

**MONGOLIA: CUSTOMS TRADE FACILITATION AND MODERNIZATION**  
**Priority Programs<sup>1</sup>**

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## I. BACKGROUND

### A. Status of Reform and Modernization

The Government of Mongolia has done much to attract more foreign direct investments and facilitate trade:

- Information and communication technology development and utilization of has been accelerated.
- National and arterial roads have been built that would soon allow the flow of development in the whole country with a more efficient and less costly transport and logistics systems; and
- Regulatory environment of business and trade has been improved by among others the rationalization of business and trade licensing and of inspections.

The Government showed boldness by quickly acceding to the WTO and to WCO conventions that facilitate transits in particular and international trade in general.

Government also showed strong support to Customs by budgeting funds to build new facilities and infrastructure as well as improve existing ones.

MCGA for its part has exerted efforts to improve the quality of its service by:

- Setting standards of conduct and performance for its work force.
- Automating its cargo clearance process which eventually earned for itself the distinction of being an ICT leader in the country.
- Introducing Risk Management and Post Clearance Audit which underpins much of Modern Customs Practices.

### B. Imperatives to Modernize Further

All these programs notwithstanding, business continue to encounter considerable difficulties. MCGA's public rating has suffered accordingly.

The Mongolia Needs Assessment on Trade Facilitation and Customs Modernization undertaken by ADB in 2005 (Study) disclosed what could be among the reasons for MCGA unfavorable rating. Resolving the constraints and difficulties in the various customs regimes revealed in the Study has the potential of immediately providing the 20% solution that can bring about an 80% relief. Immediate action may even lead to a rating for MCGA more favorable than what the agency's on-going business consultations and public relations campaign can accomplish.

Equally requiring the immediate attention of MCGA are issues related to the suppression of customs offenses particularly on revenues. Customs collections are and will continue to be a major source of government revenue even as domestic industry looks up to customs to even up the playing field in business.

The World Customs Organization agreement to immediately implement the Framework of Standards to Secure and Facilitate Global Trade Framework in June 2005, poses another compelling reason why MCGA needs to review its operations particularly with regards exports and transits and modernize these.

The Framework advocates use of advance information, risk management security assessment and other methods that would allow identification and examination of high risk exports preferably at its origin and prior to loading without impeding but on the contrary facilitating the movement of trade. This requirement, together with the proposed international system of Authorized Economic Operators has the potential of creating clearance difficulties for Mongolian exports at the destination countries unless MCGA together with the private sector immediately sets up and implement the recommended systems.

The impact on Mongolia of the Revised Kyoto Convention's (RKC) coming into force this month (February) must be studied and a national response crafted and implemented. The US Council for International Business, in arguing for the ratification of the Convention warned, that "Countries that fail to keep pace with the world class standards for customs administrations, such as those promulgated by the WCO and WTO will find it increasingly difficult to attract new business, trade and foreign investment as business can not afford high logistics costs imposed by customs inefficiencies."

### **C. General Features of Modern Customs Services**

While recognizing that customs administrations vary in national objectives, implementation capacities and resource availabilities, factors that collectively define the priorities for reform and modernization, there is consensus on what competent and well organized customs administrations are as follows:

- A widespread acceptance by officers and personnel that competent and well organized Customs Administrations "successfully balances various responsibilities to ensure a high level of compliance with revenue objectives and regulatory requirements while at the same time intervening as little as possible in the movement of legitimate goods and travelers across borders".
- Rooting of control and compliance systems on risk management principles, targeted enforcement and post clearance audits to facilitate the movement of compliant and legitimate trade and travelers
- Use of information and communication technology to the extent resources and national infrastructure allows achieving transparency, accuracy, speed and consistency of service, to better identify and respond to threats to revenue and other control objectives and attain at the earliest possible time an Ubiquitous Customs Service.
- Legislation that allows customs to implement methods of work that provides adequate leeway for customs to enforce and achieve revenue and compliance goals yet not interfere with but facilitate the modern and globalized way of conducting business.
- Professional, well motivated and qualified staff, skilled at modern customs methods and tools and nurtured by well developed human resources policies thus contributing to an environment characterized by fairness, honesty, and transparency.

- Close consultation and collaboration with the public to keep them well informed and equipped to fully comply and even share in the responsibility for the accomplishment of customs control objectives.
- Cooperates with other Customs Administrations particularly at the regional level to better combat customs offenses, to facilitate and secure trade and in general simplify and harmonize customs procedures.

#### **D. Modernization Guideposts**

Many guideposts and reference materials on Customs modernization have been written. Mention has been made of the RKC which carries 600 standards and recommended practices on the simplification and harmonization of Customs procedures.

In general, these guideposts provides that modernization programs holistic and cover the following:

- Good Diagnostics which is the starting point of the RMP
- An Adequate Legal Framework
- Human Resources Development Policies
- Improved Integrity
- Risk Management
- Customs Valuation Reform
- Rules of Origin Simplification
- Good Duty Relief and Exemption Control System
- Facilitation of Transits
- Enhancing Security of Global Trade
- Information and Communication Technology

Undertaking all of the above is a long and arduous process not to mention the financial and other resources required. It would do well for MCGA to have a modernization strategic plan based on what the priorities are as revealed in the ADB Study and phasing the reforms to take into account the gains already made, the organization's implementation capacity and available resource.

## **II. PRIORITIES FOR REFORM AND MODERNIZATION**

The ADB Study points to the following as the priorities for Customs reform and modernization in Mongolia:

**A. On Customs Legislation**

- Amend Article 34 of the Customs Law towards dispensing with the Customs examination requirement for 100% of goods or means of transport crossing the frontiers and empowering Customs to adopt Risk Management and Targeting Techniques in selecting goods for examination.
- Pending amendment of Article 34 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.
- Introduce 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 and Intellectual Property Rights.
- 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.

**B. On Customs Procedures****i. Declaration Processing****a. Quick Fixes to Speed-Up Process**

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 system has the official electronic copy (see proposed contract with declarants in the section on legislation).
- 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.

#### **b. Modifications 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 China 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.

## ii. 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 can not 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.

### **iii. Inspections**

- 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.
- MGCA, 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 (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.
- The use of common third party laboratories instead of maintaining separate laboratories for each concerned government agency will not only optimize use of

scarce resources but also avoid the risk of these separate labs coming out with conflicting results or findings.

#### **iv. Suspense Regimes**

- Limit availability of the facility only to raw material imports for domestic manufacturing;
- Require a surety bond for bonded warehouses to guarantee faithful observance of laws, rules and regulations; and
- Cover each shipment entered by a warehousing bond to guarantee payment of duties and taxes

### **C. Border Operations and Transits**

- **Separate Border Crossing Point for Cargo Trucks.** – A separate border crossing point for cargo trucks and container vans preferably between the existing crossing points for train and crossing point for road transport and leading directly to a specially designed cargo terminal must be built.
- **Cargo Terminal.** – The facility must be provided with appropriate cargo handling equipment and with sufficient manpower to support proper physical examination of goods. At Zamyn-Udd, the terminal must be built where the Container Scanning Facility is but on the opposite side of the road.
- **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, China can be facilitated by organizing internet lodgment facilities stations there with the cooperation of the chambers of commerce of the two border communities.
- **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.
- **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. – Consider utilizing the non-operational x-ray building (where the Heimann machines were installed) 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 crossings and query system must be made available to enforcement officers. Surveillance cameras to record crossings must also be installed for correlation with the database.
- 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 inland customshouse 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. On Enforcement Methods and Techniques**

##### **i. Risk Management**

MCGA must draw up a doctrine on risk management. The operations manual may contain the following among others:

- A general mandate to all divisions to contribute in the gathering of intelligence in the identification of risks and threats, in the setting up of risk profiles, screens and in setting up countermeasures.
- The respective roles of the various divisions in the risk management process and how they can supplement the primary responsibility of the Risk Management and Operational Control Division.
- The various databases to be maintained from where shall be drawn the elements of the risk profile or selectivity screens. In addition to the databases now in use, other databases must be established that correlates highly with likeliness of fraud. The following are some of these:
  - Telephone Directory Database. – A company that does not even have an office telephone number has a high probability of being a customs offender.
  - Business Registration. – A business that is capitalized disproportionately to its trading activity or the office address of which is not specific or not in keeping with the level of its activities has a high probability of being a violator.
  - Tax Profile. – A tax evader, one that has no record of tax payment or unreasonably low tax payment is very likely a customs violator as well.
- The databases should be used as references against which should be matched (to ascertain the shipment's level of risk) the electronic manifest details to support pre-arrival clearance. On the otherhand, the matching the electronic declaration against the electronic databases should in support of green and red lane processing.
- Use of the electronic manifest to check preferably in an automated way the critical data elements of a declaration e.g. number and type of packages, weight, goods description, shipper, origin and consignee among others and to tag as high risk those with major discrepancy.
- The organization responsible for drawing up the risk profiles and screens, the mechanism for regularly reviewing and updating these and for measuring their performance at trapping violations

Strengthen the Risk Management and Operational Control Division by

- Equipping them with advance tools for risk management such as data warehousing and data mining and by hiring staff trained on these tools.
- Providing a system for rewarding responsible offices for successful interdiction resulting from the risk management system.

For Technical Assistance to be sought for the purpose of improving the Risk Management System of MGCA along the following dimensions:

- Development of the Risk Management Doctrine
- Automation of Shipment Risk Level Assessment both at the electronic manifest level to support pre-arrival clearance and the customs declaration level to support multi-channel processing.

## **ii. Post Clearance Audits**

- Develop better audit selection criteria and selection methods by using data mining and analysis tools. Linking up with the General Department of National Taxation (GDNT) files and comparing records on VAT payments will improve selections as tax offenders are very likely Customs offenders as well and vice-versa.
- Conduct less frequent but more quality audits. Joint VAT audits with GDNT auditors will promote deeper investigations. Since VAT is the bigger component of the payables on imports (15%), this component is very likely where the violation is being done.
- Obtain technical assistance in the development of Audit methods and audit skills training for PCA personnel.

## **iii. Detector Dog Unit**

- The training contents, standards and methodology for the dog and dog handlers' training program be revised to bring it 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 dog care service for the dogs should be improved.
- Recruitment of dog handlers should be more stringent such only dedicated officers who have a strong inclination to work with dogs be assigned as dog handlers.

## **iv. Cooperation with Regional Customs Administrations**

- Extend the proposed Joint Border Processing at the Yarant-Takashiken border point between Mongolia and PRC the Gashuunsukhait, Shiveekhuren in Umnugobi Province and Bichigt in Sukhbaatar Province border points.

- Regional information exchange on value ranges, supplier-offenders modes of concealment and modus operandi among others to improve effectivity of risk management.
- MCGA should continue to play an active role in the CCC activities to share experiences in reform and modernization.

#### **E. On Collaboration with the Private Sector: Informed and Shared Compliance**

- 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 to compare the Customs payments of a company with those in the same industry (per kilo and by tariff line or in some comparative basis).
- 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)<sup>2</sup> 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.

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<sup>2</sup> 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.

**F. On Information and Communication Technology and Customs Electronic Single Window**

- 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 MNR should collaborate in moving the manifest creation and built-up from the MCGA system to the MNR 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.
- Upgrade the UAIS or GAMAS++ to have the features shown as Appendix 15 of the ADB Study. 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 16 of the ADB Study.
- 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.

## **G. On Human Resource Development**

### **i. 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. 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.

### **ii. 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.

### **iii. Customs and Economic Institute**

- The facilities at the Customs and Economic Institute be improved.
- 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.
- The current research program should be reviewed and further enhanced to ensure that research works 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.
- Effort should be put in to draw up strategic and long-term plan for the institute, with the endorsement and support of MCGA management.
- A study should be conducted to find out why the low rate of graduates working in customs, customs brokers, freight forwarders and related-industries.

## **III. RECOMMENDED INVESTMENTS**

### **A. 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 as a business friendly- no red tape organization and a facilitator of trade and investment in Mongolia
- Promote MCGA's leadership in CAREC-CCC.

### **B. Components**

#### **i. Goods and Services Procurement**

- Phase upgrade of the UAIS as contained in the ICT Master Plan including System for Data Warehousing, Mining and Business Intelligence.
- 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 of border post at the crossing points of minerals exports to China with capability for automated recording of cargo vehicles and loads.
- Facilities improvements for the Customs and Economic Institute and of the Detector Dog Unit.

## **ii. Technical Assistance and Advocacy**

### **a. Passage and/or Issuance of Needed Legislations**

- For the drafting of legislation (laws, rules and regulations) that would allow selective examinations based on risk, post clearance audits and reengineer procedures particularly on border operation as well as prevent abuse on electronic declarations and suspense regimes.

### **b. Business Reengineering**

- Redesign of the various customs procedures to align these to international best practices as identified in the ADB Study.

### **c. 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.

### **d. Implementation of the Framework on Standards for Securing and Facilitating Global Trade**

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

### **e. Crafting of National Strategy for Compliance with the Revised Kyoto Convention**

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

### **f. 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.

## **iii. Capacity Building**

### **a. 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.

**b. 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

**iv. Provide Study Funds**

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

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

**IV. Implementation**

The total investment is estimated to be USD 8 million with USD 3 million (in local currency equivalent) to be defrayed out of Mongolian Government budget while USD 5 million to be ADB financed.

The identified difficulties and constraints of the current customs regimes and the needed measures legislation are discussed in detail in the ADB Study. The TOR for the National SEW, ICT Master Plan and Implementation Phases are in the Appendices to the Study. 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.