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ANNEX III

to the Commission Implementing Decision on the financing of the annual action plan in favour of Mongolia for 2023

Action Document for "Strengthening policy and performance-oriented PFM systems in Mongolia"

ANNUAL ACTION PLAN

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

1 SYNOPSIS.

1.1 Action Summary Table

1. Title CRIS/OPSYS business reference Basic Act	Strengthening policy and performance-oriented PFM systems in Mongolia OPSYS number: ACT-62010 Financed under the Neighbourhood, Development and International Cooperation Instrument (<u>NDICI-Global Europe</u>)
2. Team Europe Initiative	No
3. Zone benefiting from the action	The action shall be carried out in Mongolia.
4. Programming document	Multi-annual Indicative Programme (MIP) 2021-2027 ¹
5. Link with relevant MIP(s) objectives / expected results	MIP Priority area 2: Democratic and economic development, Public Finance Management. This action will contribute to Specific Objective 2.3 (SO2.3): strengthening domestic revenue mobilisation, public finance management, and fighting against corruption.
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	Democratic and Economic Development Government and Civil Society – general (151); Trade Policies and Regulations (331)
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): SDG 16 – Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Other significant SDGs (up to 9) and where appropriate, targets: SDG 5 – Gender equality SDG 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; SDG 13 – Climate Action

¹ C(2021) 9051 of 14.12.2021

	SDG 17 – Partnerships for the Goals			
8 a) DAC code(s)	151 - Government & Civil Society-general (100%)			
8 b) Main Delivery Channel	41000 – UN Agencies 44000 – World Bank Group			
9. Targets	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective
Digitalisation		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
digital connectivity		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital governance		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital entrepreneurship		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital skills/literacy		<input type="checkbox"/>	<input checked="" type="checkbox"/>	
digital services	<input type="checkbox"/>	<input checked="" type="checkbox"/>		
Connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
	Migration (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities (methodology for marker and tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): 14 02 01 31 - South and East Asia. Total estimated cost: EUR 2 000 000 Total amount of EU budget contribution EUR 2 000 000			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	Implementation modality Indirect management with the entity(ies) to be selected in accordance with the criteria set out in section 4.3.1			

1.2 Summary of the Action

The action is to be implemented in support of Priority area 2: Democratic and economic development/Specific Objective 3: Strengthening domestic revenue mobilisation, public finance management, and fighting against corruption as outlined in the EU Multi-Annual Indicative Programme for Mongolia (2021-2027). This priority area supports SDG 16 which calls for “promoting peaceful and inclusive societies for sustainable development, provide access to justice for all and building effective, accountable institutions at all levels”, and more specifically target 16.6 “Develop effective, accountable and transparent institutions at all levels”. Simultaneously, this action is consistent with Commission objectives and priorities of the SSC fiche for the Annual Action Plan fiche (no.2 – 2023) that was adopted by the Strategic Steering Committee.

At the moment, Team Europe is one of the largest grant donors in the country and can offer a reliable gateway to Mongolia in pursuing its Third Neighbour Policy. Green Economic Growth is the Global Gateway Flagship endorsed as a Team Europe Initiative (TEI). This Action on PFM is one of the three enablers designed to support this Flagship and will specifically address transparent management of public finances, hence contributing to fighting against corruption, increasing investors and citizens’ trust, and ensuring more support for climate-sensitive policies. Thus, support to the development and roll-out of Performance Based Budgeting (PBB) to more ministries and local governments will contribute to transparent management of public finances and fighting against corruption, taking into account lessons learnt from the previous EU Multiannual Indicative Programme for Mongolia (2014-2020).

The action's overall objective (impact) is to strengthen the public financial management cycle under principles of transparency and sustainability in Mongolia. It is indeed expected that transparent management of public finances, both budget expenditures and revenue sides, will contribute to fighting against corruption across sectors, increasing investors’ and citizens’ trust in Government institutions and ensuring support for climate-sensitive policies. The

problem analysis planned to be addressed by this action is described in section 2. At the same time, the findings of this analysis were used to set the specific objectives/outcomes as follows:

- Institutionalise a policy and performance focus into the budget cycle. Align the “top-down” policy priorities and fiscal targets with the bottom-up process and mechanisms that govern resource allocation;
- Enhance domestic revenue mobilisation to increase fiscal space for financing sustainable development;
- Ensure the alignment and effectiveness of expenditure with the sustainable development agenda focusing on gender/climate-sensitive policies, marginalised groups and expanding current European Union (EU) support for Performance-Based Budgeting (PBB) at national and sub-national level.

The content of these outcomes is elaborated briefly below.

Institutionalising a policy is part of the top-down approach covered by projects in the past. The establishment of a Medium-Term Fiscal Framework (MTFF) provided the key context for the forward-looking Fiscal Strategy and was key in informing the decisions on both the factors that affect the overall budget size and the allocations by sectors. Therefore, the action is now focused mainly on tax policy orientation, fiscal risks analysis and fiscal risks management strategies, sectoral allocations, aligning the medium term policy priorities with the annual budget process (Output 1.1) as an area that deserves still more attention. The remaining outputs 1.2 – 1.5 related to Outcome 1 are devoted to bottom-up budgeting with the aim to strengthen ongoing activities in PBB and speed up further implementation. This means revising and developing a set of methodologies/guidelines/instructions on PBB to be distributed among the participating institutions at national and sub-national levels.

Enhancing domestic revenue mobilisation to increase fiscal space for financing inclusive growth and development is the second outcome. The contributing Outputs 2.1 and 2.2 are targeted to increase the fiscal space by improving the efficiency of collecting non-distortionary revenues that do not undermine the competitiveness of production sectors. Recommendations and supporting analysis will demonstrate how to develop the tax system as such that it will support the development of a business environment that is structurally geared towards supporting the development policies as set out in the Government’s strategic documents, including the government’s efforts to promote sustainable finance and channelling more capital into sustainable projects and businesses. Output 2.3 further supports revenue forecasting by the development of tax estimation and projection models that accurately generate forecasts for use in the budget process and Medium Term Expenditure Framework (MTEF).

Outcome 3 is aimed at ensuring the effectiveness of expenditures of public institutions using the PBB system designed by Outcome 1. A difference in coverage between outcomes 1 and 3 is to be made. Outcome 1 is aimed at strengthening the existing PBB through a coherent set of methodologies/guidelines /recommendations, including addressing the crosscutting themes. On the other hand, Outcome 3 is connected with the PBB implementation, i.e. practical application of the outputs produced under Outcome 1 to:

- Compile a programme structure for the country, aligned with the sustainable development agenda (output 3.1);
- Prepare the structure of a particular programme at pilot ministries or local governments, reflecting (i) the principles of gender equality in budgeting, (ii) green PFM with climate-sensitive policies in public investment management, and (iii) focussing on youth as a driver for change (output 3.2);
- Develop and use digital tools – developing forms and templates enabling the electronic submission of the prepared budget to the Ministry of Finance (MoF). In this context, the existing budget classification must be revised to allow the budget formulation by programmes (output 3.3).

Overall, a specific focus will be made on integrating a climate perspective in the PFM system.

The action is expected to be implemented in indirect management.

2 RATIONALE

2.1 Context

The Action is a continuation of ongoing EU support and other donor interventions for strengthening PFM reforms.

Mongolia has a firm commitment to the environment and climate action. In November 2020, Mongolia submitted its updated Nationally Determined Contributions (NDCs) to the United Nations Framework Convention on Climate Change (UNFCCC), with an ambitious target of 44,9% reduction in greenhouse gas emissions. The NDC clearly indicates the opportunity to align NDC targets with sector policies and to mobilise climate finance. The joint programming priorities as outlined in the EU MIP 2021-2027 are fully aligned with green sustainable development. Priority Area 2 is envisaged to enable the implementation of the Team Europe Initiative (TEI), by enhancing public investment management at the Ministry of Agriculture and Forestry with PFM-related actions. The strengthening of performance-oriented PFM systems supported by this action will provide a guideline to include environmental aspects in the process of budget formulation.

Establishing a Medium-Term Fiscal Framework (MTFF), including “top-down” policy setting, expenditure ceilings, and criteria for prioritising public investment, was a significant step towards strengthening fiscal discipline. However, there still exists the need to supplement fiscal discipline with a stronger emphasis on the allocative and operational efficiency of public spending during the coming years and thereby using a “bottom-up” approach. In this context, the action will focus on the Government to improve the efficiency of public spending, enable better service delivery and develop instruments for strategic reallocation of resources.

The PEFA Assessment 2021 was used to track reform progress over time. There were improvements in medium-term expenditure estimates, setting expenditure ceilings, increased tax collection, and external scrutiny and audit over the period. However, scores for budget comprehensiveness, transparency and policy alignment of strategic plans and medium-term budgets have remained at low levels (D, score 2021). Despite some improvements, insufficient budget credibility hinders strategic planning, fiscal adjustment and spending agencies’ ability to align their medium-term objectives and plans with the resources available.

To strengthen the interrelations between medium-term budget and annual budget, budgetary allocations, ongoing government policy and strategic focus of expenditures, the process of introduction of performance-based budgeting (PBB) was initiated in 2020. Since 2021, pilots in specific ministries have begun implementing the first stages of gender-responsive budgeting (GRB) as one of the important cross-cutting themes identified within the priority areas. Within the second cross cutting theme, in the area of climate change, the MOF (supported by the UNDP) initiated a gradual integration of SDGs into its budget cycle to align budgeting with SDG priorities and indicators in (i) special protected areas, (ii) desertification, and (iii) land degradation and water resource management. This initiative intended to introduce PBB in the environmental sector and align policy objectives to the SDGs in the national context. As a result, an expansion of SDG-aligned environmental budgeting was designed for 2021 and 2022 with corresponding SDG budgeting methodology and templates. However, this process has not been finalised and will need further technical assistance.

In this context it should be stressed that the ambitions of the Action is to continuously support the results achieved so far in all cross-cutting themes (youth, digital agenda, gender, climate change) relevant to the PFM areas. This includes their full integration into programmes and projects to be developed and financed under the MIP 2021-2027.

Despite the results achieved so far, the interrelations between policy and budgeting in the medium-term remain weak. The introduction of the MTSS (Medium-Term Sectoral Strategies) practice with fully costed programs, its alignment with PBB was not implemented in the pilot ministries. Although key performance indicators (KPIs) were developed, their practical use in budget preparation still needs additional support. The system of evaluation and monitoring of PBB performance indicators is another issue to be addressed. In addition, the prevailing PBB system implemented in pilot ministries is focused on current budget expenditures, wages and salaries in particular. Investment/capital expenditures are not integrated into the MTEF approach with inadequate links to the planning of current expenditures.

The Action has also the ambition to extend PBB at the sub-national or local level to increase the effectiveness of budget expenditure management. The PBB implementation at the provincial and local government level is a new initiative that deserves special attention resulting from specifics of these local public institutions.

Gender-Responsive Budgeting (GRB) is another target set by this action. Following the adopted Gender Strategy of MOF, CEDAW recommendations and the adopted Law on Gender Equality and Gender Policies, in 2020, the Ministry of Finance started introducing Gender Responsive Budgeting (GRB) into the Public Finance Management System. The first field mission on GRB, with the support of our previous partnership, was held in January 2020. It resulted in developing an Action Plan for introducing GRB in the context of Mongolia's public finance management system. The plan consisted of five pillars: setting the preconditions for effective GRB coordination, piloting GRB in

selected institutions, developing procedures and methodology for GRB; capacity building; and stakeholders coordination and visibility. Our previous Project has been supporting all five pillars. The ongoing EU trust fund World Bank (WB) project in this field will be supported by results achieved in designing the PBB system. The programme structure developed for each budgetary institution shall mirror the anticipated climate-responsive actions, needs of marginalised groups and gender equality. Such modifications in the budget process will be methodologically supported, especially by modification of the Budget Call Circular used by budgetary institutions in the process of budget formulation for the next year.

Most activities related to the PBB will be impacted by the currently applied information systems, raising demand for the digitalisation of the final users. The current forms and templates requisite to prepare the budget by programmes in line with the PBB methodologies are a challenge for using digital tools in the budget preparation phase. In this regard, the budget classification (updated in 2015) and corresponding Chart of Accounts will be revised to enable budget formulation by programmes.

2.2 Problem Analysis

The action is to be implemented in support of Priority area 2: Democratic and economic development/Specific Objective 3: Strengthening domestic revenue mobilisation, public finance management, and fighting against corruption as outlined in the EU MIP for Mongolia (2021-2027). The following specific problems have been identified in this priority area as illustrated in the table below.

Priority area	Specific problems
Fiscal discipline and public finance management	<ul style="list-style-type: none"> • PFM systems remain weak in medium-term budgeting; • Fiscal policy is not supported adequately with fiscal risks analysis and fiscal risk management strategies; • Absence of medium-term sectoral strategies based on fully costed and targeted programs in piloting line ministries; • Medium Term Expenditure Framework (MTEF) was not implemented as a logical continuation of the MTFF already established; • Absence of programme's costing guidelines; • Currently running budget programmes cannot be fully examined in terms of performance and cost-effectiveness; • Budget classification needs to be updated/upgraded by programme codes; • Budget process – adequate information on GRB, environmental and climate actions, and expenditures of marginalised groups are not included in the prevailing Budget Call Circular.
Domestic revenue mobilisation	<ul style="list-style-type: none"> • Narrow fiscal space for financing sustainable development and climate action, whether adaptation or mitigation, at the national and local levels; • Revenue forecasting inaccurately projects the composition of receipts.
Public Investment Management (from a result-based budgeting perspective)	<ul style="list-style-type: none"> • Public investment and procurement are not included in the PBB guidelines currently in use; • The investment/capital expenditures should be integrated within the MTEF.
Gender Responsive Budgeting	<ul style="list-style-type: none"> • GRB is not incorporated into the budget process. The budget circular should provide more detailed information for public organisations in the budget preparation phase; • The budget planning should include gender-responsive objectives and Key Performance Indicators (KPIs) for all gender-responsive policies. No procedures are yet available; • There are no electronic templates (forms) for completing gender-responsive expenditures. This is to be reflected in budget classification and the chart of accounts in the form of appropriate codes. The corresponding requirements for modification of the IT system are not explored;

	<ul style="list-style-type: none"> • The capacity of GRB at the local level is underdeveloped.
Environmental and climate responsive PFM actions	<ul style="list-style-type: none"> • Currently used PBB guidelines comprise climate responsive policies. While the environmental policy objectives are clearly defined, the implementation costs and economic feasibilities are unclear. The climate responsive programmes/projects are insufficiently included in the budget; • Policy actions in environment sector are not aligned with the MTFF, and thus, not integrated with the annual budget; • The Budget Call Circular should be revised accordingly to include climate change considerations in the budget preparation phase.
Digital tools	<ul style="list-style-type: none"> • Mechanisms, data flows and interaction procedures for pilot institutions are not identified; • The format of a draft programme-based budget, including explanatory notes, should be improved.

Short problem analysis:

The PEFA assessment 2021 showed that the PFM system is weak in medium-term budgeting. A specific issue in this area is the absence of strategic plans (Medium-Term Sectoral strategies - MTSS). In other words, the absence of a strategic plan for expenditure planning based on fully costed and targeted programmes at the ministerial level is an obstacle in the implementation of performance budgeting.

The MTEF was not implemented yet as a document or Excel spreadsheet model consisting of fully costed programmes for participating budget organisations. It should include the relatively large investment (capital) budget expenditures and eventually cover all line-ministries and government institutions in Mongolia.

Logically, without MTSS prepared by the line ministries, the alignment between strategic planning and Performance Based Budgeting (PBB) cannot exist. The development of PBB must be aligned with the MTSS.

The guidelines on the costings of programmes have not been produced yet. Expenditure planning in pilot ministries is not based on fully costed programmes with specific and ideally quantifiable objectives and accountability for the latter's achievement.

The existing PBB guidelines do not distinguish the environmental, climate change related, gender-responsive expenditures or expenditures supporting the marginalised groups of society. They do not differentiate expenditures at the central and local levels. While the introduction of PBB has been initiated at the central government level, the implementation of PBB in pilot ministries does not fully integrate medium-term sectoral strategies or capital expenditures. At the subnational level, lack of effective performance-based budgeting practices and a limited focus on aligning budget decisions with desired outcomes and results should further addressed. For the improved budget formulation processes, the regional and local governments might face difficulties in utilizing digital tools, adopting program-based budgeting methodologies, and preparing budgets in a more efficient and effective manner. Addressing these challenges is essential to enhance budget formulation processes and increase the effectiveness of budget expenditure management at the subnational level.

The piloting phase implemented so far provided some important findings and opened the possibility of revising the applied methodology. First of all, the PBB was applied to current expenditures only, leaving the investment/capital expenditure budgeted in a separate budgeting mode.

The budget classification was updated in 2015 and, therefore cannot satisfy requirements resulting from PBB implementation.

There is a narrow fiscal space for financing sustainable development and climate action at the national and local levels. The effective use of domestic revenues and improving the fairness, transparency, efficiency and effectiveness of the tax systems is vital for Mongolia to address inequality and to improve the business climate for more investments leading to increased growth and job creation.

While the introduction of PBB has been initiated at the central government level, the implementation of PBB in pilot ministries does not fully integrate medium-term sectoral strategies or capital expenditures. At the subnational level, lack of effective performance-based budgeting practices and a limited focus on aligning budget decisions with desired outcomes and results should further addressed. For the improved budget formulation processes, the

regional and local governments might face difficulties in utilizing digital tools, adopting program-based budgeting methodologies, and preparing budgets in a more efficient and effective manner. Addressing these challenges is essential to enhance budget formulation processes and increase the effectiveness of budget expenditure management at the subnational level.

The collection of environmental taxes is relatively low (natural resource use fee, waste fee, etc.) as recorded within “Other domestic taxes” . The Tax Administration Diagnostic Assessment (TADAT) done by the International Monetary Fund (IMF) in May 2022 has illustrated a decrease in this type of tax from 38.1 percent of total tax revenues in 2018 to 31.7 percent in 2020.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The action will support both national and subnational governments.

At the national level, the stakeholders are the Members of Parliament and the relevant parliamentary committees, the Ministry of Finance, and all selected line ministries involved in the PBB and GRB.

At the sub-national level, the directly concerned category includes budgetary organisations at the Provincial and/or Local level of the Government (Governor’s Office of Ulaanbaatar, the capital city of Mongolia).

This action's final beneficiaries are civil society, businesses, and private sector actors and citizens.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to strengthen the public financial management cycle under principles of transparency and sustainability in Mongolia.

The Specific(s) Objective(s) (Outcomes) of this action are:

SO 1. To improve budget planning and monitoring mechanisms in line with fiscal objectives, policy priorities and the existing regulatory framework;

SO 2. To increase fiscal space for financing sustainable development at the national and local levels based on a more efficient domestic revenue mobilisation;

SO. 3 To increase the effectiveness of budget expenditure, based on PBB systems, with a special focus on gender/climate-sensitive policies and marginalised groups (youth).

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

Contributing to Specific Objective 1:

Output 1.1: Increased availability of technical information on fiscal/tax policy guidance, fiscal risk analysis and management, and sectoral allocations;

Output 1.2: Improved PBB methodology and the existing regulatory framework;

Output 1.3: Improved technical and methodological guidance for the implementation of Medium-Term Sectoral Strategies (MTSS) and programme costings;

Output 1.4: Improved methodology on budget programme performance monitoring and reporting.;

Output 1.5: Methodology on budget programme performance monitoring and reporting produced (including monitoring and reporting on gender and climate-related expenditures).

Contributing to Specific Objective 2:

Output 2.1: Increased availability of information on the impact of taxation on the economy and the fiscal space for policy making;

Output 2.2: Increased availability of recommendations in the area of domestic revenue mobilisation that support the development of a business environment structurally geared towards supporting the development policies as set out in the strategic documents.

Output 2.3: Strengthened revenue forecasting system using tax estimation and projection models that accurately generate forecasts for the budget cycle and the MTEF.

Contributing to Specific Objective 3:

Output 3.1: Improved tools and procedures at national level for the implementation of Results-based SDG (Sustainable Development Goals) budgeting;

Output 3.2: Increased capacities of the national and sub-national institutions participating in the pilot phase for the introduction of the PBB;

Output 3.3: Transferred digital tools to improve electronic communication between public institutions and the Ministry of Finance

3.2 Indicative Activities

Activities relating to Output 1.1

- Review and analysis of the Country's National Development Strategy in terms of macroeconomic targets and objectives, overall resource estimates using various scenarios of tax policy, analysis of revenue outturns, and review of historical fiscal performance;
- Preparation of improvements to methodological manual on fiscal risks analysis and management strategies;
- Develop criteria for sectoral resource allocation (medium-term budget framework);
- Propose the format of the budget policy statement for the next annual budget fully aligned with the medium-term fiscal strategy.

Activities related to Outputs 1.2:

- Prepare amendments to the regulatory framework to strengthen the role of PBB;
- Preparation of amendments to the guidance materials and relevant legislative acts on forming, reviewing and implementing PBB at the central level (including budget tagging of gender and climate-related expenditures) and on defining performance indicators of budget programmes and subprogrammes and for investment expenditures in PBB;
- Preparation of a Manual (detailed step-by-step actions) for staff of MoF's line departments on analysis of programme-based budgets; Support to MoF staff in the usage of the Manual in practice;
- Conducting a comparative analysis of approaches to the codification of programme classification to be applied in Mongolia and preparation of proposals for amendments to the chart of accounts related to the introduction of a programme classification.

Activities related to Outputs 1.3:

- Guidelines on Medium-Term Sectoral Strategies (MTSS) developed (including on the integration of budget tagging of gender and climate change-related expenditures);
- Analysis of the alignment of budget programmes and MTSS with national/government and sector programmes;
- Review of the approaches to defining performance indicators and their planned values for piloting institutions;
- Support to piloting institutions in forming programme-based budgets with a focus on the preparation of PBB aligned with MTSS and defining performance indicators of budget programmes and sub-programmes.

Activities related to Outputs 1.4:

- Prepare guidelines on fully costed programmes for each participating budget organisation, taking into account the relatively large investment (capital) budget expenditures;
- Propose a systematic orientation towards expenditure planning based on fully costed programmes with specific quantifiable objectives;

- Develop a medium-term strategy for expenditure planning based on cost and targeted programmes in each participating ministry.

Activities related to Outputs 1.5:

- Prepare guidance, and recommendations on techniques of monitoring and evaluating budget programmes' performance and train staff of the MOF (including monitoring and reporting on gender and climate-related expenditures);
- Support to piloting ministries in applying guidance materials for monitoring and evaluation of budget programme performance;
- Assisting in preparing reports on fiscal risks on both expenditure and revenue sides.

Activities relating to Output 2.1 and 2.2:

- Review previous analyses of the tax system, customs duties, and other revenues (performed by IMF and other donors);
- More specifically on DRM and green and climate action, analyse the tax system to identify potential taxes that adjust the relative price of a product or activity that has an impact on climate or the environment. These can take many forms such as taxes on energy, transport, pollution, greenhouse gas (GHG) or resource extraction. Harmonising the tax system can lead to the reduction of tax rates for goods/activities conducive to the environment (e.g. reduction of VAT for certain energy-saving products), or the reduction of environmentally harmful subsidies;
- Consider the assessment of tax regulations by private sector representatives such as small and medium enterprise associations;
- Prepare recommendations for improvements to the revenue system (tax system, customs duties, and other revenues) and discuss them in a workshop.

Activities related to Outputs 2.3:

- Prepare revenue estimates for the respective forthcoming budgetary year in close cooperation with the revenue and other departments that use micro-data and tax calculations to prepare alternative revenue estimates; Assist in strengthening and updating revenue projection models. Model that accurately measures the impact and effectiveness of tax expenditure in particular.

Activities relating to Output 3.1:

- Support to result-based budgeting approach and propose alternatives to selecting budgetary organisations, focusing on the cross-cutting themes (including gender equality, climate change) in the programmes and projects. This could entail the use of sector specific analysis methodology to feed the dialogue on PFM on gender or climate action such as a Climate Public Expenditure and Institutional Review (CPEIR) or a PEFA-Climate review. The latter can be implemented together with a normal PEFA review.

Activities relating to Output 3.2:

- Support to the development of PBB, including performance indicators, further implementation, monitoring and evaluation (with special attention to the integration of an environment/ climate friendly and gender conscious perspective into PFM practices);
- Carrying out analysis of the international practice on techniques of forming, monitoring and implementing programme-based budgets at the local level applicable to Mongolia;
- Preparation of a Manual (detailed step-by-step actions) for staff of Local Governments' executive units on forming, reviewing and implementing programme-based budgets and reporting on achieving budget programmes and sub-programmes performance;
- Draft a programme-based budget at the local government level, including explanatory notes.

Activities related to Outputs 3.3:

- Provide recommendations and support to pilot ministries and local government institutions in PBB execution and performance monitoring and evaluation;
- Review of MoF's current functional requirements for automation of the processes of budget requests collection and systematisation, budget execution by programmes using codes of budget programme

classification as well as identifying gender equality and climate change, expenditure and revenues, and budget programme performance indicators, as well as business processes of medium-term and annual budget planning and prepare proposals for improvements;

- Update the budget classification so that the types of activities being funded can be more clearly identified in the budget documents.

3.3 Mainstreaming

Environmental Protection & Climate Change

Outcomes of the EIA (Environmental Impact Assessment) screening (relevant for projects and/or specific interventions within a project)

The EIA screening classified the action as Category B (not requiring an EIA, but for which environmental aspects will be addressed during design).

Since the Action supports Public Financial Management reform strengthening, it will further address climate change issues through gradual integration of SDGs into Mongolia's budget cycle to align budgeting with SDG priorities and indicators in (i) special protected areas, (ii) desertification, and (iii) land degradation and water resource management. The Ministry of Finance first introduced Performance Based Budgeting in the environmental sector to align policy objectives to the SDGs in the national context in 2020. As a result, an expansion of SDG-aligned environmental budgeting was designed for 2021 and 2022 with corresponding SDG budgeting methodology. The Action will continuously support the results achieved so far in climate change budget tagging as relevant to the PFM areas.

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project)

The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment).

By incorporating climate change outcomes into the budgeting process, the action aims to enhance climate risk assessment, allocate resources for risk mitigation, monitor the effectiveness of risk reduction measures, and strengthen climate risk governance. This helps ensure that climate-related risks for Mongolia are adequately considered and addressed in budgetary decisions, contributing to increased resilience and adaptation to climate change.

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality is a significant objective.

In line with the EU Gender Action Plan III², this action will further integrate Gender responsive budgeting and the implementation of gender-responsive policies and actions at both national and international levels. It will contribute to the achievement of the EU's commitments to gender equality, women's and girls' empowerment, and gender transformative change by ensuring that resources are allocated in a manner that reflects these goals and by promoting gender mainstreaming in all policy areas.

Human Rights

Beyond the specific instruments (e.g. CSO-LA, EIDHR) earmarked for promoting human rights and strengthening civil society, a human-rights-based approach will be pursued across the two priority areas as well as support and

² The [Gender Action Plan III](#) is a Joint communication by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy which was welcomed through [EU Presidency Conclusions](#) of 16 December 2020. Drafting was led by European Commission in close consultation with EU Member States, EEAS, civil society organisations, partner governments, and international organisations (UN entities, International Finance Institutions among others). The different parties contributed to the drafting of the document through meetings and through responses to a survey conducted during the process

engagement with civil society. The adoption of the EU Roadmap for engagement with civil society in Mongolia (2021-2025) and of the Human Rights and Democracy Country Strategy (2021-2024) are aligned with the MIP priorities and will complement and guide the implementation of actions across all priority areas.

The action document will emphasize the importance of integrating human rights principles into PFM and results-based budgeting approaches, with a focus on both capacity building for duty-bearers and empowering rights-holders to actively participate in decision-making processes. The action will as well as support and engagement with civil society.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This implies that disability is not a significant objective of this action.

Reduction of inequalities

The “leave no one behind” principle is addressed through the fact that the proposed action aims at aligning the budgeting cycle with SDG priorities and indicators, which will result in programme outcomes providing opportunities for women, youth and other vulnerable groups living in the rural areas.

Democracy

Good economic/fiscal governance is a prerequisite for a functioning democracy. In turn, strong institutions are needed for good economic/fiscal governance. The action will support the strengthening of institutions and therefore contribute to strengthening the democratic process.

Conflict sensitivity, peace and resilience

The action will not address the issues related to conflict sensitivity, peace and resilience.

Disaster Risk Reduction

The action will not contribute directly to disaster risk reduction.

Other considerations, if relevant:

Full implementation of PBB at national and sub-national government levels, plus integrating the capital/investment expenditure into the medium-term budgeting, will support the fight against corruption and operational independence from politics.

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
1. External environment	Lack of coordination in Government and	Medium /High	Medium /High	Effective policy dialogue with the key stakeholders. Assist in the establishment of a coordination mechanism, technical assistance in PBB implementation, training and other support in the area of project

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
	public-private dialogue.			management for responsible officials at the national and sub-national levels.
1. External environment	Sudden changes in international commodity prices and foreign direct investment.	Medium /Low	Medium	Fiscal risks associated with volatility in commodity markets can be reduced through fiscal risk management strategies. (output 1.1)
3. People and the organisation	Further inequality develop on gender basis	Medium /Low	Medium	Cooperation with the World Bank project to support the gender equality processes which has already started.
1. External environment	Domestic revenue mobilisation is highly affected by the border closures within China	Medium /Low	Medium /Low	Flexibility in revenue mobilisation estimates. Using various scenarios.
1. External environment	Russian war of aggression in Ukraine	Low	Low	For PBB implementation, the Russian war of aggression will have no significant impact.

Lessons Learnt:

From past and continuing projects including the World Bank project on Strengthening Fiscal and Financial Stability, the EU-funded project named SDG-aligned budgeting to transform employment in Mongolia, the Budget Support Programme, and the EU-funded project Strengthening Governance in Mongolia, a number of lessons can be learnt:

- A more inclusive and integrated approach needs to be followed, particularly in promoting risk analysis and management. The action will support the coordination capacities of the stakeholders.
- There is a need to facilitate the streamlining of the new PFM areas, similarly to amending the relevant legislation.
- The institutional capacity development should be demand-driven and with a high degree of ownership. EU good practices should be reviewed, modified and tailored to the Mongolian context. The action will aim to proactively engage all the potential stakeholders and will allow flexibility in the implementation phase.
- A balanced approach encompassing practical advisory support on institutional, regulatory and procedural changes accompanied by the provision of technical tools for the implementation of improvements is essential to achieve a sustainable impact.
- Relevant institutional and inter-agency consolidated long-term strategies are needed to ensure that resource allocations under assistance actions are properly planned.

3.5 The Intervention Logic

The underlying intervention logic for this action is that:

For Outcome 1:

IF the availability of technical information on fiscal/tax policy guidance, fiscal risk analysis and management, and sectoral allocations is increased (Output 1.1), **IF** the existing PBB methodology and regulatory framework aligned to gender, marginal groups and climate-related budget tagging are revised and updated (Output 1.2.), **IF** the technical and methodological guidance for the implementation of Medium-Term Sectoral Strategies (MTSS) and programme costings - gender, marginal group financing and climate change considerations included are improved (Output 1.3.), **AND IF** a methodology for monitoring and reporting on the results of budget programmes (including budget tagging of gender, marginal groups and climate-related expenditures) is developed (Output 1.4.), **THEN** budget planning and monitoring mechanisms in line with fiscal objectives, policy priorities and the existing regulatory framework will be improved (Outcome 1), **PROVIDED THAT** sustainable development and international standards of transparency remain among the policy priorities of the National Government and the technical staff of the ministries remain interested in implementing new approaches and methodologies for fiscal policy design and implementation.

For Outcome 2:

IF availability of information on the impact of taxation on the economy and the fiscal space for policy making is increased (output 2.1), **IF** availability of recommendations in the area of domestic revenue mobilisation that support the development of a business environment structurally geared towards supporting the development policies as set out in the strategic documents is increased (output 2.2), **IF** revenue forecasting system using tax estimation and projection models that accurately generate forecasts for the budget cycle and the MTEF is strengthened (output 2.3), **THEN** fiscal space for financing sustainable development and climate action at the national and local levels based on a more efficient domestic revenue mobilisation is increased (Outcome 2) **PROVIDED THAT** relevant MOF officials continue to be interested in implementing new models and tools to understand fiscal phenomena and contribute to fiscal (including tax policy) analysis and formulation.

For Outcome 3:

IF tools and procedures at national level for the implementation of Results-based SDG (Sustainable Development Goals) budgeting are improved (output 3.1), **IF** capacities of the national and sub-national institutions participating in the pilot phase for the introduction of the PBB system designed by guidelines developed in outputs 1.2-1.4 are increased (output 3.2), **IF** digital tools to enable electronic communication between public institutions and the Ministry of Finance are increased (output 3.3), **THEN** the effectiveness of budget expenditure, based on PBB systems, with a special focus on gender/climate change and marginalised groups (youth) is increased (Outcome 1.3) **PROVIDED THAT** the Government enforces its own MTEF guidelines, develops program classification and follows its sector strategies, and rolls-out the MTEF in line-ministries and other government institutions.

Lastly, **IF** each of the outcomes is successfully achieved, **THEN** the public financial management cycle under principles of transparency and sustainability in Mongolia will be strengthened.

3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Results	Results chain: Main expected results	Indicators: (at least one indicator per expected result)	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	To strengthen the public financial management cycle under principles of transparency and sustainability in Mongolia	1. PEFA Performance indicator 14 (Macroeconomic and Fiscal Forecasting for Mongolia) 2. Performance indicator 2 (Expenditure composition outturn in the country) 3. Index Score on Transparency in	1. PI-14.2 Fiscal Forecasts: B (2021) 2. PI-2 Expenditure composition outturn: B (2021) 3. 56/100 (2019)	1. Fiscal forecasts proposals improves from (B) to at least (B+) 2. Expenditure composition outturn improves from (B) to at least (B+) 3. 60/100 (2027)	<ul style="list-style-type: none"> • MTFF • Tax collection ratio • Revenue and Expenditures outturns • Updated PEFA • Open Budget Survey 	<i>Not applicable</i>

		Open Budget Survey*				
Outcome 1	1. Improved budget planning and monitoring mechanisms in line with fiscal objectives, policy priorities and the existing regulatory framework	1.1 PEFA Performance indicator 15.1 (Fiscal Strategy) 1.2 PEFA Performance indicator PI-16.3 (Medium term perspective in expenditure budgeting) 1.3 PEFA Performance indicator PI-16.4 (Medium term perspective in expenditure budgeting) 1.4 PEFA Performance 10 (Fiscal Risk Reporting)	1.1. PI-15.1 Fiscal Impact of policy proposals: B (2021) 1.2. PI-16.3 Alignment of strategic plans and medium term budgets: D (2021). 1.3. PI-16.4 Consistency of budgets with previous year's estimates: D (2021) 1.4. PI-10.3 Contingent liabilities and other fiscal risks: C (2021)	1.1. PI 15.1 at least (B+) (2027) 1.2. PI-16.3 at least (C+) (2027) 1.3. at least (C+) (2027) 1.4. at least (B+) (2027)	<ul style="list-style-type: none"> Updated PEFA Fiscal Strategy (Indicator 15) Medium Term Budget Framework (Indicator 15) Set of coherent PBB methodologies enriched with guidelines on compiling the budget progr 	MOF remains committed to develop and link top-down and bottom up budgeting and to establish the effective cooperation with line ministries and local governments.
Outcome 2	2. Increased fiscal space for financing sustainable development at the national and local levels based on a more efficient domestic revenue mobilisation	2.1. PEFA Performance 3 (Revenue Outturn) 2.2 PEFA Performance 19.2 (Revenue Administration) 2.3 PEFA Performance 19.4 (Revenue Administration)	2.1. PI-3 Revenue Outturn: C (2021) 2.2. PI-19.2 Revenue Risk Management: B (2021) 2.3. PI-19.4 Revenue Arrears Monitoring: C (2021) 2.4. 0 (2023)	2.1. at least (B+)(2027). 2.2. at least (A+). 2.3. at least (B+) 2.4. 2 at the end of the project	1. Modified tax regimes 2. Tax policy scenarios 3. Tax expenditure model 4. Updated PEFA (if available)	Relevant MOF officials continue the implementation of new models and tools to understand fiscal phenomena and contribute to fiscal (including tax

		2.4 Number of tax regimes that have been modified based on the recommendations delivered through the intervention				policy) analysis and formulation.
Outcome 3	3. Increased effectiveness of budget expenditure, based on PBB systems, with a special focus on gender/climate-sensitive policies and marginalised groups (youth)	<p>3.1 PEFA Performance indicator 4 (Budget Classification)</p> <p>3.2 PEFA Performance indicator 8.2 (Performance Information for Public Service Delivery)</p> <p>3.3 PEFA Performance indicator 8.4 (Performance Information for Public Service Delivery)</p> <p>3.4 Number of ministries and/or institutions that are implementing GRB in their budget. *</p> <p>3.5 Number of ministries and/or institutions that are applying Climate Public Expenditures and Institutional Reviews*</p>	<p>3.1.PI-4 Budget Classification: C (2021)</p> <p>3.2.PI-8.2 Performance achieved for service delivery: D (2021)</p> <p>3.3. PI-8.4 Performance evaluation for service delivery: D (2021)</p> <p>3.4. No procedures on GRB (2020)_2 line ministries are piloting GRB (2021)</p> <p>3.5. CPEIR and climate expenditure tracking system currently not in place (2021).</p>	<p>3.1.at least (B+) (2027). Program codes for PBB to be introduced.</p> <p>3.2. at least (C) (2027)</p> <p>3.3. at least (C+) (2027)</p> <p>3.4. At least 9-line ministries applied GRB in their budget.</p> <p>3.5.CPEIR conducted and climate expenditure tracking system designed / operational.</p>	<ul style="list-style-type: none"> • MTEF • Budget classification • MTSS • Costings guidelines • Monitoring and evaluation of Pilot Ministries/agencies • Updated PEFA (if available) • CPEIR 	The Government enforces its own MTEF guidelines, develops program classification and follows its sector strategies, and rolls-out the MTEF in line-ministries and other government institutions.

Output 1 relating to Outcome 1	1.1. Increased availability of technical information on fiscal/tax policy guidance, fiscal risk analysis and management, and sectoral allocations	1.1.1. Number of Tax policy scenarios that have developed for the design of revenue models. 1.1.2. Number of fiscal risk management strategies related to fiscal objectives and targets set in the Fiscal Strategy 1.1.3. Number of budget allocations criteria and formulas, alignment of medium term policy with annual budget	1.1.1. Tax policy scenarios not developed within the revenue models 1.1.2. The fiscal objectives and targets are not elaborated by corresponding fiscal risk management strategies 1.1.3. Budget sectoral allocations are not criteria or formula-based	1.1.1. To be determined during inception 1.1.2. To be determined during inception. 1.1.3. To be determined during inception. Fiscal strategy prepared using risk management strategies	MTFF, Fiscal Strategy, including the tax policy scenarios.	
Output 2 relating to Outcome 1	1.2 Improved PBB methodology and the existing regulatory framework	1.2.1. Status of PBB methodology and regulatory framework 1.2.2. Number of people, staff of the competent institutions, who have received and/or discussed the PBB guidelines developed through the intervention	1.2.1. In the latest PBB guidelines (2009) ; GRB, climate-sensitive policies, marginalised groups expenditures (youth) are not included 1.2.2. To be established during inception	1.2.1. At least 2 additional line ministries and pilot local governments applied revised and updated PBB guidelines (including gender and climate budget tagging) 1.2.2. To be determined during inception	<ul style="list-style-type: none"> • Project implementaion report • Reports on workshop/traini ng organised. 	

Output 3 relating to Outcome 1	1.3 Improved technical and methodological guidance for the implementation of Medium-Term Sectoral Strategies (MTSS) and programme costings	1.3.1. Status of MTSS guidelines 1.3.2. Status of Guidelines on programme costing 1.3.3. Number of competent institutions that have increased their technical and operational capacities to implement budget programme performance monitoring and evaluation with EU support.	1.3.1. No MTSS guidelines (2023) to prepare fully costed programs of budgetary organisations 1.3.2. No guidelines on programme costing (2023) 1.3.3. 0	1.3.1. MTSS guidelines developed and implemented 1.3.2. Programme costing guidelines developed 1.3.3. To be determined during onception that have been defined in coordination with the competent institutions to monitor/evaluate budgetary and/or investment performance	<ul style="list-style-type: none"> Project implementation report 	
Output 4 relating to Outcome 1	1.4 Improved methodology on budget programme performance monitoring and reporting	1.4.1. Status of Guidelines on programme costing	1.4.1. No guidelines on programme costing (2023)	<ul style="list-style-type: none"> At least 2 line ministries applied guidelines on costings in the budget preparation phase 	Project report	
Output 5 relating to Outcome 1	1.5 Methodology of budget programme performance monitoring and evaluation produced	1.5.1. Status of Budget programme performance monitoring and evaluation methodology	1.5.1. No guidelines on programme performance monitoring and evaluation	<ul style="list-style-type: none"> At least 2 line ministries applied guidelines on programme performance monitoring and evaluation 	Project report	
Output 1 relating to Outcome 2	2.1 Increased availability of information on the impact of taxation on the economy and the fiscal space for policy making	2.1.1. Number of people, decision makers and staff of the competent institutions, who have received and discussed the findings and recommendations of the economic reports produced	2.1.1. 0 (2023) 2.1.2. No reports available	2.1.1. To be determined during inception 2.1.2. Number of reports are published and available	Project implementation report	

		through the intervention 2.1.2. Reports on the economic impacts of taxation on revenue mobilisation are published and publicly available.				
Output 2 relating to Outcome 2	2.2 Increased availability of recommendations in the area of domestic revenue mobilisation that support the development of a business environment structurally geared towards supporting the development policies as set out in the strategic documents	2.2.1. Number of decision makers and staff of the competent institutions who have received and discussed specific recommendations to improve the business ecosystem and environment.	2.2.1. 0 (2023)	2.2.1. To be determined during inception 2.2.2.	Project implementation reports in the area of domestic revenue mobilisation that support the development of a business environment are published and publicly available.	
Output 3 relating to Outcome 2	2.3 Strengthened revenue forecasting system using tax estimation and projection models that accurately generate forecasts for the budget cycle and the MTEF	2.3.1. Number of tax estimates, projection and expenditure models that have been designed with EU support 2.3.2. Performance on PEFA Indicator PI-3 Revenue Outturn	2.3.1. 0 (2023) 2.3.2. PI-3 C (2021)	2.3.1. To be determined during inception 2.3.2. at least C+ (2027)	<ul style="list-style-type: none"> • Project implementation report • PEFA (2027). 	
Output 1 relating to Outcome 3	3.1 Improved tools and procedures at national level for the implementation of Results-based SDG	3.1.1. Number of result-based SDG budgets prepared by public institutions. 3.1.2. Number of staff from the competent	3.1.1. The SDGs are used in pilot ministries to a limited extent. The integrated programme structure is not developed 3.1.2. 0 (2023)	3.1.1. To be determined during inception 3.1.2 To be determined during inception	<ul style="list-style-type: none"> • Project implementation report • Ministry of Finance 	

	(Sustainable Development Goals) budgeting.	institutions who have increased their knowledge on result-based SDG budgeting with EU support				
Output 2 relating to Outcome 3	3.2 Increased capacities of the national and sub-national institutions participating in the pilot phase for the introduction of the PBB	3.2.1. Number of pilot line ministries and public institutions at the local level that have introduced PBB 3.2.2. Number of public institutions at local level that have received training on PBB with EU support	3.2.1. To be determined (possibly nil in 2023) 3.2.2. 0 (2023)	3.2.1. To be determined at inception 3.2.2. To be determined at inception .	<ul style="list-style-type: none"> • Project reports • Ministry of Finance 	
Output 3 relating to Outcome 3	3.3 Transferred digital tools to improve electronic communication between public institutions and the Ministry of Finance	3.3.1. Number of digital tools and/or solutions that have been developed through the intervention to implement PBB at interinstitutional level. 3.3.2. Number of public institutions at the national and/or local level that are using PBB tools and classification when preparing their budgets	3.3.1. 0 (2023) 3.3.2. To be determined at inception 3.3.3. To be determined at inception	3.3.1. To be determined at inception 3.3.2. To be determined at inception 3.3.3. To be determined at inception.	<ul style="list-style-type: none"> • Project implementation report • Ministry of Finance 	

		3.3.3. Number of budgets that have been classified				
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4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

To implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is **36 months** from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed upon by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation Modalities

The Commission will ensure that the EU's appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures³.

4.3.1 Indirect Management with an entrusted entity

This action may be implemented in indirect management with an entity(ies) which will be selected by the Commission's services using the following criteria:

- Knowledge of the country context, prior experience and strong presence in Mongolia;
- Solid expertise/experience in the targeted sectors covered by this action (overall scope of public finance management, gender, youth and climate crosscutting issues);
- Close connections with the relevant Ministries, local authorities, civil society, and international organisations
- Capability to ensure coordination and operating coherently at all levels with Mongolian public institutions as well as other organisations and stakeholders and donors dealing with these sectors (including civil society, associations, media, etc.);
- Experience in promoting alignment of EU interests, policies and values in partner countries.

The implementation by this entity(ies) entails a contribution towards the impact and the achievement of the specific objectives (outcomes) and the corresponding outputs specified in 3.1.

4.3.2 Changes from indirect to direct management mode due to exceptional circumstances (one alternative second option)

In case, due to circumstances outside of the Commission's control, it is not possible to implement the action in indirect management with a pillar-assessed entity described under section 4.3.1, the alternative implementation modality will be direct management (procurement).

³ www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of the origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where the application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5. Indicative Budget

Indicative Budget components⁴	EU contribution (amount in EUR)
Indirect management with entrusted entities (including visibility) – cf. section 4.3.1	1 900 000
Evaluation – cf. section 5.2 Audit – cf. section 5.3	100 000
Totals	2 000 000

4.6 Organisational Set-up and Responsibilities

At the strategic level, the EUD will convene a formal meeting in a format of a Steering Committee (SC). The implementing partner will report to the SC members on the implementation of the action. SC will oversee the implementation of the project. The SC shall meet once per semester to oversee the progress in project implementation, providing all the stakeholders directly involved in the implementation of the project with the possibility opportunity to discuss current issues, provide feedback, identify challenges and define strategies to address them, as well as agree on the work plan and milestones.

The SC will be co-chaired by a representative of the EU Delegation and a high-level representative from the Ministry of Finance. The implementing partner will be the Secretary of the SC. The SC members will consist of high-level representatives of the beneficiaries, implementor(s) and other relevant stakeholders, and will convene at least twice per year and on ad-hoc occasions when necessary.

Detailed terms of reference/description of action will be developed, including the management structure, the experts' team, the Steering Committee (SC) in charge of the supervision of the project.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission will participate in the above governance structures set up for governing the implementation of the action and may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this action and ensuring effective coordination.

⁴ N.B: The final text on audit/verification depends on the outcome of ongoing discussions on pooling of funding in (one or a limited number of) Decision(s) and the subsequent financial management, i.e. for the conclusion of audit contracts and payments.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of the implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the log frame matrix. The Action will cover the cross cutting themes such as gender equality, climate change, support of young people and the related activities will be reflected in the monitoring/reporting system accordingly.

Reporting requirements related to OPSYS, the IP will be updated by the latest monitored values on the platform approximately in 6 months periods, in addition to the delivery of their progress reports. Format is adopted to specific outputs.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

- The EU Delegation and the Government of Mongolia will have the overall oversight and monitoring role;
- The implementing partners will be in charge of identifying the baselines and monitoring the achievements of the indicators falling under their responsibility;
- The Government of Mongolia is in charge of compiling data collected through national statistics.

Since this Action may be implemented in indirect management with an entrusted entity, the entity will be responsible for conducting any necessary baseline and final surveys as well as regular monitoring and evaluation (M&E) and reporting of all project activities.

All monitoring and reporting shall assess how the action is considering the principle of gender equality, human rights-based approach, and rights of persons with disabilities including inclusion and diversity. Indicators shall be disaggregated at least by sex.

5.2 Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via independent consultants.

It will be carried out for accountability and learning purposes, in particular concerning sustainability and future phases.

The Commission shall inform the implementing partner at least two months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination⁵. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

⁵ See best [practice of evaluation dissemination](#).

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, based on a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

In line with the 2022 “Communicating and Raising EU Visibility: Guidance for External Actions”, it will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union’s support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the Commission implements the actions concerned, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle, no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

Appendix 1 REPORTING IN OPSYS

A Primary Intervention (project/programme) is a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Identifying the level of the primary intervention will allow for:

Articulating Actions or Contracts according to an expected chain of results and therefore allowing them to ensure efficient monitoring and reporting of performance;

Differentiating these Actions or Contracts from those that do not produce direct reportable development results, defined as support entities (i.e. audits, evaluations);

Having a complete and exhaustive mapping of all results-bearing Actions and Contracts.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).

The level of the Primary Intervention chosen can be modified (directly in OPSYS) and the modification does not constitute an amendment of the action document.

The intervention level for the present Action identifies as

Contract level		
<input checked="" type="checkbox"/>	Single contract	Contribution Agreement with pillar assessed entity(ies)