HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

MONGOLIA

Public Investment Management Assessment Update

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Summary Technical Assistance Report
Fiscal Affairs Department

Mongolia:
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The *Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: An IMF team found that Mongolia has made progress in public investment management since the 2016 PIMA. However, several challenges persist, and new issues are emerging. The team has identified five high-priority recommendations that could improve PIM processes and support the effective implementation of the government's investment aspirations.

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Background

At the request of the Ministry of Economy and Development (MED) and Ministry of Finance (MOF) of Mongolia, a team from the IMF's Fiscal Affairs Department (FAD) visited Ulaanbaatar, Mongolia during June 19–July 4, 2023, following a series of virtual meetings during June 6–13, 2023 to conduct an update of the Public Investment Management Assessment (PIMA) and a two-day training workshop on public investment management (PIM) and fiscal risk management.

Summary of Findings

Since the 2016 Public Investment Management Assessment (PIMA), the Mongolian authorities have undertaken various measures to strengthen public investment management (PIM) in the country. Notable reforms include the issuance of regulations for evaluating, prioritizing, and selecting projects, as well as the development of the Public Investment Management Information System (PIMIS). Efforts have been made to prioritize ongoing projects and ensure the availability of funding. Build and transfer (BT) projects and non-commercial quasi fiscal projects of the Development Bank of Mongolia have been incorporated into the budget since 2018. The overall climate for private sector participation in the infrastructure market has also been improved through some legislative actions such as the approval of a public private partnership (PPP) law, revisions to the Procurement Law, the submission to the State Representative Khural (parliament) of the revised Investment Law and the proposed Law on State-owned Enterprises.

When compared to the 2016 PIMA assessment, these reform efforts have contributed to good progress in PIM, both in terms of institutional strength and effectiveness. For example, the coordination of alternative infrastructure financing (particularly related to PPPs), availability of funding, and management of project implementation have been strengthened both institutionally and in terms of effectiveness. Project appraisal and project selection have also improved in terms of effectiveness. This progress is reflected in the narrower efficiency gap of public investment, as measured by macro-level public investment inputs and outputs, which improved from 54 percent in the 2016 PIMA to 41 percent in this PIMA update assessment. When compared to the average scores for Asia Pacific Countries and Emerging Market Economies, Mongolia either scores higher or similarly in most institutional design aspects, except for multi-year budgeting, portfolio management, and oversight in terms of institutional strength. However, in terms of effectiveness, Mongolia still lags its peers in areas such as fiscal targets and rules, multi-year budgeting, budget comprehensiveness and unity, budgeting for investment, and maintenance funding.

Despite the progress noted in the assessment, several challenges persist, and new issues are emerging. The fiscal responsibility framework remains weak, despite the recent amendments to the Fiscal Stability Law (July 2023) that strengthened the compliance to structural deficit and debt rules. The lack of a fully integrated and effective multi-year budget creates high levels of volatility in public investment expenditures, making it difficult to plan throughout the project cycle. Public Corporations[1] (PCs) have a significant role in public investment, yet the governance and oversight framework for these entities are insufficient, despite their financial weaknesses. There is also a lack of clarity regarding the roles and responsibilities of related ministries and agencies, which poses a risk of overlap and duplication. The existence of multiple entry points, annual focus, and poor integration of capital and recurrent elements early in the budget process further complicates effective prioritization and integration.

[1] In Mongolia, public corporations are called state-owned enterprises (SOEs).

Summary of Recommendations

Looking ahead, limited fiscal space and macroeconomic constraints (e.g., the balance of payment concerns) may restrict the resources available for public investment. To achieve the government's ambitious infrastructure development agenda, continuous enhancements to PIM are necessary to further narrow the efficiency gap in public investment. The PIMA team has identified five high-priority recommendations that could improve PIM processes and support the effective implementation of the government's investment aspirations:

1. Strengthen fiscal responsibility by adopting a simplified fiscal rules framework and increasing fiscal accountability and transparency. This would help to expand public debt coverage, develop sound escape clauses and corrective actions, and assure a more active role for the Fiscal Stability Council in monitoring the compliance of fiscal rules.

2. Frame the budget on a medium-term programmatic basis to enable project planning over a three-year period. Policy priorities should be agreed upon by political layers early in the budget process to guide resource allocations, with a clear statement of policy priorities. The approved multi-year budget allocation for capital projects should serve as an update of the Public Investment Program (PIP).

3. Enhance the management and oversight of PCs by formalizing a requirement for the Ministry of Economic Development (MED) and Ministry of Finance (MOF) to review and discuss at arm’s length the investment plans and budgets of major PCs. Comprehensive data and analysis of their financial performance and capital spending should also be published.

4. Further strengthen project appraisal and selection for inclusion in the budget by improving the existing regulation on evaluating, prioritizing, and selection of projects. This should be applicable to all public investments from all funding sources (domestic, external, and PPP) to ensure consistent rigor for all major projects. Specific additional appraisal requirements and selection criteria can be developed for mega-projects, specific asset types, and specific funding sources to ensure their analysis reflects well all their costs and their higher risks.

5. Formalize the recently strengthened project oversight arrangements, including monitoring, ex-post evaluation, project adjustments, and re-allocations, through an updated finance ministry regulation on Public Investment Project Monitoring and Reporting. Rigorous implementation of these arrangements will help limit the frequency and scope of projects’ delays and cost overruns.