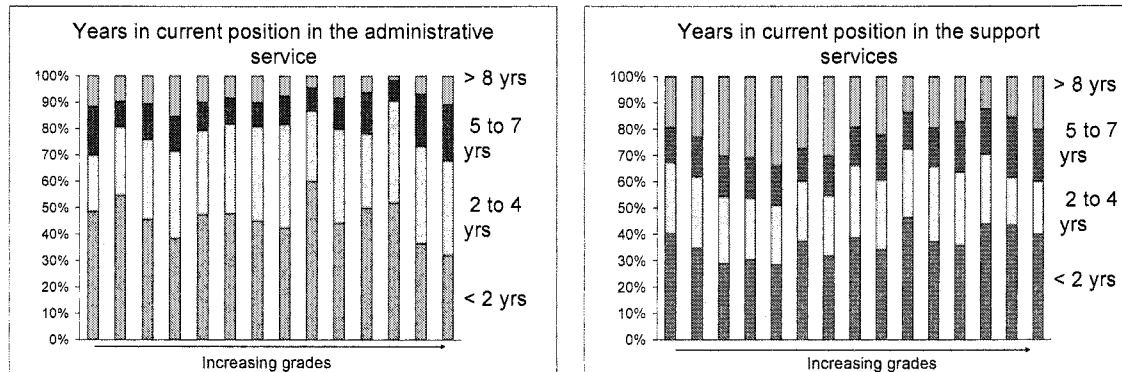
17. A priori, turnover is impacted by a number of factors, some negative and some positive. In the private sectors of advanced economies, high degree of churn is reflective of the dynamism of the labor market and the many career choices open to employees. The higher degree of the turnover in the administrative service as compared to the support services may also be reflective of the relatively greater private sector opportunities for administrative civil servants in Mongolia, as well as a vibrant internal job market. However, there is enough evidence to suggest that this high level of churn is in large part due to tenure instability as a result of undue political influence on the civil service.

18. As is commonly known in Mongolia, the turnover of civil servants is particularly pronounced immediately after elections, with a number of officials either removed from the civil service or transferred to other positions. This churn is especially evident in the local administrations as new aimag and soum governors bring in their own staff after assuming office. These changes affect mostly the more senior civil servants, and the fact that roughly 75 percent to 90 percent of the top three grades in the administrative service have been in their current positions for four years or less is in large measure a reflection of the impact of the election cycle.²⁰ To some extent these high level changes also filter down to lower level administrative staff. For example, social workers who are responsible for administering the child money programs in the aimags are also removed after an election.

²⁰ The enumeration for the civil service census took place in October-November 2007, or just over three years after the 2004 elections.

19. This impact of the election cycle is also borne out by the increases in dispute cases and new senior staff appointments immediately after an election. For example, the year after the 2004 election saw dispute cases received by the Civil Service Council rise from 37 to 137, and senior staff appointments increase from 26 to 87 (Figure 23). While these data are limited, high staff turnover is repeatedly voiced as a major problem by all the concerned stakeholders in Mongolia.

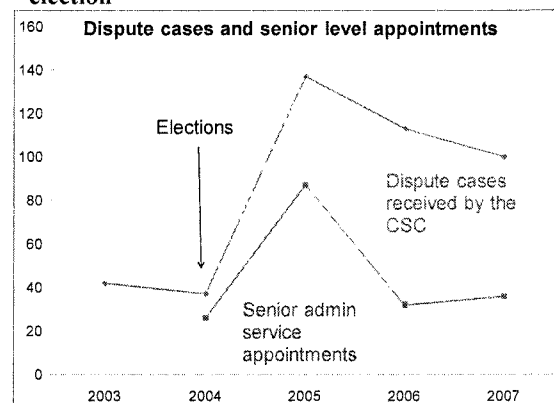
Figure 22: There is a high degree of staff turnover in the Mongolian civil service, in particular the administrative service



Source: Civil Service Census

20. Turnover of senior management after elections is not unusual in many countries, most notably the USA. In Mongolia however, as numerous stakeholders repeatedly stated, the scale and depth of the changes are reflective of more perverse political motivations, and are not unrelated to the problems of corruption that have been repeatedly voiced, and also quantified.²¹ That such high staff turnover is disruptive to effective management and deleterious to effective functioning of the civil service is obvious. It is symptomatic of some key weaknesses in the legal framework. First, a majority of the management changes are done through invoking article 27.2.3 of the CSL which provides for the transfer of civil servants in the case of the liquidation or reorganization of the relevant government department or budget entity. Numerous officials stated that this clause was being abused and used frequently as an excuse for the politicized transfer of civil servants from the organization. The Law does not provide for any direct oversight role of the Civil Service Council on restructuring, although the amendment to the Law adds a general clause under article 39 on dispute resolution that the Council shall resolve disputes related to the working condition and salary of civil servants which presumably would extend to restructuring and reorganization.

Figure 23: There is an increase in dispute cases and senior level selections in the aftermath of an election



Source: Civil Service Council (2008)

²¹ See World Bank (2007) for the results of the Investment Climate Survey.

21. Second, the cumbersome procedures for dispute resolution disadvantage civil servants who are dismissed from the civil service on supposedly disciplinary grounds. The Civil Service Law is explicit on the criteria for disciplinary action — dismissal can only be due to criminal offense, abandonment of citizenship, and repeated (twice or more) unsatisfactory performance. However, these provisions are binding only to the extent that the procedures for redress are efficient. In Mongolia, the Civil Service Council is the first line of defense to aggrieved core civil servants, with a right of appeal to the administrative courts in case they are not satisfied with the Council's decision. Before the amendment to the law, the authority of the Council's decisions was not clear, and the inefficiencies in the administrative courts meant that these cases could go on for months or even years with the civil servant out of his or her job while awaiting an outcome.

22. The converse of this problem of tenure insecurity is the lack of a proper job rotation policy to ensure horizontal mobility and allow for careers that are both functionally and geographically diverse. Although the CSL (Article 22) states that civil servants may be transferred from one position to another with their consent due to "an unavoidable necessity", and allows for staff rotation based on an agreement between the management of the respective authorities, horizontal mobility is a serious issue in the Mongolian civil service, with most administrative civil servants spending their careers in one or at most two line ministries. In part this problem arises from the horizontal inequities in pay which deter staff from moving from ministries to the aimags and soums. More fundamentally though, it is a reflection of the decentralized management arrangement in Mongolia whereby budget entities are the employers of civil servants which, coupled with the fact that there is no centralized personnel office, implies that there is no institutionalized process for job rotation.

23. The PDP consultants advocate the creation of a Senior Executive Service (SES) akin to that found in many developed countries to in part address this problem, although their justifications are broader and include the creation of a critical mass of leadership to spearhead civil service reform, improvement in managerial skills, insulation from undue political pressures, and improved ability to attract and retain high quality staff. The SES is meant to solve the problem of the present absence of a service-wide corps of administrative civil servants in Mongolia. This paper however, would caution against this approach.

24. The most serious flaw in the application of a SES model in Mongolia is that it would add to the complexity of an already overly complicated grading and compensation system. The SES would necessarily have its own grading and compensation structure, adding to the several layers that already exist. It would also risk compromising the present recruitment flexibility of the system and closing off senior management positions to only members of the SES. As evident in many developing countries, the long term risk of this measure is that it would create a powerful interest group that would seek to protect high level positions for itself.

25. Improved horizontal mobility in the administrative service is certainly a reform objective but it can be achieved through simpler measures than a SES, which are discussed below.

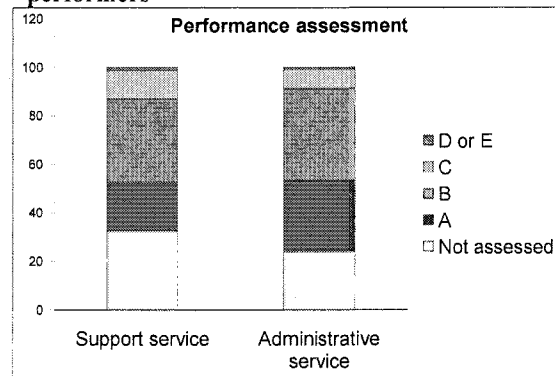
4. Performance management

26. Chapter 2 noted the problems in applying the principle of performance pay in Mongolia. The CSL specifies that performance appraisal shall be the basis for promotions and changes in salary, award of ranks, and disciplinary actions, specifically the reduction in salary or, for repeated under-performance, dismissal without right of re-entering for a year. In reality however,

performance appraisal is largely a perfunctory exercise in Mongolia, as evidenced by the fact that 33 percent of the support service and 24 percent of the administrative service have not had a performance appraisal, and of those who had the overwhelming majority get an “A” (Very Good) or “B” (Good) rating, while virtually none get a D (Reasonable) or an E (Non-satisfactory) rating (Figure 24). This pattern of scoring is not unusual as many bureaucracies seek to avoid potentially conflicting situations. It also implies that promotions are likely to be largely driven by seniority, as well as subjective criteria, than the results of performance appraisals.

As discussed earlier, performance bonuses are paid regularly to teachers, doctors, and nurses, yet these are not based on systematic performance evaluations but are used as a way of ensuring that the allocated facility budgets are fully spent. At the beginning of each year teachers sign performance contracts with school directors; school directors with soum governors; soum governors with aimag governors; and aimag governors with MECS. Yet these contracts, in practice, are pro forma documents issued by MECS and, as reported by aimag and soum officials, do not help to measure performance outcomes and yield little insight into which schools are performing well versus poorly.

Figure 24: Very few staff are assessed as poor performers



Source: Civil Service Census

27. Most importantly, there appears to be a fundamental misalignment of incentives for effective accountability at the school level. Under the PSFML, the funds come to schools vertically from MECS at the center. Yet performance contracts are signed horizontally between the soum government and the budget entity, in this case the school, and horizontal monitoring is weak at best. If a school performs badly, the SPIA Education Inspector at the soum level can report it to the aimag Education Department, which can then raise it with MECS at the center. Based on the cascading set of performance contracts, then, the soum governor can attempt to take disciplinary action to the school director, who can in turn take disciplinary action on the teaching staff. There are, however, no budgetary implications for the school. Previously, the soum or aimag governor could dismiss a poor-performing school director—but that potential accountability mechanism no longer exists now that school directors are protected as administrative civil servants.

28. The 2002 Education Law abolished school governing boards, which had been given decision-making authority for the hiring and firing of principals, and replaced them with school councils, which have more limited authority and play little role in school operations. Hence principals and teachers bear little civic accountability for the quality of education provided; this is especially this case in rural areas.

29. There is a large international literature elaborating the difficulties in designing performance appraisal systems that accurately measure an individual’s contribution in large bureaucratic organizations. These problems do not suggest that Mongolia should not aim to improve the current process, and the PDP consultants provide some useful recommendations to the Civil Service Council in establishing guidelines for managers in the budget entities to improve the current process. However, they should caution against an aggressive push on the performance

management provisions of the PSMFL and suggest a recognition that practically, in the near term, seniority would continue to be the basis for promotions and pay increases.

5. Recommendations

30. The Government of Mongolia recognizes many of these problems with the civil service and the legal changes introduced to the Civil Service Law, some of the main features of which were summarized in Box 1 in chapter 1, are meant to address these. To reiterate the most salient changes with respect to personnel management include:

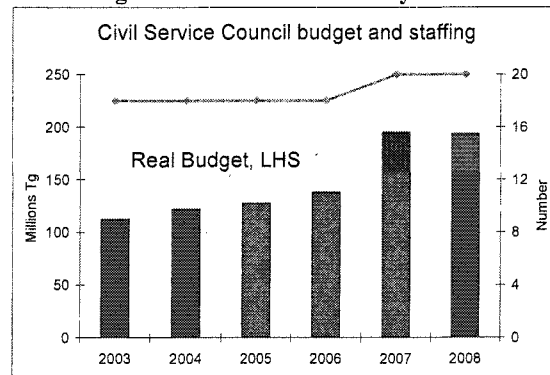
- School and hospital directors have been moved from the support services to the administrative service and now fall under the ambit of the CSL. The more rigorous criteria for recruitment and the tenure protections are expected to improve the quality of school and hospital management
- The Civil Service Council's powers in dispute resolution have been enhanced by giving it the authority to overturn any personnel decision by an appointing authority if found to be in violation of the law, and requiring the concerned government organization to abide by the council's decision, with an option to complain to the courts
- Prohibition on core civil servants from being members of political parties

These are welcome changes that have generated a lot of hope among civil servants. The recommendations below are in the spirit of ensuring that this improved legal framework can be more effective as well as identifying additional areas.

5.1 Increased capacity of the Civil Service Council

31. The staff strength of the Civil Service council has to be increased if it is to adequately perform its oversight role. As Figure 25 shows, although the Council's budget and staff strength have increased in recent years, the current staff of 20 is grossly insufficient to perform the many functions stipulated by law, particularly given the need for permanent staff in the branch councils. Given that the 45 branch councils require at least two permanent staff (the chairman and secretary) total staff strength of the Council ideally would need to increase to 110.

Figure 25: The Civil Service Council's staffing and budget have increased recently



Source: Civil Service Council

32. With the current economic crisis and the fiscal adjustment, such budgetary increases would realistically need to be phased over a few years. If the fiscal space allows, the 2010 budget can be increased to enable the Council to hire permanent staff for a select number of branch councils.

Actions required:

- 2010: The 2010 budget of the Civil Service Council increased to enable it to hire permanent staff for select branch councils

- 2011: The 2011 budget of the Civil Service Council increased to enable it to hire permanent staff for select branch councils

5.2 Improving the recruitment modalities for administrative staff

33. The PDP reports make a number of sensible suggestions on improving the recruitment modalities for core civil servants. To reiterate:

- Ideally the recruitment provisions of the PSMFL should be removed from the PSMFL and incorporated into the CSL.
- Short of this, the Civil Service Council should issue a schedule that details exactly which positions are most senior and subject to open competition as per article 45 of the PSMFL, which fall under article 17 of the CSL, and which more junior provisions do not require the Council's overview.
- The Council's selection panels should include representatives from the employing organization to build ownership of the process, and should also be informed by a panel of independent experts.
- The reserve list should be abolished.

The Civil Service Council should be able to undertake all of the above actions in 2009.

5.3 Tackling the problem of the instability of tenure and improving horizontal mobility

34. The amendments to the Civil Service Law have not closed the loophole of the restructuring clause being used for transferring civil servants. It is not entirely clear that the Council's enhanced oversight gives it the authority to challenge staff transfers made through this provision. It would therefore be advisable that this problem be addressed explicitly, in conjunction with the policy to manage the horizontal movement of civil servants.

35. Increasing horizontal mobility requires both incentives for staff to rotate between ministries and localities, and a central institution that manages the process. On the former, the discussion on locality pay is relevant. In many countries, rotation requirements are also used as a condition for career advancement, but given the limitations of the performance appraisal system in Mongolia going this route may be premature. On the latter, the absence of a central personnel office is a handicap for Mongolia as logically inter-agency movement of civil servants would be best performed by a small personnel management unit in the Prime Minister's office. Another option would be for this function to reside with the Civil Service Council, given that the Council fuses oversight and certain management functions, and given that the CSL mandates it to create the rules and procedures for transfers and rotations (Article 22). However, the status of the Council as a parliamentary body would be a handicap for such a clearly executive function.

36. This central institution should also be tasked with ensuring that transfers only are allowed for staff who have fulfilled a minimum tenure, say three or four years, at an agency, except under exceptional circumstances.

Actions required:

- 2009: Civil Service Law amended to remove the current loophole that enables staff to be transferred under the agency restructuring clause
- 2010: A small personnel management unit established in the Prime Minister's Office

5.5 Improving the intensity and quality of monitoring

37. Good civil service management practices require that there is a regular audit by an authorized central agency of the recruitments, promotions, transfers, and departures within the civil service, and that an up-to-date information database is maintained on these statistics. This monitoring is particularly important in a decentralized management system such as in Mongolia, but is currently lacking, in part due to the capacity constraints in the Civil Service Council, but also due to weaknesses in the information systems. On the latter, while the Council maintains an employee database, this relies on ad hoc updating by ministries and budget entities as and when they decide to provide data changes. There is no established procedure for regular comprehensive updating, and no stringent data management controls to prevent unauthorized data changes, or to provide an audit trail of the changes made.

38. Teacher recruitment in Mongolia is subject to no formal criteria, other than basic education credentials, and is essentially at the discretion of the school director. This leads to both problems in teacher quality as well as the potential for appointments to be made for political and other non-meritorious reasons. Improving teacher monitoring could rely on vertical or horizontal checks. The MECS is in favor of greater vertical controls, increasing the regulation of teacher qualifications, particularly by establishing criteria for recruitment and specifying these criteria by government decree, and developing explicit processes for teacher recruitment — including the advertising of vacancies, the holding of interviews, and the selection process — to be followed by school directors. These processes could incorporate a specific monitoring and quality-control role for provincial ECDs beyond their simple current duty of verifying teacher credentials; for example, the presence of an ECD representative on an interview or selection panel could be mandated.

39. The alternative, horizontal method of community monitoring may be more effective given the social context of Mongolia with its ethnic homogeneity, high level of literacy, and relatively strong community bonds. Parents did play a significant role in school management in the past, but there has been a gradual centralization of education management in the last ten years. In 1995, the Law on Education established local School Boards, which were given a wide mandate to manage and monitor school operations. These boards originally comprised teachers, students, parents, and community representatives; but in 1998, *soum* governors were extended representation and given majority power on the boards. In 2000, MECS adopted regulations specifying the authority of school boards to hire and dismiss school principals; approve and amend school budgets, including salary funds and number of employees; and approve the development of policy, curriculum, and business plans. Finally, in 2002, a new Law on Education reduced the role of the by then highly politicized school boards into a much more limited advisory school council role. These changes were adopted in the context of PSMFL recentralization, which stripped the councils of their fiscal responsibility; school councils also lost their power to hire or dismiss principals.

40. With the stronger treasury controls now in place, Mongolia should again consider devolving oversight responsibilities to parents and local communities. For school based management to be successful, it is important to clearly define which powers are vested where and how decision-making authority is to be coordinated. The ultimate success of a school-based management program depends on the support of all the stakeholders involved — central and local government authorities, who surrender some authority to the school level; principals and teachers, who cede some management control; and parents and community members, who often have to be trained to properly fulfill their roles in enhancing accountability and performance.

Actions required:

- 2009: Civil Service Council develops methodology for sample-based audit of recruitment practices of budget entities
- 2010: Audit conducted by the Council of select budget entities
- 2010: Resolution re-establishing School Boards with authority for school monitoring; responsible agency: MECS

CONCLUSION

1. The Mongolian civil service has undergone a rapid and deep transformation since the transition from socialism in 1990. The number of civil servants has been reduced dramatically with the withdrawal of the state from private economic activity, and a whole new legal framework has been introduced. And there are many achievements that the civil service can be proud of. The education and health bureaucracies have been able to deliver a standard of service that is higher than many countries at similar levels of development, overcoming the challenges posed by Mongolia's geography. The legal framework has emphasized merit-based recruitment, and the skill level in the civil service is higher than in many developing countries.

2. Civil service reform needs to remain a priority of the Government if Mongolia is to have the high performing public sector that is crucial for translating its natural resources to sustainable economic development. The Government has made some progress in this area by adopting a civil service reform strategy and action plan, and introducing some good changes to the legal framework. Many of these changes are in the right direction and identify the correct strategic priorities over the medium term. This report has attempted to support this on-going process by providing a diagnosis of the key challenges that the Government must confront, and identifying the select, feasible actions that the Government can take over the next three years.

3. To summarize, the report has identified three priority areas of reform. First, the civil service grading and compensation system requires significant changes in order to be able to attract and retain high caliber staff. The present grading structure creates horizontal inequities as similar jobs are graded differently depending on the status of the organization to which the job belongs. The pay structure is highly complex and this complexity exacerbates the grading inequities and, combined with the considerable managerial discretion in setting pay, results in a non-transparent compensation regime. Pay scales are very compressed, in particular for key service delivery staff. The proposed reforms entail the simplification of pay through merging the allowances and extra payments into basic pay, and the development of a new grade structure and basic pay scale based on job evaluations and a pay survey.

12. Second, Mongolia needs to move in a phased manner towards centralized payroll administration in order to enhance establishment and expenditure controls. Decentralized payroll administration combined with the complexity of the pay structure significantly limits the controls of the Ministry of Finance. It also renders impossible accurate simulations of wage increases, thereby weakening budgetary planning. A feasible first step in the sequenced transition to centralized payroll administration is the creation of a centralized human resource database with information on posts, personnel, and pay for all budget entities.

13. Third, the personnel management regime needs to be improved as it presently does not fully protect civil servants from undue political interference, there is a lack of clarity over the precise recruitment modalities for the senior administrative civil service positions, and limited horizontal mobility that negatively impacts career development.

14. The report has provided a number of recommendations in each of these three reform pillars, which are summarized in the policy matrix in Annex 1. With these practical, sequenced actions, Mongolia will be well placed to achieving a high performing public sector and translating its considerable natural resource wealth into sustained improvement of the lives of its citizens.

ANNEX 1: MONGOLIA CIVIL SERVICE REFORM POLICY MATRIX

Objective	Key Actions			Main responsibility
	2009	2010	2011	
A civil service grading and compensation structure that is fair and attracts and retains high caliber staff	GRADING AND COMPENSATION REFORM			<ul style="list-style-type: none"> • Prime Minister's Office • Ministry of Finance, Civil Service Council, Ministry of Social Welfare and Labor • State Great Hural
	<ul style="list-style-type: none"> • Steering Committee for Civil Service Reform established with membership from the Ministry of Finance, Civil Service Council, and Ministry of Social Welfare and Labor • Government resolution simplifying pay for the administrative service by merging all allowances into basic pay • Amendments to relevant sector laws to make the Civil Service Law the umbrella law for compensation of all support civil servants • Launching of analytical work on pay and grading reform <ul style="list-style-type: none"> o Job evaluations o Development of simplified grading structure o Pay comparator survey 	<ul style="list-style-type: none"> • Government resolution simplifying pay for the support services by merging all allowances into basic pay • Government resolution detailing a new grade structure and basic pay scale for the administrative service 	<ul style="list-style-type: none"> • Government resolution on a new grade structure and basic pay scale for the support service • Government resolution on locality pay for civil servants 	
The creation of an automated, centralized payroll for enhanced establishment control	IMPROVING PAYROLL ADMINISTRATION			<ul style="list-style-type: none"> • Ministry of Finance • Civil Service Council
	<ul style="list-style-type: none"> • Feasibility study completed for the development of a centralized human resource database 	<ul style="list-style-type: none"> • Centralized human resource database created with information on posts, personnel, and pay for all budget entities • Action plan approved for the development of a centralized payroll 	<ul style="list-style-type: none"> • Payroll Unit established in the Ministry of Finance, Treasury Department 	

Objective	Key Actions			Main responsibility
	2009	2010	2011	
A personnel management regime that ensures transparent, merit-based recruitment and management that is free from undue political interference	PERSONNEL MANAGEMENT REFORM			<ul style="list-style-type: none"> • Civil Service Council • Prime Minister's Office • State Great Hural • Ministry of Education, Science, and Culture
	<ul style="list-style-type: none"> • Civil Service Council issues a schedule that lists the specific positions subject to open competition, which fall under article 17 of the CSL, and which do not require the Council's overview • Council's selection panels include representatives from the employing organization • Civil Service Law amended to remove the current loophole that enables staff to be transferred under the agency restructuring clause 	<ul style="list-style-type: none"> • A personnel management unit established in the Prime Minister's Office • Transfers of staff between budget entities only allowed for staff who have fulfilled a minimum tenure • The 2010 budget of the Civil Service Council increased to enable it to hire permanent staff for select branch councils • Civil Service Council develops methodology for sample-based audit of recruitment practices of budget entities • Resolution re-establishing School Boards with authority for monitoring school operations 	<ul style="list-style-type: none"> • The 2011 budget of the Civil Service Council increased to enable it to hire permanent staff for select branch councils • Civil Service Council conducts sample-based audit of recruitment practices of budget entities 	

ANNEX 2: PAY SCALES FOR THE CIVIL SERVICE OF MONGOLIA

Payroll for positions of political service

Payroll grade	Positions ranking										
	AA-11	AA-10	AA-9	AA-8	AA-7	AA-6	AA-5	AA-4	AA-3	AA-2	AA-1
1	203967	215781	236342	259977	285974	314572	346029	363330	381964	401060	409082
2	219432	232142	254262	279689	307657	338423	372266	390879	410611	431141	439763
3	234901	248506	272186	299405	329345	362280	398507	418433	439354	461321	470548
4	249866	264338	289526	318479	350327	385360	412001	426914			
5	264828	280167	306864	337550	371305	408436	425493	435395			

Payroll for positions of governmental administration

Payroll grade	Positions ranking													
	T3-1	T3-2	T3-3	T3-4	T3-5	T3-6	T3-7	T3-8	T3-9	T3-10	T3-11	T3-12	T3-13	T3-14
1	161059	175050	191219	203967	215781	236342	259977	285974	314572	346029	363330	381964	401060	409082
2	173271	188322	205718	219432	232142	254262	279689	307657	338423	372266	390879	410611	431141	439763
3	185485	201598	220219	234901	248506	272186	299405	329345	362280	398507	418433	439354	461321	470548
4	197302	214441	234249	249866	264338	289526	318479	350327	385360	412001	426914			
5	209117	227282	246276	264828	280167	306864	337550	371305	408436	425493	435395			

Payroll for governmental special positions

Payroll grade	Positions ranking																	
	TT-1	TT-2	TT-3	TT-4	TT-5	TT-6	TT-7	TT-8	TT-9	TT-10	TT-11	TT-12	TT-13	TT-14	TT-15	TT-16	TT-17	TT-18
1	139125	153037	160507	172766	177328	186017	195318	205084	215338	226105	237411	249281	261745	274832	288573	331859	348452	355420
2	151347	166481	174608	187944	192906	202359	212477	223101	234256	245969	258267	271181	284740	298977	313925	361013	379063	386644
3	163182	179501	188262	202842	207992	218184	229093	240548	252575	265204	278464	292388	307007	322357	338474	389245	408707	416830
4	174218	191639	200994	216345	222057	232939	244586	256815	269656	283139	297295	312160	327768	344157	361384			

Reference minimum wages for positions in other civil service organizations and for positions supporting common civil service

Payroll grade	Positions ranking											
	TY-1	TY-2	TY-3	TY-4	TY-5	TY-6	TY-7	TY-8	TY-9	TY-10	TY-11	TY-12
1	140227	149635	157117	164973	181470	208691	229560	241038	277194	304913	329459	355815
2	141628	151146	158703	166638	183302	210797	231877	243471	279991	307990	332753	359373
3	145134	154982	162731	170868	187954	216148	237762	249650	287098	315808	341072	368358
4	154248	164715	172951	181598	199758	229722	252694	265329	305128	326731		
5	164416	175573	184351	193569	212926	244865	269351	282819	325242	337653		

Reference minimum wages for civil service positions in health sector

Payroll grade	Sector ranking								
	TYЭМ-1	TYЭМ-2	TYЭМ-3	TYЭМ-4	TYЭМ-5	TYЭМ-6	TYЭМ-7	TYЭМ-8	TYЭМ-9
1	164973	181470	208691	229560	241038	277194	304913	329459	355815
2	166638	183302	210797	231877	243471	279991	307990	332753	359373
3	170868	187954	216148	237762	249650	287098	315808	341072	368358
4	181598	199758	229722	252694	265329	305128	326731		
5	193569	212926	244865	269351	282819	325242	337653		

Reference minimum wages for civil service positions in culture and art sector

Payroll grade	Sector ranking										
	TYCY-1	TYCY-2	TYCY-3	TYCY-4	TYCY-5	TYCY-6	TYCY-7	TYCY-8	TYCY-9	TYCY-10	TYCY-11
1	149635	157117	164973	181470	208691	229560	241038	277194	304913	329459	355815
2	151146	158703	166638	183302	210797	231877	243471	279991	307990	332753	359373
3	154982	162731	170868	187954	216148	237762	249650	287098	315808	341072	368358
4	164715	172951	181598	199758	229722	252694	265329	305128	326731		
5	175573	184351	193569	212926	244865	269351	282819	325242	337653		

Reference minimum wages for civil service positions in scientific sector

Payroll grade	Sector ranking					
	TYШY-1	TYШY-2	TYШY-3	TYШY-4	TYШY-5	TYШY-6
1	208691	277194	304913	329459	355815	384281
						415023

2	210797	279991	307990	332753	359373	388123	419172
3	216148	287098	315808	341072	368358	397827	429653
4	229722	305128	326731				
5	244865	325242	337653				

Reference minimum wages for civil service positions in preschool and secondary educational organizations

Payroll grade	Sector ranking							
	ТУБД-1	ТУБД-2	ТУБД-3	ТУБД-4	ТУБД-5	ТУБД-6	ТУБД-7	ТУБД-8
1	164973	181470	208691	229560	241038	277194	304913	329459
2	166638	183302	210797	231877	243471	279991	307990	332753
3	170868	187954	216148	237762	249650	287098	315808	341072
4	181598	199758	229722	252694	265329	305128	326731	
5	193569	212926	244865	269351	282819	325242	337653	

Reference minimum wages for civil service positions in schools for professional education

Payroll grade	Sector ranking								
	ТУМБ-1	ТУМБ-2	ТУМБ-3	ТУМБ-4	ТУМБ-5	ТУМБ-6	ТУМБ-7	ТУМБ-8	ТУМБ-9
1	208691	229560	241038	277194	304913	329459	355815	384281	415023
2	210797	231877	243471	279992	307990	332753	359373	388123	419172
3	216148	237762	249650	287098	315808	341072	368358	397827	429653
4	229722	252694	265329	305128	326731				
5	244865	269351	282819	325242	337653				

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