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30 August 2018

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

1. The Report and Recommendation of the President (RRP: MON 51084-001) on the proposed loan to Mongolia for the Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration Project is circulated herewith.
2. This Report and Recommendation should be read with *Country Operations Business Plan: Mongolia, 2018–2020*, which was circulated to the Board on 22 January 2018 (DOC.IN.12-18).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 20 September 2018), the recommendation in paragraph 38 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

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Report and Recommendation of the President to the Board of Directors

Project Number: 51084-001
August 2018

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

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 12 August 2018)

| | | |
|---------------|---|--------------|
| Currency unit | – | togrog (MNT) |
| MNT1.00 | = | \$0.0004 |
| \$1.00 | = | MNT2,458 |

ABBREVIATIONS

| | | |
|-------|---|---|
| ADB | – | Asian Development Bank |
| BID | – | Budget Investment Department |
| ICT | – | information and communication technology |
| MOF | – | Ministry of Finance |
| MTA | – | Mongolian Tax Authority |
| O&M | – | operation and maintenance |
| PAM | – | project administration manual |
| PIM | – | public investment management |
| PIMIS | – | public investment management information system |
| TAIS | – | tax administration and information system |
| TA | – | technical assistance |

NOTE

In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

| | | | |
|--|---|--------------------------------------|--|
| 1. Basic Data | | Project Number: 51084-001 | |
| Project Name | Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration Project | Department /Division | EARD/EAPF |
| Country Borrower | Mongolia Mongolia | Executing Agency | Ministry of Finance (formerly Ministry of Finance and Economy) |
| 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 | Some gender elements (SGE) ✓ | |
| 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 | |
| Household Targeting | No | High | |
| 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 | | 1.47 | |
| Government | | 1.47 | |
| Total | | 26.47 | |

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to Mongolia for the Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration Project.¹

2. The proposed project will support the Government of Mongolia in enhancing accountability and efficiency of public financial resource mobilization and management through improved information and communication technology (ICT), especially for tax administration and public investment management (PIM).

II. THE PROJECT

A. Rationale

3. The Mongolian economy has been through a major transition from traditional agriculture and livestock herding to a minerals-based economy since the late 1990s, and has become vulnerable to the risks associated with commodity price volatility. To mitigate the risks of external shocks and meet the demand for needed infrastructure investment for longer-term sustainable economic development, Mongolia needs to ensure that it has a well-functioning domestic resources mobilization mechanism. Improving the efficiency of its tax administration and effectiveness of its public service delivery through a PIM system predicated on principles such as transparency, efficiency, and effectiveness is key to achieving this. Transparency is essential to make the government more accountable, while efficiency and effectiveness are necessary for better and more effective use of limited public resources for delivery of needed public services.

4. Efforts to modernize and improve public finance management systems and arrangements in Mongolia have been consistent in direction, even if at times they have materialized slower than planned. The government—with support from the Asian Development Bank (ADB), the World Bank, and other development partners—has made meaningful progress in achieving the key objectives of prudent public financial management: maintaining fiscal discipline, strategic allocation of resources, and operational efficiency in the delivery of goods and services. The legal and regulatory framework has also been strengthened through the enactment of the Budget Law (2002, amended 2011) and investments in ICT systems both for tax administration and PIM.

5. However, as identified in assessments carried out under ADB technical assistance (TA) in 2014² and the World Bank 2015 Public Expenditure and Financial Management Performance report,³ challenges with public financial management remain—high tax arrears, inefficient taxpayer management, limited transparency, and ineffective tax collection—while the PIM system suffers from lack of longer-term fiscal planning, inefficient allocation and management of public resources, and a weak monitoring and evaluation mechanism. Existing ICT systems are fragmented, and there is also a lack of integrated information exchange and inefficient business processes.

¹ ADB. 2014. *Technical Assistance to Mongolia for Strengthening Information and Communication Technology Systems for Efficient and Transparent Tax Administration*. Manila (TA 9448-MON). <https://www.adb.org/projects/51084-002/main>.

² ADB. 2014. *Technical Assistance to Mongolia for Transparency and Efficiency in Public Financial Management*. Manila (TA 8742-MON). <https://www.adb.org/projects/47200-001/main>.

³ World Bank. 2015. *Public Expenditure and Financial Management Performance Report*. Washington, DC.

6. **Tax administration system:** Government revenues are mainly generated from taxation and royalties from the mining industry.⁴ There are over 20 types of taxes administered by the Mongolian Tax Authority (MTA) based on the General Law of Mongolia on Taxation (2008) covering the entire range of direct and indirect taxes except customs duty and excise tax on certain goods, imported vehicles, petroleum, and other fuel. The MTA is the central tax administration authority consisting of a number of entities, including the state administrative body (referred to as the General Department of Taxation), the agencies' offices, and tax branches at the provincial and district level.⁵ Tax offices and branches at the local level independently carry out tax administration and only periodically provide data to the central server in the General Department of Taxation.

7. An effective tax administration system consists of well-defined business processes that include taxpayer registration, tax collection, verification, accounting and auditing, and other supporting mechanisms. However, the existing ICT systems for tax administration in Mongolia were developed to merely replicate the manual business processes, providing for isolated administration of each tax without leveraging taxpayer data across the registered taxes. The current tax filing and payment compliance processes and systems require strengthening so that they can automatically flag suspected cases for detailed assessment and audits.

8. A well-designed and integrated ICT system has a substantial role in improving the taxpayer base as it enables the government to (i) identify unregistered and potential taxpayers; (ii) manage the life cycle of taxpayer registration and tax liabilities assessment, collection, and reporting; and (iii) enhance accountability in tax administration. The MTA began transitioning to an ICT-based tax administrative system and has been working to establish a tax information system to automate the 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 being outdated and operating for different business processes, resulting in isolated data repositories and systems in tax administration.⁶

9. **Public investment management.** The major parts of the life cycle of PIM are administered by the Budget Investment Department (BID) of the Ministry of Finance (MOF).⁷ While a certain level of autonomy in local government with budget planning and execution for small investment projects exists, all fixed investment project proposals at the local government level that are fully or partially funded by the central government must still be submitted to the MOF.⁸ As inputs are required from ministries and agencies through their independently run systems to successfully complete the PIM process cycle, interoperability, availability of information from external systems and interface with the core PIM, and monitoring systems are major challenges for PIM in Mongolia.

⁴ The largest revenue streams of reported government income are windfall tax (36% of total income) and corporate income tax (17%).

⁵ 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 fiscal transfers.

⁶ 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 in use with unintegrated data sources.

⁷ The life cycle of PIM includes development of investment project planning by receiving investment project proposals from ministries, agencies, and local governments; proposal review; submission for approval to Parliament of Mongolia; and implementation of approved investment projects and project monitoring and evaluation.

⁸ The authority of local governments has been significantly enhanced, with provincial governments responsible for basic education, primary health care, 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.

10. Overall, the business process of PIM in Mongolia is fragmented and inefficient, often causing suboptimal public investment decisions, underperformance of investment projects, and opaque monitoring and evaluation. Most of the PIM functions are carried out manually with data maintained in Microsoft Excel sheets and in printed 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 business processes that are based on good practice. Thus, a comprehensive business process system for PIM is required for transparent and efficient management of the entire life cycle of public investment.

11. 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 software, called Fiscal, in use for budget preparation offers very limited functionality for PIM. Its primary focus is on capturing the budgetary estimates for the project, with limited functionality for managing the entire life cycle of PIM. The system also needs to interface with the critical ICT systems of the government that include the budget management system, the budget preparation information system, the expenditure management system, and the government financial management information system to create a seamless management ecosystem and enhance accountability of overall PIM. This is in line with the Government Action Plan, 2016–2020 to improve PIM.⁹

12. Existing capacity and resource constraints in the BID also severely impedes the planning and management of PIM functions in Mongolia, particularly in aspects such as (i) the approach to and methodology for evaluating 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) implementing, financing, monitoring, and evaluating selected projects.

B. Impact and Outcome

13. The project is aligned with the following impact: enhanced accountability and efficiency of public financial resource mobilization and management (footnote 9). The project will have the following outcome: strengthened transparency, efficiency, and effectiveness in public investment and tax administration.¹⁰

14. The project is part of ADB efforts to improve public financial resource mobilization and management in Mongolia,¹¹ and is built on recommendations and lessons¹² from previous ADB TA and projects.¹³ The project is also unique and innovative in taking advantage of ICT for improving tax administration and PIM, addressing inefficiency and transparency in both government revenue and expenditure management at the same time.

⁹ Government of Mongolia. 2016. *Government Action Plan, 2016–2020*. Ulaanbaatar.

¹⁰ The design and monitoring framework is in Appendix 1.

¹¹ Two ADB TA projects have been provided to improve tax administration and public investment management (footnotes 1 and 2).

¹² Lessons learned include (i) ICT system design should be built on analysis and improvements on the business process first; (ii) sufficient resources should be allocated for maintenance of the system, both hardware and software; and (iii) capacity building and training should be provided to all staff on regular basis for technology and system updates.

¹³ ADB. 1998. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Mongolia for the Governance Reform Program*. Manila; ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster of Loans and a Technical Assistance Loan to Mongolia for the Second Phase of the Governance Reform Program*. Manila; ADB. 2013. *Technical Assistance to Mongolia for Public Financial Resource Management*. Manila; and ADB. 2017 *Technical Assistance to Mongolia for Establishing Sovereign Wealth Fund Management Institution*. Manila.

C. Outputs

15. The project will support (i) the MTA to redesign and improve business processes, establish a tax administration and information system (TAIS), and develop capacities of the staff; and (ii) the BID to examine and redesign business processes, develop a comprehensive public investment management information system (PIMIS), and develop capacities of staff.

16. The project will have the following three outputs:

- (i) **Output 1: Streamlined and improved business processes for tax administration and public investment.** The project will reengineer its current business processes of tax administration and PIM in line with international good practices,¹⁴ and provide necessary support in redesigning and improving functional coverage of the system, integration requirements, and ICT infrastructure needs. Automation of standardized and simplified business processes and interactions enhances the efficiency internally as well as with external stakeholders, facilitating better coordination and collaboration.
- (ii) **Output 2: Improved and strengthened information and communication technology systems for tax administration and public investment management.** The project will support the executing agency to define functional and system requirements and develop ICT systems for the new TAIS and PIMIS. New software and hardware will be procured. Existing facilities to accommodate new ICT systems will be improved and expanded.
 - (a) **Tax administration and information system.** The project will support the MTA in consolidating its ICT infrastructure for hosting and managing its business applications, including the TAIS, in the National Government Data Centre in Ulaanbaatar and the proposed disaster recovery site in Darkhan city. The project will provide for the required ICT infrastructure (network, security, computing, and storage infrastructure) and associated system software required for hosting the TAIS in the data center and data recovery site. The project will also provide for non-ICT infrastructure (air-conditioning, and transformers) needed for the data center. The project will also support modernizing the ICT infrastructure in the MTA offices including desktop computers, printers, local area network, and wide area network to interconnect the tax offices to the data center and disaster recovery site.
 - (b) **Public investment management information system.** The project will support the BID to develop or procure an integrated PIMIS and needed ICT infrastructure including network, security, computing and data storage, and associated system software for hosting the PIMIS. The current data center for the MOF where the PIMIS is to be hosted will be expanded. With the implementation of the integrated PIMIS system, Mongolia will have a seamless feed to the development plans from actual budget and projects. Moreover, development project selection will be based on enhanced and informed social cost–benefit analysis, and, hence, will deliver improved socioeconomic value with adequate fund provisioning, which facilitates the reduction of risks to the government in large projects including public–private partnership projects.

¹⁴ International good practice generally follows principles and guidelines of ADB, the Centre for Tax Policy and Administration, the Organisation for Economic Co-operation and Development, or other international standards defined by the International Monetary Fund (Tax Administration Diagnostic Assessment Tool).

- (iii) **Output 3: Improved capacity of government staff in administering and managing the tax administration and information system and the public investment management information system.** A capacity development plan for required skills and staff will be prepared, and technical training workshops and seminars will be arranged and conducted. Public awareness activities will also be planned and conducted. Sensitization and capacity building at different levels of policy and execution strengthen the confidence in public service delivery. Citizens will have enhanced trust in the government because of efficient service delivery and transparency.

17. **Strategic fit.** ADB's Strategy 2030 emphasizes the importance of governance and institutional capacity in supporting public management reforms and financial stability for sustainable and inclusive development.¹⁵ The project will support the government to continue its reform efforts in public financial resource management by strengthening tax administration and PIM.¹⁶ The design of the project follows ADB's sector and thematic operational plan, the Financial Sector Operational Plan.¹⁷ The project is in line with ADB's country partnership strategy for Mongolia, 2017–2020; and the Government Action Plan, 2016–2020.¹⁸

D. Summary Cost Estimates and Financing Plan

18. The total investment of the project is \$26.47 million (Table 1), for which the government has requested a regular loan of \$25.00 million from ADB's ordinary capital resources, or 94.45% of the investment requirement, to help finance the project. Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹⁹

19. The loan will have a 25-year term, including a grace period of 5 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the loan agreement. Based on the straight-line repayment method, the average maturity is 15.25 years, and the maturity premium payable to ADB is 0.1% per year.

20. The summary financing plan is in Table 2. ADB will finance the expenditures amounting to \$25 million in relation to civil works for the data center building; the acquisition of ICT infrastructure and hardware, ICT software and technical services, ICT maintenance, equipment, business process and advisory services, and project management; physical and price contingencies; and financing charges during construction. The Government of Mongolia will finance the remaining \$1.47 million, including taxes and duties, part of TAIS development, TAIS maintenance support, and acquisition of servers.

¹⁵ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

¹⁶ The project will also contribute to the International Monetary Fund's 3-year Extended Fund Facility (2017) for Mongolia of SDR314.51 million to support the country's economic reform program by improving efficiency in tax administration through ICT.

¹⁷ ADB. 2011. *Financial Sector Operational Plan*. Manila.

¹⁸ ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020*; and Government of Mongolia. 2016. *Government Action Plan, 2016–2020*. Ulaanbaatar.

¹⁹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Table 1: Summary Cost Estimates
(\$ million)

| Item | Amount ^a |
|--|---------------------|
| A. Base Cost^{a, b} | |
| 1. Output 1: Streamlined and improved business processes for tax administration and public investment | 1.25 |
| 2. Output 2: Improved and strengthened ICT systems for tax administration and public investment management | 19.12 |
| 3. Output 3: Improved capacity of government staff in administering and managing TAIS and PIMIS | 1.74 |
| Subtotal (A) | 22.11 |
| B. Contingencies^c | 1.65 |
| C. Financial Charges During Implementation^d | 2.71 |
| Total (A+B+C) | 26.47 |

ICT = information and communication technology, PIMIS = public investment management information system, TAIS = tax administration and information system.

^a The government will finance taxes and duties of \$160,000 through exemption. Such amount does not represent an excessive share of the project cost. The Asian Development Bank will finance tax and duties for project management costs.

^b In mid-2018 prices as of 15 May 2018.

^c Physical contingencies computed at 4% for civil works and all the other investments. Price contingencies computed at average of 1.54% on foreign exchange costs and 3.00% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the ordinary capital resources loan has been computed at the 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% and no maturity premium. Commitment charges for the ordinary capital resources loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

Table 2: Summary Financing Plan

| Source | Amount (\$ million) | Share of Total (%) |
|------------------------|---------------------|--------------------|
| Asian Development Bank | 25.00 | 94.45 |
| Government of Mongolia | 1.47 | 5.55 |
| Total | 26.47 | 100.00 |

Source: Asian Development Bank estimates.

E. Implementation Arrangements

21. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 18). The MOF will be the executing agency.

Table 3: Implementation Arrangements

| Aspects | Arrangements | | |
|-------------------------------|--|--------------|-----------------|
| Implementation period | October 2018–September 2022 | | |
| Estimated completion date | 30 September 2022 | | |
| Estimated loan closing date | 30 March 2023 | | |
| Management | | | |
| (i) Oversight body | Project steering committee to be established by MOF MOF state secretary (chair) MOF directors and representatives from the MTA | | |
| (ii) Executing agency | MOF | | |
| (iii) Key implementing agency | For TAIS: MTA For PIMIS: BID, MOF | | |
| Procurement | Open competitive bidding | 10 contracts | \$18.28 million |
| | Request for quotations | 2 contracts | \$0.13 million |

| | | | |
|----------------------------------|---|-------------------|----------------|
| Consulting services | Consultant qualification selection | 74 person-months | \$0.24 million |
| | Individual consultants selection | 682 person-months | \$1.38 million |
| Advance contracting ^a | ADB's support for advance contracting does not commit ADB to approve the loan project or to finance the recruitment costs. | | |
| Disbursement | The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB. | | |

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

^a Advance contracting for recruitment of consulting services and procurement of goods is requested by the executing agency, will be considered subject to the ratification of amendment of the National Procurement Law to allow advance contracting, and subject to MOF and ADB approval to proceed.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

22. The PIMIS, when adapted, is expected to extend across all public entities with full or partial central government financing and investment projects, and sectors including all types of public sector expenditures (actual and contingencies), covering all steps and phases that a project must complete through its productive life and adding value to the country's socioeconomic development. The PIMIS project will increase the accuracy, timeliness, and transparency of the budget and other public finance processes. This is likely to provide an opportunity for future alignment and coherence of organization and processes involved in public finance management.

23. The TAIS project will replace a multitude of existing and dated ICT systems in place for the MTA with a modern ICT system. Once the TAIS is implemented and is integrated with the existing taxpayer service delivery systems (e-tax and value-added tax promotion systems) and other ICT systems of the government (e.g., General Department State Registration, Mongolian Customs) it will support the MTA in enhancing its capabilities in taxpayer compliance monitoring, timeliness in revenue collections, and in implementing the taxpayer risk management audit frameworks to minimize revenue leakages.

B. Economic and Financial

24. The economic analysis was conducted in accordance with ADB's Guidelines for the Economic Analysis of Projects and *Handbook for Integrating Risk Analysis in the Economic Analysis of Projects*.²⁰ The project is considered economically viable with the base-case results showing an economic internal rate of return of 21.14%. The economic benefits considered for the project include cost savings because of a more efficient tax information system, savings in travel costs for taxpayers and tax inspectors, and savings attributable to improved efficiency in investment planning and project implementation. Sensitivity analysis was also undertaken to further test the economic viability of the project. The results indicate that the project is still economically viable in the following scenarios: (i) 10% increase in capital costs; (ii) 10% increase in annual operation and maintenance (O&M) costs; (iii) 10% decrease in benefits; (iv) 10% increase in capital costs and O&M costs, plus 10% reduction in benefits; and (v) delay in the realization of project benefits by 1 year.

²⁰ ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila; and ADB. 2002. *Handbook for Integrating Risk Analysis in the Economic Analysis of Projects*. Manila.

25. Since the project has no revenue-generating component, financial costs and benefits were not analyzed. Financial sustainability analysis was undertaken to evaluate the potential impact of the project on the budget of the MTA for the TAIS and of the MOF for the PIMIS. The TAIS O&M costs in 2023 are estimated at \$1.65 million, and for the PIMIS \$1.41 million. Loan repayments for the TAIS range from \$1.50 million in 2024 to \$1.00 million in 2038, and for the PIMIS from \$0.99 million in 2024 to \$0.66 million in 2038. Apart from the annual O&M costs and loan repayments, the MTA and MOF should also allocate budget for other recurrent costs that occur every 5–10 years. The O&M costs and the recurrent costs for the replacement of some of the ICT hardware and software every 5–10 years are justified given the significant cost savings from the project. While the fiscal impact of the project on the MTA and MOF can be considered minimal, both agencies have to allocate the necessary budget each year for the recurrent costs to ensure continuous operations of the information systems.

C. Governance

26. The financial management assessment considered the capacity of the MOF as the executing agency and the implementing agency for the PIMIS, and the MTA as the implementing agency for the TAIS, including funds flow arrangements, staffing, accounting and financial reporting systems, and internal and external auditing arrangements. The assessment concludes that, while the MOF and MTA have organizations that are appropriate for a project implementing agency, training and capacity of their financial and accounting staff will need to be strengthened, especially on ADB policies and procedures, and requirements. The implementing agencies have accounting systems that allow for the proper recording of project financial transactions. The implementing agencies have internal audit units, and their financial statements are audited every year by the National Audit Office. Budgeting systems and procedures are in place. Functional responsibilities for internal control are undertaken by different units or individuals. The functions for ordering, receiving, accounting, and payments are appropriately segregated.

27. The overall financial management risk is *moderate*, mainly because of the lack of MOF and MTA financial and accounting staff who will provide support to the project, the MTA's unfamiliarity with ADB procedures and requirements, and potential delays in the submission of project financial statements. Mitigation measures include (i) hiring a financial management specialist to assist the MOF, MTA, and project implementation unit in preparing consolidated project financial statements and providing support in daily financial management, including assisting with the monitoring and reporting requirements; (ii) providing training on ADB's disbursement guidelines and procedures to the relevant staff of the MOF and MTA; and (iii) hiring consultants to provide assistance to the MOF and MTA in making timely submissions of the audited project financial statements.

28. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government. The specific policy requirements and supplementary measures are described in the PAM (footnote 18).

D. Poverty, Social, and Gender

29. Due diligence has been conducted on (i) poverty and social analysis to assess the impacts of the project, following ADB's *Handbook on Social Analysis*;²¹ and (ii) gender analysis to assess the potential of the project to contribute to gender equality, following ADB's Guidelines for Gender

²¹ ADB. 2006. *Handbook on Social Analysis*. Manila.

Mainstreaming Categories in ADB Projects.²² Based on poverty, social, and gender assessments, a draft summary poverty reduction and social strategy and gender performance target have been developed. The project is categorized as having some gender elements.

30. Mongolia's relatively strong regulatory framework and international commitments to gender equality provide a solid foundation for mainstreaming and integrating gender issues through sector and local development policies and actions. Gender inequality is viewed as a major contributing factor and barrier to inclusive growth and social and economic development. Achieving gender equality contributes to improved economic growth and poverty reduction. The project will include a specific sex-disaggregated target giving female government officers more opportunity to build capacity in ICT areas where women are provided with fewer opportunities not only for job assignment but also for career progress, especially in management positions. While the ratio of female staff in the MTA is 52.5% and in the MOF 53.5%, the female staff ratio of the information technology departments is only 25.0% in the MTA and zero in the MOF. Capacity building programs and activities will target to encourage more female staff participation.

E. Safeguards

31. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows:²³

32. **Environment (category C).** The project is classified as environment category C. All required permits and approvals shall be obtained from government authorities following national regulations, if needed. The project will involve small construction works, including refurbishment and reconfiguration of local tax offices and upgrade of existing server rooms and data centers through reconfiguration and renovation in government building premises. The expansion of the data center for the PIMIS will only involve adding a small annex to the existing building and will not require foundations. Potential environmental impacts of these activities are expected to be minimal, and good practice will be applied during construction and operation following the PAM and national and ADB requirements. Disposal of used information technology equipment will strictly follow Mongolian legislation on solid-waste management, especially the Law on Waste Management enacted in 2017. In case of unexpected environmental impacts, appropriate measures shall be taken in consultation with ADB by the BID, the MTA, and contractors during construction and operation.

33. **Involuntary resettlement (category C).** The project will not require any land acquisition or involve resettlement.

34. **Indigenous peoples (category C).** No specific communities of ethnic minorities or groups have been identified and no adverse impacts are expected.

F. Summary of Risk Assessment and Risk Management Plan

35. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁴

²² ADB. 2012. *Guidelines for Gender Mainstreaming Categories in ADB Projects*. Manila.

²³ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

²⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

| Risks | Mitigation Measures |
|--|--|
| Delay in procurement of ICT infrastructure for TAIS and PIMIS | MTA and MOF will undertake all preparatory activities needed for procurement, including finalization of terms of reference and bidding documents, in close consultation with ADB's procurement team. |
| Lack of expertise and knowledge in ADB procurement policy and procedures | PIU will be established to carry out day-to-day project activities, including financial management and procurement. It will comprise qualified and experienced procurement consultants. ADB will provide continuous trainings and advice on ADB's procurement policy and guidelines during project implementation. |
| Inadequate counterpart staffing from MTA and MOF for procurement activities | Executing and implementing agencies will establish dedicated project management teams with background and experience needed for coordination and management of the project. |
| Inadequate staffing of MTA and MOF financial and accounting staff and unfamiliarity with ADB procedures and requirements | PIU consultants will be engaged to assist in the financial monitoring and reporting requirements during the implementation period. ADB will provide training on ADB disbursement guidelines and procedures to the relevant staff of MOF and MTA. |
| Changes in political priorities and administrative changes | There will be continued engagement with the government, including ADB's East Asia Department, and close coordination with development partners to support political commitment to the project. |

ADB = Asian Development Bank, ICT = information and communication technology, MOF = Ministry of Finance, MTA = Mongolian Tax Authority, PIMIS = public investment management information system, PIU = project implementation unit, TAIS = tax administration and information system.

Source: Asian Development Bank.

IV. ASSURANCES

36. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan agreement.

37. The government has agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement.

V. RECOMMENDATION

38. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$25,000,000 to Mongolia for the Strengthening Information and Communication Technology Systems for Efficient and Transparent Public Investment and Tax Administration Project, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

29 August 2018

DESIGN AND MONITORING FRAMEWORK

| Impacts the Project is Aligned with | | | |
|---|---|---|---|
| Accountability and efficiency of public financial resource mobilization and management enhanced (Government Action Plan, 2016–2020) ^a | | | |
| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
| Outcome Transparency, efficiency, and effectiveness in public investment and tax administration strengthened | By 2023: a. Key information on tax administration and public investment management process disclosed to the public on accessible ICT platform (2017 baseline: 0) b. More than 50% positive response from user satisfaction survey on TAIS and PIMIS (2017 baseline: 0) c. Tax revenues increased to 15.00% of GDP (2016 baseline: 11.35% of GDP) | a. Government monitoring report prepared by MOF b. User satisfaction survey conducted by MOF and MTA c. Annual tax report prepared by MTA | Government does not continue support to strengthening MIS ICT systems for public investment and tax administration. The economic environment in Mongolia further deteriorates. |
| Outputs 1. Business process for tax administration and public investment streamlined and improved | By 2019: 1a. Manual on business processes and system improvement for PIM prepared and approved (2017 baseline: 0) 1b. Manual on business processes and system improvement for TAIS prepared and approved (2017 baseline: 0) | 1a. Project monitoring report prepared by PIU 1b. Project monitoring report prepared by PIU | Lack of adequate stakeholder coordination |
| 2. ICT system for tax administration and public investment improved and strengthened | By 2022: 2a. Customization, installation, testing, and rolling out of the base system for PIM completed (2017 baseline: 0) 2b. Development, testing, and rolling out of tax administration base system completed (2017 baseline: 0) 2c. Needed ICT infrastructure for PIMIS installed ^b (2017 baseline: 0) | 2a.–2h. Semiannual project monitoring report prepared by PIU | Delay in procurement of ICT infrastructure. Inadequate counterpart staffing from MTA and PIMIS for procurement activities |

| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
|---|---|--|---|
| | <p>2d. Needed ICT infrastructure for TAIS installed^c (2017 baseline: 0)</p> <p>2e. Needed ICT infrastructure for tax offices installed^d (2017 baseline: 0)</p> <p>2f. New data center annex constructed; renovation of the office space for MOF completed (2017 baseline: 0)</p> <p>2g. At least two of existing internal and external ICT systems under the PIMIS cycle interfaced or integrated (2017 baseline: 0)</p> <p>2h. Maintenance and adjustment of TAIS and PIMIS conducted on a regular basis, at least twice a year (2017 baseline: 0)</p> | | |
| 3. Capacity of government staff in administering and managing TAIS and PIMIS improved | <p>By 2021:</p> <p>3a. At least 50% of staff (with 50% female staff participation) trained for ICT system user interface completed (Baseline: 0)</p> <p>3b. At least 50% of staff (with 50% female staff participation) trained for system-based management completed (2017 baseline: 0)</p> <p>3c. At least 50% of staff (with 30% female staff participation) trained for maintenance and upgrade of the systems processes developed (2017 baseline: 0)</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> | Delays in systems development caused by inadequate staffing and/or delayed procurement. |

| |
|--|
| <p>Key Activities with Milestones</p> <p>1. Business processes for tax administration and public investment streamlined and improved</p> <p>1.1 Prepare business processes and system improvement plan for PIM and approve by October 2019.</p> <p>1.2 Prepare business processes and system improvement plan for TAIS and approve by October 2018.</p> <p>2. Information and communication technology systems for tax administration and public investment management improved and strengthened</p> <p>2.1 Complete the customization, installation, testing, and rolling out of the base system for PIM by December 2020.</p> <p>2.2 Complete development, testing, and rolling out of tax administration system by December 2020.</p> <p>2.3 Install the needed ICT infrastructure for PIMIS by December 2021.</p> <p>2.4 Install the needed ICT infrastructure for TAIS by December 2021.</p> <p>2.5 Install the needed ICT infrastructure for tax offices by December 2021.</p> <p>2.6 Complete the new annex of the data center and renovation of the office space for MOF by December 2021.</p> <p>2.7 Interface or integrate at least two existing internal/external ICT systems under the PIMIS cycle by December 2022.</p> <p>2.8 Carry out maintenance and adjustment of TAIS and PIMIS on regular basis by April 2022.</p> <p>3. Capacity of government staff in administering and managing tax administration and information system and public investment management information system improved</p> <p>3.1 Train staff on the system interface by June 2021.</p> <p>3.2 Train staff on system-based management by June 2021.</p> <p>3.3 Train staff on maintenance and upgrading of the ICT systems by December 2021.</p> |
| <p>Inputs</p> <p>ADB: \$25.00 million (ordinary capital resources regular loan)</p> <p>Government of Mongolia: \$1.47 million</p> |
| <p>Assumptions for Partner Financing</p> <p>Not applicable.</p> |

ADB = Asian Development Bank, GDP = gross domestic product, ICT = information and communication technology, MIS = management information system, MOF = Ministry of Finance, PIM = public investment management, PIMIS = public investment management information system, PIU = project implementation unit, TAIS = tax administration information system.

^a ADB. 2017. *Country Partnership Strategy: Mongolia, 2017–2020*; and Government of Mongolia. 2016. *Government Action Plan, 2016–2020*. Ulaanbaatar.

^b Needed infrastructure includes network, security, computing and data storage, and associated software for hosting PIMIS.

^c Needed infrastructure includes network, security, computing and data storage, and associated software required for hosting TAIS.

^d Needed ICT infrastructure for tax offices include desktop computers, printers, local area network, and wide area network.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51084-001-3>

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Economic and Financial Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Risk Assessment and Risk Management Plan

Supplementary Documents

10. Procurement Capacity Assessment
11. Summary of Financial Management Assessment