Workshop on Enlarging citizen participation and increasing autonomy of local government in achieving societal harmony

Citizen Participation in Local Budgeting: A Case of Mongolia

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1. Introduction

Since the 1990s decentralization has been part of Mongolia's reform agenda. In 1992 the "Management Development Program" decentralized power and created management capacity at the local level. In 1994, the "Public Service Law" sought to define the tasks and directions of the public service system. In 1996 Mongolia's reform policy on the "Trends and Structure of Government Activities" clarified the structure, authority, and functions of the central government.

Despite these reforms, the process of decentralization in Mongolia has been centrally driven, implemented slowly, and is so far incomplete. Consequently, Mongolia remains a centralized country in context of budgeting. Politically, citizens elect local parliaments, but governors are nominated by these parliaments and appointed by the next higher level of government. Administratively, local governments have some control over local personnel, but decisions over sectoral policy making (primarily health and education) remain centralized. Fiscally, local governments neither have significant revenue raising powers nor control over the intergovernmental transfer system.

Currently, Mongolia lacks an integrated decentralization strategy and there is still a vague conceptual understanding of decentralization, its virtues and threats. As a consequence, some recent reforms have reversed the decentralization process. In 2001, a reform to the General Tax Law (GTL) reduced local budgets significantly and the Consolidated Budget Law (CBL) mandated that since 2002 the personal income tax be centralized in the central budget. Similarly, in 2003 the PSFML established that all spending on education and health must form part of the line ministers’ portfolio, rather than financed by local government’s budgets, as was previous practice. Despite these centralizing measures, the decentralization agenda is still active in Mongolia and it continues to move ahead with the support of civil society and international development organizations. Such movement has been particularly active in the engagement of citizens in public decision making.

This paper discusses fiscal decentralization process and citizens’ participatory level of local budgeting in Mongolia, lessons learned and ways to improve it. Fiscal decentralization is influenced by interest of central government, citizens’ participation and local government capacity for implementing this policy.

The citizens’ participation issue is the milestone of the fiscal decentralization.

2. Country Profile

Mongolia is a unitary state with a central government and three levels of sub-national governments. Aimag and the Capital City have provincial status; soums (rural districts) and duuregs (urban districts); and bags (rural sub-districts) and horoos (urban sub-districts). Currently, there are 21 aimags with 329 soums, and 1,560 bags. The Capital City comprises 9 duuregs with 117 horoos. Aimag and the Capital City are intermediate tiers of government, and soums/duuregs and bags/horoos are local governments. Bags and horoos are the lowest formal administrative and territorial units. Overall, that amounts to about 2,000 subnational units which for a country of the extension and the population of Mongolia results in jurisdictions with very low population densities. To address this issue, the government of Mongolia is presently discussing a regionalization plan that aims to reduce the number of subnational units in the country.

According to the Constitution, the administrative and territorial units of Mongolia are organized on the basis of both self-governance and state management. As a result, Mongolia has a dual system in which each administrative and territorial unit has both a Governor and a Hural. While the former acts as a representative of the central government throughout the territory, the latter is a true representative institution.

The basic functions of aimags' and soums' hurals are: to serve as representative bodies of the local people; to pass regulations for their respective political and administrative jurisdictions; and to monitor the local administrative bodies. In addition, hurals approve the budgets of their respective aimags and soums and oversee their execution. Aimag and soum governors run the local administrative organizations and play the role of local representatives of the central Government. Governors make, implement, monitor, and evaluate local policies. In addition, Governors’ offices also provide administrative services such as civil registration, notary services, and expedition of licenses and permits. Bag and horoo hurals are self-governing organization based on the direct involvement of residents, and whose main function is to solve common local issues. Bags and horoos also have governors who primarily act as a liaison between citizens and soums authorities.
Hurals are directly elected by local residents. Aimag and soums vary greatly in size and population and the size of each hural varies with its population (Table 1). In respect to the selection of governors, hurals submits nominees for the post to the Governor to the next level of government who makes the appointment. Thus, aimag Governors are nominated by the aimag hural and appointed by the Prime Minister. Soum Governors are nominated by the soum hural and appointed by aimag Governors, and bag governors are nominated by the bag hural and appointed by the respective soum governor.

Table 1. Size of Hurals (by number of representatives)

<table>
<thead>
<tr>
<th>Level of government</th>
<th>Population</th>
<th>Number of representatives</th>
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<tbody>
<tr>
<td>Aimag</td>
<td>Up to 50,000</td>
<td>25-member</td>
</tr>
<tr>
<td></td>
<td>50,001 – 90,000</td>
<td>30-member</td>
</tr>
<tr>
<td></td>
<td>90,000 or more</td>
<td>35-member</td>
</tr>
<tr>
<td>Soum</td>
<td>Up to 2,000</td>
<td>15-member</td>
</tr>
<tr>
<td></td>
<td>2,001 – 9,000</td>
<td>20-member</td>
</tr>
<tr>
<td></td>
<td>9,001 or more</td>
<td>25-member</td>
</tr>
<tr>
<td>Ulaanbaatar</td>
<td></td>
<td>40-member</td>
</tr>
<tr>
<td>Duureg</td>
<td></td>
<td>15-member (3 Duuregs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>35-member (5 Duuregs)</td>
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</tbody>
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Under this dual system, it appears that state management of government dominates self-governance, as the appointed Governors of each level have ultimate control over the functioning of the administrative and territorial units. Currently, there is a substantial amount of delegation of state powers to aimag Governors, and similarly, of intermediate powers to local governors. Thus, in general the epicenter of power lies in the Governors, who implement most of the major sectoral functions and decisions in representation of the central state.

3. Budgeting

The budget cycle in Mongolia consists of four stages: budget formulation, budget appropriation, budget execution, and budget monitoring and evaluation. Each “budget entity” goes through these four stages. According to the PSMFL (art. 4.1.4) a “budget entity” is defined as “an organization that carries out the functions and services of the state either with national or local funds.” Thus for example, at the soum level there are 6 budget entities: soum hural, soum Governor’s Office, and soums’ school, kindergarten, cultural center, and hospital.

The process of budget formulation begins with each soum and aimag budget entity preparing its own budget proposal. Authorities in charge of the budget preparation are:

- In the soum hural, the secretary of the soum hural
- In the Governors Office, the soum Deputy Governor, together with the soum accountant
- In the school, kindergarten, cultural center, and hospital budget entities, the general managers and accountants of these entities.

Once each of these entities prepares budget estimates, they submit them to the authorities of the immediately higher level of government, according to the process illustrated in Figure 1. The budgets of soum Governor’s office, hural, and bag Governors are submitted by the soum’s Deputy Governor–on behalf of soum Governors—to the aimag Governors and the Department of Finance, Economics and Treasury (DFET) in the aimag Governor’s office. Soum schools, cultural centers and kindergartens submit their budget proposals to the aimag Education and Cultural department, and hospitals submit their proposals to the aimag Health department. These proposals are submitted by each entity’s General Manager and accountants. The date for submitting the budget proposals of the soums’ budget entities is not defined, but it usually takes place between June and July of each year.

The DFET in the aimag Governor’s office receives and consolidates the budget proposals of soum hurals and soum Governors’ offices and send them to the head of the department and budget officers of MOFE before August 15. Similarly, once the aimag education, cultural, and health departments receive budget proposals from soum budget entities, they consolidate the budgets and submit them to their respective line ministries at the state level. Line ministries review the budget proposals and submit them to MOFE also before August 15. The MOFE reviews and consolidates the budget.

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1 The Ulaanbaatar Governor has special powers which include: the right to attend Cabinet meetings, to communicate directly with the Prime Minister; and to coordinate policy with central government.
proposals of all the entities and submits them to the Government of Mongolia before September 15. The Cabinet discusses the state budget and submits it to the Parliament of Mongolia before October 1. This marks the end of the budget formulation process.²

Fig 1. Budget proposal submitting process

<table>
<thead>
<tr>
<th>Soum Governor’s office</th>
<th>Soum Governor</th>
<th>Aimag Governor</th>
<th>MOFE</th>
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<tbody>
<tr>
<td>Soum hural</td>
<td>Chairman</td>
<td>Aimag Governor</td>
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<td>Aimag Governor</td>
<td>Department of FET of Aimag Governor’s Office</td>
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<td>Aimag Governor’s Office</td>
<td>Department of FET of Aimag Governor’s Office</td>
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<tr>
<td>School, Kindergarten, Cultural Center</td>
<td>Aimag Education and Cultural Department</td>
<td>MOECS</td>
<td></td>
</tr>
<tr>
<td>Hospital</td>
<td>Aimag Health Department</td>
<td>MOH</td>
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The basis of the budget formulation process is the strategic business plans (SBP), upon which budget entities prepare their budget estimates. SBP are three year plans made in accordance with the general budget framework approved by the Parliament of Mongolia. SBP must reflect the strategic tasks of each budget entity for the next three years, as well as the type, quantity, quality, and cost of the expected budgetary outputs (PSFML art. 26.2). In addition to the SBP, soums and aimags must set their budget priorities on their mid (3-5 years) and long-term (6 and more years) development plans, and on the governor’s 4-year action programs.

The absence of a specific date for submitting these proposals is problematic because it introduces uncertainty to the budgetary process and gives aimags very little time for consolidating the budget and engaging in meaningful discussions about budget priorities.

The process of budget appropriation begins with the parliament’s approval of the State budget. In early December aimag hurals approve aimag budget proposals within the approved budget framework. Following this, soum hurals also approve soum budget proposals and submit them to the aimags sometime in December. During the process of aimag hural approval of soum’s budget proposals, soum governors’ offices have the opportunity, yet limited, to influence aimag hural.³ However, once aimag hural approves the budgets, soum hural can no longer make changes to the line items. In January the soum hural releases a budget resolution and submits it to DFET in the aimag Governor’s office, together with the detailed budget allocation.

According to stakeholders, the process of budget appropriation is not properly regulated. Not only the existing norms (ATUTML, CBL and PSMFL) fail to fully and coherently regulate the process, but also soum and aimag hurals have not yet designed efficient procedures to coordinate such process.⁴ As things stand today, with the current regulation local hurals only have a one-time open discussion during their sessions to comment on the budget proposal submitted by the governors. As a consequence, local hurals pay very little attention to the process of budget approval. Additionally, because budget proposals focus on the financing of current expenditures, whose size is relatively small, these meetings do not stimulate productive and effective discussions. Also, budget proposals of soum hospitals, schools, kindergartens and cultural centers are not discussed in the CRHs as they are directly approved by the State Great Hural within the framework of their respective sector budgets. As a result, soum citizen representatives indicate that in practice there is little possibility to make budgets reflect the real priorities of soums. For this reason, budget approval often becomes a formality, with a limited participation of soums and aimags.

² A diagram of the budget formulation process is presented in Annex 4.
³ This is done through the elected representative of aimag CRH from the specific soums.
⁴ Only the CRHs of Tuv and Orkhon aimags, and some districts of Ulaanbaatar have specific regulation on budget approval.
The budget year goes from January 1st to December 31st. During this period soum and aimag budget entities collect revenues based on their revenue plans, and spend them in accordance with two instruments: output purchase agreements (OPA) and performance agreements (PA). After the Parliament of Mongolia approves the state budget, line ministers at the state level sign an OPA with aimag governors and a PA with general managers, who are the officials responsible for the day-to-day management of the budget entities. Similarly, after the aimag hural approves the aimag budget, aimag governors sign an OPA with the soum governors and a PA with the general managers. At the soum level, once hurals approve the budgets, soum governors sign the PAs with the general managers.

Through OPA and PA the different levels of government coordinate their spending activities mostly in the areas of health and education. This process of budget execution has helped local budget entities (schools, kindergartens, etc.) to execute their budgets more effectively, to limit their over-spending and, consequently, to improve the level of aggregate fiscal discipline.

Despite this the improvements that the performance agreement system have introduced, the current system of budget execution still has a number of deficiencies, which include lack of flexibility of budget entities to meet local needs and mismatch between national priorities and local revenue generation.

Budget entities can not meet local needs. When higher level budget entities approve budget proposals, they largely ignore local opinions as well as the geographical, economic and social factors of each particular case. Instead, budget approval is solely based on the last year’s budget, so during budget execution soums have little flexibility to respond to local needs. For example, in Umnudelger soum of Khentii aimag the 2004 budget for school children meals was the same of 2003, so it felt short to meet the necessities for that year.

There is mismatch between national priorities and local revenues generation. In the current system budgets do not fully provide for the appropriate revenue sources for the financing of a number of government projects that local governments must implement. This situation over-burdens local budgets, and often hampers the implementation of such projects. This has been particularly problematic in the local implementation of national programs related to structural changes, like the “White revolution,” whose funding is not provided in the local budgets.

The fourth stage of budgeting is budget monitoring and evaluation. Mongolia has a number of mechanisms for budget monitoring and evaluation. These include both internal and external controls. Internal mechanisms include (1) hierarchical controls from the governors, and (2) financial inspection from the State Professional Inspections Agency. The external mechanisms are: (3) monitoring from local hurals, (4) auditing from the State Audit Board and (5) monitoring from citizens.

Governors are responsible for controlling the budget execution of budget entities. They have authority to evaluate the budget performance and, if necessary, to penalize any misconduct. According to the ATUTML, soum governors have the power to penalize the Directors of the soum budget entities (i.e. governor’s office, schools, kindergartens, etc.). Penalties for budgetary misconduct go from reductions in the salary of the Directors of budget entities for a period of one to three months, to the termination of their employment. In practice, however, soum governors do not seem to use these powers regularly, even when they discover irregularities in budget execution.5

The State Professional Inspection Agency (SPIA) is a central government’s regulatory agency, with branches in each aimag. The Agency has the right to inspect all administrative services, including budget execution. The Department of Financial Inspections of the Agency performs budget revision every two years. When financial misconducts are found, the Department may impose financial penalties. According to soum administrators, the sanction power of the Department is ineffective and not sufficiently preventive.

The State Audit Board acts on behalf of the Parliament of Mongolia to audit the execution of the budget and the implementation of laws. The State Audit Board has branches in each aimag named Aimag Audit Boards. These Boards perform financial audits on aimag and soum CRHs, Governor’s offices and other budget entities. In addition to the State Audit Board, the CBL, PSMFL and ATUTML give Hurals extensive monitoring rights. However, for a number of reasons, those rights are seldom fully exercised. For example, central line ministries—and not hurals—approve the expenditures of state

5 This research found that only in the case of Tarialan soum, the soum Governor penalized the Hospital Director with a 20 percent salary reduction for 3 months, due to a procurement problem.
budget entities. Thus, since hurals have no authority over these expenditures, they cannot effectively monitor them.6

4. Citizen Participation in Budgeting

Citizen participation in monitoring and other stages of the budgetary process is virtually absent in local areas. None of the 4 aimags and 8 soums considered in this research encourages citizen participation. Generally, this is largely so because, traditionally, the budgetary process in Mongolia has been vertically-driven. The new constitution promotes participation, but the development of local self-governance is in its initial phases; therefore participation of citizens in bags, soums, and budget entities is very limited.

Albeit limited, some participation takes place at the local level, mostly in the form of written and orally transmitted communications between citizens and line department civil servants, soum administrators, and elected officials. In Tarialan soum, for example, citizens are invited to the budget approval meetings. In Undurshil soum, the Hural of Dundgobi aimag conducted an opinion poll that resulted in the creation of two bag centers with a cost of 800,000 Tug. Also, citizens in this soum requested, and received from the aimag governor 500,000 Tug for reconstructing the bag office building. These funds came from an emergency fund under the discretionary control of the Governor. Citizens, also express their opinions concerning school and hospital heating, school children meals, prices of products bought by budget entities, and local investment needs.

According to this research there are three main reasons for the low levels of citizen participation. From the citizen side, there is lack of knowledge on the activities of local governments and on the ways in which they can participate. Also the limited size and high fixed expenditure commitments of budgets associate with low levels of participation, as citizens believe that their participation would not be effective. From the side of local governments, administrators and politicians rarely encourage citizen participation. According to one questionnaire applied for this research, 79.7 percent of the interviewed citizens admit that they have not participated at all in local budget making and spending processes. It shows too low level of participating.

Citizens usually do not know that they can participate in budgeting and how can participate in it. More than half of asked people do not know about existing mechanisms for holding decision makers accountable. Citizens, however, have the right to request the SPIA and the State Audit Board to conduct financial inspections and audits, but this does not happen.

Citizens think that their participation would not be effective. 29.4 percent of the interviewees acknowledge that they thought that it was possible for them to take an active part in the local budgetary process, but they have not been participated. 64.5 percent of asked people say that not possible for citizens to have their common issues reflected in local budget. 34.2 percent of these people said that they have participated in budgeting however, their suggestions did not reflect in the budget.

Third main reason is that citizens interest to be participated, but local politicians and administrators usually ignore their interest. The questionnaire also revealed that more than half of the interviewees have interest in participating in the monitoring of the budget execution. But 40 percent agreed that information on budget execution is insufficient, and 90 percent wanted to make such information open to the public.

More general, citizen participation is low in the bags, soums, and budget entities. Bags are the primary organizational unit of the country. Historically they represent a traditional form of association that provides a suitable geographical division for Mongolians living in spatially distant locations. Bags provide the first entry point to citizens so they represent the basic units of decentralization and citizen participation. Citizen participation in bags, however, is very limited. Presently, the legal framework is not consistent in the way it addresses the issue of bag participation. On the one hand, the constitution (art. 59) dictates that bags should have meetings of citizens, but on the other hand the ATUTML does not provide bags with an independent budget—so for example, the salary of bag governor is included in the soum budget. This lack of budgetary independence is a critical factor of participation. In the case of the Sustainable Livelihoods Program, for example, the selection of projects is openly discussed at Bag Common Hural, and this has become the engine to promote citizens’ participation in local

6 Only the soum of Baruunturuun in Uvs aimag use its monitoring rights.
decision-making. In other words, it is only when citizens see a benefit of participation that they decide to engage in it. Soums, being the lowest level of government with budgetary autonomy, are supposed to organize open discussions to decide the local budgetary allocations. In practice, however, there are at least two reasons that render this process ineffective. First, soums approve the budget proposals of hurals, governors, and governors’ offices, but not those of schools and hospitals. In practice, this makes hurals less participatory as they leave out decision about health and education, which are an important component of citizen demands. Second, even if there is a tendency for a more active participation in budget planning; at the time of budget approval, authorities are not bound to incorporate citizens’ proposals, and this further discourages citizen participation.

5. Problems and possible suggestions

This research identified a number of problems associated with the current system of local public finances in Mongolia, citizens’ participatory level in local budgeting. These problems, together with some possible suggestions include:

(i) Lack of information and transparency: There is an overall feeling among stakeholders that transparency in the operation of budget entities is still limited. Specific budget information is not available or is inadequately provided to citizens. Similarly, other information on the activities and performance of government activities are not available to the public. In none of the aimags and soums of this research local administrations provided open information on its budget execution to citizens. The current situation calls for broadening citizen’s access to government information. Actually, the whole budgetary process in Mongolia must be made more transparent; especially budget entities must make their expenditures and performance measures more accessible to citizens.

(ii) Low capacity/Lack of knowledge and skills: Although yet limited, Mongolia has introduced a number of reforms to rationalize the whole budgetary process of local governments. Those reforms, however, require heavy investments in training and capacity building that are still missing. Specifically, local officials require training in preparation of strategic business plans, outcome definition, cost estimation, performance evaluation, and drafting of effective contracts and performance agreements. In addition, a number of soums and aimags, especially in the most remote parts of the country, still need basic training for generating medium and long-term development plans, and to formulate, execute, and monitor their budgets. Because of this situation, the effects of the reforms have not yet materialized. For example, even though local budgets should be performance oriented, in practice budgets are still planned according to the old input-based classifications and provisions. In consequence, the central government must invest heavily in local capacity building. Training to improve the technical skills, including the preparation of strategic business plans of public servants in charge of the local fiscal functions is needed.

(iii) Lack of accountability: Overall, local accountability in Mongolia is still weak. Most accountability mechanisms are vertical, and that weakens horizontal and social accountability. Line ministries, especially in the health and education sectors, have a strong vertical control of their representatives at the local level. That weakens the accountability of these central representatives to both local CRH and citizens. Not only elected local bodies have ineffective mechanisms to hold local administrations accountable, but citizens also lack ways to effectively control their local governments. Citizens do not have effective mechanisms to voice their demands and complain about the inefficient work of public servants. As a consequence, additional mechanisms for social accountability must become available so that citizens can channel their concerns and local governments can respond to those concerns.

(iv) Lack of local participation: Citizen participation at both the executive and legislative branches in bags, soums, and aimags, is marginal. Citizens have limited knowledge and information on local governments' public policies. Concerning participation in local budgetary practices, one questionnaire applied for this research, found that only 9.5 percent of the interviewees have taken an active participation local budget making and spending processes.

Not only does the existing legislation fails to provide options for citizens to participate in the planning and monitoring of budget entities, but citizens also lack knowledge and information on administrative and budget reforms. The traditional thinking that it is up to the administrators to solve local problems is still dominant among local residents. Historically, Mongolia does not have past experience in the decentralization of its public administrative institutions. Therefore, experiences and skills in decentralization and local self-government are not yet developed. Even among civil servants there is no agreement on the concepts, requirements, and mechanisms of decentralization. In various cases
local problems continue to be solved in a centralized way, without very little citizen participation. As a consequence, new mechanisms for citizen participation must be envisioned to allow for efficient state-society interaction, especially in the areas of local planning and budgeting.

(v) Interference of higher tiers of government
In many ways, Mongolia remains a centralized country with a strong –administrative and political– central presence at the local level. Central line ministries still exercise their power at the local level and that limits local-self governance. Fiscally, most locally generated revenue ends up in the central budget and that has created a disincentive to increase the collection of local taxes. Local governments are still far from having the political, administrative, and fiscal autonomy to govern their own affairs – with just a slim intervention of the central government. In sum, limited possibilities for increasing local revenues and few initiatives to support local interests have become obstacles to develop local self-governance and promote decentralization. In order to ameliorate the current situation, the central government needs to clarify the current assignment of expenditures and ensure that the country’s development plans incorporate both national as well as local priorities.

6. Conclusion
The low levels of citizen participation has caused upon citizens’ insufficient knowledge of participating in budgeting, the limited size and high fixed expenditure commitments of local budgets, and non-initiative behaviors of local governments, administrators and politicians. Now in Mongolia need following activities such as delivering more information about local budgeting, encouraging of citizens’ participation in budget making and improving accountability of decision makers. What appears to be missing is a citizens’ participation that serves as a basis for fiscal decentralization.

About the Author

Byambayar Yadamsuren - Dean of Management College and Lecturer of the Department of Public Administration, The Academy of Management. Studied Political Science in Moscow State University from September 1986 to July 1991 and at the University of Potsdam, Germany in 1999 - 2000, for the Master of Public Management Degree. My professional development and career opportunities are closely linked to the current Academy of Management where I started my career as a young researcher. However, soon I found my passion in teaching therefore, I gradually shifted from the research endeavors to the teaching. I have specialized in teaching the local governance, classical public administration and latest trends such as the concepts of the new public management of accrual accounting, output-based performance and contractual arrangements in the public offices. At the same time I was the Dean of the Management college that required from me additional managerial and leadership skills.