

**MONGOLIA
MEDIUM-TERM CIVIL
SERVICE REFORM STRATEGY**

STATE GREAT KHURAL OF MONGOLIA

RESOLUTION

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REFORM STRATEGY OF MONGOLIA

STATE GREAT KHURAL OF MONGOLIA DECREES:

1. TO APPROVE THE "MEDIUM-TERM CIVIL SERVICE REFORM STRATEGY OF MONGOLIA"
2. TO ENTRUST THE GOVERNMENT OF MONGOLIA /N.ENKHBAYAR/ AND THE GOVERNMENT SERVICE COUNCIL OF MONGOLIA / J.NOROVSAMBUU/ TO DEVELOP, APPROVE AND IMPLEMENT THE ACTION PLAN OF THE MEDIUM-TERM CIVIL SERVICE REFORM STRATEGY.

CHAIRMAN

S. TUMUR-OCHIR

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MONGOLIA
MEDIUM-TERM
CIVIL SERVICE REFORM
STRATEGY

1. INTRODUCTION

1.1 Background

Mongolia has made major strides in its transition to a market economy. This includes macroeconomic adjustment, rapid reforms to liberalize prices, lower trade barriers and reduce the size of the public sector. Recognized as one of the leading reformers among transition economies, the size of the public sector declined from 51.8% of GDP in 1993 to around 25% in recent years.

However, the economic crises in the second half of the 1990s, driven largely by external factors especially falling commodity prices, highlighted the need for major structural and institutional reforms to foster and support a performance-oriented public sector.

The Government of Mongolia wishes to maintain and improve its capacity to deliver essential public services and to provide an adequate legal and regulatory framework to encourage the development of an effective private sector.

The Government's Economic Growth and Poverty Reduction Strategy aims not only at reduction of unemployment, but it also aims at public sector management reforms and improvement in access and delivery of basic public services. The Strategy also highlights the need for specific improvements in services provided by the public sector in critical areas such as education, health and social care services.

A significant step already taken was the Public Sector Management and Finance Law (PSMFL) passed by Parliament with implementation commencing in January 2003. This law not only provides a mechanism to ensure budget discipline, but also establishes a new contractual outputs-based system aimed at improved accountability, governance and fiscal management. At the same time the Law on Government Services has been amended, together with a series of Parliamentary and Government resolutions, to strengthen personnel systems and increase the professionalism of the civil service.

In this context, the size, cost, capacity and skill mix of Mongolia's Civil service need continuing adjustment to take into account the evolving role of the state, changes in socio-economic and service delivery needs, and fiscal realities. This strategy document assesses the existing environment within which the civil service functions, and includes specific steps required to strengthen civil service efficiency, accountability and capacity over the medium term.

1.2 Factors Driving Civil Service Reform

Civil service reform (CSR) in Mongolia is being driven by both external and domestic factors. Major external influences have been:

- the disintegration of the communist bloc in the early 1990s and the dramatic transformation that has taken place in the public administration of the countries with which Mongolia has cooperated most closely over previous decades;
- the development and implementation of new models of public administration, not only in transition countries, but in most developed countries;
- the emphasis on public administration reform in donor programs, including technical assistance and loan conditions.

More importantly, this civil service reform strategy reflects domestic developments within Mongolia:

- the transition to a market-based economy, which has transformed the state's role in many areas, with profound implications for the roles of many civil servants;
- the Government's Economic Growth and Poverty Reduction Strategy, which includes improvements in the quality and efficiency of key public services, such as health and education, to ensure that existing resources are channelled to areas that have the most need and where the highest impact can be achieved;
- more broadly, a desire to improve civil service performance in reaching the community in delivering these essential public services, especially improving the accessibility and quality of services for the poor and vulnerable groups;
- recognition that the large number of civil servants (increasing since 2000) and recent across-the-board salary increases have soaked up a large proportion of the budget, making it difficult to redirect expenditure to high priority services (especially those associated with building the economy and reducing poverty), and also to increase civil service salaries where necessary to attract, retain and motivate staff in critical positions;
- the need for further refinement of bureaucratic structures within the civil service;
- a requirement to update the skills mix in the civil service to match Mongolia's needs as it transforms fully to a market economy.

Underlying these factors and this whole strategy are three sets of objectives, ensuring that:

1. the size, structure and remuneration of the civil service is consistent with Mongolia's fiscal position, to maintain macro-economic stability and provide the basis for economic growth;

2. staffing resources are allocated in a way that is consistent with the government's strategic priorities, especially to reduce poverty;

3. the civil service has the skills, motivation and institutional arrangements to effectively and efficiently deliver quality public services (including necessary regulation) within the policy framework set by the government.

2. CURRENT SITUATION

2.1 Civil Service Reform Stages

Public service reforms in transition economies are reflections of drastic political-institutional and economic reconstruction. At the same time, public administration is a key agent of political and economic reform, the success of which depends crucially on governance capacities.

The public sector in Mongolia as a whole has undergone (and is still implementing) several on-going reform initiatives, such as staff rationalisation, privatisation, decentralisation, tax reform, reforms in health and education sectors, social security and pension systems. New pressures, including fiscal constraints and pressure to provide good quality public services at lower costs, dictate that public administration and civil service reforms be deepened and fostered in the medium and longer terms.

In this context, public administration and civil service reforms have been on the agenda of various successive governments in Mongolia over the last decade or so.

Three major stages in public administration and civil service reform can be identified:

Stage 1 (1990-1993) focused on the legal and policy framework for the state structure. This dismantled the party-centred political system and created a state-centred political system.

Major milestones were:

- the new Constitution (1992) and key consequential laws were approved by the Parliament
- a new state structure system was formed and started functioning (legislature, executive and judiciary)
- a multi-partisan system became a reality.

Stage 2 (1993-2000) aimed at the creation of a professional civil service capable of implementing state policies and goals.

Major milestones of this stage were:

1. The *Management Development Program* – implemented by the Government with the assistance from UNDP and other donors. This was the first comprehensive attempt to reform public administration in Mongolia, albeit with the emphasis on building management capacity. Three main results were: (a) *institution building* – setting up the State Audit and Inspection Board (SAIB) and the State Administrative Service Council (SASC); (b) setting up a *legal framework* – the Law on Government Service (see below); and (iii) *capacity development*.
2. The *Law on Government Service* defined for the first time in Mongolia civil service personnel policies, legalised the status of civil servants, and provided a favourable legal environment for public administration and civil service reform.

3. "Mongolian state policy on reforming government processes and the general state structure"
– approved by the State Great Hural (Parliament)'s 1996 Decree #38 within the Management Development Program.

Stage 3 (since 2000) has aimed at strengthening institutional capacities and increasing their efficiency and effectiveness:

The Government has identified the priorities of this current stage as developing comprehensive policies to:

- enhance Governance and institutional **capacity**,
- improve public sector **efficiency** and **productivity**,
- increase the **effectiveness and quality** of public services and their accessibility,

and to implement them through strengthening competencies and performance of civil servants as part of the Sound Governance component of the Government's broader Good Governance for Human Security Program.

The PSMFL provides favourable legal environment for reforms at this stage. The PSMFL will involve devolution of personnel decision-making to general managers in line agencies, a comprehensive strategic planning process and accountability for performance in delivering outputs being "purchased" by the government.

The Law on Government Service, substantially amended to be consistent with PSMFL, aims at strengthening personnel controls and increasing the emphasis on performance.

This civil service reform strategy is the culmination of a series of reforms developed and implemented since 1990.

2.2 Key Features of the Civil Service

During the second quarter of 2003 the Government Service Council a data verification project was undertaken on the number and characteristics of the civil service.

The project found that 124,630 civil servants were employed in 5,200 budget organisations, plus almost 2,684 staff working in these organisations on quarterly contracts or other temporary arrangements. This total of 127,314 is substantially less than the basis of the budget allocations for 2003, which assumed that 136,866 civil servants would be employed.

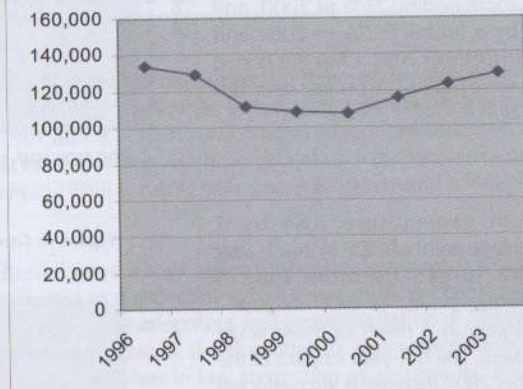
In addition to these 5,200 budget organisations, a further 4,085 staff were employed in 15 self-financing agencies. Given that the managers of these 15 organisations are civil servants, their staffing has been included in the aggregate civil service numbers.

The total civil service in April 2003 therefore comprised 128,846, which is 5.2% of the total population. Figure 1 shows the trend in civil service number since 1996, with a 20% increase following the decline in the late 1990s.

Within these overall figures, there are a number of trends in the composition of the civil service:

- the majority of civil servants are in 'support posts' (73%), which include all teachers and health workers; 7% are in 'administrative posts' (including all managers), 18% in 'special posts' and 2% are in 'political posts'
- 73% work for local governments and 27% for the central government (over the period 1997-2002 the proportion in central government increased steadily;
- most civil servants are women (59%), and this proportion is increasing
- there are somewhat fewer women in management and other administrative positions – 47% – although this proportion has increased steadily and significantly since 1998 when it was 34%
- the civil service is getting younger – in 2003 75.9% are under 45 years and only 5% are over 55 (less than 0.5% of civil servants are pensioners, mainly because of personnel shortages in rural areas)
- the proportion of the civil service employed in education and health seem to have fallen in the last few years.

Figure 1: Total Civil Servants, 1996-2003

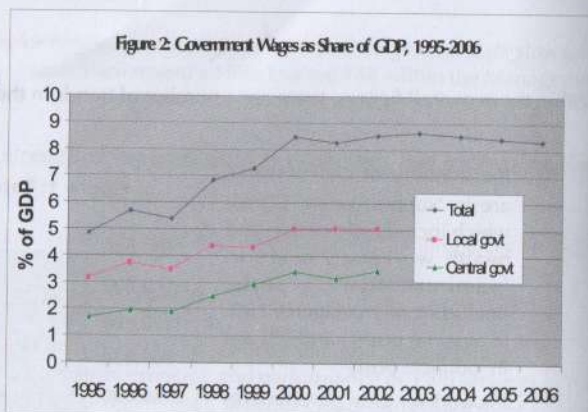


2.3 Civil Service Costs and Fiscal Implications

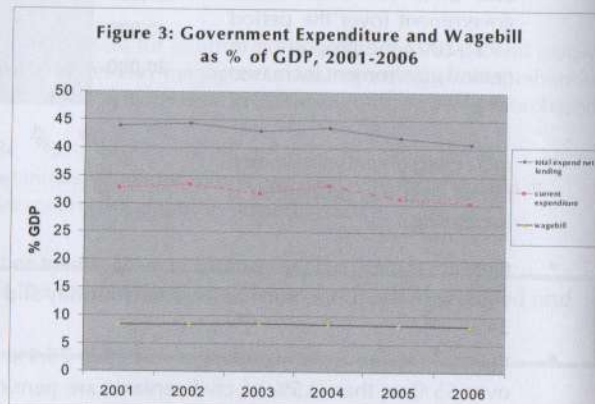
Although the early 1990s saw a significant reduction in civil service employment in Mongolia as part of the transition process, since 1995 the government wage bill has increased significantly, largely because of wage increases.

Mongolia's initial transition to a market economy saw the public sector's role in the economy drop from 51.8 percent of GDP in 1993 to 31.5 percent in 1995. By 1997 the share of government wages to GDP was higher than a number of other similar transition economies. After 1997 civil service wages and salaries increased significantly relative to GDP, although they are projected to fall slightly over the period 2003-06, as shown in figure 2 below, based on 2004 budget and MTBF figures (local and central breakdowns are not shown beyond 2002 because of a change in this classification).

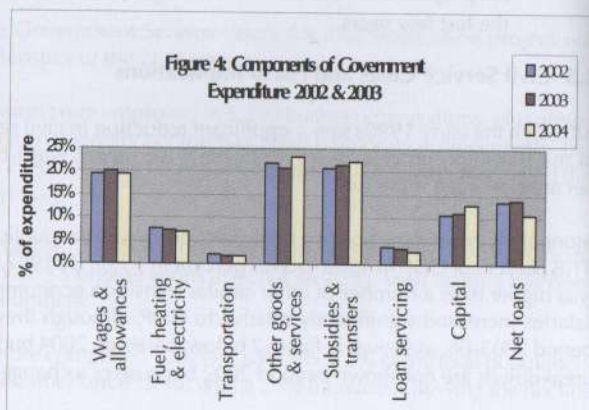
Although the 1997-2003 increase in the wage bill was partly caused by the recent increase in numbers of civil servants mentioned in the previous section, it mostly reflects increases in civil service wage rates. Base salaries were increased by 25% in 2000, and then by a further 9.2% in 2001 and 20% in October 2002. Over this period there were significant budget overruns on wages.



Current expenditure rose by 1 percentage point of GDP in 2002, after having surged by more than 5 percentage points of GDP in 2000-01, largely as a result of these wage increases. The full-year impact of the October 2002 increase is also reflected in the 2003 budget, which anticipated a further rise in the total wage bill as a proportion of GDP. This was offset by the decision to reduce civil service numbers during 2003, as discussed in the previous section. These trends are shown in figure 3.



The 2003 civil service wage bill accounts for 20% of general budget expenditures (including net loan payments), and represents one of the major components in the Mongolian government's budget, as shown in figure 4. As a percentage of current budget expenditure (including interest), the wage bill is now 27.8% (for the first 10 months of 2003). This is approximately the same level as 2000, although the percentage fell to 25.1% in 2001 and increased subsequently. The wage bill is currently 29.0% of current expenditure excluding interest, having followed a similar pattern since 2000.



The salary arrears problem that peaked in 1999 has now been largely resolved.

Because of the proportion of the budget spent on salaries, the steep increase relative to GDP in the period 1995-2000 meant that spending on wages was beginning to crowd out public investment, straining the government's limited borrowing capacity and its capacity to take initiatives targeted on poverty reduction.

Also fiscally significant is the current wage compression ratio (the ratio between lowest and highest civil service salaries, excluding political posts), which is low by international standards, and has not increased in recent years – it was 3.01 in 1997 and is 2.96 in 2003. Wages have increased faster at the bottom end of the scale, with the result that these civil servants have caught up with equivalent private sector salaries. The remuneration of lower-paid civil servants now exceeds that of equivalent private sector workers in some cases.

At the same time, more senior levels in the civil service have fallen further behind comparable salary levels in the private sector. This has contributed to the declining morale of midlevel technical and professional staff, many of whom are critical to the development and implementation of Mongolia's policies. Lower remuneration for these civil servants has the potential to create recruitment and retention problems, especially for well-trained specialists in key areas such as accounting, financial market regulation and taxation. Although salary comparisons between the public and private sectors need to take account of the extra benefits of civil service employment, especially security and allowances, the increasing gap for some key positions is a cause for concern.

3. REFORM PRINCIPLES AND POLICIES

3.1 Mission and Values of Civil Service Reform

The mission of this reform strategy is to establish a civil service that is: oriented to meeting the needs of citizens; flexible in responding to changing circumstances; proactive; lean; capable; and outcome-oriented.

The values of civil service reforms include:

- **Effective delivery of public services** – civil service reform will lead to improved service delivery, and is a key part of the poverty reduction strategy.
- **Performance and output-orientation** – the reform strategy is based on the achievement of results or outputs, not inputs. Performance criteria will include equitable access to services, especially for the poor and disadvantaged groups.
- **Efficiency and affordability** – Mongolia needs a civil service that provides maximum service for the least cost, and stay within tight Budget expenditure constraints. An efficient civil service is essential to leave room for private sector economic growth.

3.2 Principles of Reform

The principles upon which civil service reform is based include:

- **Public service** – members of the Mongolian civil service recognize their primary duty is to the government and people of Mongolia above their personal interests.
- **Merit** – all appointments and career advancement of individuals should be based solely on qualifications and performance.
- **Right people in the right job** – the objective of the appointment process is to have the most appropriate qualified person in each position, regardless of organisational affiliation. This is supported by the merit principle.
- **Equal opportunity** – the government is the leader in establishing good employment practices. Public sector employment should be an open process that includes selection criteria that redresses any discrimination against disadvantaged groups.
- **Letting the managers manage** – managers need to take responsibility for achieving the outputs and outcomes of the organisations and activities they control. They will be given the authority and flexibility to undertake this role and be held accountable for results.
- **Steering not rowing** – separating *policy* from *operational* activities, and achieving the appropriate balance between them. It implies the role of government should be about establishing policies for the *provision* of public goods and services, within which the *production* of those goods and services is undertaken by the most appropriate mix of public/private/social sector resources.
- **Structure follows strategy** – organisational design should be determined by objectives and the best methods of achieving goals, not the other way around.
- **From inputs to outputs** – the management of public resources is best served by encouraging achievement of results or outputs rather than by controlling inputs. This approach has been applied in the financial management and budgetary reforms over all the Mongolian public sector.
- **The Mongolian civil service as a Learning Community** – all organisations and individuals in the public sector should have the ability and desire to be receptive to new ideas and to learn from the past.
- **Providing authority with responsibility** – to make managers responsible for outcomes it must be accompanied by sufficient control over inputs, including appropriate authority. Accountability can only be obtained where there is a clear line of responsibility.
- **Performance-related rewards** – public sector employees should be rewarded for performance.
- **Economy of size** – to develop lean and capable civil service, which is effective for the development of Mongolia.

These principles and values are the foundation of the civil service reform agenda.

3.3 Reform Policies

Policies driving the civil service reform strategy are embodied in the Law on Government Service (LGS) and the Public Sector Management and Finance Law (PSMFL).

The LGS and other relevant acts set the following policies:

- political neutrality of the civil service
- transparency in personnel decisions
- equal opportunity for all Mongolian citizens to enter the civil service
- codification of the rights and obligations of civil servants and a code of ethics
- declaration of income and property interests
- prevention of nepotism
- establishment of an independent Council responsible for civil service issues, reporting directly to the Parliament (not the Government).

The PSMFL has mandated the following management tools and concepts into Mongolian public sector management:

- outputs-based budgeting (contractual basis of receiving funding)
- performance agreements
- strategic business plans
- performance reporting including performance indicators
- accounting standards in accordance with international accounting standards
- duties and responsibilities of organisations (ministries, agencies, Aimags, Capital City, Soums and Districts).

The PSMFL places general managers at the heart of civil service and financial management reforms.

Under this legislation, general managers will be empowered to make the key personnel decisions, and to manage and control their organisations. The principle of using outputs instead of inputs to manage and control resources applies equally to the management of civil servants as to financial and other physical resources. A key success factor will be to ensure general managers are familiar with the requirements of the civil service reform strategies, are equipped with the skills and sufficient authority to implement them, and have sufficient flexibility to achieve efficient and effective outcomes. The LGS and the PSMFL provide with favourable legal environment for further deepening of the civil service reform, and set out the reform policies.

Mongolia's key civil service mid-term reform policies are to:

- strengthen the strategic planning and performance management capacities of state and budgetary organisations
- improve civil service human resource management
- ensure the optimal size of the civil service, and modernise the remuneration system for civil servants.

The strategic objectives are based on these medium-term reform policies.

4. SPECIFIC CIVIL SERVICE REFORM STRATEGIES

4.1 Strategic Planning and Performance Management

Strategic objective: to deepen the capacity of the civil service (especially general managers) to undertake strategic planning

The PSMFL requires all ministries and other budget agencies to develop Strategic Business Plans and to move to output-based accounting. This process has already started, with all agencies following a standard format for their Strategic Business Plans; the 2004 draft budget includes broad output (or at least program) expenditure figures.

Preparation of strategic plans for the first year was largely a descriptive form-filling process, rather than pro-active decision-making on priorities and the means of achieving strategic objectives. Capacities that are critical to further development of strategic planning include (a) reviewing the staffing costs of delivering outputs, and (b) human resource planning within the strategic planning framework.

The following specific actions are included in this Civil Service Reform Strategy to achieve this:

- A workshop will be convened by the GSC and MOFE, including general managers from 7 agencies most advanced in their strategic planning, to compare experience, to review current processes and guidelines, and to provide input to training curricula.
- Further training courses on strategic planning techniques will be provided for general managers and key staff, building on experience in the first year.
- GSC change agents will be appointed in GS branch councils where necessary, to support general managers by facilitating and coordinating the planning process within these agencies – but not to take over the planning process itself, which should be undertaken by the management team.

Strategic objective: to strengthen the capacity of the civil service to manage on a performance basis, including measurement, monitoring, and assessment, with progressive relaxation of some input controls.

Identification of effective performance indicators is probably the most challenging step in implementing output-based management and accountability. For the civil service, agency indicators will then be translated into individual performance agreements, which will form the basis of assessment of civil servants' performance.

Based on experience in other countries (including developed and transition countries), these processes will require some years to develop fully, especially in the specification and costing of outputs, and the development of meaningful and reliable performance indicators and performance assessment mechanisms.

Some budget agencies are moving at a faster pace towards full implementation of the performance reforms, because it is easier to define outputs and assess performance for their functions. The reform process will therefore distinguish between agencies – especially to reward those managers that demonstrate leadership and competence (including the establishment of internal control systems) by reducing interference in their management. A Step-By-Step approach (not waiting for across the board implementation of reforms) will enable some of the benefits of reform to be demonstrated as soon as possible, will encourage general managers to implement finance and management reforms, and will maximise the efficiency and effectiveness gains of 'letting the managers manage'.

The following specific actions are included to achieve this:

- Further training courses for key staff supporting general managers will be provided, building on previous capacity building supported by the ADB. These will include development of effective performance indicators, performance agreements, and assessment of individual performance.
- A mechanism will be established to obtain regular feedback on civil service performance from service users or clients, and the results published.
- A Step-By-Step approach will be taken to implementation of the PSMFL. Specified input controls (eg imposition of staff ceilings and some central staffing rules) will be relaxed progressively for individual budget agencies as they develop their skills and procedures in strategic planning and performance management. Agencies will be able to qualify either as 'intermediate' or 'best practice' output-based agencies if they demonstrate to GSC and MoFE that they have met specified reform criteria (these criteria to be developed in 2004).

4.2 Leadership and Selection of Senior Managers

Strategic objective: to implement transparent, competitive selection processes for senior civil servants, especially general managers.

The Government's civil service and financial management reforms both place general managers at the heart of the broader public sector reform process. These men and women will play a key role in the delivery of the core functions of the civil service. They will provide high quality policy advice to the Government and implement Government programs, including delivering services to the community. They have a particular accountability to ensure the delivery of outputs that contribute to the achievement of outcomes as determined by the Government. They must be able to focus on the outputs specific to their agency, and the links between these outputs and broader government goals. This requires them to create a shared vision and sense of purpose for their organisations, to enable and motivate their staff to achieve high performance.

Selection of general managers is a critical success factor for civil service reform and, more broadly, for public sector reform.

The PSMFL and other relevant legislative acts provide for open, competitive selection of approximately 3,000 senior positions in the core civil service, including all general manager positions. All these positions must be advertised and then chosen on the basis of a short list of 3-5 names prepared by the GSC; reasons for selection and the short list itself must be made public. Parliamentary resolution 13 of 8 May 2003 prescribed the detailed procedures to be followed in filling these positions

The following specific actions are included to achieve this:

- **Transparent testing /assessment procedures will be developed/ with international assistance to take advantage of world's best practice in recruiting chief executives in public and private sector organisations.**
- **In the medium term, procedures for selecting other senior civil servants will be reviewed with a view to introducing open, competitive selection processes similar to those being introduced for general managers.**

Strategic objective: to develop the leadership skills of those selected to be general managers or to hold other senior civil service positions.

Selecting the best people will not be enough to ensure effective leadership in the civil service. Leadership and team-building skills need development. General managers will be expected to (a) shape strategic thinking for their organisations, (b) cultivate productive working relationships (both within and outside their organisation), (c) communicate with influence, (d) exemplify personal drive and integrity, and (e) achieve results.

More open and competitive recruitment for senior positions – with some positions being filled by civil servants from other agencies – will help to improve day-to-day cooperation between agencies. This will be reinforced through service-wide leadership development for senior personnel, building on the current pilot projects supported by the Swedish Institute of Public Administration.

The following specific actions are included to achieve these objectives:

- **A comprehensive and intensive Civil Service Leadership Program will be developed for general managers and those working directly to them, covering strategic thinking, working relationships, communication, personal drive and integrity, and achieving results. This program (perhaps 2 week-long residential sessions) will emphasise learning organisation principles and establishment of networks. It will be required for all existing general managers and all new appointments by the middle of 2005, with priority for managers in agencies involved in poverty reduction programs. By end 2006 completion of at least the first stage of the program will be a pre-condition for appointment to a general manager position.**
- **The GSC's procedures for assessing the performance of general managers will be amended to include specific assessment of leadership performance, based on similar criteria to those incorporated into selection procedures.**

4.3 Organisation and Human Resource Development

Strategic objective: to develop human resource management procedures and systems within civil service organisations to ensure that internal decisions are transparent, fair and performance oriented.

Successful reform of the Mongolian civil service also depends on general managers having internal procedures and systems in place that will focus their organisations on performance and will meet minimum standards of transparency and integrity.

Selection procedures adopted for civil service positions will reflect merit, right person in the right job, and equal opportunity principles.

In the medium term selection processes will be increasingly undertaken within the framework of agency human resource plans – resource plans that establish the future requirements for staff in terms of numbers, skills, competencies and cost. The planning will be based around the organisation objectives and strategies expressed in the Strategic Business Plan. Organisation structures and development strategies will be part of human resource planning.

Civil servants will be selected for specific positions on the basis of merit, and without discrimination on the basis of ethnic origin, gender, social background or position, wealth, occupation or post, religious conviction, opinion, party or public organization membership. Beginning with senior positions all permanent appointments to civil service posts will be made on the basis of transparent, competitive selection processes, in some cases open to all qualified citizens and in other cases, to all qualified civil servants.

The following specific actions are included to achieve this:

- **The GSC will develop a service-wide model for human resource management that distinguishes clearly between procedural requirements (based on legislation – including the LGS and PSMFL – Civil Service Code of Conduct, and Parliamentary, Government and GSC resolutions) and best practice guidelines that provide options for general managers.**
- **Appeal procedures under article 39 of the LGS will be reviewed, including consideration of (a) a requirement that appellants must first apply for internal review within their employing agency (except in extreme circumstances) and (b) extending the scope of this article to all support civil servants (which would require legislative amendment).**
- **A qualification test on managerial skills will be developed and implemented for selection to mid-level supervisory administrative posts.**
- **In the medium term vacancies and appointments to all administrative positions will be notified publicly.**
- **The GSC's role shall be more focused on supervisory and management positions, and greater flexibility will be allowed for general managers in 'intermediate' and 'best practice' agencies.**

- Current legislative provisions and procedures for appointment to all civil service posts will be reviewed (including the LGS and specific legislation for sector support staff).

Strategic objective: to provide individual civil servants with essential skills, especially service-wide skills in policy analysis, risk management, use of information technology and human resource management, as well as performance management.

There is an urgent need to strengthen the knowledge and skills base of senior and middle level civil servants, consistent with the Mongolian Government's wider reform agenda and the development needs of civil service organisations. In addition to development of leadership and performance management capacities already mentioned, a comprehensive training needs assessment is required, to review training needs for specific sector ministries and to address service-wide requirements.

In the interim, there are 4 other priority service-wide training needs that should commence before the full needs assessment is completed. Firstly, line ministries require stronger policy analysis skills to complement the strategic planning skills already mentioned. The management reforms in the PSMFL depend fundamentally on the underlying policies of the Government, and a critical role of ministries is to provide the Government with policy advice and analysis. While there are sector-specific policy issues (and a number of sector projects already underway), there is a core set of policy analysis skills that will be developed across all ministries.

Secondly, Mongolia's civil service strategy also includes the implementation of risk management approaches. Because leadership involves 'steering rather than rowing', it is important to know when to correct the course – how closely to monitor and when to intervene. Centralised decision-making and comprehensive checking and oversight will be replaced by more strategic decision-making and accountability, but this must be offset by appropriate risk assessment and management. Risk management approaches are required at many levels within the civil service – for example in the relationship between central and line agencies, the relationship between general managers and their line managers, in auditing, in revenue collection, and in enforcement of laws and regulations. A broad understanding of risk assessment and risk management principles is therefore critical for many civil servants, over and above training in specific techniques.

Thirdly, human resource management skills in line ministries and agencies require strengthening, within the framework of the human resource management model. Priority skills include development of core competencies for administrative and support staff, and recruitment processes.

Finally, there is a wide-spread need to improve skills in the use of information technology, not only through employment of IT specialists but, more importantly, development of skills in the uses of IT among middle and senior managers.

The following specific actions are included to achieve this:

- A comprehensive training needs analysis will be conducted for the civil service, covering both service-wide core competencies and analysis of specific sectors.

- Based on this analysis, a competency-based civil service training strategy will be developed, including links with sector-specific training and capacity building strategies.
- In the long run, delivery of civil service training will be based on a purchaser/provider model, with line agencies and (for priority central initiatives) the Government Service Council purchasing training services from providers, and active encouragement of competition between providers. In the longer term, agencies will be provided with training funds through the budget, based on assessment by the GSC, the Cabinet Secretariat and MOFE of agency proposals and analysis of available donor support. Delivery of training will also make use of distance training methods in order to improve access by civil servants working in remote areas.
- In the interim, service-wide short training programs will be developed and provided for relevant civil servants in policy analysis, risk management, human resource management and use of IT. These will be carefully targeted on specific management, administrative, special and support staff categories and will be funded through a combination of donor support (especially in 2004) and partial budget funding (from 2005).

4.4 Policy Analysis and Data

Strategic objective: to strengthen personnel management and control through the development of a civil service database and monitoring capacity.

Any employment decisions often involve substantial liabilities given redundancy provisions, pension and leave provisions and the political constraints on dismissing staff once employed.

Although some civil service data is currently available and was subject to a verification exercise by the GSC in April 2003, it does not include all the required information and is not regularly updated.

The HRMIS will include a database of all civil servants including identification, education qualifications, competencies, performance assessments, and complete data on remuneration, including allowances, bonuses and non-cash benefits (such as cars and phones).

Establishment of a civil service Human Resource Management Information System (HRMIS) will allow ongoing monitoring of civil service employment without the need for day-to-day intervention by central agencies. In this sense it will increase the transparency of personnel decisions in terms of external scrutiny of agency decisions.

The design of the HRMIS will focus on: (a) monitoring needs of central agencies, to ensure that relevant data fields are included; (b) management information needs of general managers, with respect to their own personnel (including human resource planning); (c) procedures and incentives for maintaining the database and keeping it up-to-date (including responsibility for data entry, amount of data collected, automatic transfer of personal data when individuals move positions and possible links with payroll management); (d) right of civil servants to access their own personal records and request correction of errors; (e) protection of privacy of personnel data (including access procedures to particular levels of information).

The following specific actions are included to achieve this:

- A comprehensive HRMIS will be designed, developed and implemented, taking into account the issues listed above, especially database maintenance and privacy. This will include purchase of appropriate software and hardware, based on an agreed implementation strategy.
- A full civil service census will be conducted in 2004 to provide the baseline data for the HRMIS.
- Development and implementation of specific training courses for central agency and line agency staff involved in maintaining or using the HRMIS.

Strategic objective: to develop the analytical capacities of central agencies.

Current analytical capacities of the GSC and MOFE are limited. Development of performance data and the HRMIS must therefore be complemented by capacity building for these agencies. More specifically, they will be required to: (a) analyse performance and civil service data; (b) respond to emerging performance and fiscal issues; and (c) develop appropriate policies for the civil service reform.

The following specific action is included to achieve this objective:

- A specific capacity building program will be developed and implemented for the GSC, Cabinet Secretariat and MOFE to enhance their analytical skills, to be implemented on a coordinated basis to help build a complementary working relationship between these key decision-makers in civil service reform.

5. FISCAL AND EMPLOYMENT STRATEGIES

5.1 Optimum Size of the Civil Service

Strategic objective: to progressively right-size the civil service by reviewing the functions and services the government wants the civil service to provide and appropriate delivery mechanisms.

During 2002 and 2003 the Government responded to fiscal circumstances through a series of decisions that are reducing the number of civil servants. These decisions included the Parliamentary Resolution 56 of 2002 and Government Resolution 34 of 2003, both on social sector reforms and privatisation, and Government Resolution 119 of 2002 on public administration.

Although the prescribed staffing reductions averaged 10%, the reduction for each agency was varied to take into account the capacity of specific ministries and other agencies to achieve staff savings.

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It should be emphasised that these staffing reductions were made as a short term measure, to reverse the previous fiscal trend. In the medium-long term, however, across-the-board input controls are not regarded as an effective strategy for containing or reducing costs, especially given the Government's priorities of improving the delivery of key public services and introducing outputs-based approach to management and budgeting. As a recent World Bank report on public expenditure emphasized, rapid downsizing would endanger long-run poverty reducing objectives. This is especially the case with across-the-board strategies such as staff ceilings and voluntary redundancy offers that do not target reductions on low priority activities and encourage more competent and adaptable employees to leave.

The total civil service comprises about 5% of the total population of Mongolia – not out of line with other transition countries. Nevertheless, the Government noted in its 2004 budget that public sector employment (17% from total employment, including state-owned enterprises) is still too high, indicating that the participation of the government sector in the economy through the state budget is still high and public sector's size and structure are not yet fully appropriate.

The appropriate size of the civil service depends firstly on what it is asked to do, taking into account Mongolia's transition to a market economy. The status of many agencies needs to be reviewed to ensure an appropriate relationship between public and private sectors, and encouragement of competition.

Decisions will also be taken on which of these functions/services will be provided directly by agencies employing civil servants, and which should be contracted out to the private or non-government sectors, or provided by those sectors based on a subsidy from government. Obviously the size of the civil service does not need to be as large if its role is restricted to policy advice and contract management or grant administration, than if civil servants deliver services directly.

Choices between in-house delivery and delivery by contractors will not be driven by the impact on the numbers of civil servants, but on the most effective and efficient mechanism of delivering essential services.

Given limited budgets, it is also important that low priority activities of the civil service, especially those no longer required in today's market economy, be identified and eliminated or reduced. This will be a major aspect of the strategic functional reviews, which will involve central agencies as well as line ministries and provide strategic advice to the Cabinet on functions no longer justified.

In the longer term, once these strategic questions are settled, general managers will have the central role in determining the size of their organisations within overall budgets for outputs.

The Mongolian civil service delivers a wide range of public goods and services to people distributed over a large scarcely populated area often living a nomadic life style in harsh conditions. This presents unique challenges, needs and solutions. This is one of the reasons the Government is progressively implementing an outputs-based budgeting model, under which agencies will request funding in terms of outputs or goods and services produced rather than requesting funding for inputs such as salary allocations, or allocations based on a fixed number of employees.

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Central agencies or agency managers will use appropriate mechanisms to reduce civil service numbers. These range from across-the-board action such as staff ceilings and voluntary redundancies to more targeted strategies, such as functional reviews to restructure or re-engineer processes, and privatization strategies that move whole activities outside the public sector. There is a risk that some across-the-board strategies will reduce the quality of delivery of essential public services, especially access by disadvantaged groups. A combination of tools is needed to achieve sustainable reductions in civil service numbers in a way that actually improves the delivery of priority public services.

To achieve economies of scale, especially in remote areas, the Government will consider the opportunity to restructure the delivery of services, for example by combining service delivery points and utilising alternative service delivery techniques such as "one stop shops". It may also involve combining local government administrative units and responsibilities as part of decentralization of government services.

The following specific actions are included to achieve this strategic objective:

- **Strategic functional reviews will be established in specific sectors to review functions and structures and advise the Government on: (a) functions that are no longer required; (b) functions that require substantial re-engineering or alternative delivery mechanisms given the government's strategic priorities and the demands of a modern market economy; (c) structural implications of strategic decisions; and (d) identification of innovative delivery mechanisms that may cut across traditional institutional boundaries, especially in remote areas.**
- **Training will be provided to build the capacity of central and line agencies to effectively manage their staffing resources, including implementing decisions on appropriate staffing levels and mechanisms to reduce their staffing levels when necessary.**
- **Implementation of the functional reviews will be monitored through budget reporting and HRMIS, as well as regular reports to Cabinet.**

All of these will be undertaken within the strategic and business planning process being established under the PSMFL.

5.2 Remuneration and Benefits

Strategic objective: to ensure that the civil service wage bill is fiscally sustainable, and does not undermine the Government's capacity to deliver effective public services, especially those designed to reduce poverty.

The Government recognises that a key to successful medium-term civil service reform is the twin challenge of retaining and attracting quality civil servants to help deliver effective and efficient public services, while shedding unproductive employees and maintaining fiscal discipline. Effective delivery of public services over the medium-long term will require the civil service to be competitive in attracting bright, young graduates, with remuneration (and promotion) systems that reward performance and talent, rather than seniority.

Civil service wage increases are beginning to crowd out public investment, straining the government's limited borrowing capacity and its capacity to address priorities such as reducing poverty. In 2003 the wage bill accounted for 8.6% of GDP. The Government's Medium Term Budget Framework, passed by the Parliament in June 2003, sets out the medium term targets for the government wage bill. This will limit the wage bill to 8.5% of GDP in 2004, 8.4% in 2005, and 8.3% in 2006. In 2004 the Government will ensure that wages will comprise no more than 19.5% of the total budget funds and 25.2% of current funds. These figures are less than the 2004 targets included in the MTBF.

With the assistance of the World Bank, a Wages Expenditure Analysis Model has been developed to enable the Government to assess the full budgetary cost of future proposed salary increases, whether across-the-board or targeted on specific agencies or classifications. The model allows simulation of aggregate wage bill expenditure over the life of the MTBF based on possible changes in the key variables – civil service numbers, base salary rates, classifications, allowances and termination benefits. The model also takes into account the impact of salary increases on future pension liabilities.

In addition to the actions mentioned in 5.1, the following specific actions will be taken to ensure that the wage bill will be reduced as a percentage of GDP in line with the MTBF targets:

- **Real salary increases for civil servants in 2004 will depend on the real increase in GDP actually achieved and on implementation of this civil service reform strategy, especially staffing reductions from the strategic functional reviews.**
- **Future service-wide salary increases will be fully costed using the Wages Expenditure Analysis Model.**

Strategic objective: to modernise the remuneration system for civil servants, by making it more responsive to labour market conditions, more devolved in line with the PSMFL, more transparent and more performance-based.

There is anecdotal evidence that wage compression and the gap between public and private sector employment is starting to affect the retention of key staff and probably also recruitment.

Sustainable public services require particular skills, some of which are in short supply in Mongolia. Unless adequate remuneration is provided to civil servants, sooner or later government agencies will find it difficult to recruit, retain and motivate the staff needed to deliver services.

The need for further targeted salary increases for administrative, support or specialist staff will be examined by the government. This review will focus on the current and prospective market conditions for critical skills, and given the fiscal situation and the budgetary priority being given to improving delivery of essential services, will:

- take into account the current legislative framework for salary determination
- focus on potential skill shortages and areas where the skills are available outside the civil service or highly skilled civil servants are being tempted with more attractive prospects elsewhere
- analyse actual recruitment and separation patterns in the priority areas (including the remuneration received in subsequent jobs)
- examine competition from state-owned enterprises and donor-funded projects as well as the private sector
- take a short to medium term view
- take into account non-salary benefits available to civil servants (especially pensions which for long term employees may partly compensate for wage compression)
- where appropriate, recommend raising maximum salary levels (rather than minima) to provide general managers with greater flexibility to increase pay where necessary without locking them into unnecessary salary costs
- where appropriate, identify alternative strategies to address current and potential skill shortages, including retraining and up-skilling (i.e. not assume that all skill shortages are best addressed by increasing recruitment through higher remuneration).

The review will examine (but not be limited to) the following skill areas: financial management and auditing; financial market regulation; taxation; senior management; and technical skills in national priority areas.

In the slightly longer term, with the implementation of the PSMFL, there is a need to develop the capacity of line agencies to determine staff remuneration in an effective and transparent manner. As a transitional step key general managers (or their senior human resource managers) will therefore be invited to participate in a process of developing plans on how their agencies would spend additional salary allocations (say an extra 3-5%) on salary increases. This process will help develop line agency skills in remuneration management in an outputs-based context, including modelling of medium term budgetary implications.

More fundamental reform of the remuneration is required, however. Part of the pressure for salary increases and the perception that civil service salaries are well below private sector equivalents is the failure to take full account of non-salary benefits. In Mongolia, as in many other countries, non-salary benefits comprise a substantial proportion of civil service overall remuneration.

For example, for administrative positions there are supplementary payments for seniority (eg 15% of base salary for 16-20 years service), academic qualifications and positions (eg 15-20% for a doctorate) and grade (up to 35%). Pensions and in-kind benefits are provided, such as up to 80% of health insurance premiums, other insurance, housing and children's education. Some senior officials also receive transportation, newspapers and telephone benefits.

In addition, the LGS and the PSMFL authorize payment of bonuses and other types of performance rewards. In some cases allowances and other non-salary benefits entitled under the LGS amount to more than 100% of a civil servant's base salary.

In the longer run, current allowances will be integrated into a single salary payment to increase flexibility for managers. In the meantime, the allowances and other non-salary benefits received by individual civil servants will be made more transparent (eg through the HRMIS), which will not only enable more meaningful comparisons with private sector remuneration and increase the civil service's capacity to recruit in the market, but more importantly will improve accountability.

Finally, a new policy on performance bonuses will increase transparency and strengthen the link with performance management and strategic planning. Transparency in the payment of bonuses and other rewards is necessary to achieve the goal of encouraging performance and to ensure integrity of the overall remuneration system.

The new policy will initially emphasise payment of annual performance bonuses and will provide guidance to general managers in implementing Article 49 of the PSMFL, be based on international experience with incentive schemes, and include the following principles:

- alignment with strategic objectives
- basing bonuses on performance indicators that are measurable
- choosing performance indicators that are appropriate, and will not lead to unintended consequences
- negotiate incentives before the beginning of the assessment period
- take motivation factors and culture into account in specifying the type of incentives
- establishing staff support by ensuring simplicity, credibility and transparency
- allowing general managers to design their agency's incentive scheme consistent with these principles
- providing guidance to general managers in the design and implantation of their incentive schemes.

The following specific actions are thus included to achieve this objective:

- **A Remuneration Unit responsible for conducting studies, providing with relevant information and, if necessary, developing proposals on remuneration issues will be established within the GSC.**
- **In the short run the GSC will conduct a review of current salary classifications and remuneration for critical skill areas, including those identified above**
- **Allowances and other non-salary benefits will be progressively incorporated into base salaries over the longer term. In the meantime, all allowances and benefits received by individual civil servants will be included in the HRMIS.**
- **A new policy on performance bonuses for all civil servants will be developed.**

The actions outlined above will go some way to addressing salary pressures, and together represent a performance-oriented approach. Targeting salary increases on current or potential skill shortages, strengthening performance incentives and rationalisation of non-salary incentives will strengthen the civil services capacity to deliver effective services without adding to fiscal pressure.

If the strategic functional reviews and other strategies are sufficiently successful in shedding redundant functions and staff, and bringing the growth rate of salaries under the rate of growth in GDP, there could possibly be scope for real increases in overall civil service salaries.

6. IMPLEMENTATION RESPONSIBILITY.

6.1 Role of the Government Service Council

The GSC shall perform the following functions under the LGS and the PSMFL: (a) controlling the implementation of human resource policy in state and local budgetary bodies; (b) nominating candidates for specified senior managerial positions; (c) ensuring the observance of a code of conduct to ensure ethical behaviour of civil servants; (d) establishing an integrated database of government employees; (e) overseeing the appraisal of performance and qualifications of civil servants and applicants for government administrative posts through a qualification test; (f) organizing training programs for civil servants and research into civil service issues; (g) proposing changes to the structure of government organisations, classification levels, grades, salary scales and remuneration rates; (h) analysing the performance of the civil service and developing proposals on its improvement; (i) considering appeals against certain personnel decisions.

While many of the GSC's decision-making and enforcement functions will continue, it will have a greatly expanded role in change management and capacity building. This will include the establishment of civil service policies and guidelines, providing advisory services to general managers on human resource management and other public sector management issues, and coordinating civil service training. Having this role performed by the GSC, which reports directly to Parliament and is independent of the Executive, will reinforce the political neutrality of the civil service.

This greatly expanded role for the GSC reflects: (a) the need to support the increased role of general managers under the PSMFL; (b) the current absence of a central pool of expertise and knowledge in civil service reform; (c) current duplication and inefficient use of international consultancy advice; (d) missed opportunities to share the results of technical assistance and consulting studies; (e) the need to find office accommodation and support services for cross-agency technical assistance projects; and (f) limited availability of training services outside the Academy of Management.

The Government Service Council has an important role as the champion of change to support the public sector management reforms and application of good governance principles. The GSC will become a knowledge centre for public sector reform and good governance.

To support civil service reform and good governance, the Council will undertake the following services in addition to its current functions of developing policy and guidelines –

1. Developing a pool of local consultants specializing in public sector management reform and all aspects of management that would be available to all public sector bodies. This would be supplemented by international consultants provided through funding agencies on the basis that they contribute technical knowledge to the pool as well as the client.
2. Maintain a central reference library of all reports and documents related to public sector management reform and governance studies, supported by an Internet site with links to other related sites, both local and international.
3. Providing a 'clearing house' for international consultants – a consultant management service available to any consultancy including office accommodation (if required), facilities and office support.
4. Coordinating civil service management training, including training needs analysis, recommending training programs, developing competencies, and encouraging training providers to enter the market of civil service training.
5. Providing advice to government on civil service reform and governance issues.

The Government Service Council will also have the central role in civil service remuneration policy, including on relativities and classifications. A separate unit within the GSC will be established to support this role.

Current functions of the GSC and the Ministry of Social Welfare and Labour (MSW&L) will be split. Except where provided in legislation, these policies are applied to civil service employment. The GSC and the MSW&L will cooperate in undertaking labour market research, for example on emerging skill shortages or remuneration trends, to avoid unnecessary duplication and provide the government with the best quality advice. But it is important to distinguish the government's role as employer of the civil service, and its broader policy and regulatory role with respect to the wider labour market.

With devolution of day-to-day controls on staffing inputs under the PSMFL, there is a greater role for the GSC in strategically monitoring compliance systems, to ensure that general managers are meeting governance requirements and individual civil servants are complying with the code of conduct. These strategies will:

- ensure that all civil servants observe newly revised code of conduct;
- require all general managers to take primary responsibility for compliance by his or her staff and to have an enforcement plan for the agency;
- target direct GSC monitoring on checking implementation of agency compliance and enforcement plans and directly monitor high risk areas.

6.2 Role of the Cabinet Secretariat

With the establishment of the GSC as an independent agency in 2003, the Cabinet Secretariat's involvement in detailed human resources issues has reduced, although it retains a coordinating role, especially with respect to issues being submitted to Cabinet and the implementation of Government decisions, as in other areas.

The Secretariat's general role is to support the leadership functions of the Prime Minister and the Cabinet. In implementing its primary functions of policy management and strategic planning, it supports the line ministries by making recommendations on issues of national development, strategic planning, macro economic analysis, and financial, human resource and executive management. It has a particular responsibility for coordinating public administration reform.

Given its day-to-day role in supporting the Government's strategic decision-making and the Cabinet process, the Secretariat will be closely involved in overseeing the strategic planning process in line ministries, to make sure that civil service planning processes are consistent with the Government's agendas and with Government resolutions. Under the civil service reform strategy, the Secretariat will therefore take particular responsibility for coordinating the strategic functional reviews – not to conduct the reviews, but to work with the GSC, MoFE and specific line ministries to identify priority sectors/functions to be reviewed, to submit the review program for Cabinet consideration, to develop terms of reference, to monitor progress and to submit results for Cabinet decision.

6.3 Role of MoFE

The role of MoFE is to undertake the central economic, fiscal and financial management functions for the government. The key focus of MoFE is to develop policies for the effective financial management of the public sector. By clearly distinguishing between the broad economic responsibility to guide the economy and the financial management of the public sector, MoFE has achieved substantial improvement in the overall financial condition of Mongolia. A key measure over the last two years has been to obtain tighter control over cash expenditure in the general government sector of the economy. This has been achieved through the cooperation of the Treasury Department of MoFE and the assistance from the International Monetary Fund (IMF). Using Government Financial Statistics (GFS) formats, the first Government financial statements on an accrual basis for the year ended 31 December 2002 have been produced providing evidence of the improved control through financial reporting.

MoFE is applying the provisions of the PSMFL by adopting output budgeting, introducing accrual accounting, and pushing forward with the associated reforms. This will enable all public bodies to continue the development of their accounting systems to produce accurate and relevant output costings for budget development purposes and to assist in the management of their agencies. The objective of the accounting improvements is to produce a consolidated financial statement for the GOM under IPSAS requirements as soon as possible.

The next phase of development for MoFE will be to provide comprehensive policy statements on the economic and financial issues facing the government. These policies will assist the government in reducing the structural Budget deficit, eliminate the dependency on foreign aid and enable them to allocate scarce resources to the most needy areas for improving infrastructure, developing a professional public service and delivering better services to the community.

6.4 Coordination and Capacity Building

The GSC, the Cabinet Secretariat and MoFE, supported by other relevant ministries, are responsible for overall oversight of the Civil Service, and these agencies need to be effectively linked and require further capacity building.

The GSC, the Cabinet Secretariat and MoFE with respect to civil service reform:

- The GSC shall coordinate service-wide training and capacity building for civil servants, and shall perform a change management role.
- The Cabinet Secretariat has overriding responsibility for coordinating public sector reform, as in many priority areas of government policy where a number of central agencies or ministries are involved. This is in addition to its more particular responsibility for commissioning high level functional reviews. The Cabinet Secretariat, in consultation with the GSC, will submit, jointly with MoFE and MSW&L, to the Cabinet all proposals that could have employment or fiscal implications.
- MoFE will continue to advise the government on fiscal policy issues and manage the overall budget process, consistent with the PSMFL. It will be critical for MoFE and the GSC to coordinate their activities.

A key interface between these agencies will be the development and approval of the capacity building strategy.

The GSC will be responsible for undertaking a training needs analysis, in consultation with MoFE and relevant line ministries, including MSW&L, Ministry of Education, Science & Technology, Ministry of Health, and other agencies, with the support of international consultants. The draft training strategy will then be costed in consultation with MoFE and submitted to the Government for its consideration. The Cabinet Secretariat would be responsible for ensuring that the strategy is consistent with the Government's broader reform agenda and for the consideration of the strategy by Cabinet at the appropriate time.

A second important interface is the modelling salary reform proposals. A remuneration unit will be established under the GSC to analyse remuneration issues, including labour market conditions, specific skill shortages and classifications. GSC will also be responsible at the national level for maintaining the HRMIS, which will provide the basis for updating the Wages Expenditure Analysis Model developed and used in MoFE. Cooperation between the GSC and MoFE will be critical to the continued value of this analytic tool.

A third example is the commissioning of strategic functional reviews. Especially at the sector level, these reviews should be commissioned at the highest level of Government, to ensure that they reflect the strategic priorities of the Government.

These and other requirements will stretch the current resources in the GSC, the Cabinet Secretariat and MoFE beyond reasonable limits. Thus there is a need to strengthen human and budget resources of these agencies.

Skills in the Cabinet Secretariat, GSC, MoFE, MSW&L, Ministry of Education, Science & Technology, and Ministry of Health will be upgraded over the next 3 years with support from donors such as the World Bank and Asian Development Bank, consistent with this civil service reform strategy.

The GSC and MoFE are already moving towards an effective partnership. Fiscal realities dictate the need for effective coordination between the GSC and MoFE, so that human resource policy and expenditure formulation and execution can be more realistic and sustainable. At the same time, building adequate institutional capacity in the GSC and MoFE is critical for effective cooperation and coordination between these two entities critical for human resource policy and expenditure formulation and implementation.

The Government also believes there should be improved coordination of donor support for civil service capacity building. While MoFE manages the financial aspects of donor programs, including loans and credits, there is a need for stronger coordination of technical assistance provided to the civil service to strengthen public administration.

Multiple project implementation units (often in one agency) add to coordination difficulties, and establishing or maintaining separate PIUs may be inhibiting the development of project management skills in mainstream civil service organisations. Many PIUs have external staff, who are not integrated into the day-to-day work of the implementing ministry or agency, and are often not involved in the strategic decision-making of the ministry/agency. Salary levels paid to local staff involved in projects may also be distorting the market for scarce skills.

In conjunction with major donors, the Government will therefore review project support arrangements, and task the GSC to coordinate donor support for civil service capacity building, in line with its expanded outlined in section 6.1, in particular its role of coordinating civil service training.

7. IMPLEMENTATION ACTIONS

7.1 Action Plan

The Government will approve and implement Action plan, which specifies strategic objectives, specific actions, and performance indicators for each strategic objective, including both process or output indicators and indicators of longer term outcomes.

7.2 Timing Priorities

Sequencing of the steps in this strategy will be critical to its success. Some actions require immediate implementation, under current procedures; others require prior steps to be taken, especially development of procedures and provision of training, before they can be successfully implemented. In a number of cases, the timing of actions must be consistent with the Government's budget cycle to ensure resources are provided for implementation.

The sequencing under this strategy is based on the following timing priorities:

1. **Fiscal discipline, to ensure the aggregate wage bill is managed effectively.** The Government has decided to gradually decrease the wage bill as a proportion of GDP. Urgent action is required to build the capacity of central agencies to monitor civil service employment trends and advise the Government, including development of the HRMIS and associated analytical skills. The Wages Expenditure Analysis Model will be used to assess the costs of salary proposals.
2. **Reviewing the role of the State, to shed functions that are low priority or inconsistent with a market economy, and to develop alternative service delivery mechanisms where justified on efficiency or effective grounds.** This fundamental step will take some time, but must be undertaken before the PSMFL is fully implemented. There is no point in agencies undertaking detailed strategic planning or developing performance management skills if their functions are not priorities, given Mongolia's modern economic system and fiscal circumstances, or if their agencies will be abolished or substantially restructured. These reviews must also be undertaken urgently because they will provide budget savings to address salary and staffing needs in priority areas.
3. **Matching the devolution of central input controls to the development of performance management and internal resource management capacities of agencies.** The current pace in developing effective performance indicators, performance agreements and resource management skills varies considerably between agencies. Rewarding agencies that rapidly and effectively meet these requirements (with recognition and greater management flexibility) is important to maintain incentives for reform and take advantage of early successes.

On the other hand, devolution should be slower for agencies that have not yet established a capacity for effective performance management. A Step-By-Step approach will therefore be established for implementation of the PSMFL, with 'intermediate' and 'best practice' agencies qualifying for greater flexibility in their management decision-making, within the framework of their performance agreements.

4. **Ensuring that, as soon as possible, all budget units have general managers who understand the civil service and financial management reforms and have the skills to implement them.** A high priority will be implementation of new procedures for selection of general managers, and development and implementation of the Civil Service Leadership Program for general managers.
5. **Developing and conducting training programs in critical skills for staff that support general managers, especially policy analysis, risk analysis, human resource management and use of IT.** While these urgent training needs of middle managers and analysts are being addressed, the GSC will conduct a comprehensive training needs assessment across all agencies.
6. **Developing urgent skills necessary for recruitment and retention of senior civil servants. Reducing wage compression and linking pay more closely with performance will be another area of focus.** Increases will be targeted on those with adequate performance assessments and/or who have been selected on an open, competitive basis.
7. **Making civil service remuneration more transparent and more effectively linked to performance.** These will be the first steps in a more comprehensive reform of remuneration carried out by the new Remuneration Unit in the GSC. A second stage will involve increasing the allowable salary ranges for each classification, freezing the monetary value of most allowances (except performance allowances) and cashing them out for new appointments (including promotees), and increasing the maximum performance bonus allowed.

8. OUTCOME PERFORMANCE INDICATORS

By implementing the strategies in this document, the following outcomes will be achieved:

- Fiscal discipline will be maintained through improved monitoring of civil service employment and building up the resource management skills of line agencies. This will be indicated through minimal agency budget overruns and consistency between annual budgets and the wages policy established in the MTBF, with deviations having to be justified in terms of circumstances at the time.
- The work of the civil service will be more focused as a result of strategic functional reviews of whole sectors and particular functions. The aim is not to reduce the size of the civil service per se, but to concentrate on the appropriate role of the State in a market economy and to use the most efficient delivery mechanism. Nevertheless, the resulting reductions in civil service employment and net budgetary savings will be important measures of the outcome.
- Improved management practices being applied throughout the civil service – in particular effective strategic planning, performance assessment and policy analysis – will lead to greater efficiency and effectiveness in service delivery by civil service organisations. In turn, this will lead to greater flexibility of resource allocations and enable the government to devote scarce resources to key priorities including poverty reduction. This will be reflected in the number of agencies reaching 'best practice' status under the Step by Step process of implementing the reforms.
- Better human resource management techniques, including more transparent, performance-related remuneration procedures, will improve employment practices in the civil service thereby minimizing the loss of key trained staff and protecting the government's investment in skilled people. Salary compression for non-political civil servants will be reduced over the next 3 years, in line with the level of responsibility and workload.
- More focused training of civil service managers will raise the competencies and skill levels of public employees, improve the professionalism of the civil service and enable civil service organisations achieve high performance levels.
- Concentrating on governance and risk management principles in civil service management will reduce the risks of loss of resources from poor decision-making and/or poor internal controls.
- The Council's role will shift from a largely regulatory one to a more policy-driven service-oriented role, assisting the civil service to improve management techniques and implement the LGS and the PSMFL requirements. This will assist the government to achieve its vision of a professional, flexible and customer-oriented civil service. A key outcome indicator will be feedback from general managers of line agencies.

RESOLUTION OF THE GOVERNMENT OF MONGOLIA

July 25, 2007

Number 186

Ulaanbaatar City

On approval of the Action Plan

In order to implement Resolution # 24 from 2004 of State Great Hural the Government of Mongolia DECREES:

1. To approve the Action plan for the implementation of the Medium Term Civil Service Reform Strategy of Mongolia as it attached hereto.
2. To entrust the Cabinet members to organize the fulfillment of the Action plan for the implementation of the Medium Term Civil Service Reform Strategy of Mongolia and Mr. J. Norovsambuu, Chairman of the Government Service Council is advised in due course.
3. To entrust Mr. S. Batbold, the Minister of Mongolia and Chief of the Cabinet Secretariat to analyze the results of the fulfillment of Action plan for the implementation of the Medium Term Civil Service Reform Strategy of Mongolia and to report to the Cabinet Ministers on the annual basis.

Prime Minister of Mongolia

M. Enkhbold

Minister of Mongolia and Chief of
Cabinet Secretariat

S. Batbold

Attachment to the Cabinet Ministers Resolution #186, from 2007
ACTION PLAN FOR THE IMPLEMENTATION OF THE MEDIUM TERM CIVIL SERVICE REFORM STRATEGY OF MONGOLIA

Strategic Objective	Actions to be Undertaken	Responsible Organization or Officer	Timing	Sources of Expenditure	
				Int. ('000 MNT)	Ext. ('000 USD)
1. WITHIN THE FRAMEWORK OF THE STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT STRATEGY:					
1.1. To strengthen the capacity of the civil service, especially general managers, to undertake strategic planning	1.1.1 The current procedure for developing strategic business plans will be advanced and aligned to how civil servant performance is assessed	Minister of Finance; Chairman of Government Service Council	2007 onwards	1,980.0	15.5 WB/ IDF
	1.1.2. Methodological training will be organized for general managers, and manuals describing the methodology will be developed, printed and disseminated for: a) Strategic Planning; b) Budget Planning; c) Performance Assessment; d) Monitoring and Evaluation of Performance Agreements fulfillment and Budget and Finance Performances.	Chairman of GSC; Chief of Cabinet Secretariat	2007 onwards	3,800.0	
	1.1.3. In 2008-2010, piloting of budget and fiscal planning for extended economic classification and products defined by programme and projects will be piloted and the methodology of organizing its continuous introduction shall be adopted	Minister of Finance; Chairman of GSC	2008 onwards	2,600.0	
	1.1.4. Training courses on advancing strategic planning techniques will be continuously provided for general managers and key staff, building on the experience of the last four years.	Chairman of GSC; Minister of Finance	2007 onwards	4,960.0	204.0 resources will be mobilized

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1.2. To strengthen the capacity of the civil service to manage on a performance basis, including measurement, monitoring, and assessment, with progressive relaxation of some input controls.	1.2.1 Training courses for related key staff and general managers will be continuously organized updating previous capacity building training modules that are supported by the ADB.	Chairman of GSC;	2007-2009	8,920.0	
	1.2.2 Rules and procedures approved by the Government Service Council on establishing and evaluating performance agreements will be enhanced and simplified to effectively optimize individual performance indicators, objectively assess individual performance and create accountability mechanisms.	Chairman of GSC; Minister of Finance	2007	1,320.0	32.0 ECTAC*
	1.2.3. A methodology for conducting social audits will be developed and gradually introduced in relevant government agencies in order to improve the quality and the delivery of essential public services (including education, health and social welfare).	Chairman of GSC; Minister of Education, Culture and Science; Minister of Health; Minister of Social Welfare and Labor	2007-2010	1,980.0	250.0 UNDP
	1.2.4. Regular user surveys will be conducted in order to improve monitoring, evaluation and the performance of government agencies' activities. The methodology will be developed and gradually introduced to relevant government agencies.	Chairman of GSC; Chief of Cabinet Secretariat All Ministers	2007 onwards	54,600.0	
	1.2.5. Based on a phasing-in implementation approach , according to the Public Sector Management and Finance Law, some specified input controls will be relaxed gradually for individual budget agencies as they develop their skills, rules and procedures in strategic planning and performance management.	Minister of Finance; Chairman of GSC	2007-2010		
	1.2.6. Procedures for reviewing general managers' performance agreements will be refined. Procedures will focus on the objective assessment of agreements and will ensure proper linkage of outputs to rewards.	Chairman of GSC; Minister of Finance	2007	660	16.0 ECTAC
Key output measures: (a) total number of training days completed by participants on strategic planning; (b) new, consolidated procedures issued by the GSC and MoF on the preparation, negotiation and evaluation of managers' performance agreements; (c) conduct user surveys by agencies and publish the results. Key outcome indicators: (a) in the result of successful conduct of surveys the quality of public service delivery, transparency and openness shall improve.					

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2. WITHIN THE FRAMEWORK OF THE LEADERSHIP AND SELECTION OF SENIOR MANAGERS STRATEGY:

2.1 To implement transparent, competitive selection processes for senior civil servants, especially general managers	2.1.1. Transparent testing and assessment procedures will be developed with international consultants' assistance to take advantage of international best practice in recruiting chief executives.	Chairman of GSC	2007 onwards	6,600.0	80.0 ADB & ECTAC
	2.1.2 Procedures for selecting other managerial staff to the core Civil Service will be accommodated to the selection procedure of General Managers based on open and competitive principles.	Chairman of GSC	2007	660.0	32.0 ECTAC
	2.1.3. Undertake actions to create the legal environment to reduce political influence and hierarchy in core civil service chief executive selection processes.	Chairman of GSC	2007	1,320.0	16.0 ECTAC
2.2 To develop the leadership skills of those selected to be general managers or to hold other senior civil service positions	2.2.1. Develop a leadership training manual in order to develop budgetary agencies as learning organizations, and conduct leadership training for 3000 General Managers .	Chairman of GSC	2007-2009	7,320.0	Incl. in 2.2.2
	2.2.2 Civil Service Leadership Program (CSLP) will be developed for general managers and staff directly reporting to them. This will involve all acting and newly appointed general managers.	Chairman of GSC	2008-2009	16,550.0	1,300.0 SIDA
	2.2.3. Procedures for assessing the performance of general managers that have been approved by Government Service Council will be amended in view of leadership and performance assessment based on criteria similar to those in the chief executive selection procedure.	Chairman of GSC	2007 onwards	660.0	16.0 ADB
Key output measures: (a) percentage of general manager and other managerial appointments using transparent qualification testing and assessment procedures; (b) number of managers enrolled in the Civil Service Leadership Program.					
Key outcome indicators: (a) reduction in the proportion of general manager and other senior appointments perceived by independent commentators to be politically influenced.					

3. WITHIN THE FRAMEWORK OF THE ORGANISATION AND HUMAN RESOURCE DEVELOPMENT STRATEGY:

3.1 To develop human resource management procedures and systems within civil service organizations to ensure that internal decisions are transparent, fair and performance oriented	3.1.1. The Government Service Council will develop a civil service-wide model for human resource management and assist on capacity building of line agencies implementing legislation governing the selection and code of conduct of civil servants. The Government Service Council will also develop and disseminate good practice handbook that will provide advice and options for general managers.	Chairman of GSC	2008-2009	10,920.0	130.0 resources will be mobilized
	3.1.2. Pursued legislation, rules and procedures for appointment to core civil service posts will be advanced in order to ensure reform principles, principles of transparency, skills and stability, to implement the selection procedure in wider range of positions bringing into conformity.	Chairman of GSC	2007 onwards	1,320.0	66.0 ECTAC
	3.1.3. Related rules and procedures will be advanced and the appeals under the Law on Government Service should be considered and resolved by the employing organizations.	Chairman of GSC	2007 onwards	660.0	16.0 ECTAC
	3.1.4. A qualification test on managerial skills will be developed and introduced.	Chairman of GSC	2008 onwards	3,980.0	16.0 resources will be mobilized
	3.1.5. Vacancies and appointments to all administrative positions will be advertised to as many people as it possible.	Chairman of GSC	2008 onwards	38,200.0	0
	3.1.6. A matrix of work level standards, required knowledge and skills will be developed for all civil service position grades.	Chairman of GSC	2007-2008	3,300.0	90.0 ECTAC

3.2 To provide individual civil servants with essential skills, especially service-wide skills in policy analysis, risk management, use of information technology and human resource management, as well as performance management	3.2.1 A comprehensive training needs analysis will be conducted for the civil service, covering both service-wide core competencies and analysis of specific sectors. It will also cover skills needed for implementation of the approved Civil Service Reform Strategy and this Action Plan.	Chairman of GSC	2008 onwards	1,980.0	96.0 resources will be mobilized
	3.2.2 Based on analysis indicated in 3.2.1, a civil service training strategy based on competency needs will be developed and implemented. The training will be aligned to sector specificity, capacity building strategy, principles of learning organization and distance learning opportunities.	Chairman of GSC	2008 onwards	3,980.0	32.0 resources will be mobilized
	3.2.3 Civil Service-wide short term training programs will be developed and provided for relevant civil servants in policy analysis, risk management, human resource management and IT. These will cover senior executive, administrative, special and support staff categories and will be funded through donor support and partial budget funding.	Chairman of GSC	2008-2010	33,760.0	220.0 resources will be mobilized
	3.2.4 Delivery of civil service training will be based on a purchaser-provider model . Line ministries and the Government Service Council will purchase training services from providers, and encourage active competition between providers. In the longer-term, agencies will be provided with specific training funds through their budget, based on assessment by the GSC and MoF. Delivery of training will also make use of distance learning methods in order to improve access by civil servants working in remote areas.	Chairman of GSC; Minister of Finance	2009-2010	660.0	32.0 resources will be mobilized
Key output measures: (a) enactment of revised legislation on appointments which increases transparency and use of competitive selection processes; (b) vacancies and appointments to administrative posts advertised in wider circle; (c) increase in civil service training (in terms of participants and length of training) in line with the training needs analysis, as measured in Government Service Council surveys of civil service training. Key outcome indicators: (a) improved effectiveness and integrity of civil service agencies, as measured in regular user surveys and public opinion surveys.					

4. WITHIN THE FRAMEWORK OF THE POLICY ANALYSIS AND DATA STRATEGY:					
4.1 To strengthen personnel management and control through the development of a civil service database and monitoring capacity	4.1.1 A new information network, including software and hardware, to support a Human Resource Management Information System (HRMIS) devoted to use by Public Administration central and local agencies will be designed and implemented, and will monitor employment decisions and outcomes.	Chairman of GSC	2007 onwards	34,900.0	1,700.0 ECTAC
	4.1.2 A full scale civil service census will be conducted in order to provide the baseline data for the HRMIS.	Chief of Cabinet Secretariat; Chairman of GSC	2007 onwards	56,400.0	350.0 World Bank Governance Assistance Project
4.2 To develop the analytical capacities of central agencies	4.2.1 A specific capacity building program will be developed and implemented for the GSC, Cabinet Secretariat and MoF to enhance their analytical skills and build a complementary working relationship among key decision-makers in civil service reform.	Chairman of GSC;	2007-2008	11,940.0	277.0 resources will be mobilized
	4.2.2 Training to provide knowledge of policy analysis will be conducted for managers and public administration staff, monitoring and evaluation units from ministries. Policy analysis manuals will be developed for the ministries.	Chairman of GSC;	2007 onwards	2,960.0	
Key output measures: (a) completion of the civil servants census to provide base data for the HRMIS; (b) Commencing the implementation of the HRMIS by the end of 2008. Key outcome indicators: (a) improved policy development and enforcement resulting from effective monitoring and evaluation of employment decisions and trends through the HRMIS.					

5. WITHIN THE FRAMEWORK OF THE OPTIMUM SIZE AND FUNCTIONS OF THE CIVIL SERVICE STRATEGY:

5.1. To progressively right-size the civil service by reviewing the functions and services the government wants the civil service to provide and appropriate delivery mechanisms	5.1.1 Strategic functional reviews will be conducted for central and local public administration organizations, as well as selected sectors' common and support functions. In 2007, functional reviews will be completed at the Ministry of Social Welfare and Labor, Ministry of Education, Culture and Science and Ministry of Finance.	Chairman of GSC; Ministry of Finance; Ministry of Social Welfare and Labor; Ministry of Education, Culture and Science.	2007-2009	9,900.0	384.0 ECTAC
	5.1.2 Functional reviews covering ministries agencies and local administrations other than MoF, MCES and MSWL will be undertaken in 2008-2009.	Chairman of GSC; Ministry of Finance; other related Ministers	2008-2009	59,400.0	276.0 resources will be mobilized
	5.1.3 The Government will develop measures on establishing a Civil Service Reform Steering Committee to manage Scaled Process of Civil Service Reform and take decision in accordance with appropriate procedures.	Chairman of GSC;	2007 onwards	Incl. in 5.1.1	Incl. in 5.1.1
	5.1.4 The current scope and classification of the civil service will be reviewed, including the status of the support service workers and the boundary between administrative and special civil servants.	Chairman of GSC; Minister of Finance; Minister of Social Welfare and Labor	2007 onwards	1,980.0	16.0 ECTAC

Key output measures: (a) functional reviews undertaken; (b) percentage of agencies with approved new structures; (c) percentage of savings achieved through Civil Service right-sizing.

Key outcome indicators: (a) functions identified for abolition or reduction in line with Government priorities; (b) efficiency gains from alternative delivery mechanisms or productivity improvements; (c) downsizing of employee in budget bodies

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6. WITHIN THE FRAMEWORK OF THE REMUNERATION AND BENEFITS STRATEGY:

6.1 To modernize the remuneration system for civil servants, by making it more responsive to labor market conditions, more devolved in line with the PSMFL, more transparent and more performance-based	6.1.1 A new civil service classification, grading and pay schedule will be developed. The new classifications, grading and salary scales will take into account career opportunities, management structures and absorption of most allowances defined by laws. Also, the new salary scales will incorporate most allowances and non-salary benefits.	Chairman of GSC; Minister of Finance; Minister of Social Welfare and Labor.	2007 onwards	5,280.0	136.0 ECTAC
	6.1.2 A Remuneration Unit in charge of conducting research, providing information and developing salary proposals will be established.	Chairman of GSC; Minister of Finance; Minister of Social Welfare and Labor.	2007 onwards	158,400.0	51.0 ECTAC
	6.1.3 The current legal framework regulating classification, grades, and salary scale will be reviewed.	Chairman of GSC; Minister of Social Welfare and Labor.	2007-2008	Incl. in 6.1.2	16.0 ECTAC
6.2 To ensure that the civil service wage bill is fiscally sustainable, and does not undermine the Government's capacity to deliver effective public services, especially those designed to reduce poverty	6.2.1 Future Civil Service-wage bill increases will be fully estimated using a Wages Expenditure Control Model.	Minister of Finance	2007 onwards	1,980.0	230.6 WB Governance Assistance Project
	6.2.2 Actual salary increases for civil servants will be aligned to the real increase in GDP, actually achievement and implementation success of the Medium term civil service reform strategy approved by SGH, and redundancy from the strategic functional reviews.	Minister of Finance	2007 onwards		

Key output measures: (a) new salary scale approved with substantially reduced pay compression; (b) set the extent to which allowances and other are absorbed into basic salaries; (c) implementation of interim and final salary increases stages under the new salary scale.

Key outcome indicators: (a) success in attracting and retaining competent managers and other key staff; (b) adequacy of lowest civil service salaries relative to living costs.

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7. WITHIN THE FRAMEWORK OF CHANGE MANAGEMENT PROGRAMME STRATEGY:

7.1 To implement a pro-active change management program that will inform all relevant stakeholders of the approved CSR Strategy and this action plan, and help to build capacity to implement it.	Chairman of GSC	2007 onwards	3,300.0	
7.1.1 The GSC will undertake a series of seminars for ministries, agencies, Aimag, Capital City governors and civil service organizations to explain the Scaled Process of implementing CSR, especially the links between restructuring and implementation of the new salary structure..	Chairman of GSC	2007-2009	50,000.0	422.0 resources will be mobilized
7.1.2 In order to support the seminars in 7.1.1 above, key documents will be published including the Civil Service Reform Strategy and this Action plan. Publish a quarterly newsletter on civil service reform, that keeps agencies informed of achievements and, especially, to publicize the achievements of line agencies in undertaking and implementing functional reviews. A website will be established providing possibilities of acquiring all the above information by relevant local and international agencies.	Chairman of GSC	2007-2009	3,300.0	
7.1.3 The GSC with participation of Cabinet Secretariat, MoF and MSWL will convene monthly meetings of State Secretaries, to discuss civil service reform developments and implementation of the PSMFL, and GSL in due course.	Chairman of GSC	2007-2009	3,300.0	

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Chairman of GSC	2007-2010	60,000.0	48.0 ECTAC
<p>7.1.4 The Government Service Council, together with Cabinet Secretariat, Ministry of Finance and Ministry of Social Welfare and Labor will take the following measures to support public administration reform and good governance principles:</p> <p>a) Developing a pool of local consultants specializing in public sector reform and all aspects of management that would be available to all public sector bodies. This would be supported by international consultants provided through funding agencies on the basis that they contribute technical knowledge to the pool as well as the client.</p> <p>b) Maintaining a central reference library of all reports, training materials and other documents related to public sector management reform and governance studies, supported by an Internet site with links to other related sites, both local and international. All future technical assistance contracts will require agencies and projects to submit relevant material.</p> <p>c) Providing a 'clearing house' for international consultants – a consultant management service available to any consultancy including office accommodation (if required), facilities and office support.</p> <p>d) Coordinating civil service management training, including training needs analysis, recommending training programs, developing competencies, and encouraging training providers to enter the market of civil service training.</p> <p>e) Providing advice to government on civil service reform and governance issues.</p>			

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7.2 To ensure that general managers are meeting governance requirements and individual civil servants are complying with the code of conduct, especially as day-to-day controls on staffing inputs are devolved under the PSMFL.	7.2.1 The Code of Conduct of civil servants will be revised and approved in accordance with appropriate procedures.	Chairman of GSC	2007 onwards	3,980.0	48.0 ECTAC
	7.2.2 All civil service agencies will be encouraged to develop internal grievance procedures to deal with complaints on personnel decisions, efficiency, ethics and other issues.	Chairman of GSC;	2007 onwards	39,600.0	3.2 WB Governance Assistance Project
Key output measures: (a) publication of quarterly CSR newsletters; (b) establishment and operation of the CSR website with links from and to government sites of other foreign countries; (c) regularly updated schedule of civil service training and technical assistance; (d) central information fund of public sector management reform documents, sector studies and training materials shall established.					
Key outcome indicators: (a) adequate understanding and support among key stakeholders; (b) effective implementation of the activities in this Action Plan.					
TOTAL ESTIMATED EXPENDITURE:				765560.0	6616.7

*ECTAC- Economic Capacity Building Technical Assistance Credit

Comment