AID-FOR-TRADE: CASE STORY

ASIAN DEVELOPMENT BANK

The Mongolian Customs Modernization Project

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EXECUTIVE SUMMARY

The Mongolian Customs Modernization Project was proposed to address several trade-related issues. (i) The outdated data processing system, GAMAS; (ii) Inadequate customs physical inspection infrastructure; (iii) poor governance and vulnerability of the customs administration to corrupt practices. The Project aims to increase the volume and facilitate the smooth flow of trade, lower the incidence of corruption and smuggling, enhance duty and tax revenue collection, provide a platform for customs information and communication technology (ICT) to integrate into e-government systems, reduce trade barriers, and improve the investment environment.

Total investment cost is $6.76 million- a loan component of US$ 5 million with a term of 32 years with 8 years grace period and counterpart financing of US$1.26 million from the government of Mongolia, both of which will fund the migration of GAMAS and acquisition of equipment. A US$500,000 united grant from the Republic of Korea e-Asia and Knowledge Partnership Fund will be used for institutional strengthening and capacity building.

The bidding process for the acquisition of customs equipment took longer than expected due to lack of interest from international firms, limited number of qualified local bidders due to the small size of the Mongolian market, some of the bidder qualification criteria and technical requirements were unrealistically high, and lack of experience of local vendors. To address the problems, procurement method was initially changed from national competitive bidding (NCB) to ICB in line with ADB's Procurement Guidelines. After 3 failed ICB bids, the implementing agency (IA) requested for a change to Shopping which was approved by ADB.

The factors for success are due to the alignment of project objectives with Government initiatives on trade facilitation, e-government, and good governance. National ownership is strong since the project is supportive of Mongolia's recent accession to the Revised Kyoto Convention and complements other ADB initiatives to promote regional trade facilitation. In this manner, trade which has been mainstreamed into national development strategies and goals are supported by the project. Success in the Project is shown by the increase and upgrade of trade-related supply side capacity in physical and soft infrastructure and human capacity in trade-related processes and procedures. The new data processing Customs Automated Information system (CAIS) has allowed the Mongolian Customs to accept, process and issue export and

import clearances through 100% online submission. About 1737 officials were trained on a wide range of IT, customs and trade topics. As a result of implementing CAIS in July 2010, the time consumed for import clearance is now 23 minutes compared to 3 hours 6 minutes before while it is now 13 minutes relative to 2 hours 20 minutes before or export clearance. Administrative offences were reduced by 3%.

The lessons learned are the realization that ICT projects should have a broad and longer term perspective to allow for future capacity expansion, flexibility and compatibility with other national data systems. Post project, national government must allocate budgetary support for operation and maintenance of ICT systems to ensure success and continued sustainability. Acquisition and installation of soft and physical infrastructure must be accompanied by capacity building for all concerned government offices and private sector entities directly involved with trade.

To maximize impact of national customs modernization project, it should also be supported by trade facilitation related project with regional components. The project design and lessons learned can be applied to developing countries seeking to modernize their customs administration within the context of introducing transparency, improving tax collection, enhancing trade facilitation and planning and preparing for integration of regional economies.

Case Studies on Aid for Trade

Case Study: Loan and Grant Administration Customs Modernization Project (Mongolia)

Issues Addressed

Several related issues were addressed in this Project.

(i)   The outdated data processing system, Mongolian Customs Automated Data Processing System (GAMAS) of the Mongolian Customs General Administration (MCGA). Customs data from import and export declarations submitted by the trading community is manually operated and the process is people driven, i.e., traders move from one customs processing point to another to seek official approval. Therefore, the human intervention causes delays in customs clearance, is vulnerable to corrupt practices and leads to lack of transparency and to unpredictability in the entire process. Server capacity is also inadequate to run GAMAS partly due to a steady and significant increase in the volume of customs declarations over the period 2001-2005. The situation is complicated by the decentralized architecture of GAMAS making it impossible to achieve a synchronized system and data upgrade across all customs houses. GAMAS needs to be upgraded to an internet-enabled centralized database system to meet the increasing demands of customs control and administration, modern customs business processes such as risk management, post clearance audits, and electronic submission of trade documents.

(ii)   Inadequate customs physical inspection infrastructure. Customs inspection equipment and anti-smuggling detection facilities are inadequate in most customs border posts. In the major border crossing at Zamyn-Uud near the People's Republic of China (PRC), there is only one terminal for passengers and cargo, causing long queues of cargo vehicles. The only customs laboratory is in the headquarters of the MCGA Ulaanbaatar where samples of goods are transported for examination. The inadequacy, in both instances, has led to longer time to clear cargo and release goods.

(iii)   Governance issues and vulnerability to abuses. The vulnerability of the customs administration to abuses such as corruption has been highlighted by a number of recent surveys and assessments of governance in Mongolia. Mongolia was ranked 85 out of 159 nations in the Transparency International (TI) 2005 Corruption Perceptions Index. In the country performance assessment ratings conducted by ADB in 2005, Mongolia's score was at par with the average of all Asian Development Fund (ADF) countries with respect to "transparency, accountability and corruption". The 2004 ADB governance assessment of Mongolia indicated that the import taxes collected still fall short of their potential because of exemptions, collection inefficiencies, and corruption.

OBJECTIVES PURSUED

The Project aims to increase the volume and facilitate the smooth flow of Mongolia's external trade and will be achieved by improving efficiency, transparency, and sustainability in customs services and administration. The Project will also help lower the incidence of corruption and smuggling, enhance duty and tax revenue collection, provide a platform for customs information and communication technology (ICT) to integrate into single electronic window (SEW) and e-government systems, reduce trade barriers, and improve the investment environment.

DESIGN AND IMPLEMENTATION

The Project's investment cost is approximately $6.76 million. The Government of Mongolia has requested a loan of $5 million with a term of 32 years, including a grace period of 8 years, and an interest charge at the rate of 1.0% per annum and 1.5% during the grace period and thereafter. Mongolia will provide the remaining $1.26 million equivalent as counterpart financing for the infrastructure improvement at selected key customs houses, taxes and duties, and in-kind contribution for project implementation and management. Most activities in relation to institutional strengthening under the Project will be funded by an untied grant, US$500,000 from the Republic of Korea e-Asia and Knowledge Partnership Fund, administered by ADB.

To address the issues identified, the Project has three components. One, migrating and upgrading the GAMAS to provide an electronic processing environment supporting internet-enabled and Windows-based systems; interfacing GAMAS with the planned national SEW as part of e-government initiatives, and improvement of communications and network infrastructure.

Two, improvement of customs infrastructure and customs border facilities through the provision of (i) X-ray machines and surveillance equipment at selected key customs houses and border posts and (ii) equipment to enhance the analytical capacity of customs laboratories. This component includes the construction of a data center in the new headquarter building of MCGA and expansion of the cargo terminal at the border control complex in Zamyn-Uud which will be funded by the Government.

Three, institutional strengthening which is composed of (i) implementation and further enhancement of business processes and procedures; (ii) training in relation to the first two components will be conducted following a detailed training plan to be formulated at the beginning of project implementation; (iii) promotion of interagency coordination, in particular with the State Specialized Inspection Agency (SSIA) and the Mongolia Agency for Standardization and Metrology (MASM), and regional cooperation with neighboring and Central Asia Regional Economic Cooperation (CAREC) countries; and (iv) public–private sector partnerships which includes support for private sector consultation and participation, and conducting quality and compatibility testing of software used by the trading community (including traders, customs brokers, logistics operators, and banks) for interfacing with the upgraded GAMAS in an electronic processing environment. Customs staff will be operating in a new environment – new software and hardware and more advanced equipment; hence, training of trainers and users, and maintenance training will be carried out. A manual of reengineered business processes will be prepared.

A project management office (PMO) has been established within the MCGA to undertake day-to-day project implementation and provide secretariat support to the Project Steering Committee (PSC). MCGA will be the Implementing Agency and its director general will be the project director. The PMO director will report to the project director. The Ministry of Finance (MOF) is the executing agency.

Goods, works and related services are to be financed out of the ADB loan and procured according to ADB's *Procurement Guidelines.* Contracts valued at $500,000 or more will be procured through international competitive bidding (ICB) procedures. The grant from the Republic of Korea e-Asia and Knowledge Partnership Fund will fund the institutional strengthening and capacity building. MCGA will implement the grant in consultation with the MOF. ADB conducts regular reviews and audit of the project to monitor the physical and financial progress of the project, identify problems encountered during project implementation and their possible solutions.

PROBLEMS ENCOUNTERED

During the project implementation, the bidding process for the acquisition of customs regional laboratories and X-ray cargo inspection equipment took longer than expected and were attributed mainly to (i) lack of interest from international firms due to the small volume of contracts in US dollar terms; (ii) limited number of qualified local bidders due to the small size of the Mongolian market; (iii) some of the bidder qualification criteria and technical requirements which were set unrealistically high, and (iv) lack of experience on the part of local vendors with regard to bidding for contracts financed by multilateral development banks like ADB. To address the problems, procurement method was initially changed from national competitive bidding (NCB) to ICB in line with ADB's Procurement Guidelines. After 3 failed ICB bids, the implementing agency (IA) requested for a change to Shopping which was approved by ADB.

The PSC, established in September 2007, convened its first meeting in April 2009. The frequency of the PSC meeting is much lower than desired due to frequent changes in the PSC membership as a result of the government changes. The ADB Mission urged the executing agency (EA) and IA to organize the PSC meetings on a more regular basis.

FACTORS FOR SUCCESS / FAILURE

Factors for success can be attributed to the adoption of good practices in project design: project objectives were linked/aligned with three key Government initiatives on trade facilitation, e-government, and good governance. National ownership is strong since the project is supportive of Mongolia's recent accession to the Revised Kyoto Convention and complements other ADB initiatives to promote regional trade facilitation under the Customs Cooperation Committee. In this manner, trade which has been mainstreamed into national development strategies and goals are supported by the project. Furthermore, the project has also included implementation of one-stop services for customs clearances, laying the foundation for inter-agency coordination, and moving forward the Government's plan on e-government and e-Mongolia.

Success in the Project is shown by the increase and upgrade of (i) trade-related supply side capacity in physical and soft infrastructure; and (ii) human capacity in trade –related processes and procedures. The new data processing CAIS has allowed the Mongolian Customs to accept, process and issue export and import clearances through 100% online submission in contrast to the manually-operated GAMAS.

One mini laboratory was installed in February 2010 at the Choir Customs Office and as a result, time for customs clearance was reduced by half. About 1737 officials were trained under this project from March 2008 to February 2011 on a wide range of topics from WCO data model, data exchange, the harmonized system, customs valuation and the CAIS

RESULTS ACHIEVED

The new data processing system in place of GAMAS is Customs Automated Information System (CAIS) which was implemented starting July 2010. As a result of implementing CAIS, (i) all – 100% - customs declaration can be submitted online; (ii) customs clearance are centralized nationwide in Customs HQ; (iii) MCGA started to implement Data Warehouse for the first time - ; (iv) Time consumed for import clearance is now 23 minutes compared to 3 hours 6 minutes under GAMAS while that of export clearance is now 13 minutes relative to 2 hours 20 minutes under GAMAS; (v) Administrative offences were reduced by 3%.

LESSONS LEARNED

In the course project implementation, lessons have been learned.

(i)   On ICT for the Customs, project design should be within a broader operating environment, i.e., the existing IT infrastructure as well as the national e-government ICT programs to provide flexibility for supply capacity expansion, changes in ICT and to also ensure future compatibility with other national data systems.

(ii)   Operation and maintenance costs are necessary in ICT projects. Hence, the key to success and continued sustainability is the emphasis to the national government for budgetary support for these

recurring costs, post project.

(iii)   The installation of a new data processing system and physical border infrastructure must be accompanied by capacity building for concerned government offices, private sector entities directly involved with trade such as customs brokers, freight forwarders, and banks. Training should encompass hardware and software systems as well as the new re-engineered business processes and procedures.

(iv)   To maximize impact of national customs modernization project, it should also be supported by trade facilitation related project with regional components. This Project is support by 4 technical assistance projects – Working with Private Sector and Integrated Trade Facilitation Support for CAREC countries; and Capacity Development for Regional Cooperation and Development of Regional Cooperation Program for the People's Republic of China and Mongolia.

CONCLUSION (applicability to other programs)

Amidst the rapid advancement of ICT globally and its diffusion into almost every aspect of economic activity, many developing countries are confronted with their outdated ICT systems. The project design and lessons learned in this case study can be applied to many developing countries seeking to modernize their customs administration within the context of introducing transparency, improving tax collection, enhancing trade facilitation and planning and preparing for integration of regional economies.