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MONGOLIA: Trade Facilitation and Customs Modernization

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For Mongolian Customs General Administration

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 Sep 2005)

Currency Unit	–	Tugrik
\$1.00	=	1180 Tugrik

ABBREVIATIONS

ADB	–	Asian Development Bank
AEO	–	Authorized Export Operator
ASYCUDA	–	Automated System for Customs Data
CAREC	–	Central Asia Regional Economic Cooperation
CBW	–	Customs Bonded Warehouse
CCC	–	Customs Cooperation Committee
CCL	–	Customs Central Laboratory
CIP	–	Customs Inspection Place
EA	–	Executive Agency
EDI	–	Electronic Data Interchange
GDNT	–	General Department of National Taxation
HS Codes	–	Harmonized System Code
ICCS	–	Integrated Customs Clearance System
ICOs	–	Integrated Clearance Offices
ICT	–	Information Communications Technology
IFFC	–	International Freight Forwarding Center of Mongolian Railways
LAN	–	Local Area Network
MASM	–	Mongolia Agency for Standardization and Metrology
MCGA	–	Mongolian Customs General Administration
MIS	–	Management Information System
MTI	–	Ministry of Trade and Industry
PRC	–	People's Republic of PRC
RAS	–	Remote Access Service
RETA	–	Regional Technical Assistance
RN	–	Registration Number
RTFCCP	–	Regional Trade Facilitation and Customs Cooperation Program
SEW	–	Single Electronic Window
SSIA	–	State Specialized Inspection Agency
UAIS	–	Unified Automated Information System
UBR	–	Ulaan Bataar Railways
VAT	–	Value Added Tax
VSAT	–	Very Small Aperture Terminal
WAN	–	Wide Area Network
WCO	–	World Customs Organization
WTO	–	World Trade Organization

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PREFACE

In December 2004 at Baku, Azerbaijan, the CAREC CCC endorsed the request of MCGA to ADB for a Needs Assessment on Trade Facilitation and Customs Modernization. Following an Inception Mission, agreement was reached to formulate a strategy and implementation plan that will enhance revenue collection, improve customs operations and promote the development of a “one-stop” delivery of services for all trade-related agencies and private sector stakeholders. The agreed deliverables of the study were (i) an assessment report analyzing the current situations and identifying the constraints of the various customs regimes and (ii) an ICT master plan which will in the future support the delivery of trade related services through a Single Electronic Window.

The study is led by Jeffrey Liang, Task Manager and Principal Trade Economist, under the overall supervision of Noy Siackhachanh, Director, Governance, Finance and Trade Division, East and Central Asia Department, ADB. The study team acknowledges the invaluable support provided by the MCGA management, especially Mr. Baagaa Battumur, Acting Director-General; Chadraabal Enkhtuya, Director, Customs Policy and International Cooperation Division; and Samdan Altangerel, Director, IT Division; Dogsom Daria, Director of Ulaanbaatar Customhouse; Sanj Banzragch, Director of Zamyn-Uud Customhouse and Dondog Damba, Director of Selenge Customhouse. The inputs from the managements of MTI (V. Enkhbold, Director; and Dagva Batmunkh, Deputy Director, Trade and Economic Cooperation Policy Coordination Department), SSIA (E.Ganbold, Deputy Director General), MASM (Ms. Tsetsegmaa, Head of Certifying Unit) and IFFC (L. Khaltar, Managing Director) are most invaluable. The views of Mr. Sambuu Demberel, Chairman and CEO of the Mongolia National Chamber of Commerce and Industry and Mr. Erkhembayar Yamaaranz, Executive Director of Erin Trans Co., Ltd. provided the private sector inputs without which the study would have been unbalanced in its assessments and recommendations. The assistance provided by Tseveldulam Gendentseveen, Nadmid Surenjav, Norov Unurtsetseg, N. Tsolmon, S. Boldbaatar, Dash Chinzorig, Lyle Raquipiso, Dorothea Lazaro and Early Bracamonte is likewise gratefully acknowledged.

EXECUTIVE SUMMARY

Fourteen (14) years after Mongolia came out from a centrally planned economy and moved into a market based economy, the government is working even harder to provide an efficient and competitive trading environment with a view to accelerating economic development.¹ Much has already been done to provide better physical infrastructure, to address logistical constraints and to improve government regulatory environment.² There are many visible signs of modernization in MCGA's operation and delivery of service³ the most visible of which and the one MCGA is considered a leader on not just in government being in the use of Information and Communication Technology (ICT) in its stations all over the country. Even more noteworthy is that the application system was developed by MCGA itself, a tribute to the quality of the country's ICT professionals. Serious efforts to align Customs processes to the WTO and WCO conventions has been taking place. All these notwithstanding, business continue to regard Customs as posing significant difficulty to business and needing to do more to facilitate trade.

The First Priority therefore is to address the difficulties of trade in clearing goods from Customs control. This requires re-engineering of the cargo clearance process and modifying how MCGA's ICT is utilized. The role of the ICT as a supporting actor to the manual and paper based customs clearance and control procedures must be changed. The ICT System must be made to take the driver's seat and the manual-paper processes quickly marginalized if not completely done away with for most of the transactions if the international best practices can be given full meaning in MCGA. All these can be accomplished now within the existing GAMAS application system notwithstanding existing limitations on its database manager, development tool and operating system.

Likewise, MCGA's customs techniques needs adjustments with the adoption of data warehousing, mining and business intelligence. The use of risk management must be change o support automated selectivity, end-to-end-automation and post clearance audit. MCGA ICT should be upgraded to support these techniques.

MCGA needs assistance in formalizing the Risk Management Program, in developing the analytical processes required, in measuring, reviewing and evaluating the results, as well as in updating the risk profiles and selectivity screens.

MCGA has been receiving assistance from donor organization and from the customs services of some countries for several of these customs techniques and best practices.⁴ The assistance mainly comes in the form of workshops, seminars and observation/study tours. What is needed now is technical assistance in actually incorporating these best practices and advance customs techniques in the various operations of MCGA and in developing the enabling ICT support for these. Assistance is likewise needed in the procurement of the needed tools and providing adequate formal hands-on training on these tools.

However, trade facilitation and customs modernization is not MCGA's responsibility alone. Addressing the other obstacles and constraints needs the collaborated effort of many other sectors.

¹ See Appendix 1 for Economic, Trade and Customs Revenue Profile

² See Appendix 2 for Reforms in Governance

³ See Appendix 3 for Reforms in MCGA

⁴ See Appendix 4 for External Assistance to MCGA

To begin with, customs legislation is needed in repealing the legal provision requiring the examination of all imports and exports. In lieu thereof, Customs must be given the power to undertake selective examinations based on risk assessment. Selective and targeted examinations will not compromise revenue generation and compliance. With supplementary legislation on proper records keeping in support of post clearance audit, revenue collections will even improve. Better yet, legislation must be passed empowering the Director General of MCGA, in consultation with the relevant government agencies and business groups, to set the levels in the number of customs inspections consistent with the customs control objectives, conditions of the cargo terminals and customs stations and the imperatives of business.

Also a priority is providing better infrastructure such as better designed border post, more appropriate and better equipped cargo terminals as well as the use of surveillance and scanning equipments to better facilitate trade even as these promotes proper collections of revenues.

Important as well is to make the private sector particularly the business community do its share in trade facilitation and law enforcement. The private sector must share in the responsibility for customs compliance and the citizens in general enlisted in the fight against customs offences and in facilitating trade. The facilities of the Customs and Economic Institute should be upgraded to help MCGA better perform these responsibilities. Minimum standards must be set for the licensing of logistics providers.

The private sector has already invested in the development of logistics support facilities such as cargo terminals and warehouses. It must now be encouraged to invest in the development of electronic gateways to the customs systems.

The recent unification of all inspections to the State Specialized Inspection Agency (SSIA) is both an opportunity and a threat. On the one hand, SSIA's interventions, if not properly integrated into the customs processes will wreck havoc on the trade facilitation program. The golden opportunity is in jump starting the single electronic window for cargo clearance now that only one agency is issuing the needed clearances, licenses, permits and other authorizations.

Implementing the single electronic window and all of the above trade facilitation and customs modernization measures needs a strong leadership and political commitment to succeed. It is recommended that a senior official responsible for trade facilitation and customs modernization be designated preferably reporting to the prime minister. A national trade facilitation board with representatives from the trade community, logistics providers and concerned government agencies must be activated to work hand in hand with this senior official in directing the implementation of the various programs discussed herein and in addressing all other trade facilitation difficulties and constraints.

DIAGNOSTICS

I. Legislation

1. The Mongolian Customs Legislation consists of the Constitution, the Present Law (1996 Customs Law) and the Tariff Law as last amended on April 26, 2001 and other related laws and regulations adopted in accordance therewith.

A. Current Situation

2. The legislation has already most of the modern features needed by an economy that needs an efficient and competitive trading environment for its development.

3. For one, the Customs Law provides 18 major customs procedures or regimes and 238 sub-regimes. Most of the conceivable business requirements for importing production inputs without having to pay duties and taxes nor comply with trade restriction measures being enforced in the customs territory can be managed in one of these regimes. A brief description of the 11 major procedures is shown in Appendix 5.

4. The Customs Tariff Law provides another important regime, the Duty Drawback. The establishments of the three (3) free economic and free trade zones are covered by separate legislations.

5. As for goods declaration and examination, which is the heart of customs operations, the Customs Law provides that the declaration form may be in writing or through electronic information exchange network. Production of supporting documents such as contract, invoice, transport document, packing list, origin certificate and others is also only a "where necessary" basis. These provisions support use of remote and electronic goods declaration. In fact, several companies are already filing customs declarations via a Remote Access Server (RAS) or thru the Internet.

6. Furthermore, the law affords Customs flexibility in the conduct of examinations as these may be carried out:

- At the declarants office or private holdings meeting technical requirements
- On board the means of transport
- At the customs territory of a foreign country
- With use of search equipment, appliances and detector dogs among others.

7. These modern features of the legislation supports use by MCGA of modern technology such as x-ray and other scanning equipment in lieu of the traditional manual inspections. Almost completed is a container x-ray scanning facility close to the frontier customs border station at Zamyn-Udd for road transport. Mongolian Customs officers have been trained abroad (PRC) and now ready to operate the facility. And should MCGA decide to acquire a scanning unit for trains, legislation is available for doing the inspection even while the train is in motion.

B. Issues

8. While the legislation allows MCGA a lot of flexibility to adopt more trade facilitative systems and processes, it would seem that customs examination is mandatory. Article 34 of the Customs Law states that “Goods or means of transport crossing the Customs frontier shall be subject to Customs examination.” Current procedures require two (2) officers to conduct physical inspection of both imports and exports. Even declarations lodge via the internet undergo physical inspection after the submission at the Customs office of the printed declaration and supporting documents. The requirement negates the gains in internet lodgement.

9. The international best practices of client self-assessment, selectivity based on risk assessment and greenlane processing requires that customs examinations not be mandatory.

10. A close reading of the Customs law, however, do not show any direct provision as to when customs examination should be conducted. It would seem therefore that should MCGA desire to exercise flexibility on when to conduct examinations for the purpose of facilitating trade, there will be no impediment for it.

II. Formalities and Procedures

A. Border Operations

1. Current Situation

11. The main entry point of goods and travelers into Mongolia are the border crossing posts. Of the two major crossing points, the Zamyn-Udd Border Station, the one with PRC is the busiest. Here, about 3 to 5 thousand travelers, hundreds of motor vehicles laded with goods (both in bulk and in containers) and several freight trains including transits from Russia crosses the border everyday. While there may be more Mongolia bound goods (tonnage wise) crossing from Russia thru Selenge, there are many more consignments crossing at Zamyn-Udd. (Appendix 6 for Map of Mongolia showing all Border Post).

a. Goods Arriving by Road Transport

12. Cargo trucks loaded with goods in bulk and driven by Chinese nationals are allowed several days stay at Zamyn-Udd to complete a delivery. Upon entry at the border gate for road transports (there is a separate gate for trains) border post guards undertake passport control and enforces security procedures. Right after the gate stands the laboratory of SSIA. The agency's mandate is to check goods and passengers for presence of any disease (human, animal and plant) and to prevent their crossing into Mongolia.

13. Next to the SSIA facility is the weighbridge manned by Customs which is the start of the customs process. Here the driver is given a weighing ticket. Pending clearance, the cargo trucks are parked along the road where they undergo customs examination.

14. Goods in bulk arriving by cargo trucks are declared and cleared at the border post. There is an ICO at the Border Station like the ones at the inland Customshouses. The processing is fitted to the conditions obtaining: no manifest controls, cargo inspection along the road and interventions of border guards and SSIA.

b. Goods Arriving by Rail

15. Before the train's arrival at the borders, a company representative submits the shipment manifests to Customs. Freight trains are inspected by customs officers for any unmanifested shipments or goods. Following inspection, the rail carts of Chinese trains with the containerized shipments are taken to the railway cargo terminal where they are transferred to UBR rail carts.

2. Issues

16. Travelers Are Co-Mingled With Brokers, Truck Drivers and Other Persons Clearing Goods. – Most of the space at the ground level of the small frontier building is occupied by the ICO offices (brokers, banks, customs long rooms and customs cargo control office among others) involved in cargo clearance. The space available for passenger clearance is confined such that those clearing goods mingle with travelers in the small building. This state of affairs compares unfavorably with the almost palatial passenger terminal at Erlian, PRC. The highly visible gap in amenities and ambiance between the two passenger terminals does not create a favorable image for Mongolia and therefore must be immediately rectified.

17. No Customs Inspection Place. – The road outside the building serves as the CIP for cargo vehicles. Space is lacking, cargo handling equipments are not available and there are no cargo hands and other support facilities for the proper examination of goods and collection of revenue. Vehicles of travelers and cargo vehicles are co-mingled and exposed to the elements making it almost impossible to conduct proper examination.

18. Need for Better Customs Clearance for "Accompanied Goods". – Both the amount and nature of the goods going thru the southern border clearly indicates these are not intended for the 7,000 registered citizens of Zamyn-Udd but for Ulaanbaatar and other inland areas. These "accompanied goods" are very likely the ones finding their way to the booming "black market" in the capital (the name given to an informal market place that literally turns black with the large number of people mostly wearing black) patronizing the place. While this activity provides livelihood, the goods brought in thru this informal channel compete unfairly against goods that goes thru the legal import channels and pays proper duties and taxes.

B. Transits and Transshipments

1. Current Situation

19. Mongolia acceded to the Convention on the International Transport of Goods under cover of TIR Carnets in Oct 1, 2002. The convention entered into force in April 1, 2004.

a. Domestic Transits

20. Although only 260 TIR shipments entered country since, some benefit has already been derived from its observance in Customs operations.

21. TIR shipments originate mostly from Europe and Ukraine and destined mainly for the capital. Border controls for these transits is a matter of checking the condition of the containers and its locking mechanism, examination and stamping of the TIR carnet as well as alerting by telephone the destination Customshouse of the transit. Thus, shipments bound for inland on road transport are able to enter north of the country with a minimum of hassle and with the security afforded by the TIR procedure.

22. To further secure this regime, MCGA is now developing a system, similar to cargo manifesting system so that the domestic transit shipments can be subjected to the same acquittal and closure procedure as with the regular inward cargo manifest.

b. International Transit

23. Railway remains the only mode of transport for international transit since a large section of the road south of Ulaanbaatar to PRC could take 4 more years to complete.

24. While there are 60 forwarding companies in Mongolia, 91% of transits are handled by only 3 forwarders: RTST 48%, IFFC 38%, and Tuusin 5%.

25. Ninety two percent (92%) of transits expressed in net weight tons is Russia to PRC and only 8% PRC to Russia. Russia to PRC transit is mainly on timber and fuel products.

26. The only customs document required now and the main instrument of control is the transit manifest (individual shipment paper manifest carried on a pouch) prepared by IFFC at port of entry and presented to customshouse thereat for verification, stamping and initials. At the exit customs station, this document is again verified, stamped and initialed thus closing the transaction. One copy of the "canceled manifest" is sent to the national headquarters while another copy is kept on file at the exit customshouse. It is MCGA's plan to implement a transit control system next year involving the creation of an electronic transmit manifest for transmittal to and acquittal at the exit customshouse.

c. Transshipments

27. To be allowed transshipment to other customshouses instead of mandatory clearance at the Border Station, bulk goods must have been containerized before crossing the borders. Customs duty officer inspects the physical condition of the container and when necessary attaches a customs seal before allowing it to be brought to the container terminal for loading on UBR train. When necessary, the container is likewise escorted encounter to the terminal. At the terminal, IFFC prepares the shipment manifest.

2. Issues

28. The general perception within the customs community is that transits via the railway system is a very secure regime for customs. This sense of security maybe attributed to the following:

- Belief that it is difficult to unload or open a container while on board the train and enroute to its destination.
- UBR, the exclusive carrier of all transits by rail is joint venture between governments of Mongolia and Russia and will not tolerate illegal activities.
- IFFC, the exclusive company preparing and submitting to customs the shipment manifests is likewise a government entity being an affiliate company of UBR.

29. But this secured environment may change in 4 years time with the completion of the road to PRC. The listed security features of rail transits are not available in transits by road.

C. Declaration Processing System

1. Current Situation

30. At Ulaanbaatar, which is the final destination for most imports, (Appendix 7 for Customs Declaration Received by Customs Station) Customs declarations are filed and processed at the Integrated Clearance Offices (ICOs). Five of the biggest cargo terminals (IFFC, ERIN, Material Impex, MTT and TUUSIN) have their respective ICOs where the declarations are lodged directly. For shipments stored at the 12 other cargo terminals, declarations are lodged at the Ulaanbaatar Customshouse ICO.

31. Goods owners/declarants present all the supporting documents required by customs at the broker's section of the ICO where a declaration is composed using computer workstations connected by LAN/WAN to the Customshouse server. In most cases, while the declaration is being composed, the importer goes to the transportation company to pay the freight. He then returns to the ICO to get the documents from the brokers section and to present the same to a Customs Clearance Officer with the declaration reference number.

32. Declaration processing cannot proceed at the Customs Section of the ICO for a shipment unless its covering cargo manifest has already been presented thereat by the forwarder's representative and its particulars matched against the electronic manifest downloaded from the headquarters computer server. The Supervising Inspector of the ICO who has this responsibility may also give additional instructions to the clearance officers at this point on what to pay attention in processing the declaration.

33. After retrieving the declaration from the system, the clearance inspector checks the same against the supporting documents and then reviews the data particularly boxes 21 to 38 on the calculation of duties and taxes. If the inspector is not in agreement with the declared value as when Customs headquarters has a comparative price, he inputs his choice of valuation method, price and basis thereof using boxes 40 to 44. The duties and taxes payable is then automatically recalculated. Only thereafter is permission given for the printing of the declaration.

34. The declarant then returns to the broker's station to have the declaration printed. He then returns for the second time to the Customs Clearance Officer for the stamping of the printed declaration and supporting documents. It is also at this point where Customs makes the first of the two acquittals of the manifest to indicate to the system that a declaration has been filed on the shipment.

35. The declarant then proceeds to the in-house bank to pay the amount payable after which makes a third trip to the customs section of the ICO. This time, declaration and supporting papers with the evidence of bank payment is presented for the assignment of a registration number to the declaration.

36. The declarant then goes next to the Enforcement Division for the computerized assignment of at least two customs inspectors.

2. Issues

37. While the outwardly the system looks computerized (ICOs at the Customshouses, the cargo terminals and at the frontier customs stations, computer work stations on LAN for all participants and with the customshouse server on WAN with Headquarters and internet

lodgment for some firms) the declaration processing system remains basically manual and paper based.

38. The main engine driving the process remains the declarant who has to hand carry the paper declaration from one office to another and one customs officer to the other.

39. The main instrument of control remains the stamps, signatures and initials affixed to the declarations and the various logbooks to record the transaction. The many face-to-face interactions in the process are opportunities for the commission of corrupt acts.

40. There is no greenlane processing. Before two customs inspectors are assigned, the customs clearance risk program is allegedly run but whatever the outcome, the goods are physically examined anyway.

41. While there are nine (9) programs in the Integrated Customs Clearance System of the UAIS (GAMAS) to support declaration processing at a customhouse and five (5) in the Integrated One-Stop Clearance System at the cargo terminals, these programs are essentially for the purposes of creating digital declarations and automating the duties and taxes calculation. There is no automated estimation of the risk level based on risks databases and assignment of processing channel.

42. Composing declarations directly to the brokers declaration system from the supporting documents can take time. In one instance observed by the mission team, thirty (30) minutes already lapse and still the work was not done as each and every item in the invoice had to be encoded. There were no long queues at the time it being Saturday but one of the complaints of the public is the slowness of GAMAS. The study team believes it not so much the computer system that is slow but the manual interfaces of the declaration system.

D. Suspense Regimes and Conditionally Free Imports

1. Current Situation

43. Mongolia's customs laws and regulations allows many situations when imports under certain conditions may not pay duties and taxes (conditionally free imports) or may have the payment of duties and taxes thereof deferred or suspended (suspense regimes).

44. The most widely used of the suspense regimes is the warehousing of the goods in a customs bonded warehouse (CBW). There are two kinds: CBWs located in container terminals with a full complement of Customs personnel; and those located outside and with only a customs officer detailed. The former is owned by the terminal operator and maybe used by any importer (public) while the later is owned by a private entity who is the exclusive user of the CBW (private). The duties and taxes payable on the goods entered in a CBW are only paid upon withdrawal from the CBW and only for the amounts removed.

45. MCGA is now pilot testing a software for the monitoring the entry and withdrawal of goods at a CBW. At present, a logbooks is used for monitoring and control.

2. Issues

46. While very much needed by an economy that seeks to develop its logistics and import for re-export industry. Suspense regimes, can put at serious risk the government's revenue program. It has been estimated that 30% of imports thru Ulaan Baatar customhouse are first

stored at a CBW and therefore duties and taxes payables are deferred. No information is available on illegal withdrawals but this can be a serious threat particularly from private CBWs. At least the risk is lower in public CBWs where the operator is different from the owner of the goods and there are more customs officers present.

III. Enforcement Methods

A. Risk Management System

1. Current Situation

47. MCGA introduced Risk Management Techniques in its operations starting early in 2005. Of the sixty-four (64) GAMAS application programs, eleven (11) were categorized under the Risk Management System. A perusal of these programs show most are for the purpose of creating and maintaining various electronic databases, e.g. financial debts of entities with customs, bank or tax administration, admin and criminal offenses, comparative prices, post clearance offenses detected temporary admission offenses and others.

48. One program, the Customs Clearance Risk Program, reportedly allows a customs officer who is skilled at detecting declarations most likely attendant with irregularity to share his knowledge to other officers by inputting in his detection methods into the system.

49. In general, however, customs officers along the cargo clearance process are left very much on their own what to do with the various databases and what to make out when there are "hits" with the customs declaration.

50. The risk management process starts with authenticity and correctness check of paper manifest submitted by the forwarding company against the electronic manifest composed by IFFC. There were reports in the past of many substitutions in the paper manifest while these are in transit from the border stations to the destination customs house making it easier to misdeclare. The Manifest Risk Program Module is used by senior customs officers at an integrated clearance offices to access the electronic manifest created IFFC at the borders, uploaded to the headquarters server and made available to the customshouses.

51. With the senior inspector's matching of the electronic and paper manifest as the first step in the declaration processing system, the incidence of paper manifest substitution has reportedly dropped.

52. The Risk Management and Operational Control Division has only a modest complement of 34 officers of which only nine (9) are at headquarters maintaining the databases. Twenty-five (25) are detailed at the various customshouses with mandate to take over the clearance process once the regularly assigned customs inspectors detects violations in the shipment and to decide on the disposition of the shipment, i.e., seize or release.

2. Issues

53. On the whole, MCGA is still in search for analytical methods and still has to develop automated processes for applying the results of the analysis in expediting cargo clearance and trapping high-risk shipments.

54. The electronic databases are not utilized in the international best practice way as risk profiles or selectivity screens for identifying in an automated way shipments that will be facilitated as against those that will be closely scrutinized.

B. Inspections

1. Current Situation

55. All imports and exports are physically examined as part of the customs clearance process. At the Ulaan Bataar customshouse where majority of imports undergo customs clearance, inspections are undertaken at the container yards. Should there be violations detected by the Customs Inspection Officers, the Customs enforcement Division of the Ulaan Baatar Customshouse is informed and which send Double Control Customs Officers to resolve the matter.

56. It is generally recognized that inspectors from the SSIA have the legal mandate to conduct physical examination of particular commodities. At the border posts where SSIA has established its presence, the agency inspection comes ahead of customs for imports and after Customs for export. At the inland customshouses however, SSIA has only recently moved to enforce its mandate. There is still no clear agreement on how SSIA inspections will be undertaken and how their inspectors will relate to the customs inspectors.

2. Issues

57. SSIA Management recognizes the impossibility of inspecting all shipments and the need to be selective by deploying risk management techniques. They also expressed the imperative of closely coordinating their inspections activities with those of Customs. Notwithstanding the recent meetings with Customs, they decry what they perceive a lack of support by Customs in their performance of their mandate.

58. At Ulaan Bataar Customshouse and at Headquarters, most Customs officers remain unclear on the working relationship with SSIA as well as with the Mongolia Agency for Standardization and Metrology (MASM), another agency with inspection mandate over the cross border movement of certain commodities. Appendix 8 and Appendix 9 briefly explain the legal mandates of these two government agencies.

C. Post Clearance Audits

1. Current Situation

59. MCGA started doing post clearance audits in 1997. The number of audits progressively grew each year reaching 115 in 2004 and providing 167.7 M Tugrik additional collections.

60. In September 2000, a new Post Clearance Audit Division was created at MCGA Headquarters (Appendix 10 for Key Functions of MCGA Division). The division prepares and submits proposals for an annual plan which includes the names of companies, the timing and justification for the audits for approval of the Director General. The main criteria for selection is the likelihood of having committed violations based on information received and analysis of GAMAS database. A company is audited only once every 2 to 3 years. On the basis of the approved annual plan, the division prepares the terms of reference, the audit team composition and the letter notification to the entity to be audited.

61. Results of the audits are discussed at the MCGA Council meetings attended by the two Deputy Director Generals, all heads of divisions and the Director of Ulaan Bataar Customshouse.

2. Issues

62. The performance of the post clearance audit needs improvement. The 2004 average collection per economic entity of 1.5 M Tugrik (about \$1,250) is hardly the yield to be expected from post audits. The average yield in 2003 was even lower. It would seem, however, that there has been some improvement in November 2005.

63. In general, there are two reasons why the productivity of an audit may be low. One is that the criteria and process of selection may not be generating good subjects for audit. Effective use of business data analysis tools to compare companies and transactions may improve the selection process.

64. The other reason why yields may be low is because of the audit process itself. Coordinating Customs audits with the Tax Department VAT audits has the strong potential to increase the yield of audits.

D. Detector Dog Unit

1. Current Situation

65. The Detector Dog Unit of MCGA was established in March 1993. Dogs were trained mainly to detect smuggling of goods concealed in vehicles, luggage, cargo, mail packages, airplanes, railway containers, trains and other means of transport. The main types of goods of detection for which dogs were trained are marmot skin, cashmere and spirit.

66. The Detector Dog Unit is accountable to the Deputy Director General responsible for Customs enforcement. There are currently 16 staff, including the Head of Unit, one trainer, one veterinary, 12 dog handlers and one general serviceman. The detector dogs are used in Customs houses and international airport Customs, mainly for the inspection of passenger luggage, international mails and postal parcels and air cargoes.

67. There are altogether sixteen (16) dogs in the Detector Dog Unit. The distribution of these dogs is given in Appendix 11.

68. Mongolia has implemented a comprehensive action plan to effectively interdict drugs at the national border and prevent drug abuse and related offences within the country. The Mongolian drug law enforcement agencies are working closely to introduce a nationwide prevention program. Mongolia is a signatory to three UN Conventions on Narcotic Drugs.

2. Issues

69. Currently, the Detector Dog Unit conducts a major one-month training for the dogs and dog handlers once in every two years. Due to financial constraints, only one training session is conducted for all the dogs at the same time. During this period, all the dogs will be recalled from the customs houses and border posts to attend the training. This is undesirable as it opens a window of opportunity for smugglers to smuggle goods more easily during this period when no dogs are deployed.

E. Customs Laboratory

1. Current Situation

70. The Mongolian Customs Central Laboratory (CCL) was established in 1996 as a central unit responsible for providing product analysis services and determination of classification of goods in accordance with the harmonized system of nomenclature and identification of narcotic drugs and psychotropic substances. Its services are used to help Customs determine the customs duties of imported goods and expose smuggling. CCL operations are generally focused on “requested analysis” and “technical guidance”.

71. In 2003, CCL was re-equipped with modern hi-tech equipment worth USD 750,000 with the assistance of ADB under the Public Governance Reform Program. This project included training courses for staff on maintenance of equipment and laboratory analysis.

72. In 2003, CCL received the accredited laboratory certificate of the National Centre for Standardization and Measurement for the following analysis services: (i) analysis of petroleum and chemical products and minerals; (ii) analysis of narcotics and psychotropic substances, and (iii) analysis of foodstuffs, tobacco products and spirits.

73. With its knowledge and technology, the CCL provides law enforcement organizations and economic entities with requested analysis services. The CCL conducted analysis of 800 samples in 2003 and approximately 1,000 samples in 2004. The growth rate is about 2 to 4 times compared to previous years. Two hundred to 250 million Tugriks were collected from such analysis which led to the correct determination of classification of goods and hence the correct tariffs.

74. MCGA had some mobile equipment for analysis of drugs and detection of metals at the border posts. These are now obsolete and have been out of use for a few years.

2. Issues

75. Among the important capabilities the laboratory lacks are the following:

- Equipment to perform a complete analysis of petroleum products such as determining the quality, colour, and mixture/purity of the product as well as mining products such as minerals, refined materials, fluorite, and metals. Petroleum product is one of the strategically important items for Mongolia and they are levied excise tax. Use of such equipment would help to determine the correct classification of the goods and lead to increase in revenue collection. It is proposed that the laboratory should be equipped with the facilities to meet the increased demand for analysis of mining products, petroleum and other products. The proposed list of equipment to be added is given in Appendix 12.
- Special controlled environment needed to protect the expensive laboratory equipment and tools from fluctuations in air turbulence and temperature and other vibrations.
- Professional laboratory analysis books, periodicals and journal for the lab specialists to keep up with technology and new knowledge. MCGA has one laboratory and this is located in Ulaan Bataar. Samples from the various customshouses in the provinces and border posts have to be transported here to

be analyzed. Transportation time may range from five to seven days. The long transportation time means longer clearance time for the cargo.

IV. Information and Communication Technology System

A. Current Situation

76. The most visible of MCGA's accomplishments in modernization is the application of information and communication technology in the customs operations. GAMAS is the name of MCGA's Information and Communication Technology (ICT) System. It replaced the Automated System for Customs Data (ASYCUDA), which was the customs computer system in operation from 1995 to 2002.

77. GAMAS application programs support the formalities and procedures as well some of the enforcement operations discussed in the preceding sections. The list of 64 GAMAS programs shown in Appendix 13 provides IT support for the below activities:

- Integrated Customs Clearance: composition, submission, manifesting, review and registration of customs declarations; duties and taxes computation; and payment.
- Manifest Control: Creation, registration and submission of manifest (regular imports, transits and transshipments); completeness check of shipments received; and manifest acquittal
- Customs Statistics: generation of statistical reports from declaration data and EDI transmission of transactions to the General Department of National Taxation.

78. GAMAS has also Decision Support Capabilities related to risk management, assessment, post clearance audits, inspector assignment and supervisor's control on the clearance process. Among the databases being maintained and made available to customs officers to support their decision making in customs clearance are (1) economic entities tax and financial debts with customs, bank and tax department; (2) organizations with administrative and criminal offenses; and (3) comparative prices of goods.

79. Assortment of applications related to administration are also available such as web portal, email, intranet, video conferencing, numbered forms, fees and human resource.

80. To the 64 programs may now be added the warehousing programs now under pilot test at some cargo terminals for the control of shipments entered in CBWs.

81. GAMAS is deployed in all customshouses, branches, border stations and cargo terminals. The major customshouses of Ulaan Baatar, Selenge and Zamyn-Udd are linked to the MCGA headquarters via fiber optic cable. Connectivity to other stations include microwave, VSAT and dial-up modem.

82. GAMAS runs on an on-line mode, covers 72% of total customs clearances and 92% of customs revenue collection. Today, there are 363 PCs and 53 hubs in operation in the GAMAS network.

B. Issues

83. **Effective Use of GAMAS.** – The perception especially among brokers is that the IT System is slow. However, there has been no determination as to which component of the system is responsible for this (can be any or a combination of the following: application system, servers and workstations, network and the manual processes). It is evident is that the manual accompaniments of the system must be streamlined even as parts of which needs to be removed to bring about the desired improvements in speed, facilitation and cost of doing business. The repetitive trips of the broker to the long rooms, the tedious composition of declarations, the table-to-table and office-to-office movement of paper documents, these are the ones that mainly slows the system down at the major customshouses. In fact there are de facto two systems running — GAMAS applications and the PAPER processing. Sadly, partly for the reasons discussed in the sections on legislation and declaration processing, the manual and paper subsystem still dominates the system. GAMAS application programs are operator triggered rather than auto-executing. The arithmetical computation of duties and taxes, selectivity, manifest actual the accessing and use of decision support databases and other control routines are manually triggered.

84. **GAMAS Operates on a Decentralized Environment.** – Instead of running on a centralized database and server, the application system and database runs on the local server of each customhouse and border post. Such a setup, mainly dictated by the vastness of the country and lack of reliable communication infrastructure (private providers are still not venturing to certain places served by Customs as there not enough businesses needing data communication services) poses administrative difficulties as follows:

- Synchronization of the integrated tariff databases (HS Codes, Risk Profiles or Databases, exchange rates and UNLOCODE etc.) of local systems with central server;
- Synchronization of application system whenever there are version changes or fixes;
- Uploading of daily transactions from the local production servers to the main database. (Appendix 14 is a List of Identified Deficiencies of the Current GAMAS)

85. **GAMAS does not have a Enterprise Infrastructure Integration Platform** needed for making Customs services available to the public electronically and via a SEW as well as quickly making the systems modification needed in a fast changing Customs environment. These are:

- Messaging and Message Translation Engines for handling incoming and outgoing messages to the UAIS that are of varying formats and using different protocols.
- Business Rule and Business Process Integration Workflow Engines to empower non-technical personnel to create, maintain, test and deploy business rules in reduced time and effort as well as manage relationships among processes, among other.
- System for securing an UAIS that is open to the general public.

86. Taking the current situation and needs, however, the above are powerful integration system that MCGA's UAIS can still do without for the time being.

RECOMMENDATIONS FOR TRADE FACILITATION AND CUSTOMS MODERNIZATION

I. Infrastructure Development

A. Border Stations

- Improve the Border facilities at the main crossing points of Zamyn-Udd and Selenge
 - Separate Border Crossing Points for Cargo Vehicles. – Separate border crossing points for cargo trucks and container vans must be built preferably between the existing crossing points for trains and crossing point for travelers by road transport and leading directly to specially designed cargo terminals.
 - Cargo Terminal. – The facility must be provided with appropriate cargo handling equipments and with the requisite manpower to support proper physical examination of goods. At Zamyn-Udd, the terminal maybe built approximately where the newly constructed Container Scanning Facility is but on the opposite side of the road.
 - Exclusive Passenger Terminal. – The present border post building must be devoted exclusively for passenger processing. The interiors must be redesigned to present a welcoming and friendly atmosphere for travelers.
- Advance Customs Clearance System. – A system that will encourage completion of cargo clearance (declaration, assessment and payment) before the goods arrive at the border post, leaving only physical examination to be performed when the goods arrive at the cargo terminal must be provided.
- Internet Lodgement Facilities. – Internet declaration and pre-arrival processing for goods obtained from Erlian, PRC can be facilitated by organizing internet lodgment facilities stations there with the cooperation of the chambers of commerce of the two border communities.
- Control of Accompanied Goods. – Policy must clearly define the limit to accompanied cargo that can be cleared at the passenger terminal. This limits must be set both in terms of volume and value. If any of these limits are exceeded, then a formal cargo declaration and clearance process must be required to be undertaken at the cargo terminal. Motor vehicles principally for carrying goods and actually being used to transport goods must be cleared at the cargo terminals. The amount that can go thru an informal customs clearance as accompanied baggage must be set, as for example, at \$500 per passenger.
- Program to Migrate to Formal Trade. – To address the significant informal trade crossing the border and cognizant to the need to provide livelihood to the citizens, an educational program on the how and the benefits of formal trade including payment of duties and taxes must be provided.
- CIP for Non-Commercial Accompanied Goods. – Renovation of the non-operational x-ray building as the CIP for passenger cars and other light motor

vehicles carrying accompanied goods within the policy limits. This CIP will protect both drivers and goods from the elements.

- Simplified Declaration Form for Accompanied Non-Commercial Goods. – The present form must be modified to among others: (1) indicate a warning that the form is only for non-commercial goods and the limits. That should the amount be in excess of the limits, the Formal Entry Form must be filled-up as well; (2) Should show how the action done by the Customs officer and the amount ordered to be paid.
- Train Arrival Customs Formalities. – The effectiveness of Customs officers meeting and boarding freight trains at the border crossing point must be reviewed. It may be better to install surveillance cameras with zoom, pan and tilt capabilities for quick checks on unmanifested cargo. Closer checks can be better undertaken when the trains arrive at the container terminal for the change of carrying train.
- Database of Cars and Light Vehicles Crossing the Frontiers. – To support enforcement efforts against commercial goods transported thru cars and light commercial vehicles, a database of vehicles crossings the border and a query system must be made available to enforcement officers. Surveillance cameras to record crossings must also be installed for correlation with the database.
- Construction and or rehabilitation of border post at the Yarant-Takashiken as well as the four (4) crossing points of minerals exports to PRC in support of Joint-Border Processing and to facilitate exports operation.

B. Customs and Economic Institute

- The current research program should be reviewed and further enhanced to ensure that research outputs will lead to real benefits to the Mongolian Customs and the country.
- The curriculum should be reviewed to ensure that it is in line with the industry's requirements.
- Draw up strategic and long-term plan for the institute, with the endorsement and support of MCGA management.
- A study should be conducted to explain the low rate of graduates working in customs, customs brokers, freight forwarders and related-industries.
- There should be a library for students and teachers to conduct research and keep abreast with the latest developments in customs and related topics in the region and the world.
- There is a need for a canteen, staff room and recreation and fitness centre for students and teachers to relax and keep fit.

C. Detector Dog unit

- The training contents, standards and methodology for the dog and dog handlers' training program must be brought up to international standard. Explosives and other related substance detection training must be provided.
- Dog handlers must be provided opportunities to interact with their counter-parts from other government agencies and from customs administrations in the region and worldwide.
- The housing and care service the detector dogs should be improved.
- Recruitment of dog handlers should be more stringent such that only dedicated officers who have a strong inclination to work with dogs be assigned as handlers.

D. Customs Laboratory

- The capabilities lacking from the central laboratory be provided as a priority.
- Regional laboratories be set up at the two busiest border posts of Zamyn-Uud (Mongolia-PRC) and Sukhbaatar (Mongolia-Russia). This would reduce goods clearance time and lead to cost savings for the trade community.
- With the completion of the vertical section of the millennium road in 2007/2008, the volume of transit cargo passing through the PRC has been on the increase over the last five years and is expected to increase further. (see Appendix 15). The discovery of coal, copper and gold in the regions of Umnugobi and Dornogobi Provinces will lead to a significant increase in the export of these products through the border posts in these two provinces. It is proposed that provision be made to set up similar laboratories in these border posts. The timeline and priority will be determined by the volume and type of cargo handled there.
- Set up mini mobile labs at western border post of Tsagaannuur in Bayan Ulgii Province and at the Dornod, Umnogobi and Dornogobi Provinces to identify unknown chemical substances correctly determine the classification of goods, analyze narcotics and psychotropic substances and explosives, and octane of petroleum products to complement the functioning of the central and regional laboratories.

II. Business Process Re-engineering, Integrated Interventions and Legislation

A. Imports

1. Quick Fixes to Speed-Up Process

87. The priority in the short term is to incorporate in the declaration system simple modifications both in the supporting programs and in the manual procedure to rectify the observation that the system is slow. Among the proposed modifications are:

- Provision for off-line composition of a customs declaration — MCGA should consider providing the public with a software that would allow a declarant to

compose a declaration at his office and then submit to the broker's section of the ICO in a diskette or as an attachment to an email. This procedure will allow him to know in advance how much duties and taxes are payable and shorten his stay at the broker's terminal. MCGA can choose a private entity to distribute this off-line declaration program for a fee.

- Automated Registration. – Registration Number (RN) must be made system generated and automatically assigned. Consider assigning this number after composition of the declaration by the broker and decision of the declarant to officially lodge it. Printing follows, which should already show the registration number as reference for the payment with the bank. Registration represents official submission of a declaration with Customs making the declarant legally liable for any violation at that point. The paper submissions may be lost (deliberately even) but the electronic copy serves as basis for taking official action on the goods declared.
- Release Order Interface or Gateway. – Cargo terminal operators must be provided a system for verifying whether or not a shipment has already been cleared by Customs and for printing delivery permits for those already cleared. In the alternative, all clearances may be downloaded to a gateway computer from where the cargo terminal operators can pick up clearance instructions. This system will both speed up and secure the cargo release process.

2. Re-engineering for End-to-End Automation

- Modify Declaration Form. – The duties and taxes payable based on the data furnished by the declarant must be separately shown from the recalculation following the reassessment made by a Customs inspector. Upon registration of a declaration, the computation of duties and taxes must already be shown. This will support end-to-end full automation of greenlane entries. This is also in line with true client self-assessment.
- Modify the Broker's Module and the Integrated Tariff. – A database of required government certifications, licenses and other forms of authorization by HS code must be made part of the integrated tariff database of the Integrated Customs Clearance System (ICCS). The broker's module must automatically display the authorizations required when regulated/restricted HS codes are included in the declaration.
- Rearranged Declaration Processing Flow. – The system must be further streamlined to harmonized with international best practices, achieve true client self-assessment and prepare MCGA for a fully automated, internet-based and single window service.
- Reposition Payment. – Consider payment of the duties and taxes as the next step after composition of the declaration and the registration thereof. This has several advantages two of which are (1) encourage proper declaration and discourage customs fraud as the amount already paid may become liable for seizure together with the goods; (2) align the declaration process to the international norm and prepare the MCGA to the internet-based fully automated system of modern customs administrations.

- Reposition and Automatically Trigger Modify the Selectivity Program. – The selectivity program must run automatically on registration of the declaration. A Green Channel selection means the amount initially calculated based on the declarant's submission can now be paid to the bank. Red channel selection on the otherhand will have to wait for the official action of the clearance officer before the official computation will be made. In the alternative, Selectivity may be triggered upon the receipt of the payment of duties and taxes at the bank. This alternative carries the advantage of the declarant not knowing in advance of payment the processing channel and cannot retrieve the declaration for purposes of making changes should a red channel selection come out.
- Green channel processing should by-pass the long room and the shipment cleared for release upon system verification that duties and taxes payable have been paid (or secured to be paid).
- Interim Post Release Clearance for Green Channel Declarations. – The printed entry declaration and supporting document may be immediately directed to the Post Release Clearance Division for needed action. Pending issuance of a legislation dispensing with mandatory examination, post release can take the form of cursory examination at a designated examination area in the course of the release of the goods from the customs zone or at the premises of the owner.
- Internet declaration must be complemented with internet payment to support full end to end automated and paperless processing except when the selection is Red Channel. For green channel, the pending legislation on the court admissibility of electronic documents, the printed declaration and supporting documents may be submitted the week following.
- Advance Declaration and Processing. – The Customs law allows submission of Customs documents in advance. Availment of this provision must be promoted particularly at the border post to ease the flow of goods thereat and secure revenues. To encourage use of this procedure, a separate processing channel, the Advance Declaration Lane must be established with expedited processing to encourage its use. For one, internet declaration must be made available so that this process can be done even at the foreign country as for example in Erlan PRC where most of the goods crossing into Zamyn-Udd are procured, packed and loaded into the trucks. Cargo trucks with the printed declaration accompanying it must be directed immediately to this advance declaration lanes.

3. Inspections and Integrated Intervention

- The requirement to examine 100% of shipments must be abandoned in favor of more comprehensive but selective examinations based on risk assessment.
- Designated examination areas, adequately equipped and with the needed equipments and amenities, must be provided at every cargo terminal to support that level of examination consistent with the control objectives.
- Examination must be undertaken not in the middle of the cargo clearance process but at the end, ideally in the course of the physical release of the goods

and at the designated examination area to avoid double handling and to reduce the cost of clearance.

- MCGA, SSIA and MASM must organize a system for maintaining a common updated unified list of materials and commodities requiring additional supporting documents and/or mandatory inspections with their corresponding HS Codes. The list must be made as one of the reference files of the UAIS, which must be enhanced to alert the declarant and the customs clearance officers of said requirements.
- Said agencies must agree on a cluster of facilitative physical examination procedures and utilize such techniques as (1) statistical sampling; (2) accompanying shipment at the importer's premises where closer examination can be undertaken in the course of unloading; and (3) use of photography and video to record and review the results of examinations.
- SSIA should consider deputizing MCGA in conducting physical examinations while the goods are under customs control and whenever feasible limit their inspections at the point of sale, at the importers premises or at some place after customs release.
- MCGA for its part must provide timely information to SSIA on declarations filed covering such regulated/controlled goods. For this purpose, the UAIS may be enhanced to send a notification to SSIA whenever a declaration is received containing the specified HS Codes.
- Clearance Procedure for Product Subject to Standards. – Agreement must be forged on the respective roles of MASM, SSIA and MCGA on the enforcement of product standards and conformance control objectives as follows:
 - MASM to focus on setting standards and issuing conformity specifications. The present practice of requiring certifications per shipment must be stopped and replaced by periodic certifications with six months or longer validity periods. The agency may informally survey the market in cooperation with consumer watch groups for presence of products without valid certifications or violating the standards set and report the matter to SSIA and MCGA for proper action.
 - SSIA should investigate cases of such non-conforming product in the market for possible criminal action against the outlet/importer and recommend seizure of the goods to MCGA. On the basis of its investigations and intelligence operations, recommend to MCGA inclusion of suspect entities in the risk mgt databases of MCGA for joint examination of incoming/outgoing goods.
 - MASM must provide both MCGA and SSIA regularly an updated list of commodities by HS Code subject to standards and conformity certification both for import and exports.
 - MCGA must develop application system within the UAIS for:

- Checking HS declared and whether or not importer has valid /outstanding conformity certification for the goods and advising those without as early as the broker declaration level.
 - Maintaining the database of economic entities with valid outstanding conformity certification issued by MASM.
 - Forwarding by email or some appropriate mode of communication to MASM and SSIA all declarations received for post release review.
 - Maintaining a database of high probability violators of standards and measurements.
 - Incorporating this high probability violators database in the selectivity process of the cargo clearance system.
- Technical Assistance must be provided on how MCGA, SSIA and MASM can integrate their respective interventions with a view to aligning and harmonizing Mongolia's cross border flow systems and procedures with international standards and facilitating trade. It is extremely important that this is accomplished else the modernization programs in MCGA goes to naught. Uncoordinated interventions can wreak havoc to trade facilitation.
 - In general, the integration of intervention should be observed with other regulated or controlled goods/materials.

B. Exports

- Change the unit of export declaration from transport unit to export order.
- Give priority to exports in use of internet declaration facility.
- Export controls must essentially be based on intelligence work. Examinations at the exporter's premises will not be productive as exporters can easily present one set of goods for inspection but then export another. The experience is that even sealing of containers cannot prevent switchings. The alternative of conducting detailed inspections when the goods enter the customs zone is even more harmful to exports.
- Pending passage of legislation removing the mandatory Customs examination, organize an expedited system of cursory examination at the marshalling container yards for export loading.
- For large or continuing export orders, consideration for the use of periodic export declarations must be made (as for example monthly, quarterly or yearly) with the partial shipments just being charged to the periodic export declaration.
- Strengthen intelligence operations against the exportation of goods subject to customs duty as well as prohibited exports.
- Inspections of exports by SSIA or by MASM must not be transactional but thru accreditations and/or qualification visitations of the production facilities of the

exporters. Accordingly, inspections and quality certificates must have effectivity periods.

- MCGA must start development of a system that combines the inputs of intelligence gathering and assessments with data mining to identify high-risk shipments for revenue, trade restriction and global security purposes. It may ask Technical Assistance from the WCO and other Donor Organizations in this effort.
- MCGA must start work with the exporting sector in implementing the Authorized Export Operator (AEO) and other standards under the Framework and obtain mutual recognition of AEOs with Customs Administrations particularly with its major trading partners.

C. Transits and Transshipments

- Handling of Transshipments. – The need for attaching container seals and escorting the containers may be dispensed with by providing the cargo terminal railway tracks connectivity. This will allow transshipment containers to be transshipped from the trucks directly to the trains. The requirement to have bulk goods containerized at Erlan to be allowed transshipment at Zamyn-Udd may also be dispensed with by bringing these to the cargo terminal for direct loading to train boxes.
- It would be advisable for MCGA to explore new ways of securing high-risk international transits even as it awaits developments in e-TIR Procedures, Safe-TIR and other ICT systems for managing transits under TIR.
- A technology now in wide use in business and government is satellite tracking systems. This would be ideal for domestic non-TIR transits from a frontier to an in-land customhouse where the road system is already ready for such. Customs may issue a directive that only vehicles with satellite tracking systems can carry transits.
- MCGA must also develop now an ICT system for receiving and processing application for transits, confirming with the consignee the application and giving advance notification to customs stations enroute of the transit permit issued utilizing both push and pull technology, automatically acquitting the transit upon receipt thereof at the destination and generating alarms when any deviation from pre-set controls are detected.
- Use of TIR must be promoted by reducing the cost of guarantee thru some creative schemes.
- Work must be started on a Risk Management System for transits.

D. Legislative Amendments

- Seek passage of legislation dispensing with the Customs examination requirement for 100% of goods crossing the frontiers and empowering Customs to adopt Risk Management and Targeting Techniques in selecting goods for examination.

- Pending passage of the above legislation, explore the feasibility of issuing regulations authorizing under certain conditions customs examination (documentary as well as physical) on a post release (after customs clearance) basis. This will allow electronic end-to-end and fully automated declaration processing especially for internet lodged declarations.
- Extend post release procedure initially to exporters and importers who can meet certain qualifications including adoption of records keeping system prescribed by Customs.
- To legally bind the declarants to their electronic submissions in the meantime the legislation is being sought on the admissibility of electronic submissions as evidence in courts of law, to require declarants to sign contracts with MCGA to this effect.
- In the long run, there is a need to introduced new laws to govern the use of ICT in areas such as electronic declaration, electronic fund transfer, digital signature, admissibility of electronic data in courts of law as evidence, liability of network service provider, elimination of paper document, proof of sending and receiving of data electronically, Intellectual Property Right, and others.
- To protect Customs revenue, consider passage of legislation empowering Customs to require financial guaranty such as bonds for goods entered at the customs bonded warehouse and customs manufacturing warehouses particularly those situated outside the licensed cargo terminals with a Customs office. Conditionally free imports and import for re-export goods may also be subjected to guarantee acceptable to customs. Needed are safety measures so that these customs regimes are properly utilized and will not become temptations to commit customs fraud.

III. Information and Communication Technology Systems Upgrading

A. Short Term Reforms

- Priority for ICT development are the needed enhancements in the IT application system supportive of the modifications on the declaration processing system proposed for the short and medium terms.
- Strengthen data warehousing, mining and analysis in support of more effective engagement of Risk management, targeting, selectivity and post clearance audits. The capability development and mindset needed to make use of the technology is a critical pre-requisite for the adoption of international best practices that would truly facilitate trade, enhance trade compliance and improve revenue collections.
- MCGA and UBR should collaborate in moving the manifest creation and built-up from the MCGA system to the UBR system. In general, MCGA must be a recipient and user of manifest data which must be created by the transportation companies themselves utilizing their own logistics IT systems and just moved to the MCGA system. This will remove the need for encoding on the Customs system, a costly and error prone operation. Notwithstanding, the MCGA system

must be able to support direct encoding by consolidators particularly of House Bills.

- Align the logic of customs declaration and other processes to the philosophy behind the international best practices as early as possible within the existing GAMAS instead of waiting for the implementation of a new GAMAS.

B. UAIS Upgrading and SEW

- Upgrade the UAIS or GAMAS++ to have the features shown as Appendix 16. The upgraded UAIS should be an Integrated Customs Management System linking all customs houses and border posts to a central server and database located in the headquarters.
- Organize the ICT development following the ICT Master Plan shown as Appendix 17.
- Start now development of a Single Electronic Window (SEW) initially for the Customs community or entities whose interventions are needed in the cargo control and clearance process.
- Since the brokers/declarants and the banks are currently housed at the Integrated Clearance Offices or ICOs and their respective electronic messages (goods declaration and bank payment confirmation) are directly keyed to the Customs system as with the cargo manifest of transportation companies, priority for the construction of a SEW should be for the import and export licenses and authorizations issued by government regulatory agencies. The other electronic document that could use the SEW immediately as conduit is the confirmation of cargo receipt by cargo handlers.
- Technical Assistance must be extended for a joint MCGA-SSIA automation of the licensing or authorizations operations. The application system should be accessible thru the internet and the output should be automatically forwarded to Customs.
- The output electronic documents (initially import permits or authorizations and cargo receipt confirmation) may be transmitted directly to a Customs portal or gateway for validation before being forwarded to GAMAS. In the alternative Customs may authorize the operation of limited number of commercial value added service providers to be the front-end of the SEW to the public.
- Using the present GAMAS, the above electronic documents may just be “viewed” either to verify or validate the supporting documents attached to the paper declaration as it is currently done for the electronic manifest and bank payment.
- When GAMAS has been upgraded to support integrated processing, these electronic documents can be processed seamlessly as a component of the declaration system.

- Migration of the electronic documents of ICO “tenants” should be next, initially by converting their Direct Input-LAN workstations to an internet lodgement via the SEW preparatory to their moving out of the ICOs.
- Once this Customs-centric SEW has been made operational and the customs community already operating “anytime anywhere”, MCGA can tackle the much bigger Trade and Logistics SEW. But for this, a broader study must be undertaken to formulate a nationwide trade facilitation framework. This SEW will not just catalyze streamlining of trade documentation and eliminate preparation of multiple forms, it will create a centralized repository of trade information to facilitate compilation of data to support decision making.
- It is also proposed that a broader follow-up study be conducted to formulate a nationwide trade facilitation framework to bring together all stakeholders under SEW. The SEW aims to streamline trade documentation, eliminate preparation of multiple forms and create a centralized repository of trade information to facilitate compilation of timely and accurate statistics to support decision-making and ease of retrieval of national trade information.
- The study will involve a detailed examination of the country’s trade environment, including customs administration and all stakeholders in both the private and public sectors. In particular, the study will focus on the interfaces among the stakeholders to facilitate an efficient trade environment through the use of Information and Communications Technology.
- The study shall propose facilitation strategies and information technology systems necessary to bring Mongolia to a nationwide integrated trade environment in line with international standards. The study shall also evaluate options with regards to how the operations of the SEW is to be funded and managed and propose the most appropriate option or business model.
- A multidisciplinary consultancy team comprising two international consultants and two domestic consultants is proposed to conduct the study.
- The Terms of Reference for the proposed study is shown as Appendix 18 in the ADB Study.

IV. Human Resource Development

A. Human Resource Database

- It is recommended that MCGA automate its human resource management process. A human resource database should be set up to house the particulars of all employees to include personal information, family information, staff posting/movement record, training record, disciplinary record, vacation leave and medical leave. Such information should be kept confidential and only made available to relevant parties on a need-to basis, for example immediate supervisors should have access to all his staffs’ training and leave record.

B. Employee Skill Development

- With the implementation of the modernization program, new skill sets will be required of the staff. MCGA should perform a corporate Learning Need Analysis to identify new skill sets that are required and the category and number of staff to be trained in these areas. At the individual employee level, every supervisor should, on an annual basis, conduct the learning need analysis and draw up a training roadmap for his subordinates.
- As the level of use of ICT increases, there is a need to provide every employee with training and education on the use of computers and basic computer software. IT personnel should receive specialized training in new technology and customs automation to keep them abreast with new knowledge and technology and equip them to apply these technologies to MCGA.
- Every unit or border post should have at least one staff trained in basic PC and printer troubleshooting and repair. This will ease the burden of the IT division to station its staff at the various locations. MCGA should move towards end-user computing and user department self-sufficiency in managing its hardware and basic office automation software, such as MS Office, email, etc
- It is proposed that IT staff should also attend customs operations training so that they can better appreciate operational problems reported by users, leading to faster problem resolution. Cross training will help IT personnel to be more effective when gathering requirements from user to enhance the system or develop new functionalities.
- Although, MCGA has taken several measures to stamp out malpractices and improve service level, including revising its Code of Conduct and Disciplinary Rules in 2003, developing service standards for Customs Officers in 2005 and establishing a Disciplinary Committee in 2003, there is still feedback from the public with regards to presence of inconsistent service and malpractices in the customs administration. It is proposed that MCGA intensify its training and education of employees to stay away from such practices and mete out prohibiting penalties against such employees.
- A master plan for human resource development should be drawn up, detailing the types of new skill sets required, the category and number of staff to be trained, overall training schedule, appropriate trainers and an estimate of resources and funds required. The master plan should also include the introduction of e-learning for the Mongolian Customs.

V. Private Sector Partnership

- A customs technique that is getting more and more practitioners in the world community of customs administration is Shared Compliance. Basically this means empowering business and trade in particular and the citizenry in general to take more and more of the responsibility for the observance and enforcement of Customs laws, rules and regulations. Among the specific measures being undertaken to improve compliance is by involving industry groups in the proper valuation of goods. For example, particulars (not subject of confidentially laws) of

problematic imports may be automatically emailed upon receipt of the declarations in Customs to volunteering industry associations so that they can help in the determination of the correct values. Another is the use of CEO Report Cards. In one Tax Administration, CEOs of large taxpayers were periodically furnished a report card showing how their tax payments compare with prior periods and statistically with other companies in the same industry. Companies were grouped into quartiles in terms of, among others, their VAT and Income ratios (tax payments compared to sales or revenues). The report card which is directly emailed to the CEO shows the tax performance of the company and provides him a handle of this important aspect of company operations that is normally left to accountants and external auditors. This instrument may be easily adopted to Customs application to show level of imports and duties and taxes paid compared to prior periods and rates of assessment (payments in percent of imports by HS Code and all imports) with statistical comparisons with the national database.

- A less direct participation of the private sector is in informed compliance. This means that customs compliance will improve if the public is well informed and kept up to date with customs legislation systems and procedures. Private sector can be tapped by Customs to undertake this activity in collaboration with the Customs and Economic Institute.
- Use of informers and giving incentives or rewards for information leading to recovery of revenues is already in the law of many countries and practiced by both customs and tax administrations. But some are more aggressive than others in promoting this technique thru mass media. Partly to address the public's low rating for the organization but more importantly to develop a strong message that offenders will be caught and punished as well as to raise abhorrence for offenders, MCGA may decide to use the media in this campaign.
- One major area where MCGA has to work closely with the private sector particularly with trade is in the observance of the WCO Framework of Standards to Secure and Facilitate Global Trade (Framework).
- A major strategy under the framework is for Customs to involve the private sector in ensuring the safety and security of the international trade supply chain. An international system will be established for identifying Authorized Economic Operator (AEOs)⁵ or private businesses that offer a high degree of security guarantees against terroristic exploitation of the supply chains and for providing incentives to said entities.

VI. Regional Customs Cooperation

- Joint border processing with PRC at crossing points of mineral product exports (Gashuunukhait, Shiveekhuren, Khangai Mandal and Bichigt).

⁵ An AEO Operator is a party involved in the international movement of goods in whatever function that has been approved by or on behalf of a national Customs administration as complying with WCO or equivalent supply chain security standards. It includes inter alia manufacturers, importers, exporters, brokers, carriers, consolidators, intermediaries, ports, airports, terminal operators, integrated operators, warehouses and distributors.

- Trade and passenger facilitation at international crossing points at Zamy-Udd and Sukhbaatar.
- Exchange of intelligence information especially on high-risk goods exporters to the region.
- Data exchange on manifests, goods declaration and value database

INVESTMENT PLAN AND IMPLEMENTATION STRATEGY

I. Investment Objectives

- Strengthen MCGA capacity to facilitate trade, protect revenues as well as enforce Customs and related laws
- Contribute to MCGA's ICT leadership in Mongolia
- Enhance MCGA's public image as a business friendly- no red tape organization and a facilitator of trade and investment in Mongolia
- Promote MCGA's leadership in CAREC-CCC.

II. Components

A. Goods and Services Procurement

- Phase upgrade of the UAIS as contained in the ICT Master Plan (Appendix 17) including System for Data Warehousing, Mining and Business Intelligence.
- Development of the SSIA and MASM systems for import licensing and standards conformance and the integration of its outputs with the MCGA-UAIS.
- Acquisition of the Business Intelligence software (Data Warehousing, Data Mining and Analytics) and appropriate hardware in support of Risk Management and Post Clearance Audits.
- Construction of Cargo Terminals at Zamyn-Udd and Altanbulag.
- Redesign and upgrade existing border stations at Zamyn-Udd and Altanbulag as exclusive passenger terminals.
- Installation of surveillance equipments with internet transmission capability at border stations for the control of motor vehicles and trains crossing the borders.
- Construction and or rehabilitation of border post at the Yarant-Takashiken as well as the four (4) crossing points of minerals exports to PRC in support of Joint-Border Processing and to facilitate exports operation.
- Upgrade the Customs laboratory and set up regional and mobile laboratories at border post.
- Improve training facilities both at the Customs and Economic Institute and at the Detector Dog Unit.

B. Technical Assistance

88. MCGA is encourage to mobilize technical assistance from international organizations to carry out the following tasks and strengthen institutional and human capacity.

1. Passage and/or Issuance of Needed Legislations

- While there is now going thru the legislative mill a proposed law that would likely lend support to interventions by exceptions and more extensive application of e-commerce in Customs operation, there is a need for the drafting of implementing rules and regulations that would allow selective examinations based on risk, post clearance audits and re-engineered procedures particularly on border operations as well as prevent abuse on electronic declarations and suspense regimes.

2. Business Re-engineering

- Redesign of the various customs procedures to align these to international best practices as identified in the ADB Study. As an immediate priority, the cargo clearance system at Ulaan Bataar Customshouse and Buyant-Ukhaa International Airport needs immediate re-engineering. Appendix 18 is a project proposal on this priority system.

3. Methods and Techniques

- Development of doctrines, operational manuals and system for the use of advance IT techniques (data warehousing, mining and business intelligence) in risk management, setting of risk profiles and audits.

4. Implementation of the Framework on Standards for Securing and Facilitating Global Trade

- Accreditation of AEO's and mutual recognition of controls.

5. Crafting of National Strategy for Compliance with the Revised Kyoto Convention

- Gap analysis RKC vs. Mongolia Customs legislation and crafting of strategy for compliance.

6. Regional and Bilateral Cooperation Programs

- Design specific measures to strengthen regional intelligence gathering and sharing as well as to operate joint border facilitation measures and controls.
- Design of passenger and cargo flow in line with the proposal joint border processing.

C. Capacity Building and Change Management

1. Training

- Basic and Advance IT training to support the new skills requirement following the phased upgrade of the UAIS and the use of modern Customs techniques.

2. Change Management Program

- To develop attitudes favorable to the acceptance of and commitment to the vision of Modern Customs Administrations; use of international best practices in customs control and clearance; upgrading of the UAIS; implementation of other changes proposed in the ADB Study

D. Study Funds for Private Sector Research and Advocacy

89. For projects and research work leading to the establishment or operation of

- Single Electronic Windows; Customs centric as well as Trade and Logistics Centric
- Shared compliance program.
- Metrics: periodic time release study and trade efficiency assessment methodology;
- Framework of Standards to secure and facilitate global trade

III. Implementation

90. The total investment is estimated to be about USD 20 million.

91. The identified difficulties and constraints of the current customs regimes and the recommended corrective measures and enabling legislation are discussed in detail in Diagnostics and Recommendations sections of this Report. The TOR for the National SEW, ICT Master Plan and Implementation Phases are in the Appendices of this report. The competitive bidding for the delivery of the goods and services must contain a description of the solutions to these difficulties and constrains may include solutions different from those in the recommendations. Also, while most of the agencies and offices to be affected by the proposed measures have been consulted beforehand, it would make the implementation much easier if these stakeholders are again consulted, this time with more specific proposals so that the project components can be fleshed out and responsibilities delineated. It is further recommended that a Trade Facilitation and Customs Modernization Management Committee headed by a Senior official reporting directly with the Prime Minister as Chairman must be constituted. Existing facilitation committees should be integrated to this proposed body. Membership must be drawn from government agencies with respective mandates aver the cross border flow of goods as well as representative from Chamber of Commerce and trade logistic sector.

ECONOMIC SITUATION OF MONGOLIA

A. Economic Profile

1. Mongolia, formerly a centrally planned economy, landlocked between the Russian Federation and PRC, began its transition to a market-based economy in 1991. It is sparsely populated with 2.5 million inhabitants, and GDP per capita was US\$450 in 2002. Infrastructure, including transportation and communications, is underdeveloped. Mongolia's main economic activities are mining, agriculture, and services. Clothing, especially cashmere products, and foodstuffs are also important. Copper, gold, and cashmere account for some three quarters of exports.⁶

2. GDP growth has stagnated at around 1% in 2000 and 2001 and began to recover in 2002 to 4% and to 5.6% in 2003. As a result, GDP per capita, after falling significantly in the early 1990s, exceeded 1993 levels by almost two thirds in 2002, although still well below pre-transition levels. Growth largely reflected a turnaround in agriculture and a continued buoyant services sector. Labor productivity remains low, however. Services grew substantially, accounting in 2003 for 61.0% of GDP (48.5% in 1999) and about half of employment. Export growth was helped by higher mineral prices. Inflation, reduced to 1.6% in 2002, increased to 4.7% in 2003, when unemployment also rose from 3.4% to 3.5%. The informal sector, including gold mining and transportation services, is estimated to account for as much as one third of GDP.

3. Foreign direct investment (FDI) increased continuously from US\$93.0 million in 1999 to US\$204.3 million in 2003, an average annual rise of 28%. FDI inflows as a percentage of GDP increased from 9.5% to 17.3%. FDI is found mainly in mining, including exploration and petroleum (33.4%), trade and foodstuffs (13.0%), light industry (8.3%), and processing of animal-originated raw materials (5.0%). FDI has come mainly from PRC (33.2%), followed by Canada (13.2%), Korea (8.1%), and Japan (6.0%). Foreign companies provide substantial employment (creating over 67,000 new jobs) and underpin Mongolia's export base. They account for almost all of its mining exports (100% of copper, molybdenum, and oil, and 73% of fluorspar) and substantial exports of wool.

4. The Government of Mongolia has embarked on a program to promote the use of Information Communications Technology. Spearheaded by the Prime Minister's office, the program will draw up a master plan to introduce e-government and e-commerce services. To encourage the ownership and use of computers in enterprises and at home, the price of PCs has been brought down to affordable level. The fee for Internet connection is as low as 1 Tugrik per minute for off-peak hour usage.

B. Trade Profile

5. Since acceding to the WTO in January 1997, Mongolia has substantially liberalized its trading regime and made principles of multilateral trading system the engine for development. Upon accession, Mongolia bound all its tariffs under GATT 1994. It also committed to eliminating within ten years of its accession, an export duty at the rate of not more than 30% ad valorem on the exports of raw cashmere. Liberalization has involved the reduction of tariff rates and elimination of a number of import licensing requirements. Mongolia has not signed any regional or bilateral free-trade agreements. Mongolia's trade policy objectives are to support its economic growth through active trade policy, increase exports by promoting the industrial,

⁶ WTO Secretariat Report 2005

agricultural and services sectors. The statistics shows that trade accounts for 25% to 30% of the country's GDP. It also shows that the country's economy heavily depends on foreign trade and hence the importance of trade facilitation.

6. The trade deficit is expected to fall to 13.9% in 2005 following continued export growth of 17.7% in 2005. The tariff is Mongolia's major trade policy instrument. Most of the goods imported into Mongolia are subject to an ad valorem customs import duty rate of 5% (compared with a uniform tariff of 15% in 1997). All tariffs are bound. Some agricultural products, such as flour, wheat and vegetables, are protected by a seasonal rate of 15%. Mongolia has not yet used any anti-dumping, countervailing or safeguard instruments.

7. Mongolia has a few non-tariff measures, such as import prohibitions and import licensing requirements. Export oriented entities are also exempt from VAT and excise tax. In 2004, Mongolia's export to PRC accounted for 46.8% of the country's total export, while export to Russia was 18%.

8. In 2004, 31.7% of the total imports were exempted from customs duties and taxes. This implies that there is a potential to increase customs revenue collection through reducing the number of tax-exempted goods.

VAT accounts for 56.9% of the total customs duties and taxes in 2004, while customs duties accounts for 20.7%, excise accounts for 19.8% and road tax accounts for 2.6%.

9. The direction of trade, especially of exports, has changed since 1999. While PRC remains by far Mongolia's main export market (46.2% of total exports in 2003, up from 45.8% in 1999), the United States has overtaken the Russian Federation as its second largest destination, increasing its share from 17.2% in 1999 to 23.2% in 2003. This is due largely to growth in clothing exports, which enter quota-free but may be adversely affected by the removal of U.S. quotas in 2005. Mongolia's export dependence on PRC and the Russian Federation declined over the period, from 56.4% of total exports in 1999 to 52.9% in 2003. The EU's share of exports also fell, from 12.0% in 1999 to 7.3% in 2003. The Russian Federation is the main source of imports (33.1% in 2003) followed by East Asian economies (43.8%), especially PRC (21.5%).

C. Sector Performance

10. The total turnover of foreign trade, in US dollar value, has increased by 1.9 times in 2004 compared to 1999. Out of this, import has increased 2.3 times.

11. Customs total revenue collection has increased by 3.4 times over the same period. In particular, in 2004 the customs revenue collection increased by 74.7% compared to the previous year. The significant increase in revenue collection can be attributed to the enforcement measures taken by the MCGA and introduction of GAMAS in 2003.

12. In 2004, customs revenue accounted for about 36.5% of the actual total state revenue. This is a strong indication that customs is an important contributor to the economic development of Mongolia.

13. The value-added per customs officer increased by 1.6 times in 2004 compared to 1999. The revenue generated per Tugrik spent in 1999 was 65 Tugriks and this increased to 97.7 Tugriks in 2004.

REFORMS IN GOVERNANCE

1. In 2001, the Parliament of Mongolia adopted a mega project, “Millennium road”, to build horizontal roads from the west of the country to the east and five vertical roads. The development of these roads will expand not only Mongolia’s but also regional foreign trade and cooperation by linking to the unified network of Euro-Asia infrastructure, thereby gaining access to seaports as well as the trans-Asia highway. In 2003, about 350 km of the Millennium road were constructed.
2. In 2001, the Government approved the “Regulation and the List of Licensed and Prohibited Products for Import and Export.” The regulation allows the formalization of licensing. The number of licensed products has been aligned with international standards and hence 4,000 chemicals were reduced to 300. In 2002, the groups of licensed products were reduced from 19 to 10, including harmful chemicals, historical and cultural valuables, etc. 218. In 2002, Wholesale Network Centers were established in several provinces. The Laws on Free Trade Zones on the legal status of Altanbulag and Zamyn-Uud Free Trade Zones are in force. The Master Plan and General Development Plan for Zamyn-Uud is under preparation.
3. In 2004, the Parliament of Mongolia adopted “The Concept on Information and Communications Technology Development of Mongolia up to 2012”. The National Committee for ICT, headed by the Prime Minister was established. This has now been established as a full fledged government agency, known as the Information Communications Technology Agency, facilitating the development and promotion of ICT in Mongolia.
4. The National Program on E-Mongolia was adopted by the Government of Mongolia in 2004. The second stage of the program (2005 to 2009) plans to create a national electronic information system, including customs, tax, civil registration information database, and registration of licenses, entities and organizations.
5. The Government of Mongolia has developed several draft laws on ICT development, namely General Law on Information Technology, Law on Electronic Transaction, Law on E-Governance and Law on E-Signature.
6. The State Great Hural (Parliament) of Mongolia adopted the resolution N. 24 on the Action Plan of the Government of Mongolia for 2004-2008. Highlights of the action plan related to trade includes: (i) simplify and computerize public services to reduce and replace paper work; (ii) support economic growth through an active foreign trade policy; (iii) continue and expand the policy of establishing free economic and trade zones; (iv) support export industries and intellectual industries and increase export of mineral products; (v) enhance the competitiveness of the railway in international transport and construction of a new international airport; (vi) work on establishing bi-lateral and multi-lateral agreements to ease tariff and non-tariff barriers to foreign trade.

REFORMS IN MCGA

1. In the last five years, MCGA has taken robust measures to strengthen the performance of customs services. Major steps taken by the Mongolian Customs in its modernization program comprise (i) amendments to Customs law and Customs tariff law to align with international standards and trade requirements; (ii) construction of new border facilities in Altanbulag, Selenge Province in 2002 and in Tsagaannuur, Bayan Ulgii Province in August 2005; (iii) development and introduction of Customs Automated Data Processing System, GAMAS, in 2002; (iv) installation of laboratory equipment and apparatus at the Customs Central Laboratory in 2003 under ADB supported Public Governance Reform Program; (v) establishment of the Customs and Economic Institute (higher education institute) in 2004; (vi) establishment of Customs Information Center in 2004, under the “Open Customs” program to foster closer public-private partnership; (vii) introduction of Risk Management System in 2005; (viii) implementation of several self-financed projects such as, supply of electricity to remote border points to facilitate use of computers, improve living conditions of customs officers, and construction of customs resort facility and sports centre to improve fitness and health of staff.
2. Over the last 10 years, the Mongolian Customs has received assistance from donor organizations and other countries towards its modernization program.
3. In response to traders’ expectation of a high degree of efficiency, consistency and predictability in customs services, MCGA revised its Code of Conduct and Disciplinary Rules in 2003 and developed service standards for Customs Officers in 2005. This aims to stamp out corruption and malpractices and enhance performance of staff. A Disciplinary Committee headed by one of two Deputy Director Generals of MCGA was established in 2003.
4. The accession to WCO and WTO conventions (Customs Convention on International Transport of Goods and Cover of TIR Carnets in November 2001, Convention on Temporary Admission (Istanbul Convention) in Dec 2002 and ATA Carnet in 2002) is clear evidence of the Mongolian Customs effort in reform and modernization.
5. The organization structure of MCGA has been revised twice, first in 2002 and then in 2005 to reflect its role to meet the challenges of a modern customs administration. The revision in 2005 saw the establishment of the Risk Management and Operational Control Division. At the same time, the IT and Statistics Division was separated into two divisions to reflect the importance of and emphasis on ICT within the Mongolian Customs.

TABLE 1: EXTERNAL ASSISTANCE TO MCGA

SOURCE	AREAS OF ASSISTANCE	SCOPE	STATUS
European Union/ TACIS 1 st phase	<ul style="list-style-type: none"> • Train the trainers /training need analysis, program planning, delivery techniques, on-job-training and evaluation method • Specialized training • Study visits • Expert mission 	<p>Importance of motivation, planning, change management, and risk assessment and skills to apply these in practice</p> <p>GATT Valuation Code and Valuation Fraud, Risk assessment and Profiling, Auditing Money laundering Setting tariff Rates, Application of Customs Procedures and Evaluation of Projects Visit of Middle managers of Mongolian Customs to Euro customs and Ireland</p>	Completed in 2002.
2 nd phase	<ul style="list-style-type: none"> • Courses for middle management of Mongolian Customs. • Study tours for Mongolian Customs officers in <ul style="list-style-type: none"> o Customs clearance o Legislation o Post clearance audit o Customs control • Conducting training courses in Mongolia • Providing with teaching materials, books and technical literature etc. 	<p>Germany/Finland Finland Nederlands Austria</p>	
USAID	<ul style="list-style-type: none"> • Organization of training courses • Study tours for Mongolian Customs officials and Customs officers 	Risk management, classification of goods, customs enforcement etc USA	Completed in 2001
ADB	<ul style="list-style-type: none"> • ADB Public Governance Reform project 	<ul style="list-style-type: none"> • Procurement and Installation of Equipment • Training for Customs Lab analysts 	Completed in 2003
	<ul style="list-style-type: none"> • CAREC Program 	<ul style="list-style-type: none"> • Participation in meetings of Heads of Customs Administrations countries 	On-going

		<p>of Central Asia;</p> <ul style="list-style-type: none"> • Participation in training courses, workshops and forums on Customs different activities such as Customs modernization, risk management, post clearance audit etc 	
Russia	<ul style="list-style-type: none"> • Study at Customs Academy of Russian Customs Service • Exchange of information; 	<p>Customs management, post clearance audit, clearance etc</p> <p>Statistical data and customs offences etc.</p>	<p>On-going</p> <p>On-going</p>
PRC	<ul style="list-style-type: none"> • Study at Shanghai Customs College; • Implementation of technical assistance on Construction and installation of X- Ray machine for inspection of cargo containers; 	<p>Customs clearance, post clearance audit etc</p> <p>At Zamynd-Uud Customhouse on border with PRC</p>	<p>On-going</p> <p>Ongoing</p>
Turkey	<ul style="list-style-type: none"> • Training courses • Study tours 	<p>Customs management and customs control</p>	<p>On-going</p>
Kazakhstan	<ul style="list-style-type: none"> • Detector Dog Training 	<p>Training of dogs and dog handlers</p> <p>Purchase of dogs</p>	<p>Completed in 2003</p>
Uzbekistan	<ul style="list-style-type: none"> • Detector Dog Training 	<p>Training of dogs and dog handlers</p> <p>Purchase of dogs</p>	<p>Completed in 2003</p>

ELEVEN (11) MAJOR PROCEDURES

1. Below are the main customs regimes:
 1. Outright importation. – Foreign goods are allowed to enter the Customs territory upon the presentation of Customs documents.
 2. Outright exportation. – Mongolian goods are exported abroad from the Customs territory upon the presentation of Customs documents.
 3. Temporary Admission. – Foreign goods are allowed to enter the Customs territory provided that they are returned in time and in the same conditions. Customs may extend the deadline for return of the goods or means of transport up to six months. The goods shall not be used without prior Customs authorization or undergone any alteration except their normal depreciation within the specified period.
 4. Temporary Exportation. – Mongolian goods or means of transport leave the Customs territory upon the presentation of Customs documents and provision of the security by the appropriate agency to ensure the payment of Customs duties and other taxes provided that they return without alteration abroad. Customs Central Body may, only once, extend the deadline for return of the goods or means of transport up to six months.
 5. Inward Processing. – Foreign goods are introduced into the Customs territory for processing, repair or manufacturing provided that they return back in time. Customs Central Body may, only once, extend the deadline for return of the goods up to six months.
 6. Outward Processing. – Mongolian goods leaving the Customs territory for processing, repair or manufacturing abroad upon the presentation of Customs documents provided that they return in time. Deadline for return of the goods may be extended up to six months.
 7. Re-importation. – Mongolian goods are re-imported into the Customs territory upon the presentation of Customs documents and without payment of Customs duties and other taxes.
 8. Re-exportation. – Foreign goods are re-exported from the Customs territory upon the presentation of Customs documents and without payment of Customs duties and other taxes where they are proved to be produced abroad.
 9. Customs transit. – Goods or means of transport moving in the same conditions from one Customs office to another by the Customs route, within a specified time and without payment of Customs duties and other taxes.
 10. Transshipment. – Goods are transferred from one means of transport to another means of transport within the Customs inspection site and returned through the Customs frontier upon presentation of Customs documents and without payment of Customs duties and other taxes.

11. Customs Temporary Warehouse. – No goods or means of transport shall stay in the Customs temporary warehouses for a period of more than two months (one week for perishable and hazardous goods). The deadline may be extended for up to another one month (one week for perishable and hazardous goods).

MAP OF MONGOLIA AND MCGA BORDER POSTS



TABLE 2: CUSTOMS DECLARATION RECEIVED BY CUSTOMS STATION

Code	Name of customs offices	Quantity of cleared declaration			
		Export	Percent	Import	Percent
	UB customshouse	4,535	7.25	43,299	58.98
001	1st division	2,185	3.49	12,183	16.6
002	2nd division	85	0.14	6,704	9.13
004	textile and garment division	232	3.57	3,422	4.66
800	excise tax customs division	30	0.05	14,631	19.93
801	gazelin and petroleum customs clearance division	3	0.00	6,359	8.66
	Post customs office	487	0.78	107	0.15
910	Central post office	487	0.78	107	0.15
911	Buyant-Ukhaa				
180	Buyant-Ukhaa customshouse	1,274	2.04	6,273	8.54
	Selenge customshouse	142	0.23	3,070	4.18
200	Selenge customshouse	95	0.15	1,443	1.97
210	Altanbulag customs branch	47	0.08	1,627	2.22
	Zamiin-Uud customshouse	557	0.89	11,804	16.08
301	Zamiin-Uud (auto)	414	0.66	10,745	16.64
302	Zamiin-Uud (railway)	143	0.23	1,059	1.44
	Dornogobi customs office	6,054	9.68	335	0.36
350	Bor-Uundur	3,171	5.07	51	0.07
351	Khangimandal	265	0.42	14	0.02
360	Sainshand/auto/				
361	Sainshand/railway/	295	0.47	267	0.36
370	Airag	2,323	3.71	3	0.00
	Khubsugul customs office	5	0.01	88	0.12
411	Khankh	5	0.01	88	0.12
	Zavkhan customs office	5	0.01	304	0.41
421	Artssuuri	5	0.01	304	0.41
	Gobi-Altai customs office	178	0.28	241	0.33
431	Burgastai	178	0.28	241	0.33
	Uvs customs office	16	0.03	923	1.26
440	Uvs customs office	15	0.02	779	1.06
441	Borshoo	0	0.00	116	0.16
442	Tes	1	0.00	28	0.04
	Umnugobi customs office	35,367	56.52	98	0.13
450	Umnugobi customs office				

451	Gashuunsukhait	1,204	1.92	5	0.01
452	Shiveekhuren	34,163	54.6	93	0.13
	<i>Dornod customshouse</i>	1,611	2.57	724	0.99
500	Dornod customshouse	320	0.51	227	0.31
510	Ereenstav			42	0.06
520	Tamsag				
530	Ulikhanmaikhan	19	0.03	140	0.19
560	Khavirga	1,216	1.94	291	0.4
580	Byankhoshuu	56	0.09	24	0.03
	<i>Bichigt customs office</i>	1,687	2.7	404	0.55
570	Bichigt	1,687	2.7	404	0.55
	<i>Bulgan customshouse of Khovd</i>	184	0.29	611	0.83
610	Dayan	1	0.002	2	0.00
620	Baitag			30	0.04
630	Bulgan	183	0.29	0.00	0.00
631	Yarant			579	0.79
	<i>Bayan-Ulgii customshouse</i>	51	0.08	942	1.28
640	Tsagaannuur	2	0	844	1.15
660	Bayan-Ulgii customshouse	49	0.08	98	0.13
	<i>Darkhan-Uul customshouse office</i>	1,200	1.92	1,338	1.82
710	Zuun kharaa	1	0.002	13	0.02
750	Darkhan-Uul customshouse office	1,199	1.92	1,325	1.8
760	<i>Orkhon customs office</i>	9,142	14.61	2,828	3.85
999	<i>non customs resources</i>	76	0.12	23	0.03
	Total	62,571	100.00	73,412	100.00

STATE SPECIALIZED INSPECTION AGENCY (SSIA)

1. Prior to 2002, the cross border flow regulation and inspection of controlled or regulated materials and products were the separate responsibilities of the relevant government agencies.
2. For the purpose of insuring that the legislated control objectives on these are strictly observed, the responsibility for issuing implementing rules and regulations, standards, norms and other prescriptions was separated from the responsibility for conducting inspections. The former responsibility was retained by the relevant agencies while the latter, that of conducting inspections to ferret out violations and take action on violators, were centralized on the State Specialized Inspection Agency (SSIA).⁷
3. Initially, SSIA inspections were limited at the borders and focused on animal and plants, agricultural products, foodstuffs, medicines and drugs. Focus were on the protection of the citizenry, domestic livestock's, plants and fauna and of the natural environment. Inspections were undertaken in coordination with Customs.
4. SSIA now has 1500 inspectors, more than the entire Customs workforce. Three hundred (300) are at Ulaanbaatar while the rest are distributed across 21 aigmags and border posts several of which have laboratories.
5. Recently, discussions have been made with MCGA management for the purpose of extending the inspections at the Ulaanbaatar cargo terminals. Agreement has also be reached with the Mongolia Agency for Standardization and Metrology (MASM) to enable SSIA to enforce quality and measurement standards in its inspections as well.
6. SSIA's enforcement measures include issuing import permits for the regulated/controlled materials and products. Inspections when needed maybe performed after release by Customs at the importer's premises, at the sales outlets or at the location of use.
7. SSIA boast of having improved the coverage of inspections. For example, whereas only 5% of agricultural products were inspected in 1998, the percentage has reportedly increased to 40% in 2004.
8. SSIA maintains laboratories for the following specialized inspections:
 - Health and Hygiene
 - Drugs and Bio-Preparations
 - Planting seed and Quarantine
 - Radiation
9. SSIA is headed by a Member of the Government Cabinet, Minister of Mongolia and is under the Office of the Prime Minister as provided by the 162nd Resolution on "Establishment of the Government Regulatory and Implementing Agencies."

⁷ Established by the 58th Resolution in 2002 of the State Great Hural (Parliament) entitled "Re-enacting the General Scheme of State Administrative Institutions" and the 162nd Resolution on "Establishment of the Government Regulatory and Implementing Agencies".

MONGOLIA AGENCY FOR STANDARDIZATION AND METROLOGY (MASM)

1. MASM is the government agency responsible for the implementation of the 1995 Law on Quality and Standardization. The list of products covered (essentially dangerous, veterinary and environment related) was amended with the passage of the 2003 Law Standardization and Conformity and further modified June this year. MASM also implements TVT regulations on packing and marking and labeling.
2. To discharge its mandate, the agency requires and issues certifications for products in the list as a condition for their cross border flow. A certificate is required for every shipment except when there is a long-term supply agreement. The agency recognizes the authority of SSIA for inspections but participate in inspections when the situation requires and takes samples for laboratory analysis. For this purpose, they have set up an office at Ulaan Bataar customhouse. In general, MASM interventions at the borders or at Ulaan Bataar customhouse is limited to the quality certificate verification.
3. Mongolia has inter-government agreement with Russia, PRC and Ukraine for the mutual recognition of certifications.

KEY FUNCTIONS OF MCGA DIVISIONS

A. Customs Enforcement Division

- Organize activities related to customs control;
- Develop and control rules related to customs procedures;
- Undertake control over goods prohibited or restricted to cross customs frontier;
- Develop and follow rules for Customs brokers and Customs entrusted agents;
- Organize customs control at seasonal and permanent border points;
- Improve cooperation with other government enforcement agencies.

B. Customs Policy and International Cooperation Division

- Put up recommendations and proposals on improving customs legislation;
- Develop and coordinate activities related to WCO and other international organizations
- Put up proposals on implementation of WCO recommendations;
- Coordinate implementation of bilateral intergovernmental agreements on cooperation and mutual assistance in customs matters;
- Plan and implement international training activities;
- Coordinate activities related to RILO and other contact points;
- Participate in implementation of CCC activities under CAREC program.

C. Statistical and Monitoring Division

- Compile customs foreign trade statistics in accordance with international standards;
- Provide customers with statistical data;
- Ensure confidentiality of information related to trade activities of entities;
- Exchange data and information with relevant organizations of other countries;
- Monitor and evaluate activities of units and Customhouses;
- Analyze economic performances of Customhouses.

D. Public management and Governance Division

- Coordinate day-to-day activities of units;

- Manage HR related issues;
- Control, assess implementation of code of conduct;
- Administer labor relations, compensation and benefits.
- Manage public relations;
- Prepare draft decisions on performance assessment;
- Maintain and update database of customs legislation.

E. Post Clearance Audit Division

- Plan, study and identify groups of high risk entities;
- Analyze and assess factors and impacts affecting post clearance audit;
- Conduct post clearance audit;
- Conduct internal financial audit;
- Undertake financial inspection and collect debts;
- Maintain and update post clearance audit database;
- Report to the management;

F. Risk management and Operational Control Division

- Analyze and assess situation in customs clearance procedures;
- Assess, monitor and update possible risk profiles;
- Receive and resolve complaints by customers;
- Investigate administrative offences;
- Control investigation progress of customhouses;
- Represent customs in court;
- Compile data on customs offences and create database;
- Monitor how customs officers implement legislation.

G. Tax and Revenue Division

- Put up recommendations and suggestions on tariff system and rates of tariffs consistent;
- Plan and implement customs revenue collection;

- Develop proposals on agenda of Tariff council;
- Develop and implement methodology on valuation;
- Control collection of customs taxes and revenue;
- Prepare proposals on exemption of goods from customs duties;
- Coordinate HS related issues.

H. Information Technology Division

- Maintain and enhance customs data processing system;
- Improve and extend the use of IT;
- Develop and introduce software and hardware;
- Maintain local area network;
- Maintain network infrastructure
- Maintain email system
- Ensure safety and security of customs data processing system.

I. Finance and Investment Division

- Plan and control use of budgeted expenditures;
- Plan and collect revenue of customs fees;
- Plan and implement investment policy;
- Administer customs financial activities;
- Control accounting procedures, compile and evaluate financial statements;
- Collect and use customs development fund;
- Solve social problems

DISTRIBUTION OF DOGS FROM THE DETECTOR DOG UNIT

LOCATION / PURPOSE	NUMBER OF DOGS
Buyant Ukhaa International Airport, Ulaanbaatar	2
Zamyn-Uud	2
Selenge	2
Dornod	1
Bayan Ulgii	1
Hobd	1
Hubsugn	1
Reserve	2
For breeding	2
Puppies	2

TABLE 3: LIST OF EQUIPMENT AND TOOLS NECESSARY FOR THE UPGRADING OF THE MONGOLIAN CUSTOMS CENTRAL LABORATORY

	Name of equipment and tools	Catalog number	Unit price In US\$	Qty	Total price in US\$
1	X-ray fluorescence	Shimadzu EDX800	150,000	1	150,000
2	Cut-off saws	U-97410-24	1,000	1	1,000
3	Bench grinders	U-97410-14	1,000	1	1,000
4	Cloud and Pour point (automatic)	CAPP- SWENTA (ASTM D97, ASTM D 2500-IP –15-IP219, ISO 3015-3016)	20,000	1	20,000
5	Freezing point testing (automatic)	CAPP- SWENTA		1	17,000
6	Photoelectric color testing (automatic)	PFX –190/A (ASTM D1500-ASTM D1544-IP 196-ISO 2049-DIN 6162-DIN 51578-NF 60104-NBN T52 109-BS3532)	1,000	1	1,000
7	Flash point by continuously closed cup (automatic)	PMA–4	6,000	1	6,000
8	Viscosimeter		200 200	5 5	1,000 1,000
9	Saturated vapor pressure analyzer (automatic)	MINIVAP VPSH (ASTM 18C, ASTM D5191 – IP 394-IP409)	5,500	1	5,500
10	Jar mills	U-04172-65	4,200	1	4,200
11	Chemical experimental table		1,050	7 ²	7,350
12	Physical experiment tables		550	23 ²	12,650
13	Reagent cabinets		1,270	8	10,160
14	Dewar flasks		10	6	60
15	Motorised pipettes	U-25200-25	350	10	3,500
16	Beer analyzer-2	“Anton Paar”	40,000	1	40,000
17	UPS		3,000	1	3,000
18	Libraries				15,000
19	Assembling and Installation				5,000
20	Training				10,000
21	Spare parts				18,000
	Total amount				332,420

DESCRIPTION OF MODULES IN GAMAS

A. Integrated Customs Clearance System

1. Broker declaration program – for brokers to submit import and export declaration to customs.
2. Documents control, examination and evaluation program – examines declaration documents, determines valuation and assigns Registration – number / clearance procedure number.
3. Supervising inspectors' clearance program- to control custom clearance process, to assist supervisors to make decisions.
4. Control inspectors' distribution program – to assign inspectors to examine and release goods.
5. System administrators' program – process for automation of custom clearance and update nomenclature database.
6. Nomenclature database search program – perform search of the nomenclature database.
7. Program for transferring of measurement unit – for transferring contract measurement unit into HS measurement unit.
8. Program for offline exchange of declaration database – for exchange of declaration database with custom branches which do not have online connection with MCGA.
9. Program for administrative and criminal offence registration – for registration of administrative and criminal offences at customs houses and branches.

B. Integrated One-stop Clearance System

10. Terminal brokers declaration program – for custom clearance of goods for export and import at terminals.
11. Program of terminal documents control, examination and evaluation – for checking and controlling of declaration documents, determining of good's valuation and assigning registration number at terminals.
12. Terminal Supervisors' program - for controlling of custom clearance process and decision making at terminals by supervisor.
13. Terminal inspectors' distribution program – to assign inspectors for examination and release of goods at terminals.
14. Clearance control program at terminal – for controlling of One-stop clearance at terminals.

C. Remote Declaration System

15. Remote declaration program – to submit declaration using a telephone line.
16. Administrator's program – for correction of clearance by telephone line and work with changes on Nomenclature database.
17. Nomenclature database program – for working on coding of nomenclature database.

D. Integrated Manifest System

18. Brokers manifest program – for creation of manifest database.
19. Border's manifest program – program covering manifest procedure at the border.
20. Program for registration and control of manifest at border – for controlling and registration of manifest database and transferring to the main Server.
21. Customs headquarters program – for working on manifest database.
22. Manifest program at terminal – for inspection of cargo at terminals.
23. Cargo manifest program – program for cargo manifest procedure.

E. Taxes and Fees Integrated System

24. Tax program – for recording of accounting balance at customhouses.
25. Fees program – for editing of balance of fees at customhouses.
26. Supervisor's or Senior Accountant's program – for Senior Accountant's for controlling and compiling accounting and fees balances.
27. Program for balance of fees – for compiling and controlling balance of fees at MCGA.
28. Tax integrated system of the Customs Headquarters – for compiling accounts balance at MCGA.
29. "E-bank" system of electronic exchange of tax calculation, fees and payments with a bank – for custom electronic clearance, tax payments.

F. Control and Examination

30. Post-clearance audit program – for creation of Post-clearance audit database and use for Post-clearance procedure.
31. Double control, examination program – for controlling goods for release and assign inspectors for double control and examination.

32. Program for administrative and criminal offence registration – for working with administrative and criminal offence’s database and exchange with customhouses.
33. Program for declaration check – for checking and examination of mistakes of declaration database.
34. Program for controlling customs houses connected online – direct inspection and controlling of custom clearances from MCGA.

G. Web portal, Intranet, e-mail

35. Customs web portal – the operating web site with information of MCGA in English and Mongolian.
36. System of Mailbox – The e-mail system.
37. E-documents system that transfer the customs internal activities into a paperless process – transfer system for “no paper operation” of customs internal activities.
38. System for customs clearance through the internet- declaration of goods to customs through internet.
39. “Client Service” System – allows enterprises to track their records of declared goods through the network.
40. Administrator’s program of Internet clearance system – program for amending of settings and classification files for internet declaration system.

H. Customs Statistics

41. “Customs to tax” program that helps to exchange information database with the General Tax Administration – Electronic Data Interchange with tax organizations.
42. Program for converting declaration database received as a file – input of declaration databases from customs branches in offline connection with Customs General Administration to the joint database.
43. Customs statistics program – to produce statistical data.
44. Foreign trade statistics program.
45. Budget revenue statistics program.
46. Universal statistics program – for editing statistics tables from declaration database.

I. Risk Management System

47. Manifest risk program – examination of risk with regards to the processing of manifest.

48. Customs clearance risk program – risk assessment program of customs clearance.
49. Economic entities' tax, financial debt risk program – for risk examination of economic entities which have a tax and financial debt with custom, bank or tax organization.
50. Temporary admission procedure clearance risk program – Assessment program of clearance under condition of temporary procedure.
51. Administrative and criminal offence risk program – verifies the risks of organizations which have administrative and criminal offences.
52. Post-clearance audit risk program – examination of risks of organizations which have detected offences through post clearance audit.
53. Valuation risk – examination of risks of customs value and valuation.
54. Program of registration of record's procedure risk – calculation of risk examination from recorded notes of clearance procedure.
55. Customs control risk program – control system of risk.
56. Control inspector designation program – assessment of risk for appointment of control inspector who is responsible for release of goods.
57. Price control program – to establish the database of customs compared value.

J. Others

58. Database connection codification program – coding and security program for database connection settings.
59. Human resources system – registration of information related to staff.
60. Numbered forms program.
61. Fees unification program – fees payment related to MCGA and controlling payments in customhouses.
62. Survey program – collation of opinions from customs personnel.
63. Harmonized system program – to establish the coding system of goods classification.
64. Video conference system – to hold video conference with customs branches and units which have an online connection.

LIST OF IDENTIFIED DEFICIENCIES OF THE CURRENT GAMAS

1. The GAMAS is written in a programming language called Visual Basic and runs on a SQL database. These are information technology tools which have been used since the early 1990s and have been overtaken by new and more advanced tools. Today, most of the new systems developed are web-based (internet enabled) and are written using a programming language called Java and using J2EE technology. New relational database management system (RDBMS) has replaced SQL in many newly developed systems.
2. Besides the programming language and database used, the GAMAS does not make use of new technologies like artificial intelligence, data warehousing, data mining, business rule engine, workflow engine and security features such as PKI, digital signature, watermarking, etc. which a modern integrated customs management system would have used. Without these new technology features, the current system is primarily people driven i.e. a lot of human intervention is required in the processing and clearance of goods and hence the presence of subjectivity and inconsistent service level resulting in a lack of transparency and predictability of service.
3. A major setback of the current system is that it does not run on a centralized database and server. Each customs house and border post runs the system on a local server, which is usually only a PC. Synchronization of databases has always been a major problem with decentralized processing.
4. Data is transmitted to the main database server at the head quarters at most only once a day. In most cases, data is transmitted only on a weekly basis from customs houses and border posts where the volume of transactions is low. Data from border points without telephone lines send their data to the head quarters via floppy disk. Transmission of data is subjected to the availability, reliability and stability of the network which comprises a mix of optical fibers for Ulaanbaatar, Zamyun-Uud and Sukhbaatar customs houses, VSAT satellite link at Altanbulag and Bor Undur, micro wave connection to the Buyan-Ukhaa international airport and telephone lines dial up for the rest of the border posts. The data transmission speed is slow, often at only 28.8 kbps or lower for telephone line dial up and is usually unreliable.
5. Likewise, whenever there is any change to the codes such as UNLOCODE, HS commodity code, creation of new risk profile, etc, these information will have to be transmitted to the various servers over the network or using CD, floppy disk or flash (thumb drive). System upgrades, such as new features and new functions and "patches" for "bug fix", will have to be sent to the various servers in the same manner. The problem is that there is a time lag as the dissemination of this information may take several days and hence it is almost impossible to achieve synchronized system and data upgrade across all customs houses.
6. The unreliability of the transmission mechanism may lead to 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 required to support decision-making.
7. Currently, the GAMAS does not have enough server capacity. There have been complaints from customs brokers and traders that the processing speed of the GAMAS is slow.

PETROLEUM EXPORT TO PRC FOR THE PERIOD 2000 TO 2004

PERIOD	QUANTITY (BARRELS)	VALUE (USD)
2000	67,997	1,812,854
2001	86,142	1,777,659
2002	129,366	3,092,761
2003	159,498	4,546,698
2004	180,354	6,279,726

NEW FEATURES OF GAMAS++

1. A centralized system where all customs houses and border points will be connected online.
2. Data is validated online at the point of entry – validation of format, valid range of values, cross-validation with other data elements, validation against database.
3. Supports online access (web-based) via internet and host-to-host link for submission of documents – allows customs brokers to submit declarations and manifest electronically online or through Electronic Data Interchange.
4. Supports international standards of message format such as XML, ebXML, UN/EDIFACT, UN/CEFACT, Rosetta Net, etc.
5. Security features –
 - Network security using firewalls.
 - Authorization and authentication - using user login and password, conforming to international practices such as minimum length of password, forced change of password regularly, login id suspension after a certain number of unsuccessful attempts, etc.
 - Access rights control from menu level to module level and down to data element level.
 - Data security using data encryption, PKI, etc.
6. Bar code printing – to allow easy retrieval of record from the database.
7. Business rule engine – validation rules and processing rules are parameterized and configurable, providing user with the flexibility to change the rules according to business environment changes, without having to amend source codes. Variable values in the application should be parameterized and configurable by authorized users to provide flexibility for users to make changes due to change in business or operations requirements.
8. Message Translation Engine – to allow translation of any message format to any message format, providing flexibility for exchange of data among different parties without having to change their system to conform to one message format.
9. Messaging engine – provides flexibility in connectivity to external parties using different protocols such as SMTP, FTP, Secure FTP, FTP/S, HTTP, HTTPS, etc.
10. Business Process Integrator Workflow engine – to allow user-defined workflow based on pre-define conditions or data value, track status of process.
11. The system should be i18n compliant to facilitate choice of language to be displayed on the User Interface screen; for example, user can choose to use Mongolian or English display.

ICT MASTER PLAN FOR THE MONGOLIAN CUSTOMS

A. Introduction

1. The MCGA Needs Assessment Study identified a number of deficiencies and shortcomings in Customs operations that constrains adoption of more trade facilitation measures and limits the efficiency and competitiveness of the country's trade environment.
2. The study recommendations to address the difficulties includes among others legislative amendments, physical infrastructure development, capability development and business processes re-engineering in conjunction with government agencies with respective mandates over the cross border flow of goods as well as with logistics providers and other private sector groups. In many of these recommendations, changes and improvements in the ICT Infrastructure both within and outside MCGA are the drivers, enablers or key ingredient for success.
3. The study recognized the many successes of MCGA in its modernization program and in facilitating trade. Most noteworthy are its advances in the deployment of ICT in practically all facets of Customs operation and trade facilitation. GAMAS continues to grow as more development work is undertaken and better technology is utilized.
4. The proposed IT strategy builds upon these gains, learnings and momentum of development to immediately achieve significantly higher levels of trade facilitation and effectiveness of customs operations. At the same time, there is recognition that time will come when continuing development on outdated technology will no longer be in the best interest of being at the cutting edge of technology and of providing the country a competitive trading environment.
5. The philosophy underlying the strategy is that the existing ICT and the developments being undertaken on it can still serve adequately the needs of MCGA and its public in the short and medium terms. That undertaking certain changes on the system and most importantly how it is used coupled with a number legislative amendments, physical infrastructure investment and human resource development will bring about quantum improvements in the speed, facilitation and cost reduction of doing business in Mongolia.
6. In the long term, however (3-4 years time), when the needs will have already grown and become more complex (for example, transits by road transport would have already taken over much of transits by trains), MCGA must already be ready to migrate its operations to an ICT platform the specifications of which are as defined in this ICT Master Plan.

B. Phases

7. 1-6 months: Improve Utilization of Existing GAMAS
 - Replacement of defective computer terminals, under capacity servers and non-operational/underperforming communication platform.
 - Development of the needed modifications to the GAMAS Application System.
 - Specification of the SSIA-MCGA Single Window.

8. 7-12 Months: Implementation of Modified GAMAS and Customs Community Single Window.

- Development of the Enhanced Risk Management System.
- Development of the Analytical Framework on Customs Data in support of Selectivity and Post Clearance Audits.
- Pilot implementation of the Modified GAMAS; rollout to other Stations.
- Joint Development of SSIA import/export licensing system.

9. 12- 30 months: Development of GAMAS++ and National SEW

- Implementation of the Customs Community Single Window.
- Development and Phased Implementation of GAMAS++.

10. 31-36 months: Implementation of National SEW

- Development and Implementation of the National Single Window

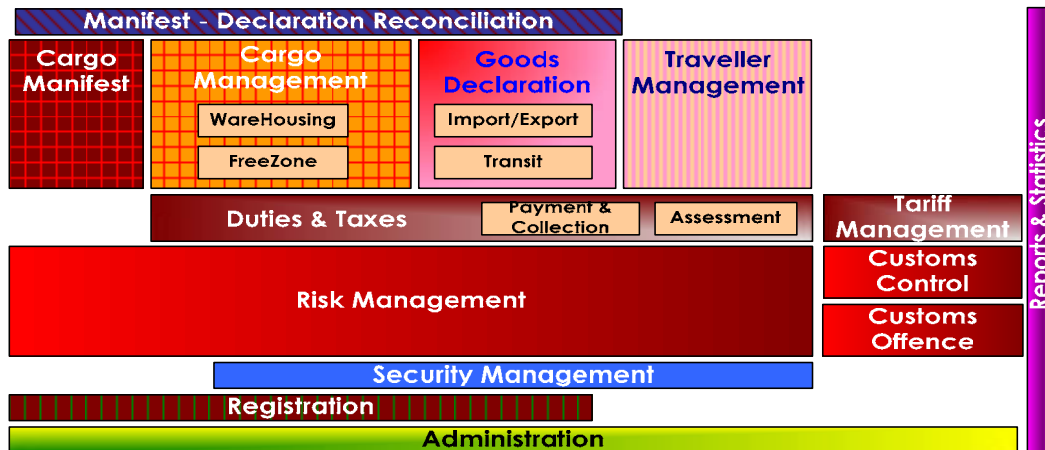
C. Objectives

11. The objective of the ICT Master Plan is to develop a blueprint and standards for the construction of a technological infrastructure and software components for the integration of information communications technology (ICT) in trade facilitation and administrations for the Mongolian Customs.

12. The ICT master plan aims to:

- Provide the framework for the development of an Integrated Customs Management System, GAMAS++ that is seamless and easy-to-use to the Mongolian Customs administration and the trade community.
- Provide the framework to establish a comprehensive secured data network infrastructure to connect the Mongolian Customs head quarters to all the customs houses, customs offices and border posts.
- Establish components for the System Infrastructure Integration Platform required to support the application system.
- Establish functionalities of the core application system to support the core functions of the Mongolian Customs.
- Set up system, including network and applications, performance indicators.
- Identifies new and innovative technologies needed to build a reliable and efficient system to support the challenges faced by the Mongolian Customs administration in its modernization program.
- Address the legal framework required to support the application of ICT.

D. Figure 1: Overall UAIS Architecture



1. Functionalities of the Core Application System

13. The GAMAS++ shall comprise the following functionalities:

a. Manifest and Document Handling

14. The cargo manifest and document handling module must support all types of transport documents: Cargo Manifest, Bill of lading, airway-bills, rail consignment notes, road transport documents and transit documents.

15. The module should consist of both front-end and back-end processing. Front-end processing relates to the manifest declaration tools used by the carriers to facilitate trade lodging. Back-end processing consists of rule checks, validations and controls set by the administrating agency.

16. The front-end integration should provide both web base interface for online access via the internet and a client-software (Windows-based) to connect to the system via HTTP or Web Services.

17. The back-end processing should perform data validation, rule checks, controls and other document processing functions.

b. Declaration Processing

18. The Declaration Module should consist of both front-end and back-end processing. Front-end processing relates to the declaration tools used by the traders to facilitate trade declaration. Back-end processing consists of rule checks, validations, controls, duty and tax calculations and collection set by the administrating agency.

19. The front-end integration should provide both web base interface for online access via the internet and a client-software (Windows-based) to connect to the system via HTTP or Web Services.

20. The back-end processing should perform data validation, classification and valuation, duty and tax calculation and collection.

c. Manifest-Declaration Reconciliation

21. This module must ensure the reconciliation of cargo manifest data against declaration data and automatically alert administrators of possible discrepancies in goods declaration.

d. Cargo Clearance

22. The function of the Clearance Module is to notify the relevant parties when the necessary processing is completed. Customs administrators are provided with facilities to validate the relevant document presented against the information stored in the system.

e. Transit Management

23. This module is to facilitate the efficient and effective movement of goods from one customs office or territory to another customs office or territory. It should perform:

- Transit transaction tracking
- Discreet and complete records of goods quantities, volumes and values
- Time limit setting for the transport of goods
- Automatic notification and alert for suspicious or delayed transactions
- Identification of goods with high risk classification achieved through Interfacing with Risk Management Module

f. Tariff Management

24. The Tariff Management module is an important tool for the correct computation of duties and taxes. It should keep information related to Harmonized System Commodity Code, relevant customs procedures applicable for these codes, preferential tariffs applicable and relevant documents required for each tariff item.

25. The module should provide the following features:

- Maintain Harmonized System Commodity Code
- Maintain tariff items
- Attach duties to tariff items
- Attach required documents, permits or licenses to tariff items
- User-friendly graphical user interface tools for defining tax rule
- Create and maintain duty code and taxes
- Support preferential rate setting

g. Duties and Taxes Processing

26. The Duties and Taxes Processing module should comprise the assessment, valuation and payment and collection functions.

27. The Assessment module is to calculate duties and taxes for each transaction based on the customs value, classification of the goods, customs procedure, country of origin (if preferential tariff is applicable) and various fees applicable. It should take into account any exemptions or adjustments that can be applied to specific products or importers/exporters.

28. The function of the Valuation module is to validate the declared value of goods. It should be able to determine an accurate valuation range(s) of goods based on previous similar valid declarations or through manual settings by the customs administrators. The module should support features

29. Such as:

- Record information including prices and other charges in an invoice or referential format
- Categorize products within a tariff structure
- Undertake price comparisons at the commodity and product level
- Store and compare other costs such as freight and insurance
- Set “Variation Limits” to highlight declared prices that fall outside preset ranges
- Key decision and statistical indicators to suggest if prices or other charges are acceptable
- Facilities to generate statistics, analyze and present historical prices
- Grade reliability of information, select prices to be included in statistical calculations and specify time periods for price validity
- Search engine to find commodities and products
- Indication of importers suspected of undervaluing declared prices

30. The function of the Payment and Collection module is to account for all payments and refunds due on duties and taxes, provide means for the collection or refund of duties and taxes due and deferred duty payments.

31. The module must be able to support various modes of payment, such as cash; check, bank drafts, credit cards and real time electronic funds transfer (EFT).

h. Risk Management

32. The purpose of the Risk Management module is to identify declarations that have a potential risk to customs as well as provide operational teams with suspect and risk target lists. The module should include tools such as risk assessment, analytical tools and operational tools.

33. The workflow for risk assessment includes Risk Profile, Intelligent Agent, Valuation Database, Compliant Trader Database, etc. The Risk Management module must have built-in artificial intelligence, including knowledge discovery and data mining to learn from historical data and identify pattern of frauds and non-fraud cases.

34. The valuation database should use clustering technique to cluster cases based on commodities, country of origin, unit of measurement and quantity tagged with cluster value range.

i. Customs Control Processing

35. The function of this module is to record and analyze information obtained from seizure and offences, to help customs administrators to identify trends and risks. The offence and seizure database must be able to record details of seizures and offences, penalties, outcome of prosecution, etc. The statistic reports should allow analysis by importer, exporter, cargo type, value, region, etc.

j. Financial Security Management

36. The Security Processing module handles guarantees from respective stakeholders responsible for the goods. It manages the list of valid instruments that can be used to post the guarantee, security quota debiting and crediting, liquidation of securities, etc.

k. Customs Cargo Management

37. This module manages cargo in the customs warehouse and free zones. It tracks stock movement in and out of these zones, identify cargo for auction, schedule regular inspection of cargo and track bond liability of warehouse operators.

l. Express Clearance for Courier Service

38. This module is designed for the purpose of special and flexible clearance for accredited courier services.

m. Duty Free Shops Management

39. The function of this module is to monitor and track the movement of duty free goods in and out of duty free shops. It keeps an inventory of goods in each duty free shop. It should have the functionalities to register the receipt of goods into duty free shops and sales of such goods.

n. Traveler Management

40. The Traveler Management module is to capture travelers' details to accelerate customs passenger processing and enhance border control. It should interface with the Risk Management module to identify possible risk and with the Collection and Payment module for the payment of duties and taxes due.

o. Reports and Statistics

41. This module is to generate preformatted trade statistic reports on a daily, weekly, monthly, or annual basis. It should include ad hoc reporting tools to allow trained staff and management to create their own reports.

2. Supporting Application Systems

a. Laws and Regulations Database

42. The database shall store all the customs laws and regulations. It will have search capability for customs officers to locate the relevant laws and regulations by keying in search criteria such as process name or key words or year of incorporation, etc. The database should also link to databases and websites of international organizations such as WCO, WTO, etc.

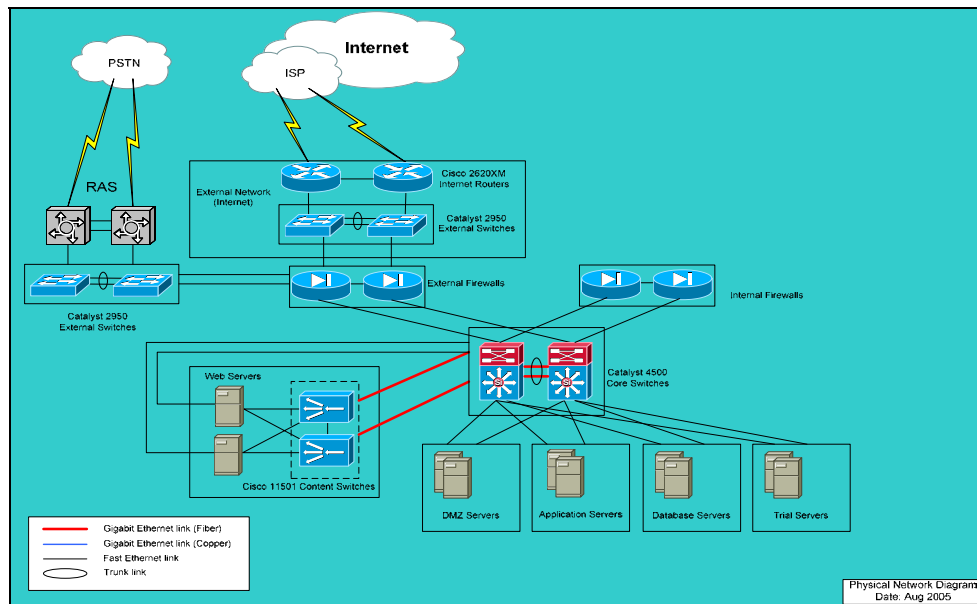
b. MCGA Website

43. The MCGA website will be redesigned with the function to disseminate relevant trade information to the trade community. Changes to regulations and procedures will be posted on the website and relevant parties can be alerted through email or SMS. Human Resource Database

c. Human Resource Database

44. The human resource database shall store the particulars of all employees. Information stored should include personal information, family information, staff posting/movement record, training record, disciplinary record, vacation leave and medical leave, etc. Such information should be kept confidential and only made available to relevant parties on a need-to basis, for example immediate supervisors should have access to all his staffs' training and leave record.

E. Figure 2: Hardware Architecture



45. The hardware architecture of the proposed should comprise of a network of servers (web server, database server, application server, etc), switches, routers and firewalls. The connection to ISP (Internet Service Provider) has to be protected by firewalls.

46. The network architecture comprises 3 layers:

1. Core Layer

- The core of the network architecture is a Cisco Catalyst 3550 Series Switch (core switches) and a Cisco PIX 525 Firewall.
- Catalyst 3550 is a stackable, multilayer switch that provides high availability, quality of service (QS), and security to enhance network operations.
- It has a range of Fast Ethernet and Gigabit Ethernet configurations, and powerful options for enterprise and metro access applications.
- Cisco PIX 525 Firewall is a Gigabit Ethernet-ready, modular security appliance for medium-to-large enterprise network environments.
- Each core switch has 24 Fast Ethernet port for internal and external connections and a pair of Gigabit Ethernet port for uplinks.
- The switches are configured to have four Virtual Local Area Networks (VLANs). They are the External VLAN, Web Server VLAN, Application VLAN and the Database VLAN.
- The equipment within the VLANs are logically separated.
- Configurations and routings are required for traffic to traverse across VLANs.
- The VLANs are further isolated or secured when they are connected directly to the Cisco PIX 525 Firewalls.
- In the firewalls, firewall policy is implemented to determine the accessibility between VLANs, servers and equipment.
- Between the core switch, there is a Gigabit link, which provide an aggregate backplane speed of four gigabit per second.
- Each VLAN has a link to the Cisco PIX 525 Firewall.

2. Edge Layer

- The edge layer consists of the Web Server VLAN, Application VLAN and the Database VLAN.
- Each VLAN contains the web servers, content switches, application servers and database servers.
- The application and database servers each have a link to the core switch.

3. Access Layer

- This is the layer through which external internet users comes in via an internet router.

- This is an unsecured external VLAN. Traffic from the internet will be screened by the core firewall which will determine the permission of the access.
 - a. Server Architecture
- The architecture model used is based on 3-Tier application architecture.
- This architecture consists of the web server tier, application server tier and database server tier.
- The web server tier could also be called as external tier, because it is accessible by external users directly through a compatible web browser.

47. The list of base equipment required is given in Appendix 16.1 and the distribution of PCs at the various locations is in Appendix 16.2.

F. Software Architecture

1. The System Infrastructure Integration Platform

48. The GAMAS++ shall be designed and built on an infrastructure platform to enable the exchange and dissemination of data of varying formats to multiple parties, using different protocols. This is required to streamline trade documentation and pave the way for a nationwide trade facilitation framework, the Single Electronic Window.

49. The integrated platform shall form the base infrastructure to support the functions of GAMAS++. It shall comprise the following components to support its objectives:

- Message Translation Engine
- Messaging Engine
- Workflow Engine
- Business Rule Engine
 - a. Message Translation Engine

50. The message translation engine must be able to support complex and numerous data standards that are being used internationally today. They include UN/EDIFACT, UN/CEFACT, ANSI X.12, XML, ebXML, RosettaNet and other user-defined file format.

51. The message translation engine shall have the flexibility to translate any message format to any message format. This should be achieved through a type designer and map designer to allow user to define the various type file and map file. It should have the following features:

- Support complex Data Structure
- Property Viewer to allow editing of element properties such as number of occurrences, mandatory or optional, data type, initiator, terminator,
- Function Rule such as ABS(), COUNT(), MIN(), MAX() and others

- Map Compiler to achieve optimal run-time performance
 - Library to store completed type files in a hierarchical manner
 - Configurable to allow run-time configurations, like the location of the input and output file, verbose, log level, etc
 - Command-line execution
 - API to allow integration with other application
 - Audit / Trace file to provide information on the status and detailed activities of the translation
 - Many to many translation
 - Supports multiple input source files and multiple output destination files
 - Support data encoded in UTF-8
 - Bad Data Handling to allow continuation even when bad data is encountered.
- b. Messaging Engine

52. The messaging engine must be able to support most of the major transport protocol used internationally. These include HTTP, HTTPS, FTP, SMTP, Web Service based on SOAP, ebXML and RosettaNet, etc. It should allow the exchange of messages in a secured manner, digitally signed and encrypted to ensure Data Integrity, Authentication, Non-repudiation and Data Confidentiality.

53. The messaging engine shall have the following features:

- Adapter to forward messages to MQ, external FTP, SMTP and HTTP servers
- Easy to develop new custom-made adapter to interface with other external systems such as timestamp, message verification, blocking of certain messages, etc.
- Short Term Archive (duration is configurable) and Long Term Archive
- Distribution of message to list of recipients
- Acknowledgement such as like Delivery & Receipt Notification
- Automatic generation of notification for errors, like Non-Delivery Notification or Non-Receipt Notification
- Filtering of incoming messages
- Perform basic EDI validations such as checking for sender field, recipient field, interchange number, etc

- Web front-end to view messages in inbox and outbox
 - Web front-end for administration and set up
 - Email alert notification
 - Handle huge file transfer with recovery facility
- c. Workflow Engine

54. The purpose of the Workflow engine is to separate the process flow (workflow) from the applications that run them. It manages the relationships among processes, interchanges data between applications and monitors the actual running of the processes. It addresses every stage of a business process from design and deployment to monitoring and control.

55. The Workflow engine shall have the following features:

- Graphically design workflows using point and click operations
- Edit and delete workflows
- Execute the workflow defined through the process designer
- Supports OR-split, OR-join, AND-split, AND-join workflow operation
- Supports sequential and parallel routing and transition condition
- Monitors the running processes
- Maintains an audit trail for all the processes
- Sends alerts to users and administrators
- Allows users to view and execute tasks assigned to them

d. Business Rule Engine

56. The business rule engine is an enterprise-grade Business Rules Management System, (BRMS) to empower non-technical personnel to easily create, maintain, test and deploy business rules in reduced time and effort. It will allow users to specify business policies in user friendly terms which can then be translated directly to underlying system constructs through an automated process. This will significantly reduce the turn-around time for implementation of new and existing policies, which in turn enables the organization to maneuver much more nimbly in face of constant change. The business rule engine allows an organization to separate the definition of policy from implementation and code, where rules are encapsulated in “black boxes”. Maintenance efforts will be greatly reduced.

57. The business rule engine should have the following key features:

- User-friendly and drag-and-drop GUI (Graphical User Interface) to simplify the rule building task and achieve effective interaction between business analysts and the internal, efficient representation of rules.

- Compliant to open industry standards, such as J2EE, XML and JSR-94 for implementation flexibility and interoperability.
- Initial rule templates are provided for end users to construct more easily their specific business rule systems.
- Wizards are provided to help business analysts identify and build their rules step by step. This also helps reducing the risk of writing wrong rules as inconsistencies are automatically detected on the run. Whenever inconsistencies occur, intelligent tools powered by AI techniques are used to help business analysts find the most appropriate solutions.
- Supports a collaborative or team-based development environment, which encompasses the best practices of separation of duties, reuse, access control, standardization and consistency.
- Enables the customized extension of standard conditions and rules through plug-ins.
- Supports reuse of rules, conditions and actions across projects, hence the “code-once-use-everywhere” concept.

2. System and infrastructure Software Requirements

58. The main system and infrastructure software required shall comprise:

- Application Server, a J2EE compliant application server for running the various applications.
- Oracle Database Server, a popular and robust database management system for storing the data required for the applications.
- Web Server, the web server for hosting and giving access to the applications.
- Unix Operating System, preferably SUN Solaris

3. Additional System Features

- Supports online access (web-based) via internet and host-to-host link for submission of documents – allows users to submit documents electronically online or through Electronic Data Interchange.
- Authorization and authentication - using user login and password, conforming to international practices such as minimum length of password, forced change of password regularly, login id suspension after a certain number of unsuccessful attempts, etc
- Access rights control from menu level to module level and down to data element level
- Data security using data encryption, PKI, etc.

- Supports bar code printing – to allow easy retrieval of record from the database.
- System must be i18n compliant to facilitate choice of language to be displayed on the User Interface screen.
- Must support Mongolian and English UI screen display.

DEVELOPMENT OF THE REVISED DECLARATION AND CARGO CLEARANCE SYSTEM

I. Objectives:

1. To formulate a revised declaration and cargo clearance system that implements the recommendations in the Mongolia Needs Assessment in Trade Facilitation and Customs Modernization Report (Report) and generate consensus on it.
2. To modify and enhance current GAMAS that it may support the re-formulated declaration and cargo clearance system.
3. To pilot test the new system at the Ulaan Bataar Customhouse or at a site designated by MCGA.

II. Background

4. Identified in the Report were a number of constraints in Customs formalities and procedures that pose difficulties to trade. In brief, the Report showed that the present declaration and clearance system remains essentially a manual system involving paper documents that are moved from one person to another and one office to next. Many signatures and stamps are required. Without a real selectivity, the system remains "one size fits all", a procedure already discarded in most customs administrations in the world.
5. Measures were recommend in the Report to enhance the trade facilitation capability of the declaration and cargo clearance system and to align the same with the international best practices without sacrificing controls.
6. As initially conceived, the implementation of these and other recommendations were to be the subject of an investment plan to be financed by ADB.
7. With the objective of already deriving benefits from the Needs Assessment Study even as the Investment Plan is still to be concluded, ADB is prepared to extend technical assistance should MCGA decide to immediately implementation those recommendations related to the declaration and cargo clearance process.

III. Project Description

8. ADB will deploy a team to identify what the requirements are to achieve the objectives describe above to include the following Project Specific Objectives:

A. Customs Regulations (feasibility of issuing) providing for:

- Designated examination areas in all cargo terminals and mandating that examinations be undertaken thereat instead of at the container yards and in the course of the delivery of the goods.
- Inspection at consignee's premises instead of at the customs zone of shipments selected for greenlane processing.
- Re-engineered declaration and cargo clearance systems flow
- The new requirements on the declarants and the cargo terminal operators

10. The Customs regulation will already actualize the international best practice of selectivity and multi-channel processing based on risk assessment pending amendment of the Article 34 of the Customs Code requiring mandatory examination of all shipments and transport.

- B. Modified GAMAS.** – The specific modifications to be made on GAMAS application system and network and the resources needed to do this broken down into those to be handled by MCGA-ICT Division and those to be provided by ADB.

IV. Project Phases

11. The project will have three phases to be completed in six months time.

A. Phase 1: Pre-Mission

12. The Customs regulations described above will be prepared by the ADB team for presentation to the concerned offices of the pilot Customhouse and management of MCGA. After incorporating the comments made, authorization to proceed with the system development will be sought.

13. Discussions will also be made with the ICT Division on needed modifications to GAMAS to enable the modified flow in the draft regulations. The new Systems Requirement Specification on the Declaration and Cargo Clearance System will be drawn up at this stage. Also to be agreed upon here is the division of responsibilities for the GAMAS enhancement between MCGA ICT Division and ADB consultants.

B. Phase 2: Development Stage

14. Upon arriving at agreements on the Customs regulation and GAMAS modifications, actual development work on the application system will commence.

C. Phase 3: Pilot Test

15. The regulation on the revised system and GAMAS will then be implemented at the pilot customhouse.

Project Relationship with KIPA Feasibility Study

16. KIPA will attempt to define the features of and a strategy for developing the MCGA ICT three (3) years from start of the feasibility study. On the otherhand, this proposed project is envisioned to improve the existing GAMAS and declaration process as well as the cargo release system that the needed facilitation and other improvements may be introduced now instead of three years from now.