

Terms of reference

Feasibility study for a national digital business registry in Mongolia

1. Background

Technology and formalization

The ILO Centenary Declaration for the Future of Work recognizes the role of technological innovations that drives the transformative change in the world of work and its human-centred approach promotes harnessing the fullest potential of technological progress and productivity growth to achieve decent work and sustainable development. An increasing number of governments are promoting the application of new technologies that have the potential to simplify and facilitate the transition from the informal to the formal economy. Technology can facilitate providing access to social protection, simplify regulation, increase productivity, support inspection and compliance with laws, and give a voice to those working in the shadows of the informal sector. The policy innovations (simplified to “e-formality”) have the potential to transform the way formalization policies will be implemented in the future.

In the context of enterprises, new technologies can reduce the time and cost of business registration and tax filing by simplifying bureaucratic procedures. The transition to a digital, cashless payment system has also the potential to reduce grey areas in the realm of transactions and enterprise registrations. In the context of informal workers, many countries have experimented with online platforms that enable the registration of workers that typically remain “off the books”, domestic workers, for example. Mobile technology has also been applied to the creation of tools that can track working hours and calculate compensation, and apps that enable voluntary pension-scheme contributions for informal workers.

While countries remain at an early stage in the evolution of this new generation of formality related policies, the ILO takes note of the potential of benefiting from technological developments to promote a social good – in this case, in improving the prospects of workers and enterprises in the informal economy to be better protected by public policies, including social protection. The exposure of informal workers to the [devastating impacts of lost livelihoods](#) as a result of COVID-19 lockdown restrictions have raised the bar on formalization strategies. There is now urgency in making sure that governments can reach informal enterprises and workers with assistance measures during times of crises, knowing that preventing the worst effects of poverty and protecting incomes to boost consumption will be important determinants of recovery.

Informality in Mongolia

Informal employment is of significant proportion in Mongolia. According to the 2019 Labour Force Survey, 42 per cent of the workforce are in informal employment, agricultural activities included, while 23 per cent among those in non-agricultural activities are informal. Of those in non-agriculture activities, nearly 30 per cent are employees in formal enterprises and

another 28.6 per cent are own account workers in the informal sector. A little over 40 per cent work in the informal sector across all job categories. As these figures are pre-pandemic and are expected to rise due to the COVID-19 crisis.

Recently, the Ministry of Labour and Social Protection, with the support of the ILO, conducted a survey of informal unit owners and workers across Mongolia. It is remarkable that even amid the crisis and reported income losses, interest in formalization has remained high. The study found that informality had been a persistent feature among Mongolian economic units with 60 per cent of informal employers expecting to remain so. Yet, 56.7 per cent of employers and 49.8 per cent of self-employed (many operating for up to 15 years), expressed interest in formalizing. By age group, a high of 87 per cent of younger informal employers and 65 per cent of self-employed (age group of 15-25) want to register. Further correlations made provided robust results that simplification of income taxes, VAT payments, social insurance, rental discounts and low interest rates, can encourage those especially with higher education and younger operators to formalize.

Foremost benefits expected among both groups include increase in profits, business expansion, and access to credit. Fears of formalization, however, include higher tax burdens and social insurance contributions and inadequate knowledge of taxation and fees. Licenses and fees, fines and violations are among the foremost challenges cited.

Finally, among informal employees, the interest to formalize is high, with 61.7 per cent stating so. As high as 73 per cent of those with 1-3 years of experience desire to be formal workers and 64 per cent of those with up to 11 years of work want to formalize. Nearly 30 per cent expect higher salaries in the formal sector and 28.5 per cent expect to be covered by social insurance. The accompanying fears are notable, with 36.3 per cent stating that they do not have the right educational requirements to enter formal jobs and 32 per cent indicating that they don't have the right profession and skills, with 24 per cent saying jobs are scarce.

The profile presented above would suggest that formalization can gain traction with a significant proportion of informal employers and self-employed. Through simplification, clarity of regulations and digitization, the younger cohorts, for instance, who have expressed the highest interest in formalization, may more quickly opt into the system. Furthermore, with over 70 per cent of operators stating that their ventures are promising signifies that formalization efforts stand to benefit ongoing and growing concerns, not simply small and fledgling operations. Digitization of active labour market policies such as job matching may also facilitate the acquisition of formal jobs.

Mongolia's recent focus on the development of its Digital Nation strategy, as introduced by [Communications and Information Technology Authority \(CITA\)](#), provides a timely political, social and infrastructural environment to extend digital pathways to formalization. The strategy will expand the existing system of www.e-mongolia.mn, an integrated digital system providing various government services. The exigencies of COVID response have likewise launched the country into various types of registries where citizens may have opted in, including those for financial and child support, utilities waiver, and vaccinations. Yet, based on the low reach of deferred loans (21 per cent), social insurance waivers (14 per cent) and income tax exemptions (5.5 for corporate and 2.6 for personal income taxes), the scope for

extending formal systems remain high. In Mongolia, digital systems are increasingly relied upon for their catalytic role.

To this end, the ILO Country Office for China and Mongolia (its office in Ulaanbaatar) held preliminary discussions with the Ministry of Labour and Social Protection and the Metropolitan Information Technology Department (MITD) to better understand the status of the national e-business registry in the country and the timeline for rollout in accordance to the long-term objectives of the Mongolian Digital Nation. The discussion pointed to existing initiatives, including that of the metropolitan of Ulaanbaatar, which have innovated streamlined registration systems, yet with high scope for replication in other cities, possible integration with e-Mongolia and extension to small entrepreneurs and operators.

Opportunities for South-South learning

Technology can help to strengthen the national approach to formalization, but still uncertainties remain in the application of e-formality policies. Timely information on “what works” in countries is needed to facilitate future south-south knowledge exchanges, such a one that was organized among countries in the Asia-Pacific region in May 2021. The [Knowledge Sharing Forum](#) was supported through South-South technical cooperation (SSTC). The linkage of SSTC and the formalization of the informal economy has been recognized by the ILO’s work in the area of Social Solidarity Economy, Local Economic Development and the promotion of social protection of workers, both in the formal and informal economy. The work programme brings people of the South and the North together through triangular cooperation, offering an opportunity for peer learning, and knowledge exchange.

A tripartite delegation from Mongolia participated in the Forum and worked together on a “roadmap to e-formalization”. Within the roadmap was the task to investigate further the development or strengthening of an online registration system of economic units in order to ensure their governance, compliance and better facilitate the provision and compliance of government services such as social protection.

The Mongolian Ministry of Labour and Social Protection and social partners expressed interest in learning more from how such registries work to incentivize registration of informal enterprises and workers in other countries. There is promise therefore for south-south learning, perhaps with Mongolia exchanging further with Estonia and with Cambodia on the development of their recent online business registration system. The collaboration between Mongolia and Estonia in establishing e-Mongolia will be reinforced as it prospectively extends to more segments of the population, including informal workers and small economic units.

2. Objective of the assignment

As a follow-up to the South-South [Knowledge Sharing Forum](#) and keeping with the principles of peer learning through triangular cooperation, the objective of the consultancy is to study the feasibility of developing and implementing a model for online business registration in Mongolia.¹

¹ A feasibility study is an assessment of the practicality of a proposed project or system. A feasibility study aims to objectively and rationally uncover the strengths and weaknesses of an existing business or proposed

3. Scope of the work

Under the overall guidance of the ILO Regional Economic and Social Analysis (RESA) Unit in Bangkok and ILO Country Office for China and Mongolia, the consultant is expected to perform the following tasks:

1. Organize a stocktaking of data architecture and workflows in pilot digital-based registration systems in Mongolia at different levels of the government, both national and regional levels, including in urban and rural settings, and representative of different challenges in up taking digital technologies. To this end, the consultant will:
 - Undertake informant interviews to map existing initiatives in registering citizens and current plans for the digitalization of economic units' registration, .e.g. the MITD's Online Business Centre in Ulaanbaatar city;
 - Describe the features and the market uptake of these systems: what do they provide, what categories of citizenry and economic activities are targeted and have registered;
 - Identify the existing modules that can cover small and informal economic units and their purpose;
 - Identify gaps and barriers to the inclusion of small and informal economic units and workers;
 - Examine other current registries that effectively cover small and informal economic units; analyse their current reach and possible extension to small economic units as well as their prospective integration in a streamlined, digitized local or national registration system;
2. Review the e-business registry systems of Estonia and Cambodia and write up lessons for applicability to Mongolia. To this end, the consultant will:
 - Identify registration modules that can be relevant to Mongolia's small and informal enterprises and operators;
 - Recommend modules of registration for Mongolia with corresponding purposes and incentives (e.g. social assistance, vaccination, VAT registration, business and work registration), within possible scenarios of sequenced, ladderized or lateral options for registration;
 - Consider which current digital systems are appropriate for further roll-out to small/informal units; e.g. whether e-Mongolia or MITD's Ulaanbaatar online business center, including their future integration;
3. Undertake an analysis of obstacles, threats/risks² (regulatory, technology, human resources, funding) and strengths and opportunities for value creation in progress towards digital registration of economic units for Mongolia's informal workers and enterprises (increased protection, security and satisfaction), operations (efficiency, risk mitigation, reliability) and decision makers (timely decision making, ease of access for distribution of benefits in times of crisis);

venture, opportunities and threats present in the natural environment, the resources required to carry through, and ultimately the prospects for success. In this case, the financial feasibility is not of interest.

² <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/harnessing-the-power-of-digital-in-us-government-agencies>

4. Identify gaps and areas for future action for the rollout of a national application of online digital registry of economic units; to this end, the consultant will:
 - Identify the existing incentive system for formalization and the bottlenecks to increased formalization, including the programmes and services already in e-Mongolia;
 - based on e-Estonia as well as other country examples, propose incentive systems for different types of registration, including those for basic assistance that can be considered part of pre-formalization;
5. Develop a Concept Note for formulation of a working group on e-formalization in Mongolia, with clear identification of objectives, participants, roles and timelines.

4. Deliverables

The following deliverables and timeline are expected:

1. Detailed assignment plan: to be delivered by 20 August 2021;
2. Mid-term status report: to be delivered by 10 September 2021;
3. Draft summary report covering items 1 through 4 listed under Scope of work and presentation to key stakeholders including social partners: to be delivered by 30 September 2021;
4. Draft concept note on formulation of working group on e-formalization in Mongolia (scope of work item 5): to be delivered by 12 October 2021;
5. Final summary report and concept note, including revisions based on review and feedback from the ILO and the constituents and presentation to key stakeholders including social partners: to be delivered by 31 October 2021.

The consultant will submit Deliverables 1-4 in English and Deliverable 5 in English and Mongolian.

5. Time frame

The external collaborator will deliver the services and outputs above over a contract period of August - October 2021.

6. Required skills/experience

The consultant is expected to have the following skills and expertise:

- A degree in the field of labour economics, social development or related area with demonstrated expertise on employment issues;
- Relevant experience in economic and social policy development with experience in labour market analysis;
- Demonstrated understanding of formalization as a subject matter;
- Excellent drafting and report writing skills; ability to present information in readily

understandable forms (attach sample documents of prior assignments of similar nature, complexity, and scope);

- Excellent command and proficient working ability in English.