



Project Concept Paper

Project Number: 51084
November 2017

Proposed Loan Mongolia: Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration

CURRENCY EQUIVALENTS

(as of 3 November 2017)

Currency unit	–	tugrik (MNT)
MNT1.00	=	\$0.0004
\$1.00	=	MNT2454.00

ABBREVIATIONS

ADB	–	Asian Development Bank
BID	–	Budget Investment Department
BPIS	–	Budget Preparation Information System
GFMIS	–	Government Financial Management Information System
ICT	–	information and communication technology
MOF	–	Ministry of Finance
MTA	–	Mongolian Tax Authority
PIM	–	public investment management
PIMIS	–	public investment management information system
TA	–	technical assistance
TAIS	–	tax administration and information system

NOTE

In this report, "\$" refers to US dollars.

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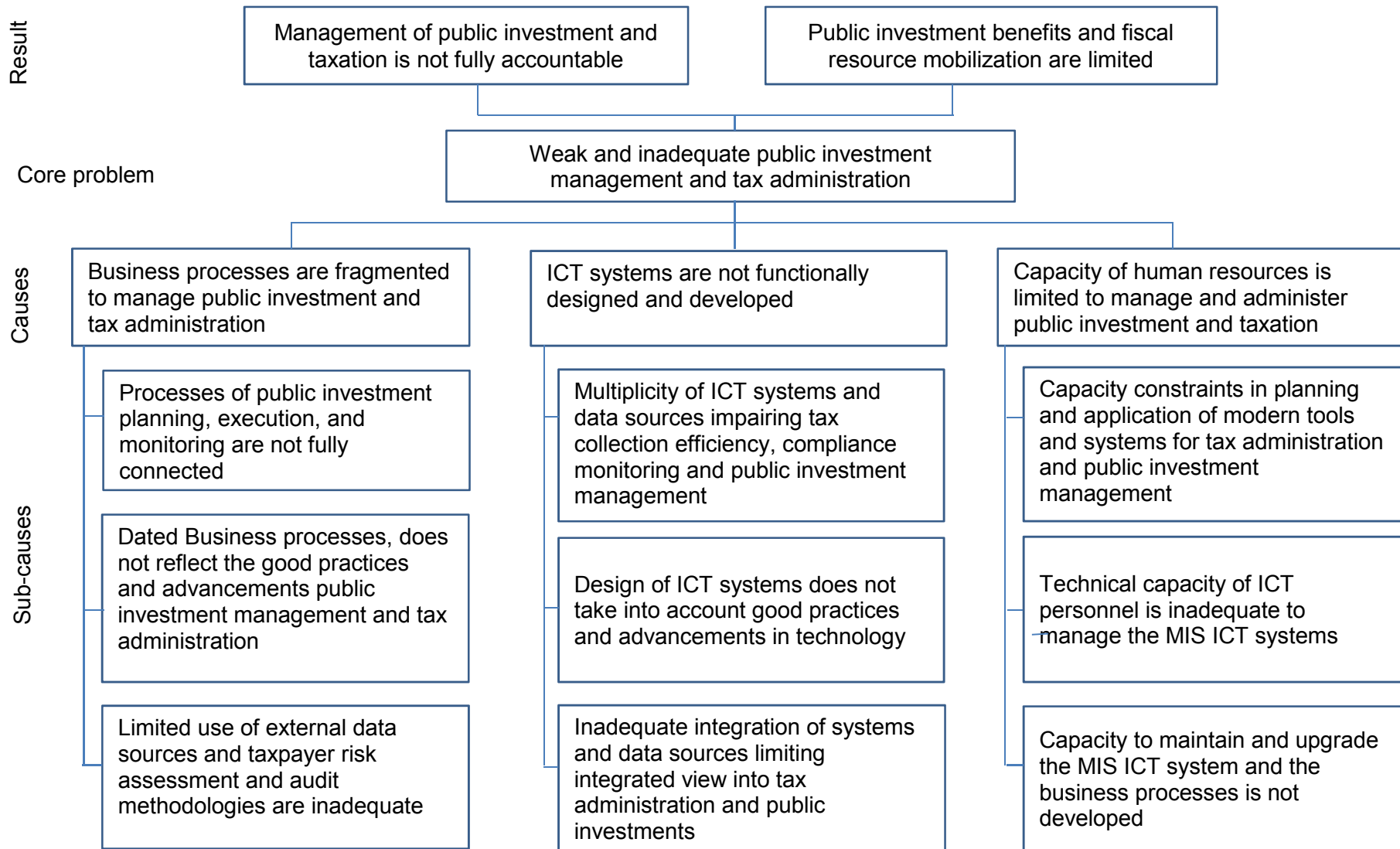
CONTENTS

	Page
PROJECT AT A GLANCE	
PROBLEM TREE	
I. THE PROJECT	1
A. Rationale	1
B. Proposed Solutions	3
C. Proposed Financing Plans and Modality	4
D. Implementation Arrangements	5
II. PROJECT PREPARATION AND READINESS	5
III. DELIBERATIVE AND DECISION-MAKING ITEMS	5
A. Risk Categorization	5
B. Project Procurement Classification	6
C. Scope of Due Diligence	6
D. Processing Schedule and Sector Group's Participation	6
E. Key Processing Issues and Mitigation Measures	6
APPENDIXES	
1. Design and Monitoring Framework	7
2. Project Procurement Classification	10
3. Technical Assistance for Project Preparation	12
4. Initial Poverty and Social Analysis	16

PROJECT AT A GLANCE

1. Basic Data		Project Number: 51084-001	
Project Name	Strengthening ICT systems for Efficient and Transparent Public Investment and Tax Administration	Department /Division	EARD/EAPF
Country Borrower	MON Mongolia	Executing Agency	Ministry of Finance
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		25.00
		Total	25.00
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)	✓
Private sector development (PSD)	Public sector goods and services essential for private sector development		
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	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		25.00	
Sovereign Project (Regular Loan): Ordinary capital resources		25.00	
Cofinancing		0.00	
None		0.00	
Counterpart		2.00	
Government		2.00	
Total		27.00	

PROBLEM TREE



ICT = information and communications technology, MIS = management information system

Source: Asian Development Bank

I. THE PROJECT

A. Rationale

1. The proposed project will support the Government of Mongolia to strengthen public financial resource management through improved information and communication technology (ICT), especially for tax administration and public investment management.

2. The Mongolian economy went through a major transition from traditionally agriculture and livestock-herding based economy to minerals based one, and became vulnerable to the risks associated with commodity price volatility. To mitigate the risks and meet the demand for needed infrastructure investment for longer-term sustainable economic development, Mongolia needs well-functioning domestic resources mobilization through efficient tax administration and adequate public investment management system based on two key principles: transparency and efficiency. Transparency is essential to make the government more accountable, while efficiency is necessary for better and effective use of limited public resources.

3. Domestic resource mobilization through efficient tax collection and management, and budget planning and execution for public investment are fundamental functions of public financial management where Mongolia has put much efforts to improve. Legal and regulatory framework has been strengthened through the enactment of the Budget Law (2002, amended 2011) and investments in ICT systems both for tax administration and public investment. However, challenges remain as ICT systems are fragmented per operations and there is a lack of integrated information exchange along with inefficient business processes.

4. **Tax administration system:** Government revenues are mainly generated from taxation and royalties from mining industry.¹ There are over 20 types of taxes administered by the Mongolian Tax Authority (MTA), covering the entire range of direct and indirect taxes except customs duty. MTA is the central tax administration authority, comprised of a number of entities including the state administrative body, referred to as the General Department of Taxation, followed by the agencies offices, and tax branches at the provincial and district level.² Tax offices and branches in local level independently carry out tax administration and only periodically provide data to the central server in the General Department of Taxation.

5. Effective tax administration system consists of well-defined business processes of taxpayer registration, tax collection, verification, accounting and auditing, and supporting mechanisms to ensure efficient applications of business process. However, the existing ICT systems for tax administration in Mongolia were developed to merely replicate the manual business processes into an ICT system, providing for isolated administration of each tax without leveraging the taxpayer data across the registered taxes. The current tax filing and payment compliance processes and systems require substantial strengthening in automatically flagging suspected cases for detailed assessment and audits.

6. Well-designed ICT has a substantial role in improving the tax payer base by enabling the government in identifying the unregistered and potential tax payers and in managing the lifecycle of tax payer registration, tax liabilities assessment, collection, and reporting. The MTA began

¹ Windfall tax and corporate income tax are the largest revenue streams, representing 36% and 17% of total reported government income respectively.

² Local governments also have tax administration units for local taxes such as property tax although a major portion of local government revenues still rely on central government's fiscal transfer.

transitioning to an ICT based tax administration system in the early 2000s. It has been working to establish a tax information system to automate registration of taxpayers and tax types, tax accounting and auditing, tax payment, and the tax refund process. However, planning and investments in ICT have been ineffective, especially with different systems outdated and operating for different business processes, resulting in isolated data repositories and systems in tax administration.³

7. **Public Investment Management (PIM).** The entire life cycle of PIM is administered by Budget Investment Department (BID) of Ministry of Finance (MOF).⁴ While certain level of autonomy in local government⁵ exists with tax collection, and budget planning and execution for small investment projects, all fixed investment project proposals at local government, fully or partially funded by the central government, still must be submitted to MOF. As inputs are required from sector ministries, agencies, and their systems to successfully complete the public investment management process cycle, interoperability, availability of information from external systems and interface with the core public investment management, and monitoring system are major challenges for PIM in Mongolia.

8. Overall business process of PIM in Mongolia has been fragmented and inefficient, often causing suboptimal public investment decisions, insufficient performance, and opaque monitoring and evaluations. Most of PIM functions are carried out manually in the current environment with data maintained in excel sheets and in manual documents resulting in ineffective monitoring of the investments, physical and financial progress, and results and benefits from such investments. Knowledge gaps also exist in understanding and designing a good practice based business processes. Thus, a comprehensive and centralized business process system for PIM is required for transparent and efficient management of the entire lifecycle of public investment.

9. There is also insufficient ICT capacity for PIM in Mongolia, with technical and functional limitations that prevent optimized utilization of ICT for management of public investments. The existing Budget Preparation Information System (BPIS) application in use for budget preparation offers very limited functionality for PIM, primarily focused on capturing the budgetary estimates for the proposed projects with limited functionality for managing the entire lifecycle of PIM. The system also needs to interface with the critical ICT systems of the government including the budget management system, BPIS; expenditure management system, and Government Financial Management Information System (GFMS) for creating a seamless management ecosystem.

10. Existing capacity and resource constraints in BID, MOF is also severely impeding the planning and managing PIM functions in Mongolia, particularly in aspects such as: (i) approach and methodology for evaluation of the project proposals; (ii) selecting projects that fit with the overall economic development vision and growth plans of the country; (iii) investment planning and policy development; and (iv) financing, monitoring, and evaluations on selected projects.

³ Existing systems were developed separately for each tax type (e.g. personal income tax, corporate tax, value-added tax, property tax, etc.) and processes on various technology platforms resulting in more than 20 ICT systems (e.g. general tax payer registration system, property tax payer registration system, tax return system, tax audit system, tax account system, etc.) in use with disintegrated data sources.

⁴ The life cycle of PIM includes receiving proposals from sector ministries and local governments, proposal review and approval, project monitoring and evaluation, and managing the assets created under such public investments.

⁵ The authorities of local governments have been significantly enhanced, with provincial governments responsible for basic education, primary healthcare, urban planning and construction, social welfare services, water supply and sewerage, public transport, urban roads and bridges, and municipal services. These functions will be financed through local taxes and fiscal transfers from shared taxes from the central government, with the transfer formula based on population, population density, remoteness and size of the local government, and level of local development.

B. Proposed Solutions

11. **Improving transparency, efficiency, and accountability in public financial management through ICT.** The proposed project will strengthen Mongolia's public financial resource management through redesigning of current business process, improving ICT systems, and developing capacities of staff and agencies. The proposed ICT system for tax administration aims to establish an integrated information repository on the tax payers for managing the entire lifecycle of tax administration across all the taxes⁶ collected by the government, replacing outdated and disintegrated systems. On managing public investments, the proposed ICT system will support the government in managing the entire lifecycle of PIM functions, which are currently carried out manually with inefficiencies and in a disintegrated manner across the agencies.

12. The proposed project comprises two components. Component 1 will support MTA to re-design and improve business process, establish tax administration and information system (TAIS), and develop capacities of the staff. Component 2 will help the BID, MOF examine and re-design business process, develop a comprehensive public investment management information system (PIMIS), and develop capacities of staff. MOF will be the executing agency.

13. **Component 1: comprehensive TAIS in business process and ICT capacity.** The proposed project will examine and evaluate the current business process of tax administration and provide necessary support to reform the process. Based on the new business process, a comprehensive TAIS will be developed and installed for more efficient and transparent tax administration with complete data migration and validation from the old systems. Necessary capacity development needs will be assessed and relevant capacity development programs will be provided and conducted.

14. **Component 2: Comprehensive PIMIS in business process and ICT capacity.** The proposed project will improve current business process of PIM among various government agencies. A new ICT system, PIMIS, will be developed to integrate the functions of receiving applications, conducting due diligence, making decisions, budget execution, monitoring, and evaluation. Two existing ICT systems including BPIS and GFMIS⁷ will be connected to the PIMIS. The PIMIS will be linked to the local governments and the National Development Agency to select and manage mega-projects for public investment plan.

15. The proposed project under both components will have the following three outputs:

- (i) **Output 1: Business process for tax administration and public investment streamlined and improved.** The project will reengineer its current business processes of tax administration and PIM in line with international good practices⁸ and provide necessary support in redesigning and improving functional coverage of the system, integration requirements, and ICT infrastructure needs.

⁶ TAIS will cover all national government taxes, including both taxes paid by individuals and businesses. Illustrative list of taxes to be covered by TAIS include corporate and personal income taxes, value-added tax, excise tax, stamp duty, vehicle tax and other duties levied by the MTA.

⁷ BPIS is to manage the budgeting for the approved projects, while GFMIS is for budget execution and disbursement.

⁸ International good practice generally follows principles and guidelines released by ADB, i.e., Tool Kit for Tax Administration Management Information System (2014), the Centre for Tax Policy and Administration, Organization for Economic Co-operation and Development (OECD), or other international standards defined by IMF (Tax Administration Diagnostic Assessment Tool).

- (ii) **Output 2: ICT system for tax administration and public investment functionally improved and strengthened.** The project will support the executing agency to define functional and system requirements and develop ICT systems for new TAIS and PIMIS. New software and hardware will be procured. Existing facilities to accommodate new ICT systems will be improved and expanded.
- (iii) **Output 3: Capacity of Government staff in administering and managing TAIS and PIMIS improved.** A capacity development plan for required skills and staff will be prepared, then technical training workshops and seminars will be arranged and conducted. Public awareness activities will be also planned and conducted.

16. These outputs will result in the following outcome: transparency and efficiency of tax administration systems and PIM in Mongolia strengthened.⁹ The project will be aligned with the following impact: accountability and benefits of public financial resource management enhanced.

17. **Strategic fit.** The Midterm Review of Strategy 2020¹⁰ emphasizes the importance of governance and institutional capacity in sustaining growth momentum and ensuring inclusive development. The project will support the government to continue its reform efforts in public financial resource management by strengthening tax administration and PIM. The design of the project follows ADB's sector and thematic operational plan, Financial Sector Operational Plan (2011).¹¹ The project is in line with ADB's Country Partnership Strategy for Mongolia, 2017–2020,¹² and the Government Action Plan, 2016–2020.¹³

C. Proposed Financing Plans and Modality

18. **Indicative project cost and major investments.** The government has requested a regular investment loan of \$25.0 million from ADB. The indicative total project cost of the proposed project is \$27.0 million, of which \$25.0 million will be financed by ADB from regular ordinary capital resources (OCR). The preliminary project investment plans are in Tables 1 and 2. The indicative total cost for component 1 is \$15.0 million, and \$10.0 million for component 2.

Table 1: Indicative Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	25.0	92.0
Government	2.0	8.0
Total	27.0	100.0

Source: Asian Development Bank estimates.

⁹ The design and monitoring framework is in Appendix 1.

¹⁰ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

¹¹ ADB. 2011. *Financial Sector Operational Plan*. Manila.

¹² ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020*. Manila.

¹³ Government of Mongolia. 2016. *Government Action Plan, 2016–2020*. Ulaanbaatar.

Table 2: Indicative Investment Plan

Item	Amount (\$ million)
Civil works	4.0
ICT Infrastructure and hardware	2.5
ICT software and technical services	6.0
ICT maintenance	3.8
Equipment (computers, etc.)	1.2
Business process analysis and advisory services	2.5
Project management	1.8
Contingencies	2.0
Financial charges during implementation	1.2
Total	25.0

ICT = information and communication technology

Source: Asian Development Bank estimates.

D. Implementation Arrangements

19. The implementation arrangements are summarized in Table 3.

Table 3: Indicative Implementation Arrangements

Aspects	Arrangements
Indicative implementation period	October 2018–September 2021
Indicative completion date	30 September 2021
Management	
(i) Executing agency	MOF
(ii) Key implementing agencies	Component 1 for TAIS: MTA Component 2 for PIMIS: BID, MOF

BID = Budget Investment Department, MOF = Ministry of Finance, MTA = Mongolian Tax Authority, PIMIS = public investment management information system, TAIS = tax administration and information system

Source: Asian Development Bank

II. PROJECT PREPARATION AND READINESS

20. The initial design of the TAIS and PIMIS will be supported by an attached transaction technical assistance (TA), which is estimated to cost \$400,000 and will be financed on a grant basis by ADB's technical assistance special fund (TASF-6). The TA will support the preparation of the proposed loan by (i) establishing a guideline for MTA to design, develop, and roll out a new ICT system for MTA; and (ii) determining required specifications and standard for the procurement of new public investment management ICT system for MOF. The TA will also help ADB and the executing agency for the smooth preparation of the proposed project by providing necessary support to complete required due diligence, to design and conduct necessary capacity building activities for stakeholders, and to review international good practices. The executing agency will be MOF and the implementing agencies will be MTA and BID of MOF.

III. DELIBERATIVE AND DECISION-MAKING ITEMS

A. Risk Categorization

21. The proposed project is categorized as "low risk" because: (i) the loan amount does not exceed \$200 million; (ii) safeguard categorization of 'C'; and (iii) proven capacity of the executing agency and implementing agencies in administering projects financed externally, including ADB.

B. Project Procurement Classification

22. The project procurement classification is category A. The procurement will follow ADB's Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). The executing and implementing agencies will be required to follow the relevant procurement rules and adopt appropriate procedures as required under ADB's Procurement Policy.

C. Scope of Due Diligence

Due Diligence Outputs	To be undertaken by
Development coordination	Staff and TA grant
Economic analysis	Staff and TA grant
Financial due diligence ¹⁴	Staff and TA grant
Project Procurement Risk Assessment	Staff and TA grant
Safeguard screening and categorization results	Staff and TA grant
Project administration manual	Staff and TA grant
Risk assessment and management plan	Staff and TA grant
Safeguard (environment, involuntary resettlement, and indigenous peoples)	Staff and TA grant
Sector assessment	Staff and TA grant
Summary poverty reduction and social strategy	Staff and TA grant

TA = technical assistance.

Source: Asian Development Bank.

D. Processing Schedule and Sector Group's Participation

Table 4: Processing Schedule by Milestone

Milestones	Expected Completion Date
1. Concept Clearance	November 2017
2. Loan Fact-Finding	March 2018
3. Staff Review Meeting	April 2018
4. Loan Negotiations	May 2018
5. Board Consideration	July 2018
6. Loan Effectiveness	October 2018

Source: Asian Development Bank

E. Key Processing Issues and Mitigation Measures

23. Significant risks and mitigating measures are summarized in table 5.

Table 5: Issues, Approaches, and Mitigation Measures

Key Processing Issues	Proposed Approaches and/or Mitigation Measures
1. Potential risks in the limited capacity of MTA and its ICT system development arm, Information Technological Center for Customs and Taxation	Capacity assessment will be undertaken for ICT system development. The advisory support will be provided from the early stage of preparation and designing.
2. Potential difficulties in inter-agency coordination and communication for developing integrated tax administration and PIM system	All the stakeholders and agencies will be consulted from the defining of system specifications and designing stage of the ICT to bring their commitment.

ICT = information and communication technology, MTA = Mongolian Tax Authority, PIM = public investment management

¹⁴ Financial management capacity assessment, financial performance review of executing agency, financial analysis, cost estimates and financing plan, and entity financial analysis and sustainability assessment.

PRELIMINARY DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with			
Accountability and benefits of Public Financial Resource Management Enhanced (Government Action Plan 2016-2020) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome Transparency and efficiency in public investment and tax administration strengthened</p>	<p>a. Public investment management process completely functional on ICT system by 2022 (2017 baseline: none)</p> <p>b. Tax revenues increased by 10% by 2022 (2017 baseline: TBD)</p>	<p>a. Government monitoring report prepared by MOF</p> <p>b. Annual tax report prepared by MTA</p>	<p>Government will not continue support to strengthening MIS ICT systems for public investment and tax administration</p> <p>Economic environment for Mongolia further deteriorated</p>
<p>Outputs</p> <p>1. Business process for tax administration and public investment streamlined and improved.</p>	<p>1a. One review report for PIM process, including PPP management integration, completed by October 2018 (2017 baseline: none)</p> <p>1b. Reform plan introduced by December 2020 (2017 baseline: none)</p> <p>1c. Tax administration reengineering plan approved by December 2020 (2017 baseline: none)</p>	<p>1a. A report of reform plan for PIM process prepared by consultants</p> <p>1b. Project monitoring report prepared by PIU</p> <p>1c. Project monitoring report prepared by PIU</p>	<p>Related ministries and agencies not coordinated</p>
<p>2. ICT system for tax administration and public investment functionally improved and strengthened.</p>	<p>2a. Customization, installation, testing, rolling out of the base system for PIM completed by December 2020 (2017 baseline: none)</p> <p>2b. Development, testing, rolling out of tax administration base system completed by December 2020 (2017 baseline: none)</p> <p>2c. Needed ICT infrastructure and hardware equipped by</p>	<p>2a-2e. Semi-annual project monitoring report prepared by PIU</p>	

	<p>December 2019 (2017 baseline: none)</p> <p>2d. Improvements and expansion of two server rooms and eleven offices of MTA and Budget investment Department completed by December 2020 (2017 baseline: none)</p> <p>2e. At least two ICT existing ICT systems of BPIS and GMFIS linked to TAIS and PIMIS by December 2021 (2017 baseline: none)</p> <p>2f. Maintenance and adjustment of TAIS and PIMIS conducted on regular basis, at least twice a year by April 2022 (2017 baseline: none)</p>		
<p>3. Capacity of government staff in administering and managing TAIS and PIMIS improved</p>	<p>3a. At least 50% of staff (with 30% female staff participation) trained for ICT System user interface completed by June 2020, (baseline: not applicable)</p> <p>3b. At least 50% of staff (with 30% female staff participation) trained for system-based management completed by June 2020 (2017 baseline: none)</p> <p>3c. At least 50% of staff (with 30% female staff participation) trained for maintenance and upgrading the systems processes developed by December 2020 (2017 baseline: none)</p>	<p>3a. System users guide; project monitoring report prepared by PIU</p> <p>3b. Guideline for the system-based business processes; Project monitoring report prepared by PIU</p> <p>3c. A report of capacity development plan; Project monitoring report prepared by PIU</p>	

<p>Key Activities with Milestones</p> <p>1. Business process for tax administration and public investment streamlined and improved.</p> <p>1.1 Review of and reform plan for PIM process, including PPP management integration, completed by October 2018.</p> <p>1.2 Complete tax administration reengineering by December 2020.</p> <p>2. ICT system for tax administration and public investment functionally improved and strengthened.</p> <p>2.1 Equip needed ICT infrastructure and hardware by December 2019.</p> <p>2.2 Complete customization, installation, testing, rolling out of the base system for PIM by December 2020.</p> <p>2.3 Develop, test, roll out tax administration base system by December 2020.</p> <p>2.4 Improve existing facilities for new hardware by December 2020.</p> <p>2.5 Link relevant ICT systems, including local levels, to TAIS and PIMIS by December 2021.</p> <p>3. Capacity of government staff in administering and managing TAIS and PIMIS improved.</p> <p>3.1 Train staffs for the system user interface by June 2020</p> <p>3.2 Train staffs for the system-based management by June 2020.</p> <p>3.3 Train staffs for maintenance and upgrading of the ICT systems by December 2020.</p>
<p>Inputs</p> <p>ADB ordinary capital resources regular loan: \$25 million</p> <p>Government: \$2 million</p>
<p>Assumptions for Partner Financing</p> <p>Not Applicable.</p>

ICT = information and communication technology, MIS = management information system, PIM = public investment management, PIMIS = public investment management information system, PIU= project implementation unit, PPP = public-private partnership, TAIS = tax administration information system, TBD = to be determined

^a ADB's *Country Partnership Strategy for Mongolia, 2017–2020*; and the *Government Action Plan, 2016–2020*.

Source: Asian Development Bank.

PROJECT PROCUREMENT CLASSIFICATION

Characteristic	Assessor's Rating:
Is the procurement environment risk for this project assessed to be <i>high</i> based on the country and sector and/or agency risk assessments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Yes. Mongolia is accorded a "high" preliminary risk rating by ADB.
Are multiple (typically more than three) and/or diverse executing agencies and/or implementing agencies envisaged during project implementation? Do they lack prior experience in implementation under an ADB-financed project?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown Implementation of this project will involve one executing agency and two implementing agencies; MOF will be the executing agency, while the MTA and BID of MOF will be the implementing agencies. MTA does not have prior experiences in implementation under ADB-financed project while BID, MOF had prior experiences under ADB-financed project.
Are multiple contract packages and/or complex and high-value contracts (compared with recent externally financed projects in the developing member country Mongolia) expected?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown Yes, this project implementation will require multiple contract packages involving procurement of ICT goods, and consulting services for design, development, implementation and maintenance of ICT applications for PIM and tax administration. Bidding document might require scoring system and 1S2E or even 2S bidding procedures.
Does the project plan to use innovative contracts (public-private partnership, performance-based, design and build, operation and maintenance, etc.)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are contracts distributed in more than three geographical locations?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are there significant ongoing contractual and/or procurement issues under ADB (or other externally) financed projects? Has misprocurement been declared in the DMC?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown Yes, misprocurement cases had occurred in Mongolia in other sectors.
Does the DMC have prolonged procurement lead times, experience implementation delays, or otherwise consistently fail to meet procurement time frames?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown

	Implementation delays due to prolonged procurement lead time are frequent in Mongolia.
Do executing and/or implementing agencies lack capacity to manage new and ongoing procurement? Have executing and/or implementing agencies requested ADB for procurement support under previous projects?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown MTA does not have prior experience with ADB funded projects; while the BID of MOF does have experience with ADB funded projects.
Regional department's overall recommendation (Seung Min Lee, Financial Sector Specialist, EAPF)	
Overall project categorization recommended	<input checked="" type="checkbox"/> Category A <input type="checkbox"/> Category B
<p>BID, MOF in the Government of Mongolia is the executing agency for the entire project, while it also plays the role of implementing agency for the PIMIS component. MTA is the implementing agency for the TAIS component. While procurement capacity exists in both MOF and MTA, for conducting donor funded projects related procurement and related operational activities, including ADB funded projects, both agencies will require support in managing the overall procurement activities under the project. Therefore, four procurement specialists (two international and two national) will be hired to support MOF and MTA respectively in managing project related procurement. In addition, the project outputs will also focus on creating institutional capacities in both the agencies, including project management, procurement, and contract administration. The institutional strengthening will be undertaken through recruitment of specialists, both national and international during the first two years of the project implementation. These mitigating measures will substantially reduce the project procurement risk. However, the nature and type of bidding procedures are complex due to the design, development, tendering and implementation with maintenance of the ICT platform intended to be procured both for the TAIS and the PIMIS. Hence, it will be needed complex bidding procedures including scoring system, 1S2E or even 2S bidding procedures. Hence, we recommend category "A" for the procurement portfolio of this intervention.</p>	
OSFMD's recommendation (C. Janyna Rhor, Senior Procurement Specialist)	
OSP2 endorses the recommendation of category "A" procurement wise for this project. And, additional support will be provided during the preparation of the project as well as during implementation.	

1S2E = Single-Stage: Two Envelope, 2S = Two Stage, ADB = Asian Development Bank, BID = Budget Investment Department, ICT = information and communication technology, MOF = Ministry of Finance, MTA = Mongolian Tax Authority, PIM = public investment management, PIMIS = public investment management information system, TAIS = tax administration information system

TECHNICAL ASSISTANCE FOR PROJECT PREPARATION

I. THE ENSUING PROJECT

1. The proposed project will support the Government of Mongolia in strengthening public financial resource management through improved information and communication technology (ICT), especially in Public Investment Management (PIM) and tax administration. The proposed project will examine and redesign current business process, improve ICT systems, and develop capacities of staff and agencies. Major portion of the investment will be used for improving ICT Systems for tax administration and PIM, where it could improve information access, linking of government revenues with expenditure, and in creating a seamless service delivery mechanism for all stakeholders, including the government departments, urban local bodies, donor agencies, vendors, and citizens.

2. The proposed project comprises two components. Component 1 will support the Mongolian Tax Authority (MTA) to re-design and improve business process, establish Tax Administration and Information System (TAIS), and develop capacities of the staff. Component 2 will help the Budget Investment Department (BID), Ministry of Finance (MOF), examine and re-design business process; develop a comprehensive public investment management information system (PIMIS); and develop capacities of staff. The MOF will be the executing agency. The MTA will be the implementing agency for component 1, and the BID, MOF, will be the implementing agency for component 2. The proposed project under both components will have the following three outputs: (i) business process for tax administration and public investment streamlined and improved, (ii) ICT system for tax administration and public investment functionally improved and strengthened, and (iii) capacity of staff in administering and managing TAIS and PIMIS improved.

3. These outputs will result in the following outcome: transparency and efficiency of tax administration systems and PIM in Mongolia Strengthened.¹ The technical assistance (TA) will be aligned with the following impact: accountability and benefits of public financial resource management enhanced. The indicative total project cost of the proposed project is \$27 million, of which \$25 million will be financed by Asian Development Bank (ADB) from its ordinary capital resources. ADB will finance 92% of total project costs. The transaction technical assistance (TRTA) is included in country operations business plan, 2017–2019 for Mongolia.²

II. THE TECHNICAL ASSISTANCE

A. Justification

4. The TRTA will help the government to prepare the project to implement the proposed project. The TRTA will conduct feasibility study and prepare the relevant project documents in accordance with ADB's requirements for approval of the project by ADB and the government.³

B. Outputs and Activities

5. The TRTA will engage international and national consultants to (i) conduct sector reviews to identify key issues to be addressed by the investment project; (ii) provide advisory support for designing a new ICT system for transparent and efficient tax administration and defining

¹ The design and monitoring framework is in Appendix 1.

² ADB. 2017. *Country Operations Business Plan: Mongolia, 2017–2019*. Manila.

³ The TA first appeared in the business opportunities section of ADB's website on 7 December 2017.

specifications and standard for a new public investment management ICT system; (iii) help the executing agency prepare preliminary feasibility studies, which may include technical, financial, economic, and socioeconomic analyses; cost estimates; environmental and social impact assessment; preparation of institutional and capacity development plans; and a study for initial benchmark indicators; (iii) conduct pre-implementation work for the investment project; (iv) assist the executing agency and implementing agencies in assessing preliminary engineering designs and specifications, verifying detailed cost estimates, recommending procurement arrangements, and preparing terms of references for procurement consulting services during the project implementation; (v) suggest key features in contractual agreements or other necessary legal or institutional arrangements; and (vi) contribute to the preparation of the project administration manual.

6. The major outputs and activities are summarized in Table A3.1.

Table A3.1: Summary of Major Outputs and Activities

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Due diligence conducted and project documents prepared	project inception	1.1 Review of all required linked documents
	project inception + 2 months	1.2 Project financial and economic analyses
	project inception + 2 months	1.3 Financial analysis and financial management assessment
	project inception + 2 months	1.4 Project Procurement Risk Assessment
	project inception + 2 months	1.5 Training the executing and implementing agencies on ADB procurement procedures.
	project inception + 3 months	1.6 Poverty and social impact assessment
	project inception + 3 months	1.7 Safeguards due diligence (IEE including EMP, social safeguards reports, assessment of project impacts on climate risks)
	project inception + 3 months	1.8 Draft project administration manual
2. Preliminary design and system specifications finalized with bidding documents prepared	Project inception + 3 months	2.1 Technical appraisal, cost estimates, and procurement plan
	Project inception + 3 months	2.2 Draft Procurement Plan for the Loan
	Project inception + 3 months	2.3 Draft Bidding Documents for works, IT goods and services and consulting services
	Project inception + 3 months	2.4 Feasibility study reports finalized
3. Project management capacity of the executing agency improved	Project inception + 1 months	3.1 Capacity development plan prepared for executing and implementing agencies
	Project inception + 3 months	3.2 Capacity development seminars and workshops conducted

ADB = Asian Development Bank, EMP = environmental management plan, IEE = initial environmental examination, IT = information technology.

Source: Asian Development Bank.

C. Cost and Financing

7. The TRTA is estimated to cost \$ 400,000, which will be financed on a grant basis from ADB's technical assistance fund (TASF-6). The government will provide counterpart support in the form of counterpart staff, office facilities, office supplies, secretarial assistance, local transportation, communication facilities for consultants, as well as access to necessary data and relevant documents subject to proper confidentiality, and other in-kind contributions. The detailed cost estimate is presented in Appendix 4.

D. Implementation Arrangements

8. The TRTA will be implemented over the period of December 2017 to July 2018. MOF will be the executing agency. The executing agency will be supported by the ADB project team and other agencies in the Mongolia, including the MTA and BID, MOF. The financial management assessment has been conducted by the executing agency, Ministry of Finance. An Advance Payment Facility may be used for training and workshop administration by the executing agency. The financial management assessment has been conducted and the executing agency has sufficient capacity and internal control to maintain records.

9. The proposed TA processing and implementation schedule is listed in Table A3.2.

Table A3.2: Implementation Arrangements

Aspects	Arrangements
Indicative implementation period	December 2017 to July 2018
Executing agency	MOF
Implementing agencies	MTA and BID, MOF
Consultants	To be selected and engaged by ADB
	ICS 25 person-months \$345,000
Procurement ^a	Shopping
Advance contracting and retroactive financing	None
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).
Asset turnover or disposal arrangement upon TA completion	Equipment procured under the TA will be turned over to the executing agency upon completion of TA activities.

ADB = Asian Development Bank, BID = Budget Investment Department, ICS = individual consultant selection, MOF = Ministry of Finance, MTA = Mongolian Tax Authority, TA = technical assistance.

^a Procurement Plan (accessible from the list of linked documents in Appendix 5).

Source: Asian Development Bank.

10. **Consulting Services.** The TRTA will engage seven international consultants for 12 person-months and six national consultants for 13 person-months total in accordance with ADB's Procurement Policy (2017, as amended from time to time), and proceeds will be disbursed in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Given the varied nature of consulting assignments in the area of public finance management with relatively smaller scale of investment, it is recommended that consultants will be individually selected.⁴

⁴ Output-based/lump sum contracts will be considered for consulting services. Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 6).

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 (13 person-months)	40.0
b. Out-of-pocket expenditures	
i. International and local travel ^b	50.0
ii. Reports and communications ^c	15.0
2. Equipment ^d	5.0
3. Training, seminars, workshops, forum and conferences ^e	
a. Seminars and workshops ^f	15.0
b. Resource persons	10.0
4. Miscellaneous administration and support costs ^g	5.0
5. Contingencies	20.0
Total	400.0

Note: The technical assistance (TA) is estimated to cost \$400,000, of which contributions from the Asian Development Bank 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 the Asian Development Bank'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, recorders, software, printers, and other equipment to be procured based on ADB's Procurement Policy (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 Budget under training, seminars, workshops, forum and conferences includes representation expenses.

^f Includes the costs of arrangement of venues, translation or interpretation of meetings, seminar- and workshop-related items, and domestic/external training participation. Specific budget and arrangements are subject to prior approval from ADB.

^g Costs of printing, communication, mission team transport, and translation and interpretation costs for the TA are also included in this line item.

Source: Asian Development Bank estimates.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Mongolia	Project Title:	Strengthening Public Financial Resource Management through IC Technology System
Lending/Financing Modality:	Multi-sectoral	Department Division:	East Asia Department (EARD)/Public Management, Financial Sector, and Regional Cooperation Division (EAPF)

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The project will support the government to continue its reform efforts in public financial resource management by strengthening tax administration and public investment management. The design of the project follows Asian Development Bank’s (ADB) sector and thematic operational plan, Financial Sector Operational Plan (2011). The project is in line with ADB’s Country Partnership Strategy for Mongolia, 2017–2020; and the Government Action Plan, 2016–2020, to sustain inclusive economic growth and improve the transparency and accountability of the management systems of the public sector to help ensure that the financial resources of both ADB and the government are used appropriately and effectively.

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2,)

The improved public financial management will result in transparent allocation of public funds, efficient revenue collection, and robust monitoring of public expenditures, which will lead to opportunities of prioritization of resources towards inclusive development. The project benefits will be shared with all Mongolian residents and businesses, foreign investors, and the donor community.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries.

According to the Household Income Expenditure and Living Standards Survey, by the National Statistics Office and World Bank,^a the poverty rate dropped from 38.8% in 2010 to 21.6% in 2014. The poor in Mongolia is represented mainly by the following groups of people: long-term unemployed, families with four and above children, single-headed households, disabled people, job seekers of age above 40 years old and youth, including young graduates, and working poor. The major reason of poverty is lack of employment opportunities, which can be generated through the direct employment and expansion of business opportunities within small- and medium-sized enterprise (SME). Mongolia’s too much dependence on mineral is also causing a problem in providing sustainable jobs for the people as the economy has become vulnerable to fast changing commodity prices. With limited job opportunities and lack of diversified industry base, targeted people tend to rely on social benefits rather of being employed. To effectively address these issues, the government’s role is critical in effectively mobilizing public financial resources and making effective investments in public infrastructure, in diversifying economic structure, and in providing necessary social support for the most vulnerable group of people under the poverty. The proposed project will help the government build efficient public financial management system to better mobilize public financial resources to reach socially vulnerable group of people and enhance business environment for SMEs for job creation.

2. Impact channels and expected systemic changes.

Identifying effective public investment opportunities, particularly allocating resources to decent job creation, requires appropriate institutional mechanism for effective national financial resource mobilization. For example, infrastructure investment can help Mongolia’s economy to diversify away from its mining dependency, creating more sustainable jobs for all level of citizens including poor people. In order for the national resources to effectively reach the targeted groups, the public finance management system should function well to allocate resources in line with policy priorities based of principles of transparency and efficiency. The proposed project will help the government of Mongolia to improve its public management systems with better accountability and efficiency, especially with improved tax administration and public investment. The currently fragmented information repository system for tax

<p>registration and collection system will be improved based on enhanced information and communication technology (ICT) for better government revenue collection, management, and utilization, leading to better allocation of the resources towards poor people, improving business environment for SMEs, and strengthening the service delivery both at national and local levels. Improved public investment mechanism through ICT will also help with more transparent and efficient use of public resources for the government's priority agendas such as inclusive growth and job creations where socially vulnerable people can benefit the most. More importantly, the public will have access to information of public investment that will have direct impact on their lives and will be able to monitor the use of the public financial resources, leading to more effective utilization of the funds and outreach to the poor people. The improved tax administration process and public investment information will be disseminated through government public relations channels for public awareness and education.</p>
<p>3. Focus of (and resources allocated in) the project preparatory TA or due diligence. Since the project deals with the reforms in the public financial management it will not have a "direct" impact on poverty, but it has enormous indirect benefits to poor people in improving their livelihood by indirectly supporting more job creations and more and better utilization of public financial resources for the poor. Therefore, no direct social impacts are expected from the program. On the other hand, "indirect" social impacts are significant, manifested in improvements in the quality and quantity of public services and improved governance resulting from transparent and accountable management of public resources. Therefore, the poverty, social, and gender analyses will focus on the national budget planning and execution, and proposed tax administration system improvement, including poverty, social, and gender implications of tax administration system enhancement and public investment management on the poor and vulnerable groups, including women.</p>
<p>II. GENDER AND DEVELOPMENT</p>
<p>1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? None</p>
<p>2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Since the project will impact all people in urban and rural areas through better public financial management, there will be no specific issues related to gender. However, women, particularly poor or unemployed, will have easier access to information on the taxation and monitoring of public investment projects.</p>
<p>3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>4. Indicate the intended gender mainstreaming category: <input type="checkbox"/> GEN (gender equity) <input type="checkbox"/> EGM (effective gender mainstreaming) <input type="checkbox"/> SGE (some gender elements) <input checked="" type="checkbox"/> NGE (no gender elements)</p>
<p>III. PARTICIPATION AND EMPOWERMENT</p>
<p>1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. The primary stakeholders of the project are the Ministry of Finance (MOF) and Mongolian Tax Authority (MTA). MOF and MTA will participate in the design stage of the project through a series of consultations as executing agency and implementing agency, respectively.</p>
<p>2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? The stakeholders will closely coordinate through regular communications with project team, and the progress and outputs of the project will be disseminated to the public using MOF and MTA public relations communication channels.</p>
<p>3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design? <input checked="" type="checkbox"/> Information generation and sharing <input type="checkbox"/> Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership Low: The proposed project is enhancing the ICT systems within the government public financial management framework; civil society organizations have not been consulted.</p>

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
IV. SOCIAL SAFEGUARDS
A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The project will not involve any construction works resulting in land acquisition and involuntary resettlement. Minor expansion of facilities is needed for installing equipment, and it will be accommodated within existing premises of MOF and MTA and their local offices.
2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None – due diligence will be conducted
B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None – due diligence will be conducted
V. OTHER SOCIAL ISSUES AND RISKS
1. What other social issues and risks should be considered in the project design? <input checked="" type="checkbox"/> (L) Creating decent jobs and employment <input checked="" type="checkbox"/> (L) Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> (M) Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____
2. How are these additional social issues and risks going to be addressed in the project design? N/A
VI. TRTA OR DUE DILIGENCE RESOURCE REQUIREMENT
1. Do the terms of reference for the TRTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the Transaction TA (TRTA) or due diligence? A total of 3 person-months of social safeguard specialists will be hired to conduct social due diligence and poverty, social, and gender analyses during TRTA implementation.

^a Household Income Expenditure and Living Standards Survey done by World Bank and National Statistics Office (2003), and National Statistics Office (2015).

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=51084-001-ConceptPaper>

1. Terms of Reference for Consultants