PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 3.8 MILLION

(US$5 MILLION EQUIVALENT)

TO MONGOLIA

FOR A

FISCAL TECHNICAL ASSISTANCE PROJECT

March 16, 1998

South East Asia and Mongolia Country Unit
East Asia and Pacific Region
CURRENCY EQUIVALENTS
(Exchange Rate Effective February 27, 1998)

Currency Unit = Tugrik
Tug 1 = US$0.0012
US$1 = Tug 816

FISCAL YEAR
January 1 - December 31

WEIGHTS AND MEASURES

1 meter (m) = 3.28 feet (ft)
1 kilometer (km) = 0.62 miles
1 square kilometer (km²) = 100 ha
1 hectare (ha) = 2.47 acres
1 ton (t) = 1,000 kg
1 kilogram (kg) = 2.2 pounds

ABBREVIATIONS AND ACRONYMS

ADB Asian Development Bank
BOM Bank of Mongolia (Central Bank)
CAS Country Assistance Strategy
CGA Customs General Administration
DBMS Database Management System
EDI Economic Development Institute
ESAF Enhanced Structural Adjustment Facility
GDNT General Department of National Taxation
GZT Gesellschaft für Technische Zusammenarbeit
MOF Ministry of Finance
NZODA New Zealand Overseas Development Agency
PARPMG Public Administration Reform Project Management Group
PSMFA Public Sector Management and Finance Act
RDBMS Relational Database Management System
SAB State Audit Board
SSC State Services Council
TAC Technical Assistance Credit
UNDP United Nations Development Program
USAID United States Agency for International Development
VAT Value Added Tax

Vice President : Jean-Michel Severino, EAP
Country Director : Ngozi Okonjo-Iweala, EACSM
Sector Manager (Acting) : Pieter Bottelier, EASPR
Task Manager : Natasha Beschormer, EACSM
CONTENTS

A: Project Development Objectives ............................................................... 2
  1. Project development objectives ............................................................... 2

B: Strategic Context ....................................................................................... 2
  1. CAS Document number and date of latest CAS discussion ......................................................... 2
  2. Main Sector Issues and Government Strategy .............................................................................. 2
  c. Tax and Tax Administration Reform ......................................................................................... 3
  3. Sector issues to be addressed by the Project and Strategic Choices ............................................ 4

C. Project Description Summary ....................................................................... 4
  1. Project Components ................................................................................................. 4
  2. Key Policy and Institutional Reforms Supported by the Project ................................................. 5
  3. Benefits and Target Population ......................................................................................... 5
  4. Institutional and Implementation Arrangements ........................................................................ 5

D. Project Rationale .......................................................................................... 5
  1. Project alternatives considered and reasons for rejection ............................................................ 5
  2. Major related projects financed by IDA and/or other Development Agencies .................................. 5
  2. Lessons learned and reflected in proposed project design: .......................................................... 7
  4. Indications of borrower commitment and ownership .................................................................. 7
  5. Value added of IDA support: ............................................................................................... 7

E. Summary Project Analysis ............................................................................. 8
  1. Economic ...................................................................................................................... 8
  2. Financial Assessment ...................................................................................................... 8
  3. Technical Assessment ...................................................................................................... 8
  4. Institutional Assessment .................................................................................................... 8
  5. Social Assessment: .......................................................................................................... 9
  6. Environmental Assessment ............................................................................................... 9
  7. Participatory Approach ..................................................................................................... 9

F. Sustainability and Risks .................................................................................. 10
  1. Sustainability .................................................................................................................. 10
  2. Critical Risks .................................................................................................................. 10
  3. Possible Controversial Aspects ............................................................................................ 11

G: Main Credit Conditions ................................................................................. 11
  1. Effectiveness Conditions ................................................................................................. 11
  2. Other Covenants in the Credit Agreement: .......................................................................... 11
Acknowledgements

The Project Team acknowledges the close collaboration with the staff of the Ministry of Finance, the General Department of National Taxation, and other agencies and working groups participating in the public administration reform program, including the Public Administration Reform Project Management Group. The Project Team also wishes to highlight the support of the IMF Fiscal Affairs Department in project design and preparation, specifically in: analysis of public expenditure management and Government accounts, analysis and recommendations on value-added tax (VAT), assistance to the Government in preparation of legislation and regulations on VAT introduction, and assistance with preparation of terms of reference for advisory services. In addition, the Project team recognizes the contributions of colleagues from the Asian Development Bank, the Government of New Zealand and the United Nations Development Programme (UNDP) in project preparation and review.
Mongolia
Fiscal Technical Assistance Credit

Project Appraisal Document

East Asia and Pacific Regional Office
Mongolia

Date: 03/09/98 [ ] Draft [x] Final

Country Manager: Ngozi Okonjo-Iweala
Task Team Leader: Natasha Beschoner
Sector Manager: Pieter Bottelier (Acting)

Project ID: MN-PE-51855
Sector: Economic Management

Lending Instrument: Technical Assistance Loan
PTI: [X] Yes [ ] No

Project Financing Data

For Loans/Credits/Others:
Amount (US$ M/SDR M): IBRD Credit US$5.0 million equivalent/SDR 3.8 million

Proposed Terms:
- [ ] To be defined
- [ ] Multicurrency
- [ ] Single currency
- [ ] Standard Variable
- [ ] Fixed
- [ ] LIBOR-based
- [ ] Multicurrency
- [ ] Fixed
- [ ] LIBOR-based

Grace period (years): 10
Years to maturity: 40
Commitment fee: 0.50 %
Service charge: 0.75 % max. contractual

Financing plan (US$ M): US$5.5

<table>
<thead>
<tr>
<th>Source</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>0.50</td>
<td>0.00</td>
<td>0.50</td>
</tr>
<tr>
<td>IDA</td>
<td>0.00</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.50</strong></td>
<td><strong>5.00</strong></td>
<td><strong>5.50</strong></td>
</tr>
</tbody>
</table>

Borrower: Government of Mongolia
Responsible agencies: Ministry of Finance General Department of National Taxation, Public Administration Reform Project Management Group (PARPMG)

Project implementation Period: 4 years

Estimated Disbursements (IDA FY/US$ M)

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>0.2</td>
<td>2.6</td>
<td>2.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Cumulative</td>
<td>0.2</td>
<td>2.8</td>
<td>4.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Project implementation period: March 31, 1998 - March 31, 2001
Expected effectiveness date: September 1998
Expected closing date: June 30, 2001
A: Project Development Objectives

1. Project development objectives (see Annex 1 for key performance indicators):

The objectives of the Project are:

- To increase the efficiency and accountability of Government through designing and implementing an improved government financial management system.
- To set up a more effective, nondistortive system of Government revenue mobilization through introduction of a value-added tax (VAT) on goods and services.

The proposed project would be part of a broader program of donor assistance to support the Government's program of Public Administration Reform. It would complement technical assistance for governance reforms, and public sector accounting, aid coordination and macroeconomic management provided by the Asian Development Bank, (ADB), the Government of New Zealand (NZODA), UNDP and the IMF. In addition, the project would support policy reforms in public expenditure management agreed with the IMF under the 1997-99 Enhanced Structural Adjustment Facility (ESAF) program, thus contributing to Mongolia's stabilization and structural reform efforts as a whole. This project is, in part, a follow-up to the first IDA Technical Assistance Credit (2321-MOG), which financed advisory support and training in budget management, treasury management, tax and tax administration reform and central bank accounting for the Ministry of Finance (MOF) and the Bank of Mongolia (BOM), and which was implemented in association with the IMF.

B: Strategic Context


The last CAS prepared for Mongolia was discussed by the Board in June 1995. The 1995 CAS supported technical assistance for macroeconomic management. A new CAS is under preparation, and will be presented to the Board with the Fiscal TA Project. Continuing support for the Government's efforts in macroeconomic stabilization and management is one of the key objectives of the new CAS, particularly in light of the recent approval of the 1997-99 ESAF. Other objectives of the new FY98-00 CAS are: support for private sector development, promoting equity in development—including poverty alleviation, and developing the infrastructure base. Capacity-building in all target sectors and coordination with other donors are cross-cutting themes of the new CAS. This proposed operation is therefore fully consistent with IDA's medium-term assistance program in Mongolia.

2. Main Sector Issues and Government Strategy

a. Recent Economic Developments

After a slowdown in reforms during 1994-96, a new Government, elected in June 1996, launched an ambitious political and economic reform program. In short order, the Government introduced radical price reforms, new banking laws, revamped privatization, abolished virtually all import tariffs, and closed two large unviable banks. In June 1997, the Government also reached an Enhanced Structural Adjustment Facility (ESAF) agreement with the IMF that is improving macroeconomic conditions. The stabilization efforts are starting to pay off, and inflation is falling rapidly, reaching a 1997 year-end level of 17.5 percent.
b. Treasury Management and Accounting

Sound public finances are essential for sustaining the gains of stabilization, and are the basis for a leaner, more efficient public administration, which is the Government's objective. The Government has started a far-reaching civil service reform program, based on the model of public administration developed in New Zealand in the period 1988-94. In September 1996 the civil service was restructured into nine policy ministries and associated implementing and regulatory agencies, to delineate responsibilities more clearly and improve accountability. The Government's medium-term strategy is to adopt output-based budgeting, management and reporting, and to delegate input decisions to state secretaries and chief executives, based on strategic plans of ministries and agencies. The portfolio ministers will become purchasers of outputs of services from those ministries and agencies. The Government's strategy is embedded in a draft "Public Sector Management and Finance Act" (PSMFA), which spells out the new responsibilities and accountabilities of all public sector agencies and actors. The Act was presented to the Autumn Session of the Great Hural or Parliament and is expected to be passed in the Spring 1998 session.

Successful implementation of the public administration reforms requires a Government financial management and information system, consistent with the overall model adopted. Strong budget management will assist the Government in managing its revenues and expenditures to budget objectives, and provides incentives to budget-holding entities to use resources efficiently and within their legal authority. It will ensure that ministries and agencies face a hard budget constraint in budget implementation—which is crucial not only for aggregate fiscal discipline, but also to enforce the efficiency gains envisioned by the new mode of public administration.

Currently, treasury management is still based on the old Soviet system, which disburses money from the central treasury to ministry accounts. Numerous extrabudgetary funds exist, and cash management is hardly developed, and not effectively linked to debt management. The system does not allow for costing of products and activities which is essential for the New Zealand style system of public sector management. Currently, agencies have an accounting system with accrual elements, but reporting to the Ministry of Finance is limited, cash-based and irregular. It is key to the success of the reforms that reporting and budgeting be improved, and accountability be enforced, through an effective audit agency.

c. Tax and Tax Administration Reform

The Government has also started a major tax reform that aims for lower tax/GDP ratio, lower marginal tax rates, and a broader tax base. Mongolia has made considerable progress in tax policy and tax administration since 1990. The framework for market-oriented taxes such as a personal income tax, enterprise income tax, sales taxes and excise taxes was established in 1993, and revised in 1997. Customs duties and a harmonized system were implemented in 1993; new customs tariffs and customs administration laws became effective in 1996. Except for alcoholic spirits, import duties were abolished in 1997. The General Department of State Taxation was established as a separate agency in 1992. Further reforms are needed to enhance the neutrality of the existing system, in particular broadening of the tax base and simplification of structures.

The mainstay of the next phase of reforms is the introduction of a Value Added Tax (VAT) down to the wholesale and retail level. The VAT will build on the base of the current 10 percent sales tax—which covers imports, manufacturing and limited service sectors—and will be extended to cover virtually all goods and services (including capital goods), and a broad range of businesses, both legal entities and individuals. The Government enacted a VAT Law on January 8, 1998, to become effective July 1, 1998. The main provisions of the draft VAT law are consistent with a full-fledged VAT and the law includes all
the elements necessary for an appropriate legal structure to operate the tax. Implementation activities are under way.

Key to the success of a VAT are: (a) a sound tax administration that can effectively administer the increased transaction volume at low cost to the taxpayer; and (b) well-informed taxpayers that know how to apply the new law. A better tax administration requires intensive training of tax administration officials, design of new procedures, development of the audit function, reorganization of the tax administration, and an information system that supports the new organization. Taxpayer awareness requires an extensive information campaign.

3. Sector issues to be addressed by the Project and Strategic Choices

The project consists of selective interventions under the Government’s overall framework of public administration reform. These interventions support specific targets for fiscal reform agreed under the ESAF, and are considered by the Government as priorities for external assistance:

- financing the development of a budget execution and treasury management system, and a Government accounting and reporting system.
- financing the implementation of new tax administration procedures, particularly advisory assistance and training to support the introduction of VAT, a public information campaign for taxpayers, and related taxpayer services.

C. Project Description Summary

1. Project Components

<table>
<thead>
<tr>
<th>Component</th>
<th>Category</th>
<th>IDA Financing (US$ million)</th>
<th>Indicative Costs (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Government financial management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.1 Advisory Services: Treasury, Government Accounting</td>
<td>Consultants</td>
<td>0.64</td>
<td>0.69</td>
</tr>
<tr>
<td>A.2 Training in Government accounting, auditing, management and related disciplines (in-country and overseas)</td>
<td>Consultants, Training</td>
<td>0.80</td>
<td>0.95</td>
</tr>
<tr>
<td>A.3 Equipment and Software for Treasury and Debt Management systems</td>
<td>Equipment</td>
<td>0.60</td>
<td>0.65</td>
</tr>
<tr>
<td>A.4 Equipment and Software for Government Accounting System, including IT advisory support and training in systems design and recurrent costs (license fees, telecommunications, operational expenses)</td>
<td>Equipment, Training</td>
<td>2.00</td>
<td>2.20</td>
</tr>
<tr>
<td>B. VAT Introduction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B.1 Short-Term Advisors: taxpayer services, audit, computer programming</td>
<td>Consultants</td>
<td>0.25</td>
<td>0.27</td>
</tr>
<tr>
<td>B.2 Study Tours</td>
<td>Training</td>
<td>0.06</td>
<td>0.07</td>
</tr>
<tr>
<td>B.3 Equipment and Supplies</td>
<td>Equipment</td>
<td>0.14</td>
<td>0.15</td>
</tr>
<tr>
<td>B.4 Public Information Campaign</td>
<td>Training, Consultants</td>
<td>0.05</td>
<td>0.06</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>4.54</td>
<td>5.04</td>
</tr>
<tr>
<td>Price and Cost Contingencies</td>
<td></td>
<td>0.45</td>
<td>0.46</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>5.00</td>
<td>5.50</td>
</tr>
</tbody>
</table>
2. Key Policy and Institutional Reforms Supported by the Project

a. Public administration reform
b. Government financial management reform
c. Tax and tax administration reform

3. Benefits and Target Population

- VAT Introduction. The project will help to introduce a broad-based nondistorting source of revenue that captures the expanding private sector. Targets: General Department of National Taxation, and regional offices; Customs General Administration.

4. Institutional and Implementation Arrangements

This project will support the Government's overall program of Public Administration Reform. This program is being managed by a project implementation team under the guidance of a Steering Committee headed by the Prime Minister and the Minister of Finance. The Steering Committee is responsible for signing off on key project outputs, and is supported by an international advisory panel. Under the project implementation team, a treasury and accounting working group, headed by the fiscal policy department of MOF and consisting of representatives of line ministries, BOM and the State Audit Office, is responsible for redesigning the treasury and accounting system. A steering group consisting of MOF and GDNT is responsible for VAT implementation. Three working groups, comprising representatives of MOF and GDNT and the Customs General Administration (CGA), have been set up to manage this process.

D. Project Rationale

1. Project alternatives considered and reasons for rejection

Additional components considered were advisory services for budget preparation and budget discipline. However, the Government indicated that these would be financed by other donors: New Zealand ODA and Asian Development Bank.

2. Major related projects financed by IDA and/or other Development Agencies

<table>
<thead>
<tr>
<th>Sector Issue</th>
<th>Project/Nonlending</th>
<th>Latest Form 590 Ratings</th>
</tr>
</thead>
</table>
| IDA-financed  
IDA, in collaboration with the IMF and the Asian Development Bank (ADB), has been assisting the Government in setting priorities for budgetary expenditures and investment programs. through the 1997 Country Economic Memorandum (CEM), and as part of the IMF-ESAF dialogue. 
Since 1992, IDA has provided technical assistance for development of Technical Assistance Credit 2321-MOG | Country Economic Memorandum, 1997  
Public Expenditure Review (1999)  
Technical Assistance Credit 2321-MOG | S  
S |
the Government’s macroeconomic management capability. IDA has financed specialist advisory assistance and training in macroeconomic management and related disciplines for staff of six core economic agencies, including the Bank of Mongolia (BOM), the Ministry of Finance (MOF), the Customs General Administration (CGA), and the Ministry of Justice.

IDA is currently supporting structural reforms in the banking and enterprise sectors, and in the legal framework (insolvency, collateral registration, enforcement of court judgments)

**Other Development Agencies**

<table>
<thead>
<tr>
<th>Sector Issue</th>
<th>Project/Nonlending</th>
<th>Latest Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking, Enterprise and Legal Technical Assistance Credit 2948-MOG (signed 07/31/97)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advisory assistance to MOF and the Prime Minister’s office on the NZ model.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assistance to enterprises and development of university curriculum.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support for the State Audit Office to improve audit practices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical assistance for startup costs for public administration reform; short-term advisors on public admin, privatization, legal reform, government accounting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy-based loan, to be developed in 1998.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training in public sector management at Institute of Administration and Management Development; support to Cabinet Secretariat and State Services Council</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social impact assessment.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support to MOF and Aid Coordination Unit.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-Term VAT Advisor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial loan to GDNT</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

1 This advisor would have originally been financed by the project. However, the Government of Mongolia obtained a grant from Japan, administered by the IMF, to finance this advisor.
2. Lessons learned and reflected in proposed project design:

A key determinant for successful public administration reforms is political commitment. Earlier attempts to reform Mongolia’s administration and public financial management were less than successful because political commitment was uncertain. The current project supports a program that is strongly backed at the highest political level, including the Prime Minister and the Finance Minister. The Government has started a comprehensive campaign to build support for the reforms. Among others, weekly TV programs discuss the draft law, and regular newspaper advertisements disseminate the key ideas of these reforms. The draft law has been discussed in Parliament where it found broad support among the ruling parties. The opposition demanded more time to evaluate the details of the reform.

Earlier attempts at public administration reforms have neglected the core financial management processes of Government. The reform goals were therefore frustrated by insufficient and erratic funding of agency initiatives, and by limited accountability for results. The current project therefore focuses on the core financial management processes. The accountability systems to be implemented support current and future public administration structures.

Public administration reforms take time, usually much longer than planned. The Government aims for a very quick implementation of the reforms. The project will prospectively adopt a flexible approach to timing by defining implementation stages. The financial management system, together with the new Public Administration Reforms, will be piloted in three entities before rollout to other ministries. Implementation will proceed to the next stage once the previous one is completed successfully.

Introduction of a VAT in other countries has crucially depended on a sound tax administration and well informed tax payers. The project focuses on these two key elements. VAT introduction has sometimes failed because of the impact on living standards, as it was accompanied by price increases. The Mongolian VAT replaces a broad-based sales tax, exempts education and health services, and should therefore have only minimal price effects.

4. Indications of borrower commitment and ownership

The borrower is highly committed to both public administration reform and VAT introduction. The clearest sign of this is the supporting legislation on Public Administration Reform, which is now before Parliament. The borrower has also set up a Steering Committee for the Public Administration Reforms, consisting of the Prime Minister and the Minister of Finance, and has established a director for public administration reforms in MOF and has started a publicity campaign to promote the reforms. The borrower has also set up an interagency working group for the VAT, and has already taken steps to develop an information system to support the VAT introduction.

5. Value added of IDA support:

IDA, frequently in cooperation with the IMF, has broad experience of implementing financial management systems across transitional economies. Its experience in public administration reforms can guide Government in its reform program. IDA is thoroughly familiar with Mongolia’s budgetary management, and has recommended numerous improvements in budgetary planning, Public Investment Program, and aid coordination. IDA has supported several programs of tax administration reform, most recently in transitional economies. IDA will provide assistance with identifying international consultants with technical expertise in the project component areas, and in locating the most appropriate computer equipment and software, based on international practice.
E. Summary Project Analysis

1. Economic

(see Annex 4)

2. Financial Assessment

N/A

3. Technical Assessment

The project would finance international standard hard and software for financial management. BOM has already installed a sophisticated international standard General Ledger/central bank accounting system. For cost and technical support reasons, unity of the system should be sought. Agencies whose functional requirements cannot be met by this system would choose solutions appropriate to their needs. The use of international standard platforms and Relational Database Management Systems, combined with training of local staff, has the advantage that this could add to the international prospects of Mongolia’s nascent software industry.

4. Institutional Assessment

a. Executing agencies:

The project is expected to help MOF and GDNT develop their long-term financial management capacity through technical skills development, on-the-job implementation assistance, training, studies and provision of equipment. The project will build on previous efforts, particularly technical assistance in these fields financed by the IMF, IDA, ADB, NZODA and USAID.

b. Project management:

Government Financial Management

The Public Administration Reform Project Management Group (PARPMG) is in charge of Public Administration Reforms under the guidance of a steering committee of the Prime Minister, the Finance Minister and chairmen of the State Audit Board and the State Services Council. A Public Administration Reform Implementation Team, led by the Director for Public Administration Reforms is in charge of implementation. Under the Implementation Team treasury and accounting working groups have been set up, with broad representation from the agencies that will operate the system. The director of the fiscal policy department of MOF will head the working group. Other working groups will be established following enactment of the PSMFA.

Tax Administration:

A VAT management committee will be set up, headed by the director general of the GDNT. Day-to-day project implementation will be the responsibility of an interagency working group comprising staff of MOF, GDNT and the Customs General Administration. An IMF-supervised long-term VAT advisor will support implementation.
Overall Project Coordination and Financial Management

PARPMG and GDNT will be responsible for managing project activities. MOF will be responsible for maintaining project accounts. MOF is responsible for the accounting function for the Government as a whole. Staff in MOF are therefore familiar with accounting and auditing practices, standards, and internal controls required to ensure adherence to proper accounting and auditing standards. The project will nevertheless provide assistance to MOF to finance accounting and disbursement specialists, acceptable to IDA, to ensure that a proper financial management system is in place and that project-related accounting/auditing and disbursement activities are carried out satisfactorily and in accordance with IDA procedures. Periodic project reports would, inter alia, include: (a) financial statements that give an assessment of the projects financial status, including reports of costs actually incurred by expenditure category and variances compared to the plan for the period; (b) project progress reports, that give a summary of the status of the project and explanation and variances in key project indicators listed in Annex 1; and (c) procurement management reports giving status and details of contracts above the prior review threshold.

5. Social Assessment:

The social impact of the VAT is limited because the VAT replaces a broad-based sales tax, and exempts education and health services. The taxpayer awareness campaign financed under the project is aimed to ensure public awareness, both by business and consumers. This should limit undue price increases as a consequence of the VAT. Possible increases in tax burden through VAT introduction is more than offset by the abolition of customs duties in May 1997. Finally, food prices have risen by only 10 percent over the last year, about half the overall CPI increase. These price developments have favored the purchasing power of the poor, who spend a large part of their income on food.

6. Environmental Assessment

Environmental Category  [ ] A  [ ] B  [x] C

7. Participatory Approach

<table>
<thead>
<tr>
<th>Identification/Preparation</th>
<th>Implementation</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries/community groups</td>
<td>MOF, Prime Minister’s Office, GDNT, have been deeply involved in project preparation</td>
<td>MOF treasury department will be responsible for implementation; GDNT and MOF for VAT</td>
</tr>
<tr>
<td>NGOs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic institutions</td>
<td>UNDP-financed academic study on policy implications and social impact of VAT introduction</td>
<td>The project team will attempt to identify NGOs to assist with public awareness campaigns for VAT.</td>
</tr>
<tr>
<td>Local Government</td>
<td>Limited consultation with local Government budgetary units and local offices of tax administration</td>
<td>Will be involved in secondary phases of treasury management system rollout. Taxpayer service centers to be established countrywide</td>
</tr>
<tr>
<td>Other donors</td>
<td>The New Zealand Government, ADB and UNDP financed project preparation activities for the broader program of public administration reform.</td>
<td>The New Zealand Government will continue to finance advisors to the project Steering Committee. ADB plans a governance project loan; Government is responsible for donor coordination</td>
</tr>
</tbody>
</table>
F. Sustainability and Risks

1. Sustainability

The objective of the project is long-term capacity building and institutional development. Sustainability is thus a core element of the project. The proposed interventions are designed to have long-term benefits, provided the Government remains committed to overall project objectives. The proposed systems are designed to function regardless of difficulties with the overall program of public administration reform. Key conditions for sustainability are: ability of MOF to assimilate and retain transfer of technology; ability of MOF to retain qualified staff; sufficient attention to training of trainers; effective communication to taxpayers on administrative procedures for VAT; ability of GDNT to staff taxpayer service centers adequately to respond to public concerns.

2. Critical Risks
(see fourth column of Annex 1)

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Minimization Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Project outputs to development objectives</td>
<td>M/H</td>
<td>MOF designates one or two officials with responsibility for donor liaison. Donors exchange periodic updates on donor liaison. Government sends mixed signals to donors.</td>
</tr>
<tr>
<td>• Inadequate coordination of donor-financed activities, resulting in donor competition, policy confusion and duplication of support. Government sends mixed signals to donors.</td>
<td>H</td>
<td>Implementation plan revised to spell out specific outputs, detailed human resource requirements, schedule, resources, risks and performance monitoring indicators, while taking into account the time required for consensus-building. The borrower may wish to consider procurement of project tracking software.</td>
</tr>
<tr>
<td>• Tight schedule of public expenditure reforms, and strong borrower pressure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Project components to outputs</td>
<td>H</td>
<td>Written agreement on the terms of their cooperation, covering authority over funds transfer, service standards, and interest paid and charged on Government credit and debit balances.</td>
</tr>
<tr>
<td>• Inadequate coordination between MOF, BOM, and commercial banks in management of treasury accounts.</td>
<td>M</td>
<td>Under the project, selection criteria for banks that handle Government money will be developed, including the ability to deliver the required service standards, and the safeness and soundness of the banks.</td>
</tr>
<tr>
<td>• Safety of Government money in a weak banking system</td>
<td>L/M</td>
<td>Involvement of users in the design and implementation of the system. Prior experience of installation of new systems in central bank.</td>
</tr>
<tr>
<td>• Problems with integration of new MIS with existing systems and software.</td>
<td>M</td>
<td>Taxpayer service centers established and aggressive public information campaign launched.</td>
</tr>
<tr>
<td>• Adverse public reaction to VAT</td>
<td></td>
<td>Public awareness campaign, enlisting NGOs where appropriate.</td>
</tr>
<tr>
<td>Overall project risk rating</td>
<td>H</td>
<td></td>
</tr>
</tbody>
</table>
3. Possible Controversial Aspects

Possible controversial aspects of the project include:

- Ambitious and risky nature of the Government's overall agenda for Public Administration Reform. It is not clear at this stage to what extent the overall program enjoys the broad support of ministries and agencies, and other stakeholders. The project team fully recognizes the advantages of the New Zealand system of administration, which has achieved remarkable results in the efficiency of service delivery. At the same time, the team feels that implementing such an approach in Mongolia bears significant risks, notably because the authorities plan to introduce the system within the next two to three years. In New Zealand, which already had a fully developed accounting and management information system, the design and implementation of similar reforms took several years, and even now the system is still being fine tuned.

- Selection of commercial banks for handling public money. The treasury system envisages that a significant part of government banking services is handled by commercial banks. There are only a few viable banks in Mongolia, and conflict of interest in choosing the government bank may arise.

G: Main Credit Conditions

1. Effectiveness Conditions

Establishment and maintenance of project steering committees for the Treasury/Accounting component and for the VAT Introduction component.

2. Other Covenants in the Credit Agreement:

- To maintain project steering committees for the Budget and Treasury Management/Accounting component and for the VAT Introduction component.
- To maintain a Budget and Treasury Management/Accounting working group with involvement of the agencies that will operate the system
- To ensure that the design of the government financial management system allows MOF to discharge its responsibilities under the (draft) Public Sector Management and Finance Act.
- To ensure that only banks and financial institutions that meet the prudential requirements of the Bank of Mongolia are selected for the the provision of government banking services.
- To designate a project manager who will also coordinate activities of donors in public administration reform, and act as a liaison between Government and donors on procurement, disbursement and other implementation issues.
- To report to IDA semiannually on project implementation progress.

H: Readiness for Implementation

The project has been prepared in consultation with interagency working groups on public administration reform and tax reform. Political commitment is strong. The Government is ready to implement the project, and a great deal of startup activity has already taken place, financed largely by other donors (ADB/NZODA). The Government has requested retroactive financing to enable the implementation of VAT legislation to begin as quickly as possible. The Government has prepared a Project Implementation Plan for the VAT component, and has requested that the VAT component be implemented immediately following appraisal.
I. Compliance with IDA Policies

[X] This project complies with all applicable IDA policies.

Task Manager: Natasha Beschoring

Sector Manager (Acting): Pieter Bottelier

Country Manager: Ngozi Okonjo-Iweala
## ANNEX 1: PROJECT DESIGN SUMMARY

<table>
<thead>
<tr>
<th>Narrative Summary</th>
<th>Key Performance Indicators /a</th>
<th>Monitoring and Supervision</th>
<th>Critical Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAS Objective</strong></td>
<td><strong>Government deficit below 8% of GDP by 1999.</strong></td>
<td><strong>Baseline January 98</strong></td>
<td><strong>Budgetary statistics.</strong></td>
</tr>
<tr>
<td>Macroeconomic stabilization and management</td>
<td><strong>1997: 8.9%</strong></td>
<td></td>
<td><strong>(Objective to Bank Mission) Macroeconomic stability promotes growth and contributes to poverty reduction</strong></td>
</tr>
<tr>
<td><strong>Project Development Objectives</strong></td>
<td><strong>More efficient and fuller transfer of revenues in central treasury account</strong></td>
<td>31 percent</td>
<td><strong>Treasury statistics</strong></td>
</tr>
<tr>
<td>Improved Government financial management.</td>
<td><strong>Budget units’ monthly report on time</strong></td>
<td><strong>64 percent of reports on time</strong></td>
<td><strong>Government reporting system</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Budget units’ report more accurate</strong></td>
<td><strong>90 percent of reports no revision</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>VAT share of revenues increased</strong></td>
<td><strong>16 percent (Sales Tax)</strong></td>
<td><strong>Tax administration information system</strong></td>
</tr>
<tr>
<td></td>
<td><strong>percent of eligible taxpayers registered</strong></td>
<td><strong>62 percent (Sales Tax)</strong></td>
<td><strong>Semiannual reviews and progress reports</strong></td>
</tr>
<tr>
<td></td>
<td><strong>percent of refund within 30 days</strong></td>
<td><strong>no baseline</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Cost/Tugrik raised</strong></td>
<td><strong>0.11 Tugrik (Sales Tax)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Project Outputs</strong></td>
<td><strong>Financial management system fully operative in 9 ministries</strong></td>
<td><strong>not applicable</strong></td>
<td><strong>Project files: borrower team, Supervision reports.</strong></td>
</tr>
<tr>
<td>New Government Financial Management System</td>
<td><strong>VAT administration fully functioning.</strong></td>
<td></td>
<td><strong>Semiannual review and progress reports</strong></td>
</tr>
<tr>
<td>Reformed tax structure and administration.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Project Components</strong></td>
<td><strong>Contract with advisors signed</strong></td>
<td><strong>not applicable</strong></td>
<td><strong>Project files: borrower team, supervision and borrower/consultant progress reports</strong></td>
</tr>
<tr>
<td>Advisory services</td>
<td><strong>System specification reviewed by Steering Committee</strong></td>
<td></td>
<td><strong>Audit reports.</strong></td>
</tr>
<tr>
<td>Training, including study tours</td>
<td><strong>Training, tours completed</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment procurement</td>
<td><strong>Request for bid issued</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Pilot run completed</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>System accepted by Steering Committee</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

/a Baseline and targeted values should be shown, with the latter divided into values expected at mid-term, end of project and full impact.
ANNEX 2: DETAILED PROJECT DESCRIPTION

A. GOVERNMENT FINANCIAL MANAGEMENT COMPONENT

Background. The Government has started a far-reaching civil service reform program, based on the model of public administration developed in New Zealand in the period 1988-94. In September 1996 the civil service was restructured into nine policy ministries and associated implementing and regulatory agencies, to delineate responsibilities more clearly and improve accountability. The Government’s medium-term strategy is to adopt output-based budgeting, management and reporting, and to delegate input decisions to state secretaries and chief executives, based on strategic plans of ministries and agencies. The portfolio ministers will become purchasers of outputs of services from those ministries and agencies. The Government’s strategy is embedded in a draft “Public Sector Management and Finance Act” (PSMFA), which spells out the new responsibilities and accountabilities of all public sector agencies and actors, and has been presented to the Autumn Session of the Great Hural or Parliament.

The Need for Better Financial Management. Successful implementation of the public administration reforms requires a sound government financial management system, consistent with the overall model adopted. Critical components of this system are the systems that support budget and treasury management. Strong budget management assists the government to manage its revenues and expenditures to budget objectives and provides incentives to budget-holding entities to use resources efficiently and within their legal authority. It will ensure that ministries and agencies face a hard budget constraint in budget implementation—which is crucial not only for aggregate fiscal discipline, but also to enforce the efficiency gains envisioned by the new mode of public administration.

The Current System. Currently, budget and treasury management is still based on the old Soviet system, which disburses money from the central treasury to ministry accounts. Central Government entities have a total of 120 bank accounts. Numerous extrabudgetary funds exist, and cash management is hardly developed, and not effectively linked to debt management. Only 30 percent of government revenue is paid into the central treasury account. Currently, agencies have an accounting system with accrual elements, but reporting to the Ministry of Finance (MOF) is limited, cash-based and irregular. The system does not allow for costing of products and activities.

A new government accounting and reporting system is required to measure the cost effectiveness of agencies and ministries, and to establish accountability for results. Currently, agencies have an accounting system with accrual elements, but reporting to MOF is limited, cash-based and irregular. The system does not allow for costing of products and activities.

There is no integrated accounting software in place; in instances where software has been developed and is in use, its functions and capabilities are limited. A separate Chart of Accounts based loosely on the IMF’s Government Financial System (GFS) is used for the annual budget. However, a separate chart is in use in all budget entities including MOF. MOF and its aimag branches use a cash-based payments system while other ministries, Ulaanbaatar and aimag budget units use an accrual based system. The management reporting system includes a few computer-generated reports, but most reports are prepared with Microsoft Excel. Domestic and external debt is managed on Excel software, separate from the budget accounting system. While MOF, line ministries and agencies have a significant degree of
computerization, most software is agency-specific. Most reporting is done through tables generated in Excel. Each budget unit has at least one accountant, and usually some inhouse capacity for hard and software maintenance.

The Project Component

Objectives. The overall objectives of the component are to increase efficiency and accountability of Government. In the first stage, the project will finance advisory services and training in government accounting, treasury debt and cash management, auditing, management skills and related disciplines. In the second stage, based on a defined needs assessment, the project will assist in the implementation of an improved core government financial management system.

Following the New Zealand model, the Government aims to implement a Government accounting and budgetary system in which the ministries/spending units (Budgetary Bodies/BBs) are directly responsible for making payments from their own expenditure accounts in commercial banks. Cash management will be centralized, and each BB account will be emptied over night to a central treasury account. Government considers using a commercial bank for this function of fiscal agent to the Government. The money from the treasury account in the commercial bank would then be placed in the Central Bank. The fiscal agent will make deposits of all government revenues received to the treasury single account in the fiscal agent bank or Central Bank on a daily basis.

The aggregate system would provide for consolidation of agency budgets and reports. The envisioned accounting system would allow for full accrual accounting and reporting at agency level. The system would allow for costing of all outputs. It would cater to specific agencies’ requirements. It could also provide reports compatible with the IMF’s GFS classification.

Specifically the financial management system would have the following capabilities:

Expenditure management:

- MOF advises budgetary bodies (BBs)—ministries and other government agencies—of their annual budgets and any changes in authority during the fiscal year; BBs have authority to expend up to appropriation in each appropriation class;
- BBs authorize expenses within budget and record corresponding transactions on BB ledgers, verify receipt of goods and services and authorize and make payments to suppliers;
- BBs provide financial statements prepared in accordance with international accounting standards (IAS), and supplemented by appropriations information to MOF on a monthly basis;
- MOF uses these reports to (a) produce consolidated monthly and annual financial statements for the government and (b) monitor use of budget by BBs by comparing actual expenses with budget on a year-to-date basis.

Cash management:

- BBs are authorized to operate their own bank accounts with commercial banks; however, MOF authorizes the creation of these accounts;
- MOF authorizes cash advances to BB bank accounts during the year according to cash profiles agreed by MOF at the beginning of each fiscal year, based on the forecast cash requirements of each
BB's budget; release of cash to BB accounts is subject to certification by MOF of proper exercise of legal appropriation authority;

- MOF also has the power to operate on BB bank accounts during the year in order to manage the government's overall cash position in a centralized cash management system but in a manner that does not interfere with the BB's normal management of the account; MOF can also pay interest on deposits with it by the BBs as an incentive to efficient cash management;

- The Bank of Mongolia (BOM), as the Government's banker, monitors balances in all government bank accounts on a daily basis and reports them to MOF and executes the funding instructions of the Ministry.

- The fundamental relationships in the system are shown in Figure 1 of Annex 11.

**Allocation of responsibilities**

Responsibilities can be summarized as in the following table:

<table>
<thead>
<tr>
<th></th>
<th>MOF</th>
<th>BOM and/or Commercial banks</th>
<th>Budgetary bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds allocation</td>
<td>Advise BBs of appropriation authority by appropriation class (annual)</td>
<td></td>
<td>Allocate authority within appropriation classes (annual)</td>
</tr>
<tr>
<td></td>
<td>Monitor expenditure against authority (monthly)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verification</td>
<td>Execute payment instructions by account holders (daily)</td>
<td></td>
<td>Verify receipt of goods and services (daily)</td>
</tr>
<tr>
<td>Payment</td>
<td>Account for and bank government revenue receipts (daily)</td>
<td></td>
<td>Authorize and make payments (daily)</td>
</tr>
<tr>
<td>Revenue receipts</td>
<td>Consolidate BB reports and prepare government financial statement (monthly, annual)</td>
<td>Report balances in all government bank accounts to MOF (daily)</td>
<td>Receive revenue on own account and on behalf of government (daily)</td>
</tr>
<tr>
<td>Accounting/financial reporting</td>
<td></td>
<td>Manage cash balances in all government bank accounts as instructed by MOF (daily)</td>
<td>Financial statements to MOF in accordance with IAS (monthly)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Prepare financial statements for Parliament (annual)</td>
</tr>
</tbody>
</table>

The system will then embody the following central responsibilities, which need to be taken into account in the design of the budget and treasury management system:

**Production of government financial statements**: this requires BBs to account to MOF in sufficient detail to enable the Ministry to produce the statements; this means that MOF will need to prescribe the information it requires in enough detail at least to enable accounting against Parliamentary authority and production of the government accounts to international accounting standards.

**Specification of additional government financial classifications**: for example, production of government-wide accounts in GFS format, or presentation of supplementary information on personnel expenses or other categories deemed important for overall government fiscal policy, may require additional prescription of information required by MOF.

**Establishment of bank accounts**: BBs can open bank accounts only with the approval of MOF.
Management of cash balances in bank accounts: MOF will have the authority to make advances to bank accounts and invest surplus cash balances in these accounts; government bank accounts must not be in overdraft; in other respects the account holders operate on the accounts in the normal way;

Control of government debt and financial investments: MOF will have responsibility for management of the overall debt and financial investments of the government.

External audit: The State Audit Board will be responsible for annual attest audits of the financial statements of all BBs. Systems need to be designed to meet external audit requirements based on international accounting standards.

MOF internal control: MOF will maintain its own internal control system to assure the reliability of both its own financial management and the accounting and financial reporting systems in BBs on which it depends for production of government financial statements. MOF has the power to require information necessary to enable it to discharge its responsibilities under the PSFMA.

To achieve project objectives, the proposed project would provide technical assistance and, at a later stage, computer equipment, and software to assist the authorities to design, develop, test and implement processes, procedures and systems, related regulations and training programs for auditing, treasury operations, accounting and cash and debt management.

Technical Assistance needs may be summarized as follows:

**Functional Aspects:**

- Developing methods to improve forecasting of expenditure requirements and cash management.
- Developing the fiscal reporting system of budget execution and improving linkages between MOF fiscal reports and MOF analysis.
- Developing detailed functional specifications for budget execution, including requirements for incorporating necessary expenditure control procedures.
- Developing detailed functional specification for the aggregate government accounting system.
- Developing detailed functional specifications for debt management operations and treasury systems.
- Developing selection criteria and method for banks that handle government money, including compliance with prudential regulations, and required service standards.
- Assessing training requirements for institutional development, including, assessment of the skill levels of MOF, State Audit Board (SAB) and State Services Council (SSC) staff to operate and manage a modern fiscal management system as well as necessary technical skills required for the implementation and operation of the new budget system and treasury management system, and designing and implementing a training, skills upgrading and recruitment program as may be necessary.

Prospectively, the Project would finance training advisors and one or more treasury management advisors.

**Technical Aspects:**

If a decision is taken to adopt a standardized centralized management information system, technical assistance would be provided to develop technical assistance would be provided to develop the technical design of the Government financial management system, implement the systems first at MOF and the designated two pilot sites (the State Property Committee and the General Department of National
Taxation) and after testing the system in this environment, replicate the new system across nine central ministries for aggregate computer systems. This would include:

- **Aggregate Computer Systems**
  - Determining user requirements and specifying the required system functionality
  - Preparing appropriate bidding documents
  - Selecting bids and supervising implementation

- **Debt and Treasury Management System**
  - Designing and implementing cash management procedures
  - Determining debt management user requirements and specifying system functionality
  - Preparing appropriate bidding documents
  - Selecting the tender and supervising implementation
  - Designing and implementing treasury management strategies
  - Preparing guidance materials for cash/debt/treasury management
  - Training MOF and agency staff in the cash/debt/treasury management systems.

**Computer Hardware and Software**

Subject to the recommendations of the Ministry of Finance, the project would finance

- **Hardware, Systems Software and Application Development Tools, DBMSs.** Details of equipment to be procured would be determined by MOF. The project would also provide some computer hardware to supplement the hardware procured from Government's own resources, which is required for the full implementation of the interim system. Equipment would include open system servers, workstations, networks, printers, UPS, site preparation, systems software and application development tools for central facilities at MOF, BB and selected Aimag treasury offices.

- **Application Software.** Guidelines would be developed for the procurement of applications software. In general, software packages would be reviewed on the basis that: (a) they provide the required functionality; (b) they can be supported locally, so that upgrades can be obtained and installed as they become available; (c) customization assistance may be provided, and costs of customization clearly identified; (d) they run on a range of hardware and operating software that is compliant with the hardware/software guideline proposed for the public administration reforms; (e) adequate documentation is available to enable package installation and use; and (f) potential licensing arrangements can accommodate use at multiple sites.

- **Miscellaneous.** Office equipment and training facilities for MOF, as may be necessary.

Prospectively, the project would finance a consulting firm to assist Government in design, development, and tendering of the hard and software.

**Training**

Training is a crucial element for project implementation. Training requirements for the project will be determined by agencies and may include, subject to review:
• Training in principles, concepts and methodologies of the subject areas covered by the project, namely, budget execution, management skills, accounting, cash management, debt management, treasury operations, and audit.
• Senior-level orientation in the use of financial management information systems.
• End user training in the use of the computerized information systems to be set up under the project.
• Training in attest audit, and accounting systems for the State Audit Board.
• More general training related to the design and development of information systems.
• The provision of end-user support to staff who will use the computer systems.

The Project would finance:

• Technical assistance for development of an overall training strategy for training users for the implementation of the Government financial management system countrywide; the design and specification of inhouse training facilities and/or identification of suitable training courses within the country and abroad; the development/acquisition of training materials, technical documentation and end-user manuals.
• Training courses to be arranged at site, or in local or foreign institutes to cover these areas. Staff to be trained under the project would include technical staff of MOF who will be involved in the development and implementation of the systems.
• Study assignments for Government officials in the budget execution, treasury, and accounting operations areas to enable them to benefit from the experiences of other Governments in these areas. This would include financing of courses, discussion trips on specific topics by experts from these Governments or agencies to Mongolia.
• Developing guidance materials and providing training to senior managers in modern management techniques.
• Developing training materials and delivering training and on-site advice to finance staff from budgetary bodies.

B. VAT INTRODUCTION COMPONENT

Background. The Government has started a major tax reform that aims for lower taxes, lower marginal tax rates, and a broader tax base. Mongolia has made considerable progress in tax policy and tax administration since 1990. The framework for market-oriented taxes such as a personal income tax, enterprise income tax, sales taxes and excise taxes was established in 1993, and revised in 1997. Customs duties and a harmonized system were implemented in 1993; new customs tariffs and customs administration laws became effective in 1996. Except for alcoholic spirits, import duties were abolished in 1997. The General Department of State Taxation was established as a separate agency in 1992. Further reforms are needed to enhance the neutrality of the existing system, in particular broadening of the tax base and simplification of structures.

The mainstay of the next phase of reforms is the introduction of a Value Added Tax (VAT) down to the wholesale and retail level. The VAT will build on the base of the current 10 percent sales tax—which covers imports, manufacturing and limited service sectors—and will be extended to cover virtually all goods and services (including capital goods), and a broad range of businesses, both legal entities and individuals. The Government proposes to enact a VAT Law in January 1998, and implement the VAT by July 1, 1998. Policy preparations are well advanced: while certain policy issues remain to be addressed, the main provisions of the draft VAT law are consistent with a full-fledged VAT and the law includes all the elements necessary for an appropriate legal structure to operate the tax.
Key to the success of a VAT are: (a) a sound tax administration that can effectively administer the increased transaction volume at low cost to the taxpayer; and (b) well-informed taxpayers that know how to apply the new law. A better tax administration requires intensive training of tax administration officials, design of new procedures, development of the audit function, reorganization of the tax administration, and an information system that supports the new organization. Taxpayer awareness requires an extensive information campaign.

The Project Component

Objective. The project would support the implementation of the VAT by improving the tax administration and by informing taxpayers on the introduction of the VAT.

Project Activities. Under the project, the following activities are planned:

- Legislation and taxpayer information:
  - Finalizing implementing regulations for VAT, including determining: appropriate sanctions on various types of noncompliance.
  - Formulating and implementing a publicity campaign, including consultations with industry, the public, and parliamentarians, advertisement campaign, TV and newspaper interviews, etc.
  - Developing a detailed plan for the taxpayer information function
  - Formulating, printing, and distributing guideline materials, including a registration guide, a general guide, and specific issues guides on exemption, deferral system, refund system, etc.

- Tax Administration Operations:
  - Formulating and implementing detailed plans for policy interpretation
  - Formulating and implementing detailed plans for taxpayer registration
  - Formulating and implementing detailed plans for tax accounting and reporting
  - Formulating and implementing detailed plans for tax audit
  - Formulating detailed regulations for tax refund; VAT on Imports;
  - Formulating and developing information exchange between tax administration and customs

- Training:
  - Developing and implementing a detailed training plan
  - preimplementation study tours
  - implement training

Technical Assistance. Based on the recommendations of the borrower working group, and the IMF, the component would finance the following:

a. Advisory Services

- Short-Term Taxpayer Services Advisor (1 month). This expert will assist GDNT's Taxpayer Services Department in planning a VAT education campaign for taxpayers and in designing the various forms and guides to be issued to taxpayers in conjunction with the introduction of the VAT. This assignment should begin on March 15, 1998.
- Short-Term Audit Advisor (1 month). This expert will focus on assisting GDNT to develop special audit programs in the areas of refund control, cross-checking of invoices, and purchase verifications. This assignment should begin on or about April 1, 1998.
- Short-Term Computer Programming Advisor (1 month). The main responsibilities of this assignment will be to: modify the existing tax accounting systems to accommodate the introduction of a VAT; and to continue the work of the previous IMF Computer Advisor in developing the user requirements for a new tax accounting system. This assignment should begin on or about April 1, 1998.
A short-term Customs Advisor may be required. In this case, the assignment would begin on or about April 15, 1998.

A long-term VAT Implementation Advisor (9 months) will be financed by a Japanese Grant, administered by the IMF. In addition to assisting in the planning of VAT implementation, this advisor will also provide training and assist in preparing manuals in various areas of VAT administration including taxpayer education, auditing, and collection enforcement. The assignment will begin in March 1998.

b. Study tours
- Prior to VAT implementation: one visit of seven officials (4 GDNT, 1 MOF, 1 Customs, 1 interpreter) for one week to a country with a strong VAT administration to study the planning and implementation of a VAT, and the operation of deferral and refund mechanisms. This visit should be scheduled for May 1998.
- After VAT implementation: one visit of six officials for one week to a country with a strong VAT administration to study the operational procedures of a VAT, focusing on audit and collection enforcement. This visit should be scheduled for October 1998.

c. Equipment
- Desktop publishing, printing, and photocopying equipment (and consumable supplies) to be used at GDNT headquarters for taxpayer education and staff training programs. The supplier of this equipment would also provide short-term training in the use and maintenance of the equipment.
- Equipment and supplies to support the establishment of taxpayer service centers in GDNT field offices.

d. Public Awareness Campaign
- Preparation of materials for public dissemination.
# Annex 3: Estimated Project Costs

(US$ million)

<table>
<thead>
<tr>
<th>Component</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Government Financial Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.1 Advisory Services: Treasury, Government Accounting</td>
<td>0.05</td>
<td>0.64</td>
<td>0.69</td>
</tr>
<tr>
<td>A.2 Training and study tours in Government accounting, auditing, management skills and related disciplines (in-country and overseas)</td>
<td>0.15</td>
<td>0.80</td>
<td>0.95</td>
</tr>
<tr>
<td>A.3 Equipment and Software for Treasury and Debt Management systems</td>
<td>0.05</td>
<td>0.60</td>
<td>0.65</td>
</tr>
<tr>
<td>A.4 Equipment and Software for Government Accounting System, including IT advisory support and training in systems design and recurrent costs (license fees, telecommunications, operational expenses)</td>
<td>0.20</td>
<td>2.00</td>
<td>2.20</td>
</tr>
<tr>
<td><strong>B. VAT Introduction</strong></td>
<td>0.055</td>
<td>0.50</td>
<td>0.55</td>
</tr>
<tr>
<td>B.1 Short-Term Advisors: taxpayer services, audit, computer programming</td>
<td>0.02</td>
<td>0.25</td>
<td>0.27</td>
</tr>
<tr>
<td>B.2 Study Tours</td>
<td>0.01</td>
<td>0.06</td>
<td>0.07</td>
</tr>
<tr>
<td>B.3 Equipment and Supplies</td>
<td>0.015</td>
<td>0.14</td>
<td>0.15</td>
</tr>
<tr>
<td>B.4 Public Information Campaign</td>
<td>0.01</td>
<td>0.05</td>
<td>0.06</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>0.50</td>
<td>4.54</td>
<td>5.04</td>
</tr>
<tr>
<td>Price and Cost Contingencies</td>
<td>0.01</td>
<td>0.45</td>
<td>0.46</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0.51</td>
<td>4.99</td>
<td>5.50</td>
</tr>
</tbody>
</table>
**ANNEX 4: COST EFFECTIVENESS ANALYSIS SUMMARY**

(Indicate currency, units, and base year)

<table>
<thead>
<tr>
<th>Project Costs</th>
<th>Present Value of Flows</th>
<th>Fiscal Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Economic Analysis</td>
<td>Financial Analysis/a</td>
</tr>
<tr>
<td>a. Treasury</td>
<td>n.a</td>
<td>Tug 3.4 billion</td>
</tr>
<tr>
<td>Tug 2.0 billion (US$2.5 million) (Tug 3.3 including accounting)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Tax Administration</td>
<td>Tug 21 billion (US$26 million)</td>
<td>Tug 29 billion (US$35 million)</td>
</tr>
<tr>
<td>Tug 2.6 billion (US$3.2 includes additional investments to be made in hard and software, which is not IDA financed)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

/a If the difference between the present value of financial and economic flows is large and cannot be explained by taxes and subsidies, a brief explanation of the difference is warranted, e.g., "The difference between financial and economic costs arises from price controls on the inputs."

**Main Assumptions:** Eight-year life span of project outputs. Real Tugrik interest rates gradually falling to 10 percent a year. A 20 percent reduction of government deposits in noninterest-paying accounts compared to 1996. Gross increase in tax revenue 1.2 percent of GDP; net increase (after elimination of cascading) 0.7 percent of GDP.

The benefits of the treasury system are calculated as the NPV of the interest receipts Government will accrue by switching deposits from noninterest current accounts in Banks to interest-bearing investments. This switch is possible because of more efficient treasury management. Other nonmonetary benefits include: better expenditure control and fiscal discipline, better information for policy decisions, increased cost consciousness in the public sector.

The economic benefits of the tax administration are calculated as the amount of cascading taxes eliminated by switching from sales tax to VAT. The financial benefits are calculated as the net increase in tax revenues. Other nonmonetary benefits include: better taxpayer service; increased transparency of the tax system; reduced burden of paying taxes; better tax enforcement.
ANNEX 5: FINANCIAL SUMMARY

[Not Applicable]
ANNEX 6: PROCUREMENT AND DISBURSEMENT ARRANGEMENTS

Procurement (see Table A)

Consultants and Training Selection and appointment of consultants for technical assistance and support of project implementation will be carried out in accordance with IDA’s Guidelines on Selection and Employment of Consultants by World Bank Borrowers, of January 1997 and revised September 1997. The implementing agencies—Ministry of Finance (MOF) and General Department of National Taxation (GDNT)—will be responsible for procurement. MOF has prior experience of equipment procurement and consultant selection; GDNT does not. IDA will familiarize GDNT with IDA procurement procedures.

For the Government Financial Management System Component, consulting firms will be retained to provide training, and procurement will be made on the basis of quality- and cost-based selection (QCBS). Advisory services for treasury management/government accounting, which are expected to be provided by individuals, will be procured on the basis of quality-based selection (QBS). Under the VAT Introduction Component, given the consistent involvement of the IMF in project preparation, and long-standing provision of technical assistance to the Borrower in the field of tax reform, Fund staff would assist GDNT in the selection of consultants and arrangement of study tours to ensure continuity of approach. In this case, selection would be based on Consultants’ Qualifications (CQ). The total cost of consulting services and training, to be financed by IDA, is $2.0 million. All consulting assignments above $0.2 million must be advertised in Development Business.

Equipment Procurement of equipment will be made in accordance with the Guidelines for Procurement under IBRD Loans and IDA Credits, published by the Bank in January 1995 and revised in January and August 1996 and September 1997. Under the Government Financial Management System Component, procurement of computer hardware and software will be on the basis of International Competitive Bidding—preferably under a single responsibility contract (total cost financed by IDA $2.2 million). Equipment and software for the debt/treasury management system will be procured through limited international bidding (LIB), given its specialized nature (total cost financed by IDA $0.65 million). Under the VAT Introduction Component equipment and supplies (total cost financed by IDA $0.15 million) estimated to cost less than $100,000 per contract, up to an aggregate amount not exceeding $300,000, may be procured under contracts awarded on the basis of National Shopping. For National Shopping, the Borrower would seek three quotations from at least three qualified suppliers.

Prior Review All contracts with consulting firms over US$100,000 and with individuals over US$50,000 will be subject to IDA’s prior review and approval. All contracts for equipment valued at $50,000 and above will be subject to prior review by IDA. Contracts for equipment not subject to prior review will be audited on an ex-post basis, on the basis of standardized sampling ratios. In addition, IDA will review the Borrower’s evaluation of consultant proposals.

Disbursement

Allocation of credit proceeds is shown in Table B.

Disbursement of credit proceeds would be made against expenditure categories as shown in Table B.
For goods and individual consultant contracts below $50,000 equivalent, consulting firms below $100,000 and training, withdrawal applications will be supported by statements of expenditures (SOEs). For goods and individual contracts above $50,000 and consulting firm contracts above $100,000 equivalent, withdrawal applications would be supported by full documentation and signed contracts.

In order to facilitate disbursements, a Special Account would be established in a bank acceptable to IDA and on terms and conditions acceptable to IDA. The account would be established in US currency with an authorized allocation of US$400,000 equivalent, with an initial withdrawal of US$200,000 and the balance to be withdrawn when the amounts disbursed and committed total US$1.2 million equivalent. The borrower would submit replenishment applications for the Special Account on a monthly basis or when the account is drawn down by 30 percent of the initial deposit, whichever occurs first. Replenishment of the Special Account would follow IDA procedures. The Special Account and the Project accounts would be audited annually by independent auditors acceptable to IDA. Retroactive financing would be provided up to US$500,000 equivalent for eligible expenditures made after February 4, 1998.

Table A: Project Costs by Procurement Arrangements
(in US$ million equivalent)

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>ICB</th>
<th>NCB</th>
<th>Other</th>
<th>NIF</th>
<th>Total Cost including contingencies (IDA-financed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consultant Services</td>
<td>-</td>
<td>-</td>
<td>1.15</td>
<td>-</td>
<td>1.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1.05)</td>
<td></td>
<td>(1.05)</td>
</tr>
<tr>
<td>2. Training</td>
<td>-</td>
<td>-</td>
<td>1.05</td>
<td>-</td>
<td>1.05</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.95)</td>
<td></td>
<td>(0.95)</td>
</tr>
<tr>
<td>3. Equipment</td>
<td>2.40</td>
<td>-</td>
<td>0.90</td>
<td>-</td>
<td>3.30</td>
</tr>
<tr>
<td></td>
<td>(2.20)</td>
<td></td>
<td>(0.80)</td>
<td></td>
<td>(3.00)</td>
</tr>
<tr>
<td>Total</td>
<td>2.40</td>
<td>-</td>
<td>3.10</td>
<td>-</td>
<td>5.50</td>
</tr>
<tr>
<td></td>
<td>(2.20)</td>
<td></td>
<td>(2.80)</td>
<td></td>
<td>(5.00)</td>
</tr>
</tbody>
</table>

/a $0.8 million quality-based selection; $0.25 million selection based on consultants’ qualifications.
/b Consultant services for training: $0.95 million quality and cost-based selection.
/c $0.65m LIB; $0.15m National Shopping.

Note: NIF = Not IDA-financed (includes elements procured under parallel cofinancing procedures, consultancies under trust funds, any reserved procurement, and other miscellaneous items). US$200,000 equivalent have been mobilized by the Fund from an IMF-administered Japanese Trust Fund to finance the services of a long-term VAT advisor.
### Table A1: Consultant Selection Arrangements
(Including Training Consultancy)
(in US$ million equivalent)

<table>
<thead>
<tr>
<th>Consultant Services by Expenditure Category</th>
<th>Selection method</th>
<th>Total Cost including contingencies (IDA-financed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>QCBS</td>
<td>QBS</td>
</tr>
<tr>
<td>A. Firms (training)</td>
<td>1.05</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.95)</td>
<td></td>
</tr>
<tr>
<td>B. Individuals</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>1.05</td>
<td>0.88</td>
</tr>
<tr>
<td></td>
<td>(0.95)</td>
<td>(0.80)</td>
</tr>
</tbody>
</table>

**Note:**
- QCBS = Quality- and Cost-based Selection
- QBS = Quality-based Selection
- SFB = Selection under a fixed budget
- LCS = Least-cost selection
- CQ = Selection based on consultants' qualifications
- Other = Selection of individual consultants (per section V of Consultant Guidelines), commercial practices etc.
- NIF = Not IDA-financed.
- US$200,000 equivalent have been mobilized from an IMF-administered Japanese Trust Fund to finance the services of a long-term VAT advisor.

### Table B: Allocation of Credit Proceeds

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount in US$ million</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultant Services</td>
<td>0.945</td>
<td>100% of expenditures</td>
</tr>
<tr>
<td>Training</td>
<td>0.855</td>
<td>100% of expenditures</td>
</tr>
<tr>
<td>Equipment and Software</td>
<td>2.700</td>
<td>100% of foreign expenditures and 100% of local expenditures (ex-factory cost) and 85% of other local expenditures</td>
</tr>
<tr>
<td>Unallocated</td>
<td>0.500</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5.000</strong></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 7: PROJECT PROCESSING BUDGET AND SCHEDULE

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(At final PCD stage)</td>
<td></td>
</tr>
<tr>
<td><strong>A. Project Budget</strong></td>
<td>124,000</td>
<td>124,000</td>
</tr>
<tr>
<td><strong>B. Project Schedule</strong></td>
<td>7 months</td>
<td>5 months</td>
</tr>
</tbody>
</table>

Time taken to prepare the project: 7 months
First Bank mission (identification) 07/16/97 07/16/97
Appraisal mission departure 01/15/98 01/17/98
Negotiations 01/30/98 03/04/98
Planned Date of Effectiveness 09/30/98

Prepared by: Ministry of Finance, Public Administration Reform Project Management Group, General Department of National Taxation

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natasha Beschorner, EACSM</td>
<td>Operations Officer</td>
</tr>
<tr>
<td>Bert Hofman, EASPR</td>
<td>Senior Economist</td>
</tr>
<tr>
<td>Al Kennefick, EAPCO</td>
<td>Senior Accounting Advisor</td>
</tr>
<tr>
<td>Ali Hashim, ECSPE</td>
<td>Senior Public Sector Management Specialist</td>
</tr>
<tr>
<td>G. Gansukh (MOF intern)</td>
<td>Economist</td>
</tr>
<tr>
<td>William Allan (IMF-FAD)</td>
<td>Public Expenditure Management Specialist</td>
</tr>
<tr>
<td>John Brondolo (IMF-FAD)</td>
<td>Tax Specialist</td>
</tr>
<tr>
<td>Silan Nadarajah (IMF consultant)</td>
<td>Government Accounting Advisor</td>
</tr>
<tr>
<td>Richard Fulford (consultant)</td>
<td>VAT Specialist</td>
</tr>
<tr>
<td>Robert Laking (IMF consultant)</td>
<td>Public Expenditure Management Specialist</td>
</tr>
</tbody>
</table>

**Peer reviewers:**
- Luis-Jose Mejia (LCSPR)
- David Shand (IMF)
- Malcolm Holmes (PRDPS)
- Luis-Jose Mejia (LCSPR)
- David Shand (IMF)
- Malcolm Holmes (PRDPS)
- Luis-Jose Mejia (LCSPR)
- David Shand (IMF)
- Malcolm Holmes (PRDPS)
ANNEX 8: DOCUMENTS IN THE PROJECT FILE*

*Mongolia: Implementing a VAT*, IMF Fiscal Affairs Department, December 1997

*Introduction of VAT: resume of main contents and policy recommendations for the draft of the law*, MOF-UNDP, December 1997

*Tax Reform in Mongolia*, IMF Fiscal Affairs Department, January 1997

*Mongolia’s Government Accounting System*, IMF Fiscal Affairs Department, October 1997

*Public Expenditure Management in Mongolia*, IMF Fiscal Affairs Department, April 1997

*Strategy for Government Reform in Mongolia* Graham Scott, New Zealand ODA, 1997

VAT Law. Enacted January 8, 1998

Public Sector Management and Finance Act (draft)—Government of Mongolia

Public Sector Management and Finance Act (implementation schedule)—Government of Mongolia

Baseline data for performance indicators for Government Financial Management reform and VAT introduction

*Including electronic files.*
## ANNEX 9: STATEMENT OF LOANS AND CREDITS

### A. IBRD Loans and IDA Credits in the Operations Portfolio (as of January 31, 1998)

<table>
<thead>
<tr>
<th>Loan/Credit</th>
<th>Fiscal Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Amount in US$ million (less cancellations)</th>
<th>Bank</th>
<th>IDA</th>
<th>Undisbursed</th>
<th>Closing Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Credit(s) closed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26150</td>
<td>1994</td>
<td></td>
<td>Transport Rehabilitation</td>
<td>30.00</td>
<td>12.13</td>
<td>06/30/99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27600</td>
<td>1996</td>
<td></td>
<td>Prot. of Vulnerable</td>
<td>10.00</td>
<td>6.64</td>
<td>06/30/99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28540</td>
<td>1996</td>
<td></td>
<td>Mongolia Coal Proj.</td>
<td>35.00</td>
<td>15.45</td>
<td>12/31/01</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29480</td>
<td>1997</td>
<td></td>
<td>Bank,Ent,Leg,TA/BELT</td>
<td>2.00</td>
<td>1.98</td>
<td>06/30/00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29730</td>
<td>1998</td>
<td></td>
<td>Ulaanbaatar Serv.Imp</td>
<td>16.70</td>
<td>16.63</td>
<td>06/30/02</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Number of Credits</strong></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
<td>93.70</td>
<td>52.83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 Loan(s) closed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Number of Loans</strong></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Total**: 0.00
- **Undisbursed**: 158.13
- **Bank & IDA**: 158.13
- **Amount sold**: 0

### B. STATEMENT OF IFC'S COMMITTED AND DISBURSED PORTFOLIO
(As of January 31, 1998, in US$ million)

<table>
<thead>
<tr>
<th>FY Approval</th>
<th>Company</th>
<th>Committed</th>
<th>Di disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Loan</td>
<td>Equity</td>
</tr>
<tr>
<td>1997</td>
<td>SEF G&amp;M Leather</td>
<td>1.45</td>
<td>0.30</td>
</tr>
<tr>
<td><strong>Total Portfolio</strong></td>
<td></td>
<td>1.45</td>
<td>0.30</td>
</tr>
</tbody>
</table>

- **Approvals Pending Commitment**
  - **Total Pending Commitment**: 0.00
ANNEX 10: COUNTRY AT A GLANCE

**POVERTY and SOCIAL**

<table>
<thead>
<tr>
<th></th>
<th>Mongolia</th>
<th>East Asia</th>
<th>Low-income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population mid-1996 (millions)</td>
<td>2.6</td>
<td>1.726</td>
<td>3.229</td>
</tr>
<tr>
<td>GNP per capita 1996 (US$)</td>
<td>360</td>
<td>890</td>
<td>500</td>
</tr>
<tr>
<td>GNP 1996 (billions US$)</td>
<td>0.9</td>
<td>1.542</td>
<td>1.601</td>
</tr>
</tbody>
</table>

**Average annual growth, 1990-96**

<table>
<thead>
<tr>
<th></th>
<th>Mongolia</th>
<th>East Asia</th>
<th>Low-income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (%)</td>
<td>2.1</td>
<td>1.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Labor force (%)</td>
<td>2.9</td>
<td>1.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

**Most recent estimate (latest year available since 1989)**

<table>
<thead>
<tr>
<th></th>
<th>Mongolia</th>
<th>East Asia</th>
<th>Low-income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty: headcount index (% of population)</td>
<td>36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban population (% of total population)</td>
<td>61</td>
<td>31</td>
<td>29</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td>65</td>
<td>68</td>
<td>63</td>
</tr>
<tr>
<td>Infant mortality (per 1,000 live births)</td>
<td>55</td>
<td>40</td>
<td>69</td>
</tr>
<tr>
<td>Child malnutrition (% of children under 5)</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to safe water (% of population)</td>
<td></td>
<td>49</td>
<td>53</td>
</tr>
<tr>
<td>Illiteracy (% of population age 15+)</td>
<td></td>
<td>17</td>
<td>34</td>
</tr>
<tr>
<td>Gross primary enrollment (% of school-age population)</td>
<td>84</td>
<td>117</td>
<td>105</td>
</tr>
<tr>
<td>Male</td>
<td>62</td>
<td>120</td>
<td>112</td>
</tr>
<tr>
<td>Female</td>
<td>87</td>
<td>116</td>
<td>98</td>
</tr>
</tbody>
</table>

**KEY ECONOMIC RATIOS and LONG-TERM TRENDS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (billions US$)</td>
<td>2.5</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Gross domestic investment/GDP</td>
<td>50.4</td>
<td>20.4</td>
<td>22.4</td>
<td>22.4</td>
</tr>
<tr>
<td>Exports of goods and services/GDP</td>
<td>23.9</td>
<td>54.0</td>
<td>43.5</td>
<td>43.5</td>
</tr>
<tr>
<td>Gross domestic savings/GDP</td>
<td>25.6</td>
<td>26.0</td>
<td>24.5</td>
<td>24.5</td>
</tr>
<tr>
<td>Gross national savings/GDP</td>
<td>23.6</td>
<td>25.4</td>
<td>23.6</td>
<td>23.6</td>
</tr>
<tr>
<td>Current account balance/GDP</td>
<td>-32.2</td>
<td>-5.4</td>
<td>-10.2</td>
<td>-10.2</td>
</tr>
<tr>
<td>Interest payments/GDP</td>
<td>0.9</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Total debt/GDP</td>
<td>53.6</td>
<td>55.6</td>
<td>55.6</td>
<td>55.6</td>
</tr>
<tr>
<td>Total debt service/exports</td>
<td>8.9</td>
<td>5.9</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Present value of debt/GDP</td>
<td>34.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present value of debt/exports</td>
<td>61.4</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**STRUCTURE of the ECONOMY**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(% of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>14.3</td>
<td>36.7</td>
<td>30.9</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>36.2</td>
<td>35.1</td>
<td>35.4</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>49.4</td>
<td>28.2</td>
<td>33.7</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private consumption</td>
<td>46.8</td>
<td>56.9</td>
<td>56.6</td>
<td></td>
</tr>
<tr>
<td>General government consumption</td>
<td>27.6</td>
<td>15.1</td>
<td>15.9</td>
<td></td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>54.7</td>
<td>52.4</td>
<td>41.4</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** 1996 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.
### ANNEX 10

#### Mongolia

**Prices and Government Finance**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic prices (% change)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implicit GDP deflator</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government finance (% of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current budget balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall surplus/deficit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Trade**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports (fob)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copper</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meats</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total imports (cif)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel and energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export price index (1987=100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import price index (1987=100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terms of trade (1987=100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Balance of Payments**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account balance to GDP ratio (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net current transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance, before official capital transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing items (net)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in net reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Memo: Reserves including gold (mill. US$)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conversion rate (local/US$)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**External Debt and Resource Flows**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt outstanding and disbursed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total debt service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Composition of net resource flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Official creditors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private creditors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank program Commitments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal repayments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net flows</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

** Development Economics 9/28/97**
ANNEX 11: PROJECT IMPLEMENTATION PLAN

A. GOVERNMENT FINANCIAL MANAGEMENT

PART I: CONCEPTUAL FRAMEWORK
Prepared by the Government of Mongolia with assistance of IDA and IMF

Introduction

1. Sound public finances are essential for sustaining the gains of stabilization, and are the basis for a leaner, more efficient public administration, which is the Government’s objective. The Government has started a far-reaching civil service reform program, based on the model of public administration implemented in New Zealand in the period 1988-94. In September 1996 the civil service was restructured into nine policy ministries and associated implementing and regulatory agencies, to delineate responsibilities more clearly and improve accountability. The Government’s current strategy is to adopt output-based budgeting, management and reporting, and to delegate input decisions to state secretaries and chief executives, based on strategic plans of ministries and agencies. The portfolio ministers will become purchasers of outputs of services from those ministries and agencies.

2. The Government’s strategy is embedded in a draft “Public Sector Management and Finance Act” (PSMFA), which spells out the new responsibilities and accountabilities of all public sector agencies and actors, and has been presented to the Autumn Session of the Great Hural or Parliament. The Act is currently expected to become law in April of this year.

3. Successful implementation of the public administration reforms requires a sound Government financial management system. Critical components of this system are the management and accountability systems that support budget execution and treasury management.

4. Strong budget management assists the Government to manage its revenues and expenditures to budget objectives and provides incentives to budget-holding entities to use resources efficiently and within their legal authority. It will ensure that ministries and agencies face a hard budget constraint in budget implementation—which is crucial not only for aggregate fiscal discipline, but also to enforce the efficiency gains envisioned by the new mode of public administration.

5. Government treasury management includes the management of cash resources and public debt, and borrowing and repayment of principal and interest charges. In many countries, Government treasury management also includes the responsibility for the custodianship of state assets. Effective treasury management should make Government cash resources more productive and the borrowing of funds less expensive.


---

Current Status

7. Currently, budget execution and treasury management is still based on the old Soviet system, which disburse money from the central treasury to ministry accounts without monitoring actual expenditures. Numerous extra-budgetary funds exist. Cash management is hardly developed and not effectively linked to debt management. Agencies have an accounting system with accrual elements, but reporting to the Ministry of Finance is limited and irregular. The current system does not allow for costing of products and activities.

8. There is no integrated accounting software in place; in instances where software has been developed and in use, its functions and capabilities are limited. One chart of accounts based loosely on the IMF’s Government Financial System (GFS) is used for the annual budget while a another chart is in use in all budget entities including MOF. MOF and its aimag branches use a cash-based payments system while other ministries, Ulaanbaatar and aimag budget units use an accrual based system. The Management reporting system includes a few computer generated reports, but most of the reports are prepared using Microsoft Excel. Fixed assets are not recorded, and external debt is also managed on Excel software.

Component Objectives

9. The overall objectives of the component are to increase efficiency and accountability of Government through establishment of a core Government financial management system fully consistent with a new mode of public administration based on outputs and accrual accounting for budgets and reports. Specifically, this component will assist the Government to design and implement a central Government financial management and accountability accounting system and a cash management system that would serve as an effective instrument for budget execution and cash management.2

Policy Framework

10. The PSMFA establishes the new policy framework for the public sector management system of Mongolia. These reforms are being designed and implemented by the Mongolian Government with assistance from New Zealand public sector management consultants and funding from the World Bank and a number of other international donors. Key components of the reform include:

1) the adoption of output-based budgeting, management and reporting by ministers, ministries, agencies and Parliamentary bodies;
2) the adoption of accrual budgeting and accounting by ministries, agencies, Parliamentary bodies and the Government as a whole;
3) the delegation of input management decisions to State secretaries and chief executives;
4) the preparation of strategic business plans by ministries, agencies and Parliamentary bodies for which State secretaries and chief executives will be held accountable at the end of the year;
5) the integration of current and capital budgeting through the appropriation process in the form of appropriations to Ministries and agencies for investments (on behalf of the state as well as on their own behalf) as well as for expenses of producing outputs, transfer payments, etc.;
6) the preparation of Appropriation Estimates and annual reports by portfolio ministers; and

2 Because of the specific policy framework of the Mongolian reforms, described below, it also requires attention to the linkages between accounting systems in individual budgetary bodies and the central Government accounting system managed by MOF.
7) the preparation of forecast accrual financial statements and annual accrual financial statements for the Government as a whole.

**Basic Architecture of Proposed System**

11. The basic architecture of the proposed Government financial management system is as follows:

*Expenditure management:*
1) The Ministry of Finance (MOF) advises budgetary bodies (BBs)—ministries and other government agencies—of their annual budgets and any changes in authority during the fiscal year; BBs have authority to expend up to appropriation in each appropriation class;
2) BBs authorize expenses within budget and record corresponding transactions on BB ledgers, verify receipt of goods and services and authorize and make payments to suppliers;
3) BBs provide financial statements prepared in accordance with international accounting standards (IAS), and supplemented by appropriations information to MOF on a monthly basis;
4) MOF uses these reports to (a) produce consolidated monthly and annual financial statements for the Government and (b) monitor use of budget by BBs by comparing actual expenses with budget on a year-to-date basis.

*Cash management:*
1) BBs are authorized to operate their own bank accounts with commercial banks; however, MOF authorizes the creation of these accounts;
2) MOF authorizes cash advances to BB bank accounts during the year according to cash profiles agreed by MOF at the beginning of each fiscal year, based on the forecast cash requirements of each BB’s budget; release of cash to BB accounts is subject to certification by MOF of proper exercise of legal appropriation authority;
3) MOF also has the power to operate on BB bank accounts during the year in order to manage the Government’s overall cash position in a centralized cash management system but in a manner which does not interfere with the BB’s normal management of the account; MOF can also pay interest on deposits with it by the BBs as an incentive to efficient cash management;
4) The Bank of Mongolia (BOM), as the Government’s banker, monitors balances in all Government bank accounts on a daily basis and reports them to MOF and executes the funding instructions of the Ministry.

The fundamental relationships in the system are shown in Figure 1.
Allocation of responsibilities

12. Responsibilities can be summarized as in the following table:

<table>
<thead>
<tr>
<th></th>
<th>MOF</th>
<th>BOM and/or commercial banks</th>
<th>Budgetary bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds allocation</td>
<td>Advise BBs of appropriation authority by appropriation class (annual)</td>
<td></td>
<td>Allocate authority within appropriation classes (annual)</td>
</tr>
<tr>
<td></td>
<td>Monitor expenditure against authority (monthly)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verification</td>
<td></td>
<td></td>
<td>Verify receipt of goods and services (daily)</td>
</tr>
<tr>
<td>Payment</td>
<td>Execute payment instructions by account holders (daily)</td>
<td>Authorize and make payments (daily)</td>
<td></td>
</tr>
<tr>
<td>Revenue receipts</td>
<td>Account for and bank government revenue receipts (daily)</td>
<td>Receive revenue on own account and on behalf of Government (daily)</td>
<td></td>
</tr>
<tr>
<td>Accounting/financial reporting</td>
<td>Consolidate BB reports and prepare government financial statement (monthly, annual)</td>
<td>Report balances in all government bank accounts to MOF (daily)</td>
<td>Report to MOF financial statements in compliance with IAS.</td>
</tr>
<tr>
<td></td>
<td>Manage cash balances in all government bank accounts as instructed by MOF (daily)</td>
<td>Prepare financial statements for Parliament (annual)</td>
<td></td>
</tr>
</tbody>
</table>
13. The system will then embody the following central responsibilities, which need to be taken into account in the design of the budget and treasury management system:

1) Production of Government financial statements: this requires BBs to account to MOF in sufficient detail to enable the Ministry to produce the statements; this means that MOF will need to prescribe the information it requires in enough detail at least to enable accounting against Parliamentary authority and production of the Government accounts to international accounting standards.

2) Specification of additional Government financial classifications: for example, production of Government-wide accounts in GFS format, or presentation of supplementary information on personnel expenses or other categories deemed important for overall Government fiscal policy, may require additional prescription of information required by MOF.

3) Establishment of bank accounts: BBs can open bank accounts only with the approval of MOF.

4) Management of cash balances in bank accounts: MOF will have the authority to make advances to bank accounts and invest surplus cash balances in these accounts; Government bank accounts must not be in overdraft; in other respects the account holders operate on the accounts in the normal way;

5) Control of Government debt and financial investments: MOF will have responsibility for management of the overall debt and financial investments of the Government.

6) External audit: The State Audit Board will be responsible for annual attest audits of the financial statements of all BBs. Systems need to be designed to meet external audit requirements based on international accounting standards.

7) MOF internal control: MOF will maintain its own internal control system to assure the reliability of both its own financial management and the accounting and financial reporting systems in BBs on which it depends for production of Government financial statements. MOF has the power to require information necessary to enable it to discharge its responsibilities under the PSFMA.

Specific Implementation Requirements

14. The following specific actions would need to be taken to enable the implementation of an improved Government financial management system consistent with these reform objectives:

1) Enactment of the PSMFA to provide the legal basis for MOF management of the budget execution and financial reporting system and a centralized cash management system;

2) The development of a new accounting classification which will meet the MOF’s and the Government’s requirements for reporting on execution of budget; production of the Government’s financial statements to international accounting standards; and other financial and economic information (such as the GFS classification of public finance) necessary for financial and economic management;

3) Development and implementation of an accounting system in the MOF which will: (a) support these new budget and reporting standards; (b) enable consolidation of individual budgetary body reports; (c) support monitoring of revenues and expenses against budget heads;

4) Progressive development and implementation of accounting systems in budgetary bodies which will similarly support new budgeting and accounting standards and requirements for external reporting and monitoring of year-to-date progress, the specifications of which will be reviewed and developed later;

5) Development of a centralized cash management system enabling monitoring and effective daily management of aggregate Government cash balances;

6) Development of an associated debt and investments management system;

7) Development of effective external audit and internal control systems (both in the MOF and in BBs).

8) Development of general manager appointment, employment and appraisal processes.
15. Critical risks associated with the implementation of the overall public sector reform program are: (a) lack of a widespread understanding of the concepts, requirements and implications of the reforms; (b) failure to support the legislative framework in a comprehensive and consistent manner; (c) inadequate capacity of current State secretaries, agency chief executives, and other senior civil servants; (d) inadequate capacity in the system supporting entities (Ministry of Finance, Government Service Council, State Audit Board); (e) poor sequencing of the various elements of the reforms; (f) an implementation timetable that allows insufficient time for adequate systems development or capability building in ministries, agencies and Parliamentary bodies; and (g) an implementation strategy that is too slow and creates insufficient pressure to progress the reforms.

16. These general implementation risks will be addressed by: (a) the development of an explicit communication strategy and campaign to explain the philosophy and requirements of the Public Sector Management and Finance Act to key parties before and during the discussions in Parliament and to get their commitment to the reforms; (b) active ministerial involvement; (c) early implementation of the limited term employment contracts and performance agreement processes for State secretaries and chief executives, allowing appropriate rewards and sanctions, including personnel changes if necessary, to encourage rapid and high quality; (d) a staged implementation approach that initially focuses on selected pilot agencies and the system supporting entities and then rolls-out implementation in a carefully sequenced and staged manner; and (e) an implementation timetable that is ambitious but uses well-designed implementation phases to allow capability building to occur.

17. Specific risks related to the development of budget execution and treasury management systems include the following.

1) Links to development of budget planning: this project concentrates on the budget execution phase, but clearly some of the systems required also need to support the entry of information related to budget planning;

2) Securing effective control over Government cash: specifically, the Government needs to ensure that it receives all Government revenues into a central account, releases cash to BB accounts according to agreed cash profiles and can monitor balances in Government accounts daily for aggregate cash management purposes;

3) Developing effective external audit and internal control systems: a decentralized financial management system such as is being introduced in Mongolia critically depends on timely and reliable financial information and effective control on the proper use of public funds; support for the development of good control systems is an important component of the project;

4) Effective interim reporting and cash management arrangements: because the program of implementation will take three to four years to complete, the Government needs to maintain and improve existing reporting and cash management systems; this issue is being addressed in discussions with the IMF on an interim treasury management system;

5) Donor coordination: the Government needs to ensure that the various donor agencies assisting with implementation are properly coordinating their assistance activities: this includes bilateral assistance (such as being provided by the German State Audit Court to the State Audit Board) as well as multilateral;

6) Effective participation in the project by all agencies which are key to its implementation: the Government will need to ensure that at both the steering level and the working group level, all the relevant implementation interests are properly represented; key units include MOF budget and treasury staff, BOM (a close working relationship and clear service agreement between MOF and
BOM is critical to successful Treasury management); the State Audit Board and State Services Council; the pilot agencies; and probably a selection of senior officials who will be charged with implementation in other budgetary bodies in the second phase of implementation.

18. Continued Government commitment to strengthening the basic economic management institutions is a prerequisite for successful project implementation. Implementation of the fiscal reform package would need Government support at the highest levels, who do recognize the need for change, to ensure that the change process is completed smoothly.

**Items to be Financed**

19. To support the overall policy objectives listed in the policy framework and achieve the specific implementation requirements set out above, the proposed project would provide technical assistance, related regulations and training programs for budget execution, both in MOF and in budgetary bodies, and treasury management in MOF and, in the second stage, computer equipment and software to assist the authorities to design, develop, test and implement processes, procedures and systems.

*Technical Assistance*

20. The IMF has been providing some technical assistance to MOF in the development of a new budget classification structure, a chart of accounts and the functional specifications for fully functioning budget management and treasury systems. The IMF would continue to be involved in advising MOF, if requested to do so, on the substantive aspects of the budget execution, cash management and treasury operations.

21. The project would supplement this technical assistance in the functional and technical areas as well as for project implementation as described below:

*Functional Aspects:*

1) Treasury cash and debt management  
   a) Development of debt and investment management systems  
   b) Debt management procedures and processes  
   c) Establishment of centralized cash management system  
   d) Development of cash forecasting methods  

2) Budget execution  
   a) Develop accounting systems for MOF (whole of Government) and budget bodies  
   b) Develop the legal regulatory and operational framework and develop detailed guidelines, procedures, regulations, forms and operating manuals for budget execution processes.  
   c) Develop methods to improve forecasting of expenditure requirements and cash management  
   d) Develop budget body performance reporting and monitoring processes  
   e) Development of external audit and internal control processes  

3) Institutional development  
   a) Assess training requirements for institutional development, including assessment of the skill levels of MOF staff to operate and manage new systems as well as necessary technical skills required for the implementation and operation of the new treasury system,  
   b) develop and implement a training, skills upgrading and recruitment program as may be necessary, and  
   c) develop the audit capacity of the State Audit Board.
Technical Aspects:

22. If a decision is taken to adopt a standardized centralized management information system, technical assistance would be provided to develop the technical design of accounting systems and implement the systems first at a designated set of pilot sites—the central MOF system and selected agencies—and, after testing the system in this environment, support further phases of the progressive introduction of the system throughout central Government. This would include:

1) Researching and identifying candidate application software and determining customization requirements—if appropriate and expedient.
2) Specifying the hardware and software requirements and prepare bidding documents in accordance with IDA Procurement Guidelines.
3) Supervising implementation of systems including:
   a) Technical project coordination and systems integration;
   b) Procurement of hardware and software;
   c) Installation and testing of hardware and software;
   d) Development (if required) of application software.
   e) Developing operational guidelines, security and disaster recovery procedures
   f) Developing procedures and check list for replicating systems at subsequent sites.
4) Developing a plan for upgrading the informatics capability of MOF to enable it to carry out the design, implementation, operation and maintenance of the above systems; including:
   a) Specifying an organization structure and skills requirements for this facility
   b) Developing a training strategy and plans for the implementation of the systems countrywide
   c) Developing end user manuals and training materials and documentation
   d) Training end users at pilot sites
   e) Designing and specifying systems training facilities for MOF

Computer Hardware and Software

23. Subject to the recommendations of MOF, the project would finance

- **Hardware and Systems Software**

  Equipment. Details of equipment to be procured would be determined by MOF. As mentioned above, the project would also provide some computer hardware to supplement the hardware procured from Government’s own resources, that is required for the full implementation of the interim system.

- **Application Software**

  Guidelines would be developed for the procurement of applications software. In general, Software packages would be reviewed on the basis that: (a) they provide the required functionality; (b) they can be supported locally, so that upgrades can be obtained and installed as they become available; (c) customization assistance may be provided, and costs of customization clearly identified; (d) they run on a range of hardware and operating software which is compliant with the hardware/software guideline proposed for the public administration reforms; (e) adequate documentation is available to enable package installation and use; and (f) potential licensing arrangements can accommodate use at multiple sites.
Training

24. Training is recognized to be a crucial element for project implementation. Training requirements for the project can be divided into several areas:

1) Training in principles, concepts and methodologies of the subject areas covered by the project, namely, budget execution, cash management and treasury operations.
2) Senior-level management training and orientation in modern management practices.
3) End-user training in the use of the computerized information systems to be set up under the project.
4) Technical training in the use of the specific tools to be employed for developing and implementing the information systems under the project.
5) More general training related to the design and development of information systems.
6) Provision of end-user support to staff who will use the systems.
7) Training in attest auditing

25. The project would provide financing for:

1) Technical assistance for development of an overall training strategy for training users for the implementation of the systems countrywide; the design and specification of inhouse training facilities and/or identification of suitable training courses within the country and abroad; the development and acquisition of training materials, technical documentation and end user manuals.
2) Training courses to be arranged at site, or in local or foreign institutes to cover these areas. Staff to be trained under the project would include MOF staff who will be involved in the development and implementation of the systems.
3) Study assignments for Government officials in the budget execution and treasury operations areas to enable them to benefit from the experiences of other Governments in these areas. This would include financing of courses, discussion visits on specific topics by experts from these Governments or agencies to Mongolia.

Training and study would be concentrated on experience with systems of public administration with features similar to those in New Zealand or with private-sector accounting and auditing.
Part II: IMPLEMENTATION FRAMEWORK; SCHEDULE; PROCUREMENT PLAN AND INDICATIVE TERMS OF REFERENCE
Prepared by the Public Administration Reform Management Group, Ministry of Finance

As part of its public administration reform program the Government of Mongolia has requested assistance from IDA to:

- establish cash/debt/treasury management systems within the Ministry of Finance and for budgetary bodies,
- develop the management skills of senior managers in budgetary bodies and local government,
- develop the accounting skills of finance staff in budgetary bodies and local government,
- develop a central accounting and budgeting system within the Ministry of Finance, and
- Develop the audit skills of the State Audit Board.

These projects are prioritized as follows:

- Cash/Debt/Treasury Management
- Management Development Program
- Accounting Training
- State Audit Board capacity-building
- Ministry of Finance Accounting and Budgeting Systems

1. Cash/Treasury/Debt management

INTRODUCTION

These systems and functions can be established in isolation from the management and accounting aspects of the wider reform program thus enabling early implementation. The broad objectives of this project are to:

- enable the Government of Mongolia to meet its ESAF conditions
- improve control over cash flows and balances
- improve cash management and forecasting through the design and implementation of an incentive-driven cash management system, and
- lower the Government's cost of capital by improving the matching of cash requirements with investing and financing operations.

The project has the following aspects:

- develop guidance material for, and provide training to, the Ministry of Finance and budgetary bodies
- develop and implement banking arrangements and procedures
- develop and implement cash management systems and incentive arrangements
- develop debt and investment management systems and procedures, and
- develop a treasury management strategy.

These project elements are elaborated below.

PROJECT STRUCTURE

As this project will be the responsibility of the Ministry of Finance, a working group should be established with support from an advisor familiar with the incentivized cash management systems and
banking arrangements required by the PSMFA. Bank of Mongolia officials and representatives of budgetary bodies should also be included in the working group.

Under TA No. 2868-MON, the ADB will provide interim funding (2.0 person-months) for a treasury/cash/debt management advisor for two months. In this period, a capability and needs assessment will enable the working group, with the support of the advisor, to specify this project in more detail.

**PROJECT STAGES AND TIMING**

The timing of this project is driven partially by the overall project implementation strategy and is contingent on the approval of the PSMFA by the State Great Hural. Notwithstanding the draft nature of the implementation strategy, the following indicative timetable is proposed for the project:

<table>
<thead>
<tr>
<th>Establishment</th>
<th>Mar 1998*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepare terms of reference</td>
<td>Apr 1998*</td>
</tr>
<tr>
<td>Preliminary overall status assessment</td>
<td>May 1998*</td>
</tr>
<tr>
<td>Study tour</td>
<td>Jul 1998</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Banking Arrangements</th>
<th>By</th>
<th>Cash Management</th>
<th>By</th>
<th>Debt/Treasury</th>
<th>By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status assessment</td>
<td>May</td>
<td>Status assessment*</td>
<td>May</td>
<td>Status assessment*</td>
<td>May</td>
</tr>
<tr>
<td>Detailed planning and design</td>
<td>May</td>
<td>Detailed planning and design*</td>
<td>May</td>
<td>Detailed planning and design*</td>
<td>May</td>
</tr>
<tr>
<td>Guidance instructions prepared for BBs and BOM*</td>
<td>Jun</td>
<td>Guidance instructions prepared for BBs and BOM*</td>
<td>Jun</td>
<td>Computer requirements defined*</td>
<td>Jun</td>
</tr>
<tr>
<td>Regulations prepared for banking arrangements*</td>
<td>Jun</td>
<td>Regulations prepared for CM*</td>
<td>Jun</td>
<td>Treasury management strategy, policies and processes defined</td>
<td>Jul</td>
</tr>
<tr>
<td>Banking policy determined*</td>
<td>Jun</td>
<td>Report prepared for sign-off*</td>
<td>Jun</td>
<td>Organizational structure defined</td>
<td>Jul</td>
</tr>
<tr>
<td>Sign-off by SS, PARPMG, SG*</td>
<td>Jul</td>
<td>Seminar for Budgetary Bodies</td>
<td>Aug</td>
<td>Sign-off by SS, PARPMG, SG</td>
<td>Aug</td>
</tr>
<tr>
<td>State receipts, payments and balances identified (Article 8)</td>
<td>Sep</td>
<td>Draft CM profiles prepared by BBs</td>
<td>Sep</td>
<td>Computer systems procured</td>
<td>Dec</td>
</tr>
<tr>
<td>Bank accounts established</td>
<td>Sep</td>
<td>CM profiles reviewed and signed-off by working group</td>
<td>Oct</td>
<td>Systems and processes implemented</td>
<td>Mar</td>
</tr>
<tr>
<td>Flows redirected into approved bank accounts</td>
<td>Oct</td>
<td>CM system cutover</td>
<td>Oct</td>
<td>System cutover</td>
<td>May</td>
</tr>
<tr>
<td>Sign-off by SS, PARPMG, SG</td>
<td>Nov</td>
<td>Sign-off by SS, PARPMG, SG</td>
<td>Nov</td>
<td>Sign-off by SS, PARPMG, SG</td>
<td>Jun</td>
</tr>
</tbody>
</table>

* Expected to be completed under ADB TA for advisor.

**TERMS OF REFERENCE CASH/DEBT/TREASURY MANAGEMENT ADVISOR**

**A. General**

To assist in the development of a cash management system and a modern debt management capability within the Ministry of Finance.

**B. Specific**

a) To assist the Ministry of Finance and the Bank of Mongolia to design a cash management system in accordance with the requirements of the Public Sector Management and Finance Act.
b) To assist the project team and the Ministry of Finance to develop guidance material for budgetary bodies on the cash management system.
c) To assist the Ministry of Finance to design a modern treasury management and debt management function.
d) To train Ministry of Finance staff in treasury management and debt management techniques.
e) To assist the Ministry of Finance to acquire and operationalize appropriate debt and treasury management software and associated hardware.
f) To train Ministry of Finance staff in the use of the debt and treasury management systems.

C. Outputs

a) Cash management system established.
b) Guidance material on the operation of the cash management system prepared.
c) Debt management function established.
d) Ministry of Finance staff trained in debt management techniques.

2. Accounting Training Program

INTRODUCTION

It is essential that finance staff in budgetary bodies and local government are comfortable with International Accounting Standards, modern accounting and budgeting practices, and internal control principles. Consequently, an extensive training program must be developed and delivered to these staff.

The objectives of this training program are to:

- provide finance staff in budgetary bodies and local government with an overview of the new public administration system, particularly as it relates to the budgeting and reporting process
- provide finance staff with suitable guidance material for reference and study purposes
- familiarize finance staff with International Accounting Standards and modern accounting and budgeting practices
- familiarize finance staff with internal control principles
- provide training in specific accounting processes and budgetary concepts and techniques, and
- enhance the financial analysis capabilities of finance staff.

We propose that the training program be delivered through:

- a self-instruction program
- a series of five-day workshops, and
- specific on-site training and assistance.

These aspects are discussed in turn.

SELF-INSTRUCTION PROGRAM

This aspect of the training program will require finance staff to undertake a course of training covering:

- the overall framework of the new public administration system
- the operational requirements of the new public administration system
• financial accounting concepts and techniques
• management accounting concepts and techniques
• International Accounting Standards and their application to reporting by government entities
• basic auditing concepts, and
• budgeting and costing methods.

Finance staff will be provided with reference material (in Mongolian) and self-study course workbooks.

At the conclusion of the training program, finance staff will be required to sit an examination on the contents of the training. The usual arrangements will be put in place to ensure that due process is followed in setting and grading examinations.

WORKSHOPS

This aspect of the training program will replicate the modules in the self-instruction program but will be delivered in a lecture/workshop format. We estimate that 50 five-day workshops will be required for the three years to September, 2000.

ON-SITE TRAINING

The final aspect of the training program will involve the provision of on-site training to finance staff (consulting-type advice). We estimate that three ten-day visits for each entity will be required as follows:

• Visit 1 (10 days): preliminary visit covering preparation for the study program and preparation for implementing the requirements of the reforms.
• Visit 2 (10 days): assistance to resolve technical and procedural issues.
• Visit 3 (10 days): assistance to resolve technical and procedural issues.

DELIVERY OF THE TRAINING PROGRAM

There are two broad options. The first option would be to contract an International Accounting firm to develop and deliver the program. The second option would be to encourage Mongolian accounting academics to tender for the project with some support from members of the project team. We believe that option two is superior because:

• it would strengthen the Mongolian accounting profession; and
• it is much cheaper than the alternative (by about US$4 million).

Our estimates are based on option two.

PROGRAM TIMING

The timing of development and delivery of the accounting training program is driven by the overall project implementation strategy which cannot be finalized until the legislation is approved the State Great Hural. Notwithstanding the draft nature of the implementation strategy, the following timetable is proposed for development and delivery of the training program:

• program details finalized and signed-off
• tender applications called
• delivery consortium selected
• training program and materials prepared and signed-off

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>program details finalized and signed-off</td>
<td>May 1998</td>
</tr>
<tr>
<td>tender applications called</td>
<td>May 1998</td>
</tr>
<tr>
<td>delivery consortium selected</td>
<td>July 1998</td>
</tr>
<tr>
<td>training program and materials prepared</td>
<td>October 1998</td>
</tr>
</tbody>
</table>
3. Management Development Program (proposed)

INTRODUCTION

Managers of budgetary bodies and in local government must develop modern management skills if they are to be effective in the new system of public administration, with its emphasis on management responsibility. A program designed to provide senior managers with these skills must developed and delivered to these managers.

Management skills can be developed:

- in the short-term through a development program designed to equip senior managers with the specific skills which they will need to have be effective managers in the new system, and
- in the long-term through more formal (academic) training.

The program discussed in this note is designed to equip managers with the skills which they will require in the short term. The objectives of the program are to:

- assist senior managers to discover the expectations, responsibilities, incentives and authority which the new public administration system requires
- provide a forum for senior managers to interact and discuss issues, thereby creating common understanding and support for the reforms and a support network of senior civil service managers
- assist senior managers to plan implementation of the new system within their organizations, and
- provide training on specialized areas (such as financial management or human resources management)

The new system of public administration charges senior managers with wide authority and commensurate accountability. A major culture managerial culture change will result. The management development provides an early opportunity to convey this cultural message i.e., “it’s up to you—you will be given the authority but we expect results.” A structured and prescriptive training program (cf. the accounting training program) would not convey the nature of the culture change and would run the danger of creating dependence on central bodies.
The ultimate output for the senior managers of a budgetary body would be a report to the PARP group, SSC and Steering Committee for sign-off outlining detailing their implementation strategy and plan for their entity. This would provide the Steering Committee with assurance that the entity was ready to move along the implementation path.

The management development program should ideally be driven by the senior managers themselves within broad parameters. We propose that the management development program have the following structure:

- a two-day seminar launching the program
- a series of working groups focusing on various aspects of the reforms and management skills (supported by a series of lectures, the topics of which to be determined by the senior managers), and
- a series of lectures covering specific aspects of management in the context of the management reforms.

These aspects are discussed in turn below.

**Program Launch Seminar**

The program launch will set the tone for the remainder of the program and the reforms themselves. The objectives of the opening seminar are to:

- communicate the government’s commitment to the reforms
- communicate the government’s expectations of senior managers
- provide an overview of the expected impact of the reforms on budgetary bodies and local government entities
- propose, discuss and agree the structure of the management development program

A tentative agenda for the program launch seminar might be:

- Why are we doing this and what do expect of you?  Prime Minister
  An overview of the reforms and what they mean for senior managers  Minister of Finance
- Performance contracting (Minister—State Secretary)
- Role of the central agencies (MOF, SSC, SAB)
- Employment powers, arrangements and structures
- Financial management and budgeting
- Organizational structures
- Implementation strategy and timing
- Overview of proposed management development program
- Discussion groups—what does this mean for us?
- Discussion group feedback
- Wrap-up: the process from here

**Focused Working Groups with Specialist Advice Where Necessary**

Meeting facilities would be made available to the senior managers each week to meet and discuss implications of the reforms, how it would affect them, and how they would manage this process.

On request of the senior managers, specialists would be provided to facilitate sessions or deliver lectures.
TARGETED LECTURE SERIES

To ensure that all important specialist areas are covered in the development program, a targeted lecture series will be delivered covering a variety of subjects including:

- Performance contracting (Minister—State Secretary)
- Role of the central agencies (MOF, SSC, SAB)
- Employment powers, arrangements and structures
- Financial management and budgeting
- Organizational structures
- Output specification

PROGRAM TIMING

The timing of development and delivery of the management development program is driven by the overall project implementation strategy which cannot be finalized until the legislation is approved the State Great Hural. Notwithstanding the draft nature of the implementation strategy, the following timetable is proposed for the management development program:

- Detailed planning for Management Development plan completed  March 1998
- opening seminar details and format agreed and signed-off  March 1998
- launch seminar conducted  August 1998
- Discussion groups and lecture series  August 1998 – March 2000

4. Government Accounting and Budgeting Systems

Accounting and budgeting system requirements can be viewed at two levels:

- **Budgetary Bodies**—The ability to turn data inputs (e.g., timesheets, payments) into information for management and external reporting purposes, and
- **Aggregate (Ministry of Finance)**—The ability to collect, review, analyze and consolidate the financial and nonfinancial data of budgetary bodies and to report (ideally weekly) changes in the projected fiscal position.

**BUDGETARY BODIES AND LOCAL GOVERNMENT**

The accounting and budgeting systems requirements of budgetary bodies will have two distinct phases:

- **Phase 1 (transitional)**—budgetary bodies and local government entities currently report accrual information from existing systems (a mixture of computerized, spreadsheet and manual). The move to reporting and budgeting in accordance with IAS will require their reports to be reformatted, depreciation policies to be defined and depreciation to be calculated and asset revaluation policies to be defined. These changes are relatively minor and will not drive the adoption of specialist accounting software. The move to output-based budgeting will require cost allocation policies to be defined and procedures to be implemented. In the short run, the cost allocation process can be conducted adequately on custom-built spreadsheets if their existing systems do not have the appropriate costing functionality.
- **Phase 2 (ongoing systems)**—Once budgetary bodies and local government entities have familiarized themselves with the new system of public administration (particularly the management information
requirements driven by the system incentives), they will be much better to determine their system requirements. At this stage (approximately two years after moving to the new system of public administration) two options are available to support the acquisition and implementation of management information systems should they be required:

- standardized software and hardware platforms selected by a working group and implemented by those entities who opt to take up the package, or
- system requirements defined and procured on an individual entity basis.

Given that each option has merits, we propose that:

- a working group be established to review the options for procurement,
- a decision be taken by the Steering Group on the most appropriate option, and
- procurement procedures be established appropriate to the option chosen.

**AGGREGATE BUDGETING AND REPORTING**

The PSMFA requires that whole-of-government budgets and financial statements be consolidated and prepared in accordance with IAS. The PSMFA also requires that portfolio reports and a Fiscal Framework Statement to be prepared at certain times. In order to deliver on these requirements, the Ministry of Finance must:

- design and implement a strategically-driven budget process
- develop the capacity to collect and consolidate the information necessary to prepare the documents required by the PSMFA
- develop the capacity to analyze the information provided by budgetary bodies, and
- develop a macro and fiscal forecasting capacity (particularly for taxation revenues)—the development of these capacities is discussed as another project.

As the design and planning of the strategic budget process will be supported under the upcoming ADB technical assistance, this project only covers bullet points two and three.

To deliver the capability necessary, the Ministry of Finance must develop a system for:

- collecting the financial information to be provided from budgetary bodies
- checking that the financial information provided is “clean” (e.g., the balance sheet balances, the cash flow statement articulates to the other financial statements, appropriation information articulates to the core financial statements, etc.)
- analyzing the financial information provided by budgetary bodies, and
- consolidating the financial information provided by budgetary bodies.

Much of this capability could be delivered if a standardized, centralized accounting and budgeting system were established (see above) however, even if such a system were chosen and implemented, it would be unlikely that it would be operational in less than three years. Consequently there are three broad options available to the Ministry of Finance to provide an interim (and possible permanent) solution:

1. collect financial information from budgetary bodies via spreadsheets or in hardcopy and consolidate it at the Ministry of Finance using spreadsheets
2. collect financial information from budgetary bodies via spreadsheets or in hardcopy and check it, analyze it, and consolidate it at the Ministry of Finance using a cut-down consolidation package, or
3. collect, check, analyze and consolidate financial information from budgetary bodies via a distributed consolidation system.

Option 1, while workable, would be unwieldy and prone to errors.

Option 3, as a short-term option, would be expensive if a centralized, standardized accounting system were selected.

Option 2, provides a workable, short-term, reasonably-priced solution with provision for later expansion.

**PROJECT TIMING**

- Ministry of Finance specification prepared: June 1998
- Tender released (MOF): July 1998
- Tender selected (MOF): October 1998
- Implementation begins: January 1999
- System live: June 1999
- Working group established to review approach for budgetary bodies: July 1999
- Working group report: August 1999
- Systems procurement and installation for budgetary bodies: September 1999 - September 2001
## B. VAT INTRODUCTION

**VAT IMPLEMENTATION PLAN in 1998**

Approved by Decree (No. 366, in 1997) of Minister of Finance, Mongolia  
(Prepared by the General Department of National Taxation)

<table>
<thead>
<tr>
<th>Function</th>
<th>Events</th>
<th>Dates</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Legislation and Public Acceptance</td>
<td>Initiate draft of VAT law</td>
<td>October 15, 97</td>
<td>Responsibility: MOF</td>
</tr>
<tr>
<td>2</td>
<td>Consult Ministries and Government Agencies on Law</td>
<td>October 20, 97</td>
<td>Group Leader:</td>
</tr>
<tr>
<td>3</td>
<td>Complete second draft of VAT law</td>
<td>October 25, 97</td>
<td>H. Hurmehan (MOF)</td>
</tr>
<tr>
<td>4</td>
<td>Pass Law through Parliament</td>
<td>October 29, 97</td>
<td>Members:</td>
</tr>
<tr>
<td>5</td>
<td>Introduce draft VAT law in Hural</td>
<td>November 15, 97</td>
<td>B. Ganhuleg (GDNT)</td>
</tr>
<tr>
<td>6</td>
<td>Commence public education program</td>
<td>November 20, 97</td>
<td>B. Munhbaatar (GDNT)</td>
</tr>
</tbody>
</table>

### 2. Policy Interpretations

<table>
<thead>
<tr>
<th>Event</th>
<th>Dates</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop detailed plan for activity</td>
<td>October 20, 97</td>
<td>GDNT</td>
</tr>
<tr>
<td>Develop initial interpretation of each provision</td>
<td>November 15, 97</td>
<td>GDNT</td>
</tr>
<tr>
<td>Begin consultation with industry sectors</td>
<td>November 20, 97</td>
<td>GDNT</td>
</tr>
<tr>
<td>Develop draft interpretation bulletin for each provision</td>
<td>February 15, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Submit bulletins for policy approval</td>
<td>February 15, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Finalize printing of interpretations bulletins</td>
<td>March 1, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Establish permanent policy interpretations unit in headquarters</td>
<td>April 1, 98</td>
<td>GDNT</td>
</tr>
</tbody>
</table>

### 3. Registration

<table>
<thead>
<tr>
<th>Event</th>
<th>Dates</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop detailed plan for registration</td>
<td>November 11, 97</td>
<td>GDNT</td>
</tr>
<tr>
<td>Develop registration forms and procedures</td>
<td>December 1, 97</td>
<td>GDNT</td>
</tr>
<tr>
<td>Develop strategy for identifying potential taxpayers</td>
<td>December 15, 97</td>
<td>GDNT</td>
</tr>
<tr>
<td>Identify information requirements to support registration</td>
<td>January 15, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Identify advertising strategy to support registration</td>
<td>January 30, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Print information and forms for registration</td>
<td>March 15, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Identify training needed by inspectors</td>
<td>March 15, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Commence registration of new VAT taxpayers</td>
<td>May 1, 98</td>
<td>GDNT</td>
</tr>
</tbody>
</table>

### 4. Tax Accounting

<table>
<thead>
<tr>
<th>Event</th>
<th>Dates</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop detailed plan for tax accounting</td>
<td>November 1, 97</td>
<td>GDNT</td>
</tr>
<tr>
<td>Develop information required on VAT return</td>
<td>December 15, 97</td>
<td>GDNT</td>
</tr>
<tr>
<td>Design VAT return</td>
<td>January 1, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Develop procedures to record and control refund claims</td>
<td>January 15, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Identify changes required in tax accounting systems</td>
<td>January 15, 98</td>
<td>GDNT</td>
</tr>
<tr>
<td>Commence development of systems changes</td>
<td>February 1, 98</td>
<td>GDNT</td>
</tr>
</tbody>
</table>

---

1. This should include a complete list of the provisions that require interpretative guidelines.

2. A decision is needed to establish whether business registered for the existing sales tax will be required to register again for the VAT, or whether these registrations will automatically be carried forward into the new tax. This is a matter for consideration by departmental legal advisors.

3. These should include the calculation and payment of interest on overdue refund claims, and automatic adjustment of account balances when refunds are paid.
<table>
<thead>
<tr>
<th>Function</th>
<th>Events</th>
<th>Dates</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Identify training needs of field staff</td>
<td>March 1, 98</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Prepare written procedures for field staff</td>
<td>March 198</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Test systems changes</td>
<td>May 1 98</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Finalize systems changes</td>
<td>June 1, 98</td>
<td></td>
</tr>
</tbody>
</table>

5. Taxpayer Information

<table>
<thead>
<tr>
<th>Function</th>
<th>Events</th>
<th>Dates</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Develop detailed plan for activity</td>
<td>November 1, 97</td>
<td>Responsibility: GDNT</td>
</tr>
<tr>
<td>2</td>
<td>Develop strategy and outline of taxpayer information program</td>
<td>December 1, 97</td>
<td>Group Leader:</td>
</tr>
<tr>
<td>3</td>
<td>Develop information to support registration</td>
<td>February 1, 98</td>
<td>B. Norjinham (GDNT)</td>
</tr>
<tr>
<td>4</td>
<td>Develop instructions to support forms</td>
<td>February 15, 98</td>
<td>D. Tsedenpil (GDNT)</td>
</tr>
<tr>
<td>5</td>
<td>Develop procedures for advisory visits</td>
<td>March 1, 98</td>
<td>D. Shatatar (GDNT)</td>
</tr>
<tr>
<td>6</td>
<td>Advisory training for inspectors</td>
<td>March 1, 98</td>
<td>G. Enkhtor (GDNT)</td>
</tr>
<tr>
<td>7</td>
<td>Develop advertising program for registration</td>
<td>March 15, 98</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Develop each item of taxpayer information package</td>
<td>to June 1 98</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Print taxpayer information items</td>
<td>June 15 98</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Commence advertising program</td>
<td>June 15, 98</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Commence distribution of taxpayer information packages</td>
<td>May 1, 98</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Commence advisory visits</td>
<td>June 1, 98</td>
<td></td>
</tr>
</tbody>
</table>

6. Importations

<table>
<thead>
<tr>
<th>Function</th>
<th>Events</th>
<th>Dates</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Develop detailed plan for VAT on imports</td>
<td>November 1, 97</td>
<td>Responsibility:</td>
</tr>
<tr>
<td>2</td>
<td>Identify impact on entry documentation</td>
<td>November 15, 97</td>
<td>Customs General Dept/</td>
</tr>
<tr>
<td>3</td>
<td>Develop procedures for VAT deferral for capital goods of approved importers</td>
<td>January 15, 98</td>
<td>Group Leader:</td>
</tr>
<tr>
<td>4</td>
<td>Develop procedures for temporary imports</td>
<td>February 1, 98</td>
<td>Sh. Tsogt</td>
</tr>
<tr>
<td>5</td>
<td>Amend import documents (if required)</td>
<td>February 15, 98</td>
<td>Members:</td>
</tr>
<tr>
<td>6</td>
<td>Determine GDNT information requirements and liaison procedures</td>
<td>March 15, 98</td>
<td>B. Oyungerel</td>
</tr>
<tr>
<td>7</td>
<td>Prepare information and procedures for Customs staff</td>
<td>May 1, 98</td>
<td>D. Enhtuya (GDNT)</td>
</tr>
<tr>
<td>8</td>
<td>Prepare instructions for importers</td>
<td>May 1, 98</td>
<td>Ya. Batjargal (GDNT)</td>
</tr>
</tbody>
</table>

7. Refunds

<table>
<thead>
<tr>
<th>Function</th>
<th>Events</th>
<th>Dates</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Develop detailed plan for activity</td>
<td>November 1, 97</td>
<td>Responsibility:</td>
</tr>
<tr>
<td>2</td>
<td>Develop strategy and general approach for refunds program</td>
<td>December 10, 97</td>
<td>MOF and GDNT</td>
</tr>
<tr>
<td>3</td>
<td>Identify information to be required in VAT return (or refund form)</td>
<td>December 15, 97</td>
<td>Group Leader:</td>
</tr>
<tr>
<td>4</td>
<td>Establish procedures with Treasury Department regarding payment of refunds</td>
<td>January 15, 98</td>
<td>A. Enhbat</td>
</tr>
<tr>
<td>5</td>
<td>Develop procedures for interest calculation and payment</td>
<td>February 1, 98</td>
<td>Members:</td>
</tr>
<tr>
<td>6</td>
<td>Develop instructions for refund claimants</td>
<td>February 15, 98</td>
<td>Ya. Purvee (GDNT)</td>
</tr>
<tr>
<td>7</td>
<td>Develop detailed description of refund verification (audit) program</td>
<td>March 1, 98</td>
<td>Sh. Tserendorj (GDNT)</td>
</tr>
</tbody>
</table>

---

4. This should include a broad description of the taxpayer information program in terms of what booklets, bulletins and brochures will be provided in support of registration and start up of the tax; what use will be made of advertising; what forms will require supporting instructions; will new registrants receive an advisory visit; will seminars be provided; how will taxpayers be informed of subsequent changes, etc.

5. Advisory visits is a program where tax inspectors visit the premises of registered VAT taxpayers prior to the start of the tax, or immediately after registration of a new taxpayer, to ensure that they understand their responsibilities, how the credit mechanism works, and the books and records required.

6. Taxpayer information should be provided to newly registered VAT taxpayers and existing sales taxpayers if their registration is carried forward or whatever methods or special rules may be adopted.

7. This refers to a general description of the refund program in terms of: will refunds be claimed on the tax return or on a separate form; will the refunds be filed and approved locally or in a central refunds processing unit; how will refund claims be controlled and recorded; how will verification be performed; who will have final approval; who will calculate interest; how will payments to claimants be accomplished, etc.
<table>
<thead>
<tr>
<th>Function</th>
<th>Events</th>
<th>Dates</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Identify training needs of field inspectors</td>
<td>March 15, 98</td>
<td>D. Oyun (GDNT)</td>
</tr>
<tr>
<td>9</td>
<td>Develop procedures for refund auditing</td>
<td>June 10, 98</td>
<td>O. Oyuntuya (GDNT)</td>
</tr>
<tr>
<td>10</td>
<td>First refund claims received</td>
<td>October 10, 98</td>
<td></td>
</tr>
</tbody>
</table>

8. Training

1. Determine overall training needs
   - March 15, 98
   - Responsibility:

2. Develop plan for development and delivery of required training
   - March 25, 98
   - GDNT

3. Develop training module to support registration
   - April 10, 98
   - Group Leader:

4. Develop general VAT training modules
   - April 30, 98
   - B. Norjinham (GDNT)

5. Develop registration training in field
   - May 1, 98
   - Ch. Tsendmaa (GDNT)

6. Commence general VAT training
   - May 1, 98
   - D. Tsedenpil (GDNT)

7. Develop training to support advisory visits
   - May 10, 98
   - S. Ganchimeg (GDNT)

8. Commence advisory visit training
   - May 15, 98

9. Develop refund auditing training module
   - June 30, 98

10. Commence refund auditing training
    - July 1, 98

Note: this Implementation plan includes upfront activities prior to Board Presentation.

9 This should include criteria for whatever elements are included in the refund verification strategy, for example, criteria for selecting refund claims for mandatory preapproval audits or for immediate approval and post-audit if these elements are included in the program.
Stage 1: Needs Analysis and Preparation of the detailed functional design, systems specifications, related manuals, and procedures.

The tasks involved in this activity would include:

- Studying and documenting the functional processes including administrative procedures, transaction documents, forms and information flows, (including data flow statistics), related to budget execution accounting and reporting currently in use and recommendations for changes made previously.
- Developing, defining and documenting a new set of functional processes, information flows, procedures, transaction types and associated documents and forms, and related organization required to operate the proposed new systems. This work would build on earlier work related to the design of new budget classification structures, chart of accounts and budget execution and accounting processes and procedures.
- Developing an overall functional design and a detailed set of functional requirements for the application systems required. This including the specification of: the processing and control requirements for the budget execution and expenditure management and accounting system required at various nodes of the information flow network, the output reports and ad hoc query requirements, transaction documents, information flows, input screen designs, the interfaces and data flows between the system and external systems.
- Developing a set of business case scenarios that embody the core functional requirements of the application systems as developed in the previous step. These scenarios should include a suite of test transactions that are representative of the functional requirements developed above. They should be detailed enough so that they can be used to compare and evaluate application software packages available in the market as to their suitability for use by the Government.

The functional analysis for the design of the various systems would need to be conducted jointly by one or more finance and accounting specialists on the one hand, who will develop the functional design and define the overall system from the functional point of view, and; systems development specialists, who will develop the systems specifications of the necessary computer based software required to automate the systems. It is important to note that the new systems may need to be operated manually at some sites for some time before the computer based systems are designed and programmed, and implemented progressively across all sites. A full set of procedures and documentation will therefore need to be developed to operate the manual systems.

The primary deliverables for this activity will be:

- Functional design documents for the various public expenditure management and accounting systems modules.
• A complete set of functional requirements for the new system including specimen transaction documents, reporting formats and a description of procedures and associated manuals required for the implementation and operation of the new systems.

• A set of business case scenarios that embody the core functional requirements of the application systems and a test suite of transactions that can be used for comparing and evaluating alternative software packages.

Stage II. Design of the Technology Architecture Required to Implement the Information Systems

This includes drawing up specifications of the H/W and S/W to be installed at various nodes and the mode of interconnection of this Hardware and Software. The overall H/W, S/W strategy to be employed for implementation is determined by the fact that a Government wide accounting system will require a multilitered network with modules at the central, provincial and spending units levels. The system would require facilities for generating, storing, and processing data at each level and for exchanging data between levels. The data volumes encountered could vary widely across the nodes of the network, dictating the size of the computer at each node. Application software should therefore be scaleable for small or large computers and usable on a variety of H/W platforms. The system should utilize a distributed computer architecture with computing power located at the various nodes of the network. The software development environment should be portable to different platforms (UNIX or NT based) and use modern application development tools such as Relational Data Base Management Systems (RDBMS), Fourth Generation Languages (4GLs) and Graphical User Interfaces (GUIs). The system should have Mongolian as a national language support (NLS).

This task would include:

• Surveying information flows and transaction volumes (current and projected) and data requirements across the network, to determine sizes and configurations of the H/W, S/W to be installed at these nodes and the mode of the interconnection of the nodes between the Center, and provincial sites to ensure accurate and timely data transfer between the nodes. This may include sample site surveys.

• Preparing the specifications for the hardware, systems software, application development software and the application software package (based on the earlier task), required at the various sites, for each phase of the project, for incorporation in tender documents. These specifications would be developed after taking into account the existing H/W and S/W and assessing which elements are usable for the new system.

• Drawing up specifications for associated facilities required for the installation of the system, such as power stabilizers, Uninterrupted Power Supplies (UPSs), telecommunication interfaces, computer site requirements, for incorporation into the tender documents.

The deliverables of this activity will be:

• Specifications for Hardware and Software, Communications facilities and other associated facilities required for the implementation of the Computer Systems.

• Functional Specifications for the Application Software for each module of the required system.

Stage III. Investigation of Alternatives for Application Software

On the basis of the functional analysis carried out as above, MOF would investigate alternatives for application software. This would include ascertaining whether one or more 'off the shelf' software packages are available which can meet the functional requirements of the systems as defined above. While conducting a review of software packages it would be advisable to ensure that:
• The software package provides the required functionality
• Local support is available for the package and it is possible to obtain and install upgrades and/or changes to the packages in Mongolia as they become available
• The vendor for the package provides customization assistance as may be required, or alternatively the package source code is available for making changes as may be required
• The costs associated with any customization are identified clearly in the total cost
• The package runs on a range of hardware and operating software which is compliant with the hardware/software strategy proposed for MOF systems (above)
• Adequate documentation is available to enable package installation and use
• Potential licensing arrangements can accommodate the use of the package at multiple sites in Mongolia.

In case it is not found feasible or cost effective to purchase an off the shelf package to satisfy the requirements of a particular system, MOF will need to develop a plan for the development of the application systems, and estimate the resources required to carry out the development. In this case the functional and systems design carried out above can be extended to develop the full systems and program specifications for the various modules of the systems mentioned above. These would then be used as the basis for the contract or inhouse, development of the application software. These documents should be detailed and specific enough to enable the software contractor to develop the software module without further recourse to the end users.

The deliverables for this activity will be:

• The results of the application software package evaluation process with recommendations for possible packages which could satisfy the functional requirements of the proposed systems.
• In the event that a package option is not found to be feasible, a full set of detailed systems specifications and program specifications which could be used by MOF for contracting the development of this software module by local software houses, or for in house development.

Stage IV. Preparation of Tender Documents for and Acquisition/Development of H/W and S/W.

Key steps include:

• Incorporating the hardware and software specifications prepared as part of earlier tasks into an RFP for procurement of the hardware and software. These tender documents should be prepared in accordance with IDA’s procurement guidelines and procedures. The specifications for procurement must include provision for maintenance and support of the hardware and software for a period of 3 years, and for consumables for three years. H/W requirements should also include associated facilities, such as UPSs, etc.
• Develop criteria for the evaluation of vendor proposals.
• Initiate the tendering process, evaluating vendor proposals and selecting a preferred tender
• Acquire hardware and software.
• Draw up the specifications for, and monitoring the installation and carry out quality assurance during the suppliers’ testing of the hardware and software procured for the project. In the case of procurement of software packages (if this is found to be a feasible alternative) MOF will need to monitor and ensure quality assurance of the suppliers testing of the software to ensure that the packages have the required functionality. In case a package requires customization to meet specified functional requirements, changes will need to be specified and implemented.
• The Government may wish to opt for custom, or inhouse software development.
The deliverables for this activity will be:

- Specifications and RFP documents for the procurement of Hardware and Software for the implementation.
- Specifications for the application software, taking into account the result of the evaluation of the application software packages.
- Evaluation Criteria for Hardware and Software, including test data required to ensure the proper functioning of the application software;
- Technical management and quality assurance of the vendor’s work in constructing systems modules;
- Data Conversion Plan
- User Training Plan
- User Acceptance Test Plan
- Provide the supervision plan and acceptance plan for the software development phase.
ANNEX 13: TERMS OF REFERENCE FOR VAT COMPONENT TECHNICAL ASSISTANCE

1. Advisory services

(A) Long-Term VAT implementation advisor (financed by IMF-administered Japanese Trust Fund)

Reporting responsibility The long-term VAT implementation advisor should be assigned to the Director General of the GDNT and should work closely with the Project Director and the persons heading the MOF and CGA implementation teams. The long-term advisor should be in place by the end of November 1997, and the assignment should continue for 12 months, to assist in the implementation of the VAT and the initial period of its operation.

Role

The long term advisor should provide technical advice and guidance to all areas of the Mongolian administration involved in the introduction of the VAT, and should coordinate the activities related to the other areas of technical assistance.

Work program

1. Assist and advise the MOF in drafting the VAT law, regulations and related white paper.

2. Ensure that there is ongoing effective liaison between the GDNT, MOF and CGA throughout the development of the legislation and the implementation of the tax.

3. Sit as an advisor on the MOF Steering Committee.

4. Work as an advisor to the GDNT VAT Management Committee.

5. Work on an ongoing daily basis with the GDNT working groups to complete the following tasks:

   - development of detailed implementation plans for each function;
   - design forms including registration application, registration certificate, tax report, additional tax assessment form and refund application;
   - identify and develop changes required to registration and tax accounting systems and procedures;
   - develop and deliver training modules to implementation teams on the operations of the VAT, including the scope of the tax, exemptions and zero rate, the credit mechanism, requirements for apportioning credits, fraud schemes, refund verification and taxpayer auditing;
   - develop policy interpretations bulletins for provisions requiring clarification;
   - develop operational guidelines to facilitate administrative requirements;
   - assist with the design and development of a taxpayer information program, including appropriate publications, taxpayer seminars, advisory visits, checklists and illustrative material to support advisory visits and seminars, and ongoing taxpayer service;
• assist with the development of a registration program including a strategy to identify potential taxpayers, advertising requirements, forms and related information for potential registrants;
• develop procedures for the collection of tax arrears and the use of authorized measures;
• assist with the design and development of the program to record, control, verify and pay refunds, including the links to MOF;
• assist with the preparation of instructions to tax office staff; and
• assist with the preparation of training modules for general VAT training and for specialist training to support registration, advisory visits and refunds verification.

6. Assist the CGA and GDNT in developing procedures and safeguards for the VAT deferral on capital goods and the treatment of temporary imports.

7. Advise on the development of appropriate financial controls.

8. Advise on the development of a penalty structure and appeals process.

9. Coordinate the activities of short term advisors.

10. Coordinate with the IMF, participants and hosts respecting the study tours.

11. Monitor all implementation deadlines to ensure VAT is implemented as planned.

(B) Short-term taxpayer service advisor

Reporting responsibility The short term taxpayer services advisor should be assigned to the Project Director and should work closely with the GDNT Working Group responsible for taxpayer information. This assignment should be for one month, beginning March 1, 1998.

Role The short-term advisor should provide advice and guidance on all areas of taxpayer information and taxpayer services, including the preparation of publications, contracting with printers, the use of advertising, media relations.

Work program

1. Assist and advise the GDNT in designing and developing a taxpayer information program to support the implementation of the VAT.

2. Advise on the establishment of an ongoing taxpayer services function.

3. Advise on the creation of effective publications, including the use of graphics, illustrations, formatting, and contracting arrangements;

4. Provide advise to the VAT Management Committee.

5. Work on a daily basis with the working group to complete the following tasks:
   • finalizing the design of the taxpayer information program, including guidelines on the appropriate use for each type of publication;
   • the design of each publication to be distributed to taxpayers;
   • provide advice on the content and presentation of information in each publication;
• develop material to promote the understanding of the credit mechanism and the use of proper VAT invoices;
• development of a taxpayer advisory program, including checklists and illustrative material to support the program; and
• develop advertising campaigns to support registration and taxpayer education.

(C) Short-Term audit advisor

Reporting responsibility The short-term audit advisor should be assigned to the Project Director and should work closely with the Head of the working group responsible for refunds and with the director of the Audit department. This assignment should be for one month beginning in March 1998.

Role The short-term audit advisor should provide technical advice on the design and development of a program to control, verify and effect payment of VAT refunds claimed, and on the general design of VAT audit programs and audit selection.

Work Program

1. Design and develop a comprehensive program for the verification of refunds, including a strategy for selective auditing, criteria for selection, forms, post-approval audits, financial controls and workload allocation;
2. Design and develop detailed procedures for desk and field audits including;
3. Review and advise on procedures for recording, controlling, paying and accounting for refund; and
4. Assist in the design of programs and procedures for VAT purchase audits and invoice cross-checking, including selection criteria.

(D) Short-Term computer programming advisor

Reporting responsibility The short-term computer programming advisor should be assigned to the GDNT Project Director and work closely with the head of the working groups on tax accounting and refunds. This assignment should be for one month, beginning around February 1, 1998.

Role The short-term advisor should provide technical advise and guidance on the design and development of changes required to GDNT accounting systems to accommodate the requirements of the VAT, including refunds of VAT, linkages to MOF accounting systems, deferral of VAT on imported capital goods and information exchange with Customs.

Work program

1. Develop changes to VAT accounts to accommodate new reporting requirements and the receipt and payment of refund claims, including linkages to MOF;
2. Determine the need for, and develop, any systems changes to accommodate the deferral of VAT on imported capital goods and temporary importations, including links to Customs systems;
3. Develop interim measures and procedures to link with Customs’ accounts systems to verify VAT paid in respect to specific importations of importers; and
4. Assist in the design of a system to link Customs’ importer accounts and GDNT taxpayer accounts to compare VAT paid monthly in respect to imports with credits claimed for each registered VAT taxpayer.

2. Study tours

(A) Preimplementation study tour

Scope A study tour should be arranged for 7 officials, including 4 from GDNT, 1 MOF, 1 Customs and 1 interpreter, to visit a country with a strong VAT administration, an integrated tax administration and a relatively small taxpayer base to study the planning and implementation of the VAT. The study tour should take place in February 1998.

Focus The objectives of the study tour should be to gather information and advice on:

- the programs used for VAT registration;
- programs and publications used to develop and publicize VAT policy interpretations;
- the taxpayer information programs used to support the implementation and ongoing administration of VAT;
- the systems and procedures used for recording, controlling, verifying and paying refund claims;
- VAT related training programs provided to employees at implementation and ongoing;
- the policies and procedures used for temporary importations; and
- VAT information exchanged between Customs and the tax administration.

(B) Postimplementation study tour

Scope A study tour should be arranged for 7 officials, including 5 GDNT, 1 MOF, and 1 interpreter, to visit a country with an integrated tax administration covering VAT and income taxes, and strong audit and enforcement programs. The visit should be scheduled for a period of one week to take place in October 1998.

Focus The objectives of the study tour should be to gather information and advice on:

- VAT audit programs, including integrated multitax audits, audit plans and selection;
- programs and procedures used for the verification of VAT refunds;
- programs to identify and register potential VAT taxpayers;
- procedures and powers used to collect outstanding taxes and obtain returns from late filers;
- policies and procedures used in assessing taxes and penalties, including informal and formal appeals procedures; and
- taxpayer information programs used.

3. Equipment

(A) Headquarters Publications Unit

Purpose The successful introduction of the VAT will require the production of various guides and pamphlets for taxpayers and training manuals for tax officials. GDNT headquarters does not presently possess adequate equipment to design and print such publications. The proposed equipment listed below will provide the GDNT with the capacity to undertake the design and low-volume printing of guides and manuals. A decision on how to best carry out high-volume printing (i.e., in house or contracting to private
vendors) needs to be made before finalizing the specifications of the equipment. If the VAT is to enter into effect on July 1, 1998, it will be critical for this equipment to be purchased and installed by March 1, 1998 and training in its use completed by March 15, 1998.

**Equipment**

- 6 networked personal computers with monitors appropriate for graphical design work;
- network software;
- forms design, graphics, and desktop publishing software in Cyrillic alphabet;
- 2 high-speed color printers;
- 1 photocopier;
- consumable supplies for all equipment.

**Priority Publications:**

*Taxpayer Education:*

- Registration guide
- General VAT guide
- Special VAT issues guide

*Training:*

- VAT Law
- Registration procedures
- Advisory visit
- VAT operations
- VAT auditing procedures

**Training**

Training should be arranged in the use of all equipment listed above.

**(B) Taxpayer Service Centers**

*Purpose* To increase the level of service provided to taxpayers, the GDNT intends to construct a taxpayer service center in each of the larger tax offices. These centers are to be used for group seminars, ad hoc meetings with individual taxpayers, and to serve as a self-help area where taxpayers can consult reference material on various tax-related matters. To facilitate the introduction of the VAT by July 1, 1998, the taxpayer service centers should be operational by May 1, 1998. A finalized list of equipment should be prepared by the GDNT following a decision on how many taxpayer service centers are to be established.

**Equipment**

Each taxpayer service center should be equipped with:

- overhead projector and screen;
- white board;
- photocopier;
- tables and chairs;
- magazine racks;
• consumables for equipment.

Training

Assistance may be needed to install some of the equipment. However, no training should be required in the use of the equipment.
MAP SECTION