



Report and Recommendation of the President to the Board of Directors

Project Number: 35376
November 2006

Proposed Loan and Grant Administration Mongolia: Customs Modernization Project

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 October 2006)

Currency Unit	–	togrog (MNT)
MNT1.00	=	\$0.000857
\$1.00	=	MNT1,167

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CAREC	–	Central Asia Regional Economic Cooperation
CBW	–	customs bonded warehouses
CCC	–	Customs Cooperation Committee
CSP	–	country strategy and program
EA	–	executing agency
GAMAS	–	Mongolian Customs Automated Data Processing System
GDNT	–	General Department of National Taxation
GDP	–	gross domestic product
IA	–	implementing agency
ICT	–	information and communications technology
ICTA	–	Information and Communications Technology Authority
MASM	–	Mongolian Agency for Standardization and Metrology
MCGA	–	Mongolian Customs General Administration
MIT	–	Ministry of Industry and Trade
MNCCI	–	Mongolian National Chamber of Commerce and Industry
MOF	–	Ministry of Finance
PMO	–	project management office
PRC	–	People's Republic of China
PSC	–	project steering committee
SEW	–	single electric window
SOE	–	statement of expenditure
SSIA	–	State Specialized Inspection Agency
UAIS	–	unified automated information system
USAID	–	United States Agency for International Development
VAT	–	value added tax
WCO	–	World Customs Organization
WTO	–	World Trade Organization

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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LOAN AND PROJECT SUMMARY

Borrower	Mongolia
Classification	Targeting classification: General intervention Sector: Industry and trade Subsector: Trade Themes: Sustainable economic growth, governance, regional cooperation Subthemes: Promoting economic efficiency and enabling markets, anticorruption
Environment Assessment	Category C. The project is unlikely to have adverse environmental impacts.
Project Description	The Customs Modernization Project aims to finance (i) the migration and upgrading of the customs automated data processing system (GAMAS); (ii) the improvement of infrastructure at major customs houses and customs border posts; and (iii) institutional strengthening, including business process re-engineering, capacity building in relation to the above two components, interagency coordination, regional cooperation, and public–private partnerships.
Rationale	<p>The Project reflects the Government's efforts to promote trade and improve the investment climate through customs reforms and modernization. It is a response to (i) the recent accession of Mongolia to the International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention) and the forthcoming enactment of a new Customs Law, (ii) the Government's recent move toward a national single electronic window (SEW) service and e-government, and (iii) Mongolia's attempt to gear up the fight against corruption.</p> <p>The GAMAS needs upgrading to enable it to meet the increasing demands of customs administration. The GAMAS is still manually operated and labor-intensive and has a decentralized architecture. The existing capacity of the GAMAS server and network system is low and the system can no longer cope with the growing number of customs declarations or maintain proper trade statistics. Modern customs business processes such as risk management and post-clearance audits cannot be effectively or widely introduced because of the lack of an internet-enabled system and a centralized database.</p>

Customs inspection equipment and anti-smuggling detection facilities are inadequate in most customs border posts. The only customs laboratory is in the headquarters of the Mongolian Customs General Administration (MCGA) in Ulaanbaatar, to which samples of goods have to be transported for examination. These constraints constitute bottlenecks to trade.

In concert with the new anti-corruption legislation, the issue of governance needs to be addressed by improving business processes and providing MCGA with modern techniques and tools. Training and capacity building, partnerships with the private sector, and cooperation with other border agencies and with neighboring customs administrations are needed.

Impact and Outcome

The Project aims to increase the volume and facilitate the smooth flow of Mongolia's external trade. This will be achieved by improving efficiency, transparency, and sustainability in customs services and administration. The Project will lower the incidence of corruption and smuggling, enhance duty and tax revenue collection, provide a platform for customs information and communications technology (ICT) to integrate into SEW and e-government systems, reduce trade barriers, and improve the investment environment.

Project Investment Plan

The investment cost of the Project is estimated at \$6.76 million equivalent, including contingencies and financing charges during the implementation period.

Financing Plan

(\$ million)

Source	Total Cost	%
ADB Loan (Special Funds)	5.00	74.0
e-Asia and Knowledge Partnership Fund (Grant)	0.50	7.4
Government	1.26	18.6
Total	6.76	100.0

ADB = Asian Development Bank

Source: ADB estimates

Allocation and Relending Terms

A loan in various currencies equivalent to Special Drawing Rights 3,375,000 (\$5 million equivalent) will be provided from ADB's Special Funds resources to help finance the Project. The proposed loan will have a term of 32 years, including a grace period of 8 years, and an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter.

Period of Utilization

Until 31 August 2010.

Estimated Project Completion Date	28 February 2010.
Implementation Arrangements	<p>A project steering committee (PSC) will be established to oversee the Project and to coordinate issues related to project implementation. The PSC will be chaired by Vice Minister of Finance and will meet twice a year or as needed. ADB will attend the PSC meetings as an observer.</p> <p>A project management office (PMO) will be established within the MCGA to undertake day-to-day project implementation. The PMO will be headed by a qualified PMO director acceptable to ADB. The PMO will provide secretariat support to the PSC.</p> <p>MCGA will be the Implementing Agency, and the director general of MCGA will be the project director. The PMO director will report to the project director.</p>
Executing Agency	Ministry of Finance
Procurement	<p>Goods, works and related services to be financed out of the proposed ADB loan will be procured according to ADB's <i>Procurement Guidelines</i> (April 2006, as amended from time to time). Contracts valued at \$500,000 or more will be procured through international competitive bidding (ICB) procedures. Contracts valued at less than \$500,000 will be procured using national competitive bidding (NCB) procedures. Before NCB begins, ADB and the Borrower will review the Borrower's procurement procedures to ensure they are consistent with ADB requirements. Any modifications or clarifications to the Borrower's procedures will be documented in the procurement plan. Minor items of equipment and materials estimated to cost \$100,000 or less will be procured through shopping procedures.</p>
Consulting Services	<p>A grant from the Republic of Korea e-Asia and Knowledge Partnership Fund will fund a total of 4.5 person-months of international and 44.5 person-months of national consultants. The consultants will be engaged either as individuals following the individual consultant's selection (ICS) method or as consulting firm(s) to be selected following the consultants' qualification selection (CQS) method. The Government has agreed to recruit individual consultants under the Project in accordance with ADB's procedures for recruiting individual consultants. While working closely with the PMO, the consultants will report simultaneously to ADB and MCGA. Services in relation to surveys and publications will be engaged through the least cost selection (LCS) method in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (April 2006, as amended from time to time).</p>

Project Benefits and Beneficiaries

The proposed Project will strengthen implementation of continuing customs legal reforms and business process re-engineering. It will be in line with Mongolia's recent accession to the Revised Kyoto Convention, will assist the Government in moving toward the national SEW and e-government, and will mark an important step in mainstreaming governance in ADB's operations in Mongolia.

Major quantifiable economic benefits of the Project include the economic impact of efficiency gains and trade expansion. The economic internal rate of return for the Project is estimated at 19.6%. Improved efficiency and governance will enhance revenue collection by the customs.

Risks and Assumptions

Major risks to the Project include (i) cost overruns in the migration and upgrading of the GAMAS, (ii) resistance from vested interest groups that benefit from the current lack of transparency and inefficient customs clearance system, (iii) inadequate or poorly implemented new business processes, and (iv) insufficient budget provision for operation and maintenance costs.

Continued and strong support of the Government will mitigate these risks. Good governance and proper supervision of the PMO and other agencies involved in project implementation is also important. Effective coordination among related government agencies will help to mitigate the risks.

Grant Portion

Financing of the Project comprises a grant portion, to be provided by the e-Asia and Knowledge Partnership Fund, funded by the Republic of Korea. The grant aims to ensure the successful completion of the Project by strengthening the institutional and human capacity of MCGA in project implementation.

The grant portion amounts to \$500,000 (including a \$50,000 contingency). It will mainly cover expenses for consulting services, training, workshops, conferences, surveys, materials, and publications.

MCGA will implement the grant in consultation with MOF. The organization and implementation arrangements for the loan will also apply to the grant (including the PSC, project director, and PMO). The grant and the loan will take effect simultaneously.



SIV/ENV/00

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan; and (ii) a proposed administration of a grant from the Government of the Republic of Korea to Mongolia for the Customs Modernization Project.

II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

A. Performance Indicators and Analysis

2. **Macroeconomic and Sector Context.** The gross domestic product (GDP) of Mongolia grew by 10.6% in 2004, the highest level of growth since 1990, mainly because of increased output in the livestock and mining sectors. In 2005, high global prices for copper and gold and foreign direct investment continued to boost the mining industry, and the GDP grew by 6.2%. The service sector, bolstered by increased tourism and trade, made a significant contribution to growth. For 2006–2010, GDP growth is expected to average 5% a year. Mongolia needs to encourage the tourism sector and trade, as its current narrowly based economy is vulnerable to weather-related natural disasters and declines in commodity prices.

3. Foreign trade plays an important part in Mongolia's economy.¹ Foreign trade turnover reached \$1.2 billion in 2000, and continued to increase by an average of 18.3% a year to \$2.2 billion in 2005.

4. **Fiscal Revenue.** Direct and indirect taxes are the major sources of fiscal revenue. State taxes include personal income tax, corporate income tax, value added tax, customs duties, and excise tax. Local taxes account for less than 10% of central Government's tax revenue.

5. The majority of state taxes are collected by the General Department of National Taxation (GDNT), which is under the Ministry of Finance (MOF). The GDNT administers all categories of the state taxes not otherwise collected by the Mongolian Customs General Administration (MCGA).

6. **Customs Duties and Administration.** The MCGA is also under the MOF and it collects revenue from customs duties (for both imports and exports), excise tax, and value-added tax (VAT) on all goods imported for use, sale, or consumption in Mongolia.

7. The legal basis of the MCGA is contained in the Customs Law of Mongolia, 1996.² The Customs Law defines the organizational structure of the customs and the principles, rules and procedures of customs activities, control, clearance, statistics, and enforcement. The Customs Law is being amended to take into account Mongolia's accession in 2006 to the International Convention on the Simplification and Harmonization of Customs Procedures (the Revised Kyoto Convention).

¹ World Trade Organization. 2005. *Trade Policy Review (Mongolia) – Report by the Secretariat*. Available: http://www.wto.org/english/tratop_e/tpr_e/s145-0_e.doc

² Enacted on 1 July 1996 and since then amended seven times.

8. Other legislation related to MCGA's revenue collection authority includes (i) the Law on Customs Tariff and Duties,³ (ii) the Excise Tax Law,⁴ and (iii) the VAT Law of Mongolia.⁵ In addition, MCGA also collects surcharges imposed on imports of motor gasoline and diesel fuel. Customs fees are also imposed for services provided by MCGA as laid down in customs regulations and orders.

9. **MCGA Organization and Financial Management.** MCGA has about 1,050 employees organized in nine divisions,⁶ three special entities,⁷ 16 customs houses and offices, and 42 customs border posts⁸ under the leadership of one director general and two deputy directors general.

10. MCGA was one of the pilot government agencies required to prepare financial reports as part of the implementation of ADB-supported public sector management reforms.⁹ MCGA maintains accounting records and prepares financial statements in accordance with the Accounting Law.¹⁰ MCGA also conducts post-clearance audits and undertakes financial inspections. Although budget formulation for MCGA still relies on the previous year's actual spending, the Government's macroeconomic objectives are also taken into consideration in the budgeting process. MCGA's financial management system is deemed generally adequate for the proposed Project.

11. **Sector Financing.** The resources allocated by the Government to MCGA cover current expenses and capital investment. Current expenses include salaries and wages, social insurance, and operating and maintenance expenses, while capital investment covers construction and rehabilitation of customs facilities and customs control equipment. In 2005, the total expenditure of MCGA amounted to \$4 million and consisted of \$2.5 million (63%) for current expenses and \$1.5 million (37%) for capital investment. In 2006, the allocation for current expenses amounts to \$2.88 million, while the allocation for capital investment has been increased to \$1.73 million. An additional allocation of \$1.28 million has also been endorsed for capital investment on customs facilities and control equipment. Total resources allocated in 2006 for capital investment have therefore reached \$3 million, a 100% increase over the previous year.

12. As shown in Table 1, the total customs revenues collected by MCGA in 2005 amounted to MNT291 billion. This was 34.9% of total Government revenues, or 13.6% of GDP. Customs

³ A flat import tariff rate of 5% is applied to most imports, while export duty is imposed on a small number of goods, including raw cashmere, camel wool, wooden logs, and sawn timber products. Export taxes are imposed ad quantum, e.g., MNT4,000 per kilo of raw cashmere.

⁴ The Excise Law provides for the imposition of excise duty on goods locally manufactured and on imported goods. The goods subject to excise duty include (i) alcoholic beverages, (ii) tobacco and tobacco products (such as cigarettes), and (iii) passenger vehicles.

⁵ Article 12 of the law provides for MCGA to administer the imposition and collection of the VAT on imported goods along with the customs duties. The VAT rate has been reduced from 15% to 10% as approved by the Parliament on 29 June 2006.

⁶ Consisting of (i) customs policy and international cooperation, (ii) revenue collection, (iii) risk management and operational control, (iv) customs enforcement, (v) post clearance audit, (vi) statistical information and monitoring, (vii) public management and governance, (viii) finance and investment, and (ix) information technology (IT).

⁷ The Customs Central Laboratory, the Customs and Economic Institute, and the Detector Dogs Training Unit.

⁸ Out of the 42 customs border posts, 8 are permanent and the rest are seasonal.

⁹ ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Mongolia for the Governance Reform Program*. Manila (Loan 1713-MON[SF]). The loan amounted to \$25 million equivalent, and there were three associated technical assistance grants totaling \$1.8 million. See also ADB. 2002. *Program Completion Report on the Governance Reform Program in Mongolia*. Manila (IN.338-02).

¹⁰ Enacted on 1 April 2002.

revenues consisted mainly of VAT (51% over the period 2001–2005), excise taxes (22%), import duties (17%), and customs fees (9%).

Table 1: Customs Revenue Collection, 2001–2005
(MNT million)

Item	2001	2002	2003	2004	2005	% to Total (average)
Total Government Revenue	345,700.0	425,526.4	545,227.1	706,292.8	832,584.7	100.0
Customs Revenue	139,946.4	152,054.8	190,862.4	254,682.3	290,966.5	100.0
Customs Import Duties (5%)	25,991.4	23,767.4	31,065.6	40,982.7	53,170.0	17.0
Value Added Tax (15%)	60,395.5	77,992.1	94,251.4	136,923.6	157,504.2	51.2
Export Tax	1,027.3	825.4	1,588.1	3,936.0	3,804.2	1.1
Excise Tax	35,596.6	35,465.7	44,341.7	53,107.0	56,118.2	21.8
Customs fees and charges	16,935.6	14,004.2	19,615.6	19,733.0	20,369.8	8.8
% Customs Rev/Total Govt Rev	40.5	35.7	35.0	36.1	34.9	36.4
% Customs Rev/GDP	12.5	12.3	13.1	14.1	13.6	13.1

GDP = gross domestic product, Govt = Government, Rev = revenue.

Sources: Mongolia Customs General Administration and Asian Development Bank estimates.

B. Analysis of Key Problems and Opportunities

1. Key Problems Identified

13. **Effectiveness of GAMAS.** The MCGA developed a customs automated data processing system (GAMAS) in 2002 to replace the ASYCUDA system¹¹ used since 1996. GAMAS was first developed for a Microsoft Windows-based environment to capture customs data from import and export declarations submitted by the trading community.

14. GAMAS was written using Visual Basic, a programming language, and is designed to run in an SQL environment.¹² However, Visual Basic and SQL have been overtaken by more advanced programming languages.¹³ Furthermore, GAMAS does not make use of new technologies such as data warehousing or security features such as digital signatures. Because it lacks these features, GAMAS is primarily manually-operated and people-driven, i.e., traders are required to move from one customs processing point to another to seek official stamping and signatures. Human intervention in this process causes delays in customs clearance and is vulnerable to corrupt practices. It leads to a lack of transparency and to unpredictability.

15. GAMAS's architecture is decentralized. The application system and database run on the local server of each customs house and border post. This is partly due to the vastness of the country and partly due to the lack of reliable communication infrastructure. Data are transmitted to the main database server at MCGA headquarters once a day if possible, but in most cases only weekly. Border posts without telephone lines send data to headquarters on a floppy disk. This process is a major impediment to uploading daily transactions from local production servers to the main database. Likewise, whenever there is any change to the codes or a system upgrade, the updated information has to be transmitted to the various servers over the network or using a floppy disk. This leads to time lags, often lasting several days, and makes it impossible to achieve a synchronized system and data upgrade across all customs houses.

¹¹ Automated system for customs data developed by the United Nations Conference on Trade and Development.

¹² Structured query language, a computer language designed to store, manipulate, and retrieve data stored in relational databases.

¹³ Such as Java using J2EE technology.

16. The unreliability of the transmission mechanism may lead to a loss of data, which may not be detected. The time lag in transmission of data to the central database does not allow real-time compilation of reports and statistics, an essential tool for decision-making. Currently, there is not enough server capacity to run GAMAS and customs brokers and traders have complained that its processing speed is too slow. This situation can be partly attributed to a steady and significant increase in the volume of customs declarations over the period 2001–2005.

17. Additional functionalities are needed for GAMAS so it can track and monitor imported goods stored in public or private customs bonded warehouses (CBW) efficiently. While goods are temporarily stored in CBW, customs duties and other taxes are suspended until they are introduced into the local market. As MCGA does not maintain an electronic inventory system and manual records are kept by the CBW operators for monthly submission to MCGA, there is a risk of goods being withdrawn illegally, particularly from private CBWs.

18. In short, the programming tools, functionalities, and communications infrastructure of GAMAS need upgrading to meet the increasing demands of customs control and administration. Modern customs business processes, such as risk management, post clearance audits, and electronic submission of trade documents, cannot be effectively and widely introduced without an internet-enabled system and a centralized database.

19. **Customs Physical Infrastructure.** Customs inspection equipment and anti-smuggling detection facilities are inadequate in most customs border posts. A physical inspection of a major border crossing at Zamyn-Uud, close to Erlian in the People's Republic of China (PRC), revealed that the customs infrastructure was inadequate. The border post had only one terminal for passengers and cargo. The road outside the Zamyn-Uud customs office serves as a holding area and inspection centre. Delays in customs clearance result in long queues of cargo vehicles outside the office.

20. Laboratories are unavailable outside the Central Customs Laboratory (CCL) in Ulaanbaatar. The absence of laboratories in regional customs houses is unfavorable to effective collection of revenue and the prevention of smuggling of illegal goods. Imports of petroleum are affected by the lack of laboratories as the basis for taxes is the octane strength of the fuel. The present approach of sending the samples to the CCL, often over long distances, causes delays. Transportation time may range from 5 to 7 days, which means longer clearance times for the cargo.

21. **Governance Issues and Vulnerability to Abuses.** The vulnerability of the customs administration to abuses such as corruption has been highlighted by a number of recent surveys and assessments of governance in Mongolia. These include a perception index¹⁴ issued by the Mongolian National Chamber of Commerce and Industry (MNCCI) and an assessment report¹⁵ financed by the United States Agency for International Development (USAID). Mongolia was ranked 85 out of 159 nations in the Transparency International (TI) 2005 Corruption Perceptions Index.¹⁶

¹⁴ MNCCI. 2005. *Propensity to Redtape Index (Redtape Perception Index)*. Ulaanbaatar.

¹⁵ *Assessment of Corruption in Mongolia (Final Report)*, 31 August 2005 (available: <http://www.usaid.gov/mn/library/documents/MongoliaCorruptionAssessmentFinalReport.pdf>).

¹⁶ Available: http://transparency.org/policy_research/surveys_indices/cpi/2005

22. In the country performance assessment ratings conducted by ADB in 2005, Mongolia's score was at par with the average of all ADF countries with respect to "transparency, accountability and corruption".¹⁷ The 2004 ADB governance assessment of Mongolia¹⁸ indicated that the import taxes collected still fall short of their potential because of exemptions, collection inefficiencies, and corruption. The report referred to a study made by the Korea Institute of Public Finance, which suggested a number of measures to improve tax administration practices and efficiency, including enhancing computerization, improving staff training, and preparing manuals to decrease inspectors' discretionary powers. These ideas have been incorporated in the design of this Project.

23. **Partnership with the Private Sector.** Efficient and effective observance and enforcement of customs laws, rules, and regulations cannot be achieved unless the private sector, in particular the trade community, understands and supports the legal requirements, comprehends the procedures to be followed, and is provided with information and services to facilitate their compliance. Upstream involvement and feedback from the private sector are critical for an information and communications technology (ICT) and business-process-driven customs modernization project, as the success of the project will also depend on the acceptability of the new system to private sector end users. Feedback from the private sector will also be conducive to timely adjustment of policy and regulations, and to preventing abuses and corruption.

24. MCGA has been paying increasing attention to the customs–business partnership. To this end, a memorandum of understanding (MOU) was signed in March 2006 between MCGA and MNCCI. This provides a framework for regular consultative meetings for representatives from customs administrations and business associations. MCGA is also planning to expand customs–business partnerships, including exchanging information of mutual concern, establishing official channels for consultations, and sharing best practices on customs warehouses, bonded exhibition sites, and customs special zones. Further work needs to be done on performance surveys of customs services and private sector involvement in the upgrading of GAMAS.

2. Opportunities

25. **Support for Trade Facilitation.** Since 1990, Mongolia has gradually evolved into a private-sector-led and market-oriented economy. As a land-locked country situated between the two large economies of the PRC and the Russian Federation, Mongolia needs a sound trading environment to attract foreign direct investment and to leverage transit trade for its rapid economic development and poverty reduction. Mongolia joined the World Customs Organization (WCO)¹⁹ in 1991 and the World Trade Organization (WTO) in 1997, and acceded to a number of conventions, including the Revised Kyoto Convention.²⁰ From the time of its accession to WTO, Mongolia has brought down its tariff rate from 15% to 5% across the board on most imported goods. This constitutes an almost 70% cut in the tariffs for a country that has no import quotas.

¹⁷ The score was 3.0 on a scale of 1 (very weak performance) to 6 (very strong performance). ADB. 2006. *2005 Annual Report of ADB's Country Performance Assessment Exercise*. Manila.

¹⁸ ADB. 2004. *Governance: Progress and Challenges in Mongolia*. Manila.

¹⁹ The WCO currently comprises 170 members. Its mission is to enhance the effectiveness and efficiency of customs administrations and help them contribute to the achievement of national development objectives, particularly in the fields of trade facilitation, revenue collection, protection of society, and supply chain security.

²⁰ Mongolia deposited its instrument of accession on 1 July 2006.

26. The revised Customs Law and the Customs Tariff Law have been prepared by the Government for consideration by Parliament in the autumn session of 2006. The revised Customs Law follows the requirements of the Revised Kyoto Convention and is designed to modernize the legal environment in line with the Project.²¹

27. Mongolia is pursuing bilateral and regional customs cooperation with its neighboring countries. The MCGA and the PRC customs held their third meeting on the pilot testing of joint customs border control in April 2006. At that meeting they discussed the possibility of harmonizing cargo manifests. A tripartite transit traffic agreement is expected to be signed soon by the PRC, Mongolia, and the Russian Federation. The PRC's accession to the WTO and negotiations on the Russian Federation's accession will undoubtedly create new prospects for cooperation.

28. **Government Information and Communications Technology Policy.** The development of the ICT sector is a key priority for the Government. In October 2004, the Information Communications Technology Authority (ICTA) was established and placed directly under the Prime Minister. Its role is to regulate and coordinate ICT policies, which was previously the responsibility of the Ministry of Infrastructure. The establishment of the ICTA laid the foundation for Mongolia's ICT agenda.

29. In October 2005, the Government of Mongolia adopted the "e-Mongolia" program, which envisages that, by 2012, Mongolia will become one of the top ten countries in Asia in terms of ICT development.

30. Also in 2005, the Government and the Korean IT Industry Promotion Agency (KIPA) formulated an e-government master plan for 2005–2010. Its objective is to develop national competitiveness and enhance the quality of the public service through an efficient, effective, systematic and productive e-government system. Under the plan, Government agencies will provide on-line services to the general public. It envisages computerization of all government services, integration of government information systems, and standardization of government administration. The migration and upgrading of the GAMAS at MCGA is part of the e-Mongolia and e-government initiatives.

31. A single electronic window (SEW)²² service has been incorporated into the MCGA's strategic plan for 2006–2008. The objective is paperless declaration and online processing at all customs houses and border posts, remote access to customs data, and an online exchange of information with related government and nongovernment organizations.

32. **Government Commitment to Good Governance.** The Government is committed to good governance, transparency, and accountability of public administration. In November 2001, the Government formally endorsed the Anticorruption Action Plan for the Asia-Pacific²³ and

²¹ For instance, the draft Customs Law requires that "in the application of Customs control, the Customs shall use risk management" (Article 5.3). The MCGA is required to apply customs IT for speedy transmission of foreign-trade-related documents, timely exchange of information, and simplification of customs procedures (Article 75.1). The Goods declaration may be lodged in writing or through the electronic information exchange network (Article 44.1) and the electronic documents certified by digital or electronic signature form shall be considered original documents (Article 42.5.1).

²² SEW is an integrated electronic platform that allows the parties involved in trade and logistics to lodge standardized information and documents with a single point of entry, and to fulfill regulatory requirements through one-time submission of individual pieces of data.

²³ The action plan resulted from a joint initiative of ADB and the Organization for Economic Co-operation and Development. Available: <http://www1.oecd.org/daf/ASIAcom>

prepared a “to do list”,²⁴ including 10 steps to accelerate implementation of a National Program for Combating Corruption (NPCC), approved by the Parliament in July 2002. In January 2006, Mongolia ratified the United Nations Convention against Corruption (UNCAC).²⁵ An Anti-corruption Law was passed by Parliament on 6 July 2006.

33. The action plan of the Government for 2004–2008 includes a section on public administration and civil participation, which provides guidance on how to create conditions for public services online, including customs clearance.

3. ADB’s Operations

34. **ADB’s Strategy.** ADB’s current country strategy and program (CSP)²⁶ for Mongolia was adopted in October 2005, and covers the period 2006–2008. The CSP focused on two major pillars of the Government’s poverty reduction strategy: stable and broad-based growth, and inclusive social development. The CSP also noted that weak governance could pose a risk to the achievement of CSP objectives if the recent deterioration was not arrested. In addition to ongoing assistance on financial governance²⁷ and the implementation of Public Sector Management and Finance Law reforms in social sectors, the CSP underscored the need for integrating governance into sector projects.

35. Recognizing that customs reforms and modernization are priorities if governance practices and the investment climate for the private sector are to improve, ADB and the Government agreed to include the current project in the 2006 lending program.²⁸ The adjustment to the 2006 lending program was reflected in the CSP update (CSPU), 2007–2009 for Mongolia, which was approved in September 2006.²⁹ The project is directly relevant to the first pillar of the CSP, as customs modernization will facilitate and promote trade, which is an engine for economic growth and development.

36. **ADB Assistance in Trade Facilitation.** Regional trade facilitation and customs cooperation is one of the four priority areas under the Central Asia Regional Economic Cooperation (CAREC) Program, begun in 1997 by ADB.³⁰ The program on regional trade facilitation and customs cooperation is coordinated by the Customs Cooperation Committee (CCC), consisting of the heads of the customs administrations of the CAREC countries. The program aims to promote concerted customs reforms and modernization, and to support interagency cooperation and partnership with the private sector.

²⁴ Government of Mongolia. *10 Steps to Accelerate Implementation of the National Anticorruption Plan*. Cf. <http://open-government.mn>

²⁵ Available: http://www.unodc.org/unodc/crime_signatures_corruption.html

²⁶ ADB. 2005. *Country Strategy and Program (2006–2008) for Mongolia*. Manila.

²⁷ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Program Loan and Technical Assistance Grant to Mongolia for the Financial Regulation and Governance Program*. Manila.

²⁸ There is no project preparatory technical assistance for the proposed Project. However, an ADB-funded needs assessment on trade facilitation and customs modernization in Mongolia and the preliminary findings from a study on Mongolia trade facilitation and logistics development strategy have been extensively used in the project design.

²⁹ ADB. 2006. *Mongolia: Country Strategy and Program Update (2007–2009)*. Manila.

³⁰ Over the years, CAREC has evolved into a multicountry and multi-institutional framework that comprises eight participating countries (Afghanistan, Azerbaijan, People’s Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan) and an alliance of six multilateral institutions (ADB, the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank, the United Nations Development Programme, and the World Bank), with ADB serving as the program secretariat. The four priority areas of CAREC are transport, trade facilitation, trade policy, and energy. ADB takes the lead in transport and trade facilitation, while the International Monetary Fund takes the lead in trade policy and the World Bank in the energy sector.

37. Since the first CCC meeting in 2002, the program has addressed (i) the simplification and harmonization of customs procedures, (ii) development of simplified transit systems, (iii) data sharing and ICT for customs modernization, and (iv) risk management and post-entry audit. The program uses a pragmatic and results-oriented approach, which encourages country-specific customs modernization and bilateral initiatives. ADB's support includes the provision of technical assistance for analytical work and capacity building, and project loans for customs modernization.³¹

38. Mongolia is an active participant in the CCC, and co-hosted its fourth meeting in September 2005 in Ulaanbaatar. Concurrently, a National Trade Facilitation Committee was established in 2005 under the auspices of the MNCCI. This provides an institutional basis for moves toward broad-based and integrated trade facilitation.

39. In 2005, ADB funded a customs modernization needs assessment³² for Mongolia. The Government reviewed the findings of the assessment report and subsequently asked ADB to develop a project to be included in the lending program for 2006, to address the shortcomings and finance the investments identified in the assessment. Another study funded by ADB is being finalized, which aims to integrate CAREC's ongoing cross-border customs-driven trade facilitation initiatives with "behind-the-border" trade facilitation initiatives, and to provide help in formulating a trade facilitation and logistics development strategy for Mongolia.

40. ADB takes the lead in regional transport cooperation under the CAREC program. In July 2004, an ADF loan was approved to fund the construction of a road between Choyr and Zamyn-Uud, which forms part of Mongolia's north-south road transport corridor linking the highway networks of the PRC and the Russian Federation, and passing through major economic centers of Mongolia.³³ Another regional road project in western Mongolia has been programmed under both CAREC and Mongolia's CSP 2006-2008. This will develop the Altai road transport corridor linking southwest Siberia in the Russian Federation with the Xinjiang Uygur Autonomous Region of the PRC.³⁴ These regional transport projects will accelerate and greatly enhance trade facilitation and regional cooperation if they are accompanied by customs modernization.

4. Lessons

41. Lessons that can be applied to this Project are largely drawn from regional activities under the auspices of the CCC. Knowledge-sharing has been a major component of cooperation under the CCC, in particular the experience of automated customs services, and several CCC meetings have been devoted to this purpose.³⁵ Other customs administrations in CAREC countries have developed or are developing their own unified automated information systems (UAIS). Regional customs modernization and infrastructure development projects supported by ADB are currently being implemented in the Kyrgyz Republic and Tajikistan.

³¹ ADB. 2004. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grants to the Kyrgyz Republic and the Republic of Tajikistan for the Regional Customs Modernization and Infrastructure Development Project*. Manila.

³² Available: <http://www.adb.org/Documents/Reports/Consultant/36027-REG/36027-03-REG-TACR.pdf>

³³ ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to Mongolia for the Regional Road Development Project*. Manila (Loan 2087-MON and TA 4364-MON, for \$37.1 million equivalent).

³⁴ ADB. 2005. *Country Strategy and Program (2006-2008) for Mongolia*. Manila. The project is expected to include an ADF loan amounting to \$32 million equivalent.

³⁵ Available: <http://www.adb.org/Projects/TradeFacilitation/events.asp>

Lessons from the Republic of Korea, the Philippines, and the European Union (EU) have also been reviewed.

42. Major lessons reflected in the project design include the following.
- (i) ICT upgrading should be preceded by customs legal reforms and associated business process reengineering, so as to avoid computerizing outdated customs procedures.³⁶
 - (ii) It is important to formulate at the very outset an ICT master plan, which aims at providing strategic guidance for integrated investment on customs modernization.
 - (iii) No single existing ICT solution is considered ideal for all customs administrations. The key is to ensure that the ICT systems in different trade-related agencies in or across the countries are able to interface with each other.
 - (iv) E-payment and revenue reconciliation systems are useful tools in ensuring real-time and accurate matching between the amount specified in the declaration form and the payment received by the customs.³⁷
 - (v) Backup and security solutions for ICT systems becomes more important as the customs administration moves toward paperless declaration and a centralized database environment.
 - (vi) Customs modernization is a long-term and costly endeavor, which requires comprehensive planning, and phased development and roll-out.
 - (vii) Users must be well-trained in the system, so they can use it optimally and maintain and upgrade it.
 - (viii) Migration from manual operation to automation and from client servers to an internet-enabled system should be accompanied by a change in management processes.
 - (ix) Normal functioning and regular upgrading³⁸ of the ICT systems will entail recurrent expenses, which have to be fully budgeted for.

5. External Assistance

43. In addition to ADB, the Government is working with a number of other international institutions and bilateral aid partners on customs modernization and related areas. These include (i) the World Customs Organization (WCO), which provides training on customs valuations, rules of origin, the Revised Kyoto Convention, and the framework of standards; (ii) the World Bank, which recently approved a grant project for governance assistance to Mongolia, under which a subcomponent will be dedicated to strengthening tax administration by the GDNT; (iii) the PRC customs, which donated an X-ray machine for non-intrusive inspection of cargo at Zamyn–Uud border post; and (iv) the Government of the Republic of Korea, which provided technical assistance to help prepare an ICT master plan for Mongolian e-Customs.³⁹ More details on external assistance to Mongolian customs are in Appendix 4.

³⁶ Protocol of Missions in the ICT Working Group, Seminar on Trade Facilitation and Customs Modernization, 4–8 August 2003, Issyk-Kul, the Kyrgyz Republic. Available: http://www.adb.org/Documents/Events/2003/CCC/Trade_Facilitation_Customs_Modernization/ICT_final_English.pdf.

³⁷ Available: http://adbweb/Documents/Events/2004/CCC/Customs_Reforms_Modernization/Jereosccc.pdf; and <http://adbweb/Documents/Events/2004/CCC/Forum-on-Public-Private-Partnership/Pantastico-eng.pdf>

³⁸ For instance, the provider of the systems and software may cease to furnish maintenance services to users of the old version.

³⁹ The Republic of Korea consultant team submitted the final report of the ICT master plan to MCGA on 8 July 2006.

44. As a recipient of assistance from various organizations, the Government is keen to improve the synergy of related programs and initiatives, and to ensure a smooth interface between ADB's support for e-customs and the World Bank's support for e-tax. Direct contacts have been established and maintained between ADB and other funding agencies. There is a clear division of labor among the funding agencies, who regularly follow up and exchange information on their programs.

III. THE PROPOSED PROJECT

A. Impact and Outcome

45. The Project aims to increase the volume and facilitate the smooth flow of Mongolia's external trade. This will be achieved by improving efficiency, transparency, and sustainability in customs services and administration. The Project will help lower the incidence of corruption and smuggling, enhance duty and tax revenue collection, provide a platform for customs ICT to integrate into SEW and e-government systems, reduce trade barriers, and improve the investment environment.

B. Outputs

46. The Project will comprise (i) migration and upgrading of the GAMAS for customs services and administration, which will be made internet-based and interfaced within a national SEW for e-government; (ii) improvement of the infrastructure at selected major customs houses and customs border posts; and (iii) institutional strengthening.

1. Migrating and Upgrading of GAMAS

47. This component includes (i) migrating and upgrading the GAMAS to provide an electronic processing environment supporting internet-enabled and Windows-based systems, (ii) interfacing GAMAS with the planned national SEW as part of e-government initiatives, and (iii) improvement of communications and network infrastructure.

2. Improvement of Customs Infrastructure

48. The second component includes (i) improving customs border facilities and provision of equipment, such as X-ray machines and surveillance equipment at selected key customs houses and border posts, and (ii) provision of equipment to enhance the analytical capacity of customs laboratories. This component includes construction of a data center in the new headquarters building of MCGA and expansion of the cargo terminal at the border control complex in Zamyn-Uud, which will be funded by the Government.

3. Institutional Strengthening

49. Institutional strengthening comprises: (i) implementation and further enhancement of business processes; (ii) training in relation to the first two components, following a detailed training plan to be formulated at the beginning of project implementation; (iii) promotion of interagency coordination, in particular with the State Specialized Inspection Agency (SSIA) and the Mongolia Agency for Standardization and Metrology (MASM), and regional cooperation with

neighboring and CAREC countries;⁴⁰ and (iv) public–private sector partnerships, which includes support for private sector consultation and participation, and conducting quality and compatibility testing of software used by the trading community (including traders, customs brokers, logistics operators, and banks) for interfacing with the upgraded GAMAS in an electronic processing environment. Because some customs staff may find it hard to use the new technology and more advanced equipment, training of trainers and users,⁴¹ and maintenance training will be carried out. A manual of reengineered business processes will be prepared.

C. Special Features

50. The Project is linked to three key Government initiatives: trade facilitation, e-government, and good governance. The Government strongly supports the Project and is eager to implement it in 3 years. Other notable features include (i) the use of local expertise to the extent possible for upgrading GAMAS (building on previous in-house software development under the current GAMAS); (ii) implementation of one-stop services for customs clearances, laying the foundation for inter-agency coordination, and moving forward the Government’s plan on e-government and e-Mongolia; and (iii) the way the Project complements other ADB initiatives to promote regional trade facilitation under the CCC.

D. Project Investment Plan

51. The Project’s investment cost is estimated at \$6.76 million equivalent, including contingencies and financing charges during the implementation period. The costs are summarized in Table 2. Detailed cost estimates are shown in Appendix 5.

Table 2: Project Investment Plan
(\$ million)

Project Component	Amounts
A. Base Cost^a	
1. Upgrading of GAMAS	3.64
2. Improvement of Customs Infrastructure	1.65
3. Institutional Strengthening	0.79
Subtotal (A)	6.08
B. Contingencies	
1. Physical Contingencies	0.36
2. Price Contingencies	0.21
3. Contingency under Grant	0.05
Subtotal (B)	0.62
C. Financing Charges During Implementation	0.06
Total	6.76

GAMAS = customs automated data processing system.

^a Base costs in 2006 prices. Includes taxes and duties of \$0.6 million.

Sources: Mongolian Customs General Administration and Asian Development Bank estimates.

⁴⁰ The Project is to provide technical tools and a platform for further customs cooperation between Mongolia and its neighboring countries (the PRC and the Russian Federation).

⁴¹ Staff training will cover occupational health and safety for laboratory personnel and the Government’s laws and regulations with respect to handling, use, storage, and disposal of toxic and hazardous substances, and the disposal of other substances and wastes.

E. Financing Plan

52. The Government has requested a loan of \$5 million equivalent from ADB's Special Funds resources, representing 74% of the total cost of the Project. The Borrower will be Mongolia. The proposed loan will have a term of 32 years, including a grace period of 8 years, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter.

53. Most activities in relation to institutional strengthening under the Project will be funded by an untied grant from the Republic of Korea e-Asia and Knowledge Partnership Fund, administered by ADB.⁴² This will amount to \$500,000 and will cover 7.4% of the total project cost.

54. Mongolia will provide the remaining \$1.26 million equivalent as counterpart financing. This will include financing part of the infrastructure improvement at selected key customs houses,⁴³ taxes and duties, and an in-kind contribution for project implementation and management. The counterpart financing will account for 18.6% of the total investment. The financing plan is summarized in Table 3.⁴⁴

Table 3: Financing Plan
(\$ million)

Source	Total Cost	%
Asian Development Bank Loan (Special Funds)	5.00	74.0
e-Asia and Knowledge Partnership Fund (Grant)	0.50	7.4
Government	1.26	18.6
Total	6.76	100.0

Source: Asian Development Bank estimates.

F. Grant in Support of the Project

55. The financing of the Project includes a grant portion, which comes from the e-Asia and Knowledge Partnership Fund, funded by the Government of the Republic of Korea and administered by ADB.

⁴² ADB. 2006. *Republic of Korea: e-Asia and Knowledge Partnership Fund*. Manila.

⁴³ Namely, (i) construction of a data center, for \$257,000, as part of the new MCGA headquarters building; (ii) expansion of the cargo terminal at the border control complex in Zamyn-Uud for \$180,000; and (iii) provision of customs inspection equipment to customs houses in Zamyn-Uud and at the Central Post Office, for \$71,000.

⁴⁴ The maximum percentage of the total cost of loan projects in Mongolia that ADB may finance used to be 80% (a common percentage for group A countries under ADB's classification of DMCs). This rule applied until 25 August 2005, the date on which the ADB Board approved a new cost sharing policy (ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila). This required that the cost-sharing ceiling be set during the CSP preparation for the DMC concerned and for the aggregate ADB portfolio over the CSP period. Since the new ceiling for Mongolia will not be determined until the next country partnership strategy, the cost sharing limit of 80% for ADB in the loan project is still applicable (see para. 5, Operations Manual Section H3/OP). So far, ADB has approved only one project loan to Mongolia in 2006 (ADB. 2006. *Third Education Development Project*. Manila), in which the ADB loan amounted to \$13 million and government counterpart financing to \$3.38 million. With this second ADB loan to Mongolia in 2006, on an aggregate basis, ADB loans will amount to 77.8% of the combined total project costs and Government counterpart financing to 20% (the remaining 2.2% will be covered by the grant portion).

1. Objective and Outputs

56. The grant aims to ensure the successful completion of the Project within 3 years through strengthening the institutional and human capacity of MCGA in project implementation.

57. Major outputs of the grant will include (i) simplified and improved business processes, (ii) upgraded ICT skills of customs officers and personnel, (iii) improved coordination with related agencies (including the SSIA and the MASM), (iv) enhanced partnership with the private sector, and (v) deeper cooperation with customs of neighboring countries.

2. Grant-Financed Activities

58. The \$500,000 (including a \$50,000 contingency) grant will cover eligible costs in relation to institutional strengthening under the Project. The Government counterpart financing for the grant amounts to \$90,000 and will cover office accommodation and furniture for the consultants to be engaged under the grant, the imputed value of counterpart staff, and other contributions in kind. Major expenses and activities to be covered by the grant will include consulting services,⁴⁵ training, workshops and conferences, surveys, and materials and publications. The detailed cost estimates and financing plan for the grant are in Appendix 6.

G. Implementation Arrangements

1. Project Management

59. **Executing and Implementing Agencies.** MOF will be the Executing Agency (EA) for the Project and MCGA will be the Implementing Agency (IA). The EA is responsible for the overall execution and coordination of the Project, including endorsing disbursement applications under the proposed loan, and the overall management and monitoring of the Project. The IA is responsible for the timely and satisfactory implementation of the Project.

60. **Project Steering Committee (PSC).** A PSC will be established to oversee the Project and to coordinate issues related to Project implementation. The PSC will be chaired by Vice Minister of Finance. The members will be representatives of MOF, GDNT, MCGA, Ministry of Industry and Trade (MIT), Information Communications Technology Authority (ICTA), SSIA, MASM, and MNCCI. The PSC will be established and will hold its first meeting within 1 month of loan effectiveness. It will meet twice a year or as needed to review the progress of the Project and guide the future direction of the Project. ADB will attend the PSC meetings as an observer.

61. **Project Director.** The director general of MCGA will be the project director and will represent the IA for the purpose of this Project. The project director will have overall responsibility for project implementation and may appoint a senior member of staff from the MCGA as his alternate.

62. **Project Management Office (PMO).** A PMO will be established in the MCGA within 1 month of loan effectiveness to undertake day-to-day project implementation. The PMO will be headed by a qualified director selected on a competitive basis with selection arrangements that are acceptable to ADB. The PMO director will (i) coordinate the activities under the Project; (ii) be directly responsible for overall project quality, monitoring, and supervision; and (iii) report

⁴⁵ Please see paras. 67–68 and Appendix 9 for more details on the fields of expertise and engagement of consulting services to be financed by the Fund.

to the project director. The PMO director will be assisted by a group of qualified technical and administrative specialists, including an ICT and procurement specialist, and a finance and administrative officer. These staff will also be selected on a competitive basis with selection arrangements that are acceptable to ADB. The PMO will remain adequately staffed throughout the project implementation and will be supported by consultants, interpreters, and contractual staff as needed.

63. The PMO's responsibilities will include the following: (i) secretariat support to the PSC; (ii) planning and scheduling of project activities; (iii) administration of procurement activities; (iv) bookkeeping and maintenance of project accounts, and preparation of liquidation and claim reports; (v) implementation of the work program of the Project; (vi) supervision and monitoring of the work program of the Project and project performance; (vii) preparation and submission of various reports to ADB and the MOF, including quarterly and annual project monitoring and progress reports; (viii) coordination of field activities; and (ix) liaison with ADB, government agencies, and private sector stakeholders.

64. **Implementation Arrangements for Grant Portion.** MCGA will implement the grant in consultation with MOF. The organization and implementation arrangements for the loan will apply to the grant (including the PSC, project director, and PMO). The grant and the loan will take effect simultaneously. The grant will be implemented until the completion of the loan project.

2. Implementation Period

65. The Project will be implemented over 3 years, from March 2007 to February 2010. The implementation schedule is in Appendix 7.

3. Procurement

66. Goods, works, and related services to be financed out of the proposed ADB loan will be procured according to ADB's *Procurement Guidelines* (April 2006, as amended from time to time). Contracts valued at \$500,000 or more will be procured through international competitive bidding (ICB) procedures. Contracts valued at less than \$500,000 will be procured using national competitive bidding (NCB) procedures. Before commencement of NCB procurement, ADB and the Borrower will review the Borrower's procurement procedures to ensure they are consistent with ADB requirements. Any modifications or clarifications to the Borrower's procedures will be documented in the procurement plan. Minor items of equipment and materials estimated to cost \$100,000 or less will be procured through shopping procedures. The EA and IA were advised of the need to maintain transparency and accountability in procuring goods, works and services, as required under ADB's *Anticorruption Policy* (1998, as amended to date).⁴⁶ The procurement plan is in Appendix 8.

4. Consulting Services

67. The grant will fund a total of 4.5 person-months of international and 44.5 person-months of national consultants. The consultants will work on business processes and ICT implementation (4.5 person-months international, and 5 person-months national), interagency coordination (3.5 person-months national), and project performance monitoring (36 person-months national). A draft of the outline terms of reference is in Appendix 9.

⁴⁶ ADB. 1998. *Anticorruption Policy*. Manila.

68. The consultants will be engaged either as individuals following the individual consultant's selection (ICS) method or as consulting firm(s) to be selected following the consultants' qualification selection (CQS) method. The Government has agreed to recruit individual consultants under the Project in accordance with ADB's *Guidelines on the Use of Consultants* (April 2006, as amended from time to time) for recruiting individual consultants. While working closely with the PMO, the consultants will report simultaneously to ADB and MCGA. Services in relation to surveys and publications will be engaged through the least-cost selection (LCS) method in accordance with ADB's *Guidelines on the Use of Consultants* (April 2006, as amended from time to time).

5. Anticorruption Policy

69. ADB's *Anticorruption Policy* (1998, as amended to date), was explained to and discussed with the EA and IA. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* (1998, as amended to date) are included in the loan regulations and the bidding documents for the Project. In particular, all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the Executing Agency and Implementing Agency and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

6. Disbursement Arrangements

70. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook*.⁴⁷ To expedite project implementation through the timely release of loan proceeds, immediately after loan effectiveness the Government will open an imprest account at a commercial bank acceptable to ADB with an initial deposit of \$100,000 equivalent from loan proceeds. The imprest account will be managed and liquidated in accordance with ADB's *Loan Disbursement Handbook* and other arrangements agreed to by the Government and ADB. The ceiling of total advances in the imprest account at any time is not to exceed the estimated expenditures for the next 6 months or 10% of the loan amount, whichever is less. Direct payment procedures will be used to withdraw loan funds amounting to \$100,000 equivalent or above for direct payment to designated suppliers and contractors. Statement of expenditure (SOE) procedures may be used to reimburse eligible expenses and liquidate advances from the imprest account. Any individual payment to be reimbursed or liquidated under the SOE procedure will not exceed \$50,000 equivalent. ADB reserves the right to conduct spot checks of expenditures covered by SOE through review missions. Sufficient supporting documentation, as defined in ADB's *Loan Disbursement Handbook*, must be kept to substantiate all expenditures incurred from the loan proceeds. In addition to the loan imprest account, a grant imprest account will be established at a commercial bank acceptable to ADB, which shall be established, managed, replenished and liquidated in the same manner as the loan imprest account.

⁴⁷ ADB. 2001. *Loan Disbursement Handbook*. Manila.

7. Accounting, Auditing, and Reporting

71. To ensure effective implementation, there will be continued monitoring and evaluation of the Project, with timely reporting. The PMO will furnish brief quarterly and annual reports to ADB, to be submitted within 1 month after the period to which they relate, indicating progress made and problems encountered during the review period, steps taken or proposed to be taken to remedy the problems, proposed program of activities, and expected progress during the following period. Within 3 months of completion of the physical project, the EA will submit to ADB a project completion report providing a detailed evaluation of implementation progress, costs, benefits, consultants' performance, social and economic impact, and other details requested by ADB.

72. The PMO will maintain separate accounts and prepare financial statements for the Project according to international accounting standards. The PMO will arrange to have the project account and related financial statements audited annually by independent auditors with satisfactory qualifications and experience in international accounting and auditing acceptable to ADB. The audit report will cover the audited project account and the financial statements for each fiscal year (including the auditor's opinion on the use of loan proceeds, compliance with loan covenants and the use of the imprest account under ADB's statement of expenditure procedures). It will be submitted to ADB in English not later than 6 months after the end of each fiscal year.

73. The Government has been advised of ADB's requirement that the audited project account and financial statements be submitted on time and of the possible suspension of disbursements under the proposed ADB loan in the event of non-compliance with this requirement.

8. Project Performance, Monitoring, and Evaluation

74. To demonstrate the effectiveness of its operations and to be accountable for its performance to stakeholders, ADB uses the project performance management system (PPMS). Within 1 year of loan effectiveness, MCGA will establish an appropriate PPMS in the PMO, as agreed with ADB. Under the PPMS, the PMO will periodically review the Project to assess and evaluate its scope, implementation arrangements, benefit monitoring, progress, and achievements. Project monitoring and evaluation reports will be submitted by the PMO to ADB on a quarterly basis. On project completion, the impacts of the Project will be evaluated according to a schedule and terms of reference to be agreed by the EA and ADB.

9. Project Review

75. ADB will conduct a loan inception mission within 3 months of loan effectiveness. ADB and the EA will jointly review the Project implementation twice a year and will monitor the overall performance of the PMO. After 1.5 years of implementation, a comprehensive midterm review of the Project will be carried out jointly by the EA and ADB, to identify any problems and constraints encountered and assess the need for a mid-course modification of the project scope and implementation arrangements. Technical and budgetary changes to the initial design in the project document, arising from PPMS findings, will also be considered, as will be the inclusion of additional activities or the consideration of a possible expansion of activities or areas over the remaining project life.

IV. PROJECT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

76. The proposed Project will strengthen implementation of the continuing customs legal reforms and the business process reengineering required by Mongolia's recent accession to the Revised Kyoto Convention. It will help the Government move toward a national SEW and e-government. It will also mark an important step in mainstreaming governance in ADB's operations in Mongolia, and complement the World Bank's Governance Assistance Project.⁴⁸ The Project is expected to reduce the processing time for customs clearance and therefore to result in trade expansion.

77. Other benefits of the proposed Project include (i) prevention of smuggling and drug trafficking through the establishment of a central database, timely exchange of information on hazardous goods, better inspection equipment, and more effective customs laboratories; (ii) reduced corruption, improved governance, and enhanced revenue collection by improving the transparency of customs services, and minimizing direct interfaces between customs officers and traders and their representatives; (iii) strengthened human resource management and institutional capacity; (iv) improved coordination between customs and related agencies; (v) improved relationship between customs and the business community through public-private partnerships; and (vi) support for regional customs cooperation through the provision of ICT infrastructure to address issues of common concerns such as transit development, joint border control, and data-sharing.

78. Assuming that major economic benefits can be quantified to include the economic impact of efficiency gains and trade expansion, the economic internal rate of return (EIRR) of the Project is estimated to be 19.6%. Sensitivity analysis that was based on assumed changes in three key variables⁴⁹ suggested that the EIRR of this Project would stay within an acceptable range of 16.1% to 22.9%.⁵⁰

79. Major risks that may adversely affect delivery of the outputs and outcome of the Project and achievement of its impact include:

- (i) cost overruns in upgrading GAMAS to an internet-enabled system;
- (ii) inadequate or poorly implemented business processes;
- (iii) MCGA's inability to retain competent and experienced ICT personnel;
- (iv) inability of some customs staff to make use of new technology and more advanced equipment, or to go along with change management;
- (v) lack of coordination with trade-related agencies;
- (vi) resistance from vested interest groups that benefit from lack of transparency and inefficient customs clearance systems;
- (vii) misunderstanding and/or lack of support from the trade community and other parts of the private sector; and
- (viii) lack of working capital or insufficient budget provision for operations, routine maintenance, and upgrading of the new ICT systems.

⁴⁸ More information available:

<http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P098426>

⁴⁹ In other words, the effects of possible changes in three key variables: (i) scenario 1 – benefits from trade expansion only attain half of the projection in the base scenario, (ii) scenario 2 – efficiency gains outperform the base scenario by 20%, and (iii) scenario 3 – project costs exceed the estimates in the base scenario by 20%.

⁵⁰ See Supplementary Appendix B.

80. These risks are mitigated in the project design and Government assurances. The grant resources administered by ADB will help to strengthen project implementation through the deployment of experienced international and national consultants. Further support will be provided by regular ADB review and monitoring missions. The Project incorporates measures for capacity building and training, public–private partnership, interagency coordination, and regional cooperation.

V. ASSURANCES

81. In addition to the standard assurances, the Government has given the following assurances which will be incorporated in the legal documents.

- (i) The Government will ensure that the information technology division of MCGA will be provided with adequate technical staff dealing with customs automation systems throughout the project implementation.
- (ii) The Government will ensure that the IA implements the training plan to be financed under this project.
- (iii) The Government will ensure that adequate counterpart funds are made available to the Project when and in the amounts required to enable Project agencies to discharge their responsibilities under the Project; and to cover any shortfall of funding for the completion of the Project.
- (iv) The Government will ensure that necessary budget allocations will be provided to meet the recurrent costs under the Project for the operation and maintenance of the Project both during Project implementation and after Project completion.
- (v) The Government will provide adequate office space, including for consultants throughout the implementation of the Project.
- (vi) The Government will ensure that any land which might be selected for the upgrading of customs physical infrastructure under this Project will not cause any involuntary land acquisition, resettlement or limit on access to land as defined in ADB's *Involuntary Resettlement Policy* (1995).
- (vii) The Government will ensure compliance with all applicable labor laws, including the prohibition of child labor, and equal pay for men and women for work of equal value for activities under this Loan. Compliance with these provisions will be strictly monitored during the Loan's implementation.
- (viii) The Government will ensure that an independent audit will be conducted on the project account and financial statement within 6 months after the close of each fiscal year during project implementation.
- (ix) The Government will ensure the establishment of a project performance management system acceptable to ADB within 1 year of loan effectiveness.
- (x) Within 1 month of loan effectiveness, the Government will ensure the establishment of the PSC, including, at least, representatives from MOF, GDNT, MCGA, MIT, ICTA, SSIA, MASM, and MNCCI.
- (xi) Within 1 month of loan effectiveness, the Government will cause the IA to establish the PMO within the MCGA.
- (xii) The Government will keep ADB updated on the adoption of the new Customs Law.
- (xiii) The Government will ensure that all goods and works procured (including without limitation all computer hardware, software and systems whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property of right or claim of any third party.

- (xiv) Consistent with ADB's and the Government's commitment to good governance, accountability and transparency, the Government will ensure and will cause the IA to ensure that the Project funds are utilized effectively and efficiently to implement the Project and to achieve the Project objectives. The Government will cause the IA to (a) undertake necessary measures to create and sustain a corruption-free environment; (b) ensure that the Government's Anticorruption Law and ADB's *Anticorruption Policy* (1998, as amended to date) are strictly enforced and are being complied with during Project implementation, and that relevant provisions of ADB's *Anticorruption Policy* (1998, as amended to date) are included in all bidding documents for the Project; (c) facilitate ADB's exercise of its right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project; (d) conduct periodic inspections on the Project contractor's activities related to fund withdrawals and settlements; and (e) ensure that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of the IA and all contractors, suppliers, consultants and other service providers as they relate to the Project. The Borrower will cooperate with any audit and investigation and extend necessary assistance, including access to all relevant books and records, and engagement of independent auditors and experts that may be needed for satisfactory completion of such audits and investigations. All external costs related to the audits and investigations will be funded from the Loan.
- (xv) The Government will ensure that all activities at the customs houses, particularly handling, use, storage, and disposal of toxic and hazardous substances, and disposal of other substances and wastes be conducted in compliance with the applicable laws and regulations and ADB's *Environment Policy* (2002).⁵¹

VI. RECOMMENDATION

82. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the loan in various currencies equivalent to Special Drawing Rights 3,375,000 to Mongolia for the Customs Modernization Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Financing Agreement presented to the Board; and
- (ii) the administration by ADB of a grant not exceeding the equivalent of \$500,000 to the Government of Mongolia for the Customs Modernization Project to be provided by the Government of the Republic of Korea.

Haruhiko Kuroda
President

28 November 2006

⁵¹ ADB. 2002. *Environment Policy of the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Increased volume and smooth flow of trade</p>	<ul style="list-style-type: none"> 10-15% annual increase in external trade (starting from the first year after project completion as compared with the previous year) 	<ul style="list-style-type: none"> National economic statistics ADO PPER 	<p>Assumptions</p> <ul style="list-style-type: none"> Continuation of a liberal trade policy regime Enactment of the revised Customs Law
<p>Outcome Improved efficiency, transparency, and sustainability of customs services and administration</p>	<ul style="list-style-type: none"> Number of cases of customs infringement to be reduced by 10% annually during the first 5 years after project completion Ranking of MCGA in assessment or survey of perception index of corruption to improve above the average amongst peer agencies or ministries in Mongolia (starting from the second year after project completion) 	<ul style="list-style-type: none"> Periodic surveys conducted under the Project Transparency International corruption perception Index MNCCI perception index National Audit Office reports Foreign investment and trade agency reports CCC and CAREC reports Surveys of customs performance PPMS; PPER; PCR 	<p>Assumptions</p> <ul style="list-style-type: none"> Effective coordination among related government agencies Continued expansion of national ICT infrastructure to support the upgraded GAMAS system Adequate budgetary provision for maintenance and recurrent costs <p>Risks</p> <ul style="list-style-type: none"> Resistance to the Project from vested interest groups that benefit from lack of transparency and inefficient customs clearance systems Delay in project implementation due to MCGA's inexperience in implementing ADB loan projects
<p>Outputs</p> <p>1. Migration and upgrading of the GAMAS system to an internet-enabled environment and central database</p>	<ul style="list-style-type: none"> Number of online customs declarations increased from 50% before project completion to 90 % by project completion Establishment of central data warehouse by project completion 	<ul style="list-style-type: none"> PMO quarterly and annual reports ADB staff review missions ICTA report PPR; PPMS Midterm review report 	<p>Assumption</p> <ul style="list-style-type: none"> E-government in a platform compatible with upgraded GAMAS <p>Risks</p> <ul style="list-style-type: none"> Cost overrun in upgrading of GAMAS system MCGA's inability to retain competent and experienced ICT personnel

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>2. Improvement of infrastructure at selected major customs houses and customs border posts, including provision of inspection equipment and laboratory apparatus</p> <p>3. Institutional strengthening, comprising business process reengineering, capacity building, interagency coordination, regional cooperation, and public-private partnership</p>	<ul style="list-style-type: none"> • 50% reduction in the time needed for customs inspection and clearance (compared with before the infrastructure improvements) by project completion • 60% reduction in the amount of time needed for customs laboratory analysis results (including cross-city transport) by project completion (compared with before the project) • 100 customs officers trained with modernized customs environment • Client satisfaction to exceed 80% by project completion • Manual of reengineered business processes printed and circulated to customs officers • Coordination with SSIA and MASM improved • Procedures harmonized and data exchanged in customs cooperation with neighboring countries • Participation by the private sector in project implementation and expansion of the customs-business partnership 	<ul style="list-style-type: none"> • Incidences of smuggling and drug trafficking captured and compiled by the customs • Surveys of customs performance • PMO quarterly and annual reports • ADB staff review missions • PPR, PPMS • Midterm review report • PMO quarterly / annual reports • ADB staff review missions • Reports and manuals by consultants • MNCCI report and survey • CCC and CAREC reports • Surveys of customs performance • PPR, PPMS, PPER • Midterm review report 	<p>Assumption</p> <ul style="list-style-type: none"> • Infrastructure bottlenecks issues are addressed in a holistic approach <p>Risks</p> <ul style="list-style-type: none"> • Inability of customs staff to use modern equipment • Shortage of electricity supply to support operation of modern equipments • Insufficient budget provision for operations, routine maintenance and repair of new customs and laboratory equipment <p>Assumption</p> <ul style="list-style-type: none"> • Positive response from business sector to the improved customs administration <p>Risks</p> <ul style="list-style-type: none"> • Failure to establish a proper mechanism to ensure smooth interagency coordination • Sustainability of results achieved through training due to staff turnover

Activities with Milestones	Inputs
<p>1.1 Finalize architecture and high level business process by June 2007</p> <p>1.2 Complete functional and technical specifications for online applications by September 2007</p> <p>1.3 User testing and online application roll-out by September 2008</p> <p>1.4 Complete functional and technical specifications for the data house application by September 2009</p> <p>1.5 User testing and roll-out for the data warehouse application by February 2010</p> <p>2.1 Review current requirements and produce final technical specifications for customs and laboratory equipment by June 2007</p> <p>2.2 Finalize contract for regional laboratory equipment by December 2007</p> <p>2.3 Install laboratory equipment and analytical devices by June 2008</p> <p>2.4 Complete civil works for cargo terminal expansion in Zamyn-Uud by March 2008</p> <p>2.5 Complete civil works for data center construction by June 2008</p> <p>2.6 Finalize contract for surveillance equipment by June 2008</p> <p>2.7 Install surveillance equipment by September 2008</p> <p>3.1 Implement changes in business processes and further refine it</p> <p>3.2 Prepare and disseminate manual of reengineered business process by December 2007</p> <p>3.3 Conduct capacity building training in synchronization with the implementation of outputs 1 and 2</p> <p>3.4 Carry out interagency coordination, regional cooperation, and public-private partnership throughout project implementation</p> <p>3.5 Conduct surveys to gauge level of satisfaction with Customs Administration</p>	<p>Asian Development Bank: \$5 million, consisting of: \$3.19 million for upgrading GAMAS system \$0.99 million for customs infrastructure improvement \$0.21 million for project management \$0.61 million for contingencies and interest charges</p> <p>Government of the Republic of Korea e-Asia and Knowledge Partnership Fund: \$0.5 million, consisting of: \$0.17 million for consulting services \$0.28 million for training, interagency coordination, regional cooperation, and public-private partnership \$0.05 million as grant contingency</p> <p>Government financing: \$1.26 million, consisting of: \$0.26 million for construction of a data center at MCGA headquarters building \$0.18 million for expansion of the cargo terminal at the border control complex in Zamyn-Uud \$0.07 million for inspection equipment to customs houses in Zamyn-Uud and at the Central Post Office in Ulaanbaatar \$0.60 million for taxes and duties \$0.15 million for project management and contingencies</p>

ADB = Asian Development Bank, ADO = Asian Development Outlook, CAREC = Central Asia Regional Economic Cooperation, CCC = Customs Cooperation Committee, GAMAS = Customs Automated Data Processing System (Mongolia), GDP = gross domestic product, ICT = information and communications technology, ICTA = Information and Communications Technology Authority, MASM = Mongolia Agency for Standardization and Metrology, MCGA = Mongolian Customs General Administration, MNCCI = Mongolian National Chamber of Commerce and Industry, PCR = project completion report, PMO = project management office, PPER = project performance evaluation report, PPR = project performance report, PPMS = Project Performance Management System, PSC = project steering committee, SEW = single electric window, SOM = senior officials' meeting, SSIA = State Specialized Inspection Agency.

PROBLEM ANALYSIS AND CONSTRAINTS

1. The Mongolian Customs General Administration (MCGA) is committed to automating customs processing and clearance systems with the aim of instituting proper and effective customs control systems balanced by equal attention to trade facilitation. MCGA also seeks to improve the effective and efficient collection of revenue, provide accurate statistics and information on trade (to assist in the development of economic strategies and policies), and develop simplified customs procedures in line with international best practices.

2. **Legal Framework.** Mongolia's accession to the International Convention on the Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention) means the Customs Law of Mongolia will have to be revised to incorporate the key provisions of the Convention. Several of the Revised Kyoto Convention procedures and standards have already been adopted by MCGA. For example, MCGA allows pre-clearance facilities for goods that are normally fragile or perishable (and therefore require special storage facilities) based on documents submitted.

3. The strategies to be adopted by MCGA include:

- (i) implementing the revised Customs Law of Mongolia;
- (ii) streamlining customs procedures;
- (iii) simplifying and harmonizing customs procedures in line with the Revised Kyoto Convention, including (a) maximizing use of information and communication technology (ICT), (b) promoting use of risk management techniques, (c) promoting partnerships between MCGA and the trading sector, and (d) providing for appeals in all customs-related matters.

4. **Effectiveness of the Customs Automated Data Processing System.** From 1996 to 2002, the MCGA used the automated system for customs data (ASYCUDA) developed by the United Nations Conference on Trade and Development. As MCGA required modifications to the system to meet its needs and this could not have been done without incurring tremendous costs, the MCGA embarked on its own proprietary computer-based software system. This resulted in the customs automated data processing system (GAMAS) which replaced ASYCUDA. As a stand-alone system serving only the needs of the MCGA, the GAMAS provides a means to capture data that builds on the physical format of the customs merchandise declaration (CMD).¹

5. GAMAS can sort and tabulate data, and determine the accuracy of computation. It can be accessed using the internet and thus provide "real-time" information to customs offices through optic fiber lines or via satellite in remote regions.

6. GAMAS is also programmed to allocate officers to different customs offices on a weekly basis. It can also select the officer to carry out an examination of cargoes presented for clearance. This feature is meant to inject a sense of neutrality into the selection of an examining officer. It is a form of control designed to prevent familiarity between the importer or exporter or the customs broker. It can also be used to monitor the performance of staff.

¹ The CMD is a set of four copies of fan-fold document which is used for submission of the Customs declaration of goods. The UN Lay-Out Key (UNLK) for Customs trade declaration is adopted with provision for entry of 54 data elements.

7. However, GAMAS has not evolved into an electronic trade documentation system that allows electronic processing and clearance. Although CMD data are transmitted to MCGA, traders are required to submit manual CMDs which are processed with the required official stamps and signatures. Furthermore, GAMAS was written in Visual Basic, a programming language, and is designed to run in an SQL (structured query language) environment. GAMAS served as a tool for assessing and organizing databases. However, Visual Basic and SQL have been overtaken by more advanced programming languages. GAMAS in its present form has outlived its usefulness, especially as it does not support the single electronic window (SEW) concept.

8. The government of Mongolia has prioritized the development of and maximum use of information and communications technology (ICT). In 2001, a national seminar on "Development of Mongolian ICT" was followed by the establishment of a National Committee for ICT, headed by the Prime Minister. The Information Communications Technology Authority (ICTA) is responsible for policies, development and promotion of ICT. An ICT master plan provides for the establishment of "e-Mongolia" (e.g., e-government, e-customs, e-commerce, e-education). All government ministries and agencies will eventually be linked and will be able to provide one-stop services. MCGA and its counterpart, the General Department of National Taxation (GDNT), the two major revenue collecting departments, are in the forefront of the government's modernization plans.

9. The reengineering of GAMAS so it can operate in a single electronic window environment is a critical component in the modernization of MCGA. A single window, one-stop and synchronized processing and clearance system will reduce business costs, increase time savings, and reduce corrupt practices. The new GAMAS will be a centralized system serving the customs community (including traders and customs offices and posts). Using such tools as data mining and data warehousing, the MCGA will also be able to build up a comprehensive database. With the support of analytical software, MCGA will be able to create risk management profiles and conduct post-clearance audits more effectively.

10. MCGA's strategy in creating an improved and effective GAMAS includes the following:

- (i) reengineering of GAMAS so it can serve as a unified automated information system and a single electronic window for processing trade documentation and electronic clearances;
- (ii) adopting international best practices using international standards of messaging and the data model of the World Customs Organization (WCO);
- (iii) prioritizing the use of risk management techniques and post clearance audits against a 100% physical inspection, and development of an inventory system for the control of goods in Customs-bonded and licensed premises;
- (iv) ensuring the participation of other border control agencies (through dialogue and meetings) in the development of a single administrative document and a one-stop clearance system; and
- (v) putting in place change management programs to prepare customs officials, the trading community, and other government agencies for the new processing and clearance system (redeployment should ward off fears of redundancy for officials).

11. **Inadequate Customs Physical Infrastructure.** Customs infrastructure at regional offices and border posts varies significantly and depends on the volume of trade within the region. The border posts are normally located near the border towns of Mongolia's two major

trading partners, the PRC and the Russian Federation. MCGA has already made preparations to upgrade major regional offices and border posts. The border posts are provided with technical aids and equipment (such as X-ray machines) to support the MCGA's mission to efficiently and effectively collect revenue, and prevent entry/exit of illegal contraband.

12. The review and upgrade of border posts will be concentrated at border crossings where there is a high volume of trade and where trade is expected to grow, in particular where mining activities are expected. The main problem of the major border posts is that passenger clearance is not separated from cargo clearance. This is aggravated by the fact that other members of the trading community, such as the customs brokers and banks, are also housed in the same premises. There is no dedicated cargo clearance checkpoint. Technical equipment and aids are either not available or are installed where they are seldom used.

13. Apart from the proper housing and location of the technical aids and equipment, border posts also lack utilities and energy supplies. The container inspection complex (CIC) at the border point of Zamyn-Uud² is often off-line and not working because of the unstable supply of electricity, which causes delays in clearance and longer waiting time for haulers.

14. Mongolia has a wide open border with its two big neighbors. Therefore, the request for sophisticated equipment and permanent fixed structures needs to be weighed against the ease with which smugglers can create their own entry points. Recurrent operating costs of equipment also need to be taken into consideration before they are purchased. Hand-held, mobile, and cheaper equipment should be given preference. For example, mobile equipment is available and cheaper than the station-type equipment for radiation detection. The same arguments can also be made with respect to customs laboratories.

15. **Customs Control of Goods Imported By Mongolian Citizens Living Near the Border.** The possible loss of revenue through so-called "ant trafficking" by residents at border towns (buying goods from the PRC or the Russian Federation and then disposing of them in the Mongolian market) can be controlled by monitoring travelers crossing and re-entering the border. A traveler management system can be used to capture data on travelers' visits to neighboring countries.

16. **Inter-Agency Coordination.** The active participation and support of all the agencies in producing a single administrative document is vital to trade facilitation. Delays are inevitable if agencies are left outside the single electronic window clearance. Inter-agency coordination should include the Ministry of Industry and Trade (MIT), the Mongolian Agency for Standardization and Metrology (MASM), and the State Specialized Inspection Agency (SSIA) and should include exchange of information, trade facilitation, and use of Harmonized System (HS) codes.

17. **Regional Cooperation.** MCGA will continue to participate in regional customs cooperation, in particular the Central Asia Regional Economic Cooperation (CAREC) program. It will work to improve bilateral ties with its two neighbors and is currently involved in consultative meetings on border crossings with them, which may cover mutual assistance to target contraband and smugglers crossing the border. World Customs Organization (WCO) regional intelligence liaison offices (RILO) are a major source of information covering the entire area of customs offences. Mongolia is a member of RILO (Asia/Pacific) whereas the Russian Federation is part of RILO (Commonwealth of Independent States [CIS]).

² Constructed and installed with a grant from the People's Republic of China.

18. **Conclusion.** The development of the private sector in Mongolia and the potential for the country to attract foreign direct investment (FDI) depends to some extent on efficient, transparent, consistent, and predictable customs procedures and processes. MCGA has taken an active stand in declaring to the business community that it intends to become an efficient and effective organization and that it is willing to work with the private sector to resolve obstacles hindering trade. MCGA's efforts to modernize customs and to develop GAMAS so that there is a single electronic window for trade documentation are a step in the right direction. Mongolia was one of the first countries in the Asia and Pacific region to computerize its customs services and MCGA is now seeking to keep abreast of modern global practices. MCGA's commitment to this program is reflected in its plan to complete the Project within 3 years.

19. The Government has put in place legislation to establish free trade zones (FTZ) to further promote FDI and the private sector. Although four zones have been designated, none is operational or even under construction. If the FTZs are established, MCGA's computerized system will enable it to monitor and control goods entering and leaving the FTZs.

SECTOR ANALYSIS

A. Economic Development

1. Mongolia's economy is mainly based on mining and agriculture. Mongolia's key mining products are copper, gold, coal, and petroleum. These are supplemented by smaller industries in molybdenum, tungsten, and phosphate mining. Cashmere is a major export product and Mongolia provides 20% of the global market. As it lacks an adequate cashmere processing sector, Mongolia exports raw cashmere to the People's Republic of China (PRC) for processing and re-exports the output to produce ready-made garments. Mongolia has been successful in transforming a centrally planned economy into a market-oriented one. It is estimated that 75% of the economy is in private ownership. Nearly 1 million people (about 40% of the total) live around the capital city of Ulaanbaatar, where there are also over 30,000 independent businesses. Most people outside the urban areas are engaged in herding of cows, sheep, goats, horses and Bactrian camels.

2. The gross domestic product (GDP) of Mongolia grew by 6.2% in 2005, following a surge in 2004 (10.6%). The biggest contribution to GDP growth in 2005 was made by the service sector, bolstered by increased tourism and transit trade. High global prices for copper and gold and foreign direct investment continued to boost the mining industry. For 2006–2010, annual GDP growth is forecast to average 5%, with significant contributions from mining. Mongolia recognizes the significance of further expanding tourism and the transit trade, given that the current narrowly based economy is vulnerable to weather-related natural disasters and declines in commodity prices.

3. Mongolia is landlocked between two economic giants, the PRC in the south (with a 4,500 km border) and the Russian Federation in the north (with a 3,050 km border). The PRC (45% of Mongolia's total export value), the United States (25%) and the Russian Federation (9%) are Mongolia's major trading partners. However, the Russian Federation is the major exporter to Mongolia (33% of total imports) followed by the PRC (24%).¹ Mongolia's major imports are petroleum products followed by foodstuffs.

4. Mongolia provides a link for the transit trade between the PRC and the Russian Federation. However, the transport infrastructure remains a concern, with only one rail line connecting the north and south and less than 1,400 kms of paved road. ADB is financing a national highway that links the Russian Federation to the PRC via Ulaanbaatar and is due for completion in 2009.

5. Mining contributes more than 50% of the export trade. The discovery of large deposits of copper in Umnugobi province bordering the PRC is expected to result in an increase of mining and related activities in the area.

B. Customs Administration

6. The Mongolian Customs General Administration (MCGA) is a major collector of government revenue through the assessment and collection of import and export duties, excise taxes, and value-added taxes. The MCGA is an integral part of the Ministry of Finance.

¹ Based on the Mongolian Ministry of Industry and Trade (MIT) statistics posted on the MIT website at <http://mit.mit.pmis.gov.mn/>

7. **Legal Framework.** MCGA derives its powers from the Customs Law of Mongolia² which sets down the obligations of the customs, transport carriers, importers and exporters. It also contains provisions on, for example, importation for home use, the use of customs facilities such as customs bonded warehouses, types of violations and penalties, and the search and examination powers of customs officials. The Customs Law has an enabling article which delegates authority to the MCGA to establish regulations pertaining to customs clearance procedures.

8. In addition, MCGA relies on the Customs Tariff Law of Mongolia, which provides the basis for the creation of the customs tariff, the adoption and modification of customs duty rates, the collection of customs duties, and the principles for the basis of valuation for the computation of customs duty.

9. The MCGA customs tariff nomenclature is based on the Harmonized Commodity and Coding System, commonly known as the Harmonized System (HS) developed by the World Customs Organization (WCO). Mongolia has been a member of the WCO since 1991. The tariff nomenclature contains descriptions in three languages, Mongolian, Russian and English. The rate of tariff is contained in a single column against each line item description. Most imports are subjected to an ad valorem rate of 5%.

10. MCGA also exercises control over excise taxes provided under the Excise Tax Law of Mongolia. Excise tax is levied on alcoholic beverages, tobacco and tobacco products, motor vehicles (passenger cars), and petroleum (motor gasoline and diesel fuel). Excise tax is applicable to both locally-manufactured and imported goods. Gasoline surcharges vary according to the octane level.

11. Under the provisions of the Value Added Tax Law of Mongolia (which came into force on 1 July 1998), MCGA is vested with the powers to impose and collect value added tax (VAT) on all imported goods brought into the country for consumption and use in the country. The current rate of VAT is 10%.³

12. **Customs Control.** MCGA has prioritized the modernization of the organization and the simplification and harmonization of customs processes and procedures. The approaches taken by MCGA to simplify customs control and to support trade facilitation include the following.

- (i) Mongolia deposited its instrument of accession to the International Convention on the Simplification and Harmonization of Customs Procedures (as amended), commonly known as the Revised Kyoto Convention, on 1 July 2006. This recent move demonstrates MCGA's confidence and its assurance that Mongolia's Customs practices and procedures are transparent and in step with international best practices. A key element was the provision for the use of risk management for the clearance of cargo and includes provision for the greater use of automation.
- (ii) MCGA has prepared revisions to the Customs Law of Mongolia and the Customs Tariff Law. The draft laws are expected to be passed in the next sitting of Parliament and before the end of 2006. Key elements of the Revised Kyoto

² The Customs Law was adopted on 16 May 1996 and entered into force on 1 July 1996; several amendments have been made to the Customs Law, most recently in March 2003.

³ Reduced from 15% by a decision of the Parliament in July 2006.

Convention including the use of risk management, greater utilization of automation and ICT, and provision for appeals against Customs decisions are included in the revised Law. In order to meet its World Trade Organization (WTO) obligations, MCGA has included the use of transaction value (TV) as the basis for valuing customs duties. There are also provisions for the rules of origin to determine the country of origin of imports.⁴

- (iii) MCGA is using specialized equipment to cater for faster cargo clearance. Close to the Zamyn-Uud border post is a container inspection complex complete with computer systems and X-ray machinery. This complex was constructed by the PRC at a cost of \$3 million. Container trucks and cargo trucks loaded with goods are escorted to this inspection site. Clearance takes about 3 to 5 minutes and images of the screening are captured and attached to cargo declarations. The screening report also is used to determine the extent of examination by customs officers when the containers are presented at the integrated clearance offices (ICOs).
- (iv) MCGA recognizes the inadequacy of its regional offices and border posts, especially where trade volume is high or expected to grow because of anticipated increases in mining. The poor layout of offices and posts is delaying clearance and MCGA has drawn up plans to rehabilitate them.
- (v) Private–public partnership (PPP) is encouraged and practiced by MCGA management. Regular dialogue, forums and seminars take place with the trading community and national trade associations.

13. **Revenue Collection.** As the second largest collector of government revenue, MCGA derives revenue from import and export duties, excise tax, VAT, and fees for provision of services. From 2001 to 2005, customs revenue has increased by a compound annual rate of 20%. MCGA customs revenue averages 36% of total government revenue. In 2003, MCGA revenue collection was \$166.5 million, in 2004 it was \$214.8 million, and in 2005 it was \$240.8 million. The efficient collection of revenue is critical to the national economy, poverty reduction, and other social programs.

14. **Information and Communications Technology.** MCGA has been pushing for greater use of automation and ICT so it can improve its services to the trading community. Beginning in 1996, with the automated system for customs data (ASYCUDA) system, provided free by the United Nations Conference on Trade and Development, MCGA embarked on computerization of customs declarations. In 2002, MCGA replaced the ASYCUDA system with the customs automated data processing system (GAMAS). This system was developed by national experts and operates in a Microsoft Windows environment. It was written in Visual Basic, a programming language, and is designed to run in an SQL (structured query language) environment. GAMAS is largely a data management system. The system was upgraded so it can operate under an internet environment with several application systems being installed to capture data and provide a basis for risk management and post-clearance audit.

15. GAMAS was useful in its early years but it has failed to provide an avenue to an electronic trade documentation system linking all parties concerned, such as traders, controlling

⁴ Provisions for the rules of origin include products that have undergone substantial transformation and where production has taken place in two or more countries.

agencies responsible for clearance of controlled goods, banks, freight forwarders, logistics operators, and customs brokers. The manual processing of customs declarations continues to this day. Although customs brokers and traders are able to transmit declaration data to customs, there is no provision for electronic clearance. Data are received through GAMAS and largely validated for accuracy and acceptance of values (and the computation of taxes due). Approved declarations are provided with a bar-code by GAMAS and this is printed on the manual submission of the declaration. Using the manual declaration, the trader proceeds to the banks to make payment of taxes. There is no immediate electronic payment through the banks. A major benefit of GAMAS was that it eliminated the MCGA requirement to re-enter data from the declarations.

16. MCGA is committed to moving toward a fully automated customs processing and clearance system, a goal that the Government of Mongolia considers vital to the national interest. The single electronic window concept for MCGA is in line with the Government's overall national ICT master plan. The reengineering of GAMAS will provide MCGA with an internet-enabled and centralized database environment. It will enable data warehousing and data mining for analysis to support risk management and post-clearance audit, improve links to other government agencies and foreign organizations, and eventually form a one-stop processing and clearance system.

17. **Regional Customs Cooperation.** Mongolia has observer status at the Shanghai Cooperation Organization (SCO), which is increasingly focusing on economic cooperation. It also has a strategic location between the PRC and the Russian Federation and the broader Northeast and Central Asia region.

18. Mongolia is a participating country in the Central Asia Regional Economic Cooperation (CAREC) Program established by the Asian Development Bank (ADB) in 1997. The other participating countries are Afghanistan, Azerbaijan, PRC, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan.

19. MCGA participates in the Regional Trade Facilitation and Customs Cooperation Program (RTFCCP),⁵ which comes under the umbrella of CAREC. RTFCCP addresses two objectives: "(i) promoting concerted customs reforms and modernization, and serving as a regional forum to address issues of common interest; and (ii) supporting an integrated trade facilitation approach through interagency cooperation and partnership with the private sector as a long term objective". The Program provides MCGA with a forum to pursue bilateral initiatives, one of which was the Agreements on Mutual Administrative Assistance and Customs Cooperation signed with the Kyrgyz Republic in March 2004.

⁵ RTFCCP is coordinated by the Customs Coordination Committee (CCC), consisting of the heads of the customs administration of the CAREC countries.

EXTERNAL ASSISTANCE TO MONGOLIAN CUSTOMS

Source	Major Area of Assistance	Modality of Assistance	Status
ADB	<ul style="list-style-type: none"> Regional trade facilitation and customs cooperation under the CAREC Program Needs assessment on trade facilitation and customs modernization in Mongolia Mongolia Trade Facilitation and Logistics Development Strategy 	<ul style="list-style-type: none"> Assessment and diagnosis studies Senior customs officials' meeting under CCC Workshop and seminar Dissemination of knowledge 	Needs assessment completed in 2005; others ongoing
European Union through TACIS	<ul style="list-style-type: none"> Importance of motivation, planning, change management, and risk assessment GATT valuation code and valuation fraud Risk assessment and profiling Auditing money laundering Setting tariff rates Application of Customs procedures Evaluation of project 	<ul style="list-style-type: none"> Training of trainers and specialized training Courses for middle management of MCGA On-job training Study visits to European customs administrations Books, teaching materials, and technical literature 	Completed in 2002
Kazakhstan	<ul style="list-style-type: none"> Detector dogs 	<ul style="list-style-type: none"> Training of dogs and handlers Provision of dogs 	Completed in 2003
Korea, Rep. of	<ul style="list-style-type: none"> Customs ICT master plan 	<ul style="list-style-type: none"> Technical assistance to develop a ICT Master plan for MCGA 	Completed in July 2006
GTZ	<ul style="list-style-type: none"> Regulatory institutional environment for trade Trade related legislation Surveys on business needs and feedback on barriers to trade 	<ul style="list-style-type: none"> Trade Policy and Export Promotion Project 	Ongoing
PRC	<ul style="list-style-type: none"> Customs infrastructure and equipment Study at Shanghai Customs College 	<ul style="list-style-type: none"> Provision and installation of non-intrusive cargo inspection equipment at Zamyn-Uud customs house 	Ongoing
Russian Federation	<ul style="list-style-type: none"> Customs management Post clearance audit Statistical data and customs offences 	<ul style="list-style-type: none"> Study at Russian Customs Academy Exchange of information 	Ongoing
Singapore	<ul style="list-style-type: none"> Risk management Customs automation 	<ul style="list-style-type: none"> Hosting seminar 	Conducted in 2002
Turkey	<ul style="list-style-type: none"> Customs management and control 	<ul style="list-style-type: none"> Training Study tours 	Ongoing

Source	Major Area of Assistance	Modality of Assistance	Status
UNCTAD/UNDP	<ul style="list-style-type: none"> Automation of customs clearance and control 	<ul style="list-style-type: none"> Introduced the ASYCUDA system and provided training 	Implemented in 1993–1997
UNEP	<ul style="list-style-type: none"> Customs control on ozone-depleting substances 	<ul style="list-style-type: none"> Training 	Ongoing
US Government	<ul style="list-style-type: none"> Security and export control 	<ul style="list-style-type: none"> Training courses 	Implemented in 2001-2004 and in 2006
USAID	<ul style="list-style-type: none"> Risk management Classification of goods Customs enforcement 	<ul style="list-style-type: none"> Training courses Study tours 	Completed in 2001
Uzbekistan	<ul style="list-style-type: none"> Detector dogs 	<ul style="list-style-type: none"> Training of dogs and handlers Provision of dogs 	Completed in 2003
World Bank	<ul style="list-style-type: none"> Governance Assistance Project includes a component for strengthening tax administration at GDNT 	<ul style="list-style-type: none"> Institutional development Tax operational process reengineering Enhancing ICT and physical infrastructure 	Ongoing
WCO	<ul style="list-style-type: none"> Harmonized system for classification of goods WCO/WTO valuation system Harmonized Rules of Origin Revised Kyoto Convention on simplification and harmonization of customs procedures Nairobi and Johannesburg Conventions on mutual administrative assistance between customs Framework of Standards to Secure and Facilitate Global Trade 	<ul style="list-style-type: none"> Training Advice on draft Customs legislation Diagnostic studies and capacity assessment 	Ongoing

ADB = Asian Development Bank, ASYCUDA = Automated System for Customs Data, CAREC = Central Asia Regional Economic Cooperation, CCC = Customs Cooperation Committee, GATT = General Agreement on Tariff and Trade, GDNT = General Department of National Taxation, GTZ = Gesellschaft für Technische Zusammenarbeit, ICT = information and communications technology, MCGA = Mongolian Customs General Administration, PRC = People's Republic of China, TACIS = technical assistance for the Commonwealth of Independent States, UNCTAD = United Nations Conference on Trade and Development, UNDP = United Nations Development Programme, UNEP = United Nations Environment Programme, US = United States, USAID = United States Agency for International Development, WCO = World Customs Organization, WTO = World Trade Organization.

Sources: Mongolia Customs General Administration and Asian Development Bank estimates.

DETAILED COST ESTIMATES (\$'000)

Item	Total Cost			ADB Financing			Grant			Government Financing		
	Foreign	Local	Total	Foreign	Local	Total	Foreign	Local	Total	Foreign	Local	Total
A. Investment Costs^a												
1. Civil Works ^b	0.0	437.0	437.0	0.0	0.0	0.0				0.0	437.0	437.0
2. Equipment and Furniture	2,846.0	71.0	2,917.0	2,846.0	0.0	2,846.0				0.0	71.0	71.0
a. ICT Hardware	407.5	0.0	407.5	407.5	0.0	407.5				0.0	0.0	0.0
b. ICT Network Infrastructure	1,153.8	0.0	1,153.8	1,153.8	0.0	1,153.8				0.0	0.0	0.0
c. Workstation and PC	278.3	0.0	278.3	278.3	0.0	278.3				0.0	0.0	0.0
d. Surveillance and Inspection Equipment ^c	560.0	71.0	631.0	560.0	0.0	560.0				0.0	71.0	71.0
e. Laboratory and Analytical Devices	434.8	0.0	434.8	434.8	0.0	434.8				0.0	0.0	0.0
f. PMO Equipment and Furniture	11.7	0.0	11.7	11.7	0.0	11.7				0.0	0.0	0.0
3. Software Development	733.9	617.3	1,351.2	733.9	617.3	1,351.2				0.0	0.0	0.0
a. ICT Software	733.9	0.0	733.9	733.9	0.0	733.9				0.0	0.0	0.0
b. Application Development	0.0	617.3	617.3	0.0	617.3	617.3				0.0	0.0	0.0
4. Consultants Services	97.5	77.1	174.6	0.0	0.0	0.0	97.5	77.1	174.6	0.0	0.0	0.0
5. Capacity Development	130.0	0.0	130.0	0.0	0.0	0.0	130.0	0.0	130.0	0.0	0.0	0.0
a. In Country	115.0	0.0	115.0	0.0	0.0	0.0	115.0	0.0	115.0	0.0	0.0	0.0
b. Overseas	15.0	0.0	15.0	0.0	0.0	0.0	15.0	0.0	15.0	0.0	0.0	0.0
6. Workshops, Forums and Consultation Meetings	0.0	80.0	80.0	0.0	0.0	0.0	0.0	80.0	80.0	0.0	0.0	0.0
a. Seminars & Workshops	0.0	80.0	80.0	0.0	0.0	0.0	0.0	80.0	80.0	0.0	0.0	0.0
7. Surveys and Studies	0.0	40.0	40.0	0.0	0.0	0.0	0.0	40.0	40.0	0.0	0.0	0.0
a. Studies	0.0	40.0	40.0	0.0	0.0	0.0	0.0	40.0	40.0	0.0	0.0	0.0
8. Manuals and Brochures	0.0	8.0	8.0	0.0	0.0	0.0	0.0	8.0	8.0	0.0	0.0	0.0
a. Manuals and Brochures	0.0	8.0	8.0	0.0	0.0	0.0	0.0	8.0	8.0	0.0	0.0	0.0
9. Taxes and Duties	0.0	598.7	598.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	598.7	598.7
Subtotal (A)	3,807.4	1,929.1	5,736.5	3,579.9	617.3	4,197.2	227.5	205.1	432.6	0.0	1,106.7	1,106.7
B. Recurrent Costs												
1. PMO Salaries	0.0	126.0	126.0	0.0	126.0	126.0				0.0	0.0	0.0
2. PMO Operating Cost	0.0	112.0	112.0	0.0	72.0	72.0				0.0	40.0	40.0
3. Grant Administration and support cost	0.0	107.4	107.4				0.0	17.4	17.4	0.0	90.0	90.0
Subtotal (B)	0.0	345.4	345.4	0.0	198.0	198.0	0.0	17.4	17.4	0.0	130.0	130.0
C. Contingencies												
1. Physical Contingencies ^d	291.6	68.8	360.4	291.6	55.8	347.4				0.0	13.0	13.0
2. Price Contingencies ^e	164.1	43.6	207.7	164.1	33.3	197.4				0.0	10.3	10.3
3. Grant Contingencies ^f	50.0	0.0	50.0				50.0	0.0	50.0			
Subtotal (C)	505.7	112.4	618.1	455.7	89.1	544.8	50.0	0.0	50.0	0.0	23.3	23.3
D. Financing Charges During Implementation	60.0	0.0	60.0	60.0	0.0	60.0				0.0	0.0	0.0
Total Project Costs	4,373.1	2,386.9	6,760.0	4,095.6	904.4	5,000.0	277.5	222.5	500.0	0.0	1,260.0	1,260.0
<i>% Total Project Costs</i>						<i>74.0%</i>			<i>7.4%</i>			<i>18.6%</i>

ICT = information and communications technology, PC = personal computer, PMO = project management office

^a Base costs in 2006 prices.

^b Consisting of (i) construction of a data center, for \$257,000, as part of the new headquarters building of MCGA; and (ii) expansion of the cargo terminal at the border control complex in Zamyn-Uud, for \$180,000.

^c Including provision of customs inspection equipment to Zamyn-Uud Customs House and at the Central Post Office, for \$71,000, which will be solely funded by the Government.

^d Physical contingencies are about 5–10% of equipment and software development costs.

^e Price contingency is calculated based on the annual cost escalation factors of 1.9% for foreign currency costs and 6% for local currency costs.

^f 10% of grant amount.

Sources: Mongolian Customs General Administration and Asian Development Bank estimates.

COST ESTIMATES FOR GRANT PORTION
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	155.80
i. International Consultants	85.40
ii. National Consultants	70.40
b. International and Local Travel	15.80
c. Reports and Communications	3.00
2. Training	
a. In-Country Trainings	115.00
b. Overseas	15.00
3. Seminars, Workshop, and Conferences	80.00
4. Surveys and Studies	40.00
5. Materials, Brochures, and Publications	8.00
6. Miscellaneous Administration and Support Costs	17.40
7. Contingencies	50.00
Subtotal (A)	500.00
B. Government Financing^b	
1. Office Accommodation and Furniture	35.00
2. Counterpart Staff	55.00
Subtotal (B)	90.00
Total	590.00

^a Financed by the Government of the Republic of Korea e-Asia and Knowledge Partnership Fund.

^b Including imputed value of staff time, use of governmental facilities, and other contribution in kind.

Sources: Mongolian Customs General Administration and Asian Development Bank estimates

IMPLEMENTATION SCHEDULE

Component/Subcomponent/Activities	Year 1				Year 2				Year 3			
	1	2	3	4	1	2	3	4	1	2	3	4
Component 1: Information and Communication Technology (ICT) Development												
1.1 Finalize architecture, software and hardware products, and finalize high level business process	■											
1.2 Prepare and publish bidding documents, review bidding proposals and finalize supplier contracts	■	■										
1.3 Contract awards for online application			■								■	
1.4 Complete functional and technical specifications for the online application			■	■								■
1.5 Develop and implement online application systems			■	■	■	■						
1.6 Install hardware, software, networking, and security			■	■	■	■						
1.7 User testing and online application roll out							■					
1.8 User training for online application							■					
1.9 Prepare and publish bidding documents, review bidding proposals and finalize supplier contracts for data warehouse application								■				
1.10 Contract awards for data warehouse application									■			
1.11 Complete functional and technical specifications for the data warehouse application										■	■	
1.12 Develop and implement data warehouse application systems										■	■	■
1.13 User testing and application roll out for data warehouse application											■	■
1.14 User training for data warehouse application												■
Component 2: Customs Infrastructure												
2.1.1 Prepare and publish bidding documents, review bidding proposals and finalize supplier contracts for surveillance equipment					■							
2.1.2 Contract awards						■						
2.1.3 Install surveillance Equipment							■					
2.1.4 User testing								■				
2.1.5 User training									■			
2.2.1 Prepare and publish bidding documents, review bidding proposals and finalize supplier contracts for regional laboratory equipment			■									
2.2.2 Contract awards for customs laboratories				■								
2.2.3 Install Lab Equipment and Analytical Devices					■							
2.2.4 User testing						■						
2.2.5 User training							■					
2.3 Civil works in Zamyn Uud		■	■	■								
2.4 Data Center at the HQ			■	■	■							
Component 3: Business Process Re-engineering, Capacity Building, Interagency and Regional Cooperation, and Public-Private Partnership												
3.1 Business Process Re-engineering and Review	■							■				■
3.2 Capacity Building		■				■		■				■
3.3 Interagency Coordination												
3.4 Regional Cooperation												
3.5 Public-Private Partnership												
3.6 Project Management												

Legend: ■ basically full-time activity
 ▨ part-time or intermittent activity

Sources: Mongolian Customs General Administration and Asian Development Bank estimates.

PROCUREMENT PLAN

I. Project Profile

Project Information	The Project is a continuation of ADB's support and the Government's efforts over the past years in promoting trade and improving investment climate through customs reforms and modernization. It responds to priority needs of the Government in the context of (i) the recent accession of Mongolia to the Revised Kyoto Convention and forthcoming enactment of a new customs law, (ii) the Government's recent initiative to move towards a single electronic window (SEW) and e-government, and (iii) Mongolia's ongoing initiative to gear up the fight against corruption.
Country	Mongolia
Name of Borrower	Mongolia
Project Name	Mongolia Customs Modernization Project
Loan or TA Reference	TBD
Date of Effectiveness	TBD
Amount \$	\$5 million (ADF); \$0.5 million (Grant)
Executing Agency	MOF
Approval Date of Original Procurement Plan	
Approval Date of Most Recent Procurement Plan	
Publication for Local Advertisements	
Period Covered by this Plan	March 2007–February 2010

II. Procurement Thresholds, Goods and Related Services, Works and Supply and Install

Procurement Method	Threshold Value (\$) ^a
ICB Goods	500,000 (equal and above)
NCB Goods	500,000 (below)
Shopping Goods	100,000 (equal and below)
NCB Works	500,000 (below)
Shopping Works	100,000 (equal and below)

III. Procurement Thresholds, Consultant Services

Procurement Method	Threshold Value (\$) ^a
CQS	100,000 (equal and above)
ICS or LCS	100,000 (below)

ADB = Asian Development Bank, ADF = Asian Development Fund, CQS = consultants' qualification selection, ICB = international competitive bidding, ICS = individual consultant selection, LCS = least cost selection, MOF = Ministry of Finance, NCB = national competitive bidding, S = shopping, TA = technical assistance, TBD = to be determined.

^a Procurement exceeding the threshold value of MNT1 billion for works and MNT800,000 for goods and services will also need an approval from the Ministry of Finance, in accordance with the Public Procurement Law of Mongolia.

Table A8: Detailed Plan for Procurement

Contract Description	Source of Fund	Estimated Cost (\$'000)	No of Packages	Procurement Method ^a	Expected Date of Advertisement	Prior Review Y/N
A. Customs Equipment	ADB Loan	1,932.6				
ICT Equipment						
Servers		468.6	1	NCB	May 2007	Y
PCs and related accessories		320.0	3	NCB	September 2007	Y
Surveillance Equipment		110.0	1	NCB	October 2007	Y
X-Ray and Detection Equipment						
X-ray equipment		414.0	1	NCB	January 2008	Y
Mobile radiation detector		120.0	1	NCB	January 2008	Y
Laboratory Equipment and Analytical Devices						
Main equipment		442.8	1	NCB	April 2007	Y
Tools of measurement		45.2	1	S	May 2007	N
Furniture, glasses, and reagents		10.4	1	S	May 2007	N
B. PMO Equipment and Furniture	ADB Loan	13.5				
Computers and other equipment		12.3	1	S	March 2007	N
Office furniture		1.2	1	S	March 2007	N
C. Software	ADB Loan	1,523.0				
Application and Web Server Software						
Web server software		358.2	1	NCB	May 2007	Y
Database software		485.7	1	NCB	May 2007	Y
Development Cost						
Portal and customs administration system		412.3	1	NCB	May 2007	Y
Data warehouse		266.7	1	NCB	June 2008	Y
D. Network	ADB Loan	1,326.8				
Link		363.7	3	NCB	June 2007	Y
Data center networking						
Back up (hardware and software)		117.6	1	NCB	June 2007	Y
Networking (H&S)		604.3	2	NCB	June 2007	Y
IPS		69.1	1	S	June 2007	Y
Firewalls		175.1	1	NCB	June 2007	Y
E. Consultant Services	Grant ^b	174.5				
Business Process and ICT Expert/Specialist		104.5	2	ICS ^c	March 2007	Y
Interagency Coordinator		7.1	1	ICS ^c	March 2007	Y
Project Implementation and Monitoring Coordinator		63.1	1	ICS ^c	March 2007	Y
F. Training ^d	Grant ^b	130.0				
<i>In-Country</i>						
Trainers' Training		20.0	1	CQS	February 2009	N
Users' Training (UB)		60.0	1	CQS	March 2009	N
Users' Training (regional) ^e		26.0	multiple	CQS	March 2009	N
Maintenance Training		9.0	multiple	CQS	December 2009	N
<i>Overseas</i>						
Study Visits		9.0	1	S	March 2009	N
IT Harmonization with Neighboring Countries		6.0	1	S	March 2007	N
G. Workshops, Forums and Consultation Meetings	Grant ^b					
Various Seminars and Workshops		80.0	multiple	ICS ^c	March 2007	N
H. Surveys and Studies	Grant ^b					
Various Surveys and Studies		40.0	multiple	LCS	March 2007	N
I. Materials and Publications	Grant ^b					
Materials and Brochures		8.0	multiple	LCS	March 2007	N

ADB = Asian Development Bank, CCTV = closed-circuit television, CQS = consultants' qualification selection, H&S = hardware and software, ICS = individual consultant selection, LCD = liquid crystal display, LCS = least cost selection, N = no, NCB = national competitive bidding, S = shopping, SIC = selection of individual consultant, Y = yes.

- ^a Before commencement of NCB procurement, ADB and the Borrower will review the Borrower's procurement procedures to ensure consistency with ADB requirements. Any necessary modifications or clarifications to the Borrower's procedures will be documented in the Procurement Plan. Subject to mutual agreement by ADB and the Government, two or more packages in the present detailed plan for procurement could also be combined and procured through one single tendering. In that case, the procurement method will be determined based on the total estimated value of the combined packages, which will be considered as the threshold value as per Procurement Plan.
- ^b Administered by Asian Development Bank.
- ^c The Government has agreed to recruit individual consultants under the Project in accordance with ADB's procedures for recruiting individual consultants.
- ^d Hardware and software products training may also be covered as part of suppliers' contracts.
- ^e Including staff training on occupational health and safety for laboratory personnel, and on Government applicable laws and regulations with respect to handling, use, storage, and disposal of toxic and hazardous substances, as well as disposal of other substances and wastes.

Sources: Mongolian Ministry of Finance, Customs General Administration, and Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTING SERVICES

A. Introduction

1. A total of 4.5 person-months of international and 44.5 person-months of national consulting services will be engaged, using funding from the grant component of the Project. These services will cover business processes and information and communications technology (ICT) implementation, interagency coordination, and project performance monitoring.
2. Given the complexity and changing nature of the ICT environment, and the migration and upgrading of a legacy system to a web-enabled system, detailed terms of reference for specific tasks may be subsequently revised or supplemented.

B. Terms of Reference

1. **Business Process and Information and Communications Technology (ICT) Specialist** (international, 4.5 person-months on intermittent basis)
 3. The purpose of engaging a business process and information and communications technology (BPICT) specialist is to ensure that the Project will (i) introduce the best international practices on customs business processes in line with Mongolian legislation, and (ii) design and implement the most suitable integrated information system for MCGA (including architecture design, applications systems development, database integration, and quality assurance). The responsibilities of the BPICT specialist will include the following:
 - (i) develop a plan for business process reengineering that includes: (a) a detailed workflow of the recommended processes (manual and computerized), (b) functional changes to adapt to the new business processes, (c) roles and responsibilities of all parties involved in the new process, (d) areas where ICT can be leveraged to further streamline the business process, and (e) the recommended sequence of implementation;
 - (ii) conduct impact analysis (quantitative cost–benefit analysis) for the business process reengineering, specifically looking at the impact of the reengineering on MCGA’s organizational structure, human resources policy, potential reduction in administrative costs and potential improvement in services and relationship with private sector stakeholders;
 - (iii) advise the MCGA in reviewing, validating, and refining when appropriate the ICT master plan that has been developed;
 - (iv) based on the ICT master plan as finally adopted by the MCGA, review and advise on detailed specification and cost estimates for the networks, software, and hardware requirements (including computer system configurations, computer servers, clients, peripheral devices, network configurations in terms of local area networks and wide area networks, systems software, database systems, network systems, anti-virus protection systems, harmful and disturbing software, web browsing application and web server applications);
 - (v) propose a detailed implementation plan that includes contract packages, pilot testing, and phased implementation procedures. The implementation plan will contain a detailed schedule for development and commissioning of technical specifications for data and functions, interim and final acceptance tests, training and familiarization programs, disaster recovery plans and business resumption processes;

- (vi) prepare technical specifications, evaluation criteria, and other related technical parts of the bidding documents;
- (vii) formulate technical specifications, standards, and requirements of the data center, which will be built as part of the new MCGA headquarters building;
- (viii) facilitate regional customs cooperation by ensuring system compatibility with neighboring countries; and
- (ix) prepare a needs assessment and detailed training plan for implementation of component 3 of the Project, including training on ICT systems and new business processes, and operating equipment to be acquired.

2. Business Process and ICT Coordinator (national, 5 person-months on intermittent basis)

4. The BPICT coordinator will assist the BPICT specialist in discharging the above responsibilities, making use of his/her knowledge of the legal environment of the country, customs practices and procedures, GAMAS systems, and overall ICT initiatives of the Government of Mongolia. The responsibilities of the BPICT coordinator will include the following:

- (i) conduct background research and provide information required by the business process and ICT specialist;
- (ii) liaise and consult with government agencies and other stakeholders to help the business process and ICT specialist to carry out his or her responsibilities.
- (iii) compile a manual on reengineered business processes, including translation when necessary;
- (iv) assist the MCGA in conducting training on and implementation of the reengineered business processes and in disseminating information to stakeholders and related agencies;
- (v) provide the BPICT specialist with summary English translation of concerned legislation and documents in Mongolian language;
- (vi) provide other support in connection with business process reengineering and ICT systems upgrading, as requested by the BPICT specialist and the director of the project management office (PMO).

3. Interagency Coordinator (national, 3.5 person-months on intermittent basis)

5. The interagency coordinator will work closely with the BPICT specialist and coordinator, PMO staff members, and the project implementation and monitoring coordinator to coordinate MCGA with related agencies, the private sector, and customs authorities in neighboring countries. The interagency coordinator must have extensive experience in dealing with government agencies, and have a network of contacts in the public and private sectors and funding agency communities. The main tasks of the interagency coordinator will include the following:

- (i) assist in formulating a detailed implementation plan for coordination between MCGA and related agencies with a view to integrating their work into a national SEW and e-government;
- (ii) arrange and conduct consultation meetings and workshops to coordinate the SEW and/or trade facilitation initiatives among MCGA, other related agencies, the private sector, and customs authorities in neighboring countries;

- (iii) assist in conducting round table discussions on best practices in interagency cooperation and other consultation meetings, road shows, workshops, and study tours;
- (iv) extend technical and logistical support for a study on integrating trade facilitation measures by customs and other agencies;
- (v) create a database and assist in the preparation of technical reports, reference materials and publications for knowledge-sharing and disseminating best practices relevant to the trade facilitation initiatives; and
- (vi) provide other support in connection with interagency cooperation in consultation with the director of the PMO.

4. Project Implementation and Monitoring Coordinator (national, 36 person-months)

6. The project implementation and monitoring coordinator will assist the PMO and BPICT specialist with project implementation and monitoring. The main tasks of the project implementation and monitoring coordinator will include the following:

- (i) provide assistance and support for preparing detailed project implementation plans;
- (ii) assist in determining implementation priorities;
- (iii) assist in all procurement activities to be undertaken under the Project, including those for components 1 and 2;
- (iv) in close consultation with the director, PMO, and the BPICT specialist, design a system for monitoring and evaluation to assess the progress of the project;
- (v) review the progress of project implementation in relation to the project implementation schedule and evaluate the achievements as indicated in the milestones of activities;
- (vi) assist in preparing project review and monitoring documentation and regular reports (including project performance report, project performance management systems reports, project performance audit report, and midterm review report) and evaluate the performance of the project, using the indicators in the design and monitoring framework;
- (vii) undertake field visits, consultations with public and private sectors, and surveys to assess the impact of the project;
- (viii) supervise the conduct of surveys and workshops related to the objectives of the project; and
- (ix) provide support for ADB missions in relation to the Project.

C. Reporting Arrangement

7. All consultants will report simultaneously to ADB and MCGA and work closely with the PMO.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Is the sector identified as a national priority in country poverty partnership agreement?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
<p>Contribution of the sector/subsector to reduce poverty in Mongolia:</p> <p>The Project is a continuation of support from the Asian Development Bank (ADB) for customs reform and modernization for Mongolia under the Regional Trade Facilitation and Customs Cooperation Program of the Central Asia Regional Economic Cooperation (CAREC) Program. The Project aims to improve the efficiency and transparency of customs services, thereby contributing to enhancing the enabling environment for transit and international trade, foreign direct investment, and economic growth. The poor will benefit from employment opportunities generated from enhanced trade, foreign direct investment, and economic growth.</p> <p>The Project is expected to reduce transaction costs for trade in two ways: (i) efficiency gains through automation of customs services and improved border clearance facilities, and (ii) reductions in corruption by minimizing direct interfaces between customs officers and traders and their representatives. Reduced transaction costs make trade in small volumes possible and therefore directly benefit the poor and small traders. Improved efficiency and governance will enhance revenue collection by customs services departments. This revenue represents a significant percentage of the state budget. Adequate revenue collection is the key for sound fiscal management for poverty reduction and sustainable economic development. The poor will benefit from better provision of social services from the government budget. More public investment in education, health, and other infrastructure is the way to reduce non-income-related poverty.</p> <p>Poor people in disadvantaged areas, for instance in Western Mongolia, will benefit from smooth trade between the People's Republic of China (PRC) and the Russian Federation. Transit trade between the Russian Federation through Tsagaannuur border point and the PRC through Yarant border point is expected to increase. The project will complement ADB's Western Road Development Project, which is scheduled to start implementation in 2007 or 2008. Development of service industries along the transit routes, including the Western Road Corridor, will thus be encouraged. In the long run, improved customs procedures will make a positive contribution to the development of Mongolia as a transit trade hub.</p> <p>The Project is expected to contribute positively toward the Government's fight against corruption and to reduce Government bureaucracy. The Government considers the lack of customs modernization as a major bottleneck to promoting a business-friendly environment. Activities of small and medium-sized enterprises (SME) are expected to be encouraged, which will help reduce income related poverty.</p>			

B. Poverty Analysis

Poverty Classification: General Intervention

Mongolia has made significant progress in promoting parliamentary democracy and a market-oriented economy since 1991. The transition has been very rapid compared with those in other former socialist countries. Economic growth has been moderate, averaging 5-6% a year over the last few years with a peak of 10.6% in 2004. Macroeconomic stability has been impressive and Mongolia has been pursuing reforms to the former centrally-planned economy.

However poverty is widespread. The poverty incidence is lower in urban (30%) than in rural areas (43.0%). In Ulaanbaatar, one third of the population is poor. The total population of Mongolia reached 2.5 million in 2004, of which 1.5 million are of working age, about 1.0 million constitute the labor force. The number of registered unemployed was 35,600 at the end of 2004, an official unemployment rate of 3.4%.

There is a general consensus on the causes and determinants of poverty in the Mongolia. The emergence of high levels of poverty can be traced to the disintegration of the former Soviet Union, which caused severe reductions in production. This in turn led to rapidly increasing unemployment at a time when the state's capacity to respond was impaired by the loss of budgetary support and a sharp reduction in the revenue base. Continuing high levels of poverty are largely due to the reform of state institutions and the restructuring of society and the economy according to market rules and mechanisms. In particular there are (i) difficulties in creating and sustaining opportunities for gainful employment on a substantial scale; (ii) problems relating to external and domestic markets for Mongolian-

made products, reflecting the landlocked nature of country, its trade and transit problems, and the small domestic market; (iii) the limited capacity of the state to address essential social needs because of fiscal constraints; and (iv) continuing corruption and inefficiency in the instruments of state governance that inhibit private enterprise and legitimate entrepreneurial activity.

Severe winters during 2001–2003 also contributed to high poverty rates in Mongolia. In addition, the ending of the multi-fiber agreement in 2004 meant that garment production decreased compared with 2003, leaving approximately 5,000 workers unemployed at the end of 2004. Foreign investors left Mongolia. Non-income-related poverty indicators such as the unavailability of access to education, health, information, and technologies have kept poverty rates high. The outdated education system has restricted workers' ability to compete in more sophisticated job markets.

The Government's policies to combat poverty in Mongolia have been reflected in a number of policy papers, such as the Government's Economic Growth Support and Poverty Reduction Strategy and its implementation progress report in 2003, the Government's resolution No. 54 of 2006 on the Government's priorities, the Government Action Plan for 2004-2008, and the "e-Mongolia" program. The Government aims to achieve the Millennium Development Goal of halving the proportion of citizens with an income below the minimum subsistence level by 2015 compared with the base level in 1990.

The Government's policy is to reduce poverty through economic growth based on macroeconomic stability. In the medium term, the Government will implement policies aimed at accelerating private-sector-led economic growth by stabilizing the economy, achieving low and stable inflation, and developing free market competition as well as appropriate monetary, credit and tax policies. The Government also realizes that fighting against corruption and Government bureaucracy will also help reduce poverty.

The Project supports the country's poverty reduction strategies. It will provide investment and assistance to (i) strengthen governance and transparency, and improve institutional capability in customs services to improve the enabling environment for market-oriented and private-sector-led economic development; (ii) improve operational efficiency to facilitate trade and improve revenue collection, which will help ensure adequate provision of social services; and (iii) provide a technical platform for furthering regional cooperation in customs service, which will in the longer-term stimulate trade and economic growth, benefiting the poor and non-poor in the whole region.

There will be no negative effects on any population groups, including indigenous people.

C. Participation Process

Is there a stakeholder analysis? Yes No

Extensive consultations were undertaken during project preparation with various stakeholders. These included the line ministries such as the Ministry of Finance (MOF) and trade-related government agencies such as the Mongolian Agency of Standardization and Methodology (MASM), the State Specialized Inspection Agency (SSIA), and the Mongolian National Chamber of Commerce and Industry (MNCCI). Transport organizations, private sector representatives, international organizations and/or agencies, local personnel at the borders and local authorities were also consulted. Consultations were undertaken in relation to operational procedures and border development.

Is there a Participation Strategy? Yes No

D. Gender and Development

Strategy to maximize impacts on women:

The customs administrations operate an equal opportunities policy. The Project has no specific gender implications.

Has an output been prepared? Yes No

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	<p>Physical construction work under the Project includes (i) construction of a data center as part of the new headquarters building of Mongolian Customs General Administration (one floor in a eight-storey building), which will be constructed on the Mongolian Customs General Administration's own land inside the existing custom premises; and (ii) expansion of the cargo terminal within the special border area currently controlled by the Mongolian Customs General Administration at the border control complex in Zamyn-Uud.</p> <p>The Project will not require involuntary resettlement.</p>	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	<p>The Project is not expected to bring about any affordability issue.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	<p>The Project aims to improve the efficiency and transparency of customs services, thereby contributing to enhancing the enabling environment for transit and international trade, foreign direct investment, and economic growth. The poor will benefit from employment opportunities generated from enhanced trade, foreign direct investment, and economic growth.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	<p>The Project will have no impact on indigenous peoples.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	<p>No other significant risks or vulnerabilities have been identified.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No