

Mongolia

Ex-Post Evaluation of Japanese Technical Cooperation Project

“The Enhancement of Tax Administration Project in Mongolia”

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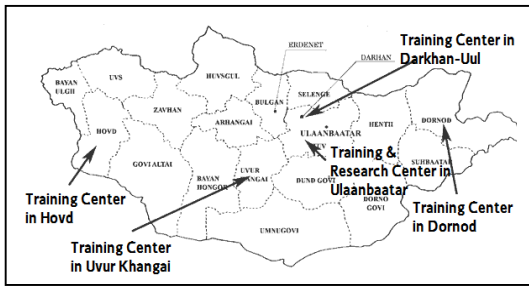
0. Summary

Prior to this project, JICA implemented development studies on tax administration in Mongolia in four phases from 1998.¹ This project was implemented as a summary of the series of Japan’s cooperation activities on tax administration in Mongolia in order to further strengthen the functioning of tax administration of the Mongolian Tax Authority (hereinafter designated as “MTA”). The objectives of this project, which are tax reform and the enhancement of tax administration, are relevant with the development policy of Mongolia by aiming to stabilize the country’s revenue for sound socio-economic development, as well as its development needs. It is also relevant with Japan’s ODA policy, which includes assistance for the shift of the market economy into its priority areas. Therefore, the relevance of the project is high. Through the implementation of the project, learning opportunities for tax administration officers were enlarged, tax collection (including taxation and tax audit) was improved and services to taxpayers were strengthened. The objectives of these components were achieved as expected. In addition, in regard to the overall goal, the number of registered taxpayers has steadily increased and the rate of tax payment by the due date² has improved. Therefore, the effectiveness of the project is high. The inputs were appropriate for producing the desired outputs and achieving the project objectives, and both the project cost and period of cooperation were within the plan. Therefore, the efficiency of the project is high. No major problems have been observed in the policy background or the structural, technical and financial aspects of the MTA. Therefore, the sustainability of the project effects is high. In light of the above, this project is evaluated to be highly satisfactory.

¹ The four studies were: ① The Study on the Support for the Economic Transition and Development in Mongolia, ② The Study on the Support for the Economic Transition and Development in Mongolia (Tax Collection Enhancement 2) ③The Study on the Support for the Economic Transition and Development in Mongolia (Tax Collection Enhancement 2:Support to Taxpayer Information System Establishment) and ④ Study for Establishment of Tax Education System. The present report refers to these four development studies as Phase 1, Phase 2, Phase 3 and Phase 4 respectively.

² See footnote 26.

1. Project Description



(Project Locations)



(Call center in the GDT of the MTA in Ulaanbaatar)

1.1 Background

Mongolia shifted from a socialist system to a market economy in 1990. Since there was not a modern tax collection system under the socialist regime, Mongolia faced constant budget shortfalls due to a chronic shortage of revenue immediately following the transition to a market economy. In order to stabilize socio-economic development, it was important to solidify the country's financial base by establishing an appropriate framework for the enhancement of tax administration. From 1998, Japan extended its assistance to the MTA to establish a tax collection system and a taxpayer information database. This assistance had brought visible positive impacts. For instance, tax revenue had increased three times from 1999 to 2004.

When Phase 4 of the Japanese cooperation (Study for Establishment of Tax Education System (2003-2005)) concluded, the tax administration system had improved to some extent. There were, however, still many issues to be addressed, since the MTA was a relatively new agency (established in 1992). There were not yet a sufficient number of staff members who had full knowledge of the institutional and legal framework of the tax system, and who were able to utilize the improved system effectively. Therefore, continuous assistance in the form of technical cooperation was launched as a summary of the previous series of assistance studies. The project consisted of three major areas: (i) assistance for the establishment of a human resource development framework and training system, (ii) assistance for the enhancement of proper and fair tax administration, and (iii) assistance for the improvement of taxpayer services.

1.2 Project Outline

Overall Goal	1: Realization of proper and fair tax administration 2: Improvement of taxpayers' compliance ³ and increase in number of tax filers	
Project Objective	1: To enhance the human resource development system and training system of MTA by implementing the Short Term Action Plan, and to improve the job performance of the MTA staff 2: To improve MTA's operation in tax collection (including taxation and tax audit) 3 : To improve MTA's taxpayer services	
Output(s)	Output 1	<u>Output for Project Objective 1: Human resource development and training</u> 1-1: Improvement of the training system, curriculum, training course materials and instructor's teaching guidelines based on the Short Term Action Plan of the MTA 1-2: Increase of training opportunities including those in rural areas by the improvement of training facilities and introduction of distance learning 1-3: Enhancement of the MTA instructors' capacity for teaching 1-4: Improvement of training environment (facilities and equipment) 1-5: Establishment of staff training system which is linked with overall human resource development plan of the MTA
	Output 2	<u>Output for Project Objective 2: Tax collection (including taxation and tax audit)</u> 2-1: Decrease of unregistered taxpayers through improvement of manuals, etc. 2-2: Capacity improvement of tax auditors in their auditing skills after the implementation of training courses for them. Also, achievement of fair, efficient and effective tax collection made possible through review and improvement of their works. 2-3: Improvement of job performance through collaboration with other related agencies (such as court and police), and through enhanced functions of information systems including the Third Party Information System (hereinafter referred to as "TPI") ⁴
	Output 3	<u>Output for Project Objective 3: Taxpayer services</u> 3-1: Increased convenience on the part of taxpayers by the improvement of service mind of the MTA staff, establishment of additional taxpayer service centers and introduction of information technology (IT) 3-2: Improvement of contents of public relations activities for taxpayers 3-3: Consideration for introduction of accredited tax accountant system based on advices

³ Taxpayer compliance means that taxpayers file and pay their taxes correctly by themselves.

⁴ TPI is the system of matching taxpayer information held by the MTA and other agencies' information. Referred information is used for the tax audit.

Inputs	<p>Japanese Side:</p> <ol style="list-style-type: none"> 7. Experts 8 for Long-Term, 0 for Short-Term 8. 35 Trainees received (counterpart training in Japan) 9. 0 Trainees for Third-Country Training Programs (total) 10. Equipment: approximately 700 million yen (Equipment to the tax training & research center in Ulaanbaatar, the two training centers in two provinces, the model service center and the call center) 11. Local Cost: approximately 20.88 million yen 12. Others (incl. dispatch of related missions): 0 yen <p>Mongolian Side:</p> <ol style="list-style-type: none"> 6. 21 Counterparts 7. Project Office in the GDT 8. Local Cost (counterpart travel allowance, installation of the model service center and the call center, public relations for tax payers, printing of manuals for tax auditors, renovation for electronic filing of Value Added Tax (hereinafter designated as “VAT))
Total Cost	210 million yen
Period of Cooperation	January 2006–July 2008
Implementing Agency	Mongolian Tax Authority (MTA) (the main agency was General Department of Taxation (GDT))
Cooperation Agency in Japan	National Tax Authority, National Tax College
Related Projects (if any)	<p>[Development Studies]</p> <ol style="list-style-type: none"> 1. The Study on the Support for the Economic Transition and Development in Mongolia (September 1998–March 2000) 2. The Study on the Support for the Economic Transition and Development in Mongolia (Tax Collection Enhancement 2) (June 2000–July 2001) 3. The Study on the Support for the Economic Transition and Development in Mongolia (Tax Collection Enhancement 2:Support to Taxpayer Information System Establishment) (November 2000–February 2003) 4. Study for Establishment of Tax Education System (November 2003–June 2005) <p>[Country focused training]</p> <ol style="list-style-type: none"> 1. Capacity building of MTA tax inspectors (November 2008–March 2011) <p>[Follow-up cooperation]</p> <ol style="list-style-type: none"> 1. Support by JICA Mongolia to the MTA for the preparation of teaching materials for tax education and the implementation of a tax education program (2009–2010)

1.3 Outline of the Terminal Evaluation

It was evaluated that project activities were completed almost as planned, producing the expected results.

1.3.1 Achievement of Overall Goal

The overall goal of the realization of proper and fair tax administration was expected to be achieved at a level higher than at the time of the terminal evaluation, if the MTA would continue effective tax collection (including taxation and tax audit) and further improve taxpayer services through human resource development. The second overall goal of an improvement of taxpayers' compliance and increase in the number of tax filers was also expected to be achieved if incentives for taxpayers to file correct returns would be generated through improved taxpayer services, and tax inspection and tax administration officers' knowledge and ethical and moral awareness would be improved.

1.3.2 Achievement of Project Objective

The first project objective was to enhance the human resource development system and training system of the MTA by implementing the Short Term Action Plan and to improve the job performance of MTA staff. It was expected that this objective would be achieved since it was judged that MTA staff knowledge had been surely increased, and experiences gained through project activities would contribute to the improvement of MTA staff job performance.

With regard to the second project objective, to improve MTA's operation in tax collection (including taxation and tax audit), it was confirmed that the MTA improved tax inspection and tax delinquency management and that tax penalty cases against audited taxpayers increased. It was therefore concluded that the project had achieved the second objective.

The third project objective, the improvement of MTA's taxpayer services, was judged as achieved considering that taxpayer services had been greatly enhanced in both hardware and software aspects, e.g., the installation of taxpayer at tax offices and services to taxpayers through taxpayer service centers (hereinafter called "service centers") and a new website.

1.3.3 Recommendations

The following recommendations were made to the MTA by the terminal evaluation mission:

(1) To continuously make sufficient efforts to enhance taxpayer convenience, such as the increase in the number of taxpayer service centers functions and the improvement in

website functions.

(2) To further enhance methods of taxpayer management, selection of taxpayers to be audited and field audits in order to establish more appropriate and fair tax administration.

(3) To enhance human resource development and training together with active efforts to improve the curriculum, course materials and implementation of correspondence courses, etc., since it is the highly qualified staff of the MTA who enable the effective implementation of appropriate and fair tax administration and taxpayer services.

(4) The objectives that were not fully achieved in the project period, such as the selection of taxpayers to be audited, field audits and methods for field audits, and taxpayer management, are to be continuously pursued on the MTA's self-help basis as well as be taken up in the agenda of the new training program in Japan.

2. Outline of the Evaluation Study

2.1 External Evaluator

Maki Hamaoka, Foundation for Advanced Studies on International Development

2.2 Duration of Evaluation Study

Duration of the Study: November 2011–January 2013

Duration of the Field Study: March 26, 2012–April 7, 2012, June 11-16, 2012

2.3 Constraints during the Evaluation Study (if any)

None

3. Results of the Evaluation (Overall Rating: A⁵)

3.1 Relevance (Rating: ③⁶)

3.1.1 Relevance with the Development Plan of Mongolia

The objective of this project was consistently relevant with the national development plan of Mongolia at the time of both the ex-ante evaluation and the project completion.

The Action Plan of the Government of Mongolia for 2000-2004, which was a national development plan at the time of the ex-ante evaluation, included the enhancement of education, equal distribution of wealth, introduction of social welfare and social

⁵ A: Highly satisfactory, B: Satisfactory, C: Partially satisfactory, D: Unsatisfactory

⁶ ③: High, ② Fair, ① Low

insurance, and alleviation of regional disparities in the objectives. These undertakings of the state required sufficient state revenue that is supported by stable tax revenue. The enhancement of the tax system and tax administration was judged to be contributing to social development and healthy economic development as stated in the national development policy.

The development policy at the time of the terminal evaluation (2008), Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia, was formulated in January 2008 and aims to increase state revenues through expansion of the taxation base and the improvement of tax collection as a tax system policy for macroeconomic development. These objectives were in accordance with the direction of the project.

3.1.2 Relevance with the Development Needs of Mongolia

The direction of this project was relevant with the development needs of Mongolia from the time of the ex-ante evaluation until the end of project.

As stated in 1.1 Background, Japan extended its assistance for the establishment of a tax system framework and tax information system from 1998. At the time of the ex-ante evaluation of this project in 2005, there was not yet a sufficient number of staff in the MTA who had full knowledge of the institutional and legal framework of the tax system improved by the previous phases. Therefore, it was still necessary to continue follow-up capacity building of MTA staff based on the progress of the Short Term Action Plan formulated under the development study in the previous phase, Study for the Establishment of a Tax Education System (2003–2005).

In regards to tax collection, it was imperative for the MTA to improve the filing of returns by strengthening tax audit since the number of non-taxpayers was unknown. In this regard, it was necessary for the MTA to increase working efficiency by developing tax audit manuals and casebooks of best practice and to improve the third party information system and estimate taxation.

Regarding taxpayer services, it was necessary to create an environment in which taxpayers feel free to contact the MTA for tax consultation and to file returns. This was done by expanding service centers as well as improving services and introducing an accredited tax account system. Furthermore, due to an increase in taxpayer knowledge and awareness of tax payment and tax functions, it was necessary to vary

the forms of public relations (that had been previously limited) in accordance with various types of taxpayers.

At the time of the terminal evaluation, MTA staff had gained basic knowledge and skills. However, the need for capacity building on tax collection and taxpayer management was judged as high from issues identified in the terminal evaluation as follows:

- It was necessary for the MTA to enhance the methods of taxpayer management and selection of taxpayers to be audited in order to conduct more efficient and effective tax audit.
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- For this purpose, it was necessary for MTA tax inspectors to acquire a series of works at a higher level such as taxation, tax collection, and collection of delinquent tax.

To improve these issues, capacity building of MTA tax inspectors was implemented after the conclusion of this project, from November 2008 to March 2011.

3.1.3 Relevance with Japan's ODA Policy

This project is highly consistent with one of the priority areas of the Country Assistance Program for Mongolia (November 2004), which is support for institution building and human resource development for promoting a market economy. Therefore, the project direction was highly relevant with Japan's ODA policy.

This project has been highly relevant with the Mongolia's development plan, development needs, as well as Japan's ODA policy, therefore its relevance is high.

3.2 Effectiveness and Impact⁷ (Rating: ③)

3.2.1 Project Outputs

3.2.1.1 Project Output

- 1) Output 1⁸ (Human resource development and training component)

⁷ Sub-rating for Effectiveness is to be put in consideration of Impact.

⁸ Output 1-2 "Increase of training opportunities including those in rural areas by the improvement of training facilities and introduction of distance learning" was initially designed to achieve project purpose 1. After the review of logical relationship of project approaches, it was considered as indicator of project purpose to be achieved by the end of the project period through achievement of other outputs.

Output 1 covered components regarding human resource development and training. Based on the program developed under the MTA Human Resources Development Plan 2006–2008 which was formulated in Phase 4, the implementation plan for MTA training was updated annually. Based on this action plan, counterpart personnel of the MTA developed a casebook for tax audit and tax audit manuals for specific industries, in cooperation with Japanese experts. These materials were utilized in MTA training courses.

The MTA introduced distance learning and increased the number of training centers through the provision of equipment. In 2006, the number of training centers in rural areas increased from two to four. Thus, learning opportunities for MTA staff increased, particularly in remote areas.

MTA instructors enhanced their teaching capacity through participation in training courses abroad or studying in universities in the country.⁹ Moreover, a system to track and record MTA staff achievement and performance in training courses through a personnel information system was established by the Directive by Director General No. 109.

In light of the above, an environment for human resource development was well established. Output 1 was therefore judged as achieved.

2) Output 2 (Tax collection (including taxation and tax audit) component)

With regard to tax audit, a risk management system to divide taxpayers into five grades with eight indicators was introduced. This system enabled the MTA to focus on tax audit quality rather than quantity. In the past, the MTA audited all registered corporations every three years. The risk management system allowed the MTA to decrease the number of tax audits by focusing on prioritized taxpayers.

The following manuals were developed: a casebook for tax audit, tax audit manuals for five specific industries¹⁰ and estimate taxation manual¹¹.

⁹ Two out of seven attended the counterpart training implemented under this project and two participated in training in Turkey and China. One pursued a postgraduate degree and two pursued a doctor's course in Mongolia.

¹⁰ The five industries included vehicle sales, condominium sales, liquor production and trade, mining and banking.

¹¹ Estimate taxation is applied when income cannot be identified through taxpayer documents. In this method, the amount of income tax or corporation tax is decided or amended based on indirect documents such as the status of property, increase and decrease of debt, the status of

Regarding tax collection, the MTA introduced several measures to promote tax payment within the due date and to improve the situation of unpaid taxes: the MTA obliged private sectors to submit certificates of tax payment when they participated in bid by government, introduced self-enforcement,¹² amended the system of sending letters of advice¹³ and strengthened public relations activities regarding tax filing and payment within the due date.

Moreover, the MTA promoted the utilization of the TPI that was introduced in Phase 3 (Tax Collection Enhancement 2(Support to Taxpayer Information System Establishment) in 2000–2003. When the project began, the Mongolia Customs Authorities and the Ministry of Food, Agriculture and Light Industry were major organizations that provided their information for the TPI. During the project period, the number of government agencies collaborating with the TPI increased to seven. For instance, the TPI was connected to the Ministry of Finance regarding information on government procurement, and the Administration Office of State Registry of Titles regarding ownership of immovable properties. Along with the increase in the number of collaborating agencies, the data volume in the TPI increased (see 3.2.1.2 Achievement of Project Objectives, 4) Indicator 4: Increase in the number of MTA staff who uses the TPI).

In light of the above, the groundwork for efficient and effective tax audit and collection was laid. Therefore, Output 2 was judged as achieved.

3) Output 3 (Improvement of MTA's taxpayer services component)

This output intended to achieve the improvement of MTA's taxpayer services through the following: increased convenience for taxpayers by the improvement of customer service on the part of MTA staff, expansion of taxpayer service centers and the introduction of information technology (IT); improvement of the contents of public relations activities for taxpayers; and consideration of the introduction of an accredited tax accountant system based on expert advice.

The number of service centers was 12 in 2005 and increased to 25 in 2008. These

profit and loss, and the production volume.

¹² The state and regional entities were given authority to collect claims of tax levies without legal process in the case of non-payment of taxes.

¹³ In the past, when a delinquent refused a letter of advice, the MTA was unable to collect delinquent taxes. With the amended system, it was deemed that the MTA was authorized to collect delinquent taxes upon the delivery of a letter of advice, despite the delinquent's refusal to receive the letter.

service centers were established through MTA efforts. The Japanese side assisted the MTA in creating a model service center at Songinokhairkhan district tax office to improve software aspects. This included the introduction of call notification devices for latency reduction (which had long been one of the major complaints from visitors to the service center), installation of a reading space, and installation of personal computers with which the service center staff instruct visiting taxpayers on electric filing.

Regarding IT, the MTA introduced a Content Management System (CMS)¹⁴ in 2006 for prompt provision of information to taxpayers. In addition, the Japanese experts assisted the MTA to develop software for VAT invoice inputting.¹⁵ The MTA began providing services using IT, such as electronic filing through the MTA's website. The MTA improved its website, referring to the composition and the contents of the website of the National Tax Agency of Japan. As a result of the improvement of services to taxpayers through IT, the number of times the MTA's website is accessed has increased from 14,247 in 2005 to 55,027 in 2007.

Public relations activities were previously limited in scope and were undertaken only on Taxpayer Day in May. Upon advice provided by the Japanese experts, public relations activities came to be provided through various media, i.e., newspapers, radio, television and brochures. The contents offered to taxpayers include information on tax related laws and regulations, consultation page and advice on tax filing, introduction of the work of tax offices, procedures for electronic filing and frequently asked questions (FAQs) on the MTA's website.

Regarding the introduction of an accredited tax accountant system based on expert advice,¹⁶ seminars, meetings and discussions were held four times among the related

¹⁴ CMS is a system that enables the adding of information on several web pages, the modifying and deleting of links automatically or semi-automatically and the prompt changing of web design without advanced IT expertise. This system makes it possible to update the website easily and to provide information promptly.

¹⁵ VAT is a tax on consumption of goods and services. Business operators are to pay 10 % (which is added to the value-added component — the amount obtained by deducting the purchase from sales) to the national treasury via tax offices. VAT is imposed on 1) consumption of goods and services in the country, 2) exported goods, and 3) imported goods.

¹⁶ An accredited accountant is a tax expert who provides services such as acting as a tax agency, preparation of tax documents, and tax consultation from an independent and fair position. In Mongolia, a seminar on the introduction of an accredited tax accounting system based on expert advice was held in December 2004. Just after this seminar, the Accredited Tax Accounting Association was established in line with the objectives of the Ministry of Finance, the MTA, supervising agencies and business organizations. Accredited tax accountants licensed by the MTA and the Accredited Tax Accounting Association began opening tax accountancy firms.

parties, such as the MTA, the Ministry of Finance, the Mongolia Institute of Certified Public Accountants and the Accredited Tax Accounting Association. Although tax accountants had begun their work, it was necessary to add laws on accredited tax accountant and ethic regulations needed to the general tax law in order to officially institutionalize the accredited tax accounting system. Since some ministries had not approved a bill regarding this system, the debate on this bill remained as an issue to be tackled by the Mongolian side.

In light of the above, taxpayer services and taxpayer convenience were improved by the enhancement of the service level of MTA staff, expansion of service centers and introduction of IT. Therefore, Output 3 was judged as achieved.

3.2.1.2 Achievement of Project Objectives

There are three project objectives:¹⁷ to enhance the human resource development system and training system of the MTA by implementing the Short Term Action Plan and to improve the job performance of MTA staff; to improve MTA operations in tax collection (including taxation and tax audit); and, to improve MTA taxpayer services. Since indicators set for the respective project objectives did not properly represent what the project intended to achieve, the following indicators were newly set for this ex-post evaluation through a review of the logical relationship of the outputs and project objectives through interviews with concerned parties and a review of existing documents.

【Human resource development and training component】

Indicator 1: Increase in the number of MTA staff who received distance learning¹⁸

Indicator 2: Increase in the number of MTA staff who received training¹⁹

【Tax collection (including taxation and tax audit) component】

Indicator 3: Increase in the amount of tax penalty²⁰ imposed on audited taxpayers²¹

However, it was necessary to institutionalize accredited tax accountancy practices by establishing an independent law on accredited tax accounting.

¹⁷ In planning and managing a project based on the Project Design Matrix (PDM), there should only be one project objective. However, three objectives were set for this project. Initially, a project was planned to focus on the enhancement of the training system. However, as a result of a participatory workshop attended by concerned stakeholders from both the Mongolian and Japanese sides, components on the improvement of tax collection and the improvement of the MTA's taxpayer services were added.

¹⁸ This was originally an indicator for the output for the final evaluation. As a result of a review on the logical relationship between the outputs and the project objectives, it was changed to an indicator for the project objectives.

¹⁹ Idem.

Indicator 4: Increase in the number of MTA staff who use TPI²²

【Taxpayer services component】

Indicator 5: Improvement in the satisfaction level of visitors to the model service center

Indicator 6: Increase in the number of cases where taxpayer services were provided by using IT²³

1) Indicator 1: Increase in the number of MTA staff who received distance learning
Distance learning on bookkeeping and accounting was tested in Hovsgol aimag (province) in 2007. “A regulation on distance learning for state tax inspectors” was established as operating and teaching guidelines of distance learning. Distance learning started officially in March 2008 and 159 staff from eight aimags received distance learning until May in 2008.

Table 1 Number of MTA staff who received distance learning

Year	2008	2009	2010
Number of participants	157	398	477
Number of aimags	8	17	20
Average score of exam.	54.2	75.2	

Source : MTA

2) Indicator 2: Increase in the number of MTA staff who received training
The number of MTA staff who attended continuous training programs increased greatly compared to at the time of project commencement. Two training centers in Darkhan-Uul and Uvurkhangai aimags were established in 2006 and the total number of training centers increased from three to five. The Japanese side provided training equipment to the three training centers: training and research center in Ulaanbaatar and two newly launched training centers. The MTA increased the number of instructors. Thus, the capacity of accommodating trainees was enhanced and the number of MTA staff who received training increased significantly.

²⁰ In cases in which the amount of tax paid by individuals or corporate bodies is found to be lower than the due amount because of tax evasion or a failure to declare the payment, penalty tax is added. This project is intended to reinforce the identification of tax evasion and failure of declaration by improving tax audit while controlling the number of audits.

²¹ This indicator was newly added for this ex-post evaluation.

²² See footnote 18.

²³ See footnote 18.

Table 2 Number of MTA staff who received training

No	Training Center	Training Course	2006	2007	2008	2009	2010	2011
1	Ulaanbaatar Training & Research Center	Introductory	112	104	109	102	84	107
		Intermediate	261	562	744	735	713	755
		Advanced					471	497
2	Darkhan-Uul Training Center	Introductory	81	30	32		29	19
3	Uvurkhangai Training Center	Introductory	25	72	34	46	52	42
4	Hovd Training Center	Introductory	23	21		27		
5	Dornod Training Center	Introductory	30	120				
	Total		532	909	919	910	1,349	1,420

Source : MTA

3) Indicator 3: Increase in the amount of tax penalty imposed on audited taxpayers

While the MTA decreased the number of tax audits in 2007,²⁴ the amount of tax penalties increased in the same year. This result shows that the selection of taxpayers to audit is effective and the TPI is used efficiently for tax audit and collection.

Table 3 Tax penalties imposed on audited taxpayers

Unit : Million Tg

Year	2004	2005	2006	2007	2008	2009	2010	2011
(a) Amount of tax penalty	14,397	27,856	27,639	55,551	14,993	68,429	54,138	260,149
(b) Audited taxpayers	9,677	13,291	14,122	11,749	6,845	11,986	12,604	13,101
Amount of tax penalty per audited taxpayer ((a)/(b))	1.5	2.1	2.0	4.7	2.2	5.7	4.3	19.9

Source : MTA

4) Indicator 4: Increase in the number of MTA staff who use the TPI

The data volume of the TPI in 2007 increased by 11 % when compared to the project commencement (2005 data) (see Table 4). Comparing the incidence of use of the TPI by tax auditors at the project end with that of the project commencement, data on customs increased by 340% and data on VAT invoices increased by 70% (see Table 5). This significant increase in the use of the TPI was caused by the following: the information management system was improved to enhance data compatibility among

²⁴ The MTA decreased the number of tax audits for the following reasons: the district and aimag tax offices requested a decrease in the number of tax audits; the MTA decreased the number of tax auditors along with the personnel relocation after setting up new sections in charge of the TPI and information collection of taxpayers; and, the project placed emphasis on the enhancement of tax audit quality rather than tax audit quantity.

all ministries, and reference to the TPI by tax auditors was required in the tax audit manuals and manuals by specific industries.

Table 4 Data volume in the TPI

	2004	2005	2006	2007	2008	2009	2010	2011
Information collected in the TPI	262,460	247,155	182,457	274,687	1,010,423	1,180,243	2,549,246	3,124,710

Source : MTA

Table 5 TPI use by MTA staff

Item	2005	2006	2007	2008	2009	2010	2011
Customs	146,061	300,990	645,067	220,040	181,332	178,330	181,807
VAT invoice	59,202	120,508	100,503	167,633	786,530	1,177,096	1,867,198
Third party information	14,740	15,107	16,500	19,449	13,330	20,391	87,010

Source: MTA

5) Improvement in the satisfaction level of visitors to the model service center

The Songinokhairkhan District Tax Office in Ulaanbaatar was a model service center. The project made various efforts to improve services to visitors, such as providing training on customer service along with a manual to its employees, installing call notification devices to solve long queues, and setting up a reading space to facilitate information provision. According to the surveys on customer satisfaction implemented three times during the project implementation, the ratio of visitors who answered “satisfactory” in regards to customer service of the employees of the model center changed as follows: 100% in February 2007, 22% in November 2007 and 65% in June 2008. Considering that customer satisfaction had increased at the time of project completion and that no unsatisfactory case was observed in other survey questions (such as the understandability of explanations by service center staff and waiting time) the service to taxpayers was improved to some extent in the model service center.

6) Increase in the number of cases where taxpayer services were provided by using IT

Through the MTA’s website, from 2007 taxpayers were able to input VAT invoices and to file tax returns on VAT, corporate income tax, and individual income tax. Convenience for taxpayers was thus improved.

This project has largely achieved its objectives. Therefore, its effectiveness is high.

3.2.2 Impact

3.2.2.1 Achievement of Overall Goal

In this ex-post evaluation, indicators of the overall goal (project effect that is expected to be achieved 2-3 years after the project completion) are reviewed through existing documents and interviews with major parties concerned. The following are considered as indicators of the overall goals of the realization of a proper and fair tax administration, the improvement of taxpayer compliance and an increase in the number of tax filers.

Indicator 1: Increase in the number of registered taxpayers²⁵

Indicator 2: Increase in the rate of tax payment by the due date²⁶

Indicator 3: Increase in the amount of paid taxes among unpaid taxes of the previous year²⁷

1) Indicator 1: Increase in the number of registered taxpayers

The number of registered taxpayers has been increasing in terms of corporate taxpayers as well as personal income taxpayers. This seems indirectly to be caused by a reduction in tax rates²⁸ and recent economic growth. At the same time, the MTA's continuous efforts, such as strengthening public relations activities and tax education, the expansion of service centers and the improvement of services to taxpayers, seem to have contributed to the enhancement of taxpayer compliance.

²⁵ This was originally set as an indicator for the overall goal and Output 2. Through interviews with Japanese project experts and a review of existing documents, it was found that the project intended initially to increase the number of registered taxpayers in the long term. Therefore, this indicator is treated as an indicator for the overall goal only.

²⁶ Rate of tax payment by the due date means rate of taxes paid by the legal due date against the total amount of tax to be collected in the relevant fiscal year. This indicator was newly added for this ex-post evaluation after the evaluator analyzed what the project intended to achieve after the project completion, interviewed Japanese project experts and reviewed relevant documents.

²⁷ Idem.

²⁸ In January 2007, the Mongolian general tax law was revised. The personal income tax rate was 10%, 20% and 30% based on a progressive rate of taxation. It is now a uniform rate of 10%, excluding some income. Regarding the corporate income tax, the two-step progressive rate was 15% and 30% and has now become 15% and 25% respectively. The VAT has been amended to 10% from 15%.

Table 6 Registered taxpayers

Category	2005	2006	2007	2008	2009	2010	2011
Corporates/organizations (Corporate taxpayers)	30,401	34,500	40,909	48,592	52,846	62,232	73,287
Individual ²⁹	720,848	779,799	944,096	996,528	1,078,732	1,189,308	1,553,697

Source: MTA

2) Increase in the rate of tax payment by the due date

The rate of self-assessed tax payment by the due date was 80-85% from the project commencement to 2010, and it reached 99% in 2011. It is reported that this remarkable improvement has been brought about by a series of efforts on the part of the MTA: taxpayer compliance and comprehension of proper tax filing have been promoted by enhancing tax education and public relations activities, and the convenience of tax filing and the return on the part of taxpayers have been enhanced by the expansion of service centers and the introduction of electronic filing. For instance, seminars for taxpayers were organized for a total of 7,000 companies by 31 tax offices in 2010. According to the MTA, insufficiencies in documentation for tax audit and failures to declare due to a lack of knowledge on the tax law have decreased.

There has not been a remarkable change in the rate of audited tax payments by the due date. Even though failures to declare and tax evasion are identified by tax audits, in many cases, taxpayers are unable to pay the due amount due to taxpayers' conditions. The MTA is now considering separating tax inspectors for tax audit and ordinary tax collection and strengthening capacity to receive tax payment through telephone calls.

²⁹ Individual registered taxpayers are the sum of individual taxpayers who pay tax collected at the source, personal income tax, fixed asset tax, gun tax and auto tax.

Table 7 Tax payment rate

Unit : Billion Tg

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Total amount of unpaid taxes at the end	47.9	38.4	45.5	58.3	88.7	106.1	171.3	217.2	292.8	237.2	318.9	102.3
2. Amount of paid taxes among the unpaid taxes of previous year												
Taxed	34.9	47.9	38.4	45.5	58.3	88.7	106.1	171.3	217.2	292.8	237.2	318.9
Collected	26.5	35.7	25.4	25.7	36.9	62.1	81.9	142.7	147.3	195.1	188.8	239.4
Balance	8.3	12.2	13	19.8	21.4	26.6	24.2	28.6	69.9	97.7	48.4	79.5
Rate of paid taxes %	75.9	74.5	66.1	56.5	63.3	70.0	77.2	83.3	67.8	66.6	79.6	75.1
3. Amount of tax payment by self-assessment												
Taxed	145.7	186.1	168.0	161.1	315.6	386.0	797.9	1,181.0	1,276.5	1,072.0	1,752.3	1,719.4
Collected	108.1	165.7	138.6	126.4	252.6	311.5	657.8	1,003.6	1,057.7	893.0	1,495.2	1,709.9
Balance	37.5	20.3	29.4	34.7	62.9	74.5	140.2	177.4	218.7	179	257.1	9.5
Rate of paid taxes %	74.2	89.0	82.5	78.5	80.0	80.7	82.4	85.0	82.7	83.3	85.3	99.4
4. Amount of tax payment by tax audit												
Taxed	6.4	9.8	15.3	9.3	11.2	13.8	17.4	37.1	13.7	39.1	36.8	32.9
Collected	4.3	3.9	12.3	5.4	6.9	8.8	10.4	25.8	9.6	26.6	23.4	19.6
Balance	2	5.8	3	3.8	4.3	5	6.9	11.2	4.2	12.5	13.4	13.3
Rate of paid taxes %	67.2	39.8	80.4	58.1	61.6	63.8	59.8	69.5	69.5	68.0	63.5	59.5
5. Total												
Taxed	187.1	243.9	221.8	216.0	387.9	488.7	921.4	1,389.4	1,507.4	1,403.9	2,078.7	2,123.6
Collected	139.0	205.4	176.3	157.6	298.4	382.5	750.1	1,172.1	1,214.6	1,114.7	1,707.4	1,968.9
Rate of paid taxes %	74.3	84.2	79.5	73.0	76.9	78.3	81.4	84.4	80.6	79.4	82.1	94.2

Source: MTA

3) Indicator 3: Increase in the amount of paid taxes among the unpaid taxes of the previous year

The rate of paid taxes among the unpaid taxes of the previous year has gradually improved in comparison to the data from the project commencement (2005 data)³⁰. The MTA has taken various measures such as adopting executive powers to collect unpaid taxes on its own through legal process, amendments to the system of letters of advice and upon advice from the Japanese expert, reminder telephone calls by tax offices.

Overall goal was largely achieved for its target indicators, therefore its impact is high.

3.2.2.2 Other Impacts

1) Expansion of service centers

When this project finished in 2008, there were 25 service centers. In 2009, the number had increased to 31 nationwide.³¹ Following the improved services trialed in the

³⁰ In 2008, a general pardon was granted that cancelled unpaid taxes identified before 2008. The rate of paid taxes among the unpaid taxes of the previous year decreased temporarily.

³¹ There are 31 taxpayer service centers as of March 2012: 21 in the tax offices in all of the 21 aimags, in the 9 district tax offices in Ulaanbaatar and the service center for high-income taxpayers.

model service center, other centers have been improving services to taxpayers by introducing number indication devices and improvements in notices and reference materials. The MTA continued its efforts to improve further services to taxpayers. For instance, monitoring of visitor satisfaction regarding service center staff was introduced by the MTA in 2010.

2) Enhanced satisfaction of taxpayers

In this ex-post evaluation, a beneficiary survey was conducted to see taxpayer satisfaction with the MTA’s services.³² All respondents noticed that the service level of service centers has been improved. Specific improvements include: the reduction of long waiting lines by the introduction of a waiting number indication device; staff are able to deal with visitors quickly; and, centers have become more comfortable and well arranged.

83% of respondents have used the MTA website so far and all of them recognized improvements in the website. 86% of them listed “input of tax filing data” and “preparation of tax documentation on the website” as specific improvements. This shows that enhanced convenience for taxpayers has been recognized by taxpayers themselves.

Table 8 Improvement of the service level of service centers

(Have you noticed that services have improved these 2-3 years?)

Answers	Count	Ratio (%)
Improved greatly	99	82.5
Improved to some extent	21	17.5
Yes and no	0	0
Not improved much	0	0
Not improved at all	0	0
Total	120	100

Table 9 Nature of improvement (Multiple answers)

Answers	Count	Ratio (%)
Waiting time	57	47.5
Facilities and environment of the center	56	46.7
Service manners of center staff	55	45.8
Notices	17	14.2
Others	20	16.7

n=120

³² The questionnaire survey was conducted in March 2012, targeting 120 visitors: 30 from the four respective service centers in Ulaanbaatar. The four service centers are located in Sukhbaatar district, Chingeltei district, Khan-Uul district and Songinokhairkhan district.

Table 10 Improvement of the MTA website
(Have you noticed that the website has improved these 2-3 years?)

Answers	Count	Ratio (%)
Improved greatly	77	86.5
Improved to some extent	12	13.5
Yes and no	0	0
Not improved much	0	0
Not improved at all	0	0

n=89



On-the-spot evaluation of staff of service centers (Uvurkhangai tax office)

Table 11 Nature of improvement of the website
(Multiple answers)

Answers	Count	Ratio (%)
Input and tax return filing	77	86.5
Online help facility	31	34.8
Information on tax	29	32.6
Frequently asked questions	9	10.1
Others	2	2.2

n=89



Tax education for taxpayers (Darkhan-Uul tax office)

Through implementation of the project, project objectives were achieved judging from the increased learning opportunities for MTA staff, improved efficiency in tax collection and enhanced services for taxpayers. Moreover, the overall goals have been achieved as planned considering the increasing number of registered taxpayers and improved rate of tax payment by the due date.

This project has largely achieved its objectives, therefore, its effectiveness is high.

3.3 Efficiency (Rating: ③)

3.3.1 Inputs

Inputs	Plan	Actual Performance
(1) Experts	0 for Long-Term 4-6 for Short-Term 30-35 persons/month in total	0 for Long-Term 8 for Short-Term 32.49 persons/month in total
(2) Trainees received	10 persons x 1 (approximately 2-3 weeks) for tax administration In country training as per necessity	[Counterpart training in Japan in tax administration] · Year 2006: 8 trainees · Year 2007: 15 trainees · Year 2008: 12 trainees Total: 35 trainees

(3)Third-Country Training Programs	None	None
(4) Equipment	Equipment necessary for project implementation (equipment for MTA staff training)	The following equipment was provided <ul style="list-style-type: none"> • For tax training and research center in Ulaanbaatar (PC, printer and copier) • For Uvurkhangai province and Darkhan-Uul province training center (PC, printer, projector, copy machine, chairs) • Songinokhairkhan district taxpayer service center (PC, copy machine, desk and chair, etc.) • Call center in the GDT (PC, headset, desk, etc.)
Total Project Cost	250 million yen	210 million yen
Total Local Cost	n.a.	3.8 million yen ³³

3.3.1.1 Elements of Inputs

Inputs on both the Japanese side and the Mongolian side were provided as planned.

(1) Inputs by the Japanese side

1) Japanese experts

The amount of inputs, quality and dispatch timing of JICA short-term experts were appropriate. In particular, products such as training materials, manuals and casebooks for effective tax audit and collection are highly appreciated by not only the MTA but also other donors and private companies in Mongolia. This appreciation shows that the inputs of experienced experts were effective to produce outputs at a higher level.

Regarding the implementation structure, Japanese experts repeated short-term stays in Mongolia for two weeks to one month. In this implementation structure, local coordinators played a key role in linking communications between Japanese experts and their Mongolian counterparts during the absence of Japanese experts. For instance, Japanese experts left assignments for their counterparts before leaving Mongolia and they monitored the progress of the assignments and verified if the counterparts had any questions or concerns through local coordinators. Then, they checked the results of the assignments during their next dispatch. This method allowed the Mongolian counterparts to coordinate their ordinary duties and project activities and encouraged the counterparts' initiative.

³³ 38,164,000 Tg (1 Mongolian Tugrig was calculated as 0.1 yen, based on the average exchange rate from January 2006 to July 2008)

2) Counterpart Training in Japan

The contents, period and timing of counterpart training courses in Japan were appropriate. The trainings were effective inputs since trainees made great use of what they learned in Japan in their duties afterwards. In this ex-post evaluation, 13 ex-trainees out of 35 ex-trainees responded to the questionnaire on training impacts. Regarding the quality, duration and timing of the training, 10 of them answered “very good” and three of them answered “good”. Regarding the usefulness of the training, 10 of them answered “very useful” and three of them answered “useful”. All of them made use of what they learned in the training (e.g. setting up a call center in the GDT, further improvement of the TPI, and improvement of tax collection and tax audit).

3) Provision of Equipment

Equipment was appropriately provided to the MTA in terms of type, amount, quality and timing of provision. It was effectively used for the project implementation. For instance, the two training centers in Uvurkhangai and Darkhan-Uul are using PCs (notebooks) and projectors provided under the project for different purposes other than training courses in the training centers, such as tax seminars at kindergartens, schools and seminars by specific industries.

(2) Inputs by the Mongolian side

1) Deployment of Counterparts

The amount and the quality were appropriate. Deployed counterparts always completed assignments given by the Japanese experts by the deadline. They were highly motivated, making suggestions for improvements on their own.

2) Local cost

The local costs were borne by the Mongolian side as described in 1.2 Project Outline. Self-efforts made by the Mongolian side, such as a significant increase in the budget for MTA public relations and a steady expansion of service centers, contributed to producing project outputs.

3.3.1.2 Project Cost

The project cost borne by the Japanese side was lower than the planned cost. The actual cost was 210 million yen against the planned cost of 250 million yen (equal to 84% of the planned cost).

3.3.1.3 Period of Cooperation

The actual project period was 31 months against the planned period of 37 months (84%).

The inputs were appropriate for producing outputs and achieving the project objective, and both project cost and period of cooperation were within the plan, therefore efficiency of the project is high.

3.4 Sustainability (Rating: ③)

3.4.1 Related Policy towards the Project

The Millennium Development Goals-based Comprehensive National Development Strategy of Mongolia (formulated in January 2008) aims at increasing state revenues through the expansion of the taxation base and the improvement of tax collection as a tax system policy for macroeconomic development.

In addition, the Mongolian government places emphasis on support to small and medium-sized enterprises and the improvement of business conditions. An amendment of the general tax law is currently underway to ensure such conditions. In particular, it places emphasis on the enhancement of tax reform and tax administration, along with the development of the mining sector.³⁴ Therefore, the sustainability of this project is high in terms of policy aspects.

3.4.2 Institutional and Operational Aspects of the Implementing Agency

The MTA employs 1,803 staff members as of March 2012. The MTA's turnover rate is quite low compared with other government organizations. The staff members build their capacity incrementally following the Continuous Training Program of the MTA that was developed by a series of JICA development studies and the technical cooperation project. The system of tracking training results and the job performance of each staff member has been functioning.

Moreover, the MTA has been strengthening its organizational capacity following recommendations made by the Japanese experts during the project implementation in order to improve risk management. In this regard, the MTA set up a risk management division and legal division.

While the number of registered taxpayers has been increasing, the number of MTA

³⁴ Interview with the MTA and the Ministry of Finance (March 28 and April 5, 2012 respectively)

staff has remained unchanged since 2006. Due to the relocation of staff to newly established divisions, the number of staff in charge of tax audit has been decreasing. Though it may be difficult to increase significantly the number of government employees due to government policies, the MTA is taking different measures: it is planning to employ 50 tax inspectors this fiscal year in order to strengthen tax audit and to reduce the ratio of companies to audit from the current 16-18% to 12%.

In light of the above, this systematic human resource development has been functioning and the MTA has been strengthening its organization and reviewing its duties appropriately. Therefore, the institutional and operational aspects of the MTA are high.

3.4.3 Technical Aspects of the Implementing Agency

The MTA has been fully making use of techniques transferred by the Japanese experts. Therefore, technical sustainability is high.

1) Distance learning and introduction of online learning

The MTA continued distance learning after the project completion. In 2009, 298 persons from 17 aimags received distance learning. Afterwards, the MTA introduced online learning experimentally instead of distance learning based on experience in distance learning gained through the project. As of March 2012, 800 employees of the MTA, approximately 40% of the total MTA staff, are registered for online learning. The MTA shifted to online learning from distance learning after recognizing inefficiencies: it took time to send materials from aimag to soum (administrative units under the province level in Mongolia) and to send back exams from trainees. The MTA therefore decided to introduce online learning, taking advantage of networks between tax offices and the training and research centers in Mongolia.

2) Utilization and maintenance of equipment supplied under the project

The equipment is all used as per its objective and well maintained. As mentioned earlier, the equipment is used for tax seminars that the tax offices organize outside of their offices. In addition, the Darkhan-Uul tax office moved the supplied printer from its training room to the service center to use the printer effectively for multiple purposes.

3) Utilization of tax audit manuals developed by the project

During the project implementation, tax audit case books of 24 cases and tax audit manuals for five specific industries were produced. After the project completion, the

MTA increased the type of tax audit manuals to 30 types, adding other industries such as building, farming and insurance industries.

All manuals developed during the project implementation and after the project completion were distributed to 31 tax offices in the country. They are still being effectively used by the tax auditors. They conduct field tax audits, referring to the manuals to verify key considerations of relevant industries.

3.4.4 Financial Aspects of the Implementing Agency

The budget for the MTA has been stable and there are no problems in implementing its duties from a financial aspect. The difference between the income and the expenditure of the MTA has been in surplus since 2009. The MTA has been provided with a budget for business investment since last year. For instance, the MTA needs to replace 700 computers operating in the GDT and local tax offices. It is planning to replace 600 of them with new ones and to strengthen the data transmission speed in each tax office with the budget of the 2012 fiscal year.

Along with the development of the mining sector, tax revenues are expected to increase. As the enhancement of tax administration is likely to be continuously prioritized, the budget for the MTA is expected to increase.³⁵

3.4.5 Continuity of Effectiveness/Impact

Since the MTA has been using knowledge and techniques transferred by the project, the project effects remain as follows:

(1) Tax collection

1) Collaboration with other agencies regarding the TPI

Seven agencies provided the MTA with relevant information during the project period. The number of collaborating agencies has increased to 20 as of March 2012. The increase in the type of information enhances efficiency and effectiveness of tax collection and tax audit. Tax inspectors are able to verify more information in receiving tax returns and in conducting tax audits.

³⁵ Interview with the Ministry of Finance (April 2012)

Table 12 Collaboration with other agencies on the TPI

No.	Content of Information	Information Provider	No.	Content of Information	Information Provider
1	Information on duties	Customs Authorities	11	Study on visa duration of	Mongolian Immigration
2	Information on bidding	Ministry of Finance	12	All kind of economical study	State Development and
3	Ownership of immovable properties	Administration Office of State Registry of Titles	13	Loan and aid information provided by Ministry of	Small and medium enterpreses Department
4	Information on mineral resource license possessors /license validity, extension of possession, transferring the possession right	Mineral Resources Department	14	Study on foriegn invested entities	Foriegn Investment Agency
5	Information on social insurance	State Social Insurance General Office	15	Shareholders information	State property department
6	liquor production and trade	Ministry of Food, Agriculture and Light Industry	16	Information on entity	State Registration Authority /Corporate registration department/
7	Government procurement	Mnistry of Finance	17	Information on personal	State Registration
8	Information on all kind of	Transportation authority	18	Locational map of Buildings,	Land administration,
9	Information on schools and kindergartens in Ulaanbaatar	Education department of Municipality	19	Introduction of E service	Golomt bank
10	Information on Monopoly manufacturer in the market	Fair competition and consumer protection	20	Codification of economical, goods and service sector	National Statistical Office

Source: The MTA

Note: №1 ~ 7 are agencies that have been providing their information since project implementation. №8~20 were added after the project completion.

2) Data volume of the TPI and use of the TPI by MTA Staff

Information cases kept in the TPI have significantly increased from 274,687 in 2007 to 3,124,710 in 2011 (approximately eleven fold). As a result, opportunities for MTA staff to use the TPI have significantly increased. Comparing the result of 2011 with that of 2007, the use of VAT invoices increased 18 times and third party information increased five times (see Tables 4 and 5).

(2) Taxpayer services

1) Tax consultation at the call center

Consultation cases at the call center have increased from 4,205 in 2008 to 46,235 in 2011. Continuous efforts such as an increase in the number of staff at the call center and the strengthening of public relations activities raised taxpayer interest.

Table 13 Tax consultations at the call center

	2008	2009	2010	2011
Total	4,205	8,805	28,431	46,235
(Breakdown)				
Consultation by telephone	4,184	6,531	21,256	30,333
Consultation by auto-answers	0	2,204	7,067	15,580
Visits to the call center	21	70	84	245
Answers through official documents			24	77

Source: MTA

2) Access to the MTA website

Access to the MTA website has also significantly increased. The monthly average was 4,586 in 2007, and has increased to 66,583 in 2011, an increase of 14 times. Improvements in the website functions and the growing penetration of internet use have promoted access to the MTA website. The MTA is planning to introduce electronic signatures for tax returns from 2013.³⁶ If convenience for taxpayers continues to be enhanced, access to the MTA website is also expected to increase continuously.

3) Tax education

The MTA established a working group in collaboration with the Ministry of Education, Culture and Science in 2009 to promote tax education at school. The working group formulated an education program for future taxpayers, referring to the Japanese tax education system, relevant teaching materials and manuals. Following this program, the MTA implemented the following under the follow-up assistance by the JICA Mongolia Office: development of teaching materials for primary, secondary and high school students; posters and manuals for teachers; training for teachers in social studies; and development of a TV program. Tax education at school was officially introduced in social studies for grades 7, 8, 9 and 11 in September 2010.

4) Accredited tax accountant system

Since the MTA submitted the first bill on an accredited tax accountant system in 2007, the MTA has continued discussions with relevant government organizations such as the Ministry of Finance and the Ministry of Justice. The second bill, which was submitted to the Diet in December 2011, is due for discussion as of June 2012. Although it takes time to create a legal environment, 300 tax accountants and 9 tax accountant corporations have already engaged in tax accounting business. Therefore, it can be regarded that tax accounting has been acknowledged in practice, and it is highly likely that it will be officially institutionalized.

No major problems have been observed in the policy background, the structural, technical, financial aspects of the executing agency, therefore, sustainability of the project effects is high.

³⁶ Currently, taxpayers need to go to the tax office to submit printed tax return documents after preparing them on the website. The introduction of electronic signatures will allow taxpayers to file a tax return entirely online. After the act on electronic signatures was approved by the Diet in December 2011, electronic signatures are being experimentally used by 25 companies in March 2012.

4. Conclusion, Lessons Learned and Recommendations

4.1 Conclusion

Prior to this project, JICA implemented development studies on tax administration in Mongolia in four phases from 1998. This project was implemented as a summary of the series of Japan's cooperation activities on tax administration in Mongolia in order to further strengthen the functioning of tax administration of the MTA. The objectives of this project, which are tax reform and the enhancement of tax administration, are relevant with the development policy of Mongolia by aiming to stabilize the country's revenue for sound socio-economic development, as well as its development needs. It is also relevant with Japan's ODA policy, which includes assistance for the shift of the market economy into its priority areas. Therefore, the relevance of the project is high. Through the implementation of the project, learning opportunities for tax administration officers were enlarged, tax collection (including taxation and tax audit) was improved and services to taxpayers were strengthened. The objectives of these components were achieved as expected. In addition, in regard to the overall goal, the number of registered taxpayers has steadily increased and the rate of tax payment by the due date has improved. Therefore, the effectiveness of the project is high. The inputs were appropriate for producing the desired outputs and achieving the project objective, and both the project cost and period of cooperation were within the plan. Therefore, the efficiency of the project is high. No major problems have been observed in the policy background or the structural, technical and financial aspects of the MTA. Therefore, the sustainability of the project effects is high.

In light of the above, this project is evaluated to be highly satisfactory.

4.2 Recommendations

4.2.1 Recommendations to the Executing Agency

Under the current situation in which the number of tax inspectors will not increase dramatically, it is necessary to strengthen work efficiency further by devising strategies for staff assignment and continuing the improvement of tax audit such as focusing on large-scale enterprises rather than small and medium enterprises.

4.2.2 Recommendations to JICA

Along with the development of the mining sector, the number of foreign companies operating their business in Mongolia has been increasing. MTA staff members are urgently required to obtain adequate knowledge of international taxation and international tax administration in order to properly conduct tax audits of these foreign

companies. In order to enhance the sustainability of the project effect, it is recommended that JICA considers some sort of assistance to strengthen this area. Tax administration is one of the areas of comparative advantage of Japan's assistance since methods of human resources development, such as training of instructors and technology transfer by Japanese experts to MTA staff and products (materials and teaching guidelines), have been highly appreciated not only by the Mongolian government but also by other donors.

4.3 Lessons Learned

In this project, the Japanese experts respected the opinions and initiatives of their Mongolian counterparts and tried to complete their assignments within their short dispatch period in an efficient manner through local coordinators. This approach seemed to promote sustainable technology transfer to the MTA. As the period of stay of the Japanese experts is relatively short, it is important to secure an effective coordinator and to devise ways to facilitate joint work between the Japanese experts and their counterparts in the executing agencies to ensure a high-level of project effectiveness and sustainability.

Box Japan's Cooperation in Mongolia for Tax Administration to complement the development of Mongolia

Mongolia faced constant budget shortfalls due to a chronic shortage of revenue immediately following the transition to a market economy. In 1998, Japan began providing assistance to Mongolia to enhance its tax administration, which provides a major part of the country's revenue. The following is an outline of development studies on tax administration in Mongolia in four phases, which were implemented prior to the technical cooperation project "The Enhancement of Tax Administration Project in Mongolia" targeted by this ex-post evaluation.

●Phase 1: The Study on the Support for the Economic Transition and Development in Mongolia (September 1998–March 2000)

Phase 1 was implemented to assist the MTA to formulate a concrete economic reform program and to cultivate human resources capable of making economic policy for Mongolia. Various recommendations were made to improve areas such as the taxation system, organizational aspects of tax collection and human resources development systems. Based upon the recommendations of Phase 1, the MTA completely restructured the tax collection framework and officially introduced a system of statutory bill of receipt.

●Phase 2: The Study on Economic Transition and Development Support in Mongolia (Tax Collection Enhancement 2) (June 2000–July 2001)

Based on the results of the comprehensive study of Phase 1, recommendations for improvements in the taxation system, tax auditing methods and tax payment environment were provided in Phase 2. These recommendations placed emphasis on the following points: (1) appropriateness and fairness, (2) inexpensive tax collection costs, (3) urgency of the issue and ease of implementation, and (4) expansion of the tax base instead of upgrading it. In this phase, recommendations on the introduction of real estate acquisition law and special stamp tax law and amendment of major tax laws, such as individual income tax, corporate tax and value added tax, were made. The creation and amendment of these laws were enacted in the Diet in 2001.

●Phase 3: The Study on Economic Transition and Development Support in Mongolia (Tax Collection Enhancement 2: Support to Taxpayer Information System Establishment) (November 2000–February 2003)

The MTA had enhanced its capacity for tax auditing compared with at the time of commencement of Phase 1. In the process of conducting the studies in Phase 2, it became apparent that the development of a Taxpayer Information System was essential to enhance

the tax collection rate. Phase 3 was thus implemented to establish a Third Party Information (TPI) system to enhance tax auditing effectiveness by sharing information among MTA tax auditors. In enhancing the efficiency of tax auditing, the TPI system was effective in significantly increasing the amount of tax collected such as additional taxes, interest and penalties.

● Phase 4: Study for Establishment of Tax Education System (November 2003–June 2005)

Through the assistance that was provided up to Phase 3, the foundation for institutional arrangements and an information management system had been put in place. However, the lack of specialized tax knowledge and tax accounting capabilities on the part of MTA staff had resulted in substantial lost opportunities for tax collection. Taking this into consideration, Phase 4 focused on establishing a structured tax education system that would enable the MTA to adjust its methods for taxation and tax collection according to changing economic conditions in the future.

[Achievements and impacts of 10 years of cooperation activities]

Through the series of Japan’s cooperation activities on tax administration, the functioning of tax administration has been greatly enhanced. Along with recent remarkable economic growth, tax revenue has also significantly increased. Moreover, the fiscal revenue and expenditure passed into the black in 2005 and showed a bigger surplus in 2006. It is concluded that Japan’s cooperation activities on the tax administration system reform and the functioning of tax collection have contributed to the strengthening of the fiscal base through stabilizing tax revenue, a common overall goal from the commencement of the activities.

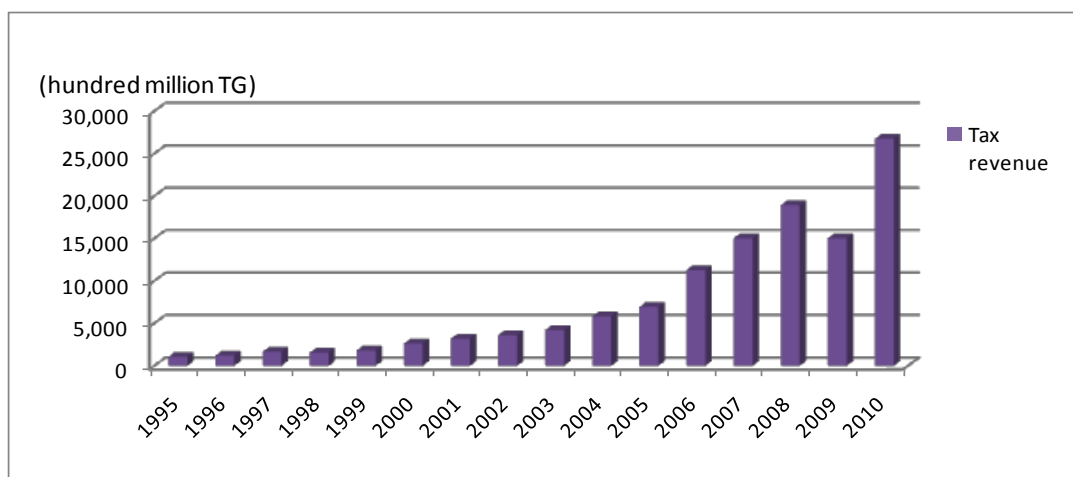


Figure 1 Trend in tax revenue

Source: The National Statistical Office of Mongolia

[Inputs (lessons) gained from 10 years of cooperation activities]

➤ **Importance of programmed approach to cooperation aiming at institutionalization**

It takes time to enhance capabilities in tax collection and administration in any country, not only in Mongolia. The series of cooperation activities on tax administration in Mongolia established a process of institutionalizing the tax administration system through Japan's long-term assistance. It shows that it is not easy to institutionalize a system within a single project and that it takes a considerable time to complete it. In order to establish a strong/stable institution, it is important that implementation is flexible and strategic and takes a long- and medium-term approach from the stage of project formulation.

➤ **Conditions for the firm establishment of an institution**

In long- and medium-term cooperation aiming at legal reform and the establishment of an institution like the present case in Mongolia, strong ownership by the counterpart country of the project or program is important. Mongolia was supported by the IMF and the World Bank in promoting a market economy. Under these support programs, tax administration enhancement was attached higher importance. By showing an overall picture of tax-related issues in Mongolia where the tax administration and collection system were insufficiently developed, Japan's assistance raised awareness on the Mongolian side in regards to various tax-related issues. Japan's assistance began with relatively urgent priorities in order to improve tax-related issues step by step. Such an approach enabled the parties concerned in Mongolia to become aware of improvements and enhance their ownership in the cooperation. These visible improvements seem to create incentives at the field level and confidence in the counterpart personnel.

➤ **Importance of selection and concentration**

The series of cooperation activities can be divided into three stages: (1) institutional arrangements, (2) strengthening of individual issues, and (3) summarization of all of the issues. In Phases 1 and 2, Japan's assistance focused on institutional arrangements to create a base to strengthen the functioning of tax collection. In the next two phases, namely Phases 3 and 4, Japan's assistance aimed at strengthening individual issues, taking into consideration the level of urgency and importance of the issues. Phase 3 focused on the establishment of an information management system and Phase 4 focused on the establishment of a tax education system. Phase 5 covered all issues treated in the previous phases in order to improve them to a higher standard. Phase 5 proved very successful in each issue. As a result of effective selection and concentration, an institutional structure

for tax administration has been well established.

➤ **Fundamental basis of technical cooperation – human resource development**

When MTA staff members recalled Japan's assistance, they noted that, "We conveyed to the Japanese experts what we wanted to do, while telling them directly that some of their recommendations seemed difficult to accept in Mongolia. We sometimes had heated discussions with them. But, we could proceed in the direction we intended." Like the establishment of an institution, it takes time to develop people's skills. In undertaking project activities jointly, the Japanese experts respected the autonomy of their Mongolian counterpart personnel without imposing a Japanese tax administration system. Their approach seems to adhere to a fundamental standpoint of human resources development through JICA's cooperation and the project sustainability.