



# **ASSESSMENT REPORT**

## **SUSTAINABLE PUBLIC PROCUREMENT STATUS IN MONGOLIA**

Ulaanbaatar, October 2015



## **LIST OF ABBREVIATIONS**

ADB-Asian Development Bank

EC-Evaluation Committee

FDI-Foreign direct investment

GPA- Government Procurement Agency

GPP-Green public procurement

LGA- Local government authority

LPPD-Legal and Procurement Policy Department

LCA-Life-Cycle Assessment

MCUD-Ministry of Construction and Urban Development

MDG-Millennium Development Goals

MECS-Ministry of Education, Culture and Science

MEGDT- Ministry of Environment, Green Development and Tourism

MFA-Ministry of Foreign Affairs

MIAM-Ministry of Industry and Agriculture

MNCCI-Mongolian National Chamber of Commerce and Industry

MNT-Mongolian tugrug (Mongolian national currency)

MOD-Ministry of Defense

MOE- Ministry of Energy

MOFA- Ministry of Food and Agriculture

MOF-Ministry of Finance

MOH- Ministry of Health

MOJ-Ministry of Justice

MOL-Ministry of Labor

MOM-Ministry of Mining

MOU-Memorandum of Understanding

MPDSP-Ministry of Population Development and Social Protection

MRT-Ministry of Roads and Transport

NGO-Non-government organization

NPRE-National Programme for Renewable Energy

SME-Small and medium enterprises

SPP-Sustainable public procurement

TOR- Terms of Reference

UNEP- United Nations Environment Programme

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# **I. INTRODUCTION**

## **1.1. Background information**

Mongolia, which traditionally has been dependent on herding and agriculture, has achieved a considerable economic growth due to increased activity in mining sector. The country's growth rate averaged 9% per year from 2004 until 2008, before it decelerated in late 2008 due to the global financial crisis and drop in price of commodities. As a result of the high government spending domestically and a rebound in price of commodities, the Mongolian economy grew once again averaging 10% per year from 2010 until 2014<sup>1</sup>. The population of the country, which has passed the 3 million people threshold in early 2015, is young, where 47.2% of the total is made up of residents ages 15 to 40. There is a good enrolment in primary education and high literacy rate. Mongolia has joined the World Trade Organization in 1997 and seeks to expand its participation in regional economic and trade regimes. Over the past couple of decades, Mongolia has transformed into a vibrant multiparty democracy and has a political commitment to sustainable development.

Since Mongolia has transitioned to a market economy, it has joined many international conventions and agreements. One of the remarkable events was the development and approval of the National Development Strategy of Mongolia in 1998, which described specific objectives and implementation approaches on socio-economy, natural resources and environmental protection. This program was further incorporated together with other policies, programs and strategies into a policy paper called Millennium Development Goals-based Comprehensive National Development Strategy of 2007-2021. In 2007, Millennium Development Goals-based Comprehensive National Development Strategy (CNDS) was developed for the next fourteen with a vision to promote human development in Mongolia and develop the country's economy, society, science, technology, culture and civilization.

On the other hand, Mongolia is facing challenges from economic imbalances, inefficient use of energy and resources, wasteful consumption, technical and technological obsolescence, vulnerability to climate change, unequal income distribution and poverty. Mongolia's natural resource-based economic structure is sensitive to commodity prices and foreign demand. Long-term economic planning needs improvement in order to diversify the economy and ensure sustainable growth. Mongolian economic sectors are extremely energy intensive and have high carbon footprint. Carbon intensity of Mongolian energy sector is the highest among regional countries due to extensive use of coal for electricity and heat production. Even though the poverty level in Mongolia decreased from 38.7% in 2010 to 27.4% in 2012<sup>2</sup>, it is evident that disproportional income distribution creates inequality in terms of access to opportunities such as good education, a good job, or decent healthcare. Moreover, despite the fact that young women tend to score higher

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<sup>1</sup> Source: <http://www.nso.mn>

<sup>2</sup> Source: <http://www.nso.mn>

on educational achievements than young men, the wage gap between men and women has broadened in recent years.

Recognizing the need for a change in socio-economic development patterns and aiming to reduce the negative impact on the environment, the Parliament of Mongolia has approved the transition to a green development model that results in sustaining well-being of people by ensuring environmentally friendly, inclusive economic growth and increasing efficient consumption of natural resources and sustainability of ecosystem services. Transition to a green development will be ensured by valuing benefits and rational use of natural resources, increasing productivity, green investment and green procurement, expansion of works and services directed at enhancing conservation of ecosystem balance and registration, engraining environmentally friendly production and services.

In June 2013, following a request from the Mongolian President Tsakhiagiin Elbegdorj, Achiem Steiner UNEP Executive director announced that Mongolia would be the first country to receive assistance to embark on its green development pathway through the Partnership for Action on Green Economy (PAGE), UN inter-agency mechanism. The aim of the PAGE initiative is to support Mongolia in refining and implementing its Green Development Strategy (GDS). PAGE founding members – International Labour Organization, United Nations Environment Programme (UNEP), United Nations Institute for Training and Research and United Nations Development Programme (UNDP) work jointly with the Ministry of Environment, Green Development and Tourism (MEGDT) and Ministry of Finance (MOF) in Mongolia in supporting a series of activities to advance Mongolia's Green Development Strategy.

The Ministry of Finance (MOF) was designated as the National Focal Organisation for the PAGE project on Sustainable Public Procurement (SPP) in Mongolia in September 2014 with the ambition to improve the efficiency and effectiveness of the public procurement process of Mongolia by incorporating sustainability into the national Public Procurement framework. The Ministry of Finance works in close collaboration with the Ministry of Environment and Green Development and is supported by UNEP. This UNEP-MOF project is the first initiative to introduce SPP in the country.

## **1.2. Report objectives**

This report is the first step towards the implementation of the SPP in Mongolia. The Status Assessment report will assess the current policies and practices of public procurement in Mongolia and aims to:

- Understand the current sustainable public procurement practices in Mongolia;
- Identify potential barriers and opportunities for the implementation of sustainable public procurement
- Understand existing gaps and necessary improvements;
- Raise awareness of the international commitment to sustainable public procurement;

Results of this report will serve as a reference point to track the progress of the implementation of SPP in Mongolia at later stages.

Conducting an assessment of the national public procurement system is the first step recommended by the “UNEP Approach to SPP”. This methodology, which was developed within the framework of the Marrakech Task Force on Sustainable Public Procurement in 2009, provides the guidelines to the governments for the development of a **National Action Plan for SPP**. The initial phase of the UNEP SPP Approach includes the following steps:

1. *Status assessment*-An assessment of current procurement policies and practices in Mongolia that aims to identify potential barriers and opportunities in implementing SPP in Mongolia.
2. *Legal review*-An analysis of Mongolia’s public procurement framework that aims to identify legal possibilities and legal barriers in relation with the incorporation of social and environmental concerns in public procurement.
3. *Prioritization*-Prioritization exercise addresses policy priorities and sustainability risks associated with procurement spend categories and aims at identifying priority list of products and services that should be part of eventual SPP policy and action plan.
4. *Market Analysis*-A study that aims to assess the market readiness for implementing SPP. In particular, the study looks into existing productive capacities for sustainable products and services in the country, analyzes the potential responsiveness of the market and the national business sector to SPP tenders, determines the capacity to meet current and future public procurement requirements for sustainable products and services, identifies the relevant certification or verification instruments and tools, as well as gaps, and assists in planning activities for the progressive introduction of SPP<sup>3</sup>.

The UNEP SPP Approach advises to carry out a strategic planning by developing an SPP Policy and Action Plan based on the outcomes of the initial phase of studies and exercises listed above. The last phase of the UNEP SPP Approach involves the implementation of the National SPP Action plan. Implementation of SPP in Mongolia would enable Mongolia to meet environmental goals such as reducing greenhouse emissions, improving energy and water efficiency and supporting recycling. The social benefits of SPP include poverty reduction, improved equity and respect for core labor standards.

### 1.3. Methodology

This status assessment report is developed according to the outline recommended by UNEP’s Approach to SPP implementation. This report is based on research and analysis of existing legal documents pertaining to laws and policies, reports on country’s situation evaluation, public procurement, environment protection, and sustainable development. Outcomes and recommendations derive from interviews conducted with procurement officials (list of the interviewed officials can be found in Annex 1) and responses from questionnaires collected from Government Procurement Agency (GPA), Ministry of Industry (MOI), Ministry of Population Development and Social Protection (MPDSP), Ministry of Mining (MOM), Ministry of

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<sup>3</sup> Source: UNEP (2012) Sustainable Public Procurement Implementation Guidelines.

Environment, Green Development, and Tourism (MEGDT), Ministry of Justice (MOJ), Ministry of Labor (MOL), Ministry of Food and Agriculture (MOFA), Ministry of Construction and Urban Development (MCUD), Ministry of Roads and Transportation (MRT) and Darkhan aimag<sup>4</sup>. The current analysis addresses the local progress, achievements and challenges in line with implementation of sustainable public procurement. The scope of the status assessment covers central administrations and focuses on the current procurement policies for the country as a whole. Due to the fact that this assessment was based on the knowledge of the procuring officials at public administrations and conducted within a limited time of one month, it cannot be regarded as a complete picture of the public procurement in Mongolia and it doesn't reflect all government initiatives towards sustainable procurement.

## **II. PUBLIC PROCUREMENT PROCESSES AND PRACTICES IN THE COUNTRY**

### **2.1. Background information on public procurement in Mongolia**

Mongolia, a former socialist country, began its efforts to establish a modern procurement system through the introduction of a Public Procurement Law of Mongolia in April, 2001. Prior to issuance of the PPLM<sup>5</sup> and during the early years of transition to a democratic form of government, public procurement in Mongolia was conducted by each Government ministry and agency in a largely uncoordinated manner. In the absence of an overall procurement law, each ministry adopted its own rules that resulted in wide variations in procedures.

In the course of its implementation, many weaknesses were found in the PPLM, hence, the law was extensively revised and a new law was adopted in December 2005 based on the United Nations Commission on International Trade Law (UNCITRAL) model procurement law. This law was further amended in 2007, 2009 and very recently in June 2011 where substantive changes were made. The Law applies to all procuring entities with the exemption of procurements involving national defense or security those financed by donor funds and works and services related to the maintenance of national roads executed by state owned enterprises and covers procurement of goods, works and services financed by state and local funds.

Mongolia's legal architecture for procurement has been undergoing considerable change over the past few years. Mongolia's first procurement law was promulgated in 2001, which significantly centralized procurement and tightened fiduciary controls. However, the centralization of procurement increased procurement lead-times (causing delays in procurement) and budget entities felt disenfranchised at the loss of control over funds allocated to them by the Parliament. This resulted in a revised procurement law in 2007 which gave line ministries much greater authority in procurement and made the Ministry of Finance the key regulatory body. However, capacity constraints in the line ministries did not solve the problem of delays, and there was a

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<sup>4</sup> Darkhan aimag is one of the 21 aimags (provinces) of Mongolia as a second industrial center to reduce the migration pressure on the capital UB.

<sup>5</sup> Public Procurement Law of Mongolia is hereinafter referred as PPLM.



general consensus, particularly among members of parliament, that the system had to be radically changed in order to meet the challenge of the rapid build-up in infrastructure that Mongolia faced.

The June 2011 amendment to the Public Procurement Law of Mongolia (PPLM) had the following new main provisions:

- The creation of a professional procurement agency /now it is established as the Government Procurement Agency (GPA)/ that will be responsible for high profile procurements from the state government budget. The list of procurements to be undertaken by the GPA at the regional and national level has to be approved by the Parliament prior to implementation;
- Increased responsibilities of local governments in procurement; specifically all procurements, without thresholds, from local budgets will be handled by local governments;
- Greater internal controls through the establishment of a procurement inspectorate in the Ministry of Finance;
- A new formal role for civil society and professional organizations in bid evaluation and contract monitoring;
- A new provision for framework agreements for high volume, commonly-used items;
- Increased requirements for the use of e-procurement;

## 2.2. Institutional landscape of public procurement in Mongolia

Procurement of goods, works and services with state and local funds is regulated by PPLM, unless otherwise is provided in international agreements to which Mongolia is a party. PPLM doesn't apply to the regulation of procurement of special equipment, facilities, works and services, and weapons included by law into state secrets and relating to national security. And this law shall not apply to procurements of works and services related to repair and maintenance of national automobile roads undertaken by state-owned legal entities. In addition, the law doesn't apply to procurement of works, goods and services by the Development Bank of Mongolia<sup>6</sup>.

On June 9, 2011 the Parliament approved a new set of amendments to the PPLM. **Mongolia has decentralized much of its financial and procurement processes in recent years**, with local governments now being increasingly responsible for directly managing large budgets and procurement. The set of amendments to PPLM involves the decentralization of procurement processes to the Capital, Aimag<sup>7</sup> and Soum<sup>8</sup> levels. As a result of these amendments, Mongolia has a decentralized public procurement system with some centralized supervision. In accordance with PPLM, the following bodies are the procuring entities in case of procuring goods, works and services with **state budget resources**:

- Secretariats of the President and the Parliament of Mongolia, Secretariat of Government, National Security Council, state central administrative bodies and the bodies accountable to

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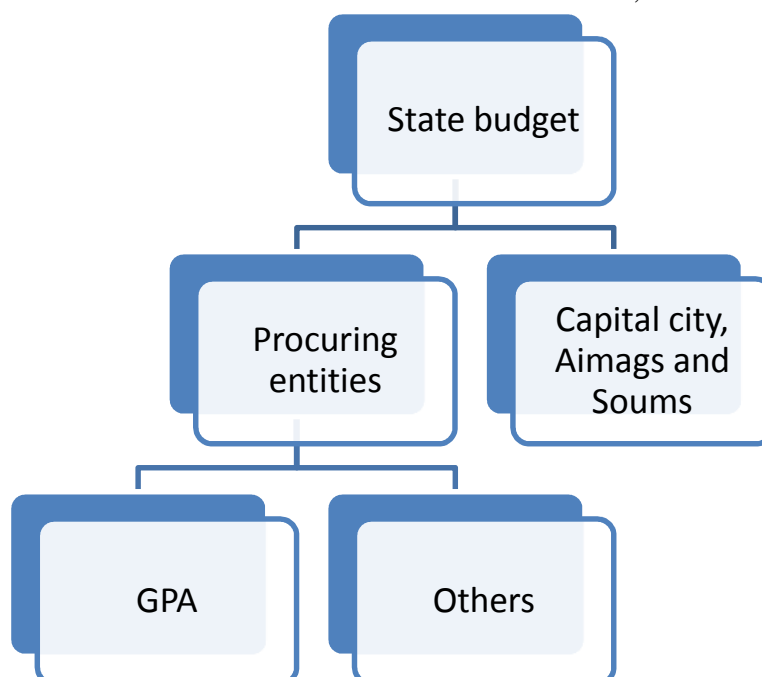
<sup>6</sup> Source: Public procurement law of Mongolia, Article 3.

<sup>7</sup> Mongolia is divided into 21 provinces often translated as "aimag".

<sup>8</sup> Each aimag is subdivided into several soums.

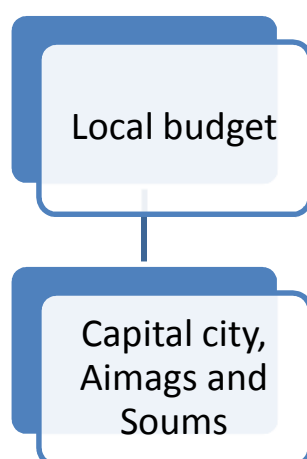
the Parliament; Constitution Court; Supreme Court, Office of the Prosecutor-General, General Council of Courts, agencies and organizations under Prime Minister and Cabinet Member mandate (including Government Procurement Agency)

- Governor's Offices of Aimag, Capital city, Soum and district for procurement of overall goods and services for their own needs that exceed the threshold amount of 20 million MNT and works that exceed the threshold amount of 50 million MNT;



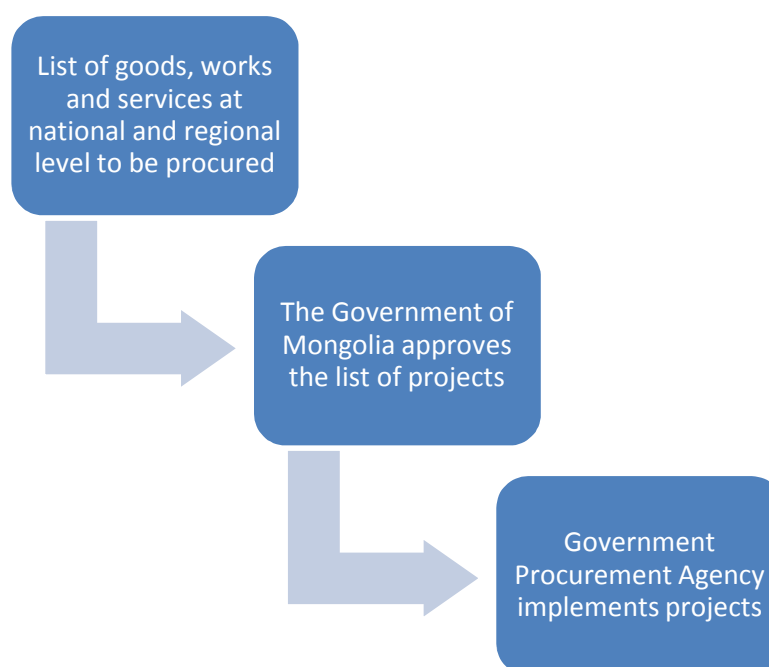
The following bodies are the procuring entities in case of procuring goods, works and services with **local budget resources**:

- Governor's Offices of Aimag, Capital city, Soum and district for funding procurements of goods and services that cost up to 20 million MNT and works that cost up to 50 million MNT.



The **GPA** is a professional institution under the Deputy Prime Minister's scope, which is responsible for all procurements of goods, works and services at national and regional level that are not undertaken by entities specified above. In addition, as mentioned earlier, the GPA carries out procurement of high profile works, goods, and services financed from the **state government budget** (such as building interstate roads or factories), and establishes framework agreements for

commonly used items (such as office supplies) that will then be purchased by line ministries. After the annual approval of the State budget, the GPA must submit a list of necessary procurement projects to the Parliament for approval within 5 business days. The Government approves the list of projects to be implemented by the GPA.



The responsibilities of GPA include:

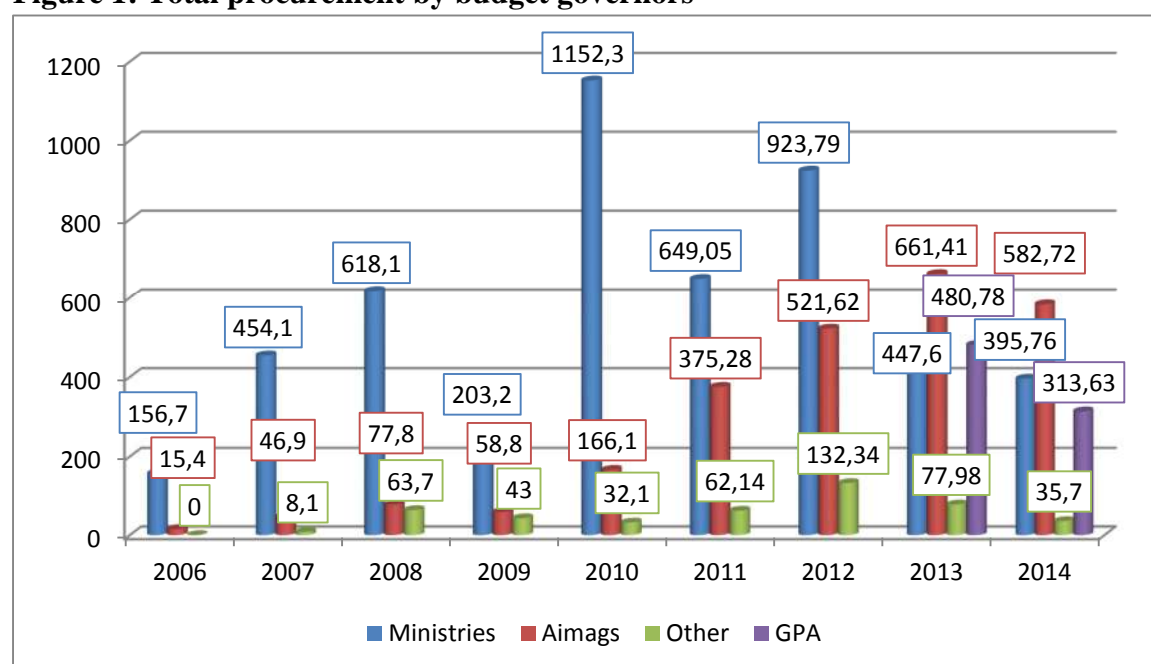
- Provide professional and methodological support to its procurement units in provinces, public and private sectors, and oversee their activities;
- Make bidding procedures transparent and fair;
- Summarize the results of implementation of laws and legislation on procurement activities, and submit proposals to MOF;
- Put in place and manage e-Procurement tools to reduce the risk of corruption and make participating in public tenders much easier for small and medium-sized enterprises (SMEs). The website posts procurement related information, news, tender announcements and selection results; it also defines and refines methods for post-tender invitations and other related information on the website;
- Provide customers and bidders with procurement-related technical advice and organize related training;
- Implement activities directed to strengthening the capacity of the professional organization in charge of the procurement process and improving the organization's software and hardware following a general policy and plan;
- Facilitate activities related with establishment and implementation of a general contract concluded between the Procuring entity and one or more suppliers, service providers or contractors on provision of regular use goods, works and services based on agreed price and other terms and conditions for the duration of up to 3 years;

The rationale for the creation of the Government Procurement Agency is to both increase procurement capacity and to increase transparency and reduce the risk of corruption. The aim was to establish an entity that specializes in procurement and which would be staffed by professionals dedicated full time to this purpose, as opposed to the previous arrangements where regular officials from line ministries conducted procurement in addition to their normal duties, thus taking them away from their core policy making function. It is also anticipated that creation of the Government Procurement Agency would improve transparency as it will be easier to place controls on, and to monitor the procurement activities of one central entity, through for example the limited resources of the Mongolia National Audit Office. Since the GPA is a relatively new agency, there are still some developments that are projected in order to increase its capacity.

As a result of the amendments to PPLM, the Ministry of Finance was put in charge of procurement policy and monitoring. In terms of principles, there is a clear separation between the **procurement regulatory function** (which is with **Ministry of Finance**) and the complaint review function (also with Ministry of Finance) on the one hand, and the **procurement implementation function** (with the **Government Procurement Agency**) on the other so as to avoid potential conflict of interest. The Legal and Procurement Policy Department (LPPD) at Ministry of Finance is responsible for establishing procurement policy and standards, reviewing complaints from bidders, providing training and prior clearance for certain procurements. Ministry of Finance is guaranteed to have a policy making and coordinating functions according to the law.

The present system divides Mongolia into approximately 15 ministries, including their attached agencies, 21 aimags (provinces) and 342 soums (districts). The below chart illustrates the amount spent by ministries, aimags, soums, and Government Procurement Agency.

**Figure 1: Total procurement by budget governors**



Source: 2014 Procurement Report from MOF (Unit: MNT billion)

## 2.3. Training

Government has begun procurement training for public officials after effectiveness of the PPLM since 2000. There are nationwide systems for public procurement capacity development.

In order to prepare procurement officers and staff at national and local levels, the national public procurement capacity development program was approved in 2006. As a result, **training curricula and materials were systemized**. Several academic institutions and non-government organizations (NGO) were accredited for specialized procurement trainings in 3 types of procurement training.

The changes in the overall structure of procurement activities from the **national to the local** level had large **implications for capacity building**. There was an urgent need to train the new cadre of procurement officials who would manage activities at the national and local levels not only on the procurement law but in detailed functions such as preparation of technical specifications, tender documents, evaluation of prequalification and bid documents, among others. The challenge was to make sure that there were adequate numbers of training institutions that would provide decent quality training as this was expected to increase exponentially to service the requirements of local governments. The Ministry of Finance has formulated a policy of creating regional training institutes in the country side that was expected to reduce dependency on central level training institutions and to develop local professionals or experts who would serve as regional knowledge hubs for procurement and project management.

There are three types of procurement related trainings that are currently being implemented to address the capacity building requirements: A1 course (one-day training) that provides a general overview of the procurement law designed to create awareness and understanding of its importance; A3 course (three-day training) that covers fundamental knowledge on the salient provisions of the procurement law with the goal to prepare participants to take the test and to be certified as members of the Evaluation Committee; B5 course (five-day trainers training) that prepares procurement trainers to have deeper understanding of the procurement law, receive trainer certification as well as certification to serve as members of Evaluation Committee. The standard training curriculum and material on the procurement law was developed by the **Legal and Procurement Policy Department (LPPD)** of the Ministry of Finance based on a modular approach where each course builds upon the next. All the training institutions are mandated to follow and use the course outline and curriculum as well as the materials prepared by LPPD.

The LPPD has entered into a Memorandum of Understanding (MOU) with several training institutions to carry out the A1 and A3 trainings for various types of stakeholders for a period of two years as part of its policy to delegate the function of training. It provides guidance, policy directions, information and other materials related to the conduct of training, the preparation of certification exams, and training trainers. The training is provided at the Mongolian National University's School of Business, School of Computer Science and Technology, Budget Management Institute, Procurement Training and Counseling Center, Human Development, Research and Training Center NGO, Procurement Development Center NGO and local

procurement offices in Aimags (provinces). The training institutions make available their trained faculty and facilities to conduct the training and submit reports on the status of their training activities on a quarterly basis. **There is no central fund for training** and national government agencies, local government units (LGU) and other stakeholders are expected to support their training needs with their own funds. The training institutes assume the marketing, management and business aspects of procurement training, and are allowed to carry out additional activities to sustain operations such as research and consulting works, as well as participation in tender activities for consultancy services on public procurement.

## 2.4. Auditing mechanisms

According to budget law of Mongolia, each General budget governor<sup>9</sup> shall establish an internal audit unit and employ an internal auditor aimed at controlling enforcement of legislation, conducting financial inspection of budgetary assets and liabilities, revenues and expenditures, programs, activities and investment, evaluations and recommendations, making assessments and proposing risk management measures. The State Central Administrative Body Responsible for Finance and Budget Matters (MOF) shall provide general budget governors' internal audit units with standards of activities and methodological guidance. Financial activities of budgetary entities, state and locally-owned legal bodies and legal bodies' majority owned by state and local government under the responsibility of general budget governors shall be subject to internal audit. The Internal Auditor shall hold a State financial inspector's license. The Government shall approve the charter of the internal audit unit.

All budget governors must prepare and submit budget execution reports and financial statements to the Mongolian National Audit Office. The Mongolian National Audit Office which reports to the Parliament conducts auditing by request or by their plan. The Mongolian National Audit Office conducts audits of the Unified Budget execution report and Government's consolidated financial statement and submits its audit opinion to the Parliament. New amendments to PPLM were put into effect on October 1, 2012, which allow private sector and non-government professional organizations to monitor and audit procuring entity's operations, contract fulfillment, quality processes and performance. In this case, the organizations organize the monitoring and auditing with their own funds.

In addition, the 2011 amendments to the PPLM established a procurement inspectorate system in the legal environment. The state inspectors, in charge of procurement process, have the following power:

- The chief state inspector /now State Secretary of MOF/ and state inspector for overseeing implementation of procurement activities shall be a member of the state administrative central body in charge of budget affairs /MOF/;
- When overseeing the procurement process, the state inspector in charge of procurement procedures shall exercise the following rights in addition to the general plenary rights of the law on state inspection and monitoring:

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<sup>9</sup> "General budget governor" means an official who is authorized to plan budgets for the area within his authority and allocate, oversee, manage and report on the execution of the approved budgets in accordance with legislation.

- To propose a bidder who is identified as fulfilling the conditions stated in provisions of the law to be included in the registry of bidders with limited rights;
- To annul an invalid contract;
- To annul contracts that transferred contract obligations to a third party without approval of the procuring entity or made payments that exceed the amount previously stated in the bidding documents.

## 2.5. Budget management

The Unified Budget of Mongolia is comprised of the state budget, local budgets, the budget of the Social Insurance Fund and the budget of the Human Development Fund. The local budget is comprised of Aimag, Capital city, Soum and district budgets and can be utilized for funding procurements of goods and services that cost up to 20 million MNT and works that cost up to 50 million MNT<sup>10</sup>.

The budget revenue is comprised of tax, non-tax revenues and other revenues, at both central and local levels. Tax revenues are comprised of taxes, fees and commissions as articulated by the General Tax Law. Non-tax revenues are comprised of dividends from fully and partly state and locally owned enterprises for the share of state and local property, sales revenue and charges for the use of state and local property, proceeds from privatization, sale and renting of state and local property, fines, revenue from non-core activities of budgetary entity, loans and grants obtained from foreign countries and/or international organizations and other types of revenues generated into the budget in accordance with respective laws.

*State budget tax revenues* are comprised of the following types of revenues:

- Company income tax;
- Value added tax;
- Excise tax;
- Customs duties;
- Fuel and diesel tax;
- Mineral resource exploitation tax;
- Mining and exploration license fees;
- Air pollution tax; and
- State stamp tax specified in 11.2 of the Law on State stamp tax.

*State budget non tax revenues* are comprised of the following types of revenues:

- Dividends from fully and partly state owned enterprises for the share of state property except the one specified in provision 3.2.1 of the Law on Human Development Fund;
- Charges for the usage of state property and revenue from the sale of state property; and

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<sup>10</sup> Aimags are divided into number of Soums, while the Capital city consists of districts.

- Other types of revenues to be generated into the state budget in accordance with the respective laws.

*Aimag and capital city budget tax revenues* are comprised of the following type of revenues:

- Capital city tax;
- Land fee;
- Immovable property tax;
- Vehicle and self-movable carriage tax;
- Charges for service and industrial water users;
- Taxes on income specified in provision 8.1.1 of the Law on Personal Income Tax;
- Taxes on inheritance and gifts; and
- State stamp tax other than that specified in provision 23.4.9 of the law.

*Aimag and capital city budget non-tax revenues* are comprised of the following type of revenues:

- Dividends from fully and partly locally owned legal bodies for the share owned by local government;
- Charges for the usage of local property and revenue from the sale of local property, revenue from interest and fines; and
- Other types of revenues to be generated into Aimag and Capital city budgets in accordance with respective laws.

*Soum and district budget tax revenues* are comprised of the following type of revenues:

- Personal income taxes
- Gun fee;
- State stamp tax other than that specified in 23.4.9 of the Law;
- Hunting fee;
- License fee for exploitation of natural resources other than mineral resources;
- Fee on natural plants;
- Timber fee;
- Fee on use of widespread mineral resources;
- Fee on the household usage of water and spring water;
- Income tax of self-employed person whose income is not predictable for a certain time period; and
- Dog fee.

*Soum and district budget's non-tax revenues* are comprised of the following types of revenues:

- Dividends from fully and partly locally owned enterprises for the share owned by local government;



- Charges for the usage of local property and sales revenue, revenue from interest and fines; and
- Other types of revenues to be generated into Soum and district's budget in accordance with the respective laws.
- Proceeds from donations, grants and assistance specified in Article 25 of the law shall be budget revenues.
- Revenues occurred in relation to owning, using and spending land and natural resources in the form specified in law shall be part of the budget revenue.

According to the budget law and PPLM, the procurement cycle is tied to an annual budgeting cycle. A fiscal year starts on January 1 and ends on December 31 and is divided into months, quarters, half-year and full year. Budgets are approved and reported on an annual basis and approved budgets are allotted and implemented on a monthly and quarterly basis. There are no multiannual budgeting options reflected in the Budget Law of Mongolia. With the start of the fiscal year, each budget governor's authorization to spend in the approved budget of the corresponding fiscal year shall become effective.

Preparatory work for procurement implementation involve the procuring entity preparing a draft of the procurement plan of goods, works and services if necessary, including technical and economic feasibility study and submits it with the subsequent year budget proposal to the respective budget general governor. Then, the budget general governor and Government Procurement Agency approve the general procurement plan for goods works and services within 10 working days since the central budget approval by the Parliament and then submit it to the Ministry of Finance. Procedures for procurement planning processes must be approved by Minister of Finance. Survey results indicated **that public procurement accounts for 20%-30% of the budget for each agency.**

## 2.6. Public procurement methods in Mongolia

Public Procurement Law of Mongolia recognizes the following tender selection methods for public procurement: open tender, limited tender, comparison method, and direct contracting. All procurement plans are implemented through open tender unless they fulfill the conditions for special tender selection.

Limited tender selection is applied when there is limited number of qualified persons capable of performing the complex tasks for goods, works or services requiring high professional skills, experience, technical and technological abilities. In case of limited tender selection, procurer sends tender invitation simultaneously to all tender participants capable of performing such tender and provides them equal opportunities for fair participation.

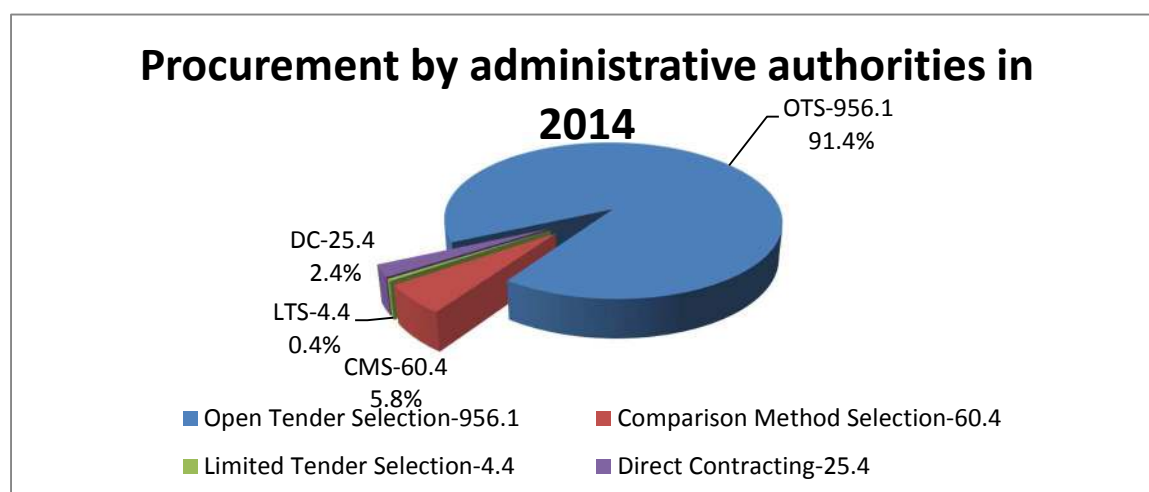
Comparison method can be used under circumstances whereby the budgeted cost for goods, works or services does not exceed the base price. In this instance, the contract is awarded to the tender participant who has submitted the lowest price from amongst those who satisfy general, technical, professional and financial conditions.

Direct contracting can be used under following circumstances:

- In case of possibility to conclude contract only with one person, for the purpose of protection of intellectual property, where there is no another person capable of replacing;
- In the case of procuring of materials with different type of technical nature by customer caused by replacing some parts of the goods or equipment supplied in accordance with the initial contract, under the condition that such additional supply does not exceed 20 percent of the initially agreed price, or changing the supplier during such additional supply; and in the case if such arrangement is likely to cause any difficulties in the repair service, or unnecessary cost;
- If customer believes that a new tender selection shall not bring about a better proposal out come in the case of performing additional and/or partial repeated task of the procured work, where the cost of additional work is not more than the lowest of 15 per cent of the initial contract price or the compared base price.
- In the case of impossibility to observe the minimum timeframe for receiving tenders for open and limited tenders due to unforeseen or force major conditions<sup>11</sup>.

The following chart illustrates the share of each method of selection. 2014 Government report indicates that global value of the public procurement totaled 1,046.3 billion Mongolian tugrugs (MNT) (approximately 550 million USD) of which 91.4% (956.1 billion MNT) was done through open tender selection, 5.8% (60.4 billion MNT) was done through comparison method selection, 0.4% (4.4 billion MNT) was done through limited tender selection, and 2.4% (25.4 billion MNT) was done through direct contracting<sup>12</sup>.

**Figure 2: Tender selection methods**



*Source: 2014 Budget Report from MOF (Unit: MNT billion)*

<sup>11</sup> Source: PPLM (2014) Public Procurement Law of Mongolia: Article 31.

<sup>12</sup> Source: Budget Report (2014) Evaluation of procurement by administrative authorities.

## 2.7. Regulations

Mongolia is a member of World Trade Organization since 29 January 1997 and currently has an observer status of Government Procurement Agreement. Public procurement in Mongolia is implemented according the Public Procurement Law of Mongolia (PPLM) that provides general provisions. PPLM defines the public procurement rules for central state authorities, central administrative bodies and local authorities. Nevertheless, PPLM indicates in Article 2, if an international treaty, to which Mongolia is a party, is inconsistent with the Public Procurement Law, the **provisions of the international treaty** shall prevail. Also, in Article 3 of PPLM, it indicates the Scope of the Law: 3.2. In case of procurement of goods, works and services funded by foreign grants or loans, this law shall apply unless the relevant international treaty expressly specifies different procedures and/or conditions for the procurement. As far as the technical specifications, Article 11 states that technical definitions should be based on international standards recognized in Mongolia, and in the case there is no such standard, to be based on national standards, technical requirements, norms, normative, rules and regulations.

Status of international agreements, Mongolia:

Worst forms of child labor convention 1999 (No. C182)	Ratified
Freedom of Association and the right to organized convention 1948 (No. 87)	Ratified
Forced labor convention 1930 (No. 29)	Ratified
Abolition of forced labor convention 1957 (No.105)	Ratified
Equal remuneration convention 1951 (No. 100)	Ratified
Discrimination (employment and occupation) convention 1958 (No. 111)	Ratified
Minimum age convention 1973 (No. 138)	Ratified
Right to organize for collective bargaining convention 1949 (No.98)	Ratified
The 1979 Geneva Convention on Long-Range Transboundary Air Pollution (LRTAP)	Not Ratified
Stockholm Convention on Persistent Organic Pollutants (POPs)	Ratified
United Nations Framework Convention on Climate Change (UNFCCC) - Kyoto Protocol	Ratified
Convention on Environmental Impact Assessment in a Transboundary Context (Espoo Convention)	Not ratified
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	Ratified

Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	Ratified
The Montreal Protocol on Substances That Deplete the Ozone Layer	Ratified
Rotterdam convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade	Ratified
Convention on Biological Diversity	Ratified
Aarhus Convention On Access To Information Public Participation In Decision Making And Access To Justice In Environmental Matters	Not ratified
Convention On The Transboundary Effects Of Industrial Accidents	Not ratified
Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter	Not ratified
International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto (MARPOL 73/78	Not ratified
The Antarctic Treaty	Ratified
<b>ILO Conventions; Fundamental</b>	
ILO: C029-Forced Labor Convention, 1930 (No.29)	Ratified
ILO: C087-Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)	Ratified
ILO: C098-Right to Organize and Collective Bargaining Convention, 1949 (No. 98)	Ratified
ILO: C100-Equal Remuneration Convention, 1957 (No. 105)	Ratified
ILO: C111-Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	Ratified
ILO: C138-Minimum Age Convention, 1973 (No. 138) <i>Minimum age specified: 15 years</i>	Ratified
ILO: C182-Worst Forms of Child Labor Convention, 1999 (No. 182)	Ratified
<b>ILO Conventions; Governance</b>	
ILO: C122-Employment Policy Convention, 1964 (No. 122)	Ratified
ILO: C144-Tripartite Consultation (International Labor Standards) Convention, 1976 (No. 144)	Ratified

<b>ILO Conventions; Technical</b>	
ILO: C059-Minimum Age (Industry) Convention (Revised), 1937 (No. 59)	Automatic Denunciation on 16 Dec 2003 by convention C138
ILO: C088 - Employment Service Convention, 1948 (No. 88)	The Convention will enter into force for Mongolia on 17 Apr 2016.
ILO: C103 - Maternity Protection Convention (Revised), 1952 (No. 103)	Ratified
ILO: C123 - Minimum Age (Underground Work) Convention, 1965 (No. 123) <i>Minimum age specified: 18 years</i>	Ratified
ILO: C135 - Workers' Representatives Convention, 1971 (No. 135)	Ratified
ILO: C155 - Occupational Safety and Health Convention, 1981 (No. 155)	Ratified
ILO: C159 - Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159)	Ratified
ILO: C181 - Private Employment Agencies Convention, 1997 (No. 181)	The Convention will enter into force for Mongolia on 17 Apr 2016.
ILO: C094 - Labor Clauses (Public Contracts) Convention, 1949 (No. 94)	Not ratified

Existing policy and programme initiatives include pollution prevention in the public and private sector, eco-labels, energy efficiency, technology conversion, compliance with labor law, employment promotion, and employment opportunities for disabled workers.

### **2.7.1. Evaluation of tenders**

Currently, Public Procurement Law of Mongolia doesn't reflect sustainability aspects. According to PPLM individual tenders reviewed to check whether they satisfy the following basic requirements:

- Capacity qualifications set by the procuring entity;
- Technical specifications;
- Other terms and conditions set out in the tender documents.

Also, the criteria taken into consideration during the review process include the quality and performance of goods, works or services and whether contract terms offered by the procuring entity have any inconsistency with the law. A tender is considered as a responsive tender when it satisfies all the above-mentioned conditions. The key criterion in evaluating responsive tenders is the tendering price. The procuring entity may select appropriate factors that affect its economic efficiency, taking into account the feature of goods, works or services to be procured - except for consultant services. These factors are reflected in monetary terms in the tendering price. They include:

- The time of completion of works and services and/or delivery of goods;
- Current expenses or cost and efficiency estimations;
- After-sales service and technical assistance;
- Commitments to supply spare parts and the price thereof;
- Quality and technical merits of works, goods and services;
- Also, other criteria consistent with this law.

The tendering price shall include taxes, insurance, transportation and all other expenses associated with the execution of the contract unless the tender documents provide otherwise. All tenders are ordered from the lowest to the highest comparison price with a tender with the lowest price being selected. A tender with the lowest price shall be considered as “the best” evaluated tender. Procuring entity decides to award a contract to the participant that has submitted the tender that satisfies the requirements and is evaluated as “the best” in accordance with the procedures mentioned above.

## **2.8. Monitoring of public procurement**

Central Procurement Monitoring Office was created pursuant to the PPLM in May 2000. The office was restructured and renamed as the Legal and Procurement Policy Department (LPPD) under Ministry of Finance. Based on the PPLM, the LPPD is responsible for establishing procurement policy and standards, providing training and prior clearance for certain procurements, and reviewing complaints from bidders.

There are two integrated systems operational. One is web-based government’s e-procurement site. The procurement website brings more transparency and accountability to the government procurement system. Other one is PMMIS (procurement monitoring and management information systems). They provide nationwide procurement information including invitations, proposals and awards. Procurement Management and Monitoring System were implemented with assistance of international experts. It supports better procurement planning, implementation, reporting and monitoring tools for the procuring entities and establishes effective monitoring and data collection.

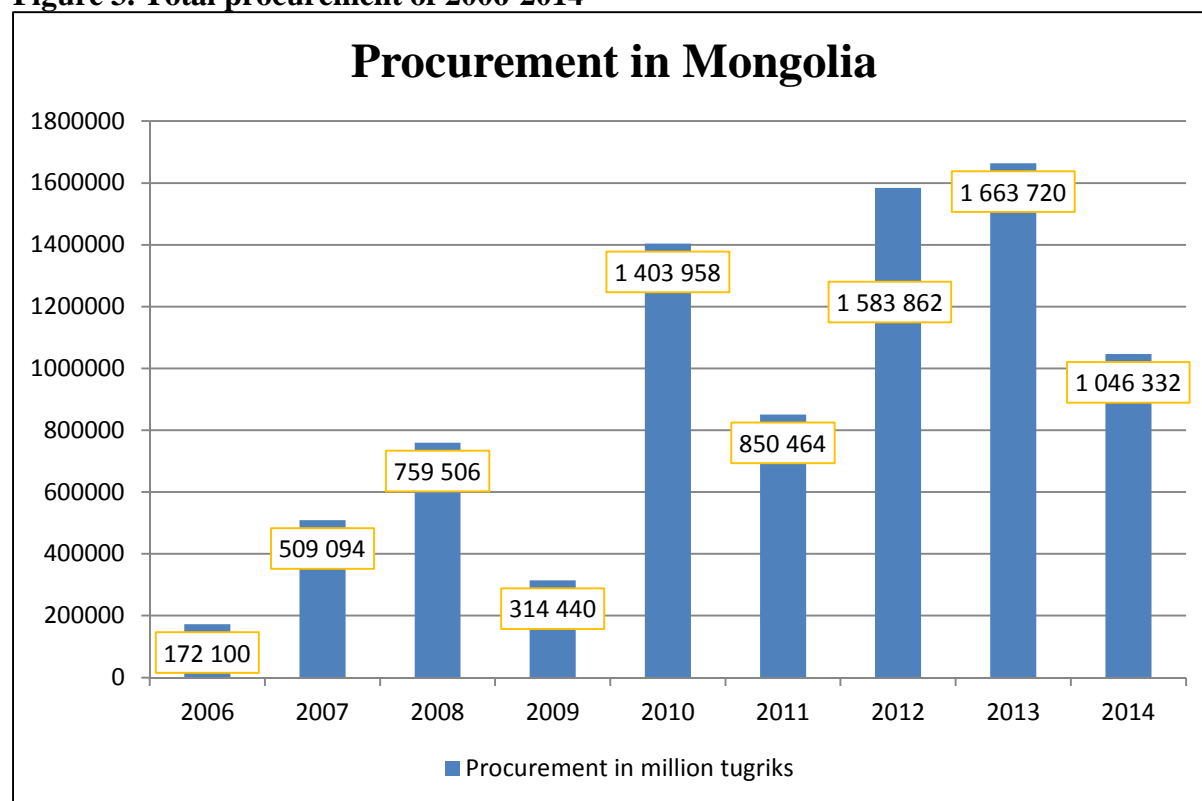
According to budget report, total procurement in 2014 was 1,046,332 million tugrugs (approximately 550 million USD) which amounts to approximately 5% of Mongolia’s GDP<sup>13</sup>. The

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<sup>13</sup> Source: <http://www.infomongolia.com/>

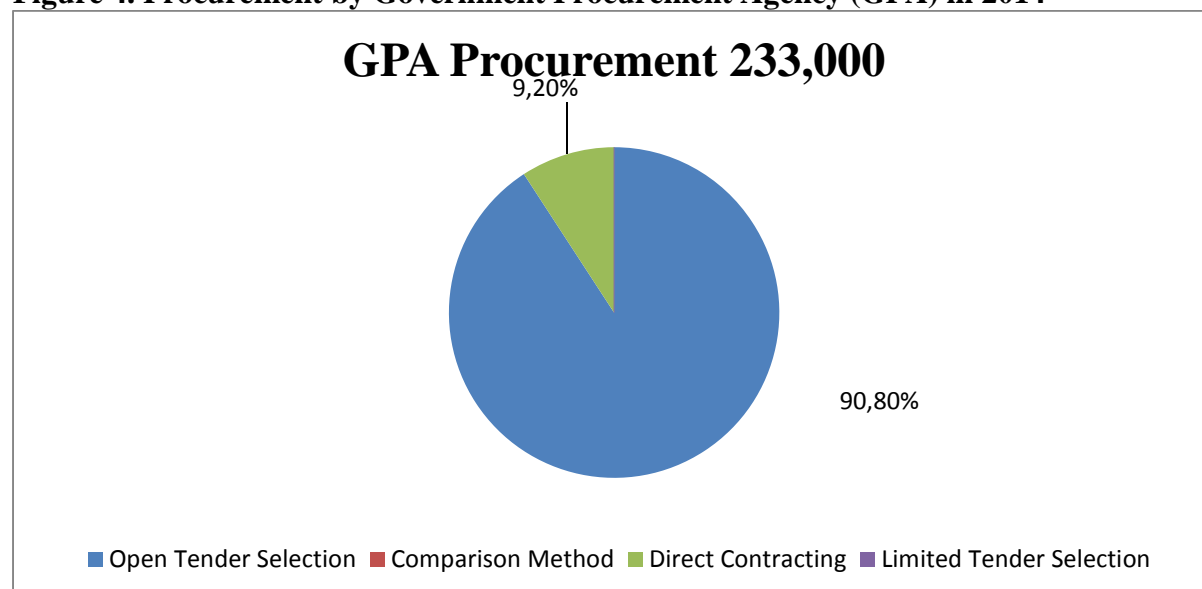
following charts illustrate the total procurement amounts from 2006 to 2014, and the procurement breakdown for the GPA, the ministries and local governments.

**Figure 3. Total procurement of 2006-2014**



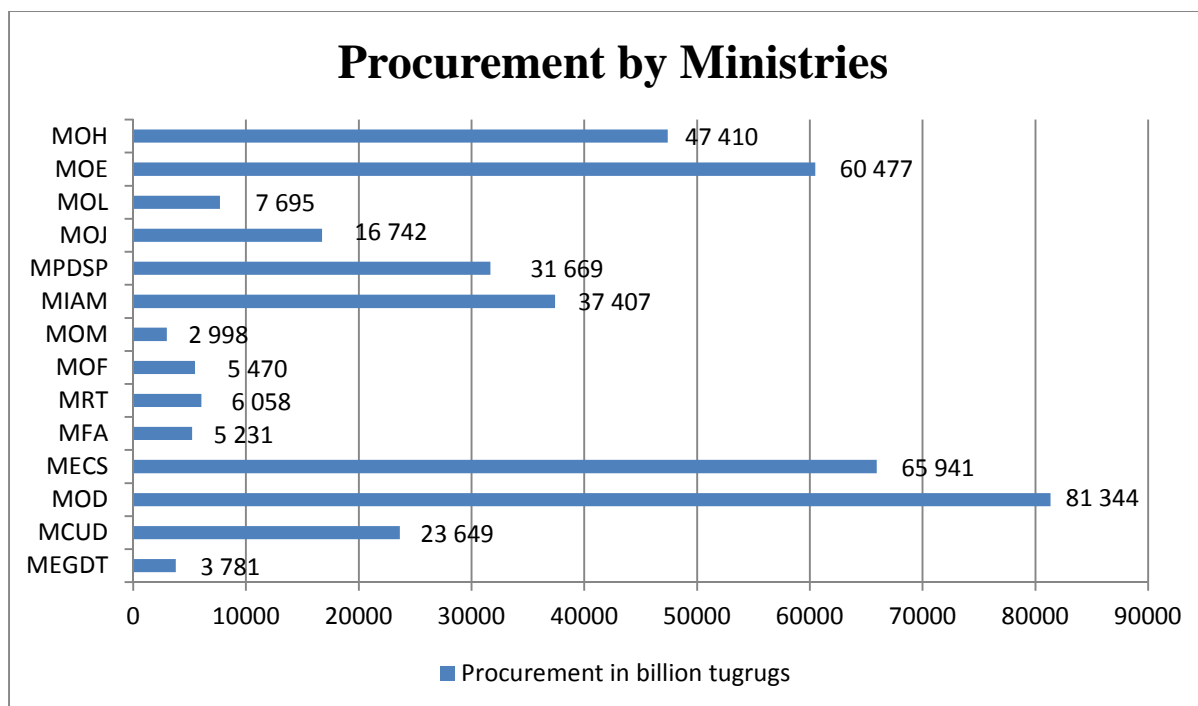
Source: 2014 Budget Report from MOF (Unit: MNT million)

**Figure 4. Procurement by Government Procurement Agency (GPA) in 2014**



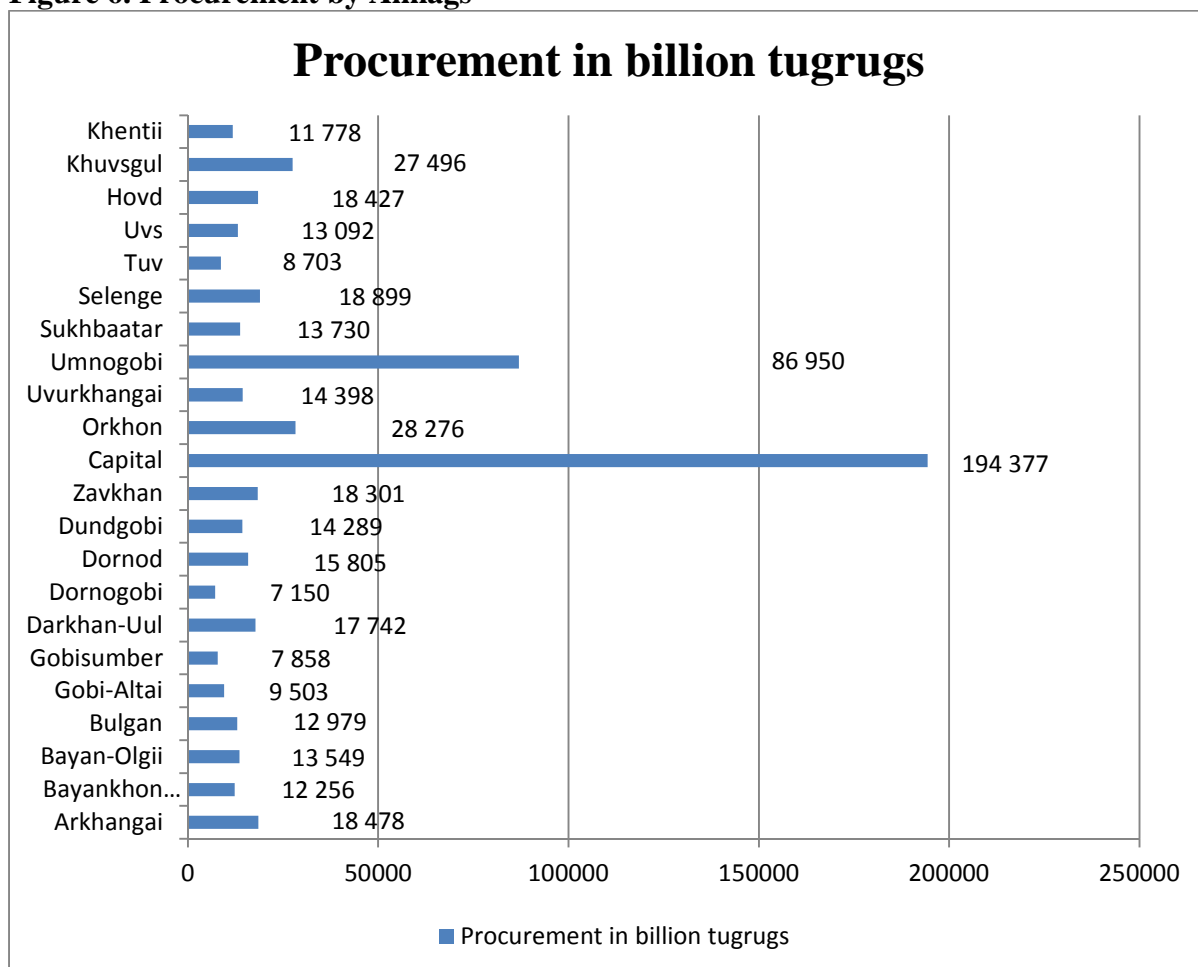
Source: Survey results (Unit: MNT million)

**Figure 5. Procurement by Ministries 2014**



Source: 2014 Budget Report from MOF (Unit: MNT billion)

**Figure 6. Procurement by Aimags**



Source: 2014 Budget Report (Unit: MNT billion)



### III. MONGOLIA'S FOUNDATION FOR SPP AND GPP

#### 3.1. National approach to sustainable development

The Green Public Procurement involves economic and environmental aspects in public procurement practice, whereas Sustainable Public Procurement adds social aspect to GPP. The purchasing power of public institutions can have a significant impact on the market. Mongolian national public procurement in 2014 amounted at approximately 550 million USD<sup>14</sup>. Aligning public procurement with current government initiatives is an important step for the development of Mongolia.

The renaming of Ministry of Environment and Tourism to Ministry of Environment, Green Development and Tourism by the new government of 2012 can be interpreted as commitment to focus on green development. To this date, there are several initiatives taken by the government of Mongolia to address the environmental protection. Policy and programme initiatives include pollution prevention and clean production in the private and public sectors. There are 27 valid laws and 27 endorsed national policies on the subject in place. Achieving sustainable development at all levels of governance is not possible without integrating environmental dimension into all policies. Increasingly, it is noted that the increase in welfare should not be achieved at the expense of environment and human health.

In 2014, by Parliament resolution No. 43 the "**Green Development Policy**" was adopted. Green Development Policy focuses on efficient use of natural resources and was developed to ensure the sustainability of ecosystem services, climate change adaptation and to create an environment for green procurement of goods and services<sup>15</sup>. With the improvement of education and training and information systems for sustainable education, the goal of poverty alleviation and human development can be achieved. A mechanism to address the most pressing issues is environmental governance which supports capable staff, consistent legal environment and sound management system. For the purpose of ensuring the country's sustainable development and promoting economically efficient, responsible and environmentally friendly development in today's economic and social relations, concepts are being followed in updating the legal framework by introducing environmental auditing in compliance with international standard, the polluter pays principle, local community engagement in environmental protection, increasing natural resource valuations, establishment of stable funding source for environmental protection measures and practicing sustainable natural resource management.

#### 3.2. National approach to sustainable procurement

Third resolution of this policy is to increase investments in green, green loans, financing and incentive mechanisms to be introduced for the state and the private sector. Green development

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<sup>14</sup> Source: Budget Report (2014) Evaluation of procurement by administrative authorities.

<sup>15</sup>Source: GREEN DEVELOPMENT POLICY: Mongolian Parliament Resolution 43 Appendix  
<http://www.legalinfo.mn/annex/details/6438?lawid=10482>

policy sets a goal to achieve **20% of green procurement by 2020 and 30% green procurement by 2030**. Implementation status of the initiatives is not yet clear.

**Currently, Mongolian government policies do not support green procurement**, however, the need for the green procurement policy and sustainable procurement policy is evident from market demand. Promotion of green procurement would expand the market for products made from recycled materials and drive an increase in production of green products whilst reducing the number of products of high negative environmental impact. This will help diminish the global issues such as waste, overconsumption and pollution of water, and waste of energy.

### **3.3. Training**

In Mongolia, training on procurement is available to all interested parties including central, regional and local levels of government. Training covers topics like choosing suppliers, writing specifications and evaluating bids, however, it doesn't include sustainability aspects. Most of the procurers and budget holders are familiar with concept of sustainable public procurement, however, there is no official training provided by the national government on the subject. Some survey participants stated their organizations received their SPP training from private institutions, whilst most haven't received any. Almost all surveyed procurement officials expressed substantial degree of interest for participating in SPP training programmes. Currently, there are some standard specifications and risk assessment templates that cover the economic aspect of sustainable procurement. Nevertheless, since sustainability aspect is not required by PPLM, SPP is often overlooked unless the public procurer specifies sustainability requirements in the technical details of the tender invitation.

## **III. STAKEHOLDERS' ENGAGEMENT AND AWARENESS-RAISING**

According to questionnaire results most of the procuring agencies do not engage suppliers in developing their approach to SPP. At this point, there is no orchestrated approach to SPP by line ministries and they do not work collaboratively to promote SPP.

Additionally, there is a lack of information regarding the eco-friendly products on the market. One of the interviewees mentioned that: "Since the evaluation committee has to execute their evaluation within 45 days from the date of tender invitation, they simply don't have time to research the environmental and social aspects of the goods or services they are procuring". Having access to the sustainability data of the regularly procured items would assist the evaluation committee distinguishing sustainable goods and services from others.

## **V. PROCUREMENT IMPLEMENTATION IN INTERVIEWED ORGANIZATIONS**

### **5.1. Procurement processes and practices**

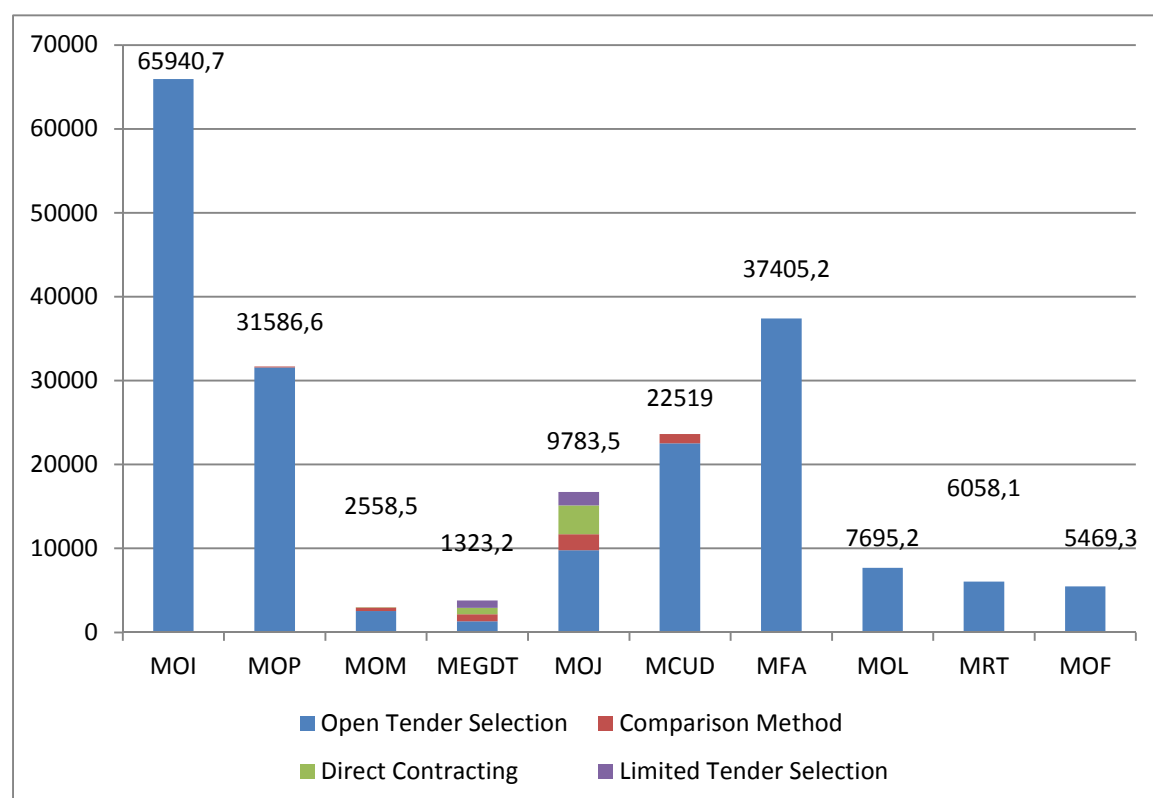
After approval of State budget, the procuring organization prepares a plan of procurement of goods, works and services and submits it to their portfolio minister. After it is finalized and approved by the portfolio minister, the procuring organization prepares and delivers procurement plans works, goods and services along with technical specifications, designs, TORs and other related materials to Government Procurement Agency (GPA). The unified plan developed by procuring organization in collaboration with GPA then sent to Ministry of Finance for approval. After the procurement budget is approved for the year, the procuring organization has to make the announcement on the mass media.

Initial step for starting the process of procurement by the organization is to establish an Evaluation Committee (EC) which includes up to two representatives from non-government organizations in related field. Majority of the evaluation committee must be specialized in procurements and have a valid A3 certificate. According to PPLM, the evaluation committee exercises following functions:

- To prepare technical definition, develop invitation for tender and tender documents, receive tenders and open tender procedure according to relevant instructions;
- To review and assess tenders, draw assessment conclusions, and give to customer recommendation to award a contract.

The procuring agency shall monitor the EC and make decisions to award contracts on the basis of conclusions of EC.

**Figure 7. Procurement methods by surveyed ministries in 2014**



Source: Survey results (Unit: MNT billion)

## 5.2. Supplier evaluation

According to PPLM the suppliers have to fulfil 3 types of evaluations in order to be eligible to participate in public bidding:

- *Evaluation of Basic Conditions*-applicant must be in good financial standing, pays taxes, not state-owned or partially state-owned, hasn't failed to perform on a procurement contract, hasn't committed corruption offence etc.
- *Evaluation of Financial Capacity*-proof of financial capacity by bank statements, auditing reports, information on annual sale of goods, works and services for the past 5 years or other documents specified in tender documents.
- *Evaluation of Technical Capacity and Experience*-education and professional qualifications, list of all works, services performed and goods provided, list of technical devices, production facilities and equipment, measures of quality control, samples of the goods to be provided, quality certificates of the goods and producer's power of attorney or other documents specified in tender documents.

All of the surveyed officials confirmed that the evaluation of bids is based on purchase price, plus other key costs, maintenance etc. but also includes an assessment of non-cost criteria such as quality and durability. The economic aspect of procurement was the most vital criteria when choosing a service or goods provider. Currently, provisions in PPLM require the procuring entities to be economical and efficient only, unless the procurer indicates sustainability aspects in their comprehensive technical specification of tender invitation. Most of the survey participants indicated that the economic factors were the crucial decision-making criteria. 10 percent of the surveyed participants said they include environmental and social criteria in the technical specifications. PPLM specifically instructs to contract qualified bidders with lowest price offer. Survey revealed that ex-ante analysis and ex-post evaluations of environmental and social impact of procured goods are not performed. Each procuring entity is mandated to have an internal auditing system, however, SPP aspects are not considered. Currently, surveyed organizations do not engage with suppliers to develop more sustainable products and services.

## VI. OBSTACLES, OPPORTUNITIES, RECOMMENDATIONS AND CONCLUSIONS

### 6.1. Perceptions, barriers and obstacles

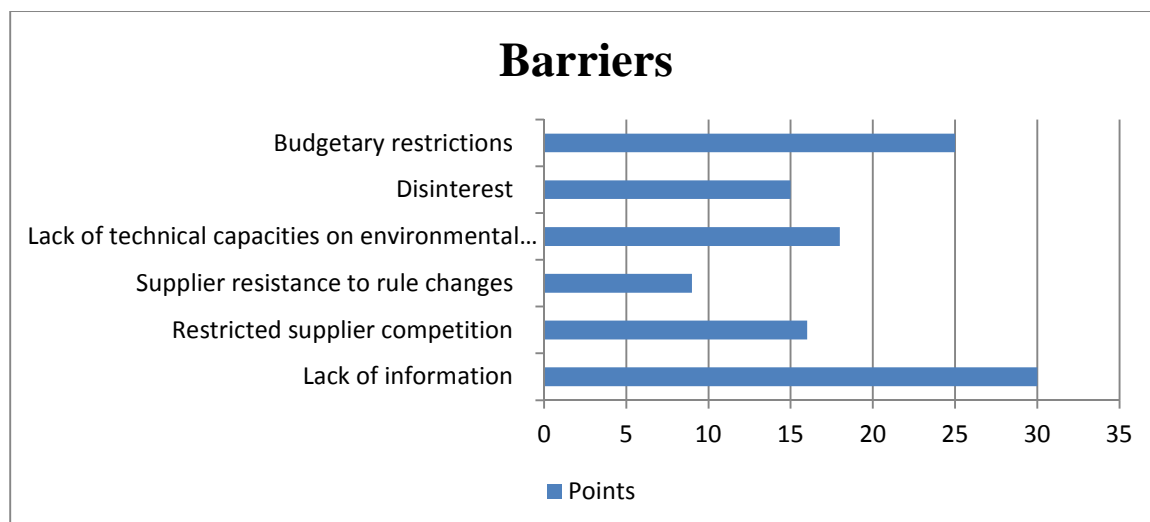
Although there has been a significant progress on advancement in environmental sector, there are still challenges that need to be addressed in order to successfully implement SPP. At this moment, there is no effective coordination by the government and no collaboration between Ministries, Government Authorities, and other stakeholders on the subject. Moreover, there is a lack of budget and expertise which would adversely affect the implementation of the agenda for sustainable procurement.

There are several barriers for implementing SPP, namely the higher costs of green products and a lack of environmental information, knowledge and training as well as weak managerial and political support. The **general perception** of the survey participants was that the **sustainable goods are more expensive and are not readily available on the market**. Furthermore, time pressure was mentioned as an obstacle for SPP. According to PPLM, the evaluation committee has 45 days from the date of tender invitation to complete the evaluation of applicants and one-time 30 day extension is allowed if unforeseen circumstances arise during the period. Since there is a lack of data available on the eco-friendly products and services, survey participants mentioned it would be time consuming to do research on specific product or service. The following table illustrates the obstacles that are seen to hinder the adaptation of SPP practices in Mongolia by survey participants:

Sustainable products are more expensive	30%
The main selection criterion is price	40%
There is insufficient supply of goods and services	10%
There is supply, but it is available only on the international market	0%
Lack of information and knowledge about SPP	40%
Lack of interest and commitment from users of the procurement system	0%
Resistance and obstacles generated by suppliers	0%
Difficulty getting Comptroller/Audit office approval	20%
The overall public procurement system is inadequate for incorporating SPP	40%
Lack of legislation or regulations	20%

*Source: Survey Results*

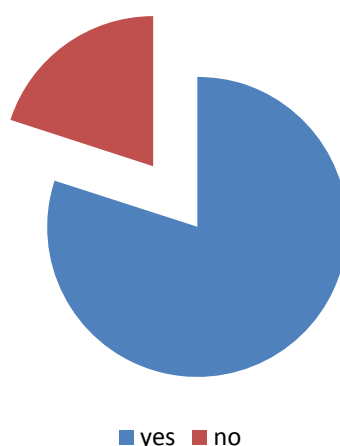
Most of the interviewed organizations indicated they consider economic factors in procurement planning. PPLM states that the tender is awarded to the bidder with the lowest price. The environmental and social factors do not play a significant role in tender evaluations unless specifically defined in tender specifications. When planning the budget, what matters is economic reasoning; social and environmental aspects are secondary. Purchasing units have no experience or knowledge in developing eco-friendly or socially friendly technical requirements, so they cannot incorporate sustainability criteria in procurement specifications. There are **not enough reliable suppliers capable of providing sustainable services and products** on the market. Furthermore, there are concerns that the formulation of very detailed and complex environmental criteria may make a bidding document too technical, dense and difficult to read. This may render it impossible for SMEs to bid for a public contract because they may have difficulties understanding the overly detailed bidding documents and, if required in the tender specifications, they may not be able to conduct an environmental product assessment. Therefore, concentrating on detailed environmental criteria may exclude smaller, regionally based SMEs which would have great economic and social impacts. Procuring officers feel that if they add sustainability criteria, it will limit the number of tenderers excessively.



*Source: Survey results*

## 6.2. Opportunities

Even though the cost of the works, products, and services serves as deciding criteria for procuring authorities, the government should take the full range of economic, social and environmental costs and benefits of public procurement into account. The **collaboration of Ministry of Environment, Green Development and Tourism with Mongolian National Chamber of Commerce and Industry** on initiatives to assist Green Development can be seen as a good cooperation of public organizations to achieve tangible results. It is important to involve the groups such as public procurers, suppliers, businesses and NGOs in SPP initiatives in order to get new, demand-driven and practical ideas and secure their commitment. The stance of public procurement officials on implementation of SPP looks very promising as 80% of the participants said that the procurement departments of the public sector are in position to implement SPP in their purchases.



### *The main motivations for adopting SPP in Mongolia:*

Following international trends on the modernization of public procurement systems	40%
Implementation of a framework policy for promoting sustainable development	30%
Specific objectives for improvement and environmental protection	20%
Improving efficiency and reducing contracting costs	30%
Need to stimulate the environmental goods and services market	40%
Compliance with social aspects such as labor legislation, employment promotion, occupational health and safety, etc.	20%
Other, please specify:	0%

*Source: Survey Results*

## **6.3. Recommendations and conclusions**

Under current legislation, public bodies must choose between eligible bids to supply goods or services either on price alone, or on the basis of the “most economically advantageous tender”. Thus, the pressure in public procurement to purchase purely according to economic terms is severe. However, the cheapest price is not the best value. Awarding the contract based solely on the lowest price encourages purchases that often result in significant negative impacts including lower labor standards and environmental degradation. For this reason, **SPP initiatives should not avoid but proactively use the value for money argument for their own purposes.** Value for money is defined as the optimum combination of whole life cycle cost and quality to meet the purchasers’ needs. It would be important to show that SPP doesn’t increase costs of public purchasing and instead provides more value for money. It should be made clear that Mongolian government should take the full range of economic, social and environmental costs and benefits of public procurement into account.

It is important to create framework conditions which treat SPP as an important element to achieve Green Development. **Laws, regulations, or decrees should be developed** in order to provide uniform baseline for the procurers and suppliers. The strategic objectives of Green Development Policy regarding SPP should be included in general approach to public procurement. This can be achieved by making amendments to PPLM rather than issuing particular SPP laws and decrees. Amendments to PPLM could require procuring authority to take into account the objectives of Green Development Policy in early phases of purchasing process, when formulating tender specifications and defining the nature and scope of the requirements. Changes to PPLM can open up the possibility to take into account environmental and social considerations in all public procurement contracts. Environmentally and socially conscious regulations should be developed for institutions that do not fall under PPLM, such as legal entities executing works and services related to maintenance of national roads and Development Bank of Mongolia. Accountability and roles throughout the government should be clarified and progress made towards the goals of SPP should be assessed by designated authority. Amendments to PPLM should enable nationally or internationally recognized eco-labels to be included in tender specifications. Recognition of eco-friendly products and services by the public can be achieved by further development of eco-label and spread supplementary awareness of the initiatives. Plus, initiation of new strategies and action plans that work in concert with the existing policies should be implemented.

Since the effectiveness of laws, regulations, or decrees may be impaired severely without the proper education and training, **well organized training programs for the procuring officials** can be put in place to build capacities and capabilities of in the public sector. Procurement experts have to be familiarized with Green Development Policy issues and encouraged to implement SPP in practice. Building capacities for SPP requires that respective initiatives address the needs and concerns of public procurers to help them change their practices. In case PPLM is successfully amended to reflect SPP objectives, fostering SPP will crucially depend on training public procurement officials so that they can gain legal certainty and understand the fact that the cheapest product may not always be the best one. Therefore, a close cooperation will be necessary between public procurers and SPP experts.

Because sustainable public procurement is a relatively new subject in Mongolia, there is a lack of expert knowledge on the subject among procurement officials. An initial step to ensure the successful implementation of SPP would be **raising awareness** on the subject among policy makers, procurers, suppliers and other stakeholders. Considering the lack of capacities and knowledge as one of the key challenges of implementing SPP in Mongolia, informational instruments such as government-sponsored guidelines and manuals, information resources (websites, studies and reports), conferences, seminars, workshops and campaigns are important means to overcome them. Survey participants indicated the sources of knowledge that they thought would be most helpful:

Access to written information (procurement manuals or guides)	40%
Exchange of practical examples of environmental procurement with pioneer countries or institutions	50%
Information workshops	60%
Advice from an external consultant	0%
Online access to a database on environmental criteria	20%

*Source: Survey Results*

It is important to have specific information tools for SPP that provide public procurement officials with high quality and up-to-date support for their specific concerns. The information provided should be concrete and easily applicable in the day-to-day activities of public procurement officials. Information instruments, such as guidelines and manuals, enable the dissemination of important information about SPP to officials in charge of procurement and are key instruments for its implementation. The **manuals and guidelines** on how public authorities can implement SPP in practice should be clear and easy to understand. These guidelines should be developed with the purpose of serving as an instrument in planning and evaluation by public authorities when integrating ecological issues in the procuring process. An important success factor the development of guidelines would be to specify the general provisions in terms of practical application. The guidelines and manuals are an important element of the overall strategy towards SPP and they can serve to put pressure on all actors to take up environmental issues in their procurement activities.

A complimentary **information database** can be achieved with development of online database that will offer an easy access to SPP overview, legal information and detailed information on various product groups. The initial step for developing the database would require combining existing background and legal information for it to provide recommendations and suggestions on



how to formulate tender specifications. It would be practical to develop an outline of purchasing criteria for several product groups during the pilot period, then, periodically add more. Additionally, the database should include planning and evaluation recommendations to support public authorities in implementing SPP. The crucial objective for successful implementation of the database is to make it as easy-to-navigate and practical as possible. The time pressure of completing the tender evaluation within 45 days allotted by PPLM can be alleviated, if the pertaining information can be easily accessed. Once the online database is developed, public procurement officials should be trained to use the online database for their procurement needs.

Aside from the information instruments mentioned above, SPP implementing authority should develop partnerships, agreements, and networks with policy makers, procurers, suppliers, NGOs and other stakeholders. It is important to involve the groups mentioned above in order to get new, demand-driven and practical ideas and secure their commitment. A **close cooperation between public authorities and businesses** should ensure the practical implementation of legal provisions. Fostering close relationship between government and suppliers, businesses and SMEs can stimulate innovation to deliver better value for money. **Financial or economic provisions like subsidies, grants, and contract awards should be put in place.** Involvement and consultation process with stakeholders through cross-departmental board will serve as one of the success factors in implementation of SPP. Creating this network can assist the free-flow of information exchange that can be conducted on a website. Plus, increased exchange of experiences with other countries in workshops regarding the development and implementation of SPP would support the further progress of SPP in Mongolia.

The Implementation of the SPP would require additional expenses from the budget for research, training and staffing, therefore, **budgetary mechanisms** should be put in place. With sufficient specialized staff and budget, the implementing organization can work in collaboration with other relevant ministries, public authorities, and suppliers and other stakeholders in order to develop feasible SPP initiatives and create awareness. Nonetheless, there are financial barriers to move towards SPP, namely short-term budgeting and insufficient facilitation of the transfer of benefits between departments. Departments would have to justify additional costs incurred through SPP by presenting benefits and overall value for money.

The approval of Green Development Policy along with other environmentally conscious programs and policies signals the increase of focus on economic, environmental and social issues. This reflects a great potential of public administration which may and should play an important role in initiating and sustaining ecological behavior thus enabling the development of goods and services distinguished by high environmental and social standards. Sustainable public procurement constitutes an effective tool for development of sustainable production and consumption patterns, and may contribute to the development of the market of more environmentally and socially friendly goods and services. Such an activity may encourage companies to introduce environmental technologies and innovative solutions, which improve their competitiveness. Apart from environmental considerations in public procurement, consideration of social issues is an important tool for alleviating various symptoms of discrimination and social exclusion, or improving working conditions. SPP will allow Mongolian government to implement its commitment to Green Development, ideally leveraging considerable effects on overall production and consumption

patterns. Strong political commitment for Green Development Policy is necessary to change practices on the ground. Including Green Development Policy objectives in general provisions of public procurement can help consider it not as sectorial issue, but as concept that cuts across every public policy. Implementation of SPP will not only serve as an incentive for green development, but will give an opportunity for the government to lead by example.

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## Annex 1-List of interviewees

<u>No.</u>	<u>Organization</u>	<u>Name</u>	<u>Method</u>	<u>In-depth</u>
1.	Legal and Procurement Policy Department (MOF)	Ts. Batzul	Meeting	Yes
2.	Legal and Procurement Policy Department (MOF)	Z. Enkhbold	Meeting	Yes
3.	Legal and Procurement Policy Department (MOF)	E. Khangai	Meeting	Yes
4.	Government Procurement Agency	N. Tserensambuu	Meeting	Yes
5.	Government Procurement Agency	O. Odbaatar	Meeting	Yes
6.	Procurement Development Center	Kh. Khurelbaatar	Meeting	Yes
7.	Procurement Training Center	E. Javkhlan	Meeting	Yes
8.	Mongolian National University	O. Narangerel	Meeting	Yes