**ADB**

# Technical Assistance Report

# Mongolia: Strengthening Information and Communication Technology Systems for Efficient and Transparent Tax Administration

Asian Development Bank

# CONTENTS

# KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

| 1. Basic Data | | | Project Number: 51238-001 |
|---|---|---|---|
| **Project Name** | Strengthening Information and Communication Technology Systems for Efficient and Transparent Tax Administration | **Department /Division** | EARD/EAPF |
| **Nature of Activity** | Capacity Development | **Executing Agency** | Mongolian Tax Authority |
| **Modality** | Regular | | |
| **Country** | Mongolia | | |

| 2. Sector | Subsector(s) | ADB Financing ($ million) |
|---|---|---|
| ✓ Public sector management | Public expenditure and fiscal management | 0.45 |
| | **Total** | **0.45** |

| 3. Strategic Agenda | Subcomponents | Climate Change Information | |
|---|---|---|---|
| Inclusive economic growth (IEG) | Pillar 1: Economic opportunities, including jobs, created and expanded | Climate Change impact on the Project | Low |

| 4. Drivers of Change | Components | Gender Equity and Mainstreaming | |
|---|---|---|---|
| Governance and capacity development (GCD) | Public financial governance | No gender elements (NGE) | ✓ |

| 5. Poverty and SDG Targeting | | Location Impact | |
|---|---|---|---|
| Geographic Targeting | No | Nation-wide | High |
| Household Targeting | No | | |
| SDG Targeting | Yes | | |
| SDG Goals | SDG8 | | |

| 6. Risk Categorization | Low |
|---|---|

| 7. Safeguard Categorization | Safeguard Policy Statement does not apply |
|---|---|

**8. Financing**

| Modality and Sources | Amount ($ million) |
|---|---|
| **ADB** | **0.45** |
| Knowledge and Support technical assistance: Technical Assistance Special Fund | 0.45 |
| **Cofinancing** | **0.00** |
| None | 0.00 |
| **Counterpart** | **0.00** |
| None | 0.00 |
| **Total** | **0.45** |

# I.    INTRODUCTION

1.      The proposed knowledge and support technical assistance (TA) will support the Government of Mongolia to reform business processes of tax administration and develop a quality base design for a comprehensive tax administration information system (TAIS). The mission visited Ulaanbaatar and met with officials from the Ministry of Finance (MOF) and Mongolian Tax Authority (MTA) from 20 to 22 June 2017, during which an understanding was reached on the impact, outcome, outputs, cost estimates, financing plan, and implementation arrangements. The design and monitoring framework is in Appendix 1.

2.      The proposed TA is a continuation of support by the Asian Development Bank (ADB) for strengthening public financial management in Mongolia. The previous capacity development TA for Transparency and Efficiency in Public Financial Management approved in 2014 provided institutional support, including capacity building and policy advisory assistance, to the MOF to improve transparency and efficiency in public investment and taxation by using information and communication technology (ICT).[1] The TA is closely aligned with the country partnership strategy and has been included in the country operations and business plan, 2017–2019 for Mongolia, as strengthening public management is one of its cross-cutting themes, to be achieved by improving the transparency and accountability of the management systems of the public sector for effective resource utilization.[2]

# II.    ISSUES

3.      A stable and efficient taxation system is (i) fundamental in making the government more efficient and accountable, and (ii) needed to support national economic development in a sustainable manner. Adoption of ICT for taxation is a promising approach to improve efficiency and transparency in tax administration. Successful e-tax administration is expected to increase taxation efficiency by reducing administrative costs, enhancing transparency, providing convenience to taxpayers, and increasing tax compliance. The TAIS will address the administrative needs of the MTA and the tax compliance requirements of taxpayers. Therefore, the TAIS needs to incorporate various taxation functions—for taxpayer registration, return filing, and tax payment—and be an interactive system that supports various users (e.g., taxpayers, tax agency staff, and statutory auditors). Hence, establishing a comprehensive TAIS will require substantial investments and institutional capacities to maintain the system in a sustainable manner.

4.      The MTA is comprised of the General Department of Taxation of the MOF, tax departments and offices of the capital city and provinces, tax units in districts, and state tax inspectors. The MTA identified ICT as a key enabler in addressing the complexities and challenges in the taxation environment in the country. The MTA began adopting ICT for taxation in the early 2000s. Since then, the MTA has implemented approximately 30 ICT systems for tax administration and other support functions. Some of these systems have been discontinued, but significant portions of such systems are still in use and each system caters to a specific business function of the MTA. As of 2012, electronic tax returns accounted for about 77% of the total collected value-added tax, 20% of the income tax, and 15% of the withholding tax. The MTA has also been establishing an online data exchange system to link the taxation system with other government agencies.

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[1] ADB. 2014. *Technical Assistance to Mongolia for Transparency and Efficiency in Public Financial Management*. Manila.
[2] ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020*. Manila; and ADB. 2017. *Country Operations Business Plan: Mongolia, 2017–2019.* Manila.

5.      While the various existing tax ICT systems in the MTA have delivered certain benefits to stakeholders, they have also resulted in creating stand-alone systems and islands of data, posing new challenges to the MTA in terms of integrating these systems into effective compliance management, revenue realization, and integrated service delivery to taxpayers. Maintenance of such a large number of systems can also be challenging for the MTA, which has constrained ICT resources. Business processes and procedures related to tax administration (business architecture) are complex, and the lack of a standard process is one of the most serious obstacles a tax agency faces when it adopts ICT as part of its taxation system. Some of these systems in the MTA were developed during 2002–2007 and may not follow international good practices based on standard processes and procedures for tax administration.

6.      During 2009–2015, the MTA also made an attempt to replace many of its existing ICT applications with a new and common ICT system for tax administration. The MTA procured an off-the-shelf e-tax application and made efforts to implement and operationalize the system. However, the lack of (i) adequate and sustained institutional support within the MTA, (ii) internal staff capacities, and (iii) funding for maintenance impeded implementation of this new system and the General Department of Taxation eventually  shelved efforts to implement it. Lack of institutional structures, such as lack of a dedicated project management office to manage implementation, is also seen as a critical factor that has impacted efforts to implement a comprehensive tax ICT system in the MTA.

## III.      THE TECHNICAL ASSISTANCE

### A.      Impact and Outcome

7.      The government is now planning to adopt a holistic approach for planning and implementing the new TAIS application based on its experiences and has sought assistance from ADB to support this initiative. It proposes to (i) implement the TAIS to replace existing information technology systems in the MTA, and (ii) integrate the TAIS with current e-services applications such as e-tax and the value-added tax promotion system.

8.      The TA is a continuation of ADB support for strengthening fiscal management in Mongolia. It will provide further assistance to support the MTA to establish an e-taxation system, with particular attention to the support needed during the design and development of the TAIS, and taking into consideration international good practices and lessons learned from previous attempts to implement an e-taxation system in Mongolia. The TA will deploy a team of international and national experts with expertise in TAISs and applications design and implementation. In particular, the TA will focus on (i) supporting the MTA in reviewing and reengineering its current business processes of tax administration in line with good practices and optimizing the processes prior to their automation; (ii) scoping and planning for TAIS implementation, including functional coverage of the TAIS, integration requirements, and ICT infrastructure needs for TAIS implementation; (iii) supporting the MTA in reviewing and finalizing functional and system requirement specifications and architecture for the new TAIS; (iv) providing the necessary capacity building support; and (v) providing technical oversight and support during the development stage of the TAIS.

9.      The TA is aligned with the following impact: public financial resource management enhanced (footnote 2). The TA will have the following outcome: efficiency of tax administration systems in Mongolia strengthened.[3]

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[3] The design and monitoring framework is in Appendix 1.

**B.      Outputs, Methods, and Activities**

10.      **Output 1: Preliminary scoping and planning for tax administration information system design approved by the Mongolian Tax Authority.** The TA will (i) review and reengineer the MTA's current business processes in line with international good practices in tax administration; and (ii) provide necessary support in scoping and planning for TAIS implementation, including functional coverage of the TAIS, integration requirements, and ICT infrastructure needs for TAIS implementation.

11.      **Output 2: Tax administration information system design prepared, including functional and system requirements definition prepared.** Based on the preliminary scoping and planning for the TAIS, the TA will review and finalize functional and system requirement specifications and architecture for the new TAIS. The final design will be presented to and approved by the executing agency (i.e., the MTA) and ADB.  During the development stage of the TAIS design, the consultant team will provide technical oversight and support, and produce periodic reports on the progress of the system development based on the initial TAIS design.

12.      **Output 3: Capacity in administering and managing TAIS improved.** A capacity development plan for required skills and staff will be prepared, and technical training workshops and seminars will be arranged and conducted.

13.      **Strategic fit.** The TA will support the government to continue its reform efforts in public financial resource management by strengthening tax collection, administration, and management. The design of the TA follows ADB's sector and thematic operational plan, and Financial Sector Operational Plan.[4] The project is in line with ADB's country partnership strategy for Mongolia, 2017–2020[5] and the Government Action Plan, 2016–2020[6] in sustaining inclusive economic growth, and improving the transparency and accountability of the management systems of the public sector to help that the financial resources of both ADB and the government are used appropriately and effectively.

**C.      Cost and Financing**

14.      The TA is estimated to cost $500,000, of which $450,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). The key expenditure items are listed in Appendix 2.

15.      The government will provide counterpart support in the form of data access, office space, logistics support, and other in-kind contributions.

**D.      Implementation Arrangements**

16.      The TA will be implemented from September 2017 to August 2019. The executing agency will be the MTA, and the Information Technology Statistics Center under the MTA will be the implementing agency. The advance payment facility procedure will be adopted following ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time) and established with the MOF to facilitate timely organization of training, seminar, and conference activities. Procurement including consulting services will follow ADB's Procurement Policy (2017,

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[4] ADB. 2011. *Financial Sector Operational Plan.* Manila.
[5] ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020.* Manila.
[6] Government of Mongolia. 2016. *Government Action Plan, 2016–2020*. Ulaanbaatar.

as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time).

**Implementation Arrangements**

| Aspects | Arrangements | | |
|---|---|---|---|
| Indicative implementation period | September 2017–August 2019 | | |
| Executing agency | MTA | | |
| Implementing agency | Information Technology Statistics Center under the MTA | | |
| Consultants | To be selected and engaged by ADB | | |
| | ICS | 4 person-months | $80,000 |
| | ICS | 3 person-months | $60,000 |
| | ICS | 3 person-months | $60,000 |
| | ICS | 2 person-months | $40,000 |
| | ICS | 4 person-months | $20,000 |
| | ICS | 4 person-months | $20,000 |
| Procurement | To be procured by executing agency | | |
| | Shopping | 2 contracts | $20,000 |
| Disbursement | The TA resources will be disbursed following ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). | | |

ADB = Asian Development Bank, ICS = individual consultants selection, MTA = Mongolian Tax Authority, TA = technical assistance.
Source: ADB.

17. **Consulting services.** The four international consultants (12 person-months in total: team leader and tax administration ICT systems expert, tax administration business process reengineering expert, tax administration system architect, and ICT infrastructure expert) and two national consultants (8 person-months in total: tax administration business process reengineering specialist and tax administration systems design specialist) will be individually selected and engaged by ADB.[7]

18. The progress of the TA will be evaluated during review missions based on the performance targets and indicators defined in the design and monitoring framework specified in Appendix 1. The MOF will provide baseline data and will verify the data with other government authorities.

## IV.    THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of $450,000 on a grant basis to Mongolia for Strengthening Information and Communication Technology Systems for Efficient and Transparent Tax Administration, and hereby reports this action to the Board.

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[7]  Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

**DESIGN AND MONITORING FRAMEWORK**

| Impact the TA is Aligned with | | | |
|---|---|---|---|
| Public financial resource management enhanced (Government Action Plan, 2016–2020)[a] | | | |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting | Risks |
|---|---|---|---|
| **Outcome** Efficiency of tax administration systems in Mongolia strengthened | By 2020: TAIS design achieved with reference to international good practices in TAIS systems (2017 baseline: NA) | TAIS implementation progress reports from MOF and MTA<br><br>ADB internal reports and documents<br><br>Periodic TA progress reports<br><br>Accomplishment reports from experts engaged for TA | Support from the government is not sustained |
| **Outputs** 1. Preliminary scoping and planning for TAIS design approved by MTA | 1a. MTA approves scope and functional coverage of TAIS by December 2017 (2017 baseline: NA)<br><br>1b. MTA approves list of existing systems to be continued and decommissioned with TAIS by December 2017 (2017 baseline: NA) | 1a. Periodic TA progress reports<br><br><br><br>1b. Progress reports from MTA and IT Statistics Center; and minutes of meetings between the MTA, IT Statistics Center, and ADB | Frequent MTA staff rotation or high turnover rate<br><br>Delays in review and approval of TAIS design documents |
| 2. TAIS design, including functional and system requirements definition, prepared | 2a. Functional and system requirements specifications for TAIS design reviewed and approved by MTA by December 2017 (2017 baseline: NA)<br><br>2b. IT infrastructure requirements finalized and approved for TAIS implementation by December 2017 (2017 baseline: NA)<br><br>2c. System development based on approved TAIS design, including functional and system requirement specifications, commenced by IT Statistics Center by March 2018 (2017 baseline: NA) | 2a–b. Sign-off documents from MTA on TAIS design documents<br><br><br><br><br><br>2c–d. Progress reports from MTA and IT Statistics Center | Changes in administration or decision makers impact the project timelines |

| 3. Capacity in administering and managing TAIS improved | 3b. 40 MTA officials and staff report improved skills in TAIS development and administration by December 2019 (2017 baseline: 0) | 3b. Participants' evaluation of workshops, seminars, and training | |

**Key Activities with Milestones**
**1.    Preliminary scoping and planning for TAIS design approved by MTA**
1.1  TAIS scope and functional coverage defined (Q4 2017)
1.2  Functional assessment completed, and a list of systems to be continued and replaced with TAIS determined (Q4 2017)
**2.    TAIS design, including functional and system requirements definition, prepared**
2.1  Functional architecture, modules, information, and transaction services for TAIS defined (Q4 2017)
2.2  Functional requirements specifications for TAIS defined (Q1 2018)
2.3  System architecture, including application architecture, integration architecture, and security architecture for TAIS, defined (Q1 2018)
2.4.  System requirements specifications for TAIS, including technical standards for implementation of TAIS, defined (Q4 2017)
2.5. Preliminary IT infrastructure requirements for TAIS, including data collection and data retrieval architecture, and bill of materials and cost estimates for TAIS IT infrastructure, defined (Q1 2018)
2.6 Quarterly progress reports on monitoring and supervision of TAIS development based on the TAIS design submitted during the entire implementation period (Q4 2017–Q3 2019)
**3.    Capacity in administering and managing TAIS improved**
3.1  Capacity development plan prepared (Q4 2017)
3.2  Training and workshops for relevant officials and staff conducted during the entire implementation period (Q4 2017–Q3 2019)

**Inputs**

ADB: $450,000

Note: The government will provide counterpart support in the form of data access, office space, logistics support, and other in-kind contributions.

**Assumptions for Partner Financing**

Not applicable.

ADB = Asian Development Bank, IT = information technology, MOF = Ministry of Finance, MTA = Mongolian Tax Authority, NA = not applicable, Q = quarter, TA = technical assistance, TAIS = tax administration information system.
[a] Government of Mongolia. 2016. *Government Action Plan, 2016–2020*. Ulaanbaatar.
Source: ADB.

## COST ESTIMATES AND FINANCING PLAN
($'000)

| Item | Amount |
|---|---|
| **Asian Development Bank**[a] | |
| 1.  Consultants | |
|      a.  Remuneration and per diem | |
|           i.    International consultants (12 person-months) | 240.0 |
|           ii.   National consultants (8 person-months) | 40.0 |
|      b.  Out-of-pocket expenditures | |
|           i.    International and local travel[b] | 60.0 |
|           ii.   Reports and communications[c] | 20.0 |
| 2.  Equipment[d] | 10.0 |
| 3.  Training, seminars, workshops, forums, and conferences | |
|      a.  Seminars and workshops[e] | 30.0 |
|      b.  Resource persons | 20.0 |
| 4.  Contingencies | 30.0 |
| **Total** | **450.0** |

Note: The technical assistance (TA) is estimated to cost $500,000, of which contributions from the Asian Development Bank (ADB) are presented in the table above. The government will provide counterpart support in the form of data access, office space, logistics support, and other in-kind contributions. The value of government contribution is estimated to account for 10% of the total TA cost.
[a]  Financed by ADB's Technical Assistance Special Fund (TASF 6).
[b]  Limited to transport costs only.
[c]  Includes translation cost for core documents produced under the TA, including guidelines, policy notes, inception reports, interim reports, and final reports.
[d]  Includes computers, software, printers, and other equipment to be procured in accordance with ADB's Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). Equipment procured under the TA will be turned over to the executing agency upon completion of TA activities.
[e]  Includes the costs of arrangement of venues, translation, or interpretation of seminar- and workshop-related items, and domestic or external training participation. Specific budgets and arrangements are subject to prior approval from ADB.
Source: ADB estimates.

**LIST OF LINKED DOCUMENTS**
http://www.adb.org/Documents/LinkedDocs/?id=51238-001-TAReport


1.      Terms of Reference for Consultants